



FOREWORD —
I SEE A MARKET IN YOUR FUTURE

Shelter from the Storm is a road map for affordable housing professionals who face potential or actual conversions of regulated housing to more market-like operations. Although it is targeted toward owners, government regulators and supervisory property managers, I hope that the book will be useful also for front-line property staff, residents, and communities. Potential purchasers who intend to retain the property as affordable housing, as well as potential purchasers who intend to implement a market conversion, should also benefit.

This book will attempt to balance economic and social concerns, and efficiency versus social mission. I believe that much of our existing heavily regulated affordable housing stock will move much closer to market-style operations over the next few years. Just how that will happen, and how fast, is unclear, but I have no doubt that it *will* happen. We do *not* have to sacrifice the basic mission of affordable housing, however.

I believe that introducing market discipline will improve housing quality. This book will show how the market works and why I believe market conversions will lead to better housing quality.

Affordability is a central issue. Existing regulated housing programs have sought to provide very low income households with housing that is *lower in cost* and *higher in quality* than they would be able to obtain in the market. As a general rule, regulated properties achieve these goals in their early years, but over time, significant numbers of properties experience deterioration in quality as well as escalation in costs. Conversely, left to itself, the market will provide very low income households with housing that is old, in declining neighborhoods, often severely crowded, and often in very substandard condition. This book will discuss why existing programs, and housing markets, produce these results. It will also discuss strategies for addressing affordability in the future.

SHELTER FROM THE STORM

Successful Market Conversions

of Regulated Housing

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This book will not discuss any particular market conversion statute or regulations. Rather, the book will show how market conversions work, outline the issues involved in designing conversions and planning for their implementation, and suggest strategies that will produce conversions that succeed financially and in terms of preserving affordable housing. The book will also discuss a host of public policy issues that we can expect to encounter in market conversions.

My goal is to prepare you for any market conversion program that comes your way. The key word is *prepare* — as you will soon see, there is much that you should be doing *now*, even if there is no immediate likelihood of a market conversion, and even if the market conversion program rules are not yet completed.

As I write this, HUD is working on program rules to implement last fall's historic "Mark to Market" legislation, under which 400,000 or more multifamily units (with \$12 billion or more in government-guaranteed mortgage loans) will undergo market conversions over the next several years. Most owners and managers are not well prepared.

Shelter from the Storm will prepare you to design and implement successful market conversions. You will encounter a few recurring themes:

- Successful market conversions require a thorough understanding of the property, its neighborhood, and its optimum role in the affordable housing stock. To a large extent, successful market conversions must be custom-fitted to each property.
- Well designed, well built, and well managed affordable housing can be destroyed – literally – by unsound programs or unsound financing. Market conversions must be carefully designed and carefully implemented to succeed.
- Economic incentives are very powerful and very efficient. Market conversions use economic incentives to achieve public policy objectives.

Shelter from the Storm

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- Market conversions will almost always involve striking a balance between economic efficiency and affordability.
- Moderate interventions in the housing markets are easier to manage, and less vulnerable to unanticipated side effects, than dramatic interventions.
- Pure market, modified market, and non market housing approaches each have their benefits and drawbacks.
- Perhaps the most difficult objective in regulated housing is maintaining good physical quality over time.
- Long term *capital needs*, for replacement of aging building systems, are a central issue in planning and implementing market conversions. Capital needs must be carefully estimated, and the financial plan must make sure that there will be adequate funds for foreseeable future capital needs.
- As regulated properties move closer to a pure market environment, *marketing* and *neighborhood* become increasingly important.
- Most regulated properties are located in neighborhoods that are quite different from the neighborhoods in which most pure market rental housing is now being developed. Appraisers and other pure market experts may underestimate the impact of these neighborhood differences.
- The margin of error in underwriting market conversions is significant.
- Good market conversion plans will be flexible enough to succeed if the property's post-conversion financial results are materially different than projected.
- Apartments of any type are very sensitive to quality of management. Quality of management will be especially important in market conversions of regulated housing.



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- * Communication is essential, among the entire group of stakeholders – not just the owner, manager and regulatory agency, but also the lender, the residents and the local community.

One of my favorite sayings goes like this: “*Every complex and difficult problem has a simple and elegant solution – and it’s wrong!*” Instead of offering you simple answers, *Shelter from the Storm* will give you the basis for determining a complicated – and correct – answer for each of the properties you care about.

If you are involved with *any* form of regulated affordable housing, *now* is the time to start planning for market conversions.

Charles S. Wilkins, Jr.

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