



# Affordable Housing Finance

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Housing Trust Silicon Valley

2018 Affordable Housing Week



# Today's Program

- Opening Statement – Joe Anzalone, Executive Vice President, Technology Credit Union
- **What is affordable housing?**
- **Why do we need it?**
- **What are the benefits?**
- **How is it built?**



# What is affordable housing?

- Federal definition is  $\leq 30\%$  of income spent on rent plus utilities
- Paying  $>30\%$  of income towards housing is termed “rent burdened”
- We are focusing on rental housing financed with Low Income Housing Tax Credits (LIHTC)

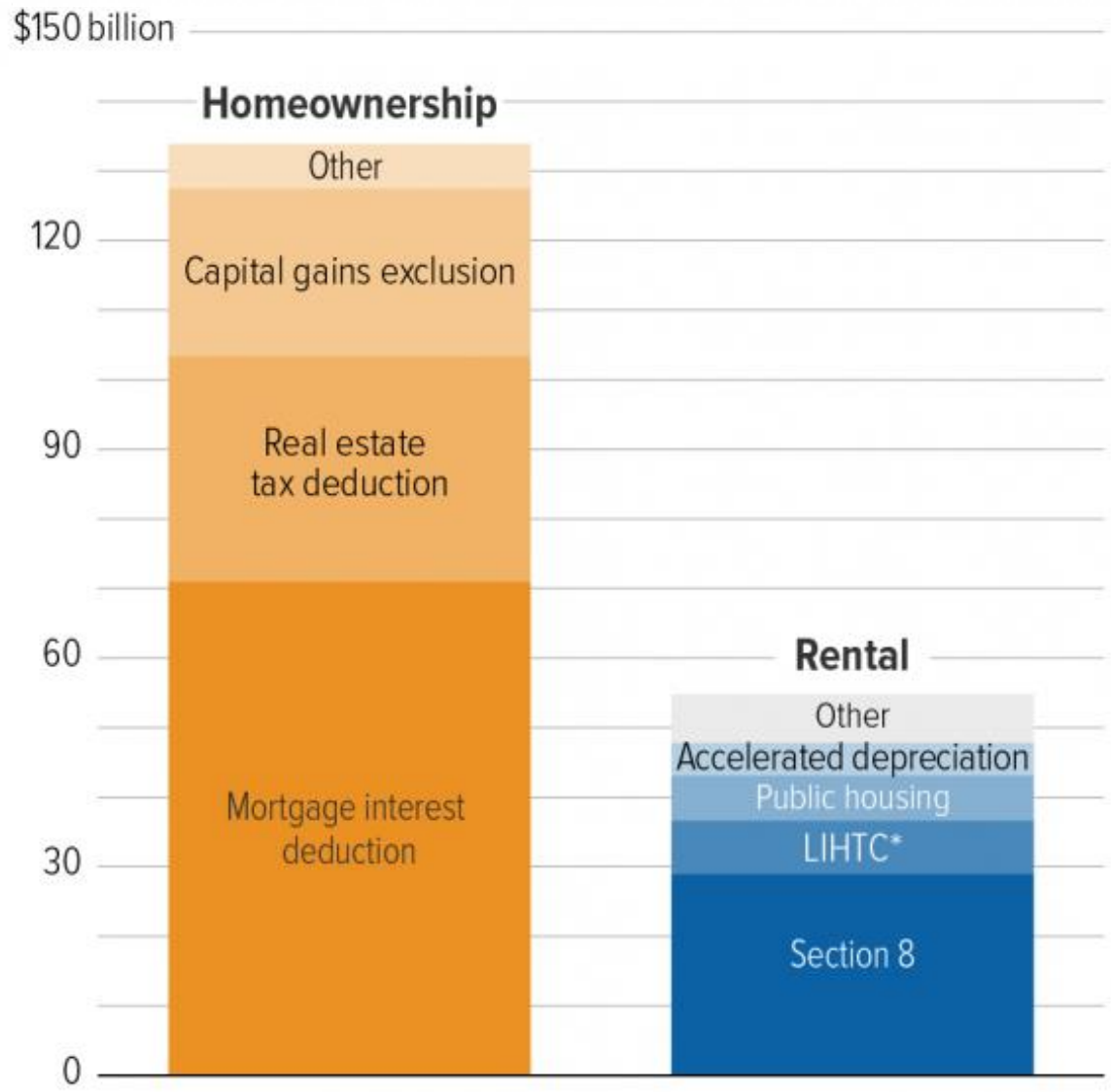


# A brief history of affordable housing finance

- National Housing Acts (1934 & 1937)
  - FHA to address homeownership
  - Federal rental subsidies
- HUD (1965)
  - Became cabinet department to develop and execute policies on housing and metro areas
  - Consolidated prior housing agencies
- Tax Reform (1986)
  - Eliminated many investment incentives for rental housing
  - Created LIHTC to give incentive for private equity investments in affordable rental housing

# Most Federal Housing Expenditures Benefit Homeowners

Federal housing expenditures in billions, 2015



# Why do we need affordable housing?

- In California, 32% of renters pay more than 50% of their income for housing
- In the Bay Area it is 45% of renters

# Cost of Housing

## Ownership

### Average Price

### Minimum Income



\$907,000

\$160,000

\$ 155,000 Down



\$1.2MM

\$260,000

\$280,000 Down

## Rental

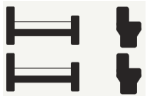
### Average Rent

### Minimum Income



\$2,476

\$99,000



\$2,933

\$118,000

# Who Needs Affordable Housing?

	1 person	2 person	4 person
Extremely Low-Income (30% AMI)	\$27,950 Minimum wage earner, full-time	\$31,950 Couple on social security	\$39,900 Housekeeper, single parent
Very Low-Income (50% AMI)	\$46,550 Nursing Aide	\$53,200 Child Care worker, single parent	\$66,500 Home health aide, full time, children
Low-Income (80% AMI)	\$66,150 Admin Assistant	\$75,600 Security guard / food prep	\$94,450 Police officer, stay at home parent, two children
Moderate-Income (120% AMI)	\$105,200 Registered Nurse	\$120,200 Fire fighter and receptionist	\$150,500 Two teachers, two children

*Area Median Income (AMI) for Santa Clara County is \$125,200 for a family of 4 (California HCD 2018)*



# What are the benefits?

- Economic and Environmental Benefits
  - Development of affordable housing immediate and long-term jobs and local spending
  - Reduces commutes, lessening air pollution, etc.
- Health Benefits
  - More household resources available to pay for health care and healthy food
  - Limits exposure to environmental toxins
  - Stable and affordable housing supports mental health by limiting stressors related to financial burden or frequent moves
  - Serves as a platform for providing supportive services to vulnerable populations
- Educational Benefits
  - Children in affordable housing have better educational outcomes and achievement than children in rent-burdened households
  - Adults in affordable housing have more opportunity to advance their educational level and improve their economic situation

# How is it built?

- Get the land
- Get the entitlements
- Get the financing
- Build it

# Get the land

- +/- \$10 million an acre in Santa Clara County
- RDA's did much of the land buying in the past
- Banks won't take the risk of financing land
- Local govt moves too slowly in a hot market
- Housing Trust fills the role now
  - \$57MM loaned to finance land for 1,900 units in last year



# Who Is the Housing Trust?

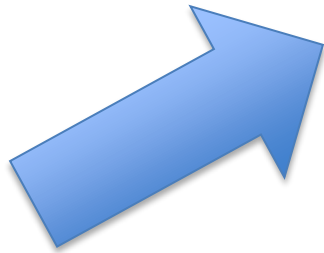
- We are a community development financial institution (CDFI)
- We help everyone – from the homeless to renters to first-time homebuyers - with their affordable housing needs in the greater Bay Area
- We became the first nonprofit housing lender with a Standard & Poor's credit rating (AA-)

# Get the entitlements

- General Plan / Zoning
- Site Specific Permits
  - Conditional Use Permits
  - Variances
  - Design Review
- CEQA (California Environmental Quality Act) / EIR (Environmental impact report)
- Various state legislation to speed the process

# Get the financing:

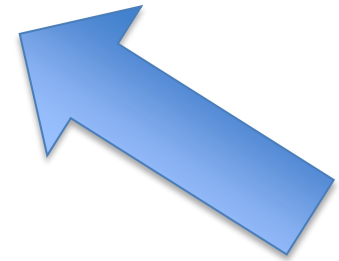
## 3 Legs of Affordable Housing Finance



Private Equity (LIHTC)



Private Debt



Public Subsidy

# Public Subsidy

- Redevelopment funds formerly supplied the bulk of subsidy at the local level
- G.O. bonds, e.g., Measure A
- Impact fees
- Federal funds: HOME / CDBG
- Housing Authority rent subsidy (Section 8)
- Government land

# Private Equity (LIHTC)

- Typically through the LIHTC program
- Developers apply to state for allocation of credits and/or tax-exempt bonds
- 4% vs 9% credit
- Investors are mostly banks (CRA motivated)
- Investments made directly or through syndicators



# 9% vs 4% LIHTC

- 9% Credits:
  - Each state allocated 9% tax credits based on population
  - Developers compete for these credits with scoring priorities for deeper affordability, social services, and greater local subsidy
  - **More competition = More credits**
- 4% Credits:
  - Each state allocated tax-exempt Private Activity bonds based on population
  - When bonds are allocated to housing, these projects receive an automatic allocation of 4% tax credits
  - **Less competition = Fewer credits** (necessitating more from other sources)

# Private Debt (mortgage)

- Construction loan
- Term mortgage - typically 30- to 40-year amortization, due 15 years after completion
- Provided by banks, lending consortia, insurance companies, investment banks
- Also CRA-motivated

# Sources & Uses

<b>SOURCES</b>			
	Construction	Permanent	
Tax Exempt Bond	\$ 44,972,722	\$ 9,363,518	
AHSC		\$ 19,636,379	
City Loan	\$ 11,792,453	\$ 11,792,453	
FHLB AHP		\$ 2,000,000	
Waived Park Fees	\$ 565,000	\$ 565,000	
Deferred Developer Fe	\$ 1,500,000	\$ 1,500,000	
Deferred Costs	\$ 2,028,442		
Equity - GP	\$ 100,000	\$ 100,000	
LIHTC Equity - LP	\$ 1,777,918	\$ 17,779,185	
			Per Unit
<b>TOTAL</b>	\$ 62,736,535	\$ 62,736,535	\$ 510,053
<b>USES</b>			
Acquisition	\$ 6,744,418		
Construction	\$ 40,217,598		
Financing Costs	\$ 6,019,588		
Soft Costs	\$ 6,117,352		
Developer Fee	\$ 4,000,000		
Capitalized Reserves	\$ 345,125		