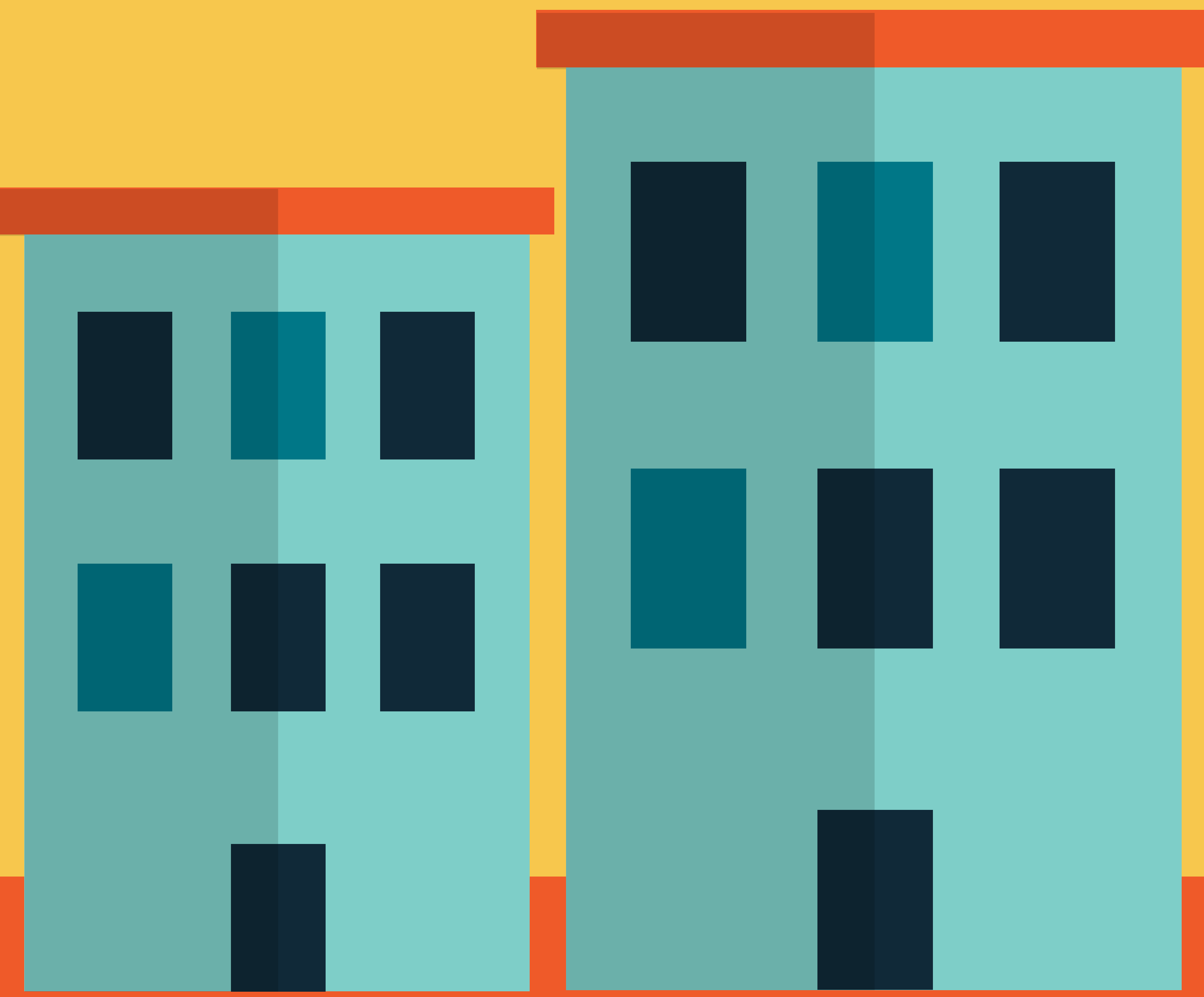
HOW TO CREATE WIN-WIN PARTNERSHIPS WITH LANDLORDS

A SET OF RECOMMENDATIONS FOR ALLEGHENY COUNTY



HOUSING ALLIANCE OF PENNSYLVANIA
WINTER 2017

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Forward

A safe, decent, and stable home provides a foundation from which individuals and families can achieve their life goals. Housing instability and inadequate housing quality can result in mental and physical health problems, poor school performance, frequent moves due to eviction and overcrowding, and even homelessness.

The Housing Alliance of Pennsylvania and our members dedicate ourselves to promoting common-sense solutions to balance Pennsylvania's housing market. We continue to advocate for increased funding for subsidies to make more housing stock affordable to low income households. In Allegheny County, 38,775 Extremely Low Income (ELI) renter households are struggling with housing quality and stability (1). We, along with our local partners, set out to identify solutions that could be implemented immediately.

The Housing Alliance of Pennsylvania convenes the Southwestern PA Housing Alliance and has been partnering with landlords to increase the supply of safe and decent homes for low income households, including those with additional barriers to housing stability such as poor credit, poor rental history or criminal history. In our search for additional strategies and solutions, we engaged and partnered with landlords to identify win-win strategies that would address our needs and theirs.

This set of recommendations aims to increase the number of affordable housing opportunities and increase the number of landlords that are engaged with us in Pennsylvania. We sought out programs in place in other communities, as well as the perspectives of landlords, to identify an array of strategies that could be considered for implementation in Allegheny County. We thank the many people and organizations engaged in this work and look forward to unlocking more affordable housing opportunities for low income households in Allegheny County.

Sincerely,

Phyllis Chamberlain
Executive Director, Housing Alliance of PA

Recommendations

Based on focus groups with landlords and research on best practices we recommend consideration of the following strategies to further engage landlords and unlock affordable housing opportunities for low income households.

1. Establish a risk mitigation fund that will provide resources to landlords for any excessive damage a tenant may cause that is beyond what the security deposit will cover.

The purpose is to alleviate a landlord's real or perceived risk regarding renting to tenants with barriers to rental housing, including poor credit and a criminal history. The landlord would agree to lower screening criteria in order to participate and access the funds.

2. Create a vacancy hold rebate that will provide resources to landlords that are willing to hold open a vacant unit for a tenant that is receiving services from a qualified service provider.

The purpose is to offset the financial loss that a landlord experiences due to rent not being collected for the time the unit sits vacant. The landlord would agree to rent the unit exclusively to tenants referred by a qualified service provider and would access funds when the tenant signs the lease and is in the unit.

3. Create a repair rebate to provide resources to landlords for repairs needed to meet Housing Quality Standards (HQS).

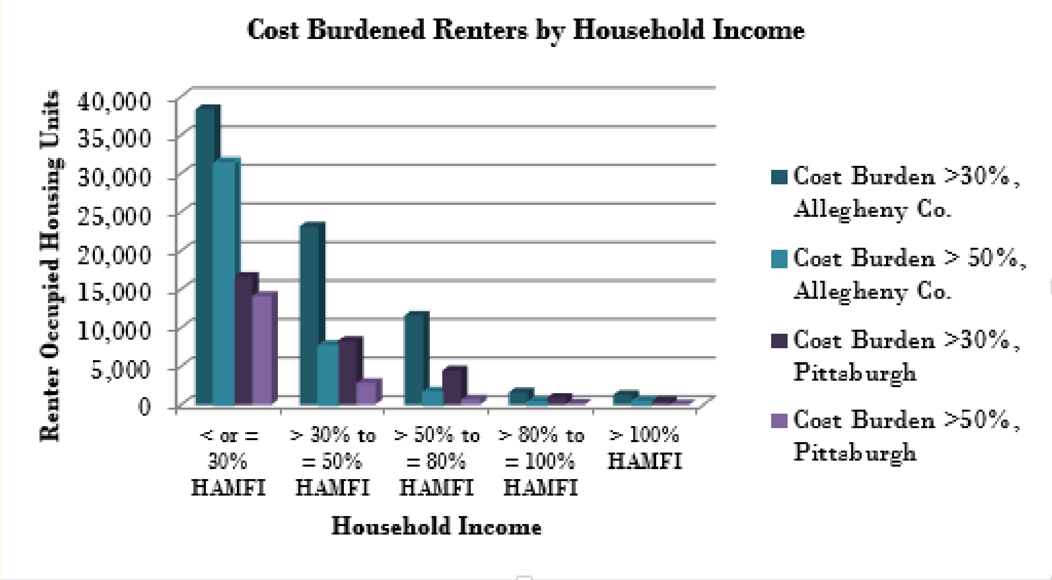
The purpose is to alleviate the financial burden of repairs needed in order to comply with HQS. The HQS are a building code standard set by HUD, required for many rental assistance programs and is typically more stringent than local building codes. To participate, a landlord would have already agreed to lease the unit to the tenant and would receive the rebate upon signing of the lease.

4. Provide repair loans/grants that will provide financing to landlords to make larger repairs necessary to bring or keep a unit in compliance with HQS.

The purpose is to help landlords finance the larger repairs needed to preserve the quality and eligibility of a unit to continue to be leased to a tenant receiving rental assistance. Landlords would need to have repairs approved and make a commitment to continue to work with a rental assistance program.

FACTS ABOUT RENTERS IN ALLEGHENY COUNTY

Across the country roughly one in four renter households are living with incomes at or below 30% of the area median income (AMI) and cannot afford their rent (2). Allegheny County is home to roughly 31,000 households living at 30% AMI, roughly $24,000 for a family of four, paying more than half their income on rent (1). The severe cost burden faced by these households increases the likelihood of frequent moves due to eviction or overcrowding, victimization through crime and violence, increased health problems, developmental delays and poor school performance for children, and homelessness (3). It is costly both at the human and taxpayer levels.



HAMFI = Household Area Median Family Income

HISTORY OF HOUSING FUNDING

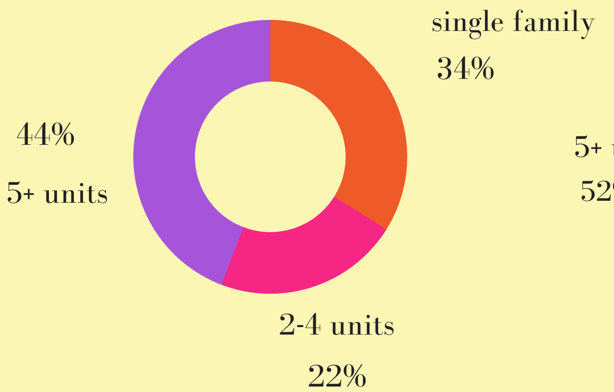
Access to safe, clean, and affordable housing for low income rental households is further complicated by the scale back of state and federal resources used to produce and operate affordable housing. HOME and Community Development Block Grants (CDBG), the primary funding streams that produce project based affordable housing, have been cut by about half since 2010. Public housing authorities along with other Department of Housing and Urban Development (HUD) programs have historically been underfunded and lack the ability to maintain and improve the quality of housing stock. The Housing Choice Voucher (HCV) program struggles to keep up with the rising rents because the program's rent payment caps are set at slightly below the median rent for a metro area (4). In the case of Pittsburgh, the metro area includes all of Allegheny County and the surrounding seven counties. The low rents seen in outlying counties skew the rent payment levels to below what the market rents are in the city, putting many neighborhoods out of reach for HCV recipients.

EFFECTIVE HOUSING PROGRAMS

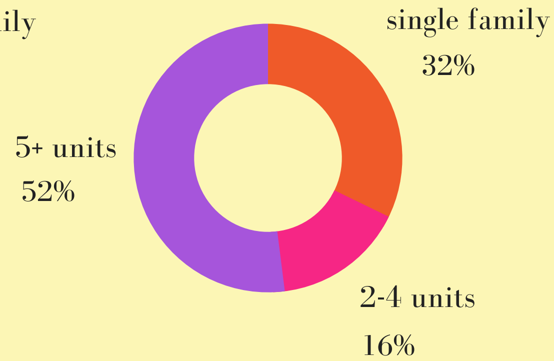
Programs such as rapid rehousing and HCVs have been empirically proven to be the most impactful and cost effective for families that have experienced homelessness. Specifically, a three year study on families experiencing homelessness found that HCVs provided improvements in the areas of family unification, psychological distress, intimate partner violence, drug and alcohol abuse, school attendance and behavioral problems in children, and food security (5). But both of these programs are contingent on having a pipeline of landlords willing to rent housing units that are safe, clean, and affordable. One best practice that communities across the country are implementing is the recruitment of landlords so that the public housing authorities and nonprofits providing rental assistance cultivate a supply of units available to individuals and families enrolled in their programs. Many communities have specifically targeted outreach to landlords with small to mid-size portfolios of housing due to their ability to be more flexible than developers and owners of large scale properties (6).

UNITS IN STRUCTURE

Allegheny County
182,867 Renter Occupied
Housing Units (7)

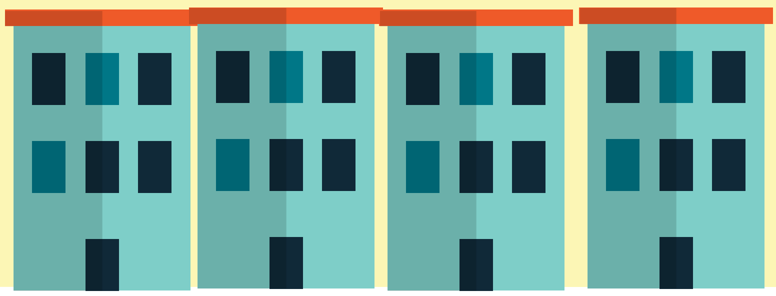


City of Pittsburgh
67,786 Renter Occupied
Housing Units (7)



HOUSING PIPELINE, HOUSING QUALITY, AND LANDLORDS

Cultivating this housing pipeline in the greater Pittsburgh area has been challenging for a few reasons. Pittsburgh has a tight rental market at a 5.1 % vacancy rate, which is slightly below the national vacancy rate of 7.1 % (7). When markets tighten, landlords are able to be more stringent in their screening practices because of the greater demand and increased competition for existing housing. In addition, the Pittsburgh market on the whole is beginning to warm after years of stagnation with rents starting to rise. Some neighborhoods are revitalizing without mechanisms in place to keep rents affordable, and Low to Moderate Income (LMI) renter households are, or are at risk of, being priced out of these neighborhoods. Some neighborhoods have remained stagnant with limited access to needed resources and others have high rates of displacement through formal and informal evictions.



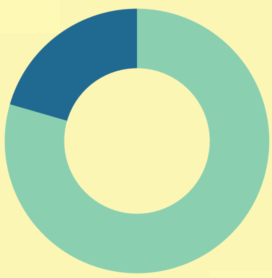
As is the case in most Rust Belt cities, the greater Pittsburgh area has a housing quality issue. With an older housing stock, many homes are designed or have been modified over the years in such a way that they do not easily meet HQS as required by funding sources, including HUD, the major funder of rental assistance programs. To put it simply, when a rental market is this tight, with rising rents and an old housing stock, the economics don't work. Landlords do not generate enough income to ensure there are adequate funds to maintain housing quality. These challenges are compounded by the deficit of federal, state, and local resources to help the owners and operators of Naturally Occurring Affordable Housing (NOAH) rentals. Often these limited resources are targeted, or are more easily accessed and utilized, by large scale development firms. This is problematic because most low priced rentals are in properties that have one to four units and are owned by smaller scale real estate investors/landlords (3).

YEAR STRUCTURE BUILT

Allegheny County

182,867 Renter Occupied Housing Units (7)

After 1979
20.5%
37.488

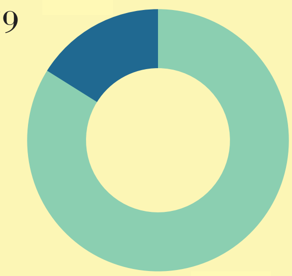


1979 or Earlier
79.4%
145,196

City of Pittsburgh

67,786 Renter Occupied Housing Units (7)

After 1979
16.5%
11,185

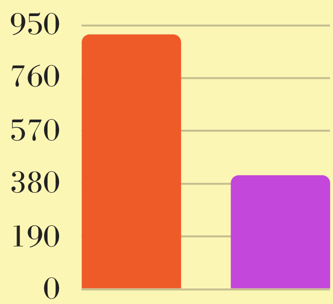


1979 or Earlier
83.4%
56,534

INCOMPLETE FACILITIES

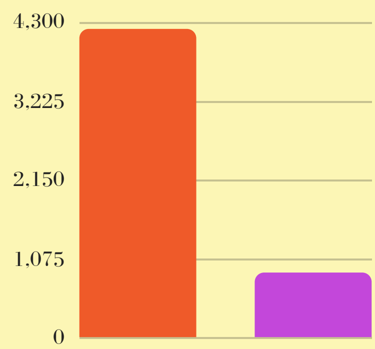
Incomplete Plumbing

Units



Incomplete Kitchen

Units



HOUSEHOLD TYPE (1)

Allegheny County

Not Alone
12%
21,994

Family Household
37%
67,661

Live Alone
51%
93,262

City of Pittsburgh

Not Alone
17.9%
12,134

Family Household
33.1%
22,437

Live Alone
49%
33,215

Examples of Best Practices

Below is a summary of different models of programs from around the country that serve to incentivize private market landlords to rent to households with barriers to housing stability. We reviewed strategies that would offset the financial costs and real and perceived risks of working with low income households, rental rehab programs, and models of providing training.

MODELS OF FINANCIAL INCENTIVES

Vacancy Hold Incentives

Hold incentives are provided in exchange for a landlord to hold a unit for a specific service provider agency that will identify a tenant.

EXAMPLE: Experiencing a 2.7% vacancy rate and high rent costs, Los Angeles developed the Homeless Incentive Program (HIP) managed by the Housing Authority of the City of Los Angeles (HACLA) and the Los Angeles Homeless Services Authority (LAHSA). HACLA has created an official preference for individuals that are experiencing homelessness to receive a Housing Choice Voucher. HIP staff provide participating landlords with $1,100 as incentive to hold a vacant unit for one of HACLA's homeless preference voucher holders. Incentives are paid once landlords complete the screening process. Homeless applicants are then referred to HIP through sponsor agencies. Initial and ongoing funding for the program has been received through individual social service/non-profit agencies, the City of Los Angeles, and LAHSA. HACLA also offers this program for veterans, called Homes for Heroes Initiative (8).

Mitigation Funds

Mitigation funds are incentives that alleviate the real and perceived risk for landlords who are willing to reduce screening criteria to rent to an individual with limited income, a poor rental history, or a criminal history. If there are excessive damages, arrears, or legal fees that exceed the security deposit, landlords can be reimbursed for damages up to a specified amount (9).

EXAMPLE: In 2014, faced with low vacancy rates and a disparity between the cost of housing and wages, the City of Orlando and Orange County, Florida, established a shared risk fund for participating landlords. Funds for the program come through the city's Code Enforcement Revenue in the amount of $325,000 annually. Individuals experiencing chronic homelessness or high barriers to housing are considered Tier One tenants and landlords housing these individuals are eligible to access the fund if damages are incurred on the property.

As of August 2016, 121 Tier One tenants have been housed, no claims have been filed, and landlord interest in affordable rental housing appears to be growing (10).

EXAMPLE: The Landlord Liaison Project (LLP) was initiated by the Seattle/King County Committee to End Homelessness and includes a risk reduction fund. A participating landlord leases a unit to an individual or family facing housing barriers, and thus has access to the risk reduction fund for the first two years of the individual's or family's tenancy. As of May 2016, nearly 3,000 households have become eligible to participate but only 369 damage claims have been filed, leaving the fund at roughly $500,000, out of one million dollars when the program started in 2009 (11).

Property Tax Credit/Abatement

A property tax credit and property tax abatement would help offset the loss of income from a unit located in a low poverty area that is rented at a reduced rate to Housing Choice Voucher (HCV) recipients. This incentive is intended to create access into high opportunity neighborhoods where area rents exceed what the HCV program can pay.

EXAMPLE: Studies on the HCV program show that the maximum rent payment the program allows is not high enough for families to rent apartments in high opportunity areas close to transit and good schools. For this reason, while HCV most certainly alleviates housing cost burden, it does not help households move from poverty impacted areas. In an effort to address this, Illinois created the Housing Opportunity Area Tax Abatement program in 2003. Landlords and building owners can receive a decrease to the property taxes of units leased to HCV holders up to 19% for up to ten years in identified high housing opportunity areas (12). The tax abatement program helps offset the loss of cash flow on a property with rent below the neighborhood market rate.

MODELS OF RENTAL REHAB PROGRAMS

The Rental Rehabilitation Programs reviewed for this paper vary in model but share the goal of providing rehabilitation financing assistance to owners of small rental properties with four units or less. These programs share the following core elements:

- combine public funds with funds provided by the owner;
- encourage rehabilitation of rental units affordable to LMI households;
- make rehabilitation of rental properties economical .

Rental Rebates

A rental rebate would be paid out after repairs have been completed and inspected and help a landlord finance more significant repairs to a unit. Rental rebates incentivize landlords to rent units at below market rate for a period of time.

EXAMPLE: Operated through Grand Rapids Community Development in Michigan, the Rental Rebate Program offers financial assistance for rental unit repairs, remediation of hazards such as lead or asbestos or upgrades for energy efficiency and accessibility in the form of a rebate of approved projected costs up to $14,000 per unit. The property needs a minimum of $10,000 worth of work per unit and the unit must be either vacant or occupied by an income qualified tenant. The property owners are responsible for securing financing for the entire project and having the work completed by a licensed contractor. The landlord receives the rebate after final inspection of the repairs. There is a compliance period of five years and during that time a lien is put on the property. This program has been in operation for 15 years and is funded through HOME at $150,000 per year. On average this program produces three to four units a year and is used in properties that have four units or less (13).

Deferred No Interest Loan

A deferred no interest loan would finance a rehab up to a set amount for a unit that is currently not up to either local, state or federal housing code. Typically the owner would have to provide a down payment and would repay the loan at time of sale. The loan would be provided in exchange for a short term commitment to keep rents below market rates.

EXAMPLE: In Erie County, New York, a deferred loan is provided to small scale landlords to help improve the quality of their units. In order to receive funds, the property must fail to meet at least one standard required by housing codes. The program allows for up to $15,000 with the property owner responsible for funding a minimum of 10% of the rehabilitation cost. There is a compliance period of seven years where the landlord is required to have 51% of units priced at the HUD Fair Market Rent for Erie County. The deferred loan is at 0% interest and is paid back at time of sale of the property. The program started in 2001, funded with CDBG dollars and has produced roughly 12-15 units per year on an annual budget of roughly $138,000 (14).

Matching Grant

A matching grant would provide a dollar for dollar match, up to a set amount, to pay for repair costs for a unit that is currently not up to either local, state or federal housing code. The grant would be provided in exchange for a short term commitment to work with a rental assistance program.

EXAMPLE: Greene County's and Pennsylvania Human Services' Rental Rehab program , funded by PHARE, provides matching grants to eligible landlords. Under the program, a landlord can receive up to $7,500 per unit or no more than 50% of the rehab cost. Qualifying landlords need to be current on all property taxes and cannot have any open litigation or discrimination complaints against them, and must have been working with the local homeless assistance program for a year. The unit in which the funds are to be used must not meet local housing codes or the HUD HQS. The compliance period is three years where the landlord can only price the unit at Fair Market Rent to households referred by the Greene County Human Services Department (15).

MODELS OF TRAININGS AS INCENTIVES

Required or encouraged low cost trainings for both tenants and landlords can help build strong relationships between tenant based subsidy providers and landlords. In addition, it gives tenants additional support to help them remain stable.

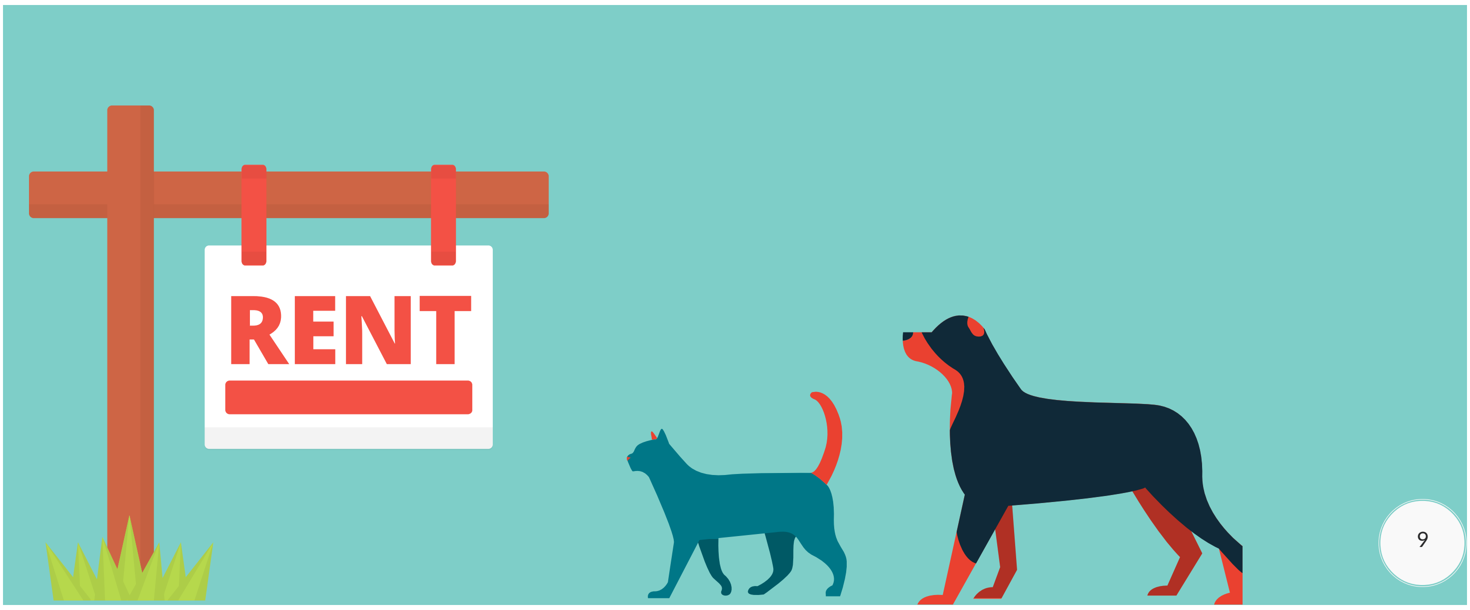
Trainings

Tenant trainings provide information on basic tenant skills. Tenants receive certificates to show at the time of application to persuade landlords to reduce screening criteria. Trainings provided for landlords usually include code compliance education.

EXAMPLE: Ready to Rent is one example of a rental education course that can be offered by service agencies to rental housing applicants who may be facing housing barriers due to rental history, poor credit, or a criminal background. In response to a survey measuring the effectiveness of the program, many respondents said they presented their RentSmart certificate when applying for housing. As a result of the course, they had an easier time finding a place and maintaining housing.

Instructors of the course are prepared to teach an interactive four to six week curriculum where participants learn about their rights and responsibilities as tenants and also learn how to begin taking steps towards greater financial stability. A brief one-time training is also available to landlords to familiarize them with information provided to tenants and also provide strategies for success with tenants. An additional benefit of this program is the ability to standardize a core curriculum across multiple service providers and still allow adaptability for various populations (16).

Many housing authorities across the country provide free training to landlords working with their program. Landlord training has been most effective in general code compliance for all rentals when developed in tandem with a proactive rental inspection program at the municipal level (17).



Key Elements of Program Design and Implementation

The following core elements should be included in program design and implementation of the recommendations:

• *Simple application and monitoring process.*
Incentives tied to existing programs, including tenant based subsidy programs, should use already established inspection and monitoring processes. The benefits of this approach include landlord familiarity with current processes and alleviation of the administrative burden of additional and separate processes.

• *Flexibility to choose a contractor but one that meets some minimal requirements.*
Home repair and renovations, especially in homes built before 1978, can disturb lead based paint and create an increased risk of lead poising. A minimal requirement of having a lead certified contractor in place is recommended (18).

• *Landlord must be current on school county and municipal taxes and the landlord must not have any open discrimination complaints.*
This measure will ensure that funds are invested responsibly.

• *All units should meet HQS at the end of construction.*
Any funds expended must result in a unit that meets HQS and can be rented to tenants. This will ensure the unit will meet standards of any tenant based subsidy program.

Conclusion

There are many programs that have been created for small scale landlords across the United States that enable them to rent to LMI households. The evidence shows that it makes sense to rent to LMI families and individuals when incentives are provided to do so. Not only do landlords benefit from having the ability to make upgrades to their units that can last for years, but the actual upgrades can increase property values which can lead to community growth.

Small to mid-size landlords who rent to ELI tenants make little to no profit (19). In addition, there is as much misconception and stigma around those landlords as there are of some of the tenants who occupy their units. When taking into consideration how difficult it is to generate a sizable revenue for larger maintenance repairs, it seems more and more that economics drive the inability for some landlords to maintain housing quality and not personal responsibility. Creating an investment strategy that is needs and market driven over the traditional "good behavior" models may produce better outcomes and create stronger relationship between landlords and policy makers.

America's Rental Housing Report found that single-family housing stock accounts for 40% of the rental housing stock and another 20% is two to four unit properties(3). Analysis of ACS Data for Allegheny County shows that roughly a third of occupied rentals are single family homes and that between 2010 and 2014 there was a 17% increase in single family home rentals.

Even though the majority of rental housing stock is comprised of smaller properties, the resources available for property upgrades in order to assist LMI folks don't correlate. In Allegheny County, there is a lack of resources for small to midsize landlords to maintain and upgrade their housing.

With the growth of small scale rentals in Pittsburgh, and the under utilization of Housing Choice Vouchers, the time is ripe for the creation of programs that take the financial burden off of landlords when renting to LMI individuals and families. There are many program models that could provide the starting point for the development of financial incentives, rental rebate programs and/ or training programs in Allegheny County.

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Housing Alliance of Pennsylvania

rental housing workgroup

The Housing Alliance is a statewide coalition working to provide leadership and a common voice for policies, practices and resources to ensure that all Pennsylvanians, especially those with low incomes, have access to safe, decent and affordable homes.

The Rental Housing Work Group, part of the Southwestern PA Housing Alliance, engages landlords and real estate investors in partnership to help ensure that the naturally occurring affordable rental housing, is safe, decent, and within reach of those who are dependent on its affordability. While this project most certainly focused on Pittsburgh, many of its findings can be applied to communities across the state.

ACKNOWLEDGEMENTS

Thank you to Neighborhood Allies for supporting this project and to the Mary Hillman Jennings Foundation for supporting the work of the Southwestern Pennsylvania Housing Alliance's Rental Housing Work Group.

We would like to acknowledge the dedicated members of the Rental Housing Work Group for their commitment to ensure everyone has access to quality rental options and to ACRE of Pittsburgh and Pittsburgh Real Estate Investors Association for support and promotion of this initiative. We would also like to acknowledge Anita Zuberi, Ph.D., of Duquesne University and Janelle Kemerer, whose contributions of time and expertise were instrumental to this project.

Thank you to the landlords that participated in the focus groups who provided valuable insight on ways that we can expand our partnerships with you.