

SpotLight #11: Providing Safe, Decent and Affordable Places to Live — Innovative Philanthropic Approaches to Housing Affordability and Smarter Growth
January 2005

Abstract. The issue of housing affordability has a complex relationship with the suite of issues that comprise the smart growth and livability agenda. While an integral part of that suite of issues, providing affordable places to live also can be perceived as competing with other components, such as protecting land from development and increasing the amount of market rate housing in inner city neighborhoods. Fortunately, a growing sophistication among smart growth proponents has resulted in the strengthening of the recognition of the importance of incorporating housing production within the smart growth agenda. Smart growth and housing affordability are complementary aims; countering sprawl development patterns by building healthy and vibrant neighborhoods with a mix of land uses and homes and apartments affordable to a wide range of incomes serves to advance both the goals of increasing the supply of affordable housing and promoting smarter growth patterns.

Several member foundations of the Funders' Network for Smart Growth and Livable Communities are taking creative approaches to addressing housing affordability within the context of the broader smart growth agenda. This *SpotLight* looks at some of the work undertaken by the Fannie Mae Foundation, F.B. Heron Foundation, Charles and Helen Schwab Foundation, John D. and Catherine T. MacArthur Foundation, Santa Barbara Foundation, and California Community Foundation.

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Background. The issue of housing affordability has a complex relationship with the suite of issues comprising the smart growth and livability agenda. While an integral part of that suite of issues, providing affordable places to live has also been seen as competing with other components of smart growth, both conceptually and pragmatically. For example, some growth management efforts focus on protecting land from new development, which can increase housing prices if other steps are not taken to increase the number of units that can be built on the remaining land.

Despite the perception of such conflicts, smart growth and housing affordability are complementary aims. For example, development built according to smart growth principles often is location efficient, and can result in mixed-use, high density, pedestrian friendly, and transit rich neighborhoods that allow residents to own fewer cars to lower their transportation costs, making housing more affordable for the residents of such neighborhoods.¹ In actuality, patterns of sprawl development over several decades—rather than more recent attempts to introduce smarter growth practices—are responsible for much of the regional social and economic inequities driving today's affordable housing crisis. Countering auto-oriented development patterns by building healthy and vibrant neighborhoods with a mix of land uses and homes and apartments affordable to a wide

¹ Center for Neighborhood Technology, 2003: www.locationefficiency.com.

range of incomes serves to advance both the goals of increasing the supply of affordable housing and promoting smarter growth patterns.²

Several Funders' Network member foundations have forged and taken creative approaches to addressing housing affordability within the context of the broader smart growth agenda. This *SpotLight* looks at some of the work undertaken by the Fannie Mae Foundation, F.B. Heron Foundation, Charles and Helen Schwab Foundation, John D. and Catherine T. MacArthur Foundation, Santa Barbara Foundation, and California Community Foundation. We should note that excellent work on housing is also being done by intermediary organizations who are members of the Network. Their work will be examined in future publications the Network will produce on housing issues.

Fannie Mae Foundation. A private, nonprofit organization founded in 1979, the Fannie Mae Foundation is the largest foundation in the country devoted to affordable housing and the revitalization of communities. The Fannie Mae Foundation works to: increase the supply of homes that working families can afford; help individuals navigate the pathway to homeownership; and make affordable homes a public policy priority. The foundation accomplishes these goals through innovative partnerships and initiatives that build healthy, vibrant communities across the U.S. and particularly in Washington, D.C., where the foundation is headquartered.

The Fannie Mae Foundation awards grants to nonprofit organizations that create affordable homeownership and housing opportunities in cities, towns, and rural areas across the United States, with an emphasis on low- and moderate-income communities. In addition to awarding grants that directly support the development of affordable homes, preservation, and homeownership counseling efforts, the foundation provides funding to explore and address some of the critical issues – such as literacy, job readiness, and employment – that may create barriers to homeownership. The foundation also provides research grants to support its mission and strategic priorities.

The Fannie Mae Foundation also recognizes and rewards the good work being done in America's cities, towns, and rural areas by providing educational opportunities for those in the affordable housing and community development fields. In addition, the foundation supports special programs to raise awareness and funds to prevent and end homelessness in Washington, D.C.

In 2003, the foundation awarded \$45.4 million in grants to nearly 800 nonprofit organizations across the country. As part of its ongoing commitment to consumer and community outreach, the foundation has provided more than 16 million free, step-by-step home-buying informational guides to help individuals achieve homeownership. In addition, the foundation has provided nearly \$40 million in loans through the Community and Neighborhood Development Fund (CNDP), which supports economic community development by providing low-interest loans to nonprofit organizations targeting low-income housing initiatives.

²*Promoting Regional Equity: A Framing Paper* (Funders' Network for Smart Growth and Livable Communities, 2002), http://www.fundersnetwork.org/usr_doc/RegEquityFraming.pdf.

Finally, one of the Fannie Mae Foundation's most innovative enterprises is its KnowledgePlex® resource, which provides a comprehensive, online source of information and knowledge on housing and community development. KnowledgePlex® offers best practices, news summaries and analyses, on-line discussions, research, and opportunities for collaboration among professionals in the affordable housing and community development disciplines. See www.knowledgeplex.org.

F.B. Heron Foundation. Established in 1992 with the mission of helping people to help themselves, the F.B. Heron Foundation had \$258 million in assets at the end of 2003, with total charitable distributions of \$11.8 million.³

For the past several years, the F. B. Heron Foundation has been working to deploy the foundation's endowment—in addition to its charitable distributions—in direct support of the foundation's mission. The foundation seeks to shape an endowment-investment strategy that invests as much as possible in mission-related, market-rate opportunities that deliver social and financial returns.

To that end, the Heron Foundation's board developed a concept of the foundation as a "private community investment trust"—a fund actively using as many of its assets as can be prudently invested for community and economic development.⁴ In the long term, the foundation's board and staff envision building an institution that mixes mission-related, market-rate and below-market rate investments, fixed-income and equity that, on a portfolio basis, can produce healthy financial and social returns.

Program guidelines identify five wealth creation strategies for low-income people and communities to further the foundation's mission:

- Supporting enterprise development;
- Advancing home ownership;
- Reducing barriers to full participation in the economy by providing quality and affordable child care;
- Increasing access to capital; and
- Employing comprehensive community development approaches.

The foundation provides support in the forms of grants and mission-related investments. Mission-related investments may take the following forms:

- Program-related investments (PRIs), typically low-interest senior or subordinated loans to nonprofit or for-profit organizations whose work closely corresponds with the foundation's programmatic interests;
- Market-rate insured deposits in community development credit unions or community development banks; and

³ F.B. Heron Foundation.

⁴ Sharon B. King, *From the President*, message at foundation website: <http://fdncenter.org/grantmaker/fbheron>.

- Other mission-related investments including, but not limited to, private equity and fixed-income securities offering a “double-bottom line”—market rates of return with substantial social benefits to low-income families and communities.

At year-end 2003, the foundation’s mission-related investment portfolio comprised 19 percent of its endowment. An example of the foundation’s mission-related investing is the Bay Area Smart Growth Fund, a \$65 million private equity fund formed in 2001 to invest in commercial and residential real estate projects in 46 low- and moderate-income neighborhoods in the nine-county “Bay Area” of Northern California. Sponsored by the Bay Area Council in association with the Bay Area Alliance for Sustainable Development and the Community Capital Investment Initiative, the Fund is managed by Pacific Coast Capital Partners. As of summer 2004, the Fund had invested \$32.6 million in several transactions including the redevelopment of 14.2 acres of the Oakland Airport industrial corridor, the acquisition and rehabilitation of 100 single-family homes in Alameda and Contra Costa counties for low- and moderate-income residents, infill housing development in the city of Richmond, and the acquisition and redevelopment of a 182,000 square foot community shopping center in Marin City.

As the mission statement and wealth creation strategies attest, the Heron Foundation’s grantmaking and investing in housing is designed to promote affordable home ownership opportunities rather than affordable housing in general.⁵ This approach is based on the understanding of a family’s home as: providing a stable place in which to form a healthy environment; what is often the family’s primary asset; and a base upon which it can build additional assets. Furthermore, communities with a high percentage of owner-occupied homes are generally safer, economically stronger, and characterized by a more engaged citizenry. This approach to housing affordability centers it within a larger context of place-based community development.

Charles and Helen Schwab Foundation. Created in 2001 through the merger of the Schwab Family Foundation and Schwab Foundation for Learning and headquartered in San Mateo, Calif., the Charles and Helen Schwab Foundation targets its resources to four program areas: Homelessness, Poverty Prevention, Substance Abuse, and Learning Disabilities. The foundation approaches the issue of housing in the context of its efforts to prevent homelessness in the San Francisco Bay Area.

The majority of the foundation’s housing work is conducted through its Preventing Homelessness Initiative, which seeks to increase the supply of affordable housing—especially for those at 30 percent of the area median income and below. Promoting the development and implementation of Housing Trust Funds (HTFs) is one of the primary strategies in this area. The foundation works to establish local, state, and national HTFs, which foster the production of affordable housing by securing ongoing public revenue streams dedicated to housing. Schwab has made several grants (\$25,000 in 2002, \$75,000 in 2003, and \$75,000 in 2004) to the Center for Community Change’s National Housing Trust Fund Project to stimulate the development of HTFs in the San Francisco Bay Area. The National Housing Trust Fund Project provides technical assistance to organizations and

⁵ Kate Starr, F.B. Heron Foundation.

agencies working to create or implement HTFs, and operates as a clearinghouse of information on funds throughout the country. The project also provides technical assistance to execute an effective campaign to create and implement a successful HTF.

In early 2003, the Center arranged a convening of Bay Area organizations interested in creating HTFs. After the meeting, participants overwhelmingly indicated their desire for ongoing technical assistance and networking, and moved to form a cluster of Bay Area groups to learn from one another. The Fannie Mae Foundation agreed to co-sponsor the cluster and provide funding for meeting costs. After just six months, Alameda and Contra Costa counties were working on developing new HTF campaigns. In San Francisco and Santa Clara counties, where HTFs exist but lack permanent, dedicated public revenue sources, studies and planning efforts are now underway to determine ongoing financing mechanisms. The Fannie Mae and Schwab Foundations have been particularly pleased with the initial results, stating, “We couldn’t adequately support individual grants to more than 20 nonprofits engaged in similar advocacy work, but the cluster gives us a way to provide excellent technical assistance and gives them an opportunity to network to increase their chances of success.”⁶

Grants to develop Housing Trust Funds have also been provided to local groups (\$35,000 for FaithWorks in 2004), state groups (\$45,000 in 2003 and \$35,000 in 2004 for Housing California), and the National Low-Income Housing Coalition’s National Housing Trust Fund Campaign (\$25,000 in 2002, and \$50,000 in 2003 and 2004).

The foundation also makes grants in the area of housing advocacy and policy work; for example, grants in 2003 and 2004 to local area non-profit organizations included \$50,000 to East Bay Housing Organizations and \$35,000 to Peninsula Interfaith Action. The foundation has been supporting efforts to develop an affordable housing bond measure in San Francisco including a study of the effects of the 1996 bond measure (\$15,000 to LISC) and public opinion polling on possible bond options (\$15,000 to San Francisco Organizing Project).

The foundation’s homelessness strategy also includes work on Ending Homelessness through Housing First and Permanent Supportive Housing approach. Housing First is a methodology developed by Beyond Shelter of Los Angeles to shorten stays by homeless families in emergency shelters and to rapidly re-house families in their own apartments. The foundation has established a coalition of local service providers, housing authorities and other funders to develop and pilot a Housing First approach in Bay Area counties. For its work in Permanent Supportive Housing (PSH), affordable housing with on-site support services, the foundation partners with the Corporation for Supportive Housing. Over \$1 million in grants to increase the production of PSH as well as to fund supportive services at existing PSH sites has been awarded.

Recently, the foundation launched a new initiative in collaboration with six other foundations (S. H. Cowell Foundation, Fannie Mae Foundation, Evelyn and Walter Haas, Jr.

⁶ *Ending Bay Area Homelessness - the Philanthropic Role*, Bay Area Foundation Advisory Group to End Homelessness.

Fund, Marin Community Foundation, Peninsula Community Foundation, and The San Francisco Foundation) to promote inclusionary housing in the San Francisco Bay Area. Inspired at an initial convening with the Funder's Network for Smart Growth for Smart Growth and Livable Communities and local housing grantmakers, the project seeks to develop and/or upgrade inclusionary zoning ordinances in 25 key Bay Area jurisdictions. A joint commitment of \$250,000 per year for two years has already been made as a result of this collaboration.

Inclusionary housing is a common sense answer to creating housing that meets the needs of people in the community, allowing people to live where they work and citizens to be engaged in their neighborhoods. It does this by ensuring the construction of much needed low- and moderate-income housing through requiring developers to set aside affordable units in an otherwise market-driven development. Through this initiative, the private sector and local governments together have the opportunity to double the production of affordable housing in the Bay Area over the next three years.

John D. and Catherine T. MacArthur Foundation.⁷ One of the nation's ten largest private philanthropic organizations, the MacArthur Foundation was founded in 1979. In 2003 it had assets of approximately \$4 billion, and made grants and program-related investments (PRIs) totaling approximately \$180 million. The foundation works in the following program areas: Global Security and Sustainability, Human and Community Development, General Program, and MacArthur Fellows Program; and makes grants both within the U.S. and internationally.

In the area of housing, the foundation focuses mainly on rental housing through three strategies: support for successful transformation of public housing in Chicago, including development of new, mixed-income communities; a \$50-million, ten-year initiative to preserve affordable rental housing, known as *Window of Opportunity*; and investments in research exploring the relationship between stable, affordable housing and successful human and community development.

The foundation supports housing and community development activity through grants and PRIs. Since the foundation's PRI program began in 1986, over \$200 million has been invested with roughly 100 organizations in the U.S. and abroad. More than two-thirds of these PRIs have been provided to community development financial institutions (CDFIs), and the majority of these CDFIs finance the construction, renovation, or purchase of housing affordable to low income families.

In 2000, the MacArthur Foundation began a special initiative to help maintain and strengthen housing options for low-income renters throughout the United States. Foundation staff believed that a \$50 million investment could help a group of ten to 15 nonprofit housing owners successfully acquire and preserve 100,000 units of housing in a seven-to-ten year period. One component of the foundation's strategy is to provide long-term loans that enable large regional and national nonprofit, mission-driven owners of

⁷ The following three sections are excerpted from Julia Parzen, *Strategic Investments to Promote Smarter Growth and Build More Livable Communities: A Guide for Funders, Review Draft* (Funders' Network for Smart Growth and Livable Communities, 2004), augmented by selected information from the foundations' websites.

affordable housing to buy affordable buildings, improve them, and preserve them for the long run.

Over time, the foundation expects the activities supported through *Window of Opportunity* to foster greater visibility and support for preservation-oriented efforts. Ultimately, major policy reform will be required to stem ongoing losses from the existing inventory of affordable rental housing, projected to total at least one million units over the decade ahead. In the near term, the foundation's goals include preventing displacement of existing residents from gentrifying or high-cost areas, maintaining or expanding affordable housing availability near employment centers, revitalizing neighborhoods, and conserving the benefits of prior public subsidy and tax investments. These goals illustrate how the preservation and promotion of mixed-income housing within neighborhoods can function as a component of a holistic smart growth agenda.

As of the end of 2003, the foundation had approved more than \$31 million in support to 27 organizations through the *Window of Opportunity* initiative. Principal recipients of this support include national and regional nonprofit owners of more than 1,000 affordable rental units, such as Mercy Housing and the Community Preservation Development Corporation. The foundation also supports specialized lending intermediaries, such as the Housing Partnership Fund, which was created by a network of 80 regional housing partnerships to facilitate its members' preservation transactions. Program-related investment loans to these organizations are made in \$1 million to \$3 million amounts for terms of seven-to-ten years at interest rates of one to three percent. Many of the organizations receiving these loans have housing strategies with explicit smart growth features. The foundation also has made approximately \$1.7 million in grants to nonprofit housing owners for capacity building, and \$3 million in grants for research, policy analysis, and public education.

As anticipated, the foundation's risk capital is helping its borrowers preserve affordable housing. The first set of investments—in two intermediaries and three regional housing developers—helped finance the acquisition of 7,000 rental units within a year-and-a-half, successfully tackling a range of challenging market conditions and housing needs.

Santa Barbara Foundation. The Santa Barbara Foundation, the largest private grant-maker in Santa Barbara County, has assets of \$209 million, with 40 percent unrestricted funds. The foundation is interested in such local issues as the high cost of housing, long commutes and traffic congestion for workers who cannot afford housing, loss of nonprofit organization staff who cannot afford housing, polarization of the environmental and development communities, and open space preservation.⁸

Housing costs in Santa Barbara are prohibitive (as of April 2004, the median cost was \$925,000) and there is a shortage of housing affordable to families at nearly every income level. The Housing Authority of the City of Santa Barbara located a piece of land for sale that would be appropriate for development of 90 price restricted ownership units for

⁸ Victoria Eisen, *California Livable Communities Network: A Scan of Eight California Community Foundations* (Funders' Network for Smart Growth and Livable Communities, August 2003).

workforce income levels of 120 to 200 percent of area median income (AMI). At the same time, the Santa Barbara Foundation was exploring how it could help create housing opportunities for career staff of nonprofit organizations in the community. The foundation saw density in infill locations as a potential solution to the problems facing the region.

With the city of Santa Barbara “tapped out” with respect to its set aside of funds for affordable housing development, in 2003, the Housing Authority proposed that the foundation make a \$3.5 million loan for the purchase of the land with the potential for the foundation to provide input on the preference groups that might be targeted as potential residents.

The Santa Barbara Foundation’s board agreed to make a \$3.5 million, four year, four percent loan to the Housing Authority. It would be an interest-only loan with a balloon payment of principal. The loan would be secured by the property, which had an appraised value of \$4.2 million, and would be reviewed as part of the foundation’s bond portfolio. When this loan is repaid, the foundation board may possibly consider rolling the investment into a loan fund. While the foundation board considers this loan an investment rather than a PRI because it is expected to exceed returns on current investments with little additional risk, the board agreed that, in the future, the foundation might also develop measures of social performance that would complement financial measures of success for similar investments.

This project illustrates a medium-term investment that is relatively low-risk for the foundation, but that forwards the goals of housing affordability for the local workforce and nonprofit career staff, while contributing to the building of mixed use, higher-density, pedestrian friendly neighborhoods.

California Community Foundation. The California Community Foundation had \$536 million in assets at the end of 2002, with 40 percent unrestricted funds. The foundation primarily makes grants in the program area of Nurturing Neighborhoods/Building Community. Several years ago, the California Community Foundation decided to create a \$12 million emerging markets fund, mostly to undertake commercial real estate development. As the foundation began to study potential neighborhoods, it realized that if it were successful in commercial development, it would push renters out. The foundation concluded that it should try to build the base of homeowners before investing in commercial development.

The foundation devised and adopted a new land trust model, one that would preserve housing affordability while allowing for some wealth creation. It chose to create a Community Foundation Land Trust as a demonstration project, which would buy the land and provide a ground lease at three percent per year to homebuyers. Because the homebuyers would not have to finance the land, they could take out a smaller ten-year or 15-year mortgage, rather than a 30-year mortgage and still afford the payments. As a result, the homeowner would build up substantial equity through debt reduction.

Because the foundation had strong neighborhood relationships and a positive reputation for its grantmaking in housing and community building, it felt that it could buy land in neighborhoods without the resistance a bank or developer might encounter. The foundation

would work closely with local activists to identify nuisance properties it could clean up. Community Development Corporations (CDCs) would select the homebuilders, subject to foundation approval, and conduct a Land Trust homebuyer's counseling course created by the foundation.

The foundation's board of governors has approved \$3.8 million to launch the program with a pilot project, and the first 30-unit neighborhood project is now underway on three parcels of land. Concerned Citizens of South Central Los Angeles is the local partner. The foundation has the agreement of the Los Angeles Community Redevelopment Agency to provide subsidies to the homebuyers. The hope is that these 30 homes can begin to stabilize a very low-income, transient neighborhood by supplying affordable home ownership and long-term stakeholders. The foundation is looking for additional CDCs that have land to develop, a development track record, and strong local relationships and support.

Recognizing that housing alone cannot revitalize neighborhoods, the foundation will continue its grantmaking in these neighborhoods and may also convene people around development, schools, health care, and related issues. The foundation's approach to affordable housing illustrates a long-term investment in a land trust that aims to: leverage public resources; create permanent affordable housing so that median income families can live close to transit, jobs, and shopping; allow for family wealth creation; and help stabilize and revitalize inner-city neighborhoods.

Resources. Additional information is available by contacting the following:

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