

Florida's Construction Housing Inflation Response (CHIRP) Program

Florida Housing Finance Corporation
Rental Housing: Encouraging New Construction

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Introduction:

The federal inflation rate and construction costs increased at an unprecedented pace in 2021, causing an increase in construction costs outside of affordable housing developer's control. This resulted in higher construction costs for new construction developments in the Florida Housing Finance Corporation funding pipeline. In addition, operating expenses were escalating faster than increases in rental rates, leading to traditional capital stack sources not being able to assist in covering the higher construction costs.

Rising costs in material, labor and operating expenses lead to:

- Difficulties in finalizing general contractor construction contracts
- Longer construction timelines
- Higher insurance costs
- Higher operating expenses for projects in the Development pipeline

Florida Housing made efforts to maintain the viability of new construction developments with active awards in this predicament, with a primary objective of delivering these much-needed affordable housing units to communities in a timely manner.

Responding to an Important State Need:

In recognition of these concerns, in April 2022, Florida Housing's Board of Directors voted to allocate available funding resources to developments in the pipeline that were originally awarded funding under certain 2019, 2020 and 2021 Requests for Applications (RFAs), had not closed on financing and had not recorded a notice of commencement. These funds were made available through 2023 Competitive 9% Housing Credits, Loan Funding (comprised of State Apartment Incentive Loan (SAIL) Program Income, that would have otherwise been used in the following funding cycle), National Housing Trust Fund (NHTF) funding, and HOME-ARP funding.

On May 9, 2022, Florida Housing issued a competitive Invitation to Participate (ITP), "2022 Construction Housing Inflation Response Program (CHIRP)" for developments with an active award of funding from the Corporation that could demonstrate verifiable cost increases. CHIRP funding was not intended to support operating expenses or enhance cash flow.

Applicants with active awards of Housing Credits were eligible for additional housing credits; Applicants with active awards of SAIL funding were eligible for additional loan funding; all Applicants were eligible to select NHTF or HOME-ARP funding for a select number of units, subject to HUD and environmental regulations.

Program Outcomes:

65 Developments applied and were awarded CHIRP funding, for a total of 4,623 units. This funding included:

- \$15,312,272 in additional 9% Housing Credits
- \$87,164,316 in additional loan funding
- \$15,571,600 in NHTF funding
- \$7,248,600 in HOME-ARP funding

Program Requirements:

Applicants requesting additional housing credits or loans had two choices: either return a recent competitive award, the amount of which could be used for up to three developments in the CHIRP program, or have a limit on the number of applications they could submit in the upcoming 2022/2023 cycle. Applicants receiving CHIRP funding had a closing deadline of April 28, 2023, unless an extension was approved by the FHFC Board of Directors. Those that closed on their funding by November 10, 2022, qualified for the “Quick Close Incentive” and were able to earn back their future application submission limitations.

In order to qualify for CHIRP funding, a verifiable financing gap must have been demonstrated, with developers deferring at least 30 percent of their developer fee.

In addition, applicants subject to only a 30-year affordability period as set forth in their original application were required to increase the affordability period to 50 years, waiving their right to a qualified contract. Three such developments received CHIRP funding, resulting in 740 additional units waiving their right to qualified contracts.

Stakeholder Support

The CHIRP program was publicly workshopped and had tremendous stakeholder support.

“We all appreciate FHFC’s rapid response to rising, uncontrollable increases in construction costs.” Jim Boyd, Royal American Development

“We appreciate the efforts that FHFC staff has taken to address the challenges facing the affordable housing industry at this time.” Francisco Rojo, Landmark Development Corporation

“...the CHIRP program is an exemplary measure to be emulated by many State Agencies. Not only the continuous procurement of affordable units was guaranteed by the program, but also pressured developers, municipalities, and the many stakeholders to deliver units in a timely fashion. We are proud of this affordable housing industry in Florida. The various professionals of the industry (starting with FHFC staff, the project design teams, the underwriters, the appraisers, the plan/cost reviewers, the surveyors, the attorneys, etc.) made and continue to make many personal sacrifices to meet the 2022 CHIRP.” Rodrigo Paredes, Housing Trust Group

“We appreciate FHFC’s prompt response to the rapid and unprecedented construction cost increases. This program will help bring many projects that would otherwise be ‘dead in the

water' back to the closing table and help developers provide affordable housing to communities in dire need." Stacy Banach, New South Residential

Support of New Construction

Without this program, these Developments would not have been able to move forward, and the state of Florida would be without over 4,000 new affordable units. According to the 2022 statewide market study prepared by the Shimberg Center for Housing Studies at the University of Florida, there is an estimated 768,460 low-income, cost burdened renters in need of affordable units statewide, and the loss of these new construction units would be devastating, especially given the loss of units due to destruction caused by recent hurricanes.

Proven Track Record of Success in the Marketplace

Of the 65 developments awarded funding to date, 53 developments have closed on financing, with the remaining 12 developments slated to close in the second and third quarters of 2023.

Replicable Results:

Recognizing the success of the CHIRP program, in December 2022 special legislative session, the Florida Legislature appropriated \$100,000,000 to Florida Housing for a competitive viability loan program targeted to support additional new construction projects in the development pipeline that have not commenced construction, are experiencing verifiable cost increases due to market inflation, and that accepted an invitation to enter credit underwriting between July 1, 2020 and June 30, 2022. In addition to the \$100M, Florida Housing will contribute \$68.6M in SAIL program income, for a total of \$168.6M made available for the program. This is projected to assist 4,437 units.

Benefits Outweigh Costs

Implementation of this program resulted in a smaller 2022/2023 funding cycle in terms of funding available, however allowing a menu of funding options through CHIRP reduced the negative impact overall and allowed for continued new construction funding in 2023.