

Housing Washington 2009

Housing 101 Introduction to Development and Finance The Rules Have Changed

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Workshop Goals

1. To inspire, Not depress you.
2. Outline components of affordable multifamily housing development.
3. Provide an overview of the language of developing affordable housing.
4. Outline what is changing in the world of affordable housing
5. Have an enjoyable time.

What is Affordable Housing Development

- Building housing that costs the owners or tenants no more than 30% of their income for their PITIU costs.
- Ranges from the Lower end of the market home ownership to housing for chronically homeless individuals and families.
- First step is feasibility:
 - Who do you want to serve, why?
 - What tools and resources are out there to serve that population?
- Second step is funding:
 - Applications, due diligence, closing
- Third is entitlement and contracting
- Fourth is Construction
- Fifth is lease up and celebration of the completion
- Then the real work of housing management for 40 years begins

The New Wilson Hotel Anacortes, WA



Project

25 residential units
5 commercial spaces

Sponsor

Anacortes
Housing Authority

Recognition

2007 WA State Historic
Preservation Award for
Outstanding Achievement
in Historic Preservation

Choose

- This



Agricultural worker Family Housing

1st LEED for Homes Gold in USA(Pasco)



How will the HFC's interpretation of the new CFR regarding LIHTC and TCAP affect the IRR on the most recent SCIDPDA project with NEF?

So what has changed 2007

1. Nine billion of tax credits available nation wide
2. \$12B equity was chasing the credits- pricing in high 90's to low 1.00's
3. Investors CRA driven, settle at 5 to 7% IRR
4. State Housing Trust Fund \$200M
5. \$23.9 million Doc recording Fees
6. Construction costs doubled since 2002

2009

- \$10 Billion of tax credits available
- Taxable income evaporated, \$4 to 5 billion of equity straining to stay in market
- Investors become economic driven, IRR's grow to expect from 9 to 17%
- 2009-10 \$100 million for HTF allocation, all spent 09 to move viable projects forward
- \$19.1 m in doc recording fees
- Construction costs decrease 10% to 20%

What saved 2009

1. \$10 Billion of tax credits available
Approximately \$4-5B in equity \$4 B in
ARRA/TCAP – live in state of WA
2. State Trust fund put in full 100 million
3. Construction cost dropping
4. Patient funders/sponsors finding ways to
hold onto projects as funding process
clarified
5. Excellent communication and transparent
process for WSHFC, Commerce, funders

What will be true for 2010

- There will be less state funding
- There will be more federal funding
- There will be less local funding for services
- Constructions costs will stabilize
- There will be greater need
- The funding streams will be inconsistent with current housing system/10 year plan

What will be called for

- Increased integration of local sources
 - Commerce/Corrections/Mental Health/DSHS
- Diversification of Federal allocations
 - Communities of Choice/Hope VI debate
 - Broaden scope of HHS/VA/USDA/other
- Stabilize opportunities for public/private partnerships
 - Broaden tax credit investor pool to increase competitive nature of market
 - Insure usefulness of federal/private vehicle (i.e. tax credits)
 - Create state incentives for public private partnerships
- Belief in our history and our experience
 - Creation of new tools, new partnerships

Housing Affordability

Affordability at any income means that a household should not be paying more than 30% of their household income for their housing and related costs.

Rent or mortgage (P&I)

Taxes

Insurance

Utilities

Housing Affordability

Affordable to lower income households means that households making below certain incomes as related to the median income are paying less than that 30% for their housing costs.

Extremely low income = < 30%

Very low income = < 50%

Low income = < 80%

Housing Affordability

Median Incomes*	80%	50%	30%
Spokane	\$46,100	\$28,800	\$17,300
Seattle	\$61,500	\$40,700	\$24,400
Yakima	\$42,100	\$26,300	\$15,800

*for a 4-person household - 2008

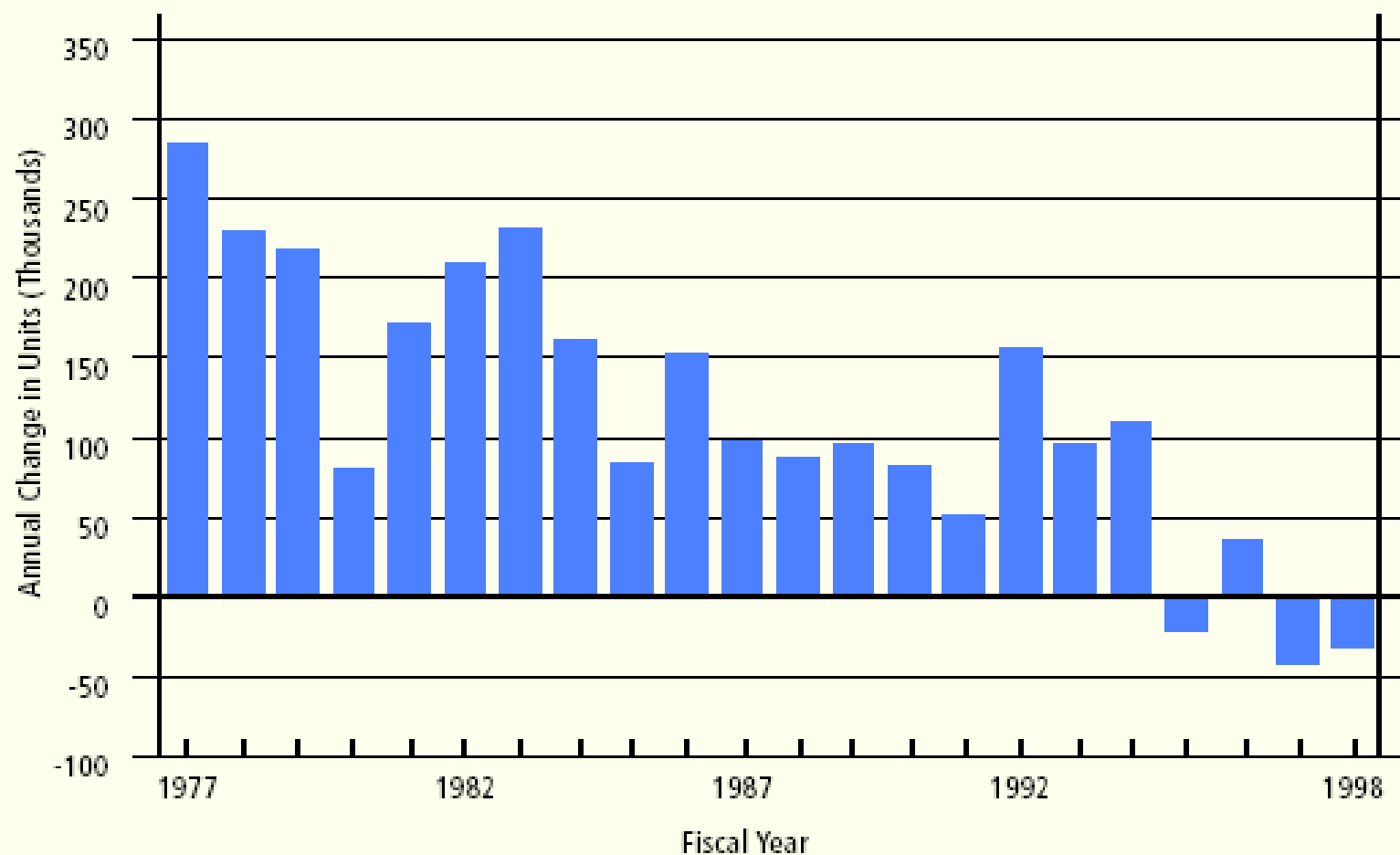
State of Washington

Need for Affordable Housing

- 45% of renter households are “cost burdened” (380,000)
- 32% of Owner occupied households are “cost burdened” (518,000)
- 218,000 households statewide are below 50% Area Median Income and paying more than 30% of their income for housing.
- The HTF has created 32,000 units, which represents 13 % of the total need for households @ less than 50%.
- Assuming the average HTF investment of \$30,000/unit, It would take \$6.54 billion to build the remaining 218,000 units,
- At the 2007-09 rate of investment (\$200 million HTF), it would take 33 years to build the additional 218,000 units.
- 2009 State Consolidated plan draft assumes 150,000 more rent burdened households by 2015

Where has the crisis come from- 2008

- Changed role of the federal government
- Shrinking of middle class
- Stagnation of low wage jobs
- Decreasing tax base for cities
- Decreasing support for all levels of human services resulting in homelessness and increasing demands on public systems
- Cost of development and construction
- Market cost of housing



Note: HUD rent subsidy programs include Public Housing, Section 8, Section 236 and rent supplements.

Source: Congressional Budget Office in HUD's "Waiting in Vain," March 1999.

PUBLIC HOUSING DISINVESTMENT CONTINUES

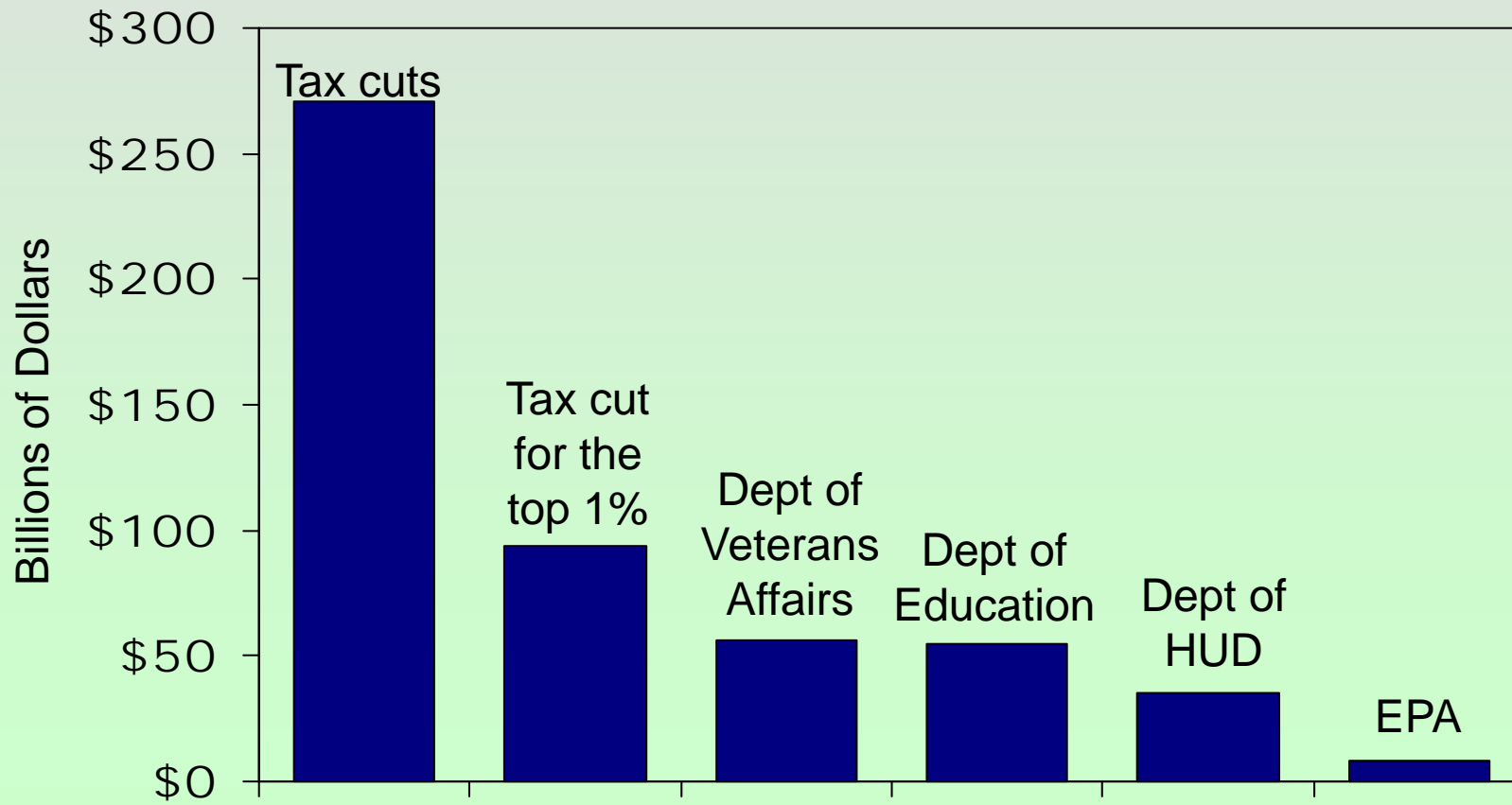
PRESIDENT'S FY 2007 BUDGET



*FY 2005 level annualized in order to adjust for a one-time, \$1 billion savings in the Operating Fund due to a shift in the timing of the program year. The FY 05 enacted total including the one-time savings is \$5.1 billion.

The Tax Cuts and Agency Budgets

Comparable annual costs



Current Reality with “New Admin”

- 2010 HUD budget up 20%
- Tax cuts expiring
- New HUD leadership committed to help
- National Housing Trust Fund on its way
- We are in a great state to face these issues (3 of 6 Hope VI in nation)
- Sen. Murray-Appropriation
- Senator Cantwell – Finance
- CTED/Commerce with McArthur Grant with national audience
- Highly developed state wide delivery system

Commerce HTF, ARCH and HOF are in the project, but KCHA is going to need THOR and 2060 to get to the AMI they are hoping to serve.

Which Federal Agency is responsible for the majority of housing development funding in the country?

- Who is the largest recipient of federal housing subsidy funding in the country?
- The budget of HUD?
- The value of the home mortgage deduction?

Federal Resources

Low Income Tax Credits

Housing and Urban Development

202/811 McKinney Home consortium

Public Housing/Housing Authorities

Section 8 Vouchers/Veterans

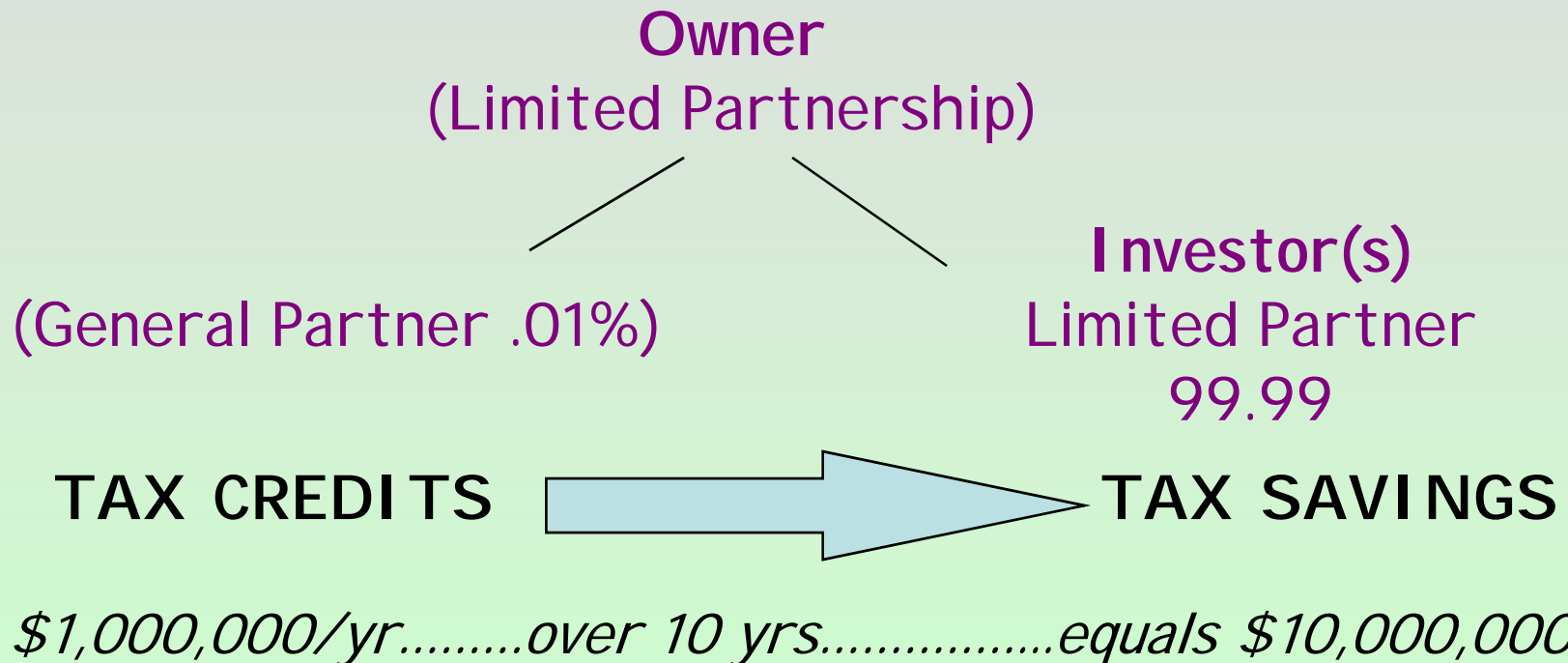
Dept. of Agriculture/ Rural development

Tax Exempt Bonds

Maybe National Trust Fund

Credit to Equity

Example : \$1,000,000 in Credit



HOUSING  EQUITY

With a .95 Tax Credit Factor, \$1,000,000 in credit = \$9,500,000 in equity to build project

The State of Washington

Housing Trust Fund

\$200,000,000 for last biennium

0 budgeted for 2010, 2011 ?

CDBG Housing Enhancement

2060 and 2163 Funding for
Capital, Operations and Services

Washington Families Fund for
Homeless Services

THOR/Mobile Home Parks/Misc

Cities/Counties

King County- Housing Opp. Fund

City of Seattle Housing Levy

A Regional Coalition for Housing

Entitlement Counties/Cities –
CDBG/Home

Some Cities have General Funds

Housing Affordability

What makes building affordable housing difficult?

- **Financing Model, # of sources required**
- **Lack of control over timing**
- **Impact fees**
- **Lack of infrastructure**
- **Zoning and Siting processes**
- **Transaction costs**
- **NIMBY impact on approval process**
- **Public benefit required by process**
- **Discrepancy between rents and operations**

Housing Affordability

What makes affordable housing possible?

- Sufficient income
- Streamline subsidized capital process
- Property tax exemption/Cascade Court
- Impact fee waivers
- Well built housing to reduce operating costs
- Well developed infrastructure
- Density
- Operating subsidy (Section 8, Washington Families)

Cost of “Affordable “ Housing Development

- Built to last 40 years
- Funded for capital preservation, not turning
- Fund reserves (op & cap) in the dev budget
- 4 to 10 funding sources, due diligence
- Legal fees for structure and transaction
- Not built for cash flow, built for affordability
- Required to carry contingencies/guarantees
- Public benefits- Wage, green building and regulatory requirements of funding sources
- Required to meet design considerations of community

**WCRA is going to require a
NOI to meet a DCR that may
not be possible with your
PRAC FMR's.**

Project Summary

Who and Where ?

What ?

How Much ?

Sources ?

When ?

Who and Where - Community Analysis

- Who do you intend to serve?
- Where do you need to serve them?
- What community outreach must be done?
- What is the market?
- Access to services required for clients
- Why you? Who else?
- Funding Plan for services

What - Site Analysis

- Preliminary Design
- Zoning
- Environmental Analysis
- Condition of Title
- Utility Access
- Appraisal
- Site Acquisition
- Relocation
- Soils Survey
- Historic/Cultural Significance

How much - Economic Analysis

- Development budget plus assumptions
- What sources support your target residents
- Commercial vs. residential cost
- Cost estimate, architect and contractor
- Contingency, what are the areas of risk
- Operating Budget and Reserves
- Services budget

When - Schedule

- Realistic Purchase and Sale
- Time to be rejected by funding source
- Impact of HUD or federal direct role
- Contracting with public sources
- Construction documents, permits
- Accurate rent up projections re: investor
- Schedule contingencies

Operating Pro Forma

- Identifies revenue and expenses for operating the building after construction/rehab completion
- Escalated revenue and expense for 15 years
- Indicates debt service for public and private financing
- Revenue-Expense-Debt Service=Cash Flow

Operating Pro Forma - Expense

- Utilities: heat, electric, water&sewer
- Building maintenance: contract repairs, janitorial
- Reserves: replacement and operating
- Management: on-site and off-site
- Insurance, Accounting, Marketing
- Real Estate Tax
- Services

Most Important Decision: Who is the Team

- Sponsor Organization
- Attorney, Accountant
- Architect, Civil Engineer, Wetlands Specialist, Structural Engineer, Historic Consultant
- Property Manager
- Service Provider
- General Contractor

Most Important Decision: Who is the Team

- Predevelopment funder
- Public funding partners
- Construction Lender
- Permanent Lender
- Investor
- Construction Manager
- Escrow Agent
- Development Manager

Summary

- Very difficult to do this work alone, find partners with experience who can help
- Work with all the resources available
- Be creative and willing to get outside of the box
- Do not work the numbers until the deal works, work the deal until the numbers work
- Remember that real individuals and families will benefit from this work



Web Site Resources



www.beaconddevgroup.com

Resources