What does a housing development pro-forma look like?

And how can municipalities help create more affordable housing?

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Director of Real Estate Development
Harborlight Community Partners
Who is involved in creating affordable housing?
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?

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

*Municipalities can use both to help (or hinder) affordable housing*
### Affordable Housing Finance 101: Typical Sources and Uses

<table>
<thead>
<tr>
<th>Sources (like Income)</th>
<th>Uses (Costs, or Expenses)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Funding: CPC, HOME, etc.</td>
<td>Site Acquisition</td>
</tr>
<tr>
<td>Federal Low-Income Housing Tax Credits (LIHTC), allocated by DHCD</td>
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<tr>
<td>State LIHTC (DHCD)</td>
<td>Development Expenses (Soft Costs): Architecture and Engineering, Permitting, Legal,</td>
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<td>Construction Loan Interest, Fees</td>
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<tr>
<td>State Department of Housing and Community Development (DHCD) Funding: “Soft” Debt</td>
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<td>Conventional Mortgage Debt (Perm Loan)</td>
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A Closer Look at Typical Affordable Housing Sources: Welcome to Alphabet Soup

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

- **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
<table>
<thead>
<tr>
<th>Uses</th>
<th>Typ. %</th>
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</thead>
<tbody>
<tr>
<td>Site Acquisition</td>
<td>5%-10%</td>
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<tr>
<td>Construction Cost (Hard Cost)</td>
<td>60%-70%</td>
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<tr>
<td>Development Expenses (Soft Costs): Architecture</td>
<td>15%-20%</td>
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<tr>
<td>and Engineering, Permitting, Legal, Construction</td>
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<tr>
<td>Loan Interest, Fees</td>
<td></td>
</tr>
<tr>
<td>Developer Overhead and Fee</td>
<td>8%-12%</td>
</tr>
<tr>
<td>Capitalized Reserves (Operating, Replacement,</td>
<td>1%-2%</td>
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<tr>
<td>Lease-Up)</td>
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**A Closer Look at Typical Affordable Housing Uses**

- 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
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

Harborlight Community Partners
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

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<th>Sources</th>
<th>Uses</th>
<th>Uses Costs</th>
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<td>Local Funding: CPC, HOME, etc.</td>
<td>Site Acquisition</td>
<td>$595,112</td>
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<td>Construction Cost (Hard Cost)</td>
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<td>$1,662,575</td>
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<td>Development Expenses (Soft Costs): Architecture and Engineering, Permitting, Legal, Construction Loan Interest, Fees</td>
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<td>Developer Overhead and Fee</td>
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<td>$286,950</td>
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<td>Other Affordable Housing grants and programs</td>
<td>Capitalized Reserves (Operating, Replacement, Lease-Up)</td>
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<td>Conventional Mortgage Debt (Perm Loan)</td>
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<tr>
<td>Total: $2,315,112</td>
<td>Total: $2,315,112</td>
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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

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

<table>
<thead>
<tr>
<th>Sources</th>
<th>Uses</th>
<th>Total</th>
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<tbody>
<tr>
<td>Local Funding: CPC, HOME, etc.</td>
<td>Site Acquisition</td>
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<td>Federal Low-Income Housing Tax Credits (LIHTC), allocated by DHCD</td>
<td>Construction Cost (Hard Cost)</td>
<td>$6,900,343</td>
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<td>State LIHTC (DHCD)</td>
<td>Development Expenses (Soft Costs): Architecture and Engineering, Permitting, Legal, Construction Loan Interest, Fees</td>
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<td>Other Affordable Housing grants and programs - FHLB</td>
<td>Capitalized Reserves (Operating, Replacement, Lease-Up)</td>
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<td>Conventional Mortgage Debt (Perm Loan)</td>
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<td><strong>Total:</strong> $10,151,000</td>
<td><strong>Total:</strong> $10,151,000</td>
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Granite Street Crossing, Rockport

Extensive work with neighbors and abutters to build support
• Landscaping, fencing
• Building height adjustments
• Can’t make everyone happy – but if we are working together, we will sure try

How did the municipality work with us?
• Committing local funding early
• Neighbors and abutters willing to engage productively
• Neighbors came to ZBA hearings to support the project
• 40B process did not require excessive peer review (required only for traffic engineer)
• CPC advocates for affordable housing: “When is your next affordable family project coming?”
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

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<th>Uses</th>
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<tbody>
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<td>Site Acquisition</td>
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<td>State LIHTC (DHCD)</td>
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<td>State Department of Housing and Community Development (DHCD) Funding: “Soft” Debt</td>
<td>$4,325,000</td>
<td>Developer Overhead and Fee</td>
<td>$1,813,745</td>
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<tr>
<td>Other Affordable Housing grants and programs</td>
<td>$0</td>
<td>Capitalized Reserves (Operating, Replacement, Lease-Up)</td>
<td>$246,674</td>
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<td>Conventional Mortgage Debt (Perm Loan)</td>
<td>$4,300,000</td>
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<tr>
<td><strong>Total:</strong></td>
<td><strong>$18,987,113</strong></td>
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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
- 1st Floor: Multi-purpose room, kitchen, classrooms, management and services offices, maintenance
- 2nd Floor: On-site daycare (partner with YMCA)
- 3rd 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
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

- 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

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!**
THANK YOU!

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