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PRO Neighborhoods
Innovative Strategies for Affordable Housing

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PRO NEIGHBORHOODS
INNOVATIVE STRATEGIES FOR AFFORDABLE HOUSING

The following pages describe five novel and replicable programs that are providing housing for low- and moderate-income Americans.

These programs were created by innovative collaborations of community development financial institutions (CDFIs) that received grants from JPMorgan Chase & Co.'s Partnerships for Raising Opportunity in Neighborhoods (PRO Neighborhoods) program. Since 2013, the annual PRO Neighborhood competition has annually provided three-year grants to collaborating groups of CDFIs that formed innovative partnerships to enhance opportunities for low- and moderate-income Americans and to revitalize distressed neighborhoods. These partnerships have deployed capital in diverse ways, providing financial products and services to individuals, small businesses, affordable housing developers, and other nonprofit organizations.

The Joint Center for Housing Studies has documented these efforts in a series of reports and case studies that together have described awardees' objectives, strategies, methods, and accomplishments. This document, which is the last of these publications, focuses on five remarkable programs that could serve as models for nonprofit affordable housing organizations to replicate. The programs and the collaborations that implemented them are:

- Rehabbing Chicago's one-to-four-unit residential properties (Chicago, IL) - Chicago CDFI Collaborative;
- Creating a community land trust to preserve affordable housing (Washington, D.C.) – Equitable Development at the 11th Street Bridge Park;
- Helping residents of manufactured housing buy the land under their homes (NY, WA, WI, CT) - Expanding Resident Owned Communities;
- Using private funds for affordable housing at private-market speed (Texas and Washington, D.C.) - NALCAB CDFI Collaborative;
- Promoting naturally occurring affordable housing and accessory dwelling units (Los Angeles and San Jose, CA) - Small Homes, Big Impact

These initiatives, which are being carried out in different parts of the country, have helped produce many types of housing including subsidized and private rental units, homeowner houses, and manufactured housing. Information in the profiles comes from interviews conducted by Joint Center researchers and data collected by those researchers as well as from the awardee organizations' reports to JPMorgan Chase, the organizations' websites, and articles about their activities.

The authors hope that reading about these efforts will inspire others to emulate these programs or devise other innovative ways to address our nation's housing problems.

REHABBING CHICAGO'S ONE-TO-FOUR-UNIT RESIDENTIAL PROPERTIES

Chicago CDFI Collaborative

CHICAGO, IL
LOCATION

$5 MILLION (2014 COHORT)
AWARD

PARTNER ORGANIZATIONS
Community Investment Corporation
Chicago Community Loan Fund
Neighborhood Lending Services, Inc.

PROBLEM

As in other legacy cities, the low-income residents of Chicago's South and West Side neighborhoods face a shortage of affordable housing amid an excess of derelict and abandoned residences. Worse, since 2008, foreclosures have led to vacancies and deterioration in the city's one-to-four-unit properties, which provide a large portion of naturally occurring affordable housing in low- and moderate-income neighborhoods.

ASSESSING THE SITUATION

One-to-four-unit properties make up nearly half of the affordable rental housing in Chicago yet receive little subsidy or attention from nonprofits. Small-scale investors often rehab these properties, but it is difficult for them to access capital, and some investors do only surface-level rehabs that do not support the long-term interests of the community. Also, in 2011, the City of Chicago began a program to expedite the sale of abandoned properties in certain neighborhoods.

STRATEGY

The partner CDFIs proposed to address the problem by leveraging the City of Chicago's Micro-Market Recovery Program to help small-scale investors and owner-occupants to rehabilitate one-to-four-unit properties in distressed communities. The partners had more experience with larger multifamily buildings but selected this strategy as a way to use their capital and expertise to address the shortcomings in the private market forces that shape the one-to-four-unit landscape: namely, the lack of access to capital and the difficulty of acquiring distressed properties in areas identified by the city's Micro-Market Recovery Program. By pursuing this strategy, the partners hoped to create a critical mass of housing density in disinvested neighborhoods to catalyze revitalization.

IMPLEMENTATION

Each member of the Chicago collaborative financed a different phase of the rehabilitation process. The consortium's lead CDFI, Community Investment Corporation (CIC), acquired distressed properties in targeted areas, found potential investors, and arranged the transfer to those interested in rehabilitating the buildings. CIC used its expertise in acquiring troubled properties to simplify the acquisition and land assembly process for potential developers, making the investments more attractive.

Chicago Community Loan Fund (CCLF) then provided purchase and rehabilitation loans to investors. Once an investor had completed several properties, CIC offered permanent take-out financing. For its part, Neighborhood Lending Services, Inc. (NLS) provided purchase and rehabilitation loans to owner-occupants. Unlike other lenders, the Chicago Collaborative offers high loan-to-value loans (up to 90 percent), which make it easier for owners of low-value distressed properties to finance building repairs and renovation.

Perhaps most importantly, the Chicago CDFI Collaborative encouraged small-scale private investors to rehabilitate residential properties in low-income neighborhoods. The group identified and communicated with Chicago's small-scale investors about the financing options and technical assistance available from the CDFIs, government, and other nonprofits, for example by hosting a conference that drew 100 such investors to meet and learn from each other. Ultimately, the partners cultivated relationships with and helped build the capacity of six investors who bought the properties that CIC had acquired and carried out the rehabilitation projects.

The CDFIs provided training and technical assistance, including by having an in-house contractor review the investors' plans. Finally, the Chicago CDFI Collaborative monitored the quality of the rehabilitation work to ensure that the projects would promote the revitalization of the blocks on which they were located.

INNOVATIONS AND LESSONS

- At first the Chicago CDFI Collaborative found it difficult to acquire many properties in concentrated areas, so it developed a wide array of acquisition methods—including using government programs such as the City of Chicago's court-ordered forfeiture process that dispose of foreclosed or troubled properties—to meet its goals.
- The member CDFIs regularly discussed ways to strengthen revitalization by rehabbing one-to-four-unit buildings in conjunction with city-government funded financing, code enforcement, foreclosure prevention programs, and investment incentives.
- The partner CDFIs found that identifying likely properties, speeding the process of acquisition, and providing financing made it attractive for small- and mid-scale investors to rehab more properties.

Websites

Community Investment Corporation: cicchicago.com

Chicago Community Loan Fund: cclfchicago.org

Neighborhood Housing Services of Chicago: nhschicago.org

Learn More

Read an article in Shelterforce on the Chicago CDFI Collaborative.

Read a case study on the Chicago CDFI Collaborative by the Harvard Joint Center for Housing Studies.

CREATING A COMMUNITY LAND TRUST TO PRESERVE AFFORDABLE HOUSING

Equitable Development at the 11th Street Bridge Park

WASHINGTON, D.C.
LOCATION

$5 MILLION (2017 COHORT)
AWARD

PARTNER ORGANIZATIONS

Building Bridges Across the River
City First Enterprises, Inc.
Washington Area Community Investment Fund, Inc

PROBLEM

In Washington, D.C., the city government's decision to build a new bridge across the Anacostia River at 11th Street inspired the city's planning department to build a community-focused park on and around the bridge, which connects affluent Capitol Hill west of the river and the low-income Southeast neighborhoods east of the river. The challenge for the planners was to use the bridge park as an opportunity to involve and benefit low-income citizens whose needs and wishes are often ignored.

ASSESSING THE SITUATION

The leaders of the 11th Street Bridge Park effort oversaw an extensive, multi-year community-based planning process to design the Bridge Park and develop strategies for equitable development within the area surrounding the park. It found that residents of neighborhoods east of the Anacostia River had relatively lower average incomes and most were renters. If housing prices continued to increase after the Bridge Park development, they would be vulnerable to displacement. Furthermore, the Bridge Park community named affordable housing as a priority for their equitable development.

STRATEGY

The partners proposed to address the imminent housing problem by creating a community land trust (CLT) that would purchase real estate properties before their prices increased and then maintain their affordability to low-income people. Among the possible strategies to preserve affordable housing, the residents preferred CLTs because they retained local control.

City First Enterprises was a natural choice to lead the effort. For the past decade City First's subsidiary (City First Homes) has financed the development of 240 dwellings across the District, which it sold at reduced prices to low-income buyers, while attaching shared-appreciation deed restrictions to ensure the future affordability of the units. For the venture, the partners acquired commitments for significant amounts of capital from a variety of sources, including their PRO Neighborhoods award. This capital will allow them to acquire many properties in a short period—a necessity for the CLT to act before anticipated increases in housing prices. In addition, Freddie Mac recently announced it would purchase CLT mortgages.

IMPLEMENTATION

Building Bridges Across the River (BBAR), which is not itself a CDFI, is the lead partner of the 11th Street Bridge Park organization, which coordinates the efforts of its many equitable development partners.

To guide the process, the 11th Street Bridge Park created a CLT advisory committee, two-thirds of whose members were local residents and the rest representatives of interested organizations.

Working with Bridge Park staff and the advisory committee, City First Enterprises set up the Douglass Community Land Trust in honor of Frederick Douglass, famed abolitionist and former resident of Anacostia. The partners directed $3 million of their three-year PRO Neighborhoods grant to establish the CLT and help it acquire its first properties. Guided by the advisory committee, City First Enterprises and BBAR worked out a memorandum of understanding about the goals and methods of the CLT. City First also hired a consultant to develop a business plan for the CLT.

The Douglass Community Land Trust will acquire land and lease it to owners primarily of residential but also of commercial and institutional buildings sitting on that land. The CLT hopes to acquire land underlying such property “improvements” from donors, government, in joint ventures with developers, and in partnership with homebuyers. Whether investing equity in homes or small businesses, the Douglass CLT keeps foremost the goal of making them affordable to people at or below a targeted median family income.

To get ahead of the appreciating real estate market, City First began building a pipeline of prospective CLT properties even before the CLT was established. Early on, City First helped finance a deal in which the tenants of a 65-unit apartment building worked with their selected developer, the National Housing Trust, to purchase their building and guarantee its future affordability.

INNOVATIONS AND LESSONS

- A community land trust can help shield residents from the rising costs of housing and commercial real estate, which often accompany major infrastructure and amenity improvements in disinvested neighborhoods.
- Creating a community land trust is a complicated process, which requires expertise of both residents and professionals as well as seed funding.
- Engagement and education of residents, local agency officials, and nonprofit housing groups are vital to support a community land trust.
- In setting up a community land trust, the partners should be nimble and ready to start acquiring properties quickly before prices increase significantly.

Websites

Building Bridges Across the River: bbardc.org

City First Enterprises: cfenterprises.org

WACIF: wacif.org

Douglass Community Land Trust: douglassclt.org

Learn More

Read a Harvard Joint Center for Housing Studies report on Equitable Development at the 11th St Bridge Park and other equitable development efforts.

HELPING RESIDENTS OF MANUFACTURED HOUSING BUY THE LAND UNDER THEIR HOMES

Expanding Resident Owned Communities

NY, WA, WI, CT
LOCATION

$4 MILLION (2014 COHORT)
AWARD

PARTNER ORGANIZATIONS

ROC USA
Leviticus Fund
Mercy Loan Fund

PROBLEM

Manufactured housing provides an affordable option for 8.6 million families, yet most residents of manufactured housing communities do not own the land under their homes, leaving them vulnerable to rent increases and to forced relocation if their lease is terminated or if the land owner is foreclosed.

In a commercially owned "mobile home park," residents own their homes, but the park owner sets the lot rents and controls the condition of the community – including roads, water, electric, waste-water systems and landscaping. When a community is sold to a new owner, the rent is likely to increase. Since manufactured housing is not actually mobile, rent hikes can put residents at risk of losing their homes.

ASSESSING THE SITUATION

The residents of manufactured housing communities are generally low- and moderate-income, with an average annual income of $29,000. To buy the land under a community requires community members to organize as a group, which takes time and specialized organizing skills. The transaction also requires a large loan of a type not normally offered by financial institutions.

STRATEGY

Since 2008 ROC USA has worked to make quality resident ownership viable nationwide and to expand economic opportunities for homeowners in manufactured (mobile) home communities. To do this, it has encouraged the homeowners to form a resident-owned community (ROC) in order to control their monthly lot rent, obtain community repairs and improvements, and protect themselves from unfair evictions.

The partners proposed to combine ROC USA's expertise in organizing manufactured housing communities with Leviticus Fund and Mercy Loan Fund's capital and local knowledge. Working together, they would create a network of local technical assistance providers and make loans using a loan participation structure that reduces risk for each partner. By doing so they would create stable, affordable, and self-sustaining communities, and build a national network of technical assistance providers to manufactured housing communities to scale the model.

IMPLEMENTATION

ROC USA was founded in 2008 based on a co-operative model that had been market-tested in New Hampshire since 1984. The nonprofit social venture organizes and trains homeowners in manufactured housing communities and provides land acquisition loans to this underserved demographic. To spread its successful model to other parts of the country, it partners with local technical assistance (TA) providers that work closely with the homeowners. Organizing the residents of a manufactured housing community takes considerable on-the-ground time and effort.

TA providers search for mobile-home parks that are for sale, as the time of sale of the parks presents a critical window of opportunity for mobile-home communities. First, the TA advisers establish a relationship with a landlord. After confirming that the landlord is interested in selling his or her mobile-home park to the homeowners, they reach out and organize a community meeting. The TA providers then help community members to create a cooperative corporation, negotiate the purchase, undertake due diligence and secure financing.

Partner CDFIs Leviticus Fund and Mercy Loan Fund contributed in two ways: first, they brought in other major local funders, such as state housing finance agencies with which they have existing relationships; and they lent their own capital though a loan participation arrangement with ROC USA, which executed the loan.

INNOVATIONS AND LESSONS

- The partners developed a $30 million participation fund for senior interests in ROC USA Capital's loans with MetLife and the National Cooperative Bank.
- The low- and moderate-income residents of manufactured housing are capable and willing to secure the stability of their communities. Each household is a member of the cooperative, which owns the land and manages the business of the community.
- These kinds of transactions are attractive to state housing finance agencies and foundations. They provided $23 million in additional financing to the twelve manufactured housing communities that the CDFI partners helped.

Websites

ROC USA: rocusa.org
Leviticus Fund: leviticusfund.org
Mercy Loan Fund: mercyhousing.org

INVESTING PRIVATE FUNDS IN AFFORDABLE HOUSING AT PRIVATE-MARKET SPEED

NALCAB Network Catalyst Fund

TEXAS AND DISTRICT OF COLUMBIA
LOCATION

$6 MILLION (2014 COHORT)
AWARD

PARTNER ORGANIZATIONS

National Association for Latino Community Asset Builders (NALCAB)

Affordable Homes of South Texas, Inc.

Colorado Housing Enterprises, LLC, a subsidiary of Community Resources and Housing Development Corporation

Préstamos CDFI, a subsidiary of Chicanos Por La Causa, Inc.

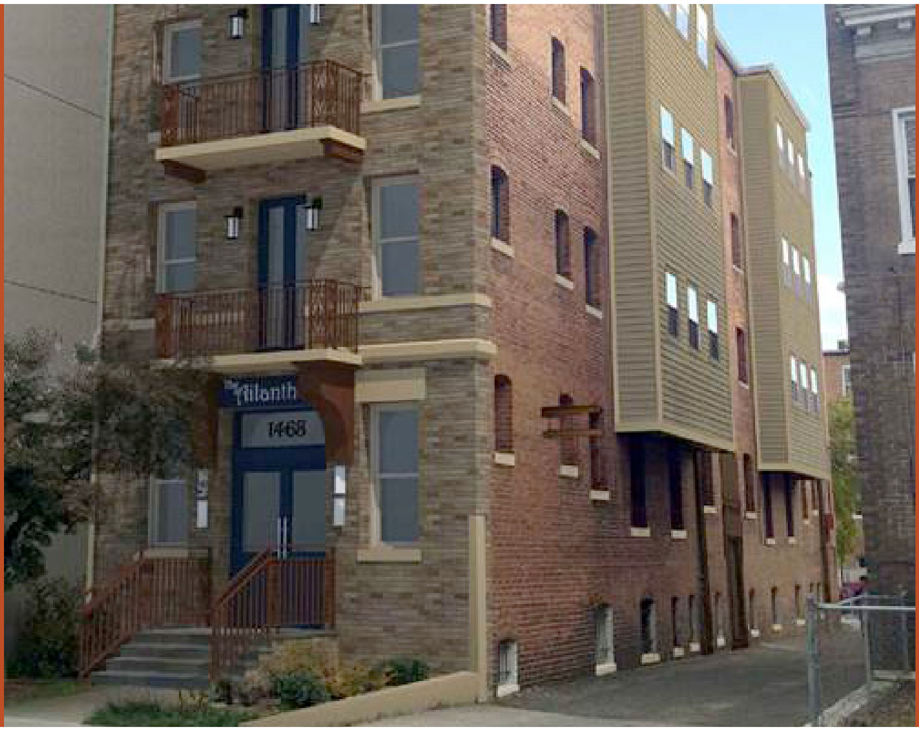

Photo Source: Ailanthus Cooperating, Inc., Mi Casa, Inc., and Gragg Cardona Partners

PROBLEM

Many nonprofit community development groups that develop properties lack the capital to acquire residential and commercial properties in neighborhoods experiencing rapid appreciation in real estate values. In such places, private investors often snatch up properties soon after they become available. And, although community development groups often look to public subsidies to enable them to make properties affordable to low-income households, the subsidies come with regulatory requirements that slow the efforts of nonprofit developers to acquire properties – a necessity in highly competitive housing markets.

ASSESSING THE SITUATION

The members of the NALCAB CDFI Collaborative serve predominantly low-to-moderate-income Latino communities in Texas, Arizona, Nevada, Colorado, and New Mexico. During their earlier participation in a consortium addressing the impact of foreclosures under the federal Neighborhood Stabilization Program, they identified CDFIs that were prepared to inject more capital into their communities. Yet the CDFIs lacked sufficient private capital, which, unlike federal grants, comes with relatively few regulatory and reporting requirements. "We see all kinds of really interesting opportunities come and go," NALCAB executive director Noel Poyo observed, "because cash-on-the-barrel investors can move faster than an organization that has to do a federal environmental review." Based on their experience, the NALCAB staff and partners saw the need to make available to nonprofit developers a nimble source of private capital to use for acquiring property in neighborhood real estate markets where transactions happen quickly.

STRATEGY

To increase the amount of capital available to nonprofit developers in the NALCAB network, the four partner organizations devised a strategy to create a social investment fund that would produce and preserve affordable single-family, small multifamily and/or manufactured housing in locations with access to employment, quality education, and health care resources, while generating competitive risk-adjusted financial returns for investors by serving households across a mix of incomes.

IMPLEMENTATION

After extensive research of legal and managerial issues related to a social investment fund, the partners used $2.6 million of their PRO Neighborhoods award to create a jointly-owned capital pool, which they placed in an equity fund structure, the NALCAB Catalyst Fund I, LLC. To manage the fund's activities, NALCAB established a wholly-owned subsidiary, Escalera Community Investments, LLC.

The Catalyst Fund acquires and funds the development of all types of affordable housing as well, working in partnership with local nonprofit developers to obtain and implement investments.

The scope of projects has ranged widely. In the gentrifying neighborhood of Columbia Heights, Washington, D.C., short-term financing from the Catalyst Fund rescued the Ailanthus Cooperative, a group of residents who were attempting to purchase and convert their apartment building into permanently affordable housing when the lender of their rehab construction loan threatened them with foreclosure. In central San Antonio, the Catalyst Fund acquired and operates a small mixed-use property that provides six units of affordable housing and commercial space to a nonprofit community organization.

Websites

NALCAB: nalcab.org
Affordable Homes of South Texas: ahsti.org
Colorado Housing Enterprises: crhdc.org/Services/Lending
Préstamos: prestamosloanfund.org

INNOVATIONS AND LESSONS

- The Catalyst Fund demonstrates that it is possible to attract and channel private capital to nonprofit developers of low- and moderate-income housing.
- The Catalyst Fund also addresses a pressing issue of our time, the problem of developing or preserving housing affordable to low-income people in areas of economic opportunity but also rapidly appreciating housing costs. As such, it promotes economic mobility by providing low- and moderate-income residents with access to employment, quality education, and health care resources.
- The fund's investments emphasized developing affordable housing without public subsidies, in order to be able to act speedily and flexibly, as well as developing relatively small projects that would not require rezoning that might trigger local opposition to low-income housing.
- The NALCAB Catalyst Fund collaborates with Latino-led nonprofit organizations to develop housing in predominantly Latino communities.

PROMOTING NATURALLY OCCURRING AFFORDABLE HOUSING AND NEW ACCESSORY DWELLING UNITS

Small Homes, Big Impact

LOS ANGELES AND SAN JOSE, CA

LOCATION

$3.5 MILLION (2017 COHORT)

AWARD

PARTNER ORGANIZATIONS

Genesis LA Economic Growth Corporation

Housing Trust Silicon Valley

PROBLEM

Increasing housing costs in Los Angeles and San Jose, CA, have left more than half of renter households in the two cities cost-burdened (paying more than 30 percent of their income toward rent). But the rate of production of new housing is less than half of what is needed to keep up with demand, and the cost of constructing new affordable housing, especially multifamily housing, is extremely high due to scarcity of land, high land values, and government program requirements. Furthermore, the number of private, unsubsidized low-cost dwellings has been shrinking rapidly – since 2001, the number in Los Angeles has dropped by 22,000 units.

ASSESSING THE SITUATION

Private owners of multifamily rental dwellings do not use housing subsidies, and yet such Naturally Occurring Affordable Housing (NOAH) is affordable to low- and moderate-income households. Still, lack of financing prevents nonprofit housing organizations from competing for such properties with for-profit owners, who in California's hot real estate market often raise rents beyond what many tenants can afford.

Another source of unsubsidized affordable housing is "accessory dwelling units" (ADUs), homes built on the same lot as an existing house – often as an apartment in the basement or above a garage or as a smaller free-standing structure in the back yard. In 2017 the state of California passed a law encouraging construction of small second dwellings in a primary home or the back yards of lots that contain a single-family home. However, many low- and moderate-income homeowners lack the means to construct an ADU on their property.

STRATEGY

The partner CDFIs, Genesis LA Economic Growth Corporation and Housing Trust Silicon Valley, aimed to help low-income people by helping to preserve NOAH and develop ADUs. The collaboration created RETHINK Housing to preserve or develop small multifamily projects, which could become models for building affordable housing without tax credits and public capital. The partners proposed to provide subordinate, patient loans to nonprofit groups that acquired NOAH. To capitalize on the opportunities provided by a new California ADU law, they also would develop a loan product specifically aimed to help low- and moderate-income homeowners build ADUs, which would provide the owners with an additional source of income. In support of their goals, the CDFIs conducted education and marketing campaigns.

IMPLEMENTATION

For its first RETHINK Housing project, Genesis provided an $800,000 loan to cover predevelopment, construction, and permanent operations of a new apartment complex for ten homeless or at-risk youth, run by a nonprofit service provider of supportive housing.

Housing Trust Silicon Valley has conducted an aggressive ADU education campaign, which in its first year included four workshops, one conference for nearly 40 public officials, one panel discussion, three ADU open-house tours, and two ADU Meet Ups for Industry Professionals. For interested homeowners who need financing, the Housing Trust provides a grant to pay a consultant to assess the site and what sort of ADU could be built on it. The Housing Trust also offers ADU construction loans of up to $250,000 on a 36-month term at about five percent interest, with affordability restrictions on the tenant's rent.

Meanwhile, Genesis partnered with two nonprofits, LA-Más and Restore Neighborhoods LA (RNLA), on a "design-build" ADU venture named the Backyard Homes Project. LA-Más conducts homeowner outreach and obtains architectural plans and permits, while RNLA oversees construction. In addition, Self Help Federal Credit Union, backed by Genesis LA's short-term loan guarantees, created a loan product to finance construction of an ADU, which considers the future value of the property with the ADU as well as the prospective rent.

Websites

Genesis LA: genesisla.org
Housing Trust Silicon Valley: housingtrustsv.org
LA-Más Backyard Homes Project: mas.la/affordable-adus

INNOVATIONS AND LESSONS

- NOAH is a precious commodity, but the great disparities between high sales prices and low rents in existing NOAH create large gaps between debt capacity and capital needs. Any program for acquiring existing NOAH will require subsidy to cover the gaps. As a result, Genesis LA is working with Enterprise Community Partners to help the City of Los Angeles launch its new NOAH subsidy program.
- Building at a small scale, making strategic design decisions, and providing a single source of financing can drive down costs of developing new NOAH. RETHINK Housing projects cost less than $125,000 per unit, compared to $500,000 for low-income housing tax-credit deals.
- Setting up partnerships is key to promoting and financing the building of ADUs. Partners can limit each other's risk and coordinate development roles that the average homeowner may not be able to take on independently.

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