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U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

HOUSING POLICY IN THE NEW MILLENNIUM

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ROUNDTABLE 2A:
THE NEW AFFORDABLE HOUSING PRODUCTION INITIATIVES

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P R O C E E D I N G S

Tuesday, October 3, 2000

Beginning Time: 1:55 p.m.

MR. DONOVAN: Why don't we go ahead and get started? I know that we'll have a couple of more people joining us as we get going. And we've got an absolutely terrific group for you here today, not only because of the quality of the folks that we have on the panel, but also the timing of where we are in this process.

The Secretary, I think, put it better than I could ever put it last night about the auspicious moment that we stand at today in terms of the national outlook, in terms of what's happened at HUD during the past few years, in terms of improvement in the programs and a new respectability that we have in term of representing the case for housing policy, the belief that we can actually do what we say we can do, but also a moment in time where resources are available in a way that nobody could have imagined half a decade -- a decade ago.

And so I think we stand at a very important moment, on the large scale. We also stand at an important moment to be having this discussion today because, in fact, as we speak, in fact, as

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Susan mentioned, we have a discussion going on on Capitol Hill about the place of housing production in a national housing policy. And so to be engaging in this today with the folks that you see around the table and out in the audience here is a tremendous opportunity, I believe. And as I said, we have a terrific, terrific group.

Let me take you through just the overview of where the panel is and why we've set it up the way that we have. And then I will move directly to the folks sitting here and across the table from myself in terms of the meat of the presentation. And then I'll come at the end and talk a little bit about HUD's view and the administration's view of where we are today.

First of all, we're very honored to have one of the giants in housing policy in the country today, Michael Stegman, with us. He brings a wealth of experience on both sides of the table. And although I was unlucky enough to miss him by a very short period at HUD, his imprint on HUD is still very much there, and he is a force in absentia to be reckoned with at HUD, a real giant, I think, among our people making housing policy in the country.

He is, of course, professor at the

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University of North Carolina and also relatively recently founded something called the Center for Community Capitalism as part of the business school there -- I think one of the more interesting university partnerships that's happening nationally today -- and is really not only a real leader in thinking about housing policy, but its relation, as Tony Downs was saying, to all of the different aspects that are important in thinking comprehensively about housing policy -- wealth accumulation, the income side of the equation, all the different pieces of the housing policy that are important.

And he's going to give you -- going to set the table, if you will -- to lay the context for where this discussion is today.

I'm then going to turn it over, after Michael, to Peter Engel, who is the deputy director of the Community Development Administration for the Maryland Department of Housing and Community Development. There has been, in recent years -- I think everybody will recognize -- an explosion of capable actors in housing policy around the nation -- state and local actors that have become critically important, as well as nonprofit

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intermediaries, local nonprofit groups -- an incredible range of housing actors that, going back a quarter of a century, weren't nearly as strong as they are today. And Peter represents, I think, a very important perspective of what's happening at the state level, not only, obviously, in terms of the tax credit program, but also tax-exempt bonds and all the range of tools that states can bring to the table in terms of the debate about housing production. And so we'll turn to him second.

Third, going back to the point I just made about a new range of organizations involved in housing, the nonprofit and for-profit intermediaries both, whether it be tax -- housing tax credits, but all kinds of private capital that's being brought to bear on the affordable housing market, Helen Kanovsky is the executive vice president for administration and finance of the AFL-CIO Housing Investment Trust, one of the more interesting national groups that has done some very, very innovative things in bringing private capital, pension capital, other forms of resources to the table in affordable housing finance.

And she's going to talk about both her own organizations and, more broadly, the role of these

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new groups, in terms of production of affordable housing today.

You also have going on at the same time as the changing actors who are intermediaries in government actors -- you also have at the same time, in some ways, a landmark shift in the ownership entities at the ground level for housing, whether it be the explosion of the real estate investment trust, that phenomenon, the explosion of community-based CDCs, also generational shifts that are happening, in terms of the original HUD programs, folks who are now -- whether it be because of the changes in Section 8 rules, expiring use, a whole range of issues -- that are really moving out of the business. And there's been a tremendous turnover and a growing turnover in the ownership structures just within the housing portfolio that I oversee in the multi-family area. And so all of these trends that are happening in the ownership community are important ones to talk about.

And we're very lucky to have Steve Lefkovits here with us today, who's the vice president of housing and finance at the National Multi Housing Counsel, who can really talk about the landscape that he sees from his national

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perspective. He also brings, I think, a very important interest in the developing role of technology in the affordable housing industry and that's something that he's been focused on very closely as a personal passion of his, and he's a very important voice that we need to hear from.

Finally, we have -- just directly across the table from me -- Jonathan Miller, who is the senior Democratic staff for the Senate Banking Committee that deals with all of the legislation in housing on the Senate side, a very important voice for all of you. I'm sure you -- he's very familiar to folks around the room, not only generally on these issues, but also through the leadership of

Senator Kerry, has really -- is one of the prime motivating forces this debate to the forefront this year.

I don't think anybody, even as recently as a month ago, would have laid good odds on being as close to we stand today to getting a new housing production program passed by Congress potentially even in the next couple of days. I think that the outlook today is extremely good, and I'm much more optimistic than I would have been just even a short time ago. And that effort has been jointly led by

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Senator Kerry with Jonathan Miller's support and urging all the way along. So we're glad to have him here today, as well. It'll give you a perspective on the Hill.

Let's go ahead and get rolling, and I'll turn it over first to Michael.

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PRESENTATION BY MICHAEL A. STEGMAN

MR. STEGMAN: Thank you, Shaun, very much, and thank you for those kind remarks. I did not prepare a paper for the conference.

What I was asked to do, based on work that we've been doing over the last year or so -- which led to the publication of a new report called "Housing America's Working Families," which doesn't deal that much with the supply side and the production side -- was to really bring to this group as much as information as I have had on the market side, on the supply side, on the demand side that speaks to the issue of production. And that's what I'd like to do.

We use the same definition that HUD uses for worse-case housing needs, but we were focusing on working families. And it's quite striking that something fundamental is going on in the market so that in the unprecedented economic prosperity, we find using HUD's own definitions that not five million families, but 14 million families have worst-case housing needs in this country.

One out of seven families are either paying more than half their income for housing or live in seriously substandard housing, and that

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includes three million working families with incomes from minimum-wage level up to 120 percent of median -- three million families.

Now, the New York Times just reported yesterday -- and the study came out today -- on a new study that said since '93 when the job growth in New York City began rebounding after the '91-'92 recession, the number of jobs paying less than $25,000 a year has climbed nearly four times as fast as those paying $25,000 to $75,000 a year.

Now, that confirms what we found using panel study-of-income-dynamics data. We found working families with blue-collar jobs who spend more than half their incomes for housing increased by about 43 percent from '93 to '96, which is the latest PSID data. And the growth among service workers -- families with service workers was 25 percent.

Municipal workers -- we talk about the teachers and the police officers -- more than 220,000 households containing teachers or police -- public safety officers across the country spend more than half their income for housing. That percentage has increased more -- it has doubled from '93 to '96, from about 6 percent to almost 15 percent.

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And when we talk about the need for supply and targeted production -- when I was at HUD, there was a piece of work -- I don't even know if it's been published -- that PD&R was doing that demonstrated that if you track the same housing units over time, the affordable housing units that are basically the voucher housing units -- particularly in good, strong neighborhoods -- are increasingly unstable source of housing assistance, even potentially with increasing the FMRs, as landlords adopt rationing strategies and so on as the market demand tightens.

They found that only one third of the original affordable units remained both in the stock in the lowest rent category over that successive two four-year tracking periods. Affordable housing losses they found largely through high-rent increases were greatest in tight markets and in the most economically and socially stable neighborhoods, the kinds of neighborhoods that are being discussed on the voucher panel today about really how to help people move to opportunity. That stock isn't there.

If you look at the supply side -- the last 20 years of the rental market -- for '78 to '88, about, the rental- and owner-market sectors grew

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about the same, 26 to 30 percent -- both grew in tandem. From '89 to basically '99, all of the growth -- the net growth in the occupied-housing stock has been on the owner-occupied side. In fact, we've seen a slight reduction in the size of the rental market. And at the same time, the rental sector, the people that live in rental housing, have gotten poorer.

In 1978, 22 percent of all renters had incomes below 30 percent of median. It's now 26 percent. You're not going to see a lot of stimulation of production at the level that's needed, given these conditions and figures.

I believe that housing condition is important when we talk about supply. And now we're talking about locally, not globally. The production is going to be targeted. You can look at the percent of the national stock that is substandard and say we don't have a condition problem.

We have about a million rental families living in severely substandard housing that is not fit for human habitation. It's a million units -- three percent of the occupied rental stock. About 239,000 more renters lived in substandard housing in '97 than two years earlier.

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And if we look at this from the standpoint of the working families that we were looking at, 77,000 moderate-income working families in the West -- severely substandard; 94,000 in the Midwest; 151,000 in the Northeast, including 106,000 in New York consolidated metropolitan area. Severely substandard, people working with incomes up to 120 percent of median, very little new production, very high market absorption for that little new construction that exists. The absorption rates by the market for the lowest level housing, which is very small in numbers, is very high -- very high demand.

Crowding is not necessarily an argument for supply, but I think when it reaches a critical mass, there is a connection between the growing extent of crowding in our housing and the need for production. Thirty-one percent of all Hispanic-renter working families in the West are crowded; twenty percent in the South.

Last thing to set the table is the persistent decline in the size of the HUD permanent project-based stock. At the end of fiscal '98, there were fewer than three million hard units remaining under subsidy. That represents a loss of

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more than 237,000 permanently-affordable units over 1995 levels when the public- and project-based subsidized inventory was at its historical peak.

While the hard-unit count has fallen by about more than 7 percent since 1995, the greatest loss was between '97 and '98 when it declined by almost 5 percent. And I assume that that hemorrhaging, even if it slowed, continues.

Let me just -- I try to update these numbers -- lastly -- and I -- I'm looking at prepayments of 236 -- local units. Think about tight markets. Don't think globally of tens of thousands and millions. San Diego lost 240 units of 236 housing low-rent units in July of this year -- 236; Los Angeles lost 385 units -- not -- (inaudible) -- it's prepayments of the low-income units; San Jose, an extraordinarily tight market, 700 units; Boston lost 456 units in late '99; suburban Amherst lost a project which is going to have an impact; Austin, Texas, a very hot market, 172 units in May, 2000, disappeared; right here, in Woodbridge, Virginia, 150 units.

You can look in market after market that are very tight that are losing that supply and that really need the targeted production.

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And let me end there.

MR. DONOVAN: Thank you, Michael. We'll now turn it over to Peter Engel, who will talk about what his view is from the state level in Maryland.

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PRESENTATION BY PETER ENGEL

MR. ENGEL: I guess if that's the problem, the question is what are we, at the state, doing about it? And at that level of problem, clearly not enough. And I think there's, at current funding levels, no way we can do enough.

I was going to start off by talking about the need somewhat in Maryland, but I don't think we really need to do that. You heard about it at lunch. You heard about it here. It's clear, from our point of view, that the private sector, even during good times, isn't providing all the housing necessary for lower incomes. And perhaps in good times it's worse than in bad times. There are certainly some additional problems.

So aside from -- you know, I don't think I need to run through the various numbers again -- and there are particular numbers in Maryland -- but suffice it to say that there really is still a strong need in Maryland, and in most other states we've talked to, for affordable housing.

I'll leave that and really talk about the trends that we're seeing. And let me make one quick correction -- or explanation. I passed -- I have some graphs out on what we are seeing in our

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affordable -- or the low-income housing tax-credit program, and also in our -- what we call rental-housing funds, which is really some home money which we give out to multi-family projects. And then we're also blessed in Maryland with a generous legislature, and we have soft money that the state gives us which we loan out annually.

What I want to clarify is it looks like the demand drops off significantly from '95 and '96 on there. The demand really has stayed consistent. We went to this rating system in '95, and the demand looked so high in those two years because we were essentially taking everything that was in our pipeline, which was a lot, and dumping it into the system. So those two years show beyond what they actually were.

We really are seeing demand at, I'd say, about $3 to $4 of requests for every dollar we have to give out, typically. And that has stayed fairly constant over the last few years. And again, from conversations around the country, many states are in that position. There are a few in a particular few areas where it's worse; some that are somewhat better off.

On trends, the mundane trends really are

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costs continue to go up, so the money we have doesn't go as far as it used to. I recently heard a guy from New Hampshire saying their costs are now -- seem to be around at $150,000 a unit, which seems excessive to me, but, you know, I think is not atypical in some areas.

Other things, we're actually seeing market saturation in places, in certain types of projects in certain locations. So Prince George's County, around Washington, the northern area in particular, seems to have enough affordable senior housing. But overall, there are still more areas in need than that, but that's something we're looking for at the state level.

Other trends really are -- services are on the rise in everything that people are trying to do in housing. We're going through sort of a housing-plus model. States are looking for other ways to provide funding. There are increasing number of states with their own low-income housing tax-credit programs. I think there are 13 or 14 now. Maryland is considering one.

They tend to fairly inefficient uses of resources. I think the average credit amount at the state level -- you know, this is very anecdotal --

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is in the 50-cents-on-the-dollar range. I heard recently that Missouri is down around 30 cents on the dollar. I know California is significantly higher.

So it's not particularly efficient, but they are politically popular solutions to housing problems. So those tend to -- it's the one initiative, really, that you can see nationwide is a statewide attempt to address housing problems.

One thing that hasn't changed got discussed, which is really that there is no political will overall to change exclusionary zoning problems. And so, as far as I can tell, in Maryland and around the country, again, we'll continue to have the difficulties of getting affordable housing anywhere outside of currently relatively poor areas.

The one exception to that is senior housing, which is usually allowed to be funded pretty much anywhere, although we've seen a couple of local jurisdictions in Maryland recently who have said no to affordable senior housing projects, as well. I think there's sort of the if-we-build-it-they-will-come fear, and it really is pronounced in places.

Interestingly enough, Montgomery County,

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which has an MPDU program which is always cited nationally and is written up in very little -- very -- it hasn't been duplicated pretty much anywhere in that form -- if you talk to them today, they'll tell you that they don't think it would pass today. That was passed in the '70s, and I think that even in Montgomery County, a very liberal, well-to-do county, there is not the political will to keep doing programs like that. So that's one of our continuing struggles.

On the bigger-picture level, some of the things we're seeing are the continued devolution of authority and resources from HUD to the states, so the states really have become the production entity for housing. I looked up "devolution" when I was on panel about that once, and it actually means "to evolve backwards," essentially --

(Laughter.)

MR. ENGEL: -- so I'm not sure it's a good trend, but it is what's happening.

The states, through the home program, have taken over production through the tax-credit program, taken over production and -- even at the public housing side. The HOPE-6 program, although, in theory, is a production program, the caps that

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have been put on HOPE-6 have meant that other resources are required, so states are using tax-exempt bond cap to produce public housing. States are using nine-percent tax credits to produce public housing.

In Maryland, again, because of the generosity of the legislature, we're actually using state dollars funded with general obligation bonds of the state to help produce the public housing in Baltimore.

We're not expanding the pie by doing that. We're shrinking the pie, if anything -- or we're reusing the same pie, at best, for a larger group. And I think the federal retreat from some of these programs has limited or changed the range of who we're trying to serve and, therefore, limited the dollars per person significantly. We're trying to use the same dollars over more people.

Part of that trend is -- as seen in HOPE-6 and other programs, something we do, as well -- everybody wants to leverage somebody else's money. And since nobody has money in it but governments, we're all leveraging each other's money and counting it. So the HOPE-6 program counts the money the state puts in. When we put money in, and we use tax

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credits, sometimes we count that as leveraged funds, even though it's essentially a federal resource. We'll count whatever we can, because, again, the political thing to do -- it what's you all need to do at this point -- to say, "Your money is going farther by getting somebody else's money."

It's somewhat of a shell game. Again, we're not really expanding the pie with that, but it will pop up, and you'll see it. And if you're ever applying for somebody's competitive program, you're bound to see it.

The last -- oh, I'm sorry, one more on this front. The other thing you're seeing in a lot of different programs, whether it be home ownership or rental, is targeting. We tend to -- anything new, we tend to try to push towards a specific group, I think, largely because the poor, overall, are not seen as a group, that -- there's a lot of support to help. There's very little advocacy for poverty groups and -- or by poverty groups in general. It's just not -- doesn't have the same cache it once did.

So, instead, we're allowed to support

specific groups and get political will to do that. So we have a lot of elderly housing. In Maryland,

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we have a teacher's initiative, which is necessary and helpful -- it's important for Maryland right now, but we're doing better on the home-ownership front.

I think HUD has several programs with policeman-next-door, the teacher-next-door, or the sanitation-worker-next-door, whatever it might be.

MR. DONOVAN: We haven't quite gotten to that one.

(Laughter.)

MR. ENGEL: Well -- soon, a coming attraction. So there are a number of these targeted programs at various more favored or acceptable groups, really.

Then the last piece that I wanted to talk about very quickly was programs at the state level. You know, we're relatively on the ground. We deal with the developers. We deal with the tenants. We deal with the buyers on the single-family side. We're on the street. And what we're seeing is the -- three different -- really, three different focuses for housing programs, particularly multi-family.

There's the traditional approach of just providing housing. People need housing. They're in

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bad housing now. They're paying too much. They just need housing, and you're helping individuals. And you're helping them by providing the housing. And the overall idea is if you give them housing, they will have a chance to better themselves. And hopefully then you'll solve other social problems -- or maybe not, but you're solving this one -- or at least some. And I think for years that was really the mission that states saw themselves as fulfilling.

And after a while, you had to do more. That was not enough. Housing programs aren't allowed to just help individuals, really. There's a tendency now, with the service side, to say, "We need to use the housing plus the services to get people out of poverty. We need to -- you can't just put them there. That's the finger in the dyke. It's sort of -- you know, it's a welfare solution. You're creating dependency, et cetera. Instead, you've got to do something actively to help people."

So we now have -- in tax-credit programs and other competitive programs -- job training, financial planning, after-school care for kids, all sorts of services which I think are good things. They tend to increase the costs of the project, and

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somebody's got to fund all that, but they are good things. And to the extent you link up with nonprofit groups, or whoever else, to provide that, you really are creating benefits there.

But I think the philosophy behind that essentially is to say, "Well, housing has to actually help people out of poverty. You need to do more than housing than just house them." And I find that good and, at the same time, dangerous, because I don't always want to be measured on that level.

As states move to budget -- success-based budgeting --- in Maryland, it's called "managing for results" -- where you have to prove something, some actual results with what you're doing -- the federal government does the same thing -- you don't necessarily want to be measured by the percent of people you get out of poverty. You have very little control over that. But that is a trend.

The third one, and the highest step up this ladder, is that housing now is also being asked to improve communities as a whole, so it matters less, perhaps, that you're helping individual people and more, perhaps, that you're helping an entire neighborhood.

I couldn't help notice the banner behind

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all the speakers at the lunch session, "Office of Housing -- we build better neighborhoods." You know, that never struck me originally as the mission, but it's what you have to say about housing now. You can't just build the housing. You can't even just help people out of poverty. You're housing also should be improving a community.

In wealthier communities, it's very hard to argue that putting in a 300-unit affordable-housing project is going to be improving that community. So that has its dangers. And I think that line of reasoning -- although again, something you'd like to do with housing and is important to try to do -- has an element of NIMBYism that can be associated with it, and it can verge on that, and it can be used as saying, "Our neighborhood doesn't need more poor people."

And there are neighborhoods where that may be the case. One of the things that we're focusing on in Maryland right now is what we're calling "transition communities," or "at-risk communities" -- areas that are not doing that well. And you want to try to stabilize those neighborhoods. And that may mean not doing more affordable housing but looking for mixed incomes in particular and trying

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to encourage fix-ups, or whatever it takes in those areas.

I'm sure I'm out of time, so -- those are -- that's what we're seeing -- some of the things we're seeing at the state level.

MR. DONOVAN: Helen Kanovsky is next to talk about what the AFL-CIO Trust is doing and where she sees that fitting in with the larger picture, nationally. Helen?

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PRESENTATION BY HELEN KANOVSKY

MS. KANOVSKY: When Shaun first asked me to speak on the panel, he said, "Maybe you could also mention something about the capital markets." And I thought, "How interesting to ask somebody from the labor movement to speak about the capital markets."

(Laughter.)

MS. KANOVSKY: But, in fact, that's part of what we do. That's a significant part of what we do. The pension industry in the United States today has over $6 trillion in assets. That's twice the value of all the commercial banks in the United States. That's a resource that, if you're going to talk about housing production, you can't ignore. That's a resource that can be brought to bear in terms of financing housing and in terms of building neighborhoods. And to do that, we need some additional programs. We need some additional approaches.

We have some that have worked in the past, and I'll talk about those in a minute, but the resources of the labor movement as a political movement, and the resources of the labor movement, and the pension fund part of the labor movement,

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which, of the $6 trillion, is only $400 billion -- but that still is enough money to make a dent in the affordable housing issues that are facing us now.

Now, the Housing Investment Trust has been around more than 30 years. We currently have $2.2 billion in mortgages that we buy. Our financings are done through Fannie Mae, FHA, Ginnie Mae. We put our money in at construction, and we require that all of our construction be done with a hundred percent union labor.

Last year, we financed over $500 million worth of housing, and we expect to do a similar amount this year. About $400 million of that will be multi-family, and about $100 million of it will be single-family.

We have a companion fund, the Building Investment Trust, that has over a billion dollars in assets, and the Building Investment Trust can do debt, it can do equity, and it does all kinds of commercial real estate, including multi-family housing and other community-development type of projects that it also invests in.

So in relative terms, in the pension industry, generally, we are a small player. But still, that's a lot of money. And we have many

other pension funds similarly situated who are looking to become involved in communities, in housing, and in issues that directly relate to their members.

In addition to that, you've got $3.2 trillion in corporate pension funds. Those are the employers around the country that are looking for employees who live near where they want them to work. And the issues around employer-assisted housing, as well as labor-assisted and pension-assisted housing, are all things that are at the beginning of any discussion about how we begin a significant new production program in the United States.

We've got the low-income tax credit and tax-exempt bonds, neither of which are useful investments for pension funds, which are tax exempt entities. So finding a way to tap into this source of possible finance for housing is a very important part of an agenda if the agenda is focused on housing production.

Now, we had a program -- all of us had a program -- the Congress passed it, Jonathan remembers it, HUD administered it -- called the Community Investment Demonstration Program, and it

was passed in 1994. It had a five-year term. It was funded in fiscal year '94. It was funded in fiscal year '95, and then more than half the money was rescinded in July of 1995. For the balance of the five years, there was no funding for the program.

But the purpose of the program was to demonstrate whether or not pension money could be brought into housing finance. And there were some very stringent criteria that were used, in terms of how the pension funds could even participate.

Fifty percent of all of the money had to go to properties coming out of the HUD inventory -- these are properties already owned by HUD that needed to be financed -- and that each of the properties that we did had substantial rehabilitation; or, out of the 50 percent that was not HUD inventory, that they were new construction.

And we managed, in the end, to have $115 million of HUD's basically project-based Section-8 money which was allocated to the housing investment trust. We put that into 19 projects. We housed 2,000 -- created 2,000 housing units. We housed over 6100 people. We leveraged more than two to one on the Section-8 money, in terms of the total

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development cost of the project.

If this project had been permitted to proceed in 1995, as it was originally funded, and if it had been funded in '96 and '97 and '98, those numbers would have been significantly higher. There were a lot of other pension funds that were watching we were doing. And once the groundwork was laid, they were going to be willing to come in and participate in this program.

There is a model out there that works. And finding a way to either replicate that model or something similar, finding other ways to bring pension money into the housing-production sector, is a key part of the production program that we would like to see moved forward.

Now, we've got -- in addition to the -- in addition to the pension money, there are a number of foundations now that are interested in participating in a variety of new and innovative approaches to housing production. That's a whole other source of available money.

One of the concepts that we've been looking at is combining foundation money -- HUD money, pension money -- and creating a manner in which housing can be financed in a one-stop shop of

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finance.

We learned a lot of things from the Community Investment Demonstration Program. And one of the things we learned was how very long it takes to put together all of the pieces necessary to do housing production. When you have states on one schedule, you've got low-income tax credit in some states that are awarded only once a year, you've got -- you've got other sources of funding that come in also only once a year. And each one requires that the other already be in place. So that funding mechanisms, not in the affordable housing field, but in a commercial real estate field, that could be funded in 18 months, takes four years because of funding cycles.

We need to think about that. We need to think about getting the funding cycles in alignment. And we need to think about all of the variety of resources that can come to play.

Now, the labor movement has been involved in housing since the very, very early era of housing legislation. In the 1948 Act, the housing -- the labor movement was one of the key proponents and major movers with respect to the passage of that legislation. And we think the time is now about to

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come together again for the labor movement, for the pension labor community, for the housing advocates, and for other financial players to come -- to step up and work in the affordable housing field.

And we think it can be done by structuring housing finance in a way that makes market sense and by taking various already-interested players and finding a way in which they can participate in housing production program.

MR. DONOVAN: Thank you very much, Helen. I want to call on Steve Lefkovits next to give us his perspective from the Multi Housing Council.

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PRESENTATION BY STEPHEN E. LEFKOVITS

MR. LEFKOVITS: Thanks very much, and thanks for the invitation to be here. I just have to say right up front, I agree -- we agree with Helen so much. I'm glad I'm not going to sound like kook when I say pretty much the same thing. So thanks for saying it first.

I always think it's really -- it's fun for me to speak to groups of policymakers in housing, because I deal with private-sector guys all the time, and they think it's cute that I like to work on policy issues, because to -- from their perspective, the things that we traditionally speak about when we talk of policy issues don't affect the members of my association who are the people who build -- well, just -- I mean, just among the members of our association, we probably build 80 percent of the apartments in the United States every year. And between the Multi Housing Counsel and the National Apartment Association, we probably directly represent a third of the multi-family that's owned in the United States and probably half the professional owners. So I think it's -- it's really -- it's resounding to me that we don't make this connection.

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I think a lot of the reason that we don't sometimes when we talk about policy is that we're talking about proximate goals. I was reading a biography of Abraham Lincoln the other day. I was really struck by something he kept telling his generals. And he kept -- McClellan, in particular -- he kept saying, "Don't send me plans to capture Richmond. The City of Richmond doesn't threaten the Union. The Confederate Army threatens the Union. Send me plans to capture the Confederate Army."

And I was really struck by that, because, you know, when we talk about housing policy, so much of what we talk about is tinkering with an existing program -- moving targeting, incremental funding -- and yet we don't get at what the fundamental needs of the market are.

And I think it's wrong, particularly in a group that's focused around FHA. I mean, in the multi-family business, we believe that the genius of FHA was that it addressed a market need at a time when the private sector couldn't. It was manifest the private sector couldn't. And a confident federal presence has created our mortgage market -- single-family and multi-family. It's helped create the securitization market. It's been a tremendous

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presence by knowing and addressing market need.

So I thought about this panel, and I just wanted to go over what, in the multi-family business, the conventional market, we see are the three biggest needs in the market before we talk about what our production goals should be. And the three things were -- I think we need to talk about our capital, design, and -- it's called attitude, or public relations -- and we've all touched on this.

But the first issue is equity. Right now, we -- oftentimes, we talk about debt programs for production -- debt, debt, credit insurance, mortgage insurance. The good news is, there's plenty of debt out in the market place. Debt is pretty much freely available continuously along the risk spectrum. But equity is not available, particularly equity that drives development of community's projects that meet our public policy goals, whether they're affordability or smart growth or any of our other goals.

And I think that one of the things that we've shied away from traditionally is just thinking about maybe FHA making direct investments along with qualified fiduciaries. A couple of years ago, the Navy realized it had an affordable housing problem.

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The Navy directly invested money with big, responsible developers. They put up the first money. Developers came up with some other equity. They made direct investments in affordable housing, which is something that I think that we need to look at. It's possible to be done. It can be done by a governmental agency.

And, in doing so, they are -- as a lead investor, the Navy specified exactly what they wanted. We want it to look like this. We want it to feel like this. Here's how we want it built. Here's how we want it operated. We'll forgo some of our return, but here's what we want. And lo and behold, the money came out of the woodwork, 'cause they specified what they wanted, and it was going to make a return.

And the thing that was so interesting about it was that I got a number of calls from members of ours who wanted to participate in this program. They all said the same thing. They said, "Hey, it's not regulatory. We know what the rules are, going in. It's positive energy." And, you know, for my guys to get "New Age" on me is very crazy, but --

(Laughter.)

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MR. LEFKOVITS: Just the fact that people identified that it was a positive association of capital flowing forward to achieve a goal, was really interesting.

And the fact that we don't utilize the professional fund management industry to help allocate resources is -- I think is a huge mistake, because, as Helen said, there's a huge pension fund industry, a huge advisory business industry. Those are very responsible fiduciaries who can, not only take money and invest it, they can leverage it.

We took $100 million in funding from FHA. We could probably raise another three or four-hundred million for a fund in equity, and we can further leverage that money with debt. And we could create -- we could fund production according to whatever public policy goals we want, whether it's -- like the AFL-CIO's goals of making sure that organized labor is involved in construction, whether it's affordability, whether it's access to transportation, integration, safety and soundness, even projects that span the digital divide.

I mean, all these things are things that we can make conditions of capital, conditions of being in this fund, and I think it's something that

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we have to think about.

And it's true leveraging. You know, Peter's point about the leveraging -- the expanding pie, this is true leveraging. This isn't cannibalizing existing resources. It's new money, and I think it's something that we have to think about.

And another thing we should take up in discussion, of course, is direct ownership to REITs, real estate investment trusts, particularly for preservation purposes. I think it's an underexplored possibility. I think, again, the department -- FHA, some governmental entity could seed the creation of a REIT for preservation purposes. And I think a lot of older owners who are waiting for -- well, they're waiting for death -- could exchange their properties for operating partnership units in a REIT, be free of any tax liability, and have a security they can hold in an entity that may be public, may be private, but it gets them out of operational responsibility for a project. And it's something that we should be looking at as a policy matter.

The second issue -- the second market lack right now is the lack of financing for -- call them

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"smart growth communities" or "new urbanist communities." Mixed-use projects that contain housing have a very, very difficult time getting financing, whether it's things with a retail street-scape that we like or other similar projects.

And even things as simple as housing with access to mass transportation -- it's not universal across the country that lenders will see communities with access to mass transportation as being, you know, a good, positive thing.

The chairman of our organization just said to me last week -- he said he went to his lender with a loan request for a mixed-use facility, a multi-family and retail. And he went with a loan request -- and he's an experienced builder; he was with Trammell Crow for 25 years; he's built probably 30,000 apartments, 40,000 apartments -- good track record, never had a default of any kind, that I know of.

And the lender came back and said, "Great. Well, we'll finance the apartments, but you're on your own with the retail." And he said, "Well, wait a second. You know, this is good. This is new urbanist." And the lender said, "I don't know how to understand that." And it was really striking.

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He was a very experienced person who cannot get financing for a mixed-use facility.

And I think it's a gap that FHA can help close just through the 221(d)(4) program. It may require a statutory change. I'm not an expert there. But by creating a financing program that will create an infrastructure of lenders who understand mixed-use financing, create mortgage insurance that lenders and the take-out can be assured of, and help give the market experience. I think we can create a whole infrastructure that can dedicate -- or that can finance projects across purposes.

You know, just as in government -- we segment ourselves in government, we segment ourselves in private business, and lenders -- retail guys finance retail, and apartment guys finance apartments. They tend not to mix. So I think that FHA can play a serious role in meeting a market need by helping to develop a program for. Whether you want to call it "mixed-use financing" or "smart-growth financing," it's something that we should definitely take a look at.

The third aspect of production that we really need to seriously address -- and it's the

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thing that we get the single most -- single greatest number of calls about -- is a NIMBYism, the lack of the understanding of the importance of a balanced housing policy for communities. Community opposition to multi-family or even density of any kind is high and growing.

Probably most of you in the room are aware of the recent federal case -- the Sunnyvale, Texas -- where the town was found guilty of using its zoning regulations to discriminate. Our members come back with stories that are -- routinely come back from zoning or other permitting discussions where the civic body will ask, "Who's going to live here? Is it going to be those people? Is it going to be apartments? Is there going to be a Section 8?" If you answer yes to any of those, you're out.

I think, as policymakers and opinion leaders, we have to take pains to market the value of an integrated holistic housing policy and the role it plays in healthy communities -- providing education, case studies, tours -- no, not just facts, but emotional information that people can use and policy support for mixed tenure and mixed-density housing. It's an important piece of the production pie.

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Individual builders cannot fight this fight alone. They don't have the resources. They don't have the information. And, quite frankly, past a certain point, they don't have a financial interest in doing so. It's something that we need to do and consider, as policymakers.

You know, home ownership, you know, is important. And I think it's just important to recognize it's not our only tool. And certainly from an affordability -- we should recognize that it's expensive, as well.

I think it's possible for FHA and the rest of HUD to promote affordability by helping to make the case that a balanced housing policy builds healthy communities. It think that NIMBYism is fostered by rhetoric about bad landlords, by home-ownership-at-any-cost rhetoric, and by promulgating the idea that renters are second-class citizens. I think it's important we understand the effect and depth of the messages that we send out from the "federal mothership," if you will.

The department does a very good job of leading the campaign of ideas about housing. And I think that it's important that when we think about production, that the department some meaningful

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energy on addressing this emotional attitudinal issue.

So I'll go ahead and stop there.

MR. DONOVAN: Thank you, Steve. Next, I want to turn it over to Jonathan Miller, who can talk a little bit about his perspective from the Hill and give you the latest on what's happening there.

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PRESENTATION BY JONATHAN MILLER

MR. MILLER: Thanks, John, and thanks for the introduction before.

I should start by making clear that I work for the Democrats on the House -- on the Senate Banking Committee Housing Subcommittee for both Senator Sarbanes from Maryland and Senator Kerry from Massachusetts, both of whom have been very strong supporters of getting the federal government back into the business of building affordable rental housing and have manifested that through -- with the National Housing Trust Fund Act proposal, which -- I should also mention, to Tony's right is a woman named Jennifer Fogel-Bublick, who worked for me until a few weeks ago, and she was very, very significantly involved in drafting that. So if there are any questions, I'll be sure to turn to her.

I guess there's a -- it really is sort of surprising -- and Shaun laid it out -- I mean, a year or two ago, the notion we would actually be on the verge of creating a new federal production program -- affordable housing rental-production program, you know, is -- you would have been locked up if you had made that claim. And now, hopefully

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-- I'm a little -- I'm optimistic, although there are, you know, sort of big politics at the end of a congressional session that could really undercut all that we've working towards, but we'll be optimistic. We could be on the verge of having exactly that happen.

And I think that there are -- and I should point out that it's gotten as far as it has gotten because it's been a felt need on the -- by a large group of members of Congress -- not just Democrats. Senator Bond really opened the door to this in a significant way -- the Republican senator from Missouri -- by including in his appropriations bill a $1 billion production program.

And I know that Congressman Walsh, who's the chairman of the subcommittee on HUD appropriations in the House, has been considering thinking about production. Of course, Kerry, Sarbanes, and a couple of Republicans, Chafee and Jeffords, have -- had introduced legislation before the appropriations bill came out on that subject.

So there's been a lot of -- a lot of energy, a lot of talk, a lot of effort put into figuring out the most effective way to get the government back into this business very much in a

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way that did not repeat some of the problems -- some of the mistakes of the past.

And with that in mind, I would say that a -- generally speaking, a new consensus is -- has evolved in this regard that's worth going into a little bit. And then we should open it up for questions on all the interesting comments that have been made.

First, mixed income, absolutely crucial -- everybody understands now that we want to have -- we want to -- we want it for a number of reasons -- because socially it's preferable not to have to segregate and isolate the very poor -- I think William Julius Wilson did a bunch of work about why that's important -- and having healthy social networks available for people, but also for the properties itself.

We don't want -- we don't want developments that are a hundred percent dependent on federal subsidies. We want a good portion of those units market-rate units, because you learn a lot from seeing how well -- how quickly they're rented, whether they're rented. There are market signals involved there that tell you a lot about how the property is doing in a way that's just a lot faster

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and more efficient than you're going to get from a top-down central system of oversight. So mixed income.

I think there's a general consensus that you -- to the extent you possibly can, you want to locate these in areas of economic opportunity -- that is to say, in areas with low poverty. You want -- again, I think the consensus extends to the notion that they should be near jobs, near good schools, near transit, near other things that make it possible for poor people to take advantage of new job opportunities, economic growth, good schools, and the rest that we all want to do.

And you can run straight into the NIMBY problem in that, but at least there's a consensus that that's what ought to be done, whether or not it's achievable, we'll have to see.

I had to laugh at Peter's match -- you know, the leverage argument. I gather it's true, to a certain extent, but it's crucially important. You can't get Congress to provide -- well, maybe I should put it -- say it the other way -- the better -- you can -- it's a lot easier to get Congress to provide money if you can argue that it's going to leverage a lot more money, or a certain amount of

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money, on the other side.

Now, Kit Bond's legislation required a 75-percent state match as all a -- a state block grant program. That may be a little bit high. If you talk to the governors, clearly it's quite a bit too high. Senator Sarbanes -- I mean, as Peter said, you know, I represent -- I work for guys who represent two states that are unusually generous in regards to the money that the state, and even local, governments are willing to put towards housing. And that's not a -- that's not so common. And I think we understand that. I think you'll see a different number at the end of the day than that 75 percent -- or at least we hope.

But there's got to be -- it's not so bad, from the federal government's point of view, that we're getting the state's -- it's not so bad, from the federal government's point of view, that other governments are putting money in, however it is that they get it. That's a good outcome.

And I think, on an individual project level, you'll see, you know, leverage of private dollars, as well. But clearly, there's a sense that the federal government ought to be the seed that brings -- maybe even a big seed -- but ought to be a

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catalyst to getting more funds from other sources in.

While there's a pretty broad consensus around those fundamental goals that there -- that it ought to -- that there has to be production, vouchers alone are not enough, that the production ought to be located in areas of the greatest opportunity, that it has to be mixed income, and that it has to bring other -- it has to be a catalyst to bringing other funds to the table --

there's one big remaining argument that's taking place right now, from what I can gather, in the actual negotiations over what this bill looks like, and that's the distribution mechanism.

And the argument essentially is, who gets to give out the money, and according to what criteria, whether it ought to be all done through a national competition, whether it ought to be done through the states, through a state-held competition, and whether or not local governments should get a piece of that directly or should they have to go through the states, et cetera. Those are -- I don't know how that's going to turn out, and I'm not really going to speculate as to how that's going to turn out. I will -- I simply lay out that

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that's one of the big fights that's going on right now.

And I'll say to this group what Senator Kerry said to a similar group just a week ago, I guess. It seems like longer. Regardless of how it's -- regardless of how it's distributed, we're all better off that it is distributed and that we're back in the production game. And, you know, so I'm hopeful that, one way or the other, we will have -- that the various sides will compromise and that we'll have a balanced approach to solving that problem.

Let me actually make one other point around -- maybe it's too much to say that there's consensus, but I'll be optimistic in that regard, as well -- and that is that even in the context of a federal production program, a crucial piece of that has to be mobility, that you have to somehow, on the one hand, provide certainty of a subsidy stream to back the financing. But at the same time -- and for so many of the same reasons we talked about why you want mixed income market signals, as well as the benefit of the individual tenants -- you don't want to lock individual households into those units forever.

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And I think that the Kerry Trust Fund bill has a provision which we call the "continuing assistance option," which essentially requires a developer in the housing authority to come to an agreement whereby the -- there would be a project-based subsidy, in essence, from the developer's point of view and from the lender's point of view; but from the residents' point of view, they would always, after a year, have the option of getting up -- taking their subsidy and moving closer to a job, closer to daycare, closer to transit, whatever -- for whatever reason, you know, away from a loud neighbor, whatever.

But that -- and that -- that combination of certainty in funding and mobility for individual residents, as well as the other things I mentioned, I think will be the heart -- will be at the heart of whatever production program I hope emerges in the next week or two weeks. If it's more than two weeks, we're definitely in trouble.

So thank you, Shaun, for the opportunity to speak, and I look forward to questions.

MR. DONOVAN: Thank you, Jonathan. I'm going to close with a few comments, and then, thanks to the very pithy comments of all the panelists,

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we're actually going to be able to do what all of these panels are supposed to do and seem never to do, which is actually have some significant time for discussion. We'll have close to half an hour to actually raise issues and discuss, in a real roundtable forum, some of the things -- the seeds that have been planted so far.

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COMMENTS BY SHAUN L. DONOVAN

MR. DONOVAN: I want to -- and also I would say that, you know, Jonathan, I think, has raised a lot of the issues that are high on our radar screen, as well, and has, you know, shortened the time that I will need to talk about a couple of things I wanted to mention.

But let me actually start by going back, last year, to talk about, not production, but preservation and a little bit of how this discussion, I think, got onto people's radar screens. Jonathan always uses the -- the discussion of politics is "felt need." And I think where this "felt need" came from was, in a lot of ways, out of discussion of last year.

And Michael started off the discussion by saying that we did have a real concern about the loss of the federal stock. And when I first came on at HUD, this was the issue I focused on most directly. And it's not just a question of the loss

of units, but I think, as housing policy experts, everybody in this room ought to focus, not on just the gross numbers, but also the incredible degree to which the units that were leaving the stock were the best units; that, in fact, what we were seeing is,
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unlike public housing, the project-based Section 8, the 236 units, had a much better range of neighborhoods they were located in.

The issue was -- what you were seeing is those in the tightest markets, with rents rising the fastest, were far and away the most likely to leave the federal programs. And so when we started to focus on preservation, we focused on a policy that would try and continue the economic integration that was already available by focusing through -- whether its Markup to Market, which was a program we put in place last year, or other resources -- try and focus on those units that were providing the best economic opportunity, the best integration, and to really focus our limited resources on -- whether its increasing subsidies or providing greater flexibility -- to those that are performing the best.

And I think you see that across the board in the way that we're trying to think about our programs -- where the properties are in the best condition, rewarding those, lessening regulation.

Another program -- the 236s were mentioned by Michael earlier -- the ability to allow somebody to keep the income stream coming from a 236 subsidy
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without necessarily keeping the mortgage. Allow them to refinance, but keep the interest-reduction payments, is a way of adding flexibility, allowing them to stay affordable while allowing them -- frankly, the simple market opportunity that any other property has to refinance -- take-out equity, change your tax base, get rehab done to the property -- all of those things that we can focus on to try and, not only keep units in, but keep the best units in, as well. And I think that was a real important focus last year.

But at the end of the day, there are changes. There are people who are going to get out of the business. There are folks, as Steve was saying, who are just tired of doing it.

And what we realized was that we needed to do as much as we could on preservation, but that it was not enough. And the secretary very clearly -- out of the gate on our budget proposal this year -- said that this was the year of production in our budget. Last year was, in a lot of ways, the year of preservation. And we really turned this year to focusing on how to do production.

And we had a number of proposals in our budget -- whether it be tax credit or production

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vouchers that were linked to tax credits and bonds, the production of assisted living for seniors for the first time ever, a number of different proposals -- actually mixed income and mixed-use FHA insurance, just as Steve was talking about -- a number of different proposals that were in the budget this year focused on this issue.

And then the next step was really -- in March, President Clinton, in fact, recognized that the FHA had so dramatically improved its financial position that we were now in the position to be able to look at the surpluses at FHA and say, "When is enough enough? When should we be thinking about putting more money back into production?"

And that was really a way of beginning this debate, from our perspective, on a different scale than where we had at the budget. And that really, in combination with Senator Kerry's bill and a number of other factors, I think, has been a real contributor to the ability to have the discussion that we're having today and have it be as optimistic as we are.

Jonathan's talked about a number of the, sort of, principles. And I would echo a lot of what he had said. I would add one principle that he

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didn't mention, which is targeting to extremely low-income households. I think we see that this is not all of the nation's housing production policy. This has got to be a piece that fits in with the low-income housing tax credit with the other programs that are out there.

And I think what we've seen -- whether you look at the worst-case housing needs report and a lot of other cases -- is that there is still a gap in our production programs in reaching extremely-low-income households. And so we've been pushing all along for significant targeting to extremely-low-income households in a way that -- tax credits is beginning to get more targeted, but let tax credits serve the market they were intended to serve. Let's find a way to blend those subsidies -- whether it be home, tax credits, others -- with a program that is more targeted to extremely-low-income households. So that's one principle that we felt was very important, looking at the sort of context of where needs are.

I'd just say a couple of things. Jonathan mentioned both the issues of mixed income within the project but also location in neighborhoods that are economically integrated, that have economic

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opportunity, jobs, schools, et cetera. All of those are critically important, and we're very much behind -- the administration is very much behind that.

I also think it's important to recognize how you can get those things, that we believe, through a competitive process that allows a -- not just a "Here's the baseline. You have to do X-percent or X-number of units in a certain type of neighborhood" -- to allow a competition that is sensitive to local needs, that allows -- whether it's a state, or on a national level -- to compete for dollars and invest them in a way that makes the most sense for those local communities; with a criteria for economic integration, but not a prescription that goes across the board to every single project -- is a way to get that targeting in the most flexible and targeted way in communities around the country. So I think the competition aspect is an important issue -- and what the criteria are that you set for those competitions that matters.

I also think -- we've been arguing very strongly that recognizing -- you know, what you see in the panel here, the strength of a range of different housing organizations -- whether it be

state actors, whether it be city and local actors, or whether it be national intermediaries -- that we do have a range of organizations that we need to activate in this process. And so we've -- the administration has been arguing strongly that we ought to have eligibility, really for the first time ever, for national intermediaries and others to be able to bring together the funding.

Helen, I think, put it extremely well, in terms of the "one-stop shop" idea. And this goes to the targeting. Jonathan's right, you're never going to get away from wanting to have another set of eyeballs on the deals, to have other money in -- whether it's private or other public money -- that's looking at these deals and saying, "These deals make sense."

On the other hand, what you don't want to do, which is happening in too many places, is end up with more sources of funds than you actually have apartments in any of these buildings once they get built. The deals have gotten so complicated in many cases that you've really locked out a whole sector of the developer community who isn't sophisticated, who isn't able to access these programs, doesn't have the resources to access the program.

And the ability to bring together and leverage resources at a state or an intermediary level, a national level -- whether it's bringing together $100 million in pension-fund money together with money from HUD, whether it's bringing together tax-credit resources or bond resources with those resources, or local resources together with the federal resource -- if it's done at a wholesale level by an intermediary or a state or local government that allows you to get the leveraging that you're looking for while not requiring a magical process that's very expensive and time consuming at an individual, property-by-property basis. And we believe that sort of intermediary role that we're talking about is an important one to have.

And then finally, the portability issue that Jonathan raised is incredibly important. And I would just emphasize that this idea that a lot of people have been talking about, and the administration has been strongly behind, about a hybrid project-based, tenant-based alternative -- project-based vouchers -- that give the ability to take a subsidy with you, is a very important advance.

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There's been -- when I took Bill Apgar's housing-policy class back in graduate school, we learned that the first -- one of the first articles we read was his response to the production-versus-voucher debate. It's not -- it has not been a false argument, but, to some degree, hopefully we can show that it's a false choice, to some degree; that we can get beyond that by bringing the best of both worlds together in an option that allows the dependability that a developer or a financial institution needs while providing the portability that is so important for the resident. So I think that's a real advance here that takes us, you know, well beyond the housing policies of the past.

Let me stop there and open it up to questions. I don't know if Bill Apgar has any specifics he wants to mention at this point. I see Conrad has a question. We have some other folks?

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ROUNDTABLE DISCUSSION

MR. APGAR: Well, the other key to national housing policy is get committed to come in and work in federal government, and -- (inaudible) tackled this problem years ago so --

MR. DONOVAN: Thank you, Bill -- from a completely objective source, I might add.

MR. APGAR: Right

MR. DONOVAN: Conrad?

VOICE: Thank you, Shaun. I wanted to pose a question, but I wanted to do it in the form of building on the comments that have been made earlier here, particularly by Jonathan, and then by Tony at the luncheon address.

And I'd like to suggest, as a working hypothesis, that there is another principle, if that's the word that we're going to use this afternoon, which is working toward tools which help us to find the kind of sites and find the kind of opportunities in those areas where there are job opportunities and where there are mixed-income opportunities. And we've all heard today how many barriers there are to finding those development sites.

And I'd, therefore, like to suggest that

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one topic of analysis -- and I think that's one of the purposes of this conference on a going-forward basis -- in addition to all the federal tools that we talked about here today, which I think are becoming increasingly better funded -- and I think that we, at the federal level, at least, I think, now know what most of the tools are that we need to get the job done. And I think we have a lot of those tools already in our toolbox. We need to bulk them up. But I think that the major problem facing us, as Tony said so well earlier, is at the local level -- finding the development sites, finding the opportunities, finding the sponsors that are actually going to bring these developments out of the ground.

And therefore, I'd like to put a model forward and to ask whether this is possibly replicated at the federal level or at additional -- in additional states. And I'm going to use Massachusetts as an example.

Governor Salucci, in Massachusetts, recently issued something called Executive Order 418, if I have the number right, whereby he said, "Hey, all of you out there who are looking for economic development money at the local level --

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economic development money and transportation money and planning money and community development money and, oh, by the way, housing money," -- although that was almost last on the list, because, you know, if all of you put out there on the table was housing money, people would say, "Well, gee. Thanks, but no thanks."

He said, "If you want an extra dollop of assistance" -- and I forget what the number is; there may be others here who are more expert about this than I; let's say it's 20 percent, 30 percent -- "as an incentive on top of what you already are going to get anyway, you've got to come in and then implement an affordable housing plan. You've got to get certified." And there's some kind of process at the state level that provides for that.

So the wonderful thing about this is that, at the executive level in Massachusetts, the Governor has said, "I'm going to put all this in one pot, and I'm going to say to the locals, "If you do good things for housing, you will get more money -- and, by the way, not just in housing, but in many of those other areas that" -- you know, in a sotto voce voice, I must say, "probably mean more to those communities than housing funds do."

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Is this at all a -- something that could be replicated, should be replicated elsewhere at the state level? Is it a possible federal strategy? Let me toss that out as a question.

MR. DONOVAN: Yeah, I would -- let me just jump in first. I think it's -- it is -- it already is, in some ways, things that we're doing at HUD, and it's a critical way -- having come into HUD from the private sector, one of the things that you always sort of moan about is all the strings that come attached to federal money. But the fact is, those strings are, in fact, our power, if they're used correctly.

And, for example, in this production program, we've been talking about actually having a requirement for state or local recipients to look at codes, zoning, other issues locally and have some demonstration, as part of the competition, to actually come to the table with changes or ways that they are contributing to lowering those barriers. So that's certainly a way that it could be done in the same way that the consolidated planning process for a number of our programs asks, if you're going to receive money, to sit down in a more comprehensive way within a metropolitan area with

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other jurisdictions to have a consolidated planning process on housing needs and others.

I think there are many ways the federal government and state governments can do this by saying, "Yes, you know, we want to make sure that you are achieving these goals through money that we're providing, whether it be through competitions or other forms." So I think it's absolutely a way that we need to keep moving. It's a hard road. We're pushing against a lot of momentum, as Mr. Downs talked about earlier, but I think it's absolutely a direction we can go.

Mike?

MR. STEGMAN: I think the -- all the principles that you've talked about, I would agree with, particularly the mobility in choice and so on, but let me ask -- it seems to me there may be some lessons we can learn from some other efforts.

Scale here is an issue. If we're talking mixed income in -- and let's just say 25 percent -- so we've got to build a hundred units to get 25 low-income housing opportunities. And Boston lost 500, let's say, on that last 236 prepayment, or whatever. That's 2,000 units. I mean, I -- you can't replace by scale. But also -- because of the income mixing

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-- but it also raises questions about what the designers of the program have in mind in terms of scale of individual projects. Are we talking the tax-credit nature of 30 to 40 units, or are we talking -- in order to get some reasonable amount of low-income housing opportunities -- larger?

And -- because scale is implicit in a design -- but the other thing I think Massachusetts found during the recession, I mean, we have to build a design program -- a production program that kind of makes it through the first recession. I mean, that's when it's going to be coming up. I mean, that's when things will be put in place. It's going to happen at some point or other.

And when Massachusetts had it's mixed-income sharp program during the '80s, when that real deep and prolonged recession came about, the nature of the low-income units were different from what we're talking about, 'cause people have choice here, although a continuing reliable income stream. But it was the market units that went, not the low-income units. The demand for the low-income units remained steady.

But there was kind of an overproduction relative to when the economy tanked. And the

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question was what does the state do? And the state ended up having to step in and really make -- assisted, if you will, many of the projects.

This issue of the relationship between the market rate and the low income and what the -- I'm saying simply is an issue that we have to be sensitive to. I don't know if there's an answer to it, but we ought to be aware of it.

MR. EGAN: You know, I was listening to Jonathan's presentation and yours, Shaun, and it occurred to me how much we had learned, really, in 25 to 30 years. I mean, we've learned about subsidy mechanisms. We've learned we need a mix of production and income subsidies.

I remember, 20 years ago in housing, we loved Michael, because he was one of the few guys at PD&R who actually conceded there was some value in having buildings. But now I do think the voucher -- production subsidy argument is largely over, except for Sandy.

We've learned about delivery systems. We've got a slightly broken, but rapidly improving, federal delivery system. We've got an expanding state delivery system. We no longer think of local delivery systems as wearing sheets. We know about

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delivery systems.

We know where the political fault lines are. They're about the time in these programs where they become useful in Tony's eyes. We begin to get into political problems. We have fault lines now in the tax-credit program. A number of states are wrestling with the idea of trying to implement, very aggressively, the prohibition on discrimination against voucher holders at the same time as not scaring away the communities that are taking tax-credit housing. So we know where the fault lines are.

I do think, however, that what we don't understand adequately is equity, which gets back to Steve's point. We've had enormous changes in the equity market. And I think you can look a lot of the things that we've talked about in terms of where equity has been.

If you look at the 20-year period that Michael described in terms of multi-family production -- high production, '78 to '88; much, much lower production, '88 to '98. It's best understood in terms of equity. From '78 to '88 -- in the first half of that period you had the residual of the HUD-driven production combined with

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tax-shelter equity, but HUD-driven production at 200,000 to 300,000 deep subsidy units a year -- talking about the good 'ole days.

The second part of that period, '83 to '88, driven by tax-shelter equity growing out of the '81 tax act, as well as tax-exempt financing. Again, equity came into these deals wholesale. And, in fact, we overbuilt substantially.

'86 tax reform absolutely cut the rug out from under equity. There is no equity -- there was no equity in '87. There is no equity today for multi-family housing. Let me state that, again. There's no equity today for multi-family housing.

How powerful is the equity? Low-income tax credit drives multi-family production. Why? Because it's a brilliantly designed program? No. Because it's a large program? No. What does it do -- 50- to 75,000 units a year, if we're lucky? It drives multi-family production because it brings in equity.

How powerful is the ideal of equity? Steve mentioned the Navy's limited partnership deals. I've been working with DOD for five years in military housing. You know how many deals the Navy has done? Four. They've done four deals. But

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everybody in the development community knows about these deals. Why? Because there's equity available there.

Moreover, the manner in which equity gets into housing has changed in the last ten years. One of the times that I left HUD, in '81, one of my clients was multi-housing counsel. And multi-housing counsel in '82 was driven by builder-developers -- Trammell Crow himself, Lincoln Property, Abraham, and so on and so forth. Today multi-housing counsel is driven by the money people, by the real estate investment trusts, by the large funds. The last resort of the individual syndicate limited partnership -- limited liability companies is the low-income housing tax credit because it puts equity directly to the investor.

But even the tax credit is really institutional. Why? Because the buyers of those credits are overwhelmingly Fannie, Freddie, CRE-driven banks. Equity is coming from somewhere new. It's coming form the REITs. It's driven by cash flow. So unless we understood -- and anything we do to stimulate the production of housing has got to appeal to the equity market as it is -- not simply subsidize; we know how to subsidize -- not simply

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regulate; we know how to regulate -- but to get those equity investors into the production of housing. And at that point, we will have a mechanism that goes beyond the 50- to 75,000 units a year we're doing in tax credits.

MR. ENGEL: Real quickly on that point -- if you're going to leverage somebody else's money, that's they way to do it. If you're going to address scale, that's the way to do it, because otherwise we're going to keep doing the relatively low levels we're doing now and make a -- you know, just have a drop in the bucket.

Also, actually, the final thing is, if you get those folks involved, you actually have one more political force to apply to local governments or to whatever else that's causing the difficulty in getting affordable housing out of the inner cities.

VOICE: How, do we do that, Tom?

MR. FREEDMAN: I think, so far, tax incentives. I think the -- I think -- and it's important to speculate on the power of the mark-to-market idea, not the mark-to-market program. I mean, God bless this administration. Three and a half years, it has taken one big important right step after another. It ought to be said. They

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rediscovered the inventory. It's all of a sudden not a problem or an embarrassment; it's an asset. They've reversed the shameful drop in fair market rents, in vouchers. We've got the tools better.

I think we have got -- we could either attract equity with tax incentives or with cash flow. Alright? Congress tells me, these days, that it's easier to sell tax incentives than cash flow. If -- should we be doing 500,000 more vouchers? Sure. I mean, ten years ago, when I was David Maxwell's counsel of the National Housing Tax Force, we looked at what it would cost to voucher out low-income people in the country, and it was on the order of $10 billion, for want of a better number. And the truth is, $10 billion -- God bless us, Everett Dirksen -- isn't that much money in the size of the federal government.

So if it's -- if it's $18 billion today, vouchering out the real low-income housing needs in the country would address the affordability issue. It still won't get you the production. I mean, I do think you either have to raise the voucher rents to the point where they do stimulate new production, which I think is hideously inefficient and gets us away from the mark-to-market notion.

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I mean, the essence -- the reason why mark-to-market, as an idea, is so powerful is because you can walk away from it. You can walk away from it in the recession. You don't have to give it a long-term subsidy contract. You can walk away from it. And if the market works, the housing works. And if the market doesn't work, then the market will go through what it needs to to adjust to the housing.

But it seems to me that we need the government's affirmative tools working around tax incentives, because they do bring the equity in there, and it's the easiest equity-driven incentive to sell in the Congress these day.

So whether it's tax credits, whether it's the 60-percent increase in the tax credits, that, God bless us, we should get within two weeks, whether it's expanding the credits into ownership, whether it's returning a little bit to the shelters -- not to the 81-level shelters, but maybe to the 69 shelters, which very few of us remember -- but which do bring equity into the affordable housing market.

And maybe it's putting a piece -- Steve's point -- maybe it's putting up a chunk of that equity directly and not being ashamed of that. I

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mean, right now, we're ashamed at -- and we're scared at the notion of government putting up equity and then mortgaging out the property. And it's for very good reason, for those of us who lived through BMER and 236.

But my own sense is the tax incentives, right now, drive equity into housing, and have for 30 years.

MR. LEFKOVITS: I think Tony is right. I mean, it clearly -- tax incentives are the most palatable thing in Congress, but I think it's probably because it's what we talk about and what we expose them to. And I think it's -- part of our job as policy people is to help educate others about changes in the marketplace.

The marketplace has changed. I mean, the -- part of the reason tax incentives worked so well is because there was an infrastructure to administer them. There's a whole private infrastructure in this country that's extremely responsible. It's very well organized.

And the answer to your question -- what attracts equity? Equity attracts equity. If you went to a reputable pension-fund advisor and said, "Hey, we have equity. We want to attract more." It

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would show up. And I don't think there's any need to dance around that. That's the way the money shows up and -- but those people don't know about you, and -- you know, and you don't know about those people.

We have to facilitate that dialogue, 'cause I think -- quite frankly, I think it's probably more efficient than using a tax mechanism. And the more direct control you have over the equity and the conditions under which it's invested, the more control you have over the public policy outcomes of the housing that gets built.

VOICE: I'd like to pose another principle along the line --

MR. DONOVAN: I haven't been doing this, but I did want to make sure everybody just gets a sense of who in the room is talking. Conrad Egan, from National Housing Conference and a longtime HUD proponent and important policy thinker here in D.C. spoke first.

Tony Freedman, who is a lawyer, but much more, on housing policy, one of the leading thinkers here for some time in D.C. And Kathy, if you want to introduce yourself --

MS. NELSON: I'm Kathy Nelson, from PD&R,

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and, as I said, I wanted to propose another principle that I think, in my mind anyway, involves learning from past mistakes.

I think the tax credit now allocated by population is very inappropriate for the housing shortages that it's designed to solve. And allocating by renters, rather than population, would be a big improvement, in my mind.

Like other production programs, taking into account differences in housing costs in areas -- say the FMR -- would be a second highly desirable thing.

MR. DONOVAN: That is certainly something that has been part of the debate this year and one that has been an important piece of, you know, balancing needs. And I think there is a real recognition, in terms of what I've seen, that there ought to be some more subtle measure of housing need than simply population.

MR. ENGEL: And we, at the state, if we went on renters, we'd clearly start discouraging all our home-ownership projects, and -- push for renters again.

(Laughter.)

MR. ENGEL: Here, here.

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MR. DONOVAN: Other comments? Steve Redburn.

MR. REDBURN: I wanted to ask a question, actually, of Mike Stegman.

You raised the issue of scale, and you cited some fairly large numbers at the outset for -- measures of need. What is an appropriate scale of subsidized production? How large a -- another way to ask that question is how large a program would be necessary to make a significant difference in the problems that you identified at the outset?

MR. STEGMAN: I don't know the answer. I mean, in the abstract, we can talk about how many units there are. But, as I said, I think it needs to be targeted to where the most acute needs are and where you can actually build the housing in the kind of environments that you want to. So you have to impose a reasonably, kind of, high bar there.

The way in which this program -- the principles of the program are articulated -- you wouldn't get into the problem I talked about in Massachusetts, because Massachusetts essentially had a real, kind of, ownership entity in that 25 percent of low income. And they would have lost it.

And really, Tony answered the question.

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If people -- if that housing gets weak because the market tanks, and people have choice with those low-income certificates and take off -- you're in a regular kind of mark-down-to-market or a situation with the private equity investors, and so on -- and the market will take care of it.

So I don't think that's as much of a problem. I think the portability is critical to limiting the liability of the federal government.

The scale thing on the project side is kind of -- concerns me a little. I -- you know, to max out on your low income -- I would hate to think that we're going back to very large-scale projects.

You asked me the macro question of scale. I understand that, but I'm concerned, as well, about the micro.

I think you're dealing with -- I mean, I don't think we have designed any production program to solve the problem, you know, in that sense. So I think you're in a -- you're in a political, kind of, this -- but if you're going to put a production program in place -- I mean, it seems to me we ought to be able to, you know, generate 100,000 units of low-income housing across the country on a -- or they're -- or you're never going to be able to test

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the model.

Now, the question is, what does that mean for market-rate housing? I mean, if you're at a 25-percent or 20-percent mix, that's four or five times that. And, I mean, I think that's the issue that we have to really, kind of, deal with there. You can't control that part of it.

MR. APGAR: I mean, isn't the point here -- build 300,000 units -- (inaudible, off mike) -- single digit -- but 300,000 apartment units a year. The median rent on these apartments is, you know, well above the median rent of existing stock -- (inaudible) -- the average income required is to pay -- (inaudible). And so what we're doing is buying a piece of that future production for low- and moderate-income folks.

That's one limiting factor. Obviously, we're not going to pump up excessively the overall production of rental housing. We're just buying a portion of that to be reserved in perpetuity?

MR. STEGMAN: Well, that's a -- I mean, that's a very interesting question. If you -- if you go this route, and you talk about equity -- and some of the things Tony's talking about -- you really are talking about juicing potentially -- if

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equity attracts equity, you're not talking about the same 250,000 --

MR. APGAR: (Inaudible.)

MR. STEGMAN: -- rental units. You're talking about potentially -- and market demand will determine the extent to which you are netting -- you know, net increase.

MR. APGAR: I mean, not to mention the fact that some of these -- some of these quote, unquote, "production" will be actually preservation activities dealing with the properties that are dumping out of some previous programs. And so --

MR. STEGMAN: I think a goal for the first year of 100,000 low-income units is not a bad one.

MR. DONOVAN: And I -- Bill's point I just want to pick up on for a second is there's a distinction I would draw, as well, between preservation of existing affordable units, as opposed to rehabilitation of existing market units is that -- you know, to some degree, the priciest units you can buy are the new production units -- that, to the extent that you can encourage -- you know, even if it's moderate -- rehabilitation of existing non-subsidized units and bring those to an affordable level, that you have an ability to buy

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stock, essentially, that is not completely dependent on the production -- you know, the new production mechanisms -- without just re-buying existing units.

And I think that's something that is also part of the language that's been in -- in the bill this year, is trying to distinguish between -- you know, are you really preserving existing units, and how much of that do you want to do, versus allowing rehabilitation in a context that would add new units to the stock, even if it's new -- affordable stock, even if it's not new production. And I think that's an important piece to add to that discussion.

MR. WEISS: Mark Weiss, Wilson Center -- just to underline, I think, what was coming out here, which I think is very interesting, is that there's a -- there is a difference between what Bill Apgar was talking about, which is saying, "Well, there's going to be X-level of production, and how can we increase the amount of subsidies so that some amount of that is for low and moderate income?" -- versus what Tony's talking about, which, on the one hand, has the virtue that it will actually increase the overall production -- that if you have a mixed income model, that means you're going to get more affordable units.

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However, you know, he mentioned the 81 and 69 and -- are two cases, and there are others, where if you have a finance-driven vehicle, you may end up with over production, over building, and there will be a, you know, correction later on down the line, and that creates its own problem.

So I -- you know, I don't know what the right balance is there, but I think that -- we've also learned something about those kinds of programs.

MR. DONOVAN: Other questions?

MR. FREEDMAN: Just one notion. As you -- picking up on what -- I was listening to Tony -- aside from remembering the joke with different airlines --

(Laughter.)

MR. FREEMAN: The -- in order to get production, we've got to be willing to subsidize the production of non-low-income units. It's fact. Why? Because the ownership tax incentives cream the renter market, so that we're not going to bring in new rents except for that portion of the market that rents voluntarily.

I remember in the context of -- (inaudible) Maxwell, Denise DePasquale telling us

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loud and clear, "If you do not live in New York City, and if you are middle income, you will be a homeowner, period." And that's still as powerful as it was today.

If we are going to get new rental production, we do have to provide subsidies. Whether they're disguised in the tax code or whether they're in the old, you know, less-targeted model of BMER, we do have to provide subsidies, and we have to be honest about it. Otherwise, we just are fighting over that small pie. And if we don't, we are not going to get that production.

I remember having arguments in the context of the '86 tax reform explaining -- and, again, listening to you, Tony -- rich people will not pay a premium in order to live with poor people. If we're going to subsidize those big mixed-income developments -- and states are increasingly providing bonuses for mixed-income housing. I mean, Maryland's got -- for housing that goes into areas that haven't been -- concentrated -- that are de-concentration areas. And a number of states have heavy bonuses in the tax-credit program for mixed-income housing. They're recognizing that we have to subsidize it. And we've got to be honest, at least

when we're sitting among ourselves.

VOICE: (Inaudible, off mike.)

MR. DONOVAN: Mr. Stegman.

MR. STEGMAN: I just wanted to bring the tax credit kind of back into the discussion, because I -- HUD's recent report shows much more, kind of, mixed-income and low-income occupancy of tax-credit developments than I thought existed. And about 70 percent of the families in the case study of the five metropolitan areas had incomes under 50 percent of median. And a third or more had incomes between $10- and $20,000.

So you're getting, more than I thought, housing targeted -- maybe not under 30 percent -- possibly some under 30, but 30 to 40 percent of median than I thought the tax credit -- and the reason I mention it is, Shaun, in your overview comments or introduction, you mentioned maybe we leave the tax credit to do what it does best, which is the, kind of, 60 percent of median. And we focus -- it looks like, much to my surprise, anyway -- that it's really not a 60-percent-of-median program. And I don't know how much of that is due to portable vouchers or to the driving down with the mixed finance and so on.

And so I thought I'd just bring that back up into the discussion, because it certainly surprised me.

MS. KHADDURI: Can I comment on that? Hi. Jill Khadduri of -- (inaudible) -- Associates, formerly of HUD, PD&R.

Yes, that's right, Mike, but you've got to be careful in that report to look at where those projects are. Those that are located in the suburbs or in lower-poverty neighborhoods are much less likely to have people using vouchers and much less likely to have very-low- and extremely-low-income households living in them.

MR. STEGMAN: The portable vouchers are the things driving down those rents. That's what's really -- (inaudible) --

MS. KHADDURI: To some extent. But in

either case, both those with vouchers and those without --

MR. STEGMAN: Uh-huh.

MS. KHADDURI: -- tend to be in, really, quite high-poverty inner-city neighborhoods.

MR. STEGMAN: I see.

MR. DONOVAN: I also think the other interesting question would be what percentage of

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their income are those folks paying in the tax credit?

MR. ENGEL: I mean, in our experience, they are -- they're typically paying 30 percent. The elderly tend to pay a little more. Although what I think is driving it down in Maryland is less the vouchers than actually deeper subsidies. People are asking for bigger subsidies. And we have state low-interest loan money to put in. You take that, you take the credits, and you can subsidize down to 50 or 40 percent, especially if it's a nonprofit who's getting funds from someplace else, as well.

But we're not really seeing anything below 30, and very little; but a little between 30 and 40; a fair amount -- well, actually a good amount between 40 and 50.

MR. DONOVAN: We're coming up on our -- the end of our time here. Any other closing comments from anyone? Yes, sir?

VOICE: This isn't a closing comment, but I'd like to ask about the idea of using -- (moving to mike) -- my name is Richard Borden from the Congressional Research Service. I'd like to ask a question about the possible use of the FHA surplus fund for production. Isn't this a rather regressive

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way of funding these units? Don't these reserves come from the -- all these new home buyers that are minority and moderate income in the last four or five years?

MR. DONOVAN: Commissioner, would you like to take that question?

(Laughter.)

MR. APGAR: I'll send you a copy of my testimony on this topic before Senator Allard's subcommittee. This obviously is a concern.

The first thing, of course, we note that the FHA will generate $20 billion worth of excess revenue in the next five years, and it goes into hyperspace. I mean, Steve can tell you where it goes, but we're not sure where it goes.

(Laughter.)

MR. APGAR: It goes into the budget surplus, okay?

(Laughter.)

MR. APGAR: So does it go for progressive things, regressive things? I have no idea where it goes. So it just disappears.

What we're talking about is keeping money generated by housing programs withing housing. Maybe the right thing to do is to lower the premiums

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and give the class of residents -- you talked about a break -- maybe we should redistribute some of the money to the folks who paid it in -- going back to the mutual shares.

But we also think that this is an opportunity to think about developing, like the Kerry Trust Fund bill -- source of dependable revenue for housing-production program -- and so we're talking those three options.

And, you know, that's where I'm -- you tell me where the money goes; I'll tell you whether our proposal is more progressive or less progressive --

(Laughter.)

MR. APGAR: -- than how the money is spent today.

MR. BORDEN: I wasn't making a judgment; I was just raising the issue.

(Laughter.)

MR. APGAR: No. No, but others have, so we get --

(Laughter.)

MR. APGAR: -- real fired up.

(Laughter.)

MR. APGAR: Yeah, I had that answer ready.

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MR. DONOVAN: I think that's actually a good closing point, just to remind us all of, not just these discussions, but that these discussions are part of larger ripples in an expanding pool right now and that this discussion needs to move forward. And let's hope that we can come back together next year and talk about how the new housing production program is actually working.

Thank you very much.

(Applause.)

(Whereupon, the proceedings were adjourned at 3:40 p.m.)