

## Successful Developments

- Qualified, Experienced, Financially Strong Development Team
- Well-Conceived Project that Responds to a Market Need / Opportunity
- Sound Development Budget
- Appropriate Rents & Operating Costs
- Conservative Trending for Income/Expense
- Adequate Contingencies & Reserves
- Sponsor Guarantees



## Real Estate Market

- Targeted Tenants
- Neighborhood Advantages
- Transportation/Expressways
- Employment Possibilities
- Schools/Daycare
- Shopping/Services

## Financing

- Owner Equity
- Investor Equity
- Debt
- Secondary Financing
- "Soft" Loans or Grants



## Support System

- Tenant Referral
- Management Company
- Credit Counseling
- Institutions:
  - Mental Health
  - Medical
  - Rehab Clinic



### Stakeholders

- Sponsors
- Developers
- Investors
- Primary lenders (banks)
- Secondary lenders (City/County)
- Michigan State Housing Development Authority (MSHDA)


### Shared Goals

- Affordability to targeted population
- Developer fee
- Return on investment
- Ease of management
- Long-term viability
- Regulatory compliance



### Stakeholder Goals

Sponsor	Developer	Investor	Primary Lender	Secondary Lender	MSHDA
Target Tenant Population	Developer Fee	Long term viability	Return on Investment	Neighborhood Improvement	Regulatory Compliance
Neighborhood Improvement	Return on Investment	Regulatory Compliance	Property Values	Regulatory Compliance	Target Tenant Population
Developer Fee	Long term viability	Return on Investment	Long term viability	Affordable Housing	Ease of Management
Property Values	Neighborhood Improvement	Ease of Management	Regulatory Compliance	Long term viability	Long term viability
Return on Investment	Ease of Management	Target Tenant Population	Ease of Management	Ease of Management	Neighborhood Improvement
Ease of Management	Regulatory Compliance	Developer Fee	Neighborhood Improvement	Return on Investment	Return on Investment
Regulatory Compliance	Target Tenant Population	Neighborhood Improvement	Target Tenant Population	Developer Fee	Developer Fee



GREAT LAKES  
**Capital**  **Fund**

## Debt Calculation

### Rent Projections

# BR	# Units	Rent	Total/Mo	Total/Yr
2	5	\$550	\$2,750	\$33,000
2	11	\$600	\$6,600	\$79,200
3	10	\$625	\$6,250	\$75,000
3	24	\$675	\$16,200	\$194,400
<b>Total</b>	<b>50</b>		<b>\$31,800</b>	<b>\$381,600</b>

## Debt Calculation

Total Potential Income	\$381,600
Minus 7% vacancy	\$(26,712)
Net Rental Income	\$354,888
Minus \$3,500/unit Expenses	\$(175,000)
Minus \$300/unit Reserve	\$(15,000)
<b>Net Operating Income</b>	<b>\$164,888</b>
After Debt Service Coverage of 1.15 $164,888/1.15$	\$143,381
Monthly Debt $143,381/12=11,948$	\$11,948
Interest rate at 7.5%; 30 Year Term in Months: 360	
<b>Mortgage Amount</b>	<b>\$1,708,775</b>



## Development Budget

Total Development Cost	\$8,566,553
Total Mortgage Amount	\$1,708,775
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GAP Financing / Equity Needed	\$6,857,778





## **Generating Equity with Housing Tax Credits**

### **Low-Income Housing Tax Credits - What Are They?**

- Stimulate corporate investment to develop / preserve rental housing which is priced affordably for low-income residents
- Internal Revenue Service
- Allocating Agencies designated by IRS



## How Do They Work?

- Owners and Investors eligible for reduction in federal income taxes
- Tax Credits received over 10 years
- 15 year compliance period
- IRS requires 30 year affordability



## How Do They Work?

- Tax Credit property is owned by a Limited Partnership (or LLC)
- General Partner (managing member) = .01%
- Limited Partner (investor member) = 99.99% (most tax benefits flow to LP investor)



## What Do Tax Credits Finance?

- New Construction
- Rehabilitation
- Acquisition (if project qualifies)
- Urban, rural, suburban



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## Basis, Credits and Determining Equity

## Credit Types

- 9% for Construction and Rehab Costs
- 4% for Acquisition or Tax Exempt Bond financed deals (construction and rehab)
- 9% credit is a true 9% until 12/31/2013  
If Congress doesn't "fix it" the rate will drop to approximately 7.7%
- 4% credit rate currently fluctuates (generally around 3.20%)



## 9% for Construction and Rehab

- Credit is awarded to projects in accordance with the state's Qualified Allocation Plan (QAP)
- Allocating agency often holds 1 – 2 competitive funding rounds per year
- Possible 130% basis boost (eligible Census Tracts or MSHDA approval)





## 4% for Acquisition or Tax Exempt Bond Financed Developments

- 4% Tax Credits for the appraised building value (not land) & only if seller has owned it >10 consecutive years (unless a nonprofit serves as interim owner)
- 4% Tax Credits if property is financed with Tax Exempt Bonds (non-competitive). Bonds must finance >50% of development costs.



## Determining Eligible Basis

### Depreciable costs related to the buildings:

- Building acquisition
- Construction
- Site costs (some exceptions)
- Construction financing fees
- Developer fee
- Soft costs (some exceptions)



## Development Budget

Land	\$800,000
Construction cost	\$5,663,794
Architectural fees	\$250,000
Market study	\$10,000
Cost certification	\$15,000
Developer fee	\$975,000
Operating reserve, perm loan fees, etc.	\$852,759
<b>Total Development Cost:</b>	<b>\$8,566,553</b>
Non-Basis items (land)	(\$800,000)
Other Non-Basis items (perm loan fees, reserves)	(\$852,759)
<b>Total Eligible Basis:</b>	<b>\$6,913,794</b>



## Calculating the 9% Credit

Eligible Basis	\$6,913,794
Applicable Fraction	X 100%
130% Basis Boost	X 130%
Qualified Basis	\$8,987,932
Tax Credit Rate	X 9.00%
Annual Tax Credit	\$808,914
10 Years	X 10
Total Tax Credits	\$8,089,140
Investor Price	X 0.80

**Tax Credit Equity: \$6,471,312**



## Calculating the 4% Credit

Eligible Basis	\$6,913,794
Applicable Fraction	X 100%
130% Basis Boost	X 130%
Qualified Basis	<hr/> \$8,987,932
Tax Credit Rate	X 3.20%
Annual Tax Credit	<hr/> \$287,614
10 Years	X 10
Total Tax Credits	<hr/> \$2,876,140
Investor Price	X 0.80

**Tax Credit Equity: \$2,300,912**



## Development Budget - 9%

Total Development Cost	\$8,566,553
Mortgage Amount	\$1,708,775
LP Equity Amount (9%)	\$6,471,312

**GAP \$386,466**



## Development Budget – 4%

Total Development Cost	\$8,566,553
Mortgage Amount	\$1,708,775
LP Equity Amount (4%)	\$2,300,912
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<b>GAP</b>	<b>\$4,556,866</b>
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## Filling the Gap

- Utilize Current Reserves (rehab/preservation deals)
- Foundation Grant(s)
- Federal \$'s (HOME, CDBG)
- Federal Home Loan Bank –
- Affordable Housing Program (AHP)
- Deferred Developer Fee (repaid from Cash Flow over 12 years)
- General Partner Capital Contribution

## LIHTC Application Process

- MSHDA: 2 competitive rounds/yr (February & August)
- Web site application materials
- Site control > 180 days
- Evidence of zoning & local approval
- Phase 1 environmental
- Market Study (ordered by MSHDA, paid by applicant)

## LIHTC – MSHDA Fees

- \$40/LI unit (\$2000 max)
- 6% of annual LIHTC reservation ( $\frac{1}{2}$  at reservation &  $\frac{1}{2}$  at commitment)
- \$475/LI unit (15 yr. compliance monitoring fee) due prior to MSHDA's issuance of 8609 (Tax Credit Form)
- \$25/LI unit (annual fee during extended use period)

## Issues / Opportunities

- Preservation of “Expiring Use” properties
- HUD Section 8 and RD Rental Assistance are important (possible need for “transition reserve”)
- Supported Housing for Residents with Special Needs (separate application process likely with endorsement of local Continuum of Care)

## Affordable Housing Market – Traverse City

Per Kelly Murdock (CR Services – Market Analyst) Spring 2010:

- Affordable rental housing exhibited a combined occupancy rate of 96.6%
- 2010 US Census indicates Traverse City increased by 1.5% from 2000, which is somewhat lower than ESRI had forecast.
- Local economy, while down recently, still outperforms nearly the balance of the state.

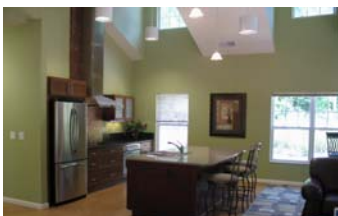
## GLCF Tax Credit Investments in Traverse City Region

### 14 Developments Supported

- \$21M of equity
- 561 affordably-priced housing units

- Keystone Village (Garfield Township)
- Fife Lake-Kingsley
- Gateway Village (Frankfort)
- Kalkaska Woods
- Village at Rivers Edge (Kalkaska)
- Westside Junction (Kalkaska)
- The Village at Bay Ridge
- The Village at Bay Ridge II
- Village Glen
- Woodmere Ridge Apts.
- Bay Front Apartments
- Bay Hill II
- 630 Lofts at Grand Traverse Commons (State Tax Credits)

## Sample GLCF Local Investments



## Sample GLCF Local Investments



Questions?