Local Tools for Affordable Housing

Case Studies and Examples of State and Local Affordable Housing Programs

A collaborative report authored by Fannie Mae and the National Housing Trust

Opinions, analyses, estimates, forecasts, and other views of Fannie Mae's Economic & Strategic Research (ESR) Group included in these materials should not be construed as indicating Fannie Mae's business prospects or expected results, are based on a number of assumptions, and are subject to change without notice. How this information affects Fannie Mae will depend on many factors. Although the ESR Group bases its opinions, analyses, estimates, forecasts, and other views on information it considers reliable, it does not guarantee that the information provided in these materials is accurate, current or suitable for any particular purpose. Changes in the assumptions or the information underlying these views could produce materially different results. The analyses, opinions, estimates, forecasts, and other views published by the ESR Group represent the views of that group as of the date indicated and do not necessarily represent the views of Fannie Mae or its management.

Contents

Introduction 3

State and Local Programs 5

- Illinois: Use of State and Federal Housing Tax Credits 5
- Massachusetts: MassHousing's $100 Million Workforce Housing Initiative 8
- California: Property Tax Welfare Exemption 10
- Seattle, Washington: Multifamily Tax Exemption Program 12
- New Jersey: Economic Redevelopment and Growth Program 15
- Hawaii: Preservation Through Public Private Partnership 17
- Dallas, Texas: Leverage Federal HOME Funds 20

State and Local Tools Conclusion 25

Appendix: Fannie Mae Financing for State and Local Affordable Housing Programs 26

Introduction

Access to affordable housing is a national challenge that demands local solutions. Across the country, state and local governments are developing innovative tools and strategies to address affordable housing challenges in their communities. These jurisdictions are best positioned to understand a community's specific needs – which populations need to be served, at what level of affordability, in what neighborhood, etc. The affordable housing needs in San Francisco, for example, are not the same as the affordable housing needs in Omaha, and therefore the tools necessary to address these needs are not the same either. The tools and resources developed on the local level to incentivize affordable housing development and preservation, then, are often those that most acutely meet the needs of a community. Based on research commissioned by Fannie Mae and conducted by Grounded Solutions Network, there are currently at least 900 different state and local affordable housing programs in the United States today, of which nearly 75% support rental housing or a mixture of rental and single family homeownership, and that number is growing as State and Local jurisdictions are looking to step in to address critical affordable housing needs in their areas. Additionally, there are over 800 unique state and local affordable housing trust funds. In addition to these program, states and localities frequently tailor federal programs and leverage federal funds to meet local needs and priorities.

Creating economic opportunity and vibrant communities with economic diversity is a growing concern for state and local governments across the country. The location of housing often determines if and how residents access opportunities such as education, employment and health care. Research[1] shows shows that improving neighborhood environments can bring about positive outcomes for low-income children including higher college attendance, health benefits, larger earning gains as adults, and other indicators of economic mobility compared to children who remain in high-poverty communities. Providing access to housing in areas of opportunity, then, is important. Equally important is creating mixed income housing opportunities in the communities where low-income families already reside. Investing in areas of concentrated poverty can catalyze significant and meaningful economic revitalization that benefits the residents who live there.

Finally, as housing rent burdens increase in municipalities across the country, states and localities are also grappling with the growing problem of affordable workforce housing. "Affordable Workforce Housing" is defined by Fannie Mae as housing that is affordable to our nation's workforce and should support a broad spectrum of residents whose participation in the local economy depends on their ability to find and afford housing that meets their needs in their community, without an extended commute.

These residents may have inadequate access to affordable housing due to one or more of the following factors:

- Their income levels are low enough to qualify for a subsidized unit but there is insufficient supply of subsidized units in the market;

[1] Chetty, Raj, Hendren, Nathaniel and Katz, Lawrence F. (2015)
"The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment"
https://www.nber.org/mtopublic/final/MTO_IRS_2015.pdf. pp. 1-2

- They earn too much to qualify for subsidized rental housing; and
- They don't earn enough to afford market rate rents without being cost burdened (defined as spending more than 30% of income for housing), and there is an insufficient supply of affordable market rate units in the local market.

By no means an exhaustive list, this paper presents a handful of examples of how States and Localities are addressing affordable housing issues and incorporating economic diversity and workforce housing into those programs. Included in this paper are several case studies highlighting instances from across the country in which both Fannie Mae products and local resources were leveraged to create or preserve affordable housing suitable for the local community.

State and Local Programs

Illinois: Use of State and Federal Housing Tax Credits

Throughout the state of Illinois, the Illinois Affordable Housing Tax Credit encourages private investment in affordable housing by offering a state income tax credit to parties who make a donation – in the form of cash, securities, or property – to a nonprofit real estate developer. The donor can then choose to keep the credit or assign it back to the nonprofit, who can sell it through a syndicator in a process similar to that of the federal Low-Income Housing Tax Credit. In exchange for accepting the donation and participating in the Illinois Affordable Housing Tax Credit, the property benefitting from the donation must maintain affordable rents in 25% of the units. Affordability, in this case, is defined as serving low-income renters who pay less than 30% of their income on rent.

Mercy Lakefront negotiated a below-market purchase of 2000 Illinois Apartments using the Illinois Affordable Housing Tax Credit. Source: Mercy Housing Lakefront

Mercy Housing Lakefront, a nonprofit affordable housing development and management company serving Illinois and Wisconsin, has used the donation tax system to maintain affordability in two properties as affordable workforce housing: 2000 Illinois Apartments, located in Aurora, and River West Commons, located in Elgin.

2000 Illinois Apartments was acquired in partnership with the Housing Partnership Equity Trust in 2013, and Fannie Mae acquired the loan in 2015 when it was refinanced to provide additional capital for property improvements. The Housing Partnership Equity Trust (HPET) is a social-purpose real estate investment trust that acquires and preserves affordable housing in partnership with nonprofit apartment owners. The property includes 128 units just minutes away from major employment centers such as Presence Mercy Hospital as well as the I-88 office corridor and I-55 industrial and distribution centers. The property is also located near public transportation. The city of Aurora is in need of affordable housing: 67% of the city's renters earn less than 80% AMI, and 69.9% of these low-income renter households pay more than 30% of their income toward housing costs.[2]

The donation, in this case, took the form of a negotiated sales price that was $600,000 below the property's market rate. The seller, who did not have significant state tax liability, returned the tax credit to Mercy Lakefront who then sold it for 85 cents on the dollar. (While this transaction took place in 2013, Mercy Housing Lakefront estimates that the tax credit would sell for 90 cents on the dollar today.)

Though not a Fannie Mae acquisition, River West Commons benefitted from a similar scenario, where Mercy Housing Lakefront was able to negotiate a below-market sale using the Illinois Affordable Housing Tax Credit. With a total of 105 units of studios, one-bedroom, and two-bedroom apartments, rents range from $710 to

[2] HUD User: https://www.huduser.gov/portal/pdredge/pdr_edge_inpractice_121514.html

$925. The property's location provides residents easy access to employment centers in Chicago and the western suburban areas. In both of these instances, Mercy Housing Lakefront was able to acquire market rate properties serving the workforce of Chicago's western suburbs and maintain them as mixed-income properties at affordable rent levels. In addition to the capital acquired through the Illinois donation tax system, the purchase of both properties benefitted from access to HPET's quick capital. In the case of 2000 Illinois Apartments, HPET funds enabled Mercy Housing Lakefront to proceed from contract to closing in just three months, as opposed to the approximately two years the development team estimates other types of financing would have taken. Accessing capital quickly is critical when competing against profit-driven developers, who are often able to finance a property with traditional sources more quickly than a developer who is piecing together multiple sources of affordable financing. Having access to quick capital makes affordable developers, like Mercy Housing Lakefront, increasingly competitive when bidding against profit-motivated developers for market rate properties.

Illinois Housing Development Authority (IHDA) and Federal Housing Tax Credits

Developing and preserving affordable housing in an area of concentrated poverty should be about more than just housing options; it should be about revitalizing what may be a distressed community. For the past four years IHDA's Qualified Allocation Plan (QAP), which outlines how the state intends to allocate the Low Income Housing Tax Credit, has placed heavy emphasis on the importance of a community revitalization strategy when investing in affordable housing in a Qualified Census Tract (QCT) or a Department of Housing and Urban Development's (HUD) recognized Racially or Ethnically Concentrated Area of Poverty (RECAP). While not a separate State funded program, Illinois is successfully leveraging the federal Housing Tax Credit program to advocate for and address local needs and priorities. According to IHDA's 2019 QAP, "A strong Community Revitalization Strategy will provide guidance for the community to follow, to bring about its vision over the long term, and should include input from local residents, neighborhood boards and groups, nonprofit agencies, local businesses, educational institutions, service agencies, and other local stakeholders." IHDA's intended outcome is to help communities throughout the state of Illinois create a Community Revitalization Strategy that can accomplish the following:

Clarendon Courts, Chicago, IL - Part of the IDHA Community Revitalization Program

- Initiate proactive community planning.
- Strategize future planning and investment.
- Establish linkages to ongoing initiatives.

- Identify realistic housing needs and goals for the community.
- Identify potential funding sources for plan implementation.
- Identify financially feasible models for meeting housing needs.
- Attract investors to the community.
- Form a working advisory group.
- Strategically plan for future Housing Credit development sites.

To support these efforts, IHDA deploys Community Revitalization Planning Specialists (CRPSs) to provide direct technical assistance to both communities and developers. As a result, IHDA's Housing Credits are supporting not only affordable housing, but community and economic revitalization.

One project financed by Fannie Mae, and currently participating in the IDHA Community Revitalization program is Clarendon Courts. Clarendon Courts is a 152-unit property located in the Uptown neighborhood of Chicago. The development was originally built in 1981 and underwent a comprehensive rehabilitation with tax-exempt bonds and 4% Low Income Housing Tax Credits from IHDA, with permanent loan financing from Fannie Mae. The units serve elderly residents over the age of 62, and all 152 units are affordable due to the LIHTC restrictions and a Section 8 HAP contract on the property.

Massachusetts: MassHousing's $100 Million Workforce Housing Initiative[3]

In 2016, Massachusetts Governor Charlie Baker announced the creation of a $100 million fund for the creation and preservation of workforce housing. Targeting individuals and families with incomes between 60% and 120% AMI, the Workforce Housing Initiative provides up to $100,000 of soft debt per workforce housing unit and requires a deed restriction to keep the units affordable to workforce renters for at least 30 years. The result is mixed-income properties providing housing options for middle income renters. In addition to creating new workforce housing units, the initiative also supports projects involving an acquisition or rehabilitation of an existing development where previously unrestricted market rate units are converted to units with a deed restriction that requires a portion of the units to remain affordable or projects where the existing affordability requirements are at risk of expiring. Of the total $100 million fund, $25 million has been set-aside for "transformative projects" that meet one of the following criteria,[4] some of which fit directly into Fannie Mae's objective of supporting workforce housing developments in areas the Duty to Serve program has designated as Residential Economic Diversity (RED)[5,6]:

Glen Meadow Apartments in Franklin, MA provides affordable and workforce units

- Leverage locally- or state-owned land.
- Are part of a larger economic development initiative.
- Create transit-oriented developments.
- Are an important component of a locally-approved affordable housing plan.
- Are increasing economic diversity and social equity by creating family housing in areas of opportunity.
- Or, are part of a multiphase project with an affordable homeownership component.

[3] MassHousing is self-sustaining and supports this program with its own resources, not taxpayer dollars.
[4] Massachusetts Housing Finance Agency Opportunity Fund – Workforce Housing Program; Program Guidelines. https://www.masshousing.com/portal/server.pt/document/14054/masshousing_workforce_housing_program_guidelines
[5] For the purposes of Duty to Serve, Residential Economic Diversity means an eligible Enterprise activity that supports financing of mortgages on: (1) affordable housing in a high opportunity area; or (2) mixed-income housing in an area of concentrated poverty. FHFA has further defined areas of high opportunity to include areas designated by Housing and Urban Development (HUD) as a "Difficult Development Area" (DDA), as well as areas designated by a state local Qualified Allocation Plan as a high opportunity area, whose poverty rate is lower than the rate established by FHFA. An area of concentrated poverty is defined by FHFA as including a census tract designated by HUD as a Qualified Census Tract, or as a Racially or Ethnically-Concentrated Area of Poverty, during any year covered by an Underserved Markets Plan or in the year prior to a Plan's effective date.
[6] Research shows that improving neighborhood environments can bring about positive outcomes for low-income children including higher college attendance, health benefits, larger earning gains as adults, and other indicators of economic mobility compared to children who remain in high-poverty communities. Similarly, investing in areas of concentrated poverty can catalyze significant and meaningful economic revitalization that benefits the residents who live there. Recognizing both the importance and challenge of investing in housing options in both types of communities, FHFA's Duty to Serve Rule prioritizes both of these efforts by incentivizing Fannie Mae to invest in areas of Residential Economic Diversity (RED). A key priority of the Duty to Serve rule, RED refers to 1) affordable housing in high opportunity areas, and 2) mixed income housing in areas of concentrated poverty

Between May 2016 and July 2018, 26 developments totaling 2,374 units closed with funds from the Workforce Housing Initiative. One of these properties financed by a DUS® lender with Fannie Mae is Glen Meadow in Franklin, MA which includes 288 preservation units, 43 of them workforce. Glen Meadow was a property whose affordability restrictions, and related subsidy, had expired in 2013, and the property had agreed to a gradual phase out of affordability. Due to funding from MassHousing and additional soft debt from the Department of Housing and Community Development, the current owners were able to purchase the property and maintain 25% of the units as affordable: 15% of the units are affordable at 80% of AMI and an additional 10% of units are affordable at 60% of AMI.

California: Property Tax Welfare Exemption

Adopted by voters as a constitutional amendment in 1944, California's Welfare Exemption grants the California Legislature the authority to exempt eligible properties from property taxes. In a market like California, this can save nearly half a million dollars per year on a single property – a substantial amount that can make or break a property's success.

Sara's Apartments, Long Beach, CA utilizes the California Welfare Exemption

Among the property types eligible for this exemption is housing for low-income households. In instances where the property is owned and operated by a nonprofit organization, a property is eligible under the following circumstances:

- The property use is restricted to low-income housing by a regulatory agreement, recorded deed restriction, or other legal document.
- The funds that would have been necessary to pay property taxes are used to maintain the affordability of the housing or to reduce the rents for the units occupied by lower income households, defined by HUD as households earning below 80% of the Area Median Income (AMI).[7]
- And, the property receives either state or federal low-income housing tax credits or government financing, or 90 percent or more of the tenants are qualified low-income tenants within the prescribed rent levels.

In instances where the property is owned by a limited partnership with a nonprofit corporation or eligible limited liability company as managing general partner, the property is eligible under these circumstances:

- The property use is restricted to low-income housing by a regulatory agreement or recorded deed restriction.
- The funds that would have been necessary to pay property taxes are used to maintain the affordability of the housing or to reduce the rents for the units occupied by lower income households.
- The property receives either state or federal low-income housing tax credits or government financing.
- And, the limited partnership agreement provides the claimant with sufficient management authority and duties in the partnership operations to qualify the property for exemption.

A similar tool exists in several other states, including Oregon, where any property owned by a 501(c)3 is given an exemption from property taxes. Though this exemption does not target affordable or workforce housing specifically, it can help create affordability by nonprofit developers. Nor does either tool specifically target RED

[7] http://www.hcd.ca.gov/grants-funding/income-limits/index.shtml

areas, though developers who have accessed the tools confirm that the tax abatement is especially valuable in areas of high opportunity.

Sara's Apartments in Long Beach, CA is one of the most recent examples of a California Welfare Exemption property, refinanced in the fall of 2019 through Fannie Mae's Multifamily Affordable Housing program. A 29-unit property, Sara's Apartments has a project-based voucher contract with the City of Long Beach and benefits from the California Welfare Tax Exemption by partnering with the Foundation for Affordable Housing ("FFAH"), a tax-exempt 501(c)(3) public benefit nonprofit corporation. The property is walking distance from many employment and recreation destinations. The Pacific Avenue Station for the Metro Blue Line is located two blocks south of Sara's along Pacific Avenue which provides light rail access throughout the region and terminates in Downtown Los Angeles.

Seattle, Washington: Multifamily Tax Exemption Program

As a booming technology sector has attracted more people to Seattle, affordability across the city declined rapidly. Today, the rental market in the Seattle-Tacoma-Bellevue metropolitan statistical area (MSA) exhibits the third fastest rent growth in the nation, with rental prices expected to continue to rise. According to the National Low Income Housing Coalition, there is a deficit of 112,678 affordable and available units for renters at or below 50% AMI in the Seattle-Tacoma-Bellevue MSA.[8] Of renters between 51% and 80% AMI, 47% are cost burdened, meaning they spend more than 30% of their income on housing costs and utilities.

To address this, Seattle developed the Multifamily Tax Exemption Program (MFTE). Like California's Tax Exemption, the City of Seattle's MFTE program provides a property tax exemption to owners of multifamily rental and for-sale residential projects. For rental properties, the property owner is excused from paying property tax on residential improvements in exchange for rent-restricting at least 20% of the units for income-qualified households during the period of exemption. For condominiums or other for-sale multifamily properties, the tax exemption accrues to each of the owners of the income- and price-restricted units. The exemption does not apply to land or non-residential improvements. Under State law, the program allows a maximum 12-year exemption. By supporting the development of mixed-income rental properties, the MFTE program ensures affordability as Seattle communities continue to grow. There are nearly 4,500 MFTE apartments available throughout Seattle currently, with an additional 1,320 slated to enter the market by 2020.

Rent Burden in the Seattle-Tacoma-Bellevue MSA (2017)

	% of renter households with cost burden	% of renter households with severe cost burden
Extremely Low Income (ELI)	83%	72%
ELI – 50% AMI	84%	36%
51% - 80% AMI	47%	6%
81% - 100% AMI	17%	0%

Renter households spending more than 30% of their income on housing costs and utilities are cost burdened; those spending more than half of their income are severely cost burdened.

8 National Low Income Housing Coalition, https://reports.nlihc.org/gap/2017/wa

Case Study: The Roost

The Roost in Seattle – one example of the Multifamily Tax Exemption Program

A co-living artists' community in Seattle's vibrant Rainier Valley neighborhood, The Roost offers 33 units of micro-housing made affordable through the Seattle Homes Within Reach incentive program.

The Roost is located in the Rainier Valley neighborhood, now considered one of the trendiest parts of the city. In the 1990s, Rainier Valley saw an influx of artists as the early signs of gentrification took hold in the then-still-affordable neighborhood. While the U.S. Census Bureau proclaimed Rainier Valley the most diverse neighborhood in the country in 2010, the neighborhood has struggled to maintain its diverse artist population, and few remain today.

Neiman Taber Architects, which both designed and developed The Roost, worked with the city of Seattle to meet two of the neighborhood's needs: 1) affordable housing; 2) support for the arts. The three-story property was completed in 2018 and offers 33 apartments, 24 of which house working artists and nine of which are subsidized by the Seattle Homes Within Reach Incentive program to assist households earning below 40% of the area median income (AMI). All 33 of the units are affordable at 80% AMI. In 2019, Fannie Mae refinanced the property with First Mortgage Debt of over $4,000,000.

The annual income and restricted rent levels for the MFTE are published by the Seattle Housing Authority, and currently limit rent to $702 per month per unit for those at the 40% AMI level. The market rate apartments at The Roost rent for an average of $1,200 per month, which is still below the average market range of $1,240 to $1,465 per unit. By participating in the MFTE program, The Roost is required to implement an Affirmative Marketing Plan, which will help individuals and households otherwise unlikely to apply for housing 1) know about the vacancies; 2) feel welcome to apply; and 3) have the opportunity to rent units.

In addition to rent-restricted and unrestricted apartments, the Roost offers 1,838 square feet of commercial space. Thanks to a years' long partnership with the Seattle Office of Arts and Culture, The Roost's commercial space is occupied by an organization that provides inspiration to the building's artist residents: a nonprofit media lab that connects artists with social change movements to design, produce, and distribute art and media. By providing affordable artist housing, and serving as a community cultural space, The Roost is achieving the development team's goal of fostering growth in the local arts in the central Seattle community.

Fannie Mae Financing

This transaction closed in the spring of 2019 utilizing Fannie Mae's Multifamily Affordable Housing Special Public Purpose program.

New Jersey: Economic Redevelopment and Growth Program

The Economic Redevelopment and Growth (ERG) program is a state incentive program for New Jersey developers delivering projects in areas targeted for growth. In exchange for a tax credit of up to 20% of total project cost, at least 20% of any newly constructed residential units must be reserved for low- or moderate-income households. As evidenced by its title, the program is not strictly an affordable housing program, but is a program aimed at economic growth in strategic locations throughout the state of New Jersey and can be used for commercial and mixed-use projects, as well as multifamily residential.

Case Study: New Brunswick Performing Arts Center

New Brunswick Performing Arts Center New Brunswick, NJ part of New Jersey's Economic Redevelopment & Growth Program
Source: New Brunswick Development Corporation, devco.org

In New Brunswick, NJ, a bond credit enhancement from Fannie Mae in 2017[9] helped finance a mixed-use development that also received funding through the New Jersey Economic Redevelopment and Growth (ERG) program, a state incentive program for developers delivering projects in areas targeted for growth. As part of the renewed effort to transform the Downtown Cultural Arts District in the city of New Brunswick, the New Brunswick Performing Arts Center (NBPAC) combines state-of-the-art theater space with office, parking, and 207 mixed-income residential units in a public-private partnership that represents one of the most important urban investments in the state.

New Brunswick has long been a center for the arts in New Jersey, with the industry generating $36.57 million in local economic activity.[10] In a renewed effort to transform the Downtown Cultural Arts District and ensure that the city continues to serve as a cultural hub, a private-public partnership between Pennrose, LCC, Rutgers University, the private nonprofit developer New Brunswick Development Corporation (DEVCO), Middlesex County, and the city of New Brunswick embarked to deliver a $172 million, 23-story multi-use property featuring two state-of-the-art theaters, dedicated rehearsal space, 15,000 square feet of office space, 344 parking spaces, and 207 residential apartments. Slated to open in the fall of 2019, the New Brunswick Performing Arts Center is a transformational project that represents one of the most important urban initiatives in the state.

[9] The project is part of an unfunded forward commitment from 2017, slated to deliver in 2020.
[10] https://www.newbrunswickarts.org/wp-content/uploads/2017/10/newbrunswicknj_finalreport.pdf, pp. 4

Thanks to debt leveraged from the Economic Redevelopment and Growth program, 42 of the property's residential units will be made affordable to households earning at or below 50% of the area median income (AMI). Of those 42 units, five will be affordable to those earning at or below 30% AMI. Through a partnership with the Actors Fund, these affordable units will be marketed to actors, musicians, dancers, and other theater support personnel – allowing those who work in the performing arts industry the opportunity to live in the community and continue to contribute to the performances next door. The project, which had a complex capital stack including New Market Tax Credits, conventional private equity, and a permanent loan from Fannie Mae, also benefitted from a 30-year Payment in Lieu of Taxes (PILOT) program – a long-term agreement between the developer and the municipality where a smaller lump sum is paid in lieu of the annual property tax bill.

New Brunswick Performing Arts Center, New Brunswick, NJ Source: New Brunswick Development Corporation, devco.org

Despite its recent reemergence as a cultural hub, New Brunswick, like many American cities, experienced a decline in the 1970's. The city sought public-private partnerships to foster revitalization, redevelopment, and investment in the city and in the 1980's, the city began to slowly rebound as a result. Today, the city is continuing to establish itself as a vibrant and desirable city. Nicknamed the "Hub City," it is considered an economic powerhouse within the state, home of Rutgers University, several medical facilities and international pharmaceutical companies such as Johnson & Johnson and Bristol-Myers Squibb.

As a result of these revitalization efforts, New Brunswick's population has grown consistently, unlike other cities throughout the state that have experienced stagnation or even decline. Along with this growing population came an increased need for affordable housing. On average, renter households in New Brunswick spend 40.4% of their income on rent, representing a significant cost burden.[11]

Home to the historic George Street Playhouse and Crossroads Theatre Company, the New Brunswick Performing Arts Center will solidify the area as one of New Jersey's top cultural destinations while simultaneously creating a dynamic community for residents, visitors, and performers alike that fuels economic development downtown. In addition to attracting visitors, it is estimated that the facility will create 120 full-time jobs, impacting not just the cultural resources but the local economy for generations to come.

Fannie Mae Financing

The project received an Unfunded Forward Commitment Bond Credit Enhancement via Fannie Mae's Mortgage Backed Tax-Exempt Bond (M.TEB) product.

[11] https://www.nj.com/data/2018/02/25_towns_where_residents_spend_the_most_of_their_i.html#incart_m-rpt-2

Hawaii: Preservation Through Public Private Partnership

Hawaii is an expensive housing market. The state's housing wage, defined as the wage needed to afford a two-bedroom unit at fair market rent, is the highest in the country at $36.13 per hour. In contrast, the average renter in Hawaii earns just $16.16 per hour – falling far short of the state's housing wage.[12] Exacerbating this need for affordable housing is Hawaii's geography: with little land between the ocean and mountains, the possibilities for development are limited. Hawaii's lack of affordable rental housing is further exacerbated by the abundance of short-term/vacation rentals and nonresident home sales. In Maui, over 60% of condominiums and apartments on the island are owned by investors and second-home owners, while 52% of homes are sold to non-residents.[13] This dramatically shrinks the already small pool of affordable housing available to Maui's most vulnerable residents and makes preserving the existing stock of affordable housing all the more vital.

Case Study: HHFDC Portfolio

In 2017, the Hawaii Housing Finance Development Corporation (HHFDC) solicited requests for proposals from qualified owners and operators of affordable rental housing for the sale of long-term lease-hold interests in a six-property portfolio spread across the state. As the state government's affordable housing finance and development agency, HHFDC recognized that Hawaii's unique geography and high housing costs made preserving existing affordable housing critical. HHFDC's sale of the portfolio required that the new owner continue to operate all six properties as affordable.

One property included in the Hawaii Housing Finance Development Corp. portfolio

Source: Hawaii Affordable Properties, Inc.

12 http://hiappleseed.org/wp-content/uploads/2018/03/Appleseed-Vacation-Rental-Report-rev.-3.29.18.pdf

13 Data compiled by Apartment List from the American Community Survey, as reported by Pacific Business News, https://www.bizjournals.com/pacific/news/2018/09/25/honolulu-has-third-highest-rate-of-cost-burdened.html

After a highly competitive bidding process that reflects the desirability of the properties' locations and the demand for affordable housing in Hawaii's expensive residential market, HHFDC entered into a purchase and sale agreement with Komohale LP, a joint venture partnership between Standard Communities and Stanford Carr Development, who at closing acquired the lease on five of the six assets (the sixth property will be closed on separately in 2019). The HHFDC Portfolio, comprising 1,221 apartment homes, is subject to ground lease and regulatory agreements that guarantee affordability for 75 years in one of the nation's most expensive housing markets. Two of the properties included in the HHFDC portfolio, Kekuilani Courts and Honokowai Kauhale, qualify as being in High Opportunity Areas under FHFA's Duty to Serve[14] rule and support Fannie Mae's Residential Economic Diversity (RED) Objectives. HHFDC continues to own the fee interest in the land and improvements across the portfolio, with Komohale LP acquiring a leasehold interest for the property.

Fannie Mae Financing

At the initial closing, the DUS lender partnered with Fannie Mae to provide five separate loans to Komohale LP via its Multifamily Affordable Special Public Purpose financing program. Thanks to a ground lease on all six properties, the portfolio continues to operate with asking rents at or below 80% area median income (AMI) with minimal rent increases at lease renewal. Additionally, HHFDC awarded state project-based Rental Assistance Program (RAP) contracts to each property, ensuring that existing tenants would be able to remain in their affordable homes for as long as they chose to stay. HHFDC's RAP, established in 1989, requires that 60% of a property's units meet the 80% AMI threshold. The remaining 40% of the units are available at a market rent determined by HHFDC. The contracts on the six properties forming the HHFDC portfolio provide rent subsidies for eligible households, defined as those living in one of the portfolio properties at the time of closing and who earns less than 80% AMI. The RAP subsidy on the unit is terminated once the current tenants move out. Each property also benefits from property tax exemptions administered by the counties in which they are located.

Special Public Purpose

Under Special Public Purpose, the property:

- Is subject to an Affordable Regulatory Agreement imposed by a government entity, containing other rent and /or income restrictions,
- Has rent or income restrictions that meet or exceed 20% @80%: at least 20% of all units have rent or income restrictions in place making them affordable to household earning no more than 80% of AMI as adjusted for family size, and
- Meets a noteworthy special public purpose.

Kekuilani Courts, located 15 miles west of downtown Honolulu in a suburban community on the island of Oahu, is comprised of 80 2-bedroom garden apartments across 10 low-rise residential buildings. The property is part of a master-planned community developed by HHFDC that features a mix of affordable and market-rate single-family homes, condominiums, and rental apartments. In addition to these residential options, the Village of Kapolei contains several schools, religious institutions, parks, recreation centers, retail centers and two golf

[14] Hawai'i Appleseed Center for Law and Economic Justice, "Hawai'I Vacation Rentals: Impact on Housing and Hawai'I's Economy." http://hiappleseed.org/wp-content/uploads/2018/03/Appleseed-Vacation-Rental-Report-rev.-3.29.18.pdf

courses spread over almost 900 acres. As a HUD-designated Difficult Development Area (DDA), the neighborhood surrounding Kekuilani qualifies as a high opportunity area.

Originally constructed in 1996, the property now benefits from the affordability restrictions of both the ground lease and HHFDC's RAP subsidy. Kekuilani is 95% occupied, with current asking rents a full 30% below the maximum allowable rents. At closing, the property received a commitment from HHFDC for a five-year RAP contract, providing rental assistance of up to $500 per month for qualified households beginning in 2023, when the annual rent increase is permitted to grow to 5%. Honolulu has the third-highest rate of cost-burdened renters in the nation, with 58.4% of renters spending 30% or more of their income on housing costs, making the preservation of affordability in a property like Kekuilani especially critical.

Comprised of 23 garden-style residential buildings totaling 184 apartment homes, Honokowai Kauhale is located in the Lahaina suburb of Maui. The property currently operates under a RAP contract from HHFDC, which provides subsidies of up to $175 per unit per month for qualified households. Upon acquisition, the contract was extended for 10 years with monthly subsidies increasing to $225 per month for qualified tenants for the first 5 years, and up to $500 per month after five years for the duration of the contract. As of February 2019, a total of 70 households (38% of the units) at the property received a RAP subsidy.

Located in a neighborhood with various multifamily, commercial, and public uses, as well as undeveloped land, Honokowai stretches north to south along a regional thoroughfare that provides access to the area's oceanfront resorts. Directly south of the property is a retail center anchored by Times Supermarket, a regional supermarket chain with 25 locations throughout Hawaii. As a HUD-designated Difficult Development Area (DDA), the neighborhood surrounding Honokowai qualifies as a high opportunity area.

Dallas, Texas: Leverage Federal HOME Funds

The HOME Investment Partnerships Program (HOME) provides formula grants to States and Localities that communities use – often in partnership with local nonprofit groups – to fund a wide range of activities including building, buying, and/or rehabilitating affordable housing for rent or homeownership or providing direct rental assistance to low-income people. HOME is the largest Federal block grant to state and local governments designed exclusively to create affordable housing for low-income households.

While a federal program, the program's flexibility allows States and local governments to use HOME funds for grants, direct loans, loan guarantees or other forms of credit enhancements, or rental assistance or security deposits, and requires a 25% match from local sources. In recent years, the city of Dallas has received between $4 and $5 million annually for HOME programs, depending on congressional appropriations. With these funds, Dallas has prioritized multifamily affordable housing through capital and operating subsidy programs, tenant rental assistance, and down payment assistance for low-income homeowners[15].

Heroes House in Dallas, part of the HOME Investment Partnership Program
Source: heroeshousetx.com

Case Study: Heroes House, Dallas

Abandoned, looted, and fire-ravaged, the blighted property now known as Heroes House was considered a nuisance by the time it was purchased from the city of Dallas in 2016. After a multi-million-dollar renovation managed by the nonprofit owner, NP Community Development Corporation, the 67-unit affordable property now serves veterans of the U.S. Military and women and families who had been experiencing homelessness. Residents are referred to the property by either the Dallas Housing Crisis Center or the VA Hospital. Fannie Mae's Multifamily Affordable Special Public Purpose financing program was utilized to provide a mortgage of nearly $4,000,000 to help refinance the property. The property joins another Heroes House, owned and operated by the same entity, which provides formerly homeless Dallas residents with 30 units of affordable housing for 15 years through a combination of HOME funding and private capital.

[15] https://www.hudexchange.info/programs/home/

All of Heroes House residents experienced homelessness prior to moving into the renovated property and benefit not only from an affordable roof over their head, but also case management and services aimed at preventing future homelessness. In addition to housing referrals, the Dallas Housing Crisis Center (HCC), a 501(c)3 nonprofit organization, provides supportive case management and services to help participants address the issues that contributed to them becoming homeless, and empower them to solve their own housing problems in the future. Twice a month, HCC also hosts a free legal clinic where eligible participants can learn more about Texas housing laws and meet with an attorney to discuss specific tenant related concerns. HCC's legal program has been cited by the State Bar of Texas for outstanding service.

In addition to the services offered by HCC, Heroes House is located only half a mile from the Dallas VA Hospital, a critical service for the veteran population the property serves. Residents of the 60,000 square foot property receive a full array of case management services offered by the U.S. Department of Veterans Affairs, VA North Texas Health Care System, and other community partners. These services include job counseling, substance abuse counseling, educational, technical, health, and wellness training. Additionally, Heroes House residents receive subsidies through HUD-Veterans Affairs Supportive Housing program vouchers.

In a city like Dallas, where homelessness increased by 9% between 2018 and 2019[16], the services provided by Heroes House, the HCC, and the VA Hospital are especially critical. Even for those fortunate enough to have a home, rent burdens in the Dallas-Fort Worth-Arlington MSA is extremely high, with nearly half of renters who earn between 51% and 80% of the area median income experiencing rent burden.

Heroes House received a conditional grant from the city of Dallas' HOME allocation, requiring 51% of units be set aside for households with an annual income at or below 80% the area median income (AMI), which is roughly $73,400 for a family of four. The affordability restrictions are enforced through deed restrictions, which began in 2017 (after the completion of renovations and take up of occupancy) and run for a period of 5 years. Although the restrictions only stipulate that 34 of the 67 units must meet affordability requirements, 100% of Heroes House apartments are currently rented to those earning at or below 80% AMI. As of December 2017, 18 Heroes House apartments were occupied by residents receiving tenant-based Section 8 assistance and 45 were occupied by tenants receiving assistance from the Dallas Housing Crisis Center.

Rent Burden in the Dallas-Fort Worth-Arlington MSA (2017)[17]

	% of renter households with cost burden	% of renter households with severe cost burden
Extremely Low Income (ELI)	93%	79%
ELI – 50% AMI	83%	30%
51% - 80% AMI	46%	6%

16 Metro Dallas Homeless Alliance 2019 Point in Time Homeless Count
17 National Low Income Housing Coalition, https://reports.nlihc.org/gap/2016/tx

81% - 100% AMI	16%	1%

Renter households spending more than 30% of their income on housing costs and utilities are cost burdened; those spending more than half of their income are severely cost burdened.

Fannie Mae Financing

This project utilized Fannie Mae's Multifamily Affordable Housing Special Public Purpose pricing discount. The loan is 10-year fixed rate mortgage with 30-year amortization.

In each of these case studies, the affordable apartments came together using a combination of State and Local tools and financing from Fannie Mae to meet a community's need. The following table identifies several of those tools, paying particular attention to the affordability and eligibility requirements of each program/resource.

	Economic Redevelopment and Growth program (ERG)	**HOME Investment Partnerships Program (HOME)**	**Hawaii Rental Assistance Program**	**Seattle Homes Within Reach / Multifamily Property Tax Exemption (MFTE)**
Program Administrator	New Jersey Economic Development Authority	HUD provides grants to states and localities	Hawaii Housing Finance and Development Corporation	Seattle Office of Housing
Year in which the Program was Established	2009	1992	1999	1998
Type of Tool	Gap financing tax credit	Federal block grant administered by states and localities	Rental subsidy	Property Tax Abatement
Case Study Example	New Jersey Performing Arts Center	Heroes House	HHFDC Portfolio	The Roost
Eligibility Requirement	The redevelopment project must be located in a qualifying economic and redevelopment and grant incentive area as per the state of New Jersey. Projects must demonstrate a financing gap, defined as having insufficient revenues to support the project debt service under a standard financing scenario	When administering HOME funds, the Dallas Department of Housing & Neighborhood Revitalization requires that eligible projects be located in a City Redevelopment or Stabilization Reinvestment Strategy Area	A project must demonstrate the following: at least 20% of units must be at or below 50% AMI or at least 40% of units must be at or below 60% AMI or at least 60% of units must be at or below 140% AMI	A project must be located in a Residential Targeted Area[18] and part of a residential or mixed-use project
Affordability Restriction	Any project consisting of newly constructed residential units must reserve 20% of the units for low or moderate income (LMI) households	When allocating HOME funds, the Dallas Department of Housing & Neighborhood Revitalization requires that units remain affordable for 20 years for new construction of rental housing and 5-15 years for housing rehabilitation; affordability is restricted to an income range of 30-80% AMI	Contracts provide rent subsidies for eligible households, as defined above, that earn less than the 80% AMI threshold	Rent on 25% of the units must be set at no greater than 40% AMI

[18]https://www.seattle.gov/Documents/Departments/Housing/HousingDevelopers/MultifamilyTaxExemption/MFTE_RTA_Map.pdf

Additional Terms	Can provide a grant reimbursement of up to 20% of total project costs for projects that are defined as having insufficient revenues to support the project debt service under a standard financing scenario	Funding should be used as gap financing. Additional points are available in the funding cycle through the City NOFA process with maximum funding of 22.5% HOME Value available		12-year property tax abatement; owners/developers applying to participate in the MFTE program must commit to implement an Affirmative Marketing Plan

State and Local Tools Conclusion

As illustrated by the case studies included in this report, it is not uncommon for an affordable housing project, whether new construction or preservation, to rely on private market financing from Fannie Mae and public support from a state or local jurisdiction, and in many cases, federal programs. When a project leverages each of these resources, the project becomes more complicated. Fannie Mae's Multifamily affordable program was designed with that complexity in mind and with flexible features such as Special Public Purpose that are able to support each community's specific priorities.

In New Brunswick, by providing a loan to a project leveraging the Economic Redevelopment and Growth program, Fannie Mae supported investment in an area specifically targeted for growth by State of New Jersey. Similarly, by supporting a mixed-income rental property in Seattle, Fannie Mae helped ensure affordability even as the city's neighborhoods experience rapid growth – a priority specifically articulated by the MFTE program.

Given that local jurisdictions are in the best position to determine what types of affordable housing is needed, Fannie Mae can best serve local communities by continuing to support projects that meet the priorities articulated by state and local initiatives.

Appendix: Fannie Mae Financing for State and Local Affordable Housing Programs

To support State and Local affordable housing programs, Fannie Mae has developed a variety of tools, and products, provided certain conditions are met. In 2019, Fannie Mae updated its definition of Multifamily Affordable Housing (MAH) to address state and local programs and borrower-driven, though still enforceable, initiatives to provide MAH pricing and credit considerations to deals that create and/or preserve rental housing that is affordable to the people who live there.

Many of the case studies described in this paper utilized Fannie Mae's Special Public Purpose definition. If a property with a State or Local affordable housing program doesn't meet the traditional definitions and thresholds of an Affordable Housing property as defined by Fannie Mae, it can be eligible as a Special Public Purpose property. To be eligible as a Special Public Purpose property, the project fulfills all the following:

- Is subject to an Affordability Regulatory Agreement imposed by a government entity, containing other rent and/or income restrictions,
- Has rent or income restrictions that meet or exceed 20% at 80% (at least 20 percent of all units have rent and income restrictions in place making them affordable to households earning more than 80% of Area Median Income as adjusted for family size), and
- Meets a noteworthy Special Public Purpose.

Fannie Mae offers a suite of Multifamily Affordable Housing tools and product enhancements to support State and Local affordable housing programs, some of which are summarized below.

Affordable Housing Preservation – Fannie Mae's traditional Affordable Housing Preservation product, with customizable and flexible terms for affordable housing properties.

MBS as Tax-Exempt Bond Collateral – Many Housing Authorities and local affordable housing agencies have taken advantage of Fannie Mae's M.TEB program, which pairs well with local affordable housing bonds.

Healthy Housing Rewards™ – Many State or Local affordable housing programs have a special emphasis on supportive resident services. These programs can explore how to take advantage of our Healthy Housing Rewards program, either through the Healthy Housing Design or Enhanced Resident Services pathway.

Green Rewards – Some states or localities have strong green incentives or requirements for affordable housing constructions. Projects that are already energy and/or water efficient or are considering energy efficiency upgrades to save costs can explore Fannie Mae's Green Financing programs.