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Development 101 Key Terms Glossary

The Housing Continuum

Homeless: An individual or family who lacks a fixed, regular, and adequate nighttime residence, meaning: Has a primary nighttime residence that is a public or private place not meant for human habitation **or** Is living in a publicly or privately operated shelter designated to provide temporary living arrangements (including congregate shelters, transitional housing, and hotels and motels paid for by charitable organizations or by federal, state and local government programs **or** Is exiting an institution where (s)he has resided for 90 days or less and who resided in an emergency shelter or place not meant for human habitation immediately before entering that institution.

Shelter: Designed to provide temporary living arrangements (including congregate shelters, transitional housing, and hotels and motels paid for by charitable organizations or by federal, state, or local government programs for low-income individuals).

Transitional Housing: A semi-permanent option that provides private facilities and a longer stay. Transitional housing can help people stabilize their housing situation while they resolve other issues in their lives.

Supportive Housing: Housing that includes additional support services, such as meals, health services, and mental health/substance use disorder support.

Affordable Housing: The U.S. Department of Housing and Urban Development (HUD) defines affordable housing as housing where the occupant pays no more than 30% of their gross income for housing costs, including utilities.

Affordable Home Ownership: Refers to housing opportunities that are priced within the financial reach of low- to moderate-income households, allowing them to purchase homes without experiencing undue financial strain. The goal is to make homeownership accessible to individuals or families who might not otherwise be able to afford it due to high property costs, limited income, or lack of savings for a down payment.

Market Rental/Home Ownership: Refers to properties that are rented or owned by people who pay market rent to lease the property or paid market value when they bought the property; there is no subsidy for the housing.

Development: Real estate development is the process of increasing the value of land or property by building new structures, renovating existing ones, or improving the property in some way.

Development Partners

Developer: A person or company involved in the planning, financing, construction, and management of real estate projects. Real estate developers are responsible for transforming land into viable properties.

Lender: An individual, financial institution, or entity that provides funds or extends credit to a borrower, with the expectation that the borrower will repay the loan or debt, usually with interest, over a set period. Lenders can vary in size and type, ranging from large banks to individual investors, and they offer various financial products based on the borrower's needs and qualifications.

Architect: A licensed professional responsible for designing and planning buildings, structures, and spaces, ensuring they are functional, safe, aesthetically pleasing, and meet the needs of the occupants.

Engineer: Ensures that buildings and land developments are structurally sound, safe, sustainable, and compliant with local regulations. Collaborate with architects, developers, contractors, and other professionals to bring real estate projects from concept to completion.

Real Estate Law Firm: Provide expertise and services for clients involved in buying, selling, leasing, developing, or managing real estate. The attorneys in a real estate law firm help navigate complex legal processes, ensuring that all transactions comply with relevant laws, regulations, and contractual obligations.

Construction Company: Specializes in building, renovating, and managing the construction of infrastructure, residential homes, commercial properties, industrial facilities, and other physical structures. These companies are responsible for overseeing and executing the entire construction process.

General Contractor (GC): A professional or company responsible for overseeing and managing the entire construction process of a project, from start to finish. The general contractor ensures that all work is completed according to the project's design, schedule, and budget, coordinating various aspects of the construction to ensure smooth execution. They typically work on residential, commercial, or industrial projects and may manage new builds, renovations, or remodeling tasks.

Major Expenses in Real Estate Development

Land Acquisition Costs: Buying the actual land and paying for any fees associated with closing, such as broker fees.

Hard Costs: The cost of raw materials and labor to demolish any existing structures/infrastructure, excavate soils, install new infrastructure (pipes, roads, sidewalks, etc.) and physically construct the building(s). This work is typically completed by a licensed General Contractor (the "GC") and a team of subcontractors. They charge a fee for coordinating the work and overhead/general conditions required for administering the construction of the project. This is typically all included in "Hard Costs".

Contingency: Funds set aside for unexpected expenses, which are very common in real estate development. For new construction, this is typically 5% of hard costs, or for rehab projects it can be up to 10% of hard costs. It helps to cover unforeseen conditions during earthwork, or architectural changes required during construction. If there are excess proceeds at the end of a project, it typically will be used to reduce deferred developer fees, fund reserves or reduce debt.

Soft Costs: All other costs associated with creating the community, such as costs for: due diligence, architectural/building design, civil/engineering design, lawyers, insurance, construction inspections, financing fees and reserves. It is typical to include a "soft cost contingency" line item to account for unforeseen expenses that may arise during construction.

Interest Carry: The cost of borrowing funds while the building is being constructed. Construction lenders require this to ensure that their loan can be paid until income is generated from leasing or sales. This can be lowered by allowing lower-cost funds to be used for construction before the higher-cost construction loan is utilized (reducing the overall amount of time that funds are borrowed).

Developer Fees: A fee paid to a development team to compensate them for the time/effort to bring a community to fruition and the risk of that pursuit. Developers typically bear the risk of upfront project pursuit costs and salary/overhead for project management. They also provide construction guarantees to the lender(s) until the project is complete. For Low Income Housing Tax Credit (LIHTC) communities, they are also required to provide an ongoing guarantee throughout the 15-year initial compliance period that the project will remain eligible to deliver the tax credit to the investor. In order to be enticed to take on this risk, they receive a developer fee. This fee is typically paid out in installments over the construction period. A small portion is received when the project financing closes, another portion midway through completion, and again upon successful completion of the project. If a project does not secure enough financing to cover the cost of this fee, any "deferred fees" can be paid through available cash flow (typically over a maximum of the next 10-15 years). It is important to not to defer too much fee before construction begins so that it can serve as an additional contingency source of funds for the project. This helps ensure the developer stays focused on keeping the project within budget and delivered on schedule.

Know your R's

Role: Set clear expectations and put them in writing. Methods typically used to document:

1. Internal Documents – Memos, PowerPoint Presentations, Resolutions
2. Memorandum of Understanding ("MOU") – a non-binding written agreement between two parties that expresses the nature of their intents to work together. This is typically done in advance of negotiating a full contractual agreement to ensure the two parties are generally on the same page. It is a shorter document and focuses on the big picture / most critical items needed to ensure alignment. It often includes a recap of the vision statement and purpose.
3. Contractual Agreements – binding legal agreements used to document how parties will work together, and the rights each of them has if the other party does not fulfill their obligations.

Risk: The risk developers take and the risk you are willing to participate in

Resources: People, staff, funding and the ways the land can be developed

Financing Terms in Real Estate Development

Net Operating Income: Revenue, less operating expenses and capital reserves. This is the amount that is available to pay for any debt and equity obligations used to finance the building.

Debt Service: The amount due to satisfy debt obligations, comprised of principal and interest.

Asset Management Fees: There are often many different organizations that provide ongoing oversight for affordable housing rental communities, and they are compensated for this. This typically includes ownership oversight (they manage the property managers and are on-call 24/hours a day) and compliance oversight (e.g. City of Charlotte, housing authority, bond issuers).

Affordable Housing Terminology

Absorption Period: The period of time necessary for a newly constructed or renovated property to achieve the stabilized level of occupancy. The absorption period begins when the first certificate of occupancy is issued and ends when the last unit to reach the stabilized level of occupancy has a signed lease.

Absorption Rate: The average number of units rented each month during the absorption period.

Area Median Income (AMI): 100% of the gross median household income for a specific Metropolitan Statistical Area, county or non-metropolitan area established annually by HUD.

Assisted Housing: Housing where the monthly costs to the tenants are subsidized by federal, state, or other programs.

Capture Rate: The percentage of qualified households in the market area (for which) the property must be affordable to achieve a stabilized level of occupancy for rental housing or sales for owner-occupied housing. The capture rate is calculated by dividing the total number of units at the property by the total number of qualified households in the market area. (See Penetration Rate for formula for entire market area.)

Community Development Block Grants (CDBG): Federal funding to help entitled metropolitan cities and urban counties meet their housing and community development needs. The program provides annual grants on a formula basis to carry out a wide range of community development activities directed toward neighborhood revitalization, economic development, and improved community facilities and services for low- and moderate-income people.

Community Development Corporation (CDC): Entrepreneurial institution combining public and private resources to aid in the development of socio-economically disadvantaged areas.

Comparable Property: A property that is representative of the housing choices of the subject property's market area, and is similar in construction, size, amenities, or age. Comparable and competitive properties are generally used to derive market rent or sales price.

Competitive Property: A property that is comparable to the subject and competes at nearly the same rent levels, sales prices, and resident profile, particularly age, household size, or income.

Contract Rent: The monthly rent agreed to between a tenant and landlord.

The Davis-Bacon Act (DBA): A federal law that requires contractors and subcontractors to pay construction workers at least the prevailing wage and fringe benefits for the area where the work is being performed. The DBA applies to projects funded by the federal government or the District of Columbia that cost more than $2,000.

Demand: The total number of households in a defined market area that would potentially move into proposed new or renovated housing units. These households must be of the appropriate age, income, tenure, and size for a specific proposed development. Components of demand vary and can include household growth, turnover, those living in substandard conditions, rent over-burdened households, and demolished housing units. Demand is project specific.

Effective rents: Contract rent less concessions such as rent discounts, move-in specials, and free upgrades in finishes or appliances.

Elderly or Senior Housing: Housing where (1) all of the units in the property are restricted for occupancy by persons 62 years of age or older, or (2) at least 80% of the units in each building are restricted for occupancy by households where at least one household member is 55 years of age or older and the housing is designed with amenities and facilities designed to meet the needs of senior citizens.

Extremely Low Income (ELI): Person or household with income below 30% of Area Median Income adjusted for household size.

Fair Market Rent (FMR): Estimates established by HUD of the gross rents (contract rent plus tenant-paid utilities) needed to obtain modest rental units in acceptable condition in a specific county or Metropolitan Statistical Area. HUD generally sets FMR so that 40% of the rental units have rents below it. In rental markets with a shortage of lower priced rental units, HUD may approve the use of FMRs that are as high as the 50th percentile of rents.

Gross Rent: The monthly housing cost to a tenant, which equals the contract rent stated in the lease plus the estimated cost of all tenant-paid utilities. There is a Gross Rent Limit that is published each year by HUD in the spring. Many developers use a tool by Novogradac & Co that publishes the limits by Metropolitan Statistical Area.

> https://www.novoco.com/resource-centers/affordable-housing-tax-credits/rent-income-limit-calculator

HOME Program: Federal grants to states and units of local government to implement local housing strategies designed to increase homeownership and affordable housing opportunities for low and very low-income people.

Hope VI: Federal program aimed at revitalizing severely distressed public housing by providing competitive grants to public housing authorities. Hope VI has been used extensively in the transformation of public housing to create mixed-income affordable housing.

Housing Choice Voucher "HCV" (Section 8 Program): Federal rent-subsidy program under Section 8 of the U.S. Housing Act, which issues rent vouchers to eligible households to use for the housing of their choice. The voucher payment subsidizes the difference between the gross rent and tenant's contribution of 30% of adjusted income, (or 10% of gross income, whichever is greater). In cases where 30% of the tenant's income is less than the utility allowance, the tenant will receive an assistance payment. In other cases, the tenant is responsible for paying his share of the rent each month.

HUD Section 8: Federal program that provides project-based rental assistance. HUD contracts directly with the owner for the payment of the difference between the contract rent and a specified percentage of the tenant's adjusted income.

HUD Section 202: Federal program that provides direct capital assistance (i.e., grant) and operating or rental assistance to finance housing designed for occupancy by elderly households who have incomes not exceeding 50% of Area Median Income. The program is limited to housing owned by 501(c)(3) nonprofit organizations or by limited partner- ships where the sole general partner is a 501(c)(3) nonprofit organization. Units receive HUD project-based rental assistance that enables tenants to occupy units at rents based on 30% of tenant income.

Income Limits: Maximum household income by county of Metropolitan Statistical Area, adjusted for household size and expressed as a percentage of the Area Median Income for the purpose of establishing an upper limit for eligibility for a specific housing program. Income limits for federal, state and local rental housing programs typically are established at 30%, 50%, 60% or 80% of AMI. HUD publishes income limits annually for households with one through eight people. Many developers use a tool by Novogradac & Co that publishes the Income Limits by Metropolitan Statistical Area. Additionally, there is a table published for the City of Charlotte Downpayment Assistance Program (House Charlotte) by DreamKey Partners.

https://www.novoco.com/resource-centers/affordable-housing-tax-credits/rent-income-limit-calculator

https://dreamkeypartners.org/wp-content/uploads/2024/05/AMI-Affordability-Income-Limits-June-1-2024-House-Charlotte.pdf

Low Income: Person or household with gross household income below 60% or 80% of the Area Median Income adjusted for household size. Some programs use 60% AMI, while others use 80% AMI in their definition of income-eligible households.

Low Income Housing Tax Credit ("LIHTC"): A program to generate equity for investment in affordable rental housing authorized pursuant to Section 42 of the Internal Revenue Code, as amended. The program requires a certain percentage of units built be restricted for occupancy to households earning up to 80% of Area Median Income (but predominantly up to 60% of AMI); the rents on these units are restricted accordingly. Gross Rent Limits and Income Limits are updated annually.

https://www.irs.gov/pub/irs-drop/rr-04-82.pdf

Market Area: A geographic area from which a property is expected to draw the majority of its residents.

Market Rent: The rent an apartment, without restrictions or subsidies, would command in the open market considering its location, features and amenities. Market rent should be adjusted for concessions and owner-paid utilities included in the rent.

Moderate Income: Person or household with gross household income between 80% and 120% of Area Median Income adjusted for household size. This segment is often referred to as "workforce housing".

Net Rent: (also referred to as Contract Rent or Lease Rent) Gross rent less tenant-paid utilities.

Project-Based Rent Assistance (PBRA): Financing from a federal, state, or local program allocated to a property or specific number of units in the property. It is available to each income-eligible tenant of the property or an assisted unit.

The Qualified Allocation Plan (QAP): Details the selection criteria and application requirements for Low Income Housing Tax Credits and tax-exempt bonds. It lists all deadlines, application fees, restrictions, standards and requirements for rental developers to be eligible for funding. This document is governed at the state level and each state has its own unique application process. This document is updated annually. In North Carolina, a first draft is normally published around August/September and then it is finalized in October/November after a public input process.

https://www.nchfa.com/rental-housing-partners/rental-developers/qualified-allocation-plan

Qualified Census Tract (QCT): Any census tract (or equivalent geographic area defined by the Bureau of the Census) in which at least 50% of households have an income less than 60% of Area Median Income or where the poverty rate is at least 25%. A project located in a QCT and receiving Low Income Housing Tax Credits may qualify for up to 130% of eligible basis for the purpose of calculating the tax credit allocation.

Mapping Tool: https://www.huduser.gov/portal/sadda/sadda_qct.html

Saturation: The point at which there is no longer demand to support additional housing units.

Subsidy: Monthly income received by a tenant or by an owner on behalf of a tenant to pay the difference between the apartment's contract rent and amount paid by the tenant toward rent.

Tax Increment Finance District (TIF): A geographically designated district that meets specific legal criteria for being blighted. TIF districts are approved by municipalities for the purpose of redeveloping distressed areas and spurring private sector investment. The increase in the total real estate taxes paid in the TIF district after the base year it was created accrues to the TIF district and is used to pay for eligible activities within the district. By law, TIF districts are allowed to run for 23 years, after which point they must be extended or disbanded. Municipalities often use issue tax-exempt bonds backed by the real estate tax increment accruing to the district to pay for capital improvements, land acquisition, and on-going services in the TIF district.

Very Low Income: Person or household whose gross household income does not exceed 50% of Area Median Income adjusted for household size.

Reference Sources

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- Give Impact – Liz Ward, Affordable Housing Advisor. https://www.giveimpact.org/

To add terms or request edits, please email courtney@giveimpact.org.