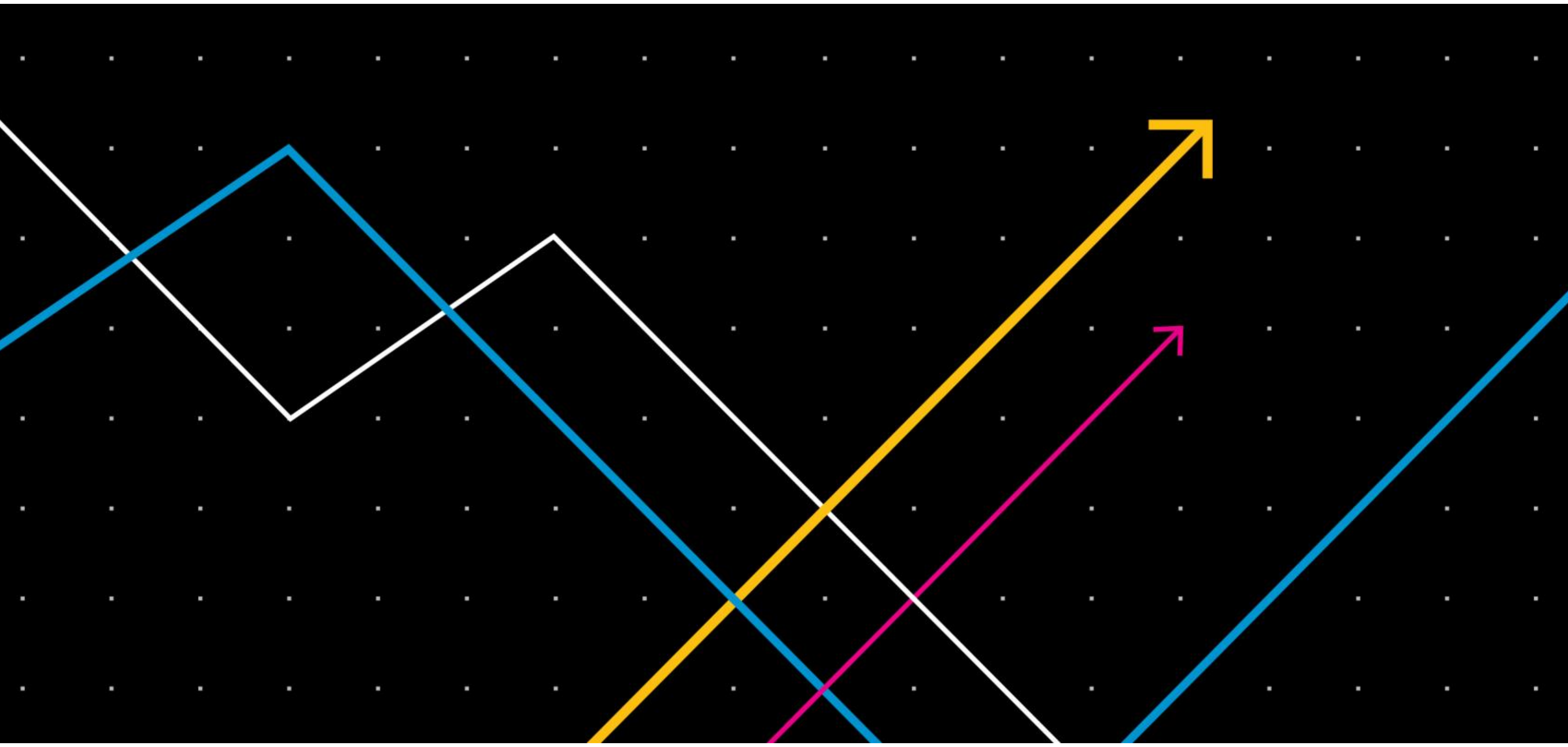

RESEARCH REPORT

Washington Housing Initiative

Context and Contribution

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Washington Housing Initiative: Context and Contribution

The Washington Housing Initiative, launched by the local real estate firm of JBG Smith in partnership with the Federal City Council (a nonprofit civic organization), acquires rental buildings in neighborhoods facing rising property values and keeps a majority of the apartments affordable for households with moderate incomes.[1] It is one of a handful of innovative models designed to address worsening problems of unaffordable housing and neighborhood displacement in rapidly growing urban regions across the US prior to the COVID crisis. Distinctive features of the Washington Housing Initiative include its focus on unsubsidized rental properties that currently serve households with low and moderate incomes, its lack of reliance on federal housing subsidies, and its potential to attract new private capital to help address urgent housing affordability challenges.

This report describes the Washington Housing Initiative and its potential contributions in the context of the region's long-term housing challenges and other available housing preservation and production tools. It addresses four important questions about the Initiative's design:

- **Why focus on affordability for households with moderate incomes?** The Washington Housing Initiative does not divert scarce public subsidies from serving the urgent needs of households with the lowest incomes; instead, it expands the availability of housing at rent levels below what the market is producing and above what public subsidy programs support.
- **Why focus on preservation rather than building new housing?** Although the Washington region[2] must build more housing at every price point to accommodate growth and narrow affordability gaps, preserving low- and moderate-cost housing is an essential—and cost-effective—complementary strategy.
- **Why target neighborhoods with rising property values and rents?** Keeping housing affordable in well-resourced neighborhoods can help promote economic inclusion across the region and expand opportunities for families to thrive.
- **How will affordability be sustained over the long term?** The Washington Housing Initiative ensures that the housing it finances will remain affordable for at least 15 years and creates the

financial and ownership conditions that should enable the nonprofit owners to keep it permanently affordable.

This new Initiative obviously cannot solve all the region's preservation and affordable housing problems, nor does it address the immediate needs of families who cannot afford to pay their rent because they have lost their jobs during the coronavirus pandemic and subsequent recession. But it brings new capital and capacities to bear on a critical segment of the longer-term challenge that will undoubtedly persist beyond the current crisis. It has the potential to make an important contribution to the portfolio of public- and private-sector efforts required to meet the housing needs of all households across the income spectrum in the Washington region and in other fast-growing markets across the country.

Housing Affordability Challenges Facing the Washington Region

Like many prosperous and growing urban areas, the Washington region faces serious housing affordability challenges that undermine the well-being of residents. The data summarized here describe market conditions and trends prior to the start of the coronavirus pandemic and the economic downturn it triggered. Although the resulting recession will likely slow the region's growth and reduce demand pressures, it will not change the fundamental mismatch between housing needs and the supply of affordable homes and apartments. The shortage of affordable homes and apartments is especially acute for households in the lowest income bands. For example, more than 8 in 10 households (84 percent) with annual incomes below $32,600 bear unaffordable housing cost burdens (defined as 30 percent or more of monthly income). But increasingly, households with moderate to middle incomes also face affordability pressures. In fact, almost half (47 percent) of households with incomes between $54,300 and $70,150—including people working as firefighters, crane operators, and graphic designers—pay unaffordable housing costs. And about one in five (19 percent) of households with incomes between $70,150 to $130,320—including registered nurses, teachers, and software developers—pay unaffordable housing costs (Turner et al. 2019).

In jurisdictions across the Washington region, regulatory constraints on how much new housing can be built, what types of housing are added to the stock, and where that housing is located limit production and increase its cost. These housing supply constraints, coupled with population growth, have pushed up rents and house prices faster than incomes (Turner et al. 2019). Between 2010 and

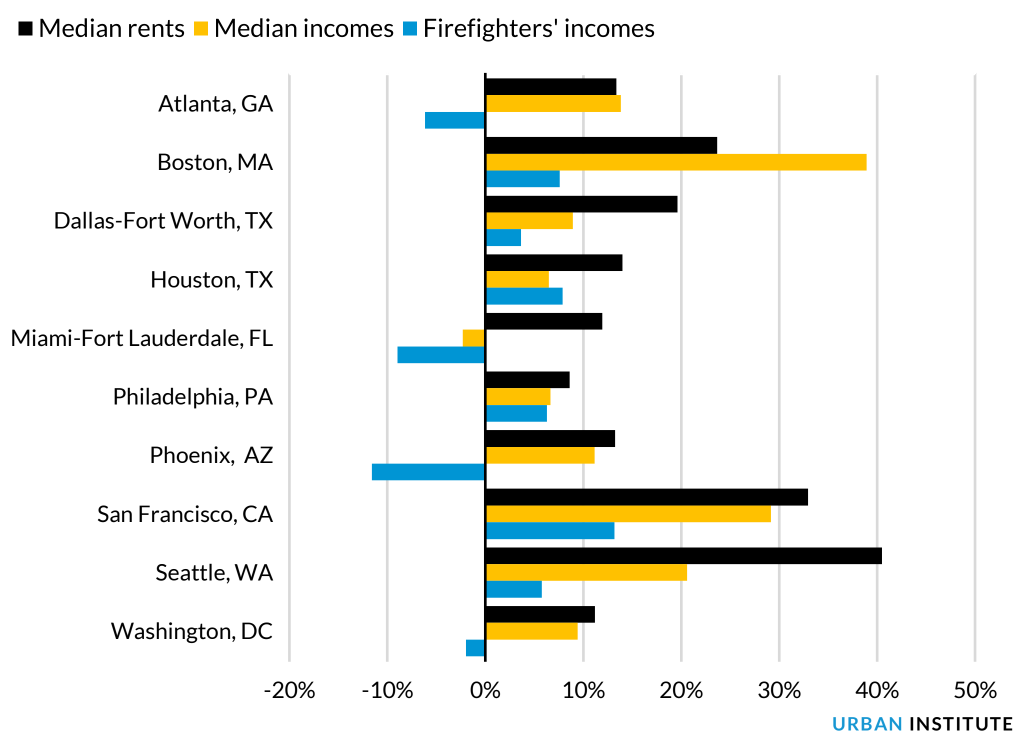
2018 the median home sales price climbed 24 percent (after adjusting for inflation) and median rents climbed 11 percent, while median household incomes climbed only 9 percent. And the gap between rent increases and income growth was considerably greater for many people working in middle-wage jobs. For example, income for a person working full-time as a firefighter in the Washington region actually declined by 2 percent (after adjusting for inflation).

Other prosperous urban regions across the US face comparable rental affordability challenges, especially for people working in middle-wage jobs. To illustrate, we compare rent and household income growth trends in 10 mid-to-large metropolitan areas.[3] Median rents have risen by 20 percent or more since 2010 (after inflation) in Boston and Dallas-Fort Worth, and by 35 and 43 percent, respectively, in San Francisco and Seattle. The gap between median rent growth and median household income growth has been particularly high in Boston, Dallas-Fort Worth, Miami, and Seattle. And in 9 of 10 of these metropolitan areas, incomes for people working full time as firefighters have either declined in real terms or grown more slowly than the regional median for all households.

FIGURE 1

Change in Median Rents, Median Incomes, and Firefighters' Incomes, 2010 to 2018

Percentage change in dollar amount (adjusted for inflation)

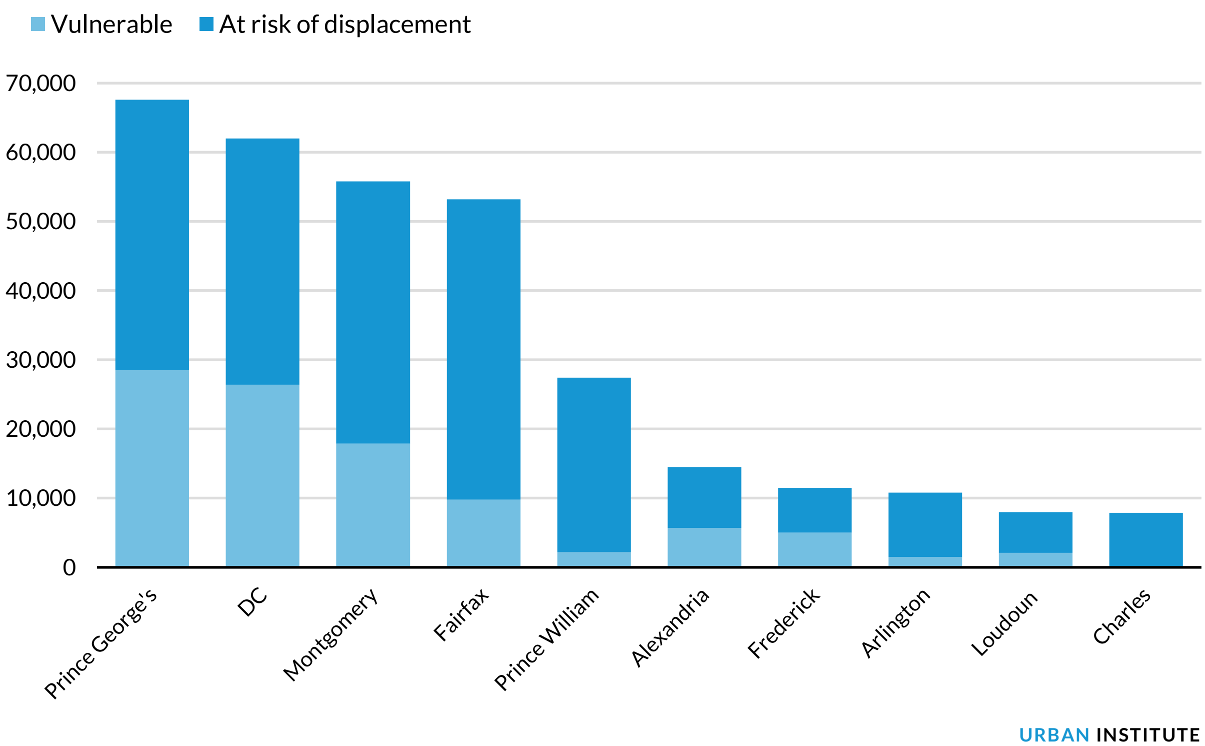


Sources: 2010 and 2018 American Community Survey (gross rent and median household income); 2010 and 2018 Occupational Employment Statistics, Metropolitan and Non-metropolitan area (firefighters' incomes).

These market pressures have caused especially steep housing cost increases in some neighborhoods that have historically been more affordable. As demand for homes and apartments in these neighborhoods intensifies, existing properties are sold, upgraded, or replaced with higher-cost housing. Neighborhood residents with low to moderate incomes facing unaffordable rent increases may be forced out of the neighborhood altogether, and the availability of housing affordable for people with low to moderate incomes shrinks further. Almost 300 census tracts across the Washington region—home to 220,000 households with low and moderate income levels—currently face significant displacement pressures.[4]

FIGURE 2

Households with Incomes under $75,000 Living in Tracts Vulnerable to Displacement, by Jurisdiction, 2013–17



Source: Urban–Greater DC analysis of the Neighborhood Change Database, the 2013–17 American Community Survey.
Notes: Data were analyzed for each jurisdiction separately at the census tract level. Households may not sum because of rounding. Fairfax includes Fairfax County and the cities of Fairfax and Falls Church. Prince William includes Prince William County and the cities of Manassas and Manassas Park.

Current trends in housing availability and costs threaten families' well-being as well as the future growth and prosperity of the region. Living in quality affordable housing enables families to meet their basic needs, frees up resources, reduces household stress, and allows parents to devote more resources and attention to healthy child development (Brennan, Reed, and Sturtevant 2014; Pollack, Griffin, and Lynch 2010; Scally and Gonzalez 2018). Affordable housing in a safe and supportive neighborhood provides an essential platform for children's future success, enhancing health, educational achievement, and long-term economic mobility (Galvez et al. 2017). And rigorous research demonstrates that housing challenges such as those facing the Washington region can undermine worker productivity, increase the difficulty businesses face in attracting and retaining employees, and discourage businesses from locating in the region (Turner et al. 2019).

The Washington Housing Initiative

The Washington Housing Initiative aims to finance the acquisition of 3,000 existing rental housing units in "high-impact" neighborhoods. These units will be owned and operated by nonprofit organizations that will keep rents for most units in every property affordable for families with moderate income levels. The Initiative acts as a broker, identifying potential properties and arranging for their acquisition and financing. Some of these properties will be owned and managed by the Washington Housing Conservancy, a recently established regional nonprofit organization governed by a board of area business and civic leaders.[5] To date, the Initiative has committed to finance 452 units (in two properties) and has 6,000 units in its pipeline for consideration.

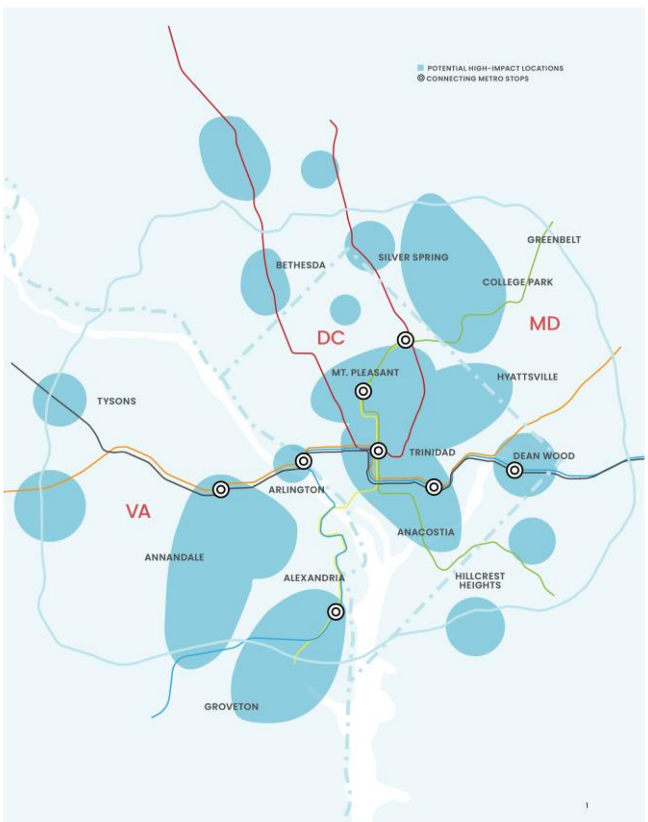
For each property the Washington Housing Initiative finances, it applies one of two models of rent affordability. The first model makes 20 percent of units affordable for households with annual incomes below $60,663 (50 percent of the current area median income, or AMI, for the Washington region) and 55 percent of units affordable for households with incomes between $60,663 and $97,060 (50–80 percent of AMI). The second model makes 40 percent of units affordable for households with annual incomes below $72,795 (60 percent of AMI) and 35 percent of units affordable for households with incomes between $72,795 and $97,060 (60–80 percent of AMI). Depending upon the specific financing arrangements, some properties may be able to make a larger share of units affordable at moderate income levels or include some units affordable for households with even lower incomes.

The Initiative targets properties occupied by households with low to moderate incomes that do not require major rehabilitation. It defines high-impact neighborhoods as areas with relatively inexpensive rental housing that will face substantial market pressures over the next five to ten years. The Initiative focuses on neighborhoods that offer good transportation access to jobs and other opportunities throughout the region, as well as access to quality schools and healthy food.[6] And the Initiative prioritizes neighborhoods where growing demand and private investment are pushing up house values and rents, making these neighborhoods increasingly unaffordable for current and future residents with low to moderate incomes.

The Washington Housing Initiative is raising funds for an impact pool that functions as a source of subordinate financing for all the properties the Initiative finances. The Initiative aims to raise $150–$200 million for the pool from private investors. To date, it has raised $105 million, including an initial investment from JBG Smith, which provides management services for the impact pool.[7] Investors receive an estimated current return of 2 percent on their contributed capital and a fixed 7 percent after-tax internal rate of return over the life of their investment. This capped rate of return has proven sufficient to attract individual social impact investors as well as financial institutions motivated by Community Reinvestment Act requirements. The Initiative anticipates that as the impact pool builds a record of performance, its rate of return will become increasingly competitive with other social impact investment opportunities. At that point, the pool may be able to reduce its fixed rate of return and further increase the affordability of units in the properties it finances.

FIGURE 3

Potential Neighborhoods for Washington Housing Initiative Acquisitions



Source: Map provided by the Washington Housing Initiative.

Financing for an individual property supported by the Washington Housing Initiative will comprise a first mortgage (60–80 percent of the acquisition and rehab cost), subordinate financing from the impact pool (10–30 percent), and an equity contribution from the property's nonprofit owner (5–10 percent). Because the pool charges a lower interest rate than conventional financing, this financing "stack" reduces the total cost of capital, enabling properties to charge below-market rents for some of the units. In addition, the District of Columbia forgoes property taxes from nonprofit owners that make all their units affordable for households with incomes below 120 percent of AMI, further reducing the annual operating costs for properties financed by the Initiative.

To illustrate, the Initiative is financing the acquisition of a 126-unit garden apartment complex in the Mount Pleasant neighborhood. Over half the current residents have incomes below 60 percent of AMI, and 85 percent have incomes below 80 percent of AMI.[8] The first mortgage for this $27.29 million property acquisition will cover 76 percent of the total cost, and subordinate financing from the impact pool will cover 18 percent (with the remaining 6 percent covered by philanthropic equity). If this acquisition relied on conventional financing, it would have to charge average monthly rents of $1,662. But the Initiative's financing model makes it financially feasible to hold the average rent to $1,479. Therefore, the property is committing to keeping 40 percent of the units affordable for households with incomes below 60 percent of AMI and 35 percent for households with incomes between 60 and 80 percent of AMI.

The contribution to any individual property from the impact pool is drawn from the fund as a whole, not from particular investors. This means that pool investors receive returns drawn from the Initiative's portfolio of properties, not from an individual property, reducing the potential risk to their investments.

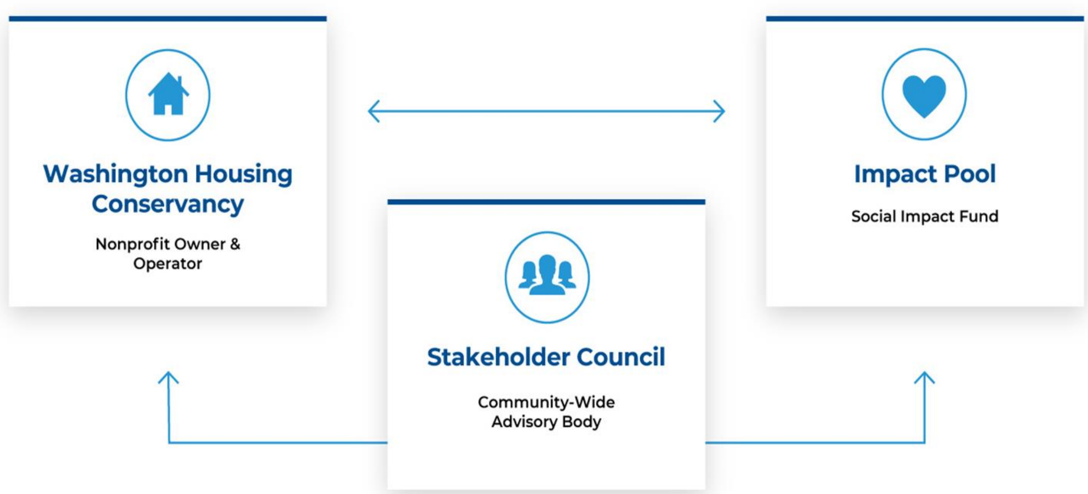
The Washington Housing Conservancy, a newly established nonprofit entity, will own and operate most of the properties financed by the Initiative. The conservancy aims to complement the region's nonprofit capacity by focusing on the preservation of rental housing affordable for households with moderate income levels and by working in jurisdictions throughout the region. Many of the region's current nonprofits understandably prioritize housing that is affordable for households with very low and low income levels or work exclusively in a single jurisdiction. To date, the conservancy has raised $15 million in charitable contributions toward a target of $30 million by 2025, at which point it will be self-sustaining.

In addition to operating its properties with below-market rent revenues, the Washington Housing Conservancy plans to take advantage of its reduced cost of capital to fund investments in community building and complementary services within its properties and in the surrounding neighborhoods. These investments will be shaped by the priorities of the residents with the goal of creating genuinely inclusive communities where people with low, moderate, and middle incomes can all feel that they belong and can enjoy both a high quality of life and access to the opportunities they need to advance over the longer term. The Conservancy is partnering with the National Initiative on Mixed-Income Communities to apply and advance proven approaches for property management, services, and resident engagement that create vibrant places where people can thrive.

The work of the Washington Housing Initiative, including deployment of impact pool resources and acquisitions by the Conservancy, will be informed by a Stakeholder Council. The Council, which will be convened later in 2020, will engage civic and community leaders to help shape the Initiative's strategic direction. In addition, the Council will support collaboration between the Washington Housing Initiative and other public- and private-sector housing efforts, including identification and advocacy for needed policy reforms.

FIGURE 4

Washington Housing Initiative



Source: Graphic provided by the Washington Housing Conservancy.

Why Focus on Affordability for Households with Moderate Incomes?

The Washington region faces a severe shortage of housing affordable for households with incomes in the lowest bands. Many nonprofit organizations and initiatives address this challenge directly, producing or preserving housing with very low rents. To do so, they must rely on public subsidies to reduce the costs of both equity and debt and, in some cases, to supplement the rents residents can afford to pay. For decades, federal, state, and local funding for housing subsidy programs has fallen far short of needs (Kingsley 2017). Therefore, the shortage of housing units that are affordable for households with low incomes continues to grow, despite the efforts of local agencies and nonprofits to preserve and produce affordable housing.

Capital subsidies reduce the cost of either debt or equity so property owners can charge lower rents for housing that they build or that they acquire and preserve. Public agencies (federal, state, or local) provide either grants or low-interest loans to property owners and impose limits on rents that tenants must pay. The Low-Income Housing Tax Credit program offers tax write-offs for the equity investors in new and rehabilitated housing developments, again with accompanying limits on the rents that can be charged. Today, the availability of capital subsidies is severely limited, so a typical affordable housing development project must patch together subsidized debt and equity capital from multiple sources, making either production or preservation complex and time consuming.

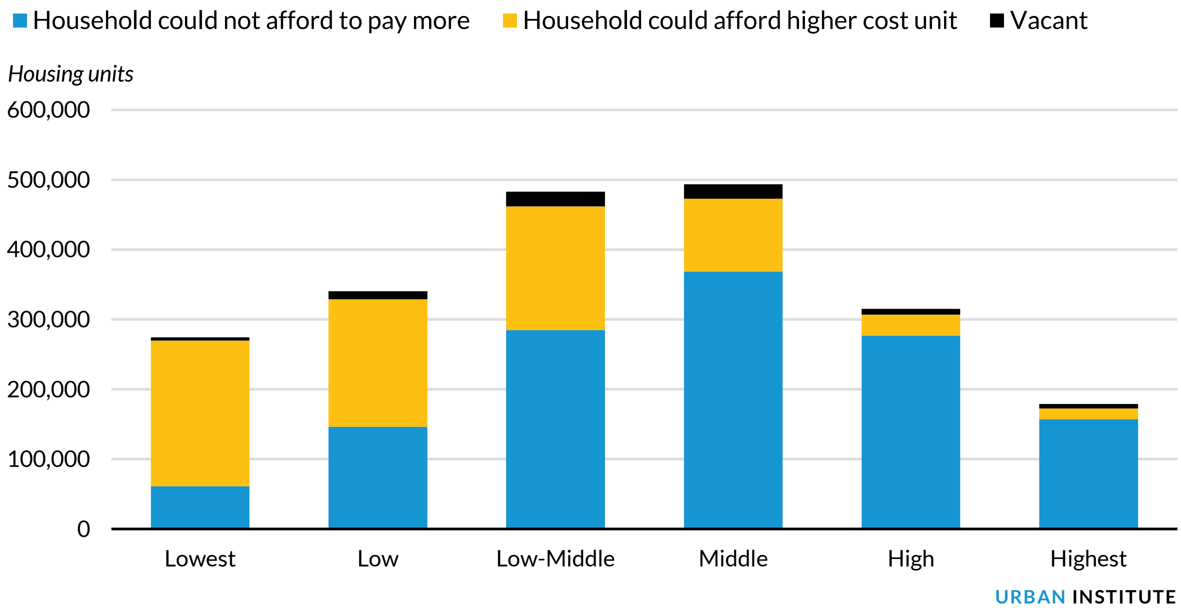
Operating subsidies cover a portion of the ongoing costs of managing and maintaining rental housing, so owners can charge lower rents. Ensuring that rents are affordable to households with the lowest income typically requires both capital and operating subsidies. Traditional public housing provides a classic example, with the federal government providing both low-cost capital and long-term operating subsidies to local housing agencies, enabling them to build and manage properties that serve households in the lowest income bands. Today, project-based vouchers provide operating subsidies to units in both new and existing properties to ensure affordability for households with the lowest income levels. Like capital subsidies, public resources for operating subsidies are in short supply relative to needs.

The Washington Housing Initiative does not rely on these public subsidy sources and does not aim to bring rents down to the lowest levels. Therefore, it should not be seen as a substitute for more deeply subsidized models, but as a complement, expanding the availability of housing at rent levels below what the market is producing and above what public subsidy programs produce—the "missing middle."

Although affordability challenges are most acute for households with the lowest incomes, households with incomes in the moderate to middle bands increasingly face affordability pressures and displacement. Expanding the availability of quality housing in the moderate rent range directly addresses the unmet needs of households with moderate incomes but can also help reduce pressures on the limited supply of lower-cost housing. Today, households in the moderate and middle income bands occupy many of the housing units affordable to households in the lowest income bands (Turner et al. 2019).

FIGURE 5

Housing Stock by Occupants' Ability to Pay by Cost Band, 2015



Source: Urban–Greater DC analysis of the 2013 to 2017 American Community Survey microdata from IPUMS-USA, University of Minnesota, www.ipums.org.

Notes: The number of households and housing units has been weighted to match the Metropolitan Washington Council of Governments 2015 household estimate. See the appendix for details on the estimation how much a household could afford to pay.

If more households with moderate income levels can find quality housing in their price range, they will free up lower-cost units for households that need them. And more generally, if the availability of moderately priced rental housing expands sufficiently, upward pressures on rents at the bottom of the market may be reduced.[9] Thus, the Washington Housing Initiative fills an important gap in the portfolio of tools available for tackling the full array of housing affordability challenges in an increasingly costly market like the Washington region.

In addition, the Washington Housing Initiative has committed to accepting Housing Choice Vouchers, which will expand housing options for households with incomes in the lowest bands and support greater income mixing. Housing vouchers supplement what households can afford to pay for housing of their choice, filling the gap between rents property owners charge and what low-income households can afford to pay. Vouchers are reserved for households earning between 30 and 50 percent of AMI, and 75 percent must go to households with incomes below 30 percent of AMI.

Vouchers give households the choice of where to live and create opportunities to gain access to safe, well-resourced neighborhoods that support well-being and upward mobility. But finding a house or apartment in which to use a voucher can be challenging, especially in hot housing markets and opportunity-rich neighborhoods where rents are high and vacancy rates are low. Moreover, some landlords prefer not to accept housing vouchers, further exacerbating the challenges for households that receive them. The District of Columbia prohibits landlords from rejecting tenants based solely on their source of income, but recent research found that DC voucher holders were nonetheless denied housing in 14.8 percent of their inquiries and that voucher holders inquiring about available rental housing in low-poverty neighborhoods were denied 16.2 percent of the time (Cunningham et al. 2018). Expanding the availability of rental units that can and will accept vouchers makes a small but important contribution to the needs of households with the lowest income levels (Kingsley 2017).[10]

Some local housing advocates worry that, although the Washington Housing Initiative does not compete for scarce public subsidy resources, it may compete for existing properties. More specifically, if the Initiative were able to move more quickly than other nonprofits to acquire properties in a target neighborhood, efforts to make more units affordable for households at lower incomes might be crowded out. Indeed, assembling the financing and subsidy commitments required for properties affordable to households with the lowest incomes is onerous and time consuming. To date, however, the Initiative has found that its primary competition for properties has been private-sector developers with no commitment to maintaining affordability for either low or moderate income levels. Ideally, the Washington Housing Initiative would strategically partner with public agencies and nonprofit organizations that serve lower income bands so housing can be preserved for households at all income levels in neighborhoods facing displacement pressures.

Why Focus on Preservation Rather Than Building New Housing?

Conversations about addressing affordable housing challenges often focus on new construction. And indeed, the region must build more housing at every cost band to accommodate growth and moderate today's affordability gap. However, preserving current low- and moderate-cost housing is an essential—and often cost-effective—complementary strategy. If the region continues to lose affordable housing units (either because they are demolished and replaced with higher-cost housing or because their prices and rents simply climb out of reach for all but those with high incomes), then the need for new production climbs and the challenge of building sufficient units in the low-to-moderate-cost band becomes ever more daunting. Preservation can help maintain the supply of such housing in areas with high land values and prevent the displacement of current residents (Treskon and McTarnaghan 2016).

Many organizations and initiatives now working to preserve affordable housing focus on properties with expiring public subsidies. Public-sector programs that provide either capital subsidies or operating subsidies for affordable housing production impose restrictions on the rents property owners can charge. But these restrictions last only as long as the subsidy commitment—typically between 15 and 30 years. After that, it may no longer be financially feasible for the owner to keep rents low, given the costs of debt service and operations. So, the owner has the option of refinancing (or selling the property) and raising rents to whatever the market will bear. Efforts to preserve these publicly assisted properties for occupancy by households with low incomes usually involve a new infusion of below–market rate capital along with a new commitment of operating subsidies for at least some units.

Although these assisted housing preservation efforts are vital, most of the region's low-to-moderate-cost rental stock is unsubsidized, meaning that no public funding is keeping the rents low. These unsubsidized units play a critical role in meeting housing needs and preserving them—at their current affordability levels—should be a priority.

In the Washington region, most units in low-cost rental buildings are more than 30 years old (Turner et al. 2019). As these properties age, they often deteriorate physically and need major systems replaced. If these needs are not addressed, affordable properties may be lost from the housing stock altogether, or they may be renovated and their rents raised substantially (Turner et al. 2019). Preserving as many units as possible in both the subsidized and unsubsidized rental housing stock will be critical to better aligning the region's future housing to stock to meet the needs of its residents.

Why Target Neighborhoods with Rising Property Values and Rents?

Historically, programs aimed at producing and preserving housing affordable for people with low and moderate incomes have focused on low-income neighborhoods, where property values and rents are relatively low. This reduces the cost of land and building acquisition, stretches scarce subsidy resources further, and expands the availability of affordable housing in communities where people with low incomes already live. However, these practices also reinforce patterns of economic and racial segregation and limit the ability of people with low and moderate incomes to choose well-resourced neighborhoods throughout the region. To illustrate, fewer than 500 of DC's stock of dedicated affordable units are located in in the Rock Creek West area, compared with more than 15,000 in Far Southeast and Southwest (District of Columbia Office of Planning 2019).

Neighborhood conditions play a critical role in shaping people's well-being and the long-term life chances of their children. And compelling research evidence shows that concentrating low-cost housing geographically, and excluding people with lower incomes from well-resourced communities, exacts a high price. More specifically, geographically concentrating households with low incomes can undermine their well-being through four important causal mechanisms: the availability and quality of services, crime and violence, the role of peer groups and social networks, and access to employment opportunities (Turner and Gourevitch 2017).

Limited access to high-quality services and amenities significantly disadvantages families, with poor quality public schools arguably posing the most consequential challenge. Strong evidence links school quality with children's future economic mobility; students attending higher-quality K–3 classrooms achieve higher earnings, college attendance rates, and other improved outcomes by age 27 (Chetty et al. 2010). In addition to school quality, limited access to quality health centers, food markets, parks and recreational facilities, and transit all put residents at a disadvantage.

Exposure to crime and violence can profoundly disrupt child and adolescent development and undermine a person's long-term well-being. Childhood experiences of trauma and abuse are strongly related to future mental and physical health problems, such as alcoholism, cancer, and suicide risk (Boivin and Hertzman 2012). And the impacts extend beyond child development; because trauma stimulates a psycho-physiological stress response that undermines health, residents of all ages who experience or witness violence and disorder in their communities suffer more depression and fearful anxiety (Hill, Ross, and Angel 2005). In addition, research shows that for people with low to moderate incomes, social ties are more confined to the communities in which they live than those of middle- and high-income people, making them more dependent on their neighborhood's social networks for information, services, and mutual support. In distressed neighborhoods, these networks are limited in the opportunities and services they can provide (Tigges, Browne, and Green 1998).

Finally, the long-term decline in manufacturing employment and the suburbanization of jobs have left many central-city neighborhoods physically isolated from job opportunities. The cost of owning and maintaining a car is too high for many low-income people, and in most metropolitan areas it takes people without reliable access to automobiles much longer to reach employment opportunities (Pendall et al. 2014) because of the lack of frequent, safe, public transportation options serving distressed communities and connecting them to areas where jobs are abundant.

The Washington Housing Initiative aims to ensure the continued availability of housing affordable for families with moderate incomes in neighborhoods of opportunity. It targets properties that are home to people with moderate incomes in opportunity-rich neighborhoods now experiencing market pressures and rising rents and allows current residents to remain in their units. In the near term, it enables people to stay in the communities they call home, rather than facing the financial, social, and emotional costs of relocation (Routhier 2018). Over the longer term, ensuring that some housing in these neighborhoods remains affordable can help promote economic inclusion regionwide and expands choices for families with low and moderate incomes.

Other important initiatives link affordable housing preservation to neighborhood revitalization, targeting neighborhoods where incomes and property levels are low and where poor school quality, food deserts, or violence currently threaten residents' quality of life, but where reinvestment and intensifying market pressures promise substantial improvement. These initiatives aim to protect long-term residents from being pushed out of their neighborhoods by rising property values and rents and to enable them to benefit from the amenities and opportunities of revitalization. Preserving housing that is affordable for current and future residents with low and moderate incomes before these neighborhoods become too expensive and exclusive is critical to meeting the region's affordable housing needs. By focusing on less-distressed neighborhoods that already provide access to opportunities, the Washington Housing Initiative complements these efforts, adding to the portfolio of tools and strategies available to expand housing choices and make neighborhoods across the region more inclusive.

How Will Affordability Be Sustained Long Term?

As discussed earlier, public-sector programs that provide subsidies for the production or preservation of affordable housing generally impose restrictions on the rents that property owners can charge. These publicly imposed limits on rent levels last only as long as the financing subsidies—typically 15 to 30 years. This presents serious challenges for public policy because keeping these properties affordable requires a fresh injection of subsidies and accompanying restrictions on rent levels. Many advocates today are looking for models that require or guarantee that property owners will continue to charge low rents in perpetuity in hopes of avoiding expiring subsidy challenges again in the future.

The Initiative's financing and ownership model aims to make its affordability targets permanently sustainable, but it does not mandate affordability beyond an initial 15-year period. Every property acquired and financed by the Washington Housing Initiative will commit to a 15-year affordability covenant, locking in the number of units that will charge rents affordable to low- and moderate-income households. After the property has operated for 10 years, the first mortgage will be refinanced and the junior mortgage will be repaid. By that time, the nonprofit owner will have built up equity in the property and a conventional refinancing will allow it to maintain the original number of units affordable for low- and moderate-income households indefinitely. At the time of initial acquisition and financing, the Initiative projects the property's costs and revenues at the 10-year mark and determines the relative shares of conventional and impact pool financing required to ensure that the affordability mix will be sustainable after refinancing.

The Washington Housing Conservancy does not intend to sell the properties it acquires through the Initiative or to maximize rent revenues once the initial 15-year affordability covenant ends. Other nonprofit owners financed by the Initiative are expected to share this commitment to long-term ownership and affordability. However, the Initiative does not impose permanent deed restrictions guaranteeing affordability for the properties it finances.

Given current market pressures, property values and market rents may rise faster than the assumptions upon which the Initiative's financing is predicated. This would increase the owners' equity by the time of refinancing as well as the rent revenues from the market rate units, potentially allowing owners to make some units affordable for households with lower income levels or increase the share of units affordable for those with moderate income levels. If the Washington Housing Conservancy experiences these benefits, it intends to use the proceeds to acquire more properties and potentially to expand the community-building investments prioritized by residents.

Emerging Housing Preservation Models

The Washington Housing Initiative is one of several innovative models being tested across the country to make existing rental housing in well-resourced neighborhoods affordable for households with a mix of income levels.

All these models acquire existing rental properties and make a portion of the units affordable for households with low to moderate incomes. And they all target properties located in neighborhoods that support residents' well-being and long-term life chances. They differ in their target affordability levels, their reliance on public subsidies, and their ownership structures (Schiff and Dithrich 2017).

Like the Washington Housing Initiative, several of these models raise capital from socially motivated investors to create pools or funds that provide low-cost financing for property acquisition.

The National Housing Trust's High Opportunity Partner Engagement Program, the Opportunity Investment Fund, the Moving to Opportunity Fund, the Housing Partnership Equity Trust, CommonBond's Housing Opportunity Fund, and Turner Multifamily Impact Funds all are raising pooled investment funds. They then draw from these pooled funds to provide either debt or equity financing at concessionary rates for the acquisition and operation of rental properties.

Most of these models rely on local nonprofit organizations to own and operate the rental housing they finance. The Washington Housing Initiative is distinctive in that it includes a newly established partner nonprofit organization: the Washington Housing Conservancy. And the Moving to Opportunity Fund is itself the nonprofit owner of the properties it finances. Some of the models work with local housing authorities as well as nonprofit organizations. And the Turner Multifamily Impacts Funds finance both for-profit and nonprofit owners and retains ownership in some of the properties itself.

Some initiatives featured here work in partnership to finance and operate rental properties. For example, the National Housing Trust worked with CommonBond as a local partner to secure its first property in Minnesota, and with the Community Development Trust as an equity contributor to secure a property in Austin.[11] The National Housing Trust is also a member of the Housing Partnership Equity Trust, which enables it to take advantage of low-cost equity to acquire and preserve affordable housing.

TABLE 1

Emerging Models for Rental Housing Preservation

Initiative	Target locations	Target affordability ranges	Financing provided/offered	Ownership and period of affordability	Public subsidies
Washington Housing Initiative *Finances the acquisition of unsubsidized rental properties in appreciating neighborhoods and keeps the majority of units affordable for households with low to moderate incomes.*	Washington, DC, region—areas appreciating quickly and offering access to transit, fresh and healthy foods, good schools, and rental housing	20 percent for incomes at or below 50% of AMI and 55 percent for incomes 50%–80% of AMI; *or* 40 percent for incomes at or below 60% of AMI and 35 percent for 60%–80% of AMI	Subordinate financing at below-market interest rate from an impact pool raised from private investors	Nonprofit owners (including Washington Housing Conservancy) 15-year affordability covenants	Housing Choice Vouchers accepted but not required for financial feasibility
National Housing Trust's High Opportunity Partner Engagement (HOPE) Program *Acquires and converts market-rate rental properties into mixed-income communities in collaboration with housing authorities and other local partners.*	National—neighbor-hoods with high-performing public schools	20 percent of units reserved for Housing Choice Voucher holders (at 30%–50% AMI) with elementary school–age children	Secondary debt with below-market interest rate or equity financing from a pool raised from private investors and philanthropic program-related investments	Local housing authorities and nonprofit owners; trust retains partial ownership when providing equity Deed of trust or guarantee from developer when financed through debt	Housing Choice Vouchers
Opportunity Investment Fund *Offers developers low-cost financing to buy and convert multifamily properties into mixed-income communities.*	Chicago metropolitan area—high-opportunity areas, as defined by local housing authorities	20 percent of units reserved for families with incomes below 50% of AMI	Mezzanine debt with below-market interest rate from an invest-ment fund raised from the City of Chicago, local nonprofits, and banks; plus equity financing if developers maximize private mortgage debt	Housing authorities and nonprofit owners Affordable for at least 15 years	Project-based vouchers, tenant-based vouchers, or another form of operating subsidy

Initiative	Target locations	Target affordability ranges	Financing provided/offered	Ownership and period of affordability	Public subsidies
Moving to Opportunity Fund *Acquires high-quality rental properties in neighborhoods with high-performing schools and makes a portion of units affordable for housing voucher recipients.*	National—communities with high-performing public schools	10–20 percent of units reserved for extremely low–income families with infant children previously living in neighborhoods with poverty rates of 30 percent or higher	Equity from a pooled fund raised from foundations, wealth management groups, high-net-worth individuals, and (ultimately) mainstream investors	MTO Fund owns and operates the properties Long-term affordability commitment	Housing Choice Vouchers
CommonBond Communities' Housing Opportunity Fund *Acquires multifamily rental properties in competitive markets for families and seniors with low to moderate incomes.*	Minneapolis–St. Paul metropolitan area—competitive market locations	Families and seniors with low to moderate incomes (typically households up to 80% AMI)who do not qualify for federal housing assistance	Debt financing from an investment fund raised from social impact investors, foundations, and financial institutions	CommonBond maintains long-term ownership of the properties	None
Housing Partnership Equity Trust (HPET) *Partners with affordable housing developers and providers to acquire and preserve properties as workforce housing.*	National—areas with access to job centers, retail, grocery stores, parks, high-performing schools, Head Start programs, community health centers, and transit	Households with incomes between 50 and 80 percent of AMI	Long-term low-cost equity and debt capital from a pooled investment fund raised from banks and philanthropic organizations, backed by the MacArthur Foundation	Nonprofit owners; HPET often retains ownership Financing allows nonprofit to maintain long-term ownership and thus affordability	None, but may facilitate LIHTC syndication through nonprofit partners

Initiative	Target locations	Target affordability ranges	Financing provided/offered	Ownership and period of affordability	Public subsidies
Community Development Trust *Provides financing for affordable housing preservation, and partners with regional investors (such as HPET and NHT) as a REIT.*	National—generally areas with public transit, grocery stores, schools, community facilities, and social services	Households with incomes between 50 and 80 percent of AMI (varies by property)	Long-term equity and debt financing (including secondary-market purchaser of mortgages)	CDT generally maintains 80–90 percent ownership; remaining 10–20 percent is owned by nonprofit or for-profit partner 15–20 years for LIHTC deals; longer term of affordability likely based on subsidy commitments	Portfolio includes LIHTC developments, properties with existing or expiring project-based Section 8 contracts and state or local affordability restrictions
Turner Multifamily Impact Funds *Acquires and preserves naturally occurring affordable housing for moderate-income households.*	National—densely populated, diverse communities close to employment centers and transit	Moderate-income households	Low-cost equity and debt capital from a private-market social impact investment fund	Turner Multifamily Impact retains ownership of some properties	None
Atlanta Affordable Housing Fund *Provides financing for affordable housing preservation and development.*	City of Atlanta	Renters and homeowners between 30 and 120 percent of AMI (varies by property)	Gap/mezzanine financing at low interest rates from a fund raised from high-net-worth individuals, foundations, and corporations	Nonprofit and mission-driven for-profit owners Period of affordability varies by deal; some include affordability covenants; 15 years if financed through LIHTC	LIHTC, local affordable housing funds, Opportunity Zone funding

An important distinction among these models is that some aim to serve households with very low or low incomes and therefore must rely upon public subsidies, while others primarily aim to serve households with moderate incomes and do not require public subsidies. The Opportunity Investment Fund reserves a portion of the units in every property for households with incomes below 50 percent of the AMI and incorporate operating subsidies through project-based housing vouchers or local subsidies. The Moving to Opportunity Fund and the National Housing Trust's HOPE program both have the goal of making housing in high-opportunity neighborhoods available for Housing Choice Voucher recipients. Therefore, they use the concessionary financing to reduce the rents of 10 to 20 percent of units in every property to the local voucher payment standard, while all the remaining units rent at market rates. All the other models featured here are more similar to the Washington Housing Initiative in that they rely upon social impact financing and not public subsidies, and target affordability for households with moderate income levels rather than those in the lowest income bands.

All these models aspire to create the conditions for long-term sustainability of their respective affordability targets. Most include affordability covenants or guarantees in their financing—typically for 15 years. But, more important, they structure the financing for each property so that the mission driven owners (whether nonprofit organizations or local housing authorities) can maintain the original mix of affordability levels even after the concessionary debt or equity contributions have been repaid.

Most of these models support the acquisition of previously unsubsidized rental properties. Like the Washington Housing Initiative, the King County Housing Authority, the Opportunity Investment Fund, the CommonBond Housing Opportunity Fund, and the Turner Multifamily Impact Fund target older, unsubsidized properties that currently serve households with low and moderate incomes but face market pressures likely to make them increasingly unaffordable. In contrast, the MTO Fund targets newer, high-end rental properties with the goal of making some of their units accessible to Housing Choice Voucher recipients. And the Housing Partnership Equity Trust and the Community Development Trust both target properties financed with Low Income Housing Tax Credits that are nearing the end of their 15-year affordability commitments.

Several models have established very explicit criteria for identifying high-opportunity neighborhoods. For example, the National Housing Trust's HOPE program targets areas with schools ranked 7 or above on the GreatSchools index, outperforming peers in at least two subject areas, and in top quartile of state's ranking of elementary schools. The Opportunity Investment Fund targets neighborhoods where 20 percent or fewer families have incomes below poverty, where the violent crime rate is low or declining, and where the share of subsidized rental housing is low. In contrast, the Atlanta Affordable Housing Fund finances properties throughout the city.

As these emerging models gain experience and scale, they all warrant ongoing monitoring and evaluation to assess their respective contributions. Key questions include their ability to attract private capital and the returns they have to offer to their investors, the number of properties (and units) they are able to preserve, the quality of the housing and community conditions they offer to households with low and moderate incomes, and the long-term sustainability of their affordability targets.

Looking Ahead

The Washington region—along with many other prosperous urban areas across the US —faces serious housing challenges that undermine the well-being of many residents and could weaken long-term prospects for economic growth and prosperity. Today, these longstanding challenges are exacerbated by the economic downturn resulting from the coronavirus pandemic, the depth and duration of which is unknown. There is no silver bullet solution to these challenges, either in the immediate near-term or as the region returns to economic health. Creating a housing market that meets the needs of households across the income spectrum requires policy reforms and investment from federal, state, and local governments to preserve existing housing affordable for households with low incomes, produce more housing at every cost band, and protect both renters and homebuyers from discrimination and involuntary displacement.

Business, philanthropic, and nonprofit leaders can make valuable contributions to the portfolio of housing policy tools and investments. The Washington Housing Initiative joins a small group of innovative models that raise and deploy private capital to preserve rental housing and make opportunity-rich neighborhoods more affordable and inclusive. The Initiative's model does not draw upon scarce public resources dedicated to producing and preserving housing affordable for households at the lowest income levels. Instead, it aims to attract new sources of private capital to preserve the region's dwindling supply of unsubsidized moderate-cost rental housing. This model could expand in scale over time. As properties in the Initiative's portfolio appreciate and market rents rise, they will be refinanced with no contribution from the impact pool required to sustain affordability. This will free up impact pool resources to finance further acquisitions, both by the Washington Housing Conservancy and by other local nonprofit housing providers.

If the Washington Housing Initiative collaborates and partners effectively with other local institutions and initiatives, it can fill a critical gap in the portfolio of regional efforts to create a housing market that serves all the region's residents. Moreover, as the nation recovers from the coronavirus recession, this model warrants consideration in other urban regions facing the pressures of growth and potential displacement. It is by no means a substitute for expanded public sector investment in the preservation and production of affordable housing, but it can be an important complement.

Notes

[1] The CEO of JBG Smith, W. Matthew Kelly, is a member of the Urban Institute's board of trustees. Trustees do not influence research findings or the insights and recommendations of Urban experts.

[2] The Washington region comprises Washington, DC; the cities of Alexandria, Fairfax, Falls Church, Manassas, and Manassas Park in Virginia; Charles, Frederick, Montgomery, and Prince George's Counties in Maryland; and Arlington, Fairfax, Loudoun, and Prince William Counties in Virginia.

[3] All these metro areas had between 1.9 and 3.5 million jobs in 2017.

[4] Census tracts were classified based on their recent housing market conditions and the trajectory of change since 1990, as well as on their demographic change since 2000 (Turner et al. 2019).

[5] Kimberly Driggins recently joined the conservancy as its executive director.

[6] The Initiative is also considering using data from Opportunity Atlas to reflect potential outcomes for residents.

[7] JBG Smith is a major real estate development and management company working in the District of Columbia and the surrounding suburbs. Its properties include 500 L'Enfant Plaza, SW, where the Urban Institute is headquartered.

[8] Many of these residents may currently be paying rents above 30 percent of their incomes.

[9] There is considerable debate today among housing market experts, advocates, and practitioners about whether increased supply of middle- to high-cost housing actually "filters down" to expand the availability of lower-cost housing. For two excellent discussions of this debate, see Rick Jacobus, "Housing Doesn't Filter, Neighborhoods Do," *Shelterforce*. November 4, 2016, https://shelterforce.org/2016/11/04/housing-doesnt-filter-neighborhoods-do/; and Been, Ellen, and O'Regan (2018), which reinforce the argument for expanding the availability of moderate-to-middle-cost housing.

[10] The District of Columbia is considering the implementation of a local rent supplement program that would be similar to the federal Housing Choice Voucher Program.

[11] "NHT-Enterprise Closes on First Transaction under High Opportunity Initiative," National Housing Trust, news release, July 24, 2017, https://www.nationalhousingtrust.org/news-article/nht-enterprise-closes-on-first-transaction-under-high-opportunity-initiative; "CDT Teams with Austin Affordable Housing Corp., National Housing Trust and The Kresge Foundation to Purchase $70 Million, 452-Unit Apartment Complex," GlobeNewswire, July 2, 2019, https://www.globenewswire.com/news-release/2019/07/02/1877537/0/en/CDT-teams-with-Austin-Affordable-Housing-Corp-National-Housing-Trust-and-The-Kresge-Foundation-to-purchase-70-million-452-unit-apartment-complex.html.

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