Building Efficiency Scoring in QAP for Higher Production of Units

Arizona Department of Housing

Rental Housing: Encouraging New Construction

HFA Staff Contact

Janelle Johnsen

janelle.johnsen@azhousing.gov

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Introduction

In 2018, the Arizona Department of Housing (ADOH) implemented a building efficiency scoring category in its Qualified Allocation Plan (QAP) to achieve production of more rental units. This scoring category encouraged a greater proportion of the building to be used for residential rental units. It further encouraged new construction because developers have the ability to achieve a higher score by configuring the layout of a new building in comparison to working with an existing floor plan in a rehabilitation project. In its first year of implementation, the policy resulted in an 11.6% increase in the number of equal sized units that could be achieved with the Low Income Housing Tax Credit.

Innovative

Arizona implemented this scoring category to encourage higher production of units in an environment of rapidly rising construction costs. While the Department does not have control over external markets, it could implement policy to encourage more of its resources to be used for housing units. In 2011, the midst of the recession, many low-income families in the State required the extra assistance of services such as childcare, after school programs, job training, financial literacy and case management. In order to be competitive, developers were encouraged to provide on-site community and extra office space to accommodate these services to the detriment of creating more units. The Department saw that multifunctional community spaces could be used to accommodate on-site services, rather than having separate – often underutilized – spaces for each service provided.

Replicable

This scoring category is easily replicable. During the first year of implementation, the Department realized that conceptual plans submitted with applications would most likely require some adjustments, as projects went through local government planning processes. Therefore, the architect's certification of the breakdown of space was accepted at face value, and included a statement that even if some of the square footages underwent minor adjustments, the project would be required to maintain its score based upon the percentage of building efficiency that was required to achieve that score. To that end, the Department reviews the local government approved plans prior to equity closing, and the final as-built plans to ensure that changes were not implemented during construction to reduce the scoring. Upon receiving a tax credit reservation, developers are required to execute an agreement acknowledging how they would continue to meet the building efficiency score through the issuance of 8609s.

Responded to an important state housing need

In 2017, the National Low Income Housing Coalition (NLIHC) published a report in which Arizona was cited as having among the fourth lowest availability of affordable housing per low-income renter in the nation. Current NLIHC tabulations of 2018 ACS PUMS data[1] indicate the following:

[1] National Low Income Housing Coalition, retrieved 6/19/2020 from https://nlihc.org/housing-needs-by-state/arizona

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The number of units available and affordable for the following income levels are:

- Extremely Low Income Renters (ELI) (30% AMI) – 26 units per 100 households
- Very Low Income Renters (VLI) (50% AMI) – 48 units per 100 households
- Low Income Renters (LI) (80% AMI) – 95 units per 100 households

Cost Burdens

- 87% of ELI renters are cost burdened and 73% of ELI renters are severely cost burdened.
- 80% of VLI renters are cost burdened and 34% of VLI renters are severely cost burdened.
- 52% of LI renters are cost burdened and 7% of LI renters are severely cost burdened.

There is a shortage of 134,758 units affordable and available for ELI renters.

The construction of new units, and especially affordable units, continues to lag behind population growth. An Up for Growth study found that Arizona under-produced 505,134 housing units between 2000 and 2015.[2] Part of this lag in production was a result of the 2008 recession, which caused production to virtually shut down. While construction has increased, it has not achieved the level achieved just prior to the recession.

Demonstrated measurable benefits to HFA targeted customers

"Severely cost burdened poor households are more likely than other renters to sacrifice other necessities like healthy food and healthcare to pay rent, and to experience unstable housing situations like evictions."[3] For example, a renter who pays $1,200 monthly market rent who can only afford $600 spends an additional $600 a month to keep a roof over their head that could be used to pay for healthy food, healthcare, and savings so that paying for a minor life event does not result in eviction.

The Department analyzed the residential floor area produced compared to the number of tax credits required to produce that floor area. To make the data more meaningful, the Department compared a static imputed 800 square foot apartment to determine how many units could be produced for every $100,000 tax credits allocated. This measure provided a meaningful way to look at the measure's success without skewing the results due to the size of the tax credit ceiling, the size of the units produced, or the building type.[4]

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[2] Holland Government Affairs, Up for Growth, and ECONorthwest, Housing Underproduction in the U.S., - retrieved from https://www.upforgrowth.org/sites/default/files/2018-09/housing_underproduction.pdf

[3] Ibid, Footnote 1.

[4] The measure includes different ratios depending upon the type of unit (i.e., buildings that require corridors vs. garden style walk up). While all of the building types achieved results, only the total of all unit results are shared here.

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Proven track record of success in the marketplace

The Department has included this scoring criteria for the past three years in its QAP and has found it to be an effective tool to increase the number of units produced. The Department found an overall average increase in the number of units was 11.6% in the first year. This increased to 19% when using the average units produced over the 2018-2020 allocation rounds.[5]

Benefits that outweighed the costs

This policy did not add costs to projects, it merely re-allocated resources to housing units over excess, unnecessary common space.

Demonstrated effective use of resources/Achieved Strategic Objectives

ADOH has been working since 2017 through continuous improvement to increase the number of LIHTC units that can be produced with its finite resources. The Department continually reviews its policies to find ways to add to its housing stock to serve people who are cost burdened, including those who are homeless because they can't afford housing.

Effectively employed partnerships

One of the ways ADOH reviews its policies is to solicit comments regarding the QAP. For several years, one developer commented that we need more units, and the buildings that were being built could be more efficient. ADOH took those comments to heart when implementing this criteria in its QAP, and found that this policy worked to increase the effectiveness of its precious 9% tax credits.

Summary

Placing appropriate boundaries on the ratio between units and common areas has assisted ADOH to achieve its goal to serve more people in our State, so they can live, work, and play without feeling burdened about whether they need to make untenable choices between food, housing, and healthcare.

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[5] However, ADOH also attributes the growth from 2018 to 2020 in part to additional QAP changes.

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Visuals

Number of Units produced per $100,000 of annual tax credits has improved each year since 2017:

Year	Units
2016-2017	4.90
2018	5.47
2019	5.79
2020	6.30

The annual amount of tax credits allocated per square foot of residential floor area: