Arlington Community Foundation Shared Prosperity Initiative:
Final Report on Construction Buy Down Pilots to Achieve Affordability at 30% AMI

June 2023

This paper describes a 2020 Arlington Community Foundation (ACF) pilot program that invested long-term capital in nonprofit housing developer projects with a goal of locking-in 30% AMI units for 20-30 years. Our goal was to test the feasibility, costs and process of buying down 60% AMI committed affordable units to achieve long-term 30% AMI affordability using private funding sources. We are grateful to our nonprofit housing partners, AHC, APAH and Wesley Housing, for their assistance in designing and executing this pilot.

Program Design

In 2020, ACF deployed a $3M donation from Amazon to test buying down "bricks and mortar" committed affordable units[1] from 50-60% AMI to 30% AMI rent levels through awards to three nonprofits—AHC, APAH and Wesley Housing. In total there were 20 units that were funded for this demonstration pilot.

The mix of projects across the three sites included both new construction and refinancing of existing projects.

- For new construction, the deeper affordability commitment can be reflected in the project's legal and financial documents from the start, ensuring long-term compliance.

- For existing projects, any mid-term change in capital investment, cash flow or affordability restrictions would likely trigger broader implications for existing lenders and investors, as well as legal costs to complete the changes. This barrier limited the pool of potential existing projects to those planning on undergoing a refinancing or rehabilitation/recapitalization in the near term. At that point, the additional investment and affordability restrictions could be fully incorporated into the updated legal and financial structure.

The housing nonprofits agreed to honor the 30% AMI unit commitment for either 20 or 30 years per their contracts with ACF and, to the extent practicable, reflect those CAFs in the project's legal documents. Rather than specifying a precise level of investment in advance, each nonprofit proposed the number of units, the dollar amount needed and the number of years of affordability that worked best for their project's circumstances. This resulted in variation in terms as shown in Table B-1 below.

ACF did not place any additional expectations on the nonprofits for long-term compliance. To limit administrative burden and confusion, they were expected to use the same compliance rules, such as income certification and rent increases, that applied to other units in the project. This piggy-back

[1] We use "bricks and mortar" to refer to subsidies that are tied to specific housing projects or units, in contrast to tenant-based subsidies that follow a resident to any qualifying unit (e.g. Housing Choice Vouchers or local housing grants).

approach meant that housing projects and owners/managers of other CAFs were more appropriate for the program than a market-rate property where owners/managers did not already have these responsibilities. However this concept can be used in the private market as long as the developers are willing to certify incomes or partner with an entity that will take on that responsibility.

Table B-1
Participating Bricks and Mortar Projects

	AHC	Wesley	APAH
Location	Gates of Ballston	Whitefield Commons	Terwilliger Place
Project Type	Existing	Existing	New construction
Planned timeline in 2020	Refinance within 24 months	Recapitalization within 24 months	Deployment in original capital stack
2022 status	5 year-limited term refi during pandemic; total recap planned for 2026	Construction slow down due to pandemic; rolling lease-up up in progress throughout 2023	Building opened in July 2022
Affordability commitment	30 years	20 years	30 years
Total Units	5	5	10
1 bedroom	2	2	4
2 bedroom	3	3	6
ACF funding	$935,000	$765,000	$1,000,000
Per unit subsidy	$187,000	$153,000	$100,000*
Annualized subsidy	$6,233	$7,650	$3,333
Use of funds status in 2023	In escrow until full project refi in 2026	In escrow due to timing of financial close. Built into financial plan moving forward to be implemented at project conversion, anticipated Spring 2023, as an ongoing capitalized rental assistance fund	Added to capital stack as a sponsor loan
Rent subsidy prior to B&M investment?	Providing tenant support to 5 households until 2026 refi	None due to timing of pandemic rent assistance options	NA

* APAH tapped a variety of funding sources to ultimately fund 28 30% AMI units. This mix of funding allowed the ACF funding to stretch further than either of the other pilots.

Implementation Details

- ACF provided the funds as a one-time grant to each of the three nonprofits. The grants were used as follows:
    - APAH provided a sponsor loan to the project to be incorporated into the capital stack. No short-term rental dollars were deployed as the project was new construction.
    - Wesley capitalized a 20-year rental assistance fund for five 30% units for 20 years. In the short term, Wesley relied on governmental pandemic rent assistance to assist 5 qualifying households as a bridge during construction.
    - AHC used some of the grant money in the near term to lower the rent for their 5 units, making them affordable to five 30% AMI households until the permanent 30% AMI affordability is in place. AHC is currently holding the grant balance in escrow in anticipation of the full refinancing, which is now expected to occur in 2026.

- Where current tenants were chosen for the units supported by this program, tenants had to be earning 30% AMI but living in a 60% AMI unit without any other form of rent support such as an Arlington Housing Grant or Housing Choice Voucher.

- Each project included the program's income restrictions in its legal documents, which is important because of the long-term nature of the subsidy compliance period. Because this was a small one-off program separate from the main funding sources (which tend to govern the compliance and oversight process) ACF will need to ensure that as staff and residents change over time, these units continue to be rented at 30% AMI levels and not inadvertently revert back to the base LIHTC or CAF rent levels.

- The grant agreements specified that upon a future vacancy in a 30% AMI unit, other property residents with the lowest incomes would be eligible and the subsidy could be transferred to another unit. If no other existing residents were eligible, the unit could be leased to a new income-qualifying resident at 30% AMI.

Household Level Impacts

- Affected households are stably housed and have more disposable income to meet other daily living needs. The low rent is available for as long as the household needs it and is not subject to time limits within the 20-30 year period.

Key Learnings

- For the projects funded solely with ACF funding, the average cost in 2020 was an additional $170,000 per unit to buy affordability down from 60% to 30% AMI for 20 or 30 years.

- There are two moments in the life of a project—the initial capital stack at the time of development and a typical 15-20 year project refinancing—that lend themselves easily to 30% AMI investment. Investing at other times will incur additional costs and complications.

- Housing providers with other CAFs, who certify incomes as part of their regular leasing process, can easily match very low-income tenants to units with affordable-to-them rents. Adding these expectations to projects without other affordability restrictions may introduce compliance risk in the long run.

- Participating housing providers reported that in larger properties, absorbing 30% AMI rents within the overall property cashflow is less financially stressful than absorbing the same number of 30% unit rents at a smaller property (e.g. 500 unit property with five 30% units is 1% of all units; a 100 unit property with five 30% AMI units 5% of all units - an impact 5 times greater on the overall cash flow of the property.)

- No additional supplements—like Housing Choice Vouchers or Arlington County Housing Grants—are needed for the 30% AMI household once the units are in place.

- Investing in bricks and mortar 30% CAFs is a one-time cost for the housing provider, locking in the 30% AMI affordability for 20-30 years.

- Once the grant was received, nonprofit housing developers did not encounter additional costs related to using the funds in their capital stacks.