



Colorado
Division of Housing

Advances

The Source for Current Housing Trends

Step-Up Housing

Purpose: Step-up Housing will provide permanently affordable housing for households at or below 30% of the area median income (AMI). A major component of Step-up Housing is an on-site service plan for residents. Step-up Housing will be available to residents on a permanent basis, which is unlike transitional housing that limits the time residents may rent a particular unit. The Colorado Division of Housing (DOH) is encouraging developers to consider the advantages of creating Step-up units within DOH-funded acquisition and rehabilitation projects.

Physical Structures: Existing older structures (generally older than 15 years) that need minimal rehabilitation are best suited for this program. Rehab must fully address the health and safety of the residents. Deferring nonessential rehabilitation until a reserve has been sufficiently funded for this purpose can reduce initial rehab costs. The DOH can provide grant funds, which can limit the need for high interest rehab/construction loans. It is important that Step-up units are included in developments with a mixed-income rent structure. Our recent experience indicates that buildings with as few as 15 units can accomplish this goal and provide sufficient cash flow to support the project.

Target Population: Households whose incomes are at or below 30% of AMI are among the hardest to house in the state of Colorado. A family of four earning 30% AMI, receiving no subsidy, and paying Fair Market Rent (FMR) for a three-bedroom apartment would pay at least 60% of their income toward housing. The average wage of a person moving from welfare to work is approximately \$7.00 per hour or \$14,560 annually; 30% of this income for housing would be \$364 per month. Step-up Housing is designed so that the developer can offer one or more units in a project at rents that reflect one-third of a household's annual adjusted income when that income falls within 30% of the AMI.

Services: A service plan must be provided as part of the overall project, but neither the plan nor the services need to be provided by the developer. Service contracts may be entered that provide a variety of on-site and off-site services. A service plan may be as minimal as a listing of local community services and provision for supplying referral letters for residents.

Financing: To encourage developers to create Step-up units within rental projects, DOH will provide grants to buy-down the initial costs of acquisition and rehabilitation. This reduces the amount of loan funds a project must attract and will allow the developer to pass the savings on to the Step-up units. Rents from Step-up units may be insufficient to meet the operating expenses of that unit. The DOH has created financial models to demonstrate that the remaining units in the project will be able to support the operating expenses of the Step-up units without additional subsidies. Larger projects will more likely provide the economies of scale to support Step-up units.

Partnering with DOH: Step-up developers will most likely include housing authorities, nonprofit developers, and housing agencies that have experience developing and managing affordable rental properties. Step-up developers will either provide or have links to service providers to offer services to the

step-up and other residents as needed. Developers interested in promoting this long-term effort to establish permanent, affordable housing for households at 30% AMI are encouraged to contact DOH staff early in the development process. The DOH staff is available to work with agencies from the initial concept through the finished project.

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