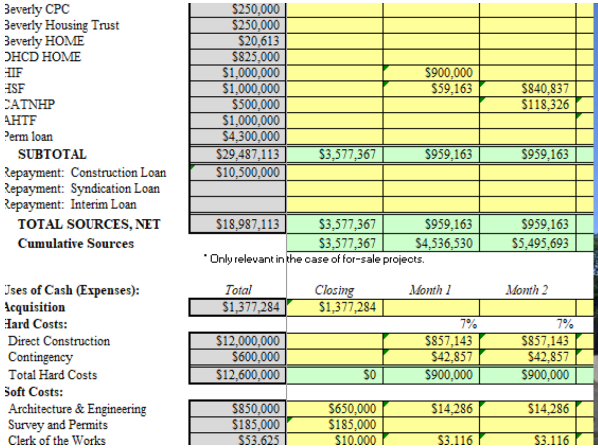
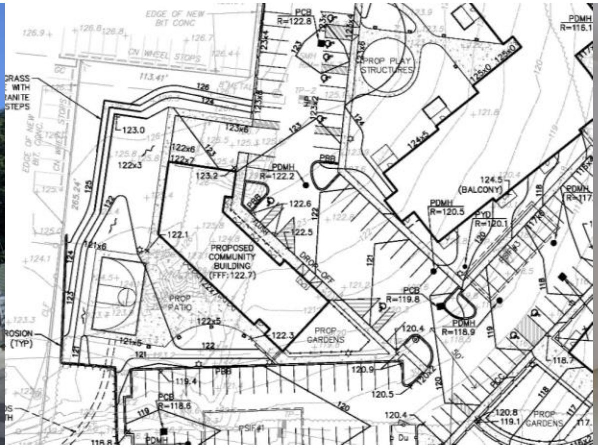
How are affordable homes financed?



Sources	Total	Closing	Month 1	Month 2
Beverly CPC	$250,000			
Beverly Housing Trust	$250,000			
Beverly HOME	$20,613			
DHCD HOME	$825,000			
HIF	$1,000,000		$900,000	
HSF	$1,000,000		$59,163	$840,837
CATNHP	$500,000			$118,326
AHTF	$1,000,000			
Perm loan	$4,300,000			
SUBTOTAL	$29,487,113	$3,577,367	$959,163	$959,163
Repayment: Construction Loan	$10,500,000			
Repayment: Syndication Loan				
Repayment: Interim Loan				
TOTAL SOURCES, NET	$18,987,113	$3,577,367	$959,163	$959,163
Cumulative Sources		$3,577,367	$4,536,530	$5,495,693

* Only relevant in the case of for-sale projects.

Uses of Cash (Expenses):	*Total*	*Closing*	*Month 1*	*Month 2*
Acquisition	$1,377,284	$1,377,284		
Hard Costs:			7%	7%
Direct Construction	$12,000,000		$857,143	$857,143
Contingency	$600,000		$42,857	$42,857
Total Hard Costs	$12,600,000	$0	$900,000	$900,000
Soft Costs:				
Architecture & Engineering	$850,000	$650,000	$14,286	$14,286
Survey and Permits	$185,000	$185,000		
Clerk of the Works	$53,625	$10,000	$3,116	$3,116



Andrew Leonard, Senior Project Manager

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Affordable housing finance is *very different* than conventional, market-rate housing

Local, State and Federal affordable housing funding sources are all constrained – and very competitive!

- EOHLC allocates funding with an annual competitive round, the "OneStop"
- Possible, but rare to be funded the first time in
- Not unusual to take multiple years to secure all funding

Some aspects that can make a project more competitive:

- Local funding committed, local support letters
- Family housing (if the city/town has not done affordable family housing recently)
- Readiness to proceed

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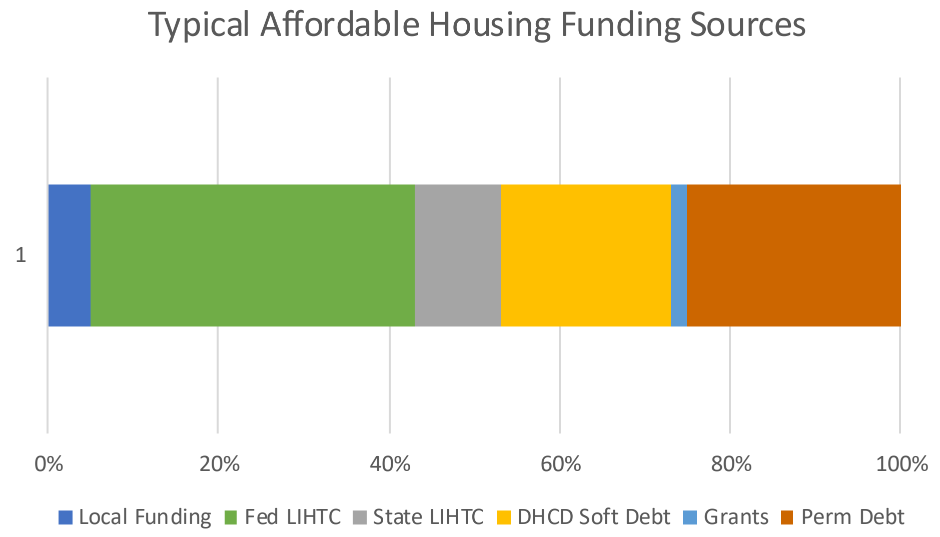

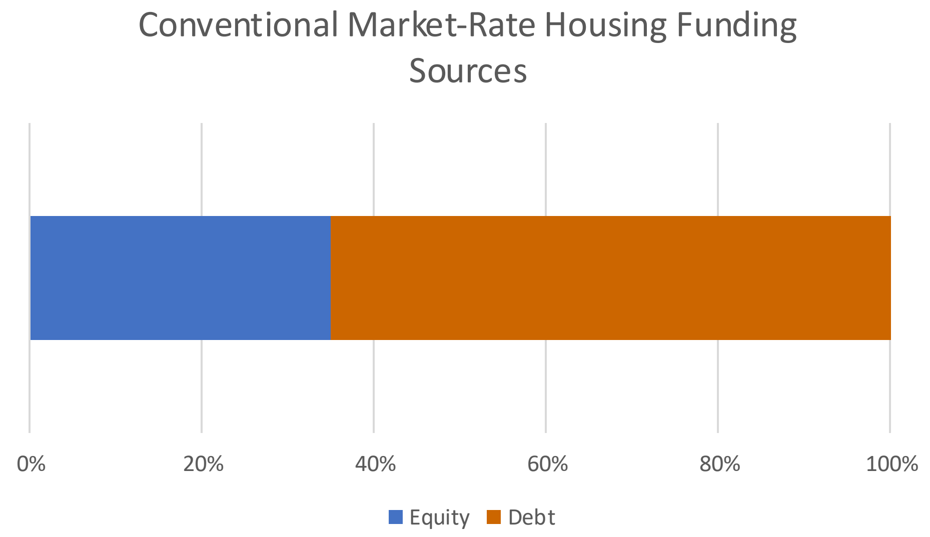

Affordable Housing Finance 101: How high is the mountain?

- Cost of the land
- Cost of permitting
- Cost to design
- Cost to finance
- Cost to build
- Cost to operate

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A Closer Look at Typical Affordable Housing Uses

Uses	Typ. %
Site Acquisition	5%-10%
Construction Cost (Hard Cost)	60%-70%
Development Expenses (Soft Costs): Architecture and Engineering, Permitting, Legal, Construction Loan Interest, Fees	15%-20%
Developer Overhead and Fee	8%-12%
Capitalized Reserves (Operating, Replacement, Lease-Up)	1%-2%

- Construction cost is the largest cost to the project
  - Varies depending on location, complexity, open shop/union
  - Can you save $ with renovation? Not necessarily
- Land acquisition cost is key when looking at a potential project site.
  - Acquisition costs over $45,000 per unit are hard to manage
  - We also look at environmental factors, access to utilities, access to transit and amenities
  - Land already zoned for multi-family development is always worth more
- Note on Dev OH and Fee: Are we getting rich?
  - EOHLC sets limits which cannot be exceeded
  - Non-profits use the Overhead and Fees to fund future projects, other work done by the organization (first-time homebuyer programs, supportive services, etc)
  - Needed to cover Overhead on what are frequently 5+ years of pre-development and risk before a project is funded and closed.
- What are the reserves for?
  - Lenders require Operating Reserve, at least 6 months expenses and debt service
  - Replacement Reserve: Capitalize future building work (i.e. new roof, appliances)
  - Lease-Up Reserve: Covers expenses until property is fully leased

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Affordable Housing Finance 101: How to scale the mountain?

- Construction/Permanent Loan
- Federal/State Tax Credits
  - Low Income Housing Tax Credit
  - Historic Tax Credit
- State “Soft” Debt
- Local/Regional Funding
- Other Affordable Housing Grants

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A Closer Look at Typical Affordable Housing Sources:

Sources	Typ. %
Local Funding: CPC, HOME, etc.	5%-10%
Federal Low-Income Housing Tax Credits (LIHTC), allocated by EOHLC	20%-40%
State LIHTC (EOHLC)	10%
State Department of Housing and Community Development (EOHLC) Funding: “Soft” Debt	25%-35%
Other Affordable Housing Grants and Programs	3%-10%
Conventional Mortgage Debt (Perm Loan)	25%

- **Local sources are critical** to any project
  - Shows local participation, or “skin in the game,” to State funders
- Low Income Housing Tax Credits (LIHTC) are essential to most deals
  - Federal LIHTC (9% and 4%)
  - In MA, we also have State LIHTC
- MA EOHLC (Executive Office of Housing and Livable Communities) allocates LIHTC and State “Soft” Debt
- Perm loan is conventional debt that is paid from property operations (rents)
  - Affordable deals are typically designed to cover costs with a cushion, but not to generate the kind of cash flow found in market-rate deals.

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Why is a tax credit valuable to a non-profit?

- Developer receives an allocation of tax credits to offset income tax liability.
- Developer “sells” credit to entity with a tax liability in exchange for equity.
  - Entity is usually a bank.
- Developer gets roughly $0.92 in equity for every $1.00 in credit.
- Price depends on tax policy, Community Reinvestment Act cycle, and the market.

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Affordable Housing Finance 101: How easy/hard is the trail?

- **What drives the uses?**
  - Cost of land
    - Market value
    - Donated land
  - Cost of Construction
  - Design and Efficiency
  - Soft Costs and Operating Costs
    - Insurance
    - Utilities
- **What drives the sources?**
  - Rents
  - Operating Expenses
  - Interest rates
  - State and local policy
    - How much money is available?
  - Federal policy
    - Tax policy

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CASE STUDY 1
2 Hardy Street, Beverly
Small But Mighty

- New construction
- 6 two-bedroom family units
- 100% affordable, supported by Section 8 vouchers
- EOHLC's Community Scale Housing Initiative

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2 Hardy Street, Beverly

- 6 units, all 2-bedroom
- Family housing
- TOD (Transit-Oriented Development) in downtown Beverly, near MBTA Commuter Rail
- New construction
- Total Development Cost (TDC): $2,315,000
- TDC/unit: $385,833
- EOHLC's Community Scale Housing Initiative (CSHI)
- Zoning: Special permit, Inclusionary zoning
- Complete and occupied

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2 Hardy Street, Beverly: Community Scale Housing Initiative Financing

Sources		Uses	
Local Funding: CPC, HOME, etc.	$595,112	Site Acquisition	$100
Federal Low-Income Housing Tax Credits (LIHTC), allocated by EOHLC	$0	Construction Cost (Hard Cost)	$1,662,575
State LIHTC (EOHLC)	$0	Development Expenses (Soft Costs): Architecture and Engineering, Permitting, Legal, Construction Loan Interest, Fees	$365,487
State Executive Office of Housing and Livable Communities (EOHLC) Funding: "Soft" Debt	$900,000	Developer Overhead and Fee	$286,950
Other Affordable Housing grants and programs	$0	Capitalized Reserves (Operating, Replacement, Lease-Up)	$0
Conventional Mortgage Debt (Perm Loan)	$820,000		
Total:	$2,315,112	Total:	$2,315,112

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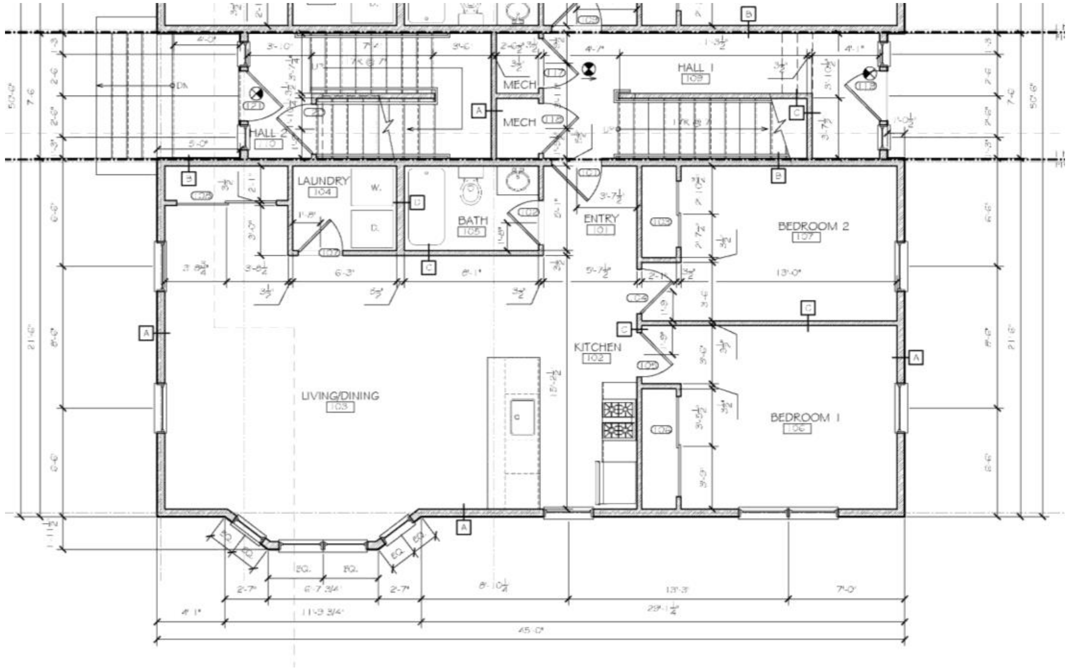
2 Hardy Street, Beverly

We are often asked by municipalities to look at **small scale projects** (5-20 units). 2 Hardy demonstrates what needs to be in place in order for a small-scale deal to work:

- **Very low (no) acquisition cost**
  - Land was donated
- **Substantial** local funding ($99,185 per unit)
  - CPC, Affordable Housing Trust, Beverly and Regional HOME
- State CSHI funding available, along with project-based Section 8 vouchers
- **No (minimal) zoning risk**, cost
  - 2 Hardy was already permitted as part of inclusionary zoning for a larger, adjacent project



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2 Hardy Street, Beverly

Small-scale projects:

- Too small for use of LIHTC – limited funding sources
- More expensive to manage, higher operations costs
- Takes as much work by the non-profit to develop 6 units, as to develop 60
- The stars need to align

How did the municipality work with us?

- Clear zoning path with Inclusionary Zoning and Special Permit
- Planning department understood benefit of deeper affordability (30-50% AMI units versus 80% AMI units)
- Substantial funding (almost $100K/unit), committed early
- Providing support letters
- Design Review Board: Design changed to flat roof to accommodate solar panels, required detailed review (could have been a stumbling block, but wasn't)

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CASE STUDY 2

Anchor Point, Beverly

Regional Planning

- New construction
- 77 family units
- 100% affordable
- 20% of units for homeless families
- EOHLC 9% LIHTC
- Two Phases

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Anchor Point, Beverly

- 77 units (2 Phases)
- Family housing (mix of two- and three-bedroom units)
- 20% of units for homeless families
- Supportive services on-site
- Central Beverly, vacant site
- New construction
- Total Development Cost (TDC) Phase 1, 38 units: $19,491,276
- 9% LIHTC Financing
- Coordinated with MassWorks street and intersection improvements
- Zoning: 40R Smart Growth Overlay
- Phase 1 complete, leasing up

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Anchor Point Phase 1, Beverly: 9% LIHTC Financing

Sources		Uses	
Local Funding: CPC, HOME, etc.	$770,613	Site Acquisition	$1,771,999
Federal Low-Income Housing Tax Credits (LIHTC), allocated by EOHLC	$7,950,705	Construction Cost (Hard Cost)	$12,419,855
State LIHTC (EOHLC)	$1,640,000	Development Expenses (Soft Costs): Architecture and Engineering, Permitting, Legal, Construction Loan Interest, Fees	$3,282,760
State Executive Office of Housing and Livable Communities (EOHLC) Funding: "Soft" Debt	$4,325,000	Developer Overhead and Fee	$1,764,746
Other Affordable Housing grants and programs	$0	Capitalized Reserves (Operating, Replacement, Lease-Up)	$400,000
Conventional Mortgage Debt (Perm Loan)	$4,300,000		
Deferred Developer Fee	$147,085		
Seller Note and Phase 2 Bridge Loan	$504,958		
Total:	$19,638,361	Total:	$19,638,361

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Anchor Point, Beverly

Funding limitations of State programs:
- Had to break into two phases of housing (not ideal)

The Lighthouse Center, “Phase 3”
- Envisioned as a hub for providing services, activities to the families at Anchor Point
- 1st Floor: On-site daycare, management and services offices, maintenance
- 2nd Floor: Multi-purpose room, kitchen, classroom/meeting room
- 3rd Floor: HCP Main Office
- Playing field, basketball, pickleball, patio, playground
- Not supported by housing funding, requires private philanthropy

MassWorks
- Grant awarded to City for adjacent intersection and sidewalk work

“Will I ever get to live there? This place sounds like it’s too good to be true. My kids would be so happy and safe there. I can get on my feet. Please build it quickly. We need this place today.”

- Andrea, mother of two,currently homeless living in a local shelter, said in an Anchor Point focus group

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Anchor Point, Beverly

40R Zoning
- Innovative zoning that benefits the City financially
- Required **political will and leadership** from City Council and Mayor
- Directs multi-family housing where the City wants it

Regional planning: MOU (Memorandum of Understanding)
- Beverly is above 10% on Subsidized Housing Inventory, but Mayor and City leadership know and respond to the need for affordable housing.
- **Regional MOU among Beverly, Salem and Peabody to each provide affordable housing, particularly for homeless households**

How did the municipality work with us?
- Committing local funding early
- Clear zoning path through 40R
- Design Review: understanding design changes necessitated by budget (no balconies)
- Public, political support for homeless housing through

BUILDING A FROM SOHIER ROAD

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Affordable Housing Finance Take-Aways

- Projects take multiple sources to achieve: Local, State, Federal, grants and private market, **all working together**
- All funders have their own project requirements that the developer must meet
  - Size
  - Population
  - Sustainability features
- It's a marathon, not a sprint: not unusual to take 5+ years to get a project funded and construction started.
- Most affordable housing funding sources are constrained and highly competitive
- Land cost (and allowed uses) are critical in determining a project's feasibility

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