Challenges & Opportunities in Affordable Housing Development

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Minnesota Housing Finance Agency

Presentation Overview

- Introduction, Anne Heitlinger
- The Challenge of Funding Gaps
- Challenges for Funders
- Challenges for Developers & Owners
- Mixed-Use Tax Credit Case Study: West Broadway Crescent

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Closing Funding Gaps: A Key Challenge

- Value Gap
  - When cost to construct an affordable unit is greater than the purchase price the market will bear
- Affordability Gap
  - When the monthly mortgage payment is higher than a household can pay at the targeted income level
- Multifamily Underwriting Gap
  - When finance sources secured are less than the total development cost

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Key Actors in Affordable Production

- Federal Government (HUD, IRS)
- State Government (tax credit allocation, loans, and occasionally grants)
- Local Governments (sub-allocators, loans, grants)
- Financial Intermediaries (LISC, CRF)
- Other Funders (FHF, GMHF, foundations)
- Banks (first mortgages)
- Investors (purchase tax credits)

Key Financing Sources

- Low Income Housing Tax Credit Equity
  - 9% competitive and 4% with tax exempt bonds
- Amortizing Debt Financing
  - MHFA, HUD, private lender first mortgages
- Deferred Debt Financing
  - At times forgivable
- Predevelopment and Bridge Financing
  - Riskier and therefore specialized

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Challenges for Funders

- Economic feasibility
  – Increasing focus on deal fundamentals and cash flow
- Funding priorities
  – Dictated by legislation or established by funders
- Timing
  – Increased focus on moving funds quickly to minimize costs and show program efficiency and impact

Challenges for Funders (cont.)

- Being proactive rather than reactive
  - Future uncertain but inertia ineffective
- Balancing mission and risk
  - Dilemma presented as worst off developments may not score well in competitive award process

Public Policy Objectives

- Near transit
- In or near job growth areas
- Preserve of federally assisted housing
- Prevent/address homelessness
- Housing for veterans
- Health connections
- Community integration of persons with disabilities
- Energy efficient/green building

A Sense of Scale

- Through its 2013-14 Super RFP MN Housing:
  - Received over $205M in statewide requests
  - Awarded $46M to develop/preserve 1,630 units
  - Funding partners (GMHF, FHF, Met Council, DEED) contributed another $8M to selected proposals
- State prospects for 2014 Legislative Session
  - $100M for housing infrastructure and public housing
  - Proposed bill for $50M to promote homeownership for emerging market borrowers

Challenges for Owners & Developers

Project Concept Must Be:

- Compelling (need for housing, need for renovation)
- Supportable (neighbors, council/mayor, funders)
- Financeable (funding priorities, numbers work)

Timeline:

- 3-5 years from concept to completion
- 2 or more funding cycles required to secure funding

Process:

- Requires constant three dimensional balancing and rebalancing of timing, financial feasibility, and funding requirements

Project Funding Sources

- Predevelopment Funding
  - higher interest rates
  - less available
- Deferred Loans (10-40%+)
  - smaller amount of TDC but essential
- Low Income Housing Tax Credits   (30-70%)
  - key housing production financing source
  - tax law and tax accounting become critical
- Amortizing Debt (10-50%)

Funder Requirements Vary

- Design or scope of work
- Rent levels and rent limits
- Income limits
- Operating costs
- Amount of supportable debt
- Use of cash flow
- Target populations who may need services

West Broadway Crescent

- 54 units of new construction
- Two and three bedroom units for families
- Underground parking, pocket park, tot lot
- On-site community room and resident services

- Transit oriented development (major bus line)
- Community revitalization
- High priority for Minneapolis
- Public art done by North Minneapolis youth organization
- Mixed income when proposed

West Broadway Crescent

AERIAL VIEW: WEST ELEVATION ALONG WEST BROADWAY AVENUE

AERIAL VIEW: EAST ELEVATION ALONG ALLEY

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Financing Details

Total Development Cost (TDC): $12 million ($225,00 per unit)

Finance breakdown:

- Low Income Housing Tax Credits-- 33%
- Amortizing Debt—12%
- Deferred Loans- 6 funders—45%
- A total of 10 sources of funding

Target population:

- Rent and income limits at 50-60% of area median income
- Some units will serve Hennepin County clients

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Mixed Income Financing

- Attractive in concept
- Generally seen as more risky
- More expensive – finishes & unit size must be of comparable quality, less tax credit equity, mixed rent structure
- To be successful, must mitigate investors' perception of risk

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Questions?

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