

Housing Washington 2016

AFFORDABLE HOUSING 101



BEACON
DEVELOPMENT
GROUP

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Session Outline

1. What is affordable housing?

- How is it defined?
- Who does it serve?
- Who provides it and why?

2. What's the process?

3. How is it funded?

- Local, state, federal
- Capital and operating

4. How do you make it pencil?

- Development sources & uses
- Operating pro forma

5. How does the future look?

Our Experience

	Projects	Total Units	Total Value
Completed	78	4,050	\$578M
Under Construction	8	1,056	\$283M
Funded/NTP	2	181	\$77M
In Development	14	1,132	\$500M
Total	102	6,521	\$1,438M

Our Experience

Project Types	Family	45 projects
	Agricultural Workers	24 projects
	Sustainable Building	29 projects
	Historic	8 projects
	Senior	17 projects
	Special Needs	26 projects
	Acquisition/Rehab	16 projects
	Urban / Mixed-Use	23 projects
Where?	36 cities in WA & CA	

What is Affordable Housing?



Agricultural worker family housing

Varney Court
Housing Authority of the City
of Pasco and Franklin County



What is Affordable Housing?

Senior Housing

Pearl at Oyster Bay
American Baptist Homes of the West



Introduction

What is it?

Process

Funding

Financial
Feasibility

The Future

Conclusion

What is Affordable Housing?



TOD / Mixed Use

Plaza Roberto Maestas
El Centro de la Raza



Introduction

What is it?

Process

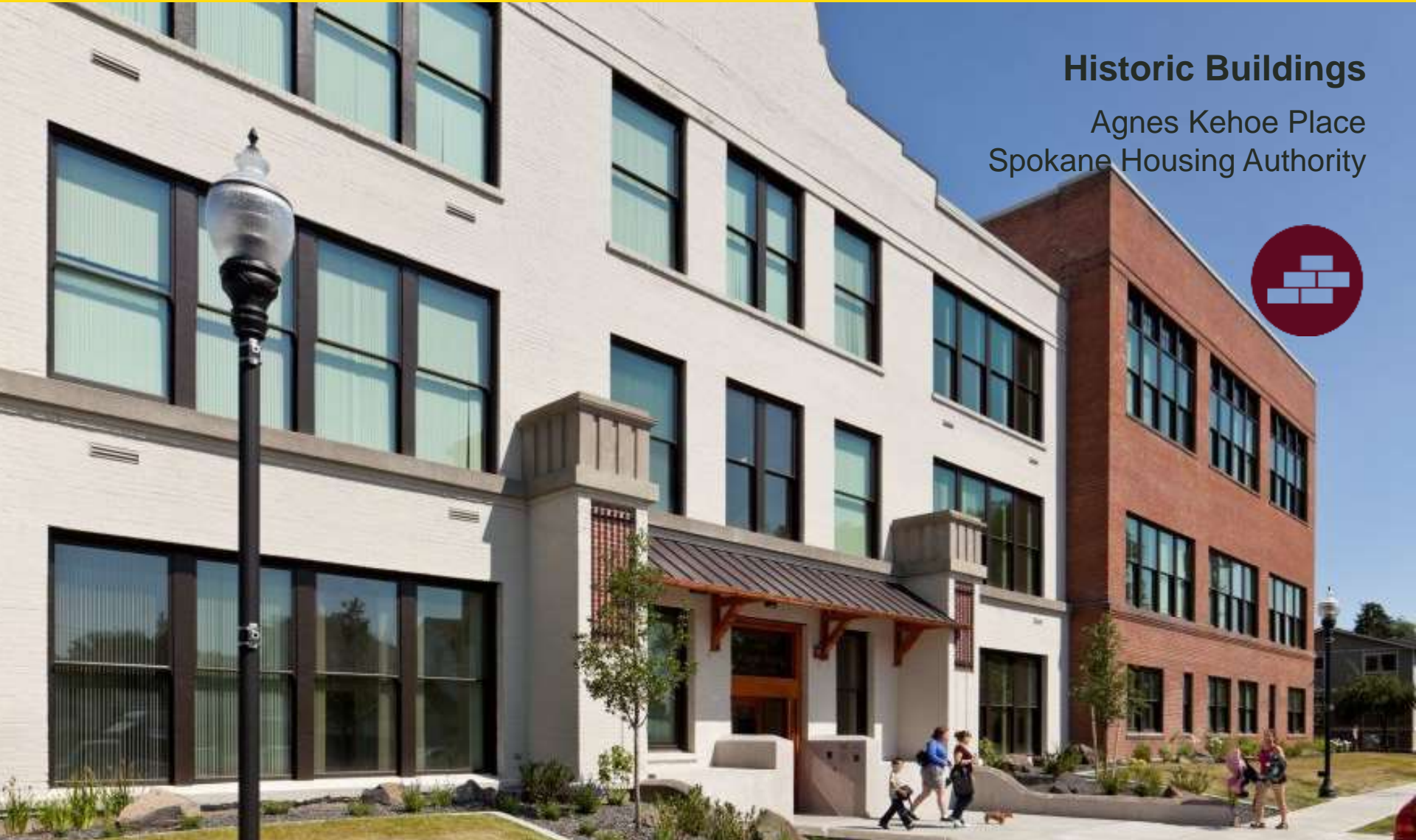
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What is Affordable Housing?



Historic Buildings

Agnes Kehoe Place
Spokane Housing Authority



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What is Affordable Housing?

- 1. Residents pay at most 30% of their income in housing costs**
 - Rental Housing Cost = **Rent + Utilities**
 - Ownership Housing Cost = **Principal + Interest + Taxes + Insurance**
- 2. Includes a wide range of housing types**
 - **Shelter** – night to night or permanent beds
 - **Special Needs** – homeless, disabled, etc
 - **Veterans**
 - **Farm worker**
 - **Working “poor” minimum wage, 30% to 50%**
 - **Workforce 60% to 100%**
 - **Ownership** – Single Family, Townhouse, Condo
- 3. Percentages – Area Median Income (census data)**
 - **0 – 30% = Extremely Low Income**
 - **30 – 50% = Very Low Income**
 - **50 – 80% = Low Income (60% is maximum for tax credits)**
 - **80 – 120% = Moderate Income**

What is Affordable RENTAL Housing?

WSHFC Income Limits (2016): 3 person household

	30% AMI	50% AMI	60% AMI
Yakima	\$15,030	\$25,050	\$30,060
Spokane	\$17,700	\$29,500	\$35,400
King	\$24,390	\$40,650	\$48,780

What is Affordable RENTAL Housing?

WSHFC Rent Limits (2016): 2 bedroom units

	30% AMI	50% AMI	60% AMI
Yakima	\$15,030 \$375	\$25,050 \$626	\$30,060 \$751
Spokane	\$17,700 \$442	\$29,500 \$737	\$35,400 \$885
King	\$24,390 \$609	\$40,650 \$1,016	\$48,780 \$1,219

Who Provides Affordable Housing?

- Housing Authorities
- Non-profit / social service organizations
- Public Agencies
- Private Market

I. Project Definition & Feasibility



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I. Project Definition & Feasibility

1. Who are you going to serve?

- What's the market? (i.e. the need)
- What makes you the right provider?
- Impact of prioritizing populations?

2. Due Diligence

- Survey, Phase I, title report, design studies

I. Project Definition & Feasibility

3. What are the costs?

- Site Acquisition
- Construction/A&E Reserves
- Financing & Soft Costs
- Replacement & Operating Reserves

4. What are the likely development and operating sources?

- Local subsidy and support
- Tax credits: Are you competitive? What's the equity calculation?
- Rent levels

II. Funding Applications



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Funding Sources (Capital Stack)

State Housing Trust Fund

- Application
- Note
- Deed of trust
- Loan agreement and assignment for security purposes
- Regulatory agreement
- Subordination agreement
- Compliance



III. Design and Permits



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Plaza Roberto Maestas

El Centro de la Raza, Beacon Hill, Seattle



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IV. Closing



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IV. Closing

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1. **Meet the requirements of 3 – 5 different lenders simultaneously**
2. **Get 3 – 5 different attorneys to agree on anything**
3. **Priority Agreement**
 - Who's on First? What's on Second?
4. **Manage guarantees (if possible)**
 - Construction completion
 - Tax credit delivery
 - Operating deficit

V. Construction



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V. Construction

1. **Try to find a contractor you trust with your life**
2. **But one that's hungry and willing to do high quality work for as little overhead and profit as possible**
3. **Try to find a contractor who can navigate all the subsidy requirements:**
 - Green Requirements
 - Prevailing Wage and other labor standards
 - Hire Section 3 and WMBE firms
 - Meet apprentice program requirements
4. **Meet tax credit and investor delivery deadlines despite weather and unforeseen site conditions**

VI. Lease-Up & Management

1. Lease-Up

- Deliver units according to the schedule you set with the investor 12 – 18 months earlier so you don't lose equity
- Lease up to fully qualified households who meet all the income and lease guidelines and will be stable happy residents

2. Management

- Then starts the hard part – operating a financially and socially stable housing community for the long term
- Next Class: Affordable Housing Management 101

Housing 101

1. What is affordable housing?
2. What's the process?
- 3. How is it funded?**
4. How do you make it pencil?
5. How does the future look?

How Is It Funded?

1. Local, State and Federal Resources

- **Capital Side** – subsidize cost of **construction and development**
- **Operating Side** – subsidize **operations, maintenance, and services**

2. Local – City & County

- Entitlement Cities & Counties – pass-through of **CDBG and HOME** funds
- Local **property tax levies**
 - City of Seattle, City of Bellingham,
 - King County Veterans and Human Services Levy
- **2060 & 2063** for services – recording fees
- **Regional consortia** – ARCH
- **General funds**
- **Philanthropy**

How Is It Funded?

3. State

- **Housing Trust Fund**
 - **\$200M** in the 2007 – 2009 budget
 - **\$130M** in the 2009 – 2011 budget (100 + 30)
 - **\$50M** in the 2011 – 2013 budget
 - **\$67M** in Supplemental budget in 2012
 - **\$51M** for 2013 – 2015 biennium
 - **\$49M** for 2015 – 2017 biennium
 - Approximately \$21M 2016 and \$28M 2017
- **CDBG Housing Enhancement** – for non-entitlement parts of the state
- **2060 & 2063** – recording fees, state portion
- **Washington Families Fund** – homeless services

How Is It Funded?

4. Federal

- **Housing & Urban Development**
 - **202/811** Capital/operating programs
 - **HOME & CDBG**
 - **McKinney** for homeless services
 - **Public Housing Authorities**
 - **Section 8** Vouchers, **VASH** Vouchers, **RAD** Vouchers
 - **FHA** – federally guaranteed loans
 - **National Trust Fund (WA - \$23M in 2017)**
- **US Dept of Agriculture – Rural Development programs**

How Is It Funded?

And last but not least...

Which Federal Agency runs the nation's largest housing production program?



Financing Comparison

Conventional Deal

\$2M Owner Equity

\$8M Bank Debt

Financing Comparison

Affordable Deal

**\$0
Owner
Equity**

\$250K-\$1M Bank Debt

\$6-\$7M LIHTC Equity

\$ City

\$ County

\$ State

How Does It Pencil?

Why can't affordable housing work without all these subsidy programs?

Development Side

1. Conventional Real Estate Development:

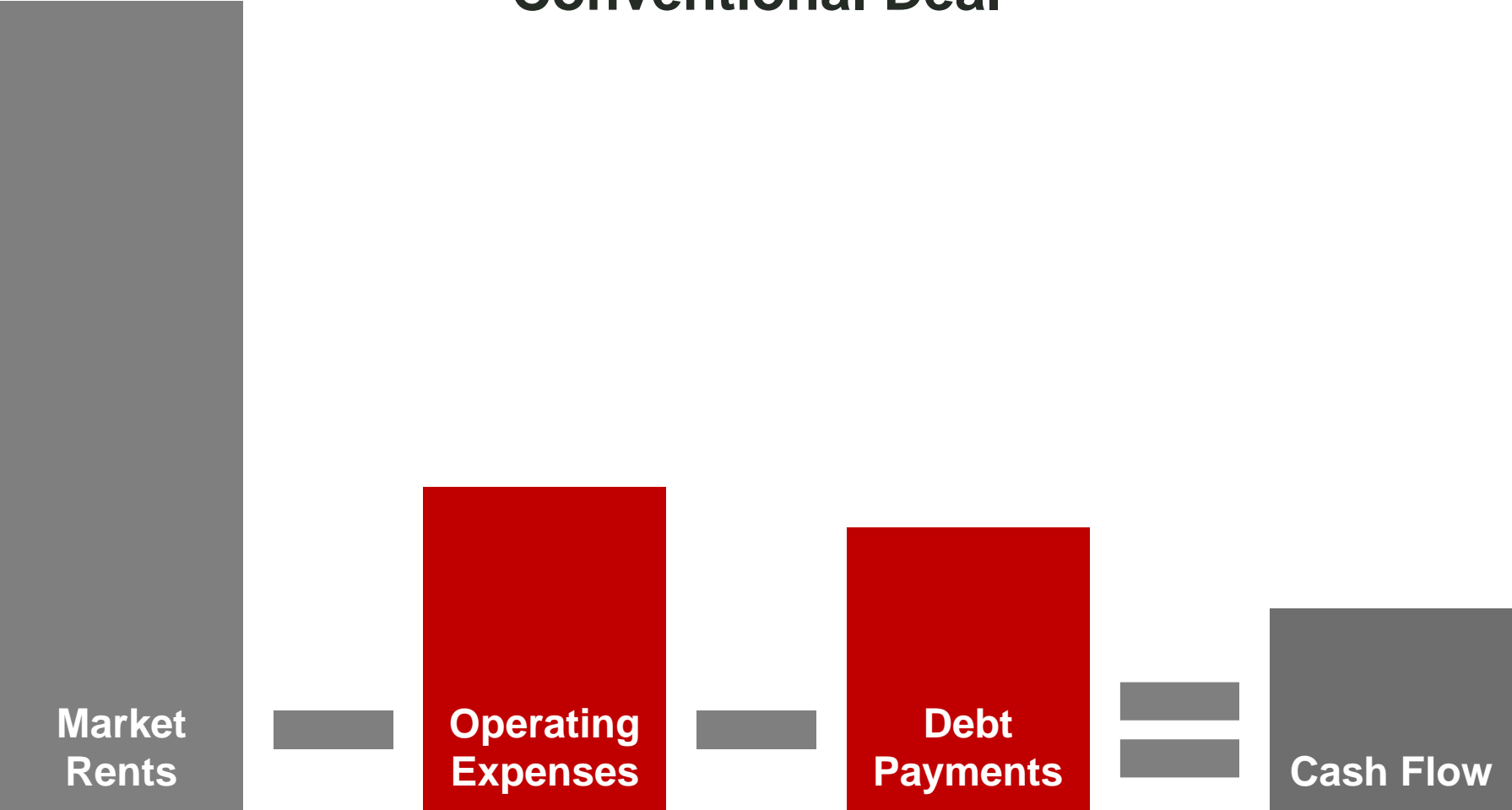
- Total Project Cost = **Debt + Owner Equity**
- Debt paid by **rental income**
- Equity re-captured by Owner through **cash flow, appreciation, and sale** of asset

2. Affordable Real Estate Development

- Reduced rents mean **little or no debt**
- Non-Profits: **no Owner equity or re-sale** of assets
- Investor equity based on sale of tax credits
- Gap funding from public sources for the difference

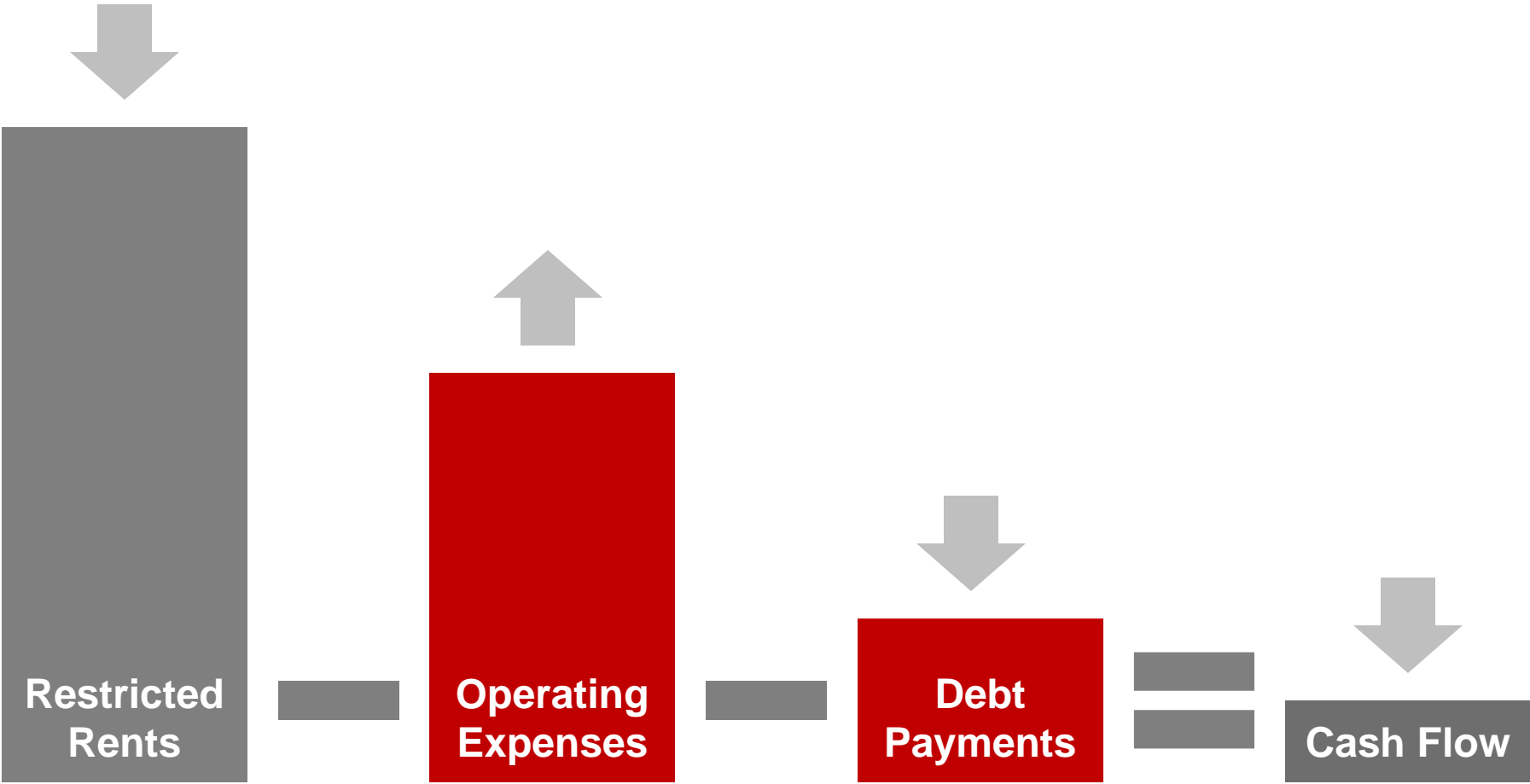
Cash Flow Comparison

Conventional Deal



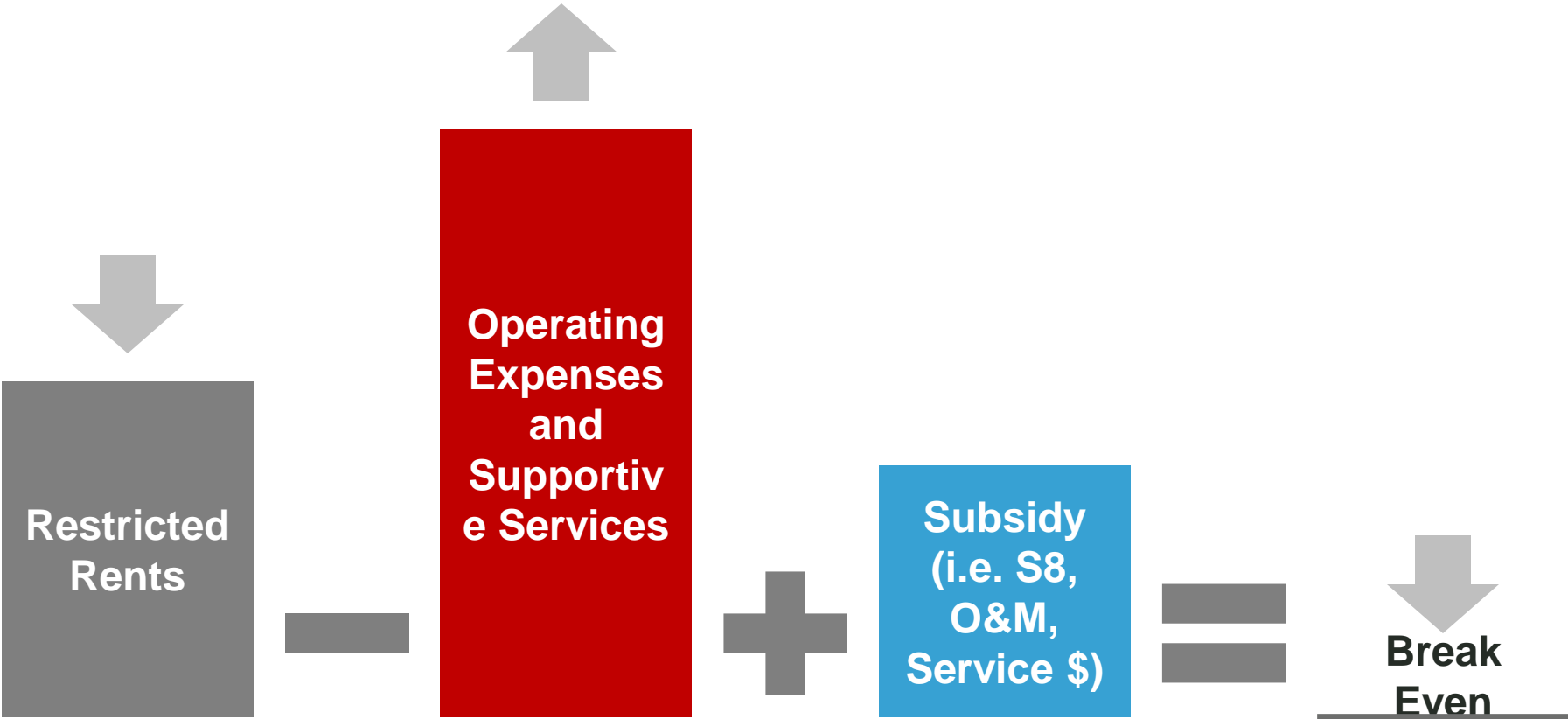
Cash Flow Comparison

50% - 60% Deal



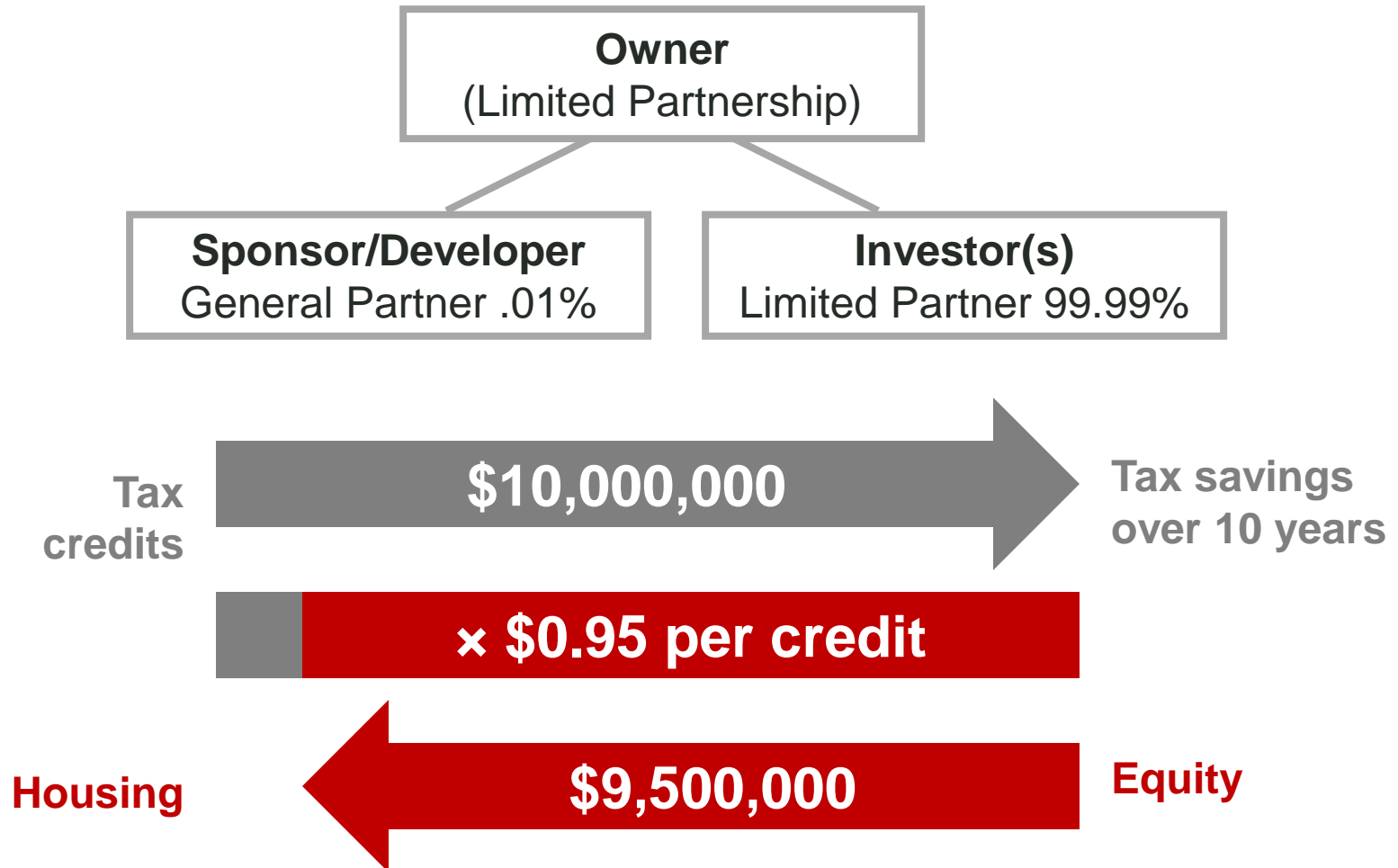
Cash Flow Comparison

30% and below



Credit to Equity

Example : \$1,000,000 in Credit



What Does the Future Hold?

1. Flat resources in near term

- State budget
- Insufficient resources
- Federal budget – funding for vouchers v. capital expenditures

2. Anti-tax sentiment

- Fewer dollars for services
- Lower support/increasing competition for organizational dollars

3. Fraying safety net

- Increased need for housing
- Increased needs for those already in housing

What Does the Future Hold?

4. Urban Cores vs. Suburban and Rural Areas

- Distribution of high wage jobs and changes to AMI
- Impact of minimum wage
- Priority of housing vs. education and health care

5. Tax Credit market remains strong

6. Construction costs increasing in Puget Sound construction market, stable balance of state

Policy Directions / Connections

Future Resource Opportunities

- Medicare/Medicaid
- Housing that reduces medical system expenses
- Programs that reduce incarceration expenses
- Housing resources which improve educational performance/ attendance
- Programs which demonstrate savings to cities and counties for emergency services/detox
- Energy saving programs which translate into leveraged resources



**Helping People Living
in Nursing Homes Return
to Their Community**

Washington State Department of Social and Health Services
Aging and Disability Services Administration

Parting Thoughts

- 1. Very difficult to do this work alone. Find partners with experience who can help get the deal done.**
- 2. Work with all the resources available.**
- 3. Be creative but make sure the fundamentals are sound.**
- 4. Do not work the numbers until the deal works. Work the deal until the numbers work.**
- 5. Remember that real families and individuals will benefit from this work.**



Additional Resources



<http://beacondevgroup.com>

Services for the lifecycle of your building