Opportunity Site Info Series

HOUSING AFFORDABILITY AND FINANCE

What Is Affordable Housing?

Based on federal standards, housing is considered affordable if monthly housing costs account for less than 30% of monthly household income. For example, a person who makes $45,000 a year should not be paying more than $15,000 a year in total costs for housing. No matter how much money you make, the standard for housing affordability is paying no more than 30% of that on housing costs.

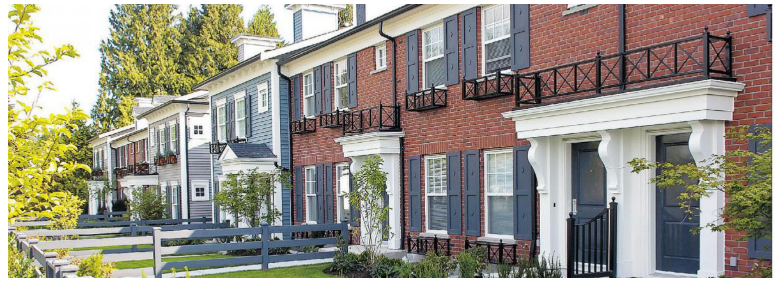
> Housing is considered affordable if all monthly housing costs (rent/mortgage, property taxes, utilities etc) are no more than 30% of the household income.

How is Housing Funded?

Funding for housing construction is complex and comes from a variety of public and private sources. Typically, the cost of initial investments is recovered through the final home sale; or from monthly rents. The cost of building market rate housing units can typically be covered by the market-rate sale or rents of those units. However, with affordable housing the lower sales price or rent cannot cover the cost of construction, creating financing "gaps" that need to be filled in order for the development to be able to be built. Because there are limited resources available to fill these funding gaps, affordable housing becomes difficult to build.

Funding sources that address funding gaps are called subsidies. Common subsidy funding sources include:

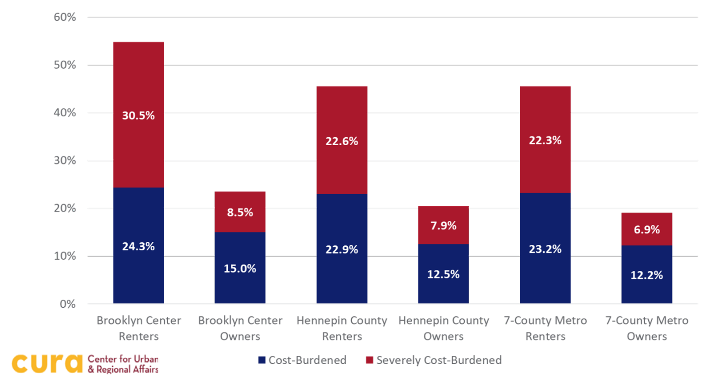
- **Tax increment financing:** (see TIF info sheet)
- **Low-income housing tax credit:** a federal tax credit program administered at the state level
- **Affordable housing grant and loan programs:** funded with local, state, or federal funds
- **Tax abatement:** a reduction or elimination of property taxes
- **Local fee waiver:** reduction or removal of fees associated with projects
- **Direct assistance** to eligible renters and homebuyers to help with housing costs



What Qualifies for Subsidized Housing?

It might be a surprise, but nearly all housing is subsidized in some form, such as mortgage interest deductions and other homeowner tax benefits. However, governments need additional subsidy for affordable housing to close the additional gap for those units. Homebuyer and renter income limits are frequently used to ensure this housing benefits the people who need it the most. Eligibility is typically based on the household income level, adjusted for household size. For qualifying properties, affordability limits are typically 30%, 60%, or 80% of the area median income (AMI) — depending on the level of subsidy needed. In this case, "area" is defined as the Twin Cities metropolitan region. For example, in Brooklyn Center a family of four that earns $62,040 a year would qualify for housing that is affordable at 60% of AMI.

More than half of Brooklyn Residents are Cost Burden, and nearly one-third severely



Balancing Housing Priorities

If affordable housing is a major need and there are tools to do so, why isn't heavily subsidized housing more often implemented? The answer comes down to a balance of limited resources, and multiple priorities. While ensuring housing affordability for residents is an important goal, so is maintaining city services and amenities, while building the community's overall economic stability through additional tax capacity and guarding against displacement due to gentrification. Additionally, having a diverse range of housing choices within the city supports economic mobility and opportunities for residents to remain in the city throughout all life stages.

> City's must balance their limited resources with multiple local goals, including affordable housing.