



HR&A

Affordable Housing Finance 101

LISC San Antonio Capacity Building and Training

Monday November 14th, 2022: 2PM – 4 PM

Introduction

Our team comes from Texas, Washington DC, and New York – offering a diverse perspective on housing systems and housing finance across the US.



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Day Two Introductions



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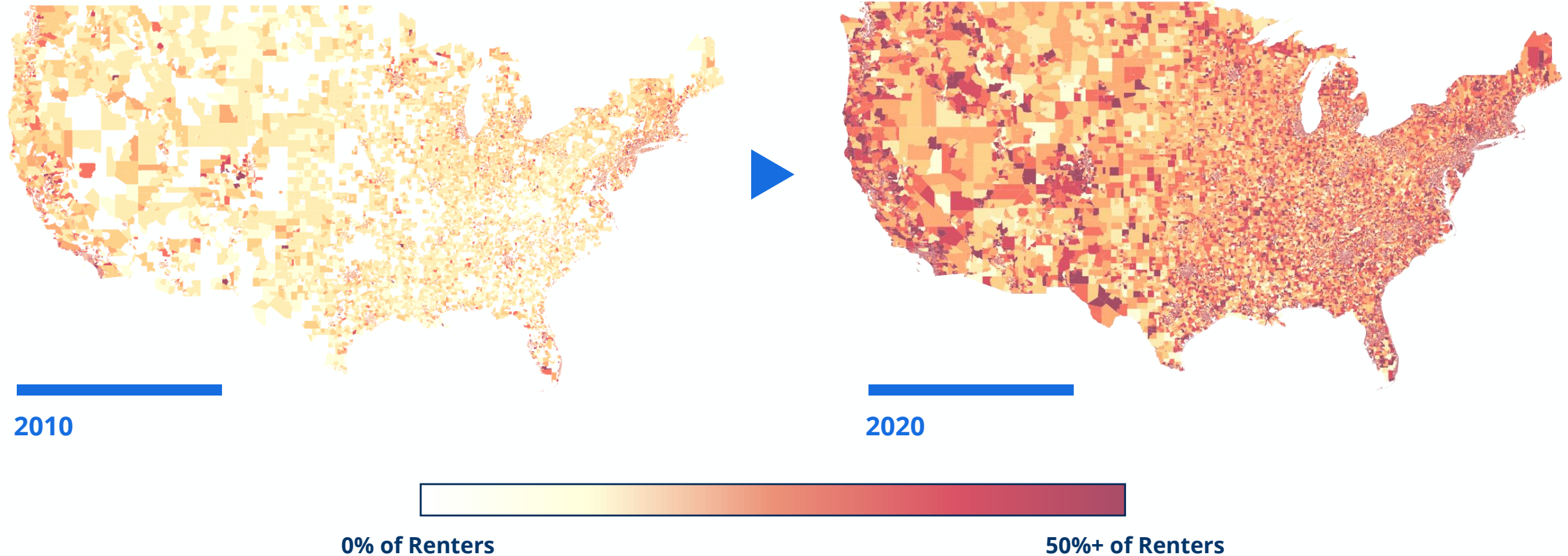
Day Two Agenda

1. Review of Day One
2. Affordable Housing Finance and Process
3. Maximizing Public Benefit
4. Review and Discussion

National Trends

Over the last decade, housing affordability has transformed into a national issue—outside of traditional high-cost cities.

Share of Renters paying more than 30% of gross income on housing (Cost Burden)



National Trends

There is a growing concern over housing affordability in many communities across the country, with limited supply of homes affordable to renters and homeowners alike.

Risk of Homelessness

+ 25%

in population at risk of homelessness by living situation, 2007 – 2016

Declining Affordable Housing Supply

- 1.3 M

units of “naturally occurring” affordable housing, 2000 – 2016

Falling Homeownership Rate

Change in homeownership rate, 2005-2017

-4.3% **-10.5%**

For White households For Black households

Gentrification and Displacement

25%

share of low-income census tracts with large gains in rents* in the 2000s, compared to 10% in the 1990s

Rise in Cost Burden

+17% **- 5.5%**

change in real median rent, 2001 – 2016 change in real median renter income, 2001 – 2016

Diminished Wealth

For Black households:

- 18% **- 40%**

change in median home value, 2010 – 2013 change in net wealth, 2010 – 2013

*“Large gain in rent” indicates when the ratio between census tract rent and metropolitan rent rises by over 10 percentage points

Sources, left to right: National Coalition for the Homeless; HR&A analysis of ACS data; Ellen & Ding 2016; JCHS tabulation of ACS data; Economic Policy Institute; The Atlantic

Why “Housing Affordability” is Critical to Healthy Places

Nationwide Housing Costs Drivers: What is contributing to the rising cost of housing nationwide?

The Fundamentals

Changes in **migration patterns** have increased demand drastically in some parts of the country. Additionally, prolonged **low interest rates** have buoyed home prices across the country.

Anemic Supply Growth

Discriminatory zoning limits new housing development—especially dense development in the areas with the highest demand for housing.

Land and Construction Costs

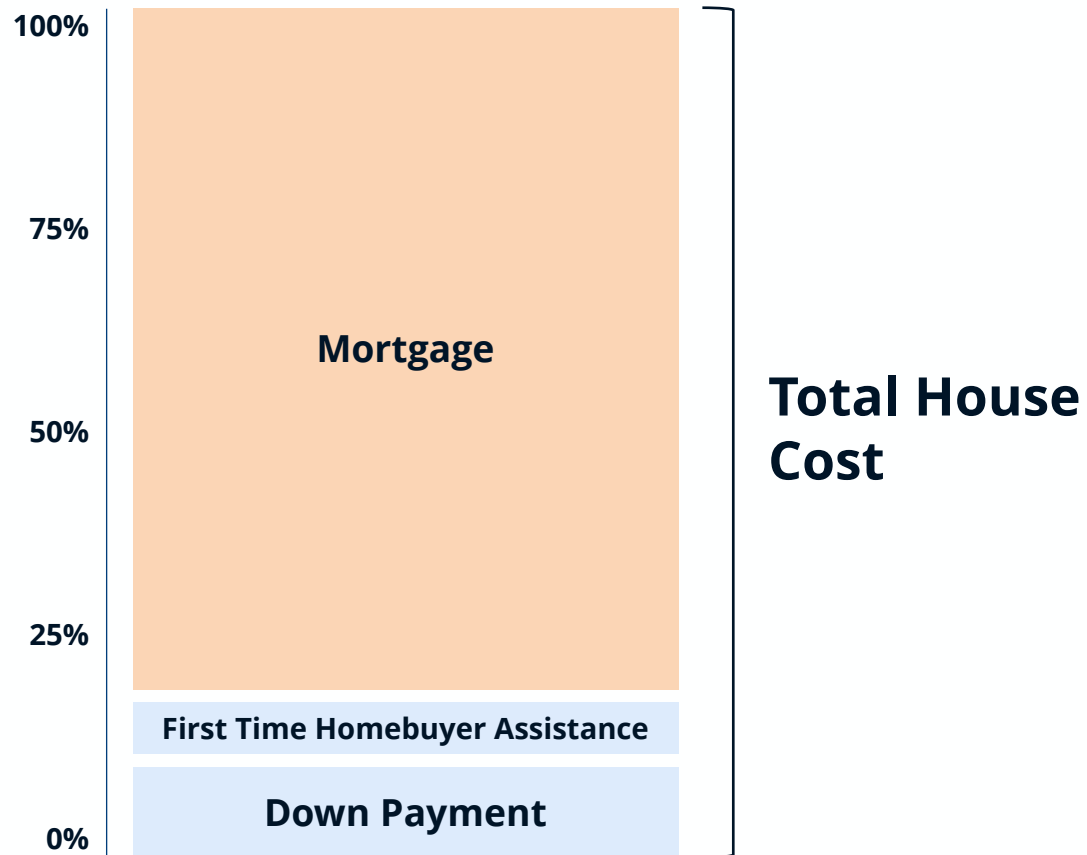
Since 2010, construction costs have increased over 65%. Pandemic **cost inflation** accounts for 40% of this growth.

Municipal Policies and Controls

Local property taxes, impact fees, project delays and overall uncertainty lead to municipal barriers that affect underlying cost drivers.

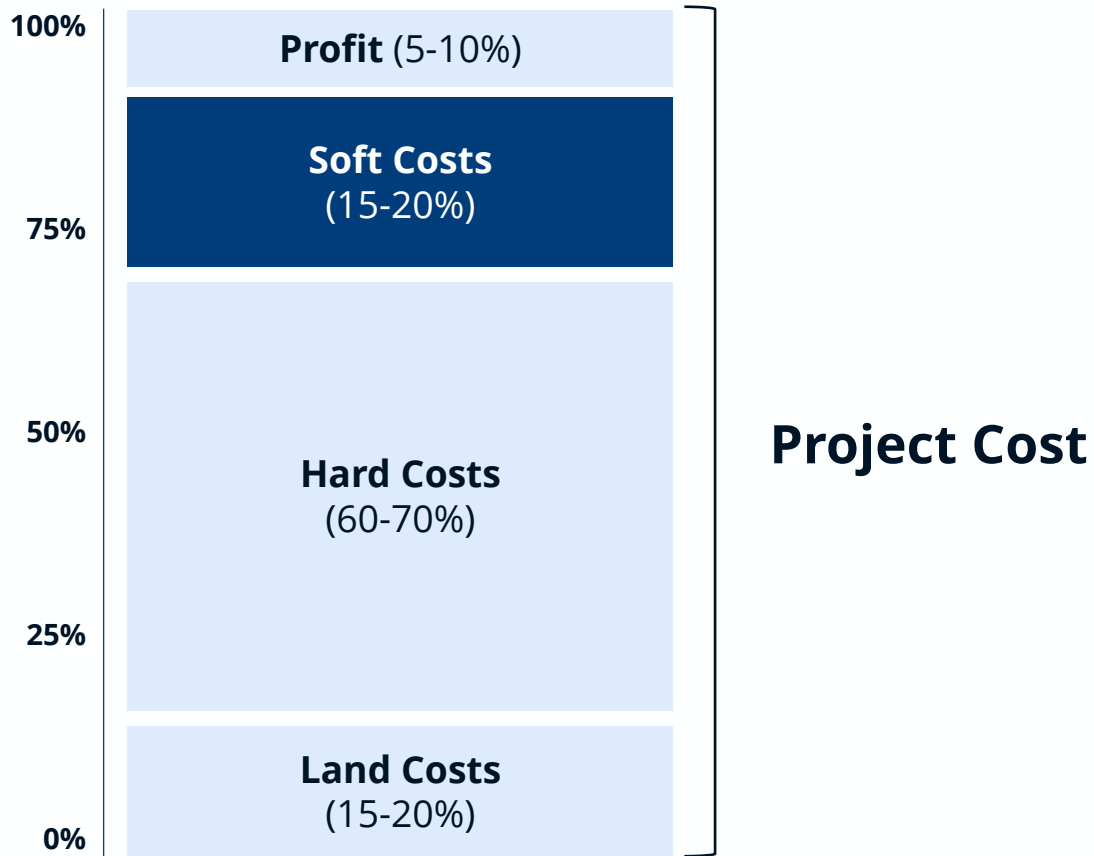
The Basics of Affordable Housing Development

Think about buying a house, how would you pay for it?



The Basics of Affordable Housing Development

What does it cost to build rental housing in the short-term and long-term?



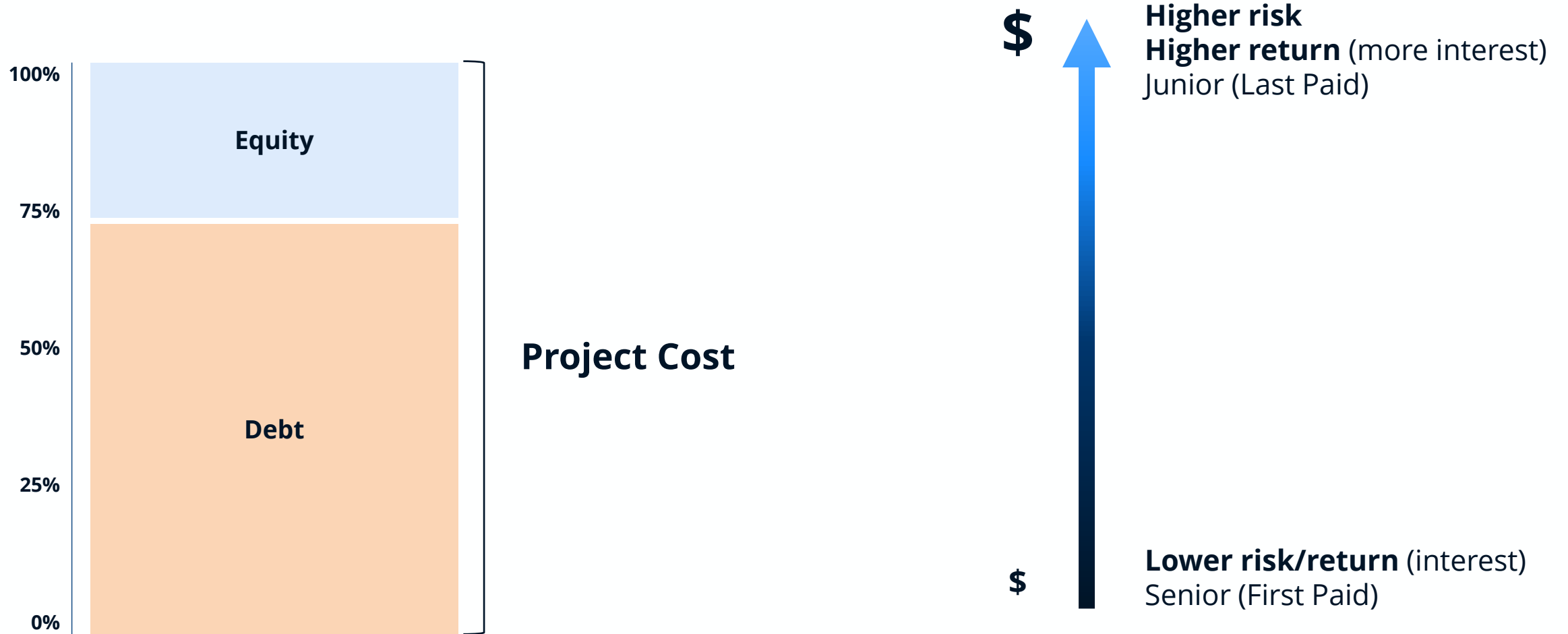
Museum Reach Lofts Example Costs

Capital Costs	Operating Expenses
<p>One time expenditures to acquire, renovate, and/or newly construct a property</p> <p>Financed by debt or equity, which need to be paid back over time plus a return</p>	<p>Recurring costs necessary to manage, operate and maintain the property for the long haul</p> <p>Financed by tenants' recurring rental payments</p>
<p>Acquisition</p> <p>Hard Costs (<i>labor and materials</i>)</p> <p>Soft Costs (<i>design, engineering, insurance, legal, etc.</i>)</p> <p>Financing Costs (<i>fees, loan interest, lender's due diligence</i>)</p> <p>Contingency (<i>hard and soft</i>)</p>	<p>Taxes</p> <p>Insurance</p> <p>Utilities</p> <p>Maintenance</p> <p>Administration</p> <p>Management Fee</p> <p>Replacement Reserve</p>

Rents - Operating Expenses = Net Operating Income

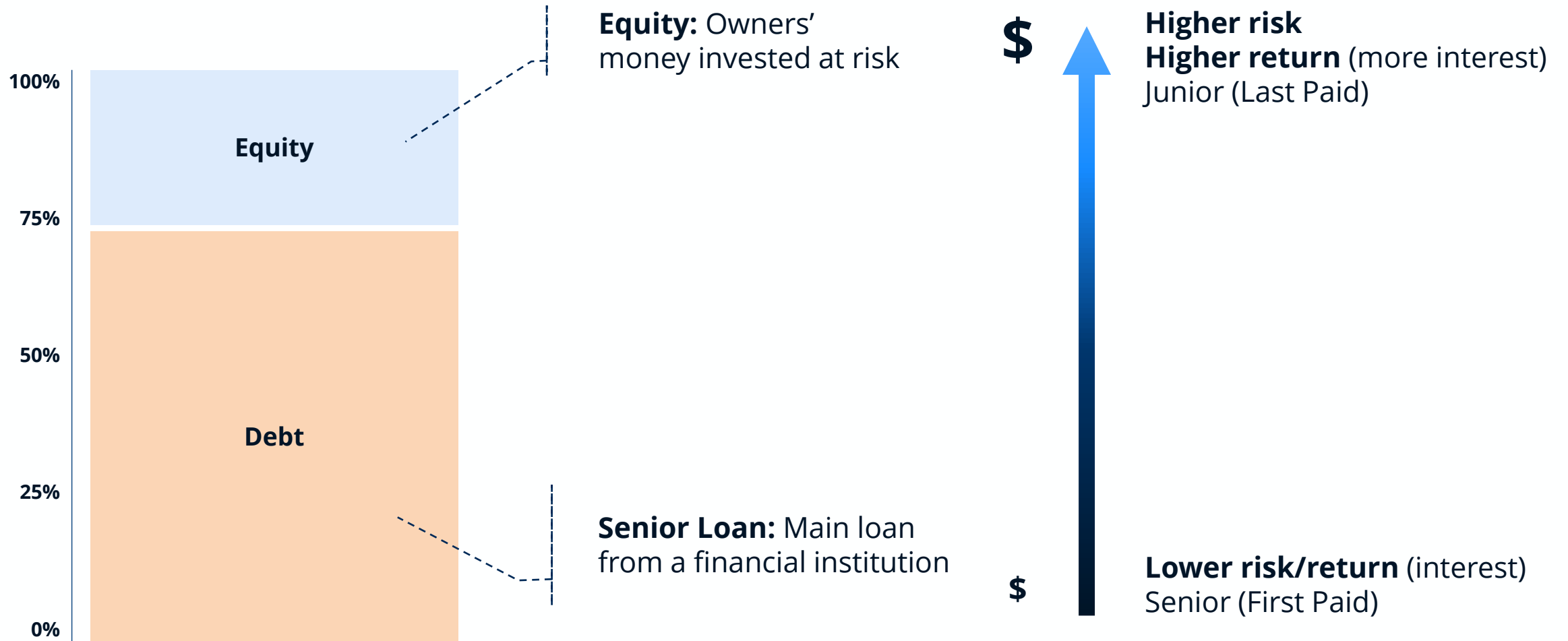
The Basics of Affordable Housing Development

What are the sources for real estate financing?



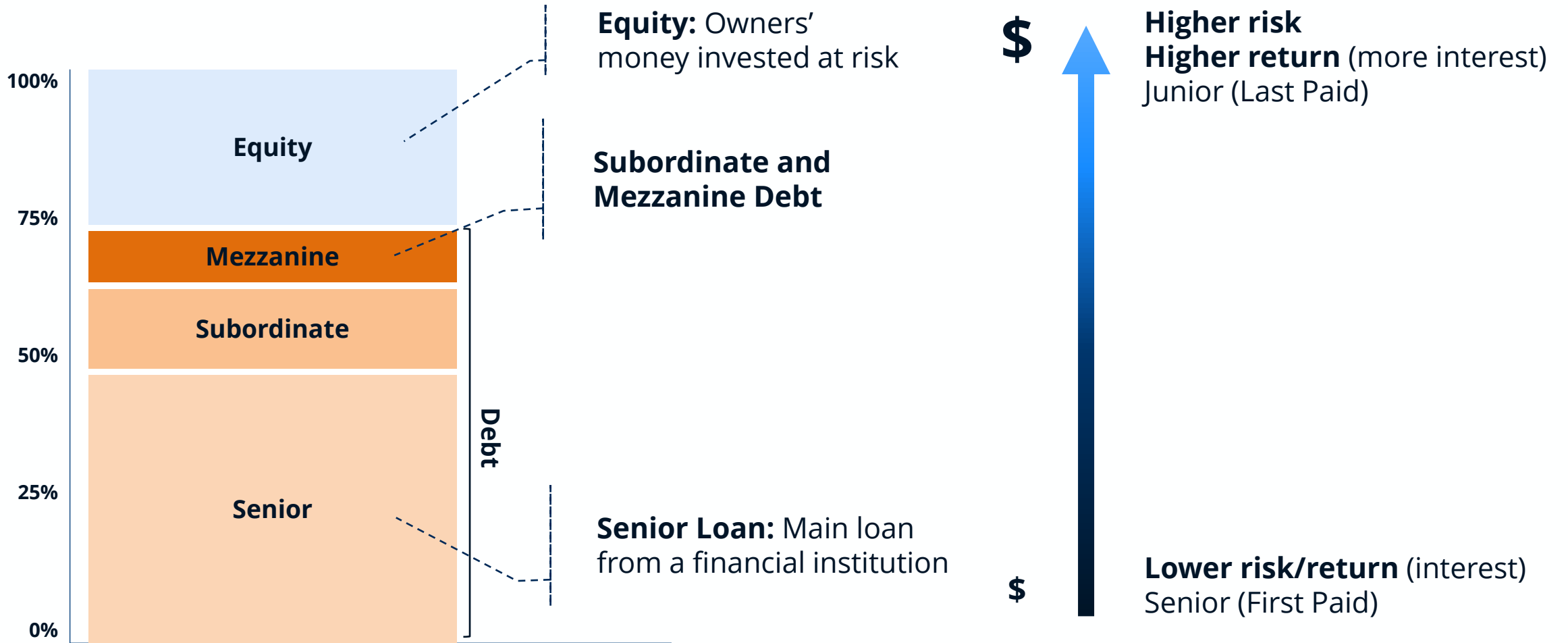
The Basics of Affordable Housing Development

What are the sources for real estate financing?



The Basics of Affordable Housing Development

What are the sources for real estate financing?





| 01

AH Development Process

Affordable Housing Development Process

The Physical Development Process can be captured within six phases. Time spent within each phase can vary, depending on the scale of the project and financing.



RECAPITALIZATION:
Need a new plan to keep the property operating for the rest of its useful life. There are many paths. If the property has reached the end of its useful life or systems, demolition and replacement of existing affordable housing may be the best path

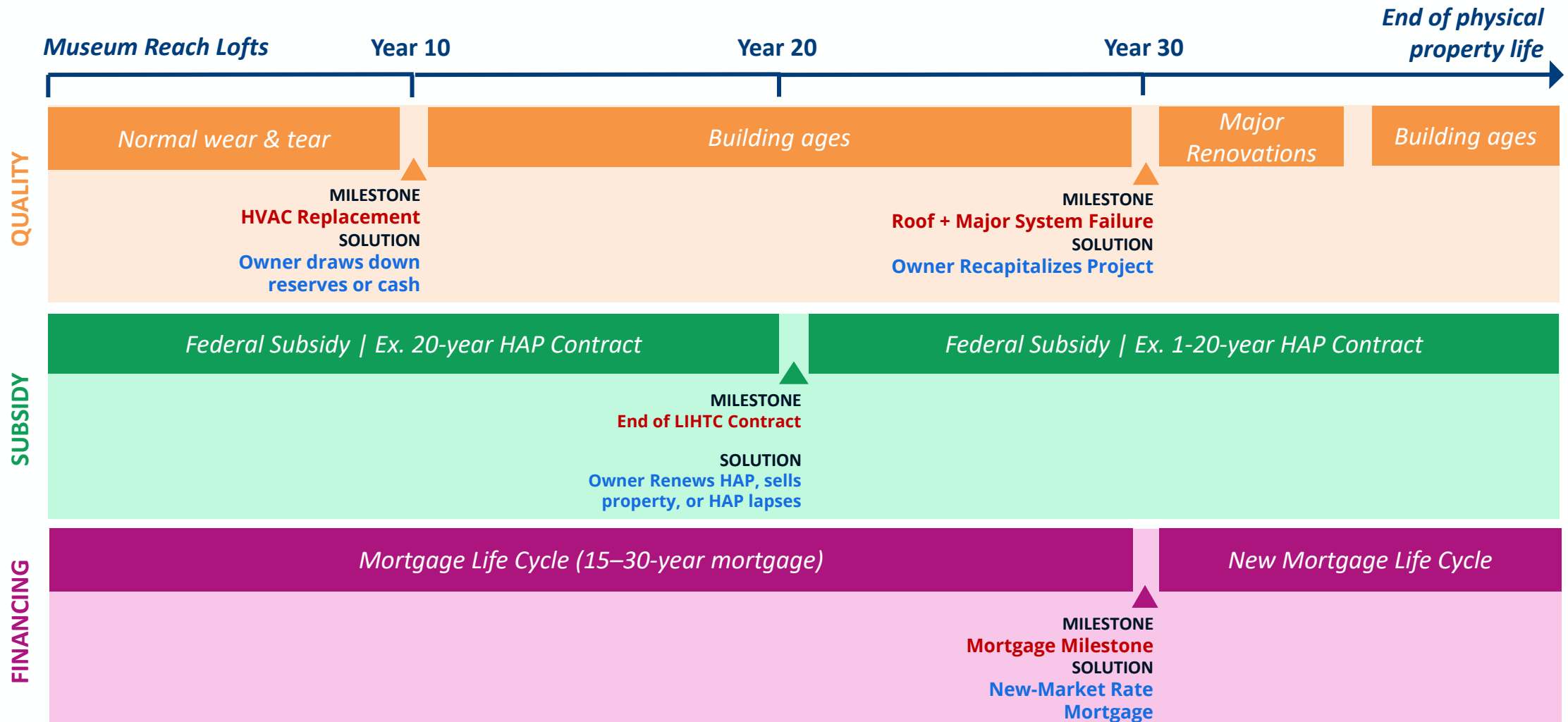


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Life of a Building

The Basics of Affordable Housing Development

Affordable housing building owners confront many 'milestones' over time. Increasing costs and decreasing subsidies creates long term affordability challenges.





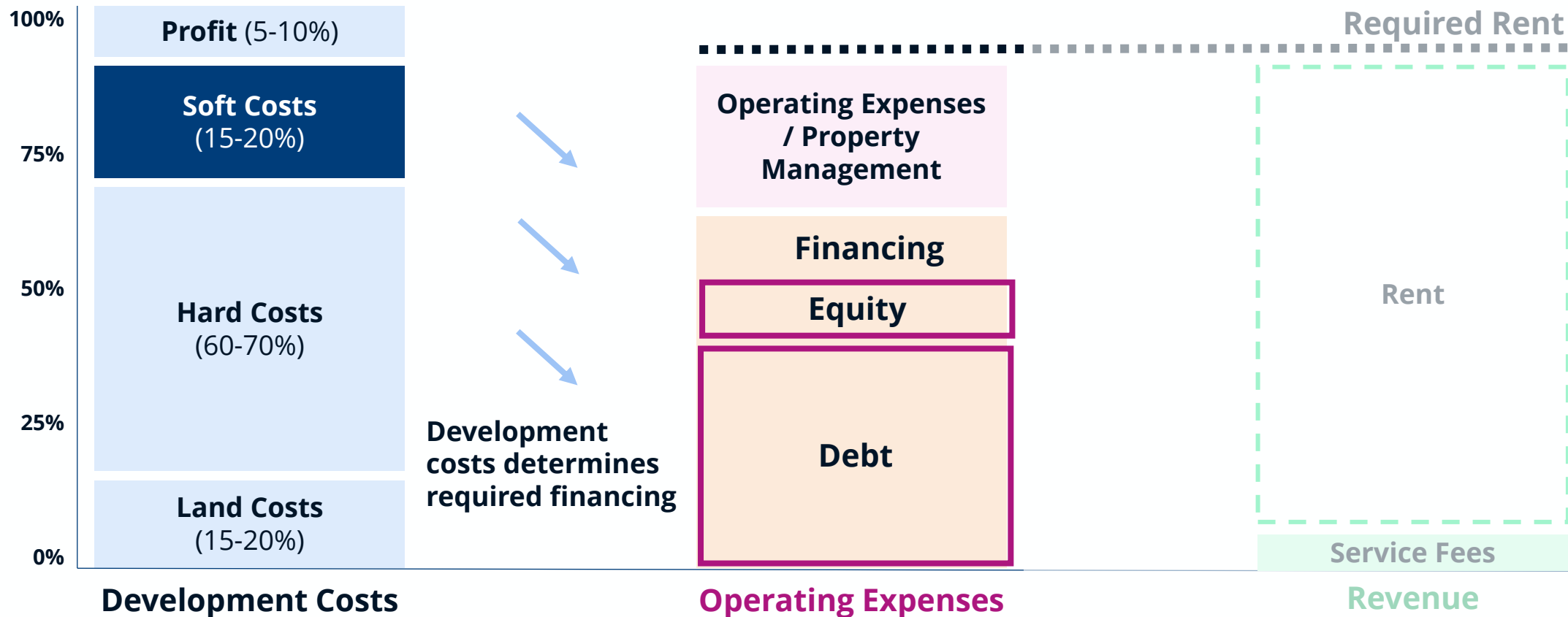
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AH Development Finance

Affordable Housing Development Finance

A portion of the development costs support operating costs in year 1 but are not necessarily equal. The remainder of development costs are used over the life of the building.

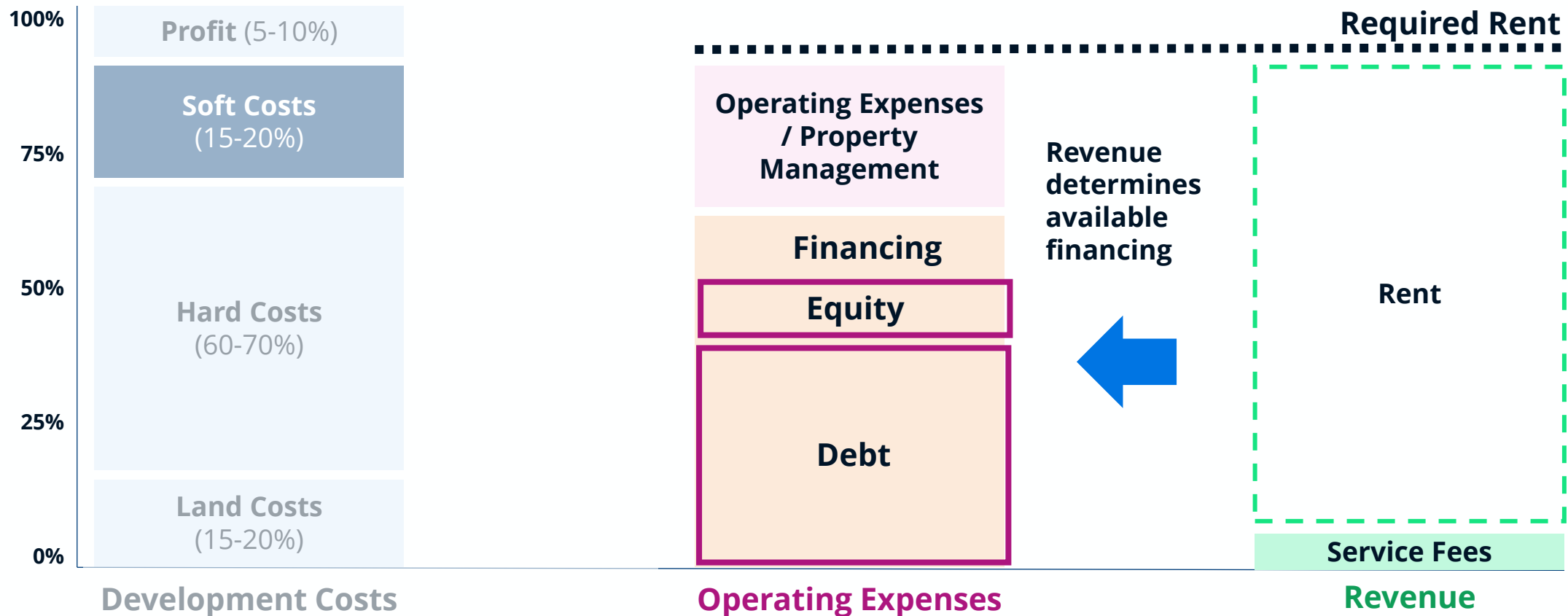
Economics of Rental Housing Development



Affordable Housing Development Finance

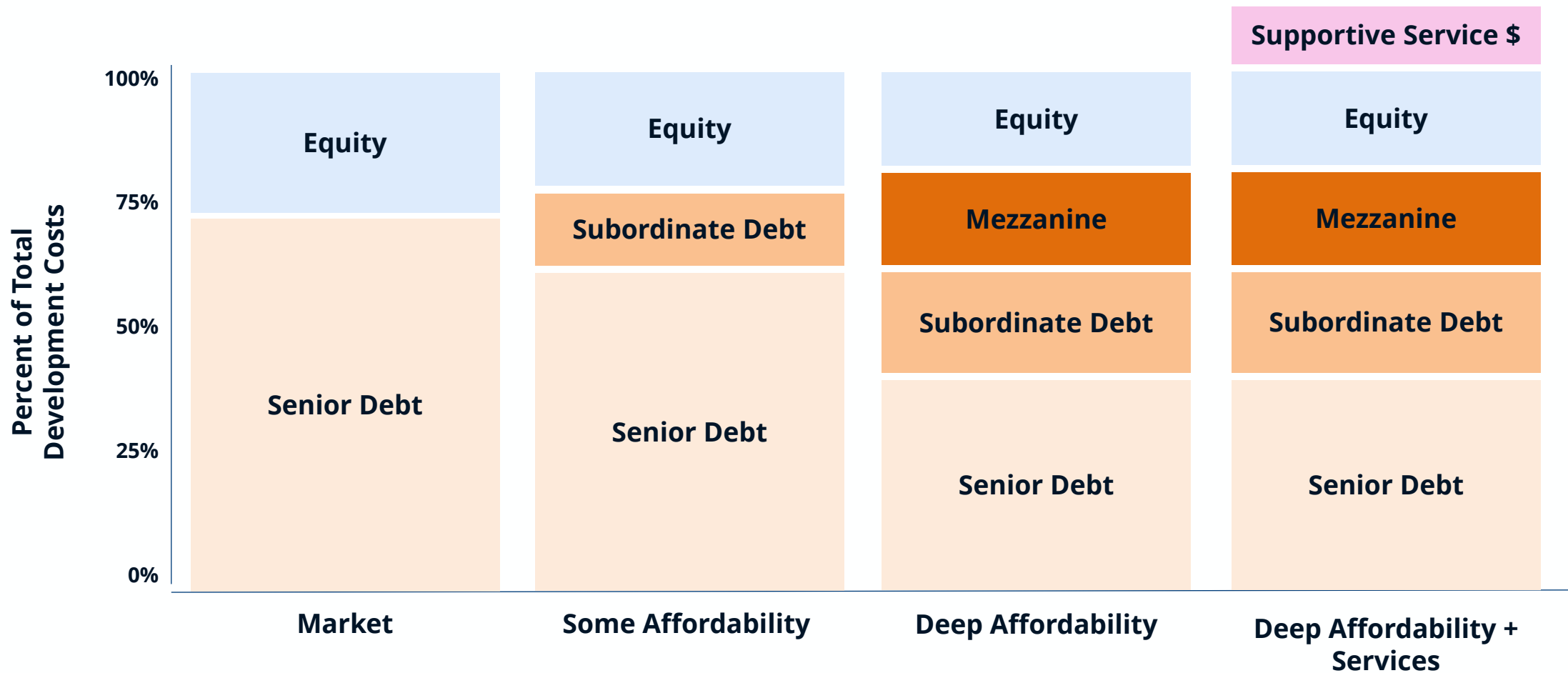
Development is only feasible when operating expenses and revenue balance.

Economics of Rental Housing Development



Affordable Housing Development Finance

On one side of the equation, projects with affordable units typically need additional financing sources to cover the cost of development. These could include LIHTC funding, local gap financing, or other forms of mezzanine and subordinate debt.



Affordable Housing Development Finance

Picking your Financing Sources



Owners' money invested at risk
Higher financial risk = higher financial return
Last to be repaid

A promise to repay other people's money
Lower financial risk = lower financial return
First to be repaid

Affordable Housing Development Finance

Sizing the Loan

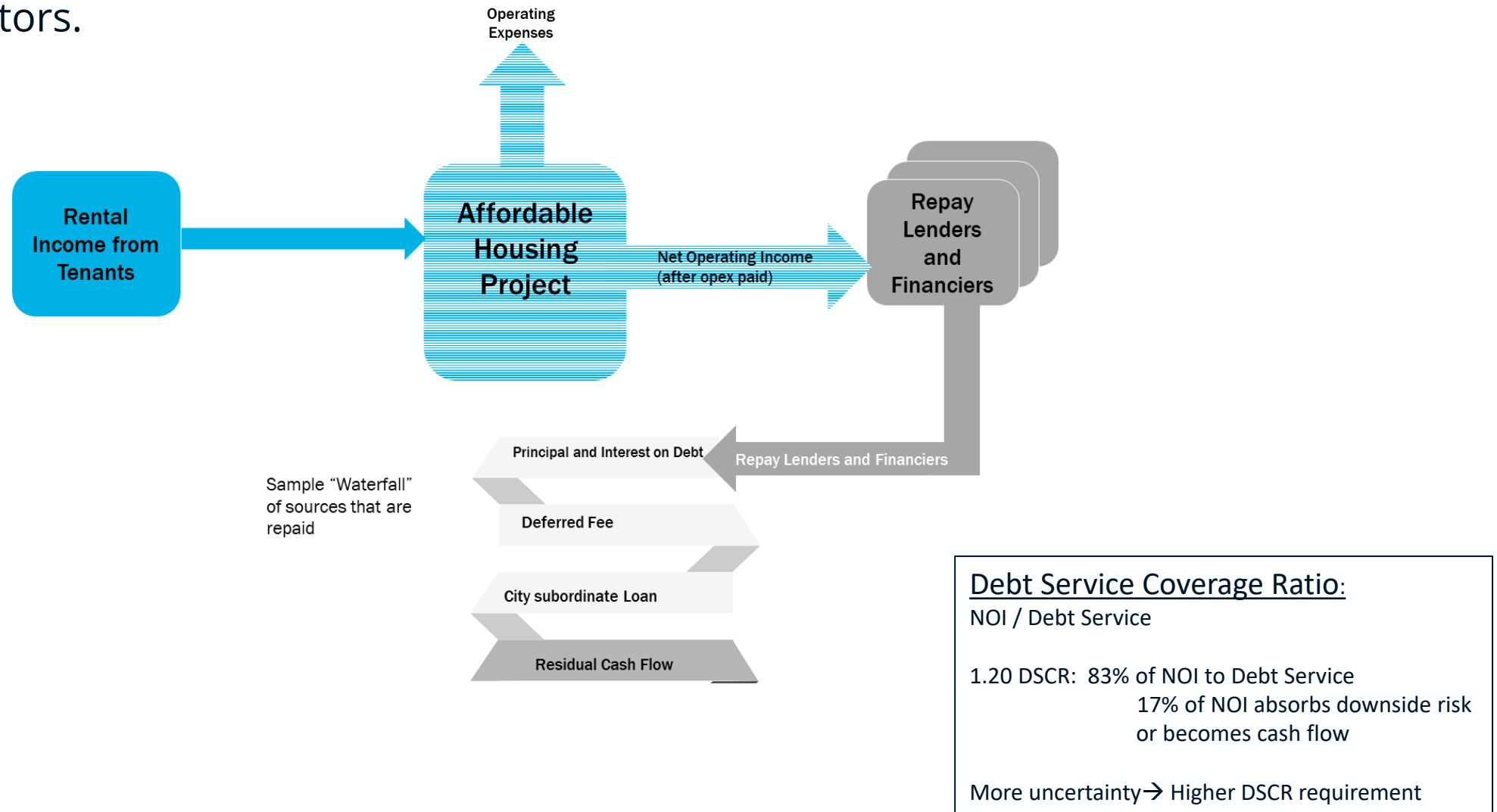
Net Operating Income = Rental Income - Operating Expenses

NOI / Debt Service Coverage Ratio = Debt Service Payment



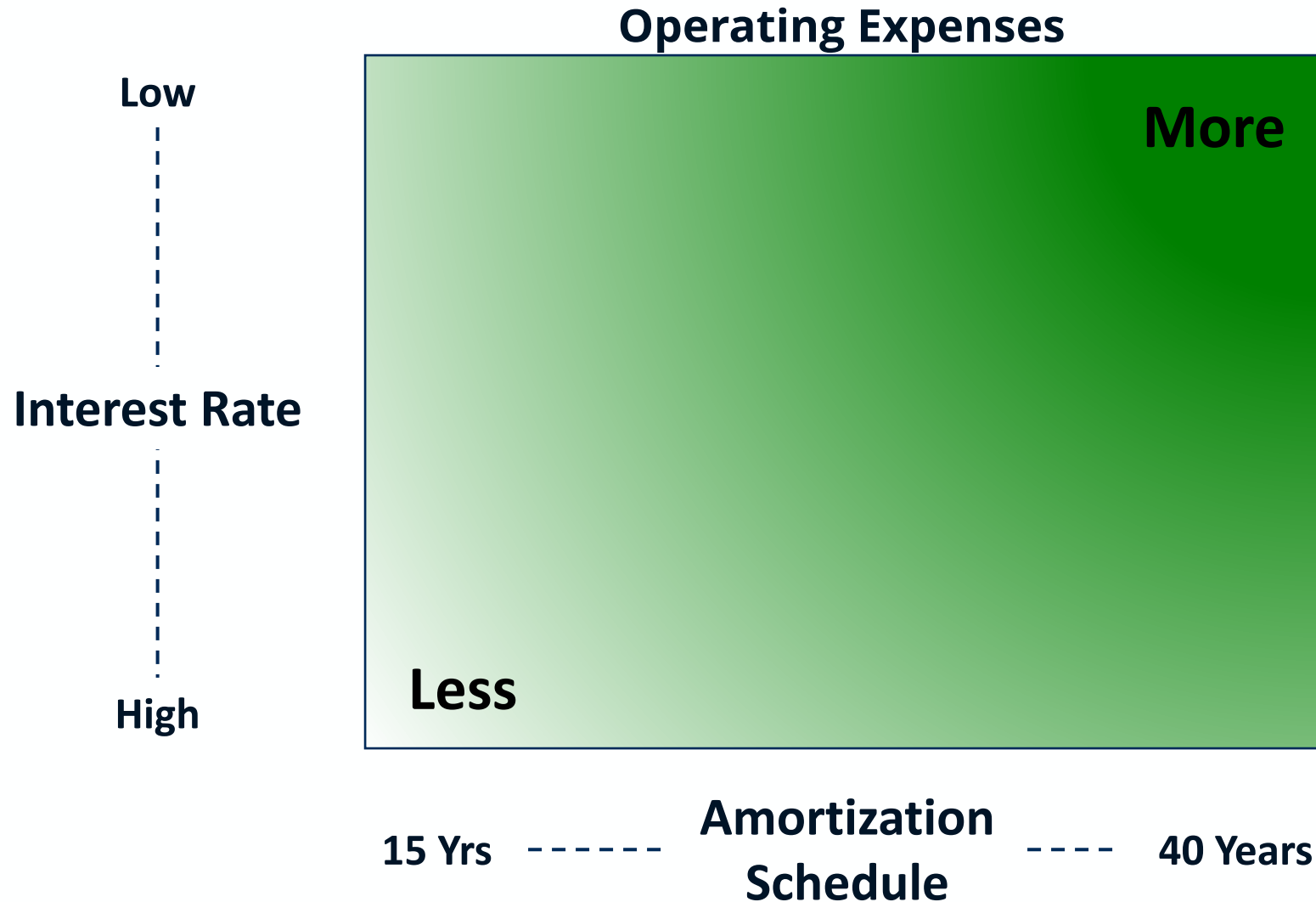
Affordable Housing Development Finance

Determine the Waterfall, or the method by which income is distributed to a properties' various investors.



Affordable Housing Development Finance

What size loan can an annual debt service payment support?



Affordable Housing Development Process

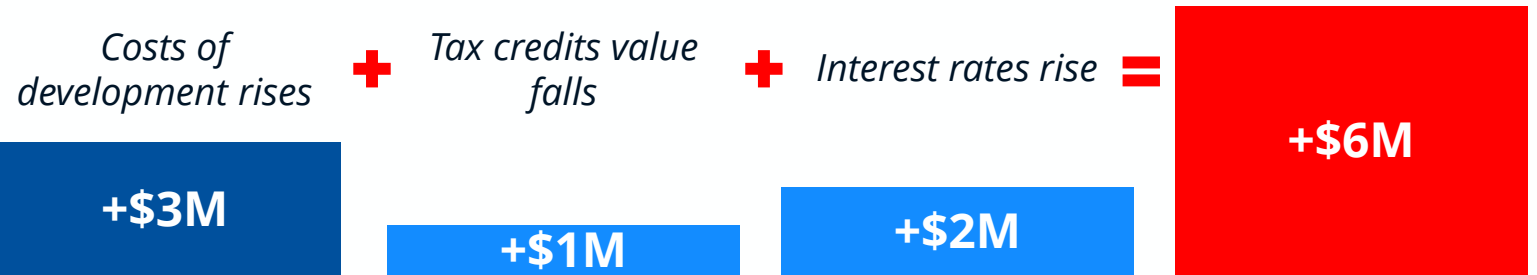
Developing a concept plan for affordable housing is increasingly difficult as the cost of development rises.

Conceptual project financing

Location: San Antonio, Texas

Tenancy: low-income family of 4

Affordable Rents: below \$930

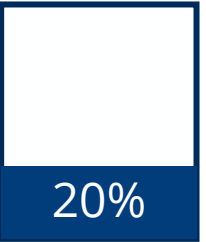


Concept	Pre-development	Construction	Permanent		Gap
			LIHTC (Equity)	Permanent Loan	
Current project	Less than \$1M	\$30M	\$10M	\$20M	
Change	None	+ \$3M in costs	- \$1M in equity	- \$2M in debt	-\$6M in financing
Future project	Less than \$1M	\$33M	\$9M	\$18M	



Affordable Housing Development Process

The Physical Development Process – “Predevelopment” Phase



Goal

Conduct major due diligence to identify risks



Cost

15-20% of total development costs



Key Activities

- 1) **Property due diligence:** conduct environmental reviews and assess development risks of land and property
- 2) **Negotiation:** negotiate terms of purchase, executed purchase contract, entitlements
- 3) **Site Analysis:** architect site analysis converts design concept to construction documents
- 4) **Identify capital needs:** analyze sources needed for project construction *and long-term* operating expenses
- 5) **Receive financial commitments**
- 6) **Plan and commit to services:** For affordable or supportive housing , a plan and commitments to support and pay for tenant services or service enrichment

Concept

Predevelopment

Construction

Permanent

Stabilization

Recapitalization

Affordable Housing Development Process

The Physical Development Process – “Construction” Phase

80-90%



Goal

- 1) **Complete constructure and prepare for operation**



Cost

~80-90% of total development costs



Key Activities

- 1) **Closing and starting construction:** developer closes on land purchase and start construction pronto
- 2) **Marketing to future residents:** continued marketing of units becoming available for lease to qualified residents
- 3) **Manage financial commitments:** ensure compliance with financing source requirements and payment of debts that come due
- 4) **Plan property operations:** create a property management plan and hire required staff members
- 5) **Prepare for long-term stewardship:** ensure property is ready for lease-up property and conversion to a permanent mortgage

Concept

Predevelopment

Construction

Permanent

Stabilization

Recapitalization

Affordable Housing Development Process

The Physical Development Process – “Permanent” Phase

5-8%



Goal

Prepare to place the property
“in service”



Cost

~5-8% of total development costs



Key Activities

- 1) **Prepare documentation:** complete legal and reporting due diligence
- 2) **Convert to a permanent mortgage:** replace construction financing with a long-term, permanent mortgage
- 3) **Inspect and verify property:** property is inspected and meets local and financing requirements for quality and safety

Concept

Predevelopment

Construction

Permanent

Stabilization

Recapitalization

Affordable Housing Development Process

The Physical Development Process – “Stabilization” Phase



Goal

Property is running smoothly



Cost

35-55% of potential rent



Key Activities

- 1) **Implement property management:** property management is fully in place and staffing needs are met
- 2) **Lease up**
 - 1) Property is leased-up to a stabilized level
 - 2) Tenants move in / final sales of homes
- 3) **Manage financing commitments:** begin permanent mortgage payments and repay other financial obligations
- 4) **Receive developer fees:** developer fees, partially withheld through construction, are received

Concept

Predevelopment

Construction

Permanent

Stabilization

Recapitalization

Affordable Housing Development Process

The Physical Development Process – “Recapitalization” Phase



Goal

Reposition property



Cost

Dependent on scenario



Key Activities

- 1) **Assess resident needs:** survey current residents to manage concerns and housing needs.
- 2) **Develop a repositioning plan:** identify scenarios for future project operations that estimate costs and financing needs. Repositioning scenarios may include:
 - 1) **sale**, disposing of the asset,
 - 2) **refinance**, replacing permanent mortgage financing with a new loan,
 - 3) **rehab**, investing in improving the property’s condition,
 - 4) **demolition**, clearing the site for new development,
 - 5) **or a combination of the above.**

Concept

Predevelopment

Construction

Permanent

Stabilization

Recapitalization