In Nashville, Using Loan Guarantees to Fund Affordable Housing Preservation

By Jared Brey, NextCity, May 25, 2021

In the last few years, as Nashville's population has boomed and its housing costs have spiked, so-called "naturally occurring affordable housing" has been hard to find. The term refers, loosely, to unsubsidized rental housing that falls within the budget of low-wage workers. There was a lot more of that kind of housing a decade ago, says Brent Elrod, managing director of Urban Housing Solutions, a Nashville-based nonprofit housing developer. But in the last half-decade, private investors from around the world have been snapping up apartment complexes in cities such as Nashville, making minimal improvements, and jacking up rents for more affluent tenants. The city has barely had time to react, Elrod says.

"We did not see that the transformation [was] happening as quickly as it was happening," he says.

Now, groups such as Urban Housing Solutions (UHS) are doing what they can to keep affordable apartments on the market. Last month, the group finalized a deal to purchase two apartment buildings between downtown Nashville and Nashville International Airport, with the goal of keeping all of their units affordable for the next 30 years. The acquisition is being financed with a $19.2 million loan from Regions Bank, and, for the first time in Nashville, four philanthropic foundations have agreed to commit portions of their endowments as collateral in order to guarantee the loan. The combined $2 million loan guarantee helped UHS close the deal more quickly, Elrod says. That's an important leg up in a market where private investors with ready money already have a steep advantage. Typically, UHS and other nonprofit groups have to compete for property with for-profit groups that have more equity, less cumbersome financing options, and often work with brokers who can do much of the legwork for them.

"We haven't had much success, frankly, doing it the hard way, because a lot of what we have found is that we're already too late, because more aggressive and better-resourced real estate organizations were doing the same kind of thing," Elrod says.
The two apartment complexes the group purchased, known as Parliament Place and Southwood Park, are adjacent to each other and have a combined 165 units. One-bedroom units currently lease for $850 a month in one and $925 a month in the other.

That makes them affordable to people earning between $34,000 and $37,000 a year — around 60 percent of Area Median Income in Nashville, which is $59,100 for a single person or $84,300 for a family of four. In the next few years, Urban Housing Solutions plans to refinance the properties using federal Low Income Housing Tax Credits, which will keep rents affordable to people earning up to 60 percent AMI for the next three decades at least.

As part of the planned deal, UHS will need to start imposing income limits on tenants in the two buildings. The group plans to use an income-averaging option through the LIHTC financing that could allow some people earning up to 80% of AMI to live in the units, offset by tenants at the much lower end of the income scale. But people who earn more than 80% of area median income, of whom there are several in the two buildings, will eventually need to move, Elrod says.

Regions Bank offered the $19.2 million loan for the two properties on a short-term, interest-only basis. The loan was made through the state Community Investment Tax Credit program, which gives the bank a tax credit in exchange for investing in low-income housing. For the next few years, until it refinances the project with federal tax credits, UHS will only pay interest on the loan, which is currently 0%, essentiall making this a free loan. And for the foundations that offered the loan guarantee, the bill will likely never come. The deal was structured so that the foundations — the Memorial Foundation, the Healing Trust, the James Stephen Turner Family Foundation, and the Kharis Foundation — could put their endowment to use to promote affordable housing without actually making grants to the developer, a process that usually takes more time. Assuming that UHS doesn't default on the loan, the collateral funds will never be used, and the foundations have agreed to re-commit them for future preservation projects. Loan guarantees of this type have become a more common tool in community investment, as Next City has reported, but this is the first time that they've been used to fund housing preservation in Nashville.

"I think what was attractive about the loan-guarantee fund to the foundations is that we can keep our funds invested the way that each of us wants," says Kristen Keely-Dinger, president and CEO of the Healing Trust. "While there is risk involved, it's not as risky as some other ways of investing might be."

The Healing Trust is a foundation formed from the sale of a local hospital in 2002, with a mission to "advance racial equity and eliminate health disparities." The other foundations that put up collateral have a range of missions, but all see promoting affordable housing in Nashville as a worthwhile goal.

While Nashville's housing market has transformed quickly, advocates say the city hasn't done all it could to support efforts to preserve affordable housing. After former Mayor Megan Barry resigned in 2018, former Mayor David Briley proposed a plan that disappointed many advocates, as Next City reported. Nashville Organized for Action and Hope, a coalition of advocacy groups, has been pushing for the city to create a dedicated housing department within city government, and to commit at least $30 million a year for three years to the Barnes Housing Trust Fund while also sourcing a stable, long-term revenue source for the fund, according to Kay Bowers, chair of the group's affordable housing task force.

"Middle- and low-income workers are being priced out every day," Bowers says. "We're losing housing stock to outside investors with deep pockets."

A lot of the buildings that would be good targets for preservation were actually built or financed with tax credits decades ago, and their affordability restrictions are beginning to expire, Bowers says. The city and the private sector could invest in a fund that would help nonprofit developers acquire those buildings quickly, ahead of the private competition, she says.

In the meantime, Bowers says, creating revolving loan-guarantee funds from local foundations is a step in the right direction. “You now have the kinds of tools that are needed in this community to make it more possible to preserve these affordable units and compete with market forces.”