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Marianne Wanamaker:

Welcome to "You Might Be Right," a place for civil conversation about tough topics, brought to you by the Howard H. Baker Jr. Center for Public Policy at the University of Tennessee. Home ownership has been a cornerstone of the American dream, and is for many families a way of storing and building personal wealth. But today with housing prices high and inventory low, it can be out of reach for many prospective first time buyers. Nearly half of Americans say affordable housing is a major problem in their community, and you'd be hard pressed to find someone who says they are against affordable housing. Instead, the policy debate lies in what we can and should do about it. In this episode, our hosts, former Tennessee Governors Bill Haslam and Phil Bredesen and their guests, seek a better understanding of the issue and of the potential policy solutions.

Bill Haslam: It's good to be back with another one of our conversations that I think needs some diving into, and that's the whole issue of affordable housing. Not only have we both been governors, but we've both been mayors, where the rubber meets the road, so to speak, when it comes to affordable housing. These are tough issues and there are a lot of different factors, but we know this, that when half of America says this is a problem, I think we can agree it is a problem.

Phil Bredesen: Yeah, I'm not sure what your experience has been, but for me it really has changed over the years. When I first became mayor, which would be the early '90s, it was really about providing for a slice at the bottom of the economic layer. And over time, it's grown. More and more people are finding difficult to be able to afford a decent place to live. And that's not healthy for our cities, we need to figure out what's going on here.

Bill Haslam: The example I'd give is when I was in office as governor here in Nashville, and Nashville's obviously had incredible growth, but with that growth has come rapidly escalating housing prices. A lot of the folks that work for us in state government that had solid middle class jobs were having to commute a long way to be able to afford a house on, like I said, on the middle class salary that they were earning from the state. So we see the symptoms of the problem all over. What we'd love to do is talk with some people who might help us understand what are the root causes and what are some possible solutions.

Phil Bredesen: Exactly. It's a very timely discussion. And our cities, Nashville and Knoxville, they can't be successful if they just become a place where you can't have a broad spectrum of

the community living, and it's something we need to fix.

Bill Haslam: And now to our first guest, Dr. Laurie Goodman, who's an institute fellow with the Urban Institute. She leads their finance policy center, which provides policy makers with data driven analysis of housing finance policy issues. Full disclosure, I'm on the board of the Urban Institute, but she's here in her own right as somebody who has gained a national reputation for understanding a lot of the challenges facing our housing industry. Prior to being at the Urban Institute, she spent 30 years as an analyst and research department manager at several Wall Street firms. She worked for the Federal Reserve in New York as well. And this is kind of cool, was an inducted into the Fixed Income Analyst Hall of Fame in 2009. I assume there's some huge museum with lifelike figures of all those fixed income analysts there. Welcome, Laurie. We're glad to have you.

Phil Bredeesen: All sorts of bonds on the wall.

Bill Haslam: That's exactly....

Laurie Goodman: Well, thank you very much for having me on today.

Phil Bredeesen: Oh, welcome. Both of us have been mayors and we've talked about affordable housing over a long time, and a lot of the discussion is around basically subsidies. How do you move money into this kind of market? I'm interested in just what's wrong with the market. Why is it becoming so difficult setting aside for lower working and middle income families to afford housing? It just feels different today than it was 30 or 40 years ago. What's going on underneath it?

Laurie Goodman: Yeah, so I think the real problem is that we have an acute housing supply shortage in this country. We're just not building enough. Some areas that have a particularly large influx of people have the highest home price appreciation because there's not enough housing to keep up with the demand. But nationwide, we have an acute housing supply shortage. Freddie Mac did a great article about a year or so ago showing that the United States as a whole is about 3.8 million units short of demand. And Rosen Consulting, working with the National Association of Realtors, has shown that from 2001 to 2020, we built 5.5 million units less than would be predicted from the prior three decade per annum average. So stated differently, from 1959 to 2001, we constructed an average of about 7.8 units per thousand population. It crashed. We're now up to 5.1 units per thousand population, and we're especially short affordable units. We just haven't built much since the great financial crisis.

Phil Bredeesen: Why? You would think in every part of the economy entrepreneurs are ready to dive in when that kind of a shortage exists, there certainly is no lack of capital in general out there in the market. What's causing this? Why aren't people simply stepping in and building homes?

Laurie Goodman: Well, it would be great if there was one silver bullet that you could wave a magic wand and it would solve the problem, but unfortunately.

Bill Haslam: That's what we're wanting.

Phil Bredeesen: Yeah. Something for a bumper sticker would work great here.

Laurie Goodman: Yeah. Bumper sticker would be great, but unfortunately it's a combination of zoning issues, building codes, labor shortages, financing. Basically the supply gap has to be used using a combination of multifamily and single family units. So there's just no one silver bullet. Certainly zoning issues, you know as mayor's play a huge role, but it's also building codes, labor shortages, financing issues. There's not one silver bullet.

Bill Haslam: Laurie, help us... What this whole podcast is about is trying to find solutions, try to take the politics out of some of these hardened arguments that the country is having and come up with solutions. So let me throw it to you. You get to be the queen of housing for the next five years in the country and you get to make the changes that you think are right. Well, where would you begin? Because this is a real problem, not if you're in the upper incomes, but almost everywhere else, this is a real problem.

Laurie Goodman: And certainly if you increase the supply of housing, you bring down the costs. I would actually start with zoning issues. I would basically have more zoning, higher density zoning as a matter of right. And this could be a real game changer. You look at Houston was vilified for years because it had basically had zoning codes that were very different than most other cities. It now has more affordable housing than most other large cities. It's considered the poster child. And the reason is two sides of the same coin, they have very relaxed zoning regimes. You're seeing some relaxation on the zoning side. Minneapolis, Austin, Texas, the states of California and Oregon now permit accessory dwelling units as a matter of right. And accessory dwelling units are second housing units on the same grounds as a single family home. It includes backyard cottages, basement apartments, garage conversions. Allowing it as a matter of right could make a huge, huge difference in terms of supply.

But allowing higher density without a complex permitting process or having a more streamlined permitting process could be a real game changer in terms of supply. So I would start with zoning. I think financing could also make a big difference. When you think about financing, it's important to realize that our system of preservation financing or renovation financing is very, very cumbersome. And improvements there and streamlining there could make a big difference. We have 140 million housing units in the United States. If you could save an additional 0.1% per year over 10 years, that would basically equal one year of additional supply. The numbers are mind boggling. The average home in the United States was built in 1978. It turns 44 this year.

Phil Bredeesen: Expand more because of your background in the financing side of the thing, what's the issue? I presume if I want to build an apartment building somewhere, I go to a bank

and take my equity with me and get a construction loan and set up some permanent financing, just the way it's always been done. Where does that fall apart?

Laurie Goodman: On the multi-family side, there are preservation options. If you're a homeowner who wants to buy a home and renovate it completely, that is very, very cumbersome. And remember there's about 86 million single family homes in the United States and about 105 million one to four family homes. That is sort of the dominant form of housing. People sort of say, "Oh, institutional investors are coming in and they're scooping up these homes. No fair to homeowners." The reality is that the homes that institutional investors or investors period are scooping up by and large are homes that need repair, and the financing is very, very cumbersome for individuals to get loans to do repairs.

Bill Haslam: Both of us have been, like I said, been mayor, so you'd get agreement from us on the zoning issues. I'm like Phil, I found the financing issues to be surprising to me. What's your argument... The zoning though, again as mayor, there's no city council meetings that are as heated as land use issues. And most people would agree with you in theory, but not when that new subdivision is coming in the woods behind their house. So if you're showing up at city council as an advocate for a why we need to look at zoning, give me the argument that you'd make to those city council members who have to run for reelection in that neighborhood.

Laurie Goodman: Your kids can't afford to live in this community.

Bill Haslam: Okay.

Phil Bredezen: That's a pretty good argument.

Bill Haslam: I love it's straight to the point.

Laurie Goodman: Because it's sort of different when it's strangers. Gee, we're not saying affordable housing in this community, that's not an argument that moves people, although it should. But certainly, your kids can't afford to live in this community is an argument that moves people.

Bill Haslam: Let me go back, you were talking about the financing. We're always reacting to what happened before, and part of the '08/'09 crisis was the subprime lending issues that we saw in the market. How much of what we're experiencing now are people reacting to 12 years ago?

Laurie Goodman: I think that's a really, really good point. As you just said, we always overreact. Credit was definitely too loose going into the great financial crisis, it's now too tight. And there is an inevitable trade off. If you permit a marginally higher default rate, you give a lot more people the opportunity to build wealth. And I think that is a trade off that we have to make as a society.

Bill Haslam: Let me shift to what I think of as traditional affordable housing issues, that now we realize it's an issue, like I said, for most people in the market, but 10 years ago when we talked about affordable housing, we were talking about low income housing. And one of the tough deals if you're a mayor is you realize the more attractive you make your city, the harder you make it for low income folks to live there. And their old neighborhood becomes gentrified or whatever word you want to use. And all of a sudden affordable housing for low income folks becomes non-existent. So talk to us a little bit about that part of the market and what we might do to address that.

Laurie Goodman: The interesting thing about low income housing is A, we don't have enough of it, particularly for those at the lowest income. B, and this is really shocking, but three out of every four families that qualify for federal housing assistance don't receive it because of lack of funding. Three out of every four families.

Bill Haslam: All right, sorry, let me stop you. Lack of funding where? Be more specific.

Laurie Goodman: Lack of funding at the federal level. We just don't have enough housing funding to accommodate everyone who qualifies for federal housing assistance.

Phil Bredeesen: What's the magnitude of those numbers, the shortfall in billions?

Laurie Goodman: It's something like 23 million families qualify and only 4.9 million or 5 million families receive federal housing assistance.

Bill Haslam: Keep going there. If the federal money existed... We're taping this from Nashville, which has had high housing demand. We've brought in lots of in migration from New York and Los Angeles and Illinois and other states and they've come to town used to paying a lot more in their housing prices than what they pay here, so they bought the market up. But also, one of the results has been not just from in migration but from the natural growth of Nashville has been areas that were traditionally lower income neighborhoods close to the city have now turned over. And it's not just lack of federal money that's available, it's that neighborhood has moved from low income to middle or upper middle income regardless of whether you have some federal subsidy. Are there creative things you've seen some cities do to make it so that the city is a place that everyone can live regardless of their income level?

Laurie Goodman: Yeah. I think that's a really, really hard problem because again, you go back to the issue of cities tend to have restrictive zoning and so it's hard to build more. But certainly if you build more and you set aside a certain number of units as affordable, that is very powerful.

Phil Bredeesen: As we've mentioned, both of us have been mayors. And if suddenly I was somehow popped back into that job here in Nashville over my strong objections...

Bill Haslam: I was going to say, are you in handcuffs at this point?

Phil Bredeesen: And just setting aside the zoning issues, which I think we're all aware of and as you know are politically very difficult, and the financing issues you're describing are more federal issues. In addition to any of these other things, what would you advise me to do? What are some things that I could do that were practical and move the needle at least in some marginal way on the subject?

Laurie Goodman: Anything you could do to build more housing to relax zoning, or speeding up the permitting process. Basically the key is higher density. Land costs have way outstripped the costs of structure. So anything you can do to make more efficient use of land is extremely powerful. And at the federal level, tying transit funding more closely to increase density, there's been a little bit of that. There could be a lot more. And certainly on the financing side, as you said, one set of improvements can make a really big difference.

Bill Haslam: Laurie, as we begin to wrap up, I'm struck by the fact that you've proposed some things that would lead folks on the right side to stand up and cheer, things like, well, it's about zoning and it's about the bureaucracy around getting construction permits, and some things that would have folks on the left side standing up and cheering saying, "Well we don't have enough federal money being put toward this." What I appreciate about your approach is you really are taking it from, what's the data telling us? Is there anything else that the data's telling us that you would want to share with us that's getting obscured by political arguments, and say, "Well, let me shove the arguments aside, here's something else the data is telling us that can help solve the problem."?

Laurie Goodman: I think the most powerful thing the data is telling us is how short we are in terms of supply and how desperately we need additional housing units. And this should be something that the left and right can both agree on. Breaking down the artificial constraints that have been put up through time and allowing a really broad mix of people to live in a community should be something everyone can get behind.

Phil Bredeesen: It's been helpful to me because you've pointed out something that seems obvious, which is housing prices are difficult because the supply is short, which is something you learn about week three of an economics 101 course. But focusing on that amidst all the noise of other things I think is really helpful.

Bill Haslam: The name of this podcast, Laurie, is "You Might Be Right." It's a reference to one of Senator Baker's most famous quotes about the importance of listening to the other side, a different point of view and keeping an open mind. Tell us if you can, briefly, about a time when you remember hearing a different point of view and realizing that the other person might be right.

Laurie Goodman: In the pandemic, there was a good deal of debate about some of the

programs to aid renters, the eviction moratorium and emergency rental assistance. So the eviction moratorium was very, very valuable. It saved us a far more major health crisis than we otherwise would've had, although it was a clearly a huge health crisis. But it placed a lot of the burden on landlords. The Emergency Rental Assistance program was very slow to roll out as many of the agencies offering the program had never done so before, and the documentation was in many cases excessive. As someone suggested, rather than arguing about the effectiveness of these programs, the real problem is the lack of a permanent housing safety net. So the fact that, as we discussed earlier, three out of every four renters that qualify for housing assistance didn't receive it, which leaves so many people vulnerable to any sort of shock. If we had a more permanent safety net, in a future crisis, the programs could be better tailored for those that were more directly affected by the crisis. And I listened to that, I'm like, "Yes, damn that's obvious. Why didn't I think of that?"

Bill Haslam: Well, Laurie, thank you for joining us. Like I said, we appreciate your fact-based approach to this. We have a lot of ground to gain in this country on addressing affordable housing. And it matters not just for the practical economic aspects of owning a home, but for who we want to be as a country. We don't want to be a place where in our cities only a certain type of people can live there. Laurie, thank you so much. This has been very helpful. We appreciate you taking time out to speak with us.

Phil Bredeesen: Yeah, likewise. I think it's been very instructive. With these complicated issues, one of the hard things is just cutting through all the noise and the stuff that's out there, and you really helped me to see it more clearly as to what the big shapes are here.

That was pretty interesting for me. She obviously knows a lot about this and was not coming at it from some ideological point of view, but just how do we solve this problem?

Bill Haslam: Like I said, there's something in there that would cause folks on either side of the aisle to stand up and say, "Yes, you're right." And my experience has been that's how most issues are. There is some truth on both sides of the argument. I do think in this case there are major issues around zoning. There are some issues around construction permit process. I really wrestled with that as a mayor and I think I made a little bit of progress, emphasis on a little bit. But on the other hand, the reality is if our cities are going to be places where folks of all incomes are living, it probably is we are going to have to look at what's the federal role in housing subsidy to help that happen.

Phil Bredeesen: Well Bill, our next guest is Erskine Bowles, a very well known person. He's president emeritus at the University of North Carolina. He was the former chief of staff to President Bill Clinton. And I guess the way I first got a chance to meet him was he was appointed by President Obama to co-chair the National Commission on Fiscal Responsibility, so-called Bowles Simpson. And I think to this day has been far and away the most visible and most successful effort to try to focus people on the fiscal difficulties we might face as a country if we don't begin to deal with this debt issue. But we're here to talk about something a little

different today, and as befits somebody this creative, he's doing some really interesting stuff in this housing.

Bill Haslam: Yeah, I should start by saying Erskine's one of my favorite human beings. And one of those is because though he's been in the political world of taking the issues and kind of setting aside, "Well, how we actually going to solve a problem?" And we asked him to come on and talk about the affordable housing situation because something specific that he's doing in his hometown of Charlotte. And he will be the first to say, "Oh, it wasn't me, it's all these other people." But you have the plague of being our friend. So we asked you to come. Erskine, can give us a quick little summary of what you're doing in Charlotte?

Erskine Bowles: I'll be glad to. But first of all, I just got to say that for me, somebody who has spent my life in the business world, been in public service a lot in the not so distant past, to see two guys like you who I have such enormous respect for, coming from two different political parties, come together to try to find real world solutions to problems, is what I think America needs now more than anything else. So thank you for doing this. Nelson Schwab and I, who has been my lifelong partner in business, decided we were going to retire. We're old guys, we're 77 years old, but we still wanted to have some purpose. We tried to decide what do we want to do next in this retirement? And Nelson wanted to focus on the homeless problem and I wanted to focus on the lack of economic mobility.

As you all may remember, Charlotte was selected, of the 50 largest cities in America, it came in 50th dead last in economic mobility, which was a great surprise to people like me in the business community, but sure wasn't a surprise to the people in the brown and black community here in Charlotte. And so as you would expect with two business guys, we did a lot of research. And the more we studied these two problems, the more we came to the conclusion that they had one common generator of them, and that is the precursor of both of these was for lack of affordable housing. In Charlotte, we have a 34,000 unit shortage in affordable housing. Over the last six or seven years, every politician that's run, whether a Democrat or Republican, has said, "We want to do something about affordable housing." And all of them tried to attack it by buying land or finding land in the center city, within six miles of downtown that was near jobs, near transportation, near retail, particularly food, and in areas that were zoned for good schools, and built something from the ground up.

And what they all found out is once they did that, they couldn't turn around and rent spaces to people making 30% of area meeting income, which in Charlotte is less than 20,000 bucks a year. And so the arithmetic just didn't work and we didn't make any headway. And Nelson and I heard about this NOAH concept of buying older apartments built in the '70s, '80s and '90s and renovating them and then turning around and renting them to people at affordable rates. And so we spent our time looking at it. And as you said, Bill, we've come up with a lot of innovative financing tools in our career. And we came up with a brand new financial stack that would allow us to buy these older apartments, spend an extraordinary amount of money renovating so they're just as nice as any place you'd like to live or I'd like to live or anybody else would.

And having done that, because of our financial stack, we're able to rent these apartments to lower income individuals. And it's been phenomenal. In the first year of our existence, we've created over 500 affordable housing units that are high quality housing units. The next month we'll take on another 200, so that'll be 700. And by the end of the year, we'll have created over a thousand affordable housing units that are quality, that are near jobs, near transportation, near quality schools, and also near retail. So we think we're making some real progress.

Phil Bredezen: So how does that capital stack work that makes this possible? It sounds too good to be true.

Erskine Bowles: It does, and it hasn't been done before, and we've had some enormous success to date. Let me describe what the financial stack looks like and I think it'll help you understand. First of all, we decided to do this on a for-profit basis rather than on a not-for-profit basis. Nelson and I are working pro bono, so we're not taking anything out of it, but the investors came in on a for-profit basis. And we did that for two reasons. One, I've always found that a for-profit organization brings real discipline to the activity, much more so than most not-for-profits do. And I've headed up the National Juvenile Diabetes Research Foundation and lots of other not-for-profit efforts.

Erskine Bowles: But the second reason was, Phil, as a lifelong Democrat, I've also been a capitalist my whole life. I've spent my life in the capital markets and I'm darn tired of being called a socialist just because I'm a democrat, because I believe in capitalism. But I also believe that if capitalism is going to survive, we got to make it work for more people, a lot more people. That's why we went on a for-profit basis. To do that, you have to pay property taxes, as opposed to a not-for-profit doesn't have to pay property taxes. So we went to the county council and the county commission and we said, "Look, we'd like to do this, we'd like to do it on a for-profit basis. But if we don't, we'll do it on a not-for-profit. We'll pay our property taxes. But what we want you to do is take those property taxes and give it to a not-for-profit here in Charlotte. And then in turn, have that not-for-profit give that money back to us in a form of vouchers so that we can use those vouchers to lower the rent for people at 30% of AMI."

Our stack looks like this. About 45% of the money comes from Fannie and Freddie Mac. It's 20 year fixed rate money. Originally the cost was around 3.14%. Last year it went up to around 3.50 to 3.75. And now with the inflation in the economy, it's up around 4.85 to 5, but originally started out quite low. We get a better deal than market based buyers because our goal is all for affordable housing. Buyer loans are 30 to 40 basis points lower than what a for-profit buyer would have. We also get a 12 to 20 year interest only loan, as opposed to competitors would get a five year moratorium on principal repayments. And so that reduces our cost of capital there. About 12 to 15% of the money comes from the city in the form of 20 year zero interest loans, and 12% comes from the not-for-profit sector where the Foundation for the Carolinas gives us about 12 to 15% of the money on a 4% interest rate. And then our money comes in making up the bottom 25 to 30% of the money of where we get a 6% return.

When we went to the marketplace, we went to all of the business community to get to invest. And one of the things I loved and you two would love is we had the most conservative business leaders in the city invest and the most liberal leaders. And they did it, the most conservative guys did it because they had a lot of trust and confidence that Nelson and I would bring that fiscal discipline to what we were doing. And secondly, we had a track record of doing what we said we would do when we said we would get it done and not over promising. And so they were willing to take a chance on us doing this. The more liberal people really believed in the cause of what we were trying to do, it's provide affordable housing. So our capital structure is such that we can afford to pay market price and compete in that way and still give our investors a reasonable return on investment.

Bill Haslam: Couple of practical questions. Like I said, we're both not just former governors but former mayors and business people. So I assume when you bought these locations, folks were already living there. How did you handle some of the practical aspects of it?

Erskine Bowles: Bill, they've fallen in love with what we're doing immediately. If you can imagine, here's some guys going in there, we bought their apartments and we're spending anywhere on the low side, \$12,000 a door to \$36,000 a door, depending on the condition it's in. We're providing new floors, new cabinetry. We're fixing all of the windows, we're replacing all the doors, we're providing new air condition, new utilities. We're providing playgrounds that didn't exist before. In one area, we're actually building a soccer field in conjunction with the owner of a Carolina soccer team. So they can't believe it. And we're doing all that and not raising their rent. And in fact, we're able to reduce their rent in most cases. So usually the turnover in apartments such as these are somewhere between 10 and 20% a year. But turnover in these we expect will be much lower.

But you can imagine for somebody making 30% of AMI, which is about \$1,650 a month, you have real housing insecurity starts when you spend more than 30% of your income for housing alone. And that would be around 500 bucks for somebody at 30% of AMI. And the cheapest apartment, the most derelict apartment in the worst area of Charlotte rents for somewhere between eight and \$900 a unit. So these people can't afford it and they end up spending 70 to 90% of their income just for rent. That leaves nothing from the rest of the needs they have. And so that leads to that downward spiral. And the great thing for them is by us buying it, they not only get to live in a better place, a much better place, but we also bring in community healthcare workers that work in the apartments. They're not involved trying to collect the rent or to negotiate on any of the rent stuff. They're just providing social services to the people who live there. And we're also able to improve apartments greatly. And one of the things I love is over 95% of our new construction on these apartments is being done by minority contractors, where we've been able to create companies, create jobs, and create real economic mobility for the people that work there. And the work is great.

Phil Bredesen: We were really interested in having this conversation because I think both of us

have found that one of the difficulties in this field is it gets talked about at such a high level, somehow it's going to take some vast action by the Congress or something to make anything happen. And we all know how long that might take. And this is a practical, somebody's doing something on the margin and making a difference. But as you talked about it, question is, is this reproducible? Or does this really have to do with the extraordinary access that you have to two people of enormous credibility? Is this something that can be reproduced by ordinary human beings in other places?

Erskine Bowles: Absolutely. Number one, we raised our first fund just over a year ago. We raised \$60 million. It was kind of like a beta test. It's clearly worked, when we'll have a thousand units at the end of this year. And we're going to go raise another \$60 million fund and we'll have zero problem doing that. And plus, the city and county trust us completely now because we've done exactly what we said we would do in every way. In fact, they're amazed that we were able to get 90% minority contractors to do all the work. And that's something I knew we could do because at the university, you take a town like Greensboro, North Carolina where we have UNC and UNC Greensboro and North Carolina A&T, at UNCG they were doing about 20 to 30% of the contracting with minority contractors. But in the same town at A&T, which is an HBCU, they were doing about 70 to 80%. So I knew some of it was just the willingness to go out there and do it.

Yes. So we're going to be able to duplicate it here. Plus we've had people from cities throughout the country who've come to us and said, "Gosh, will you do this in our city?" I guarantee you can do it in Nashville, you can do it in Knoxville, you can do it in Memphis. All you have to do is find people that have a passion that Nelson and I and some credibility, and those people exist in every single community. We, in turn, will give them our entire intellectual property. We'll just give it to them. Because Nelson and I want to do this in Charlotte, but at 77 we don't want to get involved in another national effort. But we'll give all that intellectual property, and I guarantee you can duplicate it, and I guarantee you it'll work in Memphis, Nashville, and Knoxville.

Bill Haslam: I might vote a little different than you do, but I share with you your concern that capitalism unbridled has some issues. And I think we're seeing that feeling coming out. That's what I think has engendered a lot of the populism that you see around the country today. So the thought of how to be creative in something like you're working on here is great. Are there things you learned like, "Okay, now that we did this, if I'd known three years ago what I know now, here's two or three things I would do differently."?

Erskine Bowles: I think that's always a case in anything you do. Just like, in lots of things. We didn't do quite enough due diligence at the beginning of some of the apartments we bought so the cost was more because the rehab was more than we had anticipated, but not materially, but it messed up the economics. Location, location, location is everything. For this to work and to work well, these apartments have to be, and most of them are the old garden apartments that were built in the neighborhoods not probably too far from where y'all live, but they got to be near jobs. They must be near transportation because most of the people that live here don't have

transportation. They got to be near food. And if you really want this to work long term, it's got to be in areas that are zoned for good schools so that the kids want to stay there.

And bringing the social services to the area is something we learned was really important. We learned that the people who manage the apartments can't be involved in that because they have a conflict with the people they've been trying to collect the rent from. So having a social service worker there on the property whose one job is to find out what people need and bring the services to them. The services are there, they just don't have access to them. Lots of things like that that we've learned that works better. All in all, most of the people that have looked at this think it's really innovative. It certainly has worked so far. And we'll have a thousand units at the end of this year and it'll be about 3000 people live there that would be on the streets if it weren't for us buying them.

Phil Bredeesen: Yeah, it seems to me like the essence of what you're saying here, which I think is really interesting, is that all these discussions about affordable housing tend to revolve around some single point of solution. We need a big federal fund to subsidize or whatever. And what you seem to have done here is to say, no, in any community, there are a lot of people who are willing to do something on the margin to help this. Banks who are willing to step up, businesses are willing to step up. And this is a vehicle for combining that in a way that's easy for the individual things to do, but taken together are a meaningful contributions of the problem.

Erskine Bowles: We found no problems raising the money. Our credibility certainly helped, but there are people in Nashville that have every bit of the credibility we have. But the trust factor of knowing you were going to do it in a fiscally responsible manner. We have two employees, that's it, that's all we have. You don't need to reinvent the wheel. What you need to do is what Nelson and I did in the private equity field for 50 years and you can do it in successful manner. Our investors, we believe, we've promised them a 6% cash on cash return and an 8% internal rate of return. But at the end of 20 years, all of the restrictions on these apartments go away.

We could do with them whatever we want to. If we decide to sell them, 20% of the profits over 8% go to the people who are working for us to make this happen. 20% go to our investors so their return will be higher than 8%. But 60% goes back into affordable housing in perpetuity. Because Nelson and I didn't want to solve a problem just for 20 years, we wanted to solve it in perpetuity. But at the end of 20 years, we don't know if these 40, 50 year old apartments are going to be worth renovating again, if a property's going to be worth so much more used for another purpose that we can take that money and use it for something else. Maybe there's creative forms, other forms of housing that we can do then. But we'll have 60% of the money, which we think will be a lot more than what we started with 20 years. That'll go back into affordable housing in perpetuity.

Bill Haslam: I really do love the idea, and I'm hoping this helps engender a lot of people to model what you're doing. One last question. It does feel like, to me, one of the big difficulties is when we have such a housing shortage that you run into more of what you said, the private

equity firm that wants to buy that same location that's going to be in a decent neighborhood with decent schools, et cetera. So how do you think you can get past that hurdle to where enough other people can pull off what you're doing in such a tight housing market?

Erskine Bowles: We didn't find anybody who'd sell us the apartments if we were at a lower price. Nobody gave us a deal because we were doing the right thing, and we didn't anticipate that. We thought we might get some breaks, but we haven't found that seller yet. When the cap rates were in the four to three and a half level, we didn't have any problem competing. We could do that. We could make the arithmetic work in every case. When it got down to two and a half percent and interest rates began to go up, one of the things we found out, that when interest rates went up, that didn't cap rates didn't go up also uniformly. Because again, as you were saying, Bill, but demand is so high that these people could raise the rents to almost any level they wanted to, and they didn't care about the people who living there. Matter of fact, they wanted them all to move out so they could bring in people who could pay the higher rent.

So we've lost out on two or three that we really would've liked to have done because we just couldn't make it work at a two and a half percent cap rates. Those cap rates have gone up some now in this newer environment and we feel like we're going to be competitive. We had to go to some that were in greater need of repair because we could make it work if we could buy them on cap rates at three and a half percent.

Phil Bredeesen: How do you decide who's... You must have a waiting list for this.

Erskine Bowles: We do. As you can imagine, when we're able to rent at 30% of AMI to people that are at that level, at \$300 a unit versus the best they can do anywhere else, and literally the worst apartments in the worst neighborhoods is 800 bucks, or they're living in motels or they're living in their cars or jumped up with families, huge. We work with the social service agencies in the community. Again, you don't have to reinvent the wheel. They've got a long list of people. 30% of our apartments go to people making 30% of AMI, another 50% go to people making less than 60% of AMI, and the last 20% go to people at 80% of AMI. And the reason you have that kind of scale is you want people to live next to people who are working and making advances so they can see it, feel it, kids see it, makes a big difference. But we found the community colleges were able to help, the hospital authority has been... Instead of taking their 6% return, the hospitals authority said, "Look, instead of doing that, what we'll provide you is a community healthcare worker who can live at the apartments to help people get the mental and physical healthcare they need." Again, it's worked to date. One robin doesn't make a spring. We think we're making real progress.

Bill Haslam: Erskine, thank you. We're grateful for your time. We're grateful for this really good example. Like I said, this is what we're trying to do is to actually solve problems. And thank you for giving us a great model. And hopefully we'll have listeners all around the country that'll take you up on it.

Phil Bredesen: Yeah, it just really reminds me that when you look out beyond Washington or beyond the state capitals, there's so much creativity and so much inventiveness and so many people who want to make things work. And in addition to everything else, it's nice to be reminded.

Erskine Bowles: They don't have to reinvent the wheel. Two other great places they can look at is Austin and Minneapolis. They've done a good job too.

Phil Bredesen: Okay.

Erskine Bowles: Thanks so much.

Phil Bredesen: Thank you.

Bill Haslam: We're grateful. Thank you, Erskine, we really appreciate it.

My mind started clicking right away thinking, "This is a doable deal." And like Erskine said, finding the investors I don't think will be that difficult.

Phil Bredesen: What really intrigued me was the way that he was just not looking for a single point solution, but he brings together a lot of different people in the community who were not going to write a hundred percent of the check, but they're happy to take a little lower return or happy to stretch it a little bit to make something happen.

Bill Haslam: I think the other side is, he said, "Hey, the people that are providing the wraparound services here, if you will, the social services that are already there, and so let's take advantage of them." I think he said they had two people working for their whole company. They didn't have to have a whole group of folks to do that.

Phil Bredesen: He's never going to make it in government. Wait a minute, he did.

Bill Haslam: But like I said, again, one of our hopes is that we're providing real solutions. And Erskine's one of those guys who's been doing that all his life, and here's another one. Most difficult problems haven't been solved for a reason. There are a lot of issues around both sides. And my thought after listening to Laurie is, again, some of her solutions felt very conservative, some of them felt more progressive, if you will, but was reminded again from listening to Erskine, that there are some real specific things that we can do that we don't need to wait on government holding hands to make happen.

Phil Bredesen: It's very similar to what's going on with climate change in this country. Where government is not acting, you have all of these actors who are stepping forward to try and help solve the problem. And I think the real question with something like Erskine's is, how do you scale it? It's more complex than passing a piece of legislation, but I'll bet there's a lot of people

in this country in a lot of cities who would love to step up and be a part of something like that.

Bill Haslam: And maybe when folks in government look around and say, "Hey, the country seems to be getting behind actually solving problems," maybe they'll find it's okay for them to do that too.

Phil Bredesen: I hope so.

Marianne Wanamaker: Thanks for listening to "You Might Be Right." Be sure to follow on Apple Podcasts, Spotify, or wherever you listen to your favorite shows and please help spread the word by sharing, rating, and reviewing the show.

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