



**British-American Peer-to-Peer Exchange:
Sharing Best Practices and Strategies among the Leading
Affordable Housing Developers and Owners
Washington, DC, USA
April 24-26, 2007**

By Chuck Wehrwein and David Orr

Overview

An historic exchange of experiences, practices and ideas took place between the foremost affordable housing organizations in the US and the UK in Washington, DC, in late April, 2007. The exchange, which was sponsored by the Housing Partnership Network (US) and the National Housing Federation (UK), comprised the chief executives of thirty nonprofit developers and owners from the two countries. Also in attendance were the senior leadership of the UK's government housing regulator and funder, as well as housing professionals from the Netherlands. The purpose of this face-to-face meeting was to further the relationships and exchange of best practices among these highly productive, mission-driven organizations, and to share strategies to promote innovation, entrepreneurship, and sustainability. The exchange also featured a meeting in Congress with American housing policy makers.

History of the Exchange

In April 2003, the Housing Partnership Network sponsored a visit by a dozen CEOs of its member organizations to leading nonprofits in the Netherlands and England. HPN Founder Bob Whittlesey had long-established ties to European groups and individuals which formed the basis for the trip. The meetings significantly broadened the leaders' understanding of the respective housing systems. Surprisingly, the participants identified many shared challenges, opportunities and perspectives. For the US delegation and the Housing Partnership Network, the trip stimulated new ideas about how the nonprofit sector can approach the capital markets to increase their impact. After learning about the Dutch guarantee fund, HPN was inspired to create its own financial guarantee vehicle for affordable rental housing—Housing Partnership Securities—which was launched in 2006.

Following the 2003 visit, HPN remained in touch with various European practitioners. HPN President Tom Bledsoe attended a meeting in Stockholm in 2005 of the REX Group, a self-selected network of large housing associations from several European countries. In 2006, chief executives from six associations in the REX Group visited the US to tour properties and have informal discussions with four of HPN's nonprofit members in the Washington, DC, area. Following that trip, the Network and its counterpart in Britain—the National Housing Federation—agreed to host a more in-depth, three-day, bi-lateral exchange among US and British nonprofit leaders in April, 2007.

Funding from The John D. and Catherine T. MacArthur Foundation was instrumental in making possible the April 2003 visit to the Netherlands and the United Kingdom. Continued operating support and interest in these international exchanges from MacArthur have enabled the Network to continue them.

Summary of the Washington Exchange

The conference in Washington, DC among the US and UK groups provided opportunities for information sharing and dialogue in the following areas:

- History of affordable housing policy in the UK and the role of Housing Associations in carrying out this policy, notably:
 - Like the US, the UK has experienced significant growth in homeownership, presently at around 70%
 - The majority of renters are unable to afford market-rate housing (rental or homeownership) and live in subsidized homes provided by local authorities (like Public Housing Authorities in the US) and Housing Associations (analog to non-profit developers in the US).
 - Housing Associations are the major mission-driven organizations providing new low-cost housing in the UK, and have also taken ownership of properties formerly operated by local authorities through what is commonly known as “Stock Transfers.”
 - These 1,300 independent, not-for-profit housing associations operate 2.4 million affordable homes for five million people throughout the England. Like in the US, however, a majority of homes are owned by a relatively small number of large scale housing associations which are growing in size through mergers.
 - Housing Associations submit business plans and grant applications to the government to support a pipeline of production and receive multi-year commitments. The government regulates and conducts ongoing assessments of the organizations.
 - The grants are targeted for particular developments but the funding is made flexibly to the organization rather than being restricted to a particular project. The equity and portfolio of housing assets built up by the housing association is then used to secure private sector financing of future projects.
 - The level of public grants has been declining and the government has encouraged Housing Associations to leverage more private capital. Reorganization of the UK housing agencies is designed to promote more entrepreneurship among housing associations and current regulatory models are being reexamined.
 - Housing Associations are pursuing a range of non-landlord activities to go beyond the traditional owner role and to connect their residents and developments to community building and neighborhood revitalization initiatives. The National Housing Federation promotes housing associations as being **‘in business for neighbourhoods’**.

- An overview of US affordable housing policy and the role of mission-driven organizations in responding to these issues.
 - Federal housing programs have historically relied more on the for-profit sector rather than nonprofits to develop affordable housing.
 - Resources for public housing authorities have been declining, but—with the notable exception of the HOPE VI program - there have been no significant transfers of housing authority stock.
 - The policy focus has shifted towards nonprofits over the last twenty-five years because of their commitment to preserve long-term affordability and to serve lower-income families.

- Historically, neighborhood-based nonprofits have been the primary target of government and foundation resources, often through capacity building programs operated by national nonprofit intermediaries.
 - Larger, partnership oriented nonprofits have emerged over the past twenty years at the regional, state and national levels and these groups—which constitute the membership of the Housing Partnership Network—have been gaining increasing attention from policy makers and funders.
 - The federal low-income tax credit program—operated through the states—has been the largest production initiative, and it has encouraged private sector investment through limited partnerships.
 - The US system, in part due to the heavy for-profit involvement as developers and investors, has restricted subsidies to projects, which has sharply limited the capitalization, leverage capability and sustainability of the organizations.
 - US nonprofits are oriented more towards their housing development role, rather than their asset management and owners functions, and the complexity of the housing finance system further reinforces this focus.
 - The lack of an organizational safety net, and the need to build partnerships with a wide range of public and private investors, has encouraged entrepreneurship and innovation among nonprofit organizations.
 - Because of their historic roots in neighborhood revitalization, nonprofits have been integrally involved in community building and resident empowerment initiatives.
- Converging trends in US and UK affordable housing systems, including:
 - The need to continue to bring more business acumen to the leadership and operation of mission-driven housing operators.
 - A focus on organizational investment, rather than transactional support.
 - Spotlight on the analysis of financial and operation metrics towards improved accountability.
 - The need to leverage the capacity and experience of these companies to attract more capital (at better terms), achieve more effective purchasing power (including products and services) and create more relevant industry standards.
 - The need to develop cost/benefit metrics and ongoing revenue sources, as well as agreed upon best practices for resident services and non-landlord activities.
- The group also saw presentations in the following areas:
 - Neighborhood regeneration in the cities of Philadelphia and Baltimore.
 - Organizational performance, impact and quality by US housing groups.
 - Quality and customer satisfaction measurements used in the UK.
 - Comparison of resident services in the UK and the US.
 - Housing Partnership Network Social Enterprise Model, including its captive insurance company.
 - A tour of two properties in the DC area developed and operated by Housing Partnership Network members Homes for America and Community Preservation and Development Corporation.
- Meeting on Capitol Hill with US Housing policy-makers
 - Breakfast keynote speaker was Congresswoman Maxine Waters, Chair of the Housing and Community Opportunity Subcommittee of the Financial Services Committee. The session was also attended by several Senate and House staff members engaged in housing policy.

- Housing Partnership Network Social Enterprise/Partnership Model (Gulf Coast Housing Partnership and capital markets ventures) presented by:
 - Tom Bledsoe, CEO, Housing Partnership Network
 - Kathy Laborde, President, Gulf Coast Housing Partnership
- Overview of the British organizational capitalization model and remarks by:
 - Richard McCarthy – Director General, Programmes, Policy and Innovation, Communities and Local Government (formerly Office of the Deputy Prime Minister)
 - David Orr – Chief Executive, National Housing Federation
- Q&A with Congresswoman Waters and the attendees

Key Areas of Discussion and Mutual Interest

UK vs. US Affordable Housing Development System

Overall, the mutual exchange of best practices proved to be both provocative and valuable for the UK and the US groups. The face-to-face format created an atmosphere of collegiality and comfort that allowed both groups to share experiences and information in an honest and straightforward manner, and fostered an esprit de corps and common language among the participants. The engagement of British and American policy makers in the discussion was especially enriching.

The most significant set of realizations that came out of the meetings was in the dramatically different ways that housing organizations and real estate transactions are structured and funded in the UK as compared to the US. The UK structure is built around the organization, ensuring that it is well capitalized and motivated to perform over the long term. Government invests in the housing association, which then matches this investment with private borrowing and reserves. The structure for real estate transactions is relatively straightforward. This process, although over bureaucratic, has ensured effective delivery of new affordable housing. The residents of the resulting housing are then eligible for rental support through means tested Housing Benefit which ensures a consistent revenue stream for the housing association.

The positive outcomes of the British (and generally Western European) approach are strongly capitalized Housing Associations, long-term stability of their portfolios, highly simplified (and one assumes, more efficient) transactions and the ability of the Housing Associations to focus on what they are best at: building, buying and operating affordable housing and serving its tenants well. The potential downsides include fewer private sector partners and less experience in financial structuring that encourages entrepreneurship and better leverage of public resources, as well as the potentially burdensome regulatory oversight requirements that come with significant public investment.

The American approach is set up quite differently. Mission-driven affordable housing developers in the US are very transaction driven, as almost all public funding and a good bit of private and some philanthropic capital is available at the deal level, but not at the organizational level. It is not uncommon for an affordable housing project in the US to have seven sources of third-party debt and equity, each with its own allocator, application and funding timeline, underwriting and reporting. Housing Partnerships are forced to vie for these competitive resources, cobble them together and attempt to make a fee that will cover their costs and maybe add to their capital base. In the long run too, these leveraged assets tend not to “reward” their operators with cash flow. If there is any cash flow after operating

expenses and debt service, it tends to go to the state and local government funders who bring “soft” or flexible debt to these projects. If resident services are to be provided, it is usually funded from project cash flow, if any, and philanthropic sources.

At the organizational level, American not-for-profits have to look to multiple sources to increase their capital base in order to create strong organizations and to create opportunities to be more productive in the future. Net asset growth is accomplished through the aforementioned development fees, but more typically through a mix of philanthropy and real estate asset sales or refinancings, while property operations seldom contribute. A significant portion of the net asset position of US non-profits is often tied up in property assets with many regulatory and mission barriers that make monetizing these assets difficult.

The downside of the American system as compared to the British approach is rooted in the transactional nature of the affordable housing model. The multiple debt, equity and philanthropic sources necessary to create deeply affordable homes, create a time-consuming, overly complex and inefficient process that also entails significant risk for the Housing Partnership. There is very little public policy focus on the strength and sustainability of the organization.

On the plus side of the ledger, this system has, by necessity, created innovative and lithe Housing Partnerships that do many things well. They are financially astute, often pulling off transactions that the private sector could only dream of. The need to compete for resources and the responsibility to manage all of the funders’ expectations makes for a high level of accountability and input from multiple private and public sector stakeholders. It also creates an absolute need to collaborate effectively with local, state and federal government and the community, leading to higher acceptance of the affordable projects as well as respect for and improved relationships for the non-profit organization. Thus, despite the barriers encountered in the development and operation of affordable housing, through innovative leadership and deft management, many members of The Housing Partnership Network don’t just survive, they excel.

Organization vs. Transactional Structure – Moving both Models Forward

The presence of and dialogue with members of the UK’s government housing regulator as well as US policy makers from Capital Hill were truly enriching for all parties. While the British Housing Associations are rightly supportive of their organizational approach to the development and sustainability of their affordable housing and the groups that pursue it, they are very interested in the potential that private capital and leverage can add to their productivity (see US Public/Private Investment Structures below).

The American groups, on the other hand, see much in their British colleagues’ organization to emulate. The Housing Associations are strongly capitalized, long-term focused companies who serve their tenants well. They are accountable and productive, yet are able to survive transactional or people-related set-backs. As noted above, the US model tends to leave non-profits thinly capitalized, but highly nimble. Exploring ways in which the American system can move more towards an organizationally oriented approach (vs. a transactional one), while maintaining the agility that Housing Partnerships have come to be known for, would be fertile ground for the next UK/US Peer-to-Peer Exchange.

Social Enterprise Ventures

The Housing Partnership Network has launched several social enterprises for the benefit of its members. Those already up and running as well as those in that are in the process of

creation are meant to be profitable, well-run enterprises that bring lower transaction costs, and better terms and/or returns on equity to the Network members who participate in these businesses.

Following are brief summaries of The Housing Partnership Network's social enterprise ventures in place or under development:

- **The Housing Partnership Fund** is a \$30 million nonprofit lender established in 2000 that has provided higher-risk mezzanine loans to acquire and preserve or develop more than 12,000 affordable rental apartments and single-family homes.
- **Housing Partnership Ventures** is HPN's investment vehicle, providing equity for the start-up and expansion of its collaborative social enterprises, including Housing Partnership Insurance, the Gulf Coast Housing Partnership, Housing Partnership Securities, and the Housing Partnership Fund.
- **Housing Partnership Insurance** is owned through a stock corporation by 19 regional nonprofits and HPN. Launched in April 2004, it now provides property and liability coverage for 40,000 affordable apartments valued at \$3 billion.
- **Housing Partnership Securities** originates, pools, and securitizes multifamily mortgages financed through tax-exempt bonds to help nonprofit developers to more effectively produce or preserve affordable apartment communities. The company began lending in the fall of 2006, and will finance \$50 million of mortgages on 1,000 apartments in its first year.
- **Charter School Financing Partnership (CSFP):** HPN and five of the leading nonprofit lending institutions in the country are joining together to form a conduit that will pioneer an efficient secondary market for charter school loans. It will combine the use of tax-exempt debt and asset-backed securitization to deliver affordable, fixed rate, permanent financing to charter schools. CSFP will provide \$75 million of financing annually to schools that serve lower income children and communities. As a result, the schools will save millions of dollars that can be redirected toward providing better educational opportunities for tens of thousands of children. Beginning in the last quarter of 2007, 30 to 50 charter schools will be financed over the next 48 months providing seats for at least 15,000 lower-income students. In June 2007, the Housing Partnership Network and its partners were awarded a \$15 million grant from the US Department of Education for credit enhancement for this effort

The English Housing Associations, through their membership of and participation in the National Housing Federation, have engaged in a number of business collaborations. In addition to the knowledge and networking exchanges afforded by the events, publications, training, survey and consultancy services provided by the Federation, the members have access to the following:

- **HouseMark** is the leading performance improvement service for the housing sector, dedicated to helping housing associations, local authorities and ALMOs to achieve continuous improvement. Boasting over 540 subscribers, HouseMark is a joint venture by the National Housing Federation and the Chartered Institute of Housing.

- **Procurement for Housing (PfH)** is the purchasing consortium for the social housing sector. Backed by the National Housing Federation, Chartered Institute of Housing and HouseMark, PfH uses the collective buying power of Members to achieve the best possible supply terms for a wide range of products.
- **My Home Contents Insurance** was designed for housing association residents by the National Housing Federation in partnership with insurance broker Jardine Lloyd Thompson. It is specifically aimed at those who have traditionally found difficulty accessing affordable insurance from mainstream providers. Launched in December 2006, it has already attracted a great deal of attention from members, as part of their commitment to the financial inclusion agenda and has been welcomed by tenants.
- **Alliance and Affinity Partnership** was set up to look at ways of providing cost-effective purchasing and value for money to the sector through the provision of preferential pricing structures for products and services. The programme helps members to achieve efficiencies and cost savings through their collective purchasing power. Federation members can obtain discounts from a range of companies covering areas such as IT solutions, hardware and software, business services, research and analysis, training, HR and private medical care.
- **Financial services** are provided as a benefit of membership in the form of Directors' and Officers' Liability Insurance. Indemnity insurance is provided to safeguard Voluntary Board Members and senior members of staff.

A number of other partnerships are currently being pursued but the National Housing Federation and its members remain enthusiastically interested in The Housing Partnership Network's model, how they might learn from it, and even how we might collaborate on some areas like insurance or group buying across borders.

US Public/Private Investment Structures

The dominant public-sector subsidy source for the development of new affordable housing in the US is the Low Income Housing Tax Credit (LIHTC). Instituted in 1986, it attracts private investment in affordable housing through a credit against income taxes for 10 years. A developer must apply and compete for an allocation of LIHTCs from its state, which administers the program for the federal government, and then sells these tax credits to private sector investors to raise equity for their development projects through what is now a well developed and informed capital market. The primary buyers of these tax credits are corporate institutions, primarily in the financial services industry who are motivated by regulation to invest in their communities.

As noted previously, this source alone is typically not sufficient to fully capitalize an affordable housing development. However, this market has become relatively efficient and more importantly, has brought the private sector and its acumen to the table, and has debunked the notion that affordable housing is inherently more risky than other types of real estate investments.

The UK Housing Associations are not anxious to see the tax credit model adopted in England, but are interested in learning more about some of the financial structuring and complimentary capitalization methods that have been employed in the US. There is a desire to see if similar tools in Britain might be used to augment the current system. An idea to pursue might involve leaving the current sustainability-focused, organizational support

structure in place, while bringing more supply side tools to the table that might allow the Housing Associations to produce more housing for the resources invested.

Summary: Areas of Expressed Mutual Interest

The following summary lists the areas that are worth pursuing prior to and during the next Peer-to-Peer Exchange:

- Areas where British Housing Associations would like to learn more about the American experiences of leveraging private finance for community regeneration:
 - Resource development to further mission and production, while respecting the current organizationally-focused support structure.
 - Housing Partnership Insurance, a cooperative-like social enterprise.
 - Other models to promote entrepreneurship and stronger ties to the private sector.
 - Strategies to create stronger connections and support for Housing Associations at the community level.

- US interest in learning how housing associations in the UK have built up organizational capacity:
 - Attempt to better understand and leverage the European experience as a more long-term, organizationally-focused approach to responding to the critical affordable housing needs in the US.
 - British transfer of council housing stock to Housing Associations (more than one million homes have been transferred to date).
 - British and Dutch efforts in setting standards for and measuring and improving quality of customer service.
 - Exploring ways to expand performance measures and standards to move toward self-accreditation or self-regulation.

- Areas of expressed mutual interest were:
 - Determine mutually beneficial ways for British, American and potentially other European or continental organizations to collaborate going forward, for example:
 - Exchanging information and practices on resident services/non-landlord activities.
 - Organizational governance and building governance capacity and accountability.
 - Government regulation vs. forms leaning towards more self-regulation or standard-setting.
 - Communications/marketing/branding – how this industry can better communicate the outcomes, the successes and positive impacts of the work that is being done.

Next Steps

- Facilitate continuation of dialogue on resident services/non-landlord activities
- Coordinate visit to United Kingdom by Congresswoman Maxine Waters
- Follow-up on Insurance effort during September insurance visit to London
- Tony Cotter presentation on quality measurements at HPN meeting in New Orleans in November
- Establish planning group for exchange in London in the spring of 2008

Author Bios:

Chuck Wehrwein, Housing Partnership Network

Chuck Wehrwein joined the Network staff in April 2007 as president of Housing Partnership Exchange, an umbrella group within the Network which encompasses peer exchange, policy, membership, and service-related businesses. From 2000 through February 2007, he served as senior vice president for strategic development initiatives at Mercy Housing, where he led the planning and implementation of Mercy's portfolio acquisition initiative. Additionally, Mr. Wehrwein was responsible for Mercy's underwriting and asset management activities, the Mercy Loan Fund, new business development, and served as regional president of Mercy Housing Southwest, Midwest and East. Before joining Mercy Housing, Mr. Wehrwein was chief operating officer of the National Equity Fund, where he was responsible for all program operations, including acquisitions, asset management, portfolio management, and information systems, with annual equity placements of \$300 to \$400 million. Previously, he served as deputy assistant secretary for multifamily housing at the U.S. Department of Housing and Urban Development, and as deputy administrator for multifamily housing at the U.S. Department of Agriculture's Rural Housing Service. Mr. Wehrwein earned an undergraduate degree from the University of Illinois at Chicago and an MBA from DePaul University. He is a Certified Public Accountant.

David Orr, National Housing Federation

David Orr took up his post as Chief Executive of the National Housing Federation in July 2005. For the past 15 years, Mr. Orr has been Chief Executive of the Scottish Federation of Housing Associations. He also previously worked in London as Director of Newlon Housing Trust (a housing association in the high stress, high need areas of the East End) and for nine years with young homeless people at Centrepoin, in Soho. Mr. Orr grew up in Edinburgh and graduated with an MA in Social Administration from Dundee University before starting work with homeless people in Glasgow. While in London, he chaired a housing association Management Committee and Homeless Network, a co-ordinating group for voluntary organisations working with single homeless people. He also chaired the Young Homelessness Group and Care & Repair (Age Concern) Scotland and was until devolution the Secretary of the All Party Scottish Housing Group, a parliamentary discussion forum on Scottish housing issues. Mr. Orr completed a one year secondment to the Scottish Executive in October 2001, as Community Ownership Manager. He is presently a Director of the Housing Finance Corporation and a series of associated companies and a founding Director of Co-operative and Mutual Business Services (CMBS). David stood down in July 2006 as Vice President of CECODHAS, the European network of housing federations.