Affordable Housing Financing Fund

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Proposition 123: Equity Program Guidelines

COLORADO
Office of Economic Development
& International Trade

chfa

Affordable Housing
Financing Fund

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Proposition 123: Equity Program

The Equity program provides below-market-rate equity investments to eligible for-profit and nonprofit entities for the construction or preservation of low- and middle-income multifamily rental developments.

Guidelines 08-15-2025

Eligible Projects	• Low-income multifamily affordable rental developments • Middle-income multifamily affordable rental developments • Preservation of existing developments at risk of losing affordability • This equity cannot be paired with federal or state Housing Tax Credit equity
Program Benefits	• Flexible source of capital with below-market return expectations • Structured with equity returns based on available cash flow
Program Allocation	Program funding 40% to 70% of total Affordable Housing Financing Fund (AHFF) annual allocation
Eligible Project Sponsors	For-profits, nonprofits, and governmental entities including housing authorities and tribal governments
Maximum Investment Size	The maximum Program Investment amount is $15,000,000. Investment size will be based on a comprehensive evaluation of the project's financials, supporting documentation, and available program funding.
Minimum Investment	$1,500,000
Eligible Uses	Eligible project costs include acquisition, construction hard costs, professional fees, financing costs, soft costs, and reserves. Projects using modular construction with an advance factory deposit requirement may be able to use Equity funds for this purpose.
Investment Returns	Below-market returns based on available annual cash flow, with any remaining capital paid in full at a capital event. The Program Investment term is up to 30 years.
AMIs Served	Not to exceed 90% average AMI for all restricted units
Collateral	The Program Investment will be secured by the project assets
Fees	Investment servicing fee of 1% of available annual cashflow; standard third-party closing costs, such as title, survey, and recording costs
Affordability Requirements	A Regulatory Agreement ensuring affordability for 30 years will be required. The agreement will designate the property as a "qualified property" according to C.R.S. 29-4-1202 and establish a right of first refusal with the local government prior to the expiration of the agreement.
Priorities	• **Statutory Priorities:** High-density housing, mixed-income housing, environmental sustainability • **Strategic Policy Priorities:** Shovel-ready projects that result in new units; use of modular/offsite building technology produced in Colorado; inclusion of home-based childcare or commercial child care facilities; and geographic diversity

Proposition 123: Equity Program Guidelines

Program Description and Eligible Projects

The Affordable Housing Financing Fund Equity Program (Program), as created by Proposition 123, provides equity investments (Program Investment) to eligible low- and middle-income rental projects, including existing housing projects for purposes of establishing or preserving affordable rental units. Projects that result in the construction of new units will be prioritized for selection.

Program Benefits and Funding Allocation

The Program provides an equity investment with below-market return expectations to help support the development of new low-income and middle-income rental housing units and the preservation of existing affordable housing units.

The total amount allocated to the Equity Program is limited annually to between 40 percent and 70 percent of the total available Colorado Affordable Housing Financing Fund.

Eligible Project Sponsors

A project that applies for funding from the Program must be located in the State of Colorado in a jurisdiction that has received approval through the Colorado Division of Housing to participate in the Colorado Affordable Housing Financing Fund. For-profit entities, nonprofit, government entities including housing authorities, and tribal governments with prior experience in developing affordable housing are eligible to apply.

Investment Terms and Conditions

Program Investments will have a term of up to 30 years, which may be extended by the program administrator, with below-market return expectations. Every Program Investment will require a 30-year Regulatory Agreement. The agreement will designate the property as a "qualified property" according to C.R.S. 29-4-1202 and establish a right of first refusal with the local government prior to the expiration of the agreement. The minimum Program Investment size is $1,500,000 and the maximum size is $15,000,000. Project sponsors may elect one of two types of Program Investment, depending on their project objective.

The program administrator reserves the right to waive certain requirements to ensure financial viability for a given project that achieves certain policy goals such as promoting geographic diversity, achieving affordability goals, or achieving other state housing policy goals.

Option 1: Affordability-Driven Equity Investments

These investments are mission-driven investments focused on delivering affordable units at lower AMI levels. Return expectations are lower, in exchange for deeper or longer-term affordability. For each project:

- The Program Investment may constitute up to the entirety of the remaining portion of equity needed in the capital stack after the sponsor equity contribution.
- Full repayment of the Program Investment at a capital event is permitted beginning in year three after construction completion.

  - Full repayment will be assumed during the underwriting process. If necessary, partial repayment may be permitted at a future capital event, in which the remaining Program Investment may be assumed by the buyer. If the remaining Program Investment is assumed by the buyer, an extended affordability term may be required, based on an evaluation of capital needs at the time of sale.
- The minimum Debt Coverage Ratio for all must-pay debt is 1.10.
- The Program Investment shall have a pari-passu cash flow and capital event participation rate commensurate with its equity share, unless otherwise negotiated with AHFF prior to application submission. Cash flow participation only occurs after all must-pay debt and is contingent on the project's cash needs.
- A Developer Fee of up to 7 percent can be paid to the developer will be paid in intervals at closing, construction completion, and conversion.
- Sponsor equity may be structured to receive up to a 10 percent internal rate of return by year 30.
  - If the property meets or over-performs its underwritten IRR at the time of a capital event, the sponsor may opt to participate in a promote structure entitling the sponsor to 15 percent of remaining profit after clearing the sponsor IRR hurdle.

Option 2: Mixed-income Equity Investments

These investments are market-driven investments focused on delivering mixed-income and middle-income units. Return expectations are higher than Option 1, but still below market. For each project:

- The Program Investment may constitute up to the entirety of the remaining portion of equity needed in the capital stack after the sponsor equity contribution.
- Full repayment of the Program Investment at a capital event is permitted beginning in year 3 after construction completion.
  - Full repayment will be assumed during the underwriting process. If necessary, partial repayment may be permitted at a future capital event, in which the remaining Program Investment may be assumed by the buyer. If the remaining Program Investment is assumed by the buyer, an extended affordability term may be required, based on an evaluation of capital needs at the time of sale.
- The minimum Debt Coverage Ratio for all must-pay debt is 1.20.
- The Program Investment shall have a pari-passu cash flow and capital event participation rate commensurate with its equity share, unless otherwise negotiated with AHFF prior to application submission. Cash flow participation only occurs after all must-pay debt and is contingent on the project's cash needs.
- A Developer Fee of up to 4 percent will be paid in intervals at closing, construction completion, and conversion.
- Sponsor equity may be structured to receive up to a 15 percent preferred return during the first five years, however, the preferred return must be 12 percent or lower for the entire operating period if the holding period is longer than five years.
  - If the property meets or over-performs its underwritten IRR at the time of a capital event, the sponsor may opt to participate in a promote structure entitling the sponsor to 15 percent of remaining profit after clearing the sponsor IRR hurdle.

Reserve Requirements

The project shall budget for a minimum operating reserve equal to four months of operating expenses and debt service, or more if required by the senior lender. The minimum per-unit replacement reserves are $300 for age-restricted properties and $350 for family properties.

Investment Returns and Fees

The annual Program Investment returns will be determined via AHFF's Cashflow Calculation Worksheet, which will be completed during the preparation and audit of the property's annual financial statements. The Program Investment shall have a pari-passu cash flow participation rate commensurate with its equity share, unless otherwise negotiated with OEDIT prior to application submission. Cash flow participation only occurs after all must-pay debt and is contingent on the project's cash needs.

All Program Investments will have an investment servicing fee of 1 percent of available cashflow, as well as standard closing costs, including but not limited to third-party reports and title costs.

Security Interest

Program investments will be secured by a subordinate Deed of Trust and Security Agreement on the real estate and personal property, subordinate only to hard debt, unless otherwise determined by OEDIT.

AMI Restrictions

The average of rents for the restricted units in projects financed through the Program must not exceed 90 percent of Area Median Income (AMI) or below, as defined by HUD/CHFA, unless a community has successfully petitioned DOLA for a higher average AMI. Rents will be underwritten to at least a 3 percent discount to local market rents as determined by the construction lender's appraisal.

Tenant Equity Program (TEV)

Projects will be required to participate in a tenant equity program, which will be funded by program earnings from AHFF Concessionary Debt loan interest and AHFF Equity returns to the state. OEDIT and CHFA have contracted with a third-party administrator to deliver the program benefits to the residents of developments that receive AHFF Equity. It will be the responsibility of the property owner and its property manager to inform residents that their property is participating in the program and facilitate communication between residents and the third-party administrator.

Affordability Covenants

All projects will be subject to a Regulatory Agreement to ensure that the units will be maintained and rented as income-qualified units for 30 years. The agreement will designate the property as a "qualified property" according to C.R.S. 29-4-1202 and establish a right of first refusal with the local government prior to the expiration of the agreement.

Reporting

Projects will be subject to ongoing compliance including audits of new resident income verification, annual financial reports, and periodic physical inspections.

Funding

Funding of the AHFF Equity will occur either at construction closing or perm conversion. Projects using modular construction with an advance factory deposit requirement may be able to use Equity funds for the deposit, prior to construction closing.

Statutory Priorities

1. High Density – Project is high density and/or meets the maximum allowable density as informed by local definitions of high density, and what is feasible based on local conditions.
2. Mixed Income – Project serves three or more income levels within the program-specific funding guidelines.
3. Environmental Sustainability – Project meets the environmental criteria below:*
    a. Certification from one of the following:
        i. Enterprise Green Communities Certification Plus
        ii. Enterprise Green Communities
        iii. Zero Energy Ready Homes
        iv. Energy Star NextGen Certification
        v. National Green Building Standards
    b. Projects located in jurisdictions that have not adopted the 2021 or higher International Energy Conservation Code may opt out of the certification if they commit to using the 2021 or higher IECC and State Model Energy and Solar Ready codes when they develop the units.

        Note: Per SB24-214, on or after January 1, 2025, all state-funded projects with new units are required to use Energy Star appliances.
    c. Projects within Transit-oriented Communities (TOC) as defined by HB24-1313 must be within the Transit Area or Optional Transit Area as designated on the TOC Map found at dlg.colorado.gov/transit-oriented-communities. Projects not located in a TOC but located within one half mile of a regularly scheduled transit stop or a community center where jobs and services are located may also be prioritized.
    d. All projects must have water efficient design inside and outside. Full guidance can be found at coloradowaterwise.org.
    e. All projects must monetize eligible federal or state energy efficiency tax credits and rebates to the extent such credits are available when the project commences. Visit chfainfo.com/rental-housing/colorado-multifamily-electrification-hub to determine which funding source fits your project.
    f. Projects must report utility costs and performance to the Energy Star Portfolio Manager system at portfoliomanager.energystar.gov.

*Waiver: If a project cannot meet one or more of the Environmental Sustainability requirements described above, it may present an alternative standard or request a waiver. The waiver will need to be justified with documentation demonstrating the following: increased cost, lack of contractor knowledge (rural), limited location options (rural), or other barriers.

Strategic Policy Priorities

Priorities are subject to change based on relevant gubernatorial Executive Orders.

1. Shovel Ready – Projects that demonstrate they will begin construction quickly based on their status in the project timeline and factors such as compliance with zoning, entitlements, and construction plans, among other factors.
    a. All underwriting diligence must be submitted within 4 months of the term sheet issuance date.
    b. To determine shovel-readiness, each project will be evaluated based on the number of due diligence items submitted from the list in the appendix, especially those items with long lead times.
2. Use of off-site building technology – Projects that use manufactured modular/off-site building technology that is reasonably cost-competitive compared to traditional construction methods. Colorado based production will be prioritized over out of state produced units.
3. Inclusion of child care – Projects that include home-based child care units or commercial child care facilities.* Visit cdola.colorado.gov/child-care-facility-development-toolkit for resources.
4. Geographic diversity – Projects across the state that present geographically diverse funding opportunities, enabling the AHFF to fund a wide array of projects located in larger urban areas, smaller cities and towns, and rural, rural resort, and tribal areas.

*Please note that commercial facilities are generally not eligible for AHFF financing, although limited exceptions exist for commercial and mixed-use development within affordable housing projects that meet program-specific criteria. Please contact CHFA for additional information.

Application Submission

Projects must meet the three statutory priorities listed above to apply and will be prioritized based on compliance with the Strategic Policy Priorities listed above.

Application requirements are outlined on the Affordable Housing Finance Fund website at coloradoaffordablehousingfinancingfund.com/equity. Applications will be reviewed based on the following:

a. achievement of the Statutory and Strategic Policy Priorities listed above
b. geographic distribution
c. financial feasibility
d. readiness to proceed
e. number of units created relative to local need/demand
f. leveraging private capital

Due Diligence List

- Project Narrative, including Legal Description
- As-Complete Property Appraisal – preferably from the construction lender
- Third-Party Market Study
- Location Map, including Flood Plain Information
- Evidence of Zoning
- Land/Topographic Survey (ALTA)
- Initial Title Work with ALL Exceptions
- Final Site Plan with approval from Local Authority
- Sponsoring Entity Financials
- Evidence of Site Control or Ground Lease
- Funding Commitments, Equity Commitments, Pledges, TC Investor, etc.
- Property Insurance Quote
- Entity Organizational Docs: Articles of Inc. and Bylaws for Sponsor; Partnership Agreement and/or Operating Agreements for the Borrowing Entity
- Final Organizational Chart for Recipient Entity, including the individual Principals, Property Manager and GC
- Development Team Profiles
- Property Management Contract
- Property Management Plan
- Standard Lease Agreement
- Utility Allowance Schedule
- Phase I Environmental Assessment (and Phase II if necessary)
- Soils/Geotechnical Report
- Plans and Specs/Complete Scope of work with Cost Detail **(Due to large file sizes - Do not submit plans and specs with your application)**
- Construction Schedule
- AHFF Cost Summary
- Initial Draw Schedule
- Draft GC Contract