



Window of Opportunity  
Preserving Affordable Rental Housing



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# The U.S. supply of affordable rental homes is shrinking. Four key factors are driving the loss of homes affordable to low- and moderate-income renters.

**1 Housing markets have soared.** On the coasts, but also in parts of the Midwest and other regions, housing costs have climbed. Thousands of apartments have been turned into condominiums or high-end rentals. While the homeownership market has cooled, experts forecast increased tightening in the rental sector.

**2 Aging properties are becoming run down.** Over half of the existing rental stock predates 1970. Many longtime owners lack financial incentives or means to invest in costly repairs, including new roofs, windows, heating and cooling systems. Even highly motivated owners may be unable to raise capital for needed renovations if their property is in a weak or unattractive market.

**3 Operating costs are rising.** Rental owners of all kinds find it hard to keep up with rising property taxes, energy costs and insurance. Some walk away, leaving many buildings foreclosed, abandoned or demolished each year. Foreclosures also are on the rise because some rental owners, like counterparts in the homeownership market, took on excessive debt with risky loans.

**4 Long-term subsidies and restrictions are expiring.** Billions of dollars in tax breaks, government-backed loans, capital grants and rent subsidies allowed the private sector to build and maintain more than 3 million affordable rental homes over the past 50 years. In exchange, owners committed to keep apartments affordable for 15 years or more. These obligations started to expire in the late 1990s, freeing owners to take hundreds of thousands of units out of these programs.

**The U.S. Stock of Low-Cost Rentals Fell by 1.2 Million Units from 1993 to 2003**



A \$600 monthly rent is the maximum considered affordable for a family with an annual income of \$24,000. In 2005, more than 15.6 million renter households had incomes at or below this level.

Source: Harvard University Joint Center for Housing Studies, 2006.  
Note: Includes occupied and vacant for-rent units; rents based on gross rent of unit including utilities.

**Almost all of us are renters at some point in our lives.** Today, one-third of U.S. households, 37 million, rent their homes—from new college graduates to aging seniors and young families saving to buy their first place. Homeownership may be the American Dream, but for millions of people renting is the best or only option.

**Growing challenges for U.S. renters.** Millions of renters today have trouble finding a decent, stable and affordable home—especially one with ready access to work, transit and schools.

In 2005, almost 9 million low- and moderate-income renter households spent over half of their earnings on housing, a record high.

Part of the problem is that wages at the bottom of the economic ladder have not kept pace with rising rents. The stock of low-cost rental homes also has fallen due to demolition, condominium conversion and the expiration of government subsidies and affordability restrictions.

Billions of taxpayer dollars were invested over the past 50 years to create and maintain the rental homes that are being lost. Between 1993 and 2003, the number of housing units renting for \$400 per month or less, in inflation-adjusted terms, declined by 1.2 million. If current trends continue, another 1 million low-cost rentals will be lost over the decade ahead.

Meanwhile, experts forecast that immigration, demographics and rising home foreclosures will cause the number of renter households to jump by almost 2 million.

**Preserving and improving the affordable rental stock: smart economics, sound policy.** Across the country, “preservation owners” are buying, recapitalizing and renovating existing

rental properties, keeping them affordable and in good shape for another generation of use.

This helps low-income seniors remain in their homes near family and friends, retains rental housing in job-rich areas, and transforms troubled properties into safe, sustainable communities.

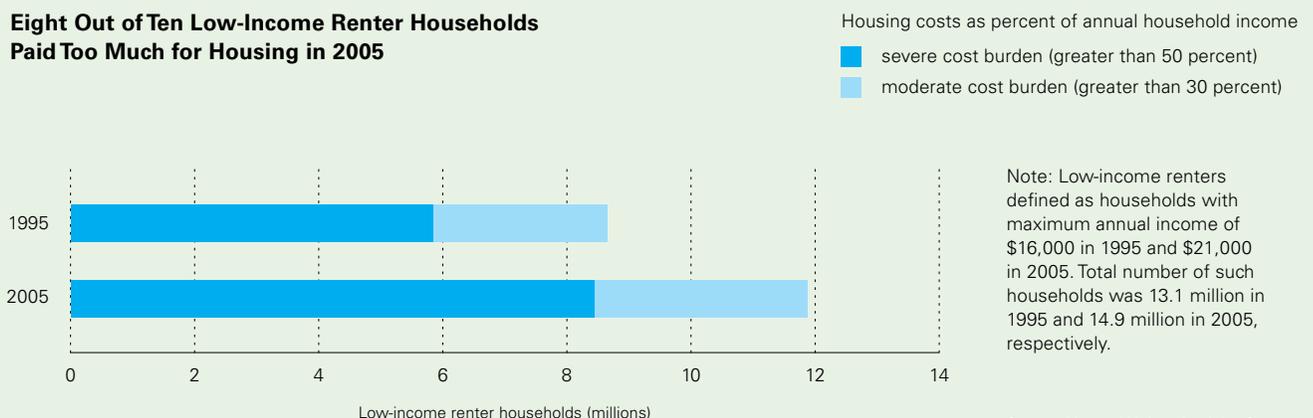
Recent preservation projects also prove that it can be faster, easier and cheaper to preserve and improve an existing property than to build a new one from the ground up.

Through the end of 2007, developers financed through the MacArthur Foundation’s *Window of Opportunity* initiative had preserved 45,000 affordable rental homes at an average per unit cost of \$81,000—about half the cost to build a new rental apartment in the U.S. today.

**More than housing is at stake.** Research suggests that people who have stable, decent homes have an easier time holding down a job and their children do better in school. There also is evidence that a mix of quality housing options helps make communities more vibrant, diverse and livable.

As *Window of Opportunity* leaders have shown, preserving affordable rental housing today secures access to decent, stable and affordable housing for years to come while increasing the return on past public investments. In short, it’s a key part of the solution to our nation’s affordable housing problem.

### Eight Out of Ten Low-Income Renter Households Paid Too Much for Housing in 2005



Source: Harvard University Joint Center for Housing Studies, tabulations from *American Housing Survey*.



**Who Rents?** Empty nesters, senior citizens, disabled people, part-time workers, low-wage workers and young families.

Number of households (in millions)	36.8
Annual household income (in millions)	
less than \$23,000	15.6
\$23,000 to \$45,000	11.0
more than \$45,000	10.2
White	57%
African American	19%
Hispanic	17%
Asian/Other	7%

Source: Harvard University Joint Center for Housing Studies, 2007.

## Policies That Work

Across the country, state, local and federal policymakers are helping communities renew the existing stock of low-cost rental homes. Here are some ways they are making this happen.

**Better information and coordination.** The State of Florida built a database covering all government-assisted rental housing. Inter-governmental councils in the Twin Cities, Wisconsin, and Cook County, Illinois, help coordinate preservation activity. Cook County also has a tenant alliance providing outreach, education and support.

California, Texas and many other places have “early warning” laws that require owners to notify renters before they “opt out” of a federal subsidy program.

**More regulatory support and flexibility.** In Illinois and Rhode Island, tenants or a state or local agency have the right to buy at-risk buildings facing conversion, usually in partnership with a developer.

The U.S. Department of Agriculture is revitalizing rental properties in rural areas by working with owners to restructure past loans and finance needed repairs.

At the U.S. Department of Housing and Urban Development, the Mark-to-Market program has adjusted rents, recapitalized properties and permitted changes to extend affordability and improve more than 260,000 low-cost rental homes since 1997.

**Easier access to funding; new financial incentives.** The National Housing Trust reports that 46 states set aside existing funds or give preservation owners extra points when they compete for tax credits, bonds and block grants.

A one-penny tax on real estate in Fairfax County, Virginia, raises \$22 million annually, helping to preserve 2,200 at-risk affordable rental homes since 2004.

In Cook County, Illinois, owners of rental housing get a break on property taxes when they make needed repairs and keep their rents low. Following Missouri’s lead, Illinois also offers a “donations tax credit” that helps nonprofit buyers keep rental properties affordable.

New York City used \$8 million to leverage a \$200 million acquisition fund. Backed by a group of foundations and banks, the fund allows preservation owners to move quickly when buying at-risk properties.

**Encouraging innovative, high-impact preservation strategies.** Forward-looking policymakers across the U.S. are helping creative preservation owners address a range of community priorities, including supportive housing for the formerly homeless, assisted living for aging seniors, energy conservation and transit-oriented development.

**Greater support for mission-driven owners.** The STRENGTH MATTERS initiative of the Housing Partnership Network, Stewards of Affordable Housing for the Future, and NeighborWorks America is analyzing policies that limit the ability of nonprofit preservation owners to generate cash flow from their operations and build a capital base. Improvements in these policies would help owners pursue new developments, work to acquire and preserve affordable properties at scale, and provide resident services.

## What Is “Affordable” Rental Housing?

Most housing experts agree that households generally should not spend more than 30 percent of their annual incomes on rent or other housing costs. In the U.S., a household with one full-time minimum wage worker would earn \$10,712 annually, enough to afford a monthly rent of \$268.

Most affordable rental housing in the U.S. is privately owned with no government subsidy. Approximately 3 million units were developed with government-backed financing. About half of this “assisted” stock receives an ongoing rent subsidy. The federal government also funds approximately 2 million vouchers that renters use to reduce the cost of market-rate housing. In addition, the federal government funds approximately 1.2 million units of public housing run by state or local agencies.

In 2006, federal outlays and tax expenditures totaled approximately \$33 billion for all rental housing programs combined. This was enough to assist one-quarter of those eligible for assistance, between 5 million and 6 million low- and moderate-income households.

## A New Commitment

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The time has come for a new national commitment to affordable rental housing to help more renters with limited means find well-located and affordable homes and to ensure that urban, suburban and rural communities can retain a mix of quality housing options for years to come.

To realize this vision, the MacArthur Foundation is investing \$150 million over 10 years through a national initiative, *Window of Opportunity: Preserving Affordable Rental Housing*.

Through this effort, we support policy analysis, data collection and expert assistance to encourage investment in rental housing and sound policies at federal, state and local levels.

We also provide funding for 25 mission-driven housing developers and public-sector preservation initiatives in Chicago, New York City and ten other states and localities across the country.

Combined, we expect these investments to directly help preserve and improve at least 300,000 affordable rental homes nationwide.

More broadly, our goal is to stimulate lasting housing policy reforms and new development and lending practices that:

- Make it easier, faster and more cost-effective for affordable rental property owners to retain and renew the existing stock;
- Reverse the loss of existing, affordable rental homes by providing resources and regulatory incentives to preserve at least 1 million units over the decade ahead.

The MacArthur Foundation is proud to pursue this vision in partnership with outstanding leaders in the nonprofit, for-profit and public sectors. We invite others to join us in the effort to meet this nation’s growing need for decent, stable and affordable housing.



## Preserving Affordable Rental Housing: A Definition

Affordable rental housing is preserved when an owner acts to keep rents affordable for low- and moderate-income households while ensuring that the property stays in good physical and financial condition for an extended period.

Preservation projects frequently involve transfer or sale to a new owner, but existing owners can preserve their properties too. All preservation owners must have a clear mission or legal obligation to maintain the affordability of safe, high-quality rental homes. These owners can be nonprofit, for-profit or even public entities.

Every privately owned, occupied rental property can be a preservation candidate, whether or not it was developed with prior government assistance. Of course, not every existing property can or should be saved. But long-term subsidy contracts can still be retained by transferring them to a replacement or nearby property.

### Sources

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**For additional information, organizations and resources to help preserve and improve affordable rental housing, please visit [www.windowofopportunity.macfound.org](http://www.windowofopportunity.macfound.org).**

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The John D. and Catherine T. MacArthur Foundation is a private, independent grantmaking institution helping to build a more just and sustainable world. Through the support it provides, the Foundation fosters the development of knowledge, nurtures individual creativity, strengthens institutions, helps improve public policy, and provides information to the public, primarily through support for public interest media. With assets of more than \$6.4 billion, the Foundation makes approximately \$260 million in grants annually.

The *Window of Opportunity* housing preservation initiative is part of MacArthur's larger program focused on stable, affordable housing with a special emphasis on rental housing. The Foundation welcomes inquiries about this work and encourages interested parties to contact recipients of its support and other housing leaders.

For more information, including specific funding guidelines and a current list of affordable housing grantees, please visit [www.windowofopportunity.macfound.org](http://www.windowofopportunity.macfound.org) or email [housing@macfound.org](mailto:housing@macfound.org).

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