Multi-Family Affordable Rental Housing Financing
Basic Course
National Community Development Lending School
March 25 – 28, 2012
Seattle, WA

INTRODUCTION

There are many financing and structuring options available to developers of affordable housing these days. Cash or bond deal? Fannie and Freddie vs. FHA? Tax credits or conventional? In the multi-family affordable rental housing classes, we will discuss many of the key elements necessary in putting together an affordable transaction, and discuss the benefits and challenges associated with the myriad of structuring options. The Introductory class will work through the building blocks of affordable housing deals, culminating in a case study that puts all of the pieces together. The Advanced course will address the more complex world of tax-exempt bonds with a challenging case study that will allow students to directly apply what they have learned in the class.

OBJECTIVES

At the end of this course, students will be able to:

- Distinguish between an Operating Budget and a Development Budget, and independently prepare each for a transaction
- Understand what is relevant and irrelevant information in sizing up a transaction
- Know how to determine Gross Potential Rents on an affordable transaction with LIHTC restrictions and a HAP contract
- Assess the viability of an affordable housing transaction, and determine if it is worthwhile pursuing

INSTRUCTOR

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Multi-Family Affordable Rental Housing Financing
Basic Course

AGENDA

I. Introductions

II. Goals for the class

III. Project budget & Operating budget – Knowing the Difference Between the Two

IV. Loan Sizing Based on NOI

V. Low Income Housing Tax Credits – A Brief Overview of How Tax Credits Work

VI. HAP Contracts –Project-Based Rental Subsidies and How They Impact Underwriting

VII. Case Study: Edgewater Village as a 9% Tax Credit Deal – Putting the Pieces Together

SAMPLE DETAILED OPERATING BUDGET

Nmbr	Type	Size	Mo. Rent	Stabilized	PER UNIT
60	2-BR/2BA	921	$ 800	$ 576,000	
60	2-BR/2BA	995	$ 830	$ 597,600	
56	3-BR/2-BA	1175	$ 895	$ 601,440	
Gross Rents				**$ 1,775,040**	
Other				$ 26,400	
Effective Gross Income				**$ 1,801,440**	
Vacancy	5.0%			(90,072)	
Net Rental Income				**$ 1,711,368**	
Legal/Accounting				$ 17,000	$ 97
Insurance				$ 18,000	$ 102
Real Estate Taxes				$ 149,400	$ 849
Repairs & Maintenance				$ 49,300	$ 280
Decorating/Turnover				$ 23,500	$ 134
Advertising				$ 18,000	$ 102
Trash Removal				$ 16,000	$ 91
Payroll				$ 175,500	$ 997
Utilities				$ 91,000	$ 517
Admin				$ 24,000	$ 136
Grounds				$ 26,900	$ 153
Management Fee				68,455	$ 389
TOTAL OPERATING EXPENSES				**$ 677,055**	**$ 3,847**
Reserves ($250/unit)				$ 44,000	$ 250
TOTAL EXPENSES				**$ 721,055**	**$ 4,097**
NOI				**$ 990,313**	
LOAN AMOUNT					
DEBT SERVICE (Assume 7%, 30 yrs)					
DCR				**1.20**	
Net Cash Flow					

SOURCES OF FUNDS		USES OF FUNDS	
Bank Debt	$ 10,335,000	Acquisition	$ 801,600
Tax Credit Equity	$ 7,850,000	Site Improvements	$ 2,689,800
DHCD	$ 950,000	Construction	$ 8,855,000
Interim Income	$ 940,460	Contingency (5%)	$ 577,240
Deferred Developers Fee	$ 355,959	Site Development Bonds	$ 45,000
		Payment/Performance Bond	$ 112,860
		Permits/Fees	$ 296,800
		Construction Interest	$ 1,626,009
		Insurance	$ 63,862
		Borrower A&E	$ 369,550
		Bank Architect	$ 18,000
		RE Taxes	$ 50,000
		Construction Consultant	$ 16,500
		Appraisals/Mkt Study	$ 40,000
		Title/Recording	$ 46,000
		Legal	
		- Bank	$ 25,000
		- Borrower	$ 222,500
		- Underwriter	$ 20,000
		- Prudential/FNMA	$ 65,000
		Loan Fees	$ 273,600
		Bank L/C Fee (30 mos)	$ 262,250
		45 Days Interest/Lag Deposit	$ 146,389
		Issuer Fees/COI	$ 537,800
		Bridge Loan Interest/Synd Fee	$ 260,000
		Marketing/Leasing	$ 185,000
		Misc.	$ 209,166
		Soft Conting	$ 115,000
		Developer Fee	$ 2,501,493
TOTAL	**$ 20,431,419**	**TOTAL**	**$ 20,431,419**

HAP Contract Tutorial

1. What they are

    a. Project-based section 8 contract whereby owner agrees to keep project affordable and only rent to tenants at 80% Ami or less and HUD will pay a portion of the each tenant's rent
    b. Subject to appropriations, HAPs guarantee rental payments to owners, so landlords are willing to participate in the program.
    c. Under the HAP, tenants pay 30% of their income in rent, and HUD pays the balance up to a market rent.
    d. No HAP has ever been cancelled for borrowers who were adequately managing their properties, but we are all trained to underwrite deals based on the scenario "what if the HAP went away".

2. How lender's underwrite these contracts and why

    a. Assuming a property has both a HAP contract and LIHTC restrictions, Lenders typically underwrite to the lesser of 1) HAP rent, 2) appraiser's rent, or 3) maximum allowable LIHTC rent. If HAP rent is less than the appraiser and max LIHTC, then that is exactly what HUD will pay so you need to use that figure in your pro-forma. If max LIHTC rent is lower than HAP or market, then that is the highest rent the borrower can charge the tenant <u>should the HAP go away</u>, so you should generally use that number in your pro-forma. If market rent is the lowest of the three, then <u>if the HAP went away</u> these lower market rents are the most the borrower can expect to achieve and so should be used in the pro-forma. It's conservative, but generally how the market is underwriting LIHTC projects with HAPs these days.

Type	HAP	Appraisal	Max LIHTC	Bank
2-BR/1-BA	$640	$ 625	$648	$625
3-BR/1.5BA	$860	$ 875	$875	$860
4-BR/2-BA	$955	$ 950	$930	$930

3. Transition reserve and why

    a. Most deals that have a HAP contract are required (by Fannie and Freddie) to have a transition reserve, typically sized at 6 months of debt service. The reason for the reserve is that should the HAP get cancelled, and tenants move out en masse, the funds will be used to prepare the units for re-leasing and cover any shortfalls in operations. Don't forget to include it.

4. Mark up/down to market

    a. When the HAP contract expires, owners can go in for a mark up to market so as to adjust the rent to market levels. HUD sets the rent based on a market study, and then gives annual increases based on a statewide average increase in operating costs at multi-family properties.
    b. When HAP rents are increased, this helps the developer but has no impact on the tenant – they continue to pay 30% of their income and HUD pays the balance. That's why mark-up-to-market projects don't lead to significant displacement.

Tax Credit Tutorial

1. What are they:

   a. The Federal Low Income Housing Tax Credit program was established to provide economic incentives for the private sector, primarily Corporate America, to invest in affordable housing projects.
   b. The LIHTC allows the holder -- be it an individual but more likely a corporation – to reduce their federal tax bill dollar-for-dollar by the amount of tax credits they hold for a 10 year period. If I have $20,000 in annual tax credits, and owe the IRS $50,000, I can pay just $30,000 and send the IRS verification of my tax credits and be done with my tax obligation for the year.
   c. Since Corporate America pays slightly less than $1 for each dollar worth of tax credit, there is an economic incentive to participate in the program – which drives cash into affordable housing development.
   d. The LIHTC environment has been from one end of the spectrum to the other in the past five years. Last time I taught this course in 2010,not a lot of companies had taxable income they were looking to shield and pricing had dropped to $0.70/credit. There were many good deals with no buyers at all. Now we are back at or over a dollar in strong markets (investors buying the losses) and as of today the high water mark I know of is $1.14/credit.
   e. CRA buyers skew the market and sometimes make uneconomical decisions to meet regulatory (CRA) needs.

2. How They Work – Big Picture

   a. Affordable housing developers compete for and are awarded tax credits on a competitive basis. States award tax credits to affordable housing projects based on a scoring system that tends to favor deeper affordability restrictions, projects with non-profit developers and projects with a social service component. This is spelled out in the annual Qualified Allocation Plan (QAP).
   b. In return for receiving this federal tax benefit, developers commit to create and maintain their apartment properties as affordable housing. Minimum affordability restrictions are 20%/50% or 40%/60%.
   c. However, while some developers could probably use the tax credit, their more immediate need is cash today to build their project. So they sell these credits to Corporate America and use the cash to subsidize their affordable housing project.
   d. Tax Credits => Sell to Syndicator or Direct => Cash => Affordable Housing

3. Availability of Tax Credits

   a. Each state is allocated a fixed amount of 9% tax credits based on population size. Currently, the allocation calculation is about $2.50/resident. NYC, Chicago and LA are exceptions – they get their own allocations separate from the state.
   b. In addition, each state and/or jurisdiction receives a set amount of tax-exempt Private Activity bonds it can issue, also calculated at approximately $2.50/resident. To the extent states use their Private Activity bonds to finance affordable housing transactions, these projects receive an automatic allocation of 4% tax credits.
   c. 9% credits and 4% credits both work in a similar fashion and provide equity to affordable housing projects. But as described below, 4%credits generate less equity than 9% credits.

d. Since 9% credits are more attractive to developers, and their supply is limited, there is typically fierce competition to win these credits from the state allocating agencies. This poses some substantial challenges to the developer – they need to have done significant due diligence, and spent a lot of money, to submit a competitive tax credit application, but there is no guarantee of success. Significant time and money – key developer resources – are at risk before learning if a tax credit application is successful.
e. Competition for tax-exempt bonds and in turn the 4% credit is generally less brutal. Most states have more bond capacity than is allocated during a given year so there is availability. However, because the equity raise is lower, certain projects won't work with just 4% credits. Further, among investors, there is a bias against 4% deals because of the higher debt amounts and assumption of less renovation. That said, since the 4% credits are as-of right, many developers only pursue projects that can work with bonds and credits.

4. Who's Who

a. As noted above, in return for the credits, developers promise to maintain their properties as affordable housing. This is generally tested annually by the syndicator through a formal audit, where tenant files are reviewed to verify that residents are not earning more than was noted in the original tax credit application or is allowed by the IRS. .
b. The tax credits flow to the investor – Corporate America – by virtue of their 99% ownership of the Limited Partnership that ultimately owns the real estate, and so long as the project maintains its affordability. If the developer fails to meet this test – even inadvertently – the IRS can demand a pro-rata repayment of the credits taken to date, generally with penalties and interest.
c. Because of this 'recapture' risk, corporate America tends to invest in LIHTC projects not directly but through syndicators – companies established to serve as the intermediary between the developer and the investor. The syndicator manages the reporting and oversight requirements of the tax credit project and generally makes sure the project is operated in compliance with tax credit laws.
d. With a syndicator in the deal, the investor is more confident that the project will run per plan and that the IRS won't come along and take back the tax credits. For this service, the syndicator is paid a fee.

5. Calculating the Tax Credits

a. The maximum tax credit award is a function of eligible project costs. Eligible costs are loosely defined as the costs necessary to acquire and build an affordable housing property: site acquisition, hard construction costs, construction period interest, some portion of developer fee and some financing costs. Speak to an accountant for more detail.
b. Depending on whether the developer is applying for 4% or 9% credits, that percentage is then multiplied by the total eligible basis. The result is the annual tax credit.
c. Since the low income housing tax credit is a 10-year benefit, the annual tax credit is then multiplied by 10 for the gross tax credit amount.
d. Gross Tax Credit Calculation Exhibit.

6. Calculating Net Equity

a. As noted above, the syndicator takes a fee for providing a host of oversight and back-office services. This fee is paid out of the gross equity amount.
b. In addition, these tax benefits are taken over the course of 10 years, so a dollar in benefits received in 2013 is worth less than a dollar in benefits received today.

As a result, the credits have a declining value over the 10-year award period, which is reflected in the investor's acquisition price for the credits.

c. In addition, the ultimate investor typically wants to pay less than $1 in cash for the $1 in tax benefits since most other investments that company would consider offer some sort of return. To incent the investor to purchase LIHTCs, there needs to be a return on this investment. They want to purchase the credits for below par.
d. For these reasons, most developers who sell their credits through syndicators receive about $0.90/$1.00 in today's market. Obviously this varies market by market – with CRA markets like NY, DC, SF commanding higher prices – but $0.90 is a good proxy for pricing

Calculating Tax Credit Basis and Gross Credit Amount - 9%

		Eligible	Amount	9% Credits	10 Years
USES OF FUNDS					
Acquisition	$ 4,750,000	Yes	$ 4,750,000	$ 427,500	$ 4,275,000
Rehab	$ 6,000,000	Yes	$ 6,000,000	$ 540,000	$ 5,400,000
Contingency	$ 600,000	Yes	$ 600,000	$ 54,000	$ 540,000
Architect and Engineer	$ 330,000	Yes	$ 330,000	$ 29,700	$ 297,000
Legal and Accounting	$ 60,000	Yes	$ 60,000	$ 5,400	$ 54,000
Bank Financing Fee (1%)	$ 100,000	Yes	$ 100,000	$ 9,000	$ 90,000
Construction Pd. Interest	$ 500,000	75%	$ 375,000	$ 33,750	$ 337,500
Insurance	$ 50,000	No	$ -	$ -	$ -
RE Taxes	$ 75,300	No	$ -	$ -	$ -
Developer Fee	$ 1,000,000	45%	$ 450,000	$ 40,500	$ 405,000
Title/Recording	$ 50,000	Yes	$ 50,000	$ 4,500	$ 45,000
Partnership Fees	$ 7,500	No	$ -	$ -	$ -
Marketing	$ 10,000	No	$ -	$ -	$ -
Transition Reserve	$ 430,000	No	$ -	$ -	$ -
Operating Reserve	$ 300,000	No	$ -	$ -	$ -
TOTALS	**$ 14,262,800**		$ 12,715,000	$ 1,144,350	**$ 11,443,500**

Calculating Net Tax Credits - 9%

USES OF FUNDS		Eligible	Amount	9% Credits	10 Years
Acquisition	$ 4,750,000	Yes	$ 4,750,000	$ 427,500	$ 4,275,000
Rehab	$ 6,000,000	Yes	$ 6,000,000	$ 540,000	$ 5,400,000
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Operating Reserve	$ 300,000	No	$ -	$ -	$ -
TOTALS	**$ 14,262,800**		$ 12,715,000	$ 1,144,350	$ 11,443,500
					$0.90/$1.00 Credit Rate
					$ 10,299,150

Calculating Tax Credit Basis and Gross Credit Amount - 4%

		Eligible	Amount	4% Credits	10 Years
USES OF FUNDS					
Acquisition	$ 4,750,000	Yes	$ 4,750,000	$ 190,000	$ 1,900,000
Rehab	$ 6,000,000	Yes	$ 6,000,000	$ 240,000	$ 2,400,000
Contingency	$ 600,000	Yes	$ 600,000	$ 24,000	$ 240,000
Architect and Engineer	$ 330,000	Yes	$ 330,000	$ 13,200	$ 132,000
Legal and Accounting	$ 60,000	Yes	$ 60,000	$ 2,400	$ 24,000
Bank Financing Fee (1%)	$ 100,000	Yes	$ 100,000	$ 4,000	$ 40,000
Construction Pd. Interest	$ 500,000	75%	$ 375,000	$ 15,000	$ 150,000
Insurance	$ 50,000	No	$ -	$ -	$ -
RE Taxes	$ 75,300	No	$ -	$ -	$ -
Developer Fee	$ 1,000,000	45%	$ 450,000	$ 18,000	$ 180,000
Title/Recording	$ 50,000	Yes	$ 50,000	$ 2,000	$ 20,000
Partnership Fees	$ 7,500	No	$ -	$ -	$ -
Marketing	$ 10,000	No	$ -	$ -	$ -
Transition Reserve	$ 430,000	No	$ -	$ -	$ -
Operating Reserve	$ 300,000	No	$ -	$ -	$ -
TOTALS	**$ 14,262,800**		$ 12,715,000	$ 508,600	**$ 5,086,000**

Calculating Net Tax Credits - 4%

USES OF FUNDS		Eligible	Amount	4% Credits	10 Years
Acquisition	$ 4,750,000	Yes	$ 4,750,000	$ 190,000	$ 1,900,000
Rehab	$ 6,000,000	Yes	$ 6,000,000	$ 240,000	$ 2,400,000
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Insurance	$ 50,000	No	$ -	$ -	$ -
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Marketing	$ 10,000	No	$ -	$ -	$ -
Transition Reserve	$ 430,000	No	$ -	$ -	$ -
Operating Reserve	$ 300,000	No	$ -	$ -	$ -
TOTALS	**$ 14,262,800**		$ 12,715,000	$ 508,600	$ 5,086,000
				Credit Rate	**$0.90/$1.00**
					$ 4,577,400

The Set-Up

Rick Gendron, President of South Side Development Corporation ("SSDC"), was recently contacted by a broker, Drew Fitch, who offered Mr. Gendron the option to purchase a 223-unit apartment property in Edgewood, Maryland called Edgewater Village. Mr. Fitch said the sales price was $4.75 million ($21,300/unit) and that he would agree to hold the property off the market for six weeks while Mr. Gendron considered the acquisition and spoke with several sources of financing about putting a deal together.

SSDC, a for-profit developer, was founded in 1995 to acquire and preserve affordable housing in select markets along the East Coast. To date, the firm has acquired over 2,000 units and has approximately 450 more in various stages of development. Even though SSDC had not previously worked in Maryland, Mr. Gendron knew this market well since he grew up nearby. Edgewood is a stable and growing suburban community located between Washington, DC and Philadelphia, with great access to both employment markets. Several large national retailers have central warehouses in this area from which they supply their stores from Boston to the Carolinas. In addition, several high-tech employers, including Broadcom and Microsoft, have large office campuses in the nearby town of Rising Sun.

For the past several years, the main focus of housing development in Edgewood has been single-family homes. Over this period, there has been virtually no new construction of rental units even though occupancy rates have remained above ninety five percent. The primary reason for this has been the lack of vacant land on which developers can build new housing. Multi-family development has consisted primarily of rehabbing existing properties and taking them up market. By the time Mr. Gendron got the call from Mr. Fitch, over 80% of the large apartment properties in Edgewood were characterized as market rate or upscale housing. This was forcing many of the area residents, employed in the nearby warehouses or other moderate wage occupations, to move out of Edgewood in search of cheaper rent.

Edgewater Village was an anomaly for the Edgewood community. The property was constructed to serve low and moderate income residents. The original developer secured HUD financing for the project in return for committing to target families earning no more than 60% of AMI. Further, Mr. Gendron knew that if his firm didn't buy the property, it would probably be sold to Mr. Richard Rich, who would pay off the HUD mortgage, kick out the tenants and convert the property to market rents.

The Real Estate

Edgewater Village consists of 43 1-BR/1-BA units, 156 2-BR/1BA units and 24 3-BR/2-BA units located in 18 buildings and surrounded by 250 parking spaces. Within walking distance of Edgewater Village there are three shopping complexes providing a variety of goods and services. Less than a half mile from the site is an elementary school and a commuter train station. Mr. Gendron found the site especially attractive because public schools, hospitals, shopping and major sources of employment were located within a relatively short distance from the site and were accessible by both car and public transportation.

The property was built in 1975 and had not experienced any significant renovation since construction. There was extensive deferred maintenance on site, and all of the units needed updating. The apartments had original kitchens and baths, dangerously outdated electrical service, single-pane windows and leaky roofs, among other issues.

Another defining feature of Edgewater Village Apartments was that 100% of the units were covered by a HAP contract (a HUD project-based Section 8 contract). Under a HAP contract, tenants pay 30% of their income in rent and the balance is paid by HUD. The current owner had been diligent about submitting his annual requests for rent increases based on rising expenses, but this hadn't really enabled him to keep pace with the market rents given the strong demand for housing in the area. Actual rents at the property were $600, $650 and $700 per month for 1BR, 2BR and 3BR unit types, but this was substantially below what other landlords were getting in the market. Mr. Gendron had seen a market study from the year before showing market rents at $700, $780 and $867 for these unit types.

Since the HAP contract was about to expire, Mr. Gendron knew he could go back to HUD for a mark-up-to-market in the HAP and get HUD to pay these higher market rents. Best of all, the increase would have no impact on the tenants – they would continue to pay 30% of their income in rent, and the balance would be paid by HUD. Further, these 'market' rents fell below the maximum tax credit rents in Edgewood because the AMI was $70,000 for a family of four. This was important because Mr. Gendron was aware he would need an allocation of Low Income Housing Tax Credits to make the deal work, and therefore rents at the property would be capped at the maximum LIHTC rents.

Mr. Gendron spent the next few days walking the site and completing a detailed unit-by-unit analysis of the deferred maintenance and rehab needs on site. He met with the Tenants Association to get their opinion of the property condition, and ultimately developed the following scope of work for the project.

- New kitchens and baths in all units, including fixtures ands appliances
- New site lighting
- New low flow toilets, sinks and faucets
- New hot water heaters and HVAC units
- New roofs and windows throughout
- Tuckpointing and sidewalk repairs
- New common doors in all buildings
- Extensive landscaping, including general upgrades to site and playground
- A new community building

Based on the scope of work, Mr. Gendron estimated that rehab/property stabilization would take 18 months

The Financing

The next step was for Mr. Gendron to meet with his architect to put together a rehab budget based on the scope of work. Mr. Gendron met with three general contractors with whom he had worked in the past, in order to estimate construction costs. Mr. Gendron concluded, after meeting separately with the three contractors, that rehab costs would be $6,000,000 including contractor overhead and profit. Soft costs would be as follows:

Architectural & Engineering Fees	5.5% of Construction
Financing Fees	1% of loan amount
Title Insurance and Recording Fees	$ 50,000
Construction Loan Interest	$500,000
Insurance during Construction	$ 50,000
Real Estate Taxes during Construction	$ 75,300
Legal and Accounting Fees	$ 60,000
Marketing	$ 10,000
Partnership Management Fee	$ 5,000
Partnership Publication	$ 2,500
Transition Reserve (6 mos)	$ 430,000
Operating Reserve	$300,000
Developer Fee	10% of development costs, not to exceed $1MM
Contingency	10% of Construction

With this information in hand, Mr. Gendron scheduled a meeting with the Maryland Community Development Administration (CDA), to find out about the availability of 9% tax credits. At the meeting, Mr. Gendron learned that a project that was supposed to be financed by CDA had recently fallen out. As a result, the agency had $550,000 in available tax credits, or $5.5 million in gross tax credits over 10 years, for his project. Encouraged, Mr. Gendron immediately set up a meeting with two syndicators to find out the sales price for credits. Both groups indicated they would be willing to buy the credits at $0.70 per credit dollar with all equity paid in at closing.

Next, he met with his friendly banker to find out the loan terms they would provide to him on this deal. His lender told him the Bank would require a debt coverage ratio of 1.20 and a maximum LTV of 80%. The lender also thought he could lock in Mr. Gendron's interest rate at 7.74% and provide a 20-year loan amortized over 30 years. The lender had recently done a multi-family deal in this market and felt comfortable that Mr. Gendron's pro-forma rents would be borne out in the HUD market study, which is required in order to mark the HAP rents up to market, as well as in the Bank-ordered appraisal.

Next, they talked about operating expenses. Current operating expenses at the property were over $4,500 per unit, but Mr. Gendron was confident that when the rehab was complete, and his management team in place, he could operate the property at $4,000/unit in expenses before $200/unit in reserves. The lender thought that figure was reasonable. His other project in that market was operating at $3,800/unit but he was aware that tax credit projects typically have slightly higher operating costs. He also noted that he thought an 8.5% cap rate was appropriate for the project.

Finally, Mr. Gendron was fairly confident that if he could raise the required equity and find a lender for the construction and perm debt, he could convince the Maryland Housing Authority ("MHA") to provide the gap financing for the project. MHA provides its monies as a "soft" second mortgage so that interest and principal are due and payable only if available from project cash flow. They agreed to lend him the lesser of 1) the amount of any permanent financing gap or 2) $500,000 – their single project limit.

Mr. Gendron left MHA's office, took a cab to the airport and boarded his private jet back home. As he sat back in his big leather chair, he penciled out the numbers for the deal and concluded that he could make the acquisition and rehab of Edgewater Village work given the financing pieces and requirements, as long as he was able to secure an increase in project rents. Do you agree with him?

The Assignment

- Develop Project Budget
- Develop an Operating Budget. Assume Mr. Gendron will not proceed with the deal until/unless HUD commits to increase the HAP rents to the achievable market rents noted above.
- Describe the strengths and weaknesses of the deal?
- What questions do you have for Mr. Gendron
- Based on what you know now, would you do the deal?

Exhibit 1

EDGEWATER VILLAGE APARTMENTS

9% Tax Credit Deal

Nmbr	Type	Size	Bank Rents	BANK PRO-FORMA
	1-BR/1-BA			$ -
	2-BR/1BA			$ -
	3-BR/1-BA			$ -
				-

Preliminary Proforma Analysis

Edwater Apartments
Edgewood, Maryland

OPERATING			Stabilized
Total Gross Potential Rent			$ -
Vacancy/collection Loss			$ -
EFFECTIVE GROSS INCOME			**$ -**
TOTAL OPERATING EXPENSE			
	Per Unit		$ -
Replacement Reserves			
TOTAL EXPENSES			$ -
	Per Unit		*$ -*
NET OPERATING INCOME			$ -
Term Bank Loan			
DSC			
Cash Flow/Loss			$ -

EDGEWATER VILLAGE APARTMENTS
9% Tax Credit Deal -- All Equity At Closing

PROJECT BUDGET

SOURCES OF FUNDS		USES OF FUNDS	
Bank Loan		Acquisition	
Tax Credit Equity		Rehab	
MHA		Contingency	
		Architect and Engineer	
		Legal and Accounting	
		Bank Underwriting Fee (1%)	
		Construction Pd. Interest	
		Insurance	
		RE Taxes	
		Developer Fee	
		Title/Recording	
		Partnership Fees	
		Marketing	
		Transition Reserve	
		Operating Reserve	
TOTALS	**$ -**	**TOTALS**	**$ -**

Deferred Equity

EDGEWATER VILLAGE APARTMENTS

CONSTRUCTION PROJECT BUDGET

SOURCES OF FUNDS		USES OF FUNDS	
Bank Loan		Acquisition	
Tax Credit Equity		Rehab	
MHA	$ -	Contingency	
Deferred Developer Fee	$ -	Architect and Engineer	
		Legal and Accounting	
		Bank Underwriting Fee (1%)	
		Construction Pd. Interest	
		Insurance	
		RE Taxes	
		Developer Fee	
		Title/Recording	
		Partnership Fees	
		Marketing	
		Transition Reserve	
		Operating Reserve	
TOTALS	**$ -**	**TOTALS**	

TERM PROJECT BUDGET

SOURCES OF FUNDS		USES OF FUNDS	
Bank Loan		Acquisition	
Tax Credit Equity		Rehab	
MHA		Contingency	
Deferred Fee		Architect and Engineer	
		Legal and Accounting	
		Bank Underwriting Fee (1%)	
		Construction Pd. Interest	
		Insurance	
		RE Taxes	
		Developer Fee	
		Title/Recording	
		Partnership Fees	
		Marketing	
		Transition Reserve	
		Operating Reserve	
TOTALS	**$ -**	**TOTALS**	**$ -**

New Information

What if you have timing issues?

- Syndicators typically like to hold back some of their equity until after completion/delivery as an incentive to complete but also in case they need to make adjustments (ask in form of question)
- Equity is often priced to reflect the risk – If the syndicator pays in most of the equity after construction, they have avoided construction risk (low tolerance) and will typically pay more per credit.
- Later pay-in means quicker/higher return on investment so willing to pay more if later.

So let's take another look at this deal

1) What if the syndicator agrees to pay you $0.75/credit dollar but only 80% during construction?

   - Think – what has to get paid/funded now? If you're playing a timing game with the cash coming in, can you also play one with the cash going out?
   - What does the deal look like? Can you/how do you get the budgets back into balance?
   - Does the deal work?

2) What if you have the same pay-in schedule as noted above and MHA says no to your funding request?

   - What does the deal look like? Can you/how do you get the budgets back into balance
   - Does the deal work?