



Housing Affordability Commission Briefing / June 20, 2024

Publicly Driven Development and Ownership

A Scan of Models in the U.S. and Abroad

Study Purpose

Goals

- Understand how models of publicly driven development and ownership work
- Raise key considerations for these models' applicability in Rhode Island



The Laureate, Rockville, MD. Source: Apartments.com

Approach

- Methods

- 20 in-depth interviews with practitioners and experts
- Analysis of programmatic documents and underwriting data

- Domestic models

- Group A: Mixed-Income Housing
- Group B: Public Housing Conversions
- Group C: New Affordable Housing

- International models

- Vienna, Helsinki, Copenhagen, Singapore, Hong Kong

- Feasibility analysis

- Interviews with Rhode Island stakeholders
- Financial analysis



Today we are...

- Presenting **highlights from our interim report**, which is a detailed scan of domestic and international models
- Sharing some **preliminary observations** for Rhode Island to consider based on this scan; these will be further honed by the ongoing analysis



What Is Publicly Driven Development and Ownership?

Any scenario in which a local or state agency:

- Invests in a **major, non-passive stake** in housing development and operations
- **Acts as the developer** or engages with a development partner in decision-making
- Is the **long-term owner** of housing or land on which housing is build (independently or in partnership)
- A combination of the above



Domestic Models

Group A: Mixed-Income Housing

Use revolving loan funds (RLFs) to provide short-term construction loans to large, mixed-income developments

Public stake in the projects

Examples:

- Montgomery County, MD
- Atlanta, GA
- Chicago, IL



The Laureate, Rockville, MD. Source: Apartments.com



Group A: Montgomery County, MD Example

RLF provides the riskiest construction capital and pairs with low-cost permanent financing for an ownership stake in a mixed-income development

- Two \$50 million bonds to capitalize a revolving loan fund
- Mixed income developments: ~ 70% of units are market-rate and 30% are affordable at 50-65% AMI
- The market-rate units help subsidize the rent-restricted units



Group A: Montgomery County, MD Example

Group A models also rely on other public resources, for example, the HOC of Montgomery County is a county-level housing authority and HFA and can offer:

- Low-cost capital
- Property tax exemptions
- Tax-exempt and taxable bond financing
- Recycled volume cap financing
- County-run property insurance program
- Discounted land



Mixed-Income Housing: Key Takeaways

Mixed-Income Housing Models:

- Are designed to produce large amounts of housing without LIHTC, especially in high-opportunity areas
- Have the potential to generate returns that can be used for public purposes
- Require additional public investments beyond the RLF
- Require market rents high enough for cross-subsidization, which are more likely to exist in parts of Providence and certain coastal areas
- May benefit from public land, but are possible without

For these models, significant in-house development capacity and expertise is needed, even in the case of turnkey development.



Group B: Public Housing Conversions

PHAs that redevelop/expand portfolios via Faircloth-to-RAD

Draw on bonds, tax exemptions, etc.

Examples:

- Boston, MA
- Cambridge, MA
- Hawaii



Auburn Court, Cambridge, MA. Source: Chris Moyer via *Places Journal*

Public Housing Conversions: Key Takeaways

Public Housing Conversions:

- Take advantage of the important statutory powers retained by PHAs
- Are best suited for housing authorities with sizable Faircloth capacity. Even with this capacity, the Faircloth-to-RAD program typically must be bolstered with tax credits and other sources
- Rely on PHAs' development expertise

Nevertheless, there is potential to combine elements of Group B with elements of models in Groups A and C.



Group C: New Affordable Housing

Longstanding public/quasi-public development programs

E.g., special county tax levy + bonds to build affordable senior housing

Examples:

- Dakota County, MN
- Idaho



Cobblestone Square, Apple Valley, MN. Source: Apartments.com

New Affordable Housing: Key Takeaways

New Affordable Housing Models:

- Create relatively small, affordable-housing focused buildings
- Show that publicly driven development can be sustainable over time and underline the value of developing a large portfolio of units
- Highlight the importance of creating public development models that are additive rather than competitive



International Models

Vienna, Helsinki, Copenhagen, Singapore, Hong Kong

Characteristics of International Social Housing:

- **Availability:** Social housing is typically available to a broad sector of the population. Scale and social mix support financial and political stability.
- **Cost-based:** Rents sometimes based on cost of development, operation, and maintenance.
- **Countercyclical:** Tend to generate the most units when conditions are unfavorable for market-rate development.



Wohnpark Neue Donau housing project, Vienna. Source: HUD



Key Insights

Key Insights

- **Affordability**

- Public development entities, using their authorities, low-cost capital, tax-exempt bond financing, and other financing tools, can generate savings that may be translated into increased affordability

- **Risks and returns**

- An ownership stake exposes the public entity to risk but also has the potential to generate financial and public benefit returns, depending on the structure of the development

- **Need for public investment**

- In addition to revolving funds, these models require a significant investment in public resources like favorable financing and property tax exemptions



Key Insights

- Market conditions

- Some of the models rely on cross-subsidization, which is dependent on market conditions that may be more achievable in Providence and coastal areas

- Use of public land

- Public land is advantageous but not essential. An inventory of public land in Rhode Island could enhance model feasibility

- Development capacity

- Successful implementation, even in the case of turn-key development, requires in-house real estate development and underwriting expertise



Next steps

- Integrate findings from Rhode Island stakeholder interviews
- Deep-dive analysis of individual tools
- Financial analysis
- Final report in late summer 2024

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Appendix

Example: Vienna, Austria

- Social housing rents are calculated based on the cost of developing, operating, and maintaining housing.
- In some Viennese social housing, tenants contribute equity to help cover the costs of land acquisition and construction.
- Low-cost development loans issued to limited-profit housing associations are partially revolving; as they are repaid, each region reinvests in new development.
- After these loans are repaid, rent decreases to a level sufficient to cover day-to-day administration and maintenance.
- Especially low-income tenants may also receive housing allowances.

