

# Encouraging Mixed-Use Development and Affordable Housing in Pennsylvania

**Pennsylvania Housing Finance Agency**

Special Achievement: SA

**HFA Staff Contact**

Shelby Rexrode

[srexrode@phfa.org](mailto:srexrode@phfa.org)

# 2020 Annual Awards for Program Excellence

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# **Pennsylvania Housing Finance Agency Encouraging Mixed-Use Development and Affordable Housing in Pennsylvania Special Achievement**

## **Scope**

As the designated housing agency for Pennsylvania, the Pennsylvania Housing Finance Agency (PHFA) provides affordable homeownership and rental housing options for seniors, low-and-moderate income families, and people with special housing needs. Additionally, through nimbleness and sheer determination, PHFA has promoted economic development throughout the Commonwealth by instituting programs that are reflective of the state's evolving housing needs. A prime example of this, and also the highlight of this application, is the creation of the Community Revitalization Fund program (CRF), which provides grant funding for the construction or rehabilitation of critical mixed-use projects providing affordable housing in commercial corridors of the Commonwealth.

## **Background**

The term 'mixed-use' in and of itself is neither complicated nor new, and is essentially how it sounds: a project that incorporates various complementing uses into one site. Throughout the years, these projects have been highly sought after and pursued, especially in urban and suburban communities. The Agency has been innovative in its approach to increasing housing affordability throughout the Commonwealth, and pursuing this through mixed-use developments is no exception. In fact, ensuring housing is affordable to all Pennsylvania residents is complex and *requires* a transformative solution.

Without a doubt, there is a strong need in Pennsylvania for innovative solutions to affordable housing. Pennsylvania is unique in that our state is remarkably diverse, not only geographically with rural, suburban and urban communities, but also racially and socioeconomically. Additionally, Pennsylvania is ranked within the top ten when calculating the percentage of the population aged 65 and older. This is important as data shows that as seniors age, they seek environments that allow them to "live, work, and play." This holds even truer for low-and-moderate income seniors on fixed incomes, as these environments tend to be pedestrian-friendly and within walking distance to public transportation, local shops, and services. These developments should not prove to be cost prohibitive to the convenient lifestyle these individuals need. Our Agency believes that our Commonwealth's diversity is a positive attribute and that mixed-use developments can and should be available across the Commonwealth when feasible, rather than exclusive to urban environments as is traditionally the case.

## **Cost-Benefit Analysis of Mixed-Use Developments in Pennsylvania**

Although the cost-benefit analysis of this type of development is not exclusive to Pennsylvania, it is something that the Agency and Commonwealth strongly evaluated before devoting resources toward supporting these projects. Mixed-use developments tend to be significantly more complicated and difficult as a result of financing challenges, municipal zoning hurdles, etc., and as a result, tend to take longer to complete. Traditional financial institutions have become more willing to finance these projects, but their complexity can not be denied and significant funding gaps are typically the result. The zoning in Pennsylvania is also a hurdle, as it is not determined by region or county, as in some states, but is rather enacted at the municipal level. With over 2,500 municipalities in the state, it is imperative that developers who are pursuing these types of projects closely examine the municipality's zoning code to see if mixed-

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use development is supported by right. Municipalities in Pennsylvania have historically kept residential and commercial uses separate and zoning changes are sometimes needed for these mixed-use developments. Again, this proves to be a costly and time-consuming hurdle for developers and investors.

When looking at these developments holistically and examining the benefits, it's evident that despite the hurdles, the benefits far exceed the costs. First and foremost, different uses within one site diversify risk for investors, as the risk is typically then spread amongst different markets. This allows developers to offset the cost of the affordable housing component with revenues from the commercial/retail space. These projects are also oftentimes the best option in infill areas, and add economic development opportunities by creating jobs, and increasing the customer base for local businesses; in addition, these developments provide convenience which is strongly craved by an increasing number of residents, most particularly millennials and aging seniors. Finally, these developments revitalize depressed neighborhoods and the challenges that are faced can be negated by securing an experienced development team.

**Creation of the Community Revitalization Fund Program**

With this in mind, it is still a challenge not only in Pennsylvania – but across the country - to identify local tax incentives that encourage and support meaningful affordable development. This challenge is tackled head-on here in Pennsylvania with key stakeholders to best serve the needs of our residents. In partnership with the Pennsylvania General Assembly, PHFA was successful in adding a \$2 million state tax credit, know as the Mixed-Use Development Tax Credit (“MUD program”), to the FY '17-'18 budget to be bid on by qualified taxpayers and sold to the highest bidder. The proceeds of the sale are then separately distributed through competitive awards to eligible projects in targeted areas of the Commonwealth with an identifiable need for increased affordable housing opportunities and commercial corridor development. The \$2 million tax credit was funded for a second time in the FY '18-'19 budget, before being increased to \$3 million in FY '19-'20. In the most recent round, PHFA sold \$3 million in tax credits for \$2,590,300 in funding for the CRF program. This program is a true public-private partnership and a commitment on behalf of our Commonwealth to essentially forego revenues that would traditionally be owed by taxpayers that have a qualified tax liability in the name of promoting mixed-use and affordable housing development.

**Intended Results of the Program**

The CRF program is intended to revitalize communities, particularly downtown Main Streets, by expanding or rehabilitating the affordable housing stock to promote overall community revitalization. This program in particular specifically targets smaller-scale mixed-use projects that contain around 10,000 SF of commercial space and up to 25 units of affordable housing. Projects of this scale, especially those that have an affordable housing component, tend to face larger financing gaps and require incentives to be feasible. PHFA prioritizes projects that are a part of an established community plan as well as those that have secured and leveraged funds from other sources. The CRF program is only as strong as its partnerships, and it's important to the Agency that the local governments and local stakeholders support, and take part in making each project successful.

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The Agency received nine applications in the first year of the program, all from Allegheny and Philadelphia counties. From these applications, six were funded for a total amount of \$2.4 million. After this round, the Agency witnessed and heard from local partners about the great need for projects of this scale in smaller communities of the Commonwealth. As a result, PHFA shifted priorities in 2019/2020 (the second year of the program), to prioritize applications from smaller communities and particularly from cities of the third class. PHFA received 15 applications this round, 10 of which were from smaller communities across the Commonwealth. The Agency ultimately approved six projects for a total of \$2.8 million. The growing interest in this program from one year to the next further evidences the significant need in Pennsylvania for innovative financing solutions to fund affordable mixed-use developments that likely would not happen without the additional incentive.

**Outcomes and Project Examples**

Below is a snapshot of two mixed-use projects that have been awarded CRF program funding.

Homestead Bakery Lofts – Allegheny County, PA

This project supported the adaptive reuse of the former Homestead Baking Company, constructed in 1902, that sat vacant and blighted since 2010. This development supported 26 new, affordable housing units and 12,000 SF of commercial space. The anchor tenant, Millie's Homemade Ice Cream, occupies space on the ground floor. With the move to this location, Millie's is able to continue to pasteurize their own ice cream and expand their manufacturing capabilities. As of December 2019, all but one of the residential units had been rented. This \$7.5 million project is located one block away from the heart of the Business District.

404-06 West 8<sup>th</sup> Street Rehabilitation – Erie County, PA

This project was approved in March 2020 and was part of the second round of funding that prioritized smaller communities. This project will rehabilitate a historic mixed-use property in the West Bayfront area of the City of Erie. This building is located on a once prominent retail and commercial corridor that experienced significant population decline and eroded business activity; as a result, this property has sat vacant since 2016. The activity in this neighborhood has sparked once again, as it is located just two blocks away from Gannon University's thriving campus. When complete, this site will consist of three affordable apartments and 2,000 SF of commercial space which will be filled by a local community development provider in addition to a deli or coffee shop.

**Overview**

PHFA has identified the strong demand for incentives to support affordable mixed-use developments. In partnership with key stakeholders from across Pennsylvania, PHFA identified funding and created and managed a program that remains flexible to the ever-changing needs of the developers and investors that pursue these affordable developments. Through innovation, adaptability, and partnerships, PHFA has taken a need and turned it into a successful and viable program that will continue to grow and evolve with the needs of our Commonwealth.

**Homestead Bakery Lofts**

**Before**



**After**



**404-06 West 8<sup>th</sup> Street Rehabilitation**

Before



After

