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Private Capital for Affordable Housing Development: Getting to Scale

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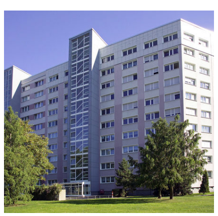
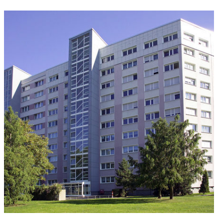


Developing New Affordable Housing to Meet Demand…

…will require private capital.

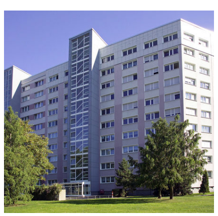
With limited national and municipal funds, government requires leverage of private debt and equity capital to increase production



and Private Capital Requires…

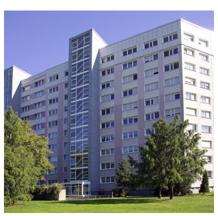
- Risk-adjusted rates of return
- Credit and Underwriting Standards
- Appraisal and Title
- Control of Development and Operating Costs
- Sound, long-term asset and property management




Case 1: Corporate Equity Investment in Rental Housing

- Provide tax credit for qualified affordable housing developments, which:
  - Define Affordable Rent for Compliance Term (e.g., 15, 30+ years)
  - Require occupancy by Income-Eligible Households (% Area Median Income, AMI)



Model: Low Income Housing Tax Credit (U.S.)

$7.3 B US/year (FY 2015)

110,000 units/year average

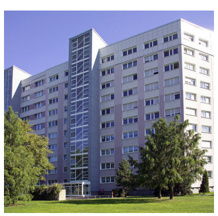
1,450 projects/year average

2.6 million units 1987-2013

40,5000 projects 1987-2013

27% nonprofit developer/operator

73% for profit developer/operator

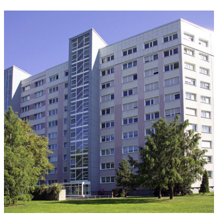


Structure

- Developer of Qualified Project Receives Allocation of Tax Credits from State Housing Agency

- Developer Sells Credits through Skilled Intermediaries Who Assess Risk and Provide Asset Management. (Some corporate tax payers may develop this capacity for their own account.)

- Limited Partnership (LP), Limited Liability Corporation (LLC):
  - **Corporate Investor** (Limited Partner, LP) = 99.99% owner
  - **General Partner** (Developer/Operator, GP) = 0.01% owner

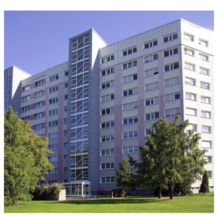


Benefits

- Market Discipline Applied to Public/Private Partnerships
- Compliance Enforcement with Tax Penalty
- Third Party Oversight of Property and Asset Management
- Annual Compliance and Financial Audit
- Efficient Pricing in Competitive, Transparent Market
- Price is driven by value of tax credit, not market value of housing. (Community Reinvestment Act Compliance in U.S.)

Equity Pays for 30% - 70% of Total Development Cost:

- Dependent on value of credit, level of affordability (% AMI)
- Market price of tax credits

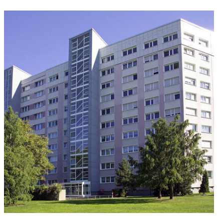


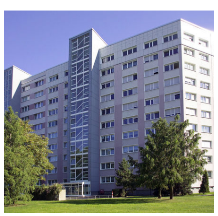
Requires….

- State allocating agency with underwriting and asset management capacity;
- Corporate tax payers;
- Capable developers, property and asset managers;
- Intermediary investment managers;
- Capital sources (debt, subsidy) to pay for the balance of development costs

Issues

- Assure long-term (permanent) affordability
- Provide property reinvestment every 10-15 years
- Provide for no cost investor (LP) exit
- Equity is subordinate to Senior, Amortizing Debt
- Credit Efficiency Goal: 90% of tax credit goes to direct housing investment





Scale

Example:

- ___% of annual corporate tax revenue to Credits

  ×

- 90% credit efficiency factor

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- 50% of total development costs from tax credits

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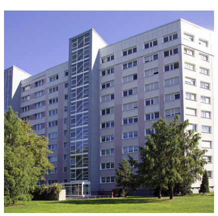
Total units financed per year

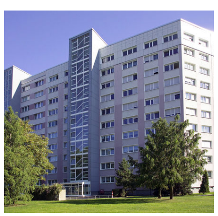
Case 2:
Long-Term Debt for Rental Housing

Purpose:

Leverage Predictable Cash Flow from Rental Housing to Minimize Public Subsidy

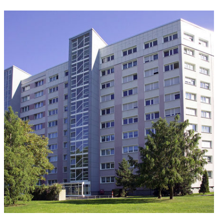


Long-Term Debt: 10-30 Year Term ("Permanent" vs. short-term Construction Loan)



Loan Structures

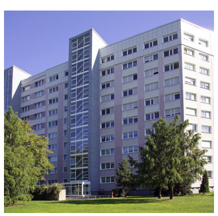
- Construction to Permanent, Joint Underwriting
- Construction and Permanent, Separate Underwriting
- Credit Enhancement
  - State-supported loss reserves
  - State-supported yield maintenance
  - Value of sovereign guaranty
  - Third party credit enhancement (e.g., World Bank)



Liquidity

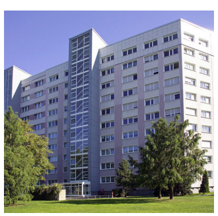
Rental Housing Permanent Lending Will Be Constrained by:

- Bank Capital
- Liquidity Structures:
  - Securitization
  - Credit Enhancement
  - Capital Advances from (Bank) Intermediary



Underwriting Standards

- Loan to Value (Construction/Permanent)
- Debt Coverage Ratio
- Reserves for Operations, Replacements (Capitalized, Ongoing)
- Income and Expense Escalators
- Vacancy and Bad Debt
- Operating Expense Standards, verifiable
- Physical Needs Assessment for Rehabilitation Projects
- Construction Cost Verification: New, Rehabilitation
- Conversion of Construction to Permanent Loan: Stabilization of Income and Expenses



A Capital Plan for Scale

Supportable, Sustainable Permanent Debt

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Private Equity Investment (e.g., Tax Credits)

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Capital (and Operating) Subsidies

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Total Development Costs per Unit

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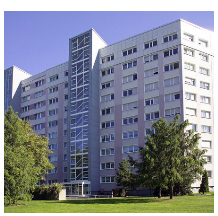
Housing Units which Can Be Financed



Thank You

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