

Affordable Rental Housing Development in the For-Profit Sector: A Review of the Literature

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Abstract

Starting with below-market interest rate loan programs in the 1960s and culminating with the creation of the Low-Income Housing Tax Credit (LIHTC) Program through the Tax Reform Act of 1986, the federal government has provided various incentives to encourage for-profit developers to build rental housing that is affordable to low- and moderate-income households. Although for-profit firms have been involved to a far greater extent than nonprofit housing organizations in the LIHTC and other affordable housing production programs at the federal, state, and local levels, these firms have garnered relatively little attention from the academic and policy communities. This article addresses part of that gap by presenting a review of the literature¹ pertaining to the affordable housing production record of private, for-profit developers and, where possible, comparing it with the records of nonprofit housing organizations. The article also explores what is known about the extent to which for-profit firms are meeting the “quadruple bottom line.” The quadruple bottom line encompasses the following four components: an affordable housing development must (1) have the financial backing necessary to preserve the development’s long-term affordability, (2) address the social and economic needs of the residents, (3) contribute positively to the neighborhood, and (4) be environmentally sustainable (Bratt, 2012, 2008a). Although the evidence is limited and some findings are contradictory, several differences emerge from this review. The article also offers suggestions for further research.

¹ This literature review is revised from a section presented in a working paper (Bratt, 2016).

Introduction

The question of how to build decent housing that is affordable to lower-income households has challenged policymakers for decades. Although it is widely acknowledged that federal housing policies have attempted to meet a number of objectives in addition to housing the poor, the challenge of how best to stimulate production has persisted. All the many efforts that have been tried assume that the private, for-profit housing sector typically is not, on its own, able to produce housing affordable to low-income households while still realizing the desired level of profit. Federal assistance in some form is essential to stimulate a large-scale production effort. This simple statement, however, raises additional questions about the type of developer that could best produce the housing. With public housing authorities losing favor by the 1960s, questions arose about whether federal housing assistance should be targeted primarily to private nonprofit or for-profit developers.

After a brief overview of the historical context of for-profit affordable housing development, the literature review first summarizes the findings of key studies concerning how for-profit and nonprofit developers navigate the development process. The article then explores how housing projects built by both types of developers have gone about trying to satisfy several, sometimes competing, pressures, which we call the “quadruple bottom line,” which is “the simultaneous need for the [affordable housing] development to be financially and economically viable while also meeting social goals” (Bratt, 2012: 443). An affordable housing development meeting the requirements of the quadruple bottom line must—

- Have the financial backing necessary to preserve the development’s long-term affordability.
- Address the social and economic needs of the residents.
- Contribute positively to the neighborhood.
- Be environmentally sustainable (Bratt, 2008a; see also Bratt, 2012).

Whenever available, information on the comparative record of for-profit and nonprofit affordable housing developers is included. Data that allow for a head-to-head comparison, however, is relatively sparse. In addition, in no studies did we find a finer grain of analysis that takes into account the significant variety in both types of organizations. More exploration is needed to develop a full typology of the world of for-profit affordable housing developers.

The types of developers vary in a number of key ways: total size of portfolios, size of individual development projects (for example, individual buildings or entire neighborhoods), focus on urban or suburban development, and type of primary construction (that is, rehab or new). In addition, at least some for-profit developers have a mission and approach that are similar to those of nonprofit developers: a commitment to providing social services and long-term affordability for their residents, while also being very conscious of the financial demands of the development (see, for example, Bratt, 2016). These developers typically “start with a mission-driven approach to create vibrant communities that give more people a safe and engaging place to call home—and then make sure that the developments also fit with their profit motivation” (Brennan, 2015).

In a similar way, considerable variation exists in the types of nonprofit organizations that are involved with affordable housing production: neighborhood-based or regional, statewide, or multistate organizations and those that focus on families rather than special subpopulations, such as people

with special needs, the elderly, veterans, formerly homeless people, and those with human immunodeficiency virus/acquired immunodeficiency syndrome, or HIV/AIDS, for example. Many of the same criteria for sorting the for-profit development community are also relevant for the nonprofit community, such as the overall size of the portfolio and the extent of the organization's commitment to a broader set of neighborhood revitalization initiatives versus being strictly housing focused. Yet, as just noted, whenever comparative information is available for for-profit and nonprofit developers, neither of these two broad groups is further delineated according to their varying characteristics.

A further confounding factor is that the literature is often not precise when discussing the exact household income limits to which the affordable rental housing is targeted. Under the Low-Income Housing Tax Credit (LIHTC) Program, households cannot have incomes higher than 60 percent of Area Median Income (AMI); many developments are targeted to households at 50 percent of AMI or lower. The latter in the terminology of the U.S. Department of Housing and Urban Development (HUD) are viewed as "very low income"; however, many affordable housing developments, particularly those that are built through local inclusionary zoning programs, are targeted to households earning 80 percent or less of AMI. Throughout this literature review, the term *affordable housing* generally refers to households earning no more than 80 percent of AMI.

The final sections of this article present conclusions from this inquiry and suggestions for further research.

Historical Context of For-Profit Affordable Housing Development

For more than 50 years, the federal government has been providing various incentives to encourage private, for-profit housing developers to develop affordable rental housing. This reliance on the private sector replaced the decades-old federal strategy of providing deep subsidies to local housing authorities to produce public housing.

In response to the various criticisms of the public housing program, and to increasing concerns about the cost of maintaining this housing stock, the federal government embraced a public-private partnership approach for affordable housing development. The thought was that by involving the private sector, the available federal funds could be strategically leveraged to create a greater impact (Iglesias, 2013) while also intensifying the "market discipline" applied to affordable housing projects. A key challenge, however, has been how to provide sufficient incentives to encourage private-sector participation, while also safeguarding the public purposes of the particular program—providing housing over the long term at prices that are affordable to lower-income residents who are unable to compete in the private housing market.

From their perspective, for-profit affordable housing developers face the potential dilemma of trying to generate the desired level of profit while providing housing for those with very limited incomes. With reference to the major current public-private housing program aimed at this group (the LIHTC Program discussed later in this section), one observer noted that it aims "to house poor people, but not ones so poor that they cannot pay rents sufficient to preserve a profit for the developers" (Ballard, 2003: 24).

In the 1960s, the federal government began providing below-market interest rate (BMIR) loans to private nonprofit and for-profit developers for the construction of housing targeted to low- and moderate-income households. Following these initiatives was the Section 8 New Construction and Substantial Rehabilitation (NC/SR) Program (1974 to 1983), another public-private initiative that continued to bolster the ranks of private, for-profit housing developers.

The contradiction between the public purpose of maintaining affordable housing over the long term and the desire for private-sector profit became a key concern as the affordability restrictions on developments built through the BMIR programs began to expire, starting in the 1980s. A series of public-sector interventions attempted to preserve these homes for lower-income occupancy. Similar problems have arisen concerning expirations on affordability restrictions on the Section 8 NC/SR portfolio (Achtenberg, 2006).

Furthermore, the erosion of federal funding and appropriations for affordable housing and community development accelerated during the Reagan administration, with its focus on a national agenda of privatization and deregulation. As a result, affordable housing development was to be accomplished with more nonfederal and private resources. Indeed, HUD's share of total federal budget authority plummeted by 80 percent from 1980 to 1989 (the largest cut of any federal department). During that period, nonprofit community-based housing organizations that typically relied on funding through federal community development programs had to grapple with cuts as steep as 70 percent (Kochinsky, 1998).

The LIHTC Program, created in 1986, cemented the role of private developers in affordable housing development and is now the major federal housing subsidy program aimed at assisting lower-income households. The program requires that states reserve at least 10 percent of their annual tax-credit allocations to projects with nonprofit sponsors. Although the nonprofit share of total LIHTC production has exceeded that number, for-profit developers have, by far, been the major sponsors of these projects, producing about 78 percent of the LIHTC projects placed in service between 1987 and 2014 (Lew, 2016a).² A 2009 evaluation of state housing finance agencies (HFAs), the entities responsible for tax-credit allocations, found that nonprofit developers tend to assume that state HFAs are influenced by “strong investor and private developer interests” and “often feel excluded from HFA programs due to their weaker capitalization and smaller-scale production capacities compared to private developers” (Sally, 2009: 207).

In 2015, a survey of about 100 for-profit and nonprofit firms involved with affordable housing development or rehabilitation³ was conducted. Among the 52 top developers, for-profit firms started 89 percent and completed construction on 86 percent of the affordable units produced that year (calculated from data in *Affordable Housing Finance* staff, 2016a).

² The 78-percent estimate excludes 9,285 projects in HUD's LIHTC database for which information on sponsor type was missing. The estimate also excludes 696 projects for which sponsor type was available but “placed in service status” or year was unconfirmed. Also excluded were some 52 properties that were placed in service in 2015. Although HUD requests data from state housing finance agencies for properties placed in service through a specific year, states do not always submit information for the specified time period. HUD excludes these properties in their published tables because they would provide an inaccurate picture of activity for those years. It is typical that some undercounting of properties occurs, because it usually takes 2 to 3 years to fully account for all the properties placed in service for a given year (Hollar, 2014).

³ The *Affordable Housing Finance* survey does not account for the types of subsidies used in these projects. The rankings are based on the number of housing units serving residents who earn no more than 60 percent of AMI.

In terms of ownership of affordable housing, as of 2015, 36 out of the 50 largest firms were for-profit firms (*Affordable Housing Finance* staff, 2016b). Indicative of for-profit firms' financial advantages and ready access to capital, 9 out of the 10 firms that acquired the most units of affordable housing that year were for-profit firms (*Affordable Housing Finance* staff, 2016c). In a similar way, for-profit companies comprised the entire list of the 10 companies that did the most substantial rehabilitation work in 2015 (*Affordable Housing Finance* staff, 2016d). In addition, looking at the data over several years, a similar pattern prevails: between 2009 and 2015 (calculated from data in exhibit 1), for-profit firms represented 80 percent of all affordable housing starts among the largest 50 developers (*Affordable Housing Finance* staff, 2016e).

Private, for-profit developers also have been key players in the HOPE VI Program, which started in 1992. This initiative supports the redevelopment of severely distressed public housing through partnerships between local public housing authorities and private, for-profit and nonprofit developers, typically using the LIHTC Program.

State and local housing programs have further encouraged and stimulated the participation of the private sector in affordable housing development. In some states, developers are allowed to produce higher-density housing beyond the amount typically allowed under local zoning laws, with the stipulation that a percentage of units in the development be set aside as affordable housing (see, for example, Bratt and Vladeck, 2014). This approach has been particularly attractive to for-profit developers that are eager to take advantage of density bonuses and other incentives that have the potential to increase profitability for a given development. Also, at the local level, in areas that have a strong demand for housing, inclusionary zoning ordinances have required that new market-rate residential developments of a certain size include a certain percentage of units affordable to lower-income households.

The private, for-profit sector's increasing dominance in the affordable housing arena was buttressed by the simultaneous and growing support for the mixed-income housing approach.

Citing the problems associated with concentrated poverty, which implicated the public housing program, Wilson (1987) and others have criticized developments devoted exclusively to very low-income residents. Already in the late 1960s and 1970s, some housing professionals began considering the benefits of mixed-income housing—housing that would be occupied by both market-rate and lower-income households. Among its purported benefits, mixed-income housing has been touted as far better than traditional public housing and other older, project-based subsidy programs, because it provides a nonstigmatizing environment and may even provide opportunities for lower-income households to network with neighbors who may offer jobs or other advantageous connections (Levy, McDade, and Bertumen, 2013).

Despite the potential strengths of the mixed-income approach, questions have been raised about the actual benefits for low-income households. A number of researchers have found that, to date, the results have not been encouraging and that factors contributing to success go beyond the mere fact of a development's being "mixed income" (see, for example, Brophy and Smith, 1997; DeFilippis and Fraser, 2010; Joseph, Chaskin, and Webber, 2007; Levy, McDade, and Bertumen, 2013; Moore and Glassman, 2007; Schwartz and Tajbakhsh, 1997). The theory and actual outcomes of the mixed-income housing approach notwithstanding, the private, for-profit sector, in particular, has found this approach to be an attractive development option.

Exhibit 1

Overview of Affordable Housing Activity by the 50 Largest Nonprofit and For-Profit Affordable Housing Firms, 2009 Through 2015

	2009		2010		2011		2012		2013		2014		2015	
	Non-profit	For Profit	Non-profit	For Profit	Non-profit	For Profit	Non-profit	For Profit	Non-profit	For Profit	Non-profit	For Profit	Non-profit	For Profit
Units in portfolio	122,814	326,672	126,075	392,068	124,671	411,717	115,150	424,716	145,398	417,973	149,289	410,807	148,331	442,658
Percent share	27	73	24	76	23	77	21	79	26	74	27	73	25	75
Units started	3,123	13,005	4,753	19,775	4,870	14,183	4,543	14,248	4,101	12,292	2,745	16,648	1,976	15,677
Percent share	19	81	19	81	26	74	24	76	25	75	14	86	11	89
Units acquired	0	13,867	2,246	11,858	1,176	17,414	0	18,996	1,529	30,096	0	14,497	1,636	23,227
Percent share	0	100	16	84	6	94	0	100	5	95	0	100	7	93
Units substantially rehabilitated	NA	NA	NA	NA	4,674	8,065	2,655	6,253	4,204	6,595	2,622	5,266	0	10,458
Percent share	NA	NA	NA	NA	37	63	30	70	39	61	33	67	0	100

NA = Data not available.

Notes: Two- or three-way ties often exist, so in any given year more than 50 developers/owners are listed among the "50 largest." For 2009, the percent share calculation of affordable units excludes 583 units developed by the San Antonio Housing Authority, which is a public housing agency; 2009 was the first year for which the information presented was available.

Source: Affordable Housing Finance staff (2016e)—The National Multifamily Housing Council also maintains its own rankings of the largest 50 nonprofit and for-profit owners and managers of multifamily housing dating back to 1990 and the largest 50 developers starting in 2015, but it does not separate out the number of affordable or subsidized units from the total count of apartments owned or developed in a given year.

Alongside the federal government's trend toward promoting private for-profit-sector involvement in affordable housing development have been efforts specifically geared to engaging and encouraging nonprofit-sector involvement. For example, in 1959, the federal government created the Section 202 Supportive Housing for the Elderly Program, which provided funding to nonprofit organizations to develop elderly housing. In a similar way, in 1990, the federal government created the Section 811 Supportive Housing for Persons with Disabilities program to encourage nonprofit development of housing for people with disabilities. Under the HOME program, also enacted in 1990, 15 percent of each participating jurisdiction's allocation must be spent for housing that is developed, sponsored, or owned by nonprofit Community-Based Development Organizations and an additional 5 percent of this allocation can be distributed to these organizations to cover their operating expenses. Furthermore, in 1988, 2 years after it was originally authorized, rules for the LIHTC Program were modified to require that states set aside at least 10 percent of their annual tax-credit allocations to projects sponsored by nonprofit organizations (O'Regan and Quigley, 2000). Some states also choose to set aside more than 10 percent, with allocating agencies from Virginia and Chicago reserving 15 and 30 percent, respectively, of their tax credits for eligible nonprofit developers (U.S. Government Accountability Office, 2016).

Despite the federal government's support for nonprofit affordable housing development, the for-profit sector has played a much greater role than nonprofit developers; for-profit developers are dominant in all the major public-private partnership programs: BMIR, Section 8 NC/SR, and LIHTC. Yet, for-profit firms have received relatively little attention from the academic and policy communities. This inquiry is aimed at filling a small portion of that gap by presenting a review of the literature pertaining to the affordable housing production record of private, for-profit developers.

In each of the following literature review sections, we discuss how for-profit affordable housing developers are carrying out affordable housing development tasks and meeting each of the four components of the quadruple bottom line. Where possible, this record is compared with the experiences of nonprofit housing organizations. Each section concludes with a summary of the supporting evidence. We underscore here that some of these summary statements are based on scant data—in some cases, just one study; therefore, we use terminology that suggests apparent trends rather than definitive findings.

Affordable Housing Development

A number of studies examined differences in the ways in which for-profit and nonprofit developers carry out various affordable housing development tasks. Evaluations of the LIHTC Program in the early 2000s found that for-profit developers were more likely than their nonprofit counterparts to use conventional loans to finance a larger share of their affordable housing development costs (McClure, 2000) and that they were able to secure mortgages covering a larger portion of development costs (Ballard, 2003). As a result, compared with nonprofit developers, for-profit developers have a smaller financing gap to fill between mortgage proceeds and equity generated from the sale of tax credits, and they may be more adept than nonprofit developers in raising equity for their LIHTC projects (Enterprise Community Investment, Inc., 2010).

In view of these findings, it is not surprising that for-profit developers were less likely than nonprofit developers to rely on federal funds through the HOME program for gap financing in tax-credit projects (Lew, 2016a).⁴ Of the nonprofit-sponsored LIHTC projects placed in service between 1987 and 2014, 28 percent included HOME funds, more than double the 13 percent of for-profit-sponsored projects using those funds (Lew, 2016a). In addition, nonprofit developers obtained a greater proportion of project costs through syndication than did for-profit developers (McClure, 2000).

In one of the earliest studies examining development costs⁵ of for-profit and nonprofit developers, researchers found that nonprofit developers worked with an average of 7.8 funders per development (Hebert et al., 1993). Decades later, another study analyzing LIHTC properties in five states found that the average project had four additional funding sources, on top of the LIHTCs, with the most being eight (Bolton, Bravve, and Crowley, 2014). It is unfortunate that neither of these two studies compared the number of additional funding sources used by nonprofit versus for-profit developers.

In at least one city (Chicago), for-profit developers' fees were 50 percent higher on average, than those charged by nonprofit developers (Leachman, 1997). Although development costs may vary based on the types of units produced and the local development conditions, a number of researchers found that for-profit developers typically have lower overall development costs than do nonprofit developers (California HCD et al., 2014; Cummings and DiPasquale, 1999; Fyall, 2012; Hebert et al., 1993; U.S. General Accounting Office, 1999). Yet, one study found the opposite: holding unit sizes constant, project costs (comparable to development costs) were higher among for-profit than among nonprofit projects (Leachman, 1997).

The siting of LIHTC projects can also play a role in the higher per-unit development costs of nonprofit projects. An analysis of data from a 1997 study of such developments found that nonprofit developers tend to build in higher-cost areas of the country, such as the Northeast and the west coast (U.S. General Accounting Office, 1999). Using the HUD LIHTC database, an analysis of more recent data (projects placed in service between 1987 and 2014) revealed similar findings. For-profit-developed projects comprised the majority (86 percent) of LIHTC projects placed in service in the South but represented just 66 percent of the LIHTC projects in the Northeast (Lew, 2016a).

For-profit developers' typical evaluation of a potential project is from a market-based point of view, whereas nonprofit developers operating in a "subsidy-dependent environment" are more limited by where they can build and "often first identify a municipality that is hospitable to the construction of affordable housing" that may also provide some support and then search for a location for construction (Myerson, 2005: 3). Indeed, in a survey of nonprofit housing developers in California, 80 percent cited local government as the institution most critical for their success (Christensen, 2000).

The type of housing built by nonprofit developers can also add to development costs. Compared with for-profit developers, nonprofit developers are more likely to build larger units (more than

⁴ The HOME program (the HOME Investment Partnerships Program) is an important source of funds for states and localities in the development of affordable housing and other housing programs.

⁵ Some research refers to "development costs" while other research uses the term "production costs." For consistency, we use the former throughout this discussion.

1,000 square feet) in mixed-use or highrise structures in more expensive urban settings and adopt more costly building styles. Meanwhile, for-profit developers tend to build smaller, less-expensive, garden-style apartments in rural and suburban areas (U.S. General Accounting Office, 1999).

The development costs of nonprofit developers also may be higher due, in part, to their need to rely on multiple funding sources to fill the gap between first-mortgage proceeds and tax-credit equity, noted previously. As the number of funders increases, the project's development costs rise due to the multiple transaction costs (Ballard, 2003). The patchwork of financing across federal, state, local, and private sources that is typically required for any development that includes affordable housing is challenging for all developers, but, for nonprofit developers, in particular, the difficulties in lining up the needed funding can discourage or thwart potential projects (Salsich, 1999).

Higher development costs may also reflect the willingness of nonprofit developers to “stick with a project even when things turn rocky.” This is because they are “reluctant (and in some cases, limited in their ability) to default on a deal,” compared with for-profit developers that “are prepared to walk away from a deal if it turns sour,” and are better equipped to limit their losses (Myerson, 2005: 3).

Because nonprofit developers more than for-profit developers tend to rely on federal subsidies and funding sources to cover development costs, some nonprofit developers may have to pay higher wages to construction workers due to various requirements (for example, prevailing wages) tied to federal subsidies (Ballard, 2003). Consistent with this finding, one group of researchers concluded that differentials in development costs may be attributable primarily to factors other than “systematic differences in nonprofit versus for-profit comparative efficiencies” (Hebert et al., 1993: ES–20).

A key question, only minimally addressed in the literature, relates to the quality of the housing built by for-profit and nonprofit sponsors using various federal housing subsidy programs. One recent evaluation of hundreds of affordable multifamily projects completed in California found that “nonprofit developers may build projects to a higher quality or durability standard relative to for-profit developers or may choose to take on more difficult and expensive to develop projects”⁶ (California HCD et al., 2014: 35).

Researchers invariably note that, if development by nonprofit developers is comparatively more costly, this difference in cost needs to be viewed in the context of the other benefits typically associated with this housing, such as the nonprofit developers' purportedly greater involvement with the community and their focus on resident services, as discussed in more detail in following sections (see for example, Bratt, 2008a, 2008b; O'Regan and Quigley, 2000).

Conflicting information exists regarding the extent to which each type of developer relies on rental assistance in LIHTC properties. Some earlier studies found that, in comparison with nonprofit developers, for-profit developers tend to rely more on federal subsidies, such as Section 8 vouchers, during the operation of a LIHTC project or have a higher share of residents in LIHTC developments with project-based Section 8 assistance (Ballard, 2003; Buron et al., 2000). Yet, a more recent study found that a higher percentage of nonprofit-developed properties receive project-based

⁶ In view of the intense local competition for LIHTCs, both for-profit and nonprofit developers are likely under pressure to maintain the quality of their housing because it is difficult to obtain allocations of tax credits without a good track record (Deng, 2011).

rental assistance compared with those owned by for-profit developers (CohnReznick LLP, 2015). Although comparative research on the use of tenant-based subsidies such as vouchers by developer type was limited, Buron et al. (2000) found that nonprofit-sponsored projects were more likely than for-profit-sponsored projects to have this type of assistance.

One reason why for-profit and nonprofit sponsors have different costs and funding strategies may be that each group tends to have different central goals and motivations. A study contracted by HUD, which examined 39 LIHTC properties, found that nonprofit sponsors were more likely to cite neighborhood improvement or affordable housing goals as their primary objectives. By contrast, for-profit sponsors were, overall, “more likely to identify financial benefit as the primary goal” (Buron et al., 2000: xv). Another study found that nonprofit sponsors were more likely to locate their properties in poor and problem-laden neighborhoods than the total universe of LIHTC properties, the bulk of which were developed by for-profit sponsors (Climaco et al., 2006; see also CohnReznick LLP, 2015).

At least one study, however, showed that some for-profit developers also choose to work in challenging inner-city neighborhoods, but not without considerable concern. A case study of private, for-profit developers and social service providers involved with mixed-income housing in Chicago found that one for-profit developer knew that building this type of housing was “the right thing to do”; however, the slow, costly, and highly bureaucratic development process made it difficult to remain involved in such investments when greater and quicker profits were available elsewhere: “We’ve had to carry [the project] out of our own pockets for nearly five years at a great cost. No developer in their right mind would ever do this...we ultimately think we’re going to make money or we wouldn’t be in it at all. But we can make a lot more money elsewhere doing a lot of other things” (Joseph, 2010: 115).

To take advantage of the comparative assets of each type of developer, many partnerships have formed between for-profit and nonprofit developers. A study of California’s nonprofit affordable housing sector found that, of the 19 nonprofit developers surveyed, 35 percent had established various types of joint ventures with for-profit developers (Christensen, 2000). For nonprofit developers, the motivation likely relates to the inhouse technical or financial expertise of the for-profit developers and their access to ready capital. For-profit developers typically see a partnership with nonprofit developers as being beneficial because the latter are likely to have deep knowledge of and support from neighborhood residents. In addition, nonprofit developers may have site control of a key property, improved access to potential sites through the city or local redevelopment agency, the ability to attract philanthropic funds, and easier access to public subsidies or financing such as HOME (Bratt, 2008a; Chung, 2004; Jacobus and Winning, 2006; Madden, 2012).

In summary, for-profit developers seem more likely to—

- Have a smaller financing gap to fill between mortgage proceeds and equity generated from the sale of tax credits and may be more adept than nonprofit developers in raising equity for their LIHTC projects.
- Build in lower-cost rural and suburban areas rather than in more expensive urban areas.
- Charge higher developers’ fees.
- Cite financial benefit as their primary goal.

Nonprofit developers seem more likely to—

- Rely on federal funds for gap financing.
- Obtain a greater proportion of project costs through syndication.
- Rely on multiple funding sources to fill the gap between first-mortgage proceeds and tax-credit equity.
- Pay higher wages to construction workers due to various requirements tied to federal subsidies (for example, prevailing wages).
- Build projects to a higher quality or durability standard.
- Choose to take on more difficult and expensive-to-develop projects.
- Cite the importance of neighborhood improvement or affordable housing goals as their primary objective.
- Locate their properties in poor and problem-laden neighborhoods.
- Build units larger than 1,000 square feet.

Conflicting information exists on—

- The extent to which each type of developer relies on rental assistance in LIHTC properties.
- Which type of developer has lower development costs, although most studies conclude that it is for-profit developers.

Components of the Quadruple Bottom Line

As noted at the outset of this article, the quadruple bottom line encompasses four components. An affordable housing development must (1) have the financial backing necessary to preserve the development's long-term affordability, (2) address the social and economic needs of the residents, (3) contribute positively to the neighborhood, and (4) be environmentally sustainable. Each of these components is discussed in the following sections with regard to the record of the private for-profit sector and, when information is available, by comparison with that of the nonprofit sector.

Financial Viability of Developments

The first component of the quadruple bottom line pertains to the need for developments to be financially viable while also providing a high quality of housing over the life of the project.⁷ What do we know about the long-term viability of projects developed by for-profit sponsors, and how does this compare with the experience of nonprofit sponsors? As with the other comparative findings discussed previously, research findings may point in one direction or the other, but the answers are rarely conclusive.

Very little information about the comparative long-term viability of developments that nonprofit and for-profit sponsors produced using earlier federal housing subsidy programs is available. In

⁷ Much of this section is based on Bratt (2008a).

a study of the Section 236 Mortgage Assistance Program, an interest rate subsidy program aimed at multifamily housing that was active from 1968 to 1973, 47 percent of the developments that nonprofit organizations sponsored were found to have failed, although they accounted for only 23 percent of those developments. Further, “nonprofit sponsored [Section] 236 projects failed at four times the rate of limited dividend [for-profit] sponsored projects” (U.S. General Accounting Office, 1978: 93). According to the report, the high failure rate of nonprofit-sponsored projects was because nonprofit sponsors had few resources to weather adversity and probably because they had less experience.

In another early study of FHA-insured multifamily properties, researchers found that distressed and stressed properties were less likely to have for-profit than nonprofit owners (Finkel et al., 1999: 4–11). They added, however, that these findings would be expected because for-profit owners predominate as sponsors of the less troubled, newer assisted properties, whereas nonprofit owners are more prevalent as sponsors of more troubled, older assisted properties.

With the exception of the analysis related to the higher risk of for-profit-owned properties opting out of the Section 8 NC/SR Program (discussed in the next section), and of management experiences (discussed below), we have not found data on the performance of for-profit and nonprofit developers using the Section 8 NC/SR Program, and the record under the LIHTC Program is sparse. The LIHTC industry typically uses three primary measures to evaluate the financial viability and performance of LIHTC projects: (1) occupancy rates, (2) debt-coverage ratio (DCR), and (3) per-unit cashflow (CohnReznick LLP, 2015). Although data are not available from the HUD LIHTC database on these three indicators or on default rates of LIHTC projects by owner type, the cumulative foreclosure rate of LIHTC projects placed into service from 1997 through 2010 is less than 1 percent (CohnReznick LLP, 2012). Additional data from 2013 through 2014 point out that, although for-profit and nonprofit owners have very similar experiences in terms of occupancy rates, with the latter slightly outperforming the former, for-profit developers had stronger per-unit cashflow and DCR levels (CohnReznick LLP, 2015). Nonprofit developers also tended to admit the lowest-income people eligible for the subsidy program and to serve needier families than limited-dividend sponsors. Indeed, the DCR and cashflow underperformance of nonprofit developers may reflect their willingness to take on projects that include additional operating expenses and lease-up challenges, such as supportive housing projects targeted to the formerly homeless (CohnReznick LLP, 2015).

In an earlier analysis of 2,554 LIHTC projects (between 1987 and 1996) that also compared the cashflow generated from properties developed by nonprofit and for-profit developers, Cummings and DiPasquale (1999) arrived at similar conclusions: nearly 83 percent of the developments owned by for-profit developers had positive cashflows compared with only 60 percent of those owned by nonprofit developers. They concluded: “Despite incentives to keep net income close to zero, no project can continue indefinitely with expenses exceeding revenues. Syndicators and investors indicate that as projects increasingly are structured to provide no positive cash flow, funding reserves become very important” (Cummings and DiPasquale, 1999: 278). With only 11 years of experience with the LIHTC Program at the time of the analysis, Cummings and DiPasquale observed that “...there is no evidence on how these projects will fare when they need substantial capital infusions for renovations or systems replacement. How well these projects clear such hurdles will be a major determinant of long-term viability” (Cummings and DiPasquale, 1999: 278).

It is perhaps surprising that, in view of the previously mentioned findings, one study conducted several years later found that nonprofit developers were more likely than for-profit developers to maintain higher operating reserves for their tax-credit projects as a way to support the ongoing affordability of the units and to provide tenant services (Ballard, 2003). Yet, Bratt et al. (1994) found that these reserve funds were often inadequate, revealing concerns about the long-term financial viability of housing owned by nonprofit developers. To be specific, 17 of the 23 developments examined were in a dangerous position because of inadequate capital reserves. In terms of operating reserves, the situation was even worse, with only three developments having reserves in excess of 20 percent of operating costs, the number that HUD considers the minimum for public housing authorities. In view of this shaky financial situation, it is perhaps not surprising that more than one-half of the developments in the sample reported that expenditures exceeded revenues (Bratt et al., 1994).

Although Bratt et al. (1994) did not attempt to quantify how specific conditions contributed to these types of difficulties, their study suggested a number of possible reasons. For example, the quality of the initial rehabilitation was often found to be problematic because of inadequate construction budgets or poor workmanship and dishonesty on the part of contractors. In addition, small portfolios of properties made it difficult for organizations to cover the full cost of operations from property management fees, and neighborhood factors often created adverse conditions and increased management costs (Bratt et al., 1994).

The decisionmaking process leading to some of these poor-quality and ill-advised projects was particularly noteworthy. Nonprofit developers reported that they sometimes undertook projects for which they knew funding was inadequate, primarily in response to local pressures to improve a troubled property or to provide additional housing in the neighborhood (Bratt et al., 1994).

In short, nonprofit developers' willingness to undertake projects in areas that other developers are likely to bypass appeared to be a key factor underlying differences in the viability of their developments. This observation is consistent with the earlier observation that nonprofit developers are more likely to undertake affordable housing projects in more distressed areas where development is more difficult and expensive.

The way in which a development is managed also can have major impacts on project viability; however, information on differences in management practices among nonprofit, for-profit, and government sponsors is limited. One study of public housing and project-based Section 8 housing in Virginia found that, in general, no significant differences existed. Nevertheless, on a few criteria, nonprofit owners had a stronger record than for-profit owners: lower vacancy and unit turnover rates; quicker turnaround times for routine maintenance; and, as discussed further in later sections, undertaking more initiatives to empower residents (Johnson, 1996).

In summary, for-profit developers seem more likely to—

- Have stronger per-unit cashflow and DCR levels.

Nonprofit developers seem more likely to—

- Be susceptible to local pressures to improve a troubled property or to provide additional housing in the neighborhood.
- Have a stronger record in terms of lower vacancy and unit turnover rates and quicker turnaround times for routine maintenance.

Conflicting information exists on—

- Which type of developer maintains higher operating reserves.

Further, based on studies of early federal housing subsidy programs, nonprofit-owned developments—

- Had a much higher failure rate.
- Tended to admit the lowest-income people eligible for the subsidy program and to serve needier families.
- Were more likely to be distressed and stressed.

Again, a recurrent theme is that, when nonprofit developers perform less well than for-profit developers, at least some of the reason is likely attributable to their willingness to take on more difficult projects in more distressed areas. The more complex and challenging the project is to develop and manage, the greater the likelihood that a range of problems will be encountered.

Social and Economic Needs of Residents

At the same time that developments are striving for financial viability, the quadruple bottom line also demands a focus on the social and economic needs of residents. In Bratt's early conceptualization of the quadruple bottom line framework, the category "the social and economic needs of residents" was limited to the level of services provided within the developments. Resident-focused services are provided by trained professionals whose primary responsibility is service delivery. Service personnel either act as coordinators or directly deliver the services themselves, perhaps with an onsite staff. Services typically include some mixture of financial and credit counseling; basic skill development (for example, literacy; English as a second language; preparation for a general education development, or GED, diploma); job training; social service programs for families, youth, the elderly, and special needs populations; homeownership counseling and downpayment assistance; and community and economic development activities (for example, organizing, neighborhood beautification, microenterprise development) (as cited in Bratt, 2008b).

A number of researchers have underscored the importance of service-enriched programs in affordable housing developments (see, for example, Bratt, 2008b; Kudlowitz and Pinder, 2006; Newman and Schnare, 1992; Proscio, 2006;), and some have found correlations between developments providing resident services and significant cost savings in various aspects of property management (Dunn, 2011; Galpin-Platter and Meyer, 2007).

Only limited research directly compares the extent or availability of resident services provided by for-profit-owned and nonprofit-owned developments or that focuses on just the former. One study noted that developers of mixed-income housing may perceive higher costs and risk associated with the provision of onsite social services, with some developers and property managers possibly "reluctant to offer some needed services on-site for fear of advertising the low incomes of many tenants and alienating the higher-income tenants" (Smith, 2002: 25). At least one industry trade publication noted, however, that a growing share of the nation's largest for-profit owners and developers are making an effort to include social services in their affordable projects, including after-school programs for children and onsite health programs (Kimura, 2016a).

The availability of resources and funding to cover the costs of services is, obviously, a critical issue, with nearly one-half (47 percent) of the respondents to a recent survey of 60 mixed-income developments (a group that included 23 private for-profit and nonprofit developers) reporting that this was the number one challenge to offering resident services within their developments (Gress, Joseph, and Curley, 2015). Another study found that Community Development Corporations (CDCs) are more likely than for-profit developers to provide social services such as job training programs to their tenants, especially as part of their management activities. In addition, because many of these services are provided by nonprofit developers' staff members apart from their regular duties, "the costs in terms of time and money become significant" (Leachman, 1997: 45). To bring down the cost of services, some mission-driven for-profit developers, notably Jonathan Rose Companies and McCormack Baron Salazar, often search for a "nonprofit development partner with ties to the community" that will help them identify necessary services for residents that are financially feasible and "also support the project's bottom line" (Brennan, 2015). Indeed, developments built by these for-profit developers may be mixed use and include schools and health centers, which have the additional advantage of bringing public funding with them. Some developments may also include afterschool programs run by nonprofit groups that typically pay rent, further bolstering the project's bottom line and "improving the sustainability of the neighborhood while increasing profits" (Brennan, 2015).

The social and economic needs of the residents can be expanded to encompass several components beyond direct services. Further comparative data were found for the following areas: targeting the lowest-income groups, the size of units, and the likelihood that the units produced would be preserved as affordable housing over the long term. Some of these elements admittedly could be viewed as addressing the needs of the larger community or those of future residents, not just the needs of the existing residents of a particular development. Short of adding an additional component to the quadruple bottom line, the following issues are appropriate to consider in the overall discussion of residents' needs.

Targeting Lowest-Income Groups

Developers applying for LIHTCs must agree either (1) to dedicate at least 20 percent of the rental units in their project to very low-income tenants, defined as those with incomes at or at less than 50 percent of AMI, or (2) to dedicate a larger share—40 percent—of units to somewhat higher-income tenants, with incomes at or at less than 60 percent of AMI. An early study found that most developers (88 percent) had chosen the latter option (U.S. General Accounting Office, 1997). A more recent analysis of the LIHTC database found that the same share (88 percent) of tax-credit projects placed in service between 1987 and 2014 were targeted at the income ceiling—at or below 60 percent of AMI (Lew, 2016a). Consistent with other findings, for-profit-sponsored projects were slightly more likely than nonprofit-sponsored projects—89 versus 86 percent—to be targeted to the somewhat higher income group (at or below 60 percent of AMI; Lew, 2016a).

In an earlier analysis of the LIHTC Program that included a sample of 39 properties placed in service between 1992 and 1994, the only two properties that chose to have the minimum number of units qualifying as affordable for households at or below either 50 or 60 percent of AMI were owned by for-profit developers; the other developments had 80 to 100 percent qualifying units. In addition, just 9 percent of units developed by for-profit developers had rents at less than 70 percent of the

HUD-designated local Fair Market Rent (FMR). By contrast, 45 percent of the nonprofit-built units had rents at less than this amount (Burton et al., 2000). A more recent analysis of HUD's LIHTC database revealed that less than one-half of the low-income units placed in service by for-profit sponsors between 1987 and 2014 had rents lower than the rent ceiling compared with nearly three-fourths of low-income units (73 percent) with a nonprofit sponsor (Lew, 2016a).

A comparative analysis of public funding for for-profit and nonprofit developers of subsidized housing in Chicago found that for-profit developers sought more moderate-income renters in more stable neighborhoods while nonprofit developers developed housing targeted at the lowest-income renters. For the period studied (1994 and 1995), 93 percent of the units developed by nonprofit developers were affordable to those with annual incomes of less than \$15,000, in contrast with just 18 percent of those developed by for-profit developers (Leachman, 1997).

In allocating tax credits, state HFAs are required to give preference to proposals that serve the lowest-income tenants (Ballard, 2003). Developers are also eligible to claim additional tax credits for building in areas where development costs are high relative to income. Yet, only 21 percent of the units developed by for-profit developers qualify for these additional credits compared with 49 percent of those developed by nonprofit developers (U.S. General Accounting Office, 1999). Aside from this incentive for additional credits, "there is no financial benefit to a developer with an otherwise strong tax credit proposal to serve tenants earning less than 50 percent of AMI" (Ballard, 2003: 231; see also McClure, 2000) because tax benefits will not differ for the developer.

For private, for-profit developers to serve low-income households, they "must receive a subsidy at least equal to, if not greater than, the revenue lost through the reduced rents for the low-income units" (Smith, 2002: 32). The required rate of return among for-profit developers is three times higher than the rate of return required by nonprofit developers (Smith, 2002). Consistent with the finding that for-profit developers seek a higher rate of return, a study of LIHTC developments in Richmond, Virginia, revealed that nonprofit developers are more likely to serve households with incomes at 50 percent of AMI or less, and for-profit developers are more likely to serve households at or below 60 percent of AMI (Johnson, 2012). Thus, in short, research shows that nonprofit developers are more likely than for-profit developers to target their units to lower-income households (McClure, 2000).

Several researchers have also observed that partnerships brokered between for-profit and nonprofit developers reflect a clear difference in priorities and organizational goals between these two groups. Compared with their nonprofit partners, for-profit developers may prioritize economic goals over charitable and social welfare goals. For-profit developers tend to be more concerned with the financial feasibility of deals under existing local housing market conditions and with the return that they can expect (under the programmatic guidelines of LIHTC or local affordable housing initiatives). Meanwhile, nonprofit developers may place a higher priority than their for-profit partners on meeting charitable organizational goals and fulfilling a mission to serve lower-income households (Jacobus and Winning, 2006; Lucio and Ramirez de la Cruz, 2012).

Size of Units

Developers have an incentive to produce smaller units—studios and one-bedroom apartments—because this approach increases the number of units that can be built in a given development and, therefore, increases overall revenues (Graddy and Bostic, 2010). Areas with a shortage of affordable

housing, however, typically need larger units to accommodate families with children. As noted earlier, for-profit developers appear likely to build smaller units compared with their nonprofit counterparts. One study found that only 31 percent of units created by for-profit developers had two or more bedrooms compared with 40 percent of units built by nonprofit developers (Leachman, 1997). Other research revealed that nonprofit developers were more likely than for-profit developers to sponsor less-dense developments with fewer units (Johnson, 2012).

Preserving Affordability

The public-private partnership programs of the 1960s and the Section 8 NC/SR Program all encountered the “expiring use” problem. This problem refers to publicly assisted housing developments that cease to be affordable to lower-income households when the regulatory agreements with HUD expire. Hundreds of thousands of affordable units have been lost when developments revert to market-rate housing, and hundreds of thousands of additional units are still at risk (Schwartz, 2015). Multifamily properties with project-based subsidies can also leave the assisted stock through prepayment of mortgages or through opting out of expiring contracts.

A recent study compared the characteristics of properties with project-based assistance that have left the affordable rental stock (due to mortgage prepayment or through opt-outs) with those properties that have remained in the HUD programs. Researchers found that assisted properties owned by for-profit corporations and properties located in areas where the rents charged in the assisted properties are significantly lower than market rents are more likely to opt out (Ray et al., 2015; the same trend was found by Finkel et al., 2006, for an earlier period).

In a separate analysis using data from the National Housing Preservation Database, for-profit owners were found to be less likely than their nonprofit counterparts to own assisted properties that had low rent-to-FMR ratios. Among for-profit-owned units expiring during the coming decade, only 9 percent had average rents of less than 80 percent of the local FMR. By contrast, nearly one-third (30 percent) of those units owned by nonprofit organizations had rents at less than this amount (Lew, 2016b).⁸ Ray et al. (2015) point out that for-profit ownership and average rents charged at less than FMR are two primary risk factors for opting out of project-based rental assistance contracts when they expire. Therefore, this analysis identifies a potential universe of units at risk of being removed from the affordable assisted stock during the coming decade. In a broader context, nonprofit developers tend to have a much longer time horizon than their for-profit counterparts and have a consistent presence in a community over time. As a result, they are more likely to “own and manage their rental properties for many years” while “for-profit developers tend to have a dynamic portfolio” (Myerson, 2005: 2).

⁸ This analysis is based on the data in the National Housing Preservation Database as of June 2016. The database includes units with subsidies through the project-based Section 8 Program and through Section 811, Section 202, and older initiatives, such as the Rent Supplement and Rental Assistance Payments Programs. These tabulations include units with a contract expiration date between January 1, 2016, and December 31, 2026. The methodology used here varies from the methodology used for the Joint Center for Housing Studies’ annual *State of the Nation’s Housing* report (see, for example, 2016), which tabulates the number of expiring units based on the latest expiration date of any subsidy in that property. That methodology results in higher shares of both for-profit-owned and nonprofit-owned expiring units with average rents at less than 80 percent of the local FMR (11 and 36 percent, respectively) than the ones presented here (9 and 30 percent, respectively).

One study, which involved telephone interviews with 314 owners of LIHTC developments, found that less than 40 percent of the for-profit owners of LIHTC properties envision that the properties will remain affordable to low-income housing residents beyond the end of the compliance period compared with 70 percent of the nonprofit owners (Abravanel and Johnson, 2000). Further, when compared with nonprofit owners, for-profit owners were more likely to limit the affordability of their properties to the minimum-use restriction periods, as opposed to extended affordability-use commitments (Johnson, 2012).

Because for-profit owners developed and own the great majority of LIHTC properties, it is not surprising that for-profit developers now own 81 percent of the 1.6 million LIHTC units with affordability requirements due to expire between 2016 and 2026 (Lew, 2016b).⁹ In the early years of the LIHTC Program, affordability restrictions lasted for just 15 years. Since 1990, LIHTC properties have been required to retain affordability for at least 30 years, unless they are able to get special approval. Also, most states have their own requirements for even longer restriction periods. As of 2001, affordability restrictions of more than 30 years were required (or such projects were given priority) in 41 states. For example, in Massachusetts, Michigan, and Vermont, affordability is required in perpetuity (Gustafson and Walker, 2002).

Because of these extended affordable-use requirements, properties built more recently are at a lower risk of being converted to market-rate housing (Khadduri et al., 2012). The same report also found, however, that most early LIHTC properties are not at risk of losing affordability, with the exception of properties owned by for-profit developers located in strong market areas that could support rents that are higher than LIHTC rents, a finding that supports the study by Ray (2015) cited previously. In a similar way, according to the results of a survey of eight tax-credit syndication firms conducted in 2005, the involvement of not-for-profit sponsors as part of the ownership structure of the projects is a primary determinant of risk; nonprofit sponsorship was associated with a lower risk of losing affordability (Meléndez, Schwartz, and de Montrichard, 2008). Although it is the mission of nonprofit developers to operate properties as affordable housing beyond the term of any regulatory requirements, some for-profit developers also see their work as providing high-quality affordable housing over the long term, thereby serving needy households (Khadduri et al., 2012).

In summary, for-profit developers seem more likely to—

- Build smaller units.
- Limit the affordability of their properties to the minimum-use restriction periods as opposed to extended affordability-use commitments and opt out of affordability contracts where assisted property rents charged are significantly lower than the fair market rents for that area.

Nonprofit developers seem more likely to—

- Be focused on providing social services.
- Target a higher share of their units to lower-income households.

⁹ This analysis is based on the same data described in the previous note, with the same limitations. These tabulations include 1,618,906 units with an affordability expiration date between January 1, 2016, and January 1, 2026. Once again, the methodology used by the Joint Center for Housing Studies differs from the approach used here, resulting in a lower estimate of expiring units with LIHTC allocations (1,321,088) than the 1.6 million estimate presented here.

- Sponsor less-dense developments with fewer units.
- Own assisted properties that have low rent-to-FMR ratios.
- Charge lower rents for units with use restrictions expiring during the coming decade.
- Envision that their properties will remain affordable to low-income housing residents beyond the end of the compliance period.

Neighborhood Context

The third component of the quadruple bottom line is, perhaps, the most difficult to assess, and research findings are far from robust. Potentially relevant questions about whether a given development is viewed as a positive addition to the neighborhood include—Does the development fit into the larger fabric of the neighborhood and does it contribute to neighborhood viability? If the neighborhood has been distressed and suffering from high vacancy rates and turnover rates and abandonment, what evidence, if any, shows that the new development is helping to stimulate increased investment and revitalization? Have any other public and private investments followed the new housing? What do we know about how property values in the surrounding area have been impacted? Further, from the perspective of the development’s residents, does the development’s location potentially open up opportunities in terms of access to jobs and desired schools? Is the new development located in a higher-income area that previously had been inaccessible to the lower-income tenant population?¹⁰ It is unfortunate that, even when researchers seek answers to these questions, the findings are rarely conclusive.

Regarding siting, and as pointed out previously, nonprofit developers are more likely than for-profit developers to build units in economically distressed and extremely low-income areas (Dillman, 2007; Fyall, 2012; Leachman, 1997). In one of the few studies comparing the neighborhood quality of LIHTC projects developed by for-profit developers versus nonprofit developers, Buron et al. (2000) found that, among a sample of 39 properties across five metropolitan statistical areas, those sponsored by for-profit developers were more likely than those with a nonprofit sponsor to be located in low-poverty areas with poverty rates of less than 10 percent and with lower percentages of minority residents, to be located in stable neighborhoods with lower turnover rates, and to have higher shares of owner-occupied housing. By contrast, however, another study found that for-profit developments were more likely to be located in neighborhoods with high concentrations of Black residents (Dillman, 2007).

In terms of LIHTC tenants’ satisfaction with their neighborhoods, results differed by sponsor type, with residents of for-profit-sponsored properties more likely than those in nonprofit-sponsored

¹⁰ The issue of whether affordable housing should be built in low-poverty “opportunity neighborhoods” versus lower-income areas, where much of the target population already lives, is obviously a critical issue that has attracted a great deal of academic interest. In addition, the 2015 Supreme Court case (*Texas Department of Housing and Community Affairs et al. v. Inclusive Communities Project, Inc., et al.*) and HUD’s 2015 guidelines on Affirmatively Furthering Fair Housing are an important part of the policy discussion. Although the legal basis for these actions has been in existence for decades, together they represent a reaffirmation of the importance of eliminating racial segregation, and they could stimulate an increased commitment to consider the racial impacts of a given housing project or intervention.

projects to rate their neighborhood as good or excellent. Residents in nonprofit-sponsored properties, however, were more likely than those in for-profit-sponsored developments to report living in close-knit neighborhoods and to be “somewhat or very active in [their] neighborhood” (Burton et al., 2000).

Ellen and Voicu (2006) concluded that developments built by both for-profit and nonprofit developers contributed to an increase in neighboring property values. In smaller projects, however, nonprofit developers delivered less benefit to the neighborhood than for-profit developers. On the other hand, the impact of the nonprofit developments remained stable over time, but the impact of the for-profit developments declined slightly over time.

In a similar way, in an analysis of external neighborhood effects of LIHTC projects built in Santa Clara County, California, from 1987 to 2000, researchers found that projects owned by for-profit developers delivered benefits similar to those sponsored by the area’s nonprofit developers. Projects built by large nonprofit developers that were members of the Housing Partnership Network and those built by the Housing Authority of the County of Santa Clara generated the greatest amount of positive impact on nearby single-family property values compared with properties built by for-profit developers and nonprofit developers that were not members of the Housing Partnership Network (Deng, 2011).

In contrast with the studies cited previously that note the generally positive spillover effects of affordable housing built by for-profit developers, an earlier study found that subsidized housing owned by for-profit developers was associated with negative impacts on property values, while housing developed by CDCs had a positive impact on property values (Goetz, Lam, and Heitlinger, 1996).

Thus, very little comparative information is available on this component of the quadruple bottom line, and the findings are also somewhat contradictory. For-profit and nonprofit developers seem to be delivering similar benefits, and developments built by both generally contributed to an increase in neighboring property values.

In summary, for-profit developers seem more likely to—

- Deliver more benefits to the neighborhood, where there are smaller projects.

Nonprofit developers seem more likely to—

- Build units in economically distressed/extremely low-income areas (as noted previously).
- Have developments whose impacts remain more stable over time.

Conflicting information exists on—

- Whether for-profit or nonprofit-owned developments were more likely to be located in neighborhoods with higher concentrations of minority residents.
- Whether for-profit or nonprofit-owned developments were more likely to positively or negatively impact house values.

In addition, and perhaps the only comparative information on the performance of different types of nonprofit developers, projects owned by large nonprofit developers generated larger neighborhood impacts than for-profit developers and nonprofit developers that were not members of the

Housing Partnership Network. The importance of better understanding characteristics and differences in outcomes for different types of for-profit and nonprofit developers is underscored in the section titled Suggestions for Further Research.

Environmental Issues

The final component of the quadruple bottom line concerns the environmental sustainability of the development or the incorporation of “green” building standards into the construction or rehabilitation of affordable housing projects. Despite the trend toward green design, there does not appear to be relevant literature on the extent to which for-profit and nonprofit developers take advantage of these approaches and incentives.

Investments in energy-efficiency retrofits and green building standards for affordable rental housing are critical: residential buildings account for approximately 22 percent of the nation’s total energy consumption (DOE, 2012). Furthermore, the lowest-income tenants tend to bear a disproportionate burden for energy costs, so improving the energy efficiency of affordable housing not only leads to potential energy savings but also improves the stability of low-income households. In 2014, utility costs accounted for 17 percent of the incomes of renter households earning less than \$15,000 a year compared with just 2 percent among those earning \$75,000 and more (JCHS, 2015).

During the past several years, the federal government and state-based funding agencies have emphasized the importance of green design as an important criterion in awarding subsidies. To be more specific, nearly one-half of the states in the United States (as of 2013) included incentives for developers to include green building elements in their applications for competitive LIHTCs through the Qualified Allocation Plan process (Linstroth, 2013).

It appears that developers historically may have thought that environmentally sensitive design was an “impediment, not an opportunity” (Levin, 2013: 37, based on a 1998 survey); however, attitudes toward affordable environmentally sustainable housing may be shifting. According to a recent survey, as of 2012, 86 percent of multifamily builders and developers¹¹ reported that at least some of their affordable housing projects were green; nearly one-fourth of this group reported that 31 to 60 percent of those projects were green (McGraw Hill Construction, 2014). Industry trade publications also indicate that large for-profit developers, such as Omni New York LLC, are increasingly undertaking substantial rehabilitations of affordable properties that include upgrades to energy-efficient boilers and incorporation of other sustainable features (Kimura, 2014).

Conclusions

As discussed previously, public-private partnership initiatives have been prevalent since the 1960s, and the important role of for-profit developers in affordable housing development was further solidified with the creation of the LIHTC Program in 1986. Regardless of the type of developer, the

¹¹ The survey did not ask multifamily developers to identify whether they were for-profit or nonprofit organizations. The developer sample was drawn from the membership of the National Association of Home Builders and from a list of the developers associated with multifamily projects featured in other reports released by the consultant (Dodge Data & Analytics) commissioned to conduct the study (Laquidara-Carr, 2015).

issues confronted and the tasks that need to be carried out are essentially indistinguishable. We know that for projects to be successful they need, for example, adequate upfront subsidies and gap financing; high-quality construction and design, with an emphasis on both durability and green building materials; a sensitivity to how the development fits into the surrounding neighborhood; subsidies for ongoing management and capital repairs; and support services for residents.¹²

In addition, in the absence of mandatory affordable-use restrictions, for-profit and nonprofit developers are likely to have a differing level of commitment to preserving long-term affordability. As a result, preservation requirements and goals should be addressed at the time of funding. In particular, for-profit developers of LIHTC projects can set up arrangements at the outset so that, after the 30 years, the developments can be transferred or purchased by nonprofit developers (or tenants, resident management corporations, or government agencies) as a way to retain affordability.¹³

The preceding literature review highlights several key differences between for-profit and nonprofit developers in the development and ownership of affordable rental housing. Among the many findings discussed, several are particularly important to highlight.

First, for-profit developers appear to be better able to fill the financing gap between mortgage proceeds and equity generated from the sale of tax credits, and they have greater access to ready capital. As a result, they are less in need of additional subsidies than are nonprofit developers, which tend to have to layer a great many subsidy sources to make the deals work.

Second, for-profit developers appear to charge higher developers' fees and are more likely to cite financial benefit as their primary goal. By contrast, nonprofit developers are most likely to cite neighborhood improvement or affordable housing goals as their primary objectives.

Third, although data are conflicting, the weight of the evidence suggests that for-profit developers may also be able to achieve lower development costs.

Fourth, when nonprofit developers' development costs are found to be higher, researchers invariably note that these costs need to be viewed in the context of the other benefits that are typically associated with housing produced by nonprofit developers. In particular, there appears to be a greater willingness on the part of nonprofit developers to undertake projects in areas that other developers are likely to bypass—economically distressed areas with extremely low-income households. This orientation, researchers find, seems to be a key factor underlying any differences in the viability of developments owned by nonprofit developers. In addition, the more complex and challenging the project is to develop and manage, the greater the likelihood that a range of problems will be encountered.

¹² For a more detailed discussion of the many elements needed for high-quality affordable housing development, see Bratt (2016).

¹³ To be more specific, a for-profit owner may grant a right of first refusal to a nonprofit or to an agency of state government for a statutory minimum price. The statutory minimum price (outstanding debt plus taxes) can be a below-market price. The LIHTC Program also gives owners an opportunity to operate the property, without affordability restrictions after year 15 if the state agency is unable to find a buyer at the contract price. As noted earlier, however, most states have produced regulations that require more stringent affordability standards.

In reviewing the comparative records of for-profit and nonprofit developers using the components of the quadruple bottom line, we often found only sparse information. In particular, comparative information for key measures of project financial viability, including default rates, is lacking, thereby making conclusions in these areas impossible. For-profit developers, however, seem to have stronger per-unit cashflows and DCR levels.

Nonprofit developers may be more likely than typical for-profit developers to focus on providing or coordinating social services to meet residents' needs, to target their units to lower-income households, and to sponsor less-dense developments with fewer and smaller units. A commitment to try to maintain affordability beyond the mandated use-restriction periods is also a key orientation of nonprofit organizations. By contrast, for-profit developers seem more likely to opt out of affordability contracts and limit the affordability of their properties to the minimum use-restriction periods.

In terms of neighborhood impacts of for-profit and nonprofit affordable housing developments, both seem to be delivering similar benefits and contributing to an increase in neighboring property values. Further, where nonprofit developers operate smaller projects, they seem to be delivering less benefit to the neighborhood than are for-profit developers. On the other hand, the impact of nonprofit-owned developments seems to remain more stable over time. In perhaps the only comparative information on the performance of different types of nonprofit developers, projects owned by large nonprofit developers (that is, Housing Partnership Network members) generated larger neighborhood impacts than for-profit developers and nonprofit developers that were not members of the Housing Partnership Network.

Finally, we could not find any comparative literature for the last component of the quadruple bottom line. Thus, we cannot offer any conclusions about the extent to which for-profit versus nonprofit developers are incorporating environmental considerations into their projects.

Suggestions for Further Research

Despite the longstanding importance of for-profit developers in affordable housing production, the literature review reveals key gaps in the research. Three areas for further exploration are suggested.

Develop a Typology of For-Profit and Nonprofit Affordable Housing Developers

To gain a better understanding of the comparative strengths and weaknesses of for-profit and nonprofit affordable housing developers, it would be helpful to be able to delineate the types of for-profit and nonprofit firms that are engaged in affordable housing development. In exploring the literature and in conversations with key informants,¹⁴ it is clear that an ability to more precisely differentiate the various types of for-profit affordable housing developers is needed. Indeed, as noted at the outset, for-profit developers do not constitute a single homogenous group. When comparing for-profit and nonprofit organizations, as many studies discussed in this article have

¹⁴ A conversation with Patrick Clancy, former president of the large Boston-based nonprofit, The Community Builders, was particularly helpful in understanding the diversity within the for-profit affordable housing development sector (Clancy, 2014). Some of the suggestions contained in this section are based on his observations.

done, it would be helpful to know exactly what type of for-profit or nonprofit organization is being discussed. Which exact types of entities are the most productive and efficient, while also providing a high level of services to residents in good-quality, long-term affordable housing?

A key factor for sorting groups could be along a continuum of social mission and the extent to which a strong financial outcome is a prerequisite for getting involved with a specific deal. Many nonprofit developers traditionally have launched projects that have had a shaky financial basis but an ambitious social agenda (see also Bratt, et al., 1994). This combination will significantly increase the difficulty of successful execution and compound the risk (Clancy, 2014).

In thinking further about the world of large nonprofit affordable housing developers and their for-profit counterparts, we may see a convergence between the day-to-day activities and overarching orientations of corporate-like nonprofit developers and mission-driven for-profit developers. Although the need to make a certain level of profit may still be a distinguishing feature, one would likely be hard pressed to see real differences in the operations between some of the highest-performing nonprofit developers (for example, BRIDGE Housing, The Community Builders, Mercy Housing, Preservation of Affordable Housing) and the most mission-driven for-profit developers (for example, Jonathan Rose Companies, McCormack Baron Salazar).

Additional research should be carried out comparing some of the highest-performing for-profit and nonprofit affordable housing developers to better understand the relative advantages and challenges of each. More specifically, it would be desirable to have more detailed information about a number of factors such as the operating costs, staffing, and organizational capacity of for-profit developers—using, for example, the LIHTC Program—by comparison with various types of nonprofit organizations, particularly neighborhood-based community development corporations. To make the best possible use of federal resources—whether through direct or indirect subsidy approaches—policymakers would benefit from having more and better information about the types of developers that produce and maintain the best and most cost-effective housing for lower-income households.

More and Better Comparative Research

This literature review has explored the comparative strengths and weaknesses of for-profit and nonprofit developers. Although some trends are apparent, as noted previously, it should be emphasized that many of the findings discussed in this article are based on very little evidence. Sometimes, only a single research study is cited to describe a particular observation. As the literature makes clear, uneven research interest exists in the topics discussed here. The most focus has been on the housing development process, financial viability, and social and economic benefit components. Particularly sparse are comparisons on neighborhood quality and environmental quality. In addition, we have not found any research that specifically looks at how weak versus strong market contexts may be a factor in the comparative performance of for-profit and nonprofit affordable housing developers. Much of the comparative research on for-profit and nonprofit developers has also focused on the LIHTC Program. Aside from some analyses related to the use of additional rental subsidies in LIHTC projects and preserving the affordability of properties with federal project-based rental assistance, little information is available on the role of for-profit developers involved with the project-based Section 8 Program and with federal demand-side programs, notably the Housing Choice Voucher program.

Direct comparisons are needed between for-profit and nonprofit developers, holding as many variables constant as possible. Such comparisons would provide a better understanding of how each type of developer goes about meeting its goals. In short, we need more information on the extent to which both types of developers meet the criteria of the quadruple bottom line. Additional qualitative and quantitative explorations could look at key variables through the experiences of the various subtypes of nonprofit and for-profit developers. Such exploration would promote a richer understanding of the challenges being encountered by a range of entities, preferably in diverse market settings, in the production of high-quality housing that remains affordable over the long term.

To be more specific, to what extent is each type of developer creating projects that promote greater safety, stimulate other public and private investment in the area, and provide opportunities for local residents to enhance economic security? In an ideal controlled study, a group of cities would be selected that each has at least two very similar neighborhoods, in terms of, for example, types of residential structures (for example, one-to-four-family or multifamily homes), vacancy rates, extent of vacant and abandoned buildings, racial and socioeconomic characteristic of residents, amount of open space, and access to schools and public transportation.

For each neighborhood, a nonprofit developer and a for-profit developer would be designated and two comparably sized developments would be built. Following these efforts over 15 years would provide innumerable insights into the development process, the long-term financial viability of developments, impacts on individual residents and the neighborhood, and how environmental considerations are incorporated into the projects.

To facilitate better comparative research efforts, it would be helpful for HUD, if possible, or the National Council of State Housing Agencies to collect information from state HFAs on project health and viability (that is, occupancy rates, DCRs, per-unit cashflows, and default and foreclosure rates) by type of owner. This information could then be incorporated into the LIHTC database or released publicly as a stand-alone data set or report.

Better Understanding of Productive For-Profit and Nonprofit Partnerships

As noted previously, good affordable housing development and management are essentially the same regardless of the sponsor, providing that key requirements are met. Explicit efforts for for-profit developers and nonprofit developers to share experiences, collaborate, and learn from each other are needed. We need to do a better job of learning from some of the largest producers of affordable housing in the United States—for-profit developers that use the LIHTC. At the same time, the group of high-performing nonprofit developers represents a valuable resource. What lessons can they share with all affordable housing producers and how might these lessons be translated into new public policy strategies? What models of for-profit-nonprofit partnerships appear to be providing the best-quality, long-term affordable housing? What additional legislative initiatives or technical assistance programs are needed to support these collaborations?

The national nonprofit intermediaries, NeighborWorks America, the Local Initiatives Support Corporation, and Enterprise Community Partners, along with the Housing Partnership Network and the relatively new group, Stewards of Affordable Housing for the Future, could launch a collaborative effort with the for-profit affordable housing development community to address these

questions and other issues of mutual interest and concern. The research community could play a role in encouraging such an effort and offering its assistance in compiling and analyzing the results.

Final Note

This literature review has been presented with the hope that it will help illuminate the work of private, for-profit developers in providing housing that is affordable to lower-income households. Helping to spur a new wave of research efforts among housing academics and policymakers would be a welcome outcome of this effort.

As frequently noted, the need for good affordable housing continues to be a significant challenge. Seven years after the end of the Great Recession, a record number of renters are paying more than 50 percent of their income for housing and federal interest in providing deep housing subsidies is weak (JCHS, 2016; NLIHC, 2016). Indeed, the major housing subsidy program directed to lower-income households, LIHTC, does not depend on annual federal appropriations and, instead, provides tax credits to high-income investors. The tax credits available under this program are insufficient, however, to meet the demand. Furthermore, since the LIHTC program has a higher income eligibility limit (60 percent of AMI) than many other federal housing subsidy programs, additional rental subsidies are often necessary in order to make the units affordable to extremely low-income households (O'Regan and Horn, 2013), which results in complex financing schemes. Not since the Section 8 NC/SR Program has there been a low-income-targeted deep, direct federal housing subsidy.¹⁵

Despite strong demand for tax credits, the decline in critical federal gap financing programs like HOME, coupled with tight rental markets and rising development costs, have made it more difficult for both nonprofit developers and for-profit developers to expand the supply of affordable housing. According to results from *Affordable Housing Finance* magazine's annual survey, 24 percent of the nation's 50 largest for-profit and nonprofit developers reported that they were most concerned about rising development costs in 2016, with the average per-unit development costs for new affordable construction projects at \$253,984 in 2015, up 7 percent from \$238,296 in 2014 (Kimura, 2016b). Moreover, because these are national averages, they camouflage the fact that development costs are much higher in various parts of the country, such as in the Northeast and several West Coast cities, where land costs, in particular, are especially steep.

It is clearly important to use the limited resources available as effectively as possible. To do that, a better understanding of the strengths and weaknesses of the various types of development entities is needed. At the same time, advocates, academics, and policymakers should continue to underscore the essential role of government in producing and maintaining a stock of high-quality affordable

¹⁵ One of the most encouraging mechanisms to create a funding stream for affordable housing is the new National Housing Trust Fund. Shortly after its creation in 2008, however, the major source of funding was shut down, due to the financial upheavals within Fannie Mae and Freddie Mac. As of January 1, 2015, these two agencies were directed to contribute a set amount of money each year based on their volume of business. In May 2016, HUD made its first allocation of nearly \$174 million to states through the Trust Fund. These funds will provide a reliable source of revenue that does not depend on annual congressional appropriations (Crowley, 2015; HUD, 2016).

housing. For the federal government to regain its primacy as the key driver of a low-income housing agenda, it will need to rely on high-performing nonprofit developers, mission-oriented for-profit developers, and non-mission-driven for-profit developers that are able to partner with nonprofit developers that will assure long-term affordability. Regardless of sponsorship, the overriding goal is to produce a robust and sustainable stock of high-quality affordable housing for the millions of households that are facing serious housing problems. To achieve this goal, more and deeper federal subsidies for affordable housing are needed. Our ability to meet the housing needs of the nation is within our intellectual grasp, but the issue has not risen to a level of political imperative.

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