

Mixing Up The Market: Delaware's Solution to Increasing New Construction

Delaware State Housing Authority

Rental Housing: Encouraging New Construction

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Category: Rental Housing

Subcategory: Encouraging New Construction



SUMMARY/ENTRY DESCRIPTION

According to a recent housing needs assessment, the State of Delaware must add an average of 2,400 units annually to its housing stock to keep up with household growth through 2030. To meet this immense need, the Delaware State Housing Authority (DSHA) used a portion of the American Rescue Plan Act's (ARPA) once-in-a-generation State and Local Fiscal Recovery Fund (SLFRF) to unlock Delaware's development potential.

DSHA allocated \$7 million to create the Mixed Income Market Fund (MIMF) program, which offers construction and permanent financing to in-progress market-rate developments that agree to incorporate affordable units as part of the program. This program aims to incentivize housing developers with existing market-rate rental development plans to include affordable rental units by providing favorable construction and permanent financing options to support the long-term operation of affordable rental units.

CONTEXT

Approximately every five years, DSHA conducts a statewide housing needs assessment to examine the state's current housing conditions and project significant trends that will dictate future housing policy and initiatives. The MIMF program was initially born from the profound, long-term adverse effects of the COVID-19 pandemic.

The resulting economic pressures from the pandemic further burdened the pre-existing affordable housing crisis that faces low-income households across the country. The State of Delaware saw:

- a sharp increase in home sales prices, driven by a combination of low-interest rates,
- housing supply constraints exacerbated by the pandemic,
- and higher-income households that weathered the pandemic without significant income losses.

This led many would-be homebuyers to remain renters in an already tight market.

Meanwhile, many low-income renters struggled with lost employment and income, falling behind on their housing payments. The fallout of these phenomena remains visible in Delaware's rental market.

The 2023 study found that there are 19,400 too few affordable rental units to meet the needs of renters with incomes of 50% of AMI and below, or \$33,200 per year. To address this gap, a combination of new affordable rental units and market-rate production is needed. DSHA saw an opportunity to contribute to the solution by supporting mixed-market developments.

SUMMARY OF PROGRAM

In 2021, the Department of the Treasury made available more than \$350 billion in Coronavirus State and Local Fiscal Recovery Funds (SLFRF), a part of the American Rescue

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Plan Act (ARPA), to state, local, and Tribal governments across the country to support their response to and recovery from the COVID-19 public health emergency. DSHA allocated \$7 million of SLFRF to create the MIMF program, which offers construction and permanent financing to in-progress market-rate developments that agree to incorporate affordable units as part of the program.

The MIMF program provides market-rate developers with a favorable construction and permanent financing tool to build new affordable units in their developments. Developments must have at least thirty-four total units, and the developer must commit to a minimum of five affordable units with a maximum of 15% of total units per participating development. For the units to be eligible, a developer must offer rents that are affordable to households at or below 65% AMI in accordance with HUD's HOME income and rental limits.

A key feature of the MIMF program is that the affordable units are not compromised in quality. They will be scattered throughout the site and offer the same amenities and finishes as the market-rate units. DSHA has set a maximum financing threshold of \$125,000 per 1-bedroom unit, \$135,000 per 2-bedroom unit, and \$150,000 per 3-bedroom unit, ensuring that developers can provide high-quality affordable housing.

The affordability period is twenty (20) years. Early repayment is permissible; however, the affordability restriction will remain on the property for the affordability period, regardless of when the loan is paid in full.

To incentivize extended affordability, developments that agree to a 30-year affordability period will have their MIMF loan forgiven over a period of 10 years, starting with year twenty-one.

Using these resources as favorable financing in already approved market-rate developments streamlines the predevelopment process. It avoids some of the additional soft-cost expenses of traditional affordable housing development programs. This enables the favorable financing benefits to go directly to the implementation of affordable units. Based on the affordability period and the per-unit lending limit, the per-unit monthly cost translates into an average of \$575 to provide units at 65% AMI for 20 years.

It also allows the utilization of municipal-level programs that may not otherwise be accessible to market-rate developers. For example, Sussex County's Rental Program ordinance allows developers to increase the number of units built to address the overall housing shortage and may open access to other funding sources by including affordable units.

RESULTS & BENEFITS

In a short period of time, DSHA has seen significant interest and results in the MIMF

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program. The subsidized units are being developed in areas with more access to amenities (jobs, schools, transportation).

Additionally, based on the success of the MIMF pilot program, DSHA is already exploring options to utilize state funding sources to expand the program and target higher income levels (i.e., Workforce Housing – up to 100% AMI). This will enable the agency to optimize the impact of its funding allocation further and add even more affordable units to the market, including in areas where it is traditionally more challenging to build affordable housing (Areas of Opportunity).

The program's response was so successful that DSHA expanded it to include a construction financing track. This attracted more projects to the pipeline and has even helped move forward some stalled developments.

The program's unique approach to expanding affordable housing has created a larger pool of developers who have expressed interest. The streamlined process and the efficiencies established through this program have enticed developers to develop affordable housing in otherwise market-rate developments, attracting groups of developers who would otherwise be deterred by the financial and administrative burden of providing affordable housing.

DSHA has utilized the MIMF program to address the urgency of delivering more affordable housing to Delawareans. Leveraging in-progress projects with existing zoning approvals allows DSHA to take advantage of projects that are happening now. The agency does not have to wait for an entire development process, which can take years.

CONCLUSION

The recent housing needs assessment highlighted Delaware's affordable housing needs while also sparking ideas to address the problem. With an eye toward urgency and impact, DSHA boldly launched the MIMF program to achieve not just one goal but a multitude that will pay dividends for years to come.

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VISUAL AIDS

PROGRAM FLYER

The program flyer features a large, high-quality photograph of a modern, single-story residential neighborhood with several houses and well-maintained lawns. Overlaid on this image are several text boxes and graphics. In the upper right, the DSHA logo is displayed within a circular badge. In the lower left, a dark blue box contains the title "MIXED INCOME MARKET FUND (MIMF)" in white, bold, sans-serif font. Below this, a smaller text box explains the purpose of the program: "The purpose of this program is to incentivize housing developers to provide affordable rental units at 65% AMI rent limits ("Affordable Units") in planned market rate rental development projects." In the lower center, the text "There are 2 different financing tracks..." is followed by two circular icons: one with a large "X" representing "CONSTRUCTION" and one with a house icon representing "PERMANENT". Below these icons, detailed descriptions of each track are provided. To the right, a light blue box contains the application timeline: "Applications will be accepted on a rolling basis starting on November 6, 2023 until September 30, 2024 or as long as funds are available." In the bottom right corner, a small box indicates the total available funds: "\$7M Total Available Funds". At the very bottom, a dark bar contains the call-to-action: "FIND OUT MORE: www.destatehousing.com".

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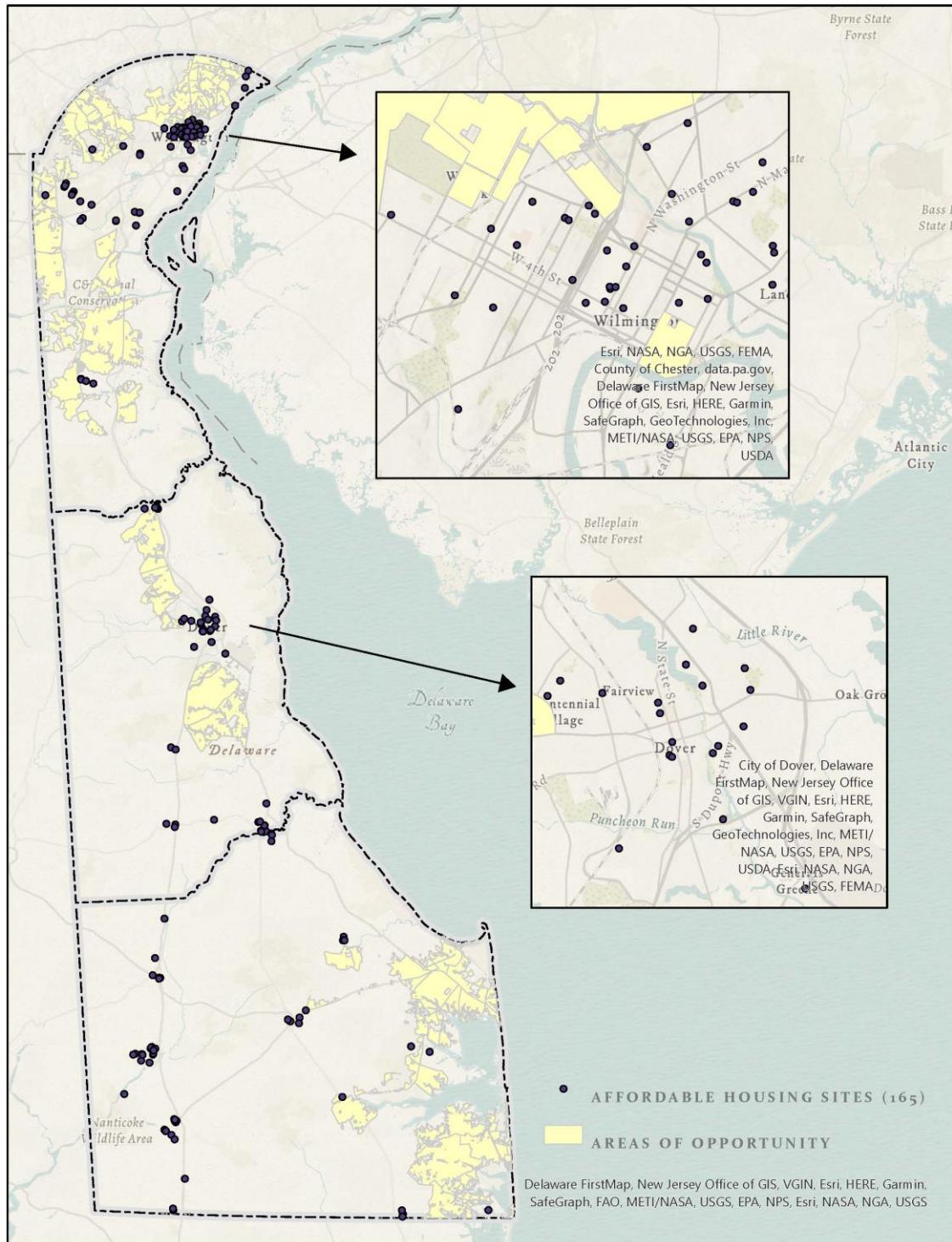
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AFFORDABLE HOUSING DEVELOPMENT OUTSIDE OF AREAS OF OPPORTUNITY



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NEWS ARTICLE



Milton planners approve conditional use for Cypress Grove

Development to designate 36 units as workforce housing



The Milton Planning and Zoning Commission unanimously approved a conditional-use permit for Cypress Grove to convert three three-bedroom units into six one-bedroom units and have those units be designated as workforce housing. All told, Cypress Grove is planning to designate 36 units within the development as affordable/workforce housing. NICK ROTH PHOTOS

By Ryan Mavity

April 26, 2024

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The Milton Planning and Zoning Commission unanimously approved a conditional-use permit that would allow the developer of Cypress Grove to increase the number of units in the development from 240 to 246 and designate 36 units to be designated as workforce housing.

The change has its roots in the Delaware State Housing Authority's Mixed Income Market Fund, which the state established using \$7 million in federal American Rescue Plan Act funds. The fund is intended to encourage developers to provide affordable housing units by providing financing for the development of those units. Projects must be approved by the local jurisdiction and already under construction, for which Cypress Grove qualifies in both cases. A developer must commit to having at least five affordable units with a maximum of 15% of the units being affordable.

In exchange, developers would be able to receive financing of up to \$125,000 per one-bedroom unit, \$135,000 per two-bedroom unit, and \$150,000 per three-bedroom unit.

Cypress Grove was already approved for 240 units comprising 144 multi-family homes and 96 townhouse units in 14 apartment-style buildings with 12 to 24 units in each building, along with 5 acres of commercial property fronting Route 16.

At the commission's April 16 meeting, developer Preston Schell said the plan is to take one of the 24-unit buildings and convert three three-bedroom units, one on each floor, into six one-bedroom units, giving the building 30 units.

Schell said rent on the workforce housing units would be \$300 to \$400 under market rate compared to the other units. For state funding, affordable/workforce housing is defined as a unit priced at 65% of area median income. He said the change also comes about because he has found there is the most demand for one-bedroom units. Schell said additional two- and three-bedroom units within the Cypress Grove project would be designated as workforce housing. He said the monthly rent would be \$1,279 for a two-bedroom unit and \$1,469 per month for a three-bedroom unit, about 20% under market rate.

Schell said applicants would be income-qualified and the discounted rent rate would last for 20 years. While an applicant must be making under 65% of area median income, Schell said the intention is to allow for the discounted rate to apply for up to 80% of area median income. Beyond that, he said, a tenant would revert to market rate.

Commission Chair Richard Trask asked Schell whether the additional units would cause the need for additional parking. Schell said the development already had an excess of parking, but the plans were adjusted to open space in case the need for additional spaces arises once the development is built out.

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Of who he envisions renting the units, Schell said, "It's going to be teachers. It's going to be policemen. Half the service-level employees that live in Sussex County, particularly in their younger years, are going to qualify for this housing. If you go to a restaurant and wonder why they don't have enough cooks or have enough wait staff available, it's because we don't have housing like this available to them."



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