

Mixed Finance Development Rental Housing: Encouraging New Production

The Need:

As throughout much of the nation, Rhode Island is facing a deeply troubled economy, declining housing market and stagnant economic growth. Although housing prices have begun to fall, the explosion in prices in Rhode Island over the last decade has created a problem for renters, with the average monthly rent far beyond the reach of average-income residents.

For someone to afford the average rental in the state, that person would need to earn at least \$46,000 a year (assuming a maximum of 30% of a household's income going to housing costs). With Rhode Island's median income at approximately \$50,000, the average rent is beyond the reach of nearly half the state. The problem becomes even more difficult for seniors who are living on fixed incomes and burdened with rising health care costs.

Rhode Island ranks 49th in the nation for new housing production which has resulted in a lack of affordable options for renters. For renters to have access to safe, healthy and affordable homes, the housing community and its partners need to work together and provide creative options to spur the creation of new rental housing.

The Solution:

Recognizing that any solution to the housing crisis needs to use a combination of creative financing and collaboration, this HFA has undertaken the development of a Mixed Financing project that addresses both the need of individuals and families and the state and identifies a replicable solution for future development. The concept of Mixed Financing is particularly effective in communities that have experienced very little investment in affordable housing.

This program strives to bring together multiple funding opportunities and connect various funders with the same goal – the production of new rental housing that is affordable and meets the needs of its residents while also responding to the many challenges facing the state.

The Meadows – A Case Study

Developing high quality, service-enriched housing for the elderly, a population with fixed incomes and specific housing needs, is challenging in any climate. The challenges are exacerbated in a town such as North Smithfield, in which the demand for affordable apartments is so great that the local housing authority has the longest waiting list in Northern Rhode Island. The project sponsor has met the challenge by producing housing units with below-market rate rents and supportive services tailored to meet the needs of the elderly, allowing seniors to age in place.

The Meadows features 80 affordable apartments, a community room, health center and offices and serves approximately 100 residents age 62 and older. Fifty-three apartments have rental assistance through a HUD 202 Contract. Residents in these apartments earn no more than 50 percent of the area median income. Twenty-seven units serve households earning up to 60 percent of the area median income and have no rental assistance. In total there are 72 one-bedroom units and 8 two-bedroom units. Each apartment in the development is handicapped adaptable, with ten fully accessible units. The apartments are located in four two-story buildings connected by a central hub in which space is provided for resident services, a community learning center and office space. The construction includes many “green” building technologies and the

building is designed to meet Energy Star standards. The site is also equipped with geothermal technology that provides the heating and cooling for the development.

The development would not have been possible if not for the innovative combination of funding sources. The project sponsor funded a significant portion of the project with Section 202 Elderly Supportive Housing capital funds from the US Department of Housing and Urban Development. HUD has recently modified the Section 202 Program to allow private financing and tax credit equity to supplement the 202 capital funds in order to develop more affordable housing units. The Meadows is the first elderly development approved under the HUD Mixed-Finance program in the Northeast and is the first project in the nation to receive a waiver for a mixed-finance project.

The Financing:

The Meadows' affordability is made possible by the sponsor's strategic use of funding sources and ability to develop and implement complex and creative financing packages produced by an array of federal, state, local and private agencies, groups and institutions. This pioneering approach to affordable housing is illustrated in the use of Section 202 Elderly Supportive Housing capital funds from HUD in the project's funding sources. The recently-modified program allows private financing and tax credit equity to supplement the 202 capital funds in order to develop more affordable housing units.

A total of 53 of the apartments are subsidized under HUD's Section 202 Program which includes a 20-year rental assistance contract. Elderly residents with very low-incomes pay only 30% of their income towards their rent. Without the assorted subsidies, grants and low interest loans, the rent for these apartments would be beyond reach for the seniors that reside here.

Other aspects of the funding package include the addition of state bond money through the Building Homes RI program, low income housing tax credits, and a myriad of other soft and conventional financing. The support of a local bank, Citizens Bank, and a \$17.75 million loan from the *Citizens Housing Bank* program to the project sponsor, helped fill a significant funding gap with its below market product. The loan is a part of the bank's \$200 million Housing Bank loan fund to nonprofit housing developers in New England. The Citizens Housing Bank loan greatly enhanced the financial feasibility of the project. To complete the funding package, this HFA provided HTCs and HOME funds for the affordable rental units. The financing mix also includes CDBG funding, Neighborhood Opportunities Program (NOP) funding, a sponsor deferred developer fee, and a NeighborWorks Capital Grant. Throughout the development process, this HFA provided assistance in the form of technical expertise, partnership development and creative mixes of financing with commercial banks. Over 1/3 of the overall project funding came from HUD Section 202 capital.

Increasingly, Mixed Finance development and the use of HUD 202 funding for elderly housing makes economic sense to ensure that developments have the funding they need to become a reality. The Case Study is a model which can be replicated throughout the nation by HFAs and their housing partners. With the restrictions on our many sources of funds, creative partnerships with the private sector and other government funding agencies, becomes the new paradigm for financing developments which increase affordable housing and enhance community development.

Success to Date:

This Mixed Finance project is a creative response to the overwhelming need for affordable housing for seniors and provides a very real solution to Rhode Island's housing crisis. The development serves as a model for other affordable housing projects throughout the nation in its inventive use of financial sources, including

the HUD 202 funding. The Meadows provides nearly 1.97% of the affordable housing in North Smithfield, helping the town come close to the state's 10% affordable housing goal.

The Meadows is a perfect example of what can be achieved when housing partners work together. The complex financing package for The Meadows required the collaboration of federal, state and local officials, along with private and nonprofit organizations. The Meadows has not only produced affordable housing that helps the Town meet its affordable housing goals, it also provides an affordable housing design that allows seniors to “age in place” while incorporating Energy Star features to reduce long-term operating costs and promoting quality design and Smart Growth principles in the development of affordable housing.

The addition of these homes is a critical step in ensuring that the state's elderly residents are able to continue to live independent, fulfilling lives in an environment that meets the needs of an aging population while retaining its affordability. The Mixed Finance project is worthy of recognition for its ground-breaking use of HUD 202 capital funds, creative mixed financing and collaboration among the public and private sectors. Its success not only provides homes for its residents, but serves as a model for others experiencing the same challenges of constructing safe, affordable and healthy homes with scarce financial resources.