# Virginia Housing's Employer-Assisted Housing Resource Guide

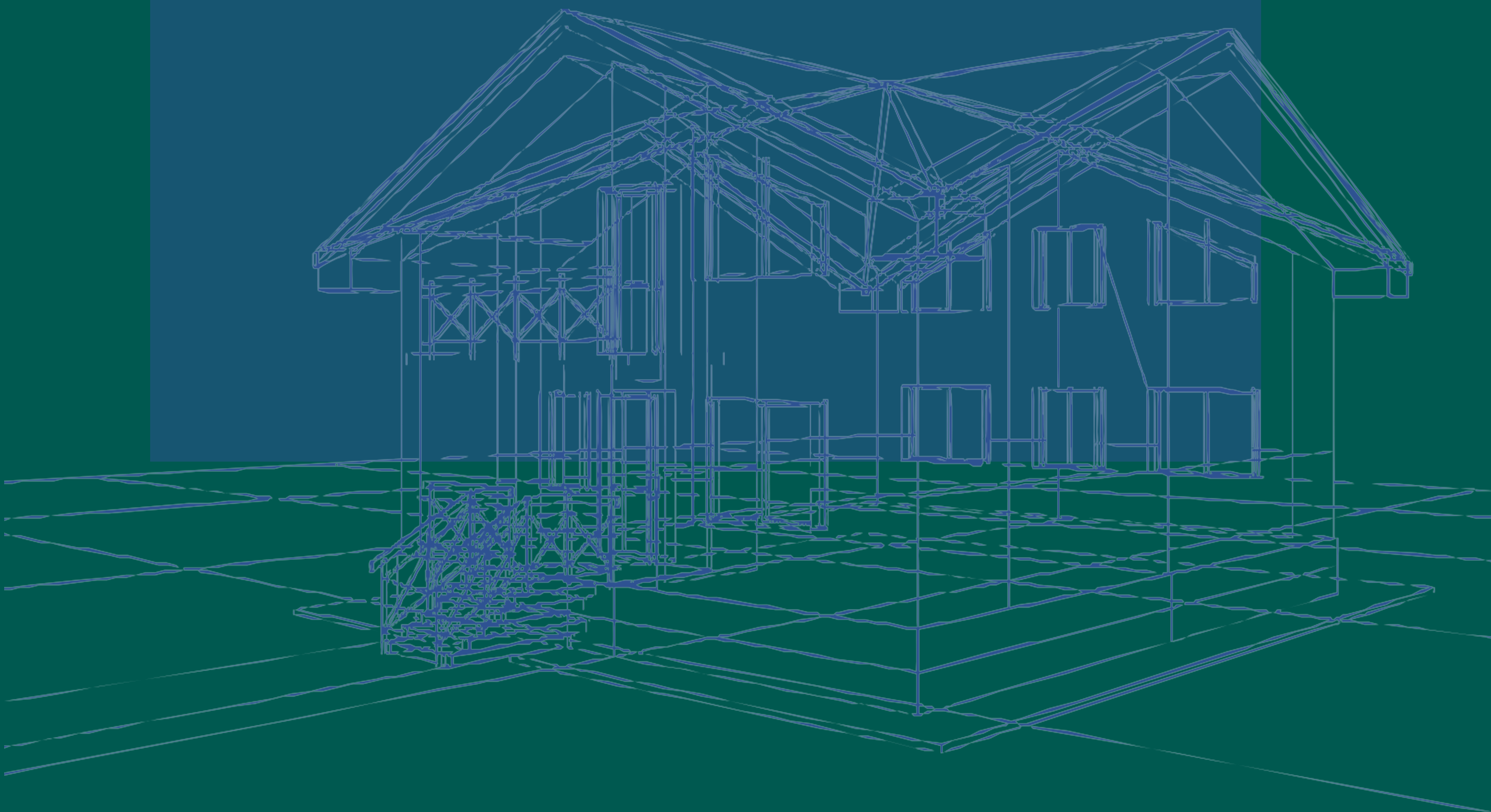
A work-force housing primer for employers and community leaders

Virginia Housing

6/23

# Contents





# Overview

## of Employer-Assisted Housing

## Introduction

Throughout Virginia, businesses are growing and looking for people to fill jobs. Perhaps your business is one of them. If so, you may have already experienced an all-too- familiar problem: it's hard to find or keep workers when they cannot find affordable, nearby places to live. Without more affordable housing, many businesses in Virginia cannot easily recruit or retain employees. In addition, many communities seeking economic development opportunities cannot recruit or retain businesses.

If you are an employer or a community leader interested in employer-assisted housing, this guide is meant for you. In this guide you will find various EAH program options, case studies of completed EAH projects, potential financing options, and illustrations of how private, public, and non-profit entities can collaborate on these developments. It offers employers interested in developing housing for their employees' details on why EAH projects are necessary, what resources are available, and what regulations should be kept in mind when pursuing a project.

If after reading this Guide, you have an interest in partnering with Virginia Housing or other partner organizations, please reach out to Michael Urban, Managing Director of Homeownership (Michael.Urban@virginiahousing.com) or Jake Naugle, Director of Homeownership Lending (Jake.Naugle@virginiahousing.com) to explore opportunities.

# What is Employer-Assisted Housing?

Employer-assisted housing (EAH) is any housing program—rental or homeownership – that an employer finances or assists in some way. Communities face increasing pressure to provide more housing for local employees. Employers can work in partnership with their communities to help address the affordable housing shortage. The result is a stable local workforce and a healthy local economy.

## Why Employers Participate in Affordable Housing

1. Allows an employer to expand operations and recruit new employees.
2. Increases stability in the workforce as turnover decreases.
3. Reduces absenteeism, tardiness, and stress as commuting times decrease. Raises morale and increases productivity.
4. Improves community relations as employers contribute to affordable housing.
5. Helps stabilize deteriorating neighborhoods. Improving or replacing dilapidated housing in a company's immediate neighborhood can have positive effects on a firm's property values and address safety issues for employees.
6. Offers opportunities for a return on an employer's investment when structured appropriately through partnerships with developers.
7. Leverages matching funds from Virginia Housing and other public and private funders that support employer-assisted housing.

# Determining the Employer's Role

The roles played by employers in affordable housing efforts vary widely based on community need and employer resources and capacity. To get started, employers and their community partnership should assess what is needed, identify resources already available to meet that need, and consider options for employer participation. After reviewing options, employers should determine the most effective strategy for involvement.

1

### Evaluate Housing Needs of Employees and Community through Studies, Surveys, and Focus Groups

- Assess local market conditions, including availability of units, housing costs, planned housing construction, etc.
- Identify employees' key housing needs and understand employees' purchasing power and debt burden

2

### Examine Employer Participation Options

- Identify potential options for employer contributions, including downpayment assistance, development loans, land donation, etc.
- Determine the level of financial contribution available from the employer

3

### Assess Local Housing Capacity and Resources

- Analyze local housing development capacity of for-profit, non-profit, and public housing developers
- Identify programs and resources available through private and public agencies
- Consider partnership opportunities with community organizations, local government, and other employers

4

### Determine the Best Strategy for Involvement

- Balance alternatives and choose option(s)
- Set timetable and implement EAH program/project
- Help express the need for employer-assisted housing to development agency staff, elected officials, and legislators, and once established, promote the housing programs to a company's employees

# Paths to Employer Involvement in Affordable Housing

- **Assess Housing Needs** of Employees & the Community
- **Evaluate & Choose** Options for Employer Involvement

## Option 1 — Increase Affordable Housing Supply: **Project Development**

**Assemble Development Team**

**Conduct Project/Site Planning**
- Site
- Budget
- Infrastructure
- Housing Units

**Obtain Local Support**

YES

**Assemble Financing**
- Local & Employer Funds
- Mortgage Financing
- Public/Private Subsidies

**Build & Market Project**

**New Housing**

## Option 2 — Help Employees Purchase or Rent Housing: **Program Creation**

**Commit Funds to Program**

PROGRAM

**Set Program Requirements**
- Loan/Grant Terms
- Employee Requirements
- Dollar Amounts

**Work with Partners**
- Homebuyer Educators/Counselors
- Lenders
- Realtors

**Obtain Matching Funds**
- Local Government
- Virginia Housing
- Others

**Market to Employees**

**Homeownership or Rental**

# Employer-Assisted Housing Options

There are several options employers can use to make housing more affordable in their communities. Employers can help their employees obtain existing housing or help increase the supply of affordable housing in the community. Employer assistance can be designed to benefit both renters and homeowners.

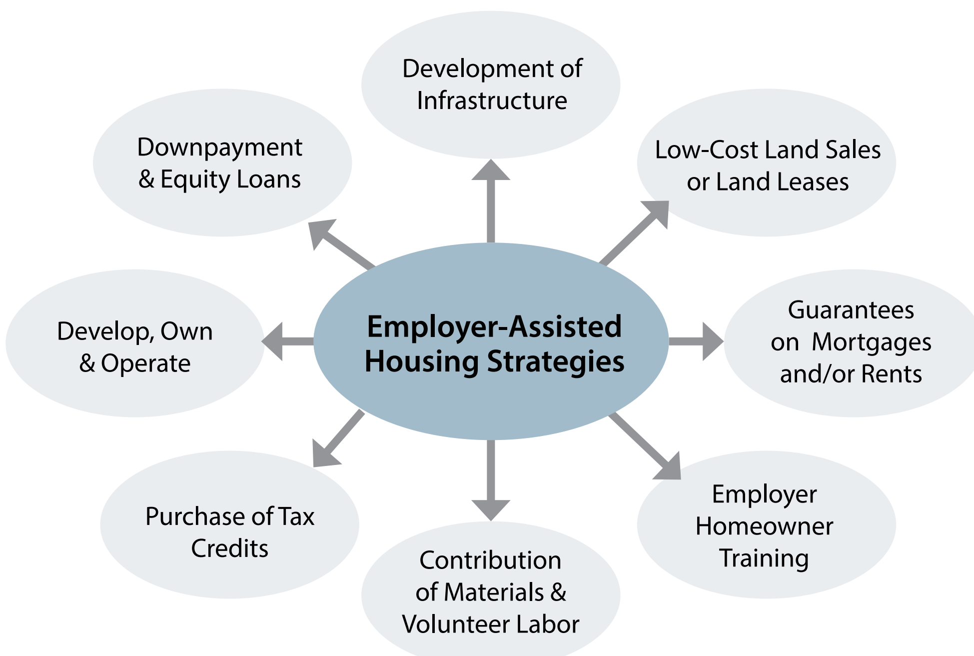
Each of the employer-assisted housing options listed below is described in detail on the following pages.

### Increasing the Community's Supply of Affordable Housing

- Cash Contributions to Housing Projects
- Donation of Land
- Housing Developed and Owned by the Employer
- Construction Financing
- Low Income Housing Tax Credit Investment

### Helping Employees Obtain Affordable Housing

- Downpayment/Closing Cost Assistance
- Secondary (Gap) Financing
- Rent Subsidies
- Homebuyer Education and Counseling
- Help with Applications, Credit, Moving Costs, Deposits, and/or Possible Rent Guarantee or Sublease




*Local employers and communities will design employer involvement in local housing solutions based on the ability of local employers to provide specific resources*

# Employer-Assisted Housing Options:
## Increasing the Community's Supply of Affordable Housing

### Cash Contributions

#### *Charitable or Corporate Contribution.*

Contributions to affordable housing can be part of a company's charitable giving program. In this case, the employer is fulfilling a philanthropic commitment to the community and may be able to take a charitable deduction if the funds are given to a non-profit housing organization. In the case of a charitable contribution, IRS regulations prohibit the housing from being restricted to occupancy by only the company's employees.

If the contribution is made as a business (corporate) expense rather than a charitable contribution, the employer can negotiate specific concessions for their employees who seek to live in the employer-assisted housing. Possible concessions include rent reductions for employees, first rental options for employees, or marketing strategies that target the employees of the company. However, federal fair housing laws or participation in public programs may limit some of these options.

#### *Low Interest and/or Deferred Loans.*

Low- or no-interest loans or deferred loans are another way in which the employer can provide funding for housing development. By loaning funds at a low rate, the employer is allowing the development team to lower the operating costs of the project by lowering the annual debt payment. Deferred loans do not bring an annual payment to employers, but give them the security of knowing that they will get their investment back in the future or if the project is sold. The loan documents can also create ongoing obligations guaranteeing that the project remains affordable.

#### *Equity Contribution.*

Employers can invest equity in a project through a limited partnership with the developer. A limited partnership minimizes the liability and management responsibility of the employer while creating a tax benefit for the company. Equity contributions can result in a sound financial investment that provides essential funds to an affordable housing project. The employer may be able to gain some concessions for its employees as part of the partnership agreement.

## Donation of Land

Some companies may have an inventory of excess land that can be provided to an affordable housing project. They may donate the land to housing developers or to employees who are building homes. In exchange for the land, employers can require that their employees have first priority for occupancy or receive lower pricing. The employer can also ensure the property remains available to employees over the long term by retaining a right of first refusal to buy the property in the event that the property is for sale.

## Housing Developed and Owned by the Employer

Employers with land and a large amount of capital have the option of building housing for their employees. As owner and developer of a project, the employer can facilitate the construction of single-family or multi-family housing. Once built, the housing can then be sold or rented to employees. Employers wishing to develop the housing themselves will want to hire an experienced developer and contractor to help them through the process.

## Construction Financing

### *Low- or Zero-Interest Construction Loan.*

Construction financing costs are another component of a housing development budget. Lenders generally charge higher interest rates (compared to permanent financing) to cover the risks and administrative costs associated with construction lending. Employers with capital or access to lower interest rates can reduce the cost of construction financing by providing low-interest construction loans to developers. Employers should be aware that construction loans are complicated but can be managed with the help of a local bank or housing organization. The company's loan is repaid within a short period when permanent mortgages provide the capital to repay the construction loan.

### *Loan Guarantee.*

An alternative to making the construction loan is to guarantee the construction financing. Developers of affordable housing may have difficulty securing construction financing. The employer can guarantee all or a portion of the construction loan, increasing the stability of the project and decreasing the interest rate on the construction loan. The guarantee is a temporary liability for the company, and there is no loss unless default occurs. Employers should carefully evaluate the capacity and financial condition of the developer before providing a loan guarantee.

OVERVIEW

## Low Income Housing Tax Credit Investment

Employers can become involved in affordable housing through the purchase of Low Income Housing Tax Credits (LIHTC). Investors receive credit against federal tax liability over ten years in return for providing an equity investment to specific affordable rental housing projects.

New rental housing projects are awarded tax credits by the Virginia Housing under a highly competitive process. The amount of credits awarded is based on the project's eligible construction costs. Developers "sell" the credits to investors to raise equity for the construction. Investors can receive a $1.00 credit on their annual federal tax liability by investing approximately $.85 to $.95 per credit up front.

For example, a 36 unit affordable housing development with a total development cost of $5.5 million will receive an allocation of tax credits from the State of Virginia worth about $4.0 million. The developer will seek an investor or group of investors to "purchase" these tax credits to provide cash (equity) to the project. The investor will pay between $3.4 million to $3.8 million ($.85 to $.95 per dollar of credits) for $4.0 million in tax credits.

The credit is a dollar-for-dollar reduction in tax liability. All parties benefit because the developer receives cash to build the project, the investors receive a credit on their tax liability for the next ten years, and low-income households obtain needed affordable housing. By paying a higher price for the credits, the employer can increase the amount of equity available to the project and still obtain a good return on investment.

### How the LIHTC Program Works


The federal government funds the program.

But the states largely shape what housing gets built.

Developers get funds toward construction.

Low-income renters get an affordable home.

Investors purchase a 10-year tax credit.

# Employer-Assisted Housing Options:
## Helping Employees Obtain Affordable Housing

### Downpayment and Closing Cost Assistance

Saving enough money for a downpayment and closing costs can be a significant barrier to homeownership for many low- and moderate-income families. Individuals employed in low-wage jobs often cannot afford to save the upfront investment that is required to purchase a home, despite the fact that they may be able to afford the monthly mortgage payment. Employers can help to minimize this problem by offering the following assistance to employees:

#### *Grants and Loans.*

Employers can provide grants, forgivable loans, or deferred loans to employees that can be used for a downpayment and closing costs. If the funds are provided as a loan, the interest rate should be low and repayment should be deferred until the employee sells the home or repays the first mortgage. Assistance by the employer directly to the employee is considered income and is subject to taxation for both the employee and the employer.

#### *Payroll Savings Matches.*

Payroll savings matches are another way to help employees obtain downpayment and closing cost funds. Many lower-wage workers spend their paychecks on immediate necessities rather than saving for large purchases that may seem far away or less urgent. Employers can help employees save for homeownership by establishing a payroll savings plan. A portion of the employee's paycheck is deducted and put into a special account, allowing for funds to be saved before the employee receives them. As an incentive to get employees to sign up for the savings program, an employer can promise to match the employee's savings for home purchase. The employer can set a goal amount and match the employee's savings once that amount is in the account and the employee has found a home to purchase. In some communities, individual development accounts (IDA) programs are available that encourage saving by providing matching funds from public and private sources.

## Secondary Gap Financing

While downpayment and closing cost assistance can help many people purchase homes, some employees may need additional assistance to make homeownership affordable. Rising home prices mean that many lower-income households cannot qualify for a mortgage that is large enough to buy a home. To help cover this gap, employers can develop a secondary financing program or contribute to a loan pool that provides financing to local employees. Secondary financing assistance is typically structured as a zero- or low-interest loan with repayment deferred until the buyer sells the home. The amount of assistance may range from a few thousand dollars to $20,000 or more. If the employer provides assistance directly to the employee, it is considered income and is subject to taxation for both the employee and the employer. If the funds are contributed to a pool and not reserved for specific employees, the funds may be considered a charitable contribution.

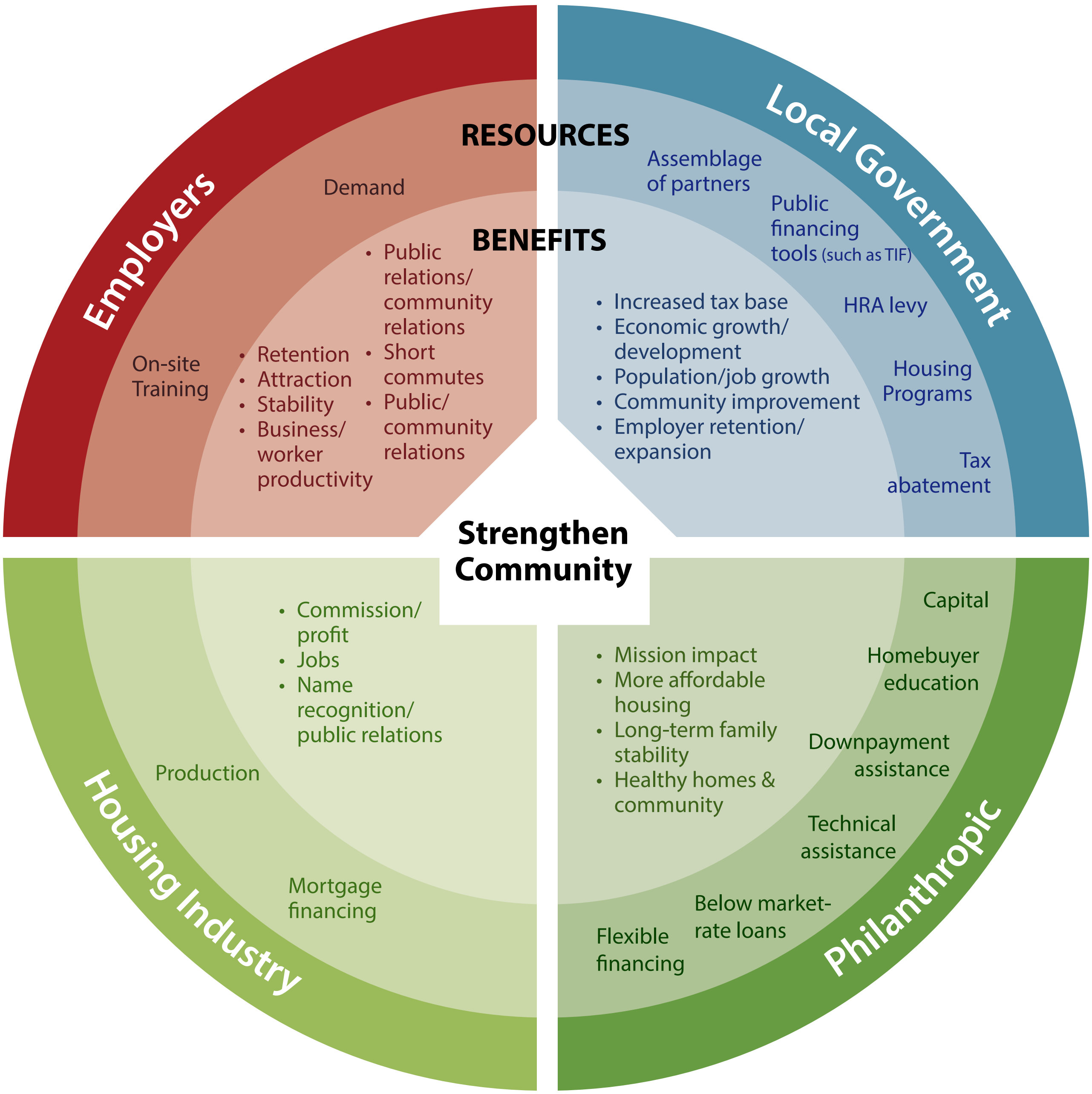
## Rental Assistance

In some communities, there may be adequate rental housing available, but the market rent is higher than the employee can afford. An employer can make the housing more affordable by providing a rent subsidy directly to the employee. As an alternative, the employer can provide operating funds directly to the owner of the property, thereby reducing the rent charged to the employees. Employers wishing to recruit new employees to the area can agree to pay the security deposit and/or guarantee the employee's rent, making the landlord more willing to rent to a family with no local rental history.

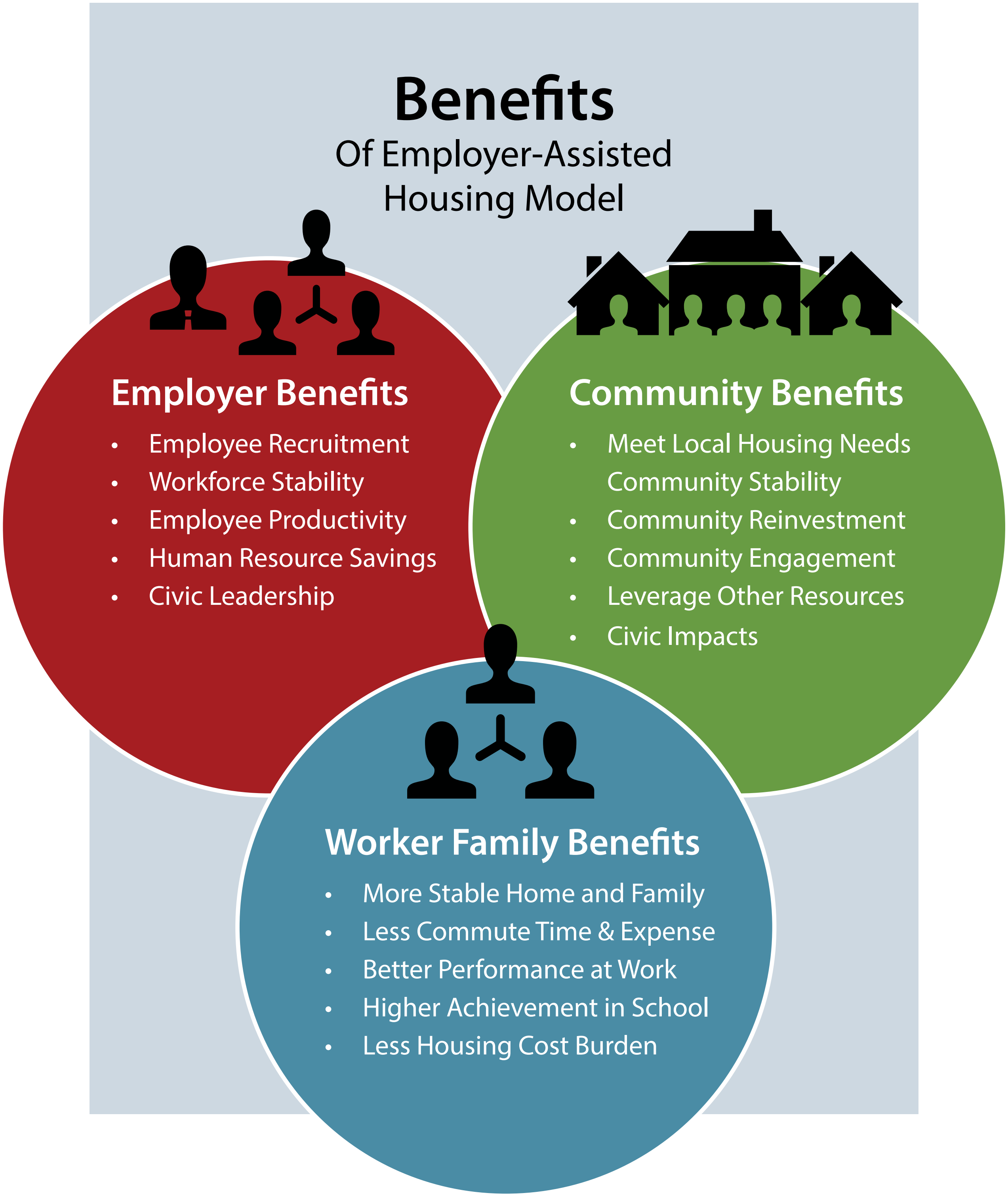
## Homebuyer Education and Counseling

A relatively low-cost form of homeownership assistance is providing homebuyer education for employees. First-time homebuyers typically do not have knowledge about the complexities of purchasing or owning a home. Credit counseling and budgeting advice can ensure that a prospective buyer will be a successful homeowner. Employers can provide assistance through financial support of local agencies and non-profits that provide education and counseling services. By working with these organizations, employers can often arrange for classes at the workplace and can couple other forms of housing assistance with these services to ensure success and stability for the employee.

# Roles, Resources, & Benefits
## of Employer-Assisted Housing




Best Employer Prospects
For Participating in Employer-Assisted Housing
Mobil Oil
EXXON
Nationally or Internationally Owned Corporations
Locally Owned Companies & Main Street Employers
Less Likely
More Likely


Benefits
Of Employer-Assisted Housing Model
Employer Benefits
• Employee Recruitment
• Workforce Stability
• Employee Productivity
• Human Resource Savings
• Civic Leadership
Community Benefits
• Meet Local Housing Needs
Community Stability
• Community Reinvestment
• Community Engagement
• Leverage Other Resources
• Civic Impacts
Worker Family Benefits
• More Stable Home and Family
• Less Commute Time & Expense
• Better Performance at Work
• Higher Achievement in School
• Less Housing Cost Burden

# Building on Success

## 10 Lessons Learned

1. **An employer-assisted housing investment can be cost effective for a business**

2. **Employer involvement stems from either:**
   - strong civic responsibility
   - urgent need for employees
   - community stabilization concerns

3. **Working relationship and common vision needed before commitment is made**

4. **Employer pools attract smaller employers with limited resources**

5. **Employers need to be able to choose their method of involvement based on their resources and the company's skills and objectives**

6. **Businesses need to understand the issue of affordable housing in simple terms**

7. **Employers are often attracted by ability to leverage other private and public funds**

8. **Local leadership or catalyst needed to obtain employer commitment**
   - city with a vision
   - developer with a specific plan
   - advocating around known needs

9. **Employers do not want 'red tape' when establishing a program or making a contribution or investment**

10. **Employers need someone with experience to put projects together and administer programs**

# Appendix

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