Policy objective: Preserving the existing stock of market affordable rental housing

Dedicated affordable rental housing is a critical part of the overall housing stock. However, most lower-income households live in homes that are affordable by virtue of their age, condition, location, or other characteristics.

These “market affordable” homes do not receive a government subsidy that lowers rents and are not otherwise subject to a regulatory agreement that controls both rents and tenant incomes. Preserving as much as possible of the market affordable stock can be an important objective of any local housing strategy.

Accomplishing this objective is particularly challenging in areas where housing demand is pushing up rents faster than incomes are rising. Owners of properties that have been charging affordable rents will want to maximize the value either by selling their property or by raising rents to create more cash flow. In the former case, the
market price for the property will likely be based on the maximum rents that the market can support, meaning the new owner will then need to raise rents in order to justify the cost of acquisition.

Under these circumstances, the most durable way to preserve affordability for existing and future tenants is to subject properties to regulatory agreements that legally restrict both the level of rents as well as cap the incomes of new tenants or buyers.[i] Typical local laws that regulate rents, whether rent control or rent stabilization, have not preserved the affordability of the units or kept them available to lower income households over the long run. Strong regulatory agreements, however, can do both by turning these units into dedicated affordable rental housing with limited ability to raise rents and restrictions on tenant incomes, at least at the time of move-in. Such agreements can be made with the current owner or ownership can be transferred to a for-profit or not-for-profit owner who is comfortable complying with government regulations and willing to forgo the full potential to increase rents to the level the market will bear.

The conversion of market affordable units to dedicated affordable units will likely require up front subsidies to compensate the owner for foregoing charging market-rate rents or to provide the buyer of the property with sufficient capital to pay the market price for the property and make any necessary repairs and capital improvements. As with any dedicated affordable units, government may need to provide ongoing subsidies if rents will not be allowed to rise sufficiently to cover increases in operating costs and to pay for replacement of major systems.

A second approach is to provide education, outreach and low-cost financial assistance to owners of older housing units to help them operate profitably. The aim here is to slow down the pace of neighborhood change by encouraging the existing owners of non-luxury housing units to continue to operate their older units rather than selling the property to someone who plans to do a gut rehab or demolish and rebuild luxury rental or condominiums. This approach is most suitable for neighborhoods with modest levels of cost pressures, rather than red hot neighborhoods. It can also be useful for buying time until other strategies are put in place to create more dedicated affordable housing. However, this approach will not prevent all rent increases, and may not work in some neighborhoods and markets, but it allows a city, town or county to impact a much larger share of the affordable stock than the strategy of converting market affordable to dedicated affordable housing.

The Policy Library has a variety of tools that can be used to preserve the affordability opportunities provided by market affordable rental housing.
# I. Create and preserve dedicated affordable housing units

**Logic/mechanism:**
Preserving the long-term affordability of market affordable units may require converting them into dedicated affordable housing units.

In cases where the existing owners lack interest necessary to maintain the property as affordable over the long-term, housing departments can work to arrange an ownership transfer as part of the process of preserving the affordability of the property.

**Specific policies:**
Provide **subsidies** or other **incentives** to compensate the owner for entering into a strong regulatory agreement or to support the **acquisition and operation of moderate-cost rental units** to ensure their ongoing operation as affordable rentals.

Establish **demolition taxes and condo conversion fees** that discourage the loss of affordable rentals (but also generate revenue that can be used to replace affordable housing lost to these activities.)

Create **preservation inventories** that include market affordable properties as well as dedicated affordable rentals to enable early identification of affordable rental buildings that are for sale.

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# IV. Protect against displacement and poor housing conditions
**Logic/mechanism:**
Help tenants in affordable housing buy their building or help. Regulate the ability of owners to raise rents to market levels or to sell their buildings at market prices.

Slow the pace of neighborhood change by making it harder for owners to oust renters who pay their bills on time, to convert rental properties to condominiums and to allow properties to deteriorate. These same policies may also provide leverage to encourage owners to accept regulatory agreements or sell to those who will.

Help existing owners operate their older buildings profitably, slowing the pace with which older developments with lower rents are replaced with high-priced condos or luxury rental housing.

**Specific policies:**
Adopt a *right of first refusal* policy that gives tenants the option to purchase their building if the owner decides to opt out of an affordability program.

Depending on state regulations, local jurisdictions may be able to use a number of tools to regulate rents, including *rent regulation*.

Slow the pace of neighborhood change by:
- Requiring evictions to be for a just cause
- Protecting residents from condo conversions
- Enforcing building codes in a constructive way that facilitates compliance.

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**Combining policies to preserve the existing stock of market affordable rental housing**

The policies highlighted in the exhibit can be used in combination, as illustrated in the first two scenarios, to preserve a market affordable property through a strong regulatory agreement that in effect converts the property into being a dedicated affordable property.

The two scenarios outlined below employ similar policies, but the cost of preserving a market affordable rental unit can range widely depending on the level of market rents in the neighborhood as well as the expectations of owners of rental properties as to the trajectory of rents. The higher the existing or expected market rents, the more costly it will be to acquire the property or to encourage a landlord to accept strong regulatory restrictions on rent levels and income requirements for new tenants. The larger the difference between the actual or expected rent levels and the rental income possible with the affordability restrictions, the more costly it will be for the government to keep the units affordable.
The third scenario illustrates an approach for helping slow the pace of neighborhood change by helping existing owners operate their older buildings profitably.

The owner of Property A is looking to sell her property at a price that reflects rents higher than currently being charged. The tenants, fearing large rent increases, petition the local government to help them or a mission-oriented not-for-profit to buy the building. In order to ensure the on-going economic viability of the building, the government will likely need to provide low cost loans or grants to supplement the amount of the purchase price that can be covered from private-sector financing. On-going operating subsidies, such as tax exemptions or abatements, might also be required if the rental income will not be able to cover the costs of operating and maintaining the building. Rental income can also be enhanced by providing housing choice vouchers to tenants with incomes too low to be able to afford even the rent levels that have been preserved.

For Property B, the owner is not looking to sell but wants to upgrade the property so he can raise rents and increase the building’s cash flow/bottom line. In this case, the jurisdiction provides a 15-year property tax abatement to the current owner, in exchange for an agreement by the owner to keep rents affordable and make the units available upon turnover to low- and moderate-income households.

Property C is failing economically, even in the face of an adequate rental market, and the owner is struggling to raise capital in the private market to make the repairs/upgrades/system replacements necessary for the property to be sustainable. To encourage the existing owner to effectively maintain the property, rather than selling to a developer that will tear it down and build a luxury condominium, a city-funded nonprofit organization works with the owner to identify options for accessing capital and to build the skills needed to manage the property successfully. While the city is not willing to provide substantial financial assistance to an owner without obtaining a regulatory agreement related to the income and rents of future tenants, the technical assistance provided by the nonprofit, together with an introduction to a new funder, provides sufficient assistance to enable the owner to bring the property up to code with only a modest rent increase.

1. Similarly, the continued availability of affordable homeownership opportunities will likely diminish in a rising sales price environment as home prices rise as owners look to maximize the value of what is often their primary source of wealth.
2. Some localities give tenants a right of first refusal when an owner looks to sell a rental property.
See also:
Policy objective: Preserving the existing stock of dedicated affordable rental housing
Rights of first refusal
Preservation inventories