

March 21-22, 2024 | InterContinental, Boston MA

Getting Started: Assessing the Market, Working with Your Tax Credit Agency, and Understanding the Development Process

IPED's Learn the Basics: Housing Tax Credits 101



Our Speakers

Getting Started: Assessing the Market, Working with Your Tax Credit Agency, and Understanding the Development Process



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IPED LEARN THE BASICS: HOUSING TAX CREDITS 101

**Getting Started: Assessing the Market, Working with
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The Lender Perspective



Massachusetts Housing Finance Agency ("MassHousing")

The Commonwealth's Affordable Housing Bank

- Quasi-public state agency created by statute in 1966;
- Commenced operations in 1968, first loans made 1969
- Provides construction, bridge, and permanent senior mortgage financing
- Tax-exempt and taxable sources of funds
- Conduit Financing – tax-exempt sources
- Subordinate Loans – Opportunity Fund
- Commonwealth Builder Program
- Massachusetts Affordable Housing Trust Fund – Administrator



MassHousing Loan Programs – Tied to Major HUD Initiatives

MassHousing loan programs tied historically to federal programs:

- Section 236 Program – uninsured loans (interest subsidy)
(also Flex Subsidy, Rent Supp, and RAD Programs)
- Section 202 Program
- Section 8 Rental Subsidy
- Low Income Housing Tax Credits
- HOPE VI Program
- CHOICE Neighborhood Program
- CDFI Capital Magnet Fund Program
- ARPA Funds



MassHousing Loan Programs – Tied to Major State Initiatives

MassHousing loan programs also tied historically to state programs:

- Section 13A (interest subsidy)
- SHARP
- MRVP – Massachusetts Rental Voucher Program
- Subordinate Loan Programs (MassDocs), including:
 - Affordable Housing Trust Fund (AHTF)
 - Housing Stabilization Fund (HSF)
 - HOME (state & local)
 - Community Based Housing (CBH)
 - Facilities Consolidation Fund (FCF)
 - Commercial Area Transit Node Housing Program (CATNHP)
- M.G.L. c. 40B (“anti-snob zoning”)
- State LIHTC



MassHousing Loan Programs – Alignment w/ Federal & State Initiatives

- HUD - Green and Resilient Retrofit Program (GRRP)
- EOHLC - Climate Ready Housing
- DOER - Low-and Moderate-Income Housing Decarbonization Program
- Massachusetts Community Climate Bank
- Massachusetts Affordable Homes Act



MassHousing

Roles as Lender and/or Issuer

- MassHousing acts as first mortgage lender AND as issuer of either tax-exempt or taxable securities to finance its loans.
- The Commonwealth of Massachusetts Executive Office of Housing and Livable Communities (EOHLC) is the credit allocating agency for Massachusetts.
- This divided structure is unlike many/most states, where these functions are typically unified within a single agency.



How are LIHTC Developments Financed?

Equity

- LIHTC (9% and 4%) Syndication Equity
- Other (e.g. federal historic credits)

Debt

- Senior Mortgage (Construction and/or Permanent, with or without Bridge Financing)
- Subordinate Mortgage Financing
 - Federal, State and Local Government Loan Programs
 - Seller Financing
 - Sponsor Acquisition Loans
 - Deferred Developer Fee



Which Comes First?

How much debt?

How much equity?

How much affordability?

All three are tied together. The determination of how much affordability drives the determination of how much debt (and forms of debt) and equity is required.



Senior Loan – Pre-Commitment

Getting in the Pipeline

Developers communicate with EOHLC

- Allocation and awarding of subordinate sources

Developers contact MassHousing:

- Share project plans
- Ask questions about underwriting
- Discuss timing
- Request feedback or letters of interest

Origination Team develops and manages a pipeline, taking into consideration:

- Preservation Matrix
- Resources needed – state, local, MassHousing, other
- Readiness to proceed
- Other priorities



Senior Loan – Pre-Commitment

Structuring a Transaction

Understanding Project Elements

- Ground lease
- Condominium structure
- Commercial space
- Homeownership units
- Construction & lease up timeline

Setting the Role of Each Stakeholder

- Construction debt
- LIHTC equity provider
- Other development team members



Senior Loan – Pre-Commitment

Structuring a Capital Stack

Sizing the Senior Loan

- Rental subsidies
- Rent setting
- Operating budget review
- Debt execution

Compiling Diligence

- Development team members
- Entitlements
- Necessary subsidies



Senior Loan – Pre-Commitment

Moving toward Commitment and Closing

Internal Review

- Design and Construction
- Appraisal and Marketing
- Rental Management
- Diversity and Inclusion

Additional Review

- Loan Committee and Board
- HUD Risk Share



Senior Loan – Post-commitment and Closing

Drafting of Loan Documents – principal documents include:

- Loan Agreement(s)
- Note
- Mortgage
- Regulatory Agreement
- Residential Compliance Agreement
(aka Bond Regulatory Agreement)

Tax Exempt Debt – requires:

- Borrower's Tax Certificate
(with 95/5 and 50% Test Letters)



Senior Loan – Post-commitment and Closing

Lender Diligence – Borrower Organizational Documents

Review of Partnership/Company Documents:

- Structure and Timing of Capital Contributions
- Review of Repurchase Provisions
- Reserve Requirements
- Cash Flow Waterfall
- Payment of Developer Fee
- Incorporation of MassHousing Rider
(re: primacy of Loan Documents)



Senior Loan – Post-commitment and Closing

Lender Diligence – Property Management

- Operating Budget
- Management Agreement
- Affirmative Fair Housing Marketing Plan
- Tenant Selection Plan
- Other (e.g. tenant relocation plans, supportive services, commercial leases, etc.)

Senior Loan – Post-commitment and Closing

Lender Diligence – Construction

- Architect's Contract
- Scope of Work/Plans and Specifications
- Construction Cost and Contingencies
- Construction Contract

Other Diligence Materials

- Environmental
- Title and Survey



Senior Loan – Post-commitment and Closing

Closing Diligence – Lender’s Perspective:

The Senior Lender’s interests are both aligned with, and potentially adverse to, the other parties in the transaction:

- Developer/Sponsor
- Investor
- Subordinate Lender(s)
- Government Entities



Senior Loan - Construction

Construction/Rehabilitation Phase

- Construction Monitoring

Senior Loan – Completion

- Construction Completion
- Sustaining Occupancy
- Cost Certification
- Supplement to Borrower's Tax Certificate
(with updated 95/5 and 50% test letters)
- Permanent Loan Conversion (including payoff of construction and/or bridge loans and Risk Sharing Endorsement)

Lender's Perspective: Things to Consider

1. Simplify structures (entities, funding schedules) where possible.
2. Be realistic with schedule/timing – don't continue to compress a schedule to meet a target date if benchmarks are not achieved.
3. Review and refine diligence materials (draft documents, title proformas, surveys, etc.) before they are shared with a wider audience.
4. Seek to understand the institutions and programs that you're working with and try to recognize potential conflicts.
5. If you need help or discover a potential conflict, reach out to agency/lender to discuss how it might be resolved.
6. Keep a positive attitude – everyone involved wants the same goal – to create affordable housing.



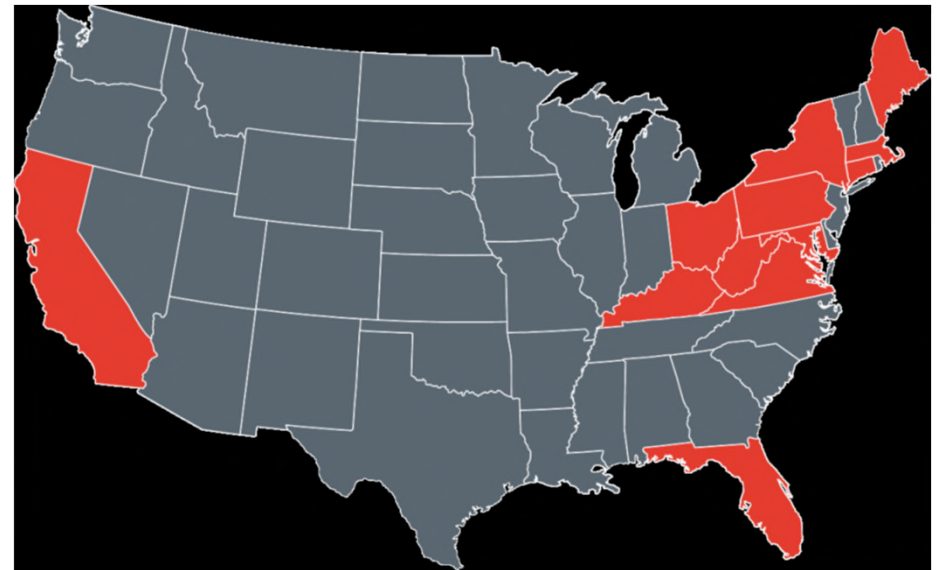
Getting Started: Understanding the Fundamentals of Affordable Housing Development

IPED Conference
March 22, 2024



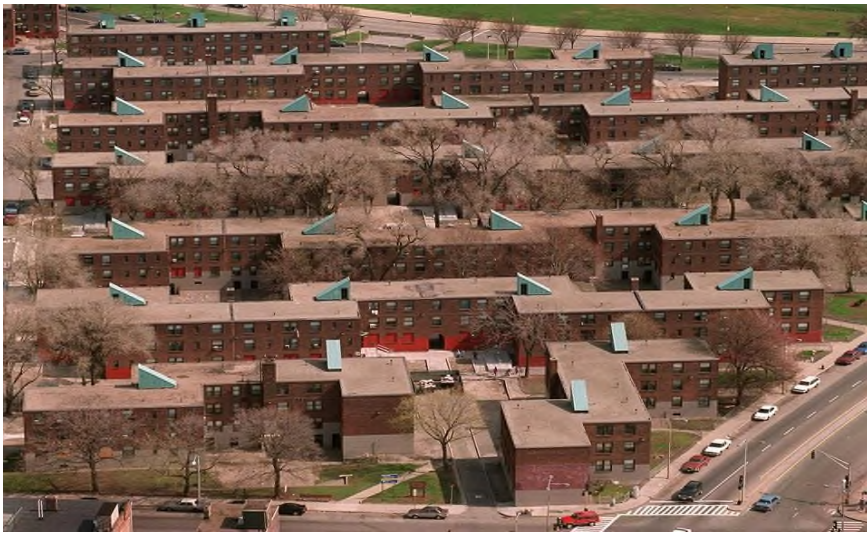
Beacon Communities

- Beacon Communities Development is a full-service multifamily residential development and acquisitions company with offices in Massachusetts, New York, and Pennsylvania.
- Nearly 150 communities in 11 states and the District of Columbia.
- 10,000+ units of multi-family rental – mixed income.
- Areas of focus:
 - New Construction
 - Adaptive Reuse of Historic Buildings
 - Redevelopment of Distressed Public Housing
 - Renovation of existing occupied affordable housing properties
- Management arm, Beacon Residential Management, manages nearly 150 communities and 19,000 apartments across the Northeast.



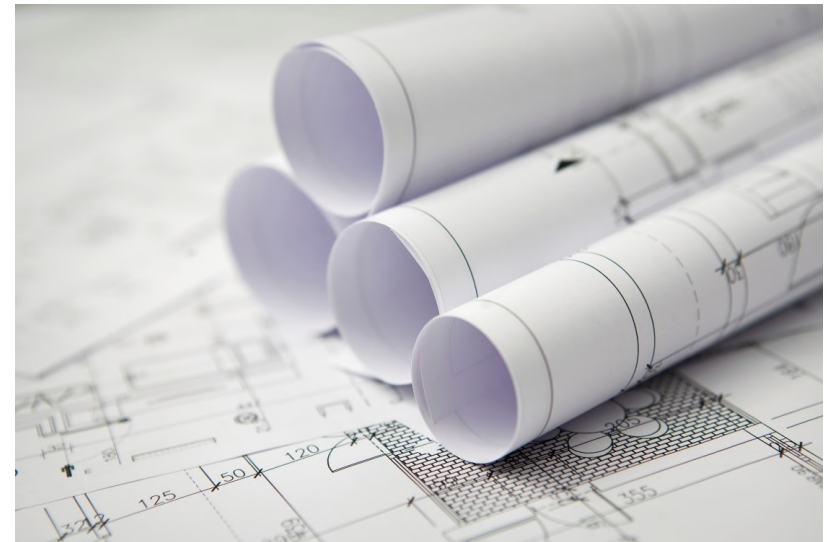
Line-by-Line Funding Sources

Old Colony – Boston Housing Authority – Phase 3C



- Built in 1941
- 15 acres of land near the South Boston waterfront
- 22 three story buildings housing 873 low income units
- Redeveloped in multiple phases .
- 2009 the Boston Housing Authority created the Old Colony Master Plan
- Beacon is chosen as the lead developer to design and create and restore Old Colony community.
- Phases One and Two included 285 new sustainably-designed healthy apartment homes and the Tierney Learning Center
- The broader Old Colony Phase Three includes the demolition of the 8 existing buildings and new construction of 4 four-story elevator buildings comprised of 305 apartments.
- Phase Three A and Phase Three B will provide 1:1 replacement for the demolished units, while Phase Three C will provide 55 new senior units.

Raw Materials & Assumptions



Old Colony – Boston Housing Authority

- Built in 1941
- 15 acres
- Phase 3C - 55 **New** Senior Units
- 99 Year Ground Lease from BHA



South Boston Market Analysis

- Market demand for affordable housing is strong
- Market Study, Community and Local government officials see need for affordable senior housing
- Absorption should be quick

100% Complete Architectural Plans

- Pricing from a General Contractor
- Value Engineer
- \$495,000 total development cost/unit and TDC of \$27 million

Sources	Total
Permanent Loan/Hard Debt	
4% Low-Income Housing Tax Credit Equity	
State/City Soft Debt	
Deferred Developer Fee	
<i>Total Sources</i>	<i>\$0</i>
<i>Total Uses</i>	<i>\$27,000,000</i>
<i>Gap</i>	<i>(\$27,000,000)</i>

Permanent Loan/Hard Debt

Considerations/Assumptions

- **Unit Mix:** Look at your market study and state housing agency QAP/guidelines.
- **Revenue**
 - Discount market rents by 10%.
 - For affordable units, use rents published by HUD.
- **Expenses**
 - BRM is heavily involved in forecasting expenses for new development
 - If BRM does not have sufficient comps, will look at expenses for comparable properties
 - Typically \$9,000 - \$10,000 per unit/year.
- **Trending Assumptions**
 - Revenue: 2% per year
 - Expenses: 3% per year
- **Vacancy**
 - Market-Rate: 7%
 - Affordable: 5%
- **Debt Service Coverage: 1.15 in Year 15**

	1 BR	2 BR	3 BR	Total	Percentage
PBV - 60% of AMI – Low-Income	49	0	0	49	90%
PBV - 30% of AMI – Extremely Low Income	6	0	0	6	10%
Total	55	0	0	55	100%

Permanent Loan/Hard Debt

What is a permanent loan/hard debt?

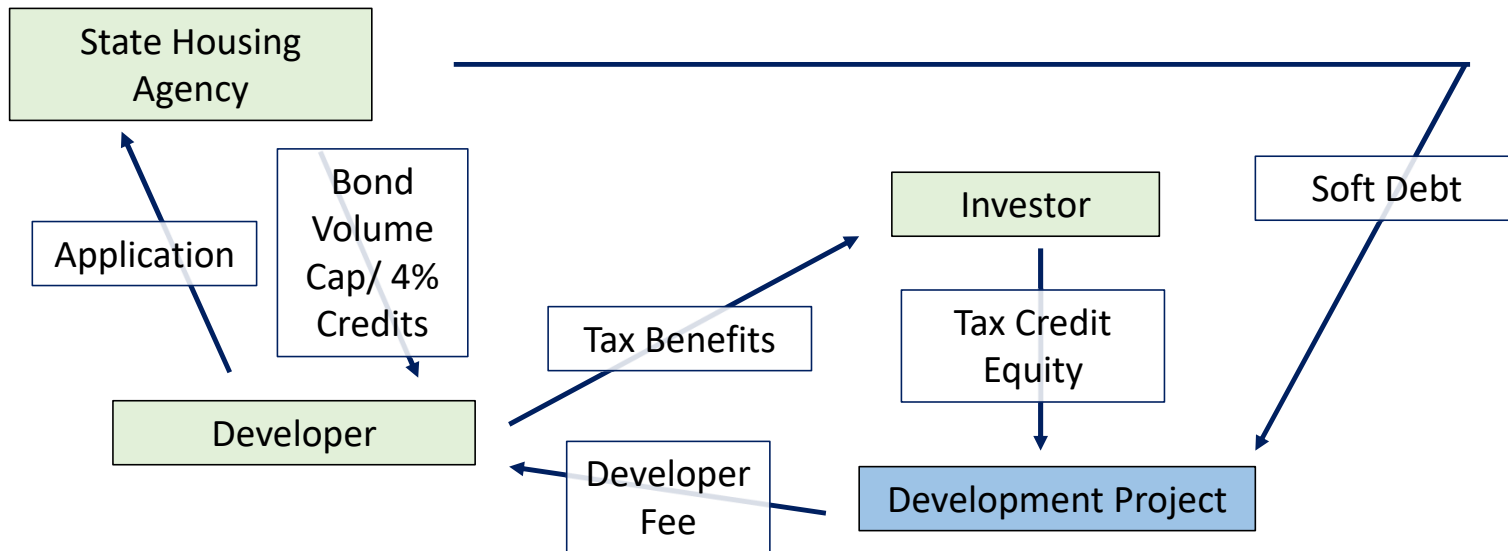
- Funding from a private bank or public agency (MassHousing/NYS HFA)
- Market-rate interest rate or for bonds a tax exempt interest rate
- Fully amortizing
- Principal and interest payments are made regularly so that the loan is paid off in full at end of term, usually 30 to 40 years

Sources	Total
Permanent Loan/Hard Debt	\$4,100,000
4% Low-Income Housing Tax Credit Equity	
State/City Soft Debt	
Deferred Developer Fee	
Total Sources	\$4,100,000

Total Uses	\$27,000,000
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Gap	(\$22,900,000)
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Tax Credit Project Flow Chart



4% Low-Income Housing Tax Credit Equity

Considerations

- Accurate Basis will be important to calculate your annual credit amount
- Will need soft funds from the state in high-cost markets to offset funding gap
- Which tax credit investor has Community Reinvestment Act (CRA) need in this area?
- How strong will my tax credit pricing be?

Assume

- \$1,500,000 allocation annually over ten years
- Pricing of \$1.02 per credit

$\$1,013,555 \times 10 \text{ years} \times \$1.02 \text{ per credit} =$
 $\$10,388,261 \times 99.99\% = \$10,337,227$

Sources	Total
Permanent Loan/Hard Debt	\$4,100,000
4% Low-Income Housing Tax Credit Equity	\$10,337,227
State/City Soft Debt	
Deferred Developer Fee	
Total Sources	\$14,437,227
Total Uses	\$27,000,000
Gap	(\$12,562,773)

State/City Soft Debt

Considerations

- What is soft debt?
 - Competitive funding sources allocated by City or State
 - Low- or no-interest loan
 - Non-amortizing
 - Principal and interest (if any) are paid off at end of term, usually 40-50 yrs or some portion is paid from available cash flow
- Soft Debt Sources
 - State Level (Massachusetts): Affordable Housing Trust Fund and Housing Stabilization Fund (New York) Housing Trust Fund, Local: HOME Funds
- Consider per unit and/or per project caps
- Any set asides that come along with funds

Assume

- \$12,300,000 in BHA Loan Funds (through City of Boston IDP)

Sources	Total
Permanent Loan/Hard Debt	\$4,100,000
4% Low-Income Housing Tax Credit Equity	\$10,337,227
State/City Soft Debt	\$12,300,000
Deferred Developer Fee	
Total Sources	\$26,737,227
Total Uses	\$27,000,000
Gap	(\$262,773)

Deferred Developer Fee

Considerations

- Developer fee is set by the state housing agency QAP
- Deferred developer fee is a portion of the developer fee that is paid by the property’s cash flow
- State housing agencies like to see that developers have “skin in the game”

Sources	Total
Permanent Loan/Hard Debt	\$4,100,000
4% Low-Income Housing Tax Credit Equity	\$10,337,227
State/City Soft Debt	\$12,300,000
Deferred Developer Fee	\$262,773
Total Sources	\$27,000,000
Total Uses	\$27,000,000
Gap	(\$0)

The Deal Works!

Sources	Total
Permanent Loan/Hard Debt	\$4,100,000
4% Low-Income Housing Tax Credit Equity	\$10,337,227
State/City Soft Debt	\$12,300,000
Deferred Developer Fee	\$262,773
Total Sources	\$27,000,000
Total Uses	\$27,000,000
Gap	\$0

The Final Project! (Multiple Phases)









Anne M. Lynch Homes at Old Colony - Phase 4, Phase 5, Phase 6
Boston, MA | March 20, 2021 | Beacon Communities Services LLC | 18277 | © The Architectural Team, Inc.

Aerial Perspective



Anne M. Lynch Homes at Old Colony - Phase 4, Phase 5, Phase 6
Boston Planning & Development | Boston, MA | November 5, 2020 | Beacon Communities Services LLC | 18277 | © The Architectural Team, Inc.

Perspective View



Future Phases



Anne M. Lynch Homes at Old Colony - Phase 4, Phase 5, Phase 6

Doston Housing Authority - Boston, MA | November 5, 2020 | Deacon Communities Services LLC | 181277 | © The Architectural Team, Inc.

Perspective View

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Getting Started: Legal Issues

Term Sheets

- / Price and capital contributions
- / Deferred developer fee
- / Guarantees
- / Reserves
- / Right of First Refusal/Option

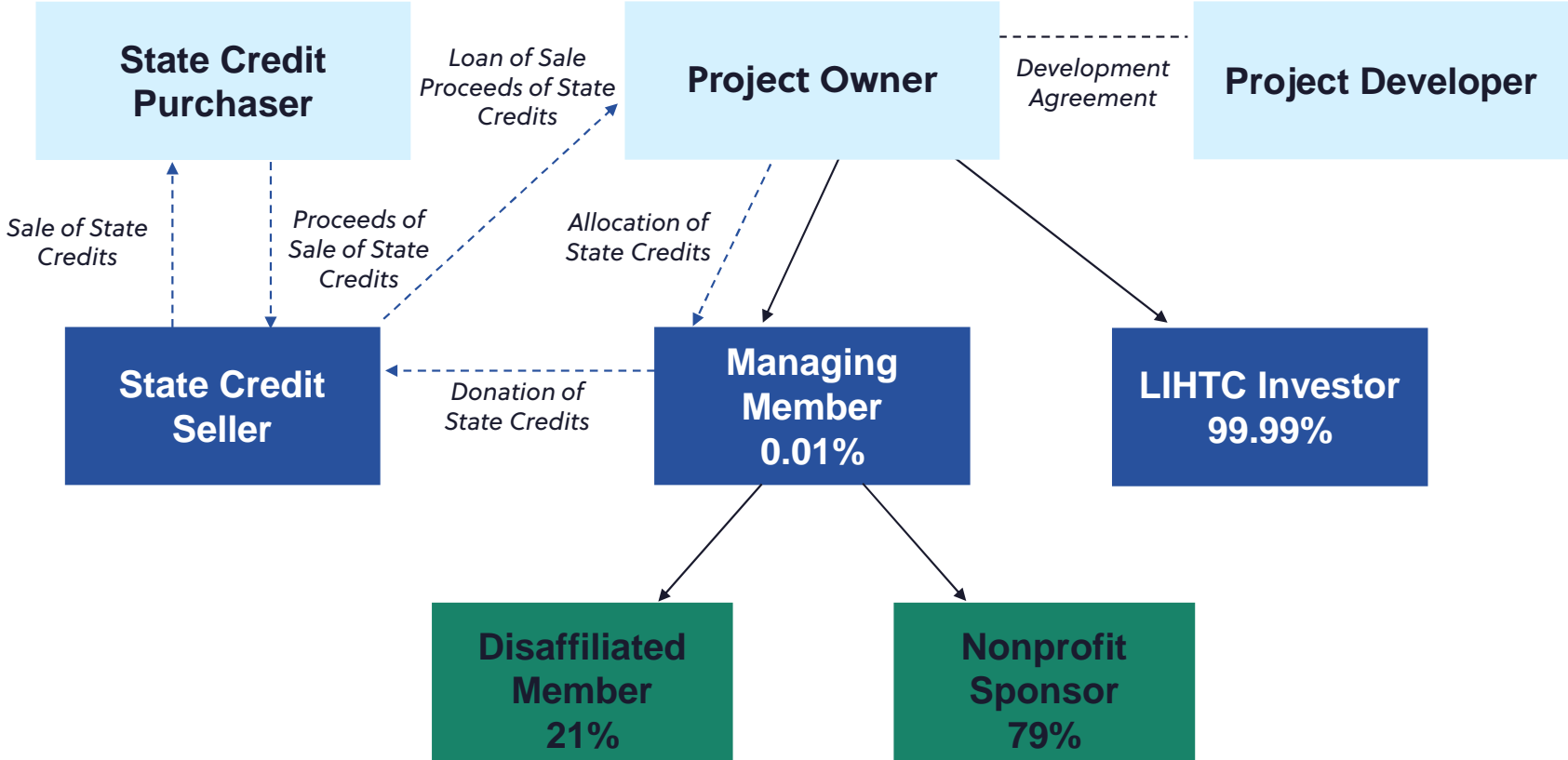
Title/Survey

- / Chain of title
- / Restrictive covenants
- / Existing debt/subordination issues

Deal Structure

- / How do sources impact structuring?

Organizational chart



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Questions?



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Thank you!

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