

# OVERVIEW

## *Financing and Funding Dilemma For Affordable Family Housing*<sup>1</sup>

**Pie Charts 1 and 2** illustrate how the distribution of resources required to finance and fund affordable housing developments for families have changed over time.<sup>2</sup> What is clear from these is that we once went to great lengths to leverage significant private capital/credit with “gap” financing from government sources, thereby multiplying how many units could be produced. Now, increasing government, quasi-government and donor sources are required to achieve “affordability”. But the complexity and time intensive efforts are endured and transaction costs incurred in order to leverage only a dime on the dollar.<sup>3</sup>

**Bar Chart 1** shows how *Total Development Costs* per unit in family-oriented, layered developments have gone up steadily, from around \$50,000 per unit in 1988 to about \$200,000 per unit now. The current estimates would be considered high or very high to people active in the private, unsubsidized market, and/or for owners not requiring acquisition or substantial rehab financing, but these estimates are not out-of-line with projects recently supported by the City of Chicago.

**Bar Chart 2** illustrates the steady increase in management costs for family housing in projects developed with layered and leveraged sources. **Bar Chart 3** uses these expense estimates to determine what annual income is required to pay the management expenses only – not the debt required to acquire or develop the property, nor the profit or overhead required by most owners. Again, owners of housing not bound by the additional expectations or accountabilities of managers of subsidized housing would likely have lower costs.

**Policy Questions/Considerations:** Taken together, these figures and charts raise serious questions about why such financing strategy (in the absence of rent subsidies) makes sense at all, or under what circumstances. This is particularly pertinent for the working poor, who have little or no capacity to carry debt through their rent, and who are increasingly not benefiting by the Herculean and wasteful efforts to produce housing for “high end” low-income people. Policy makers may want to question and consider new ways to encourage affordable housing among private owners while avoiding the higher costs of development and management that comes with layered, public-private partnership projects.

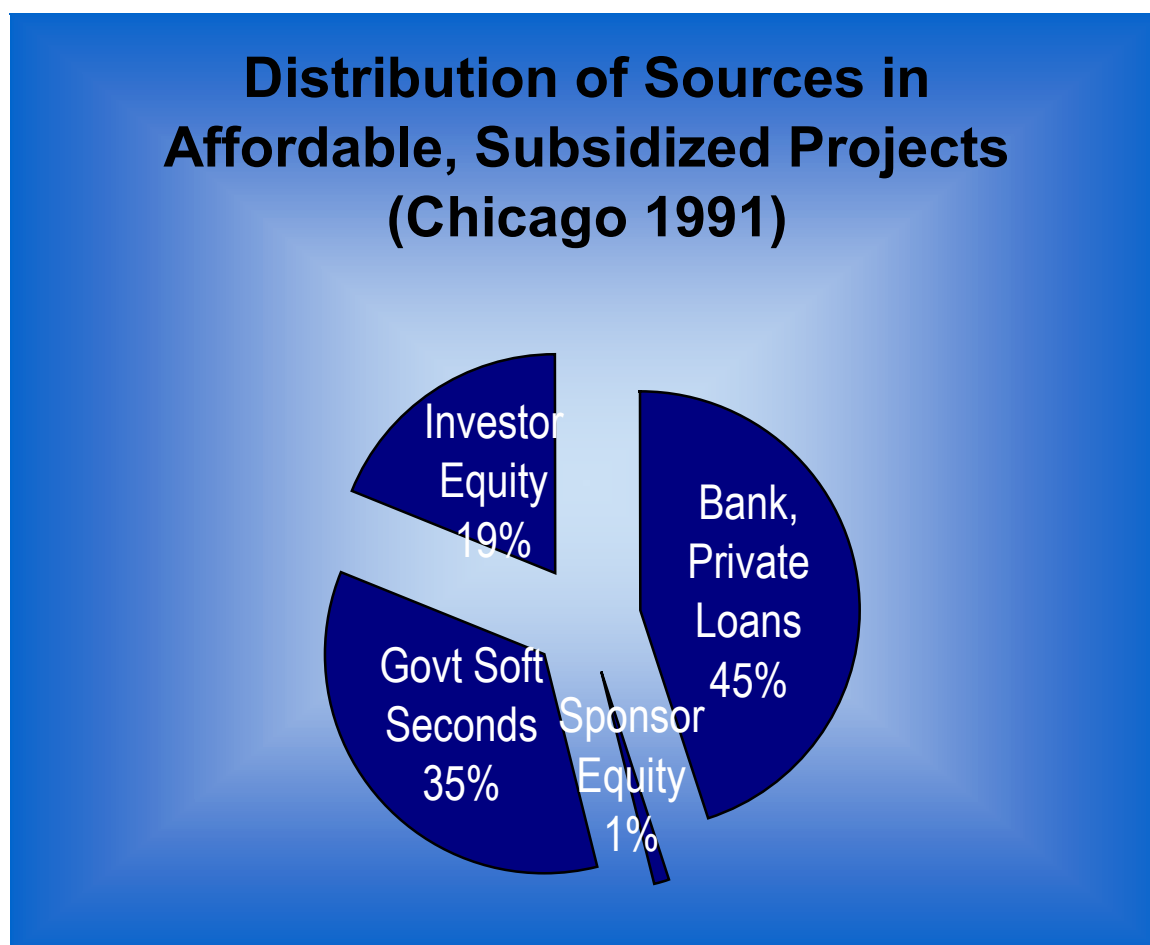
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<sup>1</sup> The particulars for all figures and charts were based on best estimates and experience of Michael Rohrbeck, backed by some project data and informal interview sources, but not good research.

<sup>2</sup> The sample of recent, family-oriented projects from which to draw estimates has shrunk dramatically because of the drain and reallocation of resources to such things as homeownership programs, seniors and assisted living developments, and specialized efforts like CHA transformation developments.

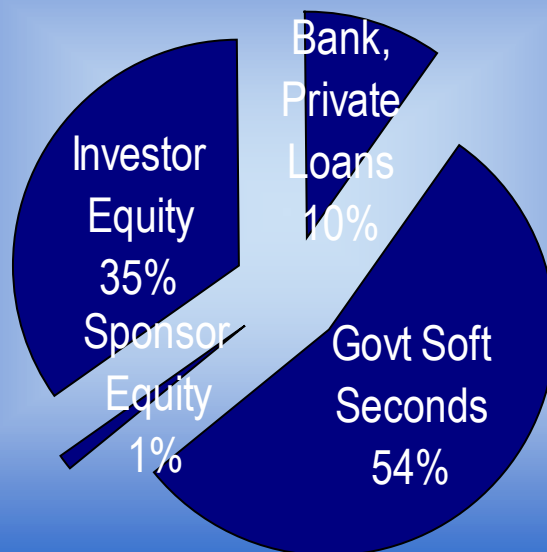
<sup>3</sup> Although a minimal contributor to affordable housing projects, lenders with primarily a profit motive are in a controlling position if a project requires restructuring or refinancing. This prospect has not been uncommon, particularly in depressed markets, because incomes of poor people may not have gone up fast enough to allow for budgeted rent increases, while management costs have, in many cases, gone up faster than expected.

## Distribution of Resources in Affordable Family Housing Projects have Changed



**Pie Chart 1: The expectation at this time was that “gap financing” would leverage significant private dollars from banks and investing corporations. The Daley Administration went so far as to require performing government second mortgages at between 1-3%, an approach that was subsequently abandoned.**

### Distribution of Sources in Affordable, Subsidized Projects (Chicago 2003)



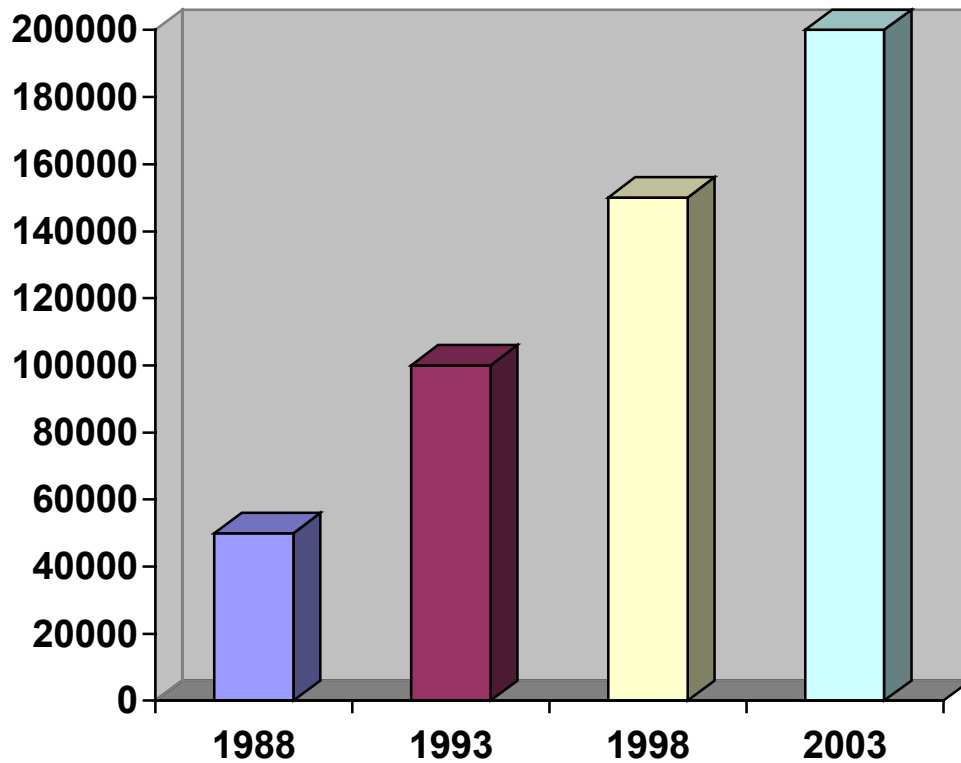
**Pie Chart 2: Less and less performing debt can be carried by "affordable housing" projects, with the difference largely made up by increasing grants, "deferred mortgages" or loans based on questionable projections vis a vis renter incomes and management costs.**

## Costs of Multi-family Residential Development have Skyrocketed

### Bar Chart 1

#### Typical Total Development Costs Per Unit:<sup>4</sup>

*For Affordable Housing in Chicago (1988-2003)*



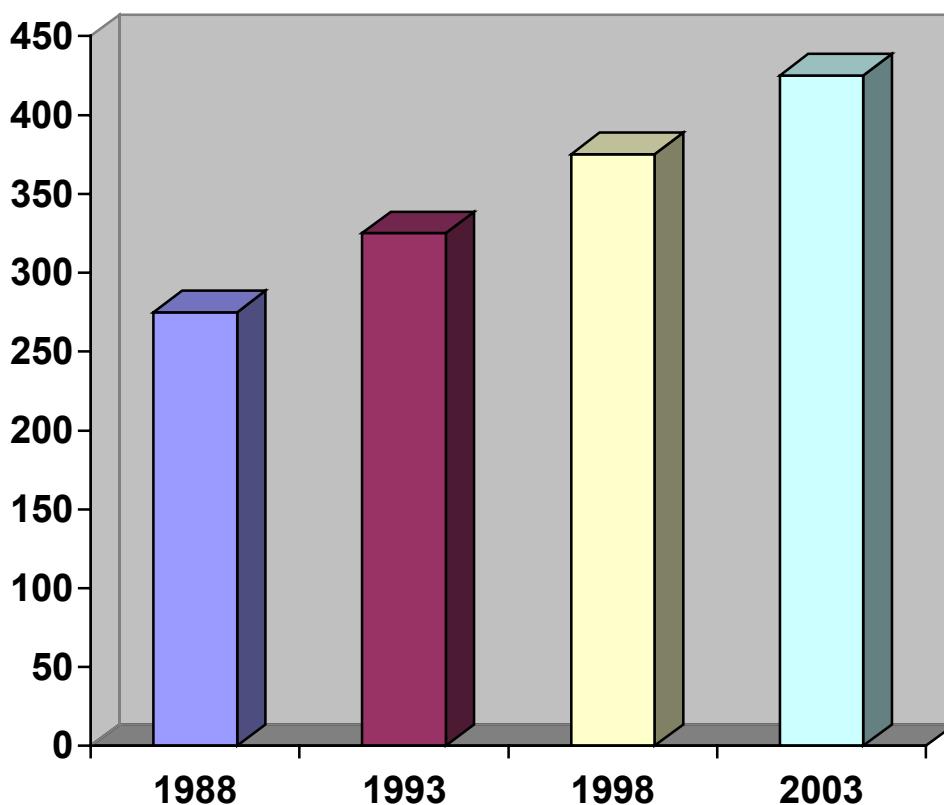
<sup>4</sup> Assumes acquisition and substantial rehabilitation for family-sized housing (two or more bedroom units) in heavily subsidized affordable housing projects with “layered financing”

## Management Expenses of Multi-family Residential Projects have Increased

### Bar Chart 2

#### Typical Management Costs Per Unit:<sup>5</sup>

*For Affordable Housing in Chicago (1988-2003)*



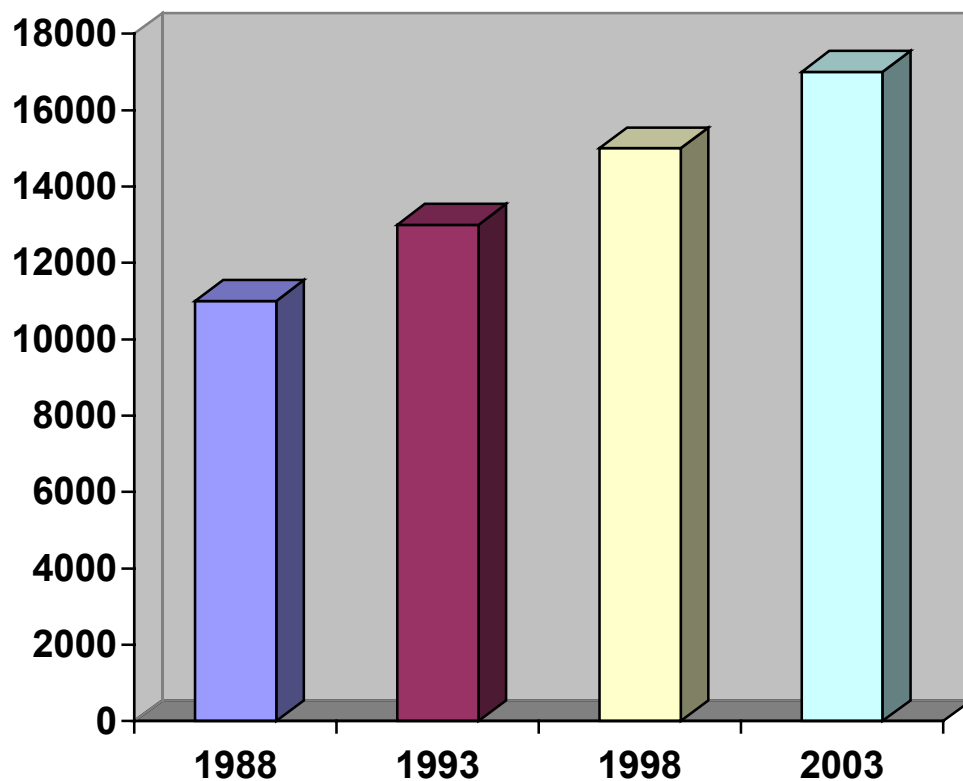
<sup>5</sup> Costs are Per Unit Per Month before performing loan debt service payments and profit for a typical two or three bedroom unit in an affordable housing project with layered financing.

**Annual Incomes Required to Pay for  
Management Expense Costs of subsidized  
Multi-family Residential Development**

**Bar Chart 3**

**Typical Incomes Required to Pay Management Costs:<sup>6</sup>**

*For Affordable Housing in Chicago (1988-2003)*



<sup>6</sup> Expense costs are Per Unit Per Month before performing loan debt service payments and profit for a typical 2 or 3-Bedroom unit that are divided by .30 to determine monthly income requirement of housings costs at 30% of income, then multiplied by 12 months. Estimates are conservative in that they exclude utilities paid by tenant typically used to calculate the "housing cost burden" as well as other deductions that residents would be eligible for if they were to be income certified for subsidies.