MEMO Regional land bank and housing trust fund

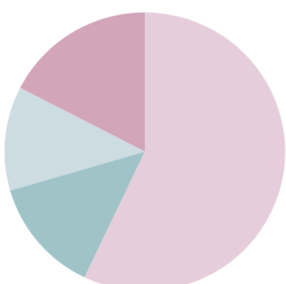
Overview

Under MACOG's direction and in collaboration with the Community Foundations of St. Joseph, Elkhart, and Marshall Counties, CommunityScale is producing a Regional Housing Plan for the three-county region that gauges housing need, sets production targets, provides recommendations, and supports outreach and communication of project outcomes. The plan has identified creating a regional land bank and housing trust fund as a key recommendation. This memo draws from draft Regional Housing Plan content to summarize how the Regional Housing Collaborative, a proposed land bank and housing trust fund, could be calibrated to address otherwise unmet and underserved household income segments.

Housing need by income level

The Regional Housing Plan includes Housing Needs Assessment reports for each of the three counties as well as a summary at the regional scale. Consistent with other parts of the country, most of the unmet housing demand is concentrated among low-income households for whom there are not enough affordable units to prevent widespread levels of cost burden (whereby households spend more than 30% of their monthly income on housing costs). The charts below summarize regional housing demand broken down by the source of demand:

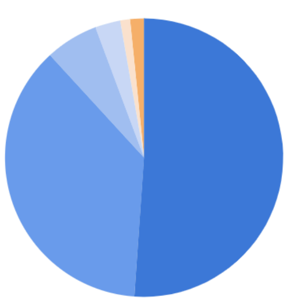
Housing demand by primary demand driver



Demand driver	Total demand (units)
Attainability gaps	34,080 - 42,590
Organic growth	8,010 - 10,020
Essential workforce	7,220 - 9,020
Potential downsizers	10,410 - 13,010
Total	**59,720 - 74,640**

"Attainability gaps" refers to cost burdened households for whom there is currently a shortage of affordable housing units. Within this group, most of the unmet need is focused among the lowest income households. The charts below summarize attainability gaps projected over the next 10 years based on current trends, broken down by income (expressed in terms of % Area Median Income, or AMI):

Projected attainability gaps by income level

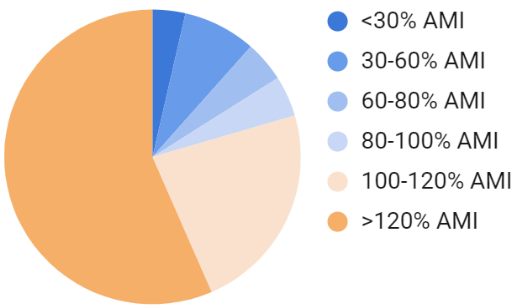


Income (AMI)	Cost burdened households
<30%	17,420 - 21,770
30-60%	12,630 - 15,790
60-80%	2,090 - 2,610
80-100%	1,000 - 1,250
100-120%	390 - 490
>120%	550 - 690
Total	**34,080 - 42,600**

Housing production gaps

To determine how the region might work toward meeting estimated demand and closing attainability gaps, the study considers the financing sources and development entities available to build more housing over the next 10 years. Despite the fact that most households in need of more affordable housing options are low-income, there is a limited pool of the subsidies essential to underwriting the income-restricted housing that would best serve them. Therefore, most of the housing production over the coming decade will focus on higher-income market rate housing where there is less reliance on scarce subsidies and greater capacity to finance development on the private market. The charts below summarize the projected housing production mix by income based on this analysis of market potential and funding availability:

Projected 10-year housing production by income level



Income (AMI)	Production target (units)
<30%	480 - 600
30-60%	1070 - 1340
60-80%	600 - 750
80-100%	600 - 750
100-120%	3090 - 3,860
>120%	7,600 - 9,500
Total	**13,440 - 16,800**

Production for households below 100% AMI is essentially capped by subsidy capacity. Units serving households below 60% AMI are typically supported with subsidies such as the federal Low Income Housing Tax Credits (LIHTC) which are issued at the state level on a competitive basis. Housing priced for households between 60-100% AMI are less likely federally or state funded and more often delivered by nonprofit developers in smaller increments.

The income group most in need of new support

Comparing the income distributions across attainability gaps with those across the 10-year production estimate, the most underserved segment is 60-80% AMI. Unlike 60% AMI and below, they are not eligible for most federal subsidies. And, unlike 100% AMI and above, they are not supported by unsubsidized market rate development. Households earning 80-100% AMI are similarly sidelined by these dominant financing systems but the cost burdened 60-80% AMI group is three times as numerous.

Therefore, to target the group that is both in need and also underserved by other programs, a land bank and housing trust fund program should focus on serving households earning below 80% AMI and especially the 60-80% AMI segment.

Put another way, while most other income segments are supported by existing programs and market rate development that will support reaching these targets, the 60-80% AMI production target indicated above may not be achievable without new programs and funding, such as those described below.

The role of a land bank and housing trust fund

Especially within some of the region's more established cities and neighborhoods, there are concentrations of vacant, abandoned, and derelict (VAD) properties that are negatively impacting local communities and creating burdens for municipalities left taking ownership and management responsibilities while losing tax base. A land bank would represent a mechanism to support the process of transforming these properties from sources of blight to vehicles for homeownership. Operating regionally, a land bank could leverage economies of scale on multiple fronts, from administrative capacity to portfolio volume to funding support, to maximize its positive impact in communities large and small across St. Joseph, Elkhart, and Marshall Counties.

Coupling the land bank with a regional housing trust fund would add capacity and flexibility to utilize more public, private, and philanthropic funding sources and support more projects. As described above, focusing housing trust fund support around incomes below 80% AMI - and at the 60-80% AMI group most specifically - would help fill the most significant gap in the current spectrum of financing programs.

As it takes shape, the Regional Housing Collaborative should consider the following recommendations which are based on the Regional Housing Plan's analysis and interviews with dozens of local stakeholders:

- **Bundle parcels for development** so builders can apply economies of scale to make land bank projects competitive with other opportunities from a construction and cost efficiency standpoint. Consider batches of about 10 that are proximate to each other.
- **Prepare sites as shovel-ready** to reduce developers' cost, complexity, and time investment. Before marketing a property, perform site preparation tasks such as demolition, clean up, utility hook-ups, and title cleaning so developers can focus on efficient and affordable construction.
- **Balance funding between new construction and renovation** to introduce more units with less funding. The total units created or impacted can be measured in terms of program investment per unit. Renovation investments can total a fraction of new construction investments, helping stretch supporting funds' resources across more units.
- **Distribute parcels across the local builder community** taking advantage of each builder's strengths to extend the land bank's mission and purpose. For example, allocate portions to nonprofit developers like Habitat for Humanity to leverage their resources and capabilities around affordable homeownership.
- **Introduce revolving funds** that support homebuyers but also cycle back into the program as houses are sold by their first owners. For example, sell homes at appraised value and provide a low interest secondary mortgage to income qualified buyers that must be repaid when they sell the home later. Recycle these proceeds back into the revolving fund for the next new homebuyer.
- **Track program performance and economic impact** as the program launches and grows to measure economic effectiveness and inform policy, procedure changes, and funding allocations over time as needed to help insure investments translate into desired outcomes.

The Regional Housing Collaborative's potential impact

As indicated above, housing for the 60-100% AMI segment is most under-served by current subsidy programs and market rate development. The gap is most acute at the 60-80% AMI level. Based on recent trends, there will be between 2,090 and 2,610 households earning between 60-80% AMI who cannot find affordable housing in the region over the next 10 years. Per the representative budget below, a Regional Housing Collaborative with a $45-50 million budget could produce between 510 and 600 units serving this income level over 5 years, addressing the needs of nearly 25% of this underserved population. Especially if the program scales over time, this impact could approach 50% in 10 years.

Regional Housing Collaborative budget (5 years)	
Housing production (development)	$33,000,000 - $36,000,000
Supporting functions (admin, services, etc.)	$12,000,000 - $14,000,000
Total budget	**$45,000,000 - $50,000,000**

Housing production capacity (5 years)	
Development cost per unit (assumes no land cost)	$210,000 - $235,000
Subsidized price (affordable to 60-80% AMI)	$145,000 - $175,000
Regional Housing Collaborative contribution per unit	$60,000 - $65,000
Units developed	**510 - 600**