

Affordable Housing

Affordable means rent is 30% of your income

Orange County –
fair market rent is **\$934**.

What does income need to be?



Affordable Housing

Income needed to afford: **\$37,360**
(62.8% of AMI)

Minimum Wage fulltime: \$15,080
(25.3% of AMI)

Person with a disability: \$9,600
(16.1% of AMI)



How Does Rental Housing Work?

Tenant Rent



How Does Rental Housing Work?

Tenant Rent
- Expenses



How Does Rental Housing Work?

Tenant Rent
- Expenses
= Income



How Does Rental Housing Work?

Tenant Rent

- Expenses

= Income

- Debt (borrowed money you pay back)



How Does Rental Housing Work?

Tenant Rent

- Expenses

= Income

- Debt (borrowed money you pay back)

= Profit



How Does Rental Housing Work?

Tenant Rent

- Expenses

= Income

- Debt (borrowed money you pay back)

= Profit



Income = 1.2 (called Debt Coverage Ratio)
Debt



How Does Rental Housing Work?

Tenant Rent	\$856 (FMR)
- Expenses	\$350
<hr/>	
=Income	\$506
- Debt	\$422
<hr/>	
=Profit	\$ 84



$$\frac{\text{Income}}{\text{Debt}} = 1.2 \text{ (called Debt Coverage Ratio)}$$



How Does Rental Housing Work?

Tenant Rent	\$856 (FMR)
- Expenses	\$350
<hr/>	
=Income	\$506
- Debt	\$422
<hr/>	
=Profit	\$ 84



$\frac{\text{Income}}{\text{Debt}} = 1.2$ (called Debt Coverage Ratio)

What if tenants can only pay \$400?



1 Apartment Example

Tenant Rent	\$400
- Expenses	\$350
<hr/>	
=Net Operating Income	\$ 50
- <u>Debt Service</u>	<u>\$ 41</u>
=Cash Flow (Profit)	\$ 9



What if tenants can only pay \$400?

Apartment needs affordable financing



1 Apartment Example

Tenant Rent	\$400
- Expenses	\$350
=Net Operating Income	\$ 50
- Debt Service	\$ 41
=Cash Flow (Profit)	\$ 9



Is this sustainable?

At very low incomes, ratios are less important than real costs



1 Apartment Example

Tenant Rent	\$400
+ Rental Subsidy	\$ 75
- Expenses	\$350
<hr/>	
=Net Operating Income	\$125
- Debt Service	\$ 41
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=Cash Flow (Profit)	\$ 84



Tenant needs additional dollars to pay rent



ELI Example

Tenant Rent (disability)	\$159
+ Rental Subsidy	\$275
- Expenses	\$350
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=Net Operating Income	\$ 84
- Debt Service	\$ 0
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=Cash Flow (Profit)	\$ 84



ELI Housing (under 30%)

- Real costs need to be considered
- Any debt is risky
- Most will need very little to no debt
- Subsidies needed even with no debt
- Assumption of income increase at 2% is often unrealistic



“Free money” Needed to Build

- Equity (owner, LIHTC)
- Grants
- Forgivable loans
- Deferred loans
- Low-interest loans



Subsidy Needed to Operate

- Section 8 (tenant or project-based)
- HUD-VASH
- Key
- Transitions to Community Living
- Rapid re-housing
- Private
- Master lease
- Cross-subsidized*



Cross Subsidy Example (private)

Tenant Rent	\$856 (FMR)
+ Subsidy needed	\$275
+ Debt needed	\$422
- Expenses	\$350
=Income	\$506
- Debt	\$422
=Profit	\$ 84



Tenant rent becomes \$1553, affordable to someone making \$65,240



ELI Considerations

- Transit and amenities
 - Land cost connection
- Tenant limitations
 - Paycheck-to-paycheck
 - Limited support networks
 - Renter insurance
 - Utility histories
- Staff time & specialized skills
 - Recertifications
 - Program knowledge
 - 2 rent checks

