

GREYSTONE

# RENTAL HOUSING IN THE NEW ECONOMY

## Affordable Housing

### **AFFORDABLE HOUSING**

**AARON HARGROVE, MANAGING DIRECTOR**

Greystone Real Estate Advisors

1100 Abernathy Rd. NE | Building 500, Suite 900

Atlanta, GA 30328

918.269.0896

[Aaron.Hargrove@GreyCo.com](mailto:Aaron.Hargrove@GreyCo.com)

# AGENDA

- Introduction to Greystone Real Estate Advisors – Affordable Housing
- Explanation of Affordable Housing Need
- Description of Affordable Housing Types
- Survey of Affordable Housing Environment
- Summary of the Low Income Housing Tax Credit (“LIHTC”) Program

# INTRODUCTION TO GREYSTONE REAL ESTATE ADVISORS - AFFORDABLE HOUSING

## WHAT

Greystone is a **real estate lending, investment and advisory** company.

## HOW

We **exceed our customers' expectations**. Our customers' success is our success.

## WHY

What matters most is what we do with our success: **make a difference in peoples' lives**.

**REAL ESTATE**

Lending | Investment | Advisory

# INTRODUCTION TO GREYSTONE REAL ESTATE ADVISORS - AFFORDABLE HOUSING

- Specialized in the sale and acquisition of multifamily affordable housing properties throughout the United States
- Benefitting from 40 years of combined advisory experience with more than \$2 billion in transactions
- Focused on the sale of Low Income Housing Tax Credit, Section 8, HUD and USDA Rural Development properties nationally
- Providing Advisory Services including Acquisitions & Dispositions, Individual Property & Portfolio Sales, General Partnership Interest Sales, and Technical Asset Analysis



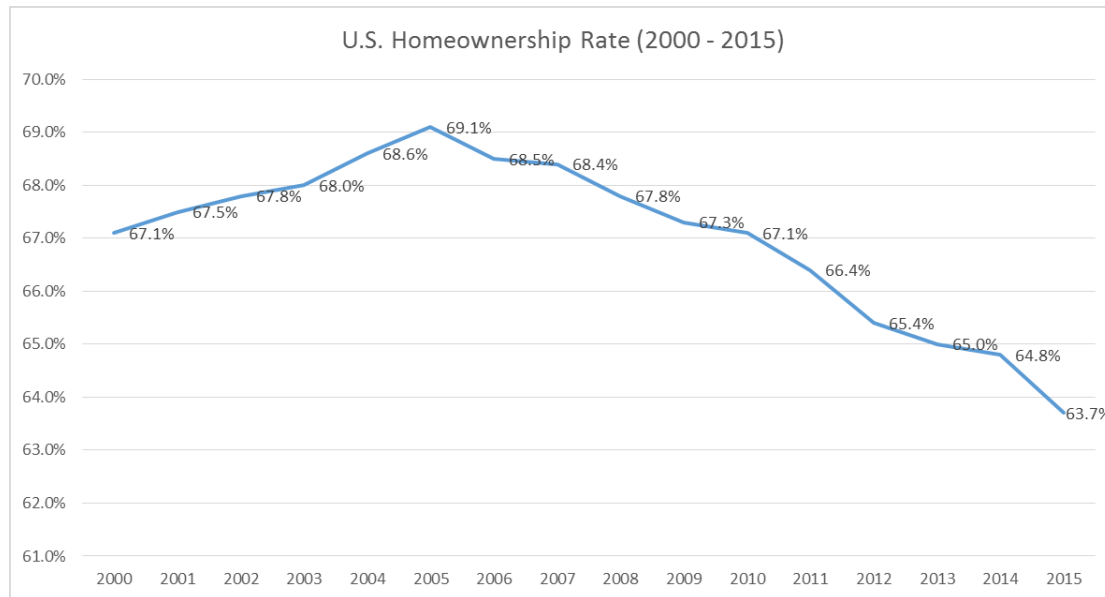
Aaron Haragrove  
Managing Director  
D. 678.495.9844  
M. 918.269.0897  
Aaron.Hargrove@GreyCo.com



Eric Taylor  
Managing Director  
D. 678.495.9841  
M. 734.634.0330  
Eric.Taylor@GreyCo.com

# AFFORDABLE HOUSING NEED

- Since 2005 (well before the start of Great Recession), the U.S. homeownership rate has been declining steadily. It is currently at its lowest point over the last 20 years, having now fallen for the 10<sup>th</sup> straight year.



- These former homeowners have voluntarily / involuntarily migrated into the renter pool and have substantially increased the demand for multifamily housing across the income spectrum.
- This measure of homeownership rate masks the growth in population over the time period graphed; not only has the share of renters grown, but the sheer number of renters has as well.

# AFFORDABLE HOUSING NEED

- National multifamily vacancy dipped to 4.6% in 2015 – the lowest point in nearly 20 years. Rents increased by an average of 4.9% year over year.
- Despite steady job growth since 2010 and a current national unemployment rate of 4.93%, the labor market recovery has yet to generate meaningful income gains.
- At last measure in 2013, median household income was \$51,900 – still 8% below the 2007 level in real terms and equivalent to 1995 levels. That’s nearly twenty years in which the average American family has experienced no income growth, despite inflation growing their expenses considerably.
- In 2013 (in the face of stagnating incomes and rising rents) almost half of all renters had housing cost burdens. More than a quarter endured with “severe” burdens (paying more than 50% of income for housing).

# TYPES OF AFFORDABLE HOUSING THEN...



Magnolia Projects  
New Orleans, LA  
1,403 Units (2,100 residents)



Cabrini-Green  
Chicago, IL  
3,607 Units (15,000 residents)

# TYPES OF AFFORDABLE HOUSING

## ...AND NOW



12<sup>th</sup> Avenue Arts (88 Units)  
Seattle, WA  
New Construction LIHTC



Trinity Towers (192 Units)  
Melbourne, FL  
Acq. / Rehab. LIHTC



# TYPES OF AFFORDABLE HOUSING

## Public Housing (1937)

- HUD gives money directly to local Public Housing Authorities to construct, own & operate extremely low income housing.

## Project-Based Section 8 (late 1960's – early 1980's)

- HUD attaches a subsidy directly to a property. HUD allows the owner to charge full market rent, determines what the resident can pay, and pays the difference.

## Section 8 Vouchers (1974 / 1987)

- HUD attaches a subsidy directly to a person. The holder can use the voucher anywhere in the area that accepts Section 8 vouchers). HUD allows the owner to charge full market rent, determines what the resident can pay, and pays the difference.

## Low Income Housing Tax Credit Program (“LIHTC”) – Tax Reform Act of 1986

- Federal tax credits are allocated to the states based on their population. States decide housing objectives and developers apply through the states for these federal tax credits. When awarded LIHTCs, developers sell them to Fortune 500 companies and the proceeds from these sales of LIHTCs serve as owner equity. Developers artificially reduce rents for 30+ yrs. in exchange for LIHTCs.

# TYPES OF AFFORDABLE HOUSING

## Summary of the Stock of Affordable Housing

Public Housing	1,100,000 Units
Project-Based Section 8	1,725,000 Units
Section 8 Vouchers	2,400,000 Units
LIHTC Program	2,800,000 Units
<b>TOTAL</b>	<b>6,000,000 - 7,000,000 Units*</b>

*\* The total is less than the sum of the categories due to overlap between the LIHTC and the Section 8 programs*

# TYPES OF AFFORDABLE HOUSING

- Nearly 13% of the nation's supply of low-income housing has been lost (demolished or converted to market-rate housing) since 2001
- Over the next decade, 2.2 million of the previously mentioned existing affordable units are at risk of converting back to market rate housing unless they are redeveloped and preserved as affordable housing

FIGURE 39

## Millions of Units Subsidized with Project-Based Rental Assistance or Tax Credits Are at Risk of Loss

Cumulative Number of Units with Expiring Affordability Periods (Millions)



Notes: Data include properties with active subsidies as of February 20, 2015. Other units are funded by HOME Rental Assistance, FHA insurance, Section 202 Direct Loans, and USDA Section 515 Rural Rental Housing Loans.  
Source: JCHS tabulations of National Housing Preservation Database.

## AFFORDABLE HOUSING ENVIRONMENT

- Retaining funding levels is always a fight in Congress, state legislatures, and city halls nationwide.
- The need for affordable housing continues to expand while the funding resources necessary to provide affordable housing are rarely maintained...let alone expanded (*in 2012 there were 11.5 million extremely low-income families but only 3.3 million available affordable housing units*)
- Program eliminations (both HUD and LIHTC) are perennially threatened:
  - *“Things like Housing and Urban Development, which my dad was head of, that might not be around later” – Mitt Romney, 2012*
- NIMBY-ism (Not-In-My-Back-Yard local opposition) is rampant.
- In 2013, one third of HUD-assisted households were elderly and another third were disabled (with an average income of \$12,900). Affordability is a necessary resource for our nation’s most vulnerable populations.

# LOW INCOME HOUSING TAX CREDIT ("LIHTC") PROGRAM SUMMARY

- It's the longest-lasting federal housing program and provides virtually all low-income affordable rental housing developed in the United States today.
- It has strong bipartisan support:
  - Democrats: Creates and preserves affordable housing (90,000 – 95,000 units developed annually)
  - Republicans: Creates jobs (96,000 annually), delegates administration to the states, allows public / private partnership among the federal government / state housing agencies / private sector
- Administration of the program resides with state housing finance agencies. They publish rules and scoring criteria. The projects that score the highest (meaning they best meet the housing priorities and the required rules) win an allocation of LIHTCs
- LIHTCs are used to develop and preserve a variety of residential property types that range in size and location. They are built in rural, suburban and urban areas in all corners of the nation with significant local input.
- They serve all sectors of the nation's population, including veterans, the elderly, the homeless, people with special needs, families, and others.

# LOW INCOME HOUSING TAX CREDIT ("LIHTC") PROGRAM SUMMARY

- Each LIHTC is a dollar for dollar offset against the holder's federal tax liability -- and LIHTC investors do indeed buy these valuable tax credits. The LIHTC investor equity contribution subsidizes low-income housing development, allowing subsidized units to rent at below-market rates. Without the incentive, affordable rental housing developments are generally financially infeasible.
- Once a developer has an allocation of LIHTCs, he or she utilizes middle-men called LIHTC syndicators who represent banks and fortune 500 companies. If they like your project, they make offers to buy your allocation of LIHTCs.
- LIHTC transactions, similar to conventional MF acquisitions, will secure 80%-90% LTV financing through Fannie Mae, Freddie Mac, FHA or through local banks. The difference with LIHTC transactions is that you do not need the typical owner equity contribution as the proceeds from the syndication of the LIHTCs serves as the owner equity.
- Besides not having to raise or contribute owner equity, these transactions typically allow a 15% of TDC developer fee to be paid to the developer. **To summarize you contribute \$0, earn a 15% developer fee, and maintain virtually all of the CFLO/residual.**

## CONCLUSION

- By all measures there is a substantial and growing need to develop and preserve affordable housing nationally
- A number of government programs through the years have attempted to solve this problem. Since 1986, the LIHTC program has proven to be the most successful vehicle to promote production of affordable housing nationally (and throughout Oklahoma)
- Affordable housing properties can...
  - Be lucrative for developers (in the form of developer fees, cash flow, and residual value)
  - Create affordable housing across Oklahoma
  - Represent very secure investments (0.62% foreclosure rate over the history of the LIHTC program)
- Local municipalities can better facilitate these transactions by...
  - Supporting these developments monetarily and publicly
  - Assisting through local funds to help make these projects viable (through resources like HOME funds, CDBG, property tax abatements / exemptions, fee waivers, infrastructure reimbursements, etc.)
- OHFA administers this program in Oklahoma and is a great resource to learn more about this program

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