

International Housing Partnership Exchange

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Housing Partnership Network

It started off feeling more like anthropological fieldwork than an exchange of ideas and practices among nonprofit housing leaders from the United States and Europe. At first contact, the gulf between our worlds seemed as large as the ocean we had just crossed. Our British hosts described their efforts to house “rough sleepers” and “key workers.” They talked about combating the “residualization” of tenants and the need to “increase turnover” in their properties. But after hours of stimulating discussion—adjusting for some of these language idiosyncrasies and the need to translate English to English—the U.S. nonprofit leaders realized we share a common mission and business approach with our British and Dutch cousins.

The U.S. nonprofit leaders and the European nonprofit leaders alike discovered that nonprofit housing organizations, no matter how different the policy environment, all share the mission of addressing the needs of homeless families and low-income workers. Regardless of our different locations, we are similarly charged with reducing concentrations of poverty, revitalizing communities, and generating earned income to sustain and grow nonprofit companies. As a result, a powerful bond emerged among this group of 30 nonprofit leaders from the United States, the Netherlands, and England, based on the transformative power of social enterprise and peer exchange.

In this article, we trace the evolution of this international exchange and offer insights gained from the continuing collaboration. We propose a transformative social enterprise framework that reflects the proven models of leading-edge nonprofits in the United States and Europe with advanced housing systems and nonprofit infrastructure.

Our central thesis is that both the affordable housing and community development industries, and the policy paradigm in which they operate, are at a historic inflection point in the United States. Building on the growth and evolution of these sectors, nonprofit organizations are now positioned to take the lead in tackling the nation’s most pressing community development challenges. The trend toward greater government and private-sector reliance on productive, nonprofit social enterprises is occurring in both the United States and Europe. Through international exchanges and collaboration, we can share and advance the best practices and policies from both continents that enhance our social impact and business performance. The result will be a system that encourages entrepreneurial nonprofits at a scale large enough to deliver integrative customer services, produce and operate sustainable communities, and foster economic revitalization.

European Scale and American Ingenuity

In April 2003, with generous support from the MacArthur Foundation, the Housing Partnership Network (Network) sponsored a study visit by a dozen CEOs from leading housing nonprofits in the United States to meet with their peers in the Netherlands and Great Britain. The Network is a business alliance of 96 top-performing nonprofit housing developers, owners, lenders, and housing counselors. Many of the international contacts were the result of the groundwork laid by Network founder Bob Whittlesey. His long-established ties to these European groups formed the basis of our exchange. After years of prodding anyone who would listen that U.S. housing nonprofits could learn a great deal from European housing associations, Bob's insistence finally stimulated the group's curiosity. We took the plunge and headed off to Europe. Our delegation included more than half of the Network's board of directors at that time. Leaders of many of the nation's top nonprofit housing developers attended, including BRIDGE Housing in California, CommonBond Communities in the Twin Cities, ACTION Housing in Pittsburgh, and the Community Preservation Development Corporation in Washington, DC.

We expected to be impressed by the scope and sophistication of the British and Dutch housing nonprofits. Our research showed that these organizations enjoyed a much larger share of the housing markets and benefited from national policy support. Instead, we were dazzled. We met housing associations in England that managed more than 30,000 apartments and were rapidly expanding as a result of a government policy to transfer that country's public housing stock to nonprofit ownership. Dutch housing associations had an even more central market position, with more than 75 percent of the nation's rental housing and 35 percent of the entire housing stock under nonprofit management. We encountered many business and social innovations. For example, the Orbit Housing Group, formed from the merger of several housing associations and public housing stock transfers in the Midlands and Southeastern regions of England, used a centralized back office to bring efficiency and scale to its nonprofit group members without their losing local control and community connections. Dutch housing associations in Amsterdam and Tilburg such as WonenBreda operate state-of-the-art, mixed-income communities that are models for smart design, sustainability, and inclusion. The innovative Dutch Housing Guarantee Fund (WSW), a not-for-profit foundation independent of the government, provides credit enhancements to more than 90 percent of the housing associations in country.

The greater strength and impact of the nonprofit housing sector in Europe was clear. The U.S. nonprofit leaders credited this success to the strong national policy and funding as well as an enterprise-level focus on real estate financing and housing management. The European approach contrasts sharply with the American "project-by-project," "transaction-by-transaction" approach. From what we saw in Great Britain and the Netherlands, an enterprise level focus results in a more scalable and better capitalized business model that is highly focused on efficient, quality management and resident satisfaction.

British nonprofits have a longer history of development and ownership than their U.S. counterparts. The sector grew rapidly when the national government (starting with Margaret Thatcher and the Conservatives, and expanding under Labor) shifted the responsibility for ownership and revitalization (“regeneration” as they call it) of former government-owned housing (known as “council public housing”) to existing and new housing associations. Government policy in the United Kingdom has always organized funding and regulation around the nonprofit sponsor rather than individual developments (“estates” to use British parlance).

Similarly, a national policy decision to convert all existing housing association development financing to organization-level equity capital is behind the dramatic scale and sophistication of the Dutch nonprofit field. In return for a strengthened balance sheet, nonprofits agreed to forgo future public subsidies and to fund new development with private financing leveraged by their new corporate equity.

American portfolios, in contrast, are smaller and rely on many separate, unconnected financial sources—each project with subsidies layered on top of one another, each project managed in a silo separate from the others—which makes it more difficult to leverage asset and portfolio growth. Nevertheless, the large U.S. nonprofits on the trip were surprised to learn that their annual level of housing production and preservation is comparable to their European peers. Europeans were also keenly interested in our members’ private sector, entrepreneurial partnerships and the Network’s collaborative business ventures, notably our members’ mutually-owned, captive insurance company.

Most important, the American visitors and the European hosts established a foundation of trust and candid dialogue that sets the stage for what we hope will be a long and fruitful friendship. The participants identified shared challenges, opportunities for collaboration, and common perspectives that will make ongoing exchanges highly productive and beneficial. The trip also stimulated new ideas about how nonprofits in America could be better capitalized to achieve greater scale, sustainability, and impact. The journey and the exchange reinforced the value of the Network’s social enterprise approach and its unique model as a peer-based business collaborative.

Staying in Touch: London, Stockholm, and Washington

In the days and months following the 2003 visit, we remained in touch with various European practitioners. A delegation from the Network visited London in 2004 to negotiate a reinsurance agreement between our insurance company and several Lloyds of London insurance syndicates. During this trip, we reconnected with our British colleagues and also began to explore a potential collaboration between English housing associations and the Network’s insurance company, the Housing Partnership Insurance Exchange or HPIEx.

A Network representative attended a meeting in Stockholm in 2005 of the European REX Group (Research and Exchange), a self-selected network of large housing associations, including some of our British and Dutch counterparts, as well as organizations from several other European countries. The interaction with the REX Group further influenced the evolu-

tion and depth of the Network's approach to peer exchange as a way to strengthen both the Network and its individual members. In 2006, chief executives from six associations in the REX Group visited the United States to tour properties and engage in informal discussions with four Network members in the Washington, DC, area. Following on the goodwill generated by that trip, the Network and a counterpart association in Britain, the National Housing Federation, agreed to host an in-depth, three-day, bilateral exchange in April 2007 in the United States.

The 2007 exchange brought together 40 leaders of the premier housing nonprofits in the United States and England. Significantly, the top governmental officials in the United Kingdom who oversee regulation and funding for housing (the Department of Communities and Local Government) also attended the event. The entire group met on Capitol Hill with Representative Maxine Waters, the chair of the Subcommittee on Housing and Community Opportunity. They also met with key housing staff from the offices of Senator Christopher Dodd of Connecticut and Congressman Barney Frank of Massachusetts. There was a strong camaraderie among the policy leaders and practitioners and recognition of the mutual value in further learning and exchange among the two affordable housing systems.

The British partners were eager to learn about the American public/private partnership models, our strategies to engage the business community, and our entrepreneurial ventures to finance and insure affordable housing on a pooled basis. The U.S. delegates explored the United Kingdom's approach to investing public resources directly in the nonprofit enterprise to support a broad portfolio of properties. They also explored innovative Dutch and British initiatives to create benchmarks and measure customer service, and the United Kingdom's stock transfer of public housing to nonprofit ownership.

American nonprofits were enthusiastic to learn about KVH, a performance benchmarking system pioneered by Dutch housing associations and expanded on by British nonprofits through HouseMark and QHS (Quality Housing System). Through a member-owned cooperative that establishes best-in-class metrics, KVH has created a rigorous system that has consistently raised the bar on performance. This model influenced the development of StrengthMatters, a new performance benchmarking initiative that collects and compares data on financial and operational performance of U.S. nonprofits. The British in turn were very interested in the real time, web-based technology being developed by the Network for our benchmarking system. One important area of contrast in the benchmarking systems is that the Europeans pay much greater attention to the quality of property management and tenant relations. Resident satisfaction with service delivery is the principal yardstick that the European nonprofits use to measure the quality of their products and organizations. In contrast, the American nonprofit housing provider, while often providing services to residents, tends to place more emphasis on development financing and the affordability of tenant rents.

The group participating in the exchange identified three areas for potential joint collaboration going forward and agreed to host a follow-up exchange in 2008. They were: 1) respective strategies for providing resident services (what the British called "non-landlord

activities”); 2) branding: how the industry could more effectively communicate the impacts of its work beyond housing creation and management; and 3) self-regulation and self-certification models, along the lines of those deployed by other industry groups.

The Portfolio Approach: Enterprise Investing in Action

The follow-up reciprocal exchange to the 2007 meeting took place in London in April, 2008. Leaders from 15 Network members met with the chief executives of 11 British housing associations. Additional participants from the United States included leaders of the MacArthur Foundation and Stewards of Affordable Housing for the Future. The U.K. participants included the National Housing Federation and the director general for housing and planning at the Department of Communities and Local Government. In addition, the president of PowerHousing Australia, a recently formed Australian group modeled after the Network, joined as a special guest.

Discussion over the three days focused on policy, business, and market issues that affect both countries' affordable housing sectors. It was fascinating to gain the perspectives of British and American housing leaders about the negative effects of the U.S. subprime mortgage crisis in both the United States and Great Britain. Performance metrics and certification were key areas for discussion, with a presentation of QHS, Britain's customer satisfaction certification system. The group also explored in some depth asset management, property management, and resident services practices.

An eye-opening experience (for the Americans) was a visit to the Gallions Housing Association in South London and seeing the advantages in the British structure when policy allows the housing association to manage at a portfolio or enterprise level versus managing exclusively at a project level. The highlight was a centralized customer call center with state-of-the-art technology that dramatically improves response time for tenant services at significantly lower cost. The call center demonstrated how operating as an enterprise in the British system allowed for significant economies of scale and better service. Another major theme throughout the three days of meetings was sustainable development and sustainable operations. The British housing groups have made great strides in green building, and the government has set out very aggressive goals for zero carbon development over the next 10 years. This topic has become one of the keystones on which the participants will base future international exchanges.

The British housing associations were, on the whole, astounded by the complexity and cost of the U.S. system. After hearing how individual properties each have legally segregated property management cost centers, checking accounts, project reserves, and annual audits, the British nonprofit leaders expressed bewilderment at how U.S. nonprofits could afford to operate in such an inefficient manner. One U.K. CEO tellingly said that he would be out of business if he had to operate in such a rigid system that did not better leverage the economies of scale within its businesses and distribute risks across its property portfolios.

A key outcome of the 2007 London Exchange was the commitment to formalize the collaboration through the creation of the International Housing Exchange Partnership. The participants agreed to expand the exchange to a select group of high-performing Canadian nonprofits and to hold the next meeting of the group in Toronto. The group also adopted protocols for the Exchange and created trilateral working groups in three key areas: business excellence and benchmarking; resident services; and sustainable development and operations. There is likely future interest in engaging around how to better serve aging seniors while maintaining independence.

Scaled Social Enterprises in Canada

The fourth face-to-face international exchange took place in Toronto, May 13, 2009, with the global economic meltdown as a backdrop. Leaders from 60 of the foremost nonprofit housing organizations from the United Kingdom, Canada, and the United States (plus a guest group from Australia) met to advance the previously agreed on agenda, as well as to address the impact and challenges from, and solutions to, the financial crisis at the community and organizational levels.

Key themes were the importance of repositioning social housing as critical infrastructure, the significant opportunities to spearhead community revitalization through housing initiatives, and the need to realign housing policies to create incentives for more efficient capitalization and performance. Although all participants were concerned about the prospects for obtaining much needed capital during the next several years, they also agreed that opportunity waited if leading nonprofits could adapt in new ways and apply their extensive experience to the problems at hand. The international housing leaders agreed that, in this time of enormous change and challenge, new approaches were needed to leverage the experiences of nonprofits in all three countries. The goal was to create more nimble and sustainable enterprises that maximize the ability to generate value and results for the field's partners in the private sector, government, and community. Social housing needed new policy support and capital that would allow us to operate at greater scale and impact.

The exchange featured a site visit with the Toronto Community Housing Corporation (TCHC). TCHC is the largest social housing provider in Canada and the second largest in North America with a combined portfolio serving 58,500 households. It was forged from a merger of three entities: a nonprofit developer, a cooperative housing organization, and Toronto's public housing agency. The newly constituted nonprofit has the capacity to oversee a revitalization of Toronto's most distressed public housing development into a mixed-income community using only its net worth and private financing. Derek Ballantyne, the then-CEO of TCHP, who actively participated in the exchange, remarked it was the first time he had engaged with nonprofit leaders with whom he shared a common sense of mission and business philosophy.

Comparing the Housing Systems: Financing Transactions or Enterprises?

A 2010 study by the Affordable Housing Institute compares the history, performance, and direction of the large nonprofit housing organizations in the United States and England.¹ Its analysis and conclusions track very closely with the experience and insights gained in the international exchange. Significantly, of the eight production-focused American nonprofits featured in the report, all were Network member organizations.

In the United Kingdom, and to a lesser degree in Canada, housing associations are asset-backed organizations that receive grant support from the government under a regulatory framework focused on long-term strength, production, and resident satisfaction. The grants are provided directly to the nonprofit sponsor to support the equity needs of a multiyear pipeline and production strategy. This allows the nonprofit to use its strong balance sheet, rather than a mortgage on the new development, to raise financing from private sources on favorable terms. This portfolio level approach creates a more robust platform to finance and develop housing and provides more certainty, flexibility, and sustainability for the enterprise. At the same time, the organizations derive the bulk of their income from property operations, which fosters a continuous focus on management excellence and long-term improvement. The reliance on management income from a portfolio of properties provides incentives to streamline operations and enhance customer service. Though efficient and scalable, a challenge for the more uniform British system is to encourage more innovation and experimentation and to build deeper partnerships with communities and the private sector. A second key issue for the British portfolio model is a comparative lack of information and focus on individual property-level performance. This can limit their ability to make informed asset management decisions and resource allocations among properties in their portfolio.

The affordable housing ecosystem in the United States has evolved significantly over the last 30 years with the emergence of a new breed of nonprofit enterprise that includes a large but distinct group of scaled – high-performing, high-capacity – developers and owners and an equally robust group of large community development financial institutions (CDFIs). As noted above, the Network is an alliance of the top-performing nonprofit housing developers, owners, lenders, and housing counselors, and the member organizations are among the nations' largest producers and financers of affordable housing. Collectively, Network members have developed and/or financed more than 750,000 affordable homes and apartments, and it has provided homeownership and foreclosure prevention counseling to more than 600,000 families.²

Despite its collective and individual achievements, the Network has not achieved the scale or social market share of our colleagues in Britain and the Netherlands. Stated simply,

1 Raymond Christman, Gaynor Asquith, and David Smith, *Mission Entrepreneurial Entities: Essential Actors in Affordable Housing Delivery* (Washington, DC: Affordable Housing Institute, 2010).

2 See Neil Mayer and Kenneth Tempkin, "Housing Partnerships: The Work of Large-Scale Regional Nonprofits in Affordable Housing" (Washington, DC: Urban Institute, 2007), available at www.urban.org/publications/411454.html

we operate in a policy and funding environment in the United States that is generally not conducive to the growth and sustainability of these organizations. Ironically, the social entrepreneurship and ingenuity that is the key to our members' success is not fostered and reinforced by our housing policy system. Typical good business practices that lead to greater scale and specialization are not always encouraged or rewarded under current U.S. housing policy.

In the United States, in contrast to Europe, nonprofit development organizations (like their for-profit competitors) obtain project-specific subsidies and investments from a wide range of tax incentives and subsidy programs. Successful organizations become highly skilled at assembling resources from local, state, and federal governments and negotiating project-based financing agreements with a multiple private financial institutions and investors. This creates an entrepreneurial, partnership-based culture, but also a very complex business environment that demands that organizations be light on their feet and highly responsive to the market in order to thrive. The almost exclusively project-level orientation of this financing system also ensures that organizations maintain a strong focus on the performance of individual properties.

The counterpoint, however, is that this system produces a weaker business model for nonprofits within the U.S. system, and significantly reduces the scale of impact. The rigidly delineated real estate projects common in affordable housing finance make it difficult to efficiently manage operations, raise capital, and fuel growth and innovation. Nonprofits cannot use excess cash derived from operating efficiencies in one project to cover shortfalls or expand services in another. The business model also relies on a robust production pipeline with fees from new projects – and fundraising – supporting the organization. In turbulent times when new development is difficult, the limited revenue from operations can threaten organizational sustainability. It also restricts capacity to invest in new initiatives when partners call on nonprofits as the go-to organizations to address critical challenges, such as foreclosure prevention and neighborhood stabilization, energy retrofitting, and transit-oriented development.³

Social Enterprise at the Crossroads

The midpoint on the continuum between American social entrepreneurship and the British asset-backed organization is a form of social enterprise that draws on the strengths of both approaches. It builds on the success and best practices of high performing organizations in the United States and reflects the next stage in their natural evolution. Guided by insights from our international exchange and in collaboration with our partners, we are advancing a third generation business model for the sector that is capable of transformative and scaled impact.

3 For a cogent analysis of the strengths and challenges facing U.S. housing social enterprises, see David Smith, *More than Just Real Estate: Investing in Housing Enterprises and the Whole Delivery System* (Boston: Recap Real Estate Advisors; August 2010).

The independent New Orleans-based Gulf Coast Housing Partnership (GCHP), which the Network created in 2006 to address the housing needs following Hurricane Katrina, incorporates some of these important features. With a strong corporate balance sheet, GCHP has leveraged \$25 million of private financing at the enterprise level to quickly respond to development needs and opportunities in the region. Forging partnerships with the public sector, the business community, foundations, and other local nonprofits, GCHP has already built or rehabilitated more than 1,500 affordable homes valued in excess of \$200 million. It is a hybrid organization that operates as a housing developer and is also certified as a community development financial institution because of its balance sheet and enterprise level financing programs.

Meta-Trends Shaping the Policy and Business Environment

In the wake of the meltdown in the financial services and the housing markets, policymakers are rethinking the nature of the public support to the housing sector in general, and the future constructs of the housing finance system, specifically. The public debate has already raised fundamental questions around the contours of the federal government's role in housing finance and the need to revisit the imbalance in policy support for homeownership versus rental housing. The major challenges facing the housing sector, and the policy changes taking place to address these challenges, are not unique to the United States. Affordable housing as practiced across the developed world is facing changes in the capital markets and the structure of the financial services sector, responding to a greater awareness by the body politic of the need for sustainable development and a reduced carbon footprint, and reacting to the press to shrink public budgets and better rationalize spending and subsidies. Significant budget constraints confronting all levels of government will put a greater premium on proven performers and documented impact. Bank consolidation, credit concerns, and enhanced regulation are driving financial institutions to focus on the scale and performance of the banks' nonprofit counterparties. Add to this a new understanding of the role of metropolitan regions as engines for innovation and economic growth that will likely lead to policies that take the metropolitan economy into consideration. Institutions that can operate across an entire metropolitan region level are part of the answer.

Our own experiences, as well as the lessons learned from our international exchange, suggest these trends will reinforce the value and need for high-performing regional nonprofit enterprises that combine social mission, sound business practices, and significant capacity. This, then, is an opportune time to advance a policy agenda to improve and rationalize the delivery system for affordable housing and community development by strengthening these enterprises. We have developed a set of nine major recommendations and initiatives for consideration by U.S. policymakers, funders, and investors that can transform the productivity and business model of our sector.

Policy Recommendations: Transforming the Nonprofit Business Model

1. Increase the focus on the quality of the delivery system and value chain dynamics.

Governments at all levels should become more rigorous in their approach to the caliber and capacity of the institutions that compose the affordable housing delivery systems. Policymakers should begin to differentiate the roles played by the various participants in the affordable housing delivery system using sound management and performance criteria and focusing on the participants' production and management role in the overall value chain. We believe the high-capacity nonprofit sector will stand out for its relative capacity and impact in any objective analysis. As governments grow more confident of the metrics for assessing their counterparties' organizational strengths, they can and should consciously begin to expand the participation of the stronger entities in those instances where their partners have reached measurable levels of success. Federal, state, and local agencies administering public programs should then increasingly incorporate these regional, partnership-oriented nonprofits as key institutions in the delivery system because of their mission alignment, effective management, and role as strong counterparties. The successful British strategy of devolving public or council housing to a higher capacity and more cost-effective network of strong nonprofit housing associations is an approach that might be worth exploring in United States.

2. Change the relationship between the government and the nonprofit social enterprises.

Government and financial institutions could reframe their relationships with high-capacity nonprofit social enterprises. Typically, governmental and financial institutions treat housing development nonprofits as agents. Despite the high value, combined assets, and risk profiles of real estate businesses, U.S. financial and government systems view the individual project partnerships—rather than the sponsors, owners, and managers—as the principal counterparty. The British system funds, regulates, and evaluates housing developers and owners on the basis of their organizational and portfolio performance. The U.S. Department of Treasury and private investors took a similar approach in underwriting, investing, and regulating CDFIs as principals (not agents) and integrated business enterprises. The U.S. Department of Housing and Urban Development could signal a change in its primary focus from the individual housing project to the enterprise and the enterprise's overall portfolio by creating a single point of contact for the entity in the Department. The new relationship could potentially move toward a single master contract with specific performance measures and outcomes agreed to by the social enterprise, with increased flexibility provided by the government. There are many other examples of changes that the federal government, cities, and state housing finance agencies could make to place the capabilities, performance, and sustainability of the principal nonprofit sponsor at the center of attention.

3. Encourage and support enterprise-level finance.

One manifestation of an enterprise-level orientation would be the ability of an organization to replace project-based financing with portfolio-level financing or enterprise-level financing. Among the possibilities to consider are a line of credit secured by a pool of properties with cross-collateralization for credit enhancement. The distribution of default risks and losses against a large portfolio would allow the lender to offer more flexible and lower-cost terms on the financing package. Managers could deploy those resources across a portfolio those component assets that most need them, making for a healthier portfolio, and securing more robust collateral. A sophisticated, well-managed organization might also further lower its borrowing costs with a financing package that allows the entity to substitute assets in and out of the pool of collateralized obligations. A key advantage of the British and Dutch approach to enterprise-level finance is the increased focus and support it provides for efficient management operations and service quality for residents.

4. Encourage and support enterprise-level development and operations.

The government could foster a more powerful and reliable program delivery system if it could devise mechanisms that encourage and reinforce the management of these high-performing nonprofits as enterprises. Fundamentally, this could require a shift in approach from a rule-based control system to a program delivery system based more on outcomes, with the government and the nonprofit engaged in a flexible, contractual partnership. The government could test this approach by giving its nonprofit partners greater freedom at the enterprise and portfolio level in exchange for a greater accountability for meeting program performance, outcome, and impact standards. Most notably, under this proposed new system, in addition to allowing the aggregation of resources at a portfolio level, the U.S. Department of Housing and Urban Development could allow organizations to shift residual receipts (unused resources associated with a property that are not available for distribution) from properties with excess resources to the enterprise level where they could strengthen the overall balance sheet or reinforce other properties in the inventory with relevant needs. Operational activities, such as accounting, budgeting, reporting, compliance, and contract administration, could also be consolidated and streamlined. In portfolios with multiple properties with budget-based rents, enterprises might be able to trade lower rents or agree to predictable restraints on future rent increases on individual properties in exchange for the flexibility to move financing to a portfolio level or move resources from one property to another.

5. Allow nonprofits to take advantage of earnings to build sufficient liquidity and equity capital as social enterprises.

Like any well-run small business, successful nonprofit developers and owners require liquidity and working capital to operate and expand their enterprises. This is particularly important for the affordable housing industry given the capital-intensive nature of housing

development, the breadth of the field's real estate portfolios and management operations, and the often-extended reimbursement and payment schedules of government partners. Too often, however, governments expect nonprofits to manage without sufficient earned income or fees to support operations. As examples, Department of Housing and Urban Development program rules, as well as the underwriting guidelines used by local governments and state housing finance agencies, often prohibit or limit nonprofits from taking cash flow from their individual projects. Current policies often limit the distributions of cash flow from individual properties to the enterprise level, even under circumstances in which a for-profit owner could distribute funds to investors for their private use. This should be changed. At the margin, these current rules arguably create a disincentive to fully realize savings given that the benefits of aggressive asset management cannot accrue to the parent ownership entity. A new "pay for performance" philosophy would allow high-performing nonprofits to benefit from strong management and cost controls. The new resources would allow nonprofit organizations move their operations to a sustainable place and to expand their missions.

6. Provide growth equity capital to expand social enterprises.

The shortage of equity capital is perhaps the major barrier to expansion. The value and impact of targeted, performance-based investments at the enterprise level have been demonstrated by the Treasury Department's successful CDFI equity program that has helped to scale up and encourage private financing for loan funds. The government could similarly increase the production of high-capacity nonprofit development organizations through direct equity-like investments in these enterprises or in joint ventures and collaborations controlled by nonprofit networks. The Network has proposed a new program administered by the Department of Housing and Urban Development to demonstrate impact investing strategies. In addition, if Congress authorizes a new permanent source of equity for the Capital Magnet Fund within the upcoming rewrite of the rules for housing finance, it could also provide a new important resource to scale up the sector. Foundations and social investors can demonstrate the effectiveness of impact investment strategies in housing social enterprises through funding initiatives with major intermediaries and networks that are closely aligned with the high-producing nonprofit sector.

7. Create incentives for private-sector investments and pooled debt and equity facilities.

By strengthening their liquidity and their balance sheets, nonprofit developers will be better positioned to fulfill a third capital need: mezzanine debt financing for real estate development and acquisition. Mezzanine debt is a hybrid of debt and equity financing. It is advantageous because it is treated like equity on a company's balance sheet and may make it easier to obtain standard bank financing. Nonprofits need patient, private financing to acquire, reposition, and preserve properties, including those that could be converted from market rate housing to long-term affordable housing in many markets. Federal regulators can

encourage banks to address this need by providing investment and lending credit in revised Community Reinvestment Act (CRA) regulations for capital provided directly to nonprofit developers, CDFIs, and financial intermediaries. British and Dutch nonprofits have used their strong balance sheets to obtain lower-cost corporate financing from banks to finance their development pipelines. The European nonprofits' ability to obtain favorable financing has been enhanced by investment ratings that housing associations receive for their corporate entities from credit agencies such as Moody's and Standard and Poor's. Despite their financial and management sophistication, American nonprofits face significant obstacles in raising corporate-level debt owing to limited unrestricted net assets and earned income. To strengthen their competitive positions, it may make sense even for the strongest nonprofits to collaborate on pooled strategies and Real Estate Investment Trust (REIT)-like structures to raise preferred financing and pursue acquisition opportunities. A \$1 billion facility for best-in-class developers financed privately from financial institutions, social investors, and foundations could finance as many as 80,000 homes.

8. Promote nonprofit transparency and performance through self regulation.

Like their counterparts in other professional industries, the best-in-class housing and community development nonprofits should take the lead in developing performance standards and data collection systems that improve transparency, productivity, and outcome measurement. As the sector grows in scale and sophistication, this infrastructure and standardization will be critical for establishing an asset class of organizations that can receive enterprise-level investment. The Housing Partnership Network, NeighborWorks America, and the Stewards for Affordable Housing for the Future have made a significant progress toward this goal through the Strength Matters collaborative.⁴ With support from major foundations and financial institutions, the Strength Matters collaborative has developed standardized best practices on financial management and created a data warehouse to collect and compare information on operational and financing performance. The British nonprofit experience of using quality measurement systems to drive continuous improvement and customer satisfaction through a rigorous certification process is instructive. Self-regulation using transparent metrics and verifiable data could be a better alternative to the top-down government regulation as a way to guide the growth and evolution of the housing delivery system in the United States towards a social enterprise rather than project finance model.

9. Achieve scale and innovation through collaboration and networks.

A byproduct of the growth and maturation of the community development sector in the United States is the emergence of collaborative networks. In fact, one of the distinguishing features and assets of the U.S. "system" that has emerged through our discussion with Euro-

⁴ For more information on the Strength Matters™ collaborative and to download papers on best financial practices visit their website at www.strengthmatters.net/.

pean colleagues is the entrepreneurial networks and intermediaries that drive bottom-up innovation and experimentation. A study prepared by the Aspen Institute in cooperation with the Community Development Offices of the Federal Reserve System showed how practitioner networks like the Network and Strength Matters could play a critical role in helping systems innovate and evolve to higher levels of performance and impact.⁵ These networks can partner with government and the private sector to test new products and then bring them to scale. An encouraging example of this public/private partnership is a recent agreement announced by Department of Housing and Urban Development Secretary Shaun Donovan between the department and the National Community Stabilization Trust (NCST) to operate a National First Look program. First Look gives communities preferred access to foreclosed properties to spur neighborhood revitalization.⁶ Many of the proposed recommendations in this paper, such as an equity investment program for high-capacity nonprofits, a \$1 billion REIT-like fund, and a portfolio finance and management initiative, could best be piloted and implemented through practitioner networks, or what Secretary Donovan calls, “third sector partnerships.”

Leveraging Innovation from around the World

The policy inflection point available now provides a historic opportunity to reshape housing and community development activity for years to come. Affordable housing is uniquely positioned to connect with other key sectors such as transportation, energy, workforce development, health care, and education to promote sustainable and equitable communities. Social enterprises, such as housing partnerships in the United States and housing associations in Europe, are innovative engines that not only produce and renovate badly needed affordable homes and communities, but do so in a manner that coordinates with economic and human development strategies to achieve more ambitious social outcomes.

The Network’s international peer exchanges have served to underscore the potential effectiveness of a different delivery system model for the United States, one that is based on nonprofit housing organizations of a certain scale. Yet, our current policy framework makes it very difficult for nonprofit housing organizations to operate effectively and grow as self-sustaining and scalable social enterprises. The policy proposals outlined here incorporate insights and models from leading European practitioners, but the core ideas and approaches have also emerged through the leadership and experiences of successful nonprofit organizations in the United States who thrive within the current policy framework. These policy

5 Kristen Moy and Gregory Ratliff, “New Pathways to Scale for Community Development Finance” (Washington, DC: Aspen Institute; 2004), available at www.aspeninstitute.org/publications/new-pathways-scale-community-development-finance-paper-published-profitwise-news-and-view

6 Shaun Donovan, “Prepared Remarks of Secretary Shaun Donovan at the Federal Reserve Board Reo Summit: “Vacant Property, Strategies for Neighborhood Stabilization” (Washington, DC: Federal Reserve Board of Governors, September 1, 2010) available at http://portal.hud.gov/portal/page/portal/HUD/press/speeches_remarks_statements/2010/Speech_09012010

recommendations have been shaped by our experience about what works in communities around the country and, despite best intentions, what has not worked.

The Network's international collaboration has also been recognized for its innovative approach to peer-based exchange, learning, and cooperation among nonprofit leaders. In June 2009, the Center for Strategic and International Studies (CSIS), in collaboration with the White House and the Eurasia Foundation, invited the Network to participate in a "Civil Society Summit" of Russian and America nonprofit leaders organized in Moscow alongside the Presidential Summit. In this exchange, we learned firsthand about the challenges Russia faces on a range of critical issues, from housing and community development to education, the environment, media, and human rights. Perhaps the most striking observation was the limited and nascent nature of the civil society sector. The dearth of nonprofit institutions that can partner with government and business to tackle their pressing needs, and the lack of a collaborative culture and trust among these sectors, are two of the biggest barriers facing Russia. The development challenges in Russia served to make us appreciate the power and important role of the social enterprise sector in the United States. Despite obstacles, U.S. nonprofit housing and community development institutions have evolved in ways few would have predicted 30 years ago.

International collaboration is helping inform and accelerate the nonprofit sector's growth. The most recent exchange among nonprofit leaders from the United States, Britain, Canada, and Australia took place in Berlin, Germany in October 2010. Forty-five leaders met at the British Embassy there to discuss strategies to help their respective organizations adapt to the momentous changes underfoot in the policy and business environment. Given the forum's focus on sustainable development, Germany was chosen as the host country so participants could see firsthand innovations leading the way in energy retrofitting and green technologies. The conference underscored the imperative to evolve business and organizational strategies to be more effective partners with government, the private sector, and civil society.

The event took place against the backdrop of the British government's historic announcement of major policy changes to promote the "Big Society." Housing associations in the United Kingdom will see their funding cut for new homes development, but they gain much more flexibility in how they operate to achieve production outcomes within a more private-market context. Faced with similar budget constraints but continued need for affordable housing and neighborhood stabilization, the participants discussed ways to integrate the British portfolio and enterprise level grant-driven models with American entrepreneurship and asset-specific strategies. This synthesis framework would enable a greater market orientation while maintaining a strong mission focus and it would balance operational risk and financial return. The approach was particularly relevant to the U.S. participants who are exploring options to acquire overleveraged, private-market rental housing and convert it to long-term affordable apartments serving low- and moderate-income families.

Given the rapidly shifting policy and economic landscape, the international exchange

remains a vital resource for nonprofit executives and policymakers in managing change and driving innovation. From the journey so far, we expect new learning and practices to emerge that will raise the bar on performance of the affordable housing and community development industry in the United States, Canada, and Europe.

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