

CREATING AFFORDABLE MULTIFAMILY HOUSING

Residents of big cities all over the United States are feeling the effects of a shortage of affordable housing. The average worker should spend no more than 30 to 35 percent of their income on rent. When the average worker ends up paying more than 30 to 35 percent of their income towards rent, it becomes a burden and an obstacle, preventing them from being able to save. Creating a solution for this problem involves using local government subsidies and combining it with developer-led programs. For developers who are thinking about building affordable family housing, there are a few ways to do so affordably while still making a profit.



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LAND

One of the first ways a developer can reduce the cost of building affordable multifamily housing is by developing projects on public land. In a Harvard study of 46 states involving the cost of a lot per acre in those states, the Harvard researchers found that some states experienced lot price increases of 80 to 90 percent. Some states, like Nevada, experienced lot increases of up to 158 percent. A majority of the price increases were experienced in the west, but this was effectively due to lot prices being already priced higher in the east.

Buying public land gives developers a fair amount of flexibility on the land price. The government regularly dedicates land to purposes like libraries, schools and affordable housing. Properties that are of no use to government agencies can become labeled as a surplus by the city council. Properties that are labeled as surplus can then be acquired by developers for affordable housing purposes. These properties can sometimes be leased for as little as \$1 a year. The city is then able to earn money from these properties through other means like refinancing proceeds, property taxes or owner sales. Universities, hospitals and private employers are known to develop on public land.



DEVELOPING AND CONSTRUCTION COST

The construction of affordable housing is one of the most expensive steps in developing affordable multifamily housing as there is little flexibility in construction costs. Sticking to lower-end amenities, changing certain materials, reducing complexity and a lot of value engineering can reduce costs to some extent. The developers still have to pay staff, office space and other administrative expenses. To some extent, the cost of these items can be deferred to a later date, but still require some amount of capital to cover these costs, in most cases, this means a loan.

Organizations like the Federal Home bank (FHLBank) offer non-profit and for-profit developers a chance to receive funding for affordable housing. The FHLBank consists of 11 US government-sponsored banks that provide liquidity to member financial institutions. The official FHLBank site has a list of over 56,000 institutes that are FHLBank members. The 11 FHLBanks are owned by the member institutions while operating independently without taxpayer assistance. The FHLBanks issue discount notes and term debt in the capital market to raise part of its fund. This debt is backed by all member banks, providing low-risk investments for investors. The FHLBank requires developers to finance, construct or reconstruct housing for low-income families and median income families. 20 percent of the units must be affordable and occupied by low-income families (with an income of 50 percent or less of the median income for the area).

There are also options like soft second loans, which provide a secondary mortgage to construct affordable housing. Soft second loans should be used strategically, these type of types of loans only saves developers the difference of the debt-service rate on the development cost of capital, around 6 percent in some cases. Soft second loans could be used for subsidizing operating costs paid by residents to further reduce cost.



SUBSIDIZING

The federal government also provides subsidies to for-profit and non-profit organizations. To receive a subsidy, the government requires developers to put a percentage of the developing housing aside for low income housing. Developers can use a mixture of subsidies such as deep subsidy, which sets the rent to 30 percent of the renter's income or a shallow subsidy, which sets the rent below market level but is not based on income. Using subsidies does not restrict developers to only developing one type of housing. Most multifamily developments are comprised of mixed-income housing. Subsidies like section 8 also guarantee that tenants will be able to pay their rent, which is favorable to potential investors.

RETAIL SPACE

Developers will have to use more than subsidies to create an affordable housing product. Techniques such as adding a ground retail space can be beneficial to reduce costs. New and improved wood-treated systems allows for multifamily structures to be up to six stories tall. This would allow for a building to have about 100 units. Adding more units increases a developer's Net Operational Income, thus allowing them to receive a bigger loan. However, the decision to add more units must be made wisely. Construction costs will increase but things like the project management fees and acquisition costs may remain the same. Building more units also requires more tenants, which may not be possible outside of big cities. When advertising for commercial real estate, developers must research how much local retailers are willing to pay to rent a space and design the space to fit this budget. A non-profit organization, government offices and clinics are examples of large businesses that could be used to fill this commercial real estate space. Developers may have plenty of businesses available to move into this designated retail space, but research must be done beforehand to understand the local area market. The retail income could also be put aside for a rent-forgiveness program. If any of the tenants became sick, unemployed or fall on hard times, this fund could be used to assure that tenants would be able to pay their rent.

MAKING AFFORDABLE HOUSING A POSSIBILITY

Developing affordable and low income housing can be complex and will involve the assistance of many government, private and public organizations, but it is not impossible. By developing affordable housing, developers are improving the communities where they are constructed. Building affordable creates jobs and provides housing for families who would otherwise be cost-burdened and struggling to make ends meet.

ABOUT CIVE

CIVE is an upscale Design-Build firm, specializing in top-down build process driven by value engineering – from state-of-the-art design, leading-edge engineering, high-quality construction, and elite project management.

Our strengths lie in a rich mix of talent, experience and ingenuity. Our clients can depend on us to anticipate industry changes and plan for the future, while providing most practical and cost-effective solutions. CIVE devotes customized, individual service to all its clients, whether large or small.

Specialties: Residential, commercial & industrial design, civil engineering, structural engineering, mechanical engineering, electrical engineering, construction management & project management.

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