Affordable Housing Development

Strategies & Challenges

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Definition of Affordable Housing

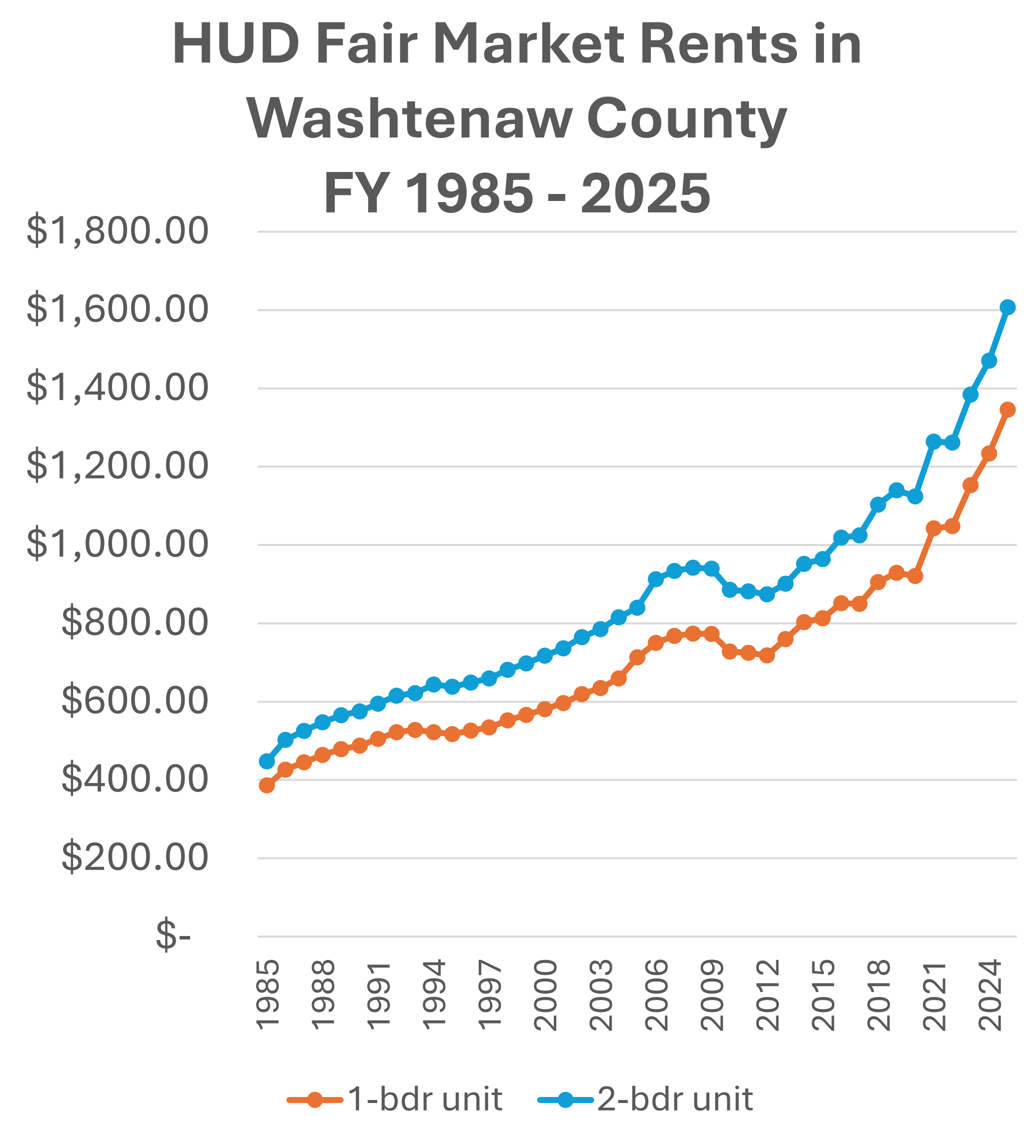
- Affordable Housing is the aspirational and/or regulatory goal of paying no more than 30% of gross household income on housing
  - RENTAL = rent and utilities
  - OWNER = mortgage, insurance, taxes, utilities, condo fees
  - COOP = monthly membership fee, utilities
- Can’t be achieved through planning, zoning, and/or development subsidies alone
  - These tools can only create below-market cost housing, however
- It can be achieved through a monthly housing operating subsidy based on household income
  - Such as a voucher

Fair Market Rents Washtenaw County

- 1-bdr FMR in FY 1985 – **$448**
- 1-bdr FMR in FY 2005 – **$713**
- **1-bdr FMR in FY 2025 – $1,346**

Based on federal analysis of American Community Survey of all housing types, not including housing built in last 2 years, and not including subsidized housing.

Source: U.S. HUD.



2024 Ann Arbor Area Median Income

Area Median Income	1 Person	2 Person	3 Person	4 Person	5 Person
30% Supportive Housing	$25,100	$28,700	$32,300	$35,850	$38,750
50% Vouchers, A2 DDA	$41,850	$47,800	$53,800	$59,750	$54,550
60% A2 Zoning	**$50,220**	**$57,360**	**$64,560**	**$71,700**	**$77,460**
80% CDBG, HOME, Public Housing	$66,950	$76,500	$86,050	$95,600	$103,250
100%	$83,700	$95,600	$107,600	$119,500	$129,100
120%	$100,400	$114,8000	$129,200	$143,400	$155,000

Ann Arbor Primary Metropolitan Statistical Area includes all of Washtenaw County – Median Family Income = $119,500 USA = $77,397

HUD places the Area Median Income into the 100% AMI 4-person household slot, and all other incomes are a formula based off that number

2024 Affordable Monthly Housing Costs Based on Spending 30% of Gross Income

Area Median Income	1 Person	2 Person	3 Person	4 Person	5 Person
30%	$628	$718	$808	$896	$969
50%	$1,046	$1,195	$1,345	$1,494	$1,614
60%	**$1,256**	**$1,434**	**$1,614**	**$1,793**	**$1,937**
80%	$1,674	$1,913	$2,151	$2,390	$2,581
100%	$2,093	$2,390	$2,690	$2,988	$3,228
120%	$2,510	$2,870	$3,230	$3,585	$3,875

MSHDA published Maximum rents for Low Income Housing Tax Credit Program

How are Utilities paid for in Affordable Housing?

Development

- Cost of sustainability and energy efficiency features are included in total development costs
  - Even if have grants to pay for it
  - Increased development costs, reduces competitiveness for funding
  - Perverse incentive

Operations

- All building utilities paid by rent
  - Property management space
  - Common areas
  - Exterior lighting
  - Any utilities included in rent except tenant-paid utilities
- Rent is reduced by a market average utility allowance for any tenant-paid utilities
  - (water, sewer, heat, electric)

Key Factors Influencing Affordable Housing Development

- Land availability/cost
- Local zoning and design requirements
- Construction costs
- Financing and funding sources
- Government policies and incentives
- Community opposition (NIMBYism - Not In My Backyard).

All New Construction Multi-Family Housing Development

- 3 to 5+ years from concept to occupancy
- Acquire Property
- Hire architect, engineers and other professionals
- Zoning and site plan approval
- Hundreds of hours to design a building - cannot design on the fly
- Comply with local codes
- Secure financing
- Hire construction trades and purchase materials
- Respond to constantly changing market
  - Interest rates, supply chain, labor, insurance, politics, NIMBY

Development Differences

Market Rate

- Debt & Equity
- Quicker to secure property
- Can significantly reduce predevelopment timeframe without need to seek grants/subordinate loans
- Project design is not subject to federal or State design requirements related to funding (yes ADA, building codes etc)
- Environmental review based on site contamination – without federal or State funding not subject to federal NEPA or MSHDA review (can trigger EGLE review).
- Can set rents as high as market will bear and can increase rents at will
- Access to working capital
- Risk self-determination

Affordable

- Debt, Equity & Grants
  - More complex regulations from multiple funders and more consequential penalties, changing priorities. Very competitive to secure limited grants/subordinate debt
- Long lead time
  - If federal funds, cannot make choice limiting action like acquisition until ER done. Can take multiple funding rounds to secure all necessary funding
- Environmental Review complex
  - E.g. noise, federal clean-up standard, environmental justice, hazardous materials nearby, SHPO review. If State funding, EGLE review is long and complicated
- Capped rents
  - Limited rental income restrict ability to secure private debt and require grants/subordinate loans to make projects feasible
- Need working capital for due diligence before securing financing that typically takes 2 – 3 years to secure.
  - Risk aversive funders, excessive due diligence up-front, means more up-front costs

How to Fund Affordable Housing Projects

Federal

Low Income Housing Tax Credits

Federally insured mortgages and low-interest loans

HUD programs: HOME, CDBG, Continuum of Care etc.

Historic/Energy Credits

State

Grants

loans

bond-financing

Local

Land

Bond financing

Reduced fees and regulations

Zoning density

Millage

Service fee in lieu of property taxes (PILOT)

Expedited review/permitting

Low Income Housing Tax Credits – IRS

Currently the largest source of funding for affordable housing development

- Enacted as a part of the 1986 Tax Reform Act
- Created more than 3.5 million affordable units since inception
- Congress sets limits annually for 9% credits to be allocated each year by the States ($2.90 per capita in 2024); 4% credits which are used in conjunction with private activity bonds are not subject to the annual cap
- Each State must adopt a Qualified Allocation Plan (QAP) that outlines the criteria of how the credits are distributed
- In Michigan, the Michigan State Housing Development Authority (MSHDA) is the agency responsible for the management and distribution of both 9% and 4% LIHTC
- Equity for development is generated by investor/s bidding to pay cash to the developer in exchange for 10 years of tax credits, plus depreciation and other tax deductions
  - For Example, Catherine received an award of $1.5 million in 9% LIHTC for 10 years ($15 M) and received $13.2 million in equity from an investor
- 3 Income restrictions options (20% @ 50% AMI, 40% @ 60% AMI or 60% AMI income average w/ cap of 80% AMI)
- 15-year affordability term minimum, incentives for longer term commitment (up to 45 years)
  - AAHC projects have permanent deed restrictions – which is rare for developments
- Most investors in LIHTC projects are corporations – Typically financial institutions because they have adequate income tax liabilities, they have longer financial planning views and purchasing credits satisfies federal Community Reinvestment Act needs from regulators

9% LIHTC in Michigan

- Extremely competitive: 61applicants in 2024, about 1/3 will be funded
- Set asides for geography, targeted type of projects (permanent supportive housing, preservation, elderly, nonprofit, rural, distressed)
- While 9% credits provide more equity than 4%, it never funds 100% of project development costs
- NO NEPA (National Environmental Policy Act) requirement, but MSHDA has environmental review requirements which must be met
- Current scoring criteria highlights (MSHDA updates the QAP typically every 2 years)
  - Community revitalization plan integrates affordable housing
  - Proximity to transit, schools, job training, parks, commercial services, employment centers, etc.
  - Readiness (zoning & site plan approval)
  - Design features (patios/balconies, washer/dryers, dishwashers, bathroom count, size of units)
  - Adherence to MSHDA’s Green Policy
  - 15% units as accessible & visitable design
  - Community room inclusion of 500 – 1,500 SF based upon unit count
  - Market study done by MSHDA to determine if amenities are appropriate, including parking
  - High Per Unit Use of LIHTC Equity & High Total Development Costs can result in negative scores

4% LIHTC in Michigan

- Federal IRS reg: if awarded state bond financing, then automatically get 4% credits
  - MSHDA adds additional requirements that can kill the deal or require modifications to get bond funding
- Direct Loan Program (MSHDA sells pooled project bonds and with the proceeds they make direct loans to affordable housing projects for a term of 40 years at a fixed rate)
- GAP Funding Program – MSHDA also has a subordinate loan program to MSHDA's primary loan to help fill the funding gap that most affordable projects have
- Competitiveness based upon how much gap money requested vs amount of loan
  - The lower the ratio of gap to loan, more competitive
- MSHDA GAP sources include state and federal funds
  - Federal funds add additional environmental review, Section 3, M/WBE, tenant income restrictions lower than LIHTC, BABA and Prevailing Wages
- 4%/GAP Program projects are subject to MSHDA Design Guidelines including but not limited to:
  - New construction: parking, dishwasher, garbage disposal, tot lot for family sites (50 unit/lot), EV charging stations ready, elevators for seniors with 2 stories or more, elevators for 3 stories or more, 100 units or more/2 elevators, emergency medical alert or alarm system for seniors, grab bars on both sides of halls for seniors, tot lot for families/50 units, cordless blinds, package shelves, patios or balconies for each unit, minimum SF requirements, Green Policy adherence, A/C.

4% LIHTC continued

- Marketing Division review can add additional requirements that are not in the design guidelines if there is a concern that the project may have marketability issues (i.e. crime, negative neighborhood influences like vacant or dilapidated structures, etc.)
- 24 months to construct
- Not subject to NEPA, but because in Michigan MSHDA is selling bonds and directly lending
  - MSHDA adopted environmental review standards they call site suitability issues such as:
    - Phase I (REC’s identified then Phase II), Noise assessment (near railroad or busy roads) floodway, wetland, industrial area

Issues related to both 9% and 4% LIHTC

- Current equity market uncertainty with pricing (tax policy uncertainty, energy credit competition etc. impacts how much an investor is willing to pay)
- Income averaging can add complexity to projects, which can impact pricing
- Investors have preference for "vanilla box" projects not "out of the box"
- Interest rates (on construction loans and permanent debt) are making many projects infeasible
- Cost of construction/commodities and lead times for delivery of materials causing infeasibility and uncertainty
  - Examples: generator 18+ months lead time, transformer 52 months, elevators 12 months
  - Cannot pre-order major equipment until construction design certainty
- Downward timing adjusters (municipal reviews for land use, permitting, inspections, certificate of occupancy timing) can greatly impact project financing plan
  - i.e. funding is reduced if project does not meet milestones and completion requirements
- Supportive services costs
  - Cannot be paid for from rent, must be from other funding sources

Ann Arbor Specific Challenges

- Uncertainty/timing of zoning and site plan approvals particularly related to getting those approvals done prior to a funding application deadline

- Engineering review surprises following site plan approvals/Development Agreement
- A2 will only issue "foundation only" permit until underground stormwater management is complete and certified, and then will issue building permit. All development funders require building permit before releasing funding to start underground work – this caused delays for AAHC projects and resulted in loss of equity funds
- Timing/coordination of building/engineering, arborist, etc. inspections

- Cost and availability of land/buildings

- Excessive and complicated City design requirements compared to other communities
  - E.g. First floor ceiling height, first floor glazing, set-backs, sidewalk widths, EV charging capacity, stormwater mitigation, open space requirements, landscaping, exterior finishes, bicycle storage, garbage/recycling design

- Cost of building permits/review fees/connection fees/civil inspection escrow/DOM (vs. other MI municipalities)
  - In 2018 compared AAHC development to Detroit Housing Commission Developments same co-developer
  - Ann Arbor is 3x – 4x more expensive depending on project size.

- Excessive per unit costs causes lost scoring points and/or have to make up for lost points by making other commitments

Parking

- MSHDA allows a waiver request from 2:1 requirement for a 4% project
    - Approved reduction is dependent on location and market study
- MSHDA market analysis determines parking for a 9% project
    - Example, Dunbar Tower on Catherine/4th (AAHC)
        - Took 4 months of negotiation with MSHDA to agree to no on-site parking
            - Downtown – high amenities nearby
            - Walkable, bikeable, transit
            - 2 EV's provided for shared tenant use
            - Tenants self-selecting to live in location without a parking space
            - 1 bedroom units, not large families
            - Demonstrated low car use at other AAHC properties with similar tenants

Recommendations to Reduce Barriers to Housing Development

- Create by right densely developable zoning
- Public infrastructure analysis and public investment to support housing development
- Hire an outside independent entity with development experience in multiple jurisdictions to undertake a review of City requirements with the goal of reducing barriers
- To increase predictability and certainty
- To reduce burden on staff to interpret and enforce local requirements
- To streamline review and approval times
- To reduce competing city dept requirements
- To reduce cost of construction