ONE
NEIGHBORHOOD BUILDERS

Presentation to the Commission on Housing Affordability
November 16, 2023
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ONE Neighborhood Builders

Building Opportunity Through Homes + Health

Today's Goal

- ➢ Combat the myth that recent investments in housing have been slow to produce units
- ➢ Equip committee members with information to debunk it!

How? Talk through a real development project to reveal:

- What it really costs
- How long it really takes
- What we could do differently

Agenda

- Level-setting (10 minutes)
- Case study: Center City Apartments (20 minutes)
- Q&A (15 minutes)

Three ways to “develop” affordable housing

- **Protect** – purchase existing housing and place long-term deed restriction on property to ensure affordability
- **Preserve** – renovate and extend affordability for ~20+ year old existing developments
- **Produce** – build new or adaptively reuse properties into housing

Reminder

Affordable with a capital "A" = Resident does not pay more than ~ 1/3 of their gross income (rent + utilities) in housing costs.

"Affordable" is relative:

	Household Size			
	1 person	**2 person**	**3 person**	**4 person**
Extremely Low-Income <30% AMI	$21,500	$24,600	$27,650	$30,700
Very Low –Income <50% AMI	$35,850	$41,000	$46,100	$51,200
Low-Income <80% AMI	$57,350	$65,550	$73,750	$81,900
Moderate-Income <120% AMI	$86,040	$98,400	$110,640	$122,880

Math Problem #1

Operating quality housing costs more than extremely low-income households can afford to pay in rent

~$9500 per year operating expense (OpEx)

- Insurance
- Property taxes
- Water, sewer
- Maintenance
- Compliance
- Replacement reserves

If you are disabled and receive SSI = $910 per month

33% income in rent = $300 per month // $3600 per year

Takeaway: Rental subsidy is needed just to break even

Math Problem #2

Very little income left over after paying OpEx to use towards a mortgage

~$9500 per year OpEx ($790 per month/per unit)

Rent of $1190 per month for 2-bedroom apartment

$400 per month/unit in net operating income (NOI)

1.2 Debt Service Coverage Ratio

8% interest rate

40 units x 4800 = $192,000 NOI

Can afford approximately a $1.8 million mortgage

Takeaway: Capital grants are needed as we can only take out so much debt

How we fill the gap, part 1: Soft Sources
(aka Capital Grants)

Predictable

- Federal HOME - ~$5 million per year
- Federal Housing Trust Funds - ~$2 million per year
- State Housing Production Fund ~$8 million per year

*Some municipalities also have their own HOME (i.e. City of Providence)

Semi-Predictable

- RIHousing Capital Magnet Fund
- RIHousing Acquisition Revitalization Program
- RIHousing Middle Income Program

Not Predictable, but vital

- State Building Homes RI (BHRI) – Bond funds
- Federal ARPA funds – one-time historic investment

How we fill the gap, part 2: Low-Income Housing Tax Credits (LIHTC)

Worth noting: Generally impossible to produce affordable rental housing at scale (i.e. 25+ units) without using LIHTC

9% LIHTC

- RI gets small state minimum - $3 million in annual credits
- Translates to $30,000,000 of investment ($3 million x 10 years)
- Determine the project's qualified basis (add up all expenses that you are allowed to use LIHTC equity to pay for)
- Allowed 9% of that basis
- BUT - any one development can not obtain more than 40% of the state's allocation = $1.2 million
- Sell the awarded credits to private investors – currently valued at about 90 cents per credit
- If you get maximum possible award ($1.2 million) total equity = $10,080,000

4% LIHTC

- Used with taxable Private Activity Bonds
- Only allowed 4% of qualified basis
- Con: don't generate as much equity
- Pro: it's not competitive

Unpredictability and scarcity results in standstill

Developers (for-profit and non-profit) are reluctant to spend time and money when development capital is unpredictable or challenging to obtain.

Project selection presents tradeoffs and challenges as well

- Scale (how many apartments can we fit?)
- Zoning (can we build multi-family “by right?”)
- Availability of property (is the title clouded?)
- Location (near RIPTA, schools, etc.)
- Is the property constrained by easements, wetlands, contamination, historic rules, or ledge?
- Will the acquisition cost be about $25,000 per unit?
- Mission impact (will it be transformative to the surrounding area, provide new amenity, etc.?)


Case Study: Center City Apartments

Met most project selection criteria

- Large scale = 3 parcels on 3 acres, one existing building
- Required zoning relief – reduced proposed unit count and removed childcare
- $4.5 million - was $27,000 pu; now $31,400 pu
- City water and sewer
- Soil conditions not terrible
- Opportunity to partner with **Crossroads, Foster Forward,** and **Family Service of RI** to do integrated, mixed-income, permanent supportive housing

Center City – Development Details

Income Mix

144 total apartments

<30% AMI to 120% AMI
(e.g., $10,000-$93,000 for two-person household

- 40% of apartments (57) will be **Permanent Supportive Housing**

- 60% of apartments (87) for low-to moderate-income households

Features

- Studio, 1-, 2-, and 3-bedroom apartments
- Greenspace and three-season porch
- On-site offices for social service partners and property management company
- RIPTA bus stop in front of development
- Highly efficient & all-electric development with rooftop PV

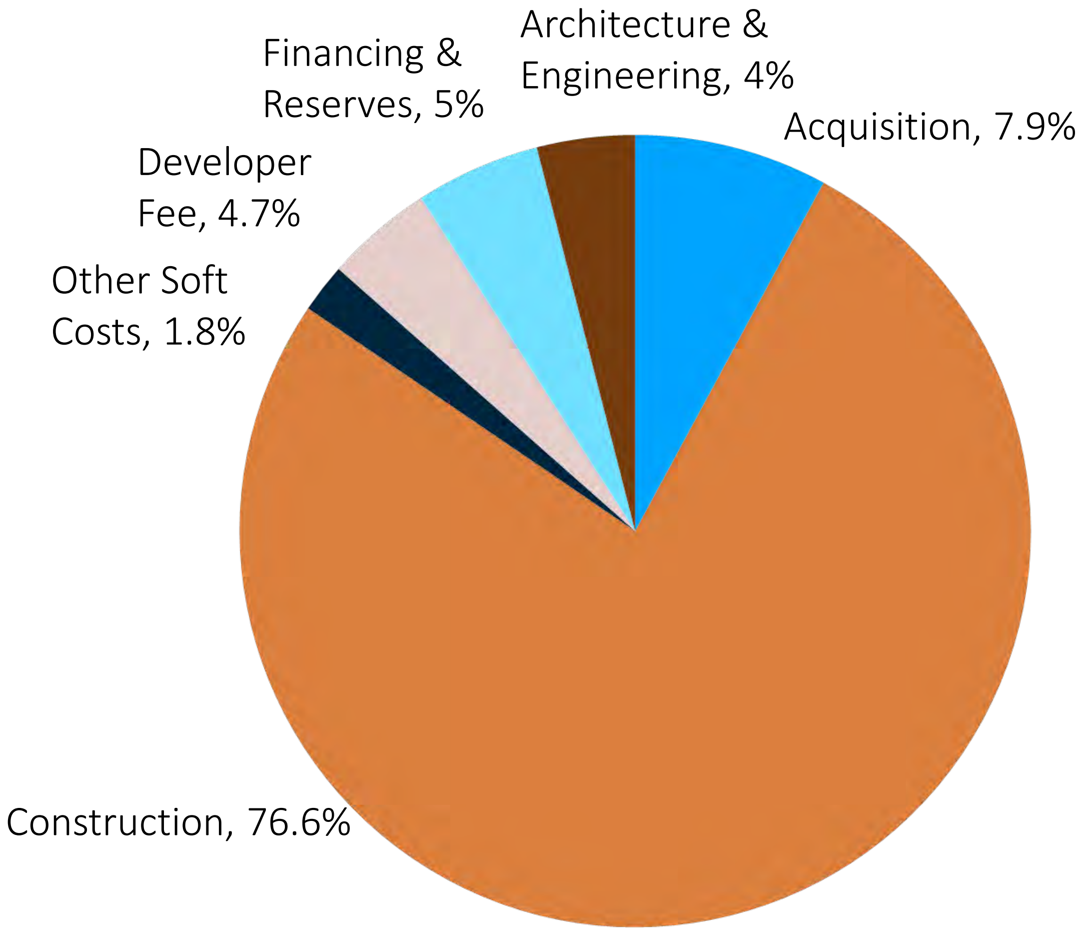
Activities	*Date*	*Timeline*	*Investment*
• Identified parcel	June '22		$175,000
• Feasibility analysis	June-August '22	+3 months	$50,000
• Negotiated site control	September-March '23	+7 months	$150,000
• Applied for acquisition loan & purchased property • Applied for pre-development funding	April-August '23	+5 months	$4,350,000
• Design and engineering (part 1) • Planning and Zoning board approvals • Identify lenders and investors	June-December '23	+4 months	$1,500,000 $25,000
• Prepare and submit financing applications, await decision	December '23 - May '24	+5 months	$15,000
• Carrying costs (taxes, insurance, financing costs)	March '23 – May '24	N/A	$125,000
Time & investment before financing secured		**24 months**	**~$6,400,000**

• Design and engineering (part 2); final plan approval from planning department; firm commitment of financing	May '24 – October '24	+6 months	$1,100,000
• Work with legal counsel to close on financing	October '24 – January '25	+3 months	$155,000
• Carrying costs (taxes, insurance, financing costs)	June '24 - January '25	N/A	$50,000
Additional time & investment before shovel hits the ground		**9 months**	**~$1,300,000**

Changes to zoning passed in 2023 session are a move in the right direction

2023	2024
Difficult to use special use permit provision	If an ordinance does not expressly provide for specific and objective criteria for the issuance of a category of special use permit such category shall be deemed to be a permitted use
No unified development review	Requires municipalities to adopt unified development review, under which the Planning Board is empowered to grant zoning relief.
Strict dimensional variance	The thresholds for dimensional modifications: up to 15% of the dimensional requirements must be allowed.

Use of Funds



Total Development Cost: $57.2 million

- Construction: $43.8 million
- Per unit total development cost: $397,200
- This low per unite development cost is due to economies of scale

Note: RIHousing's 2023 average per unit TDC for the 10 projects that were funded was $397,500. Included were projects that required moderate renovation of existing apartments, which lowered the overall average considerably.

21 different (& prospective) Sources

Congressional Earmark*	$2,000,000
ARPA Site Acquisition Program*	$1,000,000
RI Foundation Grant*	$135,000
East Providence CDBG*	$154,000
Housing Ministries of New England*	$20,000
ARPA Predevelopment Grant*	$250,000
ARPA HOME	$316,000
ARPA Community Revitalization	$2,000,000
ARPA Targeted Production Fund	$11,000,000
Champlin Foundation Grant	$300,000
ARPA Middle Income program	$280,000
HOME	$700,000
Acquisition Revitalization Program (ARPA)	$1,030,000
Housing Trust Fund	$690,000
Housing Production Fund	$1,100,000
Capital Magnet Fund	$999,999
4% LIHTC private investment	$13,840,939
9% LIHTC private investment	$11,158,884
RIHousing mortgage	$7,500,000
2nd position social impact loan	$3,000,000
TOTAL SOURCES	**$57,274,822**

Private Equity = $24,999,823

ARPA = $15,596,000

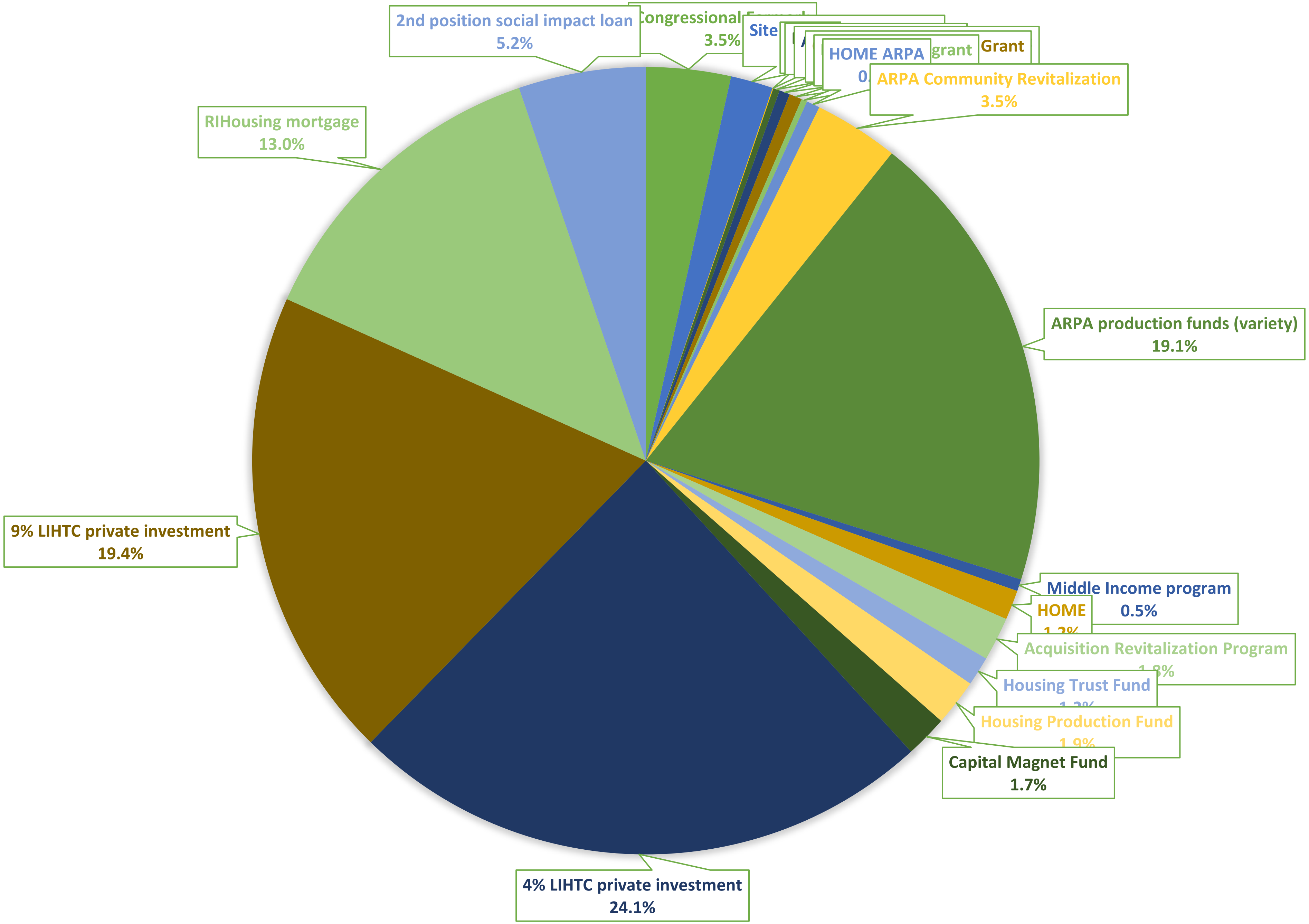
Debt = $10,500,000

Federal = $3,390,000

State = $2,130,000

Other = $609,000

*secured



2nd position social impact loan
5.2%
Congressional
3.5%
Site
HOME ARPA
grant
Grant
ARPA Community Revitalization
3.5%
RIHousing mortgage
13.0%
ARPA production funds (variety)
19.1%
9% LIHTC private investment
19.4%
Middle Income program
0.5%
HOME
Acquisition Revitalization Program
Housing Trust Fund
Housing Production Fund
Capital Magnet Fund
1.7%
4% LIHTC private investment
24.1%

Dynamic Process

- Source selection is an art and a science
- Back into sources based on what is available and how to be most competitive
- …while maintaining vision for project
- Some sources targeted to certain geographies (i.e. QCT's, TOD districts, etc.)
- Some sources only available for certain AMI levels
- Must stay within maximum source per subsidy (e.g. $80,000 per unit – Middle Income; not more than $1 million per development – Capital Magnet Fund)
- These sources will invariably change once the 2024 Qualified Allocation Plan and Ancillary Funding Application is released

Rhode Island's FY23 $250 million Historic Investment via ARPA funds

- **$80 million: production and preservation of low-income housing**
- **$25 million: site acquisition program**
- **$25 million: community revitalization funds**
- **$20 million: middle-income housing**
- **$11.5 million: pre-development/capacity building**
- *$10 million: PHA pilot*
- *$50 million: down payment assistance to homebuyers*
- *$21.5 million: rental assistance*
- *$5 million: emergency homeless response*
- *$2 million: statewide plan*

Reminder

- $161.5 million (of the $250 million) was designated for affordable housing development
- Initially, ARPA funds were throttled over three years
- Limits have been placed on how much can be invested in any one project, so can’t proceed until all sources are secured
- In 2023, mortgage interest rates have increased (~6.5% to 8%) and LIHTC pricing has decreased (~93 cents to 89 cents) meaning the same development requires more funding than a year ago.
- Construction cost savings have not decreased commensurately with increase in financing costs

Math Problem #3

Calculating the number of units produced can be flawed and misleading

Leverage or Expediency?

‘Production by source’ ratios are inflated in communities where there are ample sources to serve as leverage

(E.g. RI may be only able to produce 70 units for $10,000,000 of ARPA; whereas New York can produce 125 units for same amount of money because they have more State sources to leverage ARPA with.)

Look-out for inclination to double-count units produced over successive funding award announcements

Quality or quantity?

Cost containment is a worthy objective but so are goals of quality wages for subcontractors, energy efficient design, and provision of housing for ELI households that may require seeding higher than average operating reserves

Key Take-Aways

- ✓Developers start projects when there are predictable funding sources.
- ✓Opportunities to shrink the capital stack will make projects move more quickly.
- ✓Recent zoning updates will shave time from the process.
- ✓Risk is fully borne by developers – takes a minimum ~2 years to know if project will receive full financing.
- ✓Takes hundreds of thousands (if not $1+ million) to position project to be competitive for full financing.
- ✓When ARPA affordable housing development funds are fully obligated (by the end of 2024), what sources will fill the hole?
- ✓Without a replacement source, the verifiable pipeline of affordable housing development projects will grind to a halt.

We can't go backwards

What can we do?

✓**Champion significant and consistent investment in housing production every year**, using all tools at our disposal (e.g. state and municipal bonds, direct budget allocation, expanded state LIHTC, etc.)

✓**Incentivize municipalities to proactively identify sites for housing and partner with developers to get it done** – infrastructure assistance boost; donate or sell land at below market rate; further reduce planning and zoning barriers; designate CDBG/discretionary dollars to pre-development. Celebrate <u>realistic and measurable progress</u> made by every city and town.