HIV/AIDS Housing for Faith-Based Communities and Community-Based Organizations

Affordable Housing Development and Ownership: Opportunities and Risks

The development of affordable housing resources is an intensive undertaking. For any organizations contemplating becoming an affordable housing 'developer' or owner for persons living with HIV/AIDS (PLWHA) should be aware of both the risks and the opportunities.

On the opportunity side, developing and owning affordable housing for PLWHA can give an organization <u>direct access to valuable housing resources</u> for the people that they serve. The value of being able to provide long-term stable housing and support to a household in need is hard to underestimate. The development and management of housing resources can expand the capacity of an organization and broaden its ability to make an impact in its community. Housing properties can represent a tangible expression of an organization's presence and efforts in a community.

On the other hand, developing and managing affordable housing is a very complex undertaking with a variety of risks.

- <u>A variety of different organizational resources may be taxed in the process, ,</u> including financial and property assets; board, leadership and management capacity; governmental relations; and community connections.
- <u>Financing housing units with 'deep' affordability (providing rents affordable to households with extremely low incomes) is complicated and may take many years to assemble</u>. A developer should be prepared to carry substantial costs before hoping to receive any grant or bank financing.
- <u>Financial and property transactions can be complex and full of unanticipated challenges</u>, such as tax and title problems, getting multiple funding sources to work together with competing requirements, zoning and environmental concerns, and neighborhood opposition.
- <u>Affordable property ownership typically carries long-term responsibilities and liabilities for the owner in exchange for favorable financing opportunities</u>, including property covenants, asset management requirements, mortgage liens and balance sheet liabilities.

The capital development of affordable housing projects can literally make or break an organization. Affordable housing capital development activities can include a range of activities related to the purchase of land and/or properties, the rehabilitation or conversion of existing properties and the construction of new housing restricted to households with low incomes.

Any organization that undertakes an affordable housing capital development project should first go through a thorough process with its board of directors/governing body in order to line up the pieces of the capital development puzzle. This process should weigh the risks and opportunities assess organizational capacity and review partnering prospects.

Questions to Ask Before Developing

Access to stable and affordable housing is often a key unmet need for many persons living with HIV/AIDS. Research has shown that adequate housing is needed first by PLWHA in order to meet other needs, such as accessing medical care, adherence to medication regimes or using community supports. By developing and owning affordable housing resources, an organization focused on meeting the needs of persons living with HIV/AIDS can address a core mission objective. In fact, ownership and management of mission-focused affordable property can fundamentally define and orient an organization.

Given the complexity of housing development and ownership, an organization should first assess the opportunities and risks by asking itself some key questions:

- Is providing housing at the heart of our mission?
- Is capital development and ownership necessary to meet our goals?
- Do we have the financial resources to carry costs or absorb losses if necessary?
- Do we have leadership and management capacity regarding the technical elements of property development, financing, ownership and property management? If not, are we willing to invest in developing that capacity or getting that capacity from a development partner?
- Are there organizations in the area that are experts in capital development and/or affordable housing ownership and management?
- Do we have the support of our community, donor and funding partners to undertake this task?
- Are we prepared to take on the role of landlord with the persons we serve?
- Are we 'in it for the long haul'?

Answering these questions in consultation with an expert in the field will help an organization assess its ability to take on housing development.

Financing Affordable Housing:

There are three basic areas of financing, in relation to supportive affordable housing projects.

- Capital Development
- Operating Subsidies
- Supportive Services

Capital development financing covers the full-range of costs that come with the purchase, rehabilitation, conversion or new construction of affordable housing. These are typically divided into ‘soft’ and ‘hard’ costs. ‘Soft’ costs include: initial feasibility study; architecture work; environmental engineering; legal expenses; permitting and zoning costs; accounting; marketing and initial leasing; insurance; fees; and, taxes. ‘Hard’ costs include: purchase of land or property asset, site preparation and construction materials and labor costs.

Most financing will be in the form of construction loans that are converted to long-term mortgages upon completion of the project. Government-backed financial tools used to fund a project may come with advantageous terms, such as no or below-market interest and deferred payments. ‘Soft’ cost financing can often be found from a range of both public and private sources, including charitable foundations, state finance agencies and the Federal Home Loan Bank.

Low-cost financing is the first keystone to making a project both affordable for the tenants and sustainable as an operation. As with any business, the higher the operating costs are (including the repayment of loans), the more income is needed from tenant rents to balance the books. Just as a lower interest rate decreases the monthly payment a home owner makes on the same size loan, low-cost financing reduces future operating costs for the affordable housing owner. Most projects will require multiple streams of development assistance in order to balance the project’s budget. Blending capital financing tools can be a significant technical challenge, since each source comes with its own requirements. Coordinating the timing of the assistance, which is often awarded only through distinct periodical rounds of competition adds to the challenge of combining financing resources. For example, a project might have received a commitment of one type of funding while another source of funding takes two additional years to obtain because the funds are made available on an annual basis and are highly competitive. Examples of development financing include:

- Housing Opportunities for Persons with AIDS (HOPWA), administered by state and local governments, as well as non-profit organizations
- HOME Investment Partnerships Program (HOME), administered by local and state governments
- Low-Income Housing Tax Credits (LIHTC), administered by state housing finance agencies
- Section 811 funds (restricted to non-elderly persons living with disabilities), administered by HUD Affordable Housing Program (AHP), loans administered through local Federal Home Loan Bank member institutions
- Community Development Block Grant (CDBG), administered through state and local governments
- Supportive Housing Program (SHP) McKinney-Vento Act, administered by local Homeless Continuum of Care
- State and local sources of funds

Operating Subsidies are the second keystone for project viability and are essential to long-term sustainability for most affordable projects. Operating subsidies are usually necessary to attain ‘deep’ affordability, that is, in order to make units affordable for persons with very low income while still maintaining adequate cash flow from rental income. Most publicly funded subsidies require households to pay no more than 30% of their income towards rent and utilities. The subsidy pays the difference, up to the full ‘fair market rent’ for a unit. The ‘Fair Market Rent’ amount is determined by HUD for given unit sizes in specific communities. Operating subsidies are often necessary in addition to initial capital development financing. Typically the subsidies are tied to the particular units, involve multi-year commitments and are administered by a local or state housing authority.

Some programs that fund operating subsidies for supportive housing include:

- Housing Opportunities for Persons with AIDS (HOPWA)
- Section 8 Moderate Rehab, the Supportive Housing Program (SHP) and Shelter Plus Care (SPC) McKinney-Vento Act
- Project-Based Housing Choice Voucher Program (HCVP) (aka Section 8) Section 811
- HOME Investment Partnerships Program (HOME)
- Veterans Administration Supportive Housing (VASH)

Supportive Services are a final key funding element. Resources for services vary greatly from state to state, even resources that come from the federal government. Most public resources for funding services will come from or through state government, though some will flow through city or county governments. Common resources that can be used for funding housing-related supportive services for persons living with HIV/AIDS include:

- Ryan White HIV/AIDS Program
- HOPWA
- Substance Abuse and Mental Health Services Administration (SAMSHA)
- Community Development Block Grant (CDBG)
- The Supportive Housing Program
- VASH
- Emergency Solutions Grant (ESG)

Four Keys for Supportive Housing Development:

Every affordable housing project presents unique challenges and opportunities but for all of them, the same basic considerations before launching into a project apply:

- Siting
- Feasibility
- Financing
- Sustainability

Siting is a matter of finding the right property for new, conversion or rehabilitation development for the right target population at the right price in the right location. Does an identified property have any liabilities, such as environmental concerns (e.g. buried oil tanks or leeched industrial chemicals in the soil) or tax liens? Is the location suitable for the target population (e.g. near public transportation, medical and community services and stores)? For rehabilitation, how substantial is the work needed? For conversion, are there any zoning restrictions that might prevent a change in the use of the property? Do neighborhood and community organizations support the new project? For most funders, all financing, site concerns (such as environmental mitigation and site control), and design and engineering work will need to be cleared up before they will commit funds to the project.

Feasibility is part of the 'pre-development' process and looks at the total financial picture of a project through all phases, including development and ongoing operations. Feasibility analysis may require input from architects, engineers and construction contractors (in order to create development options and estimate development costs), real estate experts (in order to assess demand for the housing), lawyers (in order to address any known legal issues) and property managers (in order to plan and estimate long-term operating costs). Estimated short and long-term costs along with realistically estimated development and operating revenues are used to develop a multi-year budget. . A feasible project will need to have reasonable revenues to cover reasonable costs on an ongoing basis. A good feasibility study is at the core of a successful project. As often as not, such a study will indicate that a project is not viable. Hiring a development consultant with local knowledge and experience for this analysis can be very beneficial.

Financing for affordable projects is often complex. Applications can be difficult to assemble, regulations can be arcane or technical, application windows can be infrequent and different funding sources can have competing and even contradictory requirements. The assembling and management of financing is another place where the support of a professional with experience in this field can come in handy. In fact, it is often advantageous for a community-based organization to partner with another organization that specializes in affordable housing development which allows them to apply for funds as part of a team of experts.

As with individual home owners, lenders consider their own risk before lending to an organization for a particular project. Just as a bank requires home inspections and assesses the experience and capacity of a potential home buyer to maintain a mortgage, affordable housing lenders ask similar questions. Was the feasibility analysis sound? What are the chances that other funding will or will not come through? How much experience does this developer (and its team) have in successfully navigating the affordable housing development process? Did the developer adequately plan for long-term facility maintenance costs in its budget? The more solid the planning is, the likelier an organization is of securing adequate financing.

Sustainability is having the capacity and resources to maintain your property and operations into the future. Like the development process, sustaining a property is complex and requires a solid organization. It requires having adequate income to pay for both current operations and to fund reserve accounts for future capital needs (e.g. new roofs and HVAC system), the ability to provide ongoing maintenance, and the capacity to comply with management and reporting requirements from funders. Unit-based operating subsidies are often necessary to maintain adequate income. Property management companies can provide maintenance and management services.

Alternatives To Housing Development

Given the risks and challenges to developing real estate with deep affordability for special needs populations, it may make more sense to pursue 'soft' development options, such as Master Leasing and Supportive Service Only projects.

In Master Leasing a project sponsor directly leases individual units, blocks of units, or an entire structure from a private owner. Unlike tenant based rental assistance (TBRA), the lease is between the private owner and the project sponsor. The sponsor will, in turn, enter into an occupancy agreement with an eligible household. The approach is similar to project based rental assistance except that the housing is not owned by the project sponsor and in Master Leasing there is the possibility of eventual conversion to TBRA, with the assisted tenant assuming the lease in his/her name. It is very useful for beneficiaries who might have difficulties being approved for a direct rental, due to poor housing and credit histories or other factors. In Master Leasing, the project sponsor:

- Leases individual units, blocks of units, or an entire structure
- Enters into occupancy agreements with HOPWA beneficiaries
- Provides rental assistance to the HOPWA beneficiaries including all program administration associated with rental assistance
- In some instances may work to transfer the lease to the assisted household

In a Supportive Services Only project, an organization enters into an operating agreement with a property owner or property management company, in order to provide services directly to a housing-based population. Typically, the owner agrees to set-aside existing affordable units (within Fair Housing and funding parameters) for a target population. In turn, the provider guarantees that they will provide supportive services to the tenants during the length of their tenancy. Such arrangements can vary widely, wherein a service provider may or may not take a direct role in tenant selection and other property management related functions. This option has none of the risks or challenges of property development, ownership and management and can be funded at a relatively low cost. However, the provider may have little or no control over tenant selection and termination/eviction decisions.

Property Owner, Property Manager and Service Provider? Strategies for Managing the Tension Between Roles

Every affordable housing property owner will need to consider how to meet a number of property management needs, once a project is developed. Most public and private sources of financing will set a variety of standards that ongoing management efforts will have to meet, including maintenance, capital planning, regulatory compliance (reporting, eligibility, and operations), and capital reserve accounts. Property ownership also carries the responsibility of compliance with local and state tenant-landlord laws. Financial constraints and regulatory restrictions may limit an organization's flexibility in providing 'mission-oriented' supports to target populations. Indeed, for an organization that is both a property-owner and a service provider, conflicts of interest may cloud the organization's relationship with its tenants/clients.

For example, as a service provider, an organization may want to work closely with its tenants who are struggling to meet their lease obligations, such as regular rent payment or respecting the quiet enjoyment of others. At the same time, as a property owner, it cannot afford to incur the loss of rental income or have the stability of other tenants threatened. These competing obligations can interfere with each other.

Providers who are also owners should consider, at a minimum, dividing the roles of service provider and property manager between different individuals at the same organization. This may be the best option for organizations that only have a few properties or modest number of units to manage. However, if the scale operations (and cash flow) permit it, two better options are either incorporating a separate for- or non-profit that solely provides property management functions or contracting with an independent property management company with experience managing affordable projects. In most major markets, there will be experienced property management firms that can provide this service.

A final consideration is ownership of the property. Should an organization own its property directly, segregate risks and liabilities into a separate limited liability partnership, spin off an altogether separate property holding company or have a third party own the property outright? Each of these options has its own risks and benefits, which will have to be weighed by a Board of Directors. As with the entire development process, consultation with an expert is encouraged.

Finding and Working With a Development Partner

'Going alone' in housing development can be a risky proposition for any organization, especially one lacking previous experience in the development and management of affordable housing. The risks are high and the development process is complicated. Partnering with an organization experienced in the development and management of affordable housing will increase the likelihood of short- and long-term success for a project.

Most urban and many rural communities have local or regionally based Community Development Corporations (CDCs) or Community Housing Development Organizations (CHDOs). Community Development Corporations are private non-profit, community-based organizations that anchor capital locally through the development of both residential and commercial property, ranging from affordable housing to local private business. Community Housing Development Organizations are private non-profit, community-based organizations that develop affordable housing for the community it serves. Both types of organizations, by definition, will have experience with development work, though they may not be familiar with developing supportive housing for populations with specials needs, such as persons living with HIV/AIDS. Some may offer both development and property management functions.

For-profit developers can also be possible partners, though many forms of public financing for affordable housing prioritize or require use by non-profit developers.

The key to working with a development partner is having a clear and common mission and vision for the particular project. Housing for particular populations, especially supportive housing, will require keeping a clear eye on specific needs, such as proximity to health care, attention to Universal Design standards, and deep affordability requirements.

Resources*

- HOPWA Program Website: http://www.hudhre.info/hopwa/index.cfm?do=viewHopwaHome

- Corporation for Supportive Housing, "Supportive Housing Development and Management: Introduction to Supportive Housing Development": http://www.csh.org/index.cfm?fuseaction=Page.viewPage&pageID=594

- Housing Alliance of Pennsylvania, "Addressing Community Opposition to Affordable Housing Development: A Fair Housing Toolkit": http://content.knowledgeplex.org/kp2/cache/documents/68549.pdf

- Building Changes (formerly AIDS Housing of Washington), "Combining Affordable Housing Funding Sources": http://www.buildingchanges.org/think-tank/research-and-publications/doc_download/44-combining-affordable-housing-funding-sources

- Building Changes (formerly AIDS Housing of Washington), "Putting Your House In Order-Securing Your Supportive Program's Future Through Effective Asset Management: http://www.buildingchanges.org/think-tank/research-and-publications/doc_download/46-put-your-house-in-order-securing-your-supportive-housing-programs-future

- Victory Programs (formerly AIDS Housing Corporation), "HOPWA Oversight and Monitoring Guide": http://www.hudhre.info/hopwa/index.cfm?do=viewHopwaGuide

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