



**MBA's Commercial Real Estate Finance/
Multifamily Housing Convention & Expo**

Mortgage Bankers Association CREF

Housing Preservation *Lending Possibilities*

Presentation by Michael Bodaken

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Background: National Housing Trust

- National nonprofit created 20 years ago;
- Dedicated to preservation and improvement of affordable, multifamily housing;
- Four principal activities:
 - » Policy/Advocacy at national and state level
 - » Technical Assistance: Helped other nonprofits preserve and improve 13,000 apartments in over 35 states
 - » NHT Community Development Fund: Lending to purchasers of affordable housing: Loans helped preserve over 3,600 apartments
 - » NHT/Enterprise: Purchase and preserve affordable housing; Has preserved 3,000 affordable homes



Critical Rental Housing Needs

- ◆ **More than 5 million households have critical housing needs.**
- ◆ **The shortage of affordable housing is geographically widespread.**
- ◆ **More than 1/2 of our nation's carpenters, kindergarten teachers, groundskeepers, retail clerks, and other service workers pay more than half of their income for rent.**
- ◆ **The nearly 10 million renters earning less than \$17,500 outnumber the available affordable housing supply by approximately 2 to 1. This number is trending up.**
- ◆ **We lose tens of thousands of affordable apartments per year. **The cost of replacing this housing much greater than maintaining the existing stock.****



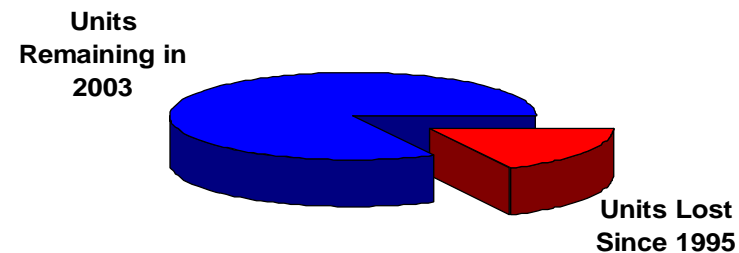
Preservation Opportunities May Be Lost

- As Section 8 contracts expire, owners have right to “go to market.”
- Over past 8 years, the nation has lost over 300,000 previously subsidized apartments from the nation’s affordable housing stock.



NHT Study on Housing Loss Released in Summer 2004

- Studied the period from 1995-2003
- Studied loss of housing that was supported by Section 8 or subsidized through their HUD-insured mortgage
- Found that 300,000 apartments had been lost to the affordable housing inventory over that time frame
- The nation has lost more than 15% of its housing inventory dedicated to serving poor people since 1995





The Good News: State Housing Finance Agencies Answer the Call

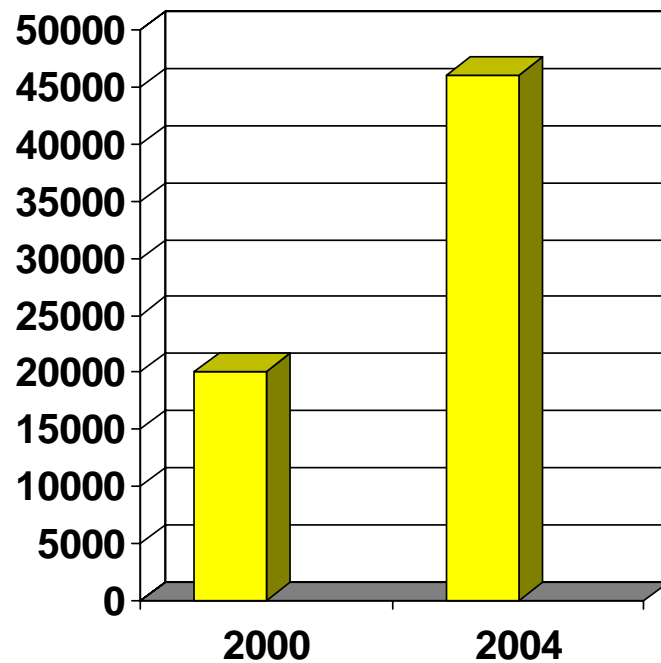
- State housing agencies are increasingly dedicating resources to preservation
- State and local finance agencies employ a variety of strategies to preserve affordable housing
- These strategies include:
 - » Setting aside low income housing tax credits
 - » Using private activity bonds and 4% credits
 - » Allocating state housing trust fund money
 - » Providing predevelopment and bridge loans
 - » Allowing owners equity take-outs
 - » Providing tax incentives to owners who agree to maintain the housing as affordable



**Complete working paper on State and Local Preservation Initiatives
available at www.nhtinc.org**



Increasing Trend in the Use of Low Income Housing Tax Credits for Preservation



- In 2000, approximately 20,000 affordable apartments were preserved using low income housing tax credits
- By 2004, the number of affordable apartments that were preserved using low income housing tax credits increased to more than 46,000 apartments.



State Set Asides

- Three years ago, only 4-5 states set aside or prioritized Low Income Housing Tax Credits for preservation.
- Today, according to information gathered by the Trust, more than 40 states prioritize preservation through points or a specific preservation set-aside in their competitive tax credit program.
- 16 states set aside at least 10% of their 9% tax credits for preservation:
 - » Massachusetts, Wisconsin – 35% set aside
 - » Michigan – 30% set aside
 - » Ohio, Oregon – 25% set aside
 - » Illinois, Iowa, Montana, North Carolina, Pennsylvania, West Virginia – 20% set-aside
 - » Indiana, Texas, Utah – 15% set aside
 - » New York, North Dakota – 10% set aside



Private Activity Bonds and 4 Percent Credits

- Almost every state has a surplus of 4 percent tax credits and private activity bonds at its disposal. Almost every state uses such bonds for preservation.
- At least two states have gone further:
 - » Maryland does not have a 9 percent credit set aside, but has preserved significant amounts of older assisted properties with private activity bonds (more than 2,000 apartments in just the last 2 years).
 - » In New York, the Governor created the “HOPES program” devoting \$140 million set aside of private activity bonds and 4 percent credits for preservation.



Other State and Local Preservation Initiatives

- Fairfax County, Virginia has dedicated “one penny for housing” from real estate tax levy to raise \$18 million for affordable housing preservation fund in first year. Want to preserve 1,000 affordable apartments by 2007.
- Virginia and Washington State have developed nonprofit CDFIs (approved by U.S. Treasury) that fund predevelopment or provide bridge financing for preservation transactions
- State and Local Housing Trust Funds used for preservation (e.g. Arizona; District of Columbia; Illinois; Iowa; Maryland; Massachusetts; Minnesota; Missouri; Montana; Ohio; Oregon; Rhode Island; Utah; Washington; Los Angeles, CA; Fairfax County, VA)
- Minnesota and Montgomery County, MD use state/local tax revenue for preservation.
- Others too numerous to list



Lending Needs

- Preservation Cost=sum
 - » 1. Acquisition plus
 - » 2. Rehab and
 - » 3. Soft Costs
- Loan sizes from \$1 to \$100 million
- LTV needs 85 percent or higher
- Term: 30 years or more
- Consent to subordinate debt



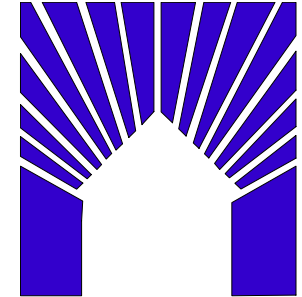
Lending

- FHA: up to 40 year, fixed rate, 85 - 90 percent LTV;
- Fannie Mae: 30 year, Fixed Rate, 90 percent LTV;
- Some lenders are now buying bonds directly and holding them in portfolio.
Translates to 40 year term;
- More creative structures provide for floating interest rates.
- Other structures allow a 'bridge' to a permanent product
- Typical fee = 1-2%



NHT/Enterprise Preservation Corporation

*"Preserving Affordable Housing, Creating
Community Assets"*



- NHT and the Enterprise Foundation launched venture almost three years ago
- Organization to buy and hold where no local nonprofit interest lies in preserving. Has preserved 3,000 units in Mid-Atlantic, Midwest, South, and Southeast
- Staffed by six underwriters and asset managers employed by NHT
- Often partners with other “for profit” and nonprofit developers



Current Portfolio

<u>PROPERTY NAME</u>	<u>LOCATION</u>	<u># OF UNITS</u>
Woodside Apartments	Kissimmee, FL	208
Royal Oak Apartments	Kannapolis, NC	100
Meridian Manor	Washington, DC	34
Champions Green	Houston, TX	192
Chelsea Court Apartments	Houston, TX	760
Victoria Place Apartments	Houston, TX	144
Kressington Place	Spring, TX	136
Riverwalk Apartments	Dallas, TX	176
Timberlodge Apartments	Dallas, TX	216
Ashley Park	Plano, TX	140
Belton Woods Apartments	Anderson, SC	200
Briarcliff Apartments	Vienna, VA	30
Friendship Court	Charlottesville, VA	150
51 st and King Drive Apartments	Chicago, IL	96
Hazel Hill Apartments	Fredricksburg, VA	147
O'Keeffe Apartments	Chicago, IL	67
TOTAL		2,796



NHT/Enterprise also developed Parkway Apartments, 266 units in Washington, DC which it no longer holds in its portfolio. Additionally, NHT/Enterprise owns 21% of a GP interest that owns 745 units in Independence, Missouri. Although NHT/Enterprise's interest is primarily non-economic, our participation was instrumental in this preservation transaction. Including these projects, NHT/Enterprise efforts over the past three years have yielded the preservation of 3,593 units.



Friendship Court Charlottesville, VA

- Here, local nonprofit, Piedmont Housing, was offered opportunity to purchase last available affordable housing property in rapidly gentrifying Charlottesville, VA.
- NHT/Enterprise took risk and shared guarantees w/ Piedmont.
- Preserved and improved property.
- Now local nonprofit shares in fees.
- Services on site include after school activities, computer activities, job training and Earned Income Tax Credit returns.
- Property fully occupied.





Friendship Court Sources and Uses of Funds

SOURCES

Assume existing VHDA Bonds	\$2,754,000
9% Low Income Housing Tax Credit Equity	\$4,436,000
Foundation Loan	\$1,250,000
Foundation Grant	\$500,000
City Grant	\$500,000
Existing Project Reserves	\$600,000
FHLB Affordable Housing Grant	\$127,500
Deferred Developer Fee	\$100,000
<u>TOTAL SOURCES</u>	\$10,267,500

USES

Acquisition Costs	\$4,800,000
Construction/Rehabilitation Costs - Hard Costs	\$3,154,000
Real Estate - Soft Costs	\$328,500
Developer/Overhead Fee	\$970,000
Syndication Costs	\$92,000
Escrows and Reserves	\$923,000
<u>TOTAL USES</u>	\$10,267,500



For More Information

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