

Tucson Affordable Housing Summit - Building a Plan for Older Adults

White Paper on Financial Options for Building Affordable Housing

Background:

This white paper provides information on financial options that are currently being utilized in Southern Arizona to develop housing for various income levels. It is meant to be informative and a resource but is not comprehensive. One of the keys to financing is to understand that it is ever changing, and new opportunities can be found by networking and asking questions.

[Ten Principals for Developing Affordable Housing](#), by Urban Land Institute (2007)

The Urban Land Institute in their publication, “Ten Principals for Developing Affordable Housing” best summarizes the opportunities and challenges in financing affordable housing development in principle #3: Learn the Alphabet... and Do the Math:

Financing options for affordable housing are an alphabet soup of loans, grants, and various other programs containing numerous qualifications and restrictions. Developing affordable housing requires in-depth knowledge of these options as well as the ability to stitch a number of them together seamlessly to create a development proposal that pencils out financially. Knowing the myriad funding sources and how to put them together to make a deal work is the art of affordable housing.

LIHTC (low-income housing tax credit), HOPE VI, CDBG (community development block grant), and HOME funds as well as other U.S. Department of Housing and Urban Development (HUD) programs represent the bulk of project funding at the federal level. States, counties, cities, and towns often offer numerous financing and incentive programs as well, including housing trust funds. The administering authorities for these programs vary from HUD to local housing authorities and housing finance agencies (HFAs), which administer the LIHTC. Many of these HFAs offer additional state tax credits as well.

While affordable housing projects generally need various funding sources, the expected commitments and reporting obligations of the programs vary, further adding to the complexity of developing affordable housing. Knowing these programs and their parameters is the first step in establishing long-term financial success.

Affordable housing developers are often constrained on several levels by both lending and program requirements. Lenders require covenants that ensure timely payments, establish reserves, and maintain various metrics (such as loan-to-value ratio and debt service coverage ratio). Further, sale and rental rates as well as a host of maintenance and public service issues are restricted or mandated by program requirements.

Because of the many constraints on affordable housing, underwriting is done with a careful eye toward established operating cost percentages derived from comparable nearby properties. Incorporating default risk into the pro forma is likewise essential, which necessitates using a discount rate appropriate to the risk of the development as gauged by projects of similar size and scope. Affordable housing development requires a long-term perspective and must take into account future hikes in property taxes, insurance, and heating costs, which could spike operating costs and lead to negative cash flow. Understanding a project's long-term prospects requires an inherent understanding of factors that will increase long-term financing risk.

While piecing together financing is crucial, leveraging additional public incentives is often required to make affordable housing projects financially feasible. Developers can work with local, state, and federal government agencies to obtain additional incentives for the development of affordable housing development, including land grants, tax abatements, brownfield cleanup, lower fees (for permits, water connections, and sewer hookups), and an expedited permit and entitlement process, to name just a few.

People who seek simplicity should not pursue a career in affordable housing. It is a complex endeavor with layers of financial, political, and regulatory requirements. There are, however, a limited number of programs and concepts that must be mastered. Understanding affordable housing loans, grants, and other programs and their requirements is the foundation for a career in this field. Mastering the art of affordable housing can be difficult and challenging, but ultimately rewarding on several levels.

Funding Sources Overview

Below is a summary of different types of public, private, and mission driven/social equity funding sources. As the ULI information states, the layering of different types of funding is usually necessary for a project to happen.

Federal Funding:

- U.S. Department of Housing and Urban Development (HUD):
 - Home Investment Partnership Program (HOME Program): Home can fund Affordable Rental Housing and Homebuyer development and assistance) – City of Tucson/Pima County and the AZ Department of Housing
 - [Webcms.pima.gov/community/housing/affordable_housing_development/](http://webcms.pima.gov/community/housing/affordable_housing_development/)
 - [Tucsonaz.gov/housing-and-community-development](http://tucsonaz.gov/housing-and-community-development)
 - <https://housing.az.gov/>
 - HUD Section 202 Supportive Housing for the Elderly Program (U.S. Department of Housing and Urban Development) *Currently not being funded by Congressional Appropriations – but could be in the near future – especially if enough communities/states lobby Congress *
 - Affordable housing with supportive services for elderly who are very low income
 - Notice of Funding Availability (NOFA) process – Non-profits only
 - Hud.gov/topics/information_for_senior_citizens
 - HUD Section 811 - Special Needs Housing
 - Affordable housing for persons with disabilities
 - NOFA process – Non-profits only
 - Federal Housing Administration (FHA) Insured Loan Programs
 - Multi-family FHA Mortgage Insurance
 - FHA insured loans for construction, substantial rehabilitation, and acquisition and refinancing of apartments and health care facilities
 - Hud.gov/states/shared/working/west/mf/finance
- U.S. Department of Agriculture (USDA) Rural Development
 - Multi-Family Financing
 - Single-Family Financing
 - <https://p-chip.tucsonaz.gov/>
- U.S. Department of Veterans Affairs (VA) Housing assistance
 - Home loans and rental assistance
 - Va.gov/housing-assistance/

Non-Federal, private funding:

- Internal Revenue Service (IRS) – Low Income Housing Tax Credit (LIHTC) – Administered by AZ Department of Housing (ADOH): As part of the Tax Reform Act of 1986, the U.S. Congress created the Low-Income Housing Tax Credit (LIHTC) (IRC Section 42) Program to promote the development of affordable rental housing for low-income individuals and families. To date, it has been the most successful rental housing production program in Arizona, creating thousands of residences with very affordable rents. The Low-Income Housing Tax Credit, rather than a direct subsidy, encourages investment of private capital in the development of rental housing by providing a credit to offset an investor's federal income tax liability.
 - 9% LIHTC – Competitive annual application/award process per the State's Qualified Allocation Plan
 - 4% LIHTC – Non-competitive, requires Mortgage Revenue Bond financing to qualify; application process is open-continuous
 - Housing.az.gov/low-income-housing-tax-credit-lihtc-program

- Federal Home Loan Bank of San Francisco (FHLBSF) Serves AZ, CA, NV <http://www.fhlbsf.com/>
 - Affordable Housing Program (AHP): <http://fhlbsf.com/community/grant/ahp.aspx>
 - AHP grants are awarded through a competitive application process to Bank members working with housing developers or community organizations to create rental or homeownership opportunities for lower-income households. [Learn more.](#)
 - IDEA and WISH Programs
 - Individual Development and Empowerment Account (IDEA) Program: Through participating Bank members, lower-income households saving to buy their first home by participating in an IDA, FSS, or lease-to-own program can receive a 4-to-1 matching grant of up to \$22,000. IDEA grants can be applied to down payment and closing costs. [Learn more.](#)
 - Workforce Initiative Subsidy for Homeownership (WISH) Program: Through participating Bank members, lower-income households, individuals, and families ready to move from renting to owning can receive a 4-to-1 matching grant of up to \$22,000. WISH grants can be applied to down payment and closing costs. [Learn more.](#)

- Community Reinvestment Act Driven Funding
 - Local Initiatives Support Corporation (LISC)
 - Raza Development Fund

- United Health Care Community and State – myConnections™
 - In 2016 UHC partnered with Chicanos Por La Causa (CPLC) in Phoenix and provided \$20 million in capital to help CPLC acquire, renovate and operate a 351 unit multifamily apartment complex that will provide residents with access to essential social, medical and behavioral services that can have a significant impact on health and quality of life. <https://www.unitedhealthgroup.com/newsroom/2016/0211arizonachicanosporlacausapartnership.html>
 - <https://www.uhcommunityandstate.com/myconnections>
 - <https://www.uhcommunityandstate.com/articles/the-intersection-of-health-and-housing.html>

Mission Driven, Private Social Equity Funds

Finding capital has always been a challenge for real estate developers. They've been limited to conservative financial institutions who they have a relationship with or people they know. Often financial institutions don't want to bother with smaller projects, although they are necessary in so many ways. But now developers have equity crowdfunding. They can raise money online from a crowd of investors. A marriage of finance and technology has brought significant disruption to the financial world that is trickling down into real estate (Small Change, Oct 2020).

The Jumpstart Our Business Startups (JOBS) Act was enacted on April 5, 2012. Title III of the JOBS Act amended Section 4 of the Securities Act of 1933 (Securities Act) and created a new exemption from registration for Internet-based securities offerings of up to \$1 million over a 12-month period. Title III was intended to help small and startup businesses conduct low-dollar capital raises on the Internet. It can be thought of as an Internet-based method of raising seed financing from a broad, mostly retail investor base. The JOBS Act included a number of investor protection provisions, including investment limitations, issuer disclosure requirements, and a requirement to use regulated intermediaries. The SEC proposed securities-based crowdfunding rules on October 23, 2013 and adopted final rules on October 30, 2015. Issuers were able to use the new exemption beginning May 16, 2016, when the final rules became effective (SEC, Reg CF White Paper, Feb 2017).

Eighty years since the Securities Act, a company seeking to raise money could not advertise the offering or sell to more than a handful of non-accredited investors without registering with the SEC, a long and expensive process. Title III changes that (Roderick, Title III Primer). Non-accredited investors can participate in real estate investment opportunities with as little as \$200 to invest.

Multiple internet sites, or "Portals", that are allowed to offer and sell Securities under Title III have sprung up with different missions, allowing investors to choose projects that resonate with their personal beliefs and make an impact with their investments. At Small Change, the focus is on transformation and impact to sustainable built environments (Friedberg, U.S. News, Mar 2019).

Small Change is one such portal that came about when the founder, Eve Picker, found a horde of people working in fascinating niches around this one big central theme – the built environment we all occupy. These people work in city planning, on affordable housing, in impact investing, on mobility issues, in fintech, as architects, on sustainable development, on community capital, on equity in communities and in many other niches, pushing the boundaries of the built environment to be better for everyone (Small Change, July 2020).

There best recognized project was the award-winning "Bungalow Gardens" in Los Angeles. It provides transit-oriented development for the homeless with architecture classic to Los Angeles (Small Change, Oct 2020).

There are a number of offerings listed on Small Change at any given time. Those listings are limited by the Change Index and typical project readiness by a developer. Offerings detail the risk and reward of investment and cover such details as: investor guide, Concept, project, progress, Change Score, developer profile, the neighborhood, market, deal points, finance, offering, investor return, and risk.

Offerings on the Small Change platform must score at least 60% to be listed, to ensure that we're making change right alongside you. Twenty-one metrics across three categories of mobility, community, economic vitality demonstrate each project's commitment to sustainability. (Small Change, Change Index).

An example of a current listing is "Affordable ADUs" by Dweller. A 9-unit, scattered site ADU project with a \$1000 minimum investment and a 5% annual preferred return, over ten years, with 80% profit share (Small Change, Projects).

**Note: Portals, their employees, and representatives cannot be involved in any writings that include the “terms of the offerings” due to SEC rules. The words and opinions in this segment on crowdfunding are exclusively that of the author. Additionally, Portals cannot speak to investors about the merits of any particular company or offering.*

Reference Links:

- Title III Crowdfunding -

<https://crowdfundingattorney.com/wp-content/uploads/2020/12/Title-III-Primer.pdf>

<https://crowdfundingattorney.com/wp-content/uploads/2020/12/Crowdfunding-Cheat-Sheet.pdf>

https://www.sec.gov/files/2017-03/RegCF_WhitePaper.pdf

- Small Change –

<https://learn.smallchange.co/2020/10/15/the-risks-and-rewards-of-equity-crowdfunding/>

<https://learn.smallchange.co/2020/07/30/one-year-49-podcasts/>

<https://learn.smallchange.co/2020/10/01/moving-along-making-change/>

<https://learn.smallchange.co/change-index>

https://www.smallchange.co/projects/affordable_adus

- Other Portals –

<https://money.usnews.com/investing/real-estate-investments/slideshows/best-real-estate-crowdfunding-platforms?onepage>