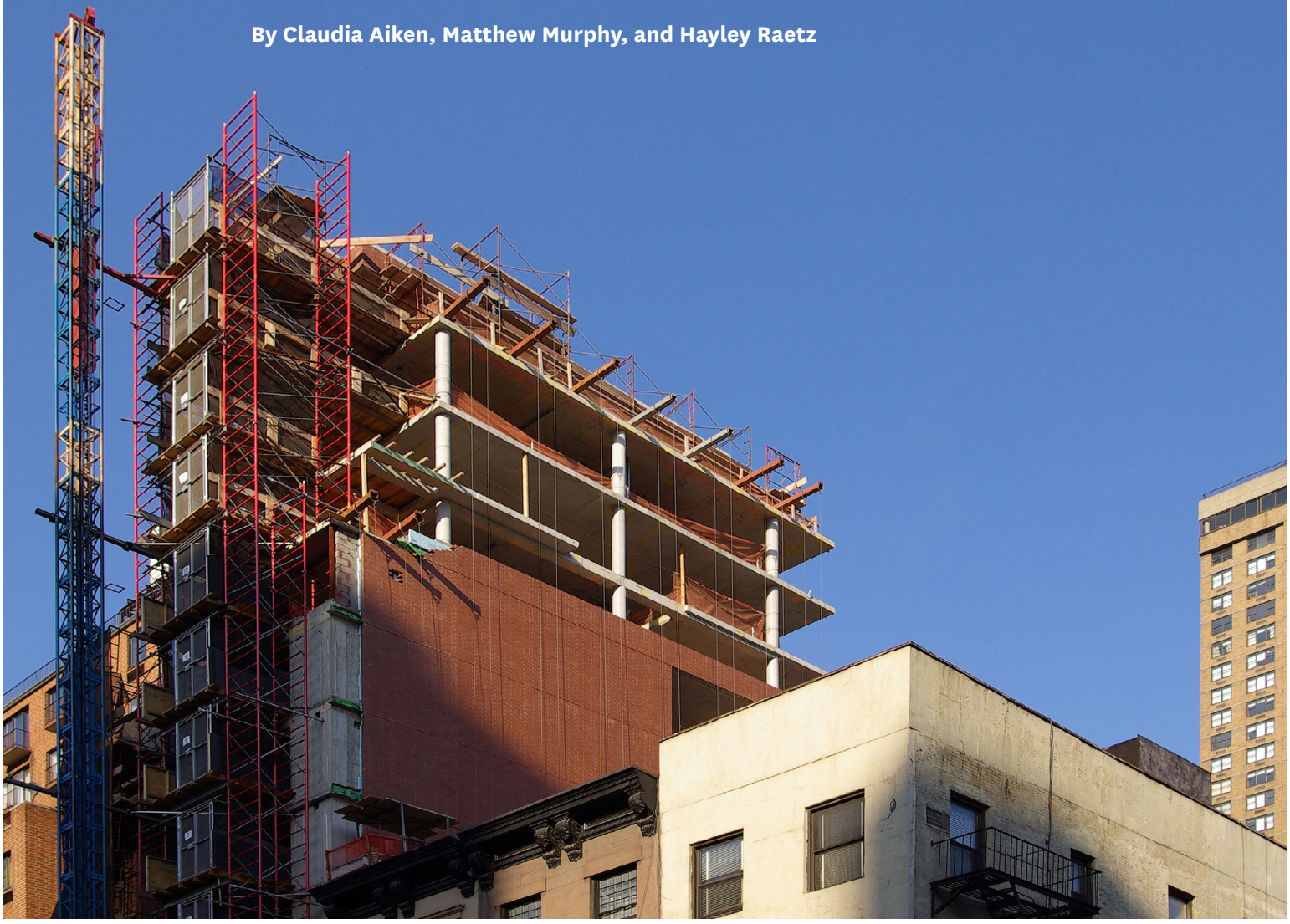
NYU Furman Center

POLICY BRIEF | OCTOBER 2024

# The Emerging Spectrum of Government-Led and Publicly-Owned Housing Development Models

By Claudia Aiken, Matthew Murphy, and Hayley Raetz



NYU Furman Center

# Executive Summary

Amid a national affordable housing shortage, a range of government-led development models are emerging as state and local governments explore more active roles in housing production and ownership. These proposals and models, sometimes termed "social housing," vary widely. In some cases, state and local authorities directly build housing, while in others, they offer low-cost loans, investments, and tax exemptions to build mixed-income housing developments that are ultimately owned in some form by a government entity.

Traditional public housing authorities (PHAs) have faced significant underfunding and operational challenges over time, prompting a contemporary shift toward today's conventional model where public entities finance, regulate, and incentivize low-income housing development that is undertaken by non-profit and for-profit private entities. But in various pockets of the country, there is growing interest in government entities taking a more aggressive role in stimulating housing development, including taking an ownership stake.

This interest grows out of both ideological and pragmatic reasons. However, an expansion of the public's role in this direction raises several key considerations: Can these emerging models actually achieve deep affordability while maintaining high quality over time? How do they balance public ownership goals with financial sustainability? And at what cost? This policy brief examines emerging models of public development and ownership across three main groups, providing insights into their design, benefits, risks, and policy implications.

## Reasons for Renewed Interest in Public Development

State and local governments are revisiting public development for a diverse set of reasons. In some regions, limited capacity among private affordable housing developers has necessitated government action. Other jurisdictions face federal funding constraints and are turning to local resources to fill funding gaps. In addition, among some policymakers there is an increasing interest in creating "decommodified" housing, consisting of affordable, mixed-income communities in which private entities are not able to capitalize on rising land values over time.

## Spectrum of Public Development Models

We broadly categorize the models of public development as follows:

**Group A: Mixed-Income Development with Public Equity Investment**: Public entities use revolving loan funds to finance mixed-income developments, aiming to secure long-term public ownership stakes. These models leverage market-rate rents to cross-subsidize affordable units and appear to be most feasible when built on public land and paired with local investments. Examples include Montgomery County,

Maryland's Housing Production Fund and Atlanta's Urban Development Corporation.

**Group B: Public Housing Conversions:** PHAs use federal programs like Faircloth-to-RAD to redevelop existing public housing and add units. These models retain some form of public ownership and leverage additional subsidies through Section 8 funding to support deeply affordable units. They address capital improvement needs and expand the public housing supply while navigating financing gaps and Faircloth capacity limitations.

**Group C: Fully Affordable Housing Models:** Long-standing models like those in Dakota County, Minnesota, and Idaho's The Housing Company showcase how publicly driven development can sustain long-term affordability with and without relying on the Low-Income Housing Tax Credit (LIHTC). These models use dedicated funding streams and portfolios of smaller properties to cross-subsidize costs, highlighting how specialized entities can focus on affordable housing needs effectively.

## Policy Considerations

Each model presents unique considerations for policymakers:

**1. Balancing Affordability and Financial Viability:** Public developers must balance the goal of creating affordable housing with the need for financial feasibility. Government financial support will always be required in some form, and using revolving funds, tax exemptions, and cross-subsidization models can support affordability while maintaining market viability.

**2. Managing Development Risks:** Public entities face unique risks in real estate development, from market fluctuations to construction and operational challenges. They face these risks both when acting as a developer and as an investor. Strong underwriting capacity, dedicated risk management strategies, and the ability to adapt to market cycles are critical for long-term success.

**3. Leveraging and Maximizing Existing Subsidies:** Alongside any new development efforts, public entities should maximize federal programs (e.g., LIHTC, HUD's Rental Assistance Demonstration (RAD) program, and federal risk sharing programs) to finance any new affordable housing development. Coordinating new and existing tools ensures more comprehensive development and preserves local financial resources.

**4. Responding to Local Contexts and Building Capacity:** The effectiveness of public development still depends on local zoning, construction costs, and market rent levels. Policymakers should build local expertise and adapt to local needs while using resources like publicly owned land or addressing gaps that private or non-profit developers cannot fill.

**5. Ensuring Long-Term Sustainability and Reinvestment:** Long-term sustainability involves planning for the life cycle of properties, including recapitalization for aging systems and quality management. If projects are not underwritten to be financially sustainable, establishing dedicated funding streams may be necessary to ensure proper maintenance over time.

Public development and ownership models offer an additional pathway to increasing affordable housing beyond the conventional toolkit currently available to most places. However, these models also require a detailed assessment of their risks, benefits, operational demands, and the overall cost of such an approach. Balancing affordability with market viability, financial feasibility, and long-term sustainability will be critical as governments explore whether and how to embark on these new roles in housing development.

NYU Furman Center

# Introduction

Following a long and steady decline of federal support for public housing, the landscape of affordable housing in the U.S. has shifted dramatically. Over the past 20 years, the nation's public housing stock has shrunk by 300,000 units.[1]

While Housing Choice Vouchers and units developed through LIHTC have more than replaced those units by count, those programs operate under far different structures and requirements than public housing. Today, with nearly three-quarters of assisted households live in privately owned and operated properties,[2] there is a renewed interest in "social housing," where public entities take an active role in development and ownership of income-restricted housing.

This brief explores emerging models of public development and ownership in the U.S., defined as scenarios where state or local governments act as developers, investors, or long-term owners.[3] We examine the potential benefits, risks, and challenges of these approaches, along with the cost considerations, and offer insights on how policymakers can expand public development to address housing shortages—especially for lower-income households—while ensuring responsible stewardship of public resources.

# Reasons for the Renewed Examination of Public Development and Ownership of Housing

States and localities are examining public development for various reasons. Part of the interest stems from a desire to create housing that can remain affordable in perpetuity by never expiring out of program restrictions, be socioeconomically diverse, and ensure that for-profit entities cannot capture rising land values over time. In some areas, the lack of robust for-profit or non-profit affordable housing developers has led to an increased role for government. In other jurisdictions, a well-established affordable housing sector faces constraints on federal funding allocations, particularly for LIHTC, prompting local strategies to address gaps by exhausting existing resources and identifying new financing approaches to support affordable housing. Additionally, PHAs are using federal programs like Faircloth-to-RAD to renovate existing public housing and expand their stock of affordable units.

1. Collinson, R., Ellen, I. G., & Ludwig, J. (2015). *Low-income housing policy* (Working Paper No. 21071). National Bureau of Economic Research. https://www.nber.org/papers/w21071.

2. Ibid.

3. We define public development and ownership as one or more of the following: 1.) Acts as a real estate developer, or engages closely with development partners (i.e., enters into a partnership or other development agreement), with the end goal of ensuring a degree of public ownership in the project; 2.) Invests significant financial resources in exchange for an active role in the decision-making, development process, and ongoing management of housing, beyond basic regulatory oversight. This includes retaining a full or partial ownership stake in the properties; 3.) Is the long-term owner of the housing or the land on which it is built, maintaining continuous public control and oversight over the properties.

NYU Furman Center

# Theoretical Benefits and Risks of Public Development and Ownership Models

Large-scale examples of long-term residential public developers are limited in the U.S., outside of PHAs, where a history of mismanagement, funding shortfalls, and long-term operational challenges in public housing across the country is well documented.[4] But emerging public development and ownership models differ significantly from America's traditional model of public housing. Limiting comparisons only to that history risks overlooking the emerging models' potential, and also their distinct challenges. Furthermore, while theoretical benefits and trade-offs between public and private developers can be analyzed, it is important to acknowledge that these emerging domestic models have not yet been in place long enough to fully assess their success in maintaining affordability and quality over time, and at what cost.

The potential advantages of a public developer are two-fold. In theory, public development offers a mission-driven approach that would prioritize long-term social benefits over short-term financial gains. Public developers would also have the advantage of leveraging a wider array of resources—public land, favorable financing terms, and regulatory tools—that can be used together to create and preserve affordable housing.

However, these potential benefits also come with significant operational, financial, and political challenges. Public developers will face the same market complexities as their private counterparts, including navigating zoning regulations, securing building approvals, and managing escalating construction costs. The long-term success of these models depends on public developers' ability to efficiently manage operations, adapt to shifting political priorities, and maintain financial sustainability. Public developers will also need to mostly, if not entirely, rely on public sources of funding in order to pay for development, rehabilitation, and perhaps even the operating costs of such developments. The degree depends on a program's design, but public funding in some form will always be necessary in order for public development to operate at scale.

Moreover, managing and maintaining affordable housing requires strong property management, compliance, and tenant service skills, which may not always be a strength of government entities. Aiming for permanent affordability can strain resources over time as rising costs, inconsistent revenue, and funding gaps can make it difficult to sustain both affordability and quality in the long run.

These considerations underscore the need to carefully balance public ownership goals with market realities and financial feasibility. The models explored in this brief range in their structure and approach, offering insights into how public development entities navigate these challenges and potential benefits.

4. Public housing authorities (PHAs) in the United States have historically faced significant challenges related to funding limitations, deferred maintenance, and operational inefficiencies. Decades of federal disinvestment, combined with the complexities of managing large-scale housing portfolios as in NYC and other large cities, have contributed to the deterioration of public housing stock. See: Schwartz, A. F. (2014). *Housing Policy in the United States* (3rd ed.). Routledge. https://doi.org/10.4324/9780203458204.

NYU Furman Center

# The Spectrum of Emerging Public Development and Ownership Models

In a recent report for RIHousing and the Rhode Island Department of Housing, the NYU Furman Center examined types of publicly-driven housing currently in use or recently approved across the U.S., identifying three groups of models:

## Group A: Mixed-Income Development with Public Equity Investment

Public entities use revolving loan funds to finance mixed-income developments, aiming to secure long-term public ownership stakes. These models leverage market-rate rents to cross-subsidize affordable units and appear to be most feasible when built on public land and paired with local investments.

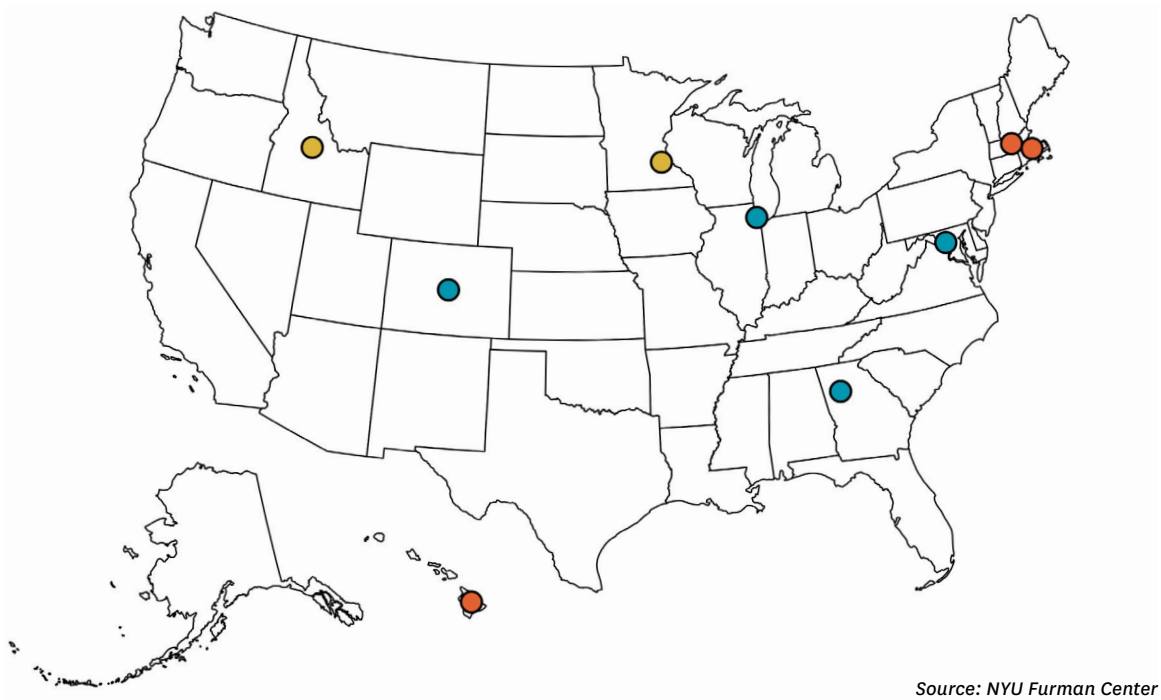
## Group B: Public Housing Conversions

PHAs use federal programs like Faircloth-to-RAD to redevelop existing public housing and add units. These models retain some form of public ownership and leverage additional subsidies through Section 8 funding to support deeply affordable units. They address capital improvement needs and expand the public housing supply while navigating financing gaps and Faircloth capacity limitations.

## Group C: Fully Affordable Housing Models

Long-standing models like those in Dakota County, MN, and Idaho's The Housing Company showcase how publicly driven development can sustain long-term affordability with and without relying

**Public Developer Models Across the U.S.**




*Source: NYU Furman Center*

on LIHTC. These models use dedicated funding streams and portfolios of smaller properties to cross-subsidize costs, highlighting how specialized entities can focus on affordable housing needs effectively.

Below, we outline those models, take a closer look at the financing structure behind actualized projects, and share key policy considerations and takeaways from each.

## Group A: Mixed-Income Development with Public Equity Investment

*Examples:*

- Montgomery County, Maryland's Housing Production Fund (HPF)
- Atlanta Urban Development Corporation (AUD)
- Chicago's Green Social Housing Revolving Fund
- Colorado's Affordable Housing Financing Fund

*Summary: Models like those in Montgomery County, MD; Atlanta, GA; and Chicago, IL use revolving loan funds to finance a portion of the construction of mixed-income housing developments, where both market-rate and affordable units are built together. These government-backed funds offer financing that is lower cost than what private lenders would provide given the risks involved. In return, the government often secures an ownership stake. Unlike traditional affordable housing that is often 100 percent income-restricted to low-income households, these developments rely on market-rate units to help subsidize the affordable ones, which usually serve households earning 50-80 percent of the area's median income (AMI). While these funds are designed to be self-sustaining, the below-market interest rates they offer (relative to what private investors would expect) may require ongoing subsidies or support to maintain financial viability over time.*

Group A models invest, or intend to invest, public funds that take the place of private equity in the construction financing for large, mixed-income developments, and in turn secure a public ownership stake in these projects that goes beyond basic regulatory oversight of privately owned affordable housing. Many make this investment in part using a revolving loan fund. In these examples, a revolving loan fund is a pool of capital from which loans with favorable terms are made as one of several construction financing sources of housing developments. Once these loans are repaid after the construction phase, the funds are "revolved" back into that same pool in order to sustain its operations, theoretically making them available for other projects. An exception is Colorado, where there is less pressure for the state's investment to revolve, because its Affordable Housing Financing Fund (AHFF) is supported by a dedicated funding stream (a 0.1% state income tax set-aside). In the case of Colorado, to the extent there are any returns to the state's equity investment, those returns would be distributed to tenants in the new buildings as part of a program to promote renter wealth-building.

In Montgomery County, MD and Atlanta, GA, revolving loan funds are seeded with public capital and are used to make short-term (5-year) construction loans. These loans are designed to replace higher-cost market-financing, complementing conventional construction loans to complete the capital stack required for housing development.[5] Because these revolving loan funds are publicly-controlled, they offer financing at lower interest rates compared to the private market. Similar to mezzanine financing, these revolving funds provide construction financing that is subordinate to senior construction loans. Funds like these can

5. A capital stack is the structure of the various financing sources used to fund a real estate project, and typically includes a combination of equity and debt. The stack determines who will receive the income and profits generated by the development and in what order (usually, senior debt lenders are paid first, followed by mezzanine debt or a "second" mortgage, then private equity). Each layer of the stack carries different levels of risk and return; senior debt is the least risky and therefore has the lowest return, while equity is the riskiest and demands the highest return. Often, a project has one set of loans with terms of 3-5 years specifically to finance the construction phase, followed by a permanent loan phase upon a project's completion.

participate as a hybrid of debt and equity, or as direct equity investments, but with the feature of accepting lower financial returns than private market investors due to their public-oriented goals.[6]

In a hybrid development structure that combines public and private financing, the government investment might grant varying degrees of ownership or control. In some cases, the public entity may gain a direct ownership stake, while in others, it may have more limited influence, primarily receiving financial returns or using that stake to prioritize social outcomes. In Montgomery County, Housing Production Fund (HPF) loans are made with interest rates that are significantly lower than those expected by private equity investors given the riskiness of the investment, which again reflects the public-oriented goals of the investment.[7] When offering loans, the public entity must consider the potential risk of the investment, including potential losses if the project fails to meet performance expectations. Because the revolving loan is expected to be "taken out" (the principal balance owed is repaid) by other forms of private or public capital when a project converts to permanent financing,[8] its main function is to help overcome the hurdle of construction financing (whether due to the cost of capital or the lack of available capital altogether).

***What Distinguishes Group A Models***

It is important to note that a local government or HFA providing low interest loans that subsidize the development of affordable housing is not new. In fact, such subsidized loans, which are often subordinated to more senior public or private loans, are commonplace in 100 percent affordable housing development. What is unique about the relatively new HPF fund, which was created in March 2021, is that it creates an ownership stake for the local government entity (in combination with other public financing tools). To establish the HPF, the county's PHA, called the Housing Opportunities Commission (HOC), issued a $50 million bond, with the County Council agreeing to fund the principal and interest payments.[9] The Council approved a second issuance of an additional $50 million in May 2022 for a total of $100 million raised through the sale of bonds. Each of the two $50 million fund tranches is expected to fund two projects at a time and revolve every five years. One of the first projects to receive an HPF construction loan paid interest on that loan at a rate of 3.5 percent; that interest accrued during the construction term and was repaid to the county, along with principal, at permanent loan closing (the proceeds of which came with a 40-year, instead of a traditional 30-year loan term). Going forward, the HOC estimates that the HPF will cover a total of $250 million in construction loans, funding approximately 3,000 units over the first 20 years. The HOC will indefinitely retain majority ownership in these units. The bond issuance is expected to be fully repaid

6. See footnote 5. In these cases, the entity might not act as a typical equity investor in that their primary goal is to achieve positive social outcomes. In the case of affordable housing with market rate units included, they might seek lower than market rate returns or to translate dividends back into building operations and/or other development activities. The key distinction is that the investor is not also acting as the mortgage lender.

7. Underwriting documents suggested that the interest rate on HPF construction loans ranges 3.5 and 5 percent (with the higher rate assumed during the recent high inflation period), a rate significantly below what mezzanine debt would cost.

8. Permanent financing is long-term, fixed financing that replaces short-term or interim financing, which in this case is the construction loan. It is typically used to finance a property after it has been developed, providing a stable source of funding with set repayment terms over a longer period. Spreading out payments over a longer term reduces shorter term debt repayments, and is structured to ensure the property's long-term viability.

9. The HOC calculates that in exchange for issuing a low-cost triple-A municipal bond for $50 million, the County might pay about $4.25 million per year in today's high-interest environment. But the fund revolves at no cost after 20 years, and in the meantime, the HOC earns a 5 percent development fee on each project–totaling to about $2.5 million per year–which it repays to the County. This means that the HPF may cost the County as little as $1.75 million per year.

through a combination of project proceeds and any additional equity investments within this period, after which they anticipate that the fund will revolve with no additional costs.[10]

### *How Projects Are Identified*

We observe at least two approaches Group A models use to identify viable projects. The first is to enter a development project that has already secured permits, but has stalled due to lack of financing (such as due to a lack of affordable financing). Montgomery County has used this approach, where the public entity offers HPF financing to stalled sites that are relatively far along in their pre-development in exchange for affordable housing commitments. The result is a simultaneous fast-tracking of multifamily mixed-income development as well as securing affordable unit inclusion. Similarly, developers must already have site control when they apply for an equity investment through Colorado's AHFF, and are expected to close within a year of receiving an equity award.

The second approach is to develop a strategy for building mixed-income housing on public land. For instance, Chicago, IL, is exploring the potential for mixed-income development on sites that will open up during the course of the Red and Purple Modernization, the largest capital project in the Chicago Transit Authority's history. This approach allows the public entity to manage projects from their inception. Montgomery County has also leveraged public land in some of their projects, although they are also planning a project on land they purchased at a market rate price.

### *How Projects Are Financed*

It is important to note that the revolving loan funds described are not designed to fully cover total development costs – they cover a portion of the total by filling a financing gap that exists after a conventional construction loan is secured. On the private market, this subordinated position is a riskier loan to make, as it is typically repaid after the senior debt, increasing the likelihood of losses if a project underperforms or defaults. These public entities accept this riskier position to support the development of mixed-income housing, aiming to achieve affordability goals that may not be met through private financing alone.

Group A models also rely on a package of public resources beyond the revolving loan fund. The HOC of Montgomery County is both a PHA and an HFA, and has discretion to provide low-cost capital, tax-exempt and taxable bond financing (including recycled tax-exempt bonds[11]), property tax exemptions, discounted land, and a county-run property insurance program. The HOC also already has two lines of credit with a local bank in an aggregate amount of $210 million, which theoretically allows it to act nimbly as a joint venture developer and/or lender, with more flexibility than comparable entities.[12] For example, in the case of the aforementioned HPF-financed deal, the project was able to call upon a full property tax exemption, a 40-year permanent mortgage

10. Housing Opportunities Commission of Montgomery County, MD. (2024). Adopted Budget Book, p.147. https://www.hocmc.org/images/files/Publications/FY_2024_Adopted_Budget_Book.pdf.

11. Recycled tax-exempt bonds are a source of capital for affordable housing development. Such bonds reuse repaid or refinanced private activity bonds to finance new multifamily affordable housing projects. While the original use of the bonds generate Low Income Housing Tax Credits (LIHTCs), recycled bonds do not produce additional LIHTC equity. While the LIHTC portion is stripped upon recycling, in order to avoid additional federal allocation costs, the recycling allowance does extend the life of the bonds, providing financing for new projects without needing new volume cap allocation. Orrick, Herrington & Sutcliffe LLP. (2024). *Tax-exempt bond financing for middle-income housing*. https://www.orrick.com/en/Insights/2024/01/Tax-Exempt-Bond-Financing-for-Middle-Income-Housing; California Housing Finance Agency. (2019). Presentation on the New York City Housing Development Corporation and the use of Recycled Private Activity Bonds. https://www.calhfa.ca.gov/about/events/board-meetings/books/2019/20191219/20191219-handout-1.pdf.

12. Housing Opportunities Commission of Montgomery County, MD. (2023). "New Issue: Multiple Purpose Bonds, 2023 Series C." *Bond Prospectus*, October 19, 2023, p.8. https://prospectus.bondtraderpro.com/$MDHSG23.PDF.

loan (with default risk shared with the Federal Housing Administration through a risk-sharing program made available to HFAs[13]), cross-subsidy from market-rate rentals (70 percent of all apartments are market-rate), and a separate equity investment from the HOC itself. In the case of Atlanta, the AUD operates as a subsidiary of the city's PHA, Atlanta Housing. Georgia law allows PHAs and their subsidiaries to grant tax exemptions. The AUD also relies on public land, funding, and debt guarantees from the City of Atlanta, and underwriting and development capacity from the city's economic development agency, as well as FHA risk-share loans for permanent financing.

Finally, unlike traditional public housing or fully affordable developments, Group A models produce mixed-income housing, with most units priced at market rates. To reduce the need for ongoing subsidies, these models expect to rely on revenue from market-rate rents to subsidize the affordable units, typically targeted to households earning 50-80 percent of the Area Median Income (AMI). These projects are usually larger in scale, often with hundreds of units, compared to the typical size of LIHTC developments in many regions.

### *Considerations for Adoption of Group A Models*

Adopting Group A models requires careful consideration of both market conditions and financial feasibility. On the demand side, market-rate rents must generate enough income to cross-subsidize affordable units targeted at households earning 50-80 percent of the AMI. On the supply side, development costs—such as land acquisition, construction, and labor—must remain manageable to keep the project viable, even when leveraging public subsidies. If costs are too high or market rents are insufficient, the model may struggle to be financially feasible without additional support.

Group A's cross-subsidization strategy works best when paired with publicly owned land and investment, particularly for creating "workforce housing" rather than addressing the need for the most deeply affordable units. In this respect, Group A models can complement an overall strategy that maximizes the use of LIHTC by focusing on affordability gaps for moderate-income households and offering rental options for voucher-holders who may face challenges in the private market.

Proponents also argue that Group A models have the potential to produce returns through rental income and property value appreciation—which could be reinvested in affordable housing. But this can create a certain tension. Capitalizing on property value growth can conflict with maintaining long-term affordability, and decisions on how returns are used—whether reinvested into the development or distributed to stakeholders—depend on the model's structure.

Finally, operational capacity and expertise are critical to the successful adoption of Group A models. Public entities must manage all stages of development, including underwriting, financing, construction, and long-term asset management. Entities like Montgomery County's HOC, with a history of public-private partnerships, illustrate the need for strong development expertise and strategic decision-making. Additionally, determining which aspects of the development process to outsource—such as architectural design, construction, and project management—requires careful consideration of costs and skills needed.

13. U.S. Department of Housing and Urban Development. (2023). *FHA Risk Sharing Program for Multifamily Housing: Section 542(c).* https://www.hud.gov/program_offices/housing/mfh/progdesc/riskshare542c. The FHA Risk Sharing Program allows eligible housing finance agencies (HFAs) to partner with the Federal Housing Administration (FHA) to provide affordable financing for multifamily housing. Under this program, the HFA and FHA share in the risk of potential losses on the mortgage, with the HFA assuming a portion of the risk in return for more flexible underwriting and loan terms, aiming to facilitate the development and preservation of affordable housing through attractive, lower-cost financing options.

***Broad Policy Considerations Group A Models Present***

Several policy considerations arise from the structure and goals of Group A models, which leverage public funds to secure ownership stakes in mixed-income developments:

***Balancing Rents and Affordability.*** To support affordable units, these models partially rely on market rents that can raise sufficient revenue to fund the upkeep of affordable units and the building overall. If the model is designed to sustain a revolving fund, the revenue may need to exceed costs to the extent that it can replenish the fund for future projects. A key aspect of these models is balancing revenue brought in via market rents against development and operations costs and the depth and breadth of affordability. For this reason, these models are often designed to provide "workforce housing" for households earning higher incomes than those typically targeted by LIHTC development. In addition, these properties also typically combine tools, such as public land and property tax exemptions, to lower costs. Even with these tools, however, these models typically need higher market rents to make a project "pencil out," and, for that reason, may be limited to the highest cost markets in a region.

***Managing Development Risks.*** By taking a more active role in the development of a new project as an equity investor, public entities open themselves up to additional risk involved in developing and owning a property. For example, the public entity takes on additional responsibility in terms of the property design and construction, as well as moving the project from the conception stage, through securing financing and the permitting process, all the way to construction and ensuring lease up. Each of these steps involves risk, time, and expertise. While entities can partner with a developer to gain some of that expertise, they will still need to ensure that they are well-aligned in terms of project goals and mission. However, in these models, the trade-off of additional development risk is a long-term ownership stake in housing.

***Navigating Construction and Market Risks.*** While the primary goal of such funds is to provide lower-cost capital to support affordable housing development, public entities still face substantial risks similar to those encountered in private lending, investing, and building. Offering financing at reduced rates means that these entities assume financial risk without the compensation of higher interest returns (and instead focus on affordability). As a result, public entities must exercise careful underwriting and risk assessment, as they could face challenges if a project underperforms or revenues fall short of covering costs. Additionally, public entities would be responsible for managing unforeseen circumstances, such as economic downturns that affect rental income or unexpected maintenance costs from events like severe weather. To mitigate these risks, public entities need robust risk management strategies, ensuring that the potential benefits—the creation of affordable housing units and public ownership stakes—outweigh the financial risks involved.

These models also demand strong underwriting and development capacity within the public sector to manage the financial exposure effectively. To be successful, they will demand a competitive approach. To be competitive, public entities must be able to adapt quickly to changing market conditions and respond to pressures from private developers.

***Result in large-scale development that includes affordable units in neighborhoods with higher housing costs.*** Group A models work best in more expensive neighborhoods, where market rents can subsidize affordable units. Group A models are designed to produce larger scale projects without federal tax credits.

Building mixed-income housing increases the overall housing supply and can produce a significant number of new affordable units, even if only a proportion of the units are designated as such. This approach provides low-income households access to high-opportunity areas they might not otherwise be able to afford and where it is more difficult to make 100 percent affordable housing deals financially feasible.

***Require additional public financing and regulatory tools beyond a revolving loan fund.*** Beyond revolving loan funds, Group A models rely on a variety of public tools to support development, including using recycled tax-exempt bonds, property tax exemptions, and public land. The ability to coordinate these resources effectively is key to enhancing project feasibility and ensuring the revolving nature of the loan fund.

## Group B: Public Housing Conversions

*Examples:*

- Boston Housing Authority
- Cambridge Housing Authority
- Hawaii Public Housing Authority

*Summary: Public housing authorities like those in Boston, MA; Cambridge, MA; and Hawaii are leveraging programs like Faircloth-to-RAD to expand their portfolios by redeveloping existing public housing units and adding new ones while retaining a public ownership stake. These models use federal and local subsidies to renovate or rebuild housing, often adding deeply affordable units and, in some cases, market-rate units to cross-subsidize rent-restricted units.*

The second set of models, Group B models, involves the redevelopment and expansion of existing public housing. Using federal and other subsidies, Boston, Cambridge, and Hawaii's public housing authorities aim to preserve or replace existing affordable units, add additional deeply affordable units, and in some cases add market-rate units to cross-subsidize rent-restricted units.

### *What Distinguishes Group B Models*

Unlike Group A models, which focus on creating new mixed-income developments, Group B models are centered on revitalizing and expanding existing public housing. Importantly, the models in Group B all leverage Faircloth-to-RAD conversions.[14] Faircloth-to-RAD allows PHAs to build new public housing units and immediately convert them to units funded with Project-Based Section 8 contracts. The conversion to Project-Based Section 8 funding contracts enables PHAs to access a higher per-unit subsidy than the operating and capital funds typically available to public housing. This subsidy, tied to the tenant's income, ensures that rent is capped at 30 percent of the household income, and any shortfall between the rent paid by tenants and the operating costs of the property is covered by the subsidy. However, it's important to note that these subsidies come from a limited federal funding pool, and their availability can be subject to annual budget constraints and allocation processes. The enhanced subsidy structure can make the development or redevelopment of affordable housing more financially feasible, providing a deeper and more predictable revenue stream to support operations, services, and debt service payments on any financing used for the development. In the models we examined,

14. The Faircloth Amendment prohibited the construction of any new public housing beyond the number of units PHAs owned as of October 1, 1999. Many PHAs have since de-densified their public housing stock through HOPE VI and other programs, and so are below their "Faircloth Limit." Faircloth-to-RAD allows these authorities to convert their unbuilt Section 9 public housing units into Section 8 Project-Based Vouchers. In 2021, HUD first offered guidance for Faircloth-to-RAD conversions. Faircloth-to-RAD builds on the Rental Assistance Demonstration (RAD) Program, which was created in 2011 to enable PHAs to preserve and improve their public housing by converting it from Section 9 to project-based Section 8. Section 8 contracts are stable, predictable, and can unlock opportunities to increase the subsidy the federal government pays for the unit relative to public housing operating subsidies, though there are limits on when those opportunities are available. PHAs use this margin to reinvest in their public housing stock. Faircloth-to-RAD uses the same model to enable housing authorities to build *new* units.

PHAs used or anticipated using Faircloth-to-RAD to add new units as part of redeveloping existing public housing sites. They also intended to retain an ownership stake in and management responsibility for these units, though that is not a requirement of the Faircloth-to-RAD program.

### *Considerations for Adoption of Group B Models*

Faircloth-to-RAD comes with several caveats that PHAs must navigate. First, PHAs can only harness this tool to build up to the number of units they owned or operated as of 1999 (their "Faircloth limit"); some PHAs have much less Faircloth capacity than others. Second, although PHAs can better leverage Section 8 Project-Based Vouchers to attract other private or public financing for development, Faircloth-to-RAD typically still leaves a financing gap. The PHAs we include in our scan are finding different ways to address this gap. The Boston Housing Authority, as a non-Moving to Work (MTW) authority that has implemented Small Area Fair Market Rents (SAFMRs),[15] has a special ability to increase RAD rents to their small area payment standards, creating a deeper level of ongoing federal subsidy in high-rent ZIP Codes. The Cambridge Housing Authority, on the other hand, is an MTW authority, and so does not have the ability to implement SAFMRS. Instead, the Cambridge Housing Authority must combine Faircloth-to-RAD with LIHTC financing in order to make new development financially feasible.

In these models, a PHA's capacity, experience, and reputation as a developer or development partner is critical. The Boston Housing Authority's strong in-house development capacity has allowed them to successfully partner with private developers in large-scale public redevelopment projects. The Cambridge Housing Authority has gained so much development expertise that it acts as a development and preservation consultant to at least two other Massachusetts housing authorities.

### *Broad Policy Considerations Group B Models Present*

We find that Group B models, which use programs like Faircloth-to-RAD to leverage existing public housing authorities to add affordable units:

***Result in much-needed improvements to existing public housing.*** Group B models take advantage of the statutory powers retained by PHAs in order to improve the quality of existing public housing, which serves very low-income and vulnerable households. In addition, they expand the supply of these deeply affordable units, opening up new opportunities for households that would otherwise struggle to pay rent on the open market.

***Depend on Faircloth capacity.*** To develop housing under Faircloth-to-RAD, a PHA must have a gap between the number of public units that they owned or operated in 1999 and the current number of public housing units in their portfolio. This "Faircloth capacity" can then be filled via the creation of new public units. However, not all PHAs have Faircloth capacity.

***Typically require additional public investment (in the form of tax credits and other sources).*** Even after converting public housing to Section 8 Project-Based Vouchers under Faircloth-to-RAD, PHAs are typically faced with a financing gap. This gap can be filled in a variety of

15. Moving to Work (MTW) is a demonstration program for PHAs that gives participating agencies the opportunity to design and test new strategies. It exempts from many existing public housing and voucher rules and allows greater flexibility with how they use their federal funds. Small Area Fair Market Rents (SAFMRs) are payment standards for Section 8 Voucher holders that are calculated at the ZIP Code level, rather than at the level of the entire metropolitan area. SAFMRs are designed to allow voucher holders to access high-cost neighborhoods by increasing the amount a PHA can pay in those neighborhoods. HUD permits non-MTW agencies to augment Faircloth-to-RAD rents in certain scenarios, including in ZIP Codes where 90 percent of the SAFMR is more than 110 percent of the metropolitan area FMR.

ways. For example, PHAs that have implemented SAFMRs can leverage the deeper subsidy provided by small area rents in more expensive neighborhoods. While MTW PHAs are not eligible for SAFMRs, their MTW designation does give them greater flexibility to shift funds between programs, including using LIHTC financing to fill the gap in Faircloth-to-RAD projects.

### Group C: Affordable Housing (No Market-Rate Units)

*Examples:*

- Dakota County, Minnesota's Community Development Agency (CDA)
- Idaho's The Housing Company (THC)

*Summary: Established public or quasi-public models showcase long-term public development and ownership with and without federal tax credits.*

While Groups A and B include emerging models, there are longer-standing models of public development and ownership in the U.S. One example is the Dakota County CDA in Minnesota, which has developed relatively small, 100 percent affordable buildings housing seniors without using federal tax credits since the 1980s. Minnesota state statute allows the CDA to issue tax-exempt "essential function" bonds, which are credit-enhanced with a general obligations pledge from Dakota County, to finance new senior housing developments. Each new bond issuance is amended to join one, large common bond, which allows the CDA to pool revenue from across its developments to service the debt.[16] It is important to note that Dakota County CDA's approach is successful partly because of its large portfolio, which helps support the model. Aggregating all operating revenue and costs also allows the CDA to allocate the cost of major repairs, such as new roofs, windows, and siding, over time—an approach that is increasingly important as its earlier projects reach thirty and forty years of age. Importantly, in addition to its rent revenue, the CDA relies on a special property tax levy authorized by the Minnesota legislature in 1999 to service a portion of the bond debt.

Moreover, because the CDA does not use any LIHTC financing for its senior housing program, it has more freedom to design its projects without more expensive amenities such as dishwashers, in-unit washers, or large common spaces. These construction cost savings are passed along in the form of more deeply affordable rents. According to the CDA, it has not experienced any lack of demand for its units despite the absence of such amenities, but it is not clear whether the same would be true in buildings aimed at families.

Another long-standing model in Idaho highlights the importance of developing a strategy to avoid cannibalizing existing funding streams for affordable housing. The state's HFA, the Idaho Housing and Finance Company, created a nonprofit called The Housing Company (THC) in 1992, when there was little competition for the state's LIHTC allocation. As evidence of how public development entities can grow and evolve, THC has since become a relatively large affordable housing developer, producing units all over the state and, like the Dakota County CDA, uses this large portfolio to leverage investment into new developments.

16. In New York City, a similar model is employed by the New York City Housing Development Corporation (HDC). HDC uses its Open Resolution, established in 1993, to issue bonds under a single, overarching framework. This allows for cross-collateralization and pooling of revenue streams across multiple developments, which enhances HDC's ability to manage financial risk, stabilize cash flow, and draw from a larger pool of resources to fund repairs and improvements. A key difference, however, is that HDC is not a direct owner of property, instead acting as a direct lender. New York City Housing Development Corporation. (2024, June 17). *Official Statement: Open Resolution Bonds*. https://www.nychdc.com/sites/default/files/2024-06/2024BC%20OS_06172024.pdf.

### *Considerations for Adoption of Group C Models*

THC was founded to fill a gap in developers positioned to build affordable housing via the LIHTC program. However, THC must now perform a careful balancing act. On the one hand, because it competes with other nonprofits for the state's allocation of tax credits, it must be seen as not benefiting from the HFA's favoritism. On the other hand, its expertise and public mission have made it an attractive way to funnel non-LIHTC financing, including Idaho's American Rescue Plan Act (ARPA) funds, into affordable housing. Such a model runs the risk of raising concerns in the local development community about creating additional competition for tax credits, as well as preferential treatment for the government agency. As such, this model is designed to address a recognized shortfall in affordable housing development capacity. The CDA models one way to alleviate concerns about limited tax credits or other forms of funding, by drawing on a separate dedicated funding source (via a tax levy) and using their bonding authority to finance affordable projects.

This model would also face significant financial barriers in high-cost markets, where development expenses are much higher. In such areas, the per-unit costs for building affordable housing can be substantially greater than in lower-cost regions, especially when models cannot leverage LIHTC. Without LIHTC equity, which reduces the funding gap by providing substantial federal subsidies, public entities will need to allocate significantly more local or state resources to finance the development. This could make the model less viable or require substantial subsidies that may be difficult to sustain over time, ultimately limiting the model's scalability in high-cost environments. If public entities focus on smaller-scale, less expensive projects, these challenges may be mitigated. However, this tradeoff might not be one that entities in higher-cost regions would be willing to make in order to achieve the broader goals of expanding affordable housing in high-demand areas and promoting desegregation at a larger scale.

### *Broad Policy Considerations and Lessons Learned from Group C Models*

Our analysis finds that Group C models, which showcase long-term, fully affordable development with and without federal tax credits:

***Create smaller, fully affordable buildings, which may be more politically and financially feasible in certain localities.*** Dakota County's model focuses on smaller properties (often around 60 units), which can be more politically palatable than larger-scale developments, given that they might not require zoning amendments.

***Highlight the value of a large portfolio of units, which can be used to allocate the cost of financing, management, and repairs over time.*** Both models in Group C benefit from a large number of properties developed over many years, which can help cross-subsidize operating and maintenance costs.

***Benefit from specialized entities equipped to focus on affordable housing needs.*** The CDA and THC models illustrate the advantages of having a dedicated entity, such as a nonprofit, to manage affordable housing development and operations. This specialization allows them to build and maintain affordable housing effectively, bringing deep expertise to financing, regulatory, and property management decisions. It also ensures mission alignment and allows these entities to be more responsive to the specific needs of affordable housing markets, ultimately contributing to long-term sustainability and affordability.

NYU Furman Center

## New York Context: PACT and the Preservation Trust

Recently, the New York City Housing Authority (NYCHA) implemented two models to finance the renovation and modernization of existing public housing units: the Permanent Affordability Commitment Together (PACT) program and the Public Housing Preservation Trust (the Trust). Under both programs, NYCHA retains ownership of the public properties and land while unlocking new sources of subsidy and financing. As of 2022, residents in select NYCHA developments can vote to remain in Section 9 (public housing), convert to Section 8 Project-Based Vouchers via the PACT program, or convert to Section 8 under the Trust.[17]

Unlike the rest of the models in this paper, these new models were designed with a focus on preservation rather than new development. However, the PACT program has already led to one project that includes new mixed-income units.[18] The PACT program converts public housing units to Project-Based Section 8 via the Federal Rental Assistance Demonstration (RAD), unlocking public and private financing options that would otherwise be inaccessible to NYCHA, including bond financing through the New York City Housing Development Corporation (HDC). PACT relies on partnerships with private for profit and non-profit developers, who lease properties from NYCHA and take on responsibility for property management.[19] As a result, PACT properties are removed from the purview of a federal monitor that manages a 2019 settlement with NYCHA, which has raised concerns about a loss of oversight and transparency.[20] However, they remain subject to HUD's Project-Based Section 8 regulations. Residents do have the option, a year after the conversion, to apply for a portable voucher and use that voucher to move to another property.

The Trust, a state-created public entity known as a public benefit corporation, enables NYCHA to access funding for renovations via bond issuances. The legislation that created the Trust gave the entity flexibility to employ alternative project delivery methods, such as construction manager build, construction manager at risk, and design-build contracts, with the goal of expediting and modernizing rehabilitation work. The Trust uses third parties to conduct facility work and manage the property; however, under the Trust, properties are not leased to a third party, unlike in the PACT program.

Under both PACT and the Trust, tenants retain existing protections. Rents are capped at 30 percent of household income. Tenants also retain succession rights and the right to organize, and future tenancy is restricted to low-income households and pulled from NYCHA waitlists.[21]

17. New York City Housing Authority. (2023). *Residents Vote*. https://www.nyc.gov/site/nycha/residents/voting.page.

18. The redevelopment of the Fulton and Elliot-Chelsea Houses under the PACT program is slated to demolish and replace the 2,056 existing NYCHA units at the campus, as well as add approximately 3,500 new mixed income units (including an estimated 875 new affordable units). New York City Housing Authority. (2024). *Fulton and Elliot-Chelsea Houses.* https://www.fultonelliottchelsea.com/home.

19. New York City Housing Authority. *Permanent Affordability Commitment Together (PACT)*. https://www.nyc.gov/site/nycha/about/pact.page.

20. Human Rights Watch. (2022, January 27). *"The Tenant Never Wins": Private Takeover of Public Housing Puts Rights at Risk in New York City*. https://www.hrw.org/report/2022/01/27/tenant-never-wins/private-takeover-public-housing-puts-rights-risk-new-york-city#.

21. New York City Housing Authority. (2022). *Public Housing Preservation Trust*. https://www.nyc.gov/site/nycha/about/public-housing-preservation-trust.page, New York City Housing Authority. *Permanent Affordability Commitment Together (PACT)*. https://www.nyc.gov/site/nycha/about/pact.page

NYU Furman Center

# The Economics of Public Development: Resources Needed to Close the Financial Gap

To explore the financial pathways and obstacles to developing affordable housing beyond the prevailing method of using LIHTC equity, we worked with affordable housing finance experts at Forsyth Street Advisors to build a simple model of a hypothetical multifamily rental project in Rhode Island, the area of focus for our recent report.[22] This analysis aims to shed light on the financing needs for a prospective mixed-income project, as well as the potential impact of various financing and regulatory tools commonly used by the public development entities we studied.[23]

Regardless of where the funding comes from, public development and ownership models will need more state and local funding per unit as compared to deals that include LIHTC funding, because they cannot leverage LIHTC equity (a cost which ultimately the federal government absorbs). In sum, because the construction costs of development do not change solely because a public development entity is involved, to see affordable housing built, local and state governments would need to bridge the financing gap that would typically be covered by LIHTC funding using local funds.

The full workbook used in the analysis below is available for download on our website, localhousingsolutions.org:

**ACCESS THE FINANCIAL WORKBOOK**

22. The Rhode Island context is, of course, specific and this analysis and its findings are not representative of every development context. As we highlight in our report, much of Rhode Island has comparatively low rents and high construction costs, for example. However, specifying a location allows for the collection of the data needed to identify the assumptions in a pro forma financial analysis. To conduct this analysis with different assumptions, please use the financial workbook linked above.

23. Although this brief is focused on public development and ownership, the economics of this model hold regardless of whether the development is owned and developed by a public, nonprofit, or for-profit entity. It is also important to note that this model is simplified, and cannot substitute for a full financial analysis of a project. See Appendix A for more details on the model assumptions.

NYU Furman Center

## Baseline Case

To understand how different combinations of subsidies work together to underwrite a project, we begin with a "baseline case" of a simple mixed-income, multifamily project in Rhode Island. The base project uses the following high level assumptions:

- 100 units
  - *All 2-bedroom units (800 square feet per unit)*
  - *100,000 square feet of development, 80,000 of which is rentable*
- Mixed income
  - *70 percent market-rate*
  - *20 percent affordable - 60 percent AMI*
  - *10 percent affordable - 40 percent AMI*
- Public land
- Partial property tax exemption[24]
- Located in Rhode Island

*For more detailed information on our assumptions please refer to Appendix A.*

Our model highlights the challenges of developing affordable housing without relying on LIHTC equity. Using construction cost and market condition assumptions for Rhode Island, we find that in the baseline mixed-income case, there is a substantial financing gap of $12 million ($120,000 per unit and nearly $400,000 per affordable unit), after accounting for a conventional construction loan and an equity investment.[25] This is the case even assuming no site acquisition cost and preferential property tax treatment, implying that not even a shift in land acquisition costs could make such deals financially feasible. This gap highlights the necessity of deploying multiple strategies to achieve financial feasibility.

Even with free land and preferential property tax treatment, ***our base case has a financing gap of $12 million (or $120,000 per unit)***.

24. In this analysis, we use Rhode Island's 8 percent property tax treatment which can be applied to affordable housing properties. Under Rhode Island statute §44-5-13.11 (enacted in 1995), properties in which a covenant restricts either rents or tenants' incomes (or both) may be taxed at a rate that equals eight percent of the property's previous years' gross scheduled rental income, or a lesser percentage as determined by each municipality. There has been some debate about whether the preferential tax treatments apply only to low-income units, or to the entire property, and whether 'low-income' should be better defined. Providence City Council in April 2024 passed an ordinance restricting application of the '8-Law' to housing that restricts tenants' income to 80 percent of AMI, and where rent is capped at 30 percent of income. Source: Leslie, A. (2024). "'8-Law' Tax Break Ordinance Passes Providence Council Despite Concerns." *WPRI,* April 19, 2024. https://www.wpri.com/news/local-news/providence/8-law-tax-break-ordinance-passes-providence-council-despite-concerns/. A recent report also found that not all low-income housing in Rhode Island uses the 8 percent tax treatment. Potential reasons include the completion of developments prior to the creation of the 8 percent tax, the use of separate local tax stabilization agreements, or cases where the general tax structure is more advantageous. RI Housing. (2024). *2024 Report on RIHousing Development Activity and 8% Tax.* https://www.rihousing.com/wp-content/uploads/2024-Report-on-RIHousing-Development-Activity-and-8-Tax.pdf.

25. Financing gap refers here to the shortfall that remains after accounting for a project's available equity investment and conventional construction loan. Even with these financial resources in place, the project may still lack sufficient funds to cover total development costs, especially in affordable housing projects where rental income is capped at lower levels. This gap arises because the equity investment and loan, constrained by underwriting standards and debt service coverage ratios, often fall short of what's needed to fully finance the project. Closing this gap typically requires additional subsidies or innovative financing tools to achieve project feasibility.

NYU Furman Center

## Table 1. Hypothetical Mixed-Income Project, Base Case

| **Development Program** | | | |
|---|---|---|---|
| Residential Rentable SF | | | 80,000 |
| Maximum Dwelling Units | | | 100 |
| Average Unit Size per Unit (SF) | | | 800 |

| **Operating Proforma** | **Unit Distribution** | **$/Unit** | **Total** |
|---|---|---|---|
| Rental Revenue - Market Rate Units | 70% | 3,000 (per month) | 2,520,000 |
| Rental Revenue - Low-Income Units 60% | 20% | 1,686 (per month) | 404,640 |
| Rental Revenue - Low-Income Units 40% | 10% | 1,124 (per month) | 134,880 |
| **Gross Potential Rental Revenue** | **100%** | | **3,059,520** |
| Residential Vacancy | 5% | | (152,976) |
| **Effective Gross Income** | | | **2,906,544** |
| Operating Expenses Before Property Tax | | (9,150) | (915,000) |
| Property Tax (Applying Rhode Island's 8% Law) | | (2,448) | (244,762) |
| **Net Operating Income** | | | **1,746,782** |
| Max First Mortgage Debt Service | | (15,189) | (1,518,941) |
| **Net Cash Flow** | | | **227,841** |

| **Development Budget** | **$/Unit** | **Total** |
|---|---|---|
| **Total Development Cost** | **422,500** | **42,250,000** |

| **Permanent Sources** | **$/Unit** | **Total** |
|---|---|---|
| **Total Sources** | **302,588** | **30,258,811** |

| **(Financing Gap)** | **(119,912)** | **(11,991,189)** |
|---|---|---|

NYU Furman Center

## Closing the Gap

Financing gaps are typically closed using a combination of interventions. To better understand how different tools can impact project feasibility, we test a variety of interventions often employed by the public development entities featured in the models above. They include a full property tax exemption that could accompany land owned and/or developed by a public entity, along with layering the rental income from Project-Based Section 8 Vouchers in affordable units. We also look at the impact of the soft subsidy that might come from a revolving loan fund or other subsidized financing source, a 40-year loan (typical of FHA risk-share), and relatively high market-rate rental income (reflecting supplying this kind of housing in the highest demand markets).

As Table 2 shows, these key interventions individually lower the $12 million existing financing gap in our base case by between $1.5 and $4.6 million each. ***Combining all of these interventions would fully eliminate the financing gap***, making the project financially feasible, leaving $2.6 million in residual value (typically considered residual land value, although this model assumes no cost for land acquisition).

**Table 2. Financing Gap Under The Base Case And Interventions**

| Case Examples | Total Financing Gap |
|---|---|
| Base case | $12.0M |
| + Full property tax exemption | – $3.1M |
| + Project-Based Section 8 | – $3.0M |
| + Subsidy loans of $5k/affordable unit | – $150K |
| + Extended loan term (40 years) | – $2.1M |
| + Higher market-rate rents ($3,500) | – $4.6M |
| Combined Interventions | **None - excess value of $2.6M** (residual land value) |

While our analysis demonstrates the importance of knitting together several tools and funding sources that states and localities are able to use to achieve feasibility for mixed-affordability projects without LIHTC, it does not address broader questions about whether public development or ownership generates long-term benefits that justify its cost, particularly in comparison to the prevailing tax credit-financed development model. Agencies should conduct this analysis themselves, with a particular focus on the specific structure of the public entity, its capitalization and funding, staff capacity and expertise, its authority and ability to manage risk, competition, and access to public land, property tax exemptions, Section 8 subsidies, and other public goods. As discussed, these are critical questions for policymakers to consider when grappling with the question of standing up a public developer entity, and answers will significantly depend on local context.

NYU Furman Center

# Summary of Key Policy Considerations

Our analysis surfaced a number of key takeaways for policymakers and stakeholders to have in mind when considering the potential role that public development and ownership could play in an overall affordable housing strategy.

For each typology of public development and ownership we identified, it is important to consider:

### Risks and returns of public funds.

Public entities will need to assess and manage the risks associated with acting as real estate developers, including market fluctuations, public resistance to development, and changes in institutional structure or capacity. These risks must be weighed against potential returns, including new housing units, length and depth of affordability, and profits that can be reinvested in further development or housing programs. Public developers could also be designed to work in "counter-cycles" when market development has slowed down due to broader economic factors.

### Ways to maximize and streamline existing programs.

Alongside any expansion of public development, policymakers should make sure to maximize the use of existing programs like LIHTC, FHA risk-share loans, and the U.S. Department of Housing and Urban Development's (HUD) RAD program to finance new affordable housing projects.

### Discrete needs that only a public developer can fill.

Public development models should be used when they add to the affordable housing landscape, and where they can create and or utilize new or underused resources. Rather than replacing existing partners that are already capable of performing development work, policymakers should also consider the specific needs that a public developer could address—either because for-profit and nonprofit organizations are unable to fulfill these roles or because a public entity would have a distinct advantage. Examples include using publicly-owned land for mixed-income housing, handling tax lien foreclosed properties, and rehabilitating distressed government-owned properties.

### Unique local contexts that may facilitate or hinder development.

The success of any of the models described above depends on local context and resources. For example, policymakers should consider whether current zoning requirements allow for the density that some public development relies on for efficiencies of scale, or if rezoning or inclusionary zoning may be helpful in smoothing the path for affordable housing. In addition, understanding local market conditions, including land, construction, and labor costs, as well as rent levels, is vital. Cross-subsidization models, which rely on market-rate rents to subsidize affordable units, may be limited by local market conditions such as relatively high development costs.

### The importance of establishing a dedicated funding stream.

Policymakers should explore ways to establish dedicated funding streams for public investment in housing, similar to Dakota County's property tax levy. Such funding can provide a stable foundation for development and maintenance that is less susceptible to shifts in policy priorities.

### The local capacity and expertise needed to act as a public developer.

While public entities can hire consultants to help them navigate the potential risks outlined above, they should also have internal underwriting and risk management capacity to oversee contracts and ensure that public funds are used responsibly.

### Long-term sustainability.

Policymakers should consider the long-term sustainability of publicly-developed housing through proper maintenance, management, and reinvestment strategies. Such projects need re-capitalization every 15-20 years to address issues from aging building systems and require quality management for successful operations, including leasing, maintenance, and compliance with local, state, and federal laws.

## Conclusion

By examining emerging models across states and localities, this brief highlights a growing interest in reclaiming a stronger government role in developing and owning housing. While these models present potential benefits—such as increased control over affordability, long-term stability, and broader social outcomes—they also come with inherent risks and challenges that demand careful consideration.

Key takeaways from our analysis underscore the importance of balancing financial feasibility, regulatory flexibility, and operational capacity. Public development models succeed by assembling a mix of funding sources, managing risk, and navigating market and political contexts. Whether leveraging mixed-income developments to cross-subsidize affordable units, redeveloping and expanding existing public housing stock, or creating fully affordable buildings without federal tax credits, each model has unique requirements and implications that policymakers must evaluate based on local context.

Ultimately, expanding public development and ownership won't be a one-size-fits-all solution. Success is more likely when these models adapt to local conditions, and build on existing local efforts, rather than launching entirely new, large-scale, and costly initiatives. Finally, ensuring long-term sustainability is critical, as public developers need the capacity to build, maintain, and operate housing developments over time.

The decision to engage more directly in housing development and ownership should also align with broader policy goals, especially the preservation of deeply affordable housing and public housing. In considering the use of these emerging models, policymakers should weigh them against existing approaches to creating and preserving affordable housing, assessing how the cost, risk, and long-term impacts align with their broader housing and community goals.

NYU Furman Center


## Acknowledgements

We are grateful to Tony Bodulovic for his instrumental support in preparing this brief. We thank Daria Guzzo and Will Viederman for their excellent research assistance. We owe many of the details and insights presented in this brief to our interviewees, who have included federal, state, and local policymakers and practitioners across the country. We thank them for graciously sharing their time and expertise with us.

NYU Furman Center

# Appendix A

## Financial Model - Assumptions

The analytic model describe above utilizes several key variables and assumptions:

***Project Scale***

Our baseline case assumes a 100-unit rental project, which can be scaled up or down. For simplicity, the model assumes that the project contains only 2-bedroom apartments, each sized at 800 square feet. Both the number of units and average square footage per unit are variables that can be manipulated.

***Income Mix***

The baseline model assumes the following mix of apartments by affordability:

*Market-Rate Units*

In the base case, 70 percent of the apartments (70 units) are available at market rents of $3,000 per month, which represents rents at the highest end of the market, and the likely rent in a few years when a project is completed and leased up. In general, market rents vary by location (see Figure 2, below), and this market rent is not likely to be supported in Rhode Island's lower-cost areas. Conversely, a well-located project with desirable amenities will support a higher market rent. Analysis of ACS microdata suggests that the 75th percentile of contract rents exceeds $2,500 in only five census tracts in Rhode Island, which are located primarily in coastal areas–Melville (a very small US Census-designated place between Portsmouth and Middletown), Barrington, Portsmouth, and Little Compton–with the exception of a tract in North Providence (the village of Greenville).[26] According to CoStar data, the average rent in Providence was $1,920 (with a high of $2,180 in its most expensive submarket) as of summer 2024.[27] These tracts also all have high homeownership rates (averaging more than 85 percent), which suggests that it may be difficult to build new multifamily rental buildings in these areas even if market rents would support development.

*Moderate-Income Units*

The model provides the user an opportunity to include moderate-income units affordable to households at 80 percent of Rhode Island's AMI, although the base case assumes no units at this affordability band.

*Low-Income Units*

20 percent of the apartments in the base case (20 units) are priced at rents that are affordable to low-income households earning 60 percent of AMI. In this model we assume a monthly rent for these apartments is $1,686.

*Very Low-Income Units*

Finally, 10 percent of the apartments (10 units) are priced at rents that are affordable to households earning 40 percent of AMI. In this model, we assume monthly rent for these apartments will be $1,124.

The model allows the user to change the distribution of units and the rents charged for each unit type. The affordable rents presented in the base case are based on statewide averages. Actual AMI-based rents vary by region. Additionally, for simplicity, the model does not adjust for utility

26. These figures reflect American Community Survey (ACS) 5-year estimates from 2018 to 2022, reported in 2023 dollars, and may not fully capture recent rent increases in some neighborhoods.

27. RIHousing. (2024, August). *Underwriting Report: 99 Water St.*

allowances. In an actual rather than a hypothetical mixed-income project, utility costs borne by low-income tenants are deducted from rent, resulting in a modest decrease in the revenue available to support the project.

***Operating Expenses***

Based on an analysis of comparable market-rate multifamily rental projects in Rhode Island, the baseline model assumes that it will cost $9,150 per unit per year to fund the operations of the project before property tax obligations. Operating expenses include maintenance and repairs, electricity and heating costs for the common areas of the building, water and sewer expenses, insurance, property management fees as well as staffing and administrative costs. It is possible to adjust operating expenses to reflect projects designed to operate at a lower cost, if, for example, passive house standards are used to reduce energy use, or if government co-insurance programs are available to reduce insurance premiums. They can also be adjusted upwards, if, for example, insurance costs escalate.

***Property Taxes***

In the baseline case, we assume that the property will benefit from the 8-Law, which sets property taxes at 8 percent of scheduled gross rental income ($2,448 per unit).[28]

***Debt Sizing***

Our model assumes that first mortgage debt is sized based on a 1.15 debt service coverage ratio, with a 30-year loan term and a fixed interest rate of 5.7 percent. Lending institutions require debt service coverage for all developers, whether nonprofit or for-profit. The return on equity for the developer/owner is factored into this debt service coverage ratio. All three of these variables may be adjusted to understand how financing rates and terms can impact financing gaps. Under the baseline case, the project can support a maximum mortgage loan of $21.8 million.

***Development Costs***

The following variables are used for the development budget, all of which can be manipulated:

*Acquisition Cost*

For this hypothetical analysis, we assume zero land acquisition cost.

*Hard Construction Costs*

Based on recently developed comparable projects, the analysis assumes hard costs of $325,000 per unit.

*Soft Construction Costs*

For simplicity, we assume that soft costs are equal to 30 percent of hard costs, which equals $97,500 per unit. Soft costs generally include architectural and engineering fees, legal fees, permitting fees, environmental assessments, title fees, financing fees and carrying costs during the construction period.

*Developer Cash Equity*

The analysis assumes that the developer invests 20 percent cash equity.



28. See footnote 24.