colorado affordable housing
Developer's Guide

December 2021

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Colorado Housing and Finance Authority (CHFA) would like to thank the numerous partners and collaborators who helped make The Colorado Affordable Housing Developer's Guide possible. The intention of The Guide is to help support local for profit and nonprofit developers, community leaders and advocates seeking to ensure that safe, decent and affordable housing is an intentional and integrated part of their community fabric. The Guide is dedicated to all Coloradans who are seeking housing stability and economic prosperity. We hope this resource paves a path forward for a brighter and stronger future for the entire state.

Special thanks to the following individuals and organizations who contributed to the creation of this Guide:

- Enterprise Community Partners
- Colorado Division of Housing (DOH)
- All focus group participants
- All survey respondents
- Case study participants

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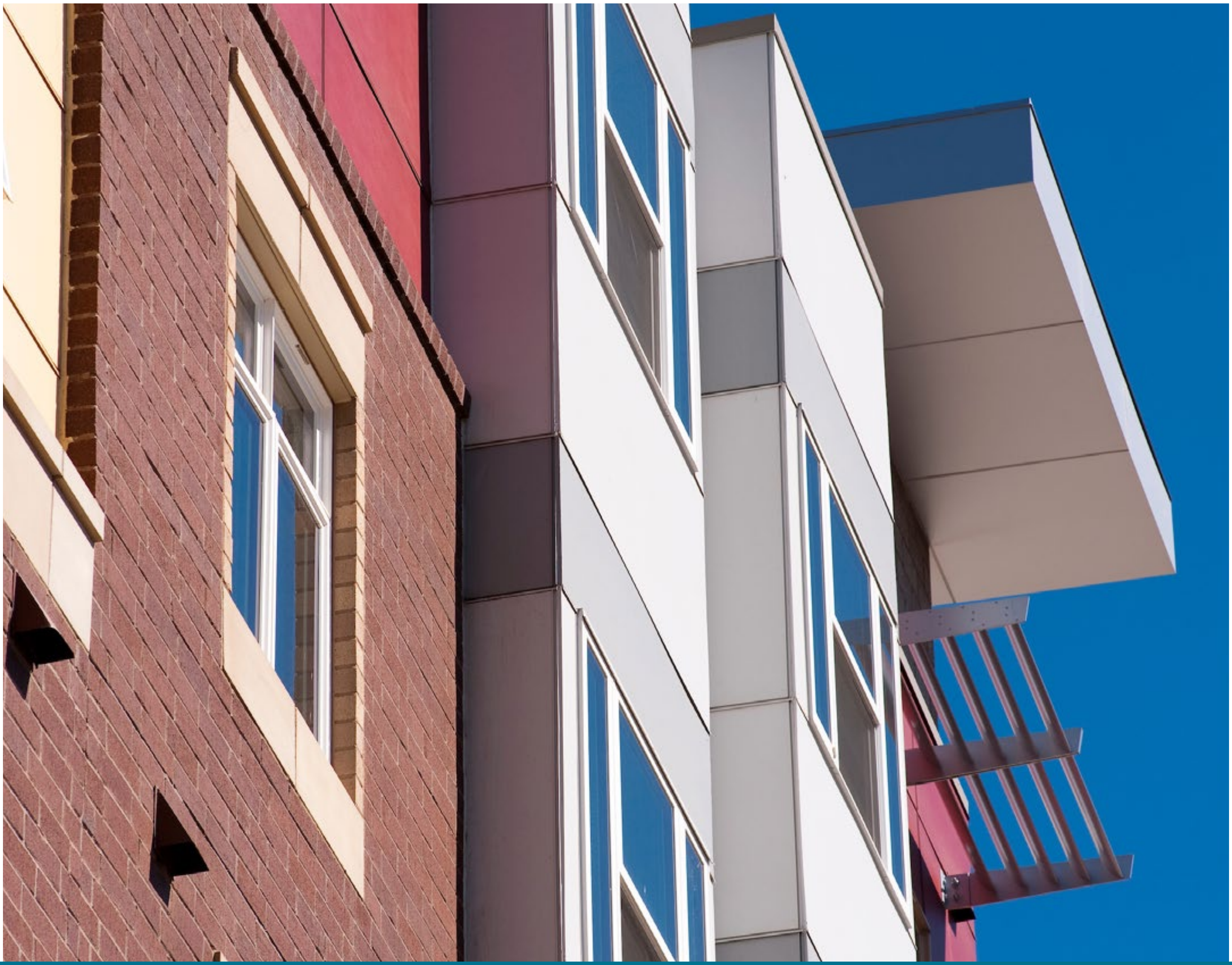
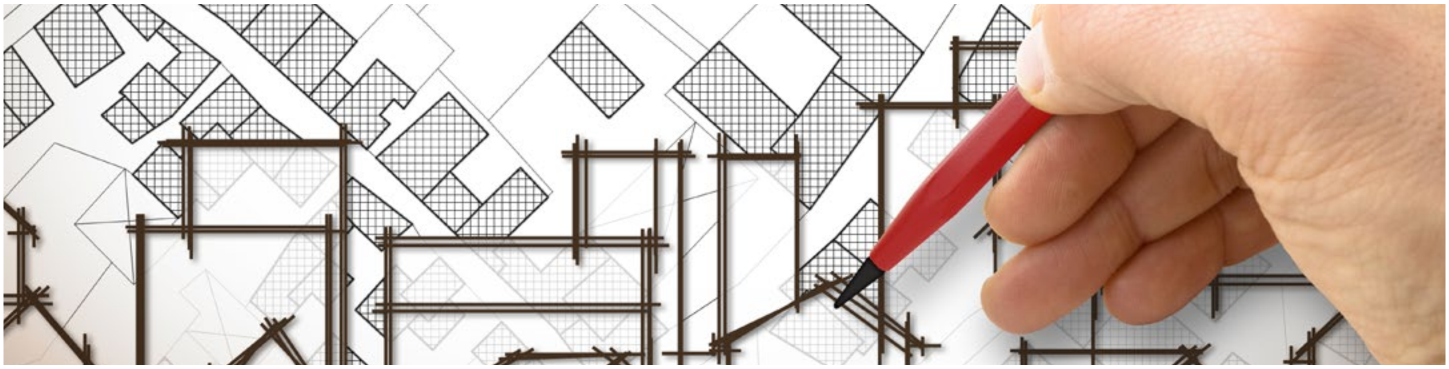


chapter 1:

Introduction to Affordable Housing Development

Learning Objective:

Users will gain familiarity with the affordable housing development process as a whole and understand how this guide can help them plan and execute.



About this guide

Overview

This guide provides a comprehensive overview of affordable housing development in Colorado. In working with local partners in markets across Colorado, CHFA staff recognized the wide range of knowledge and capacity of developers in the state. CHFA created this guide to serve as a reference for those wishing to develop affordable housing and/or better understand the development process. This guide complements CHFA's other resources, technical assistance, and capacity-building efforts intended to support affordable housing development in the state.

The content of this guide is organized into a series of chapters describing key processes and elements of affordable housing development. In addition to these chapters, the guide includes practical tools and links to resources to help users apply the content to their work. Case studies that illustrate key concepts and provide real-world examples of what development may look like are also included.

Although much of the content and examples focus on affordable rental housing development, most of the information in the guide also applies to developing for-sale housing. Key exceptions to this are noted throughout the guide.

About Colorado Housing and Finance Authority (CHFA)

CHFA strengthens Colorado by investing in affordable housing and community development. CHFA offers financial resources to strengthen homeownership, affordable rental housing, businesses, and communities.

Since 1974, CHFA has invested more than $26 billion in Colorado's economy. These resources help:

- homebuyers achieve homeownership,
- households attend homebuyer education classes held statewide,
- affordable rental housing be developed or preserved,
- businesses access capital to support jobs, and
- communities and nonprofits build capacity to further strengthen Colorado.

Who should use this guide

Existing Developers	Seeking tools and resources for different stages of the development process or who are interested in exploring a new development model or scale
Aspiring Developers	Seeking to explore the feasibility of affordable housing development for their organization
Developers Based in Other States	Seeking to understand the differences between developing affordable housing in Colorado and developing in other states with which they are familiar
Public Officials and Community Stakeholders	Seeking to understand the housing development process so that they can better support it
Staff at Housing-Focused Organizations	Seeking to learn more about aspects of development with which they may be less familiar

How to use this guide

The guide can be used in print, digital PDF, or online form. The online form can be found at the following URL: **https://developers-guide.chfainfo.com/**. The online version provides additional features and interactivity that offer a more rich experience – for example an interactive glossary, interactive tools, and more interconnection between sections. The online content can be navigated using the interactive navigation panel located on the right side of the screen.

Because the content is organized into chapters, tools, and case studies, users can download, print, and work through sections of the guide separately using the **download management interface**.

In addition, the guide has recorded a series of **video trainings** that explain key content and tools.

What is affordable housing?

Introduction to housing affordability

Housing affordability is an important consideration for everyone, regardless of income. Whether a household earns $250,000 or $50,000 annually, they must balance how much they can afford to spend on housing costs so they have sufficient income for other needs, such as food, clothes, transportation, medical expenses, and savings for emergencies. The higher the cost of living in a home relative to a household's ability to pay, the less affordable it is.

Although there is no universal definition of how high housing costs have to be for them to be unaffordable, the most commonly used definition in the U.S. is that housing costs are affordable if they represent no more than 30 percent of a household's gross income on an annual basis.[i] This is the definition used by CHFA and the U.S. Department of Housing and Urban Development (HUD).

- For renters, housing costs are generally captured as the total annual costs of rent plus any utilities the tenant pays out of pocket. Including utilities in these calculations is important because it allows for more even comparisons across rent payments, since some rents and condo fees include some or all of the cost of utilities while others do not.

- For homeowners, housing costs are generally captured as the total annual costs of the mortgage payment, utilities, property taxes, homeowners insurance, homeowner or condo association dues, and any private mortgage insurance paid.

Income is generally captured as the total annual gross income (income before taxes or other deductions are taken out). Capturing both income and housing costs on an annual basis instead of monthly is important because there can be seasonal or other variations in both of these values over the course of the year – some jobs may require more hours or pay better at certain times of the year. Utility costs may vary with the weather. Property taxes and insurance may only be paid a few months out of the year.

Households paying more than 30 percent of their income for housing costs are considered "housing-cost-burdened." Those paying more than 50 percent of their income for housing costs are considered "severely housing-cost-burdened" or "extremely housing-cost-burdened." These terms are often used interchangeably.

Affordable housing definition

Affordable housing means housing that costs no more than 30 percent of income for a given income level. In other words, the question you should be asking when thinking about affordable housing is not "is this affordable housing?" but rather "to whom is this housing affordable and are they in need of more affordable housing options?"

This also means affordable housing can take a variety of forms, depending on the populations in need of it—large apartment buildings, single family for-sale homes, and everything in between can be affordable to particular populations. Affordable housing also does not need to have any form of public support or subsidy to be affordable at a given income level. In fact, in the housing development world, we often differentiate between subsidized and unsubsidized affordable housing to draw that distinction. Both subsidized and unsubsidized affordable housing can help meet community demand, but as discussed later in this guide, also carry distinct advantages and disadvantages.[ii]

Calculating Housing Affordability

As an example, consider a household earning a $50,000 annual salary and paying $1,200 per month for an apartment, including the cost of utilities, or the equivalent of $14,400 per year. Is their housing affordable to them? In this case, their housing cost represents 29 percent of their annual income for housing costs ($14,400/$50,000), which would be considered affordable to them.

You could do this same calculation for a homeowner. If a homeowner earned $50,000 per year and had a total housing cost of $14,400 per year (including mortgage payment, taxes, insurance, utilities and all other factors mentioned above), their housing cost would also represent 29 percent of their income and would thus be affordable to them.

You can also think about this question from the perspective of the income required to afford a given housing cost. For example, if an apartment rents for $1,500 per month including utilities, who would this be affordable to? To calculate this, multiply by 12 months to get the annual cost ($18,000) and then divide by 30 percent, which is $60,000. This apartment would be affordable to anyone earning $60,000 or more. The principles are similar for for-sale housing, but buyers must also be sure to consider other factors such as down payment and interest rate.

Targeting affordability using area median income

The question of who needs more affordable housing is a complicated one. Imagine two Coloradans who each earn $50,000 per year. One lives in Denver and is single with no children. The other lives in Pueblo and is a single parent of two young children. How do their needs for affordable housing compare?

Instead of using a specific dollar threshold such as $50,000 per year, affordable housing developers, programs, and policies use a measure of income that accounts for the typical income in the housing market they live in, also called the Area Median Income (AMI). Income for the purposes of affordability calculations is expressed as a percentage of the AMI. For example:

- A household earning $40,000 per year in a region where the AMI is $80,000 would have an income level of 50 percent of the AMI.
- If that same household lived in a region where the AMI is $50,000, they would have an income level of 80 percent of the AMI.
- A household earning $40,000 per year in a region where the AMI is $40,000 would have an income level of 100 percent of AMI.

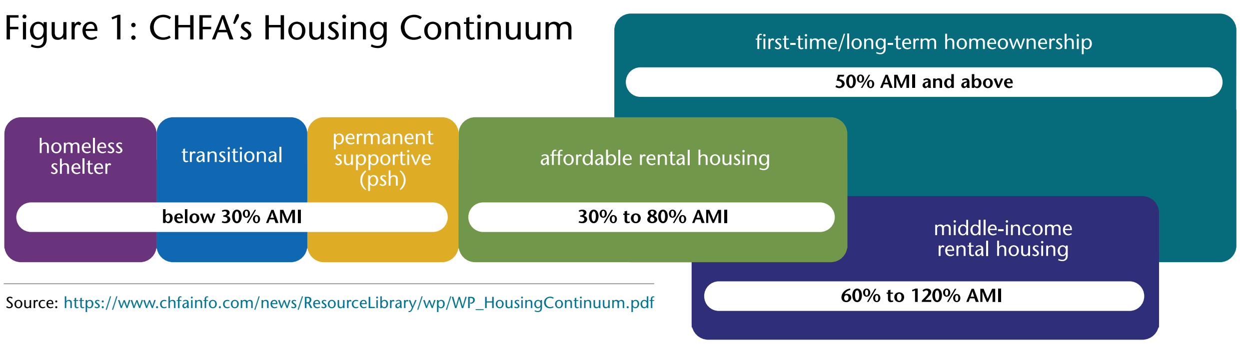
Although this may seem like a complicated way to capture income, it is critical for affordable housing developers to understand. This approach enables public and nonprofit programs to target a level of housing needs across communities with different market conditions. For this reason, most federal, state, and local programs will describe housing needs and programs in these terms.

If a development is supported by funding from a public sector agency such the federal government or a state agency, the funding program may impose restrictions on who can live in a unit based on the percentage of the AMI they earn. For example, a development with 40 apartments might be required to have 20 apartments affordable to families earning 30 percent of the AMI or below and another 20 apartments affordable to families earning 50 percent of the AMI or below. All 40 units are forms of affordable housing, but they are targeted to families with different income levels.

The most common income thresholds used for affordable housing targeting are 30, 50, 60, 80, 100 and 120 percent of AMI. You will encounter this targeting regularly in housing needs assessments and funding programs. You may also see specific ranges referred to with labels. For example, households with incomes between 0 and 30 percent of the AMI are often referred to as extremely low-income. Other labels like *very-low-income*, *low-income*, *moderate-income*, and *workforce housing* are also common. Unfortunately, there are no universal definitions for what these labels refer to, so organizations may use them differently. For example, one organization might use "workforce housing" to mean housing affordable to those with incomes above 50 percent of the AMI. Another organization might use the same term to refer to those with incomes above 80 percent of the AMI. Therefore, it is critical that developers pay attention to the percent of the AMI itself and not the label being applied to it.

Figure 1 shows CHFA's Housing Continuum, which illustrates the general relationship between a household's income level and the type of housing that may be affordable to them, although this will realistically vary between housing markets. These housing models are defined and explored in more detail in **Chapter 3: Housing Development Models, Team, and Roles**.

Figure 1: CHFA's Housing Continuum



Source: https://www.chfainfo.com/news/ResourceLibrary/wp/WP_HousingContinuum.pdf

Table 1 – HUD FY 2021 Income Limits for Alamosa County, Colorado.[iii] Median family Income in the county is $52,300.

	Number of People in Household							
	1	2	3	4	5	6	7	8
80% of the AMI	$41,200	$47,050	$52,950	$58,800	$63,550	$68,250	$72,950	$77,650
50% of the AMI	$25,750	$29,400	$33,100	$36,750	$39,700	$42,650	$45,600	$48,550
30% of the AMI	$15,450	$17,650	$21,960	$26,500	$31,040	$35,580	$40,120	$44,660

In addition to adjusting for the AMI in the location, housing programs typically adjust income thresholds based on the number of people in the household. This helps to account for the fact that larger households will need larger, and therefore more expensive, units. For example, Table 1 below shows the dollar thresholds used by HUD for a household to qualify for income-restricted housing in Alamosa County in fiscal year 2021 relative to the number of people in the household. As you can see, "30 percent of the AMI" can refer to a wide range of incomes once household size is accounted for.

Specific dollar thresholds like these are published by HUD at the county and metropolitan statistical area (MSA) levels, with all counties in the same MSA having the same thresholds to account for the fact that people looking for housing in a region will often be looking across jurisdictional boundaries. HUD also applies additional rules to account for special cases and outlier conditions. This includes setting floors or caps on income limits based on:

- poverty thresholds,
- high or low housing cost area designations,
- the relationship to the U.S. median family income level,
- The median family income in non-MSA areas of the state, and
- the change in the income limits from the previous year.

These methods can sometimes result in counties having similar income thresholds even when they have different housing market conditions. While it is important to understand the general methods outlined above, if you are planning to utilize a public program that requires rent restrictions, it is recommended that you rely on the published thresholds rather than trying to calculate dollar thresholds yourself.

The relevant thresholds should be published and/or available upon request from the organization that administers the program being used. HUD thresholds are updated each year, usually in March or April. For more information about income limits for your county, see **HUD's Income Limit Tool**.

Housing needs in Colorado

The need for greater housing affordability is a nationwide issue, and Colorado is no exception. According to a 2019 report by the Colorado Division of Housing (DOH), who engaged 868 stakeholders across the state to better understand housing needs:

"In general, there is a housing shortage, with very limited housing stock across the state, and much of existing housing stock is aging or otherwise of poor quality, especially mobile homes. Stakeholders were also vocal that the price of housing has 'skyrocketed' and is 'astronomical.' The high costs of land, labor, and construction materials makes new development very difficult, especially in remote rural regions where contractors are far away and developing infrastructure is costly. Stakeholders demonstrated need for a diverse housing stock, including single family, multifamily, townhome, duplex, four-plex, supportive housing, accessory dwelling units, and more… numerous stakeholders also expressed that housing needs cover a wide spectrum of individuals—from those experiencing homeless to households at 200 percent of the Area Median Income (or AMI; the median income for a household of three ranges from roughly $50,000 to $100,000 depending upon the county of residency). Finally, many stakeholders discussed that limited staff capacity, especially in rural areas, makes it difficult to adequately respond to the situation."[iv]

The report goes on to discuss more specific needs and stakeholder perceptions in different regions of the state. As this quote demonstrates, the need for greater housing affordability is acute, wide-ranging, and varied across regions in Colorado. The data also support these stakeholder perceptions. According to CHFA's **Gap Map 2021 Dashboard**, among renters:

- **79** percent of households earning 30 percent of AMI or below are housing-cost-burdened
- **66** percent of households earning 31 to 60 percent of AMI are housing-cost-burdened
- **44** percent of households earning 61 to 100 percent of AMI are housing-cost-burdened
- **5** percent of households earning 100 percent or more of AMI are housing-cost-burdened
- On average, a Colorado household would need to earn **121** percent of AMI to afford to purchase the median-priced for-sale home in the state.

This reinforces the findings from the DOH report that need exists at all points on the income spectrum and that more affordable housing in all its forms will be needed statewide. CHFA's 2018 white paper "**The Housing Affordability Gap**" further explores the need for more housing of all types and details factors contributing to Colorado's current market conditions.

Although housing needs are present across the state, there are differences between communities regarding what has given rise to this need, and therefore, what challenges and conditions need to be considered in addressing these housing affordability gaps. Proposing a high-rise apartment building might be an efficient use of high-cost land in an urban area but may or may not be a feasible or desirable approach in a rural area. Some communities may be resistant to new development occurring, while others may welcome it. Thus, consideration for the local housing market context is critical. For more information on understanding local housing needs and conditions, see Understanding Housing Need in **Chapter 3: Housing Development Models, Team, and Roles**.

Colorado market types

This guide refers to market conditions using the three market types described below. This generalization will help you consider some of the combinations of conditions you may encounter working in different parts of the state. However, every market is unique—some regions may align with one or more of these types and others may have their own character. So, these can be thought of more as a learning tool rather than a way to label real markets. You will still need to understand the specific housing needs and market conditions in a community in which you plan to develop.

Market Type	Locations	Typical Market Characteristics
Urban	Housing markets of major metropolitan areas such as Denver, Boulder, Fort Collins, Colorado Springs, Pueblo, and Grand Junction typically have an urban character	• Typically have good access to jobs and amenities • A wider range of potential partner organizations for developers, including other developers, contractors, service providers, property managers, and community organizations • Housing affordability gaps across low- and moderate-income levels • Some local neighborhoods may be more likely to actively engage affordable housing development (see "**Who Are Community Stakeholders?" in Chapter 4: Engaging the Community**.) • Access to public transportation, employment centers and retail, and amenities may be relevant issues for target populations. • Likely to be detailed land use regulations and building codes to regulate, shape, and/or encourage development • Wide variation in housing types, from single family homes to large multifamily buildings • There are challenges related to water and tap fees in some areas.
Resort	Areas that have ski resorts and/ or prominence of second/vacation homes – generally in the mountains	• Smaller communities are often in proximity to recreational opportunities • Municipalities may have more resources, relative to their size, to invest in increasing housing affordability due to the presence of greater second-home investor tax base, tourism, and commerce in the community. • Often have limited land availability for development due to the allocation of land for recreational or park use • Previously undeveloped sites may lack existing connections to utility systems, imposing additional development costs. • High land values and affordability challenges at income levels up to 200 percent of AMI due to a housing market focused on serving more affluent buyers • Distance to contractors and construction materials results in high development and housing costs. • Often have good job access due to the tourism economy, but the lack of affordable housing forces many workers to absorb longer commuting times, increasing their transportation costs • Can be a lack of housing that is available to rent for long periods of time, given the seasonal cycles of the tourism economy • Higher profit margins for high-end homes decrease the profit incentive to develop affordable housing. • Exposure to harsh winter weather may reduce life span of housing stock requiring weatherization and home rehab to maintain safety and livability. • The limited supply of affordable rental housing may also lead to overcrowded housing. • There are challenges related to water and tap fees in some areas. • Lack of affordable housing impacts employers seeking to attract/retain employees.
Rural	Areas that are not urban but don't have the same emphasis on resorts and second homes as resort communities	• Land availability is likely to be less of an issue compared to urban and resort markets although infrastructure such as water and utilities might not be in place. • Likely to be less complex land use regulations and building codes compared to urban areas • Housing developments tend to be smaller scale, which can reduce savings from larger economies of scale and make key financing programs less suitable for use. • Distance to contractors and construction materials may result in higher construction costs. • Lack of affordable housing impacts employers seeking to attract/retain employees. • There are challenges related to water and tap fees in some areas. • Exposure to harsh winter weather may reduce life span of housing stock requiring weatherization and home rehab to maintain safety and livability. • May have less discretionary resources or staff capacity to incentivize affordable housing development.

Key themes in this guide

In addition to the housing needs discussed above, this guide highlights a set of three key themes. While there are specific points in the development process when these are particularly relevant, they are also important lenses to maintain throughout.

Theme 1: How can affordable housing developers advance diversity, equity, and inclusion (DEI)?

While often used together to describe related principles, diversity, equity, and inclusion mean different things. Diversity is appreciating the similarities and differences among individuals. Inclusion is making decisions through the process that engage, embrace, and leverage diverse perspectives. Equity is fostering a culture and creating systems where people thrive, and everyone gets what they need given where they are starting from.

In this guide, equity means recognizing that the needs of specific populations will vary by location and development goals, and that some populations experience inequitable housing challenges and outcomes. These populations include racial and ethnic groups, veterans, older adults, people who have experienced homelessness, neurodiverse people, and those with special needs. For developers, this means working to understand the role of housing and any associated services in people's lives, seeking to meet them where they are. Affordable housing often disproportionately houses historically marginalized populations. As a developer, you can work to understand the reasons for this and consider how you can address the underlying factors driving these inequities as part of your work.

For more information about advancing diversity, equity, and inclusion in affordable housing development, see the **Diversity, Equity, and Inclusion Self-Assessment Tool**.

Theme 2: How can affordable housing developers increase the disaster resilience of the buildings they create and the people they serve?

In recent years, natural disasters have been occurring with greater frequency and severity as our global climate changes and impacts local conditions across the country. Natural disasters including, but not limited to, wildfires, flooding, mudslides, tornadoes, and hail often have disproportionate impacts on low-income and other vulnerable populations because they lack a financial buffer to secure temporary alternatives to housing, maintain their jobs remotely, and generally recover from the financial impacts of the disasters.

This makes it important for developers to consider disaster resilience as a lens in their work—both to mitigate the immediate risks and account for the likelihood of increased risks over time as the climate continues to change.

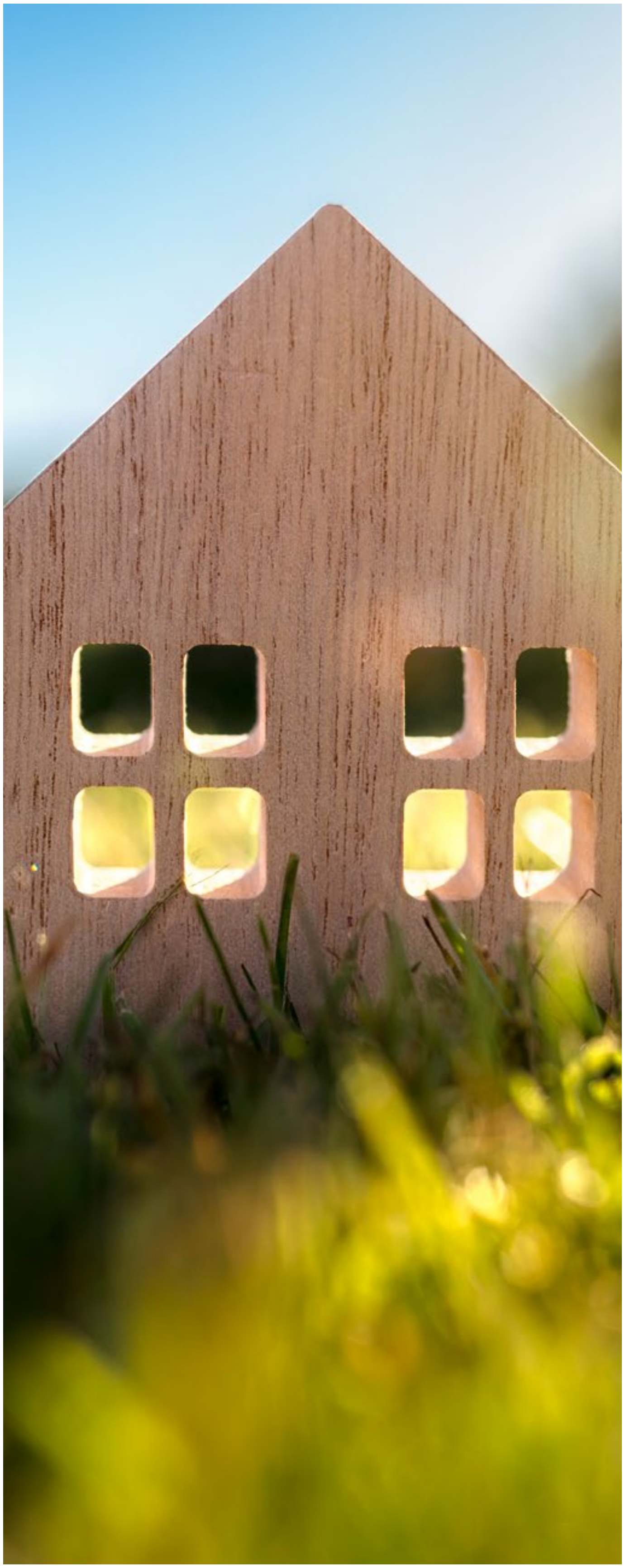
For more information about improving resilience in multifamily housing developments, see Enterprise Community Partners' **Ready to Respond: Strategies for Multi-Family Building Resilience** and **Portfolio Protect tools**.

Theme 3: How can affordable housing developers create sustainable and energy-efficient developments that provide healthy spaces for residents to thrive?

Green and sustainable building practices are relevant to every part of the housing development process and can have positive impacts for developers, residents, and the environment:

1. Reducing the carbon footprint and emissions in both the production and operation of housing is important for reducing environmental impact.
2. The increased efficiency in energy and water consumption reduces the environmental burden of development and the operating costs for property managers and residents while increasing housing affordability. Recall that total housing costs account for utilities, so reducing utility burden is another way of directly reducing housing-cost burden.
3. Green and sustainable materials often have positive health and quality-of-life impacts on residents relative to some alternatives.

For more information about this topic, see the **Green Building and Sustainability brief**.



Development process overview

The affordable housing development process can be understood as a series of five primary phases, each of which has several processes and decision points that are important to understand and build your capacity. Some phases require unique skillsets and expertise that may require partnering or contracting with another organization to complete. Other skillsets, such as engaging the community, will be valuable in all steps of the process.

Development Phase	Description	Associated Chapters in this Guide
Phase I: Developing the Concept	This phase focuses on understanding (1) the need for affordable housing and other associated services in the community, (2) the types of housing that could respond to that need, (3) the capacity of your organization to play the roles that will be required to develop this type of housing, and (4) where additional partnership will be needed.	**Chapter 2: Organizational Considerations** **Chapter 3: Housing Development Models, Team, and Roles** **Chapter 4: Engaging the Community**
Phase II: Predevelopment and Feasibility Assessment	This phase translates your concept into a specific development scope, including (1) identifying and securing a site for development, (2) developing a design concept, and (3) completing various feasibility assessments and cost estimates.	**Chapter 5: Predevelopment** **Chapter 6: Market Feasibility** **Chapter 7: Financial Feasibility**
Phase III: Securing Financing	This phase focuses on securing the financing required to complete and operate the development over time, including (1) assembling financing from multiple sources and (2) preparing multiple versions of project documents to comply with different funder requirements.	**Chapter 7: Financial Feasibility**
Phase IV: Development	This phase involves (1) the final contracting, design, and site preparation for construction and (2) the actual construction or rehabilitation of your development.	**Chapter 8: Project Construction**
Phase V: Post-development (Management, Operation and Compliance)	This phase includes (1) identifying and signing leases with tenants, (2) creating agreements with service providers, (3) managing the property, and (4) long-term stewardship.	**Chapter 9: Project Operations and Compliance**

The complexity, timescale, and dependence of the development process can be unpredictable with unexpected twists and turns. For example, an environmental review might turn up an unexpected issue, an expected financing source may be withdrawn, or the price of lumber may skyrocket due to an unforeseen global pandemic. Thus, flexibility, adaptation, and persistence are key characteristics of successful developers throughout each of these phases.

This guide utilizes case studies to illustrate each development phase or topic area with real projects from Colorado. The full case studies are available at the end of the guide or as links in the navigation pane on the right side of the screen.

Where to find help

Learning how to develop affordable housing can feel intimidating and it can be difficult to know where to begin. However, the need for quality affordable housing in Colorado is great, and we must tackle this challenge together.

Fortunately, you are not alone in this journey. There are several national and Colorado-based organizations that can help you expand your knowledge and ability to undertake development, including:

1. **CHFA**: CHFA provides a range of resources for new developers or those aspiring to take on new development models. In addition to this guide, you may also find the following resources from CHFA helpful:

    a. A **series of live and recorded trainings** that expand on this guide and allow for a more interactive experience.

    b. CHFA program staff and community relationship managers can assist you with information about how to access and use CHFA's resources including construction and permanent loans, gap funds, housing tax credits, and technical assistance to support your goals. CHFA's team also can connect you with other community partners and resources available. Information about CHFA's staff is available on CHFA's website, **chfainfo.com**.

    c. **Reports and other resources** that can improve your understanding of issues related to affordable housing development

    d. CHFA's Small-scale Affordable Housing Technical Assistance Pilot Program offers free technical assistance for small-scale housing development from a stable of expert consultants maintained by CHFA and is available through a competitive application process.

2. **Colorado Division of Housing (DOH)** provides a range of products and services for developers, including trainings, financial support, reports and data on housing conditions, and **regional development specialists** who have knowledge targeted to specific markets in the state.

3. **USDA Rural Development** maintains multiple rural development offices across the state that support a range of programs, including some relevant to multifamily housing.

4. **Housing authorities and local jurisdictions** local housing authorities and jurisdiction staff have significant experience and knowledge about key stakeholders, processes, rules and regulations that are applicable. It is important to build relationships with these key stakeholders early in the process.

5. **Additional organizational and information resources** applicable to various stages of the development process are included in the relevant chapters of this guide.

Bibliography and additional resources

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i. One common example of a different approach to affordability and ability to pay for housing costs is the one used in mortgage underwriting where ability to pay is treated differently. Assets and debt are considered alongside income, etc.

ii. When engaging stakeholders, you may encounter a different usage of the term "affordable housing" where it is used to mean housing that specifically involves some form of public sector assistance to make it affordable to a wider range of incomes. This is a problematic usage, since a housing development does not need to have public sector assistance to be affordable at a given income level, and a housing development that has public sector assistance isn't necessarily affordable to all income levels. We therefore do not use the term in this way in this guide, but it is worth being aware of this usage to avoid confusion in dialogue.

iii. U.S. Department of Housing and Urban Development. "Income Limits." Accessed August 1, 2021. **https://www.huduser.gov/portal/datasets/il.html**

iv. Colorado Division of Housing. "Stakeholder Engagement: Engaging Stakeholders on Affordable Housing Policy in Colorado." February 6, 2020. **https://drive.google.com/open?id=1eF3Tedw4Tdr7Vtrb44jxVt92qUdAUf4p&authuser=0**

chapter 2:

Organizational Considerations

Learning Objective:

Users will understand how to leverage and build their organization's capacity for affordable housing development and learn how to create a development action plan.

Who develops affordable housing?

Many different kinds of organizations can develop affordable housing. An existing organization may recognize affordable housing development as a component of their broader mission. Or, an organization may be formed exclusively for this purpose. Organization type can have an impact on why and how an organization pursues development, as well as the funding sources to which they have access. This section covers some general implications of organization type, but for more information about specific financial resources, see **Chapter 7: Financial Feasibility** and this guide's **Funding Sources Inventory**.

Overview: Who develops affordable housing?

Public Sector	For-profit Organizations	Nonprofit Organiztions	Joint Ventures

Public sector organizations

Public housing authorities (PHAs) are the most common public sector developers of affordable housing. PHAs are responsible for the management and operation of local public housing programs, so they generally have deep experience with utilizing federal assistance programs, property management, and federal compliance and monitoring issues. They often provide other services such as homeownership opportunities for qualified families, employment training opportunities, and support programs for the elderly. PHAs may develop directly or partner with other developers to complete their objectives.

In Colorado, PHA developers can access DOH federal funds as grants and are eligible for property tax exemptions.[v]

Private, for-profit organizations

For-profit developers are a key partner in providing affordable housing. Many small-scale, mom-and-pop developers operate as for-profit entities. In addition, larger or national for-profit housing developers often can leverage economies of scale, and strong staff capacity and expertise to develop affordable housing successfully.

For-profit affordable housing developers may not earn profit to those developing market rate housing. However many are still successful in meeting organizational financial goals while contributing to a community need.

Private, for-profit organizations typically rely more heavily on conventional equity and financing for development but can also utilize public support where they are eligible. For example, a public contribution of land or infrastructure subsidy to decrease the cost of development might increase the ability of the developer to offer affordable rents or sale prices. These organizations may also partner with nonprofit organizations for service provision to better support resident needs and leverage public resources for services. In addition, some for-profits offer pro bono consulting or technical assistance to nonprofits seeking to enter the affordable housing space.

Some philanthropic grants and public programs may specifically exclude for-profit organizations from eligibility, so it is important to research all program requirements.

Private, nonprofit organizations

Nonprofit organizations vary widely in structure, mission focus, and strengths they can leverage to become successful affordable housing developers. Below are common types of nonprofit organizations that develop affordable housing.

Community and social service providers

These organizations have a deep understanding of resident physical and service needs arising from their experience. This knowledge can help them tailor the design and programming of the development to the population's needs. Affordable housing can serve as a complement to the organization's existing services and provide an additional platform for service delivery to key populations, particularly if the services can be provided onsite at the housing development.

These organizations typically receive grants and public funding for the services they provide, for which other housing operators who do not specialize in service provision may not be eligible. For organizations that maintain multiple developments, there may be efficiencies of scale in providing services to sites or through existing service centers that enable them to provide services that another developer would not have the scale to sustain.

Community development corporations (CDCs)[vi]

Although not all CDCs develop housing, this is a common activity for many. CDCs typically have a specific geographic focus that may afford them local expertise and credibility but also limits their potential development footprint outside the area they serve.

CDCs can utilize diverse funding from private philanthropic and public sources to sustain the organization and support development activities. This may enable them to target families with lower income levels or other populations that can be otherwise difficult to serve.

CDCs are also one of two types of nonprofits that are eligible to apply for **HUD Section 4** capacity-building funding through national intermediary organizations such as Local Initiatives Support Corporation, Enterprise Community Partners, and Habitat for Humanity that can help them build their capacity to develop and sustain affordable housing.

Community Housing Development Organizations (CHDOs)

CHDOs are nonprofit, community-based organizations with the ability to develop affordable housing. To be designated, CHDOs must meet specific federal criteria for structure, capacity, experience, and legal status. The primary benefit of this designation is that CHDOs are eligible to use funds from a mandatory 15 percent set-aside of funding from HUD's Home Investment Partnerships (HOME) program. This is discussed in more detail in **Chapter 7: Financial Feasibility**. To be eligible for funds, CHDOs must be certified by the state or local jurisdiction administering the HOME funds.

CHDOs are also one of two types of nonprofits that are eligible to apply for **HUD Section 4** capacity-building funding through national intermediary organizations such as Local Initiatives Support Corporation, Enterprise Community Partners, and Habitat for Humanity that can help them build their capacity to develop and sustain affordable housing.

Land banks[vii]

Land banks in Colorado are nonprofit organizations created to acquire, hold, manage, and sometimes redevelop property to return these properties to productive use to meet community goals, such as increasing affordable housing or stabilizing property values. Many also possess unique authorities to clear titles and forgive back taxes. Note that a land **bank** is different from a land **trust**, which is an entity that is set up to hold land for the benefit of other parties. See **Community Land Trusts in Chapter 3: Housing Development Models, Team, and Roles** for more detail.

Land banks can play a range of roles in affordable housing development, including:

- directly developing or rehabilitating land and structures;
- providing a mechanism for assembling parcels of tax-delinquent or abandoned properties for redevelopment;
- acquiring and holding strategically valuable properties until the community can develop them as affordable housing;
- acquiring properties to convert to other uses such as retail, parks, or open space for flood mitigation;
- holding and maintaining properties until a strategy for disposition is determined;
- packaging adjacent properties together for sale to a developer; and
- helping limit a developer's holding costs until construction begins.

Other mission-oriented housing and community development organizations

Nonprofits do not need to be any of the above special designations or statuses to develop affordable housing. A wide range of nonprofit developers operate similarly to private, for-profit organizations. They may be eligible for many types of grants and other funding that for-profit entities may not and may be more likely to use public sources of funding, so may find it valuable to have staff with expertise in public programs. A nonprofit starting off as a developer may find it valuable to work with a for-profit or other nonprofit, such a service provider, who is aligned with their mission or the populations they serve.

Joint ventures

A joint venture is created when two or more companies/organizations formally partner to share resources for specific real estate and community development transactions. Within this partnership, developers can acquire greater access to development sites, financing sources, staff capacity, and community support. Every real estate deal is different, and each partner offers its own strengths, weaknesses, and objectives.

For example, if an organization has the financial strength to undertake development but does not want to take on the risk associated with providing guarantees, they might seek a joint venture with another organization willing to play these roles. This is common with organizations whose primary function is not housing development, such as social service agencies, that may need to spend a lot of time working through development questions with their board of directors and other administrators.

Even if an organization can develop on its own, it may still seek a partner for other reasons, such as increasing the number of projects it can pursue simultaneously, adding financial strength, accessing predevelopment funding, combining differing strengths, or expanding into new markets. Private developers in Colorado can also form a joint venture with public housing authorities to take advantage of public housing authorities' property tax exemption.

When considering whether a joint venture is a good option for your development, consider:

- Who to partner with. Partners for joint ventures should have aligned missions and values, and an acceptable financial condition.
- The type of roles and relationships that would best serve your organization's needs.
- How to handle risk. All parties relevant to the partnership need to understand the financial and reputational consequences associated with development. Regardless of whether your organization is providing guarantees, issues such as cost over-runs and project delays may impact your relationship with government and financial partners and, ultimately, your ability to participate in future deals.
- How the developer fee and cash flow will be shared. For example, a party that brings land often receives a share of the developer fee, even if that party does not otherwise contribute financially to the deal.

For more information on joint ventures, see Enterprise Community Partners' **Joint Venture Guidebook**.

Key developer roles

There are many organizations that can be developers, but not all organizations that develop do the same things. Although there are many important roles involved in development, there are typically three key roles:

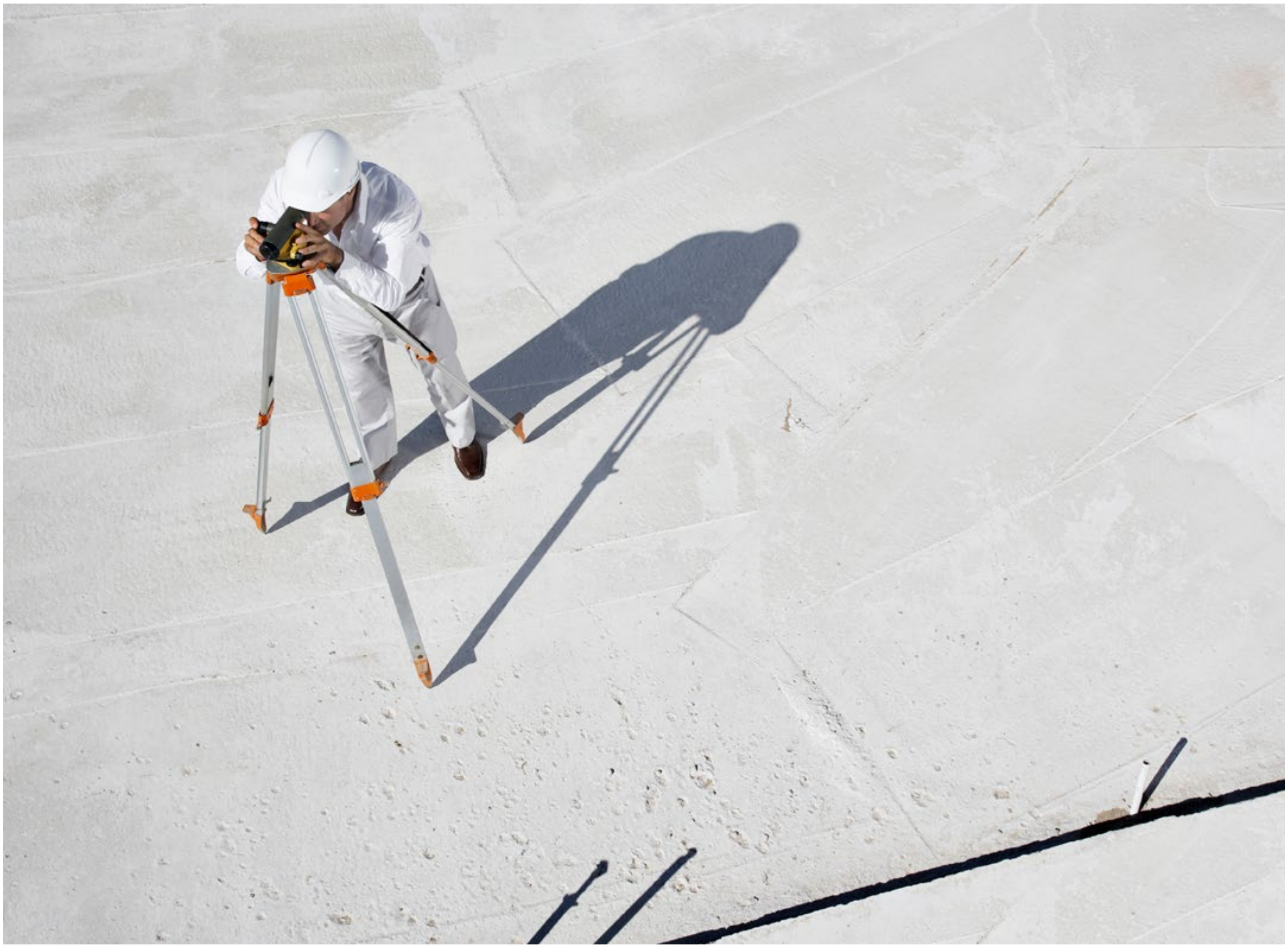
Developers identify and secure the site, assemble the other organizations involved (design, construction, property management, etc.), and identify and secure financing for the development.

Construction Managers manage and implement construction, through contractors where relevant, and oversee construction finances.

Property Managers oversee and operate the property after construction is complete, including leasing the units.

An organization may choose to play one or all these roles for any given development and may have different levels of comfort in the same role from one project to the next. For example, an organization may be comfortable playing the construction manager role for a single family home but may seek an outside construction manager for a large multifamily project given the greater complexity.

This is discussed in more detail in **Chapter 3: Housing Development Models, Team, and Roles**.



Assessing your capacity to develop

Why is capacity an important consideration?

To be successful in developing affordable housing, it is important that you understand your own organization's capacity to develop—the strengths you bring and areas where you will need support or partnership. Development itself can be a multi-year process and operating the property can extend far into the future. The financial investment and liability can be significant. Thus, developing without the required skills, resources, and expertise can be very costly and have long-term impacts on your organization. While this doesn't mean you need to have deep experience to develop affordable housing, it means that understanding and accounting for the limits of your experience is strongly encouraged.

Even experienced developers depend on partnerships and consultants to perform specific services and fill capacity gaps. There are many roles in the development process that developers often rely on other organizations to fill, such as architects, planners, general contractors, environmental experts, property managers, service providers, accountants, lawyers, and/or financing experts. As a developer, you may feel your primary role is developing relationships with a series of experts who have the skills a developer should have. This reliance on others' expertise is an important way that many developers work.

Partnerships with other developers are another way to fill capacity gaps and may be especially helpful when undertaking your first development or when pursuing a new type of development that may introduce additional complexities and nuances. Unlike some industries in which competition and trade secrets are barriers to partnership, it is relatively common for developers to work and learn together on projects.

Regardless of your approach to filling capacity gaps, it is important to allow for the time and space required for individual and organizational learning to take place. This can mean setting aside time to read about key topics and attend a training, or reserving time in team meetings to reflect on recent lessons learned.

In addition, don't be afraid to ask questions—this is an important part of learning. There are many stakeholders you will encounter who want you to succeed in developing affordable housing and will help you learn the process, including funders, public officials, contractors, community members, and other organizations that develop housing or support developers. Some of these organizations that have more experience with development can even help you understand where you may need additional support and where you could realistically plan to learn by doing.

How to assess your capacity

The goal of a self-assessment is to determine if developing affordable housing fits into your organization's goals, and if so, where you have or lack the capacity to become a successful affordable housing developer. A self-assessment can help you identify the roles and responsibilities needed to develop and if your current staff have the skills and availability to take on these new roles or where it may be helpful to seek support. In fact, many grant applications require organizations to include assessments of their organizational capacity.

A **Development Capacity Self-assessment** tool is included with this guide and may be helpful as you consider your capacity for affordable housing development.

Capacities needed for development

The specific capacities needed will vary from development to development, from smaller and less complex developments to larger developments that may require additional resources and expertise. In either scenario, capacities detailed below are always helpful to have.

Staff

Regardless of the amount or scope of work you plan to contract out for the development, your organization's staff will need the time and expertise to make the project successful.

Project and contractor management will be a critical skillset for managing the range of processes and stakeholders involved in development. Are there staff with established project management skill sets who can manage details across multiple tasks or processes at once?

If not, it may be necessary to hire someone with this skill set for at least the duration of the project. The costs of delays and problems due to poor project management can easily outweigh the cost of maintaining a staff person.

Core skills and attitudes in staff that will be helpful to cultivate a capable development team include the following:

- Comfort with uncertainty. Development is a long process with many unknowns. There will be many times when decisions will need to be made without having all the details or knowledge.
- Adaptability and problem solving. The development process can throw many curveballs, so staff need to be comfortable adapting to new expectations, revising assumptions, and addressing new problems as they arise, sometimes with imperfect information available.
- Relationship building. Development involves a wide range of stakeholders, so the ability to develop productive relationships is a critical component. A good relationship built in one development process may be helpful in the next.
- Good verbal and written communication. Can staff communicate clearly, politely, and in a timely manner with different kinds of stakeholders?
- Comfort with not being an expert. Staff should feel comfortable asking questions and should always look for opportunities to learn more about parts of the process they are less knowledgeable about.
- Good team dynamics and teamwork. Staff will be working together and depend on one another for the project's success. Having staff that actively support one another will help to ensure a smooth process and make the experience more positive for everyone involved.

Experience and knowledge with key parts of the development process are also critical capacities. Where staff lack this, do they have the time, interest, and ability to learn? Will there be space for them to do this prior to the relevant phase of the development process? Will they need any form of dedicated training or support from expert consultants or partners to do so? Are the costs of this feasible?

It will be helpful for at least some staff to have (or develop) experience with, or knowledge about, the following key topics:

- The construction process and how to work with and manage general contractors
- Local land use regulations, approval processes, and politics, including relationships with individuals involved
- Physical and environmental site conditions that may be opportunities or hinderances for development
- Real estate finance, including experience with private housing finance tools and public sector support and compliance
- Property management, operation, and maintenance
- Community and resident engagement processes
- The needs, stakeholders, and market conditions in the community where development is occurring
- Scoping and delivering resident services (directly or through partners)
- Marketing, outreach, and lease-up processes
- Contract and real estate law to facilitate review and management of legal processes
- Writing proposals, grants, or applications
- Applicable reporting and compliance processes
- Leadership and ability to create a shared vision; given the number of stakeholders and perspectives involved, developing a shared collective vision of the process and goals is an important skill

In addition, there are many specialized or technical roles in the development process that even experienced developers typically outsource. However, if staff happen to have these skills, evaluate how their experience could be utilized. For example, an organization with a staff member who previously worked as an architect may not be qualified or have the time to be the primary architect for the project, but they may still be able to play a role in the project by providing expert review of designs and plans from an architect consultant.

Time. In addition to the above skills and experience, the staff involved must be reasonably able to commit the time to ensuring this project's success given their other commitments. Developers typically dedicate at least one full-time person to a development process, and larger developments can have multiple people fully dedicated to them.

Operational support

In addition to the staff who will be directly involved in development, it's important to talk to your organization's support and administrative staff to understand how developing affordable housing may impact their work and ensure that all involved staff have the tools and resources they need.

Areas that could be relevant to discuss include:

Human Resources may need to be involved when hiring new staff or coordinating professional development of existing staff.

Information technology (IT) may need to be involved to purchase new software to manage a more complex project or set up a new property in the organization's property management system. Staff may need new equipment or software to complete various aspects of the development. It's even possible your development could have an IT component such as a shared computer space for residents that requires IT support.

Accounting and finance staff should be engaged to determine whether the necessary systems, knowledge, and policies are in place to support the development throughout its lifecycle. Do you have internal controls and procedures in place to ensure proper financial management? Will you meet balance sheet requirements when applying for project financing (see **Chapter 7: Financial Feasibility**)?

This key function can also help you set up processes for anticipating and mitigating risks involved in the development process. What if funding for the project is slower to materialize than expected? What if lease-up is slower? What if operating expenses are higher? These considerations may be less relevant for smaller developments but may be significant for larger ones.

Board

Organizations with a board can also leverage expertise and relationships from their board members, in addition to the capacity of staff who will be involved directly in the project. If your organization has a board, consider the following:

Real estate expertise. Knowledge and experience among any of the areas mentioned in the staff section above could be a helpful supplement to the capacity of your staff, particularly in areas where staff lack key skills. Board members who have been developers or who have experience with real estate financing, investment, and law; property management; public sector processes; and the local real estate policy and regulatory environment can be especially helpful and help to train or mentor staff as they develop their own experience in these areas.

Accounting and finance experience among board members can help you think through the financial implications of development for your organization.

Community experience. Board members who have detailed understanding of the community's housing needs, local market conditions, and the stakeholder landscape can also be valuable in aligning the scope and goals of development with these priorities.

Capacity assessment and alignment. Your board can also be a valuable resource in helping you think through your organization's capacity assessment. If you are new to development, your board may be a valuable resource in determining what you can learn by doing and where you may need to seek additional expertise or partnership to accomplish your goals. They can also help you consider the alignment of affordable housing development with your organization's overall mission, vision, values, and strategic plan.

Relationships and external support

Given the number of stakeholders involved in the affordable housing development process, relationships are a key ingredient for successful development. In fact, many developers consider the relationships they have to be their biggest asset. Consider relationships that you have with local government and elected officials, community members, service providers, lenders, other developers, professional development networks you belong to, and other stakeholders and resources. How can these be leveraged within your development? Are there new kinds of relationships that you should strategically cultivate? Can your existing network help you make inroads? **Chapter 4: Engaging the Community** provides more information on this topic.

Building your capacity

If the aforementioned list of roles and capacities seems intimidatingly long, fortunately there are resources to help you gain the capacity to develop affordable housing, including:

Building staff capacity

Hiring new staff. The simplest way for an organization to acquire new skills and expertise is to hire new staff who have these skills. These could be temporary staff hired only for the implementation of a specific development or permanent positions within the organization.

Direct experience. Having your staff experience the development process firsthand is the best way to build your overall capacity around development and the only real way to build staff experience. Consultants and partner organizations who are more experienced in development can provide support and guidance to those less-experienced staff. When taking this approach, it may be helpful to make this role explicit in the consultant scope or partnership agreement and ensure that key staff are working directly with the consultants to benefit from their expertise.

It can be helpful to ease staff into the process by exposing them to smaller developments when just starting out. This will provide a good foundation of expertise and experience to undertake larger and more complex projects in the future and expose them to more aspects of the development process compared to a larger project where they may play more specialized roles.

Training. There are a range of resources and capacity-building opportunities that staff may access outside of direct experience such as those from CHFA, the **National Development Council**, **NeighborWorks**, **Housing Colorado**, and the Colorado Division of Housing (DOH).

Coursework offered by local colleges and universities or through online classroom settings provide a structured and often comprehensive approach to acquiring new skills and expertise. Courses vary by institution, but can include real estate development and finance, housing market economics, project management, design and engineering, environmental issues, and community engagement. These are typically longer-term commitments, such as weekly classes over the course of several months, but some online courses may allow staff to work at their own pace. They may also offer the added benefit of providing staff with credits toward academic degrees.

Academic programs can range in terms of their focus on practical experience compared to research and theory. This may depend on both the institutional focus and the level of practical experience a given instructor has. Academic courses taken for credit typically carry costs, but courses that are audited may have reduced or no costs.

Nonacademic, in-person, or online training programs and academies are offered by a wide variety of organizations in the housing, community development, and real estate development fields. These are typically shorter, more intensive courses that are focused on developing core skillsets and knowledge areas. They may be free, but many carry some level of cost. DOH, for example, periodically offers a **Developer's Tool Kit** training series. CHFA's **chfareach** program offers classes for property managers and housing staff, as well as a Housing Professionals Institute.

Other materials, such as guides, webinars, recorded trainings, and books can be good sources of information for staff who are inclined to learn on their own. These materials are often free or have minimal costs. These also provide the lowest levels of "hands-on" experience for staff, so they may be most useful when paired with direct experience.

Regardless of the training source, it is important that staff are allowed the time and space to pursue these training opportunities.

Building your board of directors' capacity

Adding new members. As with building staff capacity, consider adding new members who have the skills and experience needed to support affordable housing development.

Consultant support. Hiring a consultant to support and provide technical assistance and capacity building to your board members is a viable strategy and benefiting from this service may be an additional source of value for board members who serve without compensation. Rather than hiring a general managerial consultant that might focus on general board development, consider hiring a consultant with more expertise in the aspects of housing development you feel your board needs. This consultant can help board members understand the implications of key decisions and identify specific knowledge gaps and provide resources to fill them. CHFA's Small-scale Affordable Housing Technical Assistance Pilot Program provides expert technical assistance to developers to close capacity gaps at no cost to the developer.

Exposure to the development process. Like staff, a key capacity-building vehicle for your board will come from being involved in the development process. Unlike staff, however, board members will not have the benefit of being involved in the day-to-day development processes, so it will be important for the organization's leadership to elevate key concerns, decision points, and issues on which the board needs to weigh in. In addition, ensure you are reporting key lessons learned, setbacks, and successes encountered along the way so that the board can learn along with the organization for future development projects.

Training. Board members can also benefit from the same training resources as staff—academic courses, professional trainings, and standalone materials. However, it is important to ensure any ask is a reasonable commitment, particularly for those who serve with no compensation.

Funding for capacity building

Fortunately, there are resources available to help your organization develop the capacity to succeed in affordable housing development. There are many organizations in your community and across the country that recognize the need for more affordable housing options and are willing to support you in your efforts.

Nonprofits that are CDCs or CHDOs (described previously) can utilize **HUD Section 4** funding through national intermediary organizations such as Local Initiatives Support Corporation, Enterprise Community Partners, and Habitat for Humanity to support many types of capacity-building activities. Many philanthropic organizations provide grants to organizations that develop affordable housing to improve their ability to do so. Even local public or quasi-public organizations may have programs or funding available to help. Local housing leadership cohort programs, for example, can help your staff develop relationships and knowledge about housing development, often at no cost to your organization.

Even when external funding is not available, internal resources may be. For example, time and training costs could be aligned with budgeted staff professional development plans. The costs of capacity building may even be incorporated into a development project budget.

Creating a development action plan

Introduction

A development action plan details the reasons you plan to develop affordable housing and the steps your organization will take to prepare and succeed. This will give you a roadmap to refer to over time (and revise as needed) to ensure that you are making progress toward your goal of developing affordable housing. Expect an action plan to be revised along the way. You won't have perfect information at the outset of development, so this should be a working document that evolves as new information becomes clear.

Development action plans are also helpful for building shared understanding of both goals and approach with your staff, board, and partners. Visualizing them with flowcharts, timelines, or Gantt charts can help these stakeholders interpret it.

Creating a development action plan involves five general steps:

1. Articulate your goals in developing affordable housing.
2. Define your development model and the roles you intend to play.
3. Identify the actions required to complete the development.
4. Review your plan to make sure it is feasible.
5. Revise your plan as new information becomes available.

Step 1: Articulate goals

The first step in creating your action plan is articulating the goals you have for developing affordable housing and the outcomes you hope to achieve. Defining clear goals is important to ensure your development approach is aligned with your reasons for pursuing it and is critical for communicating the value of your development to your board, staff, and other stakeholders.

Start by making a list of what your organization generally hopes to accomplish by developing affordable housing. It may be helpful to engage your board, staff, and/or community stakeholders in this process.

Do you seek to serve particular populations or income levels? Do you want to contribute to the development of a specific neighborhood? Do you plan to create more energy-efficient buildings? How could this development advance strategic objectives for the organization? Does your organization wish to create an alternative source of revenue or achieve a better efficiency of scale?

Some goals may be specific to a particular development you are considering while others may be reasons why your organization seeks to develop affordable housing more generally. Both types are helpful to identify.

For each goal, note:

1. Description. Describe the goal you want to achieve, being specific about any populations to be supported, or other targets.
2. Starting point: Where are you now with respect to this goal?
3. Desired outcomes: What would success look like for your affordable housing development activities? Could you measure any of these outcomes to demonstrate your organization's success and impact?
4. Benchmarks: Given the desired outcomes, what are reasonable benchmarks you would like to meet to ensure your organization is making progress toward its goal? For example, what would you like to have accomplished two years from now? Five years from now?

Step 2: Define development model and roles

Once you have articulated your goals, you'll have a good basis for deciding on your development model. What type of development would best advance your goals and the roles you expect your organization to play in the development process? Who do you intend to partner or contract with to complete the required tasks? These decisions are discussed in more detail in **Chapter 3: Housing Development Models, Team, and Roles**.

Fortunately, developments that are similar in nature are likely to have similar action plans, so you can expect to reuse your action plan for similar developments. For example, a three-unit, new-construction rental property is likely to have a similar action plan to a four-unit, new-construction rental property in the same jurisdiction. On the other hand, development of a single family, for-sale home in a different jurisdiction would have some key differences in the actions required. If you know a developer who has completed a project like the one you are considering, consider asking them to share their action plan to give you a starting point.

Step 3: Identify actions

This step focuses on identifying each action your organization needs to take to achieve your goals. An action could be kicking off a process, making a decision, creating a deliverable, or collecting information. Information helpful for identifying these actions is contained throughout this guide.

At the beginning of a new development, don't expect to be able to identify every necessary action or have all the details correct. As stated above, this is a working document that will be revised throughout the process. For example, at first you may only have a single task to cover environmental review, since you may not know what type of environmental review will be needed. As your site and likely funding sources become clear, however, you will have a better understanding of the specific environmental review actions required and can adjust your action plan accordingly. It is still helpful to map out those actions.

A value in mapping out actions is recognizing that some actions will need to be taken before others to keep your development on track. For example, if you know you'll need to work with a property management company for project operations, you'll need to make sure you have actions included earlier in the process for interviewing and hiring them. Once you have all your key actions listed, ensure the sequencing makes sense.

Where possible, answer the following questions about each action:

Action	Accountability
Approach	Who: Who do you expect to be involved in each step (e.g., your staff, a contractor, a board member, etc.)? Who is accountable for its completion? When: Given the time within which you hope to accomplish your goals, when would each step need to be started and completed? Results: How will you know when the action is complete? For example, are there particular deliverables, decisions, or other outcomes?
Needs	Capacity: Are there any capacity-building steps that will need to take place to enable those involved to be successful in this step? Resources: What resources or information are needed to complete this action? Certainty: How certain are you of the details of this action? Are there any notable risks or other concerns you have about this action? Dependencies: Are there other actions that must be completed or information that needs to be clear before this can occur?

Step 4: Review your plan

Once you have thought through the actions that will be required for you to complete this development, take a step back to look at your development action plan as a whole. Ask yourself the following questions:

- Are there opportunities to better align your identified actions with your goals?
- Can you identify any places where the timelines need to be reconsidered to satisfy action dependencies?
- What are the actions or processes that you have the greatest concerns about? Is there anything you can do to anticipate or address these concerns?
- Do you feel confident that staff have the required capacity to complete these actions?
- Can you identify the development's critical path actions such as those that may cause delays if they are not completed on time?

Revise your development action plan to address any issues or concerns you identify.

Step 5: Revise as you go

The final step is revising your development action plan throughout the development process. New information may prompt you to revise your expectations about timelines, stakeholders, and dependencies, and your action plan should reflect these changes.

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Case Study: Cactus Corner, Eads

About the project

Cactus Corner is a development currently underway in Eads, Colorado. When completed, it will include six duplex rental units that are targeted to be affordable to local workers. The units will provide a much-needed supply of affordable rental housing to the Eads and broader Kiowa County area. This will allow workers to live closer to where they work and avoid the hours-long commutes they currently face. The development is being led by Southeast Colorado Enterprise Development, Inc. (SECED).

Contributors to success in development

Recognized housing needs for renters in the community. This development is a product of Kiowa County having several businesses with workers who commute 60 miles or more. The county approached SECED with the request to develop rental housing to support these workers. In evaluating local housing conditions and talking with renters, SECED found that the small amount of rental housing that does exist in and around Eads often has housing quality challenges. SECED spoke with workers and community stakeholders to explore what better housing options would look like for the community. SECED also partnered with a playground designer to construct a new playground at the site and redesign the playground at the local school to further add value to the local community.

Building staff capacity. SECED is a small organization with a staff of four and did not have prior housing development experience. The development process for Cactus Corner, therefore, represents both a learning opportunity and a major capacity-building challenge for staff. The SECED development lead attended the Colorado Division of Housing's (DOH) developer trainings prior to beginning development. The state and county also helped SECED to understand the covenants and building codes with which the development would need to comply. CHFA and DOH supported SECED in exploring potential funding options. An experienced project manager from the development's general contractor was helpful in providing education about the design and construction processes.

Case Study: Cactus Corner, Eads

Organizational commitment and perseverance. The development benefited from a shared interest from the community and SECED's board in seeing this project succeed. The encouragement and support for SECED has been a major contributor in helping the organization persevere through the many challenges of the development process.

In-kind support from the partners. The affordability achieved in Cactus Corner was made possible by the in-kind contributions from many public sector and community-based partners. The land for the development was contributed by the Kiowa County Economic Development Foundation (KCEDF), which also helped SECED with development planning. KCEDF also facilitated onsite infrastructure development. The Town of Eads was willing to waive permitting fees to enable greater affordability. Kiowa County volunteered to get the site prepared for development.

Creative financial problem-solving. SECED was able towork with DOH to find a way to repurpose program income from an existing revolving loan fund program to use on this new construction project. SECED was recertified as a community-based development organization, allowing them to access this funding not normally eligible for a new construction project. By ensuring the construction meets energy efficient guidelines, the project was able to utilize these funds that had been sitting idle and will ensure lower utility bills for its residents.

Leveraging local resources for disaster resilience. Kiowa County has covenants related to emergency planning and disasters, including tornadoes and hail. At first, SECED considered adding a storm shelter to the development, which would have added costs. Instead, they were able to identify a nearby assisted living facility with the capacity to provide emergency shelter. This enabled the development to meet local requirements, provide an emergency shelter for future tenants, and save on development costs.

Adapting to the pandemic. Like many developments underway during the COVID-19 pandemic, Cactus Corner was impacted and SECED had to adapt. Requirements that the project utilize local labor combined with the fact that local contractors reported not being available to take on new developments for at least two years meant that SECED struggled to find an available contractor. The pandemic also impacted the development's construction costs, both through labor shortages and increasing material costs.

Planning for future operation. Although construction is currently underway, SECED already has a strong plan in place for the lease-up and operation of Cactus Corner. The KCEDF will facilitate the prospective tenants' application intake. Given that KCEDF already has a waiting list for housing opportunities in the area, the challenge will likely be more related to establishing prioritization criteria than attracting interest. SECED will hire local maintenance staff to maintain the development. If successful, SECED may be able to expand the development, given KCEDF ownership of the land directly to the west of the site.

Case Study:
Cactus Corner, Eads

Key lessons for other developers

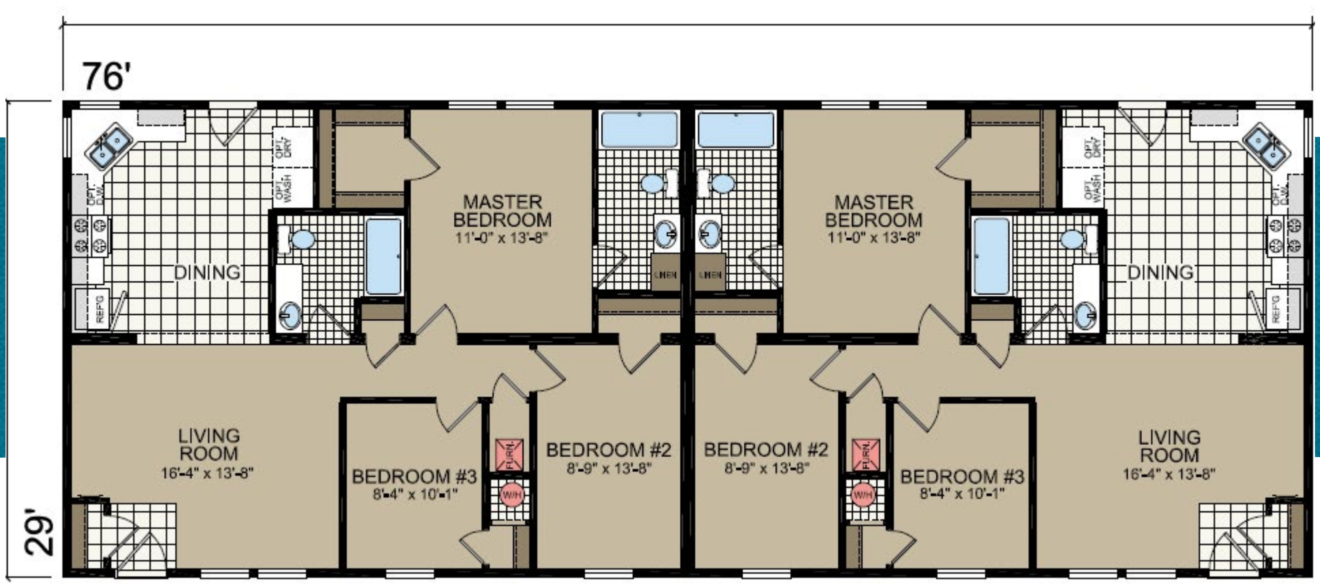
Use a professional for market studies. For Cactus Corner, SECED opted to conduct its own market study. However, while they did a thorough job of investigating local conditions, they struggled to convince some funders that Cactus Corner was a viable development. Given the opportunity to make this decision again, SECED would have hired a professional market analyst to conduct the study, eliminating the costs of doing the study themselves and creating a more compelling and arms-length case to funders. They are currently pursuing a second development that will utilize a professional analyst in this role.

Hire an experienced general contractor or construction consultant. Given its lack of previous experience with construction, SECED was fortunate to partner with an experienced construction project manager who supported SECED through the many decisions and processes involved in construction. In the absence of this experience and supportive posture, developers new to the construction process would be well-served by hiring an experienced construction professional who can help the organization navigate this complex process.

Incorporate community design preferences early. One lesson from the design phase of the development was that county and town design preferences could have been more efficiently incorporated into the development through greater communication and collaboration, such as through a design charette process.

Be persistent and creative in the face of challenges. There are many challenges created in the development process, from funding restrictions, the global pandemic, contractor availability, and the inevitable learning process involved when a new organization develops housing. It is critical that new developers not be discouraged as barriers are encountered and see these as learning opportunities to incorporate into future developments. The lessons learned from Cactus Corner have directly informed SECED's second, larger-scale development in the region and will be instrumental to its success.

Learn more about SECED.

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chapter 3:

Housing Development Models, Team, and Roles

Learning Objective:

Users will know how to select a development model and build a development team that aligns with their capacity and goals.

Understanding housing need

Overview of housing needs

An important foundation for setting affordable-housing-related goals and choosing a development model is to understand the unmet housing needs in a community or housing market. Housing needs can take a variety of forms. Some factors that you might want to consider include:

Income levels and price points. As discussed in **Chapter 1: Introduction to Affordable Housing Development**, developers interested in improving housing affordability typically target specific income ranges they plan to serve with their development (generally expressed as a percentage of Area Median Income). Understanding the income ranges for which there are a lack of affordable housing options in the community can help you determine what development models may be feasible and what sale prices and rents will be affordable.

Some populations may have housing needs related to factors other than income. There may be a shortage of accessible housing for people with disabilities or older adults; a need for housing that has specific services associated with it or that provides other forms of support; or a lack of temporary or transitional housing for homeless individuals and families. There are often substantial gaps by race and ethnicity in housing outcomes such as homeownership rates, so there may be needs tied to closing these gaps. Other populations that may be emphasized include veterans, families with children, individuals with a criminal legal history, intergenerational households, and agricultural workers. Each of these needs may be specific to particular populations but are part of the broader community need for housing and offer significant opportunities to advance racial and social equity in the community.

Supply and demand mismatches: In healthy housing markets there is an alignment between housing supply and demand. If population growth is occurring faster than new housing units are being built, this shortage of units will cause home prices and rents to increase. In markets with a stable or declining population, the challenge may be more about aligning the replacement or rehabilitation rate for older housing that no longer provides a good living environment. In either case, this relationship is a key driver of local housing needs.

Housing type. Some communities have a need for housing with larger or smaller numbers of bedrooms to better align with the demographics in the market. There may also be community priorities related to specific structure types. For example, many communities have recognized a lack of small multifamily properties and may have an identified need related to this. Lastly, there may be a need related to the availability of units for rent or sale that could impact development models and priorities.

Housing quality and resilience. Some communities and markets may have housing health, safety, and quality challenges. The presence of lead paint or other toxins, for example, can be significant in neighborhoods with older housing stock. Overcrowding may be a concern in communities with high housing costs relative to incomes. Some communities may also have needs related to their housing stock's resilience to weather and natural disasters.

Location. Any of the above challenges can also vary by location within the market. Some needs may be more significant in specific neighborhoods rather than being city- or market-wide needs. For example, there may be a shortage of affordable rental housing in neighborhoods with predominantly owner-occupied homes.

Systemic factors and constraints. Finally, there may be housing needs related to local housing development capacity, land availability, water access, or other systemic factors. These may be important factors to understand about the market context you are working in, and there may be opportunities to address these needs through non-development activities.

Housing needs assessment

To better understand the housing needs in the market your organization plans to serve, consider utilizing a local housing needs assessment. Housing needs assessments document the unmet housing needs in a housing market, community, or neighborhood. This is typically accomplished by comparing the overall housing needs to the current supply of housing to determine what portion of the needs are unmet. In addition, local stakeholder and resident input can be used to identify needs not captured in the data. In the absence of a dedicated housing needs assessment, there may be other local plans and studies that document unmet housing needs in the community or region.

Housing needs assessments do not serve the same function as market studies (discussed in **Chapter 6: Market Feasibility**), though the two are often confused. A market study is an in-depth analysis of the market feasibility and demand for a specific type of development and potentially in a specific location within the community. A market study is used to build an understanding of how your project site will fit into the community and what needs will be met. A housing needs assessment is a more global and comprehensive assessment of the housing needs and conditions in the community but is not focused on assessing the feasibility of a specific development or type of housing.

Fortunately, housing needs assessments are not generally something you, as a developer, will need to do yourself. Many local governments, nonprofits, and philanthropies publish their own housing needs assessments that likely contain much of the information your organization will need. They may not always be titled a "housing needs assessment" and can be published in a variety of forms such as independent reports, dashboards, websites, and presentations. They may also be components of broader planning efforts such as comprehensive, fair housing, or small area plans. This information can help provide a good sense of the perspectives and priorities of key community stakeholders in addressing local housing needs. This will help you understand how best to present your development to these audiences when applying for funding or submitting your development plans for public review.

If there is not a housing needs assessment for the community in which you plan to develop, you may consider reaching out to these groups to ask if one may be conducted. They may even be eligible for funding to do so, such as through CHFA or the Colorado Department of Local Affairs' **Planning Grant Program** for local governments.

Because housing needs assessments vary in their level of stakeholder engagement, you may consider supplementing the information you find by talking with community stakeholders to hear a wider range of perspectives perspectives. See **Chapter 4: Engaging the Community**.

Once you have collected enough information about local housing needs, you can present information relevant to your organization's mission and development intentions to your broader staff and board. If there are key populations or issues that your organization serves that are not emphasized in the documents you find, you can try contacting these organizations to see if they may have supplementary data to share that can fill in these gaps. Or, you may choose to supplement this information yourself.

Creating a development model

Once you understand local housing needs and your own capacity and priorities for development, you will have a good basis for deciding what types of housing your organization should consider developing. What needs do you plan to address? For whom? With what kind of building? In what location? There are many decisions to make to determine your development model, and it will be useful to consider the following criteria:

- How does each option relate to the housing needs in your community?
- Which will advance your organizational goals? Which are consistent with your values and direction?
- What financial implications might each option have for your organization and for the residents who will be living in your development?
- What additional zoning and regulatory burdens might each option create?
- Will each option be valued by the broader community or will some be more likely to face opposition or lack of support?
- Do you have experience with any of these options that you could build on? If not, do you feel you could develop the needed expertise to pursue this option?
- Do you know of specific location, site, or relationship opportunities that could favor one option over another?

The sections below outline key decisions to make when defining your development model. The **Development Model Self-assessment** in the online version of this guide provides a structured way to think through the options and considerations.

Housing affordability

Your development model should account for your housing affordability goals. Although you may need to make some adjustments based on the results of your feasibility assessments, having targeted income ranges or AMI levels will ensure you remain aligned with your goals and help you make other development model decisions.

Affordable housing for your target income ranges can be achieved using a variety of approaches described throughout this guide, but your targeting will influence the tenure and help you determine if you will need a subsidy to achieve and maintain affordability.

Tenure

Will your development be rented to tenants or sold to homebuyers?

For-sale. When considering a development that will be sold to homebuyers, the relationship between the expected sale price and the cost of development will be a critical feasibility concern. Loan eligibility requirements for the targeted population and the estimated time the house will be on the market before sale should also be considered. Housing and financial counseling services, including first-time homebuyer training, may also be warranted if your organization is targeting first-time homebuyers. CHFA partners with local HUD-approved housing counseling agencies across the state to provide homebuyer education. In addition, CHFA partners with a network of more than 100 Participating Lenders to provide 30-year fixed-rate mortgage loans and down payment assistance to eligible borrowers. Consider reaching out to CHFA for more information if desired.

Rental. For a development that will be rented, the financial feasibility will depend on the cost of development, rent levels, taxes, maintenance, and other costs associated with operating the development. See **Chapter 7: Financial Feasibility** for more information. You will likely consider zoning with rental developments, since multifamily rental buildings can be higher density and/or taller than other residential structures, which may impact the areas they can be built in or the related approval process. See **Chapter 5: Predevelopment** for more information.

Alternative tenure models

In addition to renting and owning, which are the most common forms of tenure in the U.S., there are other models to consider, including those intended to maintain affordability in perpetuity.

Lease-to-own (also called rent-to-own) models are arrangements that provide the option for a tenant to purchase the unit they are living in at the end of a specified period. A portion of the rent payment is typically applied toward the purchase so that when the renter is ready to purchase the home, the price is more affordable, and they may have had time to accumulate more savings. This creates the possibility for more affordable homeownership. The tenant and landlord will have both a lease and a separate agreement that details the terms of the lease-to-own component.

There are some challenges that you should be aware of with a lease-to-own model. Rents for lease-to-own units are often higher than comparable units to account for the fact that a portion of the payment is lowering the future purchase price. If the tenant does not ultimately purchase the property, the model does not provide the intended outcome. Also, contracts can sometimes take advantage of tenants. For example, instead of an option to buy at the end of the lease period, the agreement may impose a requirement to buy, which could put the tenant in a challenging financial position. However, when designed to work well for both landlords and tenants, lease-to-own models can be beneficial structures for both parties. This model has also been used to **rehabilitate properties** in some areas.

Community land trusts (CLTs) are affordable homeownership models that enable affordability by removing the cost of the land from the purchase price of a home. The home is owned by the household who lives there. The land, however, is owned and managed by a community-based nonprofit organization called a community land trust and is leased to the homeowner, typically with a 99-year renewable lease. This arrangement allows the homeowner to have many benefits of homeownership without some of the costs. For example, they are free to make modifications and accumulate home equity. In return for this arrangement, the homeowner typically agrees to a maximum appreciation rate when selling the house to ensure that it remains affordable to the next buyer. In addition to developers forming CLTs, existing CLTs may partner with developers for construction or improvement on owned or soon-to-be-acquired land.

CLTs are one of the most common examples of shared-equity models where equity in a real estate project is shared between parties, which are usually a homeowner and another entity. This results in an arrangement that involves some aspects of both owning and renting a property. There are other types of **shared-equity models** that go beyond the scope of this guide but are worth researching further if this is a direction your organization is interested in. **Housing cooperatives** and **resident-owned communities** relevant for those living in manufactured housing are both examples. The **Grounded Solutions Network** has published guides and other resources related to these models.

Co-housing models are designed to foster communal living. In these models, each household has their own private unit but shares communal areas such as kitchens, dining spaces, and recreation spaces with other households. These models are common in other countries and are gaining traction in the U.S. These are especially common in housing designed to be multigenerational or for older adults, since they create communal living situations that increase the opportunities for social interactions. Co-housing models may be particularly attractive for adaptive re-use sites since some buildings may already have common spaces.

Existing site use

New construction. Acquisition and development of undeveloped land provides developers flexibility on what can be built, but also means they must pay the cost to build from the ground up. New construction developments may benefit from being built using current materials, building codes, and design standards that may have higher, improved performance compared to those used historically.

Redevelopment is new construction that occurs on a site that has an existing building or other designated use. Redevelopment of a site requires accounting for the existing use and associated infrastructure.

Rehabilitation (also known as rehab or preservation) focuses on improving an existing housing development to create or maintain affordable housing. This eliminates the cost to develop the building from the ground up as infrastructure is already in place and the entitlement process is already complete. While preservation is often less expensive than building new, rehabilitation of existing buildings can still be a costly endeavor. The developer must pay to acquire and improve the building, which may entail hidden costs to bring property features up to current code. Paying for the removal of asbestos or lead paint, for example, or dealing with radon, major building systems, or improving accessibility can all add substantially to the cost of rehabilitation, but the building's sustainability and energy efficiency can be improved. It is therefore critical that developers interested in rehabilitation thoroughly investigate the characteristics and needs of a potential site to avoid costs they may not be equipped to cover.

Adaptative reuse is similar to rehabilitation in that a developer is modifying an existing building but focuses on adapting the building's use from one to another. For example, a hotel or office building could be converted into affordable housing. The building may be in good condition or in need of rehabilitation at the same time, but in most cases substantial interior modifications and creativity in design will be needed to accommodate the new use. Adaptive reuse can also be an important historical preservation approach to enable buildings that are not serving their historical function to remain useful to the community.

Like rehabilitation, adaptive reuse may involve a range of hidden costs and concerns, including issues resulting from the original use. For example, in addition to asbestos and lead paint removal, a building that originally served industrial purposes may have old commercial waste that needs to be cleaned up. Fortunately, there are public resources available to help with the redevelopment of Brownfield sites like this. See **Chapter 5: Predevelopment** for more information. Other issues that may be relevant for adaptive reuse projects include zoning and building codes, the differences in parking requirements for housing compared to the original use, and, once all factors are considered, whether demolition and new construction might be more cost-effective.

Accessory Dwelling Units (ADUs) are a form of affordable housing in which a smaller, independent residential unit is developed on the same lot as an existing single family home. You may also see these referred to as "granny flats" or "accessory apartments." The structures for ADUs can be attached, detached, or integrated into the primary building. ADUs can be both a form of affordable housing for the person renting the ADU and a source of secondary income for the owner of the lot. ADUs may be relatively inexpensive to develop if the existing home is already well-suited for the purpose, or may be costly additions that involve substantial new construction and rehabilitation activities. In addition, financing, zoning, building codes, and parking requirements are considerations when adding ADUs on existing lots. Some communities have revised their codes to promote the use of ADUs.

Structure type

Single family structures are those designed for only a single family or household to occupy the building. Many single family homes are developed to be sold, but they are also an important source of rental housing in many communities. Single family structures can be attached to other adjacent buildings or detached. They can be developed individually or together with other housing as part of a multi-building development.

Tiny homes are a type of single family home that is less than 400 square feet that seeks to reduce construction and operating costs and environmental impacts through building a smaller structure. Tiny homes can be developed individually but are often developed in groups as a tiny home community. Tiny homes are often subject to different treatment in local zoning and building codes than single family homes that are larger than 400 square feet. Some communities have explicit or effective bans on these types of homes. Tiny homes that are prefabricated offsite may be regulated differently than those built onsite. See **Chapter 8: Project Construction** for more information. If this is a model you are interested in, be sure to understand the regulatory implications.

Multifamily structures have multiple housing units within the same building and on the same lot. Multifamily units can be renter-occupied (apartments) or owner-occupied (condominiums) and can range from small (two- to four-unit buildings) to large (50 or more units). Multifamily buildings create more housing units on a single site and typically result in greater density compared to single family construction. Multifamily buildings larger than four units will likely require different types of financing than single family and one- to four-unit multifamily buildings.

Building use

Single-use residential buildings are devoted solely to housing. A single family home or an apartment building are examples. These are the most straightforward approaches for developing affordable housing. There are fewer actors and public service provisions required. The feasibility assessment and financing will likely be more straightforward than if the building has other uses, as those uses will also generally need some assessment of feasibility to secure funding.

Mixed-use buildings or developments combine housing and other uses within the same building or site. A common example is a residential building with retail or other commercial spaces on the ground floor so that businesses are accessible from the street. Mixed-use developments involve a range of factors that go beyond the scope of this guide relating to commercial real estate development. Many communities have mixed-use development manuals, such as the **Colorado Springs Mixed Use Development Design Manual**, which may be helpful if this is a model you are considering.

Building your development team

Once you have defined your development model, it is time to build your development team. Your team consists of the partners and consultants you will need to work with to complete your development. You, as the developer, will play a pivotal role in bringing these stakeholders together, ensuring they have what they need to complete their work and are consulting one another when needed, and holding them accountable for delivering a high-quality product within the time and budget constraints.

When choosing what roles you intend to hire or partner for and which organizations to work with, consider your own capacity and the gaps you seek to fill through partnership (discussed in **Chapter 2: Organizational Considerations** and in the **Development Capacity Self-assessment**). What skills, knowledge, and resources will be required for this development that your organization currently lacks that you could fill through partnership?

Also ensure that you are working with consultants, contractors, and partners who are capable, have any required certifications or licenses, and will deliver what you need. If you have established relationships with partners you trust, this is a great asset. If you need to hire organizations you have not worked with, this guide includes some considerations for interviewing and vetting new partners. See **Selection Considerations for Key Contractors** for more information.

In addition, choosing a partner or consultant can be one way to advance diversity, equity, and inclusion (DEI) in your development. This could include considering the race, ethnicity, gender, disability status, and other diversity-relevant dimensions of an organization's owners, leaders, and workforce, as well as their own commitments to DEI-related work.

An additional consideration that may be required by certain funding sources is a preference for hiring local firms and workers (discussed in more detail in **Chapter 4: Engaging the Community**). Even when local hiring is not required, it may be important to your organization and may help to build community buy-in. It may even result in a better project if the people contributing to your development see themselves as having a more direct stake because it impacts the community where they live. Regardless of preferences, it is important that you hire qualified partners and consultants who can help you complete and/or operate your development. Specialized skillsets, technology, or experience may not always be available from local organizations, so you may need to compromise on preferences.

Development partners

Developing affordable housing often means combining resources and experience from multiple organizations. In some cases, a partner may play a direct role in the development process by informing decisions, completing tasks, and bringing unique experience or capacity to the process. In others, a partner may contribute a resource such as land to enable greater affordability, but not be directly involved in the development.

Many types of organizations can be development partners, including:

Other developers may be interested in forming a development partnership. This could include nonprofit developers who have aligned development goals or for-profit developers who want to take advantage of the unique strengths and funding eligibility that nonprofit organizations bring. Depending on the nature of the partnership, this may result in the partner having an ownership stake in the development.

Public housing authorities have a stake in creating more affordable housing and often have land and/or existing housing stock that may need to be rehabilitated or redeveloped. However, they may lack the capacity to take on development themselves. Public housing authorities also bring unique financial tools to the partnership with their access to federal funding programs and tax-exempt status. They may also administer local housing programs such as vouchers that could be relevant to your development. See **Chapter 7: Financial Feasibility** for more information.

Local anchor institutions such as healthcare organizations and universities have large economic potential with substantial assets and revenue they can leverage. They also have a stake in creating more affordable housing in the communities in which they operate to serve their patients, students, employees, and other stakeholders. These institutions may not have housing development experience and need to partner with a housing developer to accomplish their goals.

School districts also tend to have a stake in housing outcomes, both for students and employees. They may have land or other financial resources they may be willing to provide.

Employers have an interest in affordable housing given its role in helping to attract and retain workers. By partnering with them, you may identify opportunities to leverage land, funding, and/or community support.

Community champions include people in the community who represent and/or advocate for the needs of the populations you intend to serve. These partners can act as intermediaries between the community, city government, foundations, and other community organizations, both to help you understand how best to address the community's needs with your development and to help the community understand the value of your development. They may have specific recommendations for physical design features, community amenities, resident programming, or other aspects of your development. Note that in many cases, the other development partners listed above can also act as community champions. This guide's case study of **The Bridge Shelter** highlights the importance and value of community champions in development.

In addition to the development partners that you choose, you will work in lockstep with staff from local government agencies and should consider them to be partners in your work. They can help you understand the process and requirements your development will need to meet to get approval for construction, occupation, and operation. Most local governments recognize the need for more affordable housing options in their community and will want to help you succeed.

Core contractor team

Core contractors are those who will play a substantial role in your development and have a significant impact on its success. Although it is important to ensure that all the contractors you are working with are capable, trustworthy, and able to deliver what you need, it is particularly critical for these groups.

Your general contractor (GC) is responsible for providing the equipment, materials, labor, and other services necessary to complete the construction of your project. Your GC will also play a key role during the predevelopment phase of your work in helping you estimate costs, determine implementation strategies for your designs, and understand the implications of your design and material choices. An initial contact list of potential GCs could be built from local chapters of trade and/or professional associations, such as the Associated General Contractors of America (AGC). Contacting developers of successful similar projects in the area to understand their experiences working with their contractors may also be helpful. It is critical that selected general contractors have experience in managing a development of a similar scope. If this is not possible, you could consider contracting with another GC who has such experience to act as a consultant to your primary GC. This was the approach taken in the construction of **The Tabor Grand Hotel Apartments** profiled in this guide.

Service providers are also key partners to begin discussions with during predevelopment. Service providers help residents with a wide range of support needs, such as healthcare, financial counseling, and education services for children. Services can take many forms, including occasional activities open to all residents to more intensive services targeted to specific needs. If you are considering providing onsite services, it will be helpful to understand the space and privacy requirements that service providers have for delivering their services effectively. For example, some services may require a space for storing equipment, larger spaces for group activities, spaces with design features for children, or areas where privacy can be assured. Understanding these needs can help you design spaces to accommodate them. Service providers may already have funding to provide the services and merely require the space and connection to residents or may require compensation for their service. The case study of **The Bridge Shelter** in this guide provides a good example of how service provision can be considered in development.

Once your development is complete, you will need to hire a property management company unless you plan to have an in-house property manager. Property managers can help you plan for marketing and leasing up your development. In exchange for certain funding, properties must comply with requirements that may include rent and income restrictions, health and safety measures, and other regulations and policies established by the funding program. If your property will be monitored for compliance, it may be helpful to ensure your property manager has experience providing the type of compliance monitoring required. Because you will be working with your property manager for many years and they will be a key partner in managing the success of your development, it is critical to select a manager in which you have confidence. Property managers may charge a flat fee or a fixed percentage of the rents collected.

Other consultant services

Consultants may be brought into your development process to serve a variety of functions, as their expertise may be needed at any point in the process.

Real estate agents and brokers can be helpful in identifying land or existing properties. They can help you sell affordable for-sale homes or rental developments, should you decide to sell your property at some point. They can also ensure that transactions are properly reported to state and local agencies. They are good to build relationships with even before you have a fully developed concept, as they may help you identify new sites that become available.

Grant writers and affordable housing finance consultants can help you identify and apply for financing opportunities related to affordable housing, including helping you understand whether your project is likely to be competitive for funding sources. Because many financing programs have lengthy application processes and requirements, this type of consultant may be helpful in freeing up your staff to focus on other aspects of your development.

Architecture and design services, including landscape architects, will be necessary to help you design your development and translate your needs, the conditions of the site, and the local building and land use regulations into a plan that your general contractor can use to make your development a reality. An architect can also be involved throughout construction to help address issues that arise and ensure that there is alignment between design and construction.

A market analyst will be an important consultant to help you understand the demand for your development model in a given location through production of a market study, discussed in more detail in **Chapter 6: Market Feasibility**.

Construction or engineering consultants can help you to solve for challenges that your architect or construction team may not have adequate knowledge or experience to handle. This type of contractor can also provide a second opinion in decision making during the process. The **Tabor Grand Hotel Apartments case study** highlights an example of this role.

Lawyers and legal consultants can be helpful contractors at a variety of points in the development process. It will be helpful to have a legal professional review and provide advice on the wide range of legal contracts, agreements, and other documents that you will encounter.

A local land use expert, such as someone trained as a city and regional planner, can help you understand and navigate the entitlements process (discussed more in **Chapter 5: Predevelopment**). Those with prior experience working in the jurisdiction will be particularly helpful since every jurisdiction can have their own approach and process with respect to land-use regulation.

A green building consultant will recommend approaches and practices to improve the economic efficiency and health and environmental impacts of your development. These consultants should be engaged throughout the process, from considering the site and designing the building, to advising on construction site management, and eventually building operations and resident education. For more information, see the **Green Building and Sustainability Brief**.

A marketing consultant may be helpful in leasing up your development by creating marketing materials and advertising your development once it has been completed.

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chapter 4:

Engaging the Community

Learning Objective:

Users will understand the importance of different community stakeholders to the success of an affordable housing development and gain practical tips for engaging them.

Who are community stakeholders?

There are many types of community stakeholders that could be relevant to engage as part of your development process. You will want to consider who and how to engage to best achieve all parties' goals. The process of making this decision is described in more detail below, but your list will likely include some combination of the following community stakeholders.

Individual stakeholders

Your target population(s). Depending on where you are in your development process, you may have already identified specific populations whose housing needs you hope to meet. For example, this could include people earning a certain income, older adults, and/or people with disabilities. Any populations you hope your development will serve should form a component of your stakeholder engagement approach, either through direct engagement of individuals and/or organizations that represent their interests. For example, a local organization that advocates on behalf of people living with disabilities may have great insight on related housing needs. These stakeholders will provide important insight to inform your development design, location, connection to services, target rent levels, and many other aspects. They may also be an important ally in helping you make the case for your development to other community stakeholders.

Current tenants. If you are rehabilitating or redeveloping an existing property, the building's current occupants should be engaged to determine if and how they will be impacted by construction activities and the vision for the completed development. This could include both individual residents and organizations if the building contains commercial space. Current tenants have unique knowledge of the building's current condition and functions since they experience it daily. This may inform their ideas or preferences for modifications you are considering.

Neighborhood residents. Neighborhood residents are those who live near your intended development site. They may be engaged as individuals or through groups, or individuals who represent local interests such as neighborhood associations, community champions, or elected officials. Opinions on development, and affordable housing development, can vary substantially from person to person and neighborhood to neighborhood. Some neighborhoods may welcome housing development because they understand the value and view it as a way to help their community grow. Some may view it as a threat to their community or property interests. Others may not have specific opinions but will instead have questions for you about construction implications or what the resulting development will mean for them and their neighborhood. In preparing to engage residents, research the neighborhood's history to understand any community goals, strengths, concerns, and accomplishments. Have there been previous engagement efforts where resident trust was violated? If so, there may be mistrust of future engagement efforts to overcome.

Not in My Backyard (NIMBY) Objections to Development

Neighborhood residents can be one of the most important and most challenging groups to engage, since they may wield considerable power to slow or even prevent your development from proceeding, depending on the local political structures and approval processes. Some may also struggle to see the value in your development. The development represents change for their neighborhood, and change can be threatening for many people.

Some may see the value in affordable housing development for the community as a whole, but do not want it in their neighborhood. These "not in my back yard" (NIMBY) concerns are a common barrier that affordable housing developers encounter. NIMBY arguments can take many forms but range from concerns about homeowners' property values, traffic, safety, environmental quality, community architectural character, and/or residents who are expected to live at the development. In some cases, there might be legitimate concerns about a particular issue, such as traffic, which you can work on in concert with the community and any relevant public agencies to solve. In others, neighborhood residents may simply replace one objection with another because they don't want the development to occur at all. In these cases, it could be less a matter of addressing arguments and more about helping them understand the value and importance of providing more affordable housing options in the community. Encouraging neighbors to consider current costs of housing relative to qualifying working wages can go a long way to undermine the stereotypes and preconceptions they have about affordable housing and its residents.

Identifying and lifting up the voices of supporters of your development can also help to make your case against a NIMBY mindset. In most cases, some residents in the neighborhood will be in support of your development, even if they are not as vocal as those speaking up against it. Local public agency staff and officials who represent the interest of the broader community may also be important champions for your development. Regardless of the specifics of the situation, the best approach to combatting NIMBY arguments is to engage in dialogue throughout the process, strive to bring residents along in their thinking and seek compromise where possible. Engaging stakeholders early in the process when there is the greatest potential for collaboration and compromise is best. If vocal opponents cannot be won over and effectively wield the power to obstruct your development, you may have to consider formal negotiation as a solution.

For more information on dealing with NIMBY concerns, see HUD's **NIMBY Risk Assessment and Decision Tree Tool**.

Public sector stakeholders

City/County staff. Staff from city and county agencies can be significant resources, helping you understand the development approval process, others in the stakeholder landscape, the community's housing needs, and a variety of other conditions. Because they are charged with supporting the interests of the community as a whole, they will often have a good foundation for understanding the need for affordable housing and the value that your development will bring to the community. They may also be allies in convincing other community stakeholders of your development's value. A good practice would be to engage with planning departments very early in the process. The planners will be able to share if the housing development concept is compliant with local land use and zoning requirements. Also, be sure to keep this group updated throughout development.

Local elected officials. Local elected officials will have varied positions on affordable housing and the development needs of particular neighborhoods. They may have a good sense of the community's overall needs. Those who represent specific districts or wards, such as city council members, work to ensure healthy balance between the needs of the broader community with the needs of their constituents. Some elected officials may have issues they have established stances on and others that are open to discussion. Thus, understanding where local elected officials stand on affordable housing and development will be important in engaging them. If they have been involved in prior efforts in the neighborhood you're planning to develop in, what was their role? Because elected officials are community leaders who represent public opinion and wield power through their office, they can be important allies in helping you make the case and obtain approvals to proceed with your development. You should keep them engaged and updated throughout the development process.

Staff from state agencies. Although not necessarily members of the community in which you are developing, staff from CHFA, DOH, or other state agencies want to see your affordable housing development succeed and can be helpful allies in your community engagement process. Having their buy-in and support can help convince local stakeholders that your development is important and in the community's best interest.

Institutional stakeholders

Nonprofit and advocacy organizations. These organizations represent the interests of a particular population or issue. Examples include disability rights advocates, fair housing organizations, and environmental stewards and advocacy groups. Organizations whose mission or agenda includes increasing the availability of affordable housing can be helpful to engage in supporting your development. They may provide materials and data to help you overcome neighborhood opposition to development. They may provide connections to political or financial resources or have helpful information to inform the vision and plan for your development. They may be interested in partnering with you on development or service provision. Other organizations may raise concerns about your development and make suggestions to help you address them. For example, an environmental group may raise concerns about the impacts of your development on a local watershed and have ideas about how to improve stormwater management. Which organizations you engage, if any, will depend on the community you are in, what organizations exist, and which have interests that are aligned with yours.

Community-based philanthropic and/or financial institutions. In addition to potentially providing financial resources for development, community-based funders may take a more direct interest in your development project than those based outside the community. Because they have a focus on serving the community, they typically have valuable networks, local support and awareness, and may function as trusted community leaders. Thus, engaging them during your development process may mean not only exploring how your development may fit their investment and giving priorities, but also help you access their influence and existing community support.

Nearby businesses and landowners. These stakeholders are typically those located near the site who may be directly impacted by the construction and eventual occupation of the building. This includes those who may be impacted by temporary road closures during construction, those who could benefit from changes in roads or sidewalks in the completed development, or those whose business may benefit from the proximity to your residents. City staff can help you determine who is likely to be impacted by activities and contact the owners of these businesses. Engaging these businesses will typically involve some process of defining the impacts on them and determining whether there are solutions to mitigate negative impacts or increase positive impacts on their business.

Local employers. In addition to nearby businesses, major employers in the area will generally benefit from the increased affordable housing options for their workforce that you will be creating. Especially in communities where affordable housing shortages are viewed as a key employee attraction and retention concern, these organizations can be champions of your development, helping you make the case to elected officials and community members that your development is in the community's best interest due to its potential to support local economic development. Examples include businesses, hospitals, universities, school districts, and other institutions.

Why does engagement matter?

Successfully engaging members of the community where you plan to develop will be necessary for the success of both for the development you are considering now and those you may pursue in the future. Successful engagement may result in political support and could make room for additional resources for your development. It may also substantively inform your development plans, since engaging stakeholders will help you better understand the housing needs, challenges, and opportunities in the community. Failing to engage the community may result in costly delays or cause you to abandon your development plan altogether. In addition, inclusive engagement is important to advancing diversity, equity, and inclusion considerations in your development process.

Community engagement is not a single step in the development process but something you will want to do throughout, although the activities tend to be most intensive and important during your concept development and predevelopment/feasibility phases. Some of the key ways that community engagement can be helpful to you include:

Advising on local context and joint problem solving. Local stakeholders can help you understand the existing conditions, history, trends, and priorities of the community. They can help you understand how the community has changed over time as well as the change they would like to see happen. They can help you identify populations in particular need of affordable housing and where there are the greatest disparities in housing outcomes. They may point you to neighborhoods or specific sites that could affect—or be affected by—the development process. They can help you understand how the community's history, experience, and culture can be accounted for in the development. All of these factors can help you understand what kind of development will best meet the community's needs and the relationship to the community's and your organization's priorities.

Creating a more equitable development. Having an inclusive engagement process that incorporates and responds to diverse perspectives is critical to understanding how your development can create more equitable outcomes for the population you will serve and/or the community in which you are developing. The engagement process can also empower community members by enabling direct participation in the development planning and design process. For more information on this, see the **Diversity, Equity, and Inclusion Self-Assessment Tool**.

Accessing funding. Local stakeholders can also help you identify and secure financing for your project, including through locally administered public resources, local philanthropic organizations, or individual donors. The Bridge Shelter case study, for example, highlights an example of the potential of individual donations in achieving the project's success. Demonstrating that community engagement and partnership are key parts of your development process may also make you more competitive for state and national funding sources. Some funding sources even specify minimum requirements for community engagement.

Accessing land. Local stakeholders, including both individuals and institutions, who own land may be more willing to commit this resource if they understand there is alignment between affordable housing and their and/or the community's goals. This could mean the difference between land being available or not. For example, a landowner who was not planning to sell their property may decide to sell it to you because you have helped them understand the importance of the outcome. It may also create opportunities for an institutional partnership in which land is donated or offered at a lower cost for development. This was the case in the **Basalt Vista Affordable Housing Community** case study.

Getting public support and approvals. As discussed in more detail in **Chapter 5: Predevelopment**, the approval process is a key point when the community can formally exercise its voice to shape the development. Having the support of the community can mean the difference between getting the approvals you need to proceed, being required to make revisions to your development plan, or having your development rejected altogether. Engaging the community to help you and local stakeholders understand how your development can best address local priorities will increase the likelihood of getting the community's formal approval to proceed.

Improving understanding of the need for affordable housing and benefits of development. This can be a necessary precursor to gaining stakeholder support for your development. It can also be helpful in building general support for affordable housing in the community, which may serve your organization's goals and mission beyond a single development. Topics that may be helpful to improve stakeholder understanding include:

- who in the community the development will serve;
- the factors that contribute to local needs;
- the positive impacts of affordable housing, such as economic growth, public spending on other needs, etc.;
- the benefits of different housing types (see **Chapter 3: Housing Development Models, Team, and Roles** for more detail); and
- the process for developing housing and the potential impacts.

For support in understanding how to make the case that affordable housing is an important issue and needed in the community, see the **Casemaking Tool** in the online version of this guide.

Local labor. Your development will create employment opportunities, both temporary jobs during the construction phase and potentially permanent jobs for ongoing property management and service provision. When they see the importance of your development for their community, local contractors, laborers, and other businesses may be more likely to work with you, move past perceived risks, and help you achieve a better outcome. **The Bridge Shelter case study** in this guide provides an example of how working with local contractors who believed in the project was a key contributor to the project's success.

Finding tenants or buyers. Once construction is complete, your development will need to be rented or sold. Engaging the community throughout the development process can help you raise awareness and interest by prospective renters or buyers. Understanding the community's needs and priorities can also inform your marketing strategy. This is described in more detail in the **Marketing and Lease-up section** of Chapter 8: Project Construction.

Long-term relationship building. Ensuring that you are working with community stakeholders and partners will help you build the long-term relationships that may lead to future opportunities in housing development and beyond. Providing a good experience to those you work with may strengthen relationships for the future when they recognize opportunities for your organization's mission, skills, and expertise to be leveraged.

Planning your engagement

Thoughtful planning of your approach is key to developing your community engagement process. Like many things in the development process, you will likely need to adjust over time, but it is a good idea to start planning your engagement as early as possible.

Step 1: Define your engagement goals

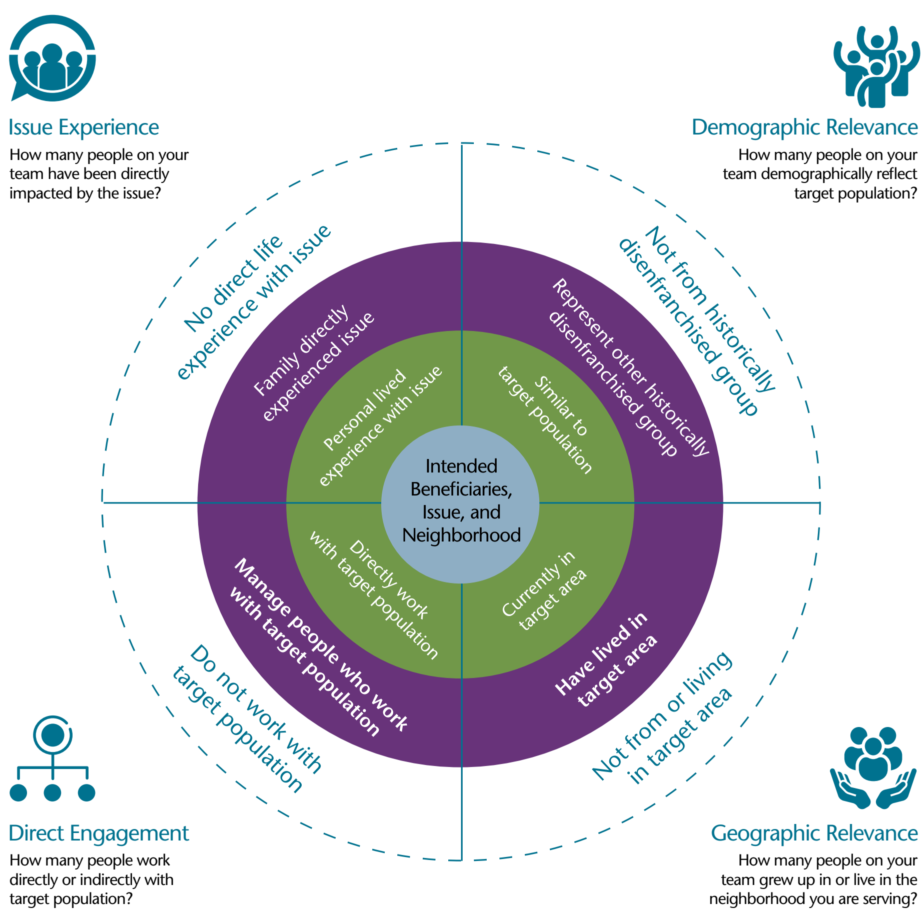
The community engagement goals for your project will vary depending on the nature of your development and the community in which you are working. Creating affordable housing through rehabilitating and preserving existing housing, for example, may not impact the surrounding neighborhood as significantly as a new construction development where the use of a vacant site is changing. Developing for a population or in a neighborhood with a history of significant trauma may require a more thoughtful approach to account for this. The planning and approval processes in a jurisdiction may also influence who has power and influence that can inform engagement. You will have multiple goals in your engagement process, but some combination of the benefits listed in the previous section will likely be incorporated.

Step 2: Identify community stakeholders

To start planning your engagement, make a list of the stakeholders you plan to engage. Given different types of stakeholders discussed in the previous section and/or others you feel are important to your project, consider these questions:

1. What individuals or organizations have a stake in your development? For example, who will be impacted, directly or indirectly, by the affordable housing you will develop, the populations you plan to serve, and the changes in the use of the site or construction activities?
2. Are there any community organizations, leaders, service providers, faith institutions, or others who may not have a significant stake themselves, but are trusted by community members and can help to engage those with a more direct stake?
3. What individuals or organizations have insight, experience, influence, authority, and/or funding that could benefit your project and therefore should be engaged?
4. How does your team's lived experience relate to those you plan to engage? Are there others you could partner with to ensure you have a good starting point for engaging and understanding key issues, populations, and geographies? See Figure 2.

Figure 2: Example Framework for Considering Team Experience[viii]



Answering each of these questions will help you create an effective list of community stakeholders to engage. Your answers to these questions may also change as you move through the development process and some aspects may become more specific. For example, before you have identified a site, you may not know what neighborhoods are relevant to engage.

Applying a diversity, equity, and inclusion (DEI) lens is helpful and important in the stakeholder identification step. This means ensuring that individuals and organizations included in your engagement represent the key demographics you intend to serve. It also means ensuring there are varied perspectives represented from the community, especially those whose voices have not historically been heard in decision-making processes. Consider DEI across a broad range of perspectives, including but not limited to, race and ethnicity, gender, socioeconomic status, mental and physical ability, and geography. Also, consider your team's relationship to the above factors. Do you feel you have the experience for effective engagement (as outlined in Figure 2)? For more information on considering a DEI lens in your work, see the **Diversity, Equity, and Inclusion Self-Assessment** tool.

Step 3: Stakeholder analysis

Once you have your list of potential stakeholders, conduct a stakeholder analysis by considering what you know about them. You can also use additional supplementary research, including reviewing organizational websites, asking colleagues or board members who have worked with them, and reading press coverage involving these stakeholders. You may also be able to sit in on convenings of these stakeholders to listen to their perspectives prior to your engagement. Public meetings happening as part of public planning processes, for example, can be a good place to hear what issues are top of mind for a neighborhood or population group. The following considerations can help guide your thinking.

Engagement Logistics

- Who at the organization might be a good point of contact? Do you already know them?
- Are you aware of any existing initiatives, forums, organizations such as a local business owners group, or engagement processes in which these stakeholders already convene that might provide a convenient entry point for engagement?
- Are there particular development phases where engaging them will matter more?
- Are there any meeting or planning process timelines that should inform your engagement timing?
- Are there logistical issues you should anticipate in engagement such as digital capabilities, childcare needs, translation needs, etc.?
- Would compensating individuals for their time enable them to participate?

Perspectives

- What are their interests, priorities, organizational missions, and values?
- What are their stated views on affordable housing development? Do you expect them to support or be resistant to the idea that affordable housing is needed or that your development is important for them and their community?
- What information might support your case and help you convince them?
- What other challenges or opportunities do you envision when engaging this person or group?

Mutual Stakes

- What stake do they have in your development and its success?
- How will they benefit from participating in engagement?
- What influence and resources do they have that could support your development, including influence with other stakeholders on your list?
- What power do they have to directly impact your development?
- What aspects of your development will be important for them to understand or have input on?
- What expertise, experience, or information do they have that would be helpful for you to understand?

Experience and Interactions

- Has anyone in your organization had experience engaging or working with these groups previously? If so, what did you learn?
- Do you know of historical engagement processes they have been involved in? If so, did it build or hinder trust for housing developers and engagement processes more generally?
- Is the community where you will develop likely to be suffering from planning or engagement fatigue due to previous engagement processes?
- Are there alliances or a history of antagonism between stakeholders that you have identified?

Step 4: Plan your approach

Once you have a clear sense of who you seek to engage and the consideration for doing so, you can plan your approach. Some stakeholders may need to be engaged in one-on-one conversations, while this may be infeasible for others. Consider the notes you made in your stakeholder analysis to determine the format, timing, and design of your approach for engaging each. Which stakeholders can you effectively engage as a group? Which should you engage first? Are there groups that you need to spend more time understanding before you begin direct engagement? Will you need to account for language or cultural awareness in your efforts?

A common framework used for thinking about engagement approach is the International Association for Public Participation's Public Participation Spectrum (Figure 3). This spectrum captures the degree of involvement you plan for stakeholders to have in your process. You will likely want to involve different stakeholders in different ways: some you may want to engage as collaborators in your development process, helping you solve problems and supporting your success; others may be relatively less involved but want to stay informed. Thinking about your engagement goals and approach in these terms can help you decide how to engage each type of community stakeholder.

Figure 3: International Association for Public Participation (IAP2)'s Public Participation Spectrum[ix]

	Inform	Consult	Involve	Collaborate	Empower
Public participation goal	To provide the public with balanced and objective information to assist them in understanding the problem, alternatives, and/or solutions.	To obtain public feedback and analysis, alternatives, and/or decision.	To work directly with the public throughout the process to ensure that public concerns and aspirations are consistently understood and considered.	To partner with the public in each aspect of the decision, including the development of alternatives and the identification of the preferred solution.	To place final decision-making in the hands of the public.
Promise to the public	We will keep you informed.	We will keep you informed, listen to and acknowledge concerns and aspirations, and provide feedback on how public input influenced the decision.	We will work with you to ensure that your concerns and aspirations are directly reflected in the alternatives developed and provide feedback on how public input influenced the decision.	We will look to you for advice and innovation in formulating solutions and incorporate your advice and recommendations into the decisions to the maximum extent possible.	We will implement what you decide.

Increasing impact on the decision →

There are many forms and models of engagement that you can consider using, including those below. You will likely need some combination of these approaches to achieve your engagement goals.

Individual interviews or conversations. Perhaps the simplest form of engagement to plan and implement is an individual interview or conversation with a stakeholder. This allows you to focus your attention and information on the perspective and role of that stakeholder. This is also a very time-intensive form of engagement and is not feasible when you are trying to engage large numbers of people. This is most commonly done with key stakeholders such as community leaders or points of contact at organizations who represent a broader set of stakeholders.

Community meetings and listening sessions. At the other end of the spectrum are larger group events with open invitations where many stakeholders can engage at the same time. The clear advantages of this are reaching many people at one time and allowing for diverse perspectives. However, while these can be efficient from an engagement time perspective, they can also be difficult spaces to engage in meaningful dialogue. Depending on the design of the meeting and the stakeholders in the room, you may struggle to capture the diversity of perspectives you are hoping for. A skilled independent facilitator can help address these challenges by creating an environment that welcomes diverse perspectives, gives everyone a chance to engage, and addresses conflicts that may arise. When planning sessions like these, consider the accessibility and relevance of the location to your audience, the transportation access, and whether childcare or language interpreters will need to be provided for stakeholders to participate. This will help ensure that you are not inadvertently excluding anyone.

Focus groups and group interviews. As a middle ground between engaging one-on-one and engaging a large group, small-group discussions and interviews can be an effective and relatively time-efficient engagement. The small-group setting makes people more comfortable to share their perspectives and you can better anticipate who is participating to help you achieve your engagement goals. For example, you may decide it makes sense to convene a group of representatives from multiple organizations who have a similar stake in your development so that you can discuss issues together. As with broader community meetings, a skilled facilitator can help you design and conduct these sessions. This may be particularly helpful if you have specific concerns or sensitive goals.

Written materials. You may choose to do some level of engagement through surveys, online outreach, web-based content, or printed materials. While these can be helpful approaches, they are not generally sufficient on their own and instead should be thought of as a complement to other engagement. Materials may need to be provided in languages additional to English. These tools can help you reach audiences who you might not otherwise engage and help stakeholders learn more or explore issues in more detail.

Digital engagement platforms. There are increasing varieties of digital platforms that are specifically designed for stakeholder engagement. They each function differently, so explore to find one that matches your engagement goals. **CoUrbanize**, **Bangthetable**, and **Crowdbrite** are examples, but there are a growing number of platforms that provide this kind of service. Like written materials, these platforms are generally used as a supplement to more direct forms of engagement to reach a broader audience. Some also have tools that can be used during in-person engagements to collect feedback. For example, collaborative digital mapping is often used to identify community assets.

Engagement via champions. As discussed above, you may find other organizations that are willing to engage stakeholders on your behalf and champion affordable housing needs and the value of your development. Although this would still require you to remain engaged in some way, this can save you time, create entry points with communities and populations you might not otherwise have, and help you leverage the trust that the champion has already built. Local or state government staff, community organizations, local leaders, and local employers are examples of groups that may potentially champion your work.

Leveraging existing engagement. In many cases, there will already be engagement activities occurring in your community. The city or county may be holding public meetings related to a local planning process. There may be organizations holding discussions of affordable housing needs. Identifying these opportunities can save you time in planning your own meetings, while providing space to engage the assembled group. The downside of this approach is having no management over who will attend or the timing of the engagement. Therefore, leveraging existing engagement is something to consider as an opportunity, but cannot be relied on as a primary strategy.

Step 5: Engage and adapt

Once you have defined your engagement approach and timeline, you can begin your engagement process. Although who and how you engage will vary based on the specifics of your development and location, there are a few key principles to keep in mind:

- Keep an open line of communication by being easily accessible and listening. Treat engagement as open and ongoing rather than confined to one meeting.
- Recognize the wisdom, voice, and experience of community stakeholders.
- Reach out to marginalized communities and create a safe space for participants who may be hesitant to express their opinions.
- Treat all stakeholders with integrity and respect, even when they do not agree with you.
- Be transparent about your motives and relevant power dynamics.
- Share decision-making and leadership when possible.
- Engage in continuous reflection and be willing to change course.
- Follow through with commitments you make to stakeholders.
- When things change, follow up to keep key stakeholders informed.
- See engagement as an opportunity to build long-term relationships with the community.
- Provide written materials (hard copy or virtual) to provide greater transparency and clarity.

For more information and tools to help you begin facilitation and engagement activities, see **Collective Impact Forum's Community Engagement Toolkit**. **Warm Cookies of the Revolution**, based in Denver, also has many innovative models for engagement and provides videos and other media showcasing how facilitation style and engagement design can impact engagement outcomes.

With thoughtful planning and the above-listed principles in mind, engaging and building relationships with community stakeholders can be one of the most rewarding aspects of development and will contribute to the success of this development and the next.

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Case Study: The Bridge Shelter, Cortez

About the project

The Bridge Shelter, located in Cortez, provides a seasonal shelter for up to 41 people, including separate spaces for those who are sober and those who are not. The development also has a second floor with 12 transitional housing apartments that can accommodate up to 27 formerly homeless individuals. A variety of supportive services, including work opportunities, are provided to residents.

The Bridge Shelter was developed by The Bridge Emergency Shelter (the Bridge), which now occupies and operates the development. The new facility, completed in 2019, replaces the organization's previous shelter space, expanding both capacity and the range of support the organization provides.

Contributors to success in development

Deep community roots. For the last 15 years, the Bridge has been the only housing provider for those experiencing homelessness in Cortez. The Bridge began as a handful of dedicated volunteers who were responding to a clear community need and crisis when homeless people were dying in the city's parks due to winter weather exposure. The organization grew and now has paid staff and provides a range of services.

This grounding in clear community needs and existing network of connections to community stakeholders meant the Bridge had a strong foundation for community support and buy-in to its development. The community supported the project and helped raise funds from both institutions and individual donors. Local businesses also supported the development; for example, a local furniture store provided furniture at cost.

Case Study: The Bridge Shelter, Cortez

Taking advantage of site acquisition opportunities as they arise. The start of the new Bridge development occurred when the previous owner of the site decided to sell it. The site had easements that influenced what could be developed and required infrastructure to be installed, but the opportunity was too good to pass up. After a discussion with the owner and assessment of the site's viability for new development, the lot was deeded to the Bridge for use as a shelter.

A location that aligns with resident needs. The location of the site is perfect, given the needs of the populations the Bridge serves. The site is located at the corner of one of the main thoroughfares in Cortez's core. It is within walking distance to other principal agencies and services. The site is within proximity to the local hospital, meal services, an affordable housing development, and law enforcement facilities.

Presenting a bold vision to funders. A pivotal moment in the development concept came when Laurie Knutson, the Executive Director of the Bridge at the time, was asked by her board chair and staff from the Colorado Division of Housing (DOH) what her vision was for the new development. Instead of presenting the vision she thought was most feasible, Laurie presented the vision she thought would best serve the needs in the community, expecting to be asked to revise her thinking. Instead, she was able to win over the support from her board and DOH to pursue the more ambitious vision that included not only the shelter activities the Bridge had previously focused on, but apartments to fill a transitional housing need that was unmet in the community. This bold vision helped the Bridge secure $1.2 million in funding from DOH for the development. Additional funding was provided by the Federal Home Loan Bank, the Gates Family Foundation, and individual community donors. CHFA donated $15,000 to help furnish the development.

Putting thought into design needs before engaging an architect. The Bridge had already determined the types of spaces and floor plans they wanted to see in their new development and created preliminary design sketches before approaching an architect. They identified the architect of a nearby building that had been well-designed who was interested in working with them. Some modifications were needed to ensure viability, but the final design closely aligned with the Bridge's original sketches and goals. For example, the final design required a much larger commitment of space to house the building's systems than their original sketches had called for. This required sacrificing some of the storage space the Bridge had planned for.

Being flexible in design. The design process also provided the opportunity for the Bridge to rethink some of their own assumptions about design. For example, they originally wanted to include a deck in the rear of the building, but ultimately abandoned this idea after realizing that it might encourage people to camp underneath it. Concerns were also raised about the foundation's ability to support the commercial washer and dryer that would be needed for the building. In the end, the architect and engineering teams were able to design a solution that met their needs without sacrificing the integrity of the building.

Utilizing local construction labor. The Bridge's use of local labor, including both the general contractor and many of the subcontractors, was another contributor to their success. The fact that community members were constructing the building meant they had a direct stake in its success and were committed to a positive outcome.

Aligning operations and services with resident needs. The services the Bridge provides and the way they operate their development account for the needs and starting points of their residents. Supportive services provided onsite and through referrals provide addiction treatment, peer counseling, mental health services, and work opportunities and internships through partnerships with employers. In the transitional housing portion of the development, leases are provided on a six-month basis, but can be renewed if the tenant is showing progress toward developing self-sufficiency.

Case Study:
The Bridge Shelter, Cortez

Key lessons for other developers

Don't make design more complicated than it needs to be. After occupying the new building, the Bridge realized that they had overdesigned certain elements. For example, the second floor had an exhaust fan controlled by a motion detector, which was too sensitive in detecting motion so they realized that a simpler solution would have better served them. Similarly, they had a light timing system installed, but it ended up being too complicated to operate and they ultimately opted for simple switches. Garbage disposals installed in the second-floor apartments were originally intended to make life easier but have become a maintenance issue.

Work with the municipality on requirements. One of the biggest hurdles during the development of the Bridge was the city's parking requirement, which mandated a specific number of parking spaces for every unit and staff member. However, given that many of the residents lack vehicles, they were able to work with the city to reduce the parking requirement to enable the development to work. The city was willing to compromise because they understood the needs and importance of the development for the community.

Keep the community's needs and mission of your organization front and center. Maintaining focus on the mission and specific development needs of the organization was a key contributor to the Bridge's success. While they did not have development experience, they were still able to complete their development by helping people understand the importance and value that it adds to the community.

Learn more about The Bridge.

chapter 5:

Predevelopment

Learning Objective:

Users will be ready to make effective decisions around site selection, acquisition, and environmental studies.

Overview of predevelopment

The predevelopment stage builds on your understanding of the community's housing needs and its own capacity to embrace development. This phase focuses on identifying and acquiring a site, creating detailed plans for the development, and various steps to take before beginning construction. Note that although both market and financial feasibility assessments are technically part of the predevelopment phase, they are covered in **Chapter 6: Market Feasibility** and **Chapter 7: Financial Feasibility**, respectively. However, you will often be working on those processes in tandem with those described in this chapter.

A thorough and well-managed predevelopment phase is critical to the success of the development. There are many details, tasks, and deliverables to keep track of, and other potentially unforeseen variables that may be introduced into the development action plan. A successful predevelopment process makes for a successful construction phase and is important to reducing your organizational liability.

Predevelopment can take months or even years to complete, depending on the type of development and the local requirements. This is also time when rent is not being collected and the primary funding has not been secured, so this can be a period where you will have significant monetary outlays and carrying costs with no income to offset this. Because of this, lenders and other funders have created loan and grant products specifically to assist with this phase of the development for affordable housing. For more information on resources that may be available, see the **Funding Sources Inventory** in the online version of this guide.

Because of the complexity of the design, site review, and approval processes for development, you should employ consultant expertise. These could include:

- planners or lawyers with expertise in zoning and land use;
- engineers, architects, and/or landscape architects to produce drawings, plans, and reports;
- your general contractor to advise on construction-related issues and costs;
- environmental experts to conduct site environmental reviews for contaminants and other conditions; and
- market analysts to test the market feasibility of your development model.

In addition, many other stakeholders will be involved in this phase such as lenders and other funders, government officials and staff, and community members. For more information see **Building Your Development Team** in Chapter 3: Housing Development Models, Team, and Roles.

If possible, hire consultants who have specific experience working in the jurisdiction and with similar types of development as yours. This will increase the likelihood of an efficient predevelopment and approval process.

Site selection

Site selection refers to the process of examining and assessing different land (or existing developments in the case of preservation or adaptive reuse) to determine which site(s) best meet your goals in developing affordable housing. Site selection influences other aspects of your development project, including the overall financial feasibility, design, and ability to align with community needs. This section lays out key factors to consider when evaluating and selecting your site. Some of these factors you may be able to understand well enough from a broker sheet or public records. Others will require you visit the site yourself to see the conditions firsthand.

Physical and environmental factors

Slope refers to the change in elevation on a site. Most site-selection guidance recommends ruling out sites with steep slopes (10 percent gradient or higher), since these may require significant and costly earthwork to prepare the site for housing development, such as moving soil, building retaining structures, and incorporating onsite stormwater management infrastructure. Sites with moderate slopes (5 to 9 percent gradient) may still require some level of earthwork, but it is generally less intensive and may be more financially feasible. Given the mountainous terrain of many communities in Colorado, sites with steep slopes may have to be considered, but it is important to understand the costs that will be associated with this type of development.

Drainage and hydrology refer to the way water moves across and within the soils of a site. In many cases, this may simply involve understanding the direction stormwater runs off and/or collects on the site, which can be addressed in the design of your development. A pond, stream, or other water body present on the site may impact what you can develop.

Soil. A site's soil conditions must support the overall development, including building foundations and density, even when compacted. It must also provide proper drainage for both stormwater and any water generated by the development such as a landscaping sprinkler system. Rocks or other major physical features that are part of the soil may require additional earthwork or design considerations. Your assessment of a site's soil should also rule out any ecological factors, such as the presence of prime agricultural land or wetlands. The U.S. Department of Agriculture provides a list of soil surveys that have been conducted in the state that can be used to determine general soil conditions, but onsite sampling and surveying will be necessary in most cases.

Environmental considerations include the susceptibility of the site to both natural and human-made conditions that could adversely impact residents and/or the development itself. Being located in a flood plain, for example, may expose the residents and building to flood-related hazards. A property hazard and risk profile, such as **the Portfolio Protect tool provided by Enterprise Community Partners** can help you determine a site's exposure to environmental risk factors, including floods, fires, and landslides. However, tools like this may not fully capture some of the environmental considerations introduced by Colorado's unique topography. For example, there may be factors introduced by elevation and exposure to mountain temperature fluctuations, snow, wind, UV light, and other conditions that should also be considered. Nearby human-made risk factors such as landfills, heavy industrial uses, or Brownfield sites should also be assessed to determine any potential impacts, along with any readily identifiable conservation considerations, such as the presence of a wetland or other sensitive area. These factors will all be assessed in more detail during your environmental review, but it is helpful to have the best understanding you can of what environmental conditions may look like for a site using publicly available tools and resources.

In assessing these environmental considerations, your development team can help you understand the implications of identified risks; some factors may deter you from a site altogether, while others can be effectively addressed through design decisions or mitigation measures. Even in if hazards can be mitigated, the costs of doing so may end up being prohibitive for your development model.

Parcel size and shape. Parcel size and shape influence what the development will look like once built. This includes how the development fits in and connects with its surroundings, both human-made and natural, and how buildings must be configured on the site. Parcel size and shape are relevant primarily to new construction and redevelopment but could also be relevant in rehabilitation developments if the exterior of the building will be reconfigured or if new structures will be added. In addition, the size of the parcel determines how much space you will have to landscape, maintain, or otherwise manage the property's exterior. Your architect can help you evaluate whether the dimensions of a site will be workable for your development plan.

Existing utilities and infrastructure. Access to existing utilities and infrastructure is especially important for new housing construction, where the site improvements to either extend or add new or significant upgraded onsite infrastructure may be cost-prohibitive. In rural locations, extending basic infrastructure to a site may be costly, depending on location of water and sewer connections, and alternatives, such as sites with appropriate water for onsite septic systems, may be difficult to find consistently.

Consider the following components of utility and infrastructure access during site selection:

- Presence: Does the site already have infrastructure and utility services?
- Proximity: For sites without existing services, is the site near main lines to connect to infrastructure and utility services?
- Capacity: Is there capacity for additional hookups to existing infrastructure or utility lines? For instance, even when water and sewer lines are present, capacity for additional hookups to existing lines may be limited. Some communities impose moratoria on infrastructure hookups to assist with water resource management. In older urban areas, infrastructure may need to be improved significantly due to age or to support higher-density development planned for the site. These costs are often passed on to developers.
- Fees: What is the municipal fee structure? You may be required to connect to a municipality's water and sanitary sewer system if the site is in its extraterritorial jurisdiction.

Infrastructure and utilities to assess include the following:

- Water lines
- Sewer lines
- Trash service
- Electric
- Gas
- Broadband
- Transportation access, both frontage roads and road access

When considering a site that lacks access to utilities or other infrastructure but makes sense for other reasons, public sector organizations that have an interest in creating more affordable housing may be interested in partnering to help make the infrastructure development costs more feasible, as the **Basalt Vista Affordable Housing Community** and **Cactus Corner** case studies demonstrate.

Existing Use. A site's current use can also have a substantial impact on the feasibility of different development models. Existing structures on the site may need to be rehabilitated, demolished, or adapted to a new use to meet your development goals.

In addition, if any existing buildings on the site are currently occupied by residential or commercial tenants, you may need to determine how to relocate them. If federal funding will support your development, your plan for relocation must comply with the **Uniform Relocation Assistance and Real Property Acquisition Policies Act (URA)**, which establishes standards and requirements for property acquisition and current resident displacement. Depending on the nature of the displacement involved, compliance with this requirement may add significant costs to your development.

Regulatory factors

Current zoning. Zoning regulates the specific types of development that can be built on a site. In other words, it determines what can be built and how. During site selection, it will be important to understand if potential sites are currently zoned for the type of project or projects you may want to build. You can learn this by reviewing current zoning standards and/or by engaging local planning and zoning staff. These staff members can help you understand the need for approvals, the process to obtain them, and any areas of flexibility in the current standards that may be available to you. At this point, you likely will not have a detailed site plan and may not be aware of all the special approvals you need. However, a general assessment of the current zoning standards will still be helpful for sites that appear viable for your development model. Key questions to consider are:

- Are residential uses allowed by-right (i.e., without special approvals)? If so, what specific types of housing can be built?
- For development that may serve specific groups, such as people experiencing homelessness, survivors of domestic violence, and others, will you need a special or conditional use permit?
- Does the zoning indicate that the site is located in any hazard mitigation areas?
- Generally, can the development be configured to meet all the zoning specifications? These specifications may include height, bulk, density (i.e., the number of units proposed on the site), set-backs, open space requirements, and parking requirements.
- Does the zoning classification offer any incentives for housing affordability, services, or other public benefits that the project may provide? Does the zoning classification require any affordable housing units be provided as part of new development? Although zoning does not generally regulate affordability, additional requirements may be incorporated in zoning that require specific levels of affordability.

If the requirements do not align with aspects of your development, you may choose to explore whether an exception to the zoning requirements, called a variance, can be made. Variances are typically available when the current zoning creates a barrier to site use. Some common reasons to seek a variance include small or oddly shaped sites or nonconforming uses or structures. Waivers or changes to specific building standards may also be possible when relevant.

Developers may experience a broader spectrum of land use regulations. For instance, rezoning to allow for residential use may be needed in communities that have not updated their master or comprehensive plans to account for changing market conditions or population growth.

Locational factors

In addition to evaluating the characteristics of the site, you should also consider where the site is located with respect to your development model, the people it will serve, and your organizational values. For example, the proximity of the site to key services and amenities such as public transit, health care, and education services may be relevant for the residents you plan to serve. **The Bridge Shelter case study** featured in this guide, for example, highlights location factors like these that contribute to the development's success.

In addition, a site located in areas designated by the public sector for targeted public investments may make additional resources available to finance your development or may enable greater investment in the surrounding neighborhood over time. Examples of these designations include: Community Development Block Grant LMI Census Tracts, Neighborhood Revitalization Strategy Area, Qualified Census Tract, Difficult to Develop Areas, and Opportunity Zones.

Diversity, equity, and inclusion factors

During site selection, there may be both federal- and state-level requirements to account for, as well as broader ways to advance equity and inclusion.

Fair housing requirements

Federal fair housing law prohibits discrimination across seven protected classes – race, color, national origin, familial status, disability status, religion, and sex. **Colorado state law** extends protections to additional classes, which are ancestry, creed, marital status, sexual orientation (including gender identity), and source of income. Local laws may add other classes as well.

Fair housing questions to ask include:

- Concentration of subsidized units: Is this site near existing subsidized properties? Would the addition of affordable housing in this area reinforce existing marginalization of people living in subsidized properties?
- Racial segregation: Is this site in a high poverty area or HUD-designated R/ECAP? What is the history of the surrounding community?
- Access to opportunity: Does the surrounding neighborhood provide environmental quality and access to services such as public transit, schools, and jobs?

Using an equity lens during the site selection phase may involve understanding how a site relates to or helps facilitate investments in the surrounding area for your development's residents. In understanding these connections, it's important to learn how the landscape of access and opportunity in the U.S. has been shared by a historically unequal housing system, characterized by redlining and lending discrimination, racially restrictive covenants, and use of eminent domain to seize private property.[x]

For sites where there is less connectivity and access, additional investments should be made onsite (e.g., provision of services within the development model) or through partnerships to facilitate investments in and around the site. This could include working with public and nonprofit partners to make quality-of-life and service improvements around sites or aligning with their programming, such as partnering on homeownership programs.

Building By-right Vs. Seeking Special Approvals

Building by-right means building without needing special approvals and is often seen as a more expedient and predictable option for development. By-right development avoids lengthy review and public approval processes, which can add time, cost, and uncertainty to a project.

Building that requires special approvals, on the other hand, is often viewed as a longer, more uncertain development process. This view is largely due to the reliance on discretionary approval processes, with additional layers of administrative, political, and public review, to the overall development process. These additional layers can also add cost to a project (in the case of additional design features, concessions, etc.) or block it entirely. At times, special approvals can result in a project that better serves a community that fits in with its surroundings (natural or human-made) and/or incorporates community services or additional amenities, such as onsite recreation opportunities. In other situations, such as if current zoning standards are not aligned with community growth with housing needs, special approvals may be the primary way to ensure housing development occurs.

Accessibility requirements

Accessibility standards established by the Fair Housing Act, the Uniform Federal Accessibility Standards, the Americans with Disabilities Act (ADA), and some local ordinances provide requirements and guidelines for accessibility in multifamily buildings. For preservation of existing properties, the overall age or last renovation date may suggest if a property will need additional accessibility features.

Beyond the federal requirements, choosing an accessible site can involve broader physical, regulatory, or locational factors, including:

- Zoning: Does the zoning allow for common types of accessible homes, such as group living facilities?
- Location: Will this site support independence among residents? Is the site near services that would be used by residents? Does the site offer transportation access to critical destinations, such as job centers and grocery stores?
- Infrastructure: Does the site have ADA-accessible infrastructure, such as well-maintained sidewalks, curb cuts, and accessible pedestrian signals, to aid persons living with disabilities and older adults?

For more information about advancing diversity, equity, and inclusion through your development, explore the **Diversity, Equity, and Inclusion Self-Assessment**.

Financial factors

Cost (current and future)

Site cost represents one of the largest decisions in site selection, as land typically represents a significant portion of total development costs and the ability to gain site control. In addition to affecting overall financial feasibility, many public funding programs set a maximum acquisition/for-sale cost (total or expressed as a maximum per unit), so this consideration is particularly relevant for developments that will utilize public funding.

Property values, including land value, may be higher or escalate during the sale or over time in specific locations, such as amenity-rich locations or areas experiencing significant public or private investments. The variation in site cost may require you to adjust your financial assumptions to ensure overall financial feasibility. See **Chapter 7: Financial Feasibility** for more detail on estimating costs.

In rural locations, cost drivers during site selection may be tied more to predevelopment activities that improve overall site suitability, including site grading, rock removal, or infrastructure improvements.

In addition to the current cost, you should consider whether you expect property values to rise, fall, or track the broader market over time. If this is a development that your organization will own for a long time, the impacts of the site on your development's value will be a relevant consideration. For existing properties, rent levels, along with current subsidies and their expiration dates, should be considered as well.

Some governments offer property tax relief based on the location, affordability, or ownership, such as those owned by nonprofit organizations. The State of Colorado also offers exemptions for some development types (such as residential development used for charitable purposes). In selecting a site, it is important to understand if the land or property you are considering qualifies for any tax relief programs and what the requirements of those programs are. This tax relief can have a significant impact on your operating expenses over time. See **Chapter 7: Financial Feasibility** for more information.

Site acquisition and assembly

Once you have identified one or more sites that are viable for your development, determine what the process is to acquire it. This will depend on who currently owns the property and the financial condition.

Private land or property acquisition

The most straightforward way to acquire land or property is to purchase it on the private market. One downside of private-market transactions is the potential for competition among other buyers, which can drive up the sale price. With new construction or preservation of affordable homes, including the preservation of unsubsidized affordable housing, price escalation may make a project financially infeasible or may limit the affordability levels your development can achieve.

You may be able to reduce the risks of private land price escalation through off-market acquisition, often identified through direct relationships with real estate brokers or property owners. It's important that the property broker or owner understands your goals in creating affordable housing and the locations in which you are interested. Familiarity with the funding sources you may use for acquisition may also be helpful.

In addition, some public agencies and CDFIs, in partnership with the private and philanthropic sectors, have created land acquisition funds to assist with land or property acquisition as part of broader affordable housing development initiatives, particularly in areas where price escalation is a risk. **Denver's Regional Transit-Oriented Development Fund** and the **Impact Development Fund** are examples. CHFA has been proud to invest in these funds.

Another way to acquire land or property off-market is through local right-of-first-refusal policies. While the specific eligibility requirements will vary in a municipality's policy, right-of-first-refusal policies typically enable a buyer to purchase a property before it is listed for sale on the private market. Most of these policies require that a buyer does not change the property tenure, type, or affordability. In addition to municipal policies, there is a statewide right-of-first-refusal policy for mobile home parks and some condominiums. Properties supported with Housing Tax Credits have site-specific policies.

Community-serving land and property

Property can also be accessed through public or community-based institutions, such as cities, counties, park districts, school districts, and faith-based institutions.

One benefit of community-serving land is its cost. If available, municipalities and nonprofits can often access these properties at low or no cost. Using community-serving land may require a developer to make trade-offs in terms of other factors, such as location or development model. For instance, some institutions require affordability in exchange for low- or no-cost land. It may also affect overall site size or scale. Community-serving land can be accessed through public RFPs, searchable public land inventories such as the **Colorado State Land Board inventory**, or direct outreach to community governments and institutions.

In addition to acquiring community-serving land, you may consider proposing co-locating affordable housing with other community uses of the site. Common examples of co-location are affordable homes near transit facilities, faith-based institutions, health care institutions, community centers, and libraries. Co-location can be especially impactful for specific residents who benefit from living near facilities that serve them. For instance, older adults or persons living with a disability may benefit from living near health care facilities or community centers.

Considerations for using co-location as a tool to reduce acquisition costs include:

Development process. Is it possible to separate the development process (including financing, development timeline) for each facility? If not, are you able to meet the same timeline (e.g., milestones) as the co-located facility? Is the institution supporting co-location able to assist with coordination across project teams?

Infrastructure. What opportunities are there to share infrastructure and utilities across the co-located facilities?

Design. How will the co-located facilities be integrated with one another? What site improvements may be needed to promote access? Can those improvements be made without significant additional costs, including ways to share them across facilities?

Another option for community-serving land is leasing land or property through ground leases from public entities or other organizations such as community land trusts (see next section). Leasing, rather than acquiring land or property outright, eliminates the land acquisition costs and finances by allowing you to use the land for development without acquiring ownership of the land. At the same time, the landholder, which is often a community-serving institution or public agency, can include stipulations in the lease agreement regarding design, affordability, timelines, or community benefits such as local hiring, leasing, or homebuyer preferences.

Partnerships with community land trusts

Community land trusts (CLTs) are nonprofit organizations designed to steward the use of land, commonly making land available for the development of affordable units to buy or rent.

A CLT typically owns the land or property and then leases it to developers or homebuyers. This model, like others that rely on leasing, decouples land or property costs from the total development costs. However, unless the land is donated, it must still be paid for and factored into development project budgeting. Frequently CLTs need a subsidy to cover the difference in the cost of developing the home and the sale price or rental income. In addition, CLT homes may need additional subsidy to enable them to sell for less than other homes in the community, due to the restrictions imposed on the homebuyer.

Before partnering with a CLT, it is important to consider the following:

Mission and model alignment. Does your organization's mission align with the CLT's mission? Does your development model fall within the CLT's existing property type or model? For instance, some CLTs mix homeownership and rental properties or other land uses. Some aim to produce new homes while others are more focused on preservation.

Community relationships. Do you have close ties to community members or community-based organizations in the CLT's footprint?

Affordability. Are you willing or able to develop affordable rental or for-sale homes on the land? Are you willing to keep them affordable long term (often in perpetuity)?

Real-estate-owned or other foreclosed property

Real-estate-owned property (REO) refers to property owned by a bank. Foreclosed property could be in any stage of the foreclosure process, including REO.

Using REO or other foreclosed property can support assembly of multiple adjacent parcels into one site for a redevelopment project or infill development. REO or foreclosed properties often have infrastructure and utilities in place; however, if you plan to assemble multiple smaller parcels into one larger site, it's important to determine if additional capacity investments are needed.

Land banks, which are often tasked with disposing of tax-foreclosed properties, may be additional sources of land, especially if the land bank has stated priorities related to affordable housing.

CHFA also maintains the **First Look pilot program**, which is an additional resource to developers considering REO properties. This program is designed to help support affordable housing efforts by allowing community-based housing organizations the opportunity to purchase certain of CHFA's foreclosed and other real-estate-owned (REO) single family homes in Colorado. In addition to keeping single family homes in homeownership, the CHFA First Look program is intended to help stabilize neighborhoods by facilitating the purchase, rehabilitation, and resale of homes by mission-driven organizations to maintain the homes' affordability.

If you are interested in using REO or foreclosed property, additional information to examine includes:

Title. Does the property or properties have clear title? In Colorado, most property titles are held by county agencies, although there may be exceptions, such as U.S. Forest Service in some rural areas.

Delinquent property taxes. Is there a lien on the property due to unpaid property taxes? Are you able to cover any costs associated with paying unpaid taxes and any interest or fees?

Property condition. Can the property be rehabilitated without significant additional costs? Can the property be demolished without significant additional costs?

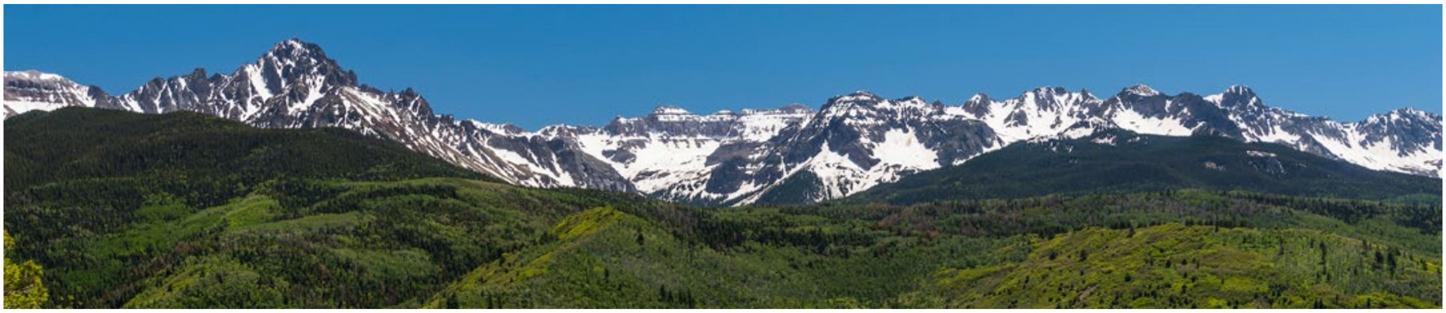
Appraisal. What have nearby properties recently sold for? How do those sales compare with the asking price of the properties?

Appraisals

To obtain private or public financing, a property or vacant land will need to be appraised by a third-party appraiser who may need to be selected by a lender, by an investor, or from an approved list. For both vacant parcels and properties, an appraisal is typically completed using recent sales of similar properties for acquisition of existing properties or overall highest and best use of land for vacant land.

The appraisal step carries some level of risk, namely that the appraised value may be lower than the market value of the property causing an "appraisal gap." Projects with few or no comparable real estate transactions could have an increased risk of a gap. This includes smaller multifamily buildings in single family neighborhoods, an institutional or office building that will be converted to homes, or sites in areas where recent sales suggest lower sales prices.

If you are hiring your own appraiser, seek one who has experience with similar development models and local market conditions. If a lender or investor is selecting an appraiser, work with that lender or investor to ensure they select one who will bring this experience.



Design

Once you have a site selected, it will be time to work with your architect, engineers, landscape architect, green building consultant, and other design professionals to create a development vision. The architectural plans and drawings will be necessary components of most development review processes and will create a specific plan for contractors to estimate costs and implement.

Construction approach

The approach and technologies you use to construct your development will be key to consider before you begin your design process. Knowing that you prefer one approach over another will inform what is possible.

Onsite construction involves the development being built entirely at the development site, often referred to as a "stick-built" or "site-built" approach. This approach offers the greatest flexibility for your development, but in some cases may be the most expensive and/or time-consuming approach due to the labor required.

Offsite construction involves completing some aspects of construction in another location, often achieving some combination of faster production, reduced costs, greater material efficiency, and/or greater quality control. Offsite approaches include:

- Manufactured homes that are built entirely offsite and then shipped to the site. These structures are regulated by state standards issued by the Colorado Department of Local Affairs (DOLA).
- Modular construction approaches that create entire rooms or housing units of a building that are shipped to the site and connected to form the final building. These structures are regulated by local building codes.
- Panelized systems in which individual, flat building elements such as wall segments, roof trusses, and other components are created offsite and then assembled onsite. These structures are regulated by local building codes.

While offsite approaches have advantages, they may also impose limitations on building configurations, materials, etc. If this is an approach you are considering, ensure you understand these limitations before beginning design and ideally work with an architect who has experience with this approach.

Other approaches. Several other approaches to housing development are being explored, including utilizing cross-laminated timber models, 3D-printing technology, converting shipping containers into housing units, etc. While exploring the effectiveness or promise of these approaches is beyond the scope of this guide, it is critical to confirm that your construction approach is allowable under local regulations and building codes. What's allowable often limits exploring alternative materials and methods.

Development phasing

A development does not always need to be completed all at once. For example, if you plan to build 100 apartments on a site, you may have the option of building 50 units today and 50 units five years from now. If you are unable to secure enough financing to construct 100 units, for example, this may be your best option. Unfortunately, this also comes with a cost—phasing your development effectively means that you will have to develop using individual processes with separate approvals, permitting, and project management required for each phase.

When considering whether to phase your development, ask the following questions:

- Do the budget and site fit a comprehensive phased project over several smaller projects?
- Do zoning requirements present complicated barriers you will need to overcome multiple times?
- Are additional special permits required for a phased development and will this add to costs or timelines?
- Will this approach work with existing financing tools?

Green building, sustainability, and health

What approaches and technologies will you incorporate into your development that will increase the energy and water efficiency, reduce the operating costs, create healthy conditions for your residents, and reduce your development's environmental impacts? To explore how you can achieve these goals, see the **Green Building and Sustainability Brief**.

Disaster resilience

Developments should be constructed or adapted for resilience against natural disasters, such as high winds, tornadoes, landslides, floods, winter storms, and wildfires. Specifics will vary by location and site, so ensure you understand your development's susceptibility and work with your design team to mitigate risks. Additional resources for understanding risks and mitigating approaches are included at the end of this chapter.

Designing for people of all abilities

When designing your building, consider the implications for people with diverse abilities. There are multiple frameworks that may be useful to consider:

- Among other things, the Fair Housing Act, the Uniform Federal Accessibility Standards, the Americans with Disabilities Act (ADA), and some local ordinances provide requirements and guidelines which you will need to follow when relevant. Your architect and design team can help you understand the implications for your development.
- Visitability is a framework relevant for single family homes that focuses on making homes accessible and easy to navigate for residents and visitors who have trouble with steps or use wheelchairs or walkers. Some municipalities have adopted ordinances that require or encourage visitability in new homes. There are three basic requirements for a visitable home: at least one entrance with no steps, doors with 32 inches of horizontal clearance, and one wheelchair-accessible bathroom on the main floor.
- **Universal Design** focuses on creating environments that "can be accessed, understood, and used to the greatest extent possible by all people regardless of their age, size, ability, or disability."[xi] This has implications for both designing the building itself and fixtures, features, and appliances within the building.

Process considerations

Be highly involved in the design process to ensure your design team understands your goals and requirements for the project. This includes not only how you want a building to look aesthetically, but also:

- How would you like the building to be configured on the site and connect to the surrounding environment?
- What uses do you expect for interior spaces and how do you want those to relate to one another? Do you expect them to change over time? For example, if you are planning to have onsite services in addition to affordable housing, what types of spaces will these services require?
- Do you have experiences with other similar developments you have visited or lived in? What did you like or dislike about them that could inform your plan?
- Do you have an expected budget and timeline for construction?
- How much do you want your architect to prioritize less expensive materials or other design components to save on costs?
- Does design meet the unique needs of residents to ensure function and quality of life?
- Do you have other concerns or expectations the design should address?

Development review and approval processes

Once you have acquired or secured the option to purchase your site, your development proposal will need to be approved for construction. These approvals are also referred to as real estate entitlements.

The process, timeline, levels of government involved, and approvals needed vary substantially based on jurisdiction and scope of development. For example, some jurisdictions have clearly defined approval processes, while others may be more time-intensive or complex. For example, a redevelopment may require less review than new construction on a vacant site. Also, some developments may require public hearings or approval by a commission or board. This section will describe some general aspects, but it is critical that you engage the local planning department early to understand the required approval process and timeline.

Generally, approvals can be classified as one of the following types:

Land use/zoning reviews confirm that your development plan conforms to local land use regulations. If so, the jurisdiction will issue a use permit that confirms this. If not, a rezoning or zoning variance will be required (see **Site Selection** above). If a variance or rezoning is required, a use permit will often be included with the approval of the variance.

Site plan and engineering approvals confirm that the development plan complies with local land development regulations such as those related to parking requirements; pedestrian infrastructure; greenspace; utilities, sewer, and water supply; roads and traffic; public safety; and emergency access. Note that for rehabilitation projects, approval may require updating key systems and structures to comply with the current building code.

Design and aesthetics approvals confirm that the architecture and landscaping plan meet the community's standards.

Environmental impacts of the development must be studied and approved. See the **Environmental Review** section below for more detail.

Building plans, permits, and inspections are completed once the above approvals have been received. The developer will submit construction drawings to the building department to ensure site plan consistency and building code compliance. When the building department approves the drawings, it will issue building permits, and construction can begin. Upon completion of key construction milestones, inspections will be scheduled to ensure compliance with jurisdictional building codes and regulations. See **Chapter 8: Project Construction** for more information.

Process considerations

In some jurisdictions, affordable housing development is a stated priority and may be eligible for more expedited reviews. **The City of Fort Collins**, for example, provides expedited development review and permit processing for developments that meet specific affordability requirements. Check to see if there is a similar policy for your development.

In all cases, you will depend heavily on local government staff review processing, so it is important to learn who is involved at which stages of the approval process.

In addition, it's helpful to understand the community's priorities. Unlike the development process, which is pushing toward a single outcome to complete the development, local government staff are often charged with striking a balance between multiple competing priorities. For example, there may be priorities to create more affordable housing, preserve greenspace, create more jobs, and improve the local tax base.

Understanding priorities can help you show how your development might align with community needs. Expect to be asked questions related to these priorities by city staff, planning board members, and community members.

Because of the variation in process, approval timelines can vary considerably. City staff should be able to give you an expected timeline. For planning purposes, it is generally better to assume a longer timeline. It is worth noting, however, that many approvals and permits have a set duration for which they can be exercised before expiring.

Fees and exactions

In addition to the time cost for approvals and any consulting expenses incurred, during the approval process you may be charged fees, which vary across jurisdictions. Some fees cover the cost of the approval and permitting processes. Other fees, called impact fees, offset the cost of additional public infrastructure and services that are required for the development. For example, utility connection or tap fees may be charged to connect the development to existing utility infrastructure.

In some cases, there may be other requirements of the development that are not fees but add costs to the project, such as providing green space or including a public facility.

However, because affordable housing is often a public goal, your development may also be eligible for waivers from certain fees and requirements, so this is worth inquiring about.

Environmental review

Environmental review is important for complying with legal requirements and for avoiding or mitigating harm to residents and the environment. The specifics of the environmental review will vary depending on the nature of the project site, the project funding sources, and administering jurisdictions. An environmental review may evaluate the site to determine any hazards, environmental and community impacts, and compliance requirements.

Findings may require special attention, accommodation, or mitigation. While the environmental review might seem intimidating, the state and local agencies and environmental experts you work with will help you through it.

Where to find more information about Environmental Review

- DOLA maintains a webpage with several resources relevant for those receiving federal funds: **https://cdola.colorado.gov/iv-environment**
- HUD has an introduction to environmental review that includes some additional information to supplement the DOLA webpage: **https://www.hudexchange.info/programs/environmental-review/orientation-to-environmental-reviews/#overview**
- The Housing Assistance Council has produced a guide for applicants of HUD or USDA Rural Development funding: **https://ruralhome.org/wp-content/uploads/storage/documents/environmentalreviewguide.pdf**

Process requirements driven by funding source

Federal funding. Projects that utilize federal funding, both directly from the federal government or through federal programs that are administered by state or local agencies, are required to comply with the National Environmental Policy Act (NEPA), which was passed by Congress in 1969 and includes necessary provisions and requirements for environmental review. Under this policy, each federal agency has developed their own guidelines and review processes to ensure NEPA compliance. When funding from multiple federal agencies is being used, local agency staff will advise a streamlined process to ensure compliance with all involved agencies.

If you are using a federal funding source that is administered by the state, the relevant state agency will provide guidance on environmental review for federal programs that they administer. For example, DOH and CHFA both have guidance on compliance with HUD environmental review requirements if HUD funding is used.

Local funding. Local governments may have their own requirements, so check with the local department of housing, planning, or public health to understand what may be required for local environmental review compliance. Local governments can also provide guidance on NEPA reviews if they are the administering agency.

Private funding. Lenders also typically require some level of environmental review to protect themselves from liability associated with their investment. Check with your expected lender to learn if they have any related compliance requirements.

Process requirements driven by site conditions

Sites that involve any of the following conditions may also need some form of environmental review specific to the condition.

- Wetlands or other water elements (lakes, rivers, streams, etc.). The specific implications for review processes will depend on which jurisdiction manages the water body.
- Unique natural features or landmarks. The **National Registry of Natural Landmarks** provides a list of sites in each state.
- Critical habitat areas. The Fish and Wildlife Service (FWS) provides more information on the implications of Critical Habitat designations. Note that no additional review is required if federal funds or permits are not involved. An **online map** of designated areas is also available from FWS.
- Cultural and historic resources. The **National Register of Historic Places** publishes information about the locations of sites.
- Designated districts. Local governments also designate specific districts that have special historic significance and may have specific environmental considerations.
- Located (or partially located) in a floodplain. FEMA's **Flood Map Service Center** has more information on this. However, note that these floodplain maps are not always completely accurate, so if a floodplain shows up near the site, it is worth investigating further.
- Brownfields. Sites that have known environmental contamination, known as Brownfield sites, also require special review and consideration. For sites that are known or determined during the environmental review to be contaminated, federal and state programs may be available to assist with cleaning up the contamination. This can include assistance with assessing the contamination, technical assistance from experts, and some combination of loans, tax credits, and grants to incentivize cleanup.

Where to find more information about Brownfields

- The Colorado Department of Public Health and Environment maintains **a web page** with additional resources related to Brownfield remediation and development.
- The **EPA's Brownfields Program** page contains great information on dealing with Brownfields.
- CHFA administers the **Colorado Brownfields Revolving Loan Fund**.

If these conditions are present, determine whether to mitigate or identify a different site. There may be public programs available to help with mitigation, but you may need to partner with a local government to utilize them.

Other incentives for review

It is good practice to conduct an environmental review regardless of funding or site condition requirements to understand your liability. If there is a lawsuit, the burden of proof will be on you to show you conducted your due diligence to identify and mitigate issues. Claiming you did not know about an issue because you did not take the time to review it will not exempt you from responsibility. It is better to anticipate problems during predevelopment than to face costly issues later.

Process considerations

The level and detail of review required will depend on the scale and type of activities your development involves, along with your funding sources. For example, this **graphic** from DOH shows various levels of review based on activities supported by federal funds.

An environmental review can be a thorough and substantial process that requires months to complete, so it is important to consider this during predevelopment to schedule accordingly.

While you are not responsible for physically conducting the environmental review, you will need to provide information to the entity doing so. For federally funded work, the state or local government agency administering the federal program will typically conduct the review. It may be prudent (and in some cases required) to complete the environmental review before applying for any funding for the project, as findings may alter the site plan, change project costs—and in extreme cases of unexpected environmental hazards—may force you to abandon the site altogether. Rather than thinking of environmental review merely as a compliance-oriented process that adds to your project costs and time, realize that it may save time by helping you proactively address problems. Being aware during predevelopment is preferred, because it gives you more flexibility to address issues than if you face them later in the process.

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chapter 6:

Market Feasibility

Learning Objective:

Users will understand how development feasibility is impacted by surrounding market conditions and gain the tools to support analyzing and demonstrating the market for their project.

Overview of market studies

A market study is an analysis of the demand for a proposed development in a defined market area that assesses alignment with other existing developments. A market study helps demonstrate that there are consumers who need your proposed development and at what price points those consumers would be able to pay.

Note that a market study is different from a housing needs assessment as discussed in **Chapter 3: Housing Development Models, Team, and Roles**. A housing needs assessment is a more global and comprehensive assessment of the housing needs and conditions in the community. A market study is used to build an understanding of how your development on the selected site will fit into the community and what demands will be met. A new market study will need to be completed specific to each new development.

Lenders and other funding sources require market studies because they are a critical component of assembling financing and reducing perceptions of risk. For example, a market study is required by CHFA for all Housing Tax Credit applications.

The market study will evaluate the competitiveness of the proposed development and whether it is likely to be successful, so it is a key risk-management tool. Using these findings will better align your development with the market area's needs and will lead to a refined project concept grounded by feasibility and practical considerations.

A market study that shows feasibility barriers doesn't mean you need to abandon your development. Instead, it can help you improve your approach. For example, you could target a wider income range to increase your potential tenant base. There may also be findings that reveal the need for additional expertise or strategic partnerships to address unique challenges.

Note that for developments in rural or mountain areas, it is particularly important to have a high-quality market study completed. Because these areas have less dense populations, data availability and reliability can be a significant challenge for market analysts, so it is critical that developers utilize analysts who have experience with these issues.

Conducting your market study

Market study process

It is important to understand any specific market study requirements from your funding sources. Variations in requirements can include the content, level of detail, and whether an outside consultant is required. CHFA has a Market Study Guide as an appendix to its Qualified Allocation Plan (QAP) that must be referenced for Housing Tax Credit-supported developments. Even if a market study isn't required, it is beneficial to have, particularly if you are creating a new type of development.

Consultants who conduct market studies for urban areas may be able to complete them at a relatively low cost due to efficiencies of scale in paying for data access and process familiarity. In rural areas, market studies are often required for funding, but the cost is often higher due to the lack of data access. Section 4 funding and Community Housing Development Organization (CHDO) operating dollars can be used to help cover the cost. In addition, colleges and universities may be a free resource, as they use market studies as a real-world educational opportunity for students.

The following is a general sample market study selection process.

1. Procure a market study analyst. Some funders may require a market analyst from an approved list. For example, **see this list from CHFA**[xii].

2. Submit a Letter of Intent, if required by your funder. Submit a Letter of Engagement from your market study analyst, if required by your funder.

3. Review the completed market study and ensure that it aligns with your expectations and needs. Request any revisions that may be required.

4. Submit the completed market study, if required by your funder.

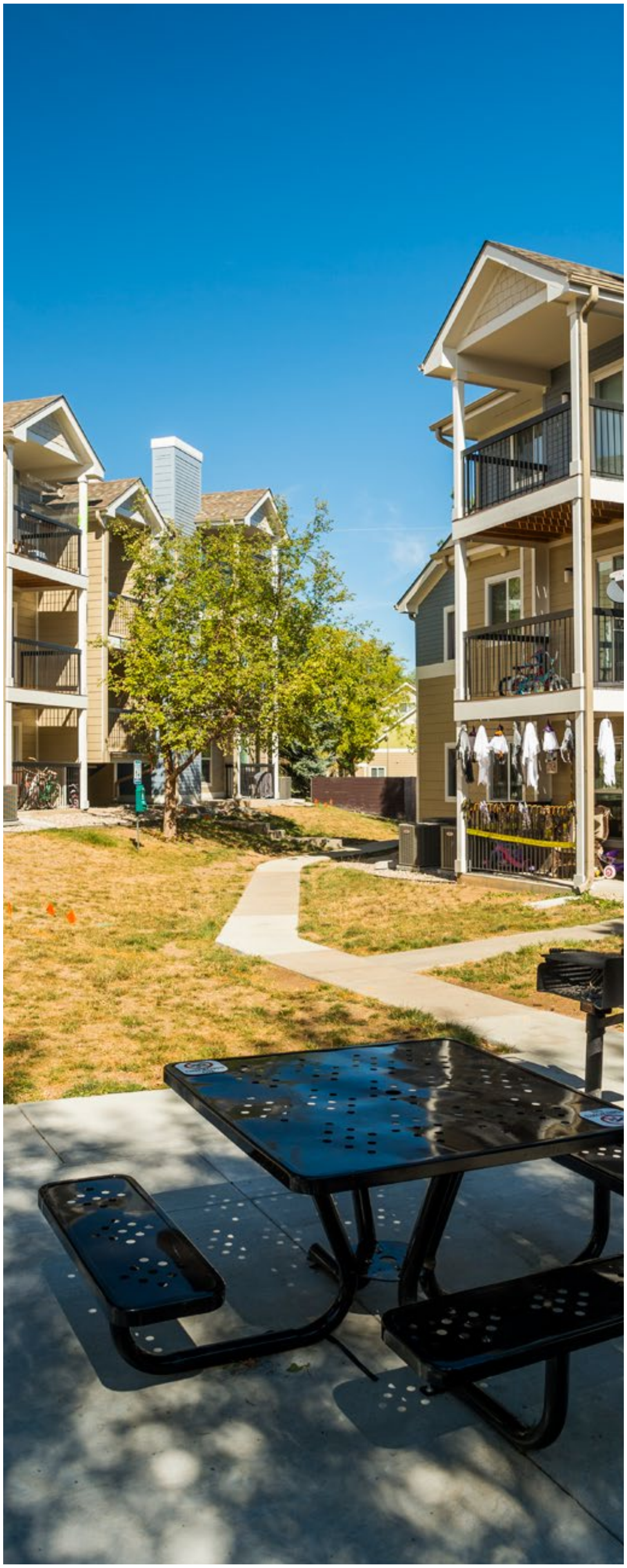
Market area definition

A market study will focus on a market area containing the proposed development site. In addition to the market area, other geographic scales will typically be included for comparison. For example, you will want to know if similar developments exist in your market area, as well as the broader jurisdiction and housing market. Similarly, you may want to evaluate the expected population growth in the market area and the region.

A common geographic definition to use for a market area is the census tract (the U.S. Census Bureau's approximation of a neighborhood) in which the development will be located. However, some market studies use zip codes or other larger geographic units. The scale and nature of the region will influence this decision. A market area for a development in Denver might focus on a small section of the city; in a more rural part of the state, the market area might include the entire city.

Other factors that may be helpful to consider when defining your site and market area include:

- local neighborhood definitions;
- natural boundaries such as rivers, lakes, and canyons;
- major human-made boundaries such as major roads and railroad tracks;
- jurisdictional boundaries; and
- employment centers and central business district boundaries.



Key considerations

The development model that you choose will inform what level of detail, conditions, and indicators are required for a market study.

Your market study should include the type of residents the development will target or special designations your development may have. These targeted populations are key subjects of investigation in a market study, since they will determine the pool of eligible renters or buyers. Targeted populations could include:

- formerly homeless individuals and families;
- older adults;
- persons with disabilities or special needs;
- single individuals, families, or multigenerational households;
- workforce segments, particularly if you are targeting specific occupations such as teachers; and
- people with specific income levels.

Based on the characteristics of the population to be served, most market studies will include a capture rate, which is the portion of the target population the development would need to "capture" to achieve occupancy. This might be expressed as a percentage or a ratio. For example, "…the development would need to capture five out of every 100 people in the market area who meet the criteria." Although appropriate capture rates vary by location, if your market study indicates an unreasonable capture rate, you may need to broaden your tenant base to ensure sustainability. You may also want to check with your funders to learn if there are minimum thresholds.

Your market study should also describe what broader housing needs you want to address with your proposed development. It should account for existing or planned developments (often called "comparables" or "comps") and organizations that meet the same or similar needs If you find such an organization, you could consider exploring a partnership.

In addition, your market study may consider how the site addresses racial and social equity and inclusion. For example, will the development re-invest in a community that has been disinvested or create affordable housing in an area of high opportunity? This may not be a standard component for your market analyst to include, so you may need to specifically request or plan to supplement yourself.

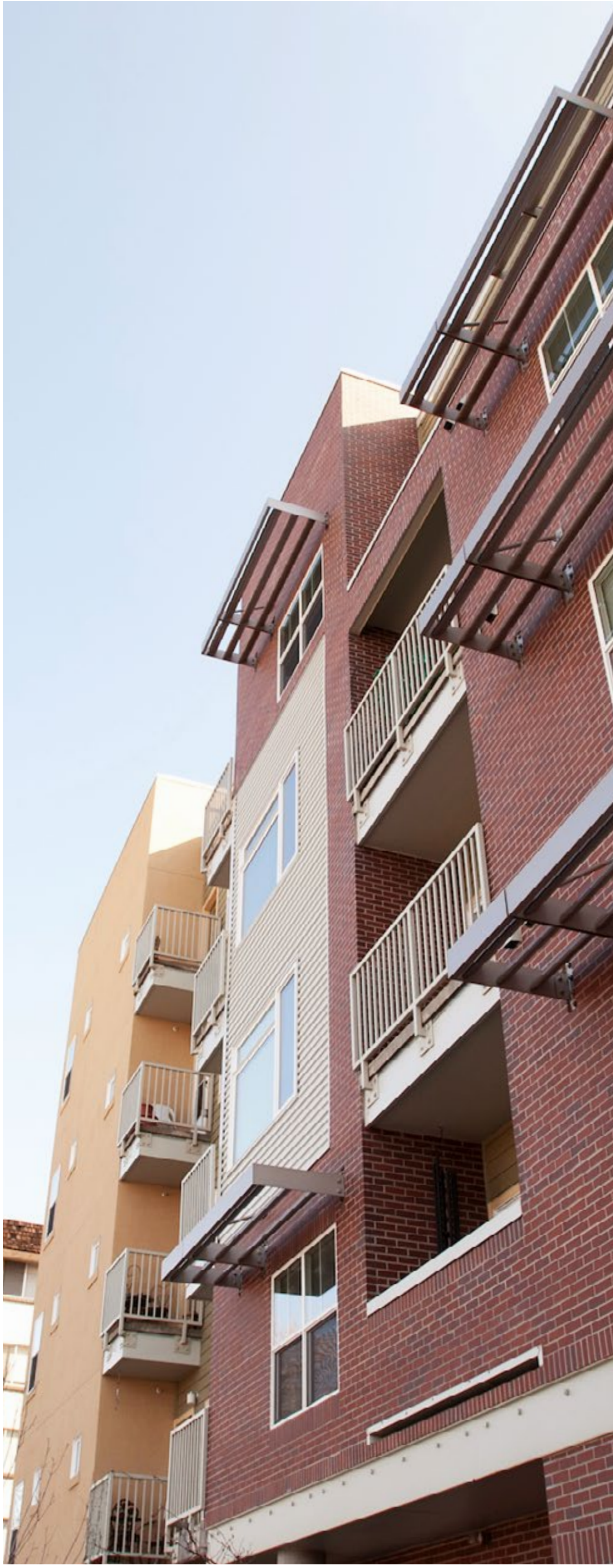
Elements of a market study

Element	Description
Market Study Synopsis	Provides a high-level overview of key findings and recommendations for your proposed development and discusses how the development can be better aligned with market realities
Development Description	Describes the number of units, unit type and size, unit rent and income targeting, amenities, design, location, parcel size, and rehabilitation status
Location Analysis	Defines site and location that is covered, including surrounding land use, crime rates, infrastructure, marketability, walk and transit score, and proximity to community amenities and services
Identification of Market Boundaries	Defines primary market area for the proposed project
Market Conditions	Includes current rents by unit type, vacancy rate by unit type, two years of average rent, and overall vacancy rate
Comparability Analysis	Compares existing developments that will be your direct competition (if applicable). Selected developments should reflect characteristics most like the proposed development, (size, unit mix between restricted and market-rate units if applicable, unit sizes available, income restrictions, rents or pricing, design and physical characteristics, geographic characteristics, infrastructure, amenities, location, and vacancy or waitlist data) Note: Rural markets may provide a summary of single family rental homes or mobile homes as a substitution since they may lack existing multifamily rental properties. Considers the lease-up experience of projects completed in the last year or two, the rate at which comparable properties can fill vacated units, and evidence of pent-up demand Considers future market development through new projects that will likely be completed in a similar timeline; local municipalities may list current and planned housing developments in their pipeline and local housing needs assessment may evaluate the housing pipeline
Demographic Data	Details population being served in the market area and, if targeting a special population, should be reflected in data Profiles the market area population key demographics such as total population, poverty status, education attainment, homelessness, household by income band, and tenure of household
Demand Analysis	Assesses the demand for unit by price, type, and housing characteristics through demand estimates and capture-rate calculations Calculates the number of estimated renter households that will be residing within the primary market area as of the current date; assumes one-bedroom units have no more than two occupants, two-bedroom units have no more than three occupants, three-bedroom units have no more than five occupants, and excluding households that the proposed project will not serve based on size Breakdown can be by income, household sizes, and/or household type (older adult); older adult independent living projects may have additional analysis required Profiles socioeconomics of household characteristics, including employment by industry and wages, unemployment rate, key labor force and employment trends, and future employment trends
Site Analysis	Assesses the potential of site development and includes preliminary evaluation of the site, such as physical characteristics, topography, environmental issues, access to site, and regulatory aspects. It also reviews local and state regulations, preliminary engineering and conceptual site design, and preliminary financial feasibility analysis.[xiii]
Recommendations and Conclusions	Describes marketability of a proposed project and if it will address housing demand Assesses the demand, evaluates the competitiveness, and summarizes proposed units, evaluated on rent and relationship to comparable properties, location and amenities, absorption of the project, services available, and displacement strategies for acquisition and rehabilitation

Useful data sources

Below are example data sources that may be used for a preliminary feasibility study. This includes sources that cover smaller rural areas that may not have reliable coverage from national datasets. Some of these data sources have associated fees.

- **U.S. Census/American Community Survey** – provides a range of annual data based on household surveys
- **Ribbon Demographics** – fee-for-service housing market analysis and data services
- **ESRI** – a provider of both software and data. ESRI has multiple platforms, including Community Analyst and Business Analyst products with built-in market analysis tools. There is a cost, but they provide a discount to nonprofits.
- **Corelogic** – fee-for-service company that provides detailed market data and comparable sites based on real estate transaction data and landlord surveys
- **CoStar** – fee-for-service company that provides detailed market data and comparable sites based on real estate transaction data and landlord surveys
- **U.S. Department of Housing Urban Development Homelessness Point-In-Time Survey** – provides data about local homeless populations. There are also local organizations such as the **Metro Denver Homeless Initiative** that may have more detailed data on this topic.
- **USDA** – provides its own list of publicly available data sources that may be helpful in rural areas
- **Social Explorer** – a fee-for-service online platform providing maps and data related to a range of topics
- **PolicyMap** – a free online mapping platform that allows you to explore a range of built-in data and create your own maps
- **National Housing Preservation Database** – a free dataset displaying the locations and subsidy types for all federally-assisted housing developments across the country
- **Zillow Research** – publishes free local data and rents, home prices, and other factors



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Case Study: Basalt Vista Affordable Housing Community

About the project

Basalt Vista Affordable Housing Community (Basalt Vista) is a 27-unit permanently affordable homeownership development located in Basalt. It is the product of an innovative development partnership between Habitat for Humanity of the Roaring Fork Valley (Habitat), Roaring Fork Schools, and Pitkin County. The duplex and triplex homes contain a mix of two-, three-, and four-bedroom units. It is located on a site directly behind Basalt High School and provides affordable housing opportunities for teachers and other essential workers who work within Pitkin County.

In addition to having affordable price points, Basalt Vista homes are affordable to own and maintain from an energy efficiency standpoint. Each home is net-zero, meaning that it generates more electricity than it uses. The development utilizes green-building technologies that benefit both residents and the environment.

The development is structured as three phases of nine homes each.

Contributors to success in development

Creative partnerships. Basalt Vista emerged out of years of dialogue between Habitat and other partners who created the development concept. Each partner had resources and its own stake in the outcome. Roaring Fork Schools owned the vacant land and was interested in developing more affordable housing for its teachers. Pitkin County also recognized the need for affordable housing options for its workforce and had resources it was willing to contribute toward the infrastructure of the development. Habitat had the developer knowledge and problem-solving skillset that enabled the development to come together.

Each core partner was able to contribute its resources while also achieving its goals. In return for contributing the $3 million parcel to the development, the school district was able to secure a designated number of affordable units for its teachers. The remainder of the units are set aside for essential workers who work within Pitkin County in return for the county's contribution of $3.2 million in infrastructure costs.

Case Study: Basalt Vista Affordable Housing Community

Additional partners also contributed to the development. The Town of Basalt invested in the development by waiving certain fees, supporting the playground construction, and providing a grant toward the energy efficiency upgrades. Holy Cross Energy brought their resources to support the energy efficiency and net-zero approach, including battery back-ups for the first four homes. DOH provided grant funding. Solar panels were supported through a grant from CORE, an energy resource entity in the county. The resources and expertise these partners collectively brought to the table were major contributors to the development's success.

Community support and compromise. The broader community was generally supportive of this development, as many stakeholders recognized the need for improving and maintaining housing affordability in the county. The county already has many deed-restricted affordable units and has requirements for affordable units to be included in new developments, so this development was already aligned with community priorities.

One aspect of the development that required compromise with the community was regarding the density of units. Although the site could have accommodated some level of additional density, the development partners were able to effectively compromise to maintain the community's character while still meeting affordable housing goals.

Building and hiring capacity. Habitat recognized that this development would be of a larger scale than others it had previously developed. Fortunately, board members who had experience with larger developments were able to counsel and help build their staff capacity.

In addition, to commit to the required density and pace of construction, Habitat had to expand its build team to include additional professional construction team members (including a framing crew) and a project manager. This was a change from Habitat's typical build team, which relies more heavily on a combination of volunteers and staff members. A volunteer-based model was also not possible in this case due to public restrictions created in response to the COVID-19 pandemic.

Grants and sponsorship. Given the affordability levels, the quality of the units, and the investment in net-zero technologies, this development would not have been possible without some form of subsidy. The development team was fortunate to receive multiple grants from institutional partners and donations from individuals to sponsor individual homes or buildings. After all costs and general project funding were accounted for, Habitat calculated a total construction gap of about $115,000 per home that they needed to fill through sponsorship.

Adapting to the unexpected. Like many developments planned prior to COVID-19, the Basalt Vista development team had to make some substantial adjustments to their process with the onset of the pandemic. State responses to contain the virus forced the shutdown of the construction site. Some construction activities were able to resume in warehouses.

The pandemic disrupted supply chains across the globe that resulted in price increases and scarcity of many materials, such as lumber and appliances. Since material cost estimates for this development were all pre-pandemic, prices needed to be closely monitored in anticipation of the development's Phase III construction. Adjustments were also made to use panelized wall construction for Phase II and III of the development in addition to other value engineering adjustments to reduce the costs per home.

Long-term support for homeowners. Homebuyers were required to complete first-time homebuyer education classes to help them explore different purchasing models and learn about the homebuying process. Habitat partnered with Holy Cross Energy to offer workshops on energy efficiency and utility costs. Habitat also set up a homeowner's association with a cash reserve for maintenance to provide long-term support and common area management for the Basalt Vista community.

Case Study:
Basalt Vista Affordable Housing Community

Key lessons for other developers

Phasing the development allows for learning and iteration. This is especially valuable in innovative and unique development models such as Basalt Vista. The Habitat team made multiple adjustments between phases, both to save costs and improve the development process. For example, the first phase's approach to energy efficiency resulted in utility rooms that had $80,000 worth of equipment. Utilizing different technologies enabled Habitat to decrease costs for Phases II and III, while still achieving the broader efficiency goals. Habitat also adjusted the mix of two-, three-, and four-bedroom units in each phase.

Collaboration is a key component of innovation in development. Habitat acknowledges that they could not have created this development on their own. The unique combination of strengths, resources, and interests that each partner brought to the table resulted in a development that is truly innovative.

Energy efficiency is a pathway to affordable homeownership. The combination of solar power generation and approaches to improve energy efficiency allow homeowners to pay very little in utility costs. For example, the electric bill—which accounts for all energy, since there are no gas lines in the development—for one home was $15 per month in late winter, a significant savings over what the typical household pays. Beyond the price they pay at closing and through their mortgage, this net-zero approach creates long-term affordability by substantially reducing total monthly housing costs.

Your architect can help you reduce construction costs dramatically. The choice of materials and design considerations can have a considerable impact on construction costs. After the first nine units were built, Habitat realized that construction costs were higher than estimated. For Phase II of the development, Habitat worked with its architect to lower costs by using standardized window sizes, changing the siding and flooring materials, and using structurally insulated panel (SIP) design.

Learn more about the Basalt Vista Affordable Housing Community

chapter 7:

Financial Feasibility

Learning Objective:

Users will have the tools and information to estimate the financial feasibility of a development project and identify relevant resources that may help close financing gaps.

Introduction to financial feasibility analysis

The purpose of financial feasibility analysis is to ensure you have adequate financing to complete your project. Generally, for a project to be viable, the cost of building and operating it must be less than or equal to the income and other funding you anticipate the project to generate or receive. The analysis will identify any financial gaps you have to fill and help prove to funders and policymakers that your project is a sound investment.

Importance of Local Support

Other factors in addition to financing may impact project viability, such as local support. If your project is not serving a community need or does not comply with the local regulatory framework, your project may not be viable even if the financial feasibility shows the economic metrics positively. Plus, community support may help increase your project's financial feasibility by making it easier to obtain certain types of funding or approvals. See **Chapter 4: Engaging the Community**.

There are different ways to understand financial feasibility. Your purpose will affect what you focus on in the analysis and what level of detail you need. To get a baseline sense of your project's viability, you may only need to conduct "back of the envelope" calculations (BOE calculations).

You may conduct these types of calculations very early in your development process to inform what development model you select. See **Chapter 3: Housing Development Models, Team, and Roles** for more information. You may also revisit BOE calculations at later stages of your project as a quick check to inform other decisions (e.g., types of funders to explore relationships with). BOE calculations can provide rougher but quicker estimates of your project's anticipated cash flow. You can do this on your own by estimating likely project income relative to building costs or you can use online calculators that allow you to customize different assumptions and evaluate impact on your project's feasibility.

You can find examples of BOE calculators here:

- **The Inclusionary Housing Calculator** captures varied building types and is not specific to Colorado.
- **The Urban Institute's "The cost of affordable housing: Does it pencil out?" calculator** is based on Denver metro building costs and is limited to rental buildings that are either 50 or 100 units.

To secure a specific source and amount of financing, you may need a more detailed financial analysis. This analysis may be used to show there is a specific need the financing would fill and that there is little risk of the funder not getting a return on their investment. For more detailed analyses, you may want to engage a consultant or technical assistance provider.

No matter how detailed your analysis is, you will need to make assumptions in the analysis. The types of assumptions you make will determine how realistic your results are. Demonstrating you've made thoughtful, reasonable assumptions to support your development budget and pro forma, and forecast the long-term viability of your development, is key to building lender confidence in your project, especially if this is your first development. Specific assumptions or estimates you will need to make in a financial feasibility analysis are detailed below.

If you have completed the CHFA market study template, use the comprehensive comparable rent chart as a source of data for rents. You can also review past project examples or ask local governments that administer development financing resources for past project applications, such as applications for HOME funding. You can also ask trusted experts with knowledge of the local context to review your assumptions and financial analysis. This could be members of your development team, your board, another developer, consultants, local lenders, CHFA, and/or DOH. You will likely need to refine your financial assumptions over time.

Potential data sources to develop your assumptions include:

- **Redfin**
- **Zillow**
- RSMeans
- **CoStar**
- **FHFA SF land costs data**
- **NAHB report on soft costs**
- HUD **income limits** and **fair market rents**
- CHFA's Housing Tax Credit cost dashboard for tax credit costs. This is a forthcoming resource and will appear on CHFA's website in the future.

Even if you are engaging a consultant to conduct a financial feasibility analysis of your project, it is important that multiple members of your development team understand the different components so you can use the information most effectively. There are three primary ways to summarize that information to obtain funding for your project:

1. A development budget
2. A sources and uses statement
3. An operating pro forma, also known as a pro forma schedule of income and expenses

Many refer to all three components as a "pro forma" together because they are typically found within the same workbook and the pro forma forecasting spreadsheet is typically populated with values from the other sheets and can be useful in doing base calculations.

Development budget

A development budget captures all costs required to build your project and place it in service or have it generally ready for occupancy. See the **Financial Modeling Tool and Guidance** in the online version of this guide.

The development budget includes the following costs:

- Land and site work costs
- Construction or rehabilitation costs
- Professional fees, including consulting costs
- Interim construction costs
- Permanent financing costs
- Soft costs, which are costs not directly related to construction labor and building materials. This includes costs such as architecture, engineering, permitting, and legal fees. Some soft costs, such as insurance, may continue after construction is completed.
- Predevelopment costs, which are development costs that are incurred prior to construction, such as those described in the predevelopment section of this guide. This consists mainly of soft costs but will not be the only part of the process where soft costs are incurred.
- Developer fee
- Project reserves

The sum of costs across each category represents your total development cost (TDC).

What is the difference between construction financing and permanent financing?

Construction loans are shorter-term financing, only intended to cover project costs during the construction phase. After construction is completed, this debt is converted to a permanent loan to be paid back (or amortized) over a longer period. This period can range from five to 40 years.

Sources and uses statement

A sources and uses of funds statement is used to summarize your project's financing and how that compares to your TDCs. In other words, do you have sufficient funding to cover the costs of building your project?

This statement should capture all sources of financing, their amounts, and what costs they will cover. You have already calculated your "uses" in your development budget. These are your costs within each category mentioned above. You may want or be required to include additional detail about each source of financing, such as the type (loan, grant, tax credit, in-kind support, equity investment, etc.) and whether the funding is private or public (federal, state, or local).

Have this statement prepared before you seek funding from a lender and include documentation to demonstrate that the funding listed in the statement has been secured. This may include award and commitment letters and partnership agreements.

Pro forma

A sources and uses of funds statement does not include the details of when your costs and revenues will accrue over your project's lifetime. Those details are included on your pro forma schedule of income and expenses or cash flow analysis. The following chart walks through what should be included. See the **Financial Modeling Tool and Guidance** in the online version of this guide for more specific guidance and a template you can use for your own analysis.

This analysis may differ slightly based on your development model discussed in **Chapter 3: Housing Development Models, Team, and Roles**.

Item	What it is	How to estimate
Projected Gross Income (PGI)	The sum of all income anticipated from your project	Sum the following components. A 2 percent year-over-year increase in income is a standard assumption.
+ Residential rental income	Anticipated income from rental payments from residential tenants	Assume 100 percent of units are occupied; multiply number of units by annual rent per unit
+ Commercial space rental income	Anticipated income from rent on any commercial space that will be leased out (often reported on a per-square-foot basis)	Multiply total commercial square footage available by anticipated commercial rent per square foot
+ Income from shared facilities	Vending machines, community space rentals, etc.	
+ Laundry revenue		
+ Parking income		
+ Fees for supportive services		
+ Rental assistance or other subsidy payments		
x Adjusted Vacancy Rate		What percentage of units do you expect will be vacant on average? Seven percent is a standard assumption used to account for resident turnover and repairs needed, etc. This is not always the case for small-scale housing. Do you anticipate a higher vacancy in year one during lease-up?
= Effective Gross Income (EGI)		Subtract expected vacancy percent from 1 (e.g., 1 - 0.05) and multiply result by PGI to calculate EGI for each year
- **Expenses**		A 3 percent year-over-year increase is a standard assumption.
- Operating expenses		
- Taxes		You can use County Auditor data to find taxes paid by similar projects or contact the County Auditor's office directly.

Item	What it is	How to estimate
- Insurance costs		You can request a quote from insurance providers to estimate.
- Utilities (that are not paid by tenants)		Contact local utility providers for estimates.
- Repair and maintenance costs	This captures smaller repair items such as light bulbs.	
- Administrative and management costs		You can request a quote from property management companies. Ensure you are projecting out supportive services costs over the lifetime of the project.
- Operating reserves		
- Replacement reserves	This captures larger replacement items such as HVAC work and appliances.	
= **Net Operating Income (NOI)**	This is the number lenders will focus on to ensure there is adequate NOI to cover debt service and how much funding you will be able to obtain.	NOI is the amount of income available after expenses.
- Debt Service		
= **Cash Flow**	Your cash flow is your source of profit and source of capital for new investments (including new development projects) or any reinvestment in the property beyond your replacement reserves and repair funds. If you have additional equity investors, cash flow is also the metric they will use to determine their return on investment (ROI). Equity investors' ROI is typically measured by a cash-on-cash return rate, which is determined by dividing cash flow over a given period by the equity invested in that time period.	Your cash flow is your remaining funds after paying operating expenses and debt.

For units intended to be sold instead of rented after construction, you will still need to calculate development costs and make sure your sources and uses balance out, but you will also have proceeds from the sale of the property as a source of funds. In this instance, your NOI will be determined by the difference between expected revenue (including sale proceeds) and costs for maintaining and financing the project until all units are sold. As a result, you will likely have shorter projections in a for-sale pro forma than for a rental pro forma.

If there is an existing structure on the land that is not a part of your project, you will have demolition costs in addition to any land acquisition and site work costs.

If you are renovating a property instead of building new, you may have a shorter construction timeline and may be able to start lease-up or enter a sale more quickly, which would affect your pro forma schedule of income and expenses over time. You may also need a larger budget for site work or environmental clean-up, including lead or asbestos remediation, depending on the age and upkeep of the building. Properties with existing residents may have costs associated with moving tenants temporarily or permanently.

Financial metrics

The most common metrics lenders will use to determine whether and how much debt they will offer to a project are the Debt Service Coverage Ratio (DCR, DSC, or DSCR) and loan-to-value ratio (LTV or LVR). Lenders use these metrics to evaluate financial viability. Recognizing financial analyses are built on assumptions, lenders look for additional flexibility between your NOI and the amount of debt they will authorize for your project.

The DCR, which is a ratio of your cash flow to debt payment, reflects the amount of this flexibility a lender is looking for. Lenders often seek a 1.25 minimum DCR, meaning that your project cash flow must be equal to or greater than 1.25 times your required debt service. Some lenders will use lower DCR (e.g., 1.15) based on their risk tolerance or perception of risk.

The LTV reflects the maximum debt a lender can offer to a project as a percentage of the property value. A range of 0.7 to 0.8 (or 70 percent to 80 percent) LTV is common. The estimated property value used in this ratio is usually based on an appraisal. See **Chapter 5: Predevelopment** for more information. For instance, if your property's appraised value is $100,000 and your lender has a 0.75 LTV standard, the maximum loan they can provide to your project is $75,000.

It is possible a lender will provide less than the maximum amount their LTV standard allows, depending on their assessment of your project's risk, including whether your project meets their standard DCR and other funding sources you have secured.

Working with Lenders

Having strong relationships with lenders can increase confidence in your project and help you establish trust and identify lending opportunities. This is particularly important if you have limited past experience or there are limited comparable projects.

Lenders choose how much to invest in a development based on their evaluation of the project's risk. Their evaluation is impacted both by the likelihood that your project will be completed and generate sufficient revenue to pay back the loan, also known as "project risk," plus your likelihood as a borrower to pay back the loan even if the development is not completed, known as "borrower risk." Development risk is evaluated through financial feasibility analysis using metrics like DCR and LTV.

For smaller multifamily properties, the What Works Collaborative has identified several factors that can increase lender risk:

- Since there are fewer units overall to generate cash flow, even lower levels of vacancies can have a significant impact on a development's income.
- Historic data show that, nationally, lenders have experienced higher loss rates when smaller projects default, sometimes due to vast differences in equity and capital. Some potential mitigation measures include seeking additional grants, fundraising, developing on donated land, utilizing prefab construction, and using CHFA's Multifamily Collateral Support Program (MFCS).
- With an increased perception of project risk, lenders are likely to place heavier emphasis on borrower risk or creditworthiness. Borrower risk is evaluated through an assessment of your creditworthiness using metrics such as your credit score.

Tips for building lender confidence

- Proactively build relationships with lenders. Identify lenders that share your goals. Locally-based lenders may share goals related to community investment, while CDFIs and CHFA may share goals around housing affordability.
- Get to know them, ask for advice, and seek better understanding of their priorities. You can start working with them as early as the concept phase when you are determining your development model. Lenders can offer help analyzing financial options and vetting financial assumptions. They may also be able to recommend consultants or other resources to help strengthen your project. Have a clear purpose and agenda for your conversations. This can help build trust and show that you value their time.
- Don't expect funding commitments during a first meeting. Allow time for them to review materials you present and expect follow-up questions or clarifications. Make sure your responses are timely and directly answer whatever questions they raise.
- Demonstrate and comply with thorough due diligence processes. Be upfront about potential project weaknesses or risks—this will build your credibility if they learn it from you before discovering it on their own during due diligence.
- Present commitments from other funding sources. If other funders were willing to invest in your project, that may lower their perception of your organization's or project's risk.
- Anticipate your lender's priorities and questions, including underwriting criteria and subordination requirements. Remember to "answer before they ask."
- Bring in additional expertise that you may lack via your development team/partners. Demonstrating experience and expertise with the construction and property management processes can build confidence that your development budget estimates are reasonable.
- Offer collateral or loan guarantees to assume more of the risk. CHFA offers a Multifamily Collateral Support Program (MFCS).
- Take the time to ensure materials that are sent to lenders are polished. Ensure consistent formatting and no typos.

Using your financial feasibility analysis results

Adjusting your model based on feasibility findings

The financial feasibility analysis may identify or highlight project weaknesses. You may find you need to adjust your development model to address any issues, such as:

- Your project is costlier than you expected.
- You won't be able to meet lending standards (DCR or LTV) or achieve the rate of return you or your investors require.
- You are uncertain about assumptions that may have a major impact on the financial feasibility of your project. However, note that you will not have absolute certainty about your costs/incomes before a project is complete.

Strategies you can pursue to contain the potential variation and uncertainty in your costs:

- Work with experienced contractors.
- Collect estimates from a variety of sources.
- Create systems or processes for managing finances that will help you identify cost overages proactively. See **Chapter 8: Project Construction**.
- Leave sufficient soft and hard cost contingencies to cover overages. Two percent and 5-10 percent of soft and hard costs, respectively, are healthy standards to use.
- Recognize there may be greater uncertainty in later years of your project's lifetime (e.g., 10 to 20 years out) and account for this with more conservative estimates in your operating pro forma (e.g., real estate taxes might change, so consider increasing your tax estimates in later years).

After the feasibility analysis is complete and you've made adjustments to your development model, you will need to address the "gaps" by either cutting costs and/or generating more equity, generally through grants. This may include identifying cost drivers or potential sources of cost overruns to pinpoint adjustments; pursuing cost-saving mechanisms, such as fee waivers or lower interest rates on financing; using energy-efficient measures to reduce operating expenses; changing your unit mix; or decreasing the size of non-revenue-generating community space. Cost-cutting measures may be referred to as "value-engineering" during construction when you find alternative materials or construction methods that cost less but maintain the value of your development. Any of these measures may impact community buy-in so it is important to keep all stakeholders updated on these changes and the reasons for them.

You may also identify ways to increase project income by utilizing new funding sources or subsidies, increasing the number of vouchers used, providing new services with associated fees you can collect, or increasing rents, if possible. All of the above factors can be financially assessed through your pro forma analysis.

Financial analysis organization and formatting

A development budget captures all costs required Different funders may require you to submit your development budget and pro forma analysis in different formats to make it easier for them to review across applications.

Some funders may group reserves, fees, and financing costs within soft costs; others may consider soft costs and predevelopment costs interchangeable. Having detailed assumptions will help you aggregate and disaggregate information as needed.

Sometimes financial analyses are reported in total for a project or annual totals and other times they are reported as totals per unit or per square foot. Price per square foot is most helpful for comparing across properties. You don't want your price per square foot to be out of sync with the market because that may indicate you or your funders are not getting a good value for your investment or your product may not be competitive in the market.

To calculate cost per unit, divide your total development costs by the number of units. To calculate total development costs, multiply the per unit or per square foot development cost by total units or total square footage. These formulas are built into the Urban Institute's **The cost of affordable housing: Does it pencil out?** financial analysis tool.

Funding sources also have different requirements and priorities, so you may need to customize information for some funders, including presenting your analysis in different formats. While a conventional lender may focus exclusively on DCR and LTV standards, mission-driven lenders, such as CDFIs, may also focus on broader goals or community needs that should be addressed. Grants and some low-interest loans may also specify outcomes a project needs to accomplish. This includes providing a specific number of affordable units to a specified number of households at a target income level to qualify for funding.

Gap funding applications may also require that you've exhausted other financing options or efforts to obtain other support. Some gap funding will prioritize projects that have received financial or in-kind support, such as fee waivers, from the municipality where your project is located.

Appraisals Determine Market Value

Price per square foot multiplied by total square footage will not necessarily equal your project's estimated value, which will be determined by an appraiser. Appraisals account for additional property specifics and market factors that may impact the value of your property.

Identifying your gap and assembling gap financing

Your "gap" is the amount by which your funding sources are short of meeting costs. Your gap needs to be eliminated to move forward with your development.

One option to close the gap is to lower your development costs. As discussed in **Chapter 3: Housing Development Models, Team, and Roles**, the model you choose, including building materials, unit size, and target populations will directly impact how costly your project is.

Another option is to find additional funding sources or "gap financing," such as second or third loans, grants, or in-kind donations that might include lower-cost labor and discounted or free land. Each funding source has unique restrictions and requirements, which can add complexity, compliance burden, and cost. For these reasons, ensure that your gap financing aligns with your project goals and model, and provides sufficient funding to justify the additional cost.

Also note funding sources' regulatory requirements, including hiring practices and labor laws. Some states or localities may require or prioritize funding to projects that hire a certain percent of local labor. There may be Minority-/Women-owned Business Enterprises (M/WBE) contracting requirements that support diversity, equity, and inclusion policies by requiring large projects to contract a certain percentage of their budget to M/WBEs. In addition, most federal funding sources, including HOME and CDBG, are subject to the Davis-Bacon Act, which requires developers to pay all laborers federal prevailing wages, provide certain benefits, and submit documented payrolls. There are several related labor laws that may also apply when federal funding is used. For example, the Contract Work Hours and Safety Standards Act, The Copeland (Anti-Kickback Act), and the Fair Labor Standards Act.

To save time and costs when applying for different funding sources, you may want to use the following strategies:

- Clarify use restrictions with each funding source to ensure you understand how all restrictions apply.
- Use your sources and uses statement to track how your sources are aligning with uses and confirm you are abiding by any funding restrictions.
- Wherever possible, copy and paste—and then adjust where needed—when filling out various funding applications. While it is important to consider the specific interests and priorities of each funder, there will usually be some standard information about your project and vision that can remain consistent.

Another strategy to improve your gap financing applications is to build project champions beyond your development team. This is an area where strong community and partner engagement can benefit your project. They will help you build funder trust and identify project weaknesses or hurdles you may have otherwise missed.

Examples of project champions and their roles may include:

- Public sector partners can champion your project and help you navigate public application and funding approval processes.
- Contacting area city council members is often a good place to start. They are recognized community leaders and may be able to help you relate your development to their constituents' needs and public sector program goals.
- Grant writers and consultants can help you compile and submit your funding application materials, and are particularly helpful regarding lengthy or complicated requirements, or highly competitive funding sources.
- Community member support can determine whether you get funding, particularly from public sources.

It is important to account for the time needed to meaningfully engage the community early and often. If you do not engage with the community from the beginning, you may experience unexpected project delays, which can impact the financial feasibility of your project. See **Chapter 4: Engaging the Community** for more community engagement recommendations.

Types of gap financing

Hard debt comes from a traditional loan with required repayment schedules and standard interest rates. This debt is usually secured by a first-position lien on the property. Subordinate hard debt is debt that is paid back after higher-ranking debt is repaid. Subordinate debt typically has higher LTV and lower DCR requirements.

Soft debt comes from more flexible loans, or "soft loans," in which repayment may be deferred, forgiven, or only required upon certain conditions, such as if there is excess cash flow. These generally come from the public or philanthropic sector. Examples of soft debt include HOME, CDBG, Federal Home Loan Bank programs, and other state and local housing programs. These may also be known as "deferred-payment loans," "non-amortizing loans," and "zero-percent interest loans." Soft debt is generally considered a subsidy and should not be included in your calculation of hard debt when determining debt coverage ratio.

How much financing lenders will provide to a project may be limited to reduce their risk (see Working with Lenders above). As a result, developers must find other sources of funding, like equity investments.

Equity is money paid by investors into the project in exchange for an ownership percentage. Investors are paid back through revenues generated by the project, either rental income or capital gains from selling the property. Investors may also receive tax benefits through partial ownership of the property. Development revenues, or lack thereof, affect repayment to investors. Investors are likely to only invest if they expect to receive a certain rate of return.

Grants are funding given with no requirement of repayment. Some grants may have use restrictions, including activities and timeframes. Grants may require reporting to demonstrate that the funds are being used in compliance with these terms. Like soft debt, grants are considered "soft money" or a "subsidy."

In-kind support refers to non-cash contributions to your project that lower your development costs. This may include free or discounted land, labor, or materials. The Colorado Legislature requires the state to maintain an **inventory of public lands** suitable for affordable housing development.

Deferred fees are professional fees that developers and project team members with ownership interest do not collect or defer payment of until there is sufficient cash flow. The time period of deferment is usually articulated in the project's partnership agreement.

Public financing, commercial financing, and philanthropic funding

Public financing comes from the public sector, which could be the local, state, or federal government. This financing usually takes the form of soft debt or grants. Public agencies can also offer in-kind support and tax incentives to increase the financial feasibility of your project.

Commercial financing comes from the private sector, usually consisting of banks. Commercial financing usually takes the form of hard debt. There are mission-driven commercial financing options, such as Impact Development Fund, Enterprise Community Loan Fund, Mercy Community Capital, Capital Magnet Fund, and CDFIs, which offer more flexible development financing than conventional loans in order to support more housing development in low-income and underserved markets in Colorado.

Philanthropic funding is funding from foundations, usually consisting of grants or in-kind support.

State agencies and authorities

There are several state agencies to familiarize with when pursuing affordable housing development in Colorado that provide financing and can help connect you with other funding sources.

Colorado Housing and Finance Authority (CHFA) strengthens Colorado by investing in affordable homeownership, the development and preservation of affordable rental housing, business lending, and community partnerships.

To support homeownership, CHFA sponsors statewide homebuyer education classes and invests in fixed-rate home mortgage loan programs and down payment assistance through its statewide network of Participating Lenders.

To support affordable rental housing, CHFA offers a suite of products including affordable multifamily loans, the CHFA Housing Opportunity Fund (HOF), tax-exempt bond financing, credit enhancement tools, and state and federal Housing Tax Credits to meet the state's diverse needs.

CHFA multifamily finance programs include:

- Construction and permanent loans
- **Middle Income Access Program for housing designed to serve populations with incomes between 80 and 120 percent of Area Median Income**
- **Mobile home park financing to preserve affordability**
- **Small-scale Housing Permanent Loan and Collateral Support for developments with 20 units or fewer**
- Flexible gap funds that may be used as a first mortgage or paired with CHFA senior loans, interest rate subsidy, or grants to support deeper affordability

CHFA also offers technical support assistance, grants and trainings, plus data and informational resources like this guide and the Colorado Housing Gap Map to accelerate investment in affordable housing and community development across the state.

To learn more about CHFA's full suite of programs, please visit **chfainfo.com** or contact a CHFA community relationship manager in your region.

The Colorado Division of Housing (DOH) is a department within the Colorado Department of Local Affairs (DOLA). DOH works with local municipalities to provide direct assistance to renters, homeowners, and people experiencing homelessness. DOH also administers several state and federal programs that provide development financing such as: Home Investment Partnership Program (HOME), Housing Development Grant Funds (HDG), Housing Development Loan Fund (HDLF), Neighborhood Stabilization Program (NSP), Colorado Housing Investment Fund (CHIF), National Housing Trust Fund (HTF), and Private Activity Bonds (PABs). Some of these programs are passed on to local governments and housing authorities to administer in their jurisdictions as "pass-through funds."

DOH also offers the following resources:

- **Colorado Housing Affordability Data Explorer**
- **Affordable Housing Guide for Local Officials**
- **DOH has development specialists based in different regions** across the state who can assist you with questions related to the programs they administer

There are also municipal, county, and tribal agencies that administer direct assistance and development financing.

Tax incentives and housing tax credits

Tax incentives can help make affordable housing financially feasible. Tax reductions can help ensure rents stay affordable to your targeted population and can limit your after-construction costs over time. Tax benefits after construction can also draw equity investors to your project.

State resources

Housing Tax Credit

The Colorado Housing Tax Credit (state credit), modeled after the federal Housing Tax Credit program and administered by CHFA, helps attract investors to affordable rental housing by providing a tax incentive for their investment.

Tax exemptions

Public housing authorities in Colorado are exempt from local and municipal taxes and typically pay a reduced amount called Payment In Lieu of Taxes (PILOT). This applies to housing developments owned by, leased to, or under construction by PHAs. This means that affordable rental housing development solely or partially own by a PHA is exempt from traditional property tax and, during construction, from state and local sales and use taxes. Whatever percentage of the project is dedicated for occupancy by low-income households is the percentage of taxes that will be exempted.

There is a property tax exemption for nonprofit-owned affordable housing. This property tax exemption was recently strengthened by the CO Legislature: HB 19-1319, which limits property tax exemption "claw back" for affordable rental housing projects to increase lender comfort with investment in affordable housing, and thereby make it easier to assemble financing.

Municipalities and counties can provide additional tax benefits to incentivize affordable housing development, including exemptions or abatements of property taxes and sales and use taxes. More information on these kinds of programs, and other practices local governments can pursue to incentivize affordable housing development, may be found in DOLA's Affordable Housing Guide for Local Officials.

Federal Resources

Federal programs that provide tax incentives for development, including affordable housing development, include: **Housing Tax Credits**, **Historic Tax Credits (HTC)**, **New Markets Tax Credits (NMTC)**, **Opportunity Zones**, and **depreciation rules**.

The Housing Tax Credit program is the primary source of financing for the construction and preservation of affordable rental housing in the United States. Developers apply for Housing Tax Credits, and if awarded, their development may be more attractive to investors, who will receive a tax incentive in exchange for their investment. Such investments provide equity for financial feasibility. CHFA is the allocating agency for Housing Tax Credits in Colorado and sets priorities for the allocation of Housing Tax Credits via the Qualified Allocation Plan (QAP). There are two types of federal Housing Tax Credits: (1) the 4 percent credit, which is designed to raise equity sufficient to cover approximately 30 percent of a development's costs, and (2) the 9 percent credit, which is designed to raise equity sufficient to cover approximately 70 percent of a development's costs. The state credit is leveraged with the federal 4 percent credit. State credit provides additional resources to 4 percent credit developments which might not have been financially feasible without the state credit. Projects with 4 percent credits must receive at least 50 percent of funding through tax-exempt Private Activity Bonds.

Financing small- to medium-sized multifamily housing

Many affordable housing financing products were designed for single family residential (one to four units) or larger multifamily purposes, which makes it difficult or impossible to use those resources to finance small- to medium-sized multifamily housing (SMMF), consisting of multifamily buildings with five to 40 residential units. In fact, many lenders view SMMF as a "niche" financing market.

However, there have been intentional efforts to expand financing for this market segment nationally and in Colorado. For instance, SMMF properties have been prioritized by FHFA's Duty to Serve efforts, particularly in rural areas, and CHFA has launched the **Small-scale Housing Program** and Small-scale Affordable Housing Technical Assistance Program

National sources that can support SMMF development and preservation include:

- HUD: **FHA 223(f) Multifamily Loan Insurance Program**, **project-based vouchers**, **HOME**, **CDBG**
- Freddie Mac: **Small Balance Loan Program**, **Value-Add Loan** for light renovation, **NOAH Preservation Loan** and **Impact Gap Financing** for nonprofits pursuing the preservation of unsubsidized SMMF properties
- Fannie Mae: **Multifamily Small Loan Program**

Colorado-specific sources that can support SMMF development and preservation include:

- **CHFA's Small Multifamily Permanent Loan Program** (SIMPLE) can provide up to $3 million in uninsured permanent financing for developments supported with federal 9 percent Housing Tax Credits.
- CHFA's **Small-scale Housing Program** provides technical assistance services for developers of smaller housing projects (under 30 units). Financing products (for projects with less than 20 units), including **direct permanent loans**, small grants for soft costs, and **multifamily collateral support**, are also part of the project. See CHFA's website for more information about these programs.

Nonconventional funding

While housing finance will generally be your first stop when closing gaps, your project may be able to obtain funding outside the housing sector.

Healthy housing

Research has demonstrated links between housing and health, and there are strong examples of the impact investments can have when they are designed to benefit both. There are a variety of funding sources designed to support such developments:

- **HUD's Healthy Homes Program** offers grants for low-cost home hazard assessments and interventions that address environmental health and safety concerns (e.g., mold, lead, allergens, asthma, carbon monoxide, home safety, pesticides, and radon). This program expands upon HUD's other environmental safety programs focused on lead-hazard reduction.
- **Fannie Mae's Healthy Housing Rewards initiative** offers discounted financing for new construction or rehabilitation of multifamily affordable rentals when borrowers use physical design and resident services practices to advance health outcomes.
- The State of Colorado provides rental assistance and supportive services to qualifying individuals with low income who are frequent or high-cost consumers of public health systems.
- Medicaid funding, particularly for older adult or service-enriched housing:
  - Supportive housing services are reimbursable under Colorado's Medicaid program.
  - **Colorado Choice Transitions** also allows Medicaid funding to be used for housing in the community when a person with disabilities is moving out of an institutional setting.

Housing and food access

Housing insecurity and food insecurity are linked. If a household is experiencing one, they are at increased risk of experiencing the other but the reverse is also true. Lowering housing costs can make it possible for a household to afford healthy food options, so long as there are adequate options available.

A 2020 report by the Colorado Health Institute noted food insecurity and access issues as especially prevalent in urban and rural Colorado. **This interactive mapping tool** from the Urban Institute can help you understand how food insecurity is impacting communities where you may be planning to develop.

There are several financing resources available to address food insecurity as part of or alongside your housing development. For example:

- CHFA administers the **Colorado Fresh Food Financing Fund (CO4F)**, which improves fresh food access in underserved communities by financing grocery stores and other food retail. CO4F may be a resource for the commercial component of a mixed-use development as long as at least 50 percent of the aggregate commercial space is used for healthy food retail.
- **USDA offers several food distribution resources** to combat food insecurity, including the **Food Distribution Program on Indian Reservations**, the **Commodity Supplemental Food Program**, and the **Emergency Food Assistance Program**.

Energy efficiency and green financing

There are several financing vehicles available nationally and in Colorado that can finance activities that will increase energy or water-efficiency or improve indoor air quality, sometimes referred to as "green financing." Green building practices create healthy and environmentally responsible homes, and increase the efficiency of your property, which can reduce operating costs. In some cases, making these upgrades requires additional upfront costs, especially if you are purchasing fixtures and equipment at a lower volume for buildings with fewer units. There are low-cost solutions and financing available to help you overcome this hurdle. See the **Green Building and Sustainability Brief** in this guide for additional information.

Some banks have dedicated financing for clean energy projects. For example, the **Colorado Clean Energy Fund** is a nonprofit "green bank" that invests in clean energy projects and has articulated a goal to help smaller-scale commercial buildings access green financing.

Additional green financing options include:

- Many counties participate in the **Colorado Commercial Property Assessed Clean Energy Program (C-PACE)**, which provides financing for clean energy upgrades that can be repaid through future property tax assessments, after your property is experiencing the upgrade cost savings.
- **Energy Smart Colorado** provides energy assessments to homeowners and businesses, along with recommendations for energy-efficiency upgrades, plus contractors and financing to implement them.
- **Energy Outreach Colorado** provides funding for nonprofits to purchase and install energy-efficient equipment, helps with affordable housing weatherization, and offers a multifamily utility rebate program.
- The **Xcel Energy Design Assistance (EDA) program** offers rebates based on energy savings gained from implementing equipment and systems that perform better than local code* or the ASHRAE 90.1-2007 Energy Standard and offers comprehensive consulting and design assistance.
- The **DSIRE database** includes a full list of green financing and incentives available for your project.
- Enterprise Community Partners maintains **a database** of technical assistance providers with expertise, experience, and commitment to bringing sustainable solutions to the affordable housing sector.

Financing for disaster mitigation and resilience

As major weather events become more severe and frequent, it is critical to build resilient properties that can prevent and mitigate negative impacts of future disasters. According to the 2020 Colorado Resiliency Framework, "Colorado's housing market faces many intertwined resiliency considerations, including rapid price escalation and supply shortages in urban and mountain communities, vulnerability to natural hazards, growing distances between place of residence and employment, and the unique housing needs and inequities of different demographic groups."

The following resources support individual homeowners and multifamily property owners recovering from disaster events or mitigating vulnerabilities.

- The State of Colorado uses its allocation of CDBG-DR funding from the federal government for a **variety of housing assistance and finance programs**, including **disaster recovery funding for housing construction**.
- The State of Colorado also receives **resources from FEMA** that can be accessed both pre- and post-disaster events.
- The **U.S. Small Business Administration's Disaster Loan Assistance** program offers low-interest loans to businesses, nonprofits, homeowners, and renters located in regions affected by declared disasters.
- Enterprise Community Partners has developed the **Ready to Respond** toolkit that can help you prepare for future disaster events.
- **Energy Efficiency for All** maintains a database of energy-efficiency and resiliency resources, including case studies, tools, webinars, and more.
- More information about statewide issues of housing resilience may be found in the **2020 Colorado Resiliency Framework**.

Funding designed for rural areas

USDA offers some of the most robust funding for development in rural areas, including affordable housing, business and economic development, and community infrastructure. Housing finance includes funding for homeownership loans and rental complexes, guaranteed and direct home loans, home repair loan and grants, and financing for the construction or preservation of affordable multifamily homes.

- Multifamily Housing 515 provides direct loans to finance multifamily homes for families with low income, older adults, or people living with disabilities. Rental assistance for individuals and households living in properties financed with 515 is also available.
- Multifamily Housing 514/516 provides direct loans and grants to finance affordable housing for year-round migrant or seasonal domestic farm laborers. Housing may be constructed in urban or rural areas, so long as need is demonstrated. Rental assistance for individuals and households living in properties financed with 514/516 is also available.
- Multifamily Housing 538 provides loan guarantees to private sector lenders. This can be used in conjunction with Housing Tax Credits but does not need to be used for affordable housing exclusively.
- Fannie Mae, Freddie Mac, and FHLB all have a "Duty to Serve" underserved markets, including manufactured housing, rural housing, and affordable housing preservation. Rural tracts in persistent poverty counties are a key target of these efforts.

Funding specific to tribal areas

There are several resources that provide development financing through loans, grants, technical assistance, and direct rental and mortgage assistance to tribal areas.

- The Center for Indian Country Development at the Minneapolis Federal Reserve Bank maintains banks and community development financial institutions owned by or primarily serving American Indian, Alaska Native, and Native Hawaiian individuals and communities.
- Fannie Mae, Freddie Mac, and FHLB all have a "Duty to Serve" underserved markets, including manufactured housing, rural housing, and affordable housing preservation. Native Americans and agricultural workers are priority populations in these efforts.
- The **HUD Section 184 Loan Guarantee Program** offers loans to Tribes, Tribally Designated Housing Entities (TDHEs), and Tribal members for the purchase, rehabilitation, refinancing, or new construction of single family housing (one to four units) on or off reservation.
- For multifamily housing construction and preservation, HUD offers **the Tribal Housing Activities Loan Guarantee Program (Title VI)**. These loans are offered to federally recognized Tribes and TDHEs for creating or rehabilitating housing, building infrastructure, constructing community facilities, acquiring land for housing, preparing architectural and engineering plans, and funding financing costs.
- The **Indian Housing Block Grant** (IHBG) program is a formula grant administered by HUD. It is available to federally recognized Tribes and TDHEs that submit an Indian Housing Plan and complete Annual Performance Reports. The funding may be used for housing services, crime prevention and safety, and innovative pilot approaches that solve affordable housing problems. Additional IHBG funding is made available on a **competitive** basis.
- HUD also administers the **Indian Community Development Block Grant** (ICDBG) program, which provides direct grants for activities related to housing, community facilities, and economic opportunities, primarily for people with low or moderate income.
- Additional programs are available to provide direct rental or mortgage assistance in tribal areas, such as the **Tribal HUD-VASH**, **USDA Section 502 loans** and the **VA Native American Veteran Direct Loan Program**.
- The **U.S. Department of Energy Office of Indian Energy** supports energy-related projects on tribal lands through funding, education and training, and technical assistance.

Financing for deeper levels of affordability

There is a severe shortage of housing affordable to households with the lowest incomes, often referred to as extremely low-income households or households at 30 percent of Area Median Income or below in Colorado and nationwide. According to the National Low-Income Housing Coalition, for every 100 Coloradans with extremely low income, there were only 23 housing units affordable and available to them in 2020. This shortage particularly impacts renters with special needs and older adults, who are more likely than any other renters to have extremely low incomes.

Reaching the deepest levels of affordability in your development will likely require several layers of low-cost or subsidized development financing, operating subsidies and/or direct rental assistance for tenants, and supportive services. Many housing developments that include deeply affordable units also include units affordable to higher income households to balance revenue. This practice is sometimes referred to as "cross subsidization" and results in mixed-income developments.

Development financing for deeply affordable units includes the following programs:

- Housing Tax Credit allocating agencies are required to use the resource to support developments serving the lowest income for the longest period of time. In addition, in Colorado, CHFA prioritizes credit allocation to those developments serving homeless and special needs populations, and those located in counties with populations of less than 180,000.
- **HOME** funds can be used to address housing needs of households with low income, including those with extremely low income, as can DOH Housing Development Grant (HDG) funds.
- HUD's **Section 202** and **Section 811** programs fund development of affordable housing for older adults and supportive housing for people living with disabilities who have very or extremely low income.
- The **National Housing Trust Fund (HTF)** provides states with funding designed to increase and preserve affordable housing for households with extremely low income. In Colorado, DOH administers these funds.
- **USDA Section 515 loans**, as noted above, finances multifamily homes for families, older adults, and people living with disabilities who have low income.

Operating subsidies and direct rental assistance

- A portion of each state's allocation of National Housing Trust Fund (HTF) funds can be used to cover operating costs and operating cost reserves.
- **Section 811** funding is available to nonprofits and can serve as a capital advance for construction or rehabilitation activities and/or can be used for operating subsidies.
- HUD's **Continuum of Care (CoC) program** can be used by nonprofit or public entities for most uses associated with providing housing to people experiencing homelessness, including acquisition, rehabilitation, new construction, leasing costs, rental assistance, supportive services, and operating costs.
- DOLA's Office of Rental Assistance offers a variety of programs that can help close the gap between affordable rents for households with extremely low income and operating costs, including:
  a. The Family Unification Program (vouchers for households involved in child welfare), including project-based assistance (PBV; vouchers designated for specific units);
  b. Veterans Affairs Supportive Housing (VASH; vouchers for rental assistance and case management for formerly homeless veterans); and
  c. Mental Health and Homeless Solutions Program vouchers (vouchers for rental assistance and supportive services for individuals with extremely low income living with disabilities).

Select participating housing authorities may also offer these types of vouchers to residents, in addition to Mainstream Vouchers to assist non-elderly persons with disabilities.

Supportive services funding

Supportive services may be funded through many of the financing mechanisms noted above for the construction and operation of housing affordable to household with extremely low income. Typical funding sources available for supportive services include SAMSHA, Medicaid, Ryan White, CDBG, HOPWA, and philanthropic or community health funding.

The role of public housing authorities in meeting this need

Through physical housing units and rental assistance programs, public housing authorities (PHAs) play a critical role in meeting the needs of households with low and extremely low income for whom private market housing is often unaffordable. In fact, PHAs are required to target at least 40 percent of new public housing admissions to households with extremely low income and many PHAs give preferences to households headed by older adults or persons with disabilities.

PHAs also administer housing choice voucher and project-based voucher programs for populations with extremely low income and special needs, both of which are important tools to create more affordable housing options. PHAs are required to target at least 75 percent of new HCV admissions to households with extremely low income.[xvi] Project-based vouchers can be important tools in making developments more feasible.

In addition to the funding sources noted above, PHAs have access to the Public Housing Capital Fund and Public Housing Operating Fund, formula grants administered by HUD to support PHA operations and capital investments.

PHAs can apply for competitive Choice Neighborhoods funds to support substantial rehabilitation or demolition and reconstruction of public and assisted housing as part of an approach to neighborhood transformation. PHAs may also apply to one or more of HUD's repositioning programs, including the Rental Assistance Demonstration (RAD), Section 18 Demolition and Disposition, or Streamlined Voluntary Conversion, to convert or move their public housing stock from the public housing platform to the Section 8 platform. These repositioning programs can allow PHAs to leverage private debt and equity to reinvest in their housing stock, resulting in substantial rehabilitation or new construction of affordable units and mixed-income developments. In addition, PHAs can serve as housing developers in their communities, developing assisted or subsidized housing separate from the public housing and Section 8 platforms.

Finding Your Housing Authority

Find your local public housing authority **here**.

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xiv. Definition from FHLB. See: **https://www.fhfa.gov/SupervisionRegulation/FederalHomeLoanBanks/Documents/FHLB-Implementation-Plans/2017_CIN_IP.pdf**

xv. CHFA's 2021 QAP awards additional points to projects that target extremely low-income residents and provide supportive services to these populations at no cost to the residents. More information is available here: **https://www.chfainfo.com/arh/lihtc/LIHC_Documents/2021-QAP.pdf**

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chapter 8:

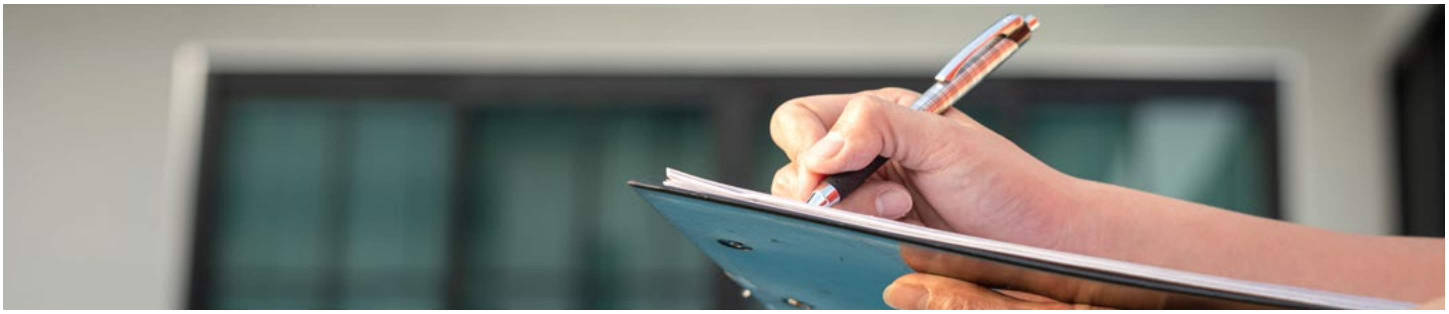
Project Construction

Learning Objective:

Users will understand key decisions they will need to make during the construction process.

Overview of the construction process

By now, you have worked with your team and community partners to choose and refine your development model; you have selected, secured, and prepared (or are actively securing and preparing) your development site; and you have received regulatory and funding approvals. You are now able to articulate the general concept and vision for your project and specifics of what the property will look like when you are complete. You are ready to hire contractors and begin the construction process.



Construction management tasks

As a developer, you have two sets of core tasks: (1) requesting and awarding bids, and (2) selecting a contractor to be part of your development team. See **Chapter 3: Housing Development Models, Team, and Roles**, for information on building your development team.

Requesting, reviewing, and awarding bids is how you will find your general contractor (GC) and subcontractors with specific areas of expertise, such as plumbing and electrical. When preparing the bid package, you will articulate project specifics, timeline, and the type of contractor bids you seek. The bid package may also be referred to as a "Request for Bid" or "RFB." An example is included in the **Sample Documents and Templates** section of online version of this guide.

Your bid package should include:

- Work details and timeline: this should include architectural, structural, mechanical, electrical, and civil engineering work, plus materials, interior needs, and landscaping
- Site description
- Selection and contract process overviews
- Bid terms and conditions
- Whether Davis-Bacon wage rates are required for your development
- Instructions on what to include in a bid/proposal response, including any required documentation, such as licenses, notices, insurance, and bonding; different lenders may have differing requirements for insurance and bonding, so check with funders you have already selected

The process of solicitation and invitation can depend on your funders. For example, you may be required to post the bid package in certain news outlets. Some cities and local governments have minority- or women-owned and small business programs that can alert you to qualified firms that you can contact with an RFB.[xvii, xviii] Prior to requesting bids, you may also need the services of an estimator to determine the approximate price of construction for your development. An estimate is less detailed than a bid.

Your project location may impact the number of bids you receive, depending on the local labor pool. Colorado developers interviewed for this guide noted that this can be a challenge in rural areas, where there aren't large labor pools. Construction contractors from metro areas may face longer commutes to your project, or may require lodging, increasing your costs. If you only receive one bid, you may want to research why and if any adjustments would make your development more desirable or feasible to contractors. Contact local developers and ask if they can provide insight or connection to local contractors to discuss why they did not bid on your development. If there are no other bidders based on given project need, demand, or location, you can continue with a single or sole-source procurement, with proper justification and documentation of why it is necessary. This is required if using HUD funding and may also be required by other funders.[xix] You should note that a single or sole-source bid still needs to be evaluated as if there are multiple bids.

As you receive proposals from contractors, make sure you have a formal record of each bid submitted. Sealed bids are publicly solicited for a firm fixed-price contract, either lump sum or unit price, that is awarded to the lowest cost responsible bidder whose bid conforms to all the material terms and conditions of the RFB.[xx] Compile proposal information in a way that will streamline bid comparison.

When selecting a bid, consider several factors and questions, in addition to price:

- Qualifications and experience of the bidder: Have they completed similar projects before? Do they bring the expertise you need? Do they have necessary licenses to complete the work?
- Completeness and responsiveness: Did they provide everything you requested in your bid package?
- Alignment with project goals: You may have additional goals for your project like employing local labor or supporting businesses owned by women or minorities—are they aligned with these goals?

Key contract terms should be outlined in the bid package, including a request that contractors confirm they can agree to those terms. That will make it easier to execute the full contract after the contractor is selected. You may consider obtaining a Notice to Owner (NTO) or lien waiver from contractors at the outset. These are agreements that contractors make to waive their right to place a lien on the property in the event of nonpayment for their services. Lenders may want this documented to ensure there is no risk of contractors placing a lien on the property in the future, which may prevent you from repaying their loan.[xxi] You should also provide a formal letter to each contractor who submitted a bid to notify them if they were not selected.

Engaging your general contractor (GC) early in the design process, rather than after the schematic is finalized, can make your entire construction process more efficient, allowing you to account for and avoid potential cost or time-drivers later. However, in markets where demand for construction labor is high, it may be difficult to onboard your GC so early. In this case, you may wish to pursue alternative contracting procedures to create standards or incentives for accurate early-cost estimating. You may also consider the design-build construction process rather than the traditional bid construction process. With the design-build process, you only manage one contract consisting of all professionals and contractors, rather than managing separate contracts for the architect and contractor. This creates a more collaborative relationship between the architect and the contractor, although it sometimes conflicts with procurement processes. More information on contractor relationships may be found from the **American Institute of Architects**.

You will also have to collaboratively manage the construction process and finances. This set of tasks will be done collaboratively with your GC and may also involve construction managers or contract administrators who support project oversight. Since there are a variety of ways to divide these duties, it is important to discuss and set clear expectations at the outset for how you will collaborate.

Managing your construction process and timeline

Setting your construction schedule

You will work with your GC or construction manager to set your construction schedule, which will likely be organized around key phases of construction. Examples include pre-construction permitting and site work, foundation, framing, major installations (including HVAC, electrical, plumbing), interior finishes, fixtures and appliances, landscaping, and exterior work.

Your schedule will likely look very different for new construction versus rehab projects, but one is not necessarily always faster than the other. For example, a rehab construction timeline may move more quickly through the initial development phases because there is less site and substructure preparation (assuming the substructure is sound), but there may be more complexity introduced in later phases as you work within the existing structure to renovate. You may also encounter unexpected issues during a rehab, which can cause delays and increase costs. The construction schedule for a rehab project will also impact the relocation plan for tenants and it's important to determine what relocation laws, such as the Uniform Relocation Act, apply to your development.[xxii] You may consider procuring assistance with relocation from a relocation specialist.

You may want multiple construction schedules to use as project management tools, such as a schedule organized by phases, a schedule organized by roles, and a schedule organized by workstreams. The schedule should note dependencies, such as when inspections will be needed, before you can move into the next phase of construction.

Hold a pre-construction meeting with key stakeholders, such as your architect, engineer, and consultants, for them to review the construction schedule before it is finalized to check your assumptions and build shared accountability for the timeline. Stakeholders may also help you identify opportunities for greater efficiency that can lower costs or avoid increasing costs.

This pre-construction conference is also when you, your contractor, and the architect will clarify roles and responsibilities, payment schedules, and how processes for project management, such as inspection procedures and how change orders or delays, will be handled. The size and complexity of your project will impact the timing of your construction process. For example, larger projects will generally take more time; newer, innovative construction types may face longer permitting or inspection timelines; and a project with many custom finishes will take longer at the final stages.

Be prepared to adjust your development model as you build your schedule and identify timeline implications of different choices. You may find more expedient options, or you may choose to eliminate features that are extending your timeline, which can reduce your overall project costs.

Phased construction is an approach that allows you to start and complete a smaller segment of your project before moving onto the next. Phased construction may be beneficial in these cases:

- To prove your concept if you are pursuing a newer, more innovative building model
- To allow your project to start generating revenue faster, which can then be used to help finance later development phases
- To minimize tenant relocation during a renovation project—this is beneficial to tenants and could minimize overall cost

The disadvantages of phased construction include:

- Overall longer construction process, which might mean higher total costs (although it may also generate savings to help offset those costs)
- Potentially increased costs on supplies if you are not ordering for all phases of the project at once
- Additional coordination and complexity, including additional potential regulatory review and approval processes

Using prefabrication, meaning conducting construction operations offsite and then moving building components to the site, can reduce your overall construction timeline if your offsite location allows for more efficient production, taking advantage of easier access to skilled labor, materials, or equipment. However, prefabricated construction may also introduce potential for delays, particularly during the transportation process or during the building permitting process, since regulations are often not designed specifically for prefabricated construction and local officials may not have as much experience reviewing similar projects. For example, lenders may have difficulty funding modular construction since it is not considered part of their collateral until the building components reach the site. Fannie Mae provides more information on considerations related to prefabricated or modular construction **here**.

Anticipate delays and be realistic about your construction schedule to help avoid issues down the line. Typical items that can cause delays include weather, contractor availability, material shipping, failed inspections, and miscommunications with development team members. It is also important to consider any timeline limitations you may face due to the location, nature, or size of your site. For example, your development could be delayed by winter snowstorms or you may not have enough parking room for concurrent contractor vehicles. Also consider local building officials' approval timelines, accounting for the typical progress inspection timeframe with your local code enforcement department. More information on the key milestones to account for inspections from local building officials is provided below.

No matter how effective your construction schedule is, you will likely still need change orders, or adjustments to contractors' scopes of work. Sometimes this may cause delays or cost increases, which is why it is important to have cost contingencies and clear processes on change orders established at the start of the project. Whenever a change order is needed, collect written justification from the contractor and document the agreed-upon scope of changes and schedule impacts before the adjusted work begins. You may include a liquidated damages clause in your construction contract, which provides you relief if the construction completion date is delayed beyond the date in your contract.

Inspections, hiring, and reporting requirements

As a developer, it's important to be aware of daily construction activities and progress. Have a project manager on staff who can fulfill this role so you can clearly communicate progress to lenders and funders. If you are not able to provide a project manager on staff, you may consider hiring an owner's representative who represents your needs during the entire construction process while serving in a monitoring role. In partnership with your GC, all contractor activities should be reviewed and approved for completeness and quality. This process usually involves a construction "punch list" on which your GC will list any unaddressed items that should have been included in the work, based on the initial scope. This may be used at certain milestones and/or at the end of the project before the final inspection is certified. You, your GC, and contractors will then come to an agreement on how to address the items on the punch list. If there is a substantial issue, this may require a change order.

Awareness of the day-to-day construction progress will be important when reviewing and approving invoices. Your construction lender will also hire a construction inspector, at your expense, who will inspect the property at least monthly and confirm that construction invoices match the completed work. If your development is supported with Housing Tax Credits, the equity syndicator will likely have their own inspector as well.

At other points, local building officials will conduct inspections to confirm that different elements of your project are satisfying building code requirements. You will need approval from local building officials at certain milestones before moving on to other phases of your project. Other partners, such as USDA, also may require inspections at regular intervals, which could impact a project's ability to proceed to a new phase.

The milestones when building officials will be involved include:

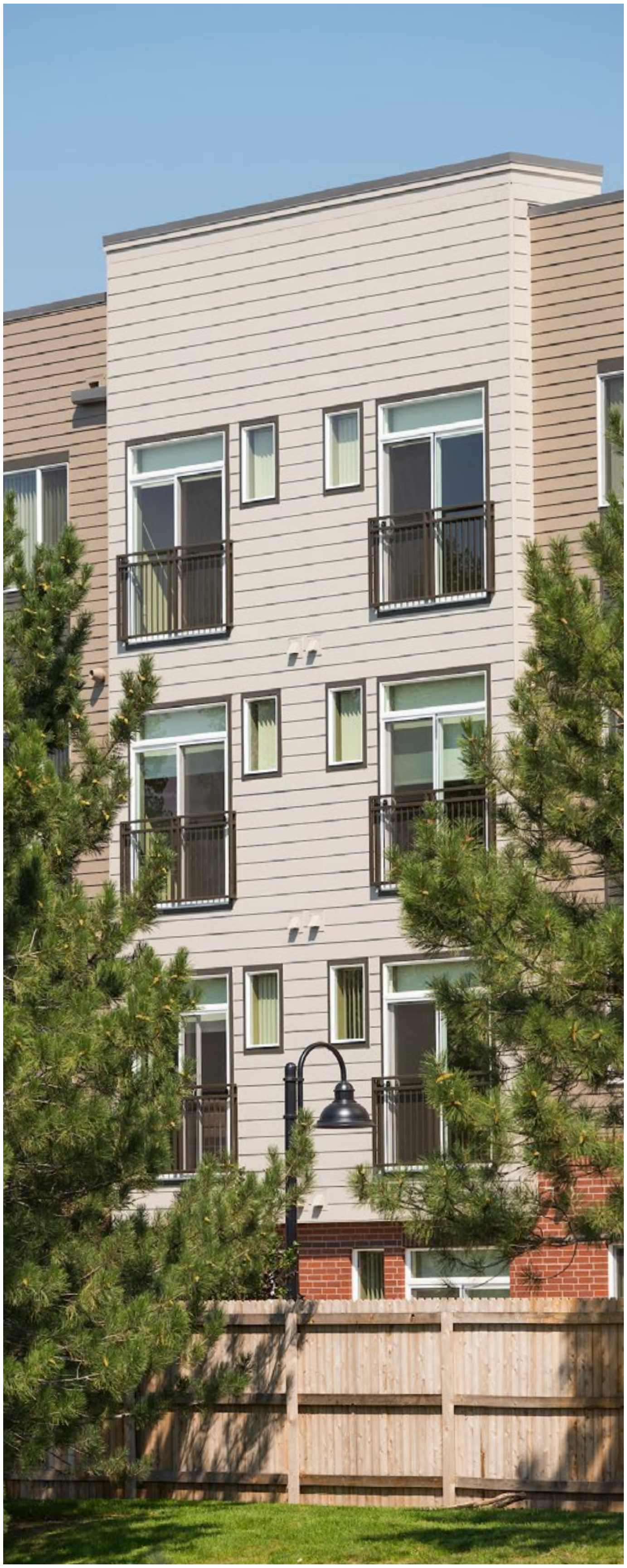
- Pre-construction: reviewing drawings and specifications and investigating the construction site, including drainage, elevation, placement of buildings, etc.
- During construction: reviewing and approving floor framing, wall framing, roofs and ceilings, chimneys, and other structural elements
- Post-construction: conducting a comprehensive inspection and issuing certificate of occupancy (see below)

Confirming public hiring and reporting requirements are met during the construction period is the responsibility of the general contractor (or developer if you are also operating as project GC). The GC will often be supported by a contract administrator who provides labor standards advice, ensures that contract language effectively represents the project's legal requirements, and monitors compliance throughout the project by reviewing payroll reports and conducting interviews with contractors and construction workers. When a project receives public funding, the contract administrator will generally be a public employee. Additionally, the U.S. Department of Labor has independent authority to conduct investigations to confirm labor practices comply with federal standards.

Any hiring requirements should be incorporated into subcontractor agreements and made clear in the initial bid package. Reporting processes should be established upfront and documented in the contract to ensure the GC and contract administrator have sufficient information about hiring and labor practices throughout the project. Davis-Bacon and Related Acts (DBRA) refers to federal regulations that require certain labor standards (i.e., Davis-Bacon standards) to federally assisted construction projects. Specifically, Davis-Bacon requires all contractors and subcontractors to pay employees the local "**prevailing wages**" at a minimum. Contractors and subcontractors are required to submit payroll records weekly to certify their compliance with this standard and **post** the applicable Davis-Bacon wage rate prominently on the job site.

Final inspection will occur after all work is completed. At this stage you will:

- collect warranties and lien waivers from all contractors and suppliers,
- make a final punch list and resolve items, and
- issue certificate of final inspection. Either you or your architect will certify that this inspection is completed and the development is ready for move-in.
- At your final inspection, it's recommended to join the inspector so that you can understand any issues they identify and ask clarifying questions. If any items need correction, you will need to bring back your contractors or complete the work directly before having your property re-inspected. It may even be possible to make small corrections, such as screwing in a missing socket cover, while the inspector is onsite. After your final inspection, local building officials will confirm the building satisfies all relevant building codes. If everything is up to code, they will issue a certificate of occupancy and your development will be officially ready for residents to move in.



Managing your construction finances

After you have assembled your financing and before construction work begins in earnest, you will close on your construction financing, also known as the "initial closing." Construction financing closing may happen concurrently or after the pre-construction conference, so long as it occurs before the start of construction.

When you close on construction financing, the following will happen:

- You can receive your first payment from your construction loan.
- You will pay your initial financing fees unless an extension or deferment has been granted.
- You and your lender will conduct a final review of all forms and exhibits to ensure accuracy of the terms.
- You and your lender will confirm their loan constitutes a first-priority lien on the property.
- You and your lender will confirm necessary steps have been taken to secure the property and prepare for construction, including confirming zoning compliance, building permits, utility services, and insurance coverage.
- Final copies of the funding agreement(s) and associated documentation will be circulated to all parties of the agreement(s) for their records.

Draw-downs, draws, or progress payments are amounts of your construction loan that you are able to access at different times in order to pay contractors. You will set your draw schedule with your lender. The schedule may be divided in equal amounts over set intervals, such as monthly payments, or it may be tied to completion of specific milestones. Once those construction milestones are reached and confirmed via inspection by the lender, you will receive payment.

You or your GC may choose to retain a portion of the progress payment until the contracted work is complete to ensure it is completed on time and to your quality standards. This practice is known as "retainage." Even with retainage, it is important to have clear, shared expectations with your contractor for how and when the work will be done to avoid cash flow issues or delays.

Some states regulate retainage practices. Colorado regulates retainage on public and privately funded projects. Generally retainage is capped at 5 percent for public projects and for private projects in excess of $150,000 except for single family and multifamily dwellings of four units or less. Check your funding terms for details on any retainage regulations that may apply.

Ensuring a Clear Title

A lien is a claim to ownership on the property, which must be paid before a property can be sold with a clear title.

Establishing clear title on a property can be more difficult with rehab projects, particularly if there are unresolved liens from past owners, including from delinquent taxes or inheritance. If you identify unresolved liens on your property through a title search, you will need to work with a title company to remediate the outstanding liens. More information on common title problems is available **here**.

Contractors will submit invoices to you for their portions of the project, which you will review against your construction budget to monitor any potential cost overruns. This will allow you to track construction progress relative to budget spenddown. Set invoicing schedules with your contractors, such as requiring a monthly invoice submission, to assist with this process. Before each scheduled draw, you will submit a progress payment request and supporting documentation, such as contractor invoices, to trigger payment from the lender. Some lenders will require an inspection at the time of the draw request or milestone to confirm work completed.

Thorough documentation of contracts, invoices, and payments will be critical for your lenders and project funders and may be necessary for tax purposes, disputes, or legal matters. Also, document project communications well, making sure you have dated notes as record of decisions, particularly those with financial implications, even if they are by phone or in-person.

Change orders are documentation of any changes to a contractor's scope of work to which you agree. The change order should include details of the changes being made plus any cost or timeline implications and should be signed by both you and the contractor once approved. The change order process should be specified in your contracts and discussed at the predevelopment conference. When reviewing change orders, determine if costs incurred exceed your contingency budget or if they can be offset elsewhere. You also must ensure changes comply with existing funding terms and do not jeopardize any of your funding.

Funders may require regular updates during the construction process to ensure satisfactory progress and compliance with funding terms. In particular, they will confirm your actual progress reflects your application projections and their funding is being used for eligible purposes per the funding agreement.

Marketing and lease-up

Before construction is complete, begin finding prospective tenants or homebuyers who will occupy your development. Do not wait until construction is complete because that will extend the length of your "lease-up" or sales period when your building is habitable but not occupied/fully occupied and will delay your revenue. This reduces your profitability and can impact your ability to repay financing.

As a developer, the faster your project starts generating income, the better. Real estate finances are impacted by the time value of money, because inflation, risk, and opportunity costs (other things you could use the money for) all increase over time. This is the reason we discount projected future cash flows when calculating expected rates of return. See **Financial Modeling Tool and Guidance** in the online version of this guide for more information.

Some funding sources may also place restrictions on how quickly rental units should be leased. Developments supported with Housing Tax Credits are generally required to lease units within 90 to 120 days after the Certificate of Occupancy is issued. This leasing requirement is usually tied to the syndicator's market absorption estimate, which determines the timing of equity payments.

Any time you are representing your development to the public is a chance to market it and its benefits to the community, including the concept stage through project completion. Targeted marketing to attract prospective tenants or homebuyers should begin in earnest six months prior to construction completion. You can choose to hire a marketing contractor or real estate agent to support or lead this work. If you contract out for property management services or hire property management staff, they will be responsible for marketing and lease-up. See **Chapter 9: Project Operations and Compliance**, for more information on property management. Even if you have a marketing or property management contractor, you should provide oversight to ensure that outreach, marketing, and tenant selection or homebuyer underwriting comply with local, state, and federal laws, plus any funding terms governing the project.

Some funding sources may require you to create a marketing and outreach plan and, even if it is not required, this kind of planning document is useful for ensuring alignment between your marketing activities and your project goals and requirements.

Below you will find elements of what can be included your marketing plan:

Who is your target audience?	This could be people living in the neighborhood already, people identified as likely tenants or buyers during your market study, local employees, real estate agents, etc.
What is the most important information for your audience?	Any eligibility criteria for who can live in your building, such as income limits, target populations (e.g., older adults, persons with disabilities, first-time homebuyers), credit score minimum, etc. These may be specified by your funding sources, or your project or organization's mission.
What does your property offer?	Emphasize unique offerings that make your property stand out. This may include type and size of units, rent levels or sales prices, amenities, benefits to the community, etc.
How will you get that information to your target audience(s)?	The community engagement you conduct during the concept phase is your first opportunity to spread this information and build relationships with prospective tenants/buyers and community members who can help spread the word. This engagement also presents an opportunity to test messages or communication formats and see what resonates most, which can help you refine your marketing approach at this stage in the process.
	You can also use these early engagement activities to build an email and direct mailing list for people who are interested in learning more about the development.
	Common marketing tactics include billboards and signs in front of your building or in nearby areas; flyers and brochures that can be placed at community spaces and events, such as coffee shops and farmers' markets; advertising in local magazines, newspapers, and/or on social media; and email or direct mailing campaigns.
	You may also consider identifying community ambassadors for your development, which may include members of your property management team, community members, and community agencies.
	Having a website and dedicated social media pages for your project will help potential tenants or buyers find you. These should include professional photos of your project's exterior, interior, and surrounding amenities, or conceptual renderings if photos are not yet available; floor plans; directions on how to apply or schedule a tour; and other development information.
	You may be able to attract media coverage for your project by turning key milestones, such as breaking ground or project completion, into interesting events with speakers or live music and alerting local media via a press release.

As a property owner, it is your responsibility to ensure equal housing opportunity for all prospective tenants or buyers, meaning all applicants should have the same opportunities when it comes to choosing housing. Your marketing plan must be in compliance with the Fair Housing Act. In fact, it is illegal in Colorado to discriminate against prospective tenants or homebuyers on the basis of their disability, race, creed, color, religion, sex, sexual orientation, marital status, familial status, national origin, or ancestry. Housing discrimination can take many forms, including refusing to rent to someone solely based on the fact that a person is a member of a protected class, using more stringent application requirements if someone is a member of a protected class, and refusing to allow accessibility modifications to a unit that are necessary for a renter with a disability. More information on the Colorado Anti-Discrimination Act is available from the **Colorado Civil Rights Division** and more information on the federal Fair Housing Act is available from **HUD**. You will also find additional resources on Fair Housing from the **Denver Metro Fair Housing Center**.

Additionally, CHFA offers classes on fair housing through its **chfareach** training program, which delivers cost-effective housing education to stabilize and enrich affordable housing communities statewide.

Obtaining your Certificate of Occupancy

A Certificate of Occupancy is issued by local building officials, certifying that your property is up to building code and safe for people to live in. A temporary certificate of occupancy (TCO) is issued for a portion of your development prior to completion. Once construction is complete, you will be ready for a final inspection from building officials after you have conducted your own final inspection and worked with your construction team to address any items added to the punch list. As you get close to the end of construction, you should contact the local building department to schedule the inspection.

The building department will likely have a specific process for these inspections and may require certain documentation before you can schedule the inspection to obtain your Certificate of Occupancy. Throughout the construction process, you should work proactively with the local building department to understand their processes and build a strong working relationship.

Ideally, you will have identified any potential code violations during previous inspections and your building inspector will be able to issue a Certificate of Occupancy after the last inspection. If minor violations are identified, you may be able to address them on the spot; otherwise, you will need to schedule a follow-up inspection, which could add weeks to your lease-up period.

After you have the Certificate of Occupancy and the development reaches stabilized occupancy, you can move forward with closing on the permanent financing. Lenders will differ on their definition of stabilized occupancy. Generally, it is a minimum percentage occupied for a certain number of days. Closing on permanent financing will include a review and verification of previous financing assumptions to ensure they are still accurate and sufficient to minimize lender risk. Information from the final round of inspections will be used to prepare a forecasted capital expenditure budget, which estimates the timing and cost of future repairs and system replacements. This will be used during closing on the permanent financing to ensure the replacement reserves are adequate for the expected needs.

Considerations in the Use of Credit Scores

Mortgage lenders and property owners have several options to evaluate a potential borrower's or tenant's ability to make regular payments on their loan or rent. Credit scores are one of the most used measures for this purpose. However, they do not always tell the full story and may reflect structural barriers to credit building, which disproportionately impact people of color and people with lower incomes. Many prospective renters have no credit score because they have never taken out a loan. Credit scores also do not typically reflect the person's rental payment history, despite this being the best predictor of their ability to make rental or mortgage payments in the future.

Overreliance on credit scores in screening and evaluating potential tenants can reinforce these structural barriers and further contribute to inequities in housing outcomes. Alternative or additional data you should consider include proof of income through W-2 tax forms, paystubs, or letter from an employer; references from past landlords; or other proof of on-time monthly payments that could be for past rent, utilities, or cell phone bills.

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xvii. For example, see Denver's program here: **https://www.denvergov.org/Government/Departments/Economic-Development-Opportunity/Do-Business-With-Denver**

xviii. The Colorado Office of Economic Development and International Trade also maintains a directory: **https://oedit.colorado.gov/minority-owned-businesses**

xix. U.S. Department of Housing and Urban Development. "Chapter 8. Noncompetitive Proposals." 2007. **https://www.hud.gov/sites/documents/74608C08PIHH.PDF**

xx. U.S. Department of Housing and Urban Development. "Procurement Handbook for Public Housing Agencies." 2007. **https://www.hud.gov/sites/documents/DOC_10725.PDF**

xxi. For more information, see Colorado's Construction Lien Law: **https://constructionliens.uslegal.com/state-laws/colorado-construction-lien-law**

xxii. For more information, see HUD's "Relocation Assistance to Tenants Displaced From Their Homes." **https://www.hud.gov/sites/documents/tenadisp.pdf**

Case Study: The Tabor Grand Hotel Apartments, Leadville

About the project

The Tabor Grand Hotel Apartments is a rehabilitation and historic preservation development in Leadville. It provides 37 one- and two-bedroom affordable apartments and has ground-floor retail. It was completed in 2014 by the Overland Property Group and benefited from multiple forms of support from CHFA, including nearly $653,000 in Housing Tax Credits and a $880,000 loan from CHFA's Housing Opportunity Fund.

Originally built in 1885 as a hotel, the building is historically significant and an architectural cornerstone of Leadville's downtown. The development utilized construction and preservation expertise to preserve the history and character of the building so that it can remain a community asset for many years to come. The development won the Governor's Award for Historic Preservation in 2015.

Contributors to success in development

A development in search of a developer. The vision for the rehabilitation of the Tabor Grand Hotel predated the involvement of the Overland Property Group. Through an unexpected connection made at a housing conference in Colorado, Overland learned of the concept and joined as the developer, with approval from the existing partners. Although Overland was not expecting to take on this type of project, the uniqueness of the building and the value they felt they could bring to the development team made it an attractive opportunity.

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A vision for long-term preservation. The Tabor Grand was in desperate need of preservation. The original development vision planned for a rehabilitation to keep the building operational and preserve it for the next 10 to 15 years, at which point it would likely need some additional investment and work. As Overland learned more about the building, they realized there was an opportunity to save long-term costs by extending the life of the building by 100 years instead. They worked with their development partners and consultants to find ways to achieve this while trying to control the increased costs.

Building a high-capacity development team. Overland knew they would need outside expertise. This was the first historic rehabilitation they had ever done, though they had recent experience with non-historic rehabilitation. Although there was an architecture and construction company already tied to the project that completed due diligence on the development, this was a complicated construction undertaking due to both the condition of the building and the high-elevation location of Leadville at 10,151 feet above sea level. Overland, therefore, brought in outside construction consultants they had previously worked with to provide insight and help with the pivot in vision toward long-term preservation.

Gaining community trust. Prior to this development, Overland had no experience working in Colorado. Community stakeholders in Leadville had mixed experiences with developers and preservation efforts over the years, some of which had fallen short of expectations. The community was therefore skeptical, and the development team had to work to gain their trust. Overland's approach to building this trust relied on a combination of individual relationship-building and demonstrating results that aligned with the community's priorities. For example, the commitment to thorough, long-term preservation of the community's asset helped to build stakeholder confidence that the development was in the community's best interest.

According to ***Leadville Today***, upon seeing the extent of the scaffolding surrounding the building during construction, one resident exclaimed "Wowser, looks like they're serious this time!"

Supportive partners. The Tabor Grand development is a great example of successful partnerships between developers and public entities. In addition to the development team partners, Overland worked with CHFA to obtain a $652,836 Housing Tax Credit Award and $800,000 Housing Opportunity Fund loan and saw CHFA as a key supporter and problem-solving partner in the development process. Agreements with local jurisdictions and housing authorities on real estate taxes also helped to make the deal work. The existing owner was also a key partner in determining how to structure the sale and management of the property using master leases that enabled the owner to maintain revenue from the retail portion of the development while ceding ownership and management responsibilities to Overland.

Creative problem solving in design and construction. Given the unique nature and history of the building and the high elevation of Leadville, the Tabor Grand required a combination of creativity and risk tolerance in design and construction. For example, the team determined that ice and moisture would be significant threats to the building over time, so they installed a computer system that manages heated panels on the roof to mitigate these factors. The building also had underground tunnels connecting to the basement that needed to be explored and assessed for any complicating factors. The team's ability to anticipate and adapt to challenges like these as they arose were key contributors to the development's success.

Case Study:
The Tabor Grand Hotel Apartments, Leadville

Balancing short-term costs with long-term preservation. The development team had to be creative in balancing preservation goals with the realities of material and construction costs. In many cases, they decided to accept higher costs in return for better long-term performance or better fidelity to the preservation goal. For example, rather than replacing the windows with newer, less expensive models, they opted to refurbish the original windows with double-paned glass to improve energy efficiency. Although this meant three-to-four times more cost than the lowest-cost alternative, the development team felt it achieved a better result. The roof replacement was another example. The existing roof had some life left in it, but did not align with the long-term preservation vision, so it was replaced. To offset these additional costs, Overland and their construction partners found ways to save costs elsewhere. They were able to identify approaches like reducing the number of manlifts and skid loaders to save on costs and ultimately ended up achieving a reasonable balance.

Collaboration with existing tenants. Although the Tabor Grand needed rehabilitation, there were still existing tenants that were inherently impacted by the construction process. To rehabilitate the units, tenants had to be relocated to other parts of the building. The construction team worked in six-unit blocks to move people into new units as they were completed to open previous units for construction. This, combined with a number of vacant units that existed at the start of development, allowed for tenants to remain living in the building during development. According to Overland, the existing residents were fantastic in dealing with the construction disruptions and relocation, and generally enjoyed having a front-row seat to the transformation of their building.

Key lessons for other developers

Effectively partnering and managing construction is critical. Given the unpredictable nature of rehabilitation and historic preservation developments, you must have an unwavering trust in both the companies and the specific people involved in the development. Finding a company that has solid references and a long history of successful projects is important. In addition to successes, it's helpful to ask about an unsuccessful project to learn how they deal with challenges. For example, one construction company involved in this development was part of a well-publicized lawsuit. Investigating the resolution of this challenge and how the company dealt with it helped to build Overland's confidence in the company. Understanding how the company incentivizes its onsite superintendents is also important to ensure they are not creating an environment where corners will be cut at the cost of the development's quality.

Build relationships for long-term success. Overland attributes their success, both in this development and more broadly, to their ability to build long-term relationships with partners, including community stakeholders. Even though they work across multiple states, they often continue working with local partners because they have built trust with them and have learned to work together. This served Overland well in the Tabor Grand development, for example, when they were able to bring in trusted construction partners as consultants to help the development team refine the vision and deliver on the project scope. Understanding and listening to who the development affects, what their needs and desires are, and how you can incorporate them into your process is critical.

Case Study: The Tabor Grand Hotel Apartments, Leadville

Plan for the unexpected in rehabilitation. Due diligence is critical in historic rehabilitation so that you have complete understanding of the site and building. However, there will always be unexpected challenges and problems to solve. You can't plan for everything, so building flexibility into your development plan and budget is important.

Utilize other more experienced developers. According to Overland, affordable housing development—and arguably real estate development in general—is not a traditional industry in which people are afraid of sharing best practices. For example, Overland was supported by Medici and Troy Gladwell, a more experienced developer, on a different project. This was incredibly helpful to achieving that development's success. In other words, think of developers as potential resources and collaborators.

Learn more about the Tabor Grand Hotel Apartments


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chapter 9:

Project Operations and Compliance

Learning Objective:

Users will be able to anticipate the key management tasks they will face after a project is placed in operation.

Overview of key property management tasks after lease-up

Property operations and compliance play a key role in the health, safety, and type of environment residents live in. The property management structure will weigh heavily on the development model, location, resources and capacity, and compliance requirements.

Key property management responsibilities include:

- Security
- Maintenance and repairs
- Budgeting and financials
- Staffing
- Maintaining and utilizing management information systems
- Leasing, tenant selection, and eviction
- Compliance with funding sources, including record keeping for the waitlist, tenants' applications, and income qualifications; performing and working with third-party inspectors; undergoing audits; performing tenant-income verification certifications; noncompliance and retention provisions; adhering to rent increase restrictions; and accounting for utility allowances.

Once you reach the project operations stage, your key partners could include:

- Program compliance officers
- Affordable housing compliance specialists (may be required by the lender or funding source)
- **Rocky Mountain Affordable Housing Managers Association**
- Local municipalities
- Funding entities such as CHFA Asset Management, USDA Asset Management, DOH Asset Management

Roles and responsibilities

Property management functions can be handled in-house or contracted out to a contractor or vendor. When they are contracted out, both the owner and manager need clear written policies and procedures that incorporate all tasks to be performed by each party and identify who performs them. The owner must adopt effective policies so the development will be in compliance long-term. Owners should be aware of the affordability period, rents, and tenant-income requirements. Many funders have tools and products to use as a reference to help you keep your policies and procedures in compliance with their requirements. For example, CHFA offers its **chfareach program**, which provides classes for programs and funding that it administers. Also, **USDA has several handbooks** that cover property management.

When evaluating whether to contract property management, consider your experience managing similar developments within the same geographic area and whether you have the necessary staff. Established professional property management firms may bring proven resources, connections, and management structures, although these options may be more limited in rural or resort areas. Handling duties in-house, however, may be a more cost-efficient approach and the time commitment will vary by development model. Typically, you will have onsite management for five or more multifamily rental units, while you typically will have offsite management for single family, duplex, triplex, or fourplex rental units. Management for scattered-site units is more cost-efficient offsite. Local municipalities may offer supportive asset management compliance programs that offer training tools and resources. For example, the City of Boulder provides an **Asset Management Compliance Program**.

Whether you contract or have internal staff manage the property, you will need to set clear expectations of what the day-to-day tasks and responsibilities of the property manager are. The key activities of property management include:

- Collecting rent
- Developing and maintaining updated policies and procedures that are compliant with applicable funding sources or affordable housing program requirements
- Ensuring property compliance with all applicable regulations
- Maintaining tenant files and property records, including following required or recommended file retention periods
- Providing preventative and routine maintenance and repairs
- Providing appropriate tenant and stakeholder communication and customer service

In addition, property managers should execute all of the above functions in a culturally competent way that promotes inclusivity and racial equity and addresses unique resident needs to enhance their quality of life.

Property management

During the property management selection process, examine the management company's goals and mission. Ideally, the management company you select will have similar goals to your organization. Once you've selected a property management company, work to align your goals and mission. If there are any priorities or housing needs that are not part of the property management company's standard process, give these areas additional focus.

One of your first tasks upon choosing a property management company will be to develop a management agreement. This agreement formalizes specific management and administrative services provided and the fee(s) for those services. The agreement will also detail provisions for termination and conflict resolution.

Also, meet with regulatory agencies to review your lease language and addendums, such as the Violence Against Women Act (VAWA). This is often a requirement if the project is state-funded, but these reviews are helpful regardless. The outcomes should be documented so that you can learn from them and apply those lessons across your portfolio. The asset management teams at CHFA and DOH can help you with questions.

Resident-centered management practices will build strong and transparent relationships between tenants and owners. These practices aim to:

- resolve tenant issues in a timely manner;
- provide strong, quality service while setting appropriate expectations about that service; and
- provide routine and cost-efficient maintenance to maintain high-quality housing.

You or your property management company will establish tenant-selection and eligibility policies and procedures. Based on your mission and funding sources, you will set priorities or preferences on applicants that will be eligible or rank higher in preference for your development. Similarly, you will establish ongoing occupancy requirements that follow any local, state, or federal funding regulations. You will create a lease agreement that may include the following sections:

- Landlord and tenant rights and responsibilities
- Rent or deed restrictions
- Eligibility and occupancy guidelines
- Tenant-selection process

You will also need formal processes for handling grievances and evictions equitably. Property management may offer alternative options that avoid triggering the eviction process. Clearly communicate these alternative options and the eviction process with tenants. Repayment agreements or plans are one alternative that can be proposed. Governor Polis has instructed the Department of Local Affairs (DOLA), Department of Labor and Employment (CDLE), and Department of Regulatory Agencies (DORA) to work with property owners and landlords to create model repayment agreements that allow tenants additional time to repay rent. Landlords and tenants may use DOLA's **Model Repayment Agreement** to agree on a plan for repaying outstanding rent or other contractual amounts in the future. Mediation can also provide alternative solutions to conflict. For example, Boulder offers a Community Mediation and Resolution Center that brings together rental assistance, legal services, and mediation services.

The property management team should follow culturally relevant property management practices, such as establishing a commitment to inclusiveness that recognizes the value in diversity. Examples include ensuring residents have translated materials with culturally and linguistically appropriate content, providing translation assistance, and prioritizing bilingual staff and staff with experience serving special populations.

Utilizing trauma-informed property management practices is also important. Trauma can be triggered by environmental factors, such as a pandemic or natural disaster, or by the experience of systemic oppression. If left unaddressed, these experiences can impede resident, community, and property success. Property management and owners can strengthen their approach to trauma-informed practices by partnering with organizations that provide trauma-related services.

For an example in **designing trauma-resilient communities, see the work of nonprofit Preservation of Affordable Housing (POAH)**.

Financial and asset management

Financial management includes developing an annual budget, maintaining operating and emergency reserves, and maintaining accountability for finances. Asset management includes activities that maintain and enhance a property over its lifetime.

In order to monitor and report on finances, develop an operating budget to identify ongoing expenses and assess risk of operating expense shortfalls. In the planning stages of the process, you made operating budget estimates. You will incorporate and adjust those estimates to form your budget and determine the revenue generation needed to cover expenses. Once the property is operating, you will need to monitor the development's operating expenses on a regular basis and adjust when necessary. Management should strike a balance between returns from property (cash flow), mission of property (services being provided), and scale of property (service model possibilities for project).

Rent collection is one of the key resources to fund operating expenses. An analysis of your pro forma can assist in gauging the impact this revenue source will bring. Management must monitor the rent collection rate on a regular basis and the lease agreement should establish guidelines for the rent collection process. Suggested practices for rent collection include:

- Having a grace period prior to charging a late fee can reduce turnover rates and help set realistic expectations with tenants. Ensure you establish a timeline that meets Colorado law.
- Promoting alternative payment options for tenants, including in-person, mail-in, or drop-off
- Allowing bank or credit card payments

In order to sustain long-term viability of your development, you will be required by certain funders to have operating and replacement reserves to cover unexpected losses over the year. CHFA requires minimum operating reserves equal to at least six months of projected annual operating expenses and six months of debt service payments. CHFA requires replacement reserves to equal $250 per unit annually for developments serving older adults and $300 per unit annually for developments serving families. Those amounts increase by $50 per unit per annum for acquisition/rehab projects. Be sure to check requirements of any funders who have supported your project to ensure ongoing compliance.

In addition, having an existing portfolio of successful properties could provide emergency funding to cover the initial losses or shortfalls from a new development.

Maintenance

You or the property management company will formalize maintenance processes and programming in a maintenance plan for the development. The objective of maintenance planning is to provide residents with responsive, cost-effective, and quality repair and to preserve the life of your development. A maintenance plan also helps set expectations between the developer and property management. The key to carrying out these functions is good planning and organization.

Maintenance programming should include a maintenance staffing plan that is supported by the development budget and based on the development's characteristics. Maintenance staffing should be adequate to cover the routine needs of the property and unanticipated or special projects.

A maintenance work priority system ensures that the most important maintenance work is completed in order of need, considers certain efficiencies, and minimizes vacancy loss, which also helps minimize rental revenue loss. The priority system ensures quality service to tenants and minimizes progressive damage to your development. Priority categories may include:

- emergencies that are threats to life, health, and safety of tenants or the development;
- urgent items that present a potential threat to the health and safety of tenants if not addressed;
- planned and/or preventative maintenance, including daily maintenance of grounds and facilities;
- vacant-unit turnover; and
- routine maintenance services generated by tenant requests or staff observations.

In order to track all the maintenance tasks in your priority categories, you or property management should have a work order system that includes all work request information: description of work, priority category, cost to complete, days to complete, and hours to perform. This information helps plan maintenance tasks and evaluate maintenance performance. To achieve the greatest effectiveness from the work order system, all work requests and activities performed by maintenance staff must be recorded on work orders.

Vacant-unit turnaround requires close coordination between property management and maintenance. It begins when a unit is turned over to maintenance from property management upon tenant move-out and ends when the unit is turned back over from maintenance to property management when the unit is complete and ready for the next tenant, also known as make-ready time. Make-ready time should last no longer than 21 days.

Maintenance should work with property management to develop a plan and schedule for periodic site and unit inspections. Inspections should be conducted in accordance with funder physical inspection standards. It is required to give tenants notice prior to inspecting their units. Schedule for these internal inspections prior to third-party inspections, such as REAC inspections, and consider using their inspection forms as a reference.

A preventative maintenance program includes the regularly scheduled servicing of all equipment and systems. Each system must be identified, have its servicing cycles determined, and then assigned a responsible maintenance staff member to the scheduled inspection and servicing. A ground maintenance schedule should also be established that may include items such as fertilization, mowing, pruning, and mulching. Adapt both maintenance programming and inspections to comply with local and state building codes. A maintenance program can also be used to plan for and respond to natural disasters alongside a business continuity plan.[xxv]

Compliance

Compliance encompasses how your development is meeting agreed-upon funding-source restrictions and requirements. See **Chapter 7: Financial Feasibility**, for discussion of restrictions and requirements associated with funding.

Completing tenant-income qualifications and monitoring rent levels are part of ensuring your development stays in compliance. Developers that use additional funding sources (local, state, and federal) may have income-qualification requirements tied to the ongoing occupancy qualification of tenants. Property management should have a dedicated staff member who is focused on income eligibility and qualifications. This staff member should maintain the minimum set-aside of required affordable units, process tenant income and asset verifications, monitor rent levels and increases for compliance with the rent restrictions, and develop a report format that keeps all compliance information consistently updated.

Local, state, and federal governments publish annual income limits that are useful for determining income-qualifying households. The following are examples of income limits.

- **Affordable Housing Rent Standards**, City of Longmont, CO
- **CHFA Rent and Income Limits**
- **HUD Income Limits**
- **Housing Colorado Property Management & Compliance**

Colorado passed Source of Income antidiscrimination legislation in 2020. Landlords may not discriminate against the source of a tenant's income to pay rent, including Housing Choice Vouchers, when considering a potential tenant's qualifications.

Another element of compliance is maintaining appropriate physical inspection standards based on your funding source. Your maintenance programming should incorporate all physical compliance standards from your funder, such as Uniform Physical Condition Standards (UPCS), to ensure compliance during any necessary third-party physical inspections. See **Maintenance in Chapter 9: Project Operations and Compliance** for more information. You may also want to engage with a third-party inspector specializing in pre-inspections, who inspects your development using the funder-required scoring system to elevate and resolve issues of noncompliance prior to your scored inspection.

Noncompliance may lead to financial ramifications, such as lender parties seeking compensation according to the terms of the initial funding source.

Resident services

Resident services can provide residents a healthier and higher quality of life. Work with housing stakeholders and future residents to understand residents' goals and interests to identify services. Consider your target population to prioritize those services.

Services might include:

- after-school care and/or childcare;
- education;
- health and wellness (health clinics, nutrition classes, case management);
- access to financial services and education;
- community involvement, leadership, and empowerment; and
- transportation.

In order to effectively provide services, thoroughly planning and budgeting those services is key. Depending on what types of services you and your stakeholders prioritize, consider what approach to take in providing those services, such as providing them internally or partnering with one or more service providers. Service providers offer in-depth expertise that can be necessary to support target populations and develop service models that help optimize impact. Once you determine your approach, determine the optimal number of core resident services staff, plan for adequate space if services will be provided onsite, and develop long-term service operating plans and budgets. Costs for services should be included into your operating budget. If your approach requires funding, you may need to plan and execute a fundraising strategy.

Once you are ready to implement that strategy, you will finalize service plans, hire and train staff or engage service partners, and implement services. You will then establish communication policies and procedures with property management. At the initial stages of implementing your service programming, you may want to create systems to track participation, progress, and successful outcomes in addition to setting numeric targets for measuring resident and property-performance success. This will help you review outcomes for program management and stakeholder reporting, including funders. Finally, assess your programs and decide whether to change or adjust your offerings.[xxvi]

Internet access has become a common, essential need in many cases. Developments provide an opportunity to address the digital divide and broadband gap through services such as digital literacy trainings, device access, and hard-wired or Wifi internet connectivity access. Many Internet Service Providers (ISPs) offer special low-cost internet service plans, such as **Comcast Internet Essentials**. Other partners in these efforts may include schools, PHAs, and municipalities. The broadband gap has been found to be higher in rural areas because of less availability and limited-service providers.[xxvii] The State of Colorado has provided funding to increase broadband access to rural communities through a **grant program**.

Transportation services help connect the development to the larger community and provide access to jobs and community amenities. You may want to develop a strategic partnership with local public transit to increase tenants' access to transportation services. If transit-oriented development (TOD) funds were utilized, there may be additional opportunities for partnership development. For example, the Denver Mile High Connects Transit Ambassador program expands residents' knowledge and use of public transit.[xviii] For communities serving older adults or persons with disabilities, ADA-accessible services such as Access-a-Ride are often free and could be another partnership opportunity. For example, the Roaring Fork Transit Authority (RFTA) and the City of Glenwood Springs provide complementary paratransit service for passengers with disabilities who reside within three-fourths of a mile of the "Ride Glenwood" or "The Circulator" fixed-route bus service in Glenwood Springs and Carbondale.

Community spaces, including outdoor spaces, build a sense of community among residents. Community spaces can serve multiple needs and are more than a meeting area; they can bring health, environmental, and social benefits. Community spaces host residential services such as financial workshops, education programs, and community empowerment programming. Community spaces do require additional consideration in the budget, site planning, and ongoing maintenance.

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xxiii. For more information, see LISC's Peer-to-Peer Learning Workbook **Monitoring and Controlling Operating Expenses**

xxiv. For more information, see LISC's Peer-to-Peer Learning Workbook **Collecting the Rent**.

xxv. For more information, see Enterprise Community Partner's Business Continuity Toolkit: **https://businesscontinuity.enterprisecommunity.org/**

xxvi. For more information, see Enterprise Community Partners' **12 Steps to an Effective Resident Services Program**,

xxvii. For more information, see HUD's Addressing the **digital divide and low-income households**

xxviii. For more information, see the National Center for Mobility Management's **Affordable Housing and Transportation**

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CHFA's mission is to strengthen Colorado by investing in affordable housing and community development. We offer loan programs and homebuyer education to support responsible homeownership. We provide loans and allocate tax credits to developers of affordable rental housing, so all Coloradans may have access to a place to call home; and we help business owners access the capital they need to grow and support jobs.

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