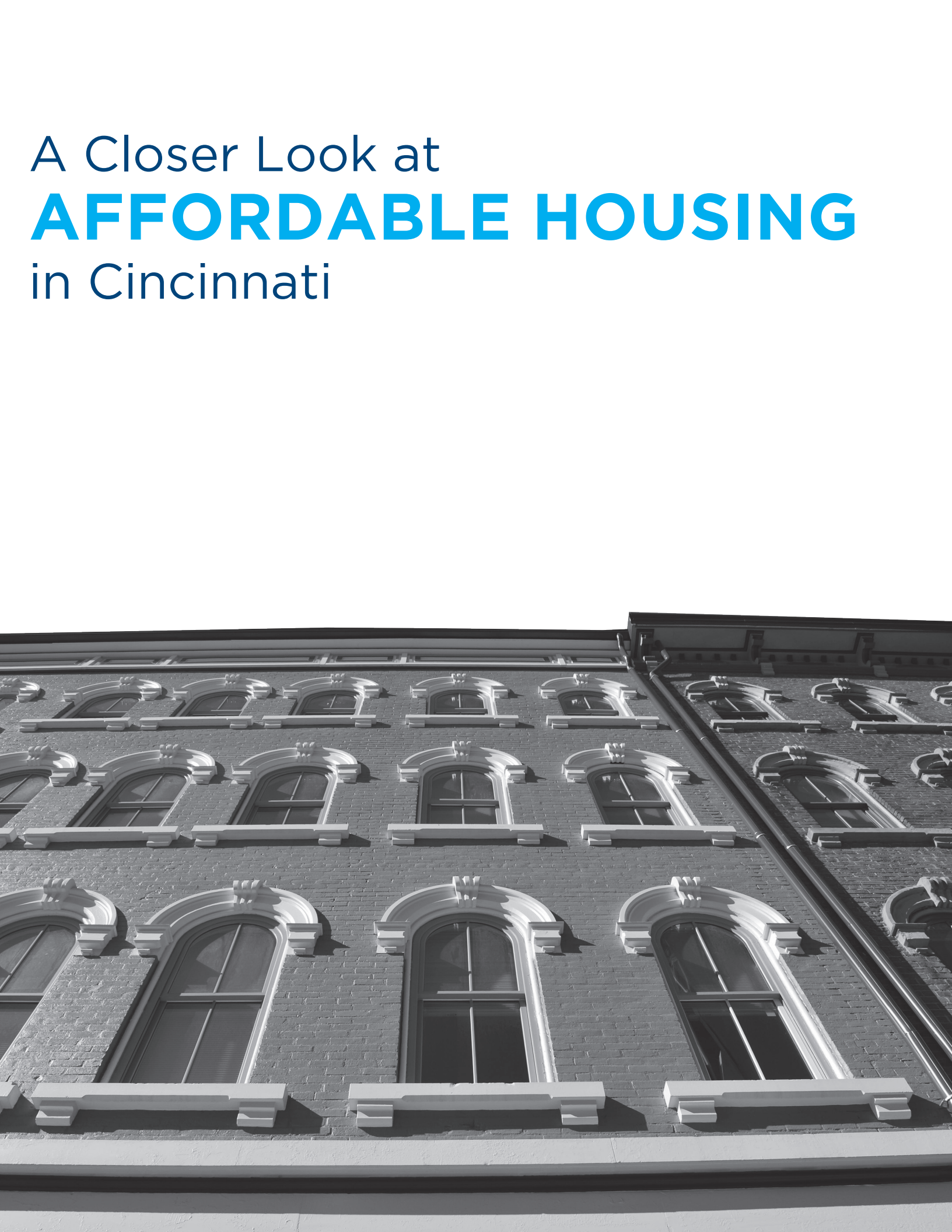


UNDERSTANDING AFFORDABLE HOUSING

*Terms, definitions, initiatives & more to understand
the ins and outs of affordable housing in Cincinnati.*

city of
CINCINNATI
COMMUNITY &
ECONOMIC DEVELOPMENT





A Closer Look at
AFFORDABLE HOUSING
in Cincinnati

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WHAT SHOULD YOU KNOW BEFORE WE GET STARTED?

Before we start, there are a few terms that you should know:

AFFORDABLE HOUSING*: In general, housing for which the occupant(s) is/are paying no more than 30 percent of his or her income for gross housing costs, including utilities. Please note that some jurisdictions may define affordable housing based on other, locally determined criteria, and that this definition is intended solely as an approximate guideline or general rule of thumb.

AFFORDABILITY: the extent to which enough rental housing units of different costs can provide each renter household with a unit it can afford (based on the 30-percent-of-income standard).

AREA MEDIAN INCOME (AMI)*: the midpoint of a region’s income distribution – half of families in a region earn more than the median and half earn less than the median.

CINCINNATI METROPOLITAN STATISTICAL AREA (MSA): Developed by the United States Office of Management and Budget, Metropolitan Statistical Areas are integrated geographic regions comprised of at least one city or urban area (with a population of at least 50,000) and adjacent communities. Metropolitan Statistical Areas make it possible for federal statistical agencies to utilize the same boundaries when publishing statistical data. This area includes Dearborn County, IN; Ohio County, IN; Boone County, KY; Bracken County, KY; Campbell County, KY; Gallatin County, KY; Kenton County, KY; Pendleton County, KY; Butler County, OH; Clermont County, OH; Hamilton County, OH; and Warren County, OH.

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM (CDBG): Created under the Housing and Community Development Act of 1974, this program provides grant funds to local and state governments to develop viable urban communities by providing decent housing with a suitable living environment and expanding economic opportunities to assist low- and moderate-income residents. CDBG

replaced several categorical grant programs, such as the Model Cities program, the Urban Renewal program, and the Housing Rehabilitation Loan and Grant program.

GROSS ANNUAL INCOME: the total income, before taxes and other deductions, received by all members of the tenant’s household. There shall be included in this total income all wages, social security payments, retirement benefits, military and veteran’s disability payments, unemployment benefits, welfare benefits, interest and dividend payments and such other income items as the Secretary considers appropriate.

HOME (HOME INVESTMENT PARTNERSHIPS PROGRAM): Provides formula grants to states and localities that communities use — often in partnership with local nonprofit groups — to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for rent or homeownership, or to provide direct rental assistance to low-income people.

HOUSEHOLD: All the people who occupy a housing unit. A household includes the related family members and all the unrelated people, if any, such as lodgers, foster children, wards, or employees who share the housing unit. A person living alone in a housing unit, or a group of unrelated people sharing a housing unit such as partners or roomers, is also counted as a household.

- **EXTREMELY LOW-INCOME HOUSEHOLDS:** Those with incomes below 30 percent of area median income. Department of Housing and Urban Development (HUD) programs use “area median incomes” calculated on the basis of local family incomes, with adjustments for household size.
- **VERY LOW-INCOME:** Households whose incomes do not exceed 50 percent of the median area income for the area, as determined by HUD.
- **LOW INCOME:** A household whose income does not exceed 80 percent of the median income for the area, as determined by HUD, with adjustments for smaller or larger families.
- **MODERATE INCOME:** Households whose incomes are between 81 percent and 95 percent of the median income for the area, as determined by HUD.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD): Established in 1965, HUD’s mission is to increase homeownership, support community development, and increase access to affordable housing free from discrimination. To fulfill this mission, HUD will embrace high standards of ethics, management and accountability and forge new partnerships — particularly with faith-based and community organizations — that leverage resources and improve HUD’s ability to be effective on the community level

**Definitions outlined by the U.S. Department of Housing & Urban Development*

WHAT IS AFFORDABLE HOUSING?

The Department of Community and Economic Development (DCED) uses the HUD definition of affordable housing to evaluate development proposals. Under HUD’s definition affordable housing is where **occupants are not paying more than 30 percent of the income for housing.**

HOUSEHOLD INCOME

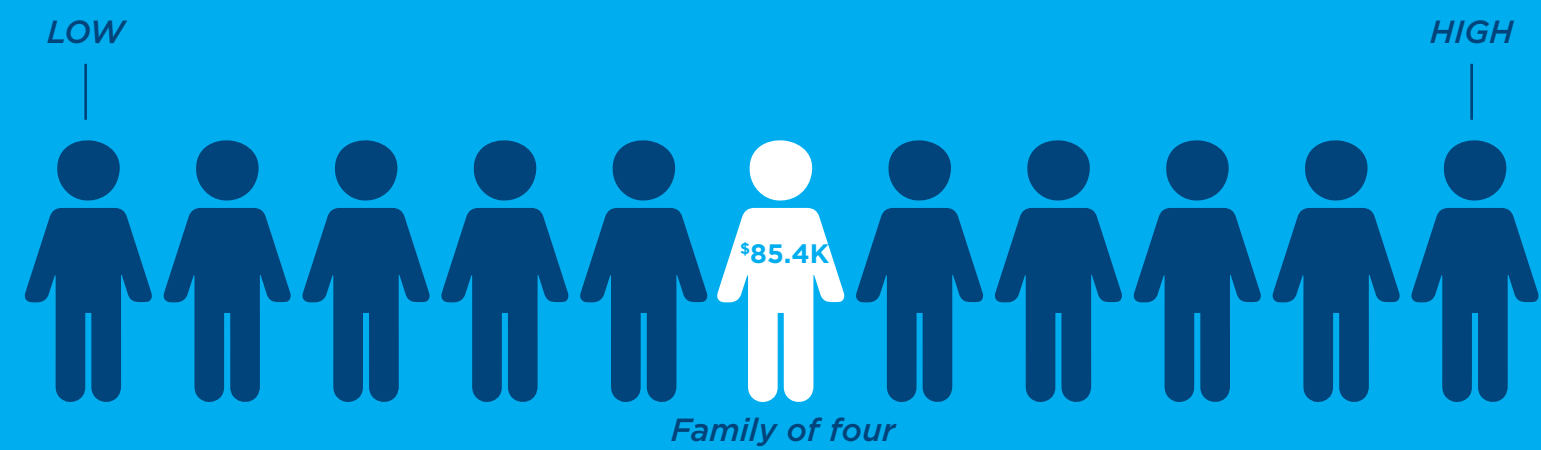


Housing options should take into consideration the amenities needed for a family with limited disposable income. Those amenities include, but are not limited to: proximity to centers of employment, access to alternative forms of transportation (bus, train, etc.), schools and childcare facilities, grocery options, and connectivity to the surrounding community.

WHAT IS AMI?

The federal government establishes the income limits for households intending to occupy affordable housing using the Area Median Income, or AMI.

The Area Median Income is what a Cincinnati household in the middle of the income distribution earns. **In the Cincinnati, OH-KY-IN HUD Metro Fair Market Rent (FMR) Area, the AMI for a family of four is \$85,400*. This area, determined by HUD, is within the Cincinnati Metropolitan Statistical Area.**



*Numbers reflect data from HUD's 2021 income limits.



HOW DO WE DETERMINE AFFORDABILITY?

Affordability considers two measures:

1. a household's income and
2. the amount paid for housing

DCED projects can target different income levels from extremely low to moderate. To ensure the projects are serving the intended beneficiaries the two aforementioned measures must be calculated.

QUALIFYING A HOUSEHOLD'S INCOME

Source documentation provided by the household or a third party can be used to determine whether the annual income meets the income requirements for the project.

- 1

Identify all sources of gross income.

 - Income from employment
 - Income from self-employment*
 - Income from other sources
- 2

Convert wages into yearly totals.*

 - Hourly wages from an employer before taxes and other deductions are taken out
 - Gross income on a pay stub (paid weekly, every two weeks, etc.)
 - Unearned income like child support, social security, disability and worker's compensation, etc...
- 3

Add income from all sources together to get your total annual income. Considering the household size, this amount can be used to determine if the household meets the income requirement.

**Money earned from self-employment should be calculated as NET income, which is the amount after business and other expenses are taken out.*

CALCULATING AFFORDABILITY

Once the income calculation is complete, a determination can be made on what the household can afford using the 30% rule. This rule restricts rent and tenant-paid utilities to no more than 30% of a household's monthly gross income.

Household Gross Annual Income:	\$36,000
Divided by 12:	\$3,000
Then multiplied by .30 (30%)	
= \$900 (the max amount paid for rent & utilities)	

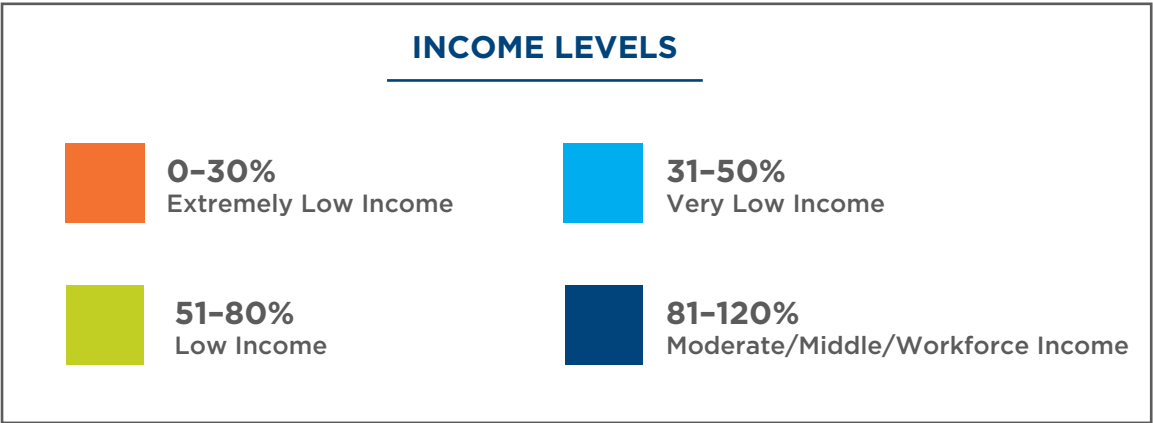
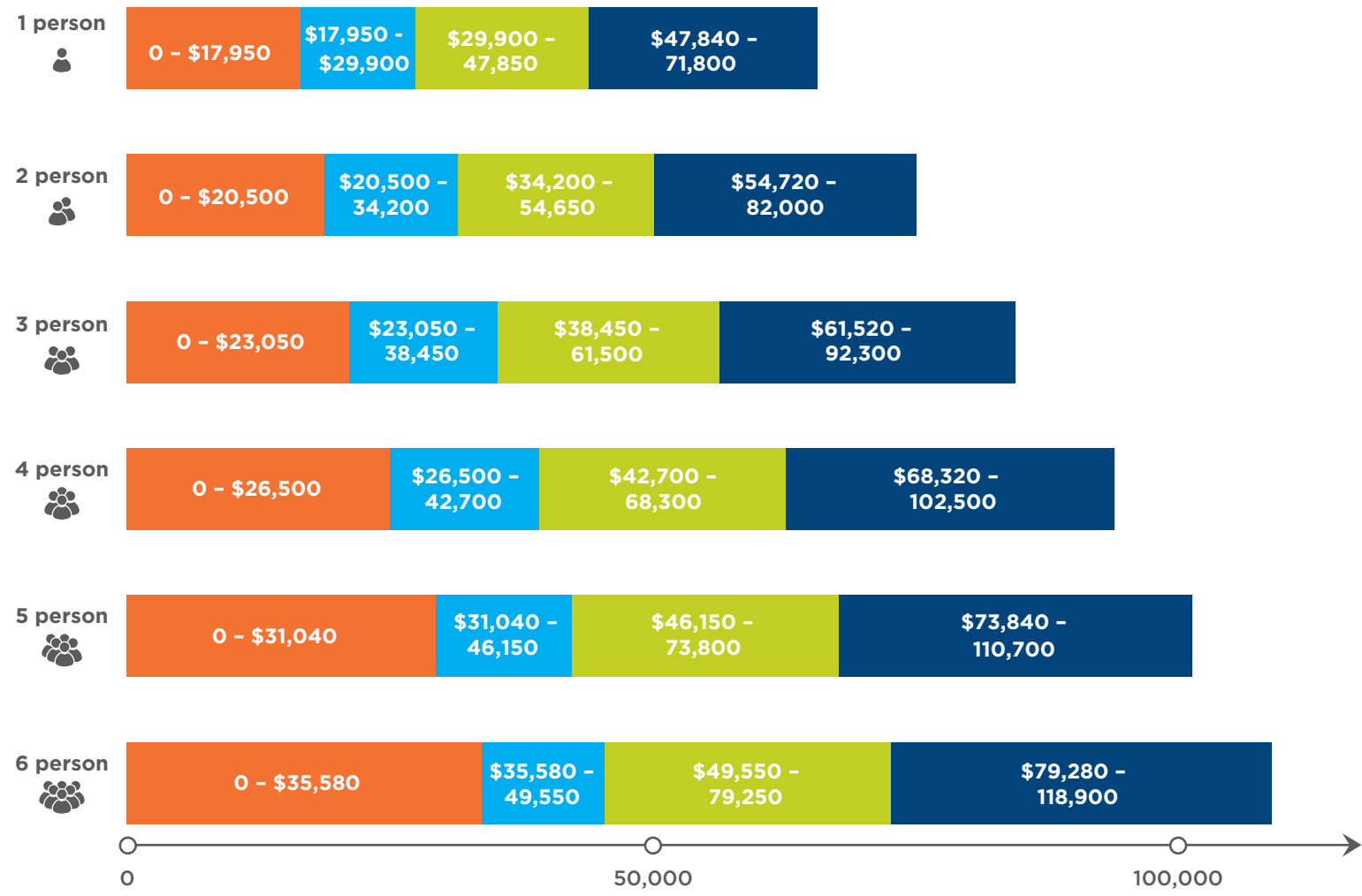
AFFORDABLE TO WHOM?

When a project with affordable housing is recommended by DCED, it means the **units are affordable to households in the lower or middle end of the income scale.**

Each project incorporating affordable housing uses four categories to determine household eligibility:

- extremely low income
- very low income
- low income
- moderate/middle income (*sometimes referred to as workforce income*)

2021 ELIGIBLE INCOME LEVELS BY HOUSEHOLD SIZE (CINCINNATI MSA)



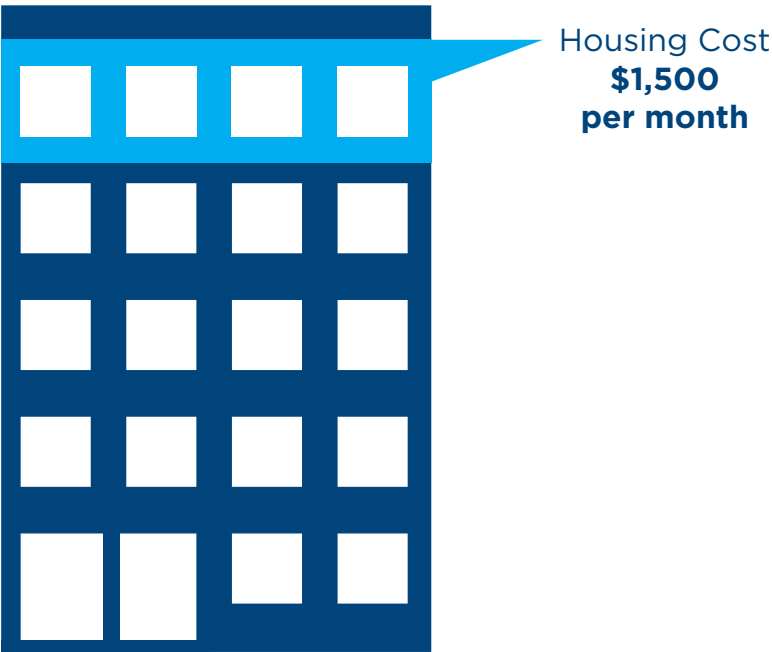
AFFORDABLE TO WHOM?

Imagine a three-bedroom apartment that rents for \$1,500 including utilities that is part of an affordable housing development for low income households. Using the definition provided in this document, **low income equates to an income at or below 80% AMI.**

Now imagine three households with the incomes shown at the right.

Two of these households qualify for this apartment and two of these households can afford this apartment, but only one is eligible.

Households in income-restricted units must be income qualified and the cost must be affordable.



That's not affordable for us.
This would cost us 68%
of our income.



Extremely low income
\$26,500 is this family's
annual income.

**WE QUALIFY
&
CAN AFFORD!**



Low income
\$68,300 is this family's
annual income.

This family earns 74% of AMI.
This rent at is 30% of their income.

We don't qualify.
Our income is 120% of
AMI



Moderate income
\$102,500 is this family's
annual income.

WHAT IS THE COST OF BUILDING AFFORDABLE HOUSING?

Developers who want to build affordable rental housing are often faced with the challenge of finding a way to pay for it. Just because an apartment will be priced affordably doesn't mean that it's any less expensive to design and construct. **Affordable housing developers must find a way to balance the cost of development with restricted rental income and debt. A public subsidy is often needed to make the project work.**

While the chart to the right references construction, it is important to note that most affordable housing units will require a rental subsidy, especially units for 30% or 50% AMI.

CONSTRUCTION COST PER UNIT

1 Bedroom - 2 Person Household							
		Low HOME		LIHTC	CDBG	NSP	
Area Median Income Level		30%	50%	60%	80%	100%	120%
2HH	Income Limit ¹	\$20,490	\$34,150	\$40,980	\$54,640	\$68,300	\$81,960
1BR	Gross Rent (inc. Utilities) ²	\$512	\$854	\$1,025	\$1,366	\$1,708	\$2,049
-	Vacancy (7%)	\$36	\$60	\$72	\$96	\$120	\$143
=	Effective Gross Rent	\$476	\$794	\$953	\$1,270	\$1,588	\$1,906
-	Operating Expenses (\$5.5K/yr.)	\$458	\$458	\$458	\$458	\$458	\$458
=	NOI (Monthly)	\$18	\$336	\$494	\$812	\$1,130	\$1,447
x 12	NOI (Annual)	\$217	\$4,028	\$5,933	\$9,745	\$13,556	\$17,367
	Max Possible Loan ³	\$2,032	\$37,761	\$55,626	\$91,355	\$127,085	\$162,814
	Cost per Sq. Ft. ⁴	\$250.00	\$250.00	\$250.00	\$250.00	\$250.00	\$250.00
x	Sq. Ft. ⁵	550	550	550	550	550	550
	Total Unit Cost	\$137,500	\$137,500	\$137,500	\$137,500	\$137,500	\$137,500
	Surplus/Gap	-\$135,468	-\$99,739	-\$81,874	-\$46,145	-\$10,415	\$25,314

1 Income limits from HUD's 2021 HOME Adjusted Income Limits where available

2 All gross rents calculated as 30% of monthly income at Income Limit

3 Maximum Loan derived from 75% Loan to Value Ratio assuming an 8% Cap Rate

4 Cost per square foot based on Cincinnati's underwriting targets for new construction projects

5 Square footage based on OHFA 2021 Design & Architectural Standards for Minimum New Construction Residential Unit Sizes

WHAT PROGRAMS EXIST TO PROMOTE AFFORDABLE HOUSING?

There are many local and statewide programs as well as resources at the federal level that **help foster the creation and preservation of affordable housing.**

LOCAL

Notice of Funding Availability (NOFA) Provides gap financing to residential development projects through a competitive process with a focus on affordable housing.

Neighborhood Voluntary Tax Incentive Programs

Developers of commercial buildings (including residential units of 4 or more) can contribute 7.5% of their tax abatement to affordable housing initiatives in exchange for a longer exemption period.

Affordable Housing Program

The Federal Home Loan Bank administers this program where they set aside 10 percent of net earnings annually to be used as subsidies to finance development of affordable housing.

Affordable Housing Trust Fund

In November of 2018, Cincinnati City Council established the “Affordable Housing Trust Fund” to help preserve and develop affordable housing and prevent homelessness in the city.

STATE & FEDERAL

Home Investment Partnerships Program (HOME)

This program provides formula grants to States and localities that communities use - often in partnership with local nonprofit groups - to fund a wide range of activities including building, buying, and/or rehabilitating affordable housing for rent or homeownership or providing direct rental assistance to low-income people. HOME is the largest Federal block grant to state and local governments designed exclusively to create affordable housing for low-income households.

Community Development Block Grant (CDBG)

This provides annual grants on a formula basis to entitled cities and counties to develop viable urban communities by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for low- and moderate-income persons.

Low Income Housing Tax Credit

Administered by the Ohio Housing Finance Authority, this tax incentive program is designed to increase the supply of quality, affordable rental housing by helping developers offset the costs of rental housing developments for individuals with low- to moderate-income. The program provides tax incentives to corporate investors that invest in affordable housing.



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