



UCLA AFFORDABLE HOUSING POLICY BRIEF

April 2020

The UCLA Ziman Center for Real Estate presents the next in a series of Affordable Housing Policy Briefs. This April 2020 Brief by Bank of America Community Development Banking Senior Vice President Charmaine Atherton looks at the challenges in funding permanent affordable housing – including project costs and delays. Atherton outlined the challenges as they relate to the current housing crisis at the recent Urban Land Institute Los Angeles summit, [“Confronting the Land Use Challenge of Housing the Homeless.”](#) She joined a panel moderated by UCLA Ziman Center for Real Estate Executive Director Tim Kawahara. ULI Los Angeles also published an [overview of the event](#).

The Continuing Challenge to Produce Affordable Housing

Why it can take up to five years to fund and build affordable housing developments

By [Charmaine Atherton](#)

As the affordable housing and homelessness crisis continues, and we prepare ourselves for the economic impacts of the COVID-19, it is more important than ever to focus on the production of affordable housing at all levels, and specifically Permanent Supportive Housing developments that serve our most vulnerable populations. The high level of frustration being exhibited by the general public and the recurring question “What’s taking so long?” is really a reflection of a complicated process for production that is not well understood outside of the industry.

“Some of the most crucially needed projects now require up to three years to assemble funding, plus another approximately two years to build.”

So why does it take so long? It begins with how these developments are financed. The Low-Income Housing Tax Credit (LIHTC) program, which has been around since 1986, still provides the foundation for the funding of much of the affordable housing being built today. When the program came into being, 60% of area median income (AMI) was the highest level of resident income being served. Those with incomes above that threshold could usually afford to pay market-rate rents. The renters that were very low income, or extremely low income, (30%, 40% AMI) were being served by other programs, and typically received rental subsidies, the most familiar of which is Section 8.

Over time, rents in urban areas such as Los Angeles have gone up dramatically, but incomes have not kept up. Today, even renters making over 100% of the area median income are priced out in many markets. And for growing numbers of the population – including seniors, veterans, students and even working families – the tax credit subsidy alone is not deep enough to support the construction of affordable housing serving those income levels.

The formula is simple; the lower the incomes of the people being served, the less conventional debt that can be supported, and the greater the need for sources that won't require debt service if there's not enough cash flow to pay it. There are many sources of funding. The state, city and county all have their own funding sources as well as their own application cycles and criteria. And when you then look at developing permanent supportive housing, where rental subsidies are typically required, availability of the Department of Housing and Urban Development's (HUD) Section 8 voucher program, as well as other types of rental subsidies available from the state and county, then become a crucial component for financial feasibility. But they too require separate allocation rounds. This is part of what's causing the extended time frame for delivery; the assembling of the multiple funding sources, or, as it's known in the lending industry, a "capital stack." So while the \$1.2 billion from Los Angeles' [Proposition HHH](#) did provide a new source of funding, the HHH funds provide only a portion of what is required for any given project; just another source in the "stack." And this extended process – of which the HHH funding is just a part – is a large contributor to the high cost per unit.

Other contributing factors include:

- An extended site acquisition process, which includes not just finding a suitable site, but overcoming neighborhood opposition, in some cases in the form of litigation, while the costs of holding the land continue unabated.
- The density of these projects is often low. In many cases, this is a result of community groups that oppose larger projects, so projects are scaled back to gain community support.
- Communities can demand more expensive projects - they want a Mercedes not a Volkswagen on their block.
- Utilizing these federal, state and municipal funding sources means the projects are subject to Prevailing Wage and Project Labor Agreements, which can translate into higher costs as well.

So given all of this, some of the most crucially needed projects now require up to three years to assemble their funding, plus another approximately two years to build.

Part of the delay and cost can be attributed to the "Not in my Backyard" or NIMBY sentiment present in many communities. So what is needed to reverse these challenges and change opinions? We should encourage, and participate in, education around the issue. To create a change in public opinion will require a groundswell of public sentiment of a different type. Those who are familiar with the work of funding and building housing know that having everyone housed benefits communities. Changes of attitudes and perception are achieved one on one: talking to friends and neighbors, with the understanding that many people are fearful about what they don't know. We need to be in a position to provide that critical data.

Indeed, one of the points made at the recent ULI Los Angeles homelessness summit was that if people knew how their communities would look in 20 years based upon updated and vetted community plans, they might be less fearful of change. And when people are educated on how providing housing for everyone benefits their community, they are more likely to be supportive. But more importantly, people need to share this support with their public officials. Public meetings on permanent supportive housing and affordable developments in general, are often dominated by opponents. We need a shift in public opinion.

The [“Everyone In” campaign by United Way](#) does a fine job of shining light on these issues. Its coalition of leaders, members and neighbors focuses on bursting pre-conceived notions of who is homeless and why. I’ll give a plug here for the [Home Walk, an annual event here in Los Angeles](#), which raises awareness and badly needed funds for a variety of programs dedicated to the cause. And if you need data to convince you that we need to keep at this effort, [California Housing Partnership](#) provides the latest information. Its 2020 [Housing Needs](#) report concluded that while the state has made some progress in stemming the crisis in affordable housing, we still need some 1.3 million more affordable rental homes. There are many areas in the production cycle that can be improved: compressing the funding cycle and more innovative construction technologies, for example. But a change in public sentiment is something that can have an immediate impact and doesn’t cost a penny.

Now more than ever, we are all in this together. In the words of President John F. Kennedy, “One person can make a difference, and everyone should try.”

