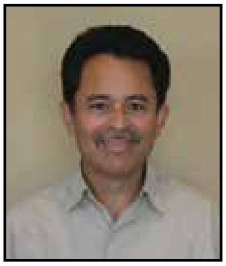
The Geometry of Affordable Housing

Changing the Shape of the Supply



by Robert Von

The Florida Legislature has appropriated $50 million for the State Apartment Incentive Loan (SAIL) program for rent reduction. The funding must be used to reduce rents on new or existing rental units, with 50% for elderly units and 50% for units serving extremely low-income (ELI) residents. The Florida Housing Finance Corporation (FHFC) is tasked with devising an application to award these funds to developers. The following is this author's recommendation for how to efficiently utilize these funds.

The Issue:

Excessive supply of units at the 60% Area Median Income (AMI) set aside and too few units at lower set asides (red pyramid), relative to demand (blue pyramid), resulting in lower occupancies and fewer units available to the population with the most un-met demand for affordable housing.

The shape of the demand for affordable housing is illustrated by a pyramid with the lower-income households at the base and 60% of Area Median Income (AMI) households at the peak (blue pyramid). The shape of the supply is illustrated by an inverted pyramid with the supply of 60% AMI units at the inverted base and the supply for lower-income households at the inverted peak (red pyramid).

The Goal:

To change the shape of the supply to more closely conform to the shape of the demand, without building any new units.

The Solution:

To buy down existing Housing Credit units at higher set asides and convert them to lower set aside units.

The Result:

A supply of affordable units that better matches demand and vacant 60% AMI units replaced with occupied units at lower set asides.

How it Would Work:

The development community would be invited to "bid" on an amount they would accept to provide a greater proportion of lower set aside units within their existing projects; in other words, a reverse auction.

There are many ways to accomplish this. The following is one example; it uses data from the Orlando MSA (Median Income of $58,500) to illustrate the concept.

The one-bedroom unit has a current gross rent of $658 per unit, while the maximum gross rent as an ELI unit (30% AMI) is $329; therefore, converting this unit would result in a rent reduction of $329 per month. Assuming 20 years remaining on the Land Use Restriction Agreement (LURA) and a 7% discount rate, the present value of lost income is $42,435, which would be the maximum amount that the FHFC would pay to buy down that unit.

Note that the current Gross Rents are based on 60% of AMI. Actual rents may be lower and would be used to estimate the highest price that would be paid to buy down the unit.

Scoring the Applications:

The developer would be scored based on the percentage of the maximum amount they would agree to accept to lower the set aside. If the developer agreed to take $40,000 for a 1-bedroom unit for 20 years, then the score would be 94.26% ($40,000/$42,435). The lowest percentage would win.

Variables to Consider:

Unit Type	Current Gross Rent	30% AMI Gross Rent	Change	PV 20yr/7%
1-bedroom	$658	$329	-$329	$42,435
2-bedroom	$790	$395	-$395	$50,948
3-bedroom	$912	$456	-$456	$58,816
4-bedroom	$1,018	$509	-$509	$65,652

The most critical variables would be the determination of current achievable gross rents and the discount rate. Verified gross rents could be gathered from the data submitted to the compliance department. Once the FHFC announces the discount rate, developers will be able to calculate the maximum price themselves.

To distribute the buy-downs, the FHFC could set up pools for Large, Medium, and Small counties or target counties or even sub-markets that have significant vacancies. Also, the units do not have to be bought down all the way to 30% AMI; a sliding scale could be an option.

The financial strength of the projects should not be significantly impacted by this program. The number of units per project that are eligible for conversion should be limited, and the use of Section 8 vouchers should not be permitted on bought-down units.

Finally, there needs to be a discussion regarding how the proceeds are used. Ideally, they would pay down debt, cure any deferred maintenance, and/or provide funds to prolong the economic life of the improvements and make them more marketable. How the developer commits to using the funds could also be scored.

Conclusion:

This process will ensure that the FHFC achieves a desired result in the most efficient manner possible, and allows the development community to compete equally for the funds. **HNN**

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The FHFC will present a session Tuesday, September 10th, at the Florida Housing Coalition's Annual Conference on **FHFC New Funding Opportunities**.

In addition to the tax credit program, this session will include the new funding for:

- SAIL (the subject of the article above);
- Homeless;
- Special Needs Populations; and
- People with Developmental Disabilities.

Each of these funding opportunities will be explained in terms of the amount of money available, the target populations, and what rules apply to each pot of money, as well as what opportunities there are to influence rulemaking or the ways in which these monies are used.

Immediately following this session, the FHFC staff will present on **How to Apply for New Funding Opportunities**. The entirely new RFP/RFA process will be explained and you will have an opportunity to offer your suggestions and recommendations to the FHFC.

For more information on the Florida Housing Coalition's Annual Conference, please see page 18 or visit: http://www.flhousing.org. **HNN**