AFFORDABLE HOUSING FINANCING

Affordable housing financing is the process by which a public or private entity secures capital to pay for the building, maintenance, and/or renovation costs of affordable units. This financing is necessary because affordable housing can not be financially sustained through rent alone. Local and federal government entities have created mechanisms to lower the costs of affordable housing development, renovation, and maintenance through a combination of public and private funding sources with the goal of expanding affordable housing stocks.

HOW AFFORDABLE HOUSING FINANCING WORKS

Direct funding for affordable housing gets applied to the initial cost of a project through government-funded subsidies. Because of lengthy and expensive application and review processes direct funding sources are typically only accessible to developers.

Indirect funding methods aim to lower the month to month cost of housing. These include government funded energy efficiency programs, maintenance funds, income based utilities payment agreements, tenants rights enforcement, or tenant-landlord relationship building. Indirect funding methods are accessible to tenants, landlords, building owners, and developers alike, but may also require significant capacity to research and implement.

Tax credits and incentives generate funding for affordable housing through programs like Tax Increment Financing (TIF), Mixed-Finance Public Housing, New Market Tax Credits (NMTC), and Opportunity Zones.

There are also financing tools through land value capture that focus on land use and development, including inclusionary zoning and transit-oriented development.

Tax Increment Financing (TIF)

Tax Increment Financing (TIF) is an economic development tool that uses anticipated increases in property tax revenue to subsidize a particular development project. It is one of many financing tools that can be used for affordable housing development.

• In order for TIF funds to be collected and distributed, a project must satisfy a “but for” test, meaning “but for TIF this project would not be feasible”
• TIF is a value-capture tool, allocated based on property tax increases in a TIF district. TIF district boundaries are drawn around the area of the development project, and are decided by local housing authorities.
• Applying for TIF financing is expensive. While review process fees vary, in Minneapolis for example, this includes a $3,000 application fee, and a $10,000-$15,000 project analysis fee.
• Housing TIF agreements stipulate that direct funding will be applied to a project in exchange for guaranteed affordability for up to 25 years.
• TIF funds are available for all types of projects including new construction and renovation of housing. Often TIF is just one type of financing that a given project will use.
AFFORDABLE HOUSING FINANCING THROUGHOUT HISTORY

As public housing faced systematic disinvestment over time, the nonprofit industry and private sector stepped in. As a result, financing is increasingly grant-based and dependent on public-private partnerships. With insufficient funding from the federal level moving through local housing authorities, affordable housing developers face the burdensome task of aligning several types of funding at once from private contributions, federal grants, bank loans and more.

Housing and Park Financing partnerships

Governed by separate agencies or even different elected bodies, there is very little coordination between housing and parks financing. There is a growing push to integrate these financing mechanisms to reflect how park and housing impact one another. Implementing a joint financing strategy will require leveraging different funding access points for mutual benefit and sharing technical knowledge across sectors.

This could look like retooling public and grant-funding green infrastructure financing to contribute to nearby affordable housing projects or using affordable housing maintenance dollars to develop green space next to affordable housing units.

CONSIDERATIONS

Access and Technical Assistance

Government funding includes a lengthy and expensive application process making it more difficult for small community-based housing developers to access. Often non-profit housing developers are at a disadvantage when it comes to application capacity.

Affordability Expiration Dates

Direct funding programs require affordability ranging anywhere from 10 to 25 years, as a stipulation of financing. Once that requirement expires a publicly subsidized project can easily convert to market-rate, undermining long-term community affordability.

Limited Funding

There are a finite number of affordable housing dollars available. This means that affordable housing projects have to compete with one another to access the capital necessary to realize the development. Through increasing scarcity and program complexity, affordable housing developers have to use significant capacity applying to multiple funding sources to piece together viable projects.

LEARN MORE

Visit the Resources page at create.umn.edu to learn more about existing affordable housing financing programs locally and federally.