

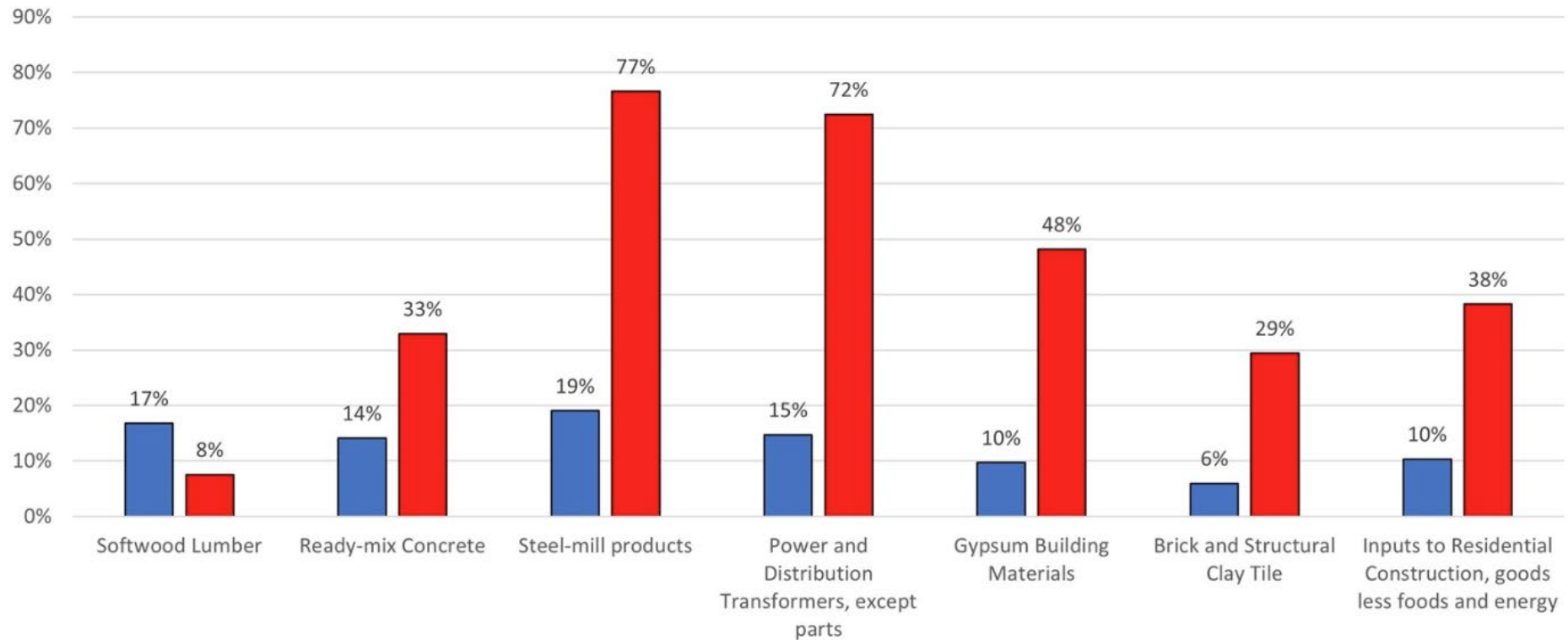


# Cost of Housing and Federal Housing Funding Overview

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# Increasing cost of building

Costs of Building Materials Have Surged Since the Pandemic  
Four-year Price Percentage Change



Source: U.S. Bureau of Labor Statistics; Producer Price Index

■ Feb 2016-2020 ■ Feb 2020 - 2024

# Cost continues to be key challenge



Cost Trends in Vermont 9% LIHTC Projects



Increased cost means fewer units.

- \$10 million in 2018 @ \$285k/unit = 35 homes
  - \$10 million in 2024 @ \$530+k/unit = 19 homes
- } 55% reduction in homes

# Key cost drivers identified

Labor and material costs are high and increasing.

Vermont's affordable rental housing developments lack economies of scale.

Locally-required fees and conditions add direct costs.

Developments must receive approval at multiple and often uncoordinated levels.

Act 250 approvals can exacerbate other approval-related challenges.

Infrastructure requirements can add costs, though they may be necessary in rural areas.

A substantial amount of resources are tied up in project reserves.

Vermont's policy priorities result in funding projects with higher cost profiles.

# Recommendations

## Higher Impact, Easier Implementation

- Establish upfront cost guidelines and a formal cost review process as part of the pre-application on phase
- Promote "next generation" solutions to factors that contribute to higher costs
- More explicitly track costs and benefits of the State's top-tier policy priorities
- Formalize collaboration and communication during the application on/award process
- Approve design alternatives in high-cost scenarios

## Less Impact, Easier Implementation

- Provide multi-year pre-approval for contractors/subs competing for affordable housing projects
- Study lifecycle and resyndication/recapitalization costs
- Create alternate fee structures

## Higher Impact, Harder Implementation

- Create process for streamlined local approval of affordable housing developments
- Create a State-level board and/or appeals process to adjudicate/resolve local land use and entitlement challenges
- Identify opportunities to increase utilization of 4% Low Income Housing Tax Credits
- Establish a reserve insurance program

## Less Impact, Harder Implementation

- Include cost-effectiveness as a criterion in the QAP and other funding prioritization on Processes
- Consider the impact on housing costs when adopting other State regulations
- Pursue more cost-effective interpretations of historic tax-credit Rules
- Combine loan closing documents

# Need many tools in the toolbox



## Deeply Subsidized Housing

\$534k / unit

(fed + \$152k state)

93-100% of cost is subsidized. Little amortizing debt to keep rents low. Restrictive and costly sources of funding

Serve most policy goals – location; energy; homelessness; health care; brownfields; historic preservation; more

Rents affordable for < 60% AMI. (Avg tenant income: \$17,000)

Permanently affordable apartments

## Middle-Income Homeownership

\$130k / unit

(state \$\$)

~35% of cost is subsidized. Pays for appraisal gap & affordability gap

Policy goals: Adds modest for sale homes; 1/3 must be shared equity

Sales prices affordable to 91% AMI

Affordable to first seller. Future buyers get discount. Loan repayments build more homes.

## Rental Revolving Loan Fund

\$125k / unit

(state \$\$)

~35% of cost is subsidized. More amortizing debt requires higher rents. Fewer sources of funding

Policy goals: employers/muni \$; new/emerging developers; underserved & rural areas

Rents affordable for 65% - 150% AMI

Affordable for 10-33 years. Loan repayments build more homes

## VT Housing Improvement Program

\$44k / unit

(state \$\$)

25% of cost is subsidized. 75% comes from owner.

Policy goals: rehab poor quality apts; bring vacant units back; add ADUs

Rents affordable for 65% - 150% AMI

Affordable for 5-10 years.

# Affordable housing development

- 
- An image of an iceberg floating in the ocean. The tip of the iceberg is visible above the water surface, while the much larger, jagged base is submerged underwater. This visual metaphor represents the visible versus hidden aspects of affordable housing development.
- Building apartments
  - Revitalizing downtowns
  - Preserving historic structures
  - Cleaning up dirty soils
  - Platform for social services
    - Or funding services!
  - Lowering thermal GHG emissions
  - Lowering transportation GHG emissions
  - Expanding infrastructure for future investments

# Funding needed for affordable rental housing



## Development costs:

- Acquisition (land, buildings)
- “Hard costs”:
  - Rehabilitation and/or new construction – paying the contractor to build or renovate the property
  - Other construction expenses
- “Soft costs”:
  - Architect, development consultants, and attorneys;
  - Insurance coverage;
  - Operating charges during construction such as taxes or security; financing fees; and the developer’s fee
- Reserves



# Federal funding for affordable rental housing

## Major Federal Funding

- *Congressionally Directed Spending (\$14M, 1-time, includes homeownership)*
- Community Development Block Grant (\$6M)
- HOME Program (\$3M)
- HOME American Rescue Plan (\$8M, 1-time)
- National Housing Trust Fund (\$3M)
- Section 811 or Section 202 for Targeted Populations (rare, competitive)
- USDA Multi-Family Construction (rare, competitive)

## Other Funding

- Federal Affordable Housing Program (\$4M)
- Deferred Developer Fees (varies)
- Energy Funding (varies, <\$1M)

## Tax Credits

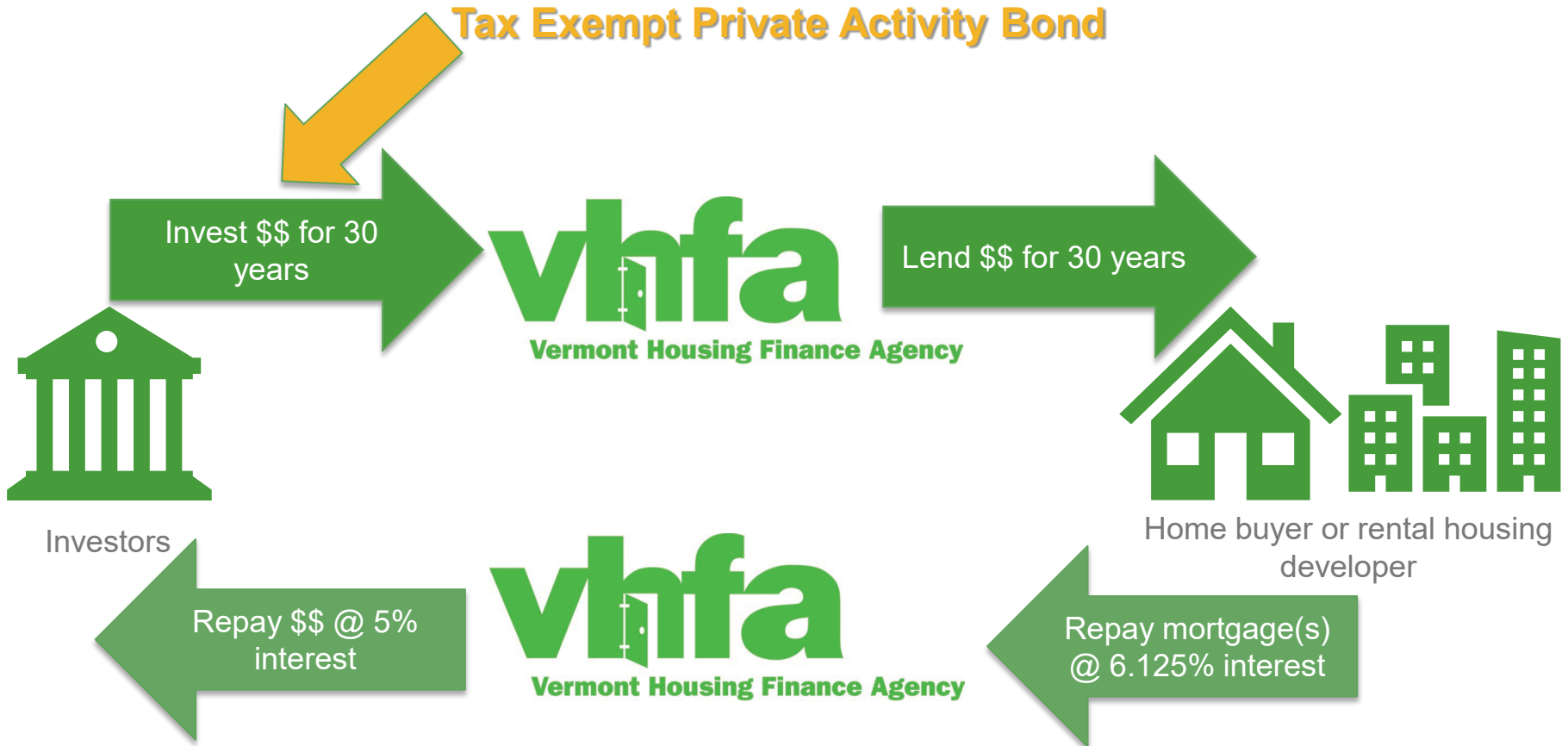
- **Low-Income Housing Tax Credit (\$41M)**
- Historic Preservation Tax Credit (varies)



# VHFA's role in Vermont



## Tax Exempt Private Activity Bond



# 2 types of credits: 4% and 9%

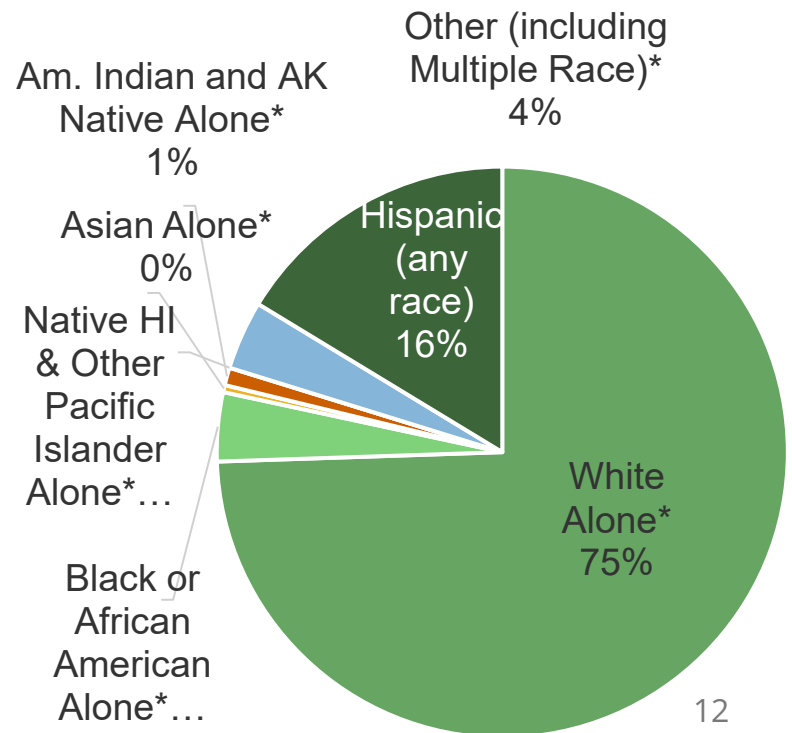


	4% Bond Credits	9% Allocated Credits
<b>What's created?</b>	Rental housing for low-income households (<60% AMI)	
<b>Who can receive?</b>	All eligible developers (for- and non-profit)	
<b>How to receive?</b>	Automatic when 50%+ of a project is financed with tax-exempt PABs (often construction)	Competitive – annual award each spring. More priorities met, more likely to get award
<b>Benefit</b>	~35% of development costs	~70% of development costs
<b>How much available?</b>	Almost unlimited	~\$32 million for developments
<b>Priorities to receive</b>	Follow IRS rules + site, mixed income, 15% homeless, universal design, building standards	← + downtowns, more homeless, services, deeper affordability, more debt, access to transportation, @ risk, remediation, historic, energy efficient, & more
<b>Affordability</b>	30 years (other \$ may extend)	Perpetual

# Who is housed in tax credit housing

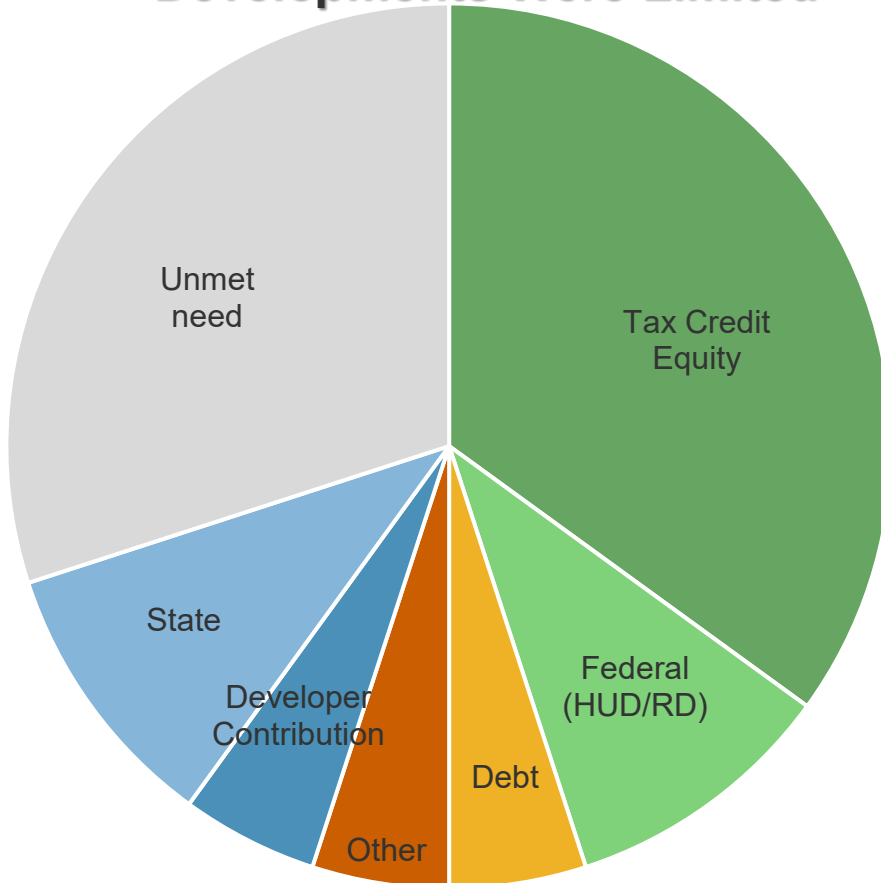


- 46% of households include someone older than 65
- 16% of households include at least 1 member with a disability
- Median income:
  - VT all households: \$82,000 (2 person)
  - VT (all renters): \$43,102
  - VT (LIHTC tenants): \$16,800

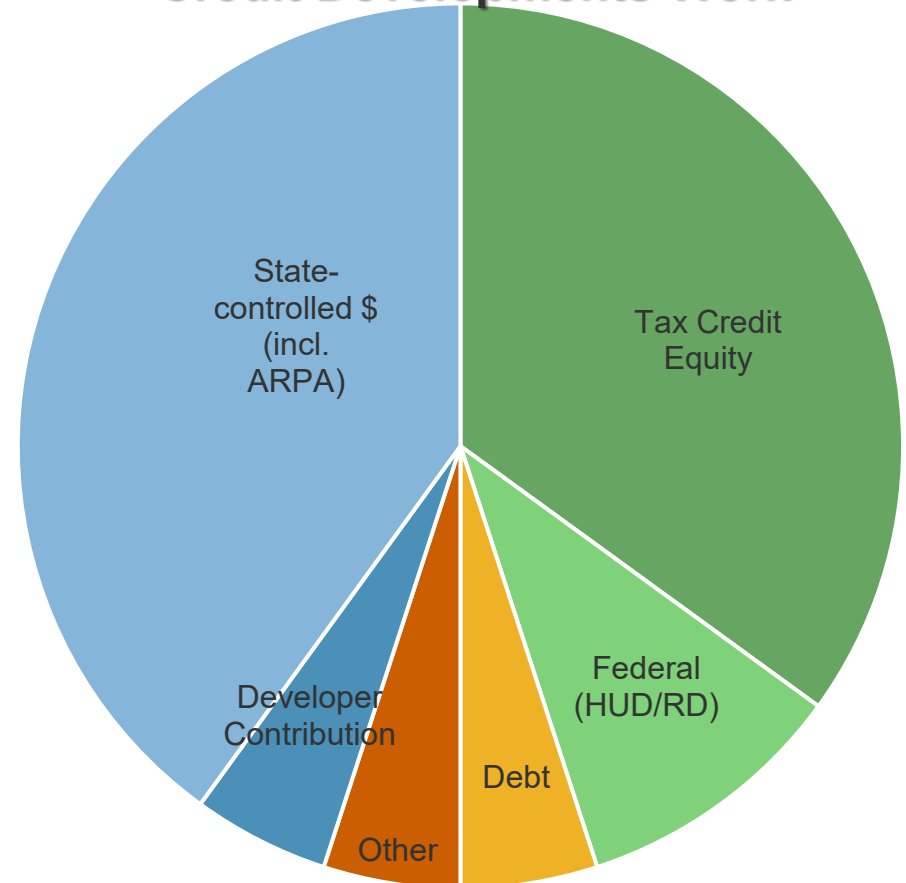


# What it takes for 4% Tax Credit developments to work

## Pre-2020: Why 4% Tax Credit Developments Were Limited



## Post-2020: Making 4% Tax Credit Developments Work



# Bonds and credits for multifamily housing: pre- & post-pandemic



- Private Activity Bonds for multifamily housing

- 2015-2019: \$82 million
  - 2020-2024: \$269 million
  - Most recent year: \$82 million
- } 230% increase

- An **additional** \$120 million of federal resources (+510%) has come to Vermont via 4% Tax Credits since 2020

4% Low Income Housing Tax Credits	2015 to 2019	2020 to 2024
# Projects	19	34
Total Units	634	1,347
New Units	22	674
<u>Total Private Equity Generated from Tax Credits</u>	\$30.6 million	\$156.6 million