



Housing 101

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Housing WA. ANNUAL CONFERENCE

What Is Market Rate Housing?

Housing developed or owned typically by profit-motivated developers – offered at a price that pays for the cost to build it plus a profit

- Rents equal whatever the market will pay
- Unit types and amenities driven by market demand
- Rent escalation limited only by the market
- Typically financed with two sources: Debt and Equity

What Is Affordable Housing?

Housing developed intentionally for households who cannot afford or cannot find suitable “market rate” housing

- Often Developed/owned by public, nonprofit or other mission-oriented developers
- Typically rent-restricted by program or funding source
- Little to no rent escalation each year
- Limited ability to secure debt means multiple funding sources required

Income Surveyed by Region or County

- **HUD Publishes Annual Income Guidelines by Jurisdiction or MSA**

County:	Spokane
2026 Median Income:	110,500

Unit Size: / Income Level	Studio 1 person	1 Bedroom 1.5 person	2 Bedroom 3 person	3 Bedroom 4.5 person	4 Bedroom 6 person
30% AMI	23,250	24,900	29,850	34,500	38,500
35% AMI	27,090	29,015	34,825	40,233	44,870
40% AMI	30,960	33,160	39,800	45,980	51,280
45% AMI	34,830	37,305	44,775	51,728	57,690
50% AMI	38,700	41,450	49,750	57,475	64,100
60% AMI	46,440	49,740	59,700	68,970	76,920
65% AMI	50,310	53,885	64,675	74,718	83,330
80% AMI	61,900	66,325	79,600	91,950	102,550

Income / Rent or Mortgage Targets

- **HUD Income Limits are Used to Establish Maximum Rents**
  - Rent no more than 30% of AMI limit for Unit Size (deducts Utility Allowance)

Income Target	Unit Type	HH AMI (1.5 person/bdrm)	Monthly Income	Max HH Paymt	Utility Allowance	Monthly Rent
60%	1 BDRM	49,740	4,145	1,244	51	1,193

Tax Credit Rent Limits

	Rent Limits by Target Population AMI/# of Bedrooms				
	30%	40%	50%	60%	80%
0 Bedrooms	581	774	967	1,161	1,547
1 Bedroom	622	829	1,036	1,243	1,658
2 Bedrooms	746	995	1,243	1,492	1,990
3 Bedrooms	862	1,149	1,436	1,724	2,298
4 Bedrooms	962	1,282	1,602	1,923	2,563
5 Bedrooms	1,061	1,415	1,768	2,122	2,829

Market vs Affordable Rental Pro Forma

	RESTRICTED RENT PROJECT			MARKET RATE PROJECT			
	(120 2BRM UNITS @ 60% AMI)			(120 2 BDRM UNITS)			
	Rent Revenue			**Rent Revenue**			
	Per Unit/Mo. (discounted)	1,343		Per Unit/Mo.	1,494		
	- Utility Allowance	-65		- Utility Allowance	-		(tenant pays most utilities)
120	Gross Rent	1,840,032		Gross Rent	2,151,360		
	- 7% Vacancy	(128,802)		- 7% Vacancy	(150,595)		
	Effective Gross Income:		**1,711,230**	**Effective Gross Income:**			**2,000,765**
Annual Operating Expense & Reserves:		**7,800**	**936,000**		**6,800**	**/u**	**816,000**
	NOI	**775,230**		**NOI**			**1,184,765**

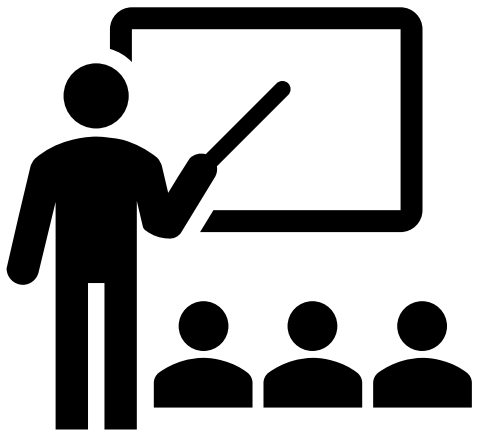
Market vs Affordable – Attracting Debt

		NOI	**775,230**	
1)	**Max. Loan based on DCR**		1.15	
	D/S =	**NOI / DCR**	**674,113**	
	Max Loan (5.85%, 40 yr)		**10,406,956**	
2)	**Value in Foreclosure: (assume Cap Rate of 7.0%)**			
	NOI / Appraiser's Cap Rate		**10,336,397**	**= FMV**
		Max Loan (@80% LTV)	**$8,269,117**	
		Debt Capacity	**$8,269,117**	

	NOI		**1,184,765**	
1)	**Max. Loan based on DCR**		1.2	DCR
	D/S =	**NOI / DCR**	**987,304**	
	Max Loan (7.0%, 30 yr)		**12,366,605**	
2)	**Value in Foreclosure: (assume Cap Rate of 7.0%)**			
	NOI / Appraiser's Cap Rate		**15,796,864**	**=FMV**
	Max Loan (@ 80% LTV)		**$12,637,491**	
		Debt Capacity	**$12,366,605**	

Market vs Affordable – Addressing GAP

	Debt Capacity	$8,269,117			Debt Capacity		$12,366,605
Total Development Cost / Unit (typical)							
	385,000	per unit	46,200,000	288,750	per unit		34,650,000
GAP to Finance			$37,930,883	GAP to Finance			$22,283,395



- 3 ways to address affordability
- Funding sources for affordable housing
- Phases of housing production process

Addressing Affordability

ALL development is done in the same market environment – Must find ways to address market challenges

- Lower the cost to construct
- Subsidize the development/construction
- Subsidize the renter or homebuyer

All solutions add complexity to the conventional market rate approach

Addressing Affordability: Lowering Costs

- Permit or Impact Fee waivers
- Remove Land Cost
  - Donated Land or Long-term Ground Lease (Rental)
  - Limited Equity Co-Operative or Community Land Trust (Homeownership)

- Increase Density to spread land/infrastructure costs over more units
- Infill Development to Limit need for New Infrastructure

Complexity: Permanently Affordable Housing often comes with increased construction cost (Prevailing wage rates, energy upgrade requirements, time delays while competing for financing, need for higher durability features)

Addressing Affordability: Subsidize Development

Housing Type	Typical Capital Stack	Terms
Rental – up to 60% AMI	City / County State Housing Trust Fund Private (LIHTC) Equity Debt (Conventional/Tax Exempt) Other (private) grants/PRIs Deferred Developer Fee	50-55 year affordability, 1%, limited deferral to year 15 50-55 year affordability, 1%, limited deferral to year 15 15-year partnership w/Investor; 5-6% return required 30-40 yr, tax exempt rates (1-2% below conventional) Foundations, etc. often needed Taken from operating proceeds after everyone else paid
Rental above 60% AMI	Conventional debt or HUD 221d Private Equity (i.e. OZ, Impact Investors like Microsoft, Amazon Deferred Developer Fee	30-year fixed, conventional terms, typically 60-80% LTV Variable terms – some 10-year horizons which means refinance requirement in year 11 (brings uncertainty) Taken from operating proceeds after everyone else paid

Capital Funding Sources

Local City or County Administered Sources

- ☐ HUD CDBG or HOME Funds (Federal pass-through)
- ☐ Locally Approved Housing Levies
- ☐ State Document recording fee allocation
- ☐ Regional consortia

State Administered Sources

- ☐ Housing Trust Fund
- ☐ National Housing Trust Fund (Federal pass-through)
- ☐ Low Income Housing Tax Credit (Federal)
- ☐ Tax Exempt Bond Allocation

Other Federal Sources

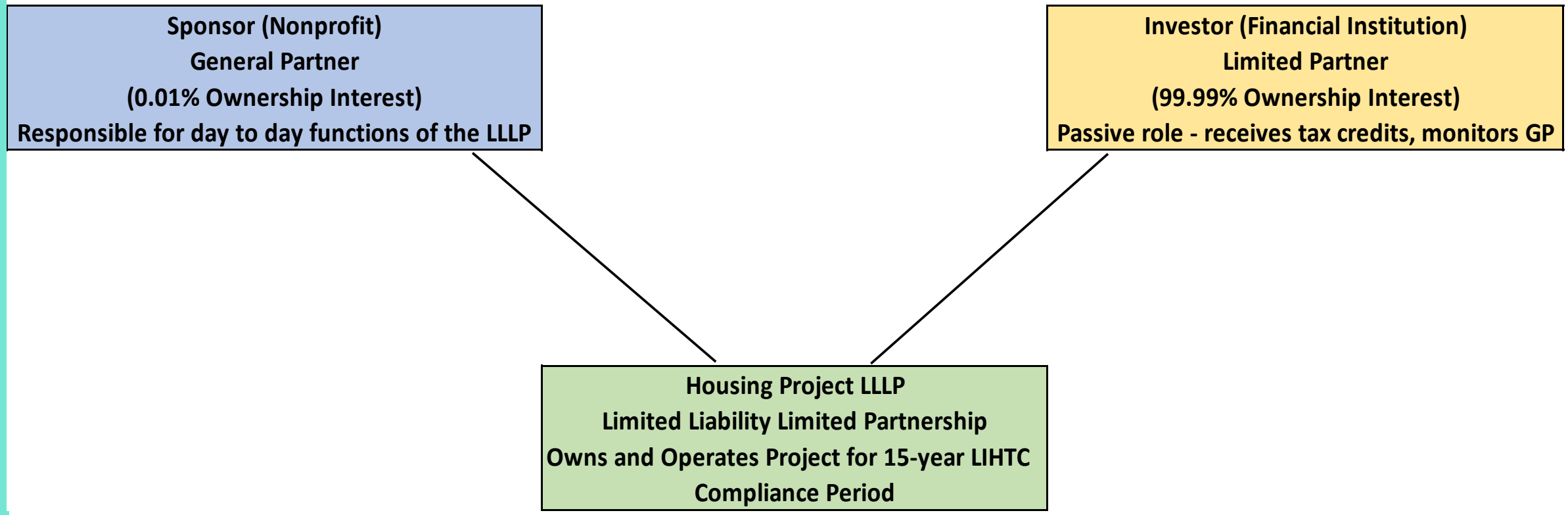
- ☐ HUD 811/202 (housing for persons with disabilities or seniors)
- ☐ USDA Rural Development

Tax Credits
What are they and how do we use them?

- A direct, dollar-for-dollar reduction of tax liability for a tax paying entity
- Projects qualify for LIHTCs by applying to the State Housing Finance Commission
- A project is allocated Tax Credits then sells (or syndicates) those credits to an Investor that can use them
- Investor pays $$ up front in exchange for receiving tax credits over a 10-year period
- $ paid up front (Equity) becomes a source to fund the development

NOTE: Whenever an investor invests Equity in a project, it is buying an ownership interest in that project – thus our investor becomes an owner in the partnership that owns the building

Typical Tax Credit Ownership Structure



Ownership Structure after year 15

- Tax credits are awarded to the Investor partner for 10-years
- However the IRS requires the partnership to continue for 15 years
- At Year 15, the Investor can exit the partnership and assign or sell their ownership interest (99.99%) to the nonprofit Sponsor/general partner
- The Nonprofit typically has other funding with longer term requirements to provide affordable housing so taking over as the sole owner aligns with our mission

IMPORTANT: The way the property operations occurred in years 1-15 can directly affect this property transfer in year 15

Tax Credits
What are they and how do we use them?

Two kinds of Low-Income Housing Tax Credits

9 percent Credits: Limited Allocation Available each Year

- Competitive based on State's Qualified Allocation Plan (point scoring)
- Used in WA primarily to fund extremely Low Income / Homeless housing

4 percent Credits: Unlimited Allocation Available based on Eligible Costs

- Must be paired with **Tax Exempt Bond** Financing (which is a limited resource and very competitive in WA)
- Projects must be able to support debt (from the Bond Financing)
- Typically targeting higher incomes (50% - 60% AMI) as a result

- **Each of these programs provides the Credits annually for 10-years and has similar compliance requirements**

9% LIHTC Example – Calculating Credits

ELIGIBLE BASIS		**$ 41,009,775**		
(Boost Eligible (QCT or DDA)?	Y	130%		
QUALIFIED BASIS		**$ 53,312,707**		
Tax Credit Percentage (9% or 4%)		9%		
Total Annual Credits		$ 4,798,144		
9% Credit Cap (per WSHFC Policy)		3,095,700	30,957	/ Unit
MIN of Total or Capped Total		**$ 3,095,700**		

9% LIHTC Example – Calculating Equity

Annual Credits		**$ 3,095,700**
X 10 YEARS		10
TOTAL CREDITS		$ 30,957,000
Investor's Price per Credit		$ 0.80
TOTAL INVESTOR EQUITY		**24,765,600**

Financing the Development (Rental)

Scenario A: 100 units at 30% & 50% w/Homeless, Special Needs Set-asides

Total Development Cost	**480,000**	**per unit**	**48,000,000**
Sources			
City or County	13,234,400		
State Housing Trust Fund	10,000,000		
Tax Credit Equity (9% LIHTCs)	24,765,600		
	48,000,000		

Financing the Development (Rental)

Scenario B: 120 Units Housing for Families at 60% AMI

Total Development Cost	**368,000**	**per unit**	**44,160,000**
Sources			
City	14,527,603		
State Housing Trust Fund	10,000,000		
Tax Credit Equity (4% LIHTCs)	9,936,000		
Tax Exempt Bond Financing	9,696,397		
	44,160,000		

Addressing Affordability: Subsidize Renter

- **HUD Section 8 Rental Subsidies** – up to 60% AMI; Renter pays 30% of their income toward rent; Subsidy covers the balance up to 110% of Fair Market Rent (FMR)

- **Operating Subsidies to Housing Operator** – typically program-related for certain special needs housing set-asides; Renter pays 30% of their income; subsidy covers operating expenses to balance sustainable operations (very limited resource and geographies)

Operating Pro Forma with Subsidies

Scenario A - Permanent Supportive Housing w/Operating & Service Subsidy

REVENUES	Escalator	Year 1	
Gross Tenant Paid Rental Income	2.0%	$ 328,704	(Avg $228/unit/mo)
Annual Operating and Service Subsidy (County)	3.0%	$ 2,200,000	
TOTAL PROJECT INCOME		**$ 2,528,704**	
Less Annual Residential Vacancy	1.0%	$ (25,287)	
EFFECTIVE GROSS INCOME (EGI)		**$ 2,503,417**	

OPERATING EXPENSES	Escalator (3%)	Per Unit	Year 1
Total Residential Operating Expenses		**$ 14,819**	**$ 1,778,236**
OTHER EXPENSES			
Partnership and Management Costs			$ 10,265
Reserve Deposits			$ 84,826
TOTAL PROJECT EXPENSES		**$ 15,611**	**$ 1,873,327**
NET OPERATING INCOME			**$ 630,090**
RESIDENT SERVICES			
Service Expenses (Form 8C)	**3.0%**	**$ 5,251**	**$ 630,090**
Cash Flow			**$ (0)**

Operating Pro Forma with Subsidies

Scenario B - Family Housing with Project-Based Sec. 8 Assistance

REVENUES		Escalator		Year 1
Gross Tenant Paid Rental Income (Form 8A)		2.0%	$	826,428
Gross Rental PHA/HUD/USDA Subsidy (Form 8A)		2.0%	$	1,624,128
Laundry		2.0%	$	14,400
Less Annual Residential Vacancy		5.0%	$	(123,248)
EFFECTIVE GROSS INCOME (EGI)	=		**$**	**2,341,708**

OPERATING EXPENSES	Escalator (3%)	Per Unit		Year 1
Total Residential Operating Expenses		**$ 9,544**	**$**	**963,914**

OTHER EXPENSES				
Total Partnership and Management Costs			$	15,000
Total Reserves			$	35,350
TOTAL PROJECT EXPENSES		**$ 10,042**	**$**	**1,014,264**

NET OPERATING INCOME			**$**	**1,327,444**

RESIDENT SERVICES				
Service Expenses (Form 8C)	3.0%	$ 627.15	$	63,342
Funds Available for Debt Service			**$**	**1,264,102**

Hard Debt	Loan Amount		Year 1	DCR
Tax Exempt Bond Financing	$	21,002,435	$1,053,327	**1.20**
Other Subordinate Debt	$	7,086,265	$ 210,775	**1.00**
Total Hard Debt Service			**$ 1,264,102**	

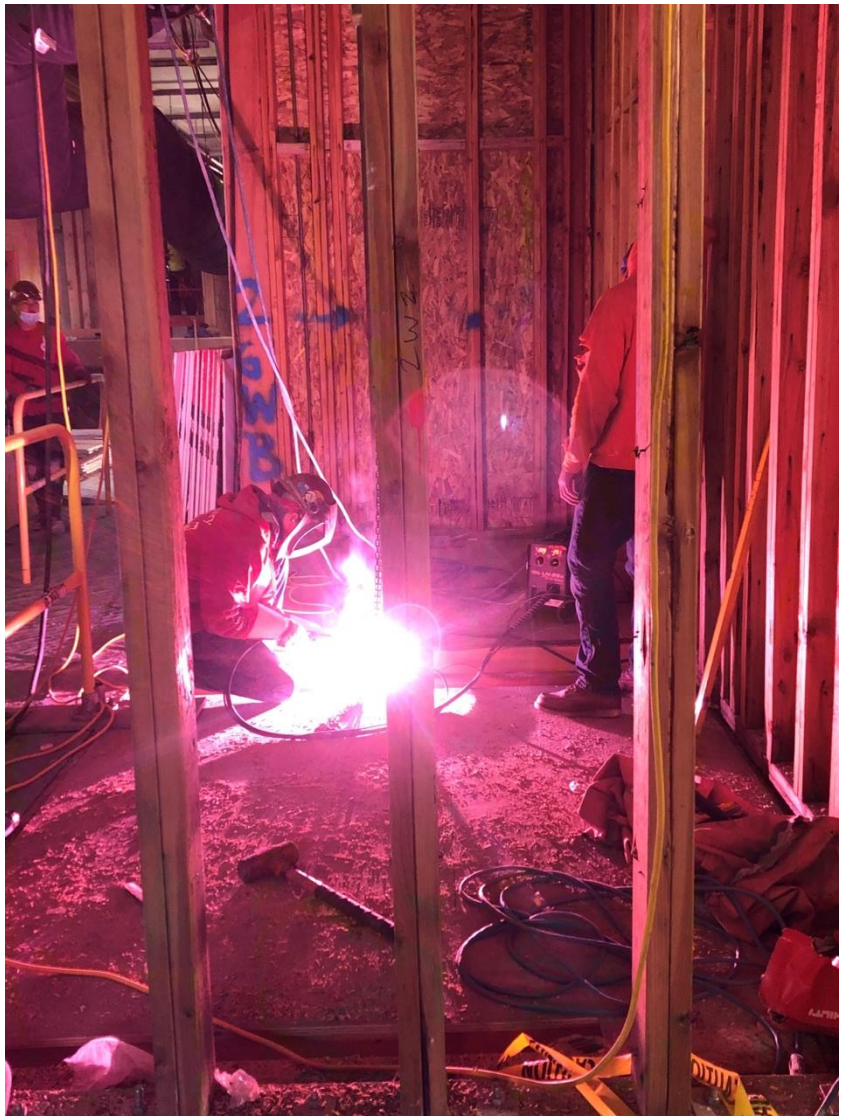
Cash Flow	**$**	**-**

Housing Production Process

Roles / Responsibilities

and Risks by Phase

(and who Pays?)



Predevelopment Activities

Task / Activity	Lead Role
Site studies that inform development capacity & design	Site consultants
Assess Market Demand	Sponsor / Market Analyst
Operating pro forma / subsidy strategy	Property / Development Manager
Design Programming Unit sizes, Amenities, other spaces or features needed to make this competitive in market	Sponsor / Market Analyst
Schematic Design –dimensioned plans & outline specifications (finishes/quality of construction)	Architect / Design consultants
Conceptual Cost estimate	Cost estimator or Contractor
Development Budget	Development Manager
Financing strategy	Appraiser, Development Manager

Predevelopment Risks / Who Pays?

Project may not be possible or feasible due to

- Site Conditions/Issues
- Neighborhood Opposition
- Financing not attainable

Developer absorbs most or all predevelopment cost and risk with their own resources

Construction – Project Management Team



Development Manager

Oversees Contractor and Architect

Referees in disputes

Manages Contingency

Manages project accounting

Primary contact for Funders



General Contractor

Manages construction budget and schedule

Oversees subcontractors

Maintains compliance with funder requirements



Architect

Reviews weekly progress

Responds to requests for clarification

Reviews submittals

Inspects work in place and reviews change orders

Final close-out inspections

Construction Risks / Who pays?

- Delays in construction = **Cost overruns**
- Supply chain issues = **Cost overruns**
- Unforseen conditions = **Cost overruns**

Funded by construction lender, public funds and investors equity

Lender and Investor will require developer guarantees developer fee could be reduced or developer funds the gap

Lease Up / Operations

- Finalize Operating Budget
- Execute Operating or Rental Subsidy Contracts
- Execute 3rd Party Management Agreement
- Confirm Leasing/Marketing Plan & Schedule
- Pre-qualify Tenants ahead of Completion
- Begin Leasing / Monitor Compliance
- Document Stabilized Occupancy (Investor Checklist)
- Conversion (Pay Off Construction Loan)



Lease Up Risks / Who pays?

- Market shifts during construction
- Rent-up targets never met
- Lease up delays
- Increased construction interest
- Potential reduction in equity

Lender and Investor will require financing contingency to be included in development budget or developer fee could be reduced to fund gap

Successful Affordable Housing Development Requires

- Capable Development Team Members

+

- Innovation in Reducing Costs where possible

+

- Creative (and Complex) Capital Subsidy Programs

+

- Dedicated Operating, Rental or Buyer Subsidies

➔ **Quality Communities for Everyone!**

Questions???