

Bridging The Financial Gap

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Annual Mortgage Expense – Honolulu Versus Mainland

Annual Mortgage Expense for 8 cities with comparable median income to Honolulu
2006

| Year | Median Sales Price Single-family | 30-year mortgage interest rate | Annual Mortgage Expense [1] Single-family | 80% Median Family Income | Median Family Income | 120% Median Family Income | House Payment Divided By 80% Median | Affordability | |
|-----------------------|-------------------------------------|--------------------------------------|--|--------------------------------|----------------------------|---------------------------------|---|--|--|
| | | | | | | | | House Payment Divided By Median Income | House Payment Divided By 120% Median |
| Seattle | \$361,200 | 6.25 % | \$24,019 | \$59,440.0 | \$74,300 | \$89,160 | 40.4% | 32.3% | 26.9% |
| Philadelphia | 230,200 | 6.25 | \$15,308 | \$57,680.0 | \$72,100 | \$86,520 | 26.5% | 21.2% | 17.7% |
| Chicago | 273,500 | 6.25 | \$18,187 | \$57,920.0 | \$72,400 | \$86,880 | 31.4% | 25.1% | 20.9% |
| Baltimore | 235,300 | 6.25 | \$15,647 | \$58,240.0 | \$72,800 | \$87,360 | 26.9% | 21.5% | 17.9% |
| Kansas city | 155,800 | 6.25 | \$10,360 | \$54,080.0 | \$67,600 | \$81,120 | 19.2% | 15.3% | 12.8% |
| Atlanta | 153,000 | 6.25 | \$10,174 | \$53,200.0 | \$66,500 | \$79,800 | 19.1% | 15.3% | 12.7% |
| Denver | 249,500 | 6.25 | \$16,591 | \$57,040.0 | \$71,300 | \$85,560 | 29.1% | 23.3% | 19.4% |
| Dallas Fort Worth | 149,500 | 6.25 | \$9,941 | \$52,400.0 | \$65,500 | \$78,600 | 19.0% | 15.2% | 12.6% |
| Average | 226,000 | 6.25 | \$15,028 | \$56,250.0 | 70,313 | \$84,375 | 26.7% | 21.4% | 17.8% |
| Honolulu | 630,000 | 6.25 | \$41,893 | \$57,040.0 | \$71,300 | \$85,560 | 73.4% | 58.8% | 49.0% |
| Income need to afford | 620,000 | 6.25 | \$41,228 | | \$146,165 205% AMI | | | 28.2% | |

[1] Assuming 10% down payment.

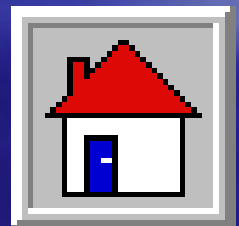
Financial Gap Analysis – 2 Bedroom

Methodology



Affordable Rent

- 2 Bedroom – 50% Area Medium Income (\$35,650.00) for Honolulu, Hawaii
 - \$802 per month
 - 829 square feet
 - \$0.97 rent per square foot



Net Operating Income

Net Operating Income =
Rent – Operating Expenses – Vacancy – Cap-X

- Assumption

- 2 Bedroom operating expenses, vacancy, cap x
= \$500 per month

- $\text{NOI} = \$802 - \$500 = \$302$

Mortgage Size Determination

Debt Service Coverage Ratio =
Net Operating Income / Total Debt Service

- Assumption
 - Debt service coverage ratio = 1.10
- Debt Service Coverage = $\$302 / 1.10 = \275

Mortgage Size Determination

Debt Service Constant =

Percentage rate to fully amortize and service the loan principal

- Assumption

- Debt service constant = 6.75%

- Mortgage amount = $(\$275/6.75\%)*12 = \$48,889$

Market Value

Capitalization Rate = Net Operating Income /
Market Value

- Assumption
 - Capitalization Rate = 6.25%
- Market Value = $(\$302/6.25\%)*12 = \$57,984$

Cost to Build

- Assumption
 - 2 bedroom cost to build is \$303 per square foot
 - 2 bedroom square feet = 825
- Cost to build 2 Bedroom = \$249,975

Cost Deficit

- Cost = \$249,975
- Mortgage = \$48,889
- Cost Deficit = \$201,086



Subsidy – 9%

- Total Cost Difference = \$201,086
- Assumption
 - Low Income Housing Tax Credits = \$150,000
- Balance after tax credits = \$51,086
- Rental Housing Trust Fund to fund balance



Subsidy – 4%

- Total Cost Difference = \$201,086
- Assumption
 - Low Income Housing Tax Credits = \$87,500
- Balance after tax credits = \$113,586
- Rental Housing Trust Fund to fund balance



Gap Analysis 2 Bedroom Overview

2 Bedroom 50% AMI Financial Analysis

Assumptions

| | | |
|-------------|----|---------|
| Square Feet | \$ | 825 |
| Expenses | \$ | 500 |
| DSCR | | 1.1 |
| DSC | | 6.75% |
| Cap Rate | | 6.25% |
| Cost / SF | \$ | 303 |
| 9% LIHTC | \$ | 150,000 |
| 4% LIHTC | \$ | 87,500 |

Analysis

| | | | |
|--------------|----|---------|-------------------------------|
| Rent | \$ | 802 | |
| Expenses | \$ | 500 | |
| NOI | \$ | 302 | Rent - Expenses |
| DSC | \$ | 275 | NOI / DSCR |
| Mortgage | \$ | 48,889 | Actual DSC / DSC % *12 months |
| Market Value | \$ | 57,984 | NOI / Cap Rate *12 Months |
| Build Cost | \$ | 249,975 | Square Feet * Cost / SF |
| Deficit | \$ | 201,086 | Build Cost - Mortgage |

9% LIHTC

| | | |
|----------|----|----------------|
| Deficit | \$ | 201,086 |
| LIHTC | \$ | <u>150,000</u> |
| RHTF Bal | \$ | 51,086 |

4% LIHTC

| | | |
|----------|----|---------------|
| Deficit | \$ | 201,086 |
| LIHTC | \$ | <u>87,500</u> |
| RHTF Bal | \$ | 113,586 |

Alternative Scenarios – 9% LIHTC

| | Studio | 1 Bedroom | 2 Bedroom | 3 Bedroom | 4 Bedroom |
|----------------|--------------------|--------------------|-------------------|------------------|-------------------|
| 30% AMI | | | | | |
| Cost | 202,500.00 | 224,580.00 | 249,975.00 | 255,475.00 | 255,300.00 |
| Loan | <u>(20,202.02)</u> | <u>(16,000.00)</u> | <u>(3,070.71)</u> | <u>9,050.51</u> | <u>19,393.94</u> |
| Deficit | 222,702.02 | 240,580.00 | 253,045.71 | 246,424.49 | 235,906.06 |
| LIHTC | 114,545.00 | 134,727.00 | 150,000.00 | 153,285.00 | 153,180.00 |
| RHTF NEEDED | 108,157.02 | 105,853.00 | 103,045.71 | 93,139.49 | 82,726.06 |
| 50% AMI | | | | | |
| Cost | 202,500.00 | 224,580.00 | 249,975.00 | 255,475.00 | 255,300.00 |
| Loan | <u>19,878.79</u> | <u>27,151.52</u> | <u>48,808.08</u> | <u>68,848.48</u> | <u>86,141.41</u> |
| Deficit | 182,621.21 | 197,428.48 | 201,166.92 | 186,626.52 | 169,158.59 |
| LIHTC | 114,545.00 | 134,727.00 | 150,000.00 | 153,285.00 | 153,180.00 |
| RHTF NEEDED | 68,076.21 | 62,701.48 | 51,166.92 | 33,341.52 | 15,978.59 |
| 60% AMI | | | | | |
| Cost | 202,500.00 | 224,580.00 | 249,975.00 | 255,475.00 | 255,300.00 |
| Loan | <u>40,080.81</u> | <u>48,646.46</u> | <u>74,828.28</u> | <u>98,909.09</u> | <u>119,595.96</u> |
| Deficit | 162,419.19 | 175,933.54 | 175,146.72 | 156,565.91 | 135,704.04 |
| LIHTC | 114,545.00 | 134,727.00 | 150,000.00 | 153,285.00 | 153,180.00 |
| RHTF NEEDED | 47,874.19 | 41,206.54 | 25,146.72 | 3,280.91 | (17,475.96) |

Alternative Scenarios – 4% LIHTC

| | Studio | 1 Bedroom | 2 Bedroom | 3 Bedroom | 4 Bedroom |
|--------------------|--------------------|--------------------|-------------------|-------------------|--------------------|
| 30% AMI | | | | | |
| Cost | 202,500.00 | 224,580.00 | 249,975.00 | 255,475.00 | 255,300.00 |
| Loan | <u>(20,202.02)</u> | <u>(16,000.00)</u> | <u>(3,070.71)</u> | <u>9,050.51</u> | <u>19,393.94</u> |
| Deficit | 222,702.02 | 240,580.00 | 253,045.71 | 246,424.49 | 235,906.06 |
| LIHTC | 68,818.00 | 78,591.00 | 87,500.00 | 89,416.25 | 89,355.00 |
| RHTF NEEDED | 153,884.02 | 161,989.00 | 165,545.71 | 157,008.24 | 146,551.06 |
| 50% AMI | | | | | |
| Cost | 202,500.00 | 224,580.00 | 249,975.00 | 255,475.00 | 255,300.00 |
| Loan | <u>19,878.79</u> | <u>27,151.52</u> | <u>48,808.08</u> | <u>68,848.48</u> | <u>86,141.41</u> |
| Deficit | 182,621.21 | 197,428.48 | 201,166.92 | 186,626.52 | 169,158.59 |
| LIHTC | 68,818.00 | 78,591.00 | 87,500.00 | 89,416.25 | 89,355.00 |
| RHTF NEEDED | 113,803.21 | 118,837.48 | 113,666.92 | 97,210.27 | 79,803.59 |
| 60% AMI | | | | | |
| Cost | 202,500.00 | 224,580.00 | 249,975.00 | 255,475.00 | 255,300.00 |
| Loan | <u>80,484.85</u> | <u>92,121.21</u> | <u>126,545.45</u> | <u>158,868.69</u> | <u>186,666.67</u> |
| Deficit | 122,015.15 | 132,458.79 | 123,429.55 | 96,606.31 | 68,633.33 |
| LIHTC | 68,818.00 | 78,591.00 | 87,500.00 | 89,416.25 | 89,355.00 |
| RHTF NEEDED | 53,197.15 | 53,867.79 | 35,929.55 | 7,190.06 | (20,721.67) |

Alternative Scenarios – No LIHTC

| | Studio | 1 Bedroom | 2 Bedroom | 3 Bedroom | 4 Bedroom |
|-------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Market value (80% AMI) | 95,616.00 | 109,440.00 | 150,336.00 | 188,736.00 | 221,760.00 |
| Cost | 202,500.00 | 224,580.00 | 249,975.00 | 255,475.00 | 255,300.00 |
| Loan | <u>80,484.85</u> | <u>92,121.21</u> | <u>126,545.45</u> | <u>158,868.69</u> | <u>186,666.67</u> |
| Deficit | 122,015.15 | 132,458.79 | 123,429.55 | 96,606.31 | 68,633.33 |
| LIHTC | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| EQUITY | 122,015.15 | 132,458.79 | 123,429.55 | 96,606.31 | 68,633.33 |
| Market value (100% AMI) | 143,424.00 | 160,512.00 | 211,968.00 | 259,776.00 | 300,864.00 |
| Cost | 202,500.00 | 224,580.00 | 249,975.00 | 255,475.00 | 255,300.00 |
| Loan | <u>120,727.27</u> | <u>135,111.11</u> | <u>178,424.24</u> | <u>218,666.67</u> | <u>253,252.53</u> |
| Deficit | 81,772.73 | 89,468.89 | 71,550.76 | 36,808.33 | 2,047.47 |
| LIHTC | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| EQUITY | 81,772.73 | 89,468.89 | 71,550.76 | 36,808.33 | 2,047.47 |

Alternative Scenarios – No LIHTC

| | Studio | 1 Bedroom | 2 Bedroom | 3 Bedroom | 4 Bedroom |
|-------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Market value (120% AMI) | 167,232.00 | 186,163.20 | 242,764.80 | 295,353.60 | 340,550.40 |
| Cost | 202,500.00 | 224,580.00 | 249,975.00 | 255,475.00 | 255,300.00 |
| Loan | <u>140,767.68</u> | <u>156,703.03</u> | <u>204,347.47</u> | <u>248,614.14</u> | <u>286,658.59</u> |
| Deficit | 61,732.32 | 67,876.97 | 45,627.53 | 6,860.86 | (31,358.59) |
| LIHTC | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| EQUITY | 61,732.32 | 67,876.97 | 45,627.53 | 6,860.86 | (31,358.59) |
| Market value (140% AMI) | 191,424.00 | 211,968.00 | 273,600.00 | 331,008.00 | 380,352.00 |
| Cost | 202,500.00 | 224,580.00 | 249,975.00 | 255,475.00 | 255,300.00 |
| Loan | <u>161,131.31</u> | <u>178,424.24</u> | <u>230,303.03</u> | <u>278,626.26</u> | <u>320,161.62</u> |
| Deficit | 41,368.69 | 46,155.76 | 19,671.97 | (23,151.26) | (64,861.62) |
| LIHTC | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| EQUITY | 41,368.69 | 46,155.76 | 19,671.97 | (23,151.26) | (64,861.62) |

Looming Potential Rent Increases

Potential Rent Increase For A Home That Increases In Value and The PE Changes From 17 to 12

| Year | Value | PE | Rent (Annual) | Rent (Month) | PE | Rent (Annual) | Rent (Month) | Rent Increase Amount | % |
|------|-----------|----|---------------|--------------|----|---------------|--------------|----------------------|---------|
| 2006 | \$500,000 | 17 | \$29,412 | \$2,451 | 12 | \$41,667 | \$3,472 | \$1,736 | 50% |
| 2000 | \$250,000 | 17 | \$14,706 | \$1,225 | 12 | \$20,833 | \$1,736 | \$2,247 | 183.33% |
| 2006 | \$400,000 | 17 | \$23,529 | \$1,961 | 12 | \$33,333 | \$2,778 | \$1,389 | 50% |
| 2000 | \$200,000 | 17 | \$11,765 | \$980 | 12 | \$16,667 | \$1,389 | \$1,797 | 183.33% |
| 2006 | \$250,000 | 17 | \$14,706 | \$1,225 | 12 | \$20,833 | \$1,736 | \$868 | 50% |
| 2000 | \$125,000 | 17 | \$7,353 | \$613 | 12 | \$10,417 | \$868 | \$1,123 | 183.33% |

Validation Of PE Ratio At Various Sales Prices Of A Home

| | | | |
|----------------------|-----------------|-----------------|-----------------|
| Price | 250000 | 400000 | 500000 |
| % Loan | 0.8% | 0.8% | 0.8% |
| Loan | 200000 | 320000 | 400000 |
| DS | 0.065 | 0.65 | 0.065 |
| Mgt Pay | 1083.333 | 1733.333 | 2166.667 |
| Tax | 925 | 1500 | 1875 |
| Misc | 250 | 250 | 250 |
| Total Payment | 2258.333 | 3483.333 | 4291.667 |
| Rent @ 17 | \$1,225 | \$1,961 | \$2,451 |
| Loss | (\$1,033) | (\$1,523) | (\$1,841) |
| Total | 2258.333 | 3483.333 | 4291.667 |
| Rent @ 12 | \$1,736 | \$2,778 | \$3,472 |
| Loss | (\$522) | (\$706) | (\$819) |

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