

Preserving Naturally-Occurring

Housing Affordability

In Metro Atlanta Neighborhoods

Findings and Recommendations for Policymakers,
Foundations, Developers, and Nonprofits

May 2018

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This Policy Analysis Exercise reflects the views of the authors and should not be viewed as representing the views of Enterprise Community Partners, nor those of Harvard University or any of its faculty.

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Executive Summary

What is Naturally-Occurring Affordable Housing (“NOAH”)?

In the second half of the 20th century, developers built thousands of apartment complexes around metro Atlanta – some with just two to five units, and some with as many as 700 units.¹ Today, because of their age and location, many of these apartment units are relatively affordable to low-income households even though they have no affordable housing subsidies. This type of housing is called “Naturally-Occurring Affordable Housing,” or NOAH for short.²

1 For the purposes of this document, “metro Atlanta” typically refers to the Atlanta Regional Commission’s 10-county intergovernmental coordination area, which includes Cherokee, Clayton, Cobb, DeKalb, Douglas, Fayette, Fulton, Gwinnett, Henry, and Rockdale Counties.

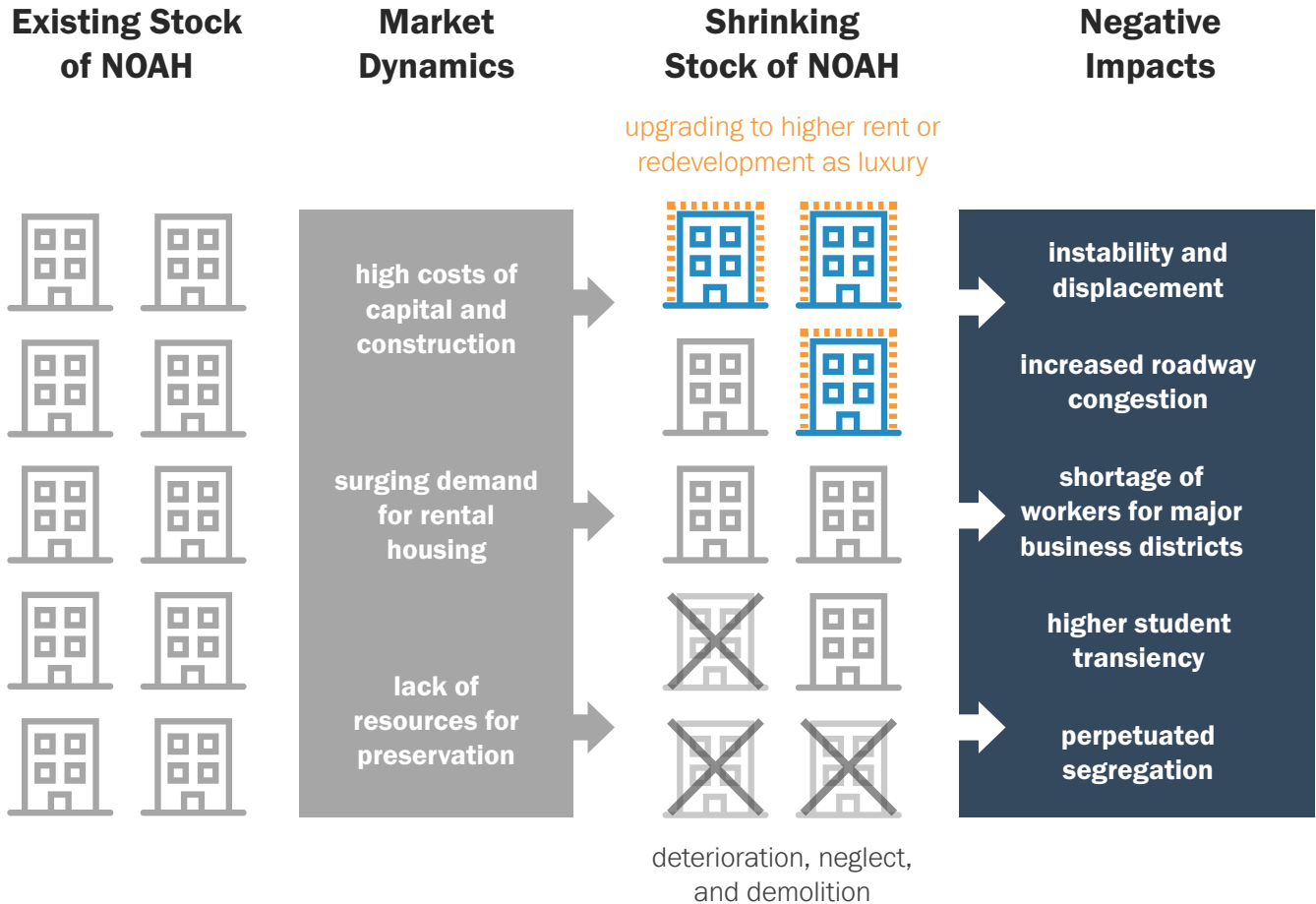
2 For the purposes of this document, low-income households are those with incomes below 80% of Area Median Income. Naturally-occurring affordable housing can be an effective component of an affordable housing strategy for families between 30% and 80% of Area Median Income.

Current market dynamics are a looming threat to the stock of NOAH in the metro Atlanta area

As developers and investors see Atlanta’s growth and the country’s rising demand for rental housing, they are funneling their investments into multifamily developments. Due to the scarcity of affordable housing subsidies and the cost of land, construction, & regulations, much of this investment is going into luxury apartments and apartment renovations. In some instances, this involves upgrading NOAH and raising its rents, and in other instances, this results in tearing down NOAH and replacing it with luxury developments. Even developers and owners committed to affordability lack the resources to keep rents low within their developments.

Exhibit 1

Developers either demolish naturally-occurring affordable housing and replace it with luxury – or leave it to deteriorate



As a result, low-income families can no longer afford the neighborhoods where they previously lived. The high rents displace them – often to less-central areas of metro Atlanta that may lack good schools, local jobs, public transit, grocery stores, or other neighborhood amenities.

To support metro Atlanta in addressing its affordability challenge, this report explores the following research question: How can Metro Atlanta leverage currently-unsubsidized, naturally-occurring affordable housing to support affordable opportunity for low-income families?

Note that preserving NOAH has the potential to house lower-income households earning between 30% and 80% of Area Median Income, but not extremely low-income households or those experiencing homelessness.³ Other approaches beyond what is mentioned in this document – and, frankly, deep public subsidy – will be needed to support metro Atlanta’s poorest families.

³ Generally, “low-income” includes families earning <80% of Area Median Income, “very low-income” includes families earning <50% of Area Median Income, and “extremely low-income” plus “formerly homeless” includes families earning <30% of Area Median Income.

Families who live in naturally-occurring affordable housing are dispersed across metro Atlanta, including in strong and improving neighborhoods

An estimated half of low-income metro Atlantans live in unsubsidized rental units.⁴ The properties they live in are scattered across the metro region, including in medium- and high-opportunity areas. Investors are trading these developments at rapid rates, often escalating prices with each sale.

Atlanta needs to create three conditions to help preserve its naturally-occurring affordable housing

Supporting NOAH requires an ecosystem enabling developers to preserve these older apartment complexes. There are three conditions that make this possible:

- 1. Mission-driven non-profit and for-profit developers can identify and compete for NOAH deals.**
- 2. Developers can access nimble, below-market capital to help them close deals and maintain affordability.**
- 3. Ongoing operating costs are modest, well-managed, and predictable.**

This report outlines three major recommendations, along with a set of supporting recommendations, to help strengthen these conditions in metro Atlanta.

⁴ Estimate reflects households in the Atlanta Regional Commission's 10-county area earning <80% of the Area Median Income (AMI). Calculations based on HUD Consolidated Planning Data (CHAS) for the 2010-2014 period, and development unit totals from the National Housing Preservation Database, assuming a with 85% occupancy rate (the average rate for the Atlanta-Sandy Springs-Roswell Core Based Statistical Area as reported by HUD's 2017 Picture of Subsidized Housing data).

Major Recommendations

1. Build capacity for NOAH acquisition

Local developers – and non-profit developers in particular – interested in NOAH deals are struggling to compete against national investors and institutional capital for these developments. Their future success relies on the development of new capabilities, skillsets, and networks that help them successfully acquire, renovate, and manage older multifamily properties.

2. Establish a NOAH social impact fund

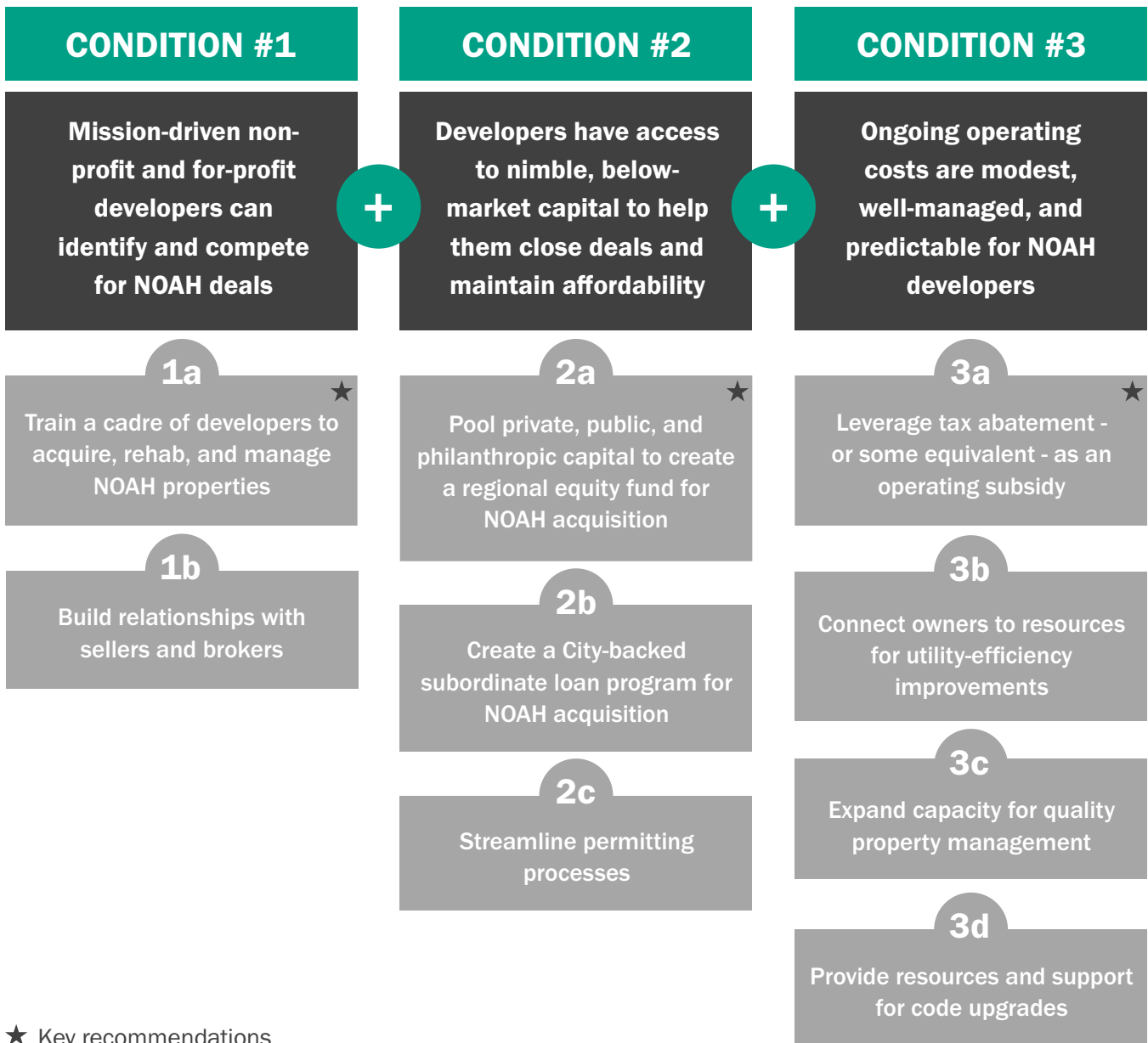
Investors are asking for mid- and high-teens returns on NOAH properties. Right now, the surest way developers can meet these returns is to raise rents. To achieve this, they either significantly renovate the property or tear it down and rebuild with a luxury development. A NOAH equity fund would pool philanthropic, private, and public-sector capital to provide equity at below-market returns so that mission-driven for-profit and non-profit developers can buy NOAH properties and preserve them as affordable. Metro Atlanta can look to the NOAH Impact Fund in greater Minneapolis as a possible model for a regional social impact fund.

3. Create a streamlined mechanism for property tax relief

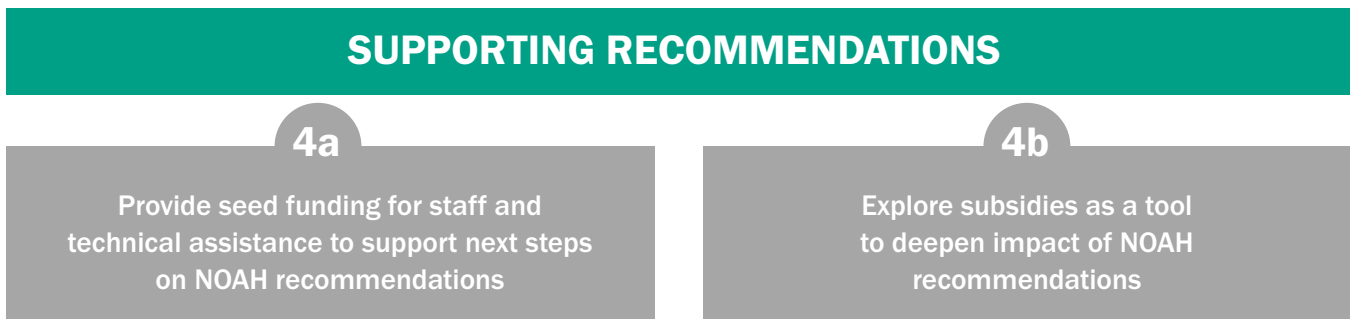
Property taxes are a significant barrier to NOAH preservation, especially in high-opportunity areas with good schools, jobs, and transportation. Property taxes are costs that are out of developers' control, determined in large part by land values and the quality of the surrounding neighborhood. These taxes make it difficult to preserve affordability in strong and improving neighborhoods – exactly what is needed to create upward mobility for Atlanta's families. Georgia should make either small changes to its statute to enable locally-

Exhibit 2

Recommended interventions to support the preservation of Naturally-Occurring Affordable Housing in metro Atlanta



★ Key recommendations



orchestrated affordable housing property tax relief similar to what is offered in Tennessee, or it should create a more deliberate tax abatement framework that supports affordable housing across the state.⁵

Supporting Recommendations

- **Build relationships with sellers and brokers** so that mission-driven developers can access a broad pipeline of NOAH preservation opportunities.
- **Create a City-backed subordinate loan program for NOAH acquisition** to allow for NOAH preservation in in-town markets where bank appraisals and sale prices are mismatched.
- **Establish local government support for NOAH** that streamlines the permitting process for NOAH renovation.
- **Connect owners to resources for utility-efficiency improvements** to lower ongoing operating costs and improve tenant comfort.
- **Expand capacity for quality property management** to address the challenges of working with older properties and lower-income populations.
- **Provide resources and support for code upgrades** to help reduce and manage costs passed on to tenants through higher rent.
- **Provide seed funding for staff and technical assistance** to support next steps on NOAH recommendations.

- **Explore subsidies** as a tool to deepen impact of NOAH recommendations.

The heated Atlanta real estate market will make NOAH preservation deals more difficult. Yet, now is the time to build capacity, win deals wherever possible, and put all the preservation tools in place ahead of the next market softening.

The Atlanta affordable housing community should adopt a new paradigm to support NOAH preservation, while recognizing that this is only one piece of the affordable housing puzzle

To preserve NOAH, the affordable housing community will need to use private-sector mechanisms to serve the public good. NOAH preservation advocates should focus preservation in strong and improving areas that help families break the cycle of poverty – even if this comes at a higher price tag. Developers will need the political support to focus on providing safe, decent, healthy housing and to avoid spending precious rehabilitation dollars on exterior bells and whistles.

Ultimately, Atlanta’s challenges demand a comprehensive affordable housing strategy. NOAH is one piece of the puzzle that will help attract new allies, new capital, and new tools to the affordable housing movement – but it will not be enough. Metro Atlanta needs a coordinated, regional, well-resourced strategy for affordable housing, community retention, and anti-displacement. The region’s long-term prosperity and economic dynamism depend on it.

⁵ Further description and additional details on the Memphis PILOT Program are on page 37 and page 64

Introduction

Atlanta is a boomtown – for now. The metro area’s economy and population continue to grow.¹ Cranes dot the Midtown skyline.² Downtown Sandy Springs and other metro Atlanta suburbs have become a new mecca for mixed-use development.³

But it’s not all rosy: The metro area faces an increasingly fierce and highly-publicized affordable housing crisis. Working families around the metro area face rising cost burdens. Many have to move if rents climb too high or if their landlord converts their property into luxury apartments. The metro

area’s service workers generally live far from where they work, creating logjam traffic in the metro area’s business districts like Buckhead.⁴ As affordable housing in job centers becomes scarce and commute times become longer, it will be harder and more expensive for Atlanta’s business districts to attract and retain low-wage labor.⁵ The ripple effects of high neighborhood transiency and moving to lower-quality schools can hurt school

1 Scott Trubey, “ARC: Atlanta Area Adds Nearly 80,000 in Past Year,” Atlanta Journal-Constitution, accessed March 24, 2018, <https://www.ajc.com/news/local-govt-politics/arc-atlanta-area-adds-nearly-000-past-year/0UpRQWXlDdN2kExsR6xhbL/>.

2 Michael Kahn, “Mapping Midtown’s Development in the New Year,” Curbed Atlanta, June 14, 2017, <https://atlanta.curbed.com/maps/atlanta-midtown-development-map-2018>.

3 Michael Kahn, “Study: Atlanta Renters Flocking to Suburbs, Outpacing Urban Growth,” Curbed Atlanta, May 16, 2017, <https://atlanta.curbed.com/2017/5/16/15644662/atlanta-suburban-renters-urban-apartments>.

4 “Buckhead Planners: Lack of Housing Options Is a Big Source of Traffic,” Atlanta Business Chronicle, May 31, 2017, <https://www.bizjournals.com/atlanta/news/2017/05/31/buckhead-planners-lack-of-housing-options-is-a-big.html>.

5 Office of Sustainable Communities, “Smart Growth and Economic Success: The Business Case” (Environmental Protection Agency, November 2013), pgs. 3 & 8, https://www.epa.gov/sites/production/files/2014-06/documents/business_case.pdf.

performance and raise the costs of providing a quality education to low-income families.⁶

As the affordable housing challenge becomes more severe, there is increasing public and political attention on the topic. This includes a NPR segment on affordable housing, a renewed focus on affordable housing at the Atlanta BeltLine, and a significant emphasis on affordable housing and anti-displacement by City of Atlanta Mayor Keisha Lance Bottoms.

The metro area requires creative solutions to move forward. This paper and accompanying materials explore one possible option: To preserve the metro

area's currently-unsubsidized, older apartments as affordable for low- and moderate-income households. We recommend focusing these efforts in strong and improving neighborhoods to help families break the cycle of poverty.

Preserving naturally-occurring affordable housing is an important lever – But, this process must happen alongside a comprehensive strategy that provides a coordinated and well-resourced approach to housing affordability in Atlanta.

6 U.S. Department of Housing and Urban Development, "How Housing Mobility Affects Education Outcomes for Low-Income Children," Fall 2014, <https://www.huduser.gov/portal/periodicals/em/fall14/highlight2.html>; David Kerbow, "Patterns of Urban Student Mobility and Local School Reform," *Journal of Education for Students Placed at Risk (JESPAR)* 1, no. 2 (April 1, 1996): 147–69, https://doi.org/10.1207/s15327671espr0102_5.

The Problem

Current market dynamics are a threat to metro Atlanta's stock of naturally-affordable rental housing

Atlanta's growth and rising rental demand are driving investment in luxury apartments and constraining the supply of affordable units

Atlanta's apartment market is seeing surging demand and climbing costs. Since the financial crisis, national rental markets have seen a surge in new demand, with sharp rental household growth and declines in the homeownership rate.¹ Simultaneously, the economy in Atlanta is strong and many new residents are moving to the metro area.² Like other Sun Belt cities, this population growth appears to include families of all ages.³

All these factors contribute to a high demand for apartments in the City of Atlanta and the inner

suburbs – and investors are following the money to house upper-middle class, newly-urban residents.

As investors eye the market, they routinely demand returns on their capital in the mid-teens, and sometimes the low-twenties.⁴ Construction costs are growing as well, driven by material costs, labor shortages, and costly permitting timelines.⁵ And the property taxes associated with amenity-rich parts of the Metro push operating costs higher.

In prime areas of Metro Atlanta, luxury units are replacing Naturally-Occurring Affordable Housing (“NOAH”). Due to the scarcity of affordable housing resources and the high costs of capital, land, & construction, developers' only feasible options are to upgrade or build luxury units. By putting in extra renovations or 20% more in up-front construction costs, developers can double the rent and deliver

1 Joint Center for Housing Studies at Harvard University, “America's Rental Housing 2017,” December 2017, 1–2.

2 Trubey, “ARC: Atlanta Area Adds Nearly 80,000 in Past Year.”

3 Pete Saunders, “The Sun Belt's Demographic Delight Is The Rust Belt's Demographic Dilemma – For Now,” *Forbes*, accessed March 24, 2018, <https://www.forbes.com/sites/petesaunder1/2018/03/04/the-sun-belts-demographic-delight-is-the-rust-belts-demographic-dilemma-for-now/>.

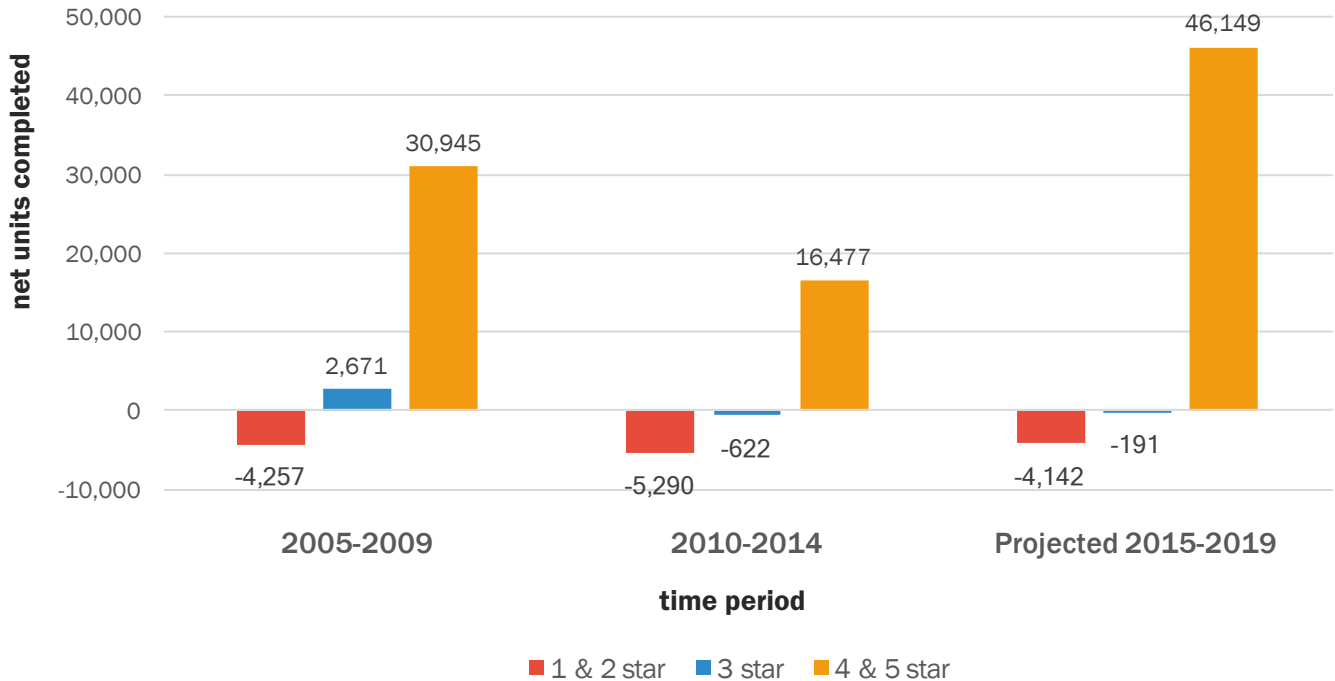
4 Interviews with multiple mission-driven for-profit developers

5 Tim Blackwell, “The Rising Cost of Apartment Construction: It's More than Labor Shortage,” (*Property Management Insider*, February 8, 2018), <https://www.propertymanagementinsider.com/rising-cost-apartment-construction>; Bendix Anderson, “Construction Costs Rise for Apartment Projects,” *National Real Estate Investor*, November 14, 2017, <http://www.nreionline.com/multifamily/construction-costs-rise-apartment-projects>.

Exhibit 3

Atlanta is losing 1- and 2-star units,⁵ and virtually all net new construction is luxury units

Net completions between 2005 and 2019 by star



CoStar data pulled March 2018 through CoStar Data Export on Stock and Net Completions of apartments by year and star, using “Base Case” growth scenario. Note that CoStar’s definition of the Atlanta market is more expansive than the ARC definition – the CoStar market definition covers 30+ counties.

on their investors’ return expectations. Between 2005 and 2017, metro Atlanta lost 14% of its 1 & 2 star units and increased its stock of 3 star units by only 1%.⁶ Using CoStar’s rating system of “1 star” to “5 stars,” the 1 & 2 star units represent NOAH, and 3 star units are often but not always moderately affordable. Virtually all growth in the Atlanta apartment stock since 2005 is comprised

of high-rent luxury units, which are 4 & 5 star units in CoStar.

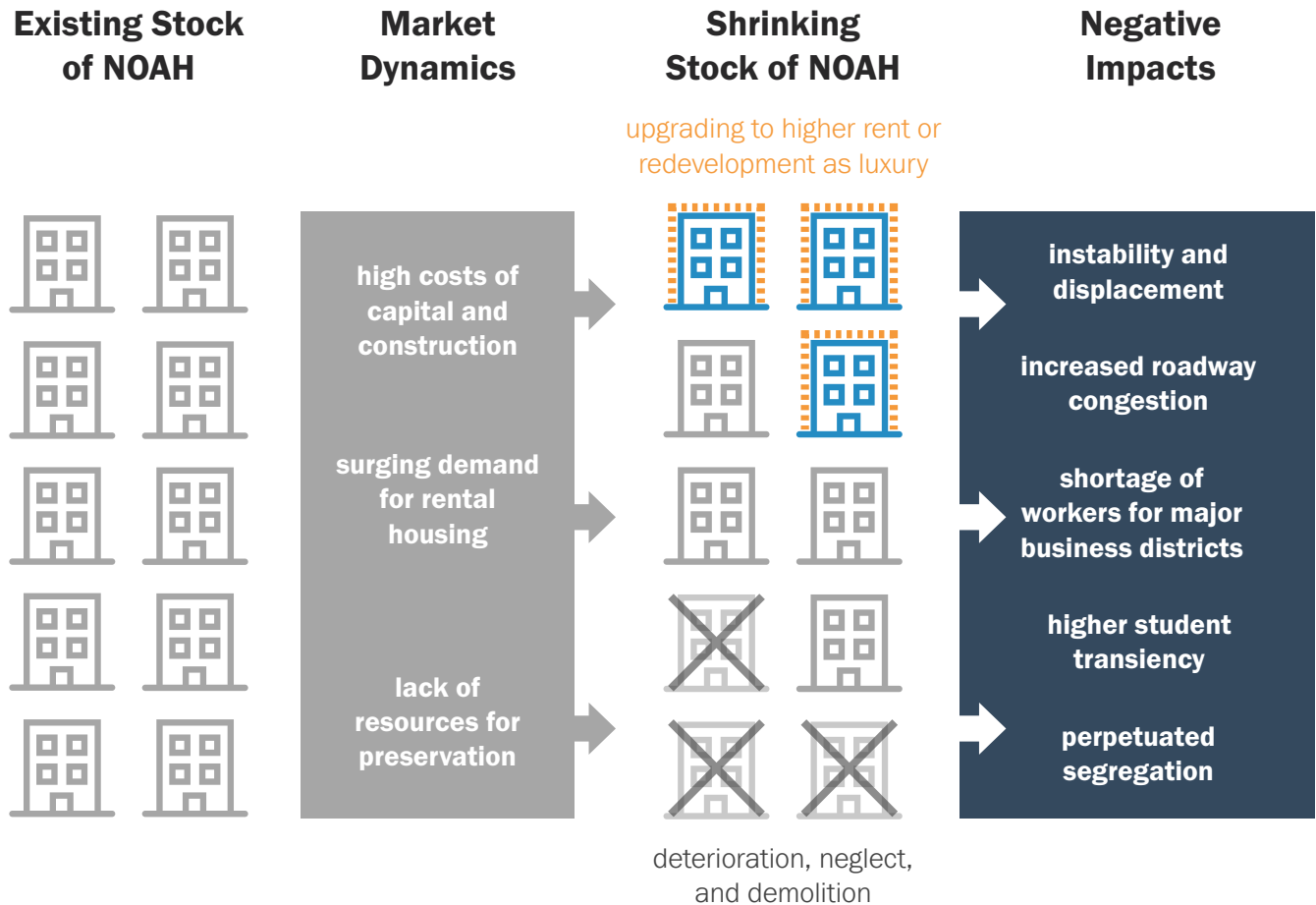
Accordingly, developers are either significantly renovating old apartments or replacing them with luxury units. They rarely build new mid-grade “3-star” units that are affordable to middle-income households.

In challenged areas, naturally-affordable units are deteriorating beyond repair. Struggling neighborhoods with low market rents are not able to attract investment. Owners of these properties cannot demand the rents required to support

⁶ CoStar data exported March 23, 2018 on Stock and Net Completions by year and star. Note that CoStar’s definition of metro Atlanta is more expansive than the ARC definition and covers 30+ counties. See Appendices 1 and 2 for further detail on the recent shift of the stock from predominantly 3, 2, & 1 star units to a significant portion of 4 & 5 star units.

Exhibit 4

Developers either demolish naturally-occurring affordable housing and replace it with luxury – or leave it to deteriorate



improvements and maintenance. These older developments fall into disrepair and are either left vacant or torn down and held until the neighborhood changes course.

Developers and owners lack resources to preserve affordability at scale

Federal resources for affordable housing are under stress. There are two main types of federal resources for affordable housing. The first

are resources that subsidize the creation and preservation of affordable housing. The largest is the Low-Income Housing Tax Credit program (LIHTC), which encourages new construction and substantial renovation. Other resources for creation and preservation include the HOME Investment Partnership Program, the Community Development Block Grant Program, Project-Based Rental Assistance, and the National Housing Trust Fund - but these are limited in their level of funding. The second type of federal resources for affordable housing are rental assistance, including

the Housing Choice Voucher program (Section 8). These resources help residents with a portion of their rent.

Each of these sources is under stress. Tax reform has lowered the value of the Low-Income Housing Tax Credit. The remaining federal subsidies for production and preservation of affordable housing are at a premium and face ongoing threats of budget cuts. Section 8 and other rental assistance programs have long wait lists. To-date, Georgia has raised little additional resources to fund subsidized housing. The City of Atlanta has recently raised new funds including through the Housing Opportunity Bond, but these resources are still limited.

The shortage of resources for affordable housing exacerbates the region's affordability challenge: a large number of Metro Atlanta's subsidized units are likely to lose their affordability restrictions in the coming years – without new units to replace them.⁷

Atlanta's affordable housing developers are not yet equipped to buy and manage older, currently-unsubsidized apartments. Many of Atlanta's non-profit and for-profit affordable housing developers have historically focused on projects that involve either new construction or substantial rehabilitation.⁸ Each new unit could cost over

\$175,000 in construction costs, and LIHTC-backed renovation mandates at least \$25,000 in upgrades per unit.⁹ Developers may feel that new construction or significant and visible rehab is essential to protecting their brand and to reinforcing the local support necessary to receive subsidies. As federal resources decline, affordable housing developers will receive less subsidy, and subsequently will produce less of these newly-built units.

Further, the expertise involved with successfully accessing these resources – navigating the significant timelines and transaction costs associated with subsidy applications and compliance – creates a business model very different from what is required for NOAH projects. Traditional affordable housing developers have not developed an expertise in rapid acquisition and often do not have access to the needed capital. These developers also do not have the processes or systems needed to quickly assess, renovate, and prepare to manage properties that have extensive deferred maintenance and capital needs.

As a result of resource constraints for new construction coupled with a lack of expertise in NOAH preservation, the efforts of metro Atlanta's more traditional affordable housing developers are not enough to respond to the need for lower rents in the region.

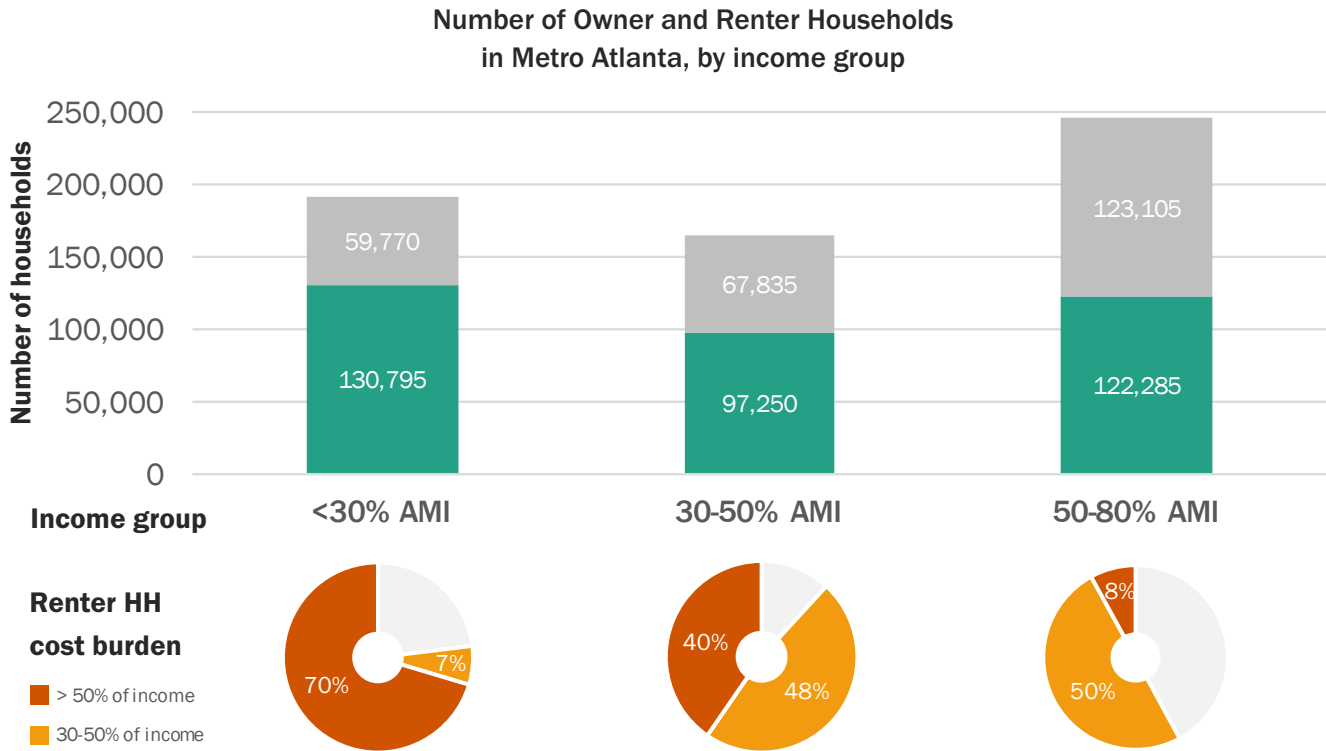
7 Renee Lewis Glover, Ann Carpenter, and Richard Duckworth, "Developing Inclusive Communities: Challenges and Opportunities for Mixed-Income Housing" (Federal Reserve Bank of Atlanta, June 2017), pg. 7.

8 Low-Income Housing Tax Credits are the primary source for affordable housing production. LIHTC largely supports either new construction projects (with so-called 9% credits), or acquisition and substantial rehabilitation (using so-called 4% credits, often used in combination with tax-exempt bonds).

9 Georgia Department of Community Affairs 2018 Qualified Allocation Plan pg. 25.

Exhibit 5

Most low-income households are cost burdened, with very-low and extremely-low income households often paying more than 50% of their income on rent



Notes: AMI refers the Area Median Income as defined by the U.S. Department of Housing and Urban Development. Households in 10-County ARC planning area, including Cherokee, Clayton, Cobb, DeKalb, Douglas, Fayette, Fulton, Gwinnett, Henry, and Rockdale Counties. Households of all income ranges in this ten-county area total 4,505,067 (ARC 2016). Cost burden data from 2010-2014 HUD Consolidated Planning/CHAS Data.

For-profit and non-profit developers lack the capital to compete at the scale required. A number of for-profit developers are interested in helping preserve affordable units. Some are smaller developers who own a few developments as nest eggs, and others are professional developers with a personal passion for preserving affordable housing. It is difficult for either group to attract external investment at a cost that would let them maintain rents as affordable. And, in rapidly improving areas, even developers committed to affordability find it hard to keep rents low in the face of rising property taxes and the costs of code enforcement.

In most cases, current owners see no incentive to maintain rents as affordable. Recent efforts to partner with current owners to maintain lower rents have not received much interest. Owners of these properties likely believe that they will be able to sell their properties at high prices in the future and are unwilling to give up that opportunity.¹⁰ Furthermore, the City of Atlanta's recent programs have generally required developers to take extra steps in order to secure local subsidies. Developers have generally opted out of pursuing these subsidies, implying

¹⁰ Interviews regarding early findings from engagement with property owners as part the Affordable Housing Preservation Challenge proposal.

that they do not perceive the benefit of the subsidy to be worth the extra steps or the forgone benefits of holding and selling the property later.¹¹

The Result: High rents magnify housing cost burdens and displace families into distant, low-opportunity neighborhoods

Working families – who either can no longer afford their rising rents or who are being forced to leave so a developer can tear down and re-build a 1960s complex – often have to move outside of the City and inner-ring suburbs. The high turnover of students in the region’s lower-income public schools, studies of Fulton County eviction rates, and recent reports of the suburbanization of poverty all point to families having to move due to rising housing costs.¹² The areas they move to are often ill-equipped to absorb low-income populations and often lack transit, quality schools, familial support, local jobs, and other amenities to support poor families.¹³

11 Input from discussions with the Atlanta BeltLine and developers familiar with City of Atlanta programs. The City of Atlanta’s housing bond offers developers several packages. Some funding packages come with conditions including a community process and design requirements.

12 Will Robinson, “In Schools, a Tale of Two Fultons,” Atlanta Journal-Constitution, April 10, 2017, <https://www.ajc.com/news/local-education/schools-tale-two-fultons/wKdUFX2cYqPsUVgl6Gah70/>; Elora Raymond et al., “Corporate Landlords, Institutional Investors, and Displacement: Eviction Rates in Single-Family Rentals” (Federal Reserve Bank of Atlanta Community & Economic Development Discussion Paper, n.d.), Pg. 3, accessed March 23, 2018; Elizabeth La Jeunesse, “The Rise of Poverty in Suburban and Outlying Areas,” Housing Perspectives from the Harvard Joint Center for Housing Studies at Harvard University (blog), July 11, 2017, <https://housingperspectives.blogspot.com/2017/07/the-rise-of-poverty-in-suburban-and.html>.

13 Elizabeth Kneebone, “The Growth and Spread of Concentrated Poverty, 2000 to 2008-2012,” Brookings, July 31, 2014, <https://www.brookings.edu/interactives/the-growth-and-spread-of-concentrated-poverty-2000-to-2008-2012/>.

Our Research Question: Preserving naturally-occurring, unsubsidized affordable units in strong and improving neighborhoods

Our problem statement

How can Metro Atlanta leverage currently-unsubsidized, naturally-occurring affordable housing to support affordable opportunity for low-income families?

Housing is lowest-cost in areas that lack good schools, jobs, transit, and other amenities. Any well-crafted NOAH strategy should focus on preservation and community retention in strong and improving neighborhoods – not simply in poor neighborhoods that will naturally stay affordable over time. This paper focuses on interventions to preserve NOAH that simultaneously prioritize housing affordability and neighborhood opportunity at once.

Methodology

Our methodology included four components, as follows:

- **Interviews with stakeholders** to learn more from national pioneers in NOAH preservation and to gather perspectives from stakeholders across metro Atlanta. Interviewees included representatives from the public sector, housing advocates, nonprofit developers and organizations, elected officials, private-sector developers, fund managers, and brokers.

- **Literature review** on NOAH and its position within a broader housing affordability strategy, as well as a review of housing issues and initiatives in metro Atlanta. These reviews provided background on housing challenges in Atlanta and on precedent strategies for preserving NOAH in other communities.
- **Data analysis and research** to identify the range of housing conditions across metro Atlanta. This research included analysis of the stock of NOAH both at the neighborhood level and the metro level. Unless otherwise noted, “metro Atlanta” is typically defined as the Atlanta Regional Commission’s 10-county intergovernmental coordination area encompassing Cherokee, Clayton, Cobb, DeKalb, Douglas, Fayette, Fulton, Gwinnett, Henry, and Rockdale Counties.
- **Targeted supporting research on precedent interventions** aimed at preserving the affordability of unsubsidized rental housing, including financing sources, public policy supports, and capacity building and training.

No single intervention is enough to solve Atlanta’s affordability challenges – but NOAH preservation frees up resources to serve the region’s poorest families

No single policy or type of housing will solve Atlanta’s affordability challenges. Metro Atlanta needs a well-resourced and regionally-coordinated strategy to truly move the needle on housing costs.

NOAH preservation offers a faster, lower-cost, complement to other strategies. It capitalizes on market forces and attracts new capital to the affordable housing effort to aid in community retention and prevent displacement – and in the process frees up precious subsidies to reach households with extremely-low incomes (those earning less than 30% of the area median income), formerly-homeless individuals, and other groups with more extensive service needs.¹⁴ The metro region will ultimately need to raise funding for subsidies to support these populations. These subsidies could complement the NOAH approach and can also go towards other needed supports for affordable housing in Atlanta.

¹⁴ Interviews with Minneapolis NOAH Impact Fund and LA Genesis LA Fund.

A Window of Opportunity

Atlanta’s remaining stock of older, unsubsidized rental properties house a significant portion of low-income families

Traditional affordable housing discussions focus on the portion of the housing stock that receives local, state, or federal subsidies. Yet, many of Atlanta’s low-income households live in unsubsidized rental units. These units are largely not addressed by traditional subsidy-driven affordable housing approaches. This paper focuses on this segment of this unsubsidized segment of the rental stock: naturally-occurring affordable housing (“NOAH”), particularly the units serving households with incomes less than 80% of the area median income (AMI).¹ The region’s striking cost burden data indicate that many of these households already struggle to find affordable housing opportunities, suggesting that much of this stock is indeed not

currently affordable to the households it serves. As such, this report will also focus on ways to expand the affordability of these properties.

Due to challenges in the data, not all analyses will precisely reflect this stock, but all recommendations will be targeted to serving households earning below 80% of the area median income. While we cannot systematically access rent data for specific properties, we can measure the stock in other ways, including age of property and class of property. We will generally consider Class C (2-star) and Class D (1-star) developments to be “naturally-occurring affordable housing,” and for Class B (3-star) to have affordability potential.²

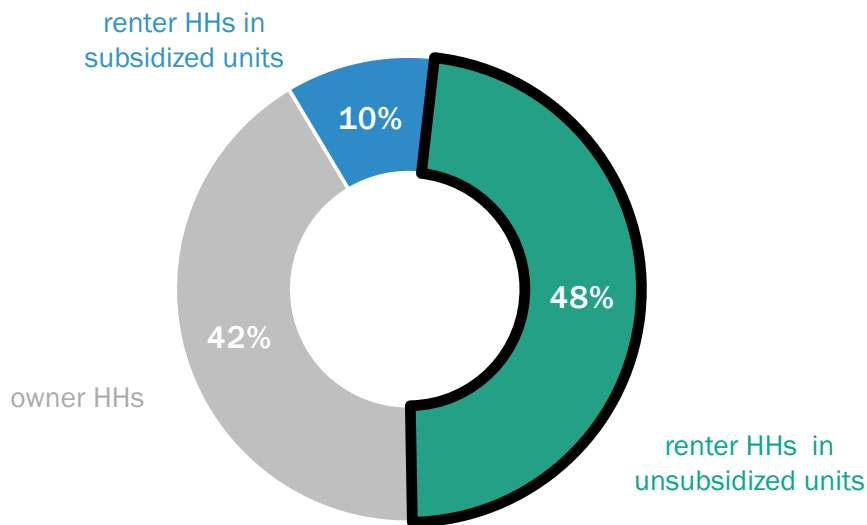
1 Area Median Income for a family of three is approximately \$67,400. 80% AMI roughly translates to an income of \$53,920, and a maximum \$1,347 per month rent for a 2-bedroom apartment and \$1,555 per month for a 3-bedroom apartment. A table showing maximum affordable rents by percent of AMI and unit type can be found in Appendices 3 and 4.

2 Fulton County assessor data provides class for some multifamily developments. For example, the assessor data may classify a property as “Garden Apartment (1 – 3) Class ‘C’”. Costar uses 1, 2, 3, 4, and 5 star designations, where 1-star roughly corresponds to a Class D development, 2-star is a Class C, 3-star is a Class B, and 4- and 5-star is Class A. Due to construction code today, any new construction would be at least a Class B / 3-star at the outset. After that, the property may deteriorate to a lower grade over time.

Exhibit 6

Half of metro Atlanta households below 80% AMI live in unsubsidized rental housing

Tenure of households <80% AMI in metro Atlanta



Notes: Reflects tenure for households in the Atlanta Regional Commission's 10-county area earning <80% of the Area Median Income (AMI). These 10 counties include Cherokee, Clayton, Cobb, DeKalb, Douglas, Fayette, Fulton, Gwinnett, Henry, and Rockdale Counties. Calculations based on HUD Consolidated Planning Data (CHAS) for the 2010-2014 period, and development unit totals from the National Housing Preservation Database, assuming a with 85% occupancy rate (the average rate for the Atlanta-Sandy Springs-Roswell Core Based Statistical Area as reported by HUD's 2017 Picture of Subsidized Housing data).

Nearly half of metro Atlantans with incomes below the area's median income live in unsubsidized rental units

Among Atlanta's low-income households, few live in subsidized affordable units, but almost half live in unsubsidized rental units. Many of these families are currently paying more than 50% of their income towards housing costs.

Metro Atlanta still has a substantial stock of naturally-occurring affordable units

There are still many older multifamily properties, even in strong and improving neighborhoods. Older apartment complexes are prevalent throughout metro Atlanta, including in many neighborhoods within Atlanta city limits and in several of Atlanta's suburbs. Importantly, some of these developments are located in neighborhoods with good schools, access to transit, and other amenities.³

³ See Appendices 5 and 6 for a table of the location of Class B, C, and D units in Fulton County by city, and a table of these units in the City of Atlanta by school zone.

Exhibit 7

Fulton County has many older multifamily properties, including in medium- and high-opportunity areas

Distribution and Relative Size of Class B, C, and D Garden Apartment Properties in Fulton County, overlaid with Opportunity Index

Class Designation

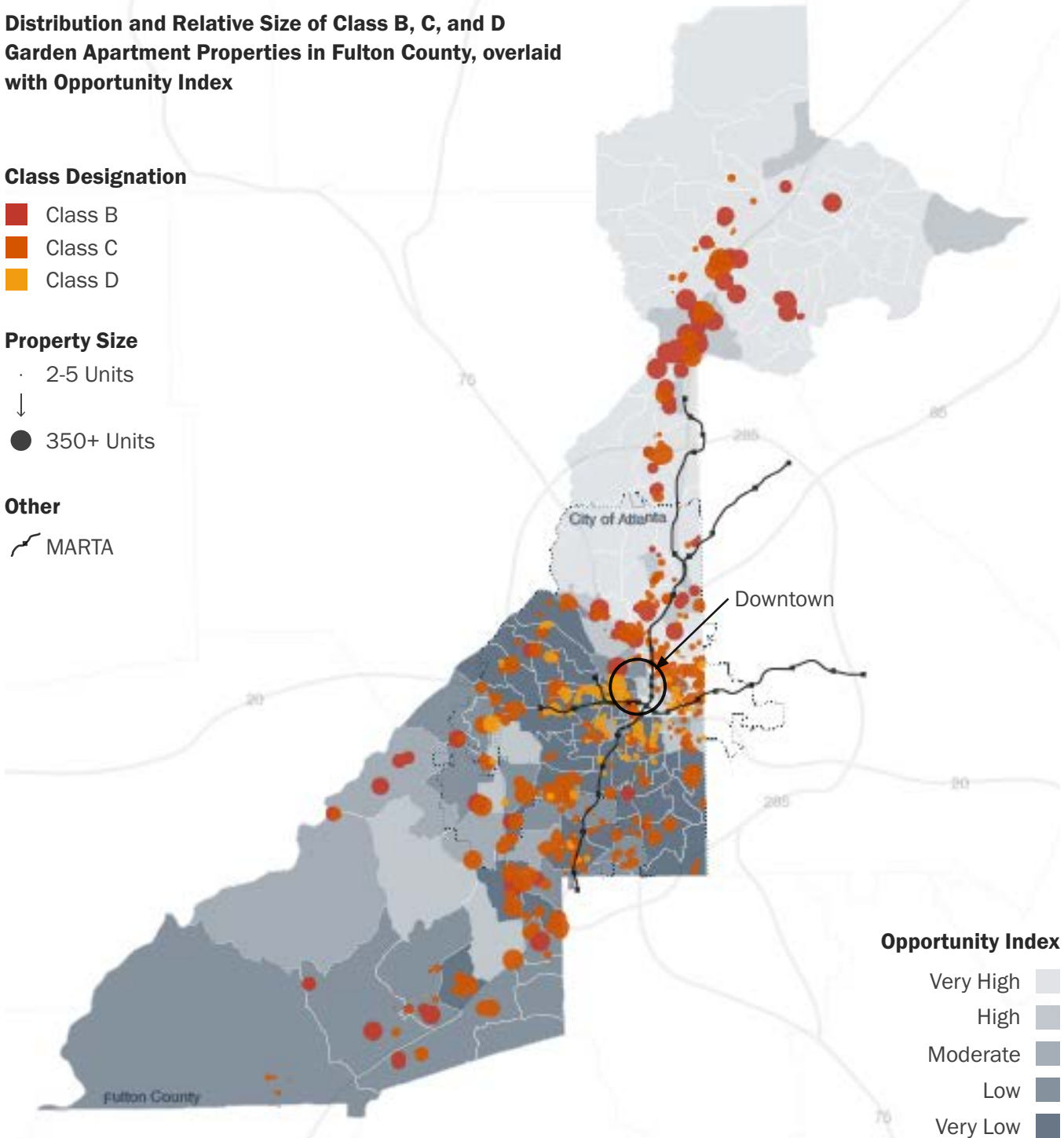
- Class B
- Class C
- Class D

Property Size

- 2-5 Units
- ↓
- 350+ Units

Other

- MARTA

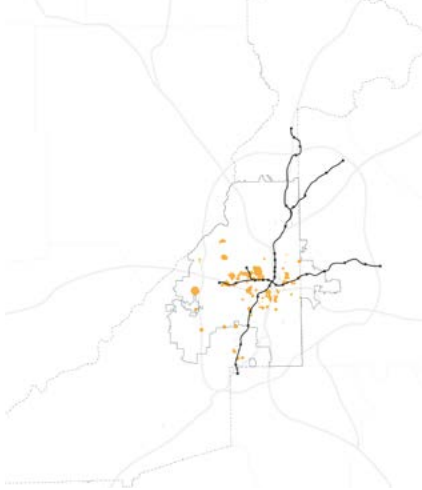


Fulton County as one example of regional NOAH availability. Property Class Designations drawn from 2015 Fulton County Assessors data. "Opportunity" as defined by Child Opportunity Index, developed by The Ohio State University Kirwan Institute. The Child Opportunity Index is a measure of relative opportunity across a metropolitan area calculated based on indicators of Educational Opportunity, Health and Environmental Opportunity, and Social and Economic Opportunity.

Exhibit 8

Smaller, older class D properties are located in in-town neighborhoods while larger, newer Class C and B properties are located throughout Fulton County

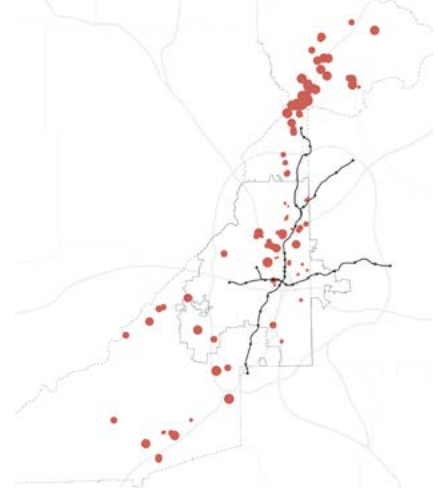
Class D Properties



Class C Properties



Class B Properties

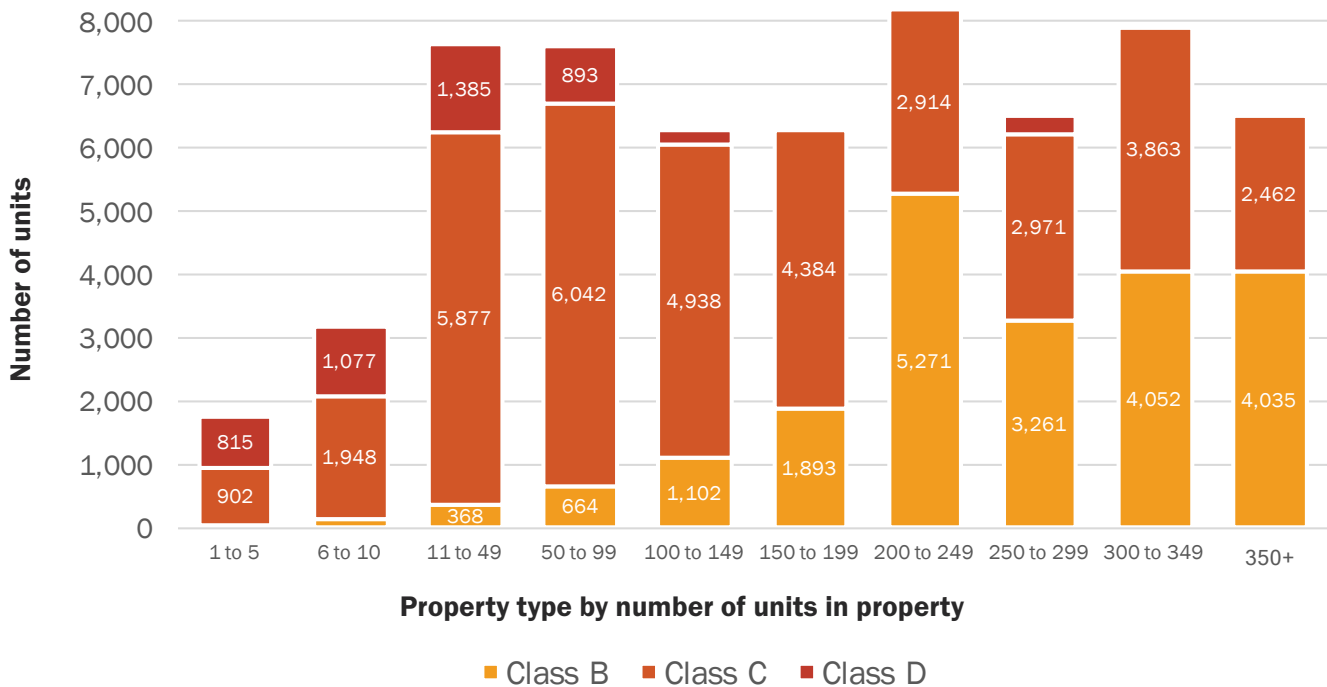


Property Class Designations drawn from 2015 Fulton County Assessors data.

Exhibit 9

Many Fulton County NOAH units are in large properties

Distribution of Fulton County Garden Apartment Units by Property Class and Size

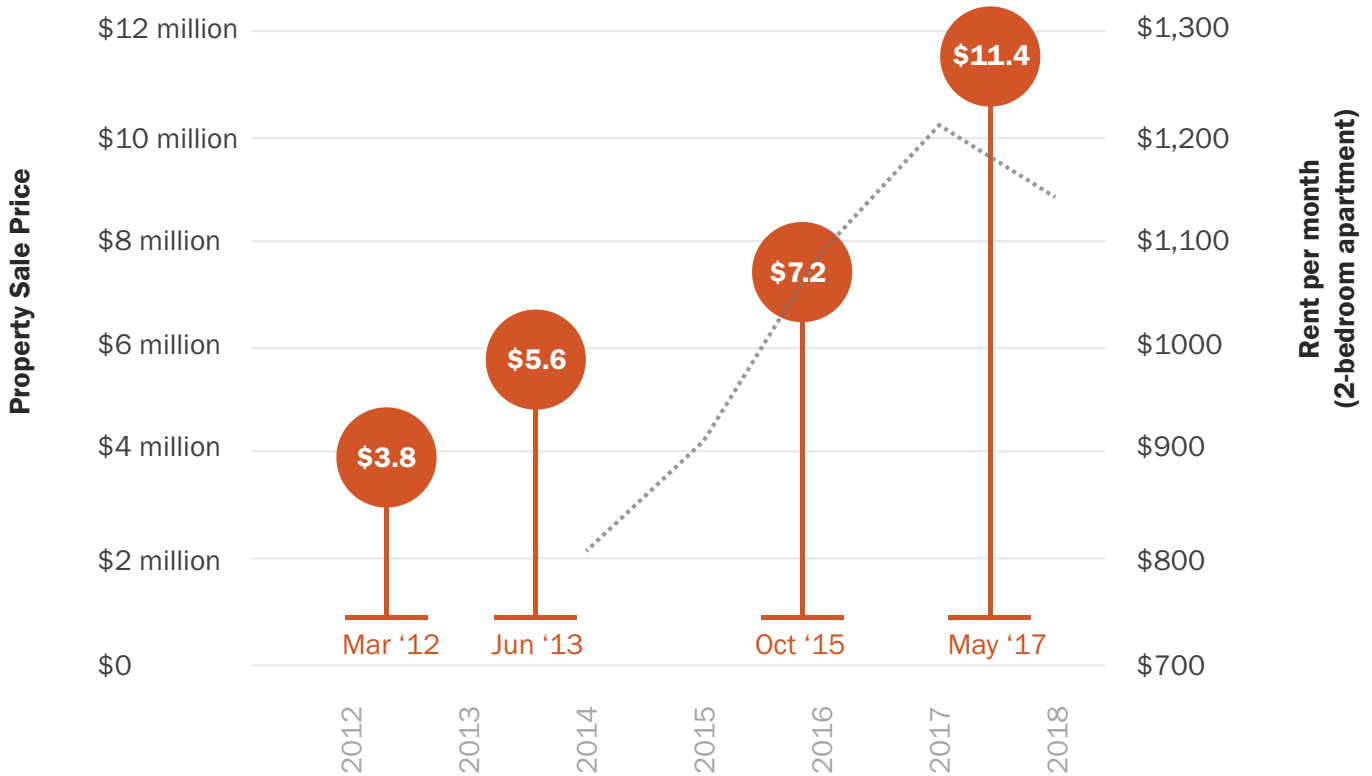


Property Class Designations drawn from 2015 Fulton County Assessors data.

Exhibit 10

NOAH assets are rapidly changing hands with markups at each sale

**Transaction history of an example NOAH property
135-unit C+ property along the Buford Highway Corridor**



Many of these developments have a significant number of units. Analyzing just the portion of the multifamily housing stock that with class designations, we see that nearly 80% of Class B, C, and D units in Fulton County, particularly those lying outside of Atlanta’s core, are in developments of over 50 units. This means that an acquisition-based strategy could lock up a significant number of units with relatively few deals.

Owners are trading these assets often, albeit with significant markups at each sale. Older Class B and Class C apartment complexes are trading rapidly in Atlanta. One example property has traded four times in the last six years. In 2012, this 135-unit, Class C property sold at \$3.8 million – just five years later, it sold for \$11.4 million. The available data for rents show that they have skyrocketed alongside the sale price. These rapidly escalating prices are typical of Atlanta’s heated real estate market.

The upside of the rapid trading is that owners are selling the target properties. In the current environment, it will be difficult to get a good deal on these properties, but at a substantial scale, enough developers examining enough potential purchases will yield preservation deals that allow low-income families to stay in improving neighborhoods. However, because of the unpredictable nature of the deals and the benefits of scale in an acquisition-focused strategy, it will be difficult to execute a NOAH strategy at the neighborhood level. Preservation will likely require a regional approach to fill the pipeline with enough potential deals to be successful.

Findings

Three conditions support the preservation of Naturally-Occurring Affordable Housing

Traditional affordable housing mechanisms tend to work slowly and deliberately, at a pace that aligns with timelines of the subsidy programs that make the work possible. But naturally-occurring affordable housing (“NOAH”) is bought and sold on short timelines, trading on the market like all other commercial property. Efforts to intervene in this process and preserve NOAH must reflect this reality. This section explores NOAH’s unique characteristics, and the conditions necessary to support NOAH preservation. The next section – a recommendations section – proposes approaches to cultivate these conditions.

Broadly, NOAH preservation requires an ecosystem in which mission-driven non-profit and for-profit developers can acquire, renovate, and operate rental developments at price points that allow them to charge affordable rents while still meeting their investors’ return expectations.

There are three main conditions that, together, create an ecosystem for NOAH preservation:

1. **Mission-driven non-profit and for-profit developers can identify and compete for NOAH deals.**
2. **Developers have access to nimble, below-market capital to help them close deals and maintain affordability.**
3. **Ongoing operating costs are modest, well-managed, and predictable.**

Condition 1: Mission-driven non-profit and for-profit developers can identify and compete for NOAH deals

Developers often have to look at 25 to 30 NOAH properties in order to close on a single deal. Non-profit developers that have considered entering the NOAH space stated that they did not have the staff to handle this rapid pace of acquisitions and related due diligence. Non-profit developers, for-

Exhibit 11

Three conditions help preserve naturally-occurring affordable housing



- Developers have the capacity and relationships to compete for deals, including staffing, balance sheet strength, property management, and broker relationships
- Policies incentivize preservation of lower-rent units rather than their demolition and higher-rent replacement

- Debt is available at higher loan-to-value ratio or below-market interest rate
- Developers can access low-cost and long-term equity
- Capital is accessible in time to compete for purchase
- Cost of financing does not require rent increases
- Renovation costs are either low or partially subsidized
- Local governments support developers focused on preservation

- Structure is in good condition
- Systems and upgrades are carefully selected to lower water and energy costs
- Property taxes are manageable
- Developers have the right property management skillset and capacity
- Paperwork associated with program compliance is minimal
- Local code enforcement processes support affordability

profit developers, and brokers all mentioned that a significant portion of NOAH sales – possibly as many as half – close without ever making it into a public sales listing. Properties that do make it to a listing sell quickly.

Non-profit and for-profit developers need the appropriate capacity and skillset to compete for these deals. They also need to build relationships with sellers and brokers to ensure they get the right information at the right time to compete for properties. And, having more developers – both non-profit and for-profit – interested in NOAH preservation will improve the odds that properties are preserved as affordable.

Condition 2: Developers have access to nimble, below-market capital to help them close deals and maintain affordability

Developers pass along the costs of financing and renovation to their tenants. When developers buy a more expensive development, they will charge a higher rent to cover the mortgage and investor return. When they buy a less expensive development, they can charge a lower rent while still meeting obligations to lenders and investors. So, first and foremost, developers must identify properties with a “per-door” cost – including both the purchase price and the cost of renovations – that supports affordable rents.

Once a developer is in the per-door cost “sweet spot,” they also need access to low-cost capital. In most areas of metro Atlanta, banks are willing to lend at a sufficient loan-to-value ratio and competitive interest rates. In these areas, developers do not need as much help securing debt, but they do need

help securing investor capital to fill the equity gap between what they can get from a lender and the full capital costs of the project. Most investors demand returns in the mid-teens, which all but require that developers renovate or re-build to raise rents to the rate needed to achieve investor returns. The market cost of equity is a major barrier to NOAH preservation. Right now, Atlanta has little if any social impact capital available to provide cheaper equity to mission-driven developers.

In a few in-town areas of Atlanta, developers perceive that property values in the neighborhood will rise quickly. Whether these developers are right or simply speculating, their rush to buy assets in these locations drives prices up. In these cases, the sale price exceeds the bank’s appraisal of the property. As a result, the bank debt offered covers less of the total property cost, requiring developers to invest even more equity to buy the property.

Renovation costs are also a key consideration – and often a challenge – during acquisition. The range of deferred maintenance and needed capital improvements will vary from property to property. The scope of renovations has an important bearing on the financing needed for construction, as well as on the timeline for construction. Properties with limited renovation needs can be completed more quickly, and could even be occupied during construction if renovations are phased.

While local governments are rarely involved in the deals themselves, they can play a role in making the acquisition and renovation process smoother for developers. Some local governments create significant barriers for mission-driven developers. In particular, a local jurisdiction might rezone an area that currently has NOAH to encourage developers to rebuild with single-family or commercial

development. As a result, developers seeking to preserve the existing NOAH have to apply for zoning variances to complete the needed renovations. In some communities, NOAH developers may also need additional support from the local police to root out any lingering crime and ensure their properties become safer for families.

Condition 3: Ongoing operating costs are modest, well-managed, and predictable

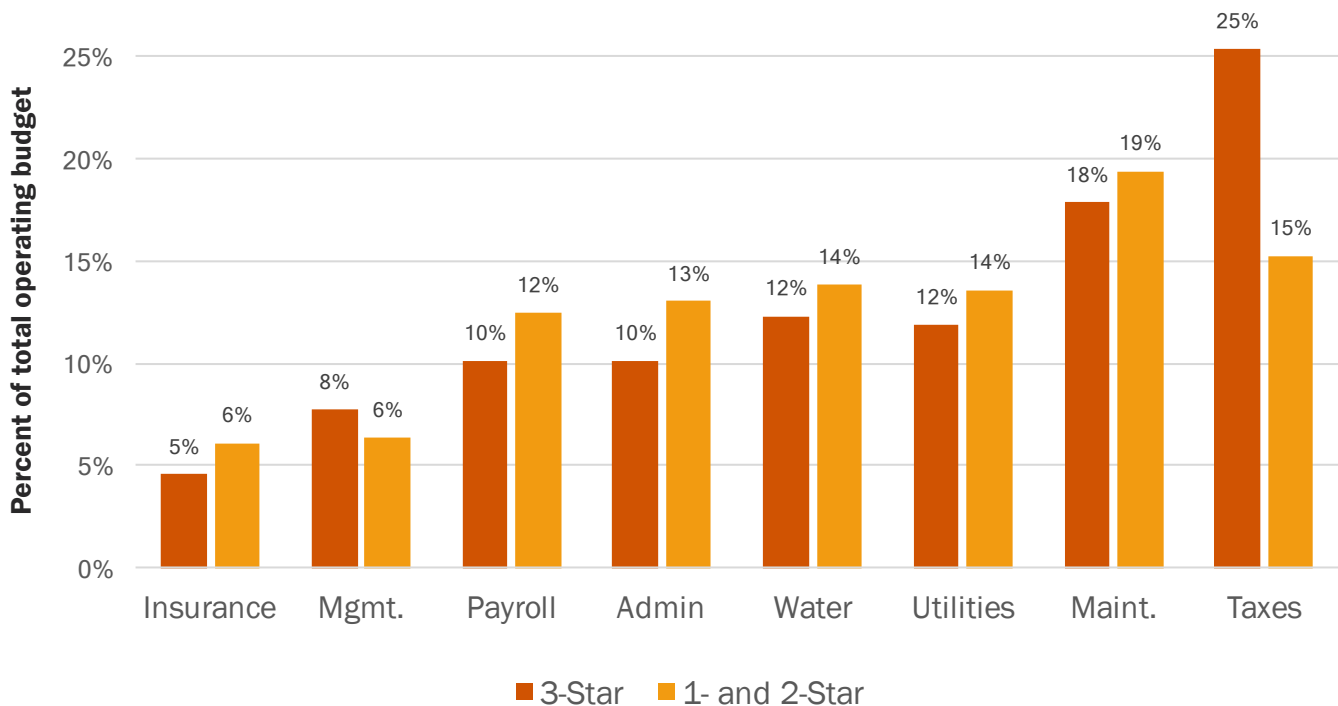
Developers pass operating costs on to residents directly through their rent and indirectly through

utility bills. If operating costs go up, rents and other tenant housing costs go up with them. A developer’s ability to manage operating costs will hinge significantly on how they tackle initial upgrades up front. Renovation decisions about structural upgrades, systems, and energy efficiency all later impact operating costs and tenant livability. Unexpected changes in operating costs can jeopardize the economic viability of a NOAH development.

Property taxes are a significant and sometimes unpredictable operating expense. Property taxes put the most pressure on rents in areas where it

Exhibit 12: Maintenance, utilities, water, and taxes are the largest ongoing operating costs for NOAH

Average Operating Expenses for 1- and 2-Star and 3-Star Units in Atlanta



Source: Operating Expenses per square foot for 1- and 2-Star Apartments in Atlanta. CoStar Atlanta Apartment Market Report, December 21, 2017.

has traditionally been most difficult to provide affordable housing – areas with good schools, jobs, transportation, grocery stores, and other amenities. In these cases, even if nothing is changing about the property, changes in the surrounding neighborhood drive land values and corresponding property tax assessments higher. As property taxes rise, developers pass these costs on to their renters, who face intensifying cost burdens. Ultimately, families may have no choice but to move to an area they can afford but which may offer fewer educational or economic opportunities.

Article VII Section II of Georgia’s constitution prohibits ad valorem property tax exemptions, except those explicitly provided for in the Constitution.¹ In light of this restriction, Invest Atlanta and other entities have established alternative strategies that grant tax abatement through lease-purchase bond transactions. But the associated bond issuances involve high transaction costs, limiting their use to larger projects and established developers.

The City of Atlanta also has a state-authorized program for providing property tax relief in Urban Enterprise Zones, which include areas with high poverty, unemployment, low development activity, and blight.² This program has significant potential to support the creation and preservation of affordability in lower-income areas of the City, but is not designed to tackle the issue of escalating property tax expenses in high-opportunity areas. See Appendices 7 through 9 for further details on Georgia’s tax code and the resulting bond-financed lease-purchase program.

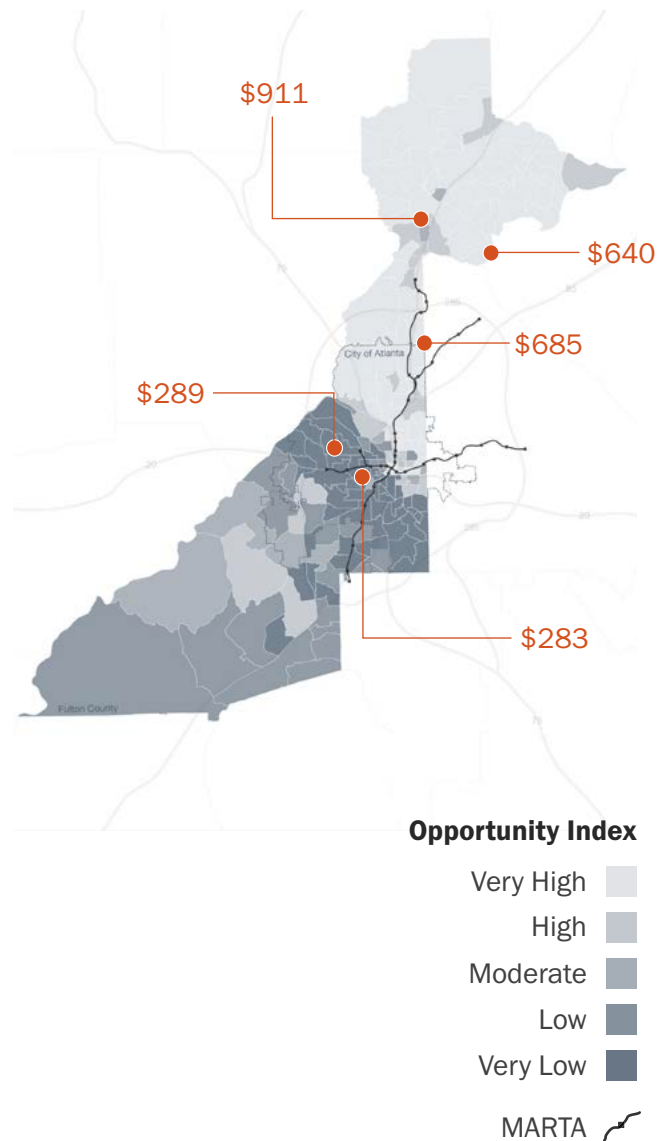
1 Georgia Constitution Article VII, Section II, Paragraph I. This section of the Georgia Constitution does, however, grant local governments the power to approve homestead exemptions. Establishing additional exceptions requires the approval of two thirds of each branch of the General Assembly and of the majority of qualified electors of the stating voting in a referendum.

2 City of Atlanta. Urban Enterprise Zone Program Guide.

Exhibit 13:

Higher-opportunity areas also have highest property tax burden

Annual taxes per unit for 5 sample properties (overlaid with Opportunity Index)



Source: Sample properties drawn from CoStar. Calculation using rent for a two-bedroom unit in property and taxes per unit. “Opportunity” as defined by Child Opportunity Index, developed by The Ohio State University Kirwan Institute. The Child Opportunity Index is a measure of relative opportunity across a metropolitan area calculated based on indicators of Educational Opportunity, Health and Environmental Opportunity, and Social and Economic Opportunity.

Recommendations

A recipe for metro Atlanta

Policymakers, non-profits, and intermediaries operating in different contexts can choose from a wide range of options to support the preservation of naturally-occurring affordable housing (“NOAH”). The recommendations outlined below are tailored to Georgia and the metro Atlanta region. They focus on using acquisition by mission-driven developers as the primary means for preservation. Please see Appendix 13 for additional options and precedents from communities across the United States.

Recommendation 1a **Train a cadre of developers to acquire, rehab, and manage NOAH properties**

NOAH acquisition and management are a different art from traditional affordable housing mechanisms. They require competing for acquisitions at the pace of the market, the capacity to conduct rapid due diligence, and experience renovating and operating older developments without significant subsidy, including properties that are currently occupied. There are a set of developers already interested in

supporting this mission in metro Atlanta. Providing training and technical support to these developers and engaging additional non-profit and mission-driven actors in this space will expand capacity to successfully acquire, renovate, and operate NOAH the metro area. Expanding and strengthening this network of developers could also, over time, help uncover collaborative opportunities to pool resources, lower costs, and provide resident services.

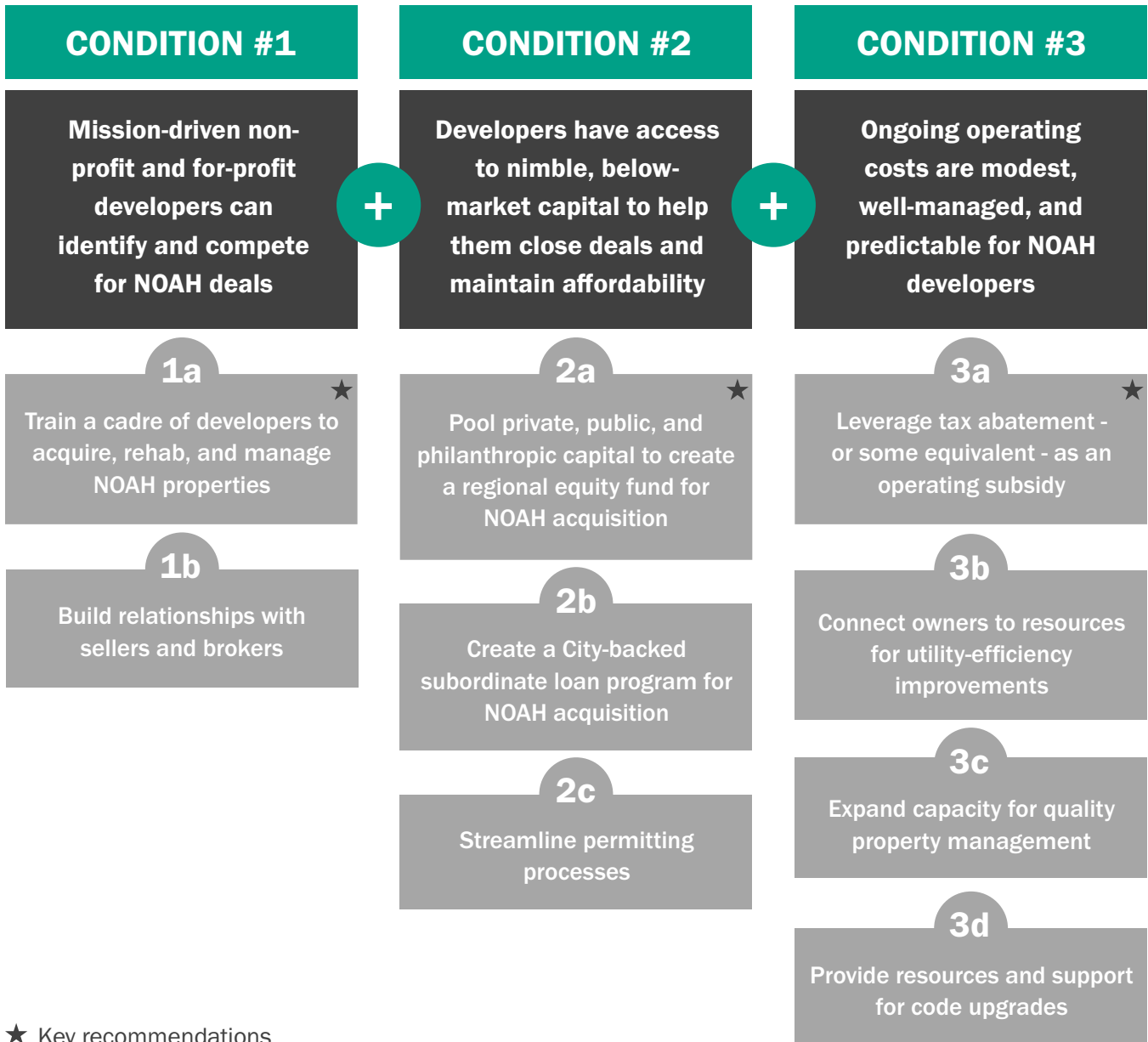
Recommendation 1b **Build relationships with sellers and brokers**

As many as half of NOAH sales happen without ever reaching the market.¹ Building relationships with sellers and educating them about NOAH could help developers close on sales before the property is listed. Additionally, building relationships with a few trustworthy brokers could expand the funnel of

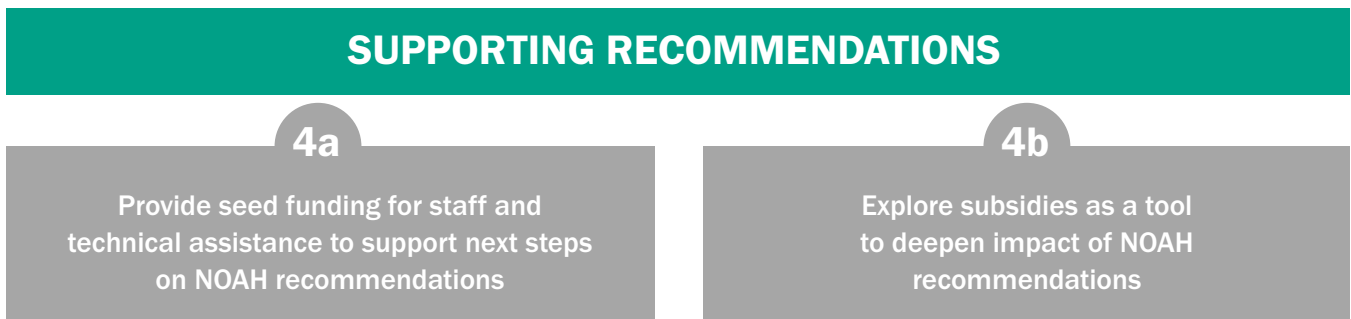
¹ Anecdotal observation that consistently surfaces in interviews with NOAH developers and brokers.

Exhibit 14

Recommended interventions to support the preservation of Naturally-Occurring Affordable Housing in metro Atlanta



★ Key recommendations



potential deals. While brokers do have an incentive to get the highest sale price, they also benefit from working with developers who they know can close deals and who will bring repeat business. Helping NOAH developers to build relationships with sellers and brokers will improve the pipeline of NOAH deals over time.

Recommendation 2a Pool private, public, and philanthropic capital to create a regional equity fund for NOAH acquisition

The typical investor demands returns in the mid-to high-teens for a Class C property. These return expectations force developers to significantly upgrade properties in order to collect the higher rents needed to satisfy investors' returns.

An equity fund with a lower return expectation would allow developers to buy and close on NOAH deals quickly – in exchange, developers would commit to preserve these developments as affordable for at least 15 years, as well as commit to accepting Section 8 vouchers. To effectively preserve NOAH, the fund should be:

- **Regional across metro Atlanta:** The fund is designed to preserve affordability when a development changes hands between owners. While targeting specific neighborhoods may work for other interventions, this intervention will work best by creating the largest possible pipeline of deals across metro Atlanta.²

² We began our report focused on only a few neighborhoods. As we realized that NOAH preservation relies on finding where developers are selling NOAH and ensuring that mission-driven developers become the buyers, we determined that a metro-scale funnel is necessary to support preservation. Conversations with NOAH efforts in Minneapolis and Los Angeles confirm that a large area is ideal.

- **Focused on deals in strong and improving neighborhoods:** While the fund should be regional and the funnel of deals should be large, the fund should also be selective about where to ultimately invest. It should prioritize deals that are in areas at risk of gentrification, that are part of a holistic neighborhood revitalization effort, or that meet pre-set opportunity criteria around schools, jobs, and/or transit.
- **Rigorous yet flexible on program affordability standards:** While the fund should have rigorous guardrails for affordability, it should recognize that the effective market rate differs across the metro area. The market rate in some areas might match metro Atlanta's overall median income, but in other areas, market rate might be only 60% of median income. Therefore, a deal in Sandy Springs in a great elementary school zone might need a different set of affordability criteria than a deal in Oakland City near the MARTA station.

The fund should draw on a blend of philanthropic, public, and private bank capital. Likely, banks will expect higher returns than other participants. In order for the blended cost of capital to be sufficiently low, philanthropic and public-sector participants will need to accept a significantly lower return, provide interest-free capital, or provide grant funding. Even if all actors are able to secure a return on investment, the fund still need some "first-loss" capital to absorb the costs of deals that do not deliver on returns. This first-loss capital would likely come from philanthropic or intermediary sources.

A new Atlanta fund should start with enough capital to support two years' worth of deals. As

one precedent, Minnesota's NOAH Impact Fund started with \$32M.³ The fund's initial size should account for both the availability of capital in the Atlanta context and the relative population in the region. The fund can adapt and scale further in later rounds.

The fund will also need dedicated staff to market the fund, engage developers, sellers, and brokers, and underwrite investments. Note that this tool is relatively new in the affordable housing space, and it is not clear what will happen to properties once the affordability restriction ends. See Appendix 10 for further considerations and precedents related to establishing a NOAH equity fund.

Recommendation 2b

Create a City-backed subordinate loan program for NOAH acquisition

In most areas of metro Atlanta, lenders are providing financing at loan-to-value ratios that provide sufficient debt for NOAH acquisition. In other words, the property's appraisal and the market value are aligned so that the loan covers 80% of the sale price or the expected post-renovation value. The latter option – where renovations are included in the loan – typically involves a bridge loan. While bridge loans are more expensive for that initial year of renovations, they help developers close in time and complete renovations, after which developers refinance with permanent debt.

³ Minnesota's NOAH Impact Fund, which focuses on the greater Minneapolis region, started with \$32M for two years' worth of deals. This includes 1 staff person, \$700K in startup costs, \$25M in funds, and \$6M in credit enhancement.

However, in some in-town neighborhoods with upward market pressures such as the Westside and Grove Park, bank appraisals value properties far below prices offered by the market. Developers in these markets have trouble approaching banks regarding these properties and – if they are able to get bank interest at all – they are quoted on a loan for 50% to 65% of the sale price.⁴ To meet the sale price, buyers have to put in the remaining 35% to 50% as equity. These equity requirements make it very difficult for mission-driven developers to successfully acquire properties. Anecdotally, cash buyers are able to win these deals over mission-driven developers.

The City of Atlanta or a partner intermediary could create a subordinate loan program to support these acquisitions. This would allow the developer to cover 80% of the sale price with a loan.⁵ A new subordinate loan program could lend based on the deal's sale price, closing this barrier to preservation. An example of such subordinate loan programs can be found in Appendix 11.

The City or its partner will need to do thoughtful modeling and market analysis to ensure that a loan program like this does not create a perverse

⁴ Interview with Atlanta-based mission-driven developer

⁵ The challenge is that current City of Atlanta programs, either through Invest Atlanta and the BeltLine, are not allowed to provide subsidy for acquisition of any property that sells above the bank's appraised value. This requirement prevents the City from engaging in areas with upward market pressures. This limitation appears to extend to a property that the City might buy or subsidize with taxpayer dollars – it is not clear whether or not it applies to debt or equity where they would get the money back and possibly a return

incentive for owners to sell at above-market prices. It would also need to set clear limits on the maximum “per-door” price that can support affordable rent, as some sale prices might simply be too high to keep the development affordable even with lower-cost capital availability.

Recommendation 2c

Provide local government support for NOAH

Developers who need to make NOAH renovations often have to go through lengthy permitting processes that delay stabilized occupancy – a significant cost. In some cases, where a NOAH property has been re-zoned for a different use, developers must also obtain a zoning variance. The City and other metro Atlanta jurisdictions should streamline this process to make it easier for developers to preserve these properties.

Recommendation 3a

Leverage tax abatement – or some equivalent – as an operating subsidy

To preserve NOAH, particularly in high-opportunity areas or rapidly improving areas, the region and possibly the state will need to find new approaches for providing property tax relief in support of housing affordability. While tax abatement is not explicitly authorized in Georgia’s constitution, local entities like Invest Atlanta have developed programs offering a proxy for property tax relief. However, these programs involve a bond issuance, creating high transaction costs that make them difficult to use at the scale and pace necessary to preserve NOAH.

The State of Georgia and local jurisdictions in metro Atlanta could either take small or big steps forward. The small step would be to change state law such that locally-orchestrated tax abatements would not require a bond issue. This change would mirror Tennessee’s “Payment in Lieu of Taxes” (PILOT) system, which exists under a similar constitutional framework to Georgia’s in that it also restricts the use of tax abatements. In Memphis, the local PILOT program currently supports tax abatements for 10,000 units of affordable housing. Another positive change would be to allow more discretion around the length and amount of the abatement. Larger steps could include explicit state-level exemptions or special assessments for affordable units.

While local jurisdictions rely on property taxes as a critical revenue source for service provision, they should be asking, “property taxes to serve whom?” The families whose lives they hope to enrich may no longer be able to afford to live in neighborhoods with rising tax burdens. And, the costs of serving the families at risk of displacement may go up, for example through high turnover in schools and the associated higher costs.

See Appendix 12 for more details on the Memphis PILOT program and a discussion of other considerations related to property tax supports for housing affordability.

Recommendation 3b

Connect owners to resources for utility-efficiency improvements

Atlanta’s utility costs are some of the highest in the country, making energy and water efficiency critical for managing operating costs.⁶ Modest investments in energy and water efficiency can create significant operating savings while also improving comfort for families and increasing resident retention.

Georgia Power provides two programs to facilitate energy-efficiency upgrades in multifamily housing. The Home Energy Improvement Program (HEIP) provides partial rebates to owners for “whole-house” improvements – the installation of recommended energy-efficiency improvements following a comprehensive assessment – or “individual” improvements – the installation of individual energy-efficiency measures such as duct sealing, solar water heaters, or attic insulation.⁷ The Energy Assessment and Solutions Program (EASP) assists income-eligible customers with energy savings through an assessment of energy-saving opportunities and free home-efficiency improvements.⁸ Additionally, local jurisdictions across the region offer rebates for replacing old, inefficient toilets with low-flow toilets that reduce water use.⁹

6 Frank Reddy, “Study: Atlanta Has Highest Utility Costs in Nation. Ouch.,” Curbed Atlanta, October 28, 2016, <https://atlanta.curbed.com/2016/10/28/13447662/study-atlanta-utility-costs>.

7 “Home Energy Improvement Program (HEIP),” Georgia Power, <https://www.georgiapower.com/residential/save-money-and-energy/products-programs/home-energy-efficiency-programs/home-energy-improvementprogram.html>.

8 “Energy Assessment and Solutions Program (EASP),” Georgia Power, <https://www.georgiapower.com/EASP>.

9 “Toilet Rebate Program,” Metropolitan North Georgia Water Planning District, <http://northgeorgiawater.org/conserves-our-water/toilet-rebate-program/>.

These programs offer a valuable starting point for helping NOAH owners invest in their properties’ utility efficiency. Improving, expanding, and better marketing these programs would allow more NOAH owners to participate. For example, creating a “one-stop shop” within Georgia Power would help multifamily housing owners understand and access all of the possible tools and resources for improving energy-efficiency for their property type. Within HEIP, a “pay-as-you save” financing model could help lower the up-front costs of participating in the program. The Integrated Resources Plan process creates a forum for pushing these program improvements, as well as for raising the funding commitments.

Recommendation 3c

Expand capacity for quality property management

Non-profits with less acquisition experience may find they need immediate property management capacity when they successfully close on a NOAH deal. A third-party property management option would increase non-profits’ willingness to venture into NOAH efforts. Similarly, current owners of NOAH face property management challenges that they may not face with other types of properties or other income segments. NOAH properties are typically older, have older systems, and lack the revenue streams to support high property management costs. While developers must think critically about these challenges when they are in the renovation process, specialized property management could also help reduce costs.

In some instances where NOAH is part of a broader neighborhood stabilization strategy, the developer may also initially need the support of police to keep NOAH developments safe and establish a positive reputation for them within the neighborhood.

Recommendation 3d

Provide resources and support for code upgrades

Owners of NOAH may face unanticipated costs when a local jurisdiction changes its code requirements or starts enforcing portions of the code that it previously overlooked. Complying with these changes creates unexpected costs for developers, which they pass on to their tenants through higher rents. Local jurisdictions should consider establishing grant programs and enforcement processes that support NOAH owners with code compliance, simultaneously keeping properties safe, livable, and affordable.

Supporting Recommendation 4a

Provide seed funding for staff and technical assistance to support next steps

In order to advance the strategies to preserve NOAH, the philanthropic community should fund staff capacity to build out these tools in partnership with government, non-profit, for-profit, and philanthropic actors. This capacity can also support affordable housing preservation efforts more broadly, including coordination around expiring subsidies.

Supporting Recommendation 4b

Explore subsidies as a tool to deepen impact of NOAH recommendations

The tools discussed to this point are predominantly market-based approaches to preserving NOAH. However, subsidy may be an essential ingredient to deepen and extend these recommendations. Without subsidy, these strategies will likely not be sufficient to address properties in extremely poor condition, or to support affordability for extremely low-income families. Additional subsidy could allow the NOAH strategies to support deeper affordability and address properties with more significant capital needs. Similarly, in light of the heated market, subsidy may be necessary to enable developers to buy NOAH in higher-cost, high-opportunity neighborhoods.

One possible funding source for financial support is an impact fee on commercial development. Commercial development creates new demand for service workers while also raising housing prices, putting pressure on the affordability of housing options for low-income households. By leveraging commercial development and economic growth to preserve housing affordability, jurisdictions can benefit current residents, not just future residents able to afford higher rents.

While the heated market will make preservation deals difficult today, now is the time to strengthen capacity in time for the next downturn

The high sale prices on NOAH in the Atlanta market will make preservation hard – the sales price directly impacts the rent level that the developer needs to charge to pay off their debt and meet their investors' expectations. At this point in the real estate cycle, it will be particularly difficult to acquire older multifamily developments in high-cost, high-opportunity neighborhoods without subsidy.

Yet, this is exactly the right time to build capacity for NOAH preservation. If the real estate market softens, affordable housing advocates will already have the human and financial capital and deployment mechanisms in place to benefit from lower real estate prices and preserve NOAH at scale.

Conclusions and Next Steps

Pushing ahead on one piece of a larger, urgent challenge

The metro Atlanta region has the opportunity to move fast to preserve its naturally-occurring affordable housing (“NOAH”). It should build its capacity now, both to start preserving units and to establish the processes and networks in time for the next market correction. However, NOAH will not be enough to respond to metro Atlanta’s urgent housing challenge.

To preserve naturally-occurring affordable housing, we need a new paradigm

Preserving naturally-affordable units demands a new paradigm. Leaders across sectors need to be willing to complement the new construction and major rehabilitation of affordable housing with a nimble preservation strategy that ensures unsubsidized, currently-affordable units remain within reach for low-income families. This strategy will require new skillsets and mindsets.

Acquiring unsubsidized apartment complexes requires a private-sector pace and mindset. Older developments are moving through the market rapidly. A buyer has a maximum of 90 days to close on a purchase, but often far fewer – many deals ask for earnest money within 30 days.¹ Public sector, non-profit, and intermediary supports need to work on that same fast-paced timeline to ensure developers get the capital they need in time to close a deal.

NOAH preservation efforts are best-suited for strong and improving neighborhoods. Most NOAH is affordable because of the location, age, and condition of the property. NOAH that is affordable because it is in a stagnant neighborhood should generally not be the highest priority for preservation, since neighborhood conditions will continue to put a natural upper limit on rent increases. In some instances, NOAH preservation could be a useful strategy if done in tandem with other neighborhood revitalization efforts. There are also communities in

¹ Interviews with mission-driven for-profit NOAH developers in Atlanta.

south Atlanta that lack key amenities but are close to the Atlanta airport, a major job center. Policymakers should take these types of “opportunity” into consideration. However, generally in these more challenged neighborhoods, families may benefit more from the larger construction budgets, longer affordability timeframes, and more transformative impact afforded by the Low-Income Housing Tax Credit and other programs.

Older multifamily properties in strong or improving neighborhoods face the most pressure on rents or redevelopment, and are typically in better condition. Without intervention, these areas will soon replace NOAH with luxury developments, pushing out working households from the communities they serve. These properties should be the main focus of NOAH preservation efforts.

Beauty is in the eye of the beholder – NOAH provides safe, decent, and healthy affordable housing for families. The recommendations we have outlined can preserve NOAH units at a fraction of the cost of new construction. The benefit of NOAH to society is affordable, livable apartments where working parents and their children benefit from a stable home and a consistent community. Developers buying these properties should not be faced with political pressures to pay for exterior bells and whistles when they could instead improve internal systems, comfort, and livability. Furthermore, preserving NOAH often helps preserve the character of the surrounding neighborhood.

Critical next steps are to build developer capacity, advance the NOAH equity fund, and create a streamlined mechanism for property tax relief

A few immediate next steps can set the metro area up to advance a nuanced approach to NOAH preservation.

Build capacity for NOAH acquisition and management

Preserving metro Atlanta’s stock of NOAH will require a robust and coordinated network of developers sourcing and evaluating deals, successfully competing for acquisitions, and managing properties. Nonprofit developers have the potential to play an important role in this work, in particular for preserving properties as affordable in the very long-term. Achieving their potential role will require significant and sustained capacity building. To do this work at scale, housing advocates will also need to partner with mission-aligned for profits, and incentivize them to maintain affordability.

Next steps to advance capacity building efforts include:

- **Pipeline development:** Identifying and/or developing staff capacity to build a pipeline of potential NOAH acquisitions.
- **Creating new analytical tools:** Developing a template with expected operating expenses that nonprofit developers can use to evaluate the feasibility of NOAH property acquisition and management.

- **Exploring shared capacity building:** Exploring options for shared nonprofit operational capacity, such as centralized underwriting and due diligence staff, pipeline development, or standardized property management contracting.
- **Growing the network of allies:** Identifying mission-driven for-profit developers who would be interested in NOAH once resources and supports were in place.
- **Develop a detailed plan for the NOAH equity fund:** Critical next steps for creating the fund are to retain the technical assistance needed to develop a detailed plan, perform financial modelling, fundraise, and conduct a search for an equity fund manager. While Atlanta can copy some elements of other funds, many details of the fund will need to be specific to the local context and investors.

Advance a NOAH social impact equity fund

There are two key next steps to establishing this fund:

- **Build philanthropic and investor buy-in:** An immediate next step for creating the fund is to identify possible participants in the nonprofit, public, and private sectors, and further engage them to understand their priorities and timing of available resources. A NOAH equity fund is a unique tool because it provides some or all participants a return on their investment. New federal tax statutes expand the ability of philanthropies to participate in funds like this through a program-related investment. Banks requiring credits through the Community Reinvestment Act also benefit from the impact investing approach. Atlanta as a whole is very early in exploring these approaches and has only just begun testing and implementing them. The affordable housing community should continue to educate the philanthropic and bank community about an equity fund for preservation and the need for first-loss capital and grants to establish the fund.

Create a streamlined mechanism for property tax abatement and relief

It is extremely difficult to orchestrate tax abatements under Georgia’s current system. One possible improvement would be for Georgia to make it possible for local authorized authorities to create “payment in lieu of taxes” (PILOT) programs with more flexibility. Specifically, Georgia should remove the bond requirement, allow steeper tax relief when it is tied to affordable housing, and allow for a longer timeframe with program-specific levels of relief. A broader fix could include more explicit changes in state statute authorizing exemptions or special assessments. Atlanta’s affordable housing community should collaborate with communities across Georgia on this topic in time to offer several options at the next legislative session.

The critical next steps for creating this streamlined mechanism include:

- **Analyzing property tax burden for developers:** Collaborating with owner-operators of subsidized affordable housing to understand their challenges related to property taxes, and identify how a PILOT program or special assessment could support their work in addition to NOAH preservation.

- **Legal and financial analysis:** Research to inform state-level statute on PILOTs that removes the bond requirement and provides for an extended tax abatement.
- **Researching existing tax abatements:** Working with the Assessor's Offices in metro Atlanta to understand their procedure for administering existing special assessments, abatements, and/or rebates (e.g., abatements for economic development, homestead exemptions, etc.) to inform the design of a potential program for multifamily properties.
- **Engaging state legislators:** Build buy-in at state-level for other tax abatement mechanisms, such as special assessments for affordable multifamily properties.

Ultimately, Georgia and metro Atlanta need to implement a comprehensive strategy to support housing affordability

Metro Atlanta needs a coordinated, well-resourced strategy for affordable housing. Policy makers, the non-profit community, intermediaries, foundations, and the private sector will need to work together quickly and urgently to support families who are faced with a variety of housing challenges.

Naturally-occurring affordable housing is just one piece of the puzzle. In our narrow focus to uncover this topic, we brushed shoulders with a variety of other topics that need regional attention as part of a long-term solution:

- **Homelessness and extremely low-income households:** NOAH can help reduce rent burdens for families between 30% to 80% of the area's median income. Without additional

subsidy, this strategy will not serve formerly-homeless families or families below 30% area median income who face the highest rent burden in the region.

- **High cost of land:** The rising cost of land poses a significant challenge to affordable housing. While the Fulton-Atlanta Land Bank recently received more robust funding, they will need more time and continued support to strengthen their portfolio so that they can contribute to housing affordability in the region.
- **High and rising costs of construction:** The rising cost of construction – from labor to materials to zoning and permitting – appears to be a driving factor for the construction of luxury apartments instead of middle-income housing.
- **Income disparities:** Housing affordability lies at the intersection of rent and income. Atlanta suffers from extreme income inequality, and focusing on economic mobility for low-income families will be an essential element to a healthy economy and a sustainable housing strategy.
- **Regional fragmentation:** In general, successful affordable housing approaches that we encountered during this research were metro-level interventions. In some instances – Memphis and Los Angeles – the geography of the jurisdiction covers a significant portion of the metro area. In other areas – Greater Minneapolis – there were multiple jurisdictions but also regional and state support for

sustained solutions. Metro Atlanta needs to find a path to a regionally-coordinated strategy.

- **Low-density housing:** Metro Atlanta is a relatively low-density metro area. Smaller multifamily and single-family rental pose challenges that we did not address in this report.
- **Biases that disproportionately impact low-income families:** The difference between appraised value and sale value in some Atlanta neighborhoods raises questions of inaccuracies in lending practices that disproportionately impact low-income minority communities. Additionally, neighborhood groups that push for school rezoning may try to direct “apartment families” into one school and “home-owning families” into another school. These efforts may prevent low-income families living in NOAH from attending schools with higher-income peers, making it harder to capture the full benefits of living in a high-opportunity community. Housing advocates need to beware of these ongoing biases and their impact on low-income families.

While we hope that the NOAH strategy in this document attracts new capital and new allies, we also hope that the resources freed up by this strategy are devoted to creating a longer-term sustainable strategy. Metro Atlanta’s economic dynamism and equitable prosperity depend on it.

Acknowledgments

Sponsors & Advisors

We completed this project as part of the Master in Public Policy program at Harvard Kennedy School for the Policy Analysis Exercise requirement. This research was also supported in part by the Harvard Joint Center for Housing Studies.

We are grateful to our clients at Enterprise Community Partners Southeast and our advisors and sponsors at Harvard Kennedy School for making this work possible.

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A significant portion of the work in crafting this report involved understanding the reality on the ground for developers, intermediaries, philanthropies, cities, and other organizations. We are grateful to a number of individuals who contributed their time and expertise to this project.

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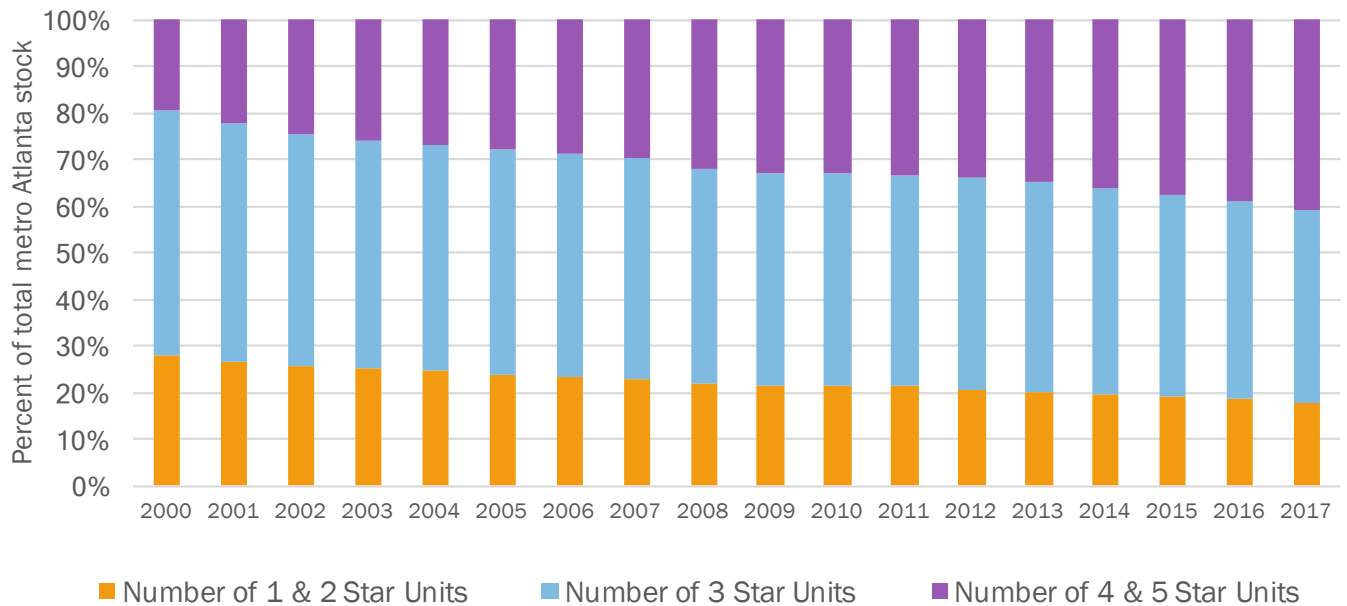
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Appendices

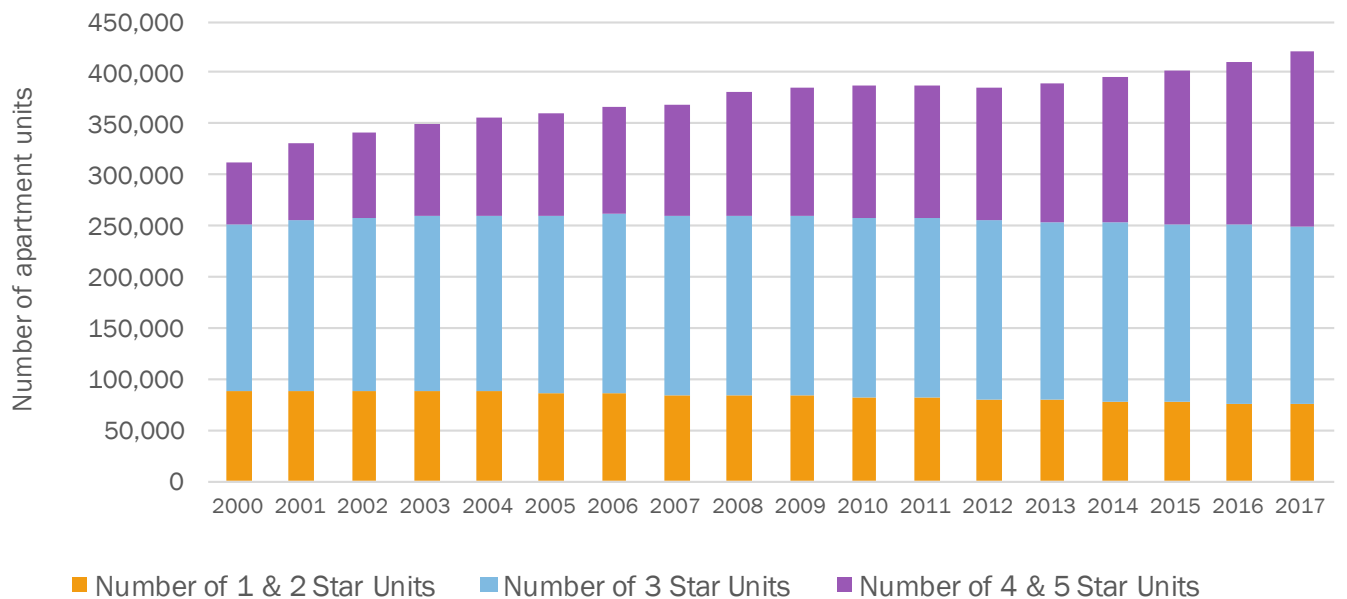
Appendix 1:

Metro Atlanta apartment stock by star as a percent of total apartment stock: 2000-17



Appendix 2:

Metro Atlanta apartment stock by star in total number of units: 2000-17



Source: CoStar Data Export as of March 23 2018. Note that CoStar's definition of the Atlanta market is more expansive than the ARC definition - the CoStar market definition covers 30+ counties.

Appendix 3:

Table of maximum affordable rents based on percentage of area median income (AMI)

% of AMI	Number of Bedrooms				
	0	1	2	3	4
30%	\$393	\$421	\$505	\$583	\$651
50%	\$655	\$701	\$842	\$972	\$1,085
60%	\$786	\$842	\$1,011	\$1,167	\$1,302
80%	\$1,048	\$1,122	\$1,347	\$1,555	\$1,736
100%	\$1,310	\$1,402	\$1,684	\$1,944	\$2,170

Appendix 4:

Table of household income by percentage of area median income (AMI)

% of AMI	Number of People in Household					
	1-person	2-person	3-person	4-person	5-person	6-person
30%	\$15,720	\$17,970	\$20,220	\$22,440	\$24,240	\$26,040
50%	\$26,200	\$29,950	\$33,700	\$37,400	\$40,400	\$43,400
60%	\$31,440	\$35,940	\$40,440	\$44,880	\$48,480	\$52,080
80%	\$41,920	\$47,920	\$53,920	\$59,840	\$64,640	\$69,440
100%	\$52,400	\$59,900	\$67,400	\$74,800	\$80,800	\$86,800

Novogradac & Company Rent & Income Limit Calculator. 2018 Program Maximum Gross Rents for the LIHTC Program for the Atlanta-Sandy Springs-Roswell MSA. (2018). 30%, 50%, and 60% rents calculated by Novogradac based on income limits, assuming 1.5 people per bedroom. 80% and 100% rent levels and incomes calculated based on 50% rents. Retrieved May 11, 2018 from <https://ric.novoco.com/tenant/rentincome/calculator/z4.jsp>.

Appendix 5:

Prevalence of Class B, C, and D Garden Apartment Units in Fulton County Cities

	Class B, C, and D units as a share of all residential units				Total Class B, C, and D Units
	Class B	Class C	Class D	Class B, C, D	
Alpharetta	4%	1%	0%	4%	999
Atlanta	2%	8%	2%	12%	29,436
Chattahoochee Hills	0%	0%	0%	0%	-
College Park	5%	40%	0%	45%	2,180
East Point	3%	15%	1%	18%	3,408
Fairburn	16%	3%	0%	19%	1,008
Unincorp. Fulton County	60%	0%	0%	60%	280
Hapeville	0%	31%	0%	31%	418
Johns Creek	0%	0%	0%	0%	23
Milton	0%	0%	0%	0%	-
Mountain Park	0%	0%	0%	0%	-
Palmetto	0%	5%	0%	5%	85
Roswell	10%	4%	0%	14%	5,523
Sandy Springs	15%	6%	0%	21%	10,693
South Fulton	4%	4%	0%	8%	3,115
Union City	6%	23%	0%	29%	2,995

Source: Garden-Apartment Property Class Designations from 2015 Fulton County Assessors data.

Appendix 6:

Prevalence of Class B, C, and D Garden Apartment Units in City of Atlanta Elementary School Zones

	Class B, C, and D units as a share of all residential units				Total Class B, C, and D Units
	Class B	Class C	Class D	Class B-D	
Barack And Michelle Obama	0%	21%	4%	25%	320
Beecher Hills	0%	7%	0%	7%	114
Benteen	0%	21%	0%	21%	344
Bolton Academy	0%	30%	0%	30%	600
Boyd	0%	15%	7%	22%	678
Brandon	5%	2%	0%	7%	703
Burgess-Peterson	0%	13%	2%	15%	173
Cascade	0%	62%	3%	65%	1,926
Centennial Place	2%	1%	0%	3%	602
Cleveland Avenue	6%	12%	0%	18%	260
Continental Colony	6%	32%	0%	38%	1,282
Deerwood	0%	8%	0%	8%	330
Dobbs	0%	3%	0%	4%	80
Dunbar	0%	3%	10%	14%	299
F.L. Stanton	0%	0%	5%	5%	94
Fain	0%	64%	0%	64%	1,107
Fickett	0%	11%	0%	11%	364
Finch	0%	0%	4%	4%	96
Garden Hills	3%	5%	0%	9%	1,203
Gideons	0%	13%	7%	20%	535
Heritage Academy	0%	23%	0%	23%	594
Hill-Hope	0%	6%	1%	7%	1,156
Humphries	0%	15%	0%	15%	200
Hutchinson	0%	16%	0%	16%	305
Jackson	0%	0%	0%	0%	40

	Class B, C, and D units as a share of all residential units				Total Class B, C, and D Units
	Class B	Class C	Class D	Class B-D	
Jones	0%	1%	6%	7%	403
Kimberly	0%	37%	3%	40%	1,046
Lin	1%	14%	0%	15%	445
Michael R. Hollis Innovation A	3%	5%	21%	29%	1,961
Miles	0%	10%	6%	16%	696
Morningside	6%	6%	0%	11%	518
Parkside	1%	5%	1%	7%	583
Perkerson	5%	5%	0%	10%	381
Peyton Forest	0%	6%	5%	11%	316
Rivers	8%	4%	0%	12%	2,325
Scott	12%	11%	6%	29%	536
Slater	0%	6%	0%	6%	242
Smith	1%	0%	0%	1%	244
Springdale Park	0%	9%	1%	10%	2,578
Thomasville	0%	45%	0%	45%	339
Towns	4%	9%	11%	24%	679
Tuskegee Airmen Global Academy	0%	26%	0%	26%	1,319
Usher	0%	20%	1%	21%	836
West Manor	0%	16%	0%	16%	298
Woodson Park Academy	0%	2%	3%	5%	286
City of Atlanta Total	2%	8%	2%	12%	29,436

Source: Garden-Apartment Property Class Designations from 2015 Fulton County Assessors data.

Appendix 7: Georgia’s property tax regime

Article VII Section II of Georgia’s constitution prohibits ad valorem property tax exemptions, except those explicitly provided for in the Constitution.

However, Georgia does authorize certain tax-exempt entities including development authorities to hold a property, and as a result developers can pay a reduced property tax rate.

In this holding process, the entity (e.g. Invest Atlanta) has to issue a bond so that it has the money to buy the property. This step in the process creates significant transaction costs and makes it hard to use this process to support housing affordability on a broad scale.

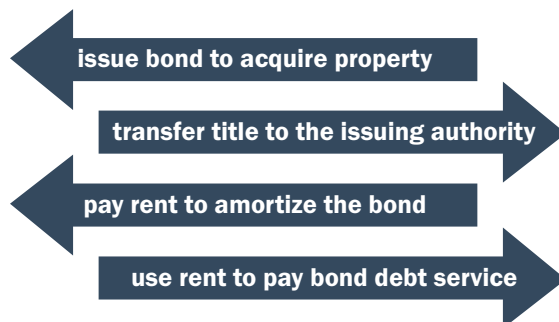
The combination of statute and court precedent limits development authorities in the amount and duration of the abatement – generally, abatements must be partial, phase out, and last a maximum of 10 years.

Appendix 8: Illustration of lease-purchase bond mechanism for tax abatement

Developer of any type of project, but possibly multifamily



Authorized tax-exempt development authority



Sources: 1) Seyfarth Shaw 2015 presentation “Property Tax Incentives” and “Bonds” – Why They Belong in the Same Sentence. <https://www.danmcrae.com/whitepapers/2015-09-20-abatement-ipt-atlanta.pdf>; 2) Smith, Gambrell, & Russell. Georgia Ad Valorem Tax Incentives Through Bond-Lease Transactions in GA. <http://www.sgrlaw.com/briefings/458/>.

Appendix 9:

Existing mechanisms for lowering property tax costs for affordable multifamily housing

<p>Lease-Purchase Bonds</p>	<p>Overview Exchange where a local development agency holds title of the property and the developer pays a reduced rate of property taxes as a result</p> <p>Authorization Authorization of local development authorities through the Development Authorities Law and the Downtown Development Authorities Law. Key cases include Delta Airlines, Inc. v. Coleman and DeKalb County Board of Tax Assessors v. W.C. Harris & Co.</p> <p>Considerations Regarding NOAH Preservation</p> <ul style="list-style-type: none"> • Bond requirement limits use to extremely large transactions and the bond cannot be closed on a short enough timeframe to facilitate a live deal • Inability to set longer or deeper tax relief arising from statute and case law compromises the program’s effectiveness at supporting housing affordability
<p>Westside Future Fund Anti-Displacement Fund</p>	<p>Overview Philanthropic anti-displacement tax fund to pay property tax increases for homeowners in the Westside</p> <p>Authorization N/A – privately operated</p> <p>Considerations Regarding NOAH Preservation</p> <ul style="list-style-type: none"> • Likely not scalable to larger NOAH deals • Similar vehicle could be used as a stop-gap for smaller in-town properties
<p>Housing Urban Enterprise Zone</p>	<p>Overview Federally-inspired state-authorized program to allow developers to receive 10-year tax abatements in federally-designated economically–depressed Urban Enterprise Zones</p> <p>Authorization Atlanta Urban Enterprise Zone Act</p> <p>Considerations Regarding NOAH Preservation</p> <ul style="list-style-type: none"> • To date, only a few developers have used - currently being revamped. • Works in improving neighborhoods or in context of broader holistic revitalization efforts, but unlikely to help with NOAH preservation in already strong neighborhoods

Sources: Smith, Gambrell, & Russell. Georgia Ad Valorem Tax Incentives Through Bond-Lease Transactions in GA. <http://www.sgrlaw.com/briefings/458/>. City of Atlanta “Urban Enterprise Zone” website. Westside Future Fund website.

Appendix 10:

Considerations and precedents for Recommendation 2a for establishing a NOAH Equity Fund

Considerations for the creation of a NOAH equity fund:

Setting the scope of the fund and its deals:

- What counties will the fund cover?
- What are the affordability criteria for the fund? Note that we recommend that developers be required to accept Section 8 vouchers to be considered for the fund.
- What are the opportunity criteria for the fund?
- What size developments will the fund support?
- What additional criteria should be set to minimize displacement of families in properties acquired through the fund?

Raising capital for the fund:

- How can the fund's leadership ensure that all dollars in the fund are also new dollars for affordable housing, rather than diverting resources from elsewhere?
- Who are the funders and what are their return expectations?
- Will any direct grant or subsidy money be required in order for the blended cost of capital to be below market returns e.g. 6-7% return?

- How much first-loss capital is needed to buffer the possibility of a bad deal? Note that the developer puts forth first-loss capital within the specific deal's capital stack, but it is still good to have first-loss capital within the fund's capital stack as well.
- Will participants invest in the fund or loan to the fund?
- What are the expectations of public sector participants in the fund with regards to the locations of deals? Are these expectations achievable?
- Will the lenders and investors be paid back in increments over time through rent, or at the disposition of the property, or some combination?
- Do the funders expect to be on the investment committee? If so, do their internal protocols align with quick and speedy action?
- What expectations do funders have for the disposition of the property? Do they expect to keep NOAH equity fund properties affordable after the affordability horizon? Is this a reasonable expectation?

Planning ahead to ensure deals align with opportunity goals:

- What are the tradeoffs in a heated market? How will the fund ensure it is including an “opportunity” component even when deals are more expensive?
- What will be the per-door cost allowing preservation of units at <60% AMI? What is the “reach” per-door cost if there is a uniquely good neighborhood where preserving at 80% AMI would make a dent in affordability?
- Who does the fund need to build relationships with to have a healthy deal flow, e.g. mission-driven buyers and sellers, and how do they reach those individuals?
- How will the fund ensure the buy-in of the media and politicians to support livable affordable housing that often sacrifices on curb appeal to keep rents low?

Operational considerations:

- How much staff will be necessary to run the initial fund? What about a larger fund down the road?
- How will the fund both hold developers accountable for affordability requirements while having a smooth enough process that developers are excited to participate?
- What other supports will developers need to keep properties affordable?

Precedent: NOAH Impact Fund

**Greater Minnesota Housing Fund
Minneapolis-St. Paul Region**

NOAH Impact Fund Overview

The NOAH Impact Fund is a regional fund in the Minneapolis-St. Paul region. It is intended to lower the cost of equity for developers interested in preserving naturally-occurring affordable housing.

The typical investor looking at currently-affordable unsubsidized rental properties wants an expected return from 10 to 15%. This level of return forces developers to make substantial upgrades so that they can raise the rents and deliver on that high rate of return.

The NOAH Impact Fund combines bank, foundation, and government “impact capital.” It moves quickly to meet the pace of the market. By asking for only 6.5% return, it allows developers to keep their properties essentially as-is and earn the return through stable cash flow.

NOAH Impact Fund - Fast Facts

Location Twin Cities (7 counties)
Financing per unit \$33k ¹
Target income 60-100% AMI depending on area
Target scale 45-200 units (100 on average)
Intervention type Equity (6.5% return)
Affordability time period 15 years
Resources committed >\$32M + 1 staff ²

Key Ingredients

Differentiated by investor: Different returns based on investor objectives

Focused on affordability at risk: Invests in areas with increasing opportunity

Moves fast: Able to close deals quickly without regulatory hurdles that can prevent government or non-profit entities from competing in the market

Clear value proposition to developers: By requiring only 6.5% return and limiting renovations, they make life easier for family-owned developers

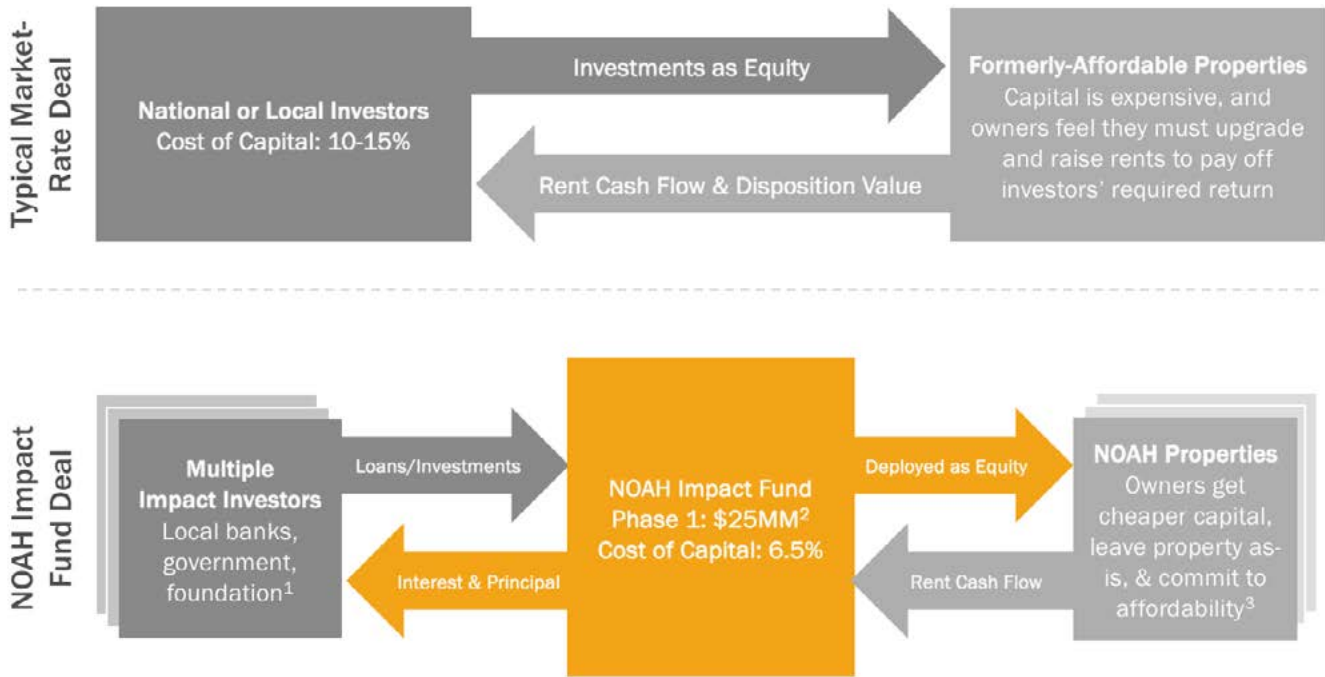
Discipline: Staff network and sell as though they were market rate investors!

First-loss capital: Small portion of capital stack is “first-loss capital” to buffer the fund for the possibility of a bad deal

Notes: 1. The fund has supported investment of \$10.2M for 311 units with only 1 year of the fund – Goal is to get to 750 units with \$25M in 2017-18 and then another 750 units with \$25M in 2019-20 2. The NOAH Impact Fund Round 1 cost \$700K in startup costs, \$25M in funds, and \$6M credit enhancement. May land up needing more in credit enhancement in current fund and next fund. Currently the NOAH Impact Fund is one staff but may expand to two.

NOAH Impact Fund - How it Works

Property owners can secure cheaper capital in exchange for affordability restrictions



Notes: 1. Investment types include Private Institutional Capital, Social Impact Capital, and Public Agency Capital each with different required rates of return and other terms – these combine into a single blended low-cost source of equity 2. Phase 2 will also be \$25M 3. Minimum threshold for affordability is that 75% of the units must be rented at 80% AMI incomes and rents. Additionally, owners must accept Housing Choice Vouchers.

NOAH Impact Fund - Challenges to Replicate

NOAH Impact Fund / Twin Cities context	Metro Atlanta Reality
Local banks provide capital and contribute to their community mission at a reasonable return	<ul style="list-style-type: none"> • Many local banks closed in 2008 financial crisis • Regional or national banks can substitute – but may not be as nimble as local banks in capital deployment
State and county dollars invested in the fund at a low rate of return	<ul style="list-style-type: none"> • Unclear if Georgia and local governments would have funds available to invest in the fund
Cohesive and coordinated region	<ul style="list-style-type: none"> • Less coordination in Metro Atlanta – this intervention requires a regional mandate

Appendix 11:

Precedent for Recommendation 2b for Subordinate Loan Programs for NOAH Acquisition

Precedent: 1-4 Unit Building Loan Program

Community Investment Corporation (CIC)
Chicago Region

1-4 Unit Building Loan Program – Fast Facts

Location

Chicago Area (6 counties)

Financing per unit

\$57k¹

Target income

No restrictions;
most tenants are <60% AMI

Target scale

1-4 unit buildings (9-unit min.)

Intervention type

Takeout Loan

Affordability time period

no restriction

Resources committed

\$26m³

Key Ingredients

Cash Flow Supports Higher Debt: Able to offer larger loans in weak markets where appraised values remain very low

Owners with Proven Track Record: Takeout requires that owner/developer has already successfully secured acquisition and rehab financing²

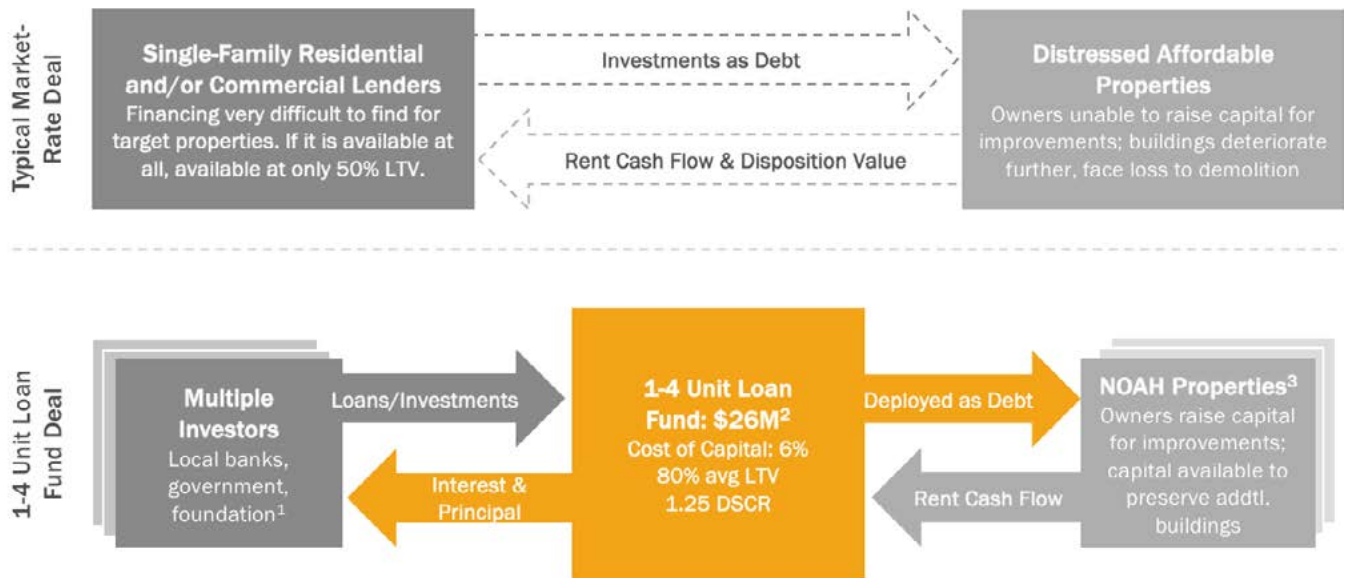
Strong Network of Quality Owners: Developed over time through CIC's property management training, other loan programs

All Market-Rate: No subsidy for operation or financing; only subsidy is in loan loss reserve (supported by Attorney General Office's \$2M fund contribution)

Notes: 1. The fund has supported redevelopment of 281 units with \$15.9M in financing since its 2014 launch. 2017 Biannual Report. http://www.preservationcompact.org/wp-content/uploads/TPC-2017-Biannual-Report.final_.pdf. The 1-4 Building Loan Fund has since been expanded to \$38M. 2. CIC has been pairing with acquisition revolving loan fund more recently. 3. CIC's existing loan officer capacity took on the 1-4 Unit Building Loan Program, but the new acquisition pool is managed by a new staff person.

1-4 Unit Building Loan Program – How it Works

Offers owner-developers higher LTV to facilitate reinvestment in distressed NOAH properties



Notes: 1. Investments include \$5M PRI from MacArthur, \$2M from Illinois Attorney General's Office (used as loan loss reserve), and remainder from local banks. 2. Following first phase, expanded to \$38M. 3. 9-unit minimum cluster of distressed 1-4 unit buildings, located within 32-block area (.25 mile radius).

1-4 Unit Building Loan Program – Challenges to Replicate

1-4 Unit Loan Program/ Chicago Context	Metro Atlanta Reality
Distressed NOAH properties have strong cash flow even in weak-market neighborhoods	<ul style="list-style-type: none"> Unknown whether rental income could support more debt than is available in Metro Atlanta's existing capital market
State contribution, available through foreclosure settlement	<ul style="list-style-type: none"> Unclear if Georgia and/or local governments would have funds available to invest in the fund
Existing network of quality owners and developers	<ul style="list-style-type: none"> Unknown whether Metro Atlanta's property owner/developers are part of robust network

Appendix 12:

Precedent for Recommendation 3a to leverage tax abatement as an operating subsidy

Precedent: PILOT for Affordable Multifamily

Tax abatement program to support affordable housing
Memphis, Tennessee

Memphis PILOT for affordable housing – Fast Facts

Location
Memphis

Financing per unit
Half of the pre-development assessment

Target income
<60% AMI

Target scale
2015 estimates suggest the program has impacted >100 projects with >16K units¹

Intervention type
Tax abatement

Affordability time period
10 years

Resources committed
Annual limit set by City Council

Key Ingredients

Covers entire metro area: The Housing, Educational and Housing Facility Board has metro-wide jurisdiction.² Similar PILOTs in other parts of the state have failed because of narrow jurisdictions, e.g. a focus on Downtown areas.

Follows an rigorous definition of housing affordability: PILOT exemptions are almost universally LIHTC projects, with similar income composition and renovation requirements. PILOTs in other parts of Tennessee have often failed by setting the affordability standard too low (e.g. 20% of units at 80% AMI).

Strong accountability approach: Since this program trades housing affordability for tax dollars that could have been used towards other services, it is enforced through quarterly reporting and biannual inspections.

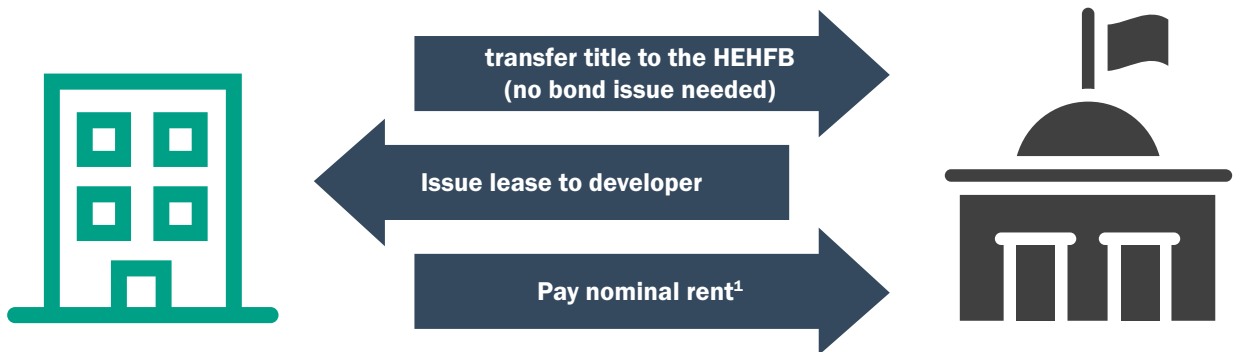
Notes: 1. Chattanooga Organized for Action. "The Memphis Model: New PILOT Program Can Be Step Toward Housing For All," (November 5, 2015). <http://www.chattaction.org/organizing-campaigns/the-memphis-model-new-pilot-program-can-be-step-toward-housing-for-all>. 2. The City of Memphis covers 324 square miles and encompasses the entirety of the Memphis metro area.

Memphis PILOT for affordable housing – How It Works

A public agency takes title of the property, thereby removing the property taxes

Developer with new or significantly rehabbed affordable housing, typically LIHTC

The Health, Educational and Housing Facility Board (HEHFB), Memphis



State statute does not limit the length of the pilot. However, the City of Memphis currently limits these PILOTs to 10 years.

Tennessee vs. Georgia statute and case law

The 2 states have a similar foundation – Georgia could amend its current approach

Key element	Georgia	Tennessee
Constitution prohibits traditional property tax abatements	✓	✓
Some entities are authorized to own property without taxation	✓	✓
Statute and case law implicitly authorizes PILOT approach to tax relief	✓	✓
Specified housing-related public agencies are explicitly authorized for PILOTs		✓
Local entity can set its own duration and amount of the tax relief		✓
The local entity does not need a bond to initiate the PILOT and title exchange		✓

Memphis PILOT for affordable housing – Challenges

PILOT / Memphis Context	Metro Atlanta Reality
<p>The City of Memphis covers the entire metro area (324 square miles), allowing 1 entity to intervene broadly</p>	<ul style="list-style-type: none"> • Highly fragmented metro area with no single jurisdiction touching full region • City of Atlanta is only 134 square miles and represents only a fraction of the metro population
<p>State framework more explicitly allows tax exempt housing entities to issue PILOTs (without a bond structure)</p>	<ul style="list-style-type: none"> • Property tax abatements are illegal in Georgia • Local work-arounds in Georgia operate similar to TN PILOTs (transferring title to a public body) but require a complex bond process that raises transaction costs for each project makes it difficult to support affordable housing at scale

The Memphis PILOT has also faced several challenges that metro Atlanta should avoid in crafting their own mechanism:

10-year duration with no ramp: The program ends after a 10-year straight-line tax abatement, making it difficult for developers to sustain the property as affordable – this is a local restriction, not a state restriction

Some mistakes: In the past, notoriously low-quality housing providers like Global Ministries Foundation have received support through the program

Appendix 13:

Catalog of NOAH precedents - Policies and examples from around the country that support NOAH preservation

Precedent	Location	Year Initiated	How it Works
Regulatory Tools			
Affordable Housing Demolition Tax	Highland Park, IL	2002	Property owners who demolish residential buildings pay a tax, in addition to demolition permit fees, that funds the City's Affordable Housing Trust Fund. The tax is \$10,000 for demolition of single-family buildings, and the greater of \$10,000 or \$3,000 per unit for multifamily buildings. \$10,000 tax, on top of demolition permit fees. As of 2013, it had generated \$3.1 million.
Linkage/ Neighborhood Housing Trust	Boston, MA	1986	New commercial developments over 100,000 SF that require zoning relief pay ~\$10/SF for square footage in excess of 100,000 SF:2 \$8.34/SF for housing, to the Neighborhood Housing Trust; and \$1.67/SF for job training, to the Neighborhood Jobs Trust. The Neighborhood Housing Trust Fund awards linkage funds as gap financing for low- and moderate-income housing production and preservation. From 1986 through 2012, these funds have helped create or preserve 10,176 affordable units.
Tenant Opportunity to Purchase Act	Washington, D.C.	1980	Landlords are required to provide incorporated tenants organizations with the opportunity to purchase the property. Tenant organizations can assign or sell its rights to other groups, such as a developer agreeing to limit rent increases upon purchase.

Other relevant links: Demolition tax likely to remain (Highland Park, IL), City considers charging demolition fee to help pay for affordable housing (Austin, TX), Boston's Neighborhood Housing Trust Fund

Precedent	Location	Year Initiated	How it Works
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Regulatory Tools (continued)

Troubled Buildings Initiative	Chicago, IL	2004	Reported troubled buildings can be “forfeited,” whereby the City files a petition to transfer a building with dangerous/hazardous conditions to an eligible third party – where the 3rd party is required to renovate or re-develop into affordable housing.
Transfer of Development Rights	Seattle, WA	1985	Seattle has used Transfer of Development Rights (TDR) to preserve units of affordable housing. In designated “sending” districts, owners of affordable properties at risk of redevelopment may transfer (sell) unused development potential from their site for use in a designated “receiving” district. Since 1985, the TDR policy has aided in the preservation of 950 affordable units.

Other relevant links: Tenant Opportunity to Purchase Act Process Charts, Transfer of Development Rights for Affordable Housing, Transfer of Development Rights (TDR) Case Study

Financing for Acquisition and/or Renovation

NOAH Impact Fund	Twin Cities	2016	Equity investment fund with below-market hurdle rate to help owner-developers acquire and preserve affordable units. Investment fund capital is blend of philanthropic, public, and local bank investment. Affordability maintained through use agreements, customized for each deal.
1-4 Unit Building Loan Program	Chicago Region	2014	Loan provides takeout financing for the acquisition and rehab of clusters of 1-4 unit buildings, filling a gap in capital availability in commercial loan market. Loan fund blends philanthropic, public, and local bank capital.

Other relevant links: Aid for rental market: \$26M loan pool set up to help investors buy, rehab 1- 4-unit structures.

Precedent	Location	Year Initiated	How it Works
Financing for Acquisition and/or Renovation (continued)			
Small Sites Acquisition Program	San Francisco, CA	2014	Loan program that provides acquisition and rehab financing to developers for acquisition, renovation, and preservation of multifamily buildings of 4-25 units housing residents at risk of eviction or displacement through rent increases. Small Sites Program properties are restricted to serve residents with an average incomes at 80% AMI. Program is funded through a housing trust fund revenues and affordable housing fees paid by developers.
Denver Regional TOD Fund	Denver Metro Area	2010	Fund provides up to 90% LTV, BMIR financing for the acquisition of property alongside transit corridors (within ½ mile of an existing or future rail station or within ¼ mile of a high frequency bus corridor) for the preservation or development of affordable housing and community facilities.
Housing Partnership Equity Trust	National	2013	The Housing Partnership Equity Trust (HPET) is a national REIT owned and operated by nonprofits to preserve affordable rental homes. HPET invests in medium- to large-sized Class B and Class C unrestricted multifamily properties currently at or below market rents. Average acquisition size is 230 units.
Austin Affordable Fund	Austin, TX	2017	A private equity open-end fund that will invest equity from high net worth individuals, foundations, banks, and institutional investors primarily in existing multifamily communities targeted at workforce individuals and families (with incomes between 60 and 120% AMI).

Other relevant links: [Small Sites Program Guidelines](#), [Mayor Lee Announces Funding for Small Site Acquisition Program to Protect Longtime San Francisco Tenants](#), [San Francisco Small Sites Program creates long-lasting impact](#), [The Denver Transit-Oriented Development Fund](#), [State of the City: Austin Affordable Fund](#).

Precedent	Location	Year Initiated	How it Works
Financing for Acquisition and/or Renovation (continued)			
New Generation Fund	Los Angeles, CA	2008	Revolving fund offers flexible acquisition and predevelopment financing for developers committed to the creation and preservation of affordable housing in the City of Los Angeles. Offers up to 120% LTV for non-profit sponsors and up to 95% LTV for for-profit sponsors. Created through a partnership between the City, local foundations, and private lending institutions. \$110 million invested, creating or preserving 2,077 units (~\$53,000 per unit).
New York City Acquisition Loan Fund	New York, NY	2006	Fund offers flexible bridge loans for the purchase of vacant sites or occupied buildings, predevelopment, and moderate rehabilitation to developers committed to create or preserve affordable housing. Offers up to 130% LTV for non-profit and M/WBE sponsors, and up to 95% LTV for for-profit sponsors.
Turner Impact Capital / Avanath Capital Management	National	2015 / 2008	Turner Impact Capital and Avanath Capital Management purchase large “workforce housing” apartment complexes around the US. For Turner Impact Capital, this is all of their housing portfolio. For Avanath, they also invest in subsidize properties. Turner Impact Capital already has investments in metro Atlanta (Norcross). Avanath is not yet in this market.
Genesis LA	Greater Los Angeles	1998	Flexible fund providing both debt and equity to support range of economic development projects, including limited investments in smaller NOAH properties

Other relevant links: Best Practice: Early Stage Capital for Affordable Housing Development

Precedent	Location	Year Initiated	How it Works
Holding Land in Trust			
Oakland Community Land Trust	Oakland, CA	unknown	Residents self-report 5-20 unit buildings up for sale to the Oakland CLT, and the CLT then makes the acquisition. Residents self-manage the buildings under the ownership of the CLT, and the CLT provides technical assistance in the process.
Community Land Trusts Capacity Building	New York, NY	2017	Enterprise Community Land Trusts Capacity Building Initiative. The grant would go to several Community Land Trusts focused on expanding affordability in their area of the City. The funding went to a variety of CLT models.
Rent To Own			
Rent-To-Own Program	Milwaukee, Wisconsin	2011	Partnership between a CDFI and CDC. Renovations cost ~\$125K/unit. Tenants selected via LIHTC criteria. At the end of 15 years, tenants who decide to purchase will receive a credit of \$36K for a down payment.
Operating Cost Reduction			
Class 9 Program	Cook County, IL	1980s	Through the Class 9 Special Assessments Program, Cook County provides a 10-year special assessment to multifamily property owners who make a substantial reinvestment of their units and restrict at least 35% of those units as affordable.
Energy Savers Program	Chicago Region	2012	Program provides technical assistance and access to financing to make energy-saving improvements. As of 2016, the program provided \$23.6M in loans and grants to finance energy-saving retrofits, assisting 10,000 units (average assistance amount under \$3,000). For a typical 24-unit building in Chicago, annual savings can add up to \$10,000 per year.

Other relevant links: [A Master Lease Program Could Increase Stability for Low- and Moderate-Income Renters](#)

Precedent	Location	Year Initiated	How it Works
Operating Cost Reduction (continued)			
Operating Subsidy	San Francisco, CA	unknown	Not specific to NOAH. Funds the gap between a developers revenues and costs. Limited to projects receiving other affordable housing funds.
PILOT program	Memphis, TN	2002	The Health, Educational, and Housing Facilities Board of the City of Memphis issues affordable housing pilots for affordable housing projects meeting LIHTC affordability criteria and LIHTC new construction or rehabilitation guidelines. The program is a 10-year straight-line program. The Board (and not the City) makes decisions of how to allocate the PILOTS.
Capacity Building			
CIC Property Management Training	Chicago Region	1998	This workshop series provides landlords with the knowledge to better market, manage and maintain residential rental property. The program covers topics including marketing, fair housing, the landlord/tenant ordinance, eviction court, nuisance abatement, real estate tax issues, maintenance, and budgeting. Cost per participant is \$50 per course.
Enterprise Capacity Building	Greater Los Angeles	unknown	Includes training and best practices sharing on acquisition financing & project budgeting, energy & cost saving measures, and property & asset management.

