MISSING MIDDLE DEVELOPMENT

A GUIDE FOR NONPROFIT DEVELOPERS

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PREPARED BY THE FLORIDA HOUSING COALITION

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INTRODUCTION

The deficit of housing that is affordable and available to rent or purchase has continued to expand, creating a counterbalance between the supply and demand. Across Florida, there are only 95 homes affordable and available per 100 renter households whose income is at or below 100% of the area median income (AMI).

Florida's long-standing pattern of developing low density housing, such as single-family homes, will not resolve the estimated deficit of -598,454 rental units for households at or below 50% AMI. On the other hand, not all residents desire to live in sprawling rental communities or towering apartment building with little access to the outside. To meet the needs of all residents, local governments and developers alike must recognize the importance of diversity in housing development and ensure that incentives and other strategies to promote small scale development be made available to support expanding consumer housing choice.

Changes to the market stemming from in-migration, most significantly impacting Florida residents during the COVID-19 pandemic, and a new founded desirability to live and work in more concentrated, urbanized areas, it is essential that smaller scale development initiatives be implemented to address housing needs of various demographic populations. Baby Boomers are seeking smaller housing options that require less care and management and Millennials and Generation Z are relocating to "live, play, and work" in walkable and transit-oriented cities. Local governments are responding with land use flexibilities that encourage maximizing the use of vacant land in existing neighborhoods and near urban corridors. In doing so, there is potential to not only address the housing deficit and improve homeownership, but also advance community revitalization initiatives in underserved areas.

There is significant importance of missing middle, small scale development, which can help achieve the supply/demand equilibrium and provide diverse housing opportunities allowing for residents to live near their workplace, and within their established community.

This guidebook is intended to:

1. Recognize the importance of small-scale development in providing housing choice, and as a means of meeting housing needs within the context of existing neighborhoods.
2. Serve as a resource for nonprofits interested in housing development - Small-scale as a potential capacity-building activity for nonprofits i.e., the ability to acquire and/or build new small-scale developments without a larger, for-profit partner. It is a niche that many nonprofits could fill in their community with training and financial support.

DEFINING SMALL SCALE DEVELOPMENT

Intentionally seeking to blend into established neighborhoods whose built environment may be mostly represented by low-density, single family home structures, small scale, missing middle development is designed and constructed to uphold the community characteristics and bring harmony among the street scape, form, appearance, and other valued characteristics of the existing improvements. Incorporating these multi-unit housing types expand housing opportunities to households across the spectrum of income bands, offering comparable home sizes at price points affordable to many who are otherwise priced out of traditional single-family homes on the market. Sometimes “missing middle” is used to describe housing affordable to households in the 80% to 120% of AMI, often not served by traditional housing programs or whose needs are not usually met by the market. For the purposes of this guidebook, missing middle will refer to the housing type, not the income levels served.

These strategies strengthen neighborhood stabilization and contribute directly to achieving economic resilience and meeting community development goals. New residents living in missing middle units experience increased walkability to access allowing them to easily access key community elements such as transportation, schools, and groceries within their primary market through the adoption of place-based design methods which also increase access to shared community spaces within the neighborhood. Even in many newly constructed master-planned communities, missing middle is often incorporated into community design, clustered near shared community spaces, neighborhood commercial centers, schools, and transportation hubs. These inclusive neighborhood designs encourage social interaction and gathering in safe spaces as opposed to the typical suburban and exurban neighborhoods.

THE IMPORTANCE OF SMALL-SCALE DEVELOPMENT

Vacant land is becoming increasingly scarce in our metropolitan areas, increasing challenges to develop new large-scale residential development in urban areas. In urbanized locations these vacant, “infill” lots are smaller parcels sandwiched between existing improvements, limiting the density and intensity of development to ensure conformity to the surrounding building envelope. Applying small scale development to these infill lots is a mechanism to increase the number of units, for both rental and homeownership, and offer consumer choice between the traditional alternatives of high density and low-density development near key community elements and jobs.
Implementing strategies to utilize these smaller, often irregular, and imperfect pieces of land, local governments have adopted programs to promote smaller housing development strategies, addressing housing for the “missing middle.” These strategies can increase homeownership in areas of the community that have experienced disinvestment and would benefit from neighborhood stabilization strategies.

In Florida, the housing portfolio is dominated by one-unit, detached single family homes which account for 54.8% of the overall housing stock. Alternatively, only 16.3% of the residential stock are buildings that have between 2-19 units, limiting small scale housing options to residents across the state.

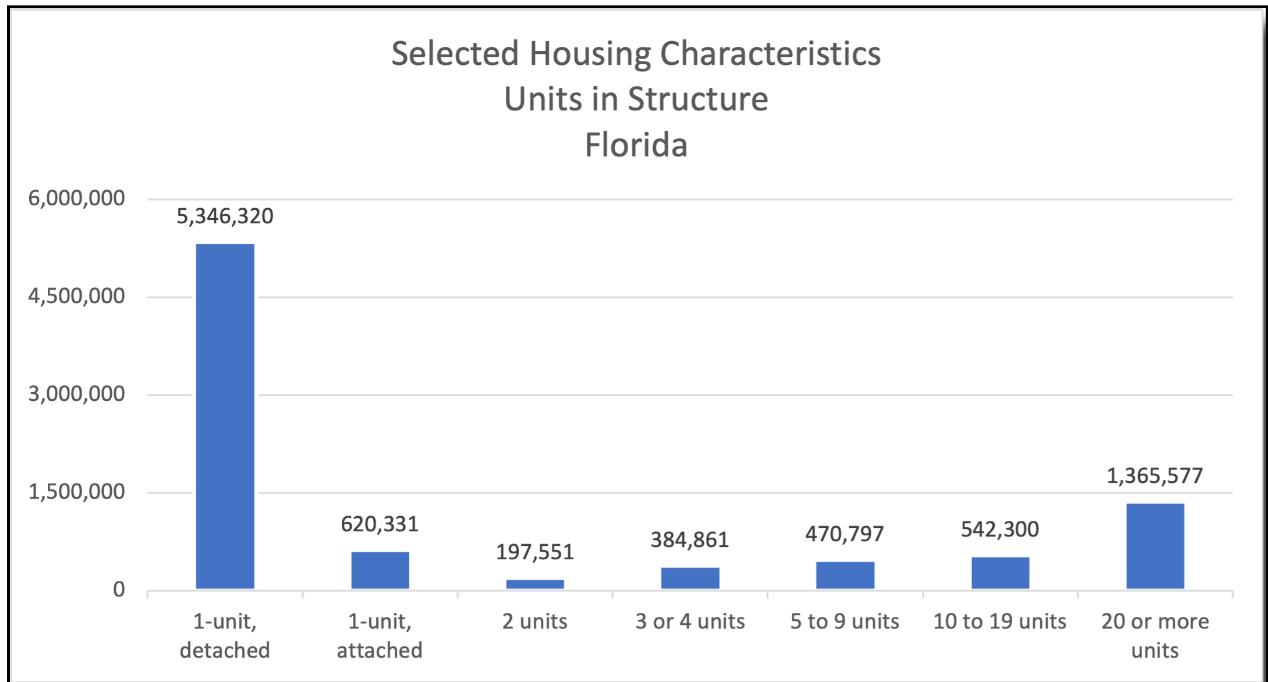


Figure 1: 2021 ACS 5 Year Estimates, Table DP04 Selected Housing Characteristics, Florida

However, with less units comes less cash flow to maintain and sustain the property. While it is not lost that smaller scale development has its own unique challenges, nonetheless it is a housing typology necessary to ensure that residents have opportunities to live, work, raise their families, and enjoy recreational activities within their own market and remain in their community of choice.

WHAT DOES MISSING MIDDLE HOUSING LOOK LIKE?

Missing Middle Housing is defined by multi-family "house-scale" buildings in walkable locations. These small-scale developments were coined "missing" because over time, land use and zoning favoring single-family only zones made them illegal to build in most locations. Any such structure previously built became nonconforming uses grandfathered into to the new land use and zoning scheme. Missing middle housing typologies include garden level varieties like multiplexes and other semi-attached dwellings that offer outdoor and common space areas, and the specific typologies are described in detail below under the "An Overview of Small-Scale Development Typologies" section.

Recognized for their affordability, missing middle units are attractive to households of all ages with different size and compositions, and diverse incomes. Persons who do not want the burden of single-family home responsibilities and assessment fees that come with condo ownership benefit from missing middle buildings that, when well designed, can an provide many of the benefits of single-family home, such as privacy and location within a neighborhood, with the affordability of a condo.

AN OVERVIEW OF SMALL-SCALE DEVELOPMENT HOUSING TYPOLOGIES

ACCESSORY DWELLING UNIT (ADU)

Commonly referred to as granny or mother-in law flats, accessory apartments, garage apartments, carriage houses, or backyard cottages, accessory dwelling units (ADUs) are additional living quarters typically on single-family lots that are independent of the primary dwelling unit. An ADU can be an apartment within a primary residence, or it can be an attached or freestanding home on the same lot as the primary residence. ADUs share parking and other common areas with the primary residence.

DUPLEX/TRIPLEX

A duplex is a structure that is divided into two units under a shared roof. Duplexes share a wall and there are separate entrances for each household, and parking ranges from a shared parking area to individual garages. The triplex has three individual units in one building that share either common walls, ceiling, or a floor. Each household has its own entrance and may also have separate yards. The building can be designed to look like a single-family home, with not all doors facing the street. Parking also ranges from a shared parking area to individual garages.

COURTYARD APARTMENT

Surrounding a common use outdoor open space, the courtyard housing typology typically has one- to two-story buildings that total four or more units and can be considered medium density. Individual units are accessed by an entrance in the courtyard. The open space is a transition between the street and housing units, and parking is usually located in a shared lot or garage. Individual apartments may incorporate private balconies or yards in the rear of the building.

GARDEN CLUSTER

Built in clusters around a common use space, garden cluster housing is either attached or detached homes comprised of three or more units. Each home has its own entrance, and the community area includes shared amenities such as a grill or pool. The dwelling units usually do not have frontage to a public street and more than one unit can be developed on one lot. Parking is generally provided in a shared parking area.

TOWNHOUSE/ROWHOUSE

Townhouses are side-by-side single family, multi-story units that share a common wall. In Florida, these homes share many of the same characteristics as rowhouses, as they are set as the same property line point, consistent design on the exterior, and shared roof line in many cases. However, individual units can have differing size and height. Parking may be a shared parking area, or individual garages in the front or rear of buildings depending on location.

MULTIPLEX BUILDING

From the outside, a multiplex building may look like a medium or large single-family home. However, this detached structure is comprised of anywhere from four to 12 individual apartments, either stacked over two to two and a half stories or designed side-by-side structures. The building's entrance is shared and located at the street. Residents share outdoor space, laundry facilities, and other common-area amenities. Parking is usually offered in a shared lot or garage.

LIVE-WORK

The Live-Work housing typology reflects mixed use development, as the ground level of the building is used for retail or commercial space that is also the owner's place of business. This development model aims to support economic development by bringing businesses to neighborhoods while also providing housing affordable to entrepreneurs. Live-Work units can be stacked on top of or behind their connected commercial space. Live-Work units are usually built along commercial corridors with parking in the rear.

PREPARING TO DEVELOP MISSING MIDDLE HOUSING

The Florida Housing Coalition's Building Capacity to Build course provides essential capacity elements and descriptions of best practices for various roles within a nonprofit organization that is producing or has the intention to develop small scale housing for rental or homeownership. To complement learning about those capacities, an organization should also reflect on the following questions as it considers the process to develop missing middle housing:

QUESTIONS A NONPROFIT SHOULD CONSIDER

Is small scale development for rental housing or homeownership incorporated into its current mission, vision, and strategic plan?

As a nonprofit transforms into a housing developer, the mission, vision, its goals should be revised to reflect this purpose and related objectives. For nonprofits who initially focused on homeownership for low-income households, expanding to rental housing can be seamlessly matched with existing goals of nonprofits, and woven into the existing mission, vision, and policy structure that guides the nonprofit's activities.

Mission based nonprofits that may have traditionally focused on behavioral health, services for homeless persons, meals, or employment may need to modify the mission and vision to include rental housing and update their strategic plan to include goals and objectives that can support housing development. Furthermore, the organization's board would need to approve these changes, amend their bylaws, the nonprofit would need to obtain funding from various sources that could be used for development, and an increase in staff capacity would also be necessary.
Often, the leap into housing development for service-based nonprofits is triggered by an aspiration to resolve an unmet need for the population being served. To develop, own, and operate rental housing, this organization would need to rewrite their mission. When the nonprofit lacks experience or the internal capacity to develop housing, it may be easier to create partnerships with other nonprofits who have experience or developer with the capability of developing rental units for their clients, master leasing, or provide access to set aside units in existing properties.

Are there clearly written goals specific to development?

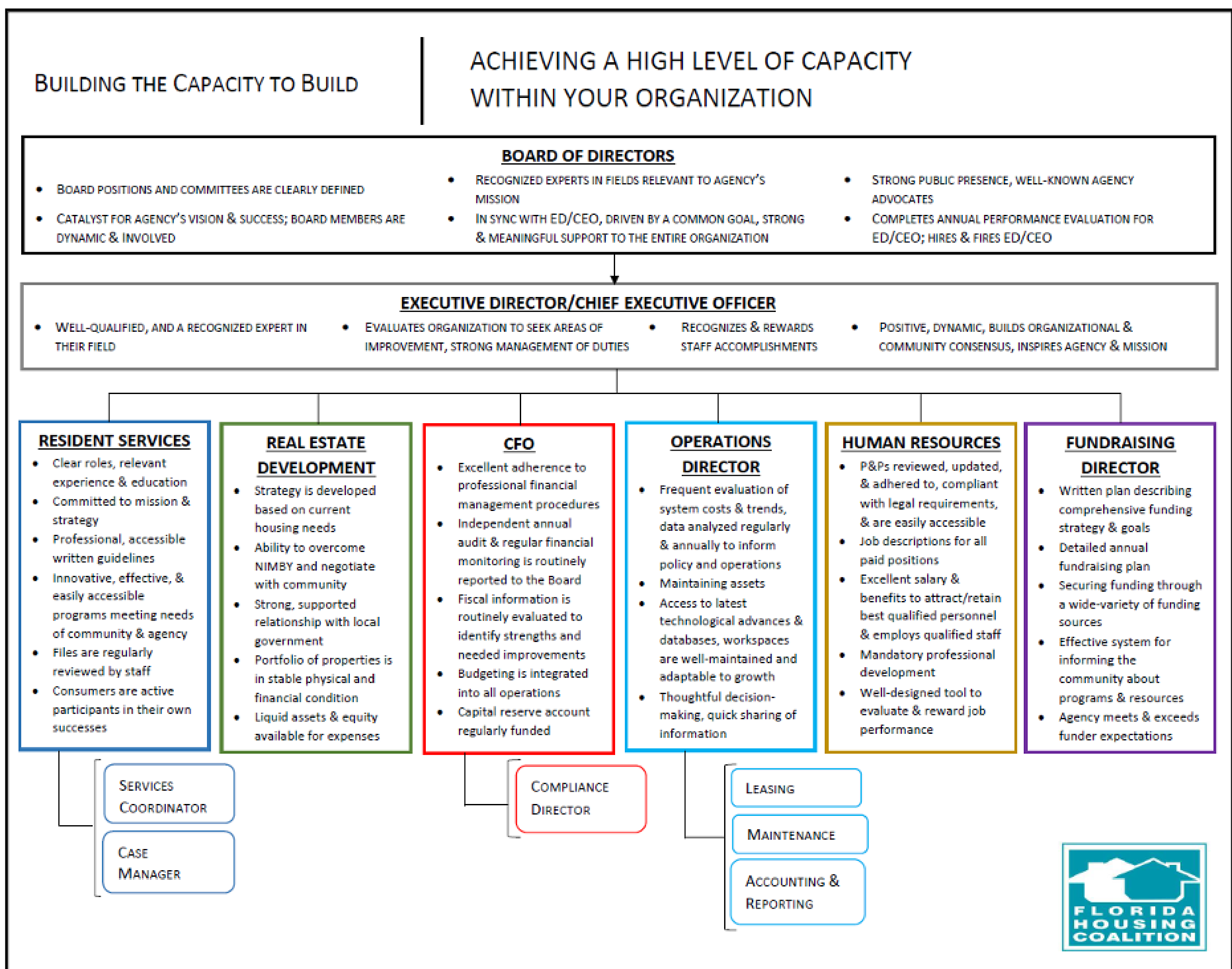
A nonprofit's strategic plan guides its short- and long-term goals. Developed and implemented with the support of the Board of Directors, Senior Management, and staff, the plan should include goals and objectives that reflect the housing typologies and number of units for rental or homeownership to be developed and/or operated within the portfolio. The strategic plan should be reviewed every year and adjusted as needed based on development progress. These goals and action steps should be commensurate with the staff capacity and capabilities, and with consideration of the nonprofit's ability to grow and manage new responsibilities. The undertaking of new development projects should consider organizational capacity (time, money, staff) in determining how large and how fast to grow business is essential, despite the potential economic advantages to fast-pacing development or increasing the number of units to a project. Too many projects in the pipeline at one time can be a drain on finances and staff time, while too few may not be an effective use of resources.

Site selection and suitability are essential elements to bringing a development from concept to reality. Site control of a good parcel that is zoned appropriately and has infrastructure is a necessary component of advancing a project. The organization may have staff time and money, if there are no properties/land for sale in the target area or within the target price, the strategic plan should be reevaluated and adjusted accordingly to reflect achievable goals and objectives.

Does the nonprofit have the right staff?

Each role within the organization has a specific function, which is described in an employee's job description. Employees responsible for acquisition, development, and management or sale of housing require a specific set of skills and expertise. If the nonprofit is new to development, it is important to understand that these tasks often cannot be absorbed by existing staff in unrelated roles.

Below is a descriptive organizational chart that can be used as guide for a nonprofit developing and operating housing.



The chart below also provides detail on how to assess the capacity of staff, identifying strengths and weaknesses, where additional training or staff may be needed, or where working with consultants may be appropriate to obtain the capacity needed.

INTERNAL STAFF EXPERTISE	
ASSESSMENT CRITERIA	**ASSESSMENT**
Financing Mechanisms- Acquisition and Rehabilitation	Staff understands appropriate funding sources, application cycles and processes, regulations.
Capital Needs Assessment	Staff has capacity to perform or how to obtain, and understand CNAs
Real Estate Acquisition Process	Staff understands process, has checklist.
Knowledge of Local Government Development Regulations	Staff knows regulations or knows where to find them and how to interpret them.
Knowledge of Predevelopment and Planning Tasks (Exercising Due Dilligence)	Staff understands predevelopment process, has checklist.
Knowledge of Site and Property Selection Criteria	Staff has clear direction on location/size/price.
Knowledge of How to Manage Contractual Relationships with Qualified Third-Party Experts	Staff understands that when internal expertise is lacking, vendors & consultants can be hired. Clear process for engagement (RFP, RPQ, established relationship).
Co-Developer Needed/Identified	Staff can evaluate complexity of funding and project to determine need for co-developer. Understands how to locate development partner and negotiate contracts.
Established Relationships with Experts	Developed network of housing and development experts (environmental, engineers, architects, attorneys, development consultants). Mechanism for evaluating and contracting.
Established Relationships with Government	Has good relationship with local government staff (housing, planning, building departments).
Established Peer Network	Has relationships with other housing developers, technical assistance providers, nonprofit advocacy networks.
Educational and Training Networks	Staff and management attend FHC trainings and Annual Conference, and utilize FHC and other resources

How will development get financed?

Housing development typically involves some privately sourced debt and/or equity financing for construction that is either paid off from sales proceeds or over time from rental revenue. Sources include loans and lines of credit from banks of community development finance institutions (CDFIs). In their decision to provide financing, these institutions will evaluate both the nonprofit and the development. Nonprofits interested in development should be prepared to undergo rigorous credit underwriting processes to demonstrate a stable, solvent, credit worthy organization. Proving this will include the nonprofit's submission of review current financial statements and a most recent audit. The organization must have the financial capacity to pay fees for applications, commitment fees, third party reports, and credit underwriting services. It may be good to start with institutions the nonprofit already has an established relationship with when considering construction financing sources, as the institution will already be familiar with the nonprofits operations and can better recommend products to meet the nonprofits needs.

A sustainable rental development requires that rent revenue sufficient to cover debt service, fund operations and reserves throughout the lifetime of the building. Homeownership developments must generate enough sales proceeds to cover all development costs. When developing affordable housing, a nonprofit must understand that lower rents result in limited cash flow, or lower sales prices results in lower proceeds. In addition to the complexity of construction financing, the nonprofit should anticipate significant startup costs. It takes time to fully lease up and achieve stabilization, then permanent financing. Part planning for the development should include estimating interim expenses and ensuring that the organization has sufficient cash on hand to operate the property. Affordable housing development can have financial feasibility challenges unless grants, subsidies, and other public support that reduces the overall development cost is dedicated to the project. When incorporating public dollars that are forgivable or can be applied directly to the rent to subsidize low-income households, the project can guarantee rents or sales prices commensurate to income of the targeted households and the revenue can support operating expenses. Obtaining these commitments for subsidy or grant funding must be completed during the site acquisition and development phases, as these are factored into the financial feasibility analysis and operating budget.

These public subsidies come with regulations and compliance requirements. Financing sources used for rental development, such as tax credits, can be more complex than those used to finance homeownership development. Emerging nonprofit developers must learn the development process, financing, regulations, and be prepared to identify and compete for limited resources. This may require developing partnerships with established firms and other community partners that have a successful track record working in affordable housing development. Although securing public and private grant financing will help the financial sustainability of the project, the nonprofit should anticipate construction financing gaps and must have the expertise to obtain several types of financing from different sources.

What is the plan to sustain operations and reserves?

During the predevelopment phase, the nonprofit should carefully evaluate the anticipated sources and uses, and the operating proforma to ensure the project's sustainability over the long term. Properly estimating costs, including adapting the budget to address market fluctuations, in each

phase of the development process can help forecast expenses or budget for future repairs and preemptively identify a need for additional infusion of grant funding or a restructuring of the project's finances. The nonprofit should retain qualified staff with the expertise to analyze and monitor a property's financial performance throughout the lifetime of the project and have the capabilities to respond accordingly when issues arise.

How will the property be managed?

During the predevelopment stage of the process, the nonprofit should evaluate whether the organization itself has the staff capacity and organizational structure to manage the rental property, or if they will need to hire a management company. Depending on financing sources, there may be a requirement that the project have an experienced property management firm selected that can also meet eligibility criteria set by the lender. The experienced property manager will need to know how to work with the tenants, manage the property, complete background checks, determine the charge for late fees, handle evictions, and maintain compliance with any income restrictions. Furthermore, a nonprofit who is emerging into the development space from mission-based work may need to establish a clear division of duties, separating resident services from property management to ensure the landlord is enforcing the lease and the asset is protected. The nonprofit will need staff with property management expertise to guide policy implementation, decision making, and oversee the management of the property for the long term. Creating consistent and formal processes in writing and having a property management system will benefit the organization's ability to operate the project but will also come with additional costs.

Are there well-written policies and procedures?

A solid foundation of any nonprofit is the creation and adoption of guiding documents, written policies, and procedures to implement with consistency. Specific to development and property management, and resident services, the emerging nonprofit should have policies specific to conducting due diligence, determining feasibility analysis for a potential property, tenant selection, fair housing, and rent collection. Experienced staff with capacities in property management will help develop and implement rental housing policies and procedures. Policies are working documents, so in addition to the initial version, they should be reviewed and improved on an annual basis, or as needed.

REAL ESTATE ACQUISITION	PROPERTY MANAGEMENT	RENOVATION
• How is the decision to buy a particular property reached? • What due diligence is needed and who will be responsible? • Who will create the feasibility analysis/proforma and what parameters will be used (rents, vacancy rate, debt service coverage, operating expenses)? • Will you retain an attorney/REALTOR/title company/capital needs inspection film? • What funding sources are anticipated?	• Hire a professional management company or manage in house? • Tenant rules and regulations •Tenant selection plan and criteria • Lease execution • Income certification and recertification Rent collection procedures •Security deposit procedures •Late fees •Partial rent/security payment guidelines • Eviction procedures • Handling tenant complaints • Repairs and maintenance • Long- and short-term capital needs review • Budget and property performance • Property turn over	• Scope of work./energy efficiency • Solicitation and bid process for contractor(s)/architect • Project management (inspections, lien releases) **MARKETING** • How will you advertise for initial lease up? • How will you document affirmative marketing efforts? • How much is budgeted for marketing expense?

DECISION-MAKING IN THE DEVELOPMENT PROCESS

When a project is being initially considered, there are several situations that should raise red flags and could provide enough information to terminate the inquiry. Some of these are based on the property and some on management and operations. This review should not be considered a comprehensive due diligence checklist but rather specific areas where characteristics of a small-scale project would raise a red flag requiring further review.

SITE AND USE APPROVALS

Zoning, land use and site plan approval can be lengthy, expensive, and contentious. Some older properties are non-conforming to current zoning or land use restrictions. If the density or other site characteristics such as setbacks, number of parking spaces, or lot coverage do not meet current standards, it will be exceedingly difficult or prohibitively expensive to get the permits needed to do a full rehabilitation. If rehabilitation of the property triggers a requirement for re-zoning and land use changes, the deal might be infeasible given anticipated timeframes and available cash on hand. Another concern is if the intended use is an authorized use of federal housing dollars as defined as a need or strategy in the Consolidated Plan. If not, federal funds may not be eligible until the plan can be amended.

INFRASTRUCTURE

Upgrading water and sewer are high-cost improvements that could sink an otherwise feasible budget. Even if funds are available but the installation expense increases the level of debt service, this could have a negative impact on the future operation of the project. Double check the availability of water, sewer, electric, cable, phone, and recycled water for irrigation. Check the local capital improvements plan to see if there are improvements planned that will result in an assessment that could be an unexpected expense. Sewer and water connection fees could be a cost not anticipated or included in budgeted funds. A new project or newly rehabilitated may be required to pay these connection fees if the property is converted from a single to individual meters. Impact fees may be incurred if the number of units is increased. These expenses can be quite significant in some areas and should be carefully considered as part of the rehab budget.

SCATTERED SITE OF REMOTE PROPERTIES

If a property is part of a portfolio of other small rental projects, it is important to consider the distance separating the properties. The cost of inspections, showing the property to perspective tenants and maintenance calls can increase operating expenses whether the management is being done in-house or through a third-party management company. Map the properties and measure the mileage between them- an outlying property may decrease efficiency in management.

As we have noted, having enough units to benefit from property management economies of scale is essential for a successful scattered site rental program. A portfolio in the range of 60-80 units typically allows for sufficient cash flow to cover the cost of property management and often provides enough revenue for maintenance staff. The geographic location of the properties is especially important. Units that are near one another results in reduced travel time for both property management and maintenance staff.

PROPERTY CONDITION

If a building or site requires extensive rehabilitation, both the time to complete the work as well as the expense should be carefully considered. Before committing resources to the extensive analysis that should be done on a property in poor condition, the decision to walk away from the project might be the best. The length of time for any special permitting or local approvals should be considered. Conducting a Capital Needs Assessment is critical to determine the current and future repairs and maintenance needs of the property.

CONSTRUCTION STANDARDS

In addition to meeting the locally designated construction standards, the building materials composition and interior elements should be sustainable and require normal maintenance and replacement treatments. Many developers avoid stick built buildings, favoring only concrete or masonry. The age and condition of major systems including windows, HVAC, electrical and plumbing may be too costly to replace upon purchase or will require replacement in the future with more efficient but higher cost components.

REHABILITATION STANDARDS

As with any rehab program, rehab standards are extremely important when acquiring and rehabilitating units for a scattered site rental program. However, unlike with owner occupied rehab programs, when replacing components, scattered site rental standards should not replace like with like. Instead, scattered site rental programs should focus on universal components for all units. This helps reduce the cost of maintenance. In some instances, it is not possible or practical to use the same components in all units. In these cases, the developer should develop a database that lists the type and year of each appliance, HVAC system, plumbing fixtures, etc. for each unit. This database can be used by maintenance staff when service calls are received, and asset management staff when planning for capital expenditures.

HISTORIC PROPERTIES

Some older small-scale properties may be in a historic district or be listed as historic. While this should not be a deal killer, the future rehab requirements should be investigated by reviewing the standards and the process for permit approval. Often there are grants available to help offset the additional costs of meeting historic rehabilitation standards. Some communities offer zoning or building code relief (non-safety related) for the preservation of historic properties. In the proper treatment of historic buildings, it will be essential to build an experienced team including the architect and the builder.

COMPLIANCE

Will the property physically survive and cash flow for the compliance period? The Capital Needs Assessment should indicate any serious issues that would predict serious expenditures required during the affordability period. Surrounding land uses may give some insight into the future marketability of the property. Future infrastructure assessments should be considered by checking the Capital Improvements Plan of the local government.

PROJECTS OF LAST RESORT

If you are offered a property that has been turned down by multiple investors, there is a good reason. Inspections and evaluations should be carefully reviewed. Unless it is within the mission of the organization to pursue such projects, then red flags should be heeded.

MARKETING CONCERNS

The number of bedrooms along with other characteristics such as parking, fencing, storage space, outdoor patios or decks, stairs vs. elevators, and security are features that your target market will consider when deciding to rent a unit. For example, if your target market is seniors or people with special needs, 1- and 2-bedroom units will be most marketable, along with security and easy access.

FINANCING MISSING MIDDLE DEVELOPMENT

Securing financing in the real estate sector is challenging for smaller firms operating in the space of small-scale and missing middle housing. Small-scale developers have a challenging time accessing the same financing opportunities as their counterparts working at larger scales. One big issue faced by for-profit and nonprofit developers alike is the fact that single-family subdivisions and large multifamily projects have been the preferred investment product for several years. High transaction costs for traditional funding sources like mortgage revenue bonds and tax credit deals often prove to be infeasible for smaller firms. When access to capital from lenders is available, filling the financing gap between debt available and actual development costs still needs to be overcome. Debt loan-to-value ratios can range typically from 60%-70% for conventional financing and leave a substantial gap to fill. Addressing this gap requires both finding additional funding sources and being able to borrow money at an affordable rate.

Since the early 2000s, the Government Sponsored Entities (GSEs) Fannie Mae and Freddie Mac have expanded operations to include the origination, acquisition, and underwriting of small loans targeted for SMMF properties. Per the direction of the Federal Housing Finance Agency and at the insistence of the industry, stronger commitments to increase service to small-scale properties are being made. In August of 2021, the FHFA released proposed goals for Fannie Mae and Freddie Mac for 2022 and it increased the proposed benchmarks for the Small Multifamily (5-50 Units) Low-Income Subgoal. These subgoals require that the GSEs must purchase mortgages on multifamily properties with rental units affordable to families in that category. The FHFA assigned an increase of 13,000 and 7,000 for Freddie Mac and Fannie Mae respectively, significant increases over 2021 levels. In comments on the proposed change from Freddie Mac—who has consistently exceeded benchmarks the past several years, the enterprise provided support for the increase. Fannie Mae, who has exceeded benchmarks by narrower margins, highlighted concerns about the new level and identified a potential need to change existing underwriting standards to meet the goal. These recent developments show the trend of an increasing place for small-scale developments in the secondary market and the willingness of GSEs to be adaptable in serving this market segment.

Both Fannie Mae and Freddie Mac operate a Small Balance Loan program, which provides capital for small apartments and highlights needed custom features, such as streamlined underwriting. The minimum loan size on the Freddie Mac loan is $1 million, which still leaves a considerable portion of the small-scale property segment ineligible for these funds. Other programs under Freddie Mac include the Value-Add Loan, which offers short-term financing for modest property upgrades for affordable unsubsidized small-scale properties with 25+ units; the NOAH Preservation Loan, a loan to nonprofits with underwriting flexibility, fee reductions, and rehab allowances; and the Impact Gap Loan, a funding source that provides the infrastructure to allow impact investors to match with mission-focused borrowers. In addition to CDFIs and local banks continuing to offer financing in their respective markets, financing for these unsubsidized units is becoming increasingly available.

Below is a description of some of the financing options currently available for small-scale development. For more resources, download our Affordable Housing Resource Guide. Other sources may also be discovered through conversations with lenders, local governments, and other partners.

PRIMARY LOAN SOURCES

Agency and GSE Loans

As the housing landscape undergoes changes, developers are increasingly seeking support from government-sponsored enterprises (GSEs), also known as Agency lenders. These entities, operating with a combination of government support and private-sector characteristics, play a vital role in fostering a variety of housing options, particularly within the "missing middle" segment. This term denotes the gap in affordable housing choices between traditional single-family homes and large apartment complexes, highlighting the essential need for diverse and intermediate housing types such as duplexes, triplexes, townhouses, and small multi-unit apartment buildings with fewer than 50 units. This strategy is often considered a viable approach to address housing affordability challenges and encourage the development of more inclusive and diverse communities.

In this context, agency lenders such as Fannie Mae, Freddie Mac, and the Federal Housing Administration (FHA) play a crucial and direct role. These agencies were created by the government to support the housing market by providing liquidity to mortgage lenders, promoting homeownership, and facilitating the availability of affordable housing. Noteworthy lending products, including Freddie Mac's Targeted Affordable Housing Loans, Fannie Mae's Multifamily Affordable Housing Loans, and FHA's Multifamily Mortgage Insurance Loans are designed to cater to the revitalization needs of larger multifamily properties, extending their benefits to those within the missing middle housing segment. Funds from these programs can be utilized for a range of purposes, including the acquisition, refinancing, and construction of duplexes, triplexes, townhouses, and smaller multi-unit buildings. By providing targeted financing solutions, these agencies contribute to the stability and affordability of the rental housing market, addressing the evolving needs of communities in search of diverse and intermediate housing options.

Please note that the following list is not exhaustive, as the below agencies provide a diverse array of over 40 loan programs that extends to cover conventional, rent-restricted, cooperatives, seniors housing, student housing, small balance loans, and Manufactured Housing Communities.

While over 90% of the apartments financed by these agencies fall within the category of "workforce housing" to provide affordability to families earning at or below 120% of the area median income (AMI), special attention is given to programs designed to address the unique needs of the missing middle segment. The following highlighted programs specifically target this segment.

LENDING TERMS

Debt Service Coverage Ratio (DSCR)

The Debt Service Coverage Ration (DSCR) is the relationship between the Net Operating Income (NOI) and the Annual Debt Service.

The Calculation is:
NOI/DS=DSCR

Nonprofits should aim for a DSCR of no less than 1.15 and no more than 1.3. This ration informs the lender of the borrower's available cash flow to pay their current debt oblications. This heklps to right size the financing and mitigate risk to the lender.

LOAN TO VALUE RATION (LTV)

Nonprofits who are developing small scale projects should be aware of the Loan to Value Ratio as they explore construction financing. The LTV is used by lenders based on appraised value, which can be termed "As Is" or "As Built" depending on if the appraisal accounts for any proposed improvements.

The calculation is:
LTV=Loan Amount/ Fair Market Value

GSE SMALL LOAN PROGRAMS

Fannie Mae Small Mortgage Loans

Fannie Mae's Small Mortgage Loan Program strategically addresses the financing gap within the real estate market, targeting small-scale multifamily property investors in the often-overlooked "missing middle" segment. Tailored for existing, stabilized multifamily properties with five or more units, the program extends its reach to include conventional properties, multifamily affordable housing, and manufactured housing communities. Eligibility hinges on a demonstrated stability and adherence to specific criteria, ensuring a diverse array of properties can access this financial solution. With a cap of $9 million nationwide, borrowers can select either fixed- or variable-rate options, with a maximum loan-to-value (LTV) ratio of 80%. Other details of this loan product are that it has a minimum DSCR set as low as 1.20x, a non-recourse execution, rate locks ranging from 30 to 180 days, and it is fully assumable.

For a list of Small Mortgage Loan lenders, visit Fannie Mae's website at: https://multifamily.fanniemae.com/about-multifamily/our-partners/small-loan-lenders

Freddie Mac Small Balance Loans

Freddie Mac's Small Balance Loan (SBL) program is designed to provide financing options for smaller multifamily properties that are between five to50 units. The SBL program is specifically tailored to meet the needs of borrowers seeking loans for multifamily properties with loan amounts ranging from $1 million to $7.5 million. This range is intended to address the financing needs of borrowers seeking loans for properties that may not qualify for larger loan programs. The SBL program is suitable for various types of multifamily properties, including apartment buildings, townhomes that are developed for rental, and other smaller rental housing developments. It provides flexibility to borrowers looking to finance properties with fewer units.

For a list of Small Balance Loan lender, visit Freddie Mac's website at: https://mf.freddiemac.com/small-loans.

OTHER FANNIE MAE PRODUCTS

Multifamily Affordable Housing (MAH) Financing

Fannie Mae plays a crucial role in financing affordable developments linked to state or local programs through its Multifamily Affordable Housing (MAH) business, emphasizing the importance of the secondary mortgage market's liquidity for the availability of affordable financing. An MAH Property is characterized by its encumbrance through a regulatory agreement, land use restriction agreement, extended use agreement, or a similar restriction as well as one that participates in the LIHTC program. To ensure compliance with affordable housing standards, specific rent or income restrictions must be met, aligning with criteria such as 20% of all units at 50% AMI, 40% of units at 60% AMI, at least 20% of units subject to a HAP contract, or having special public purposes. Additionally, the Borrower may voluntarily impose Sponsor-Initiated Affordability (detailed below) recording restrictions against the property, ensuring 20% of units at 80% AMI, with restricted unit rent limits not exceeding 30% of the adjusted AMI.

Fannie Mae's Affordable Housing Preservation program

Under Fannie Mae's MAH program is their Affordable Housing Preservation program; a strategic initiative aimed at ensuring the ongoing availability and affordability of subsidized rental housing for low-income renters. Offering long-term financing or refinancing solutions for stabilized rental properties, the program targets a range of eligibility criteria, including expiring LIHTC deals, the refinancing of tax-exempt bond deals, and properties under the Rental Assistance Demonstration (RAD) program. With financing terms ranging from five to 30 years and an extended amortization period of up to 35 years, borrowers benefit from flexible options, including fixed- and variable-rate choices with a maximum loan-to-value (LTV) ratio of 80%. Property considerations, such as low-income qualifying restrictions, ensure a significant percentage of units cater to families within specific AMI ranges. Supplemental Loans and flexible prepayment options offer financial flexibility to borrowers. Eligibility extends to properties with HUD Section 8 HAP Contracts, existing Rural Housing Service (RHS) Section 515 loans, and those insured under Sections 202 or 236 of the National Housing Act. Borrowers can lock rates for 30 to 180 days, and benefit from the non-recourse execution of all securitized mortgage loans. Third-party subordinate financing is allowed, and these loans are fully assumable.

Fannie Mae's Workforce Housing Social Impact Financing (SDW) product

Fannie Mae's Workforce Housing Social Impact Financing, specifically the Sponsor-Dedicated Workforce Housing (SDW) program, stands as a dynamic solution for the creation and preservation of workforce housing catering to households earning 80% to 120% of the area median income. Also under Fannie Mae's MAH program, this financing option is designed for existing, stabilized conventional properties that have achieved at least 90% occupancy over the previous 90 days. The program mandates that a minimum of 20% of units be made affordable to households within the specified income range. Notably, the SDW Housing initiative provides better pricing and flexible underwriting, encouraging the development and maintenance of units affordable at up to 80% of AMI or, in certain metros, up to 100% – 120% of AMI. The loan terms range from five to 30 years.

Fannie Mae Sponsor-Initiated Affordability (SIA) Program

Under Fannie Mae's conventional platform, the Fannie Mae's Sponsor-Initiated Affordability (SIA) program acts as an MAH program without external regulatory requirements. The program can be used when the Borrower or Sponsor, typically the property owner or developer voluntarily imposes rent and income restrictions on a multifamily property. The sponsor records these restrictions against the property through the execution of a formal agreement, often known as the Sponsor-Initiated Affordability Agreement, outlining the terms and conditions of the affordability commitment, including compliance measures, timeline expectations, and reporting requirements. SIA supports socially responsible investing and allows potential DSCR flexibility to 1.20 for deals with deeper affordability. Eligible properties must be stabilized conventional entities with a minimum of 20% of units affordable at 80% of AMI or below. The program spans a term of five to 30 years, allowing amortization periods of up to 30 years, with fixed- and variable-rate options available. Prepayment is allowed, subject to specific terms, and rate lock periods range from 30 to 180 days. Standard features also include the ability to assume the loan, non-recourse with standard carve outs, and supplemental financing.

OTHER FREDDIE MAC PRODUCTS

Freddie Mac's Targeted Affordable Housing (TAH) Program

Freddie Mac's Targeted Affordable Housing (TAH) program is designed to provide financing options for smaller multifamily properties, with a focus on naturally occurring affordable housing (NOAH) as well as highly subsidized project-based affordability. This program has over 20 different loan options for properties in underserved areas that are affordable to families with low and very-low incomes including cash loans, bond credit enhancements, tax-exempt loans, and others that can address the unique needs of communities by supporting the development and preservation of affordable rental housing.

The primary objective of Freddie Mac's TAH program is to facilitate the financing of multifamily properties that offer affordable housing options. While not exclusive to missing middle developments, the TAH program plays a crucial role in providing financing solutions for smaller and affordable multifamily projects.

The TAH loan options share numerous similarities. With terms ranging from fixed-rate financing for up to 30 years to floating-rate financing for up to 10 years, the program offers tailored options to suit different project needs. Some notable mentions are interest rate risk hedging during construction projects and support for a diverse range of subsidy options and property types, including garden, mid-rise, high-rise, and build-to-rent communities with or without LIHTC involvement. These loans are also nonrecourse and have 1.20x minimum DSCR requirements with an LTV ratio of up to 80%. With prepayment flexibility, options for third party subordinate financing, and transparent fee structures, Freddie Mac's TAH financing options emerge as a versatile and supportive tool for developers committed to creating and preserving affordable housing stock.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD) /FEDERAL HOUSING ADMINISTRATION (FHA)

FHA/HUD 221(d)4 Loan Program

HUD Section 221(d)(4) mortgage insurance program stands as a cornerstone in championing the construction or substantial rehabilitation of multifamily rental or cooperative housing. This comprehensive initiative is overseen by HUD, and it is tailored to accommodate market-rate housing as well as providing for families with very-low income, the elderly, and individuals with disabilities. It actively encourages private and public industry engagement in housing endeavors through enhanced capital availability.

Noteworthy features of this program include the facilitation of long-term self-amortizing mortgages spanning up to 40 years. Moreover, it offers flexible prepayment options, interest-only payments for up to three years during the construction phase and accommodates diverse Debt Service Coverage Ratio (DSCR) options. Particularly impactful is its commitment to deeply affordable properties, ensuring a minimum DSCR of 1.11x.

FHA/HUD 223(f) Loan Program

The HUD Section 223(f) loan program serves borrowers in the acquisition or refinancing of existing multifamily rental housing, with a primary focus on enhancing stability and affordability. This initiative insures mortgage loans for properties initially financed through conventional or FHA insured mortgages, excluding those necessitating substantial rehabilitation (over $15,000 per unit). Under the oversight of the HUD, the program imposes a mandate for the completion of critical repairs before mortgage endorsement, while allowing the flexibility to address non-critical repairs after endorsement. It establishes a strategic priority in addressing essential issues prior to finalizing the mortgage, ensuring the prompt resolution of significant concerns. This robust financing tool seamlessly facilitates the refinancing and rehabilitation of multifamily properties, playing a pivotal role in both preserving and elevating the quality of affordable housing. Simultaneously, it contributes to the long-term financial sustainability of property owners and developers.

Impressive attributes of this program encompass the self-amortizing mortgages spanning up to 35 years. Furthermore, it provides versatile prepayment options and accommodates a range of DSCR choices. Of notable significance is its dedication to deeply affordable properties, ensuring a minimum DSCR of 1.11x and up to 90% Loan-to-Value (LTV) for highly subsidized properties. Mirroring the features of the HUD 221(d)(4) loan, HUD 223(f) loans empower developers to qualify for low-income housing tax credits (LIHTCs).

Community Development Financial Institutions (CDFIs)

CDFIs are private institutions serving as intermediaries between banks and other investors and business owners, with the goal of providing access to credit and capital to underserved markets and populations. CDFI is a federal designation indicating that the majority of a CDFI's lending and other services must benefit low-income communities. CDFIs have various structures, from being arms of banks and credit unions to independent nonprofit entities. CDFIs have more flexible underwriting requirements and can take on greater risk than banks. Many CDFIs also generally offer technical assistance as part of their services to borrowers. This makes them a primary go-to for nonprofits seeking debt financing for their real estate developments, as nonprofits are typically building in low-income or economically distressed communities where a number of factors that can negatively impact profitability. The most active CDFIs in Florida are the Florida Community Loan Fund and Neighborhood Lending Partners, which operate statewide. Others include the Local Initiative Support Council (LISC)'s Black Economic Development Fund and several associated with banks and others operating regionally.

Florida Housing Finance Corporation (FHFC)

The Florida Housing Finance Corporation is Florida's housing finance agency, responsible for managing the allocation of federal low-income housing tax credits, multifamily mortgage revenue bonds, and the state portion of the Sadowski Trust Fund. FHFC provides funding to individual developments through a series of requests for applications throughout the year. As stated, low-income housing tax credits and multifamily mortgage revenue bonds are typically not utilized for small-scale developments, except for a request for applications generally offered once annually that utilizes tax credits for small supportive housing developments. However, a case study in this guide demonstrates the uncommon use of tax credits on a small-scale and may give nonprofits some clues on how to access this resource for a traditional affordable housing development.

GAP FINANCING SOURCES

Federal Sources

HOME Investment Partnership
HOME is a HUD-administered federal program that provides funding for local communities to provide affordable housing for low- and very low-income residents. HOME funds can provide construction or acquisition/rehabilitation subsidies for affordable housing developers, purchase assistance and gap financing for homebuyers, rehabilitation assistance for homeowners, and tenant-based rental assistance.

Community Development Block Grant (CDBG)
The Community Development Block Grant (CDBG) is a HUD-administered federal program. Funds may be provided as a subsidy to housing developers, or directly to homeowners or homebuyers. HUD provides CDBG grants on a formula basis directly to urban counties and larger cities (called Entitlement Communities), and to state governments to award on a competitive basis to non-entitlement communities.

Homeownership Assistance: CDBG allows two broad categories of homeownership assistance – homeowner rehabilitation and home purchase activities. Homeowner rehabilitation programs provide homeowners with funds for moderate and substantial rehabilitation, energy efficiency improvements, accessibility modifications, and demolition and reconstruction of a home on the same property.

Home purchase assistance programs are limited to low- and moderate-income homebuyers in most cases and may include assistance with down payment and closing costs, principal write-downs, interest rate subsidies, loan guarantees, and subsidies for homebuyers' Individual Development Accounts (IDAs). CDBG funds may also be provided to affordable housing developers to subsidize the cost of property acquisition and rehabilitation for sale to eligible families. New construction of ownership housing is allowed only in limited circumstances.

CDBG funds can be used for a wide range of programs that meet at least one of three national objectives: 1) Benefit to low- and moderate-income* persons, 2) Prevent or eliminate slums and blight, or 3) Meet urgent community needs. At least 70% of a local government's CDBG award must benefit low- and moderate-income persons. A community's housing activities using CDBG funds often qualify under the low/moderate-income national objective but can qualify under the other two national objectives in some cases.

Rental Housing: CDBG may be used to subsidize the cost of developing rental housing. Eligible activities include acquisition, rehabilitation and, in limited circumstances, new construction. Grantees may provide assistance in the form of loans, grants, loan guarantees, and interest subsidies.

State Sources

State Apartment Incentive Loan (SAIL)
The State Apartment Incentive Loan (SAIL) program is administered by the FHFC and provides low-interest loans on a competitive basis to affordable housing developers each year. This money often serves to bridge the gap between the development's primary financing and the total cost of the development. SAIL dollars are available for developers proposing to construct or substantially rehabilitate affordable multifamily rental housing.

Local Government Sources

State Housing Initiative Partnership (SHIP)
Created in 1992 as part of the William E. Sadowski Affordable Housing Act, the State Housing Initiatives Partnership.

(SHIP) Program's mission is threefold:

1. Provide funding to eligible local governments for the implementation of programs that create and preserve affordable housing;
2. Foster public-private partnerships to create and preserve affordable housing; and,
3. Encourage local governments to implement regulatory reforms and promote the development of affordable housing in their communities by using funds as an incentive for private development.

Funds are allocated to every Florida county, as well as municipalities, which receive Community Development Block Grant community.

SHIP funds are used primarily for homeownership activities such as purchase assistance and owner-occupied housing rehabilitation. However, a portion (up to 25%) of a local government's allocation may also be used for rental housing development. Many local governments utilize SHIP funds as required local government contribution funds for developments utilizing low-income housing tax credits. However, some also utilize SHIP to subsidize small-scale developments by nonprofits. In addition to development subsidies, SHIP funds may also be used for eviction prevention, rental deposits, and up to 12 months of ongoing rent subsidies. The use of SHIP funds is governed by a local housing assistance plan approved by the governing body. Nonprofits should be familiar with the LHAP of a community where it intends to construct or acquire a small-scale development to determine if the LHAP has an applicable strategy and whether the local government intends to fund that strategy.

Housing Trust Funds
Many local governments recognize that existing sources are not enough to keep up with rising costs and increased demand. To address this, several have established local housing trust funds utilizing various sources including general revenue and local infrastructure surtaxes. These funds are generally the most flexible and their use can truly reflect local priorities. Nonprofits should be familiar with local housing trust fund programs if available in their area to understand if these funds might be available to support small-scale developments.

OWNING AND MANAGING SMALL RENTAL DEVELOPMENTS

FINANCIAL CONSIDERATIONS

Cash Flow – Unit-by-unit v. Portfolio

For a variety of reasons, not the least of which is legal liability, large rental developments are often owned by a single asset, Limited Liability Corporation. Because of this, property owners are used to determining the cash flow of a rental project on a property-by-property basis. With small scale scattered site properties, it is also important to know whether each property has a positive cash flow. However, as has been noted elsewhere in this guide, owning large numbers of properties enables nonprofits to benefit from the economies of scale that are vital for a successful business line. Small scale owners therefore need to not only evaluate the financial health of each property, but they should also look at the overall financial health of their entire portfolio.

There are factors beyond the control of management that can result in a rental unit experiencing a negative cash flow. Let us look at an example of a single-family unit that rents for $850 per month and has a positive annual cash flow of $1,800 per year. If two months of rent are lost due to an eviction, and $1,000 is needed to make repairs, that unit will go from $1,800 of positive cash flow for the year to operating $900 in the red. However, if the developer has 50 units, and they each average $1,800 of cash flow for the year, the other 49 units will make up for the $900 loss on the unit in our example.

Unanticipated repairs and having units occasionally offline are inevitable when owning rental housing, and our operating proformas are designed to account for this. While the financing of each property needs to be structured so that it generates a positive annual cash flow, when dealing with single-family and small-scale properties, some years will be positive, and others will be negative. A property that operates in the red for a year should be evaluated to make sure the operations of the property are not flawed, and that the shortfall is not repeated annually. Individual small-scale properties will occasionally have an off year. It is therefore important to annually evaluate the overall financial health of the portfolio and not make decisions based on one property having an off year.

The Capital Needs Assessment

A Capital Needs Assessment (CNA) provides an extensive analysis of building systems, recommendations for specific improvements, and funding estimates for long term maintenance. This analysis, also known as a Physical Needs Assessment (PNA) estimates a property's repair and replacement needs over an extended period of time, often analyzing the way in which resources need to be accumulated to pay for these needs (reserve analysis). When acquiring existing buildings, a high-quality CNA, with a replacement reserve analysis, is a critical part of the due diligence process.

Replacement Reserve Analysis

With new construction, property owners and lenders have historically used a standard rule of thumb for allocating annual contributions to reserves. For many years people in the industry have been using $360/unit/year ($30/unit/month) as a guideline. This in fact was the first standard used

by the Massachusetts Housing Finance Agency (Mass Housing) when it began requiring reserve studies in the mid-1980s (Daily and Whiston, 2005). Being over 30 years old, it is not surprising that this number is no longer sufficient to cover the replacement cost of components as they wear out. In market rate housing, paying down first mortgage debt, combined with annual rent increases offers the owner the ability to borrow money when components need to be replaced. Affordable housing developments can rarely support much debt. Even if it did, rent restrictions needed to maintain long term affordability, continue to limit the amount of debt a property can support. A high-quality reserve analysis is therefore extremely important when acquiring existing affordable rental units. A replacement reserve analysis should list the inventory of components, the estimated remaining life of each component and the estimated future replacement costs. This information is then used to establish the per unit per year amount that needs to be deposited into a replacement reserve escrow account.

See Appendix for a replacement reserve analysis example and more discussion.

Typical Replacement Items

The items below are the typical types of repairs/replacements that are considered capital items and are therefore eligible expenses from a replacement reserve escrow fund. The list can also be used as a checklist when reviewing the completeness of a capital needs analysis conducted prior to acquisition.

Typical Capital Items:

- Replacement of refrigerators, ranges, and other major appliances in the dwelling units
- Extensive replacement of kitchen and bathroom sinks and countertops, bathroom tubs, water closets and interior and exterior doors
- Major roof repairs, including major replacements of gutters, downspouts and related eaves or soffits
- Major plumbing and sanitary system repairs- including septic, sewer, or package systems
- Replacement or major overhaul of central air conditioning and heating systems, including cooling towers, furnaces, temperature controls, boilers, and fuel storage tanks
- Major overhaul of elevator systems
- Major repaving/resurfacing/seal coating of sidewalks, parking lots and driveways
- Major repainting of the building exterior and interior common areas
- Extensive replacement of siding
- Extensive replacement of exterior (lawn) sprinkler systems
- Replacement of or major repairs to a swimming pool
- Projects involving finished floors, floor tile and floor coverings, which are not "routine maintenance" in nature
- Glass replacement projects
- Significant replacement of windows, including jamb s, casing, sash, aprons, and sills

Property Management

The residential property manager oversees an income-producing residential property on behalf

of the owner. Properties can be one unified site, scattered site, detached single family homes, condominiums, or mixed residential and commercial projects. Property management companies vary in experience and services with some focusing only on large scale multifamily properties and some managing portfolios of small, scattered site properties. This section describes the responsibilities of residential property management in the context of smaller properties, and compares fee based professional companies to property management done in-house by the nonprofit owner.

Property management duties include all aspects of marketing, leasing, and operating. Management duties begin during the pre-development and development period. Management decisions should be carefully evaluated because the results can determine the eventual success or failure of the venture. Perhaps the most critical decision for any owner of rental units is whether to manage the property or properties in house or to hire a third-party management company. Property management companies serve clients of all types including for-profit investors, nonprofit organizations, and supportive housing organizations.

The following summarizes the activities and responsibilities of property management:

Marketing Plan

Created during the development phase of the project, the nonprofit should develop a marketing plan. When using surplus land or local government funds, the nonprofit may be required to target specific demographics and meet marketing requirements set out in the development agreement. The marketing plan will Identify a target market income level, demographic characteristics, and geographic area such as the primary or secondary market, with a strategy defined to outreach potential residents. Incorporated in the total development cost of the project is a marketing budget for pre-leasing advertising and marketing and during lease-up. Identify competition and develop a plan to be competitive while ensuring that the development project meets distance requirements of funders to ensure de-concentration. Identify incentives that will ensure timely lease-up with the desired mix of tenants. During this period, prepare materials and media for production. Sometimes, nonprofit organizations that provide community-based services may also have a list of potential renters that can receive assistance to be well prepared to apply for the upcoming rental units.

Leasing Policies and Procedures

Develop operating policies and procedures, application forms, agreements, and riders. Decide the level of maintenance that will be required of the tenants and what will be handled by the owner. If this is a lease purchase program, prepare policies and agreements as needed. Ensure that the nonprofit's legal team reviews the lease and policies.

Compliance with Fair Housing and Affirmative Marketing Requirements

As an emerging developer, it is important to understand the responsibilities necessary to comply with Fair Housing and Affirmative Marketing, by both the organization's staff and board. The developer must be prepared to submit the plan, with specialized content, to the credit underwriter. In compliance with federal regulations and project funders, it is important to ensure that all notices and statements are placed appropriately and to make sure ADA (Americans with Disabilities Act) and Section 504 accessibility requirements are being met as required.

Compliance Monitoring

Determine what entities will be monitoring the loans and grants supporting the project. Examine all

loans, grants, and applications made to determine responsibilities and commitments made, such as computer rooms, playground equipment, tenant services and unit mix.

Utility Allowance
Identify the most current utility allowance and rent levels in accordance with the subsidies being applied to the project. The local Public Housing Authority (PHA) utility allowance is acceptable unless a customized amount is prepared in conjunction with the local utility company. Small scale properties often vary widely in type of construction materials, age, and energy efficiency measures which can require a closer analysis when establishing the utility allowance.

Rent Levels and Fixed/Floating Units
Rent levels should be established and in accordance with the funding source. The property manager establishes the rent levels according to the loan or funding document requirements. When there are a variety of sources and vouchers involved, the calculations are critical not only in compliance but making sure adequate income is received for the sustainability of the development project. Small scale properties are very sensitive to rent levels because they must cash flow to the extent that debts are carried and paid, operations can be executed, and reserves are available to meet the building's needs. Even when the development project provides housing for various income groups, the income-fixed units must be identified with assurances and all units must be equal in amenities, scale, and location, regardless of income restricted units.

Prospective Tenants: Applications and Showing Rental Units
The leasing agent is responsible for showing units to potential tenants and managing the application process. The leasing agent is the point of contact for the tenant applicants. It is important to select quality tenants that meet income qualifications, in accordance with federal law and in compliance with any restrictive covenant that requires an income-restricted set aside. The leasing agent negotiates the lease period and terms of the lease. The lease terms must contain the appropriate program information. Information collected to prove eligibility must meet compliance requirements in anticipation of monitoring. The leasing agent also assists the new tenant with the move-in process and utility connections. The leasing agent is responsible for the move-out when the process begins again and identifying a tenant when there is a vacancy.

Property Management's Role in Maintenance and Tenant Services

Appoint someone (property manager or staff contact) to serve as the point of contact for tenants when they move in or out, and on a day-to-day basis. Ensure they respond in a timely manner to requests and anything that impacts the building or premises.

This appointed staff person should work with maintenance personnel or contractors on routine maintenance and repairs, keeping records of unit, date, event, expense, and completion. They should also maintain and manage record keeping for payroll, insurance, loan payments, contractors, taxes, and budgeting.

The property manager is responsible for regular contact with the owners including reports, expenses, and property events. It is the owner's responsibility to ensure the communication is consistent, thorough, and occurs on a regular basis.

The manager is responsible for implementing the tenant services commitments agreed upon as a

condition of the loan, available in the loan documents. This is a critical component of compliance that can be difficult for owners of small projects to oversee. Scattered site properties that do not have a centralized location on-site for these legal documents, requiring a system for managers and monitors to have ease of access.
Whether small scale rental projects are managed in house or outsourced, there are some common concerns that affect the successful operation of properties.

Staffing and Portfolio Management
Many smaller properties and portfolios do not have the revenue to support full time leasing and maintenance staff. It is difficult to find experienced staff who are willing to work part time. Sharing staff among organizations is a possible solution. Planning for a diverse group of tenants who will benefit or require cultural and linguistically appropriate services can encourage the hiring of bilingual staff, or staff that reflects the demographics of tenants living in the building(s). This can help with marketing and in establishing good tenant relations. In larger multifamily properties, leasing agents are paid a commission and bonus for leasing units and keeping them occupied. This is not the same for small scale, affordable projects. Smaller projects also may not be able to afford a vehicle for maintenance or for inspections and site visits to geographically dispersed properties. An allowance paid to the staff for the use of their vehicle is a common solution.

Permitting
It is common for municipalities to require permits for ordinary repair items. Over time, this has become normal practice to increase revenue for the local government. However, additional expenses added on to the total development cost can break the budget of a small-scale property. Additional costs arise when, for example, contractors must be hired to replace hot water heaters or HVAC systems, further stretching a constrained budget. These items will need to be replaced at some point, so it is important to budget for these costs.

Residential and Community Based Supportive Services
Providing targeted services to specialized demographic populations requires partnerships with local organizations that specialize in supportive services. These partnerships should be established prior to applying for financing, as some of the dedicated set-asides may require the service provider to be part of the application process. Funding sources are limited as the need is greater than the funding, and approved agencies that are contracted to provide evidence based clinical or housing services must meet requirements set out by the state or even Medicaid. Property managers rely on the case manager's provision of supportive services, complementing the resident services that may be offered in-house. Tenants who meet the definition of "specialized demographics" or "persons with special needs" may already be engaged with their service provider and the services are funded even before occupying the rental unit. The nonprofit must prepare when having a committed set-aside of special needs units to mitigate the risk, as tenants may not be engaged with the services they needed. Improving networking and coordination with direct service provider agencies and the organizations responsible for overseeing and implementing the systems of care will be required to offset this shortage.

Tenants
Income eligibility of tenants is the most critical item identified by affordable housing program monitors. Tenant income must be correctly certified and available for review. There is no deficit of households who would benefit from an affordable rental unit, but sometimes these households are challenged with the rental rate. Compliance when layering multiple funding sources can

result in complex income eligibility determination and is exacerbated when property location or demographic target may hinder full occupancy. In small scale projects, occupancy is of great concern because revenues are already limited while operating the project remains costly. A ten percent vacancy rate in a 10-unit complex can be devastating to the operating budget, resulting in infeasibility. Rental proformas typically use a five percent to seven percent (5%-7%) vacancy/ collection loss rate to project net operating income. In this 10-unit deal, a 10 percent vacancy rate could be realized with only one un-occupied unit. It is critical to ensure in the planning stages that there is an adequate market for the desired tenants to ensure not only compliance, but full occupancy.

A small nonprofit owner may not have the legal expertise to handle evictions and lease violations. It is especially important to have this covered because non-payment of rent or lengthy eviction battles in small projects can cause serious budget problems. Tenants have access to free legal assistance in most areas but for the landlord, good legal counsel and proper training are essential. The owner or property manager should be enforcing the lease and engaging, when available, with the tenant's community based service provider to ensure proper supports can help the tenant retain their housing, when appropriate.

Considerations: To Keep Property Management Services In-House or Outsource

Property managers operate income-producing rental housing on behalf of the owner with the objective of protecting and maintaining the asset. Affordable housing is operated with the objective of providing safe and decent housing for low-income tenants, often comprised of specialized demographic populations who have a higher vulnerability to a housing crisis without a rental unit commensurate with their household income. Conversely, lenders and funders also expect the investment to be protected and enhanced, providing a return on the investment, and maintaining the asset to meet the projected lifetime of the building. Each rental property owner or perspective property owner must make the critical decision of deciding whether or not to outsource property management. The on-going management of the project will determine its success or failure in the future. Therefore, choosing the right type of management is especially important.

Experience and Capacity
If the owner lacks experience in property management and does not have available staff resources to undertake the activities, then outsourcing is probably the best decision at least in the initial years of operation.

The mission of many nonprofit affordable housing providers is to increase the inventory of affordable housing opportunities in a given community. This broad vision encompasses fund raising, advocacy, partnership building, and development. Once the housing is financed, developed and ready to occupy, some find that current staff do not have the same skill sets that the operation and maintenance of housing requires. Many housing providers are experienced in homeownership development or purchase assistance but are not prepared for the on-going day to day maintenance of rental housing.

The promises and commitments made at the time of application for funding from affordable housing programs are contained in the loan documents as well as the Land Use Restriction Agreement (LURA) or Extended Use Agreement (EUA). Program monitors often find that inexperienced property management or owners do not maintain those commitments that were made upon

application for the funding. These shortfalls involve tenant services or amenities, as well as maintaining uniform physical condition standards (UPCS). Small scale properties have limited cash flow, resulting in a tight budget for operating. If there were commitments for such items required in the loan agreement that are not adhered to, either due to budget issues or management oversight, findings by the monitor can lead to negative consequences such as corrective action.

Owners of small-scale rental developments are often tempted to hire inexperienced, and therefore less expensive, property managers to reduce expenses. Alternatively, this often leads to even higher costs. Untrained property managers can make mistakes when calculating income and end up renting to a household that is over income. This can result in serious consequences that could require the repayment of subsidy funds.

Inexperienced property management personnel may lack expertise with Fair Housing laws, taking action that is out of compliance or failing to maintain proper documentation on site. Lack of adherence to federal laws can lead to costly problems that may diminish operating capacity for some time due to legal fees or the cancellation of loans.

Other problems with inexperienced property management personnel occur when there may be property management experience but not in affordable housing. Occupancy ratios will be a priority, rather than a proper selection of income eligible tenants. Another occupancy problem with a small-scale property is that one or two vacancies can seriously impact the operational capacity of the project. One long term vacancy in a ten-unit complex causes a tenth less income which could be devastating, creating financial unsustainability of the development.

Maintenance is another important consideration when delegating these duties to inexperienced or low-cost property management staff. The lack of proper training can lead to poor decision making, such as disconnecting smoke alarms or taking down amenities that were guaranteed in the loan documents and LURA. While this can be corrected by proper training and professional development, it is not desirable to have them observed by monitors unless the staff are fully trained and have the expertise to effectively manage their role.

Finally, professional management companies have in place operations manuals, funding applications, systems, and policies. The emerging small scale rental nonprofit owner will require the preparation of the legal documents, leases, maintenance schedules, management plan, compliance, and monitoring plans, etc. The cost of developing these policies, procedures and documents must be included when estimating the cost of operations and making property management decisions.

Project Size and Scale

Larger projects most often hire a fee-based property management company that specializes in all aspects of managing and operating affordable multifamily properties. Nonprofits emerging into the business must evaluate the scale of their operation and in-house experience when determining the project's size and scale. This should be a decision made in the preliminary stages of considering the acquisition of properties, and in accordance with the project concept and what can be built by right with respect to land use and zoning. Small scale property owners who own one or more properties that may be on scattered sites need to carefully evaluate their staff capacity, as well as operating budget to determine if they outsource the management during the planning stages. This should be part of the due diligence and feasibility evaluation when considering a project.

Small scale properties are much more critically impacted by vacancies than larger sized properties. One vacancy out of ten results in a ten percent reduction in income. However, indirect operating expenses remain the same. An experienced and capable manager, whether in-house or not, will be sensitive to this and strive to maintain the highest occupancy possible.

Monitoring and Compliance
One of the areas for consideration is how the project will be monitored. It is informative to understand the role of project monitors and what their main concerns are for small scale properties. When a project completes credit underwriting and receives financing from public sources, in particular HUD or tax credits, monitoring is part of the program for the life of the affordability period. The main job of the monitor is first to ensure that the occupants meet income qualifications. Adherence to the income certification requirement by implementing a clear and consistent certification process will determine if the project is meeting the requirements of the loan documents, the LURA, or the EUA.

There is no distinction between the owner and manager through the lens of the compliance monitor as errors by management are the responsibility of the owner. The management entity, either by in house staff or third party is extremely important to maintaining the program requirements. The outcome of the monitoring process is to determine if the property is in compliance with the funding source and other requirements. Monitors may note a concern that indicates a problem is looming, or a finding that indicates a violation of a rule or procedure. Monitors report to funders and lenders and a finding of non-compliance is a serious issue that can result in the repayment of funds. For small-scale properties the requirements are the same but there are fewer staff to make sure documentation is correct and that project rules and commitments are being followed.

Monitoring occurs either remotely or on-site and follows a regular schedule. It is important that property managers provide monitors access to materials and properties. Monitors examine documents and policies governing the items in the list below. While a small number of units may mean a shorter monitoring visit, it does not mean that the monitor will review fewer items. Monitoring may include a review of recordkeeping, subsidy layering/cost allocation, initial and on-going rents, incomes and occupancy, property standards, eligible costs, construction management, and loan servicing.

Geographic Location and Property Management
Ideally, property managers should be in close geographic proximity to the properties they manage. Long travel times result in higher costs when showing or checking on units. Being able to conveniently drive by the properties allows the manager to check for rule violations and some maintenance issues that require immediate repair.

Maintenance and Repairs
Whether properties are managed in-house or by a property management company, it is more cost effective to have employed staff available to respond to repair requests, clean and prepare units for move-in, and maintain building and grounds. Work that requires permits will necessitate licensed contractors, which means outsourcing the work or employing licensed staff. Leases should specify what, if any, maintenance responsibilities are to be handled by the tenants. Some organizations specifically assign tenants to various maintenance duties to cultivate skills in preparation of homeownership or as part of the program to enhance life skills.

Maintenance staff not only respond to repair calls, but also pressure wash, paint, remove trash, and make basic repairs when preparing a unit for a new tenant. While the cost of hiring a company to paint a unit could exceed $1,500, the in-house cost is estimated at $300 for materials, and the time for staff to complete the job. Lawn care and landscaping may be one example that it is cost effective to hire out due to the expense of maintaining and transporting equipment.

It is optimal to begin with fully rehabilitated or newly constructed properties as some municipalities require permits for regular repairs. The cost of hiring a contractor to replace a hot water heater or air conditioning condenser can affect a budget for small scale rental properties.

Owners of multiple properties maintain an inventory of standardized fixtures and equipment. Property management companies with multiple clients will maintain separate inventories of specialized items but will draw from company inventory for common items to avoid excessive tracking of expenses. Larger properties will have a storage area on site to keep equipment and supplies. However, smaller properties may require a common warehouse to store not only supplies such as light bulbs and air conditioning filters, but landscaping equipment.

Supportive Housing

It is presumed that the target market for the property is well established in the mission of the organization. Supportive housing projects must also decide whether to use in-house staff for management or to outsource it. Monitors often find that without a clear division of duties between supportive housing staff and qualified property managers, supportive services staff are more committed to the mission of serving people who have special needs than in adhering to the complex array of affordable housing rules. This can result in lapses in compliance and basic management needs of occupancy, maintenance, and collection of rents and fees. To prevent lease compliance issues, it is best to have specialized property management staff whose expertise is within the role of property management services, as opposed to case management or community-based support services. Another consideration is the lack of capacity of supportive housing staff, who are already resource limited and understaffed, to carry out the impersonal duties of rent collection, rule enforcement, and eviction.

Property managers find that it is easier to manage when the demographics of the tenants are similar, for example, all residents are elderly or are persons with disabilities. However, there is an emphasis on deconcentrating pockets of residents who have the same income or service needs. Implementing strategies to reduce concentrations, some properties have a certain percentage of units set aside for specialized demographic populations. It is optimal if those units are rented in full by a support agency, such as a master lease, or if the agency is the referral point for any vacancies. This will not only stabilize revenue but ensure there are case managers available to assist the residents and assist with lease compliance.

The following table compares these considerations among a large for-profit property management company and a large nonprofit housing provider. The property management company manages properties for both nonprofit and for-profit clients. The nonprofit housing organization manages its units in house with staff employees. The comparison shows how each respond to common management concerns. The size and scale of the nonprofit and its programs is an indication of the importance for smaller programs with less experience to exercise great caution in going it alone with their housing units.

MANAGEMENT CONSIDERATION

OUTSOURCE VS. IN-HOUSE PROPERTY MANAGEMENT SERVICES

MANAGEMENT CONSIDERATION	SAMPLE REAL ESTATE PROPERTY MANAGEMENT COMPANY (FOR PROFIT)	SAMPLE NONPROFIT SUPPORTIVE HOUSING ORGANIZATION MANAGING IN-HOUSE
EXPERIENCE AND CAPACITY	Begun in 1969 as developer, managed own portfolio and clients. Today manages over 13,000 units nationwide. Independent agent in Florida manages close to 3,000 units of subsidized or supportive housing. Hires leasing agents and maintenance staff to cover multiple properties in estimated ratio of 2 staff per 150 units	Begun in 1970 as a nonprofit to serve people with mental disabilities with services and housing. Today serves 1,200 residents in over 40 properties in six Florida counties. In- house services and property management by team of 25 employees, 14 of whom directly in housing property management and maintenance.
PROJECT SIZE AND SCALE	Parent corporation manages projects with over 300 units but Florida agent manages units ranging in size from 4 to 62. Approximately 65% of parent corporation's clients are nonprofits.	Management duties include administration of approximately 200 vouchers, 12 HUD 811's with maximum number of units in a property 20. Housing types include group homes, supervised apartments, permanent supportive housing.
MONITORING AND COMPLIANCE	In house compliance department reviews and approves every move in. Annual recertification of ALL residents, all files audited internally annually. Copies of LURAs and program requirements kept on site. All leasing staff attend fair housing training annually. Each property has an operating manual and set of documents. Manuals are customized by lender requirements as needed. Property has an operating manual and set of documents. Manuals are customized by lender requirements as needed.	Property managers are assigned units based on funding source, ex. HUD 811, HOPWA, ESG, Safe Haven. Managers develop file for monitors and prepare for all scheduled visits or desk reviews. Managers maintain program requirements for each property assigned. Multiple funding sources results in frequent monitoring visits by different agencies. The nonprofit is a fair housing and ADA advocate, and staff are trained in compliance.
LOCATION	Large distances between properties require coordinated appointment of leasing agents and maintenance staff. Staff receive an auto allowance and use personal vehicles. Some properties have resident managers. Quarterly inspections made of each unit interspersed with monthly pest control inspections.	Units are scattered over six counties with large distances. All units inspected annually with some twice per year. Assisting move-ins and move-outs provides more access to units.
MAINTENANCE AND REPAIRS	Full and part time maintenance staff are employed and assigned to certain properties. They use their own vehicles and receive an allowance. Staff cleans and maintains units and grounds. There is a customized maintenance schedule for each property. The parent company provides expertise in replacement reserve analysis, capital needs analysis and HUD inspections.	Full time maintenance staff and a supervisor are employed. Personal vehicles are used but there are also vehicles owned by the organization. Long term financial forecasting for replacement and operating reserves is conducted in-house by staff and augmented with consultants as needed.
SUPPORTIVE HOUSING	Many of the units managed are supportive housing- either by set-aside or the client is a supportive housing provider. Financial planning in the pre- development stage ensured that the rents would cover the outsourcing of property management expenses. In some cases, the set-aside units are rented in bulk from the support agency. Reductions in funding levels for supports threaten programs with abandonment of units and non-compliance with set-asides.	Property managers are assigned to units according to type. Case workers can be in house social services staff, or services can be on-site, or community based. Most residents are part of a program with the agency. Sometimes residents must be moved to other locations due to health or other issues. Recent reductions in funding for support services resulted in the closing of a group home with residents moved to other housing. Maintenance staff assist with transporting residents in vans owned by organization.

Property Management Software

In-house property management requires the purchase of a good property management software package, one of the best investments you will make. While it is technically possible to keep track of rent payments, security deposits and repair invoices with a series of excel spreadsheets, the ability to automate rent collection and expense records with your general accounting system is an invaluable and time saving tool.

Property management software provides a wide array of services ranging from organizational tools and printable forms, to tracking income and expenses, and generating reports. Free basic software is available for download on the Internet but do consider investing in a more sophisticated system to gain the maximum benefit. A good property management system can track rent payments, monitor work orders, automate bill paying, consolidate information for taxes and insurance, organize income and expenses by tenant, unit, building or portfolio; create application forms and lease agreements, automate credit, and background checks, and generate notices and letters. To ensure your assets are being managed properly, this software can easily create long- and short-term financial performance reports so you can adjust as needed.

Consolidated Management of Small-Scale Rental Properties

This guide has covered many areas of heightened risk and responsibility for the owner of small scale affordable rental properties. One of the major areas of concern is establishing a clear division of duties between management and operations and ensuring that the right staff with the appropriate expertise are assigned to these roles. For organizations new to owning affordable housing or for those who own few units, outsourcing property management is the best option. However, depending on your location, you may find that a property management company specializing in small scale rentals is not available.

An emerging nonprofit developer can consider coordinating with other affordable housing providers in the region to form a management company capable of serving all the projects of the participating organizations. Costs would likely be reduced since, instead of having four different people from different agencies managing 12 units each, for example, you would be able to have one person managing 48 units total. Increasing the number of units may also provide enough property management fees to hire a professional property manager, as opposed to having the duties tacked on to the workload of an already busy person, or a staff that does not have the necessary experience.

DEVELOPING MISSING MIDDLE FOR HOMEOWNERSHIP

MARKET

Between 2021 and 2022, Florida experienced population surge as in-migration from New York, California, New England states, and the Midwest, which was demonstrated by the 506,000 out of state driver's licenses exchanged for Florida licenses. Already in a deficit, the equilibrium between supply and demand further expanded, placing extreme pressure on the limited existing stock and skyrocketing sales prices. Not that homeownership was easily accessible before this boom due to stagnant, low wages and inflated cost of living, but the in-migration paired with corporations buying up homes and land has exacerbated the housing crisis for "middle class" households.

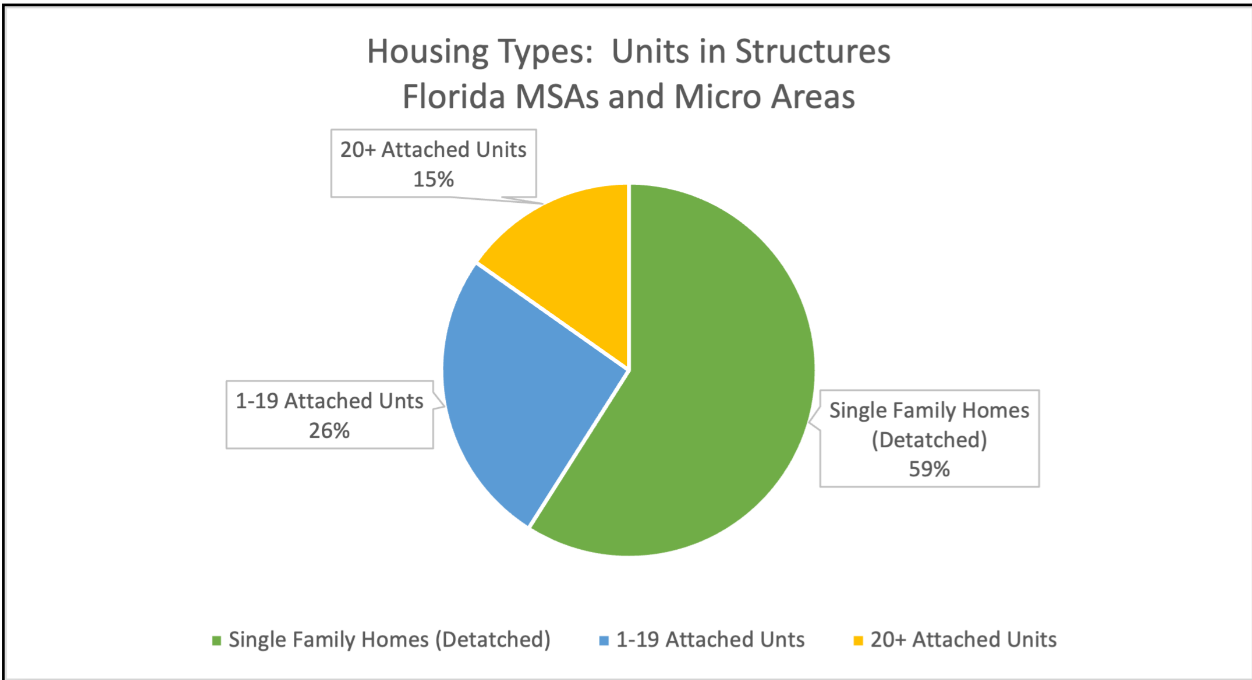
The housing inventory experienced a sharp reduction in overall listings according to Zillow.com between 2020-2022, resulting in a reduction of 499,056 homes for sale, including new listings, on the market across all regions. Contributing to this demonstrated lack of housing inventory available to Floridians, more than 506,000 out-of-state drivers' licenses have been exchanged for Florida drivers' licenses since 2022. The exchange has revealed that most in-migrants are coming from New York, California, New England, and the Midwest. Additionally, the supply of homes for purchase has further dwindled due to corporations buying homes and converting them into rental properties, removing housing stock affordable to residents from the inventory which further reduced the supply during a high-demand period.

FIGURE 1: FOR SALE INVENTORY

Source: US Census, American Community Survey, 2021

HOUSING MARKET DATA IN FLORIDA AND WITHIN FLORIDA MSAS

Florida's market is heavily represented by single family homes, which accounts for 59% of the housing stock throughout Florida's MSAs and Micro Areas. Small scale development that expands housing options for the "missing middle" households accounts for only 26% of the housing stock.



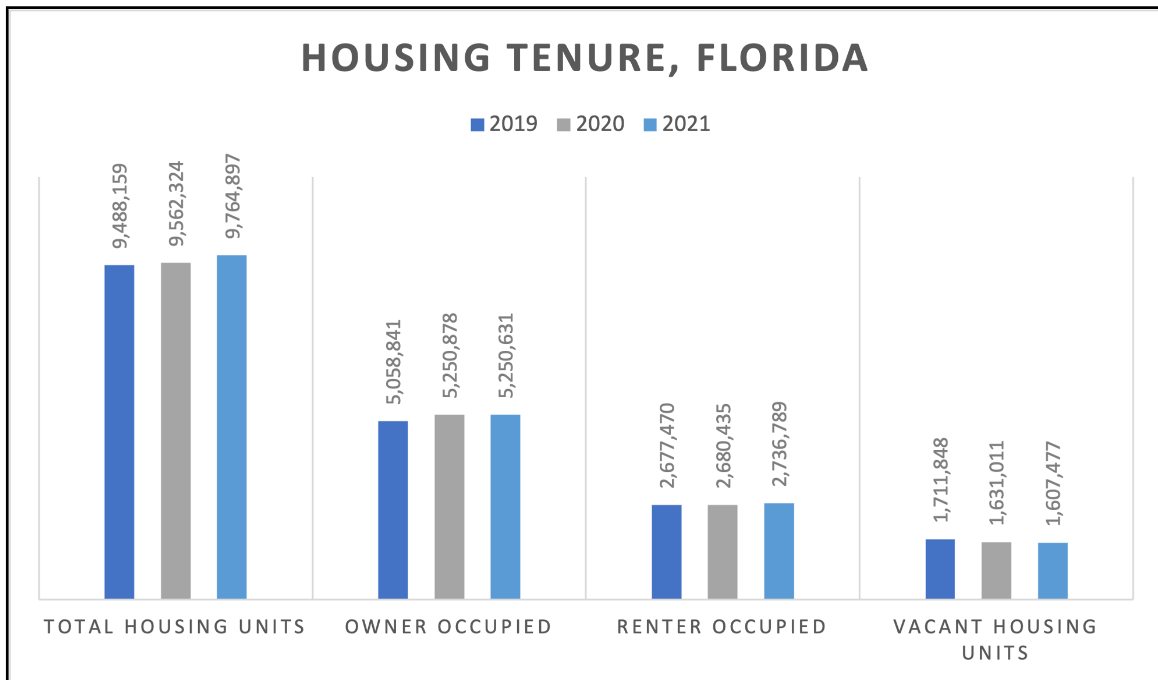


Figure 2: US Census, American Community Survey, 5- Year Estimates. Table DP04. 2019, 2020, 2021

Land Use, Zoning, and Design

To support the integration of small-scale development into areas of a community otherwise designated for low-density, single-family development, local governments are amending their future land uses to accommodate different housing types. Supplemented by the support from state legislative policies, land uses to accommodate medium density development in these areas can be more easily modified and may not require the consent of the public. Reducing the "Not in my backyard," or NIMBY, opposition by removing public hearing requirements for land use changes can expedite the development of these untraditional housing types to support homeownership for households that otherwise would be excluded from the market and the neighborhood. Changes to the local government's Comprehensive Plan-Future Land Use Map, expand the future vision of the community through modified development patterns that provide a new perspective to address traditional planning and zoning complexities.

Intentional changes to a jurisdiction's zoning regulations can encourage small scale development and further the reuse of existing structures to expand opportunities for affordable homeownership. The approval of amendments to codes that historically prohibited small scale development intermingled among the historic detached single-family homes improve flexibility to develop various types of units for homeownership that are more affordable to households that otherwise are priced out of detached homes, and neighborhoods.

Recommended by the American Planning Association are four specific ways that local governments can increase the feasibility of small-scale development:

1. Reduce minimum lot size and consider minimum lot widths instead and coordinate the building type to the width of the lot, not the square footage.
2. Allow for more housing types and revisit structure sizes that focuses not on changing the size of the house, but instead increasing the number of units in the approved house size.
3. To encourage missing middle development, local governments can level the playing field for smaller units by implementing average unit size ordinances which increase density as a unit size decreases, especially for smaller development projects.
4. Reducing or eliminating parking minimum requirements may be more realistic in urbanized areas where key community elements are nearby, including proximity to employment, activity centers, and transit hubs. When developing missing middle housing on infill land, requiring even one parking stall per unit can make the project infeasible. Reimagining the necessity of parking in a highly walkable and bikeable area can make or break a small-scale development project.
5. Adopt and implement policies that allows missing middle housing everywhere. Although amendments to the zoning code may not always be practical without the support of local governments, Elected Officials, and residents alike, planning frameworks that guide development patterns and funding for activities to promote small scale development.

Small scale, missing middle development should reflect the characteristics of the neighborhood and conform into the existing building envelope. These smaller and well-designed building types are small footprint buildings with a lower perceived density, have fewer off-street parking spaces, apply simple construction methodologies, are easily marketable, promote walkability, and are intended to create community.

Legal

Florida Statutes define laws regarding Homeowners Associations, Condominiums, and Cooperatives. Nonprofits should ensure that their Development Team includes legal representation familiar with these laws and who have the skills to develop the necessary agreements for shared wall dwellings and common areas required for specific types of residential development.

Homeowner Associations

Under Chapter 720 of Florida Statutes, Homeowners' Associations (HOAs) are defined and regulated. HOAs are required to be registered with the state as a corporation and must submit governing documents to the local government where the development is located.
The Florida Statute defines a HOA as a "Florida corporation responsible for the operation of a community or a mobile home subdivision in which the voting membership is made up of parcel owners or their agents, or a combination thereof, and in which membership is a mandatory condition of parcel ownership, and which is authorized to impose assessments that, if unpaid, may become a lien on the parcel. The term "homeowners' association" does not include a community development district or other similar special taxing district created pursuant to statute.'

Nonprofits who are developing small scale projects that require the establishment of an HOA and should have their legal team to ensure that the HOA is following the Florida Statute, which also requires the expertise to develop governing documents that are legally required. The HOA's powers are clearly defined in the in Statute, along with compliance with recordkeeping, reporting, and budgeting.

- The recorded declaration of covenants for a community and all duly adopted and recorded amendments, supplements, and recorded exhibits thereto; and
- The articles of incorporation and bylaws of the homeowners' association and any duly adopted amendments thereto.

Condominiums

In Florida, condominium formation, management, powers, and operations are governed by the Florida Condominium Act. To ensure compliance with the Florida Statute, nonprofits who are developing this type of housing must adhere to the laws concerning rights and obligations of developers and the association, understand regulations associated with special types of condominiums, and rules that mandate regulation and disclosure prior to sale of residential condominiums. The nonprofit's legal team should understand the laws surrounding conversions to condominium units and distressed condominium relief. Small scale housing developers should prepare a suite of condominium documents that will include the Declaration of the Condominium, Articles of Incorporation, and the Bylaws, and application, in addition to the estimated operating budget for the current fiscal year, year-end financials, and condominium rules.

When providing for-sale housing units that have common areas, it is necessary to prepare low income homebuyers for unanticipated expenses such as assessment fees. It is unusual for local governments to have funds available to subsidize assessment fees on behalf of the homeowner, but some do offer funding opportunities to low-income condominium owners to offset the cost of assessment fees.

Cooperatives

Regulated by Florida Statute, nonprofits that are developing cooperative housing developments must comply with Florida law. In Chapter 719, the law details the rights and obligations of developers, rights, and obligations of the association, defines special types of cooperatives, establishes the regulations and disclosure prior to sale of residential cooperatives, and the conversions to cooperative housing types. Nonprofits will want to ensure that their legal team is familiar with these laws and has the capacity to adequately comply with the regulations set forth by the state legislature.

THE PROCESS

Site selection

When searching for potential parcels to develop small scale, missing middle housing projects, nonprofits have an advantage when local governments have adopted infill housing programs. Utilizing surplus land that can be conveyed for an affordable sales price and have restrictive covenants to ensure that the final product will be income restricted to lower income homebuyers is a win-win for both the nonprofit and the local government. Infill lots in underserved communities can help with neighborhood stabilization and community revitalization while preserving the culture of the neighborhood.

An appropriate site would have zoning flexibilities to allow low to medium density development, preventing challenges of rezoning and variances upon acquisition.

Design and Feasibility

One aspect about small scale, missing middle development is that it is well known to fit seamlessly into existing neighborhoods. This is because similar housing typologies are already developed there, or the new small-scale product is designed and built to integrate into the streetscape and neighborhood character. While these are multifamily developments, the design is house sized, mirroring the often unattainable single-family home and providing easily accessible outdoor space. This place-based development is designed to be inclusive to all housing types, even seniors who are downsizing as they age and need less space. Designed based on the neighborhood, walkability and proximity to community elements is a vital component of the concept.

Attainable to households at 60% AMI and above, these smaller scale units are recognized as practical, and have the potential to be lower cost construction methods that are still high quality and comply with building code. Although the construction costs have soared over the last few years, small scale development is still feasible through subsidies and creative development options such as Accessory Dwelling Units or townhomes.

The nonprofit will want to ensure their vendor responsible for the architecture has a clear understanding of the design requirements outlined in the local ordinances and codes. This vendor will work with the nonprofit and local government through the site planning process and the approvals for the construction documents, which lead to construction permitting.

To reduce costs, when made available by local governments, some of these small-scale projects can

apply for cookie cutter permits and have multiple models for design, as opposed to each unique unit. Replicating the model will save money on individual design for a large number of single-family homes and submitting the same model for permitting will also reduce costs if the local government allows.

Financing and Managing Construction

Nonprofits should be prepared to secure construction financing well in advance. This will require preparation for credit underwriting, progress toward permitting, and an established development team. The reality is that it costs money to borrow money, so the nonprofit should be financially and legally prepared to undertake these responsibilities. Partnerships with codevelopers who have experience with projects of this scope and size can bring value to the project by leading the development process, managing the team, and guarantying the loans. Keep in mind that, in addition to feasibility, the credit underwriter is analyzing the organizational capacity and mission to develop, own, and operate this type of housing.

The nonprofit must consider the internal capacity of the organization and staff expertise before assigning existing staff to high level development roles that require specific expertise. As the landowner, the nonprofit may find it is in their best interest to partner with an established developer or consultant to manage construction, develop the pro forma and construction timeline, manage the bid process to secure the contractors, and ensure that the project is on schedule for construction completion. The General Contractor will hire the subcontractors necessary to complete the job and will be responsible for performance bonds and surety.

As the project progresses toward permitting, and the service contracts are executed, the nonprofit may apply for various financing sources that can reduce the dependence on hard debt from a traditional lender. When local governments can provide grants to offset other costs, this can make or break a project. For the developer to reduce the total development cost, financing options from alternative lenders may be necessary.

Using CDFIs or the Federal Home Loan Bank can allow organizations with limited financial capacity to borrow construction funds at a lower interest rate than a traditional bank. When grants or other philanthropic funds are dedicated to this project, or even a forgivable loan, this can be seen as equity in a project. The local government can apply funds to the project and require an affordability period or deed restriction, limiting homebuyers to a specific income range and requiring monitoring to ensure compliance.

The most important concept that nonprofits should recognize when developing units for homeownership is that the total construction cost must be commensurate with the sales price. The only way the project cost does not transfer to the homebuyer is if the developer secures low to no interest financing, or low to no cost land, which will reduce the total cost of the project. Nonprofits should be working to build relationships with the local government, most specifically, Housing and Community Development, SHIP Administrators, Economic Development, and Elected Officials. As the project moves from each phase of the development process the developer should continue informing these funding departments about changes to the budget and financing needs to ensure gaps in financing can be quickly filled with available funds and stay aware of new funding cycles that would provide additional financing resources, often unique to that jurisdiction.

Some construction financing will also require that the homes be complete with accessibility features, or that the nonprofit have a set aside for even lower income households, or specialized demographics. This can be mandated through a Land Use Restriction Agreement.

Mortgage Financing

During the predevelopment phase, the nonprofit should be prepared with a pipeline of potential qualified homebuyers. The nonprofit will need the expertise either in house or having an established relationship with a local homebuyer counseling program, where households listed on the pipeline can be evaluated for pre-eligibility to purchase one of the homes. The credit underwriting process may require the list of pre-qualified homebuyers, executed contracts, and documentation of deposit funds for these homes.

Down payment assistance programs can require that the qualified homebuyer be approved for a first mortgage prior to committing funds to reduce the upfront purchase costs to the buyer. Down payment assistance can come from various funding sources-local and state government, which need to be identified and coordinated with the lender during the predevelopment phase of the project.

All subsidies, including those construction financing and grants, will be applied to the development of the pro forma to show financial feasibility with the proposed financing plan. To assist lower income households, purchase homes, preparing the homebuyer for layers of subsidy to reduce the cost to purchase the home is the only realistic way that homeownership is possible.
If this is an affordable housing development project on local government surplus land, the nonprofit should have an established relationship, and should remain engaged to ensure that their obligations are being met. This will also help the lead the local government to planning with the right department to secure available down payment assistance as the process progresses. The site plan approval process is an interdisciplinary procedure that will naturally increase communication among all parties and various disciplines within the local government.

Marketing

A marketing plan should be developed early in the process, especially if there are specific conditions based on any funding or surplus loan program. The nonprofit may be required to put up a sign or comply with specific procedures. The organization should have the funds available to put up a sign, which may also be required by the local government. Mission based nonprofits that are developing units for homeownership may have relationships with other organizations that can be the pipeline and assist with marketing the available units for purchase.

Association Management

Essential to the sustainability of the project once occupied, the nonprofit should consider having appropriate and skilled management to oversee the association. The association must follow the legal requirements set forth in Florida Statutes. A Homeowners Association should consider hiring a Licensed Community Association Manager (LCAM) to ensure that the community is supported by a licensed professional who can meet all the obligations, monitor the reserves, and report to the board.

Affordability for a Qualified Homebuyer

The reality is that the sales price of a home is commensurate with the cost to develop it. Often, emerging nonprofit developers are financially limited in committing funds up-front while waiting for revenue gained from the sale. Contributing to lower cash flows, nonprofits who are incorporating public funds or developing missing middle housing on surplus land conveyed by the local government for affordable housing are constrained due to the compliance with the maximum sales price. Even with the maximum sales price, Developers must identify various layers of subsidy to make homeownership attainable for households between 80%-120% of the area median income. One of the most significant hurdles for lower and moderate-income households is that the homebuying process requires not only the ability to qualify for a first mortgage, but also to layer subsidies that will decrease the amount the homebuyer needs to supply for down payment. Providing grants and other subsidies that bridge the gap between what the qualified homebuyer can afford, and the sales price of the home is essential.

During the predevelopment process, the nonprofit is responsible for identifying viable down payment assistance subsidies that are attainable by the qualified homebuyer. Generally, the homebuyer must qualify for a first mortgage before they will be approved for down payment assistance. These subsidies will be incorporated into the overall pro forma, demonstrating financial feasibility, revenue, and repayment of debt. This information is also necessary for credit underwriting when securing a construction loan. Lastly, it is essential to understand the terms of each subsidy, as some require the homes to have specific accessibility features and other requirements that can limit use by some homebuyers if they do not meet certain criteria.

Permanent Affordability

The goal of developing affordable housing to expand homeownership to lower income households who are often left behind in the market can be achieved initially, unless specific restrictions are running with the land when the units are sold, they may lose their affordability if not protected. Nonprofits should establish permanent affordability policies that will guarantee upon sale of the land or improvement, the home maintains affordability.

This can be achieved through deed restrictions, requiring compliance with each new homebuyer who takes ownership of the home. Nonprofits that adhere to the Community Land Trust (CLT) model retain ownership of the land and sell the improvement to an income qualified homebuyer. The CLT ensures permanent affordability through various mechanisms including a resale formula, land lease, and homebuyer restrictions that prevent sellers from increasing sales price beyond an approved amount and qualifying potential buyers to ensure they income qualify. Without these guardrails, the number of affordable units are lost, along with the public funding allocated to the project and original homebuyer.

MISSING MIDDLE CASE STUDIES

ST. PETERSBURG DUPLEXES

Contemporary Housing Alternatives of Florida (CHAF) had created a model for small-scale rental development, constructing single-family homes with attached accessory dwelling units, effectively functioning as duplex rental units. These buildings have a larger unit in the front with a smaller (ADU) unit in the back. This design is great for smaller lots and fits into any neighborhood. Jacob Stowers, Vice President of Development of CHAF shared that surrounding residents have not objected to their construction or had any complaints. This also could be an excellent product for sale, attractive to multi-generational households or providing the primary owner with a source of revenue from the ADU to help make the housing more affordable. The information below is on three recently completed units. The developer is currently developing several more units just like this.

View of the larger unit from the street

View of the smaller unit from the rear

Images Source: St. Pete Catalyst https://stpetecatalyst.com/inside-chafs-new-affordable-housing-units-in-south-st-pe/

- Location: St. Petersburg, FL
- Location Type: Scattered site
- Status: Phase 1 Completed with three buildings (6 units)
- Zoning district: Residential/Duplex-Triplex
- Unit mix: All single family with ADU
- Building and unit sizes: Single family home with attached accessory dwelling unit (ADU. Main home is a 2-bedroom 1-bathroom 1,000 sq ft, ADU is a 1-bedroom 1-bathroom 700 sq ft.
- Total development cost: $259,397 per building
- Development sources: Center State Bank ($200,000), City of St. Petersburg ($20,000), Developer equity ($59,397)
- AMI level targeted and/or rents charged: 80% AMI, $1,100 per month for the 2/1 Main, $940 per month for the 1/1 ADU
- Partners and team members: City of St. Petersburg, Robert Reid Wedding in Tampa, FL (Architect), Center State Bank (Construction Loan), Sandspur Construction Company, Inc. (Contractor, no longer doing this type of construction).

TOWNHOMES AT WEST LAKES

The Hannibal Square Community Land Trust was established in 2004 to preserve affordability and the cultural identity of Hannibal Square, the historically Black community of Winter Park. HSCLT expanded its territory in 2016 to include most of the Orlando metropolitan region and is now in process of completing its first significant development in the city of Orlando. The Townhomes at West Lakes is Phase 1 of a two-phase development that once completed will include a mix of permanently affordable homeownership and rental housing units and commercial space. The Townhomes will be thirty units for homeownership. HSCLT will maintain ownership of the land and sell the improvements. HSCLT has engaged the community throughout the development process, including three pre-design meetings and a homebuyer boot camp. All thirty units are pre-sold.

Artist rendering of Phase 1, thirty townhomes for sale; Phase 2, thirty-two rental units with ground floor commercial space, under development.

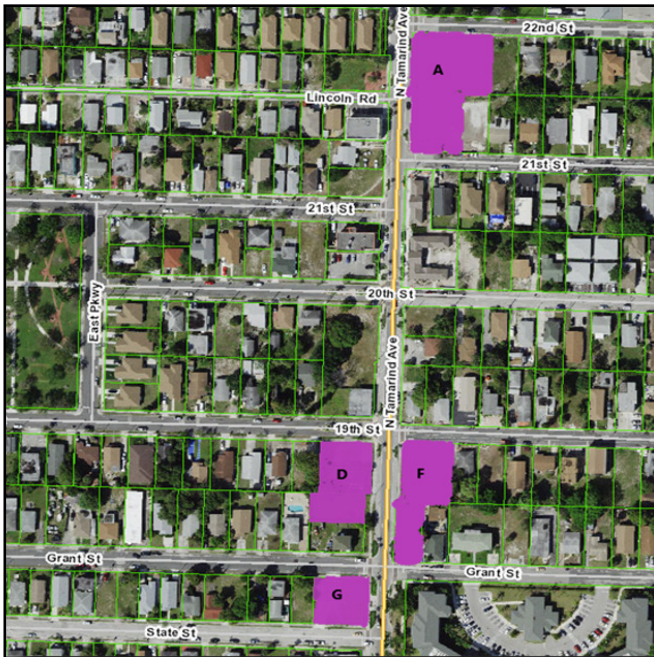
(Images courtesy Hannibal Square Community Land Trust)

- Location: Orlando, FL
- Location Type: Single site
- Status: Under Construction
- Zoning and Land Use: Zoning: R-3B Medium Intensity Development (12 to 21 units/acre). Future Land Use: Medium Density Residential.
- Unit Mix: All 3 BR/ 2.5 BA, detached 2-car garages, small private backyards.
- Building and unit sizes: 5 buildings, 6 unites per building. All units 1,664 sf.
- AMI Level Targeted and Sales Prices: targeting 120% AMI and below
- Proposed sales price: $217,000
- Total Development Cost: $11,176,700 ($372,557 per unit)
- Development Sources: Florida Housing Finance Corporation ($750,000), LISC Black Economic Development Fund ($5,750,000), City of Orlando ($3,000,000), Orange County Housing Authority ($600,000), City of Orlando Fill Reimbursement ($339,775), Developer's Equity ($736,925)
- Partners and Team Members: Scott + Cormia Architecture and Interiors, LLC (Architect), Davis Consulting and Management, Inc. (Construction), Florida Engineering Group, Inc. (Engineering), Florida Housing Coalition (Technical Assistance)

COLEMAN PARK RENAISSANCE

Neighborhood Renaissance is a nonprofit based in Palm Beach County that has developed 255 units for rental and homeownership, and has recently completed several missing middle developments. The nonprofit is currently developing Colemen Park Renaissance in West Palm Beach. Conceived in 2019, This development will be comprised of six buildings across four sites with a total of 43 units. The development will also contain 3,718 square feet of commercial space in the ground floor of one of the buildings.

The sites are all located along Tamarind Avenue in West Palm Beach. Three of the sites are near the same intersection, and the fourth just two blocks to the north. This development will contribute to the revitalization of Tamarind Avenue and the Coleman Park neighborhood, which has a rich history as the city's hub of Black-owned businesses and culture. Coleman Park Renaissance will utilize mortgage revenue bonds and low-income housing tax credits, which is uncommon for small-scale development, but demonstrates the possibility particularly the ability to amass the right amount of units through scattered sites.



Areal view of Tamarind Avenue, sites identified in purple and artist rendering of buildings to be constructed on Site F.

(Images courtesy of Neighborhood Renaissance, Inc.)

- Location: West Palm Beach, FL
- Location Type: Scattered sites
- Status: Under Construction
- Zoning: CP-NC Coleman Park Neighborhood Commercial (established to provide opportunities for commercial development and promote opportunities for small businesses)
- Unit Mix: 13 1-Bedroom 1-Bath, 22 2-Bedroom 2-Bath, 8 3-Beddorm 2-Bath
- Buildings and Units: 6 buildings with 43 units ranging from 572 sf to 1,144 sf
- Total Development Cost: $20,338,223
- Targeted income levels and rents: Between 22% and 70% AMI, rents range from $299 to $1,624 per month.
- Permanent Sources: First Mortgage ($1,660,000), FHFC Viability Loan ($1,087,049), FHFC SAIL ($2,940,000), FHFC Extremely Low Income ($571,300), FHFC National Housing Trust Fund Loan ($1,196,493), Palm Beach County ARPA ($2,358,001), Palm Beach County HOME ($735,000), West Palm Beach SHIP ($176,500), Quantum and Lost Tree Foundation Grant ($500,000), Tax Credit Equity ($8,331,714), Deferred Developer Fee ($782,166).
- Partners and Team Members: Southeast Architect Services, Inc. (Architect), JWR Construction Services (General Contractor), Florida Housing Coalition (Technical Assistance).

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APPENDIX: ANTICIPATED CAPITAL REPAIRS AND REPLACEMENT RESERVE EXAMPLE

ANTICIPATED CAPITAL RESERVES

The following table is a summary of the anticipated capital repairs/replacements, by type, by year, for a 40 plus year old, 32 unit multi-family building that is for sale. Future costs are based on historical inflation rates for each type of repair. Over the 20 year planning horizon, the building is expected to need $1,364,106 in repairs.

Original Construction Date: 1970 Number of units: 32

	2023 YEAR 1	2024 YEAR 2	2025 YEAR 3	2026 YEAR 4	2027 YEAR 5	2028 YEAR 6	2029 YEAR 7	2030 YEAR 8	2032 YEAR 9	2032 YEAR 10
SITE										
PARKING LOT	$75,074			$656	$7,373	$2,666	$2,644	$0	$9,059	$1,957
DRAINAGE	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
SITE SUBTOTAL	$75,074	$0	$0	$656	$7,373	$2,666	$2,644	$0	$9,059	$1,957
MECHANICAL/ELECTRICAL										
MECHANICAL	$0	$0	$0	$1,093	$0	$0	$836	$0	$0	$0
ELECTRICAL	$2,500	$0	$0	$0	$0	$0	$0	$0	$0	$0
ELEVATORS	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
MECHANICAL/ELECTRICAL SUBTOTAL	$2,500	$0	$0	$1,093	$0	$0	$836	$0	$0	$0
BUILDING										
STRUCTURAL AND EXTERIOR	$29,906	$12,047	$0	$0	$4,760	$16,208	$0	$0	$5,357	$0
ROOF SYSTEMS	$0	$120,414	$0	$0	$0	$0	$0	$0	$0	$0
LOBBY/HALLS/STAIRS	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
COMMUNITY ROOM	$524	$0	$0	$0	$0	$607	$0	$0	$0	$0
BUILDING SUBTOTAL	$30,430	$132,461	$0	$0	$4,760	$16,815	$0	$0	$5,357	$0
UNITS										
LIVING	$47,807	$28,641	$29,500	$30,385	$640	$658	$678	$699	$720	$742
KITCHEN	$53,663	$34,673	$35,714	$39,407	$2,701	$2,784	$2,865	$0	$0	$0
BATH	$45,335	$26,095	$26,878	$27,684	$0	$0	$0	$0	$0	$0
MECHANICAL/ELECTRICAL	$35,558	$13,769	$14,182	$14,608	$2,172	$2,237	$2,305	$15,843	$16,319	$16,808
UNITS SUBTOTAL	$182,363	$103,178	$106,274	$112,084	$5,513	$5,679	$5,848	$16,542	$17,039	$17,550
TOTAL CAPITAL COSTS	**$290,367**	**$235,639**	**$106,274**	**$113,833**	**$17,646**	**$25,160**	**$9,328**	**$16,542**	**$31,455**	**$19,507**

REPLACEMENT RESERVE ANALYSIS EXAMPLE AND DISCUSSION

The next table is an example of a replacement reserve analysis for the building in the table above. It shows that the building currently has a reserve balance of $15,172 and the current reserve contribution is $288 per unit per year. Not only is the current reserve balance insufficient to cover current year improvements, the replacement reserve contribution will only result in $184,320 over the next 20 years, well short of the estimated replacement costs during this same timeframe.

One possibility for the successful acquisition of this building would be to capitalize a replacement reserve fund with $763,760 and increase the replacement reserve contribution from $288 per unit per year to $450, with an annual increase of 3 percent. Capitalizing a reserve with such a large amount can be difficult to do under most affordable housing programs. Another alternative would be to undertake at acquisition the repairs identified as needing to be completed over the next five years. This would enable the public sector housing dollars to be used in a timely manner and would still result in anticipated replacement reserves being sufficient to cover replacement needs over the next 20 years.

In some instances, the affordable rent structure may make it impossible for the replacement reserve contribution to be increased. In this example, if the year 1 replacement reserve contribution is kept at $288, and the $763,760 worth of repairs are completed at acquisition, $156,241 would have to be deposited into a replacement reserve account. While it varies by the source, affordable housing programs will often allow their funds to be used to capitalize a reserve, provided the funding of the reserves is required by the conditions of a first mortgage from a lender. This usually cannot be done if the only financing source is public sector affordable housing funds.

It is important to note that the results of this analysis should be used when deciding whether a deal is viable. Acquiring an existing building without adequate money for current and future repairs may simply result in a new owner for the same distressed property.