

Affordable Housing Finance 101

LISC San Antonio Capacity Building and Training

Tuesday October 11th, 2022: 11AM – 1 PM



LISC
SAN ANTONIO



SABOR
SAN ANTONIO
BOARD OF REALTORS®
REALTOR

Introduction

Our team comes from Texas, Washington DC, and New York – offering a diverse perspective on housing systems and housing finance across the US.



CALLAHAN SELTZER
Principal



PETER BREWTON
Director



ANNA GALLICCHIO
Research Analyst



ANDREW BOLTON
Research Analyst



Day One Introductions



Mark Carmona
Chief Housing Officer
City of San Antonio



Leilah Powell
Executive Director
LISC San Antonio

Day One Agenda

1. Introduction to the Trainings 03
2. History of Affordable Housing: National Trends and their Local Impact 09
3. Why Housing Affordability is Critical to Healthy Places 20
4. Local Housing Systems: Who's Who 29
5. The Basics of Affordable Housing Development 35

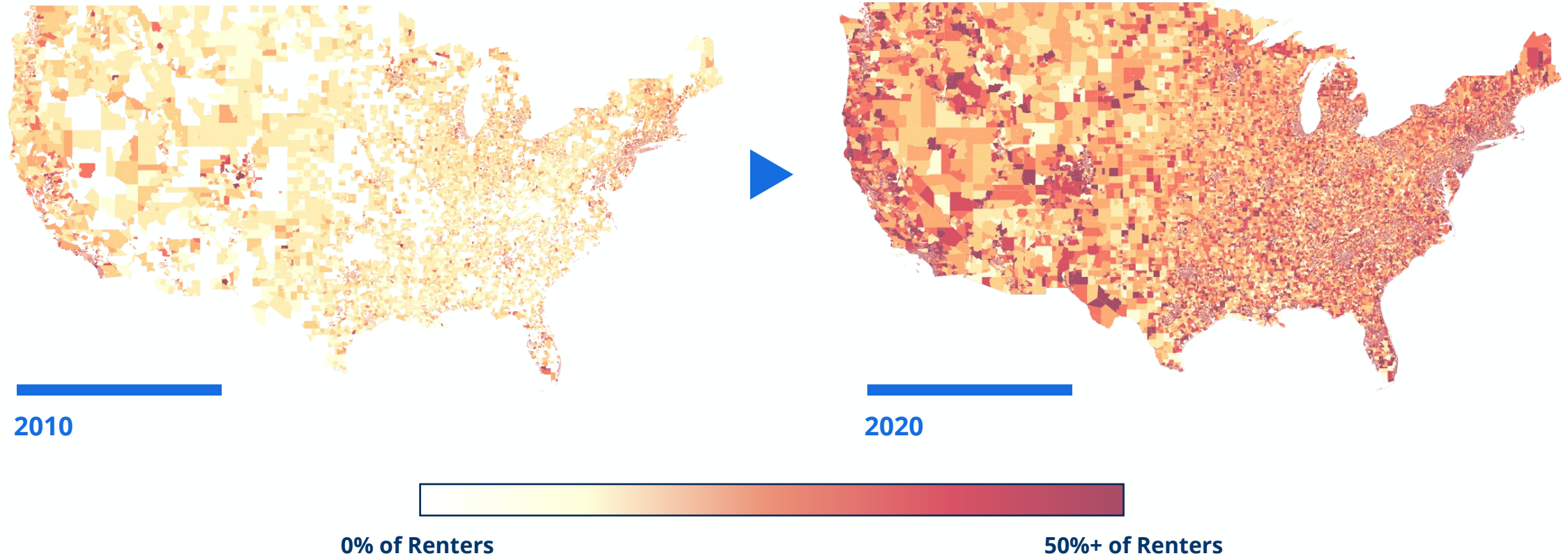
Day Two Agenda

1. Review of Day One
2. Affordable Housing Finance and Development Process
3. Maximizing Public Benefit
4. Review and Discussion

National Trends

Over the last decade, housing affordability has transformed into a national issue—outside of traditional high-cost cities.

Share of Renters paying more than 30% of gross income on housing (Cost Burden)



Introduction

We work on housing affordability issues at four closely connected levels.



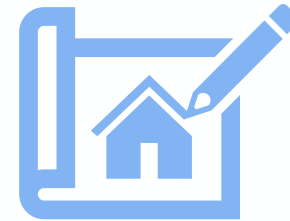
HOUSING STRATEGIES

Creating strategies and plans based on local needs and priorities



HOUSING POLICIES

Developing policies and regulations based on local needs



PROGRAM DESIGN

Designing programs that align community goals



HOUSING TRANSACTIONS

Advising on the development and preservation of housing



| 01

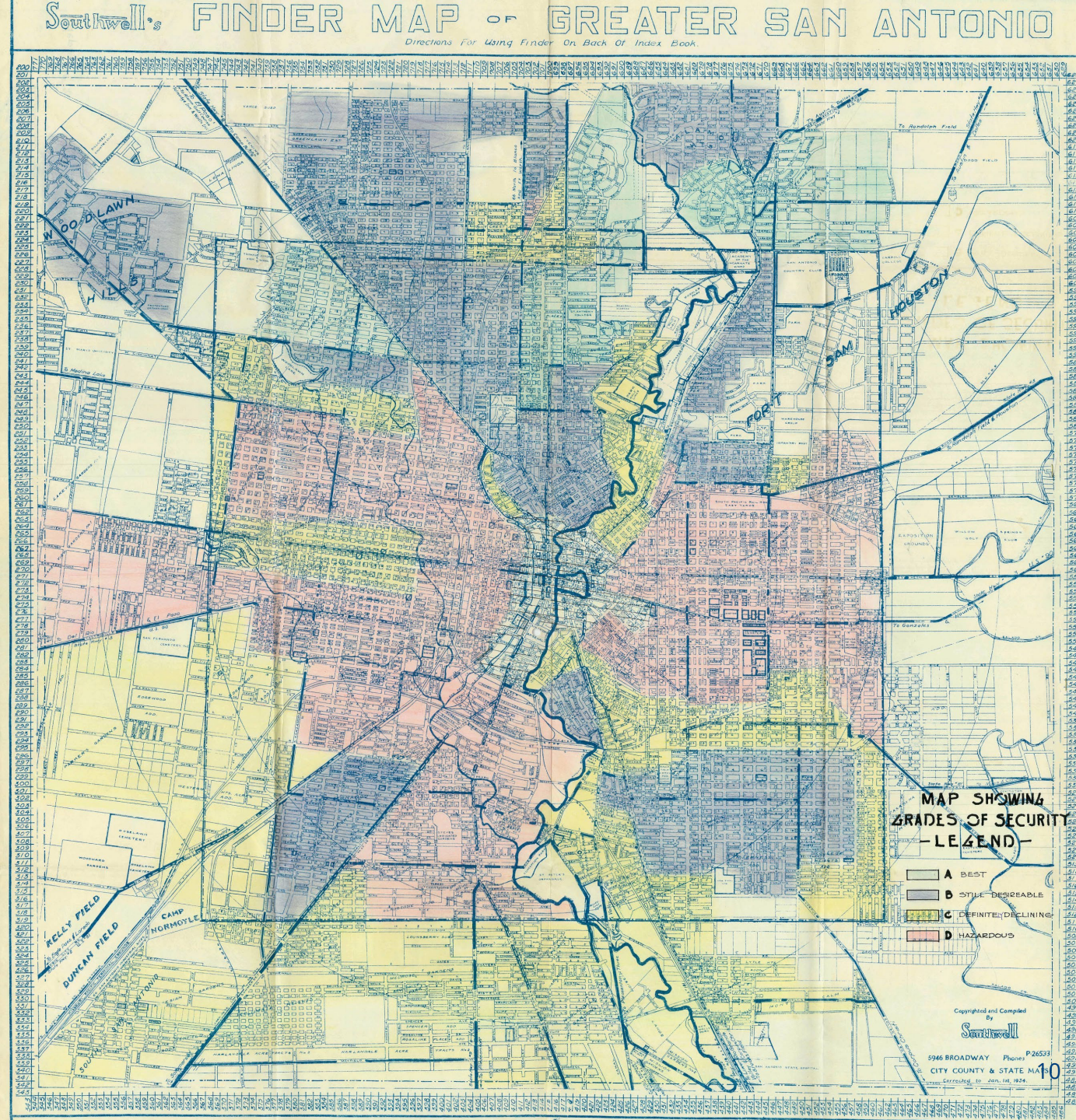
History of Affordable Housing

History of Affordable Housing

During the early and mid 1900s, there was unequal access to housing opportunities, creating lasting wealth inequality.

Exclusionary Zoning

- Maps, like the map of San Antonio on the right, were used by commercial banks to determine lending 'risk'.
- These policies reinforced segregation and prevented people of color from building wealth.
- Many of these programs embedded racial segregation into housing and finance policy (such as redlining). Local governments have further embedded exclusionary practices into housing through zoning.



History of Affordable Housing

Beginning in the 1980s, affordable housing responsibilities shifted to states and cities as federal government investments in housing decreased.

- As the Federal government divested in its financial support of housing across the country, the responsibility to meet local housing needs was left to the private market and local governments.
- Cities like San Antonio have begun to better understand their housing need and implement fundings strategies to address it.
- This includes planning like the **Strategic Housing Implementation Plan or (SHIP)** released by San Antonio in 2020.

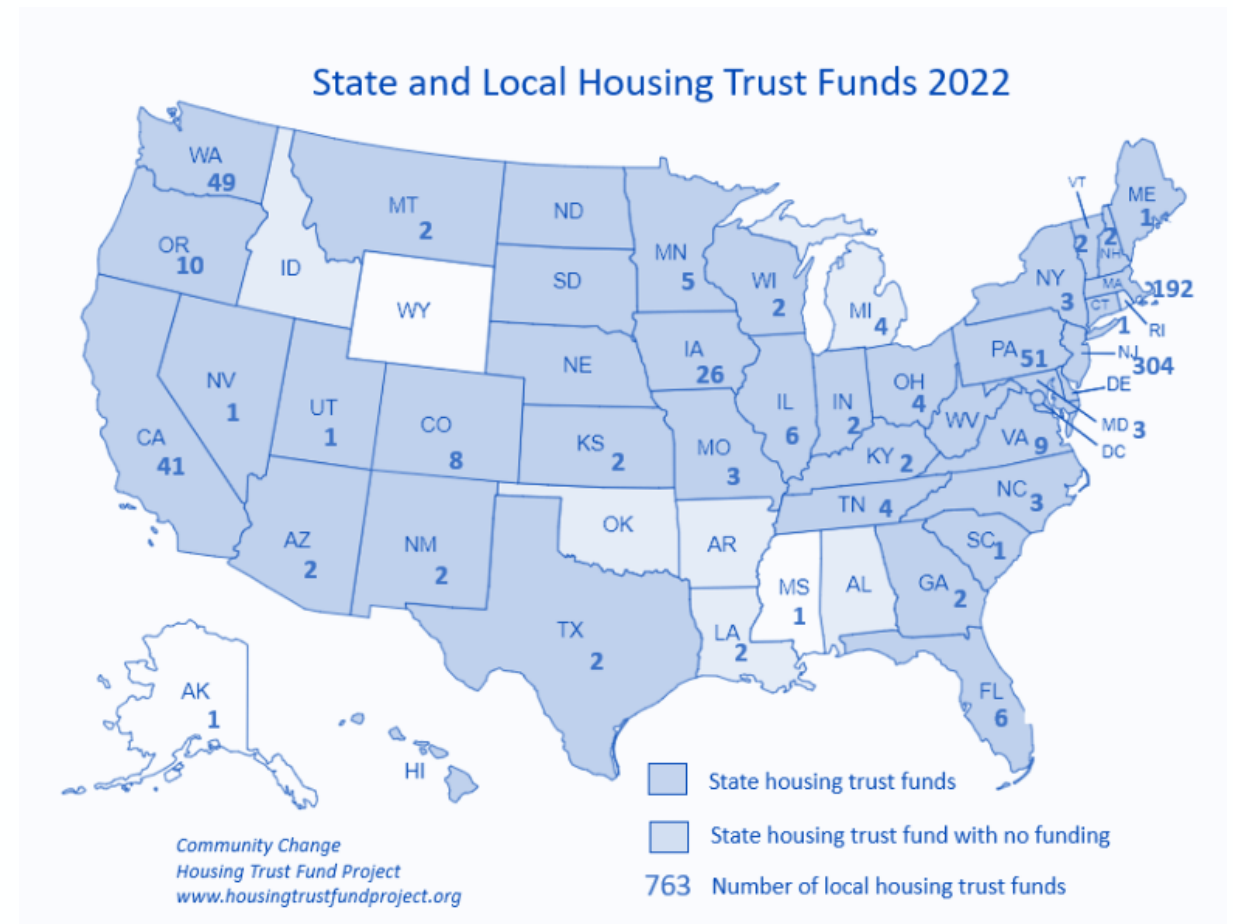


States and cities have increasingly taken on the mantle of funding rental housing development programs, to fill the gap that the Federal government cannot.

National Trends

Local governments across the U.S. are launching Housing Trust Funds to meet growing housing needs and offset declining federal funding. The federal Dept. of Housing and Urban Development (HUD) maintains a matching fund that is growing but is still smaller than locally dedicated resources.

\$740 million in 2022 HUD's Housing Trust Fund
823 local housing trust funds across the U.S.
\$3 billion in annual funding



National Trends

There is a growing concern over housing affordability in many communities across the country, with limited supply of homes affordable to renters and homeowners alike.

Risk of Homelessness

+ 25%

in population at risk of homelessness by living situation, 2007 – 2016

Declining Affordable Housing Supply

- 1.3 M

units of “naturally occurring” affordable housing, 2000 – 2016

Falling Homeownership Rate

Change in homeownership rate, 2005-2017

-4.3%	-10.5%
For White households	For Black households

Gentrification and Displacement

25%

share of low-income census tracts with large gains in rents* in the 2000s, compared to 10% in the 1990s

Rise in Cost Burden

+17% **- 5.5%**

change in real median rent, 2001 – 2016	change in real median renter income, 2001 – 2016
---	--

Diminished Wealth

For Black households:

- 18% **- 40%**

change in median home value, 2010 – 2013	change in net wealth, 2010 – 2013
--	-----------------------------------

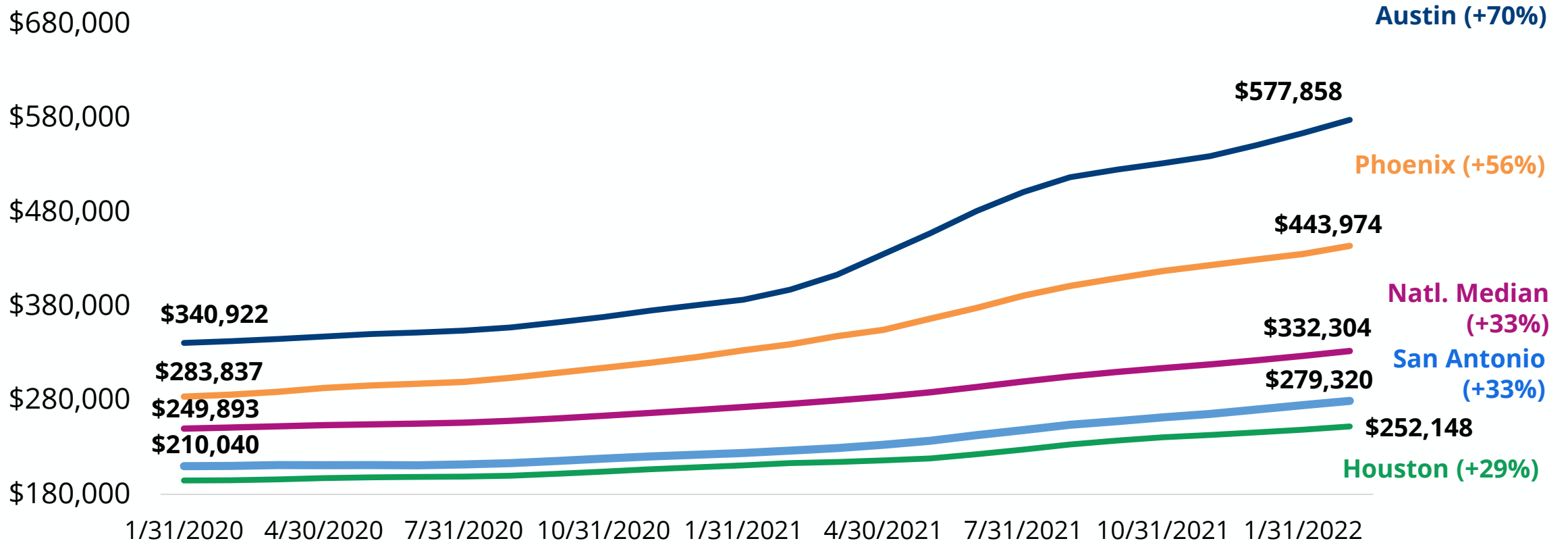
*“Large gain in rent” indicates when the ratio between census tract rent and metropolitan rent rises by over 10 percentage points


Sources, left to right: National Coalition for the Homeless; HR&A analysis of ACS data; Ellen & Ding 2016; JCHS tabulation of ACS data; Economic Policy Institute; The Atlantic

National Trends

The pandemic has exacerbated these issues—with drastic increases in both rents and for-sale costs across the country.

Home Values Jan 2020 – March 2022





| 02

Local Context

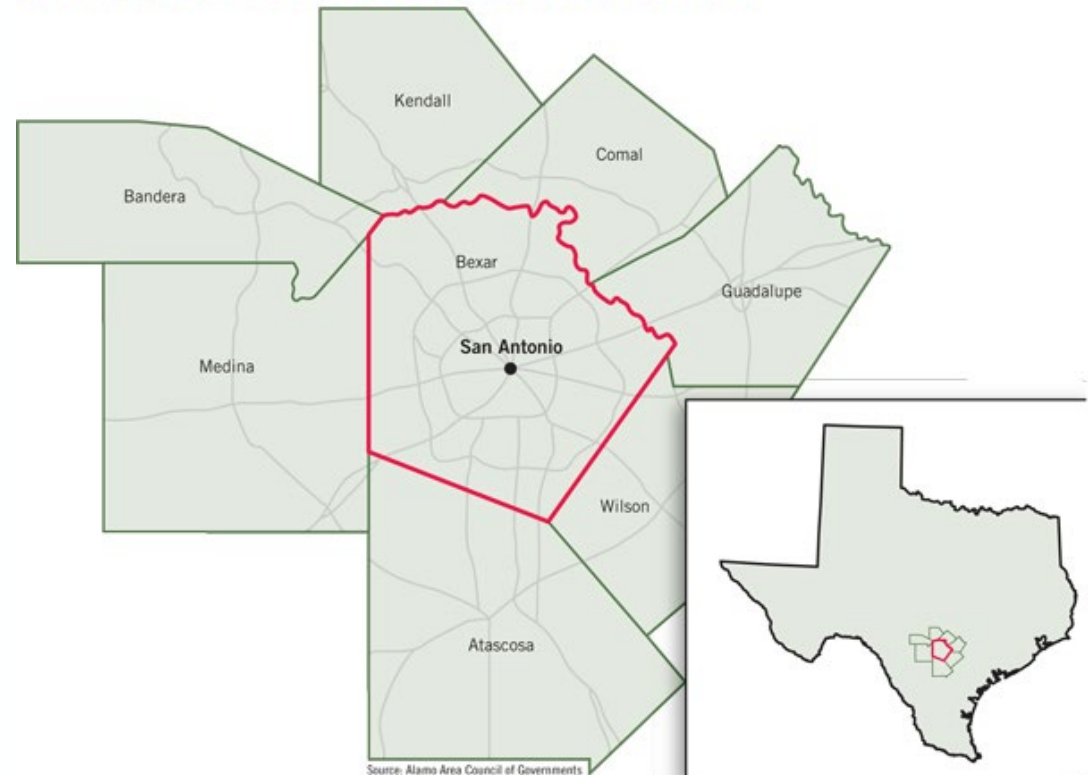
Local Context | Bexar County (San Antonio, TX)

Over the last 10 years, the San Antonio Housing Market has seen an increase in rental prices by almost 30%.

HOUSING MARKET FAST FACTS

	San Antonio, TX	% change over last 10 years
Asking Rent Per Unit and Per SF	\$1,211 per unit/ \$1.40 per SF	28%
Vacancy	7.5%	-5.3%
Under Construction	15,256 units	49%

SAN ANTONIO-NEW BRAUNFELS METROPOLITAN STATISTICAL AREA (MSA)



Source: https://sanantonioreport.org/clean-air-clean-technology-take-hold-in-south-texas/san-antonio-bexar-county-map-new_uogr2/

Local Context

“Affordable” is defined as income-restricted housing for renters with incomes of up to 60% area median income (AMI) (\$40,020 in 2021 dollars for a family of three) or homeowners with income up to 120% AMI (\$80,040 for a family of three)

Rent-Burdened

Bexar County

- 95,000 households are left without affordable housing options and most at risk
- Over 27,000 Extremely Low-Income Renters (0-30% AMI) are at risk for housing instability

Units Built in the Last Year

Housing Policy Framework

- 10-year goal: 18,861 units (rental and HO preservation and production)

3-year progress

- August 2018- July 2021: 18,965 units

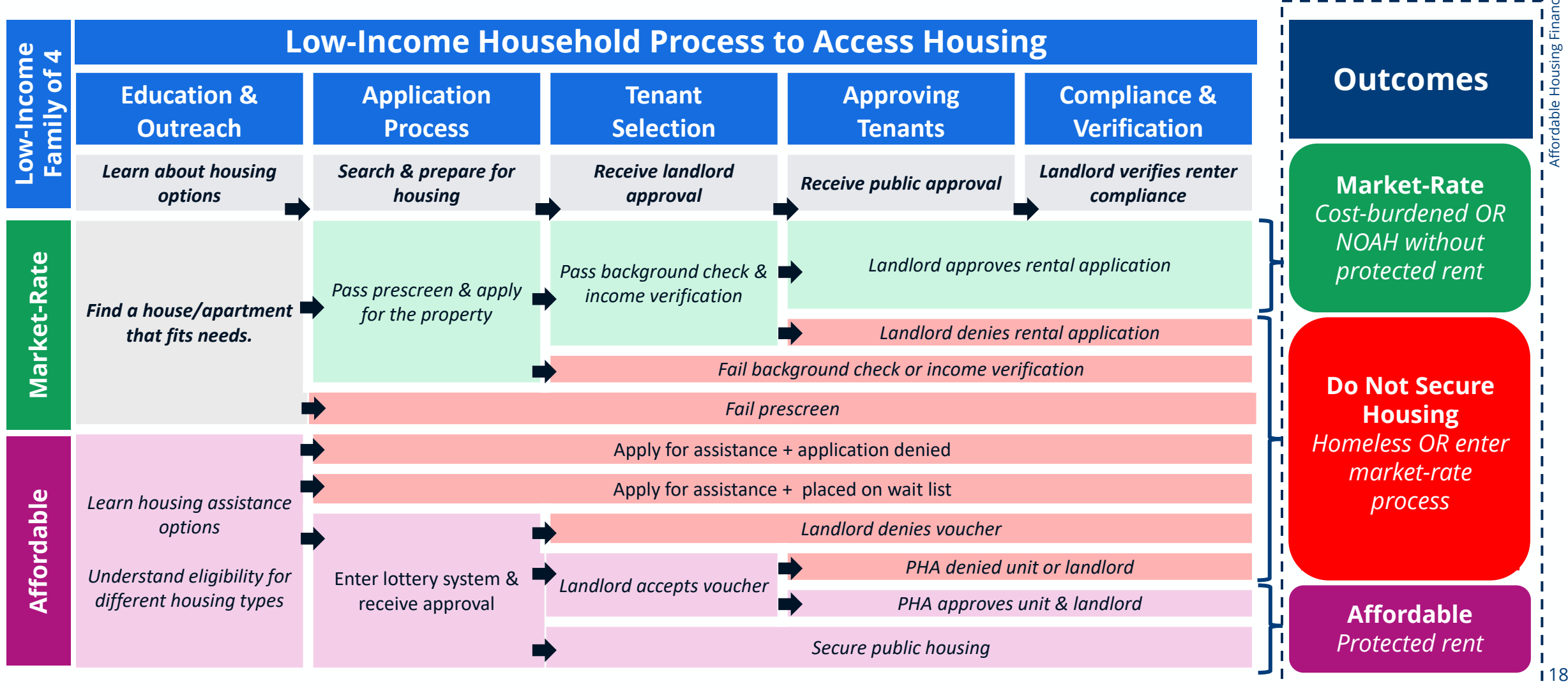
Financing Programs

Bond Program

- Prioritizing vulnerable populations and increasing their access to stable housing
- Location and Equity - ensuring wide geographic availability to work to decrease racial and social economic segregation

Local Context

Accessing housing for a low-income family is a complex and arduous process that rarely results in securing an affordable option (rent = < 30% of household income)



Local Context

Acknowledging Barriers to a Healthy Housing System

- In 2020 the City of San Antonio developed the Strategic Housing Investment Plan (SHIP).
- During this process, city and community organizations identified barriers for accessing safe and sustainable affordable housing.
- **GOAL:** Developing a true housing system, with coordination of programs and policies to meet strategic goals.





03

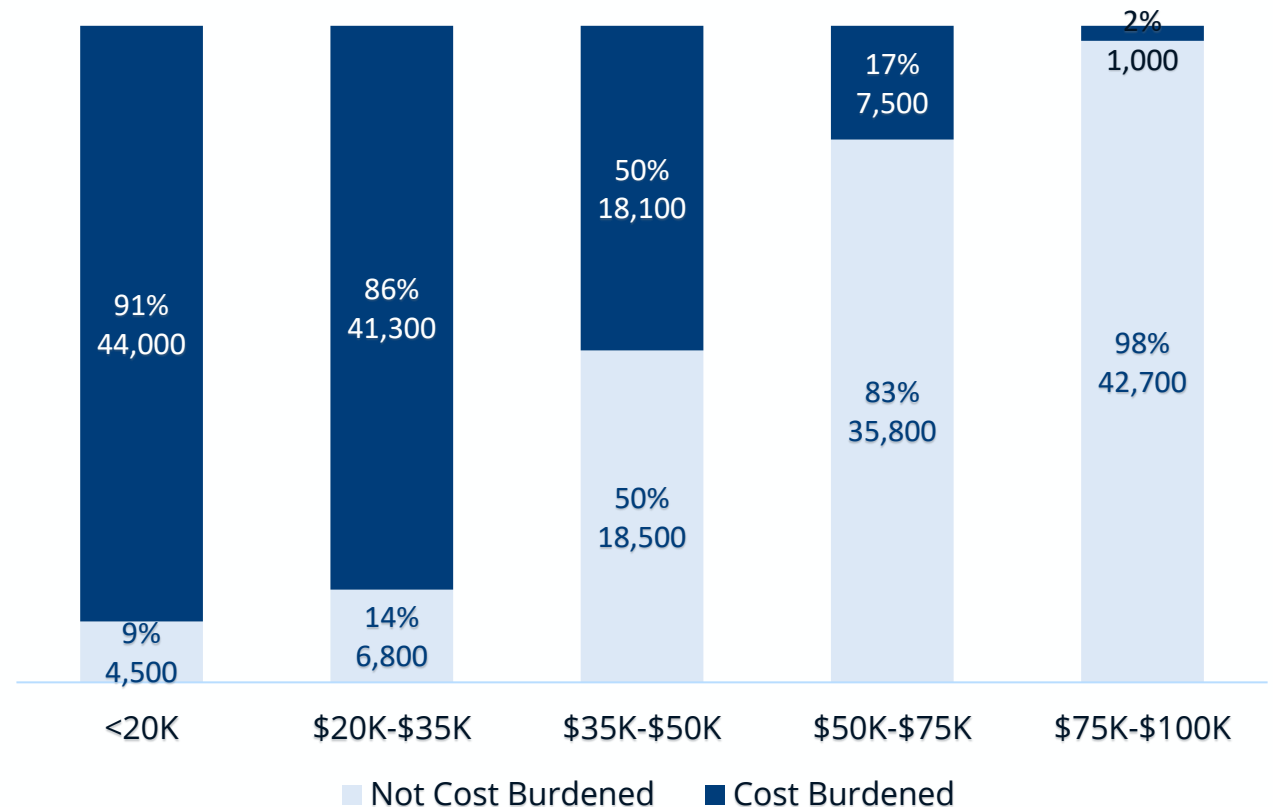
Why Housing Affordability is Critical to Healthy Places

Why Housing Affordability is Critical to Healthy Places

Housing Costs for the Average Household: Who can't afford housing in San Antonio?

- A household is considered **cost burdened** when it spends more than 30% of its gross income on housing costs (rent or mortgage) and utilities.
- For renters in San Antonio, it has become increasingly difficult to afford rental housing.
- **Over 80,000 households in San Antonio earning less than \$35,000** are paying more than 30% of their income towards housing costs.

Share of Cost-Burden Renter Households by Income
(2010-2020)










Why Housing Affordability is Critical to Healthy Places

Monthly housing costs comprise a large portion of a family's budget.

- Housing cost burden is defined by the cost of housing *relative* to incomes.
- The more a household spends on housing costs, the less **residual income (what is left over)** available for other basic needs, such as food and childcare.
- When affordable rental housing is unavailable, low-income households face:
 - Housing instability
 - Increased vulnerability to unsafe living conditions, overcrowding, and costly and harmful evictions.

MONTHLY COSTS

2 adults *and* 2 children
San Antonio/New Braunfels metro area

 HOUSING	\$1,114
 FOOD	\$695
 CHILD CARE	\$1,049
 TRANSPORTATION	\$1,155
 HEALTH CARE	\$1,039
 OTHER NECESSITIES	\$655
 TAXES	\$458
MONTHLY TOTAL	\$6,164
ANNUAL TOTAL	<u>\$73,970</u>

**EPI's Family Budget Calculator measures the community-specific income a family needs in order to attain a modest yet adequate standard of living. Source: Economic Policy Institute, 2018*

Why Housing Affordability is Critical to Healthy Places

The region's housing costs leave many workers in San Antonio with limited income for food, childcare, and other costs. The chart below represents costs for a single person.

Home Health Aid

Annual Income: \$22,400
Employed in SA Metro: 37,000



Tractor-Trailer Truck Driver

Annual Income: \$45,700
Employed in SA Metro: 17,600



Elementary School Teacher

Annual Income: \$60,900
Employed in SA Metro: 11,300



Monthly After-Tax Income	\$1,556	\$3,100	\$4,000
Rent	- \$500	- \$930	- \$1,200
Residual Income	\$1,056	\$2,170	\$2,800
Portion of Households Cost Burden in this Income Band	90%	50%	17%

Source: EMSI 2021 – estimates based on a single person, The Pew Center, Image: WinnieVinzence from NounProject.com

Residual income calculated for a single person and determined by deducting the average amount spent on housing costs, based on research from The Pew Center, from after-tax income.

Residual income = after tax income – average housing costs by income group.

Why “Housing Affordability” is Critical to Healthy Places

Nationwide Housing Costs Drivers: What is contributing to the rising cost of housing nationwide?

The Fundamentals

Changes in **migration patterns** have increased demand drastically in some parts of the country. Additionally, prolonged **low interest rates** have buoyed home prices across the country.

Anemic Supply Growth

Discriminatory zoning limits new housing development—especially dense development in the areas with the highest demand for housing.

Land and Construction Costs

Since 2010, construction costs have increased over 65%. Pandemic **cost inflation** accounts for 40% of this growth.

Municipal Policies and Controls

Local property taxes, impact fees, project delays and overall uncertainty lead to municipal barriers that affect underlying cost drivers.

Nationwide Housing Cost Drivers: Anemic Supply Growth

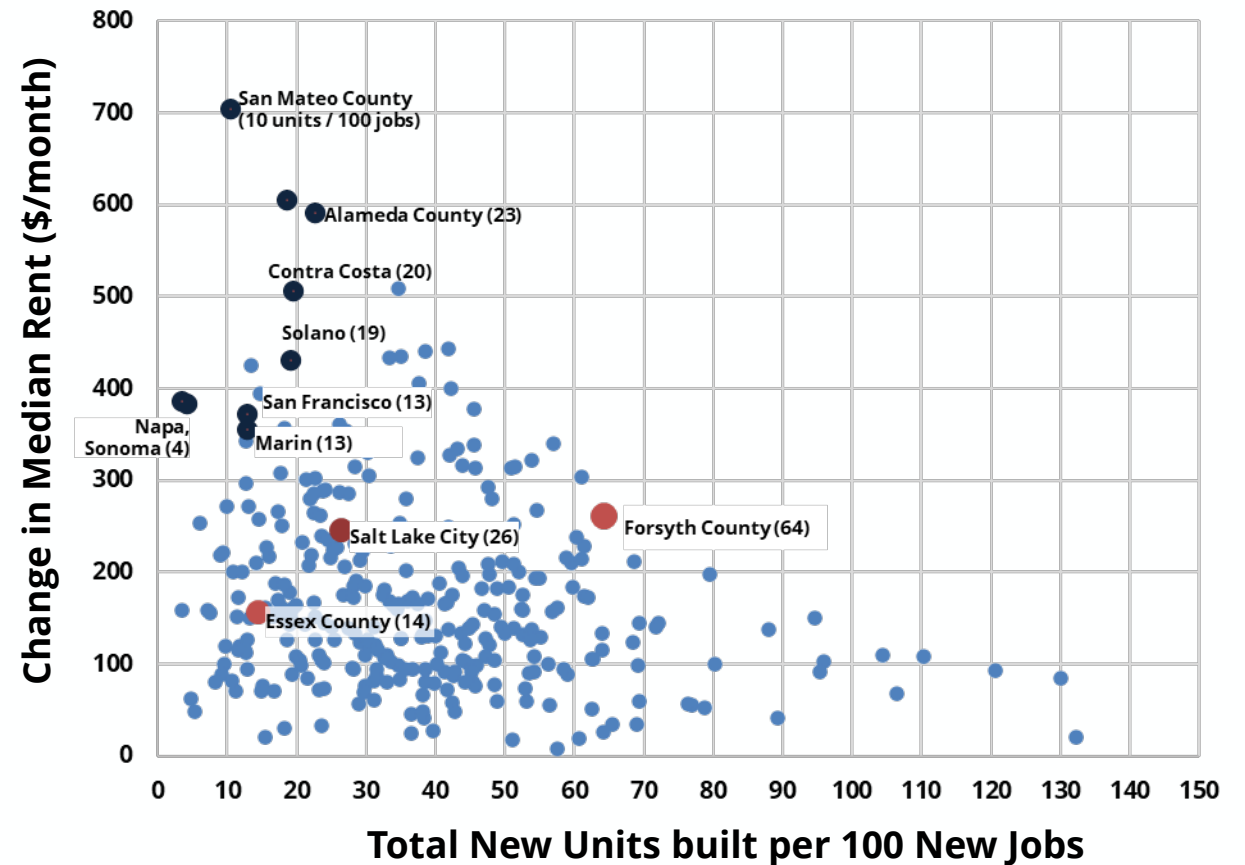
Growth in supply has not kept up with the **growth in jobs** in counties across the country—especially in high-cost areas.

Anemic Supply Growth

The number of jobs in the San Antonio MSA increased by **5.1%** from 2016 – 2021 and population has grown by **8.7%**.

Cities are building fewer new units per job, meanwhile seeing median rent increases at higher paces.

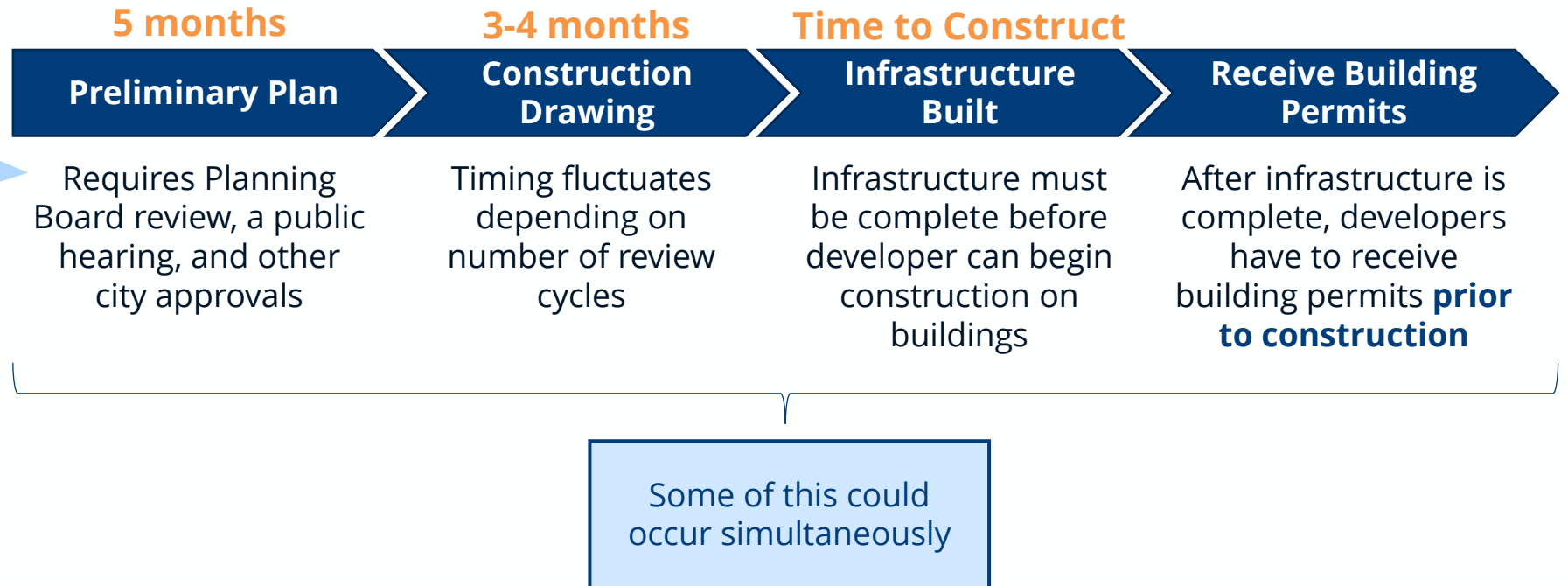
Change in Rents vs Units Built per New Jobs, 2012-2019



Nationwide Housing Cost Drivers: Anemic Supply Growth

Length and **uncertainty** of the development approvals process are two factors that increase the cost of development and reduce the amount of housing being built.

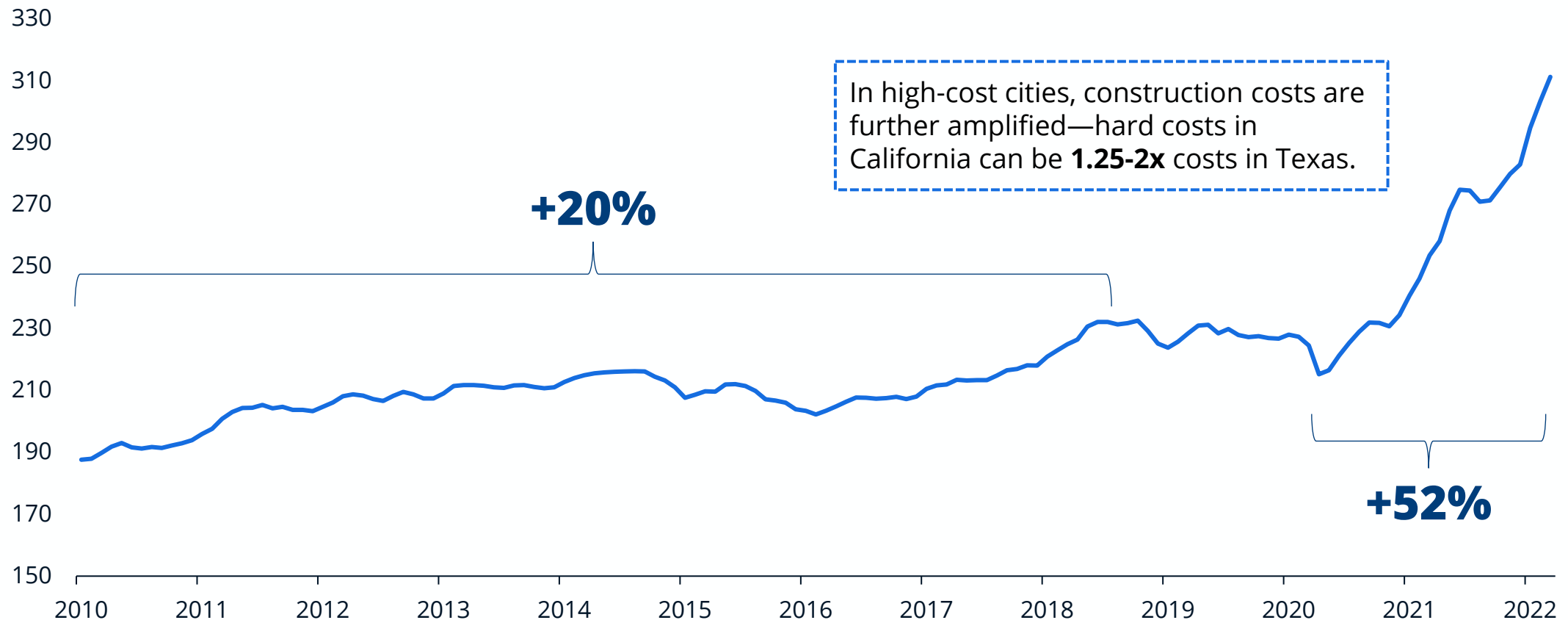
Most residential developments require approval, which means that some cities have very little true “by-right” development.



Nationwide Housing Cost Drivers: Construction Costs

Construction inputs have increased 52% since the pandemic—after a steady increase of 20% over the last decade.

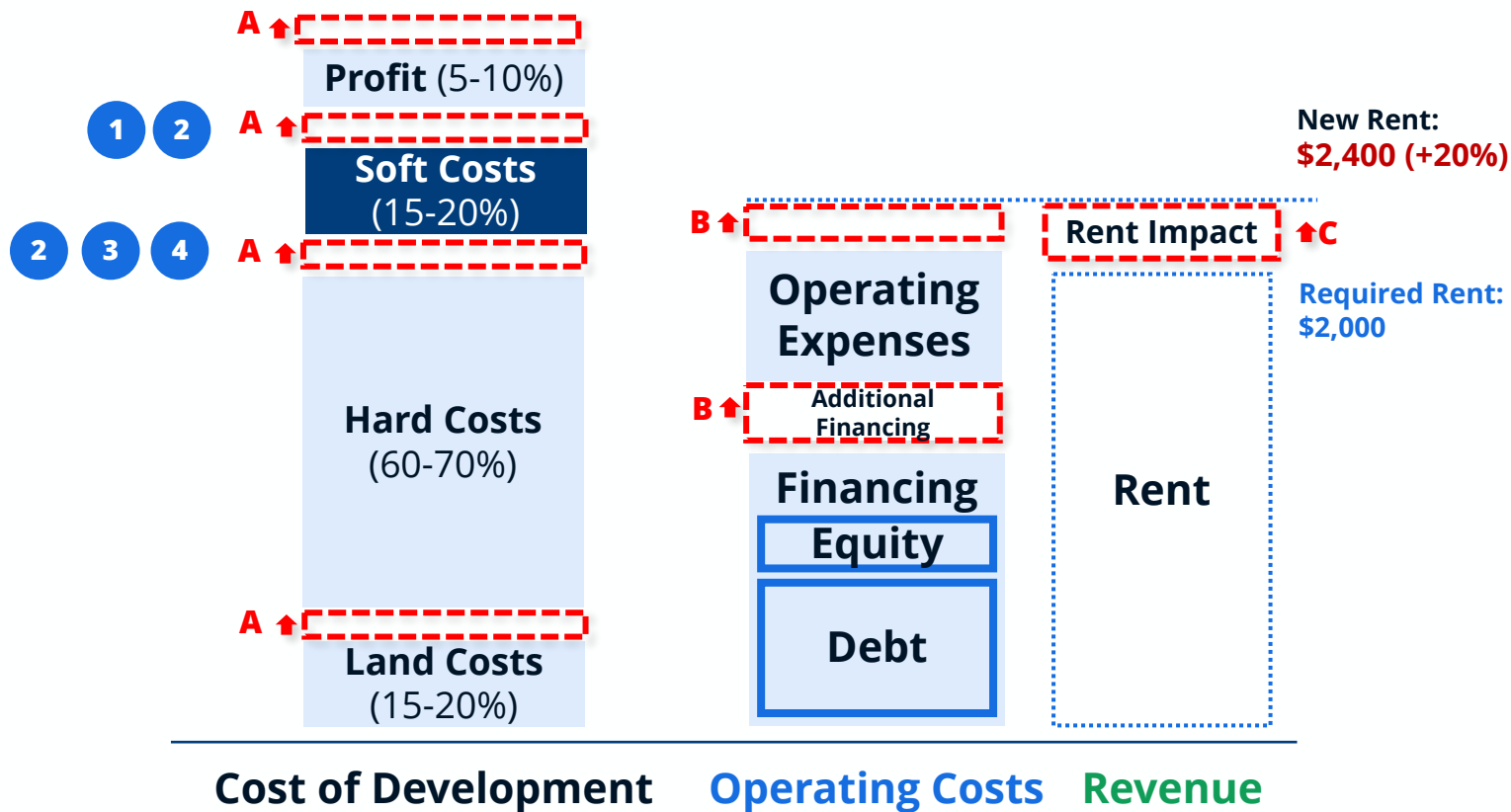
Construction Cost Index 2010-2022



Nationwide Housing Cost Drivers: Municipal Policies and Controls

Restrictive land use regulations, like density limits and minimum lot sizes, drive up development costs.

Economics of Rental Housing Development: Cumulative Impact of Municipal Policies



Example Municipal Policies

- 1 Increase Real Estate Taxes by 15% annually.
- 2 Delay projects by six months and increase const. costs by 5%.
- 3 Increase impact fees by \$8,000 per unit.
- 4 Increase design review costs by \$2M.



| 04

Local Housing Systems: Who's Who

Local Housing Systems: Who's Who

San Antonio already plays a role in the housing market through regulation and public investments.

The city sets the **regulatory environment** in which developers make investment decisions



Regulatory Approaches

e.g. zoning, review and approval processes



Information Dissemination

e.g. landlord education, design guidebooks, developer engagement



Infrastructure Approaches

e.g. parks and amenities, public transit, streetscape improvements



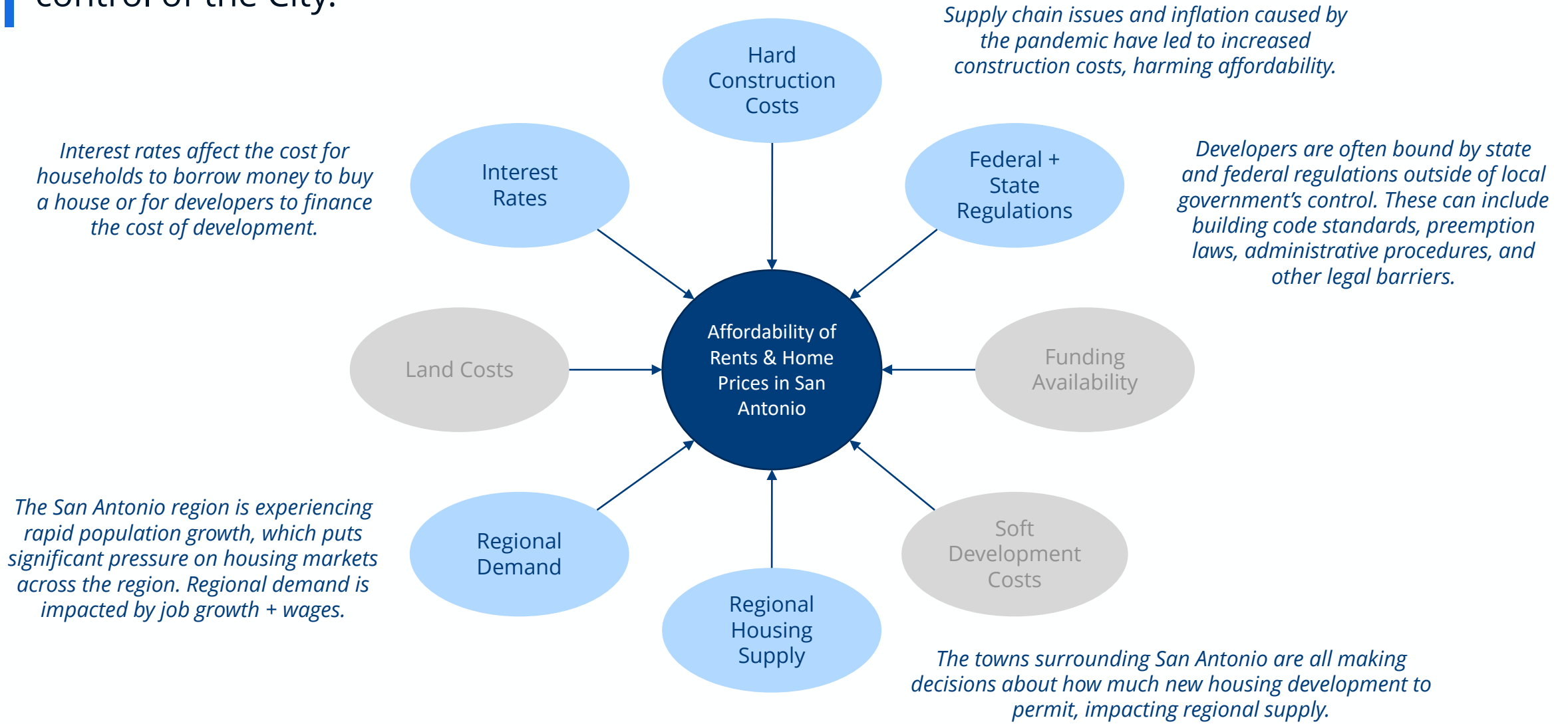
Monetary Approaches

e.g. public land, loans, tax abatement, grants

The city **deploys public funds** for infrastructure, amenities, and development

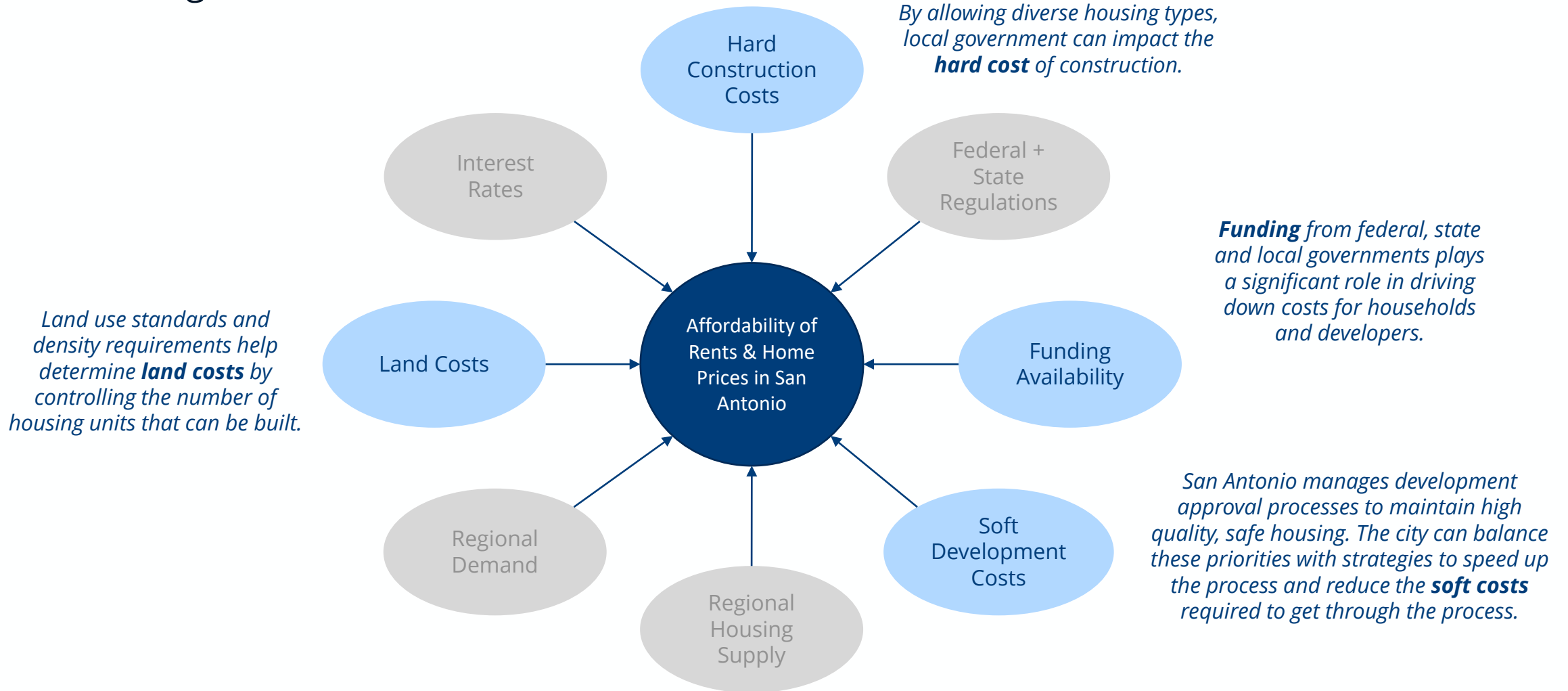
Local Housing Systems: Who's Who

There are many factors impacting affordability in San Antonio that are beyond the control of the City.



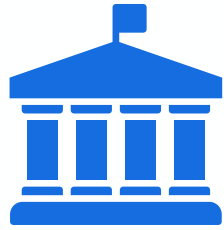
Local Housing Systems: Who's Who

San Antonio *does* have the ability to impact housing affordability through regulatory and funding mechanisms.



Local Housing Systems: Who's Who

Affordable housing is a complex ecosystem of players.



Government

- **Federal:** Long-term Rental Assist. Subsidies, LIHTC Program Admin
- **State:** allocate LIHTC funds, administer tax-exempt bonds
- **City:** Soft subsidies, housing trust funds, HOME / CDBG admin, sometimes a loan pool
- **Public Housing Authorities (PHAs)**



Nonprofits

- **CDFIs:** financing, technical assistance, capacity building for housing developers
- **Community-based organizations:** community organizers, tenant advocates,
- **Supportive service providers**
- Social Enterprises, foundations and NGOs



Developers / Owners

- Can be nonprofits, for-profits, single purpose entities
- **Developers:** nonprofit developers, affordable housing
- **Providers:** permanent supportive housing providers ("PSH"), Community Development Corporations (CDCs)



Private / For-profit

- Provide debt, equity investment through LIHTC, and credit enhancement
- **Owners:** Affordable housing owners
- **Angel Investors:** hospitals, anchor institutions, donors
- **Institutional Investors:** banks, private syndicators, private equity investors

Local Housing Systems: Who's Who

Affordable housing is a complex ecosystem of players.



Government



Nonprofits



Developers / Owners



Private / For-Profit

Supply Creation

Ongoing Management

	Federal, State, City, Public Housing Authorities (PHAs)	Supportive service providers, foundations, NGOs, CDFIs	Non-profits, for-profits, single-purpose entities	Owners, anchor institutions, banks, syndicators
Physical Property <i>Land acquisition & construction</i>	Assign publicly-owned land Exercise eminent domain		Acquire land Plan development Execute construction	Acquire land
Financing <i>Funding subsidies & development</i>	Incentivize affordable creation or maintenance Subsidize construction	CDFIs finance acquisition and construction	Invest equity, secure debt, and repair uninhabitable property	Invest and finance acquisition & construction
Making Existing Supply Affordable <i>Socialization & housing policy</i>	Require affordability in new construction Outreach & education	Outreach to increase HCV acceptance	Secure financing requiring affordable units Accept housing vouchers	Provide financing with affordability restrictions
Physical Property <i>Maintenance & repairs</i>	Inspect and enforce property quality Subsidize repairs	Own and operate some affordable housing, making repairs.	Contract maintenance, manage repairs and code violations	Own property
Financial Capital <i>Repair & long-term financing</i>	Provide LIHTC, tax-exempt bonds, and assistance	CDFIs fund financing and technical assistance	Invest in repairs and meet financing obligations	Provide debt, equity, credit enhancements and grants
Services <i>Resident & supportive services</i>	Fund public services Require services through policy & financing	Community organizing Service administration, education, and connection	Provide affordable and permanent supportive housing (PSH)	



05

The Basics of Affordable Housing Development

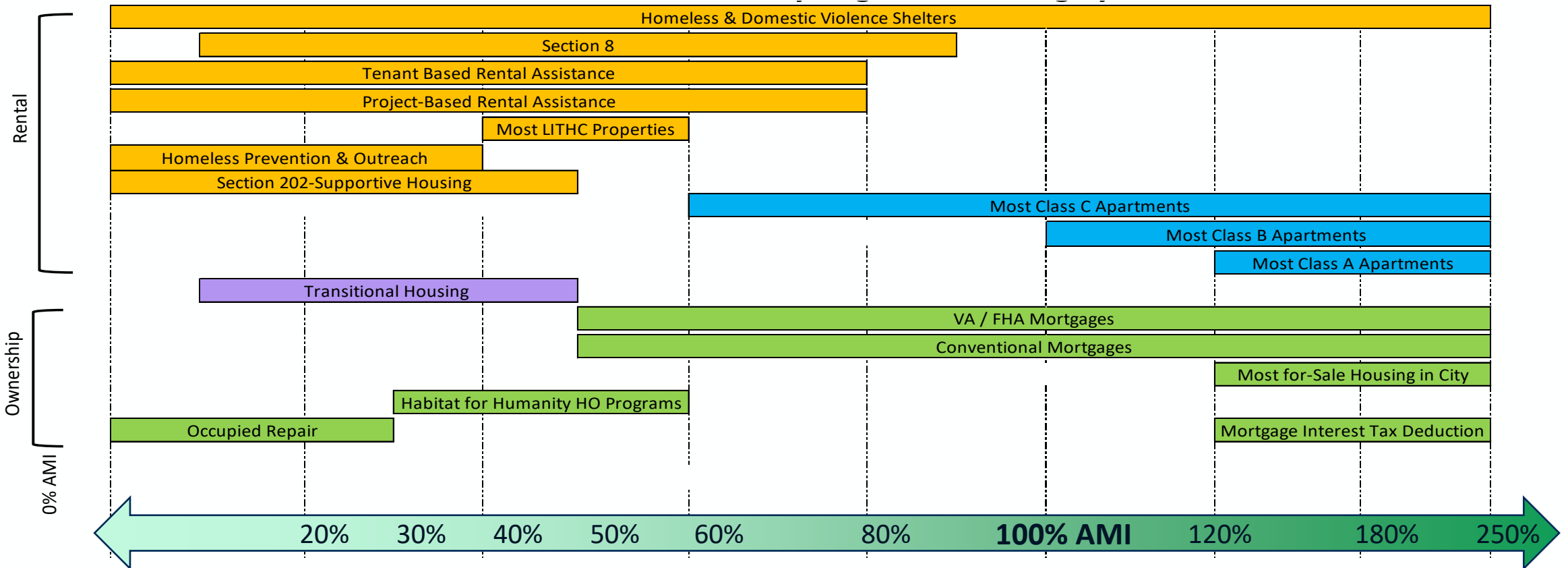
The Basics

Spectrum of Housing Needs and Interventions	54
Types of Housing Development and Preservation	55
Major National Affordable Housing Programs and Resources	58
New Funding Sources for Housing Development	61
Basic Concepts of Housing Finance	63

The Basics of Affordable Housing Development

A range of housing typologies and programs exist to serve a variety of households.

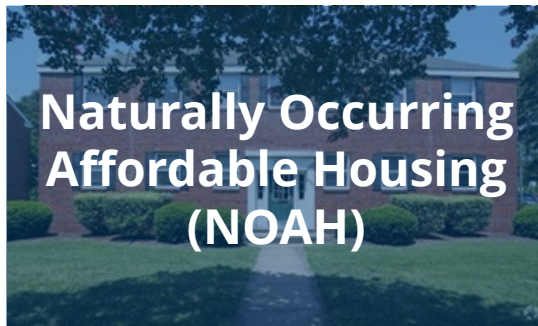
San Antonio- Bexar County Regional Housing System



Types of Affordable Housing

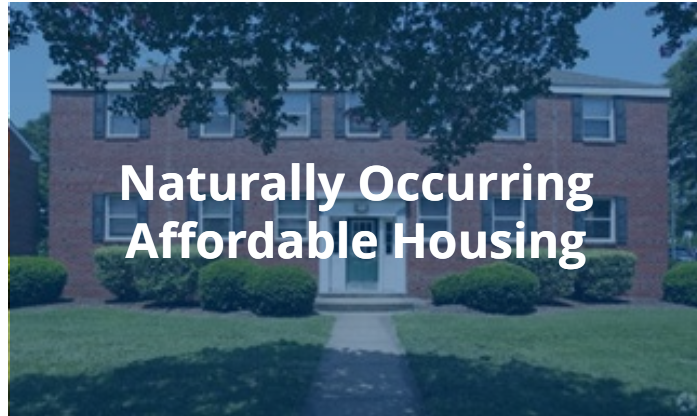
There is a range of housing that is affordable, varying by both the level of affordability and the amount of government intervention to create the housing type.

Level of Government Subsidy

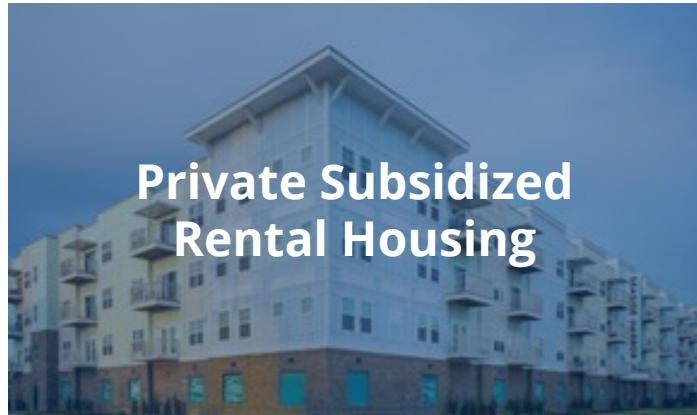


Types of Affordable Housing

On the one side of the spectrum are Naturally Occurring Affordable Housing (NOAH) and Private Subsidized Rental Housing (typically LIHTC).



- Does not have public subsidy.
- Most vulnerable to redevelopment pressure and price increases.
- Local government may become involved to "preserve" the affordability or prevent market-driven displacement.



- Receives varying amounts of public funding.
- Typically, can serve households making up to 80% of Area Median Income (for a family of four).
- A common source of federal funding is Low Income Housing Tax Credits, which secures long-term affordability for these sites.

Types of Affordable Housing

On the other, more highly subsidized housing typologies include PHA Subsidized Housing and Permanent Supportive Housing (PSH).



- Receives substantial federal funding.
- Typically administered by government agencies
- Serves households making between 30% to 50% of AMI (for a family of four).



- Receives the highest amount of public funding.
- Provides services in conjunction with housing (e.g. education, healthcare, social services).
- Often serves the most vulnerable households, including those experiencing homelessness or mental or physical disabilities.

The Basics of Affordable Housing Development

Major National Affordable Housing Programs and Resources

Program/ Resource	Allocated/ Administered by:	Summary of Program/ Resource
Section 8 Project Based Contracts	HUD Office of Multifamily Housing	Contract between HUD and building owners, who agree to provide housing to eligible tenants in exchange for long-term tenant rental subsidies. Tenant contributes no more than 30% of income. HUD no longer creates “new” Section 8 but can renew existing contracts (up to 20 years).
Section 8 Tenant-Based Vouchers	HUD Office of Public and Indian Housing (PIH)	A portable voucher (not tied to a specific property or owner) , allocated to individual household as a rental subsidy, limiting the tenant contribution to 30-40% of the household’s adjusted income.
Section 8 Project-Based Voucher	HUD PIH	Voucher program allows local housing authorities to contract with property owners to ensure that Section 8 voucher holders will occupy a designated percentage.
Low Income Housing Tax Credit (“LIHTC”)	US Treasury Dept. to the states on a per-capita basis	Tax credits allocated by Treasury to the states on a per-capita basis and then to qualified affordable rental housing development and rehab projects. State agencies administer the program, creating Qualified Allocation Plans to review eligibility of projects and allocate the credits which serve as project “equity.” LIHTC program includes both a 4% (shallower subsidy, paired with bonds, non-competitive) and a 9% credit (competitive).

The Basics of Affordable Housing Development

Major National Affordable Housing Programs and Resources

Program/ Resource	Allocated/ Administered by:	Summary of Program/ Resource
Section 202 Supportive Housing Program	HUD Office of Multifamily Housing	Program provides funding, in the form of a capital advance, to construct, acquire, or rehabilitate multifamily properties that serve low-income individuals 62 years of age or older. Projects additionally receive a renewable Project Assistance Contract (PRAC) covering necessary operating expenses beyond the tenants' portion of rent.
Federal Entitlement Programs: Community Development Block Program (“CDBG”) and HOME	HUD distributes to states on formula basis	Provides annual grants on a formula basis to entitled cities and counties to carry out a range of community development activities. Often used as a critical subordinate or soft source of financing for new construction, flexibility of HOME & CDBG make it easy to pair with state and local housing development programs. These dollars can be allocated on a competitive basis to developers seeking additional funds for their affordable housing project.
Section 515 Rural Rental Housing Program	US Dept of Agriculture	Loans made by dept of Ag Rural Development Housing and Community Facilities Programs Office (RD) acting as lender. Borrowers use these funds to acquire buildings or land, construct or renovate and build necessary facilities (waste disposal systems). A portion of these funds are set aside for nonprofits.
Public Housing	HUD Office of Public & Indian Housing and Public Housing Agencies	Public housing provides affordable rental assistance to participants. PHAs administer the program and overseen by HUD. Tenants pay either 1) 10% of their monthly income 2) 30% of their monthly adjusted income or 3) a minimum rent of between \$0 and \$50 established by each housing authority independently. Across the country over 3,300 PHAs maintain and operate the properties sometimes with enhanced services and programs.

The Basics of Affordable Housing Development

In addition to state and local sources of fundings, there has been an uptick in Funds for Real Estate Social Impact Investment, **\$13.8 Billion and Growing.**

Capital Type	Financer	Approx AUM	Level of social impact focus	Overall role
Debt	Forsyth	\$300M	Medium	GP & Servicing
	Enterprise Community Partners	\$300M	High	General Partner
	Housing Trust Silicon Valley	\$40M	High	General Partner
	Living Cities, Inc.	\$40M	High	General Partner
	Community Investment Management, LLC	\$250M	High	General Partner
	Low Income Investment Fund	\$222M	High	General Partner
	Capital Impact Partners	\$170M	High	General Partner
	RSF Social Finance	\$225M	High	General Partner
	CDFI Fund (Capital Magnet Fund program)	--	High	Fund Manager
Local Initiatives Support Corporation	\$300M	High	Fund Manager	
Equity	Better Ventures	\$53M	High	General Partner
	KKR	\$5,500M	Low	General Partner
	DBL Partners	\$400M	High	General Partner
	TPG Rise	\$2,000M	Low	General Partner
	SJF Ventures	\$215M	Medium	General Partner
	Turner Impact Capital	\$1,000M	High	General Partner
	Federal Capital Partners	\$390M	Low	General Partner
	Strategic Development Solutions	\$500M	High	GP & Servicing
Equity and Mezzanine debt	HCAP Partners	\$300M	High	General Partner
Other	InCapital	\$600M+	Low	Investor aggregator
	Kairos Investment Management Company	\$1,000M	Medium	General Partner
	Colson	TBD	Low	Servicing
	Novogradac	TBD	Low	Servicing

The Basics of Affordable Housing Development

Funding allocations can be structured to suit local conditions and supplement other available funding sources.

Flexibility of Financing Instrument



Grants

Highly flexible but non-renewable source

Low Interest Forgivable Loans

Moderately flexible but non-renewable source

Low Interest Loans

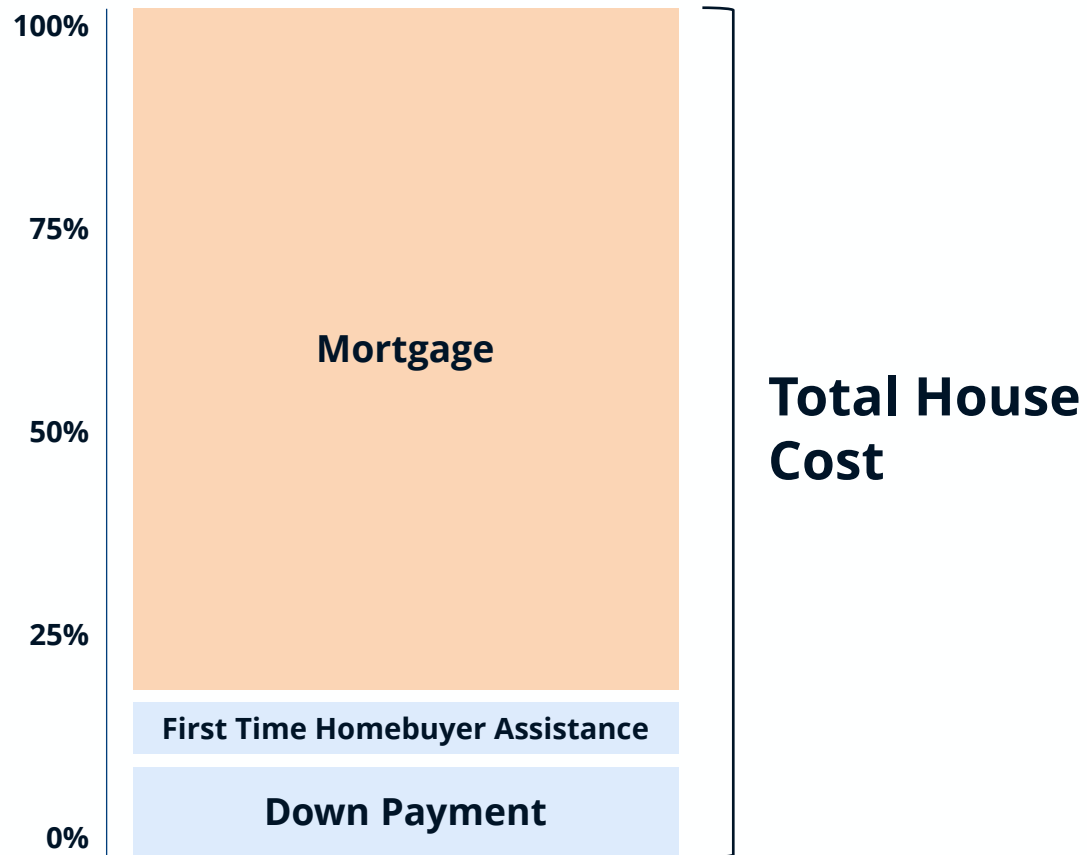
Requires project with cash flow to support, but is renewable

Credit Guarantees

Limited applicability, but very high leverage and renewability

The Basics of Affordable Housing Development

Think about buying a house, how would you pay for it?



The Basics of Affordable Housing Development

What does it cost to build rental housing in the short-term and long-term?

Museum Reach Lofts

- **Affordable Units: 94** rental units
- **Project Type:** New construction LIHTC
- **Affordability:** 30 – 60 % AMI

To create deeply affordable units, LISC partnered with the Alamo Community Group to create deeply affordable units to San Antonio's City Center.

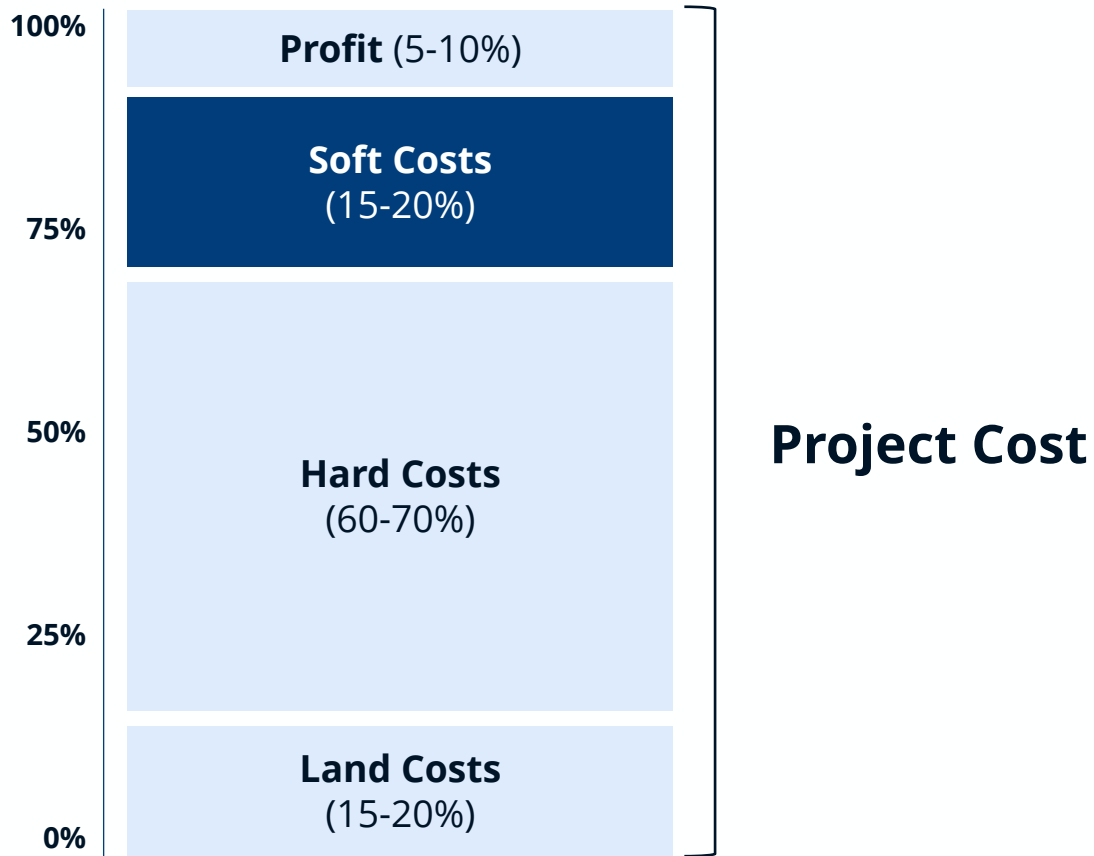
9% Tax Credits, a LISC Acquisition Loan, and National Equity Fund financing were used to complete the deal.



Photo Credit: Alamo Community Group

The Basics of Affordable Housing Development

What does it cost to build rental housing in the short-term and long-term?



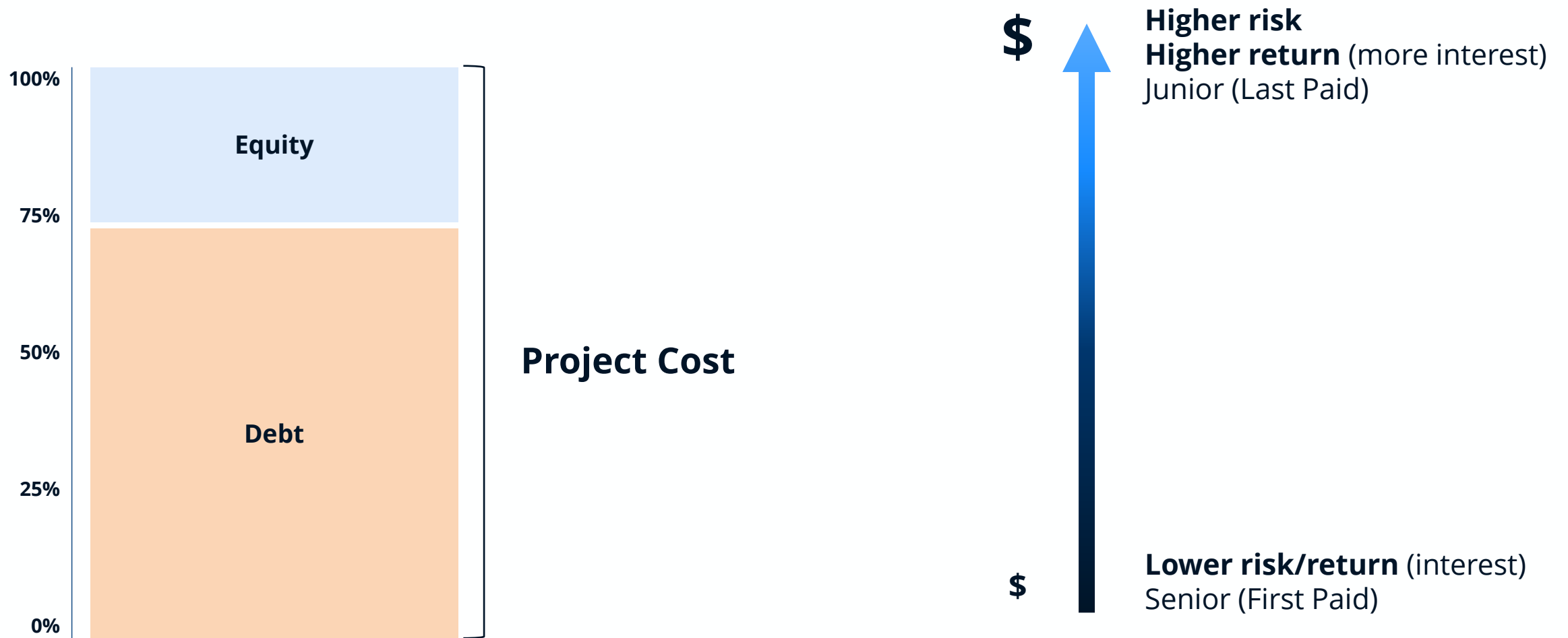
Museum Reach Lofts Example Costs

Capital Costs	Operating Expenses
One time expenditures to acquire, renovate, and/or newly construct a property	Recurring costs necessary to manage, operate and maintain the property for the long haul
Financed by debt or equity, which need to be paid back over time plus a return	Financed by tenants' recurring rental payments
Acquisition Hard Costs (<i>labor and materials</i>) Soft Costs (<i>design, engineering, insurance, legal, etc.</i>) Financing Costs (<i>fees, loan interest, lender's due diligence</i>) Contingency (<i>hard and soft</i>)	Taxes Insurance Utilities Maintenance Administration Management Fee Replacement Reserve

Rents - Operating Expenses = Net Operating Income

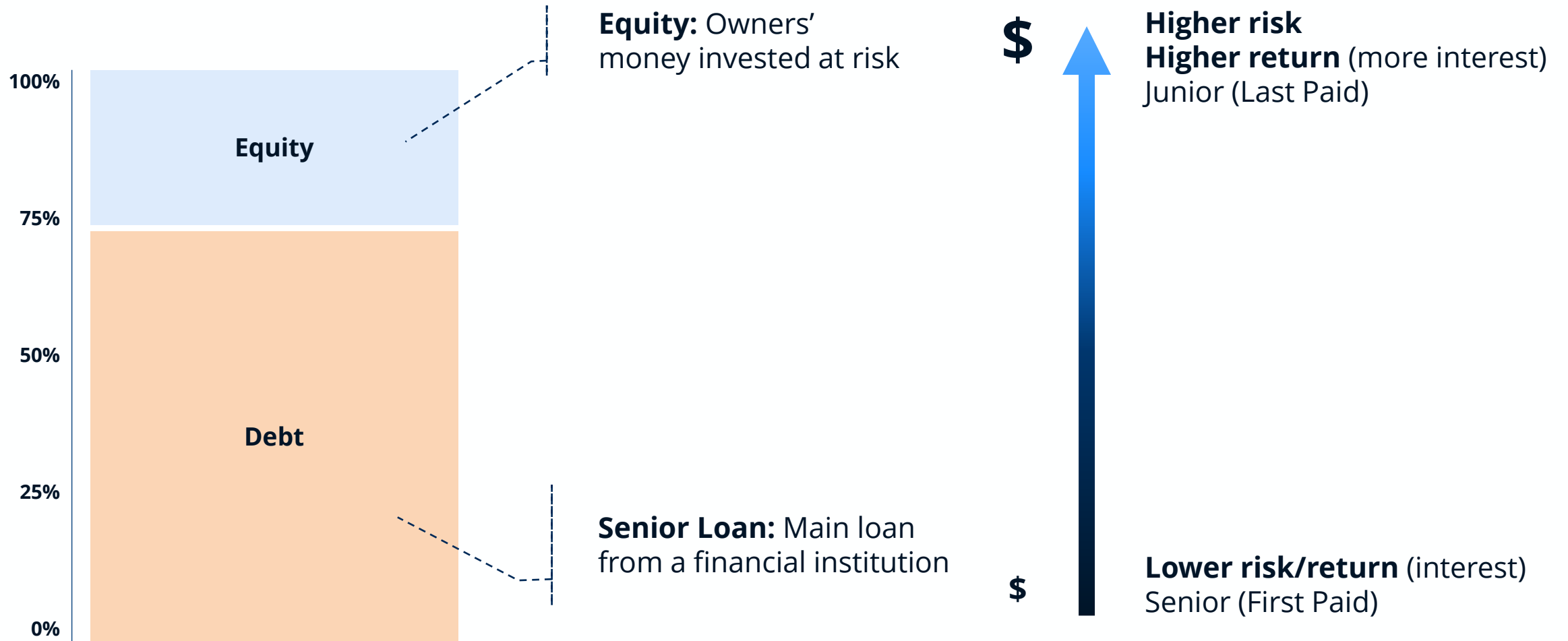
The Basics of Affordable Housing Development

What are the sources for real estate financing?



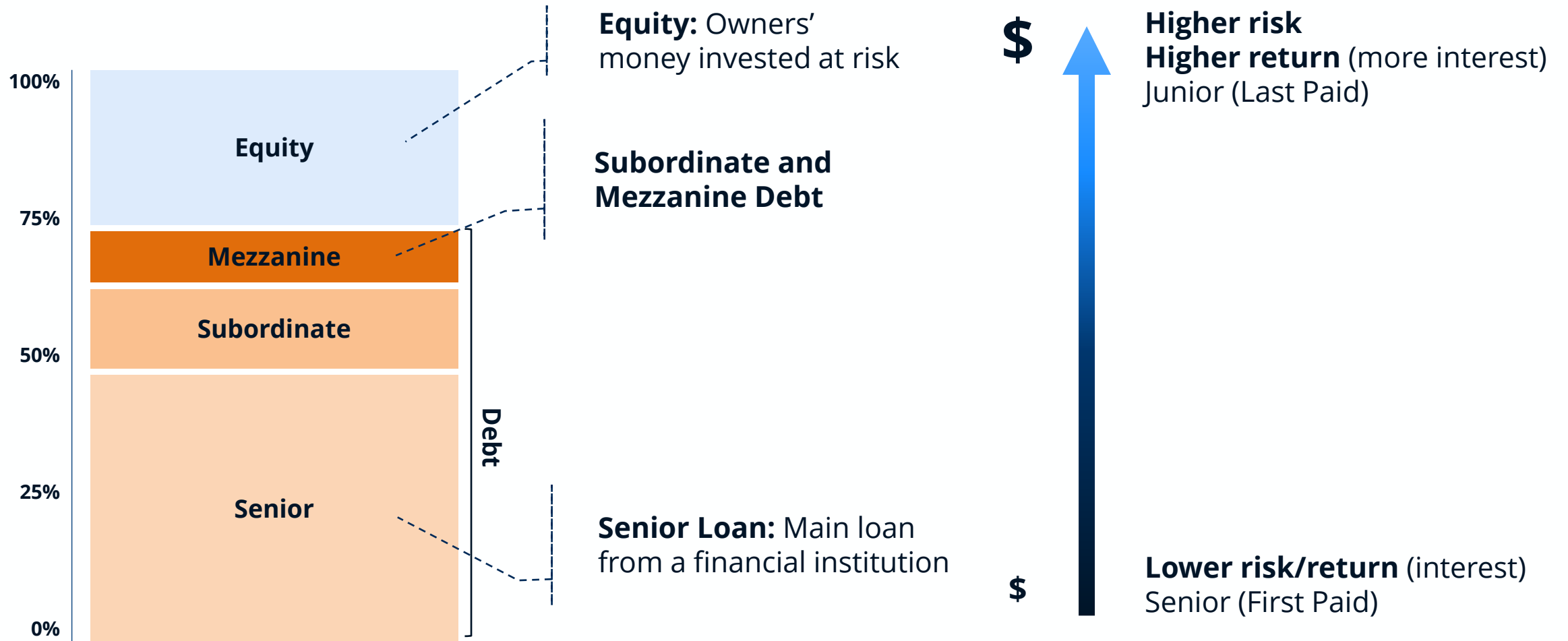
The Basics of Affordable Housing Development

What are the sources for real estate financing?



The Basics of Affordable Housing Development

What are the sources for real estate financing?



Day Two Agenda

1. Review of Day One
2. Affordable Housing Finance and Development Process
3. Maximizing Public Benefit
4. Review and Discussion