Cooperation, Innovation and Thought

Developers Craft Creative Financing Deals to Meet Growing Need for Workforce Housing

By Pamela Martineau

Photo provided by Gorman & Company.

Village at Wintergreen, Keystone, CO.

A lack of workforce housing is a growing element of the nation's housing crisis and some developers who typically build affordable housing are creatively pulling together financing for housing projects for workers who make above area median income (AMI) but cannot afford market-rate rents.

The projects, typically called workforce housing or middle-income housing, are not eligible for Low Income Housing Tax Credits (LIHTC) and can be hard to make pencil out. To meet the need, developers are looking to city and county leaders in the communities in which the projects are to be built to provide some funding help. Freddie Mac and Fannie Mae also have some loan products to help fund these deals.

Deals are coming together as the need for workforce housing is growing in communities throughout the nation.

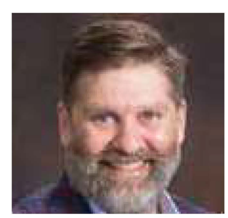
Sam Leone

"Over the last 15 years, we have seen a growing need for affordable housing for those making more than median income – and even 150 percent of median income. The need continues to grow," says Sam Leone, president of Conifer Realty, LLC.

Despite the need, funding for the projects can be difficult, developers say.

"There aren't any existing mainstream funding programs out there that tackle the middle income or workforce housing that we see such a need for," Leone explains. Still, he adds, the company is working to identify some areas where they can help confront the problem.

"We, at Conifer, keep an eye out for areas where the need is most acute and where there is an understanding at the local level that there is an issue," he says.



Joshua Greenblatt

Joshua Greenblatt, executive vice president of Vesta Corporation, says his company is working to develop housing in this space as well.

"The need for workforce housing is significant," explains Greenblatt. "There is an insatiable need for affordable housing and workforce housing is an adjacent space to affordable housing. We would like to do more."

A Shopping Mall Eyed for Housing

Leaders at Conifer, headquartered in Rochester, NY, see the need for workforce housing near their own backyard in Syracuse. Especially now that Micron Technologies has announced plans to build a $100 million technology center in Syracuse. Leone says the project is a great opportunity, but there is already concern that there isn't enough housing in the area to serve the new workers who will come to the region. The population boom will also increase the need for healthcare.

"It could be that nurses making $80 to $90 thousand a year can't find a place that is affordable in the greater Syracuse area," explains Leone.

To meet the need now and in the future, Conifer is getting creative. They are aiming to develop a vacant, local shopping mall—the Great Northern Mall in Onondaga, NY near Syracuse—into a project that contains workforce housing. They acquired the mall with a local partner, Hart-Lyman Co.

"By acquiring the mall, we have scale," Leone explains. "We can address a substantial number of multifamily needs."

The project is in the nascent stages and Conifer is in talks with both Onondaga County and Micron about funding investment strategies to develop the project, which would include workforce and other types of housing. The investment pool may include tax abatements and workforce investment by major employers.

Leone says he is seeing more willingness by local jurisdictions to collaborate with developers on workforce housing.

"There is a real recognition that workforce housing is needed and won't happen without a great deal of cooperation, innovation and thought," he says. "It takes a great deal of creativity with local stakeholders to make workforce housing successful."

Public Private Partnerships

In 2023, Vesta acquired a market-rate property in Houston and dedicated a portion to workforce housing. The project, 55 Fifty at Northwest Crossing, offers 378 one- and two-bedroom apartments. Vesta was able to leverage a public facility corporation. By restricting 51 percent of the units to 80 percent AMI or lower, the project benefits from a 100 percent real estate tax exemption. The general partner is an affiliate of the Houston Housing Authority.

"This is the first workforce property we have done," explains Greenblatt, adding that the property exemption was key to making the project work because property taxes are high in Texas due in part to the state's lack of income tax.

"We would like to do more workforce housing in all of the states we operate in," says Greenblatt. "We look forward to the development of other programs to promote the creation of more affordable and workforce housing opportunities. At Vesta, we see value in creating housing that is proximate to places of employment and believe that our residents and partners do as well."

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Conifer is working on another workforce housing project in a city in the Southeast that it is not yet ready to name due to ongoing negotiations with local leaders. The company is working with the local transit authority to repurpose land around a public parking area.

"We are working to acquire the land at a reduced price with the city," says Leone. "In that situation, we won't have to invest in parking because it is adjacent to a city-owned garage… it helps the development pencil out."

Leone says Conifer has also used revenue grants, or payments in lieu of taxes (PILOTs) in some areas, to make workforce housing projects work and to attract financing. The grants or payments from cities are advanced payments on the tax revenue they expect to receive on the new developments.

"They anticipate increased tax revenue and will pay that revenue up front, usually on underutilized pieces of property," Leone explains. "We increase the tax base and moving forward we will pay a larger portion of it. It is a take on tax increment financing."

Workforce Housing in Resort Towns

Colorado, with its many ski resort communities, has been particularly challenged in providing housing for

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workers who staff the resorts and surrounding businesses. Gorman & Company's Colorado office has been attempting to find creative ways to build more workforce housing.

"We ventured into workforce housing as an extension of the work we do primarily with LIHTC…," explains Kimball Crangle, Colorado market president for Gorman & Company. "LIHTC does an incredible service for communities by providing housing for low-income earners. What we saw was a need for middle-income housing to help folks who make more than 60 percent AMI."

Kimball Crangle

Crangle says that in many Colorado mountain communities, the average sales price for a home can be over $2 million and many of the homes are second homes owned by wealthy people who live in them during ski season. During the off-season, many homes sit vacant. In season, some of that housing stock is also rented out as short-term rentals.

"You are missing housing for folks who are working in critical parts of the community," she says.

Gorman & Company has developed five workforce housing projects in Colorado and two more are in the pipeline. A total of 582 units have been built and another 139 are forthcoming. The first projects were started in 2014.

Projects in communities, such as Vail, Steamboat Springs, Breckenridge, Keystone and Silverthorne, were pulled together through various capital stacks, but nearly all required local capital or tax incentives of some sort.

"We are finding some sort of local subsidy from the jurisdictions we are building in," she says. "It is either locally derived revenue from the collection of sales taxes that are set aside specifically for affordable housing, or most recently, the state of Colorado deployed some COVID money that turned into transformational housing grants."

The Colorado Housing and Finance Authority (CHFA) also launched a Middle-Income Access Program (MIAP) in 2018, which provides low-cost mezzanine debt for middle-income projects in exchange for ten years of rent restrictions.

"It is a friendly mezzanine debt product that we can layer in as a source," explains Crangle. "It plays nicely with the other capital sources we have to raise."

MIAP also meets the Freddie Mac/Fannie Mae requirements for public, mission-driven investments, which qualify the projects for permanent loans even at construction.

"We get the benefit of a permanent loan we can lock in at the time construction starts," says Crangle.

Still, private equity is needed on the projects, usually at market rate for ten to 15 percent of the overall capital stack. Crangle says finding comparative properties to make the investment case can be difficult because they are not market-rate or affordable deals. Gorman & Company has used demographic and wage data to provide a sense of the market to potential investors.

"We have to cobble these resources together to make it work," she adds.

Crangle says the company is seeing "more political will at staff and elected levels" to help make these projects work.

"These projects truly do work for the communities," she says. "This is housing where their kids will live. It is housing for the betterment of the community."

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— KIMBALL CRANGLE
GORMAN & COMPANY

Crangle adds that she would "love to see some of these communities put higher taxes on investment homes to help fund these initiatives."

Leone says he hopes the federal government will one day develop initiatives to help the financing of workforce housing.

"Having a federal approach—much like the LIHTC we've had since 1986, which has been successful—would help," Leone says. "We hope that benefit is made available to a broader cross-section of our country." TCA