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 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 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 competitive 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

Syndicator

Projects
LIHTC STRUCTURING

- Types of Tax Credits
  - 9% and 4%

- Computing Tax Credits
  1. Depreciable costs $\times$ 130\% “boost” $\times$ \% of units or square feet for at or below 60\% AMI occupied units $\times$ credit rate=annual LIHTC, then,
  2. Annual LIHTC $\times$ 10 Years $\times$ Pricing=Total Equity
**Majestic 12**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Total Development Costs</td>
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<td>Depreciable Costs</td>
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<td>Basis Boost (QCT)</td>
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<td>Applicable Fraction</td>
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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 3rd 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