

Multifamily Finance Strategies

MIND THE GAP

Strategies to Replace Missing Capital

I. Consider incorporating other Federal Tax Credits

- A. Historic Rehabilitation
- B. New Markets Tax Credits
- C. Renewable Energy
- D. Opportunity Zone

II. Consider State Incentive Programs

- A. State LIHTC Programs
- B. Brownfield Incentives
- C. Renewable Energy
- D. Conservation Easements

III. Expense Reduction – Revenue Enhancement

- A. Energy Efficiency
- B. Property Tax Abatement
- C. Income Averaging
- D. Cell Phone Tower

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Multifamily Finance Strategies

CAPITAL MAGNET FUND (CMF)



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BACKGROUND

- The Capital Magnet Fund (CMF) was established through the Housing and Economic Recovery Act (HERA) of 2008
- Administered by the Community Development Financial Institutions Fund (CDFI Fund)
- Funded, along with the Housing Trust Fund, by Fannie Mae and Freddie Mac

APPLICANT ELIGIBILITY

- Must have been in existence as a legally formed entity for a period of at least 3 years prior to the application submission
- Must be certified as a CDFI by the CDFI Fund, OR
- Be a nonprofit organization having as one of its principal purposes the development or management of affordable housing

NONPROFIT ORGANIZATION

The nonprofit must demonstrate:

- Its articles of incorporation, by-laws, or other board-approved documents evidence that the development or management of affordable housing are among the organization's principal purposes
- At least one-third of the organization's total assets are dedicated to the development or management of affordable housing



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CMF AWARDS

2010	\$80 million to 23 organizations (Congress Appropriation)
2016	\$91.5 million to 32 organizations (23 CDFIs and 9 nonprofits)
2017	\$120 million to 40 organizations (25 CDFIs and 15 nonprofits)



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FY 2017 STATE HFA AWARDEES

Colorado Housing and Finance Agency	\$ 7,100,000
New Mexico Mortgage Finance Agency	\$ 3,600,000
Pennsylvania Housing Finance Agency	\$ 4,000,000
Rhode Island Housing	\$ 4,700,000
Wisconsin Housing and Economic Development Authority *	\$ 5,238,656
* Also received FY 2016 award	



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FY 2017 OTHER AWARDEES

Cinnaire Lending Corporation	Mercy Loan Fund
Enterprise Community Loan Fund	Ohio Capital Finance Corp.
Homes for America	VOA National Services
LISC	

ELIGIBLE PURPOSES

- Development, preservation, rehabilitation, and/or purchase of affordable housing for primarily Extremely Low Income (30% AMI), Very Low Income (50% AMI) and Low Income Families (80% AMI)
 - > Can be either rental housing or homeownership
- Economic Development Activities (EDA)
 - > The EDA must support affordable housing



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ELIGIBLE PURPOSES

- No more than 30 percent of a CMF Award may be used for Economic Development Activities
- The Recipient may not use more than 5 percent of the CMF Award for Direct Administration Expenses

ELIGIBLE ACTIVITIES

- To capitalize Loan Loss Reserves
- To capitalize a Revolving Loan Fund
- To capitalize an Affordable Housing Fund
- To make Risk-Sharing Loan
- To provide Loan Guarantees

RENTAL HOUSING

- At least 20% of the units must be occupied by families at 80% of AMI or below
- CDFI Fund may require greater low income targeting
 - > In the FY 2017 funding round, the CDFI Fund required that a minimum of 20 percent of the units be targeted to Very Low Income Families (50% of AMI)
- Rent limitations follow LIHTC calculations

RENTAL HOUSING

- Maximum income for CMF housing is 120 percent of AMI
- Cannot discriminate against rental assistance subsidy holders
- Each year during the 10-year affordability period, the tenant's income shall be re-examined
 - > Responsibility of the Recipient

INELIGIBLE ACTIVITIES

- Nursing homes
- Convalescent homes
- Residential treatment centers
- Correctional facilities
- Student dormitories
- Farming activities

INELIGIBLE ACTIVITIES

- NMTC “sin” businesses
 - > Golf course; country club; massage parlor; hot tub facility; suntan facility; racetrack or other facility used for gambling; or any store the principal business of which is the sale of alcoholic beverages for consumption off premises

COMPLIANCE REQUIREMENTS

- Use of Funds
 - > Funds must be committed within 2 years after effective date of CMF Assistance Agreement
 - > Initial disbursement date must occur within 3 years
 - > Project must be completed within five years
- Long term restriction – must maintain affordability for 10 years



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COMPLIANCE REQUIREMENTS

- If any of the CMF dollars are returned during the initial 5-year investment period, they must be redeployed to CMF activities.

PAST AWARD AMOUNTS

- Maximum award allowed each year is equal to 15% of the CMF funds available the that FY
- 2016 Results
 - > Maximum award allowed \$13.7 million
 - > Maximum awarded \$5.5 million
 - > Average amount awarded \$2.9 million



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PAST AWARD AMOUNTS

- 2017 Results
 - > Maximum award allowed \$17.9 million
 - > Maximum awarded \$7.5 million
 - > Average amount awarded \$3 million

SF-424 MANDATORY FORM

- First step in process
- Submitted electronically via the Grants.gov portal
- Comprised of documents, forms, and assurances
- Must be approved prior to submission of CMF Application

CMF APPLICATION

- Submitted Electronically via the Award Management Information System(AMIS) website
- Applicant must already be registered in HUD's System Award Management (SAM) portal
- The application is comprised of
 - > Applicant information
 - > Part 1 – Business Strategy and Leveraging Capacity (40 points)

CMF APPLICATION

- > Part 2 – Community Impact (35 points)
- > Part 3 – Organization Capacity (25 points)
- > Appendices and other attachments, including sample pipeline projects

FY 2017 TIMELINE

- 06/29/17 – Opening of application round
- 07/28/17 – Deadline for online submission of SF-424 Mandatory Form
- 08/31/17 – Deadline for online application submission
- 03/16/18 – CMF awards announced

LESSONS LEARNED

- Do not try to use the funds for something that you have not done before. Must have experience
- Must demonstrate empirical evidence supporting statements made
- Alignment of information throughout application extremely important
- Must specifically identify individuals that will be doing the work and they must have the proper experience

LESSONS LEARNED

- Demonstrate a strong pipeline of developments
- Submit the SF-424 as early as possible to provide sufficient time to resolve any submission problems as the review may take a few weeks to complete
- HFAs make good candidates because of experience in deploying affordable housing funds, information collected, and studies performed.

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CASE STUDY:

AVONDALE TOWN CENTER

CINCINNATI, OH



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CASE STUDY

AVONDALE TOWN CENTER

- Final development phases of HUD Choice Neighborhoods Implementation (CNI) Grant
- Two concurrent developments including 11 funding partners (HFA allocator, tax credit investors, commercial lender, subordinate lenders, grantors, enterprise loans)
 - New Avondale Center LLC (NMTC)
 - Avondale Town Center North (LIHTC)





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CASE STUDY

AVONDALE TOWN CENTER

- \$46MM combined TDC
- NMTC:
 - 3 buildings and site improvements
 - 73,000 NSF of retail/commercial
 - 69 rental apartments (14 @ 80% AMI, 55 @ 120% AMI)
- LIHTC:
 - 2 floors atop an NMTC building in air rights parcel
 - 50 rental apartments (8 @ 30% AMI, 42 @ 60% AMI)



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AVONDALE CHOICE NEIGHBORHOODS



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**AVONDALE CHOICE
NEIGHBORHOODS**



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AVONDALE TOWN CENTER



Goals for Transformation:

- Activate vacant and underutilized property
- Introduce healthy mix of incomes
- Re-establish housing market with new, quality apartments
- Revitalize business district
 - Amenities and services
 - Economic development & local/minority-owned businesses
 - Establish vibrant, walkable “Neighborhood Center”

LIHTC SOURCES

- **LIHTC equity**
 - **CNI Loan**
-
- Focused on straightforward capital stack due to unconventional air rights structure
 - Added Deferred Developer Fee to meet HFA requirement as part of “credit fix” strategy in 2017

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LIHTC SOURCES & USES

		Total	per unit							
Source										
Hard Debt				Rate	Fees	MIP	Term	Amort	Const.	Ann. PMT+Fees
{First Mort}				6.00%	-	-	17	30	7.19%	0
{Second Mort}				0.00%	-	-	-	-	-	0
{Third Mort}				0.00%	-	-	-	-	-	0
Hard Debt Subtotal				-	-	-	-	-	-	-
Soft Debt				Rate	Term	%CF	CF order	Cpnd Int		
Choice Neighborhoods L				2.60%	40	100%	1	y		
{Soft 2}				5.00%	40	-	2	y		
Accrued Interest				0.00%	40	-	10	y		
Deferred Dev Fee				0.00%	40	100%	-	-		
Soft Debt Subtotal				965,142	19,303					
Equity				Annual Credit	Years of Credit	Total Credit to LP	Price/\$	LP Shares		
Fed LIHTC				1,060,000	10	10,596,940	1.0377	99.99%		
Fed HTC				-	1	-	0.3300	99.99%		
State LIHTC				-	5	-	0.6000	100.00%		
State HTC				-	1	-	0.6000	100.00%		
{Other Equity}				-	-	-	-	-		
{Other Equity}				-	-	-	-	-		
{Other Equity}				-	-	-	-	-		
GP Contribution				100	2					
Equity Subtotal				10,996,620	219,972					
Uses										
acquisition				100	2					
site work				-	-					
construction				8,784,456	175,689					
soft costs				1,022,145	20,443					
financing costs				617,568	12,351					
reserves				601,187	12,024					
developer fee paid				797,440	15,949					
developer fee deferred				140,866	2,817					
developer fee other				-	-					
Total Uses				11,963,762	239,275					

NMTC SOURCES

- **CDFI Commercial Loan:** sized w/80% LTV; flexible underwriting
- **CNI Loans:** sourced from 2 different HUD BLI; lender is grantee subject to HUD approval and regulatory guidance
- **City Loan:** City capital funds
- **Sponsor Loan:** Funds from enterprise-level loan to TCB; extremely flexible 10 year term; subject to repayment
- **CNI Program Income:** lender is grantee; (slightly) less regulatory guidance
- **City Acquisition Grant:** acquisition payment contributed back into project

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SOURCES & USES

	Total	per GSF	
Sources			
QLICI Loans			Rate Term
QLICI Loans	31,611,317	224	1.93% 7
{other}	0	-	- 7
QEI	31,611,317	224	
Soft Debt			
	0	-	3% -
Choice Residential unleveraged	385,590	3	- 1
	0	0	
Soft Debt Subtotal	385,590	3	
QALICB Equity			
QALICB Equity	1,364,500	10	
Total Sources	33,988,498	241	
Uses			
acquisition	1,377,000	10	
site work	-	-	
construction	21,548,459	153	
soft costs	5,752,421	41	
financing costs	1,259,751	9	
reserves	1,406,097	10	
developer fee paid	2,644,770	19	
Total Uses	33,988,498	241	

Leveraged Sources			
	amt	rate	term
LISC Loan	7,000,000.00	6.15%	7
Choice Nbhd--CCI	1,937,427.00		
Choice Nbhd-- Residential	7,773,199.78	0%	7
City Capital Funds	3,000,000.00	0%	7
TCB	721,386.00	2%	7
	-	-	
Choice Program Income	1,600,758.22		
Total Leveraged Sources	22,032,771.00		
Less Fees	(337,505.00)		
Total QLICI	21,695,266.00		

CDE Loan A (debt piece) 21,695,266
 CDE Loan B (equity piece) 9,916,047
 Total 31,611,313

MIXED FINANCE CONSIDERATIONS

- More sources => more time => more cost
- Bifurcated costs and “taint”
- Know the underwriting requirements and processes; identify conflicts up front
- Key documents in “twinned” deals: Joint Construction Management Agreement, Declaration of Easements & Covenants, and Cost Allocation Agreement
 - Establish clear & transparent methodology and use precedent where possible

MIXED FINANCE CONSIDERATIONS

- Know how different parties evaluate risk (repayment vs. enterprise vs. precedent vs. timing)
- Relatively small sources can have the least flexibility
- Resolve business issues among business contacts and be judicious in all-parties communication
- Consolidate professional services

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