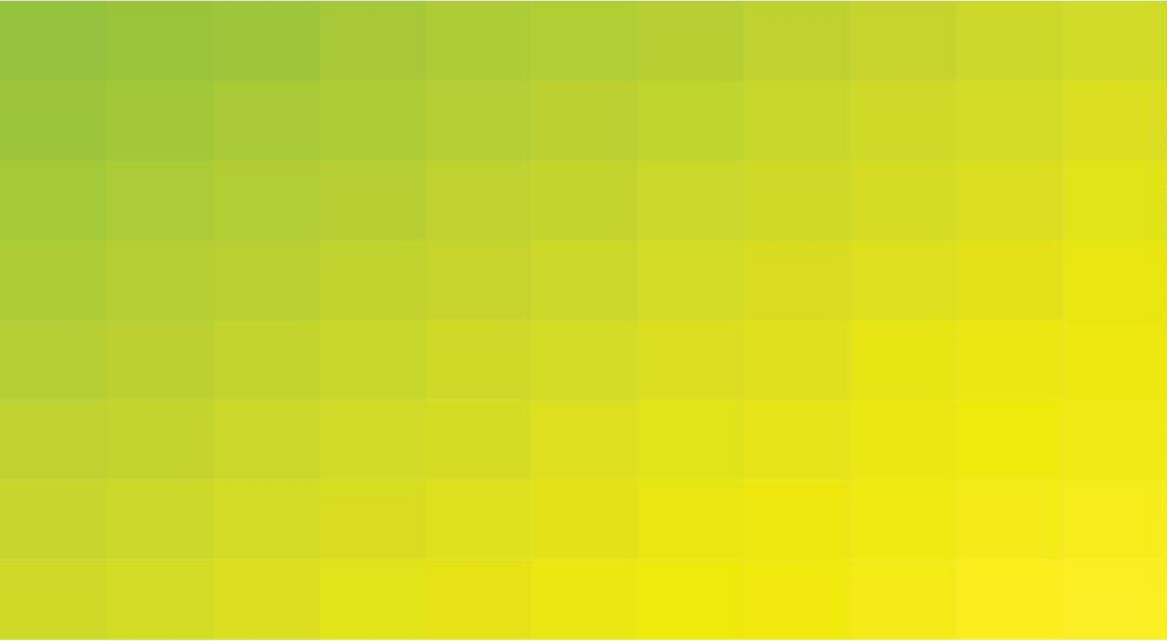


# Getting the Deal Done: Creating and Preserving Affordable Housing in Your Community

A Discussion with Freddie Mac Multifamily, Rise,  
McCormack Baron Salazar, NECAC, the City of St. Louis  
Affordable Housing Commission, and the USDA



## Multifamily Affordable Housing: Market Context

# A *Better* Freddie Mac

...and a *better* housing finance system

## For families

...innovating to improve the liquidity, stability and affordability of mortgage markets

## For customers

...competing to earn their business

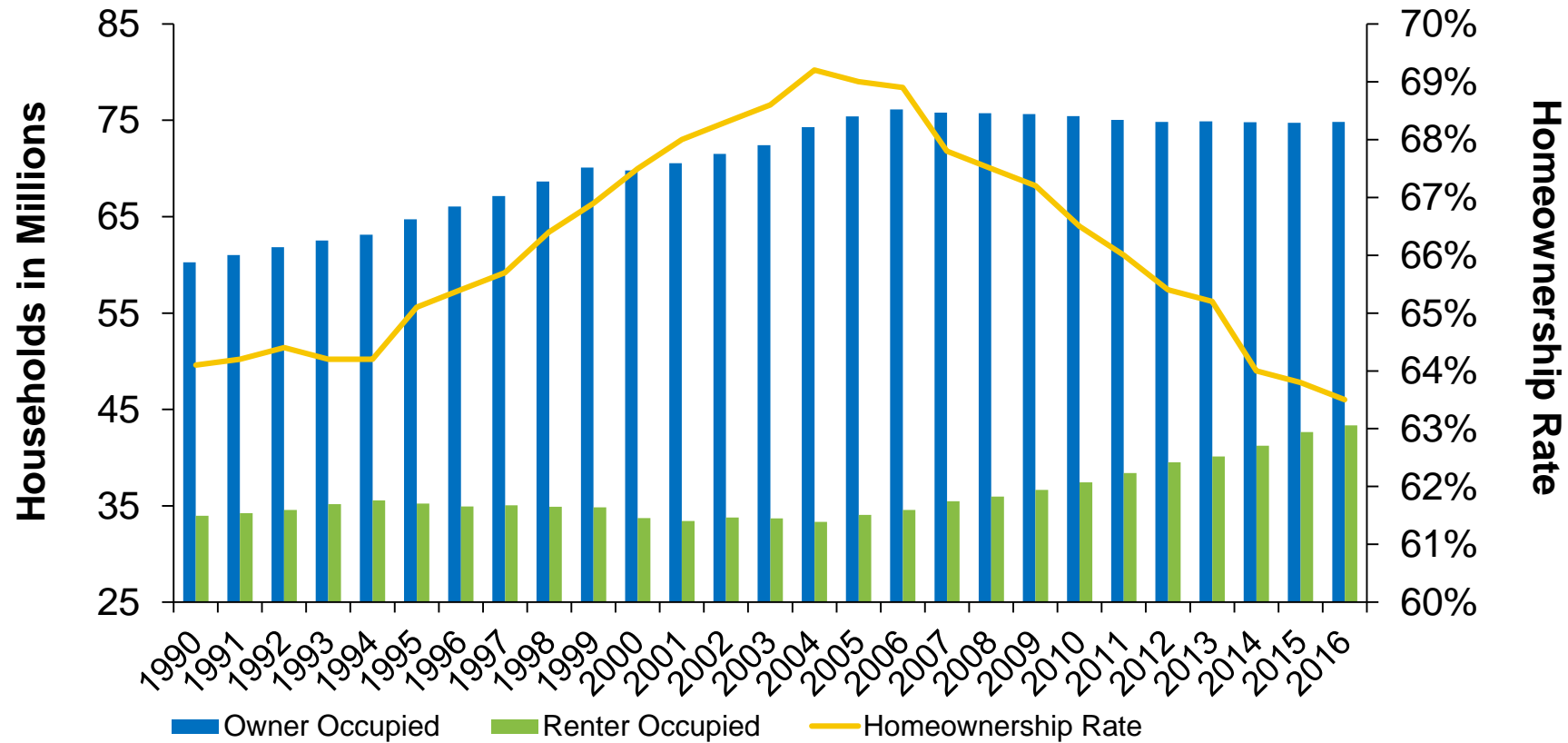
## For taxpayers

...reducing their exposure to mortgage risks

- Changing demographics
  - » Baby Boomers
  - » Millennials
- New urbanism movement in many metro areas
- Changing preferences
- Value of flexibility
- Increasingly viable alternative to homeownership
- Return to higher credit standards for residential mortgages



## Owner and Renter Households and Homeownership Rate



Sources: U.S. Census Bureau, Current Population Survey/Housing Vacancy Survey, Freddie Mac

Note: 2016 as of 3Q

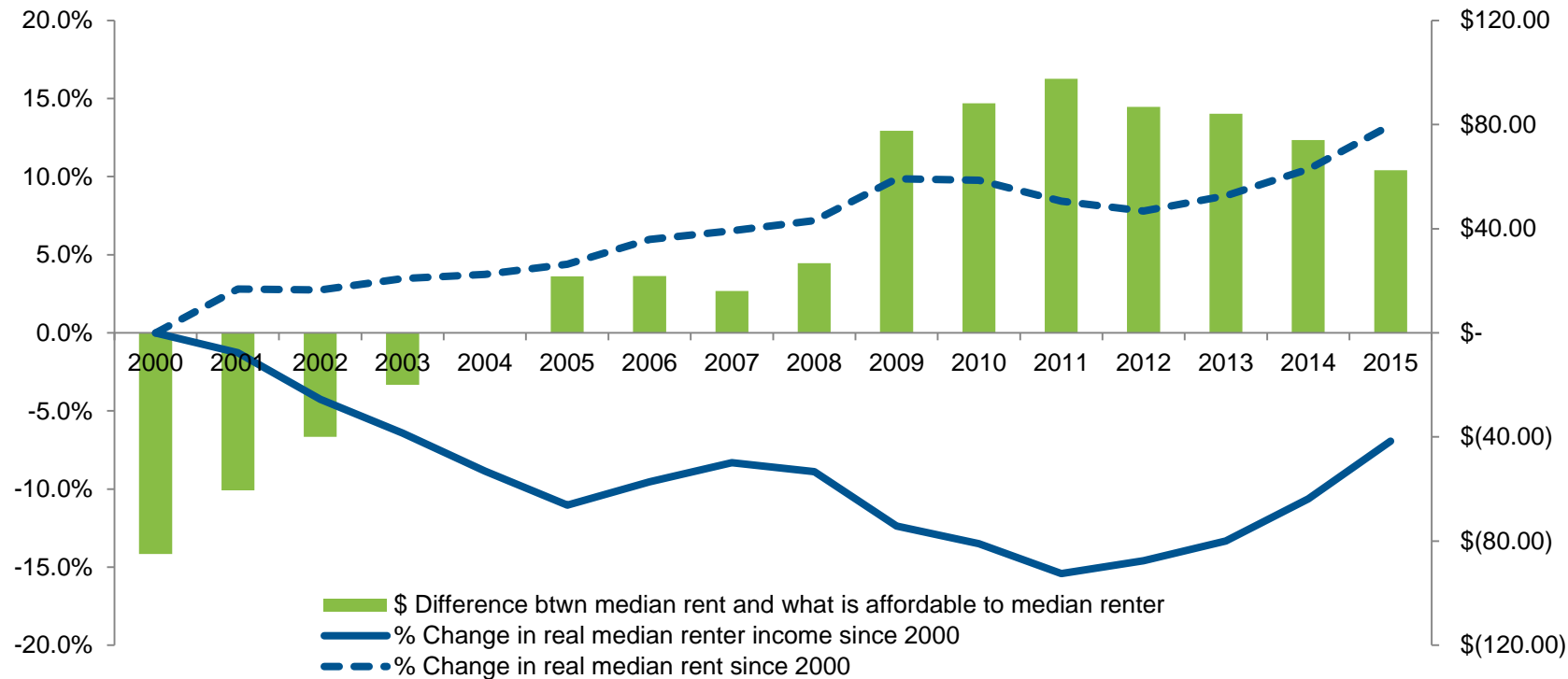
# The Affordability Challenge



- Affordable housing remains a challenge despite the economic recovery
- Based on the most recent Worst Case Housing Needs report, the number of very-low income households paying more than half of their income to rent was 7.7 million in 2013
  - » Down 750,000 from 2011, which peaked at 8.48 million but still 2.5 million above the 2003 level of 2.18 million
- The most burdened group by household type are families with children at 2.8 million in 2013
- Elderly households with no children was the only household type that did not see a decline from 2011; at 1.5 million
  - » Suggests the economic recovery in the past few years less beneficial to elderly households
- The affordability challenge is not just at the lower-income levels but goes up to the moderate income level (80% AMI) in high cost metros (such as New York, San Francisco, Los Angeles, and Miami)

# Real Rents and Median Renter Income

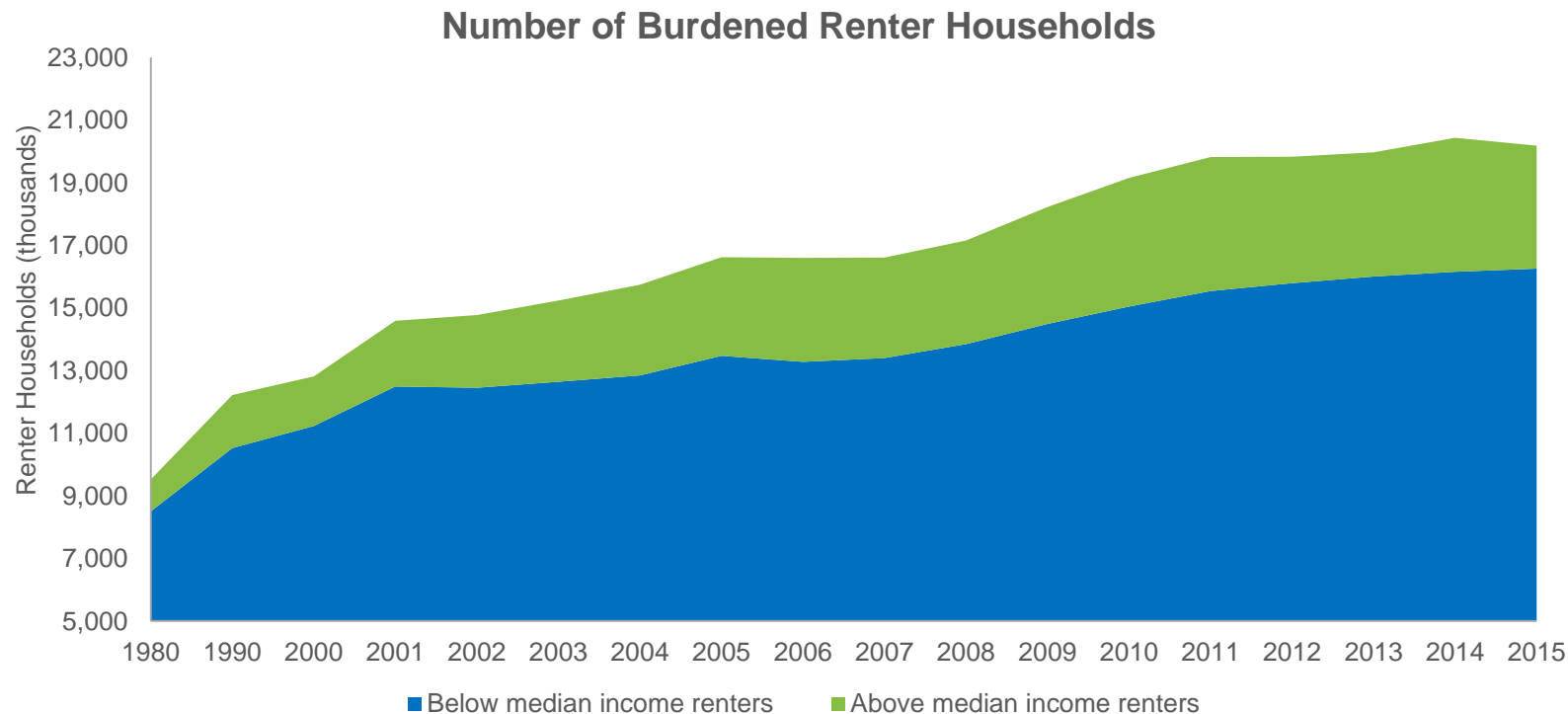
- Real rents have been trending up, and as of 2015, median real rent is 13% higher than in 2000. In the mean time, real median renter income is 7% lower in 2014 than in 2000.
- As a result, the median rent – that was below the affordable limits in early 2000s – is now \$62 higher than what the median renter can afford.



Sources: Freddie Mac, U.S. Census Bureau, American Community Survey

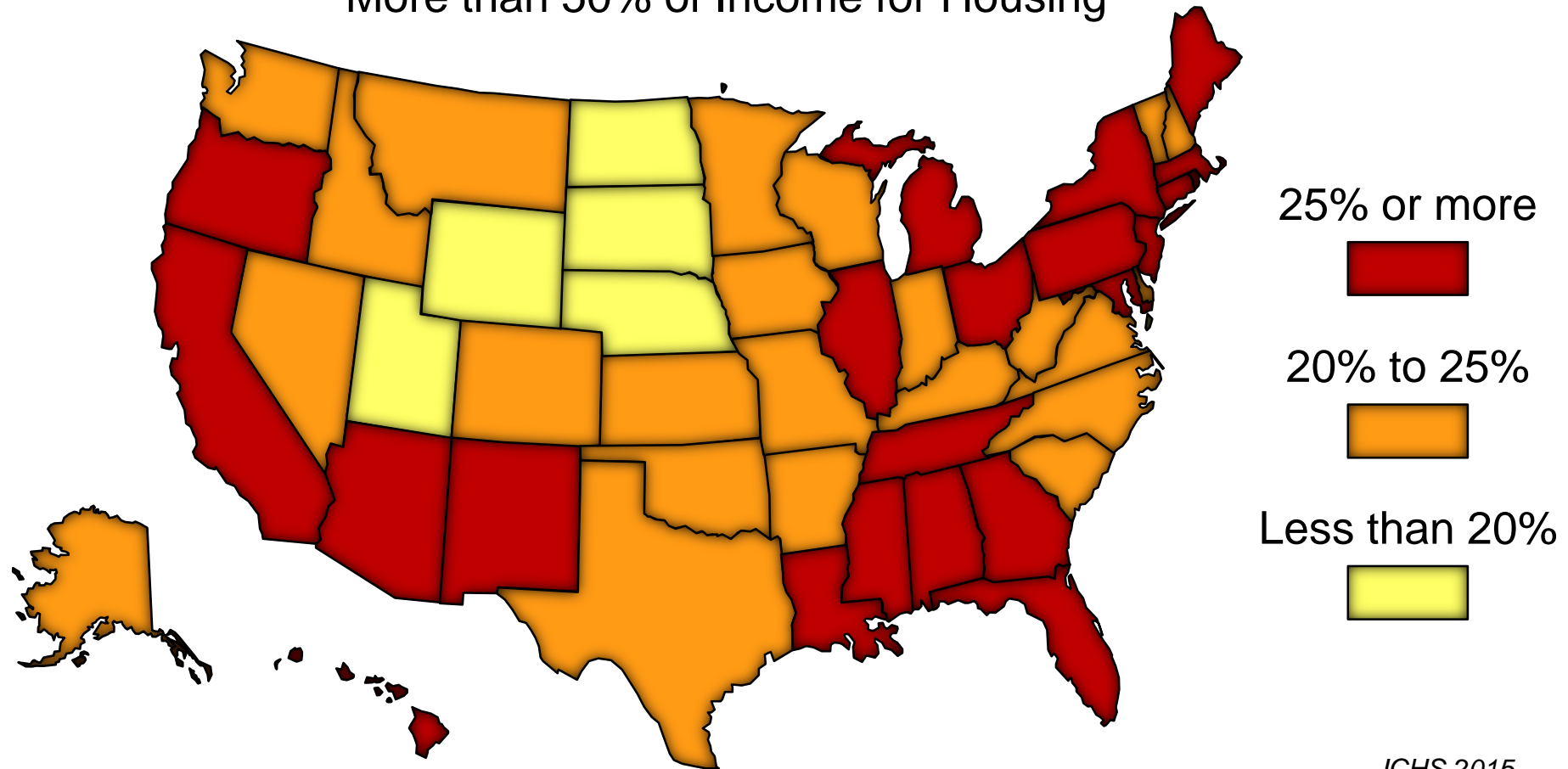
# Burdened Renter Households

- Half of 40 million renter households spend 30 percent or more of their income on rent.
- While low income renters constitute the majority of burdened households, high income earning renter households are increasingly becoming burdened as well.



Sources: Freddie Mac, U.S. Census Bureau, American Community Survey

## Percent of Rental Households Paying More than 50% of Income for Housing



JCHS 2015

# *Introductions*

*Corey Aber, Freddie Mac Multifamily—Community Mission*

*Josh Schonfeld, Freddie Mac Multifamily—Legal Division*

*Stephen Acree, Rise*

*April Griffin, City of St. Louis Affordable Housing Commission*

*Julie DeGraaf, McCormack Barron Salazar*

*Carla Potts, Northeast Community Action Corporation*

*Greg Batson, USDA Rural Development*

*Getting the Deal Done*

# GETTING THE DEAL DONE

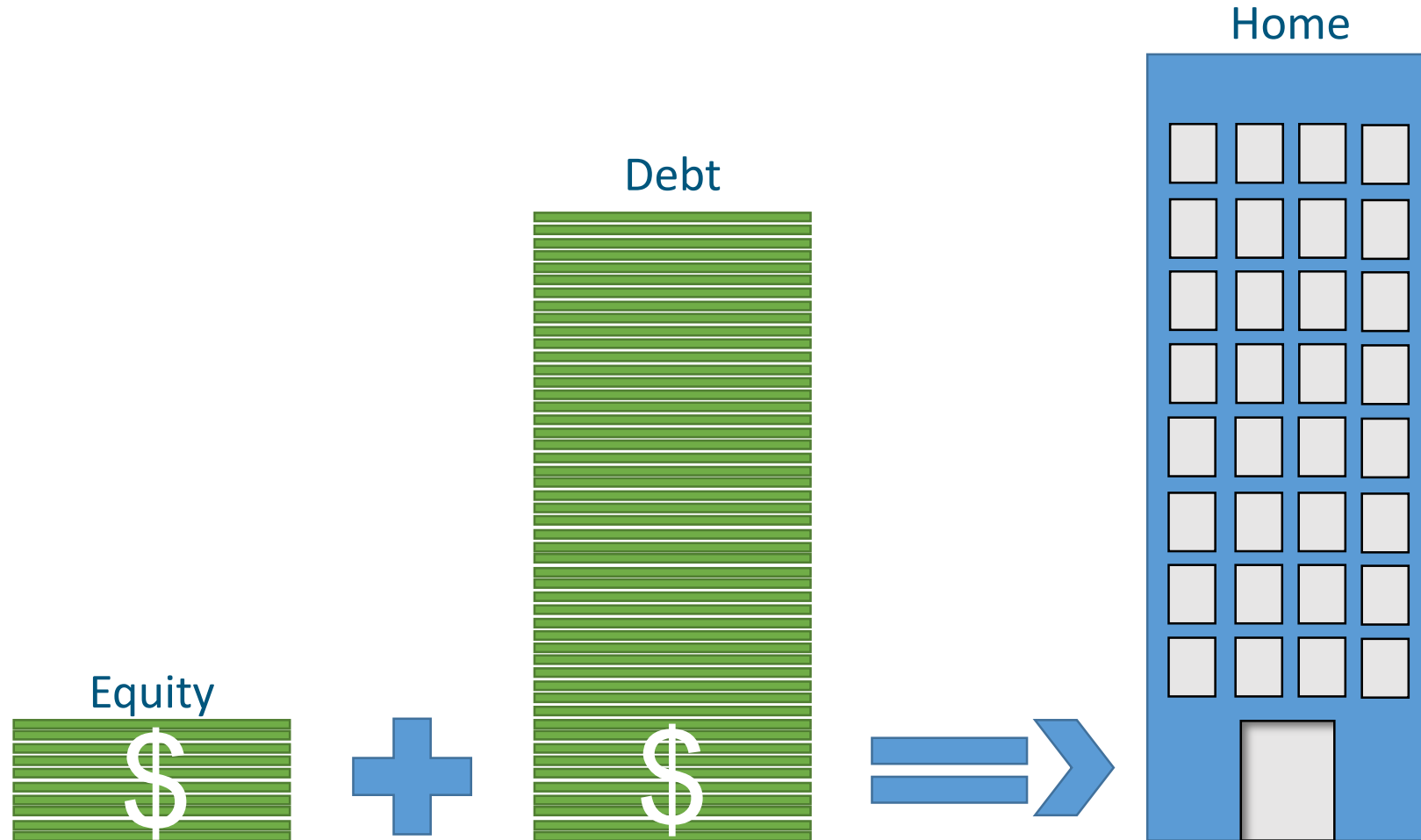


1. Programs & Tools that Provide Sources of Debt & Equity to Finance Affordable Housing
  2. Putting it All Together
  3. Real Life Examples
-



# GETTING THE DEAL DONE

Equity and Debt





## GETTING THE DEAL DONE

### Development Cost Gap

#### Example 1:

The substandard housing stock in the community needs to be rehabbed or replaced. It will cost a minimum of \$150,000 to build a modest home, but because of the predominantly low value of housing in this area, the market will only support prices up to \$100,000 (the market value of the home). This creates a “development cost gap” of \$50,000.

Assuming you can get a bank loan for 80% of the market value (\$80,000) and you have the rest in equity (cash investment = \$20,000) to be returned when the home is sold, where do you get the rest of the \$50,000?

## GETTING THE DEAL DONE



### Example 2:

There is also a need for high quality affordable rental housing in the community. The net operating income for a 20-unit development that charges affordable rents can support a mortgage of \$500,000, but it will cost \$2 million to build the apartments. How do you finance it?

## GETTING THE DEAL DONE



### Affordability Gap

#### Example 3:

Now, assume that you want to provide homeownership opportunities to families that have incomes that can only support a mortgage of \$75,000. Even if you have solved the “development cost gap,” how do you make the \$100,000 home affordable to the family that can only pay \$75,000?



## GETTING THE DEAL DONE

### Example 4:

A 10-unit apartment building that the owner wants to make affordable to low-income residents:

- Conventional 30 yr. loan at 5.5% will cost \$5,678 per month in debt service, or \$567.80 per unit per month
- 30 yr. tax-exempt bond loan at 4% will cost \$4,774 per month in debt service, or \$477.40 per unit per month
- The \$90 per unit per month difference can be passed on by charging \$90 per month less in rent to the tenant.

## GETTING THE DEAL DONE



These are the two fundamental problems that have to be solved in most affordable housing development projects:

1. How to fill the gap between market value and cost; and
2. How to fill the gap between market value and affordability.



## GETTING THE DEAL DONE

### Financing Programs & Tools

*(not exhaustive)*

- Tax Exempt Bonds (Private Activity Bonds)
- Low-Income Housing Tax Credits (LIHTC)
- Historic Rehab Tax Credits
- Housing Choice Vouchers (Section 8)
- Tax Abatement
- Community Development Block Grant (CDBG)
- Home Investment Partnerships (HOME)



## GETTING THE DEAL DONE

These programs and tools are:

- Highly regulated, often conflicting
- Come with loads of other federal regulatory requirements
- Lots of tax implications for partners
- Labor-intensive, highly sophisticated forms of financing
- Expensive





## GETTING THE DEAL DONE

### What is a Tax Exempt bond?

- A Promissory Note evidences that the issuer borrowed money from bondholders
- Housing Bonds are limited obligation revenue bonds.
- Issuer does not lend its own money
- Issuer is a conduit – has no liability for payment of bonds from issuer funds
- Several types of governmental entities can issue housing bonds (governed by state law)
- Interest earned by bondholders is exempt from federal and (usually) state income tax

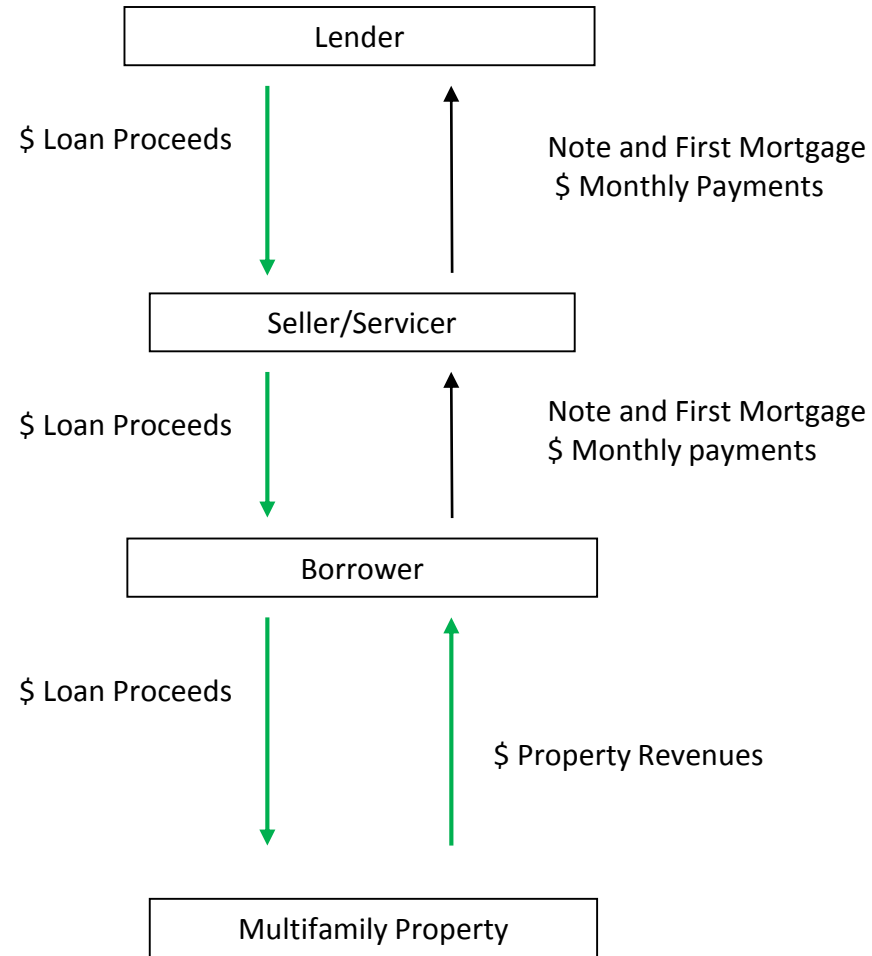


## GETTING THE DEAL DONE

### Tax Exempt Benefits to Investors

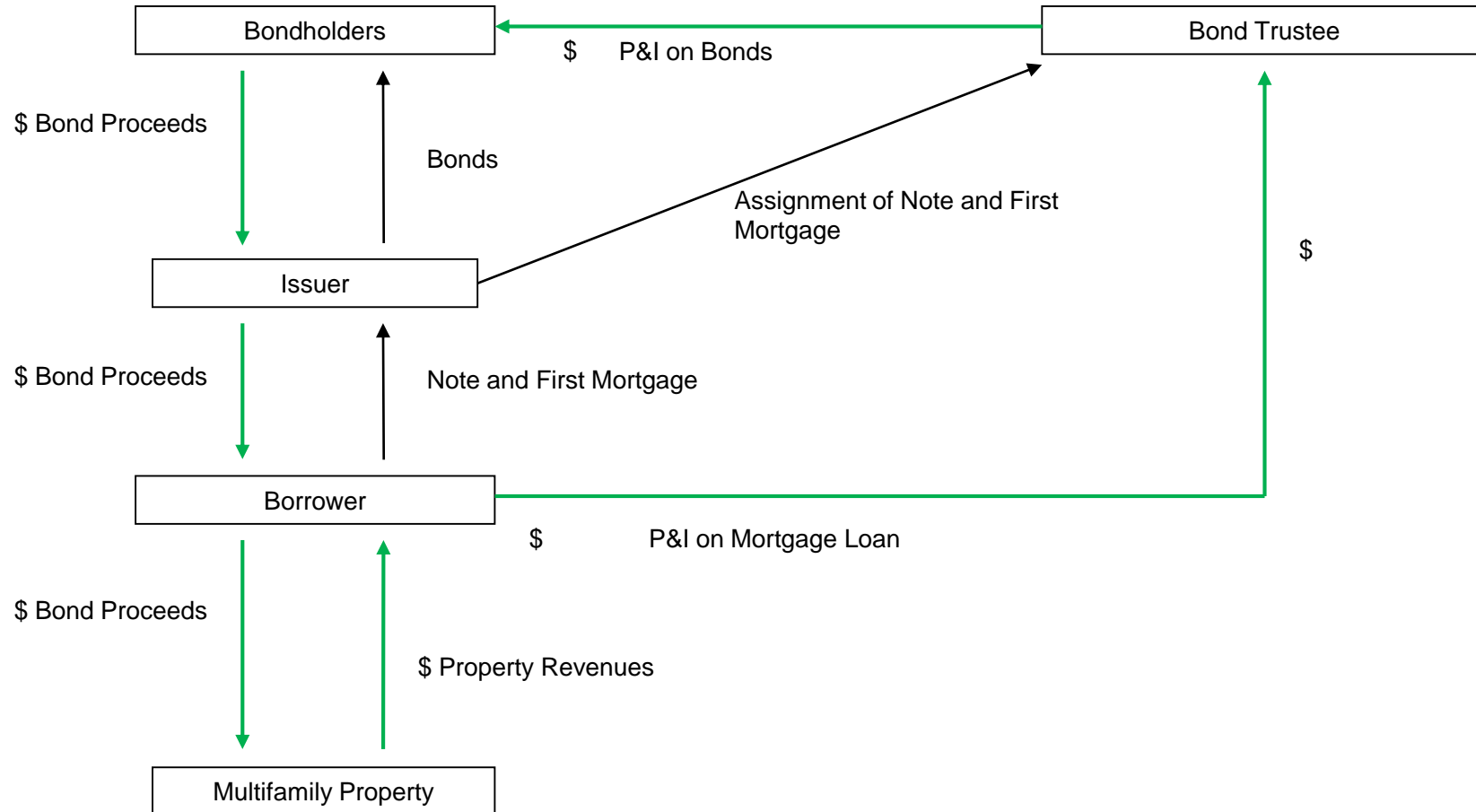
- Tax-exempt interest rates are typically lower than conventional rates
- Use of tax-exempt bonds permits automatic access to 4% federal low-income housing tax credits
- After-tax yields are higher. “It’s not what you earn, it’s what you keep.”
- An investor can keep more of what a 5% tax-exempt bond pays vs. a 7% taxable bond if the investor is in the 35% tax bracket
- Requires some resident income and rent restrictions

# How Does a Conventional Deal Work?



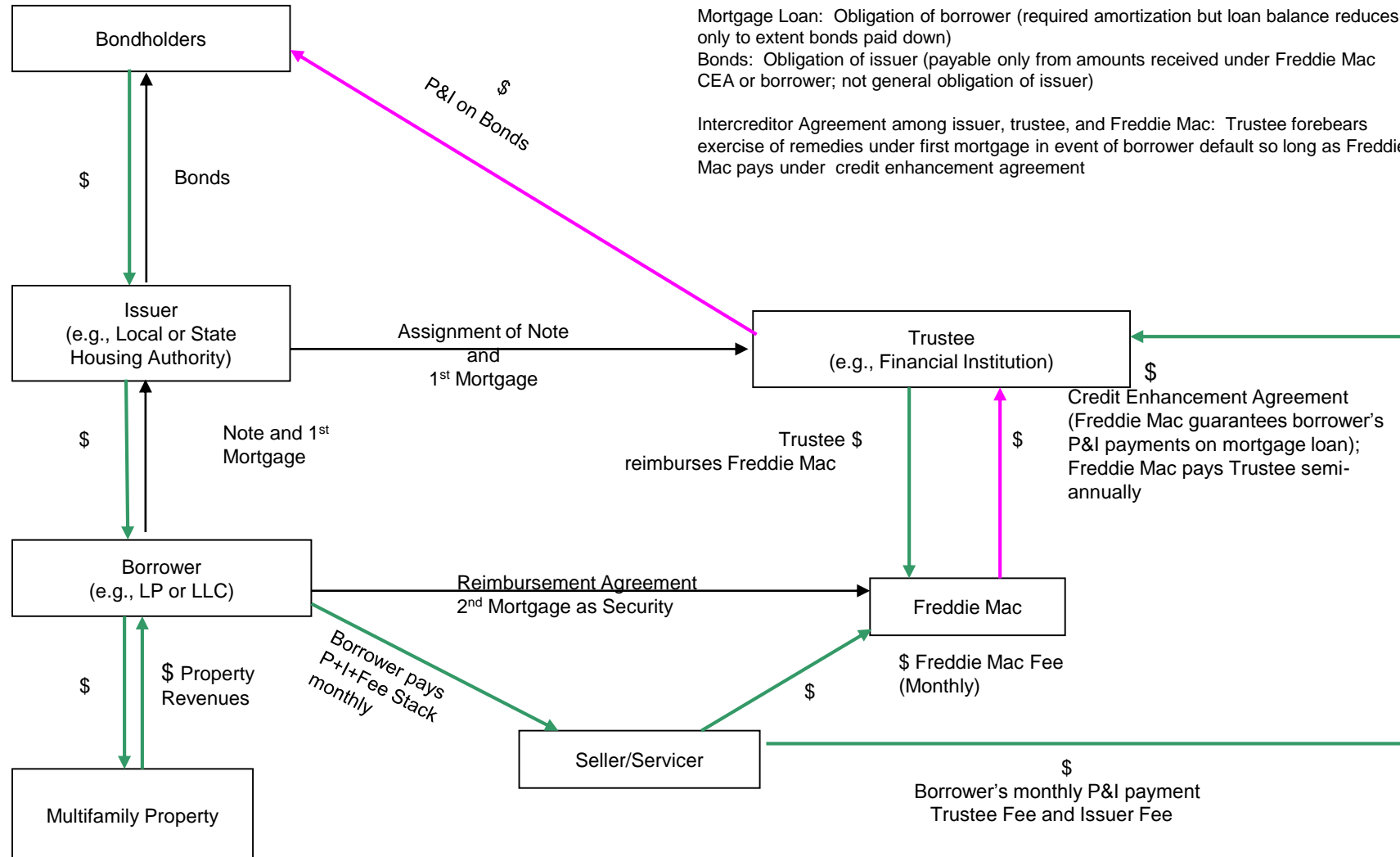
# How Does a Bond Deal Work?

(Without Credit Enhancement)



# How Does a Freddie Mac Tax-Exempt Fixed-Rate Bond Structure Work?

## Direct Pay Credit Enhancement – Flow of Funds





## GETTING THE DEAL DONE

### Federal Low-Income Housing Tax Credits

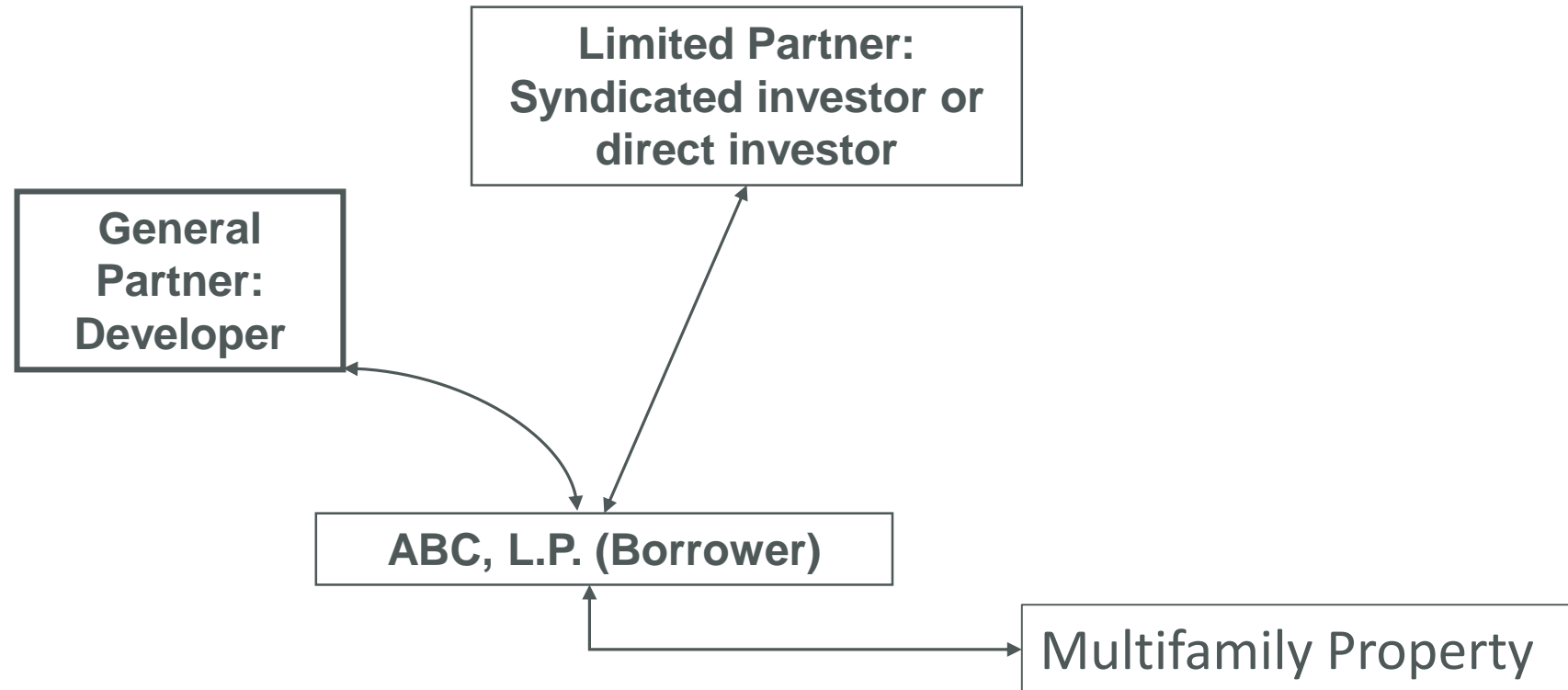
*The single largest resource for creating affordable housing in the United States today*

- Allocated to State Housing Finance Agencies
- Used for the acquisition, rehabilitation, or new construction of rental housing targeted to lower-income households
- The tax credits are used to leverage private capital
- Amount of tax credits a project is eligible for is determined by the development costs
- Requires some resident income and rent restrictions

## GETTING THE DEAL DONE



### Simple LIHTC Structure





## GETTING THE DEAL DONE

### Historic Rehab Tax Credits (HTCs)

- Eligible properties—contributing buildings in National Register Historic Districts
- Amount of tax credits a project is eligible for is determined by the development costs—Federal tax credit is based on 20% of eligible costs
- Provide a means for private companies to make equity investments in historic preservation projects and receive credits against their federal tax liability in return
- Rehabilitation must be done in accordance with standards established by the Secretary of the Interior





## GETTING THE DEAL DONE

### Housing Choice Vouchers (Section 8)

- Project-Based and Portable
- Pays the difference between 30% of the tenant's monthly income and the "market rent" of the unit
- "Market rent" is established by HUD through rent comparison studies

### Example:

- Market rent is \$750/month
- Tenant's monthly income is \$2,000—30% of tenant's monthly income is \$600.
- Housing Choice Voucher will pay \$150 of tenant's monthly rent



## GETTING THE DEAL DONE

### Tax Abatement

How is tax abatement an affordable housing tool?

- The lower the annual debt service (mortgage payment) and the lower the annual operating expenses of the property, the lower the rents can be charged that are needed to support the debt service and operating expenses



## GETTING THE DEAL DONE

### Community Development Block Grant (CDBG) and Home Investment Partnerships (HOME) Programs

- Federal funding allocated to State and local governments based on formulas
- CDBG-funded activities must either benefit low-moderate income people ( $\leq 80\%$  AMI) or prevent or eliminate slum and blighted conditions—can be used to finance affordable housing
- HOME can only be used for affordable housing activities—acquisition/rehab, new affordable housing development, rental assistance ( $\leq 80\%$  AMI for homeownership activities/mostly  $\leq 50\%$  AMI for rental housing activities)



## GETTING THE DEAL DONE

### Putting it All Together—Structured Finance

- More often than not, successful affordable housing development projects require that many different sources of funds be combined and leveraged with private sources.
- These become very complex transactions, often referred to as "structured financing."
- To combine them all in creative ways, with the ultimate goal of realizing developments that will have sustained impacts on the community, requires a thorough knowledge of the financial resources available, the intricacies of the regulations that govern them, and familiarity with the needs of lenders and investors.

# A NEIGHBORHOOD REVITALIZATION CHALLENGE— CROWN SQUARE



Community-based planning is a key component in the development process



## CROWN SQUARE





## CROWN SQUARE



Conversion to  
mixed-use, mixed  
income housing  
development:

42 affordable  
apartments

38 market-rate  
apartments

33,000 square feet  
of commercial  
space



# CROWN SQUARE







## CROWN SQUARE

### Affordable Housing Component Sources

	Predevelopment	Construction	Permanent
Predevelopment Loan	\$1,000,000		
Tax Exempt Bond Debt		\$7,330,000	\$675,000
Interest on Undisbursed Bond Proceeds		\$108,000	\$108,000
State HOME Debt (2 <sup>nd</sup> )		\$500,000	\$500,000
City HOME Debt (3 <sup>rd</sup> )		\$375,000	\$375,000
City Trust Fund Debt (4 <sup>th</sup> )		\$300,000	\$300,000
Federal LIHTC Equity		\$3,006,000	\$4,940,000
State LIHTC Equity		\$1,208,000	\$2,013,000
Federal HTC Equity		500	\$1,693,000
State HTC Equity		500	\$2,381,000
State Charitable Contribution Tax Credit Equity		\$1,819,000	\$1,819,000
<b>TOTAL</b>	<b>\$1,000,000</b>	<b>\$14,647,000</b>	<b>\$14,804,000</b>

# CROWN SQUARE



# CROWN SQUARE





# CROWN SQUARE



# CROWN SQUARE





# CROWN SQUARE



# CROWN SQUARE





# CROWN SQUARE



It's about the people who live there...





# Mill Pond Senior Apartments

- ❖ 52 Units
- ❖ Began as HUD 202 Financing
- ❖ Additional Financing
  - 4% Tax Credits
  - Bonds
- ❖ First 202 in the Nation to Utilize Mixed Financing



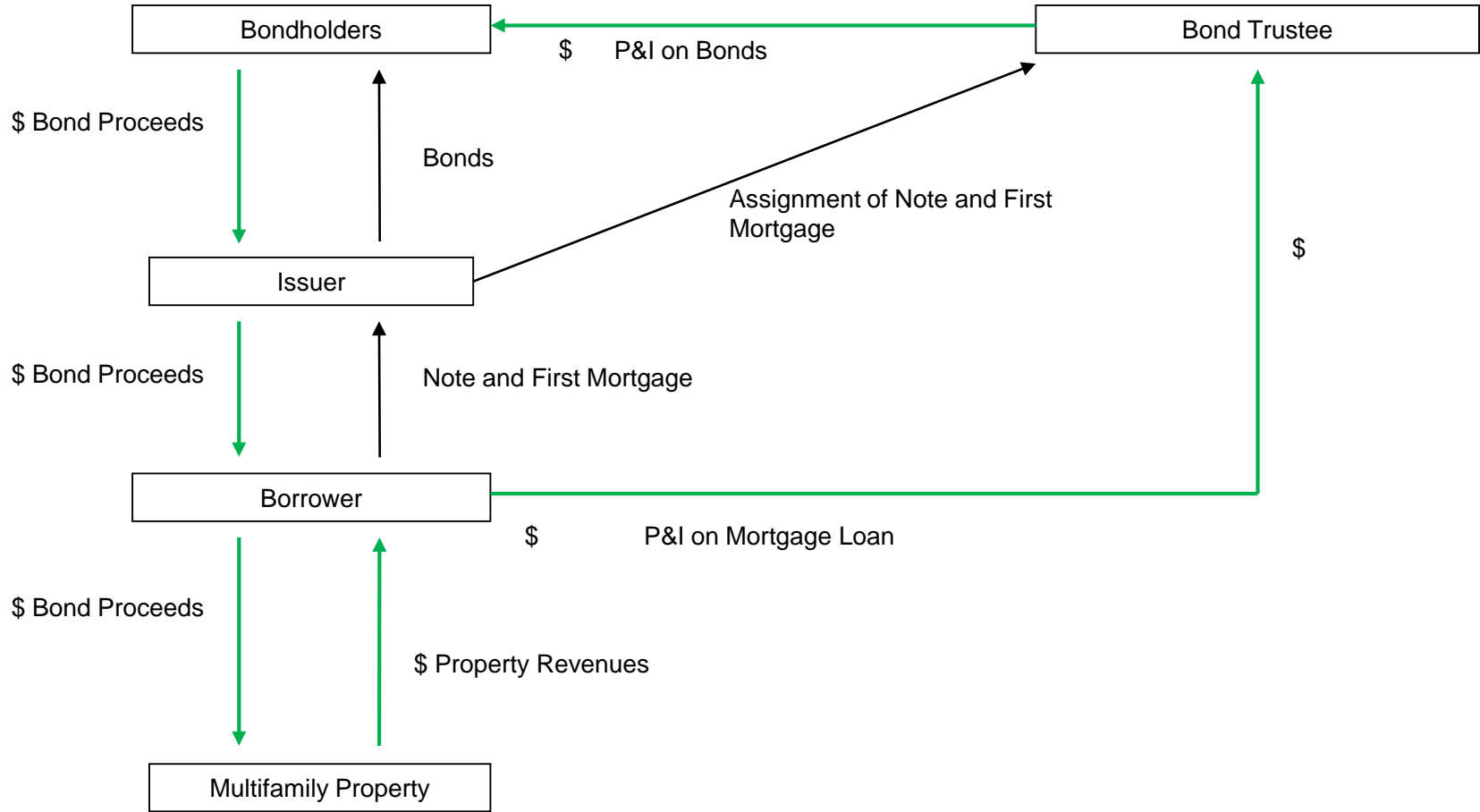
# *The Value of Local Incentives*

# *Freddie Mac Offerings*

- Taxable Loans
  - » Immediate Funding
  - » Preservation Rehab.
  - » Forward Commitment
- Tax-Exempt Finance
  - » Two varieties:
    - Tax Exempt Loans
    - Credit Enhanced Bond Transactions,
  - » Immediate Funding
  - » Preservation Rehab.
  - » Forward Commitment
  - » Bridge to Resyndication
- Green Advantage
- All Executions work with LIHTC, Section 8, Tax Abatement, etc.

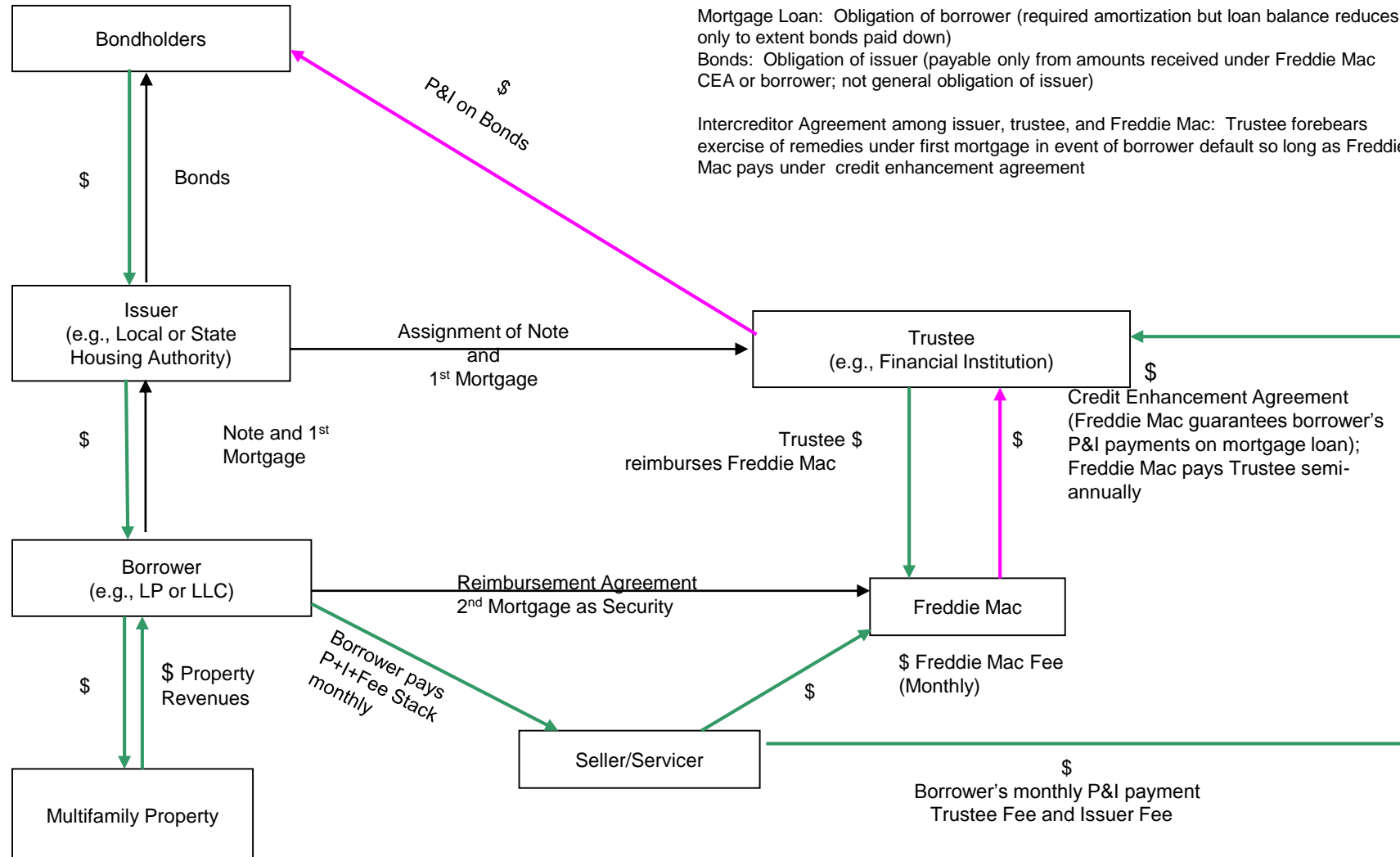
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(Without Credit Enhancement)

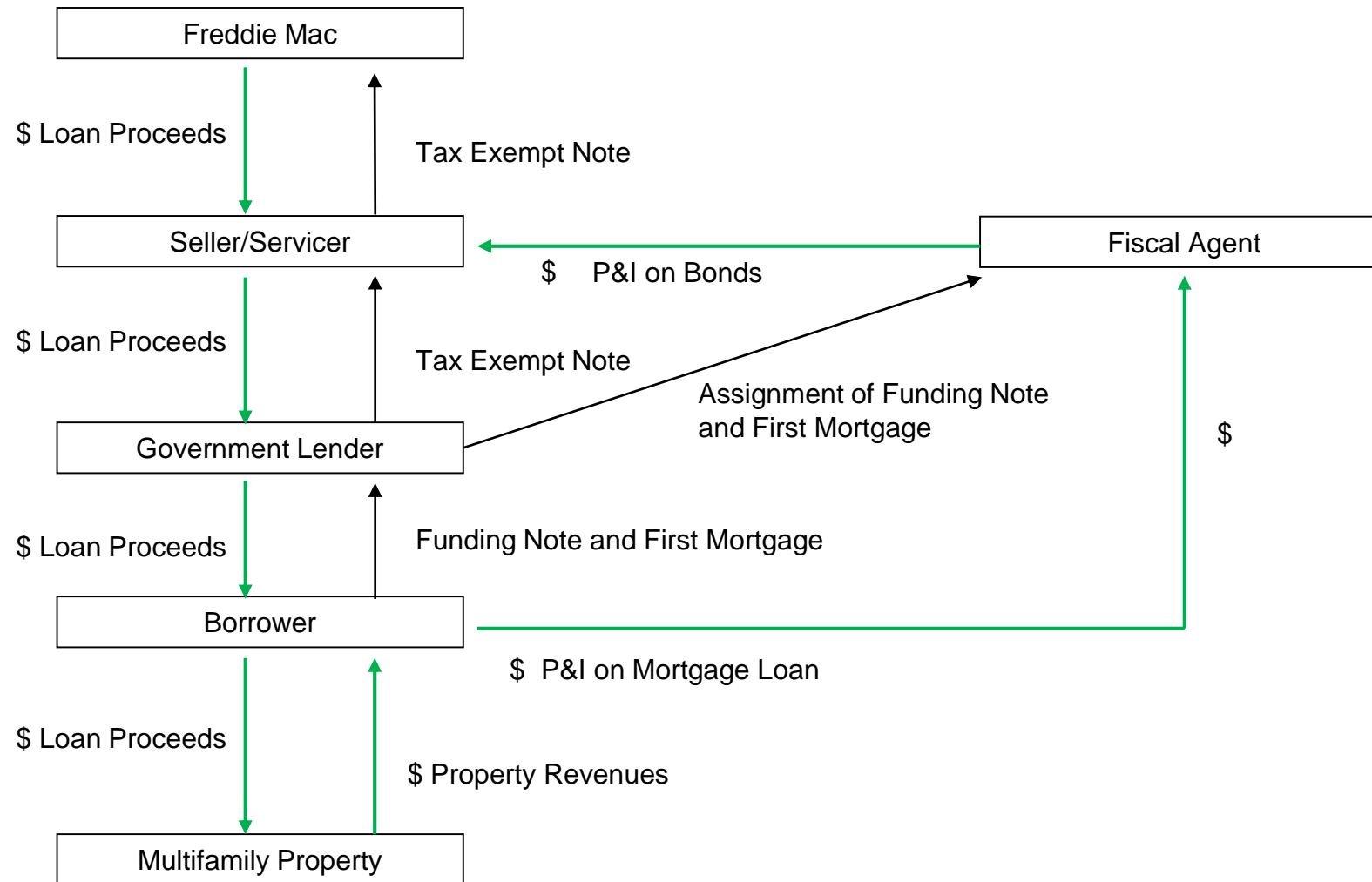


# How Does a Freddie Mac Tax-Exempt Fixed-Rate Bond Structure Work?

## Direct Pay Credit Enhancement – Flow of Funds



# How Does a Tax Exempt Loan Deal Work? (Credit Enhancement Not Needed)



# *USDA Offerings*





# HOUSING PROGRAMS

## Multi-Family Housing Programs





# Multi-Family Housing Programs

- Section 515, Rural Rental Housing Program (RRH)
- Section 538, Guaranteed Rural Rental Housing Program (GRRH)
- Section 514, Farm Labor Housing Loans (FLHL)
- Section 515, Farm Labor Housing Grants (FLHG)



## Section 515, Rural Rental Housing Program

- 619 complexes – state wide (as of 11/1/16)
- 14,047 total units
- 19,001 Tenants
- Family or Elderly/Disabled
- Consist of 1-3 bedrooms
- Rent based upon tenant adjusted income





## Section 515, RRH (cont.)

- Loan Purposes:
  - New construction
  - Purchase and rehabilitate existing buildings
  - Purchase and improve the necessary land on which the housing will be located
  - Develop other related facilities in connection with the housing,
    - Community room, recreation area or office



## Section 515, RRH (cont.)

- Eligibility: Individuals, partnerships, limited partnerships, for-profit corporations, non-profit organizations, limited equity cooperatives, Native American tribes and public agencies are eligible
- Terms: The term for an initial Section 515 loan is 30 years with a 50 year amortization period
- Each loan is made at a note rate established by the Agency



## Section 515, RRH (cont.)

- Applications: Competitive application process published yearly in the Federal Register as a Notice of Solicitation of Applications (NOSA)
- Every year each State uses criteria to establish a list of targeted communities for which applications will be accepted (Designated Places list)
  - Applications submitted for areas other than what is on the Designated Places list will be rejected
  - We post these to our Missouri website when the NOSA is published
- Applications are then rated competitively nation-wide





# Section 538, Guaranteed Rural Rental Housing Program

- Purpose of Program: Provide housing that is decent, safe, sanitary, and competitive in the market





## Section 538, Guaranteed (cont.)

- Loan Purposes:
  - New construction and/or purchase and rehabilitation of buildings
    - For Rehab, minimum of \$6,500 per unit required
  - Purchase and improve land on which the housing will be located
  - Development of related facilities (community space, recreation, storage or maintenance structures) except high cost facilities
    - swimming pools and exercise clubs





## Section 538, Guaranteed (cont.)

- Construction of on-site management or maintenance offices and living quarters for operating personnel for the property
- Purchase and install appliances and develop the surrounding grounds
- Construction interest accrued on the construction loan, relocation assistance and developers fees
- Costs and/or fees determined by the Agency to be necessary to the development of the project
- Costs associated with existing RD financed Section 515 properties



## Section 538, Guaranteed (cont.)

- Eligibility:
  - Borrowers must be US Citizen or US owned corporations, or organizations in which the principals are US Citizens or permanent legal residents.
  - Lenders are those approved and considered eligible by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corp., the Federal Home Loan Bank members, or the Department of Housing and Urban Development



## Section 538, Guaranteed (cont.)

- Terms: The minimum term is 25 years and the maximum term is 40 years
- Location and Loan Amounts: Must be located in rural communities with less than 35,000 population
- Fees are depended upon the NOSA
- Applications: Competitive application process published yearly in the Federal Register as a Notice of Solicitation of Applications (NOSA), Due 12/31/2017.



## Section 514 & 516 – FLH

- 514 Loans - Increase housing for farm laborers and are specific to the farm where they work.
  - Both on and off farm
- 516 Grants - Increase housing for farm laborers regardless of the farm where they work
  - Grants are provided where there is a pressing need for such facilities and there is reasonable doubt that housing can be provided without the grant assistance
    - May be in urban or rural areas
  - Off-farm labor housing only (on-farm labor housing does not qualify for a grant)

*Roles and  
Perspectives of  
Different Parties in a  
Deal*

*Housing and Community  
Development:  
Choice Neighborhoods in St. Louis*



**THE NEAR NORTH SIDE**  
**NEAR *EVERYTHING***



# NEAR HISTORY





# NEAR ASSETS





# NEAR ASSETS



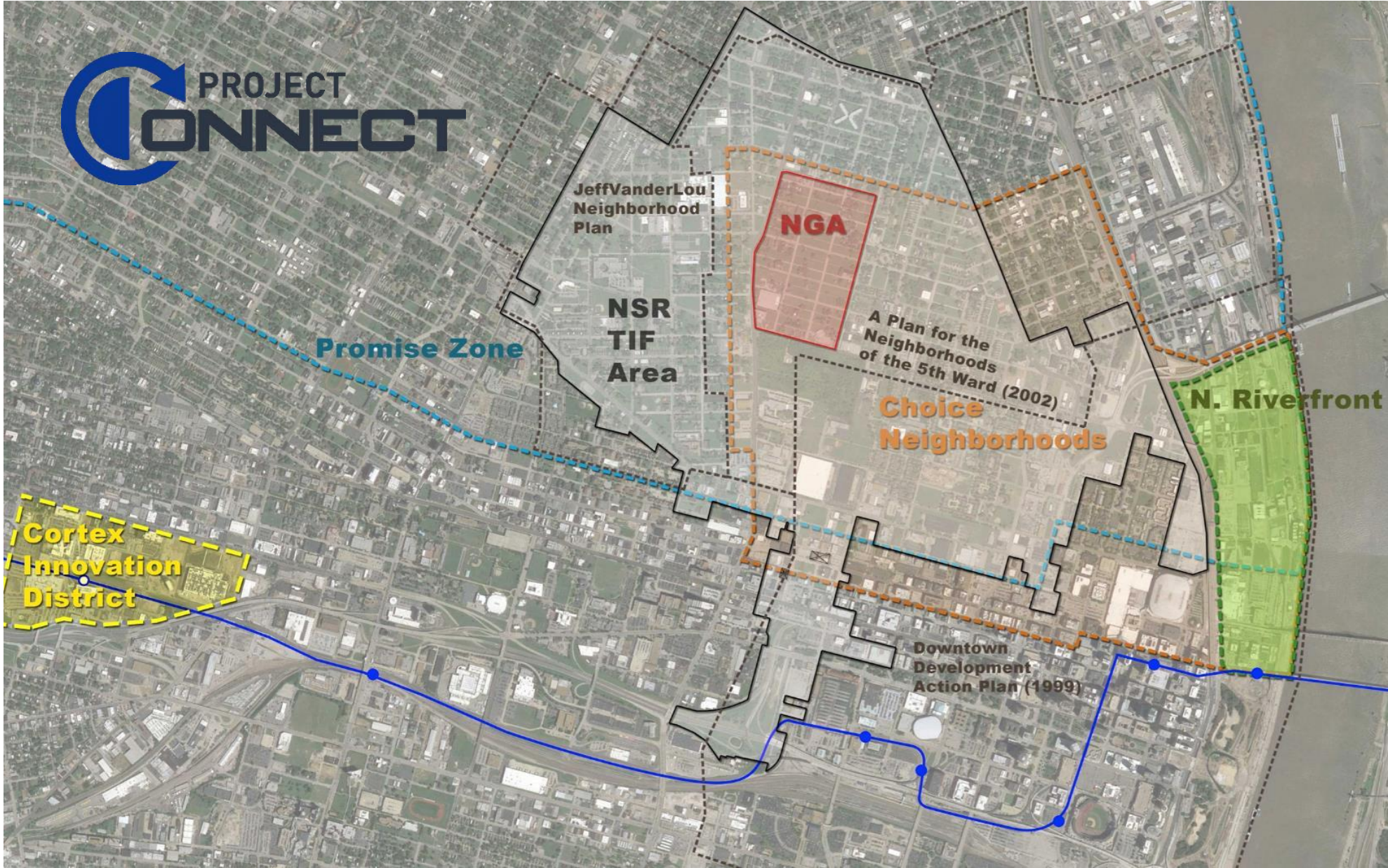


# NEAR NEW INVESTMENT





# NEAR COMPLEMENTARY EFFORTS



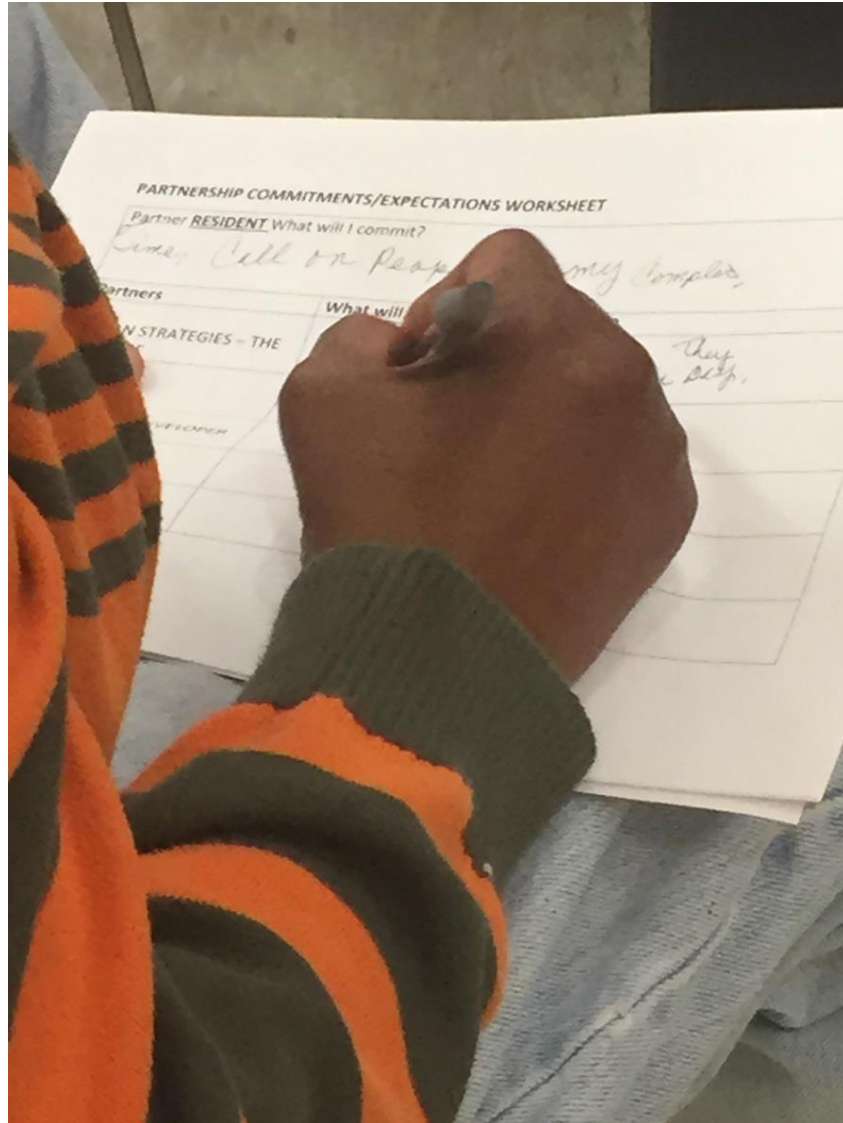


# NEARING A VISION: Community-Driven Planning Process

- March 2015 Choice Neighborhoods Planning Grant
- Comprehensive engagement: Over 600 stakeholders engaged and over 150 meetings
- Individual Assessments: Preservation Square residents

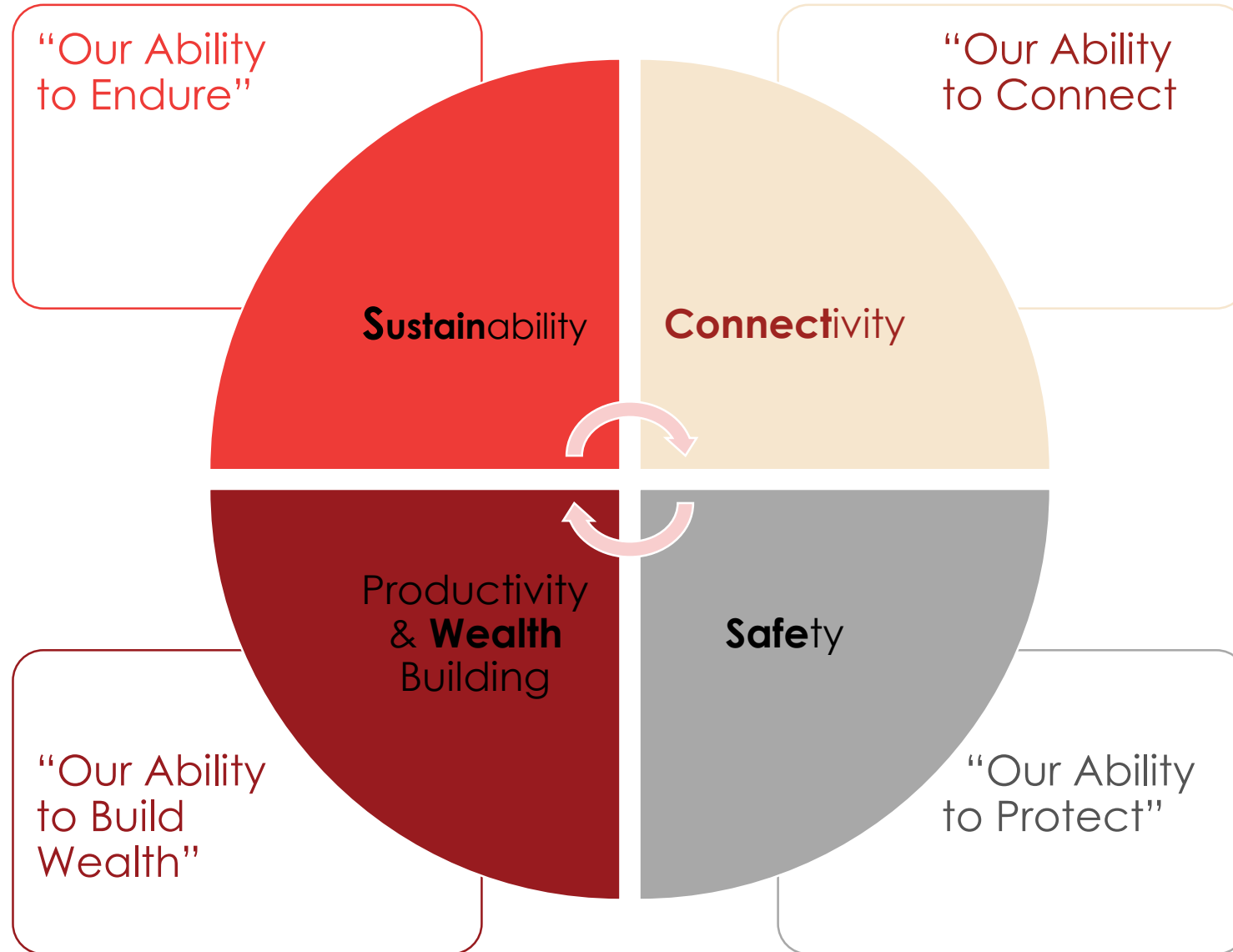


# NEARING A VISION : The Framework

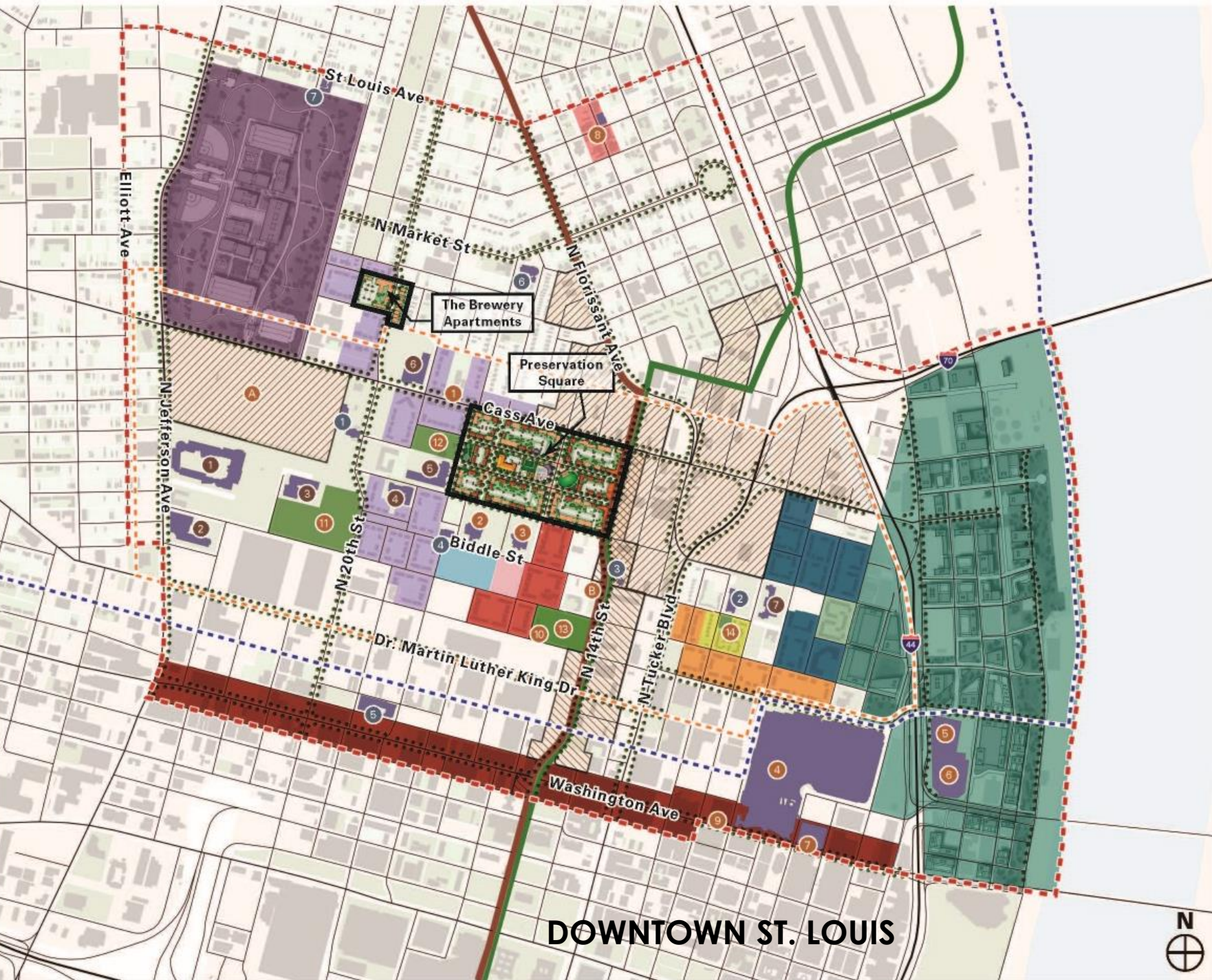


1. What do you want your neighborhood to look like in 10 years?
2. How will we know we have succeeded?
3. How are we currently doing?
4. What is causing us to succeed or not succeed?
5. What partners have a role to play in achieving success?
6. What local and national best practices will achieve success?
7. What strategies will achieve success?

# THE VISION: Themes Across People, Housing & Place







**DOWNTOWN ST. LOUIS**



**LEGEND**

- MURPHY PARK APARTMENTS
- LORETTA HALL TOWNHOUSES
- CARR SQUARE
- COLUMBUS SQUARE APARTMENTS
- CITYSIDE APARTMENTS
- NEIGHBORHOOD GARDENS
- CAMBRIDGE HEIGHTS
- WASHINGTON AVENUE "GREAT STREET" AWARDEE
- 14TH STREET MALL/CROWN SQUARE DEVELOPMENT
- PARKS
- REPLACEMENT HOUSING SITES
- CHOICE NEIGHBORHOOD PLAN AREA

**PLANNED INVESTMENTS**

- North Side Regeneration Planning Area - Designated TIF District
- Historic Site of Pruitt Igoe
- Carr Square Future Single Family Development
- North Riverfront Open Space & Redevelopment Plan Area
- National Geospatial Intelligence Agency Campus
- Promise Zone
- Byrne Criminal Justice Innovation Grant Area
- Great Rivers Greenway
- St. Louis Streetcar Loop
- Critical Community Improvements**
- CCI #1: Jonas Hubbard Jr. Family Center
- CCI #4: 14th Street Transit and Retail Corridor

**EDUCATION**

- Gateway Elementary School
- Carr Lane VPA Middle School
- Kipp Inspire Academy
- Flance Early Learning Center
- Jefferson Elementary School
- Innovative Concept Academy
- Patrick Henry Elementary School

**CHURCHES AND PLACES OF WORSHIP**

- St. Stanislaus/Polish Heritage Center
- Shrine of St. Joseph
- Stranger's Home Missionary Baptist Church
- Transfiguration Lutheran Church
- St. Nicholas Catholic Church
- St. Liborius Parish
- Greater Bible Way Community Church

**HUMAN SERVICES, HEALTH, CULTURAL ORGANIZATIONS, AND PARKS**

- Clemens House
- Grace Hill Murphy-O'Fallon Health Center
- Jonas Hubbard Jr. Family Center
- St. Louis Convention Center
- Four Seasons Hotel
- Lumiere Place
- National Blues Museum
- Old North Gallery
- T-REX Co-working Space and Technology Incubator
- Loretta Hall Park Roller Skating Rink
- Desoto Park
- Murphy Park
- Loretta Hall Park
- Columbus Square Park
- Stan Musial Veterans Memorial Bridge



# CHOICE NEIGHBORHOODS STRATEGIES



## Neighborhood

*Lead: City of St. Louis, Urban Strategies*

Enhanced existing assets and new assets:

- Quality Housing, Address Blight
- Retail/Business/  
Employment/  
Entrepreneurship
- Access to Healthy Food
- Economic Mobility
- Improved Safety



## Housing

*Lead: McCormack Baron Salazar*

New mixed-income housing that replaces

**Preservation Square**

Phases 1-4:

On-Site Multi-Family

Phase 5: On-Site Universal Design  
Building

Phase 6: The Brewery Apartments  
(Renovation)



## People

*Lead: Urban Strategies, Inc.*

Investments in human capital development:

- Health – Physical and Mental Health
- Economical Stability & Upward Mobility
- Education – Cradle to Career
- Service connections

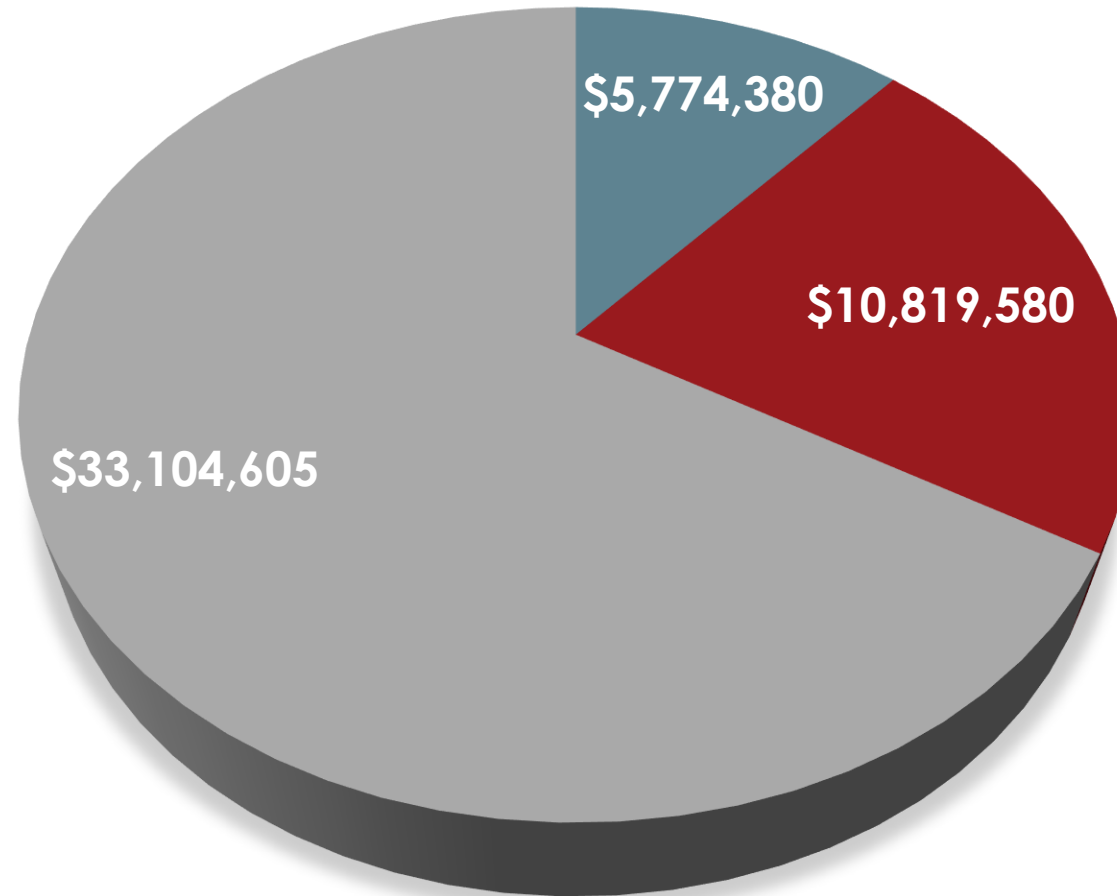
# NEIGHBORHOOD LEVERAGE

*\$4.45M Choice Neighborhoods Funds*

Private / Philanthropic	\$10,088,844
Non-Profit	\$167,786,425
Government	\$1,933,522,000

# PEOPLE LEVERAGE

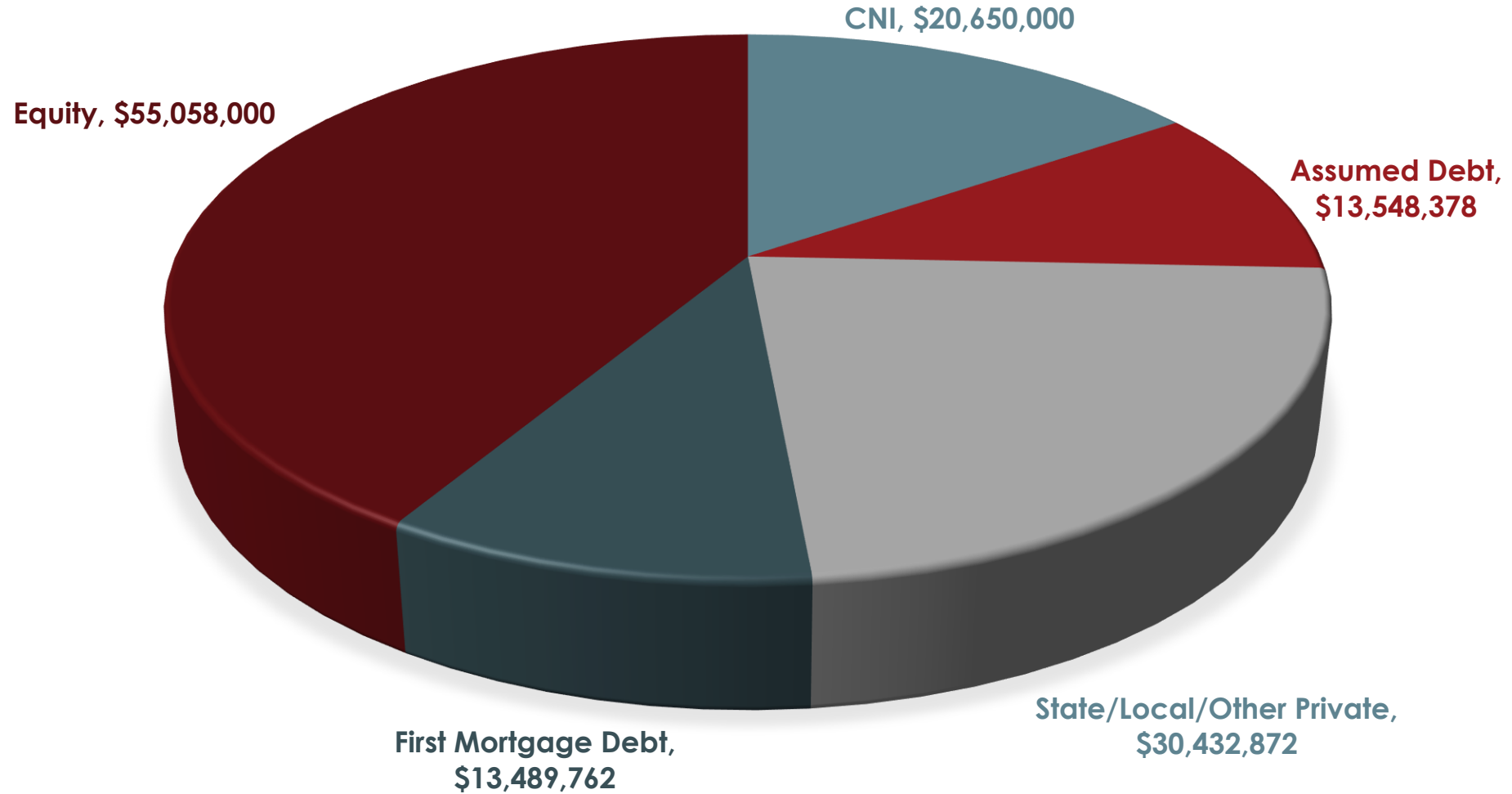
*\$4.45M Choice Neighborhoods Funds*



■ Non-Profit    ■ Government    ■ Philanthropic/Private

# HOUSING LEVERAGE

*\$20.65M Choice Neighborhoods Funds*



**Total Development Cost = \$133,179,012**

# NEAR NORTH SIDE HOUSING STRATEGY PARTNERS

City of St. Louis  
(Lead Applicant)

Housing  
McCormack Baron Salazar

Urban  
Strategies

US Bank & US  
Bancorp CDC

City of St. Louis  
and St. Louis  
Housing  
Authority

Missouri Housing  
Development  
Corporation

McCormack  
Baron  
Management  
& McCormack  
Baron Asset  
Management

Rosemann &  
Associates,  
Design,  
Engineering, &  
Construction  
Team

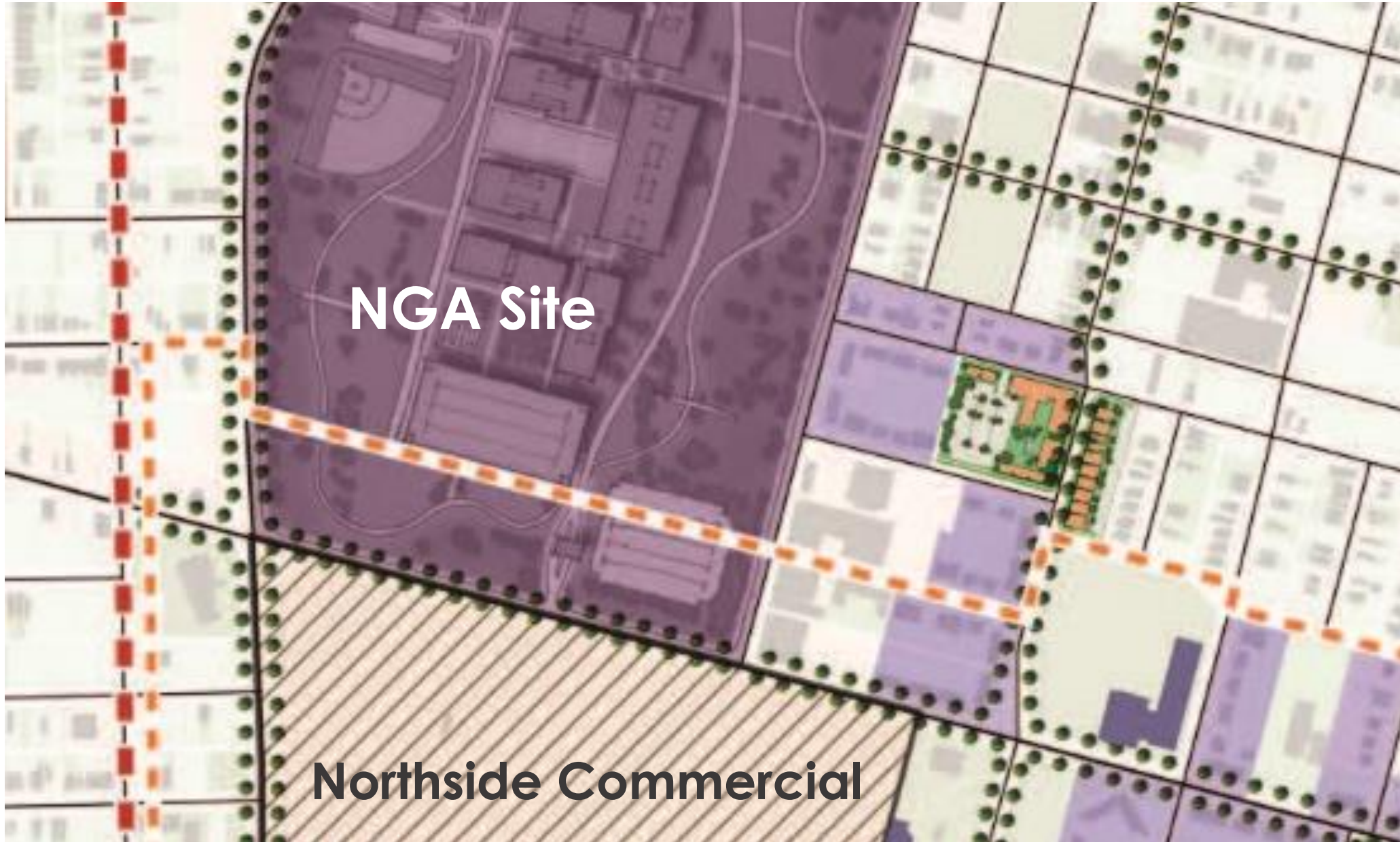
General  
Contractor(s),  
MWBE &  
Section 3  
Coordinator







# NEAR OPTIONS : The Brewery



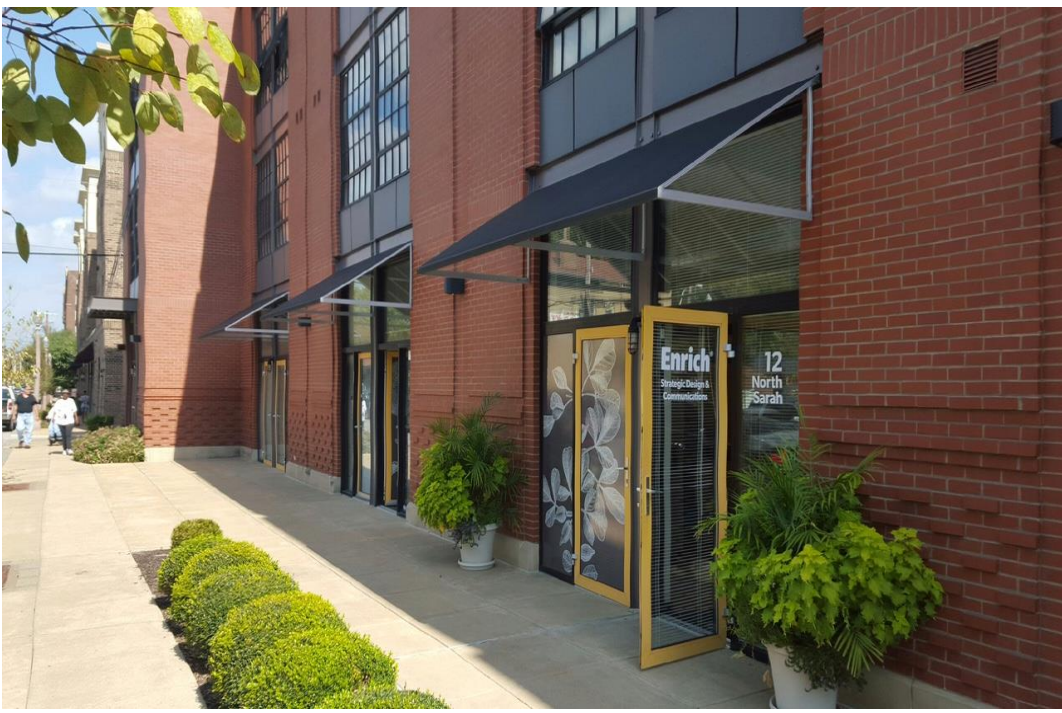












# OVERALL UNIT MIX by Income and Phase

	Market Rate (No Income Restriction)	Tax Credit (Affordable)	Section 8 (Affordable)	Total
Phase 1 (On-Site Family)	34	12	43	89
Phase 2 (On-Site Family)	42	44	85	171
Phase 3 (On-Site Family)	44	42	84	170
Phase 4 (On-Site Family)	17	19	35	71
Phase 5 (On-Site Universal Design Building)	13	15	26	54
Phase 6 (The Brewery)	35	36	69	140
<b>Total</b>	<b>185</b>	<b>168</b>	<b>342</b>	<b>695</b>
	<b>27%</b>	<b>24%</b>	<b>49%</b>	<b>100%</b>



- RENOVATION
- DEMOLITION



1

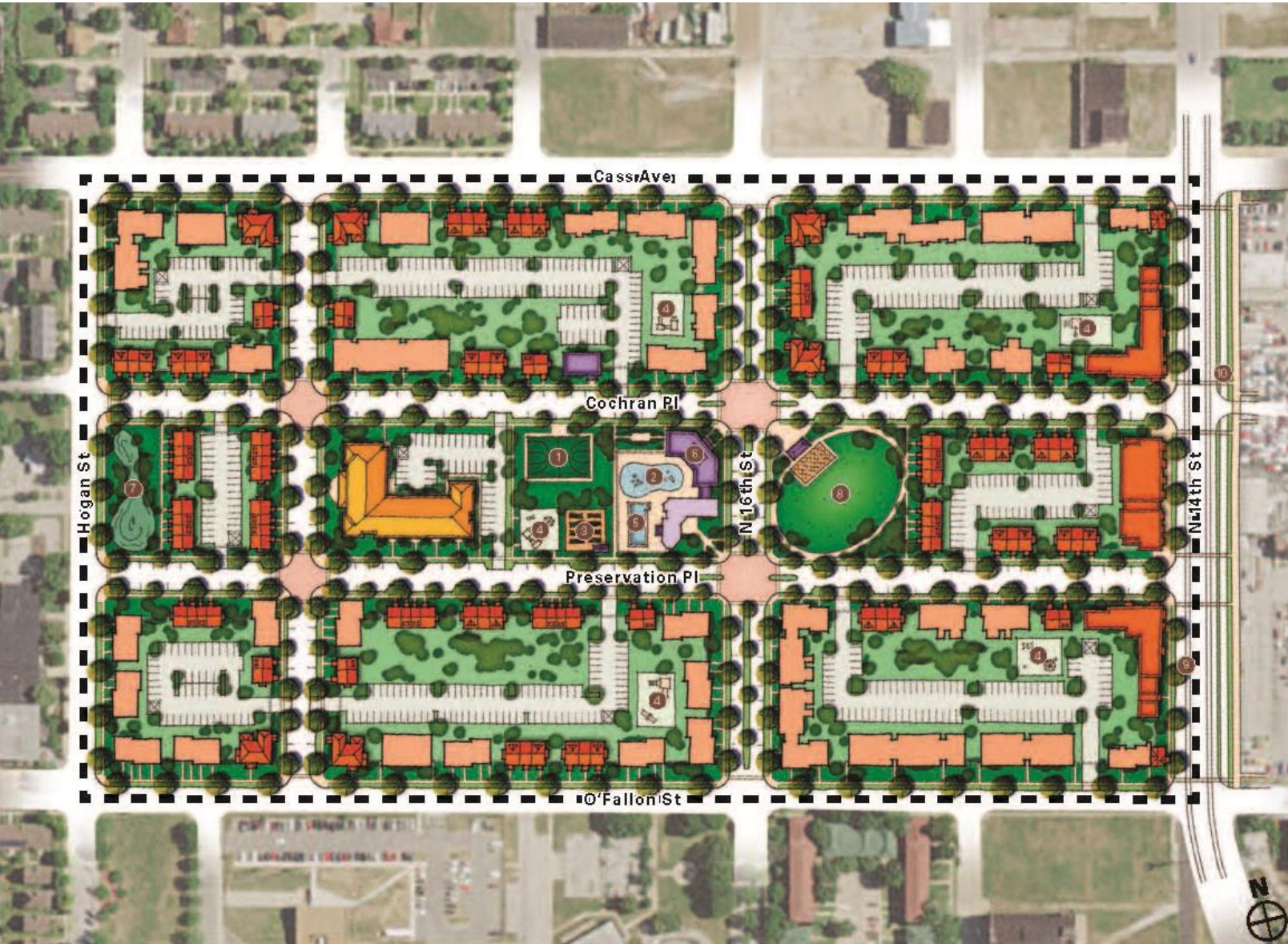
2

3

4



# NEAR HOME : Preservation Square



## LEGEND

- RENOVATED HOUSING
- NEW RESIDENTIAL CONSTRUCTION
- NEW UNIVERSAL DESIGN BUILDING
- COMMUNITY SPACE
- COMMUNITY PARKS
- SECURE RESIDENTIAL OPEN SPACE
- TARGET PROPERTY PLAN AREA

## KEY ELEMENTS

- 1 Sports Court
- 2 Splash Pad
- 3 Community Garden
- 4 Tot Lot
- 5 Pool
- 6 The Club House
- 7 Bioswale
- 8 Community Event Lawn
- 9 Future St. Louis Streetcar line
- 10 Future Great Rivers Greenway











*Questions*