Federal Reserve Bank of Philadelphia

CASCADE

NO. 95 SPRING 2017

COMMUNITY DEVELOPMENT STUDIES & EDUCATION

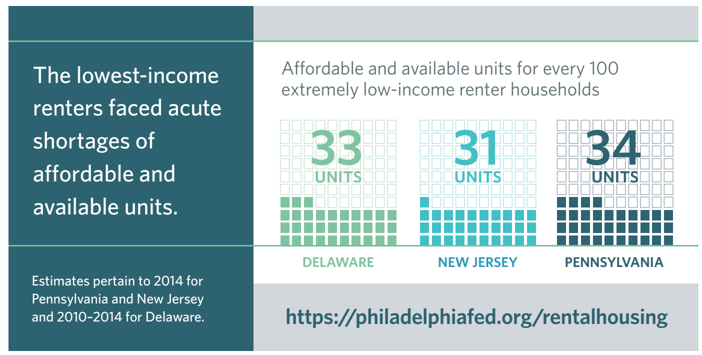
Rental Housing Affordability Impacts Educational and Employment Opportunities*

By Eileen Divringi, Community Development Research Associate

Though safe, stable housing is widely recognized as a basic human need, it is far from assured for many renters in the Third Federal Reserve District. Across Delaware, New Jersey, and Pennsylvania, the lowest-income renters faced severe shortages of affordable and available units (Figure 1) in 2014, leading to widespread housing cost burdens among households with the most limited means. In all three states, the share of lower-income renter households with unaffordable housing costs[1] grew significantly from 2005 to 2014, ranging from over two-thirds in Pennsylvania to more than three-quarters in New Jersey in the most recent estimates.[2]

The drivers of growing rental affordability challenges are well documented. The spike in home foreclosures that began in 2008 pushed many low-income former homeowners into the rental market,[3] while many would-be homeowners have been impeded by tightened mortgage standards and growing student loan debt levels.[4] Nationally, this increased demand for rental housing has yielded some of the lowest rental vacancy rates in more than 20 years,[5] putting upward pressure on rents. These trends have intensified a longstanding issue for the poorest renters, who simply do not have sufficient income to rent a unit at market rate. In addition, only one in four of these low-income renters has access to needed housing subsidies.[6]

Figure 1



The impact of unaffordable housing reaches beyond the immediate demands on household budgets. Given the central role that housing plays in our lives, affordability

* The views expressed here do not necessarily represent the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

1 Lower-income refers to household income ≤ 80 percent of median family income in the associated region. Housing costs are considered unaffordable if gross rent exceeds 30 percent of monthly household income.

2 Unless otherwise noted, estimates are from the Federal Reserve Bank of Philadelphia's Rental Housing Affordability data tool (www.philadelphiafed.org/rentalhousing), based on the U.S. Census Bureau's American Community Survey (ACS) Public Use Microdata Sample (PUMS), accessed via the Minnesota Population Center IPUMS-USA database. For Delaware, here and throughout this article, the comparison periods are 2005–2009 and 2010–2014.

3 "Chapter 1: Executive Summary," in Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 2016*. Cambridge, MA: Harvard University, 2016; available at www.jchs.harvard.edu/research/state_nations_housing.

4 On tightening mortgage standards, see Urban Institute, "Housing Credit Availability Index" for Q3 2016; available at www.urban.org/policy-centers/housing-finance-policy-center/projects/housing-credit-availability-index. On student loan debt and homeownership, see Alvaro A. Mezza, Daniel R. Ringo, Shane M. Sherlund, and Kamila Sommer, "On the Effect of Student Loans on Access to Homeownership," Finance and Economics Discussion Series 2016-010, Board of Governors of the Federal Reserve System, 2016; available at www.federalreserve.gov/econresdata/feds/2016/files/2016010pap.pdf.

5 U.S. Census Bureau, Current Population Survey/Housing Vacancy Survey, Series H-111, Table.

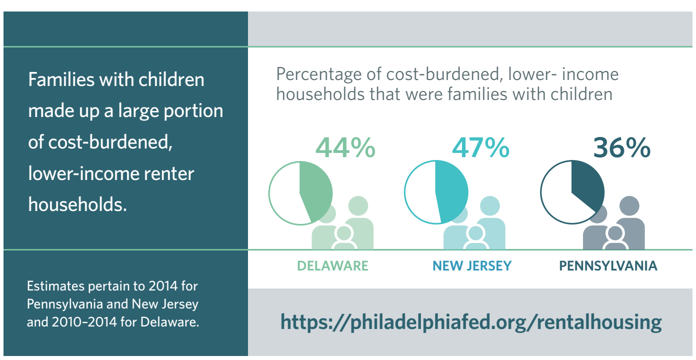
6 "Chapter 1: Executive Summary," in Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 2016*. Cambridge, MA: Harvard University, 2016; available at www.jchs.harvard.edu/research/state_nations_housing.

issues interact with a wide range of community and economic development concerns. Two key findings from the Rental Housing Affordability Data Tool illustrate this point. First, in nearly every community in our region, families with children make up a substantial portion of cost-burdened, lower-income renter households. The family budgetary tradeoffs and the elevated risk of residential instability that this entails can have substantial negative effects on children's development. Second, while the majority of cost-burdened, lower-income renter households in the three states had at least one employed resident in 2014, it is clear that many working-age adults in these households face substantial barriers to gainful employment. The challenges associated with finding affordable units can undermine their efforts toward economic stability.

Families with Children

In each of the three states (Figure 2) and nearly every metropolitan region, families with children made up more than one-third of the cost-burdened, lower-income households in 2014. In the Atlantic City–Hammonton, Dover, and East Stroudsburg metropolitan areas, the portion was roughly half (50 percent, 50 percent, and 51 percent, respectively, from 2010 to 2014). Affordability challenges were especially prevalent for single parents: Across the three states, roughly 60 percent of households at any income level headed by single parents were cost burdened.

Figure 2



While burdensome housing costs can be challenging for any household, the associated financial strain confronts low-income families with a particularly difficult set of tradeoffs. On the one hand, the most direct impact of unaffordable housing costs is diminished resources left over for other needs, as illustrated by Figure 3. Recent research suggests that low-income families with high housing cost burdens spend less on enrichment activities for their children, potentially contributing to worse cognitive outcomes.[7] However, if accessing affordable rental housing comes at the expense of serious housing quality issues or overcrowding, or if affordable units are located in areas with high rates of violent crime and low performing schools, poor outcomes for children are even more likely.[8] Of course, the poorest families with the greatest budgetary constraints have the fewest options for making tradeoffs that would maximize child well-being.

Rental Housing Affordability Data Tool

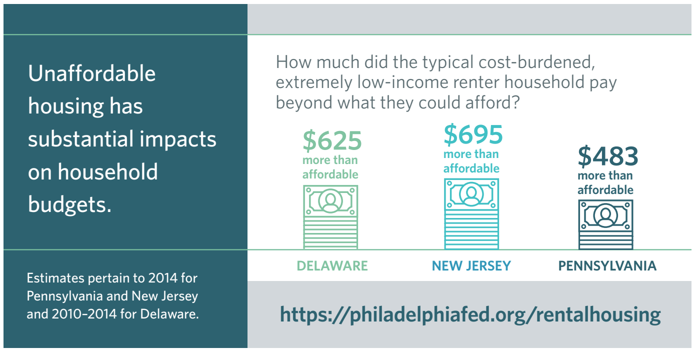
To provide communities in Delaware, New Jersey, and Pennsylvania with a more comprehensive understanding of the households that struggle to afford housing, the Community Development Studies & Education (CDS&E) Department has released the Rental Housing Affordability Data Tool (www.philadelphiafed.org/rentalhousing). This interactive tool enables users to examine trends in rental housing affordability in Delaware, New Jersey, and Pennsylvania from 2005 to 2014.

In addition to information on the affordability of the rental stock, the tool presents demographic and economic profiles of the renter households facing unaffordable housing costs, available for the three states and a number of metropolitan regions. This information can be used to help identify vulnerable groups and inform comprehensive approaches to addressing the challenges facing low-income renters.

[7] Sandra J. Newman and C. Scott Holupka, "Housing Affordability and Investments in Children," *Journal of Housing Economics* 24 (June 2014), pp. 89–100.

[8] See Tama Leventhal and Sandra Newman, "Housing and Child Development," *Children and Youth Services Review* 32:9 (2010), pp. 1165–1174, and Claudia D. Solari and Robert D. Mare, "Housing Crowding Effects on Children's Wellbeing," *Social Science Research* 41:2 (2012), pp. 464–476.

Figure 3



Furthermore, for families at the lowest end of the income scale, unaffordable rents paired with income volatility can lead to residential instability, causing major interruptions in children's lives. The Joint Center for Housing Studies of Harvard University estimates that, nationally, roughly 2 million low-income renter households were at risk of eviction in 2013.[9] Analysis of eviction patterns in Philadelphia reveals a disproportionate likelihood of such destabilizing moves for residents of poor, predominantly black neighborhoods.[10] Chronic residential instability increases parental stress and can negatively affect younger children's vocabulary development, increase adolescents' risk of dropping out of high school, and harm the mental health of youth of any age.[11]

Working-Age Adults

As illustrated in Figure 4, in Delaware, New Jersey, and Pennsylvania, the majority of cost-burdened, lower-income renter households had at least one employed resident in 2014.[12] Looking at the prior year's employment patterns of working-age adults[13] in these households, it appears that roughly one-quarter of these adults may have been underemployed or experienced a recent job loss, working either part-time or full-time for only part of the year. Further, in these three states, only 31 percent to 42 percent of working-age adults in cost-burdened, lower-income renter households worked full-time for most of the prior year.

Elevated rates of unemployment and underemployment among adults in cost-burdened, lower-income households may in part be a function of the job opportunities available to them. In each of the three states, adults in these households were disproportionately likely to have a high school diploma or less as their highest level of education (Figure 5). The decline of decent-paying jobs available to workers with less than a four-year degree is well documented, particularly for those without any postsecondary training.[14] Federal Reserve researchers have found that the availability of such jobs varies

Figure 4

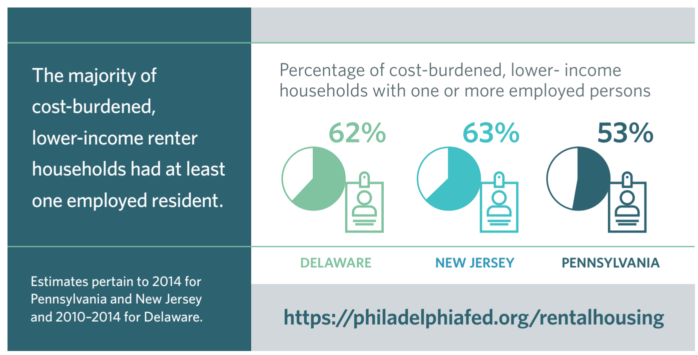
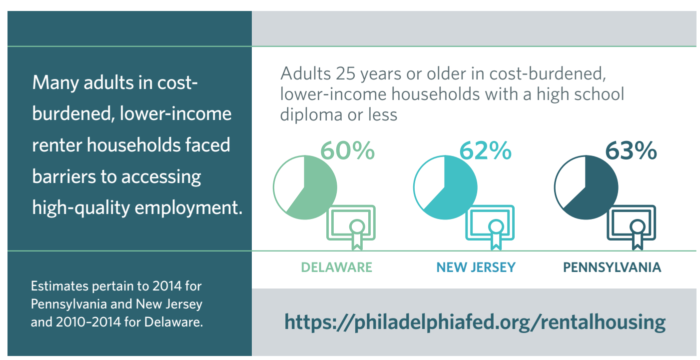


Figure 5



[9] "Chapter 1: Executive Summary," in Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 2016*. Cambridge, MA: Harvard University, 2016; available at www.jchs.harvard.edu/research/state_nations_housing.

[10] Ira Goldstein, Al Parker, and Rhea Acuña, "Policy Brief: Evictions in Philadelphia," Reinvestment Fund, January 2017; available at www.reinvestment.com/wp-content/uploads/2017/01/Evictions_in_Philadelphia_brief_Final.pdf.

[11] Heather Sandstrom and Sandra Huerta, "The Negative Effects of Instability on Child Development," Low-Income Working Families Fact Sheet, Urban Institute, September 2013; available at www.urban.org/sites/default/files/alfresco/publication-pdfs/412908-The-Negative-Effects-of-Instability-on-Child-Development-Fact-Sheet.pdf.

[12] Households headed by seniors and people with disabilities constitute a substantial share of households without employed residents.

[13] Defined as individuals 18 to 65 years old not enrolled in school.

[14] For a brief discussion, see David Autor, "The Polarization of Job Opportunities in the U.S. Labor Market: Implications for Employment and Earnings," Federal Reserve Bank of San Francisco *Community Investments* 23:2 (Fall 2011), pp. 11–16; available at www.frbsf.org/community-development/files/CI_IncomeInequality_Autor.pdf.

dramatically by region but generally declined from 2005 to 2014.[15] For many of these individuals, job training or certificate programs may provide opportunities for upward mobility; however, in a recent survey of workforce development program administrators, nearly half of respondents identified housing assistance as a top unmet need for both male and female participants. Additionally, while 28 percent specifically identified unaffordable housing as a reason that participants did not complete training, 59 percent cited financial considerations,[16] which include housing costs.

On the demand side of the employment equation, the location of affordable rental units can profoundly affect low-income renters' access to job opportunities. Recent research published by CDS&E found that Philadelphia's gentrifying neighborhoods lost low-cost rental units at nearly five times the rate of low-income neighborhoods that did not gentrify between 2000 and 2014.[17] With 1.5 jobs per working-age resident in gentrifying neighborhoods from 2010 to 2014 compared with just 0.4 jobs in nongentrifying neighborhoods,[18] this loss of low-cost rental units has substantially reduced low-income renters' housing options in some of the most opportunity-rich neighborhoods in the city. Indeed, previous research on gentrification and residential mobility found that vulnerable residents who are unable to remain in Philadelphia's gentrifying neighborhoods were considerably more likely to move to neighborhoods with higher unemployment rates.[19]

Conclusion

Clearly, the affordability, location, and stability of rental housing have significant implications for the well-being and human capital development opportunities of both youth and working-age adults.[20] The challenges outlined in this article are stark, but existing research points to promising avenues for intervention. An analysis of families living in subsidized housing found that each year teenagers lived in assisted units increased their annual earnings as an adult and decreased the likelihood of incarceration for both males and females as compared with the outcomes of siblings who lived in non-assisted units for longer periods of time.[21] For disadvantaged workers, access to needed housing supports may make the difference between completing job training programs that lead to upward mobility and falling short. Further, recent research suggests that enabling vulnerable renters to remain in gentrifying neighborhoods improves their employment outcomes.[22] These and other positive externalities of ensuring that lower-income renters have access to decent-quality, affordable units in opportunity-rich neighborhoods should be kept in mind by community and economic development practitioners as they develop responses to the widespread challenge of rental housing unaffordability.

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[15] Keith Wardrip, Kyle Fee, Lisa Nelson, and Stuart Andreason, "Identifying Opportunity Occupations in the Nation's Largest Metropolitan Economies," Special Report, Federal Reserve Banks of Philadelphia, Cleveland, and Atlanta, 2015; available at www.philadelphiafed.org/community-development/publications/special-reports.

[16] Cynthia Hess, Emma Williams-Baron, Barbara Gault, and Ariane Hegewisch, "Supportive Services in Workforce Development Programs: Administrator Perspective on Availability and Unmet Needs," Institute for Women's Policy Research, December 2016; available at www.iwpr.org/publications/pubs/supportive-services-in-workforce-development-programs-administrator-perspectives-on-availability-and-unmet-needs.

[17] Seth Chizeck, "Gentrification and Changes in the Stock of Low-Cost Rental Housing in Philadelphia, 2000 to 2014," Federal Reserve Bank of Philadelphia *Cascade Focus* (January 2017); available at www.philadelphiafed.org/community-development/publications/cascade-focus.

[18] Author's calculation based on U.S. Census Bureau's 2010 to 2014 American Community Survey Table B01001 and 2014 Longitudinal Employer–Household Dynamics data, accessed via PolicyMap (www.policymap.com).

[19] Lei Ding, Jackelyn Hwang, and Eileen Divringi, "Gentrification and Residential Mobility in Philadelphia," *Regional Science and Urban Economics* 61 (2016), pp. 38–51.

[20] For brevity's sake, this article does not review the existing literature on rental housing for seniors and people with disabilities. For a discussion of the topics, see the Joint Center for Housing Studies of Harvard University report, "Housing America's Older Adults: Meeting the Needs of an Aging Population," 2014; available at www.jchs.harvard.edu/research/housing_americas_older_adults, and Micaela Connery, "Disability Housing: What's Happening? What's Challenging? What's Needed?" Joint Center for Housing Studies of Harvard University Working Paper, April 2016; available at www.jchs.harvard.edu/research/publications/disability-housing.

[21] Fredrik Andersson, John C. Haltiwanger, Mark J. Kutzbach, Giordano E. Palloni, Henry O. Pollakowski, and Daniel H. Weinberg, "Childhood Housing and Adult Earnings: A Between-Siblings Analysis of Housing Vouchers and Public Housing," NBER Working Paper 22721, October 2016; available at www.nber.org/papers/w22721.pdf.

[22] Samuel Dastrup and Ingrid Gould Ellen, "Linking Residents to Opportunity: Gentrification and Public Housing," *Cityscape* 18:3 (2016), pp. 87–107; available at www.huduser.gov/portal/periodicals/cityscpe/vol18num3/ch4.pdf.

Research on Affordable Rental Housing and Subsidy Expiration - Cascade: No. 95, Spring 2017

Explore This Section

Research on Affordable Rental Housing and Subsidy Expiration[*]

By Vincent Reina, Assistant Professor, Department of City and Regional Planning, University of Pennsylvania

There is an abundance of evidence that rental markets across the country are unaffordable. Studies[1] show that, from 2000 to 2010, there was a rapid decline in rental affordability, with rent increases occurring in the face of stagnant or declining incomes in nearly every metropolitan area and across almost every quintile of the income distribution during that period.

For example, renter households at the 40th percentile of the income distribution in Philadelphia saw their income decrease by 15 percent, while their rents increased by almost 12 percent during this period.[2] Low-income households have been particularly affected by an increasingly unaffordable rental market. A recent report[3] by the Federal Reserve Bank of Philadelphia found that the number of affordable rental units for every 100 very low-income renter households fell from 82 to 68 between 2005 and 2014. The decline in affordable rental units on the private market makes understanding the presence — and loss — of subsidized rental housing all the more important.

The federal government provides financing and/or rental support for millions of units of affordable rental housing across the U.S. The largest federal programs are the Low-Income Housing Tax Credit (LIHTC), Project-Based Section 8 Rental Assistance, Public Housing, and Section 8 Voucher programs. The first three programs offer subsides at the building level, while the voucher program is designed to be a subsidy that moves with the low-income household. It is estimated that almost 4 million affordable housing units nationally have been financed through these programs (Figure 1), although the exact number is often difficult to determine because many of the properties receive more than one form of subsidy. For example, a study[4] found that nearly one-third of all subsidized properties in New York City received two or more forms of public subsidy. And while there are millions of units of federally subsidized rental housing, these units represent an increasingly small share of the overall rental stock.

Figure 1: Housing subsidies, 2000 to 2010

One factor challenging the existing subsidized housing stock is that owners can, and do, exit subsidy programs. In the 1960s, the federal government shifted from a public ownership model to a private one. Under this paradigm, private owners receive a subsidy to develop affordable housing and maintain it as such for a fixed period of time. At the end of that period, owners can renew the existing subsidy, apply for a new one, or exit all affordable housing programs. Incidentally, as the demand for rental units increased in the late 1990s and the 2000s, and there were fewer private market affordable rental units, private owners of federally subsidized rental housing started to become eligible to exit U. S. Department of Housing and Urban Development (HUD) affordable housing programs, such as the Project-Based Section 8 Rental Assistance program.

The project-based Section 8 program was created under the Housing and Community Development Act of 1974 and financed the development of 1.2 million privately owned units before it was defunded in 1983. Through this program, tenants' rent payments are capped at 30 percent of their income, and the difference between their rent payment and the market rent for the unit is paid to the property owner by HUD. To date, almost 150,000 units have exited the project-based Section 8 program, and nearly all properties that remain in it will be eligible to exit in the coming years. Between 1998 and 2010, there were nearly 1,000 households living in properties in the Philadelphia metropolitan area where the project-based Section 8 contract ended; nearly 900 in the Newark–Union (NJ) metro area; more than 7,500 in the New York City metro area; and more than 3,500 in the Washington, D.C., metro area.[5] As seen in Figure 2, the properties in Philadelphia are dispersed in three clusters, with some, like those in center city and West Philadelphia, being located in increasingly unaffordable neighborhoods. The previously mentioned study from the Philadelphia Fed found that nearly 34 percent of project-based Section 8 units and 20 percent of all subsidized units in Philadelphia will approach the end of their affordability restrictions by 2020.

Figure 2: Units Where Project-Based Section 8 Contract Expired in Philadelphia, 2000 to 2010

Source: Based on data from the U.S. Department of Housing and Urban Development and those employed in Michael C. Lens and Vincent Reina, "Preserving Neighborhood Opportunity: Where Federal Housing Subsidies Expire," *Housing Policy Debate* 26:4–5 (2016), pp. 714–732; available at http://www.tandfonline.com/doi/pdf/10.1080/10511482.2016.1195422.

Lens and Reina (2016) find that, nationally, properties that exited the project-based Section 8 program between 2000 and 2010 were generally located in neighborhoods that offered fewer opportunities but that these neighborhoods also showed the strongest improvements during that period. In other words, these are neighborhoods that may have been largely affordable at the time but were on the path to becoming unaffordable. This reinforces previous findings[6] that private owners are reacting to neighborhood change dynamics when deciding to exit subsidy programs.

Moreover, nationally, the project-based Section 8 units that are set to expire between 2011 and 2020 are in particularly high-opportunity neighborhoods. These are also neighborhoods that are higher opportunity[7] than those where properties subsidized through other national housing programs are located, including new and existing LIHTC units and those leased with a voucher. While property owners will have the option to renew their subsidies, the research cited suggests that these properties are located in the areas where owners are shown to have higher odds of opting out.

The next question becomes then, what happens to tenants when an owner exits the project-based Section 8 program? Households in these properties are offered a voucher as a safety net when the subsidy contract ends but little is known about what happens to these households, including whether they use their voucher. In my dissertation,[8] I studied this phenomenon and used HUD tenant-level data to track all households who ever lived in a property where the Section 8 subsidy expired. I found that fewer than 50 percent of households actually used the voucher they were entitled to when their property owner exited the project-based Section 8 program.

In Philadelphia, the share of voucher users is slightly over 50 percent, while in places like Newark, it is closer to 40 percent. Nationally, those who did not use their vouchers lost more than $400 per month of rental assistance on average, or roughly 41 percent of their effective income. More than half the households who use their vouchers move once or more and, on the whole, the destination neighborhoods have lower poverty levels than the origin neighborhoods. In aggregate, these findings highlight a worrisome reality, which is that an owner's decision to exit the project-based Section 8 program results in a serious income shock for a large share of the low-income households in these properties. However, for the fraction of households in these properties who use their vouchers, this event could improve their well-being because their subsidy is now mobile and they can — and often do — use a voucher to move to a neighborhood with a slightly lower poverty level.

In sum, market-rate rental housing has become less affordable over the previous decade. At the same time that the demand for subsidized rental housing has increased, owners of existing subsidized properties are becoming eligible to exit these programs. Understanding where and when subsidies will expire is important as cities attempt to address issues of affordability in the rental market because they are often faced with the decision about whether to target existing resources toward the development of new affordable units or toward the preservation of existing ones. This research highlights that policymakers should account for multiple factors in making allocation decisions. First, they should consider what the expiration of a subsidy contract means for neighborhood access, if promoting access to opportunity neighborhoods is a goal. When looking at neighborhood access, policymakers should also consider existing conditions and change over time because properties may be located in what appear to be neighborhoods with fewer opportunities, but these neighborhoods may be improving dramatically. Second, policymakers should account for the impact that a subsidy expiration has on the well-being and future outcomes of households in these properties when deciding whether or which resources are allocated to preserve a property. In particular, local governments should ensure that households do not suffer a significant and immediate income shock if their property owner exits a subsidy program. Ultimately, resources like the affordability website at the Philadelphia Fed[9] and the National Housing Preservation Database[10] are important tools that should be employed and bolstered so policymakers can make such informed decisions.

Capital for Communities: Preserving Affordable Rental Housing Through a Nonprofit Real Estate Investment Trust - Cascade: No. 95, Spring 2017

By Noelle St.Clair, Community Engagement Associate

Explore This Section

Capital for Communities: Preserving Affordable Rental Housing Through a Nonprofit Real Estate Investment Trust[*]

Housing affordability is essential for neighborhood revitalization and social and economic mobility alike, but affordable housing units continue to be limited as demand for them climbs. In cities throughout the country, including Philadelphia, market forces in gentrifying neighborhoods place the affordability of many housing units at risk. This article will explore the Housing Partnership Equity Trust (HPET), a nonprofit real estate investment trust (REIT) that utilizes private capital to acquire, preserve, and improve affordable rental housing units across the country.

The Need for Preservation

Research from the Federal Reserve Bank of Philadelphia has shown that gentrification can lead to the loss of low-cost housing units, leaving low- and moderate-income city residents with limited options in terms of available affordable housing. Not only do market rate rents increase as neighborhoods gentrify, but many subsidized units have time-limited affordability restrictions that will soon expire.[1] Though some of these units are owned by mission-driven property owners who will likely retain the affordability of units, some are owned by profit-driven property owners who may sell the properties or increase rents in order to reap the benefits of real estate appreciation, possibly leading to the displacement of many long-time residents who would be priced out of the market.

 Rental development in Aurora, IL.
Photo credit: Housing Partnership Equity Trust.

Nonprofit affordable housing developers struggle to compete with profit-driven developers to acquire these units. They are also finding it too expensive to develop new affordable housing in these areas. Additionally, the Low-Income Housing Tax Credit, which provides equity for low-income housing developers by encouraging private investment with tax credits, may soon become less favorable to investors if certain anticipated changes to the tax code occur under the new federal administration. The future is also uncertain for other federal housing programs that provide resources to organizations that build and maintain affordable housing.

Housing Partnership Equity Trust

Given these circumstances, it is worth exploring financing mechanisms for preserving affordable rental housing that are less reliant on public subsidy. One such example is HPET. The Housing Partnership Network (HPN), a Boston-based membership organization of more than 100 housing and community development nonprofits throughout the country, launched HPET in 2013 in response to the challenges many housing organizations were facing in preserving affordable rental housing. HPET was established as a REIT, a financing structure that, although unique for nonprofit housing developers, is a commonly used vehicle in traditional capital markets. Some 192 REITs trade on the

New York Stock Exchange, with equity market capitalization equal to $941.7 billion.2 HPET is not publicly traded and is only the second mission-oriented and the first nonprofit-sponsored and controlled REIT.3, 4

Real Estate Investment Trust (REIT)

A REIT combines the capital of many investors to acquire or finance income-producing real estate. Similar to a mutual fund, a REIT allows investors to benefit from a diversified portfolio, regular income streams, and long-term capital appreciation. Through a REIT, investors own shares of large-scale properties. A REIT typically pays out all of its taxable income as dividends to shareholders, who then pay income taxes on those dividends.

For more information, see “What Is a REIT?” at www.reit.com/investing/reit-basics/what-reit.

HPN served as the sponsor of HPET, with 12 initial members that made capital contributions and share collaborative management and ownership. Two additional members subsequently joined. Each member invested an initial $200,000, while HPN invested $400,000. HPET’s 14 members include some of the leading nonprofit affordable housing developers and operators across the country, which have combined portfolios of more than $8 billion and employ more than 3,900 real estate professionals in 41 markets. HPET has a staff of seven, a management team with more than 50 years of multifamily housing experience, and a board of experts from the affordable housing and impact investing industries.

The structure of the REIT includes a scalable operating platform from which HPET’s acquisition team of developers, composed of the 14 HPET members,5 can monitor potential deals constantly. Rebecca Regan, executive vice president of HPN, said that HPET’s structure enables its members to “act with the same speed and flexibility as for-profit buyers looking to purchase rental properties and quickly bid on properties without needing to first assemble complex financing packages.” The cost-effective capital that enables HPET to do this is raised by institutional investors motivated by both financial and social returns on their investments. These investors include foundations such as MacArthur and Ford, and financial institutions such as Prudential, Citibank, and Morgan Stanley. To date, HPET has raised more than $150 million and has a current portfolio of 2,605 units totaling $244 million in acquisition value.

Note: HPET member names indicate the member serving as the property manager for the HPET portfolio property.
Source: Housing Partnership Network.

The units in HPET's portfolio of multifamily rental housing properties are not subsidized or deed-restricted affordable housing. Rather, they are housing units with a regular rental rate that is affordable to someone earning 60 to 80 percent of the area medium income.

A key component of the HPET approach is to strategically acquire properties that are in close proximity to job opportunities, quality schools, adequate transportation, and other community amenities that allow families and individuals to thrive. Properties are typically located in gentrifying neighborhoods and are often in need of significant renovations. HPET strives to increase cash flow through tax abatements, energy improvements, and other operating efficiencies and enhancements without increasing rent for residents. HPET also achieves financial returns by making strategic investments in portfolio properties that improve resident satisfaction, decrease operating costs, and reduce tenant turnover.

Tenant and Property Characteristics Generally Adhered to by HPET Investments

Tenant Profile

Employment status	Hourly, salaried, or part-time workers
Income range	$20,000 to $80,000 per year
Typical employment	Retail, construction, service sector
Average family size	Two to four members per household
Key challenges	Transportation, job stability, family budget
Rent payments	$750 to $1,350 per month

Property Profile

Location	Proximal to employment, transit, schools, community amenities

Unit mix	One, two, and three bedrooms
Number of units	30 to 418 units (217 average)
Acquisition costs	$7 million to $60 million
Economic occupancy* at acquisition	79% to 99%
Economic occupancy* at stabilization	92% to 99%
Monthly rent per unit at acquisition	$627 to $1,316 ($962 average)
Monthly rent per unit at stabilization	$546 to $1,484 ($967 average)
Community facilities	Community room, leasing office, fitness center, pool
* "Economic occupancy" is total possible revenue less vacancy loss as a percentage of total possible revenue. Source: Housing Partnership Network	

Third District Implications and Further Considerations

Although HPET's portfolio does not currently have any properties in the Third District, there are opportunities to expand in this region. HPN's goal is not to have others replicate HPET but rather to broaden its portfolio to include properties in additional geographic areas through current members or the addition of new members. There is an opportunity to grow the number of HPN members involved, as needed, although it would only be appropriate for experienced partners with the proper skills and resources. Contributing members of HPET are responsible for managing capital and properties on behalf of sophisticated institutional investors, and thus underwriting needs to mimic that of a public REIT with extensive due diligence and presentations to established investment committees. In fact, since HPET is a mission-driven investment vehicle, both the impact and economic viability of investments need to be underwritten, requiring additional skills than would be needed in a typical REIT (i.e., simply underwriting for financial return without consideration of social and environmental impact). Additionally, all HPET contributing members must be financially stable and reliable in the event of a capital call requiring additional resources.

Lessons Learned

HPET has found that attracting large amounts of capital is imperative since small investments are often too difficult, expensive, and time consuming to be worthwhile. Also, HPET has found that its nonprofit ownership is attractive to socially minded investors. In addition, the cooperative ownership model and the ability to learn from best practices among members improve the property management expertise and enhance the opportunity to create operational savings when compared with a typical REIT.

Since HPET is not publicly traded or rated, its biggest current challenge is creating mechanisms to provide investors confidence in the liquidity of their shares, Regan said. She explained: "We want to hold and operate the properties as affordable housing for the long term. We are not a closed-end fund; our mission is not to liquidate assets on a predetermined date, so it is difficult to show investors how they will sell shares at a specific point on the investment horizon. With a liquidity vehicle or guaranty, they would be able to demonstrate the ability to redeem their investment without actually redeeming it, addressing the most challenging issue in underwriting and allowing the investment to move through the underwriting process." Credit enhancements from banks or grants from foundations could unlock additional institutional capital by allowing investors to underwrite the liquidity risk. This could potentially lead to increased investment from donor-advised funds or impact investing platforms, said Regan.

HPET is not the only community development finance vehicle that has this need, however. "Lack of liquidity is a common problem in many U.S.-based community development investment opportunities, inhibiting new capital from entering our industry," Regan said. If this problem could be addressed strategically, Regan believes that significantly more capital could support community development efforts such as affordable housing preservation.

Conclusion

Housing affordability remains a foundational component of neighborhood vitality and household financial stability, although the supply of affordable housing is decreasing in certain areas throughout the country. It is important to consider ways in which private capital can be utilized to support the sustainability of community development efforts and preservation of affordable housing. HPET provides an opportunity for expansion into the Third District states of Pennsylvania, New Jersey, and Delaware, as well as a model for banks, foundations, and developers in the Third District interested in exploring replication. The broader need for liquidity in nonpublic community development finance vehicles also needs further examination.