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National Council of Housing Market Analysts

An Affiliate of National Housing & Rehabilitation Association

Market Analyst Meeting
Workforce and Mixed Income Housing

March 29, 2017






Background

- General trend is to have a focus on workforce and mixed-income housing as a preference over affordable housing.
- Pressure coming from states looking to encourage employment and economic development.
- Additional pressure coming from municipalities who see mixed-income as having less nimby side effects and more economic spillover impact in transitioning neighborhoods

SO how….

- Affordable Housing with LIHTC is pretty easy in the last five years. 9% LIHTC properties are having 70-80% of the TDC from LIHTC equity. This is at a cost of having 60% AMI rents that are 10% below market rents.
- How do you replace that level of equity?
- 15 -20 Acquisition funds around the country
- Most are for properties that have an affordable component
- Denver and Portland have funds

Do we get there?

Especially for mixed-income

- Major Sources
- Other Equity

- Soft Financing

- Socially Motivated Financing

& Workforce Properties

Replacement Sources

- Historic – Federal @ 20% +

 various state credits are available that frequently match with another 20%

- Major challenges for most developers in navigating process

- Higher construction costs; longer process; limited ability to design the property

Other Equity

Replacement Sources

- CDBG used to be the big one and required a minimum of 20% of the units at 50% AMI
  - CDBG drying up
- TIF and other tax abatements help but do not leverage as many dollars for construction
- Non-profits can have tax-exemption and that helps with operations but does not help to get property built

Soft Financing

Replacement Sources

- 15 -20 Acquisition funds around the country
- Most are for properties that have an affordable component
- Major cities such as Denver and Portland have funds to address growing shortage of workforce housing

Socially Motivated $

Replacement Sources

- AND …. LIHTC still has to be an option
- 4% deals that have minimum set-asides of 40% @ 60% AMI or 20% @ 50% AMI
- 40% @ 60% properties would get 11% of TDC from LIHTC equity

HUD Programs

- 221 d 4 – New Construction or Substantial Rehabilitation
  - Construction and Permanent financing
- 223 f – Refinancing and acquisition
  - 35 year amortization and term

- Good fit for mixed-income as they accommodate soft financing and they generate the most proceeds

HUD Programs - Benefits

- Longer terms provide long-term fixed rates
- Prepayment flexible for developers that have shorter holding periods
- High leverage, max proceeds
- Works well with tax-exempt bond issues
- As a government program, it is not subject to market forces

Other Thoughts

- Mixed Income properties need to come in at reasonable per unit costs
  - Reduced Units Sizes part of the answer
- Lower land costs helping
- Rising interest rates going to be an additional drag on making sources and uses balance