



# Core Elements of Affordable Housing Development Financing

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California Housing Partnership | [chpc.net](http://chpc.net)

## Presenters

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## Attendees

1. Which best describes your current involvement in affordable housing?
  - Elected official's office
  - Government agency
  - Affordable housing developer/owner/operator
  - Market-rate housing developer/owner/operator
  - Consultant or service provider
  - Policy, advocacy or research
  - Other
2. How long have you been actively involved in affordable housing?
  - 0-2 years
  - 2-5 years
  - 5-10 years
  - 10+ years



## The Partnership's Mission

The California Housing Partnership creates and preserves affordable and sustainable homes for Californians with low incomes by providing expert financial and policy solutions to nonprofit and public partners.

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85,000 

*Affordable homes created/preserved*

35,000 

*People trained by our staff*

\$30B 

*In public & private financing leveraged*

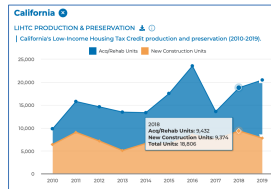
# California Housing Partnership

## Combining Technical Expertise with Advocacy Leadership

1. Financial Consulting for Affordable Housing, including Housing Finance Training
2. Policy & Research for Preservation & Sustainable Housing
3. Housing Data Tools

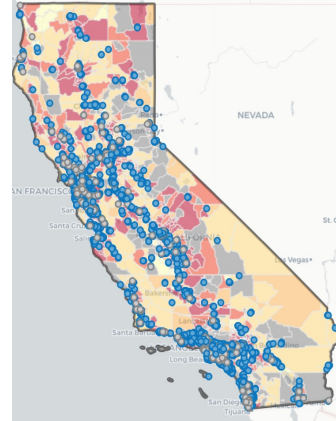
[chpc.net/datatools](http://chpc.net/datatools)

- Affordable Housing Map
- Housing Needs Dashboard



California Housing Partnership  
California's Experts on Affordable Housing Finance, Advocacy & Policy

[www.CHPC.net](http://www.CHPC.net)



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## Agenda

1. What "affordable housing" means
2. Basic rental housing financial model
3. Differences for affordable housing
4. Subsidies in LA / CA / US



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## Affordable Housing: definitions

### Informal

- Housing that's affordable to someone

### Policy

- Housing that costs  $\leq 30\%$  of a household's income
- Housing that costs  $\leq 30\%$  of a **low-income** household's income
- Housing that's **legally required** to cost  $\leq 30\%$  of a **low-income** household's income

## Affordable Housing: examples

Household Members	Income Level		Annual Income*	Monthly Income	Affordable Rent
1	Median	100% of AMI	\$84,000	\$7,000	\$2,100
1	Low	80% of AMI	\$66,000	\$5,500	\$1,650
1	Very Low	50% of AMI	\$42,000	\$3,500	\$1,050
1	Extremely Low	30% of AMI	\$24,000	\$2,000	\$600
4	Median	100% of AMI	\$120,000	\$10,000	\$3,000
4	Low	80% of AMI	\$96,000	\$8,000	\$2,400
4	Very Low	50% of AMI	\$60,000	\$5,000	\$1,500
4	Extremely Low	30% of AMI	\$36,000	\$3,000	\$900

\*Source: CTCAC, 2022, Los Angeles County, rounded

## Average Rents in LA County

Unit Type	Average Rent*	Income Needed for Affordability		% of Very Low Income
Studio	\$1,750	\$70,000	83% of 1-person AMI	50%
1-Bedroom	\$2,450	\$98,000	117% of 1-person AMI	70%
2-Bedroom	\$3,350	\$134,000	112% of 4-person AMI	67%
3-Bedroom	\$4,550	\$182,000	152% of 4-person AMI	91%

\*Source: Zumper, October 2022

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- Housing that costs  $\leq 30\%$  of a **low-income** household's income
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## Example Development

Total units in building:	50	Affordable to $\geq$ \$160,000 income (133% of 4-person median income)
Rent per unit per month:	\$4,000	Rent as % of household's income: 40% of 4-person median income 50% of 4-person low income 80% of 4-person very low income >100% of 4-person extremely low income
Expenses per unit per year:	\$6,000	
Per-unit development cost:	\$400,000	
Total development cost:	\$20,000,000	

*Note: Oversimplified hypothetical numbers for conceptual purposes only.*

## Market-Rate Cash Flow

	Year 1	Year 2	...	Year 8	Year 9	...	Year 14	Year 15
Rental Income	2,400,000	2,448,000	...	2,756,846	2,811,983	...	3,104,656	3,166,749
Operating Expenses	<u>-300,000</u>	<u>-309,000</u>	...	<u>-368,962</u>	<u>-380,031</u>	...	<u>-440,560</u>	<u>-453,777</u>
Net Operating Income	2,100,000	2,139,000	...	2,387,883	2,431,951	...	2,664,096	2,712,972
Return on \$20M (\$)	-17,900,000	-15,761,000	...	-2,068,575	363,376	...	13,211,554	15,924,526
Return on \$20M (%)	-89.5%	-61.6%	...	-2.3%	0.4%	...	7.3%	8.0%

So 50 units at \$4,000/month rent and \$6,000/year expenses might be able to raise the \$20,000,000 needed for the up-front cost of development.

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## Example Development

	<u>Market</u>	<u>VLI</u>	<u>ELI</u>
Total units in building:	50	50	50
Rent per unit per month:	\$4,000	\$1,500	\$600
Expenses per unit per year:	\$6,000	\$7,000	\$8,000
Per-unit development cost:	\$400,000	\$600,000	\$600,000
Total development cost:	\$20,000,000	\$30,000,000	\$30,000,000

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## Market-Rate vs. Affordable Comparison

	Market-Rate	Very Low Income	Extremely Low Income
Rent per unit per month	4,000	1,500	600
Income	2,400,000	900,000	360,000
Operating Expenses	-300,000	-350,000	-400,000
Net Operating Income	2,100,000	550,000	-40,000
Loan (Debt) Investment (Equity)	20,000,000		

Note: Oversimplified hypothetical numbers for conceptual purposes only.

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## Market-Rate vs. Affordable Comparison

	Market-Rate	Very Low Income	Extremely Low Income
Rent per unit per month	4,000	1,500	600
Subsidy for operations			1,400
Income	2,400,000	900,000	1,200,000
Operating Expenses	<u>-300,000</u>	<u>-350,000</u>	<u>-400,000</u>
Net Operating Income	2,100,000	550,000	800,000
Loan (Debt) Investment (Equity)	20,000,000		

Note: Oversimplified hypothetical numbers for conceptual purposes only.

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## Conventional Loans in Affordable Housing

If cash flow is projected to increase over time, conventional lenders (e.g. banks) will typically offer 15- to 40-year amortizing mortgages ("permanent loans") using a 1.15 debt service coverage ratio:

**Very** Low Income **without** Rental/Operating Subsidy example:

- \$550K NOI ÷ 1.15 DSCR ≈ \$475K annual payments
- At 7% interest over 20 years ≈ \$5.0M supportable perm loan

**Extremely** Low Income **with** Rental/Operating Subsidy example:

- \$800K NOI ÷ 1.15 DSCR ≈ \$700K annual payments
- At 7% interest over 20 years ≈ \$7.5M supportable perm loan

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## Market-Rate vs. Affordable Comparison

	Market-Rate	Very Low Income	Extremely Low Income
Rent per unit per month	4,000	1,500	600
Subsidy for operations			1,400
Income	2,400,000	900,000	1,200,000
Operating Expenses	-300,000	-350,000	-400,000
Net Operating Income	2,100,000	550,000	800,000
Loan (Debt)		5,000,000	7,500,000
Investment (Equity)	20,000,000	0	0
Subsidy for development		25,000,000	22,500,000

Note: Oversimplified hypothetical numbers for conceptual purposes only.

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## In a Nutshell

### Problem

- If rents are **required** to be **affordable** to **low-income** households, **subsidy** will be needed for development costs and sometimes operating costs

### Solutions

- Internationally: A wide variety of approaches
- United States: Most affordable housing today is financed by a **perm loan**, **Low Income Housing Tax Credit (LIHTC) equity**, and **city/county/state/federal funds**

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## Subsidy for Operations

### Operating subsidy

- Covers shortfall attributable to the units with this subsidy

### Rental subsidy

- Tenant pays 30% of their income, no matter how low
- Subsidy (e.g. Section 8 voucher) pays the balance up to a fixed total (usually based on local Fair Market Rents)

## Subsidy for Development

### Low Income Housing Tax Credit program

- Instead of annual cash flow, investors are lured by 10 to 15 years of **tax benefits** (credits and deductions) in exchange for their **investment** and the project's ongoing **compliance**
- Amount of LIHTC is partly based on project's eligible costs and designed not to cover the entire development cost

### Other "gap" funds

- **Public** (city, county, state, federal); sometimes philanthropic
- **Soft Loans** (deferred or forgivable); sometimes grants

## Common Public Funding Sources for LA Projects

### City of Los Angeles Housing Department (LAHD)

- Affordable Housing Trust Fund (AHTF), HOME<sup>1</sup>, Linkage Fee, HHH, ULA (👉)

### Housing Authority of the City of Los Angeles (HACLA)

- Project-Based Section 8 Housing Choice Vouchers (PBV/HCV)<sup>1</sup>

### Los Angeles County Development Authority (LACDA)

- Affordable Housing Trust Fund (AHTF), HOME<sup>1</sup>, County General Funds, No Place Like Home (NPLH)<sup>2</sup>, Project-Based Section 8 Housing Choice Vouchers (PBV/HCV)<sup>1</sup>, Project-Based Veterans Affairs Supportive Housing Vouchers (PBVASH)<sup>1</sup>

### California Housing Finance Agency (CalHFA)

- Mixed-Income Program (MIP), Special Needs Housing Program (SNHP)<sup>3</sup>

### California Department of Housing and Community Development (HCD)

- Multifamily Housing Program (MHP), Affordable Housing and Sustainable Communities (AHSC), Veterans Housing and Homelessness Program (VHHP), Infill Infrastructure Grant (IIG), Homekey, California Housing Accelerator Program, Transit Oriented Development (TOD), Housing for a Healthy California (HHC)<sup>1</sup>, National Housing Trust Fund (NHTF)<sup>1</sup>

### California Tax Credit Allocation Committee (CTCAC)

- Federal<sup>1</sup> and State LIHTC

### Federal Home Loan Bank (FHLB)

- Affordable Housing Program (AHP)

### United States Department of Housing and Urban Development (HUD)





- Mostly administered by states, counties, cities

<sup>1</sup> Federal funds administered by state, county or city

<sup>2</sup> State funds administered by some counties

<sup>3</sup> State funds awarded by county, administered by state

## Characteristics of Public Funding Sources

- Competitive
  - More eligible/qualified projects than available funds, so applications are ranked based on incentives set by funders
  - Incentives (even requirements) sometimes differ among funders
- Require/incentivize public benefits  
  - Lower income/rent levels, special-needs residents, specialized supportive services provision, experienced development/operations teams
  - Extra requirements for labor, environment, design, inspections, compliance
- Require/incentivize cost efficiency  
  - Other funding sources "leveraged" and/or committed, lower development costs, smaller amount of agency's funds requested

## Example Funding Sources

	Market-Rate	Very Low Income	Extremely Low Income
<b>Total Development Cost</b>	<b>20,000,000</b>	<b>30,000,000</b>	<b>30,000,000</b>
<i>Rental Subsidy</i>	0	0	50x 1,400
Conventional Perm Loan		5,000,000	7,500,000
Conventional Investment	20,000,000	0	0
LIHTC Equity Investment	0	11,000,000	10,000,000
Soft Loan - City	0	4,000,000	4,500,000
Soft Loan - County	0	3,000,000	0
Soft Loan - State	0	7,000,000	8,000,000
<b>Total Development Sources</b>	<b>20,000,000</b>	<b>30,000,000</b>	<b>30,000,000</b>

Note: Oversimplified hypothetical numbers for conceptual purposes only.

## Full Circle

- Not enough people are served by market-rate housing
- Housing that's **required** to be **affordable** for **low-income** households doesn't generate enough cash flow to cover all up-front development costs
  - And sometimes not enough to cover all ongoing operating costs
- So public funds make this public good financially feasible



# Questions?

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# Thank you!

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Questions?

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