Affordable Housing Project Math

STRUCTURED DISCUSSION AT AFFORDABLE HOUSING TRUST

JULY 18, 2023

Sample project

40 rental units, 100% affordable

	1BR	2BR	3BR
Units	10	15	15

	30% AMI	50% AMI	60% AMI
Type/source	Section 8 voucher	MA rental voucher program (MRVP)	Low income housing tax credit (LIHTC)
Units	8	8	24

Note: Section 8/MVRP tenants pay 30% of their income as rent, while the subsidy pays the gap between this amount and the market rent. LIHTC unit rents are set to be affordable at 60% of AMI and no additional subsidy is provided.

Maximum incomes and rents 2023

HUD maximum income levels at selected household sizes

Area median income	One person	Two	Three	Four	Five
30% AMI	$31,150	$35,600	$40,050	$44,500	$48,100
50% AMI	$51,950	$59,400	$66,800	$74,200	$80,150
60% AMI	$62,340	$71,280	$80,160	$89,040	$96,180

HUD maximum rent by bedroom

Area median income	1BR	2BR	3BR
30% AMI	$834	$1,001	$1,158
50% AMI	$1,392	$1,670	$1,929
60% AMI	$1,670	$2,004	$2,315

Funding an Affordable Rental Project

Uses of Funds

Acquisition

Construction

Soft Costs, carrying costs (interest), design, engineering, legal…

Reserves + Developer fees

Permanent Funding Sources

Permanent First Mortgage Debt

LIHTC Equity

Subordinate Debt (soft debt); federal and state subsidies, local support

Grants

Total Development Costs (Uses)

Source	Total (rounded)	Cost per unit (rounded)
Acquisition	$2,000,000	$50,000
Construction	$16,300,000	$407,500
Soft Costs*	$3,558,000	$88,900
Development fee/overhead	$2,100,000	$52,500
Reserves	$450,000	$11,300
TOTAL	**$24,408,000**	**$610,200**

- Soft costs include: $1,128,000 for architectural, engineering & survey services and permits; $961,000 for construction & predevelopment loan interest & fees; $279,000 for insurance during construction; $175,000 for legal.

Funding (Sources)

Element	Total cost (rounded)	Total per unit (rounded)
Permanent loan	$5,780,000	$144,600
Federal tax credit equity	$8,640,000	$216,000
State tax credit equity	$1,560,000	$39,000
Local subordinated debt*	$4,000,000	$100,000
State subordinated debt	$3,600,000	$90,000
Energy rebates	$145,000	$3,600
Deferred developer fees	$683,000	$17,000
TOTAL	**$24,408,000**	**$610,200**

- Could include linkage fee revenue, CPA funding, or funding from any other local source.

Permanent First Mortgage Debt

- This debt is paid back (with interest) from <u>operating income.</u>
- Lenders often private, but whether a private or nonprofit lender, project is underwritten to minimize risks.
- Amount of debt primarily determined by the rent project can generate.
- Lender looks at Net Operating Income, including vacancy % (NOI) and Debt Coverage Ratio (relationship of monthly cost of repaying loan, including interest, to NOI).
- Affordable housing developers work towards bringing the debt down to where the Debt Coverage Ratio meets the lender’s approval (typically 1.15x).
- This is the “gap.”

Supporting Permanent Loan

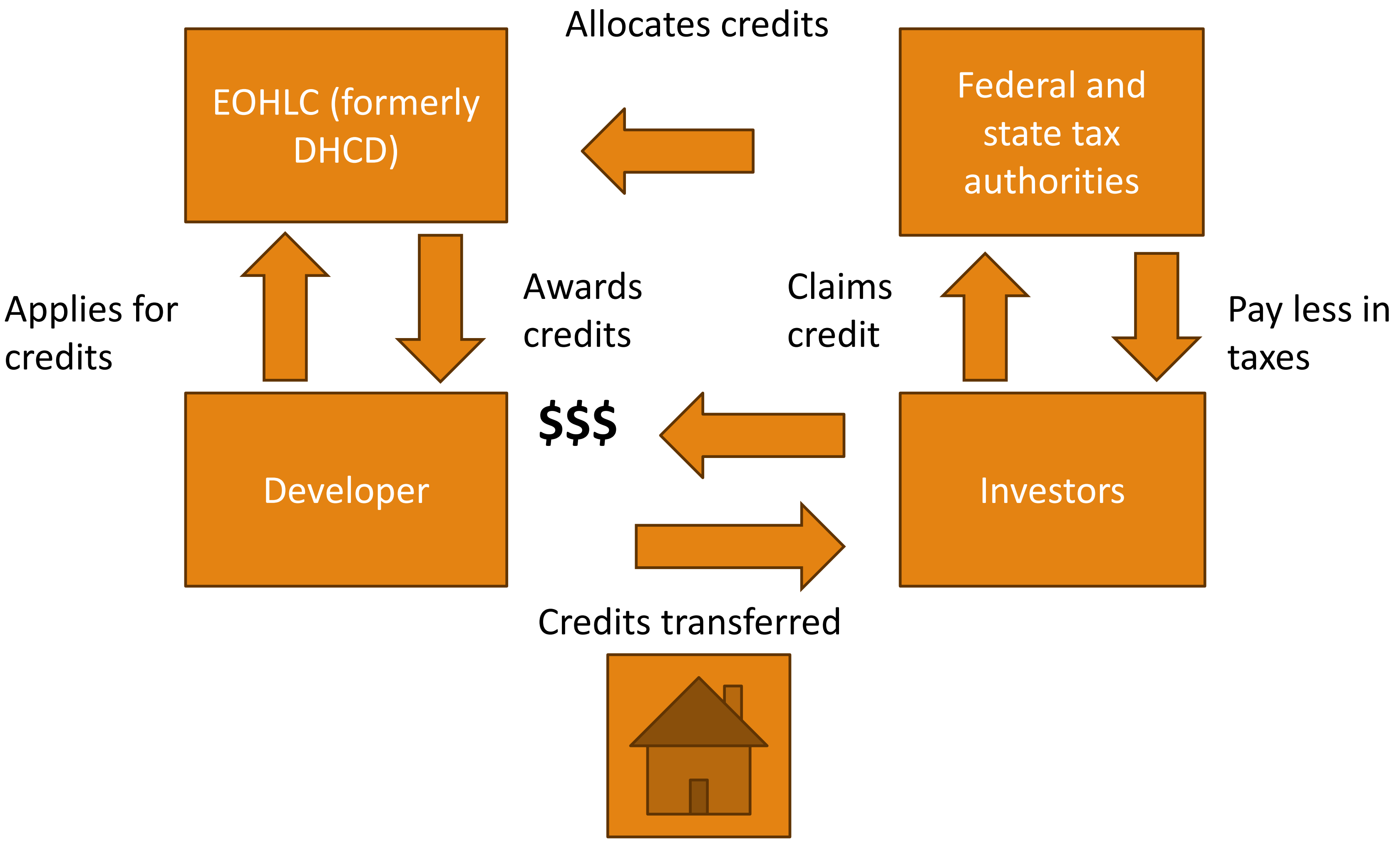
Element	Dollars (rounded)
Loan amount	$5,780,000
Interest rate	6.5%
Annual project income (from tenants/vouchers)	$985,000
Annual project expenses	$501,000
Annual net operating income	$484,000
Annual debt service	$421,000

Where does the rest come from?

- While the first mortgage is paid from operating income, the remaining sources fill the gap between project costs and what the tenants are able to pay. The larger the gap, the more subsidy is needed.
- Every 100% affordable project needs multiple subsidy sources—”layering” or “stacking.”
- Developers must put together federal, state & local assistance in the form of tax credits, loans and grants to build the project.
- In addition, developers typically need project-based or mobile vouchers to ensure sufficient operating income for the project’s life.

Low Income Housing Tax Credits (LIHTC)

- Federal & state tax credits are a key funding source.
- EOHLC (formerly DHCD) allocates 9% federal credits and state credits to projects in its highly competitive "rental round" once or twice a year. MassHousing and MassDevelopment allocate 4% credits in connection with tax-exempt bond financing.
- 9% federal credits cover a higher % of construction costs but are scarce. 4% federal credits typically require more subordinate debt sources & may require higher rents.
- Investors buy credits, providing them a reduction in federal income tax (over 10 years) or state income tax (over 5 years). The proceeds (minus substantial transaction fees) put cash into the affordable deal.
- Credit pricing depends on macro-economic factors such as interest rates, geographic location & project size, and deal-specific factors.
- Tax credits must support households at or below 60% of AMI.


Allocates credits
EOHLC (formerly DHCD)
Federal and state tax authorities
Applies for credits
Awards credits
Claims credit
Pay less in taxes
$$$
Developer
Investors
Credits transferred

Federal and state capital subsidy programs

- **Massachusetts Affordable Housing Trust Fund (MAHT).** Administered by MassHousing, AHTF is a gap filler, the last funding piece necessary to make an affordable housing development work and is typically a deferred payment loan. **Housing Stabilization Fund (HSF)** is a state funded program for municipalities, non-profit, or for-profit developers to support affordable rental housing production and rehabilitation.
- **Federal HOME and ARPA funding:** The state controls HOME and ARPA funding it can allocate to eligible projects.
- **Specialized state funding programs:** There are a variety of programs, each with their own eligibility requirements, that couldbe tapped. These include the **National Housing Trust Fund (HTF), Commercial Area Transit Node Housing Program (CATNIP), Housing Innovations Fund (HIF), Facilities Consolidated Fund (FCF), Community Based Housing (CBH).**

Watertown Funding Sources

- **HOME Investment Partnership Program (HOME) and Community Development Block Grants (CDBG)**
  - --Watertown is part of the 13-community WestMetro HOME Consortium but is not "entitled" to CDBG funding.
  - --Less than $155,000 in program income from prior awards plus potential for use of yearly/pooled HOME funds
- **Affordable Housing Trust Fund**
  - --Cash in lieu payments from developers (approximately $269,000)
- **Budget allocations in FY23 and FY24** ($250,000 each)
- **Community Preservation Act (CPA)**
  - --Will be competitive process, with decisions by CPC and Council
- **Linkage fees from new commercial development**