Strong, Resilient and Economically Diverse

By Abram Mamet / Issue: June 2023

Making Mixed-Income Housing Work for All

Today's cities generally emphasize cohesion and citywide vibrancy, and many municipalities are focused on the creation of mixed-income communities. "Just like you need a diverse economy to keep a city going, it's important to have some diversity of income levels and use types in neighborhoods that keep it evolving, strong, and resilient,"says Erin Clark, chief real estate investment officer of the Denver Housing Authority (DHA).

That economic diversity intended by mixed-income development can be brought about in a myriad of ways, whether through Low Income Housing Tax Credit income requirements, other federal programs like the Department of Housing and Urban Development's local ordinances, or the investment requirements of private equity firms. No matter the flavor, however, all mixed-income housing is essentially designed to do the same thing: desegregate the economics of housing.

This occurs most successfully, says Clark, when mixed-income communities are planned and intentional so that the benefits of economic integration can really be felt. Clark says that DHA is "looking beyond the past urban renewal models" of the 1950s and 1960s, which focused on large-scale development of public housing that filled the immediate needs of housing for their era, but concentrated poverty in particular neighborhoods and cities, drawing away economic opportunity and quite often ushering in decay and neglect. Rather, Clark says, "We want to be in the business of helping deconcentrate poverty" through the development and redevelopment of communities where families earning well below the area median income (AMI) can live and thrive alongside those who can afford market-rate rents.

One of DHA's flagship developments focused on the mixed-income space is the Sun Valley Redevelopment, which is transforming a west-side city neighborhood formerly dominated by public housing projects into one with larger multifamily buildings that contain a mix of market-rate, middle-income and low-income restricted apartments, as well as some rental and for sale town-homes, all while making sure that each public housing unit that formerly existed is replaced bedroom for bedroom and that individuals previously living in the neighborhood were not permanently displaced.

Having completed phase 1 in 2021, currently leasing phase two now and under construction on phase three, Clark says that Sun Valley—in large part made possible by HUD's Choice Neighborhoods program—has been a success, with over 95 percent occupancy in their currently completed units.

Clark credits much of that success to the quality of the housing stock in Sun Valley. "We're building to market-level standards. The lobbies are gorgeous, the amenities, everything is shared. And no one would know the difference between an income-restricted unit and a non-income-restricted unit."

Though there is certainly a contemporary focus on mixed-income communities, Clark says that enthusiasm for projects like Sun Valley has been building in the affordable space for some time. "I think what has also burst this wide open is our further understanding and focus on ideas of equity, and really thinking about people-centered approaches to how we're delivering housing."

A Broad Perspective
Mixed-income housing can come with unique challenges, says Milton Pratt Jr., executive vice president for development at The Michaels Organization. Pratt emphasizes that for a smooth housing experience, communication with the building's management team is critical every step of the way. "If you're doing a mixed-income property, and you are not lockstep with your management company, you're going to have a problem," he says.

At its most immediate level, Pratt stresses the need to remain conscious of the challenges inherent to building diverse communities that not only exist together but thrive while doing so. "Different populations have different needs. Some families need social service support, and some families don't need that same level of service support." That doesn't mean, however, that one community necessarily has more, or better, amenities than another. Simply, says Pratt, that means tailoring each development to be "a reflection of the population when we develop the full amenity package."

A second challenge comes with the wide variety of capital sources available to help push these development projects across the line, and the sheer number of compliance regimes demanded by these various funding sources. Beyond LIHTC compliance, developers of mixed-income housing must also be sensitive to municipal and state regulations that play key roles in project funding – the violation of which can result in burdensome tax penalties.

As one of the nation's largest multifamily affordable housing owners, The Michaels Organization deals with the dizzying atmosphere of these compliance structures. Pratt says that Michaels rarely runs into compliance issues, however, since they recognize how burdensome it can be to run afoul of regulatory frameworks, and thus have built a robust system for compliance that ensures their countrywide developments remain above board.

Not only does Michaels have a large compliance department that focuses on site-specific training to cover both federal and local regulations, but they also perform thorough quality control, a step which Pratt says sets the organization apart and helps guarantee its success in compliance practices. "The last component that a lot of management companies don't have that we do is quality control… Even though we train our folks, there's always room for improvement. And so, we have a quality control mechanism in place where a certain number of the residents' files—ten percent of the files, or five percent of the files—are pulled for another level of review."

Of course, Pratt notes that though they continue to pursue new projects, "these communities are getting tougher and tougher to get done" as economic conditions have made funding sources increasingly difficult to stack together in the long term.

Novel Funding Sources
One organization that has already had an impact in the mixed-income space is National Equity Fund (NEF). NEF has raised and closed several proprietary funds offering moderate-income/workforce housing debt and equity capital solutions aimed at addressing the needs of "residents who make 80 to 120 percent of area median income (AMI) – too much to qualify for the LIHTC but not enough to live in Class A multifamily rental housing or market-rate units," says NEF's Head of Structured Finance Daryl Shore.

NEF's workforce housing debt and equity products are aimed specifically at providing capital investments that enable developers to acquire, renovate existing multifamily and develop new construction multifamily housing that meets the need of moderate-income individuals and families where the majority of the units are affordable for housing earning 80 percent AMI or below.

Shore says that it is critical to work with developer partners who are mission-aligned and will make their best effort to build and maintain the long-term affordability of these unique mixed-income communities even after NEF's role as a lender or investor has concluded.

"The fact is, unlike LIHTC, which has a mandatory long-term compliance period, workforce/moderate income housing often relies on the sponsor to continue to self-restrict 51 percent of those units at 80 percent AMI and below year after year. In some cases, the local municipality or the state may have a tax abatement program on certain properties or projects that helps maintain middle-income affordability for the future, but that is not always the case. We have to trust that sponsors will continue to do the right thing for their residents, so sponsor selection is critically important."

This is especially true because as the market has shifted, with more and more moderate-income individuals experiencing significant rent burdens despite full-time employment, so too has the demand for moderate-income housing solutions. "Focusing on that 'missing middle,' where you don't have the huge federal subsidy, like LIHTC, to really support the development of affordable housing, aligned perfectly with our mission to develop creative solutions to expand the creation and preservation of affordable housing," says Shore. "A lot of our sponsor partners whom we work with on the LIHTC side have started to expand into this moderate-income space. As well, we recognize more broadly that from a policy perspective, a lot of those residents who would fit into the 80 to 100 percent AMI category are significantly rent burdened."

This deployment of NEF capital also allows for better flexibility than traditionally administered LIHTC housing dollars as communities work to get projects off the ground and meet the income-level goals laid out by the project financing, but this can take time. Shore says that there can be a ramping-up period and there have been projects funded by NEF that have taken "two or three years" to hit the threshold of at least 51 percent of units occupied by individuals at 80 percent AMI or below.

However, NEF's flexibility, experience and financial strength allow the organization to work with a range of qualified partners to gradually hit that threshold without displacing residents, something he feels is critical to the mission and overall success of Workforce Housing.

Overall, Shore says he is encouraged by the increasing emphasis on wider mixed-income builds beyond funding more restrictive low-income multifamily units.

“You’re now seeing a variety of different players in this, what I would call, ‘community development finance space’ really starting to have a focus on mixed-income housing,” says Shore. “You have the developers—the sponsors—they’re focused on it. You have investment managers, like NEF, and the investors focused on it. And to me, that shows the importance of really needing to address this moderate-income space, leveraging the expertise and capabilities of all of the relevant players working together for a common goal. I think that’s encouraging.”

NH&RA
NATIONAL HOUSING & REHABILITATION ASSOCIATION
1400 16th Street NW, Suite 420
Washington, DC 20036
P: (202) 939-1750
F: (202) 265-4435
E: info@housingonline.com