

FIELD REPORT

SAFE AT HOME:
The Housing Partnership Network helped acquire a complex in Fairfield, Calif.

Under One Roof

By bringing people together and by pooling resources, the Housing Partnership Network expands the range of affordable places to live.

BY PHOUNG LY

Year after year, officials at Mercy Housing Lakefront watched as apartment complexes in suburban Chicago that were home to working-class families went up for sale. They would try to buy each building so that they could preserve that segment of the area's affordable housing stock. Again and again, they lost bids to private investors that had more money and could close deals faster. Too often, successful buyers would turn these properties into luxury condominiums. In other cases, apartment buildings would go into decline as landlords stopped investing in repairs.

In early 2013, leaders at Mercy Housing Lakefront were able to break that cycle—thanks to support from the Housing Partnership Network (HPN), a nationwide collaborative that brings together about 100 affordable housing organizations. HPN created a real estate investment trust (REIT) using money raised from several member groups, along with other financial partners. Through the REIT, Mercy Housing (the parent organization of Mercy Housing Lakefront) was able to acquire a property called 2000 Illinois, an apartment complex in Aurora, Ill.

“Before, we were just chasing pipe dreams,” says Cindy Holler, president of Mercy Housing Lakefront. “With the REIT, we were in a good position to negotiate. We got a good price that allowed us to make some improvements without maximizing rents to get there.”

Most community development takes place at a local level.

But some challenges require the use of collective power at a national level. That's why, in 1990, a number of housing nonprofits convened in Boston to form HPN. In part, the network functions like a trade association. It gathers developers of affordable housing, lenders, investors, and member organizations to exchange information, share best practices, and find solutions. Over the years, HPN has evolved into a sophisticated business collaborative that manages ambitious ventures such as the REIT.

HPN, with about \$25 million in assets, is now an important player in the affordable housing field. In 2013, the network received the MacArthur Award for Creative and Effective Institutions. Along with the award came a \$1.5 million grant to research and develop new ventures—the largest grant bestowed on any of the 13 organizations that shared the award. In honoring HPN, the John D. and Catherine T. MacArthur Foundation praised the network for “marshaling the expertise and resources needed to launch innovative, scalable solutions.”

By combining collaborative working arrangements with rigorous business practices,

HPN has developed a model that helps its members advance their mission. And by leveraging its size and its ability to share resources, HPN helps members to overcome large obstacles—and, where necessary, to take on large, well-financed private investors. Some issues are “so big and require so much innovation that they can't do it by themselves,” says Tom Bledsoe, president and CEO of HPN. “By joining forces, you come up with a better solution.”

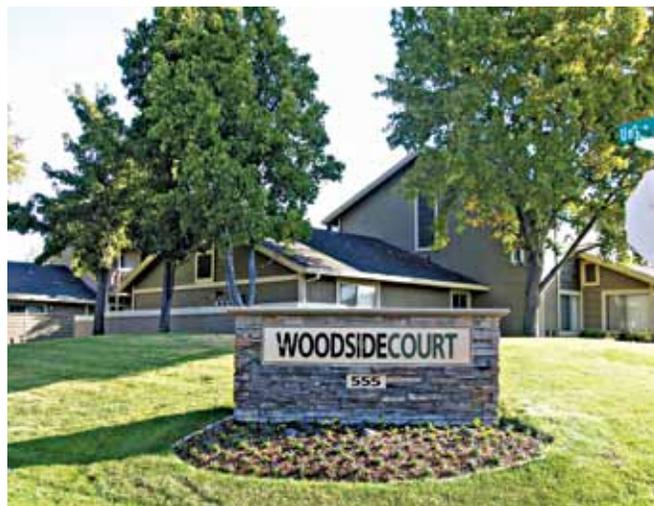
THE BUSINESS OF AFFORDABILITY

The problem of affordable housing is ultimately very simple: In many communities, the dynamics of supply and demand make it almost impossible for people with low or modest incomes to rent or buy a home. For HPN and its members, the goal is to make the numbers work. And in many cases, making the numbers work means going into business—a practice that runs counter to the mindset that prevails at many traditional housing nonprofits.

HPN and its member organizations have scored notable successes in the marketplace. After the 9/11 terrorist attacks, insurance premiums skyrocketed for many affordable housing properties. Member groups reported rate increases of 40 percent to 50 percent. But HPN discovered that the losses for this kind of real estate were half as large as the industry norm. Instead of buying products from insurers that didn't treat them competitively,

HPN members created their own insurance company. Last year, according to HPN, that company made a profit of \$3 million.

In recent years, HPN has responded in an equally business-like way to other critical housing issues. After Hurricane Katrina devastated the Gulf Coast, HPN members launched a well-financed community development corporation to help rebuild affected areas in the region. “If you don't bring cash into the building, you can't be a going concern,” says Kathy LaBorde,



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↓ **BOUGHT TO LAST:** *The 2000 Illinois complex in Aurora, Ill., offers residents a stable living environment.*

president of the Gulf Coast Housing Partnership, an HPN initiative based in New Orleans. Later, in the wake of the recent recession, HPN created a fund to purchase bundles of delinquent mortgage notes directly from the companies that serviced them. The network then worked with homeowners to modify their loans or to help them relocate.

The REIT emerged when leaders at Mercy Housing and other HPN member groups realized that they needed to band together to compete against private investors. To fund the REIT, the network raised \$100 million from institutional investors, foundations, and HPN member groups. Now, instead of spending up to two years to raise financing, a REIT-supported organization can close on a deal in three months. The 2000 Illinois complex was the first property acquired by the REIT. Later in 2013, HPN added two more properties to its REIT portfolio—one in Fairfield, Calif., and another in Norfolk, Va.

The REIT that HPN operates has the same level of efficiency and the same access to capital as any other investment trust. But it's also able to leverage certain benefits that derive from its nonprofit status. With the Chicago-area apartment complex, for instance, the REIT took advantage of a local property-tax exemption that is available only to nonprofits. Ommeed Sathe, vice president of social investments at Prudential Financial Inc., says that his company will pour \$17 million into the REIT. Doing so, he explains, is a sound, long-term business proposition: "Because there's such an unmet need for affordable housing, there's very little risk that rents in this property type will collapse. You have an asset that has a very stable profile."

HPN has shown the benefits that come when a housing-focused nonprofit adopts an entrepreneurial approach. In addition to lobbying for policy changes on housing issues, the network has made its own opportunities. "They've harnessed all this incredibly effective leadership," says Eric Belsky, managing director of the Center for Joint Housing Studies at Harvard University. "They find out where the gaps are and see how they can be a conduit. They've raised the bar."

BUILDING RELATIONSHIPS

Even as it develops new business-oriented practices, HPN continues to conduct its operations in the spirit of nonprofit community organizing. To generate ideas, network members sit together in loosely structured gatherings and talk. HPN staff members and outside consultants provide research for these sessions, but they don't lead the conversation. The organization even bans the use of PowerPoint presentations. "You impart knowledge that way, but you don't really get a group to work together that way," Bledsoe says.

Once HPN leaders decide to tackle a particular challenge, 10 to 12 people from member organizations come together to work on the issue. In a complex housing project that involves multiple decisions, the risk that a collaborative effort will collapse is high. When HPN partners worked on launching the REIT, for example, they had to decide which complex to buy, how to structure the financing, and how they would invest in repairs. But Holler, of Mercy Housing Lakefront, notes that relationships cultivated by HPN members have built a strong foundation of mutual respect. "You don't fund a REIT just by putting people together with money," she says. "There has to be trust there. Don't do this unless you're working with people you know well."



HPN is highly selective in admitting new members to the organization. There are hundreds of housing nonprofits in the United States, but the network limits its membership to those with a track record of putting together successful housing projects that require partnerships between public and private entities. Many projects also involve working with partners that are not HPN members, such as financial investors or other nonprofits. In one case, says Bledsoe, the network refused to include an organization in a project even though an HPN founder had nominated that would-be partner. He says partners need to show commitment, work well with others, and add something of value to a project.

HPN leaders are equally rigorous when it comes to making business decisions, and they're quick to cut their losses when an enterprise fails. A venture to provide tax-exempt bond financing for multi-family properties, for example, foundered because large housing organizations could get better deals from private companies. Even though smaller organizations were interested in the project, HPN decided that it wasn't worth the cost and shut it down, losing \$2 million in the process. Network leaders say that they can't afford to have a sentimental attachment to a project. "We're dealing with the markets, and we have a lot of external factors that can influence whether something can work or not," Bledsoe says.

The REIT is a fledgling venture; it may or may not end up making a profit. For the time being, though, its purchase of the 2000 Illinois complex in Aurora means that residents there won't face a huge rent increase. Pamela Thompson, a warehouse clerk, and her nephew live in a \$900-per-month, two-bedroom unit at the complex. They moved there after a developer bought the Chicago apartment building where they previously lived, renovated it, and then increased rents. If the REIT succeeds in keeping the Aurora property affordable, she might never move again. "Moving is expensive," Thompson says. "I'm trying to save money. I just want to live in a nice, safe place." ■