

THE IMPACT OF CHANGING DEBT & EQUITY MARKETS ON TAX CREDIT AND MIXED-FINANCE TRANSACTIONS

Challenges  *everything seems to be moving in the wrong direction!!!*

COST INCREASES

- In the past year continued increases in construction costs 5% to 25%, due in large part to volatile pricing involving fuel and petroleum based products

DECREASE IN EQUITY PRICES

- Decline in equity pricing \$0.10 to \$0.20 per tax credit dollar

INCREASES IN DEBT RATES AND FEES

- Some rate indices down, but spreads widening.
- Origination and other fees increasing.
- Lender scrutiny of equity pay-ins and Investor capacity.

2007 MIXED FINANCE TRANSACTION

- Demolition and complete reconstruction of 100 aging public housing units in a growing MSA in Texas

- Fairly low median incomes

30% AMFI limits

1 person \$ 9,150
2 persons \$10,500
3 persons \$11,800
4 persons \$13,100

60% AMFI limits

1 person \$18,300
2 persons \$20,940
3 persons \$23,520
4 persons \$26,160

- Family Population: 1, 2 and 3 bedroom townhome style units
- Incomes served
 - 10 units at 30% AMFI
 - 90 units at 60% AMFI
 - **40 Public Housing Units**
- Average Rent (tenant paid) per unit \$381, per square foot \$0.40
- Average Operating Subsidy per unit \$151, per square foot \$0.16
- Total Annual Operating Expenses Per Unit \$3,395

2007 Mixed Finance Transaction

SUMMARY SOURCES AND USES OF FUNDS							
GROSS BUILDING AREA				DEVELOPER'S FEE			
Net Rentable SF (heated and cooled space)		96,320		TOTAL FEE		100% 1,171,396	
Community Building		3,065		Deferred Portion		-25% (293,845)	
TOTAL GROSS BUILDING AREA		99,385		Up-front Fee		75% \$877,550	
PROJECT COST					SOURCES OF FUNDS		
DESCRIPTION	Per Unit	Per NSF	Per GSF	TOTAL			
(1) Land	0	-	\$0.00	\$0	Syndication Proceeds	\$0.9320	9,089,064
(2) Construction Contract*	74,839	77.70	75.30	7,483,882	First Lien		1,430,000
(3) Contingencies	4,092	4.25	4.12	409,194	Second Mortgage - PHA		0
(4) Eligible Soft Costs	8,393	8.71	8.44	839,272	Deferred Developers Fees		293,845
(5) Interim Financing	4,326	4.49	4.35	432,550	Refund of City Escrow		140,000
(6) Permanent Financing	872	0.91	0.88	87,200	Refund of Perm Commitment Fee		42,900
(7) Tax Credit Fees	563	0.58	0.57	56,316			
(8) Developer Fees	11,714	12.16	11.79	1,171,396			
(9) Consulting and Reserves	5,160	5.36	5.19	516,000			
TOTAL COST	109,958	114.16	110.64	\$10,995,809	TOTAL SOURCES		\$10,995,809
<i>Total Construction Cost</i>	78,581	81.58	79.07	7,858,076			
<i>*Construction Contract includes \$536,650 in demolition and abatement costs</i>							
OTHER DEAL POINTS							
<i>Annual Tax Credits Awarded</i>	975,319	<i>Plenty of excess eligible basis</i>					
<i>Debt Terms:</i>	7.17%	<i>Interest Rate, 30 year amortization, 18 year term</i>					
<i>Debt Coverage Ratio</i>	1.34						
<i>Sum of 15-year cash flow</i>	723,472	<i>2% income escalation, 3% expense escalation</i>					
<i>Year Deferred Developer Fee Retired</i>	Year 7						
<i>**Unused contingency or other unused budget items will be used to pay off or pay down Deferred Developer Fee</i>							
<i>**Housing Authority receives a share of the Developer Fee (negotiated item)</i>							

2008 MIXED FINANCE TRANSACTION

- Same City, # of Units, Unit Mix and total square feet as 2007 transaction
 - Incomes served (*different from 2007 due to changes in QAP*)
 - 5 units at 30% AMFI (5%)
 - 35 units at 50% AMFI (35%)
 - 60 units at 60% AMFI (60%)
 - **30 Public Housing Units** (*reduced to improve financial feasibility*)
 - Average Rent (tenant paid) per unit \$400, per square foot \$0.42
Slightly higher due to less public housing units
 - Average Operating Subsidy per unit \$168, per square foot \$0.17
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2008 Mixed Finance Transaction

<i>SUMMARY SOURCES AND USES OF FUNDS</i>							
GROSS BUILDING AREA				DEVELOPER'S FEE			
Net Rentable SF (heated and cooled space)		96,320	TOTAL FEE		100%	1,289,577	
Community Building		3,065	Deferred Portion		-35%	(447,048)	
TOTAL GROSS BUILDING AREA		99,385	Up-front Fee		65%	\$842,530	
PROJECT COST					SOURCES OF FUNDS		
DESCRIPTION	Per Unit	Per NSF	Per GSF	TOTAL			
(1) Land	0	-	\$0.00	\$0	Syndication Proceeds	\$0.7400	8,559,101
(2) Construction Contract	78,213	81.20	78.70	7,821,312	First Lien		1,700,000
(3) Contingencies	4,211	4.37	4.24	421,066	Second Lien - PHA		500,000
(4) Eligible Soft Costs	6,413	6.66	6.45	641,305	Deferred Developers Fees		447,048
(5) Interim Financing	3,935	4.09	3.96	393,500			
(6) Permanent Financing	185	0.19	0.19	18,500			
(7) Tax Credit Fees	656	0.68	0.66	65,588			
(8) Developer Fees	12,896	13.39	12.98	1,289,577			
(9) Consulting and Reserves	5,553	5.77	5.59	555,301			
TOTAL COST	112,061	116.34	112.75	\$11,206,148	TOTAL SOURCES		\$11,206,148
<i>Total Construction Cost</i>	82,124	85.26	82.63	8,212,378			
<i>*Construction Contract includes \$600,000 in demolition and abatement costs</i>							
<i>OTHER DEAL POINTS</i>							
<i>Annual Tax Credits Awarded</i>	1,156,751	<i>Requested additional credits in September from change in tax credit percentage due to HR 3221</i>					
<i>Debt Terms:</i>	7.75%	<i>Estimated Interest Rate, 35 year amortization, 18 year term</i>					
<i>Debt Coverage Ratio</i>	1.25						
<i>Sum of 15-year cash flow</i>	590,385	<i>2% income escalation, 3% expense escalation</i>					
<i>Year Deferred Developer Fee Retired</i>	Year 12						
<i>**Must spend contingency or other unused budget items to maintain eligible basis. Unable to be used to pay off or pay down Deferred Developer Fee</i>							
<i>**Housing Authority receives a share of the Developer Fee (negotiated item)</i>							

DIFFERENCES IN 2007 AND 2008 “IDENTICAL” TRANSACTIONS DUE TO CURRENT ECONOMIC CONDITIONS

- Increased construction costs (\$3.68 per s.f.) or appx \$350,000
- Total cost increase of appx \$210,000 due to other cost-cutting measures
- The 2008 transaction awarded \$181,432 more in additional annual credits, but will raise appx **\$529,963** less equity
 - 2007 equity price \$0.932 vs. 2008 equity priced at \$0.74 and falling
- Permanent debt interest rate substantially higher

“GAP” FILLING MEASURES

- Increased amortization period to 35 years, decreased debt coverage ratio to raise debt capacity. Reduction in number of Public Housing Units also necessary to increase debt capacity.
- More Deferred Developer Fee (up to capacity repayable in 15 years)
- Housing Authority “soft” second lien of \$500,000 subordinate to first lien lender and repayable from net cash flow. Capital Funds targeted to pay for demolition.
- Other measures as needed depending on final budget, interest rate and final equity price.

MORE TOOLS FOR FILLING THE WIDENING GAP

- State and Local Programs (HOME, Housing Trust Fund, CDBG, etc.)
- State and Local Energy-related programs (loans, grants, rebates)
- Grants (FHLB, other)
- Housing Authority loan from Capital Fund
- Ground Lease (for land owned by Housing Authority or affiliate) with annual payment ranging from \$10 up
 - *Eliminate land cost (ineligible cost) and reduce total development cost*
 - *Reduce / eliminate property taxes (significant saving measure in Texas)*
- Housing Authority as General Contractor
 - *Can use “major subcontractor” for up to 100% of work*
 - *Saves construction costs by purchasing materials tax-exempt (savings of 8.25% in Texas)*