

Affordable Housing Finance 101

Housing Continuum

All housing types play a role in meeting the diverse range of housing needs within Nashville. The Unified Housing Strategy seeks to address the full continuum of housing needs in Nashville. The housing continuum shows the types of housing that support residents across a range of circumstances, from homelessness to homeownership, and everything in between. These include:

- Emergency shelters and permanent supportive housing available to unhoused households
- Public housing and private housing supported by project-based vouchers (PBVs) or project-based rental assistance (PBRA), receiving Section 8 – these homes are typically for households making the lowest incomes, with the majority under 50% AMI. These homes require ongoing public subsidy to maintain. There are more than 650 homes supported by PBVs, while one of the primary sources of PBRA in Nashville is MDHA, responsible for a portfolio of over 6,000 homes, making them one of the main sources of deeply affordable homes in Nashville. MDHA converted its portfolio from public housing (Section 9) to Section 8 PBRA through the RAD program in 2018, preserving affordability while allowing the agency to access new financing.¹ There are 200 homes that use project-based vouchers and 6,240 active Section 8 vouchers in Nashville.
- Subsidized affordable rental homes – these are rental homes that use public funding to help pay for their construction and typically are available to households making between 50% to 70% AMI, with some as low as 30% AMI. There are 20,800 subsidized rental homes, excluding public housing vouchers in Nashville.
- Existing market-rate rental homes – these are rental homes that were built by the market previously. A large share of these are affordable, and referred to as Naturally Occurring Affordable Housing because they are affordable but did not receive public funding. There are 26,300 of these homes in Nashville, but the number has been shrinking in recent years as rents have risen faster than incomes.
- Existing for-sale homes – these are homes that are for-sale homes that were not recently built. Many are affordable to the households that live there because they were bought when home prices were lower, although rising costs to repair these homes and cover property taxes can make them unaffordable.
- New market rate rental homes affordable to middle- and high-income households. These are rental homes that were recently built by the market. They are typically more expensive than existing rental homes because of the higher cost to build new homes and high demand for homes.
- New market homes for homeownership - these are generally affordable to higher income households. These are for-sale homes that were recently built by the market.

¹ MDHA. N.d. “Rental Assistance Demonstration.” <https://www.nashville-mdha.org/rad/>

Table 1: Household Income, Area Median Income and Total Households

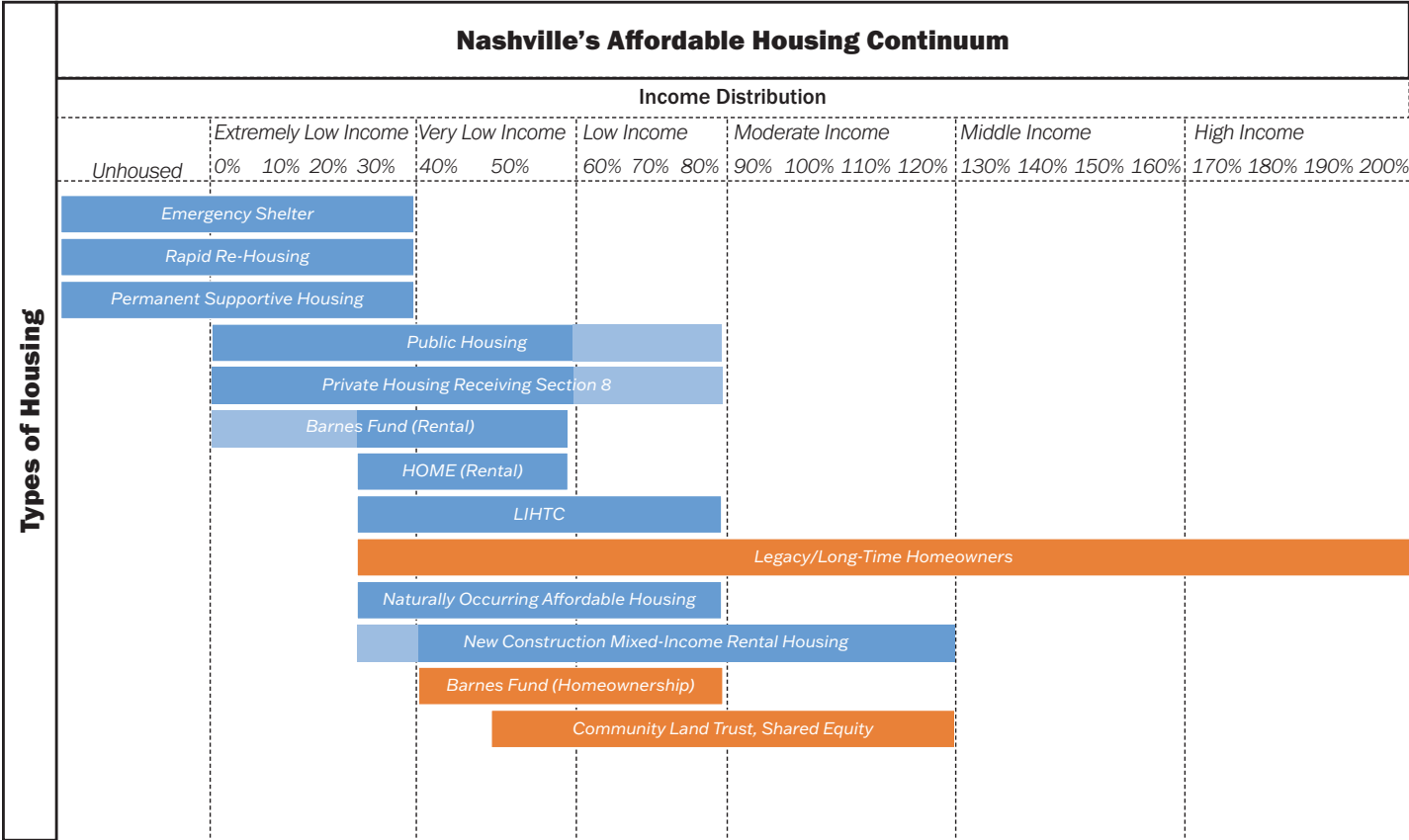
Household Income	Area Median Income	Households
\$0-20K	20%	34,568
\$20K-35K	30%	31,727
\$35K-50K	50%	36,678
\$50K-75K	70%	54,469
\$75K-100K	100%	40,128
\$100K-150K	140%	48,970
\$150K+	+140%	56,123

Source: HUD, ACS 5-Year Estimates

Figure 41: Nashville's Housing Continuum



Source: Tennessee Housing Development Agency



■ Renter-Occupied
 ■ Owner-Occupied

Defining Housing Access, Stability and Affordability

Housing access refers to the ability of people to find, afford and secure housing that meets their needs, whether that is housing of sufficient size, housing with sufficient disability accommodation, or housing that is physically safe. This includes the financial capacity to find and secure housing, but also includes the capacity to secure housing while navigating additional factors, such as an on-record eviction filing or order, protected class status, long waiting lists, or other barriers.

Housing stability refers to the ability of households to stay in their home without unplanned or unwanted disruptions or moves. Housing stability can be threatened by **forced displacement** brought on by eviction, foreclosure, or emergencies, like fire or natural disaster, as well as **pressured displacement**, such as rising rents or property taxes, the absence of critical public services or amenities, or changes in neighborhood culture or perceptions of safety.

One of the most critical factors impeding housing access and stability is a decline in housing affordability for many households across Nashville. **Housing affordability** is formally defined by the U.S. Department of Housing and Urban Development (HUD) as the condition in which housing costs are less than 30% of a household's gross income. It is a product of two factors: household incomes and housing costs. In most cities, housing costs have grown faster than incomes in the past decade, leading to growing affordability challenges for low- and middle-income households across America. This is true in Nashville; as home prices have risen, households have experienced reduced housing stability and housing choice.

Table 2: Nashville 2024 Area Median Income (AMI)

	Persons in Household							
	1	2	3	4	5	6	7	8
Area Median Income	\$74,900	\$85,600	\$96,300	\$106,900	\$115,500	\$124,100	\$132,600	\$141,200

Source: HUD (2024)

Figure 42: Housing 101: Land Use and Subsidy Tools

Housing 101:

Land Use and Subsidy Tools

There are many factors outside of local government control that influence the housing market. However, Metro plays an important role in promoting housing affordability through land use policies and subsidy tools.

How does land use impact affordable housing?

Land use regulations determine where homes can be located, what types of homes can be built, and how many homes are constructed. These regulations encompass zoning, minimum lot sizes, and height restrictions. Additionally, the speed of the review and approval process affects the developers' choices about what to build.

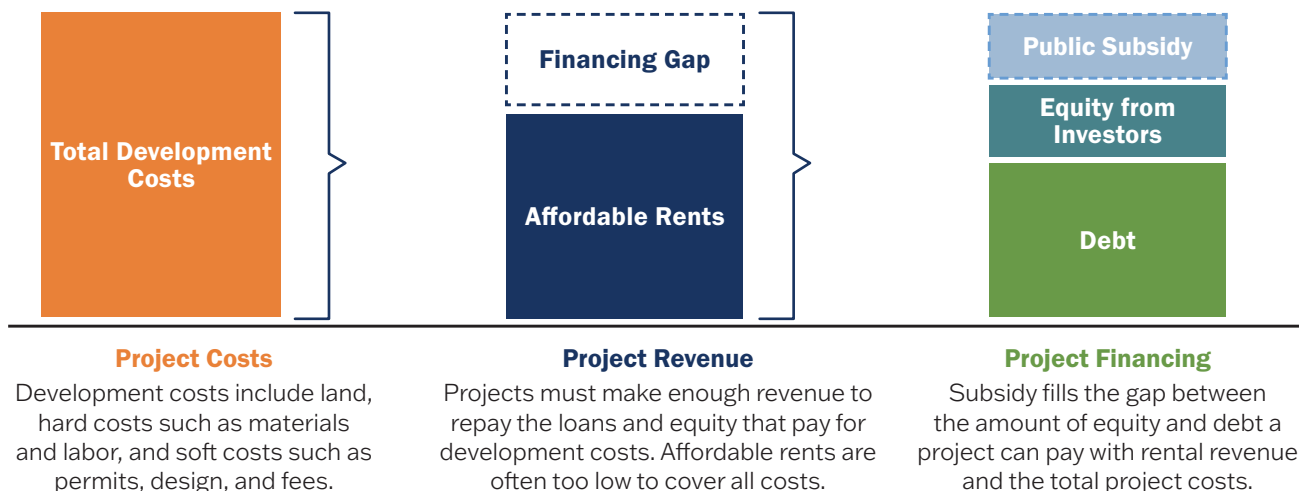


Local governments can support affordability by minimizing delays in the development review process. A 2018 study found that, **on average, multifamily projects experienced 4-month delays in approvals, increasing rents by 5% to account for the cost of the delays.**¹

Land use tools are important to ensure sustainable development patterns. However, when regulations only allow single-family homes, or require special approvals to build other types, this increases the cost of land and development timelines, driving up home prices. **When regulations allow for various types of housing, more homes and a greater diversity of homes can be produced.**

What is the role of subsidy in promoting affordable housing?

Subsidy tools such as the Barnes Housing Trust Fund grants, vouchers, and tax abatements close the gap between what households can afford to pay and the substantial cost to develop and operate housing. Public subsidy is costly but necessary to make the development and preservation of homes affordable to lower-income households feasible.



¹ Based on a survey of podium-style apartments in the Mid-Atlantic. Rent increase projected for an average 2-BR apartment.

Figure 43: Housing 101: Affordable Housing Finance

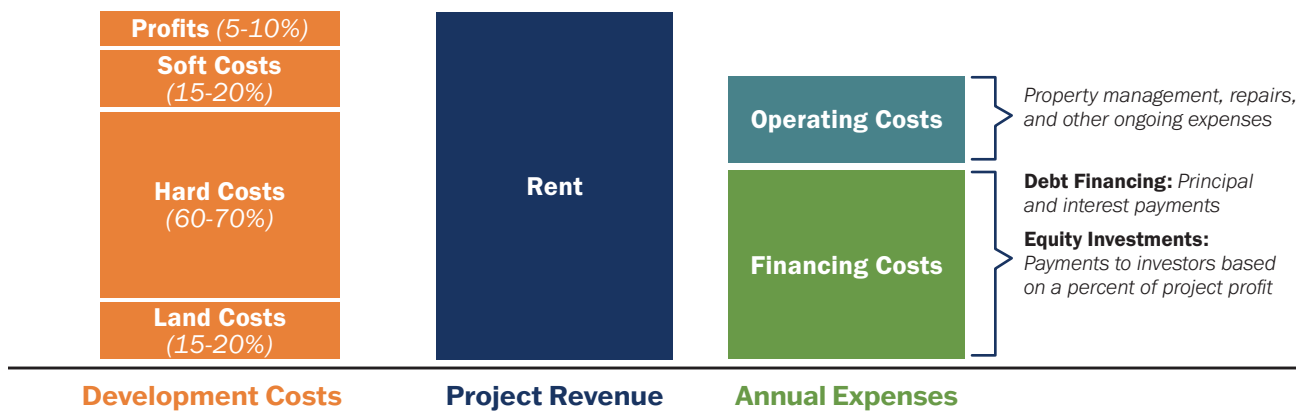
Housing 101:

Affordable Housing Finance

Both affordable and market-rate housing developments are dependent on market factors, such as interest rates. Changes in these conditions affect what developers are able to build and what rents they charge.

How is housing financed?

Development projects can be quite costly. Beyond the hard costs, which include materials and labor, developers must also cover the expenses of purchasing land and soft costs, such as lender fees, permits, design, and engineering. Additionally, they need to ensure they are compensated for their efforts. Typically, these projects are financed through a combination of debt and equity. Debt is traditionally a mortgage loan from a bank or other lender, while equity often consists of the developer’s funds along with outside investments raised from various investors.



The cost of financing, or how much lenders and investors expect to be paid, depends on a variety of factors. A project **must generate enough revenue from rent to cover both the costs** of financing and ongoing operations costs.

What market factors influence affordable housing finance?

Most developers are not self-funded, meaning they provide only a small portion of the funds for a project. Instead, developers must meet the demands of lenders and investors who fund the rest of the costs.



Interest Rates

Although base rates are set by the Federal Reserve, **lenders determine their rates based on an assessment of the strength of each individual project.** This review can be based on location, developer experience, or other factors.



Investor Activity

Like lenders, investors have different repayment, or “return” thresholds, influenced by many factors, including market strength. **In slow economic times, investors may be less willing to invest or may increase their requirements.**



Policy and Regulation

Policy can influence the behavior of lenders and investors, although much of this power rests at the federal level. For example, the Community Reinvestment Act (CRA) rewards lenders who finance affordable housing.