

## **Panel 2-Rental Housing & Neighborhoods**

### **New “Neighborhood Investment Partnership Fund,” The Community Builders, Inc.**

**Problem Statement.** Most mid-to-large size cities have urban neighborhoods and/or inner ring suburban areas with older assisted and unassisted multifamily housing in need of revitalization or more substantial repositioning. These transitional neighborhoods are not deeply distressed. But they do not offer the range of viable mixed-income housing options and companion community facilities, attractive retail/commercial development and other spaces and amenities demanded in today’s marketplace. They also tend not to offer the human development supports most sought by their lower-income residents. Public schools do not compare favorably to private options; there is little if any workforce development aligned to local opportunities; and supports for working families such as affordable childcare are difficult to access.

Although political and community leaders increasingly seek to develop needed mixed-income/mixed-tenure housing that responds to the evolving demographic, economic, mobility and human development needs of residents, there are only modest resources available for repositioning transitional neighborhoods. Most existing resources target specific development deals, instead of the broader geography of a neighborhood. The most prominent recent federal rental housing intervention—the HOPE VI program—targeted troubled public housing, which is typically located in seriously distressed, high-poverty urban neighborhoods. Other potential resources are narrowly circumscribed, including single and multifamily tax exempt debt financing, Low Income Housing, New Market and Historic tax credits, Section 202/811 housing for the elderly and disabled, and modest annual increments of CDBG and HOME funding. The limited set of tools for recapitalizing and extending operating subsidies for the Section 8 assisted stock are not well suited for developing mixed-income housing and companion non-housing uses.

**Policy Proposal.** Moderately distressed or transitional urban and inner ring suburban neighborhoods need catalytic, long-term investment and sustained management in support of multi-dimensional approaches to re-establishing healthy market functioning. Investments would be targeted to low-poverty, economically and racially diverse neighborhoods with efficient transportation and links to local employment centers. Such neighborhoods would also be proximate to one or more stable communities that offer additional market strength. A **Neighborhood Investment Partnership Fund** is proposed to support targeted neighborhoods. The NIPF will be a new federal grant and loan program funded over a 10-year period for each neighborhood selected in a competitive HUD program, structured as follows:

- Each investment will be in a neighborhood-specific structure established with City, lead developer and community stakeholder representation and some type of investment or “skin in the game.”
- Funds will be invested (leveraged by matching grants, tax credit equity and mortgage financing) in a dynamic mix of mixed-income housing, retail/commercial and working spaces, critical neighborhood infrastructure, large scale energy conservation, and human development initiatives.
- The City will have the obligation to repay one-third of the investment (present value basis) from enhanced neighborhood real estate tax and other revenues, secured by a pledge of up to 25% of its expected CDBG and HOME funding over a subsequent 15-year period (years 11-25).
- The lead developer will be required to repay one-third of the investment (present value basis) from rental housing cash flows and recapitalization, single-family housing transfer fees and commercial and community facility refinancing, secured by an escrow of 25% of its development fees.

The NIPF structure will result in a program scope supporting 25 initial investment commitments averaging \$40 million. This would amount to a nominal commitment of \$1 billion and a federal budget amount of \$333 million based upon Federal Credit Reform Act of 1990 budgeting rules. A successful program would grow to a budgeted amount of \$1 billion for each new year by year five. Ten years of commitments could support over 400 neighborhoods at a federal cost of \$8.3 billion, and would directly generate over \$100 billion of

## **Panel 2-Rental Housing & Neighborhoods**

### **New “Neighborhood Investment Partnership Fund,” The Community Builders, Inc.**

neighborhood level economic activity, with the impact of expenditures likely to exceed twice that amount (see attached charts for prototype investment, return and payback levels).

The NIPF could be substantially leveraged by tailoring the federal LIHTC program in ways that have been under discussion in other venues on how to upgrade this nearly 25-year old program. These generally involve relaxing the program’s income and credit compliance period requirements, including:

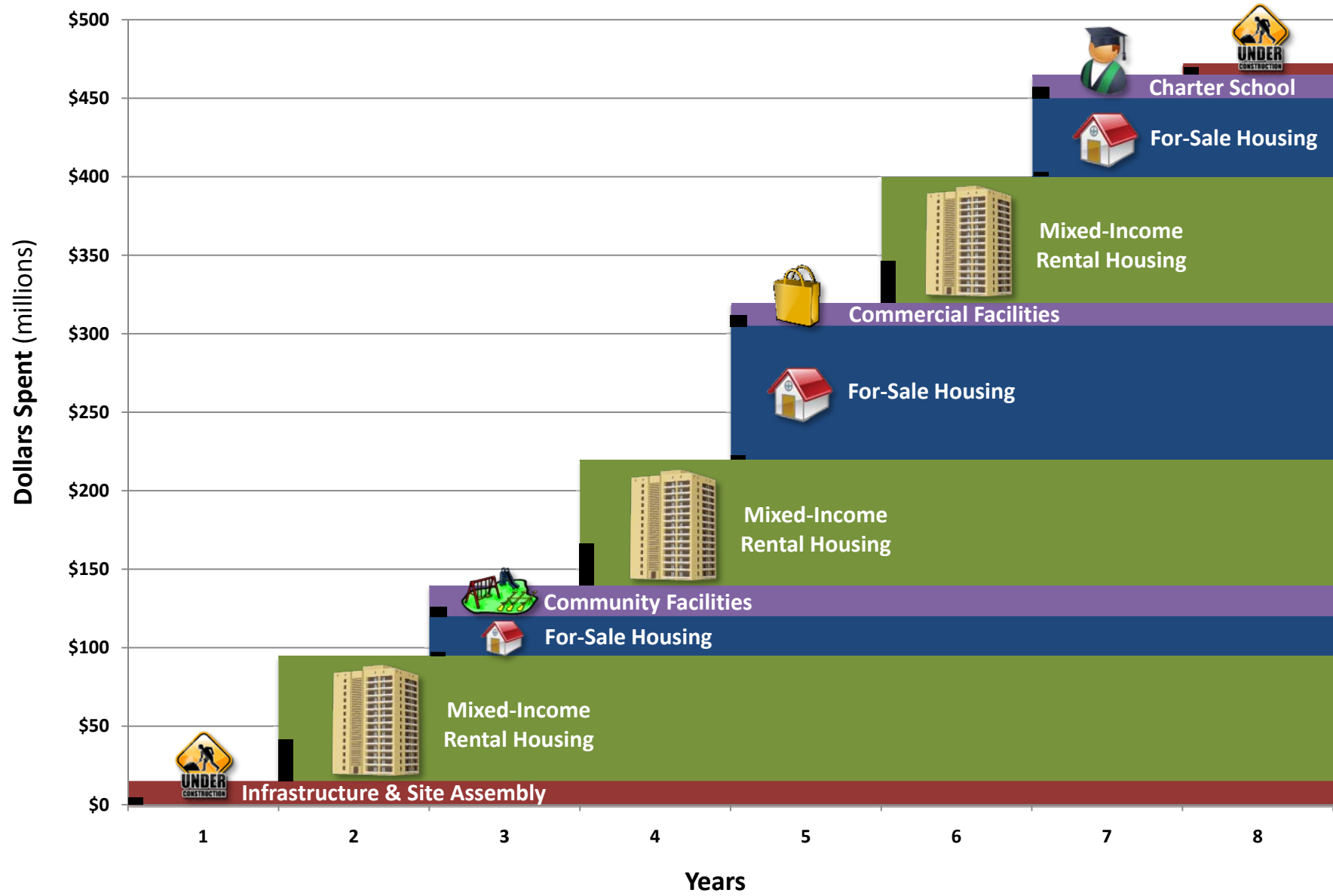
- **Indexing:** the current LIHTC program supports housing for those up to 60% of area median income. In high-cost markets, additional capital and operating subsidies are required. Even when made, the housing often remains unaffordable to very low-income residents. Conversely, moderate-income households above 60% AMI are also excluded. An indexed tax credit with the 9% credit as the median, with greater and lesser credits available for greater and lesser affordability levels would better serve a true mixed-income strategy.
- **Converting to homeownership:** while homeownership conversions are currently permitted after 15 years, it would be more effective to allow LIHTC supported-units to convert to affordable homeownership as warranted by local market conditions and community strategies. This could be achieved by either allowing conversion without tax-benefit reduction or recapture in fewer than 15 years, or providing for greater acceleration of the credit and a shorter compliance period.
- **Expanding use of the 4% credit:** in many jurisdictions, the 4% credit is significantly underutilized. Allowing the credit to be applied to related but non-housing costs (public streets and infrastructure, demolition, community facilities, etc.), or extended as a multiple of available 4% credits, e.g, doubling the 4% credit, to targeted developments with NIPF investment would both expand the use of the credit and increase its leverage.

**Conclusion.** The NIPF offers a bold response to current realities in transitional neighborhoods consistent with a longstanding federal role in designing innovative housing financing products and demonstrating their market feasibility. In a 2009 Harvard University, Joint Center for Housing Studies report entitled *Meeting Multifamily Housing Finance Needs During and After the Credit Crisis: A Policy Brief*, the authors underscore the importance of the federal innovation in housing finance and suggest that, “Areas today where this might be desirable include small multifamily properties, loans acquisition, development and construction loans, mixed-use properties, and mixed-income properties with income targeting.” Moreover, NIPF builds on proven techniques such as the Section 108 loan guarantee program available to CDBG grantees. It also echoes the flexibility, developer role and private sector leverage of the Urban Development Action Program successfully deployed by many cities from 1978-87.

The NIPF will support the development of large-scale, mixed-use real estate activities in a carefully sequenced, continuous fashion that sets the stage for implementing companion education, workforce and family support initiatives. The scale and complexity of such varied activities demand significant public and private capacity—to marshal needed management and additional financing; assume financial risk and exposure; execute complex transactions; deliver projected investment returns; bridge changes in political and community leadership; and adjust to changing realities over the long term. These requirements call for continuous, long-term stewardship of local government, a lead developer with proven capacity, and community stakeholders that are committed to managing NIPF activities over a minimum 20-year period. The form of organization best suited for this type of stewardship is analogous to a special purpose consortium undertaking the long-term capital program of a university or medical institution, or the adaptive re-use of a major physical asset, such as the former Stapleton Airport in Denver.

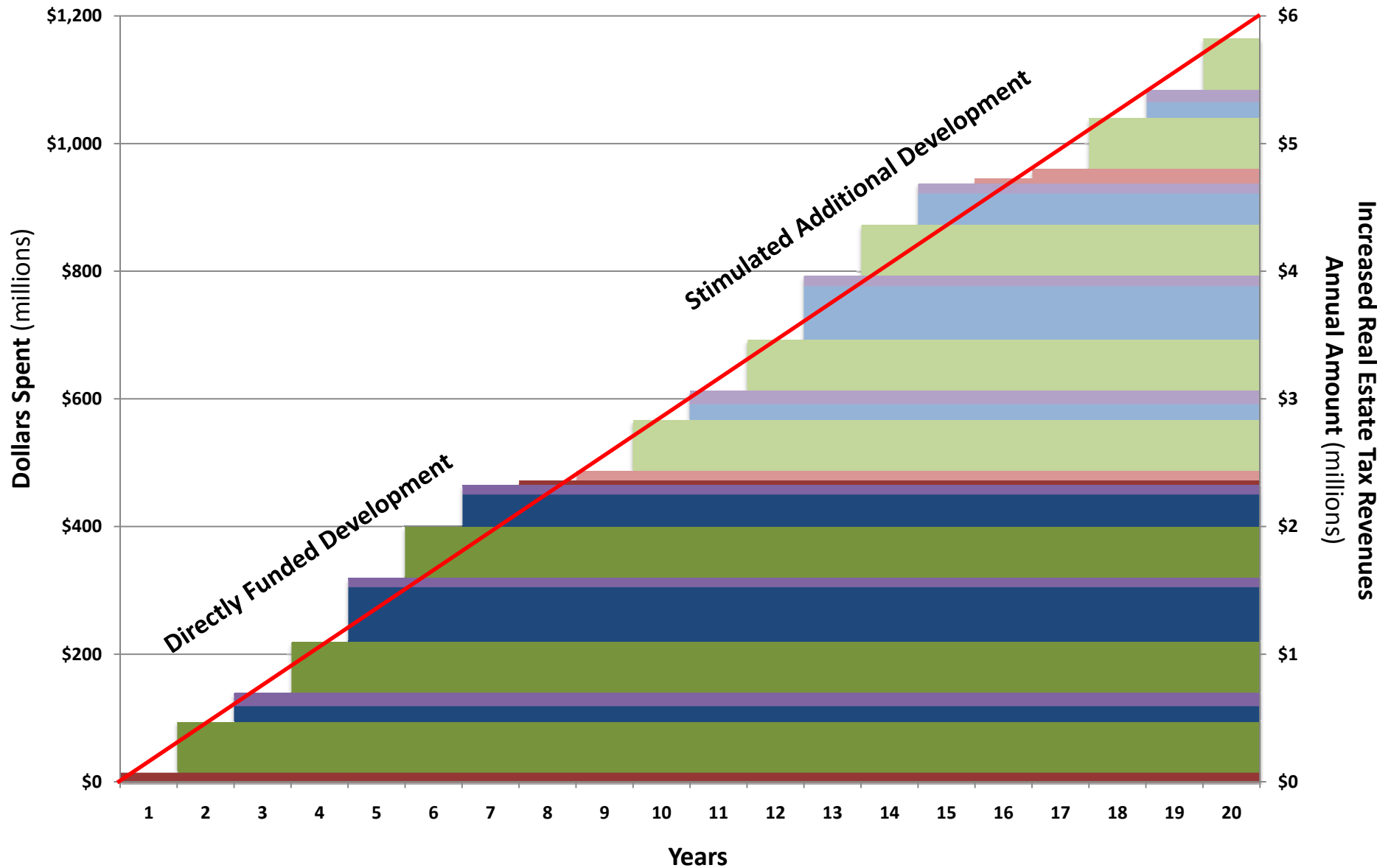
# Neighborhood Economic Activity

■ \$100M Fund Investment



# Neighborhood Economic Activity (left axis) and Return (right axis)

See Prior Chart for Uses by Color



# Payback on \$100M Fund Investment

