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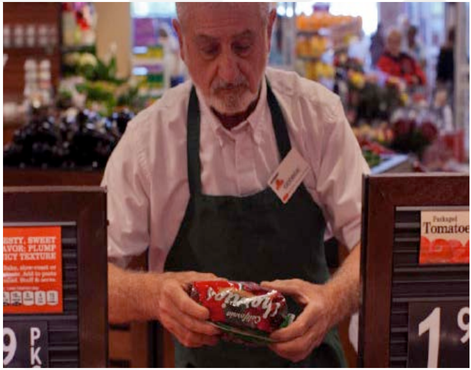

Maybe It Really Does Take a Village:

Supporting the Creation of High-Quality Unsubsidized Affordable Rental Housing in Legacy Cities

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Presented at the Federal Reserve System Community Development Conference

Renewing the Promise of the Middle Class

May 10, 2019

Context for Naturally Occurring Affordable Housing (NOAH)

- Devolution of public policy from the federal and state governments to "networks of public, private and civic actors…" [Katz and Nowak]
- Subsidy to house the neediest inadequate to meet demand
- Stubbornly high cost burdens for modest-income households
- Production of housing – especially multi-family housing – is skewed towards luxury (Class A) units
    - Some project that housing will "filter down" through the housing market

Towards a Definition of NOAH

- NOAH goes by various names: *unsubsidized affordable housing, market affordable housing*
- Generally created without significant federal subsidy (e.g., LIHTC)
  - Local tax abatements, HCVs, reduced interest rates, etc. don't disqualify as NOAH
- Tenure mix related to local market characteristics
- Mostly older/rehabbed rather than new construction

Towards a Definition of NOAH (continued)

- Affordability pegged to 30% of household income
- Targeted incomes generally 60% AMI+ (often above central city average)
- All-in unit cost of $80,000 - $125,000
- Small, family-owned, mission-oriented, “mom-and-pop,” often local or regional ownership
- Rental NOAH stock may include:
  - Single family row homes (Phila., Baltimore, Richmond)
  - >50-year-old multi-family stock often at city edge or in first rings suburbs
  - 2-49 unit B/C (REIS) or 1- and 2-Star (Costar)

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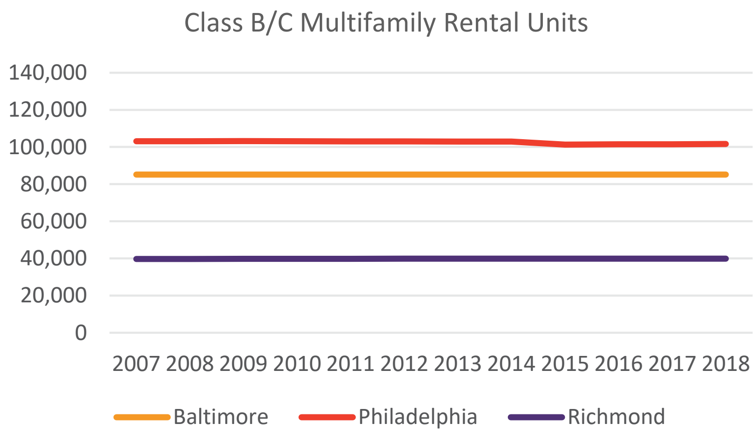
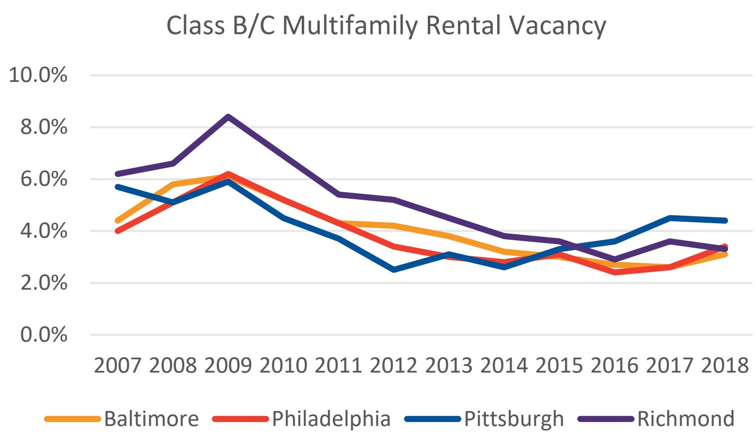
What's Happening in that B/C Multi-family Market?

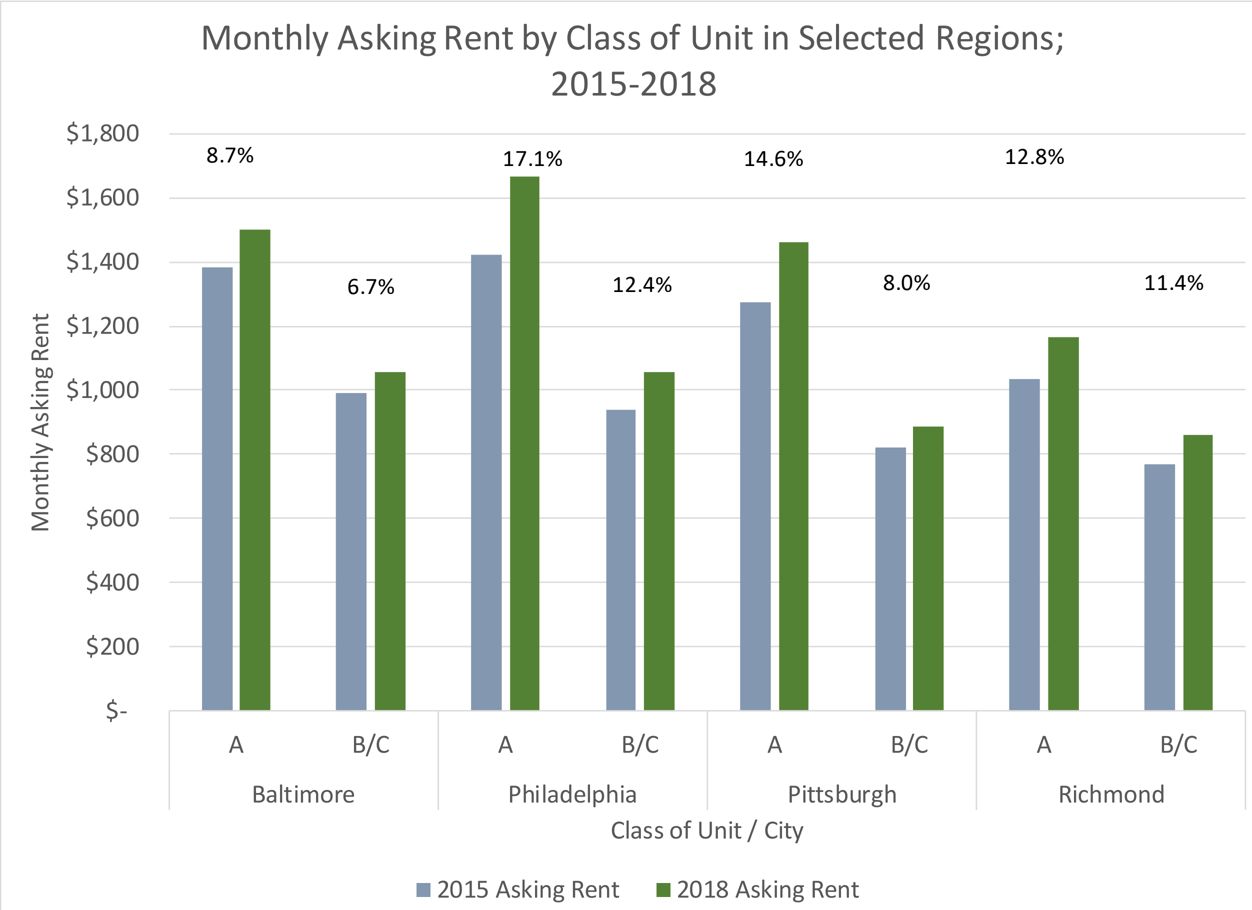
- Very little B/C unit creation
- Prices rising / vacancies low
- Capitalization ratios in the 6%-8% range
- Cost burdens average 16.5% of income
- Reasonable gross revenue to investors, but less than for A stock





Change in Typical Rent in A vs. B/C Grade Multi-Family Units

Selected Regions

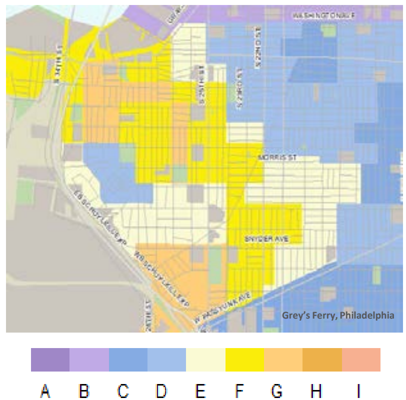


Challenges of NOAH Production

- Shortage of NOAH stock and stiff competition – including from Class A developers
- High costs of construction and real estate taxes
- Appraisal gap, especially in more stressed markets
- Risky nature of inexperienced entrepreneurs
  - Poor credit
  - Small portfolio concentrates financial risk
- Financing Challenges
  - Banks are slow, may have minimum loan amounts
  - "Hard money lenders" are expensive, CDFIs have rigorous underwriting/mission criteria

Opportunities of NOAH Housing Production

Practitioners say middle or lightly stressed local submarkets—where property and neighborhood conditions are not seriously impaired—are most appropriate for NOAH.



Can mission-oriented capital use market data to secure concessions on depth/duration of affordability as a trade-off for more favorable transaction terms?

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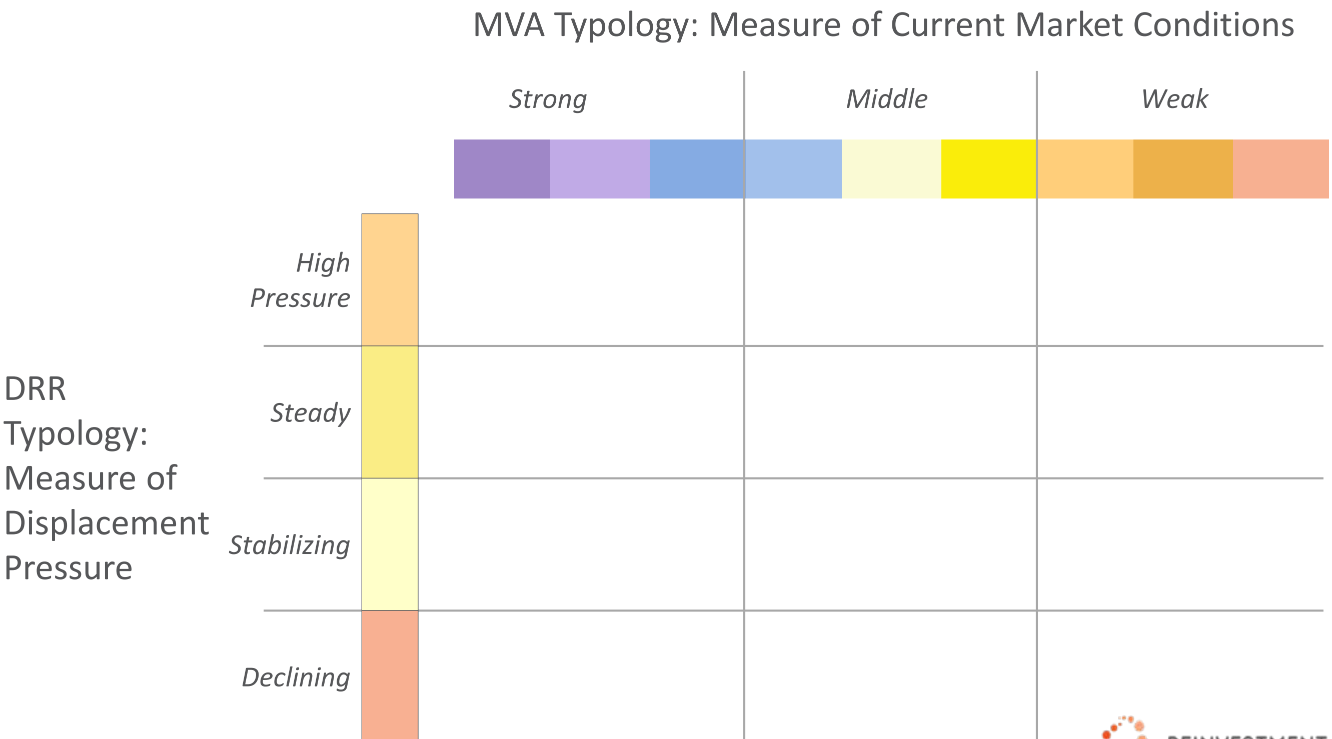
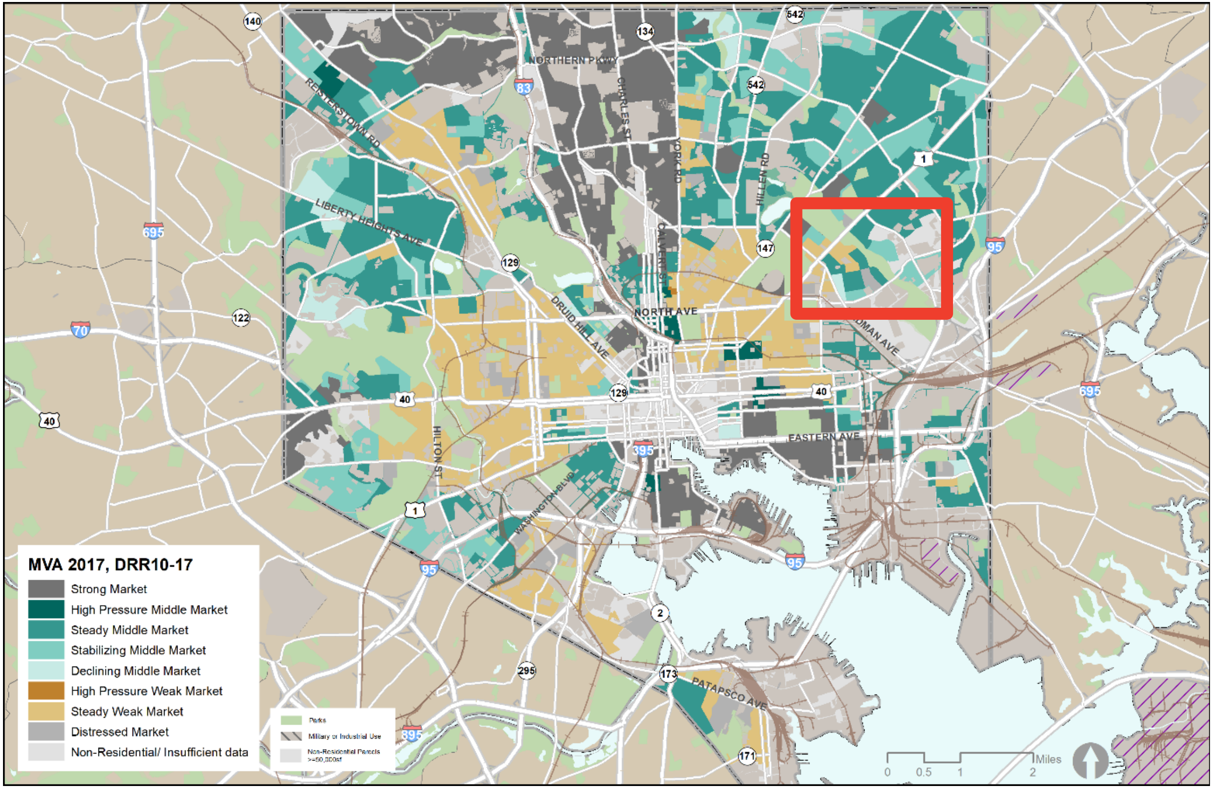
Can Market Conditions Guide NOAH Transactions?

Illustration of MVA and DRR Typology



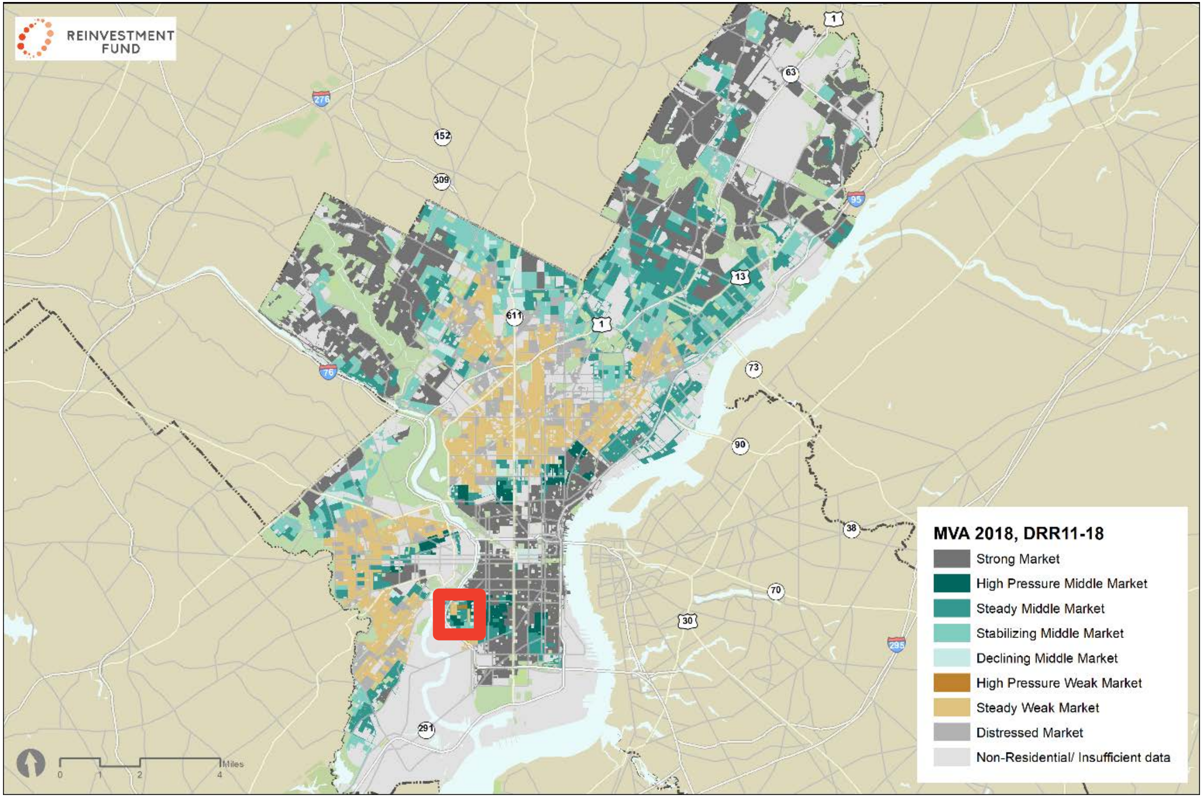
Can Market Conditions Guide NOAH Transactions?

Baltimore. Mixed/Steady Middle Markets with little market pressure: Ideal for SF NOAH / neighborhood preservation strategy.



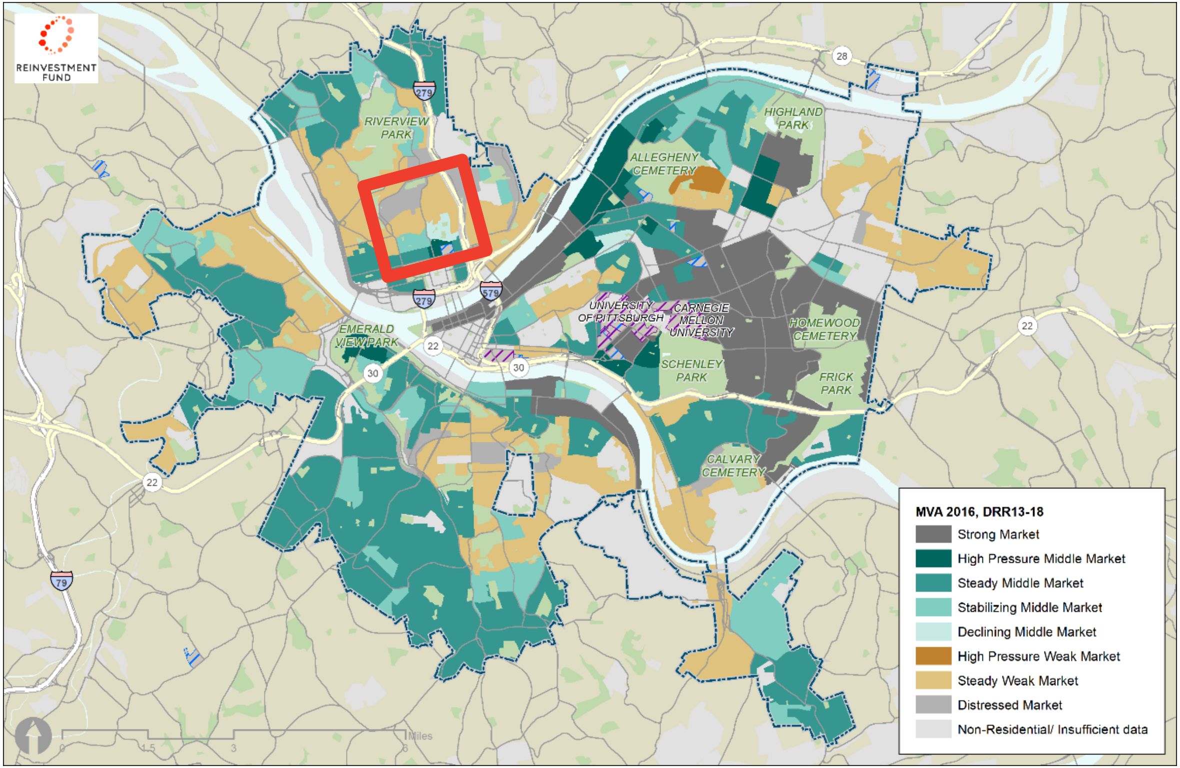
Can Market Conditions Guide NOAH Transactions?

Philadelphia. High Pressure Weak Markets: Foreseeable market appreciation ideal to negotiate affordability concessions.



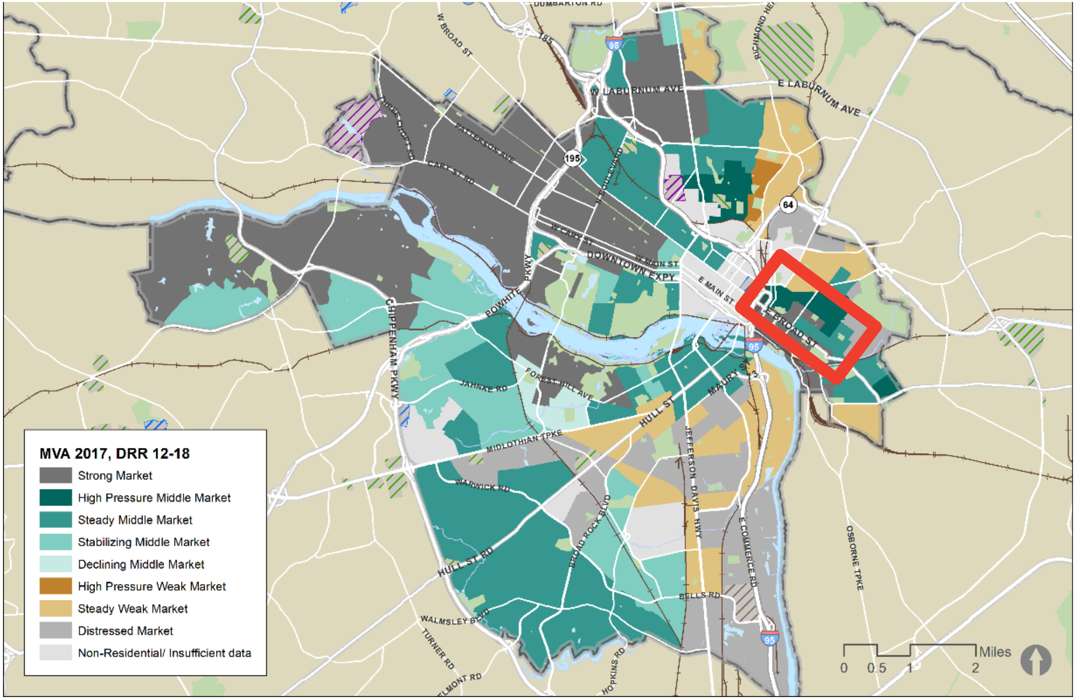
Can Market Conditions Guide NOAH Transactions?

Pittsburgh. Steady Weak / Stabilizing Middle Markets: Ideal for SF NOAH / neighborhood quality upgrade / loss prevention strategy.



Can Market Conditions Guide NOAH Transactions?

Richmond. High Pressure Middle & Steady Weak Markets: Rising market pressure in spots ideal for financing tradeoffs; preservation in steady areas.



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