How do you fill the gap in funding for affordable housing?

The rents that low- and moderate-income households can afford to pay are often too low to cover the full costs of owning and managing a rental property. This gap between the funding needed to develop and operate a property and the revenue available is called the affordable housing funding gap.

To fill the gap, developers usually need help in the form of a subsidy. The subsidy most often comes from local, state, or the federal government, but it can also come from other sources.

The subsidy can be used to help cover construction costs, rents, or operating costs. Assistance with construction costs reduces the amount the developer needs to borrow, and therefore reduces monthly financing costs. Rental assistance helps tenants pay the rents needed to cover costs. And operating subsidies reduce the rental income needed to keep the property financially afloat.

Depending on the specifics of a project, it may need one, two, or all three of these kinds of assistance.

What types of subsidies are used to help fill the affordable housing funding gap?

Developers often assemble many sources of subsidies to help fill the affordable housing funding gap. Construction subsidies, most often in the form of a federal program called the Low Income Housing Tax Credit, are the most common. Others include mortgages with below-market interest rates, tax-exempt bonds, local loan funds, federal and state tax credits, federal grants or loans from programs like the HOME Investment Partnerships Program (HOME), local grants, land donations, contributions from charitable foundations, and deferred developer fees.

Once sufficient sources of funding are identified to create the housing, additional subsidies may be used to help pay for the costs of operation. For example, some units may have rent subsidies that supplement the rent the tenant can afford to pay. And properties that serve special needs populations are likely to have operating cost subsidies to help pay for the supportive services provided.

Why do developers use so many different sources of subsidy?

Developers generally use the fewest number of subsidy sources possible because each
additional source of subsidy makes funding more complex. For example, each subsidy comes with its own set of legal restrictions. But the truth is that, to reach the lowest income families with the greatest needs, a developer may need to cobble together multiple subsidy sources to make the project financially feasible.

A project is not feasible unless it covers 100% of its funding gap, so every source of funding matters. A small local contribution can be the critical investment that makes the project work, allowing the project to proceed and the community to benefit from a large amount of federal subsidy that would otherwise flow to a different community.

To learn about what you can do to make a difference, visit LocalHousingSolutions.org.

*Video forthcoming*