

How is Affordable Housing Financed?

A Lunchtime Forum Discussion

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 SILICON VALLEY
LEADERSHIP GROUP

 TEXAS
INSTRUMENTS

Affordable Housing Finance 101

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Senior VP, Real Estate Development - Eden Housing



What is Affordable Housing?

- Occupancy is income restricted, by family size
- Federal definition is $\leq 30\%$ of income spent on rent plus utilities
- Paying $>30\%$ of income towards housing is termed “rent burdened”
- Most Affordable Housing developers focus on rental multi-unit housing financed with Federal Low Income Housing Tax Credits (LIHTC)
- Could be targeted or limited to certain populations

Who Needs Affordable Housing?

	1 person	2 person	4 person
Extremely Low-Income (30% AMI)	\$27,950 Minimum wage earner, full-time	\$31,950 Couple on social security	\$39,900 Housekeeper, single parent
Very Low-Income (50% AMI)	\$46,550 Nursing Aide	\$53,200 Child Care worker, single parent	\$66,500 Home health aide, full time, children
Low-Income (80% AMI)	\$66,150 Admin Assistant	\$75,600 Security guard / food prep	\$94,450 Police officer, stay at home parent, two children
Moderate-Income (120% AMI)	\$105,200 Registered Nurse	\$120,200 Fire fighter and receptionist	\$150,500 Two teachers, two children

Area Median Income (AMI) for Santa Clara County is \$125,200 for a family of 4 (California HCD 2018)

Sources of Financing

- Private Equity from the sale of Low Income Housing Tax Credits (Federal indirect subsidy)
- Various forms of “soft” or subordinate debt from State and local jurisdictions
- Conventional Debt

Private Equity (LIHTC)

- Typically through the federal Low Income Housing Tax Credit program
- States are responsible for allocating the federal credits and, depending on the financing structure, federal tax-exempt bonds
- 4% vs 9% LIHTC
- Investors are mostly banks (CRA motivated)
- Investments made directly or through syndicators

9% vs 4% LIHTC

- 9% Credits:
 - Each state has a limited allocation of 9% tax credits based on population
 - Developers compete for these credits with scoring priorities for deeper affordability, social services, and greater local subsidy
 - These credits are more valuable and result in more private equity for the project, but are much harder to get
- 4% Credits:
 - Each state is allocated tax-exempt Private Activity bonds based on population
 - When bonds are allocated to housing, the projects can also receive an automatic allocation of 4% tax credits
 - Worth less, resulting in less private equity for the project

Public Subsidy

- Federal funds, “passed through” by local jurisdictions:
 - HOME, CDBG
 - Rent subsidy from local housing authorities (Section 8)
- State Programs
 - Veteran’s Homeless Housing Program (VHHP)
 - Affordable Housing and Sustainable Communities (AHSC, “Cap and Trade”)
 - Certain “legacy” programs
 - Veterans and Affordable Housing Act – Prop 1
 - “No Place Like Home” – Prop 2
- Local Jurisdictions
 - Measure A, Measure K
 - Local GO bonds, linkage fees, inclusionary in lieu
 - Government owned excess land
 - Additional measures being considered in Santa Cruz County, Santa Rosa, San Jose

Conventional Debt

- Construction and long term, perm loans
- CRA motivated
- Supported by project rents and operating subsidies
- Provided by banks, lending consortia, insurance companies, investment banks
- CRA-motivated

Sources & Uses

DEVELOPMENT BUDGET		Total	Per Unit
Total Land & Improvements		\$12,535,000	\$142,443
Total Design & Consulting		\$1,800,000	\$20,455
Total Construction		\$28,250,074	\$321,024
Total Indirect Costs		\$13,312,546	\$151,279
Total Finance & Carry Costs		\$3,877,045	\$44,057
Total TCAC/Syndication		\$236,894	\$2,692
	TOTAL DEVELOPMENT COSTS	\$60,011,560	\$681,950
	*Total Development Cost excluding waived fees	\$53,301,560	\$605,700
SOURCES OF FINANCING		Total	Per Unit
Fee Waiver		\$6,710,000	\$76,250
FHLB - AHP		\$870,000	\$9,886
VHHP		\$2,364,098	\$26,865
LIH Tax Credit-LP Capital Contribution		\$24,553,572	\$279,018
Permanent Financing		\$8,170,100	\$92,842
Permanent Financing - 2nd Mortgage		\$1,959,573	\$22,268
Deferred Developer Fee		\$200,000	\$2,273
GAP / City		\$15,184,217	\$172,548
	TOTAL SOURCES OF FUNDS	\$60,011,560	\$681,950

Affordable Housing Finance Basics

September 2018

Kristen Clements
Division Manager
City of San José Housing Department



Affordable vs. Market Rate

- Same construction codes (w/o some upgrades)
- Both attractive
- Affordable is more actively managed
- Cost to build affordable can be higher
 - Longer lead times (2 to 5 yrs)
 - More sources/more lawyers/more soft costs
 - Same or higher interest rates
 - More community outreach, buy-in
- Tougher sites
- Subsidy & equity make up for lower rents, higher costs
- Affordable is much harder to pull together

Calculating Rents

Unit Sizes/	Studio	1 BR	2 BR	3 BR
Household Size	1	2	3	5
Income (30% AMI)	\$27,950	\$31,950	\$35,950	\$43,100
Monthly Income	\$2,329	\$2,663	\$2,996	\$3,592
Rent = 30% for rent + utils.	\$699	\$799	\$899	\$1,078
Market Rents	\$1,927	\$2,213	\$2,700	\$3,379
% Below Market	-64%	-64%	-67%	-68%



Local Deal Interests

- Good location
 - Incomes, Council district, near amenities
- Target population per local priorities
- How deal fits with NOFA priorities
- Deal feasibility - 9% or 4% LIHTCs
- Other funders (State, County, Housing Auth.)
- Site control, timeline
- Track record of developer in City
- Fit with City's goals (RHNA, Mayor's production)

Local Government's Roles

- Acquire land / RFP for developer
- Predevelopment loan
- Land loan
- Construction/permanent loan (“soft” loan, repaid through % of residual receipts)
- Ground lessor
- Tax-exempt bond issuer
- Monitoring agency
- Long-term partner



Second Street Studios
134 apartments for chronically homeless

Subsidy Underwriting

- Subsidy amount for 9% vs. 4% LIHTCs
- Underwriting meets our benchmarks
 - Senior mortgage amortization, rents correct, etc.
- Uses are eligible for our source
- City loan repayability
 - Portion of net cash flow, interest rate, term
 - Budget includes City interest
- Reserves necessary / sufficient
- Position of City repayment, restrictions

Questions?

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Japantown Seniors – 75 units

permanent sources	amount	pct	per AH unit
tax credit equity	\$15,403,769	54%	\$208,159
senior loan	\$4,164,000	15%	\$56,270
deferred developer fee	\$0	0%	\$0
City loan	\$4,900,000	17%	\$66,216
City donated land	\$3,000,000	10%	\$40,541
City waived impact fees	\$1,147,500	4%	\$15,507
AHP	\$750,000	3%	\$10,135
sponsor equity	\$100	0%	\$1
total City contribution	\$9,047,500	32%	\$122,264
total permanent sources	\$28,615,369	100%	\$386,694



Conversation Led by Fiona Hsu

Silicon Valley Bank

Audience Questions and Closing Thoughts

Thank you

Please join us for our next Luncheon Forum:

Do the Math- A Walk Through Market Rate
Development Costs

October 11th, 12:30-2pm @ Grant Community
Center, Los Altos

