



Affordable Housing Finance Basics

1. Funding for privately developed affordable housing falls into 3 main categories:
 - a. Loans or grants to fund development costs for rental or for-sale developments (site acquisition, construction, soft costs)
 - b. Rental subsidies for tenants
 - c. Downpayment assistance for homebuyers
2. Affordable housing development is very challenging to finance because no single financing source provides enough funding. Affordable housing developers must cobble together multiple sources of funding, which have conflicting and complicated regulations.
3. Some think non-profit housing developers just “cry poor”. They think non-profits have lots of money and can do whatever the local government requires them to do. In reality non-profits must scramble for every dollar, especially Federal dollars.
4. To be financially feasible, a proposed affordable housing development must meet public funding criteria. Housing developers assess potential financial feasibility before paying for preliminary design work. Federal and State funding criteria often do not match local affordable housing criteria (such as low-density housing for moderate income households).
5. The smaller the development, the higher the per-unit cost and the more difficult to make financially feasible.
 - a. Government funding sources are regulated by per-unit maximum funding amounts. These per-unit maximum amounts are not adjusted upwards to accommodate smaller developments.
 - b. Small developments have fewer units over which to amortize site costs, utility installation, and soft costs (architecture, engineering, financing, etc.)
 - c. Non-profit developers cover their overhead through a developer fee, based on a percentage of development costs. Small projects do not generate enough developer fee to cover administrative and staff costs.
 - d. Small rental projects do not generate enough rental income to cover property management fees.
 - e. Small projects for seniors do not generate enough rental income to pay for support services necessary to allow seniors to age in place.

6. Affordable rental developments are much easier to finance than affordable for-sale units because there are more sources of funding for rental than for for-sale developments. Funding available for rental and not for-sale:
 - a. Low income tax credits (LITC) (not feasible for small developments (10-30 units because of syndication and legal costs can't be supported by small projects)
 - b. State Multifamily Housing Program
 - c. HUD direct funding (Section 202 and Section 811) for developments for seniors and persons with disabilities.
 - i. Direct HUD 202 and 811 funding creates the most affordable housing for seniors and persons with disabilities because HUD funds about half of the development costs and provides long-term, project-based rental subsidies.
 - ii. However, 202 and 811 funding is extremely limited and very competitive. In addition, HUD 202 and 811 regulations and review policies often don't make much sense. (I.e. project size limitations, no HUD-funded residential developments behind other developments, prohibition against using HUD funds for balconies or decks etc.)
7. Federal and State funds are allocated on a competitive basis according to rigid Federal and State priorities and not necessarily local priorities.
 - a. Competitive Federal and State funding programs use complex scoring systems which give extra points to developments that:
 - i. Serve residents at the lowest income levels.
 - ii. Includes some 3 and 4 bedroom units
 - iii. Are developed by experienced housing sponsors
 - iv. Have efficient construction costs
 - v. Leverage other funding sources
 - vi. Are located near public transit, schools, libraries, grocery store, hospital/clinic
 - vii. Provide on-site after school programs, classes, licensed child care, etc.
 - viii. Are located in a neighborhood revitalization area
 - ix. Provide affordable housing in upper income areas
 - x. Include Green building features, with extra credits available for PV panels
 - xi. Have all land use approvals and are ready to start construction
8. Ideas for local government action to facilitate the production of affordable housing:
 - a. Prezone sites for medium to high density housing.
 - b. Waive local permit fees for deed restricted affordable housing (not just use City housing funds to reimburse the general fund for permit fees).
 - c. Join collaborative efforts to put together a support system for small projects.
 - d. Inclusionary ordinances which facilitate sale of inclusionary units to a non-profit for rental to low-income households could generate more inclusionary units affordable to lower income households.