

Regional Affordable Housing Task Force

**AFFORDABLE HOUSING
PROCESS AND FINANCE**



BEACON
DEVELOPMENT
GROUP

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Beacon Development Group

Session Outline

- 1. What's the process?**
 - What are the steps
 - Key decision points
- 2. How is it funded?**
 - Local, state, federal
 - Capital stack
- 3. How do you make it pencil?**
 - Development sources & uses
- 4. Key challenges**

Our Experience

Project Experience

	Projects	Units	Value
Completed	83	4,567	\$730M
Under Construction	3	505	\$147M
Fully Funded	3	186	\$71M
In Development	5	1,198	\$64M
Total	95	6,456	\$1.10B

Project Types

Family	46 projects
Agricultural Workers	24 projects
Sustainable Building	30 projects
Historic	8 projects
Senior	20 projects
Special Needs	26 projects
Acquisition/Rehab	16 projects
Urban/Mixed Use	25 projects

What is Affordable Housing?



TOD / Mixed Use
Plaza Roberto Maestas
El Centro de la Raza



Introduction

What is it?

Process

Funding

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Feasibility

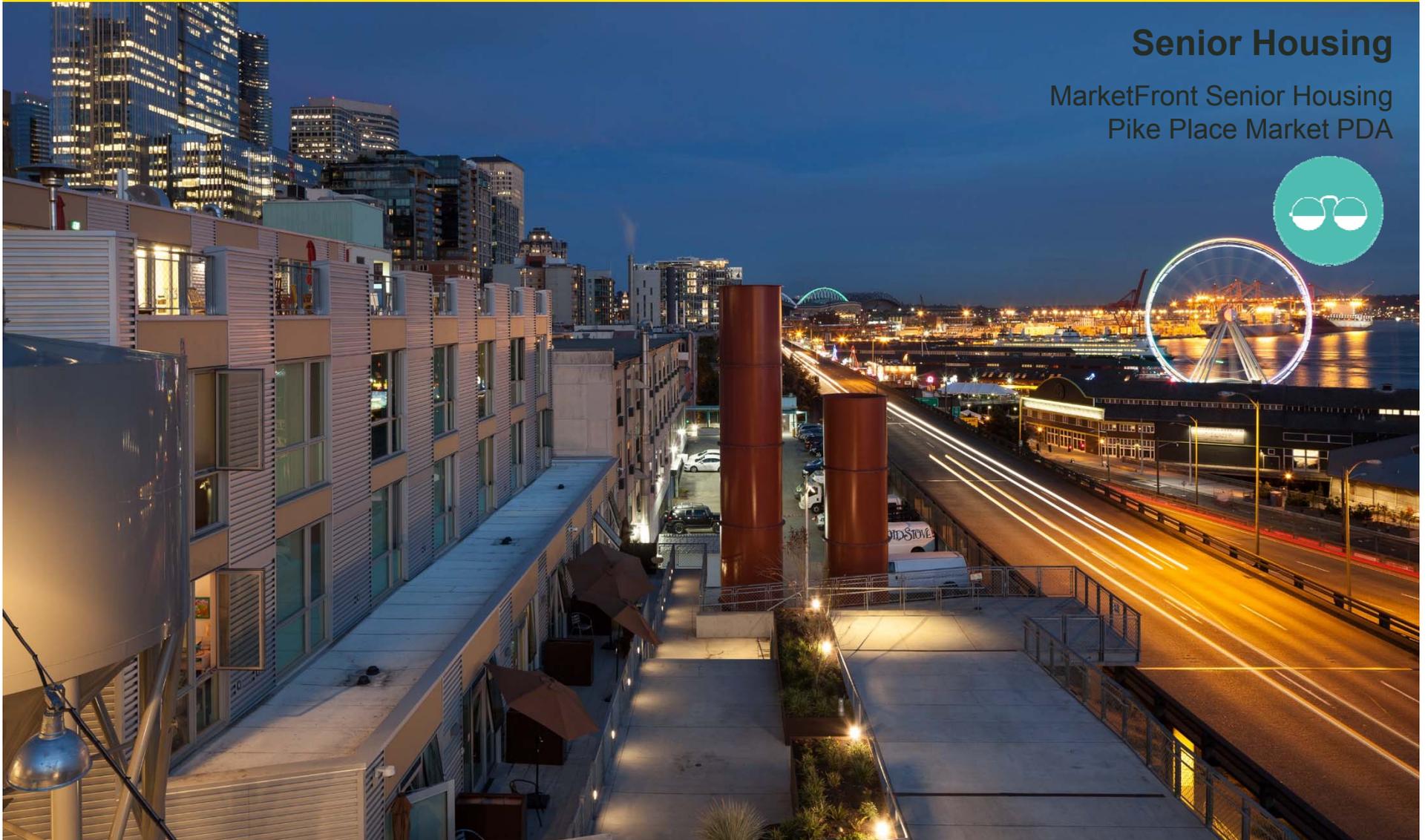
The Future

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What is Affordable Housing?

Senior Housing

MarketFront Senior Housing
Pike Place Market PDA



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What is Affordable Housing?



Family / Mixed Use

Compass Ronald Commons
Compass Housing Alliance



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I. Project Definition & Feasibility



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I. Project Definition & Feasibility

1. Who are you going to serve?

- What's the market? (i.e. the need)
- What makes you the right provider?
- Impact of prioritizing populations?

2. Due Diligence

- Survey, Phase I, title report, design studies

I. Project Definition & Feasibility

3. What are the costs?

- Site Acquisition
- Construction/A&E Reserves
- Financing & Soft Costs
- Replacement & Operating Reserves

4. What are the likely development and operating sources?

- Local subsidy and support
- Tax credits: Are you competitive? What's the equity calculation?
- Rent levels

II. Funding Applications



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II. Funding Applications

- 1. Applications are required to: City, County, State, Finance Agency. Common application helps, but each has a different addendum/focus.**
- 2. Will you get an award:**
 - Local capital subsidy, then State capital subsidy, then operating subsidies, then tax credits!!!
 - Process is less predictable; capital budget / HTF, policy objectives get out of alignment
 - Challenge is to conserve \$ while trying to get to yes

III. Design and Permits



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IV. Closing



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V. Construction



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How Is It Funded?

1. Capital Stack

- **Local funds**
 - City, County, Consortia
- **State funds**
- *Federal funding*
- *Private debt*
- *Philanthropy*

How Is It Funded?

And last but not least...

Which Federal Agency runs the nation's largest housing production program?



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What is the Low-Income Housing Tax Credit?



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What is the Low-Income Housing Tax Credit?

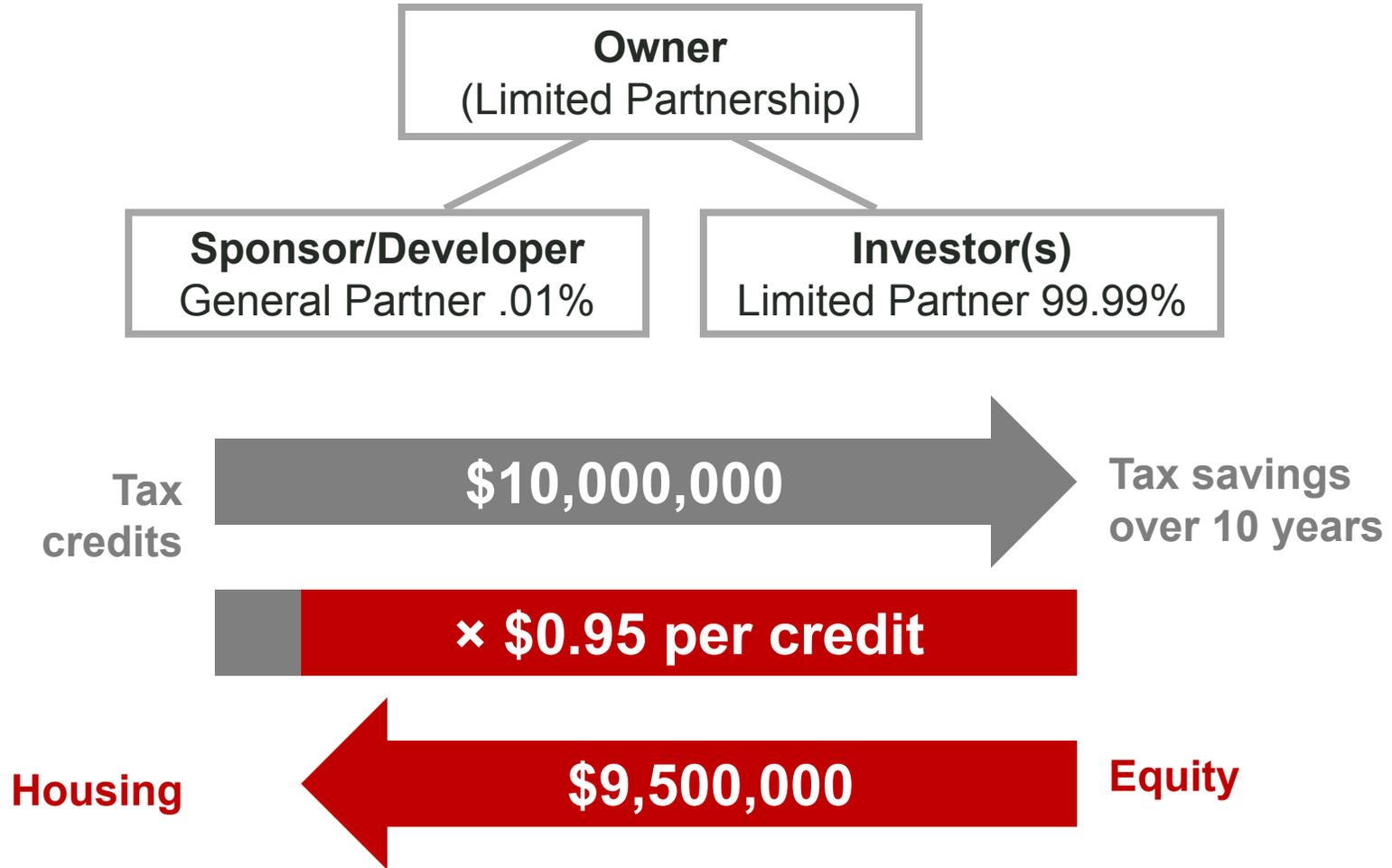
- **Began with Tax Reform Act of 1986**
- **Section 42 of the Internal Revenue Code**
- **Federal tax incentive to encourage private investment**
- **Tax credits are now the primary vehicle for low-income rental housing construction and rehabilitation in the U.S.**
- **3 Million units of housing since inception**

What is the Low-Income Housing Tax Credit?

- **Dollar for dollar reduction in federal tax liability**
- **10 year credit period; 15 year recapture period; 15+ exit**
- **Investors purchase the tax credits by providing equity for the construction or rehab of housing**
- **9% (competitive) vs. 4% (automatic)**
- **Money comes from CRA investors (banks) and economic investors (insurance companies, Google, Verizon)**
- **Syndicators vs. Direct Investors**
- **Money is equity, not debt, returns are from benefits, not cash**

Credit to Equity

Example : \$1,000,000 in Credit



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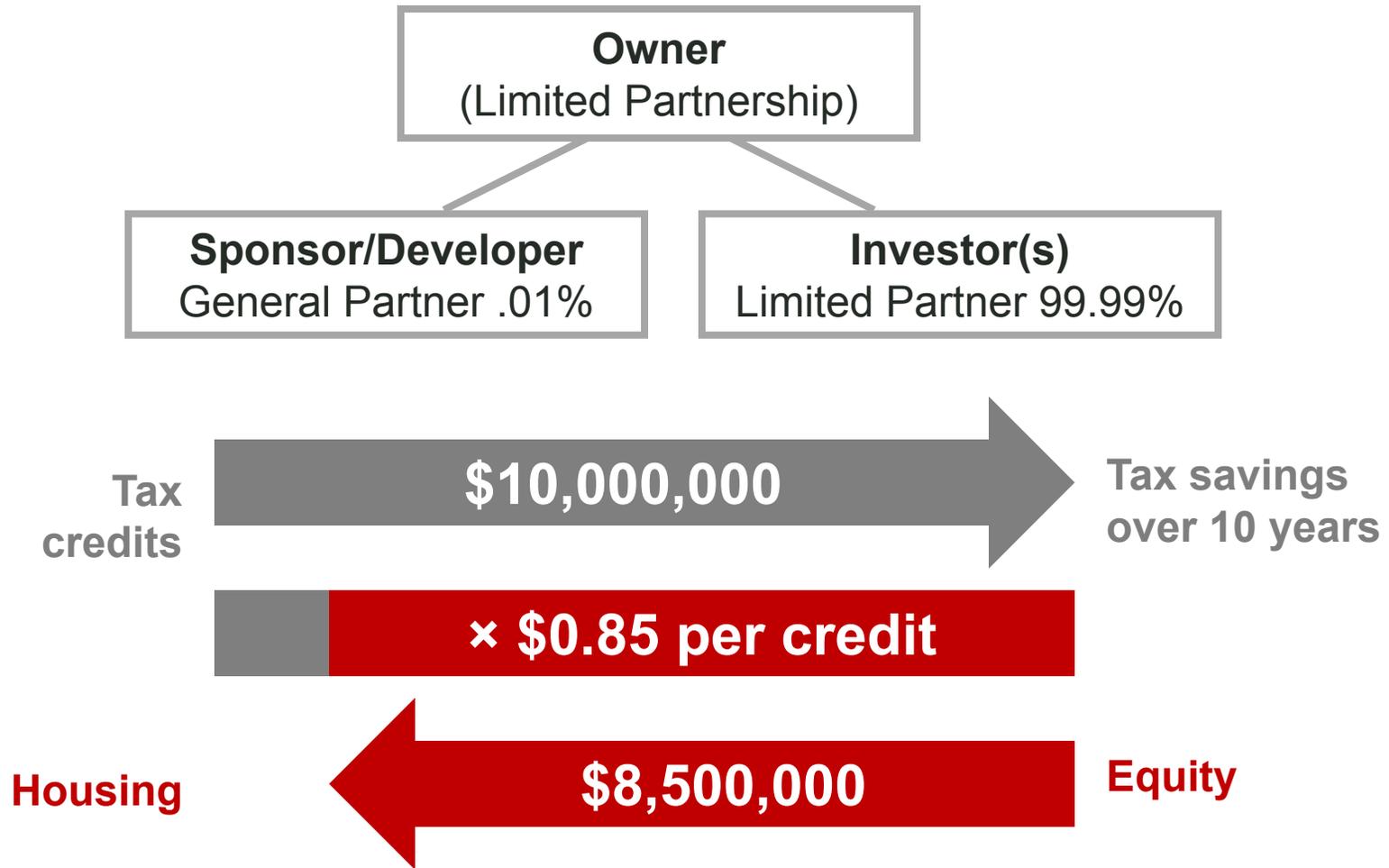
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Credit to Equity

Example : \$1,000,000 in Credit



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How Does It Pencil?

Why can't affordable housing work without all these subsidy programs?

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How Does It Pencil?

Why can't affordable housing work without all these subsidy programs?

Development Side

1. Conventional Real Estate Development:

- Total Project Cost = **Debt + Owner Equity**
- Debt paid by **rental income**
- Equity re-captured by Owner through **cash flow, appreciation, and sale** of asset

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Financing Comparison

Conventional Deal

\$2M Owner Equity

\$8M Bank Debt

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How Does It Pencil?

Why can't affordable housing work without all these subsidy programs?

Development Side

1. Conventional Real Estate Development:

- Total Project Cost = **Debt + Owner Equity**
- Debt paid by **rental income**
- Equity re-captured by Owner through **cash flow, appreciation, and sale of asset**

2. Affordable Real Estate Development

- Reduced rents mean **little or no debt**
- Non-Profits: **no Owner equity or re-sale** of assets

Financing Comparison

Affordable Deal

\$0
Owner
Equity

\$250K-\$1M Bank Debt

\$6-\$7M LIHTC Equity

\$ City
\$ County
\$ State

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Sample 9% Project: 60 Units

USES	Ttl Dev Cost	Elig Basis
Land & Related Cost	1,000,000	
Construction Contract	12,250,000	12,050,000
Construction Contingency	2,450,000	2,450,000
Furnishings	50,000	50,000
Architect and Engineer	857,500	857,500
Surveys & Construction Testing	50,000	50,000
Permits & Impact Fees	500,000	500,000
LIHTC Fees	120,000	
Construction Loan Fees & Expenses	100,000	100,000
Construction Loan Interest	350,000	250,000
Legal & Closing	25,000	25,000
Perm Financing Fees & Expenses	50,000	
Insurance, Accounting, Lease-Up	90,000	40,000
Developer Fee-Sponsor	950,000	900,000
Reserves	250,000	
Syndication Costs	85,000	
	19,177,500	17,272,500

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Sample 9% Project: 60 Units

9% LIHTC Calculation -- A

Eligible Basis		17,272,500
Calculated Credit Amount	x applicable % (9%)	1,554,525
Adjusted Credit Amount	x 130%	2,020,883
Maximum Credit per WSHFC	60 units x 20,957	1,257,420
Total Credit	x 10 years	12,574,200
Investor Share of Credit	x 99.99%	12,572,943
Price per Credit		\$ 1.030
Credit per unit		12,950,131

Sources -- A

LIHTC Equity	12,950,131	68%
State HTF	3,000,000	16%
Local Funding	2,950,000	15%
Deferred Developer Fee	277,369	1%
Private Debt	-	0%
Total Sources	19,177,500	100%
Total Costs	19,177,500	
Surplus (Shortage)	(0)	

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Sample 9% Project: 60 Units

9% LIHTC Calculation -- B

Eligible Basis		17,272,500
Calculated Credit Amount	x applicable % (9%)	1,554,525
Adjusted Credit Amount	x100%	1,554,525
Maximum Credit per WSHFC	60 units x 16,153	969,180
Total Credit	x 10 years	9,691,800
Investor Share of Credit	x 99.99%	9,690,831
Price per Credit		\$ 1.03
Credit per unit		9,981,556

Sources -- B

LIHTC Equity	9,981,556	62%
State HTF	3,000,000	19%
Local Funding	2,950,000	18%
Deferred Developer Fee	277,369	2%
Private Debt	-	0%
Total Sources	16,208,925	100%
Total Costs	19,177,500	
Surplus (Shortage)	(2,968,575)	

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Key Challenges?

1. COSTS

- Construction market drives the cost of aff housing
- 65 – 75% of TDC = hard cost
- 6 – 8% annual cost increases due primarily to labor demand
- The next big four: land, A&E, impact fees, developer fees = 10 – 15%.
(so reduce all of these by 20% and you save 600K)

2. RESOURCES

- More housing comes from more resources
- Policy alignment, stream-lined processes, etc = marginal difference

3. Non-standard Housing Solutions

- Modular
- Tiny Houses
- SEDU's

Thank You for supporting Affordable Housing

