

FAQs

Santa Fe Homes Program



What is the Santa Fe Homes Program?

The Santa Fe Homes Program (SFHP) is a form of “inclusionary zoning” (IZ), which is a regulation requiring developers to set aside a share of new homes for rent or purchase by people with low to moderate incomes. The legal premise is market rate development, particularly in high value markets, creates a direct demand for new affordably priced homes. To offset this demand, IZ programs usually require that a wide range of incomes are served. SFHP homes are priced affordably to meet the needs of Santa Fe's workforce, serving homebuyers earning below 100% of the area median income (AMI) and renters earning below 80% AMI.

What does the term “affordable housing” mean?

Housing is “affordable” when a household pays no more than 30% of their monthly income to cover their housing costs. Housing is made “affordable” when prices are restricted and/or when subsidy is applied to cover the gap between the market value and what the household can afford. Affordable home prices and rents in Santa Fe are defined by the SFHP ordinance and are updated annually based on federal income data and other market conditions.

Are developers allowed to pay a fee instead of providing affordable housing units?

Yes. However, the fee-in-lieu option is only available for rental housing projects and homeownership projects of ten or fewer homes. In 2014, the City Council made permanent an allowance that Small Projects (10 or fewer homes) could pay a fee so smaller scale builders – most likely local and less able to achieve economies of scale – would not get priced out of the market.

Would there be more affordable rental units in Santa Fe if we raised the fee-in-lieu or got rid of it?

Development has to occur for inclusionary zoning to be successful. If the requirements of inclusionary zoning mean that a project's revenues won't cover its monthly operating costs over the lifetime of the project, then banks won't provide long term financing. Making the fee-in-lieu too high, or removing it and requiring all projects to include affordable units, significantly reduces development because new projects won't qualify for financing.

For example, in 2008, the only rental homes built in Santa Fe were both heavily subsidized and 100% affordable (i.e., not subject to the inclusionary zoning rules), or market rate units approved under an alternate compliance. As a result, a very limited number of new rental homes were added to the market, vacancy rates plunged, and rents increased by an average of more than 10% every year following.

When the fee-in-lieu option was created, new rental housing development began again because developers had the option to finance the fee as a construction cost, rather than having losses every month because they couldn't offset their operating costs. Thus, more projects got financing and more units became available overall.

Ordinance amendments in 2020 created a timetable for fee increases. For every year over a five-year period, the fees are increased by 20%, effectively doubling by 2025. If the 2025 market demonstrates it will absorb higher fees, the City will re-evaluate the fee structure and adjust it accordingly. For now, we continue to make it more feasible for market rate property owners to set aside rent-restricted homes in their properties.

Where do the fees go? Are there rules about how they are used?

The fees collected for affordable housing are deposited into the City's Affordable Housing Trust Fund (AHFT). The use of funds must conform with the State of New Mexico's Affordable Housing Act which sets income limits and eligibility criteria. The City annually updates its funding priorities based on emerging needs, and housing providers apply for funding on a competitive basis in a process overseen by the City's Community Development Commission.

The City's Affordable Housing Trust Fund & federal funds have supported home purchases for 216 households, funded emergency home repairs for 113 homeowner households, assisted over 800 renter households with housing stability supports, funded the rehabilitation of 139 affordable rental homes, and improved three facilities serving those experiencing homelessness. In 2020, the City also deployed emergency funds to finance the acquisition of 122 supportive rental homes, provided extra support services for 241 households transitioning out of homelessness, and prevented eviction or foreclosure for 290 households.

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Are developers allowed to negotiate the fee-in-lieu for their project's required affordable housing units?

Fees calculations are not negotiable. Every year, the City uses income data released by the Department of Housing and Urban Development (HUD) to calculate fee schedules and subsidized pricing schedules for home sales. For rental projects, the City uses an "affordability gap" method which uses the difference between a fair market rent and what an income-qualified renter can afford to pay. The fee varies by unit type but the fee calculation is standard.

Why do affordable rental units revert to market rental rates after a period of time?

All affordable housing subsidy restrictions have a set compliance period. Housing projects need reinvestment, and deed restrictions – like those used to create affordable housing subsidies – would cloud the property's title and make it difficult to refinance or sell it if the restriction was indefinite. Rental housing is also financed based on its ability to generate revenues greater than its operating costs. Because market rate property owners can't access affordable housing subsidies or grant financing, they absorb the operating losses. If affordable housing restrictions never ended, developers would not be able to find financing for their projects.

Why do the incentives given to developers for offering rent-restricted units, such as water offsets, last in perpetuity, while the units are not affordable in perpetuity?

The success of inclusionary zoning is closely tied to incentives like fee waivers, water offsets, and other reduced costs, which are often integral to making an inclusionary project financeable. Without financing, the projects can't proceed and the affordable units will not be available at all. These incentives are proportional so the greater the affordability, the greater the incentive. I.e., if a project is 100% affordable and the compliance term is 40+ years, the incentives are maximized.

Why are there more affordable housing projects in certain neighborhoods?

The City applies inclusionary zoning on a citywide basis wherever a developer chooses to build homes. Due to land use realities, the land in the downtown area or East Side is either already built-out or zoned at too low density to support affordable housing. Neighborhood opposition, topography and drainage challenges, and other code requirements like historic design protections also make affordable and scaled development prohibitive in these areas. Other areas of Santa Fe tend to be flatter, land is less expensive, infrastructure has greater capacity and parcels are easier to develop in those locations as a result.

If a homebuyer buys an affordable house, does it remain affordable when they sell it?

The City creates affordability controls through a lien that captures the difference between the current appraised value of the home and the subsidized sales price. This prevents an owner from "flipping" the home and getting a windfall profit. These liens last in perpetuity so the buyer must always pay it back to the City regardless of how long they live in the house. The City has the 'right of first refusal' when the affordable homeowner decides to sell. For 60 days, the owner is restricted from going under contract with a non-affordable buyer and the City decides if they want to resubsidize the home and sell to another affordable buyer. If a home is sold at market, the proceeds from the City lien are deposited into the Affordable Housing Trust Fund (AHTF) and can be used to support another income-qualified homebuyer.

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