Affordable Housing Finance 101

Presented by: Andy Madeira
Senior VP, Real Estate Development - Eden Housing
What is Affordable Housing?

• Occupancy is income restricted, by family size
• Federal definition is <= 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?

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

*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

<table>
<thead>
<tr>
<th>Description</th>
<th>Total</th>
<th>Per Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Land &amp; Improvements</td>
<td>$12,535,000</td>
<td>$142,443</td>
</tr>
<tr>
<td>Total Design &amp; Consulting</td>
<td>$1,800,000</td>
<td>$20,455</td>
</tr>
<tr>
<td>Total Construction</td>
<td>$28,250,074</td>
<td>$321,024</td>
</tr>
<tr>
<td>Total Indirect Costs</td>
<td>$13,312,546</td>
<td>$151,279</td>
</tr>
<tr>
<td>Total Finance &amp; Carry Costs</td>
<td>$3,877,045</td>
<td>$44,057</td>
</tr>
<tr>
<td>Total TCAC/Syndication</td>
<td>$236,894</td>
<td>$2,692</td>
</tr>
<tr>
<td><strong>TOTAL DEVELOPMENT COSTS</strong></td>
<td><strong>$60,011,560</strong></td>
<td><strong>$681,950</strong></td>
</tr>
</tbody>
</table>

*Total Development Cost excluding waived fees $53,301,560 $605,700

## SOURCES OF FINANCING

<table>
<thead>
<tr>
<th>Description</th>
<th>Total</th>
<th>Per Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fee Waiver</td>
<td>$6,710,000</td>
<td>$76,250</td>
</tr>
<tr>
<td>FHLB - AHP</td>
<td>$870,000</td>
<td>$9,886</td>
</tr>
<tr>
<td>VHHP</td>
<td>$2,364,098</td>
<td>$26,865</td>
</tr>
<tr>
<td>LIH Tax Credit-LP Capital Contribution</td>
<td>$24,553,572</td>
<td>$279,018</td>
</tr>
<tr>
<td>Permanent Financing</td>
<td>$8,170,100</td>
<td>$92,842</td>
</tr>
<tr>
<td>Permanent Financing - 2nd Mortgage</td>
<td>$1,959,573</td>
<td>$22,268</td>
</tr>
<tr>
<td>Deferred Developer Fee</td>
<td>$200,000</td>
<td>$2,273</td>
</tr>
<tr>
<td>GAP / City</td>
<td><strong>$15,184,217</strong></td>
<td><strong>$172,548</strong></td>
</tr>
<tr>
<td><strong>TOTAL SOURCES OF FUNDS</strong></td>
<td><strong>$60,011,560</strong></td>
<td><strong>$681,950</strong></td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Unit Sizes/</th>
<th>Studio</th>
<th>1 BR</th>
<th>2 BR</th>
<th>3 BR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household Size</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Income (30% AMI)</td>
<td>$27,950</td>
<td>$31,950</td>
<td>$35,950</td>
<td>$43,100</td>
</tr>
<tr>
<td>Monthly Income</td>
<td>$2,329</td>
<td>$2,663</td>
<td>$2,996</td>
<td>$3,592</td>
</tr>
<tr>
<td>Rent = 30% for rent + utils.</td>
<td>$699</td>
<td>$799</td>
<td>$899</td>
<td>$1,078</td>
</tr>
<tr>
<td>Market Rents</td>
<td>$1,927</td>
<td>$2,213</td>
<td>$2,700</td>
<td>$3,379</td>
</tr>
<tr>
<td>% Below Market</td>
<td>-64%</td>
<td>-64%</td>
<td>-67%</td>
<td>-68%</td>
</tr>
</tbody>
</table>
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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San José Housing Department
kristen.clements@sanjoseca.gov
408-535-8236
## Japantown Seniors – 75 units

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

Silicon Valley Bank
Audience Questions and Closing Thoughts
Please join us for our next Luncheon Forum:

Do the Math- A Walk Through Market Rate Development Costs

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