Beyond the Regulatory Period: Keeping Units Affordable for Those Who Really Need Them

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Introduction

Housing policy has a way of exposing the social and economic injustices that exist in society in way that few other public policies can. Historically, it has perpetuated much of the racial and cultural prejudices and injustices that have permeated the fabric of this country, and to some extent, still does. Public housing projects like Pruitt-Igoe, which housed almost entirely low-income black residents were defunded and eventually blown up, while other largely white projects were not, and slumlords still take advantage of the immigrant status of many residents of Los Angeles to keep from making much needed repairs and improvements to their tenant's homes. However, housing policy can also be used as a tool to disrupt these injustices, showing those who are marginalized that they too have a right to the city, and to safe, habitable homes. As I really delve into the data I have collected and comb through the works of some of the foremost thinkers on housing policy, and reports carried out by numerous reputable institutions, I hope to inform the way that Los Angeles proceeds as it deals with both the causes and effects of the housing crisis that has ravaged the city.

The United States is facing a housing shortage of unparalleled magnitude. As market-rate units are developed in many of the country's major urban centers for their high margins, affordable housing units, defined generically as units with lease rates that don't exceed 30% of a resident's gross income, according to HUD, especially targeted for those who make under 30% of the area median income (AMI), deemed extremely low income, is lagging behind ("Preserving Affordable Rental Housing: A Snapshot of Growing Need, Current Threats, and Innovative Solutions | HUD USER"). The gap between supply and the demand for affordable housing continues to grow as renters that make less than 30% of their community's AMI demand more than 7.2 million units (NLIHC, 2017). To give one a sense of the magnitude of the shortage, given a group of 100 renting families that fall below the 30% threshold nationwide, 65 don't have an affordable place to call home (NLIHC, 2017).

Currently, the state of California has one of the biggest affordable housing deficits in the United States, with Los Angeles County alone needing more than 568,255 low (50-80% of AMI), very low (30-50% of AMI), and extremely low-income units (<30% AMI) to fill the gap in demand according to a recent study by SCANPH and the California Housing Partnership Corporation (CHPC) (Chambers, 2018). California as a whole has built enough to make only 21 units "available and affordable" for every 100 extremely low income (ELI) families in the state, second only to Nevada, which has made a meager 15 units available per 100 ELI households (Misra, 2017). The vast majority of the units being built are multi-family, or attached, because of local zoning code requirements for density, and the high cost of developing a project can only be subsidized with the construction of several units (Herriges, 2018). Of the affordable units currently occupied in Los Angeles County, of which there are over 1.8 million, 11,400 units were built with federal and state funding and subsequently have mandated restricted use periods which will be expiring in the next several years (Herriges, 2018). Matt Schwartz, president of California Housing Partnership Corporation, an affordable housing advocacy group, projects that this number could increase to around 70,000 in California over the next 10 years (Dovey, 2018). At a time when every unit of affordable housing is keeping one more family off of the streets of Los Angeles, were 70,000 units, approximately 12% of the current unit shortage, to be removed from the affordable rental market, or the rental market altogether, this would have catastrophic results for the city's neediest populations.

The extreme unaffordability of the rental market has partially to do with an increasing divergence between stagnating wages and rising rents which has persisted in California, and specifically Los Angeles; the average worker now needs to make $114,000 a year to afford the median rent of a two bedroom unit (SCANPH, 2018). But also contributing to increasing housing unaffordability in the city is the fact that while the cost of labor, land, and construction skyrocket, putting together the financing to build an affordable housing project can be difficult, as LA County has seen cuts to affordable housing subsidies to the amount of some $450 million since 2008 (Chiland, 2017a). Simultaneously, Low Income Housing Tax Credit (LIHTC) investors, who compose the highest volume of capital invested into affordable housing, are choosing to invest their money in alternative markets with more lucrative returns, leading to only 75,000 affordable units being brought to market throughout the United States annually, compared to the mid 1970's peak of 300,000 ("Preserving Affordable Rental Housing: A Snapshot of Growing Need, Current Threats, and Innovative Solutions | HUD USER"). Ultimately, the pace of new housing construction in Los Angeles has been no match for persistent, and ever increasing demand for affordable units as Los Angeles becomes more of a global city every day.

Just as significant a contributing factor to the shortage in affordable housing as any of these factors though, and more relevant to Los Angeles than most cities in the United States, is the fact that many affordable units are ultimately taken off of the affordable housing market. In the United States, 2.4 million rental housing units have been removed from the market that were serving individuals with incomes below 50% of AMI (Kinney, 2016), which at the current rate, would take more than 30 years to replace were developers throughout the country to rebuild these units. And in Los Angeles, the rate of conversion is uniquely high; as the value of land in the city continues to soar, profit-focused developers and investors are presented with more lucrative opportunities than the continued operation of their affordable units. Others, whom don't have the same financial backing, see higher and higher operational and maintenance expenses over the lives of their projects, forcing them to choose between leaving their projects in disrepair or selling them, as the restricted rents are not generating the necessary cash flow for the developer to continue operating the property. As such, putting in place mechanisms to preserve the units that are currently serving lower income populations in Los Angeles is crucially important, not only because preservation is "generally cheaper than new construction, prevents displacement, and takes advantage of existing land use patterns" (Kinney, 2016), but also because the net gain in units is limited when units are consistently removed from the market.

Nonprofit developers, community development corporations (CDC's), and other nonprofit entities have attempted to address the need for affordable housing. Large nonprofit developers and CDC's have been responsible for the construction of over 1.6 million units of housing in the United States, with Housing Partnership Network (HPN) members, a group of 98 of the most prolific nonprofit developers, as well as limited equity coops, community land trusts, Habitat for Humanity, and other nonprofit organizations responsible for the rest of the more than 2.3 million total units built by nonprofit entities since the first "philanthropic" housing developers were founded and began building in the early 1900's (Bratt, 2012). Although the majority of CDC's have developed a relatively small number of units since their founding, with more than half having built fewer than 100 multi-family units in total, the number of CDC's in existence has increased 20 fold since the 1970s (Bratt, 2012). And from 1990-2010, nonprofit developers had a much higher rate of construction of new affordable units than for-profit developer members of the National Association of Home Builders (Mayer & Temkin, 2007).

They brought to market an average of 124 units annually to the 57 units developed by for-profit builders whose niche was outside of affordable housing (Mayer & Temkin, 2007). Despite small numbers of affordable housing units being developed by for-profit members of the National Association of Home Builders, 75-80% of units currently being brought to market are by for-profit affordable and market-rate housing developers, not nonprofits (Chung, 2004).

There is extensive debate carried out among developers, housing experts, and local governments as to what the best strategies are for bringing more affordable housing units to market, and keeping them affordable. Some lend their trust to the power of the market to correctly allocate resources to bring units to market while others believe that more intense, controversial, measures should be experimented with. Of the numerous potential strategies, efforts to expand the number of limited equity coops and community land trusts has curried favor among many grassroots organizers who want to remove units from the speculative market, while some have begun to piece together support to resurrect public housing from its unfortunate reputation in the United States. Others favor more supply side interventions; they tend to lean in the direction of inclusionary zoning policies, as it presents the potential to make affordable housing financially self-sustaining and absent of the need for subsidies, a feat that most other interventions cannot accomplish. What is unclear though, is which of these strategies, some of which are already in use in Los Angeles, will help to retain the affordability of below-market-rate housing units beyond the state and city mandated restricted use periods.

The affordable housing crisis in Los Angeles is not just a matter of capable thinkers coming together to craft a vision for some utopian city high on the hill. It's a matter that concerns real people, and equity among people. Los Angeles is one of the most diverse cities in the world, and the way that it handles its public policy surrounding housing going forward doesn't concern just those who are low income and are left out of the housing market, but all of those who reside in this city and admire its diversity in thought, culture, and experience. The way the city handles its policy towards housing is reflective of the way that it feels about its residents, those who have been marginalized and those who haven't. And as such, it is crucial that the city think deeply not just about how its response to the housing crisis it now faces will reflect on the city, implicating its future desirability and subsequent economic strength, but also on what is ethical, moral, and ultimately, just.

Literature Review

In the United States, and in all markets around the world, there is a limited supply of financial capital that can be allocated to developing and maintaining affordable housing for those with the lowest-incomes. Because affordable housing is not economically viable to build and operate without subsidies handed down from public entities, numerous obstacles present themselves as developer-operators run out of outside money over the life of affordable housing projects. This leaves many developers, including those who intend to keep their project's units affordable in perpetuity, in a tough position as they have to consider taking the property in new directions. As such, a difficult dilemma presents itself, begging the question of how affordable units can be retained over the long-term in such a way that is financially feasible for the operator.

This research is specifically concerned with the current land use policy, financing mechanisms, and public subsidies that are designed to both enable developers to build affordable housing units, and keep them, while also delving into the barriers that keep many developers from being able to do so. The research begins with a deep dive into the most commonly relied upon affordable housing production methods in Los Angeles. It continues by discussing the difficulties that developers face during and after their affordability mandates expire, and attempts to investigate and put forth effective techniques that Los Angeles could more fully embrace or look to for the first time to ensure the retention of affordability in below market rental units.

Policy to Bring Affordable Housing to Market

Since the introduction of Franklin D. Roosevelt's New Deal, the government stimulus program intended to put citizens back to work after the Great Depression through massive public works projects, social services in the United States have become more and more privatized. The general consensus has been established among many that the private sector can act within shorter timelines and lower costs than the federal government (Ballard, 2003). Affordable housing has largely been considered a social service over time, but no longer are the days when the federal government's Department of Housing and Urban Development (HUD) finances, constructs, and manages its own housing for the neediest in society. Instead, lobbying, and distrust of the government, cultivated out of failed public housing projects like Pruitt-Igoe, has led general sentiment to favor providing incentives to private actors in the housing industry, namely developers and landlords. Section 8 subsidies, funded through the Federal Government, and inclusionary zoning, are two of the most heavily relied upon strategies in Los Angeles to incentivize private, profit-oriented entities to develop and operate affordable housing.

Section 8 Subsidies

Section 8 of the United States Housing Act of 1937 first introduced the concept of supply side incentives for making available more housing that may otherwise be limited or unavailable to low-income resident tenants. More formally known as the Housing Choice Voucher, the voucher provides low-income tenants, typically making less than 50% of AMI, access to rental housing owned and operated by a landlord in the private market. The government subsidizes the gap between the rent owed by the tenant, and a set percentage of the tenant's income that they are required to put towards the rent payment (Carlson, Haveman, Kaplan, & Wolfe, 2011). The landlord must be willing to accept the housing choice voucher, more often called a Section 8 voucher, and the property must meet minimum thresholds for health and safety set forth by HUD (Carlson et al., 2011). If the landlord agrees, and the property qualifies, Section 8 contracts between the landlord and subsidizing body should run for the "lesser of: the term of the project's financing (but no less than 20 years), 30 years, or 40 years if the project is owned or financed by a State or local agency, is intended for occupancy by non-elderly families, and is determined by HUD to require special financial assistance (HUD, 2019). Landlords have to weigh the benefits of receiving consistent and secure rental payments and low vacancy rates with their fears that renting to Section 8 tenants could lead to significant property damage (Weinberg, 1982).

In Los Angeles, 14,000 private Section 8 landlords provide homes to some 57,000 voucher-holding families (HACLA, 2015). These tenants rely on vouchers to make their rent payments, and because more vouchers are only made available when one's income rises above the maximum threshold, or dies, only 2,400 new vouchers become available every year (Smith, 2017). In October of 2017, the waiting list to apply for Section 8 vouchers opened for the first time in 13 years, leading 600,000 Los Angeles residents to apply for the 20,000 spots open on the waiting list (Smith, 2017). And in the United States as a whole, according to data collected since 2011, the program has benefited more than two million people every year, yet this still only meets a ¼ of the demand for vouchers (Carlson et al., 2011).

Inclusionary Zoning

Taking an alternative approach to rent subsidies is the strategy of implementing inclusionary zoning policies as a method for requiring the delivery of more affordable units to the market. Instituted through a city's zoning code, inclusionary zoning policies mandate that developers of market-rate housing set aside a percentage of the units delivered and restrict them to tenants who make under a specified percentage of the AMI (Lerman, 2006). In return for delivering these below market units, developers are rewarded with a density bonus, allowing them to build more units into their development, mitigating the cost to the developer incurred by including the required below-market-rate units (Lerman, 2006). Many states have mandated inclusionary zoning requirements, including Massachusetts, New Jersey, and California, and 11% of people living in the United States live in municipalities in which inclusionary zoning policies exist (Schneider, 2018). In LA County, the zoning code outlines how developers can receive density bonuses: they must build projects that are more than 5 units, keep their units affordable for a period of 30 years, and allocate a certain percentage of their units for individuals meeting certain income thresholds, listed in the table below ("Part 17 - DENSITY BONUSES AND AFFORDABLE HOUSING INCENTIVES | Code of Ordinances | Los Angeles County, CA | Municode Library," 2019)

Table A: Density Bonus Eligibility Requirements

Qualified Projects	Minimum Set-Aside		Density Bonus		
			Basic	Additional**	Maximum
	Very low	5%	20%	1%:2.5%	35%*
Affordable housing set-aside	Lower	10%	20%	1%:1/5%	35%*
	Moderate (for-sale only)	10%	5%	1%:1%	35%*
Senior Citizen housing set-aside	A senior citizen housing development		20%	N/A	20%

For many communities, this form of delivering affordable units is popular, as it limits the need for capital investment or incentive offerings by the municipality. It also promotes social mixing and opportunities for upward mobility for the low-income residents, according to Brian Lerman, a lawyer and contributor to the Boston College Law Review (Lerman, 2006). (Kautz, 2002) confirms this perspective, but adds that many whom oppose inclusionary zoning mandates argue that cities create the affordability crises that their residents experience. According to her, they say that by enabling the construction of new luxury housing and commercial spaces like high-end retail that appeal to those with higher incomes, the city is thereby exacerbating housing unaffordability (Kautz, 2002). As such, the city should be responsible for footing the bill to reverse the trend, not the developer. Others push forth the frequently cited argument illustrated by economic models that imposing inclusionary requirements will stunt new development (Kautz, 2002).

Proponents of the policy, on the other hand, (Kautz, 2002) argues, tend to believe that developers who intend to build in their community should deliver benefits to the community, and inclusionary zoning is a great way to make them do so. Others consider inclusionary zoning to be the best corrective tool available to reverse exclusionary zoning, despite the fact that the developer wasn't responsible for creating the long-term negative effects that exclusionary zoning has had on a community (Kautz, 2002).

In many jurisdictions, developers may instead choose to pay into the Affordable Housing Trust Fund, in the form of in-lieu fees, instead of including the units on site (Thaden & Wang, 2017). It has been reported that in a survey of 373 jurisdictions in the United States, $1.7 billion has been raised in housing trust funds, creating 49,287 affordable ownership units, 122,320 affordable rental units, and 2,100 affordable single-family homes, on top of the over 173,000 units that have been produced on-site by developers, proving the policy's effectiveness in producing affordable housing (Thaden & Wang, 2017). In Los Angeles, the Affordable Housing Trust Fund has played a smaller and smaller role in the production of new units since its $100 million infusion by Mayor James in 2002 has been depleted (Breidenbach, 2002). It was running a balance of approximately $20 million as of 2014, and has steadily decreased since community redevelopment allocations were dissolved following the 2008 crisis (Breidenbach, 2002) (Visotzky, 2015).

Inclusionary zoning has a checkered past in Los Angeles. It was first initiated in a plan for Century City West, what is now on the border of Westlake and Downtown, in 1991. In 2009, notorious billionaire developer Geoff Palmer, who has built more apartments in Downtown Los Angeles than any other developer, challenged the legality of the inclusionary zoning policy, citing that the policy was not in alignment with the 1995 Costa Hawkins Act, and won the decision (Chiland, 2018a). However, in 2016, the City of Los Angeles passed Measure JJJ, a quasi-inclusionary policy that requires developers both to include affordable units in their projects and operate them at an affordable rate for 55 years if they request a zone change or variance on a project of more than 10 units, or pay into the city's housing trust fund, while simultaneously requiring that they hire local labor at union wages (Chiland, 2018).

Although many are still concerned that it will slow the pace of construction, in 2017 approximately 20,000 new multi-family units were approved, indicating that the policy has not dampened developer appetites to develop in the city (Chiland, 2017b).

Financing Affordable Housing

The challenges associated with financing affordable housing is one of the primary reasons that few profit-motivated developers choose to make affordable housing their niche. Most affordable housing projects developed by for-profit entities are funded by no fewer than 3 or 4 sources of capital (Blumenthal, Handelman & Tilsley, 2016). The average nonprofit developer, on the other hand, syndicates an average of 7.8 funding sources, according to Rachel Bratt of the Joint Center for Housing Studies at Harvard (Bratt, 2012). Typically, financing comes from a first mortgage, tax credits, and at least 3 other sources of financing that provide gap financing. Usually, funds come from the Federal Home Loan Bank's AHP, HOME and CDBG funds, deferred development fees, equity gap contributions, general or limited partner contributions, tax-exempt bonds issued by state or local municipalities, or vouchers (Blumenthal, Handelman, & Tilsley, 2016). The bulk of the upfront capital infusion will go to funding the acquisition and construction of the project, with the cash flow from the project's rents to service the debt and cover all operating expenses ("How Is It Built? - California Housing Consortium"). At Seattle's High Point Project, which will bring to market a mix of 1,600 affordable and market-rate units when completed, funding came from 5 sources: of the $550 million in project financing, $285 million was provided by unspecified private investment capital, $35 million came in the form of a Federal grant to help fund the redevelopment of dilapidated public housing projects, called HOPE VI, $106 million came from other unspecified public funding sources, $68 million was generated from tax-exempt bonds, and $56 million was generated through the sale of Low Income Housing Tax Credits ("Case Studies in affordable housing: Seattle's High Point Redevelopment Project | HUD USER").

Since the dissolution of Community Redevelopment Agencies in 2011, which provided upwards of $50 million a year to the city of Los Angeles, money for affordable housing projects has been harder to come by (Visotzky, 2015). CRA's, as they were more affectionately called, were the largest source of financing for affordable housing projects in the state, but dissolved because of the budget woes that rocked California during the recession of 2007-2009 (Murphy, 2018). Now, the money that was allocated to the city through CRAs has been redirected to the City's General Fund (Visotzky, 2015). In the meantime, money that became unavailable through the dissolution of CRA's has been effectively replaced by measures like HHH in Los Angeles, which will raise $1.2 billion by levying higher property taxes on LA's homeowners ("Supportive Housing (Prop HHH) | HCIDLA"). This bill was initially intended to support the construction of more than 10,000 units of housing for the formerly homeless and those at risk of becoming homeless, yet now estimates are closer to 6,000 units, leaving many questioning the city's ability to effectively disseminate funds (Chiland, 2018b). Either way, the bulk of the funding that remains for the construction of affordable housing in Los Angeles is limited to the four sources that follow.

Low Income Housing Tax Credits

The Low Income Housing Tax Credit (LIHTC) was initially introduced through the 1986 Tax Reform Act, and is now the most heavily relied upon subsidy in the creation of new affordable housing (Ballard, 2003). Originally intended to encourage private developers to provide a public good, developers apply for tax credits from the state, in which they outline the scope of their project, from the affordability levels of the units that will be developed to the sources of funding that they are syndicating to capitalize their project. The tax credits are issued to developers if approved by the state, with developers then selling their tax credit allocation at approximately 80 cents on the dollar to private equity investors who are granted a credit allocation every year for 10 years to offset their tax obligations (Ballard, 2003). Their investment also earns them equity, or an interest in the value of the development. The developer selling the tax credits uses the cash upon sale to finance the project's "hard" construction costs (Ballard, 2003).

From 1986-1989, projects that received LIHTC allocations were required to keep units affordable, determined as 30% of the targeted AMI chosen by the developer for the tenant pool, for 15 years, but since 1990, an "extended use period" was tacked on to this initial 15 years, a move made to limit the developer's ability to convert their units to market rate or sell the project to another entity after the compliance period ended ("What Happens to LIHTC Properties After Affordability Requirements Expire? | HUD USER"). In most states, once a developer has carried out their original 15 year commitment, they are eligible for a "relief process", in which they may be granted permission by the governing Housing Finance Agency (HFA) to remove a development's units from the market for affordable housing ("What Happens to LIHTC Properties After Affordability Requirements Expire? | HUD USER"). That being said, they must still negotiate to prepay their mortgage with the lender, many of which are unwilling to because it caps the profits from interest that can be made from issuing the loan. States that permit a relief process to be carried out are encouraging the unsustainability of affordable housing markets in which longer affordability restrictions on units are not imposed by another mechanism, as was concluded by a recent HUD report carried out with the help of Abt Associates ("What Happens to LIHTC Properties After Affordability Requirements Expire? | HUD USER"). The report, titled "What Happens to Low-Income Housing Tax Credits at Year 15 and Beyond?" gathered data from numerous interviews with developers, financiers, brokers, and public agency staff all working with LIHTC properties. They tracked more than 11,000 properties built before the 1990 introduction of the 30 year compliance term, finding that approximately 32% were no longer monitored by the state HFA, which ensures the compliance of all properties financed with public money after year 15. Thus, they were likely not operating in accordance with their previously mandated rent caps ("What Happens to LIHTC Properties After Affordability Requirements Expire? | HUD USER"). Authors of this study argue that the conversion risk will be even greater when the properties built after 1990 become eligible for repositioning after year 30 given the ever increasing value of land in desirable urban centers ("What Happens to LIHTC Properties After Affordability Requirements Expire? | HUD USER"). That being said, even if there is a heightened risk of conversion after the IRS mandated compliance period expires, most affordable units will remain affordable according to the report, not only because of affordability mandates but because the cost to convert units or make substantial repairs is so high after the mandates expire (Khadduri, Climaco, Burnett, Gould, & Elving, 2012).

In California, the Tax Credit Allocation Committee (TCAC) allocates 4% and 9% tax credits to developers applying for funding to finance their 100% affordable housing project.

Developers agree to keep their units affordable for a minimum of 55 years if they are receiving 9% tax credits, with at least 40% of units at or below 60% of AMI or 20% at or below 50% of AMI (Vergolini, 2013). The City of Los Angeles is entitled to 17.6% of the entire tax credit allocation for the state of California, with Los Angeles County receiving another 17% (Vergolini, 2013). In 2016, the LIHTC was responsible for the construction and rehabilitation of more than 5,000 units alone, and from 1987 to 2009, 2.2 million units of housing have been produced using the subsidy throughout the country, making it responsible for the lion's share of affordable housing development in the United States (Murphy, 2018) (Khadduri et al., 2012).

CDBG Funds

Supplementary to the LIHTC, state-disseminated and jurisdictionally controlled Community Development Block Grant (CDBG) and Home Investment Partnerships Program (HOME) funds are largely intended for the purchase, development, and rehabilitation of affordable housing, tenant rental assistance, and homebuyer assistance as well as for a variety of other capital improvements (Pooley, 2014). In California specifically, funds can also be used for economic development, public infrastructure, public facilities, public services, and planning purposes (Brown, Podesta, & Metcalf, 2018). Initiated through the Housing and Community Development Act of 1974, the CDBG program replaced highly controversial funds intended for urban renewal, and intends to "benefit low-and moderate-income persons", "aid in the prevention or elimination of slums or blight", and "meet a need having a particular urgency that the grantee is unable to finance on its own" (Brown, Podesta, & Metcalf, 2018).

Every city in the United States with population greater than 50,000 receives CDBG funds, with 70% of the funds mandated for community development benefiting those with lower and moderate incomes (HUD Exchange, 2018). Grant amounts are calculated based on U.S. census data collected on overcrowded housing, housing age, population, and poverty, and approximately $3 billion was disseminated in 2017 (HUD Exchange, 2018) (Flores, 2017).

In California, from 2012-2017, The California Department of Housing and Community Development rewarded $210 million to local jurisdictions, with 19% of the funds going to aid in "housing assistance" (Brown, Podesta, Metcalf, 2018). However, in the most recent report to the California Legislature, Governor Brown mandated that 50% of available CDBG money be allocated for housing, thereby expanding the public subsidy pool for affordable housing developments throughout the state. That being said, the availability of CDBG funds to the city has been diminishing rapidly, from some $90 million a year in 2003 to just over $50 million as of 2014. Funds may become even harder to come by going forward, as in 2014, Los Angeles city was audited by the HUD Inspector General, with the audit illustrating that Los Angeles had misappropriated CDBG housing funds, awarding money to developers whose projects did not meet CDBG guidelines (Schulze, 2014).

Compared to HOME funds, CDBG money has far less stringent guidelines as to how money must be used. It comes with no standard for unit quality, no project investment cap, and additionally, the funds don't require that the benefitting project keep its units affordable for any duration of time, leaving the projects vulnerable to potential conversion or sale if the project does not have a complementary covenant or deed restriction retaining its affordability (HUD Community Planning & Development). However, if a CDBG-assisted project is converted to another use, including from affordable to market-rate, the amount of CDBG funding that was originally allocated must be reimbursed to the allocating body before the property can change use (HUD Exchange, 2018).

HOME Funds

HOME, short for HOME Investments Partnership Program funds, were originally allocated by HUD as a result of the National Affordable Housing Act of 1990. The program composes $950 million in federal set asides for the sole purpose of rehabilitating or developing affordable housing, making it one of the biggest federally-funded housing grants for jurisdictions in the United States ("HOME and CDBG: Working Together to Create Affordable Housing - Training Manual and Slides - HUD Exchange," 2012) (Flores, 2017). HOME funding can come in numerous forms, from low or no-cost loan products to grants, interest subsidies, equity investments, and loan guarantees which can be used to acquire land, finance construction costs, demolition, refinancing, or add to the project's reserve fund balance, as well as rent vouchers (HUD Community Planning & Development). These funds, which are dedicated in a dollar amount equal to the greater of a set number arrived at by the HUD "formula allocation", or $3 million, are administered by HUD to "participating jurisdictions", which include state and small localities which operate a HOME program, giving them full autonomy in the allocation of these funds in their jurisdictions ("HOME Investment Partnerships Program - CPD | HUD.gov / U.S. Department of Housing and Urban Development (HUD)," 2019).

Properties that are partially funded by HOME funds are subject to a restricted use period spanning a minimum of 5 years for projects in which $15,000 or less is allocated to each unit, and up to 20 years for capital used to construct new rental housing, depending on the amount of capital allocated per unit of the project. Additionally, properties acquired using HOME funds must comply with outlined property standards ("HOME and CDBG: Working Together to Create Affordable Housing - Training Manual and Slides - HUD Exchange," 2012). Because HOME funds are often paired with tax credit allocations by developers to fill funding shortfalls and don't have extended use restrictions that mandate affordability terms beyond the maximum required 20 years, projects that receive HOME funds are at similar risk of conversion to LIHTC and CDBG projects if there are no other covenants requiring that affordability is retained for longer (Mullen, 2006). In Los Angeles, the Community Development Commission carries out the responsibility of disseminating the $6.4 million in HOME funds that are allocated to Los Angeles County every year, partially responsible for the construction of more than 10,000 affordable units that are now in operation in the City of Los Angeles (LA CDC, 2019). More than 1.1 million units of affordable housing in the United States have been capitalized using HOME funding ("The Alignment Project," 2014).

Tax-Exempt Bond Financing

Tax-exempt bonds are the final major source of financing for affordable housing. Established in 1986 alongside the LIHTC to incentivize the private development of affordable housing, they are now one of the most well-utilized public financing mechanisms that exists (Texas Department of Housing and Community Affairs, 2019). Bonds are securities issued by the state and federal government to raise capital for projects that will serve the general public, ranging from housing to infrastructure (Biber, 2007). There are two types of bonds that are issued specifically for funding affordable housing: tax-exempt municipal bonds for affordable multifamily rental housing and 501(c)(3) bonds for nonprofits, of which only $150 million can be issued annually (Mishra, 1997). These bonds have a lower interest rate than bonds issued in the private market, enabling the long-term commitment to an affordable housing project's affordability, and are supplemented by 4% tax credits, only made available to a developer if 50% of a project's construction costs are financed through revenue raised by issuing the bonds (Biber, 2007). The dollar value of bonds issued is limited to the greater of $85 per resident of a state or $256,235,000. In densely populated states like California, $85 per resident is often the cap; in 2007, California received bond allocations worth over $3 billion (Biber, 2007). And since 1984, the Housing Authority of LA County has issued more than $650 million in mortgage revenue bonds for multi-family housing (LA CDC, 2019). As the competition for LIHTCs becomes more intense because of supply constraints, more and more developers are turning to tax-exempt bonds not only for their lower borrowing costs than traditional loans, as the interest paid to bondholders is not subject to tax, but also for guaranteed tax credit allocations (Biber, 2007). In receiving financing from tax-exempt bonds, the developer signs a Regulatory Agreement with the state body that is overseeing the issuing of the bonds, outlining the specific expectations for how the capital will be allocated (Texas Department of Housing and Community Affairs, 2019). The terms of these agreements vary from state to state, with some including mandates for keeping units affordable, while others are less demanding.

In LA City, the municipal bond program is carried out through the Housing and Community Investment Department. The funds borrowed from tax-exempt private activity bonds, and 501(c)(3) bonds are prioritized for projects that "will contribute to neighborhood revitalization, provide significant public benefit, and preserve existing affordable housing" ("Municipal Bond Finance | HCIDLA," 2019). In order to meet the requirements of providing a "public benefit", developers are required to set aside 20% of units for those making less than

50% of AMI or 40% of the units for residents making less than 60% of AMI ("Municipal Bond Finance | HCIDLA," 2019). Additionally, the affordable units must remain at or below affordability thresholds for the greater of (a) 15 years from the beginning of the Qualified Project Period (as defined in the Internal Revenue Code of 1986), (b) as long as the bonds remain outstanding, or (c) such period as may be required in the opinion of bond counsel to meet federal or state law" ("Municipal Bond Finance | HCIDLA," 2019). In Late 2016, voters in Los Angeles approved Measure HHH, a $1.2 billion tax-exempt bond to raise money for permanent supportive housing, which has recently been estimated to produce approximately 6,000 units, making it one of the most effective financing strategies for delivering affordable housing units to the market in Los Angeles (Chiland, 2018b).

Although all of the financing strategies detailed above make a project's development and operations possible, affordable housing developers are often met with a difficult decision about what to do with their properties once the federal, state, and local subsidies run out and they are no longer required to retain the affordability of their below-market-rate units.

Barriers to Retaining Unit Affordability

Restricted Use Periods

The vast majority of newly developed affordable housing projects are subject to a period of time in which the development's units must remain at a certain affordability threshold, called a restricted use or regulatory period. In the case of LIHTCs, this regulatory period is known as a compliance period when LIHTCs are being received to finance a project, running for up to 30 years from the first day of a project's operations. In addition to the LIHTC compliance period, almost all developers in housing burdened cities are subject to an affordable housing land use covenant, which is activated when the developer requests a concession from the city in the form of a density bonus, parking variance, or zone change, effectively deed restricting the property for the life of the regulatory period (“Part 17 - DENSITY BONUSES AND AFFORDABLE HOUSING INCENTIVES | Code of Ordinances | Los Angeles County, CA | Municode Library,” 2019). These covenants are initiated so frequently because almost no project is successfully built without the developer requesting at least one of these concessions, especially parking concessions and density bonuses. The land use covenants “obligate an owner to designate a specified number and type of dwelling units for occupancy by very low, low, or moderate income households, usually for a term of 30 – 55 years” (“Land Use Covenants | HCIDLA,” 2019) And in Los Angeles, like most other cities with affordable housing incentives guidelines, projects are subject to strict guidelines for oversight, ensuring that the affordable units are being occupied by qualifying individuals. All developers that agree to keep their units affordable in Los Angeles are subject to the following terms during the life of the regulatory period, set forth by the Los Angeles Housing Department:

- “LAHD reviews all initial tenants’ eligibility for affordable, set-aside dwelling units prior to occupancy
- LAHD annually reviews tenants’ eligibility for affordable dwelling units.
- Building owners must provide LAHD with an annual review letter identifying the number of restricted dwelling units, household income and size, rent levels, dwelling unit size and verification of vacancies. LAHD may at any time audit a building containing restricted units to monitor the occupancy of these units.
- LAHD may make annual site visits to ensure that the restricted dwelling units are maintained in decent, safe and sanitary condition and that they are provided with the same level of services, including security and maintenance, as are applied to the other dwelling units in the development.
- If violations are found, fees and/or fines may be levied against the owner including the cost of legal action.”

  (“Part 17 - DENSITY BONUSES AND AFFORDABLE HOUSING INCENTIVES | Code of Ordinances | Los Angeles County, CA | Municode Library,” 2019)

Capital Needs to Meet Rising Operational Costs

For many affordable housing developer-operators, especially nonprofits, having a project's units subject to rent caps over the duration of a 30 - 55 year period makes it difficult to keep up with the rising costs of operating the property while breaking even on the projects' balance sheet. The cap on lease rates is initiated as soon as the project begins leasing, and the cash brought in from the sale of LIHTCs and other public subsidies sustains the project for the beginning to middle of its life, especially if it is recapitalized after the value of the first round of tax credits is used up, but as it nears the end of its regulatory period, the operational expenses begin to exceed the capped rents. Additionally, the subsidies are unable to cover the cost of a significant remodel upon expiration of the restricted use period. Financing these necessary repairs and maintenance can be expensive, and time consuming, and public money to finance these repairs can be difficult to come by. This puts even mission-driven nonprofit developers in a tough position as they consider whether it is financially feasible for them to hold onto the project.

After the restricted use period expires, all developers have three options: either maintain the development's affordability through recapitalization with public and private money, assuming they can access the money to do so, reposition the property for an alternate use, or sell the property to an outside entity, according to a study by Khadduri et al. (2012). While the conversion risk of the affordable housing project is often directly linked to the mission of the entity that owns the project, and most nonprofits will do everything they can to work with the local municipality to keep their projects affordable, sometimes they won't have the necessary resources to continue operating the project. And for for-profit developers, acting in the best interest of their shareholders and investors is their main priority. That being said, there are both nonprofits that function and behave more like for-profits, and for-profits that resemble nonprofits with their mission driven approach. All affordable housing developers balance the need to earn adequate returns for their investors with the desire in many cases to continue operating the affordable housing project in perpetuity (Khadduri et al., 2012).

To Convert or To Not Convert: The Developer's Dilemma

For-Profit Considerations

For-profit developers that are not bound to a mission to keep affordable units below-market in perpetuity may hold on to a property because the project is producing strong cash flows, the market has softened for market-rate units, so conversion would leave them vulnerable to high vacancies, or because interest rates are high, making recapitalization with private funds an expensive process, according to Khadduri et al. (2012). They add that in the latter two cases, the property owner will likely wait for a more favorable lending environment to refinance the project if they plan to hold on to it, or in the case that they plan to sell, they will wait for the market to reach its peak to exit the property (Khadduri et al., 2012). In most cases, when the extended use period has expired, the owner will choose to sell, either because exiting the project is in the best interest of their investors, they have changed their business model, the property is not in a location that they intend to continue to own property, or because the financials on the project are upside down (Khadduri et al., 2012).

Nonprofit Considerations

For nonprofits more so than for-profits, keeping housing projects in strong financial standing over the long-term presents a steep challenge. Because nonprofit entities often don't have the luxury of having a diverse portfolio of properties which can cross-subsidize each other, they are left vulnerable to numerous market forces that can prevent the projects from remaining financially healthy (Bratt, 2008). Although developer fees are a significant source of income for nonprofit developers, according to Rachel Bratt, and they recapitalize their projects often multiple times to earn a new developer fee upon every recapitalization, "cash flow generated from the property", as well as public subsidy, are equally, if not more important to sustaining the property over the long-term (Bratt, 2008). She finds that the risk of weakening cash flow over the life of a project is of more significant consideration for nonprofit developers, as their work inherently involves more risk than for-profits (Bratt, 2008).

Of these numerous risks, the most significant is a result of the fact that housing projects developed by nonprofits often cater to those with the lowest incomes and the most need, mostly tenants making under 30% of AMI (Bratt, 2008). As such, projects operate on tight margins from the very beginning, leaving them vulnerable to a potential negative cash flow position if unforeseen costs arise, as they often do (Bratt, 2008). While increasing operating expenses is often the main culprit of challenges associated with retaining affordability, affordable housing developments also experience financial difficulties because 1) properties have inadequate cash reserves, 2) a project's tight budget leads to poor construction quality, and 3) many projects are located in neighborhoods where there is higher risk of property damage (Bratt, 2008). Bratt (2009) and others build on this last point, arguing that nonprofits are often subject to significant local political pressure to build in these blighted areas that for-profit developers shy away from, leaving them more vulnerable to a weak rental market in which even subsidized rents cannot be earned (Bratt, 2009) (Schwartz, Ellen, Voicu, & Schill, 2006). And to compound these already difficult circumstances for development, Bratt contends that the management of the property is often subpar as nonprofit employee turnover is high, leaving the property at risk of more expensive repairs over the long-term, and furthering the poor financial health of the project (Bratt, 2009).

Of 28 affordable housing projects owned by nonprofits that were surveyed in a study by Bratt et al. (1998), more than 50% of the subject properties were operating in the red, with operating expenses exceeding rental income at the time of survey, and 17 of 23 properties surveyed in a separate study did not have 2% of the project's value in cash reserves, a recommended threshold for property owners. A later study by Cummings and Dipasquale (1999), however, found that 60% of nonprofit operators were operating with net positive returns compared to 83% of for-profit operators (Cummings & DiPasquale, 1999). In the case that a nonprofit owner-operator faces unexpected expenses, having inadequate cash reserves could mean default (Bratt, 2008). According to a 1978 report by the General Accounting Office (GAO), the only study of its kind to focus exclusively on comparing nonprofit and for-profit developer foreclosure rates, 47% of newly constructed developments by nonprofits in the United States were subject to mortgage default and eventual foreclosure, a rate four times that of for-profit entities (General Accounting Office, 1978).

The only way that most nonprofit developers can maintain the affordability of a project over time is if they receive public money that can be used to subsidize the operating expenses of a project during and after the restricted use period ends, or if financing resources are made available to recapitalize the project later on. With hundreds of thousands of subsidized affordable housing units in operation in California as of early 2018, and a risk that each one could be converted prematurely, new opportunities for preserving the existing stock of affordable housing units could use further exploration (California HCD, 2018).

Strategies for Extending Unit Affordability

Strategizing around how to keep affordable housing affordable beyond the regulatory period is one of the most persistent challenges faced by local jurisdictions all over the country. In most metropolitan areas in the United States, where the majority of Americans now live, the price of land has consistently risen (Glaeser, Gyourko, & Saks, 2005). As land becomes more and more of a commodity, subject to speculation and competition between profit-seeking enterprises, it is difficult to keep those who purchase this ever more expensive land from keeping the current rents in place, leaving low income renters out of the market in many cases (Glaeser et al., 2005).

The Los Angeles Housing and Community Investment Department (HCIDLA) has put together an Affordable Housing Preservation Program (AHPP), through which it "creates and implements non-financial strategies to extend and preserve affordable housing at-risk of losing its affordability restrictions" ("Preserving and Monitoring At-Risk Housing | HCIDLA," 2019). The list of strategies being undertaken is expansive, ranging from "monitoring and enforcing the California State Notice of Intent requirement law", which gives entities that intend to keep units affordable the first right of refusal to purchase a for-sale affordable housing project, to "managing the city's affordable housing database (AHD) – to track the conversion of affordable housing to market rate housing due to expiration and termination of affordability restrictions"

("Preserving and Monitoring At-Risk Housing | HCIDLA," 2019) And while these strategies are critically important, the public sector alone cannot solve the preservation crisis. Below are examples of strategies that have and continue to be carried out either privately, or in a public-private partnership, in Los Angeles, to retain units that are at-risk of being lost from the market for affordable housing units.

Limited-Equity Housing Cooperatives

Curtin & Bocarsly (2008) argue that in order to preserve affordable housing over several generations, limited-equity housing cooperatives (LEHCs) should be employed as a viable solution. Currently, LEHCs house 1.2 million residents in the United States, as of 2012, according to Crabtree, Phibbs, Milligan, and Blunden (2012). LEHCs purchase or develop multi-family properties, issuing shares to residents in the form of an ownership interest in the entity rather than in the property itself. The shares appreciate in value according to an index, often the CPI, such that it keeps pace with inflation (Crabtree et al., 2012). The share that the resident owns entitles them to occupy one unit on the property, as well as voting rights (Curtin & Bocarsly, 2008). The right to own shares is typically restricted to those who fall under a certain income threshold, and upon a resident looking to move out of their residence owned by the co-op, the value of their ownership share is subject to a price ceiling, often enforced by a community land trust (CLT) that the LEHC operates in partnership with and which owns the land underneath the property (Curtin & Bocarsly, 2008). This limits potential speculation by the shareholder-homeowner and ensures that the homeowner's share is sold to another low-income resident.

Maxwell Ciardullo, a policy analyst at the New Orleans Fair Housing Action Center, contends that many believe the shareholder model is one of the greatest downfalls of the LEHC model. It prevents many who buy into LEHC from having the opportunity to benefit from what has historically been one of the most heavily appreciating assets: the single-family home. Over time, single-family home investment has allowed many of modest means to achieve moderate levels of wealth as the equity they have in their home grows as they pay down their debt, assuming the value of their home increases (Ciardullo, 2012). Because homeowners in LEHC's don't take out mortgages on their properties, but instead buy ownership shares from the LEHC at artificially depressed prices, they are prevented from participating in a massive wealth generating opportunity.

Community Land Trusts

Community Land Trusts operate in close partnership with LEHCs, and with a similar mission of providing homes to low-income individuals, but are differently structured. The concept was born in 1969 in an effort to make land more accessible to minority groups and other "marginalized" populations whom have long been left out of the housing market (Moore & McKee, 2012). CLTs function as permanent landowners, issuing ground leases, or rights to use the land under a set of conditions, to separate entities, often LEHCs (Curtin & Bocarsly, 2008). The LEHC is then offered the development rights to the property, and often works with a nonprofit developer to construct affordable housing, of which more than 90% in the United States is ownership housing (Goldberg, 2014). As of May, 2018, 165 community land trusts are in operation, composing 12,000 ownership units (Thaden, 2018). And in the last 20 years, their popularity has skyrocketed, seeing a two fold increase as homes have become more and more unaffordable to those of lower incomes, according to (Moore & McKee, 2012). Crabtree et al. (2012) argues that this partially has to do with the fact that CLT's "retain" rather than "recapture" subsidies, as homeownership grants do, and they remove the risk of rising land costs by removing land from the market, helping low income people afford the purchase of units better than other subsidies. A study by (Davis & Stokes, 2009) of the Champlain Housing Trust in Burlington, Vermont conducted between the years of 1984 and 2008 proved the validity of Crabtree et al's arguments in favor of community land trusts, finding that the price of homes in the community stayed relatively stagnant despite upward pressure on prices over time on most other unprotected property (Davis & Stokes, 2009). This is true even in urban areas with high land values. In Boulder, Colorado, a case study of the Thistle CLT reflected that despite catering to residents who make no more than 45% of AMI, upon resale of the property by the first owner, $13,000 in equity was accumulated, while the acquisition value of the property remained in reach for the next low-income buyer (Temkin, Theodos, & Price, 2010).

Many developers and other private interests tend to believe that while the market cannot artificially keep prices low like CLT's can, it can more efficiently provide low-cost housing to a greater number of people than CLT's (Ciardullo, 2012). However, this is not the biggest criticism of CLTs. Many point out that both LEHC's and CLT's are dependent on a consistent supply of public money, specifically HOME and CDBG, over the long-term to cover home rehabilitation costs and retain their subsidized cost of ownership to reach lower income buyers, similar to what happens when nonprofit and for-profit developers need to make much-needed repairs to their properties (Ciardullo, 2012). Many feel though that the public investment is valuable, seeing CLT's not only as a strategy for long-term affordability but as a potential opportunity for residents to become upwardly mobile as they have more "local control" than they would in a traditional affordable housing development (Ciardullo, 2012).

Setting up CLT's in areas with high land values often presents a tremendous challenge. In a report authored by Gauger (2006) geared for community-based organizations and local governments interested in setting up a CLT, he lays out 3 of the most common challenges that are faced. First, the CLT must be able to find additional financing sources, as the sources used by CLT's in cheap markets won't provide a deep enough subsidy to reach the buyers that the properties are targeted for. Secondly, he argues that neighborhood activists become even more aggressive and loud in high land value areas because they want to preserve the value of their homes, and they think that the development of affordable housing in their neighborhood will depress values. And lastly, operating in expensive markets can present difficulty surrounding membership. Because low-income people can't afford to live in expensive markets, it is difficult to recruit committed trust members and to form a dedicated Board of Director's that represents the socioeconomic status of the individuals that the CLT will target (Gauger, 2006).

Even with these challenges present, Gauger (2006) strongly believes that CLT's are viable in these expensive markets, putting forth three strategies for ensuring success. He argues that a CLT operating in a competitive market must have a for-profit partner, usually operating as the developer, which has access to more capital, and can keep them competitive in deals. He also recommends that CLT's reach out to large employers in these communities, as their frustration with losing their employees to high rents can make them optimal financial, development, or management partners. And lastly, in direct response to the second challenge put forth above, he suggests that CLT's make a dedicated effort to engage and educate concerned residents, sharing with them how CLT's wont depress land values and are instead valuable assets to communities (Gauger, 2006). A CLT's ability to work with the challenges presented above and effectively carry out Gauger's proposed solutions often will be the deciding factors between success and failure for CLT's in a competitive market.

Joint-Venture Partnerships

Partnerships & Access to Financing

Nonprofit-private sector partnerships represent an institutional strategy for constructing affordable housing and maintaining its affordability over the long-term. According to the law firm Patterson Belknap Webb & Tyler LLP, a joint venture is "an association of two or more persons or entities that undertake a project for profit with a community of interests in the performance of common purposes, a propriety interest in the subject matter, a right to govern and direct the policy in connection therewith, and a duty (which may be altered by agreement) to share in both profits and losses" (Inbar, Webb, & Llp, 2011). The structuring of joint-venture partnerships in housing enables nonprofits and for-profits to help each other qualify for increased federal funding for their projects and to receive recapitalization funds, which allow for stabilization of the property's finances post expiration when many properties are operating in the red, and need repairs, according to Amy Chung of Harvard (Chung, 2004). Tim Morgan, a developer, attorney David Leon, and Bob Ansley, all of whom have experience with public-private partnerships, in their presentation at Florida Housing Coalition in 2010, echo this rhetoric, adding that partnerships can make accessible to for-profits subsidies that they would otherwise be excluded from receiving, namely HOME funds and Community Reinvestment Act (CRA) loans (Morgan, Leon, & Ansley, 2010). They also add that setting up a partnership enables nonprofits to ascertain a high level of financial sustainability that they would otherwise not have access to. Over time, this would keep more units affordable, they argue, as default and the risk of negative operating balances would be mitigated, because for-profits can cross-subsidize their properties, assuming they have a decent sized portfolio of well-performing properties (Morgan et al., 2010). They continue, contending that both the for-profit and nonprofit would successfully fulfill their respective missions, and the market for affordable units would see downward price pressure over the long-term as units are not continually removed from the market because of repositioning or abandonment (Morgan et al., 2010).

Although there is little information recorded on how many units joint venture partnerships have been involved in developing or when these partnerships really began to take off, the first nonprofit entity was implicated with questions about whether it could maintain its tax-exempt status while partnering with a for-profit entity in 1995, providing a relative date for when the popularity in partnerships began to spike ("Housing Pioneers, Inc., Petitioner-appellant, v. Commissioner, Internal Revenue Service, Respondent-appellee, 58 F.3d 401 (9th Cir. 1995)," 1995).

Types of Partnerships

There are several potential partnership structures that a nonprofit-for-profit development team can choose from, but according to Amy Chung, the limited partnership structure is the most common (Chung, 2004). This structure mandates that a general partner takes on the majority of the financial liability and day to day operations (Chung, 2004). The limited partner has a much more limited role in the everyday management of the development, including incurring less liability while retaining voting rights, securing them some influence over the project (Chung, 2004). However, in the development of affordable housing, where the majority of partnerships are applying for LIHTC's to fund their project, these rules don't apply (Chung, 2004). When the partnership team applies for and receives a specified tax credit allocation, the tax credit investor always becomes the limited partner, with it carrying a 99% ownership interest and almost entire financial liability, meaning the majority of profits in a successful development and significant financial loss in the event that the development fails, while the nonprofit-for-profit team become general partners and carry only 1% of the financial burden and responsibilities (Chung, 2004).

Further, Chung notes that for the partnership team to qualify for public financing set aside specifically for nonprofits, one of the key reasons for-profits partner with nonprofits, the nonprofit must carry a majority of the 1% ownership interest that that general partnership carries (Chung, 2004). With this 1% interest still comes significant risk, especially if the project is of high value, which is why many partnerships choose to set up limited liability corporations (LLC's) (Chung, 2004). The LLC allows them to mitigate a majority of the risk associated with carrying the general partner role and the for-profit-nonprofit partnership becomes a shareholder in the LLC (Chung, 2004). However, nonprofits should be careful when considering whether to enter into a partnership with any for-profit. Because partnering with for-profit entities can lead to the nonprofit operating in a manner that is out of compliance with IRS guidelines for tax-exempt entities, there are occasions in which nonprofits may lose their tax-exempt status, according to Inbar et al. (2011). To prevent this loss of status, the IRS mandates that the nonprofit "be able to demonstrate that it operates exclusively for charitable purposes and only incidentally benefits private interests (Rhomberg, 2000).

Factors of Success

The strongest determinant of development success in a joint-venture partnership is the compatibility of partners, according to (Morgan et al., 2010). The most significant challenge presented in forming development partnership is the fact that nonprofits and for-profits have inherently different missions, because while nonprofits are “guided by charitable purpose with prohibition against private benefit”, for-profits “operate exclusively for private benefit (profits)” (Morgan et al., 2010). As such, choosing a partner that understands your firm’s mission, and who operates out of “honesty” and “integrity”, has a solid “reputation” and with which you have “chemistry” is crucial to development success (Morgan et al., 2010). Amy Chung confirms the credibility of this perspective, and adds that the value brought to the table by each firm in the partnership team largely influences the structuring of the partnership terms (Chung, 2004). Because nonprofits bring tangible value to for-profit developers in the form of established relationships with the community in which a development is targeted, currying support for the project and enabling shorter development timelines, while for-profits have the experience and financial backing that nonprofits lack, for-profits are often more focused on the financial terms of the partnership (Chung, 2004). She states that based on her research, private developers “overwhelmingly consider financial contributions and risk to be the most critical factors driving partnership decisions”, making it a source of potential tension in a development relationship (Chung, 2004). (Morgan et al., 2010) supports this conclusion, submitting that partnerships can dissolve quickly if the financial structure of the agreement is not set in stone early (Morgan et al., 2010).

Ground Leasing of Public Land

One of the most effective strategies for delivering affordable housing is through the lease of public land to private parties which intend to build affordable housing. Its effectiveness stems from its ability to bifurcate property ownership, a powerful affordability preservation technique, according to Marina Yu of Columbia University (Yu, 2015). In essence, a "ground lease ties the land owner to the user", enabling the land owner to "impose affordability controls on the user, including the prospect of lease term renewals for continued affordability", similar to a community land trust, in which land is removed from the speculative market (Yu, 2015). Because the public entity owns the land, and is acting for public benefit, the risk that the units will be converted or abandoned is eradicated, securing the ability of the units to meet the needs of low income individuals decades beyond its initiation. The origins of the ground lease concept go back hundreds of years, to medieval Europe, in which feudal structures prevented the ownership of land by anyone but the king, and even the highest up in society were limited to occupying the land as a tenant for a set period of time under 100 years (Yu, 2015). To this day, land leases run on the land typically from anywhere from 21 to 99 years, with 49 year and 99 year leases most common (Yu, 2015).

In Los Angeles, the ground lease model has been carried out rather successfully. Because many cities, like Los Angeles, already own a percentage of the available land in their city, they can develop this available land for public benefit in partnerships with private entities. The city will typically issue a Request for Proposal (RFP), in which it agrees to make land available to a developer-operator for almost nothing ($1 a year in Los Angeles), in exchange for the developer putting together the team and financing necessary to successfully carry out the construction and operations of the project (LA City Administrator's Office, 2016). Ground leases in Los Angeles cannot run for more than 50 years, and are typically offered to the developer not only with the best architectural plans and secure sources of funding, but to the entity that intends to keep the project affordable for the longest term (LA City, 2017). Currently, Los Angeles city owns 9,000 distinct parcels, of which more than 100 are currently home to affordable housing developments (Galpering, 2016).

Research Question

What tools and strategies can the City of Los Angeles use to retain the affordability of below-market-rate housing units as they reach the end of their regulatory period?

Methods

The study that I have carried out intends to contribute to a particular niche within affordable housing literature that has minimal academic inquiry. While there is extensive research covering affordable housing development, there has been little research completed that explicitly addresses potential solutions for preventing the removal of affordable housing units from the market. My primary research question of focus is: **what tools and strategies can the City of Los Angeles use to retain the affordability of below market rate housing units as they reach the end of their regulatory period?**

Design and Procedure

To answer the research question put forth above, and better understand the current perspectives on how to sustainably retain below-market-rate housing beyond the period of required affordability, I have conducted a series of semi-structured interviews with numerous housing experts in Los Angeles. Each interview was kept under an hour long, and was valuable not only in providing contextual information, but also in crafting well thought out policy recommendations.

In order to standardize the data that I have collected, I transcribed the interviews that I carried out and then listed every theme in a table which includes each of the interviewees names across the top on the horizontal x-axis and the list of themes alluded to in the vertical y-axis. I then tallied the referred to themes of each of the interviewees in this table. This enabled me to add up the number of times each of the themes was referred to. Every theme that was referred to more than once was included in the data section as a relevant solution that could have long-term viability. These proposed solutions provided the basis for my recommendations.

Participants

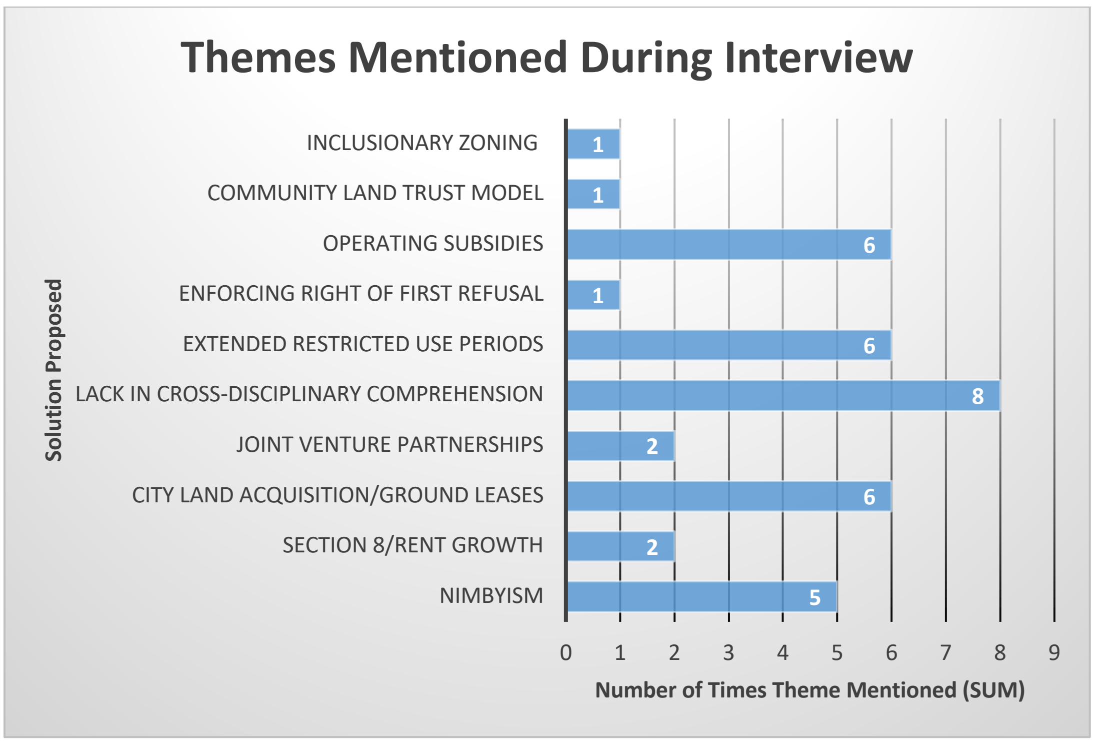
I interviewed 9 individuals who fall into three primary expert categories: non-profit developers, public sector housing officials, and lenders. The perspectives of experts from each respective sector of affordable housing enabled me to articulate recommendations that are holistic and suited to meet the entirety of demands that must be met for an affordable unit to be kept affordable. The experts include Sean Spear of HCIDLA, Becky Dennison of Venice Community Housing, Beulah Ku, a lender at Century Housing, Takao Suzuki, of nonprofit developer Little Tokyo Service Center, Holly Benson of Abode Communities, Larry Newman and KeAndra Cylear of the LA County Community Development Commission, William Huang, the Director of Housing at the City of Pasadena, and Perica Bell, Managing Director of Community Development Finance with Union Bank.

Findings

Affordable housing is not only the area of expertise of all of those that were interviewed, but the preservation of affordable units, which lies at the crux of this report, appears to be at the top of mind for many. Preserving affordable housing units is difficult for several reasons: it implicates multiple stakeholders all of whom have different intentions, access to capital and other resources, and often with fundamentally different structures; it requires government subsidies and multiple layers of financing which means working in partnership with large, slow moving bureaucratic bodies, and, it is, by nature, an extremely public activity, subject to extensive scrutiny by those who are non-experts.

Several general themes emerged from the data collection process. First, everyone that I interviewed either explicitly or implicitly shared that they felt that the private sector, and specifically private developers, both nonprofit and for-profit, are critical stakeholders not only in the new development process, but are equally integral to ensuring the long-term security of units because of their ownership of affordable housing developments. That being said, it was also clear that everyone interviewed was acutely aware of the importance of the public sector in ensuring that units are retained. In other words, the private sector cannot preserve units without the public sector, and vice versa. It became clear that if a more synergistic relationship between the two parties was had, as well as between for-profit and nonprofit developers, more units might be retained.

Additionally, the experts spoke to concerning rates of NIMBY-like behavior, both institutional and individual, and its dramatic effects on the availability of affordable housing. Other proposed solutions included the acquisition of land for affordable housing projects using city money, the introduction of more demanding affordability covenants on new affordable housing developments, as well as the expansion of subsidies to ensure that developers can continue operating units below market once the affordability covenants expire. Lastly, and potentially most importantly, was the finding that despite the knowledge and experience in the housing sector of everyone that I interviewed, not one interviewee really had any idea what policies would come to be viable, long-term solutions for retaining units given the limited life span of even those policy solutions that have been successfully carried out in other cities around California.



Key Findings

- The siloed nature of the affordable housing industry inhibits preservation capacities
- NIMBYism stunts new development and subsequent retention opportunities

- Los Angeles should look to other cities in California with similarly high land costs for more efficient preservation models
- Lengthen regulatory period requirements
- More public subsidies need to be made available to developers
- It is unclear which proposed solutions will prove to be viable over the long-term in Los Angeles, and which have no shot

The Siloed Nature of the Affordable Housing Sector Prevents the Preservation of More Units

What became clear by conducting numerous interviews with industry experts and professionals faced with the concerns associated with preserving affordable housing is that the affordable housing industry is rather siloed. Having spoken with public sector housing experts, nonprofit developers, and lenders on affordable housing projects, it is apparent that while developers know how to build, public sector officials understand and can communicate housing policy, and lenders have the capacity to explain the nuances of finance, I was witness to very little cross-sector expertise. What results from this is a lack in sensitivity to the needs and desires of the other stakeholders that are involved in the housing market, and subsequently a lack of transparency. Exacerbating the lack of cross-sector capacity is also a general feeling that the representatives of each party tended to speak about preservation techniques that were in alignment with their own needs and desires, rather than necessarily for the health of Los Angeles' housing market as a whole. For example, one of the public sector experts that I spoke to felt that "there are [already] enough incentives already in place to keep units affordable" when asked about difficulties associated with maintaining unit affordability, while one of the three developers felt differently: “if there could be more rental subsidy, it would be a huge way to maintain affordability.” Like most other issues in which numerous stakeholders with different interests and motivations are involved, the possibility of gauging the potential effectiveness of each solution is limited when each stakeholder group has its preferred solutions.

Not only did there appear to be some absence of sensitivity and transparency between these separate parties, but also between developers with different business models, and ultimately different missions. While speaking to one of the developers I interviewed, Takao Suzuki of Little Tokyo Service Center, he appeared particularly bothered by what he feels is effectively a lack in sensitivity on the part of for-profit developers. In response to a question regarding the best strategies for preserving units, he mentioned extending affordability periods as a tactic that he felt would “scare away” for-profits. This is reflective of the disdain that he feels towards certain for-profit entities that are more interested in earning a profit than serving the community, and is a good example of the kind of tension that leads to fewer units being protected over the long-term. Later, when asked about nonprofit for-profit partnerships, which can be a valuable way for for-profit developers to access nonprofit status benefits while nonprofits benefit from stronger financial backing, he felt that they were hard to put together because of the selfish behavior of certain for-profits. He stated that the two entities are often incompatible as the for-profits were unwilling to “be more flexible on their returns”, and usually set the terms in their favor, leaving the partnership with little benefit to the nonprofits for their involvement. However, if the City “could help exert their weight on the partnership terms and negotiation in lieu of subsidies”, nonprofit, for-profit partnerships could be “a valuable strategy”, he said.

NIMBYism: A Blow to Affordable Housing

Consistent throughout most of the interviews that I conducted was the sentiment that contributing to the urgency of the affordable housing crisis is a negative public perception of affordable housing. In 6 of the 8 interviews that I conducted, the acronym NIMBY, standing for Not In My Back Yard, came up, specifically in relation to what makes the development and sustainability of affordable housing units in Los Angeles so difficult. The term NIMBYism classifies a set of behaviors carried out by fearful and power-hungry homeowners whom actively oppose new development, especially affordable development, feeling as if they have the right to control what is built and not built in their own neighborhood (Badger, 2018). Additionally, they have often had little exposure to housing policy and typically do not truly understand who affordable housing serves (Serlin, 2016). It is the fear of many of them that bringing affordable housing to a neighborhood will depress property values, as living in close proximity to people who have lower incomes is seen as undesirable, despite this having been disproven on multiple occasions (Serlin, 2016). This has been compounded by the fact that many associate affordable housing with the stories of rundown public housing from the 1960's and 1970's; its poverty, crime and drugs, instead of the firefighters, teachers, therapists, and other middle income residents who are priced out of purchasing homes and can't afford to pay market rate rents (Barragan, 2016). According to Holly Benson, one of the 3 nonprofit developers that I interviewed, NIMBYism takes a toll on the viability of developing affordable units: "affordable housing developments are often the nicest on the block; they won't get approved unless money is spent on good design because a community that is on the fence about a project demands very high quality, expensive buildings." Yet not every nonprofit can access the money to build these “expensive” units, ultimately limiting the ability for developers in Los Angeles to build in many communities, which then limits the number of units that can be brought to market and secured for the long-term, thereby exacerbating the current shortage. Beulah Ku feels that “NIMBYism is the biggest obstacle to either passing progressive land use policy or efficiently implementing policy and approving new development” going forward.

Using Public Money to Acquire Land for Privately-Developed Affordable Housing

Three of the experts shared with me a need for LA city to investigate the land acquisition model that other cities with high land costs like Pasadena and San Francisco are using to ensure that affordable units are never converted. Sean Spear, the Assistant General Manager of Housing Development at HCIDLA, shared that his time spent working with the San Francisco Redevelopment Agency, back when redevelopment agencies funded the bulk of new affordable housing, informed how he thinks that Los Angeles needs to operate to preserve more affordable housing units. Currently, according to Mr. Spear, “In Los Angeles, for city owned properties with a request for proposals (RFP), LA will retain ownership and sign a ground lease,” yet they won’t put up the money for the acquisition of the land for affordable housing developments like the city of San Francisco will. “In San Francisco, you buy the land with the city’s money, so the city owns the property. The city signs a 99 year lease [with the developer] which allows for provisions to revert to the city at the end of the lease.” This enables the city to remove land that could be subject to speculative conversions from ever getting in to the hands of developers that would be interested in converting units to market rate rental units or for-sale luxury condos. The city is then able to re-lease the land to affordable housing developers that are committed to keeping units affordable. William Huang, Pasadena's Director of Housing, stated that in Pasadena, a similar model is in place: "in order to preserve units, [the city] requires that land is sold to [them] as a public agency when the original developer-operator exits the deal, and then [the city] turns around and leases [the land] at $1 a year. This model would enable nonprofit developers, most of which will keep units affordable for the life of the project, but are also cash strapped, to construct more units throughout the city, as they often lose out on land because for-profits with stronger financial backing can pay more for the same land. However, it would also require Los Angeles to develop a robust, consistent supply of subsidies to fund these acquisitions.

Extend Required Affordability Periods

Becky Dennison recommended as one of her top solutions to preventing conversion that "[LA city] could make a [restricted use] period in perpetuity, as [she] believed Pasadena or another small city does." William Huang confirmed that indeed Pasadena had successfully implemented longer affordability restrictions: " [Pasadena] has some deed restrictions that operate in perpetuity." By lengthening the amount of time that developers are required to keep their units affordable, called the restricted use period, which is often initiated as a result of a developer requesting a special concession during the entitlement process, units are subject to below market rents for longer. Ultimately, this means that the supply of affordable housing is maintained for longer, as the developer is disallowed from converting the units to higher rent units or selling the project to another entity that would redevelop the project for a different use. And if this restricted use period acts is enforceable in perpetuity, ultimately this unit conversion risk is completely mitigated. The risk to taking this approach is that in the case that developer-operators don't have the means to keep themselves afloat while continuing to operate the project successfully, they may be forced to leave the project in disrepair for an extended period of time or even abandon the project in dire circumstances.

Expand Subsidies to Help Developers Finance Long-Term Operations

It became clear over the course of the interviews that were conducted that the number one barrier to keeping units affordable beyond the restricted use period has to do with the growing divergence between the cash flow that a developer can generate from rents and the costs of operating the property over the life of the project. This largely is a result of "[developers] being limited in their ability to catch up rents. In some years, market rents go close to affordable rents in down years, and so operators may be able to raise rents. Then over time the rents they get are substantially below what the allowable rents are. These deals have financing challenges and fall into disrepair", according to Sean Spear. But also, "public agencies take back a percentage of the cash flow which goes to paying the loan, called residual receipts", meaning that most nonprofits are really just "striving to breakeven", says nonprofit developer Takao Suzuki. Because of these two factors, recapitalization of the projects several times over the course of the project's life becomes crucial to the success of the entities operating the projects. Although some of the money used by developers to make capital improvements and keep their projects operating comes from private money, the bulk of recapitalizations are reliant on public subsidies of various forms, which currently aren't as readily available as is necessary to retain a significant percentage of at-risk of affordable units.

According to more than half of the experts that I spoke to, the only real solution to helping developers stay afloat is through the expansion of subsidies, or by loosening the restrictions on rent growth. There was general consensus as to what particular subsidies were necessary to successfully assist developers throughout the life of their projects. On top of funds put forth by municipalities to fund acquisitions, which are typically raised through developer payments to the city during the entitlement process, Lender Perica Bell contended that "[the city] should look at the feasibility of longer section 8 subsidy contracts", which developer Holly Benson agreed was important. This would enable developers like Abode Communities, a mission driven nonprofit, to raise rents slightly to keep up with increasing expenses, without having to displace many of their senior tenants who live on fixed incomes. However, the critiques of the Section 8 program should not go announced, ranging from the inability for thousands of voucher holders to find a unit that is affordable per HUD requirements and is owned by a landlord that will accept the voucher, and units that are available are often concentrated in poorer, crime-ridden neighborhoods, perpetuating the acceptance of racially segregated cities (Semuels, 2015). Additionally, according to lender Beulah Ku, there need to be subsidies made available to "bridge the gap between market rent financeability and subsidized rent financeability" if the restricted use period does not operate in perpetuity. William Huang shared that this can work if "[the city is] will[ing] pay the difference to the developer between the affordable rents and market rate rents to preserve units for a 15 year extension" so that the developer can operate the project with positive returns. This model could be prohibitively expensive to a behemoth of a city like Los Angeles if relied on for many decades, because even in Pasadena "[the city] can't afford to do this for 55 years", according to Mr. Huang. However, a version of this model that runs for a shorter period on properties that have already been built and are subject to restricted use periods that are 55 years or shorter could be viable. Ms. Ku mentioned that San Francisco has a program called the Small Sites Program which effectively operates using this model by "incentivizing new nonprofit buyers of buildings to maintain in-place low rents in the face of high upside market pressures" because subsidies ranging from $250k-$300k per unit are made available to the operator upon purchase in exchange for an extended period of required affordability.

There Is No Clarity Around Viable Solutions

Despite not being tallied in the aforementioned table because of its lack in tangible references, the most visible theme that emerged from my discussions is that Los Angeles is a city like no other, with its own unique housing preservation challenges and a set of remedies that are still very much being designed and tested. Similarly, there is no one solution that will enable Los Angeles to retain all of the units that are at risk of being removed from the affordable housing market, and no one really knows what solutions will work and which will not. Because of this, it is important that the city "try and do [different] things", according to Holly Benson, because the more it tries out different solutions, either through land use policy or financing subsidies, the more it will know which strategies are most effective.

Recommendations

1. Invest in educating the public to change the narrative that exists around affordable housing.

Fundamental to ensuring that units are retained in Los Angeles is making the general public aware that the addition of new affordable housing to communities is an asset, not a liability, and that the complexities associated with closing the gap in affordable housing run much deeper than just the production of new units. It does not serve developers, homeowners, tenant organizers, or any of the other stakeholder groups when there is a lack of transparency or understanding that keeps non-experts from being made aware that operating affordable housing for those of the lowest incomes is not financially self-sustaining; outside resources are necessary. If there is any hope of garnering support in the future to raise funds specifically for subsidizing at-risk units, then more expansive public outreach and engagement efforts need to be made to limit Nimbyist behaviors.

2. Leverage municipal power and incentives to encourage more private sector partnerships.

Although nonprofit, for-profit partnerships are currently an underutilized mechanism for retention, they present an effective method for keeping units affordable in perpetuity because of the unique benefits that nonprofits and for-profits can bring to a development deal. It is crucial that the city begin to recognize their value by adopting a more active role in the negotiation of partnership terms, such that nonprofits are not prevented from their fair share of the deal profits. Additionally, a new incentive schedule must be designed to compel for-profit developers to look for nonprofits as valuable development and operational partners. Potential incentives could include exemption from select impact fees, expedited CEQA review, and parking concessions.

The drawback to partnerships among developers are: a) they require further governmental coordination to mediate the partnership terms and ensure that nonprofits have a fair stake in the deal; b) they can be difficult to structure given the often divergent underlying missions and subsequent priorities of for-profit and nonprofit developers and c) incentivizing partnerships can be an expensive use of government resources, according to the experts that were interviewed.

3. Explore the viability of implementing longer regulatory periods.

To fully mitigate the risk of unit conversion or repositioning, Los Angeles should work closely with cities where longer affordability covenants have been successfully implemented to draft and introduce affordability covenants that operate in perpetuity. These covenants should be levied on all residential projects that utilize public subsidies during the development process, yet must be paired with an expansion of operational subsidies.

4. Dedicate more funds raised from development-related fees for unit preservation purposes.

On top of the hard costs associated with developing a new building, developers leave a significant portion of their budget allocated to paying soft costs, most of which will be paid to the city. These costs usually take the form of entitlement fees and impact fees, which are paid to the city in advance for the public services that will benefit the structure. Every year, these fees paid by developers raise millions of dollars.

Los Angeles should adopt new policy for allocating these funds. 50% of the funds should be allocated for preservation, with 50% of these preservation funds used to acquire land which can be leased to affordable housing developers. Currently, the bulk of affordable housing funds that are raised are allocated for production subsidies, namely the Low Income Housing Tax Credit (LIHTC), yet the LIHTC's affordability mandates operate for a maximum of 30 years. If the City puts forth the money to fund the acquisition of land, it can hold title to the property in perpetuity while offering inexpensive ground leases to affordable housing developers and ensure that units brought to the market are never lost. The other 50% of funds would be allotted for rent and other operational subsidies targeted for developers operating projects that are in poor financial health (Chiland, 2017c). More specifically, if a developer's below market rents are too low to cover current operating expenses on their project, the city could provide a subsidy equal to the difference between the market rent and subsidized rent. Alternatively, if a project needs major rehab, the city could grant repair subsidies of a set amount such that a developer could complete the necessary remodel on their property. In exchange for these subsidies, developers would agree to longer affordability mandates imposed on their projects.

The structure of this set aside program could be modeled after the affordable housing trust fund, outlining specific requirements that developers must meet in order to qualify to receive the funds, and requiring them to complete a rigorous application process to ensure that funds are directed appropriately.

5. Initiate conversations at the federal level regarding the possible expansion of longer-term section 8 contracts.

Many experts have argued that Section 8 is riddled with flaws, from landlords leaving their properties in disrepair, causing families to live in conditions unfit for habitation to its ineffectiveness at moving the poor into neighborhoods with better opportunities for education and work, and higher per capita incomes. There is evidence that Section 8 has led to the increased concentration families in the most depressed parts of cities, leaving them without any opportunity for upward advancement, according to many. Although these concerns are important to consider, and it is necessary to work on making the necessary improvements to the program, Section 8 still represents a valuable opportunity for housing many of those living below the poverty line. As such, Los Angeles should initiate discussions with HUD regarding the viability of offering longer-term Section 8 contracts for developer-operators that agree to keep their projects affordable. Because the maximum length of a Section 8 contract that can be accessed is 40 years, and most affordability covenants on new affordable housing developments in Los Angeles require that units remain affordable for a minimum of 55 years, landlords are left in a vulnerable position once these contracts expire. Lengthening the term of the contracts would enable these operators to continue operating high quality, below-market units without facing the need to reposition or contemplate a sale of the project.

Limitations

Limited Sample Size

The data is inherently limited because of the limited number of interviews that I carried out. While I originally intended to carry out 15 interviews, with 5 lenders, 5 for-profit and nonprofit developers, and 5 public sector officials, several of the individuals that I reached out to either did not respond to my request for comment or were unwilling to sign my consent agreement. This was especially true among for-profit affordable housing developers, none of whom I could get to speak to me. As such, the number of potential solutions was limited and the perspectives of the development community is limited to those who working in the nonprofit sector.

Limited Literature to Pull From

Because deed restrictions on affordable housing projects is a new concept within the last few decades, and we are just now starting to see the effects of operator conversions on a larger scale, the research available to pull from to inform this study was limited in availability. Most of the research that was previously completed was focused on affordable housing finance and solutions for spurring new development of affordable housing.

Private Sector Bias

The findings that resulted from my time spent interviewing the 8 individuals that provided the basis for my recommendations were difficult to piece together at times. Interviewing affordable housing stakeholders with different missions and intentions in the work that they do makes it difficult to standardize the data that is collected. Although the reason that I conducted interviews was to collect biased data based on each of the interviewees knowledge and experiences, when it came to analyzing which solutions had the most realistic application, the only method that I was able to rely on was the number of times that a specific solution was mentioned during the interviews. This is largely due to the rather untested waters that surround retention efforts, but also because there is no clear metric that would enable me to conclude which solutions could prove to be the most effective over the long-term. This could result in data that is biased in favor of the private sector, given that more than half of the interviewees were private sector experts.

Lack in Public Input

The data was also limited because I did not reach out to the general public regarding their perspectives on affordable housing development, conversion, and the like. In fact, I think it is possible that in analyzing some of the data that I collected and coming to my recommendations, t I could have been excessively presumptive, suggesting either that the general public is more or less knowledgeable about affordable housing than they really are. This study could have been improved upon by reaching out to members of city councils throughout Los Angeles asking a similar set of questions to those that I asked the selected experts.

Conclusion

The shortage in affordable housing available to Los Angeles tenants becomes more and more relevant every day that the crisis persists. In addition to making the production of new housing units, especially those that can be rented at below-market rates, a priority, the City of Los Angeles needs to seriously consider new strategies for retaining the units that already are affordable, yet are at risk of being taken off the market in the coming decades. This study began by asking the question of what the best strategies are for ensuring the long-term security of these below-market rate units, and throughout the course of this study relevant literature provided a basis of understanding of the complexities associated with keeping units affordable, and the preeminent experts in the affordable housing field weighed in, providing valuable insight and bringing to light innovative solutions for ensuring that these units are protected for the long-term.

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Appendix A: Qualitative Instrument

Interviewees:

Sean Spear, Assistant General Manager, LA Housing + Community Investment Department

William Huang, Director of Housing, Pasadena

Becky Dennison, Executive Director, Venice Community Housing

Beulah Ku, Senior Manager, Century Housing

Takao Suzuki, Director of Community Economic Development, Little Tokyo Service Center

Holly Benson, Executive Vice President, COO, Abode Communities

Larry Newman, Manager, LA Community Development Commission

KeAndra Cylear, Manager, LA Community Development Commission

Perica Bell, Managing Director, Community Development Finance, Union Bank

Sample Interview Questions:

1. How familiar are you with the mandated period of time that newly developed affordable housing units that use public money must remain affordable, sometimes called the compliance period?

2. Are you concerned with the number of units that are developed to be affordable and then are converted to market-rate or sold to a third party after the restricted use period?

3. Does the removal of these units from the affordable housing stock contribute significantly to the shortage in affordable housing that Los Angeles is currently experiencing? If not, what are the primary causes that you have witnessed?

4. Is there land use policy in place specific to Los Angeles that makes developing affordable units more difficult than in other places?

5. What financial factors contribute to making the development of affordable units in Los Angeles so difficult?

6. Do nonprofit and for-profit affordable developers have different long-term goals for their affordable housing developments? Does one have more incentive to maintain unit affordability over the other?

7. What are the biggest barriers to maintaining the affordability of units beyond the restricted use period for the owner-developer?

8. What strategies could be utilized by the city to ensure that units remain affordable in perpetuity?