New: All-Income Social Housing: the Solution to Berkeley's Affordable Housing Crisis

Thomas Lord, City of Berkeley Housing Advisory Commissioner, Tuesday April 10, 2018, 11:48:00 AM

[This is an open letter to undisclosed recipients. It is just a snapshot of an interesting discussion developing in Berkeley, about housing.]

As you might know, more than half of the renter households in the state of California are paying more in rent than they can afford, according to the California Housing and Community Development agency (HCD).

Market rate housing in Berkeley, both rental and owner occupied, is unaffordable to a large majority of households in the City and region. Most of us are precariously housed and are threatened with displacement from the region.

As you may also know, Berkeley has three primary "affordable housing strategies", none of which were designed for this crisis. None of these strategies are adequate to the crisis. It is as if Berkeley has planned for housing affordability to fail, and has made gentrification and brutal displacement a policy goal. Our failed policies are:

1. **Inclusionary housing, in which lower income tenants lose housing right compared to others, and are subjected to humiliating system of waiting lists, annual reporting, and monitoring**

By design, inclusionary housing will never produce a quantity of units anywhere near the level of need.

2. **Subsidized housing built and managed by tax exempt private real estate equity firms**

These developers, who operate like for-profit real estate private equity firms but with a tax exemption, provide housing services quite expensively and inefficiently. Their capacity to serve is capped by the level of federal assistance available. Their rate of production is too low to ever make a substantial dent in the problems.

3. **Privately operated cooperative housing on land owned by private land trusts, typically restricted by deed to remain affordable for some period of time.**

Berkeley has a history of helping to establish such coops, but such coops have a mixed record at best. Berkeley has experienced periods of well functioning coops and periods where crises emerge because of coop governance difficulties and financial problems. An emerging pattern is coops returning to the City for assistance and bail outs. Furthermore, the coop system has difficulty expanding without additional, substantial public subsidy.

I have begun trying to encourage Berkeley's policy makers and residents to consider a new policy approach: *all-income social housing.*

All-income (aka mixed income) social housing has the following key characteristics:

- It is owned by (or reclaimable by) the municipality.
- Social housing houses residents at a mix of income levels such that low income households may be paying little more than the operating costs of their units, while moderate and above moderate households pay profitable "solidarity rents". Organic profit from those rents helps to subsidize extremely low income households who can not afford even operating costs, and also help to expand the pool of social housing. In the long run, the natural profitability of social housing can serve as a source of general revenues for the municipality.
- A city's pool of social housing is democratically manged by the city's residents, with an emphasis on keeping costs down.

All-income social housing should not be confused with the legacy of so-called "public housing". Public housing was premised on federal subsidy and bureaucratic management. It was never economically efficient and it nearly never provided secure, adequate housing to residents.

Social housing, in contrast, is not a system of subsidized poor houses. Rather, it is a market restructuring of housing -- a way to redress current market failures in a mostly self-financing way.

This note is to present two items for your consideration.

The first is a newly published paper from the People's Policy Project:

"Social Housing in the United States", Peter Gowan and Ryan Cooper; April 2018

http://peoplespolicyproject.org/wp-content/uploads/2018/04/SocialHousing.pdf

The second item is from a conversation among some local activists, wonks, involved citizens.

The question was raised:

Right, and do tell us where the money is going to come from for this.

My answer: I'm glad you asked. My answer is off-the-cuff so I apologize if the prose or copy editing is a bit rough:

The quick answer is that mixed-income social housing organically generates a profit. Poorer tenants pay little more than the operating costs associated with their tenancies, and very poor tenants might pay less. Most tenants pay some rent above those costs. Tenants paying market rate are included. So long as the higher "solidarity rents" generate an organic profit larger than the cost of subsidized units, the system produces a net income.

The net income is easily and realistically large enough to, for example, repay development costs with interest in a timely way.

In the long run, mixed income social housing even becomes a source of general revenue for the municipality.

Who is going to pay for social housing? The tenants.

What is the city's role? ***Shallow*** subsidy and, in some cases, borrowing against rental income.

Social housing is the realistic, scaleable alternative to the current scheme of non-profit private real estate private equity firms like BRIDGE Housing or our more local ones. Unlike them, it doesn't depend on a perpetual stream of high subsidies. On the contrary -- it makes money for the City.

The appendix to the paper discusses the finances.

Page 30ff talks about how Cities can begin implementing. I have some other ideas for Berkeley.

The first part of the paper examines past experience with this model in several European cities.

Housing policy discourse is getting real, finally.

Longer Explanation:

The key fiscal insight of the paper - not new news, really - is that mixed income social housing both (a) Easily pays for its own operating costs. (b) Can easily a generate a net profit, the size of which (relative to maximizing profit) is a matter of policy, basically.

That fiscal reality is described in various scenarios in the appendix of the paper. The visualizations there may be helpful -- they are well-designed graphs.

If the goal is new construction, the paper offers advice for cities "going it alone" beginning on page 30. (The paper calls for a massive, nationwide federal program but also acknowledges this is not politically likely in the short run.)

Unlike a typical affordable housing project (at least in Berkeley) loans made by the City to a social housing project would be repaid, in a timely way, with interest. In this way, the City would truly have what the HTF was once envisioned to be, a perpetually recycled pool of funds that could, over time, grow the program with at most shallow subsidy to grease skids here and there.

Let me say that again, differently: this program finances itself. It is a way to build the cities assets while providing a much needed service.

The paper suggests inviting funding from other institutions such as schools, unions, and so forth. To what the paper suggests, I would add that those institutions might consider accepting, in lieu of some portion of interest, preferential access to units (for some period of time). In this way, an institution like BUSD could gain some of the benefits of dedicated workforce housing, more flexibly, and while in the end receiving back its capital investment. Perhaps a similar deal would be of interest to student coops.

For Berkeley, I would stress that although the paper concentrates on creating new supply through construction, the same basic business model applies as well to acquisition and rehab projects. For example, as I have been working on this, it has been killing me watching opportunities slip by like the recent sale of a mostly empty, fair-to-good condition, rent stabilized 6 unit apartment building nearby.

Let's take a look at Berkeley's current and upcoming practices -- dig into some detail.

I will discuss three things:

- the Berkeley small sites program existing Berkeley
- funds that can be used for housing existing big
- expenditures and some issues with them

Small Sites

Today, Berkeley has already allocated funds to kick off a small sites acquisition and rehab program. As currently envisioned, this program will purchase small apartments for conversion into privately owned limited equity coops, on land given to a private land trust. Also, as envisioned, these would not be "mixed income" in the sense of social housing, but would be deed restricted for several decades.

That small sites vision has advantages and disadvantages. Its chief advantage is that that model is recognized by county, state and federal programs and may be eligible for subsidy from those sources. As the paper points out, currently the funding programs from superior jurisdictions are stacked against social housing.

At the same time, the small sites vision is more apt to yield projects that will be dependent on further subsidy over time, and that can give rise to governance problems. Berkeley's experience with these kinds of coops has been mixed, at best. They work well at times. At times, they return to the well for rescue. In between, as at least one mutual friend of some of us can attest, the utopian ideal of small-building-self-governance can easily turn sour. Berkeley has at least two crisis-level coops in this status, that I know of.

Social Housing (especially as I described it in my recent HAC item) can achieve democratic control over housing in a more robust, and tenant-protective way. It also sits on a much sounder fiscal foundation. And finally, the social housing version of small sites acquisition can, in the medium run, become a self-expanding system (i.e., financing its own expansion). This last point helps to redress the absence of federal subsidy for social housing.

It is my hope that the small sites program be innovative, and adopt a social housing model. I suspect that this can be done in a way such that, if the experiment fails, the properties revert to traditional coop and private land trust form. I know that BACLT (who has been selected for a small sites pilot) is skeptical that the City would ever again consider owning residential property -- at least that is what I heard from them -- but perhaps that can be overcome.

Berkeley's Existing Funding

Berkeley has some existing sources of funding that could be used for social housing. For example, any money transfered by the City into the Housing Trust Fund (HTF) could be used for this purpose, although council might need to revise the HTF guidelines. By policy, transfer taxes in excess of some threshold are transferred to the HTF. In general, the HTF could be one prioritized use of any unbudgeted general fund surplus (along with other priorities such as the reserve fund, of course).

In 2016, Berkeley voted to raise the residential rental business license fee -- a tax on residential rents). For 2017, so far \$3.1M have been collected and there is "some confidence" that total collections for 2017 will probably reach \$4M.

While that revenue (commonly known as "U1 money") is general fund revenue, because of the way it was balloted, it is widely accepted that the City should try to make annual expenditures on housing, anti-displacement, and homelessness prevention in rough proportion to that amount.

The County Bond measure A1 created a fund a bit over \$15M which is earmarked for affordable housing projects in Berkeley. As drafted, the County bond administrator's rules for the use of these funds does not envision their use for social housing, but I believe the ballot measure language is compatible with such use, and perhaps (as has happened in the past) the rules can be altered in negotiations with the County bond administrator.

Berkeley's Existing Big Expenditures

Also, at the moment, although final numbers are not available yet, at this time Berkeley appears poised to spend nearly everything available -- and to take on new debt in support of -- two non-social housing projects: the BRIDGE Housing project on Berkeley Way, and Pathways. (Just $1M has been set aside for a small sites pilot.)

The Berkeley Way project will use all of the remaining A1 reserve funds (almost $15M). It will incur new City debt and I'm unclear whether they will try to issue a $10M bond or $25M bond... I suspect the latter. Either bond will have a coupon rate of 3%, roughly equivalent from the City's fiscal perspective to a conventional bank loan at 5%. The project will absorb a total of about $4M in HTF funds (basically, all there is).

With interest, that project which is said to have a total construction cost of around $100M, will cost the city probably $60M over the next 20 years. Housing funds available to the City will be leveraged at less than 1:1.

So far as I can tell, the Pathways project and the need for a winter shelter next year are going to cost much more than has been budgeted for them. I don't have a crystal ball, but I anticipate there will be political pressure to use a large portion of U1 revenues for those projects.

Overall, ever since the City came to rely on private, non-profit status developers, Berkeley's affordable housing strategies have become steadily more expensive per unit, and ever more reliant on dwindling subsidies available from the state and federal governments. While I'm sure each project conducted in this model benefits some tenants, it seems to me that Berkeley has simply planned and committed to failure at significantly increasing the supply of available housing at prices affordable to the majority of the region's current residents.

Summary

There's plenty of money to make a solid start on social housing. We're just committed to spending it on extremely inefficient alternatives.