MFA Development Training-Recap Day 1

August 16, 2013

Development Process

- 5 stages to help define and structure the process
- Each has key “go” and “no-go” decisions based on investigations of the site, market and financing and team selection
- What are the five stages?
- Project team is lead by a Project Manager—and members experience, accreditation, licensing, availability and cost should meet your projects needs

Market Study

- What you should or should not build—tests your assumptions and also helps our refine your project
  - Design, # of units, amenities, absorption, rents etc.
- Qualitative and quantitative analyses based on data, forecasting models and trends from a variety of sources
- Reliability may depend on approach, level of research, location (small communities) and next level questions
- 8 Elements; conclusion section is key

Structuring Rental Financing

- Development Budgets
  - Uses: Hard and soft costs necessary to build the project
    - Design, construction, syndication, developer fees, reserves
  - Sources: Loans, Equity and Grants that will be used to pay for the development costs
    - Interest rates, repayment terms, pricing
    - Make sure you you know application and funding cycles to ensure the funds are there when you need them
    - Every source has different limits, rules
- Sources = Uses, else you cannot build it

Structuring Financing

- Operating Budgets
  - Annual Income Projections
    - LIHTC Maximum Rents are based on bedroom size
    - Both program rules and market will set limits on rent
    - FORMULA #1: Gross Rents – Utilities—Vacancy Rate=Effective Gross Income (EGI)
  - Annual Expenses to Keep the Lights on
    - Maintenance, insurance, replacement and rent reserves
    - FORMULA #2: EGI– Expenses/Reserves= Net Operating Income (NOI)
    - FORMULA #3: NOI/Debt Service Coverage Ratio (DSCR) =Available for Debt Service or How much mortgage can we afford?

Low Income Tax Credits

- IRS Program administered by MFA for NM, which receives an annual allocation of $2.25 per capita (2013).
- Annual Qualified Allocation Plan (QAP) defines the <u>competitive</u> 9% (and non-competitive 4%) credit application process and oversight of LIHTC
- Can be substantial source of debt free capital to build rental housing and fee for Developer, but complex financing, strict timelines and reporting requirements

Low Income Housing Tax Credits

- Rent (30% imputed, utility allowance) and Income (60% AMI) Restricted program
- Requires 15 year compliance period and reporting to the IRS and state HFA and minimum 30 years affordability (and another 15 years for additional points)
- Development Risks: Guarantees, Adjusters, Can't Lease, or otherwise Lose Credits 
- Driven by interest rate, credit market and is therefore market driven—Is anyone interested in my deal and how much can I get for the credits?

How Does a TDHE or Nonprofit Use a Tax Credit?

- Since nonprofits and TDHE's do not pay taxes, they form partnerships with for-profits to own project
- For-profit provides funds - considered equity since they are part owner - in exchange for the tax credit

Ownership Structure

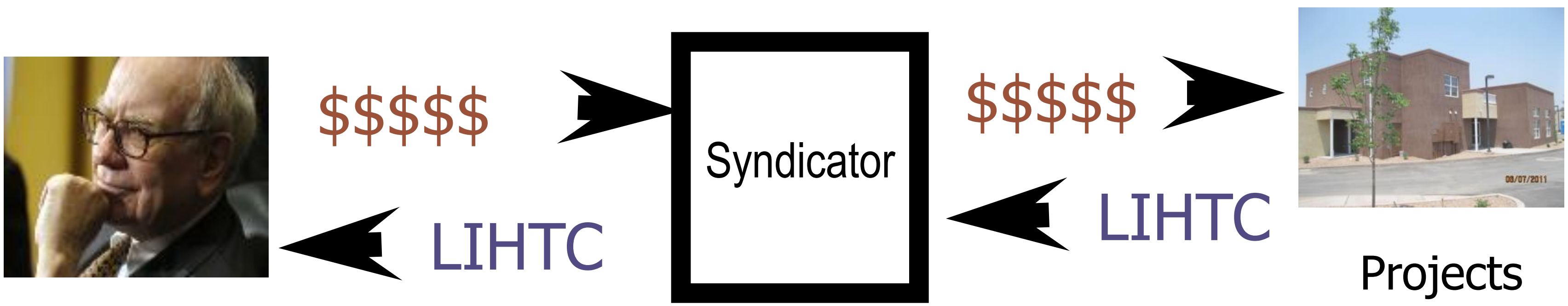
The project LP, LLC, etc., is made up of two (or more) parties:

- The General Partner (or partners)
- The Limited Partner (or partners)

What is a LIHTC Syndicator?

- Locates investors
- Underwrites the project according to investor requirements.
- Enables investors to provide cash equity in exchange for a 99% interest in project and thus 99% of the:
  - LIHTC's
  - Cash flow
  - Tax losses

Low Income Housing Tax Credits



LIHTC STRUCTURING

- Types of Tax Credits
  - 9% and 4%

- Computing Tax Credits
  1. Depreciable costs X 130%“boost” X % of units or square feet for <u>at or below 60% AMI occupied units </u>X credit rate=annual LIHTC, then,
  2. Annual LIHTC X 10 Years X Pricing=Total Equity

Majestic 12

Total Development Costs		$10,054,988
Depreciable Costs		$9,478,000
Basis Boost (QCT)	130%	$12,321,400
Applicable Fraction	100%	$12,321,400
Credit Rate Times Eligible Basis	7.41%	$913,016

Annual Credits		$913,016
Times 10 Years	10	$9,130,157

Price/Credit	$0.85	$7,760,634

Equity for Development	99.99%	$7,759,858

Gap		$2,295,130

Use/Structure of Federal Funds

- HOME/NAHASDA –
  - Federal Grants are removed from basis, thus less tax credits and equity

OR

- Structure as a loan, and retain in basis
- Work with your syndicator on structuring

Filling the Gap

- MFA HOME
  - Eligible/Ineligible uses
  - Rent (High & Low HOME) and Income Limits (60% AMI and below)
  - Affordability Requirements
  - MFA Limits (9%/4%, Loan/Grant, Target)
  - Federal Requirements (NEPA, Section 3, relocation, 504, etc.)
  - Terms: 0-4%, 15-40 years, 1.20-1.40 DCR
  - Monitoring- income verifications, records

Filling the Gap

- Pre-development/Construction
  - Housing Trust Fund
  - Primero Loan
  - Foundation grants
- Other Permanent
  - FHLB AHP
  - RD and HUD
  - NM State Affordable Housing Tax Credit
  - Housing Trust Fund
- Reduce costs (lower cost contracts, VE), deferred fees, better mortgage terms
- Watch the timing (when funds are available) and eligible use of funds in your project

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The Rental Developers

- GAHP - 60M in all Projects, 2 LIHTC
  - Business Plan
    - Focuses on Blighted Areas and stayed in community to work on rental
    - Land/Location - $$, Zoned, EA, Accessibility to jobs, transportation and services
    - Since 2010, Rental
  - Plaza Cuidana—Martineztown – GAHP presence since 1996
    - Adapted 3- acre site, rebounded from market change to do credit deal

Rental Developers

- New Life Homes -
  - Philosophy
    - Follow the heart, learn by doing and –
    - Skills are those that can navigate the grey, risk areas of development –
    - Clients are most important
  - Deals
    - Grant driven, no debt, postponed or no fees from team
    - Grass roots developer
    - Hard to serve populations
    - Hard to get investors
    - Rehabs, historic, low cost

Rental Developers

- Supportive Housing Coalition of New Mexico
  - Philosophy
    - “Housing First”
    - “If it you build it, it must be managed”
    - Know your clients
  - Deals
    - 9 properties, manages 7 – 2 with 3^{rd} party
    - Significant work to manage deals with behavioral health, residents
    - Operating pro-formas –be realistic, know restrictions and limitations of funding sources—can you pay your bills and still fund reserves, devil is in the details –
    - Harder to rent up and stay rented