

# The Case for Rental Housing: A Nonprofit Perspective

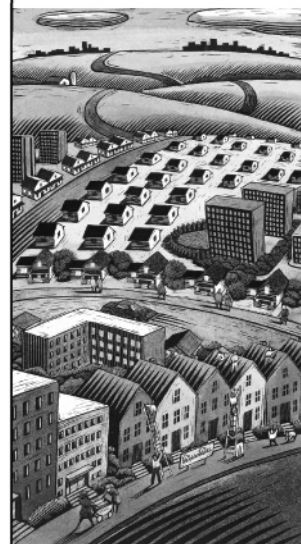
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Fellowship Program for Emerging Leaders in  
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## **Abstract**

Unmet demand for affordable rental housing in most U.S. housing markets represents an opportunity for nonprofit organizations. Despite the potential benefits available through affordable rental housing creation and preservation, nonprofits still need to carefully assess their internal and external environment to determine whether they are well suited to enter this business. This paper identifies and assesses the internal and external drivers that shape decisions made by organizations in this field and that are often critical to successful projects. These drivers were identified through a review of relevant literature, interviews and focus groups with leading policymakers and practitioners, and analysis of survey responses from NeighborWorks<sup>®</sup> America organizations.

The most important factors considered in decisions to enter and remain in the affordable rental housing business are market conditions, organizational mission, and the contribution of a project to a nonprofit's financial bottom line. Findings also indicate that the state of many of the internal and external factors that affect organizations' decisions in this field are not static, but can be shifted in a more optimal direction. Strategies that describe how to create a better environment in which to conduct an affordable rental business are also offered in this paper and include partnerships and long-term planning. Suggestions are made for nonprofits already in or considering entering the affordable rental housing line of business; potential partners, both nonprofit and for-profit; and policymakers, funders and regulators of affordable rental housing.

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## **I. Executive Summary**

Nonprofit organizations in the field of affordable housing often face difficult choices in determining the appropriate lines of business to pursue. The development, ownership and management of rental housing are business options that many of these organizations consider and some ultimately pursue. This report is appropriate for those in all levels of participation in this industry, including organizations that are considering adopting an affordable rental housing line and those that have been in the business for a long period of time that are looking to reassess that decision. After identifying why rental housing may be an important line of business for all nonprofit organizations to consider, this report describes the circumstances and drivers that may influence such organizations to enter into this kind of work. Special effort is made to isolate internal and external factor that are likely to predict organizational success or failure in the rental market business. By evaluating these factors together, nonprofit housing organizations can better determine the suitability of rental housing as part of their business portfolio.

### ***Key Findings***

This research suggests that organizations consider the following major **external factors** when determining whether or not to engage in rental housing development, ownership or management.

- Market Conditions
- Community Perception
- Political Appetite
- Competition
- Availability of Financial Resources

The **internal factors** that have the greatest impact on organizational decisions to enter or engage in the affordable rental housing business include:

- Mission
- Compatibility with Other Activities
- Opportunity Costs
- Financial Performance
- Internal Capacity

Though these internal and external factors are presented in distinct categories, organizations usually experience the influence of such drivers simultaneously, with any one exhibiting a greater impact at any given moment. A useful assessment of a rental business line's potential contribution both to the nonprofit and to the larger community requires evaluating the likelihood of such a business to succeed given the unique internal and external dynamic at play during a particular point in time.

## **Considerations for Actors in Affordable Rental Housing**

Clearly, nonprofit organizations interested or already involved in the rental housing business can find the greatest success when operating under optimal conditions. But because organizations rarely find themselves working in circumstances in which the internal and external factors are ideal, the best strategy is to be as well equipped as possible to face both internal and external challenges. In light of this goal, this paper presents a series of suggestions for new or existing actors in the affordable rental housing field in considering future endeavors.

To maximize opportunities and financial returns in the affordable rental housing business, interested **nonprofit organizations** may want to:

- **Partner with other organizations**, both for-profit and nonprofit, to fill gaps in current organizational capacities;
- **Diversify current business areas**, particularly into other lines of business that complement the rental line and mitigate various risks faced when developing rental housing;
- **Develop mixed portfolios** within their rental line of business that include projects geared toward different tenants in a range of income brackets; and
- **Build manageable and sustainable portfolios** and develop and periodically reassess business plans for the organization's rental housing business as a single portfolio rather than thinking about projects on a deal-by-deal basis.

**Intermediaries** looking to support the work of nonprofit housing organizations in the rental housing field may want to:

- Facilitate **partnerships**, both formal and informal, among nonprofit organizations interested in affordable rental housing organizations; and
- Help nonprofits plan for the **long-term operational and financial health** of their rental properties with periodic revisions of their business and strategic plans.

Finally, **policymakers, funders and regulators** seeking to aid nonprofits in affordable rental housing may want to:

- Consider implementing policies that **ease access to funds**, such as making funding available through consolidated applications that allow organizations to apply to several different funding sources at one time.

## **II. Research Methods**

This section outlines the principal research questions asked in this project, the methods used to conduct the primary and secondary research, and definitions to key terms used in this paper.

### **A. Research Questions**

The central question this paper asks is when is a nonprofit housing organization well suited to engage in the affordable rental housing business. Even when there is a market demand for affordable rental housing in a given area and it is clear that such housing will benefit both individual residents and the larger community, it is not necessarily true that a nonprofit or community development corporation should choose this line of business. This paper strives to identify the factors that shape the choices nonprofits make to engage in this line of business and determine the specific characteristics that make organizations working in rental housing more or less likely to be successful.

This paper also asks how organizations can influence the internal and external conditions that affect their rental housing business in order to create a more optimal operating environment. This question recognizes that the state of many of the factors that affect nonprofit organizations involved in rental housing are not static, and thus certain strategies may help nonprofit housing organizations create more favorable conditions.

But before the case can be made that affordable rental housing is the right business line for a nonprofit organization, it must be shown that there actually exists an unmet market for such housing and why it is important to meet this demand. Therefore, this paper also seeks to identify the need for rental housing as well as the benefits of affordable rental housing from the perspective of both the individual renter and the larger community. Though it would be useful to understand the diverse needs for rental housing across different cities and states across the United States, such analysis is unfortunately beyond the scope of this paper; market trends will be dealt with more generally, in a national context.

### **B. Methodology**

#### **Electronic Survey**

An electronic questionnaire was sent to 185 NeighborWorks organizations that were members of either NeighborWorks America's Multifamily Initiative or its Campaign for Home Ownership or both. Ninety organizations responded, for a response rate of 48.6 percent. Survey participants came from all areas of the country and represented both rural and urban groups. A summary of the survey responses is located in the [Appendix](#) of this paper.

#### **Literature Review**

Relevant publications were reviewed to determine general themes and practices in the business of affordable rental housing, as well as to identify gaps in research about this subject. Sources included journal articles, excerpts from books, relevant Web sites, and reports

published by affordable-housing research and advocacy organizations. While literature on affordable housing in general and homeownership in particular was readily available, sources discussing policies and practices related to low- and moderate-income rental housing were not as plentiful. This continuing emphasis on homeownership in the literature about affordable housing suggests that the American dream of homeownership remains firmly embedded in the minds of many people working in this field. Future research documenting the variety of needs for and benefits of rental housing would be a useful counterbalance to the current weight given to homeownership in affordable-housing literature.

As a research tool, the literature review was used as a means of gathering ideas to test as well as questions to answer during both the in-depth telephone interviews and the survey. Specific findings from the literature review are discussed in the body of this paper.

### **Key Informants**

In-depth interviews were conducted with 21 individuals who were professors, researchers, foundation experts, industry consultants, nonprofit developers of both rental and homeownership units, policymakers, funders of affordable housing, and policy analysts. These interviews were structured using detailed guides that drew questions from affordable-housing literature sources as well as from responses given earlier in the survey, where applicable.

Focus groups were held with both practitioners working in the field of affordable housing as well as with leading housing-policy industry experts and higher-education researchers. A policy briefing followed by a question-and-answer session was held on August 3, 2005, at the headquarters of NeighborWorks<sup>®</sup> America in Washington, DC. In late August, a workshop focusing on this topic was attended by participants at the NeighborWorks Training Institute held in Washington, DC. Finally, at this same Training Institute, a special focus group of nonprofit leaders was convened to discuss issues particular to nonprofit participation in the rental-housing business. In all three sessions, findings for this paper were tested and later refined with the feedback of participants.

### **C. Definition of Key Terms**

**Rental housing** in this paper refers to both single-family structures composed of one to four units as well as multifamily buildings that comprise five or more units.

**Affordable rental housing** is used to refer to properties that are at least partially funded through capital and/or operating subsidies, such as tax credits, grants or subsidized loans that are provided through public sources. In these dwellings, the majority of tenants must earn between 30 percent and 80 percent of **area median income** (AMI) in order to qualify for the below-market-rate rents offered to residents of this kind of rental housing.

A number of different terms will be used to depict the nonprofit organizations that develop, own and/or manage affordable rental housing properties; these terms include **nonprofit housing organization; community development corporation or CDC; NeighborWorks organization; and community-based nonprofit**. Despite the fact that all of the terms mentioned here do describe organizations that are nonprofits and may include affordable rental housing as a business line, there are generally some distinctions between them, particularly in

their range of activities and geographic area of operation. CDCs are typically neighborhood-based, for example, with business operations that approach community development somewhat more holistically than nonprofit housing organizations, which tend to deal primarily with housing and often serve a broader, regional area. For simplicity, these important differences will be ignored here and all of the above terms will be used more or less synonymously to describe nonprofit organizations in the affordable rental housing business.

### **III. The Growing Need for Affordable Rental Housing: National Trends and Market Statistics**

Though the “American dream” of homeownership continues to dominate the national housing policy agenda, data from the Census Bureau demonstrates that the United States is certainly not a nation of homeowners alone. In 2004, approximately 35 million American households, or 31.17 percent of all U.S. households, lived in rental housing.<sup>1</sup> Of these renter households, approximately one-third resided in single-family units, thus challenging the common conception of renters as living in large, multifamily dwellings located in urban neighborhoods.<sup>2</sup>

Much of the literature on affordable rental housing indicates that immigrants are a driving force in this sector. Between 1990 and 2000, the foreign-born population in the United States grew by more than 50 percent, and during the 1990s immigrants accounted for more than two-thirds of the renter household increase in the United States.<sup>3</sup> The National Multi Housing Council reports on its Web site that 9 million new immigrants are projected to enter the United States in the next 10 years.<sup>4</sup> With research demonstrating that immigrant households are more likely to be renters than homeowners, a strong market demand for rental units is anticipated in key immigrant gateway cities.<sup>5</sup>

Another group whose demand for affordable rental housing is likely to grow in the near future is the elderly population. The senior population in the United States is expected to double to 70 million by 2030, with most of the growth occurring among those over the age of 85.<sup>6</sup> Senior citizens, particularly those who require assisted-living facilities, are often better served by living in multifamily rental units where they are able to more easily access services and take advantage of lower costs achieved through economies of scale. But while the demand for such housing is increasing, the actual supply of appropriate and affordable housing for this population is shrinking as a growing number of owners convert such buildings to market-rate apartments.<sup>7</sup>

Finally, a significant trend in the context of this paper is the persistent lack of supply of affordable rental housing nationally to meet the needs of low-income households. In 2003, renters in the bottom income quartile composed 41 percent of all renter households, yet low-

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<sup>1</sup> NMHC tabulations of U.S. Census Bureau’s March 2004 Current Population Survey. [www.nmhc.org/Content/ServeContent.cfm?IssueID=253&ContentItemID=1152](http://www.nmhc.org/Content/ServeContent.cfm?IssueID=253&ContentItemID=1152). September 3, 2005.

<sup>2</sup> *Ibid.*

<sup>3</sup> Myers, Dowell and Cathy Yang Liu. *The Emerging Dominance of Immigrants in the U.S. Housing Market, 1970 to 2000*. Population Dynamics Research Group at the School of Policy, Planning and Development at the University of Southern California. August 2004.

<sup>4</sup> Bibby, Doug. “Can America Afford to Remain Dense about Density?” *PREA Quarterly*, Summer 2005, p. 61.

<sup>5</sup> Nationally, only 3 percent of U.S. residents arrived in the past 10 years. Within only the U.S. multifamily resident population, however, that figure triples to 9 percent. From *The Emerging Dominance of Immigrants in the US Housing Market, 1970 to 2000*.

<sup>6</sup> National Low Income Housing Coalition. *2005 Advocates Guide*. [www.nlihc.org/advocates](http://www.nlihc.org/advocates). September 3, 2005.

<sup>7</sup> *Ibid.*

cost rental stock continued to decline nationally.<sup>8</sup> Between 1993 and 2003, the number of rental units with a rent of less than \$400 (the only units considered affordable for the 31 percent of renter households with incomes less than \$16,000 per year) fell by more than 1.2 million, making the share of units renting at this rate relative to all rental stock just 22 percent.<sup>9</sup> Thus, 31 percent of households are chasing the 22 percent of units that are considered affordable. On average, the National Low Income Housing Coalition finds that income growth nationally has failed to keep pace with the rising costs of renting, leaving approximately one-third of all renter households living in unaffordable housing.<sup>10</sup>

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<sup>8</sup> Joint Center for Housing Studies at Harvard University. *2005 State of the Nation's Housing*. Cambridge, MA, p. 37.

<sup>9</sup> *2005 State of the Nation's Housing*, p. 23.

<sup>10</sup> Unaffordable rent is defined in this context as a renter household that pays more than 30 percent of its income on gross rent. National Low Income Housing Coalition, *Up Against a Wall: Housing Affordability for Renters*. November 2004, p. 5.

## **IV. Identifying the Benefits of Rental Housing**

While much of the literature on housing in the United States extols the virtues of homeownership, comparatively little has been written about the benefits of rental housing. The Joint Center for Housing Studies at Harvard has commented that, “today, homeownership is widely viewed as the ‘silver bullet’ solution to a range of individual and social problems.”<sup>11</sup> Though homeownership has been the right choice for many families looking to build wealth and gain access to social, educational and economic opportunities, benefits are not limited to this housing choice alone. Nor is everyone able or suited to become a homeowner. In order to “make the case” for nonprofit housing organizations to engage in the rental housing business, it is essential to identify and understand the benefits of such housing. Those advantages are described from two distinct yet interrelated perspectives: the individual renter and the larger community.

### **A. Benefits to the Individual Renter**

A housing market that offers a range of options is important, not just to meet a variety of housing needs across a single population but also to meet the particular residence needs that arise across an individual’s life. Homeowners and renters are often believed to be permanent kinds of classifications referring to two discrete groups of people, each with its own characteristics. A renter and a homeowner, however, can be one and the same person simply making different housing decisions at different times in their life. Many baby boomers who are currently homeowners, for example, may transition to rental housing in the near future as their financial considerations change and they look for a home environment that is more supportive of their changing lifestyle needs. If maximizing residence choice for such individuals as well as others is important, housing markets must include rental properties.

Having affordable rental units in a variety of housing markets rather than just in densely populated urban areas may grant individuals the mobility necessary to pursue better jobs or better opportunities in education. Much of the literature on unemployment cites “spatial mismatch,” or living a significant distance from job and transportation centers, as a major problem for low-income households. Access to jobs and transportation is necessary for success; renters, particularly immigrants and single-parent households, seek many of the same opportunities available to those living in areas where single-family homeownership dominates and, because of zoning laws and regulations, rental housing is excluded.<sup>12</sup>

Finally, rental housing is frequently essential to individuals with special needs, like the elderly or the disabled, who typically benefit more than other populations from living in the physically closer-knit community that many multifamily rental structures provide. One study of multifamily housing found that senior citizens are “better served at less cost” through rental

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<sup>11</sup> Apgar, William. “Rethinking Rental Housing: Expanding the Ability of Rental Housing to Serve as a Pathway to Economic and Social Opportunity.” Cambridge, MA: Harvard Joint Center for Housing Studies. 2004.

<sup>12</sup> “Traditional” families composed of married couples with children have been decreasing since the 1970s and now make up less than one-fourth of all U.S. households. Colton, Kent and Kate Collignon. *Multifamily Rental Housing in the 21<sup>st</sup> Century*. Cambridge, MA: Joint Center for Housing Studies, Harvard University. W01-1, January 2001, p. 14.



housing, where assisted-living services are easier to provide and more easily accessed by elderly populations.<sup>13</sup> As described in the last section, there is huge projected growth of the 65-and-over population in the next several decades and thus growing need for rental housing that will suit their needs.

### ***B. Benefits to the Community***

While many people can acknowledge the benefits that rental housing may provide to the individual renter, there is usually far less inclination to recognize the advantages of rental housing to a community. But it is important for nonprofit housing organizations to understand and be able to communicate the significance of rental housing, particularly affordable rental housing, on a macro as well as on a micro level.

In a many areas in the United States, rental housing can provide some environmental benefits. Smart-growth policies attempt to counter a number of problems occurring as a result of suburban sprawl. Smart growth seeks to limit pollution and preserve open space in part by taking advantage of compact building design and proximity to workplace and public transportation.<sup>14</sup> Developing rental structures is an excellent way of achieving this kind of design, encouraging population density and, if properly sited, reducing automobile use.

For some communities, locating both market-rate and affordable rental housing in a certain area can attract companies that are looking for a diverse group of employees and clientele. Many businesses are interested in hiring a stable workforce that does not have to travel excessively long distances to get to their jobs because of the risk of losing those that do so to other job opportunities that become available at a closer location. Also, some larger businesses need to be able to fill a variety of positions that are open to a range of income levels. Such companies need to know that they can find this diverse set of employees in a particular community before they decide to locate there.

Rental housing may be associated with thoughts of instability and neighborhood decline in the minds of some communities due to the legacy of the poorly designed and managed public housing projects of the 1990s and earlier. But rental housing, done properly, can actually serve as an anchor in a community. Some rental-housing complexes that are developed, owned and managed by nonprofit organizations have become community centers that have brought services such as daycare facilities or job training that were previously unavailable in a particular area (see sidebar below). Good design and integration of rental structures can also help to overcome some of the perceptions that are currently held by the general public and policymakers. Clearly, by inducing neighborhood stabilization, rental housing production can potentially contribute to the mission-related, community-development goals of a nonprofit in this business.

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<sup>13</sup> Colton and Collignon, p. 6.

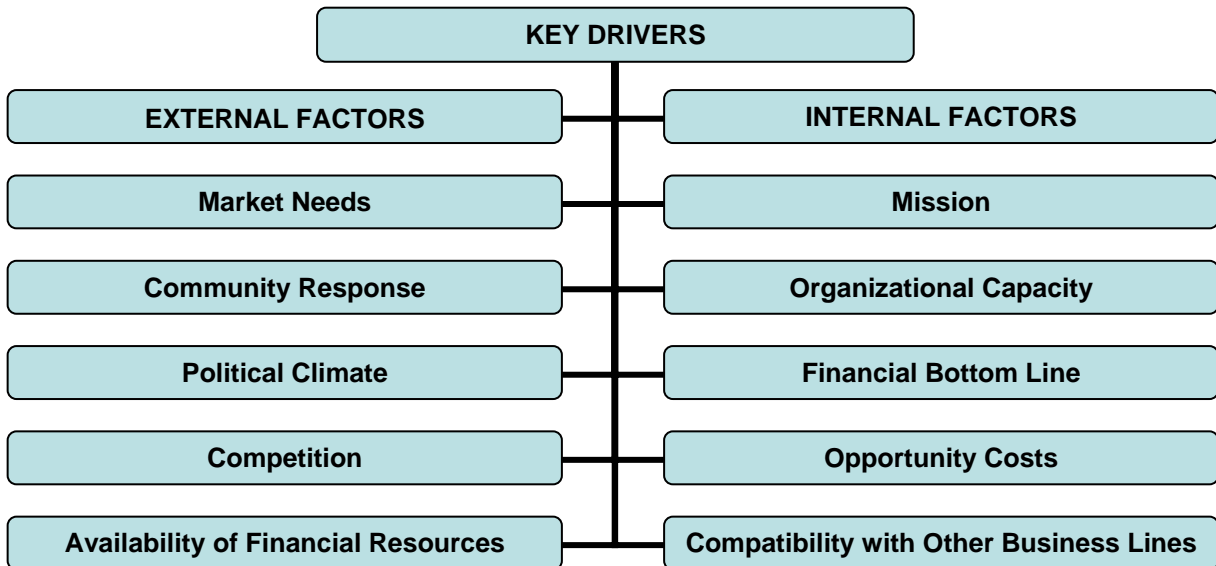
<sup>14</sup> Environmental Protection Agency. "About Smart Growth." [www.epa.gov/smartgrowth/about\\_sg.htm](http://www.epa.gov/smartgrowth/about_sg.htm).

**Rental Housing and Building Community:  
Foundation Communities in Austin, Texas**

Many of the organizations consulted during this project had a growing ambition to combine their rental properties with the allocation of services that would benefit communities as a whole. One organization in particular, Foundation Communities in Austin, Texas, found that its mission shifted over time from simply community-building to what Executive Director Walter Moreau called “opportunity-building.” Through the operation of seven learning centers located onsite at the organization’s rental properties, Foundation Communities has been able to bring to the community after-school programs that serve 800 students per year and adult classes that are held every night of the week. As Mr. Moreau states, “These centers really build community and accomplish a really original vision. We strongly believe in having services at people’s doorsteps and we won’t take on any new project unless there is some opportunity to create services on site.”

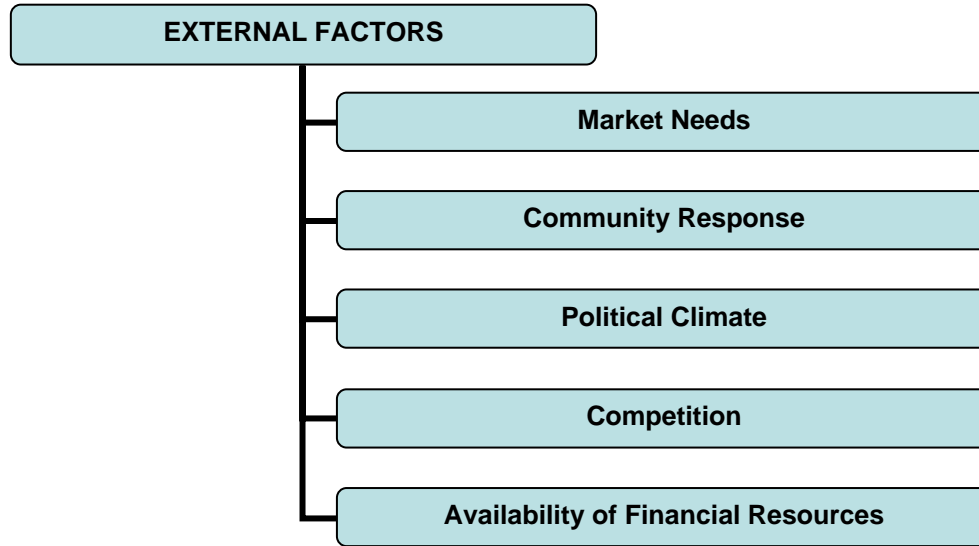
## V. Key Factors for Nonprofits to Consider in Affordable Rental Housing

There is clearly a need for rental housing in many U.S. housing markets, and individual and communitywide benefits that can result from the creation of this kind of housing. But this does not automatically indicate that all nonprofit housing organizations should engage in the rental-housing business. Nonprofits need to assess both their internal capacities and external environment in order to determine whether their organization is sufficiently prepared to handle the challenges of developing and/or managing rental housing. Presented below is a chart outlining the most common internal and external drivers that affect organizations working in rental housing. These drivers are discussed in detail in the next two sections of this paper. **Error!**



## **VI. External Factors that Influence Nonprofit Decisions in the Rental-Housing Business**

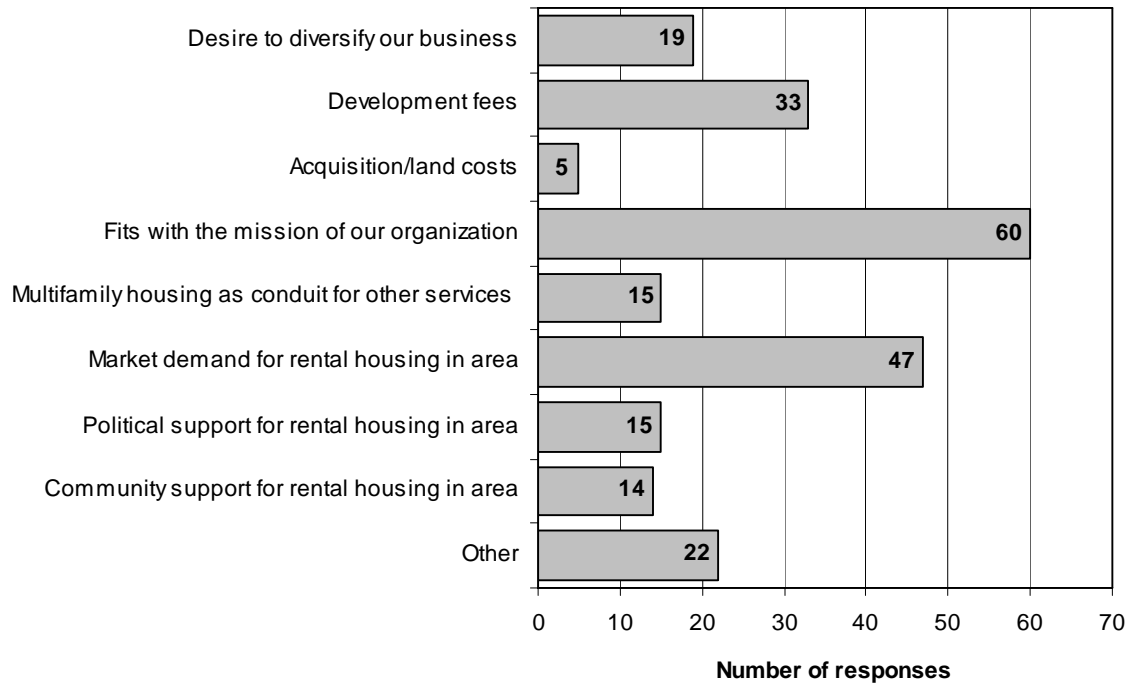
The environment in which a nonprofit housing organization operates can have tremendous influence on the lines of business it chooses to adopt. The major external factors that may affect an organization's decisions to work in rental housing include:



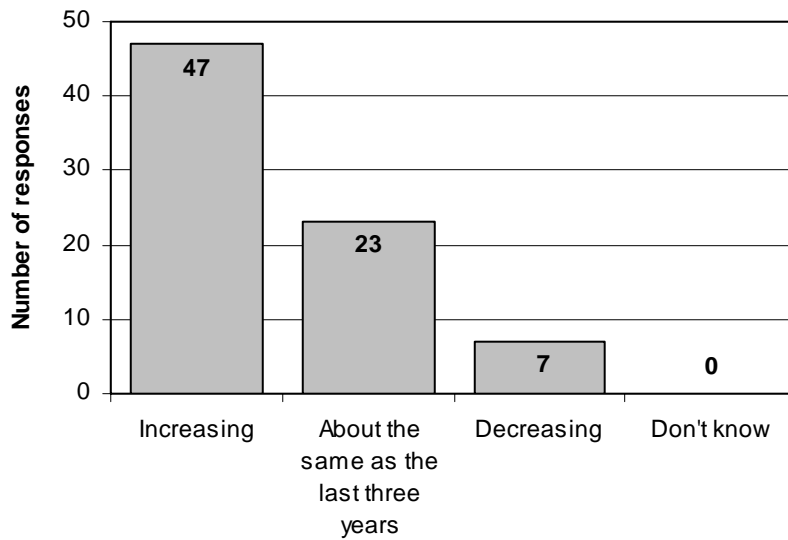
### ***A. Responding to Market Needs***

The most often stated external driver of rental-housing participation by nonprofit housing organizations is meeting the needs dictated by market forces. Sixty-seven percent of survey respondents identified market demand in their area of operation as a key driver in their organization's decision to work in rental housing (see Figure 1). Further, 64 percent of respondents indicated that the need for rental housing in their organization's markets is increasing (see Figure 2).

**Figure 1. Which of the Factors Below Have Affected Your Organization's Decision to Work in Rental Housing?**

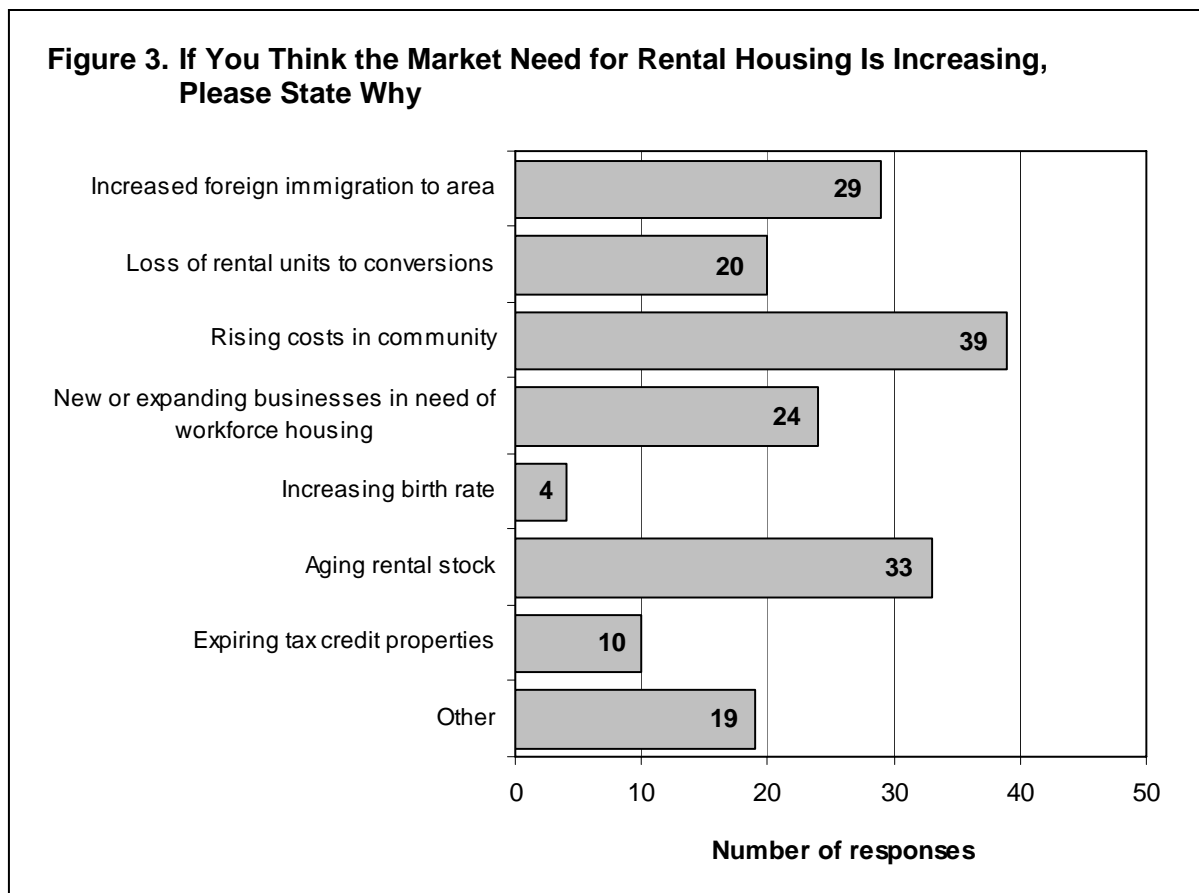


**Figure 2. Do You Believe that the Need for Rental Housing Is Increasing in Your Markets?**



There was wide agreement of these findings by those were interviewed for this project, with many saying that rental housing is typically undertaken by community development corporations as a response to a perceived community need for such housing. When responding to market needs for affordable housing, nonprofit housing organizations will often ask: Will this project happen without our participation? An unmet need for affordable rental units in a community may indicate that for-profit developers in the area can make a greater profit doing another project.

The most common external drivers of this unmet demand were identified by survey participants as rising costs for housing in the community (74 percent), aging rental stock (62 percent) and increased foreign immigration (55 percent) (Figure 3). In addition, two other important external drivers cited were workforce housing (see sidebar below) and the conversion of rental units to ownership.



It is important to note that the processes that community development corporations use to “perceive” the needs for different types of housing in their markets can vary quite radically from organization to organization. For most of the nonprofits interviewed, measuring market needs requires collecting or reviewing economic, demographic and apartment market data for relevant areas on a quarterly basis. Other nonprofits are less formal in their approach to gathering such information and do so, as one intermediary stated, “because of external funding requirements, not internal discipline.”

**An Indirect Response to Market Needs:  
CommunityWorks North Dakota**

Adopting rental housing as a line of business is not always a function of direct response to market needs shaped by outside factors. A community development corporation's entry into the rental-housing field sometimes develops as a secondary response to community needs dictated by market forces that the organization itself might have had a hand in creating. One example of a nonprofit housing organization that found itself driven into the development of rental housing indirectly is CommunityWorks North Dakota (headquartered in Bismarck). CommunityWorks began as an organization focusing on economic development in North Dakota and found success in attracting a power plant that was the first large energy source in the state. While this power plant brought jobs into North Dakota, it also forced many of the new workers to drive 100 to 150 miles to get to their new jobs due to a dearth of housing close to the plant. CommunityWorks responded to the massive housing crisis created by the improved job market it had helped bring about by entering into the rental housing business itself, to build safe and affordable housing for its new community of workers. Today, this rental line of business, originally adopted to support its economic-development initiatives, has become its dominant line of business.

***B. Community Response***

Community support constitutes a second important area that nonprofit organizations often consider both the first time they consider entering the rental housing business and as new opportunities arise. Affordable rental projects, particularly those that are large, multifamily initiatives, are more likely than other kinds of development projects to meet community resistance of the NIMBY (Not in My Backyard) variety. The poor design and integration of past multifamily housing has left misconceptions in the minds of many community residents regarding who is likely to be a renter and what their homes will bring to the neighborhood. Without working with a community in which a rental housing project is planned to address the concerns that are at the heart of NIMBY sentiments, community development corporations run the risk of losing projects to community opposition.

Community approval, on the other hand, can substantially ease a nonprofit's entry into the rental-housing field and also serve as a signal to other organizations that are considering this line of business that it is an appropriate one to undertake. Community approval can confirm that a community development corporation is achieving its mission of meeting the needs of its clients and sometimes can grant a CDC competitive advantage over other players in the affordable rental housing business. In fact, there was a broad sentiment among many who were interviewed for this project that their organizations have, over time, fostered trust from communities through successful projects that have given them credibility and eased potential resistance to future projects. Since they are not motivated solely by meeting their financial bottom line, nonprofits may find that their rental housing projects meet less resistance than those of other players, particularly those in the for-profit development world.

### **C. Political Climate**

Political preferences for a particular project or even type of housing can have tremendous impact on the decisions an organization makes about what lines of business they will pursue in the affordable-housing field. In an interview, one CDC director revealed that his organization entered homeownership rehabilitation “solely due to political force...the city planners and city administration felt there was a real need to do something with these neighborhoods to provide opportunity for homeownership for African Americans. They said, if you do that, we will fund you generously.”

While this example might suggest that political influence on community development corporations always flows from the top down, this is not necessarily the case. The relationship a CDC has with its local governmental authorities can be much more symbiotic, particularly if there are close ties maintained with key public officials. Organizations that have built up this kind of political capital can often access this support in order to surmount challenges in other areas, such as NIMBY opposition to a particular housing project. As one executive director commented, “the extent to which we have political leaders that can stand up [on our behalf] and say we need a variety of housing for a variety of people is really critical.”

### **D. Competition**

Nonprofit organizations often ask themselves two questions when considering whether or not they should take on a particular rental project:

- Will this affordable housing project happen without us?
- Can another organization or firm create and maintain the kind of rental property we envision?

These two questions highlight the influence that other area providers of affordable rental housing can have on the rental business decisions that a nonprofit housing organization makes. The first question brings up an especially important consideration for nonprofit housing organizations operating in areas where they are the only such organization in operation, or where there is a particular lack of affordable housing. Assuming it has the necessary capacity, if a nonprofit discovers that it is the only organization interested in developing or sustaining an affordable rental property in a particular area, it may be more apt to take the project on itself since its mission, generally speaking, dictates that it create the kind of housing that more market-driven firms are not usually willing to do.

Even if a nonprofit housing organization finds that its competitors are likely to produce affordable rental units at a site in question, it may still feel it is important to undertake the project itself simply because it remains convinced that its organization can do the best job with the property over time. In other words, many organizations have fairly specific views of not only the kind of housing that should be located at a particular property it is considering, but also the kinds of clients that can be helped or the sorts of services that could be provided through such a property. CDCs also remain committed to ensuring the long-term affordability of properties; unlike for-profit firms, nonprofits generally do not seek to convert



projects to condominiums. If it sees that it is unlikely that it will be put to the “best use” for the longest time possible, a nonprofit may be more likely to adopt the project as its own or try to partner with the organization in question.

### ***E. Availability of Financial Resources***

The availability of funding sources at any given time is another important consideration. Many policy experts, consultants and even a few executive directors of nonprofit housing organizations interviewed for this project were frank about the fact that nonprofits “go where the money is.” And where the money is can often be a function of government policies that set the amount of capital, operating and tax subsidy available for the development and management of affordable housing. Grants awarded by foundations are another, smaller resource that nonprofits look to for fiscal support for rental projects.

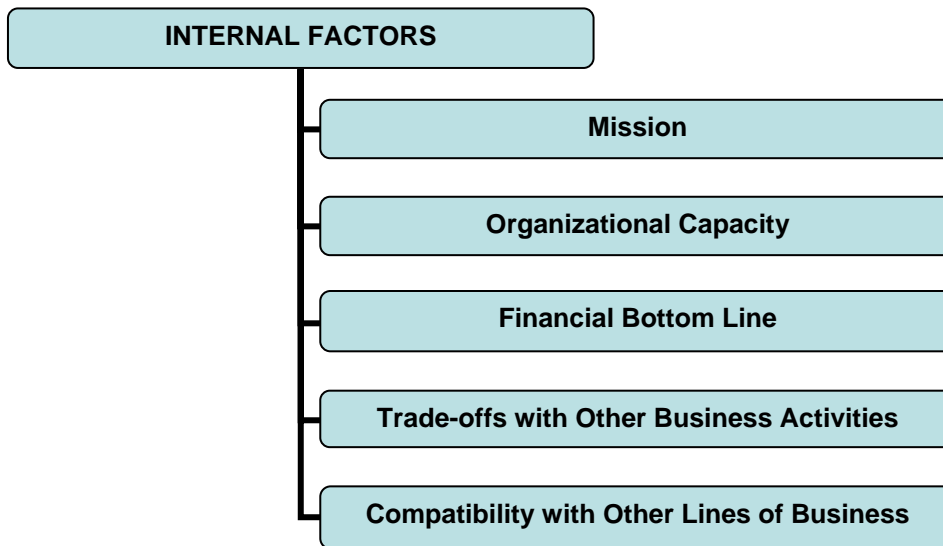
But since government subsidy allocations tend to fluctuate with the political climate and foundation support varies with economic conditions, nonprofits typically need to assess the long-term availability of financial resources before taking on a rental project. A nonprofit organization cannot afford to assume that because development funding has been secured for a particular project, the same will be true of operating subsidy for this project in the future. Funding streams rarely remain consistent enough to make these kinds of predictions, and so it becomes imperative that organizations look at the availability of financial support for all stages of the project.

### ***Implications of External Factors***

Though this analysis separates the above external drivers of a nonprofit organization’s rental business operation into distinct categories, it is important to realize that the above factors do not work alone in affecting the organization’s work. It is much more typical for one external factor to interact with other factors or for organizations to weigh both positive and negative external factors. For example, in areas where local resistance is a significant barrier to a rental development project, nonprofits will often find political opposition as well from elected officials who are wary of disgruntled voters. The nonprofit may decide to take on the project anyway, because of a market need for affordable rental units that will otherwise go unmet. Further, external factors like these also often combine with internal drivers at the organization itself, a topic that is discussed in detail in the next section.

## **VII. Internal Factors That Impact Nonprofits in the Affordable Rental Housing Business**

As important as the environment in which a nonprofit housing organization operates may be, internal, factors specific to the organization still shape many of the choices they make in entering, developing and, at times, disbanding, their rental line of business. At times, the influence of internal factors is powerful enough to override external concerns about a particular rental project, though the opposite may occur as well. Regardless of whether the pull of external or internal issues is greater at any given time, however, it remains essential to identify and understand the most important organization-specific influences in a nonprofit which include:



### **A. Mission**

Eighty-six percent of the 70 survey respondents who work in affordable rental housing said that mission was a key driver in the organization's decision to work in this area. Mission was named more than any other factor, both internal and external, as affecting entry into this line of business. There was also broad consensus among those interviewed that nonprofits working in this area are extremely mission-driven and will gravitate to rental housing because it is usually the most efficient way to help as many low- and moderate-income people as possible to obtain affordable housing.

At times, loyalty to mission will cause some nonprofit organizations to overlook other deficiencies or weaknesses that might signal a poor environment or inadequate internal capacity for participation in the affordable rental market. Some executive directors interviewed for this project acknowledged that their organizations were losing money by holding onto certain rental properties but felt that because the units met the housing needs of their clients, it was important to continue to operate them anyway. Mission statements can spur a real sense of duty on the part of a nonprofit housing organization, committing them to certain projects and

even the rental line of business itself despite the fact that it is not profitable. As one intermediary commented, “when you are doing development, [CDCs] believe you have to lead with the heart rather than with the head.” Board oversight can help to address some of these issues by mandating that nonprofits balance mission-related goals with fiscal goals so that organizations do not end up operating in the red.

## **B. Organizational Capacity**

Organizational capacity, or the ability of the organization to operate a rental line of business given its particular resources, is another internal aspect that nonprofits should evaluate. Measuring internal capacity means assessing the:

- Financial health of the organization;
- Staff capabilities and expertise;
- Ability of organization to get to scale; and
- Property management expertise.

Evaluating the current finances of an organization is particularly important before participating in the rental housing business since organizations may be required to maintain such properties for 15 to 50 years to avoid tax penalties. Taking stock of current financial commitments and revenue sources allows organizations to assess whether or not they have the ability to make a long-term investment in an affordable rental project.

Staff capabilities are generally evaluated in three areas: financial knowledge, technical expertise, and rental housing management. Nonprofits that have found success in their rental line of business typically demonstrate organizational strength in all three areas. Usually, this requires having on staff at least one person who is skilled at putting together the typically complicated and multilayered financing packages that support affordable rental housing; at least one person one who can comprehend design and construction issues at a technical level sufficient to evaluate actual or potential physical defects in a property; and finally, at least one person who is a competent manager of rental properties and can oversee the operational health of a project through proper asset and property management. Even executive directors who self-identified as having a successful rental housing portfolio said in interviews for this paper that they found themselves struggling at one point in time or another to find employees who can bring these very different skills to the organization. Even when they were fortunate enough to find such people, many still struggled to retain them in an industry where staff turnover is a “a significant problem.”

The ability of an organization to achieve economies of scale given its resources and the projects that are available for it to pursue is another issue that nonprofits that own and operate rental housing are beginning to take very seriously. They are cautioning other nonprofits interested in this business to consider carefully. Many nonprofits have found that having larger portfolios of rental projects helps them concentrate and invest their resources so that the returns are much greater than if they had only a few rental properties in the pipeline. The rental housing business, more than other lines of business that nonprofit organizations

consider, tends to particularly benefit from having a large and concentrated portfolio of properties with significant future growth potential.

The issue of property management seems to be one that some nonprofits do not really consider carefully until they are already in the rental housing business and are forced to confront it. While there are arguments both for and against self-management of rental properties, a thorough analysis of such arguments and how to determine whether or not to contract out management responsibilities are beyond the scope of this paper.<sup>15</sup> What is relevant here, however, is the importance of self-assessment of management capabilities, preferably before entering the rental business. Across the board, those executive directors interviewed for this project who self-managed their properties said that property management had a huge impact on the organization's financial bottom line. Even for those nonprofits that recognize this and decide to hire third-party managers because self-management is expensive, or because there are simply no staff that can handle property management responsibilities, may find they are unable to do so if their rental operations are too small to contract out in a cost-effective manner. In other words, they may find no takers among property management providers. Thus, it is key for nonprofits to investigate all options, including identifying their own internal capacity for self-management, when thinking about joining the rental housing business and as they take on new projects.

### **C. Financial Bottom Line**

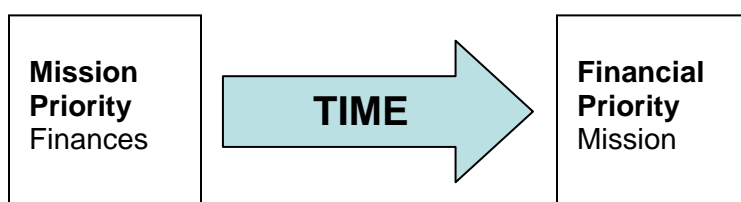
Along with its contribution to mission-oriented goals, nonprofits usually assess the contribution a potential rental housing project will make to its finances. Forty-seven percent of survey respondents identified development fees as affecting the organization's decision to work in rental housing. This seems to confirm that nonprofits are, as many interviewees for this project suggested, driven by a revenue motive that inherently carries with it the risk of overshadowing other organizational goals. One concern voiced by several consultants and intermediaries in the industry, for example, was that many nonprofits working in rental housing were in the business of chasing development fees and took on new projects without carefully considering its contribution to social goals or the long-term physical and financial health of the project.

Interestingly, though, executive directors and development directors who were interviewed for this paper usually said that mission was the key driver persuading them to enter the business and that the profitability of projects became more important only later on as the organization grew. This was the point at which organizations were more likely to chase fees and much of this time, as many argued, they were driven to do so simply in order to survive financially. In these cases, the organization had grown larger in order to support more projects but in so doing, also required greater and more frequent infusions of capital. Thus, nonprofits may not always respond simultaneously or equally to the mission- and finance-driven "double bottom line" as one study contends, but might instead be prioritizing one area over

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<sup>15</sup> For more information about property-management issues in affordable rental housing projects, see "Assessing Property Management for Affordable Housing," by Marc Diaz, a paper published by the Harvard Joint Center for Housing Studies and NeighborWorks<sup>®</sup> America in September 2004.

the other out of necessity.<sup>16</sup> It is likely that the double bottom line of nonprofits working in this line of business actually looks something like this:



#### ***D. Opportunity Cost of Other Business Activities***

Nonprofit organizations weigh decisions about rental housing relative to the other lines of business where they might invest the same resources. Any organization working on the huge challenge of making affordable housing available to clients, whether nonprofit or for-profit, must allocate scarce resources. In order to see where these limited resources may produce the best return both in terms of the organization's financial bottom line and its mission-driven goals, nonprofits must carefully assess the trade-offs of undertaking a rental project instead of some other business activity. Comparisons are usually made by evaluating the ability of each potential project to meet the organization's double bottom line as discussed earlier.

#### ***E. Compatibility with Other Lines of Business***

Some nonprofits choose to enter the rental housing business in order to complement existing business activities. A few executive directors interviewed for this project said that rental housing helped their organization achieve better outcomes in other areas of concentration. Those interviewed whose organizations had both rental and homeownership activities felt that working in the affordable rental industry along with the homeownership business afforded them the ability to select rental clients who were ideal candidates for homeownership. Often, they also found that doing rental housing along with another line or lines of business helped to better meet both their overall financial and mission-driven bottom lines (see sidebar below). One survey respondent stated that doing both rental housing and homeownership activities helped meet the needs of a range of clients; the majority of rental housing units the organization operates are occupied by persons below 40 percent of the county's median income, while the majority of the homeownership customers are between 40 percent and 90 percent of the area median income. Operating affordable rental projects as just *part* of an organization's community-development efforts — rather than as its sole focus — can diversify business portfolios of nonprofits, thus spreading risk and potentially assisting greater numbers of clients with better services.

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<sup>16</sup> Bratt, R. et al. *Confronting the Management Challenge: Affordable Housing in the Nonprofit Sector*. New School for Social Research Community Development Research Center. 1995.

**Working Together: Rental and Homeownership Ventures  
at NHDC of Gainesville**

Over the past three years, Neighborhood Housing & Development Corporation in Gainesville, Florida, has been moving slowly into the rental business. Founded in 1982, the organization's work had been focused for much of its lifespan on homeownership-related activities, such as disbursing loans and deferred payment grants for home repairs and home purchase and rehabilitation of single-family, for-sale units. Recently, however, NHDC noticed that only about 10 percent of the population that they helped was actually ready to be homeowners when they first came to the organization, although most had a long-term interest in homeownership. The organization realized it could meet the current need of many clients for affordable housing as well as their desire for a home of their own in the future with a program that offered people a rent-to-own option. It decided to enter into the affordable rental business. As Executive Director David Herkalo explains:

“We come across lots of families that will be good owners eventually. We thought we could offer them a high-quality rental unit, and we can help them achieve homeownership through savings assistance and access to credit. It's altruistic, but it's also a business decision on our part: we will have a good tenant along with a section 8 voucher and we can move them eventually to homeownership. NHDC gets a revenue stream, and we're doing good in the neighborhood, so everyone wins.”

***Implications of Internal Factors***

Like the external drivers discussed earlier in this paper, not all of the organization-specific factors discussed here will necessarily affect the decisions a nonprofit makes in the rental housing business at once, nor will they necessarily have an independent effect. The internal and external environment in which a nonprofit housing organization operates should be considered as holistically as possible, taking into account how changes made to alter one factor could affect another. Finally, the state of all of the drivers discussed in this paper are not usually static but rather shift constantly with time and with changes in both the organization and the environment in which it operates. Thus, taking stock of internal and external factors that can affect a nonprofit's rental housing business is an exercise that should be done often enough so that organizations can anticipate and respond to challenges as quickly yet appropriately as possible.

## **VIII. Achieving Success in the Rental Housing Business**

While it may be unrealistic to aim to create the perfect environment in which to conduct an affordable rental business, it is not impractical to strive to shift to more optimal operating conditions whenever possible. To that end, the interviews spent some time focusing on strategies and options nonprofit housing organizations might consider in moving their rental housing business forward as well as measures to support their attempts to do so. Below are the most frequently voiced alternatives and tactics to address common challenges in the affordable rental business.

### **A. Considerations for Nonprofits**

#### **1. Partnerships**

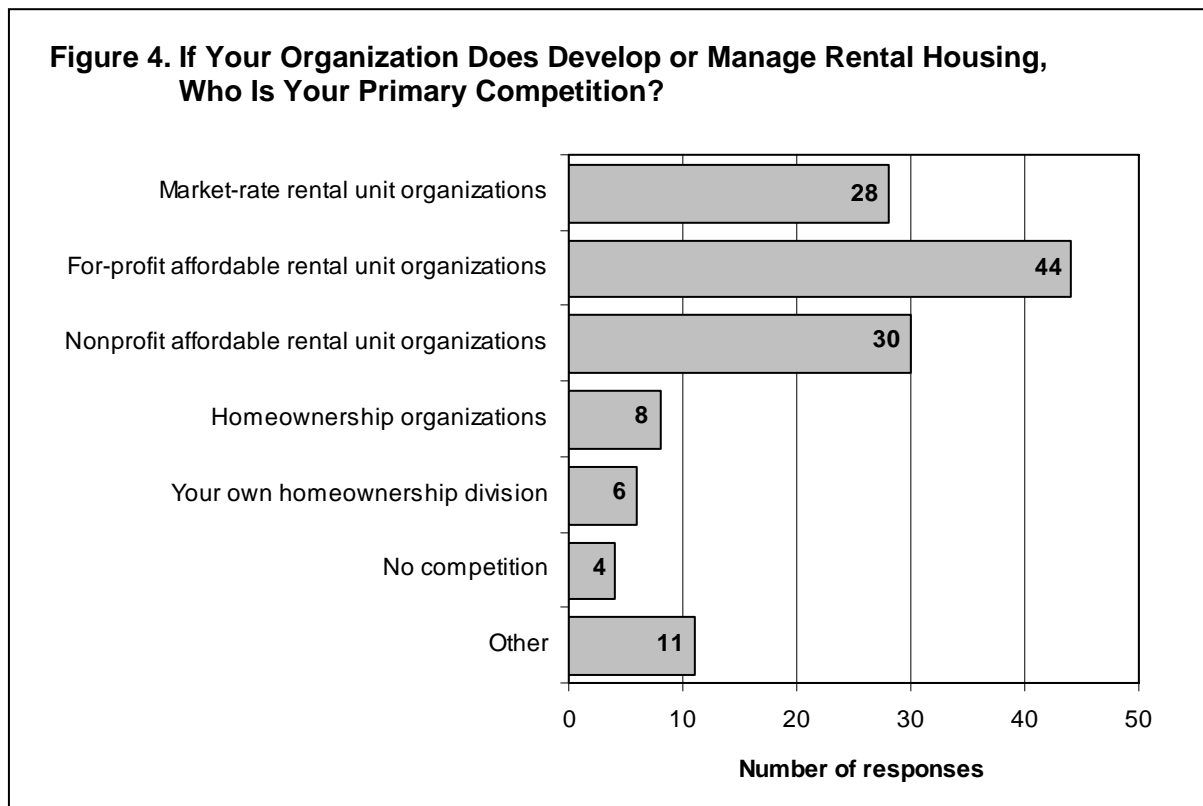
When the internal capacity of an organization to work in the rental housing business falls short, the instinctive response may be that the nonprofit in question is not well suited to do this kind of work. But this may be a premature conclusion. One alternative for organizations that are interested in the affordable rental housing practice but struggle with capacity issues is partnership. Partnerships made with for-profit firms, other nonprofit organizations or government agencies can offer nonprofit housing organizations a venue from which to draw financial support and technical expertise that may simply be lacking in current staff. Entering into a partnership could also allow nonprofits to focus on those elements in the rental housing business they are particularly well suited to do. For example, a partnership between a nonprofit housing organization and a for-profit developer might allow each party to concentrate on their comparative advantages and personal goals through an affordable rental housing project; the for-profit developer would be able to get in and out the property quickly while the nonprofit could retain ownership to ensure the units remained affordable to clients.

Beyond capacity, partnerships may also help nonprofit housing organizations broaden the scope of their work, both in terms of the geographic area in which they operate as well as the services they offer to their clients. As discussed earlier, the rental housing business is one that particularly benefits from achieving economies of scale, but reaching scale may be an impractical goal for small nonprofits whose work is constrained to a few neighborhoods. Some smaller nonprofit organizations interviewed who had partners in the past agreed that working with larger, more regionally focused organizations allowed them to work in new areas. They said they were also able to take advantage of things like more competitive pricing on physical resources available to the partner that had attained scale. Working with partners can also help organizations expand services they would like to offer clients but are unable to due to their current capacity, expertise or financial situation. This kind of partnership may help organizations better meet their mission-driven goals.

Still, partnerships will not always be an effective solution for addressing organizational limitations and, as many organizations have realized, should be entered into carefully. A number of executive directors interviewed for this project were wary of partnerships with for-profit developers, noting a mismatch in organizational goals that could have potentially troubling impacts on an affordable rental project. Others had entered into partnerships and subsequently encountered unanticipated problems. One executive director said that his

organization, which partners with four other nonprofit organizations, finds that there has been a lot of work involved in coordination efforts and avoiding disputes. While the premise had been that it was a win-win situation for all involved, in reality, over time turf battles and tensions arose as some members of the collaborative grew faster than others. Those who have found success with partnerships have suggested formally writing agreements when partnerships are developed, regardless of how informal the collaboration seems, in order to avoid problems and tensions that may arise later. Sacrificing some degree of control may simply be the reality when entering into a partnership, and organizations involved in partnerships must be willing to accept this as an opportunity cost to the advantages that are secured.

Finally, the market itself may also make partnerships with for-profit organizations in particular more likely in the future. Sixty-seven percent of survey respondents identified for-profit developers of affordable rental housing as a primary competitor (Figure 4). In order to stay in the rental business game, nonprofit organizations will increasingly have to consider for-profits as partnership opportunities instead.



## 2. Broadening Area of Operation

Another tactic that nonprofits operating in a limited area might consider is broadening their geographic scope. Working on rental projects regionally rather than in a few neighborhoods has been essential for some organizations looking for enough projects to reach scale. For many organizations, this is understandably easier said than done; missions often limit geographic scope to the immediate environment and the fear of inadvertently launching a turf war with other nonprofits holds organizations back. But making contacts with local and state



governments and scouting projects outside the local neighborhood can broaden options and expand an affordable rental line.

It is important to note that this tactic may be easier to adopt for a nonprofit housing organization, which is more inclined to be opportunistic, than a community development corporation, which tends to be more focused on an immediate neighborhood. Regional partnerships may be one way that both CDCs and nonprofit housing organizations can broaden their geographic scope, but again, this kind of partnership will almost always require the sacrifice of some degree of control over projects and therefore must be entered into only after careful consideration. Entering markets outside the traditional area of focus — particularly if it involves crossing state lines — also requires a deep understanding of the economic and political factors at play in new markets which could be difficult to secure as an outside agency.

### **3. Overcoming NIMBY**

For some organizations, surmounting the NIMBY syndrome to achieve community support for a rental project may be difficult. Two strategies to consider in addressing community resistance are:

- **Formal Meetings.** Community meetings set up with residents who are opposed to the organization's rental housing plans are an opportunity to invite all participants to engage in a conversation that goes both ways. The organization is responsible for listening to community concerns, taking note of those that have not been considered thus far, and responding to issues with clearly defined strategies. Such meetings are also an opportunity to visually show communities the plans for a development, which can be enormously helpful in recasting the images of public housing projects that linger in the minds of many NIMBY adherents.
- **Help from the Business Community.** One strategy recommended by a leading policy expert is for nonprofit housing organizations that are contending with an unsupportive community to bring local businesses or businesses interested in moving to the area into conversations with the communities. When a company makes the case for a rental housing project because such housing is necessary for retaining employees, it sends a powerful message that the positive impact such a company brings to the local economy simply may not be possible without offering housing that suits the needs of workers.

### **4. Diversify Business Activity**

Even those organizations who had realized success agreed that rental housing could be a risky business that requires a major investment of organizational resources and a long-term commitment to a property. They emphasized the need for mitigating risks whenever possible. Most executive directors interviewed discussed three major areas of risk: development risk, organizational reputation risk and market risk. To reduce some of these inherent risks, several organizations suggested diversifying business activities. Working in multiple fields can help organizations survive losses or challenges in rental housing by providing another revenue stream. This is not a guarantee, of course: there are times when an economic downturn, for example, can impact all lines of business. But having another area of concentrated activity could serve as a safety cushion in many cases, protecting the organization from complete decline because of poor performance in another line of business.

Diversification can also encourage the adoption of other business activities that may help the organization's affordable rental line. Far from being a competitive area of business, most organizations contacted during this project that did both homeownership and rental housing projects believed that doing the two lines of business together helped produce better outcomes in each individual area. Clients were able to receive the kind of housing that was most appropriate to their needs, and most organizations were actually better able to meet their financial bottom lines.

## **5. Portfolio Balance**

Diversification within an organization's rental housing portfolio itself might also be useful to many organizations, particularly those that are struggling to meet both their financial and mission-driven goals. In the last several years there has been a trend toward mixed-use or mixed-income rental projects by both nonprofit and for-profit developers. In order to carry out affordable rental projects that serve those with the greatest need, some organizations contacted for this paper felt they had to take on other projects that would be able to offer a better financial return. The subsidy stream of a project geared toward the lowest-income clients is generally still too thin to truly make it viable for an organization looking to balance the economic payoff of the deal with its social value. In order to take the financial risk of such a deal, ensuring that other projects in the rental housing pipeline can make up for some inherent losses is almost required. Organizations should be concerned not just with making one project work, but with making the portfolio of rental projects as a whole make sense from both a mission and financial standpoint.

## **6. Business Plans**

Undertaking long-term business plans for a rental housing portfolio is one way that organizations may be able to periodically revisit and assess their projects and also plan future projects, given the internal and external drivers presented in this paper. Most of the organizations interviewed for this paper that had been in the rental market for longer than five years used business plans and had definite targets as to the number of rental units they would be creating, owning or operating within the next several years. A few nonprofits, however, felt that being in this business required a certain amount of flexibility to act when the circumstances were ideal and felt that being opportunistic was as important as being strategic in this field. These organizations were understandably wary of business plans that definitively mapped out steps for the future. The ideal balance here is likely to lie somewhere in between the two extremes, with business plans that outline baseline mission-related and financially driven goals but allow flexibility. Working closely with a board of directors, intermediary or outside consultant in creating a business plan may allow organizations the distance necessary to create challenging yet reasonable business plans.

## ***B. Considerations for Intermediaries***

Intermediaries could help nonprofits already working in this area or interested in entering the field by encouraging the regular assessment of the factors discussed in this article as a self-evaluation tool. This process may eventually allow nonprofits not only to respond to challenges but also to anticipate future problems, and to create strategies to address them before they become issues. Intermediaries, as outside agents, also may be able to assess internal and external variables affecting an organization's rental business better than the nonprofits.

Where intermediaries may be most helpful is in long-term planning and facilitating partnerships.

### **1. Long-Term Planning**

Because nonprofit organizations are often concerned not just with making affordable rental units available to low- and moderate-income families but also with retaining the affordability of such buildings over the long term, it is essential for organizations to plan for the long-term fiscal and operational health of their properties. Intermediaries could play a role in assisting nonprofits in their efforts, by offering technical and financial advice related to long-term property and asset management. Assisting with periodic review and reassessment of business plans and strategic plans at the organization may also be useful; as outsiders with experience working with similar organizations, intermediaries may be able to point out opportunities or problems that may not be as visible to those working immediately within the organization.

### **2. Facilitating Partnerships**

As discussed earlier in this paper, partnerships with other for-profit and nonprofit organizations can be an effective means for nonprofits to fill their institutional gaps or expand opportunities in the rental housing business. But while nonprofits may be interested in developing such partnerships, they may not know of partners who would potentially be a good fit or how to develop an effective but complex partnership. Here, intermediaries could step in to make appropriate introductions and guide organizations through the stages of partnering, ensuring, for example, that agreements are formal and written in advance. This sort of assistance may be particularly beneficial to smaller nonprofits without significant previous exposure to the affordable rental housing business.

## ***C. Considerations for Policymakers, Funders and Regulators***

For policymakers, funders and regulators, the key to supporting nonprofit organizations in the rental housing business may be to ease access to capital, both in an operational sense and in terms of increasing funds available for this type of work generally. These actors may also consider encouraging partnerships by, for example, supporting policies that ease applications for those wishing to work together. Finally, policymakers and regulators can encourage the growth of rental housing in a greater variety of housing markets by limiting local land-use and zoning regulations.

### **1. Greater Funding for Affordable Rental Housing**

Probably the most common reason organizations cited for not getting into the rental housing obtaining and retaining the capital to do so. Government policies can essentially control the stock of rental housing with the amount of capital subsidy, operating subsidy, and tax subsidy granted to developers and owners of such housing. When affordable rental property is not subsidized, it cannot generate sufficient revenue to be viable. Thus, even when other internal and external factors point to nonprofit participation in this field, if fiscal support provided by government agencies and, to some extent, other funders, falls short, it is unlikely that an organization will enter the business.

In almost all the interviews conducted with executive directors and project managers, Community Development Block Grants funds, were named as a major funding source in

rental housing projects. These grants, awarded through the U.S. Department of Housing and Urban Development, currently go to almost 1,000 cities and states that either award the funds to for-profit and nonprofit agencies or carry out the CDBG projects themselves.<sup>17</sup> Some question whether CDBG money is well targeted in terms of actually reaching those communities with the highest needs. A recent Government Accounting Office report, for example, finds that the use of population size as a criterion for receiving CDBG funds “significantly reduces the extent to which funding is directed to high-need communities” and that the formulas used to determine eligibility are “an important reason why similar communities with similar needs do not receive similar funding.”<sup>18</sup> In order to ensure that CDBG funds can be used for the production, rehabilitation and preservation of rental housing in the neediest communities, the current criteria used to allocate these funds should be revised.

Housing Trust Funds are a newer source of financing and may be increasingly useful for organizations in the affordable rental housing business in the future. These trust funds are established at the local level by cities, counties and states and dedicate sources of revenue to affordable housing. Unlike traditional funding sources, which are more at the mercy of political budgeting that can cause significant fluctuations in allocations from year to year, Housing Trust Funds are fairly stable and reliable.<sup>19</sup> Housing Trust Funds can be used for an array of community-development activities, including acquisition, new construction, emergency repairs and homebuyer assistance. Some localities with Housing Trust Funds have stipulated that a certain amount of the money be reserved for affordable rental housing. The Housing Act of 2002 in Washington, DC, for example, requires that half of the district’s Housing Production Trust Fund be used to support the development of rental housing because it is “the most likely option for low-income families.”<sup>20</sup> Policymakers in other cities and states should consider formally preserving part of their Housing Trust Funds for rental-housing activities.

## **2. Simplifying Access to Funds**

The complicated application and reporting requirements as well as some of the inherent biases of certain sources of funding also discourages entry. The most common example of this, cited often in relevant literature as well as interviews conducted for this project, is the difficulties and frustrations involved in navigating through the process of obtaining Low Income Housing Tax Credits, which for most nonprofits in this business is the primary financing resource available. Organizations receiving this kind of government funding qualify by achieving a certain number of points that depend on specific aspects of their rental housing deal. Point calculation can be complex and time-consuming for organizations, and many are frustrated by rules that award more points for achieving certain objectives, which may or may not be appropriate in their community.

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<sup>17</sup> Lopez, David. “Distribution Structure of Community Development Block Grant Could Be Useful If Homeland Security Block Grant Proposal Becomes Law.” United States Conference of Mayors Web site. [www.usmayors.org/uscm/us\\_mayor\\_newspaper/documents/12\\_17\\_01/cdbg1.asp](http://www.usmayors.org/uscm/us_mayor_newspaper/documents/12_17_01/cdbg1.asp). September 3, 2005.

<sup>18</sup> Posner, Paul. “Community Development Block Grant Formula — Targeting Assistance to High Need Communities Could Be Enhanced.” April 26, 2005, p. 2.

<sup>19</sup> [www.policylink.org/EDTK/HTF/default.htm](http://www.policylink.org/EDTK/HTF/default.htm). September 3, 2005.

<sup>20</sup> Lazere, Ed. “The Successful Revival of D.C.’s Housing Production Trust Fund Continued Success Requires Full Funding In 2004.” Fiscal Policy Institute. [www.dcfpi.org/2-24-03hous.htm](http://www.dcfpi.org/2-24-03hous.htm). February 24, 2003.

Applying for multiple sources of funding all with their own criteria and distinct funding cycles was another frustration often cited for nonprofit organizations in this business. Many complained about dealing with problems like applying for and attaining CDBG funds for a particular project and then waiting for tax credits for another year which, at the very least, had the potential to substantially throw off project timelines. A few states have implemented consolidated applications in order to respond to this problem. The state of Washington, for example, has a fairly consolidated approach; a common application may be submitted by the developer to the city, county and state housing trust fund as well as to the Sound Families Initiative, a \$40 million dollar project of the Gates Foundation, and to the project-based Housing Choice Voucher funds allocated by housing authorities.<sup>21</sup> Other states should consider instituting similar kinds of common applications where possible.

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<sup>21</sup> To see Washington's common funding application, visit [www.ci.seattle.wa.us/housing/03-HousingDevelopers/NOFAAnnouncement.htm](http://www.ci.seattle.wa.us/housing/03-HousingDevelopers/NOFAAnnouncement.htm).

## **IX. Areas for Further Research**

Although the research presented here strives to understand and evaluate the drivers of the choices nonprofit housing organizations make in the rental housing business, much work remains to be done in this area. For example, it would be useful for all actors in the affordable housing field to have more detailed and concrete information about rental housing for two reasons: to determine the best role, if any, of nonprofits in providing this kind of housing and to help nonprofits create the right kind of rental housing. Research is significantly lacking on rental housing, as most recent policy-analysis literature focuses on the impact of homeownership.<sup>22</sup> Rental housing impact studies created with panel data, like the one that is currently being carried out by the Low Income Investment Fund, that identify a group of low-income renters over time and monitor the benefits they receive as well as the problems they encounter through assisted rental housing, would be particularly useful.

Making a case for rental housing from a nonprofit perspective may also require identifying and analyzing differences in the drivers and circumstances that motivate nonprofits in this business versus those that motivate for-profit affordable housing developers and owners. Knowing more about the distinct contributions that nonprofit housing organizations make to this field would help gain funding sources and bolster internal morale as well as public support for nonprofit participation in this field.

Other useful research studies may contribute more information on how the internal and external drivers behind nonprofit decision-making in rental housing mentioned in this paper rank in importance in organizations that vary by size, geographic location or market trends. Such research could help sharpen the observations recorded in this paper significantly, further guiding nonprofits in their rental business choices and policymakers in their funding and regulatory decisions.

Finally, long-term assessments of organizations that have found both mission-related and financial success in this field would be useful. Such assessment could offer younger organizations useful tactics to deal with challenges they may face down the line.

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<sup>22</sup> Apgar, p. 35.

## **X. Conclusion**

There is clearly a need for affordable rental housing development as well as a role that many nonprofit organizations can play in developing and preserving such housing. This paper highlights the importance of self-assessment on the part of organizations interested or already involved in affordable rental work. Evaluation should take place by determining:

- **External, or Environmental, Conditions.** Nonprofit organizations working in this field are, to some extent, opportunity-driven — and need to be in order to take advantage of constantly shifting circumstances. In order to determine whether conditions are suitable for beginning a rental housing project, it is important to continually survey the market needs, community perception, political climate, availability of financial resources and competition by other players.
- **Internal, or Organization-Specific, Circumstances.** Even when external factors indicate participation in this line of work, internal drivers might suggest otherwise. Nonprofits must also survey their internal capacity for taking on a rental project by evaluating its potential contribution to mission-related goals and the organization's financial bottom line, as well as weighing the organizational capacity to complete the project, opportunity costs of doing other business activities, and compatibility of the project with existing lines of business.

Finally, there will rarely be a situation when all of these external and internal drivers will be optimal; rather, organizations wishing to work in the rental housing business may have to adopt certain strategies to deal with the challenges and limitations that will almost certainly arise at one point of time or another. Such strategies include partnerships with other nonprofits, for-profits, or public agencies, and broadening the geographic scope of operation. Intermediaries, funders and policymakers can support nonprofit participation in the affordable rental housing business by easing access to capital, linking organizations interested in partnerships, and encouraging long-term planning with annual revisions of business and strategic plans.

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## **Author Interviews**

All interviews were conducted by the author between June 28, 2005, and August 23, 2005. An asterisk (\*) denotes focus group or workshop participants.

Nancy Andrews  
**Low Income Investment Fund**

Amy Anthony  
**Preservation of Affordable Housing**

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**National Multifamily Housing Council**

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Rachel Bratt  
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## **Appendix**

### ***Organization Web Sites***

For more information about the organizations profiled in this paper, please visit the following Web sites.

CommunityWorks North Dakota: [www.communityworksnd.org](http://www.communityworksnd.org)

Foundation Communities: [www.foundcom.org](http://www.foundcom.org)

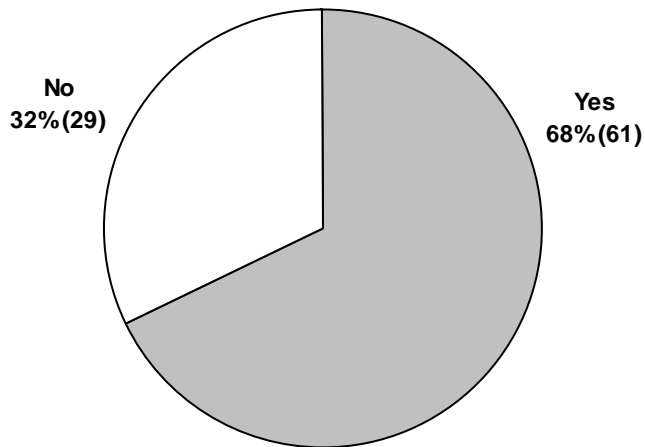
Neighborhood Housing & Development Corporation: [www.gnhdc.org](http://www.gnhdc.org)

## Survey Results

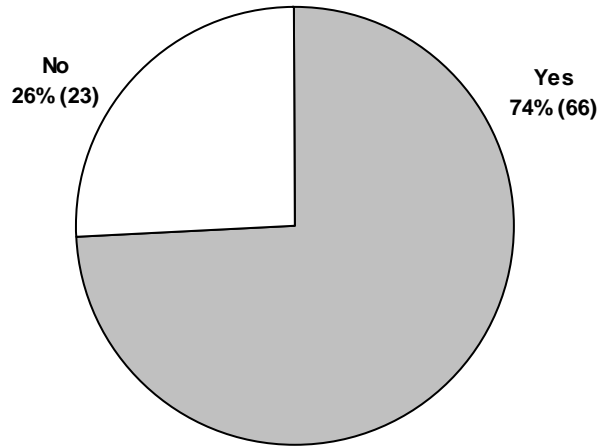
### My Position at this Organization Is:



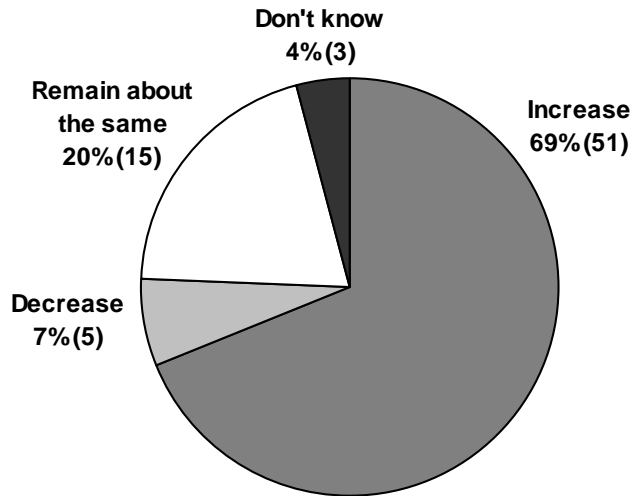
### Does Your Organization Currently Develop Rental Housing Units?



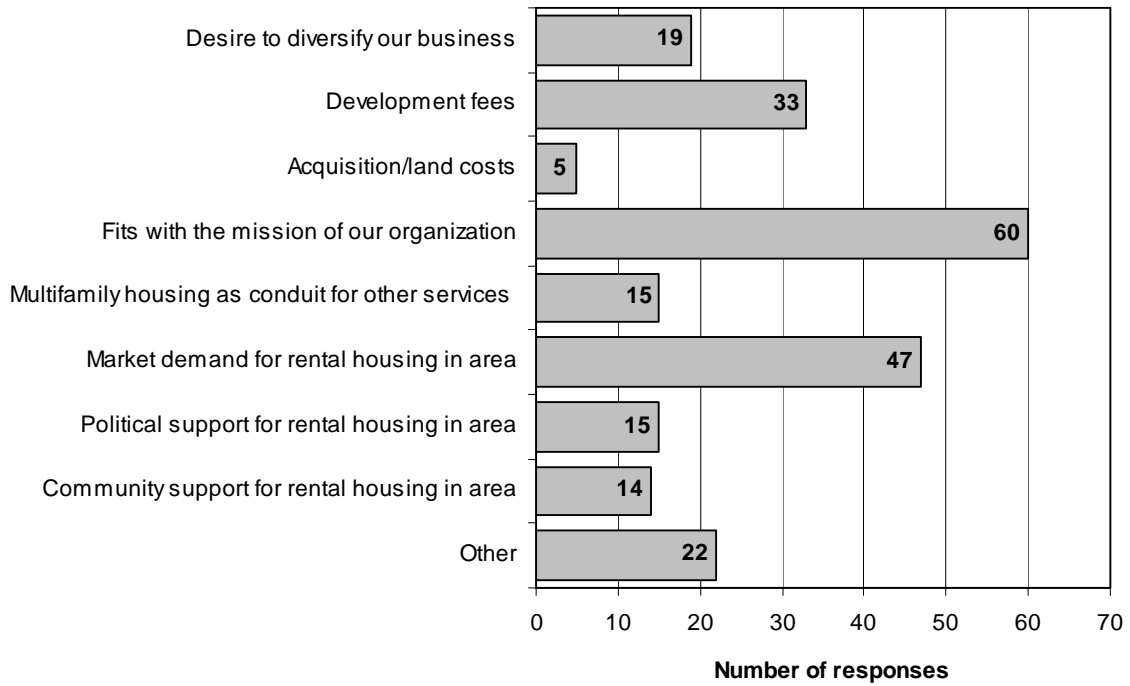
**Does Your Organization Currently Own and/or Manager Rental Housing Units?**



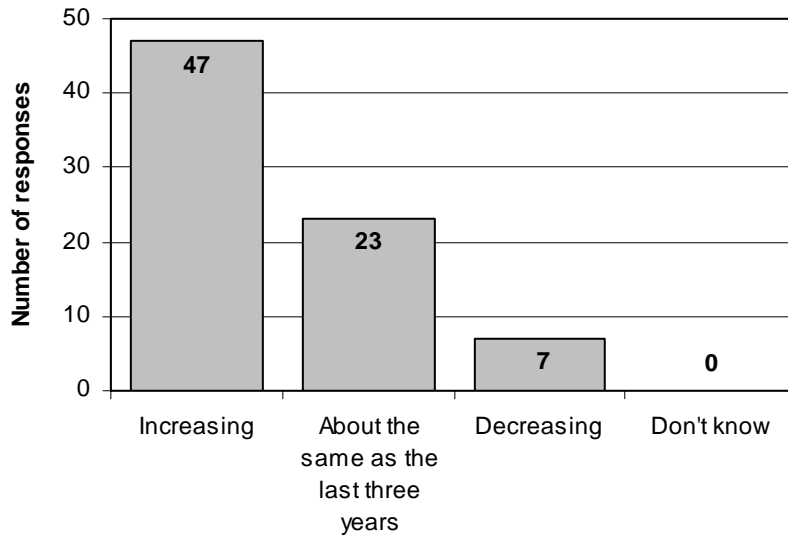
**In the Next Five Years, the Number of Rental Units We Develop, Own and/or Manage Will:**



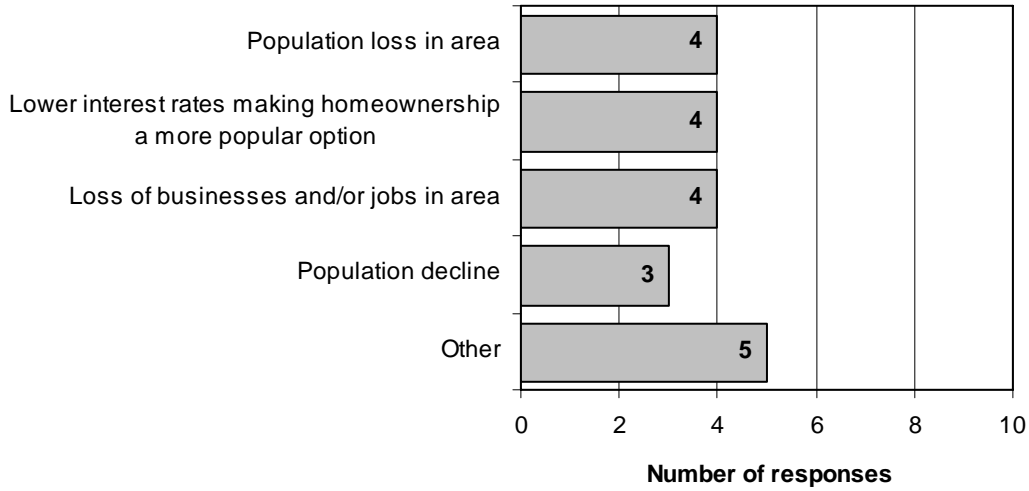
**Which of the Factors Below Have Affected Your Organization's Decisions to Work in Rental Housing?**



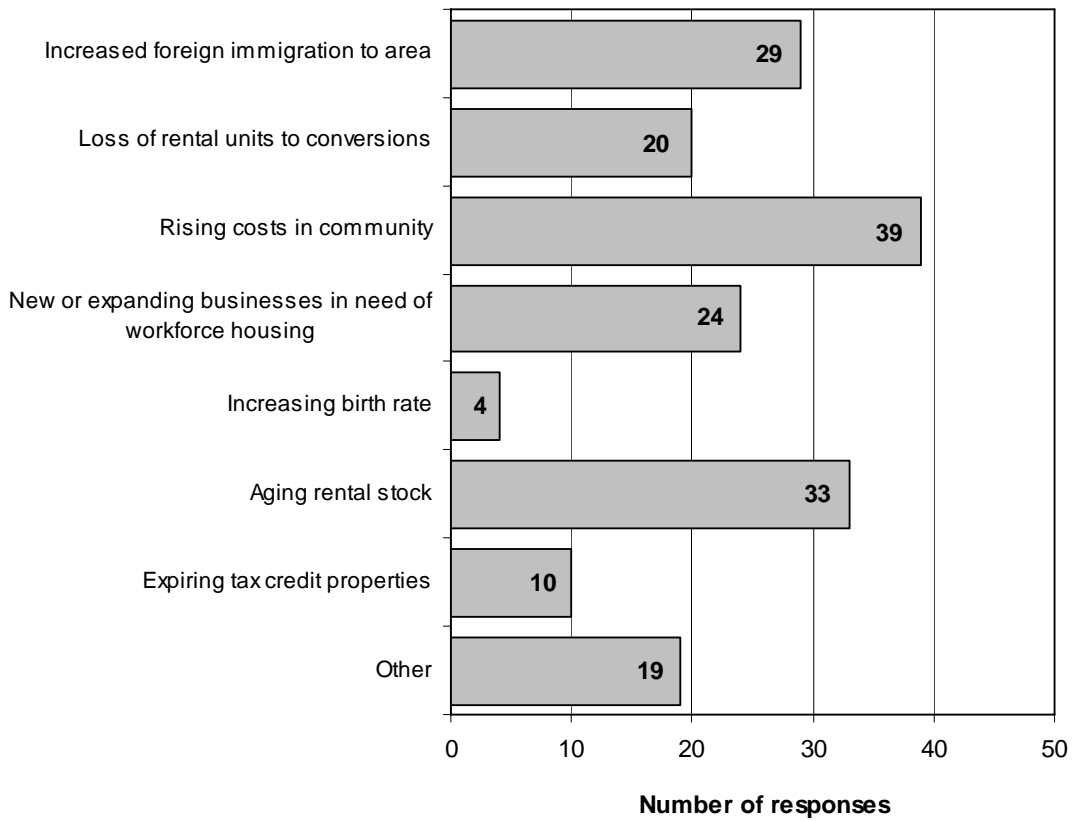
**Do You Believe that the Need for Rental Housing In Increasing in Your Markets?**



**If You Believe the Market Need for Rental Housing Is DECREASING in Your Area, Please State Why.**

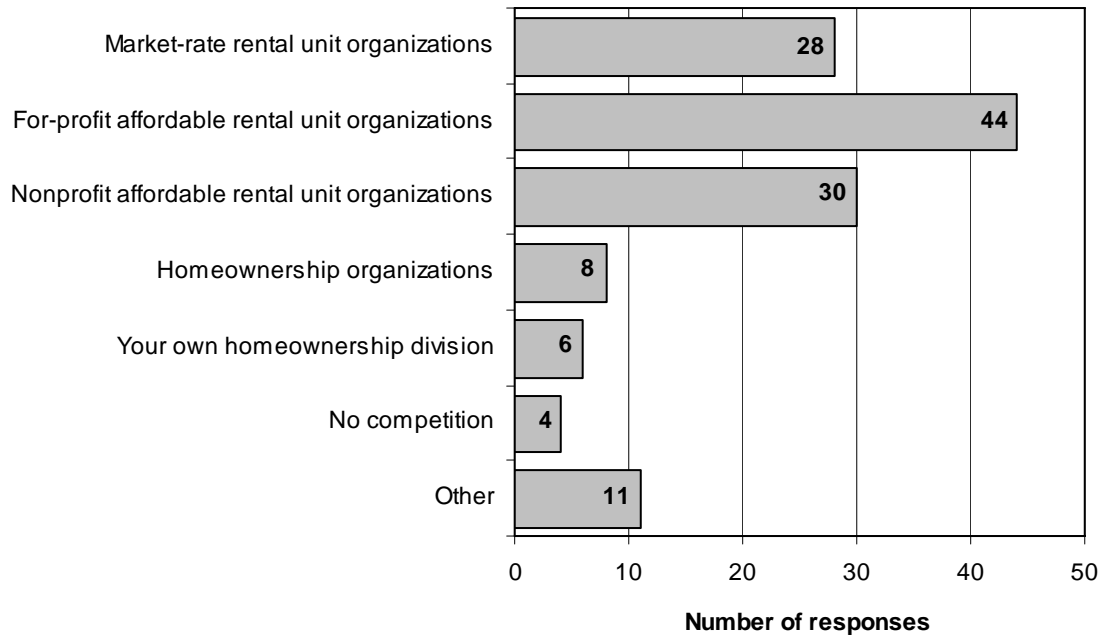


**If You Think the Market Need for Rental Housing Is INCREASING, Please State Why.**





**If Your Organization Does Develop or Manage Rental Housing, Who Is Your Primary Competition?**



**In the Next Five Years, Do You Expect the Number of Families You Help Purchase a Home Will:**

