An aerial photograph of a city in Silicon Valley, showing a mix of residential and commercial buildings. In the foreground, there are colorful, multi-story apartment buildings. In the background, a dense urban area with various skyscrapers is visible, with mountains in the distance under a clear blue sky. A semi-transparent blue vertical band runs down the left side of the image, serving as a background for the text.

Protecting, Preserving &  
Increasing Production of

# AFFORDABLE HOUSING IN SILICON VALLEY

Philanthropic Activity & Opportunities

JANUARY 2018



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# EXECUTIVE SUMMARY

## HOUSING IS AN ISSUE THAT TOUCHES ALL ASPECTS OF PHILANTHROPIC WORK.

Affordable housing presents a critical challenge in Silicon Valley today. With a substantial deficit in the number of affordable units needed for the region's low-income residents, and associated challenges for sustainable growth and regional equity, housing is an issue that touches all aspects of philanthropic work.

The region would have needed to develop over 23,700 more units over the past three decades merely to keep pace with growth, and growing income inequality has added further pressure to housing markets.

The high cost of housing, as well as the perception that housing is an issue to be addressed by markets and government, may account for the fact that there has been more limited activity on the part of foundations to advance housing affordability. In addition, housing is a particularly complex issue, with multiple intersecting requirements:

- **Political and community will**
- **Significant subsidy dollar needs for development and operating costs**
- **Available land and supportive land-use policies**
- **Supports for low-income households to access and retain affordable housing**

On a national level, with the exception of a handful of notable housing-related initiatives at foundations such as the Ford and John D. and Catherine T. MacArthur Foundations, there have been few national philanthropic leaders around housing. A new cross-sector funders collaborative, Funders for Housing and Opportunity (FHOP), may present a promising shift in this trend.

## Three primary philanthropic tools to impact affordable housing:

- **Direct grantmaking**
- **Program or mission-related investments (PRI/MRI)**
- **Application of the influence that philanthropy may wield as a result of its relationships within the social, business, and public sectors**

Foundations experienced in housing-focused initiatives and programs highlight the importance of balancing neighborhood and program-level efforts with longer-lasting systems change work. In addition, the complex nature of housing work calls for particular attention to supporting the overall capacity of nonprofits working in the field.

Opportunities and recommendations for foundations seeking to impact the affordable housing crisis in Silicon Valley include four primary areas of potential focus:

1. **Policy & systems change**, given the essential role of the public sector in affordable housing, systems-level work is a prerequisite for meaningful impact on housing affordability.
2. **Innovation, experimentation and risk-taking** linked to a scalable strategy with potential for widespread impact and adoption by public-sector partners.
3. **Capacity of affordable housing** grant investments associated with nonprofits, advocacy groups, and programs that enable housing retention, access and preservation as the highest-return service models.
4. **Shared philanthropic focus and commitment** to addressing affordable housing.

Grantmakers looking to advance housing affordability within these focus areas have numerous opportunities to apply tools for impact. A sampling of potential applications of can be found on the following page.

# FOUNDATION TOOLS IN PRACTICE

A sampling of potential action to advance affordable housing

	 Political & Community Will	 Development Capital & Operating Subsidies	 Land	 Housing Access & Retention Supports
DRIVE SYSTEMS CHANGE	<p><b>Grants</b> in support of research on potential impact of state-level policy action to override local entitlement bottlenecks.</p> <p>Community leadership development <b>grant</b> to engage residents in neighborhood revitalization planning.</p>	<p><b>Grants</b> for coalition-led advocacy around permanent source of funds for the state housing trust fund.</p> <p>Community foundation executive staff authors an <b>influential</b> op-ed calling for peer funders to commit endowment capital to program related investments.</p>	<p>Mission <b>investment</b> in land acquisition fund, leveraged w/ catalytic capital and pooled loan fund.</p> <p>Foundation staff and allies leverage <b>influence</b> to advocate with public partners to donate public lands for housing sites.</p>	<p><b>Grant</b> to tenant rights organization to support advocacy for increased scrutiny of code enforcement issues associated with evictions.</p>
NEIGHBORHOOD & PROGRAM SUPPORTS	<p><b>Grant</b> to a local organizing group working to garner neighborhood support for a new development.</p> <p>Foundation staff and board member direct advocacy <b>influencing</b> local business support for in-fill, mixed-use and/or transit-oriented development.</p>	<p>Capital <b>grants</b> for project financing gaps or associated costs such as project services space, programming needs.</p> <p><b>Social impact bond</b> (pay for success) financing the development of permanent supportive housing for formerly homeless families.</p>	<p><b>Grants</b> to organizing cbos working to secure donation of fallow land from faith-based institutions.</p> <p><b>PRI</b> (direct loan or through intermediary) for resident cooperatives purchase of the land beneath mobile home parks.</p>	<p>Program expansion and companion general operating <b>grants</b> to organizations providing housing counseling and financial inclusion services to homeowners at risk of foreclosure in a target neighborhood or region.</p>
BUILD CAPACITY	<p>Foundation staff and allies apply <b>influence</b> to develop a public/private partnership funding technical assistance to local nonprofit development organizations.</p>	<p>Capacity-building <b>grant</b> for finance system upgrades to a nonprofit community development finance institution offering a community loan fund to preserve small sites.</p>	<p>Predevelopment working capital (<b>grants or PRI/ MRI</b>) to housing developers to allow for accelerating entitlement processes, such as environmental review.</p>	<p><b>Grant</b> to increase human resources staffing and systems to a rapidly growing provider of emergency rental assistance for low-income families.</p>



# INTRODUCTION

"In metropolitan regions across the country, residents face constrained, expensive housing markets and rising income inequality. Middle- and high-income households are beginning to seek more affordable housing in accessible neighborhoods with traditionally lower rents and proximity to jobs and transportation. Many low-income households are simply unable to secure affordable rents."

— *Displacement in San Mateo County, California: Consequences for Housing, Neighborhoods, Quality of Life, and Health*

## HOUSING CRISIS

The country today faces a critical housing crisis. With almost half of renter populations across the U.S. paying more than they can afford in rent, housing shortages are taking a serious toll on economic growth, driving increased inequality, and crippling social, economic, and community potential and progress. Limitations on access to quality, affordable, well-located housing create a formidable barrier to job opportunities, access to healthy food and activities, education, and culture for a large swath of the residents of high housing cost areas.

In turn, the exclusion of residents who cannot afford housing within a region limits the growth and potential of the region itself. In Silicon Valley, a third of residents plan to leave the region within the next few years.<sup>1</sup> The lack of "job-housing fit" — the alignment between earning levels associated with jobs in the region and the cost of available housing — promises to constrain future growth and economic activity.<sup>2</sup> As long-term residents are forced out, and the region's workforce faces longer and longer commutes to participate in the economy, the housing crisis is becoming a significant driver of rising inequity. Looking to the region's future, lack of housing portends badly for transportation systems, public services, economic vitality, and quality of life.

## Purpose

While there are a number of foundations active in the Silicon Valley region that have invested at varying levels in housing efforts, it is an issue around which foundations cite less clarity of strategy, investment of dollars, and impact than other giving areas. At the same time, the current housing crisis is a central factor affecting any and all social issues at play in the Bay Area.

The effectiveness of the region's response to the crisis will form the constraints within which all other issue areas will be addressed. From the educational impact of teacher displacement to the earning requirements of workforce development program trainees, the housing crisis is shaping the potential for philanthropy's impact across many fields.

Foundations working on diverse issue areas increasingly find that, faced with broken housing markets and the absence of a social sector response, they are crippled in advancing their other goals and mission. In considering housing development efforts over several decades, PolicyLink CEO Angela Glover Blackwell draws attention to the dangers of "housing strategies divorced from catalytic, comprehensive, equitable development strategies."<sup>3</sup> In Silicon Valley's communities today, philanthropy faces a growing need to integrate housing affordability with all strategies.

This report was commissioned by the Packard Foundation in support of conversations amongst a group of funders in Silicon Valley concerned by the escalating impact of the affordable housing crisis on the region. As a review of current and potential philanthropic work around affordable housing, it is intended to provide context, increase understanding of housing-related issues, and present ideas for consideration by grantmakers working in the region, particularly those for whom this is will be a new area of investment. By no means is it intended to present an all-encompassing view of the broad topic of housing, nor even the entirety of philanthropy's role and potential to contribute to responses to the housing crisis. The goal of this working paper is to advance a conversation, generate thinking, and foster a dialogue that can in turn give rise to further research and a path forward into action.

## Methodology

Information was collected on the intersection of philanthropy and housing affordability via review of numerous websites and reports, including reports by the Nonprofit Housing Association of Northern California, Enterprise Community Partners, SV@Home, McKinsey & Company, and others. An analysis of more than 1,500 grants recorded in the Foundation Center's database as awarded to housing-related efforts was conducted for a view into local grantmaking around affordable housing. Finally, several foundation staff with expertise in housing-focused grantmaking participated in interviews on the role and potential for philanthropy to impact affordable housing issues.

## Report Structure

The report begins with an overview of affordable housing and the key requirements to preserve and increase housing affordability. It then provides a summary of the state of housing issues in Silicon Valley. It concludes with an analysis of potential gaps and opportunities for philanthropy to protect, preserve, and increase production of affordable housing in the region.



### Useful Terms

Useful housing-specific terms are defined throughout the report where indicated with a "dictionary" symbol.

The majority these definitions are drawn directly from the Nonprofit Housing Association of Northern California's recommended housing glossary.



# OVERVIEW



## Housing Cost Burden

When 30% or more of a household's income is spent on housing costs.

## Severe Housing Cost Burden

When 50% or more of a household's income is spent on housing costs.

## DELIVERING ON HOUSING

There is ample evidence demonstrating that, with adequate and thoughtful investment, affordable housing is a key driver of the health, sustainability, and well-being of any community in the Bay Area and beyond. The current system by which affordable housing is delivered, however, draws equally ample criticism for its faults. As former HUD Secretary Shaun Donovan has said, *"if we, as a nation, were to start from scratch to develop a national housing policy, we would not end up anywhere near where we are today. Multiple failures of policy, implementation, and markets have led to the housing crisis faced today."*

Nonetheless, for the purposes of considering how Silicon Valley funders can take action at this juncture around the housing crisis, a brief review of the basic components of the current affordable housing delivery system will be helpful.

### Affordable for whom?

Housing affordability is determined by the percentage of household income required to cover the cost of housing, including rent or mortgage payments, insurance, taxes, and utilities. A household that is able to cover housing costs with 30% or less of gross income is considered to have a reasonable cost of housing. Housing that receives government subsidies and places income restrictions on the occupant(s) in order to maintain a reasonable housing cost burden is known as "affordable housing."

## WHAT IS NEEDED TO PRESERVE, PROTECT, AND PRODUCE AFFORDABLE HOUSING?



Political &  
Community Will



Development Capital  
& Operating Subsidies



Land



Housing Access &  
Retention Supports

Income restrictions for housing units designated as affordable are determined based on the prevailing earnings level for the community in which the housing is located — typically a percent of Area Median Income — allowing for affordable housing to be targeted to specific households based on their earnings relative to the local economy.

In addition to income restrictions, affordable housing can be restricted to specific populations with additional need for assistance in accessing or retaining housing, such as seniors or households with individuals living with HIV/AIDS, disabilities, or a history of homelessness. Housing targeted to specific populations may also mandate the provision of supportive services or community programs delivered on-site at the housing development to ensure housing retention and greater wellbeing.

\$33,500	\$59,700	\$128,500
<b>EXTREMELY LOW INCOME</b>	<b>LOW INCOME</b>	<b>MODERATE INCOME</b>
A person or household with income below 30% of Area Median Income, adjusted for household size. This often includes fast-food cooks, hairdressers and home care aides.	A person or household with gross household income below 60% Area Median Income, often including receptionists, preschool teachers and security guards, or 80% Area Median Income, often including construction workers, firefighters, and teachers in the Bay Area.	A person or household with gross household income between 80% and 120% of Area Median Income, adjusted for household size, often including registered nurses and police officers. This housing, also called “workforce housing,” is typically built by for-profit developers in exchange for incentives offered by local jurisdictions.
Source: CA HCD 2016 Income Limits		



## POLITICAL & COMMUNITY WILL

Our affordable housing system relies upon the political and community will required to enact and implement policies and programs that result in an adequate supply of quality, well-located affordable housing. Without policy dedicating sources of financing and/or incentives to secure the capital investment needed to build or rehabilitate housing, and without subsidy sources to ensure that affordable housing is a sustainable operation that can attract developers and investors, there is little possibility of ensuring housing affordability. Community acceptance of affordable housing as a priority (and political support) are likewise prerequisites to successfully sustaining a regulatory and tax policy environment in which affordable housing projects can find land, navigate approvals processes, and be financed and developed.

As cities, counties, and states have faced a substantial decline in funds from federal programs (see sidebar), many have developed their own rental assistance and housing development programs to fill the gap. Local commitments require both political will and broad acceptance from residents to support the dedication of resources to affordable housing priorities. Of equal import, communities must overcome resistance to zoning changes and other policy actions that can lead to increases in housing supply, but that often encounter resistance from some residents (NIMBYism). Community leaders, organizers, and advocates play a critical role in communicating housing needs and building the required support to turn NIMBYs into YIMBYs. In turn, community and academic researchers contribute evidence and analysis that assists to both make the case for and guide policy and program design decisions.

## Federal Rental Housing Programs

Today's federal rental housing programs targeting the poorest residents grew out of out of economic, social, cultural, and political circumstances, evolving over the years in response to changing circumstances. Despite periods of significant investment in the nations' affordable housing stock, particularly during the late depression and post-war eras of the prior century, federal support has decreased dramatically in recent decades. Beginning with the 1974 Housing and Community Development Act, federal programs have seen massive reductions in funding, have initiated no major investments in new housing for the lowest income people, and have largely left the responsibility for addressing the nation's housing concerns to states, regions, and local governments to contend with. In the same period, there has also been limited production of "naturally occurring" affordable housing (NOAH) — unsubsidized rental units that are affordable to low- and moderate-income households as private developers could realize higher profits with market rate construction.



## Devolution

The transfer or delegation of power and responsibility for housing programs from the federal level to local or regional jurisdictions.



## DEVELOPMENT CAPITAL & OPERATING SUBSIDIES

The construction, rehabilitation, and maintenance of affordable housing relies upon multiple sources of funding, both for development costs and to fill the gap between resident rents and the actual cost of operating affordable rental housing developments. This reality is not singular to affordable housing, but rather pervasive in any good or service directed to people who cannot afford the offerings available in the marketplace.

Despite the existence of multiple sources for financing of affordable housing construction or preservation, the dramatic reductions seen in nearly all major sources over the past decade has forced development to a crawl. The California Housing Partnership Corporation reports that 80% of available resources for affordable housing

development and preservation were lost between 2007 and today.<sup>4</sup> Furthermore, the decline in dollar amount of individual financing sources has led to affordable housing development requiring numerous, complex, restricted revenue streams, driving up the cost of producing an affordable unit while slowing the pace.

### The critical role of public funds

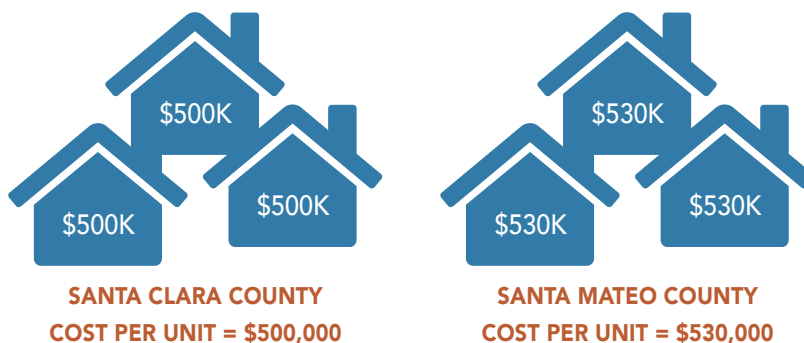
Absent a substantive change to the availability of sources of public funds, it is unlikely that a broad change to the current housing crisis will occur. The sheer scope of resources essential to the construction, rehabilitation, and maintenance of physical property requires an investment at the level of public funds.

## The financing structure for affordable housing makes 3 key considerations evident

1

### Resource requirements are significant

**In San Mateo County and Santa Clara counties, the cost per unit of affordable housing EXCEEDS \$500,000 for very low-income and low-income housing.**



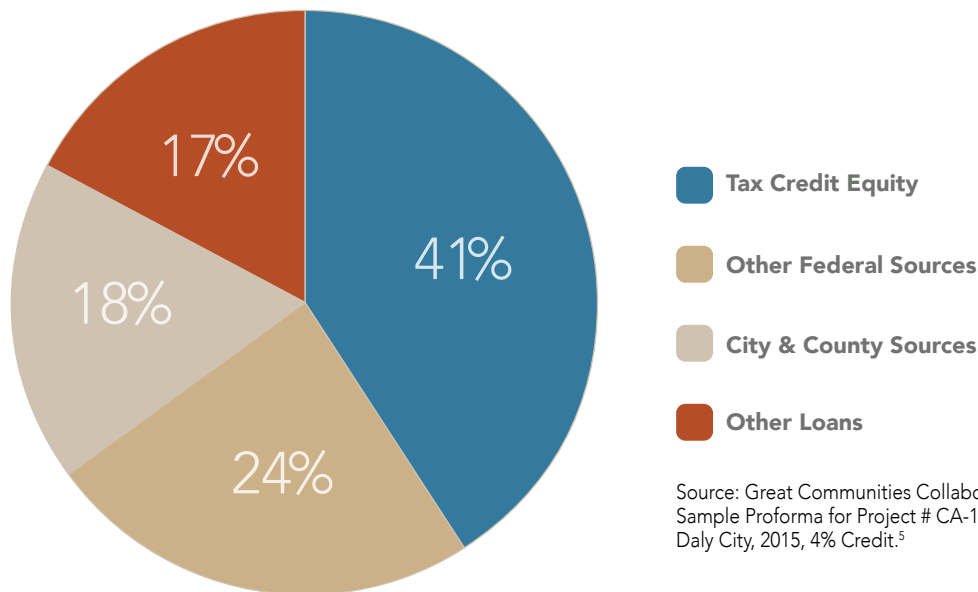
**In order to meet the need for very low-income and low-income housing over 2017–2022, the aggregate annual FUNDING GAP IS \$1.8 BILLION for San Mateo and Santa Clara Counties combined.**

## 2

## Public funds comprise the only feasible source for affordable housing development, with local commitments playing a key part

The very nature of affordable housing — that the housing burden is at an affordable level for households earning below (or close to) the median income for a region — presents a significant structural barrier. Allowable rents limit the revenue potential to the point that the project cannot break

even, much less present an attractive development opportunity for a for-profit developer. Without government subsidy or incentive, there is not a rational market opportunity that can attract private sector developers to meet demand.



Source: Great Communities Collaborative, Sample Proforma for Project # CA-15-800, Daly City, 2015, 4% Credit.<sup>5</sup>

**For a typical development in San Mateo County, public funds make up 99–100% of financing for very low-income and low-income affordable housing.**

### 3

## Navigating the complexities of affordable housing funding requires significant technical capacity

The array of funding sources that housing developers must combine in order to finance their development and preservation work is substantial, typically ranging from federal, local and state sources to private lending, donations, and grants. With specific and targeted requirements for

each source of funds, developers must navigate a complex array of applications and approval processes, interweaving compatible funding sources to finance each housing project. A sampling of sources of funds (below) illustrates the variety and complexity of affordable housing finance.



FUND SOURCE	DESCRIPTION
<b>LOW-INCOME HOUSING TAX CREDIT PROGRAM (LIHTC)</b>	Created by the Tax Reform Act of 1986 to provide incentives for private sector production of low-income housing, LIHTC replaced traditional housing tax incentives with a tax credit that enables developers of affordable housing to raise equity through the “sale” of tax benefits to investors (corporations and individuals). Investors receive 10 years of tax credits in exchange for their investment. LIHTC is a very important source of equity for nonprofit housing developers. The program requires a certain percentage of homes built be restricted for occupancy to households earning 60% or less of Area Median Income and the rents on these units be restricted accordingly
<b>COMMERCIAL LINKAGE FEES (CLFS)</b>	CLFs are a type of impact fee assessed on new commercial developments or major employers based on the need for workforce housing generated by new and expanding businesses. Revenues generated by the fee are then used to help fund the development of affordable housing opportunities within accessible commuting distance to the employment center
<b>HOUSING IMPACT FEE</b>	A per square foot impact fee levied on market rate housing that can be used to build affordable homes. The fees are based on the idea that every person who moves into a market-rate home generates a need for services typically provided by employees paid less than the median income.
<b>MIXED USE DEVELOPMENT</b>	A building or group of buildings that combines multiple revenue producing uses in an integrated and coherent plan. As an example, a mixed-use development might include retail space on the ground floor, offices on the middle floor, condominiums on the top floors and a garage on the lower level.
<b>HOUSING CHOICE VOUCHER / SECTION 8 PROGRAM</b>	Federal rent-subsidy program under Section 8 of the U.S. Housing Act, which issues rent vouchers to eligible households. The voucher payment subsidizes the difference between the gross rent and the tenant’s contribution of 30% of adjusted income, (or 10% of gross income, whichever is greater).



## LAND

In high-density urban settings, particularly those with geographic constraints such as most Bay Area communities, the absence of available land presents one of the most significant barriers to sustaining housing affordability. Without space in which to develop new units, whether designated affordable or 'naturally occurring,' the barriers to infill development such as zoning, parking requirements, and regulatory hurdles can quickly throttle any possibility of housing growth on par with the need driven by economic growth.

Strategies to increase affordable housing within the existing urban environment such as infill development, accessory dwelling units (in-law units), or changes to density zoning present the means to address land needs within such an environment. In addition to addressing the lack of available land on which to build, the housing needs of low-income households are also usually better met by neighborhoods of greater density, a greater variety of housing types and mixed land use. Finally, developing denser, affordable housing alongside transit hubs creates health, climate, and economic benefits for the region as a whole.



## Infill Development

A strategy for accommodating growth and preventing sprawl through greater density and efficiency in land use development within existing urban boundaries.

## Density

The level of concentration (high or low) of buildings, including their total volume, within a given area. Often expressed as a ratio, i.e. homes per acre.



## HOUSING ACCESS & RETENTION SUPPORTS

Ultimately, affordable housing is intended to provide continued housing for households that otherwise would be vulnerable to exclusion from the housing market, or who could be at risk of losing their housing. Low-income households that reside in units that meet their affordability needs may be vulnerable to losing their housing or face barriers to accessing affordable opportunities. These programs provide a first line of defense against the erosion of affordability by maximizing access to and retention of a region's existing affordable housing.

### Legal assistance

Legal assistance can ensure housing retention for rental households as landlords seek to increase rents, particularly in housing markets where rents are rapidly increasing due to undersupply and gentrification. In these economies, legal services to assist tenants facing threat of eviction can provide critical supports that enable individuals and families to retain their homes.

### Short to mid-term subsidies or financial support

Short to mid-term subsidies or financial support programs can make the difference between remaining housed or becoming homeless for families experiencing a temporary gap in earnings or other hardship that can lead to rent arrears. Low-income families and individuals, even those residing in subsidized or naturally occurring affordable housing, rarely have assets or savings to draw on during times of hardship. Effective programs may offer financial assistance to bring rent payments current, with or without case management or other support services to assist in addressing the causes of financial hardship. In cases where a household faces imminent homelessness, rapid re-housing programs are a proven means to enable continued housing and stability.

### Financial counseling coupled with financial assistance

Financial counseling coupled with financial assistance for homeowners at risk of foreclosure is an additional highly cost-effective means to ensuring continued affordability by ensuring that low-income households can retain their current housing. During the recession following the housing market crash of 2008–9, low-income and minority homeowners saw disproportionate levels of negative equity as compared to more affluent counterparts. And in communities where rapid job and income growth may lead to rapid increases in the cost of living, lower-earning homeowners experience greater financial instability as their home equity accounts for a greater portion of total wealth.

This vulnerability to foreclosure has led to cautions that for low-income households, homeownership may be “an investment that carries with it significant risks and uncertainties.”<sup>6</sup> Housing counseling provides support that can assist homeowners to retain their homes, mitigate the financial impact of foreclosure on household well-being, and — at the front end — ensure that low-income households can access homeownership through well-structured loans that mitigate the potential risks of the investment.

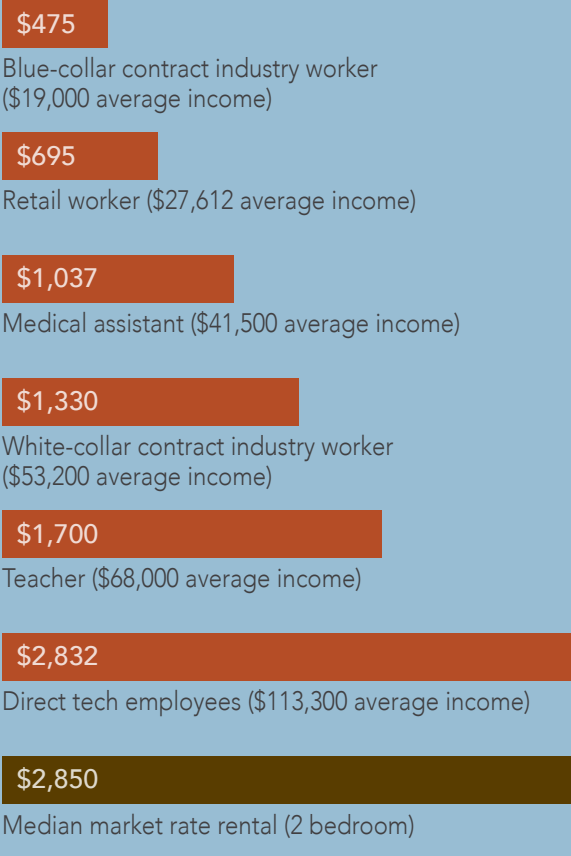
### Services that support access to housing

Households that may qualify for affordable housing will often benefit from services that support access to housing, ensuring that they can take advantage of housing opportunities, such as matched savings programs or assistance programs that can help to meet deposit costs. Many low-income households will increase their likelihood of not only obtaining, but also retaining, affordable housing through services supports prior to and during the transition into housing.



# PHILANTHROPIC INVESTMENT

What rent can Silicon Valley employees afford?



Rent rates calculated based on 30% Income standard.  
Sources: Working Partnership Source, the California Housing Partnership Corporation, and the Santa Clara County Office of Education.  
Chart by SV@home, 2016.

## THE HOUSING CRISIS

In Silicon Valley's economy, the lack of housing growth to keep pace with the regional jobs expansion has resulted in an affordability level that makes housing a challenge to not only low and moderate, but even middle-income households. San Mateo's and Santa Clara's "housing wage" — the hourly wage required to afford a two-bedroom apartment — has reached \$44.02 and \$38.35, respectively.<sup>7</sup> The housing crisis has been both exacerbated by and in turn contributed to rising income and asset inequity in the region, which are linked to poor regional social and economic outcomes in the long-term.

Moreover, the region entered the current period of accelerated growth from a deficit position in terms of existing affordable housing stock. Over the last three decades, Santa Clara County would have had to build an additional 16,708 units to keep pace with growth; San Mateo County would have needed to build an additional 7,035 units.<sup>8</sup> More than a third of area residents (35%) expect to leave the region in the next few years and local municipalities have gone as far as to oppose job-creating growth, citing the housing imbalance.<sup>9</sup> With growing populations in the counties of San Mateo and Santa Clara, the projected need for housing units to house very low- and low-income residents alone totals more than 32,802 for 2014–2022. Considering that in addition to the deficit in housing development to keep pace with affordability needs, Santa Clara and San Mateo counties are in need of 9,500<sup>10</sup> units to address community homelessness, the situation can accurately be described as dire.

## Units needed by household income level (% area median income) 2014–2022

COUNTY	VERY LOW 0–50%	LOW 51–80%	MODERATE 81–120%	ABOVE MODERATE 120%+	TOTAL
<b>SAN MATEO</b>	<b>4,595</b>	<b>2,507</b>	<b>2,830</b>	<b>6,486</b>	<b>16,418</b>
<b>SANTA CLARA</b>	<b>16,158</b>	<b>9,542</b>	<b>10,636</b>	<b>22,500</b>	<b>58,836</b>

Source: Association of Bay Area Governments, Regional Housing Need Plan for the San Francisco Bay Area: 2014–2022

## PHILANTHROPIC INVESTMENT IN AFFORDABLE HOUSING

Affordable housing is often perceived as a daunting issue for foundation giving to impact. While all social issues involve complex and interrelated causes (and often, call for correspondingly multifaceted responses), housing can be seen as an especially challenging area. The perceived difficulty may arise from a combination of both (1) the perception that housing is an issue to be addressed by markets and government, rather than philanthropy, as well as (2) the uniquely high cost of the most obvious “direct services” in the housing arena, as compared to other issue areas.

Philanthropy grapples with similarly complicated systems challenges in addressing community educational needs, yet there are various points of entry to create immediate positive impact through the funding of education-related programs. For example, organizational budgets for public charities working on education issues in CA averaged \$3.2M in annual expenses as of 2013, with, we assume, each organization delivering services that can impact hundreds of households each year. In contrast, 3M is estimated to produce 4–6 total units of housing in California’s highest-cost coastal communities.<sup>11</sup>

### National housing philanthropy

Overall, national foundations have seldom had a central focus on housing issues. There has been some dedicated work on housing amongst foundations related to the financial industry, such as the Wells Fargo Housing Foundation and the Bank of America Charitable Foundation, but this has often involved a homeownership perspective and/or been tied to meeting Community

Reinvestment Act requirements. Prior to ceasing operations in 2007, the Fannie Mae Foundation had a comprehensive portfolio of housing investments. The Foundation’s closure left a gap in support for a number of housing activities. Among the other national funders, The John D. and Catherine T. MacArthur Foundation and the Ford Foundation stand out as having noteworthy affordable housing programs. Ford’s affordable homeownership work has been substantive and unique among national grantmaking programs seeking to impact a specific aspect of the housing landscape, and continues with its April 2017 commitment of the single largest Mission Related Investment ever made, allocating \$1 Billion to investments in affordable developments. The Macarthur Foundation invested heavily in affordable rental housing preservation and housing research, resulting in significant impact on the field, but has recently sunsetted this work, focusing more of its housing-related investment locally.

Despite these losses, there is new promise emerging nationally with the recent formation of the Funders for Housing and Opportunity (FHOP), a cross-sector, national collaborative committed to bettering life outcomes for the more than 12 million renter households who pay more than half of their income on housing or who are homeless. FHOP was created by eight national foundations to better coordinate and align investments in housing and housing-related work. FHOP members are creating a \$9M pooled fund that will invest in three broad strategy areas:

- (1) Policy, organizing and advocacy,
- (2) Changing the narrative about “affordable housing” and its relation to opportunity,
- (3) Lifting up and scaling what works.

## Local gains and potential

Local and regional philanthropic efforts have made some progress, but with mixed results. Some foundations have attempted to assist in filling the gap in local housing development; while laudable, this strategy has less potential for impact in high-cost markets with exponential need such as the Bay Area. Local and regional philanthropy has played a substantive role in supporting innovation at the local level in early-stage models such as the creation of permanent supportive housing or affordable-housing development tied to transit. The challenge for these foundations, however, has been scaling up innovations or getting new policy proposals to the appropriate decision-maker. Local and regional grantmaking, however, does account for a substantial portion of the resources supporting community organizing and advocacy capacity, and while causality is inherently challenging to measure for such efforts, this organizing/advocacy is often cited as a deciding factor in policy and regulatory changes with high potential for impact in affordable housing development.

In terms of local direct grantmaking in Silicon Valley, data collected by the Foundation Center offers some measure of insight into how philanthropy has engaged around affordable housing in the region. Grantmaking data from the Foundation Center's database presents a rough, approximate view into giving in any specific geographic region, as the grants are recorded based on the headquarters location of the recipient organization, rather than the geographic region served by the funded activities. Nonetheless, the data provides some insights into the general shape of affordable housing grantmaking in the region:

- Giving specific to affordable housing appears to fall short of that directed towards homeless services and temporary housing, with 25% more in total giving reported towards homeless services and housing.
- The highest proportion of reported grantmaking appears to have been directed towards capital and operating subsidies, followed by programs to support housing retention and access.

- Affordable housing-related PRIs accounted for approximately 10% of the total number of PRIs made to organizations located in the region between 2010–2017, with substantively higher investments made for charter school growth, innovations in pharmaceutical and technology tools, open space preservation, and nonprofit facilities acquisition or refinancing. (Of note, PRIs and MRIs for all housing-related efforts reported to the Foundation Center numbered only 108 nation-wide during this period)
- Select grants data shared by the group of foundations engaged in exploration of philanthropic opportunities to impact affordable housing indicate that grants supporting advocacy work are more likely to be made to organizations working regionally.

In the Bay Area, local response to housing concerns are gaining momentum, indicating that response to the housing crisis could serve to galvanize a new level of investment and commitment, on the part of philanthropy, to affordable housing. Of note, several emerging efforts, both local and national, are focused around strategies through which philanthropy can effect change by working to pull levers that affect — or interact with — the broader systemic direction of housing policy and development. An emergent Regional Housing Fund developed by Enterprise Community Partners offers a loan pool designed to accelerate housing efforts by allowing nonprofit developers to quickly move on opportunities and maximize the use of newly approved public funds towards housing development. While the Fund for an Inclusive California, currently in formation stage, will aggregate funding around community-driven responses and engagement in housing and development policy. Developed by The California Endowment, Common Counsel Foundation, and California Community Foundation, among others, this collective effort looks to counter structural drivers of displacement that exclude low-income people and communities of color from decisions around housing, land use, and development, bringing a broader, equity-based lens to consideration of the state's housing crisis.



# GRANTS & BEYOND

## FOUNDATION TOOLS TO INCREASE THE SUPPLY OF AFFORDABLE HOUSING

A review of the literature returns a limited amount of study, scholarship, and communication of best practices specific to the role of philanthropy in advancing affordable housing. There is a wealth of literature on challenges and strategies associated with affordable housing overall, and foundations that have adopted an explicit strategy around housing often communicate their approach and strategy, or, less frequently, their lessons. In addition to the available literature and research, a select group of key informants was interviewed to support the development of this report, representing private, community, and corporate foundation experience.<sup>12</sup> Foundation staff consulted for input on this report shared several common perspectives on the potential for philanthropy to advance an affordable housing agenda, and in some cases, shared internal reports developed in the course of considering affordable housing grantmaking strategies, highlighting the following key perspectives.

Whether seeking to build community and political will to advance housing-friendly policy-making and local regulatory land-use decisions, or to increase the capacity of housing development organizations active in the area, grantmakers cited three key categories of tools at their disposal:

- **Grantmaking** in support of projects and programs that advance one or more strategies to protect, produce, or preserve affordable housing.
- **Program-related (or mission-related) investments** in direct support of projects, or as financing to increase the capacity of housing-related organizations, such as loans for predevelopment working capital.
- **Exercising the influence** afforded by philanthropy's position and relationships within the foundation and nonprofit sector, as well as in civic and community spheres.

In applying philanthropy's tools to housing issues, foundations have utilized a variety of approaches. In some cases, the foundation identifies housing as a crosscutting concern to be addressed in conjunction with the primary portfolio areas within the overarching foundation strategy. In other cases, foundations have focused primarily on one geography, a specific strategy relevant to other program priorities, or one particular area of need, such as the requirement for stronger community acceptance of affordable housing development in a target region.

In particular, the following common themes emerge from foundation approaches as promising practices in developing a housing-related strategy:

- Funders working in housing report a need to look beyond brick and mortar investments and focus on systems change when it comes to the financing of development and preservation; while support for specific projects and the development of units presents an immediate response to housing issues, these investments ultimately fall far short of the potential impact that philanthropy can achieve through levers that result in systems change. Funders will be well served to carefully consider balancing investments in systems change with support for neighborhood and program-level work to maximize the combined impact of support at both levels around a focus area.

Of note, all of the interviewees cited that if grantmakers seek to change the overall status of housing affordability at a local or regional level, foundation strategy must retain a focus on ultimately succeeding in securing action on the part of government officials or agencies.

- The high cost of housing requires that, to have any meaningful impact, foundations must invest in deepened understanding of the areas where philanthropy can have highest leverage and impact. This ranges from carefully targeted loans or investments to long-term commitment to working on systems change. The long-term nature of this work requires a more “patient investment” approach than other forms of philanthropy in which impact may be more tangibly evident and measureable within 1–3 years. As one funder commented, when seeking systems change outcomes, “there are no shortcuts, only detours.”
- Given the scope of housing issues and opportunities, foundations with experience in housing work have in several cases developed a strategy that combines application of all the tools available to work on one specific housing-related strategy, such as a focus on preservation of rental housing, leveraging a major public initiative such as HUD’s Rental Assistance Demonstration project, or homeownership strategies for low-to-moderate income households. Funders cite the effectiveness of leveraging systems change work with neighborhood and program investments within a specific strategic focus area to increase or preserve housing supply and access.
- Investment in affordable housing sector capacity, including that of mission-driven housing developers and lenders, as well as advocates, intermediaries, and community organizing CBOs warrants particular attention for philanthropy and emerges as a common theme in the practices that funders and literature highlight as essential to any housing strategy and particularly promising when combined with the systems change and program-level approaches noted above.

## Nonprofit Capacity: Essential For Housing Work

Prior to changes in housing policy enacted in the mid-to-late-1980’s, much of affordable housing construction was carried out by for-profit developers, whose incentives to sustain the original levels of affordability expired after relatively short timeframes, typically 15 years. As a result, affordable units were at risk, and regularly were lost from the affordable housing stock as restrictions expired. Increasingly complex development, preservation, and neighborhood stabilization problems also require a high-capacity class of nonprofit developers capable of navigating the complexities of affordable housing work. Sound business and management practices are required for development work, hand in hand with deep mission commitment and community development expertise. Add to that the need to navigate evolving and changeable regulatory, funding, and policy requirements, and the capacity requirements for affordable housing organizations are not insubstantial.

# FOUNDATION TOOLS IN PRACTICE

A sampling of potential action to advance affordable housing

	 Political & Community Will	 Development Capital & Operating Subsidies	 Land	 Housing Access & Retention Supports
DRIVE SYSTEMS CHANGE	<p><b>Grants</b> in support of research on potential impact of state-level policy action to override local entitlement bottlenecks.</p> <p>Community leadership development <b>grant</b> to engage residents in neighborhood revitalization planning.</p>	<p><b>Grants</b> for coalition-led advocacy around permanent source of funds for the state housing trust fund.</p> <p>Community foundation executive staff authors an <b>influential</b> op-ed calling for peer funders to commit endowment capital to program related investments.</p>	<p>Mission <b>investment</b> in land acquisition fund, leveraged w/ catalytic capital and pooled loan fund.</p> <p>Foundation staff and allies leverage <b>influence</b> to advocate with public partners to donate public lands for housing sites.</p>	<p><b>Grant</b> to tenant rights organization to support advocacy for increased scrutiny of code enforcement issues associated with evictions.</p>
NEIGHBORHOOD & PROGRAM SUPPORTS	<p><b>Grant</b> to a local organizing group working to garner neighborhood support for a new development.</p> <p>Foundation staff and board member direct advocacy <b>influencing</b> local business support for in-fill, mixed-use and/or transit-oriented development.</p>	<p>Capital <b>grants</b> for project financing gaps or associated costs such as project services space, programming needs.</p> <p><b>Social impact bond</b> (pay for success) financing the development of permanent supportive housing for formerly homeless families.</p>	<p><b>Grants</b> to organizing cbos working to secure donation of fallow land from faith-based institutions.</p> <p><b>PRI</b> (direct loan or through intermediary) for resident cooperatives purchase of the land beneath mobile home parks.</p>	<p>Program expansion and companion general operating <b>grants</b> to organizations providing housing counseling and financial inclusion services to homeowners at risk of foreclosure in a target neighborhood or region.</p>
BUILD CAPACITY	<p>Foundation staff and allies apply <b>influence</b> to develop a public/private partnership funding technical assistance to local nonprofit development organizations.</p>	<p>Capacity-building <b>grant</b> for finance system upgrades to a nonprofit community development finance institution offering a community loan fund to preserve small sites.</p>	<p>Predevelopment working capital (<b>grants or PRI/ MRI</b>) to housing developers to allow for accelerating entitlement processes, such as environmental review.</p>	<p><b>Grant</b> to increase human resources staffing and systems to a rapidly growing provider of emergency rental assistance for low-income families.</p>



## OPPORTUNITIES & RECOMMENDATIONS

### Working Together for Systems Change: Funder Collaboration Experience from Los Angeles

More than a decade ago, a group of 10 foundations began collaborating to advance housing concerns in the Los Angeles area. Initially founded in response to the impact of transit extensions on affordability in low-income neighborhoods, the group has built a model for collaboration over time. Meeting 8 times per year, participating funders share expertise, serve as a clearinghouse to direct allies and external partners to other members, and eventually, “inched into joint funding”. The commitment to collaboration has been long-term, requiring ongoing, sustained time investment for members.

Leveraging their pooled resources and relationships and the strength of trust built over time, the group has seen benefits to their individual housing efforts, by leaning on expertise of others in the group (or referring partners and organizations to peers) for specialty areas of focus such as health and housing strategies, or supportive housing to address homelessness.

Ultimately, the group’s most striking successes have been in achieving meaningful systems change. After working for years on the need for new public sources, members pooled efforts around the successful passage of Measure HHH, approving a \$1.2B bond measure to address homelessness, including the purchase, construction, and/or rehabilitation of housing, both supportive and affordable.

A reflection on the collective advocacy work around Measure HHH from the California Community Foundation (a central funder in the effort) provides further details.

There are significant opportunities for philanthropy to play a more impactful role in affordable housing in Silicon Valley. Despite the gaps in available data and the somewhat limited amount of literature on the topic, there are several conclusions and opportunities that can be drawn from this review. Of particular note, there are four areas of philanthropic investment that show promise and should be considered, as follows below. For each promising area, detail is included on the rationale for this area’s potential impact, a review of potential grantmaking tools that could be applied to the area, and a sample of potential opportunities for initiatives and/or investments.

# 1

## Focus on systems change

Given that the public sector is by far the largest source of funds in affordable housing (and controls regulations, including those that can incentivize the private sector), philanthropy needs to focus attention on key opportunities to advance system change efforts. Possibilities to consider include the opportunity to partner with public sector agencies, advocate, and seek opportunities to support public policy favorable to affordable housing.

### RELEVANT TOOLS FOR FOUNDATIONS

include funding research and communications (including public opinion research on potential policy and measures), direct advocacy with public partners, exercising philanthropy's influence, and grant support to organizing and advocacy nonprofits working on housing and community development issues.

**CURRENT OPPORTUNITIES INCLUDE** developing active and meaningful collaboration amongst foundations, business allies, and public sector partners to (1) build a foundation of support for creation and expansion of permanent local, regional, and state funding sources and (2) coordinate around actionable policy change measures, such as reductions to permitting times, density and other key zoning requirements; alignment around goals associated with priority development areas (as outlined in the *Plan Bay Area developed by the Association of Bay Area Governments*); potential grant support to researchers who are building a case for policy and systems change; potential grant support for local and regional housing advocacy organizations; funding for facilitation of community engagement processes in communities with opposition to affordable housing development.

# 2

## Support innovation, experimentation, and risk-taking

Philanthropy is uniquely well situated to assume the risk associated with efforts to experiment and develop new solutions or greater efficiencies in the affordable housing space. However, funders should take care to avoid two significant risks associated with these strategies:

- Investments in innovation or experimentation should be limited to those that have a feasible path towards adoption, institutionalization, and funding by the public sector upon proof of concept. Innovation that cannot ultimately drive systems change will have little impact on the housing crisis.
- The excitement and promise of shorter-term returns associated with innovation grants presents a danger of obscuring the need to achieve meaningful gains in systems change. These efforts further run the risk of incentivizing nonprofit organizations to become overextended with experimental projects, jeopardizing the stability and quality of core housing-related activities.

### RELEVANT TOOLS FOR FOUNDATIONS

include direct funding for innovation efforts, communications and collaboration with other funders and public sector partners to create alignment around transitioning innovative work into widespread implementation efforts.

### CURRENT OPPORTUNITIES INCLUDE

experimentation with expansion of housing supply via development of Accessory Dwelling Units; research and support for developers exploring alternative development models such as off-site prefabricated construction, tiny home developments; leveraging of publically-held or faith-based-institution owned land for affordable housing development; PRI investments to developers to allow for land-banking or coverage of predevelopment costs.

### 3

## Invest in capacity and highest-return services program models

Beyond philanthropic work that can ultimately deliver systems change, the highest leverage opportunities appear to fall into two primary categories:

- Programs and services related to housing access and retention. Stabilizing and assisting households currently residing in affordable units, particularly NOAH (naturally occurring affordable housing) is highly efficient as compared to the cost of development and preservation, and far shorter-term in terms of return/impact than systems change work.
- Continuing support and capacity building for nonprofits working to advance affordable housing. Investments such as ongoing general operating support for community development CBOs, grants enabling technical assistance providers and intermediaries to expand offerings in the region, and capacity-building projects to enable local and regional organizations experiencing growth and increased demand to keep pace without becoming overextended.

### RELEVANT TOOLS FOR FOUNDATIONS

include grantmaking targeting housing-focused organizations providing services that enable housing retention and/or commitments to general and capacity-building support; collaboration with peer foundations for pooled funding initiatives in these areas, and grants to intermediaries.

**CURRENT OPPORTUNITIES INCLUDE** promising and demonstrated program models that address housing retention barriers and tenant legal defense providers; targeted support for community development finance intermediaries (CDFIs) and other housing intermediaries; collaboration with emerging corporate philanthropy partners to increase shared focus on general operating and capacity-building grantmaking strategies.

### 4

## Build on shared philanthropic commitment to affordable housing

In grappling with the housing crisis, foundations will need to develop a deeper knowledge base and experience in the roles philanthropy can play to increase the supply of affordable housing. For some foundations, there may also be an interest to invest more explicitly in capacity for systems change work, and to develop a specific framework and strategies to address the issue in collaboration with other public and private funders.

**RELEVANT TOOLS FOR FOUNDATIONS** include development of an articulated strategy for housing work, including consideration of capacity needs; collaborative efforts in conjunction with other funders. The risk some foundations may encounter can be mitigated by a shared commitment with peers to experimenting, investing resources, and embracing potential learning while identifying levers to achieve lasting change.

**CURRENT OPPORTUNITIES INCLUDE** adoption of internal approaches/plans for deepening of housing work by individual foundations; development of philanthropic learning circle, or other cooperative effort to collectively advance affordable housing in the Silicon Valley region and allow for knowledge sharing and learning; exploration of a formal funders collaborative to pool or align grantmaking and PRI investments.

## CONCLUSION

The severity of the housing affordability crisis in Silicon Valley calls for a collective response, and can likely only be addressed by a joint effort involving public, private, and philanthropic collaboration and investment. Philanthropy is well positioned to play a significant role in this effort; yet doing so will require forging new ground and building deeper capacity and connections. There is, however, great potential and urgency for foundations to contribute to reversing the region's negative housing trends. While the road may be long and through unfamiliar territory, there is no better time than the present to take action.

## END NOTES

- <sup>1</sup> Bay Area Council, *Survey 2016*.
- <sup>2</sup> Non-Profit Housing Association of Northern California, 2016.
- <sup>3</sup> Angela Glover Blackwell, "Beyond Affordable Housing: Creating Opportunities in Every Community," *Living Cities*, June 2017.
- <sup>4</sup> Silicon Valley @ Home, "How do we tackle the affordable housing crisis?" 2016.
- <sup>5</sup> The Great Communities Collaborative, "Funding Affordable Housing Near Transit in the Bay Area Region".
- <sup>6</sup> Christopher E. Herbert, Eric S. Belsky, and William C. Apgar, "Critical Housing Finance Challenges for Policymakers: Defining a Research Agenda," *Joint Center for Housing Studies of Harvard University*, 2012.
- <sup>7</sup> National Low Income Housing Coalition, *Out Of Reach*, 2016.
- <sup>8</sup> Legislative Analyst's Office/Los Angeles Times.
- <sup>9</sup> Bay Area Council *Survey 2016*.
- <sup>10</sup> Focus Strategies, "Destination Home and San Mateo Ending Homeless Report," 2016.
- <sup>11</sup> NCCS Core File (Public Charities,) The Urban Institute, National Center for Charitable Statistics.
- <sup>12</sup> Interviewees included: Kimberlee R. Cornett, Managing Director, Social Investment Practice, Kresge Foundation; Joshua Russell, Silicon Valley Market Manager, Bank of America Foundation; Erika Poethig, Director of Urban Policy Initiatives, Urban Institute (formerly of John D. and Catherine T. MacArthur Foundation); Ann Sewill, Vice President, Housing & Economic Opportunity, California Community Foundation.

Prepared for the  
the David &  
Lucile Packard  
FOUNDATION

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