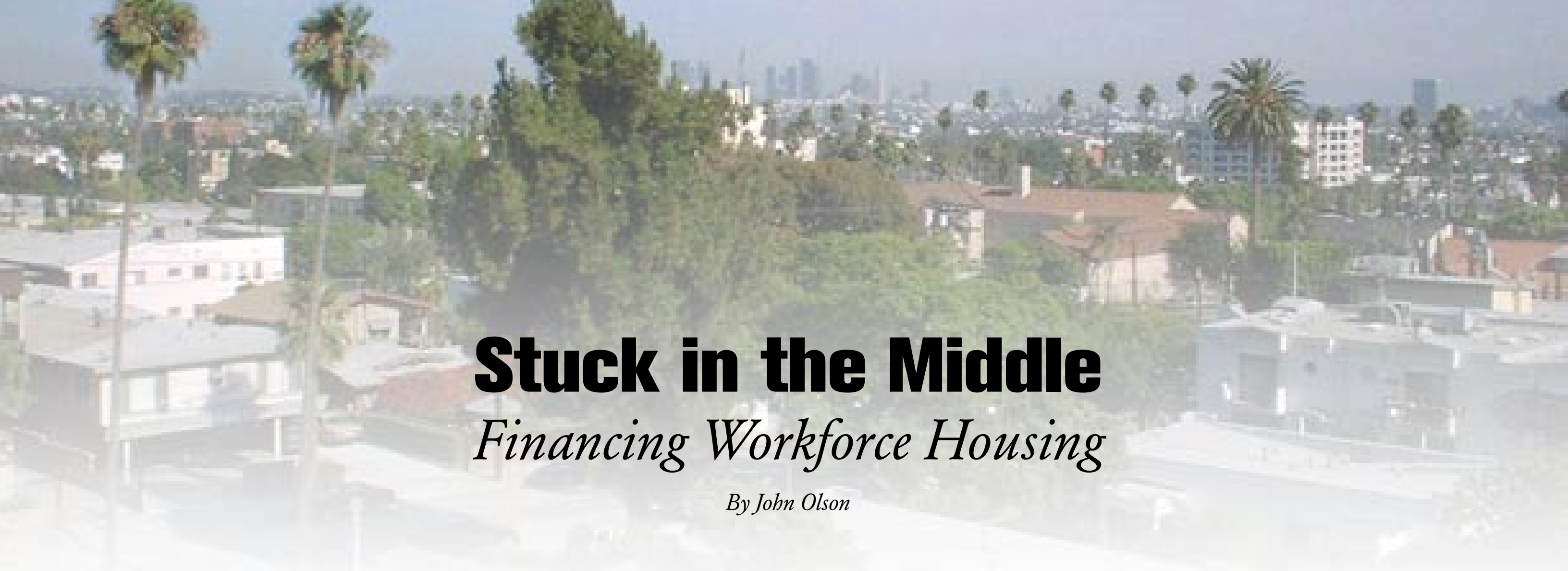

Stuck in the Middle

Financing Workforce Housing

By John Olson

There is a specific group of wage-earners who are caught between a rock and a hard place in the housing market in high cost areas. Earning too little to afford a home, they are relegated either to the rental market or to a crushing commute. Earning too much to be considered low- or moderate-income, they don't qualify for many programs that could help them buy their first home.

In the community and economic development field, "workforce housing" generally refers to units geared toward this group of earners falling between 80 and 120 percent of area median income (AMI). While housing these earners–typically teachers, nurses, and firefighters–in the communities where they work is an undisputed community need, financing the developments that would serve this market niche challenges some of our assumptions about what constitutes "affordable housing." Traditionally, community development activities have been geared toward those households earning less than 80 percent of AMI. But in high cost areas, the argument can be made that policies and resources–and perhaps even CRA consideration–should stretch to accommodate households earning as much as 150 percent of AMI, since they too have difficulty finding affordable housing options.

A number of jurisdictions with rising housing costs have established workforce housing initiatives that develop affordable housing and provide homebuyer assistance programs to this group. In addition, private investments around the country are beginning to fill the financing gap. In this article, highlighted are several new and unique California-based workforce housing funds aimed at addressing the housing needs of this group of earners. Though in various stages of formation, these funds have brought to the table a wide array of investors. Many financial institutions, which have traditionally been involved in community development, have invested in these funds, but other mission-driven investors such as insurance companies and pension funds have also acknowledged the importance of addressing this need and have made substantial investments.

Each of these funds tackles the "soft costs" of development. The cost of equity capital, in particular, can be crippling in high cost areas. By providing affordably-priced equity, these funds aim to bring down the cost of development to the point at which the ultimate sales price is affordable to this segment of the workforce.

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Genesis Workforce Housing Fund

The first of these funds to come into existence was the $100 million Genesis Workforce Housing Fund. The Fund is a member of the Genesis LA Family of Funds, which focuses on a "double bottom line" to promote urban development and business growth in the greater Los Angeles area. The Fund provides equity capital to create for-sale and rental workforce housing. Debbie LaFranchi, who spearheaded the creation of the fund at Genesis LA, says that "the initial idea for this fund came from consistent reports of a crisis in housing for nurses, teachers, and police officers who couldn't afford to live in the communities where their jobs were located. The high cost of housing in these areas was hurting economic development efforts because of its impact on the workforce."

The fund focuses on families earning 80-150 percent of AMI, and in some cases, can go as high 200 percent of the median. The Fund's geographic focus is on low- and moderate-income (LMI) communities, and, to date, the fund's investments have all been in LMI census tracts.

Work on the fund started some four years ago, with extensive analysis of the feasibility of creating housing for people earning as little as 80 percent of the area median.

The analysis showed that it would be extremely difficult to develop affordable housing even for families earning 120 percent of the median without adding some form of (already scarce) public subsidy or allowing flexibility for some units in a development to go up to 150, and in some cases, 200 percent of AMI.

LaFranchi reports that the Genesis Workforce Housing Fund is capitalized at $102 million. Phoenix Realty Group is currently reviewing a pipeline of projects in urban areas of Los Angeles, of which the Puerta Del Sol Condominiums was the first to break ground in June 2004.

CCRC Workforce Housing Fund

The California Community Reinvestment Corporation (CCRC) is a nonprofit multibank lending consortium founded in 1989 to address the shortage of quality affordable housing in California. CCRC is funded by more than 40 member financial institutions. While continuing to offer its traditional affordable housing products, CCRC created its workforce housing fund this year to address the jobs-housing imbalance in California. Mary Kaiser, CCRC's President, reports that her fund will close in early September with a capitalization of $24 million, and will be focused on serving families earning between 80 and 120 percent of AMI. In some cases, the fund will be able to finance developments that include units affordable to those earning below 80 percent of AMI. According to Kaiser, the fund's mission is to "focus on people who have been priced out of the home market. CCRC's focus on finding gaps in the housing financing structure has shown there's a significant amount of work that needs to be done to meet the housing needs of people in this income range."

The fund attracted the attention of Dan Sheehy at Impact Community Capital LLC. (For more on Impact and how it structures and manages community investments for its investors, visit http://www.impactcapital.net/.) "For Impact and the insurance industry investors we represent, [CCRC's] workforce housing fund represented a unique opportunity to address the housing needs of working families and individuals who otherwise would will be left behind in these escalating housing markets," says Sheehy.

CCRC's fund has a multifaceted focus on for-sale and rental housing, as well as special needs housing for seniors. The fund will operate throughout the state of California, and will focus on condominium development in particularly high cost areas.

Bay Area Workforce Housing Equity Fund

The Development Fund has partnered with A.F. Evans Company to create the Bay Area Workforce Housing Equity Fund, which is focused on providing high-quality single-family housing to working families in the San Francisco Bay Area. The Development Fund, founded in 1963, has a long history of facilitating the creation of multibank affordable housing consortia throughout the country. Sid Johnston, the Development Fund's Executive Director, said that the Bay Area was a natural place to tackle the "next thing" – the thorny issues around workforce housing: "In some parts of the Bay Area, you have to earn more than 200 percent of the median just to afford the median-priced home. The Bay Area is suffering from the highest income gap in the state of California."

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The fund will be targeting urban infill locations where no housing has existed previously, with a special emphasis on low- and moderate-income geographies. The fund has received commitments from several financial institution investors, and has a goal of closing the fund in the 3rd quarter 2005 with a capitalization of $25 – $50 million. Johnston reports that "the final size of our fund will depend in large part on how the CRA question turns out. Some of our potential investors have told us that they want a clearer ruling on how investments in these funds will be treated." (Box 5.2: Workforce Housing and the CRA).

An architectural elevation of the Puerta Del Sol Condominiums financed through the Genesis Workforce Housing Fund.

San Diego Smart Growth Fund

The San Diego Capital Collaborative was created by the San Diego City-County Reinvestment Task Force to address the need for a fund focused on the unique needs of San Diego County. Barry J. Schultz, the CEO of the collaborative, said that "the Smart Growth Fund is the only entity of its kind in San Diego County, and we're in a position to leverage our equity to provide over $500 million of residential and commercial development."

The Collaborative created the San Diego Smart Growth Fund to address the need for workforce housing in the extremely high-cost San Diego market. The fund focuses on the "double bottom line" of financial and social returns for its investors and communities. Each potential investment is rated on how well it meets both bottom lines. In conjunction with the Phoenix Realty Group, the fund successfully raised $60 million from CalPERS, the California Public Employees Retirement System, and will make its first investment in the third quarter of 2005.

The fund's primary focus is the development of for-sale workforce housing, but also will support rental, mixed use, and commercial properties. Focusing on LMI geographies in San Diego County, the fund will target families earning between 80 and 200 percent of AMI. Schultz says that "the key factor in the fund's strategy is to work with local LMI communities, and bring the fund's resources to bear to help them fulfill their plans for the revitalization of their communities. We're in the process now of collecting baseline data on these neighborhoods so we can measure the impact of our investments."

The funds described here have a mission of targeting a seemingly intractable problem. Public subsidy is mostly targeted to those for whom housing is most out of reach. The market for housing in high cost areas prices out all but the wealthiest potential homebuyers. For those workers stuck in the middle, the properties developed by these funds offer hope that the dream of homeownership will be accessible.

But these funds also confront the industry with a controversial question of what policy changes should be made to account for the market in high cost areas. Some argue that limiting affordable housing programs to those earning less than 80 percent of the median gives the community development field an appropriate focus on those most in need. Thus, guidelines should not be bent, even in high cost areas. Others would argue that the housing market in high cost areas shuts out a broader segment of the population than is traditionally considered needy, and that some flexibility must be employed in allocating community development resources.

Whether or not this policy issue is resolved in the near term, the funds described in this article are in the meantime providing at least one avenue for addressing a community need that has been left behind.

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Workforce Housing and the CRA

Box 5.2

Workforce housing is a relatively new area of Community Reinvestment Act (CRA) policy. The *Interagency Questions and Answers* (Q&A) state that "the flexibility of the performance standards allows examiners to account in their evaluations for conditions in high-cost areas." The Q&A specifically mentions an example of a CRA-eligible community development activity that funds affordable housing for middle-income individuals as well as low- and moderate-income (LMI) individuals. Certain workforce housing activities in LMI areas may also be considered to revitalize and stabilize those areas. Because there is not extensive precedent in this area, bank investors are encouraged to work carefully with their primary regulators to ensure that the bank and the examiners have the same understanding of how these funds will be considered.