

As part of BRIDGE Housing's 25th anniversary year, experts convened at two policy forums in Los Angeles and Berkeley. The objective: to address the state's affordable housing challenges. The organizers brought together a variety of industry leaders to engage in provocative discussions and potential solutions. Four research papers on critical topics were commissioned for the forums:



Affordable Housing Policy Forum

Turbulent economic times present grave challenges to the production of housing that working families and seniors can afford, and current programs seem to be outpaced by rising demand. Indeed, despite the tremendous growth in housing during the economic expansion of the 1990s, an estimated 13 million renter and homeowner households now pay more than half of their yearly incomes for housing. At least 6 million households live in overcrowded conditions and one of every seven poor families lives in severely physically inadequate

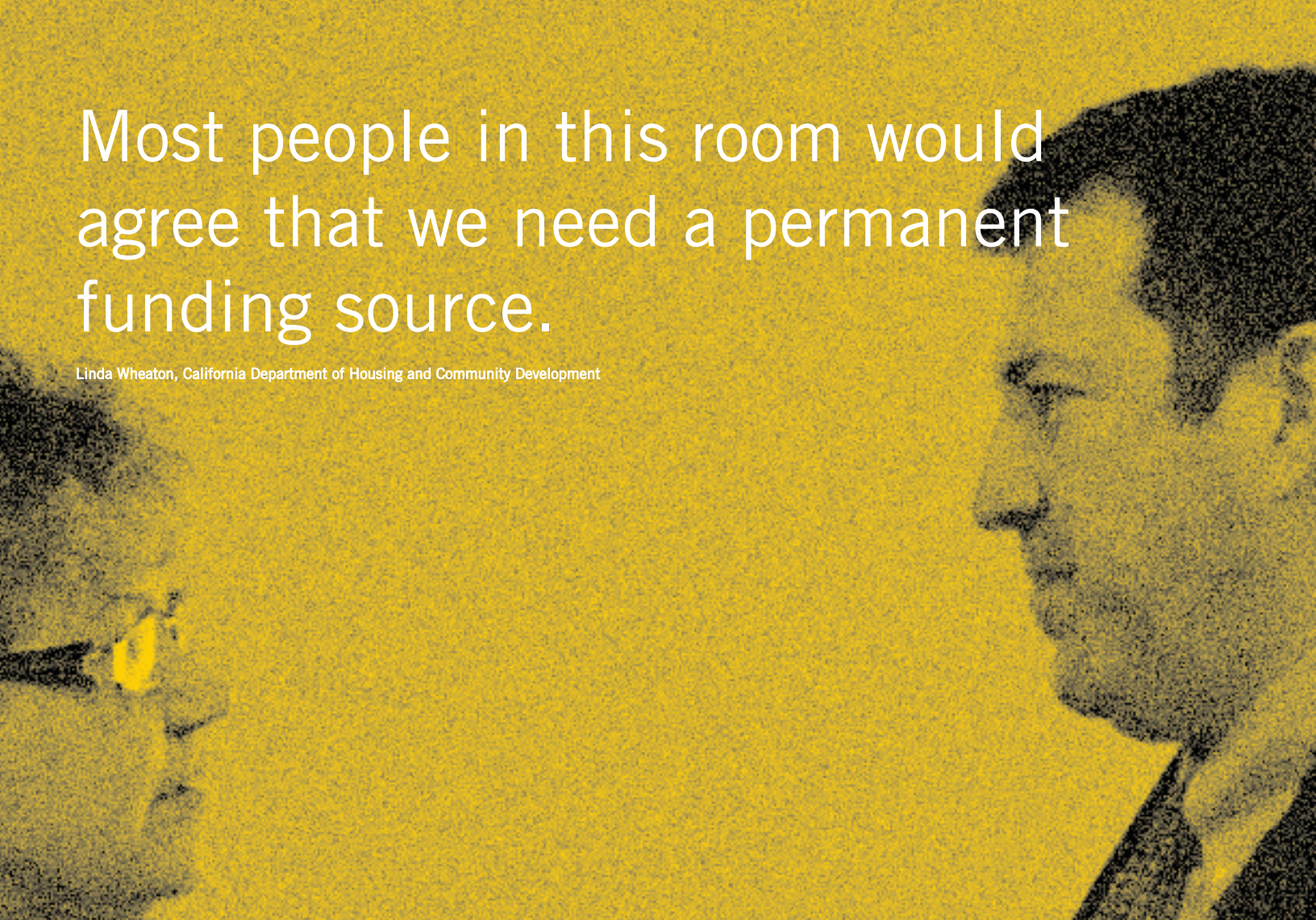
housing. Meanwhile, production of affordable housing has been diminished by the weakening demand for low-income housing tax credits, the primary source for funding development of affordable homes.

Although the presentations at these 2009 forums focused on the California experience, the ensuing discussions covered a broad array of implications and opportunities of national relevance.

Housing Affordability in California

CYNTHIA A. KROLL AND JENNY WYANT, UNIVERSITY OF CALIFORNIA AT BERKELEY

Cynthia Kroll, Senior Regional Economist at the Fisher Center, presented an analysis of current trends in affordable housing in California. The factors that influence affordability—housing prices, rents, and income—have been quite variable over time. California home prices over 30 years have diverged upward from U.S. prices, although periods of sharp increases have been followed by downward adjustments. Rents also have risen relative to the U.S. averages, but incomes have been converging downward towards the national level. These general trends mask wide differences across the state.



Most people in this room would agree that we need a permanent funding source.

Linda Wheaton, California Department of Housing and Community Development

In their analysis, Kroll and Wyant considered three definitions of affordability: (1) the proportion of households spending 30 percent or more of their incomes on housing; (2) the percentage of a full-time wage that a 25th percentile or median wage earner requires to pay the fair market rent for housing; and (3) the salary remaining after such earners pay fair market rent.

The authors also considered funding sources including Section 8 rental vouchers, tax increment financing, low-income housing tax credits, block grant funding, and sources such as the Housing and Emergency Shelter Trust Fund, Proposition 46 and Proposition 1C.

Among the paper's key findings:

- A strong link between unemployment and affordability; if unemployment worsened, so did affordability.
- Improved affordability where the per capita level of low-income housing tax credits and tax increment financing were higher.
- Correlation of high levels of CDBG and HOME funding with worsening affordability.

From the overall measures of affordability, things in California have worsened, at least from 2002 to 2007. At the same time, there have been significant improvements in certain parts of the state. But it is notable that the most successful programs for improving affordability are those that have worked best in strong economic markets.

In answer to the question, "Does funding follow need?" the authors found that influential factors varied by funding source. Places with poorer rental affordability had higher levels of funding from Section 8, tax credits, and housing and emergency housing and shelter trust funds. Meanwhile, places with poorer homeowner affordability had higher levels of tax increment and block grant funding. They also found that nonprofit housing capacity was associated with greater funding from tax increment financing, low-income housing tax credits and block grants.

This paper raised a number of new questions: What kinds of programs will work in a down market? Do we need to have both homeowner and rental policies? Low vs. middle income? And what about the jobs-housing balance?



How far are people willing to travel for work and for affordability?

Ron Nahas, Rafanelli & Nahas, BRIDGE Board Member

Among the policy recommendations that emerged:

- The need for a permanent dedicated, reliable funding source for affordable housing.
- Shorter permitting processes: currently, the time between the award and actual occupancy and the ripple effects of that on the economy is substantial.
- Targeting and customizing the use of financing sources available in a given community, in a given region.
- A ballot measure to lower voter threshold so local housing bonds could pass at a 55 percent level instead of the two-thirds level in many communities.
- More rigorous enforcement of housing elements.





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New or Rehab: Striking a Balance Under California's Housing Standards

LARRY ROSENTHAL, UNIVERSITY OF CALIFORNIA AT BERKELEY AND DAVID LISTOKIN, RUTGERS UNIVERSITY

Although many affordable housing units have been produced through rehabilitation of existing buildings, the bias in the industry and public eye seems to favor new construction as the most efficient means of supplying affordable housing.



You can't have one size fits all. Rehab and new construction are typically pursuing extremely different goals that address different kinds of housing problems.

Jack Gardner, The John Stewart Company

Key Findings:

- Rehab appears to cost substantially less per unit in California and the U.S.
- In California, operating costs for rehabbed units appear higher
- New and rehab construction have similar impacts on job creation

The dominance of new construction in affordable housing is due in part to incentives established by financing sources. Tax credits are greater for new construction because acquisition costs for new sites rate more credits than purchase of existing buildings for rehab. Another factor is that real estate deals involving rehab tend to be idiosyncratic projects, not readily replicable on a larger scale.

However, the authors found that rehab can be a viable and sometimes preferable means of producing affordable homes. Rehab can cost substantially less than new construction. In addition, rehab can yield other benefits, such as preserving neighborhood qualities, efficiently

reusing existing structures and bolstering surrounding property values. Rehab rarely changes existing land use, removing an obstacle often met by new construction, and can foster the walkable neighborhoods and transit-oriented development desired by many communities.

For some developers, rehab raises specters of expensive surprises. It poses questions about costs of the degree of rehabilitation required--cosmetic fixes, replacement of basic fixtures, or committing to a gut rehab. Developers fear the escalation of costs as renovations reveal unknown problems within the "opaque walls" of existing buildings. Budget contingencies for such problems often fall short of reality.

Another cost not encountered by new construction is when relocation of existing residents is required. Even if rezoning is avoided, entitlement risks may become problematic if neighbors are leery about the effects of development or if public infrastructure requires improvements.



The strategic choices we make today will shape what the neighborhood is going to be like for decades.

Don Falk, Tenderloin Neighborhood Development Corporation

Among the policy recommendations that emerged:

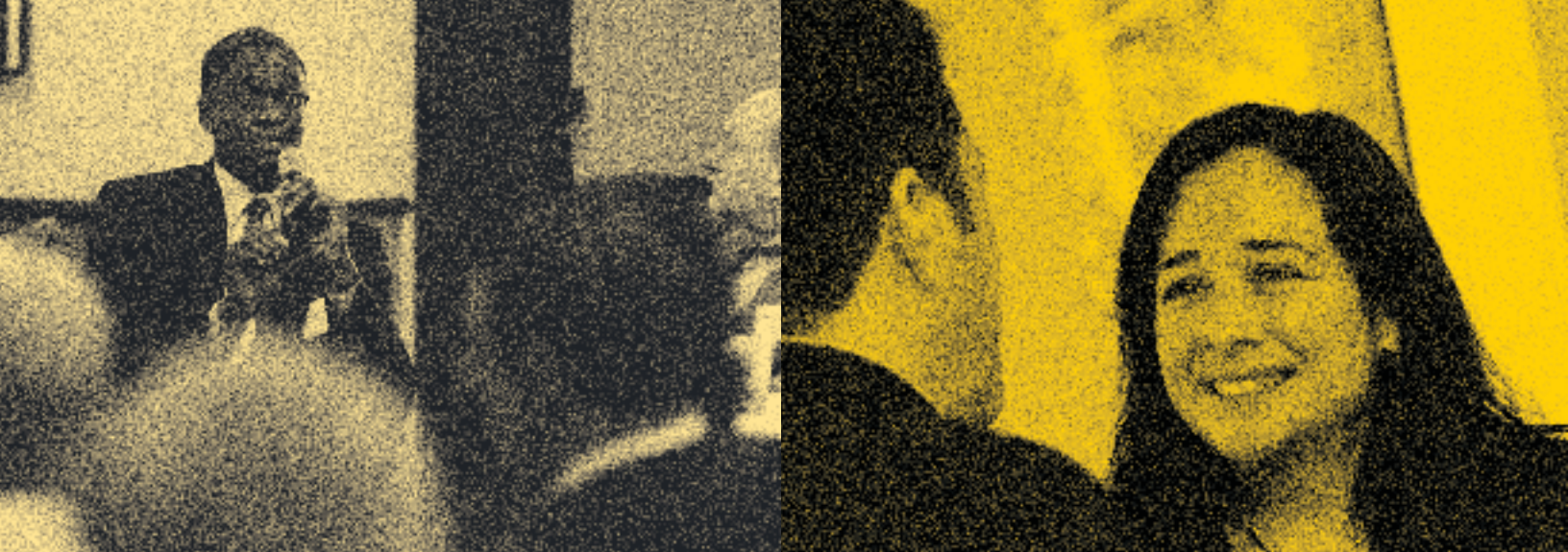
- Local jurisdictions should be allowed to determine rehab vs. new construction policies, because there are local differences in demand and rationale.
- Decisions to encourage or discourage rehab should quantify public benefits, such as years of service of a property at a given affordability level.
- The cost implications of the 10-year hold rule in the tax credit program is among the current impediments to rehab.
- Tweak the federal tax credit program to make rehab more remunerative to investors.
- More tax credits go to developments with three- and four-bedroom units, which can be hard to achieve in a rehab. Jurisdictions should be able to assess whether larger units are the highest priority.



The Mixed-Income Housing Conundrum

RAPHAEL BOSTIC, SCHOOL OF POLICY, PLANNING AND DEVELOPMENT, UNIVERSITY OF SOUTHERN CALIFORNIA

In this paper, Bostic began by noting the correlation between rising housing costs and out-migration from California. Mixed-income developments, in addition to providing much-needed affordable housing, can help to even out the jobs-housing balance, strengthening the state's economy and making it a more competitive place for employers.



If anybody ever tells you that mixed-income development inhibits marketing of the market-rate units, do not believe them.

Bill Witte, Related California

Given the high land and construction costs of many California cities, mixed-income development usually requires financial subsidies. However, the state has leveraged its housing subsidies to create the most affordable housing possible, imposing funding formulas that favor production of housing for family incomes below 80 percent of the area median.

This trend stands in stark contrast to preferences of most communities, which prefer developments that do not concentrate low-income households in large buildings. Mixed-income development is an attractive solution, more likely to produce sustainable communities that do not place undue burdens on public services.

The conundrum of program vs. preference calls for development approaches that can build mixed-income projects that are non-subsidized or that leverage targeted government subsidies. The key challenge is enabling cross-subsidies from higher-rent units to lower-rent units.

The paper named the following “secrets to success” of mixed-income developments:

- Availability of large central parcels.
- Locations that were already challenged by concentrated poverty or other issues that made redevelopment desirable.
- Proximity to valued amenities, transit, jobs.
- Creative and professional developers and property managers.

Bostic concluded that these characteristics can make it possible to achieve cross-subsidies from market-rate to affordable units. This may require changing the rules of major subsidy programs, such as altering point allocations to reward mixed-income project proposals, or establishing separate set-asides for mixed-income projects. An additional incentive could be allowing density increases to meet developer return thresholds.



Among the policy recommendations that emerged from the discussion:

- When a jurisdiction has a large tract of land to work with, there should be a mandate to set aside some of it for affordable housing.
- To achieve a mix of incomes in a traditionally low-income neighborhood, you must produce the amenities, services and schools to support the income mix.
- To steer real estate development to transit-oriented locations and to serve a mix of incomes that includes below or entry-level market, we may have to subsidize it in some places, perhaps with transportation dollars.
- Developers need to work more closely with the environmental community to find ways to encourage urban infill housing and discourage sprawl.
- Rethink the prevailing wage requirement that comes with many subsidies.





Our biggest problem in LA is the fragmentation: the county provides services, the cities provide housing.

Rebecca Isaacs, Los Angeles Homeless Services Authority

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Is Mixed-Population Housing a Solution to Homelessness?

RUTH SCHWARTZ AND STEVE RENAHAN, SHELTER PARTNERSHIP, INC.

A subset of mixed-income housing includes units set aside for special-needs populations such as residents with mental illness or formerly homeless people. Sometimes termed mixed-occupancy or integrated supportive housing, such projects provide affordable homes with on-site services for residents who need support to live independently.



In this paper, Schwartz and Renahan studied five developments in California and New York City. All were developed using 9 percent tax credits and serve a mix of lower income (all below 60% AMI, with the majority below 50% AMI) and formerly homeless individuals or families.

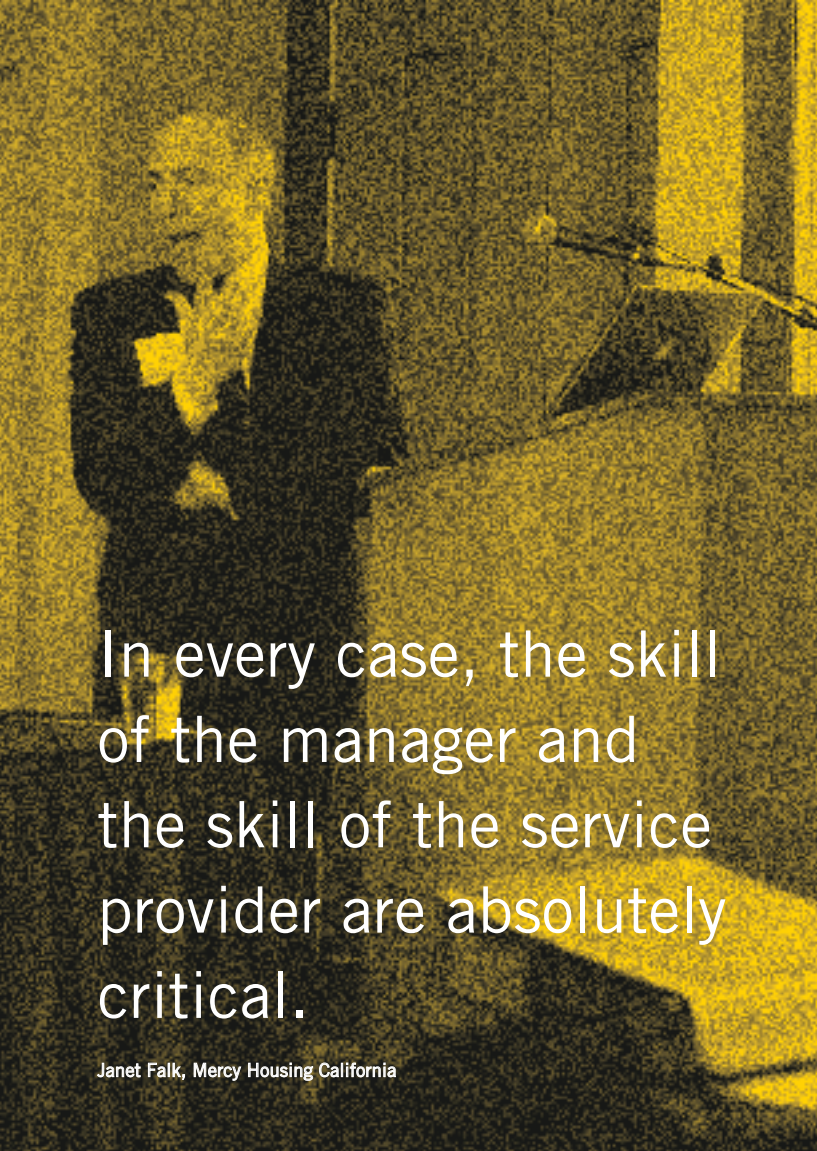
Based on in-depth interviews with developers, property managers and service providers, and tenant focus groups, the authors found that with provision of appropriate social services, the residents got along with each other and valued the diversity of their buildings' communities.

Among the paper's key findings:

- Developers believed that the mix of populations mitigated community opposition that they might have faced if developing a "100 percent formerly homeless project."
- Formerly homeless residents seem to benefit from living with other residents, who serve as role models for appropriate behavior.
- Resident concerns focused on the building (security and fire safety) rather than on the population mix.

- Supportive services are essential for establishing stable, long-term tenancies.
- Case management is critical and is a very different function than property management.
- Ample communication among the developer, property manager, service providers and residents is key to making mixed-population buildings work

In summary, all five developments are succeeding as affordable rental housing and as a solution for homelessness, in addition to serving other special-needs residents. They include all residents in community activities, report no serious inter-group conflicts, and benefit from low turnover among all groups.

A woman with short dark hair, wearing a dark blazer, is speaking at a podium. The background is a warm, yellowish-brown color with a textured, slightly grainy appearance.

In every case, the skill of the manager and the skill of the service provider are absolutely critical.

Janet Falk, Mercy Housing California

Among the recommendations that emerged from the discussion:

- Reliable funding for services is a significant challenge. Developers should work with nonprofit service providers that are skilled at coordinating funding.
- Service funding is often limited to the formerly homeless populations. Funding opportunities for mixed-population buildings would be beneficial.
- New York has flexible funding that can be used for individuals, money that is helpful in maintaining long-term tenancy. California should do more to achieve similar flexibility by breaking down existing silos (housing, mental health) and blending state general fund money with federal Medicaid dollars.
- Further research is needed on mixed-population outcomes, such as housing stability and decrease in use of emergency services. That data could then be used to drive policy.

For more information and to download full copies of the four papers that were presented, please visit www.bridgehousing.com/policyforum.

Policy Forum Attendees

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SIMON ALEJANDRINO, BAY AREA ECONOMICS
LAURA ARCHULETA, JAMBOREE HOUSING CORPORATION
FELIX AUYEUNG, EAH HOUSING
ELINOR BACON, E.R. BACON DEVELOPMENT
DAVID BAKER, DAVID BAKER + PARTNERS ARCHITECTS
LULA BALLTON, WEST ANGELES CDC
MICHAEL BANNER, LOS ANGELES LDC
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