DETROIT PRESERVATION ACTION PLAN

CITY OF DETROIT | 2018

CITY OF DETROIT

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INTRODUCTION

As Detroit makes progress toward being a stronger and safer city, new initiatives are needed to continue to build an inclusive city. Investment brings new opportunity yet can also bring challenges in the form of rising housing costs. Ensuring that new affordable homes are part of the city's growth is one strategy to achieve inclusion. Preserving the city's existing affordable housing stock is just as critical to allowing current residents to remain in their communities and providing future affordable housing choices.

Detroit's affordable housing stock consists of two types of affordable housing. Regulated affordable housing units are publicly funded and/or have rent restrictions. Naturally occurring affordable housing (NOAH) units are affordable to low-income residents when rented or sold at market rate. Both of these types of housing are at risk of losing their affordability over time without policy interventions.

Depending on market conditions, the two main threats to preserving both types of affordable housing are rising market values and functional obsolescence. In certain limited areas where the housing market is strong, buildings with homes that are currently affordable may be at risk of conversion to market-rate rental units or condominiums due to an owner or developer's attraction to greater profits or neglect of a property. Affordable properties in weak markets often suffer from disinvestment and potential foreclosure after struggling to maintain sufficient occupancy to support operating costs. To counter these risks to the affordable housing stock, the City of Detroit ("City") is committed to a strategic approach to preserve existing affordable housing, both regulated and naturally occurring.

Definition of Preservation

Distinct from "historic preservation," which aims to upgrade and retain buildings that are specifically designated as historically significant, "affordable housing preservation" is the act of maintaining quality affordable homes and apartments.

Scale of preservation needs in Detroit

Currently, there are approximately 22,000 existing regulated affordable housing units operating in Detroit. These include rent-assisted and income-restricted multifamily buildings, low-income housing tax credit (LIHTC) properties, and public housing units.

Rent-assisted buildings provide long-lasting affordability through federal rental subsidy contracts, tied to loans from the Federal Housing Administration (FHA). In Detroit, rental subsidy contracts serve approximately 9,000 households. As the loans reach maturity, the rental subsidies can end, although they can be extended or moved to serve other affordable developments.

LIHTC properties are managed by private or nonprofit developers. Most LIHTC properties have a 15-year required affordability period, plus an "extended use period" that extends affordability requirements, usually for another 15 years or more. As described in more detail below, most of these buildings will opt to retain their LIHTC affordability regulations for the extended use period, thus retaining their affordability levels. However, at the end of the required affordability period, properties can go through a regulatory process and request to opt out of affordability regulations and convert to market-rate pricing.

Public housing is operated by a government authority—in this case, the Detroit Housing Commission, which manages over 3,300 public housing units. Because they are government operated, public housing does not face the same threats to affordability as the other two types of regulated affordable housing.

Detroit's housing stock also includes a significant number of NOAH units. In 2015, approximately 67 percent of Detroit's non-regulated, market-rate multifamily housing stock (13,000 units) was still priced affordably for households who earn 60 percent of area median income (AMI), which equates to about $33,000 for a two-person household.

About the Task Force and Action Plan

The Housing and Revitalization Department (HRD) first convened the Detroit Preservation Task Force on April 25, 2017. Over 40 individuals representing government agencies, developers, financial institutions, community-based organizations, housing advocates, legal experts, philanthropic organizations, academic research institutions, and property managers gathered to contribute toward the Action Plan process. Over the next six months, Task Force members provided a wealth of data and expertise to HRD and their consultant, Grounded Solutions Network—a nonprofit organization with nationally recognized expertise in inclusive development and lasting affordability.

In the first full convening, the Task Force began by identifying Detroit's highest priority preservation challenges. Next, four working groups were established to take these challenges and craft practical, implementable solutions. Each working group focused on one of the four distinct types of at-risk housing:

1. Sustainable regulated affordable housing stock
2. Unsustainable/troubled regulated affordable housing
3. Scattered-site low-income housing tax credit (LIHTC) housing developments
4. Naturally occurring affordable housing (NOAH)

Each working group met twice to discuss strategies with HRD and Grounded Solutions Network. Many Task Force members also made additional time for interviews, conference calls, correspondence, and data sharing to help inform the Action Plan. In addition, Grounded Solutions Network conducted a review of national best practices and interviewed over 20 local and national experts who were not able to participate on the Task Force itself.

This resulting document, the Preservation Action Plan, will guide next steps for the City — particularly HRD as the lead department, partners who came together as the Preservation Task Force, and other important stakeholders in Detroit's affordable housing. Implementation of the Preservation Action Plan will be a collaborative effort requiring leadership from governmental and nongovernmental partners. It will also require additional resources for implementation (described in the following pages).

Goals of Preservation Action Plan

Preserving the existing stock of affordable housing—both regulated and NOAH—will help retain affordable housing options for residents and provide the opportunity for Detroiters of all incomes to remain in Detroit. The Preservation Action Plan is a guide to prevent housing units that are affordable for working, aging, low-income and vulnerable Detroiters from disappearing. In the immediate future, the City has set an ambitious goal to preserve the affordability of 10,000 units of housing by 2023 to retain quality affordable housing options for residents.

Immediate Threats to Preserving Affordability

As mentioned previously, the two most immediate threats to preserving both types of affordable housing are rising market values and functional obsolescence. The following sections delve into those two issues in greater detail and describe the City's approach to its preservation work.

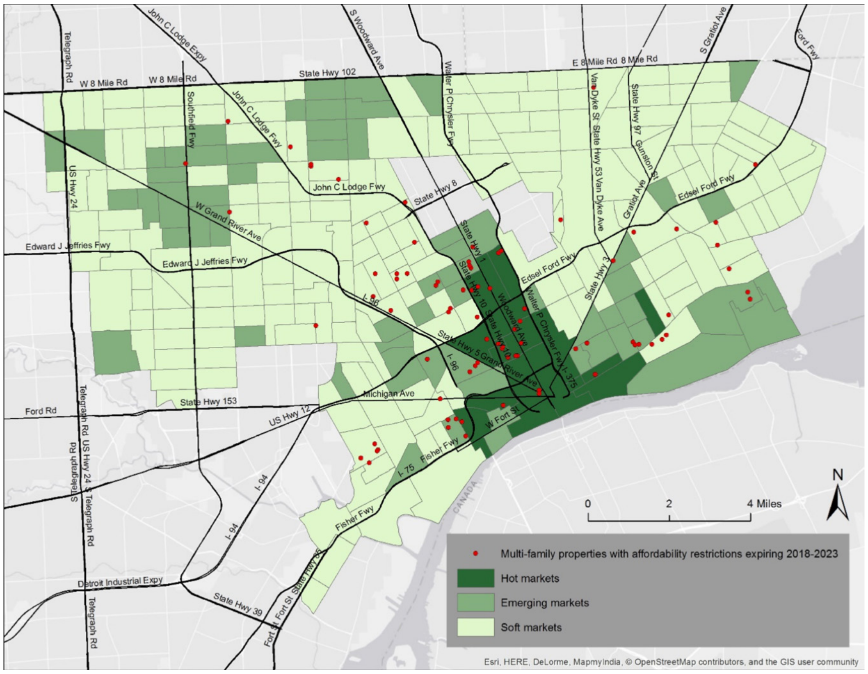
Rising Market Values

Increased demand for housing in Greater Downtown is beginning to drive steep increases in the price of housing; rent rates in downtown increased 11 percent between 2013 and 2016.[1] Future population growth may lead to additional new demand for housing as housing preferences change. After years of population decrease, population loss has slowed in recent years to a decline of only 0.5 percent in 2016. If this trend continues, Detroit may see population growth in the near future. As Detroit's housing market continues to recover in the wake of decades of disinvestment, compounded by the Great Recession, other neighborhoods with urban amenities may face affordability challenges due to increased demand and rising housing costs.

As described previously, both rental subsidy contracts and LIHTC affordability regulations expire after a certain number of years. Increasing market pressures can induce property owners of regulated affordable housing to convert properties to market rate at the conclusion of required affordability terms.

Between 2018 and 2023, nearly 9,000 units in 107 buildings that have support from rental subsidy contracts and/or LIHTC will come to the end of their required affordability term. Most of these buildings will opt to renew their rental subsidy contracts and/or retain their LIHTC affordability regulations for the extended use period, thus retaining their affordability levels. According to a 2012 study from HUD, of the LIHTC properties nationwide with an initial required affordability period that expired by 2009, over two-thirds retained their affordability regulations after the expiration date. However, regulated apartments in neighborhoods with stronger housing markets have an economic incentive to exit from government restrictions and increase their asking rents to market-rate levels.

1 Broder & Sachse Real Estate Services, cited in http://www.detroitnews.com/story/business/2016/07/22/downtown-detroit-rent-jump/87460118/



Map 1:

Regulated multifamily properties with expiring affordability restrictions by market type

Map 1 identifies areas of the city with different housing market characteristics[2] and shows regulated multifamily affordable housing developments with affordability restrictions that will expire between 2018 and 2023.

Approximately 2,760 units in 23 buildings with expiring restrictions are located in “hot” housing markets; these buildings are in most urgent need of preservation.

Recapitalization and resyndication

Affordable housing properties that are financed with low-income housing tax credits (LIHTC) are usually built and managed by a “general partner” but 99 percent owned by an investor, the “equity partner.” The equity partner receives tax benefits for 10 years after investing in development of a LIHTC property, and this partner typically remains the majority owner for 15 years. Fifteen years after receiving their first allocation of tax credits, however, owners of LIHTC properties should consider refinancing to make property upgrades and to continue to operate as affordable housing. This is because the limited rent rates make it financially challenging for building owners to invest in needed repairs, so unmet capital improvement needs tend to build up over the course of 15 years. Refinancing of LIHTC properties often requires a new allocation of tax credits as well as renewed investment from an equity partner and additional loans and grants. The process of seeking a new allocation of tax credits is called resyndication.

2 Market types were defined based on 2017 market rate rents, vacancy rates, the City’s planned areas for investment and growth, and expert knowledge.

In addition, many buildings that are approaching the end of their affordability restriction period have significant financial needs to support repairs, renovations and refinancing. Properties in emerging-market neighborhoods without rapidly rising rents are not necessarily at risk of converting to market rate in the short term, but these properties may still need help with the complex process of recapitalization and/or resyndication to remain affordable after their current affordability restrictions expire. They may also require local investments to upgrade the building and ensure financial sustainability for the extended affordability period. Many properties are aging and have significant maintenance needs, but they have not had sufficient income from rents to fund needed repairs and upgrades due to high vacancy rates and/or low rent rates. Preserving properties in moderate-market neighborhoods is important to prevent displacement as the market improves, and to ensure the neighborhood retains a healthy mix of lower cost units over the long run. Approximately 2,060 units in 24 buildings with affordability restrictions that will expire between 2018 and 2023 are located in emerging housing markets.

Some neighborhoods in Detroit are seeing increased investment that brings new opportunities and amenities. At the same time, new investment can also bring challenges. For NOAH units located in areas that experience significant new development, increasing market pressures can threaten the affordability of the units. In stronger housing markets, owners are economically motivated to raise rents, either with or without renovations, or sell their properties to another developer who can reposition the property as a higher-end, market-rate development. Higher rents can lead to displacement of current residents. The most at-risk buildings in strong market areas are those that are currently occupied but are in poor physical condition, which means that a significant rehabilitation would provide the opportunity to raise rents substantially. These buildings have the most urgent need for preservation intervention. Fortunately, the need for substantial repairs also provides an opportunity for the City to offer rehabilitation assistance in exchange for continued affordability.

NOAH buildings in emerging markets may not be at imminent risk for large-scale tenant evictions. However, rent hikes and renovations, such as those that have already happened downtown, may become more prevalent in these neighborhoods in future years, as described previously in this report. As such, these NOAH buildings are a secondary priority for preservation investments, after buildings in strong market areas. NOAH buildings in moderate markets present an opportunity to "build in" affordability and preemptively tackle displacement in neighborhoods that may become unaffordable over a longer timeframe.

Functional Obsolescence

Much of the city's stock of regulated and naturally affordable housing is aging; 75 percent of Detroit's multifamily units were built before 1980, and 50 percent were built before 1960.[3] Many buildings are likely in need of reinvestment. For NOAH units, particularly those in weak markets, extended periods of low-value rents can strain the financial feasibility of upkeep and maintenance. As a result, these properties risk falling into neglect. Regulated

3 US Census Bureau 2016 American Community Survey

affordable housing faces obsolescence challenges given the age of properties, the decline in federal funding, and insufficient cash flow to provide upkeep and maintenance of properties. Regulated homes and apartments in lower-rent and lower-income neighborhoods particularly struggle to keep their ledgers balanced and quality high because operating costs and debt service often exceed rental revenue. Though the average rent in Detroit is $820 per month, rents are significantly lower in some neighborhoods.

Each aging affordable property—whether NOAH or regulated—in the city of Detroit faces a unique set of challenges. Some buildings were originally underwritten with overly optimistic assumptions about future rent levels or operating expenses. In these properties, the financing structure has not supported the development the way that it was intended, and debt payments may be draining scarce operating revenue. Other buildings are owned or managed by small organizations with insufficient staff capacity to expertly minimize operating expenses while also maintaining the property. Still other buildings are owned or managed by organizations that do not have tenant welfare or building sustainability at the heart of their concern. Because each troubled property is distinct, there is no one-size-fits-all solution for moving troubled, distressed, and dilapidated properties toward sustainability.

The City is working closely with the Michigan State Housing Development Authority (MSHDA), the U.S. Department of Housing and Urban Development (HUD) and the Detroit Housing Commission (DHC) to compile complete data on the physical and financial health of affordable housing. Currently available data represents a subset of buildings funded using the MSHDA LIHTC programs. Based on these data, many of Detroit's regulated affordable buildings are struggling to pay monthly bills, fill their units or accomplish needed repairs. For instance, in 2017, 20 percent of properties were delinquent on their loan payment to MSHDA. These buildings are at risk for poor maintenance and/or high vacancy rates, and may have property management concerns, which can lead to eventual foreclosure or abandonment.

Landscape of preservation work in Detroit

The issue of preservation has become more visible over the past several years in Detroit. Multiple stakeholders—including the University of Michigan, Capital Impact Partners, Community Development Advocates of Detroit, the Detroit Local Initiatives Support Corporation (LISC), the Community Development Financial Institution (CDFI) Coalition of Detroit, and Senior Housing Preservation-Detroit—have been engaged in a variety of preservation efforts since 2015. Efforts range from research on NOAH properties in greater downtown to preservation of scattered-site LIHTC developments to preserving senior housing.

Thus, the Preservation Action Plan is indebted to the previous work of dozens of organizations and individuals who have committed time, resources and expertise to understanding and confronting preservation challenges in the city. The Action Plan process aims to build upon their contributions.

STRATEGIES FOR PRESERVATION

The following affordable housing preservation strategies are based on a shared set of implementation goals:

- Prevent regulated affordable units from converting to market rate.
- Prevent loss of public investment, specifically HOME investments and rental assistance contracts funded through federal housing assistance programs.
- Improve conditions and retain the affordability of properties suffering from deterioration, vacancy, abandonment and/or foreclosure.

These implementation goals support and reinforce the City's overall goal of preserving 10,000 affordable housing units by 2023.

As described in the following Resources Required section, HRD will establish a Preservation Partnership Team, which will be staffed by a locally based CDFI and include key City partners, to carry out the following strategies over the next five years:

A Create and maintain a Preservation Database and a prioritized list of specific properties for immediate intervention.

In order to successfully preserve affordable housing, it is essential to make a specific list of the individual buildings that are being targeted for preservation. Each building's needs are distinct, as are the investors and stakeholders who need to be involved in the rehabilitation/refinancing effort. Successful preservation efforts in other communities have depended on creating a concrete list from which to build individualized preservation plans. For example, the DC Preservation Network in Washington, D.C., meets monthly to examine a list of every publicly subsidized building in the City, look at which properties have expiring affordability restrictions, and discuss a plan of action for each at-risk property.

The first step to creating such a list is to compile a Preservation Database that includes a comprehensive inventory of buildings in Detroit with affordable housing units—both regulated and NOAH—along with essential data points about each building that can help prioritize the need for preserving units in that building.

The City of Detroit is currently leading efforts to compile data on the affordability restriction expiration dates, physical needs and financial status for each building with currently regulated affordable housing. Numerous agencies and organizations hold data on affordable housing, but no single entity has, to date, compiled all sources into a single database. The Preservation Partnership Team will complete this database and prioritize buildings for preservation based upon key criteria. Criteria will include:

- Expiration dates for affordability requirements
- Presence and scale of past public investments such as HOME and rental assistance contracts
- Neighborhood strength
- Size of the building
- Property owner

Significantly less data is available on NOAH than on regulated affordable housing, making it difficult to identify specific buildings for immediate interventions. The Preservation Partnership Team will build the Preservation Database to include data on NOAH such as:

- Address
- Contact information for building owner and management company
- Average rents and characteristics of surrounding neighborhood
- Inspection information
- Assessed property value
- Date of construction and/or most recent major renovation

Following the initial creation of the Preservation Database, the Preservation Partnership Team will update the Preservation Database regularly to ensure that the prioritized list remains relevant over time. Database updates and refinements will require regular communication with MSHDA, HUD, HRD, the DHC and other relevant data-holding entities.

INITIAL BENCHMARK: Preservation Database created and set up in 2019.

B Collaborate with key stakeholders to coordinate preservation of prioritized multifamily properties.

The actual day-to-day work to ensure that prioritized multifamily properties are successfully preserved involves a multi-step collaborative process. The Preservation Partnership Team will convene public agencies to collectively review buildings identified in the Preservation Database and discuss threatened buildings in each agency's portfolio. The Preservation Partnership Team will then conduct targeted outreach to owners and managers of identified high-risk buildings—both regulated and NOAH. Outreach will identify the owners' intentions and whether they are interested in preserving affordability in their building. After determining the owners' intent, the Preservation Partnership Team will work with HRD to coordinate teams of relevant stakeholders—public agencies, funders, investors, tenant representatives, financial planners—to create and implement a plan of action for each property. Plans for properties in areas with rising rents could include, for example, incentives to retain affordability. Plans for troubled and distressed properties could include, for example, training and mentorship for general partners and property managers.

A good model for this process is the Cook County Preservation Compact in the Chicago area, which has a property working group that regularly identifies specific at-risk properties to target for preservation, reaches out to relevant players (e.g. landlords and tenants), and implements a specific preservation approach for each identified property.

Additional specific tasks relevant to preservation of multifamily properties that the Preservation Partnership Team will coordinate include:

Cultivate a pool of affordable housing developers and owners interested in making their properties destination buildings for rental subsidy contracts should such contracts need to be moved.

Despite best efforts to preserve affordable rent levels, a small number of affordable housing buildings in high-rent neighborhoods may elect to convert to market rate. In the case of buildings with Section 8 or other rental assistance contracts, HUD has an opportunity to transfer this operating subsidy to an alternative building. If no alternative building can be found, then the federal subsidy dollars are lost. Part of the Preservation Partnership Team's coordination work will be to recruit and formalize a list of Detroit-based affordable housing developers and owners who are interested in making their properties destination buildings for rental subsidy contracts.

INITIAL BENCHMARK: Convene local affordable housing owners and developers in Detroit in 2019.

Build capacity amongst local housing developers and managing agents for refinancing, rehabilitating and managing aging regulated buildings.

Many local developers and "general partners" who own buildings would benefit from training and mentorship to support them through major rehabilitation and refinancing/resyndication processes. Similarly, managing affordable housing in the City of Detroit is a difficult business, often with slim margins and numerous challenges. From addressing safety concerns, to re-renting units quickly, to minimizing utility expenses, to complying with the regulations and documentation expected from funders—property managers must be well equipped to handle many responsibilities.

Around the country, opportunities for training, one-on-one mentorship and peer exchange come in a variety of forms. In some areas, trade associations, such as the Nonprofit Housing Association of Northern California, offer practical trainings to their members. In Chicago, the Community Investment Corporation's manager training courses have been widely lauded and appreciated by newer property managers. In Detroit, "general partners" have expressed a desire for individualized mentorship or technical assistance in addition to classroom learning opportunities. The Preservation Partnership Team will also work with property owners, property managers, funders and investors to identify the top priority training needs and a training/mentorship strategy.

INITIAL BENCHMARK: Training and mentorship strategy developed and launched by 2019.

Attract nationally recognized, high-performing affordable housing developers and property managers to preservation opportunities in Detroit.

Preservation of regulated affordable housing is highly complex and requires a different skill set than new development. In some cases, the Preservation Partnership Team will need to identify organizations that can replace current management companies or acquire aging buildings to take them through a rehabilitation/refinancing transition. Attracting expert managers of aging affordable housing and expert developers who focus on preservation may be as simple as issuing and publicizing a well-crafted Request for Qualifications (RFQ), or it may also involve networking efforts on behalf of specific developments.

INITIAL BENCHMARK: Convene national best practice preservation owners and developers in Detroit in 2019.

Develop programs to provide protections and benefits for tenants who are displaced by market-rate conversion or NOAH renovations.

When NOAH or regulated affordable buildings undertake a major renovation in order to attract higher-income tenants, current tenants are displaced for the renovation itself and also by unaffordable prices established afterward. Sometimes, even preserved regulated affordable housing must undergo major renovations and raise rent levels, especially if the building has been serving extremely low-income households without sufficient operating subsidies, and consequently, accrued unaddressed maintenance problems.

Many cities, including Detroit, mandate certain tenant protections. These protections can take a wide variety of forms such as notice requirements in advance of an eviction or property conversion, just-cause eviction protections that prohibit eviction unless the owner has a "cause" like a lease violation, relocation compensation, enhanced relocation benefits and notice requirements for seniors and people with disabilities, right to return for tenants that must move out for a renovation, and first right of refusal benefits for tenants or tenant-designees to purchase the building.

The Preservation Partnership Team will conduct a comprehensive review and monitor effectiveness of the state legal landscape around tenant protection mechanisms and of existing City tenant protection policies, such as the recently adopted ordinance requiring a 12-month notice for property conversions. The Preservation Partnership Team will also conduct research to understand the needs of tenants in

Detroit and investigate what additional tenant protections are best suited for use in Detroit to achieve tenant stability, ensuring that strategies are in compliance with the Uniform Relocation Assistance Act where applicable. Based on this research and monitoring, the Preservation Partnership Team will recommend and help implement, as appropriate, mechanisms to strengthen tenant protections—including through City policy—within the state's legal framework.

INITIAL BENCHMARK: Recommendations for tenant protection mechanisms developed in 2019 and implemented by 2020.

Develop tax abatement policies that incentivize preservation of affordability.

Detroit's property tax rate on commercial property is effectively one of the highest in the country and places a significant burden on existing multifamily properties and new development. As a result of current market conditions and a high property tax rate, almost all new multifamily developments and existing regulated affordable developments rely on some form of tax incentive or abatement to reach financial feasibility and maintain operations.

As real estate values rise in a neighborhood, it becomes increasingly attractive for property owners to seek city tax incentives to improve properties and raise rents. While the City is interested in continued investment and improvement of housing quality in Detroit, this type of development of occupied buildings threatens to displace existing residents who cannot afford increased housing costs.

The City will work to prevent the displacement of residents by requiring building owners who seek incentives for reinvestment or redevelopment of safe, clean and decent occupied building to create a retention plan with an affordable housing outcome for every resident. This plan must include either a provision of affordable housing for income-eligible current occupants on site, or a minimum one-year lease for existing residents in an off-site housing unit that is comparably priced and located.

In softer market areas, tax abatements could be paired with other local funding and financing tools to retain affordability in properties that are exiting federal affordability requirements.

INITIAL BENCHMARK: Develop tax abatement policy recommendations in 2018; implement recommendations in 2019.

Design financing options, such as a low-interest loan product, to help developments retain affordable rent levels without relying on complex local, state and federal subsidy programs. Tie receipt of capital to retention of affordability for current tenants and/or to lasting affordability restrictions on units.

In some cases, currently regulated affordable housing developments are not able to compete for the highest value subsidy programs available, such as the 9 percent tax credit program. When some of these buildings were initially funded using the 9 percent tax credit program 15 years ago, MSHDA was specifically prioritizing a percentage of tax credit developments in Detroit; MSHDA's priorities have since shifted.

Also, the 9 percent tax credit program scores developments based on a series of neighborhood characteristics, such as amenities within walking distance. While some developments may have scored reasonably well on these characteristics 15 years ago, changing neighborhood conditions mean those same buildings may now be less competitive.

In addition, some properties may not need resyndication with 9 percent tax credits and could refinance with a different loan product. In other cases, continued participation in government programs can make it harder to upgrade the property while preserving affordable rent levels; federal housing programs carry somewhat costly requirements, including "Davis – Bacon" wage rates.

NOAH owners who need to make property improvements may also be attracted by a source of low-cost capital and willing to "trade" tenant protections and/or affordability restrictions on a portion of their units in exchange for low-cost financing. Lowering the cost of borrowing also presents the opportunity for acquisition of NOAH buildings, with the intent of preservation, when NOAH buildings are placed on the open market.

As described in the City's Multifamily Affordable Housing Strategy, the City will work with stakeholders—including financial institutions, Community Development Finance Institutions (CDFIs) and philanthropic organizations—to establish the Affordable Housing Leverage Fund (AHLF).

The AHLF will provide funds both for preservation of existing affordable housing and for new development of affordable housing. Local funding from the AHLF—or potentially a separate loan fund that does not carry the same administrative and legal requirements as LIHTC, Section 8 or HOME—could enable NOAH and regulated affordable buildings to keep current tenants and offer ongoing affordability. For these buildings, funding partners will need to create a system for overseeing rent levels and for ensuring that tenants meet income requirements upon initial entry into the unit. However, administrative burdens should be minimized. The City will work with the AHLF fund manager and/or the Preservation Partnership Team to design and implement this type of low-cost financing program.

The Community Investment Coalition, which preserves small apartment buildings in the Chicago area, and the Greater Minnesota Housing Fund's NOAH Impact Fund, which preserves naturally occurring affordable housing in well-connected Minnesota areas, offer examples of preservation funds focused on preserving affordability without triggering federal and state compliance regimes.

INITIAL BENCHMARK: Design pilot low-interest debt instrument with MSHDA in 2018.

C Transition Scattered-Site LIHTC properties to financial sustainability.

The Preservation Action Plan focuses on multifamily structures, however, there is one exception. Roughly 1,200 single-family homes in the City were initially built with support from the LIHTC program and City-allocated

HOME funding. At the time these homes were developed, the intention was that low-income renters would eventually own some of these properties by the end of the 15-year LIHTC compliance period; other properties were intended to remain as rental housing for the long term. However, most occupants of these homes still cannot afford to purchase their home due to multiple layers of debt on the property. Furthermore, the foreclosure crisis left many of these properties relatively isolated in underpopulated parts of the City.

Scattered-site properties, especially when widely dispersed, are difficult to manage as rental units. These properties do not have on-site office staff; it takes considerable time to travel among units to assess property conditions and make needed repairs. Additionally, scattered-site properties do not benefit from the economies of scale for everything from services like trash pickup, to maintenance of different types of fixtures in various units.

To further complicate matters, some of these homes were built originally by organizations or partnerships that have since dissolved or lack sufficient capacity to oversee the property. As a result, many scattered-site homes have suffered physical deterioration over the years.

Also, many properties are “overleveraged,” with debts exceeding the present-day value of the home. As these homes approach the end of their 15-year LIHTC required affordability period, they may need to refinance to remain long-term rentals or to transition to affordable homeownership.

These single-family structures face unique challenges; they are different from multifamily apartment buildings and require specialized stakeholder and investor expertise for preservation. The City will work with other agencies and/or consultants to convene a core group of involved syndicators and general partners to outline the process and structure for transferring scattered-site LIHTC developments to affordable homeownership and alternate strategies (e.g. remain as rental) when necessary. The City will seek to include continued, lasting affordability for these homes, particularly in strong- and moderate-market neighborhoods, to the extent feasible.

Some scattered-site developments will reach the end of their 15-year required affordability periods in 2018 and 2019. Other homes are in states of disrepair or in significant arrears on their mortgage payments. Properties that are at risk for foreclosure or abandonment, and properties imminently reaching their age-out date, will be identified and placed into a pilot program to tactically address these urgent needs.

The City of Cleveland’s Year 16 CDC Initiative can serve as a model for the City of Detroit. The initiative stabilized 700 homes owned by community development corporations (CDCs), raised nearly $2 million to improve properties and purchase bank notes, and transitioned nearly 60 percent of the occupants into successful homeownership.

INITIAL BENCHMARK: Identify recapitalization and/or sale strategy for all expired scattered-site, single-family affordable housing developments by 2020.

D Improve coordination and collaboration among stakeholders.

Improve coordination among City departments to effectively support asset management, maintenance and retention of affordability for regulated affordable housing.

Multiple departments within the City of Detroit—including the Housing and Revitalization Department (HRD); the Buildings, Safety Engineering and Environmental Department (BSEED); and the Treasurer's Office — play a role in supporting the sustainability and longevity of regulated affordable housing development. Improved cross-department collaboration will allow the City to better support management and maintenance of these properties, as well as lasting affordability of the units.

For instance, inspection information from BSEED could be useful to HRD for understanding maintenance issues in HOME-funded buildings. Conversely, HRD may be able to support property improvements and coordinate with property managers to remedy code enforcement problems before issues escalate.

Both new and existing regulated affordable housing developments in Detroit are heavily reliant on incentives for financial feasibility. These tax incentives are critical to the financial feasibility of operating affordable housing and must be maintained to preserve the existing housing stock. Regulated buildings can qualify for a PILOT agreement, granted by the Assessor's Office, which significantly reduces their tax burden. It will be critical to ensure that all preserved buildings have access to a PILOT agreement that ensures their operational sustainability as well as lasting affordability.

To improve cross-departmental coordination and to make City policies and practices more consistent and transparent, HRD or the Preservation Partnership Team will coordinate regular standing meetings (e.g. quarterly) as well as ad hoc, as-needed meetings to better align multiple departments in supporting the sustainability of regulated affordable housing.

INITIAL BENCHMARK: Convene regular multi-department meetings beginning in 2018.

Collaborate with the Michigan State Housing Development Authority (MSHDA) to amend MSHDA policies and procedures where possible to encourage quality asset management and retention of affordability for entire the extended use period.

MSHDA helped to finance a majority of Detroit's existing regulated affordable housing using the LIHTC program, bond financing and other programs. For LIHTC properties approaching year 15, MSHDA is a critical player in determining which properties will be preserved and for how long. While many rules governing the LIHTC program are stipulated by federal law, there is also considerable diversity in how state finance agencies implement the program.

Oregon and Tennessee are examples of other states with high-performing housing finance agencies (HFAs) that prioritize preservation and cooperation. Oregon's HFA worked with the Portland Housing Bureau and other organizations across the state to establish the Oregon Housing Preservation Project, which aimed to maintain a database of affordable properties in the state and develop a set of strategies to preserve affordable housing properties and their associated federal subsidies. The Network for Oregon Affordable Housing was selected to administer the effort and create a new loan fund, the Oregon Housing Acquisition Fund, to support the acquisition of at-risk properties. This partnership, which issues both preservation loans and loans to purchase and convert existing buildings to affordable housing, has been extremely successful in preserving federally subsidized housing.

The Tennessee HFA website lists all the affordable housing properties for sale, with related documentation. This public site also lists multiple annual trainings offered each year. In particular, the HFA offers compliance training for owners, managers and dedicated compliance staff of housing credit properties. In addition, the state conducted an audit of affordable housing properties and issued a report that describes the age and physical condition of existing affordable rental housing properties in Tennessee. The report also identifies other risk factors for loss of affordable units, such as rental assistance contract expiration dates, to guide future discussions around affordable housing preservation in Tennessee.

Learning from what works elsewhere may be useful for thinking creatively about MSHDA's preservation policies and practices.

MSHDA has been an active and engaged partner with the City throughout the Preservation Action Plan process, contributing time, data and expertise. Moving forward, continued collaboration between HRD and MSHDA will be critical to improving regulated properties and preserving them for longer-term affordability.

INITIAL BENCHMARK: MSHDA publishes information regarding all preservation properties by 2019.

Collaborate with HUD to determine whether HUD-financed market-rate buildings could be granted incentives to retain affordability for current tenants or transition to a lasting affordable model.

HUD offers financing options for new market-rate multifamily development, as well as financing for regulated affordable buildings. In Detroit, HUD has financed over two dozen market-rate multifamily buildings, totaling almost 2,500 units. Without restrictions on use or rent, owners of these buildings can raise rents freely. Because it is within HUD's mission to preserve affordable housing opportunities, these buildings could be a prime target for affordability retention. The City will collaborate with HUD to identify a list of HUD-financed market-rate buildings and to create incentives for owners of these buildings to convert all or a portion of their units to a lasting affordability model.

INITIAL BENCHMARK: Create a list of all HUD-financed multifamily buildings by 2019; target eligible developments for retention/creation of affordable housing.

Facilitate involvement amongst neighborhood organizations and tenants in resolving management, maintenance and safety issues.

Capacity building for property managers and enforcement from funders and investors are critical to ensure safety, health and livability in affordable properties. However, success stories also show that neighborhoods and tenants have an important role. Preservation efforts in New York and Chicago rely on tenant advocacy organizations for on-the-ground information about living conditions. Tenants in these cities often collaborate in the preservation process when a building is at risk for conversion to market rate.

Today, Detroit-based United Community Housing Coalition (UCHC) and Midtown Detroit Inc. are examples of grassroots organizations that have improved building conditions. For instance, staff of Midtown Detroit Inc. worked persistently with property managers whose buildings were troubled by crime and drugs. As a result, many troubled buildings in the Midtown neighborhood have seen significant improvement.

Additionally, UCHC community organizers help low-income tenants obtain repairs and improve housing conditions. For example, they negotiate disputes with building owners and governmental agencies, as well as provide support for court action to get needed repairs.

However, these organizations' staffing levels and operational capacity are limited. Looking forward, the City will consider how to support tenant and neighborhood organizations at a broader scale, so that affordable housing residents are integrated into the neighborhood fabric and empowered to care for their homes and neighbors.

INITIAL BENCHMARK: Select a community organization as part of the Preservation Partnership Team in 2018 to ensure that development residents have a voice in the preservation organization.

RESOURCES NEEDED

Implementation of the Preservation Action Plan strategies is dependent on the availability of sufficient resources — both financial resources and staffing resources.

Financial resources

There is currently no funding exclusively for housing preservation in Detroit. Preservation can be funded through federal programs such as HOME and state programs such as LIHTC, but it competes with new development for those funds. MSHDA sets aside 25 percent of its annual allocation of low-income housing tax credits for preservation projects in the state, but not all existing developments in Detroit are competitive for the LIHTC program.

For example, the 9 percent tax credit program scores developments based on a series of existing neighborhood characteristics—such as amenities within walking distance—that Detroit developments may not have. In addition, because many Detroit developments also have significant deferred maintenance and capital finance needs, few are viable with LIHTC alone; additional subsidy programs are needed for rehabilitation and refinancing costs.

Preservation of affordable housing is a cost-effective way to facilitate an inclusive Detroit housing market. According to HUD, preservation of existing units typically costs about one-half to two-thirds of the cost to build new units, depending on the rehabilitation needs of the property.[4]

Although preservation is more efficient than new construction, it does require significant public and private resources. The City has projected a total unmet funding need of $250 million (approximately $150 million in below market rate capital and approximately $100 million in grant capital) to achieve its goals of preserving 10,000 units and producing 2,000 new units of affordable housing by 2023.

As described in the City's Multifamily Affordable Housing Strategy, the City will work with stakeholders—including financial institutions, community development finance institutions (CDFIs) and philanthropic organizations—to establish the Affordable Housing Leverage Fund (AHLF). The AHLF will provide funds both for preservation of existing affordable housing and for new development of affordable housing.

4 https://www.huduser.gov/portal/periodicals/em/summer13/highlight1.html

Staff Resources

Successful implementation of the Preservation Action Plan will require significant dedicated staff resources. The City will take two steps to adequately staff implementation of the plan:

1. **Create the Office of Policy Development and Implementation**

   The City recognizes that addressing Detroit's need for affordable housing will require intensive efforts to create and implement the tools and strategies described in this document. To oversee plan implementation, the HRD will establish the Office of Policy Development and Implementation (OPDI), which will be dedicated to designing programs and initiatives, leading the implementation of new policies, and integrating these activities into the regular operations of the City.

   In addition, the OPDI will also ensure that the goals, strategies and initiatives of this plan are incorporated into the housing strategies within neighborhood plans. To do so, OPDI will work closely with the Planning and Development Department (PDD), which is leading the creation of the neighborhood plans. The OPDI will include new staff with specific areas of focus and expertise in affordability preservation, community land trusts, affordable housing trust funds, development incentives, affordability compliance, capacity building, and single-family affordable housing strategies.

2. **Establish a Preservation Partnership Team**

   Even with additional staff in the new Office of Policy Development and Implementation, successful implementation of the Preservation Action Plan will require staff resources beyond what the City alone can provide. This implementation work will require a high-capacity staff with deep experience in affordable housing finance, credibility, excellent project management skills, and the ability to build trust with diverse stakeholders. Staff from a CDFI will be best suited to carry out this work because the day-to-day work of a CDFI requires a similar set of skills and expertise.

   For example, the Chicago area's Cook County Preservation Compact, which brings together the region's public, private and nonprofit leaders to preserve affordable multifamily rental housing, is coordinated by Community Investment Corporation (CIC), a Chicago-area CDFI. In an approach similar to Chicago's, HRD will establish a Preservation Partnership Team, which will be staffed by a locally based CDFI and include key City partners, to implement the strategies in the Preservation Action Plan.