



**Strategic Investment In Rental Housing
To Promote Long-Term Viability**

Sir Charles Apartments
Yankton, SD




**Sir Charles Apartments
Yankton, SD**




Sir Charles Apartments

- Built in 19th century; National Registry
- 1982 – rehabbed under Section 8 Substantial Rehabilitation Program; 34 – 1BR units
- Located in Yankton, SD (population 14,000) downtown close to services
- Local ownership - 40 individuals from the community
- Lewis and Clark Behavioral Health Services had clients residing in the property
- Age of building, lack of financial resources and owners' interest, building began deteriorating rapidly




Sir Charles Apartments

- Financial Feasibility –
 - \$455,823 owed on original mortgage - debt service delinquent, 13.3% interest rate, maturity 2013
 - Annual debt service - \$160,700, only afford \$105,000
 - Concern that prepayment of first mortgage would risk Section 8 housing assistance (40 yr. contract)
 - \$455,823 prepaid with conventional financing would cost the development over \$270,000
 - Building appraised at \$1,450,000 – not sufficient financing or cash flow to finance the acquisition




Sir Charles Apartments

- Financial Feasibility –
 - Lewis & Clark nonprofit organization
 - Original owners wanted out, charitable contribution
 - South Dakota Housing Development Authority (SDHDA) Preservation loan to guaranty cash flow
 - Drawn down monthly to assist with paying first mortgage debt (\$7,156/month for 43 months)
 - Approximately \$327,900 loan to be capitalized at maturity of first mortgage (August 2013)
 - Re-amortized over 6.5 years at 3.6%



Sir Charles Apartments

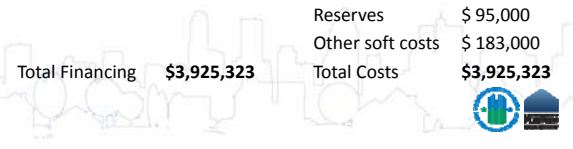
- Other Financing –
 - SDHDA HOME Funds - \$788,240, 0% interest, irregular amortization, repayment begins 2020, when Preservation loan has been repaid, repaid within 10 years
 - Housing Tax Credit equity - \$ 2,288,103 – utilized Tax Credit Exchange program
 - Local Lender - \$ 393,157, 7.75% and 15 yr. amortization, subordinated lien position, repayment began year 1



Sir Charles Apartments

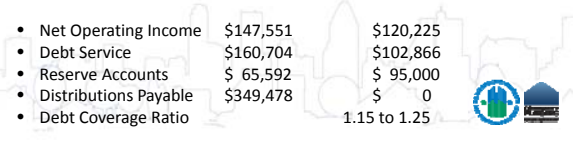
- Total Development –
 - Existing mtg. \$ 455,823 Acquisition \$ 530,823
 - HOME Funds \$ 788,240 Rehabilitation \$ 2,436,275
 - HTC (exchange) \$2,288,103 Professional fees \$ 88,000
 - Local Lender \$ 393,157 Financing costs \$ 273,000
 - Developer fee \$ 319,225
 - Reserves \$ 95,000
 - Other soft costs \$ 183,000

Total Financing **\$3,925,323** Total Costs **\$3,925,323**



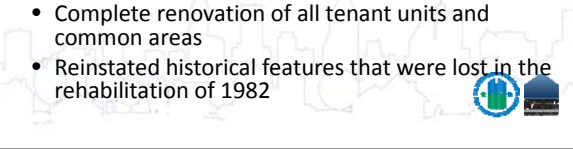
Sir Charles Apartments

	2009 Operations	2011 Budget
• Gross Rents	\$322,506	\$331,872
• Vacancy	\$ (17,557)	\$ (23,231) (7%)
• Other Income	\$ 13,751	\$ 12,000
• Operating Exp.	\$108,908	\$110,040
• Maintenance	\$ 6,364	\$ 36,489
• Taxes and Insurance	\$ 28,797	\$ 29,987
• Net Operating Income	\$147,551	\$120,225
• Debt Service	\$160,704	\$102,866
• Reserve Accounts	\$ 65,592	\$ 95,000
• Distributions Payable	\$349,478	\$ 0
• Debt Coverage Ratio		1.15 to 1.25




Sir Charles Apartments

- Major Rehabilitation -
- Installing fire sprinkler system
- Updating for building codes including replacing all outlets, switches and lighting fixtures
- Replace windows, repair brick and stone (tuck pointing and clear sealant), replace existing boilers, and hot water heaters
- Complete renovation of all tenant units and common areas
- Reinstated historical features that were lost in the rehabilitation of 1982




Sir Charles Apartments

- Long Term Viability –
- Retained Section 8 housing assistance –elderly or disabled tenants 40% AMI or lower income
- Proper budgeting of income and expenses
- Reserve accounts funded for future needs (replacement reserves)
- Tenant services – case management, life skills, one meal per day, close proximity to services
- All debt repaid in 20 years



Sir Charles Apartments

- Partnerships -
- Original owners forgoing equity in the property
- Local nonprofit wanting to retain affordable housing in their community
- Local lender willing to take a second lien position for their conventional loan
- SDHDA providing additional funds to create a feasible financing option





Strategic Investment in Rental Housing for Long-Term Viability

Charlie Wilkins
The Compass Group LLC



Today's Topics

- Getting Your Project Funded in Today's Market Conditions
- Subsidy Layering
- Structuring Your Project for Long Term Viability



Slide 2

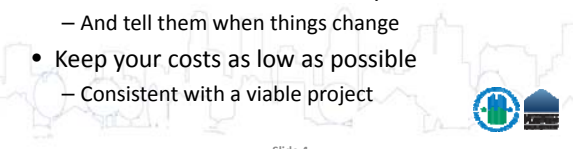


GETTING YOUR PROJECT FUNDED

Slide 3

General Tips for Funding Your Project


- Give the funders the project they want to fund
 - Not necessarily the project you want to build
- Limit the must-pay (“hard”) debt
 - You need a cash flow cushion
- Give the same numbers to all your funders
 - And tell them when things change
- Keep your costs as low as possible
 - Consistent with a viable project



Slide 4

To Get HOME Funds ...

- Propose the type of project that the PJ wants to fund
- Make sure your proposed project complies with HOME requirements, for example:
 - High HOME and Low HOME rents
 - Utility allowances
 - Environmental (including LBP)
 - Davis Bacon, 504, URA



Slide 5

Today’s bad news: to sell LIHTCs you need...

- Strong rental market
 - Low vacancy
 - Population growth
- LIHTC rents well below market rents
- Strong fundamentals:
 - Sponsor, location, design, builder, manager

Bottom Line: A Really Low Risk Project!



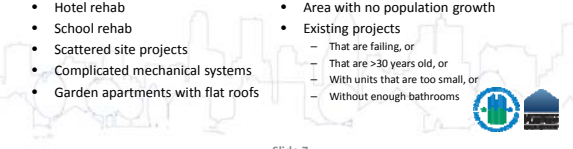
Slide 6

More on Risk Levels ...


Characteristic	Low Risk	Medium Risk	High Risk
Resident Profile	55+	Working Family	TANF Family
Construction	New	Heavy Rehab	Light Rehab
N'hood Vacancy	Under 6%	7%-9%	10% or higher
Number of Units	100+ units	40-99 units	Under 40

Other project characteristics associated with unusually high risks:

- Historic rehab
- Hotel rehab
- School rehab
- Scattered site projects
- Complicated mechanical systems
- Garden apartments with flat roofs
- 4BR or larger units
- Area with no population growth
- Existing projects
 - That are failing, or
 - That are >30 years old, or
 - With units that are too small, or
 - Without enough bathrooms



Slide 7

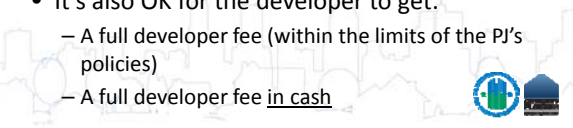


SUBSIDY LAYERING

Slide 8

Subsidy Layering

- “Subsidy Layering” = making sure that the HOME funding does not exceed the funding gap for the project
- Making the project sustainable will increase the gap. That’s OK.
- It’s also OK for the developer to get:
 - A full developer fee (within the limits of the PJ’s policies)
 - A full developer fee in cash



Slide 9

Example: The Funding Gap (50 Unit Project)

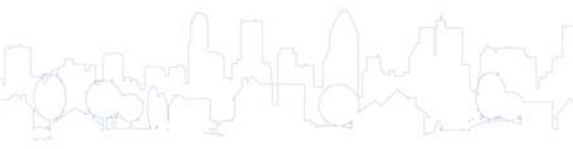
SOURCES OF FUNDS		USES OF FUNDS	
Hard Debt	\$750,000	Land	\$500,000
LIHTC Equity	\$3,000,000	Construction Contract	\$4,000,000
Deferred Dev Fee	\$0	Constr. Interest	\$100,000
		Architect / Engineering	\$150,000
		Developer Fee	\$600,000
		Legal / Accounting	\$150,000
		Initial Reserves	\$250,000
		Other Soft Costs	\$250,000
SUBTOTAL SOURCES	\$3,750,000	TOTAL USES	\$6,000,000
FUNDING GAP	\$2,250,000		

Slide 10

Key Subsidy Layering Questions

- What are the PJ's policies regarding
 - Maximum developer fee
 - How to calculate the value of the developer's share of the project's cash flow
- Does the PJ do a "back end" subsidy layering analysis based on actual sources and uses, in addition to the required front-end analysis based on estimated sources and uses

Slide 11




TIPS FOR LONG-TERM VIABILITY

Slide 12

Bottom Line

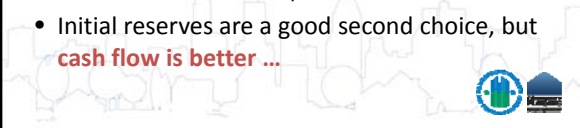
- Your LIHTC investor does not care whether the project fails after year 15
- Probably no one else on your development team cares either
- But if you want to be in business long term, you need to care



Slide 13

Stuff happens ...


- So your project needs cash flow, in case:
 - Actual rents are below pro forma
 - Actual vacancy is above pro forma
 - Actual expenses are above pro forma
 - Actual long term capital needs exceed what can be funded from the replacement reserve
- Initial reserves are a good second choice, but **cash flow is better ...**



Slide 14

Acknowledgment

- The material in the next three slides is from a study we are carrying out for the John D. and Katherine T. MacArthur Foundation.



Slide 15

Long Term Capital Needs PUPA (Family Project, Low Cost Area)

MAJOR BUILDING SYSTEM	ACCRUAL PUPA
Roof and gutters	\$54
Siding	\$117
Windows	\$58
Exterior stairs and doors	\$28
Carpet and vinyl tile	\$183
Appliances and HWH	\$139
Cabinets, vanities, tops, sinks	\$99
HVAC	\$118
Parking areas	\$53
Annual Accrual Rate	\$849 PUPA

This chart shows the rate at which capital needs **accrue** (e.g., for a 20 year roof, 5% of the replacement cost accrues each year).

Because systems wear out at different times, the amount that needs to be **paid** will be lower (e.g., for this project, the 50 year capital needs average \$655 PUPA).

Slide 16

Same Project, Different Levels of Reserve Deposits

Annual Deposit PUPA	First Deficit Year	Deficit At Year 15 (2009 \$)	Deficit At Year 20 (2009 \$)	Deficit At Year 30 (2009 \$)	Deficit At Year 50 (2009 \$)
\$100	7	\$2,837	\$5,386	\$13,819	\$23,037
\$200	13	\$1,435	\$3,561	\$11,207	\$19,066
\$300	15	\$33	\$1,736	\$8,595	\$15,093
\$400	21	None	None	\$5,983	\$11,121
\$500	29	None	None	\$3,372	\$7,150
\$600	30	None	None	\$760	\$3,178
\$700	None	None	None	None	None

\$300 PUPA will allow you to survive to year 15 or 20 but will leave you badly placed afterward

Slide 17

Annual Needs Vary ... A Lot

Slide 18

Questions?

Charles S. Wilkins, Jr.
The Compass Group, LLC
1432 K Street NW, Suite 600
Washington DC 20005-2541
cwilkins@compassgroup.net
www.compassgroup.net



Slide 19





**COMMUNITY
PLANNING
DEVELOPMENT**

**STRATEGIC INVESTMENT IN
RENTAL HOUSING TO PROMOTE
LONG-TERM VIABILITY**



Worthington Commons
Springfield, MA

**Gordon H. Mansfield Veterans
Community (Soldier On)**
Pittsfield, MA



Side 2

Worthington Commons
Springfield, MA



Side 3

Worthington Commons
Springfield, MA



Slide 4

This slide features a photograph of a three-story brick building corner with a prominent entrance. A small map of the city of Springfield, MA, is overlaid on the right side of the image, with a blue circle highlighting the location of the building. Below the map is a logo consisting of a blue house icon and a green house icon.

Worthington Commons
Springfield, MA



Slide 5

This slide shows a street-level view of a row of brick buildings. A map of Springfield, MA, is overlaid on the right, with a blue circle indicating the location. A logo with a blue and green house icon is positioned below the map.

Worthington Commons
Springfield, MA



Slide 6

This slide displays a photograph of a brick building with a white-trimmed entrance. A map of Springfield, MA, is overlaid on the right, with a blue circle marking the building's location. A logo with a blue and green house icon is located below the map.

Worthington Commons
Springfield, MA




Slide 7

Worthington Commons
Springfield, MA

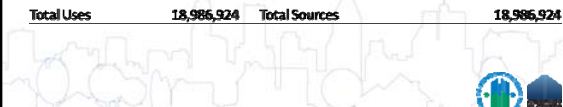



Slide 8

Worthington Commons
Springfield, MA

Sources and Uses

Acquisition	2,331,367	First Mortgage	1,560,000
Construction	12,671,000	State Funds	
Soft Costs	2,219,557	AHT	950,000
Fes/Overhead	1,765,000	DHCD HOME	385,500
		City HOME	1,000,000
		Developer Cash Equity	282,091
		Tax Credit Equity (LIHTC, SLIHTC, HTC)	14,809,333
Total Uses	18,986,924	Total Sources	18,986,924



Slide 9


Worthington Commons

Springfield, MA

Promoting Long Term Affordability:
Understanding the Customer

- Affordable housing for families with children
- Need for community space
- Need for security

Making sure design and scope fit customer's needs




Slide 10

Worthington Commons

Springfield, MA

Promoting Long Term Affordability:
Ensuring Long Term Viability

- Strong property management
- Lender oversight
- Team approach to problem solving
- Subsidy units/Low HOME/High HOME – permits tenants to remain long-term and build community
- Asset management by private sector participants



Slide 11

Gordon H. Mansfield Veterans Community (Soldier On)

Pittsfield, MA



Slide 12

**Gordon H. Mansfield Veterans Community
(Soldier On)**
Pittsfield, MA



Slide 13

**Gordon H. Mansfield Veterans Community
(Soldier On)**
Pittsfield, MA



Slide 14

**Gordon H. Mansfield Veterans Community
(Soldier On)**
Pittsfield, MA



Slide 15

**Gordon H. Mansfield Veterans Community
(Soldier On)**
Pittsfield, MA



Slide 16

**Gordon H. Mansfield Veterans Community
(Soldier On)**
Pittsfield, MA




Slide 17

**Gordon H. Mansfield Veterans Community
(Soldier On)**
Pittsfield, MA



Slide 18

Gordon H. Mansfield Veterans Community (Soldier On)
Pittsfield, MA





Slide 19

Gordon H. Mansfield Veterans Community (Soldier On)
Pittsfield, MA

Sources and Uses

Acquisition	100,000	First Mortgage	351,000
Construction	5,540,657	State Funds	
Soft Costs	937,357	HIF	1,500,000
Fee/Overhead	279,026	CBH	144,260
Capitalized Reserves	100,000	HOME	720,000
		AHIF	1,500,000
		GAH	313,000
		Developer Cash Equity	316,150
		FHLM/AHP	350,000
		HUD Special	1,677,000
		Developer Fee Contributed	85,430
Total Uses	6,957,040	Total Sources	6,957,040



Slide 20


Gordon H. Mansfield Veterans Community (Soldier On)
Pittsfield, MA

Reaching Underserved Populations and Promoting Long Term Affordability:

Understanding the Customer

- Veterans transitioning out of homelessness
- Need for community space
- Need for accessibility
- Need for services

Making sure design and scope fit customer's needs




Slide 21

**Gordon H. Mansfield Veterans Community
(Soldier On)**
Pittsfield, MA

Reaching Underserved Populations and
Promoting Long Term Affordability:
Serving the needs of the underserved

- Permanent, supportive housing
- Intensive network of supportive services
- Access to a broad community partnership
- Case manager available

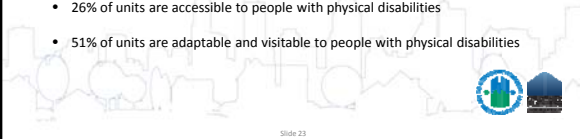


Slide 22

**Gordon H. Mansfield Veterans Community
(Soldier On)**
Pittsfield, MA

Reaching Underserved Populations and
Promoting Long Term Affordability:
Designing for the population

- Full-service, individual units
- "Village" and "main street" concepts to promote community
- LEED-certifiable building design
- 26% of units are accessible to people with physical disabilities
- 51% of units are adaptable and visitable to people with physical disabilities



Slide 23

It takes the right ingredients...



Slide 24

