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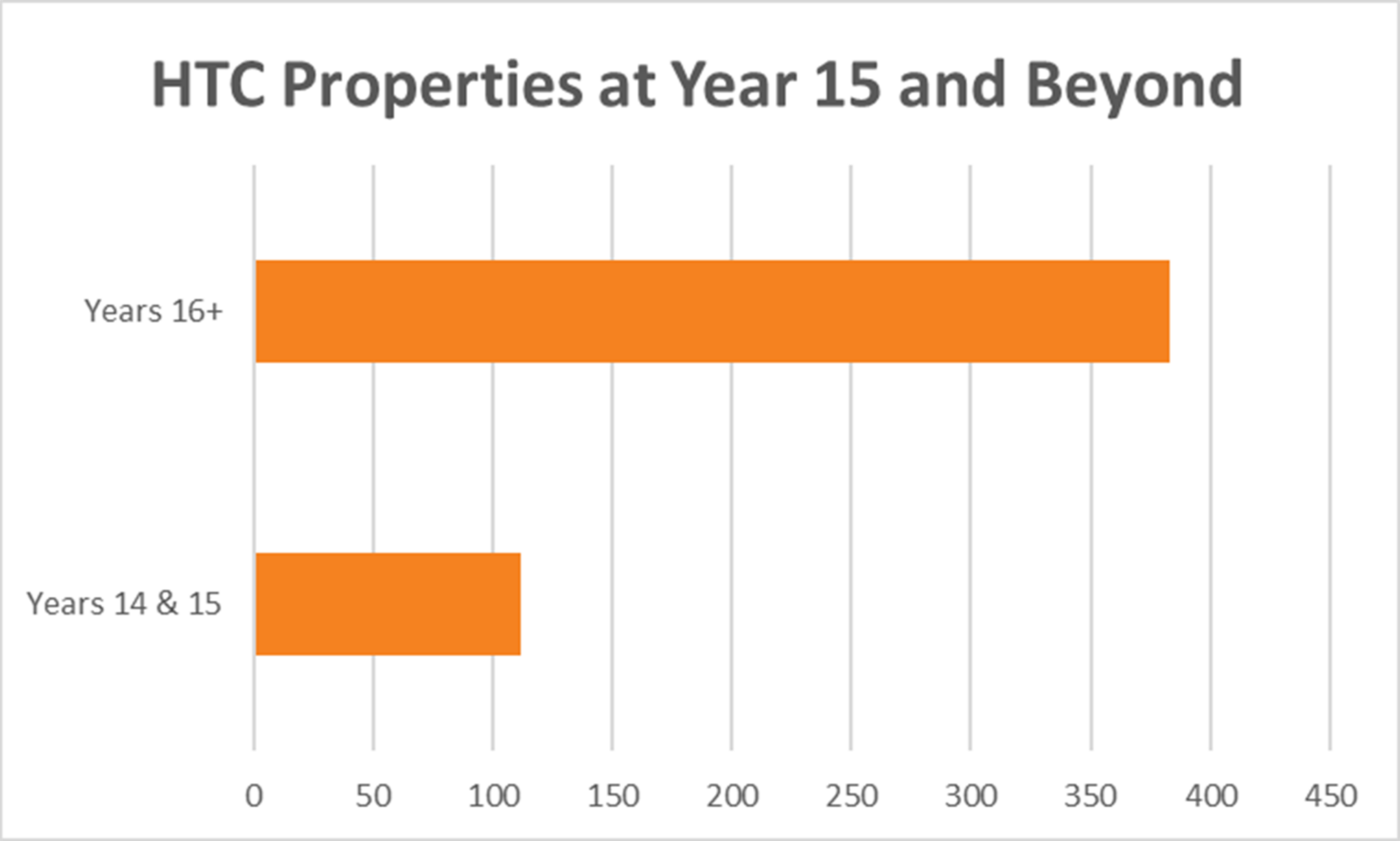
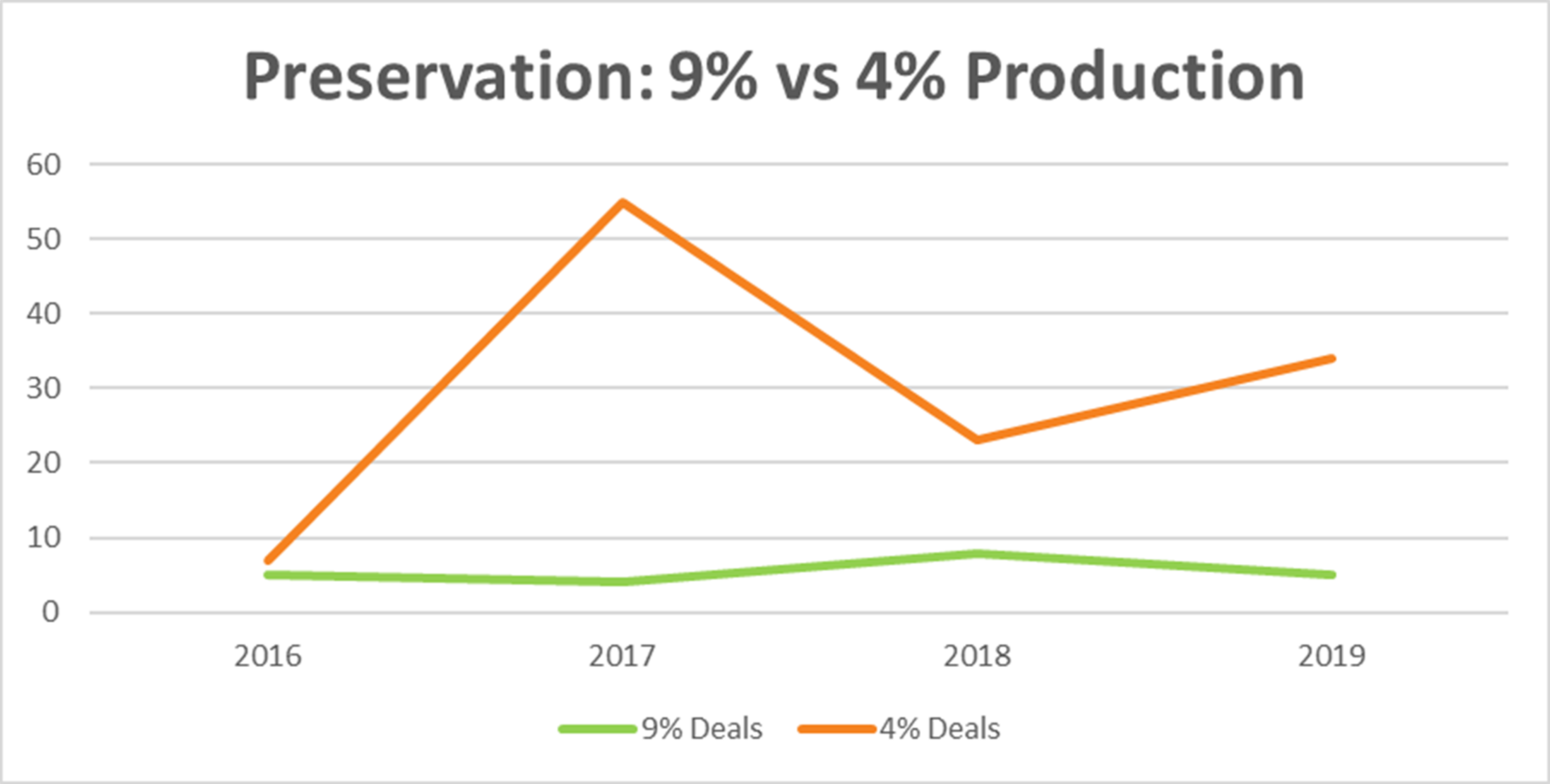
Preservation in Georgia

NCSHA

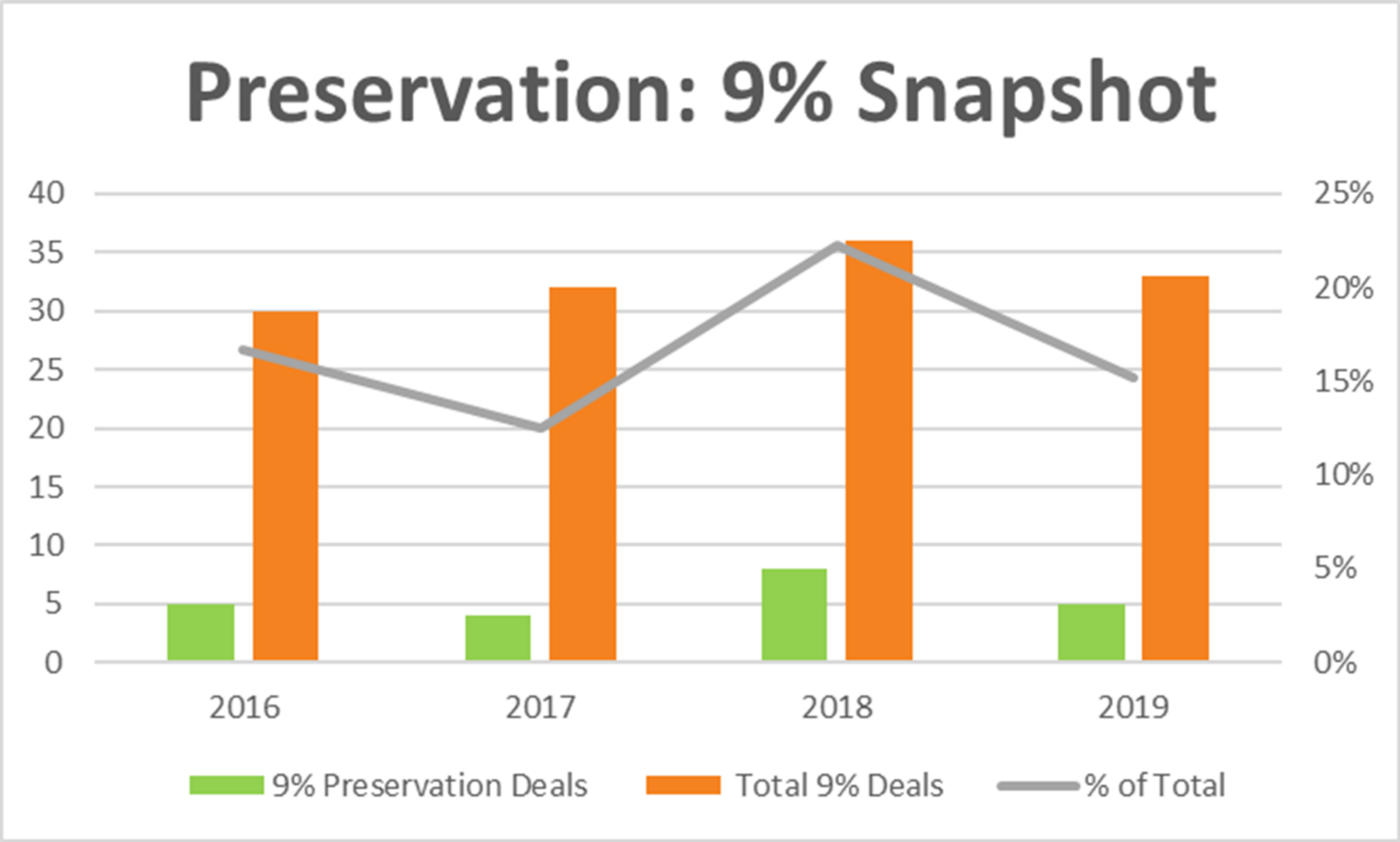
Assessing the Issue



Assessing the Issue



Assessing the Issue



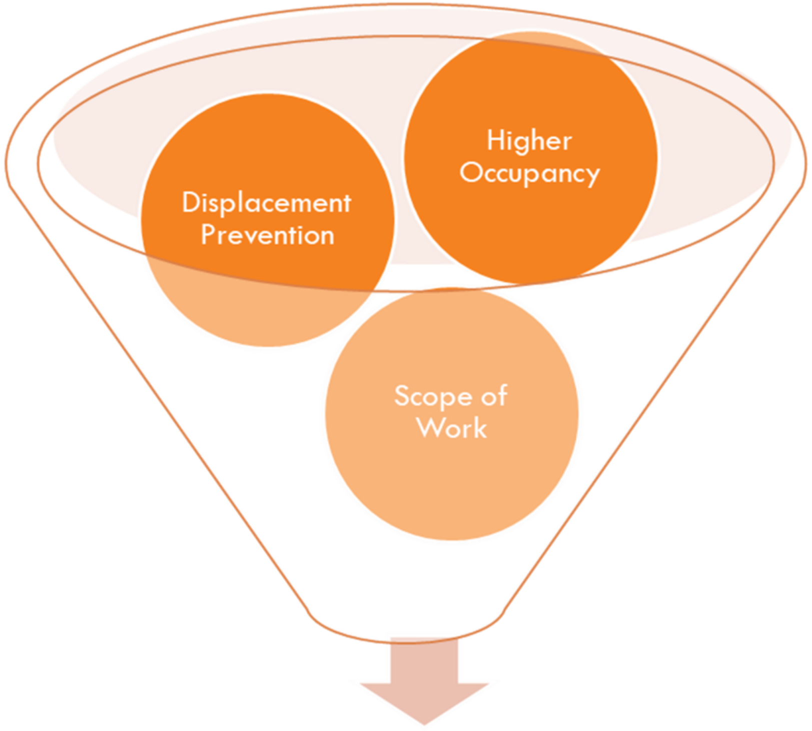
Tools for Preservation

- High fixed costs of 4% make it difficult for smaller properties to rehabilitate
- No current scoring path for targeting properties most at risk of market conversion
- Priorities for existing properties are not the same as priorities for new construction developments, yet both currently compete under the same criteria

Tools for Preservation: Rehab Set-Aside

- Most preservation is done through 4%, and in flex or urban areas
- 9% Awards will fund at least:
  - 1 urban rehab
  - 1 other urban
  - 2 rural deals
- 4% Awards will maintain a 1:1 ratio

Tools for Preservation: Rehab Set-Aside



POINTS!!!

THANK YOU!

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Threats to Long-Term Preservation

Ellen Lurie Hoffman,
National Housing Trust

NCSHA

Threat #1: Qualified Contracts

- As of the end of 2018, **65,500 affordable units** had been lost to the Low-Income Housing Tax Credit (Housing Credit) inventory due to early terminations through qualified contracts.
- Since we have been collecting data on qualified contract losses, **more than 10,000 units have been lost every year**, despite many states establishing policies to mitigate qualified contract losses.
- In 2018, **24** states reported to have received at least one request for a qualified contract.
- Over the years, affordable units have been lost to qualified contracts in **32** states.

Source: NCSHA

Qualified Contracts = Existential Threat

Qualified contracts pose an existential threat to the Housing Credit program itself – not just to individual properties or states.

NCSHA Recommended Practices: HFAs should…

- Require applicants for 9 & 4% Housing Credits to waive their right to a qualified contract.
- Establish disincentives for owners to undertake the qualified contract process for existing developments.
- Formulate other policies to curtail the use of qualified contracts by owners of existing developments, e.g. requiring owners to waive right for transfers.

State Qualified Contract Policies

QC Policies in the 9% Housing Credit Program			QC Policies in the 4% Housing Credit Program		
Requirement to waive right to QC	Incentive to waive right to QC	For how many years beyond the initial 15 year compliance period is the right waived?	Requirement to waive right to QC	Incentive to waive right to QC*	For how many years beyond the initial 15 year compliance period is the right waived?
28 states	**20 states**	**3-35 years**	**27 states**	**7 states**	**5-25**

State Qualified Contract Policies

- States are changing their QAPs to discourage qualified contracts.
- VHDA's 2019-2020 QAP:
  - Requires applicants to waive their right to a qualified contract.
  - Will reject any application containing a principal that has previously requested a qualified contract, on/after 1/1/19.
- NCHFA's 2020 QAP:
  - May disqualify any owner/principal who previously requested a qualified contract in NC.

State Qualified Contract Practices

To deter loss of units, some state FAs are taking approaches outside the QAP:

Require any owners' requests or modifications to property's financial/rent structure to be contingent on waiving the right to a qualified contract

Charging an application fee for work associated with qualified contract processing

Require a 3rd party CNA to verify the qualified contract price – paid for by owner

Require a pre-application for qualified contract requests, to determine owner eligibility

Use qualified brokers to find buyers to purchase properties at qualified contract price

Save Affordable Housing Act (S. 1956/H.R. 3479)

- Lead sponsors: Senators Wyden & Young, Representatives Beyer, Walorski & Neguse
- **Would repeal the qualified contract option** in Section 42 for future developments; &
- **Would correct the statutory price** for purchase of existing properties so that it is based on the fair market value of the property as affordable housing.

Threat #2: Year 15 Disputes

- The Housing Credit program facilitates **partnerships** between mission-driven nonprofit organizations & for-profit investors seeking to benefit from federal tax credits, to generate affordable rental housing for low-income families across the country.
- The program offers the nonprofit partners (as well as government agencies & tenant organizations) **a Right of First Refusal (ROFR) to obtain eventual ownership of the property at a minimum purchase price after 15 years,** once the investor has claimed all Housing Credits & before the program's rent restrictions expire.
- **For most of the program's history, the vast majority of participating nonprofits have secured this transfer right**, exercised it, & obtained full ownership to continue the project as affordable housing in accordance with their missions.

Year 15 Disputes

- Recently, some private firms have begun **systematically challenging nonprofits' project-transfer rights & disrupting the normal exit process** in hopes of generating profits &/or selling the property at market value.
- This has led to troubling **legal disputes and litigation**.
- In such disputes, limited partners (LPs) have typically taken the position that the section 42(i)(7) ROFR is a common law right-of-first-refusal & they don't have to recognize the rights established in the partnership agreement without a bona fide offer from an unrelated third party that the investor has singular authority to accept. In essence, **they have rejected a bargained-for-right in the partnership agreement held by the nonprofit** -- taking the position that the contractual language is basically meaningless.

Year 15 Disputes

- Most nonprofits don't have the resources to litigate these issues in court, so a stalemate ensues – then the **investors leverage a cash payment or a sale of the property in return for leaving the partnership**.
- The use of scarce funds for this payment undermines the continued viability of the property of affordable housing – **contrary to the intent of Congress**.
- **Traditionally, investors have understood that their return is based on Housing Credit subsidies, not an expectation of residual value**.
- Rising values in certain markets have created an opportunity for these firms to profit far beyond the original investors' expectations.

Year 15 Disputes

Detrimental to the public interest because:

- Housing Credit properties are far more likely to continue operating as affordable housing into perpetuity if left in the hands of mission-driven nonprofits;
- Transfer disputes invariably **drain the nonprofit partner's resources** that otherwise would be devoted to resident services, building maintenance, & related affordable housing initiatives; &
- A sale of the property at market value generally leaves the new owner with fewer resources to devote to operations, maintenance, & ancillary services.

Year 15 Disputes

Takeaways:

- Look for **red flags**, e.g.:
  - LPs changed hands,
  - LPs are focused on future planning after Y15,
  - LPs restrict use of reserve accounts, withholding approvals for project needs,
  - LPs questioning routine financial reports,
  - Exit negotiations stall / LP is non-responsive
  - Qualified contract requests are suddenly presented
- **Write new partnership agreements carefully** & avoid "aggregators"
- **State HFAs can help educate stakeholders through Housing Credit application process, require Year 15 succession planning, deter certain ownership transfers**

Risk #3: Year 30 Affordability Cliff

- **Existing national data on the Housing Credit portfolio inaccurately assumes that all properties remain affordable for 30 years.**
- In fact, properties can exit affordability before Y 30 or remain affordable for longer.
- The first wave of properties reaching Y30 is happening now.
- **Varying affordability restrictions & inconsistent data collection mean that we don't know precisely how many properties are at risk, when they are at risk, or where they are located.**
- Without this information, it is difficult to design effective preservation strategies.

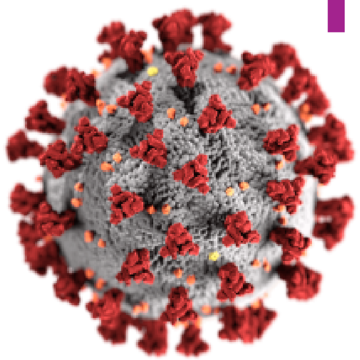
Year 30 Affordability Cliff

NHT is working with state HFAs & property owners to analyze the existing Housing Credit stock

Our goals are to:

- Quantify the stock of Housing Credit properties reaching Y30 that:
  - Will lose affordability at Y30;
  - Already exited from the Housing Credit program; or
  - Are subject to a longer affordability period due to a resyndication, QAP requirements or other financing sources.
- Understand local markets where properties are located, to assess risk of loss
- Identify who owns these properties & evaluate their motivations & intentions

Risk #4: Preserving Naturally Occurring Affordable Housing (NOAH)



- The U.S. rental housing inventory includes 5.5 million units of housing generally considered affordable to renters without any subsidy. (CoStar)
- **Approximately 10-14 million renter households were behind on their rent by about $12-17 billion as of September 14**
- **The CDC eviction moratorium expires January 1**
- **Renters will owe $25-34 billion in back rent + interest + fees then**
- National job growth & recovery have slowed
- **Elevated unemployment, high rent burdens for low-income renters, continued accumulated unpaid rent & risk of eviction will continue in 2021**

Source: NCSHA

Preserving NOAH

- Affordable apartment owners & managers depend on rent to pay their mortgages & maintain their properties.
- Many will be forced to deplete critical operating reserves & defer essential health & safety maintenance to avoid default.
- Many NOAH owners are small “mom & pop” landlords = most at risk
- **NOAH properties could foreclose or be bought by corporate developers who will raise rents.**
- NHT proposes new 5-year project-based rental assistance
- Other solutions are possible but **federal help is needed.**

Ellen Lurie Hoffman
Federal Policy Director
National Housing Trust
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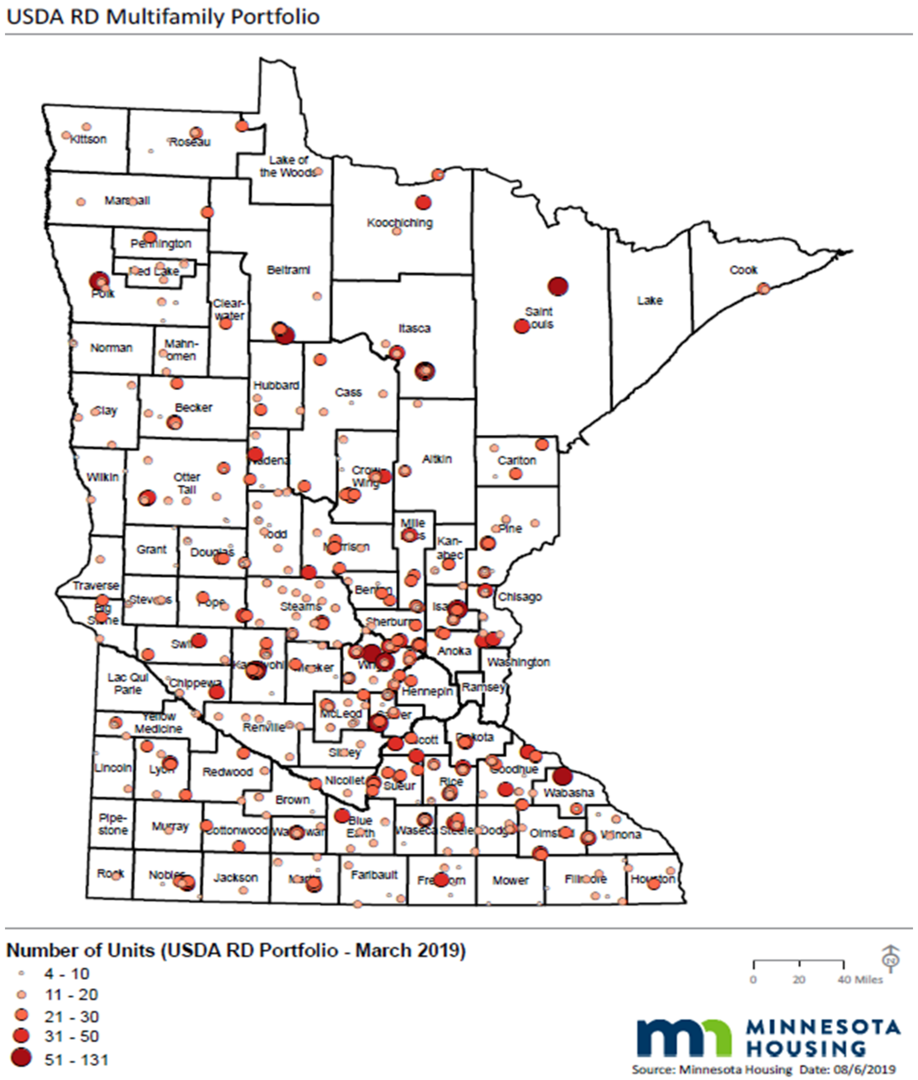
Rental Rehabilitation Deferred Loan Rural Development RFP

NCSHA

Preservation Overview

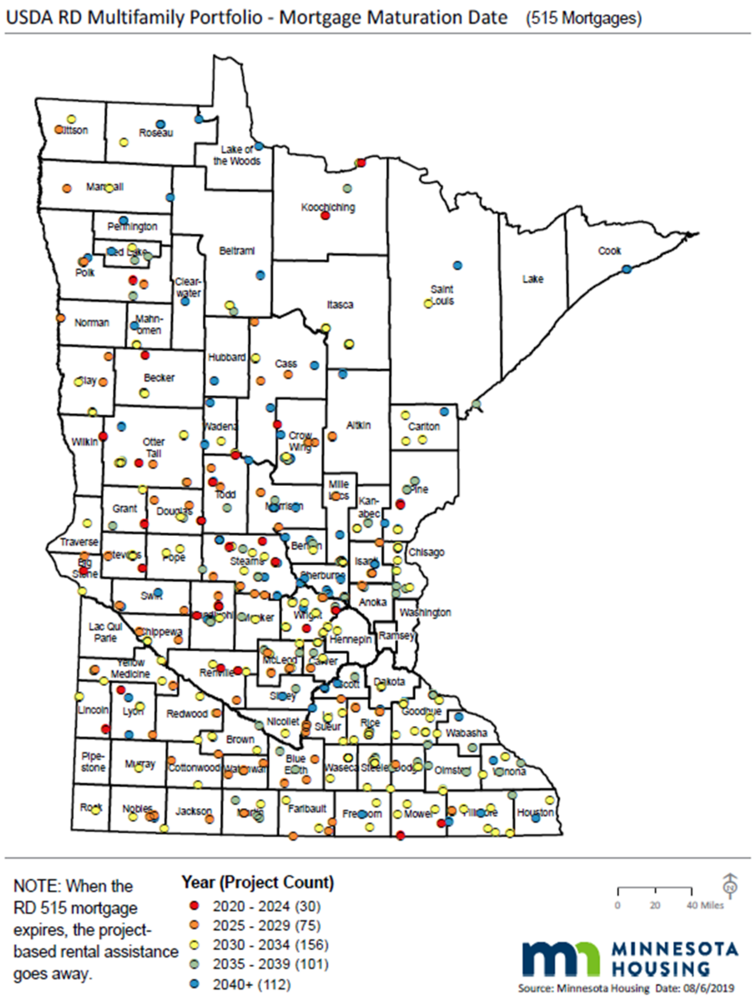
- USDA Rural Development(RD) Portfolio in Minnesota
- Rental Rehabilitation Deferred Loan Program (RRDL)
- 2019 Special RRDL RFP for RD Housing

USDA RD Portfolio in Minnesota



- 453 buildings
- 9,519 units
- 6,584 units RD rental assistance
- Average project size is 18 units
- 76% of projects are 30+ years old
- 65% of households are elderly or disabled
- $13,551 average household income

515 Mortgage Maturity Issue



Since 2010

- 47 projects lost (673 units) due to 515 mortgage maturity

By 2030

- 105 projects with maturing 515 mortgages

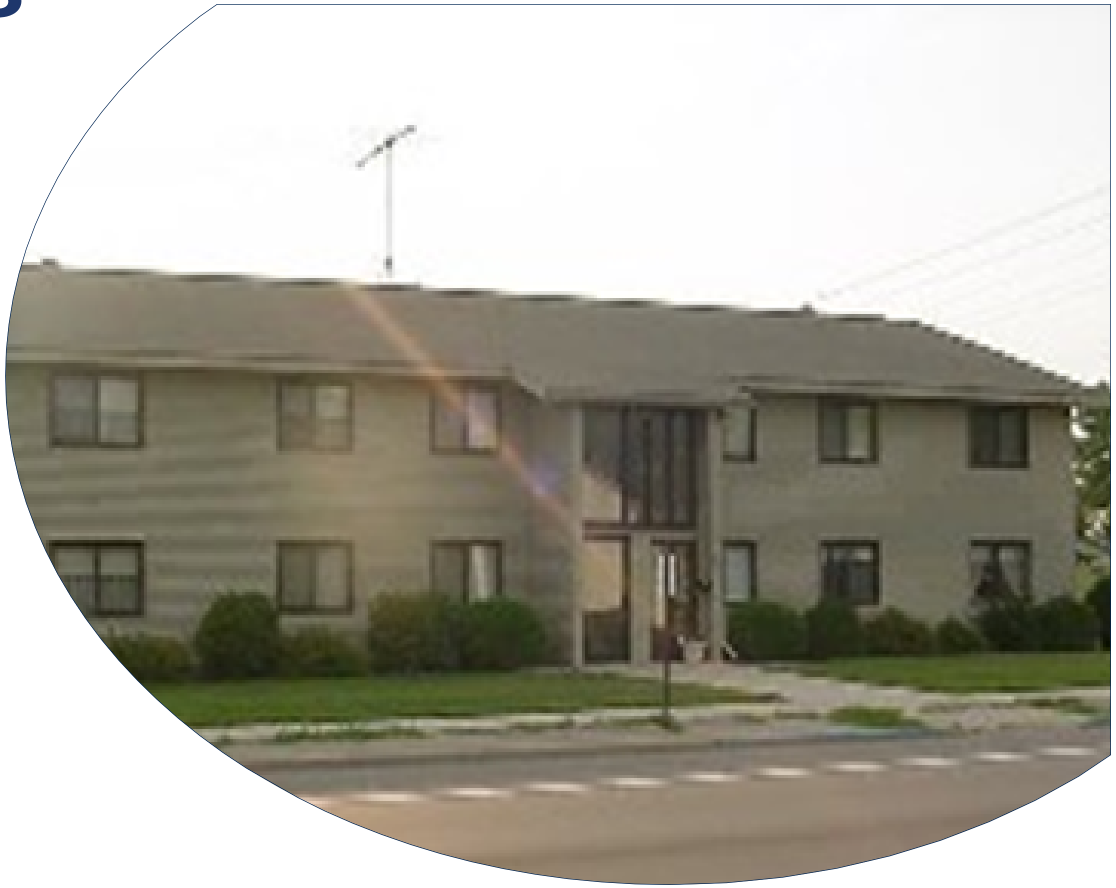
When the 515 mortgage matures, the rental assistance is lost.

Why Preserve RD Properties?

- Significant source of affordable housing with federally subsidized rental assistance
- Many properties in communities where it is not feasible to build new affordable housing
- Extremely low income and vulnerable population

RD Preservation Challenges

- Aging owners
- Aging buildings
- Limited reserves
- Smaller properties not a fit with LIHTC
- Limited pool of potential buyers



Rental Rehabilitation Deferred Loan (RRDL) Program

- 2011 pilot
- State appropriation: $3-4 million/year
- Tailored to smaller permanent rental projects (12-30 units)
- Financing for moderate rehabilitation work

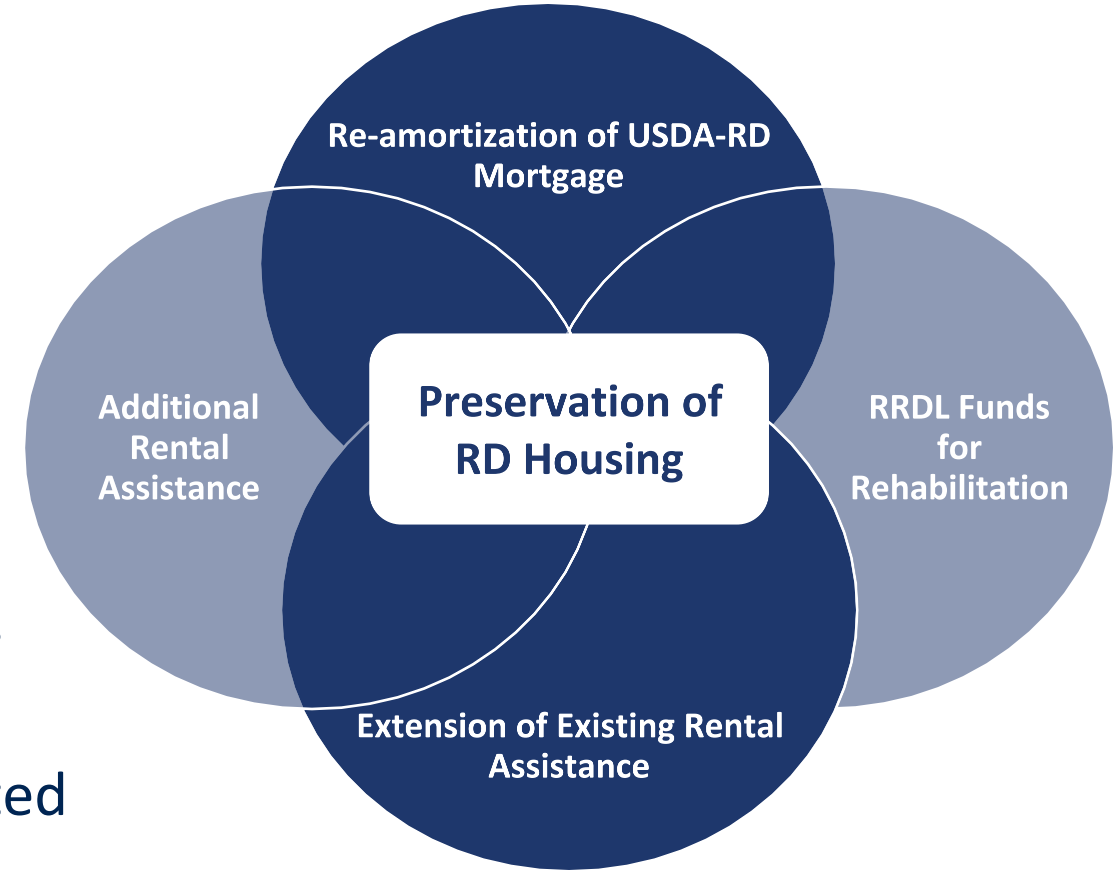
RRDL Program – continued

- 20-year deferred loan; 0% interest
- $500,000 or $35,000/unit max
- 10% forgiveness at maturity
- End loan or construction loan
- Rents affordable to local workforce
- Since 2012, RRDL funded 32 RD projects

RRDL + RD = A Perfect Match

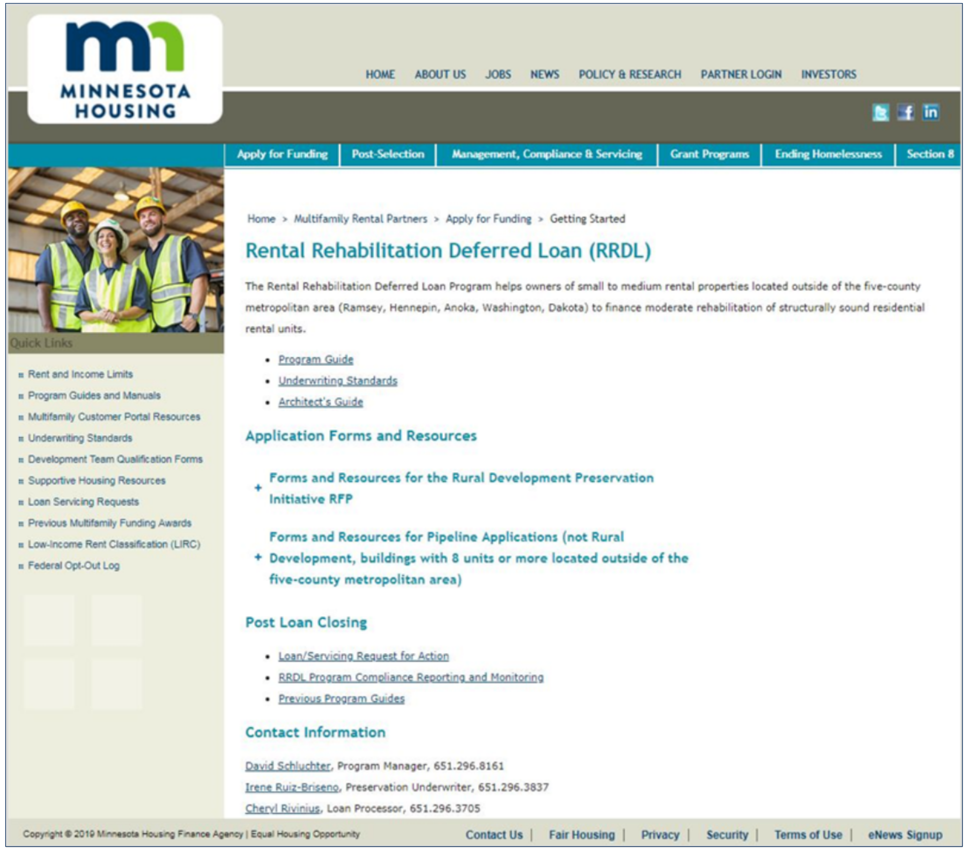
Partnership designed to:

- Build on RRDL success with RD properties
- Address critical deferred maintenance
- Stabilize property operations
- Facilitate the re-amortization of 515 mortgages nearing maturity
- Add additional rental assisted units to buildings that are partially assisted
- Create an easy process for borrowers with limited capacity
- Reach RD properties not previously funded



RRDL + RD = Streamlined RFP

- $10 million RFP
- Easy application – only **eight** items
- Required technical assistance for all applicants
- Data sharing with RD
  - Operating reports
  - Budgets
  - Reserve balances
  - Inspection reports
  - Mortgage maturity dates



RRDL RD RFP Eligibility

Projects must:

- Be financed by USDA-RD
- Be an existing building(s)
- Have a minimum of eight units
- Be permanent rental housing
- Have a three-year average occupancy of 85% or more

RFP Timeline

September 9, 2019 – RFP published

September/October 2019 – information sessions/required TA

November 20, 2019 – applications due

November 2019 to March 2020 – application review

March 2020 – selections made

RFP Results/Selections

- 34 applications received
- 21 projects funded with $9.6 million (544 units)
- Present value of RD rental assistance over 20 years = 2X more than RRDL funding provided

After Selections

- Post application project meetings
- Due diligence streamlining
- Round 2 RFP under consideration for 2021

Concluding Thoughts

Partnership with RD resulted in:

- Preservation of valuable federal rental assistance
- Reduced staff time on feasibility review
- Reduced underwriting uncertainty
- Funding for much needed repairs on RD buildings

More Information

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Conserve to Preserve Initiative

Jennifer Miller
Senior Advisor, IHDA

NCSHA

Agency Overview

Illinois Housing Development Authority (IHDA)

- Created in 1967
- Self-sufficient, quasi-governmental agency
- Financed the creation & preservation of affordable housing in Illinois
- Administers an array of Federal and State tax credit, grant, loan, bond, and risk share resources including LIHTC, HOME, HTF
- Historically, $10.9 billion to support 152,600 multi-family rental units

Asset Management Department

- Oversees program & project compliance for multi-family rental housing
- 1,300+ properties representing 120,000+ units in active portfolio

Sustainability

Continued and Growing Needs

- Increasing energy costs overall
- Older and aging rental housing stock in Illinois
  - 70% built pre-1980 (vs 57% nationally) & 42% built pre-1960 (vs 29% nationally)
  - Typically lack energy efficient & environmental sustainability features now common
  - Lesser insulation based on older building codes

IHDA Approach

- Complementary to mission
- Incorporate & incentivize sustainability in financing & construction
- Encourage benchmarking & retrofits for existing portfolio
  - Improve long-term operational, financial, & physical viability of property
  - Decrease vacancy, turnover
  - Invest now to save later (for property owner/tenants)

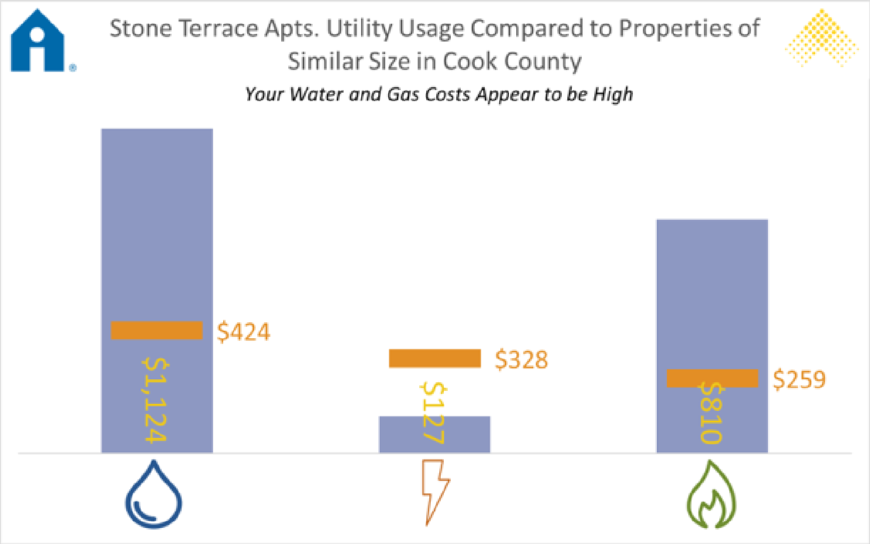
Data & Analysis

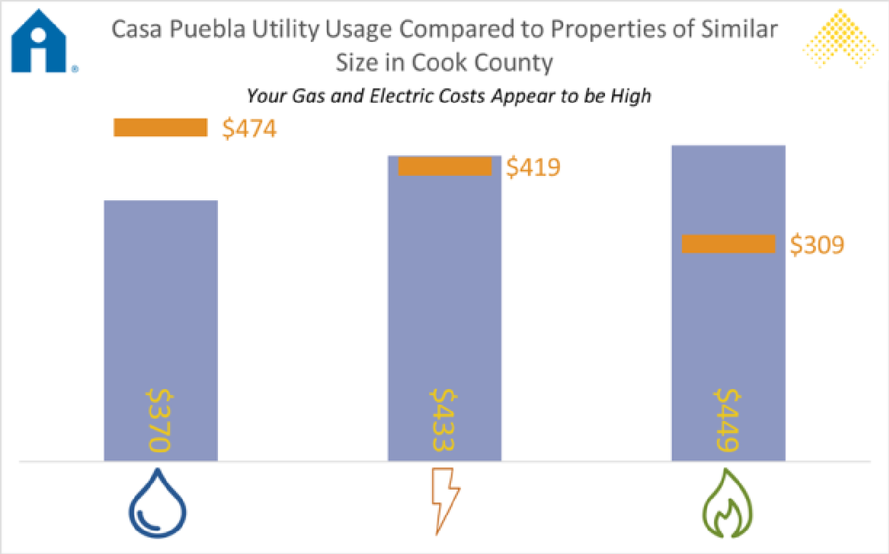
- Collection of multitude of data points
  - Yield valuable trend detail
  - Broaden use internally & externally

- Analysis of 3 years of operating cost data
  - See variations across geography, property size, population
  - Conduct peer comparison within & across portfolios
  - Shared findings & recommendations with MF Finance Dept. for incorporation in funding & construction practices

Data & Analysis

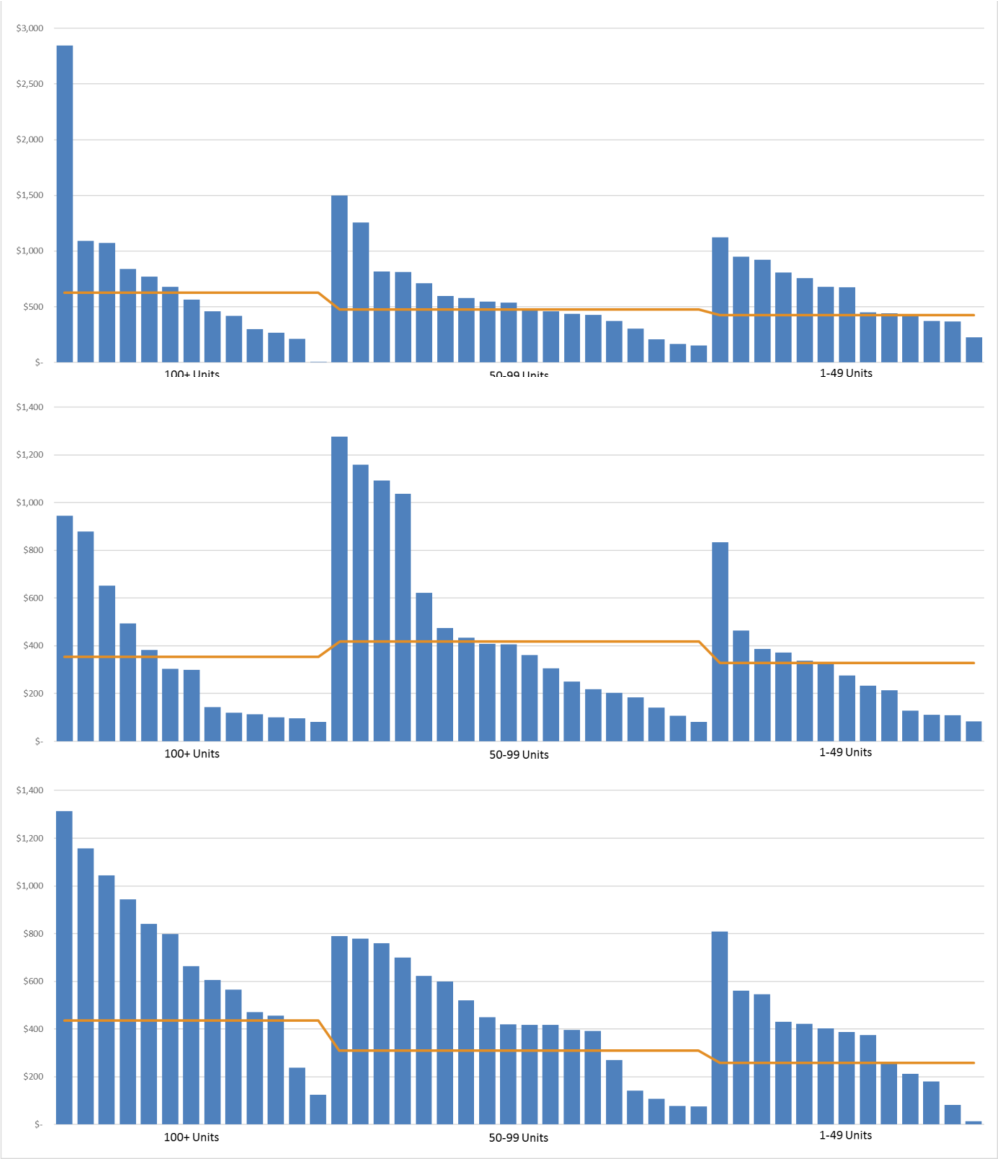
- Noted interesting trends in utility costs for water, gas, electric
- Identified 25 portfolio/property outliers
- Raises questions
  - Why are these costs so comparably high?
  - Why are they trending upward?
  - What might IHDA do to help properties address this increasing challenge?





Conserve to Preserve – Planning

- Identify trends in markedly high and/or growing utility costs
- Compile & share property specific, peer-to-peer comparison, & portfolio-wide data on water, electricity, gas costs with outlier properties/owners
- Partner with local energy benchmarking/retrofit organization – Elevate Energy
- Convene together to share information and resources
  - Benchmarking
  - Retrofit

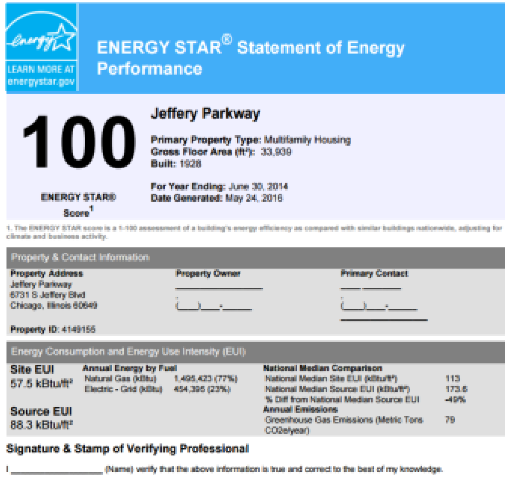


Conserve to Preserve - Convening

- Overview of utility cost trends
- High-level summary of utility cost data & trends specific to participants
- Presentation of free & low-cost energy cost benchmarking, energy cost reduction, and retrofit options
- Presentation of peer case study pre- & post-intervention
- Training in Energy Star Portfolio Manager software
- Ask an Expert one-on-one consultations
- Technical assistance with resource applications

Case Study

- Project cost – **$45,813**
- Incentive total – **$37,298**
- Owner out of pocket cost – **$8,515**
- **$4,136 expected annual savings**



LEARN MORE AT energystar.gov

ENERGY STAR® Statement of Energy Performance

100

ENERGY STAR® Score[1]

Jeffery Parkway

Primary Property Type: Multifamily Housing
Gross Floor Area (ft^2): 33,939
Built: 1928

For Year Ending: June 30, 2014
Date Generated: May 24, 2016

1. The ENERGY STAR score is a 1-100 assessment of a building's energy efficiency as compared with similar buildings nationwide, adjusting for climate and business activity.

Property & Contact Information

Property Address	Property Owner	Primary Contact
Jeffery Parkway 6731 S Jeffery Blvd Chicago, Illinois 60649	________ : (___)___-____	____ ______ : (___)___-____ __________

Property ID: 4149155

Energy Consumption and Energy Use Intensity (EUI)

Site EUI	Annual Energy by Fuel		National Median Comparison	
57.5 kBtu/ft²	Natural Gas (kBtu)	1,495,423 (77%)	National Median Site EUI (kBtu/ft²)	113
	Electric - Grid (kBtu)	454,395 (23%)	National Median Source EUI (kBtu/ft²)	173.6
			% Diff from National Median Source EUI	-49%
Source EUI			**Annual Emissions**	
88.3 kBtu/ft²			Greenhouse Gas Emissions (Metric Tons CO2e/year)	79

Signature & Stamp of Verifying Professional

I __________ (Name) verify that the above information is true and correct to the best of my knowledge.

Conserve to Preserve – Action/Outcomes

- Initial convening gives property owners/managers critical perspective
  - Cost reasonableness
  - Potential billing errors
  - Potential leakage or maintenance issues
  - Options for potential for significant cost-savings with limited up-front investment
  - 100% of survey respondents found effort useful

- Over half of initiative participants followed up to complete more formal energy benchmarking
  - Expanded & enhanced data for better understanding
  - Data-driven targeting & prioritization of upgrades
  - Addresses more modern building code & local ordinance requirements
  - Helps fulfill private/public funder sustainability requirements
  - Allows for evaluation of effectiveness of investment

Conserve to Preserve – Action/Outcomes

- Participants in follow-up energy benchmarking can move forward with installation of energy saving features including:
  - Hot water heater, furnace, boiler replacement
  - HVAC pump variable speed drives
  - Pipe insulation
  - Roof cavity air sealing and attic insulation
  - Low-flow showerheads
  - Faucet aerators
  - LED lighting upgrades
  - Programmable thermostats
  - Occupancy sensors
  - Steam trap replacement or repair

- Elevate Energy helps them navigate bid solicitation/construction management processes, including serving as owner's representative

Key Takeaways

- Broadened access to data internally/externally
- Maximized value of data for decision-making
- Cultivated a new partnership
- Grew IHDA's efforts to provide value-added service to its property owners/managers beyond compliance
- Improved the viability of the property portfolio
- Spotlighted the role sustainability plays in asset management
- Laid groundwork for other special initiatives/collaborations

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