# Environmental Scan

## Affordable Rental Housing Challenges & Opportunities

CONVERGENCE
UNITING FOR HOUSING AFFORDABILITY

MBa
MORTGAGE BANKERS ASSOCIATION

CONVERGENCE is a national strategy by the Mortgage Bankers Association (MBA) to bring together lenders, community leaders, and public officials for new solutions to America's affordable housing challenges. Too many families, especially minorities and low- and moderate-income families, cannot afford to buy or rent a home. And the problem is growing. By working collectively, CONVERGENCE and its participating partners will create greater homeownership and affordable rental housing opportunities for more Americans.

# Overview

MBA's CONVERGENCE initiative was launched in 2019 to advance affordable housing opportunities in the United States. The organization named a senior executive, Steve O'Connor, to spearhead this initiative. Over the first year and half of the initiative, the MBA has: created two MBA member affordable housing advisory councils — one for single-family housing and one for multifamily housing — to help shape and advise the initiative; launched a place-based initiative in Memphis, Tennessee in March 2020 to promote African American Homeownership there, with a second city launched in Columbus, Ohio in July of 2021; hosted webinars on leading topics in affordable housing to support MBA members and advance the policy and practice of affordable housing; engaged with partners to standardize and disseminate some of the key tools of affordable homeownership; and explored policy initiatives and new product offerings, with the multifamily housing members, to expand the nation's supply of affordable rental housing.

The first phase of MBA's CONVERGENCE initiative involved an "environmental scan" of the homeownership landscape to learn more about the types and nature of our country's affordability challenges, as well as ideas for solutions. The goal was to identify strategic opportunities for MBA and its members to make a difference, both in the short- and long-term. To conduct the scan, MBA staff consulted stakeholders from all corners of the housing industry, as well as community, consumer, and civil rights groups, in the form of surveys and interviews.

This document, prepared by MBA's Affordable Housing Initiatives team, captures the results of a similar environmental scan of the affordability challenges in rental housing markets. Our hope is that this compilation will help inform affordable rental housing stakeholders' decisions on where to invest time, energy, and resources in the affordable rental housing space.

To conduct this environmental scan, MBA staff solicited the advice and guidance of numerous affordable rental housing stakeholders in the US, including MBA members, industry participants, advocates, and other thought leaders, on what our priorities should be and how the MBA can best apply its strengths to address those priorities.

This document presents the results of that environmental scan and a description of the core principles underlying the CONVERGENCE effort. By design, this scan represents the views of the survey respondents, and some of these views may not be aligned with those of MBA or its members. We also attach appendices identifying the members of the Affordable Rental Housing Advisory Council, sharing specific feedback from individuals interviewed or surveyed as part of the environmental scan, and providing a list of other stakeholders consulted. MBA staff will continue to communicate with the broader housing industry to build and refine how MBA can help promote affordable housing in America.

## INDUSTRY STRENGTHS

Market Knowledge

Access to Capital

Business Networks

Operational Capacities

Proven Tools of Tax Credits and Rental Assistance

## MARKET CHALLENGES

Too Many Households with Very Low Incomes

Costs of Housing Development

Need for Public Subsidies to Create Affordability

Financing Complexities

Regulatory Constraints and Conflicting Programs

Community Resistance to Housing Development

## OPPORTUNITIES

Innovations in Housing Finance and Development

Increasing Public Sector Interest in Solutions

Additional Subsidies to Support Housing

## THREATS

Demand Outpacing Creation of New Supply

Vacant and Distressed Properties

Cost of Rehabilitating the Older Stock

Changes in Residential Living Patterns

Polarized Congress and Competing Priorities

# Introduction

Many of the stakeholders MBA contacted share the view that our nation faces an affordable rental housing crisis. Even before the COVID-19 pandemic, more families were struggling with severe rent burdens exceeding half of their incomes, and over a million people experienced homelessness on any given night. The production of new affordable housing supply was failing to keep up with the creation of new households. The existing affordable housing inventory was aging and either falling into obsolescence or being redeveloped into higher rent housing in gentrifying markets. COVID has only intensified these problems.

## SUPPLY AND DEMAND ARE OUT OF BALANCE

Stakeholders frequently shared the view that the supply and demand of affordable rental housing are out of balance. For example, according to the Harvard Joint Center for Housing Studies, more than 20 million renter households were cost-burdened, meaning they spent more than 30 percent of their incomes on housing in 2019, approximately 5.6 million more than in 2001.[1] On the demand side, the problem is in large part one of inadequate income in that the affordability crisis is particularly pronounced among lower-income households. Fifty-seven percent of households with incomes under $30,000 were spending more than half their incomes on housing.[2] Rising rents have also negatively affected more moderate-income households — those with incomes between $30,000 and $44,999. The share of these households with cost-burdens (paying more than 30%) rose from 42% in 2001 to 57% in 2019. In its 2020 Out of Reach report, the National Low-Income Housing Coalition calculated that at the national level, a household must earn $23.96 per hour to afford a 2-bedroom rental unit at the area's Fair Market Rent.[3] This hourly wage implies an annual income of $49,836 based on a 40-hour week. Two individuals working full-time at the federal minimum wage of $7.25 per hour could not afford the apartment.

## SUPPLY CONSTRAINTS

The listening tour conversations identified supply constraints as a significant challenge in the US. Numerous studies have documented this challenge, including an April 2021 analysis by Freddie Mac that found — in ownership and rental for both single- and multifamily properties — a housing deficit in the United States of 3.8 million units, growing by as much as 418,000 units per year.[4] An April 2018 study by Up for Growth, a research and housing policy advocacy forum, found that 23 states failed to produce enough housing from 2000-2015 to keep up with household growth, creating a production deficit of 7.3 million units during that period.[5] And, again, these issues are most pronounced for the lowest income households. The National Low Income Housing Coalition calculates that there is a shortage of almost 7 million rental homes that are affordable and available to extremely low-income renters.[6]

1 *State of the Nation's Housing 2020,* Joint Center for Housing Studies, September 2020, p. 3.

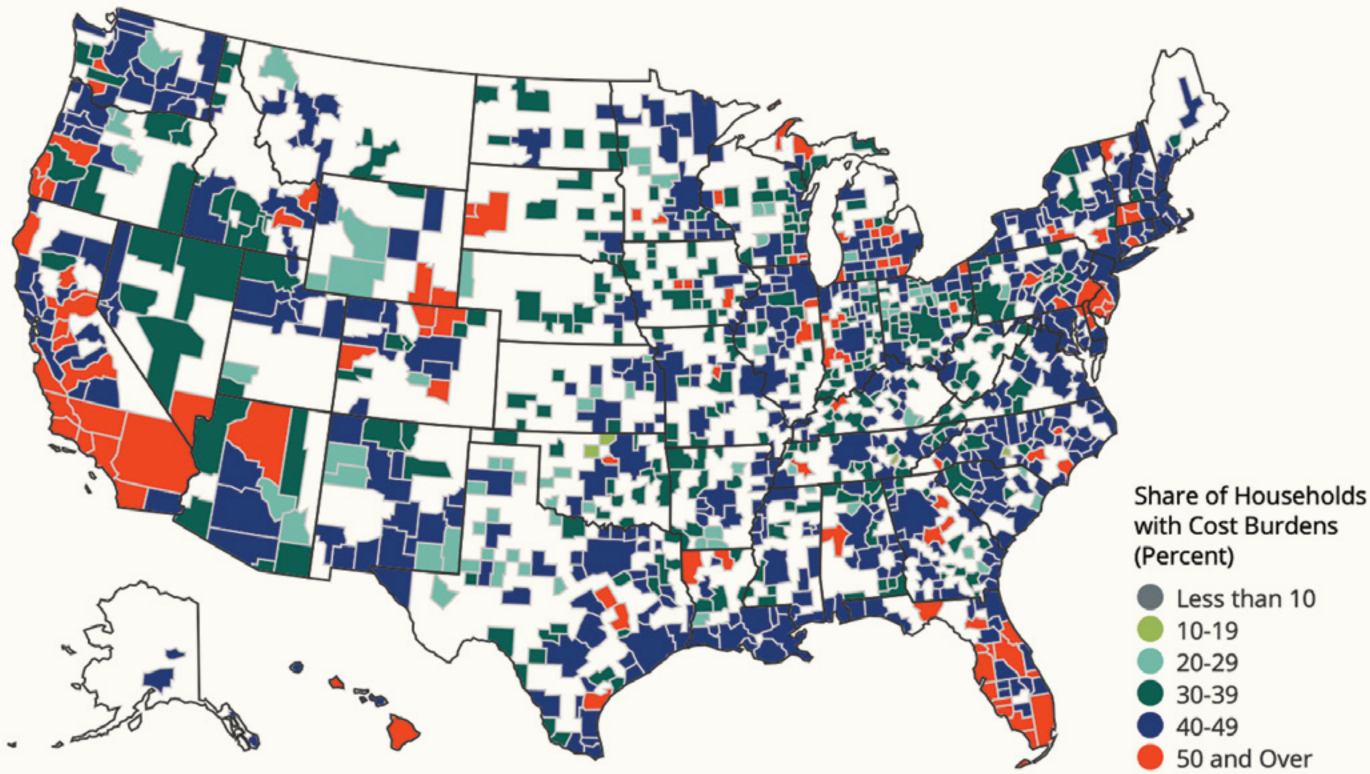
2 Ibid.

3 *Out of Reach, 2020,* National Low Income Housing Coalition, p.2.

4 http://www.freddiemac.com/perspectives/sam_khater/20210415_single_family_shortage

5 https://www.upforgrowth.org/sites/default/files/2020-07/housing_underproduction_us.pdf

6 https://reports.nlihc.org/gap




Many stakeholders believe that these supply constraints are caused by a variety of factors. Several of the interviews cited local zoning laws that favor single-family housing and limit the availability of land for multifamily housing development as one of these factors. Even where local policies might support multifamily development, there is often community resistance especially to housing developments characterized as "affordable." While multifamily production has significantly increased in recent years, it is unable to keep up with the increasing local demand, causing the prices of the existing stock to rise.[7] Creating affordable supply of multifamily housing is also difficult in the face of high costs for land, labor, and materials. Permitting and local reviews add cost and time to the development process. Parking requirements and local impact and permitting fees also add significantly to the costs of producing new housing. In short, the development costs and subsequent operating costs of new housing supply make it nearly impossible to create new units affordable to low- and moderate-income households absent some form of subsidy.

## COVID-19

Even as the US economy continues to recover from the severe impact of the pandemic, millions face rental debt and fear eviction along with the loss of basic housing security. To meet this need, the Emergency Rental Assistance Program was expanded to assist households that are unable to pay rent and/or utilities. This expansion included $25 billion under the Consolidated Appropriations Act, 2021, which was enacted on December 27, 2020, and $21.55 billion under the American Rescue Plan Act of 2021, which was enacted on March 11, 2021.

In addition, many local governments and the national Centers for Disease Control and Prevention have limited the ability of landlords to evict tenants who have been unable to pay and owe back rents. Assistance provided directly to struggling landlords on behalf of tenants unable to pay the rent could also protect against evictions spurred by owners unable to

7 *The Location of Affordable and Subsidized Rental Housing Across and Within the Largest Cities in the United States,* Research Institute for Housing America, March 2021, p. 1.

maintain their properties given mounting arrears. We do not know yet the full impact of COVID on evictions following the termination of moratorium.

The economic shutdown from the pandemic, beginning in March 2020, left millions of renter households out of work. As a result of the loss of income, a large share of renter households were behind on their housing payments in early 2021. Low-income renters and households of color were the most likely to be behind on their rental payments.

The Harvard Joint Center for Housing Studies' September 2020 report quantifies the pandemic's impact on rental affordability issues: "According to the Census Bureau's Household Pulse Survey…more than half (52 percent) of lowest-income renters lost wages [between March and September 2020] … [O]ne in five renters earning less than $25,000 also said they were behind on rent…Those earning $25,000 to $49,999 also struggled, with 53 percent losing income and 16 percent behind on rent." In a follow-up survey in February 2021, nearly two-thirds of these landlords (61 percent) reported at least $5,000 in lost rental income during the pandemic.

The Center on Budget and Policy Priorities analysis of the Census Bureau's Household Pulse Survey found an estimated 9.2 million adult renters who have lost employment income during COVID-19 were still not caught up on rent by November 2020.[8] The participants of the listening tour highlighted the need for additional rental assistance for those who have been hardest hit by the pandemic as well as tax relief for the landlords to limit the number of evictions.

Housing-Related Financial Distress During the Pandemic, RIHA's study, found that 8.6% of renters (2.86 million households) missed, delayed, or made a reduced payment in June 2021, while 4.6% homeowners (2.19 million) missed their mortgage payment. In addition, 28 million student debt borrowers (44.8%) missed payments, up from 26 million in March.[9]

However, property owners continue to play a key role in helping renters: 11% of renters missed one payment over the 15 months of the pandemic, 4.4% missed two payments, 2.7% missed three payments, and 6.8% missed four or more payments.

In aggregate, rental property owners lost as much as $7.10 billion in second-quarter revenue from missed rent payments. This was down from $7.48 billion in the first quarter of 2021. Over the first five quarters of the pandemic, that is a total of $41.7 billion missed rental payments.[10]

**The long-term effects of the pandemic on the underlying rental housing crisis are not yet known.** The federal government has provided three unprecedented waves of income support to lower-income households through direct payments to households, Payroll Protection Program benefits to small businesses, and enhanced unemployment benefits, as well as the emergency rental assistance payments.

However, with unemployment benefits ending, rental assistance slowing, and no additional stimulus funding insight, millions of renters are still behind on their rent payments and on the brink of eviction.

**By reducing the pandemic's adverse impacts on housing affordability, such public policies can lay the foundation for the success of aspirational efforts aimed at increasing housing affordability post-pandemic. While the stimulus funding may have held off evictions and covered some rent owned, it did not address the long-term affordable rental housing crisis.** The policy recommendations in the following section are possible solutions to address the on-going affordable rental housing constraints.

## POLITICAL AND POLICY ENVIRONMENT

There is increasing interest at all levels of government to find solutions to the affordable housing crisis. Many state and local governments have created new resources, encouraged increased housing density, and enabled accessory dwelling units to expand the available affordable housing supply. Several important longer-term policy changes were also enacted, such as fixing the rate on 4% Low Income Housing Tax Credits (LIHTC) and adjusting private activity bonds caps.

Among the major policy proposals to come before the new Administration and Congress are calls for new resources for existing programs. The large coalition behind the ACTION Campaign[11] is advocating for a 50% increase in LIHTC allocations. Other affordable housing coalitions are pushing for increases in rental assistance subsidies. Many housing advocates are pressing for the inclusion of affordable housing resources in the infrastructure funding efforts. Others are looking to de-

8 *Wave of Evictions Nears as Moratorium Set to Expire,* Center on Budget and Policy Priorities, December 2020.

9 *Housing-Related Financial Distress During the Pandemic,* Research Institute for Housing America, August 2021.

10 Ibid.

11 "A Call to Invest in Our Neighborhoods," ACTION Campaign, http://rentalhousingaction.org/

velop and enact new tools to finance middle market housing that is affordable for middle-income households in higher cost markets and tie federal subsidies to the reduction of local regulatory barriers to affordable housing.

While the federal government subsidizes the rent of approximately 7 million households annually, most low-income households do not receive any rental subsidy. MBA's RIHA study[12] found less than one subsidy for every three households with sufficiently low income in the 50 largest metropolitan areas. The number of low-income households increased by 1.4 million between 2001 and 2020, with the greatest need for additional subsidies in areas with recent population and income growth. The largest rental housing subsidy programs beyond the LIHTC are housing choice vouchers (previously called Section 8 vouchers) and traditional public housing. Several of the interview responses advocated for increasing the funding and streamlining the process for both programs; increasing the Area Median Income (AMI) limits to reach more renters, especially in high-cost markets; and providing additional subsidy for the Housing Trust Fund (HTF) to help cover the gap between rising rent prices and stagnant wages.

None of these ideas and approaches enjoy a consensus among policymakers, with Congress frequently divided along partisan lines. Budget constraints, policy disagreements, and competing priorities will continue to make consensus difficult.

## MULTIFAMILY AND CAPITAL MARKETS

According to the Federal Housing Finance Agency (FHFA), Fannie Mae and Freddie Mac's share of multifamily mortgage debt outstanding has been growing steadily to nearly 40% at the end of 2018. Financial institutions held another 40%, private label and other private sources accounted for 12%, and the federal government held 9%. On November 17, 2020, FHFA reduced the annual multifamily mortgage purchase caps for Fannie Mae and Freddie Mac to $70 billion for each company. Importantly, 50% of the GSEs' multifamily businesses must support "mission-driven, affordable housing purchases." On January 14, 2021, FHFA and the US Treasury amended the Treasury back-stop for the Enterprises to cap their multifamily purchases at $80 billion in any 52-week period, with at least 50% classified as "mission-driven."

The Department of Housing and Urban Development (HUD) experienced record activity in multifamily loans with volumes of $24 billion in FY 2020, showing FHA's strong role in providing a variety of multifamily housing for low- and very low-income residents, including market rate, work force housing, LITHC, and subsidized housing through Section 8 – Housing Assistance Payments. HUD is on pace to exceed 2020 volumes; having closed $15.7 billion in loans in the first six months of FY21 with full year volumes expected to be approximately $31 billion.

## MULTIFAMILY HOUSING MARKET CONDITIONS

The Joint Center for Housing Studies highlights a weakening of demand in high density urban areas that began before the pandemic. "Going forward," they write, "rental demand is likely to weaken further as households that have fared well financially this year turn to the home buying market, while individuals who have lost jobs are forced to double up with others… delay forming their own households," or move in with their parents. They find that, at least in the short-term, vacancies had increased in most markets and rents had dropped modestly — though most notably on higher rent units. However, the Urban Institute reports that many rural communities are facing severe shortages of affordable rental housing, a problem they note is exacerbated by low incomes, diversifying, and changing populations, and decreases in federal funding for the production of new units.[13]

MBA's RIHA found that the average LMI household earning 60% of their metropolitan area's median income in 2020 needed an additional $3,228 per year to rent a median housing unit and spend less than 30% of their household income. In 2001, an LMI household could spend less than 30% of their household income to rent the median rental unit in 38 of the 50 largest cities. This decreased to only 17 of the largest cities by 2020, suggesting a greater share of cities have become unaffordable to such households.[14]

Despite concerns that the pandemic would lead to widespread defaults on mortgage debt, an MBA survey found that less than 1.7 percent of loans for professionally managed multifamily properties were in any stage of delinquency in September 2020. Interest rates for financing single-family and multifamily housing, including affordable housing, remain at historic lows.

12 The Location of Affordable and Subsidized Rental Housing Across and Within the Largest Cities in the United States, Research Institute for Housing America, March 2021, p. 27.

13 Rental Housing for a 21st Century Rural America: A Platform for Production, Urban Institute, October 2018.

14 The Location of Affordable and Subsidized Rental Housing Across and Within the Largest Cities in the United States, Research Institute for Housing America, March 2021, p.1

By reducing the pandemic's adverse impacts on housing affordability, such public policies can lay the foundation for the success of aspirational efforts aimed at increasing housing affordability post-pandemic. While the stimulus funding may have held off evictions and covered some rent owned, it did not address the long-term affordable rental housing crisis.

## SUMMARY

In short, the challenges are formidable. At the national level, the affordable housing crisis has been a significant and persistent feature of the rental market for quite some time and continues to worsen. The crisis is exacerbated by the rise in unemployment and lost wages in times like the current COVID-induced economic downturn but tempered by the unprecedented level of federal dollars that Congress has aimed at affected individuals and businesses. Market conditions at the national level are an aggregation of the local conditions, which vary significantly among markets, even within the same metropolitan region. The housing issues that an exurban or outer ring suburban community face can differ dramatically than those that an inner ring or urban market confront, and the tools they require to address those needs are quite different as well. At the state and local level, market conditions, public budget decisions, and longstanding policy approaches also create impediments to making significant progress against the challenges. On the other hand, there is no shortage of debt capital to finance housing, and interest rates remain very low. Making progress will require increasing opportunity and incomes for low-income people, innovations in housing production and finance, and concerted, supportive public policy interventions, as well as careful analysis of the short- and long-term impacts of the recent waves of federal aid. Through its affordable housing initiative, the MBA and its members are prepared to work with public, private, and nonprofit partners to move the dial.


Industry
Nonprofit and Community Groups
Government (Federal, State, and Local)

# Foundational Principles and the Venn Diagram

A core operating principle underlying the CONVERGENCE approach to the affordable rental housing crisis is the need to build new partnerships — both in the policy and practice arenas. In doing so, MBA aims to leverage its core strengths and those of its members. MBA brings high-level competencies in research, analysis, engagement and convening, education and training, and public affairs and advocacy. Its members bring market insights, business and operational expertise, widespread business relationships, and, most notably, credit and capital to the housing sector.

By playing more of a leadership role in affordable housing, MBA and its members will benefit in multiple ways — with both tangible and intangible returns.

MBA will benefit by:

- Getting ahead of key demographic, market, and policy trends;
- Developing deeper relationships with and providing more value for our members;
- Building strategic relationships/coalitions that benefit our policy efforts; and
- Providing unique leadership in the affordable multifamily housing space.

Our members will benefit through:

- New business relationships and opportunities;
- Public relations dividends and "good will" in their communities;
- Pipelines for recruiting diverse candidates for their business units; and
- Opportunities to build wealth among impoverished communities.

### POLICY & ENGAGEMENT OPPORTUNITIES

Policymakers at the national, state, and local levels are focused on affordable housing issues and eager for new ideas and solutions. We can help shape policy outcomes. MBA has developed an "Affordable Housing Policy Agenda" to guide our efforts in this area. This agenda will be a dynamic document — it will be updated as we continue to explore new ideas. MBA also introduced a "COVID-19 Addendum" to the Policy Agenda to address emergency housing needs and additional challenges posed by the pandemic while continuing to focus on the overpriced and undersupplied affordable housing market.

MBA is exploring renter counseling as a tool to mitigate evictions as the COVID-19 eviction moratoria lift and as the emergency rental assistance funds continue to be distributed. MBA is also exploring a production program that could increase the supply of affordable and work force multifamily housing by 1 million units over the next ten years.

### BUSINESS & MARKET OPPORTUNITIES

By linking with other industry stakeholders, nonprofits, policymakers, and other partners, the multifamily lending industry can explore new ways of doing business in the affordable housing arena. We also have the potential to reach untapped markets and pipelines for future business — including re-thinking business processes, products, and outreach strategies.

## PRELIMINARY FRAMEWORK

MBA's CONVERGENCE strategy is based on building and strengthening affordable housing partnerships in the business and policy arenas to create stronger rental and homeownership markets. By working collaboratively and leveraging the respective strengths of varied partners, we believe that we can find new solutions to housing affordability. To this end, we will work in two broad areas: 1) Developing and advocating for a dynamic affordable housing policy agenda that supports rental and homeownership options; and 2) Fostering relationships and participating in coalitions and partnerships to advance housing affordability. The following six recommendations for MBA to pursue fall under these two broad categories.

## KNOWLEDGE AND INFORMATION SHARING

Investigate the idea of a "clearinghouse" for information to be exchanged on best practices and a "toolbox" for lenders in the affordable housing space. The clearinghouse could include updates on MBA research, "success stories" highlighting MBA member efforts, and an on-line forum for members to exchange information.

## STANDARDIZATION

Consider ways to create affordable rental housing approaches that are replicable and scalable to increase their utility and effectiveness.

## NETWORKING AND PARTNERSHIPS

Explore ways to improve coordination among key stakeholders in the affordable housing ecosystem. While there are many ongoing efforts and partnerships, there is often redundancy/overlap, gaps, and competition instead of cooperation. By helping key players work together in a cohesive way, there is an opportunity to create and expand markets for the benefit of everyone. MBA can play a role as a coordinator/convener in this regard.

## RESEARCH

Develop a list of potential research projects for consideration by MBA's Research Institute for Housing America (RIHA) and initiate those considered most promising to advance an affordable housing agenda. Additionally, we recommend that MBA consider hosting a meeting of key investors, lenders, developers, and the GSEs, to explore the idea of a benchmarking study on best practices for affordable rental housing.

## EDUCATION AND TRAINING

Create a webinar series for multifamily residential members covering the following aspects of reaching low-and moderate-income renters: 1) renter counseling; 2) renter assistance; 3) COVID-19 eviction prevention; and 4) multifamily production program. The materials for the webinar series could also be repurposed for online training modules. Other training and education opportunities will be explored.

## MEMBERSHIP OUTREACH

Explore a potential membership package tailored toward nonprofits in the housing/lending space. Below are member engagement processes that MBA is employing.

## MBA MEMBER ENGAGEMENT PROCESS

MBA has created two-member Advisory Councils, one for Homeownership and one for Rental. (Appendix A lists the members of the Advisory Council on Rental Housing.)

The purpose of these councils is to provide input in the following key areas:

- **Strategic Priorities:** Identify where MBA should focus its time and resources to have the greatest impact
- **Aggregation:** Explore the option of a knowledge sharing platform for key tools and examples of "what works"
- **Data & Research:** Identify areas where additional data and research would be most useful
- **Innovation:** Help design and test new products, processes, and partnerships to reach those consumers and communities traditionally undeserved by the marketplace
- **Networks:** Build connections among stakeholders and create processes for identifying strong partners
- **Partnerships:** Facilitate better coordination and collaboration among affordable housing stakeholders
- **Policy:** Recommend affordable housing policy proposals and priorities to the MBA leadership
- **Standardization:** Facilitate replicability and scalability of key programs and processes through standardization
- **Tactical Execution:** Implement affordable lending practices and ideas for improvements

## MBA MEMBER ENGAGEMENT

| | | |
|---|---|---|
| **STRATEGIC PRIORITIES**<br>Identify where MBA should focus its time and resources to have the greatest impact | **AGGREGATION**<br>Explore the option of a knowledge sharing platform for key tools and examples of "what works" | **DATA & RESEARCH**<br>Identify areas where additional data and research would be most useful |
| **INNOVATION**<br>Help design and test new products, processes, and partnerships to reach undeserved consumers and communities | **NETWORKS**<br>Build connections among stakeholders and create processes for identifying strong partners | **PARTNERSHIPS**<br>Facilitate better coordination and collaboration among affordable housing stakeholders |
| **POLICY**<br>Recommend affordable housing policy proposals and priorities to the MBA leadership | **STANDARDIZATION**<br>Facilitate replicability and scalability of key programs and processes through standardization | **TACTICAL EXECUTION**<br>Implement affordable lending practices and ideas for improvements |

## MEASURING SUCCESS

MBA will need to develop metrics to measure CONVERGENCE's success. CONVERGENCE's success will be measured in the following categories:

- **Activities:** Creating a foundation for success
- **Learning:** Insights and knowledge
- **Relationships:** Collaboration and partnerships
- **Business:** New customers and new products/practices
- **Outcomes:** Progress and results
- **Visibility:** Positive recognition of collective efforts

## SUMMARY

There is an abundance of needs in the affordable housing space, spanning both the rental and homeownership markets. MBA has an opportunity to lead in several ways, leveraging the core strengths of our association and our members. The key will be to identify strategic priorities and align our efforts with other stakeholders. There are no quick fixes, and the challenges are beyond the resource capacities of any individual organization. By working constructively and focusing on the right objectives, we can make a difference in ways that help renters, aspiring homebuyers, and our members.

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# Roster for Affordable Rental Advisory Council from 2019-2021

**Christine Chandler**
Co-Chair
Chief Credit Officer & Chief Operating Officer
M&T REALTY CAPITAL CORPORATION

**Tony Love**
Co-Chair
Senior Vice President, Affordable Lending
BELLWETHER ENTERPRISES RE CAPITAL LLC

**Steven Bean**
Executive Managing Director
SITUSAMC

**Jonathan Camps**
Co-COO
DWIGHT CAPITAL

**Hal Collett**
Chief Operating Officer
COLLIERS MORTGAGE, LLC

**Michael Dury**
President
MERCHANTS CAPITAL CORP.

**Sarah Garland**
Director
CBRE CAPITAL MARKETS

**John Gilmore**
Managing Director
WALKER & DUNLOP, LLC

**Michael Heagerty**
Principal
GANTRY

**Pharrah Jackson**
Director, Multifamily Affordable Housing
GREYSTONE

**Hyung Kim**
Managing Director
PACIFIC LIFE INSURANCE COMPANY

**David Leopold**
Head of Affordable Housing
BERKADIA

**Jeffrey Majewski**
Executive Managing Director
CBRE CAPITAL MARKETS

**Shekar Narasimhan**
Managing Partner
BEEKMAN ADVISORS, INC.

**Tom Peters**
Director of Business Development
HOUSING & HEALTHCARE FINANCE, LLC

**Matthew Rocco**
President
GRANDBRIDGE REAL ESTATE CAPITAL, LLC

**Justin Shackleford**
Director
WELLS FARGO

**Erin Stafford**
Managing Director
DBRS, INC.

**Michael Staton**
Vice President, Mortgage Officer
CPC MORTGAGE COMPANY

**Daron Tubian**
Head of Affordable Housing Investments
BARINGS GLOBAL REAL ESTATE

**Paul Weissman**
Senior Managing Director
LUMENT

APPENDIX B

# Feedback and Comments from Stakeholder Interviews and Surveys

The notes and policy positions that follow illustrate the feedback we received from MBA members and other stakeholder conversations in the year or more before the preparation of this report. These materials are not necessarily comprehensive; do not represent official MBA policy; and are meant to provide examples of the dialogue and views exchanged during the outreach for this environmental scan.

The feedback and recommendations from stakeholders are organized into the following categories:

- Defining Affordable Housing
- Affordable Housing Market Observations
  - General
  - COVID-19 Effects
- Commentary on Industry Practices
- Policy Ideas
  - Federal Policy
  - State and Local Policy
  - COVID-19 Related
- What Can MBA and Its Members Do?
- Feedback and Comments

The feedback and comments below reflect individual statements in interviews or in survey responses. As such, they do not necessarily reflect the views of MBA, or the views of any of the other stakeholders consulted in the process of preparing this document.

## DEFINING AFFORDABLE HOUSING:

- Affordable housing is any housing that with or without rent restrictions serves those at area median income or below (using the 30% test).
- Define "affordability" as housing affordable to people below 60% of area median income — consistent with the Low-Income Housing Tax Credit (LIHTC) standards.
- Affordable housing is often defined by various programs that require rent restrictions and/or provide subsidies. Market rate, workforce housing that is rented at a reasonable rate is also "affordable" and in great demand. Workforce housing, or "lower case" affordable housing is in short supply for working families in the U.S.
- Affordable housing is a critical component of the real estate market and an important tool to meet the socio-economic demands of communities across the U.S. It is beyond just building housing that is highly needed but building communities that thrive over time and enhance local economies.
- Freddie Mac and Fannie Mae define affordable housing as properties that have land use restriction agreements, have rent and occupancy restrictions, or receive either a federal, state, or other subsidy.
- Affordable rental housing has expanded to include "work force housing" as increasingly middle-income workers have become rent burdened and unable to afford rents where they work.

### AFFORDABLE HOUSING

- Manufactured housing
- Naturally occurring
- Accessory dwelling units

### MARKET OBSERVATIONS

- Capital and gentrification
- Homelessness
- Senior housing
- Development costs

### COVID MARKET ISSUES

- COVID-related changes to demand
- Looming delinquencies
- Looming foreclosures
- Looming evictions

### DEVELOPMENT

- Increase supply
- Remove barriers
- Labor/materials costs

### INDUSTRY PRACTICE

- Liquidity and access to capital
- Hybrid tenure: Lease to own
- Housing plus services
- Energy costs
- Technology

### COVID-19: POLICY RESPONSES

- Provide rental assistance
- Prevent evictions
- Support lenders and landlords

### FEDERAL POLICY ISSUES

- Expand LIHTC
- 4% Credits / Bond Caps
- Increase rental assistance
- Workforce housing tools

### STATE AND LOCAL POLICY

- Policy innovation
- Regulatory barriers
- Zoning

### RESIDENT OPPORTUNITIES

- Healthcare
- Employment
- Education links
- Wealth building
- Aging
- Home-ownership

- Affordable housing is housing that creates a safe space and shelter for individuals and families that are the workforce that supports our economy. These households include both subsidized housing and workforce housing — those households making 120% or less of area median income.
- It encompasses housing for which there is a rental assistance contract or where a voucher is used so that the tenant-paid portion of rent is based on individual tenants' incomes; subsidized housing where federal assistance or LIHTC equity (etc.) is part of the capital stack, allowing for reduced rents, even if those rents are not based on individual tenant incomes; and naturally occurring affordable housing. Affordable housing is decent and safe housing lower and moderate-income families Americans can rent or own without spending more than 30-50 percent of their income and have enough remaining income to pay basic living costs.

## AFFORDABLE HOUSING MARKET OBSERVATIONS: GENERAL

- New production is infected with very high costs. This issue presents even in Detroit. Labor costs are part of the cost drivers. Boston prices are $500,000 per unit (though some developers in the market are lessening the reported public costs by moving some of these costs off budget).
- An individual or household's housing needs vary as one goes through life. The housing needs and ability to pay for housing at one's early years changes over time if they marry, experience job/career/income changes, and retire. Policy makers and practitioners need to take this ladder into consideration as they develop or refine housing programs and undertake developments.
- A big issue in California is the availability of tax-exempt financing and access to the 4% LIHTC. 4% credits coupled with bonds are important for funding the rehabilitation and renovation of existing

affordable housing properties. (California is looking at policy changes to increase state caps and/or to purchase unutilized credits from other states).

- Policy in Washington, DC is pressing developers to maximize energy efficiency and stormwater management. These policies increase development costs and make affordability more difficult.
- For the rural housing development community, the top 3 concerns are: Liquidity; Capacity; and Preservation. There is a need to grow local organizations, encouraged through public investment.
- The GSEs' current Duty to Serve requirements do not sufficiently serve rural areas. Mortgages are less likely to be purchased from lenders in rural areas; these loans are not valued the same as large urban markets.
- Concerns about the preservation of rural rental housing inventory abound. This inventory is notably aging, rental assistance is limited, and the depth of nonprofit owners working in rural housing is thinner than in urban areas. The small scale of individual projects also limits access to institutional capital and readily available building materials and labor.
- Acquiring affordable rental housing for preservation is becoming harder for nonprofit developers. Section 8 properties are getting very high bid prices. Nonprofits struggle to compete against the for-profits who are acquiring the same properties and are willing to pay more. Nonprofits need to stretch as much as possible and make sure that their deals hit all the sweet spots in the Qualified Allocation Plans (QAPs) — even to win 4% LIHTC deals.
- The rental assistance demonstration (RAD) is providing a new approach to recapitalizing the public housing stock by converting the rental assistance contract to the Section 8 model and allowing the public housing agencies to attract LIHTC and private debt financing.
- Rental housing markets have experienced ongoing challenges with financing smaller multifamily units. 75% of the nation's 20.8 million rental apartment units (multifamily housing with five or more units) are in properties with less than 50 units.
- More than 12 million single-family homes are currently being rented in the US, making up about 35 percent of all rental housing around the country. Typically, this rental stock is not professionally owned and managed. Yet, in the aftermath of the foreclosure crisis, several companies emerged to accumulate large portfolios of single-family rental housing and bring in professional property management.
- The preservation of manufactured housing communities has become an important public policy issue across the country. Concerns include replacing the older manufactured houses that were built to lower standards before the adoption of HUD codes in 1976. There are also significant concerns about investors that are systematically acquiring mobile home communities across the country and raising fears of rent increases and/or displacement of existing residents.

## AFFORDABLE HOUSING MARKET OBSERVATIONS: EFFECTS OF COVID-19

*(Note: comments predate the relief provided under the American Rescue Plan and also predate the December 27, 2020 stimulus package.)*

- The impacts of COVID-19 have been more tenant oriented; renters in some cases have struggled to make payments. Fortunately, the agencies have done a nice job of balancing all the affected parties, including the tenants, property owners, and lender partners.
- The pandemic has unfortunately only increased the demand for affordable housing while causing financial constraints that make it more difficult for local governments to support affordable housing.
- The pandemic has brought additional focus to the need for affordable housing and lack of supply as working and middle-class residents have been greatly impacted by the economic fallout.
- So far, we have not seen material increases in forbearance requests or higher rates of tenant payment defaults generally during COVID within affordable properties.
- There has been an increased demand for affordable suburban housing with larger unit sizes.
- While the CARES Act provided for some emergency rental assistance, there is still a dire need for additional rental assistance to combat the impacts of COVID-19, especially on LMI and minority homeowners.

## COMMENTS ON INDUSTRY PRACTICES:

- A mortgage company's 2025 Environmental, Social, and Governance (ESG) goals seek to provide $10 billion in financing of affordable housing over the next 5 years.
- Make the ultimate goal of affordable housing projects central. Developments typically entail ancillary goals such as transforming the economic dynamics of an area or providing mixed-income housing, resulting in additional costs relative to conventional, market rate housing.
- The key issue is connecting affordable housing to resident opportunities. Location is important when considering access to opportunity.
- Focus on resident self-sufficiency. Underwrite savings programs for residents to create paths to self-sufficiency and financial stability.
- Pilot the HUD Family Self-Sufficiency (FSS) program (a new tool to convert rent increases into savings for affordable housing families) in a way that will move residents to savings programs, wealth accumulation, and potentially on to homeownership.
- The affordable housing community is increasingly adopting strategies and building new partnerships to enhance the life opportunities and outcomes for their low-income residents.
- In the post-Affordable Care Act environment there has been a particular focus on linking housing to healthcare outcomes and working with healthcare systems to invest in that housing and/or attendant services.
- Financing from Fannie Mae and Morgan Stanley is building in features to fund resident services.
- Move people along the spectrum from rental to homeownership. (See work by the Cleveland Housing Network using tax credits for single-family rental rehabilitation that converts to homeownership at the end of the compliance period).
- Interact with small cities: connect to opportunity in these places.
- The affordable housing community is also working to identify ways to take advantage of new Opportunity Zone subsidies to create more affordable housing supply.
- The affordable housing crisis is an opportunity for the debt sector to provide "creative debt."
- Look at the housing production system holistically and streamline the process by reducing the number of parties and/or disparate regulations involved in a loan transaction. An affordable housing transaction takes time and resources to line up five capital sources.
- Standardize designs to simplify the construction process and lower costs. Creative exterior design and treatments can be modified to avoid uniform appearance.
- Allow institutional sources to finance innovative housing projects (i.e., cooperative housing, scattered site, etc.)
- Embrace the role of technology and sensors in supporting efforts to lower operating costs. Meaningful changes in operations to reduce operating costs can reduce tenants' costs.
- Focus on financing smaller rental properties under 40 units. Any increase in investment and liquidity can only be positive.
- Expand the market for the acquisition of naturally occurring affordable housing (NOAH) by mission-oriented buyers.
- We need to stretch the lending/investment community. 80/20 deals are well understood, but Washington DC needs 50/50 and 60/40. Mixed-income approaches implicate both the "affordable" side of the financial institutions and the "market rate" side of the lending institutions. We need to drive the industry to create more synthesis and blending of the two sides of the house.
- Examine state and local aggregating mechanisms. The California Community Reinvestment Corporation allows lenders to invest capital into a state-wide intermediary that can meet their CRA requirements, meet community investment priorities, and share the risk and operating costs of their activities in affordable housing. Similarly, there are local aggregators. Develop these tools for smaller lenders.
- Expand small mortgage products (especially for rural communities).


## POLICY IDEAS: FEDERAL GOVERNMENT POLICIES AND PRACTICES

- Enhance existing housing programs, such as the LIHTC program. Expand the 9% LIHTC by 50%. Fix the 4% credit rate. Expand the income average range LIHTC projects up to 100% AMI.
- Allow states to convert a portion of unused volume cap to 9% LIHTC.
- Create a national pool for unused volume cap so that states that do not use it can let other states that need it make use of it.
- Allow “twinning” of 4% and 9% LIHTC under one mortgage (but separate out underlying projects).
- Consider a middle-income supply response (using a 6% Housing Credit).
- Support a dramatic increase in LIHTC for rural communities and expand the capacity in rural areas to deliver the new LIHTC capital.
- Enhance existing institutional financing for small projects and scattered sites, or a group under one mortgage or create small credit facility.
- Establish a permanent tax credit for energy saving improvements on any real estate asset.
- Provide a capital source to produce affordable rental units at scale and meaningfully reduce the number of rent burdened and severely rent burdened households.
- Design a program to be simple and familiar to affordable housing developers so that it can be executed quickly and incorporate other subsidies.
- Reduce regulatory barriers to housing development.
- Require public officials and policy makers to perform a cost/benefit analysis on proposed housing policies and regulations before they are enacted.
- Incentivize local governments to reduce or eliminate regulations or fees and streamline permitting processes that increase the cost of affordable rental housing.
- Challenge local zoning laws that restrain supply increases.
- Continue working for reform of Davis-Bacon rules that drive up wage costs.
- Do not remove Davis-Bacon entirely but use a “residential wage” (instead of a more expansive wage measurement) in that market. Davis-Bacon is estimated to add 10 to 20% to the costs of a development.
- Address rent control proliferation. The trend is troubling.
- Develop pro-affordable housing standards for the Federal Housing Finance Agency (FHFA) with respect to Fannie Mae’s and Freddie Mac’s role in multifamily housing: Look at the capital standards rule and the effect of rent control on mortgage debt risks as part of this effort.

- Create a 50-year FHA mortgage product.
- Work with the Federal Housing Administration (FHA) to streamline its underwriting approach to reduce the time and cost of approvals.
- Review FHA environmental reviews and standards to increase production and affordability.
- Review tax incentives that favor commercial and single-family development over multifamily development.
- Reverse updated Duty to Serve rules, which dropped 515 loan requirements which help rural communities.
- Explore and support hybrid tenure models: From renting to ownership.
- Find ways to overcome NIMBY opposition to development by tying housing outcomes to other grant streams including HUD and Department of Transportation.
- Work on how to connect affordable housing promotion to other federal subsidies (e.g., condition the delivery of those other federal subsidies to activities to advance affordable housing).
- Examine the Senator Wyden Middle Income Tax Credit Proposal (S. 3365).
- Support Senator Peters' "Age Friendly Communities Act."
- Advocate for federal rental housing subsidies including Section 8 and housing vouchers.
- Streamline Section 8 vouchers to make them more acceptable to property owners.
- Support a developer agenda including expanding and streamlining LIHTC; preserving of the affordable housing inventory; acquiring non-subsidized housing (naturally occurring affordable housing — NOAH); and expanding the Rental Assistance Demonstration (RAD) for recapitalizing public housing.
- Expand existing programs that address low-income housing that could serve workforce households (increase income averaging up to 120% of AMI, increase income levels eligible for bond financed projects, and lower the 50% test to 40% of eligible basis for tax exempt bond financed projects).
- Consider legislation that allows businesses to deduct their investment in affordable housing from their taxable income.
- Consider legislation that reduces or eliminates the capital gains tax on property sold to a new owner that will restrict its use for affordable housing.
- Consider legislation allowing states to convert unused private activity volume cap to 9% LIHTC.
- Consider an individual renter's tax credit.
- Explore whether a new tax credit could be created to offset developer fees on affordable housing projects, but without the administrative complexity of LIHTC.

## POLICY IDEAS: STATE AND LOCAL GOVERNMENT POLICIES AND PRACTICES

- The action is at the state and local level. Many states and localities are passing new legislation to create new grant resources for affordable housing. Voters in San Francisco and the Portland Metro area passed referenda to support new affordable housing bonds. Several states (Oregon, New York, and California) have enacted new rent control statutes. Oregon and the city of Minneapolis have passed legislation to basically end single-family zoning. And countless jurisdictions are working to create community land trusts and promote accessory dwelling units (ADUs). Eviction prevention policies are also a major trend.
- Address the issue of housing finance agencies adding a "Christmas tree" of requirements in QAPs, adding costs to the low-income housing development process.
- Encourage states to expand the allocation of Private Activity Volume Cap towards multifamily housing. Many states have excess volume cap that has been untapped by other eligible users since long-term tax-exempt rates are higher than equivalent taxable rates. Educate policymakers on "flow of funds" and impact on owners/lenders.
- Tie federal grant resources to inclusive zoning.
- Provide states incentives and/or matching funds to reduce regulatory barriers that hamper affordable housing production.
- Tackle local zoning requirements to not deter or delay developments in high barrier cities.
- Finding ways to streamline the process would help on many levels.
- Tackle local zoning requirements to not deter or delay developments in high barrier cities.
- Understand how local tax policy is important for affordability. Focus on the variability of payments in lieu of taxes (PILOT) and tax abatements to support affordability across jurisdictions.

## POLICY IDEAS: RESPONDING TO COVID-19'S EFFECTS ON HOUSING AFFORDABILITY

*(Note: comments predate the relief provided under the American Rescue Plan [and may also predate the December 27, 2020 stimulus package].)*

- Provide tax relief for landlords and rental subsidies for tenants.
- Provide a tax credit for people who donate to nonprofits, focusing on foreclosure prevention or helping tenants avoid evictions, above the current charitable deduction.
- Push for rental assistance in the next stimulus.
- Provide rent relief in markets that have been hit the hardest and have the most impact on re-stabilizing our economy. Establish a temporary subsidy targeted more directly at keeping renters in their homes, especially for service workers and people of color.

## WHAT CAN MBA AND ITS MEMBERS DO?

- Educate MBA members about the affordable housing landscape: create awareness of the tools, subsidies, and quality nonprofits who occupy this space (and their potential as business partners).
- Support the GSEs' mission.
- The best thing to do is make sure there is ample liquidity available at all times from providers that both understand and are committed to affordable housing. This is precisely what the agencies and agency lenders specialize in. Make sure this does not get lost in the rhetoric that emerges from players with competing agendas.
- Work with FHA on a definition of affordable housing that includes workforce housing and design potential programs to aid the development and financing of this product type (pricing, speed, etc.).
- Make landlord responsibility more of a central issue. Can lenders play a role in improving property management standards and proper eviction policies?
- Advocate for more resources for vouchers and renter counseling.

- Lobby for additional governmental subsidies, reduce regulations that inhibit supply, and bring additional awareness to all subcategories of affordable housing, particularly those sectors most people are not aware of.
- Make the supply side argument to improve housing affordability.
- Support “Up for Growth” efforts.
- Focus on simplifying the capital stack.
- There historically have been silos between policy makers and practitioners. MBA’s convergence initiative could break down these silos so that policy makers better understand the world in which we practitioners operate. Conversely, engaging practitioners in dialogue with policy makers helps us better understand their goals and how we can shape our practice to help achieve those goals.
- Advocate for policies that support CDFIs focused on affordable housing. Strengthening these CDFIs would help lending reach lower income communities.
- Promote the expansion of opportunity zones and/or other structures outside of LIHTCs that focus on affordable housing, in turn increasing the number of tools available to developers.
- Create a board of industry veterans comprised of lenders, investors, and developers that can focus more on markets that have been impacted the most due to the pandemic, such as New York City, San Francisco, LA, Houston, Chicago, and Miami.
- Help HUD by supporting/advocating for increased staff, pricing, and expedited timing around the D4 program for workforce housing.
- Educate policy makers on the negative impact rent control has on the development of new housing.
- Address the “missing middle” or “workforce housing” — those households who earn too much to qualify for established affordable housing programs but are still feeling the effects of increasing housing costs, particularly in higher cost markets.
- Produce an online publication that provides case studies of successful workforce housing.
- Highlight successful projects that make use of manufactured or modular housing and financing tools that expand resources to develop/redevelop affordable workforce housing.
- Inventory local resources for promoting affordable housing (i.e., TIF, tax abatement, PILOT, zoning incentives, reduced fees, etc.).
- Recognize that housing market dynamics are different in different geographic areas and that policies and tools may need to be fine-tuned — high cost, coastal markets may not require the same approaches taken in softer, slow growth, or declining Midwest markets.

- Recognize that there are broader issues that impact the cost of housing such as immigration, trade, and monetary policy (e.g., construction workers, building materials produced in other countries, and interest rates/capital flows).
- Examine the role of legacy costs. Legacy costs impact the cost of housing such as demolition, abatement, and remediation in existing, developed sites. These costs do not add any value to the end product.

- Provide State and local governments with information on and/or examples of how to identify unused or underutilized publicly owned property for development of affordable housing.
- Lead a communications campaign to support naturally occurring affordable housing (NOAH) property transfers. MBA members could communicate with their borrowers who are owners of smaller, NOAH properties about how to sell to motivated nonprofits owners.
- Join forces to support more affordable housing resources. Trade associations like MBA have political power — they are the gorilla in the room.

- Leverage the MBA's involvement in the National Housing Conference (NHC) Black homeownership working group to advance partnerships that will find ways in which the residents of their apartments become ready to move on to homeownership.
- Leverage the Federal Home Loan Banks. How many joint members of the FHL Banks and the MBA are there? If significant, can the MBA better leverage the market presence of both?
- Create partnerships with MBA for rural areas. MBA can help with technical assistance/training.
- MBA could support federal programs that support low- and moderate-income families' ability to pay rent and reduce their rental costs through the Housing Credit, rental assistance, below-market lending programs, and other strategies. This includes supporting HUD and USDA rental assistance and housing production programs, strong affordable housing goals and Duty to Serve requirements on the GSEs, the FHA-HFA Risk-Sharing Program (including the Federal Financing Bank initiative), and others.
- MBA could create recognition or award programs to identify and celebrate exemplary affordable housing initiatives, including political activities.
- MBA could continue to convene and expand its offering of affordable housing-oriented public forums. It could support research and similar academic work on identifying and analyzing successful affordable housing initiatives.

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