

Getting the Big Picture Right: Naturally Occurring Affordable Housing (NOAH) Preservation

12/6/16

Wilder Foundation

Hosted by Twin Cities LISC and the Big Picture Project Partners

Meeting Notes

Co-Chair, Minneapolis City Council Member Cam Gordon: we continue to lose affordable housing; we need to talk with renters; we need a global approach

Co-Chair, Saint Paul City Council Member Russ Stark: affordable housing in St. Paul is changing; St. Paul is building new, preserving what is there, housing the homeless; but there are not a lot of tools out there to address the loss of NOAH; rents along the Green Line are going up; how do we preserve the affordability?

Definition of NOAH: rental properties that are affordable but are not subsidized by any federal program; these properties tend to be Class B or C; built 1940-1990; \$500 - \$1200 rent; there are approximately 167,000 of these properties in the metro area; they are large scale, small scale, and/or distressed properties

Today: what strategies are out there to preserve NOAH? Who needs to be involved? What policies and/or regulations are needed?

Andrea Brennan, Minneapolis Community Planning and Economic Development

- Mpls. population peaked in 1950; began increasing again in the 1990s
- People of color are growing faster than the population as a whole
- Incomes are stagnant; and for African American and Native American households, incomes have decreased significantly
- A big change in tenure has occurred - a great increase in renters; the city is now majority renter, 52% vs. 47%
- Renter income has stayed steady
- Homeowners are disproportionately white in the city: white homeownership is 59%; people of color homeownership is 23%
- Homeowner incomes have been rising since 2007; renter incomes have been decreasing; rents have increased, and homeownership costs are the same as they were in 2007
- 37% of all households are cost-burdened; renters represent 3 out of 4 cost-burdened households
- The number of units affordable to low income households (50% AMI) went from 83,630 (50%) in 2000 to 65,745 (38%) in 2013
- There are sustained racial disparities in all aspects of housing
- The tightening rental market contributes to decreasing affordability

Policy Implications:

1. Preserve NOAH: both naturally occurring (different types: good and poor condition; large, small scale multifamily; single family) and housing with a local subsidy that's approaching the end of its affordability period (built with equity from LIHTC); there are 1500 units with "opt out" potential when their subsidies expire.
2. Develop long term affordability
3. Do homeowner capacity building
4. Consider impact of evictions and other tenant barriers; there were 3000 evictions in 2015 and most were due to nonpayment of rent

Carolyn Szczepanski, MN Housing Partnership / "Sold Out" report

MHP's work: research, policy, community development (in Greater MN and Native American communities)

(Sole Out report data is from CoStar and Finance and Commerce Apartment Tracker)

Findings:

- Sales of apartment properties (buildings and units) are accelerating
- Sales prices have dramatically increased
- Communities of color are at risk: 60% of units sold are located in census tracts with 26%+ people of color
- In cities, the buildings being sold are smaller buildings – they can go under the radar
- Property sales are clustered: in Lyndale, Phillips neighborhoods in Mpls. and along Green Line in St. Paul
- There are more renters who are moderate income, which may explain why low rent buildings may be sold and upscaled
- 38% of all sales in St. Paul were along the Central Corridor
- 1/3 of sales were in low income neighborhoods
- 15% of sales were in neighborhoods with increasing income
- 38% of sales were in neighborhoods with more people of color

(Sold Out report and graphics can be found online)

Deirdre Schmidt, CommonBond

They looked at how to manage NOAH, and how it is different from subsidized affordable housing

- 1) management models
- 2) capital models – how to finance NOAH
- 3) acquisition strategies – how to purchase this housing

The Unique Role a Non-Profit can play:

- 1) matching: a non-profit can match a family with the housing unit so that the affordability is enjoyed by a household that needs it

- 2) can and will accept Section 8; they welcome all forms of payment
- 3) can market aggressively to people who are shut out: people of color, people with children, newer Americans, people with criminal records
- 4) have more flexible standards for screening residents; don't rely on credit scores like other owners do
- 5) provide quality pro-resident management; the key to good affordable housing is good management; and good affordable housing is a community asset, not just a financial asset
- 6) can gauge households' needs for services and can connect them to those services

Common Bond is looking for properties to buy and looking for funding sources; they are focused on large properties, not smaller scale or distressed properties, which would require too much public subsidy

2 Initiatives:

1) Common Bond Housing Opportunity Fund

Individuals and institutions can invest with Common Bond and help with this work; it is a debt mechanism

2) CommonBond is working with Freddie Mac; developed a pilot product for high capacity non-profit organizations who will be the best stewards of affordable housing; it is highly leveraged; only 3% of development costs are required for equity, which responds to one of the biggest challenges non-profits face in trying to compete with other buyers; if successful, they will roll it out around the country

Warren Hanson, Greater MN Housing Fund (GMHF)

NOAH Impact Fund: prioritizing units with rents under \$1200/month (table provided in the presentation attached which shows range of these properties, their values and their rents and household incomes)

We are losing affordable housing in the metro area faster than it can be developed

Homeownership rates are decreasing which puts more pressure on the rental market

Rule of thumb on rents: rents are 1% of the cost of that unit. If unit costs \$70,000 to build, the rent will be in the \$700-\$800 range

Where are NOAH units? 60% of NOAH units are in West Metro, and 40% in East Metro; 40% are in Minneapolis/St. Paul, and 60% are in the suburbs

We need improved stewardship of NOAH units: stabilize properties; improvement property management

Focus on opportunity areas, areas that are at risk for gentrification

GMHF is initiating a NOAH Impact Fund: \$25-30 million; to acquire 1000 NOAH units; keep them affordable for 15 years

Need experienced mission-driven owner operators to operate properties (such as Common Bond, PPL, Aeon)

The mission-based developers will keep the properties affordable

Greater MN Housing Fund will also work with mission-driven for-profits

The NOAH Fund has attracted a wide range of investors, from banks to foundations to Hennepin County

Opportunity areas are characterized by:

- Access to jobs
- Good schools
- Access to transportation
- Rising rents
- Access to amenities

High priority has been placed on properties that are along LRT

A pilot project in New Brighton; Greater MN Housing Fund had to buy the property within 60 days; speed is the name of the game because they are competing against national investors who are buying lots of properties and are ready to buy quickly

Tim Thompson, Housing Justice Center

Asserting legal rights of residents can be a strategy; residents at the Crossroads have filed suit

Losing properties to deterioration and demolition, and to up-market

Public policies that could preserve NOAH and protect tenants:

1. Help preservation buyers acquire properties

- Some states require advance notice of sale, and in some states there is a right of first refusal
- Most of these laws apply to subsidized housing, not private housing
- Chicago has a city ordinance that applies to SROs
- Update MN state law regarding opting out of Section 8 so that it includes some of the more recent subsidy programs

2. Create incentives for existing owners to maintain affordability; create an alternative business model – instead of maxing out rents, accept some subsidy

- Rehab or energy efficiency financing
- Property tax break
- Rent subsidies
- Chicago and Seattle have tax incentive strategies
- This strategy has a potentially broader impact, but it costs money to administer

3. Protect tenants

- Good cause eviction requirements
- Rent control; it is limited in MN by state law
- Longer notice periods for big rent increases

- Removing unreasonable tenant screening standards: what are best practices for admission as a tenant?
- Prohibit discrimination against Section 8; Mpls. is considering an ordinance
- Landlord guaranty fund – to help landlords take a risk on some tenants
- Require relocation costs payments; Chicago has this in place for SROs

Where should we put our energy? City by city? Regional? Statewide?

Owen Duckworth, Coalition Organizer for Alliance for Metropolitan Stability

3 Faces of Power

1. decision making and policymaking, passing laws
2. ability to shape the agenda
3. world views and narratives

Build the power of those affected (those who have lost their housing, lost their community) to address decision-makers

Bring people of different cultures together in a shared struggle: Latino, Somali, Oromo, and those living in different housing types – scattered, large buildings, public housing

Equity in Place table is an active forum to address these issues

Need deeper community engagement to understand what the Fair Housing issues are

If we have these discussions through the lens of the concentration of poverty, we have a disconnect

We need to change the power dynamics of this discussion

Questions and Comments

1. We are focused on preservation which is much less expensive than building new affordable housing; can't build new without subsidy
2. In current political climate, how do we preserve what we have? For example, Section 8, LIHTC
3. Encourage people to view housing as infrastructure and as a critical part of a healthy economy
4. There is a lot of regulation that doesn't produce value for tenants or communities; perhaps we have the chance to reduce this regulation, which could reduce the cost of building new affordable housing
5. How are you recruiting people of color, serving people of color, employing people of color in property management? Working on smaller properties helps with employment in neighborhoods. In Minneapolis there is a shift away from programs that give downpayment assistance to individuals and toward funding organizations that work with people of color over the long term; capacity-building. Also in Minneapolis, helping smaller developers, often people of color, with property redevelopment skills, technical assistance (CPED training program)

6. Why are we saying that affordable properties that we preserve today will remain affordable for 15 years? Why not 60 years? The market will drive this. We will have to make another effort for affordable housing again in 15 years.

Small Group Discussion report out (more complete list of ideas in attachment)

1. Large Properties

- Involve cooperatives and faith-based organizations
- Need to buy time and find money

2. Small Properties

- Can mortgage revenue bonds be used for duplexes?
- Are there non-profits who would acquire 25 unit buildings?
- Direct rent subsidies
- Longer and shorter affordability periods; ease transition from mission-driven to for-profit owners
- Landlord guarantees; philanthropic involvement
- Free up land for development through zoning changes
- Health care/wellness connections

3. Distressed Properties

- Great interest rates right now; how can we take advantage of this?
- Can Housing Authorities get a higher percentage of Section 8?
- Comprehensive evaluation of housing condition
- More tenants' rights focus
- Technical assistance and financing for small entrepreneurs
- Housing as a commodity instead of as infrastructure: how can we shift public thinking so that we have housing infrastructure for lower income people; instead of competing in the market

The next Getting the Big Picture Right event (workshop 3) will be:

Mixed Income Development and TOD

Tuesday, March 7, 2017

10 am – 12 pm

Wilder Conference Center, 451 N Lexington Pkwy, Saint Paul

Getting the Big Picture Right: Naturally Occurring Affordable Housing (NOAH) Preservation

Small group discussion notes

Dec 6, 2016

Large Properties

Strategies	Who needs to be involved?	Policies and resources
<ul style="list-style-type: none"> • Co-ops • Tax incentives • Seller incentive, capital gains exemptions • Partnership outside the norm with employers • Change political conversation, housing as infrastructure • Time, get ahead of the curve, ability to move quickly • Financing – gap funding • Resident education around rights and resources • Landlord guarantees • Speed (+ capital) / time • Real incentives to existing owners (4D?) • Identify properties 	<ul style="list-style-type: none"> • Employers • Residents • Neighborhoods • Private investors and property owners • Public organizations • People with the money (banks, government) • Policy makers • Faith community • State lenders (housing = infrastructure) • Employers? • Socially motivated / caring seller • Communities who are most impacted 	<ul style="list-style-type: none"> • ROFR at state level – D.C., Chicago examples • Rehab resources • Enforcement of codes (stop distress) + money for improvements

Small Properties

Strategies	Who needs to be involved?	Policies and resources
<ul style="list-style-type: none"> • Mortgage revenue bond for duplex (has built in resale requirement) • Non-profit scattered site acquisition • Direct rent subsidies (or meeting subsidies) • Low cost money, plus 4D or 4Desque • “Tickler” system to I.D. smaller properties going up for sale • Longer or shorter periods of affordability • Community land trusts 	<ul style="list-style-type: none"> • MPOs, FPOs, MHFA, METC • Electeds • Membership groups and associations • Tenants, residents • Profit motive okay, but match with social / mission principles 	<ul style="list-style-type: none"> • Acknowledging affordable preservation that doesn’t have subsidy (Urban Homeworks loses points for smaller properties) • How Super RFP looks at preservation • Localized, community level involvement and establishing parameters

Getting the Big Picture Right: Naturally Occurring Affordable Housing (NOAH) Preservation

Small group discussion notes

Dec 6, 2016

Small Properties (continued)

Strategies	Who needs to be involved?	Policies and Resources
<ul style="list-style-type: none"> • Mortgage revenue bond for duplex (has built in resale requirement) • Non-profit scattered site acquisition • Direct rent subsidies (or meeting subsidies) • Low cost money, plus 4D or 4Desque • “Tickler” system to I.D. smaller properties going up for sale • Longer or shorter periods of affordability • Community land trusts • Good data to show what’s happening: <ul style="list-style-type: none"> ○ Where is this housing? ○ How much exists? ○ Value of properties? ○ Who owns large quantities / % of total small scale properties? • Tax credits that build a network of smaller projects vs. all being large and other resources • Small scale landlord training • Zoning <ul style="list-style-type: none"> ○ St. Paul only allows 4 single adults in a household – too restrictive ○ Allow conversions to duplexes ○ Loosen owner-occupant requirement: One owner – several properties • Reduce teardowns – vacant lots stay around – City needs to get title, renovate, re-occupy • Money to properties, and less money to nonprofits 	<ul style="list-style-type: none"> • Community • City • County • State • Nonprofit developers • Advocates • Local government • Community-based organizations that understand the local community (Large investors don’t have this) • The people in the neighborhoods – people of all incomes • People have power • State – MHFA (This Old House / Apt) • Local (City, CDBG, Improvement Incentives) • Renters • Nonprofit organizations / preservation buyers • Health insurance companies 	<ul style="list-style-type: none"> • Rent stabilization, not control • Housing elements speaking to typologies • Landlord guarantees (MHFA, St Paul Foundation) • Energy Efficiency upgrades, lower operating costs, renovation funds • Tenant protection policies • Co-op conversion • Just cause eviction • Right of first refusal • Philanthropy • Health insurance money – healthy living environment • Rental licensing

Getting the Big Picture Right: Naturally Occurring Affordable Housing (NOAH) Preservation

Small group discussion notes

Dec 6, 2016

Small Properties (continued)

Strategies	Who needs to be involved?	Policies and Resources
<ul style="list-style-type: none"> • Revisit 4D – tie the property tax reductions to rents • Grow support in the community for rental property • Sibley Manor in St. Paul is at risk • How to deal with “problem landlords” – put tenants at risk for losing their housing • How to keep deteriorated housing as housing – eminent domain is not limited. • Landlord incentives • Zoning changes • Incentives for development 		

Salvaging Distressed Properties

Strategies	Who needs to be involved?	Policies and Resources
<ul style="list-style-type: none"> • Bonds Go, HIB, interest rates so low. Use subsidy for interest • Public lien priority • Housing Authority variance on Sec 8 project based • 4D property tax for small owners • Comprehensive evaluation of condition of properties • Tenant education on rights • Rental licensing – identify problems / collaboration, training B.P. • Create small entrepreneurial owners 	<ul style="list-style-type: none"> • Housing Link – data on owners • Counties • HUD • Local PHA • Tenants • Cities • Owners • Community Organizations • Public sector – funding and property maintenance regulations • Renters 	<ul style="list-style-type: none"> • \$ • \$ • Loosening permitting requirements / timing

Getting the Big Picture Right: Naturally Occurring Affordable Housing (NOAH) Preservation

Small group discussion notes

Dec 6, 2016

Salvaging Distressed Properties (continued)

Strategies	Who needs to be involved?	Policies and Resources
<ul style="list-style-type: none"> • Engage the nonprofit community to acquire • Notification to advocacy organizations • Create a municipal / public fund to rehab with low interest <ul style="list-style-type: none"> ○ guarantee of affordability ○ Cooperative housing development ○ Small for profit and non-profit companies ○ Linking developers to vacant properties – landlord training of responsibilities • Property management assistance • Expanding tenant rights / education on tenants' rights • Community benefits agreements • Money • Expertise • Bad-actor landlords – code enforcement • Public support for rehab • Tenant advocacy 	<ul style="list-style-type: none"> • Advocacy / organizing organizations • City • Residents • Expert advice – evaluation and estimating • Community, government support – city, police • Financing entity • Subsidy sources 	