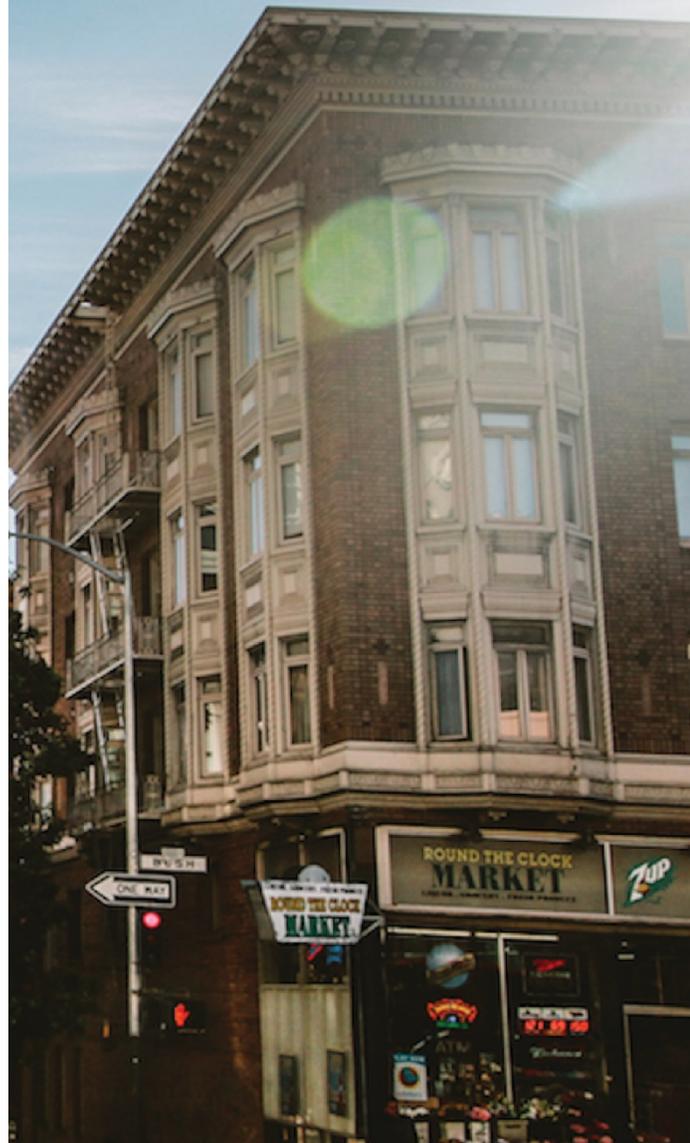


The Affordable Housing Process

SUMMER 2019

**Alameda County Housing Development
Capacity Building Program**



LISC
Bay Area

The Affordable Housing Process

An Overview

Affordable housing project development is a complicated and challenging process that typically takes between 4-7 years depending on a project's complexity. Many project components can add time and cost to the process, including site challenges, financing source requirements, and whether the neighboring community is supportive of the proposed project.

A successful project requires a team of stakeholders – organizations and individuals with specialized expertise from different disciplines and professions – to work closely together within defined roles. To best tackle ever-changing real estate markets and funding and political environments, many faith- and community-based organizations, non-profits, and housing developers decide that entering into a formal partnership with another organization gives them an advantage in achieving their affordable housing goals. For example, while one organization might have the necessary track record, initial financial capital, and demonstrated experience developing similar projects, a partner might bring a potential development site, vital neighborhood perspective, and necessary relationships within the community.

As with any real estate project, developing affordable housing involves considerable financial risk which can be too much for one organization to bear alone. Partnerships can also provide opportunities to share in the intense demand the pursuit of an affordable housing project can have on the time and skills of one organization's members and staff.

In general, no one organization has all the expertise in-house to develop and operate an affordable housing project. And a strong and capable development team, which may be anchored by a partnership between two organizations, is the project's greatest asset for successfully navigating the inherent challenges.

This document provides a basic overview of the affordable housing development process. It focuses on the stages of a traditional development effort, the roles of key development team members, and the major issues and questions a faith- or community-based organization who is new to affordable housing will face. This introduction will be supplemented by the workshops, training tools, and other technical assistance support funded through the Alameda County Housing Development Capacity Building Program.

How Does an Affordable Housing Project Typically Start?

Affordable housing projects can start in a variety of ways but project origins typically fall into one of three categories:



NEED/VISION

Stakeholders identify an affordable housing need or issue that they would like to address through the creation of affordable housing. In this case, the community first identifies the need and then creates the vision and strategy for addressing that need before they have identified a project site.



PROJECT SITE

An affordable housing project can arise from the availability of a potential development site. The local jurisdiction may have identified a suitable site for affordable housing development, or the site owner is interested in pursuing an affordable housing development.



FUNDING OPPORTUNITY

A project can start when a governmental agency announces the availability of funding for affordable housing. To utilize the funding opportunity, a developer would look for an eligible site to propose for development.

Organizational Commitment

Regardless of how a project starts, embarking on the development of affordable housing takes a considerable amount of planning and resources – both in time and in money. To be able to move forward in a concerted and timely manner, an organization should demonstrate:

- A capacity to learn and listen;
- A clear understanding of why the organization is interested in being the catalyst for an affordable housing project;
- Some willingness to take risk;
- Ability and willingness to use political capital to advance a project;
- Perseverance - the ability to hang in there until the best path is clear;
- A clear decision-making process within the organization; and
- Broad organizational support and commitment to pursue the project.

Without these attributes, a project concept can languish for years before the first shovel of dirt is moved. The fundamental question that an organization has to ask itself is: “How will this development project help us pursue our mission?” This can be a difficult question to answer and require some tough conversations within the organization. For organizations that have not been focused on providing affordable housing, the immersion into the experience can represent a dramatic (and sometimes traumatic) change in the basic character of the organization. Some aspects of affordable housing development to consider include:

It can be an all-consuming undertaking for some staff or members of the organization

Development fees are seldom sufficient to cover all the real costs (including the imputed costs of staff and the opportunity costs this represents) over the entire lifecycle of a project

The organization’s leaders must be willing to invest staff and board time, money, and political capital over several years to ensure the success of the project

Also, once the development is built, the housing needs to be managed (directly or indirectly) for the rest of its useful life: 30, 40, 50+ years. This requires significant time, energy and financial resources that otherwise might be focused on other organizational priorities.

On the other hand, an organization might want to broaden its mission, particularly in the current Bay Area affordable housing crisis. Affordable housing provides a critical resource to the community and makes a lasting physical improvement to a property and the surrounding neighborhood. Ultimately what's most important is that each organization makes a deliberate decision on how to move ahead based on its unique capabilities and circumstances.

Development Team Member Roles

There is no single required role for an organization that initiates an affordable housing project to play in the project's development, but the four major project roles are:

The Owner

The owner has the long-term legal responsibility and control of the project. The owner has the long-term interest in seeing the project completed and makes critical decisions that drive the process. Even if another entity is developing the project, the owner must be fully engaged in the development process to ensure its long-term interests are addressed.

The Developer

The developer plays the lead role in bringing a project from idea to occupancy. The developer is responsible for all project development tasks and the overall management of the project development process. Some development teams might consist of two organizations serving as co-developers or joint venture partners, but often one organization is the lead developer.

The Property/Asset Manager

The property manager is responsible for day-to-day operations of the project once completed. The management of the property is vital to its ongoing success. Managing a project is a complex endeavor that involves skill and familiarity with legal and funder requirements. The asset manager, often different than the project manager, acts as a financial manager for the completed development, making sure that the project's occupancy level remains high and the project performs well financially. The asset manager is also responsible for compliance and reports to funders.

The Service Provider

The service provider develops and manages any services programs offered to the residents. If the project is going to provide housing for tenants with special needs, a service provider partner should be on board early to plan for adequate and effective tenant services.

All four distinct roles are critical to project success. In some cases, an organization may assume one or more of these roles and then partner with other non-profit and for-profit organizations to fulfill all the necessary roles.

Additional professionals may join the development team to complete specific project tasks or to contribute during specific project phases:

Attorney

An attorney must be available to provide legal services related to the real estate or project financing and organizational issues (e.g., creating a new corporation to own and manage the real estate). Depending on the different organizations involved, one project may require multiple attorneys.

Architect

The architect works with the development team to determine the feasibility of specific sites, create preliminary and final designs and drawings, develop construction specifications, assist with preliminary cost estimates, secure local site and design approvals, and monitor construction.

Financial Consultant

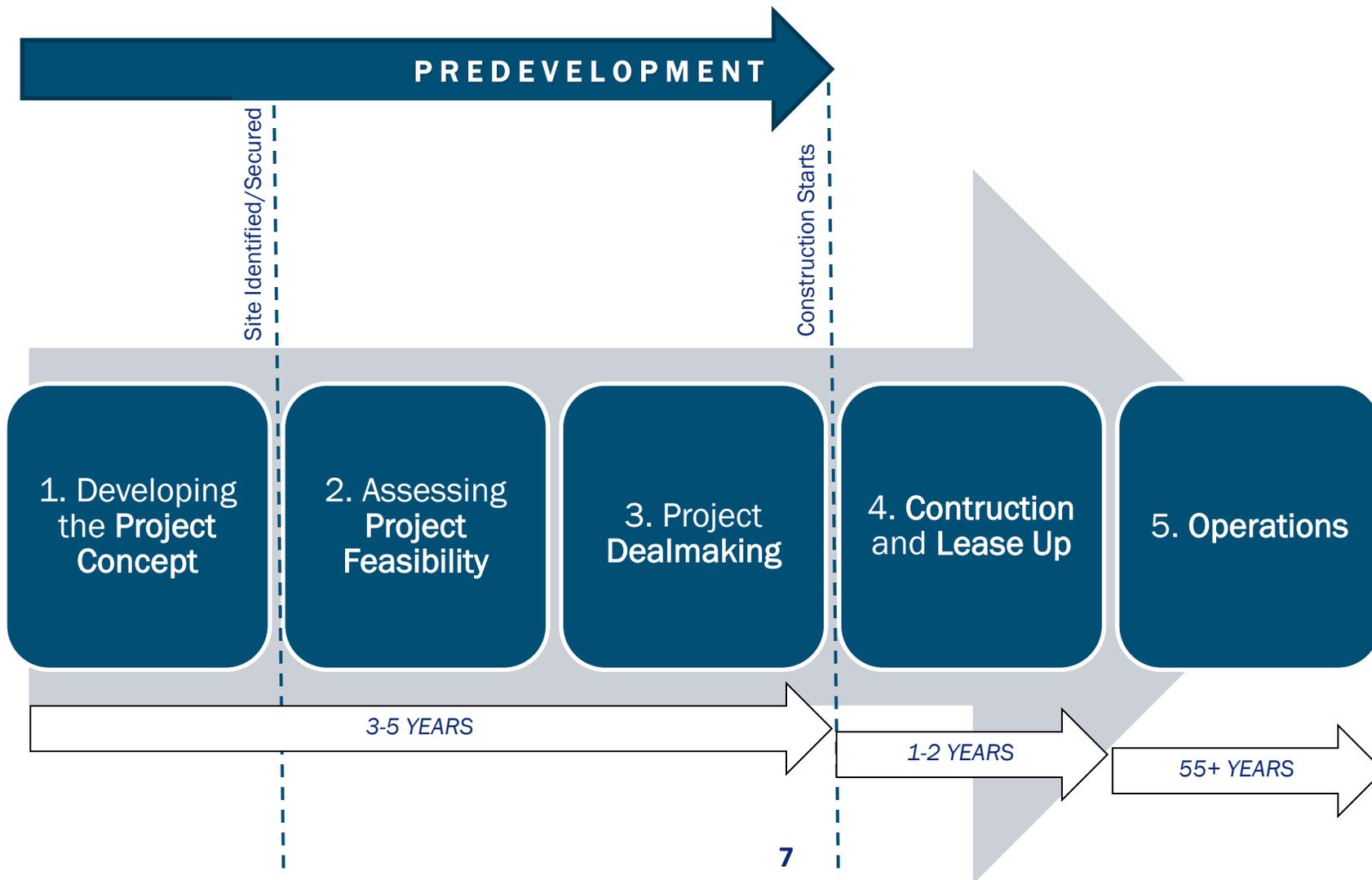
The project financial consultant has deep knowledge of the funding sources that are typically used to finance affordable housing projects. They advise the development team on identifying the best financial strategies for achieving project goals, obtaining funding from a large array of competitive programs, and ensuring that the project is well structured to perform financially over time.

General Contractor

The general contractor is responsible for the actual construction or rehabilitation of the housing. Most housing developers hire an outside firm through a competitive process after the architect completes the plans and specifications for the development. Sometimes a contractor is selected early in the process and is a member of the development team from the beginning.

The Affordable Housing Development Process

Once a project begins and an organization has internal support to move forward, the affordable housing development process generally consists of five distinct phases as shown below. The term “predevelopment” is used to refer to the period prior to the start of construction and this period can last 3 to 5 years.



The process looks linear and generally is. However, projects can hit roadblocks that require the development team to go back to the previous phase for additional discussions, planning or to conduct predevelopment studies/analysis to move forward again. In some cases, roadblocks can take years and multiple cycles to overcome. Sometimes a roadblock can be insurmountable despite the team's efforts to move the project forward.

Generally, as the development team moves through the development process, it invests more time and money into the project, making it important to uncover any potential deal killers as early as possible. Furthermore, the farther the team gets into the development process and the project components become more fixed, the more difficult it can be to make necessary changes. The time the development team invests upfront addressing, planning for, and making project-related agreements related to the project pays off as it gets farther along in the development process. At that point it can use that framework to more efficiently troubleshoot and resolve both anticipated and unanticipated issues.

1. Developing the Project Concept

The Project Concept phase covers the starting point of the project until the site is identified and eventually secured, if the developer does not already own or control the site. This phase of the project can take 1 to 3 years, and tasks and activities that happen during this period include:

- Setting the goals for the project – for example, deciding who will live there;
- Conducting a zoning analysis to understand the development potential of the project site and the number of housing units the site can accommodate. This work might also involve reaching out to the local jurisdiction to understand if the project is possible and supported.
- Assessing organizational capacity; and
- Identifying and assigning roles and responsibilities for development team members.

2. Assessing Project Feasibility

Once the project concept is conceived, the next phase involves transforming the concept into a feasible proposal for an affordable housing project. A feasible proposal includes having site control, assembling a strong development team, and having conducted a feasibility analysis on the project site, including identifying a realistic financing plan, with positive results. This Project Feasibility phase is also known as the “due diligence” period when the development team conducts a variety of analyses, studies, and investigations to ensure that the site is developable and can deliver the proposed project. The key components of project feasibility include:

- **Appraisal:** a professionally prepared report that establishes a market value for a property required to secure project financing.
- **Zoning Analysis:** an analysis of the existing zoning laws and regulations applicable to the project site, which determine whether the planned development is allowable. Some of the key criteria that a zoning analysis should cover are land use, density (units per acre, or floor area ratio), parking, building height(s), and setbacks (front, rear and side yards).
- **Environmental Analyses:** an analysis of prior uses of the site, adjacent sites, information about proximate underground storage tanks and the results of a site reconnaissance conducted by an environmental engineer. This information is gathered to determine if a vacant site should be tested for the presence of hazardous materials in the soil or the groundwater. Existing buildings should be tested for termites, asbestos, lead based paint and mold.
- **Community Support:** a critical component to ensure project success. It is important to accurately gauge the level of support the surrounding community has for a project and to identify the required public approvals. The project team should implement a comprehensive community outreach strategy as early as possible to test assumptions.
- **Financial Feasibility Analysis:** a preliminary financial analysis that consists of projecting development expenses (uses) and identifying likely funding sources to cover these expenses (sources). Some key questions that determine financial feasibility are: How much will the project cost to develop? Will the rents support the operations of the property? Will the rents support the servicing of permanent debt? What funding sources are available for the project?

3. Project Dealmaking

Once they have a feasible proposal for an affordable housing project, the development team is now ready to “structure the deal”. The Dealmaking phase encompasses the time from the applying and securing of financial commitments to the closing on the construction financing and the beginning of construction. Project development activities during this time involve working with the architect to develop and finalize the project design, getting all the necessary community approvals and project entitlements – such as zoning changes, conditional use permits, density bonuses and parking requirement waivers, securing and closing the project financing, and other tasks required to start construction. As previously mentioned, project phases are not always strictly linear, and sometimes project feasibility and dealmaking activities happen at the same time. These two phases together typically last 2 to 4 years, depending on project complexity and circumstances.

Deal structuring involves combining stakeholders’ varied interests and requirements into one cohesive and viable housing project. During this phase, various pieces of the predevelopment process must come together: localities must approve the architectural plans, funders must agree to provide all needed funding, and the development team must continue to test and re-test the site analyses and the financial projections to ensure project feasibility and minimize risk. If the development team is successful in meeting these necessary thresholds, the project is ready to close on the construction financing and break ground.

The Dealmaking phase can be extremely challenging. It is often when projects fail, and unanticipated sacrifices may be required. During this time, opposition to the project can surface, and it is important to learn strategies for addressing the concerns of - and ultimately overcoming - project opposition. At the same time, however, at this point in the overall process, the project has likely received a considerable investment of time, energy, and resources from the development team, government staff, elected officials, future tenants, and other supporters in the community. These project stakeholders are focused on and vested in making the project a reality, and often provide critical support to assist with addressing potential barriers.

4. Construction and Lease Up

Once the architect has designed the project, completed the construction documents, and helped obtain all necessary community approvals and the building permit, and the developer has negotiated and signed the construction contract with the general contractor and worked with funders to close the construction loans, the project enters the Construction and Lease Up phase. This period lasts on average 2 years but can be shorter (or longer) depending on project type, size and complexity. It

begins with the start of construction and ends with completed and occupied units and the closing of permanent project financing.

Construction is an exciting time when finally the physical development begins to emerge and all the work and planning invested up to that point starts to manifest as the housing project takes shape for everyone to see. Construction, however, is arguably the riskiest phase of the project, and it is important to have a strong development team in place with experience managing the understood risks that are generally avoidable with diligent management and oversight of the project. Each organization makes a choice upfront in the development process about how much involvement they want to have during construction.

About halfway through the construction period, the property manager takes the lead on finalizing the plan for marketing the units, and the service provider (if applicable) prepares to launch the services program. As the project gets closer to construction completion, the property manager begins marketing the units as per funding guidelines and screening applicants for income and other eligibility requirements. The property manager will ensure compliance with federal fair housing laws when marketing the units. These laws exist to ensure that all eligible prospective tenants have equal access to the housing regardless of race, religion, ethnic background or national origin, sex, familial status (such as having children under age 18), physical or mental disability, or other protected class as identified by state or local laws. During this period, the developer is focused on closing the permanent financing to repay the construction loans.

5. Operations

Once the local jurisdiction has issued the certificate of occupancy and the project is completed and leased up, the affordable housing is officially in Operations. An organization's involvement during this phase of the project depends on the roles and responsibilities assumed at the onset of the development process. Most likely, however, a professional property management company is hired to manage the day-to-day operations of the project, including providing for maintenance and upkeep, collecting rents, handling tenant turnover, and ensuring the property is run well and within budget. During operations, an asset manager ensures that the project is performing well and complies with funder requirements on an ongoing basis. The asset manager also is responsible for conducting any long-term planning to ensure that reserves are built up to cover capital improvements required in Years 5, 10, 20 when building materials and systems need upgrading or replacement. Some organizations choose to involve residents to different degrees in the project operations or plan for amenities and/or to provide ongoing services on site.

Conclusion

The affordable housing development process is challenging for even the most experienced development team. Just as it can be difficult to determine a project concept that addresses the goals of various stakeholders, it is also challenging for developers to maintain enough momentum to advance an affordable housing project over a 4-7 year period through an inherently risky and time-consuming process. Organizations interested in developing affordable housing for the first time face unique challenges as a new developer. However, with adequate technical assistance and appropriate partnerships, an organization committed to creating additional affordable housing in its community can successfully develop a high impact affordable housing project with long lasting results.