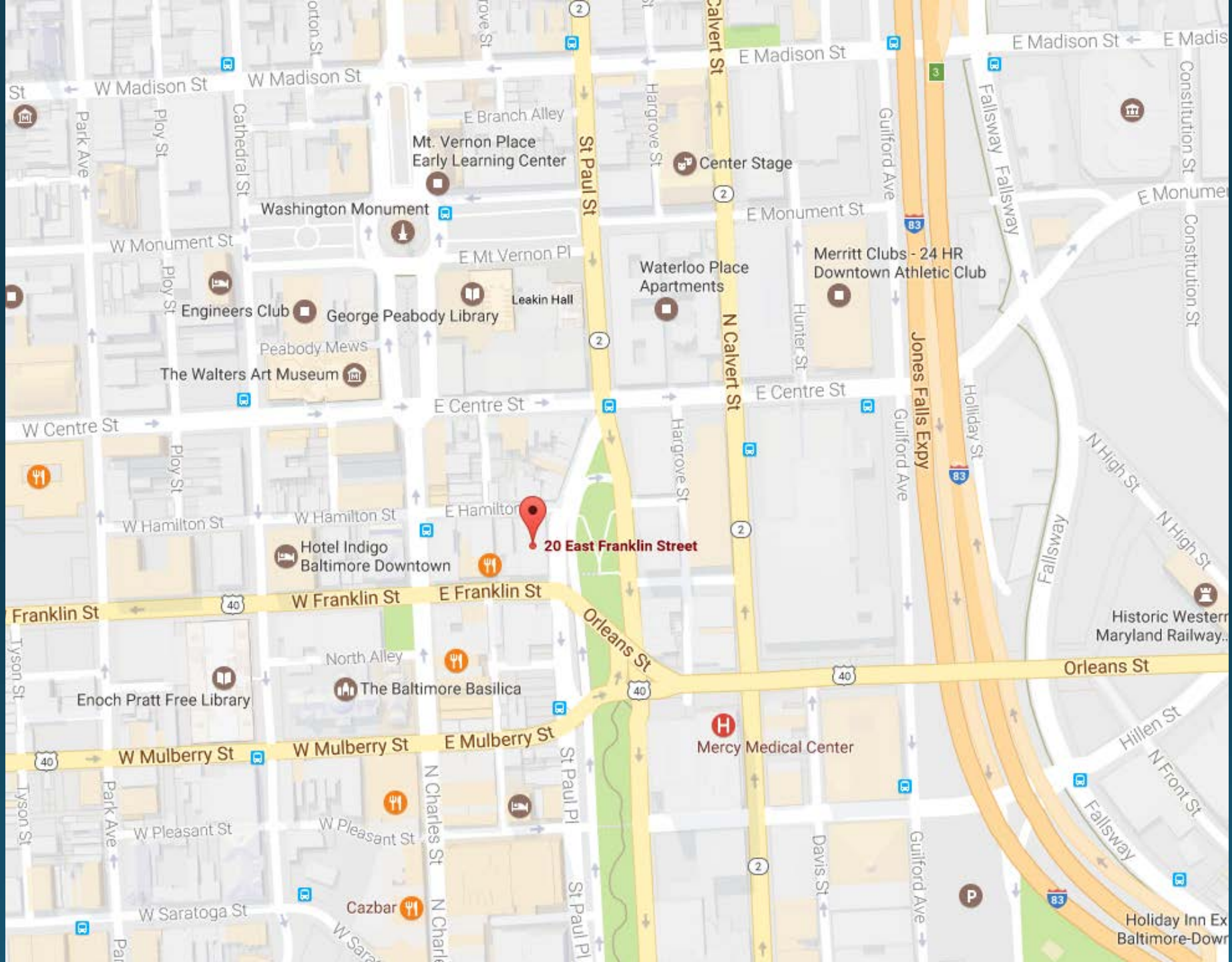


Affordable Housing Issues and Practice



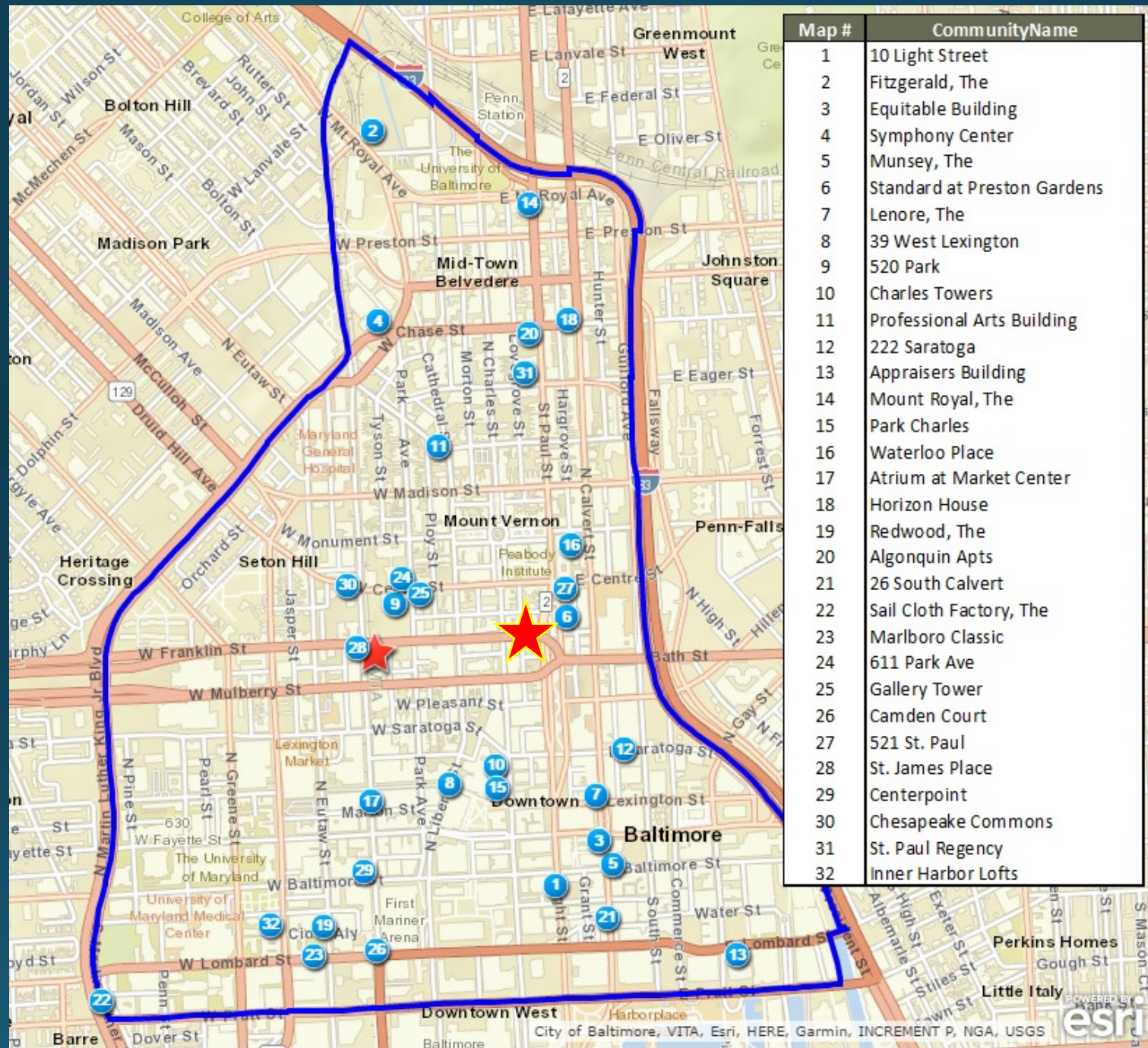
FRANKLIN LOFTS
& FLATS | OPENING EARLY FALL
2017





20 East Franklin Street







UL ST.

Franklin St building to be rehabbed

St Paul building to be replaced with new construction

(40' WIDE)

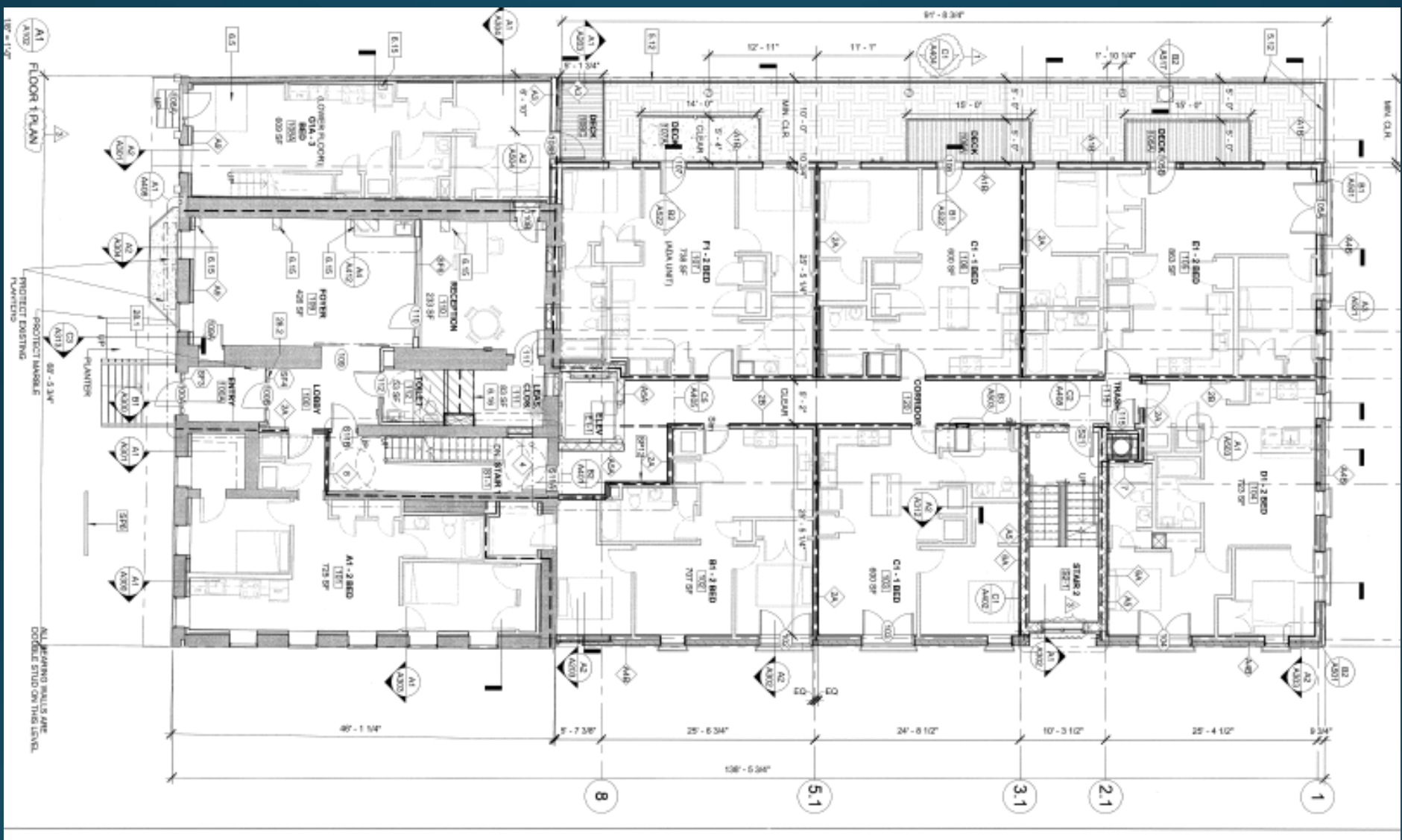
PROPOSED
BUILDING
ADDITION

EXISTING BUILDING

REFER TO PRIVATE
DRAWINGS FOR PROPOSED
PLANTINGS WITHIN THE
PROPERTY BOUNDARY

(VARIABLE WIDTH R/W)

(66' MIDE)



What is the cost of rental housing in Mount Vernon?

- 1,400 apartment units added to market over past 3 years
 - 1 Bedroom Asking Rents - \$1,250 - \$2,200
 - 2 Bedroom Asking Rents - \$1,650 - \$3,600
- Assume \$100/month for utilities
- Monthly shelter cost for new 2 bedroom is about \$1,750
- Standard underwriting criteria says 30-40% of income should be spent on rent
- **Renting a new 2 bedroom unit in Mount Vernon requires an annual income of between \$50,000 and \$75,000**

Table 35 2016 Total and Renter Income Distribution

Franklin St. Market Area		Total Households		Renter Households	
		#	%	#	%
less than	\$15,000	4,035	33.2%	3,834	37.3%
\$15,000	\$24,999	1,690	13.9%	1,606	15.6%
\$25,000	\$34,999	1,250	10.3%	1,115	10.8%
\$35,000	\$49,999	1,722	14.2%	1,460	14.2%
\$50,000	\$74,999	1,339	11.0%	1,080	10.5%
\$75,000	\$99,999	758	6.2%	553	5.4%
\$100,000	\$149,999	771	6.3%	431	4.2%
\$150,000	Over	588	4.8%	204	2.0%
Total		12,153	100%	10,283	100%
Median Income		\$27,809		\$23,142	

Source: American Community Survey 2008-2012 Projections, RPRG, Inc.

Franklin Flats – Rent Assumptions

Unit Details							
Beds	Bth	AMI%	Unit Count	SF	Utility*	Contract Rent	Rent Subsidy
1	1	30%	7	620	\$52	\$403	\$597
1	1	40%	3	620	\$52	\$575	--
1	1	60%	10	620	\$52	\$863	--
2	1	60%	9	729	\$71	\$1,010	--
2	2	60%	7	765	\$71	\$1,030	--
3	2	40%	4	892	\$85	\$800	--
3	2	60%	1	1,233	\$85	\$1,125	--
TOTALS			41				

Franklin Flats – Projected Income

Summary Operations	Unit Count	Avg per unit	Extension
1BR	20	868	208,260
2BR	16	1,019	195,600
3BR	5	865	51,900
Total Rental Income	41	926	455,760
Adjust Rent per Unit (+/-)			-
Garage Income	11		-
Total Units	41		455,760
Other Income per Unit/Year		60	2,460
U/W Vacancy Rate	5.00%		(22,911)
			-
Effective Gross Income			435,309
Annual Expenses Per Unit	41	(7,034)	(288,380)
Reserve for Replacement	41	(300)	(12,300)
Long Term Operating Subsidy			
Expense Adjustment per Unit(+/-):			-
Total Expenses		(7,334)	(300,680)
Net Operating Income			134,629

Franklin Flats – Debt Assumptions

Debt Assumptions		
Perm Loan		\$950,000
Rate		5.75%
Amortization		30
Term		15
DSC for Sizing		
Annual D/S		\$66,527
Computed DSC		2.02
Mortgage Insurance		0.00%
Constant		0.0700287
CDA RHP Loan		\$1,855,000
Rate		0.00%
Amortization		40
Annual D/S		\$46,375
Cash Flow Split		75%
City HOME Funds		\$1,280,000
Rate		0.00%
Amortization		40
Annual D/S		\$32,000

Franklin Flats – Sources and Uses

Summary Sources and Uses		Sources	Uses	
Perm Loan	950,000	Total Construction	8,998,353	
CDA RHP Loan	1,855,000	Contingency	899,835	10.00%
City HOME Funds	1,280,000	Acquisition	2,100,000	
		Other Development	2,051,775	
		Developer Fee	1,805,841	
		Reserves/Synd	347,318	
		Sensitivity Adjust		
Total Sources		\$4,085,000	Total Uses	\$16,203,122
Gap/(Excess)		\$12,118,122		

Franklin Flats – With LIHTC

Summary Sources and Uses		Sources	Uses	
	Perm Loan	950,000	Total Construction	8,998,353
	CDA RHP Loan	1,855,000	Contingency	899,835
	City HOME Funds	1,280,000	Acquisition	2,100,000
	LIHTC Equity	11,839,568	Other Development	2,051,775
			Developer Fee	1,805,841
			Reserves/Synd	347,318
			Sensitivity Adjust	
Total Sources		\$15,924,568	Total Uses	\$16,203,122
Gap/(Excess)		\$278,554		

What are LIHTCs?

- Part of Tax Reform Act of 1986
- Program administered by the States
- Compliance by the IRS, not HUD
- Offers CREDIT against tax liability \$1 = \$1
- Tax DEDUCTION (ie depreciation) only worth \$.35

Introduction to Tax Credit Housing

- Most successful program for affordable multifamily housing production in the U.S.
- Provides equity to an affordable housing developer based on development costs.
- Nearly 2.1 million affordable housing units produced since 1987
- Foreclosure rates of less than 1% annually

The Players

- **Government:** Federal (IRS); State Allocating Agencies;
- **Developers:** Broad array of for-profit and non-profit
- **Syndicators:** Approximately 35 for profit and non-profit syndicators
- **Corporate Investors:** GSEs; banks; insurance companies; non-financial companies

What is Tax Credit Housing?



Riverwoods
at Tollgate

APARTMENTS









What is Tax Credit Housing?

- Privately owned
- Wide variety of designs – new construction, rehab
- Senior and family
- Indistinguishable from market rate

Tax Credit Process

- Federal gov't allocates credits to each state per capita
- States create policies and procedures (Qualified Allocation Plan) to award credits to developers
- Developer seek projects that will be competitive with other applications
- With an award of credits, developers seek an investor who will pay for the tax benefit

Program Requirements

- Long term affordability restrictions
- Minimum set aside either
 - 20/50 - 20% of units to persons at 50% of AMI or
 - 40/60 – 40% of units to persons at 60% of AMI
- Income limits are adjusted for Household Size

Baltimore MSA	50% AMI
1 Person	\$28,750
2 Persons	\$32,850
3 Persons	\$36,950
4 Persons	\$41,050
5 Persons	\$44,350
6 Persons	\$47,600

Program Requirements

- Rent ceilings are established based
 - Rent plus utility allowance
 - Imputed Household size (1.5 persons per bedroom)
 - 30% rent burden

# Bedrooms	Max Rent at 50% AMI
Efficiency	\$719
1 Bedroom	\$770
2 Bedroom	\$924
3 Bedroom	\$1,068
4 Bedroom	\$1,190

Program Benefits

- Credits are earned annually for 10 years, affordability requirement is 30 years for IRS purposes and 40 years in Maryland
- Credits are earned based on the investment cost of creating the affordable units
 - Construction, architecture, construction interest – anything capitalized into the building
 - Personal property available for use by tenants
 - Does not include land, organization, costs of perm loans, marketing or reserves

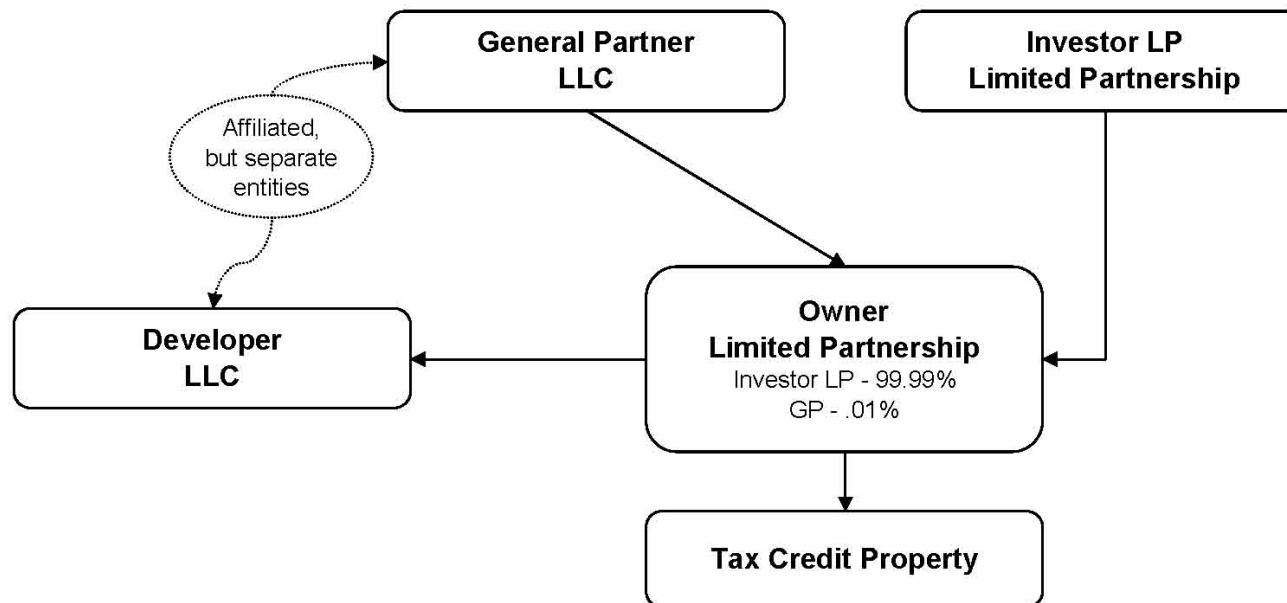
Program Benefits

- Certain high cost areas or areas with high poverty rates receive a **130% basis boost**
- Credits are earned at a credit percentage of either 9% or 4% -
 - 9% not federally subsidized, competitive
 - 4% federally subsidized (tax exempt bonds), not competitive
- Credits are earned relative to % of units in building that are affordable ... 100% affordability = 100% of credits

Program Benefits

- Benefits to Investors
 - Tax Credits
 - Tax Losses – offset income & manage earnings
 - CRA Credit – Community Reinvestment Act
 - Political Goodwill – favorable results
- Benefits to Developers
 - **Developers fee**, builders profit, management fees
 - Cash Flow – may be consumed by soft debt
 - Residual Value – after 15-year compliance

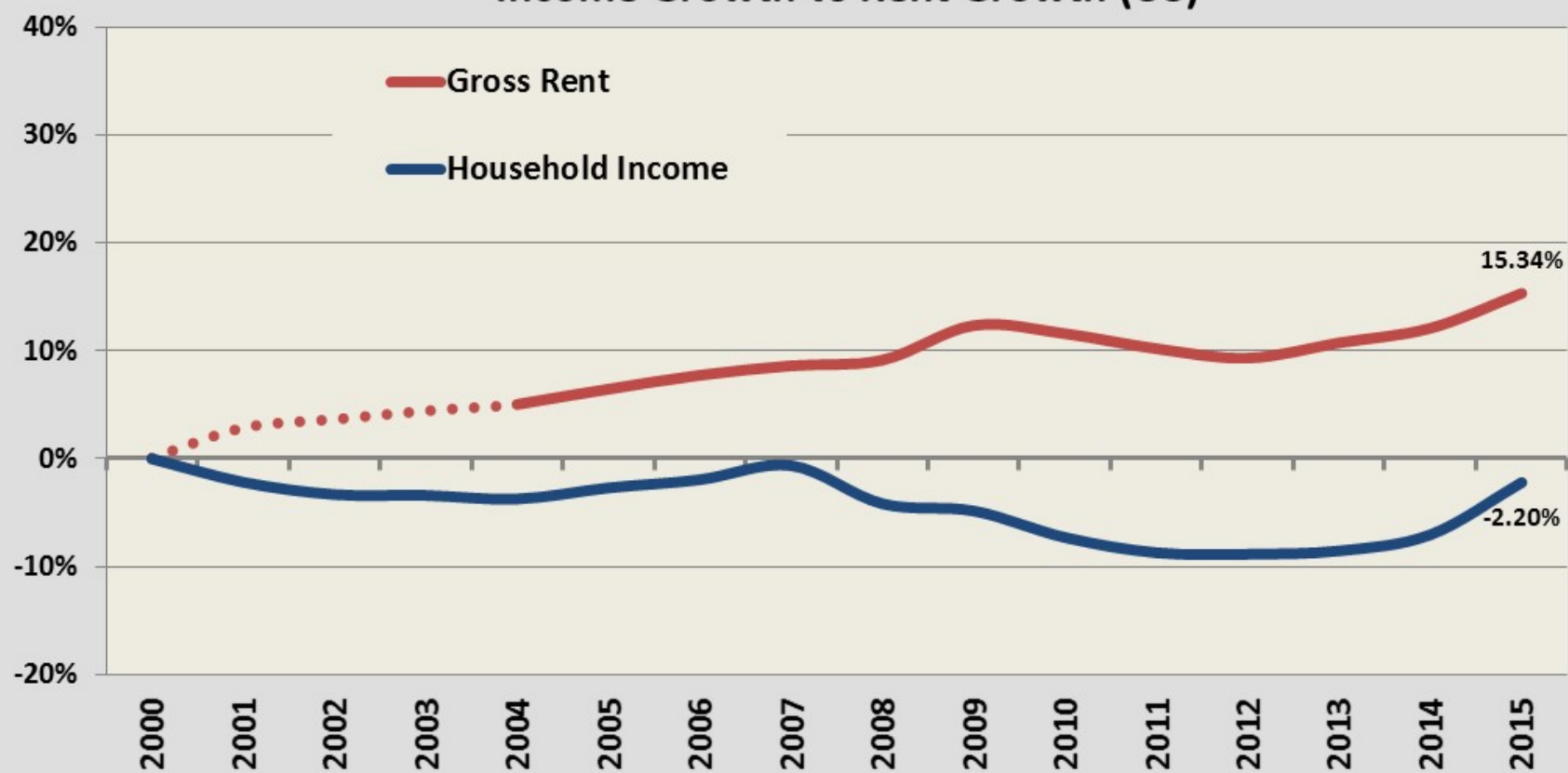
Syndication



Tax Credit Model

The Argument for Affordable Housing Programs

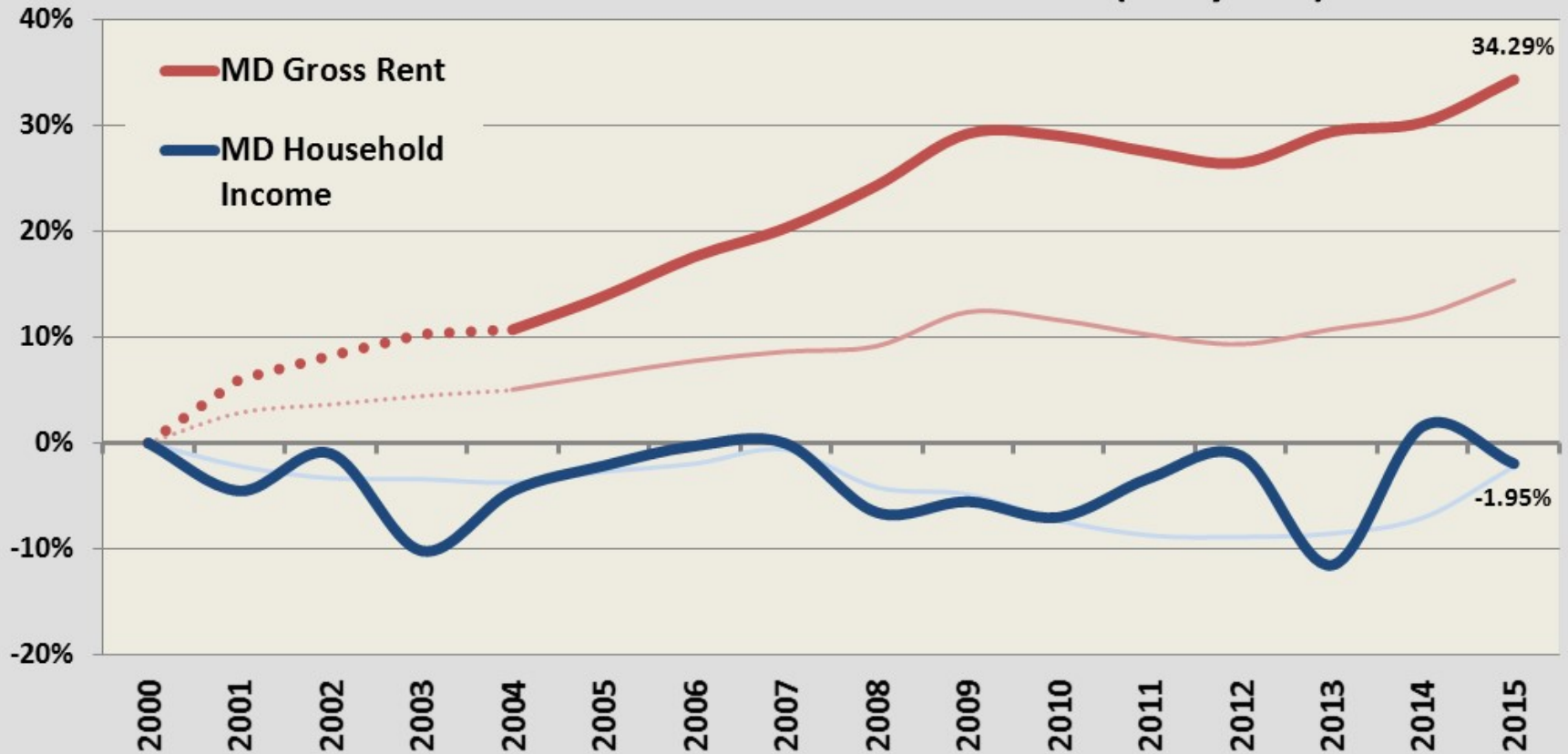
Income Growth vs Rent Growth (US)



NOTE: Gross Rent data imputed between 2000 and 2004

Source: US Census: American Community Survey & 2000 Census

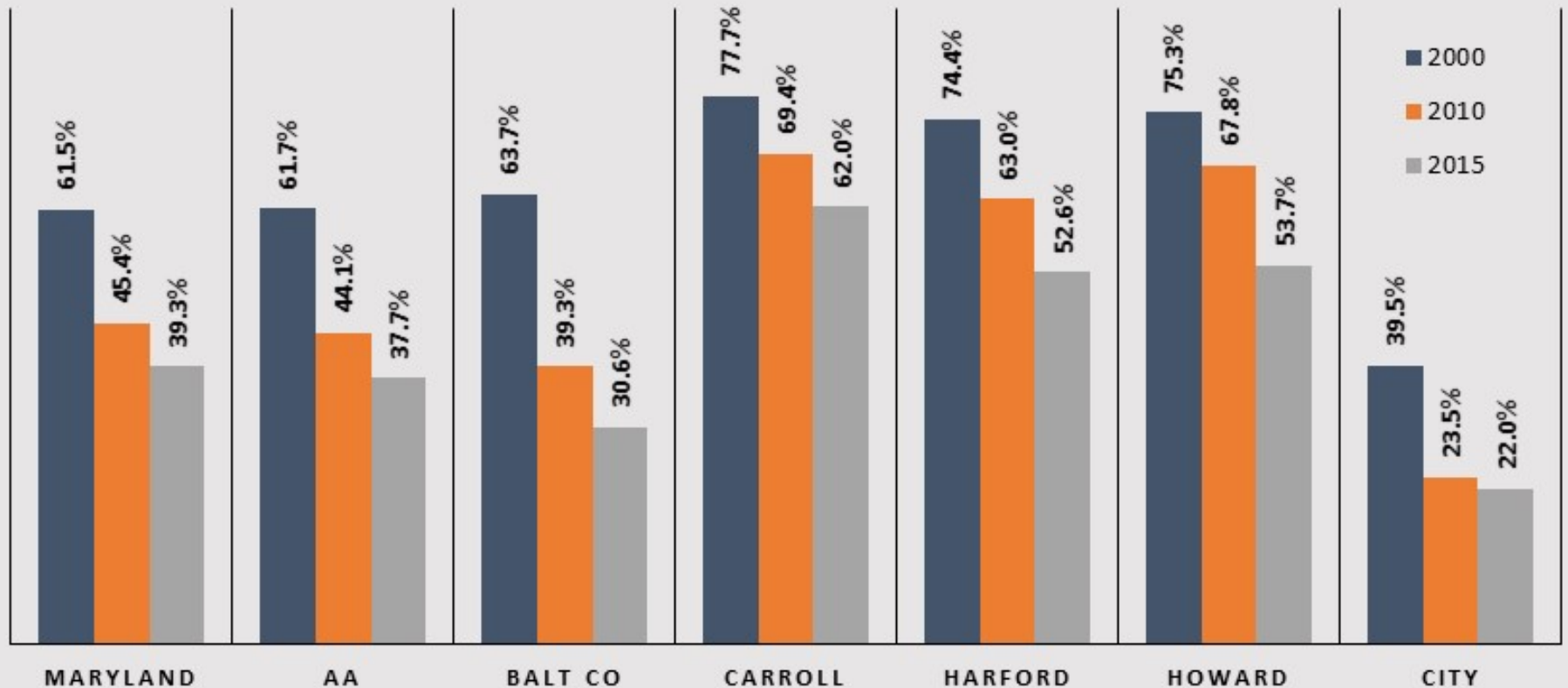
Income Growth vs Rent Growth (Maryland)



NOTE: Gross Rent data imputed between 2000 and 2004

Source: US Census: American Community Survey & 2000 Census

% of all Rental Units Affordable to 60% Median Income



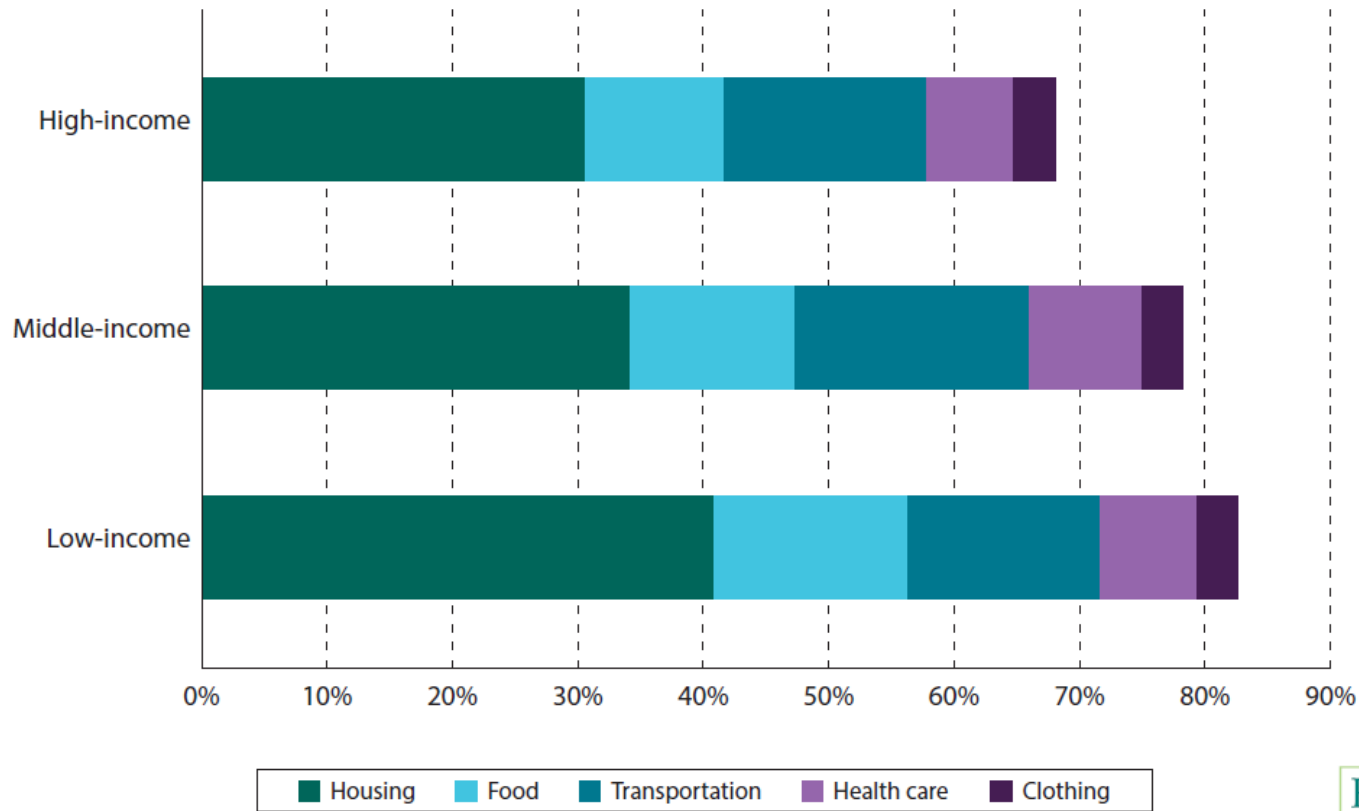
Between 2000 and 2015, Maryland lost more than 100,000 affordable rental units

Rental Units Affordable to Households at 60% Median Income							
	MARYLAND	AA	BALT CO	CARROLL	HARFORD	HOWARD	CITY
2000	388,592	26,766	61,436	6,931	12,679	17,634	50,425
2010	298,042	20,958	40,849	6,631	10,380	17,507	28,159
2015	282,501	19,953	32,297	6,691	10,343	15,510	28,225
Δ 2000-15	(106,091)	(6,813)	(29,139)	(240)	(2,335)	(2,124)	(22,200)

All Rental Units							
	MARYLAND	AA	BALT CO	CARROLL	HARFORD	HOWARD	CITY
2000	605,225	39,496	94,035	8,444	15,711	22,915	124,390
2010	630,007	45,655	100,579	8,824	15,344	25,206	116,111
2015	690,979	50,701	101,628	10,087	18,594	28,079	123,742
Δ 2000-15	85,754	11,205	7,593	1,643	2,883	5,164	(648)

FIGURE 1.

Share of Household Expenditures on Basic Needs, by Income



Source: Consumer Expenditure Survey (2014)

Notes: Low-income, middle-income, and high-income are defined as the average expenditures of consumer units in the bottom, middle, and top income quintiles, respectively.

How do policymakers address the rent burden for low income families?

(A) Provide assistance directly to the household to reduce cost of renting a unit

- OR -

(B) Provide incentive to producers to provide housing at a lower rent

Housing Assistance Programs

Section 8, Section 202, Section 811, Public Housing, Housing Choice Vouchers

- Generally limit housing costs to 30% of income
- Serves the poorest of the poor

Section 236, Section 515 (Rural Development)

- Sets a rent floor and a rent ceiling, if 30% of tenant income fall within these limits, tenant pays 30% of income
- Often coupled with Section 8 Assistance

Housing Production Programs

Low Income Housing Tax Credits

- Uses federal income tax incentives to support production of new units and preservation of existing units

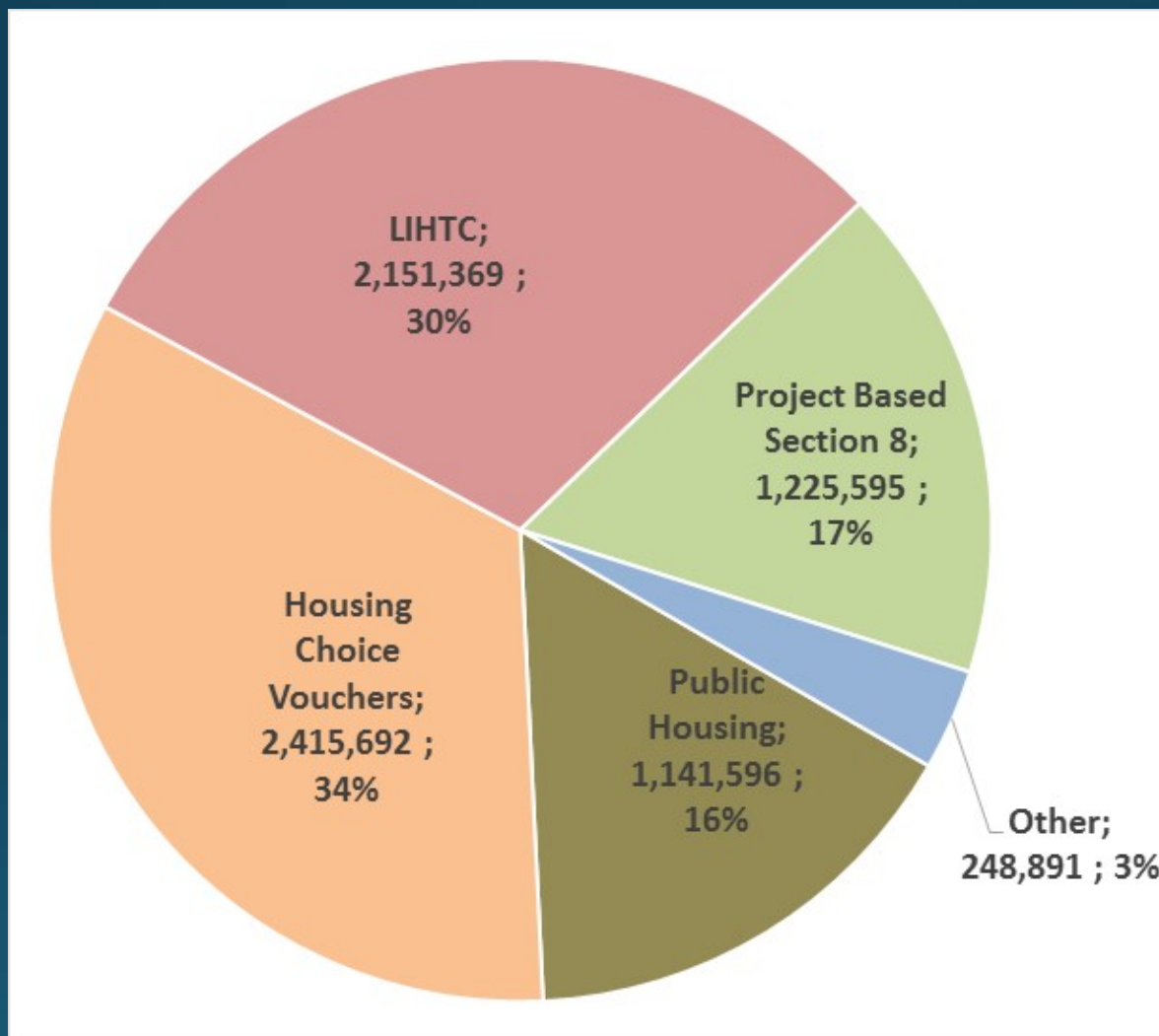
Housing Trust Fund

- New program funded by a fee on Fannie Mae and Freddie Mac activity targeting extremely low and very low income renters

HOME / CDBG

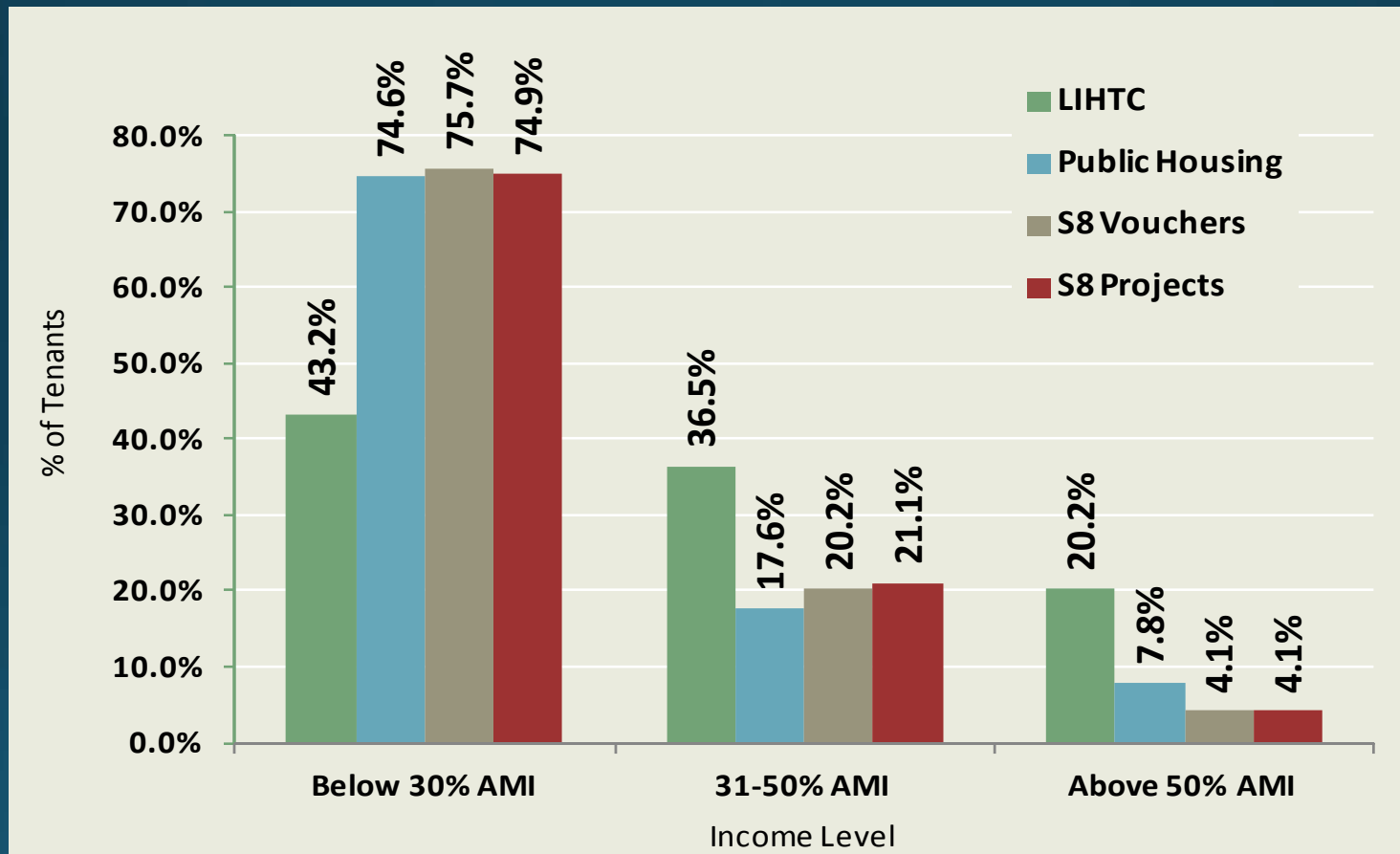
- Provides block grant funds to the states for community development and housing programs (CDBG is not exclusively a housing program)

HUD Assisted Housing Portfolio



Source: HUD: 2014 A Picture of Subsidized Housing; LIHTC Database

Who Lives in Tax Credit Housing?

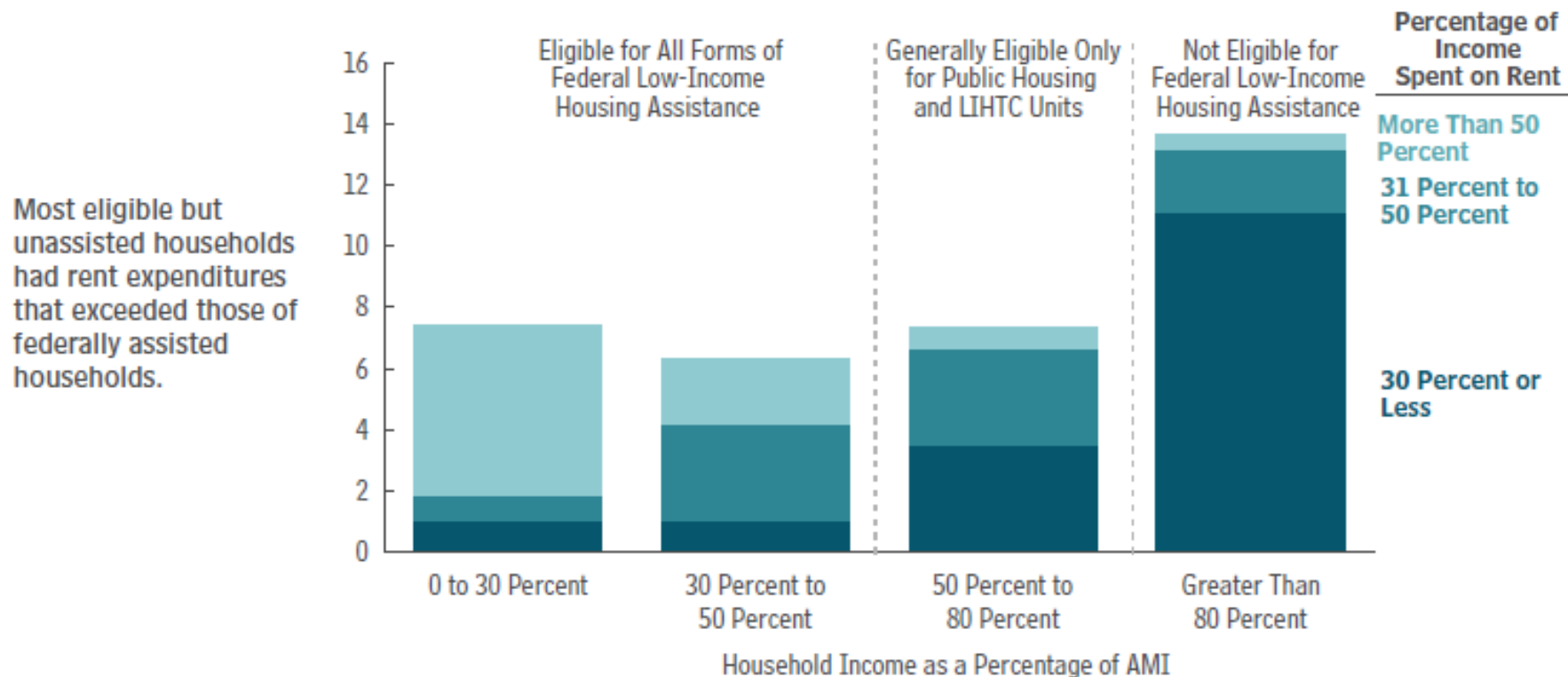


Source: NYU, 2009 and 2010 Tenant data from 15 states

Figure 4.

Households That Rent but Do Not Receive Federal Low-Income Housing Assistance, by Income and Rent Expenditure, 2013

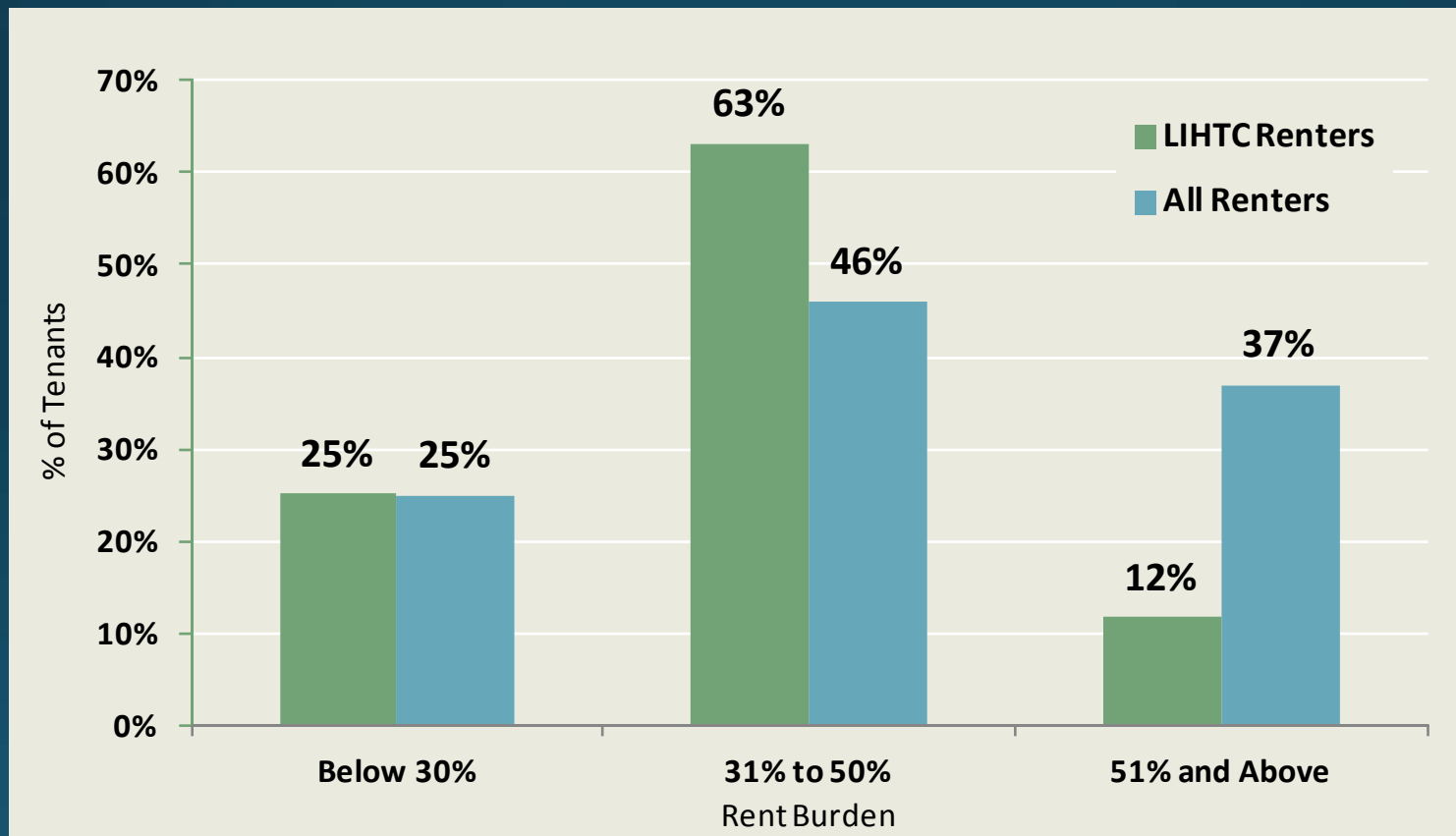
Millions of Households



Source: Congressional Budget Office based on data from Department of Housing and Urban Development, *Worst Case Housing Needs: 2015 Report to Congress* (April 2015), Table A-1A, p. 30, www.huduser.org/portal/publications/affhsg/wc_HsgNeeds15.html.

Note: AMI = area median income; LIHTC = Low-Income Housing Tax Credit.

Does the program help reduce rent burden for target households?

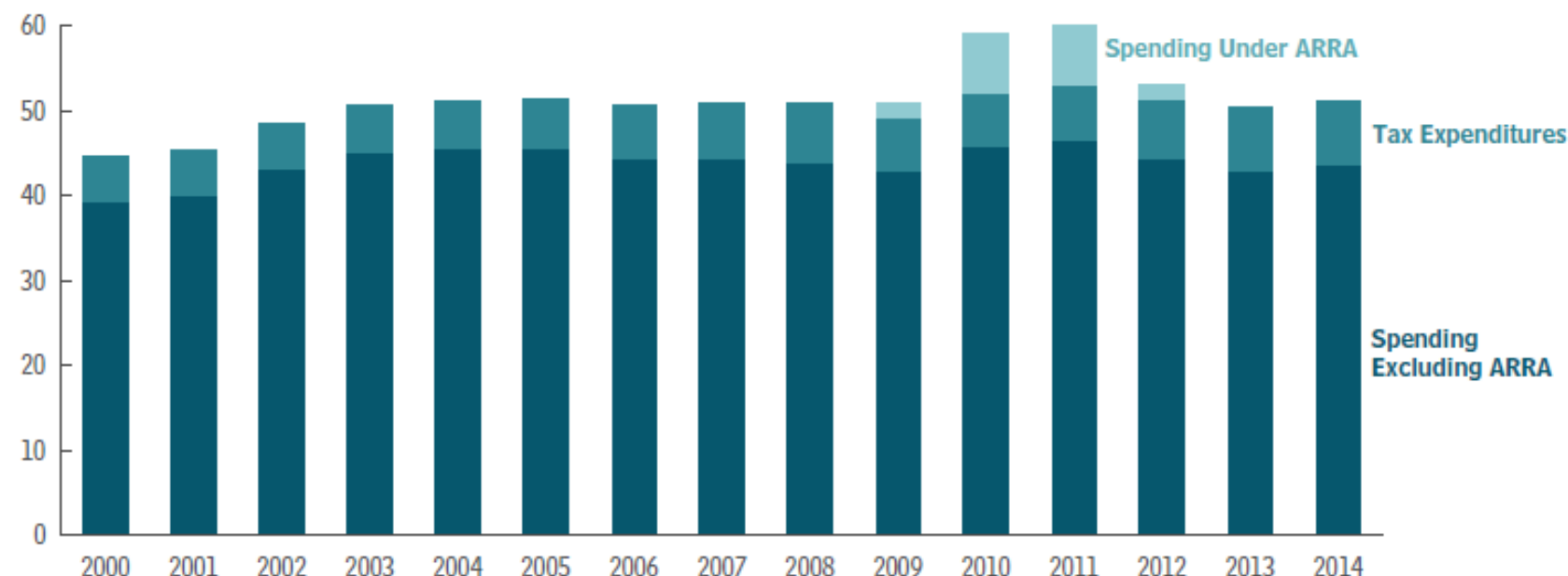


Source: NYU, 2009 and 2010 Tenant data from 14 states compared to 2009 ACS data

Figure 1.

Federal Spending and Tax Expenditures for Low-Income Housing Assistance, 2000 to 2014

Billions of 2014 Dollars



Source: Congressional Budget Office based on data from the Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2016: Supplemental Materials*, "Public Budget Database—Outlays" (February 2015), www.whitehouse.gov/omb/budget/supplemental, and the staff of the Joint Committee on Taxation, *Estimates of Federal Tax Expenditures: Fiscal Year* (various years), www.jct.gov/publications.html?func=select&id=5.

Notes: Estimates of federal spending and tax expenditures for low-income housing assistance are expressed in real (inflation-adjusted) dollars. Values are adjusted for inflation using the gross domestic product price index.

Tax expenditures resemble government spending programs in that they provide financial assistance to specific entities or groups of people or for designated activities. The estimates of tax expenditures do not take into account interactions between individual provisions.

ARRA = American Recovery and Reinvestment Act of 2009.

**Table 3. INCOME TAX EXPENDITURES RANKED BY TOTAL
FISCAL YEAR 2016-2025 PROJECTED REVENUE EFFECT**

(in millions of dollars)

Provision		2016	2017	2016-25
1	Exclusion of employer contributions for medical insurance premiums and medical care	210,980	220,550	2,742,320
2	Exclusion of net imputed rental income	101,100	104,950	1,178,800
3	Capital gains (except agriculture, timber, iron ore, and coal)	92,820	95,870	1,057,770
4	Deductibility of mortgage interest on owner-occupied homes	62,440	68,610	948,490
5	Defined contribution employer plans	64,710	65,620	921,480
6	Deferral of income from controlled foreign corporations (normal tax method)	67,780	71,170	852,580
7	Step-up basis of capital gains at death	58,270	61,910	776,630
8	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	51,380	55,130	692,640
9	Defined benefit employer plans	66,600	66,760	622,530
10	Deductibility of charitable contributions, other than education and health	44,240	47,630	601,390
11	Capital gains exclusion on home sales	40,580	43,460	563,780
12	Exclusion of interest on public purpose State and local bonds	31,700	35,900	501,150
13	Deductibility of State and local property tax on owner-occupied homes	33,080	35,580	452,810
14	Self-Employed plans	28,030	30,800	432,220
15	Exclusion of interest on life insurance savings	18,870	23,380	370,840
16	Accelerated depreciation of machinery and equipment (normal tax method)	-8,870	12,180	356,330
17	Social Security benefits for retired workers	26,900	28,280	315,420
18	Treatment of qualified dividends	25,530	26,470	307,250
19	Child credit	24,000	24,290	243,290
20	Individual Retirement Accounts	16,850	16,970	197,420
21	Deduction for US production activities	15,680	16,440	192,890
22	Exclusion of benefits and allowances to armed forces personnel	14,220	13,170	150,870
23	Deductibility of medical expenses	8,260	8,700	149,160
24	Medical Savings Accounts / Health Savings Accounts	5,730	6,830	140,420
25	Exclusion of workers' compensation benefits	9,820	9,920	102,710
26	Social Security benefits for disabled workers	8,490	8,580	94,920
27	Deferral of gains from like-kind exchanges	7,320	7,700	92,230
28	Credit for low-income housing investments	7,880	8,130	87,570
29	Self-employed medical insurance premiums	7,060	7,440	87,290
91	Tax incentives for preservation of historic structures	460	470	5,010
98	New markets tax credit	1,230	1,130	4,130

Source: US Dept of the Treasury, Office of Tax Analysis – Oct 13, 2015



Questions?

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