Invest Syracuse

Overview

In this memo we provide an overview of the program design for Invest Syracuse's housing development fund in partnership with the City of Syracuse and the Greater Syracuse Land Bank. Invest Syracuse is modeled after the award-winning public mixed-income development model first pioneered by the Housing Opportunities Commission of Montgomery County, Maryland. The model positions the public sector as an investor and owner in mixed-income developments, bringing public financing to deals to lower their financing costs and secure affordable housing. This model has been recognized and elevated by the U.S. Department of Housing and Urban Development and the White House, and is actively being pursued by other cities and states across the country including Atlanta, Chattanooga, Kingston, Chicago, Seattle, Colorado, Rhode Island and Michigan.

We begin with a discussion of the main challenge this model solves and the proposed governance structure for Invest Syracuse, followed by a description of the key components of the model that enable it to deliver buildings with approximately 30% of units affordable to individuals making 50-70% of the Area Median Income (AMI), without using Low Income Housing Tax Credits (LIHTC) or other scarce federal subsidies. Throughout, we discuss how each aspect of this model is being applied in Syracuse and conclude with two real world examples from Maryland and Atlanta.

The challenge

In Syracuse, the level of affordable housing production is limited by the availability of state and local subsidies as well as LIHTC allocation. Unfortunately, these crucial resources are oversubscribed and cannot fully address the affordable housing need in the city. To increase affordable housing production, cities must be creative and entrepreneurial in finding additional financial mechanisms.

The mixed-income public development model

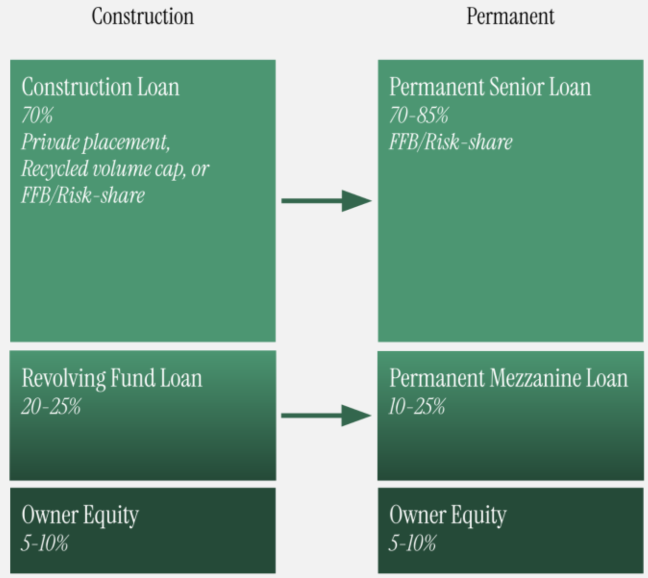
In this model, a public entity is designated to partner with the private sector and invest in the development of new mixed-income housing, with the public entity retaining majority ownership. The affordability in this model is made possible by three key components: (1) a revolving loan fund to provide low-cost construction loans, (2) a source of low-cost senior debt, such as FHA Risk-Share/FFB loans, and (3) property tax relief enabled via a public ownership stake. These core components have the potential to reduce project costs and enable sustainable mixed income development, with approximately 30% of units in a project serving residents at 50-70% AMI and the rest rented at market rate. The share and depth of affordable units in any one property can be increased by layering in local or federal rental subsidies to ensure these projects serve households at 50% AMI or below.

As majority owner, the public entity retains the right to set the standards for affordability, sustainability, and quality of design, while the day-to-day operations of the project can be delegated to a private property management company. The projects are underwritten to support the maximum number of affordable units without jeopardizing the long-term financial viability of the project. Because the units produced through this process are publicly-owned, they can remain affordable in perpetuity.

Governance structure

To secure permanent affordability, this model requires a public entity that can hold the properties long-term. Currently, the Greater Syracuse Land Bank is proposing to establish a subsidiary LLC, to oversee its public mixed-income housing development activities financed through the revolving loan fund. Invest Syracuse will have the ability to partner with private entities in a joint venture structure to develop mixed-income properties.

Project financing

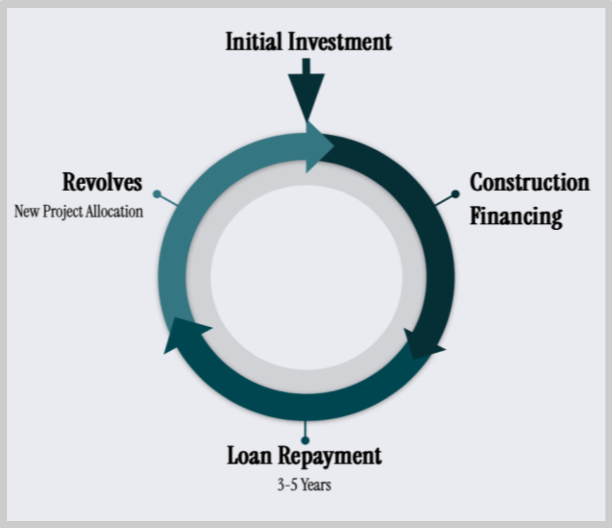


The public entity, as an investor/owner, brings three cost savings to a project's financing:

1. Low-cost construction equity (revolving loan fund)
2. Low-cost senior debt (public financing)
3. Property tax relief

Housing Development Fund

In the current interest rate environment, the size of construction loans is decreasing. In better financial conditions, construction mortgages might cover two-thirds of a project's cost. In today's conditions, that loan-to-value ratio can be much lower, closer to just 50 percent. This requires developers to rely on private equity investments to cover the gap, which often come with expectations of double-digit returns, driving up the overall costs of construction. The public mixed-income development model overcomes this hurdle by replacing private equity investment with funds from a publicly funded revolving loan fund.



Once the project completes construction, the revolving loan fund will be taken out and replaced by a Mezzanine Loan at the conversion to permanent financing. The revolving loan amount will be repaid in full to the revolving fund for reinvestment into additional affordable housing projects. Interest rates on revolving loan construction financing range from 0-5%. This revolution will occur every 3-5 years. Developments are underwritten to maximize affordability without undermining financial viability. If the project finds more favorable permanent financing, more affordable units can be added.

Low-cost senior debt

At stabilization, the senior debt is converted to a permanent mortgage. Here the model leverages a source of low-cost public financing through programs such as Section 542(c) Risk-Share Program. Risk Share is a federal program that allows the Federal Housing Administration (FHA) to partner with qualified state Housing Finance Agencies (HFAs) to share the risk on mortgages issued by the HFA. Loans made under the program can finance up to 90% of the project's total cost with competitive interest rates due to reduced risk.

There is an add-on to the Section 542(c) Risk Share program in which Treasury's Federal Financing Bank (FFB) purchases Risk-Share loans. This provides a huge advantage to participating agencies; instead of having to source capital for loans from the market or existing balance sheet, they can have those loans funded directly by FFB.

Property tax relief

Property tax relief is a beneficial, though not essential, component of this model. Greater levels of property tax abatement improve the net operating income at the property and permit greater numbers of affordable units.

Example Sources & Uses

Below is an example, simplified sources & uses table, along with corresponding project information derived from a recent project completed by Montgomery County HOC.

Uses	Amount
Acquisition Costs	$2.3M
Construction Costs	$98M
Financing Costs	$15M
Reserves	1.8M
Developer Fee	$5.1M
Total	$122M

Market Units	188
Affordable Units	80
Total	268

Sources	Construction	Permanent
Senior Debt	$99M	$99M
Equity	$8M	$8M
Revolving Loan	$15M	$0
Mezzanine Loan	$0	$15M
Total	$122M	

AMI Target	Units
50%	67
65%	13
MKT	188

Development strategy

The strength of this model is its flexibility. There are a number of ways Syracuse can source deals to build a suitable real estate development pipeline, including:

- Joining shovel-ready projects: When interest rates are high, projects that are ready to build stall out because financing becomes cost-prohibitive. This model can act countercyclically, providing financing at a competitive rate that gets the project built and requiring affordability and public ownership in exchange. "Buying deals" leverages the pre-development work already done by the private partner, turning a stalled market-rate deal into a brand new mixed-income development.

- Developing underutilized public land: Syracuse can make use of underutilized public lands, issuing RFQs to identify qualified development partners.

- Creating an offramp for unawarded LIHTC projects: LIHTC awards are constrained by the available 9% LIHTC allocated to the city and the state. In most cases, unawarded projects are told to apply again next year. Instead, these projects could be proposed as future Invest Syracuse projects, reworking their development plans to accommodate mixed-income production and Invest Syracuse financing.

The success of the model

Montgomery County, Maryland

The Housing Opportunities Commission (HOC), a public housing authority and housing finance agency in Montgomery County, MD, has been developing mixed-income housing since 1989. Recently, the HOC realized it could accelerate its development capacity and achieve greater affordability if it could replace private construction equity with municipal financing. In 2021, the County Council authorized a $50 million dollar, 20-year recourse bond issuance by the HOC, backed by an annual appropriation from the County budget. The bonds seeded a revolving loan fund that makes equity-like construction loans. The program was so successful that the County Council approved a second $50 million bond issuance ten months after the first. The full $100 million fund is expected to deliver 6,000 units (1,800 affordable) over the twenty-year life of the bonds, generating $2.2 billion in multifamily housing investment. After the bonds are repaid, the fund will continue to operate without cost to the county. HOC both does its own development and partners with stalled private developers. HOC uses its revolving fund, FHA/HFA Risk Share Loans, and tax exemption to bring affordability into their deals. For projects funded with the Revolving Loan Fund, the baseline affordability requirement is 20% at 50% AMI and 10% at 70% AMI. By investing in the stalled 268-unit luxury development, the Laureate, HOC created 80 brand new affordable units. This is similar to the unit counts in a LIHTC deal, but without a single dollar of federal subsidy. Because HOC retains majority ownership and control, they can push for investment in quality, including sustainability, universal design, community-serving retail, family-sized units, pedestrian infrastructure, and enhanced tenant protections.

Atlanta, Georgia

In 2023, the City of Atlanta authorized a $100 million Housing Opportunity Bond through the Urban Residential Finance Authority of the City of Atlanta (URFA), secured against an annual appropriation from the City budget. This investment was matched by the Community Foundation for Greater Atlanta with grants from Robert W. Woodruff and Joseph B. Whitehead foundations, launching a $200 million public-private partnership for the production and preservation of affordable housing. $38 million of this Housing Opportunity funding has been committed to a Revolving Loan Fund, based on Montgomery County's model. The City of Atlanta wanted to catalyze development on underutilized public land. To do so, they established a new public entity: the Atlanta Urban Development Corporation (AUD). The AUD is a specialized nonprofit tasked with turning public land assets into marketable, mixed-income housing developments that offer quality, affordable, stable homes for all Atlantans. It is incorporated through Atlanta Housing (Housing Authority) as a wholly-owned subsidiary, with Atlanta Housing approving organizational powers, bylaws, and board appointments. This affiliation gives the AUD full tax exemption powers, but the separation allows for a specialized board composition and direct accountability for engagement and execution of the development portfolio. The City of Atlanta provides land for development and the initial operating budget and staffing. The Housing Production Fund is administered by URFA, including intake, underwriting, project approval, and closing. The AUD has an investment committee of real estate professionals which makes project recommendations to URFA for funding. AUD's affordability targets are 20% of units affordable at 50% AMI and 10% affordable at 80% AMI. To find development partners for its initiatives, AUD uses a RFQ, deliberately looking for partners, not projects.