Build Homes

A "Housing 101" Guide for Congregations Embarking on Affordable Housing Development

The Bishop's Committee on Affordable Housing
The Episcopal Diocese
of North Carolina

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I. The Needs

To follow Jesus in Protecting and Welcoming People with the Greatest Need

"Faith-based organizations (FBOs)… serve as community hubs, providing spiritual leadership and valuable social services. These organizations steward an extensive portfolio of property across our city. With the increasing needs of the community, and the mission of FBOs in serving, there is the opportunity for collaborating on the innovative use of FBO-owned properties. Partnerships with mission-oriented developers present a strategic avenue to activate these properties, aligning congregations' missions with community-driven goals to enhance the availability of affordable housing and bolster community well-being." – Charlotte Mayor Vi Lyles (1/11/24)

A. Shortage of Affordable Housing in North Carolina

Across the state of North Carolina, there is a shortage of rental homes that are affordable and available to extremely low-income households (ELI), whose incomes are at or below the poverty guideline of 30% of their area median income (AMI). Many of these households are severely cost burdened, spending more than half of their income on housing. Severely cost burdened poor households are more likely than other renters to sacrifice other necessities like healthy food and healthcare to pay the rent, and to experience unstable housing situations like evictions. (NLIHC)

In North Carolina, the affordable housing crisis is worsening. Almost 560,000 households with incomes less than 50% of the area median income cannot find rental housing that fits within their family income. Approximately 1.2 million households in North Carolina pay more than 30% of their income on housing. Housing insecurity and risk of homelessness directly impacts health, academic performance, and economic productivity and upward mobility.

The shortage of affordable homes in North Carolina has been exacerbated by the rapidly growing population in the state. Population growth puts demands on the supply of available housing, driving up the price of existing housing. The growing cost of construction and scarcity and growing expense of land with infrastructure (streets, water, sewer, e.g.) significantly drive up the cost of new housing to meet the demand. This makes the financing of new affordable housing very challenging, especially for those homes that target ELI renters.

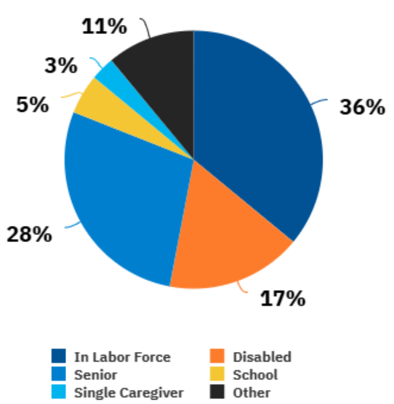
B. Churches Becoming Willing Partners to Help Address the Shortage

In response to the shortage of available and affordable land on which to build affordable housing, churches increasingly have become active partners with affordable housing developers, allocating their own land to new development. Leading with mission-based motivations to help house the neediest among us and the ability to address internal financial realities, faith-based organizations are at the center of a fast-moving national movement. "In almost every community, houses of faith occupy well-placed, under-used properties in prime neighborhoods and near schools, transit, and employment centers. As odd bedfellows, church leaders are learning the basics of land development, and affordable housing developers are learning about church governance, polity and finance laced with scriptural and theological motivations." ("Ground Game: Churches are poised to help develop sorely needed affordable housing." Business North Carolina, John Cleghorn, 11/1/2024)

KEY FACTS

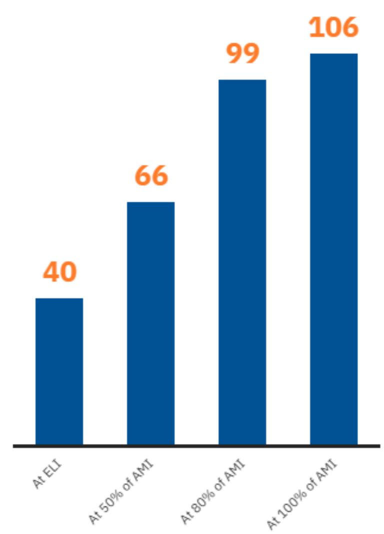
326,751 OR **23%** Renter households that are extremely low income	**-195,821** Shortage of rental homes affordable and available for extremely low income renters	**$29,130** Average income limit for 4-person extremely low income household	**$52,437** Annual household income needed to afford a two-bedroom rental home at HUD's Fair Market Rent.	**71%** Percent of extremely low income renter households with severe cost burden

EXTREMELY LOW INCOME RENTER HOUSEHOLDS



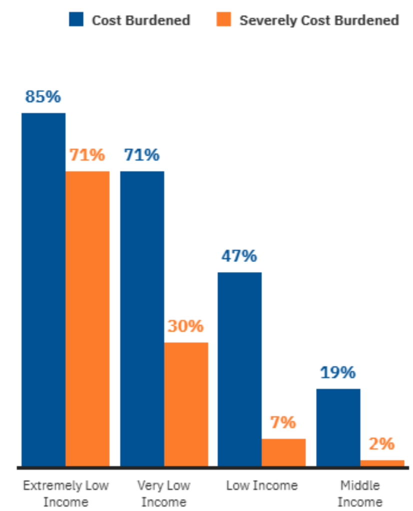
Note: Mutually exclusive categories applied in the following order: senior, disabled, in labor force, enrolled in school, single adult caregiver of a child under 7 or a person with a disability, and other. Thirteen percent of extremely low-income renter households include a single adult caregiver, 53% of whom usually work at least 20 hours per week. Eleven percent of extremely low-income renter householders are enrolled in school, 48% of whom usually work at least 20 hours per week. Source: 2022 ACS PUMS
Source: 2022 ACS PUMS

AFFORDABLE AND AVAILABLE HOMES PER 100 RENTER HOUSEHOLDS



Source: 2022 ACS PUMS

HOUSING COST BURDEN BY INCOME GROUP



Note: Renter households spending more than 30% of their income on housing costs and utilities are cost burdened; those spending more than half of their income are severely cost burdened.
Source: 2022 ACS PUMS

C. Resources

- National Low Income Housing Coalition (needs by state): https://nlihc.org/housing-needs-by-state/north-carolina
- North Carolina Housing Coalition (County profile) https://nchousing.org/
- NC Coalition to End Homelessness (data on homelessness): https://www.ncceh.org/datacenter/dataonhomelessness/
- North Carolina Housing Finance Agency (NC housing snapshot): https://www.nchfa.com/about-us/research-reporting-and-policy/nc-housing-snapshot
- Poor People's Campaign https://www.poorpeoplescampaign.org/committee/north-carolina/

II. The Mission

Discern God's Call to Build Affordable Homes and Welcome New Neighbors

A. Faith-Based Organizations are Following Jesus in Myriad Ways

- Walking with people in the complicated process of moving from **homeless** to **housed** and of keeping from losing their current housing. Support teams surround people with encouragement, practical assistance (transportation, filling out applications), financial assistance, connection to health, jobs, mental health, child care, and other services.

- Advocating for people treated unjustly by landlords, real estate companies, courts so that they can preserve occupancy or improve their housing conditions.

- Advocating for public investment in housing and policies on the local, state, and federal levels that promote rather than suppress housing options, such as zoning, tenant rights, financial scams.

- Welcoming right-priced housing to our neighborhoods and speaking up when neighborhoods oppose development.

- Providing new affordable housing or community services on unused or repurposed church land or buildings.

B. What is Your Motivation and Your Vision?

- There are a countless people in need of housing in general, and many who need more options for better housing and in locations that are closer to their jobs, their schools, and community resources. Faith-based organizations (FBOs) can be part of the solution to create more options for those in need. Work with your leadership, your congregation, and community members to help develop your **mission** for who you are seeking to serve and the **vision** for how best your church can serve them. In order to determine your vision, each church must first discern on the following:

  1. **What is your motivation?**
     - Establish your mission and vision.
     - Communicate with your Leadership to establish what is core to your potential development pursuit.

- Is your congregation facing challenges that may hinder a potential complex and long-term project? Or perhaps those challenges may support the undertaking (financial challenges that a development project could address).

- Bring into your Leadership discussions church leaders who have been through the development process before. They can impart lessons learned, help set expectations, and provide assistance in navigating the process.

- Engage in clear and consistent communication with your congregation to develop and share ideas prior to starting the formal discernment process.

- Does the congregation have the intent and leadership to commit to this long-term complex undertaking? Inform the Diocese for its support!

2. Who are you seeking to serve?

- Are there those in need who your church wants to target specifically? For example, the congregation could target providing housing assistance to one or more of the following groups: seniors, senior women, families with young children, people with disabilities, homeless veterans, immigrants, refugees, students who need housing assistance, or teachers and education professionals.

- In addition to housing, there are great needs for social and community programs that can support the homeless and assist in building resiliency and a better quality of life. Seek out nonprofit groups who offer transformative services for potential partnership. For instance, to combat food insecurity, perhaps a nonprofit soup kitchen or food pantry can be incorporated into the program. Or perhaps consider founding a commercial kitchen that serves as an incubator space for aspiring cooks, teaching homeless and unemployed individuals essential food service skills.

- Who does your congregation feel most compelled to help? Engage in active, open, and honest conversations with your parishioners. Take notes and distribute the summaries of your meetings and conversations.

- Are there local community members or organizations your church could partner with that may be able to help define who you seek to serve?

- What relationships does the congregation have with neighbors (residents, schools, other churches) and what do they value? Engage with your community.

C. Lead with Your Vision

- **Seek out project partners** that will support you, and the vision established within your church, throughout the journey. Communicate clearly what your vison is to your partners. These partners could include congregation members, community members, developers, or service providers who can help navigate the entire process starting with community engagement (Architects, e.g.)

- **Engage in clear and consistent communication** with the community through a collaborative and open engagement process. This consistent engagement will allow for early feedback and dialogue, and better ensure that members of the community are invested in the success of the project and vision in general. Find partners early in the process to assist you with the community engagement component. Even if community engagement is not a required project entitlement, sharing your vision with the community is essential for its shared success.

- **Surround yourself with support** because **it takes a village**. There are a number of people who have the expertise to help, who have been through the process before, can guide you through the complexities of housing development, and who want to ensure your vision comes to life

- **The Bishop's Committee on Affordable Housing (BCAH)** can connect churches to churches with similar housing development experience and to resource organizations that can help advocate for, educate, and manage the various steps of the project.

- **Set your expectations**. It can be, and most likely will be, a long process from start to finish. Remind yourself, your leadership and congregation to **practice patience**.

- **Ensure that your core vision is shared consistently and repeatedly** with the full project team throughout the duration of the project. Affordable housing development projects are long and can be complex and involve a large number of individuals; ensuring that you **lead with your vision** means that everyone who works on the project understands the vision and its importance to your church and community.

III. Beginning the Development Process

How Your Church Can Make a Great Impact
Through Proper Stewardship of the Gifts God has Given to Us

A. What is Development?

Real estate development is the process of increasing the value of land or property by building new structures, renovating existing one, or improving the property in some other way.

Churches have the potential to sell, develop, or repurpose a portion of their property (whether it is land for a new development or portion of an existing building) to create new affordable housing or buildings dedicated to community services.

B. Who are the Partners?

- **Developers**
  Expertise in land development and finance. They often purchase the developable portion of the church's land and finance portions of the project. They can either be Non-Profit or For-Profit entities. Often, developers manage and maintain the building(s) or find outside management companies, but in some cases the church will need to find a professional property management organization to do this.

- **Architects & Engineers**
  Design the site and buildings within local, state, and federal design requirements for permitting, funding, and construction. Architects can act as community engagement leaders for the church and assist in the procurement of early regulatory entitlements. Often Architects are brought in early to partner with the church during the visioning steps and play a critical role in the feasibility phase to help determine what is possible to build.

- **General Contractors / Construction Companies**
  The groups that will ultimately build the project. General Contractors can be brought in early in the process to assist with the feasibility phase, helping to establish a construction budget and identifying potential construction risks.

- **Legal Land-Use Counsel / Law Firms**
  Individuals or firms that specialize in real estate practice, related contracts, and affordable housing projects. In many cases the church's property will need to be rezoned to gain approval for the

intended building type or size. Zoning attorneys will help shepherd the rezoning application and hearing process.

- **Lenders & Finance Partners**
  Affordable housing projects typically involve a mix of financing vehicles and partners. From private developers, local banks and national banks to local municipalities, state and federal agencies, there are a number of options to help secure financing to fund the pre-development process all the way through construction and project completion.

- **Professional Property Managers**
  As noted above under "Developers," the church may need to find a property management company who is responsible for the leasing and maintenance of the building for long-term sustainability.

- **Church Point of Contact**
  This can be an internal team member selection or an owner's representative who maintains constant communication between the church and the development team for the duration of the project.

C. Do I Need a Developer?

A developer may or may not be a necessary partner for your project. But typically, the wide-ranging expertise, financial and management capability of an experienced developer is critical to an affordable housing project's success. Developers take on risks that are difficult for faith-based organizations to navigate and which are critical to the project success. It is also critical to remember that while developers have expertise in the following areas, your congregation will need to participate in supporting roles and lead with your vision.

1. **Developers provide development expertise in:**
   - Regulatory matters (Zoning, specific City, State, or Federal requirements, e.g.)
   - Planning (schedule, selection of project partners, partnership agreements for supportive services, management of the process, e.g.)
   - Financial matters (help determine budget, can supply equity and secure project financing, financing applications, e.g.)
   - Design (help manage the design team and adherence to budget, e.g.)

2. **Developers share in development risks:**
   - Pursuit Costs & Time
   - Operating & Exit Risks (will I get my money back?)
   - Construction Borrowing Guarantees
   - Pre-Development Capital (Feasibility, Entitlements/Permitting, Design Costs)

3. **How are developers compensated:**

   - ***Developer Fee:***
     The compensation paid to a real estate developer for managing and overseeing the development of a project, such as the construction of an affordable housing building. This fee is meant to cover the developer's time, effort, expertise, and risk taken throughout the various stages of the project, including planning, securing financing, coordinating construction, and ensuring compliance with regulations.

   - ***Profit Participation / Equity Stake:***
     Developers may take an ownership interest in the project, earning a share of the profits once the development is sold or stabilized.

   - ***Sales:***
     Some deals are structured so that developer may receive a portion of the sales proceeds – e.g. in a single-family homeownership deal.

4. **Red Flags when choosing a developer:**
   - Lack of transparency in contact

- Inconsistent project delivery history (review past projects and contact previous clients/owners to discuss experiences)
- Negative customer reviews (Are the past projects and buildings well received? Are tenants satisfied with the building conditions and management?
- Financial instability or unclear funding services
- Poor quality of past projects (Do their buildings meet the standard of design quality you expect? Are they well maintained?)
- Lack of necessary permits and legal compliance (do your due diligence before partnering)
- Over-promising and under-delivering

5. **Ownership and Property Management**
   - Who will manage and maintain the housing after it is built? Developers often manage and maintain the community for the long-term and other times the church will need to find a property management organization to do this.
   - Who will own the housing? Sale to the developer or to a long-term property management organization, or land-lease are all possibilities. The church and developer will negotiate the best arrangement for you and for the Diocese. Diocesan Trustees are wonderful in supporting these efforts!

D. Deciding Who You Need on Your Team and How to Choose Them

Understanding who needs to be on your team and deciding who to partner with are critical factors to a project's success. Often these decisions are made with the assistance of project stakeholders who have had the experience of leading an affordable housing project to successful completion. Look to the leadership within your FBO, your community members, legal land-use counsel, real estate and design professionals, and even City officials to assist in the initial steps of choosing your team. But be sure that you are comfortable with ad confident in your team!

Step 1: Do Your Pre-Work

- Establish & communicate your vision clearly.

Step 2: Who do you need on your team?

- What players are needed for the type of project that meets your vision?

Step 3: Selection Criteria

- Establish the expectations or requirements for team member qualities, project experience, team member experience, e.g.

Step 4: Selection Process

- Decide what process makes most sense and how involved in that process you want to be. Are team members selected via an RFI/RFP Invitation process? Do you need to conduct interviews? Who should assist in making final selections?
- Confer with your congregation in the partner selection process.
- Interview developers of the type of housing your FBO wants to build. Visit the developer's other properties.

Step 5: Engagement

- Ensure that you develop a Memorandum of Understanding with your project partner(s) – often this is the developer. Use the MOU to spell out all key project terms and requirements before proceeding to a full binding legal agreement.
- Determine any required Land Contract(s) or Partnership Agreements. Utilize an experienced legal land-use counsel for all negotiations and agreements.
- Ask Diocesan Trustees to review any written documents.
- Be sure to regularly document all decisions in writing, be well organized in your documentation, and share pertinent documents and decisions with your team.

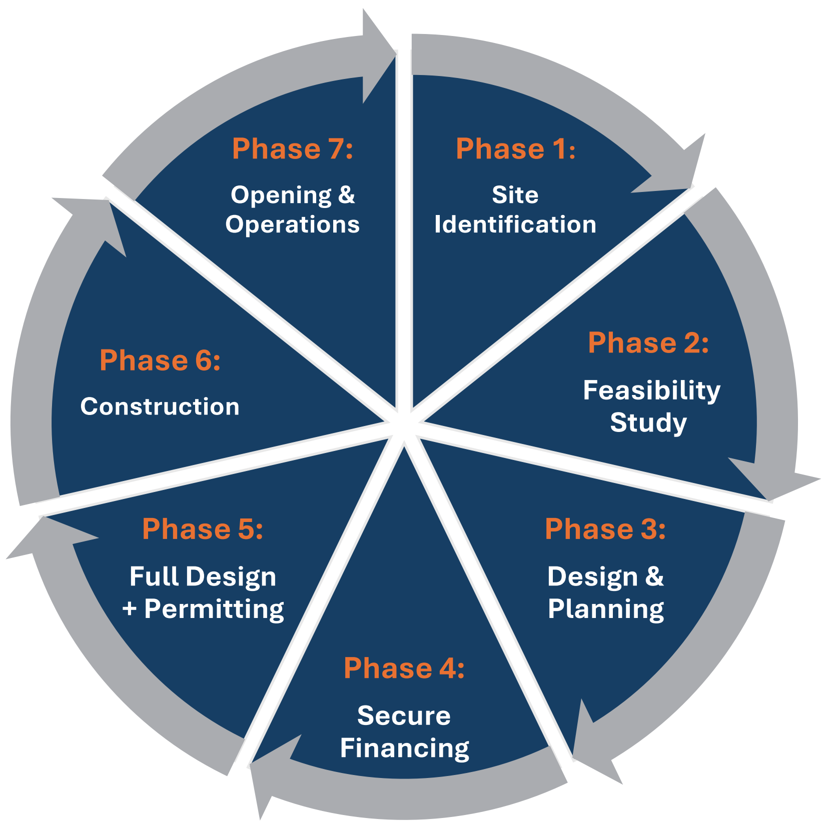
The Spire (113-Unit Affordable Housing Building) and The Episcopal Church of the Resurrection (Alexandria, VA)
(Developer: AHC / Architect: Cunningham | Quill Architects / Photographer: Allen Russ)

Varick on 7th Street (105-Unit Affordable Housing Building) (Charlotte, NC)
(Developer: Laurel Street in partnership with Little Rick A.M.E. Zion Church)

St. James Plaza (93-Unit Affordable Housing Building in partnership w/ St. James Methodist Church) (Alexandria, VA)
(Developer: AHC / Architect: Cunningham | Quill Architects / Photographer: Allen Russ)

IV. Typical Phases of the Development Process

Turning Your Vision into Reality. How Does it Work?



A. Phase 1: Site Evaluation

- **How much land does your church own or control?**
  Evaluate the site to determine how much land your church owns or controls to determine initial feasibility of what may be possible to build on the parcel. Does the church take up most of the site? Are there outbuildings or other structures that may impact what could be built? If one does not exist, having a site survey completed will be beneficial to understand your site extents and features.

- **What site features may be impactful to the building planning?**
  What site features exist that could impact the design planning – could be a positive impact (i.e. views, natural landscape features to highlight) or could be features that pose potential challenge (i.e. irregularly shaped parcels, existing easements, sits in a flood plain zone, contains large trees, neighboring buildings sit tight to the property line, etc). Having a solid understanding on your site and its features prior to assembling a team of professionals is important.

B. Phase 2: Feasibility Study

- **What Can I Build?**

  As a continuation from Phase 1, the intent of Phase 2 is to produce a Feasibility Study so that you and your church can understand what can be built, factoring in a number of critical elements from the site, legal & regulatory parameters, market demand, and financial feasibility.

  In this phase, it is often recommended for the church to team with an experienced developer and/or experienced design professionals to assist in completing a feasibility study exercise. The church should meet with the developer and design team to disseminate all pertinent site information, as well as your initial project vision and goals. The developer/design team will produce a feasibility study that will include all of the necessary details for the church to understand what is possible to build on its site. This feasibility study often includes Concept Plans and can take up to 8 weeks or longer, depending on the complexity of the site and information required to incorporate the necessary feasibility items. These items can include:

  1. **Physical Site Evaluation**

     - ***Buildable Area***
       How much land do you have? What area of the site is actually buildable?

     - ***Site Evaluation - Physical Site Elements/Features & Infrastructure***
       Topography, Soil Conditions, Natural features (trees, creeks, orientation, proximity to roads, sound, etc), and infrastructure elements (stormwater, sewer capacity, etc.) may impact what is buildable and where on the site.

     - ***Neighborhood Elements – Community & Stakeholder Considerations***
       In what type of neighborhood is the site located? Urban, Suburban, Rural? Who are your neighborhoods and what types of properties surround your site? Are there members of the local community or neighborhood that the church or developer/design team should speak to initially? Can you find additional stakeholders outside of your church?

  2. **Due Diligence – Environmental, Legal & Regulatory Constraints, Land Use/Zoning**

     - ***Environmental***
       Is there potential for soil contamination? What is the history of the site and neighboring sites?

     - ***Legal & Regulatory Constraints***
       Are there existing easements or covenants on the property? Other legal constraints as part of the title?

- ***Land Use / Zoning***
  What type of building can you build? What uses are permitted "by-right" or permitted under "prescribed conditions" on your parcel? What uses are not permitted and would require a "rezoning" process?

3. **Market Analysis**

- ***Who is the Target Tenant? What is the Building Product Type? And is there Demand?***
  This type of information is critical to understanding the market demand in your location and the financial viability of the potential project.

4. **Financial Feasibility**

- ***Sourcing Funds***
  What is the estimated cost to develop? What funds do your church have? And what opportunities exist to secure additional funding? Developers and their project partners can assist in educating the church on the estimated cost to develop, and the opportunities to secure funding.

- ***Cost of Capital***
  What projects make more sense or "pencil out" in terms of minimum rate of return required for the risk undertaken? What projects don't "pencil out"?

- ***Ongoing Operational Cost***
  Does the church plan on managing the operation of the building after construction? Or will the developer or other management partner take this on? It is important to understand the cost and risk of taking on the operation or management of the housing project after the project is complete.

- ***Balancing Risk***
  Development projects are full of risk. And typically, that risk is what the developer charges his/her clients per the "developer fee." Balancing the risk on the side of, both, the FBO and the developer is critical to a successful project.

C. Phases 3 - 7: Timeline - Planning & Design through Construction Administration

- **Once the Project Starts, How Long Does the Design Process Take?**
  Every affordable housing project has its own unique parameters which can dictate the specifics of the design process and its length. Incorporated into the design schedule are all of the project entitlements and approvals, project financing, and construction administration.

  For example, is the project planned to be "by-right" or does it require a rezoning process? Are there other entitlement, regulatory, or project financing complexities that may impact the approvals and design schedule? What is the type and size of the housing? The answers to these types of questions can influence the design schedule.

A typical design & construction schedule may look something like this:

Phase 2 **Feasibility Study**	•Team selection •Vision Kickoff •Due Diligence & Intitial Concept Plan (4-8 Weeks)
Phase 3 & 4 **Design & Planning** **Secure Financing**	•Rezoning Process (3-6 Months) •Schematic Design Package for Financing Applications (LIHTC and other gap financing, e.g.) (8-12 Weeks for Packge) (may take several months for LIHTC approval)
Phase 5 **Full Design & Permitting**	•Design Development and Construction Documents for Permitting (4-8 Months) •Site Plan Approval / Building Permit Approval (4-6 Months)
Phase 6 **Construction Administration**	•Site & Building Construction •Construction Schedule (12-24 Months)

Overall, the Design Phases (2-5) and procurement of all approvals and permits can extend to 24 months in duration, and potentially longer depending on the financing details and nature and extent of approvals.

Phase 6 (Construction Administration) can take up to 24 months as well, depending on the type, size and complexity of the project and the location.

- **How Long Will the Process Tak from Discernment through Project Completion?**

  From start of idea to the project opening, it could take 3-5 years. There are many factors which impact a development project, and having an experienced, capable, enthusiastic, and dedicated team of partners, advocates, and professionals to walk beside your during the journey is critical. Reminder to be patient. With God's grace and church members committed to being part of the journey, housing will be built for those who need it.

D. Components of Funding

- **What are the components of funding?**
  Every affordable housing project has its own unique parameters which can dictate the specifics of the project cost and financing and funding sources. Teaming with real estate professionals can help to define these components for your specific project.

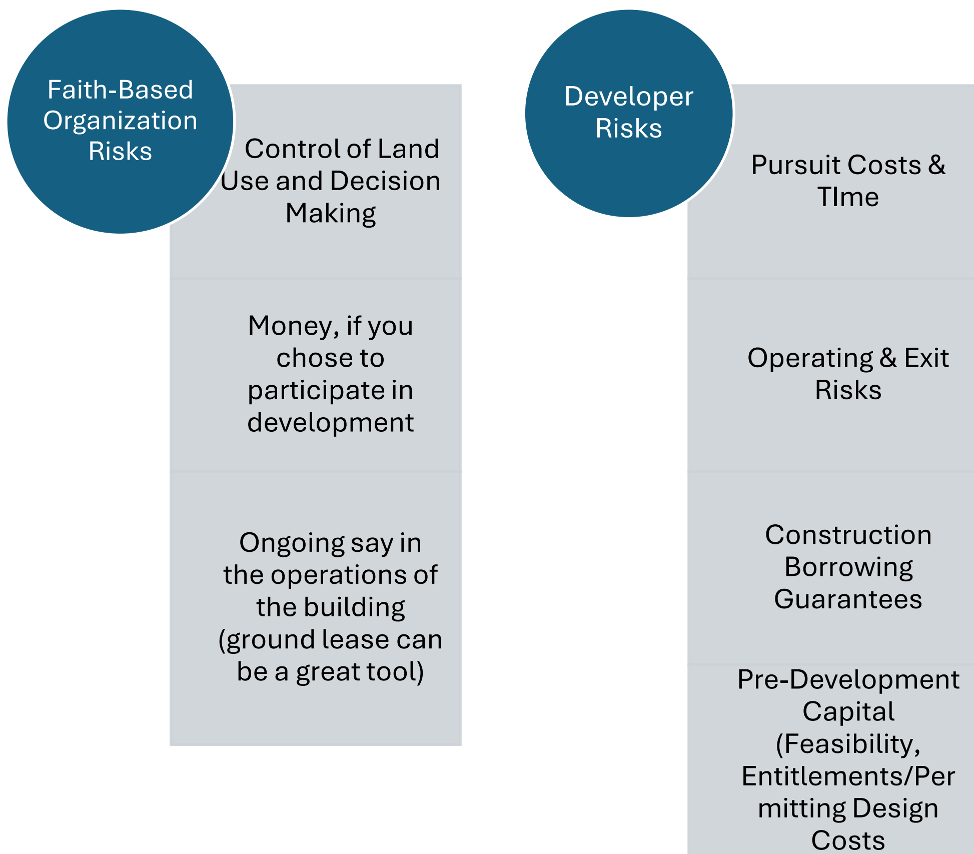
Cost to Develop	Operating Income	Debt	Debt
Land	Rent Limits	Net Operating Income	Developer Equity
Hard Costs (construction)	-Utility Allowances	Debt Service	Tax Credit Equity
Soft Costs (Design Fees/Due Diligence)	-Operating Expenses	Housing Trust Fund	Deferred Developer Fees
Devloper Fees	-Capital Expense Reserves	Below Market Loans	Asset Management Fees
Reservs / Contigenies	=Net Operating Inome	Grants	

V. Know Your Risks, Resources, and Role

An Overview and Recap

1. Risks

Understand what the development risks are and the level of risk your faith-based organization is willing to participate in.



- ***Money***
    - Pre-Development Capital
    - Construction Funding
    - Financial Guarantees
    - Ongoing Obligations with Management & Operations

- ***Control***
    - Approval over vision, concept, and design
    - Long-term rights regarding quality of community and shared spaces
    - Extent of affordability periods

- ***Relationships***
    - Community Relationships
    - Internal Dynamics
    - Relationships with Project Partners

2. Resources

What manpower and sources of capital do you have established? What may be available to help supplement? Research potential additional internal and external sources for both manpower and capital opportunities.

- ***Money***
    - What do we need to be good stewards of our FBO & mission?
    - What do we have or could we generate by leading with our clear vision and purpose?
    - What leaps of faith are we being called to?

- ***People Capacity***
    - Committee members, internal experts/resources, project advocates
    - Connections and relationships within the FBO community
    - Ongoing engagement and management responsibilities

- ***Land / Buildings***
    - Bring experts onto your team to assist with understanding potential of your land. (developers, architects, legal land-use counsel, engineers). Are you looking to sell the land? Develop on portion of the land? Buy more land? Bring in real estate and design professionals to assist.
    - Bring experts onto your team to help review your property, including any existing buildings. Are there opportunities for an adaptive reuse approach?

3. Role

What role do you and your faith-based organization want to play in a development project? What do you have capacity for? Who can you partner and team with that could help define roles. Set clear expectations and put them (put everything!) in writing.

- ***Internal FBO Clarity***
    - Establish mission & vision for pursuing your project – what is core to your pursuit. Define "Key Pillars of Success."
    - Support from Leadership
    - Clear Communication with Congregation from discernment stage through project completion. Set up an atmosphere of idea-sharing and participation.

- ***Partner Clarity***
    - Ensure you receive written proposals for all partner engagements and agreements.
    - Develop and share a Memorandum of Understanding.
    - Contracts, Purchase & Sale Agreements, Ground Leases – ensure you work with an experienced legal land-use counsel.

- ***Importance of Trust & Understanding the Process***
    - Always “Trust, but Verify.”
    - Identify concerns and ask how to address them. Be open in sharing what you do not understand.

VI. Housing 101 Key Terms Glossary

Sourced from City of Charlotte's Faith in Housing Initiative

The Housing Continuum

Homeless: An individual or family who lacks a fixed, regular, and adequate nighttime residence, meaning: Has a primary nighttime residence that is a public or private place not meant for human habitation **or** Is living in a publicly or privately operated shelter designated to provide temporary living arrangements (including congregate shelters, transitional housing, and hotels and motels paid for by charitable organizations or by federal, state and local government programs **or** Is exiting an institution where (s)he has resided for 90 days or less and who resided in an emergency shelter or place not meant for human habitation immediately before entering that institution.

Shelter: Designed to provide temporary living arrangements (including congregate shelters, transitional housing, and hotels and motels paid for by charitable organizations or by federal, state, or local government programs for low-income individuals).

Transitional Housing: A semi-permanent option that provides private facilities and a longer stay. Transitional housing can help people stabilize their housing situation while they resolve other issues in their lives.

Supportive Housing: Housing that includes additional support services, such as meals, health services, and mental health/substance use disorder support.

Affordable Housing: The U.S. Department of Housing and Urban Development (HUD) defines affordable housing as housing where the occupant pays no more than 30% of their gross income for housing costs, including utilities.

Affordable Home Ownership: Refers to housing opportunities that are priced within the financial reach of low- to moderate-income households, allowing them to purchase homes without experiencing undue financial strain. The goal is to make homeownership accessible to individuals or families who might not otherwise be able to afford it due to high property costs, limited income, or lack of savings for a down payment.

Market Rental/Home Ownership: Refers to properties that are rented or owned by people who pay market rent to lease the property or paid market value when they bought the property; there is no subsidy for the housing.

Development: Real estate development is the process of increasing the value of land or property by building new structures, renovating existing ones, or improving the property in some way.

Development Partners

Developer: A person or company involved in the planning, financing, construction, and management of real estate projects. Real estate developers are responsible for transforming land into viable properties.

Lender: An individual, financial institution, or entity that provides funds or extends credit to a borrower, with the expectation that the borrower will repay the loan or debt, usually with interest, over a set period. Lenders can vary in size and type, ranging from large banks to individual investors, and they offer various financial products based on the borrower's needs and qualifications.

Architect: A licensed professional responsible for designing and planning buildings, structures, and spaces, ensuring they are functional, safe, aesthetically pleasing, and meet the needs of the occupants.

Engineer: Ensures that buildings and land developments are structurally sound, safe, sustainable, and compliant with local regulations. Collaborate with architects, developers, contractors, and other professionals to bring real estate projects from concept to completion.

Real Estate Law Firm: Provide expertise and services for clients involved in buying, selling, leasing, developing, or managing real estate. The attorneys in a real estate law firm help navigate complex legal processes, ensuring that all transactions comply with relevant laws, regulations, and contractual obligations.

Construction Company: Specializes in building, renovating, and managing the construction of infrastructure, residential homes, commercial properties, industrial facilities, and other physical structures. These companies are responsible for overseeing and executing the entire construction process.

General Contractor (GC): A professional or company responsible for overseeing and managing the entire construction process of a project, from start to finish. The general contractor ensures that all work is completed according to the project's design, schedule, and budget, coordinating various aspects of the construction to ensure smooth execution. They typically work on residential, commercial, or industrial projects and may manage new builds, renovations, or remodeling tasks.

Major Expenses in Real Estate Development

Land Acquisition Costs: Buying the actual land and paying for any fees associated with closing, such as broker fees.

Hard Costs: The cost of raw materials and labor to demolish any existing structures/infrastructure, excavate soils, install new infrastructure (pipes, roads, sidewalks, etc.) and physically construct the building(s). This work is typically completed by a licensed General Contractor (the "GC") and a team of subcontractors. They charge a fee for coordinating the work and overhead/general conditions required for administering the construction of the project. This is typically all included in "Hard Costs".

Contingency: Funds set aside for unexpected expenses, which are very common in real estate development. For new construction, this is typically 5% of hard costs, or for rehab projects it can be up to 10% of hard costs. It helps to cover unforeseen conditions during earthwork, or architectural changes required during construction. If there are excess proceeds at the end of a project, it typically will be used to reduce deferred developer fees, fund reserves or reduce debt.

Soft Costs: All other costs associated with creating the community, such as costs for: due diligence, architectural/building design, civil/engineering design, lawyers, insurance, construction inspections, financing fees and reserves. It is typical to include a "soft cost contingency" line item to account for unforeseen expenses that may arise during construction.

Interest Carry: The cost of borrowing funds while the building is being constructed. Construction lenders require this to ensure that their loan can be paid until income is generated from leasing or sales. This can be lowered by allowing lower-cost funds to be used for construction before the higher-cost construction loan is utilized (reducing the overall amount of time that funds are borrowed).

Developer Fees: A fee paid to a development team to compensate them for the time/effort to bring a community to fruition and the risk of that pursuit. Developers typically bear the risk of upfront project pursuit costs and salary/overhead for project management. They also provide construction guarantees to the lender(s) until the project is complete. For Low Income Housing Tax Credit (LIHTC) communities, they are also required to provide an ongoing guarantee throughout the 15-year initial compliance period that the project will remain eligible to deliver the tax credit to the investor. In order to be enticed to take on this risk, they receive a developer fee. This fee is typically paid out in installments over the construction period. A small portion is received when the project financing closes, another portion midway through completion, and again upon successful completion of the project. If a project does not secure enough financing to cover the cost of this fee, any "deferred fees" can be paid through available cash flow (typically over a maximum of the next 10-15 years). It is important to not to defer too much fee before construction begins so that it can serve as an additional contingency source of funds for the project. This helps ensure the developer stays focused on keeping the project within budget and delivered on schedule.

Know Your R's

Role: Set clear expectations and put them in writing. Methods typically used to document:

1. Internal Documents – Memos, PowerPoint Presentations, Resolutions
2. Memorandum of Understanding ("MOU") – a non-binding written agreement between two parties that expresses the nature of their intents to work together. This is typically done in advance of negotiating a full contractual agreement to ensure the two parties are generally on the same page. It is a shorter document and focuses on the big picture / most critical items needed to ensure alignment. It often includes a recap of the vision statement and purpose.
3. Contractual Agreements – binding legal agreements used to document how parties will work together, and the rights each of them has if the other party does not fulfill their obligations.

Risk: The risk developers take and the risk you are willing to participate in
Resources: People, staff, funding and the ways the land can be developed

Financing Terms in Real Estate Development

Net Operating Income: Revenue, less operating expenses and capital reserves. This is the amount that is available to pay for any debt and equity obligations used to finance the building.

Debt Service: The amount due to satisfy debt obligations, comprised of principal and interest.

Asset Management Fees: There are often many different organizations that provide ongoing oversight for affordable housing rental communities, and they are compensated for this. This typically includes ownership oversight (they manage the property managers and are on-call 24/hours a day) and compliance oversight (e.g. City of Charlotte, housing authority, bond issuers).

Affordable Housing Terminology

Absorption Period: The period of time necessary for a newly constructed or renovated property to achieve the stabilized level of occupancy. The absorption period begins when the first certificate of occupancy is issued and ends when the last unit to reach the stabilized level of occupancy has a signed lease.

Absorption Rate: The average number of units rented each month during the absorption period.

Area Median Income (AMI): 100% of the gross median household income for a specific Metropolitan Statistical Area, county or non-metropolitan area established annually by HUD.

Assisted Housing: Housing where the monthly costs to the tenants are subsidized by federal, state, or other programs.

Capture Rate: The percentage of qualified households in the market area (for which) the property must be affordable to achieve a stabilized level of occupancy for rental housing or sales for owner-occupied housing. The capture rate is calculated by dividing the total number of units at the property by the total number of qualified households in the market area. (See Penetration Rate for formula for entire market area.)

Community Development Block Grants (CDBG): Federal funding to help entitled metropolitan cities and urban counties meet their housing and community development needs. The program provides annual grants on a formula basis to carry out a wide range of community development activities directed toward neighborhood revitalization, economic development, and improved community facilities and services for low- and moderate-income people.

Community Development Corporation (CDC): Entrepreneurial institution combining public and private resources to aid in the development of socio-economically disadvantaged areas.

Comparable Property: A property that is representative of the housing choices of the subject property's market area, and is similar in construction, size, amenities, or age. Comparable and competitive properties are generally used to derive market rent or sales price.

Competitive Property: A property that is comparable to the subject and competes at nearly the same rent levels, sales prices, and resident profile, particularly age, household size, or income.

Contract Rent: The monthly rent agreed to between a tenant and landlord.

The Davis-Bacon Act (DBA): A federal law that requires contractors and subcontractors to pay construction workers at least the prevailing wage and fringe benefits for the area where the work is being performed. The DBA applies to projects funded by the federal government or the District of Columbia that cost more than $2,000.

Demand: The total number of households in a defined market area that would potentially move into proposed new or renovated housing units. These households must be of the appropriate age, income, tenure, and size for a specific proposed development. Components of demand vary and can include household growth, turnover, those living in substandard conditions, rent over-burdened households, and demolished housing units. Demand is project specific.

Effective rents: Contract rent less concessions such as rent discounts, move-in specials, and free upgrades in finishes or appliances.

Elderly or Senior Housing: Housing where (1) all of the units in the property are restricted for occupancy by persons 62 years of age or older, or (2) at least 80% of the units in each building are restricted for occupancy by households where at least one household member is 55 years of age or older and the housing is designed with amenities and facilities designed to meet the needs of senior citizens.

Extremely Low Income (ELI): Person or household with income below 30% of Area Median Income adjusted for household size.

Fair Market Rent (FMR): Estimates established by HUD of the gross rents (contract rent plus tenant-paid utilities) needed to obtain modest rental units in acceptable condition in a specific county or Metropolitan Statistical Area. HUD generally sets FMR so that 40% of the rental units have rents below it. In rental markets with a shortage of lower priced rental units, HUD may approve the use of FMRs that are as high as the 50th percentile of rents.

Gross Rent: The monthly housing cost to a tenant, which equals the contract rent stated in the lease plus the estimated cost of all tenant-paid utilities. There is a Gross Rent Limit that is published each year by HUD in the spring. Many developers use a tool by Novogradac & Co that publishes the limits by Metropolitan Statistical Area.
https://www.novoco.com/resource-centers/affordable-housing-tax-credits/rent-income-limit-calculator

HOME Program: Federal grants to states and units of local government to implement local housing strategies designed to increase homeownership and affordable housing opportunities for low and very low-income people.

Hope VI: Federal program aimed at revitalizing severely distressed public housing by providing competitive grants to public housing authorities. Hope VI has been used extensively in the transformation of public housing to create mixed-income affordable housing.

Housing Choice Voucher "HCV" (Section 8 Program): Federal rent-subsidy program under Section 8 of the U.S. Housing Act, which issues rent vouchers to eligible households to use for the housing of their choice. The voucher payment subsidizes the difference between the gross rent and tenant's contribution of 30% of adjusted income, (or

10% of gross income, whichever is greater). In cases where 30% of the tenant's income is less than the utility allowance, the tenant will receive an assistance payment. In other cases, the tenant is responsible for paying his share of the rent each month.

HUD Section 8: Federal program that provides project-based rental assistance. HUD contracts directly with the owner for the payment of the difference between the contract rent and a specified percentage of the tenant's adjusted income.

HUD Section 202: Federal program that provides direct capital assistance (i.e., grant) and operating or rental assistance to finance housing designed for occupancy by elderly households who have incomes not exceeding 50% of Area Median Income. The program is limited to housing owned by 501(c)(3) nonprofit organizations or by limited partner- ships where the sole general partner is a 501(c)(3) nonprofit organization. Units receive HUD project-based rental assistance that enables tenants to occupy units at rents based on 30% of tenant income.

Income Limits: Maximum household income by county of Metropolitan Statistical Area, adjusted for household size and expressed as a percentage of the Area Median Income for the purpose of establishing an upper limit for eligibility for a specific housing program. Income limits for federal, state and local rental housing programs typically are established at 30%, 50%, 60% or 80% of AMI. HUD publishes income limits annually for households with one through eight people. Many developers use a tool by Novogradac & Co that publishes the Income Limits by Metropolitan Statistical Area. Additionally, there is a table published for the City of Charlotte Downpayment Assistance Program (House Charlotte) by DreamKey Partners.

https://www.novoco.com/resource-centers/affordable-housing-tax-credits/rent-income-limit-calculator

https://dreamkeypartners.org/wp-content/uploads/2024/05/AMI-Affordability-Income-Limits-June-1-2024-House-Charlotte.pdf

Low Income: Person or household with gross household income below 60% or 80% of the Area Median Income adjusted for household size. Some programs use 60% AMI, while others use 80% AMI in their definition of income-eligible households.

Low Income Housing Tax Credit ("LIHTC"): A program to generate equity for investment in affordable rental housing authorized pursuant to Section 42 of the Internal Revenue Code, as amended. The program requires a certain percentage of units built be restricted for occupancy to households earning up to 80% of Area Median Income (but predominantly up to 60% of AMI); the rents on these units are restricted accordingly. Gross Rent Limits and Income Limits are updated annually.

https://www.irs.gov/pub/irs-drop/rr-04-82.pdf

Market Area: A geographic area from which a property is expected to draw the majority of its residents.

Market Rent: The rent an apartment, without restrictions or subsidies, would command in the open market considering its location, features and amenities. Market rent should be adjusted for concessions and owner-paid utilities included in the rent.

Moderate Income: Person or household with gross household income between 80% and 120% of Area Median Income adjusted for household size. This segment is often referred to as "workforce housing".

Net Rent: (also referred to as Contract Rent or Lease Rent) Gross rent less tenant-paid utilities.

Project-Based Rent Assistance (PBRA): Financing from a federal, state, or local program allocated to a property or specific number of units in the property. It is available to each income-eligible tenant of the property or an assisted unit.

The Qualified Allocation Plan (QAP): Details the selection criteria and application requirements for Low Income Housing Tax Credits and tax-exempt bonds. It lists all deadlines, application fees, restrictions, standards and requirements for rental developers to be eligible for funding. This document is governed at the state level and each state has its own unique application process. This document is updated annually. In North Carolina, a first draft is normally published around August/September and then it is finalized in October/November after a public input process.

https://www.nchfa.com/rental-housing-partners/rental-developers/qualified-allocation-plan

Qualified Census Tract (QCT): Any census tract (or equivalent geographic area defined by the Bureau of the Census) in which at least 50% of households have an income less than 60% of Area Median Income or where the poverty rate is at least 25%. A project located in a QCT and receiving Low Income Housing Tax Credits may qualify for up to 130% of eligible basis for the purpose of calculating the tax credit allocation.

Mapping Tool: https://www.huduser.gov/portal/sadda/sadda_qct.html

Saturation: The point at which there is no longer demand to support additional housing units.

Subsidy: Monthly income received by a tenant or by an owner on behalf of a tenant to pay the difference between the apartment's contract rent and amount paid by the tenant toward rent.

Tax Increment Finance District (TIF): A geographically designated district that meets specific legal criteria for being blighted. TIF districts are approved by municipalities for the purpose of redeveloping distressed areas and spurring private sector investment. The increase in the total real estate taxes paid in the TIF district after the base year it was created accrues to the TIF district and is used to pay for eligible activities within the district. By law, TIF districts are allowed to run for 23 years, after which point they must be extended or disbanded. Municipalities often use issue tax-exempt bonds backed by the real estate tax increment accruing to the district to pay for capital improvements, land acquisition, and on-going services in the TIF district.

Very Low Income: Person or household whose gross household income does not exceed 50% of Area Median Income adjusted for household size.

Housing 101 Reference Sources

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- Affordable Housing – City of Charlotte. https://www.charlottenc.gov/Streets-and-Neighborhoods/Housing/Affordable-Housing

- Charlotte-Mecklenburg Housing and Homelessness Definitions. https://www.charlottenc.gov/files/sharedassets/city/v/1/streets-and-neighborhoods/housing/documents/charlotte-mecklenburg-housing-homeless-definitions.pdf

- Faith in Housing Initiative – City of Charlotte. *Land Development 101 for Faith-Based Organizations: Process Overview* and *Land Development 102 for Faith-Based Organizations – Discernment – Choosing Your Development Team* https://www.charlottenc.gov/Streets-and-Neighborhoods/Housing/Affordable-Housing/Faith-in-Housing

- Give Impact – Liz Ward, Affordable Housing Advisor. https://www.giveimpact.org/

- Cunningham | Quill Architects – David Coxson, AIA, Principal Architect (Affordable Housing & Institutional Architecture Firm) https://www.cunninghamquill.com/

- See additional sources for data and research on page 4.