

A NEW ERA OF AFFORDABLE HOUSING

Presentation for: Preserving Affordability Through Neighborhood Stabilization
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Introduction

- Time of great change for affordable housing
 - Traditional funding sources dwindling
 - Greatly increased need
 - How to do more with less?
- Instead, we ask: how can practitioners adjust traditional models and devise new ones to meet the current challenge of this new era and evolve?
- Overview
 - Outline of challenges within the general housing market and demographic conditions
 - Funding and development situation
 - A look at a few emerging innovative models for the future

Key Challenges

- **The Market:** Tighter mortgage lending standards, investor activity, home prices outpacing incomes
- **Demographics:** Shifting household needs and preferences
- **Development Costs:** Struggle to contain costs with fewer resources
- **Policy and Funding:** Targeting limited resources

THE MARKET

Tighter Mortgage Lending Standards

- Borrowers must have higher credit scores, little debt
- Recent CRL study: With a hypothetical borrower FICO score minimum set at 690, who would be excluded from the market? Of borrowers in the study with existing loans in good standing:
 - 39% of low-income households
 - 30% of moderate-income households
 - 42% of African American households
 - 32% of Latino households...

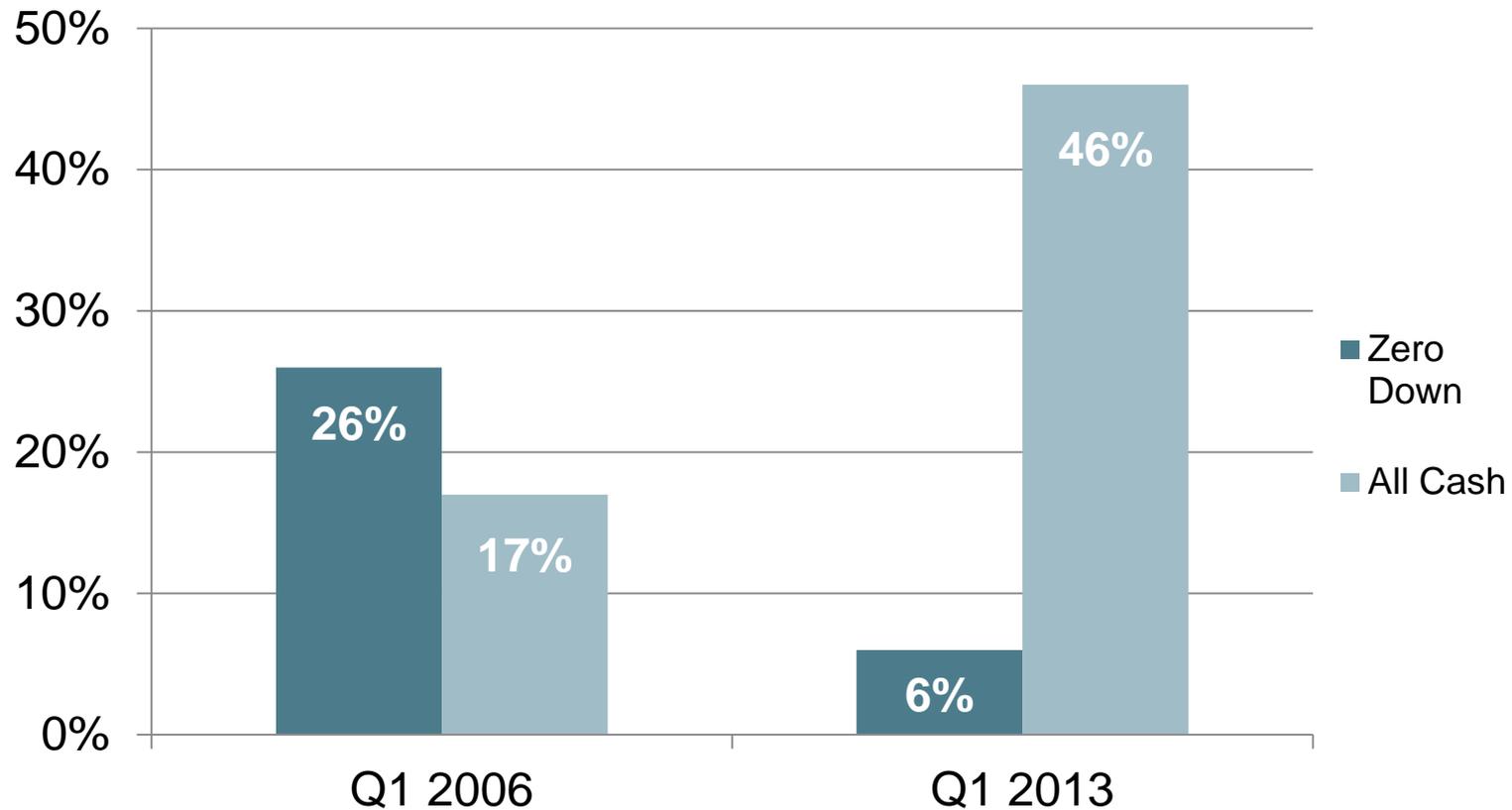
...Would be excluded due to credit score.

Investor Activity

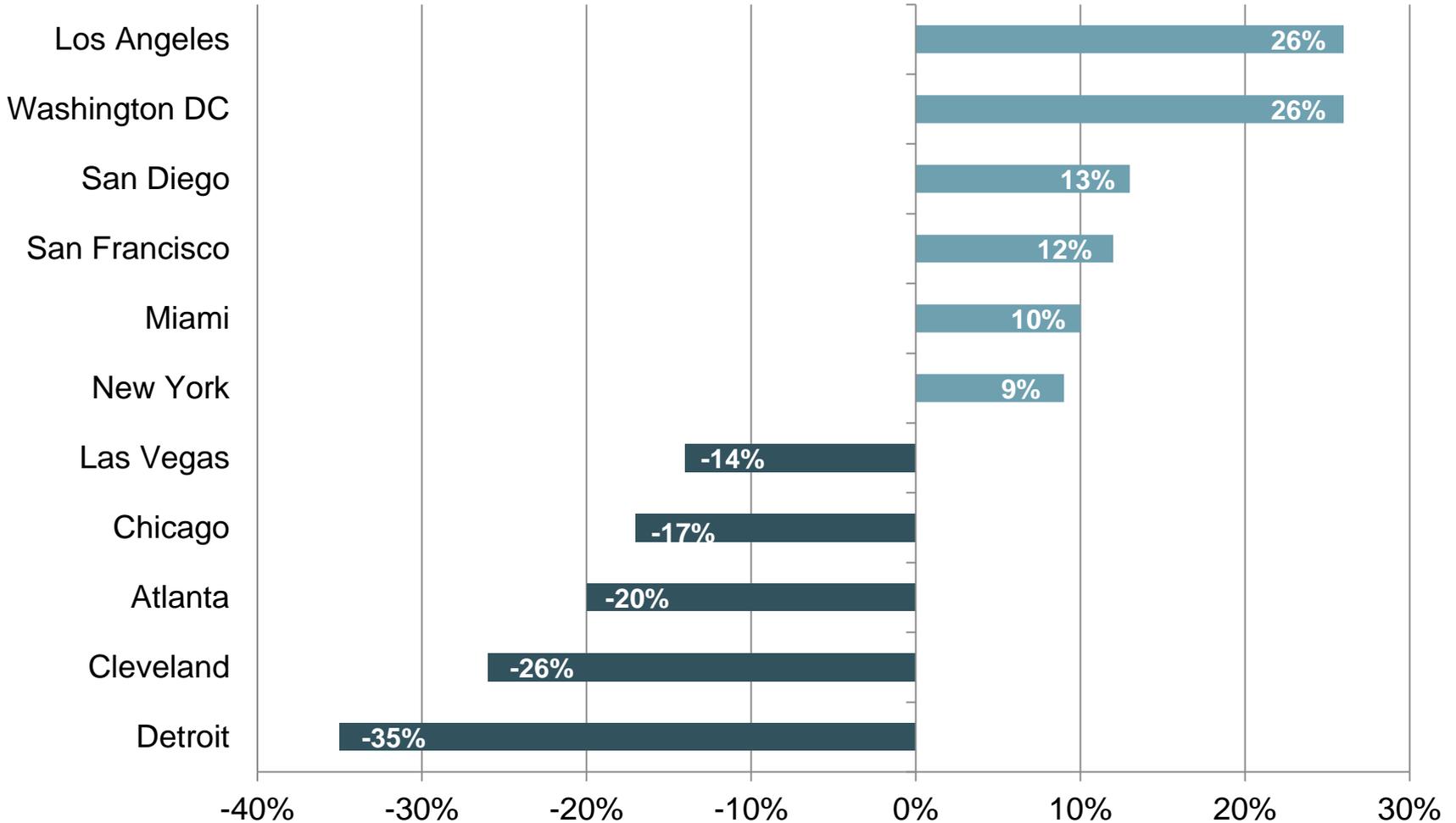
- Investors are flooding some major metropolitan markets: Las Vegas, Phoenix, Miami
- Hold properties off market or convert to single-family rental
- Sellers prefer investors' quick cash transactions
- Relevant for Bay Area as well – in February 2013:
 - 28% of home sales in Alameda, Contra Costa, San Mateo, and Santa Clara counties were to absentee buyers
 - Almost 1/3 of sales were all cash transactions
- **Even where home prices are becoming more affordable to low- and moderate income (LMI) borrowers, these potential buyers are often locked out**

Increase in Homes Purchased with All Cash

Percent of U.S. Home Sales with Zero Downpayment vs. Paid in Cash, 2006 & 2013



Change in Home Price to Per-Capita Income Ratio Since January 2000



Home Sales Volume and Median Prices, June 2013

	Bay Area	Los Angeles	Las Vegas
Sales Volume	7,897	21,608	4,739
Median Sale Price	\$500,000	\$385,000	\$169,100
Percent Increase since June 2012:			
Homes Sold Over \$500K	20%	36%	109%
Investor/Absentee Share	24%	29%	51%
Cash Buyer Share	26%	30%	60%

DEMOGRAPHICS

Changing Consumer Preferences

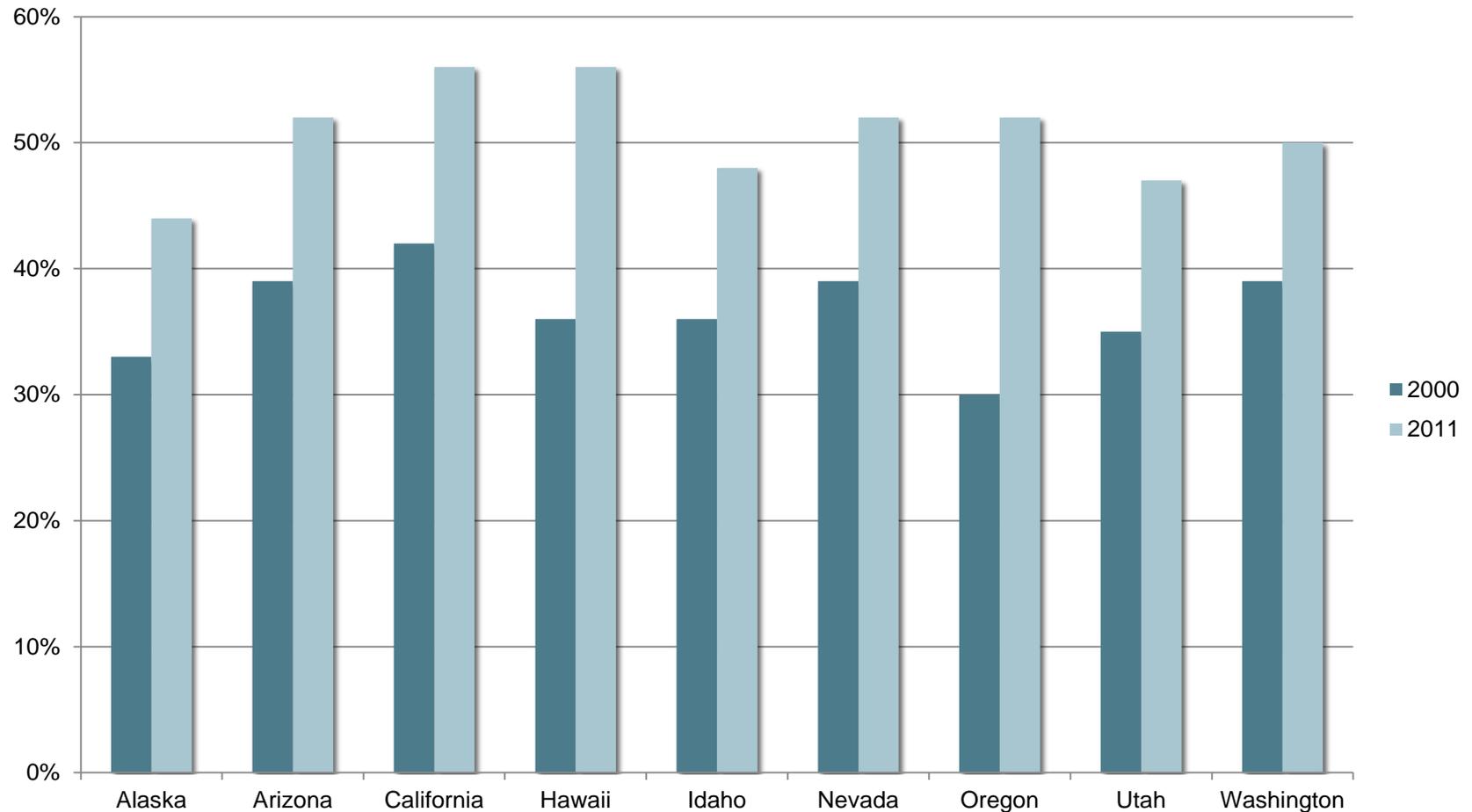
- 11.8 million new households projected to form between 2010 and 2020 - of these:
 - 70% minority householder
 - 42% married couple without children
 - 37% single-person households
- Aging seniors
- Echo boomers
- **All of these groups more likely to rent than to own their homes, and prefer job-rich, transit-accessible metropolitan locations – doesn't match expected housing stock**

Changing Consumer Needs

- Increase in renter households: 5 million between 2001 and 2010
 - 2 million of these households earn less than \$15,000/year
- Increase in “worst case housing needs”
 - Record number of 8.5 million households in 2011 – **increase of almost 44% since 2007**
- Decrease in affordable and available rental homes
 - 65 units for every 100 very-low income (50% AMI) households
 - 36 units for every 100 extremely-low income (30% AMI) households

Changing Consumer Needs

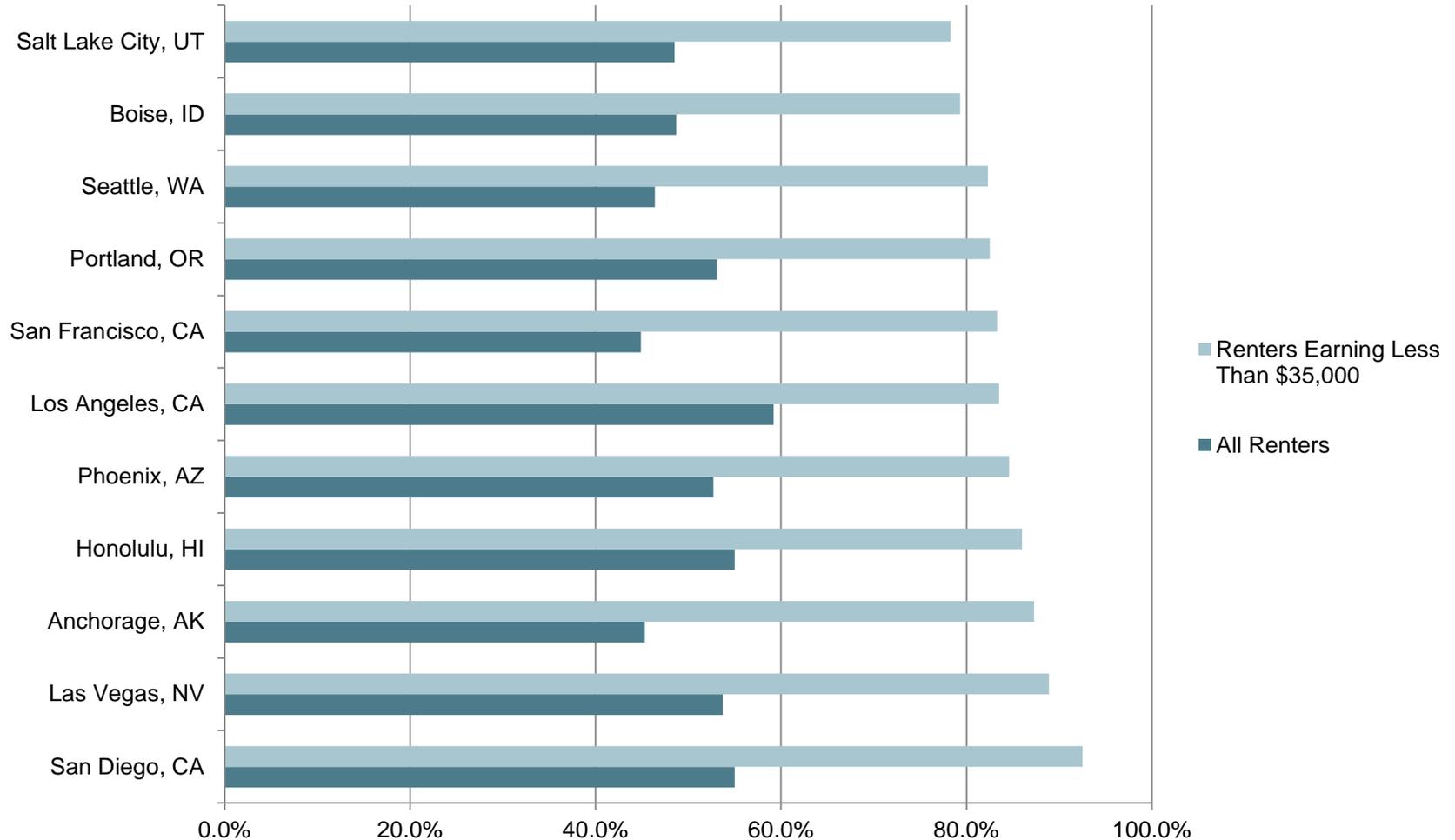
Percent of Renter Households Paying More than 30% of Income on Housing, 2000 and 2011



Sources: Census 2000 SF 3, ACS 2011 5-yr Estimates.

Changing Consumer Needs

Renters Paying More than 30% of Income on Housing by Metro Area, 2011



Source: ACS 2011 5-yr Estimates.

DEVELOPMENT COSTS

Why Does Affordable Housing Development Cost More?

- Difficult or expensive sites
 - NIMBY and community appeasement
 - Program and policy requirements of multiple funding sources
 - Services and resident enrichment opportunities (operating costs)
 - Long-term affordability
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- Developers feel pressure to contain costs
 - Political vulnerabilities caused by development system

POLICY AND FUNDING

Program Funding Cuts

- Key funding programs impacted by reductions include:
 - HOME Investment Partnerships
 - Community Development Block Grants
 - Section 8 Vouchers (tenant-based)
 - State and Local Funding Sources
- Why are these cuts so significant? Isn't one program enough?
 - Multiple funding sources
 - 90% of affordable housing developments funded in part by LIHTC, which always requires additional sources to be leveraged
 - Of 184 LIHTC-funded developments in the Bay Area between 2007 and 2011, 95% of the development deals used at least one additional subsidy

Policies Priorities Do Not Match Need

- 84% of federal housing dollars directed solely toward homeowners
- 35% of Americans rent their homes; renters have lower average incomes than owners
- Mortgage Interest Deduction = \$396 billion from 2007-2011
 - 36% households earning \$100,000+
 - 40% households earning \$50,000-\$100,000
 - Most low-income homeowners do not take this deduction because they do not itemize, and no parallel credit for renters
- FHA: \$1.1 trillion in loan guarantees for single-family homes; one-tenth (\$112 billion) of that amount went to multifamily buildings
- **Middle-wage income earners are the least likely to receive any federal housing support, while those earning \$200,000+ receive almost 3x the subsidy of all other American households combined**

NEW MODELS AND APPROACHES FOR A NEW ERA

Which New Models Are on the Horizon?

- Development Solutions (“Housing Plus”)
- Funding Solutions
- Policy Solutions

“Housing Plus”

- Silo busting to connect housing to other key community development sectors: health care, education, etc.
- Example: **Healthy Futures Fund (LISC)**
 - Investment vehicle providing grant, loan, and equity capital to build combined affordable housing and community health care center developments, and link existing housing and centers
- What is promising about this model:
 - Allows formerly disparate CD sectors to work together, combining their resources, funding, and political influence to become stronger and more effective
 - Speaks to the needs and preferences of residents who want accessible services on site

New Funding Partnerships

- Uses government funds to leverage philanthropic, CDFI, and private source capital for housing purposes
- Example: **Golden State Acquisition Fund (GSAF)**
 - \$93 million revolving loan fund financing acquisition of affordable housing sites, with loans from Enterprise Community Loan Fund, Low Income Investment Fund, Century Housing, and Rural Communities Assistance Corporation
- What is promising about this model:
 - Helps to replace eliminated or reduced local funding (such as RDA)
 - Offers favorable loan terms including longer duration, below-market interest rates, higher loan-to-value ratios

Adjustments to Existing Policy and Programs

- Streamlining and revising policy provisions to match current housing needs, and remove barriers to more efficient affordable housing development
- Example: **Allowing developers to extend funds across their portfolios, rather than working project by project (HUD collaboration with SAHF and nonprofit developers)**
- What is promising about this model:
 - Reduces transaction, administrative, and operational costs
 - Allows properties under one owner to share resources
 - Rewards experienced developers/owners for their expertise and success

Evolving Partnerships and Cross-Sector Collaborations are Essential to Housing's Future Success

“Neighborhoods and communities are complex organisms that will be resilient only if they are healthy along a number of interrelated dimensions, much as a human body cannot be healthy without adequate air, water, rest, and food. But substantial coordination and dedication are needed to break through silos to simultaneously improve housing, connect residents to jobs, and help ensure access to adequate nutrition, health care, education, and day care.”

–Federal Reserve Chairman Ben Bernanke