

Proposed Fairfax County Rent Supplement Program

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Summary

The rental subsidy needed to achieve 50% rents compared to 60% rents is \$3,300 per year per unit.

The additional capital subsidy (from the housing trust fund) needed to achieve affordable rents at 50% of AMI compared to 60% of AMI is \$40,000 per unit. \$30,000 per unit capital subsidy to achieve 60% rents, and \$70,000 per unit to achieve 50% rents, with typical purchase prices of apartments.

The question is spending \$3,300 per year vs. \$40,000 up front to achieve 50% rents for one typical apartment.

Details

It is an important concept of trust fund dollars providing a soft loan to get affordability at 60%, and then a rental subsidy to achieve affordability below 60%. It is about stretching the dollars available today.

Hypothetical deal. A class B- apartment complex can be purchased by a non-profit for \$150,000 per unit. The 60% rents for a family of 4 are \$1,350 per month. After modeling in tax credits, the must pay financing ("must pay means you have to make monthly principal and interest payments, or you get foreclosed,) operating expenses, reserves, rehab, etc., you need \$30,000 per unit in soft debt from the local trust fund to make the deal work, i.e. cash flow to be financially viable. This soft debt has no mandatory payments but accrues interest that is payable if the property is sold or refinanced. These numbers are hypothetical but typical in the current market.

If you want to be affordable at 50% of AMI, here is what you do. The 50% rent for a family of 4 is \$1,075 per month, or \$275 per month less than the 60% rents, or \$3,300 less rent per year. If you capitalize that \$275 per month lower rent (\$3,300 per year) at 8%, the result is \$41,250.

In other words, the \$275 per month less rental income means you have that much less per month to pay on the must pay debt. That \$275 per month lost rent would have serviced about \$40,000 in must pay mortgage financing. Since you cannot borrow that money from a bank or VHDA or sale of bonds, you must replace it with soft debt from the local trust fund. Now the soft debt is \$70,000 per unit, or \$40,000 per unit more to achieve affordability at 50% rather than 60%.

That additional \$40,000 per unit is a big number, and since trust fund dollars are precious and fixed, fewer deals would get financing. And the entire \$70,000 is needed at closing, this year. Using these numbers, the number of deals and units would drop by more than half.

Instead, we use the trust fund to provide soft dollars to get the affordability to 60%, and rental supplements to get to 50% AMI, which can be portable vouchers, or local project or sponsor based rent supplements. The 60% rents are \$1,350 per month, but with a rental subsidy of \$275 per month, or \$3,300 per year, we achieve affordability at 50%. Compare that \$3,300 per year rental supplement to the \$40,000 needed on day one in the form of additional soft debt from the trust fund.

That \$3,300 is needed each year, but with opportunity costs you can probably fund the rental subsidy for 15 years compared to putting up the additional \$40,000 on day one.