

Making the Numbers Work: How
Affordable Housing is Financed in DC

What's in the Affordable Housing Toolbox?

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Outline

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- Affordable Housing Tools
- Housing Development Framework
- Applying the Tools
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Affordable Housing Issues

Rental Affordability	Can people at all income levels afford to pay their rent?
Housing Supply	Is there “enough” housing to match household demand?
Housing Stability	Are households able to stay in their homes if they want to?
Gentrification	Are people being displaced from their communities?
Homeownership	Do households face barriers to building assets through homeownership?
Housing Quality	Is housing safe and decent?
Access to Opportunity	Do people have equitable access to employment, transit, schooling, healthcare, and other needs?
Racial Equity	Can people access and afford the same housing regardless of racial identity?
Aging in Place	Are older populations able to safely and affordably remain in their homes or communities?
Supportive Housing	Do vulnerable populations need services to reduce the risk of homelessness or institutionalization?

Affordable Housing Tools

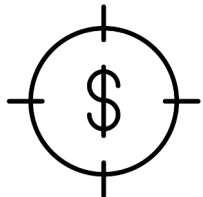
Affordable housing production tools generally fall into two main categories.



Land Use

Use **municipal regulations and zoning authority** to **indirectly** improve affordability by increasing the supply of housing, or to **directly** incentivize (or require) the production of affordable units.

e.g. by-right development, density bonuses, inclusionary zoning



Subsidy

Provide **below-market rate loans, grants, or other public resources** to close the gap between what a household can afford to pay and the costs to develop and operate housing.

e.g. rental assistance, gap financing for new construction, down payment assistance, public land sale

Affordable Housing Tools – Land Use Tools

Land Use tools **set the regulatory environment** in which developers make investment decisions, and influence housing affordability by impacting the amount, type, location, and cost of new development. There are two ways that land use and regulatory tools can support affordability:

- **Indirect Tools** increase the overall supply of housing and lower the cost of new housing
e.g. by-right zoning, building code reform, Accessory Dwelling Units (ADUs)
- **Direct Tools** support the creation of affordable housing through incentives or requirements for the production of affordable units
e.g. expedited review for affordable housing projects, inclusionary zoning



- No public funding required to induce private development
- Increases the overall supply of housing
- Encourages, or requires, private developers to create mixed-income housing
- Reduces the ability of a limited constituency to prevent the creation of housing
- Helps address legacies of racial segregation by driving new housing supply more evenly across the city

- Decreased neighborhood control over density and form of new development
- Typically does not create housing for extremely low-income households
- Existing naturally affordable housing may be lost to redevelopment

Affordable Housing Tools – Subsidy Tools

Subsidy tools **close the gap** between what a household can afford and the cost to develop and operate housing. There are two primary forms of subsidy:

- **Capital Subsidies** are low or no interest debt and grants to reduce the cost to develop or acquire housing.
e.g. gap financing, down-payment assistance, public land, down payment assistance
- **Operating Subsidies and Income Assistance** are ongoing payments to the property owner or tenant to supplement lower, affordable rent.
e.g. housing vouchers

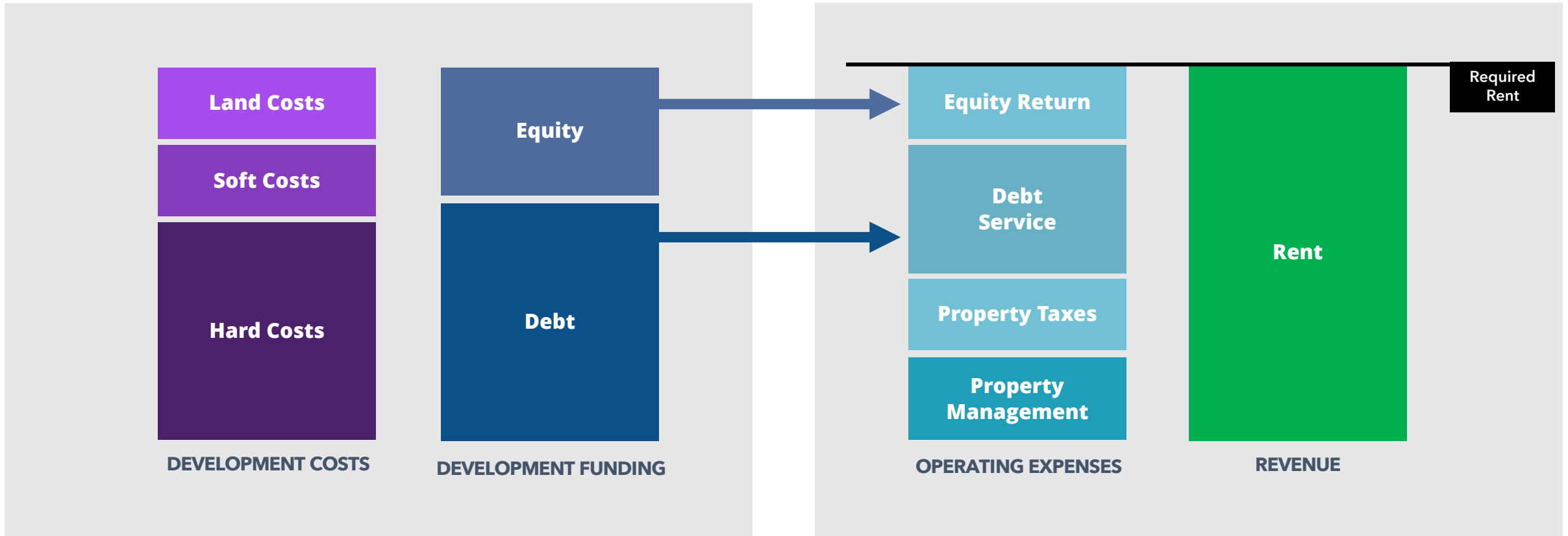


- Directly creates housing with affordability restrictions
- Serves all income groups and housing priorities including affordability, access, and displacement
- Can be used to leverage private funding

- Requires large amounts of capital from governments or philanthropies
- May increase taxes or divert funding to pay for large subsidy programs

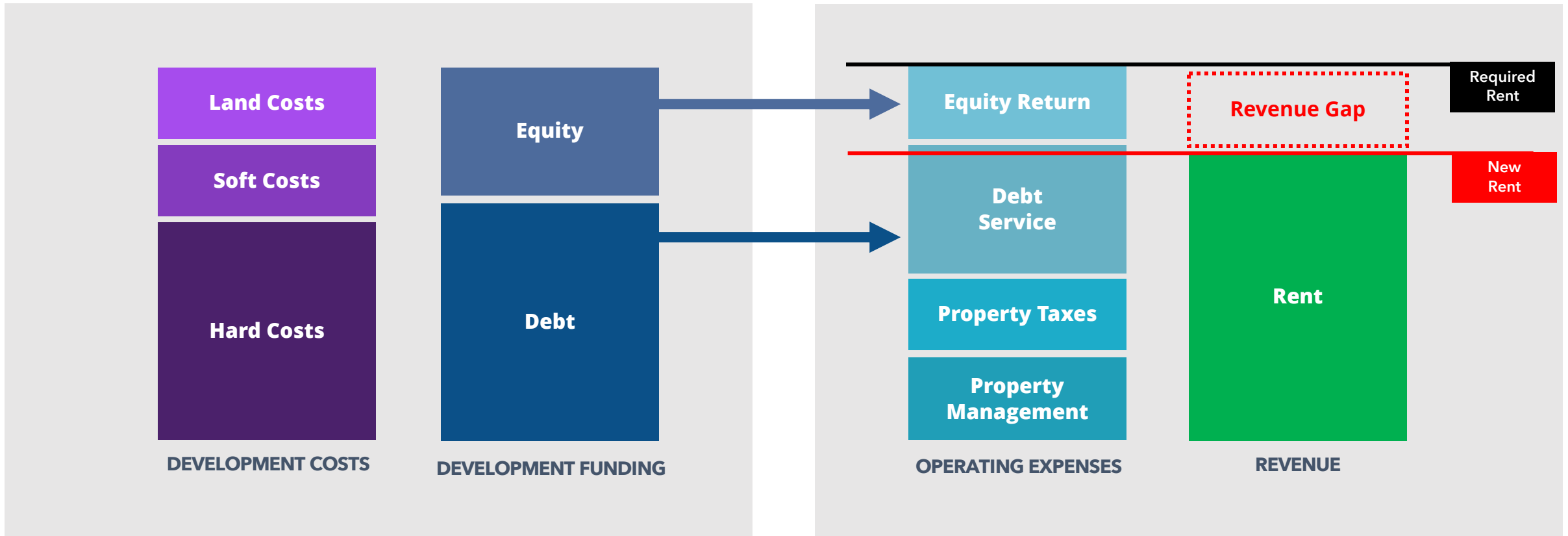
Housing Development Framework

Successful development of housing depends on balancing costs with funding, and expenses with revenues.



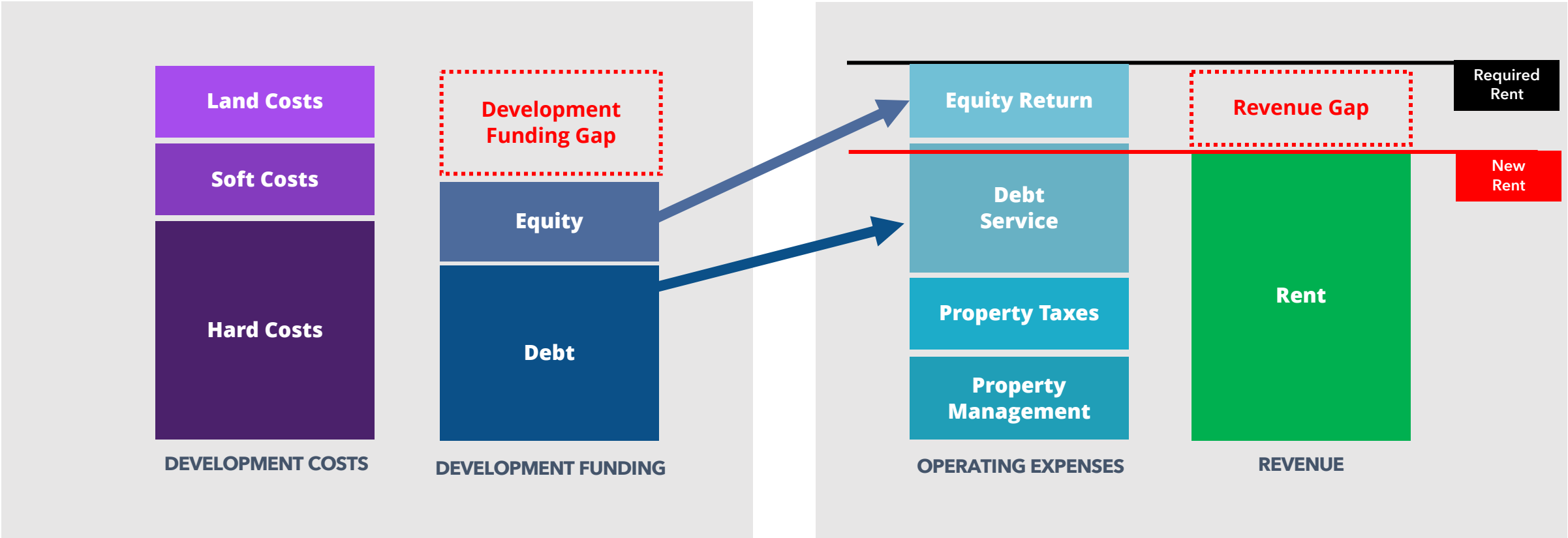
Housing Development Framework

Affordable housing reduces rents and creates a revenue gap compared to operating expenses.



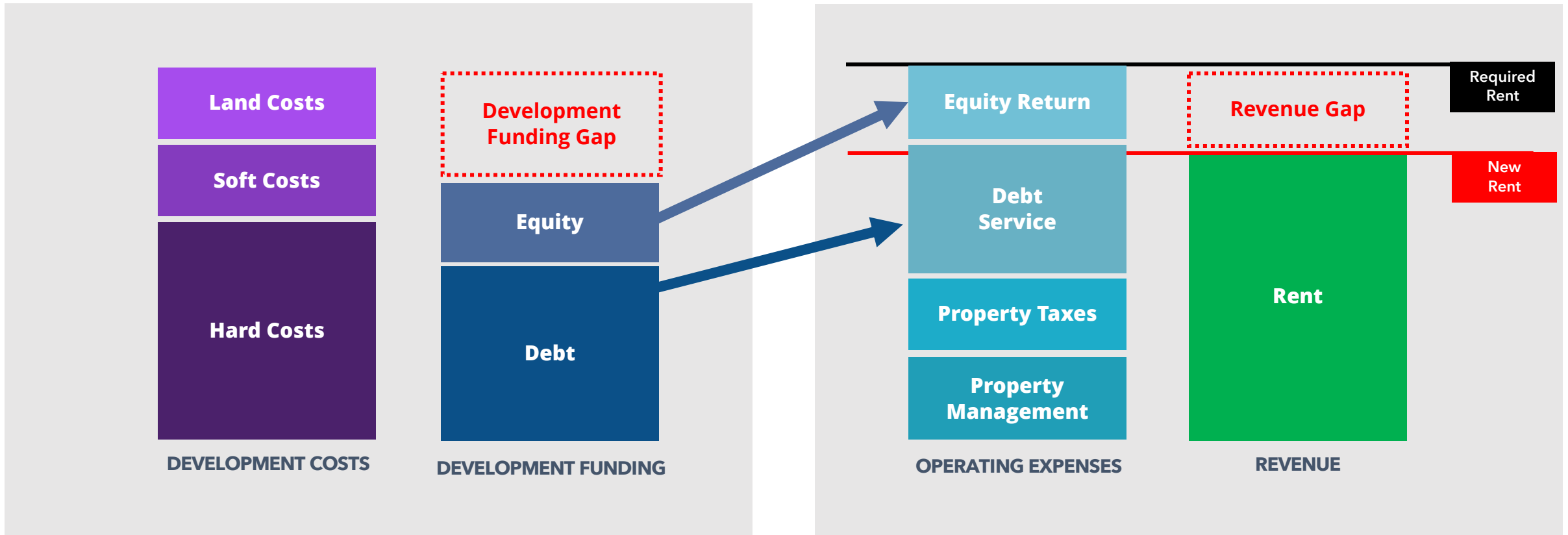
Housing Development Framework

With reduced revenue, banks and investors are willing to invest less, creating a development funding gap.



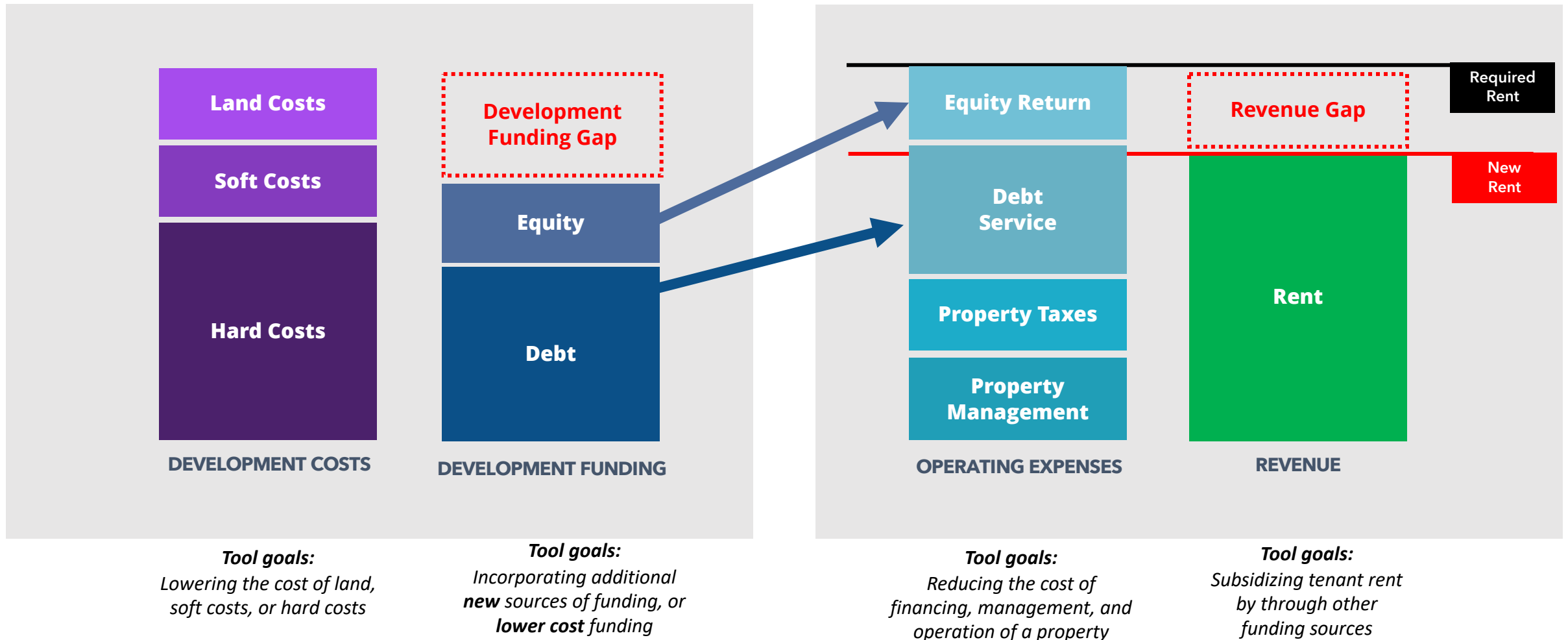
Housing Development Framework

Unless this development gap can be closed, the project will be infeasible and will not get built.

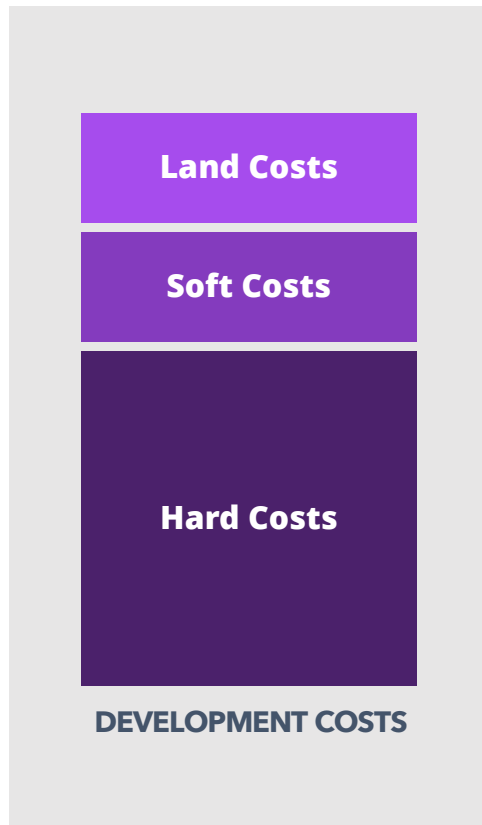


Housing Development Framework

Unless this gap can be closed, the project will be infeasible and will not get built. This is where tools come in.

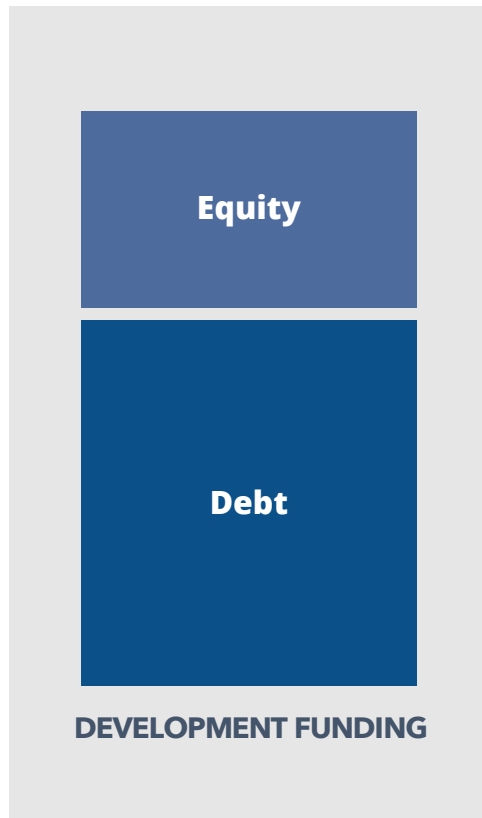


Applying the Tools – Development Costs



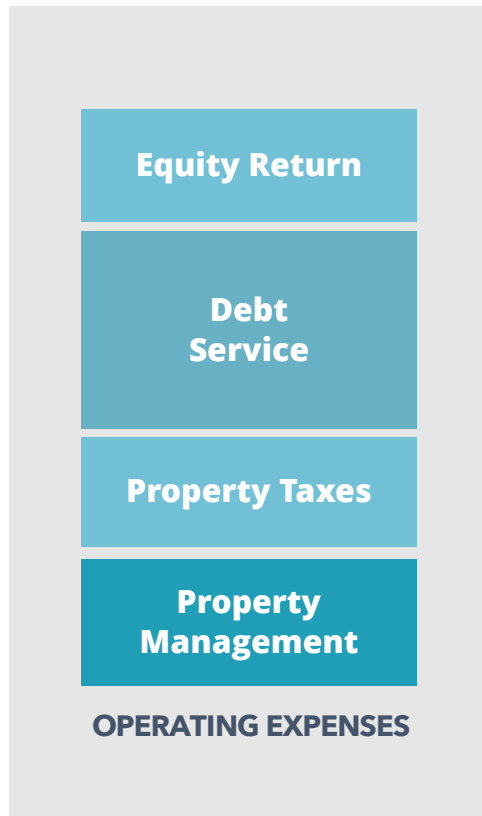
Tool	Description
Public Land	Writing down the value of public land in exchange for the provision of affordable housing
Accessory Dwelling Units (ADUs)	Allow or incentivize additional living quarters located on single-family lots, independent from the primary home
Reduced Fees	Reduction or elimination in entitlement fees, community benefits, or other proffers
Accelerated Approvals	In the development process, time is indeed money. Expedited approvals can reduce delivery time, creating development cost savings
By-Right Development	Similarly, by-right development creates certainty in the development process and also saves time
Flexible Design Standards	Providing relief to design standards (reducing parking requirements, as an example) directly reduces project costs

Applying the Tools – Development Funding



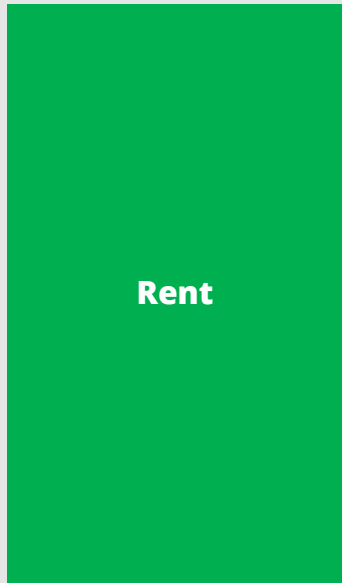
Tool	Description
Housing Production Trust Fund (HPTF)	A special revenue fund administered by DHCD's Development and Finance Division (DFD) that provides gap financing for projects affordable to low and moderate income households.
4% and 9% Low Income Housing Tax Credits (LIHTC)	Use gap financing and other support as needed to increase the production of subsidized LIHTC housing, particularly for 9% LIHTC as 4% projects are less feasible.
Tax Increment Financing (TIF)	DC's TIF program allows the District of Columbia to sell bonds backed by a portion of a development's future property/sales taxes, with the bond money helping to pay the developer's construction costs.
Payments in Lieu of Taxes	Similar to a TIF, but redirects all property tax payments to bond service rather than using property/sales taxes increment.
Corporate / Philanthropic Funding	Below market loans and/or grants supported by corporation or philanthropic organizations. Examples include Washington Housing Initiative Impact Pool (JBG); Amazon Housing Equity Fund; Kaiser Permanente Thriving Communities Fund)
Fed. Loan/Grant Programs	FHA and other financing programs that provide lower cost financing for production or preservation of affordable housing.

Applying the Tools – Operating Expenses



Tool	Description
Property Tax Abatement	Waiver of all or a portion of property taxes for a defined period of time.
Landlord Risk Fund	Incentivize landlords to accept TBVs by helping to cover unpaid security deposits and back rent, if needed
Lower-Cost Financing	Many of Development Funding Tools not only fill funding gaps, but also result in lower operating costs as result of lower interest rates, or replacement of equity (expensive!) with debt (less expensive).

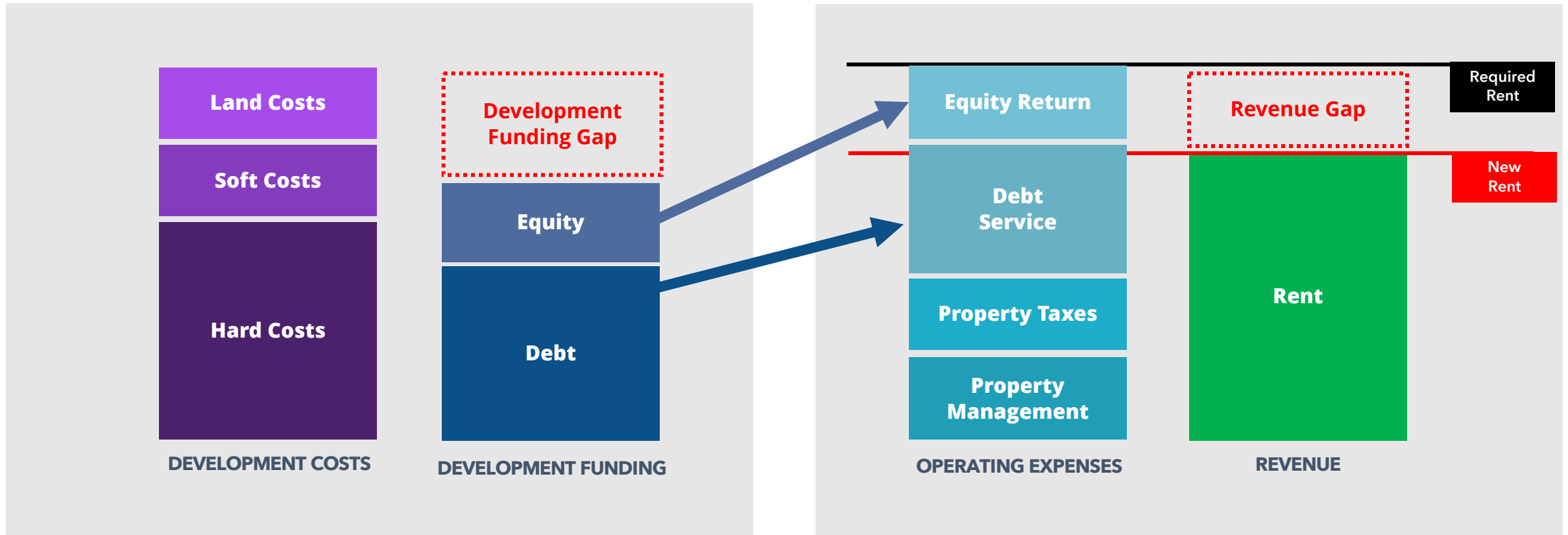
Revenue Tools



Tool	Description
Inclusionary Zoning	A program that offers incentives or density bonuses in exchange for the provision of affordable housing as part of market rate development projects (voluntary or mandatory). The additional rent from market rate units offsets (ideally) the lost rent from affordable units
Tenant-based vouchers	Provide <u>tenants</u> with long-term vouchers that subsidize rent for market-rate units (limited supply, long waiting list)
Project-based vouchers	Provides <u>projects</u> with long-term vouchers that subsidize rent for market-rate units (these are even more limited in supply)

Putting the Tools to Use

Applying these tools enables projects to close funding and revenue gaps and achieve feasibility.



Summary

- Successful housing development requires balancing of development costs and funding, and operating expenses and revenues – all of these are interconnected
- Housing development is hard – particularly given current construction costs – and affordable housing development is even harder
- Affordable housing tools can help reduce difficulty and increase housing production by creating value that offset the cost of affordable units
- No single tool is a perfect solution – success relies on layering of the most appropriate tools to match each opportunity