Four Years, $13 Million and Dozens of Hands: How ‘Affordable Housing’ Gets Made in America

Why is it so hard to build and maintain inexpensive housing?

By Andrea Riquier, Market Watch, May 22, 2019

The apartment building at 410 Cedar St. in Washington, D.C., is undergoing a multiyear restoration that aims to keep it affordable for its current residents and for generations to come.

Jennifer Sumler has lived in her apartment building on Cedar Street in the Takoma section of Washington, D.C., for her entire life, but the sound she heard one late November evening a few years ago was like nothing she’d ever experienced.

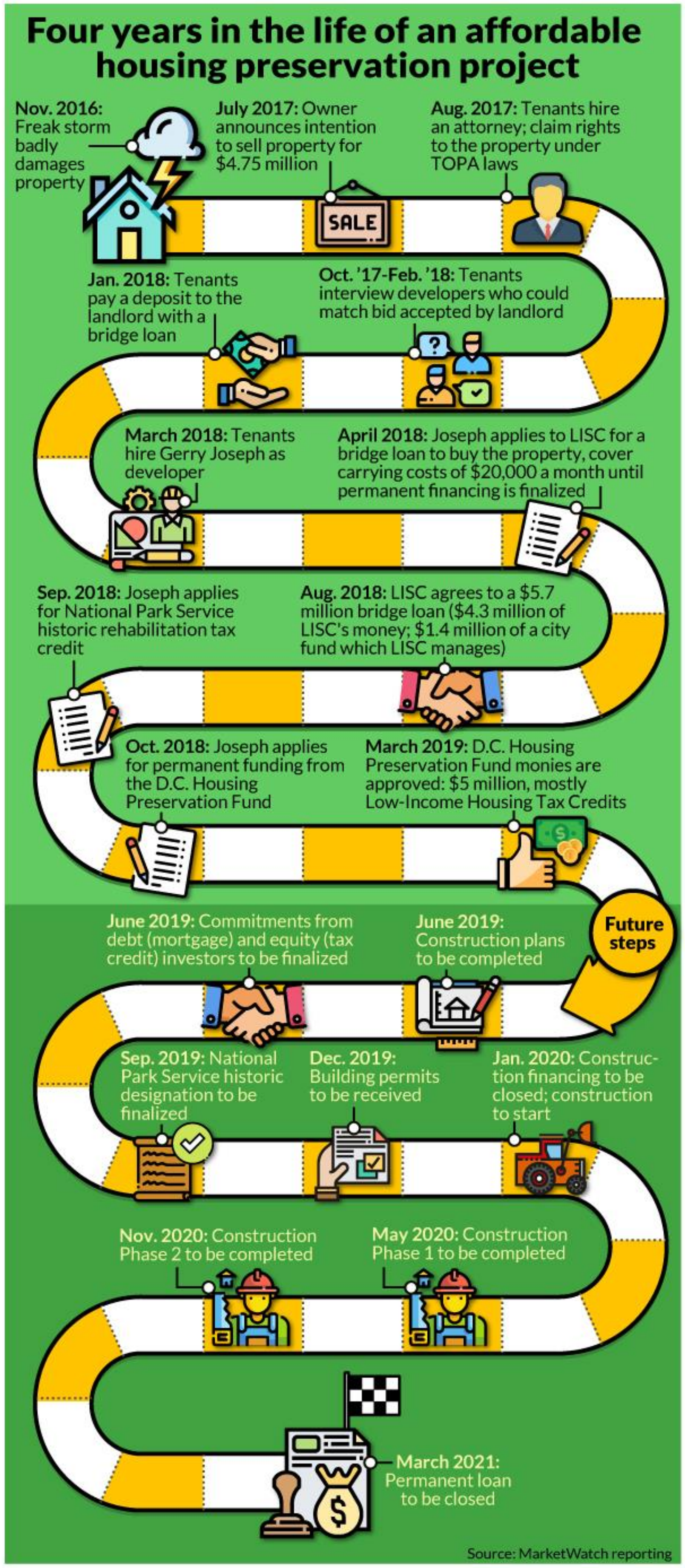
“All of a sudden the sky got dark and there was a ‘Wizard of Oz’ moment,” recalled Sumler, who’s 50. “Leaves started to whip up. There was this ferocious wind. Then there was this noise. It was loud and really otherworldly.”

As sirens blared, she and several neighbors gathered outside in the leafy courtyard. Through the rain, they could see the source of that horrible noise: a huge portion of the roof had been ripped off.

The freak storm that night in 2016 displaced more than just the roof. Several neighbors were never to return. But for Sumler and a few others, it marked a turning point. Over the next few years, they’d make the journey from discontented renters to affordable-housing advocates, resolved to keep 410 Cedar St. accessible to people of moderate means for generations to come.

Nearly three years later, they’re not done. The financing to repair and renovate the 30-unit building has only now been agreed to and will take another year to finalize. By the time that happens, dozens of parties will have had a hand in the project: developers, community organizers, government workers, bankers, regulators, lawyers, property managers, a historical consultant, lobbyists, investors and more.

The story of 410 Cedar St. is the story of what it means to create “affordable housing” — and why it’s so incredibly hard. When a project comes together, it’s often owed to a patchwork quilt of the public purse, private funding, regulatory incentives, tax quirks and even exceptional individuals like Sumler. Those involved aren’t necessarily working against gentrification as much as working toward safe, stable, affordable housing, sometimes one neighborhood, one block or one unit at a time.


Four years in the life of an affordable housing preservation project
Nov. 2016: Freak storm badly damages property
July 2017: Owner announces intention to sell property for $4.75 million
SALE
Aug. 2017: Tenants hire an attorney; claim rights to the property under TOPA laws
Oct. '17-Feb. '18: Tenants interview developers who could match bid accepted by landlord
Jan. 2018: Tenants pay a deposit to the landlord with a bridge loan
March 2018: Tenants hire Gerry Joseph as developer
April 2018: Joseph applies to LISC for a bridge loan to buy the property, cover carrying costs of $20,000 a month until permanent financing is finalized
Aug. 2018: LISC agrees to a $5.7 million bridge loan ($4.3 million of LISC's money; $1.4 million of a city fund which LISC manages)
Sep. 2018: Joseph applies for National Park Service historic rehabilitation tax credit
Oct. 2018: Joseph applies for permanent funding from the D.C. Housing Preservation Fund
March 2019: D.C. Housing Preservation Fund monies are approved: $5 million, mostly Low-Income Housing Tax Credits
Future steps
June 2019: Construction plans to be completed
June 2019: Commitments from debt (mortgage) and equity (tax credit) investors to be finalized
Sep. 2019: National Park Service historic designation to be finalized
Dec. 2019: Building permits to be received
Jan. 2020: Construction financing to be closed; construction to start
May 2020: Construction Phase 1 to be completed
Nov. 2020: Construction Phase 2 to be completed
March 2021: Permanent loan to be closed
Source: MarketWatch reporting

“It’s great that we have all these millennials and people moving into D.C. and we’re seeing restaurants and night life pop,” said Gerry Joseph, the real-estate developer whom the Cedar Street tenants eventually hired. “But you can’t do it all at the expense of the people who’ve been here their whole lives. It’s important to try to save as many of [these older buildings] as we can. We’re not going to save them all.”

A ‘tool of equity’

Washington, D.C., a planned city from inception, is unique in many ways. In particular, it has made a strong public commitment to helping its residents access housing that’s affordable, and providing tools that support tenants.

Its mayor, Muriel Bowser, is “doing more for affordable housing than any other mayor in the country,” said Kathryn Howell, an assistant professor of urban planning at Virginia Commonwealth University. Bowser committed **$100 million a year to affordable housing** in her first term, which began in 2015, and has increased the budgeted amount every year since.

Some initiatives, such as city-budget dollars directed toward initiatives like the Cedar Street restoration, are Bowser’s to claim. But the Cedar Street project owes its existence to Washington’s TOPA, or Tenant Opportunity to Purchase Act, laws, which precede the mayor’s tenure. It’s this program that perhaps best illustrates the opportunity and complexity facing tenants, developers and other investors in the affordable-housing ecosystem.

Under TOPA, tenants of any building whose owner has decided to sell have the right to buy the building themselves. They can become owners in a condominium or cooperative conversion, or they can transfer their rights to someone they hire, usually a developer like Gerry Joseph, to keep the building operating in its rental format.

[Article continues below.]

Tenant Opportunity to Purchase Act (TOPA) steps

- Landlord accepts an offer to sell (or can initially offer the building directly to the tenants).
- Tenants must organize themselves into a formal tenant organization.
- Landlord must inform tenants that a third-party offer has been accepted. If the tenants request it, the landlord must provide information about operations of the building, such as the rent roll, operating expenses and so on, along with the accepted third-party contract.
- Tenants must deliver a formal Statement of Interest and Application for Registration to the landlord and to the city.
- Tenants typically have 120 days to secure financing, although there are exceptions that allow this period to be extended.
- The landlord may require no more than a 5% deposit.
- Tenants may opt to buy the building outright and convert it to a cooperative or condominium format, or they can transfer their rights to other parties, like a developer, who can keep the building operating as rentals, while enabling the tenants to set terms, such as rental amounts or upgrades to the facilities.

Source: MarketWatch reporting

D.C. provides the tenants of multifamily buildings resources to organize themselves, including matching them with legal counsel, for example. As long as the tenants (or their own developer) can match the bid that the building's owner receives on the open market, tenants are given priority.

TOPA is "one of the really unique things about D.C.'s housing landscape. It's centered on the residents, whom they see as the city's assets. Most affordable-housing policy looks at rentals as temporary, like [renters are] not really citizens of the city," Howell said. In contrast, she said, TOPA "gives a lot of agency and control and power to residents."

In D.C., these programs are increasingly tapped as the population has surged, **adding 100,000 residents between 2000 and 2015,** a 16% increase. During roughly that same time frame, rents have jumped anywhere from 14% for the lowest earners to 32% for the highest, while incomes have not grown for the two lowest quintiles, according to **an analysis from the D.C. Fiscal Policy Institute**.

In fact, **the gentrification experienced in the nation's capital in recent years has been among the most intense in the U.S.**, in its case resulting in the displacement of mostly African-American residents from low-income neighborhoods, according to a recent study from the National Community Reinvestment Coalition.

“While gentrification increases the value of properties in areas that suffered from prolonged disinvestment, it also results in rising rents, home and property values,” the NCRC noted. “As these rising costs reduce the supply of affordable housing, existing residents, who are often black or Hispanic, are displaced. This prevents them from benefiting from the economic growth and greater availability of services that come with increased investment.”

Even with TOPA in place, when a D.C. landlord gets ready to sell, tenants aren’t always interested in making a bid for the property. Many would rather take a buyout and vacate.

Yet Ramon Jacobson, who leads the city’s office of the **Local Initiatives Support Corp.**, a national community-development organization that helps fund projects like Cedar Street, often hears D.C. residents saying they “want a piece” of the community. It was Jacobson and LISC that provided the developer Joseph and the Cedar Street tenants, led by Sumler, financing to match an open-market bid received by their landlord.

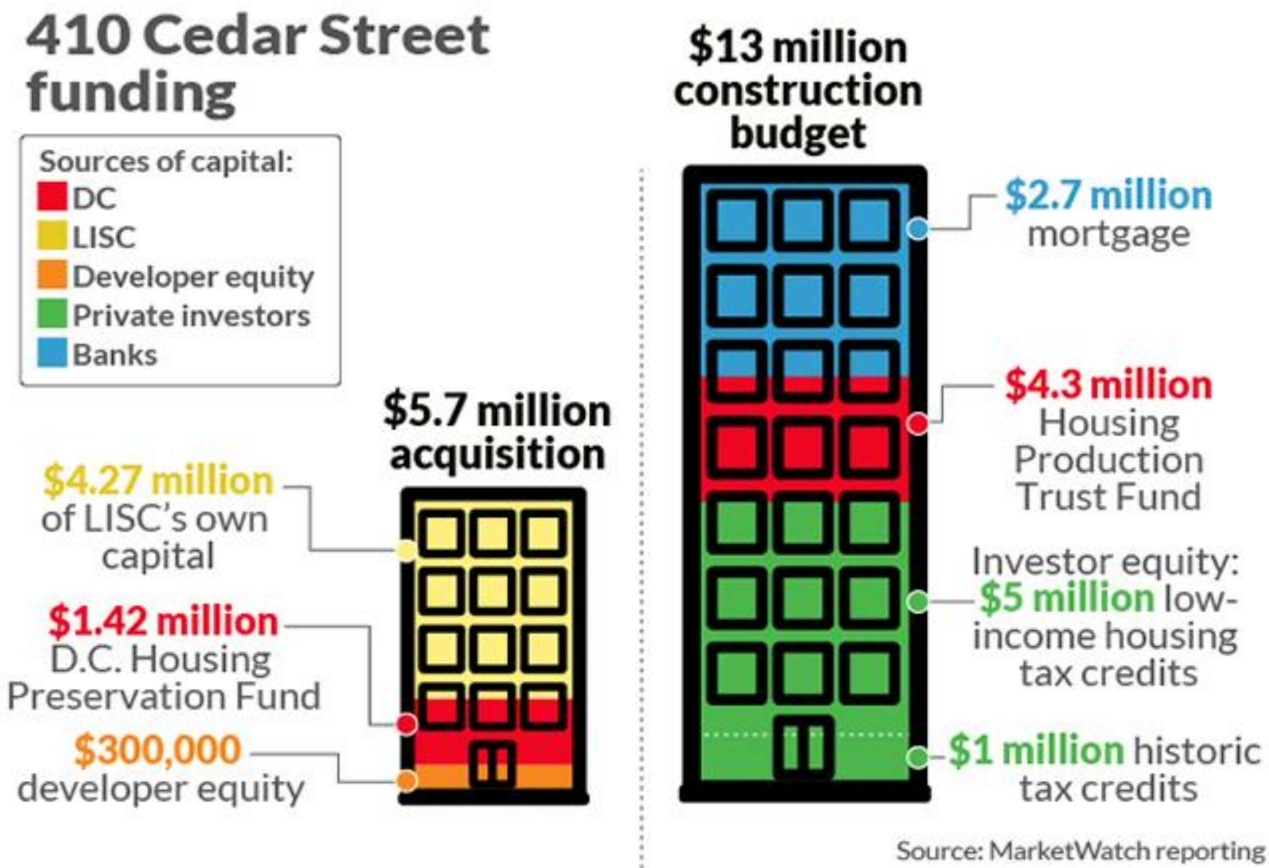
“It used to be a big concern of ours that there would be tenants who were just interested in flipping the property,” Jacobson told MarketWatch. “I think people see [D.C.] as a much more desirable place to live, and want to stay as long-term residents. This is a property in a lovely neighborhood. You could easily see that someone could buy [Cedar Street], fix it up, and it could be luxury housing, and there would be no place for the residents that had been there for 30 years. We see this as a tool of equity.”

The best of the worst solutions?

LISC is the linchpin of a system so complicated that it sometimes resembles a Rube Goldberg contraption. Without all the players and all the levers, affordable housing would not be produced.

“Cities where they’ve been most successful in really moving the needle forward have some group, whether LISC, or the Kaiser Foundation in Chicago, or other local nonprofits, that are really essential to bringing a lot of people to the table and taking something difficult and figuring out how it works,” said VCU’s Howell.

Likewise, the struggle to preserve and create affordable housing has many local characteristics but a broad outline that looks pretty similar across the country. Developers cobble together funding packages from all levels of government and attract money from private sources whenever and however possible.



LISC borrows most of its money from banks that want to fulfill their obligations under the **Community Reinvestment Act**, a decades-old federal mandate that requires financial institutions to meet the credit needs of diverse communities.

"Make no mistake about it: Absent CRA, the partnerships that we have with banks would not be anything close to what they are now," said Maurice Jones, president of LISC's national organization. "It is an invaluable tool for us to get loan capital that we can deploy for projects" like Cedar Street.

LISC currently borrows from banks at interest rates averaging about 3.7% to 4%, Jones said, and, to a lesser extent, from "impact investors" and philanthropic groups at about 2%. They lend to developers like Joseph at a rate of 3% to 6%. The spread pays for LISC's cost of doing business. (LISC also goes directly to the capital markets to raise money; it has an AA rating with a negative outlook from Standard and Poor's.)

With the Cedar Street tenants' blessing, Joseph and his partners used a loan from LISC to acquire the property. Joseph then applied to the city for permanent financing to pay back the acquisition loan and prep for reconstruction.

In early March 2019, one agonizing month behind schedule, Joseph and the tenants learned that **the city had approved their proposal for funding**. The project had been allotted $5 million earmarked to **low-income-housing tax credits**, which are sold to investors to raise equity capital for the project.

As of this writing, Joseph is getting ready to hire a syndicator, an agent responsible for matching interested investors to developers. Those investors — usually, but not always, banks — will bid for the right to buy those tax credits, which have a 10-year life span, meaning that every year for the next decade, those investors will see their taxes reduced by $500,000.

The city also gave Cedar Street a little over $4 million of municipal funds. And several banks have already expressed interest in granting Joseph a $2.7 million mortgage.

Between finalizing construction plans, ensuring renovations conform to historic-preservation standards for the 1920s building, putting the rest of the financing into place and pulling construction permits, work won't begin until early 2020, and is forecast to wrap up roughly a year later.

In all, it will have taken over three years and $13 million to restore 30 units of affordable housing.

Many in the industry liken the process to the messiness of democracy in general: perhaps the worst way to get anything done, except that all the other approaches are even worse.

In an interview in January, Joseph mused on the complexity of the industry: "Every time I close one of these projects I take a deep breath and say there's got to be an easier way to do this, even though if it was easier, I probably wouldn't make my living doing it.

It's sort of a deal with the devil — the idea that we can't produce housing with government money only; we have to get private funds into the transaction. It's created a whole business sector of people who work in and feed off this … accountants, lawyers, bankers, consultants … and the transactions themselves have umpteen documents. You say, if someone just wrote a check you could just build the housing a lot more quickly."

LISC's Jones laughed when told about Joseph's ruminations.

"We are putting deals together where there may be 15-plus sources of capital, so I agree wholeheartedly there's got to be a simpler way of doing it," he said. "But the notion that the public sector is going to produce enough revenues to build all the housing that we need for everybody, the facts belie that. We've got to find a way to get the private and the public sector in the game."

Paying it forward

Jennifer Sumler was born in Washington, D.C., in 1968. Her father spent many years as the chauffeur and bodyguard for the president of Howard University, and her mother sandwiched her years at home taking care of the children between stints at the Federal Reserve.

Sumler remembers riding bikes around the neighborhood and swimming in the local pool. She also remembers the Cedar Street building full of families, and how the neighbors would congregate on the wall surrounding the building's courtyard.

"We used to all meet up after work or school and sit and talk and gossip and play a little music and catch up," she said. "It's one of my fondest memories. I remember the gas lines of the '70s," as the building sits across the street from a filling station.

Sumler has been in Takoma longer than the Metro, the sprawling transit system that spans D.C. and its Maryland and Virginia suburbs. "I remember the talk about the Metro coming and the construction. When it did open, I remember when we got off at the stop we would be the only ones. We would always laugh to ourselves getting off, 'It's a secret, nobody knows.' Boy, has that changed."

Sumler attended Howard University, majoring in broadcast journalism. She's worked in television and radio news, and briefly toyed with trying to become on-air talent. But when she learned that would mean leaving Washington to work her way up in smaller news markets, she reconsidered.

After a few decades in media, Sumler wanted a new challenge. She had been volunteering as an adult-literacy tutor and "found it rewarding in ways that I had never imagined." She went back to school and got a master's degree in education. But life happened: Her mother became sick, and Sumler put the new career on hold to care for her.

"It's been a lot of stress and a lot of work, and about 2½ years ago, where I thought [my mother] was stable enough [to] let me try to get my life on track, our owner decided to sell the building," Sumler said. "That created a whole 'nother set of circumstances. Now we've got to organize, a third of our population is homeless, and we're wondering about the roof."

Jacobson of the local LISC is of the view that it takes a unique type of individual to execute the implausible task of organizing lower-income tenants into a quasi–real estate development partnership. "In a lot of places in our society there's not a lot of venues for people to express themselves," he said. "You have people who, if society were structured differently, they would be leaders in other ways."

Sumler's professional background likely gave her an advantage compared with the typical TOPA organizer. But in other ways, the Cedar Street tenant association faced a mightier challenge than most groups vying for TOPA funds: The building's post-storm disrepair had discouraged many of the tenants from the get-go. Sumler found herself in a position that's familiar to the LISC staffers but jarring to a lifelong renter with no professional experience in real estate.

“The weird thing is that you are in a position to make a decision about who gets your building,” she reflected in January. “You interview a bunch of developers who all have to come in and kiss the ring. It’s very interesting to see who’s resentful of that. TOPA is a very powerful piece of legislation, and not everyone thinks it’s a good idea that the tenants get to decide who buys the building.”

The tenants’ attorney had prepared them well, she said. “You’re making a decision based on who you think you can get along with and who respects you as tenants and who you can respect as an owner.”

The neighbors found that they had converged on a simple yet profound principle: It wasn’t enough for them to retain affordable rentals for themselves; they wanted to pay it forward, to make sure generations to come had the same options.

“This was a very conscientious building,” Sumler said. “We didn’t want to become another property that sold out to condos and got the best offer in terms of buyouts.”
In fact, 12 current tenants did decide to accept the buyout offer of $15,000, including of all those whom the storm had displaced.

Ultimately, Joseph’s development company was “the most aligned” with the tenants’ desires, Sumler said. So far, it’s been a respectful, collaborative process, if risky. “There were other developers that could come over in 90 days and get construction started, but their commitment to affordable housing was not in line with ours. We chose the harder path. We took the chance, and, quite frankly, we’re not even sure the chance is going to pay off.”

Risks
Joseph, 65, is far from the brash wheeler-dealer that one may associate with big-city real-estate development, but he’s proven to be a genuine partner for this group of tenants striving for housing equity.

He began his career in Springfield, Mass., organizing low-income residents and then ran a community development corporation before moving to the nation’s capital to join a nonprofit that included TOPA projects among the developments it undertook. He struck out on his own in 2010, establishing an affordable-housing consulting practice.

The Cedar Street project is only his second solo turn as a developer, and the first time he’d ever applied for tax credits for a project, a reality that the Cedar Street tenants had to take into account when weighing whether to hire him. And Joseph is also, despite his background in social justice, a for-profit developer, a consideration that gave LISC pause in deciding whether to fund him.

Even more pressing: LISC’s financing was merely keeping the lights on in a building where maintenance had been deferred for years, where one-third of the tenants, and their rental revenues, had left. Interest on LISC’s loan to Joseph cost the developer approximately $20,000 per month. With the building not fully occupied, the rent rolls covered the cost of operating the building and a sliver of that interest.

Every resident of Cedar Street who spoke to MarketWatch, as well as Joseph, described chronic problems in the building that a more responsive landlord would have taken care of. Sumler experienced ceiling leaks in both the bathroom and the kitchen, bubbling paint on a bedroom wall, shoddy workmanship in fixing a gas furnace and patching floor tiles, and a gas stove that received a city citation for leaks.

'It's sad that the city is being given away to the highest bidder. We can at least say we stood up. We want to keep this place low-to-moderate affordable for years to come.' Lillian Hanger, lifelong 410 Cedar St. resident

MarketWatch reached the former landlord, Brad Gillian, and offered him the chance to comment. Without hearing specifics, Gillian responded: "I don't have any response to any of that. That's a bunch of nonsense."

The building will see a significant transformation: Its plumbing, heating and electrical systems will be modernized; the portions destroyed during the storm repaired; and it will be made accessible to people with disabilities. Each individual unit, even those not damaged by the storm, will be upgraded. And perhaps most significantly, its mix of apartment configurations will change to make the building more family-friendly, as noted below.

Unit size in bedrooms	Current	Proposed
1	19	15
2	11	14
3	0	1

Rent control

Lillian Hanger is, like Sumler, a lifelong Cedar Street resident. Hanger, 56, works on Capitol Hill and has a master's degree in public administration from Georgetown University. She's helping Sumler with the TOPA organizing after seeing firsthand the impact of gentrification on her city, as well as what she sees as the value of rent control.

"My parents retired and moved away, my sister got married and moved away," Hanger said. "I kind of never left. I've had thoughts about moving, but I said, let me stick around here. My father always told me, whatever you do, don't give the apartment up. I never understood that, but now I do. He foresaw the changes coming."

Hanger has withstood several attempts at being moved out, she said, and even a buyout offer by the former landlord. "I was like, uh-uh, no way. They realized that they couldn't force me out. I was a good tenant, paid my rent, did what I was supposed to."

Even though the TOPA pursuit has been a lot more work than she bargained for, Hanger is proud of the line the tenants drew. “It’s sad that the city is being given away to the highest bidder,” she said. “We can at least say we stood up. We want to keep this place low-to-moderate affordable for years to come so people can come and live in this neighborhood. It was nice to grow up here.”

Tenant Don Mosteller, who grew up near Philadelphia and has lived in D.C. since graduating from college, took the buyout offer. He had mixed feelings about leaving Cedar Street but was living there with a girlfriend who was “insistent” that they take the cash.

“The long-term economic decision would be smarter to stay here for a rent that is locked in, but I don’t think we saw ourselves staying here for a long time,” Mosteller said. Shortly after coming to that decision, the couple broke up. Each will receive still one-half of the $15,000 buyout.

Mosteller mused on the torrid D.C. housing market: “I’m 34, I have a good job, I’m a Yale graduate, I work in energy policy,” he said. “But almost all of my classmates from Yale in D.C. do not own homes. There are a few people who are married, who’ve managed to get a 600-square-foot condo and are paying condo fees. When the news was announced that **Amazon was coming [to nearby Crystal City]**, most of us in the city were like, ‘Crap, this is really bad — how could it possibly get worse?’ ”

Now, Mosteller is back out apartment hunting. He believes that living in a three-bedroom apartment with two roommates is “the monetary hack” for the D.C. housing market.

“Everyone I know knows it: Owning a home is the way to go,” he said. “But there’s almost nowhere left in D.C. where owning a home is reasonable. I don’t want to live in a neighborhood that’s incredibly far away, or be dependent on a car, or get a home that’s in disrepair that I’m going to have to put a lot of money into.”

Mosteller has found the TOPA process emotionally resonant. “There are so many people who’ve been displaced because people like me have moved in,” he said.

Mosteller has been paying $1,265 a month for the one-bedroom apartment at Cedar Street. It’s very hard to get accurate price data for rentals at the ZIP Code level, but a recent search on Zillow for a one-bedroom apartment in the same ZIP as 410 Cedar St. showed that the least expensive availability cost $1,466. Other options went as high as $2,500 per month.

Hanger and Sumler declined to reveal the monthly rents for their apartments.

‘A challenge for black and brown communities’
For all the grim statistics about D.C.’s housing challenges, it’s especially daunting in one important respect.

As of 2017, the most recent data available from the Census Department, **black median household income in the city is about $42,000** — less than a third of the white median household income of $134,000, according to an analysis from the D.C. Fiscal Policy Institute. Meanwhile, a 2016 report from the Urban Institute found that a typical white D.C. resident possessed a staggering **81 times the wealth of a black resident**.

“White incomes have always been significantly higher, but it’s definitely been the case that white income has bumped up as the city has changed, whereas black income has remained stagnant,” the VCU professor Howell said. “In part that’s because blacks who have the means to buy a home are going out to the counties. They move for the same reason we all do — schools, services, access to home ownership. They’re voting with their feet.”

LISC staffers often encounter city residents who have few, or no, such choices. Adam Kent, who works with Jacobson at the agency’s Washington office, taught for a time in the Washington public schools.

He was thoughtful for a moment when asked what drew him to the issue of housing.
“I saw the talent that our society was throwing away. I got into community development work because we are just forgoing so much potential in so many neighborhoods.

Everybody needs a place to go home to at the end of the day. I feel like if so many of my kids had more stability, they would have been able to focus on school, focus on realizing their dreams. Having a safe, affordable and stable home is a key part of working toward the rest of your life," he said.

*'Highways were driven through black communities, isolating them from investment, so what you're seeing is not something that just organically developed. It developed with the help of public policy.'*Maurice Jones, Local Initiatives Support Corporation
As president of the national LISC organization, Jones takes a broader view.

"This is overwhelmingly a challenge for black and brown communities throughout the country," he said. "Highways were driven through black communities, isolating them from investment, so what you're seeing is not something that just organically developed.

It developed with the help of public policy. We need to own that, and we need to do something about it as a country. You can't have a policy without race to correct a problem that was created by policies explicitly about race."

One of the curiosities about 410 Cedar St., though, is how diverse the building and the neighborhood around it are.

"It's a very mixed neighborhood in terms of race, ethnicities, economic demographics — everything," longtime resident Hanger said. "It's a place where people can raise their kids, even if you're living in an apartment building. There's a great elementary school within walking distance of the apartment complex."

She remembers with a laugh how "hippies" used to live together in large Takoma houses, until those hippies grew up and bought the houses themselves.

In communities all around the country, LISC's Jones has seen how neighborhoods were purposely cut off from areas of development, or split in two, stripping residents of resources and leaving segregation and economic hardship in its wake.

The complex at 410 Cedar St., he said, "doesn't have any of that. This one is a gem."

Why not just knock it down?
It's a gem that was constructed in 1927, and that's about all that's certain about the property's origins. According to local lore, it was built as hospice housing in association with the Walter Reed Medical Center, which was located a few blocks away until it relocated a few years ago. But in response to a MarketWatch inquiry, a researcher at the U.S. Army Medical Department Museum said that pedigree is doubtful.

Because of its age and its location within the **Takoma Historic District**, an official designation from the National Parks Service, the property is eligible to apply for Federal Rehabilitation Tax Credits.

Within the affordable-housing category, however, the term “preservation” doesn’t necessarily imply historic, as the designation may apply to anything other than new construction. “Wouldn’t it be better to just knock it down and build something new?” is a question developers, government officials, consultants and investors hear often.

Yet as LISC’s Jacobson puts it, “People are rooted in preservation deals. Social fabric takes a long time to develop. You have to go through some snowstorms and people going out to shovel at the same time, someone bringing an infant home. With new housing projects, we just count up the units and the numbers and forget that there’s a community that has to be built.”

While the notion of social fabric sounds poetic, as VCU’s Howell likes to point out, it also makes preservation deals “a lot messier” than new construction.

And the clock is ticking. The types of financing incentives that the developer Joseph is using to fund his project, and which developers use to build new affordable homes, have expiration dates. A 2015 mayoral task force determined that nearly **14,000 units of affordable housing with such subsidies are “at risk of loss**” by 2020 in Washington.

Counterintuitively, the complexity of the affordable-housing funding process may be what keeps it going.

A cynical view is that the thousands of people who have a hand in projects like 410 Cedar St. now represent an entrenched constituency for this way of doing business. A more generous take is that the Low-Income Housing Tax Credit has actually given rise to that Holy Grail of public policy: a bipartisan solution that can be leveraged for far bigger impact than the amount of money it requires.

“LIHTC has rehabilitated the reputation of public policy for affordable housing,” Buzz Roberts, the CEO of the industry group the National Association of Affordable Housing Lenders, told MarketWatch.

In 1986, when a housing tax credit was being considered as part of the massive tax-reform effort then underway, “there were a lot of skeptics that anyone could manage affordable rental housing effectively,” Roberts said. “There had been all these previous government projects that were poorly managed, poorly located, beset with crime and other social problems.”

Low-Income Housing Tax Credit (LIHTC) steps

- Anyone who wants to sponsor a housing project, such as a developer, can apply for LIHTC funding.
- Anyone awarded credits can work with a middleman called a syndicator, or go directly to the marketplace.
- Banks, other lenders, funds and corporations compete to invest in properties, usually as limited partners, to access these credits.
- Once a deal is struck, the investor has an asset that reduces its taxes every year for ten years. (For Cedar Street, that's a $5 million package of credits, or $500,000 per year.) The bank or corporation simply applies that credit to its tax bill, reducing what it owes by that amount.
- Any company may want these credits in order to pay less in taxes. But investing in new affordable housing may also help banks meet their obligations under the Community Reinvestment Act. In 2018, 68% of LIHTCs were purchased for CRA, according to CohnReznick, an accounting firm.
- Investors bid for the credits; in today's market, Cedar Street's $5 million allocation will fetch about $4.7 million. That money from investors acts as equity funding to enable the developer to secure a mortgage.
- Various parties must ensure that the project complies with federal and state requirements for at least 30 years and operates effectively over the 10-year life of the credits, and another five years beyond that. Violations of federal requirements within the first 15 years could cause investors to forfeit the tax credits.

Source: MarketWatch reporting; thanks to Buzz Roberts, National Association of Affordable Housing Lenders

By involving private investors, the LIHTC program established a sense of market stability that helped convince banks to enter the space, too.

That private-sector involvement — along with the fact that LIHTC is a tax expenditure, not a direct spending program — has also kept Republicans, who might not ordinarily support public funding for affordable housing, on board, and has helped LIHTC survive party-rule changes over three decades.

Onward

In April, after the city approved the funding that enabled the Cedar Street project to move forward, everyone involved breathed a sigh of relief.

LISC's Jacobson and Kent had faced an extra layer of scrutiny from their national colleagues over the risk associated with the Cedar Street project: the building's disrepair, the uncertainty of city financing, Joseph's comparative lack of relevant experience and, no small matter, rising interest rates. In February, LISC was handed a downgraded outlook by the credit-rating agency Standard & Poor's, which cited a growing debt burden.

That made the city's financial boost extremely timely. LISC will get back the money it lent to Joseph relatively quickly, which means that the repaid money can be recycled into another project.

Joseph faces his own version of that dilemma. "The thing about this kind of work is that it's all money out for a long period of time, until we get a return," he said. He got an unpleasant reminder of that — and of the complex's recent history of deferred maintenance — in March. One apartment had a leak severe enough that he temporarily relocated the tenants until the problem was patched, costing time, energy, and about $1,000.

The Cedar Street project has what Joseph calls "a double bottom line": one that pays the bills but also feeds the soul of someone who originally got into housing as a way of affecting social change.

"I believe that the economic forces that are creating displacement in these hot markets will continue. But I also believe that what you're seeing now is more people in the public and private sectors who are willing to actually get into the game," LISC's Jones said in March. "I think that there is the possibility here for us to get more laborers in the vineyard and thus do this work on a bigger scale."

Jennifer Sumler had never expected to be called to any kind of cause. She just wanted to save her home, even as the ground under her feet has continued shifting.

"I love the neighborhood and the location and the history here," she said. "But it is going through a transformation right now. It's just a little scary right now in terms of seeing how this all shakes out. What we will be able to maintain and what we will lose is the scariest part of all."