



# Build it and they will rent

Can a growing pool of incentives convince developers to tackle more affordable-housing projects?

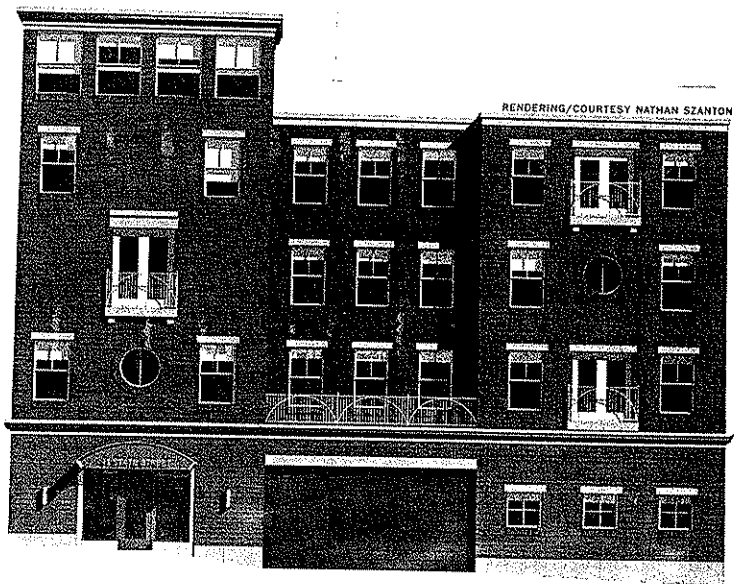
BY TAYLOR SMITH

Nathan Szanton has spent the past eight years as a housing consultant, helping mostly nonprofit groups clear financing and development hurdles for affordable housing projects. Recently, though, Szanton teamed up with investor and real estate developer Robert C. S. Monks to form a for-profit company that plans to develop and manage affordable housing projects throughout Maine. "We've been friends for a number of years, and Robert encouraged me to try a project as an owner rather than a consultant," says Szanton.

The pair's new company is called Maine Workforce Housing, and their first project is Casco Terrace, a 27-unit apartment building — located atop an existing parking garage on State Street in Portland — that they hope to begin construction on in August. Thirteen of the 27 units will be "affordable," or priced more within the reach of lower-income tenants than typical residential developments.

The proposal, which has received city approval, is funded through a combination of tax-exempt bond debt from the Maine State Housing Authority (MSHA) and low-income housing tax credits, which are available to projects with a certain percentage of units priced below market rate. Casco Terrace's below-market rates will be \$624/month for one-bedroom apartments and \$747/month for two-bedrooms. Those prices include heat, hot water and covered and secure parking in the garage below the building. The market-rate apartments will run \$980 and \$1,200 monthly for one- and two-bedroom apartments with the same amenities.

While a strong building climate in southern Maine continues to keep developers busy with privately funded residential and commercial projects, more and larger incentives are succeeding in luring them to build affordable housing. Furthermore, while building and owning affordable housing may not be the cash cow most developers dream of, Szanton admits that it does offer



doing a project that contributes to such a clear need in the community."

### Short supply, giant demand

That need is especially acute in Portland, where residents during the last decade have been faced with a severe shortage of affordable housing options. With vacancy rates in the low single digits and rental costs growing by about 5% annually, city officials are seeing a large segment of Portland's population shut out of the city's housing market — "hijacking the American dream," as MSHA Director Mike Finnegan puts it. As a result, much of Portland's labor market can't afford to live and work in the city — a problem that threatens to damage economic growth in the area, according to development experts and affordable housing advocates alike.

In response, Portland has devoted much of its \$500,000 annual housing budget to increasing the supply of available housing units. Since 2000, the city has either completed or begun construction on more than 400 units of rental housing — a significant effort considering that the 1990s in total saw an increase of only 529 such units in the entire Greater Portland area. "I wish I could say that our efforts could let us sit back and rest," says Karen Geraghty, chair of the Portland City Council's Housing Committee. "But we've built less than 500 units and our comprehensive plan calls for 5,000 units."

It's no surprise that Portland residents are having trouble keeping up with rising housing costs. The U.S. Department of Housing and Urban Development (HUD) advises that rent or mortgage spending (including utilities) should equal no more than 30% of a household's income. Under those guidelines, a two-person household would have to earn \$38,600 a year to afford

the \$965 monthly rent for the average two-bedroom apartment in Portland. But 42% of Portland households have annual incomes of less than \$30,000, and 28% of all households make less than \$20,000. "We've discovered that many of the people working jobs in Portland — from firefighters to restaurant workers, police officers to certified nursing assistants — can't really afford to live here," says Geraghty.

The problem isn't particular to Portland; the dwindling supply of affordable housing is endemic throughout the state. "We're seeing the affordability problem in Boston creep up through New Hampshire and into Maine," says the MSHA's Finnegan. "There's a rental squeeze, and you can see it all the way up the coast to Machias and even in inland areas like Lewiston, Auburn and Bangor." According to MSHA, 56% of

households in 2002 couldn't afford the state average rent of \$782 per month. "What we see happening in Maine is that people in the normal labor sectors are becoming disenfranchised, and that keeps us up at night," says Finnegan.

To answer the demand — and, it hopes, attract developers — MSHA has significantly upped its financing of affordable housing development in the state. In the two years through April 2002, 2,428 units were added to the state's housing stock — almost double the number added during the previous two years. Even so, Finnegan isn't celebrating too robustly. "Affordable housing is an area where we can do five times that and still not meet the demand," he says.

### Helping bridge the "affordability gap"

MSHA's principle role in Maine's affordable housing market is as financier. Its \$1.8 billion balance sheet is primarily made up of mortgage loans through its first-time homeowners program.

But MSHA also deals with the roughly \$2 million in so-called "9% tax credits," low-income tax credits handed out annually to the state by the Internal Revenue Service. In turn, MSHA solicits proposals from developers for those credits, which the developers typically sell to banks or financial institutions at a 20%-25% discount on the dollar. The buyer can then use the credits to lower his or her federal tax liabilities while becoming an equity partner in the developers' projects. In short, the tax credits offer a developer an immediate cash infusion — sometimes large enough to complete a project — without leveraging the project through debt.

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benefits that commercial real estate like office buildings and retail space can't. For one, he points out, housing demand isn't cyclical like the retail and office-space markets. "With affordable housing, at least you're sure that there's a demand for the project, and that once you build it there's no problem renting it out," Szanton says.

Chris Poulin, chief operating officer of Silver Street Development in Portland, agrees. Silver Street recently co-developed Island View Apartments, a 70-unit complex on Portland's Munjoy Hill. "Building affordable housing isn't easy, but you know you can rent [the units] if you build a good product," says Poulin.

Szanton also notes that there can be a dual bottom line in developing affordable housing. "If we manage the project well, there should be a profit," he says. "The social bottom line is that it feels great to be

## Following the money

### Maine State Housing Authority

MSHA's duties include distributing federal funds to developers of affordable housing  
**Contact:** 626-4600 or 800/452-4668  
[www.mainehousing.org](http://www.mainehousing.org)

### Rural Development/U.S. Department of Agriculture

This agency provides financing, loans and grants for the construction and renovation of multifamily housing  
**Contact:** 202/720-4323  
[www.rurdev.usda.gov](http://www.rurdev.usda.gov)

### U.S. Department of Housing and Urban Development/Federal Housing Administration

The Federal Housing Administration (FHA) offers financing to developers for the construction, purchase or rehabilitation of affordable rental housing  
**Contact:** 202/708-1112; [www.hud.gov](http://www.hud.gov)

# Building real estate

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That's exactly the kind of creative financing required to make affordable housing a reality, Szanton says. "Market-rate rents aren't high enough to support the debt needed to build privately developed rental units," he says, adding that rents would have to average about \$1,400 per unit to support the debt.

Poulin of Silver Street Development also

*Encouraging affordable housing: Mark Adelson, Portland's director of housing and neighborhood services, and City Councilor Karen Geraghty at St. Dominic's school, which is being converted into 12 subsidized apartments*



PHOTO BY JAVIER A. RODRIGUEZ

adds that knowing the rules of the game — in this case, the ins and outs of tax-credit and subsidy financing — can help developers succeed in the affordable housing market. "We've done well by learning the ropes," he says, adding that Silver Street's familiarity with the low-income housing tax credits has helped the firm land development deals in 10 states, from Maine to New Mexico.

Another Maine organization that has apparently learned the ropes is Coastal Enterprises Inc. (CEI), a private nonprofit community development corporation in Wiscasset that owns or manages 200 units of multifamily housing throughout the state. CEI recently was awarded a total of \$3.6 million, to be received in annual installments over the next 10 years, in tax credits from MSHA for its proposal to develop and maintain

24 units of affordable workforce housing in Waldoboro. CEI syndicated those credits to the Maine Housing Investment Fund (MHIF) — a chartered nonprofit corporation formed in the mid-1990s by MSHA to buy tax credits for multi-family developments — which then resells those credits to

its investment pool of banks. But instead of \$360,000 a year in tax credits, CEI will receive \$2.8 million from the MHIF to finance its \$3.5 million project. The difference is made up through federal subsidies and capital from CEI, which will plow back into the project roughly 50% of its developer fee acquisition and 15% of construction and other "soft" costs such as architect and legal fees.

"This low-income tax credit program is so valuable," says John Egan, CEI's housing developer, "because we're bringing in an equity partner when we sell the credits and we don't have to look at borrowing money for the project." CEI chose to propose the project for Waldoboro because of rising housing costs in Lincoln County and flat local wages, a combination that creates what Egan calls an affordability gap. "What we're trying to do is create workforce housing for people trying to maintain residence in the community they work in," he says.

Egan and others hope more developers recognize the possibilities in affordable housing: that money can be made while addressing an acute social need. "The good news is that the Maine development community is really building its capacity and expertise on these projects," says MSHA's Finnegan. "I just wish we had three times the capital to do more of them."

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