

The Gift of Time for Affordable Housing Developers

Delaware State Housing Authority

Rental Housing: Encouraging New Construction

HFA Staff Contact

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Summary:

The Delaware State Housing Authority (DSHA)'s construction financing programs have added hundreds of units to Delaware's housing landscape; however, certain areas of the state have seen less new development than others. DSHA set aside \$5 million in funding for the Area of Opportunity Land Bank Program in response. This revolving fund aims to grant the gift of time to affordable housing developers and create a pipeline of affordable rental housing development in areas of opportunity.

Context:

DSHA recognizes the statewide need for more affordable housing opportunities. To balance housing investments and encourage the creation of affordable housing opportunities within areas of the state that contain little or no affordable rental housing opportunities but may offer economic opportunity, proximity to workplaces, high-performing schools, and supportive infrastructure, DSHA has offered point incentives in its Qualified Allocation Plan (QAP) for family development proposals located in areas of opportunity.

However, because the Low-Income Housing Tax Credit (LIHTC) funding opportunity is competitive and oversubscribed each year, applicants may be required to submit through several application rounds before successfully receiving a preliminary allocation of LIHTC.

Given the competitiveness of the real estate market in these areas of opportunity, applicants may be unable to retain site control through more than one round of LIHTC funding.

Since areas of opportunity are desirable real estate markets where competition for available parcels may be intense, the price of the real estate may make it impossible for a LIHTC application to remain competitive in subsequent rounds. It may also be difficult for the applicant to convince the parcel owner to reject offers from market-rate developers.

To address these issues, DSHA created a program, the Area of Opportunity Land Bank Program, to grant these applications more time to be successful so that areas in Delaware where affordable housing is severely lacking can still see development occur.

Summary of the Program:

During COVID, interest rates were at a historic low. Many LIHTC housing construction projects decided to refinance, pay down, or pay off their DSHA deferred soft debt to the agency. DSHA took these repayment loan payoffs and set aside \$5 million to support a revolving fund titled the Area of Opportunity Land Bank Program.

DSHA used the returns to launch the program without cutting into other funding sources provided by the agency. Other agencies could replicate this process by setting aside a portion of refinanced or paid-off loans in the future, especially as unprecedented funding opportunities remain available at all government levels.

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Another method to replicate this program includes reviewing unsuccessful LIHTC applications in real estate markets where affordable rental is not prevalent but economic opportunity is greater and dedicating a funding source to a land bank program.

The Area of Opportunity Land Bank Program allows unfunded LIHTC applications (due to limited credit availability), specifically located in areas of opportunity, to participate in the following for up to three years:

- 1. Maintain site control** when they otherwise may not have been able to due to the high cost and demand in these areas; and
- 2. Reapply in future funding rounds** so that the developer can work through the often very time-consuming and sometimes contentious zoning process without jeopardizing the viability of the credit allocation.

Partnerships

DSHA established The Area of Opportunity Land Bank Program as a good-faith partnership with Delaware's housing development community.

Through years of collaboration on affordable housing projects, our agency has come to understand the many barriers developers face regarding moving a construction project along the various financing phases.

The Area of Opportunity Land Bank Program gives the developer time so they are not discouraged or leave the process, resulting in fewer housing units created for Delawareans. With this added time, the likelihood of their success in developing affordable housing in areas of opportunity increases.

DSHA benefits by creating an affordable housing pipeline in these difficult-to-develop areas. As an agency, we can increase the viability and occurrence of affordable housing in areas of opportunity through the gift of buying time.

If the development of the affordable housing project cannot move forward in the three years allotted, they must repay the loan and use other development options to do so.

Results & Benefits

While the program is new, DSHA has seen significant interest in it. One LIHTC developer turned in a robust application that, unfortunately, just missed an allocation of credits.

The developer used The Area of Opportunity Land Bank Program to purchase the parcel of land and begin working through the land use process.

In the meantime, the county where the project was located changed its zoning and land use process, allowing this property to utilize the by-right zoning, making the approval process much

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more streamlined. These changes also opened up the density requirements on the property more than doubling the permissible density on the site.

Because this developer was able to maintain site control, they will apply for LIHTCs and use these changes to create 88 affordable housing units in our coastal area rather than market-rate development.

Conclusion

The pandemic illuminated the need for affordable housing and rental units among Delawareans while also providing a market for affordable housing developers to use to good advantage. DSHA was uniquely positioned to take these conditions and launch The Area of Opportunity Land Bank Program, an innovative and accommodating program that aligns with DSHA's mission and priorities.

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VISUAL AIDS

Affordable Housing Development Outside of Areas of Opportunity

