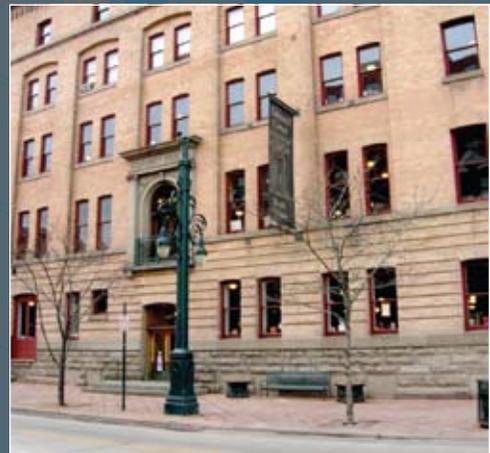


Preserving Affordable Housing Near Transit

Case Studies from Atlanta, Denver, Seattle and Washington, D.C.



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THIS REPORT SUMMARIZES:

- Key findings
- CDC strategies for preserving affordable housing near transit
- Resources and tools for aligning housing preservation and transit-oriented development

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Introduction:

The Importance of Preserving Affordable Housing Near Transit

Regions across the United States are expanding public transportation systems to allow more residential choices, improve access to employment centers, reduce traffic congestion and lower levels of greenhouse gas emissions. Transportation accounts for nearly one-third of our country's energy consumption. Increasing the number of dense, walkable, transit-connected neighborhoods promises shorter commutes, fewer traffic problems, improved air quality and a cleaner environment. Efficiently located housing, combined with energy efficiency and water conservation, contribute towards limiting the effects of climate change.

This report is designed to help community leaders, community development corporations (CDCs) and non-profit affordable housing developers engage in preserving affordable housing near transit.¹ It describes ways in which metropolitan areas are addressing preservation challenges and opportunities, and identifies the strategies and tools communities can use to preserve affordable housing in transit-rich neighborhoods. The study focuses on four metropolitan areas with current commitments to expand transit service: Atlanta, Denver, Seattle and Washington, D.C.

Preserving Affordable Housing Near Transit: Case Studies from Atlanta, Denver, Seattle and Washington, D.C., builds on prior research sponsored by AARP and co-authored by AARP, the National Housing Trust and Reconnecting America. The findings of this report demonstrate that more than 250,000 privately owned, federally subsidized apartments exist within walking distance to quality transit in 20 metropolitan areas.² Nearly two-thirds of these apartments are covered by federal housing contracts set to expire over the next five years.

Preserving Affordable Housing

For low-income families, the ability to live in an affordable home near good public transportation translates into improved access to healthcare, education and employment opportunities, and reduced commuting costs. On average, working families spend 57 percent of their incomes on housing and transportation.³ Locating affordable housing near transit can significantly reduce this financial burden. Families who live near transit spend just

Why Focus on Preserving Housing Near Transit?

- Improves access to jobs, schools and opportunity-rich neighborhoods for low- and moderate-income families
- Avoids displacement of low- and moderate-income families in areas where new transit access brings rising property values
- Provides elderly, disabled and/or “transit-dependent” populations with the ability to accomplish the daily activities like shopping and socializing that allow them to live independently and maintain a high quality of life
- Provides alternatives to suburban sprawl while reducing transportation costs, traffic congestion, air pollution and emission of greenhouse gases

1 By “affordable housing,” we mean privately owned, HUD-subsidized developments, Low-Income Housing Tax Credit properties and unsubsidized multifamily housing where rents are below 30 percent of income for a family earning the median income. We use the term “affordable housing near transit” to refer to existing or new developments within one-half mile of existing or proposed fixed guideway rail stations or within one-quarter mile of at least one major bus route.

2 AARP. *Preserving Affordability and Access in Livable Communities: Subsidized Housing Opportunities Near Transit and the 50+ Population*. (September 2009). Section 8 contract data updated August 2010.

3 Lipman, B. *A Heavy Load: The Combined Housing and Transportation Burdens of Working Families*. Center for Housing Policy. (October 2006).

9 percent of their income on transportation, while those who live in auto-dependent neighborhoods spend an average of 25 percent of income on transportation.⁴

In many communities, preserving existing affordable housing is the most cost-effective means to ensure seniors and low-income households have access to good public transportation. If this housing is not preserved today, it will likely be lost as owners opt out of use restrictions – such as the project-based Section 8 program – or convert apartments to market-rate or luxury housing to capitalize on improved market conditions. In addition, many affordable housing properties are older and in need of repair and require some public and/or private investment to ensure they are of high quality.

Preserving Affordable Housing Near Transit

Transit investments will increase property values in many areas, creating community development opportunities and challenges. By taking action to create or preserve diverse housing options near transit, community leaders, CDCs and developers can ensure that people of all incomes are able to enjoy the benefits of these investments – improved access to jobs, schools and services; greater mobility; and reduced transportation costs.

Preserving affordable rental housing near transit preserves opportunities for low-income families and seniors to live an affordable lifestyle and access employment, education, retail and community opportunities. As areas around quality public transit become more desirable, and the potential for displacement of low-income individuals and families becomes a real concern, the importance of developing and implementing affordable housing preservation tools and strategies will be critical to ensuring that low-income people can benefit from significant public investment in transit.

Communities familiar with the challenge of preserving affordable housing in general need to retool strategies in light of opportunities and threats specific to preservation of affordable housing near transit. These include:

- Preventing market-rate conversions in rising neighborhoods
- Preventing loss of stock due to physical distress, where transit investments create new opportunities for recapitalization and/or ownership change
- Targeting unsubsidized stock at risk of losing affordability as market rents rise
- Capitalizing on market opportunities to make housing greener and healthier
- Redeploying subsidy resources to preserve affordable units in mixed-income redevelopment settings
- Tapping inclusionary zoning incentives to subsidize operations, finance repairs or add to the affordable housing stock

Engaging Metropolitan Planning Organizations

Given new federal initiatives to promote regional cooperation, metropolitan planning organizations (MPOs) are becoming increasingly significant partners in regional transportation and development. In a limited number of leading communities, they have demonstrated the ability to deploy tools and resources that will facilitate

More than Affordability

The term “affordable housing” generally describes housing which costs a family less than 30 percent of its annual income. Families paying a larger share of income for housing are likely to have difficulty paying for other necessities such as food, clothing and transportation.

A more holistic notion of affordable housing considers the quality and suitability of housing as well. Housing should provide access to employment and services – healthcare, education, shopping and daycare – along with environmental benefits of green building standards and healthy, sustainable materials.

⁴ Reconnecting America’s Center for Transit-Oriented Development. *Realizing the Potential: Expanding Housing Opportunities Near Transit*. (May 2007).

affordable housing production and preservation in transit-rich locations.

Engaging MPOs and the transit agencies that serve their region is a new challenge for community leaders, CDCs and nonprofit affordable housing developers. MPOs, like city and state agencies, control critical financial, technical and political resources that can support CDC projects and initiatives. To be successful at preserving affordable housing near transit, CDCs and their allies will need productive working relationships with MPOs. Building these strong relationships will require a concerted effort to reach out to MPO leadership and transportation planning staff, participate in policy discussions that guide regional transit investments and enrich the conversation on investing resources for affordable housing planning and development. CDCs can cultivate these relationships independently, or in partnerships with other CDCs, community development intermediaries and other like-minded organizations. See Appendix A for a detailed list of actions MPOs can take to promote affordable housing.

Metropolitan Planning Organizations (MPOs) serve urbanized areas with populations greater than 50,000. Initially mandated by federal legislation in the 1970s, the MPO role has expanded from a sole purpose – programmatic position of coordinating transportation plans in jurisdictions – to engaging in a more coordinated and comprehensive transportation planning process. One of the primary responsibilities of MPOs is to identify priority projects for federal funding.

Organization of the Report

The report begins with key findings of the research, followed by charts illustrating CDC strategies for preserving affordable housing near transit and tools and resources needed to execute these strategies.

In the following chapters, we present case studies from Atlanta, Denver, Seattle and Washington, D.C. For each city, we present an overview of the current opportunities for preserving affordable rental housing near transit, followed by the case studies.

Key Findings

1. Affordable housing developers are turning to new sources of permanent capital subsidy, such as the Neighborhood Stabilization Program (NSP), Weatherization Assistance Program and local housing levies for funding.

As a result of the economic downturn, affordable housing developers have access to limited financing and dwindling subsidy resources. The decline of the Low-Income Housing Tax Credit market and cuts to city and state housing programs have left significantly fewer resources to refinance and improve existing affordable properties. Affordable housing developers are responding by turning to new sources of funds.

- In Denver, the city is focusing federal Neighborhood Stabilization Program 2 (NSP-2) funds in current and future transit corridors.
- In Seattle, the city funded energy efficiency improvements at Meridian Manor through its HomeWise Weatherization Program.

There are few new resources specifically targeted for preserving housing near transit. Where financing and subsidy resources are not available, affordable housing developers miss opportunities to acquire properties at favorable prices or complete minimal property upgrades. Comprehensive upgrades to address the long-term capital needs of the property are postponed until adequate rehabilitation funding is available.

2. **CDCs and tenant organizations are tapping local zoning incentives and participating in pooled financing to access capital subsidies and low-cost funds.** Projects in Seattle and Washington, D.C., exemplify this trend. Transit expansion can increase the value of transferable development rights held by existing owners. Pooled financing can enable small tenant cooperatives to access tax-exempt bond financing cost-effectively.
 - In Seattle, the Brewster Apartments acquired rehabilitation resources by selling unused zoning authority under the city’s Transferable Development Rights program, an innovative incentive zoning program.
 - In Washington, D.C., the city has sought to save money by pooling and financing properties together using tax-exempt bonds and 4 percent tax credits. This structure reduces transaction costs and leverages more equity per property, which reduces the amount of state/local gap funding needed.
3. **Affordable housing developers seek flexible acquisition financing with repayment terms that allow them to hold at-risk properties near transit until refinancing or redevelopment is feasible.** Flexible financing enables CDCs to compete with for-profit, market-rate developers with ready access to capital. This is especially necessary in high-cost markets, such as transit-rich neighborhoods, where owners can opt out of federal assistance programs or convert non-subsidized affordable properties to higher-priced housing to capitalize on the higher demand and market value of transit access.

While acquisition funds to support affordable housing have been created in cities such as New York and Los Angeles, they typically offer a two- to three-year loan term designed to finance acquisition and development costs until permanent financing is secured. Since transit investments take longer to complete, projects capitalizing on these new investments have significantly longer hold times prior to closing on permanent financing. Preservation entities need access to new loan products and patient capital with repayment terms matched to transit-related project timelines. Terms of five to 10 years enable them to wait for favorable market conditions following transit expansion completion and assemble financing.

- In Denver, the Transit-Oriented Development Fund provides below-market interest rate loans for terms up to five years. This innovative financing is significant, although limited in scope.
4. **Affordable housing developers see unsubsidized rental housing in transit corridors as a prime opportunity to secure long-term affordable housing near transit.** A significant amount of housing near transit is unsubsidized housing that is affordable because of its location, age and/or condition. A number of affordable housing developers are using creative approaches to secure this housing before market speculation from transit investment results in the loss of affordable housing opportunities.
 - In Seattle, Mount Baker Housing Association is completing acquisition and rehabilitation projects without public subsidy, while maintaining rents affordable to families at 60 percent of median income.
 5. **CDCs and community organizations are beginning to join larger conversations around coordinated regional planning and collaboration with housing, transit and planning agencies.** Although none of the properties examined in this report benefited from direct financial assistance from a transit agency, the cases show that coordination between transit and housing agencies and regional planning organizations can increase the production and preservation of affordable housing. Federal support from programs such as the U.S. Department of Housing and Urban Development (HUD) Sustainable Communities Initiative also support the preservation of affordable housing near transit by catalyzing improved coordinated planning.
 - In the San Francisco Bay Area, the Great Communities Collaborative, a group of local and regional advocacy organizations working with community foundations, aligned with Congregations Organizing

for Renewal (COR) to influence the transit-oriented development planning process in the inner-ring suburb of San Leandro.

- In Washington state, the Washington Low Income Housing Alliance (WLIHA), Futurewise and Transportation Choices Coalition joined forces in 2009. One of the coalition's goals was to ensure that low-income families were not displaced from their communities as development took place around Seattle's new transit stations.

Great Communities Collaborative

The Great Communities Collaborative and Congregations Organizing for Renewal (COR) jointly advocated for preservation and production of affordable housing in the downtown station area of San Leandro, Calif. As a result of their collective efforts, San Francisco's Metropolitan Transportation Commission adopted a plan that far exceeded its typical housing and density targets. The final plan also included goals focused on local hiring and green building. The city of San Leandro has since received more than \$26 million in grant funds through California's Proposition B resources to support the implementation of the Downtown Transit-Oriented Development plan. Bridge Housing has signed on to develop the first project.

The chart on the next page, "CDC Strategies for Preserving Affordable Housing Near Transit," summarizes the range of strategies identified, and points to related cases in this report.

The table on pages 10 and 11, "Resources and Tools for Aligning Housing Preservation and Transit-Oriented Development," highlights tools and examples.

CDC Strategies for Preserving Affordable Housing Near Transit

Strategies	Applications	Examples from Case Studies
Acquire land/buildings close to planned transit prior to price appreciation	<ul style="list-style-type: none"> Secure affordable housing assets while financing is assembled to ensure long-term affordability Safeguard property prior to transit-related increase in value (land-banking) 	<ul style="list-style-type: none"> Mercantile Square (Denver) Maltese Cross Manor (Denver) Jody Apartments (Denver) Southeast Corridor (Seattle)
Target at-risk, affordable properties near planned transit for preservation	<ul style="list-style-type: none"> Recapitalize properties in physical/financial distress Acquire properties with expiring use restrictions (older HUD-assisted and HUD-insured and newer LIHTC properties) Design exit strategies for long-term owners seeking to divest subsidized housing portfolios Develop data systems to identify and track subsidized and unsubsidized preservation targets 	<ul style="list-style-type: none"> Brewster Apartments (Seattle) Imperial Hotel (Atlanta) Hubbard Place (D.C.) Meridian Manor (Seattle) Southeast Corridor (Seattle)
Target physically distressed properties in appreciating neighborhoods	<ul style="list-style-type: none"> Redevelop troubled properties, combining substantial rehabilitation and off-site new construction where possible 	<ul style="list-style-type: none"> Wheat Street Tower and Gardens (Atlanta)
Seek opportunities for internal cross-subsidy from market-rate to affordable units	<ul style="list-style-type: none"> Allow market-rate rents in mixed-income properties to subsidize operations and services 	<ul style="list-style-type: none"> Oglethorpe Place Apartments (Atlanta)
Tap zoning incentives to lower capital cost of affordable units near transit	<ul style="list-style-type: none"> Utilize incentives such as increased density, reduced parking requirements and other offsets to reduce subsidy required to produce affordable units (when adding units in preservation/redevelopment plan) 	<ul style="list-style-type: none"> Brewster Apartments (Seattle)
Leverage Tenant Notification Laws, Right of First Refusal and Right to Purchase	<ul style="list-style-type: none"> Utilize notification period to organize tenants, identify development capacity, and arrange acquisition and permanent financing for preservation purchaser Acquire properties at risk of market conversion in gentrifying neighborhoods 	<ul style="list-style-type: none"> Marian Russell Coop. (D.C.) Martin Luther King, Jr. Latino Coop. (D.C.)
Pool smaller properties to access financing	<ul style="list-style-type: none"> Access tax-exempt bond financing, including 4 percent LIHTC, for low-cost debt and LIHTC equity 	<ul style="list-style-type: none"> Marian Russell Coop (D.C.)
Pursue new funding sources for rehabilitation needs	<ul style="list-style-type: none"> Tap available Neighborhood Stabilization Program and Weatherization Assistance Program funds 	<ul style="list-style-type: none"> Meridian Manor (Seattle)

Resources and Tools for Aligning Housing Preservation and Transit-Oriented Development

Resources	Purpose	Examples
Acquisition Funds	Provide financing to purchase land and buildings for preservation, redevelopment or affordable housing construction	<ul style="list-style-type: none"> ▪ Denver: The city, Enterprise and the Urban Land Conservancy established the Denver TOD Fund, a \$15 million revolving fund to acquire sites in anticipation of new transit stations. It is expected to create or preserve 1,000 affordable housing units, leverage \$100 million in local economic development and create construction and permanent jobs. ▪ Washington, D.C.: The Site Acquisition Funding Initiative (SAFI) and other bridge lending resources from Enterprise, the Local Initiatives Support Corporation (LISC) and the OpenDoor Housing Fund provide resources for affordable housing production, preservation and rehabilitation.
Housing Trust Funds	Collect and allocate one-time and ongoing dedicated revenue streams for affordable housing	<ul style="list-style-type: none"> ▪ Seattle: A housing levy passed by voter referendum will replenish the Housing Trust Fund with \$145 million. ▪ Washington, D.C.: The Housing Production Trust Fund receives 15 percent of deed recordation and transfer tax revenues. It is now suffering sharp reductions due to slowing transaction volume.
Tax Increment Financing	Dedicate a share of increased tax revenues from defined improvement areas to repay upfront costs of investments in infrastructure, transit and development	<ul style="list-style-type: none"> ▪ Atlanta: The Beltline Affordable Housing Trust Fund provides grants for the preservation and development of affordable housing. It receives 15 percent of revenues from the Beltline Tax Allocation Districts, using tax increment financing.
Neighborhood Stabilization Program (NSP)	Use HUD funding to support efforts to acquire and redevelop foreclosed and abandoned properties	<ul style="list-style-type: none"> ▪ Denver: The city received \$19 million in NSP-2 funding dedicated to multifamily housing preservation in transit corridors.
Low-Income Housing Tax Credits (LIHTC)	Favor transit-accessible projects in allocating resources <ul style="list-style-type: none"> ▪ Scoring preferences or set-asides in allocating Low-Income Housing Tax Credits, and similar state-level tax credits ▪ “Basis boost” flexibility under the Housing and Economic Recovery Act of 2008 (HERA) 	<ul style="list-style-type: none"> ▪ 46 states provide incentives for preservation in their competitive LIHTC programs and 21 states set aside allocations for preservation properties. An additional 25 states award points in their scoring criteria for preservation. ▪ 32 states award points for projects near transportation and services.

Tools	Purpose	Examples
Tenant Right of First Refusal	Provide tenants with notice of sale and opportunity to arrange preservation purchase	<ul style="list-style-type: none"> ▪ Washington, D.C.: The Tenant Opportunity to Purchase Act requires that an owner provide the tenants with an opportunity to purchase the property at the same price as a third-party buyer.
Land Banking Authority	Create local government capacity to acquire and hold land and buildings for future development	<ul style="list-style-type: none"> ▪ Atlanta: The Fulton County/City of Atlanta Land Banking Authority can hold and manage land and buildings for nonprofits and government agencies for 3-5 years, clear delinquent taxes and hold properties tax-free.
Early Warning Systems	Enable strategic preservation activity by organizing and sharing property information	<ul style="list-style-type: none"> ▪ Denver: The city is creating an early-warning tracking system that combines mandated notices of owner intent to “opt out” of subsidy contracts, inventories of subsidized housing developments and unsubsidized multifamily properties with transit access.
Inclusionary Zoning (Density Bonus, Parking Relief)	Create incentives for production or preservation of affordable units by allowing developers to increase the square footage or number of units allowed on a piece of property, in exchange for providing on- and off-site units affordable to low- or moderate-income families	<ul style="list-style-type: none"> ▪ Seattle: The Transferable Development Rights program allows commercial real estate developers to purchase unused density from affordable housing owners in exchange for the right to construct buildings that exceed the allowable density under neighborhood zoning rules. ▪ Washington, D.C.: The city’s inclusionary zoning law requires that affordable units be included in new projects of 10 or more units and rehabilitation projects that are expanding an existing building by 50 percent and adding 10 or more units.
Joint Agency Planning	Encourage joint land use and transit planning, at a regional level, to enhance transit ridership and guide equitable development	<ul style="list-style-type: none"> ▪ Atlanta: MARTA guidelines call for creating mixed-income, elderly and workforce housing around metro stations. The Beltline project combines transit, economic development and a housing trust fund to create affordable units along the new line. ▪ Denver: The city’s Regional Transit District is adopting a policy requiring consideration of land for affordable housing use before selling or engaging in a joint development agreement (in process). ▪ Washington, D.C.: The Council of Governments’ “Greater Washington 2050” calls for affordable housing efforts in dense areas of transit-connected economic activity, known as Regional Activity Centers.

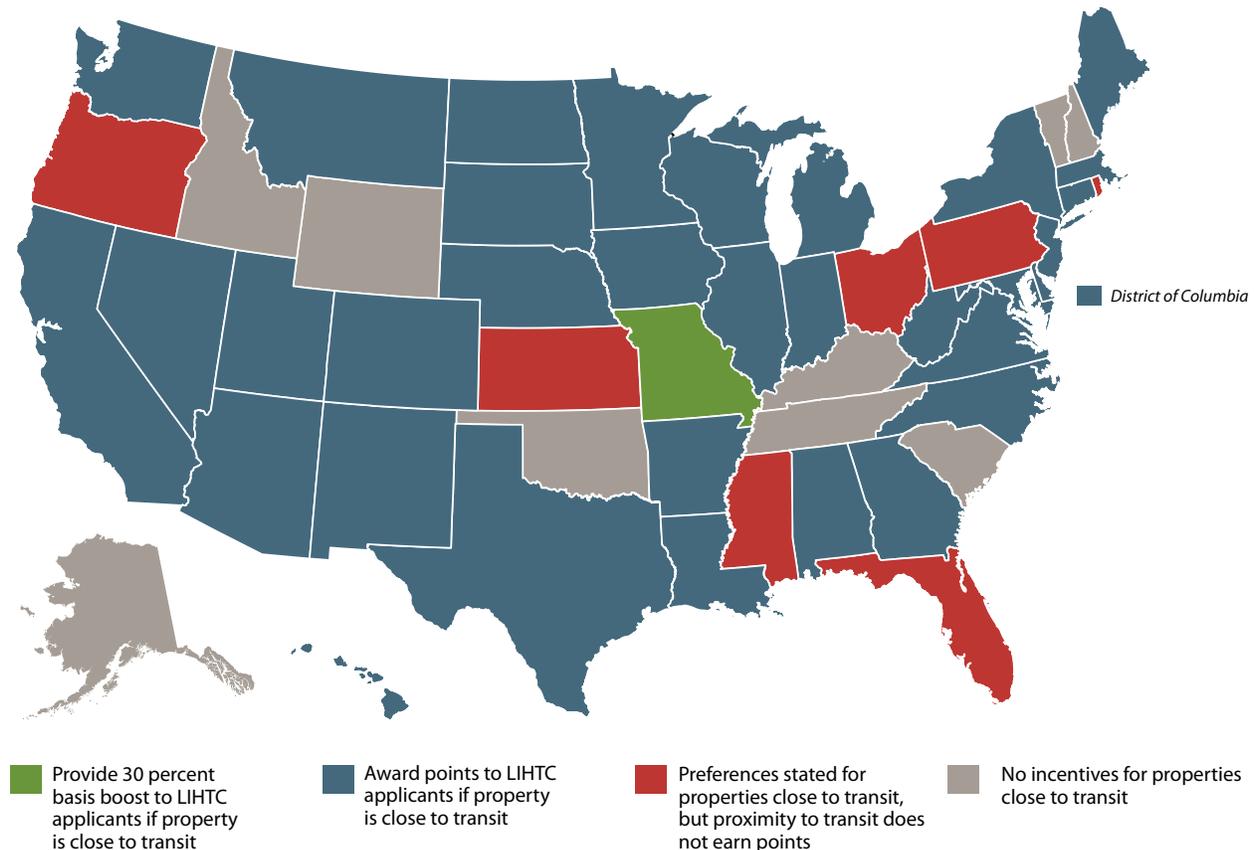
Low-Income Housing Tax Credits: A Crucial Resource for Affordable Housing Preservation

The Low-Income Housing Tax Credit (LIHTC) program provides tax credits that developers can use to raise capital for the acquisition, construction or rehabilitation of affordable housing. Prior to the recession, more than 100,000 affordable apartments were created or rehabilitated through the program each year. Despite the economic downturn that resulted in lowered demand for tax credits in many areas of the country, the LIHTC remains the single largest source of funds for the preservation of existing affordable housing nationwide with more than \$700 million in competitive 9 percent tax credits estimated for 2010.

LIHTCs are allocated and administered by state housing agencies. The demand for credits in most states far exceeds the available supply. State agencies designate priorities when awarding tax credits among competing applicants. A state agency's commitment to prioritizing the use of LIHTCs for preservation or locating housing near transit can have a significant impact on the amount of resources available for preserving transit-oriented affordable housing.

Currently, 21 states include set-asides for preservation in allocating their allotment of federal housing tax credits. In addition, 32 states and Washington, D.C., award points to projects near transit when scoring LIHTC applications. In Missouri, properties that are part of a transit-oriented plan can benefit from a 30 percent "basis boost" in LIHTCs, thereby improving project viability. Missouri is the only state to use the basis-boost authority for properties near transit.

Proximity to Transit Preference in the LIHTC Program



Atlanta

Opportunities:

- MARTA guidelines call for creating mixed-income, senior and workforce housing around metro stations.
- The \$75 million Housing Opportunity Bond program provides land acquisition, bridge financing and second mortgage gap loans for affordable housing, favoring projects adjacent to mass transit.
- The Beltline Affordable Housing Trust Fund currently has \$8.8 million available to developers for housing production and preservation.
- The Georgia Department of Community Affairs has set aside \$1.8 million in tax credits for affordable housing preservation and prioritizes properties near rapid transit service.
- The Fulton County/City of Atlanta Land Banking Authority can acquire and hold properties for three to five years as part of community redevelopment efforts.

Despite its reputation for congested roads and sprawling land use patterns, in recent years Atlanta has made considerable progress in targeting housing finance resources towards preserving and developing affordable housing near transit. In 2009, the Metropolitan Atlanta Rapid Transit Authority (MARTA) produced guidelines for transit-oriented development that encourage mixed-income, senior and workforce housing around metro stations while recommending that local jurisdictions offer density bonuses for projects that provide new or rehabilitated affordable housing.

The overall network, consisting of MARTA and four other complementary transit systems (CCT, GCT, C-TRAN and Xpress), is useful primarily for reaching the city's core. The network does not provide adequate service connecting other destination pairs within the metro-Atlanta region. Recognizing this shortcoming, Atlanta's Department of Planning and Community Development recommended 95 additional miles of rail transit, high-frequency bus service, a Beltline project forming a ring of transit and development around the city's downtown, and streetcar service to be developed over the next 25 years.

Such an expansion of transit would increase potential opportunities for providing affordable housing near transit. Atlanta's Affordable Workforce Housing Implementation Task Force prioritizes housing near jobs and transit.

Fulton County, which includes the city of Atlanta, passed a voluntary inclusionary zoning law in 2006. The city of Atlanta itself came close but failed to pass a similar bill in 2006. That effort failed when one of the neighborhood-scale government structures dismissed the proposal out of opposition to increasing residential density. Other counties comprising the metro-Atlanta area have not followed Fulton County's lead in passing zoning incentives for affordable housing. The Atlanta Affordable Workforce Density Bonus, however, provides a 20 percent bonus above current zoning for properties with more than 10 units, as long as they include affordable housing.

Atlanta's Beltline Project

In Atlanta, community advocates and the city council pushed for the establishment of an affordable housing trust fund to ensure that affordable homes exist around the new Beltline, a redevelopment project with 22 miles of transit, trails and parks around downtown, in Atlanta's core neighborhoods. The primary financing mechanism for the redevelopment project is a Tax Allocation District (TAD). Fifteen percent of TAD proceeds will be reserved for the trust fund.

Despite these setbacks in establishing an extensive transportation network and encouraging the production of affordable housing, progress continues to be made in targeting housing finance resources towards transit-oriented developments. In recent years, Atlanta created a \$75 million Housing Opportunity Bond program to provide land acquisition, bridge financing and second mortgage gap loans for affordable housing, favoring projects adjacent to mass transit. In addition, the Beltline Affordable Housing Trust Fund provides grants to developers to construct or rehabilitate multifamily housing along the Atlanta Beltline. In addition, the Fulton County/City of Atlanta Land Banking Authority can acquire and hold properties for three to five years as part of community redevelopment efforts.

While Atlanta has been largely successful in the planning, visioning and pre-development side of locating affordable housing near transit, there has been significantly less follow-through on the implementation and action side. MARTA stations remain underutilized assets in terms of attracting development of any kind, and the recession and the housing slump have affected all development in the city, including transit-connected affordable housing. Atlanta has the transit system, vision and planning studies in place to move forward with transit-connected affordable housing, but is still in need of a comprehensive effort to implement it.

At the state level, the Georgia Department of Community Affairs' (DCA) 2010 plan for awarding LIHTCs reflects the importance of providing affordable housing near transit. It provides one point for projects within one mile of many services and transportation, and three points for projects within one-half mile of a rapid transit system. In addition, Georgia's commitment to preservation through its LIHTC program has been increasing in recent years. The Georgia DCA currently reserves \$1.8 million in tax credits for preservation. This commitment has resulted in an allocation of competitive 9 percent tax credits to preserve more than 2,200 affordable homes since 2006. Thousands of additional affordable apartments have been preserved with 4 percent tax credits.

However, barriers to meeting affordable housing preservation financing needs remain. An analysis for an Atlanta housing opportunity fund proposed in 2006 determined that there were barriers to using these sources in Georgia. First, the real estate transfer tax is not set locally; it is set at the state level and there has historically been strong opposition from realtor interest groups in raising this tax. An effort to raise this tax in the 1990s was defeated. More recent efforts to allow localities to set this tax rate have not made much progress either. In addition, Georgia has no state-level affordable housing trust fund to be drawn from as a resource. State trust funds with dedicated sources of revenue have been successful and critical preservation tools around the country and there is currently no state funding for affordable housing in Georgia, other than the pass-through of federal funds.

Wheat Street Towers and Gardens:

Redevelopment Taps Appreciated Value to Preserve and Expand Affordable Stock

Located in the heart of the Sweet Auburn – Martin Luther King, Jr. Historic Site and Preservation District, the Wheat Street Baptist Church pioneered socioeconomic development in Atlanta's inner-city through the development of commercial and residential real estate, including Wheat Street Towers and Wheat Street Gardens. Built in 1973, Wheat Street Towers has served seniors and people with disabilities for over 35 years through the assistance of HUD's Section 236 subsidies.

The Wheat Street Charitable Foundation, a nonprofit development organization under the umbrella of Wheat Street Baptist Church, owns the project. While its original HUD mortgage is nearly paid off, Wheat Street plans to refinance the property with an FHA-insured 221(d)(4) loan to secure funds for much-needed rehabilitation. Adjacent to the Towers, Wheat Street will construct an annex building containing retail space and 16

new apartments. Refinancing the Towers will enable Wheat Street to access equity built up in the property over time. Wheat Street will finance the Towers and the annex together, redeploying stored value in the Towers to renovate the property and help construct the annex.

The Towers are located only one-half mile from the King Memorial MARTA stop, serving both the blue and green lines, and within walking distance of multiple bus routes. A block from Wheat Street Towers is the site of the former Wheat Street Gardens apartment complex. The project, which once contained 230 HUD-assisted units, was demolished in 2009 after becoming severely distressed and plagued by crime, fire damage and squatters.



Architectural rendering of Wheat Street Towers and Gardens

The Wheat Street Charitable Foundation has plans underway to develop approximately 500 units of mixed-income housing on the 11.5-acre site, including rental apartments, townhomes and single-family detached homes. Within walking distance to an existing MARTA station, the site is also directly along a future streetcar route and near employment centers at Georgia State University and the Grady Campus (which includes Grady Memorial Hospital and Emory University's clinical training center and faculty office building). With new transit investment on its way, the vacant site is now a highly desirable development site.

The new development will serve seniors and families, with a mix of households with incomes ranging from 30 to 100 percent of the area median income. The completed development will both provide much needed deeply affordable housing and help to restore the fabric of the historic district. Good public transportation service will ensure resident access to the services and opportunities of downtown Atlanta. At the same time, its prime location will attract market-rate renters and homebuyers. The market-rate components of the plan will subsidize capital and operating costs of the project, reducing public subsidies needed to maintain affordability for the low-income units.

Imperial Hotel:

Recapitalization Saves Troubled Property in Downtown Atlanta

In 1990, homeless individuals and housing advocates took over the abandoned 86-year old Imperial Hotel, demanding that the city provide housing for its homeless population. Six years later, Progressive Redevelopment, Inc., purchased the abandoned, vacant and dilapidated building for \$1 million. Despite opposition from nearby businesses, the for-profit developer set out to redevelop the property as affordable housing. Imperial Hotel was rehabilitated using HOME funds, LIHTC, historic tax credits and a loan from the Federal Home Loan Bank. The development also received HUD project-based Section 8 assistance for 73 units. The award-winning property now offers 120 affordable studio and one-bedroom apartments, resident services and an exercise room.⁵

5. "Imperial Hotel is judged best rehabilitation project." *Atlanta Business Chronicle*. (March 7, 1997).

Fifteen years later, the property is now at the end of its initial LIHTC compliance period. Its Section 8 contract is set to expire in 2011. Conveniently located on Peachtree Street only 2 blocks from two MARTA stations, and surrounded by offices, retail and hotels, the property now has conversion value of \$20 million as a boutique hotel.

Rather than convert the property to market-rate uses, Progressive Redevelopment, Inc. planned to refinance its mortgage in order to access equity built up over time. The transaction would have financed necessary building repairs that would extend the useful life of the property by 20 years.

Unfortunately, Atlanta was hit hard by the recent economic downturn. Market rents have fallen, forcing Imperial Hotel to reduce its rents by 15 percent in order to maintain occupancy. At the same time, its operating costs have increased sharply as a result of water and sewer charge increases driven by court-mandated infrastructure improvements. Facing diminished cash flow, Progressive Redevelopment, Inc. has sought temporary debt relief. The organization hopes to refinance the property to achieve a debt level sustainable over the long term.

Oglethorpe Place Apartments:

Mixed-Income Structure Subsidizes Low-Income Units

Centrally located in the historic West End district of southwest Atlanta, Oglethorpe Place Apartments is a 144-unit gated property located only blocks from the West End MARTA station and well-served by bus routes. A for-profit developer financed the project with LIHTC, reserving 20 percent of its units for families earning less than 50 percent of median income. The remaining 80 percent of the units are unrestricted. A restrictive covenant that runs with the land protects the project's affordability through 2027.

Located in a stable, working class neighborhood, the project's tax credit rents are 25 percent below market. The complex attracts a mix of tenants, including students, single adults, families and seniors. Current residents include 39 voucher holders, many of whom were displaced by demolition of existing public housing. Oglethorpe Place stands across the street from a market-rate apartment complex, and around the corner from the neighborhood's first condo development and new retail amenities.

Oglethorpe Place protects affordability through its mixed-income structure. As the neighborhood grows more attractive, the property can increase rental income from the unrestricted units in the development. This growing rental income stream supports good property management, maintenance, repairs and upgrades to preserve the property over time, even as the affordable units remain protected from significant rent increases.

Denver

Opportunities:

- The \$15 million Denver Transit-Oriented Development Fund, a joint venture of the city, Enterprise and the Urban Land Conservancy, is expected to help create or preserve 1,000 units of housing near transit over the next decade. While currently focused on the city of Denver, the goal is to expand the reach of the fund to the entire metropolitan region.
- The city of Denver and its partners are targeting \$19 million in NSP-2 program funds for current and future transit corridors.
- The Denver Regional Transportation District Board is adopting an affordable housing policy to govern land disposition or joint development by the agency.

Metropolitan Denver, an area with high housing and transportation costs, is undergoing a major transit expansion.⁶ The region's extensive transit system and ambitious service expansion plans have created a number of opportunities to secure and expand affordable housing opportunities near transit.

In 2004, Denver voters committed to a sales tax increase to support FasTracks, an ambitious plan to create five new light rail lines for a total of 122 miles of light rail, 18 miles of bus rapid transit and up to 60 new transit stations serving all reaches of the metropolitan area. Although financial setbacks have occurred, one new light rail line, the West Corridor, is currently under construction and is expected to be completed in 2013. Construction is expected to begin shortly on a second rail line, the East Corridor, which will provide service from Denver's Union Station to the Denver International Airport.

There are significant opportunities to preserve affordable housing in the Denver region along existing and proposed transit lines. A recent analysis found that approximately 75 percent of the metropolitan area's privately owned, federally subsidized affordable housing stock is located within one-half mile of existing or proposed quality transit.⁷ Owners of properties with existing affordability restrictions have not opted out of their financing restrictions in recent years; this is likely due to economic conditions and may change in the coming years as the economy improves, and land and property speculation along new transit corridors increase. A recent analysis has found that developers in Denver pay an average of 25 percent more for rental properties within one-quarter mile of an existing or planned light-rail stop than properties far from transit.⁸ In addition, as the case studies in this report suggest, many existing affordable properties are at risk because they are in need of significant repairs.

Denver Early-Warning System

Denver's housing preservation ordinance requires owners of HUD-assisted properties to notify the city at least one year before opting out of their contracts. With MacArthur Foundation support, the city is developing an early-warning system that includes mandated opt-out notices and inventories of subsidized housing and unassisted housing with transit access.

⁶ According to a 2006 study by the Center for Housing Policy, working families in Denver earning between \$20,000 and \$50,000 per year spend 59 percent of gross income on housing and transportation costs combined. Lower-income families pay an even higher percentage of income for housing and transportation.

⁷ AARP. *Preserving Affordability and Access in Livable Communities: Subsidized Housing Opportunities Near Transit and the 50+ Population*. (September 2009).

⁸ "Apartment seekers willing to pay more to be near light rail." *The Denver Post*. (June 14, 2010).

While local governments and affordable housing developers have recognized the need to secure and expand affordable housing near transit, preservation is challenged by limited resources and competing priorities. Recently, the city of Denver invested \$2.5 million in a \$15 million transit-oriented development fund along with Enterprise, the Urban Land Conservancy and other partners.

Use of the acquisition fund, however, is complicated by the current lack of permanent financing available to affordable housing developers. The fund was scaled based on the availability of 9 percent tax credits. However, the downturn in the market has reduced the availability of tax-credit equity. In response, the NSP has become an important source of equity to leverage acquisitions. The city of Denver and its partners received \$19 million through the NSP-2 program and specifically targeted use of the funds in current and future transit corridors.

While other city and state housing programs include a high priority for transit-oriented development, there is less of an emphasis on affordable housing preservation. In allocating city housing resources, primarily HOME and Community Development Block Grants (CDBG), the city places a high priority on transit-oriented development opportunities, but presently does not have a specific priority for preservation. Only about one in five properties in the city's current and projected pipeline are preservation projects.

Likewise, the Colorado Housing Finance Agency (CHFA) has adapted its LIHTC allocation plan to award five points to projects near transit and 15 points for preservation projects when scoring tax-credit applications.

In 2010, CHFA provided a set-aside of up to \$1.25 million in annual credit for the first phase of redevelopment of South Lincoln Homes, a public housing project sponsored by the Denver Housing Authority. This project is located adjacent to the existing 10th and Osage light rail station, one station stop from the central business district. The entire redevelopment will replace the existing 270 units of public housing, while tripling density, increasing access to transit and adding a range of amenities that will contribute to healthy living. The first phase of development is set to start in September 2010 with the development of 100 units of green, service-enriched housing for seniors.

Maltese Cross Manor:

Affordable Homes for Seniors Protected Along Denver's Busiest Bus Line

The Denver Firefighters' Local Union 859 built Maltese Cross Manor in Denver's West Colfax neighborhood in 1966. Home to 150 moderate-income seniors, this HUD Section 202 project is conveniently located along Denver's busiest bus corridor and is just six blocks from the future West Corridor transit line (currently under construction). The regional transportation district operates special buses that run directly to the property for grocery shopping and senior-focused activities. Six blocks away, the Sheridan light rail station is expected to open in approximately two years.

Denver Transit-Oriented Development Fund

The city of Denver, Enterprise and the Urban Land Conservancy created an acquisition fund with investments from the three lead partners, as well as the John D. and Catherine T. MacArthur Foundation, Colorado Housing and Finance Authority, Rose Community Foundation, and local banks and CDFIs. Opened in 2010, the revolving fund aims to support the creation or preservation of more than 1,000 affordable housing units with current or future access to high-frequency public transportation. The fund anticipates that its \$30 million in capital investments to purchase and hold sites will leverage \$100 million in local economic development, creating construction and permanent jobs.



Denver's Mercantile Square has 100 units above the Tattered Cover Book Store.

condition with replacements and upgrades adequately funded as needed, its physical needs are increasing with age. The owners will utilize project reserves and look for other means to continue to maintain the property in good physical condition as affordable workforce housing.

In a surging neighborhood like LoDo, where current land prices make new affordable housing construction infeasible, investing to extend the life of existing housing like Mercantile Square remains the most cost-effective means to provide housing that serves the area's low- and moderate-income workers.



Figure 2: Denver's Lower Downtown (LoDo) neighborhood and location of Mercantile Square

Jody Apartments:

Strategic Acquisition Locks in Affordability in Future Transit Corridor

Jody Apartments contains 62 units in four buildings located on the West Corridor light rail line. It is adjacent to the site of the new Sheridan rail station scheduled to open in 2013.

The New West Side Economic Development (NEWSED) Community Development Corporation is active in the area. NEWSED has focused on preserving affordable housing near transit by acquiring property in advance of market speculation.

NEWSED purchased the property in late 2007 with the help of The Urban Land Conservancy, a nonprofit supporting organization of the Denver Foundation. Given its proximity to the transit station and the lack of any affordability restrictions on the property, NEWSED and the Urban Land Conservancy feared that Jody Apartments would eventually be sold for market-rate redevelopment. To protect its long-term affordability, the Conservancy purchased the land and is leasing it back to NEWSED.

NEWSED sought to assemble the financing necessary to preserve Jody Apartments. Immediate redevelopment was infeasible based on market realities and feedback from CHFA, based on an initial application for LIHTC. Instead NEWSED has chosen to hold the property until redevelopment at high density is possible.

Creative financing eventually allowed NEWSED to assemble \$3 million to complete the acquisition. The acquisition package included a first mortgage of \$1.5 million from Enterprise, a \$750,000 land lease from the Urban Land Conservancy and \$750,000 from city and state HOME funds. Enterprise provided flexible terms on the first mortgage, allowing a seven-year loan term with partially deferred interest payments. In addition, the HOME allocation included a special five-year use restriction that permitted NEWSED to redevelop the property beginning in 2012.

NEWSED continues to operate the property with rents primarily at 40 percent of area median income and has made rehabilitation investments to address life and safety issues. NEWSED and the Urban Land Conservancy expect to eventually redevelop the property into a higher density, mixed-use development with mixed-income housing.

Jody Apartments underscores the need for creative acquisition financing for affordable housing developers working in markets with active real estate speculation. To acquire and hold properties for future redevelopment, CDCs need access to patient capital and flexible underwriting. Early access to acquisition capital is essential if developers are to secure control of key properties. Since the Jody Apartments acquisition, the city of Denver, Enterprise and the Urban Land Conservancy have jointly created the Denver Transit-Oriented Development Fund to fill this need.



Figure 3: Location of Jody Apartments and future Sheridan Light Rail Station



Jody Apartments

Seattle

Opportunities:

- The city benefits from sophisticated housing leadership and nonprofit housing partners, and significant collaboration between the housing, Smart Growth and environmental communities.
- Housing levy will raise \$145 million to produce and preserve affordable housing over seven years. Housing near transit is a priority.
- The Rainier Valley Community Development Fund provides real estate financing on the southeast light-rail corridor.
- Incentive zoning programs can support preservation near transit.
- Washington Works program provides low-interest loans to nonprofit affordable housing developers for both new construction and acquisition and rehabilitation. Selection criteria for project funding include transit-oriented development.

Seattle has an expanding rail-transit system with commuter and light-rail infrastructure. In addition, the city has a significant bus system with one of the largest bus fleets in the nation; streetcars; and the nation's largest ferry system.⁹ Within the next 10 to 13 years, Seattle has plans to significantly increase transit reach. Sound Transit, Seattle's regional transit agency, recently opened a new light-rail line in southeast Seattle and is expected to add an additional 36 miles of light rail throughout the tri-county Puget Sound region, as well as new rapid bus and commuter rail service by 2013 (see Sound Transit's website www.soundtransit.org). Given an expected 30 percent population increase by 2030 in the Seattle region, these transit investments are seen as an essential strategy for keeping the region moving, reducing traffic congestion and cutting carbon emissions.

High density, transit-oriented development is seen by many Seattle leaders as an important strategy for maximizing the economic benefits of transit investments, but the challenge is ensuring that neighborhood redevelopment does not result in the displacement of low- and moderate-income families. This tension is perhaps most apparent in historically low-income, minority neighborhoods in southeast Seattle, such as Columbia City, Othello and Rainier Beach. These neighborhoods are experiencing varying levels of reinvestment and gentrification due to the recent opening of the southeast light-rail transit line.

A significant affordable housing preservation challenge facing city leaders, community advocates and affordable housing developers is the impending expiration of federal housing subsidies near transit. Of approximately 6,100 privately owned apartments with federal rental subsidies within close proximity to transit in the region, 94 percent have federal housing contracts expiring over the next five years.¹⁰ As contracts expire, owners have the option of opting out of the federal housing program to convert the properties to market-rate. Although a number of these properties are owned by mission-oriented, affordable housing providers who have no intention of opting out of the federal housing contract, others are at risk, as profit-driven owners contemplate exiting the government program and converting the properties to higher-priced rentals.

9 Roman, A. "Top 100 Transit Bus Fleets." *Metro Magazine*, 105 (8): p. 22. (September/October 2009).

10 AARP. *Preserving Affordability and Access in Livable Communities: Subsidized Housing Opportunities Near Transit and the 50+ Population*. (September 2009).

Currently, local stakeholders are not seeing significant property price appreciation along new transit corridors, as the economic downturn has hampered new development. Local leaders see this as an opportunity to preserve affordability before speculation increases.

Seattle has sophisticated city leadership and nonprofit housing partners with a long track record of monitoring the federally subsidized housing stock and preserving at-risk housing. Since the late 1990s, city housing leaders have aggressively worked to ensure that at-risk properties are transferred to affordable housing organizations committed to maintaining the properties as affordable.

The city's efforts to preserve and expand affordable housing opportunities were bolstered in November 2009 when two out of every three Seattle voters approved renewing an affordable housing levy. The levy will raise \$145 million to preserve and build affordable housing over a seven-year period. In supporting the levy, voters agreed to pay approximately \$65 more a year in taxes to invest in affordable housing.¹¹ The levy is expected to result in the preservation of nearly 1,700 affordable rental homes for Seattle's most vulnerable populations. The two priorities of the levy are to end homelessness and support the creation of affordable transit-oriented communities. This includes preserving affordable housing with expiring rental subsidies. Beyond the levy, the city is committed to preservation through the prioritization of its housing resources for the acquisition and rehabilitation of use-restricted properties, even allowing for the emergency release of available funds when acquisitions are necessary.

In addition, prior to the opening of the southeast light-rail line, the city established the Rainier Valley Community Development Fund to provide small business and real estate financing in the southeast light rail corridor. The fund was capitalized with \$50 million in CDBG funds provided by the city. Uses have primarily focused on predevelopment, although resources can be used for acquisition and construction. To date the fund has assisted 246 affordable units.

While these local housing resources are critical, most affordable housing preservation deals are assembled using LIHTC and Washington State Housing Trust Fund dollars as their core building blocks. While Washington does not have an explicit preservation set-aside in their LIHTC program, the state has historically used both its competitive 9 percent tax credits as well as 4 percent tax credits to preserve at-risk properties. Additionally, the state awards points to properties located near public transit when making allocation decisions for both its state Housing Trust Fund and its LIHTC program. However, the decline in the LIHTC market and major cutbacks in funding for the Housing Trust Fund have led to significantly fewer available resources for acquiring and rehabilitating affordable housing.

Going forward, collaboration between the housing, Smart Growth and environmental communities may prove critical to long-term policies that support the preservation of affordable housing near transit. An effort to create mixed-use, mixed-income communities with access to transit led the Washington Low Income Housing Alliance (WLIHA), Futurewise and Transportation Choices Coalition to join forces in 2009. One of the coalition's goals was to ensure that low-income families were not displaced from their communities as transit-oriented development took place around Seattle's new transit stations.

The groups advanced a state legislative proposal (the Creating Transit-Oriented Communities bill) that would have balanced maximizing land-use potential near high-capacity transit stations with requiring cities to protect existing housing affordability and include affordable homes in new transit-area station development. While the bill did not pass, it solidified the working relationship between these communities at the state level and is likely to be examined in other iterations in the coming years. Futurewise and WLIHA continue to promote affordable housing in transit-oriented development as a top priority.

¹¹ Estimate based on median priced home in Seattle.

Meridian Manor:

City Leadership and Creative Financing Save At-Risk Senior Housing

Revitalizing Seattle's Northgate neighborhood has long been a priority for city leaders. Anchored by the Northgate Mall, this northern Seattle neighborhood provides easy access to civic, retail, office and medical facilities. In recent years, the neighborhood has benefited from significant public investment to improve the livability of the area, including the addition of a new community center and library, new parks and improved transit opportunities.



Figure 4: Location of Meridian Manor and future Northgate Light Rail Station

In 2008, voters approved the North Link light-rail transit expansion project to bring a light-rail station to the neighborhood. By 2030, approximately 15,200 daily riders are expected to board the light rail at Northgate Station. Travel time to and from downtown Seattle from the rail station is expected to take only 13 minutes (see Sound Transit's website www.soundtransit.org). Significant redevelopment around the rail station is already underway with Thornton Place, a six-acre, mixed-use development that includes entertainment, housing and shopping.

Meridian Manor Apartments, home more than 100 seniors with low incomes, is close by. The property is located on a major bus route and is less than one-quarter mile from a major transit center for regional bus service and the site of the future light-rail station. Built in 1970, Meridian Manor was owned by a private individual who planned to put the property on the market in 2011, upon the expiration of its project-based Section 8 contract. Market-rate conversion appeared likely, given the property's prime location in a revitalizing neighborhood with easy access to good bus service, future light-rail service and many amenities.



Meridian Manor

City housing leaders became aware of the potential loss of Meridian Manor and worked with Housing Resources Group (HRG), a local nonprofit, to preserve the property's affordability. The city provided critical bridge financing, enabling HRG to acquire the property while pursuing permanent financing.

HRG planned to refinance the property using tax-exempt bonds and 4 percent tax credits, which would have provided the resources

needed to upgrade all the units. The 40-year-old property needed significant repairs. The downturn in the economy, however, severely limited investor interest in projects with tax-exempt bonds and 4 percent tax credits. HRG instead restructured the financing package using 501(c)(3) tax-exempt bonds and resources from the state Housing Trust Fund and the Seattle Housing Levy. HUD's willingness to enter into a new 20-year Section 8 contract was critical to securing a lender.

Meridian Manor is currently undergoing \$1.4 million in capital improvements that include system replacements, common-area upgrades and elevator modernization. The restructured financing package provided significantly less capital to invest in rehabilitation. As a result, the property faces \$2 million in unmet needs for unit upgrades, covering items such as updated kitchen and bathroom flooring, cabinets and countertops. Fortunately, HRG was able to address some of these needs through a \$350,000 grant from Seattle's HomeWise Weatherization Program. This source will fund new ventilation fans, refrigerators and toilets in all resident units.

Like the owner of Meridian Manor, long-term owners of 30- and 40-year-old HUD-assisted housing may be interested in exiting the business of providing affordable housing. This housing can be secured for long-term affordable use if it can be transferred to mission-oriented nonprofits with the capacity to oversee needed rehabilitation and to maintain the properties. CDCs can encourage city housing staff to track at-risk housing and provide quick access to critical acquisition financing.

Brewster Apartments:

Zoning Incentives, Financial Management Intervention Reposition Affordable Housing on Streetcar Line

Brewster Apartments sits in the shadows of Amazon.com's huge corporate headquarters in Seattle's South

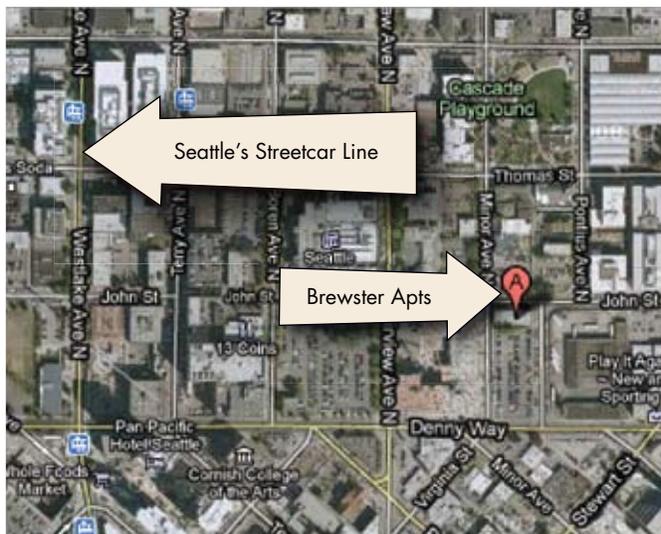


Figure 5: Location of Brewster Apartments and Seattle's streetcar line

Lake Union neighborhood. Located on the Seattle streetcar line, the property is home to 35 low- and moderate-income families. Capitol Hill Housing CDC preserved the project by tapping into resources created by Seattle's innovative Transferable Development Rights program.

Capitol Hill Housing CDC acquired Brewster Apartments in 1994. By 2008, the property lacked sufficient capital resources. The property had been acquired using city housing levy and state housing trust funds, which brought 50 years of affordability restrictions. Serving renters with incomes under 50 percent of median income, the property had limited rental income. A capital needs assessment showed that the property was not generating sufficient cash flow to cover the capital improvements needed in order to keep

the property operating in good physical condition.

Around the time that Capitol Hill Housing was developing a strategy to address Brewster Apartments' capital needs, the city of Seattle decided to expand its Transferable Development Rights program (TDR) to the South Lake Union neighborhood. The TDR program allows commercial real estate developers to purchase unused density from affordable housing owners in exchange for the right to construct buildings that exceed the allowable density under neighborhood zoning rules. Innovative programs like Seattle's TDR can be used to

help preserve affordable housing while increasing building density near transit.

The TDR program brought together Capitol Hill Housing and Vulcan Inc., a private commercial real estate developer. Vulcan was in the process of planning Amazon.com's new headquarters. The project sought to include three office buildings taller than the allowable heights for the neighborhood. Nearby Brewster Apartments had unused development rights under the neighborhood's maximum zoning allowances. Capitol Hill Housing reached out to Vulcan, negotiated a deal and agreed to sell its unused development rights for \$648,000.



Brewster Apartments

The transaction significantly improved the property's financial condition. Capitol Hill Housing used nearly \$200,000 to pay off the property's underlying debt, thereby lowering debt-service cost and increasing the property's cash flow. The remaining funds were used to improve the property's replacement reserve accounts. The property is now well capitalized and can continue to serve low- and moderate-income families for at least 50 years.

Seattle's Southeast Corridor:

Unsubsidized Housing Acquisitions in a Transit Corridor Protect Access to Prime Locations

Seattle's southeast corridor light-rail line opened in 2009, extending through a series of neighborhoods that are culturally and economically diverse. Recognizing the potential for displacement, the city established the Rainier Valley Community Development Fund, a CDFI, to mitigate any negative impacts of the rail line on low-income families and small businesses. The city provided \$50 million of CDBG funds for mitigation and economic development. Housing uses have primarily focused on predevelopment, although resources can be used for acquisition and construction. To date, 246 affordable units have been assisted by the fund. The Seattle Housing Authority (SHA) has also engaged in varying levels of investment in the corridor, ranging from two HOPE VI redevelopments to preservation transactions.

Local nonprofit affordable housing developers have focused on the area's unsubsidized housing stock as an opportunity to preserve affordable housing opportunities for local residents. While some land speculation has been reported as a result of the new light-rail line, widespread investment has not yet occurred in the area because of the economic downturn. Local nonprofits find they can acquire properties for \$50,000 to \$70,000 per unit, whereas prices are generally twice that much in other Seattle neighborhoods with transit access.

Mt. Baker Housing Association is a nonprofit focusing on preserving unsubsidized housing in the Southeast corridor. Mt. Baker's approach is to purchase, rehabilitate and reposition unassisted properties while maintaining rents affordable to families making no more than 40 to 60 percent of area median income.

Mt. Baker's 2009 acquisition and rehabilitation of the 26-unit Crestwood Place exemplifies its approach to low-cost preservation acquisition in the southeast transit corridor. Located in Rainier Beach, Crestwood's residents enjoy easy access to bus service that provides a direct route to the Henderson light-rail station. Mt. Baker took advantage of declining real estate values and a high vacancy rate to purchase the property for nearly \$1.7 million, some \$200,000 less than the property's previously traded cost in 2007. Given limited available public subsidies for affordable housing, Mt. Baker used its own equity plus seller financing to purchase the property.

Mt. Baker has since invested approximately \$30,000 per unit to significantly improve the condition of the property, which was built in 1979, and has increased the property's occupancy rate from 50 percent at the time of purchase to 100 percent today. Although unconstrained by public subsidy restrictions, Mt. Baker has self-imposed affordability restrictions; nearly all residents have incomes below 50 percent of the area median.

The greatest risk in Mt. Baker's acquisition strategy is the inability to complete robust rehabilitation on poorly constructed properties. In order to address this challenge, Mt. Baker staff undertook a review of approximately 350 buildings throughout the corridor, ranking them based on highest likelihood of success for acquisition and rehabilitation. The inventory targeted properties built in particular years and with particular construction types. Staff knowledgeable about specifics, including plumbing types, electrical and major systems, often pointed to the building's age to predict its construction type and building materials. This review allows Mt. Baker to carefully target properties that can be cost-effectively preserved for long-term affordable use.

Figure 6: The Seattle Southeast Transit Corridor



Washington, D.C.

Opportunities:

- The city has a diverse set of capable nonprofit and for-profit developers focused on preserving affordable housing.
- Housing Production Trust Fund supports preservation, but has experienced significant reductions in revenue.
- Site Acquisition Funding Initiative (SAFI) and other bridge lending resources from Enterprise, the Local Initiatives Support Corporation (LISC) and the OpenDoor Housing Fund support production and preservation of affordable housing.
- The Tenant Opportunity to Purchase Act requires that an owner seeking to sell their rental building provide the tenants with an opportunity to purchase the property.
- Small properties can access tax-exempt bond financing with 4 percent LIHTC through pooled transactions.
- Council of Governments' *Greater Washington 2050* report calls for affordable housing in transit-rich "Regional Activity Centers."

Washington, D.C., benefits from a robust transit system, incorporating both the Metro rail and an extensive bus system that serves the surrounding suburbs of Maryland and Virginia. The quality and availability of service create a number of opportunities for preserving and producing affordable housing near transit. Over the course of the next 10 years, however, the Metro system is projected to reach its capacity to transport riders, prompting the city to outline plans for streetcar service in select corridors of the city, simultaneously meeting growing transportation needs and enhancing the vitality of selected neighborhoods. While nearly 95 percent of housing in the city is within a five-minute walk of a bus stop (although not necessarily a high-frequency bus line) already, the current Streetcar Plan calls for a 37-mile, eight-line street car system (two of which are already under construction).¹² This planned expansion of transportation offers a unique opportunity to address the need for transit-accessible affordable housing from the reverse angle by helping expand transit to locations where affordable housing already exists, in addition to preserving housing where transit already exists.

To advance its affordable housing goals, the city introduced a mandatory inclusionary zoning law in August of 2009. The new law requires residential development, including development near transit, to include affordable units. Even before the inclusionary zoning law, the city required affordable housing on land it controlled around Metro stations. A noted example of this was Columbia Heights Metro station in Northwest D.C. Land disposition agreements required a minimum of 20 percent affordable housing on all seven subject parcels. Recognizing that the need for transit-accessible affordable housing extends beyond the limits of the city, the Metropolitan Washington Council of Governments' *Greater Washington 2050* report lays out a set of regional goals and strategies. This unifying document provides a road map to help guide local government efforts, calling for a focus on affordable housing efforts in Regional Activity Centers, which are dense areas of economic activity and usually include frequent bus and/or rail service. Strategies suggested by the report include density bonuses, fee waivers, inclusionary zoning and innovative financing programs. Building off the 2050 plan, the Metropolitan Washington Council of Governments seeks to create a regional plan that integrates housing, land use, economic and work force development, transportation and infrastructure as part of HUD's Sustainable Communities Regional Planning initiative.

¹² District Department of Transportation (DDOT) and Washington Metropolitan Area Transit Authority (WMATA). *DC's Transit Future System Plan*. (April 2010).

D.C. Site Acquisition Funding Initiative for Affordable Housing

In 2005, the D.C. Department of Housing and Community Development (DHCD) announced the Site Acquisition Funding Initiative for Affordable Housing (SAFI) as part of the Housing Production Trust Fund program. By leveraging DHCD funds with private funds, SAFI aims to provide quickly accessible, revolving loan funds for acquisition and predevelopment costs to nonprofit developers committed to the production, rehabilitation and preservation of affordable housing. The \$20 million in revolving public loan capital is leveraged and processed at four intermediary lenders that also provide technical assistance to nonprofit developers. SAFI loans can be used for multifamily affordable rental, special needs and for-sale housing.

As of July 2010, each of the region's 21 jurisdictions approved the 2050 plan and have partnered with the Council of Governments in an effort to secure HUD funding, highlighting the vital role of regional coordination in connecting transit and affordable housing.

As a complement to these regional efforts, localities have the opportunity to create "affordable housing districts" around transit. In these areas, owners or purchasers who agree to long-term affordability covenants can be granted special zoning exceptions to increase the value of the property and encourage additional development on the site.

While the city commits significant resources to preservation, market-rate developers actively seek high-value sites for market-rate conversion. In addition, there remain a number of unscrupulous owners suspected of intentionally allowing buildings to deteriorate as a means to cancel Section 8 contracts and use restrictions.

Until recently, the Housing Production Trust Fund (HPTF) provided significant resources to enable CDCs

and other preservation interests to gain control of at-risk properties. The HPTF, the main source of city financial support, was authorized in 1988 and finally funded in 2001 with \$25 million in proceeds from a land disposition. The HPTF's funding from recordation taxes, interest income, loan repayments and a \$30 million city appropriation peaked in 2008 at more than \$78 million in revenue. HPTF revenue fell by \$46.5 million in 2009, resulting in a 50 percent drop in total expenditures from 2008 to 2009.

With Washington, D.C.'s rental and condo markets already rebounding, the lack of HPTF funding undermines preservation activity at a critical juncture. It may be several years before CDCs and other preservation interests have access to the levels of HPTF and DCHD subsidy they need to compete with market-rate developers.

In this context, the city's Tenant Opportunity to Purchase Act (TOPA) remains a significant preservation tool. TOPA requires that an owner seeking to sell a building provide the tenants with an opportunity to purchase the property at the same price for which they have a contract with a third-party buyer. If more than 50 percent of the tenants join together, express an interest in buying the property and make a legitimate effort to obtain financing, they are granted approximately one year to acquire the property. The current lack of available public funding, however, limits the prospects for tenant purchases in the near future.

Martin Luther King, Jr. Latino Cooperative:

Tenants' Rights and Acquisition Funding Enables Residents to Preserve Their Homes and Avoid Displacement

The Martin Luther King, Jr. Cooperative is a seven-story historic building with 74 apartments near the Mt. Vernon Square/Convention Center Metro station. Tenants exercised their right to purchase the property under TOPA. Within walking distance of many downtown hotels and restaurants and only two blocks from the city's recently completed convention center, rents in the area were on the rise. Despite the poor condition of the building, a broken elevator, lax security and rising criminal activity, the owner continued to increase rents



The Martin Luther King, Jr. Latino Cooperative

until the residents were notified of his intent to sell the building to a for-profit purchaser known for condo conversions.

Fearing displacement, the tenants sought the help of a local nonprofit, Organizing Neighborhood Equity (ONE DC). ONE DC, in turn, brought the National Housing Trust/Enterprise Preservation Corporation (NHT/Enterprise) in to assist as a development consultant and with the help of their attorneys, the tenants formed the Martin Luther King, Jr. Latino Cooperative. The Cooperative obtained an \$8.4 million acquisition loan commitment from the city.

With their TOPA rights set to expire before the city could process and disburse the loan, the Cooperative obtained bridge loans from both Enterprise and the Local Initiatives Support Corporation (LISC) as advances against the acquisition loan. The Cooperative was able to purchase its property six days before the rights would have expired, and then replaced the bridge loans with the city's acquisition loan several months later. The following year, the tenants obtained a second loan from the city, for a total of \$14.9 million in financing to acquire and renovate this historic building. In the process, the team created a new community space; installed a new elevator; renovated kitchens, baths and floors; installed a new secure entry system and security cameras; provided accessible units and entry ramps; upgraded to a new HVAC system; and installed a new roof.

In this case, ready access to bridge financing enabled these tenants to exercise their TOPA rights and remain in their homes. Since this transaction was completed, the city has changed its approach to structuring and financing similar projects; it now pools tenant-sponsored cooperative projects to enable them to utilize tax-exempt bond financing with 4 percent tax credits. This structure increases equity investment, funding additional rehabilitation and lowering needed capital subsidy. By reducing DHCD's loan per project, the agency can assist a greater number of tenant groups to preserve affordable housing across the city.

Hubbard Place:

Refinancing Section 8 Property in Gentrifying Neighborhood Near Transit Transforms a Troubled Property

Hubbard Place is a 230-unit property constructed in the late 1920s and located in the gentrifying neighborhood of Columbia Heights. The building is on the National Register of Historic Places and is less than one-half mile from the Columbia Heights Metro station and within minutes of several high-frequency bus routes. The building is also only blocks away from a new shopping and entertainment complex. A centerpiece to the neighborhood's recent revitalization, the complex also includes a grocery store, high-end condos and several new restaurants.

Hubbard Place was preserved in the midst of the huge Columbia Heights transformation. Somerset Development, a for-profit affordable housing developer, worked with the tenants' association to purchase the property. Political and community leaders feared that the private, for-profit owner planned to convert the building to market-rate housing given the area's rapid gentrification.



Figure 7: Location of Hubbard Place and nearby transit

The acquisition and rehabilitation of the property was financed using tax-exempt bonds, LIHTCs, federal historic tax credits and financing from both the DHCD and the D.C. Housing Authority. Total development costs were \$52.5 million, with construction costs of \$76,000 per unit. The project also benefited from a Section 8 contract rent increase. HUD granted a discretionary mid-contract rent increase to support the project.

With the support of city officials, Hubbard Place has become a model for transforming a troubled Section 8 housing property into safe, new homes with supportive resident services. A full-time resident coordinator is on site and is responsible for overseeing a range of programs and services, including an after-school program, computer training, senior programs, health screening, job training and GED study. The renovation included new elevators; the creation of new community spaces and a computer lab; secure access; fire and safety code upgrades; new handicapped accessible units; new kitchens, baths, windows and roofs; and all new common areas.

Hubbard Place was at high risk of conversion due to its location in a gentrifying neighborhood. Creative financing, including a mid-contract Section 8 rent increase, saved the property.

The Marian Russell Cooperative:

Pooled Financing Helps Small Co-ops Join Together to Preserve Affordability on Capitol Hill

Faced with the threat of the sale of their building, the residents of Marian Russell Cooperative, a 12-unit apartment building in Washington's Capitol Hill neighborhood, formed a tenants' association to purchase the building, renovate it and convert it to a limited-equity cooperative. The residents reached out to the Housing Initiative Partnership (HIP), a nonprofit developer, to help them navigate the process. The HIP assisted the residents in securing \$68,000 in predevelopment loans and grants, a \$1.1 million acquisition loan from Enterprise Community Loan Fund, a \$95,500 loan from the American Housing Opportunity Fund and a \$25,000 loan from NASA Federal Credit Union to buy their building. Upon settlement, the residents renamed the building the Marian Russell Cooperative in honor of Ms. Marian Russell, a 52-year resident of the building.

A majority of the cooperative's residents earn less than 50 percent of the area median income while several earn well below 30 percent. These long-term residents saw their community gentrifying and established the goal of maintaining affordability for everyone in the building, which is located near Metro and major bus lines,



The Marian Russell Cooperative

within blocks of a major grocery store and only minutes from popular Eastern Market. To assist in maintaining affordability for the lowest income residents, the cooperative successfully applied for Local Rent Supplement Vouchers. These vouchers provide the same type of rental assistance to households earning less than 30 percent of the area median income as Section 8 but are funded by the city.

Residents had initially planned to take out bridge loans with an acquisition loan from the D.C. Department of Housing and Community Development (DCHCD), but residents have instead joined with several other limited-equity

cooperative projects throughout the city to be part of a tax-exempt bond and 4 percent tax credit transaction with approximately 134 units.

The tax-credit pool will be managed by an experienced housing developer as the general partner, and the properties will operate as affordable rental housing for at least 15 years. At the end of 15 years, the Cooperative will have the first right of purchase. Should the cooperative be unable to buy back its building at that time, DHCD will buy back the building or find an appropriate purchaser.

Through the TOPA law, a variety of bridge acquisition loan funds and the Housing Production Trust Fund, Washington, D.C., has become a leader in creating tools that support the preservation of affordable housing.

Conclusion

Anticipated investments in expanded public transportation systems will allow more residential choices, improve access to employment centers, reduce traffic congestion and lower levels of greenhouse gas emissions. These transit investments will increase property values in many areas, creating community development opportunities and challenges. Preserving affordable rental housing near transit helps to ensure that diverse housing options exist near transit, so that residents, especially those with low incomes, have access to healthcare, education and employment opportunities.

The recent national recession has slowed the pace of transit expansion and related development activity. While the credit crisis has created financing challenges, CDCs and other developers can take advantage of the economic slowdown to acquire and preserve affordable housing in opportunity-rich, transit-connected neighborhoods. The pause in development activity also presents an opportunity to develop creative new partnerships with a variety of stakeholders that seek to align resources, programs and activities to promote transit-accessible affordable housing and strong neighborhoods.

The cases explored in this report offer lessons for CDCs seeking to preserve affordable housing near transit. As described in the introduction of this report, the transit-oriented development conversation requires CDCs to develop new relationships in their regions, and identify new potential partners and funding streams.

The basic steps for taking on the challenge of preserving affordable rental housing near transit include:

- 1. Make an Affordable Housing Inventory.** An inventory of HUD-assisted or HUD-insured projects, LIHTC properties and unsubsidized housing can be useful in identifying types of properties and strategic locations to target. The survey process can also identify planned transit and assess its impact on future housing values. This analysis can identify the timeframe for transit completion and its implications for development plans and project financing.
- 2. Identify Acquisition Resources.** Since acquisitions often take place in a fast-paced environment, CDCs need to develop an understanding of available acquisition financing tools. Partnerships with other developers can increase access to resources available, and mitigate the financial risks of holding property in advance of market change.
- 3. Assess Repositioning Resources.** Rising property values create opportunities to rehabilitate, reposition and/or redevelop older, distressed properties. Strategic partnerships can improve access to resources and development capacity.
- 4. Map Out Regional Strategies.** Engaging regional transit planning processes and gaining access to project funding requires establishing new relationships with regional actors. Understanding the agendas and priorities of key players in the region is a first step to identifying ways to engage around common goals.

Transit-oriented development, and the market pressures that go with it, pose new challenges for CDCs, community leaders and affordable housing developers. By taking action to create or preserve housing options near transit, community leaders, CDCs and developers can ensure that people of all incomes can enjoy the benefits from transit investments. Enterprise, NHT and Reconnecting America stand ready to provide support and assistance in moving this agenda forward.

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Appendix A

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Sources interviewed for this report (continued)

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Appendix B

Metropolitan Planning Organizations and Affordable Housing

Metropolitan planning organizations (MPOs) serve urbanized areas with populations greater than 50,000. Initially mandated by federal legislation in the 1970s, the MPO role has expanded from a sole-purpose – programmatic position of coordinating transportation plans in jurisdictions – to engaging in a more coordinated and comprehensive transportation planning process. This planning process includes producing long- and short-range transportation plans, integrating transportation planning at the local level, coordinating public participation in the transportation investment decision-making process and serving as an impartial regional platform for debate and discussion. Regional affordable housing and transportation goals can be linked through coordinating the planning process of MPOs and public housing authorities, city housing agencies, CDCs and affordable housing developers to ensure that affordable housing near transit is preserved or created.

One of the primary responsibilities of MPOs is to identify priority projects for federal funding. This is particularly important for preserving affordable housing as the momentum increases to integrate land use, transportation and housing policies. It is also important as regions seek to expand their transit systems, thus intensifying the need to preserve existing affordable housing around transit. Recently, the U.S. Department of Housing and Urban Development, the U.S. Department of Transportation and the Environmental Protection Agency issued a joint Notice of Funding Availability, encouraging coordination at the regional level to create livable and sustainable communities. MPOs can assist in the coordination process on a multi-jurisdictional level, and are in a unique position to coordinate and lead efforts because of their policy-making authority, regional coordinating role and access to federal funding. Regional planning entities can encourage local jurisdictions to implement preservation strategies when engaging in transportation, housing or land use planning. Assisting in coordinating issues, such as equity, access and providing for a range of housing, is a key component to the affordable housing preservation discussion.

MPO Action Steps To Promote Affordable Housing

The table on the next page describes actions that MPOs can take to advance affordable housing goals. Understanding the scope of MPO activity can help CDCs, communities and local governments pursue shared objectives.

MPOs do not have authority over local zoning or land use. MPO access to federal funding, however, can lead to innovative tools and strategies for linking housing and transportation on a regional level. The actions below are an indication of policies and programs that can be implemented to effectively plan for affordable housing.

Actions	Description	Examples
Region-Wide Strategic Planning Process	Strong regional coordination contributes to the effectiveness of an overall plan to preserve and expand affordable housing around transit. MPOs can convene regional stakeholders to create a coordinated strategic plan for the region.	The Greater Washington 2050 Coalition, comprised of members in Washington D.C., Maryland and Virginia, created the <i>Region Forward</i> collaborative planning guide for the metropolitan regions. The guide presents a shared vision for growth, and is accompanied by other regional planning guides that identify regional activity centers and clusters.
Implementation Planning	MPOs can “develop a plan for the plan” in collaboration with local jurisdictions. The game plan can outline detailed strategies for implementation, community participation and desired outcomes. The game plan can also prioritize and identify key areas to target funds for the preservation and creation of affordable housing.	The “Get Centered” Program developed by Portland Metro provides tools to plan walkable, mixed-use neighborhoods served by transit that combine housing, employment and retail.
Technical Assistance	Regional planning entities provide a clearinghouse of information. MPO staff can provide technical assistance and capacity building to local jurisdictions, guiding regions in the information sharing, engagement and coordination process around transportation, housing and land use policies.	The Denver Regional Council of Governments created a transit-oriented development program that promotes information exchange between policy makers, business leaders and the community. Activities include online resource tools, planner exchanges and best practices workshops.
Funding for Linked Land Use, Transportation, and Housing	MPOs control flexible funding sources, planning and implementing development around transit stations. Livable Community funds have been created in Atlanta, Washington, D.C., Minneapolis - St. Paul, and the San Francisco Bay Area, through the use of state and federal Surface Transportation Program (STP) and Congestion Mitigation and Air Quality (CMAQ) funds. Funds have helped to preserve affordable housing around transit and acquire priority sites for affordable housing. Funds can also be allocated for other transit-supportive programs and infrastructure.	Washington, D.C.’s Metropolitan Council of Governments provides technical assistance grants for planning and capital projects through the Transportation and Land Use Connections Program.
Affordable Housing Fund	Innovative financing strategies can be used to fund and preserve affordable housing in transit corridors, particularly in instances when federal dollars cannot be flexed to serve a transit-oriented development or affordable housing purpose.	The Metropolitan Transportation Commission in the San Francisco Bay Area committed \$10 million to placing affordable housing at transit stations through its Transportation for Livable Communities program. The program establishes a revolving loan fund to finance land acquisition for affordable housing.

Actions	Description	Examples
Incentives for High-Density Development, (where appropriate)	Density bonuses and incentives are common tools to support and encourage the creation of affordable housing. Regional plans can encourage varying supportive zoning and land uses.	The Commonwealth of Massachusetts provides direct funding through the Housing and Smart Growth Incentives program, which encourages cities to create zoning districts for compact housing. Funds are set aside for affordable housing near transit.
Land Acquisition/ Land Bank Fund	Land bank or land acquisition funds can be used to purchase land around transit stations while the land is still affordable. The funds can be used to acquire existing housing for preservation and to develop new housing along transit corridors.	The Denver Transit-Oriented Development Fund was created to preserve and improve affordable rental housing. The fund aims to acquire property to preserve and create over 1,000 affordable housing units with access to high-frequency public transportation.
Identify and Lead Innovative Funding Initiatives	MPOs can identify funding sources and play a leading role in coordinating regional grant applications for federal funding. Funding for transit as well as affordable housing can be complex and are significant public investments. Regional planning entities can identify opportunities for public-private partnerships that can spur affordable housing development at local and regional levels.	This includes regional Sustainable Communities Grant applications through HUD, DOT and EPA.
Education and Outreach	MPOs can play a large role in educating residents and MPO board members on transit-oriented development, mixed-income housing and the need to preserve existing affordable housing. Education and outreach strategies can help to minimize perception of affordable housing projects and bring equity and affordable housing to the forefront.	

Resource: Transit-Oriented Development Tools for Metropolitan Planning Organizations, Center for Transit-Oriented Development.



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