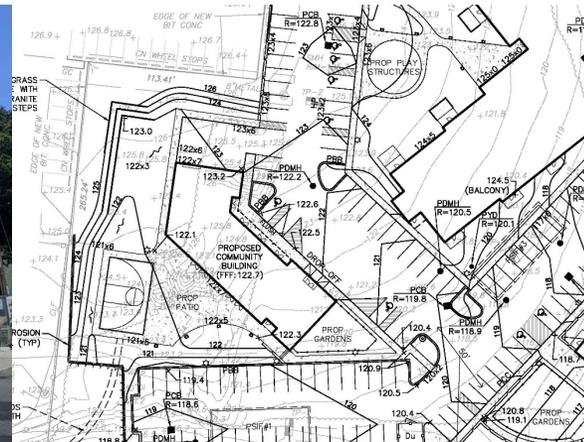


# What does a housing development pro-forma look like?

Beverly CPC	\$250,000			
Beverly Housing Trust	\$250,000			
Beverly HOME	\$20,613			
DHCD HOME	\$825,000			
HIF	\$1,000,000	\$900,000		
HSF	\$1,000,000	\$59,163	\$840,837	
CATNHP	\$500,000		\$118,326	
AHTF	\$1,000,000			
Perm loan	\$4,300,000			
<b>SUBTOTAL</b>	<b>\$29,487,113</b>	<b>\$3,577,367</b>	<b>\$959,163</b>	<b>\$959,163</b>
Repayment: Construction Loan	\$10,500,000			
Repayment: Syndication Loan				
Repayment: Interim Loan				
<b>TOTAL SOURCES, NET</b>	<b>\$18,987,113</b>	<b>\$3,577,367</b>	<b>\$959,163</b>	<b>\$959,163</b>
<b>Cumulative Sources</b>		<b>\$3,577,367</b>	<b>\$4,536,530</b>	<b>\$5,495,693</b>
* Only relevant in the case of for-sale projects.				
<b>Uses of Cash (Expenses):</b>	<b>Total</b>	<b>Closing</b>	<b>Month 1</b>	<b>Month 2</b>
<b>Acquisition</b>	\$1,377,284	\$1,377,284		
<b>Hard Costs:</b>			7%	7%
Direct Construction	\$12,000,000		\$857,143	\$857,143
Contingency	\$600,000		\$42,857	\$42,857
<b>Total Hard Costs</b>	<b>\$12,600,000</b>	<b>\$0</b>	<b>\$900,000</b>	<b>\$900,000</b>
<b>Soft Costs:</b>				
Architecture & Engineering	\$850,000	\$650,000	\$14,286	\$14,286
Survey and Permits	\$185,000	\$185,000		
Clerk of the Works	\$59,625	\$10,000	\$3,116	\$3,116



## And how can municipalities help create more affordable housing?

Kristin Carlson  
 Director of Real Estate Development  
 Harborlight Community Partners



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# Today's Presentation

- Funding: What are the typical costs and sources of funding for affordable housing projects?
- Zoning: Paths to multi-family are essential to creating affordable housing
- Three Case Studies, HCP projects:
  - 2 Hardy Street, Beverly
  - Granite Street Crossing, Rockport
  - Anchor Point, Beverly
- How can municipal leaders help/hinder affordable housing?



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A volunteer provides essentials to homeless residents moving into new housing in Salem



If creating **housing** is like a **car** we want to drive to a destination, we need two things to make it possible:



**Funding** is the gas:  
What makes the car keep going



**Zoning** is the road:  
How we get where we're trying to go

# Affordable Housing Finance 101: Typical Sources and Uses

Sources (like Income)	Uses (Costs, or Expenses)
Local Funding: CPC, HOME, etc.	Site Acquisition
Federal Low-Income Housing Tax Credits (LIHTC), allocated by DHCD	Construction Cost (Hard Cost)
State LIHTC (DHCD)	Development Expenses (Soft Costs): Architecture and Engineering, Permitting, Legal, Construction Loan Interest, Fees
State Department of Housing and Community Development (DHCD) Funding: “Soft” Debt	Developer Overhead and Fee
Other Affordable Housing grants and programs	Capitalized Reserves (Operating, Replacement, Lease-Up)
Conventional Mortgage Debt (Perm Loan)	



## A Closer Look at Typical Affordable Housing Sources: Welcome to Alphabet Soup

Sources	Typ. %
Local Funding: CPC, HOME, etc.	5%-10%
Federal Low-Income Housing Tax Credits (LIHTC), allocated by DHCD	20%-40%
State LIHTC (DHCD)	10%
State Department of Housing and Community Development (DHCD) Funding: “Soft” Debt	25%-35%
Other Affordable Housing Grants and Programs	3%-10%
Conventional Mortgage Debt (Perm Loan)	25%

- **Local sources are critical** to any project
  - Actual funds: CPC, AHT, HOME, MassWorks, CDBG
  - Shows local participation, or “skin in the game,” to State funders
- **Low Income Housing Tax Credits (LIHTC)** are essential to most deals
  - Federal LIHTC (via IRS) is allocated by the State DHCD, 4% and 9% (funds about 20%-40% of the project, respectively)
  - “Purchased” by investors, typically banks, who can use the tax credits and also get Community Reinvestment Act (CRA) credit
  - In MA, we also have State LIHTC
  - Minimum project size of 20 units
- MA DHCD (Department of Housing and Community Development) allocates LIHTC and State “Soft” Debt
  - A dozen-plus funding programs available for affordable housing
- Perm loan is conventional debt that is paid from property operations (rents)
  - Affordable deals are typically designed to cover costs with a cushion, but not to generate the kind of cash flow found in market-rate deals.



Affordable housing finance is very different than conventional, market-rate housing

Local, State and Federal affordable housing funding sources are all constrained – and very competitive!

- DHCD allocates funding with an annual competitive round, the “OneStop”
- Possible, but rare to be funded the first time in
- Not unusual to take multiple years to secure all funding

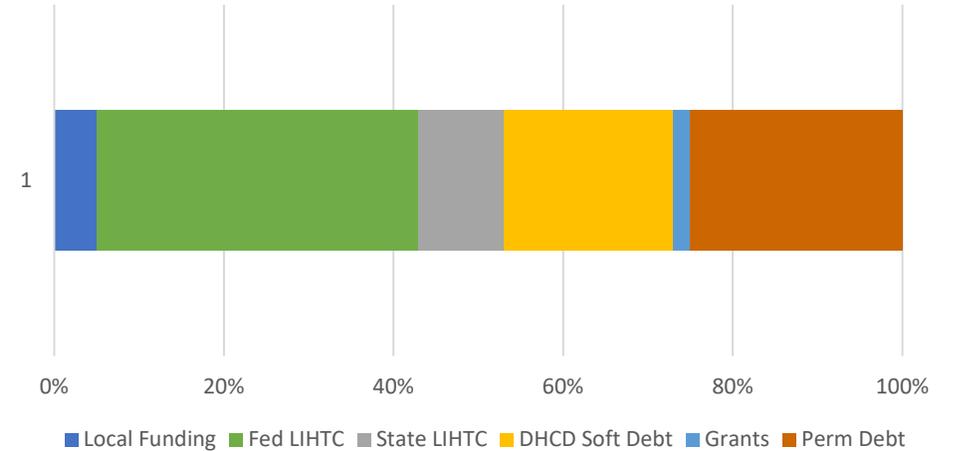
Some aspects that can make a project more competitive:

- Local funding committed, local support letters
- Family housing (if the city/town has not done affordable family housing recently)
- Readiness to proceed

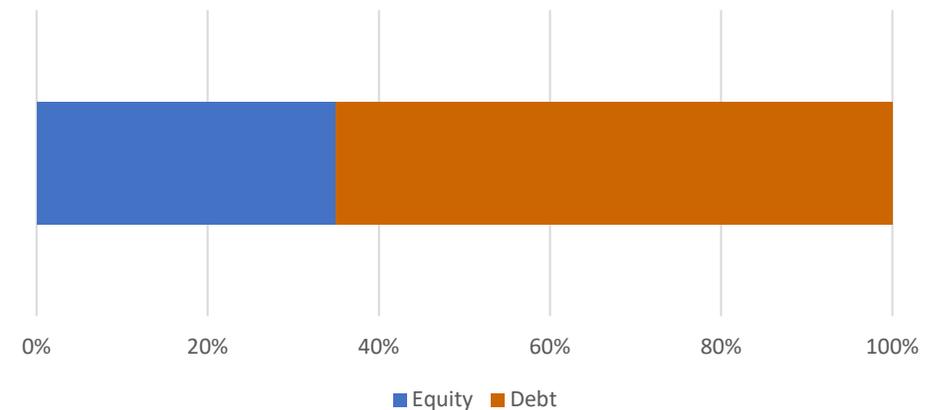


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Typical Affordable Housing Funding Sources



Conventional Market-Rate Housing Funding Sources



## A Closer Look at Typical Affordable Housing Uses

Uses	Typ. %
Site Acquisition	5%-10%
Construction Cost (Hard Cost)	60%-70%
Development Expenses (Soft Costs): Architecture and Engineering, Permitting, Legal, Construction Loan Interest, Fees	15%-20%
Developer Overhead and Fee	8%-12%
Capitalized Reserves (Operating, Replacement, Lease-Up)	1%-2%

- Construction cost is the largest cost to the project
  - Varies depending on location, complexity, open shop/union
  - Can you save \$ with renovation? Not necessarily
- Land acquisition cost is key when looking at a potential project site.
  - Acquisition costs over \$45,000 per unit are hard to manage
  - We also look at environmental factors, access to utilities, access to transit and amenities
  - Land already zoned for multi-family development is always worth more
- Note on Dev OH and Fee: Are we getting rich?
  - DHCD sets limits which cannot be exceeded
  - Non-profits use the Overhead and Fees to fund future projects, other work done by the organization (first-time homebuyer programs, supportive services, etc)
  - Needed to cover Overhead on what are frequently 5+ years of pre-development and risk before a project is funded and closed.
- What are the reserves for?
  - Lenders require Operating Reserve, at least 6 months expenses and debt service
  - Replacement Reserve: Capitalize future building work (i.e. new roof, appliances)
  - Lease-Up Reserve: Covers expenses until property is fully leased



# Affordable Housing Finance Take-Aways

- Projects take multiple sources to achieve: Local, State, Federal, grants and private market, **all working together**
- All funders have their own project requirements that the developer must meet
  - Size
  - Population
  - Sustainability features
- It's a marathon, not a sprint: not unusual to take 5+ years to get a project funded and construction started.
- Most affordable housing funding sources are constrained and highly competitive
- Land cost (and allowed uses) are critical in determining a project's feasibility



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# Zoning for Affordable Housing

There are several paths, depending on location

- Multi-family by right
- 40B:
  - Each municipality must meet 10% threshold on Subsidized Housing Inventory
  - Led by developer: “friendly” 40B – or not
  - Requires ZBA approval
  - Open to appeal, litigation, can create years-long delay, hundreds of thousands of dollars in legal fees to defend
- 40R: “Smart Growth” Zoning
  - Allows a municipality to “spot zone” an area to direct multi-family development to the best locations
  - Comes with incentive payments to the municipality
  - Led by municipality
- Sometimes, overlay districts (for example, Senior Housing overlay) or Planned Unit Development (PUD) can also be paths



## More Zoning for Affordable Housing

### Inclusionary Zoning

- Some municipalities have inclusionary zoning built into their zoning code
- When new market-rate multi-family housing is built, developers are required to include affordable units in the project
- Typically, a percentage of the units (10%-15%+) must be affordable
- Can help meet affordability goals and spread units throughout multiple buildings
- Pay attention to *how affordable* the units must be

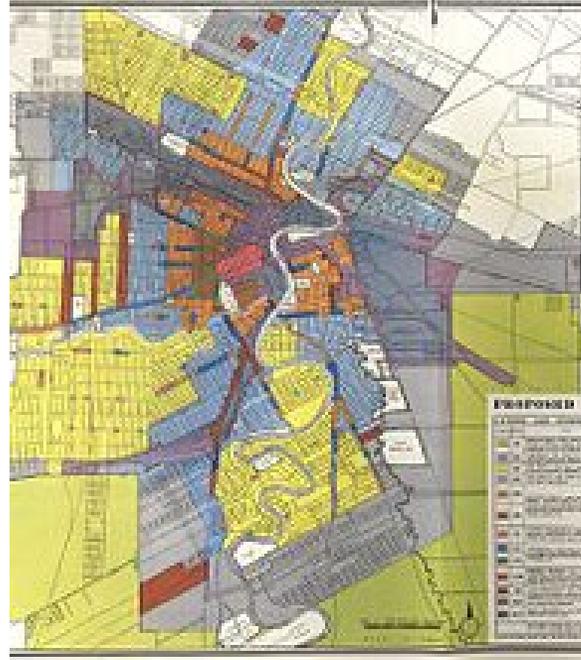
### Accessory Dwelling Units (ADUs)

- Allows for additional small unit in an area zoned single family, i.e. the “granny flat.” Creates naturally-occurring affordable housing

### Multi-Family Zoning will be Required near Transit

- Part of the recently passed MA Economic Development Bill





## Affordable Housing Zoning Take-Aways

- A path to multi-family zoning is essential to the creation of affordable housing
- 40B process is a great tool, but in some locations can be very risky to developer (both time and money) with threat of appeal after ZBA decision
  - Ironically, the threat of 40B appeal can make a project need to be *larger* in order to cover the legal costs of an appeal
- 40R allows municipalities to:
  - Decide where they want multi-family to be
  - Provides incentive payments to the city or town, both with zoning and then again at project permitting
    - Creates less risk for developer
- Inclusionary zoning is a tool to create affordable units (MHP and MACDC can help)
- ZONING IS A KEY TOOL THAT CAN HELP, OR HINDER, THE CREATION OF AFFORDABLE HOUSING



# CASE STUDY 1

## 2 Hardy Street, Beverly Small But Mighty

- New construction
- 6 two-bedroom family units
- 100% affordable, supported by Section 8 vouchers
- DHCD's Community Scale Housing Initiative



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## 2 Hardy Street, Beverly

- 6 units, all 2-bedroom
- Family housing
- TOD (Transit-Oriented Development) in downtown Beverly, near MBTA Commuter Rail
- New construction
- Total Development Cost (TDC): \$2,315,000
- TDC/unit: \$385,833
- DHCD's Community Scale Housing Initiative (CSHI)
- Zoning: Special permit, Inclusionary zoning
- Complete and occupied



## 2 Hardy Street, Beverly: Community Scale Housing Initiative Financing

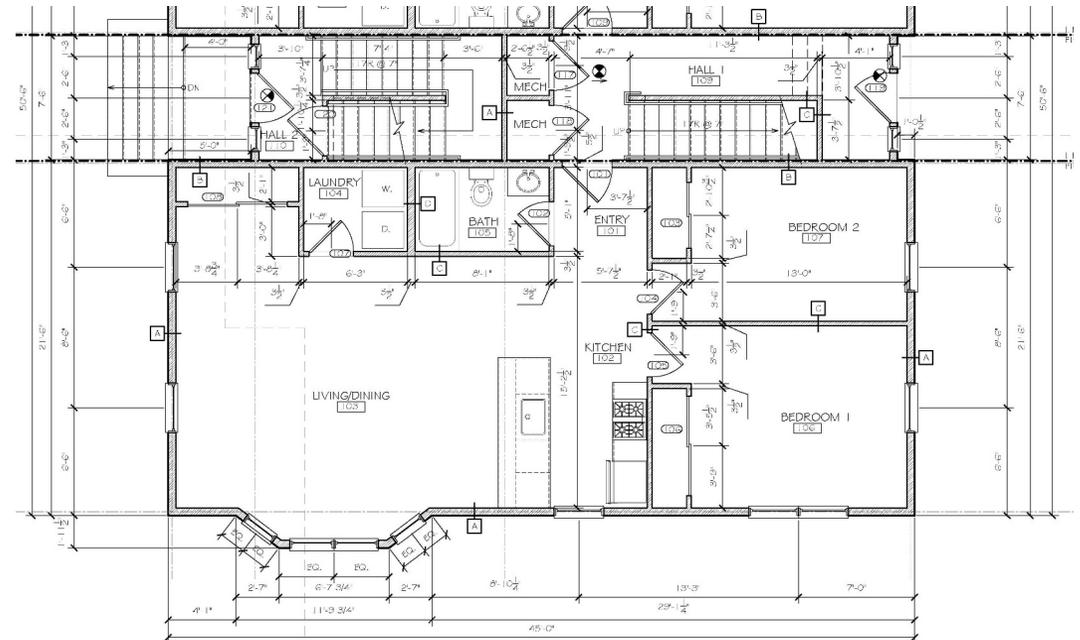
Sources		Uses	
Local Funding: CPC, HOME, etc.	\$595,112	Site Acquisition	\$100
Federal Low-Income Housing Tax Credits (LIHTC), allocated by DHCD	\$0	Construction Cost (Hard Cost)	\$1,662,575
State LIHTC (DHCD)	\$0	Development Expenses (Soft Costs): Architecture and Engineering, Permitting, Legal, Construction Loan Interest, Fees	\$365,487
State Department of Housing and Community Development (DHCD) Funding: "Soft" Debt	\$900,000	Developer Overhead and Fee	\$286,950
Other Affordable Housing grants and programs	\$0	Capitalized Reserves (Operating, Replacement, Lease-Up)	\$0
Conventional Mortgage Debt (Perm Loan)	\$820,000		
Total:	\$2,315,112	Total:	\$2,315,112



## 2 Hardy Street, Beverly

We are often asked by municipalities to look at **small scale projects** (5-20 units). 2 Hardy demonstrates what needs to be in place in order for a small-scale deal to work:

- **Very low (no) acquisition cost**
  - Land was donated
- **Substantial** local funding (\$99,185 per unit)
  - CPC, Affordable Housing Trust, Beverly and Regional HOME
- State CSHI funding available, along with project-based Section 8 vouchers
- **No (minimal) zoning risk, cost**
  - 2 Hardy was already permitted as part of inclusionary zoning for a larger, adjacent project



## 2 Hardy Street, Beverly

### Small-scale projects:

- Too small for use of LIHTC – limited funding sources
- More expensive to manage, higher operations costs
- Takes as much work by the non-profit to develop 6 units, as to develop 60
- The stars need to align

### How did the municipality work with us?

- Clear zoning path with Inclusionary Zoning and Special Permit
- Planning department understood benefit of deeper affordability (30-50% AMI units versus 80% AMI units)
- Substantial funding (almost \$100K/unit), committed early
- Providing support letters
- Design Review Board: Design changed to flat roof to accommodate solar panels, required detailed review (could have been a stumbling block, but wasn't)



# CASE STUDY 2

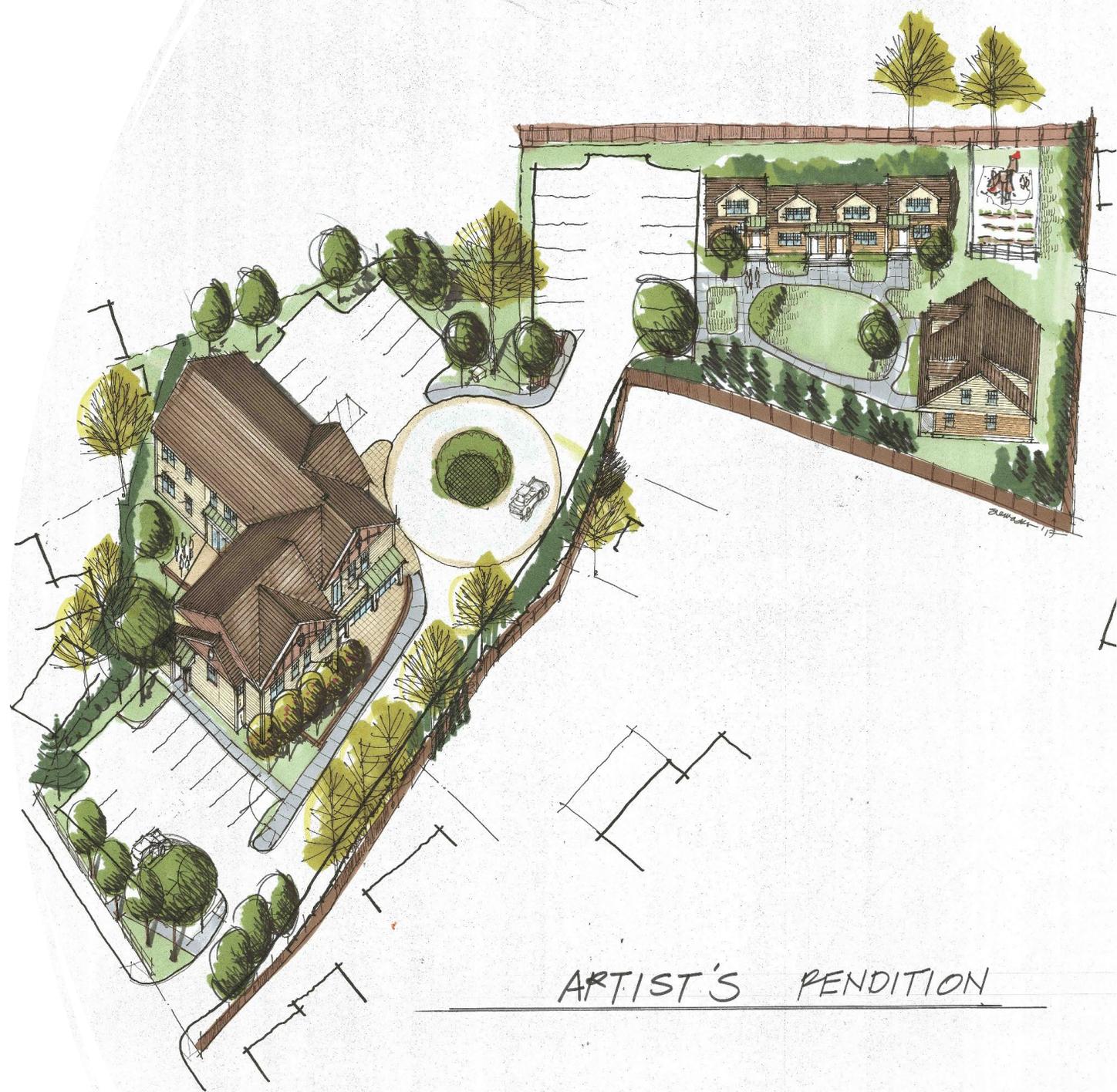
## Granite Street Crossing

### Rockport

#### Working With Neighbors

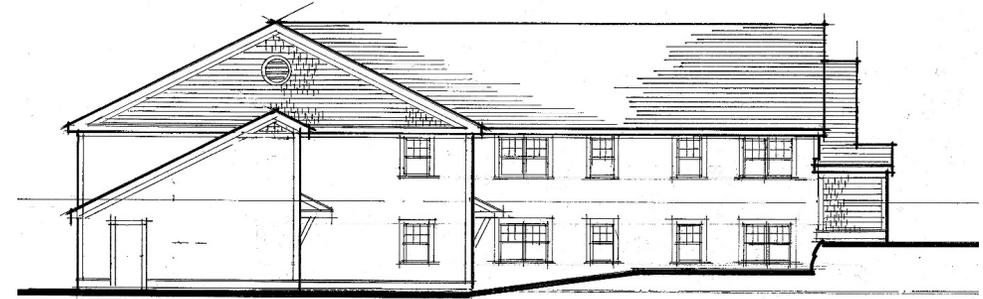
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- New construction
- Mix of senior and family units
- 100% affordable
- Supportive services
- DHCD 9% LIHTC



# Granite Street Crossing, Rockport

- 23 units
- Mix of:
  - Seniors 62+ (17 units)
  - Families (6 units)
- TOD, near downtown Rockport, near MBTA Commuter Rail
- Supportive services on-site
- New construction
- Total Development Cost (TDC): \$10,151,000
- TDC/unit: \$441,348
- 9% LIHTC Financing
- Zoning: 40B
- In DHCD 2021 funding round



NORTH ELEVATION



# Granite Street Crossing, Rockport: Small Project 9% LIHTC Financing

Sources		Uses	
Local Funding: CPC, HOME, etc.	\$700,000	Site Acquisition	\$470,000
Federal Low-Income Housing Tax Credits (LIHTC), allocated by DHCD	\$4,761,000	Construction Cost (Hard Cost)	\$6,900,343
State LIHTC (DHCD)	\$2,690,000	Development Expenses (Soft Costs): Architecture and Engineering, Permitting, Legal, Construction Loan Interest, Fees	\$1,494,021
State Department of Housing and Community Development (DHCD) Funding: "Soft" Debt	\$	Developer Overhead and Fee	\$1,062,936
Other Affordable Housing grants and programs - FHLB	\$500,000	Capitalized Reserves (Operating, Replacement, Lease-Up)	\$223,700
Conventional Mortgage Debt (Perm Loan)	\$1,500,000		
Total:	\$10,151,000	Total:	\$10,151,000





# CASE STUDY 3

## Anchor Point, Beverly Regional Planning

---

- New construction
- 77 family units
- 100% affordable
- 20% of units for homeless families
- DHCD 9% LIHTC
- Two Phases



# Anchor Point, Beverly

- 77 units (2 Phases)
- Family housing (mix of two- and three-bedroom units)
- 20% of units for homeless families
- Supportive services on-site
- Central Beverly, vacant site
- New construction
- Total Development Cost (TDC): \$18,987,113
- TDC/unit: \$499,661
- 9% LIHTC Financing
- Coordinated with MassWorks street and intersection improvements
- Zoning: 40R Smart Growth Overlay
- Phase 1 funded, closing spring 2021



# Anchor Point Phase 1, Beverly: 9% LIHTC Financing

Sources		Uses	
Local Funding: CPC, HOME, etc.	\$770,613	Site Acquisition	\$1,377,284
Federal Low-Income Housing Tax Credits (LIHTC), allocated by DHCD	\$7,951,500	Construction Cost (Hard Cost)	\$12,600,000
State LIHTC (DHCD)	\$1,640,000	Development Expenses (Soft Costs): Architecture and Engineering, Permitting, Legal, Construction Loan Interest, Fees	\$2,998,409
State Department of Housing and Community Development (DHCD) Funding: "Soft" Debt	\$4,325,000	Developer Overhead and Fee	\$1,813,745
Other Affordable Housing grants and programs	\$0	Capitalized Reserves (Operating, Replacement, Lease-Up)	\$246,674
Conventional Mortgage Debt (Perm Loan)	\$4,300,000		
Total:	\$18,987,113	Total:	\$18,987,113



# Anchor Point, Beverly

## Funding limitations of State programs:

- Had to break into two phases of housing (not ideal)

## Community Center, “Phase 3”

- Envisioned as a hub for providing services, activities to the families at Anchor Point
- 1<sup>st</sup> Floor: Multi-purpose room, kitchen, classrooms, management and services offices, maintenance
- 2nd Floor: On-site daycare (partner with YMCA)
- 3<sup>rd</sup> Floor: HCP Main Office
- Playing field, basketball, pickleball, patio, playground
- Not supported by housing funding, requires private philanthropy

## MassWorks

- Grant awarded to City for adjacent intersection and sidewalk work

*“Will I ever get to live there?  
This place sounds like it's too  
good to be true. My kids would  
be so happy and safe there. I can  
get on my feet. Please build it  
quickly. We need this place today.”*

*- Andrea, mother of two, currently homeless  
living in a local shelter, said in an Anchor  
Point focus group*



## Anchor Point, Beverly

### 40R Zoning

- Innovative zoning that benefits the City financially
- Required **political will and leadership** from City Council and Mayor
- Directs multi-family housing where the City wants it

### Regional planning: MOU (Memorandum of Understanding)

- Beverly is above 10% on Subsidized Housing Inventory, but Mayor and City leadership know and respond to the need for affordable housing.
- **Regional MOU among Beverly, Salem and Peabody to each provide affordable housing, particularly for homeless households**

### How did the municipality work with us?

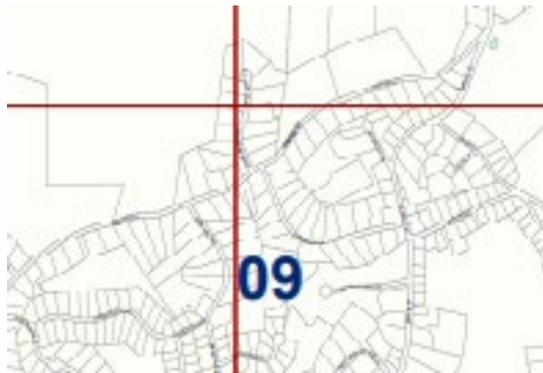
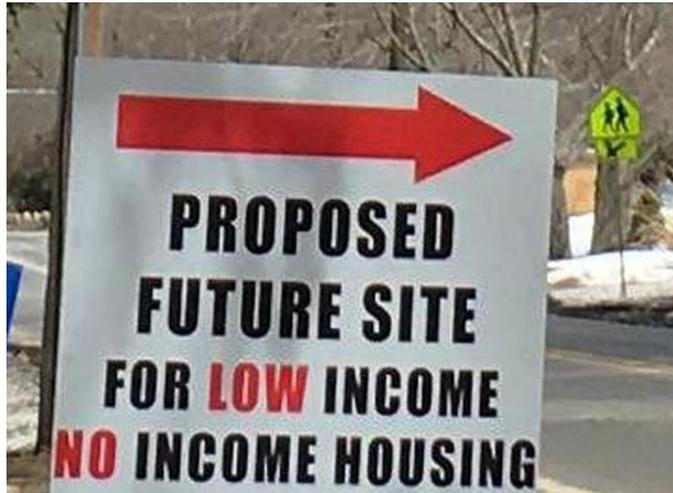
- Committing local funding early
- Clear zoning path through 40R
- Design Review: understanding design changes necessitated by budget (no balconies)
- Public, political support for homeless housing through the MOU



BUILDING A FROM SOHIER ROAD



# Summary: What creates barriers to affordable housing



- Lack of zoning for multi-family projects
- Excessive peer review during permitting
  - Drives up costs and non-profits are up against funding caps to cover costs
  - We would rather spend money on enhanced landscaping than extra peer reviews
- Threats of litigation
  - Threats of litigation make projects larger to cover legal costs
- Lack of local funding
- Active opposition to any kind of affordable housing, with little willingness to engage
- Lack of housing leadership within the municipality
  - Leaders can be elected officials, committees, and groups of citizens

# Summary: What works to help create affordable housing



Everyone working together with a goal of creating affordable housing leads to ribbon cuttings, great projects, and what we all hope for: **safe, secure, affordable housing!**



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- Clear zoning/path to permitting for multi-family projects
- Inclusionary zoning
- Political leadership to support projects
  - This can happen regionally, too
- Local funding commitments, made early
  - This leverages larger State funding
- Local Community Preservation Committee (CPC) should support creation of new affordable housing units
  - Commit funding to housing *creation*
- Willingness to engage productively in ways to improve a project, address concerns
- Understanding of the many competing interests a developer faces in creating affordable housing
  - Sometimes this comes up when reviewing project design
- Provide support letters for developer funding applications

THANK YOU!

Kristin Carlson

Director of Real Estate  
Development

Harborlight Community Partners

[kcarlson@harborlightcp.org](mailto:kcarlson@harborlightcp.org)



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