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Affordable Housing Report

2020

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INTRODUCTION

The economic tumult of the past 15 years–bringing deeply-cutting recessions and barely adequate recoveries–underscores the importance of housing to Memphis. Housing–affordable, accessible, safe housing–not only braces families and communities to handle shocks but also forms a foundation to seize opportunity during times of prosperity. In short, housing builds individual and community resilience and wealth.

In 2019, with the aforementioned idea in mind, city government established the Memphis Affordable Housing Trust Fund (MAHTF). This fund aims to provide adequate housing, strengthen neighborhoods, and build nonprofit developer capacity by investing in projects addressing the affordable housing needs of families that earn up to 80 percent of the Area Median Income (AMI). The MAHTF launched its first funding round in fall, 2019.

In fiscal year 2020 (FY20), the Memphis City Council enacted and by resolution made the first of expected annual contributions of approximately $700,0000 to the MAHTF. In its first year, that allocation was matched with approximately $300,000 in reallocated funds from the Memphis Division of Housing and Community Development (Memphis HCD), for a total FY20 program of $1 million. Through a competitive process guided by a city mayor-appointed advisory committee and administered by Memphis HCD staff, $913,600 in grant awards were made to eight organizations. More on the FY20 projects is found below. In fiscal year 2021 (FY21), due to the budget constraints projected as impacts of the COVID-19 pandemic, the allocation to the MAHTF was zeroed out for the year.

When it comes to families and neighborhoods on the brink of poverty and homelessness, every dollar matters. Current funding, however, can address only a tiny fraction of the immense need. More significant progress demands more funding. Additional funding will support Memphis nonprofit developers to rehab, maintain, and build affordable housing. Additional funding will provide dozens or hundreds more families access to adequate housing. Additional funding will support the MAHTF to reach a scale that can move entire communities from spiralling disinvestment and decline, to virtuous cycles of tenancy, homeownership, rising property values, wealth building, and reinvestment. Additional funding will protect and propel Memphis families and communities to prosper.

In this paper, we make the case that in order to realize its transformational potential the Memphis Affordable Housing Trust Fund requires further investment from public and philanthropic sources. In addition to its humanitarian benefits to our city, this investment will lay the foundation for vibrant communities and a strong local economy.

THE STATE OF AFFORDABLE HOUSING IN MEMPHIS

Understanding housing affordability in Memphis means considering at least a few questions. First, does affordable housing supply in Memphis meet demand? Second, to what degree do excessive costs burden homeowners and renters? Third, what is the state of (dis)repair of the current housing stock, and how might this affect whether housing is adequate and healthy, as well as affordable?

The demand for affordable housing outstrips supply in Tennessee, as it does across the country; Memphis has an especially stark gap. Per 100 households with incomes at or below 50% AMI, the Memphis market has 57 available and affordable rental units; Per 100 households at or below 30% AMI, Memphis has just 34 available and affordable units. By comparison Nashville has 63 and 40 units per 100 households at 50 percent and 30 percent of AMI; the state of Tennessee has 66 and 47. Compared to the nation's 50 largest metropolitan areas, Memphis sits in the bottom half in terms of available and affordable units for extremely low-income renters. In raw numbers, this leaves Memphis with shortages of over 35,000 units for households under 50 percent AMI and 38,000 for households under 30 percent (Aurand et al., 2020).

A widely-used metric defines *affordable housing* as units with total costs (e.g., rent/mortgage, insurance, taxes, utilities, etc.) under 30 percent of a household's income–a household paying over that amount is considered *cost-burdened*. Most individuals and families who can not find affordable housing in Memphis do not simply move somewhere else. They often remain in the city, but end up in housing that demands a large chunk–often, over 50 percent–of their monthly income. Among the four largest cities in Tennessee, Memphis ranks first in cost-burdened homeowners (30 percent) and cost-burdened renters (50 percent). (Webb and Speer 2019).

In the wake of the 2008 financial crisis and ensuing recession, Memphis flipped from a majority homeowner city to a majority renter city. As of 2016, approximately 44 percent of Memphians owned their homes–a reduction from pre-recession levels of 55 percent (Bolton 2018). The level of black homeownership is lower still: fewer than 35 percent of black households are owner occupied. Indeed, among the country's 50 largest metros, Memphis has the lowest percentage of black home ownership, relative to the area's black population (Bolton 2019).

A change in housing supply explains some of this shift. Out town investors surged into the Memphis real estate market in the years following 2008, buying properties from owner-occupants who were struggling to make ends meet. These new buyers redirected the acquired properties to the rental market. Funding for owner occupants to perform essential repairs and housing counseling services to support prospective buyers on the path to purchase, are just a few ways the MAHTF can support the cause of homeownership and facilitate wealth-building in Memphis communities and keep owners in their homes.

Adequate affordable housing–housing that keeps people safe, keeps energy costs low, and provides accessibility for people of all ages and abilities–is even more difficult to find. Beyond ratios of rent/mortgage to income, energy costs and efficiency play a major role in the total cost burden of a housing unit. Here, Memphis again, is an auspicious leader. The American Council for an Energy-Efficient Economy published an analysis of Census Bureau data on the 48 largest US cities to compare energy budens. The findings place Memphis number one in cost burden for all households–who pay an average of 6.2 percent of their monthly incomes on energy utilities. The city also ranks number one in cost burden for low-income households, whose average energy utilities cost 13.2 percent of their income (Drehobl and Ross 2016). Not only could these funds be better spent on necessities such as groceries, health care, and transportation, they could also have multiplier effects in the local economy. Drehobl and Ross find, "...for low-income households and for multifamily low-income households, bringing housing stock up to the efficiency of the median household would eliminate 35% of excess energy burden…" (2016, 4). Short of that, low-income households in Memphis will shoulder high utility costs resulting from inefficient housing stock and insufficient funds to make upgrades and repairs.

The causes of inefficiency–poor insulation, deteriorated doors and windows–as well as other hazards contribute to poor community health. In a review of data from the American Community Survey, Stacy and co-authors point out, "Nearly 40 percent of all occupied housing units in Memphis exhibit at least one of the Census Bureau's physical or financial conditions of poor quality, which include incomplete plumbing or kitchen facilities, more than one occupant per room, and gross rent exceeding 30 percent of a household's income" (2018, 16).

POTENTIAL ECONOMIC AND FISCAL IMPACTS

The economic fruits that affordable housing can bear for a community, city, and region sometimes go unnoticed. "[C]onversations on affordable housing usually focus on the cost to taxpayers and rarely take into account the fiscal and economic benefits that accrue when communities encourage the development of affordable homes" (Cohen and Wardrip 2011, 1). Investment in affordable housing stands to benefit cities in several ways: it creates opportunities for one-off and sustained spending and jobs, comes with positive fiscal impacts in terms of increasing and stabilizing the tax base, reduces foreclosure risks, improves worker and employer retention and attraction, and increases the buying power of residents (Cohen and Wardrip 2011; Wardrip, Williams, and Hague 2011).

There are many metrics by which to evaluate housing trust funds. The most obvious way to assess relates to how well the fund can support people to access safe, affordable housing. As a result of the fund, how many people can now rent; how many can now buy; how many safe, affordable units have been produced or preserved; how many units can be made safe and affordable relative to the overall dollars spent?

These questions help reveal progress toward the social justice imperative of safe, accessible, affordable housing for all. The proliferation of housing trust funds since the mid-1980s and the successes that local trust funds have realized point toward their efficacy. As of 2016 there were over 770 state, county, and local housing trust funds operating nationwide. In that time, funds similar to the MAHTF have made great strides in their cities. In a 15-year period, Charlotte's Housing Trust Fund, for example, capitalized with $92 million, financed 5,509 new and rehabilitated affordable housing units–including 2,874 for those earning less than 30 percent of the area median income. Philadelphia's Housing Trust Fund, over a 10-year period, preserved or modified 16,650 homes and prevented at least 2,713 families from becoming homeless. Beyond these two examples, local trust funds across the country have consistently demonstrated similar impacts.

But, an additional set of metrics show how and why an affordable housing trust fund can have significant *economic* impacts on a neighborhood and city. While a $5 or $10 million direct capitalization of HTFs can alone make a modest impact, an Econsult report explains their true strength as their ability to mobilize external dollars: "...housing trust funds tend to leverage impressive amounts of additional public and private funds in support of the construction of affordable homes" (2009, 5). Using some older data, the Center for Community Change finds that, on average, local affordable HTFs leverage $7.50 of additional public and private funding per $1 that the fund invests (Brooks 1999). That figure depends on a variety of factors, including whether a fund makes grants, loans, or both.

Nashville's Barnes Affordable Housing Trust Fund, which primarily makes grants to nonprofit developers, reports a leverage ratio of about 5:1. In 2019, the Barnes fund's $9.8 million in grants galvanized $55.3 million in total investments. Meanwhile, Louisville and St. Louis–funds which make both grants and loans–yield even higher leverage ratios. In 2018, Louisville's fund awarded $9.6 million dollars, which drove $164 million in development–a 17:1 leverage ratio. Over a period of several years, the St. Louis HTF awarded $30.9 million and grants and loans, which turned into $624 million dollars in development–a 19:1 leverage ratio.

In 2019, $5.1 million in grants and loans from the St. Louis Affordable Housing Trust Fund drove the development of 165 new homes and repairs to 107 units–and contributed to supportive services, rent/mortgage/utility assistance, and transitional housing for over 25,000 residents (St. Louis Affordable Housing Commission 2019). Similarly in 2018, working with approximately $9.6 million the Louisville Affordable Housing Trust Fund galvanized 22 projects to build or preserve more than 1,300 affordable units (Louisville Affordable Housing Trust Fund 2018).

THE MAHTF: EARLY PROJECTS

In its first year (FY20), the MAHTF awarded $913,600 to eight local nonprofit organizations for single family rehabilitation and owner-occupied repairs for households earning 80% of the area median income (AMI) or below. With a total of 82 units across the awards, the average cost per unit to the MAHTF for the FY20 program is $11,141. Among the eight awardees, match funding totalling $968,130 was leveraged for a total investment of over $1.88 million.

Figure 1: MAHTF FY20 Awards and per Unit Cost by Source and Project Type

Project Type	City MAHTF	Other Funds	# of Units	Cost per Unit
Owner-Occupied Repair	$ 535,000	$ 433,130	63	$ 15,367
Single Family Home Rehab	$ 378,600	$ 535,000	19	$ 48,084
ALL Projects	$ 913,600	$ 968,130	82	$ 22,948

While some awards were made to well-established programs with widely known providers of affordable housing, others are providing opportunities for program growth and capacity building for organizations that are newer to housing development. In that sense, the awards achieve multiple goals, including both adding to the supply of quality affordable housing while strengthening the community development industry’s capacity to play this vital role. At this early stage of project development - starting a new program understandably takes time - there is a further opportunity to measure the economic impact of these investments beyond merely the number of units. It is expected to create jobs, stabilize and grow the property tax base, and more over time and with continued investment. These impacts may be multiplied through continued strategic investment in and around anchors and prior housing and community development investments.

Why Should My Foundation Invest in The Trust Fund (Over Some Other Need):

- Locally responsive/nimble, declining fed funding, differing priorities for state programs
- ACQUISITION - if we are facing a foreclosure crisis (even if not as dire as last one) having private money that can be used to acquire vulnerable properties and keep them out of institutional investors, e.g.
- Investing in best practices
- Look for language from something like Shared Prosperity that the foundations themselves have been involved in
- Conversation with HCD about capacity to administer additional funds - BEFORE going to potential investors
- TPN Report (SHARE) - pull statement on tax base being stabilized/grown by investments
- What about communications and media - relationship between ‘us’ and the city - advocacy for years, then find out last minute that the fund is cut for 21 - acknowledge that a lot is going to housing needs as supplement, but don’t address longer-term needs - acquisition, inventory, supply gap - it’s not holistic approach if no support for supply - crisis pre-exists the COVID pandemic, which will only make the effects worse

- What have been COVID funding impacts for funds in other cities? [Nashville is a poor example of cuts]
- Appreciation of private funders helping the orgs in this effort for what they are investing in now - this is a chance to do more (and could be structured in different ways - grant and/or loan funds, e.g.)
    - Understand the rising property values have an overall benefit - economic, population growth, clean and livable, business attraction

HOUSING TRUST FUNDS: LOOKING TO PEER CITIES

Housing Trust Funds (HTFs) are hardly a new phenomenon; states and cities across the US have been operating such funds since the 1980s. Most states, and over 700 localities operate their own HTFs, leaving a variety of forms and approaches to adapt to the Memphis context (Brooks and Anderson 2017). Funds operated by peer cities–Louisville, Indianapolis, St. Louis, Nashville–provide some of the best insights for the MAHTF. Here are just a few examples of how HTFs in peer cities have supported housing goals and leveraged private investment in housing and community development.

St. Louis Affordable Housing Trust Fund:

- Since 2003, the fund has deployed $30,942,802 in grants and low-interest loans for the production of 3,685 homes; in 2019, for example the fund supported:
    - 165 new homes
    - 107 home repair services
    - 21,040 individuals received homeless prevention services
    - Transitional housing & services for 2,404 individuals
    - Rent, mortgage, utility assistance for 1,482 households
- The program has a leverage ratio of $19 matched to every $1 invested by the fund

Affordable Housing Trust for Columbus (OH) and Franklin County:

- Started in 2001, awards this loan fund has revenue of approximately $10 million annually
- In 2019 the fund supported:
    - $28 million in closed loans
    - $148 million in new economic activity
    - 974 units produced or preserved
    - Sustained as many as 1,300 jobs
- Also in 2019, the fund attracted $100 million in private investment to expand its scope

Louisville (KY) Affordable Housing Trust Fund:

- Began in 2008 with an initial $1 million one-time contribution, and over time has attracted public and private investments
- Grant & Loan fund
- In 2018, the fund deployed grants and loans that:
    - Leveraged $17 for every $1 for $164 million in development
    - Built 492 new units
    - Preserved 814 affordable units
- In 2020 Louisville Metro Government allocated $5 million to the LAHTF as follows:
    - $4.75 Million for development activities, rehab/reuse of vacant/abandoned properties, and mixed income projects integrating low income housing
    - $1 Million "Adopt a Block" Pool used to develop or rehabilitate single family units, geographically concentrated at the block level, with full or partial repayment
    - $250,000 for program administration
    - $25,000 grant pool for Supportive Housing Services

The Barnes Housing Trust Fund (Nashville, TN):

- Between 2012-2019 the fund made over $37 million in grant investments that galvanized $183 million in overall development for a leverage ratio of 5:1
    - In 2019, a $9.8 million allocation leveraged $55.3 million in additional funding
- The fund has aided in the development and preservation of 1,700 units, and has supported the transfer of 84 metro-owned properties to affordable housing developers and invested $250,000 in the Nashville Community Land Trust

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