Mixed-income public development: a brief overview

The challenge

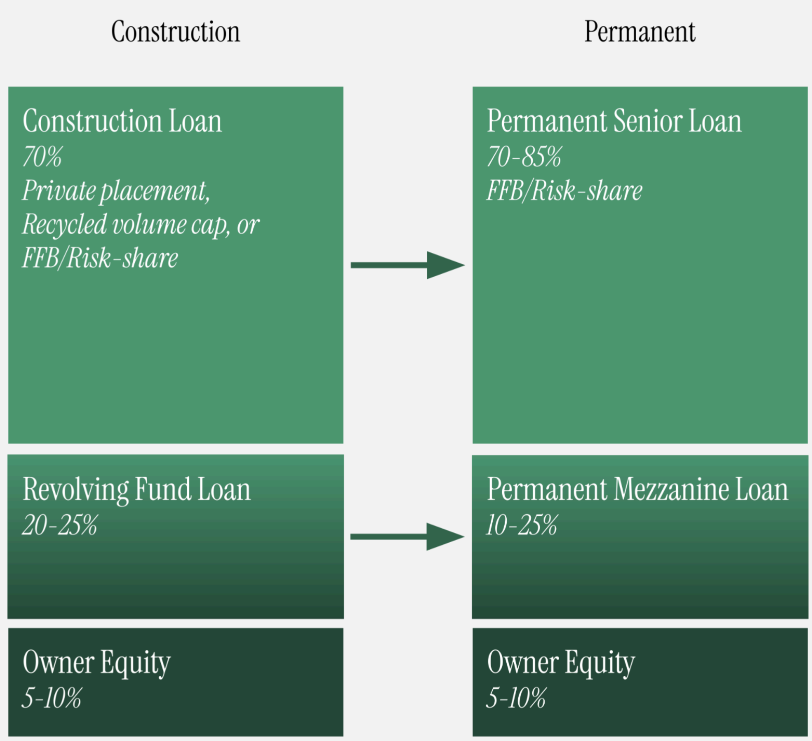
In most cities the level of affordable housing production is limited by subsidies from Congress. Unfortunately, these useful programs are oversubscribed and can not fully address the affordable housing need across the country. To increase affordable housing production, agencies must be creative and entrepreneurial in finding additional financial mechanisms.

The opportunity

Replace high-cost private investment with lower-cost municipal financing to get affordable units **without tapping scarce federal subsidies**. Publicly-led investment and potential ownership of mixed-income affordable housing using no LIHTC or bond volume cap, no vouchers, and no state or federal grants.

The mixed-income public development model

The affordability in these projects is made possible by three key components: (1) a public **revolving loan fund** to provide low-cost construction loans, (2) a source of **low-cost senior debt**, such as FHA Risk-Share/FFB loans under 542(c), (3) mission-aligned **permanent mezzanine financing** to take out the revolving loan fund investment at stabilization.



These core components, combined with property tax relief enabled via a public ownership stake, have the potential to reduce project costs and enable sustainable mixed income development, with approximately 30% of units in a project serving residents at 50-80% AMI and the rest rented at market rate.

An emerging model ready to scale

The Housing Opportunities Commission of Montgomery County, MD, first piloted this model, and Center for Public Enterprise has worked closely with them to help other cities and states to bring this model to their jurisdictions and adapt it to their needs. Other cities actively pursuing this model include the City of Atlanta, through the Atlanta Urban Development Corporation, City of Chattanooga, City of Seattle, Rhode Island Department of Housing, City of Chicago Department of Housing, and the Michigan State Housing Development Authority. The model has also been recognized and elevated by the U.S. Department of Housing and Urban Development and the White House. By our estimates, there is roughly $283 million of public investment in revolving loan funds for construction finance and over 5,000 units built or in project pipelines using this model.

Flexible pathways to development

The original model established by Montgomery County can be adapted to fit many jurisdictions. For example, cities can structure outright ownership models in which the city oversees project financing, development, and long term management. The model can also be adapted to enable the city to function as a partial majority owner by partnering with private developers. In this partial ownership model the city provides low-cost financing to their projects in exchange for ownership and affordability.

Who we are

Center for Public Enterprise is a nonprofit organization based in New York that generates research on innovative public-driven economic development programs, and provides direct technical assistance to agencies seeking to design and implement new programs. Center for Public Enterprise has established itself as a national leader in advising public agencies on housing and energy development programs.

Contact

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