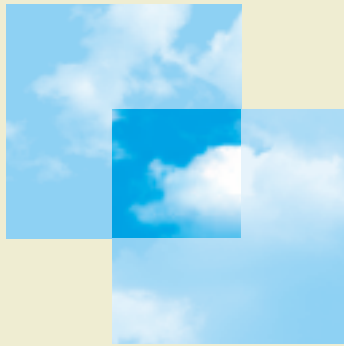


Window of Opportunity



Preserving Affordable Rental Housing

An initiative supported by  
the John D. and Catherine T.  
MacArthur Foundation



The MacArthur Foundation is investing \$50 million to preserve and improve affordable rental housing across the country. Its immediate goal is to help large nonprofit housing organizations purchase and maintain 100,000 units of existing, affordable rental housing that might otherwise deteriorate or become too expensive for low- and moderate-income households. Its larger objectives are to:

- demonstrate that preserving affordable rental housing offers cost-effective benefits for families, communities, and regional economies
- encourage additional public and private investment to preserve affordable rental housing
- stimulate public policies that enable a new generation of owners to preserve at least one million units of affordable rental housing in the decade ahead.

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**Window of Opportunity: Preserving Affordable Rental Housing** — a 10-year effort — is part of a larger Foundation program focused on stable, affordable housing with a special emphasis on rental housing. Other aspects of this program include: below-market loans to institutions that finance the development, rehabilitation, or purchase of affordable housing nationwide; grants to promote the success of Chicago's ambitious plan for transforming its public housing, including the creation of new mixed-income communities; and grants for research to examine the role of stable, affordable housing in helping individuals and families achieve greater success in education, employment, health, and other aspects of human development. Foundation-supported research also is exploring rental housing's role in the economic development of urban neighborhoods and metropolitan regions.

# Rental Housing: An Asset for Families, Communities, and the Economy

**A Historic National Investment.** The United States made a historic investment during the second half of the 20th century. Responding to widespread housing shortages and safety hazards in existing buildings, Congress created financial incentives for the private sector to develop rental housing. From the mid-1960s through the mid-1980s, these policies stimulated the construction of nearly 10 million new multifamily rental units.

This building boom benefited millions of Americans: recent college graduates on entry-level salaries, newlyweds saving up to buy their own houses, temporarily displaced workers, senior citizens on fixed incomes, households headed by low-wage workers. A substantial number of households rent by choice, but for the majority of renters who have limited economic means, renting is a necessity.

Investments in rental housing also contributed to the economic vitality of urban, suburban, and rural communities. Jobs were created to build and maintain new rental properties. Communities could accommodate a wider range of residents, including lower paid workers that are essential to every local economy: nurses, teachers, retail clerks, manual laborers, and others.

In some cases, newly built rental properties were poorly financed or maintained, or were concentrated in a manner that diminished opportunities for their low-income residents. But widespread success, on balance, has outweighed instances of failure. Overall, this historic investment improved the quantity and physical quality of rental housing. Although challenges remain, the nation is better housed today than ever before.

**An Enduring Need.** Rental housing is needed as much today as in the past. The number of renter households has grown to more than 35 million — one-third of all U.S. households — and is projected to rise by another two million or more households in the next 10 years. These new renters will include aging baby boomers choosing to trade the responsibilities of owning a home for the ease and independence of renting, a growing population of new immigrants, and a flood of baby boomers' children entering adulthood.

Affordable rental housing is a particularly pressing need. Only 15 percent of the nation's renters earn more than \$60,000 a year. Nineteen million renter households live on annual incomes of \$30,000 or less, which qualifies most of them for various government housing programs. However, because federal housing programs are not an entitlement and funding has remained limited, only five million low-income renter households actually receive direct housing assistance.

Sharply rising rents in many areas of the country are taking a toll on unsubsidized, low-income renters. Today, 12 million households spend more than 35 percent of their income on rent — above the level generally considered affordable. Affordability and housing challenges vary from region to region, but there are many signs of a widespread problem, including long waiting lists for government housing assistance and a growing incidence of homelessness, especially among families.

**Assets in Transition.** At the same time that an increasing number of families are unable to afford their rent, many factors are eroding the stock of affordable housing. The average rent of newly built units is out of reach for most renters, and current funding from all available sources — public, private, and philanthropic — supports the construction of no more than 100,000 new affordable units each year. Meanwhile, thousands of older and typically more affordable rental units are being lost.

The advancing age of rental housing is a major part of this problem. Nearly two-thirds of all rental units are more than 25 years old and increasingly in need of reinvestment and repair. The affordable rental housing stock also is under pressure because:

- *Demand in hot markets is driving rents up.* Property owners in hot real estate markets have been raising rents sharply or converting modest rental buildings into for-sale condominiums, lofts, and townhouses. In either case, affordable units are lost.
- *Deferred maintenance in weak markets is running properties down.* Many owners lack the resources and incentive to maintain their properties and are letting them deteriorate beyond repair.
- *Property owners are aging.* Investors and developers of affordable rental properties in the 1970s are turning their attention to retirement and estate planning, and many wish to divest their holdings.
- *Affordability requirements are expiring.* Time is running out on 15- to 20-year government subsidies and affordability restrictions; having fulfilled their obligations, owners in stronger markets may seize the chance to charge market-rate rents or sell to buyers who intend to do so. In fact, since 1997 nearly 200,000 government-subsidized units were lost as owners “opted out,” causing the stock of the country's most affordable units to drop by 10 percent.

# Preserving Affordable Rental Housing: A New Priority

**A Window of Opportunity.** The confluence of these market and historical factors presents an important window of opportunity. Many of the affordable units at risk of being lost over the next decade can be preserved. They can be acquired, refinanced, and improved to provide stable, affordable housing for years to come. Across the country, nonprofit owners and other private developers are working in partnership with public agencies, foundations, and financial institutions to do just that. In a time of scarce resources, they are preserving both subsidized and unsubsidized affordable rental properties, because:

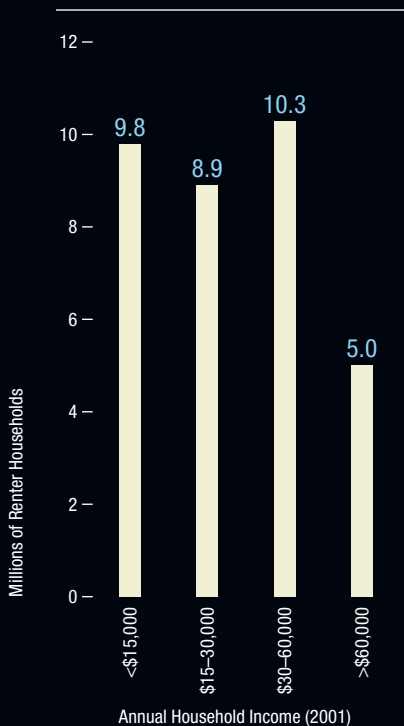
- **Preservation is cost-effective.** Analysis of transactions executed by early preservation leaders suggests that it costs 50 to 75 percent less to preserve an affordable unit than to build a new one.

- **Preservation maintains a mix of housing options in strong markets.** Negative perceptions of renters and rental properties have led many communities to restrict new developments. Conserving existing rental units enables senior citizens to grow old in their own homes, children to remain in their schools, and workers to live close to their jobs.

- **Preservation helps revitalize struggling neighborhoods.** Turning eyesores into attractive, well-managed properties builds pride and attracts new investment to communities. New owners often bring new services and amenities — childcare and community centers, computer and Internet access, playgrounds, and more — that further benefit residents and their neighbors.

## Renters' Incomes

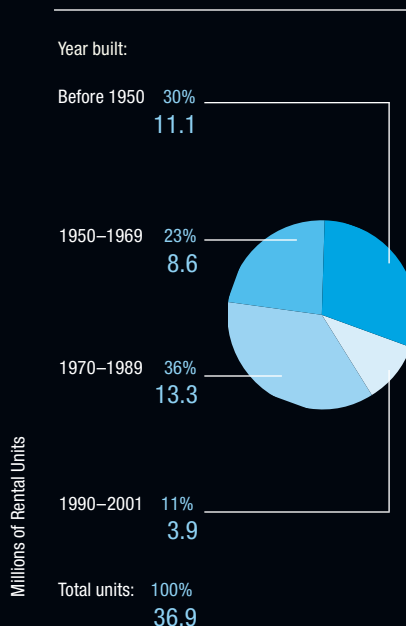
Renters span a wide range of incomes, but most earn well below the national median household income of \$43,000.



Source: 2001 American Housing Survey, U.S. Census Bureau

## Aging Properties

The total stock of rental housing has aged significantly as new multifamily construction has declined over the past 15 years. Two-thirds of all rental units now are more than 25 years old.



Source: 2001 American Housing Survey, U.S. Census Bureau

## The Affordability Gap

Newly built rental units are too expensive for the vast majority of renters.

Median monthly rent for a newly built multifamily unit in 2001:

**\$853**

Maximum affordable monthly rent for 10 million lowest-income renter households:

**\$375**

Source: U.S. Census Bureau

**The Need for Action.** There is a compelling case to preserve the existing supply of affordable rental housing. It includes the opportunity to conserve billions of taxpayer dollars already invested in these assets. However, a number of policy, tax, regulatory, and financial barriers hinder preservation transactions and keep potential buyers on the sidelines. Overcoming these hurdles demands significant public policy attention.

New incentives, improved regulations, better information, and dedicated resources can give a new generation of owners the motivation and means to acquire, revitalize, and preserve America's affordable housing assets. Moreover, without preservation, the country's modest efforts to build or subsidize new affordable rental units will continue to be undermined, diminishing the benefits for millions of low-income renters who currently lack stable, affordable housing.

To seize the opportunity to preserve affordable rental housing, the public sector, foundations, financial institutions, and other investors must work together to support nonprofit and for-profit owners committed to maintaining long-term affordability. These investors also can help stimulate more favorable public policies at local, state, and federal levels.

**MacArthur's Commitment.** The MacArthur Foundation is investing \$50 million in grants and program-related investments over the next five years to help preserve and improve the nation's stock of affordable rental housing. These investments include:

- Low-cost, long-term loans to 10 to 15 large nonprofit owners to help them purchase and preserve 100,000 units over the next decade
- Low-cost loans to four to six specialized lending intermediaries to help attract additional investment and provide flexible, high-risk capital for preservation transactions
- Grants and loans to nonprofit owners to help them strengthen and expand their operations
- Grants to national policy organizations with a special focus on housing preservation and to networks of nonprofit housing owners working to educate government officials, housing owners, investors, and community leaders about favorable preservation policies
- Grants to researchers to identify better and more consistent methods for analyzing the rental housing supply and to study the long-term progress and impact of preservation.

The Foundation also is funding research on rental housing more generally. This research includes examination of rental housing's relationship to community and regional economic development and the ways in which stable, affordable housing may provide a "platform" for more successful individual and family outcomes on various fronts, including education, health, employment, and economic self-sufficiency.

## Addressing the Housing Challenge: A Work in Progress

The housing challenges facing this nation are complex, and solutions to them are constantly evolving. The MacArthur Foundation's investment in preserving affordable rental housing is just one of many efforts to help ensure that people have access to shelter that meets their needs at different times in their lives.

As thousands of owners demonstrate daily, well-managed and properly maintained rental properties are a vital asset for both residents and their communities. A growing number of foundations and others are increasing their support for rental housing and its preservation. Forty states, for instance, have adopted new preservation

priorities for the allocation of housing funds — most within the past three years.

The early return on this effort has been promising in terms of affordable units saved and dollars leveraged. Future benefits are anticipated as lessons learned help shape preservation policies and practices. The MacArthur Foundation welcomes inquiries about its support for stable, affordable housing, including the *Window of Opportunity: Preserving Affordable Rental Housing* initiative. The Foundation also encourages interested parties to contact recipients of its support as well as other affordable housing leaders. For additional information, please visit the Foundation on the Web at [www.macfound.org](http://www.macfound.org).

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