

# Urban Land Institute Brown Bag Lunch Financing Mixed Income Apartments

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12:00 pm – 1:15 pm

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# Four Relevant Tax Exempt Multifamily Housing Bond Structures

1. VR Freddie Swapped
2. 18-Yr. FR Fannie/Freddie
3. 42-Yr. FR FHA/GNMA
4. Bank Private Placement (if available)

# Tax Exempt Multifamily Housing Bonds

## 1. Freddie Mac Variable Rate Swapped to Fixed Real Estate-Backed Bond Financing Structure

<u>Underwriting</u>		<u>Upfront Fees (est.)</u>	
Spot Starting, 15-Year			
SIFM Based Swap + spread	3.35%	Lender Origination	1.0%
Guarantee	0.93	Construction Lender Origination	1.5-2.0
Servicing	0.44	Bond Costs of Issuance	1.5-2.0
Liquidity Fee	1.00		4.0%-5.0%
Swap Credit Enhancement Fee	0.25		
Trustee Fee	0.025		
Issuer Fee	0.125		
Remarketing Fee	0.15		
<b>Total Fee Stack</b>	<b>2.92</b>		
<b>Actual Borrowing Rate</b>	<b>6.27%</b>		
Underwriting Cushion	0.00		
<b>Underwriting Rate</b>	<b>6.27%</b>		

# Tax Exempt Multifamily Housing Bonds (Cont'd.)

## 2. Freddie Mac/Fannie Mae 18-year Fix Rate Bond Financing Structure

<u>Underwriting</u>		<u>Upfront Fees (est.)</u>	
<b>18-Year Bond Interest Rate</b>	<b>4.25%</b>	Lender Origination	1.00%
Credit Enhancement	0.93	Construction Lender Origination	1.5-2.0
Servicing	0.44	Bond Costs of Issuance	1.5-2.0
Liquidity Fee	0.00		<u>4.0%-5.0%</u>
Remarketing Agent	0.00		
Issuer Fee	0.10		
Trustee Fee	0.03		
<b>Total Fee Stack</b>	<b>1.50</b>		
<b>Total Mortgage Rate (Underwriting Rate <u>and</u> Actual Borrowing Rate)</b>	<b>5.75%</b>		

# Tax Exempt Multifamily Housing Bonds (Cont'd.)

## 3. Tax Exempt 30 or 35-year Fixed Rate Private Placement Bond Financing Structure – Primarily Available Only in Bank CRA Footprint

<u>Underwriting</u>		<u>Upfront Fees (est.)</u>	
Bond Interest Rate	6.00%	Origination	1.75%
Credit Enhancement	N/A	App.	0.25
Servicing Fees	0.15	Bond Costs of Issuance	0.75-1.50
Remarketing Agent	N/A		2.75%-3.50%
Issuer	0.125		
Trustee	0.025		
<b>Total Fee Stack</b>	<b>0.30</b>		
<b>Total Mortgage Rate (Underwriting Rate <u>and</u> Actual Borrowing Rate)</b>	<b>6.30%</b>		

# Tax Exempt Multifamily Housing Bonds (Cont'd.)

## 4. FHA/GNMA 42-year Fixed Rate Bond Financing Structure

<u>Underwriting</u>		<u>Upfront Fees (est.)</u>	
Bond Interest Rate	5.25%	Lender Origination	1.0%
Issuer	0.10	HUD App.	0.3
Trustee	0.03	Bond Costs of Issuance	1.5-2.0
<b>Bond Fee Stack</b>	<b>0.13</b>		<b>2.80%-3.80%</b>
<b>Stated Rate on GNMA</b>	<b>5.38%</b>		
<b>GNMA Guaranty/Servicing Fee</b>	<b>0.25</b>		
<b>Stated Rate on GNMA(s)</b>	<b>5.63%</b>		
<b>FHA Mortgage Insurance Premium</b>	<b>0.45</b>		
<b>Effective Actual Borrowing Rate</b>	<b>6.08%</b>		

# FHA Loan Insurance Programs

## FHA Loan Insurance Programs

- Sec. 221(d)4 for new construction and substantial rehabilitation
- Sec. 223(f) for moderate rehabilitation
- Sec. 223(a)7 for existing FHA loan restructuring

# HUD Lender Thinking and Conventional Lender Thinking

## HUD Lender Thinking v. Conventional Lender Thinking

- Construction/Perm v. Construction with a Forward Takeout
- Automatic Roll to Perm v. DCR and LTV Hurdles
- Full Plans/Specs v. Design Build
- Non-Recourse v. Full Recourse/Guaranty
- More Limited Equity v. Significant Equity
- Inexpensive Credit Enhancement v. More Expensive Credit Enhancement
- Prevailing Wages v. Non-Prevailing Wages (See Gary's Comments)

# Other Sources of Funding

## Available Federal Subsidies

- Tax Exempt Bonds
- Low Income Housing Tax Credits
- New Markets Tax Credits
- Historic Rehabilitation Tax Credits
- HUD Subsidies
- HOME Funds
- HOPE VI Funds
- AHP Funds
- USDA Rural Development Funds
- Green Energy Programs

# Available State Subsidies

- ARRA Programs
- State Tax Credits
- Property Tax Increment
- State Funds (e.g. California Department of Housing)
- City and County Trust Funds
- Property Tax Abatement
- Green Facility Programs

## ARRA Program – Real Estate Asset Class Matrix

	NSP	TCEP	TCAP	NMTC	HUD	BAB	HFA Bonds	FTBTC	GSA	Other Federal Grants
Multi-family		✓	✓		✓		✓			
Single-family	✓			✓	✓			✓		
Office				✓						
Industrial				✓						
Retail				✓						
Public					✓	✓			✓	✓
Alternative Energy		✓		✓					✓	✓

# Historic Rehabilitation Tax Credits

- Building status:
  - National Park Service Designation as a National Historic Landmark, or
  - Building must contribute to an historic district
- Properties must provide income
- Rehabilitation must be done in accordance with the Secretary of the Interior Guidelines
- Rehabilitation basis must at least equal the building basis at the start of construction
- 20% credit based on qualified rehabilitation expenditures
- 5 year recapture period

# Real Property Tax Exemption or Abatement

- Primary value is in lender recognition
- Often non-profit needs to be part of ownership structure to qualify
- Limited 10 year abatement v. Perpetual exemption
- Only for the affordable portion of the project

# State Tax Credits

- State tax credits often paired with Federal tax credits
- Same tax credit investor interested in both credits
- Amount of state credits and specific features vary by state
- State credits available in 13 states:
  - Arkansas
  - California
  - Colorado
  - Georgia
  - Hawaii
  - Illinois
  - Massachusetts
  - Missouri
  - New York
  - North Carolina
  - Rhode Island
  - Utah
  - Virginia

# HOME Funds

- Available to state and local jurisdictions
- 20% at 50% AMI requirement
- HUD and local program requirements:
  - Take-out financing
  - Local jurisdiction matching at 25%
  - Choice limiting events

# AHP Funds

- FHLB project competition
- Member bank involvement
- Program guidelines

# Other Local Funding

- Local funding sources can vary by state or city
  - HOME funds
  - State or local housing trust funds
  - Tax Increment Funds
  - Other unique programs
- Program conditions often reduce net proceeds
  - Increased affordability (reduces permanent loan)
  - Prevailing wages (increases costs)
  - Effect on tax credit eligible basis (reduces tax credit equity)
  - Decrease maximum tax credit basis eligible developer fee

# Project Examples

## Arc Light Co.: 178 Townsend Street, San Francisco

- Residential: rehabilitation and conversion
- 94 dwelling units, underground parking for 46 vehicles and 4,428 sq-ft of ground floor restaurant space and subsidized day care



## Potrero Launch: 2235 Third Street, San Francisco

- Residential: new construction and preservation and renovation of two former warehouse buildings
- 196 dwelling units, underground parking for 153 vehicles, 13,840 square feet of ground floor retail including a neighborhood-serving grocery store, and 3,500 square feet of on-site subsidized day care



# Arc Light & Potrero Launch

## Capital Stack

### Sources

- Hud 221(d)(4) Tax Exempt Bonds (HFA Bond Program)
- HCD Infill Grant
- CALReUSE Grant
- TCAP Gap Award
- Low Income-Housing Tax Credits
- Solar Investment Credits (I603 Program)