MULTI-HOUSING NEWS

Affordable Housing Development Pushes On

By **IvyLee Rosario**

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What's helping and hindering the sector's current path.

According to the National Low Income Housing Coalition, there is a shortage of 7 million affordable units in the U.S. That only accounts for low-income households at or below 30 percent of the area median income, leaving aside those between 30 and, say, 60 or 80 percent.

"In New York City, there are 700 housing lottery applicants to one opening for affordable units," said Jenny Wu, managing director of development at Jonathan Rose Cos. "There's a big mismatch between supply and demand, and it's getting worse."

In this climate, affordable developers are ramping up efforts to fill the gap, while also trying to educate the industry on why more companies should join the niche.

The Anne M. Lynch Homes at Old Colony, The Architectural Team

The hoops

The affordable housing sector is pitted against many obstacles compared to other product types. A major one, facing all aspects of the industry, but especially affordable, is the supply chain. It's becoming [increasingly more expensive](#) to build such communities considering the hike in construction costs and the ever-growing labor shortages, which cause delays and financial gaps.

Patriot Pointe, LDG Development

“On the soft cost side, structuring affordable housing is getting more complex. There are a lot of regulatory hurdles, land use regulations and environmental reviews. Subsidy programs are complicated so all of them are making it riskier, longer and more expensive to develop,” added Wu.

Operational costs are another hoop, while insurance costs have increased, and labor and material costs are all outpacing any rent increases allowable for these units.

“Four months ago, lumber has tripled as of today,” said Justin Hartz, development director at LDG Development. “The 10-year note at the beginning of 2021 was 0.93 percent, and today it’s 1.93. That’s 100 points over one year, which is not helping the creation of construction loans.”

These issues make it harder to borrow more for a project. There is also a scarcity of taxes and bonds in states where, if a company wanted to do an affordable project at 60 percent AMI at a 4 percent bond deal, it wouldn’t be able to build that development to receive the tax credits.

Hartz also mentioned building permits as a major obstacle for the sector. “Every single state and local agency seem to be behind four to six months on the previous scheduled timeframe because of the pandemic. Now it’s harder to get building inspectors out to your job sites to turn over the newly built units,” he added.

NC5, located in Philadelphia. Image by Jeffrey Tottaro Photography

The support

The multifamily industry is leaning more into the importance of affordable housing development, and there is current support as well as proposals to assist in pushing efforts forward.

On Feb. 28, the Federal Housing Finance Agency announced that the Housing Trust Fund and Capital Magnet Fund would receive $1.1 billion toward affordable housing initiatives from Fannie Mae and Freddie Mac, an increase of $46 million from last year. The support works on a grant basis and goes toward the development, preservation, repair and operation of rental housing for low- and very-low-income households.

One of the most watched proposals right now is the Affordable Housing Credit Improvement Act, which would lower the housing bond limit from a 50 to 25 percent test. This would reduce the amount of private-activity bonds required for each affordable project to access 4 percent low-income housing tax credits.

Additional parts of the act include increasing 9 percent LIHTC authority by 25 percent and implementing three 30 percent basis boost provisions affecting the 4 percent

LIHTC. If these proposals pass, it is estimated that an additional 2 million affordable rental homes could be financed over the next decade.

In addition to government support, more municipalities are encouraging the development of affordable housing through several directions, explained Jay Szymanski, principal at The Architectural Team.

“By providing zoning incentives to allow for increased density for affordable projects, by requiring market-rate projects to include a minimum percentage of affordable units, and by providing tax benefits for affordable housing projects. The mechanisms themselves aren’t necessarily new, but their adoption across a much broader range of national markets is an important change,” he said.

The multifamily industry can continue to support affordable housing by taking a great interest in what the sector needs to increase supply. A major difference would be advocating for zoning laws in areas that don’t currently allow multifamily. For a long time, exclusionary zoning was something across the board, leaving multifamily out of high-income suburban areas.

“The more you close that off and the ability for units to be produced, the more expensive it will get,” said Aaron Pechota, executive vice president of development & head of affordable housing at The NRP Group. “The multifamily industry as a whole needs to focus on inclusionary zoning to increase the supply for all types of housing. If we have less land to develop on, then it takes more time and cost where we don’t have that.”

The innovation

With interest in affordable housing on the rise, some developers are working to create innovative projects that will serve the community in multiple ways.

Jonathan Rose Cos. is continuing work on Sendero Verde, a mixed-use project in Harlem, N.Y., that includes 709 affordable units, a Pre-K through eighth grade school, a community art center and ground-floor retail. The development is expected to become the largest certified multifamily passive house project in the U.S.

Platform Lofts, The NRP Group

Public-private partnerships can also be an effective alternative. An example of this is the Anne M. Lynch Homes at Old Colony, a large-scale, multi-phase affordable community in Boston developed by Beacon Communities in partnership with the Boston Housing Authority and designed by The Architectural Team.

“The public-private partnership is an attractive and effective tool because it enables multifamily developers and owner/operators access to funding so they can do what they do best, while also easing the burden for municipalities with large housing portfolios that are becoming increasingly difficult to manage and maintain,” added Szymanski.

LDG Development partnered with a housing authority on a project next to a VA hospital in Fort Worth, Texas. Patriot Pointe created a mixed-resident community at 60 percent AMI, veteran and RAD housing that includes a clubhouse for resident services and classes.

The NRP Group is putting forward a concept of health-care housing, which brings together affordable housing with local services. An example of this is Platform Lofts in Charlotte, N.C. The project was a 4 percent bond deal built on the city’s tram Blue Line that connects downtown to UNC Charlotte. The company got ahead of the transit-oriented movement in the city and now has several contracts under development along the line.

“When you look at affordable housing as an economically viable investment, you are producing a much more efficient product that operates as a market-rate development. These projects at these sizes and operated the right way produce cash flow," said Pechota. "Investors are putting in home or bond dollars into these deals and getting paid back. While you might not hit market-rate return, investors are still getting returns because they are investing in developers and it's a win-win."