Attachment A: Preliminary Analysis of Potential Equitable Housing Investment Strategies and Program Options

August 28, 2017

The below summary describes three potential investment strategies that have been evaluated by Planning staff with economic and analytical support from David Rosen & Associates. Within each strategy, you will find description of specific program options that could be included, advantages/challenges of the overall approach and specific tools, other resources that could be leveraged, operational considerations, and additional research needs.

In order to respond to the range of needs and contexts across the region, we anticipate that a regional equitable housing investment program would incorporate all three of the below strategies described below—each likely including multiple programmatic options targeting different income levels. Most of these programmatic options are fairly scalable; however, start-up and overhead costs will vary. All strategies and program options would benefit from alignment with and leverage of existing affordable housing funding and investment programs.

More detail on the specific program options described within these strategies is available in the attached table.

Strategy #1: Anti-displacement and community stabilization (land/building acquisition)

Program Elements: *Land acquisition, acquisition and rehabilitation of existing regulated and unregulated affordable housing, and gap financing to create or preserve housing opportunities for households at 0-80% of area median income (AMI) in locations with high displacement risk and/or access to transit, opportunities, and amenities.*

In order to create and preserve affordable housing in locations with high displacement vulnerability and strong value capture potential from planned public investments (such as new transit corridors) or anticipated market changes, this strategy could include both land acquisition for new construction of affordable housing and funding for acquisition, rehabilitation, and preservation of existing regulated and unregulated affordable housing. Given the multi-dimensional nature of displacement vulnerability, a regional approach could ensure that investments are made within a comprehensive regional framework that is grounded in an equity approach, while also being tailored to geographic dynamics and responsive to local challenges and specific site opportunities.

This strategy provides flexibility to respond to variations in market dynamics over time and across different submarkets. In the short term, it provides the ability to respond to displacement pressures, helping to protect tenants from rent increases and address habitability issues in existing naturally occurring affordable housing. In the medium and long term, it provides opportunities to ensure that the benefits of public investments in transportation, parks, and economic development are captured for vulnerable, historically underserved groups by acquiring land in key locations, such as new transit corridors or growing employment centers.

For projects affordable at or below 60% of AMI, also provides opportunities to leverage 4% Low Income Housing Tax Credits, an underutilized, noncompetitive federal resource. Additional gap financing would be required to support higher density projects (for the land acquisition strategy) and projects in higher cost locations (for the preservation strategy).

Alternative Approach. A preservation strategy targeting moderately affordable housing could be supported by an affordable housing preservation loan fund created through in partnership with banks, community development finance institutions, foundations, and other public agencies, similar to the model presented by the Twin Cities' NOAH Impact Fund. Because private investors would likely require a limited return, this strategy would more appropriately target housing that is slightly below market, affordable to households with incomes between 60 and 100% of AMI. Due to the higher income targets, such a strategy would not be eligible to leverage noncompetitive 4% Low Income Housing Tax Credits. Meyer Memorial Trust is currently exploring a real estate investment trust to invest in preservation of naturally occurring affordable housing. Network for Oregon Affordable Housing (NOAH) has an existing $31 million acquisition loan program. Given these existing regional resources and discussions, and given the time it would take to develop a loan structure that would meet all partners' needs in terms of risk tolerance and expectations for return, we do not believe creation of a multi-partner loan structure is the best focus for a new regional effort. However, there is opportunity to work with these and other partners to explore coordinated investment strategies for preservation, or to generate new regional resources to invest in an existing fund.

Operations. Land acquisition aligns with existing activities within Metro's Transit Oriented Development (TOD) program, such as the model used for the Furniture Store development at SE 82nd and Division in Portland. However, increasing activity at this scale would require additional legal and development staff capacity, as well as partnerships with other agencies to perform income monitoring and compliance. An affordable housing preservation strategy, on the other hand, would require more analysis of needs related to naturally occurring affordable housing and emerging best practices to design and implement an effective strategy; as well as discussions with existing funders working together on preservation of existing regulated affordable housing. Whether administered by Metro, by local jurisdictions, or by housing authorities, this strategy would likely take the form of grants to nonprofits to acquire and preserve existing projects that meet specific criteria.

Additional research needs:

- Displacement vulnerability mapping framework
- Analysis of naturally occurring affordable housing to understand capital needs, acquisition opportunities, and existing tenants
- Research on emerging best practices for preservation of naturally occurring affordable housing
- Analysis of existing funding/programmatic gaps for preservation of regulated affordable housing
- Analysis of racial equity impacts

Strategy #2: Flexible gap financing, homelessness prevention and deep affordability

Program Elements: *Flexible gap financing to support traditionally financed projects at 0-60% AMI, which face widening subsidy gaps due to rising construction costs and uncertainty in the tax credit equity market. This strategy could be coordinated with housing authorities' project-based rental assistance vouchers to include some units with deeper affordability to serve households with incomes at 0-30% of AMI.*

A regional program could support existing state and federal programs to subsidize the development of deeply affordable housing aimed at helping households at a range of income levels from 0-60% of area median income. With an estimated regional deficit of 36,300, the greatest need for affordable housing is at the 30% AMI level and below. However, affordability at this level is really only achievable with a permanent operating subsidy such as rental assistance vouchers, of which there is a limited supply susceptible to federal budget cuts. Additionally, many households at or under 30% of AMI may require permanent supportive services which cannot be funded with GO bond proceeds.

Program elements targeting 0-30% AMI could specifically target investments to support individuals and families who are currently homeless or at risk of becoming homeless, as well as seniors and people with disabilities. It could include coordination with social service investments to provide permanent supportive housing for the most vulnerable, chronically homeless and service-dependent groups, including people with disabilities. The tradeoff of deep subsidies is that benefits are limited to a small number of people. Given that this approach relies primarily on existing federal funding, it presents limited opportunity to influence the location of future affordable housing and to coordinate housing investments in a way that responds to market pressures and captures value from planned investments in other forms of infrastructure.

Alternative Approach. An alternative approach that was considered but is not recommended would be to use a regional funding program to increase funding for rental assistance. Staff do not recommend rental assistance for a regional investment program because this tool requires a permanent ongoing funding stream at a scale best supported by the existing federal voucher program, and because it doesn't increase the supply of permanently affordable housing units.

Operations. A gap financing program has a fairly low administrative burden and could be administered by Metro or by a local jurisdiction or housing authority. There is less overlap with other Metro programs and policy frameworks, so it is unclear what advantage regional administration would have over local administration. Because this program primarily targets existing units under construction, there is limited value in regional coordination beyond the pursuit of a shared revenue source. One approach might be to use new resources to offset the cost of local affordable housing incentives such as tax exemptions and fee waivers.

Additional research needs:

- Analysis of existing federal, state, and local financing tools, and existing project pipeline, that a gap financing program would complement
- Analysis of existing social services capacity to complement investments in permanent supportive housing
- Analysis of racial equity impacts

Strategy #3: Mixed income communities and shallow subsidy

Program Elements: *Financial incentives for inclusion of affordable and "below market" units, typically 60-80% AMI, in new private market residential developments. Incentives could be tailored to local community needs in terms of what income level is served and whether the program is more targeted at private or nonprofit developers.*

A regional strategy could provide scalable financial incentives to support development of "below market" (typically 60-80% AMI) units in new transit oriented developments for which market rents typically run 80-120% AMI or higher. Such a strategy could offset the cost for developers to provide reduced rents for a fixed term. Essentially, this would serve as a voluntary inclusionary housing program—except in locations where jurisdictions have adopted a mandatory inclusionary zoning requirement, where it would serve as an additional incentive for developers to participate. Such a tool would need to be calibrated to local market conditions, but could be a key tool to support income diversity in high-opportunity locations—something which has been shown to lead to better economic and health outcomes among low- and moderate-income residents. There are currently limited existing local, state, and federal resources that support development of housing affordable at these income levels.

In comparison to other programs that leverage traditional federal, state and local funding for affordable housing, investing in moderately affordable or "below market" housing would make it easier to leverage private investment. It would provide a measure of affordability relief to a greater number of people in more locations distributed throughout the region; however, this strategy does not target the income levels where need is greatest. Our analysis does not show any deficit of housing at 50-80% AMI, however, people in this income category "rent down", therefore exacerbating the shortage of 0-60% units[1] A developer incentive program could help to round out a regional investment program to support the creation of housing at a range of affordability levels, and to leverage private investment to support our policy objectives.

Operations. Metro's Transit Oriented Development program staff have the expertise to administer an incentive program, and some local agencies have staff capacity to administer a program, but might benefit from technical assistance. Such a program would pose a higher administrative burden to monitor income compliance for a large number of units, so would likely require a fee-for-service partnership with housing authorities or another third party to perform income verification and monitoring.

Additional research needs:

- Regional sub-market analysis to understand sensitivity to various incentives

[1] 2010-2014 Comprehensive Housing Affordability Strategy database (CHAS), U.S. Department of Housing and Urban Development (HUD) and U.S. Census American Community Survey (ACS).

Strategy	Program Component	Hypothetical maximum target affordability** and locations	Hypothetical rental units produced per $1M invested	Existing finance tools that could be leveraged	Strengths	Limitations
Anti-Displacement and Community Stabilization (Land/Building Acquisition)	**Land Acquisition** Metro could acquire land for affordable housing development in high-opportunity locations that are well served by transit and make it available to affordable housing developers and land trusts through a competitive process. This strategy could include a gap financing component to make higher density construction types pencil out.	60% AMI Medium cost areas where affordable housing developers are outbid by market rate developers	Land for 29 units ($35,000 per unit) Land and construction of 17 units) ($60,000 per unit) (1)	• 4% and 9% Low Income Housing Tax Credits (LIHTC) • Oregon Affordable Housing Tax Credits (OAHTC) • Metro TOD funds	• Ability to deliver affordable housing in areas with good transit and other opportunities • Flexibility to respond to variations in market dynamics • Leverages readily available 4% LIHTC to cover approximately 30% of construction costs • Ability to use competitive RFQ process to get best projects from non-profit and for-profit developers • Metro experience with this model (TOD Program Furniture Store acquisition) • Strong role for regional coordination	• Requires sufficient regional gap financing capacity to ensure that land is able to be developed after it is acquired • Construction types beyond wood frame construction would require additional subsidy • Requires staff and broker capacity to identify sites and negotiate with property owners • Lack of a substantial amount of transit served vacant properties. • RFQ process leads to long timelines from acquisition to delivery of new affordable units
	Acquisition/preservation of naturally occurring affordable housing Grant funding to housing authorities, non-profit developers, and land trusts to acquire and preserve naturally occurring affordable housing in locations with high vulnerability for economic displacement. An alternative approach would be to create a structured, multi-partner fund to provide low-cost loans. While this approach could help catalyze broader collaboration, it is not recommended due to existing partner efforts and the time that would be required to create a fund that met all public and private investors' needs in terms of tolerance for risk and expectations for return.	60% AMI Low (and medium) cost areas expected to experience rising rents and medium cost areas (larger subsidy required) 80% AMI Low cost areas experiencing rising rents and medium cost areas	40 units ($25,000 per unit) (2) 100+ units (3)	• 4% Low Income Housing Tax Credits (LIHTC) • Network of Oregon Affordable Housing (NOAH) Acquisition Loan program	• Ability to target areas and populations at risk of displacement • Ability to coordinate with transit planning • Leverages readily available 4% LIHTC to cover approximately 30% of acquisition and rehab costs • Potential to support rehabilitation and permanent affordability in poorly managed or deteriorated properties • Relatively simple to administer and scale up • Strong role for regional coordination	• Much larger/prohibitive subsidy required where market rents are substantially higher than restricted rents • Affordability below 60% AMI requires additional subsidy or sources • Traditional funding is biased toward new construction; lack of focus on preservation (particularly of NOAH) • Acquisition and rehabilitation of occupied buildings requires skilled and experienced partners.
Flexible gap financing, homelessness prevention and deep affordability	**Gap Financing for deeply affordable housing** Gap financing to affordable housing developers to close the financial gap for existing affordable housing projects at 60% AMI, or to buy deeper affordability to reduce rent in planned or existing LIHTC projects from 60% AMI to 30% AMI.	30% AMI Existing or planned affordable projects throughout region 60% AMI Medium cost areas where affordable housing developers are outbid by market rate developers	13 units ($75,000 per unit) (4) 17 units ($60,000 per unit) (1)	• 4% and 9% Low Income Housing Tax Credits (LIHTC) • Oregon Affordable Housing Tax Credits (OAHTC) • Rental assistance	• Serves most vulnerable population • Potential to coordinate with social services and rental assistance to provide permanent supportive housing	• Does not create additional units • Lowest income tenants would still need rental assistance vouchers or income source to afford 30% AMI rents • Limited role for regional coordination
Mixed Income Communities and Shallow Subsidy	**Financial incentives for mixed-income housing** Financial incentives for private developers to include affordable units in otherwise market rate projects located in high-opportunity areas that are well served by transit.	80% AMI Greatest impact in higher cost areas with inclusionary zoning (IZ)	29 units ($35,000 per unit) (5)	• Private investment • Metro TOD funds	• Supports mixed-income buildings. Mixed income communities have been shown to lead to better economic and health outcomes for low-income households • Leverages private investment • Potential to support mandatory inclusionary zoning (IZ) program • Spreads affordability throughout the region	• Absent mandatory IZ policy, must pay developer full cost of difference between market and affordable rent, leading to high cost per unit in expensive markets. • Requires market analysis to ensure that incentives are properly calibrated for varied local market conditions • High administrative burden due to the need to monitor compliance across a larger number of units

*Deeper affordability or higher cost areas would require more subsidy per unit.
**Target affordability levels reflect maximums for hypothetical unit production estimates. It is anticipated that a program would actually target income ranges (e.g., 0-30% AMI, 30-60% AMI, 60-80% AMI).

(1) Based on estimated land cost of approximately $35,000 per unit (and full gap subsidy for development of $60,000 per unit affordable at 60% AMI), assuming: new construction of wood-frame low rise flats (Prototype 2), medium cost scenario, 4% tax credit leverage (no basis boost).
(2) Based on estimated gap subsidy of approximately $25,000 per unit for acquisition of existing multifamily units affordable at 60% AMI assuming: 50% each 1 BR and 2 BR units, medium cost scenario, 4% tax credit leverage.
(3) Based on estimated gap subsidy of approximately $7,000-$10,000 per unit for acquisition of existing multifamily housing affordable at 80% AMI assuming: low to medium cost areas, no leverage.
(4) Based on estimated gap to bring a 60% AMI unit to 30% AMI, assuming: new construction of wood-frame low rise flats (Prototype 2), medium cost scenario, 4% tax credit leverage.
(5) Based on estimated gap to bring a market rate rental unit to 80% AMI assuming: 50% each 1 BR and 2 BR units, medium cost scenario, no leverage.
(6) Net present value at 6% discount rate of 60 year of rental assistance to bridge the gap from market rents to 30% AMI rents in middle cost areas assuming: 50% each 1 BR and 2 BR/2BA units. Average subsidy cost is $363,700 per unit.