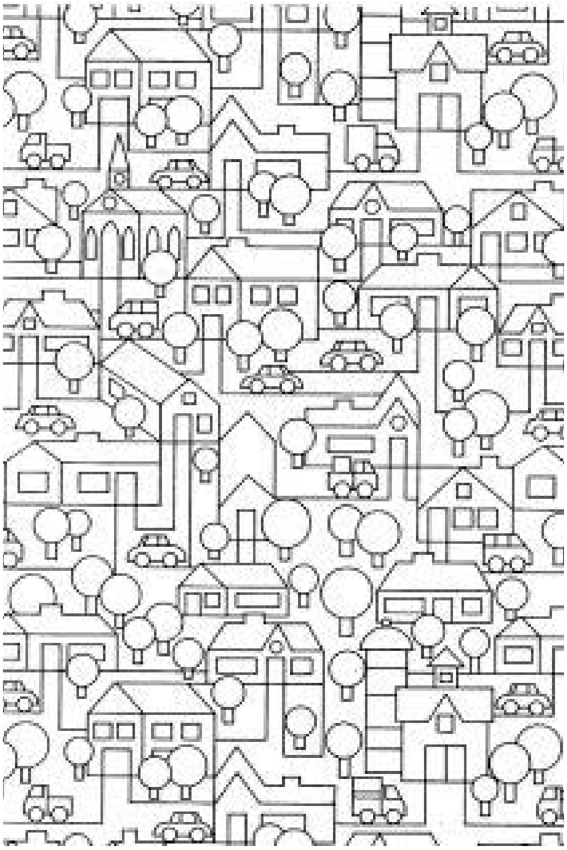
FINANCING AFFORDABLE HOUSING

by William Sketchley



Working with your state and local governments can benefit both you and your community

Not long ago, when policymakers and consumer advocates talked about "the housing problem," they almost always meant problems of short supply or substandard quality.

During the last few years, however, the focus has changed to housing price. Now, an increasing proportion of people can no longer buy or rent a home without sacrificing other necessities. What is affordable housing? How can small builders and developers get involved? Why would they want to?

Affordable Housing Strategies and Programs

The primary way to make housing affordable again for a broad spectrum of people is for someone else to pay part of the price.

Harking back to the days when the federal budget included more housing funds, some people think of affordable housing as public housing or privately developed low- and moderate-income housing (such as HUD Sections 221-d-3, 235, 236, and Section 8 new construction...remember them?).

Most commonly, however, "affordable housing" is used today to refer to housing that is privately developed and privately owned or rented—with a moderate level of financial assistance to buyers and renters. These are consumers who could afford conventional housing prices until the sharp increases of the last few years.

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Affordable housing programs today. Currently, affordable housing programs are funded and administered largely by state governments. Because states do not have Uncle Sam's deep pockets, typical subsidies are less than they were under past federal housing assistance programs.

Probably the most important remaining federal housing program, designed for rural areas, is the Farmers Home Administration's Section 502 loan program for single family housing. This is a starter-house program, with excellent financing terms for buyers. Builders

Types of Housing Assistance Offered
(Northeastern and Middle Atlantic States)

The following table summarizes financial assistance for housing offered by different states. Columns 1 and 2 will be of interest to builders. Assistance for predevelopment and land acquisition development (columns 3 and 4) will interest nonprofit developers; however, most of these have no in-house production capacity and therefore are a source of work for for-profit builders and developers. Columns 5 through 8 are included primarily to show the states with the most active housing agendas.

STATE	TYPE OF ASSISTANCE							
NEW ENGLAND	1	2	3	4	5	6	7	8
Connecticut	x	x	x	x	x	x	x	x
Maine	x	x					x	
Massachusetts	x	x	x	x	x	x	x	x
New Hampshire			x	x			x	
Rhode Island	x	x	x		x	x	x	
Vermont	x	x						x
MID ATLANTIC	1	2	3	4	5	6	7	8
Delaware	x	x	x			x		x
Maryland	x	x		x	x	x	x	x
New Jersey	x	x	x	x	x		x	x
New York	x	x	x		x	x	x	x
Pennsylvania		x	x	x			x	x
Virginia		x		x				x

Legend:
1. New Construction; Substantial Rehabilitation
2. Moderate Rehabilitation; Conservation
3. Predevelopment Costs
4. Land Acquisition and/or Development
5. Tenants
6. Homeownership
7. Temporary and Special Needs Housing
8. Tax Incentives

Source: State Housing Initiatives: The 1988 Compendium.
Council of State Community Affairs Agencies, Washington, D.C.

working in rural areas should consider giving the local Farmers Home office a call to learn more.

One of the most targeted groups of eligible participants is first-time home-buyers. There are several reasons why:

- Homeownership is a key part of the American dream for most households—there is built-in demand.
- Homeownership is easier for most communities to accept as a matter of public policy.
- Homeownership usually means the buyer is from a higher-income level, and therefore there would be lower public subsidy per household.
- Homeownership aid via tax-exempt revenue bonds is now a routine function of state government.
- Homeownership programs lend themselves to smaller developments. This appeals to communities from the standpoint of growth management and it appeals to funding agencies from the standpoint of spreading subsidy funds among more communities and more developers.

As a practical matter, much greater emphasis is now placed on making the affordable housing development process similar to conventional market development. Small builders and developers are familiar with typical residential construction, and they can often compete effectively with larger firms for this new business.

Opportunities for builders. Most states in the region sponsor housing programs that involve new construction and/or substantial rehabilitation (see Figure 1 for detailed listings). The financial assistance from these programs often goes to the occupants, but there are direct benefits to developers as well, such as "density bonuses" or "density relief," where a town grants an increase in the number of units allowed per lot.

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An Example: The Massachusetts Homeownership Opportunity Program

The following comments are based specifically on experience with the Massachusetts Homeownership Opportunity Program (HOP). However, the current generation of state programs shares many common elements.

Summary of the Homeownership Opportunity Program. The HOP program is intended to provide ownership opportunities for households with incomes in the $22,000 to $35,000 range. It operates through a "partnership" model of communities and developers, with state financial assistance.

Normally, 30 to 40 percent of units constructed are to be made affordable, by a combination of state HFA mortgages and, where needed, additional state subsidies to bring interest rates down further. Remaining units are sold at market prices, and some of these profits cover losses incurred on the affordable units, which sell for an average of $75,000.

The town usually contributes a density increase over normal zoning, in recognition of the public objectives involved. In Massachusetts, unlike most other states, there is also an "anti-snob" zoning law. If qualifying developers believe the local zoning board of appeals is unreasonably restrictive, they can appeal to the state for a review.

Towns may also contribute in other ways with bargain sales or gifts of land, waiver of permit fees, expedient processing, and so on. The more a town contributes, the greater the proportion of affordable units it may require to be marketed to "local" buyers—those who grew up in the town, municipal employees, etc. This has been a major selling point to towns, which otherwise see little point in going through the process on behalf of "outsiders." (Federal housing programs did not permit such local preference.)

To main long-term affordability, deed restrictions are placed on the affordable units. For example, if the unit purchased for $75,000 has an appraised value of $150,000, the buyer is getting the house for half-price. When the time comes to sell, if the appraised value is $200,000, then the maximum price to the seller is $100,000, also half price.

Incentives to developers and builders. Why would a developer voluntarily submit to the delay, uncertainty, and red tape of a highly competitive housing program? (Only about 25 percent of completed proposals make it through the first review cut.) In an inflated market that has softened over the past fifteen months, a very practical reason is to keep busy working in a market segment that has historically been underserved.

Through density bonuses and reduced prices on municipal or tax-title land, participation in affordable housing development helps address two other major problems: land scarcity and high cost. Higher density means higher volume, so that total profits can be maintained or increased, even though many towns ask for limitations on percentage of profit. Marketing time and headaches are drastically reduced for the affordable units, as would-be buyers enter town-supervised lotteries to win the right to buy a house.

Finally, developers are sensitive to the bad image the field has, rightly or not, in the mind of the general public. Participation in this kind of program is not only good for the community, but can also bring recognition of the developer's efforts.

Requirements of developers and builders. Depending on the strength of the conventional market at any given time, the appeal of a housing program will vary. Not every developer will be interested in affordable housing.

The largest developers certainly have the capacity to participate, but they may have the staying power to weather a soft market. The smallest builders are often neither interested in nor able to handle program requirements, delays, and paperwork.

This leaves medium-sized firms as the most likely participants—those small enough to modify their business to meet a changing market, yet large enough to deal with the program.

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How to Proceed

If a developer is interested in using affordable housing programs, there are several ways to go about it. For those interested in a specific community, find out how that town would respond to different proposals. If the town doesn't respond, or if the developer is shopping for a location, start at the state agency level to learn the options (see Figure 2). Some home builders associations have active committees of members who already know and use the programs.

Even if the town is a novice, never come in and dump a fully detailed proposal on its lap. It may be a great idea, but you will be signaling your intent to ignore the town's input.

Proceeding at the local level. Depending on the program structure, development on the local level may differ significantly from conventional development. In Massachusetts, where over one hundred towns have formed local housing partnerships, the first step is an informal meeting to go over your basic concept and the town's view of its needs.

Even if the town is a novice, never come in and dump a fully detailed proposal in its lap. It may be a great idea, but you will be signaling your intent to ignore the town's input.

Be prepared for a certain amount of delay and frustration. Even though most affordable housing developments will be fairly small, the granting of a density bonus is a major step in many communities.

Proposals that are clearly intended to provide affordable housing—not simply higher-priced units leveraged by a "bribe" of affordable ones—get the best reception from local boards. This also does the most to boost the developer's image. The known local builder often has the most success in a community trying out affordable housing development for the first time.

Where to find help. Some developers have a track record in assisted housing programs. If you are concerned about the overhead involved in learning program regulations, the short answer is, don't get involved.

Responsible state agencies, local planning staffs, committees or partnerships—if they exist—and home builders associations can all provide some background and program details. Major nonprofit development organizations will know the programs. Finally, there are housing consultants whose specialty is the mechanics and procedures of different programs.

Detailed help from any source will not be free, but such fees are cheap compared to the time you will save and the improvements in your proposal.

Conclusion

Where market pressures have pushed housing costs beyond the reach of many first-time buyers, there are increasing numbers of state programs to provide more affordable alternatives. Builders and developers who learn to use these opportunities are serving both their own business interests and those of the community. ■

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State Community Affairs Agencies

Community affairs agencies are typically the best source of information on housing assistance programs sponsored in that state. Their offerings are often designed to assist consumers rather than housing producers. Most states have also established housing finance agencies (HFAs), whose basic function is to finance housing assistance through revenue bonds.

With the elimination of most federal subsidies for production, these programs are worth a close look to determine how the builder/developer can benefit by producing affordable housing.

For states not listed below, contact your state government information office, the Council of State Community Affairs Agencies, or the National Council of Housing Finance Agencies, both in Washington, D.C.

NEW ENGLAND STATES

Department of Housing
942 Main Street
Hartford, CT 06101

Dept. of Economic and Community Development
193 State Street
(State House Station 130)
Augusta, ME 04333

Executive Office of Communities and Development
100 Cambridge St., 14th Floor
Boston, MA 02202

Office of State Planning
2-1/2 Beacon Street
Concord, NH 03301

Office of Intergovernmental Relations
275 Westminster Mall
Providence, RI 02903

Dept. of Housing and Community Affairs
109 State Street
Pavilion Office Building
Montpelier, VT 05602

MIDDLE ATLANTIC STATES

Dept. of Community Affairs
156 South State Street
P.O. Box 1401
Dover, DE 19901

Dept. of Housing and Community Development
45 Calvert Street
Annapolis, MD 21401

Dept. of Community Affairs
101 S. Broad & Front Sts., CN 806
Trenton, NJ 08625

Div. of Housing and Community Renewal
One Fordham Plaza, 4th Floor
Bronx, NY 10458

Dept. of Community Affairs
Commonwealth & Walnut
317 Forum Building
Harrisburg, PA 17120

Dept. of Housing and Community Development
901 Chamberlain Parkway
Richmond, VA 23261