

# HOUSING AFFORDABILITY TOOLKIT

RESEARCH

ANALYSIS

SOLUTIONS





# HOUSING AFFORDABILITY TOOLKIT

A research project  
conducted and prepared by the  
**Florida Apartment Association**  
and the  
**Apartment Association of Greater Orlando.**

## Summary

Florida is experiencing an unprecedented housing shortage, which is causing affordability challenges across the state. The purpose of this document is to offer background information regarding the underlying causes of Florida's housing affordability problem as it relates to apartments and to offer effective solutions designed to increase the supply of apartment homes and control the cost of multifamily housing for Floridians.

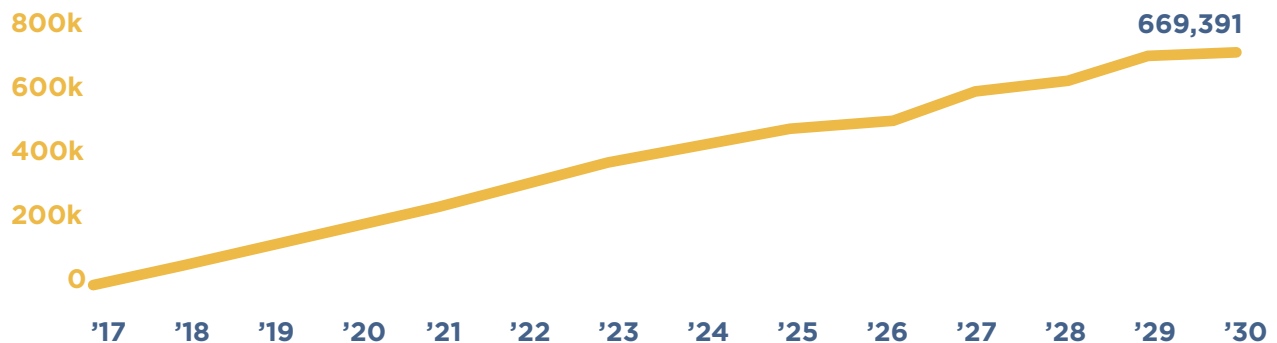


## Market Overview

In order to effectively understand Florida's housing affordability challenges, it is important to first have background information regarding the specific market trends that impact both the supply and the cost of housing across the state. As of May 2019, Florida has an inventory of 1.4 million apartment homes with an overall vacancy rate of 5.8 percent. As a result of the low vacancy rate, the average market rent per apartment home is \$1,226 with an average of 3.1 percent annual rent growth.<sup>1</sup> Florida's low overall vacancy rate of 5.8 percent reveals a high demand for apartment homes with a restricted supply.

At this time, roughly 35 percent of Floridians rent their homes, but this number is expected to rise as the trend of homeownership continues to decrease across the state.<sup>2</sup> A 2017 report estimated that in order to keep up with the growing demand for apartments, Florida would need to add 669,391 apartment homes to its housing stock by 2030, which amounts to roughly 47,814 new apartment homes constructed each year (see Figure 1).<sup>3</sup>

**Figure 1: Apartment Homes Needed in Florida by 2030**



Source: [weareapartments.org](http://weareapartments.org)

Florida added just 31,809 apartments in 2017, 40,278 in 2018, and is projected to add only 33,688 in 2019 (see Figure 2), a far cry from the number needed each year to keep pace with the expected demand for multifamily housing.<sup>4</sup> The fact that development is not on target to meet existing and expected demand is concerning given the fact that the state is already experiencing a housing shortage.

<sup>1</sup> CoStar Realty Inc.

<sup>2</sup> [census.gov/quickfacts/FL](http://census.gov/quickfacts/FL)

<sup>3</sup> [weareapartments.org/data/state/florida](http://weareapartments.org/data/state/florida)

<sup>4</sup> CoStar Realty Inc.

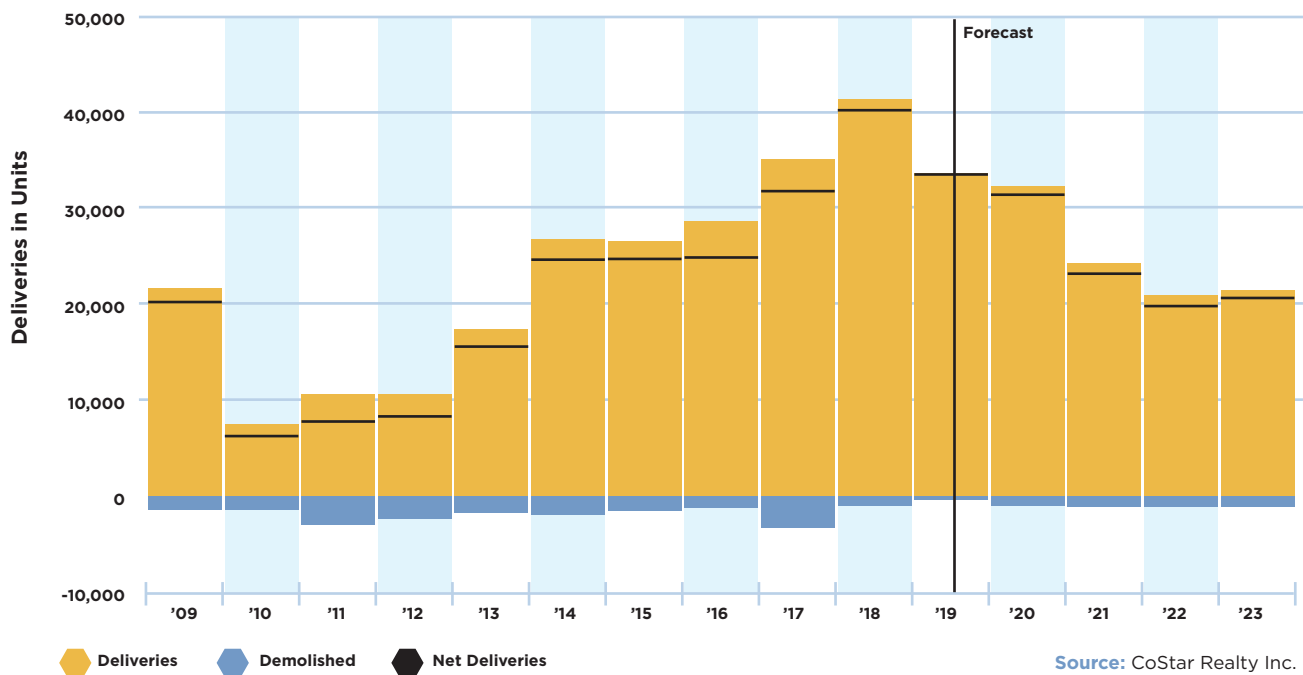


It is also important to note that only 28 percent of Florida’s apartment homes were built after 1980, which means a considerable portion of the state’s multifamily housing is nearly 40 years old. Unless these aging units are renovated for continued use, they are at risk of being demolished, which would only compound Florida’s existing supply problem.<sup>5</sup>

**Why is the demand for apartment homes on the rise throughout Florida?**

Perhaps the most significant factor driving demand is the fact that the state of Florida has seen considerable population and job growth in recent years. According to the U.S. Census Bureau, Florida’s population has grown by 13.3 percent since 2010, with several cities throughout the state outpacing population growth in other cities across the country.<sup>6</sup> This factor combined with the growing preference of renting vs. buying a home has contributed to a rapid increase in the demand for apartments.

**Figure 2: Florida Construction Data – Deliveries and Demolitions**



<sup>5</sup> [weareapartments.org/data/state/florida](http://weareapartments.org/data/state/florida)  
<sup>6</sup> [weareapartments.org/data/state/florida](http://weareapartments.org/data/state/florida)

### ***How has the spike in overall demand impacted the need for affordable housing?***

The rising cost of housing has amplified Florida's need for more affordable housing units. The National Low-Income Housing Coalition reports that as of July 2019, 22 percent of Florida renter households are extremely low-income, and the state has a shortage of 428,622 affordable and available rental homes for extremely low-income renters.<sup>7</sup> As rental rates continue to rise, quality housing becomes unattainable for extremely low-income renters.

### ***Are there state financial resources available to address affordable housing?***

The State of Florida passed the Sadowski Act in 1992 to establish the Sadowski Affordable Housing Trust Fund, which is the state's only dedicated revenue source for affordable housing programs. Under the act, document stamp taxes are assessed on real estate transactions within the state. The revenue generated by this tax is divided between the Local Government Housing Trust Fund and the Florida Housing Finance Corporation. Under the act, 70 percent of the revenue must be allocated to the Local Government Housing Trust Fund for the State Housing Initiatives Partnership (SHIP) program and the remaining 30 percent is allocated to the Florida Housing Finance Corporation for a variety of programs, including the State Apartment Incentive Loan (SAIL) program.

SHIP and SAIL funds have separate and distinct goals with regard to affordable housing. SHIP funds are used to renovate or retrofit existing housing. SAIL funds, however, are used to rehabilitate or build apartments to serve those in financial need, such as the elderly, veterans, and individuals with disabilities.

It is important to note that the Florida legislature exercises significant flexibility regarding the appropriation of the Sadowski Affordable Housing Trust Fund money. Under current law, the legislature can use trust fund resources for other expenses within the state budget. The legislature has "swept" more than \$2 billion from the trust fund to other areas of the budget in the last 15 years.<sup>8</sup> Therefore, while the Sadowski Affordable Housing Trust Fund plays a vital role in addressing housing affordability, the fund itself is not a silver bullet.

Due to the way the funds are divided and used by the state, only a small portion of the funds are used to build new apartment homes. Even if the trust fund were to be fully funded by the legislature, it would still fall short of meeting the escalating demand for affordable housing across the state. In light of these facts, the legislature and communities across the state should look for additional ways to address Florida's housing demands.

<sup>7</sup> [nlihc.org/housing-needs-by-state/florida](https://nlihc.org/housing-needs-by-state/florida)

<sup>8</sup> <https://wusfnews.wusf.usf.edu/post/states-affordable-housing-trust-fund-has-become-more-theory-practice>

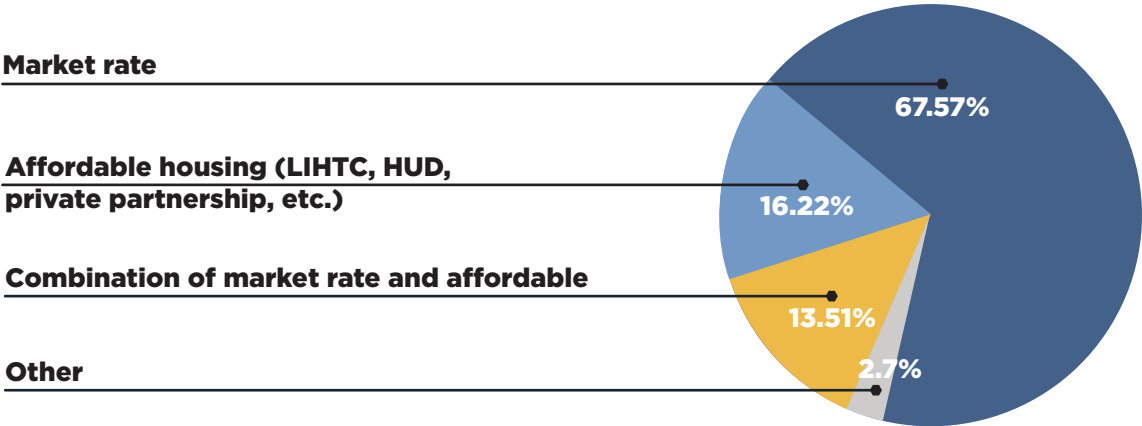


# Research Methodology and Sample Size

The Florida Apartment Association (FAA) and the Apartment Association of Greater Orlando (AAGO) surveyed 37 developers who construct apartment communities across the state of Florida. The sample included a mix of developers with expertise in the production of market-rate properties or affordable housing, as well as those who work on projects that are a combination of market-rate and affordable housing. According to the survey results, 68 percent of the respondents develop market-rate properties while 32 percent of respondents develop affordable properties or other (see Figure 3). It is important to note that most of the respondents in this survey have constructed 3,000 or more apartment homes in Florida during the past 10 years.

Developers participated in a survey to measure barriers to the construction of multifamily housing and the level of interest in various incentives designed to increase affordable housing supply.

**Figure 3: Types of Multifamily Assets Developed by Survey Respondents**



Source: FAA/AAGO 2019 Multifamily Housing Developer Survey

## Barriers to Affordable Housing Construction

The most prevalent and significant barrier to the construction of apartment homes is what is commonly referred to as “not in my backyard” (NIMBY) resident opposition. Because of misconceptions regarding the impact that multifamily developments have on a community and its infrastructure, existing residents often oppose the construction of new apartment buildings and favor the addition of more single-family homes. Subscribers to the NIMBY mentality argue that multifamily developments are a strain on the infrastructure or could cause single-family home values to decrease.

The NIMBY objections to apartment community development are amplified when the project proposes to add affordable housing units. This is because many local residents fear that the addition of affordable housing will reduce the property values of the single-family homes in the immediate area of the project or result in increased crime within the community. These myths were refuted by a study conducted by Virginia Commonwealth University’s L. Douglas Wilder School of Government and Public Affairs, which found no correlation between affordable housing development, property values, and crime rates for the Richmond areas surveyed.<sup>9</sup> While the NIMBY misconceptions are entirely unfounded, the concerns raised by these residents typically weigh heavily on elected officials at the city and county levels. As a result, NIMBY residents are often quite successful in blocking proposed apartment construction projects within their community. **This practice is housing discrimination in its worst form, because it ultimately restricts housing supply and increases the cost of living for all Floridians.**

In addition to housing discrimination, a variety of other factors often make it difficult to get an affordable apartment community project off the ground. Based on responses from the developers surveyed, the top three non-NIMBY barriers to affordable housing construction are:

1. Financing and investment structure for the project.
2. Complicated or competitive application processes for funding of the project.
3. Compliance burden for the project as a result of additional inspections and reporting requirements.

### ***Why is financing the most significant challenge for housing construction projects?***

Multifamily construction projects require substantial planning and capital investments before a new development is considered viable, let alone ready to break ground. Early investment and lending are critical components, arguably the most critical, in the process of bringing a new development to market. Potential investors and lenders subject a project to significant rigor to ascertain the level of risk and potential rate of return. In light of the fact that this is an intricate and delicate process, policymakers should make a conscious effort not to undermine an already complicated financing framework with additional regulatory overreach.

The return on investment (ROI) for a given project is based on rent potential and the development costs, which include labor, building materials, design, permitting, land

<sup>9</sup> [https://cura.vcu.edu/media/cura/pdfs/cura-documents/EditedJobs-Housing\\_July12\\_FINAL.pdf](https://cura.vcu.edu/media/cura/pdfs/cura-documents/EditedJobs-Housing_July12_FINAL.pdf), Pages 19-20

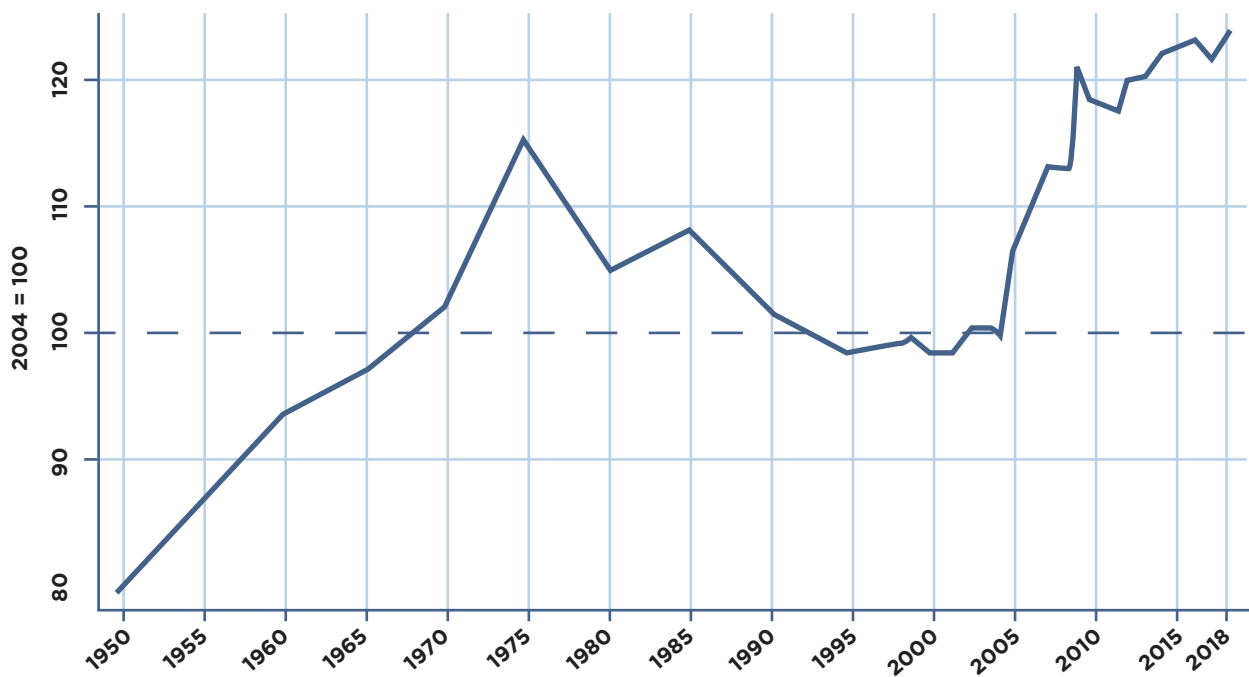




expenses, and applicable local taxes and fees. As these costs increase, the proposed rent for the project must also increase to ensure the project can retain the revenue required to generate the ROI needed to make the project viable. Affordable apartment communities are even more difficult to finance using this traditional market investment approach because the ROI decreases significantly when rents are capped at a below-market rate.

Rapidly escalating taxes and government-imposed fees, such as impact fees, have significantly increased the overall cost of producing multifamily housing and thereby the rents that are required to make the project successful. An additional challenge that has made it increasingly more difficult to maintain necessary ROI figures is the drastic increase in labor and construction costs, which have risen by roughly 24 percent since 2004<sup>10</sup> (see Figure 4).

**Figure 4: Change in Average Construction Cost in 30 Cities**



Source: [www.buildzoom.com](http://www.buildzoom.com)

In addition, the cost of land remains a primary concern for housing developers. According to the Lincoln Institute of Land Policy, the cost of land in the U.S. rose by 76 percent from 2000 to 2016.<sup>11</sup> This cost spike is most evident in urban areas across the country as the demand for housing in large cities continues to grow. As a result, these up-front development costs continue to play a significant role in the overall price of bringing new housing to the marketplace.

<sup>10</sup> [https://cura.vcu.edu/media/cura/pdfs/cura-documents/EditedJobs-Housing\\_July12\\_FINAL.pdf](https://cura.vcu.edu/media/cura/pdfs/cura-documents/EditedJobs-Housing_July12_FINAL.pdf), Pages 19-20

<sup>11</sup> [www.multihousingnews.com/post/more-americans-struggle-with-rent-as-land-prices-skyrocket/](http://www.multihousingnews.com/post/more-americans-struggle-with-rent-as-land-prices-skyrocket/)



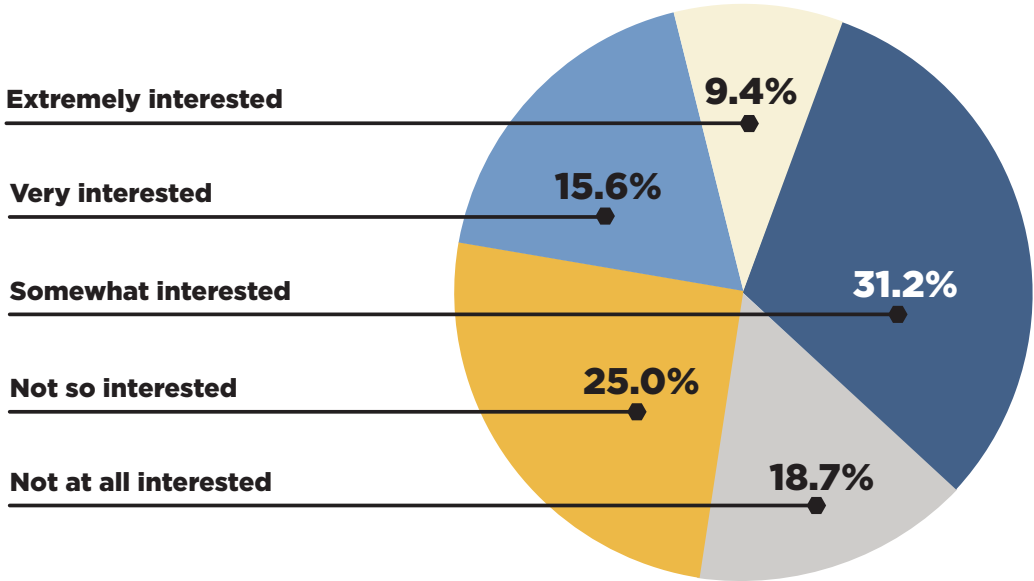
# Effectively Addressing Housing Affordability

The simple answer to Florida’s housing affordability problem is to make it easier and more cost-effective for developers to build a variety of housing options, which includes a mix of single-family homes and multifamily properties. Local governments should work collaboratively with housing developers to bring new housing product types to market and reduce government-imposed costs and barriers to construction.

## Will incentives produce results?

One of the ways local governments can work collaboratively with housing developers to address housing affordability concerns is by offering a market-based incentive program to stimulate the development of affordable housing within a particular community. Of the developers surveyed in the FAA and AAGO study, 56.2 percent of respondents expressed a level of interest developing affordable housing (see Figure 5), if the appropriate incentives were provided by a local government. Incentives are necessary to make affordable housing projects viable because the units that are reserved for below-market rents will restrict the overall ROI for the project, thereby making it harder to finance with the support of investors that prefer a specific rate of return on their investment. Therefore, an effective incentive program must help bridge this gap and provide economic enticements to attract new development.

Figure 5: Level of Interest in Developing Affordable Housing with the Right Incentives



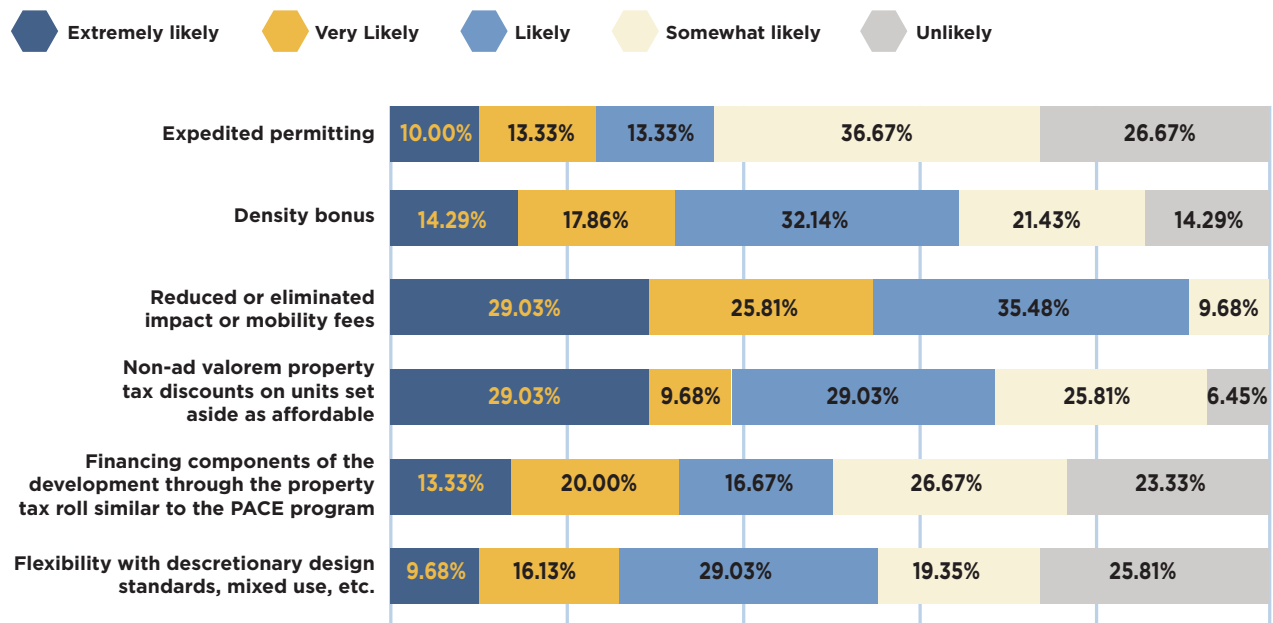
Source: FAA/AAGO 2019 Multifamily Housing Developer Survey

### Which incentives drive or support affordable housing development?

The survey conducted by FAA and AAGO revealed the top incentives that will drive development. They include, in order of preference, reduced or eliminated impact fees, non-ad valorem property tax discounts, and density bonuses (see Figure 6). These particular incentives far outweigh others, as they can help a developer offset regulation and other upfront costs at the local level, which account for a significant portion of the project’s total cost. According to data from the National Association of Home Builders and the National Multifamily Housing Council, regulations imposed by all levels of government account for an average of 32.1 percent of multifamily development costs and, in some instances, reach as high as 42.6 percent.<sup>12</sup>

Incentives that support, rather than drive, development include flexibility with design standards and expedited permitting. These incentives can help bolster the overall effectiveness of an incentive program, although they are not strong enough to drive development on their own.

**Figure 6: Likelihood that an Incentive Will Stimulate the Construction of Affordable Housing**



Source: FAA/AAGO 2019 Multifamily Housing Developer Survey

<sup>12</sup> <https://www.nmhc.org/contentassets/60365effa073432a8a168619e0f30895/nmhc-nahb-cost-of-regulations.pdf>

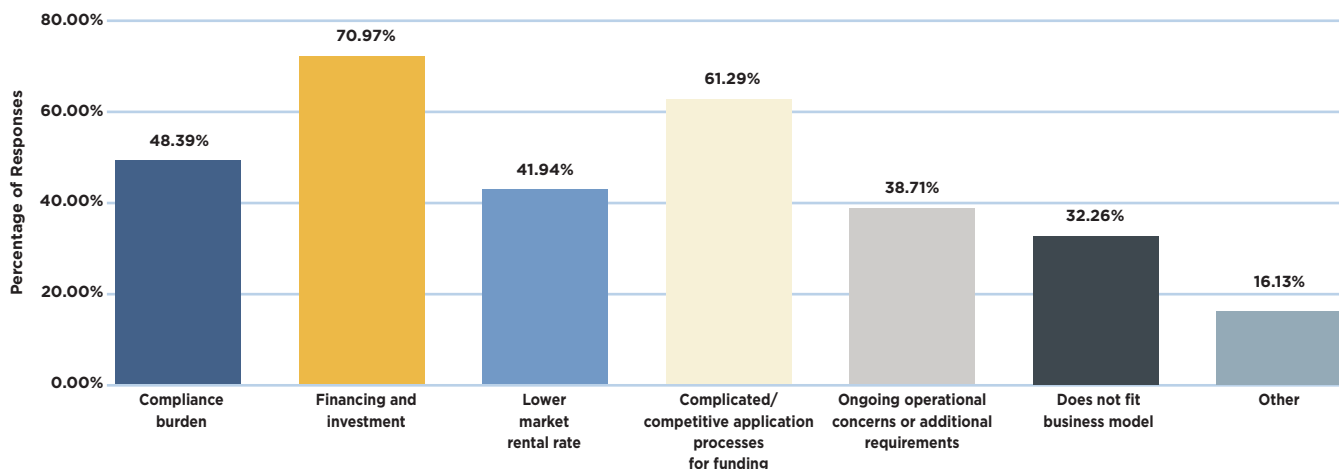
## Affordable Housing Challenges

Affordable housing developments require a developer and a building operator to comply with additional inspection and bureaucratic requirements. For this reason, developers who produce affordable housing often have staff who specialize in this area of housing and are familiar with the program requirements. Developers who typically work on market-based projects may decide to take on an affordable housing development as long as the appropriate incentives and expertise are in place.

The idea of working within a professional specialty is not a foreign concept. For example, an individual with knee pain will seek an orthopedic surgeon rather than a neurosurgeon for his or her injury. Affordable housing development, much like specialties in the medical field, requires a specific set of skills and unique staff resources. For this reason, local governments should not force market-rate developers, who do not specialize in and are unfamiliar with affordable housing requirements and inspection processes, to build affordable housing through flawed policies such as inclusionary zoning.<sup>13</sup>

Other challenges associated with developing or operating an apartment community with income-restricted or affordable units include financing and investment challenges, complicated or competitive application processes for funding, and the burden of compliance associated with federal affordable housing program requirements (see Figure 7). While lower market rental rate and ongoing operational requirements did not make the top three concerns among the developers surveyed, these challenges were rated as significant among all respondents.

**Figure 7: Biggest Non-NIMBY Challenges Associate with Developing or Operating Communities the Contain Income-Restricted Units**



Source: FAA/AAGO 2019 Multifamily Housing Developer Survey

<sup>13</sup> Benjamin Powell and Edward Stringham, "The Economics of Inclusionary Zoning Reclaimed: How Effective are Price Controls?," Florida State University Law Review 33 (2005), <https://ir.law.fsu.edu/cgi/viewcontent.cgi?article=1201&context=lr>.



## Conclusion

Florida is experiencing an unprecedented housing shortage, which is acutely evident in the historically low average apartment vacancy rates across the state. This supply shortage, coupled with the growing demand for rental housing and the rising cost of building and operating apartment communities, has resulted in housing affordability challenges. Now more than ever, it is critically important for leaders at the local, state, and federal levels to work collaboratively with housing developers to address this complex issue.

### ***Increase supply.***

The most effective and simplest way to reduce the cost of rental housing for all Floridians is to increase the supply of rental housing. First and foremost, communities must acknowledge the misconceptions surrounding multifamily development projects that contribute to the NIMBY mentality. The construction of multifamily projects generates jobs, stimulates economic value in the community, and creates necessary housing opportunities for the growing number of jobs that are being added across the state. In the absence of these housing options, companies will be forced to look elsewhere when expanding or relocating their business operations, thereby taking their wealth and job opportunities to another state.

### ***Incentives are vital but all incentives are not created equal.***

Local governments can also be a part of the solution by identifying ways to simplify or streamline the building permit and inspection process to make it easier for housing developers to create housing options of all types within the community. In addition, local governments should explore ways to incentivize the development of affordable or workforce housing. The research outlined in this report affirms that incentives are necessary to offset the financial constraints placed on affordable housing construction projects.

As potential policy ideas are explored, local governments should take note that all incentives are not created equal. The data obtained by the FAA/AAGO 2019 Multifamily Housing Developer Survey reveals that some incentives drive development, while others merely support it. Incentives that offset some of the developer's upfront costs, such as impact fee waivers or property tax discounts, are more effective at driving new development than density bonuses. Therefore, the key to establishing a successful incentive program is identifying the options that will have the most appeal for housing developers.



Other policy ideas that could be explored at the local level include, but are not limited to:

- Grants for affordable housing construction projects
- Public-private partnerships
- Reduced parking requirements
- Land available for purchase at a discounted rate for affordable housing projects
- Financial support for affordable housing construction projects (i.e. financing at low interest rates)

### ***Modernize the Housing Choice Voucher Program.***

The numerous problems plaguing the federal Housing Choice Voucher Program (HCV/ Section 8) cannot be overlooked as leaders at the local, state, and federal levels seek to address the need for affordable housing. Property owners who accept HCVs are required to comply with the federal requirements under the HCV program. These cumbersome bureaucratic requirements include, but are not limited to, additional inspection requirements; a three-way lease between the housing provider, the resident, and the public housing authority; multiple delays during the lease process; and increased paperwork. In light of the cumbersome nature of the program's requirements, Congress made participation in the HCV program voluntary.




Leaders and members of the community should acknowledge the voluntary nature of the HCV program and urge Congress to streamline the requirements to bring more housing providers to the table. In addition, Congress must make funding for the HCV program a priority to increase the number of low-income individuals that could have access to this form of housing assistance in the future.

### ***Next steps***

Florida's housing affordability challenges will require innovative solutions that involve collaboration among citizens, members of the business community, local and state elected officials, and members of the housing industry. The Florida Apartment Association (FAA) and the Apartment Association of Greater Orlando (AAGO) look forward to continuing to be active partners in this ongoing process. Policymakers are encouraged to consider the research outlined in this report as they seek targeted solutions to address this important public policy issue.







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