

AFFORDABLE HOUSING DEVELOPMENT IN THE U.S. VIRGIN ISLANDS

Presented for Legislative Review

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I. Overview of the Affordable Housing Program – Virgin Islands Housing Finance Authority (VIHFA)

The Virgin Islands Housing Finance Authority (VIHFA) is the lead agency responsible for managing affordable housing programs across the U.S. Virgin Islands. Since the availability of federal funding through **Community Development Block Grants – Disaster Recovery (CDBG-DR) and Community Development Block Grants – Mitigation (CDBG-MIT)** following Hurricanes Irma and Maria, there have been only marginal improvements in the development of affordable homeownership opportunities. While rental housing has received substantial funding, single-family homeownership development has remained underfunded and slow to materialize.

The need for affordable, hurricane-resilient homeownership options remains critical, particularly as the territory experiences rising construction costs, increasing mortgage rates, and a growing trend of investor and short-term rental acquisitions pricing out local buyers. Addressing these challenges requires innovative construction solutions, private-public partnerships (P3s), insurance reforms, and a structured approach to preparing residents for homeownership.

II. Private-Public Partnerships (P3s) for Single-Family Housing Development

While VIHFA has historically relied on private-public partnerships (P3s) to develop multi-family rental housing, the same model can be applied to single-family homeownership development.

A well-structured P3 framework can:

- Ensure new housing remains accessible to Virgin Islands residents by preventing real estate investors and expatriates from outpacing local buyers.
- Leverage private sector expertise to expedite development timelines, ensuring that projects are completed efficiently and within budget.
- Reduce costs for homebuyers by integrating financing mechanisms and construction efficiencies.
- Encourage transparency and accountability in the development process.

In recent years, there has been a growing trend of expats and foreign investors purchasing affordable homes, further limiting the supply of entry-level housing for first-time homebuyers. Additionally, there is an increasing number of short-term rental conversions of existing housing stock, exacerbating the affordability crisis. It is imperative that new housing developments have specific designations and deed restrictions to ensure they remain available for full-time Virgin Islands residents.

III. The Residences at 340 North: A Mixed-Income, Disaster-Resilient Homeownership Development

The Residences at 340 North is a model mixed-income homeownership community currently under development.

Project Overview

- Total Units: 77 homes (a mixture of townhomes and detached single-family homes).
- Affordable Housing Component: 28 homes reserved for affordability with a sales price under \$500,000.
- Targeted Affordability Range (AMI):80%-120%, in alignment with VIHFA's affordable program guidelines.

The sales price applies only to the affordable housing units, making them some of the most competitively priced new homes available in St. Thomas, where comparable units in this price range are typically 20+ year old condos rather than modern, energy-efficient, and disaster-resilient homes.

Economic Impact & Benefits for the Territory

The development will generate over \$35 million in direct economic impact, including:

- Job creation in construction, real estate, and supporting industries
- Tax revenue through property taxes, business taxes, and permitting fees
- Increased local spending from homebuyers and construction workers

Innovative, Sustainable, and Resilient Construction

The development introduces groundbreaking sustainable, energy-efficient, and disaster-resilient construction technologies and practices. Utilizing Insulated Concrete Forms (ICF), the project represents a first-of-its-kind full ICF residential community in the Caribbean, setting a new standard for construction and housing in the region.

While ICF has been used in the Caribbean for high-end, one-off projects, this initiative will be the first fully integrated ICF-based community, showcasing its scalability and affordability for residential developments.

IV. Addressing Challenges in Single-Family Housing Development

Single-family home developments have faced challenges due to inefficiencies in the current development process. Key factors include:

- Bureaucratic & Administrative Delays: Lengthy approval processes, slow decision-making, and a lack of streamlined permitting hinder timely development.
- Reliance on Contractors Instead of Developers: Contractors lack direct financial incentives to complete projects efficiently. Without risk exposure, they do not have the same urgency as developers, who have a vested financial interest in the success of the project.
- Antiquated Construction Techniques & Designs: Many VIHFA projects use outdated construction methodologies that are time-consuming and inefficient, rather than embracing modern, high-performance building materials and techniques such as ICF.
- Material Procurement: A lack of proper material sourcing and bulk purchasing strategies causes delays and unnecessary cost overruns.
- Limited Staff with Development Expertise: VIHFA has few personnel with direct experience in large-scale development, including entitlement processes such as engineering, zoning approvals, third-party site coordination, financial modeling, and material procurement strategies—critical components of successful housing projects.

Solution: Prioritizing Developers Over Contractors

By engaging private developers with proven experience in development, construction management, and project execution, VIHFA can eliminate inefficiencies and accelerate housing development. Developers have a direct financial stake in success and therefore ensure cost-effectiveness, efficiency, and accountability throughout the project lifecycle.

V. Utilizing \$60 Million in CDBG-MIT Funds for Stalled and Future Developments

A portion of the \$60 million in CDBG-MIT funds allocated for single-family home construction can be used to establish a **Development Revolving Fund** to create sustainable homeownership projects in each district of the territory.

Purpose of the Development Revolving Fund

- Provide long-term, replenishable funding for homeownership developments.
- Accelerate the development of single-family projects by ensuring funding is available upfront.
- Allow funds to be recycled into future projects rather than being spent on one-off developments.

The table below presents a sample funding structure that can be applied to multiple developments, ensuring continued reinvestment into new homeownership initiatives.

Funding Source	Amount (\$M)	Purpose	Replenishment Source
CDBG-DR/MIT Allocation	\$5	Land acquisition, infrastructure	Home sales revenue
Private Developer Investment	\$0.5-\$1.0	Entitlement and development management	Developer equity return
VIHFA/Local Incentives	\$1.5	Down payment assistance, buyer subsidies	N/A
Total Development Fund	<u>\$7-\$7.5M</u>	Initial fund for construction	Replenished by sales

VI. Conclusion & Legislative Recommendations

To address the affordable housing crisis in the Virgin Islands, the following actions are recommended:

1. Prioritize developers over contractors for single-family housing initiatives to ensure project efficiency and accountability.
2. Directly allocate CDBG-MIT funds toward the creation of a Development Revolving Fund to support stalled projects and sustain affordable housing initiatives.
3. Increase affordability through direct subsidies, allowing for lower sales prices.
4. Expand the affordable homeownership component of 340 North through financial commitments.
5. Invest in disaster-resilient, energy-efficient construction technologies such as ICF, to reduce long-term costs and improve resilience.
6. Ensure deed restrictions and ownership protections prevent affordable housing from being converted into short-term rentals or investor properties.

By implementing these initiatives, the U.S. Virgin Islands can emerge as a leader in sustainable, affordable, and resilient homeownership solutions.