

# Local Government Finance Tools for Affordable Housing



## PRESENTATION TO LOU HOUSING COMMISSION

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# What is “Affordable Housing?”



- The National Standard: **30% of Gross Income for Housing Costs:**
  - Rental: Rent + Utilities
  - Ownership: Mortgage, Taxes, Insurance, HOA Fees
- But this is all relative!
  - If you make \$100,000 a year, you “should” pay **\$30,000** a year in housing costs.
  - If you make \$10,000 a year, you “should” pay **\$3,000** a year in housing costs

# What is “Affordable Housing”



- HUD defines affordable as 30% of the gross annual income of a household earning 80% of Area Median Income, Adjusted by Household Size

	100% AMI	80% AMI			
Persons	4	1	2	3	4
Lafayette County	65,800	36,900	42,150	47,400	52,650

# What is Affordable Rent?



	<b>Studio</b>	<b>One-Bedroom</b>	<b>Two-Bedroom</b>	<b>Three-Bedroom +</b>
Lafayette County Average (est.)		\$1,005	\$1,116	
HUD Fair Market Rents	\$654	\$770	\$902	\$1,252
80% Affordable Rents	\$923	\$1,054	\$1,185	\$1,316
60% Affordable Rents	\$664	\$759	\$853	\$947

Note: 80% and 60% rents include utilities

# Red shading = Unable to afford Fair Market Rent

	Mean Hourly Wage	Employment	% of Total	Efficiency	Bedrooms		
					1	2	3
Total all occupations	\$17.14	116,920					
Retail Salespersons	\$10.71	4,690	4.0%				
Food Preparation & Serving Workers	\$8.08	3,780	3.2%				
Registered Nurses	\$28.96	3,630	3.1%				
Cashiers	\$8.45	3,350	2.9%				
Waiters & Waitresses	\$8.90	3,250	2.8%				
Home Health Aides	\$10.57	2,310	2.0%				
Stock Clerks & Order Fillers	\$10.74	1,970	1.7%				
Laborers, Freight, Material Movers	\$11.08	1,930	1.7%				
Secretaries	\$13.74	1,900	1.6%				
Janitors & Cleaners	\$9.84	1,740	1.5%				
Office Clerks, General	\$11.73	1,720	1.5%				
Customer Service Representatives	\$13.14	1,700	1.5%				
General & Operations Managers	\$49.62	1,600	1.4%				
Cooks, Restaurant	\$10.42	1,500	1.3%				
Supervisor/Mgr of Retail Sales Work	\$17.62	1,450	1.2%				
Bookkeeping & Accounting Clerks	\$15.20	1,390	1.2%				
Maids & Housekeeping Cleaners	\$8.77	1,310	1.1%				
Executive Secretaries & Admin Assts	\$16.55	1,270	1.1%				
Truck Drivers, Heavy/Tractor-Trailer	\$18.11	1,200	1.0%				
Receptionists & Information Clerks	\$11.39	1,180	1.0%				

# Rent Burdened Households in Oxford



Cost burdened households pay more than 30% of their income in housing costs  
Severely burdened households pay more than 50% of their income in housing costs.

**61.6% of all renter households in Oxford are cost-burdened**

<https://affordablehousingonline.com/housing-search/Mississippi/Oxford>

# Rental Housing Gap



- **In Oxford Market Area**
  - **353 new** rental households projected by 2023
  - **61% of all renter households pay >30%** of their gross income for rent
- **In Oxford City**
  - 154 new rental household projected by 2023

# What is Affordable Ownership?



- To a family of 4, annual income of \$52,650
  - **\$1,316 month**
  - Mortgage: **\$220,304**
- To a family of 2, annual income of \$37,000
  - **\$1,054/month**
  - Mortgage: **\$168,497**
- These are households at **80%** of the median income



# Owner Housing Gap



- The median home value in Oxford is **\$215,000**. (Zillow as of March, 2019)
- Zillow predicts values will fall 1% within the next year.
- **In Oxford Market Area:**
  - **1,212** new ownership units needed by 2023
  - 58% of that total needed by senior households
- **In Oxford City:**
  - **617** new ownership units needed by 2023
  - 45% of that total needed by households between 34- 54

# The Affordable Housing Development Environment



- Insatiable market for affordable housing
- Diminished federal funding
- Nervous, regulated banks
- NIMBY- YIMBY forces
- Tight land supply, high costs
- Uncertain economy
- More renters, fewer homeowners
- Increasing wage-cost gap

# Local Government Drivers



- Increasing urban populations
- Workforce (i.e. wage earner) housing need creating political will in some local governments
- Tax credit funding increasingly competitive
- Millennials very aware of H+T economics
- Regulatory and perceptual barriers to infill being challenged by “missing-middle” strategic initiatives

# Local Government Tools



- Lender/borrower investments: **Revolving Loan Funds, Housing Trust Funds**
- Land ownership/lease and other time-defined use of land partnerships: **Government-owned land, Land Banks**
- Capital improvement investments: **Planning, Public Infrastructure**
- Tax incentive/performance investments: **TIFs, synthetic TIFs**
- Alternative ownerships: **CLT's, PHA subsidies**
- Regulatory incentive partnerships: **the “missing-middle”**

# Revolving Loan Funds



- Direct Loan to Developer or Homeowner
- Flexible Rate and Term, often tied to affordability
- May be considered by bank as equity
- Junior lien position often acceptable
- Personal guarantee often required
- Generally, not an Enterprise Fund

# Asheville Housing Trust Fund



- General Fund Allocation (\$.01/\$100)
- Rental and Ownership Housing Finance
- Ownership: Construction or Down Payment Assistance
- Rental: Permanent financing, minimum 15 years, 2% Interest
- Special terms (for units at 60% AMI): 2% interest only, deferred principal; or, 0% interest

# Housing Trust Funds



- Underwriting Challenges:
  - When is enough enough? When is it not enough?
  - When HTF funds are not likely to be repaid
  - Highly leveraged deals
  
- Management Challenges
  - Getting to scale in smaller towns and cities
  - Managing as an enterprise fund
  - Initial loans rolled into “silent second” mortgages
    - ✦ City as consumer lender, collections
  - When deals go bad: on the courthouse steps

# City-owned Land, Land Banks



- Local government makes land available for development
- Often is done through RFP, RFQ process
- If outright sale, deed restricted based on agreement
- If lease, sufficient term to allow for financing
- Land banking can address rapid appreciation issues that make land costs an obstacle to affordability



# Local Government-Owned Property



- What land does your City/Town/County own?
- What are you doing with it?
- If It can be repurposed, is affordable housing a priority?
- If so, you can make it available for a direct sale or lease for affordable housing- no upset bid process required

# Pros and Cons of City-Owned Land



- **Pros:**

- Land Value (cost) reduction or elimination
- Wide variety of in-fill situations possible
- Local government as partner

- **Cons:**

- Unreasonable expectations possible
- Public process
- If lease, uncertain prospects at lease end

# Local Government-Owned Property



- Due diligence activities
  - Phase 1 and 2 environmental
  - Zoning review
  - Title review
  - Geotechnical testing if any question
  - Neighborhood feedback
  - Appraisal
  - Survey

# Local Government-Owned Property



- Issues and Challenges
  - Is Affordable Housing the right use?
  - Sale vs. Lease
  - Is the value of the property going to be the subsidy?
  - Credibility of developer
  - Period of affordability
  - Deed or other restrictions

# Land Banking



- Purchase and Hold Land for Future Development
- Slow or stop the speculative increase in value
- Lay out the terms for development
- Partner with neighborhood in development planning
- Partner with developers to create pipeline

# Capital Improvement Program



## Debt and “Pay-Go” funds

- Debt Funds for Capital Uses Only, such as
  - Subsidies
  - Land banking
  - Construction
  - Financing
- Pay-Go: wide variety of uses, such as
  - Market studies
  - Engineering and architectural studies and plans
  - Traffic analysis
  - Infrastructure improvement

# Capital Improvement Program



- Issues and Challenges
  - Debt limits
  - Amount of “pay as you go” funds available
  - Prioritization
  - Return on Investment
- Bonding as source of CIP or RLF Capital

# Public Infrastructure



- Local government builds roads, sidewalks, water, sewer, community center, parks, parking lots, greenways, etc.
- Can be new/enhanced transit availability
- Replaces need for some or all of private investment



# TIFs and Synthetic TIFs



- TIF= Tax Increment Financing
- Local government will either defer or rebate property taxes, or use tax payment to finance public improvements to support the project
- When used as direct subsidy, property is taxed at pre-development value for a period of years
- Often the incentive is phased over time
- “Synthetic” when TIF process is either illegal or overly cumbersome for smaller projects

# Asheville Land Use Incentive Grant



- Focused on affordable housing and location
- First passed in 2010, first real agreement in 2014
- Designed like “Tax Increment Financing” (TIF), but deferred revenues are not set-aside for the project
- Annual grant equal to City (only) property tax
- Additional grant of a percentage of permits fees, although there are issues with sources for these grants

# Asheville Land Use Incentive Grant



- Grant equal to the City of Asheville property tax that results from the increase in value due to the development.
- Greater affordability= more years of grant
- At least 10% of the units must be affordable for households earning 80% or less of the Area Median Income.
- The affordable units must be affordable to and leased to income-eligible households for at least 20 years.



# Pros and Cons of TIFs



- Pros:
  - Can be significant operations or development subsidy
  - Local government as partner
  - Reduced risk as long as program goals are met
- Cons:
  - Public process can be time-consuming, cumbersome
  - Performance-based, benefit must be documented

# Alternative Ownership Models



- **Community Land Trust**
  - Low-income homeowners
  - Limited return on appreciated value
- **Limited Equity Coops**
  - Very low income homeowners
  - Cooperative is borrower, not individuals
  - Very patient funding needed
- **PHA Project or Housing-Choice Subsidies**
  - Based on FMR's; often boosted in high-price cities
  - Ensures Cash-Flow to owner

# Permanently Affordable Homeownership



- **Community Land Trusts**
  - Capital Investment in Land or Existing Housing
  - Limited profit-taking from appreciation
  - Community holds that equity, making the house affordable for new generations
- **Limited Equity Co-op Housing**
  - Corporation formed to own housing
  - Financing not based on individual credit
  - Resident control of rules, investment decisions

# Permanently Affordable Homeownership



- Issues
  - American Dream of wealth creation vs creation of place-based affordability
  - Often not considered when housing stock is “affordable”
  - Small pool of financial institutions lending
  - Need for operating supports
  - Not common practice in NC



# Housing: The Missing Middle



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[Missingmiddlehousing.com](http://Missingmiddlehousing.com)

# Also Happening Now



- Crowd-sourcing
- Zero net-energy developments
  - Rooftop lease-backs
- H+T Finance
- Small units
- Resident-Owned Communities (ROC's)

# Jeff's Take-Aways



- **Local Resources are necessary** for **ANY** new affordable housing development in the current market
- If we want to really build new affordable housing, **we need to build housing that is affordable.**
- **City-owned land developed in partnership with the private sector** is the best short-term solution
- **General Obligation Bond** can be viable source of local government investment capital

# More information



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