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NHDC Focuses on Preserving Affordable Housing

Kathy Kenny, John Trauth

Despite the robust American economy, the need for affordable housing continues to grow. Today, this nation provides affordable housing for only one-fourth of those in need, and there are few large-scale efforts to build more affordable housing to meet rising demand.

Many experts have recognized this problem, including the National Housing Conference, which is calling for the creation of a bold new affordable housing production program. At the same time, the supply of existing affordable rental housing is diminishing through neglect, deterioration and, most important, the pending expiration of federal subsidies.

The Need for Preservation

Since the 1970s, the federal government has contracted with private owners to create affordable housing projects; in return it provided long-term (25- to 30-year) commitments of monthly rent subsidies for the tenants. The Section 8 program, administered by the Department of Housing and Urban Development (HUD), is the primary vehicle for these subsidy dollars. The U.S. Department of Agriculture's Section 515 program has also built affordable rental housing in rural areas. Although these particular subsidies themselves are not yet expiring, the supply of such housing is nonetheless suffering, as some owners have expressed interest in selling their properties to local nonprofits.

Much of the Section 8 government rent subsidy contracts on the other hand, are expiring, without the expectation of renewal. Over the next three years, the largest transfer of affordable real estate assets in history will take place, exposing upward of 800,000 affordable apartments--now regulated and subsidized by HUD--to market-rate conversion. The situation is particularly acute in California, where the largest number of properties is at risk. Unless a large-scale intervention takes place, these precious resources will be lost, as owners divest, and profit-motivated investors move in.

The National Housing Development Corporation (NHDC) was created to respond to this need. It is the first national intermediary of this type to emerge from the West Coast, growing out of an award-winning housing preservation program operated by the nonprofit Southern California Housing Development Corporation (SoCal Housing).

NHDC's mission is to improve the quality of life for lower-income families through acquisition and preservation of the country's affordable housing stock. It will partner with other not-for-profit preservation efforts. It will compete aggressively with the private sector to purchase large portfolios of these properties, restructure them financially and sell them at cost to local nonprofits. Under nonprofit ownership, affordability can be maintained in perpetuity. NHDC's goal is to help preserve a significant portion of the nation's at-risk properties, with an initial target of acquiring 60,000 units in three years.

Congress has recognized the need and endorsed the NHDC model; \$2 million has been earmarked in the 1999-2000 federal budget for NHDC's initial seed capital. In addition, a national foundation has approved a seed grant for the first two years of operation.

A Collaborative Process

NHDC's program, also called the United National Preservation Trust (UNPT), will negotiate directly with portfolio owners for properties anywhere in the country. It is designed as a large-scale acquisition/warehouse facility, which will purchase larger portfolios of at-risk affordable housing properties, concentrating on those beyond the reach of local nonprofits for financial or geographic reasons. NHDC will then reposition and stabilize the properties and, finally, disaggregate and sell off individual properties at cost to qualified local nonprofit organizations.

NHDC's holding period (estimated between 12 and 36 months) will enable the local nonprofits to assemble the necessary resources (tax credits, HOME funds and local subsidies) to purchase the properties and prepare to assume property management functions. NHDC will hold on to a limited asset management oversight role, retaining the ability to correct any future problems that might arise.

NHDC has developed its program based on the concept of "harmonious differentiation," through which NHDC will work with and complement housing, community development and preservation efforts of other national intermediaries. Initial relationships are being negotiated with the National Council of La Raza and the Congress of National Black Churches. In addition, properties acquired by NHDC will be available for purchase by qualified affiliates of the Neighborhood Reinvestment Corporation, Local Initiatives Support Corporation, the Enterprise Foundation, National Association of Housing Partnerships, National Affordable Housing Preservation Associates and others. (See Steps of Faith for more information on complementary initiatives operated by these organizations.)

NHDC will also work closely with the National Council of State Housing Agencies (NCSHA) and its members at the state level, who will assist in identifying potential at-risk properties and may also provide property financing.

Target Markets

In addition to the large number of existing low-income rental housing units immediately at risk due to market-rate conversion, other preservation targets for NHDC will include: older assisted subsidy-dependent properties; conventional affordable apartments owned by real estate investment trusts (REITS); Low-Income Housing Tax Credit properties reaching lock-in expiration; and large-scale neighborhood revitalization projects that are beyond the reach of local nonprofit capacity.

Because of the location of the majority of the expiring Section 8 properties, NHDC has targeted the Mid-Atlantic region, the Midwest and the West Coast as areas of initial concentration.

Acquisition and Financing Plan

In terms of acquisitions, NHDC will focus on properties that can be underwritten, purchased and preserved under a "renewed affordability" paradigm, in which a combination of a reasonable acquisition price and value added through financial and operational restructuring, below-market financing, tax credits, local subsidies and nonprofit ownership can achieve permanent affordability independent of future federal subsidies.

Now that the initial seed capital is in place, the NHDC staff is actively working to identify and purchase its first at-risk portfolios. Timing is of the essence, since the majority of the at-risk Section 8 properties will face

subsidy expiration in the next three years. If these properties are lost to conventional buyers and converted to market-rate housing, the cost of replacing this inventory will be prohibitive.

Once up and running, NHDC will earn income from transaction fees, special preservation funds known as Inter-medary Technical Assistance Grants (ITAGs), cash flows from acquired properties, transfer fees to local nonprofits (based on a limited cost-reimbursement formula) and asset management fees. NHDC's projections indicate that it will achieve self-sufficiency in four years, based on an aggressive acquisition strategy.

To reach self-sufficiency, NHDC's financial projections show a need for \$5 million in seed capital, of which \$2 million has been provided by Congress. NHDC is in the process of raising the remaining seed capital from financial institutions, foundations, corporations and future congressional appropriations.

Opportunities exist for banks and other financial institutions to provide seed capital to support NHDC's initial activities in their market areas, as well as acquisition and permanent financing for NHDC properties, eventually assumable by the ultimate owner/manager, the local nonprofits.

A CRA Investment Opportunity

NHDC is developing an investment fund whereby participating financial institutions should receive CRA investment credit, via acquisition (and subsequent disposition) of existing affordable housing at risk of market conversion. Acquisitions will be structured via a risk-shared equity pool limited liability corporation (LLC) in which NHDC will be the managing member, and participating financial institutions will be the equity investors and members. Investments are targeted for \$5 million increments, although smaller investments will be considered. The investment will have a projected holding period of three years and a maximum of six years, with a projected return of 5 percent to 8 percent, plus return of capital. The fund will make every effort to target its acquisitions to match the investors' service areas, broadly defined as the states and regions in which investors do business.

For NHDC to have the flexibility to respond to areas of greatest need, however, 25 percent of the funds will be reserved for use in any location. As soon as properties are repositioned and stabilized, and the qualified local nonprofit is in place, NHDC will sell or transfer the property to the qualified local nonprofit. At that time, the investors' equity capital will be repaid. As an alternative, and at each individual investor's discretion, equity capital returned can be recycled as a new capital contribution to acquire future properties on the same basis. If there is no otherwise viable affordability oriented transaction, as a last resort, the property can be sold at market value.

NHDC Personnel

While NHDC is a new national intermediary, its staff has a long history in affordable housing preservation. Jeff Burum, NHDC's executive director, was the founder and driving force behind Southern California Housing Development Corporation (SoCal Housing), a large and successful regional nonprofit that focuses on preservation of affordable rental housing in Southern California. Under Burum's seven-year stewardship, SoCal Housing preserved more than 3,000 units of affordable housing, with an asset value exceeding \$130 million. Other key staff members from SoCal Housing are also involved with NHDC. Sebastian Sterpa, former chairman of the California Housing Finance Agency, serves as the initial chairman of the board of directors. Other members of NHDC's board are being recruited and include key national leaders in the nonprofit, philanthropic, private and public sectors.

In addition, NHDC has assembled a team of outside experts to assist with acquisitions, organizational planning and development, and public finance. Team members include: Rick Johnston, managing director of public finance for U.S. Bank/Piper Jaffray; David Smith, founder and president of Recapitalization Advisors,

one of the nation's leading specialists in the HUD inventory; and Kathy Kenny and John Trauth, the authors of this article.

The ultimate goal of NHDC's efforts is to help local communities attain greater control over one of their most precious assets--the housing stock that shelters lower-income families and seniors. Without a doubt, preserving this housing stock is a huge undertaking, one that, to be successful, will require coordination, cooperation, considerable expertise and strong financial support.

Through its working relationships with other preservation-oriented agencies and NHDC's own board of directors, NHDC is positioned to make a major difference in the preservation of the nation's affordable housing stock. NHDC's success will directly translate into success for the local nonprofits that wish to play a role in the preservation of affordable housing in their communities.

For additional information on NHDC, contact:

National Housing
Development Corporation
8265 Aspen St.
Rancho Cucamonga, CA 91730
Phone: (909) 241-4100
E-mail: jburum@nhdc.org
Web Site: www.nhdc.org

At-Risk Section 8 Units by 2004

Eighth District States	Units Receiving Direct Section 8 Assistance
Illinois	17,931
Tennessee	16,560
Indiana	13,864
Missouri	7,744
Mississippi	7,380
Kentucky	6,825
Arkansas	4,490

Source: National Housing Development Corporation



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<https://www.stlouisfed.org/publications/bridges/summer-2000/additional-affordable-housing-preservation-contacts>

Additional Affordable Housing Preservation Contacts

LISC's Community Development Trust Inc.

The Community Development Trust (CDT) is a for-profit real estate investment trust (REIT) created in 1998 by the Local Initiatives Support Corporation (LISC), a national community development intermediary. CDT acquires long-term, fixed-rate mortgages collateralized by affordable multifamily housing and other community development assets. CDT also invests equity in community development projects that meet CRA requirements.

As a REIT, CDT can offer current owners of affordable housing a tax-deferred exchange that benefits property owners who have exhausted their tax benefits. Initial capital of \$31,750,000 was raised from 18 institutional investors including banks, insurance companies and one community development financial institution (CDFI). For more information, contact Judd S. Levy, president and CEO, (212) 271-5099, jlevy@commdevtrust.com.

National Affordable Housing Preservation Associates

The National Affordable Housing Preservation Associates (NAHPA) is a national nonprofit organized to promote the preservation of affordable multifamily housing in rural areas and small towns. NAHPA is currently completing acquisitions in Illinois and Vermont, with a goal of acquiring 3,000 units over the next three years. USDA Rural Housing Service has affirmed a financing model for preservation properties to attract the participation of private lenders. NAHPA is now looking to build an organization and to establish partnerships with local and regional nonprofit organizations and housing authorities interested in acquiring and/or managing multifamily properties in rural areas. For more information, call (205) 345-3800 or go to the web site at www.nahpa.org.

Housing Partnership Development Fund

The National Association of Housing Partnerships (NAHP) is comprised of 60 regional nonprofit housing organizations in 32 states. NAHP's new affiliate, the nonprofit Housing Partnership Development Fund, will provide a loan facility for use by NAHP members, primarily for purchase of portfolios of HUD-assisted properties. The fund will offer technical assistance with the financing that is needed for predevelopment costs. The fund has received designation as a CDFI, so that bank investors can receive CRA credit and cash awards. One million dollars in investment has been raised toward a goal of \$3 million. For more information, contact Kathy Farrell, (617) 720-1999, extension 204, farrell@nahp.net.

Neighborhood Capital Corporation (NCC)

The Neighborhood Capital Corporation (NCC) was formed in January 2000 by members of the Multi-Family Housing Initiative of Neighborhood Reinvestment Corporation (NRC). The NCC membership, composed of the multifamily organizations in the NeighborWorks Network, owns and operates 15,000 units of multifamily housing. NCC's primary function will be aggregating capital for the timely acquisition of affordable multifamily housing for its member organizations. NCC members plan to increase their combined portfolio by 10,000 units by the end of 2003. NCC intends to work with other organizations, including National Housing Development Corporation (NHDC), National Housing Trust/Enterprise Preservation Corporation (NHT/E) and National Association of Housing Partnerships (NAHP). For more information, contact Bill Sullivan, Rocky Mountain Mutual Housing Association Inc., 1550 Park Ave., Denver, CO 80218, (303) 863-8651, extension 211, sullivanb@rmmha.com.

NHT Enterprise Preservation Corporation

National Housing Trust (NHT) is a nonprofit intermediary located in Washington, D.C. The trust was founded in 1986 and is dedicated to the preservation of existing multifamily affordable housing. In 1999, the trust and the Enterprise Foundation launched the NHT Enterprise Preservation Corporation, which will purchase real estate from owners of multifamily housing, primarily targeting markets with insufficient local nonprofit capacity or interest to efficiently complete a transaction. This new nonprofit entity plans to acquire 5,000 apartments over the next five years. In general, NHT/Enterprise plans to focus its activities in the mid-Atlantic, South and Midwest. For more information, contact Scott Kline, vice president for acquisitions, (202) 333-893, skline@nhtinc.org. Or visit NHT's web site at www.nhtinc.org.



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Steps Of Faith

Lisa J. Locke , Diana Zahner

American religious institutions have a long history of supporting members of their communities. Churches distribute food and clothing to needy families, support the homeless with soup kitchens and overnight shelters, and play a critical role in distributing health care to those otherwise unable to afford such services.

While such programs remain vital, religious institutions nationwide are increasingly choosing to adopt a broader role as advocates for improved quality of life in their communities. Many are choosing to ally themselves with community development corporations (CDCs) and community development financial institutions (CDFIs) to help garner the resources needed to accomplish these new objectives. These institutions are generally nonprofit corporations and often involve multiple faith-based organizations, community groups and financial institutions.

Participating faith-based organizations can represent a broad range of religious backgrounds. Their common objective is to encourage home ownership and investment within their communities. CDCs and CDFIs use a range of tools and programs including community organizing, commercial development, affordable housing construction, job training and financial services.

In the Eighth Federal Reserve District, there are numerous faith-based organizations making inroads in their communities, including the St. Louis Reinvestment Corporation and Neighborhood Housing Opportunities in Memphis.

St. Louis Reinvestment Corporation

Three faith-based organizations joined forces in 1995 to form St. Louis Reinvestment Corporation (SLRC), which provides prepurchase homebuyer counseling, education and access to financial assistance to help ensure successful homeownership in the St. Louis area. The organization works with several local banks to secure mortgages for program participants. SLRC also provides low-to moderate- income homebuyers access to programs that cover downpayment and closing costs.

"The folks at SLRC are just good people," says Dean Keyes, senior vice president of community development at Firststar. "We have worked with them for a number of years."

Keyes says partnering with faith-based organizations like SLRC has many advantages. "They understand our guidelines and have a positive and nurturing way of explaining them to their clients," Keyes says. "They also help their clients improve their credit reports so that we are able to approve their loan applications."

Neighborhood Housing Opportunities

Neighborhood Housing Opportunities (NHO) is just one of numerous community development programs provided by the Memphis Leadership Foundation (MLF), a 501(c)(3) nondenominational Christian ministry

dedicated to the economic as well as spiritual stability of its community.

NHO provides its low-to moderate-income families with homeownership opportunities through two programs, Interim House and New Home Construction. Interim House is transitional housing, which empowers its clients to save money for the downpayment needed to purchase a home, and pre-purchase counseling, which includes family budgeting, goal setting, debt retirement and home-ownership skills.

When families are ready for homeownership, The New Home Construction program builds homes for low- to moderate- income families. The members of the cross-denominational congregations that comprise the program provide more than just spiritual support, they provide the labor to construct the housing as well.

"Our mission is to empower entire families to become both spiritually and economically stable through homeownership," says Elaine St. Clemmons, director of NHO. "Since 1988, we've helped 165 families become homeowners."

As many faith-based organizations have found, their missions do not stop with Sunday sermons. They have learned that they can play hands-on roles in developing communities by participating in CDCs.