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## Fitch: More U.S. Essential Housing Projects Likely Amid Affordability Crisis

Fitch Ratings-San Francisco/New York/Chicago-11 March 2024: U.S. local governments and state housing agencies are seeking to curb the widening affordability gap by entering into public-private partnerships to build essential housing, according to Fitch Ratings in a new report.

Amid the broader affordability crisis lies a more distressing predicament for middle-income earners such as teachers, police officers, and health care workers looking for a place to live. “Despite earning between 80% and 120% of the area median income, these essential workers often find it challenging to afford housing near their places of employment due to high costs and a shortage of affordable options,” said Senior Director Karen Fitzgerald.

In response, governments have partnered with private developers to create essential housing projects near economic centers and transit hubs. These partnerships have been able to take advantage of low interest rate loans, tax incentives, subsidies, and land grants to make projects financially viable. Not surprisingly, the demand for essential housing is on the rise.

Furthermore, the Infrastructure Investment and Jobs Act has expanded lending capacity for transportation infrastructure projects, including Transit-Oriented Development (TOD). The TOD Program aims to foster compact, walkable communities around transit stations, with financing options available through the Transportation Infrastructure Finance and Innovation Act and Railroad Rehabilitation and Improvement Financing programs.

From a credit perspective, Fitch considers several key nuances and risks to future cash flow volatility when rating essential housing projects. For one, projects with rents that vary across AMI levels may be subject to ongoing cash flow volatility. “Material exposure to refinance risk could be problematic if projects cannot be refinanced before maturity,” said Fitzgerald. To address refinance risk, Fitch may assume fully amortizing, level-pay, annual debt service through bond maturity for projects with non-fully amortizing debt.

Other analytical considerations are addressed in Fitch’s “Essential Housing Initiatives” report, available at www.fitchratings.com.

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