

# HOUSING MATTERS FORUM

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## Affordable Housing Finance 101 October 14, 2021



**ARLINGTON**  
VIRGINIA

# AGENDA

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## **Welcome**

Jennifer Daniels, Planning and Community Development Supervisor

## **A Tale of Two Budgets**

Maureen Markham, Affordable Housing Consultant

## **Queens Court Case Study**

Melissa Danowski, Principal Development Specialist

## **Q&A**



**ARLINGTON**  
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# **AFFORDABLE HOUSING FINANCE**

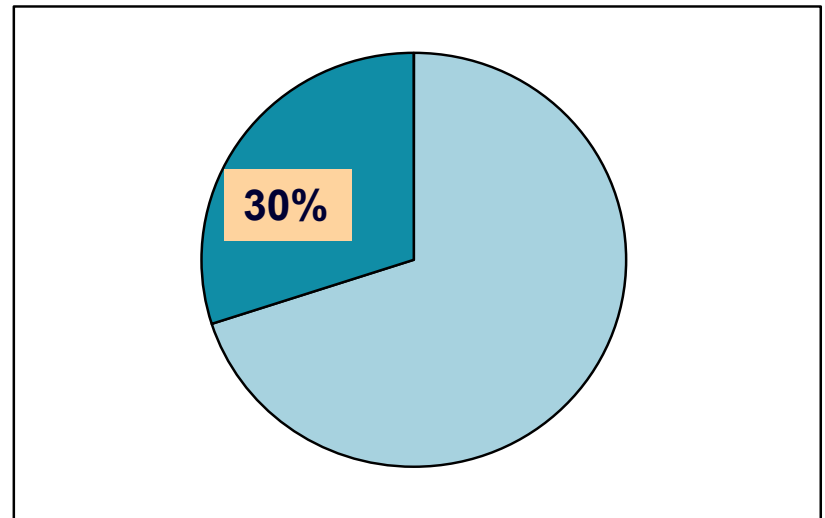
# **A Tale of Two Budgets**

Maureen Markham  
Community Development Consultant

# What is Affordable Housing?

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**Decent, quality housing that costs no more than 30 percent of a household's gross monthly income for housing expense – rent/mortgage and utility payments**



# What kind of housing is it?



- Single family and multi-family
- Garden apartments and hi-rises
- Rental and home ownership
- New construction and existing buildings

**ALL KINDS!**





# Who Lives in Affordable Housing?

People who make less than:

- 30% of median
- 50% of median
- 60% of median
- 80% of median



# What is Median Income?

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- **Half are above; half are below**
- **Set by HUD for family size**
- **Determines eligibility for government programs**

HUD – U.S. Department of  
Housing and Urban Development

# Median Income

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**For a family of 4 in the Washington Area**





# Median Income

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For a family of 4 in the Washington Area

**\$129,000**

**(\$10,750 per mo)**

Richmond -- **\$89,400**

Baltimore -- **\$105,100**

# 2021 Washington Area Median Incomes

<b>Family Size</b>	<b>Extremely Low 30% AMI</b>	<b>Low 50% AMI</b>	<b>Tax Credit 60% AMI</b>	<b>Moderate 80% AMI</b>
<b>1</b>	<b>\$27,090</b>	<b>\$45,150</b>	<b>\$54,180</b>	<b>\$72,240</b>
<b>2</b>	<b>\$30,960</b>	<b>\$51,600</b>	<b>\$61,920</b>	<b>\$82,560</b>
<b>3</b>	<b>\$34,830</b>	<b>\$58,050</b>	<b>\$69,660</b>	<b>\$92,880</b>
<b>4</b>	<b>\$38,700</b>	<b>\$64,500</b>	<b>\$77,400</b>	<b>\$103,200</b>

# 2021 Washington Area Median Incomes

## *Three-person Family*

AMI	INCOME/yr	INCOME/mo	AFFORDABLE
30%	\$34,830	2,902	870
50%	\$58,050	4,837	1,451
60%	\$69,660	5,805	1,741

# 60% of Median Income

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**\$69,660 per year**

**\$5,805 per month**

***Who makes that?***

**3-person family**



# Who Makes That?

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**The Butcher - \$41,810**

**The Baker - \$35,520**

**The Candle-stick Maker - \$47,590**

U.S. Bureau of Labor Statistics  
DC-VA-MD MSA  
May, 2020

# Who Makes That?

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Plumbers	\$58,100
Nurses, LPN	\$55,720
Auto Mechanics	\$56,730
Mail Carrier	\$53,410
Painters	\$47,140
Clergy	\$56,520
Dental Assistants	\$51,250
Security Guards	\$46,460
Office Clerks	\$42,100

# Who Makes That?

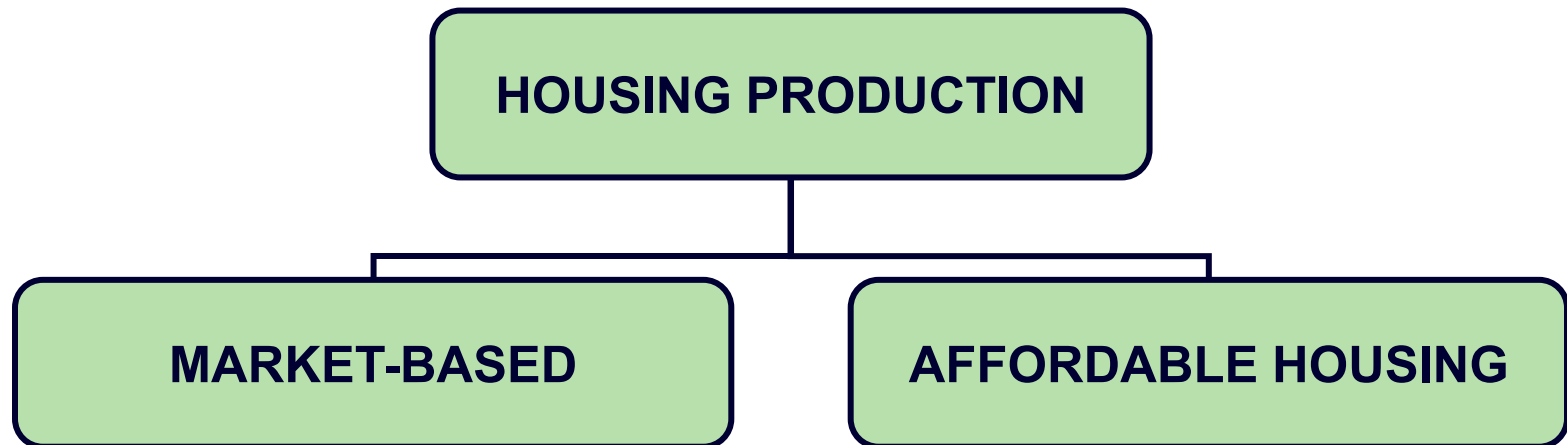
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Preschool Teachers	\$39,160
Hairdressers	\$40,110
Construction Laborers	\$38,360
Pharmacy Aides	\$39,690
Janitors	\$33,900
Waitresses	\$33,260
Home Health Aides	\$29,240
Food Prep Workers	\$29,100
Cashiers	\$27,490



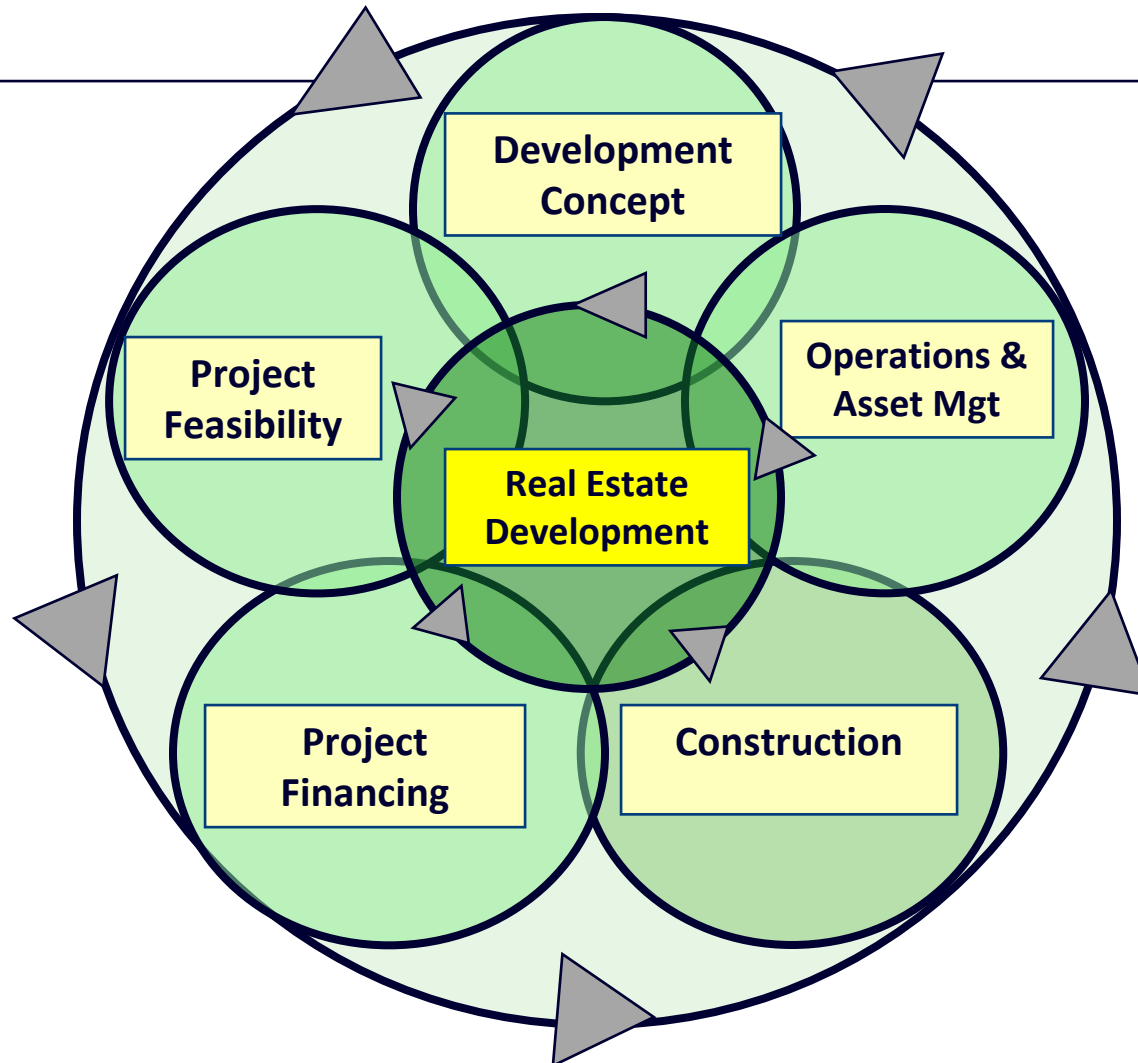
# Housing Development in the USA

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**Key is Mission and Goals of the Developer**

# *The Real Estate Development Process*



# Development Timeline



**Concept – from idea to site control**

**Feasibility – from site control to financial commitments**

**Funding – from financial commitments to loan closings**

**Ground/foundation work or demolition**

**Site improvements**

**Sticks & bricks/walls & roofs/pipes & wires**

**Move residents in**

**Property Management**

**Asset Management**

# Financial Feasibility

## Net Operating Income (NOI)

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$$\begin{array}{rcl} + & \text{Income from Rents} & \\ - & \text{Expenses} & \\ \hline = & \text{Net Operating Income} & \\ - & \text{Mortgage Payments} & \\ \hline = & \text{Cash Flow = Profits (or Loss)} & \end{array}$$

- NOI Must be a positive number!
- Determines amount of debt service

# Setting Market-Based Rents

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$$\begin{array}{r} \text{Mortgage Payments} \\ + \text{ Operating \& Maintenance costs} \\ + \text{ Profit} \\ \hline = \text{ Total Expenses to be covered by rents} \\ / \text{ Number of units} \\ \hline = \text{ Rent per unit} \end{array}$$

# “Affordable Housing” Economics

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$$\begin{array}{r} \text{Income from Restricted Rents} \\ - \text{ (Operating and Maintenance costs)} \\ \hline = \text{ Net Operating Income (+) or Gap (-)} \end{array}$$

*How much mortgage can the project afford?*

# *In Summary...*

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- The key to affordable housing is **Net Operating Income**.
- The challenge is: how to make projects financially feasible while charging rents that are no more than **30%** of household income?
- In the next section we will learn how rental housing feasibility is really a **Tale of Two Budgets**.
- But first, a **question.....**





## ***True or False...***

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**Tenants of affordable housing pay no more than 30% of their income for housing expense.**

**False**

# A Tale of Two Budgets

DEVELOPMENT BUDGET	
SOURCES	USES



OPERATING BUDGET	
INCOME	EXPENSES

# Operating Budget

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+ Income

- Expenses

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= Net Operating Income (NOI)

= Cash Flow Generated by the Project

- Determines Project Viability
- Determines Amount of Debt Service

# A Tale of Two Budgets

## Operating Budget

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### INCOME

#### RENT

Market

Affordable

#### OTHER

Parking

Laundry

Subsidies

Service Funding

### EXPENSES

Taxes

Insurance

Utilities

Maintenance

Management

Reserves

Vacancy

### SERVICES

# Increasing Income

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- **Mixed income**
- **Commercial income**
  - **Laundry**
  - **Space rental**
- **Fees**
  - **Parking**
  - **Community Room Use**
- **Operating Grants & Sponsorships**



# Reducing Operating Costs

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- **Property Tax Reduction**
- **Energy Efficiency**
- **Discounts**
- **Economies of scale/bulk buying**

# 2021 Washington Area Median Incomes

## *Three-person Family*

<b>AMI</b>	<b>Income/yr</b>	<b>Income/mo</b>	<b>Affordable</b>
<b>30%</b>	<b>\$34,830</b>	<b>2,902</b>	<b>870</b>
<b>50%</b>	<b>\$58,050</b>	<b>4,837</b>	<b>1,451</b>
<b>60%</b>	<b>\$69,660</b>	<b>5,805</b>	<b>1,741</b>



# Affordable Rental Income

Affordable Cost	Less Utilities	Affordable Rent
1,451	200	1,251
Less Vacancy Rate @ 5%*		63
Effective Income from rent		\$1,188

Family of 3 at 50% Median Income

$$*1,251 \times .05 = \$63$$

# Affordable Rental Feasibility

## Operating Budget

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<b>Affordable Rent Less Vacancy</b>	<b>1,188</b>
<b>Less Operating and Maintenance costs</b>	<b>683*</b>
<b>NOI</b>	<b>505</b>
<b>Available for Debt Service</b>	<b>420</b>

**Family of 3 at 50% Median Income**

**\*\$8200 pupa – per unit per annum**

# Debt Coverage Ratio

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**Net Operating Income**

**÷ DCR**

$$\boxed{\$505 / 1.2 = \$420}$$

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**= Maximum Debt Service**

# Affordable Rental Feasibility

## Development Budget

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<b>Available for Debt Service</b>	<b>\$420</b>
<b>Mortgage @ 5%, 30 yr.</b>	<b>\$78,238</b>
<b>Development Costs</b>	<b>More than that</b>

**Family of 3 at 50% Median Income**

# Calculating the GAP

## Development Budget

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<b>Total Development Costs</b>	<b>\$400,000</b>
<b>Mortgage @ 5%, 30 yr.</b>	<b>\$78,238</b>
<b>GAP to fill</b>	<b>\$321,762</b>

**Family of 3 at 50% Median Income**

# Development Financing GAP

Family of Three	Available for Debt	Maximum Mortgage	GAP
30% AMI	(46)	\$0	\$400,000
50% AMI	420	\$78,238	\$321,762
60% AMI	650	\$121,083	\$278,917

Cost to develop one unit = \$400,000

Loan Terms: 5%, 30 year  
Expenses = \$8,200/year  
Vacancy Rate = 5%  
DCR = 1.2

# A Tale of Two Budgets

## Development “Pro Forma”

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### SOURCES

#### DEBT

- ✓ Bank Loans
- ✓ Gov’t Loans
- ✓ Bond Proceeds

#### EQUITY

- ✓ Savings
- ✓ Grants
- ✓ Tax Credits

### USES

ACQUISITION  
CONSTRUCTION  
“SOFT” COSTS  
DEVELOPER FEE

To reduce the gap, reduce costs (uses) and/or increase income (sources)



# Reducing Costs Acquisition

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<b>Total Cost</b>	<b>\$1 million</b>
<b>Per Unit: 10 units</b>	<b>\$100,000</b>
<b>Per Unit: 50 units</b>	<b>\$20,000</b>

- **Reduce land costs per unit**
- **Donated or discounted land**
- **Redevelop existing property**

# Reducing Costs Construction

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## HARD COSTS

- Basic Construction materials
- Site Work & Infrastructure
- Parking
- HVAC / Energy
- Furnishings

**BEWARE! Tradeoffs  
on cost and quality**



# Reducing Hard Costs

## Parking

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- **Surface Parking**
  - **\$5,000 - \$8,000/space**
  
- **Structured Parking**
  - **Above Grade: \$12,000 - \$20,000/space**
  - **Below Grade: \$25,000 - \$40,000/space**



# Development Budget

## **Soft Costs**

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- **Architecture & Engineering**
- **Legal & Accounting**
- **Reports & Plans**
- **Finance Costs**
- **Project Management**
- **Permits, Fees & Payments**
- **Reserves**

# Development Budget

## **Soft Costs Factors**

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- **Size and complexity of the project**
- **20 – 45% of Hard Costs**
- **Funding source requirements**
  - Environmental Assessments
  - Relocation Plan
  - Market Study
  - Appraisal
- **Locality requirements**
  - Traffic & parking studies
  - Site Plan requirements
  - Building permits, utility hook-up fees
  - Inspection fees

# Soft Costs

## Developer Fee

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- **Set fee or % of total Project costs**
- **Finance Agencies may set maximum fee**
- **May be partially deferred**
- **Unrestricted cash**
  - Operating Reserves
  - Staff salaries
  - Tenant services
  - Seed money for next project

# Closing the Gap

## Increasing Income (Sources)

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### DEBT – Borrow More!



- Increase NOI
- More favorable Loan terms
  - Reduced interest
  - Longer terms
  - Reduced Debt Coverage Ratio
- Subordinate Loan Programs
  - HOME, CDBG
  - Housing Trust Funds

# Closing the Gap

## Increasing Income (Sources)

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### EQUITY

#### ■ Developer Contributions

- Equity or loan to project
- Seller note
- Deferred Developer Fee
- Fundraising

#### ■ Grants

- Government
- Foundations
- Corporate

#### ■ Tax Credit Programs

- Federal Low Income Housing Tax Credit
- Federal and state Historic Tax Credits





# A Tale of Two Budgets

DEVELOPMENT BUDGET		OPERATING BUDGET	
SOURCES	USES	INCOME	EXPENSES
<b>DEBT</b> Bank Loans Gov't Loans Bond Proceeds	<b>ACQUISITION</b> <b>CONSTRUCTION</b> <b>"SOFT" COSTS</b> <b>DEVELOPER FEE</b>	<b>RENT</b> Market Affordable	<b>Taxes</b> <b>Insurance</b> <b>Utilities</b> <b>Maintenance</b>
<b>EQUITY</b> Savings Grants Tax Credits		<b>OTHER</b> Parking Laundry Subsidies	<b>Management</b> <b>Reserves</b> <b>Vacancy</b>
		<b>Service Funds</b>	<b>SERVICES</b>

So...

Where's the money???



# Closing the Gap



## DEBT – Borrow More!

### Seek favorable terms from Senior Lenders

- Reduced interest
- Longer terms
- Reduced Debt Coverage Ratio
- Reduced Fees

Available for Debt Service	\$600
Mortgage @ 6.5%, 30 yrs	\$94,926
Mortgage @ 4.5%, 30 yrs	\$118,417
Mortgage @ 3.0%, 30 yrs	\$142,314
Mortgage @ 3.0%, 40 yrs	\$167,605
Mortgage @ 1.0%, 40 yrs	\$237,290

# Closing the Gap



## DEBT – Borrow More!

### Subordinate Lenders

- Government Agencies
- Mission Based Lenders
- Seller Notes
- Deferred Developer Fees

### Generous Terms

- Below-market interest
- Patient Repayment terms
- Residual Receipts loans

### Cash Flow Distribution

Net Operating Income (NOI)	\$100,000
First Mortgage Payment	\$80,000
Cash Flow	\$20,000
50% to Subordinate Lender #1	\$10,000
50% to Subordinate Lender #2	\$10,000

# Where are the Subsidies?

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- **Government Programs**

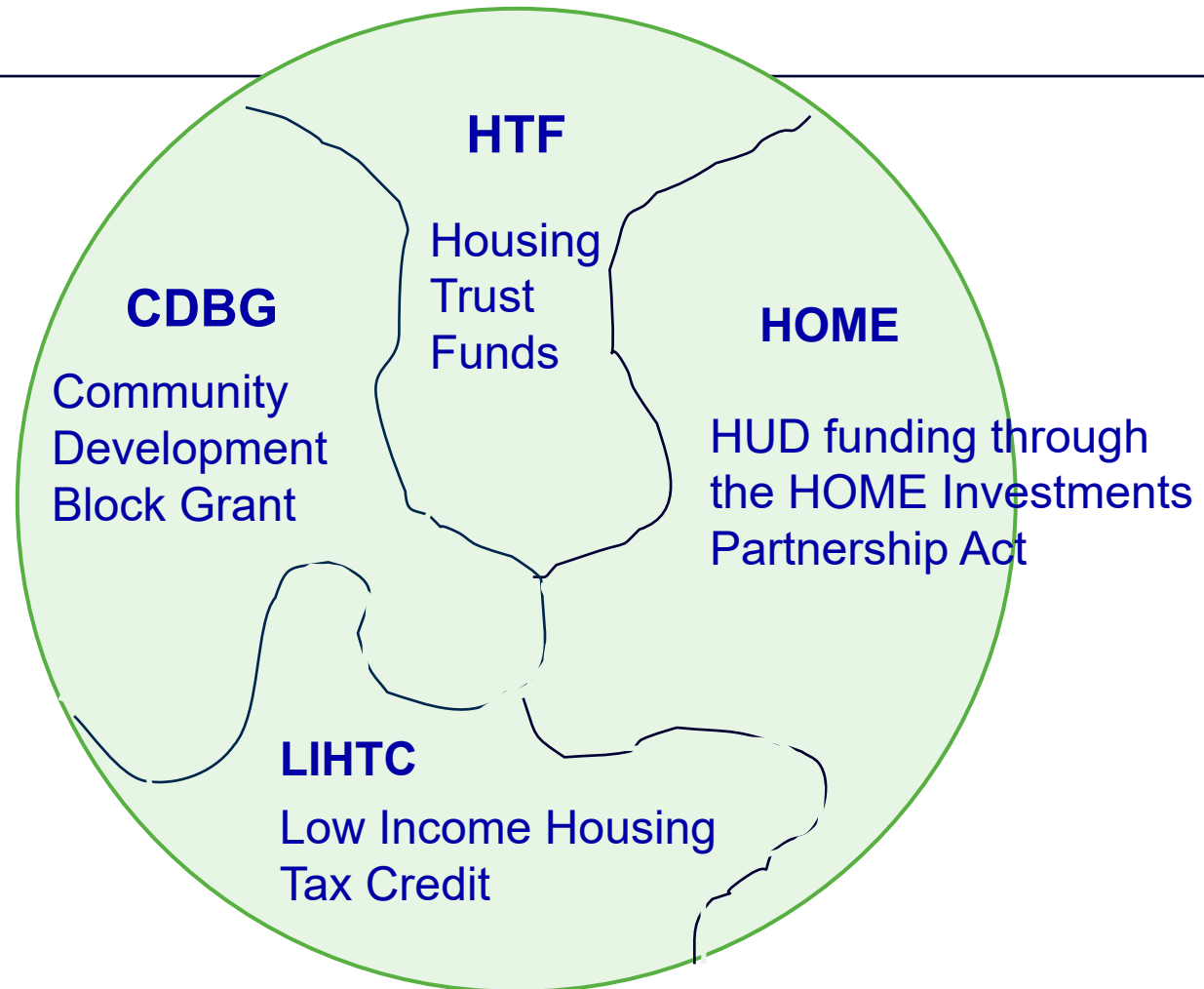
- Local
- State
- Federal

- **Mission Based Lenders**

- Foundations
- Intermediaries
- Community Lenders
- Investment Partners



# Common Funding Sources



# Financing Sources: Local

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- **Local Housing Trust Funds**
  - **Focus on local housing needs**
  - **Locally funded**
  - **Often deferred or low-interest loans**
  - **Cash Flow loans**
- **Pass-thru HUD funds**
  - **HOME**
  - **CDBG**

# Financing Sources: State

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- **State Community Development Department**
  - Trust Funds
  - HOME
  - CDBG
- **State Housing Finance Agency**
  - Bond Issuer
  - Tax Credit programs



# Financing Sources: Bonds

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- **Issuing Agency**
- **Revenue Bonds**
  - Repaid from Project NOI
  - Senior Loan position
- **General Obligation Bonds**
  - Repaid from tax revenue
  - Approved by voters
  - Source of *Program* funding
- **Taxable v. Tax-exempt**
- **Private Placement v. Public Offering**

# Closing the Gap



## EQUITY

- **Developer Contributions**
  - Property Value
  - Cash
- **Grants**
  - Government
  - Foundations
  - Corporate
- **Tax Credit Programs**
  - Federal Low Income Housing Tax Credit
  - Federal and state Historic Tax Credits

# Financing Sources: Equity

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## *Equity Investors*

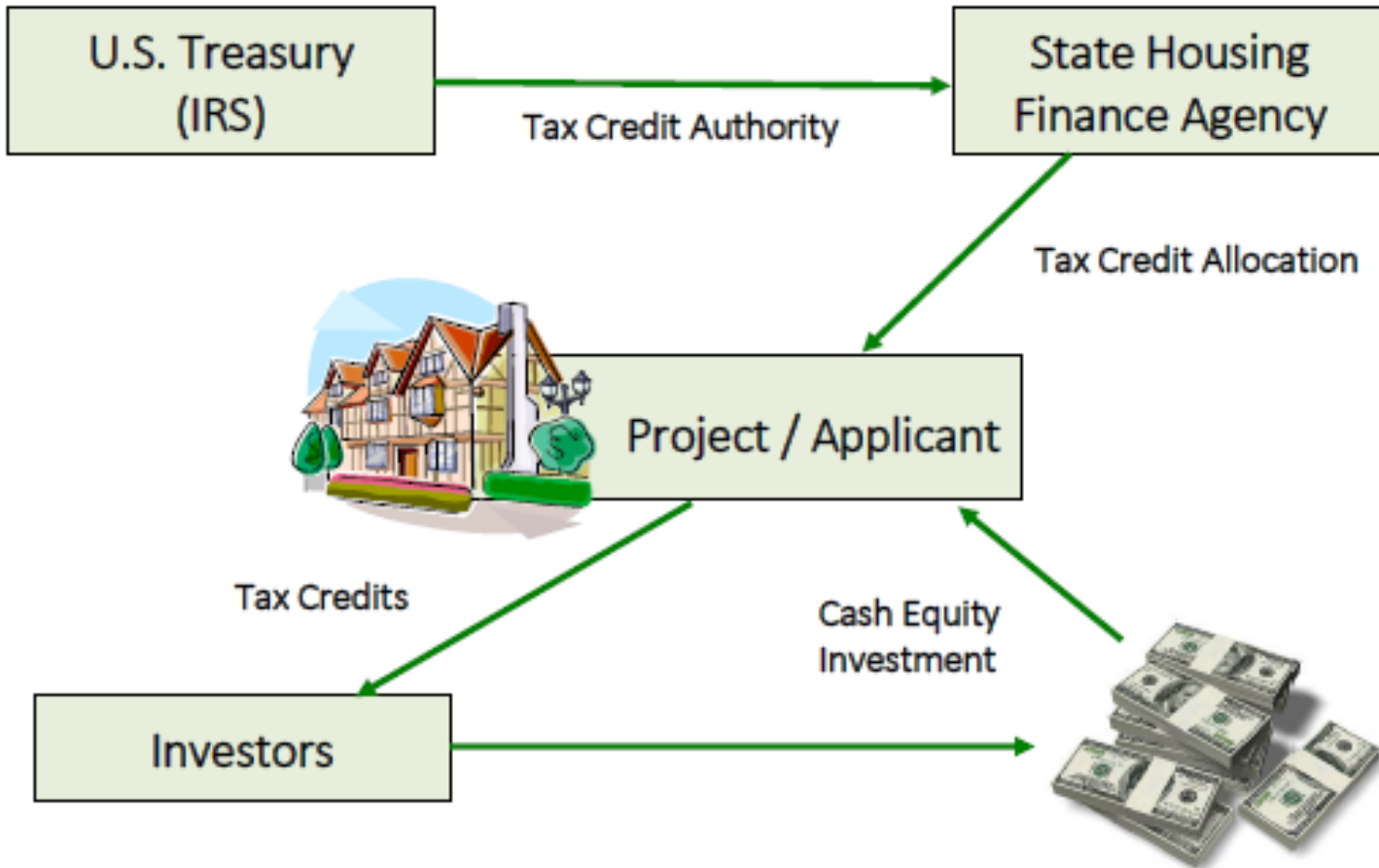
- **Foundations: Program Related Investments**
- **Faith-based Initiatives**
- **Tax Credit Investors**
  - **Banks**
  - **Fannie & Freddie**
  - **Insurance and Retirement funds**
  - **Corporations**

# Financing Sources: Equity

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- **Low Income Housing Tax Credit (LIHTC)**
  - 4% non-competitive
  - 9% competitive, annually
- **Section 42 of the IRS Code**
- **State Housing Finance Agency Qualified Allocation Plan (QAP)**
  - Describes application process
  - Amount of credit available
  - Competitive scoring criteria
- **Impacted by current economic conditions**

# Low Income Housing Tax Credits



# Financing Sources: Tax Credits

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## Calculation Formula

### Eligible Basis (Costs)

x Percent Qualified Units

x Applicable Percentage

x 10 years

= Tax Credit

### Total Tax Credit

x Investor Per Dollar Price

= Project Equity

# Financing Sources: Tax Credits

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## 9% & 4% Calculation Example

$$\begin{aligned} & \$5,000,000 \\ & \times 80\% \\ & \times 9\% \\ & \times 10 \text{ years} \\ & = \$3,600,000 \text{ in credits} \\ & \times .90 \\ & = \$3,240,000 \end{aligned}$$

$$\begin{aligned} & \$5,000,000 \\ & \times 80\% \\ & \times 4\% \\ & \times 10 \text{ years} \\ & = \$1,600,000 \text{ in credits} \\ & \times .90 \\ & = \$1,440,000 \end{aligned}$$

# Financing Sources: Filling the Gap

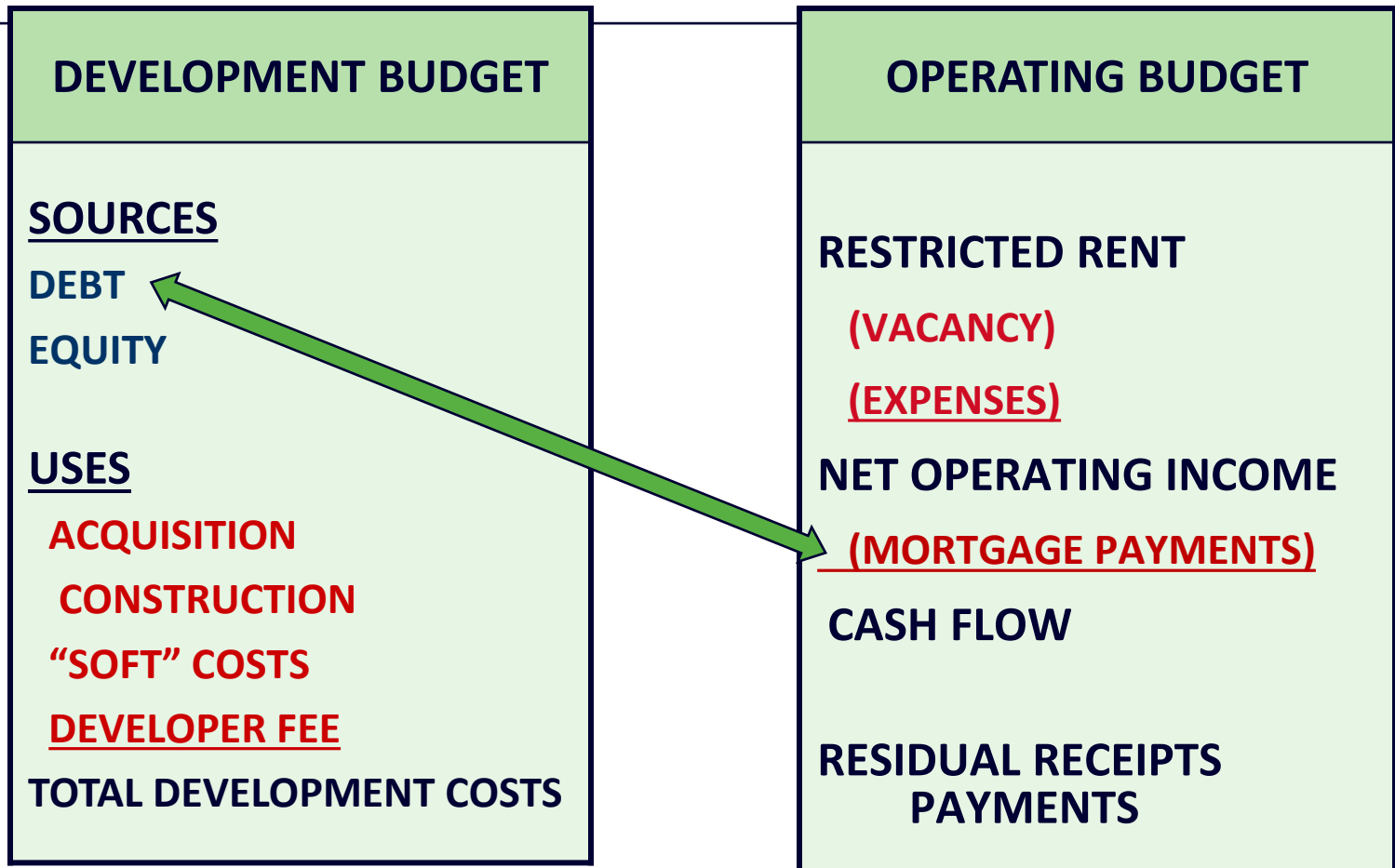
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## 4% Tax Credit Example

Total Development Cost	\$5,000,000
Tax Exempt Bonds	2,500,000
<u>Tax Credit Equity</u>	<u>1,440,000</u>
<b>GAP</b>	<b>\$ 1,060,000</b>



# A Tale of Two Budgets



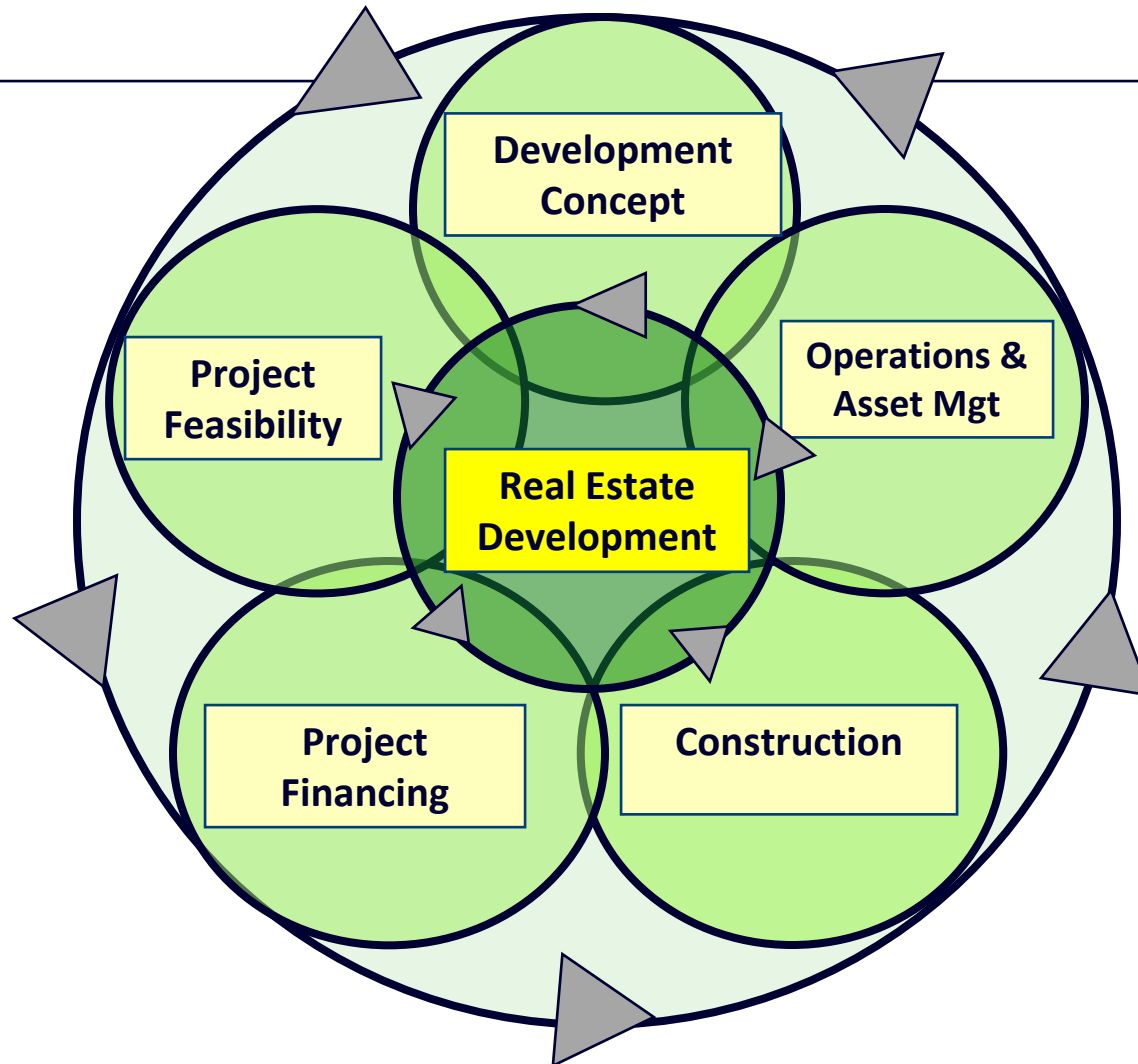
# Occupancy Is The Goal Of All Housing Development

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*Good Management Maintains the Economic Value of Housing*

- **Qualify Applicants**
- **Collect Rent**
- **Maintain the Units**
- **Enforce Lease and Program Requirements**
- **Compliance with Funding Promises**

# *The Real Estate Development Process*





# Congratulations!

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**The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little.**

*~ Franklin Delano Roosevelt*





# Queens Court Case Study

Melissa Danowski  
Senior Development Specialist



ARLINGTON  
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# Location



# Background

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- **Owned by APAH**
- **Previously a 39-unit garden apartment community**
- **Built in 1940**
- **All units were studios or one-bedroom units**





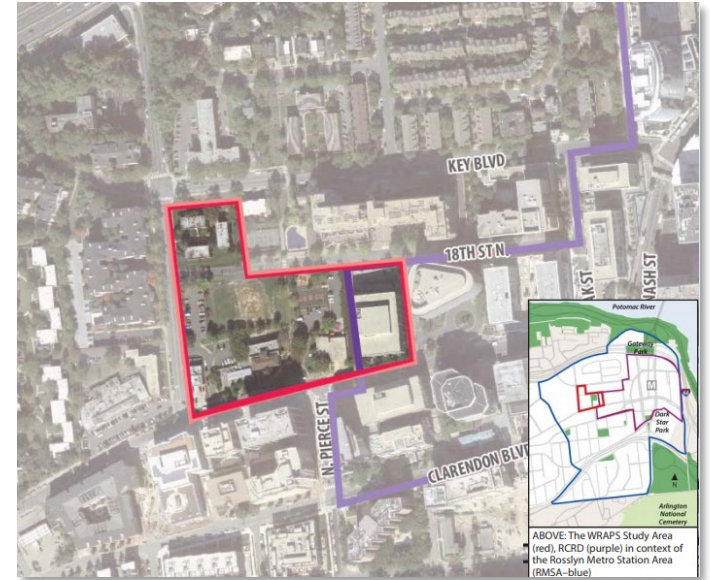
# Western Rosslyn Area Plan (WRAP)



WESTERN ROSSLYN AREA PLAN



ADOPTED JULY 21, 2015



ABOVE: The WRAPS Study Area (red), RCRD (purple) in context of the Rosslyn Metro Station Area (RMSA - blue)



# ***Affordable Housing Program***

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- **Site Plan approved February 2017 for 249 new construction units**
- **\$16.7M Affordable Housing Investment Fund (AHIF) Loan approved January 2019**
  - Affordable for 75 years
  - 15 Type A Accessible Units
  - 9 Permanent Supportive Housing (PSH) Units
- **Started leasing Spring 2021**

## Unit Mix

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Unit Mix	40% AMI	50% AMI	60% AMI	80% AMI	Total
Studio	0	0	21	0	<b>21</b>
1 Bedroom	9	0	82	3	<b>94</b>
2 Bedroom	0	36	54	0	<b>90</b>
3 Bedroom	0	0	44	0	<b>44</b>
<b>Total</b>	<b>9</b>	<b>36</b>	<b>201</b>	<b>3</b>	<b>249</b>

# Financing

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- “Hybrid 9%/4%” Low Income Housing Tax Credit (LIHTC)
  - Queens Court South (9% LIHTC) = 90 units
  - Queens Court North (4% LIHTC) = 159 units
- Total 249 units were built in one phase/building
  - 9% and 4% LIHTC separated into land condominiums
- Queens Court South AHIF loan = \$7.9 million
- Queens Court North AHIF loan = \$8.8 million
- **Total Queens Court North and South AHIF loan = \$16.7 million**

## Other Sources

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- Virginia Housing (VH) Senior Loan
  - Includes low-interest loans from REACH programs
- Low Income Housing Tax Credit Equity
- Federal Home Loan Bank (FHLB) funds
  - Competitive grant program
- VA Housing Trust Funds
  - Competitive loan program
  - Used to adjust affordability of 8 3-BR units from 60% AMI to 50% AMI
- Deferred Developer Fee
- Sponsor Loan

## Sources

Sources	Queens Court South (9% LIHTC)	Queens Court North (4% LIHTC)	Total
VH Senior Loan [1]	\$9,245,000	\$19,320,000	\$28,565,000
AHIF	\$7,900,000	\$8,800,000	\$16,700,000
Tax Credit Equity	\$21,741,825	\$20,861,282	\$42,603,107
FHLB AHP Funds	\$500,000	\$0	\$500,000
VA Housing Trust Funds	\$700,000	\$0	\$700,000
Deferred Developer Fee	\$0	\$2,000,000	\$2,000,000
Sponsor Loan [2]	\$385,000	\$15,555,000	\$15,940,000
<b>Total</b>	<b>\$40,471,825</b>	<b>\$66,536,282</b>	<b>\$107,008,107</b>

[1] Senior loan includes VH taxable and tax exempt bonds, SPARC and REACH

[2] The Sponsor loan is 100% of the \$15.4 million purchase price plus the Queens Court South deferred developer fee of \$500k.

## Uses

Uses	Queens Court South (9% LIHTC)	Queens Court North (4% LIHTC)	Total
Acquisition	\$6,045,000	\$9,805,000	\$15,850,000
Construction	\$23,053,724	\$40,736,324	\$63,790,048
Soft Cost	\$5,130,166	\$8,444,755	\$13,574,921
Financing Cost	\$2,336,185	\$2,121,352	\$4,457,537
Developer Fee	\$3,000,000	\$4,000,000	\$7,000,000
Reserves	\$906,750	\$1,428,851	\$2,335,601
<b>Total</b>	<b>\$40,471,825</b>	<b>\$65,536,282</b>	<b>\$107,008,107</b>

## Loan Terms and Financing Details

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- \$67,068 in AHIF Loan Funds Per CAF
  - Leveraging Ratio = 1: 5.5
- 38 year AHIF loan term
- 1.25% interest rate
  - 0% interest during construction period
- Residual Receipt Cash flow split 50/50 with the County



## ***Lessons Learned***

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- Involve the community early/seek community buy-in
- Encourage new and other sources to fill gap financing
- Communication is key

# Questions?

- ⦿ Recording of presentation and slides will be posted on [arlingtonva.us/housing](http://arlingtonva.us/housing)
- ⦿ Reach us at [housingdivision@arlingtonva.us](mailto:housingdivision@arlingtonva.us) or 703-228-3765
- ⦿ Sign up for Housing News & Notes at [arlingtonva.us/housing](http://arlingtonva.us/housing)



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