



Developers take note: Should your next project be affordable housing? - by Lisa Lim

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Developers take note: Should your next project be affordable housing? The Four Pieces of the Puzzle for Ambitious Developers, Explained

As America hopefully bounces back from the worst waves of the pandemic “freeze” during 2022, some of the nation’s other social problems will eventually return to their previous level of public attention, concern, and focus. One of these, which has been in and out of the spotlight over the decades, but never disappeared, is the lamentable lack of affordable housing, particularly in our largest cities.

Developers seeking a valuable and lucrative way to expand their own footprints, and simultaneously help meet an ever-growing need in the United States—particularly in urban centers—might want to consider the appeal of building affordable housing where it is most needed.

This author has been involved in many of these projects, particularly in New York and Florida, where the needs have consistently been among the greatest. The exigencies of getting these projects built and occupied might seem daunting to developers, and might cause some to shy away from a sector where the obstacles may seem more confounding than in any other sector of the housing market.

Four Parts to the Affordable Housing Puzzle

At the core of virtually every affordable housing project is the fourfold package of sources and resources that make such a building possible. These are:

A: Tax-exempt bonds, usually stemming from the federal government;

B: Low-Income Housing Tax Credits; commonly abbreviated LIHTC’s, allocated to states from the federal government;

C: Subsidies from the federal government, states, or cities; and finally,

D: A team of seasoned professionals that you will need to get the job done.

We will deal with each.

Tax-Exempt Bonds

These might seem daunting, but the basic mechanism is simple. A government agency floats a bond, credit enhanced by a bank or another lending institution; investors buy into the highly rated bond with reliable returns on investment; and both investors and underwriters are protected against default by the robust guarantees and levels of security written into the process. These bonds originate through a deal between the government agency responsible, the bank, the investors, and a trustee. This sounds complicated, but seasoned advisers can readily bring you through the process.

Low Income Housing Tax Credits

This valuable part of the puzzle, abbreviated LIHTC, originates with the agency in charge, usually state, city or municipally based. This is, perhaps, the most complicated piece of the puzzle, but again, good advisors know the ropes. Are the tax credits a necessary source of equity to get the buildings constructed and occupied? The proof is in the pudding: hundreds of developers across the country have concluded that the answer is a resounding “yes.”

Government Subsidies

No affordable housing project has ever opened its doors without some direct subsidy, which can stem from any level of government. These grants are apportioned by HUD, state and city housing agencies, legislatures, and city councils, and can range from the hundreds of thousands to the millions of dollars.

The Right Team in Place

There’s no getting around it—this process may be the most difficult of your development history. Your own development experience needs to be supplemented by a team with affordable housing experience to support you. This includes legal counsel, financial consultants, accountants, property manager, architects and engineers who have done this before.

So, with all the four parts in place, what do you get out of it?

The developer fee! There’s no shame in admitting that your developer fee is a prime driver here. It will be a material percentage of the project’s total development cost.

The satisfaction of knowing that you are helping solve one of society’s most intractable problems—the lack of decent places for low income and workforce families to live, thrive, and enjoy their work and family lives. Your project is going to be the answer to many families’ dreams.

And then, finally, a slightly less tangible benefit: Prestige. Because the rules, regulations, and barriers are considerable, that means that developers who make their way through the process and

actually get a project built must have survived many levels of government and financial institution scrutiny. Your company, before the building ever sees the sky, is going to be one of the city or state's most-vetted private enterprises. And that's going to tell your future business partners, clients, customers, and competitors that you are a serious player, and a business force to be reckoned with.

That's not a bad return on any level.

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