Preserving Affordable Housing in Harris County
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Harris County, and the urban United States as a whole, has a shrinking supply of affordable and subsidized homes. This is amplified in the Houston area—known for its market-driven approach to housing and land-use planning—where a lower share of its housing stock relies on public subsidies compared to metros like New York City, Chicago, or Philadelphia.1

A lower share of subsidized housing places more of the burden on unsubsidized rental housing to serve as the largest source of affordable housing. This is known as “Naturally Occurring Affordable Housing,” or NOAH.2 In Harris County, for example, 85% of affordable housing can be attributed to NOAH.

NOAH properties, most of which are remnants of the construction boom in the second half of the 20th century, house an overwhelming share of the population seeking affordable options.3 The public and nonprofit sectors often

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2 “NOAH” is a controversial term. Scholars assert there is nothing “natural” about processes like neighborhood decline, regional investment, and historical redlining. See Joe Cortright, “City Observatory - The Myth of Naturally Occurring Affordable Housing,” City Observatory, October 10, 2017, https://cityobservatory.org/the-myth-of-naturally-occurring-affordable-housing/. In this report, it refers to affordable homes without subsidy, but it is important to acknowledge this terminology debate.


4 This report uses median household income (MHI) limits for Harris County, based on 2019 American Community Survey data. This is a more geographically specific alternative to traditional HUD income statistics such as “Area Median Income” or “Median Family Income” which are calculated at a regional level. MHI numbers are specific to Harris County.

What is Naturally Occurring Affordable Housing (NOAH)?

NOAH refers to unsubsidized rental housing and tends to be affordable because of substandard quality, unfavorable location, or other reasons associated with aging. For the purpose of this analysis, NOAH encompasses housing affordable to households earning 80% of median household income (MHI), consistent with income definitions calculated at the Harris County level rather than HUDs definition at the metropolitan area.

<table>
<thead>
<tr>
<th>NOAH Unit bedrooms</th>
<th>NOAH Maximum rent</th>
<th>Income Level Affordable at 30% Cost Burden*</th>
</tr>
</thead>
<tbody>
<tr>
<td>one bedroom</td>
<td>$999</td>
<td>80% MHI or less</td>
</tr>
<tr>
<td>two bedrooms</td>
<td>$1,199</td>
<td>80% MHI or less</td>
</tr>
<tr>
<td>three bedrooms</td>
<td>$1,399</td>
<td>80% MHI or less</td>
</tr>
</tbody>
</table>

Source: LISC Houston and January Advisors
lack a clear picture of these properties’ locations and preservation challenges. For publicly assisted homes, housing advocates are searching for ways to assure that these homes can stay affordable after their subsidies expire.

In this report, Kinder Institute researchers identify affordable housing preservation policies and programs in the Houston area, document the range and extent of affordable housing, and describe best practices that could help stem the loss of local affordable housing stock.

Why is housing preservation important?

Preserving existing affordable housing is cost effective. Assembling contiguous parcels and building a new affordable development can cost 30-50% more than repairing and upgrading NOAH units (note that this estimate does not consider higher COVID-19 construction costs). This is especially true in high-amenity areas with expensive land (like most of central Houston) near high-frequency transit.

Harris County has a shrinking supply of affordable homes, especially in those high-amenity central areas. As shown in the Kinder Institute’s past two annual State of Housing reports, from 2018 to 2019, median gross rent increased 6.1% in the city while the city lost about 20,000 multifamily units with less than $800 monthly rent. Affordable rental units disappeared while median gross rents increased about 8% in both Houston and Harris County between 2010 and 2018.


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Subsidized affordable housing programs are not permanent. This report covers in depth two types of publicly assisted affordable housing programs, outlined below with their specific preservation challenges:

- **Low-income housing tax credits (LIHTC):** Using the cash from the tax credit sales, LIHTC developers build housing that must remain affordable for at least 15 years (or 30 years if the property was built after 2002). When this period expires, the landlord may choose to raise rents, which likely happens more often in high-amenity areas or areas that are rapidly gentrifying.

- **Project-based rental assistance (PBRA)/Project-based voucher (PBV):** Properties built under PBRA have subsidies that expire in 20 to 40 years (unless the owner elects to renew for a 5-, 10-, or 20-year period). Many PBRA properties have recently lost affordability because the policy began in 1974 (making 2014 was the 40-year mark). PBV subsidies expire after up to 20 years, though owners may also choose to renew.

**NOAH is susceptible to multiple preservation challenges.** Scholars estimate that around a third of all rental properties fall into the NOAH category nationwide, and Harris Country is not an exception. Per Kinder Institute calculations, about 40% of all multifamily units in Harris County are estimated to be NOAH. Their challenges are manifold:

- **Maintenance and lack of resources:** NOAH buildings tend to be older and require maintenance that some landlords cannot afford. Spending money on upgrades may entail rent raises, which means the unit may cease to be affordable. Since rents are low and tenants are likely to have limited income, NOAH landlords cannot rely upon rent increases to finance needed repairs and capital improvements.

- **Gentrification and rising property values:** Because they have no guaranteed affordability requirement, NOAH units are more “gentrification susceptible,” particularly those within high-demand areas inside I-610 or near major activity centers. NOAH landlords may be more inclined to raise rent in desirable neighborhoods with appreciating property values. While NOAH homes are disproportionately in lower-amenity areas, units in higher-amenity neighborhoods may require special preservation attention, as they are more prone to redevelopment into less affordable housing types.

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8 About 80% of the tax credits have been awarded to 9% or properties (or approximately 20% of the present value) and 20% of the tax credits were awarded to 4% or properties (or approximately 30% of the present value) in Texas since 1990. (Lauren Loney and Heather Way, “The Low-Income Housing Tax Credit Program in Texas: Opportunities for State and Local Preservation” Austin, TX: University of Texas at Austin Entrepreneurship and Development Clinic, School of Law, December 2018), https://law.utexas.edu/wp-content/uploads/sites/11/2019/06/2018-ECDC-LIH-TaxCreditProg-TX.pdf.

9 Nordby, Vaisman, and Rybczynski 2017


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**Table: Description by preservation type**

<table>
<thead>
<tr>
<th></th>
<th>LIHTC</th>
<th>Section 8 Project-based Program (Except HCV)</th>
<th>Public Housing</th>
<th>NOAH</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Publicly assisted</strong></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td><strong>Publicly owned</strong></td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td><strong>How it works</strong></td>
<td>Private developers sell tax credits to investors to fund affordable housing development. A certain (highly variable) share of units must stay affordable for 15 (or 30) years.</td>
<td>Builders and landlords leverage public assistance to help develop and maintain properties. Tenants in these properties must be low-income.</td>
<td>Public housing agencies provide affordable housing in the stereotypical “housing project,” many for seniors or people with cognitive disabilities.</td>
<td>Privately owned properties operate with market-rate rents that are affordable.</td>
</tr>
<tr>
<td><strong>Affordability requirements</strong></td>
<td>(1) At least 20% of the LIHTC units set aside for those earning 50% of AMI or (2) at least 40% of the LIHTC units for those earning 60% of AMI</td>
<td>Residents earn less than 80% of AMI</td>
<td>Residents earn less than 30% of AMI</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Preservation challenges</strong></td>
<td>Owners opting out after expiration (15-30 years)</td>
<td>Owners opting out after expiration (20-40 years); aging building stock</td>
<td>Aging building stock; maintenance</td>
<td>Aging building stock</td>
</tr>
</tbody>
</table>
Harris County’s housing preservation landscape

Most local affordable housing is not publicly assisted. It is NOAH. Harris County has six times as many NOAH units as publicly assisted units. Kinder researchers, using LISC Houston and January Advisors data, identified roughly 315,000 NOAH units in the county, compared to 55,000 units receiving federal housing assistance from Low-Income Housing Tax Credits (LIHTC), Section 8 project-based programs, and other programs.

Table: Actively assisted housing units by federal housing program

<table>
<thead>
<tr>
<th>Assistance Programs</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section 8</td>
<td>10,343</td>
</tr>
<tr>
<td>Section 202</td>
<td>94</td>
</tr>
<tr>
<td>Section 236</td>
<td>0</td>
</tr>
<tr>
<td>FHA</td>
<td>10,365</td>
</tr>
<tr>
<td>LIHTC</td>
<td>36,352</td>
</tr>
<tr>
<td>Section 515 Rural Housing</td>
<td>313</td>
</tr>
<tr>
<td>Section 538 Rural Housing</td>
<td>303</td>
</tr>
<tr>
<td>HOME</td>
<td>3,009</td>
</tr>
<tr>
<td>Public Housing</td>
<td>3,517</td>
</tr>
<tr>
<td>Project-Based Vouchers</td>
<td>675</td>
</tr>
<tr>
<td>Moderate Rehabilitation</td>
<td>202</td>
</tr>
<tr>
<td><strong>Total Units</strong></td>
<td><strong>55,358</strong></td>
</tr>
</tbody>
</table>

NOAH is predominantly multifamily units in far-flung places with few amenities. Over 99% of the county’s NOAH stock is multifamily. A very large share of Harris County’s NOAH is in the southwest corner of Beltway 8, along with the southeast part of the county alongside I-45. These communities are relatively far from employment centers and amenities, and are the type of isolated communities where research shows it is harder to rise out of poverty.

A majority of NOAH units are average or below-average in quality, and it remains unclear who can pay for improvements. The county’s appraisal data shows that 57% of NOAH units are graded “average” or worse on their quality surveys. NOAH unit landlords, unlike subsidized unit landlords, must fund unit upkeep solely from the rent revenues of their lower-income tenants. Raising rent means losing tenants, so NOAH properties risk being trapped in a downward spiral of disrepair.

Existing programs and funds are more for new home construction, not existing home rehabilitation, which means NOAH’s upkeep needs are not being met. Kinder researchers identified many creative local programs that support homeownership and affordable home construction. However, because of NOAH’s dominance in the local affordable housing landscape, it is imperative that nonprofits and policymakers find creative ways to connect NOAH landlords and tenants to upkeep and repair resources. Studying NOAH funds in other cities, as in done in this report, can provide useful lessons.

Regarding publicly assisted units, LIHTC is the most significant affordable housing program, and its affordability is time-limited. Countywide, about two-thirds of publicly assisted housing units receive LIHTC assistance (around 36,000 units). Federal Housing Administration (FHA) programs (10,365 units) and Section 8 project-based programs (10,343 units) account for a third of the publicly assisted affordable housing. Section 8 and LIHTC properties must remain affordable for at least 15 years. Once their affordability period ends, the landlords may choose to renew affordability terms; if not, the properties may cease to be affordable.

11 Appendix 1 specifies individual programs.
12 A total of 519 subsidies are active as of 2021, and the number of total units is smaller than the sum of the units from individual programs as some units use more than one housing assistance program.
13 Chetty et al., 2014
Many publicly assisted housing units are situated in low-income communities in Harris County, and they tend to be more centrally located than NOAH units. Many low-income communities inside Beltway 8 accommodate a large number of publicly assisted housing units. Additional concentrations are near George Bush Intercontinental Airport. These areas are closer to major employment and service centers than most NOAH units.

A majority of LIHTC contracts and other major subsidies will expire in the near future, leaving affordable homes in high amenity areas at risk. Within the next 20 years, over half of the affordable housing stock with federal housing assistance programs, amounting to over 30,000 units, will have their affordability terms expire—unless the landlords choose to renew. The majority of these assisted units are within the city of Houston limits, and many are within I-610 in desirable, gentrification-prone locations. Policy and programmatic efforts will be needed to prevent the existing tenants from being relocated to farther-flung areas of the county with higher transportation costs and fewer amenities.

Table: Housing assistance expiration years by decennial time period

<table>
<thead>
<tr>
<th>Expiration year</th>
<th>Units</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 2021–Year 2030</td>
<td>8,919</td>
<td>16%</td>
</tr>
<tr>
<td>Year 2031–Year 2040</td>
<td>23,120</td>
<td>42%</td>
</tr>
<tr>
<td>Year 2041–Year 2050</td>
<td>14,911</td>
<td>27%</td>
</tr>
<tr>
<td>Year 2051–Year 2060</td>
<td>5,510</td>
<td>10%</td>
</tr>
<tr>
<td>Others</td>
<td>2,898</td>
<td>5%</td>
</tr>
<tr>
<td>Total</td>
<td>55,358</td>
<td>100%</td>
</tr>
</tbody>
</table>
Preserving Affordable Housing in Harris County

EXECUTIVE SUMMARY

What can be done to address housing preservation challenges?

Anticipate lapsing affordability of publicly assisted rental housing. Some recommended approaches to preserve the affordability of rent-restricted units include:

1. identify the current housing stock in need of preservation (e.g., type of subsidies, rent restrictions, and subsidy expiration timing),
2. reach out to current owners to assess intentions and, especially those who are not mission-driven owners in high market rent areas, and
3. assign resources to prioritize preservation projects and seek out federal program support (see list of programs in Appendix 6).

Innovate with local financing and policymaking for the preservation of NOAH. NOAH is the major part of the affordable housing stock nationwide and in Harris County. Having learned from other cases (e.g., Charlotte), some NOAH units are more likely to lose rental affordability in the private housing market because of high demand in certain areas. Harris County’s NOAH properties in amenity-rich areas with easy access to substantial employment opportunities may lose affordability much faster than NOAH properties in less amenity-rich places.

Approaches include:

- **Leveraging funding sources to build capital for public-private partnerships:** Financing housing preservation can be a challenging endeavor because of the requirements of existing programs and funding sources. Developing a capital stack with creative techniques (Table 11)—such as Charlotte’s funds, Los Angeles County’s two housing funds, the NOAH Impact Fund of Minneapolis–Saint Paul, Texas Housing Impact Fund, and the National Housing Trust Fund—can effectively develop and preserve NOAH. These programs have distinct funding streams: Local impact funds draw from public and philanthropic sources, while the National Housing Trust Fund has guaranteed funding from Freddie Mac/Fannie Mae revenues. Builders and landlords seeking these funds often need to find leverage from other sources. As its process unfolds and more lenders come into compliance, the Federal Housing Finance Agency’s “Duty to Serve” rulemaking is also a potential source for housing preservation efforts in underserved housing markets.

- **Offering incentives to preserve affordability for renters and homeowners:** Tax increment reinvestment zones (TIRZs) could allocate more money to affordable housing. Other programs, like the mixed-income neighborhood trust model, entail developing mixed-income projects with market rate units subsidizing other rental units priced for lower-income residents. Some homeowners can maintain affordability by sharing land with the community, or renting land for a long period of time to reduce housing-related costs. These programs utilize a combination of local government grants and investors’ upfront money, along with each program’s internal saving strategies.

- **Accessing new programs led by the Department of Housing and Urban Development (HUD):** HUD has created several strategies, including Mark-to-Market, pre-Section 202 Direct Loans, Section 223(f), Section 221(d)(4), prepayment or refinancing for FHA-insured properties, Section 8 Housing Assistance Payment (HAP) renewal, Rental Assistance Demonstration (RAD), and other new programs to preserve affordable housing facing potential subsidy expiration. Tens of thousands of Harris County residents living in publicly assisted units are at risk of losing affordability in the near future. In addition to using these new government programs, local housing authorities need to collaborate with each community’s nonprofit organizations, mission-driven for-profit companies, and housing stakeholders in the county.

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Diagnose the physical state of NOAH properties. The accuracy of measuring both internal and external conditions of all NOAH properties is vital to continue to monitor the current and future state of the building quality, which is directly related to tenants’ safety, health, and satisfaction with the housing. In order to diagnose the state of housing properties properly, local authorities can create comprehensive guidelines for routine inspections for multifamily complexes’ physical conditions, public health, safety, and other factors that could impact housing conditions and tenants’ quality of life.

Build comprehensive and accessible datasets. Better data (such as those provided by LISC Houston) can identify NOAH properties in high-amenity, central areas that would theoretically be most at risk of losing affordability or needing repairs. National databases on federally assisted rental housing can help identify properties at risk of affordability assistance expiration locally, helping policymakers connect with these landlords to incentivize renewing affordability-associated contracts.

Support the development of shared-equity models to reduce tomorrow’s preservation challenges. Cooperatively owned housing is emerging as a way to reduce the need for future preservation, as demonstrated by efforts in the Houston area and nationally, such as mobile home resident owned communities, limited-equity cooperatives, community land trusts, and land banking. These experiments warrant further study and additional attention toward sustainable funding and revenue models.

Clarify roles in the public sector: There is no “one party in charge.” Each state and local government and housing authority manages its own affordable housing programs, develops housing projects and implements regulations. State agencies, local governments, and nonprofit leaders can improve housing preservation outcomes by working in unison and maximizing their role to prevent missed opportunities.

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Introduction

Rapidly rising land values challenges efforts to preserve existing affordable homes. As shown in the Kinder Institute’s State of Housing reports, median gross rents have risen in the Houston area while the share of multifamily units priced under $800 has dropped considerably. While public assistance keeps some homes affordable, local governments, renters and nonprofits anticipate many publicly assisted homes will soon have their affordability lapse.

The largest share of affordable housing actually receives no public subsidy. This is “Naturally Occurring Affordable Housing,” or NOAH. Across Harris County, most affordable homes fall in this category. NOAH refers to unsubsidized affordable housing and tends to be affordable because of substandard quality, unfavorable location, or other reasons associated with aging. Housing preservation efforts have long focused on subsidized housing, which is administered by public agencies, but NOAH housing stock is becoming a factor in affordable housing preservation efforts because of its dominance. For instance, in Harris County, 85% of affordable housing can be attributed to NOAH.

NOAH has different preservation challenges, and far less is known about local and national NOAH stock. Unlike Section 8 or low-income housing tax credit (LIHTC) properties, NOAH landlords have no obligation to promise affordability and can raise rent at will. There also is no central national database of NOAH properties, though Harris County data does exist and is featured in this report.

By documenting Harris County’s NOAH and publicly assisted housing landscape, Kinder researchers aim to help policymakers, financiers and the nonprofit sector develop tailored strategies for managing the existing supply of affordable housing.

Table 1: Ownership and subsidies in affordable housing

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Publicly assisted</th>
<th>Not publicly assisted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Privately owned</td>
<td>LIHTC Section 8</td>
<td>NOAH</td>
</tr>
<tr>
<td></td>
<td>Other programs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>detailed in this report</td>
<td></td>
</tr>
<tr>
<td>Publicly owned</td>
<td>Public housing</td>
<td>n/a</td>
</tr>
</tbody>
</table>
Why is housing preservation important?

Preserving existing affordable housing is cost effective. Assembling contiguous parcels and building a new affordable development can cost 30-50% more than repairing and upgrading NOAH units (note that this estimate does not consider higher COVID-19 construction costs). This is especially true in high-amenity areas with expensive land (like most of central Houston) near high-frequency transit.

Locally, Harris County has a shrinking supply of affordable homes, especially in high-amenity central areas. As shown in the Kinder Institute’s past two annual State of Housing reports, from 2018 to 2019, median gross rent increased 6.1% while the city lost about 20,000 multifamily units with less than $800 monthly rent. Affordable rental units disappeared while median gross rents increased: For example, rents increased about 8% in both Houston and Harris County between 2010 and 2018. Affordable homes were also damaged during Hurricane Harvey in 2017, a natural disaster that led to damages in more than 300,000 homes or roughly 25% of the area’s affordable housing stock.

Shrinking affordable home supplies in the urban core could force working-class people to move to outlying areas, which lack access to public transit, leading households to spend more on transportation. Similarly, grocery stores and other basic services might be lacking. The suburbs of high-sprawl metro areas in the South, like Houston, are particularly hard places to escape poverty.

What makes housing preservation a complicated endeavor?

While people may imagine publicly-owned “housing projects,” such facilities are an incredibly small part of the local affordable housing landscape. Most subsidized affordable rental housing is privately-owned. For homes supported by these programs—specifically, Section 8 or Low-Income Housing Tax Credits (LIHTC)—landlords and property owners must keep rents affordable in exchange for public assistance. Once this assistance expires (anywhere from 15 to 40 years after construction), these homes may cease to be affordable.

The public and not-for-profit sectors often lack a clear picture of these properties’ locations, their unique preservation challenges and how to ensure that these homes stay affordable after their subsidies expire. What else complicates housing preservation?

Subsidized affordable housing programs are not permanent.

Two types of publicly assisted affordable housing programs play a vital role in housing preservation—LIHTC and Section 8 project-based programs.

LIHTC is the largest affordable housing program in the country and is an indirect federal subsidy used to finance affordable housing development and rehabilitation. The LIHTC program has a complicated method for defining “affordability,” but residents tend to not be as poor as Section 8 voucher holders.

In the LIHTC program, qualifying private developers apply for and receive federal tax credits. The developers then sell these tax credits to private investors, who can offset a portion of their federal tax liability or use the credits to receive discounts on their future taxes.

Preservation challenges: Using the cash from the tax credit sales, the LIHTC developers build housing that must remain affordable for at least 15 years (or 30 years if the


24 Public housing, the so-called “housing projects” are analyzed as well. These are government-owned units which house low-income families. These units represent a small share of the subsidized affordable housing stock now, especially in the South, despite being recognized as the most famous affordable housing program in the 20th century. Given their relative scarcity and public ownership structure, they are beyond the purview of this report. Across the country and in Harris County, continuous teardowns since the 1970s have lowered the number of publicly owned affordable housing units, and a sizable share of remaining units are only for seniors or supportive housing.
Many properties have exited the program over the past two decades—disproportionately so in higher-amenity areas.26 Properties may also exit Section 8 or LIHTC programs by failing inspections or by going up for sale.

When LIHTC/Section 8 landlords have their affordability restrictions expire, they may be less likely to renew the affordability contract if property values are rising, leading to a lapse in affordability. Research shows that expiring Section 8 PBV units tend to be in higher-amenity areas with better schools and lower crime rates, where this is more likely to occur.27

**NOAH has numerous preservation challenges related to housing quality and displacement risk.** Scholars estimate that around a third of all rental properties fall into the NOAH category nationwide,28 and Harris County is not an exception. Per Kinder Institute calculations, about 40% of all multifamily units in Harris County are estimated to be NOAH.

Real estate industry data trackers CoStar estimate that the national stock of NOAH rental properties is more than

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25 About 80% of the tax credits have been awarded to 9% of properties (or about 20% of the present value) and 20% of the tax credits were awarded to 4% or properties (or about 30% of the present value) in Texas since 1990. (Lauren Loney and Heather Way, “The Low-Income Housing Tax Credit Program in Texas: Opportunities for State and Local Preservation” Austin, TX: University of Texas at Austin Entrepreneurship and Development Clinic, School of Law, December 2018), https://law.utexas.edu/wp-content/uploads/sites/11/2019/06/2018-ECDC-LIH-TaxCreditProg-TX.pdf.

26 Lens and Reina 2018

27 Lens and Reina 2016

28 Nordby, Vaisman, and Rybczynski 2017
four times larger than the national subsidized affordable rental stock: roughly 16 million NOAH units compared to 3.3 million subsidized units.\textsuperscript{29}

Preservation challenges: NOAH units have no public subsidy, and thus repairs are more likely deferred. NOAH buildings are relatively older and require maintenance that landlords cannot often afford. Spending money on upgrades may lead to rent raises, which means the units may cease to be affordable.

For NOAH units, a landlord can also raise rents at will, which is likely to happen in desirable neighborhoods with appreciating property values. NOAH tends to be located in lower-amenity areas, so those units in higher-amenity neighborhoods require special preservation attention.

Because they have no guaranteed affordability requirement, NOAH units are more susceptible to gentrification, particularly those in high-amenity or rapidly gentrifying neighborhoods.\textsuperscript{30}

Central areas of Harris County and Houston have seen increasing real estate values. For example, in the prior decade, home prices in Independence Heights grew by more than 60\textsuperscript{\%}.\textsuperscript{31} Valuable property means that single family owner-occupiers may choose to sell at a premium to multifamily or townhome developers, which has increasingly happened in Third Ward, Montrose and other gentrifying and gentrified neighborhoods.\textsuperscript{32}

Gentrification pressure means demolitions, which can take NOAH or formerly subsidized units offline. In Third Ward, for example, the city issued more demolition permits than new housing construction permits between 2005 and 2018.\textsuperscript{33} The newer townhomes in Third Ward tend to be less affordable than the older homes they replaced.

Data, methods, and report structure

This report focuses on the current state of local affordable housing, detailing and mapping the stock of both subsidized and unsubsidized units, outlining the challenges to its preservation, and describing strategies (in Harris County and across the country) to maintain a supply of attainable and livable housing for years to come.

Kinder researchers gathered data on both publicly assisted affordable housing and NOAH in Harris County. The National Housing Preservation Database (NHPD) provided most information on federally assisted rental housing, while LISC Houston and January Advisors provided local NOAH data gathered by Tolemi, a proprietary software program for local governments. Units are defined as affordable in the rental market when a one-bedroom unit is rented below $999, a two-bedroom unit is rented below $1,200, or a three-bedroom unit is rented below $1,400 (See Table 3).\textsuperscript{34,35}

### Table 3. NOAH maximum rent thresholds and the number of bedrooms in a rental unit \textsuperscript{36}

<table>
<thead>
<tr>
<th>Unit bedrooms</th>
<th>Maximum rent</th>
<th>Income Level Affordable at 30% Cost Burden\textsuperscript{37}</th>
</tr>
</thead>
<tbody>
<tr>
<td>one bedroom</td>
<td>$999</td>
<td>80% MHI or less</td>
</tr>
<tr>
<td>two bedrooms</td>
<td>$1,199</td>
<td>80% MHI or less</td>
</tr>
<tr>
<td>three bedrooms</td>
<td>$1,399</td>
<td>80% MHI or less</td>
</tr>
</tbody>
</table>

In addition to statistical data, Kinder staff consulted recent peer-reviewed research into affordable housing preservation and gathered data on preservation programs and projects across the nation.

The remainder of this report is divided into three parts. The following section takes stock of the inventory of existing affordable housing across the county. The third section elaborates on affordable housing preservation programs and projects, including best practices from other metropolitan areas, highlighting their funding streams, implementation and efficacy. The report concludes with takeaways for housing policymakers.


\textsuperscript{31} Shelton et al. 2020


\textsuperscript{33} Ibid.

\textsuperscript{34} This report does not include rental units that have four bedrooms or more, as large rental units were not originally included in the raw data.

\textsuperscript{35} As explained in the previous section, there is no explicit definition of NOAH. This report relied on the dataset acquired from January Advisors and LISC Houston that follows the general definition of NOAH, which is housing at or below median income levels can afford without rental assistance or subsidies.

\textsuperscript{36} Source: January Advisors and LISC Houston, March 2021

\textsuperscript{37} This report uses median household income (MHI) limits for Harris County, based on 2019 American Community Survey data. This is a more geographically specific alternative to traditional HUD income statistics such as “Area Median Income” or “Median Family Income” which are calculated at a regional level. MHI numbers are specific to Harris County.
Harris County’s housing preservation landscape

Harris County has over 769,000 renter-occupied housing units. Over 40% of these units are either publicly assisted affordable housing or NOAH, and they can be considered candidates for affordable housing preservation.

**Table 4: Affordable housing units by type**

<table>
<thead>
<tr>
<th>Units in Harris County</th>
<th>LIHTC</th>
<th>Section 8 Project-based Program (Except HCV)</th>
<th>Public Housing</th>
<th>NOAH</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>36,352</td>
<td>11,220</td>
<td>3,517</td>
<td>Up to 315,245</td>
</tr>
</tbody>
</table>

**Preservation challenges**
- Owners opting out after expiration (15-30 years)
- Owners opting out after expiration (20-40 years); aging building stock
- Aging building stock; maintenance
- Aging building stock; maintenance; market forces

How much subsidized housing exists?

There are 55,358 rental housing units assisted by federal programs (Table 5). Over the next 20 years, Harris County is at risk of losing affordability for nearly 60% of the units or 32,000 that are currently affordable through rental assistance programs (Table 6).

The LIHTC program is the largest source, supporting about 36,000 affordable housing units across the county. It is the county's and country's largest affordable housing program. Homes that receive LIHTC assistance often receive other program support as well.

These programs assist in the construction of the LIHTC properties or the management of the affordable housing units, depending on the program type.

Section 8 and the FHA programs support more than 10,000 units each. The HOME Investment Partnerships Program (HOME) assists about 3,000 affordable housing units, and HUD's Public Housing Program subsidizes about 3,500 units in the county.

Given how some units receive multiple subsidies, the number of units by each program was counted only for the two most recent subsidies the unit received based on the expiration date of the last available assistance program.

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38 The number of units for LIHTC, Section 8 Project-Based Programs, and Public Housing is based on the NHPD dataset as of 2021. Kinder researchers used the NOAH data acquired by January Advisors and LISC Houston in 2021. The NOAH data includes some of the LIHTC-assisted units and captures the entire building based on the rental history of individual units, which only allows estimating the maximum number of NOAH units in the county.

Table 5: Actively assisted housing units by federal housing program

<table>
<thead>
<tr>
<th>Assistance Programs</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section 8</td>
<td>10,343</td>
</tr>
<tr>
<td>Section 202</td>
<td>94</td>
</tr>
<tr>
<td>Section 236</td>
<td>0</td>
</tr>
<tr>
<td>FHA</td>
<td>10,365</td>
</tr>
<tr>
<td>LIHTC</td>
<td>36,352</td>
</tr>
<tr>
<td>Section 515 Rural Housing</td>
<td>313</td>
</tr>
<tr>
<td>Section 538 Rural Housing</td>
<td>303</td>
</tr>
<tr>
<td>HOME</td>
<td>3,009</td>
</tr>
<tr>
<td>Public Housing</td>
<td>3,517</td>
</tr>
<tr>
<td>Project-Based Vouchers</td>
<td>675</td>
</tr>
<tr>
<td>Moderate Rehabilitation</td>
<td>202</td>
</tr>
<tr>
<td><strong>Total Units</strong></td>
<td><strong>55,358</strong></td>
</tr>
</tbody>
</table>


A majority of the federally assisted rental housing units in Harris County is located in the city of Houston limits, and only a few units are situated outside Houston (Figure 1). A large number of the assisted housing units are spread throughout Houston except for the west side between the Westpark Tollway and US 290 corridors.

Kinder Community Tabulation Areas (CTAs) north and northeast of Downtown and many along the Beltway 8 corridor currently accommodate most of the county’s federally assisted rental housing units (Figure 2).

Table 6: Housing assistance expiration years by decennial time period

<table>
<thead>
<tr>
<th>Expiration year</th>
<th>Units</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 2021–Year 2030</td>
<td>8,919</td>
<td>16%</td>
</tr>
<tr>
<td>Year 2031–Year 2040</td>
<td>23,120</td>
<td>42%</td>
</tr>
<tr>
<td>Year 2041–Year 2050</td>
<td>14,911</td>
<td>27%</td>
</tr>
<tr>
<td>Year 2051–Year 2060</td>
<td>5,510</td>
<td>10%</td>
</tr>
<tr>
<td>Others</td>
<td>2,898</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>55,358</strong></td>
<td>100%</td>
</tr>
</tbody>
</table>


A total of 519 subsidies are active as of 2021, and the number of total assisted units is smaller than the sum of the units from individual programs as some units benefit from more than one housing assistance program.

Appendix 1 specifies individual programs.

41 Communities in Houston’s infamous “arrow” are made up of higher income and predominantly white census tracts with a track record of exclusionary housing practices.

43 Community tabulation areas (CTAs): The Kinder Institute for Urban Research developed CTAs to serve as approximations of neighborhoods, based on census geographic boundaries, to facilitate the aggregation of census data to geographies larger than census tracts, but smaller than counties. Retrieved July 20, 2021, from https://www.arcgis.com/apps/MapSeries/index.html?appid=95320b06677c4338d91027cb5feb241bf.
Federally assisted rental housing in Harris County

FIGURE 1

Federally assisted rental housing units by community tabulation area

FIGURE 2

44 Appendix 2 shows the federally assisted rental housing units by census tract.
Two communities, IAH and Spring Southwest, collectively accounted for about 5,000 units (Table 7). Two suburban CTAs near the cities of Pasadena and Baytown and several inner Houston communities (Northside/Northline, Alief, Acres Home, OST/South Union, Five Corners, and Sunnyside) are also identified as having larger numbers of federally assisted rental units.

**Table 7. Top 10 CTAs with federally assisted rental housing units by community**

<table>
<thead>
<tr>
<th>CTA</th>
<th>Total Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>IAH (Intercontinental Airport)</td>
<td>2,688</td>
</tr>
<tr>
<td>Northside/Northline</td>
<td>2,536</td>
</tr>
<tr>
<td>Spring Southwest</td>
<td>2,241</td>
</tr>
<tr>
<td>Alief</td>
<td>2,202</td>
</tr>
<tr>
<td>Pasadena</td>
<td>2,096</td>
</tr>
<tr>
<td>Baytown</td>
<td>1,514</td>
</tr>
<tr>
<td>Acres Home</td>
<td>1,510</td>
</tr>
<tr>
<td>OST / South Union</td>
<td>1,408</td>
</tr>
<tr>
<td>Five Corners</td>
<td>1,398</td>
</tr>
<tr>
<td>Sunnyside</td>
<td>1,348</td>
</tr>
</tbody>
</table>

**Table 8: NOAH units by housing type**

<table>
<thead>
<tr>
<th>Housing Type</th>
<th>Properties</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single-Family</td>
<td>2,804 (71%)</td>
<td>2,804 (1%)</td>
</tr>
<tr>
<td>Multifamily</td>
<td>1,168 (29%)</td>
<td>312,441 (99%)</td>
</tr>
<tr>
<td>Total</td>
<td>3,972 (100%)</td>
<td>315,245 (100%)</td>
</tr>
</tbody>
</table>

In fact, there are over 315,000 NOAH housing units in Harris County. Table 8 shows the number of NOAH properties and units by type, 99% of which are multifamily.46 Kinder’s 2021 State of Housing report shows that 769,184 units were occupied by renters as of 2019.49 Therefore, NOAH units represent about 40% of the total rental stock in Harris County.50

Winter Storm Uri in February 2021 reminded Harris County residents that deferred maintenance on insulation and plumbing can be deadly. Prior studies have documented the scale and scope of unsafe conditions in Houston apartments, with neighborhoods like Sunnyside experiencing more than 64% of multifamily properties lacking a certificate of occupancy.51

**How much NOAH is out there?**

The largest share of affordable housing actually receives no public subsidy. This is “Naturally Occurring Affordable Housing,” or NOAH.45 Across Harris County, most affordable homes are NOAH.46 A large share of the NOAH stock was built in the 1970s and 1980s, suggesting that these units are due for updates, repairs and other improvements—more so than older buildings built with sturdier materials and framing.47

45 “NOAH” is a controversial term. Scholars assert there is nothing “natural” about processes like neighborhood decline, regional investment, and historical redlining. See Joe Cortright, “City Observatory - The Myth of Naturally Occurring Affordable Housing,” City Observatory, October 10, 2017, https://cityobservatory.org/the-myth-of-naturally-occurring-affordable-housing/. In this report, it refers to affordable homes without subsidy, but it is important to acknowledge this terminology debate.


48 Harris County Appraisal District (HCAD) data was accessed using the parcel identification numbers originally included in the NOAH data acquired from January Advisors and LISC Houston. The parcel IDs in the NOAH data, once matched with 2020 HCAD data, allowed locating the exact geographical locations of each rental housing property. After joining, the data shows 3,966 properties (or parcels) and 314,142 units as NOAH stock in Harris County.


50 The share of NOAH is high because of the limitation of the raw data. Total property unit numbers were counted long as a rental unit in a multifamily property was considered naturally occurring affordable.

Preserving Affordable Housing in Harris County

Naturally occurring affordable housing in Harris County

![Map of Naturally Occurring Affordable Housing in Harris County](image_url)

Legend:
- River
- Water
- Highways
- County Parks
- Harris County Line

Data Source: January Advisors and HRC Houston, 2011

Naturally occurring affordable housing units by community tabulation area

![Map of Naturally Occurring Affordable Housing by Community Tabulation Area](image_url)

Legend:
- Major_road_Harris INGAA Units (CTA)
- River
- Water
- Highways
- County Parks
- Harris County Line

Data Source: January Advisors, 2011

52 Appendix 3 shows naturally occurring affordable housing units by census tract.
communities with high percentages of residents born outside of the United States. For example, Eldridge/West Oaks’ population is 40% foreign-born, compared to 26% countywide (according to the 2019 ACS 5-year survey).

Besides the six communities with a NOAH cluster situated in the southwestern county, several other outlying communities have a large number of NOAH units (i.e., Pasadena, Spring Southwest, Clear Lake, and Katy North).

Table 9. Top 10 CTAs, number of naturally occurring affordable housing units

<table>
<thead>
<tr>
<th>CTA</th>
<th>NOAH Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eldridge/West Oaks</td>
<td>16,225</td>
</tr>
<tr>
<td>Mid-West</td>
<td>12,547</td>
</tr>
<tr>
<td>Westchase</td>
<td>12,013</td>
</tr>
<tr>
<td>Uptown</td>
<td>9,823</td>
</tr>
<tr>
<td>Briar Forest</td>
<td>9,344</td>
</tr>
<tr>
<td>Alief</td>
<td>9,141</td>
</tr>
<tr>
<td>Pasadena</td>
<td>8,931</td>
</tr>
<tr>
<td>Spring Southwest</td>
<td>8,779</td>
</tr>
<tr>
<td>Clear Lake</td>
<td>7,622</td>
</tr>
<tr>
<td>Katy North</td>
<td>7,398</td>
</tr>
</tbody>
</table>

In terms of housing quality, a majority of the NOAH units in Harris County have “average” physical quality based on the county’s appraisal district dataset. NOAH units with a “C” grade represent dwellings that have normal wear and tear with average quality of workmanship, physical design and materials. Table 10 shows the scale of quality from very low to excellent. About 57% of the NOAH units in the county are in average condition or worse. The average or below-average NOAH units may require moderate to substantial rehabilitation in the future, depending on the level of property maintenance.

Table 10. NOAH building grade by housing type

<table>
<thead>
<tr>
<th>Rating</th>
<th>Quality (HCAD)</th>
<th>SF</th>
<th>MF</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>X or A Superior or Excellent</td>
<td>19</td>
<td>9,787</td>
<td>9,806</td>
</tr>
<tr>
<td>2</td>
<td>B Good</td>
<td>186</td>
<td>105,094</td>
<td>105,280</td>
</tr>
<tr>
<td>3</td>
<td>C Average</td>
<td>2,055</td>
<td>167,922</td>
<td>169,977</td>
</tr>
<tr>
<td>4</td>
<td>D Low</td>
<td>421</td>
<td>8,608</td>
<td>9,029</td>
</tr>
<tr>
<td>5</td>
<td>E Very Low or Poor</td>
<td>16</td>
<td>0</td>
<td>16</td>
</tr>
<tr>
<td>Not Available</td>
<td></td>
<td>107</td>
<td>21,030</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>2,804</td>
<td>312,441</td>
<td>315,245</td>
</tr>
</tbody>
</table>

Source: Harris County Appraisal District Real Property Datasets, 2020; January Advisors and LISC Houston NOAH, 2021

53 Appraisal district grades are based on exterior features and do not account for internal housing conditions, which is fundamental to understanding NOAH housing quality.

What can be done to address housing preservation challenges?

The following section highlights best practices with an eye toward the financial models of housing preservation of both publicly assisted affordable housing and NOAH. Various approaches are discussed in this section that hail from case studies and affordable housing strategies in the Appendix, with a handful of those case studies included in this section to draw attention to noteworthy examples.

Leverage federal and state programs to anticipate lapsing affordability.

HUD has created new financing and assistance sources at the federal level, but local housing authorities continue to take an active role in affordable housing preservation. A majority of federally-assisted housing is primarily administered by local housing authorities or the state’s housing financing agency in collaboration with local governments. Staff may have to keep up-to-date information about properties with expiring assistance programs and contact individual owners well before expiration in order to help guide them through the renewal process. Additionally, it is essential to incentivize nonprofit organizations and mission-driven institutions so that they can cooperate with the public sector to preserve expiring affordability and rehabilitate outdated assisted properties.

Owners of most publicly assisted rental housing, including LIHTC units and Section 8 project-based properties, need financial incentives to keep rents below market at the end of the affordability contract term. Some recommended approaches to preserve the affordability of rent-restricted units include:

1. identifying the current housing stock in need of preservation (e.g., type of subsidies, rent restrictions, subsidy expiration timing, etc.),
2. reaching out to current owners to determine their needs and intentions, especially of those who are not mission-driven owners in high market-rent areas), and
3. assigning resources to prioritize preservation projects and seek out federal program support (see list of programs in Appendix 6).

Innovate with local financing and policy-making for the preservation of NOAH.

The prior section highlights public-sector policies, mostly at the national level, which can be applied to preserve publicly assisted affordable housing. The following section focuses on efforts available at the local level to finance the preservation of NOAH (see Table 11).

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55 Some other programs that need the preservation of rent-restricted rental units are the Section 202 Supportive Housing for the Elderly Program, the Section 811 Supportive Housing for Persons with Disabilities Program, the Section 236 Mortgage Program, and HUD's block grant programs (e.g., the Home Investments Partnership Program and the Community Development Block Grant Program).

Table 11: Preservation funding strategies

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
<th>Government Level</th>
<th>Pre-Requisites and Concerns</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax abatements or exemptions</td>
<td>Property tax breaks for NOAH or publicly assisted homes</td>
<td>Taxing jurisdictions</td>
<td>Legislative approval</td>
<td>Provincetown Tax Exemption¹⁷†</td>
</tr>
<tr>
<td>Value capture</td>
<td>Property tax increments set aside for affordable housing preservation</td>
<td>Cities and Special-Purpose Districts</td>
<td>Legislative approval or petition</td>
<td>Houston TIRZ set aside</td>
</tr>
<tr>
<td>General obligation or revenue bonds</td>
<td>Floating public-sector bonds for affordable housing preservation</td>
<td>Local or state</td>
<td>Voter referendum or council approval (general obligation); Program application and dedicated funding source (revenue)</td>
<td>Atlanta’s Housing Opportunity Bonds; City of Houston Affordable Housing Bond; TDHCA Multifamily Housing Bonds</td>
</tr>
<tr>
<td>Public-private funds</td>
<td>Public-private partnerships (e.g., foundations, anchor institutions) provide capital to support NOAH funds, sometimes with government-backing of loans</td>
<td>Local or state</td>
<td>Significant public-private cooperation</td>
<td>Texas Housing Impact Fund; Avenue CDC Social Impact Fund, Charlotte Housing Impact Fund</td>
</tr>
<tr>
<td>Cooperatively owned communities and properties</td>
<td>Residents have varying degree of ownership in land, housing, or rental properties</td>
<td>N/A</td>
<td>N/A</td>
<td>MINTs, Limited equity co-operatives, HCLs, Pasadena Trails ROC</td>
</tr>
</tbody>
</table>

**Tax abatements or exemptions**

Tax abatements or exemptions are one way to incentivize the preservation of affordable housing units. An abatement is a reduction in a property tax receipt. A tax exemption, on the other hand, is a reduction in the tax rate or assessment of a property. Both result in property tax relief which can be offered in exchange for long-term preservation of affordability and to rehabilitate or upgrade units. According to appraisal district records, some Section 8 project-based properties in Harris County paid property taxes and likely most NOAH properties do as well. Other jurisdictions have experimented with programs that provide tax breaks to publicly assisted units and NOAH landlords who maintain affordability levels. In Texas, tax abatements or exemptions for housing preservation are allowed in a TIRZ or enterprise zone.⁵⁸

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**Case Study: Provincetown, MA**

**Overview**

Since 2003, under the affordable housing property tax exemption program of Provincetown in Massachusetts, this town’s property owners who possess affordable rental housing have been exempted from paying property tax on the portion of the affordable rental housing units. The rental units should be year-round rental properties, and renters’ income should meet HUD’s low-income eligibility limits, which is 80% of the area median family income. The program intends to secure affordable housing for income-eligible residents and reduce the homeowners’ burden that provides affordable housing by paying less in property taxes.

**Impact**

The exemption is granted annually, and the program does not require a long-term affordability commitment necessarily. As this program aims to assist low-income residents only, the lease should conform to the income eligibility for the owners to have tax exemption. In the fiscal year 2021, the total affordable housing exemption was granted to 36 parcels containing 139 housing units, and the total tax dol-

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Preserving Affordable Housing in Harris County

The primary benefit of the program is keeping some larger apartment complexes as rental homes rather than conversion to condo units, according to the principal assessor of the town of Provincetown.

Financial Strategy
The affordable housing tax exemption program does not require extra funding for the program itself. However, it is essential to assess the local budget conditions precisely as the tax reduction could directly impact the town’s tax revenue to cover other expenses. In the case of Provincetown, the affordable housing tax exemption program was created by the Home-Rule petition, and now the affordable housing exemption is by far the most costly exemption program, which accounts for about 65% of the total exemption amount in the town. Therefore, it is critical to understand the needs of affordable housing accurately, determine the income limits accordingly, and consider other budget conditions properly to continue to have a successful affordable housing tax exemption program, like the case of Provincetown.

Value capture: TIRZ affordable housing set aside
Tax increment reinvestment zones (TIRZs) are financing mechanisms that the City of Houston has used since the 1990s to drive investment into distressed neighborhoods. A board of neighborhood leaders and local taxing authority representatives govern each of the city’s 27 TIRZs. Many TIRZs must devote 25%-30% of their funds toward affordable housing construction or renovation, either within the zone or other areas of the city. TIRZ revenues from the city’s 27 TIRZs for affordable housing are a form of value capture and can be used to support housing preservation. Additionally, yearly TIRZ revenues can be used to pay back affordable housing revenue bonds; the city of Houston recently issued a $100 million development bond that is backed by the city’s TIRZ affordable housing allocation.

Case Study: Montrose TIRZ
Overview
The Montrose TIRZ is situated in one of Houston’s most rapidly gentrified neighborhoods over the last 20 years. Housing and population growth has been dramatic, with over 7,000 housing units built or redeveloped since 2005. In 2020, the TIRZ undertook a planning process through Houston-Galveston Area Council’s Livable Centers program and defined housing preservation as one of its key recommendations.

Impact
The Montrose TIRZ has opted to devote 25% of its funding towards affordable housing within the district, focusing mainly on preservation. Starting in 2015, the TIRZ also acquired bond issuing authority because it is formally also a redevelopment authority. Housing preservation is a particular concern in the appreciating, gentrified neighborhood. Another priority is assuring that senior residents who might become priced out of their homes because of property taxes can remain in the neighborhood.

Financing Strategy
The TIRZ has set aside $2.5 million over the next 3 years to affordable housing rehabilitation and development, and TIRZ leaders are exploring ways to partner with local affordable housing developers and property owners to rehabilitate existing properties.

General obligation bonds and revenue bonds
There are two types of bonds available for affordable housing—general obligation bonds, which are repaid through future taxes, and revenue bonds, which are paid back from proceeds resulting from the bond-funded activity (i.e. multifamily housing bonds and other private activity bonds). General obligation bonds often require voter-approved authority, depending on the state’s government code, and a healthy financial standing by the issuing entity with the three major bond rating agencies in the United States—Fitch Ratings, S&P Global Ratings, and Moody’s Investors Service.

Local bonding authority can also enable municipalities to leverage other funding sources to address housing preservation goals.

Case Study: General Obligation Bonds and Social Impact Investments in Charlotte

Overview
Charlotte is experiencing a growing economy, including robust job growth. Its strong economy includes a diverse and competitive housing market as well as a strong rental market due to the city’s increasing number of low-income renters. In 2014, local leaders were dismayed at the city’s rock-bottom ranking in upward mobility for the 50 largest cities in the United States.62 Civic leaders embarked on an 18-month planning process to address barriers to economic opportunity. The top recommendation was to increase access to affordable housing by expanding the publicly voted affordable housing bond to $50 million every two years, up from $15 million. City leaders embraced the recommendation to go back out to voters, but in the process, also challenged the philanthropic community to match that $50 million. This effort resulted in the expansion of the city’s Housing Trust Fund (HTF) and the creation of the Charlotte Housing Opportunity Investment Fund (CHOIF), administered by LISC to partner on housing preservation. The philanthropic and development community also supported the effort by later creating the Housing Impact Fund (HIF) to match the city’s affordable housing bond by raising private capital with anchor institutions and industry.

Impact
Combined, the three funds are expected to fund the preservation and rehabilitation of 2,000 affordable homes in the first two years. The HTF has secured $210 million in bonds and has preserved nearly 9,000 units with long-term deed restrictions. The expansion of HTF is expected to provide for gap funding and ensure affordable housing development and preservation projects get off the ground. The HIF and CHOIF, on the other hand, are more recent instruments aimed at maintaining affordable rents for households earning 80% AMI or below and prioritizes those earning 30% of AMI ($22,000) or below. CHOIF investments in NOAH preservation and rehabilitation are expected to support 2,000 units over the next two years. More importantly, HTF, CHOIF, and HIF implement deed restrictions that protect long-term affordability.

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restrictions and affordability terms for 30 years in most cases, in partnership with the City of Charlotte.

** Financing Strategy **
The HTF is a recurring bond established in 2001 through a voter-approved referendum to subsidize workforce housing needs with $15 million every two years. In 2018, a larger HTF was approved by voters, expanding the fund to a $50 million subsidy every two years.

CHOIF is composed of funds from foundations, the health care sector, financial institutions and the energy sector. This fund has raised $53 million since 2019 to leverage the HTF bond, land donations, and project-based vouchers. Civic leaders created the CHOIF in 2019 with the national LISC organization to establish a local presence for the latter and help provide support for the administration of capital being raised for housing preservation efforts. Since then, LISC Charlotte has been in partnership with the public- and private-sector to finance mixed-income housing development through the CHOIF and plays a pivotal role in constructing, acquiring, and rehabilitating affordable housing across the city’s communities.

Area developers and philanthropic leaders created the HIF to raise money for affordable housing and match the city’s commitment to increase the HTF. In 2020, the fund raised $58 million for housing preservation and was a resounding success, tapping into the region’s anchor institutions and employers. HIF is based on both private (e.g., $38 million from Truist Financial Corp., Atrium Health, LendingTree, Movement Mortgage, nine local real estate development firms, and other investors) and public funds (a $20 million co-investment from the CHOIF).

** Case Study: Revenue Bonds in Atlanta’s Housing Opportunity Bond Program **

** Overview **
The $100 million Housing Opportunity Bond was approved by the mayor and city council in 2021, stemming largely from recommendations from the city’s recent affordable housing plan.

Atlanta proper is much smaller than Houston (roughly 600,000 people, compared to 2.7 million), and the city’s rapid gentrification over the past 20 years has brought affordable housing to the front of its policy agenda.

The $100 million bond fund is part of a $1 billion commitment, stemming from the city’s affordable housing plan, to invest in the city’s shrinking affordable housing supply. This 2021 bond continues work from 2007 and 2017 bonds, but with more emphasis on renter-occupied NOAH acquisition.

** Impact **
The fund’s newness makes any sort of “impact” hard to evaluate at this time. However, developers are encouraged to use the funds to acquire and rehabilitate NOAH complexes. For multifamily development, acquisition, and rehabilitation, shares of the bond fund are set aside for large (70+ unit) and small multifamily properties. These funds are a total of $23 million of that $100 million and are intended to provide 575 units at a cost of $40,000 per unit.

Roughly one third of the $100 million fund will go to acquisition, development or rehabilitation of affordable multifamily housing, with the rest going toward single-family owner-occupied home development, down-payment assistance, aid to owner-occupiers and other uses. Additionally, a portion of the multifamily fund ($10 million) is intended for permanent supportive rental housing.

These rental units will be targeted at households earning less than 80% or 60% of the AMI. According to Invest Atlanta, projects may also include no more than 15% market-rate units, in order to help subsidize affordable housing. All rental homes produced with bond monies must maintain affordability for 15 years.

** Financing Strategy **
The bond will be carried by the city of Atlanta and retired through regular payments from city coffers. Most of the bond funds will be distributed to builders and rehabilitators in the form of low-interest loans for gap financing, with the city’s economic development arm being in charge of the bond funds. Funds will be leveraged with other forms of financing. The 2007 affordable housing bonds issued by the city had a 7:1 ratio of leveraged private funds to initial bond funds.

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63 HIF includes $20 million from CHOIF.
Public-private financing

**Public-private partnerships** have unique financing structures and legal powers. Various examples abound in the Appendix. The detailed cases in the beginning of Section 3 contain narratives about these funds’ corporate structures, their supporters, and how these leveraged other funding streams or public-sector subsidies. These partnerships require extensive coordination from a region’s philanthropic and public-sector actors. These organizations need not only access to capital, they also need to connect with the everyday landlords and tenants of NOAH in order to deliver affordable housing.

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**Case Study: Social Impact Investment in Avenue CDC’s Social Impact Fund**

Since 1991, Avenue Community Development Corporation (CDC) has helped develop around 1,200 single-family homes and apartments in the region, and the Social Impact Fund is one of its most recent projects.

Avenue CDC started the fund to acquire and update NOAH properties and properties with expiring affordable housing subsidies. The $5 million fund is projected to leverage $25 million in acquisition capacity, and aims to acquire 230 to 310 housing units in the coming years.

The fund has a unique investment and corporate structure, in which social impact investors provide capital through debt financing or equity. Each property acquired by the fund has its own LLC, and the overarching Avenue Preservation LLC is the managing member of each property’s LLC. That overarching LLC finances property acquisition and upkeep through debt or equity capital provided by social impact investors.

Avenue’s Social Impact Fund targets mid-size multifamily properties with 75-150 housing units, particularly in neighborhoods that are at high risk of gentrifying. The cost per unit varies between $80,000 and $110,000, with acquisition making up about 80% to 90% of costs, and approximately 10% to 20% of costs dedicated to rehabilitation and unit improvements.

According to Avenue, at least 50% of units in each acquired property will be affordable to households earning 60%-100% of the area median income. Some units will be affordable to even lower incomes, and for properties with higher acquisition costs (and higher gentrification pressures) some units will be targeted to incomes above 100% area median income.

Oak Arbor Townhomes are a 94 unit property acquired in 2017 by Avenue CDC. This was a LIHTC property with soon to expire affordability. Through the acquisition of this property, Avenue was able to introduce an extended use agreement and invested $61,000 per unit on acquisition and rehabilitation. Oak Arbor is situated within a 5-minute walk of METRO’s Northline Transit Center / HCC which is the terminus for the Red Light Rail line in Houston’s Northside. The transit line connects to Downtown, the Texas Medical Center, and the region’s largest universities.
Cooperatively owned communities

Lastly, a range of the tools documented in this report involve collective or cooperative ownership by lower-income residents in varying degrees. Cooperatively owned housing is an emerging way to reduce the scale and scope of future preservation challenges as demonstrated by local efforts in the Houston area and national best practices (i.e. mobile home resident owned communities, limited-equity cooperatives, community land trusts, etc.).

- **Mixed-income neighborhood trusts (MINTs)** involve local neighborhood groups joining with equity capital firms to preserve and develop mixed-income rental housing in their neighborhoods.

- **Limited-equity cooperatives (LECs)** provide opportunities to transition existing affordable rental stock into affordable homeownership options, fulfilling the preservation objective but expanding opportunities for intergenerational wealth and upward mobility (see Appendix for more on LECs).

- **A community land trust (CLT)** entails residents owning land and selling the affordable homes on that land to lower-income residents, with the caveat that these homes’ sales price remains deflated while residents pay ground rent to the trust. The local CLT gains its funding primarily through local government grants, and ground rent.

- **At the resident-owned communities (ROC)** Pasadena Trails, mobile home park residents collectively own the land and manage it through a cooperative-like structure, with initial funding coming from a ROC advocacy group and operation funds coming from ground rent. Altogether, these creative shared-ownership strategies have varied funding streams, target residents with different tenure status, and operate with different corporate structures.

**Case Study: Cooperatively Owned Communities and Properties: Kansas City & Tulsa: Mixed-Income Neighborhood Trusts (MINTs)**

**Overview**

Trust Neighborhoods, a nonprofit started in 2019, developed the novel Mixed-Income Neighborhood Trust (MINT) model to prevent displacement within gentrifying neighborhoods across the United States. The model is somewhat similar to a community land trust, as a MINT is a corporation governed by a partnership between investors and neighborhood group leaders. Using equity capital investments, the MINT buys rental properties within a neighborhood, renovates or builds new multifamily and single-family units, and rents them at stabilized, affordable rates.

**Impact**

As of writing, MINTs in two cities have immediate plans to develop around 40 units, with between $1 million and $2 million of foundation funding for these early demonstration projects. These pilots are in Kansas City, Missouri, (Lykins Mixed Income Neighborhood Trust) and Tulsa, Oklahoma (Growing Together Collaborative). A neighborhood group leads each city’s MINT, with acquisition and development efforts focused on their own neighborhoods.

Affordability income levels vary for each city’s case, but in an interview, a neighborhood representative from Tulsa emphasized that affordability rates will remain below the area median income.

These early pilots notably did not receive initial equity capital injections, with funds coming from local foundations which sought to demonstrate the viability of the concept. Trust Neighborhoods estimates that future partners in local MINTs will receive 5%-10% returns on equity. It is in the process of developing equity-funded projects in other major cities with social impact capital investors.

**Financing Strategy**

Trust Neighborhoods developed the MINT model for gentrifying neighborhoods. In the model, the MINT gains equity capital funds to invest in the purchase, rehabilitation, and development of affordable rental homes, which they then partner with a local property manager to help maintain. According to Trust Neighborhoods representatives, having access to equity capital allows a MINT to compete with private investors when seeking to acquire properties.

In the MINT model, a majority of units stay affordable in perpetuity (and do not expire as long as the MINT exists) but some units remain market rates to help subsidize the affordable units. As “market rate” rents increase, these more expensive units help investors generate returns. In an early MINT project in Tulsa, the MINT aims for a 70-30 affordable to market-rate mix.
All of the above tools, to varying extents, need to be catered to Harris County’s unique housing system. It is beneficial to understand the available programs and their financing structures. Additionally, it is important to explore what federal and other local programs would help the county to finance affordable housing preservation projects, such as Freddie Mac’s NOAH preservation loan which can support affordable properties in underserved areas. Additionally, Harris County may consider applying local policies, such as San Diego’s ordinance requiring one-to-one replacement when an affordable rental housing unit is removed. The list of potential programs is too long to enumerate in one report, but here are the key next steps to begin addressing local needs.

Anticipate lapsing affordability of publicly assisted rental housing.

The most significant challenge of publicly assisted housing arises when the affordability term expires. Identifying when, where, and how much existing affordable housing will expire is the first step to address this affordability challenge.

The LIHTC program alone accounts for two-thirds of the county’s publicly assisted affordable housing. Local housing advocates should assess the expiration of LIHTC projects and connect landlords to additional funding sources. The LIHTC program is complicated, but most expiring units will not have to lose affordability if other programs incentivize existing LIHTC owners to continue serving low-income renters.

Additionally, collaborations between local housing authorities and most property owners, such as nonprofit organizations or mission-driven for-profit owners, are essential to continually secure high-quality affordable housing in Harris County.

Identify and preserve NOAH through a combination of innovative local approaches.

NOAH is the dominant form of affordable housing nationwide and in Harris County. However, some NOAH units are more likely to lose rental affordability in the private housing market because of high demand in certain areas. Harris County’s NOAH properties in amenity-rich areas with easy access to a substantial number of employment opportunities are at greater risk. Local housing authorities and NOAH owners should collaborate to preserve these units.

64 Freddie Mac’s NOAH preservation loan is specifically available to help nonprofit organizations that support the long-term preservation of NOAH units. With underwriting flexibilities, fee reductions, and rehabilitation allowances, qualifying nonprofit organizations could have a significant advantage to acquire NOAH properties and preserve long-term affordability. NOAH Preservation Loan, Retrieved September 8, 2021, from https://mf.freddiemac.com/docs/product/noah_mf_term_sheet.pdf

opportunities may lose affordability more quickly than NOAH properties in less amenity-rich places.

Community organizations and other stakeholders also have to cooperate with each other, as funding comes from multiple sources and requires different expertise. For example, in order to maintain the affordability of NOAH and sustain economic growth in transit-friendly neighborhoods, there should be connections between real estate and transit stakeholders to understand the location of at-risk affordable housing units, where private developers prefer to redevelop existing low-rent properties, where high-quality transportation options exist, and what future transit plans exist in the county.

Harris County’s philanthropic and financial capital should help nonprofit organizations make the most of their limited resources. Some additional funding sources may allow affordable properties to remain for a longer period of time. In addition, it is important to apply lessons from exemplary cases outside of Harris County. By understanding preservation strategies from other cities and states, Harris County will be able to continue to innovate its affordable housing preservation programs in order to account for changing affordable housing needs.

**Diagnose the physical state of NOAH properties.**

One of the most critical impediments to preserving NOAH properties is the lack of sufficient and accurate local data for understanding their physical condition. This study has employed the county’s appraisal district’s quality characteristics, which factors only the exterior conditions of a structure.

The accuracy of measuring both internal and external conditions of all NOAH properties is vital to continue to monitor the current and future state of the building quality, which is directly related to tenants’ safety, health, and satisfaction with the housing. Local authorities should create a comprehensive guideline for routine inspections of multifamily complexes’ physical conditions, public health, safety, and other factors that could impact housing conditions and quality of life. With programmatic and regular inspections, authorities can then provide accessible, up-to-date, and geocoded information both to the public and to officials to identify problem properties.

Furthermore, local policymakers should conduct tenant education campaigns and assist NOAH tenants regarding their rights on repairs and other resources, such as where to seek help to address housing conditions when landlords fail to deal with dangerous conditions in a timely manner.66

**Build comprehensive and accessible datasets.**

Experts point to inadequate data as being a major challenge to affordable housing preservation.67 While researchers can use publicly available datasets, like the American Community Survey, these data do not usually identify the specific rents on each property.

It also remains difficult to know the expiration date on the region’s subsidized properties, as more than one assistance program is often attached to individual properties.

Therefore, better data (such as those provided by LISC Houston) can identify NOAH properties in high-amenity central areas that would theoretically be most at risk of losing affordability or having repair needs. National databases on federally assisted rental housing can help identify properties at risk of affordability assistance expiration locally, helping policymakers connect with these landlords to incentivize renewing affordability-associated contracts.

**Support the development of shared-equity models to reduce tomorrow’s preservation challenges.**

Building new affordable housing today in ways that will facilitate housing preservation tomorrow is a vital way to provide sustained affordable housing. Cooperatively owned housing is an emerging way to reduce the scale and scope of future preservation challenges as demonstrated by local efforts in the Houston area and across the United States (e.g., mobile home resident owned communities, limited-equity cooperatives, community land trusts, and land banking). More research is needed to better understand the obstacles limiting further expansion of similar housing approaches.

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67 Howell and Wilson 2019
Protect vulnerable rental housing stock along high-frequency transit corridors.

Rapidly rising housing costs in gentrifying communities pose threats both to those communities’ NOAH, and to their publicly assisted affordable housing with lapsing affordability terms. Protecting such housing is paramount. But it remains a difficult task and being strategic will be vital. To that end, NOAH stock near high-frequency transit should be prioritized, as it stands to make the most impact in overall household affordability (housing + transportation costs).[68] Prior research has identified areas of the county where NOAH preservation would make the most impact near equitable and high-frequency transit, though a careful examination of key corridors is warranted.[69] See the map as an example.

68 High-frequency transit is defined as bus or rail service with 15 minute headways or less. This service also runs seven days a week and late in the evening.


Clarify roles in the public sector: There is no “one party in charge.”

Different state and local governments and housing authorities manage affordable housing programs, develop housing and implement regulations.

State agencies:
Scale program funds and form partnerships.
State law plays an important role in affordable housing preservation. Reorienting existing resources to support renters and playing a larger role in forming partnerships between local housing agencies, lenders, and social investors would be an ideal role for state actors to take up in support of local housing efforts.

The Texas Department of Housing and Community Affairs (TDHCA) administers the LIHTC program, allocates the tax credits and applies the National Housing Trust Fund in the state.

Several states, like Delaware, Florida, Massachusetts and Ohio, earmarked between 35% and 50% of their LIHTCs for preservation projects. Others, such as Kansas, New York, Oregon, Wisconsin, and
Massachusetts, have set aside a share of their weatherization assistance program funds specifically for subsidized and privately owned properties as these units tend to be older and less energy efficient.\textsuperscript{70}

Housing preservation trust funds often exist as public-private partnerships to support affordable housing, though Texas’s is entirely within TDHCA. The programs they have mainly serve homeowners or property owners, rarely benefiting renters themselves.

**Local governments: Innovate financing and policymaking.**

Houston and Harris County have enacted regulations and passed subsidies to help preserve affordable housing, described in depth in the Appendix. Other jurisdictions have explored tax relief measures for landlords of affordable housing. For example, Section 8 PBV properties are exempt from property taxes in many other jurisdictions, but some PBV properties in Harris County are still paying property taxes.

Local policymakers can also address rent increases. Cities can restrict how landlords’ rent increases by, for example, only allowing increases during times specified in the lease terms (such as at the end of the year). More recently, Harris County and Houston partnered to create a $160 million fund to help subsidize renters affected by COVID-19 and its economic downturn.

The Houston Housing Authority and Harris County Housing Authority have roles to play as well. Both administer Section 8 programs and public housing, in addition to certain programs that help rehabilitate affordable housing (detailed in the Appendix).

**Nonprofit sector: Connect needs and opportunities.**

Many Section 8 and LIHTC properties are run by mission-driven nonprofits like Avenue CDC, which developed 120 homes in 2020, while major local foundations help fund other affordable housing developers. A major challenge for local housing advocates is connecting these funding sources to property owners who need support for preservation work.

This report gives special attention to these “third sector” programs and policies, highlighting ways that citizens in Harris County and elsewhere have addressed the housing preservation challenge, and the challenges these organizations face with funding, logistics and legal compliance.

Appendix 1.
Some federally-assisted rental housing programs include a number of specific sub-programs.


**S202:** “202 DIRECT LOAN/ ELDERLY/ PRE – 1974” “202/8 DIRECT LOAN/ ELDERLY-HANDICAPPED” “202/162 DIRECT LOAN FOR HANDICAPPED W/PAC”

**S236:** “236(J)(1)/ 202 ELDERLY HSG.” “236(J)(1)/ 223(E)/ LOWER INCOME FAMILIES/DECLIN.AREA” “236(J)(1)/ LOWER INCOME FAMILIES” “241(F)/ 236 EQUITY LOAN”

**FHA:** 223(a)(7)/236(j)(1) Refi/ Lower Inc Families, 223(a)(7)/241(a)/236 Refi/Improvements & Additions; 223(a)(7)/241(f)/236 Refi/Equity Loan; 223(a)(7)/223(d)/BMIR/236 Refi/2 yr Op Loss Loan; 223(a)(7)/236(j)(1)/202 Elderly Housing; 223(a)(7)/241(a)/236/202 Refi/Improvements & Additions; 233(c)/236 Experimental Hsg.; 233/236/233(e) Exp. Hsg./Declin. Area; 236(j)(1)/223(e)/Lower Income Families/Declin. Area; 236(j)(1)/Lower Income Families; 236(j)(1)/202 Elderly Hsg.; 223(d)/236 Two Yr. Opr. Loss/Lower Income Families; 241(f)/236 Equity Loan; 241(a)/236/Improvements & Additions/Lower Inc Families; 241(a)/236/Improvements & Additions/Eld Housing; 221(d)(3) BMIR Urban Renewal/ Coop Hsg; 221(d)(3) Mkt. Rate Moderate Inc/ Disp Fams; 221(d)(3) BMIR/223(e); 221(j)(2) BMIR Converted to Coop.; 223(a)(7)/241(a)/221-BMIR Refi/Improvements & Add; 223(a)(7)/241(f)/221 - BMIR Refi/Equity Loan; 223(a)(7)/221(d)(3)BMIR/Urban Renewal/

Coop Hsg; 233/221(d)(3) BMIR Exp. Hsg.; 233/221(d)

(3) BMIR/223(e) Exp. Hsg./Declin. Area; 223(c)/

221(d)(3) BMIR Asset Sales; 223(d)/221-BMIR Two Yr.

Opr. Loss; 241(f)/221-BMIR Equity Loan; 241(a)/221-

BMIR) Improvements & Additions; 542(b) QPE Risk

Sharing -- FFB NC/SR; 542(b) QPE Risk Sharing -- FFB

Existing; 542(c) HFA Risk Shg -- FFB NC/SR; 542(c)

HFA Risk Sharing-Existing; 542(c) HFA Risk Sharing

-FFB Existing/Coop/Apts/MHP/ALF; 542(c) HFA Risk

Sharing-Recent Comp; 542(b) QPE Green Risk Shg: >15 yr
term; 542(b) QPE Green Risk Shg: <15 yr term w/ Amortz

Reserve; 542(B) QPE Risk Sharing Plus < 15 yr term, no

Amtz Balloon; 542(b)QPE Risk Sharing-Existing; 542(b)

QPE Risk Sharing-Recent Comp

**LIHTC:** “4% Tax Credit” “9% Tax Credit” “4% and 9% Tax

Credit”

**RHS 515:** “515 Rural Housing” “514 On-Farm” “514 Off-

Farm”

**RHS 538:** “RHS 538”

**HOME:** “HOME”

**PH:** “Public Housing”

**State:** Not Available in Harris County

**PBV:** “Project-Based Vouchers”

**MR:** “Moderate Rehabilitation”
Appendix 2. Federally assisted rental housing units by census tract

Appendix 3. Naturally occurring affordable housing units by census tract
Appendix 4.
Other preservation case studies

Public-private funds:
Twin Cities NOAH Impact Fund

Overview
The Twin Cities metropolitan area has more than 167,000 NOAH units, accounting for 75% of the metro’s affordable housing. However, the metro is losing affordable housing much faster than new housing is developed. A majority of NOAH units are situated in convenient locations with well-paying jobs nearby, and good education and recreational amenities. The metro area is expected to have relatively low rental vacancy and unemployment rates, and a high demand for rental housing throughout 2030, putting price pressures on the existing NOAH stock.71

Impact
Greater Minnesota Housing Fund (GMHF) created the NOAH Impact Fund,72 which finances both acquisition and preservation of the existing NOAH stock in the Twin Cities. The NOAH Impact Fund targets naturally affordable rental housing, primarily built between 1940 and 1990 and rented generally between $550 and $1,200 per month. It aims to preserve the affordability of 2,000 rental properties.

Financing Strategy
The NOAH Impact Fund works through collaboration with high-performing nonprofit and socially motivated for-profit operating partners. In preservation projects, the NOAH Impact Fund pays 90% of a NOAH property acquisition process, and nonprofit and for-profit operating partners additionally co-invest the rest of the equity. The NOAH Impact Fund amounts to about $50 million, which is a combination of private (e.g., socially motivated for-profit operating institutional investors) and public (e.g., high-performing nonprofit) parties providing the full repayment of investor principal in 10 years. Funded properties require maintaining 15-year affordability for low-income families, working families, seniors, and other individuals.

Los Angeles New Generation Fund and Metro Affordable Transit Connected Housing Program

Overview
In Los Angeles County, NOAH accounts for 80% of the affordable housing units in the county and five times more supply than subsidized affordable housing.73 62% of NOAH supply is identified in ZIP codes where more than half of residents are people of color.74 Individual landlords own 76% of NOAH properties, and they are often local residents who use small multifamily units as their primary source of wealth creation, and often, their only source of retirement income.75 NOAH redevelopment or consolidation thus could cause many local people to lose income.

Impact
Among LA County’s affordable housing preservation and development programs, the New Generation Fund helped to build or preserve 2,739 units in 29 multifamily properties.76 Most housing units are affordable to households that earn up to 60% of the area median income, although each project has set a different income threshold. In addition to the New Generation Fund, the Los Angeles County Metropolitan Transportation Authority uses the Metro Affordable Transit Connected Housing (MATCH) program to preserve and expand affordable housing near transit-friendly areas.77

Financing Strategy
The partnership between Enterprise Community Partners, Inc., the Los Angeles Housing and Community Investment Department, and a multi-bank syndication is capitalized with over $68.5 million in lendable proceeds. The New Generation Fund helps acquire, develop and rehabilitate rental units for developers who are committed to affordable rental housing. The MATCH program leverages an $18 million investment from nonprofit and for-profit developers, and this public-private partnership capitalizes a $75 million loan in order to preserve and expand affordable housing near transportation hubs in Los Angeles. MATCH

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74 Ibid.

75 Ibid.


77 Metro Affordable Transit Connected Housing, Retrieved September 8, 2021 from https://www.matchfundla.com/
allows developers to tap into the acquisition or pre-development financing of affordable housing in high-quality transit areas to redevelop existing affordable multifamily properties. The program seeks to accommodate the preservation of households earning 80% of the area median income or finance new affordable housing projects for households at or below 60% of the area median income.

**Cooperatively owned communities and properties: Limited-equity cooperatives, New York’s Homesteading Assistance Board and Washington, D.C.’s City First Homes**

**Overview**

Limited-equity cooperatives (LECs) provide shared affordable housing ownership in which residents collectively own a residential building and share land underneath the structure. The resale value is restricted in order to maintain affordability over the long term, which is different than other general cooperative models. LECs were established to provide affordable housing to low-income residents for the long term or permanently. Therefore, LECs set income limitations to ensure that cooperatives are utilized by low-income residents only. Residents in cooperatives usually control the administration and management of their shared building. LECs are often initiated by nonprofit sponsors, who redevelop existing properties and sell shares to low-income households.

**Impact**

New York City’s Urban Homesteading Assistance Board (UHAB) has turned 1,720 units in 96 buildings to LECs through their renovation projects since 2002. UHAB has seven ongoing projects that allow low-income New Yorkers to become homeowners across the city while affordability is preserved for the next homeowners. UHAB focused on distressed rental properties specifically, converting them into LECs and maintaining a 99% success rate.78

Washington, D.C.’s City First Homes helps to establish cooperatives, in partnership with a community development financial institution (CDFI), which assists financing for acquisition and rehabilitation. City First Homes has supported a total of 1,662 affordable housing units for 89,407 people, including LECs and other affordable housing programs, with an emphasis on permanent or long-term affordability that targets buildings with 50 units or less.79

Some communities provide LEC share loans to low-income families. Individual homeowners may have to borrow money based on their ownership interest. As LECs generate less profit for lenders than other market-rate housing projects, it is generally more difficult for LEC owners to secure a share loan. Therefore, the assistance of nonprofits or other housing agencies is more vital to overcoming these obstacles that low-income families have.

Another strategy is to use property tax breaks. Local jurisdictions can create a special property tax classification for LECs to pay reduced pay taxes. In general, assessed values of LEC properties are below market value as a

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78 Housing Development, Urban Homesteading Assistance Board, Retrieved on September 21, 2021, from https://uhab.org/our-work/development/

79 Affordable Housing, City First Enterprises. Retrieved on September 21, 2021, from https://www.cfenterprises.org/affordable-housing/
pre-determined share (e.g., 70%) of the estimated market value. Tax breaks ensure the long-term sustainability of LECs and allow individual residents to have a low burden on maintaining homeownership.

**Federal preservation programs: National Housing Trust Fund**

**Overview**

The National Housing Trust Fund, which the Texas Department of Housing and Community Affairs (TDHCA) has implemented locally since 2016, is a national affordable housing program whose funding comes from Freddie Mac/Fannie Mae revenues. While this means that funds vary yearly, it also means that funding avoids the vagaries of the congressional appropriation process.

In 2021 the state of Texas had about $42 million of national trust funds allocated to it, which the state disburses through its Multifamily Direct Loan program to both mixed-income and 100% affordable units. Because of the strong national housing market post-pandemic, Fannie Mae/Freddie Mac revenues increased, and the 2021 allocation is far larger than most years’, which hover around $10 million.

**Impact**

Most funds go toward housing construction, and only since 2021 can funds be spent on rehabilitation. TDHCA staff issue Notices of Funding Availability regularly and rank applications using criteria such as the use of other subsidies, the number of affordable units, their location in opportunity areas, and other factors. The program is used to support rental units affordable to 30% area median income.

In 2021’s third round of funding, three projects in Harris County applied for roughly $6.5 million to support 302 affordable units.

**Financing Strategies**

Interestingly, Texas affordable housing developers had largely not applied to use trust fund funds until recently. According to TDHCA staff, 2020 marks the first year they received applications for the full year’s allocation of funds and have two years to commit the funds.

Both NOAH and Section 8/LIHTC property owners can apply for the fund, but supportive affordable housing developers have been among the fund’s most frequent applicants and funded projects.

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Appendix 5. Affordable housing strategies in Harris County

Various private and public sector agencies work to preserve NOAH and subsidized affordable housing in the county. These programs and projects are briefly described in this section.

Value capture: Tax increment reinvestment zones (TIRZs)

Tax Increment Reinvestment Zones (TIRZs) are policy tools that the City of Houston has used since the 1990s to drive investment into local neighborhoods. A board of neighborhood leaders and local taxing authority representatives govern each of the city’s 27 TIRZs. Many TIRZs must devote 25%-30% of its funds towards affordable housing construction or renovation, either within the TIRZ or other areas of the city.

There are multiple types of TIRZs, and each has rules about how affordable housing funds must be spent. “Petition” TIRZs start because of local petitions circulated throughout the neighborhood asking to form the TIRZs. Per state law, these TIRZs must devote one third of their funds to affordable housing, which goes towards a citywide fund administered by the city’s Housing and Community Development Department. The other TIRZs form through city mandate and many choose to spend funds on affordable housing.

The Montrose TIRZ, formed in 2015, is in the latter group, opting to devote 25% of its funds toward affordable housing within the zone. The TIRZ also has bond issuing authority because it is formally also a redevelopment authority. The TIRZ has set aside $2.5 million over the next 3 years to spend on affordable housing rehabilitation and development, and TIRZ leaders are exploring partnering with local affordable housing developers and rehabbers to apply the funds. Housing preservation is a particular concern in the appreciating, gentrified neighborhood. Another priority is assuring that senior residents who are priced out of their homes due to property taxes can remain in the neighborhood.

<table>
<thead>
<tr>
<th>Organization</th>
<th>Description</th>
<th>Year initiated</th>
<th>Owners or Renters</th>
<th>Funding source</th>
<th>Budget</th>
<th>Income targeting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax increment reinvestment zone (Montrose TIRZ case study)</td>
<td>TIRZs fund affordable housing preservation inside and outside their district (through citywide fund)</td>
<td>2015</td>
<td>Varies</td>
<td>Value Capture (TIRZ set aside)</td>
<td>$2.5 million yearly in Montrose; $19 million in 2020 FY for city fund</td>
<td>Varies</td>
</tr>
<tr>
<td>Avenue CDC Social Impact Fund</td>
<td>Avenue CDC establishes LLCs to acquire NOAH and expiring publicly assisted housing</td>
<td>2020</td>
<td>Renters</td>
<td>Social investment, i.e. foundation funding and social investors providing equity/debt</td>
<td>$5 million initial fund with $25 million leveraged</td>
<td>Mixed-income, half of units target 60-100% AMI and half of units target combination of under 60% AMI and market rate</td>
</tr>
<tr>
<td>Houston Community Land Trust</td>
<td>Lower-income homeowners buy permanently affordable homes on collectively owned land</td>
<td>2018</td>
<td>Homeowners</td>
<td>Local government grants, primarily</td>
<td>~$620,000 (2019-2020 revenues)</td>
<td>Low to Moderate Income (&lt;80% AMI)</td>
</tr>
<tr>
<td>Houston Land Bank</td>
<td>Local government corporation that assembles parcels for affordable home development</td>
<td>1999</td>
<td>Homeowners mostly</td>
<td>General fund appropriations, City of Houston</td>
<td>$4.8 million (2020 revenue)</td>
<td>Workforce Housing (80%-120% AMI)</td>
</tr>
<tr>
<td>Pasadena Trails Resident-Owned Community</td>
<td>Collectively owned mobile home park; owner-occupiers own homes but pay ground rent to collective</td>
<td>2009</td>
<td>Homeowners</td>
<td>Startup funds ROC USA, a national foundation, and operational funds from ground rents</td>
<td>~$450,000 yearly revenues</td>
<td>Low-Income Homeownership, varies</td>
</tr>
</tbody>
</table>
Currently, the Montrose TIRZ has yet to identify a specific funding partner for affordable housing rehabilitation or development with these funds. Like all other TIRZs, the Montrose TIRZ is led by a volunteer board, and affordable housing development takes significant technical expertise and time that volunteers may lack.

It is important to note that with “petition” TIRZs (unlike Montrose), TIRZ funds go to a citywide affordable housing fund, which earned $19 million during the 2020 fiscal year (and typically earns around $15 million, per city staff). This fund mostly supports low-income homeownership and repair projects, devoting less funds to renter or landlord subsidies. Recently, these funds helped leverage a $100 million dollar bond for affordable housing development, which will expand the number of rental units built or targeted for rehabilitation, repair or reconstruction.

Social impact investment:
Avenue CDC’s Social Impact Fund
Since 1991, the Avenue Community Development Corporation (CDC) has helped develop around 1,200 single family homes and apartments in the region, and the Social Impact Fund (“Fund”) is one of its most recent projects.

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Avenue’s Social Impact Fund targets mid-size multifamily properties with 75-150 housing units, particularly in neighborhoods that are at high risk of gentrifying. The cost per unit varies between $80,000 and $110,000, with acquisition making up about 80% to 90% of costs, and approximately 10% to 20% of costs dedicated to rehabilitation and unit improvements.

According to Avenue, at least 50% of units in each acquired property will be affordable to households earning 60%-100% of the area median income. Some units will be affordable to even lower incomes, and for properties with higher acquisition costs (and higher gentrification pressures) some units will be targeted to incomes above 100% area median income.

Oak Arbor Townhomes are a 94 unit property acquired in 2017 by Avenue CDC. This was a LIHTC property with soon to expire affordability. Through the acquisition of this property, Avenue was able to introduce an extended use agreement and invested $61,000 per unit on acquisition and rehabilitation. Oak Arbor is situated within a 5-minute walk of METRO’s Northline Transit Center / HCC which is the terminus for the Red Light Rail line in Houston’s Northside. The transit line connects to Downtown, the Texas Medical Center, and the region’s largest universities.
Cooperatively owned communities and properties: Houston Community Land Trust (HCLT)

HCLT promotes affordable home ownership through a system involving ground leases. The trust is a not-for-profit 501(c)3 with a full-time staff governed by an independent board of directors. While not targeted at renters like most programs in this report, it helps provide and maintain owner-occupied homes in areas lacking affordable homes for existing residents. This can help ease the competition for affordable rental units within these neighborhoods.

In 2019-2020, HCLT was able to spearhead its first development of 21 homes within Houston's Acres Homes community, partnering with the city and the Houston Land Bank. The trust plans to sell 1,000 homes before the end of this decade.

The majority of HCLT's yearly revenue comes from local government grants ($487,000 of its $619,000 total income in 2019-2020). Revenues also come from home sales, corporate grants, owner-occupier fees and other miscellaneous revenue streams.

The trust acquires and builds homes on developable land. The trust's homes are lower-cost, and buyers must be lower-income. In the 2019-2020 the median HCLT home price was roughly $75,000, far less than the median Harris County home price of around $230,000. The HCLT targets households earning between 40% and 60% of the county's median income, or about $25,000 to $37,000 a year (calculation varies based on household size).

Owning an HCLT home is not like typical homeownership. The owner owns the structure but has a 99-year lease on the land beneath the home, which the trust owns. The owner must pay (as of 2021) $113 monthly to the trust for the lease, maintenance fees and property taxes. Property taxes also remain lower on HCLT homes, per a unique assessment procedure.

The owner also has certain restrictions. The owner-occupier cannot re-sell their home for more than a 1.25% yearly increase from their initial purchase price. This is excellent for affordable housing preservation, but prevents the owner from accruing as much wealth in their home. Owners also cannot rent the home or have a retail business on-site.

The land-trust model is becoming more popular nationwide and locally, as Harris County has recently helped start the Harris County Community Land Trust, also a 501(c)3 nonprofit.

Land banking: Houston Land Bank (HLB)

HLB started in 1999 as the Land Assemblage and Redevelopment Authority (LARA) within the city’s Housing and Community Development Department. In 2018, the organization changed its name and became a “local government corporation” with independent staff. It also shifted its work priorities, from doing solely land assemblage/disposal to a broader community development mandate. A board of trustees appointed by the city, county and school district officials governs HLB.

As of 2020, HLB's yearly revenues were around $4.8 million. The city provides 90% of its budget. The HLB/LARA program has helped develop over 500 homes since 2004, with 76 homes in development in 2021. In 2020, most homes in development were in Houston's predominantly Black communities, including Fifth Ward, Acres Homes and Kashmere Gardens.

HLB's main activities include acquiring, selling and maintaining abandoned lots. HLB leverages strategic partnerships to develop these lots into affordable homes.

HLB has two major programs: the New Home Development Program (for low-income buyers) and the HLB Traditional Homebuyer Program (which targets median-income buyers). The New Home Development Program is available to households with gross incomes less than 80% AMI, about $63,350 in Houston for a family of four. The Traditional Homebuyer Program, on the other hand, is available to households with gross incomes up to 120% AMI, about $94,500 in Houston for a family of four.

The HLB's homes have fewer use and resale restrictions than the HCLT's homes but come with challenges to preservation. They appear to lack the long-term guarantee of affordability, in addition to the property tax assessment restrictions of a land-trust home. The Traditional Homebuyer Program only asks for affordability to be preserved for 10 years (and not in perpetuity, as is the case with a land-trust home). The New Home Development Program can involve HCLT (and their permanent affordability restrictions) for lower-income purchasers, but it is not required that buyers work with the trust.
Cooperatively owned communities and properties: Pasadena Trails Resident-Owned Community (ROC)

One of 200 such organizations nationwide, Pasadena Trails is a manufactured home community owned by residents through a ROC—a type of housing cooperative mostly employed in manufactured home communities. The ROC’s affordable rental housing strategy is focused on land ownership. By purchasing a lot, Pasadena Trails homeowners become shareholders in the cooperative that manages the community of 114 units. Residents own their manufactured homes and are effectively the collective “landlords” of the ground beneath them.

Besides an initial $250 application fee, residents must also pay a monthly fee of around $300 (depending on the size/type of manufactured home) that goes toward community maintenance, the ROC’s mortgage payments, community investments (e.g., parks) and property taxes. Residents maintain ownership of the manufactured home structures themselves.

Pasadena Trails residents formed the ROC and acquired the community roughly 12 years ago, after unexpected land rent increases and disputes with the community’s prior owner. Initial funding largely came from ROC USA Capital, an arm of ROC USA (a national ROC advocacy group). Each year Pasadena Trail’s expenditures hover around $450,000, with most revenue coming from lot fees and utility pass-through. Even without outside funding, lot rents in ROCs increase less than industry standard (i.e. 0.9% annual growth vs 3.9% in conventional mobile home parks).81

There are no rented mobile homes and all residents are owner occupants. This is similar to the HCLT and land bank programs, which likewise target owner-occupants.

Housing Stability Task Force

While not a housing provider like the organizations cited above, the local Housing Stability Task Force is an important affordable housing preservation actor whose work warrants mention.

The task force included local leaders from social service organizations and nonprofits, which developed recommendations for responding to the COVID-19 housing crisis. Through summarizing it recommendations, Kinder staff hope to describe certain affordable housing initiatives for which there appears to be some desire from local leadership.

Among the task-force recommendations:

- creating a volunteer landlord registry;
- developing technical training tools for landlords to better understand finances and investment management;
- streamlining the rental assistance application process and eligibility criteria;
- expanding the HCV Section 8 program, and providing small landlords resources for entering the program;
- developing a low-interest lending program specifically for smaller landlords;
- developing a fund for rental assistance; and
- exploring property tax relief programs

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Appendix 6.
Federal and State Preservation Programs

HUD’s Mark-to-Market Program
In 1997, HUD’s Mark-to-Market (M2M) program launched with an expectation of preserving a large number of expiring Section 8 project-based housing units. HUD’s effort to “mark down to market rents” allowed the existing owners to renew the Section 8 contracts to continue to have a 30-year affordability term while saving the federal government money by restructuring FHA-insured mortgages.

HUD’s Housing Assistance Payment contracts
HUD is also renewing Section 8 Housing Assistance Payment (HAP) contracts, and owners are encouraged to request 20-year HAP contracts. The renewal of Section 8 HAP contracts helps owners have the potential benefit of preparing the FHA-insured mortgage prior to mortgage maturity and thus help prevent tenants’ displacement.

HUD Section 202 subsidies
For those units with expiring Section 202 program subsidies, which is for very low-income elderly residents, especially those living in units subsidized between 1959 and 1974, the Supportive Housing for the Elderly Act of 2010 made changes to the law regarding the refinancing of Section 202 properties. In addition, in 2018, owners of properties with pre-1974 Section 202 Direct Loans were given options to preserve the affordability of these properties by entering into long-term rental assistance contracts. HUD also funded local public housing agencies, which offered the owners of 9,686 units under the pre-1974 Section 202 program an opportunity to refinance the Section 202 Direct Loan to reduce the interest rate or make the capital improvements. The tenants living in such units receive project-based rental assistance through the project-based voucher (PBV) program.

HUD multifamily financing
HUD works with approved lenders to issue FHA multifamily mortgage insurance for new construction, refinancing, and substantial rehabilitation of multifamily properties. For example, Section 223(f) insures mortgages used to purchase or refinance existing multifamily projects, regardless of whether multifamily projects were previously financed with federal mortgage insurance. Projects must contain at least five units, and construction or substantial rehabilitation must have been completed for 3 years or more. Section 221(d)(4) assists the private industry in the construction or rehabilitation of rental and cooperative housing units that contain five or more units and allows for long-term mortgages up to 40 years, which can be financed with the Government National Mortgage Association (GNMA) Mortgage-Backed Securities.

In order to preserve FHA-insured properties with maturing mortgages, HUD helps owners to prepay or refinance the existing properties before the affordability restrictions expire. Many such HUD properties were originally financed with FHA-insured mortgages under Section 236 or Section 221(d)(3), and other properties were assisted with Rent Supplement or Rental Assistance Payment (RAP) contracts.

HUD’s Rental Assistance Demonstration (RAD) program for public housing preservation
In 2020, only about 3,500 Harris County households lived in public housing units, compared to 18,000 Section 8 HCV households and about 36,000 households in LIHTC units. Those affordable housing units that were subsidized by the public housing program and owned by local public housing agencies (PHAs) are mostly outdated. Therefore, maintaining good physical quality is as important as preserving affordability. HUD’s Rental Assistance Demonstration (RAD) is one of the major federal-level programs that address the public housing affordability preservation issue. The RAD program helps convert aged public housing into different types of assisted affordable housing, mainly to Section 8 project-based properties through combined funding with LIHTC, HOME Investment Partnerships Program, Community Development Block Grant (CDBG), HUD loans and other state and local funds. The rental assistance program has converted about 455,000 units to PBVs or PBRAs. Local PHAs remain as the owners of PBV properties, whereas for-profit or nonprofit organizations can be the owners of

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PBRA properties, and local PHAs are still responsible for administrative work for the PBRA properties.

The RAD program helps PHAs preserve, maintain, and improve public housing. In addition, it gives owners the great opportunity to have long-term contracts with financial assistance. The program allows reinvestment in the public housing stock, and these units can remain permanently affordable to low-income households while tenants benefit from many protections, such as a right to return after the completion of repairs, a prohibition against re-screening, and robust notification and relocation rights. The tenants in RAD-converted properties maintain the same rights as they possess in the public housing program and continue to pay 30% of their income towards rent. However, these tenants may have to adjust to a new property owner and may possibly go through temporary relocations. Local governments and PHAs must play a significant role in monitoring and overseeing RAD-converted properties to ensure their tenants are protected and the properties remain affordable and habitable.

**Texas Housing Impact Fund**

The Texas State Affordable Housing Corporation (TSAHC) created the Texas Housing Impact Fund (THIF) to finance the development, acquisition and rehabilitation of affordable rental projects across the state of Texas. The THIF includes both short and long-term loans to developers to build affordable housing units with an emphasis on local nonprofits. It requires an affordable housing project to accommodate at least 20% of the total units to families earning 50% of the area median income and 40% of the total units to families earning 60% of the area median income.

Permanent loans with long-term financing help new development or rehabilitation of affordable housing, and construction loans with short-term financing allow acquisition, construction or rehabilitation. Several successful projects leveraged the THIF to receive additional funding from different sources. A permanent loan helped develop a 64-unit multifamily complex in Austin. The $1.2 million loan was funded for 15 years, and the loan was used to leverage additional funding from the city of Austin and the Federal Home Loan Bank (FLHB). A $356,000 construction loan also allowed 28 affordable housing units in Dalhart, a community in north Texas. The project also received an additional $2.7 million from the US Department of Agriculture. The THIF creates opportunities for low-income families in the state of Texas to access housing with less rental burden, and it provides several competitive loan products to give developers flexibility and enable them to receive other financing.

TSAHC relies on program revenue and other investment sources: private funding, grants, equity-equivalent investments, donations and program-related investments. The primary source of the fund is from investments made by private and public entities. The THIF provides financing to nonprofit and for-profit developers that can preserve and increase Texas’s affordable housing stock. For rental housing developments, the general amortization period for loans are 20 to 30 years, depending on the financial analysis and the source of funds.

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89 Texas Housing Impact Fund, Retrieved September 13, 2021 from https://www.tsahc.org/developers/loan-products
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