The Economics of Affordable Housing Development: Cost Drivers and How Nonprofit Developers Provide Long Term Affordability

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TODAY'S SPEAKERS

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Leadership in applied research statewide, through publications, convenings and data tools that facilitate housing policy development and outcomes tracking

Advisor to many nonprofit AH developers and leaders statewide on how to execute and plan for developments, legislation etc.
ABOUT US: CCSM

- Nonprofit established in 1982
- Mission to improve lives with permanent affordable housing in high opportunity communities
- Over 1,900 units of affordable housing, 100 buildings, over 4,000 people served. Vertically integrated
- 3 projects under construction (all in SM), 2 starting next year (1 in SM, 1 in LA)
AFFORDABLE HOUSING DEVELOPMENT MODELS
AFFORDABLE HOUSING MODEL

- Affordable housing in high opportunity/disadvantaged neighborhoods creates inclusion, integration and opportunity for improving circumstances and breaking the cycle of poverty
- High quality housing, well maintained + enviro sustainable
- Rents = permanently affordable; ranging from about $450-$1500 depending on income and size of household
  - Household income range $18K - $80K approximately. Families, seniors, homeless individuals
AFFORDABLE HOUSING EXAMPLES

New Construction:

- Las Flores
- 73 Units
- Completed in 2023
Rehabilitation:

- Rehabilitated in 1991
- Historic preservation-almost 100 years old
- 15 units, 100% affordable
Inclusionary Housing

- 1626 Lincoln Blvd. (at Colorado), Santa Monica
- 64 units for low-income families
- Completed 2018
- $44 million total project cost
- NO City money
- LEED Platinum
AFFORDABLE HOUSING EXAMPLES

Modular Housing

- Berkeley Station
- 13 units
- TAY and family Housing
AFFORDABLE HOUSING EXAMPLES

High Place West - 47 homes for families. Completed in 2011
AFFORDABLE HOUSING SERVICES

AH provides resident services that uplift and engage the community
THE NONPROFIT MODEL: WHY IT MATTERS
THE UNIQUENESS OF THE NONPROFIT MODEL

MISSION DRIVEN PRIORITIES
WITH THE GOAL OF SERVING LOW INCOME RENTERS

PERMANENTLY AFFORDABLE
UNLIKE PRIVATE DS WHO WILL FLIP IN A SHORT PERIOD TO TURN A PROFIT

USES PRIVATE-PUBLIC PARTNERSHIPS
MAKING THE UNITS A PUBLIC ASSET BY FINANCING WITH PUBLIC SUBSIDIES
Our communities are served by all these development models

Affordable housing = long term public asset; financially front loaded to provide lasting affordability, maintenance and operations;

NOT flipped for profit or short gains
We must encourage the narrative that affordable housing is essential infrastructure that requires investment at scale across EVERY community.

- Affordable housing provides important investments in our communities and serves the public good for what it costs.
THE COST OF AFFORDABLE HOUSING: FINANCING, COST DRIVERS AND WAYS TO INNOVATE
AFFORDABLE HOUSING = AFFORBLE TO RENT
HOW AFFORDABLE HOUSING IS FINANCED

Low rents = Low Net Operating Income (NOI)

Low NOI = Small conventional mortgage

Small mortgage = Need for public subsidy
HOW AFFORDABLE HOUSING IS FINANCED

Need to pull from multiple sources to finance an AH project so that it pencils out, this is called a "Capital Stack." Used to be 1 source, now 7-10 are needed on average.

Main source of this funding is through the Low Income Housing Tax Credit.

Typical Funding Stack:
Affordable Housing

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Public / Soft
Equity
Debt
Funding Sources
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Finance Costs
Soft Costs
Hard Costs
Acquisition
Costs
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HOW AFFORDABLE HOUSING IS FINANCED

Typical Funding Stack: Market vs. Affordable

- Market-Rate
  - Conventional Debt
  - Equity

- Affordable
  - LIHTC Equity
  - Smaller conventional mortgage
  - Soft Sources needed to fill the gap
HOW AFFORDABLE HOUSING IS FINANCED

IMPORTANT TO NOTE:
Pulling together numerous funding resources is time intensive and EXPENSIVE
The cost of construction for affordable and supportive housing is ABOUT THE SAME as the cost of private residential construction (about $560k per unit).

It is expensive to build in California across the board. Land and supply costs = expensive for both private and nonprofit developers.
COST DRIVERS FOR AFFORDABLE HOUSING PROJECTS

- Capital stacking increases costs
- Development fees
- Site constraints: i.e. difficult topography, pollution remediation, etc.
- Parking
- Design
- Additional policy goals: living wages, energy efficiency, ADA requirements, infrastructure and transit improvements in the surrounding area
- Additional amenities for residents and community: furniture, community spaces, office spaces for on-site services, childcare centers and wrap around services
REHAB PROJECT COMPLEXITIES
HOW TO BRING DOWN COSTS

- Streamlining
- Land and partnerships
- Construction methods
- Parking – it’s complicated
- Sustainability – it’s complicated
- Density

- Commercial spaces
- New types of funding
- Tradeoffs
- Best practices/lessons
COMMONLY ASKED QUESTIONS
AUDIENCE
Q+A