Affordable housing: the view from 2024
And how we thrived in the five years leading up to it

Keynote ♦ Housing Colorado
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David A. Smith ♦ dsmith@affordablehousinginstitute.org ♦ +1 617 502-5913
Structure of this presentation

- Part 1: Headlines from 2024
  - Via the 3 horizons of change

- Part 2: How and why we got there
  - Horizon 1: Why affordable housing is the *highest urban priority*
  - Horizon 2: The 3 types of *urgent affordable housing challenge*
  - Horizon 3: *Privatizing housing innovation* and program design

- Part 3: What this means
  - For Colorado
  - For you
Part 1:
Headlines from 2024

Amazing aquagirl catches fish with her teeth!
Sizzling photos inside!
Man fries eggs on his bald head!
He even cooks crispy bacon and pancakes on the side.
Introducing the 3 horizons

1. Current generation business
   - What we do now
   - What systems we use now

2. Next-generation business
   - What we could do
   - If we stretch our activity
     - Our systems and technology

3. Next-opportunity business
   - Find ‘effective demand’
   - Design products to address it
     - Invent new systems/technology
     - Sell into that new market
1. Global capital disrupts urban residential markets
2. Affordable housing forgotten as a Federal issue
   a. SALT deduction elimination
   b. Mortgage Interest Deduction caps
3. The revolution against exclusionary zoning is in full swing
   a. Employers wake up to anti-competitiveness of NIMBYism
   b. Mandatory positive-sum Inclusionary Zoning is taking over
      i. It can be a municipal money source
   c. Airbnb, WeWork (WeLive), live-work, telecommuting
4. Legalization of sex work reaches tipping point
   a. With zoning, housing licensing implications
5. Private equity permeates for-profit real estate platforms
1. Employers are new essential counterparties
   a. Demand aggregation, capital capacity
   b. Increased constructive housing policy voice
2. “Housing-plus” is universal (additionality)
   a. Social savers (+ resident services)
   b. Economic aspirants (+ family economic opportunity)
   c. Community vitalizers (+ neighborhood growth)
3. Non-profits are ‘service-centric’
   a. Property becomes a campus for a ‘service court’
4. The Model 2014 PHA has vanished (and some reborn)
5. Pay-for-Success (P4S) is working across several domains
   a. Specialized niches, not yet replicable (think CDL in 1985)
Part 2:
How and why we got there
Horizon 1: Where we are now
What we can see in front of us

- Washington evacuates housing policy space
  - “Housing is not a national problem”
  - “Individualized local problems all over country”
- LIHTC reached its stable policy endgame
  - Funding secure, but permanent demand/supply imbalance
    - QAPs dialed to ‘minimum survivable nutrition’
    - Fee-based merchant building, no real residuals, Year 15 optionality
- For job-creating metro areas, housing is control valve on economic growth
  - Choking on unaffordability: congestion, supplemental poverty
  - Hollowing out of the city: very rich, very poor
  - Millennial ire at housing exclusion, wealth hoarding (Vonnegut)
Housing is urban infrastructure
Because housing is where jobs go to sleep at night

- “Housing is where jobs go to sleep at night”
  - Allan Kingston

- **Affordable** housing is where essential jobs go to sleep at night
  - “People who make the city work” should live in the city they work

- “1 = 1 + 1”
  - Add +1 job to your urban economy ... and you
  - Add +1 home ... and in turn
  - Add +1 weekday round-trip commute

- The ‘5-to-1’ rule: +1 high-income job → +5 mid-low-income jobs

- H + T = 60%
  - Housing cost plus transportation = 60% of household budget
  - If one goes down, the other goes up
Housing is where community meets household

- **Communities**
  - 4+1 rule of 21st century sustainable jobs
  - Affordable housing anchors communities
    - ‘Green sustainable cities’ ↔ urban affordable housing
  - Housing touches everything
    - Jobs, transport, health, safety, community
  - Scale of success is neighborhood-plus
  - Time test of success is capital reinvestment

- **Affordable housing**
  - Affordability is end objective in itself
    - ‘Decent, safe, and sanitary’
  - Scale of success is the property
  - Time test of success is property viability
  - Households start out independent
  - Affordability is just start
    - “Housing plus services”
    - Housing is the platform for improvement
    - People are less than independent
  - Scale of success is person or household
  - Time test of success is life improvement

- **Households**

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Horizon 2: What’s invisibly upon us
What’s around the bend

- Workforce housing ↔ Interstate competition
  - New participants hungry for solutions
    - Employers, Millennials, aging-in-place homes
    - ‘Common-sense’ economic case
    - Potential non-cash resources (see list)
  - 2019 → 2024: Create ‘business model’ paradigms
    - Turn money & laws → Events, outputs, outcomes, impact

- LIHTC took seven years to find its paradigms
  - 1986: 65% utilization (given away for free)
  - 1988: Individual investors, public funds
  - 1991: Early corporations
    - Remember Dennison, R R Donnelly, Sherwin-Williams, Cargill
  - 1993: Permanence, CRA teeth, guaranteed returns
The ‘social savers’ group
Helping taxpayers by helping those in need

1. Elderly retrofit to extend healthspan
   - ‘Nursing home aversion’ by non-medical caring

2. Permanent supportive housing for chronically homeless
   - Bringing help home

3. Formerly incarcerated
   - 2,250,000 in prison, 4,750,000 on probation/ parole

4. Aging out of foster care
   - Unready for economically independent adult life

5. Veterans’ recovery campus
   - “Emotional demobilization”
The ‘economic aspirations’ group
Growing economy by growing affordable homes

6. Workforce housing
   ▪ Above LIHTC, below market-income

7. Employer-assisted housing
   ▪ People who can’t get to their job won’t take the job

8. ‘Off-campus’ dormitories: grow campus, not spillover
   ▪ Universities are ‘sustainable urban jobs’ engines

9. Entrepreneurial rooming houses
   ▪ ‘WeWork’ for business → ‘WeLive’ for entrepreneurs?

10. ‘Refugee landing pads’
    ▪ Turn refugees into productive Americans
    ▪ Their little place in the land of opportunity
The ‘community vitalizer’ group
Housing stabilizes de-stabilizing communities

11. Orphan properties
   - Aging, obsolescent, de-motivated ... essential

12. Operator-owned mobile home parks → co-operatives
   - Buy underlying land → Chattel into real estate

13. Foreclosure homesteading
   - Curing ‘urban chicken pox’ 1 home at a time

14. Accessory Dwelling Units (ADU’s)
   - The family member you want close ... but not too close

15. Naturally Occurring Affordable Housing (NOAH’s)
   - Vaccinating against ‘market eviction’

16. ‘Living Main Street’ (flats over shops)
   - Storefronts vacant by day → downtown dead at night
Horizon 3: How we privatize housing innovation

“The best way to predict the future is to invent it”

- We erred by ‘delegating up’ our agency ... to Washington, DC
  - When housing HUD ‘fell,’ we fell with it
  - Meanwhile, we vacated the local political space
    - Where developers are always typecast as the bad guys
- Privatize housing innovation by coming up with solutions ... free
  - Turn this into a problem an elected official can solve
    - By changing laws and giving us money
- Work backwards: understand your housing value chains
  - Demand side: From worthy household to happy householder
  - Supply side: From development opportunity to occupied home
  - Useful primer material available from us via VHA
Affordability tools states/locals can use

- Cheap land or trunk infrastructure
  - Government PPP
    - Surplus property repositioning:
  - Tax Increment Financing (TIF) as funding source
- Community reinvestment capital
  - CRA, new and improved?
  - Mandated or incentivized
- Inclusionary zoning (with density bonus)
  - Mandates, incentives, and everything in between
    - 880+ US jurisdictions: Chapter 40B
    - Going global: UK Section 106, Brazil CEPACs
  - Overlay zoning districts
- Real estate tax incentives (‘land value capture’)
  - Land value capture (tradeable zoning)
- State-level tax credits: localized analog of national programs
- Sales tax waivers on construction materials
  - Claimable and self-certified
Whose job is housing innovation?
The best way to predict the future is to invent it

- Solutions create money
  - The “Other People’s Pockets Paradox”
- Solutions conjure non-cash resources
  - BIDs, overlay zones, IZ, municipal-owned land
- Solutions attract new partners
  - Stranded costs of campuses, networks
  - Housing Authorities, millennials
- Employers are the biggest Other People’s Pockets
  - The 4+1 of sustainable-growth jobs
  - 4: Education, health care, technology, government
  - 1: Leisure (vacation, retirement, recreational)
Part 3:
What this means for you
Summarizing ...
(“Hey, wake up and write these down”)

1. **Affordable housing is essential to Colorado** Where new jobs go to sleep at night
   a. Where people make community

2. **Sell housing not for what it is, but what it does**
   a. Urban infrastructure → Affordable housing
   b. Social inclusion → Affordable housing
   c. Urban sustainability → Affordable housing

3. **“Privatize housing innovation” by open-source experiment**
   a. “A lot of times, people don't know what they want until you show it to them”
   b. Design the solution and its aroma conjures the resources

4. **Ask others to contribute only what they have**
Affordable housing: the view from 2024
And how we thrived in the five years leading up to it
Government is a factory... that produces only two products

- Government *wants* outcomes and impact
  - But government cannot produce these directly
- Government is a factory that produces only two products
  - Laws (“thou shalt do this, thou shalt not do that”)
  - Money (“if thou dost this, I shall pay you coins”)
  - Neither laws nor money are outcomes or impact
    - Laws work only if they are complied with
    - Money works only if it’s “enough”
      - And at the right point of the value chain
- Government needs counterparties to turn money and laws into outcomes
  - Money + Laws $\rightarrow$ Impact?
- For all its challenges, PPP tends to work better

“Hot air is merely a byproduct”
Affordable housing always costs money
More in booming economies, supply constraints

- Economic development drives housing values
  - Growth → jobs → people → spending
  - Growth increases ‘need’ and ‘effective demand’
    - Need is how many units
    - Effective demand is how much rational people will pay for them

- Economy ↑ means affordability ↓
  - A growing economy makes housing affordability worse

- Market won’t produce ‘enough’ affordable housing
  - Housing is adversely selected within real estate development
    - Office, R&D, commercial, hotels all pencil out better than housing
  - Affordable housing is adversely selected within residential
    - Market quality product at below market economic value

- Therefore government has to become involved
  - And always does become involved
2 value chains, 16 links
In functioning markets, they work together and meet at a closing

- Many actors along the way
- Many handoffs
- Each relies on the next

- Developers looking for opportunity
- New customer-price niche

- Household wants home
- Can pay for home
- Ready to move in
- (Homeownership model)

- Government enables or disables
- Regulates
- Incentivizes

- Home can be moved into
- Home can be sold
- Price recoups capital
- Developer cashes profit
If any link doesn’t work, the value chain is ‘broken’
And in many (most?) markets, one or more links doesn’t work

- If even one demand-side link is broken
- People can’t borrow to buy

- If even one supply-side link is broken
- Homes aren’t created

- If several links are broken at the same time ...
- Problem may seem insoluble

- Solution: Analyze each value chain by observation
- Identify missing links, weak links, uneconomic handoffs
- Make ‘maxi-min’ changes at the weak links only
‘Free’ money comes in many forms
Non-cash converts to cash ↔ Cash converts into non-cash

<table>
<thead>
<tr>
<th>Cash</th>
<th>Non-cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Grants</td>
<td>1. Land (cheap or free)</td>
</tr>
<tr>
<td>2. Hard debt with high gearing</td>
<td>2. Zoning and density</td>
</tr>
<tr>
<td>3. Hard debt with interest subsidy</td>
<td>3. Trunk infrastructure</td>
</tr>
<tr>
<td>4. Soft debt</td>
<td>4. Site infrastructure</td>
</tr>
<tr>
<td>5. Hard equity</td>
<td>5. Cheap or free utilities</td>
</tr>
<tr>
<td>6. Soft equity</td>
<td>6. Credit enhancement</td>
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<tr>
<td>7. Operating subsidy</td>
<td>7. Tax relief (VAT) on materials</td>
</tr>
<tr>
<td>8. Redirective subsidy</td>
<td>8. Real estate tax (fees) relief</td>
</tr>
</tbody>
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Every market has a distinctive mix – what is the mix in your market? Always design programs and business models around unique mix
Affordability tools states/locals can use

- Cheap land or trunk infrastructure
  - Government PPP
    - Surplus property repositioning:
  - Tax Increment Financing (TIF) as funding source

- Community reinvestment capital
  - CRA, new and improved?
  - Mandated or incentivized

- Inclusionary zoning (with density bonus)
  - Mandates, incentives, and everything in between
    - 880+ US jurisdictions: Chapter 40B
    - Going global: UK Section 106, Brazil CEPACs
  - Overlay zoning districts

- Real estate tax incentives (‘land value capture’)
  - Land value capture (tradeable zoning)

- State-level tax credits: localized analog of national programs

- Sales tax waivers on construction materials
  - Claimable and self-certified
Cheap land, trunk infrastructure
(Building the built environment)

- Municipal bond financing
  - Exempt from income taxes
    - Federal, state
  - Interest rates lower
- Land sold by redevelopment authorities
  - Parcel assembly via eminent domain (expropriation)
  - Environmental remediation of impacted sites
  - Land price paid at completion (or long-term ground lesae)
- Tax Incremental Financing: city bonds for infrastructure
  - Debt service underwritten to increase in real estate taxes
  - Normally pays for trunk/site upgrading (urban renewal area)
    - In Boston, it’s called DIF (District Improvement Financing)
Affordable housing production is an ongoing need

- ‘Market’ housing always improves
  - Technology (broadband, energy)
  - Consumer desires create effective demand
- Affordable housing is an **output of two value chains**
  - **Supply-side**: Empty lots to occupied homes
  - **Demand-side**: Eligible customer to performing/ enforceable loan
- Government enables or disables everywhere along value chains
  - Supply side: reduce costs to deliver completed homes
    - Land, trunk infrastructure, building codes, approvals speed
  - Demand side: *selectively* boost ‘home-consuming’ power
    - Target to people, not place, avoid
- Result: **Affordable housing is an ongoing need**
  - Requires ongoing government enablement
  - Reduce development barriers
  - Subsidy resources (cash and non-cash) at margin
- The business never goes out of style
Affordable housing development: Pros and cons

**Pros**
- Intellectual capital, not cash capital
- Development fees up front
- Key to unlocking high-value parcels
  - Urban redevelopment
- A “resource magnet”
  - Upzoning, density bonuses
- Countercyclical
  - Funding cycles “evergreen”
- Builds local political capital
- Political skills are portable
  - Access to elected officials
- Brand value of ‘reputation’

**Cons**
- Complexity of entry
- Specialized knowledge
  - Not just ‘development light’
- Property-level finance complicated
  - Customized, not cookie-cutter
- Politicized funding risk
- Compliance, reporting are critical
  - Transparency, scrutiny
- Government counterparty risk
  - Hard to bind the sovereign
  - Hard to sue the sovereign
- Residual value hard to extract

If you want to be in this business, you have to feel good about it as public policy.