



# Housing That Lasts: Capital Tools and Processes Needed to Preserve Affordability

## Colorado's Need to Invest in Affordable Rental Housing Preservation

Even as Colorado struggles with a shortage of affordable housing, across the state, thousands of low- and moderate-income renters are currently living in units that are affordable for their budgets. Often, these homes are affordable either because the building has restrictions on how much the landlord can charge for rent or the building's rents are naturally below market rates, usually because the building is older, has limited amenities, or is owner-operated. Preserving the long-term affordability of both types of affordable rental housing is essential to keeping residents in their homes and communities and to successfully expanding the state's affordable housing supply. (See [Housing That Lasts: Why Preserving Affordability Matters for Colorado](#).)

While Colorado has been losing affordable units to expiring affordability restrictions and investor-driven acquisitions of below-market properties, it's not too late to intervene and preserve communities' remaining affordability for years ahead. With the right proactive policies and capital tools in place — and with strong partnerships across government, financing agencies, philanthropy, and developers — Colorado can avert the next wave of expirations and resident displacement. This will require changing the state's affordable housing funding landscape to better enable the recapitalization and extended affordability horizons of restricted properties, and the timely acquisition of unrestricted properties for which long-term affordability requirements can then be put in place. Pairing new capital tools and processes with Colorado's recently passed Right of First Refusal policy can be a catalyst for success.

## The Particular Financing Demands of Affordable Preservation

Preservation funding needs can be broken down into three distinct phases:

1

### TAKE DOWN

loans, debt, and equity needed to purchase a property

2

### HOLD

bridging the gap between closing on a property and getting to the point where it is occupied and financially sustainable as well as undertaking deferred maintenance and other minor rehabilitation

3

### PERMANENT

capital needed to maintain below-market rents affordable to low-to-moderate income renters while still covering operating costs

Across these three phases, preservation projects require **loans, equity products, and subsidy**, and all these capital tools need to be low-barrier and readily accessible. Specific financing needs vary depending on the property size, the housing market where the

property is located, and the assets and legal structure of the group working to preserve the property. While some properties require higher public investment, some need little subsidy or fewer capital interventions to be viable, and new tools should address all needs.

Even as Colorado leaders have invested significantly in creating new housing supply, investment in preserving existing affordability has lagged. Successfully preserving long-term affordability in Colorado will require changing existing affordable housing funding programs so they work not just for new construction, but also for preservation, and the creation of new capital tools capable of meeting the unique demands of preservation projects. The lack of capital tools and predictable, timely processes has led to few developers willing to preserve properties. Building a capital market that nonprofit and private developers can build viable business strategies around is key to doing more across the state.

## Making What Colorado Already Has Better

### Streamline Underwriting and Review Processes, Reduce Duplication

Currently, upfront costs and risks of failed funding applications are often too high to make preservation a viable option for affordable housing developers. Speed, coordination among funders, transparency in processes, and reduced duplication of underwriting requirements across funders are critical components of effective preservation financing. If developers do not have a clear understanding of how to navigate underwriting and certainty that their project meets funding requirements, then they are not likely to pursue preservation acquisition opportunities. Combining capital tools to reduce the number needed to feasibly finance a property would save time and money. Making processes faster, clearer, more coordinated, and reliable will require Colorado's housing financing ecosystem to:

## Take Down Phase

- Provide clear, consistent, and preservation-focused underwriting guidelines and production targets across the Colorado Housing and Finance Authority (CHFA), State Division of Housing (DOH), and local housing agencies.
- Consider underwriting preservation-minded developers ahead of time, so there are limited additional requirements when acquisition opportunities within already-agreed-upon parameters arise.
- Align and coordinate underwriting documentation requirements between CHFA, DOH, local governments, and community development finance institutions (CDFIs).
- Allow developers to submit one package for joint review by multiple funders.
- Quickly approve acquisitions, especially unrestricted below-market properties — with a goal of 60 to 90 days.
- Contribute state-administered funds to a pool of fast-acting, low-cost capital with funds from and managed by CDFIs, which can review and close on properties faster than public agencies.
- Exercise flexibility with targeted affordability and income levels for preservation in small rural communities and for acquisition of occupied properties to mitigate resident displacement.
- Identify communities with less capacity or resources to act on preservation opportunities and support local or statewide organizations to grow or expand their work to include preservation in these areas.
- Encourage owner financing and carryback notes in soft markets to incentivize sales.

## Hold Phase

- Accelerate deployment of state and local equity funds to reduce demand for bridge funds from faster-moving CDFIs.
- Clarify timelines and requirements for permanent debt and equity, so developers feel confident securing bridge financing and lenders are comfortable providing it.
- Offer bridge financing for acquisitions even when developers do not have their entire development plan in place, as rehabilitation and capital improvement plans take time to develop after an acquisition.

## Permanent Financing

- Prioritize or dedicate an appropriate amount of Proposition 123, Private Activity Bonds, State Tax Credits, and other available public capital to preservation and ensuring extended, long-term affordability.
- Especially in preservation acquisitions, ensure energy efficiency requirements for Proposition 123 and other capital resources are flexible enough to promote climate goals while also accommodating the real challenges of retrofitting old buildings and recognizing that renovations of critical systems and life-safety issues may be more urgent than energy efficiency upgrades.
- Allow flexibility with targeted affordability and income levels when Proposition 123 capital is used to acquire an unrestricted affordable property, basing flexibility on existing tenant incomes.





## **Create Preservation-Specific Subsidy Limits and Project Scoring**

DOH's and CHFA's current systems to award capital require developers working on preservation projects to meet funding guidelines created with new construction in mind. This, along with recent prioritization of state funds and tax credits to housing production, has disadvantaged affordable rental preservation applications. Across all phases of preservation, establishing subsidy limits and project scoring that works for preservation projects will require statewide agencies to:

- Consider the unique nature of each preservation project within underwriting and per unit funding guidelines and not force applications into standardized guidelines designed around new construction.
- Do not weigh preservation requests for capital against requests for new construction, but rather against preservation-specific guidelines or other preservation applications.
- Reflect the cost of an acquisition inclusive of the cost savings they provide when compared to building new units (e.g. land, infrastructure, regulatory costs) in scoring and underwriting guidelines.

## **Allow Capital to Go to all Allowable Uses – Including Preservation**

Current state affordable housing funding programs, especially Proposition 123 debt and equity, should

be allocated in line with the flexibility that they were created and in response to actual housing needs – which inevitably include preservation projects.

## **Creating Missing Capital Tools**

Relying only upon existing resources, especially as they favor new construction, will ensure that Colorado will continue to fall well short of a goal to preserve all expiring affordable rental developments over the next five to 10 years. There are several opportunities for new state-level financing that would significantly accelerate affordable preservation.

## **Provide Predevelopment Grants and Lines of Credit**

Developers need access to flexible grants (nonprofits) and no-cost loans (for-profit developers) to help them identify and vet acquisition opportunities. Especially for smaller, rural, and nonprofit organizations, access to a pool of predevelopment grant funding to pay for appraisals, capital needs assessments, and other due diligence would allow organizations from across the state to seek out and analyze properties without risking their balance sheets.

Lines of credit would provide confidence to developers that preservation and acquisition strategies are feasible. Lines of credit should be unsecured, low-cost, and have a wide range of allowable uses, including due diligence requirements and acquisitions themselves. Predevelopment resources provided at the state level are particularly important to organizations in communities without local housing funds.



## Capitalize CDFIs Working Throughout the State

There are multiple CDFIs that provide preservation financing in Colorado, including Impact Development Fund, Enterprise Community Loan Fund, and Mercy Community Capital. CDFIs can act faster than public financing agencies, work well together, and play an important financing role in Colorado, including bridging slow-to-deploy public agency equity and grants — a solution that works, but that causes developers to pay interest because of slow public agency timelines. CDFIs are popular lenders for predevelopment, acquisition, and bridge financing, yet none in Colorado have enough low-cost and flexible capital to meet the demand for preservation projects. Adequately funding CDFIs with long-term, no-cost state-provided capital that is lent at very low rates will fill many financing gaps and ensure their long-term viability as traditional federal funding resources are threatened.

## Create More Flexible and Accessible Equity Products

The requirements to access and draw on existing equity products are current barriers to financing the preservation of rental properties. Equity products and grants from DOH and local governments should be available to developers while they create a permanent financing plan. Equity and grant per unit limits should be based on the unique needs of preservation projects and may require more equity than current funds allow due to the difference in capital availability from new construction. Colorado also needs a

new pool of equity and grants that can be used for capital repairs and renovations across portfolios similar to the [Greater Minnesota NOAH Impact Fund](#).

## Ensure Sufficient Capital is Available by Creating New Low-Cost, Flexible Acquisition, Bridge and Permanent Debt Products

Whether hosted at a CDFI, CHFA, DOH, or elsewhere, Colorado lacks the full scope of capital tools necessary to preserve multifamily affordable properties. Many states and local governments across the country have created preservation-specific capital products with terms, conditions, and investment levels meant to make preservation easier — including a preservation pilot program hosted at CHFA that was immediately committed once opened. Successful funds include the [Colorado Housing Accelerator Initiative](#), [Greater Minnesota Housing Fund](#), [National Equity Fund](#), and the [San Francisco Housing Accelerator Fund](#). Critical considerations for new Colorado financing tools include:

### Take Down Phase

- Greater overall risk tolerance.
- Higher loan-to-value ratios (LTVs) for acquisitions, to reduce the number of resources needed to act quickly and compete with market-focused investors. Products from across the country offer 95-120% LTV by combining public, philanthropic, and bank funds into one loan fund. Colorado needs more resources like these with consistent, reliable permanent financing tools committed at the take-down phase.

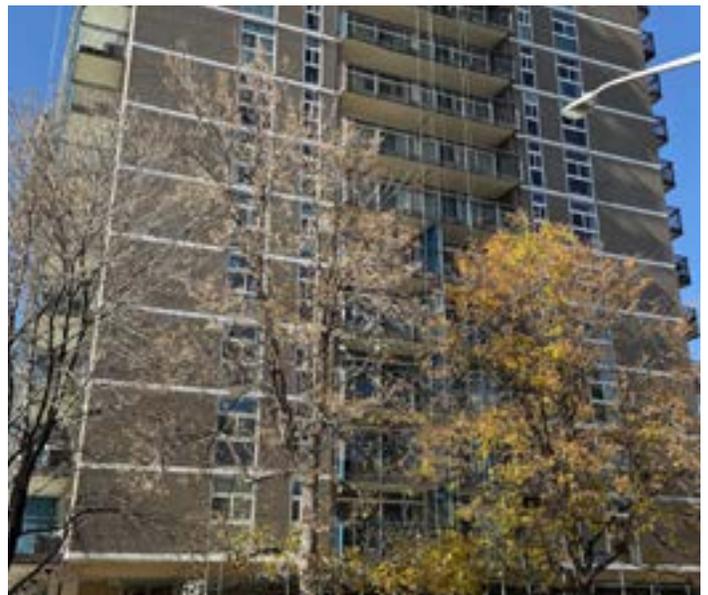
- Consistent with the successful CHFA preservation pilot fund, acquisition loans in subordinate lien position to bridge between an affordable developer's goals for long-term affordability and market values.
- Flexibility around collateral and guarantee terms, especially for smaller, rural, and nonprofit organizations.
- Reduced interest costs by allowing accrued interest during both take down and bridge phases.
- Pairing developers with special limited partners, such as public housing authorities, to reduce property tax burdens when projects meet local objectives, with education for interested housing authorities on how special limited partnerships can increase local affordable housing.
- Balance sheet loans to organizations that can be deployed quickly as acquisition opportunities arise.
- Working capital lines of credit so that developers can increase acquisition activity.
- Ensure acquisition loan products are sized and available for small, rural, and unrestricted affordable properties.
- Establish take down capital tools that can be used by a developer to finance multiple small acquisitions in order to build a portfolio of smaller properties over time.

### Bridge Phase

- Flexibility from bridge lenders on what costs their capital may cover during this period.
- Recognize that full redevelopment plans may not be in place at the time bridge financing is needed and reduce requirements that items such as Capital Needs Assessments be complete as a prerequisite to accessing bridge capital.
- Increase the amount of patient capital available to developers for at least five years or longer.

### Permanent Financing

- Dedicate a specified minimum share of Private Activity Bond cap for affordable preservation.
- Permanent concessionary debt that is low-cost, lower Debt Coverage Ratio, second or lower lien position with no balloon payments.
- Performance grants and loan forgiveness from DOH for projects meeting affordability restrictions.
- CHFA pool projects from multiple sponsors and communities into one large bond issuance to benefit multiple preservation projects at once.
- Utilization of public housing authorities' ability to issue tax-exempt bonds to benefit local/regional acquisitions near that authority, supported by technical assistance for housing authorities as needed.
- Develop grant/low-cost loan funds for building safety upgrades that would reduce insurance costs and to test for meth and other hazards.



*This brief was collaboratively developed by organizations committed to preserving affordable rental housing across Colorado.*



## Endorsing Organizations

- Archway Communities
- Aurora Housing Authority
- Colorado Coalition for the Homeless
- Colorado Housing Accelerator Initiative (CHAI Funds)
- East Colfax Community Collective
- Enterprise Community Partners
- Foothills Regional Housing
- Home Trust of Ouray County
- Housing Colorado
- Impact Development Fund
- Kaiser Permanente
- Mercy Community Capital
- Mercy Housing
- Total Concept
- Ulysses Development Group