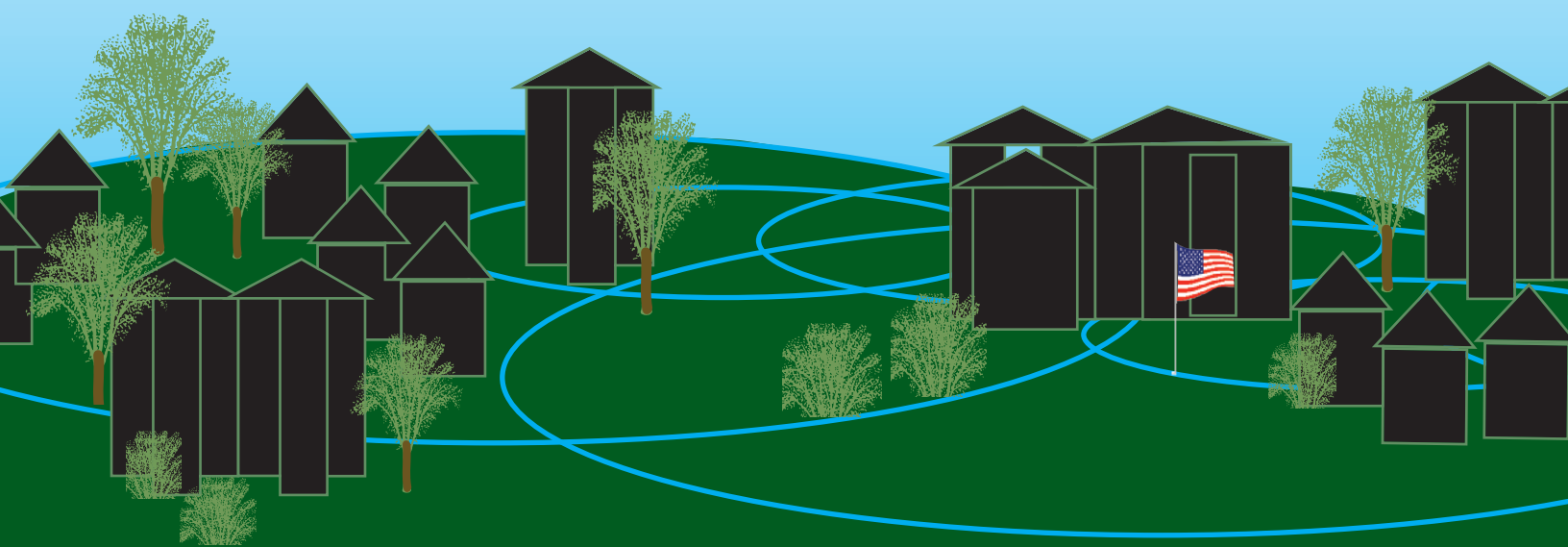


Developing Opportunity: Innovative Models for Strategic Housing Acquisition

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Introduction

Where one lives is central to creating and shaping one's opportunities in life. Neighborhoods deeply influence the quality of schools a child attends, which jobs are within commuting distance, residents' physical and mental health, and much more. For the many low-income families living in areas of concentrated poverty, the neighborhoods that they call home often have lower-performing schools, expose them to greater health risks, and lack quality infrastructure and services. These neighborhoods do not offer the full range of opportunities that many of these families hope to pursue. Giving low-income families the choice to live in areas that offer greater opportunity can have a major positive impact on their lives. An extensive body of research has documented that moving to an area with high opportunity can improve the health, educational, and economic outcomes of low-income families, in particular those with young children. As economic disparities continue to widen, the need to promote residential mobility to neighborhoods of opportunity, foster mixed-income communities, and create a path to economic prosperity is especially important.

Although moving to better neighborhoods can have a massive impact on life opportunity, access to high-quality neighborhoods is often unattainable. Rising economic inequality along with rising housing prices have helped to create a dire affordable housing crisis

across the country. There is a severe lack of affordable housing in areas of opportunity in particular, in part due to continuing patterns of exclusionary zoning and community opposition. In addition, even where multi-family housing does exist in high-opportunity areas, it is often inaccessible to low-income families on housing assistance, due to factors such as high rent levels, discrimination against households with housing vouchers, and a failure to market to such families.

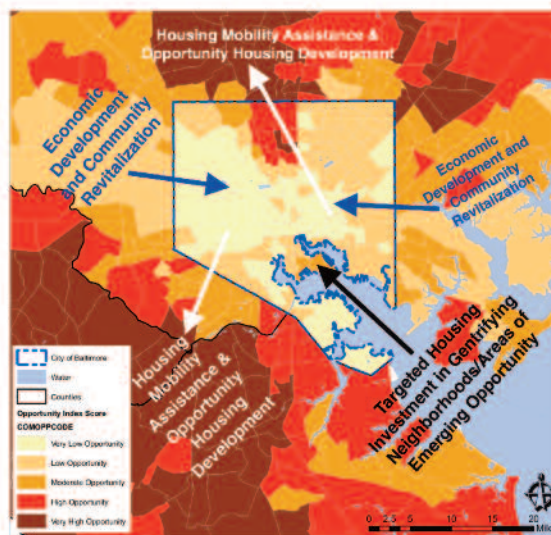
Giving more low-income families the choice to live in areas that offer greater opportunity can have a major positive impact.

Collectively, these forces have combined to create an “access to opportunity crisis” that makes high opportunity neighborhoods out of reach for many low-income families. This threatens the ability of many low-income families to have a fair chance at opportunity and ultimately achieve upward mobility. It also contributes to conditions of concentrated poverty from generation to generation. More must be done to create affordable housing in good neighborhoods and provide real housing choice to low-income families.

To address these issues, innovative models of housing acquisition are beginning to emerge, with a focus on

Fair housing context:

BOTH community investment to address racial disparities
AND new housing choices in low poverty areas of opportunity.



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These initiatives offer a number of practical benefits: they address the shortage of mixed-income housing in many communities, helping to diversify neighborhoods and schools; provide a direct conduit for voucher holders to access properties in high-opportunity areas; and make use of existing buildings (avoiding the need to gain neighborhood approval for construction or zoning changes).

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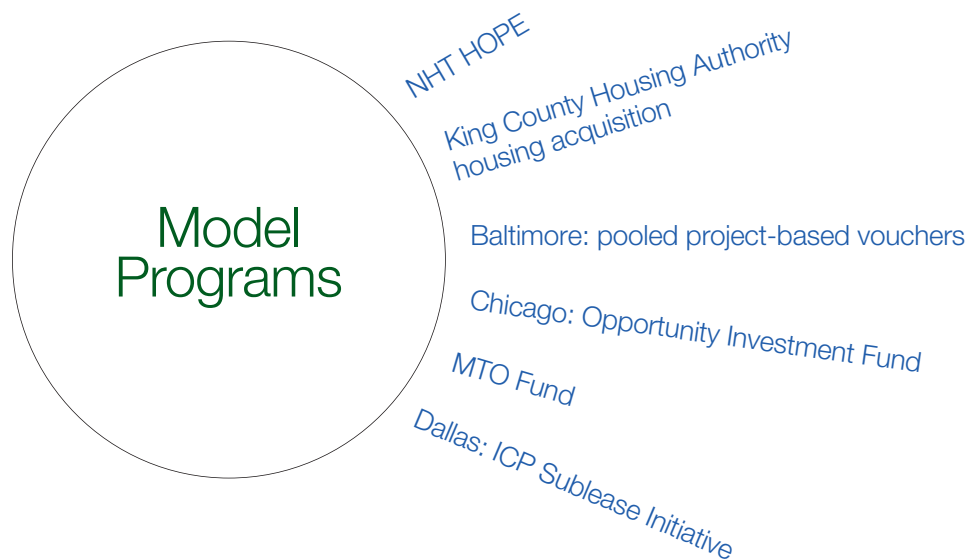
creating new access to high-opportunity neighborhoods for low-income households. These initiatives provide pathways to mobility and create affordable housing by acquiring existing market-rate housing in areas of high opportunity, for example, in areas with high-quality public school systems. By focusing on affordable housing supply, they are emerging as important complements to housing mobility programs that focus on expanding choice within the Housing Choice Voucher program through counseling and improved program administration. These initiatives offer a number of practical benefits: they address the shortage of mixed-income housing in many communities, helping to diversify neighborhoods and schools; provide a direct conduit for voucher holders to access properties in high-opportunity areas; and make use of existing buildings (avoiding the need to gain neighborhood approval for construction or zoning changes).

These models are being fostered by public housing authorities, nonprofit developers, and other mission-

driven organizations. As discussed in detail below, one such model is that developed by the National Housing Trust (NHT). NHT's High Opportunity Partner Engagement (HOPE) strategy aims to acquire unrestricted multifamily properties in communities with high-quality public schools and make them affordable to very low-income families. By working extensively with local partners to identify properties and recruit families, NHT ensures that every acquired property will have at least 20% of units set aside for families with vouchers. By doing so, HOPE is creating mixed-income communities and helping to improve access to opportunity for very low-income voucher holders. Other acquisition models include efforts by the Baltimore Regional Project Based Voucher Program (using pooled vouchers), the King County Housing Authority in Washington State (acquiring buildings for workforce housing), the Opportunity Investment Fund in Chicago (providing assistance to developers in exchange for a commitment to affordability), and the Inclusive Communities Project in Dallas (in the form of a sublease program), as well as the Moving to Opportunity Fund (a private investment model).

These initiatives will help to create affordable, mixed-income housing while expanding mobility and access to opportunity. Ultimately, these models may help spur innovation by investors, developers, and governments and be replicated across the country.

Building Housing Supply in High Opportunity Areas



The Importance of Place and Mobility

Where families live has a profound effect on the opportunities that are available to them. Neighborhoods provide the framework for everyday life. They help determine the quality of schools that children attend, public safety, environmental health, housing quality, social networks, transportation options, job access, and more. Stable neighborhoods that have high-quality schools and are rich in opportunity help lay the groundwork for families to live healthy and prosperous lives. In particular, attending diverse schools that are not segregated by race, ethnicity, and socioeconomic status leads to benefits for all children. Students in diverse schools have higher rates of achievement, better health, and enhanced levels of cross-racial trust and friendship.² In contrast, distressed high-poverty neighborhoods that are more dangerous and stressful can negatively impact children's school performance, cognitive development, mental health, and long-term physical health.³ This has massive implications for the long-term educational and economic success of children in such neighborhoods.

Race and income play a critical role in shaping where people live in the United States. Racial segregation is still deeply entrenched across the country. And as income inequality has increased, economic residential segregation has actually risen across the country.⁴ Segregation harms individuals as well as society as a whole and is deeply connected to structural inequality and racism. Segregation is associated with lower earnings, educational attainment, health outcomes, and public safety for all people.⁵ In addition, the effects of concentrated poverty are persistent and are passed on through generations.⁶ African-American families living in areas of concentrated poverty are par-

ticularly likely to live in poor neighborhoods across generations and lack upward economic mobility.

The growing recognition that place matters and that families deserve a real choice in deciding where to live has led, for example, to the creation of comprehensive assisted housing mobility programs designed to improve low-income families' access to opportunity neighborhoods.

Housing policy can help to shape patterns of residential segregation and therefore significantly impact whether families have access to opportunity. The growing recognition that place matters and that families deserve a real choice in deciding where to live has led, for example, to the creation of comprehensive assisted housing mobility programs designed to improve low-income families' access to opportunity neighborhoods. Initially, such programs were implemented as part of legal efforts to remedy segregation in public housing administration. Landmark cases such as *Walker v. HUD* (in the Dallas metropolitan area), *Gautreaux v. HUD* (in the Chicago area), and *Thompson v. HUD* (in the Baltimore region) were instrumental to establishing the concept of assisted housing mobility. Housing mobility programs provide voucher holders with extensive information, support, and resources that are necessary to move from high-poverty neighborhoods to neighborhoods with better schools and other opportunities. By doing so, these programs can help realize the potential of the Housing Choice Voucher (HCV) program. In Chicago, for example, the Gautreaux program was born out of the country's first public housing desegregation suit and

2 See, e.g., ROSLYN ARLIN MICKELSON, THE NAT'L COALITION ON SCHOOL DIVERSITY, SCHOOL INTEGRATION AND K-12 OUTCOMES: AN UPDATED QUICK SYNTHESIS OF THE SOCIAL SCIENCE EVIDENCE (2016).

3 BARBARA SARD & DOUGLAS RICE, CENTER ON BUDGET AND POLICY PRIORITIES, *Creating Opportunity for Children: How Housing Location Can Make a Difference* 11 (2014).

4 GREGORY ACS ET AL., URBAN INSTITUTE, THE COST OF SEGREGATION: NATIONAL TRENDS AND THE CASE OF CHICAGO, 1990-2010 (Mar. 2017).

5 *Id.*

6 PATRICK SHARKEY, STUCK IN PLACE: URBAN NEIGHBORHOODS AND THE END OF PROGRESS TOWARD RACIAL EQUALITY (2013).

helped thousands of low-income families move to new neighborhoods. Inspired by Gautreaux, the U.S. Department of Housing and Urban Development (HUD) launched the Moving to Opportunity (MTO) experiment in five cities in the mid-1990s. Since the end of that experiment, housing mobility programs have been implemented in Baltimore, Buffalo, Chicago, Dallas, Philadelphia, San Diego, and Richmond, Virginia, though the number of such programs remains limited.⁷ Promisingly, the voluntary adoption of programs is expanding as housing authorities learn from the successes of the existing pilots.

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There is strong evidence showing that moves to new neighborhoods facilitated by housing mobility programs yields significant benefits for many low-income families. Studies of the MTO experiment have shown that adults who participated in the program experienced improved mental health, physical health, and quality of life.⁸ Families who moved established themselves in lower-crime neighborhoods. Exposure to crime declined and feelings of safety increased as a result.⁹ Rates of depression and psychological distress among adults who move to low-poverty neighborhoods declined dramatically while reports of subjective well-being increased.¹⁰

Recent research on other mobility programs has also confirmed that mobility can provide considerable benefits to low-income families. Residents who participated in Baltimore's mobility program moved to dramatically different neighborhoods with much lower

poverty and racial segregation. In one survey, residents reported that moving led to a host of benefits. Movers were satisfied with their new homes as well as with their new communities. They expressed an appreciation for living in a neighborhood with a diverse mix of races and cultures. The vast majority of residents reported an improvement in overall quality of life. Residents reported feeling safer, less stressed, and more motivated due to their new quieter and lower-crime environment. Living in a lower stress and better-resourced environment also led to improved physical health for many residents and their children. Parents noted that children with asthma experienced dramatically fewer asthma attacks after moving to new neighborhoods with more open space and higher air quality. The majority of parents surveyed felt that their new neighborhood offered a better environment for their children. As families settled into new communities, they also began to take advantage of new social resources and employment opportunities.¹¹

Mobility can also cause a deep shift in perspectives. Living in a new neighborhood with greater opportunity has led some movers from inner-city Baltimore to experience a great deal of personal growth and expand what they see as being possible in life as well as what their children deserve. Gaining exposure to quiet and diverse neighborhoods free from violence changed expectations about what a neighborhood should be like and parents raised their expectations for what schools should provide after seeing their children thrive in new schools.¹² Experience in new neighborhoods thus shape priorities and can have a lasting impact on any future moves.

The benefits of moving to a better neighborhood are especially powerful for children. Schools in neighborhoods of high-opportunity tend to have more resources, higher-skilled teachers, more involved

7 AUDREY BERDAHL-BALDWIN, HOUSING MOBILITY PROGRAMS IN THE U.S. 2015

8 Jens Ludwig et al., *Long-Term Neighborhood Effects on Low-Income Families: Evidence from Moving to Opportunity*, 103 THE AM. ECON. REV. (2013).

9 Sard & Rice, *supra* note 1, at 18.

10 *Id.* at 23.

11 LORA ENGDAL, POVERTY & RACE RESEARCH ACTION COUNCIL, *New Homes, New Neighborhoods, New Schools: A Progress Report on the Baltimore Housing Mobility Program* 27 (2009).

12 Jennifer Darrach and Stefanie DeLuca, "Living Here Has Changed My Whole Perspective": How Escaping Inner-City Poverty Shapes Neighborhood and Housing Choice, 33 J. POL'Y ANALYSIS AND MGMT. 350, 363-371 (2014).

parents, and higher student performance. In contrast, schools in distressed neighborhoods have greater challenges such as having fewer experienced teachers and larger class sizes that offer less individualized attention.¹³ Parents in Baltimore’s mobility program reported high levels of satisfaction with the schools in their new communities and also noted that their children were learning better or much better in school.¹⁴ Research has shown that poor children who live for many years in low-poverty neighborhoods with high-quality schools had significantly better academic performance.¹⁵ Both boys and girls who live in lower-poverty neighborhoods through the MTO experiment experienced gains in math and English test scores.¹⁶

Moving to new neighborhoods has especially significant effects on children who move at a young age. Raj Chetty’s 2016 study of the long-term impacts of MTO program analyzed the outcomes of children who were younger than 13 years old when their families moved to better neighborhoods. The study found that these children had substantially higher incomes in their mid-twenties relative to children who did not move. Additionally, children who moved to lower-poverty neighborhoods experienced significantly higher rates of college attendance, lived in better neighborhoods as adults, and were less likely to become single parents. Mobility for young children thus has enduring benefits. Another study by Raj Chetty and his colleagues found that children whose families moved to a better neighborhood increased their expected income by 4% for each year they lived there.¹⁷ The effects of being exposed to a better childhood environment accumulate over time. Therefore, intervention that moves children at a young age can increase exposure time to better neighborhoods and improve intergenerational mobility.

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Relocating to a neighborhood of opportunity can also allow children to attend schools that are more socioeconomically diverse. Socioeconomic diversity in schools provides a host of benefits for children of all racial and socioeconomic backgrounds. Attending a diverse school results in higher academic achievement in math, science, language, and reading. These benefits accrue to students in all grade levels but are greatest in the middle and high school years, suggesting that these benefits accumulate over time. Integrated diverse schools tend to have more stable populations, greater resources, stable student populations, and more experienced and highly qualified teachers than schools that are racially and socioeconomically isolated. Students who attend diverse schools are more likely to graduate from high school, enter and graduate from college, have higher incomes, and more likely to possess workplace readiness and interpersonal skills needed for the modern economy.¹⁸ Attending diverse schools as a child can also make individuals more likely to choose to live in a diverse neighborhood as adults.¹⁹ Housing mobility that can open up access to less segregated neighborhoods can help more children reap the benefits of attending more diverse schools.

13 *Id.* at 272.

14 Engdahl, *supra* note 11 at 29.

15 Sard & Rice, *supra* note 3, at 12.

16 MARGERY TURNER ET AL, URBAN INST., BENEFITS OF LIVING IN HIGH-OPPORTUNITY NEIGHBORHOODS: INSIGHTS FROM THE MOVING TO OPPORTUNITY DEMONSTRATION (2012).

17 Raj Chetty & Nathaniel Hendren, THE IMPACTS OF NEIGHBORHOODS ON INTERGENERATIONAL MOBILITY I: CHILDHOOD EXPOSURE EFFECTS (2017).

18 Mickelson, *supra* note 2.

19 Roslyn Arlin Mickelson, *Exploring the School-Housing Nexus: A Synthesis of Social Science Evidence*, in FINDING COMMON GROUND: COORDINATING HOUSING AND EDUCATION POLICY TO PROMOTE INTEGRATION (Philip Tegeler, ed., Poverty & Race Research Action Council & National Coalition on School Diversity, Oct. 2011).

Assisted Households Face Significant Barriers to Mobility

Despite the benefits of mobility, low-income families on federal housing assistance face many barriers in moving out of areas of concentrated poverty. For decades, one of the chief forms of federal housing assistance has been the Housing Choice Voucher (HCV) program, which provides a subsidy that families can use to pay for housing in the private rental market. Vouchers are a crucial tool to help low-income households avoid homelessness and pay for stable and decent housing. In theory, the ability to use a voucher to rent housing in any neighborhood should also enhance the ability of families to reach many more neighborhoods. However, in practice, most families with vouchers stay in racially-segregated and poor neighborhoods with schools that have poor performance.²⁰ There are also significant racial disparities in locational outcomes within the HCV program. Black and Latino families with vouchers are significantly more likely to live in poor neighborhoods with worse schools than white families with vouchers are and black voucher households live in fewer overall neighborhoods than white voucher households.²¹

The failure of the HCV program to meaningfully promote mobility occurs for a variety of reasons. As discussed below, among the significant barriers that voucher holders face are the lack of available housing in high-opportunity areas, and the difficulty of finding and connecting with landlords in those areas who are willing to rent to them.²² Voucher segregation is also driven by issues with the structure of the program, such as a lack of informational resources for voucher holders, fragmented public housing administration, and institutional disincentives that cause public housing authorities to not prioritize desegregation.²³ While there is a need for systemic policy reform to address many of

the barriers to choice within the voucher program, expanding the supply of housing can help make it easier to find housing that gives access to a full range of opportunities. Efforts to increase the supply of available, affordable units and to connect voucher holders with these rental opportunities are important complements to the mobility counseling programs discussed below.

On a structural level, public housing authorities often lack the resources and incentives to successfully help families find units in high-opportunity neighborhoods. PHAs face organizational challenges and must balance competing goals. In the face of constraints, PHA staff may focus on spending limited time and energy on simply finding housing for as many families as possible in any neighborhood rather than trying to focus on a more resource-intensive search for housing in a high-opportunity area.²⁴ Moreover, the system by which HUD evaluates the performance of PHAs focuses on administrative performance (e.g. voucher utilization rates, rent payment calculations, client income verifications) while placing little emphasis on desegregation and deconcentrating poverty.²⁵ This creates a disincentive for PHA staff to spend time on helping families relocate to better neighborhoods. Another structural issue is the fragmented landscape of public housing administration. There are thousands of PHAs operating independently and competing for limited resources. This can hamper regional cooperation and hurt families who attempt to use the portability provision of the HCV program to transfer their voucher and move to other jurisdictions.²⁶ Although portability can help decrease economic and racial segregation, it is also currently associated with administrative burdens for PHAs, further discouraging them from fully embracing that aspect of the HCV program.²⁷

20 Stefanie DeLuca, Philip M.E. Garboden & Peter Rosenblatt, *Segregating Shelter: How Housing Policies Shape the Residential Locations of Low-Income Minority Families*, 647 ANNALS OF THE AM. ACAD. OF POL. & SOC. SCI. 268, 299 (2013).

21 Stefanie DeLuca & Peter Rosenblatt, *Walking Away from the Wire: Housing Mobility and Neighborhood Opportunity in Baltimore*, 27 HOUSING POL'Y DEBATE 519 (2017).

22 DeLuca et al, *supra* note 20, at 286.

23 *Id.* at 287.

24 *Id.*

25 *Id.* at 286.

26 *Id.*

27 *Id.*

Further complicating the use of HCVs, the demand for vouchers far exceeds supply, and so many eligible applicants spend years on waiting lists at public housing authorities (PHAs). These waiting lists can cause a great deal of uncertainty for families trying to find housing.²⁸ Families who manage to receive a voucher off of the waiting list may have little opportunity to prepare for a housing search. Once a family receives a voucher, they have a limited amount of time to conduct a housing search (usually a maximum of 60 days) before the voucher expires. This relatively short period places considerable pressure on voucher recipients to find housing quickly. A lack of financial resources, flexible schedules, and adequate transportation can exacerbate the difficulties of finding housing within the time limit, particularly in more affluent areas that may be far from where voucher recipients live. This time crunch can lead families to take the first unit they can find or risk losing the voucher at the end of the 60-day period. These families often end up in poor and racially segregated areas.²⁹

Once a voucher recipient gets a housing search underway, they may rely on lists that PHAs provide that show available units from landlords who participate in the HCV program. However, these lists may not be updated to show currently available units.³⁰ Lists may also primarily show units that are in areas of concentrated poverty or in areas that are racially segregated.³¹ Low-income families may encounter discrimination from private landlords who are reluctant to accept vouchers or refuse to accept them at all.³² Such source-of-income discrimination is legal in most jurisdictions.

In addition, the value of a voucher often is not enough to cover rents in areas of higher opportunity. HUD pay-

ment standards for fair-market rents are set on the basis of an entire metropolitan area. Historically, Fair Market Rents (FMRs) have been based on entire metropolitan areas, sometimes resulting in FMRs that are considerably less than market rate rents in. Given that rents can vary dramatically within a metropolitan area, the majority of families use vouchers in neighborhoods with lower rents and higher rates of poverty.³³ The Small Area Fair Market Rent (SAFMR) rule, which determines the maximum rent that a PHA can subsidize on the basis of zip codes rather than on a metropolitan area level, is in the early stages of implementation. Using SAFMRs has potential to increase opportunities for voucher families by increasing payment standards in higher-rent areas. Low-income families seeking to maximize the value of the voucher may simply bypass more expensive areas. Tight rental markets with more competition can further compound the difficulty of using a voucher and increase the likelihood that a family will end up in a low-performing school.³⁴

The housing search is also shaped by the experience of voucher recipients. Low-income families who have lived most of their lives navigating high-poverty neighborhoods may not have much knowledge about opportunity areas or may believe that better neighborhoods are not realistic options for them. Accordingly, these families may limit the range of neighborhoods they will consider in their housing search.³⁵

Because of all of these factors, housing programs that take deliberate steps to create affordable housing in high-opportunity areas, and make those homes available directly to voucher holders, are a particularly important (but often overlooked) part of the housing market.

28 *Id.* at 277.

29 *Id.*

30 *Id.* at 280.

31 CONSTRaining CHOICE: THE ROLE OF ONLINE APARTMENT LISTING SERVICES IN THE HOUSING CHOICE VOUCHER PROGRAM, POVERTY & RACE RESEARCH ACTION COUNCIL (2015).

32 DeLuca & Rosenblatt, *supra* note 21, at 519; *See also Survey of Multi-Family properties, voucher acceptance in Collin, Dallas, Denton, and Rockwall Counties* www.inclusivecommunities.net/wp-content/uploads/2017/07/Survey-of-Multi-Family-properties-Analysis-CDDR-6-8-17-w-cover.pdf.

33 Establishing a More Effective Fair Market Rent System; Using Small Area Fair Market Rents in the Housing Choice Voucher Program Instead of the Current 50th Percentile FMRs, 81 Fed. Reg. 221 (Nov. 16, 2016).

34 KEREN MERTENS HORN, INGRID GOULD ELLEN, & AMY ELLEN SCHWARTZ, MACARTHUR FOUND., HOUSING CHOICE VOUCHER HOLDERS ARE NOT REACHING HIGHER PERFORMING SCHOOLS (2014).

35 DeLuca *et al*, *supra* note 20, at 285; *See generally* MEGAN HABERLE, EBONY GAYLES, AND PHILIP TEGELER ACCESSING OPPORTUNITY: AFFIRMATIVE MARKETING AND TENANT SELECTION IN THE LIHTC AND OTHER HOUSING PROGRAMS. (2012).

Opportunity Acquisition Models

Acquiring and preserving market-rate housing in neighborhoods rich with opportunities, and making them affordable, can improve the lives of low-income families and disrupt intergenerational cycles of poverty, particularly for families of color. High-opportunity housing acquisition has several practical advantages that make it an important complement to other housing assistance efforts – and it is one whose potential has not yet been fully realized. First, acquiring and managing housing addresses the need to identify and recruit landlords to accept Housing Choice Vouchers (HCVs). This can reduce the need to invest significant administrative resources and time to conduct landlord outreach and education as well as the need to provide incentives and other supports to maintain landlord participation. Second, these housing acquisition models deliberately set aside units for low-income families in mixed-income communities. This expands the supply of affordable housing and reduces racial and class segregation. Third, by acquiring existing market-rate housing, developers can bypass community opposition that can arise when proposing construction of new affordable housing units. Fourth, the ownership and management of these properties by mission-driven entities protects tenants from source of income discrimination against voucher holders, which remains a significant barrier to accessing housing. Additionally, acquiring existing housing in areas with high property values is often more financially feasible than developing new housing in such areas.

Opportunity acquisition strategies have gained interest among an array of different entities, in both the public and private sector. Such initiatives are still relatively rare, with ample room for this field to grow, and these early efforts are significant in part because they provide models from which others can learn. Although the details of emerging housing acquisition models vary, they all offer new methods for mission-driven

entities to create housing in a sustainable way that will enhance opportunity and transform the lives of low-income families. These initiatives may serve as a launchpad for a new community of practice among housing developers and others.

NHT High Opportunity Partner Engagement (HOPE)

The National Housing Trust, a nonprofit organization focused on preserving, maintaining, and improving affordable housing across the country, has embarked on an ambitious initiative to promote fair access to opportunity for low-income families. The HOPE (High Opportunity Partner Engagement) initiative, launched in 2017, acquires unsubsidized multifamily rental properties in areas with high-performing schools and converts them to mixed-income communities that accept Housing Choice Vouchers. By transforming unsubsidized properties into mixed-income communities, NHT and its partners seek to preserve rental properties, improve the quality of life of low-income families, and expand mobility. The overall goal of the acquisition work is to design and implement a financially feasible and sustainable approach to creating new mixed-income housing. A deeper look into this model and the new opportunities it presents, as well as the challenges it has encountered, can provide valuable lessons to others engaging in this work.

As discussed at length earlier in this report, quality education significantly impacts a child's future success. Recognizing this, the HOPE model defines a quality school district as one within which the primary elementary school:

- ranks 7 or above, meaning “good” or “excellent,” on the GreatSchools³⁶ index;
- outperforms its peers in at least two of the following three subject areas: math, reading, and science (as reported by GreatSchools); and

36 GreatSchools provides a snapshot of school quality. Though components included within a school's rating may vary based on the availability of data, the index score is based on five ratings of the school, measuring test scores, student or academic progress, college readiness, equity rating, and advanced courses. GreatSchools ratings follow a 1-10 scale, where 10 is the highest and 1 is the lowest. For more information, please visit www.greatschools.org.

NHT High Opportunity Partner Engagement (HOPE) Program



Financing Assembled

Financing is provided by a mix of local partner equity, foundation funding, and NHT's own equity.



NHT Partners With Local Organizations to Identify Properties

NHT partners with local organizations in communities to identify, bid on, and acquire market-rate multifamily properties near high-performing schools. Local partners help identify appropriate properties that can be purchased without going through difficult financing options and help leverage relationships with local public housing authorities.



HCV Families are Introduced into Acquired Properties

Working with public housing authorities, HCV holders are introduced into acquired properties. Up to 20% of the units are set aside to be affordable to low-income families. NHT aims to lease 20% of units to low-income families within 2 years of acquisition.

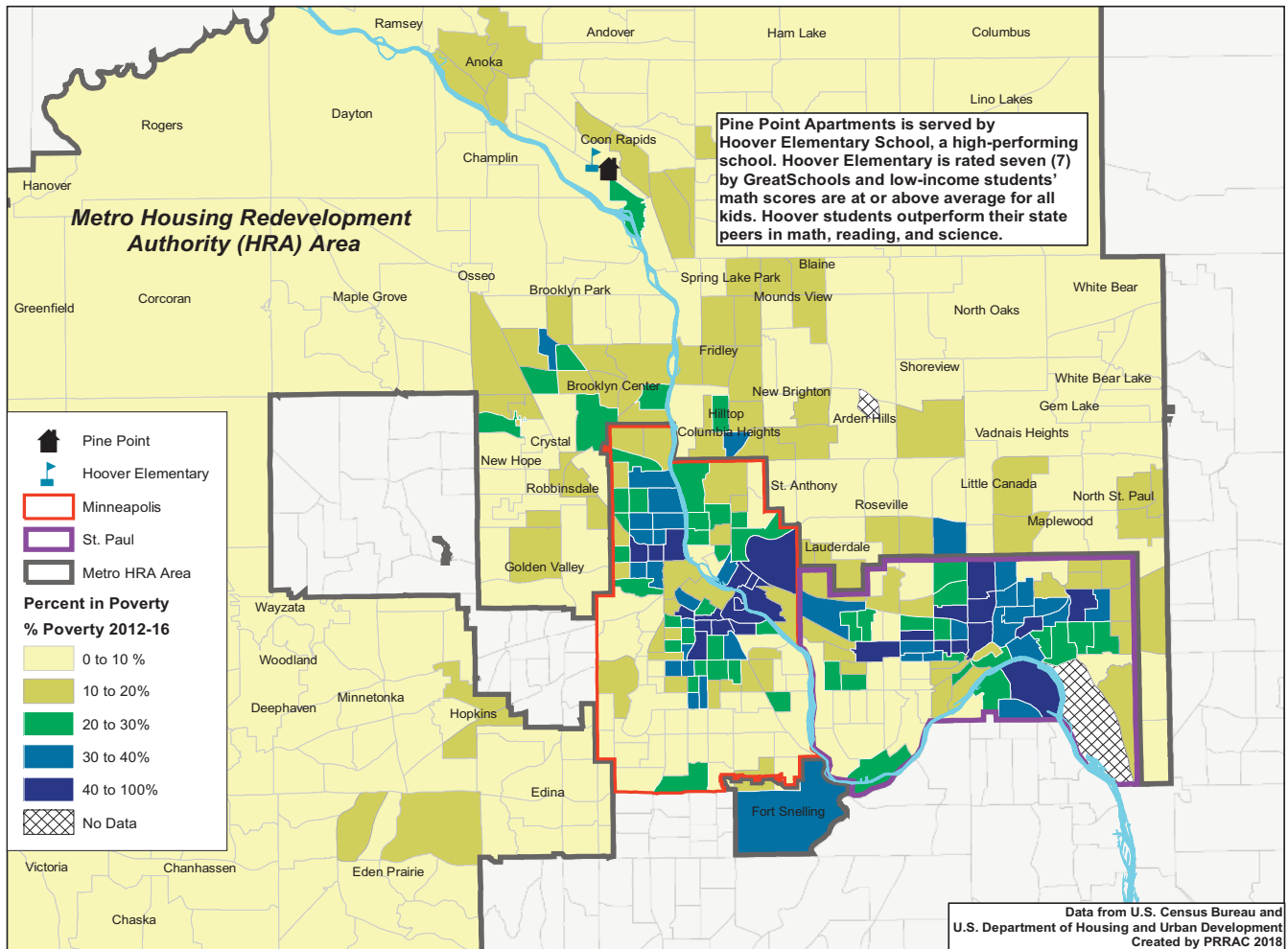
■ appears in the top quartile of the relevant state's ranking of all elementary schools.

In addition to being near high-performing schools, as described above, apartments eligible for HOPE acquisition require minimum rehabilitation (~\$5-10,000 per

unit). Additionally, NHT and its partners are prioritizing properties with 60 units or more that consist primarily of family sized units, helping ensure that low-income children gain access to the quality education available. Within the first two years of ownership, NHT hopes to introduce voucher into 20% of an acquired property's



Pine Point Apartments, Coon Rapids, MN



units, making them affordable to very low-income families earning 50% or less of Area Median Income).

NHT works with on-the-ground partners in a number of states to identify and bid on market-rate, multifamily rental properties that provide affordable housing options with access to high-performing schools. Partner organizations have included the Open Communities Alliance in Connecticut, the West Hartford Housing Authority, Baltimore Regional Housing Partnership in Maryland, the Fair Share Housing Center in New Jersey, Community Investment Corporation in Chicago, Common Bond Communities in Minnesota, BRick Partners LLC in Illinois. These local partnerships are key to the process, because they offer on-the-ground knowledge of local housing market conditions and often have existing relationships with local public housing authorities that can facilitate leasing. These partners

play a critical role in identifying appropriate properties that can sometimes be purchased without going through a broker's package³⁷ and leveraging existing relationships (or building new ones) with local PHAs.

In July 2017, NHT and CommonBond Communities successfully acquired Pine Point Apartments, a 67-unit market-rate property in Coon Rapids, MN, with access to excellent elementary schools. NHT has been phasing in new very-low income tenants with vouchers, and by July 2019, hopes to have 14 apartments occupied by vouchers holder, meaning that a full 20% of the total units in the market-rate, high-opportunity property will be occupied by very low-income families.

A candid, trust-based relationship with the local PHA has been critical to NHT and CommonBond's success at Pine Point. After acquisition, it took several months

³⁷ Bidding on eligible properties through broker's packages has proven challenging for this model, as the acquisition prices are often too high to be sustainable with the expected voucher rents. Additionally, entities competing for these desirably-located properties often have access to significantly more resources, allowing them to outbid NHT.

before families with Housing Choice Vouchers moved into the property. Some of the delay in renting to low-income families was the result of transitioning to new ownership and a new management company at acquisition. As can be expected with any change in management, it took some time to become familiar with the newly acquired property and establish new operating systems. Once the focus on that transition period was over, management was able to change priorities and pay more attention to securing voucher holders. A conversation with the PHA also helped speed up the process, by ensuring that only families meeting the property's tenant-selection criteria were being referred by the PHA. NHT is now on track to meet its goals of having 20% of the apartment units occupied by low-income families within two years of acquisition.

While HOPE promotes a mission of providing low-income individuals and families the opportunity to live in quality neighborhoods with access to opportunities, it is also intended to serve as a successful housing finance model. The HOPE model targets properties that not only provide access to good schools, but are also economically feasible to meet the market-rate acquisition price based on allowable voucher rents.

NHT finances HOPE acquisition deals through low-cost debt or equity. In a deal that is financed through debt, NHT is able to lend funds at an interest rate of 6%. This secondary debt can be utilized by developers who have already secured primary debt (such as a mortgage) from commercial banks, lenders who utilize Freddie Mac, Fannie Mae, or FHA, or other traditional funding sources to finance an acquisition. NHT also has the flexibility to lend at a lower interest rate (4%) in the initial years of a loan and then increase rates gradually. In order to secure repayment of the secondary debt loaned by NHT, a deed of trust and/or a guarantee by a developer is required.

In lieu of debt, NHT's investment can be structured as equity to help a developer meet the equity capital requirement for a project. Equity financing may be necessary to execute deals in instances in which the mortgage or other primary loan product does not



allow for subordinate debt on a property. For acquisitions in which NHT is an equity partner in the property, NHT retains a 20% limited partnership or membership interest in the project ownership. NHT will receive a 4-6% cash on cash priority return. This means that NHT will receive a 4-6% return on its equity investment (after other debts are paid) and that this payment will be prioritized over payment to other equity partners who have ownership in the property. In addition, NHT will receive 20% of any cash flow remaining after other equity partners are paid.

Under NHT's execution, the total amount of debt and equity for any deal may be as high as 120% of a property's appraised value. For a typical purchase, the amount of a primary loan to a developer is limited to 75% - 90% of the property's value (loan-to-value ratio or LTV). NHT can provide additional debt or equity financing to make up the difference of the amount that the loan provides and 120% of LTV.

NHT's experience with the HOPE model also provides lessons in the challenges that developers may face in acquiring properties in areas of opportunity, particularly in property identification and financing. These include: 1) identifying housing projects that meet NHT's high opportunity criteria; 2) identifying properties with sale and rehabilitation prices at a level for the financing model to be feasible; and 3) the ability to secure sufficient affordable debt or equity. The challenge of securing low-cost debt or equity in order to successfully compete for these high-opportunity properties is the greatest difficulty. NHT took steps to

mitigate that risk by securing a \$6 million low-interest loan from the Kresge Foundation for low-cost project equity or debt. This enables NHT— either as owner/developer, co-developer and/or investor – to quickly bid on properties to ensure that 20% of the units are affordable to very low-income families who are determined to create a path to opportunity. NHT is in the process of securing more commitments of debt that can be invested as equity or subordinate debt into HOPE projects. Additionally, NHT has a \$20 million line of credit from UBS with a favorable interest rate that can be used as low-cost debt to acquire properties. Finally, NHT is a member of Housing Partnership Equity Trust, a REIT which provides low-cost equity to its members for the acquisition and preservation of affordable housing. NHT has successfully used this REIT financing in the past.

The possibility that voucher rents may not be comparable to market rents poses another difficulty. One way that NHT is addressing this hurdle is by identifying properties in areas where voucher rents equal market rents, including areas where Small Area Fair Market Rents (SAFMRs) have been applied. Recently implemented by HUD in 24 metropolitan areas (with the potential for other areas to adopt them voluntarily), SAFMRs, as discussed previously in this report, recognize the higher rents of some neighborhoods, resulting in higher payment standards for vouchers in these higher-cost areas, thus increasing the number of homes economically feasible for acquisition through the HOPE model.

King County, WA



The King County Housing Authority (KCHA), which serves many of the suburbs of

Seattle, Washington, has long been a leader among PHAs in using site-based housing acquisition to preserve affordability and expand access to neighborhoods. While recent rapid economic growth has benefited the region greatly, it has also widened economic disparities among residents and caused rents to rise dramatically, two things that KCHA with its acquisition model is actively trying to address. KCHA first began acquiring market-rate properties in 1989. Since then, KCHA has continued to use and expand a variety of site-based affordability strategies as a complement to tenant-based mobility efforts. One strategy involves the acquisition and preservation of subsidized workforce housing.

As the suburban King County landscape has evolved and the evidence-base on neighborhood effects has also grown more robust, KCHA has taken an increasingly deliberate focus on ensuring that its acquisition and preservation activities are targeted toward improving access to high-opportunity areas. In 2010, KCHA collaborated with the Puget Sound Regional Council and the Kirwan Institute for the Study of Race and Ethnicity to rank areas by a comprehensive measure of opportunity that considers health and environment, education, housing, economic health, and transportation and mobility. In 2012, KCHA passed a board

King County Housing Authority Housing Acquisition Programs



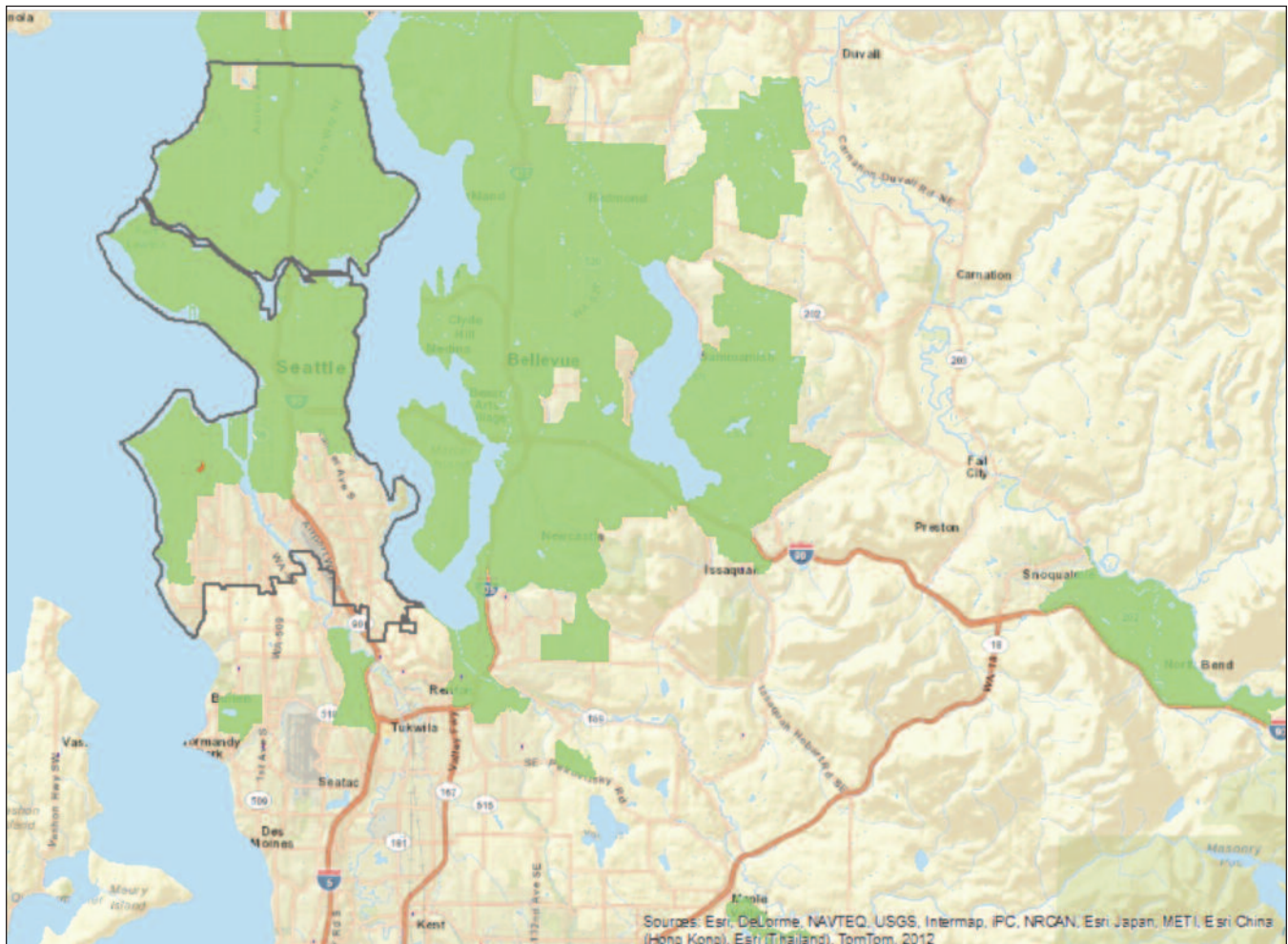
**KCHA
Targets**



**KCHA Layers in
Project-Based Vouchers**



**Direct Management
of Properties**



resolution to use this neighborhood quality metric in all agency policy and siting decisions. Since then, KCHA has continued to make efforts to ensure that siting strategies and other policies are based on updated, robust opportunity classifications, including work with Harvard University to map opportunity areas for families with young children specifically.

Typically, acquisitions are financed using bank lines of credit to complete acquisitions within timeframes that are competitive with the private sector. The lines of credit are then refinanced through third-party debt primarily structured as privately placed or publically sold tax-exempt bonds. KCHA has access to the municipal bond market with its AA issuer credit rating, and has further benefitted with many of its acquisitions from an affordable housing loan guarantee program provided by the King County government, which has an AAA bond rating.

Over time, the rental units in KCHA's acquired properties become increasingly affordable at below market rents using a combination of long-term management strategies. Rent increases in KCHA's workforce housing are driven by increases in overall operating and debt service costs, which typically increase more slowly over time than market driven rents. Debt service reduction through amortization and refinancing at low municipal borrowing rates also reduces upward pressure on rents. In addition, KCHA layers in Project Based Vouchers at many of these sites. These strategies can preserve long-term affordability for wage earners with modest income at rents that are below market, while simultaneously creating mixed-income communities that provide access to high quality neighborhoods for extremely low income families.

Direct management of properties is performed by outside companies under contract to KCHA.³⁸ Currently,

38 Stephen Norman and Sarah Oppenheimer, *Expanding the Toolbox: Promising Approaches for Increasing Geographic Choice*, Joint Center for Housing Studies at Harvard University (2017).



KCHA owns or controls nearly 6,000 units of acquired housing that are not funded through traditional HUD programs. Of these units, 55% are located in high/very high opportunity neighborhoods.³⁹ KCHA typically targets older, class B multifamily developments that have 100 or more units.⁴⁰ Overall, the approach employed by KCHA aims to preserve long-term affordability for low and moderate-income families, and to expand neighborhood access for extremely low-income families with vouchers.

Baltimore

In the Baltimore area, a program relying on the use of project based vouchers may help property owners and developers create new affordable housing.⁴¹ Several Baltimore area housing agencies, the Baltimore Regional Housing Partnership (BRHP), and the Baltimore Metropolitan Council (BMC) have banded together to create the Baltimore Regional Project Based Voucher Program. Inspired by the Regional Housing Initiative in Chicago, the program has compiled 100 housing vouchers from the participating housing agencies to further affordable housing development in areas of opportunity in the region. A key goal of the program is to address the mismatch between affordable housing and areas of job growth in the region. Many new jobs are located in suburban areas of the region. In 2017, 21 project-based vouchers were awarded, leaving 79 for 2018.⁴²

This initiative builds on past regional efforts in Baltimore, such as the collaboration of several jurisdictions on two regional Analyses of Impediments (AI), first in 1996 and then in 2012. In early 2015, after receiving first a letter and then a grant application from the regionally collaborating agencies, HUD awarded the Howard County Housing Commission (HCHC) received a three-year seed grant of \$550,000 to start the new initiative. HCHC administers the HUD funds and currently chairs the collaboration. BMC coordinates the project-based voucher work of the participating county-level housing authorities in the City of Annapolis, Anne Arundel County, Baltimore County, Baltimore City, Harford County, and Howard County.⁴³ Participating PHAs convert existing tenant-based vouchers to project-based vouchers and form the selection panel that awards the vouchers. BRHP will administer both the vouchers

³⁹ *Id.*

⁴⁰ Class-A multifamily properties are generally newer buildings that are less than 10 years old or have been substantially renovated. These properties typically have more amenities, higher-income tenants, and charge high average rents. Class-B properties are generally 10-25 years old, well-maintained, and command lower rents than Class-A properties.

⁴¹ The voucher program is generally geared toward low-income families at or below 30% of Area Median Income.

⁴² Baltimore Metropolitan Council, Baltimore Regional Project-Based Voucher Program (May 21, 2018), <http://baltometro.org/our-work/baltimore-regional-project-based-voucher-program>

⁴³ Baltimore Metropolitan Council, New Opportunity for Property Owners & Developers (Feb. 22, 2018), https://baltometro.org/phocadownload/Publications/Socioeconomic_Trends/RegionalPBV_180222_2-Pager.pdf

and the waiting list, as units get closer to being ready for occupancy.

Specifically, BMC issues requests for proposals (RFPs) from property owners and affordable housing developers who are interested in making existing housing affordable to low-income people, rehabilitating housing, and adding affordability, or constructing new affordable housing. The Selection Panel awards vouchers based on a series of criteria. The program gives strong preference to family housing in high-opportunity areas of the Baltimore region. The program uses criteria developed by BRHP to define opportunity areas. Opportunity areas generally have low levels of crime, access to jobs, and have high-quality public schools. At least two-thirds of the vouchers will be awarded to high opportunity areas. Any vouchers awarded outside of these areas must be part of a broader revitalization plan that will improve opportunities in the local community.

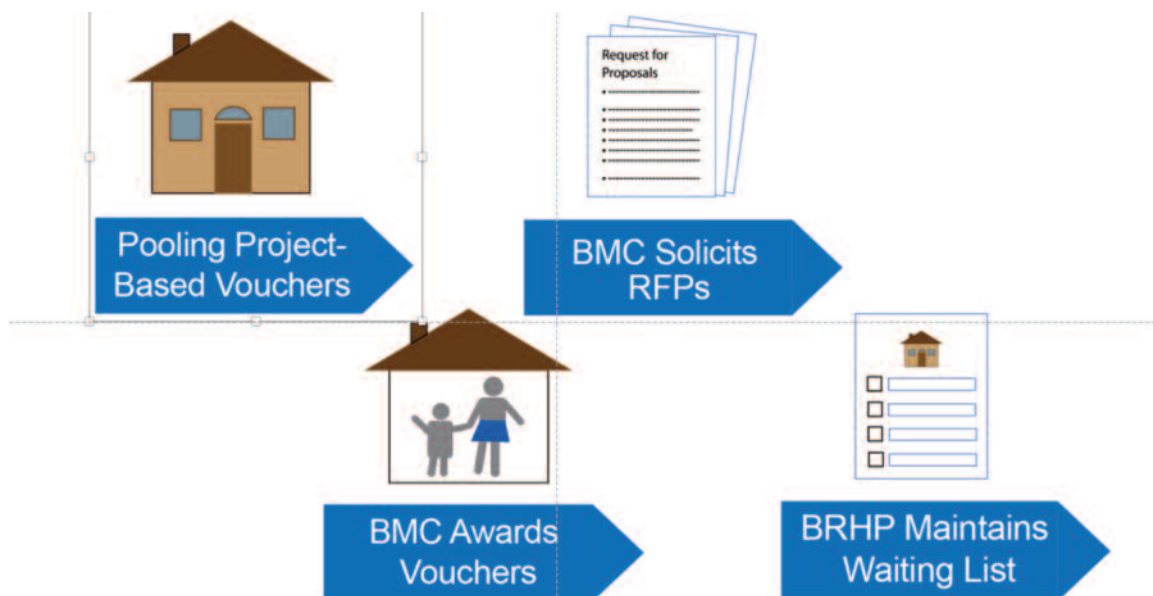
BRHP, which is the regional administrator for the Baltimore Housing Mobility Program, administers the vouchers through a Housing Assistance Payment (HAP) contract that they sign on behalf of participating PHAs and the property owner. BRHP manages the

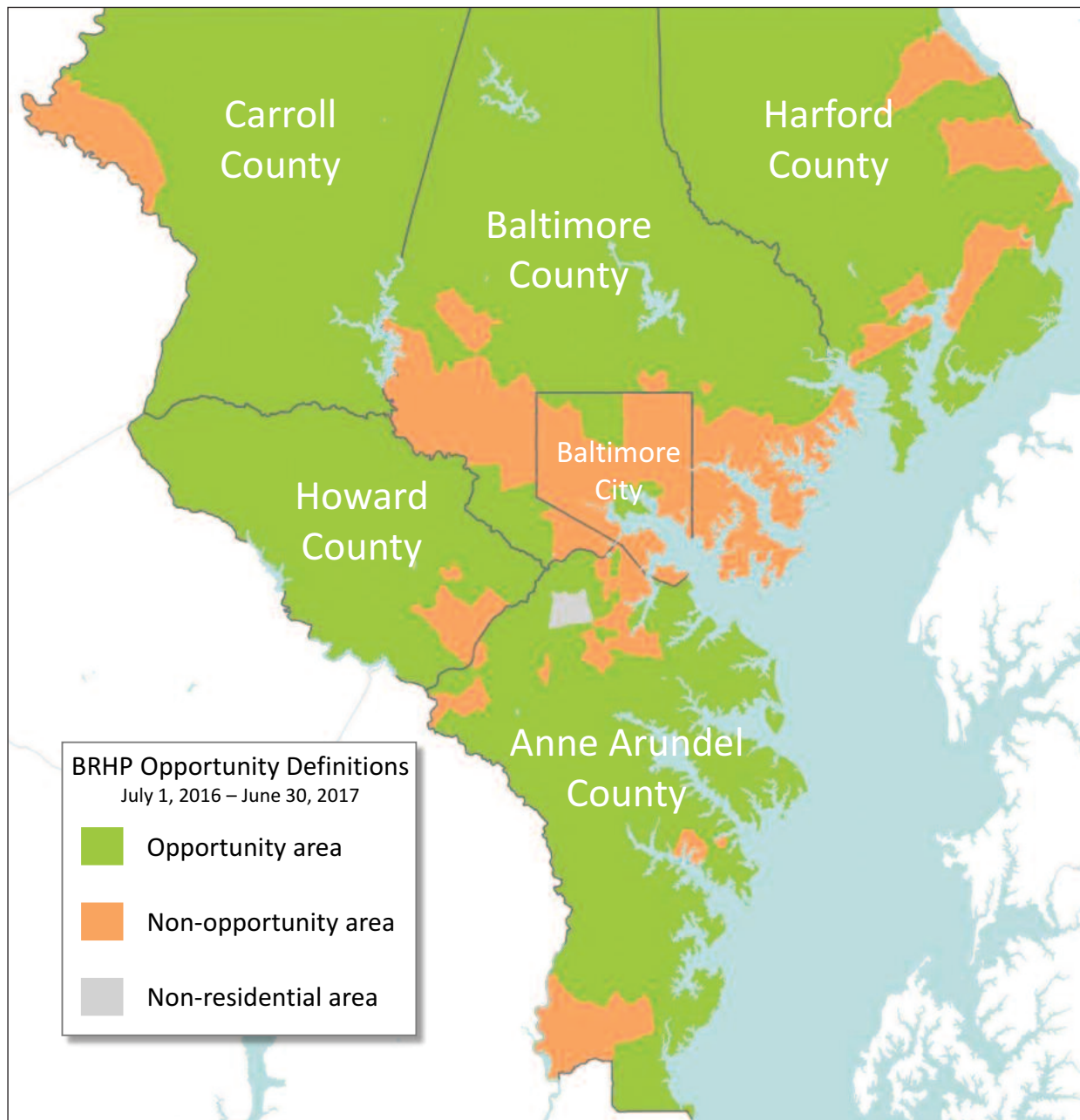


Baltimore Project-Based Voucher Participants

HAP and also serves as the main point of contact once the HAP is in place. The HAP may have a term

Baltimore: Pooled Project-Based Voucher Programs





of between 5 and 20 years, with the option to extend for up to 20 additional years. BRHP will select participating families from the waiting list by jurisdiction in proportion to the number of vouchers contributed by each participating PHA. All Regional PBV units will be leased to families referred to the owner from the waiting list by BRHP. In addition, BRHP provides families participating in this program with counseling on budgeting, credit, and tenant rights and responsibilities.⁴⁴

The Regional PBV program benefits PHAs as well as developers and property owners because it sets up a

single process for pooling PBVs that encompasses most of the metropolitan area. Without the program, developers and property owners would have to deal with each PHA individually, while each PHA would have to run their own individual RFP process in order to incorporate PBVs into development efforts. Although the Regional PBV program is in its early stages, it has the potential to leverage PBVs to significantly enhance housing opportunities and may serve as a model for other jurisdictions that seek to work on a regional basis to expand opportunity.

⁴⁴ *Id.* at 2.



The Preservation Compact

A Rental Housing Strategy for Cook County

Chicago

In the Chicago area, the Opportunity Investment Fund (OIF) is also using HCVs, PBVs, or other operating subsidy sources to help support the creation of housing in strong rental markets. The nonprofit Community Investment Corporation (CIC) is a Community Development Financial Institutions Fund lender. Within CIC, the Preservation Compact, a collaborative of housing partners that works to preserve affordable housing stock in Cook County, Illinois has sought new ways of creating affordability. As part of its efforts, CIC and the Preservation Compact are launching the Opportunity Investment Fund to expand affordable rental housing availability in high-opportunity areas. The Fund incentivizes experienced developers with good records who are aiming to buy existing multifamily rental buildings to guarantee that at least 20% of the units will be affordable for at least 15 years. It is anticipated that the OIF will help to finance 1,500 units

of mixed income housing, including 300 affordable units to house very low-income families. Units will be available for people making up to 50% AMI.⁴⁵

The Fund provides access to low-cost mezzanine debt to developers who buy existing functional multi-family buildings in strong rental markets. Typically, developers start by getting initial first mortgage debt to cover 70-80% of the building's value (loan to value ratio, LTV). Developers then must provide equity to cover the remaining 20%. With the OIF, developers can use a loan from the fund to bring the percentage of the mortgage debt up to 90% of the building's value or to cover up to half of their equity requirement, whichever is less. For instance, a developer might take out a mortgage for 80% of a building's value. The Fund could then contribute half of the developer's 20% down payment. The OIF's mezzanine debt has a lower interest rate (7.5%) than typical mezzanine debt in the market which can be 14-15%. In exchange for the favorable financing provided by the Fund, owners must guarantee that 20% of the units will be occupied by low income households. The affordable units will

⁴⁵ Becky Vevea, *Chicago Mayor Pitches Affordable Housing Plan for Priciest Neighborhoods* (June 20, 2018), <https://www.wbez.org/shows/wbez-news/chicago-mayor-pitches-affordable-housing-plan-for-priciest-neighborhoods/62b49d35-17e6-4a4d-a8d8-422d50f7608e>

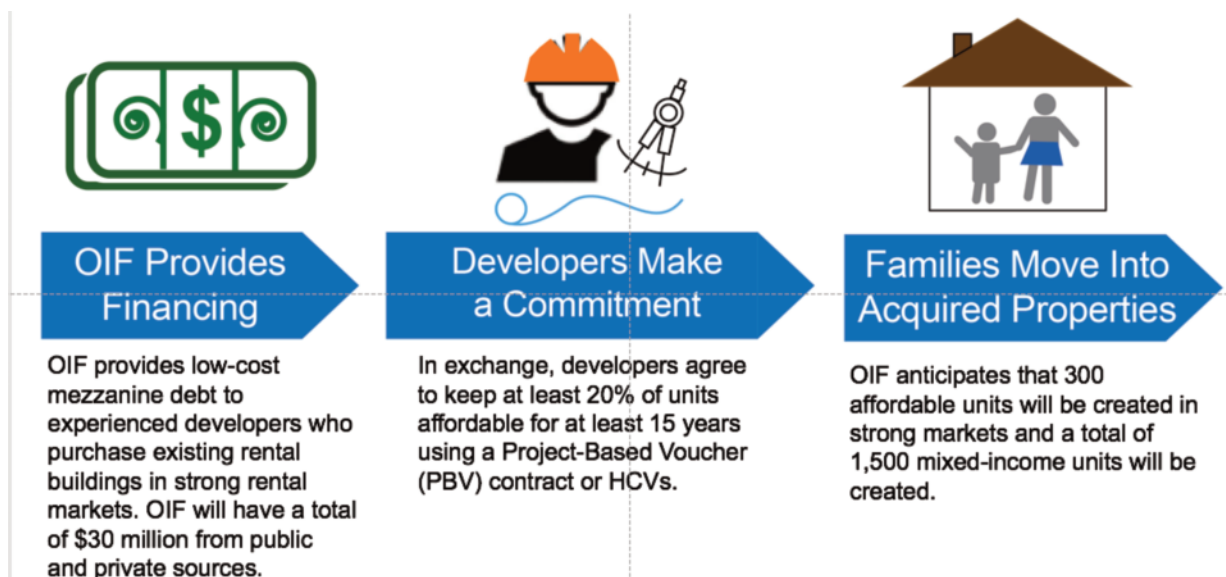
be paired with PBVs, tenant-based vouchers, or another source of operating subsidy. As turnover occurs within the buildings, voucher tenants will move into vacant units.

If the operating subsidy is from a public housing authority, owners work with PHAs to place tenants into units. Within the City of Chicago, owners will usually work with the Chicago Housing Authority (CHA). In the suburbs, the Preservation Compact expects that owners will usually work with the Regional Housing Initiative (RHI), an inter-jurisdictional suburban program made up of local housing authorities and nonprofits. RHI and CHA allocate PBVs and are supportive of efforts to move low-income residents into opportunity areas and areas in the midst of revitalization. RHI pools and converts Housing Choice Vouchers from different housing authorities in the metro area to provide project-based vouchers in support of moving low-income families into opportunity areas, especially in the suburbs. Owners can also work with Housing Choice Partners, a nonprofit organization that administers housing mobility programs, to house individuals with Housing Choice Vouchers in higher cost neighborhoods. All of these entities and the Preservation Compact have a strong existing partnership that is crucial for the Fund's success.

The OIF's target areas are based on the Chicago Housing Authority's (CHA) mobility areas and the Illinois Housing Development Authority's Opportunity (IHDA) areas for suburban areas. CHA defines a mobility area as a "community area with 20% or fewer of its families with income below the poverty level and a below median reported violent crime count (normalized by the community area's total population) or an area with improving poverty and violent crime rates along with job opportunity clusters." IHDA defines Opportunity Areas as "communities with low poverty, high access to jobs and low concentrations of existing affordable rental housing." Other properties outside of target areas can be considered on a case-by-case basis if a prospective developer can provide evidence that the area should be considered a strong housing market.

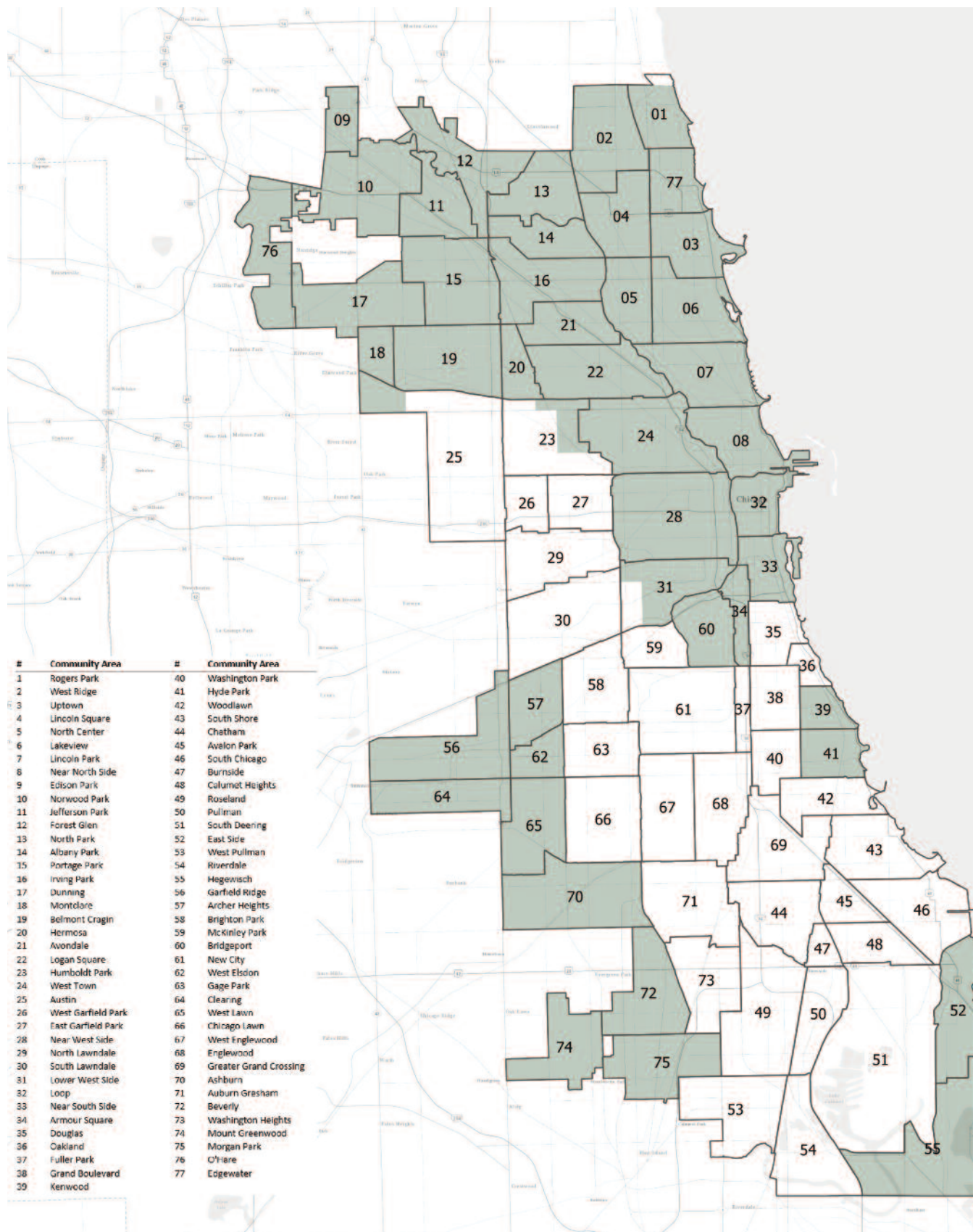
The OIF is hoping to close this year with \$30 million in funds. OIF has received financial backing from a variety of public and private sources including the Capital Magnet Fund and JP Morgan Chase. Recently, the City of Chicago announced that it would support the OIF by providing \$5 million in seed money. The City's support will come from the Affordable Housing Opportunity Fund, which receives fees paid by developers subject to the Affordable Requirements Ordinance.⁴⁶

Chicago Opportunity Investment Fund



⁴⁶ Press Release, Office of the Mayor, Mayor Rahm Emmanuel and Community Investment Corporation Announce Fund to Invest \$30 Million in Affordable Housing (June 21, 2018).

Opportunity Investment Fund: City of Chicago Target Areas





Moving to Opportunity

The Moving to Opportunity (MTO) fund is a pioneering social-impact focused real estate investment firm with the ambition of delivering market rate returns for investors while also connecting low-income children to quality schools. Like NHT's HOPE initiative, MTO focuses on the link between education and life prospects for young children by acquiring properties in communities with quality schools. Specifically, MTO focuses on schools that rank at the 80th percentile or above in performance. An initial metric to assess school quality will be ratings from GreatSchools, but other metrics such as student progress may be used as well. MTO seeks to acquire new, Class-A multifamily properties in such communities located within the 20 most populous metropolitan areas in the United States. Approximately 10-20% of units in acquired properties will be reserved for extremely low-income families with infant children who come from areas of concentrated poverty (neighborhoods with a 30% poverty rate or higher).

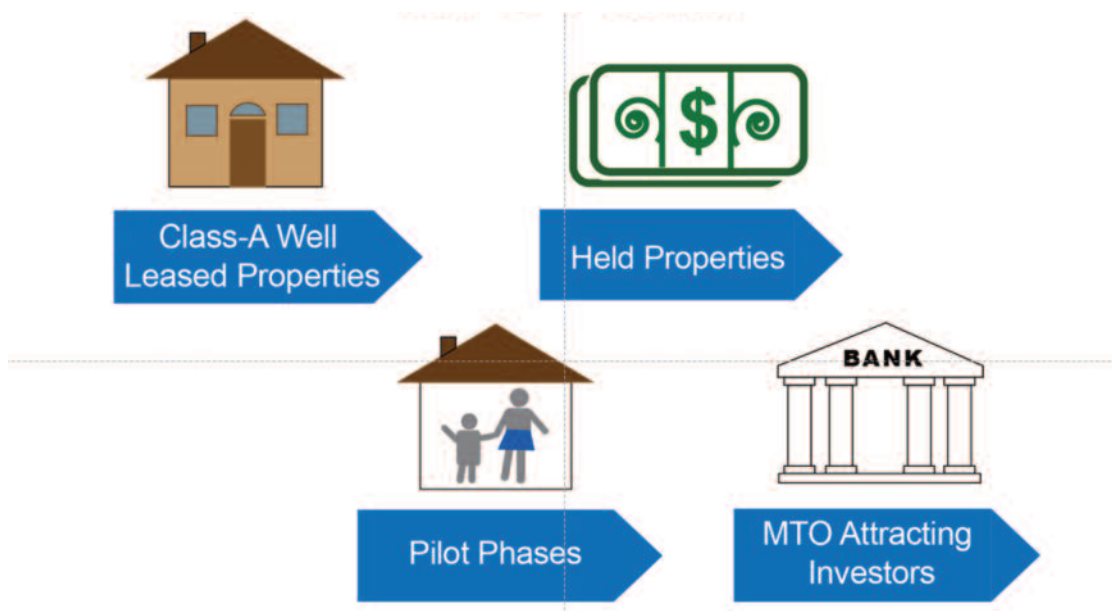
An important aspect of the MTO model is its emphasis on providing its own supportive services to families moving to high-opportunity areas. MTO plans to hire

social workers who can help provide a holistic set of services to families. These services include pre-move and post-move mobility counseling, connections to local service providers (e.g. education and job-training programs), referrals for specialized health needs, and crisis intervention.

The financial sustainability of the model and its ability to deliver market-rate returns for investors relies on several mechanisms. Revenue from Section 8 vouchers will be a key mechanism for bringing in revenue. Another key mechanism for delivering market-rate returns will be a below market rate fee structure for investments. MTO believes that these mechanisms

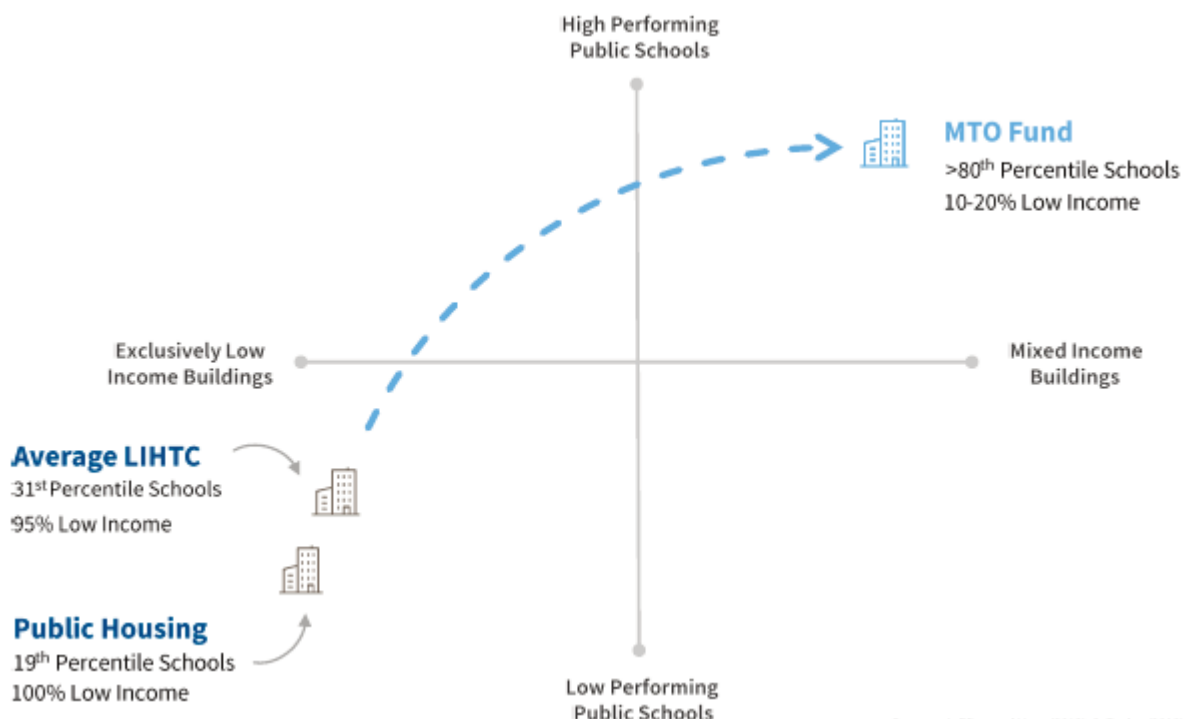


MTO Fund



will offset program costs and achieve market rate returns. The overall investment strategy also focuses on targeting strong real estate markets (to maximize returns), eventually managing properties in-house (third-party property management will be used initially), and holding properties for the long-term. Small Area Fair Market Rents, tax exemptions on income-restricted units, and reductions in assessed property value (where value is determined by income) contribute to the financial feasibility of this model

where they are available. The MTO Fund is preparing to launch a pilot to determine the feasibility of the model. Initially, the MTO Fund hopes to acquire properties in major West Coast housing markets, financed by equity from local foundations, wealth management groups, and high net-worth individuals. If the pilot proves to be a success, MTO hopes to eventually attract mainstream investors such as pension funds who can provide the capital needed to scale the model.



Inclusive Communities Project (Dallas, Texas): Opportunity Leasing

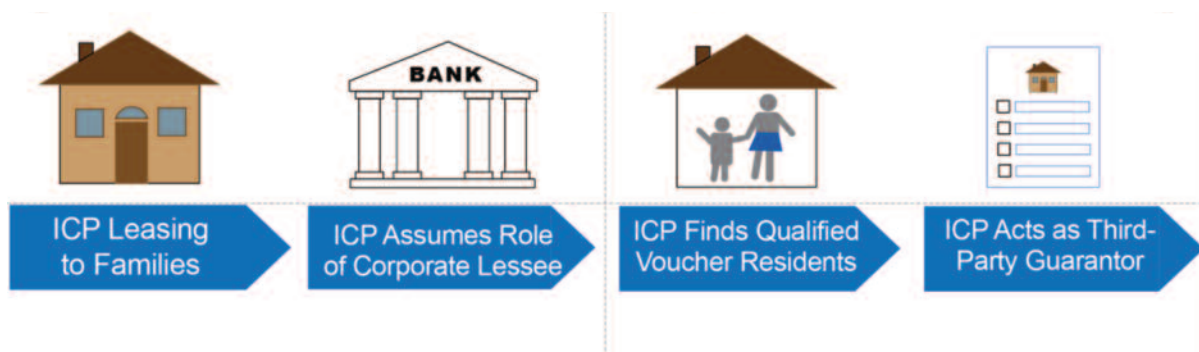
The Inclusive Communities Project (ICP) in Dallas, Texas runs one of the most successful housing mobility programs in the country and has launched an initiative to expand housing choice for its clients. Its Sublease Initiative was directly designed to address the lack of affordable housing supply for its mobility clients seeking housing in well-resourced higher opportunity areas. Despite the demand from clients who want to live in high opportunity areas, many landlords are reluctant to accept vouchers or refuse to take them at all. As a result, clients in ICP's mobility program face difficulty in finding places to live in desirable neighborhoods. Clients' and ICP's housing mobility counselors' experiences with rampant source of income discrimination prompted ICP to create a new program to expand housing choices.

ICP's Sublease Initiative is modeled after corporate leasing of rental units. Although this model does not acquire housing through purchasing property, it shares some common characteristics with other acquisition models. ICP's Inclusive Communities Housing Development Corporation (ICHDC) incentives

landlords to work with them by assuring that rents and security deposits are timely paid and for assuming responsibility for damages beyond normal wear and tear. ICP leases up to 5 units per apartment complex located in well-resourced, high-opportunity areas in the Dallas Metroplex. ICP enters into a HAP contract with a PHA and receives HAP payments. Tenants reimburse ICP for the application fee, security deposit and pays the tenant rental portion to ICP in compliance with the HAP. The owner performs under the lease as a standard property manager with ICP responding to resident issues and lease compliance matters with the sublessee. ICP also assumes responsibility for finding and screening qualified voucher residents and property owners can conduct background screening at ICP's expense.

The Sublease Initiative launched in 2016 and currently serves approximately 25 households in the Dallas area. ICP hopes to grow the program in the future. The overall goal of the Initiative is to serve as a model for other entities interested in starting similar programs. One example of a similar program is NestQuest Houston Inc., funded by the Houston Endowment Inc, It was founded in 2017 to help HCV holders through the Houston Housing Authority with at least one minor in their household lease

Dallas Inclusive Communities Project Sublease Program





apartments. The primary goal of the nonprofit is to ensure that HCV holders utilize their vouchers to live in high-opportunity areas with schools ranked A+ through B by children at risk, an educational advocacy organization in Texas. As with ICP, NestQuest Inc pays rent and utilities to landlords to lease units that they in turn sublease to their clients. They expand the ability

of the ability of HCV holders to live in high-opportunity areas by working with landlords and apartment complexes that otherwise may not accept HCVs. Still in its pilot phase, NextQuest ultimately anticipates serving 350 families.

Further Considerations in Opportunity Acquisition

There are several takeaways from these various housing acquisition models. First, relationships with PHAs are vital to the success of many housing acquisition models. PHAs can help provide a ready source of residents who are prepared to move. In the Chicago area, the Preservation Compact had long-standing relationships with the RHI and CHA. Additionally, RHI and CHA share a commitment to improving access to opportunity and so have been supportive of OIF. As previously discussed, HOPE's local partner in Minnesota has a strong relationship with the PHA that helped to resolve initial issues with placing voucher holders. The MTO fund is still determining where participating families will come from but believes that working with PHAs will likely be the best way to attract residents. Future programs should carefully consider how to forge or maintain relationships with PHAs in order to lease up units and connect residents to opportunities.

The extent to which these different models consider opportunity measures is important as well. Different housing acquisition models may place emphasis on different measures. MTO and HOPE have a particular focus on families with young children and use school test scores as a threshold criterion. Other prospective housing acquisition efforts may choose to use additional or alternate criteria for education or focus more on other measures of opportunity such as

access to quality transit, employment centers, or other services.

Cultivation of relationships with local partners and among regional entities is also an important facet of acquisition. Working with local partners is critically important to NHT's efforts. The level of services provided to tenants to help them access opportunity (for example, as part of housing mobility counseling programs) is another important consideration for future programs. The MTO Fund incorporates supportive services into its model but this may not be feasible for other acquisition efforts.

Perhaps the most important consideration for housing acquisition efforts is the financial feasibility of acquisition programs. In order to be competitive with other bidders for properties, housing acquisition models need to have sufficient capital and need to consider what sources of funding are available. It is also important to understand market rate pricing dynamics for multifamily buildings. Market conditions may be especially challenging in strong markets such as the Bay Area and the Seattle area. Payment standards for vouchers should also be considered to determine the viability of using subsidies as a revenue stream to support the cost of operating properties. Acquisition can be more viable in areas that have implemented SAFMRs.

An Additional Consideration: The Expanding Need for Affordable Housing Support

As previously discussed, the availability of affordable rental housing in high-opportunity areas can make an enormous difference in the life trajectories of families (and particularly children) who rely on subsidized housing. Opportunity acquisition strategies, along with expanded housing mobility efforts and changes to federal housing programs, can go far in addressing the lack of such housing. However, an important remaining consideration is the need for expanded housing assistance and support for affordable housing.

While the need for affordable housing has continued to grow, the amount of housing assistance that is available does not come close to meeting the needs of low-income families. Traditional public housing has long been underfunded and makes up a declining proportion of the affordable housing stock. Since the mid-1990s, more than 250,000 public housing units have been lost due to physical deterioration and other factors and there is currently a massive backlog of unmet physical repair needs.⁴⁷ Additionally, funding for HCVs has long been well below what is needed to adequately serve the amount of need. Long waiting lists for vouchers are common at public housing authorities across the country. Overall, approximately 3 in 4 eligible households do not receive any form of federal rental assistance due to underfunding of programs.⁴⁸ The problem of underfunded assistance was exacerbated in recent years as caps on federal discretionary spending from fiscal year 2010 to fiscal year 2017 led to sharply reduced funding for key HUD programs.⁴⁹ An increasingly wide gap between the

amount of assistance available and the demand for such assistance has only continued to grow. The shortage in affordable housing is also exacerbated by the risk that existing subsidized rental units will be lost as affordability restrictions expire.

As rents have risen, the percentage of households that are considered rent burdened has also increased, particularly in large metropolitan areas. In 2015, 48% of tenants were considered rent-burdened (paying more than 30% of income for rent) and of that group, 25% of tenants were considered severely rent-burdened tenants (paying more than half their income in rent).⁵⁰ The number of low-income renters has also grown substantially. Between 2005 and 2015, the number of low-income renter households increased by 440,000 a year.⁵¹ The lowest-income renters are the most affected by rental costs. Among households that earned less than \$15,000 in 2016, 83% experience cost-burdens.⁵² These cost burdens disproportionately affect Latino and Black households.⁵³ As these figures show, while opportunity acquisition efforts are highly promising and will make a concrete and meaningful difference to many families, it remains important to expand the funding available for housing assistance and to sufficiently support the creation of additional affordable housing in order for these programs to achieve their full potential. As we do so, it will also be important to ensure that this housing is created in a balanced way that does not exacerbate existing patterns of concentrated poverty, but instead provides for pathways to opportunity.

47 CTR ON BUDGET AND POLICY PRIORITIES, Policy Basics: Public Housing (Nov. 15, 2017), <https://www.cbpp.org/research/policy-basics-public-housing>

48 CTR ON BUDGET AND POLICY PRIORITIES, Policy Basics: Federal Rental Assistance (Nov. 15, 2017), <https://www.cbpp.org/research/housing/policy-basics-federal-rental-assistance>

49 ANDREW AURAND, DAN EMMANUEL, DIANE YENTEL, ELLEN ERRICO, & MARJORIE PANG, NAT'L LOW INCOME HOUSING COALITION, THE GAP: A SHORTAGE OF AFFORDABLE HOMES 14, (2018).

50 *Id.* at 5.

51 *Id.*

52 JOINT CTR FOR HOUSING STUDIES OF HARVARD UNIVERSITY, AMERICA'S RENTAL HOUSING 20174 (2017).

53 NAT'L LOW INCOME HOUSING COALITION, *supra* note 54, at 13.

Conclusion

As affordable housing and opportunity become increasingly out of reach for low-income residents, new strategies are needed to create mixed-income communities that provide access to amenities, resources, and schools that can lead to upward mobility. The National Housing Trust's HOPE initiative, along with several other models, has the potential to improve equity in society by creating pathways to opportunity for many low-income households. The focus that HOPE places on access to good schools has the potential to create a lasting positive impact for children who move to new neighborhoods. Other models that also place an explicit focus on opportunity, such as the Baltimore Regional Project-Based Voucher Program, the

Opportunity Investment Fund, MTO Fund, and ICP's Sublease program, are similarly important. Finally, local policies, such as the adoption of Small Area Fair Market Rents, can contribute to making these models successful on a broader scale.

Going forward, housing acquisition programs can build on lessons from the current set of initiatives, and should also carefully consider issues such as relationships with PHAs, the services provided to families who choose to move, and financing. If executed well, housing acquisition programs that create low-income housing options in quality neighborhoods can be a powerful tool to create access to opportunity.

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