



The long-term preservation of 40 apartments with rents affordable to households earning 50 percent of the area median income was financed with a loan from Fairfax County, Virginia's Penny for Affordable Housing Fund, enabling the owner of this 200-unit complex to refinance and rehabilitate the units.

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Preserving Affordable Rental Housing: A Snapshot of Growing Need, Current Threats, and Innovative Solutions

The United States was home to 9.9 million low-income renters in 2010, according to data from the Joint Center for Housing Studies of Harvard University. At the same time, there was a shortfall of 5.1 million rental units in adequate physical condition and affordable to these households.¹ The level of unmet demand varies regionally, with long waiting lists and

extremely low vacancy rates in expensive markets such as New York City and San Francisco and high vacancy rates and more affordable housing in weaker markets such as Flint, Michigan and Youngstown, Ohio.

In the aggregate, however, the nation's supply of affordable rentals is shrinking. Nearly one out of three homes with a

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Editor's Note

As we plan each new edition of *Evidence Matters*, we take care not to repeat topics or rely on research that has already informed a previous issue. But this planning process also regularly reminds us just how interlinked the core housing and community development challenges of our time are. This is especially true for housing preservation, which touches on issues ranging from physical redevelopment to housing finance to community accessibility.

Preservation opportunities cut across housing types and all of our nation's communities — from large urban apartment complexes to single-family homes in rural towns. As the articles in this issue point out, smaller buildings with four or fewer units are a significant proportion of the nation's affordable homes and are often especially in need of preservation support; these buildings are more likely to be privately owned, and their owners often lack the resources of larger real estate companies to rehabilitate older units. Keeping such affordable options available is critical to more vulnerable populations, including the elderly. And more broadly, the preservation of the affordable rental stock expands housing options and improves mobility for renters of all ages and family sizes.

In a time of constrained budgets and growing need for affordable housing opportunities, the preservation of existing housing is a cost-efficient, essential strategy. In particular, as more research reveals the importance of metropolitan areas as drivers of American economic growth, affordable housing preservation plays a critical role in maintaining economically diverse communities and workforce housing opportunities. In addition, as discussed in our lead article, renovating units to increase energy efficiency, which can reduce costs and help ensure long-term affordability, has become a more common component of preservation efforts.

The articles in this issue of *Evidence Matters* explore a range of strategies designed to promote affordable housing preservation at the national, state, and local levels. The lead article, "Preserving Affordable Rental Housing: A Snapshot of Growing Need, Current Threats, and Innovative Solutions," reviews the economic and demographic trends prompting increasing demand for affordable housing, the threats to the existing housing stock, and the programs and tactics used by governmental and nonprofit organizations to preserve affordable housing. "Research Spotlight: How Research Tools Are Assisting Communities To Preserve, Plan Affordable Housing" considers the efforts of New York University's Furman Center and the University of Florida's Shimberg Center to map affordable housing subsidies and availability to better target areas most in need of preservation. And "In Practice: Models for Affordable Housing Preservation" examines the role that preservation compacts and state housing trust funds play in protecting affordable housing and economic diversity.

I hope you find this issue of *Evidence Matters* enlightening. Our next issue will focus on aging in place, which will also be the subject of the Fall PD&R Quarterly Update. Please provide any feedback at www.huduser.org/forums.

— Rachelle Levitt, *Director of Research Utilization Division*



monthly rent of less than \$400 in 1999 — affordable to people working full time at minimum wage — had left the affordability stock by 2009.² Some of these homes were lost through conversion from subsidized to market-rate rentals, from year-round to seasonal uses, or from rentals to ownership. Demolition and abandonment, largely the result of unmet capital needs, claimed others. Although new rental housing is being constructed, these new units, with national median rents reaching \$1,000 and more, are generally not affordable to low-income (and even some moderate-income) renters. At the same time, construction rates for subsidized housing have slackened, declining from a mid-1970s high of 300,000 units annually to 75,000 units annually today.³

Preserving existing affordable rental housing offers many advantages over new construction. The nation's stock of government-subsidized affordable rentals represents a taxpayer-funded investment worth billions of dollars.⁴ The cost of constructing new subsidized and privately owned affordable rental housing from the ground up, says Enterprise Community Partners' Lydia Tom, would be staggering.⁵ By contrast, preservation typically costs about one-half to two-thirds as much

Highlights

- The nation's supply of affordable rental housing — both subsidized and unsubsidized — is shrinking, even as demand increases.
- Preserving existing affordable housing has a variety of economic and social benefits and is typically more efficient than building new units.
- Federal, state, and local governments and nonprofits are employing creative financing and ownership structures to preserve affordable rental housing in both the public and private stock.

as new construction. Preservation also enables people to stay in their homes and neighborhoods, where they can enjoy the social capital they have built within their communities. In addition, rehabilitation that focuses on energy-efficient upgrades can save tenants, government agencies, and owners money. As Michael Bodaken of the National Housing Trust puts it, “[I]t’s less expensive, and smarter,” to preserve the affordable housing stock that the nation has already paid to construct.⁶

Demand for Affordable Rentals Grows

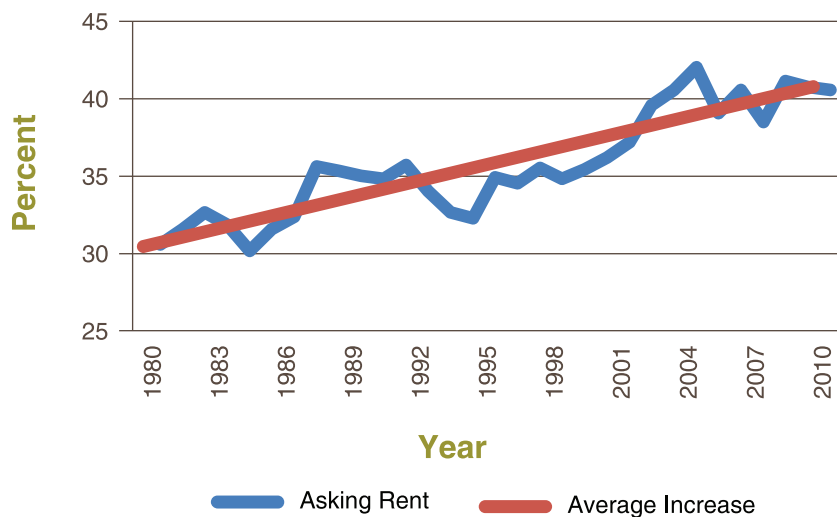
Demographic and economic shifts are expected to increase demand for affordable rentals over the course of this decade. Millennials — those born between the early 1980s and

early 2000s — are projected to form 11.3 million new households by 2020. Although immigration has decreased during the recession, the U.S. Census Bureau estimates that yearly net immigration will reach between 1.2 and 1.6 million by 2017, which will fuel additional growth in renter households.⁷ Increased life expectancy in the United States, particularly among members of the aging baby boomer generation, is increasing the proportion of the population age 75 and over and demand for housing affordable to seniors.⁸ Together, these demographic forces are expected to increase the number of renter households from 360,000 to 470,000 every year from 2010 to 2020, reaching a total of more than 3.6 million new renter households by 2020.⁹

Burgeoning numbers of low- and extremely low-income households are also driving demand. From 2000 to 2010, the number of rental households earning \$15,000 or less annually grew by 2.2 million.¹⁰ Also climbing is the number of people with “worst case” housing needs, which HUD defines as “very low-income renters” making less than 50 percent of area median income (AMI), not receiving housing assistance, and who “paid more than half of their income for rent or lived in severely inadequate conditions” or both. Some 8.48 million households fell into this category by 2011, up 1.38 million from 2009.¹¹

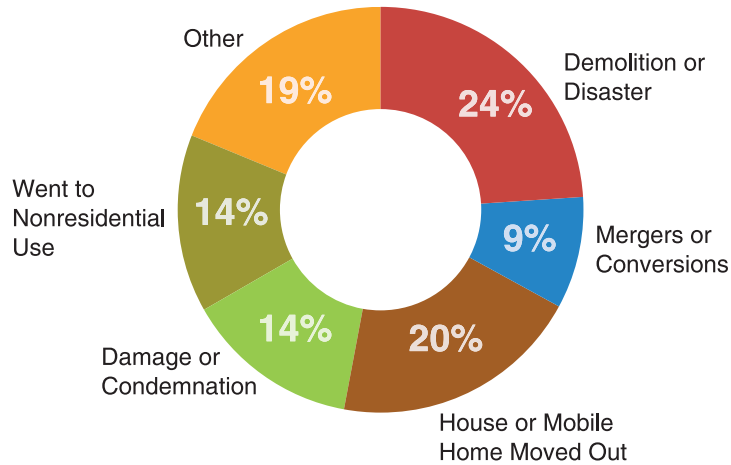
Long-term declines in household income have also contributed to the demand for affordable rentals.

Housing Costs as Share of Income: 1980–2010



Source: Joint Center for Housing Studies of Harvard University. 2011. “America’s Rental Housing: Meeting Challenges, Building on Opportunities,” Table A-2, 43.

How Housing Left the Nation's Stock, 2007–2009



Source: Frederick J. Eggers and Fouad Moumen. 2011. "Components of Inventory Change: 2007–2009," Table ES-1, vi.

Although outcomes vary for different ethnic groups and by gender, Adam Looney and Michael Greenstone of the Brookings Institution found that from 1969 to 2011, annual median earnings of all workers — adjusted for inflation — diminished by 14 percent.¹² Rents, however, have continued to climb. Between 1990 and 2010, asking rent for new apartments climbed 7.5 percent while median renter income fell 7.7 percent.¹³ The wage losses that workers have sustained over the past several decades have left them unable to keep up with rent increases.¹⁴

Further exacerbating the rise in demand for affordable rents is the declining rate of homeownership in the United States, which in 2011 reached 64.6 percent, its lowest rate since the American Community Survey began tracking these statistics in 2005. This decline includes former homeowners who became renters through foreclosure or distressed sales during the recession.¹⁵

Threats to Privately Owned, Unsubsidized Rentals

Most of the nation's affordable rentals consist of unsubsidized, privately owned multifamily housing. Some 10.1 million privately owned units rent for \$599 per month or less, nearly three times the number of similarly priced subsidized

homes.¹⁶ The availability of rentals at these levels varies depending on the region's housing market, economy, and other factors. For example, whereas San Diego has only 23 units affordable to and available for every 100 renter households making 30 percent or less of AMI, Pittsburgh has 57.¹⁷

Across the nation, the scale and ownership of unsubsidized, privately owned rental housing distinguish it from other affordable properties and create distinct challenges for preservation. Many privately owned affordable rentals are small in scale, which the U.S. Census Bureau in 1995 defined as properties comprising five or fewer units (although other sources define "small" as properties with fewer than 10 units, or even fewer than 49 units). These properties primarily have "mom-and-pop" owners; 1998 research from the U.S. Census Bureau found that 92 percent of the owners of multifamily rentals with 10 or fewer units are individuals.¹⁸

The individual-level ownership and the small scale of these unsubsidized properties make financing their upkeep difficult, says Shekar Narasimhan, managing director at Beekman Advisors, because of the high cost of doing business with an individual property owner. "The same amount of energy will go

into making a \$5 million loan as will go into making a \$500,000 loan. But banks charge for these services on a percentage basis. If I charge 1.0 percent, I make \$5,000 on the smaller loan and \$50,000 on the larger loan. If my cost of making the loan is \$10,000 per loan, I lose money on the smaller loan and make money on the larger loan. It's the law of numbers."¹⁹ Banks may also balk at lending to these smaller owners because of the fixed costs incurred if a development goes into foreclosure, such as fees for lawyers, court filings, and appraisals. Such fixed costs apply to foreclosures of any size, and they "eat into the value of the property significantly, which means the recovery rates after foreclosure on smaller properties are much lower. Therefore, the lender loses more money when a default takes place," says Narasimhan. As a result, small-scale owners often must put up significant collateral — perhaps even their own home — to access credit, which may inhibit them from seeking a loan to rehabilitate or renovate their property.

Poor physical condition of properties is another challenge to addressing this housing through economies of scale. Research shows that privately owned multifamily rentals typically are older and therefore have higher upkeep. Such properties often have insignificant reserves, in part because of their low rents, and require substantial rehabilitation.²⁰ In addition, because of their small scale and scattered ownership, these multifamily rentals often miss out on energy-efficiency programs offered through utility companies. Together, these qualities make small-scale, privately owned affordable housing unattractive to large-scale investors, which in turn makes adequate property maintenance difficult.²¹

In stronger markets, privately owned, low-cost rentals have been lost through conversion to condominiums. This type of loss spiked in the mid-2000s; in 2003, only a few thousand homes in multifamily properties were converted

to condominiums, and by 2005, that figure reached a peak of 235,000. More than 40 percent of these conversions were located in the southeastern United States. The market for condominium conversion has since cooled in most areas.²²

Gentrification poses a special threat to the continued affordability of privately owned stock. A 2010 study from the Dukakis Center for Urban and Regional Policy suggests that transit investments can drive up rent. The researchers conclude that in most communities with new transit options, rising rents “likely caused many

[renters] to pay a higher proportion of their income for shelter and could eventually force them to seek housing elsewhere.”²³ As Bodaken points out, private owners in transit-rich neighborhoods “do not have any reason or regulation to prevent them from moving on to market [rents].”²⁴

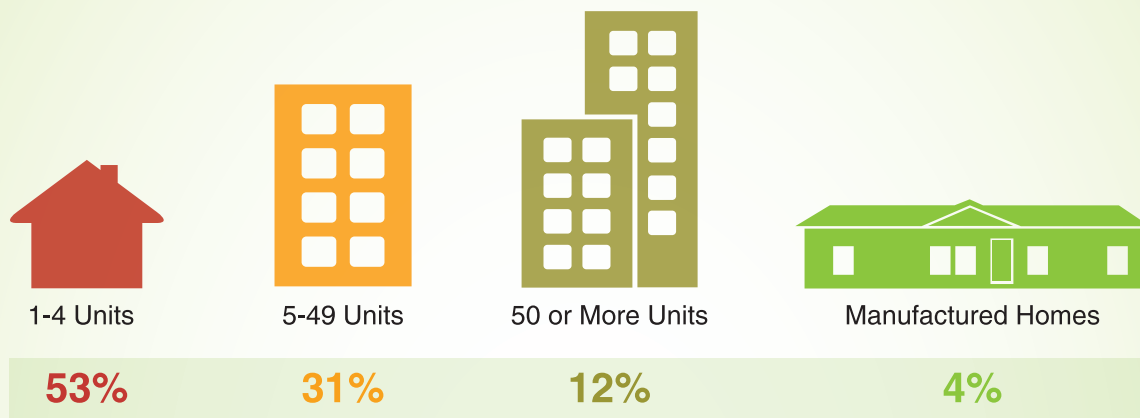
Pressures on Subsidized Stock

Unlike most privately owned unsubsidized stock, government subsidized rentals were built specifically to provide affordable rental housing. Under past and present programs including Section 236, Section 8, and the

Low-Income Housing Tax Credit program (LIHTC), owners agree to maintain affordable rents for a set period, usually 15 to 30 years, in exchange for federal subsidies. When those agreements expire, owners can either reenroll in the affordability programs or convert their properties to market-rate units. In some cases, private owners can leave subsidized programs before rent restrictions expire by prepaying their mortgages after a set number of years.

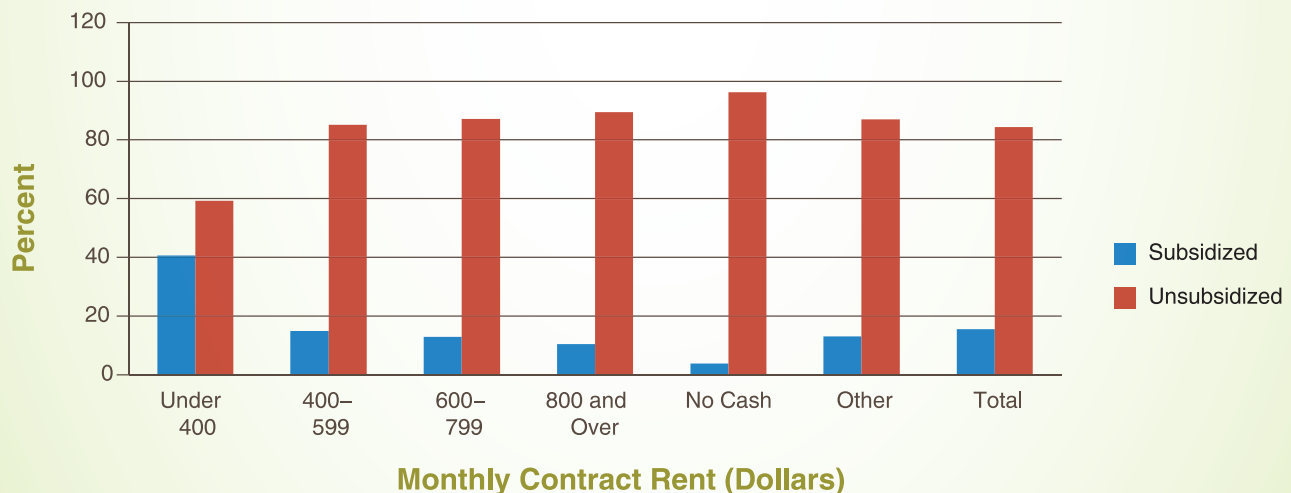
Over a period of 10 years beginning in the mid-1960s, the below-market interest rate and Section 236 programs helped create nearly 700,000 affordable

Renter-Occupied Units by Structure Type, 2011



Source: U.S. Census Bureau. 2011. “American Community Survey,” Table B25032. Accessed 9 May 2013.

Renter Households, Subsidized and Unsubsidized, 2009



Source: Joint Center for Housing Studies of Harvard University. 2011. “America’s Rental Housing: Meeting Challenges, Building on Opportunities,” Table A-5, 46.



Whispering Pines staff / Volunteers of America

Air conditioning installation at Whispering Pines Senior Village in the logging town of Estacada, Oregon, is part of the renovation and green retrofitting of 62 affordable units.

rental units. In return for maintaining rent at affordable levels, owners received subsidies to lower the interest rate paid on mortgages insured by the Federal Housing Administration (FHA).²⁵ When owners of these developments became eligible to prepay their mortgages in the early 1980s, HUD created a Preservation Incentives program that provided owners with financial incentives to maintain affordable rents, thereby preserving affordability for nearly 100,000 units.²⁶

Similarly, between 1974 and the mid-1980s, HUD's Section 8 program created about 650,000 units with affordability restrictions lasting 20 to 30 years. Tenants pay 30 percent of their income toward their rent, and the government pays owners the balance. Research suggests that a small percentage of these properties do leave the affordable stock. A 2006 study of 22,471 Section 8 properties consisting of 1.57 million units found that between 1992 and 2004, 7.6 percent of owners opted not to renew affordability provisions or prepaid their mortgages.²⁷ A 2007 study by the U.S.

Government Accountability Office found similar rates of renewal; of the 13,218 project-based Section 8 contracts that expired between 2001 and 2005, 92 percent were renewed.²⁸

Unmet physical needs are another threat to the continued affordability and viability of subsidized housing. A 2010 study of the nation's public housing stock calculated the total cost of existing capital needs (including accommodations for people with disabilities and energy- and water-efficiency initiatives) at \$25.6 billion, with each unit requiring an average of \$19,029 in improvements — a decrease both in the aggregate and at the level of the individual unit since public housing's capital needs were last assessed in 1998.²⁹ Even so, with Congress allocating approximately \$2 billion toward public housing's capital needs each year, a significant gap exists between appropriations and the cost of needed repairs.³⁰

Viability Challenges for LIHTC Units

A key tool for creating and preserving affordable rentals is LIHTC, established

in 1986 and administered by the U.S. Department of the Treasury, which provides incentives for the private market to build affordable housing. In exchange for tax credits (which are sold to investors to raise funds for development), owners agree to maintain affordable rents for a set period of time. LIHTC properties placed in service before 1989 require affordable rents for 15 years; that term increased to 30 years in 1990. At "Year 15," the tax-credit investor can exit the deal, requiring the owner to either buy out the investor's portion or sell the building.³¹ However, unlike other subsidized housing, studies suggest that — so far — expiring affordability provisions are not a great threat to LIHTC properties' affordability. Even after these restrictions have expired, remaining rent restrictions from other funding sources and/or prohibitively high rehabilitation costs have deterred owners from converting these properties to market-rate housing.³² Research commissioned by HUD and submitted by Abt Associates likewise shows that most LIHTC properties remain affordable even without federal restrictions.³³

The main threat to LIHTC properties' long-term affordability and viability stems from the cost of physical improvements. Research on LIHTC buildings put into service after 1989 found that at Year 15, approximately 21 percent of developments needed an average of \$7,348 per unit in rehabilitation expenses, but the properties held only \$1,630 per unit in their reserve funds. Current per-unit rehabilitation costs may be relatively low, but if they go unmet, these costs may constitute an increasing threat to affordability as these units age.³⁴

Economic Benefits of Preservation

In addition to meeting demand for affordable rentals and upgrading housing stock that has already been built, preservation can offer economic benefits. Affordable rentals redeveloped through the MacArthur Foundation's Window

of Opportunity initiative, which has rehabilitated rentals in 37 states, cost about \$81,000 per unit, half the cost of comparable new units.³⁵ According to a 2013 study by the Center for Housing Policy on affordable multifamily rental housing, these savings are realized even when accounting for the full life cycle of a property. Although costs such as maintenance expenses may be higher over the life of a rehabilitated property, rehabilitation is still more cost effective than new construction. Including such long-term considerations and controlling for “location, project size, average unit size, building type, [and] year of development,” the study finds that new construction costs between \$40,000 and \$71,000 more than acquiring and rehabilitating existing developments.³⁶

A number of factors contribute to the high costs of new construction. According to the Federal Reserve Board, residential land costs have grown about 250 percent more quickly than inflation since 1975, although land costs do vary regionally and did fall during the recent recession.³⁷ In addition, as a 2004 paper from Harvard University’s Taubman Center for State and Local Government found, the cost of the “right to build” — securing

regulatory approval for new construction in certain expensive markets — has also increased over the past several decades and constitutes yet another costly, although variable, factor in new construction.³⁸ Finally, says Allison Clark, program officer in the MacArthur Foundation’s Program-Related Investments program, in any new tax-credit project, “there is so much soft-cost that goes into it,” such as closing fees, that preservation does not incur.

In addition to high building costs, rising land prices, and land-use restrictions that make replacing low-cost units with new affordable construction difficult, another reason to preserve affordable rental housing is the positive effects of rehabilitated development on the community. For example, in gentrifying neighborhoods, preserving affordable rental housing promotes economic diversity, creating or sustaining a mixed-income neighborhood. This diversity can be important to long-term residents who stayed during “what we call the ‘bad’ times. They should have a shot at living there during the ‘good’ times,” says Bodaken.³⁹ Helping these residents afford to stay in their neighborhood allows them to take advantage of improvements such

as better performing schools, improved job access, and increased access to transit. This is why in gentrifying neighborhoods, says Enterprise’s Lydia Tom, “it’s very important to...support the acquisition and preservation of affordable housing...while it’s still affordable.”⁴⁰

Preservation restores vacant buildings to a city’s housing stock, and research shows that restoration also benefits neighborhoods. For example, studies of New York City show that affordable rental housing has attracted private investment and improved community safety.⁴¹ A 2012 case study of the Bradhurst area in Harlem commissioned by the New York State Association for Affordable Housing showed that, following publicly funded rehabilitation of vacant rental housing, the percentage of residents living below the poverty level dropped and median annual household income rose 200 percent, from \$11,000 to \$32,000. Although the increased median income is in part a sign of gentrification, the study’s authors explain that “the development of affordable units created housing where there was none” — by restoring vacant buildings — “so the influx of moderate-income households did

Philanthropy’s Role in Funding Preservation

Philanthropic initiatives such as the MacArthur Foundation’s Window of Opportunity program offer a distinct advantage in their capacity to function as a nexus for multiple government and private groups.¹ For example, as part of this initiative, the MacArthur Foundation has funded preservation compacts in Cook County, Illinois; Massachusetts; and Ohio that address the challenge of preservation by convening and supporting interagency working groups (see “Models for Affordable Housing Preservation,” p. 20). Perhaps the best example of this innovative approach is the Housing Partnership Equity Trust, a real estate investment trust (REIT) to which the MacArthur Foundation also contributed startup funds.² This trust, which has raised \$100 million from private and philanthropic partners such as Citibank and Morgan Stanley, works with 12 nonprofit housing providers nationwide to acquire and rehabilitate affordable rental housing without relying on public subsidies or low-income housing tax credits. In April 2013, the trust announced its first acquisition: a multifamily development of 128 apartments in Aurora, Illinois, which the nonprofit Mercy Housing Lakefront will rehabilitate. According to Drew Ades, the trust’s chief executive officer, “the underwriting and return structure of [the trust] enabled Mercy Housing Lakefront to make a competitive bid, perform a thorough due diligence process, and ultimately close on the transaction in far less time than is typical of a transaction that would be dependent upon low-income housing tax credits.”³ Ades expects that the REIT’s structure will enable it to take its approach to scale.

¹ “What’s the Story?” The Preservation Compact website. Accessed 22 May 2013.

² “Housing Partnership Equity Trust.” Housing Partnership Network website. Accessed 4 June 2013.

³ MacArthur Foundation. 2013. “Housing Partnership Equity Trust Launches With \$100 Million in Funding For Affordable Multifamily Housing,” 29 April press release.

not result in displacement of existing families and households.”⁴² Other studies, also of New York City, have shown similar results for housing rehabilitation completed by both nonprofit and for-profit organizations.⁴³

Federal Solutions to Preserving Affordability

The federal government has created a number of programs that address preservation of subsidized and privately owned stock.⁴⁴ In 1997, Congress launched the Mark-to-Market (M2M) program, partly in anticipation of the large numbers of Section 8 properties whose affordability requirements were set to expire in the late 1990s and partly in response to the subsidized developments’ rents, which,

in preserving Section 8 properties’ long-term affordability while also saving the federal government money.

Preservation through rehabilitation, particularly when it focuses on energy-efficient upgrades, is another means for HUD, property owners, and tenants to realize economic benefits. Annual utility costs for the nation’s subsidized housing are an estimated \$7.1 billion, \$6.4 billion of which HUD is responsible for paying.⁴⁹ Lower-income households often live in older, less-efficient homes with older appliances that drive up utility costs. In fact, low-income residents’ homes use about 12,000 more BTUs per square foot than the average home.⁵⁰ Programs such as the Green

preexisting hookups to water, sewer, and other existing infrastructure.⁵⁴

HUD’s Rental Assistance Demonstration (RAD), a new, budget-neutral pilot program addressing subsidized housing at risk of leaving the affordable rental stock through unmet capital needs and expiring Section 8 contracts, enables owners and public housing agencies to shift housing developments to the Section 8 platform.⁵⁵ Doing so gives these owners access to private and public debt and equity, including LIHTCs, HOME and Community Development Block Grant funds, and private-market investment, enabling rehabilitation or even replacement of decrepit units.⁵⁶ In this way, says Patrick Costigan, senior adviser to HUD Secretary Shaun Donovan, RAD meets public housing’s “enormous capital backlog” without adding financial obligations to the federal government.⁵⁷ The legislation authorizing the RAD program also ensures that tenants will retain the rights and protections they are afforded under the Housing Act of 1937.

RAD is administered through the Office of Multifamily Housing Program’s Office of Affordable Housing Preservation (OAHP) and consists of two components. In the first, competitive component, private owners and public housing agencies put together funding sources, then apply to convert public housing and Moderate Rehabilitation homes to a long-term, property-based Section 8 contract, extending affordability for at least 15 years. At the time of this writing, awards have been made to 78 public housing agencies proposing to convert more than 14,000 units, and 2 Mod Rehab owners.

During the initial application period, says Costigan, selected proposals ranged from complete replacement (22%) to rehabilitation costing \$50,000 and more per unit (24%). Other proposals involve modernizing the housing (22% of all rehabilitation projects) or adding funds to the property’s reserves,

Preservation through rehabilitation, particularly when it focuses on energy-efficient upgrades, is another means for HUD, property owners, and tenants to realize economic benefits.

due to automatic yearly increases, often exceeded the neighborhood’s market rate.⁴⁵ The legislation empowered HUD to “mark down to market rents” those projects that had mortgages guaranteed by FHA and that were renewing their Section 8 contracts.⁴⁶ To give owners an incentive to renew, the program also restructured mortgages, making partial or full payment of the FHA-insured first mortgage and replacing it with a smaller, often FHA-insured, mortgage. In the case of a full restructuring, the difference between the original and reduced mortgages could remain as a second mortgage, payable only if funds were available or the property was sold. At the time of the restructuring, owners would agree to a new 30-year affordability agreement.⁴⁷ Researchers estimate that the program will save \$831 million over 20 years, or about \$28 per unit each month.⁴⁸ In this way, M2M succeeded

Retrofit Program (GRP), a \$250 million initiative funded by the American Recovery and Reinvestment Act of 2009, provided funds for retrofits and upgrades that increase energy efficiency.⁵¹ GRP, which ended in September 2012, reached 19,000 units in 221 properties; each home received an average of \$13,000 in efficiency improvements, and owners of enrolled projects were required to add 15 years to their properties’ affordability restrictions.⁵² Thanks to this investment, GRP properties will save a projected \$12 million each year on utilities — savings that are passed on to property owners, tenants, and HUD.⁵³ Equally important, these energy savings will reduce greenhouse gas emissions. Clark notes that preservation through retrofitting builds on the “same carbon footprint that’s already been put in place,” with



The Moses Dewitt Redevelopment project in Syracuse, New York will rehabilitate and preserve 37 apartments for very low-income seniors.

which enables owners to budget for future maintenance. Putting money into reserves is noteworthy, explains Costigan, because “[y]ou can’t do that in public housing. You basically get an allocation and do the best you can. By going onto a Section 8 platform, you can budget for replacement.” In addition, these proposals are evidence that public housing agencies are employing funding mechanisms used by other developers of affordable housing, such as 4- and 9-percent LIHTCs.⁵⁸ “A whole range of secondary or gap financing is now available to [public housing agencies],” Costigan observes. “With this tool, public housing agencies are more able to be the community-based affordable housing developers, owners, and managers that they really are.”

The first rounds of submissions have proposed approximately \$977 million

in total financing, \$650 million of which is for construction costs. Those figures include \$257 million in first mortgage proceeds from lenders, an expected \$409 million through 4- or 9-percent LIHTCs, and \$237 million in gap financing, including HOME or state trust funds. Bank of America, Deutsche Bank, Enterprise Community Investment, the National Equity Fund, and Local Initiatives Support Corporation have all committed funds at this time.⁵⁹

RAD’s second component, initiated in March 2012, allows affordable properties developed through certain programs that the government has not renewed to transfer to long-term Section 8 contracts through the project-based voucher program, which subsidizes rentals on specific units. This conversion will preserve the affordability of the units for at least another 15 years. Although no

estimate of this stock’s capital needs is available, these properties do have a backlog of needed repairs.⁶⁰ As with Section 8 housing, residents of these properties pay no more than 30 percent of their income for rent. Thus far, HUD has prioritized proposals whose affordability provisions are expiring in fiscal year 2013; additional letters of interest, representing developments expiring in later years, are in the queue.⁶¹ To date, nearly 50 private owners have received approval to convert approximately 5,000 units through this RAD component.

Because RAD is a pilot program, no data yet exists on its efficacy or its effect on tenants, although an evaluation is planned. Slots are still available, and the program is accepting applications on a rolling basis.⁶² HUD released an updated RAD notice in July, which Costigan says makes it easier for owners

or public housing agencies seeking to bundle together many projects in a single application. Notably, despite sequestration's spending cuts and its impact on Section 8, HUD plans to try to shield those public housing agencies taking part in RAD from automatic cuts by maintaining approved projects' rent levels.⁶³

In addition to RAD, HUD's Office of Multifamily Housing Programs has initiated preservation programs targeting other HUD legacy properties. Specifically, OAHP is spearheading affordability preservation programs targeting Section 236 and Section 202 properties. Both programs directly subsidized the development of thousands of units of affordable rental housing from the 1950s through the 1970s. These mortgages are approaching or have reached their maturity dates. In addition, many owners are seriously considering refinancing their HUD mortgages, which would terminate any current affordability restrictions.

Not only are current low interest rates a strong incentive to refinance, but most 236 and 202 property owners also have deferred maintenance costs in serious need of capital. HUD is proactively addressing this trend by creating financial incentives for owners to preserve their properties' affordability.

Owners and purchasers of Section 236 properties with impending mortgage maturity dates often need HUD assistance not only to preserve affordability for tenants but also maintain the long-term physical and financial viability of their properties. Preservation transactions typically involve prepaying an existing Section 236 loan, first mortgage refinancing (either with or without FHA mortgage insurance), and securing new, additional sources of capital financing such as LIHTC equity. These Section 236 prepayment requests often require various additional approvals from HUD, including the decoupling of the 236 Interest Rate Payment from the 236 prepayment, deferral of

Flexible Subsidy loan repayments, and unit conversions.

Effective July 1, 2013, HUD's Office of Multifamily Housing Programs initiated a centralized processing model for most Section 236 preservation activities through OAHP. This initiative is designed to streamline and expedite HUD approvals of these preservation transactions.

The Section 202 Supportive Housing for the Elderly Act of 2010 authorizes HUD to provide Senior Preservation Rental Assistance Contracts (SPRACs) with 20-year terms to eligible Section 202 property owners. The SPRAC program prevents the displacement of existing income-eligible tenants of eligible Section 202 properties that can result when property owners seek to prepay the existing mortgage and refinance the property to generate capital for property maintenance. HUD's portfolio of Section 202 Direct Loan properties includes approximately 18,200 unassisted units; over the next decade, an average of 2,000 unassisted units per year are at risk of expiring affordability due to maturing Section 202 loans.

In fiscal year 2012, \$16 million was made available for SPRAC funding, which HUD anticipates could assist up to 2,000 currently unassisted income-eligible tenants. SPRAC funds will be awarded to support currently unassisted tenants who may be either low-income (80% of the applicable AMI) or very low-income families (50% of AMI), as determined by HUD. In addition to protecting existing tenants from displacement, SPRAC assistance supports the long-term preservation and affordability of these pre-1974 Section 202 Direct Loan projects. The prepayment of the Section 202 mortgage, in conjunction with the rehabilitation of the project and the provision of a SPRAC, will facilitate the improvement of the project and its long-term preservation as affordable housing for both current and future tenants. HUD's SPRAC award criteria prioritize applications



New York State Weatherization Directors Association

The New York State Weatherization Assistance program assists income-eligible households in reducing heating and cooling costs with energy-efficiency measures such as air sealing, insulation, and improvement or replacement of heating systems, lighting, and appliances.

for properties that commit to serving very low-income tenants and completing substantial rehabilitation.

State and Local Approaches

On a macro level, some states prioritize preservation of both privately owned and subsidized rentals by specifically targeting portions of tax credit allocations and federal funds for preservation projects.⁶⁴ For example, Delaware, Florida, Massachusetts, and Ohio earmark between 35 and 50 percent of their LIHTCs for preservation projects. Kansas, New York, Oregon, and Wisconsin have all set aside percentages of their states' Weatherization Assistance Program (WAP) funds, which make capital improvements keyed to energy-efficiency and the reduction of greenhouse gas emissions. Massachusetts earmarked \$6 million WAP funds specifically for privately owned, subsidized properties — a significant move because these properties tend to be older and less energy efficient.⁶⁵

Other approaches enable cities to anticipate changes to affordable rentals and thereby prevent their loss. By municipal code, San Diego, among other communities, requires one-to-one replacement of any affordable rentals that are razed, removed from the stock, or converted to condominiums.⁶⁶ Similarly, communities developing mass transit systems have protected nearby affordable rentals through community benefit agreements that stipulate, as part of the contract, that developers must preserve affordable housing. Cities such as Denver, Colorado have provided transit-oriented development acquisition funds and philanthropic grants to nonprofits that buy affordable housing around the area slated for transit, thereby protecting their long-term affordability.⁶⁷

A handful of cities and states have captured funds for rehabilitation, land acquisition, and affordable housing through tax increment financing (TIF). Municipalities designate a tax

In addition to regulatory and tax-related strategies, preservation databases track and provide information about at-risk properties.

increment district and then devote the portion of tax revenue that exceeds a projected baseline toward specific projects within the district. In some cases, a percentage of TIF revenue is statutorily earmarked for affordable housing. In California, this model netted some \$1.2 billion for housing funds that work with low- and moderate-income housing.⁶⁸ Chicago has also deployed TIF as part of its 2009–2013 plan to preserve the city's affordable rentals; with it, owners of multifamily rentals whose residents make 80 percent or less of AMI can take TIF-funded grants of up to \$100,000 to upgrade their buildings' exteriors and safety features. The cities of Atlanta, Kansas City, and Austin, as well as the states of Florida and Maine, also use TIF for preservation.⁶⁹

Another approach used to assist owners with the upfront costs of preservation, such as acquiring buildings or land, is bridge financing, which provides loans to non- and for-profit developers otherwise unable to make those acquisitions and pay for “soft” predevelopment costs. For example, the New York City Acquisition Fund, a public-private initiative launched in 2006, includes philanthropies, the city of New York, and such financial institutions as JPMorgan Chase, Citibank, Fannie Mae, and Deutsche Bank. The fund has invested some \$140 million in preservation funds throughout the city, thereby preserving the affordability of 2,600 homes.⁷⁰ The Acquisition Fund's structure has since been duplicated in other cities, including Chicago and Los Angeles. Its successful and creative approach to a seemingly intractable problem — the high costs of land and property in major cities — earned it a 2008 Innovation in American Government Award from Harvard University.

In a similar initiative, the recently formed Housing Partnership Equity Trust has joined with 12 nonprofit partners across the country to invest \$100 million in multifamily affordable housing (see “Philanthropy's Role in Funding Preservation,” p. 7).⁷¹

Finally, municipalities use regulatory tools to make it easier, or more financially attractive, for owners to upgrade their affordable rental properties.⁷² Tax abatements, for example, which freeze taxes at a certain level, are one tool commonly used in New York City to induce owners to rehabilitate these properties. Streamlining the financing process is another way that localities create incentives for owners to rehabilitate their properties and maintain their affordability.

In addition to these regulatory and tax-related strategies, preservation databases, including one built by the Furman Center for Real Estate and Urban Policy at New York University, track and provide information about at-risk properties. The Furman Center's database collates information from multiple sources on subsidized rental properties in New York City that are privately owned. The database contains details on 40 property-level variables, including subsidy, ownership, and physical and financial information that help identify opportunities to preserve affordability (see “How Research Tools Are Assisting Communities To Preserve, Plan Affordable Housing,” p. 14).⁷³ Likewise, the National Housing Trust maintains a list of all project-based Section 8 housing whose contracts will expire in the next five years.⁷⁴ These data are crucial, says MacArthur's Allison Clark, “It's a much harder job to get your hands around what you



State and local approaches to affordable rental housing preservation include acquisition funds, tax increment financing, tax abatements, and regulatory tools designed to incentivize owners to upgrade their rental properties.

already have than you would expect.” For instance, Clark explains that some subsidized deals date from before widespread use of computer systems, which can make them difficult to track. Cities, states, and HUD track properties differently, so projects can fall through the cracks or be double-counted. Finally, she says, tracking market-rate, privately owned developments that provide critically needed affordable housing “is a big challenge.” These developments might not be tracked without these initiatives, so the critical housing needs that they meet — and the threats posed to them, such as conversion to condominiums — may be invisible.

The Future of Preservation

Increasingly, the need to meet the demand for affordable rental housing is being addressed through collaboration

among different levels and branches of government and among private, public, and philanthropic groups. These groups are motivated to preserve affordable housing because of its impact at the individual household, neighborhood, and community level. For low-income households, preservation safeguards affordability during a time of rising housing costs and shrinking incomes. It further helps revitalize and stabilize neighborhoods that can offer access to opportunity. More economical than new construction, for which there is inadequate funding, preservation also reuses buildings, takes advantage of existing public infrastructure, conserves green space, and reduces utility costs and greenhouse gas emissions. Interagency work groups that include nonprofit and public entities coordinate efforts, such as Illinois’ Cook County Preservation

Compact, and share data about homes most at risk of converting to market-rate rents or falling out of use due to disrepair. Together, these diverse stakeholders are leveraging the knowledge, resources, and data needed to protect residents living in affordable rentals today and to meet future demand for such housing. [EM](#)

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How Research Tools Are Assisting Communities To Preserve, Plan Affordable Housing

In recent years, research advances have greatly enhanced public and private efforts to preserve affordable housing. Several housing and urban policy research centers have used multilayered databases and sophisticated mapping tools to better understand the nation's current stock of privately owned and publicly subsidized housing.¹ Integrated datasets, which layer property-specific subsidy data as well as other housing and neighborhood level indicators, are clarifying the nature of units subsidized by local, state, and federal programs. In addition, data layering has improved the ability of policymakers, planners, and nonprofit organizations to assess challenges to the existing subsidized housing stock, enabled more effective tracking of how many units have left affordability programs, and identified which properties will soon be eligible to withdraw from their affordability programs.² Researchers are also using integrated databases of affordable rental stock at the local level to build geographic information system (GIS) models, which enable spatial analysis of affordable housing's proximity to employment, transit, and other community amenities. Identifying the spatial relationship of affordable housing to locations of opportunity for low-income households is critical for local communities, planners, and policymakers attempting to implement sustainable community initiatives.

This article examines the Subsidized Housing Information Project (SHIP) developed at New York University and the Housing Suitability Model (HSM)

- Spatial mapping programs can help policymakers get a more comprehensive view of an area's affordable housing stock to better target preservation efforts.
- The NYU Furman Center's Subsidized Housing Information Project combines 50 disparate government and public datasets to catalog privately owned, publicly subsidized affordable rental properties developed in New York City.
- The Shimberg Center at the University of Florida's Housing Suitability Model scores each land parcel in a county or metropolitan area using various physical, land use, transportation, and neighborhood characteristics to identify preferable locations for affordable housing development and preservation.

built at the University of Florida, situates these projects within the academic literature about spatial mismatch theory, and explores the implications of publicly accessible layered databases and mapping models for the future of affordable housing preservation.

The Need for the Subsidized Housing Information Project

SHIP is a comprehensive, publicly accessible database developed by New York University's Furman Center for Real Estate and Urban Policy. The database combines 50 disparate government and public datasets to catalogue privately owned, publicly subsidized affordable rental properties in New York City.³ SHIP includes information on nearly 235,000 subsidized units financed through HUD's financing and insurance programs, HUD's Project-Based Rental Assistance (PBRA) program, the city- or state-sponsored Mitchell-Lama program, and the federal Low-Income Housing Tax Credit Program. SHIP was created in response to a preservation capacity assessment funded in 2007 by the MacArthur Foundation. The assessment found that a major challenge to preserving the affordability of New York City's subsidized properties was the absence of a single independent and objective source of data on all properties. Before SHIP, subsidy information was housed in individual agency databases — often in multiple databases

— which made it difficult “for agencies, tenants, and community organizations and leaders to obtain the comprehensive and up-to-date information about subsidized properties they need to identify properties that may leave affordability programs.”⁴ Standardizing these data was difficult because properties subsidized by local, state, and federal programs were not only housed in separate agencies but also subject to disparate forms of property identification.⁵ SHIP's developers had to standardize the spelling and punctuation of all property addresses, merge properties across portfolios, and standardize the data that each agency attached to its subsidies.⁶ An advantage of this effort is that SHIP can track multiple funding sources associated with a single property.⁷

Why Layered Data Matters

The ability to layer local, state, and federal subsidy data about individual properties is invaluable for those working to preserve affordable housing. Layered datasets such as SHIP reveal how rental subsidies interact to keep properties affordable, allowing researchers and practitioners to better understand what properties are at risk of leaving affordability programs. For example, the Furman Center's first comprehensive analysis using SHIP revealed that 15 percent of New York City's currently affordable properties are subsidized through multiple programs, and more

than 50 percent of PBRA properties have an additional subsidy.⁸ In fact, every affordable property in SHIP receiving multiple subsidies has either PBRA or HUD financing and insurance that requires affordability.⁹ This finding illustrates a key conclusion about privately owned, publicly subsidized rental housing in New York City: state and local financing programs consistently leverage HUD resources.¹⁰ Deriving such a conclusion would have been nearly impossible before SHIP; manually sifting through all of the financing layers on any given property would have been too onerous a task.¹¹

Multilayered databases such as SHIP are producing critical findings about the nature of subsidized units that have already left affordability programs and units that are at the greatest risk of opting out. Subsidy layering, for example, helps researchers accurately assess opt-out risk simply by counting the units that have exited one of the subsidy programs. According to SHIP, a single-layer analysis would have concluded that 108,402 units were in developments that no longer receive a subsidy. SHIP's multilayered analysis, however, reveals that only 62,000 units are in developments that no longer receive a subsidy.¹² By compiling which properties are operating under renewable or nonrenewable contracts into a

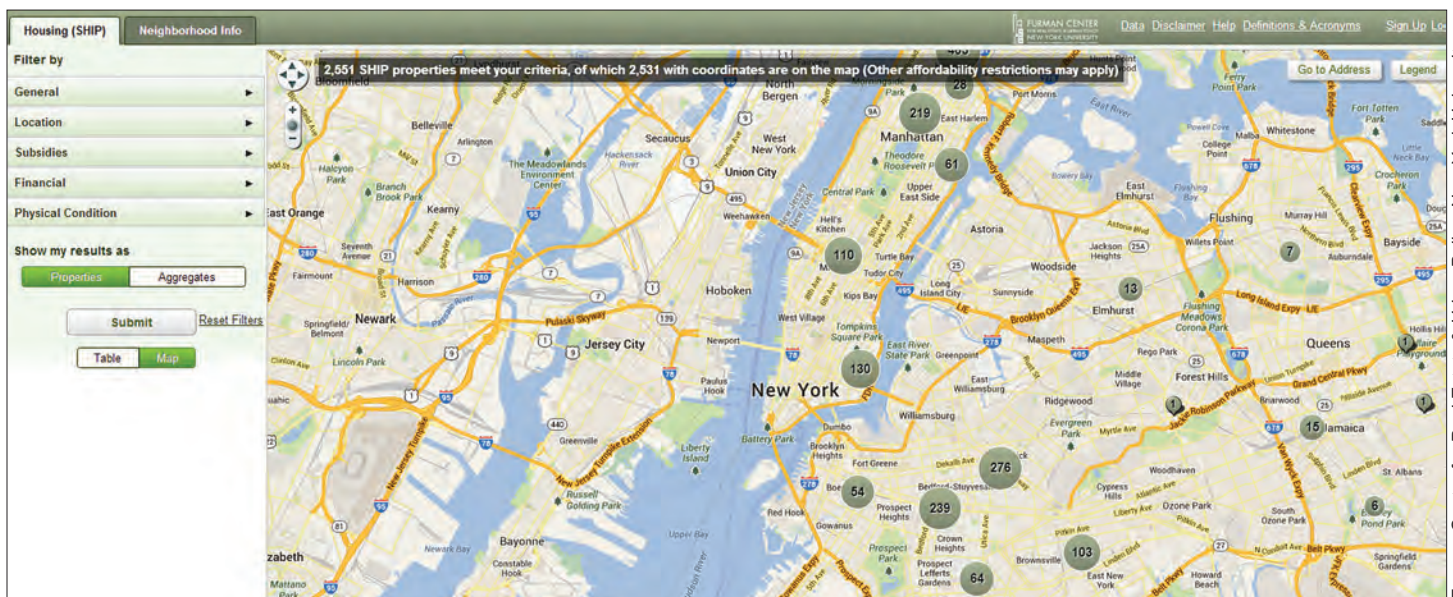
single database, SHIP has the potential to target units that will soon be eligible to exit affordability restrictions and prioritize them for preservation. Although some units will permanently leave the affordable housing stock, others will remain affordable through another program. Since 2000, for example, 106 properties containing 24,173 units expired from one subsidy program tracked by the SHIP but were required to remain affordable through another program.¹³

In addition to collecting property-specific information about subsidy layers, the Furman Center integrated more than 360 neighborhood-based indicators into SHIP. These metrics of neighborhood health include detailed information from the physical and financial condition of properties to changes in local market and neighborhood characteristics. In addition to the maps generated for its published studies, the Furman Center offers a Data Search Tool on its website to view the relationships between neighborhood indicators and affordable housing locations. The Data Search Tool allows visitors to select a range of variables to create customized maps and downloadable tables (including xy coordinates for exporting to GIS) as well as track trends over time.¹⁴ Users can overlay SHIP data onto their generated maps, allowing government

agencies, community organizations, and housing developers to analyze the effects of affordable housing properties. Along with identifying preservation opportunities across the various subsidy programs, SHIP's comprehensive overview of New York City's subsidized housing is informing research about the spatial relationships connecting the locations of subsidized housing with a broad array of community indicators.¹⁵

Putting Affordable Housing Into a Spatial Context

By situating subsidized properties in the context of other neighborhood-level indicators, SHIP allows users to compare different types of subsidized housing and their distribution throughout the city. Visualizing this comparison yields greater insight into affordable housing's role as a platform for improving the well-being of residents and achieving other community goals.¹⁶ Analyzing the location of affordable housing units relative to locations of interest, especially access to transit, employment, and other neighborhood amenities, has been a major research focus ever since the spatial mismatch hypothesis was first advanced by John Kain in 1968.¹⁷ According to this hypothesis, the negative effect of segregating low-income residents in the city center is magnified by the decentralization of jobs.¹⁸ The spatial mismatch of housing and



The Data Search Tool from the Furman Center.

jobs means that low-income workers, because of their constrained mobility, have trouble finding affordable housing near locations with employment opportunities.¹⁹ Lower-income workers also face higher search costs because their commuting costs are high relative to their wages and because of the inefficiency of a long-distance job search.²⁰ Empirical evidence has largely supported this hypothesis.²¹ According to a May 2011 report from the Brookings Institution, “about one-quarter of jobs in low- and middle-skill industries are accessible via transit within 90 minutes for the typical metropolitan commuter, compared to one-third of jobs in high-skill industries.”²²

The spatial mismatch hypothesis has helped researchers expand the definition of affordable housing to encompass the combined cost of housing and transportation relative to household income. The Center for Neighborhood Technology, for example, advanced this more comprehensive understanding of affordability through its Housing + Transportation Affordability Index, which calculates the transportation costs associated with a home’s location in 337 metropolitan areas.²³ Policymakers have also cited the critical connections among affordable housing sites, job locations, transportation systems, and

environmental goals when making the case for building sustainable communities.²⁴ Current research takes advantage of specialized mapping software such as GIS to analyze the best locations for developing and preserving affordable housing in relation to these other social variables.²⁵

Housing Suitability Model

The Shimberg Center for Housing Studies at the University of Florida specializes in geospatial modeling of suitable locations for affordable housing.²⁶ Like the Furman Center, the Shimberg Center maintains a multilayered database known as the Assisted Housing Inventory (AHI), which tracks 252,000 affordable rental units in Florida subsidized by local, state, and federal sources. In addition to AHI, the Shimberg Center manages the Lost Properties Inventory (LPI), a complete dataset of affordable multifamily rental units in Florida formerly subsidized by different federal, state, or local programs. LPI reveals that between 1993 and 2012 Florida has lost approximately 525 multifamily rental properties with 70,774 units, including over 52,000 affordable units.²⁷ Like the Furman Center, the Shimberg Center received a MacArthur Foundation grant to use AHI to expand its analysis of Florida’s privately owned, publicly subsidized rental stock. This funding, along with

support from Wells Fargo, led to the development of the Housing Suitability Model (HSM), a GIS-based tool for identifying locations suitable for affordable housing development and preservation. HSM, which was developed in partnership with the University of Florida’s Department of Urban and Regional Planning and GeoPlan Center, scores each land parcel in a county or metropolitan area using various physical, land use, transportation, and neighborhood characteristics.²⁸ The model is based on “suitability analysis,” which is “the process of determining the fitness, or the appropriateness, of a given tract of land for a specified use.”²⁹ Suitability analysis, which can be used to evaluate the siting of both current and planned affordable housing locations, relies on multilayered mapping and is based on the following premise:

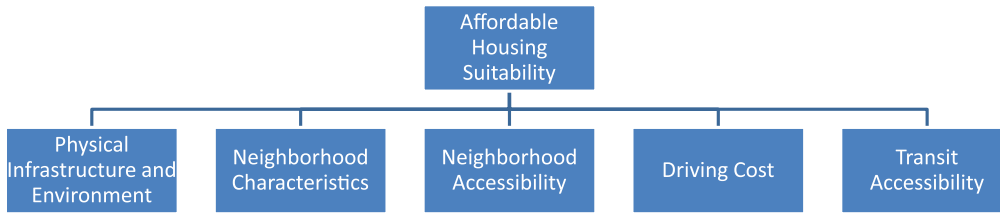
“Fitness” depend on the combination of different determinants that are represented on individual maps that are then overlaid. While each layer provides key information, visualizing their synthesis through the superimposition allowed by suitability analysis produces entirely new knowledge that is difficult to figure out just by analyzing each individual factor.³⁰

HSM’s strength lies in its ability to show locations where positive attributes overlap and conflicting characteristics coincide, enabling comparisons and identifications of tradeoffs.³¹ HSM layers spatial characteristics related to four major components: residential suitability, rental housing costs, driving costs, and transit accessibility. Residential suitability includes three subcomponents: physical infrastructure and environment, neighborhood characteristics, and neighborhood accessibility. Data sources include parcel-level property and sales characteristics from county property appraisers, transit system maps, the U.S. Department of Transportation’s National Household Travel Survey, the U.S. Census Bureau’s Longitudinal Employer-Household Dynamics program,



SHIP allows users to analyze the location of affordable units relative to transit access, employment, and other neighborhood amenities.

Basic Structure of the Housing Suitability Model



Source: Shimberg Center for Housing Studies, University of Florida.

and other parcel- and neighborhood-level data made available through the Florida Geographic Data Library.

Each parcel in the geographic area covered by the model receives a suitability score for each component. For example, an affordable housing location might score well on rental housing costs based on the ratio of rent to income on its block; it might also earn a high transit accessibility score if there are nearby transit stops providing access to employment opportunities. However, that same location might score poorly on residential suitability if the surrounding neighborhood has concentrated poverty, a high risk of crime, and residents with lower education levels. The Shimberg Center studies that use HSM have important implications for the affordable housing rental stock in the Florida counties analyzed to date: Orange, Duval, Pinellas, DeSoto, Glades, Hardee, Hendry, Highlands, Okeechobee, Polk, Lake, Osceola, Seminole, and Volusia.³²

The Suitability Model in Practice

The goal of HSM is to evaluate new and existing affordable housing sites according to their access to jobs and transit, driving costs, physical environment, and neighborhood socioeconomic characteristics.³³ To that end, Shimberg Center researchers have used the model to generate a series of papers about the suitability of affordable housing locations in Florida. Some major highlights from the research include the following:

- In the five counties of central Florida serviced by the LYNX bus transit system (Orange, Osceola, Seminole, Volusia, and Lake), 75 percent of assisted housing developments have poor access to major employment centers (those employing 100 or more) that are within walking distance to the bus system (defined as an 800-meter walking network buffer).³⁴
- In Orange County, Florida, a spatial mismatch exists between available employment opportunities and the location of affordable housing. Using housing demand and supply analysis, Shimberg found that most AHI units are located more than a half-mile from employment locations. This finding is especially important because assisted housing residents must bear higher commuting costs to reach employment locations that are 4 miles or more from their homes. According to researchers, this analysis provides tools “that can be used by the housing finance corporations to evaluate the locations of funded properties as well as evaluating the suitability of new sites suggested by developers.”³⁵
- Assisted housing units in Orange County, Florida, score higher than the average of all parcels in the county, including residential, nonresidential, and vacant, on factors related to accessibility: infrastructure and environment, neighborhood accessibility, residential suitability, driving cost, and transit accessibility. These units score worse, however, than the average of

all parcels in the county on neighborhood characteristics, reflecting difficult socioeconomic conditions. According to Shimberg researchers, this difference is related to the “urban trade off: central locations are more accessible and present better infrastructure but at the same time they tend to concentrate poverty, crime, and low education attainment.”³⁶ This assertion may only represent local conditions, and its relevance to other U.S. urban areas deserves greater exploration. Recent research on the changing geography of U.S. poverty, particularly the growing suburbanization of poverty, reflects a new understanding of the links between poverty and place in metropolitan areas.³⁷

- In Orange County, Florida, affordable housing units subsidized by HUD perform better in components related to infrastructure, neighborhood accessibility, and transit than do units subsidized by other programs because of their central locations. On the other hand, units funded by the Florida Housing Financing Corporation (FHFC), which relies on low-income housing tax credits, have high scores in neighborhood characteristics but only medium scores for both accessibility and infrastructure and environmental conditions, reflecting their dispersed spatial pattern oriented to second-ring suburbs.³⁸ Shimberg researchers suggest that this difference in spatial pattern is the result of the “relative composition of the assisted stock according to decade.”³⁹ HUD properties were developed largely in 1970s and 1980s, reflecting “more central development patterns for the Orlando area,” whereas FHFC properties were developed primarily in the 1990s and 2000s as population growth moved outward from the city center.⁴⁰ However, FHFC properties developed later in the 2000s, as the agency began providing more transit accessibility incentives in its funding process, do show an increasing tendency toward transit access.

- Properties that have left affordability programs in Orange County, Florida, display better suitability conditions than do properties that remain subsidized. This finding poses a challenge to public policy, according to Shimberg researchers, because “improving the accessibility and socio-economic conditions of the assisted stock can represent its failure in the long term as more properties become at risk to opt-out from contracts and income and rent requirements.”⁴¹ This phenomenon, also explored by the Furman Center in its analysis of the factors leading owners to opt-out rather than renew subsidies, represents a potential debacle for affordable housing preservation efforts.⁴² These findings underscore how important it is for policymakers to add a “preservation dimension... to the necessary efforts to improve the stock.”⁴³

The research findings generated through HSM are valuable for crafting affordable housing policy. State housing finance corporations, for example, can better evaluate the locations of funded properties as well as the suitability of new sites proposed by developers.⁴⁴ Transit planners can more efficiently

locate transit stops and improve route and service delivery to maximize housing and employment opportunities.⁴⁵ HSM can also inform community-driven planning processes around long-term sustainable development. The Shimberg Center is currently using this model to help planning councils in Florida anticipate future affordable housing needs as well as analyze existing affordable properties as part of two HUD Sustainable Communities Regional Planning Grant initiatives.⁴⁶ The Shimberg Center is employing similar GIS-based, parcel-level tools to help Neighborhood Housing Services of South Florida identify concentrations of distressed, small, and mid-sized rental properties for possible stabilization and preservation. This model holds great potential for practitioners of affordable housing preservation — both for those seeking to stabilize and improve the current stock of assisted housing and those planning future sites for affordable properties.

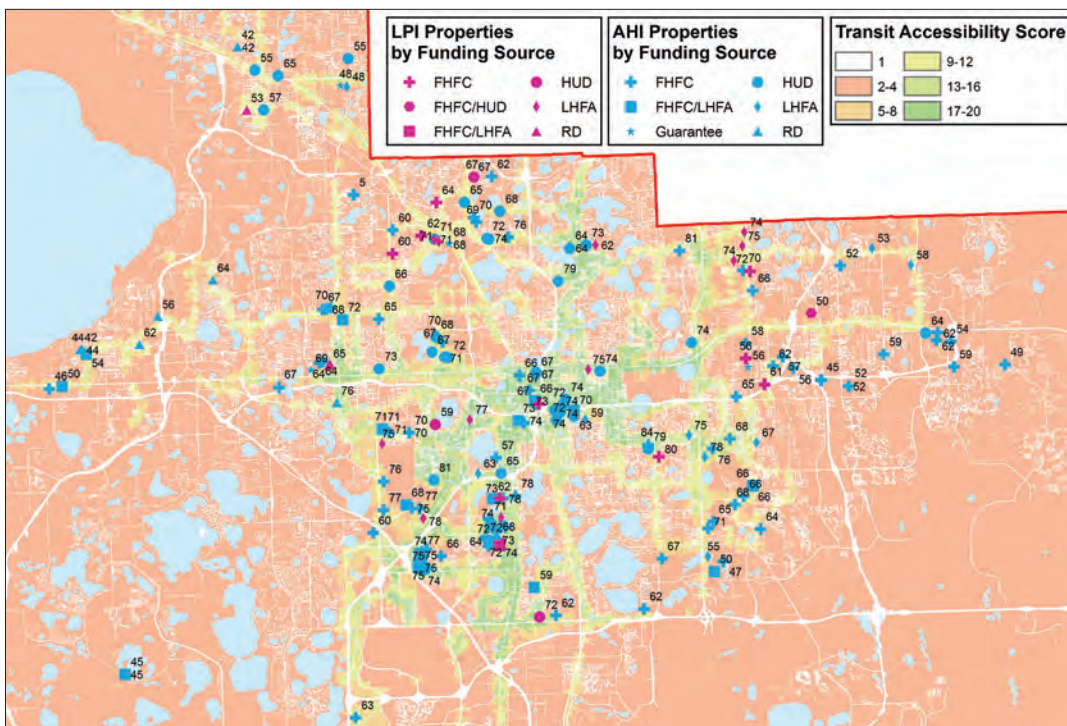
Looking Ahead

Innovative affordable housing preservation tools developed at the local level by two leading academic research centers are providing new opportunities for those with a stake in affordable housing

preservation. The implications of this work are profound for both the communities that are the objects of these research efforts and other communities that could benefit from their use. In New York City, government agencies and nonprofit organizations interested in preserving affordability can use SHIP’s nuanced analysis to determine where to focus their preservation efforts.⁴⁷ Publicly accessible, multilayered databases such as SHIP could enable other communities to track at-risk subsidized housing units and identify new opportunities for preserving affordability. Such targeted efforts are essential for working within the resource constraints facing all levels of government. Layered datasets such as SHIP and AHI will become even more critical as older subsidies expire and new ones are utilized to finance future affordable housing. Although this article has focused only on the development of layered databases at the local level, efforts are underway at the national level to collect comprehensive data and create national preservation databases. The National Low Income Housing Coalition partnered with the Public and Affordable Housing Research Corporation to launch a national preservation database in November

2012 that includes data on 4.5 million units in more than 75,000 federally assisted properties.⁴⁸

Research efforts aimed at incorporating layered datasets into mapping tools are being used to evaluate the location of affordable housing in relation to other sustainability priorities, such as employment centers, transit stops, and other neighborhood amenities. Spatially representing the linkages among these opportunities through GIS-based mapping tools is enhancing community-driven planning efforts. Communities can use a tool such as HSM to ensure that policies related



Shimberg Center for Housing Studies, University of Florida

Map of suitability per component of the HSM (Transit Accessibility).

to housing, community development, energy efficiency, and transportation are well coordinated. By visualizing the tradeoffs between these policy goals, communities can better understand the ways some of their priorities conflict and others coincide. Geospatial models are also critical for the development of new affordable housing, especially because many states promote sustainability by emphasizing proximity to public transit when assessing which assisted housing developments to fund.⁴⁹ In addition, GIS tools such as HSM can improve the siting of new units by identifying and mapping underutilized parcels that may be suitable for housing development in addition to mapping expiring use properties close to transit.⁵⁰ Great potential exists for broadening HSM's impact beyond the Florida counties that have already been assessed. Enhanced mapping tools such as HSM will improve local decisionmaking processes about affordable housing by providing communities with more useful, accessible information. **EM**

¹ This article focuses on privately owned, publicly subsidized properties, not on other affordable housing development strategies such as public housing or tenant-based vouchers.

² Vincent Reina and Michael Williams. 2012. "Importance of Using Layered Data To Analyze Housing: The Case of the Subsidized Housing Information Project," *Citiescape: A Journal of Policy Development and Research* 14:1, 221.

³ For more information about the Furman Center, please visit www.furmancenter.org.

⁴ Jaclene Begley, Caitlyn Brazill, Vincent Reina, and Max Weselcouch. September 2011. "State of New York City's Subsidized Housing: 2011," Furman Center for Real Estate and Urban Policy.

⁵ The local challenges of standardizing parcel-level information about subsidized properties into a single database are similar to the data collection barriers of building a national database of standardized parcel-level data collected from local counties. See: Department of Housing and Urban Development. 2013. "The Feasibility of Developing a National Parcel Database: County Data Records Project Final Report."

⁶ Reina and Williams, 217.

⁷ *Ibid.*

⁸ Begley et al.

⁹ *Ibid.*

¹⁰ Reina and Williams, 218.

¹¹ *Ibid.*

¹² *Ibid.*, 219.

¹³ *Ibid.*

¹⁴ For more information about the Furman Center's Data Search Tool, please visit www.furmancenter.org/data.

¹⁵ The Furman Center produces an annual report, "The State of New York City's Housing and Neighborhoods," which examines statistics on housing, demographics, and quality of life in New York City, its 5 boroughs, and 59 community districts. For more information, please visit furmancenter.org/research/sonychan.

¹⁶ See HUD's 2010–2015 Strategic Plan, Goal 3: Utilize Housing as a Platform for Improving Quality of Life (portal.hud.gov/hudportal/documents/huddoc?id=HUDStrategicPE_goal3.pdf) and remarks by HUD Secretary Shaun Donovan to the Local Initiatives Support Corporation 2009 Conference, 4 November 2009: "It comes down to a fundamental belief that I know we all share: That when you choose a home, you don't just choose a home. You also choose transportation to work — schools for your children, public safety. You choose a community — and the choices available in that community. A belief that our futures should never be determined — or our choices limited — by our zip code." (portal.hud.gov/hudportal/HUD?src=/press/speeches_remarks_state-ments/2009/speech_11042009). Accessed 18 July 2013.

¹⁷ Laurent Gobillon, Harris Selod, and Yves Zenou. 2007. "The Mechanisms of Spatial Mismatch," *Urban Studies* 44:12, 2401.

¹⁸ Keith Ihlanfeldt. 1993. "The Spatial Mismatch Between Jobs and Residential Locations Within Urban Areas," *Citiescape: A Journal of Policy Development and Research* 1:1, 219–44.

¹⁹ *Ibid.*, 229.

²⁰ Gobillon et al., 2408.

²¹ Ihlanfeldt, 224.

²² Adie Tomer, Elizabeth Kneebone, Robert Puentes, and Alan Berube. 2011. "Missed Opportunity: Transit and Jobs in Metropolitan America," Metropolitan Policy Program at Brookings Institution. (www.brookings.edu/research/reports/2011/05/12-jobs-and-transit). Accessed 18 July 2013.

²³ Center for Neighborhood Technology. 2010. "Penny Wise Pound Foolish: New Measures of Housing + Transportation Affordability" (www.cnt.org/repository/pwfp.pdf). Accessed 19 July 2013.

²⁴ See HUD's 2010–2015 Strategic Plan, Goal 4: Build Inclusive and Sustainable Communities Free From Discrimination, Subgoal 4B: Promote energy-efficient buildings and location efficient communities that are healthy, affordable, and diverse. Walkable, transit-oriented, mixed income, and mixed-use communities — coupled with a strong commitment to energy-efficient and affordable green building — substantially reduce transportation costs, create energy savings, reduce greenhouse gas emissions, and enhance the health and well-being of all residents." (portal.hud.gov/hudportal/documents/huddoc?id=HUDStrategicPF_goal4.pdf).

²⁵ Amy S. Bogdon and Ayse Can. 1997. "Indicators of Local Housing Affordability: Comparative and Spatial Approaches," *Real Estate Economics* 25:1, 45.

²⁶ For more information about the Shimberg Center, please visit www.shimberg.ufl.edu.

²⁷ "Lost Properties Inventory," Shimberg Center for Housing Studies website (www.flhousingdata.shimberg.ufl.edu/a/lpi). Accessed 1 August 2013.

²⁸ For a fuller description of the data used by HSM to develop scoring and weighting measures, see: Ruoniu Wang, Andres Blanco, Jeongseob Kim, Hyungchul Chung, Anne Ray, Abdunaser Ararat, William O'Dell, and Elizabeth Thompson. 2012. "Evaluating Suitable Locations for the Development and Preservation of Affordable Housing in Florida: The AHS Model," Shimberg Center for Housing Studies.

²⁹ Frederick Steiner. 1983. "Resource Suitability: Methods for Analysis," *Environmental Management* 7:5, 401–20.

³⁰ Wang et al., 3.

³¹ *Ibid.*, 2.

³² Correspondence with Anne Ray, June 2013. The Shimberg Center constructs the HSM on a county or regional basis, and the comparisons embedded in the model refer to the other places in the region under study rather than an external standard. The model was first piloted in three counties — Orange, Duval, and Pinellas — and has been further developed during the course of assisting two HUD Sustainable Communities Regional Planning initiatives in Florida.

³³ "Connecting Housing, Transportation and Jobs," Shimberg Center for Housing Studies website (www.shimberg.ufl.edu/index.html). Accessed 18 July 2013.

³⁴ Elizabeth Thompson, Abdunaser Ararat, William O'Dell, Ruth Steiner, and Paul Zwick. 2012. "Helping Put Theory Into Practice for Planning Sustainable Communities: A GIS Tool for Measuring Transit Accessibility," Shimberg Center for Housing Studies.

³⁵ Abdunaser Ararat, Yuyang Zou, Andres Blanco, and Ruoniu Wang. 2012. "Allocation and Preservation of Affordable Housing: A Spatially Discriminated Supply-Demand Analysis Based on Parcel Level Employment Assignment," Shimberg Center for Housing Studies. This study estimates the demand for affordable housing based on a method that uses a road-network-based distance shed around each residential parcel to capture the parcel-level employment. Geospatial modeling is used to estimate the supply based on the current locations of assisted and affordable housing.

³⁶ Wang et al., 10.

³⁷ Elizabeth Kneebone and Alan Berube. 2013. *Confronting Suburban Poverty in America*. Washington, DC: Brookings Institution Press.

³⁸ *Ibid.*, 12–3.

³⁹ *Ibid.*, 17.

⁴⁰ Correspondence with Anne Ray, June 2013.

⁴¹ Wang et al., 18.

⁴² See Begley et al., 19: "In economic booms, property owners have greater incentive to leave subsidy programs because they (or new owners to whom they sell the property) may be able to command higher rents than the subsidy programs allow. High real estate appreciation in the late 1990s and mid-2000s is associated with spikes in program exits in those time periods."

⁴³ Wang et al., 18.

⁴⁴ Ararat et al.

⁴⁵ Thompson et al.

⁴⁶ "Affordable Housing Suitability Model," Shimberg Center for Housing Studies website (www.shimberg.ufl.edu/fl_housingSuitableModel.html). Accessed 18 July 2013.

⁴⁷ Interview with Max Weselcouch, June 2013.

⁴⁸ National Low Income Housing Coalition. 2012. "NLIHC Launches National Database of Federally Assisted Rental Properties," press release (nlihc.org/article/nlihc-launches-national-database-federally-assisted-rental-properties). Accessed 18 July 2013. For more information, please visit www.preservationdata-base.com.

⁴⁹ Thompson et al., 3. See also: Reconnecting America. 2012. "Locating Affordable Housing Near Transit: A Strategic Economic Decision," policy brief. The brief explores how state housing finance agencies are using the Low-Income Housing Tax Credit Program to provide developers with incentives to build affordable housing near transit.

⁵⁰ U.S. Department of Transportation and U.S. Department of Housing and Urban Development. 2008. "Better Coordination of Transportation and Housing Programs To Promote Affordable Housing Near Transit."

Models for Affordable Housing Preservation

As demographic changes and weak economic conditions are increasing demand for affordable housing, the inventory of affordable units is shrinking nationwide. Foreclosure, age-related deterioration, rising maintenance and utility costs, demolition, and expiring use restrictions and affordability controls cause a significant loss of affordable units each year, and high construction costs and lengthy development processes make replacing all of these units with new housing impractical (see “Preserving Affordable Rental Housing,” p. 1). Preserving the existing affordable stock is therefore critical to meeting the housing needs of low- and moderate-income families. But property owners, nonprofits, and governments working to preserve this stock face numerous obstacles ranging from timely identification of at-risk properties to obtaining necessary financing and navigating complex administrative and regulatory requirements.

This article looks at two notable approaches to addressing some of the key challenges in affordable housing preservation: preservation compacts



The Preservation Compact / Photo by John Booz

Swift action by the Preservation Compact’s Interagency Council helped preserve this affordable 30-unit rental development at 5800 S. Michigan Avenue in the city of Chicago.

Highlights

- Preservation compacts such as those in Cook County, Illinois, and the state of Ohio are grant-based initiatives that take a highly collaborative and multipronged approach to affordable rental housing preservation, with strategies focusing on analyzing data for at-risk properties, facilitating partnership across levels of government, and reducing operating costs.
- State housing trust funds, including those in Washington and Delaware, use a dedicated public source of revenue to fund affordable housing projects. These programs are typically administered by public agencies and offer states flexibility in supporting their local needs.

and state housing trust funds. The Preservation Compact of Cook County, Illinois, and the Ohio Preservation Compact are grant-based initiatives that take a comprehensive, highly collaborative, and multipronged approach to affordable rental housing preservation. State housing trust funds such as those in Washington and Delaware use a dedicated and ongoing public source of revenue to fund affordable housing projects. Typically administered by public agencies, trust funds offer states a flexible way to support locally determined critical housing needs.

Preservation Compact of Cook County

With 5.2 million residents, Cook County in northeast Illinois is the nation’s second most populous county. About 40 percent of residents in the county, which includes the city of Chicago, are renters, and more than half of these renters pay 30 percent or more of their income toward housing costs.¹ Although the need for affordable rental housing in the county has been steadily increasing over the years, the supply of such housing has been declining. According to the Institute for Housing Studies at DePaul University (IHS), the gap between demand and supply of affordable rental housing amounted to nearly 180,000 units in 2009, and this number is expected to

increase 30 percent by 2020 as existing affordable units are lost to foreclosures, expiring federal subsidies, condominium conversion, and demolition.² The Preservation Compact (the Compact) aims to reverse this trend and stem the loss of affordable rental housing in Cook County.

The Compact was created in 2005 as leaders from government, business, and nonprofit organizations in the region formed a broad-based coalition with support from the MacArthur Foundation. The MacArthur Foundation, headquartered in the city of Chicago, funds the Compact through multiyear grants as part of its Window of Opportunity initiative, a 10-year, \$150 million commitment to preserve affordable rental housing nationwide. Within this initiative, the Compact is the Foundation’s “effort to go deep in Chicago with a more comprehensive approach.”³

“The heart of what we’re doing is about creating an environment that is more supportive of the operation and preservation of affordable rental units,” explains John G. Markowski, president of the Community Investment Corporation (CIC), which serves as the Compact’s coordinator.⁴

A Comprehensive Approach

In 2007, with input from more than 100 housing experts and community and civic leaders, Compact partners identified several key strategies to preserve and improve affordable rental housing in Cook County for both government-assisted and



The Preservation Compact / Photo by John Booz

Preservation Compact partners are working to create financing products that will allow investors to purchase and rehabilitate groups of two- to four-unit rental buildings in Cook County.

unassisted properties.⁵ These strategies focus on collecting and analyzing data on at-risk properties; facilitating collaboration among federal, state, and local agencies to preserve subsidized rental units; and reducing operating costs. Together, they represent a comprehensive approach to dealing with the complex and challenging issues involved in affordable housing preservation.

Data Collection. A key initiative at the core of the Compact is IHS, part of DePaul University's Real Estate Center. IHS provides web-based data, analysis, and research reports that inform Compact activities. The institute assists in dealing with the key challenges of housing preservation: identifying and assessing market trends and the most at-risk properties.

Interagency Collaboration. Compact partners work with the Interagency Council, composed of HUD, the city of Chicago,

Cook County, and the Illinois Housing Development Authority, to share information and coordinate the identification and preservation of government-assisted properties at risk of being lost.

Operating Cost Reduction. Compact partners identified two costs that made maintaining the economic viability of affordable rental housing difficult — property taxes and utility costs. “Until 5 years ago in Cook County, multifamily buildings were adversely treated with respect to property taxes when compared with single-family housing. They were routinely assessed at twice the rate of single-family housing,” notes Markowski.⁶ The Compact set out early on to mobilize support for reduced property taxes for multifamily properties. As a result, property tax assessments were restructured through a multiyear step-down so that multifamily rental properties are assessed at the same rate as single-family properties. The Compact also instructs property

owners on how to appeal their property tax assessments.

The Energy Savers program, run by Compact partners Center for Neighborhood Technology and CIC, provides property owners with technical assistance and low-cost financing to make energy-efficiency improvements and increase their net operating profit. By early 2013, the Energy Savers program completed 10,191 retrofits, saving 6.6 million kilowatt hours and 2.5 million natural gas therms. CIC loans and grants to the program totaled nearly \$10 million.⁷ “For a modest improvement of about \$3,000 per unit, we’re generating savings of about 30 percent on the typical utility bill for multifamily housing, and that’s cutting the cost by about \$10,000 a year for a 24-unit building. Our challenge here is to bring that to more scale. We have a very significant scale already, but we want to do a lot more,” explains Markowski.⁸

Expanded Focus

The Preservation Compact has expanded its focus over time to meet changing market conditions. Among the Compact's new strategies is targeting the unique funding and rehabilitation challenges of two- to four-unit buildings. "We knew anecdotally that it's really tough in the most distressed areas to redevelop buildings of this size," notes Stacie Young, the Compact's director. IHS' analysis of at-risk affordable housing determined "that in Chicago 38 percent of the rental stock is in two- to four-unit buildings. So we added a working group to focus on ways to redevelop these buildings," says Young. The working group found that no products exist to finance groups of two- to four-unit buildings purchased by investors. "Now CIC is creating a new financing product, because we realized there's a gap in this sector," explains Young.⁹

In addition to Cook County, the MacArthur Foundation has funded preservation efforts in 13 other states and localities through the Window of Opportunity Initiative.¹⁰ The Ohio Preservation Compact is one such effort, modeled after the Preservation Compact of Cook County, that focuses on federally assisted rental housing.

Ohio Preservation Compact

In 2009, with \$5 million in funding from the MacArthur Foundation, three statewide agencies — the Ohio Housing Finance Agency, the Coalition on Homelessness and Housing in Ohio, and the Ohio Capital Finance Corporation — formed the Ohio Preservation Compact (Ohio Compact). The Ohio Compact's goal is to preserve 14,000 affordable rental units throughout the state over a 10-year period.¹¹ Although the Ohio Compact modeled its scope

of work, funding strategies, and collaborative partnerships after those of Cook County's Preservation Compact, its strategies are tailored to fit Ohio's rental housing needs.¹² Multiple factors, including a high unemployment rate and an "exponential rise in foreclosures throughout rural and urban communities," led to steadily increasing demand for affordable rental housing in Ohio. Additionally, due to deterioration, aging out of subsidy protection, and gentrification, the state faces a loss of nearly a fourth (43,000 units) of its subsidized rental housing stock.¹³

To meet its preservation goals, the Ohio Compact adopted strategies that range from implementing a sustainable preservation loan fund to creating an online database of at-risk properties and engaging key stakeholders in preservation efforts. To identify and



Part of financing for the rehabilitation of Doan Classroom Apartments in Cleveland, Ohio came from the Ohio Preservation Loan Fund. Listed on the National Register of Historic Places, this building offers 45 affordable senior housing units.

Rhonda Snyder

Table 1. Ohio Preservation Loan Fund Loan Production 2010–2012

Year of Loan	Number of Loans	Preservation Units	Loan Amount (\$)	Predevelopment Loan (\$)	Acquisition Loan (\$)	Equity Bridge Loan (\$)
2010	9	1,069	14,537,409	74,100	8,490,702	5,972,607
2011	14	679	7,338,649	609,960	1,631,429	5,097,260
2012	8	464	9,547,231	205,000	0	9,342,231
Total	31	2,212	31,423,289	889,060	10,122,131	20,412,098

assess at-risk properties, the Ohio Compact launched an online database with information on federally assisted housing projects in the state and an early-warning risk analysis tool based on indicators such as HUD’s Real Estate Assessment Center physical inspection scores, expiring mortgages, rent to fair market rent ratios, and proportions of efficiency apartments to total units (see “How Research Tools Are Assisting Communities To Preserve, Plan Affordable Housing,” p. 14). In addition, the Ohio Compact partnered with the state’s housing finance agency to develop an affordable housing mapping tool with project-level data. As part of its preservation and public policy initiative, the Ohio Compact connects and communicates with developers, officials, and tenants via quarterly meetings and a discussion listserv.¹⁴

Another key accomplishment of the Ohio Compact is the \$25 million Ohio Preservation Loan Fund, which provides predevelopment, acquisition, and equity bridge loans with flexible underwriting guidelines and below-market interest rates to nonprofits so they can compete with for-profit investors to acquire at-risk properties.¹⁵ Established in August 2010 with an initial term of 5 years, the loan fund has made 31 awards totaling more than \$31 million as of the fourth quarter of 2012 (table 1).^{16,17} The Ohio Compact is more than halfway toward its 10-year goal, having helped preserve more than 8,100 units of federally assisted affordable housing in the state.

While the preservation compacts in Cook County and Ohio tackle multiple aspects of housing preservation, state housing trust funds focus on providing flexible financing. Unlike the compacts, which are philanthropy-led and supported, state housing trust funds use dedicated public revenue sources to provide funding in the form of loans and grants for preservation projects.

State Housing Trust Funds

Housing trust funds are “distinct funds established by city, county or state governments that receive ongoing dedicated sources of public funding to support the preservation and production of affordable housing and increase opportunities for families and individuals to access decent affordable homes.”¹⁸ As of April 2013, 47 states and the District of Columbia were using housing trust funds to finance affordable housing development and preservation. Some states, such as Washington, have created more than one state housing trust fund, targeting specific affordable housing goals with each fund.¹⁹ An attractive feature of these trust funds is their inherent flexibility. A trust fund can be created that uniquely addresses local housing needs and priorities such as long-term affordable rental housing, the special housing needs of disabled individuals, and low-income homeownership. A 2011 survey of state housing trust funds found that nearly half of the funds also have the flexibility to respond to special or emergency needs beyond their primary objectives.²⁰

Housing trust funds are generally established by state or local ordinance, resolution, or legislation that delineate the purpose of the fund, who will benefit from it, how it will work, and how it will be financed. The most common revenue sources for housing trust funds are real estate transfer taxes and document recording fees.²¹ Other funding sources include developer fees, taxes (such as property, sales, and hotel/motel taxes), tax increment funds from redevelopment districts, repayments on various loan programs, appropriations, and special allocations from public entities. These public dollars usually come from increases in taxes and fees rather than from other budget line items. Using these funding sources instead of seeking funding approvals during the cyclic governmental budget reallocation process provides housing trust funds with a reliable, steady funding stream. Although the amount of revenue varies annually, these funds usually are dedicated to the housing trust fund and cannot be diverted from it.²²

Washington and Delaware were among the first states to establish housing trust funds for the purpose of creating and preserving housing affordable to low- and moderate-income families.

Washington State Housing Trust Fund

The Washington State Housing Trust Fund (HTF) was established in 1986 and first funded in 1987.²³ The legislation authorizing HTF specified that the

fund is to be a continuously renewable resource designed to assist low-income and very low-income households with basic housing needs.²⁴ Since then, HTF has awarded nearly \$1 billion to help build or maintain 40,000 units of affordable housing across the state.²⁵ The trust fund provides grants and loans to local governments and housing authorities, nonprofit organizations, and federally recognized Indian tribes within the state for the development, construction, acquisition, and rehabilitation of affordable housing; proposed preservation of existing housing stock receives preference.”²⁶

Administered by the state’s Department of Commerce, HTF currently receives steady-stream revenues from various sources, including interest on upfront payments in mortgage transactions, loan repayments, capital bonds, and state legislature funding.²⁷ The trust fund, which gives preference to affordable housing projects that leverage other funds, has leveraged some \$3 billion in additional public and private dollars.²⁸ As of early 2013, \$5.50 in additional funds had been leveraged for

every dollar awarded from the housing trust fund.²⁹

A strong connection with other funders is one key to Washington’s housing trust fund success. “We communicate with many of the other principal funders on a regular basis, and we consult with them during our application review process. Local funders, in particular, are able to provide valuable insights regarding specific features or potential challenges of a project as well as how it fits within the community’s priorities,” says Janet Masella, managing director of HTF. Through collaboration among funders in the state, Masella notes, “[w]e have developed common application forms and annual reporting systems that are shared by a number of state and local agencies, resulting in significant savings in time and effort for our contractors. We also work with other funders to coordinate the timing of applications, reducing the length of time it takes to bring a project from predevelopment to full funding, which in turn reduces the cost of the project. In addition, we coordinate monitoring and compliance activities, including

physical inspections and annual report reviews.”³⁰

The trust fund gives preference to projects that have a strong probability of serving a target group or income level for at least 25 years. Although this preference helps guard against encroachment by gentrification and conversion to market-rate housing, continued fiscal and physical viability are concerns. Increasingly challenging, notes Masella, is the aging of the trust fund’s portfolio of properties that are in need of recapitalization. Many of these projects were not appropriately underwritten for the populations they serve. Annual occupancy reports show that the properties typically serve households with lower incomes than originally targeted, resulting in cash flows that are lower than the amounts projected in their operating pro forma. This affects owners’ ability to adequately fund reserves and to perform appropriate building maintenance and upgrades. As a result, many projects need financial restructuring and recapitalization to remain viable over time.³¹



Before and after pictures of Catalina Apartments in Tacoma, Washington. The federally subsidized housing development was at risk of being converted to market-rate housing when nonprofit developer Mercy Housing acquired and rehabilitated the property with funding from the Washington State Housing Trust Fund.

Mercy Housing Northwest

State housing trust funds in Delaware and Washington provide flexible financing in the form of loans and grants for the creation and preservation of low-income rental and ownership housing.

Looking forward, HTF is implementing new policies designed to encourage better long-term planning, such as a requirement that all projects complete a 20-year Capital Needs Assessment. “We are also beginning to work more closely with organizations to help them develop portfolio plans and other asset management tools,” says Masella.³² In 2012, Washington’s HTF statute was amended to mandate that the Department of Commerce evaluate cost-effectiveness of projects as a basis for funding. The intent of the new cost limit policy, inaugurated in 2013, is to reduce costs while retaining durability and encouraging sustainable building practices.³³

Delaware Housing Development Fund

First established in 1968 as a revolving loan fund, Delaware’s Housing Development Fund (Development Fund) was repurposed in 1986 as the state’s housing trust fund to “provide affordable, decent, safe and sanitary housing to responsible very low-, low- and moderate-income households.”³⁴ A significant portion of the Development Fund’s revenue is derived from fees collected by Recorder of Deeds in each county. In addition to these fees, the state allocates approximately \$4 million annually from its general fund. Other sources outside the state budgetary cycle include the fund’s own interest earnings and repayments of loans. Administered by the Delaware State Housing Authority, the Development Fund provides low-cost financing in the form of loans and grants to developers and owners of rental and for-sale affordable housing. Activities eligible for funding include

the acquisition and rehabilitation of existing housing, adaptive reuse of nonresidential properties, and new construction of affordable housing.³⁵

Preservation is an important focus for the Development Fund, given the high demand for and limited supply of units affordable to low-income families. According to a 2012 report on housing affordability in the state, only 33 affordable units are available for every 100 households earning at or below 30 percent of the area median income. Moreover, between 2000 and 2008, the state lost more than 9,400 affordable rental units while gaining nearly three times as many high-end units.³⁶ The Development Fund provides the gap financing needed to fully use the small state minimum low-income housing tax credit (LIHTC) allocation of around \$2.5 million that Delaware receives. “We are able to provide up to \$45,000 per unit in soft financing (or a total of \$2.75 million, whichever is less) which makes preservation deals possible,” notes Susan Eliason, who oversees the fund as the director of housing development for the housing authority. She notes that preservation deals, although slightly less expensive than new construction, are “still expensive to do, and we have found that our financing is about one-third of the cost, along with the tax credit equity and the permanent (amortizing) financing.” Between 2008 and 2012, most of Delaware’s LIHTC deals were rehabilitation projects rather than new construction. During this period, Delaware preserved approximately 1,100 units of rental housing.³⁷

The Development Fund’s money not only helps provide the financing to get a project started but also attracts other public and private funding sources. According to the housing authority, “from FY 2008–FY 2011, \$19.5 million in additional Development Fund allocations leveraged other federal and private resources to rehabilitate 11 sites (893 units), preserving \$225 million in federal subsidies for Delaware.”³⁸ In 2011, the Delaware legislature allocated an additional \$10 million from capital budget monies to a separate preservation fund within the Development Fund. These additional funds were awarded as part of an incentive package to create and retain jobs and expand economic opportunities in the state. “We know from our economic impact analysis that every dollar invested in housing generates \$7.00 in additional economic activity, so the state’s investment in preserving multifamily housing will not only address the state’s affordable housing needs, but will [also] have a significant impact on jobs,” says Ken Smith, executive director of the Delaware Housing Coalition.³⁹

Conclusion

Preserving the nation’s existing supply of affordable housing is critical to helping low-income families meet basic needs. Public, nonprofit, and philanthropic organizations nationwide are committing resources to support preservation of this stock. In Cook County, Illinois, and in the state of Ohio, key public- and private-sector players have come together, with the support of the MacArthur Foundation, to preserve affordable rental housing in their communities. The grant-based preservation compact model embodies a multifaceted approach, with initiatives to tackle the financial, regulatory, and technical aspects of preservation. Supported by dedicated public revenues, state housing trust funds in Delaware and Washington provide flexible financing in the form of loans and grants for the creation and preservation of low-income rental and ownership housing. These funds are highly responsive to local housing needs and



Funding for the acquisition and rehabilitation of Arbor Place III, a 23-unit apartment complex in New Castle, Delaware, includes a low-interest loan from the Delaware Housing Development Fund.

are very effective at leveraging other public and private monies for preservation projects. Both preservation compacts and state housing trust funds offer solutions that can be tailored to local circumstances and address the intricate challenges of affordable housing preservation. [EM](#)

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Additional Resources

- “Affordable Housing Preservation: Building a National Data Infrastructure” (2007), by Anne Ray, explains which and how preservation data are tracked and charts out how to build a national preservation database. www.preservation.shimberg.ufl.edu/pdf/Preservation_Data_Infrastructure.pdf.
 - “Barriers to the Rehabilitation of Affordable Housing” (2001), by David Listokin et al. for the Department of Housing and Urban Development, is a two-part report that provides an in-depth, technical examination of the challenges and costs of preserving affordable housing that includes state-specific information about building codes, as well as case studies. www.huduser.org/publications/destech/brah.html.
 - “Best Practices for Effecting the Rehabilitation of Affordable Housing” (2006), by David Listokin et al., a two-volume report on proven approaches to rehabilitating affordable housing, provides guidance regarding different types of remediation and includes case studies of model efforts at state and local levels. www.huduser.org/publications/affhsg/bestpractices.html.
 - “Challenges of the Small Rental Property Sector” (2009), by Alan Mallach for the Federal Reserve Bank of Boston, looks at the preservation issues specific to small-scale rental properties and suggests methods with which to ensure an adequate supply. www.bostonfed.org/commdev/necd/2009/issue1/challenges.pdf.
 - “Components of Inventory Change 2007–2009” (2011), prepared for the Department of Housing and Urban Development, uses detailed data to explain precisely how different types of housing stock were lost and gained from 2007 to 2009. www.huduser.org/portal/datasets/cinch/cinch09/cinch07-09.pdf.
 - “Encouraging Residential Rehabilitation with Building Codes: New Jersey’s Experience” (2006), by Raymond J. Burby et al., describes how the state of New Jersey applied “smart building codes” to rehabilitation projects to overcome barriers to preservation. www.planning.org/japa/.
 - “The Latest Threat: How Mortgage Maturity Jeopardizes Affordable Housing” (2012), by Adam Cowing, looks at what happens to rents of subsidized housing when mortgage subsidies expire, with a focus on Los Angeles. www.americanbar.org/publications/journal_of_affordable_housing_home/Volume_21_2.html.
 - “Innovation in Capital Markets” (2009), by My B. Trinh for Enterprise Community Partners, offers three case studies of large-scale preservation funds designed to finance the preservation and acquisition of affordable housing. www.practitionerresources.org/cache/documents/672/67284.pdf.
 - “Rental Housing Affordability — A Review of Current Research” (2010), by Rebecca Cohen et al., provides ways of measuring rental affordability and information and data about tradeoffs that cost-burdened renters make. www.nhc.org/media/files/RentalHousing.pdf.
 - “Taking Stock: The Role of ‘Preservation Inventories’ in Preserving Affordable Rental Housing,” prepared by the Center for Housing Policy, explains the significance of data to preservation and offers legislative and other solutions to overcoming barriers to rehabilitation. www.nhc.org/media/documents/takingstock.pdf.
 - “The Surgeon General’s Call to Action to Promote Healthy Homes” (2009) offers evidence-based information about how substandard housing can negatively impact residents’ health, filling out the picture of what else preservation can do. <http://www.surgeongeneral.gov/library/calls/healthyhomes/calltoactiontopromote-healthyhomes.pdf>.
 - “After Year 15: Challenges to the Preservation of Housing Financed with Low-Income Housing Tax Credits” (2008), by Alex Schwartz and Edwin Meléndez, examines the risk associated with expiration of the initial 15-year period protecting affordability for housing units developed with Low-Income Housing Tax Credits. *Housing Policy Debate* 19:2, 261–94. www.tandfonline.com/doi/abs/10.1080/10511482.2008.9521636#preview.
 - “Preserving Affordable Housing Near Transit: Case Studies from Atlanta, Denver, Seattle and Washington, D.C.” (2010), released by Reconnecting America, Enterprise, and the National Housing Trust, is a collection of case studies examining what cities are doing to ensure that affordable housing is not lost as a result of transit-oriented development. www.reconnectingamerica.org/resource-center/books-and-reports/2010/preserving-affordable-housing-near-transit-case-studies-from-atlanta-denver-seattle-and-washington-d-c/.
- For additional resources archive, go to www.huduser.org/portal/periodicals/em/additional_resources_2013.html.

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