

Small Scale Rental Housing

How is an affordable housing development put together?

What determines financial feasibility?

Why does it matter?

Susan Connelly

Director of Community Assistance



**Massachusetts
Housing
Partnership**

160 Federal Street
Boston, MA 02110
617-330-9955
www.mhp.net

community / smaller scale housing development



- Presentation focuses on rental (more affordable) but most principles apply to homeownership as well
- When a project is publicly subsidized, there are additional requirements to protect public investment, but does increase costs
- Time is money – local permitting processes often the most time consuming
- Smaller number of units, increased per unit cost of ‘soft costs’; legal, permitting design, surveys and engineering, etc.

Today’s goal; understand cost factors and the role a community can play to keep project costs reasonable, supporting community scale project feasibility

Project Feasibility: A Balancing Act

Land Costs
Design Requirements
Infrastructure
Construction Costs
Holding costs (interest)
Financing timing
Site Work
Legal
Zoning / Permitting



Market needs
Rental income
Operating expenses
Supportable Debt
Subsidies (soft debt)
Project Size



TIME
Predictability

Housing Needs (the market)
Fiscal Feasibility
Capacity (of developer and town hall)

Surprises = Cost



The more you know, the less you will be surprised.

Importance of due diligence and predictability



Financing Sources

Putting the financing pieces together... rules, regs and investors (oh my)

All sources of financing have requirements, the goal is to align enough sources to meet the project uses (costs), while meeting all the requirements and not to create any conflicts (not all program requirements align with each other!) all within a timely manner so you are not incurring additional carrying (interest, legal, etc) costs.

- Permanent Debt

 - conventional and nonprofit lenders

- Affordable housing subsidies

 - federal (annual round via state process),
state (annual round) and local (CPA town
meeting vote)

- *Community Preservation Act funds*

 - *Use restrictions cannot conflict with permanent debt underwriting



Affordable Rental Project- Simple

Uses of Funds

Acquisition
Construction
Soft Costs carrying costs (interest), design, engineering, legal...
Reserves + Developer fees

Permanent Sources of Funds

Permanent First Mortgage Debt
Subordinate Debt (soft debt); federal and state subsidies, local support
Grants

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TIME
Predictability

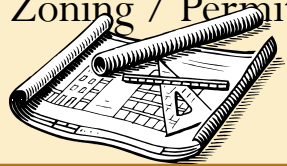


Market needs
Rental Income
Operating expenses
Supportable Debt
Subsidies
Project Size

Housing
Needs/
Fiscal Feasibility
Capacity

Project Feasibility: A Balancing Act

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Project Size
Rental Income
Subsidies
Operating expenses
Supportable Debt
Market needs



TIME
(Predictability)

Housing
Needs/
Fiscal Feasibility

What can you do to help keep costs reasonable (beyond land and money)?

- As a municipality the number one thing you can do is provide predictability and transparency for developers via zoning as of right
- Timely and coordinated responses to design review by all municipal parties
- Understand and address issues of scale from both the development and operating sides



City of Revere

- Every Tuesday, a representative from each city department (fire, police, planning, DPW, city engineer, ISD...) meet for 2 hours and see prospective building and zoning applicants. It is all on a drop-in basis (no appointments). The meetings are used for formal Site Plan Review as part of a permitting process, but can also be used in earlier stages of a project to obtain feedback from all of the departments in one location.
- From a developer's standpoint, the fact that a) they successfully get everyone in one room and b) they do it every week, is very helpful in moving project schedules forward quickly and with more certainty, and also in receiving coordinated and streamlined feedback on development projects.



Town of Westford

- The town's Director of Land Use Management (a.k.a. community development director) oversees/organizes; planning, zoning, land use management, affordable housing committee, MAHTF
- Zoning Board of Appeals published design guidelines and project procedures, clearly outlines project process and third party peer reviews (fiscal impact).
- Pre-application process; higher level coordination, major infrastructure issues, permitting process
- Once a project permit is filed (40B) technical group review at the staff level of every department that will touch the project
- Careful not to get too far ahead of the boards not designing a project outside a public meeting
- Developer best practice – cc: building commissioner on construction project's weekly meeting minutes



Susan Connelly

Director of Community Assistance

sconnelly@mhp.net

direct dial; 857-317-8580



Massachusetts Housing Partnership

www.mhp.net

Additional Information

Subsidy

Financial assistance that fills the gap between the costs of any affordable housing development and what the occupants can afford based on program eligibility requirements. Many times multiple subsidies from various funding sources are required, often referred to as the “layering” of subsidies, in order to make a project feasible. In the state’s Local Initiative Program (LIP), DHCD’s technical assistance qualifies as a subsidy and enables locally supported developments that do not require other financial subsidies to use the comprehensive permit process. Also, “internal subsidies” refers to those developments that do not have an external source(s) of funding for affordable housing, but use the value of the market units to “cross subsidize” the affordable ones.

Affordable housing subsidies; federal and state and local

HOME Investment Partnership Program (HOME)

A federal program run by HUD which provides annual grants on an entitlement basis to states, large cities and consortia of smaller communities for affordable housing activities, including homeownership, rent subsidies, housing development and rehabilitation.

Massachusetts Affordable Housing Trust Fund (MAHT)

A revolving trust fund established by the Massachusetts Legislature as Section 227 of Chapter 159 of the Acts of 2000, and now known as Chapter 121D. Administered by MassHousing, AHTF functions as a gap filler, the last funding piece necessary to make an affordable housing development financially feasible and sustainable for the long term. Funding is typically in the form of deferred payment loans.

Housing Stabilization Fund (HSF)

The Housing Stabilization Fund (HSF) is a state funded program for municipalities, non-profit, or for-profit developers to support affordable rental housing production and rehabilitation.

Housing Innovations Fund (HIF)

The Housing Innovations Fund (HIF) is a state funded program for non-profit developers to create and preserve affordable rental housing for special needs populations.

Affordable housing subsidies; federal and state and local

Community Based Housing (CBH)

Funding for the development of integrated housing for people with disabilities, including elders, with priority for individuals who are in institutions or nursing facilities or at risk of institutionalization.

Facilities Consolidated Fund (FCF)

A state funded program for non-profit developers to create and preserve affordable rental housing for clients of the Department of Mental Health and the Department of Mental Retardation.

Massachusetts Rental Voucher Program (MRVP)

A state-funded rental assistance program begun in November 1992, as a revised version of the state's previous rental assistance program (Chapter 707). It has both a project-based component and a tenant-based component

Section 8

A HUD program (officially called the Housing Choice Voucher Program) providing funding for rental assistance to low-income households. Participating tenants typically pay 30% of their income for housing (rent and utilities) and the federal subsidy pays the balance of the rent.

Local Sources

CDBG HOME, CPA, inclusionary zoning

Low Income Housing Tax Credits (LIHTC)

- Affordable housing developers compete for federal tax credits (there are state credits as well) through DHCD, which are allocated per state. Investors buy credits, which provide them a dollar-for-dollar reduction in federal income tax. The sales income (minus substantial transaction fees) provides cash into the deal.
- Investors are putting cash into a deal, they are even more risk adverse than lenders
- A percentage of certain costs of a deal are used to formulate the amount of tax credits the project can generate. There are project tax credit limits.
- There is a 'sweet spot' for tax credit deals; large enough to carry the transaction costs and small enough to allow the most eligible costs possible.

Small Scale Development

Lets Look at the Elements of Real Estate Development

Acquisition

Design/Engineering:

Construction

Developer Overhead

Management



Small Scale Development

Lets Look at the Elements of Real Estate Development

Acquisition:

Market is Efficient – If a Property or Land is ‘For Sale’ it is because *the numbers did not work for someone else*

Carrying Cost – The cost of insurance/maintenance/interest during the period of pre-construction can be *proportionately long.*

Effective Acquisition take Focus



Small Scale Development

Lets Look at the Elements of Real Estate Development

Design/Engineering:

Do You Have an Good Working Relationship with an Experienced Architect:

Rehab of Existing Homes:

Code Compliance, Systems and Site Engineering

New Development:

Incremental Cost Difference for the Design/Engineering of 35 units is not that much more than 15 units (with exception of CA)



Small Scale Development

Lets Look at the Elements of Real Estate Development

Construction:

Need to be working with a company with whom:

- you have a relationship,
- can *satisfy bond / insurance requirements*,
- is able to process *compliance paperwork*
(M/WBE)
- and had working *relationship with quality subcontractors*



Small Scale Development

Lets Look at the Elements of Real Estate Development

Developer Overhead:

Similar to other participants in the process, you need to receive overhead/profit in an amount that covers the cost of staff.

- Staff cost is a function of time*
- Time is a function of complexity*

Live to Build the Next Project



Small Scale Development

Lets Look at the Elements of Real Estate Development

Property Management:

Difficult to find **3rd Party Management Company** that takes on Smaller Scale Developments

“its like really small, like 20 units small”

Organizationally do you have enough units to **support In House Management staff??**



Small Scale Development

Lets Look at the Elements of Real Estate
Development

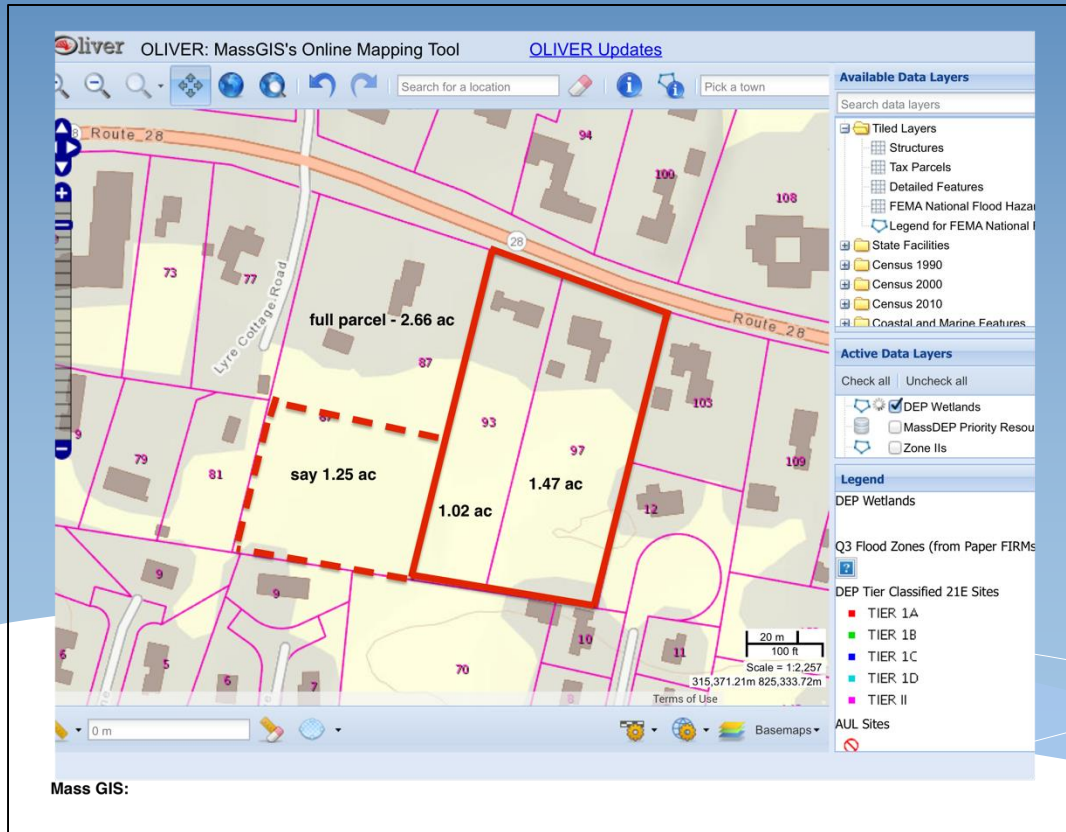
This is Really Hard



Small Scale Development

Lets Look at the Elements of Real Estate Development

Lets Look at an Example: Development Feasibility



Small Scale Development

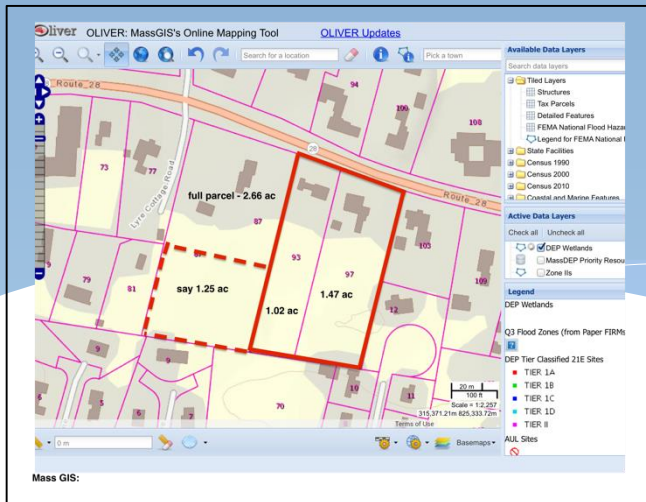
Lets Look at the Elements of Real Estate Development

*2.5 Acres with Potential of Additional 1.25 ac

*No sewer

*No obvious environmental/habitat/wetland issues

*Community that has CPA Funds



Small Scale Development

Lets Look at the Elements of Real Estate Development

*16 Unit Concept Plan

*Adequate Land Set Aside for Septic

*Parking Works

*Retain Existing Historic Home at Front of Site

THIS COULD BE GREAT



Small Scale Development

Lets Look at the Elements of Real Estate Development

16 Unit Affordable Rental Property Small Scale – Work Around Tax Credits

Residential Program			
	Ownership	Rental	Total
50.0% Affordable Rental (60%)	0	8	8
25.0% Affordable Rental (50%)	0	4	4
25.0% Affordable Rental (30%)	0	4	4
Total Units	0	16	16
Residential GSF	16,800		
Residential NSF	14,000		
Efficiency	83.3%		
Rental Assumptions			
	1 BR	2 BR	3 BR
30% AMI (Rental Assisted PBV/FMR))	\$920	\$1,234	\$1,614
50% AMI (Low HOME)	\$808	\$970	\$1,120
65% AMI (High HOME)	\$1,030	\$1,238	\$1,422
Utility Allowance	\$126	\$168	\$195
NET SECTION 8 Rent	\$794	\$1,066	\$1,419
Net LOW HOME RENT	\$682	\$802	\$925
Net HIGH HOME RENT	\$904	\$1,070	\$1,227
Unit Mix	4	8	4
% of Bedroom Type	25.0%	50.0%	25.0%
Average Bedroom Size	2.00		



Small Scale Development

Lets Look at the Elements of Real Estate Development

Operating Assumptions	
Operating Cost per Unit	\$7,500
Vacancy	5.0%
Hot Water	Landlord
Other Utilities	Tenant
Initial Replacement Reserve per Unit	\$325

Total Development Costs	\$5,344,276
	\$334,017

Permanent Sources of Funds	
Rental Component - 16 Units	
Permanent Loan	\$1,110,758
Tax Credit Equity	\$0
CCC Home	\$250,000
State - HSF	\$1,000,000
State - HOME	\$715,000
Affordable Housing Trust Fund	\$1,000,000
Town CPA	\$800,000
Developer Fee	\$0
Other/Fundraising	\$0
Total Sources	\$4,875,758
(Gap)/Surplus	(\$468,518)

If \$2.7M from State
or \$170k/unit

Then \$500k GAP

If State wants 100%
Local Match

**will
Town Contribute
\$1.757M?**

**Need \$110k per Unit
from Town to Balance**



Small Scale Development

Lets Look at the Elements of Real Estate Development

OK – It can still be a GREAT COMMUNITY!!

16 Units of Affordable Ownership Housing

Residential Program			
	Ownership	Rental	Total
31.3% Affordable (100%)	5	0	5
68.8% Affordable Rental (80%)	11	0	11
0.0% Affordable Rental (30%)	0	0	0
Total Units	16	0	16
Residential GSF	18,690	3,115	195
Residential NSF	15,575		
Efficiency	83.3%		

Total Development Costs	\$5,499,501
	\$343,719

TDC Higher for Ownership



Small Scale Development

Lets Look at the Elements of Real Estate Development

16 Units of Affordable Ownership Housing

Total Development Costs	\$5,499,501
	\$343,719

No State Funds Available

Town Likes Ownership

If \$100k/Unit in CPA

Then \$450k GAP

Permanent Sources of Funds	
Rental Component - 16 Units	
Sales Proceeds	\$3,444,000
Additional Sales Proceeds from ONE	\$0
Tax Credit Equity	\$0
CCC Home	\$0
State - HSF	\$0
State - HOME	\$0
Affordable Housing Trust Fund	\$0
Town CPA	\$1,600,000
Developer Fee	\$0
Other/Fundraising	\$0
Total Sources	\$5,044,000
(Gap)/Surplus	(\$455,502)



Small Scale Development

Lets Look at the Elements of Real Estate Development

16 Units of Affordable Ownership Housing
1 Last Try



Getting Creative

What If:

No PMI for Buyer
and
Subsidized Interest Rate
For 80% Buyers



MHP ONE Mortgage

Small Scale Development

Lets Look at the Elements of Real Estate Development

16 Units of Affordable Ownership Housing



Total Development Costs	\$5,499,501
	\$343,719

**An Additional
\$300k in Sales**

Gap = \$160k
***3% of TDC**
***0.5% on Buyer
Mortgage**

**But Can You Bank
on One Mortgage?**

Permanent Sources of Funds	
Rental Component - 16 Units	
Sales Proceeds	\$3,444,000
Additional Sales Proceeds from ONE	\$295,370
Tax Credit Equity	\$0
CCC Home	\$0
State - HSF	\$0
State - HOME	\$0
Affordable Housing Trust Fund	\$0
Town CPA	\$1,600,000
Developer Fee	\$0
Other/Fundraising	\$0
Total Sources	\$5,339,370
(Gap)/Surplus	(\$160,132)

Small Scale Development

Lets Look at the Elements of Real Estate Development

Final Analysis Small Scale

CPA Contribution

Rental = \$110k/unit
w Competitive State Funds

Ownership= \$100k
W Favorable Interest Rates

Community Vision/Political Will



Small Scale Projects

Butternut Farm

Amherst, MA

26 family rental units

Opened 2011

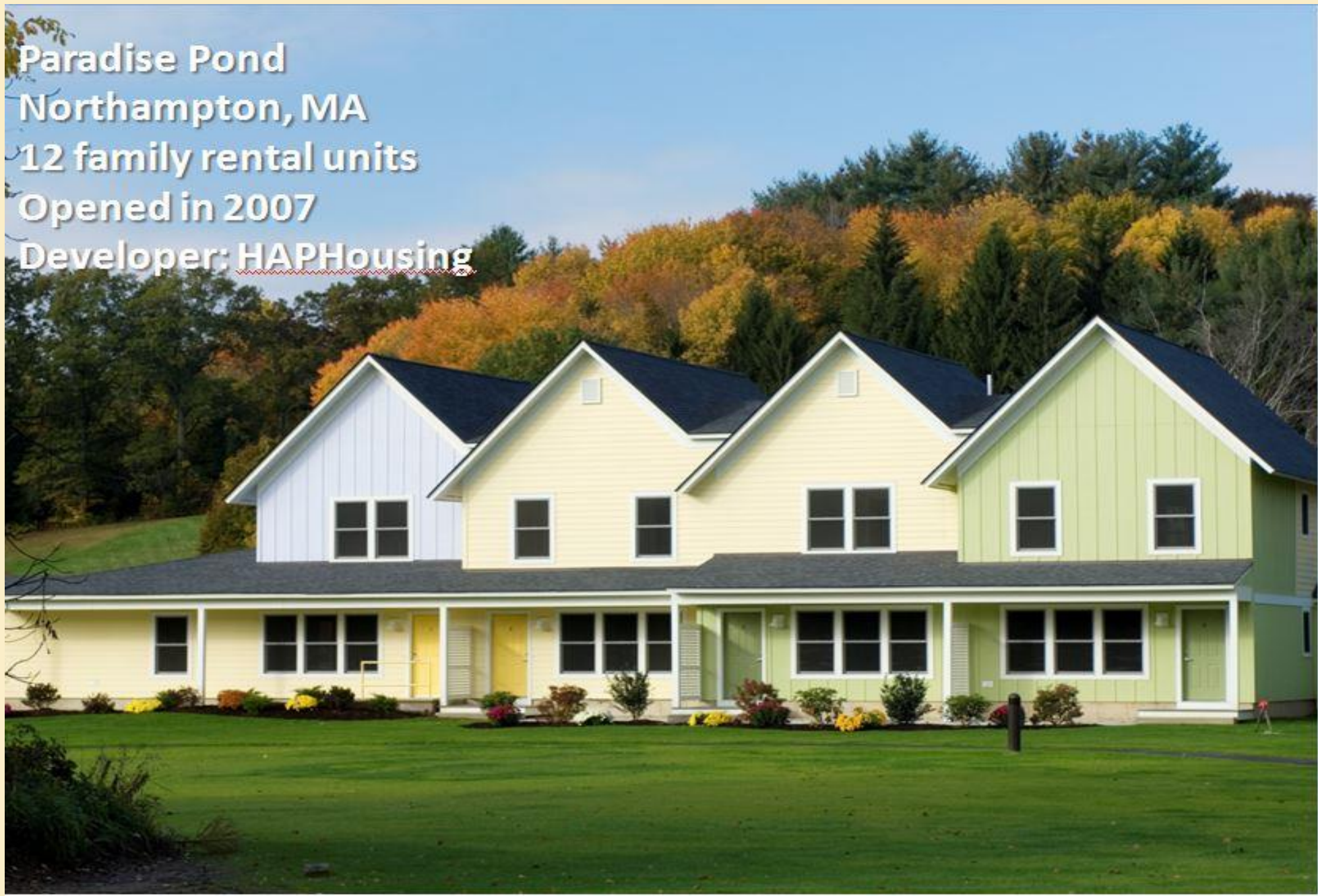
Developer: HAP Housing



Lombard Farm
Barnstable, MA
12 senior rental units
Opened in 2009
Developer: Housing Assistance
Corporation Cape Cod



Paradise Pond
Northampton, MA
12 family rental units
Opened in 2007
Developer: HAPHousing





**Residences at 89 Oxbow
Wayland, MA
16 homeownership units
Completed in 2008
Developer: Oxbow Partners**



Southside Village

Barnstable, MA

14 family rental units

Opened in 2004

Developer: Housing Assistance Corporation

Cape Cod



Towne School

Acton, MA

15 family rental units

Opened in 2012

Developer: Common Ground

Thankful Chase's Pathway

Harwich, MA

12 family rental units

Opened in

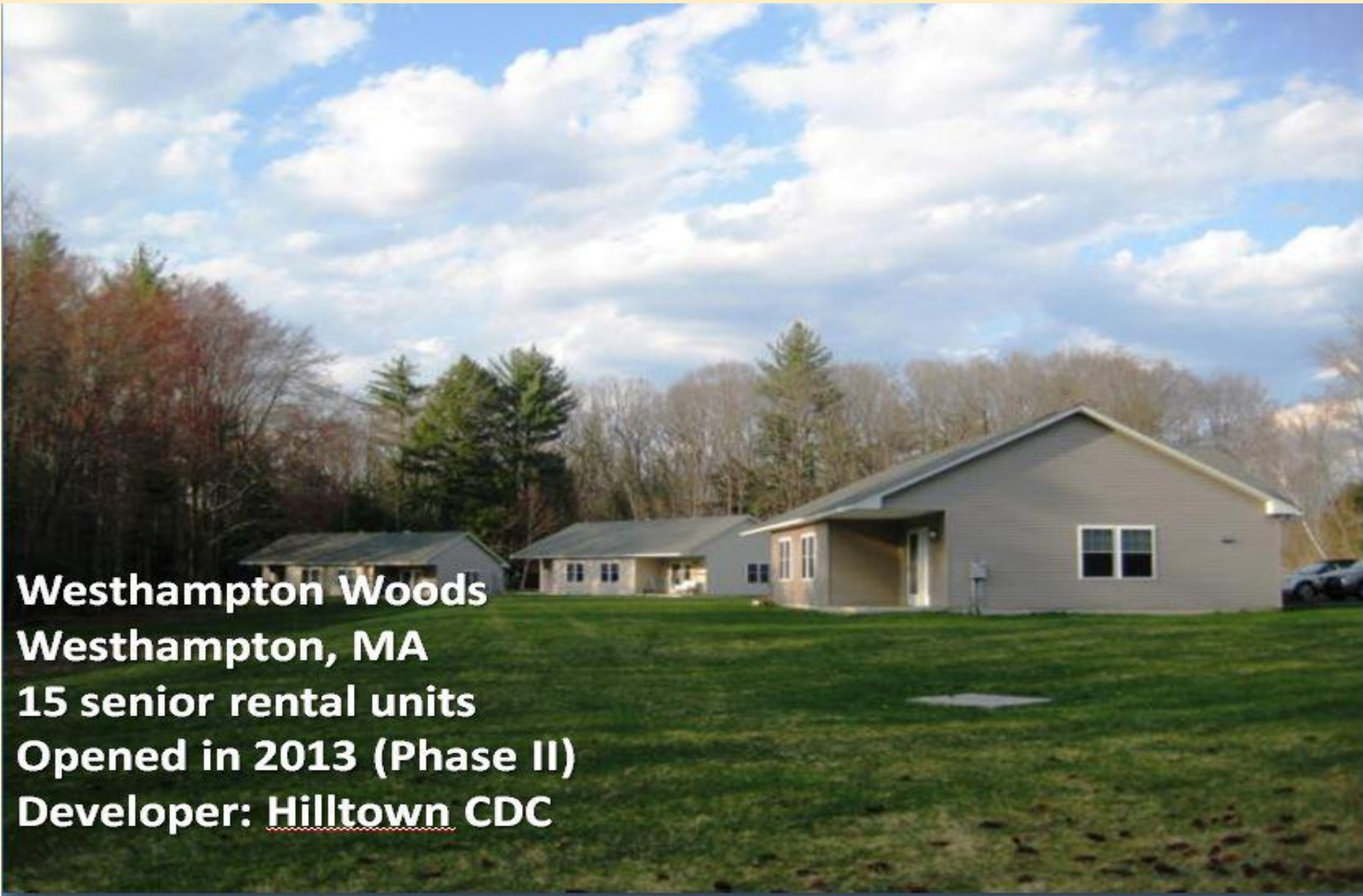
Developer: Cape Community Development

Partnership





Baker Street Apartments
Foxboro, MA
Foxboro Housing Authority
20 family rental units
Opened in 2005



Westhampton Woods
Westhampton, MA
15 senior rental units
Opened in 2013 (Phase II)
Developer: Hilltown CDC



Province Landing
Provincetown, MA
50 rental units
Opened in 2012
Developer: The Community Builders