



# 2018 ULI Atlanta Center for Leadership mTAP: Equitable TOD & Living Transit Fund



May 15, 2018

mTAP Presentation

## Project Team (“ULI Team”)

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- **Janelle Beasley**, Cushman & Wakefield (Brokerage & Advisory)
- **Hill Hardman**, Granite Holdings (Investment Management)
- **Sal Lalani**, tvsdesign (Architecture & Design)
- **Will Menkes**, Holder Properties (Acquisitions & Development)

# Agenda

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## Executive Summary

Definition of Equitable Transit Oriented Development (“ETOD”)

Why This Matters: Overview of Atlanta’s Affordable Housing Crisis

Current Atlanta Affordable Housing Landscape

Case Studies: Potential Models for a Successful Living Transit Fund in Atlanta

Findings & Suggested Next Steps

Conclusion and Q&A

# Overview of Transformation Alliance

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- **The Transformation Alliance (“TFA” or “Client”) is a broad partnership of organizations from the private, public, and nonprofit sectors**
  - ✓ TFA and its partner organizations are dedicated to creating thriving mixed-income communities anchored by transit and linked to opportunities and amenities
  - ✓ The TFA collaborative seeks to promote ETOD in metro Atlanta and creating gateways to opportunity by connecting low and moderate income households to economic opportunities and affordable housing near transit in the metro Atlanta Region
- **TFA hired first Managing Director in October 2017 – Odetta MacLeish-White (ULI Center for Leadership Alumna)**

# Key TFA Partners & Sponsors



## Assignment Scope of Work

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- **Client Goal:** Client is seeking advice on the creation of a Living Transit Fund (“LTF”) to provide financial support for affordable housing development in the City of Atlanta and broader metro area
  - ✓ Client’s focus is on promoting Equitable Transit-Oriented Development (“ETOD”) – giving customers access to key employment nodes and promoting economic mobility
- **LTF proceeds may be used to:**
  - ✓ Subsidize development of affordable housing units; and
  - ✓ Support pre-development activities, gap financing, land acquisitions, and development near “Equitable Target Areas” within ½ mile of MARTA and other mass transit stations

# Team Approach

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## 1. Analyze and Address MARTA Sales Tax:

- ✓ Incremental MARTA sales tax passed into law in 2016 with total projected sales tax revenues of \$2.5BN
- ✓ TFA's initial proposal is to size LTF based on 5% of MARTA sales tax revenue - \$125MM
- ✓ mTAP team has conducted meetings with senior MARTA executives to discuss potential funding of LTF
- ✓ *ULI mTAP team's recommendations and structure are not dependent upon receiving MARTA Sales Tax revenues (i.e. "nice to have" vs. "must have")*

## 2. Research and provide context for Atlanta's affordable housing shortage and current affordable housing and ETOD initiatives

## 3. Review and summarize case studies of successful ETOD funding efforts in comparable metro areas nationwide

## 4. Summarize findings and provide recommendations

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# Definition of ETOD – What Differentiates ETOD?

- Mixed uses to enhance and build vibrant, livable community – not just housing (grocery, school, healthcare, etc.)
- Affordable housing (preservation and creation)
- Safe, high quality with proximity to public transit
- Serves groups which most actively use and rely upon public transit for work and life
- To enhance access to opportunity and economic mobility
- Focus on ETOD is to mitigate gentrification and displacement pressures that can result from market rate TOD



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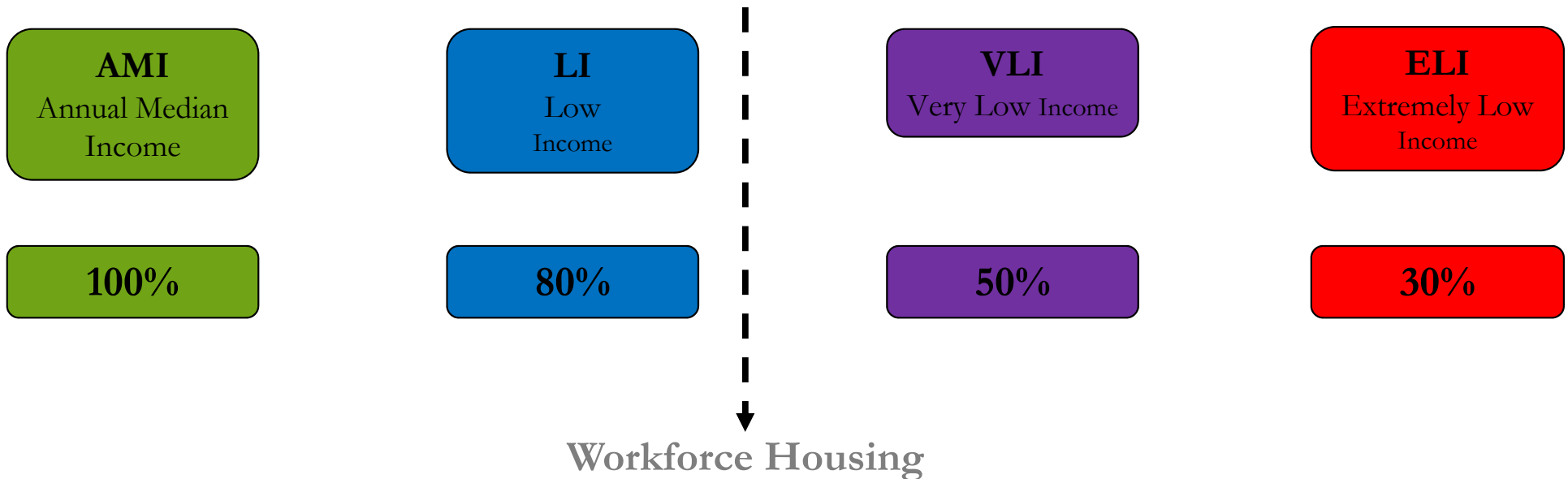
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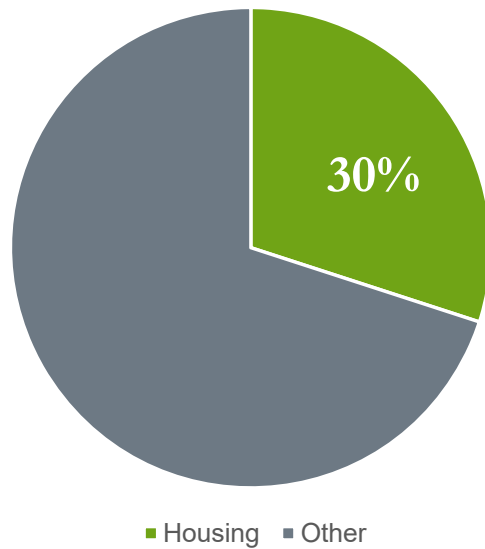
# Why This Matters: Definitions & Key Terms

Area Median Income (AMI): ~\$74,800/household in Atlanta (source: HUD)

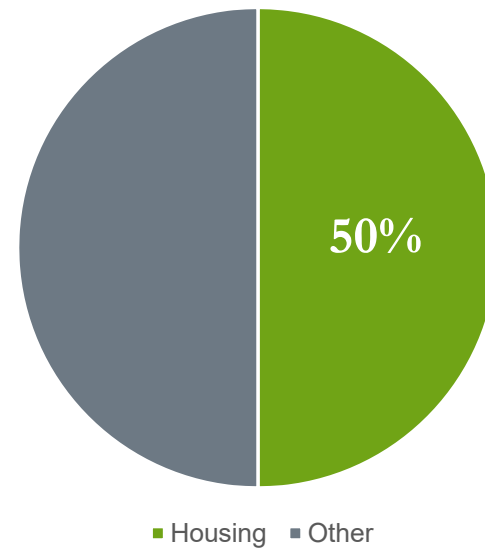


# Why This Matters: Definitions & Key Terms

Cost Burdened Household

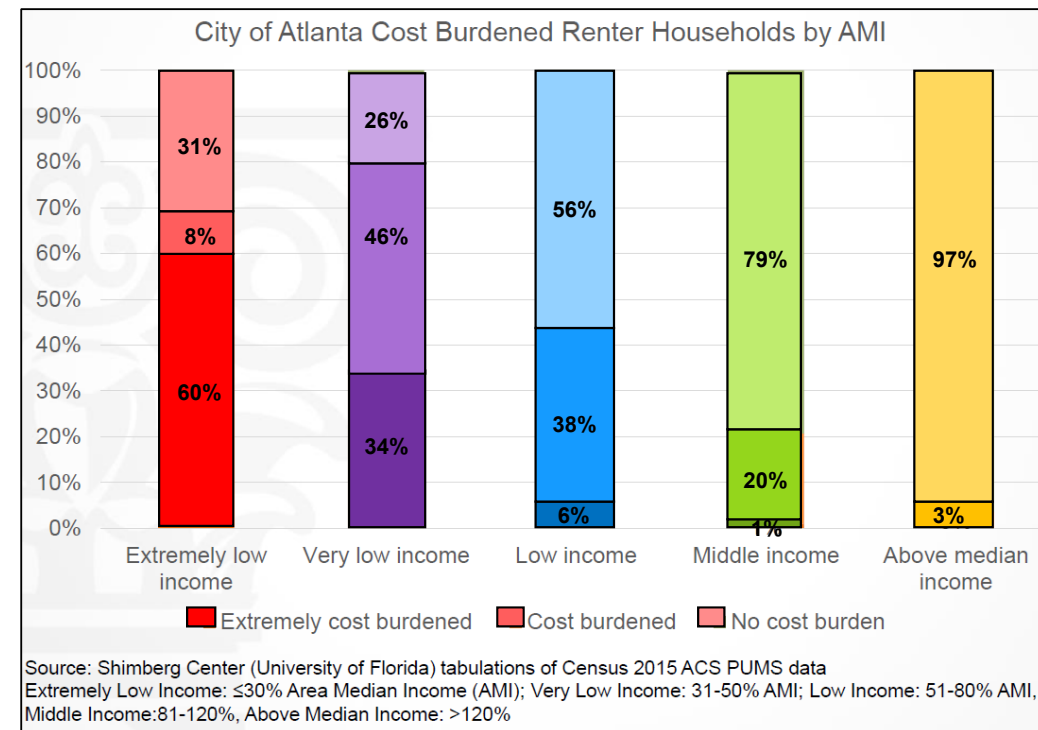
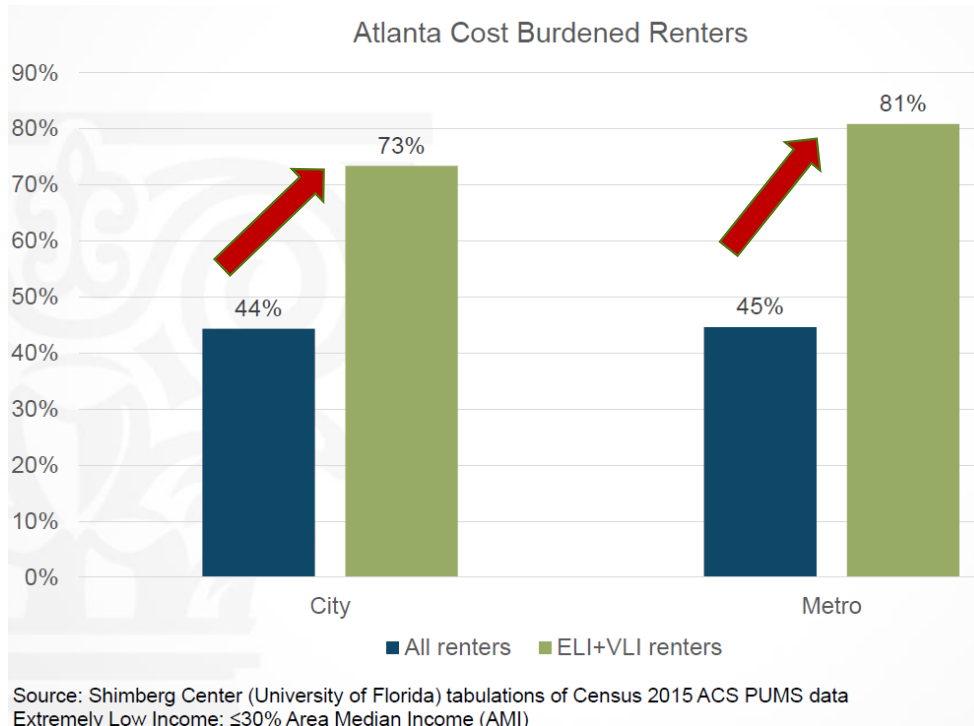


Extremely Cost Burdened Household



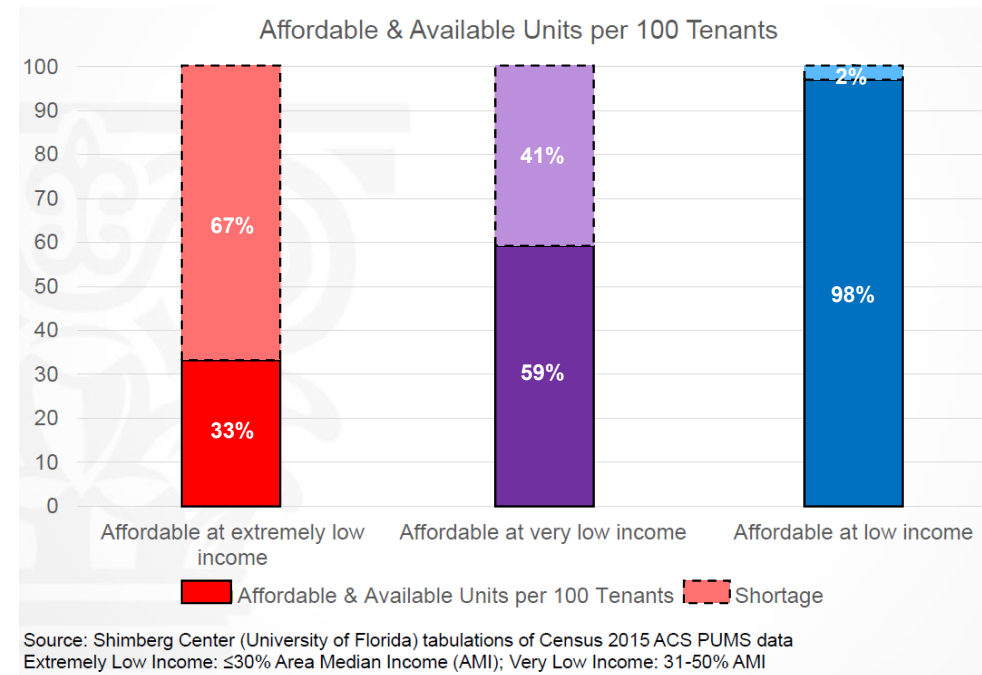
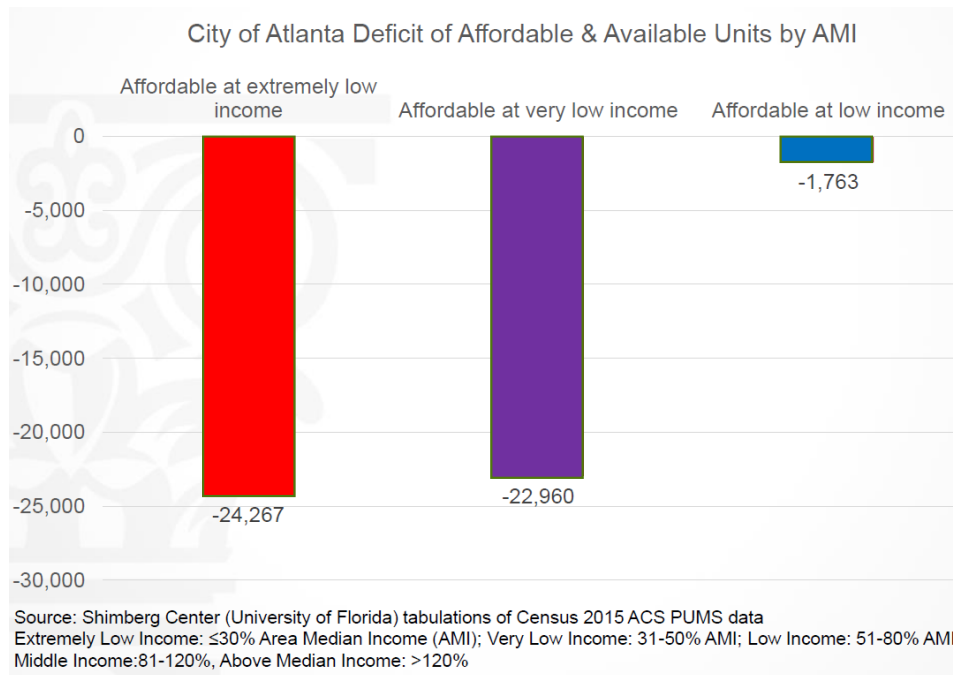
# Why This Matters: Worst Burden Borne by ELI & VLI

ELI & VLI renters face the most significant cost burdens – and the problem is growing worse



# Why This Matters: Affordable Unit Shortage Exists Today...

Existing shortage of ~49,000 affordable units in ATL – most acute amongst ELI & VLI renters

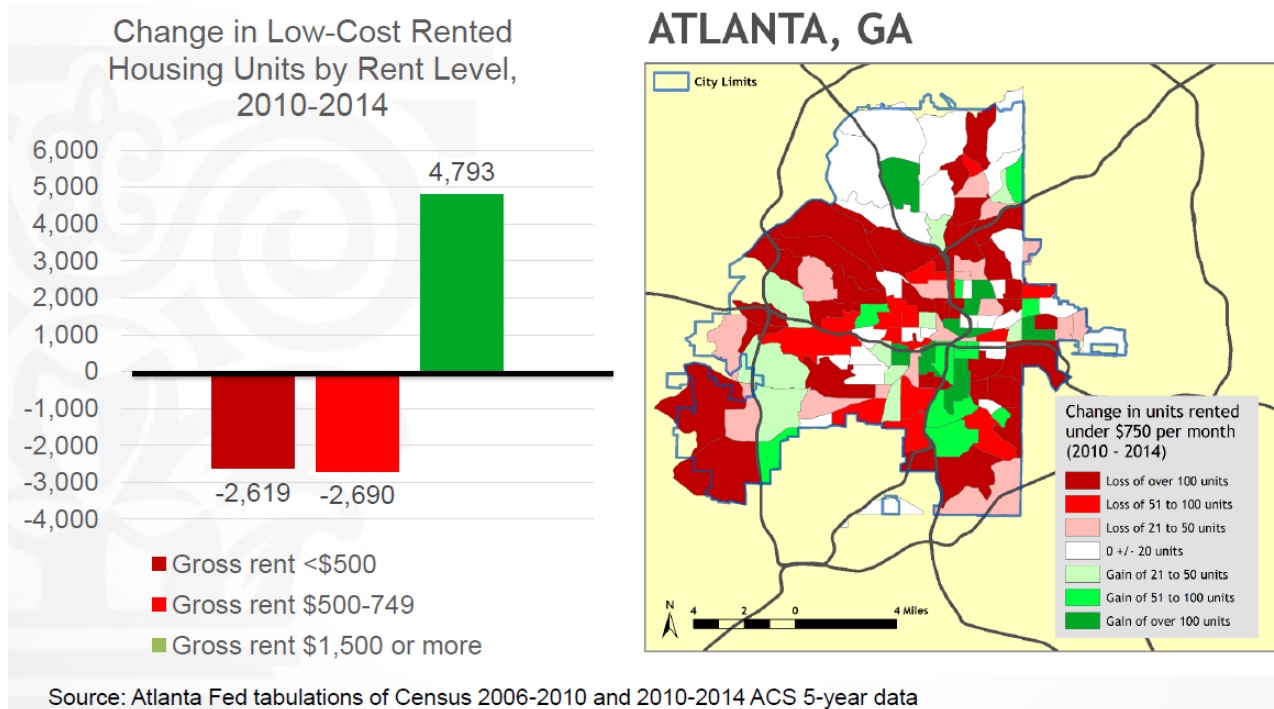


## Why This Matters: Summary of Affordable Rents

	Income Categorization	% of AMI	Annual HHI	Monthly Rent Burdens	
				CBH	ECBH
100%	Area Median Income ("AMI")	100.0%	\$ 74,800	\$ 1,870	\$ 3,117
30%	Extremely Low Income ("EI")	30.0%	\$ 22,440	\$ 561	\$ 935
50%	Very Low Income ("VLI")	50.0%	\$ 37,400	\$ 935	\$ 1,558
80%	Low Income ("LI")	80.0%	\$ 59,840	\$ 1,496	\$ 2,493

# Why This Matters: Affordable Unit Shortage Accelerating...

Atlanta lost over 5,300 affordable residential units from 2010 to 2014





# Why This Matters: Affordable Housing Shortage & Income Inequality

Atlanta is on pace to lose additional ~26,000 affordable units over the next 10 years



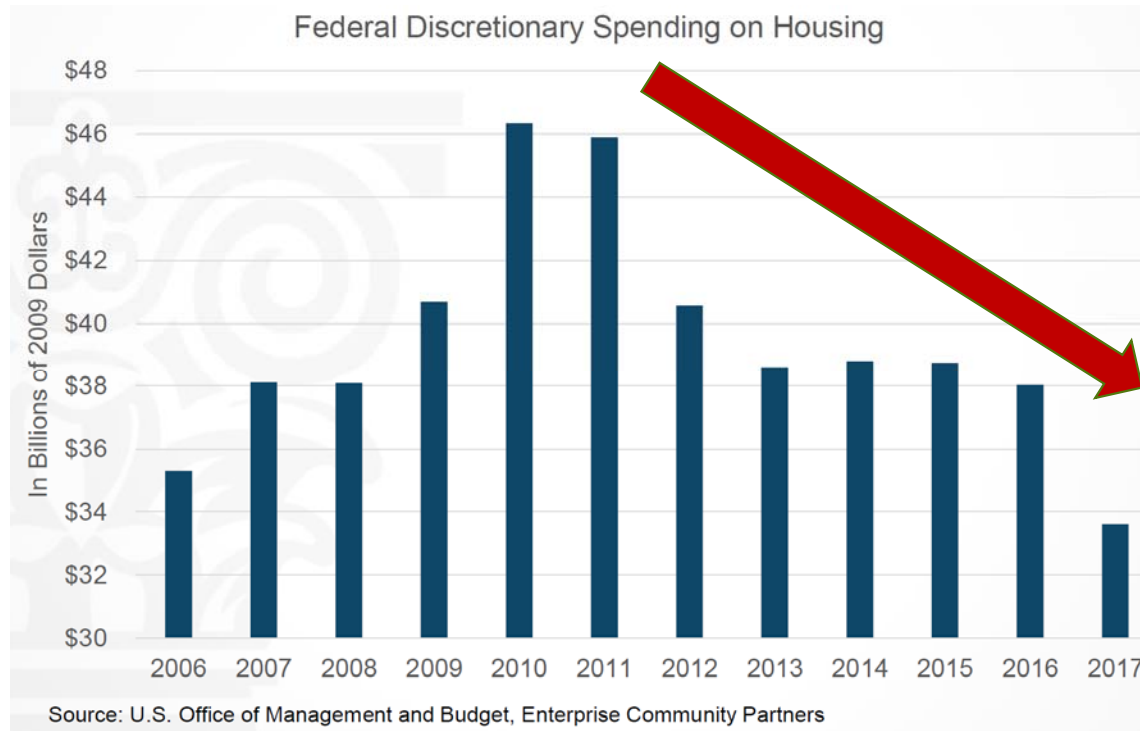
Atlanta has worst income inequality in US

CENTRAL CITIES			
Household Income (2016\$)			
City	20th percentile	95th percentile	Ratio
Highest Inequality			
Atlanta, Ga.	16,927	306,307	18.1
Washington, D.C.	20,152	352,958	17.5
Providence, R.I.	12,118	202,021	16.7
New Orleans, La.	12,373	203,254	16.4
Miami, Fla.	12,311	200,530	16.3
San Francisco, Calif.	31,840	507,824	15.9
Boston, Mass.	17,734	261,973	14.8
New York, N.Y.	19,144	282,125	14.7
Baton Rouge, La.	14,218	202,385	14.2
Buffalo, N.Y.	11,832	158,362	13.4

Source: Brookings analysis of 2016 ACS data

# Why This Matters: Reduced Federal Spending

Federal spending on affordable housing has reached a 10+ year low, since reaching a peak in 2010



# Sizing the “Gap”: Why Can’t We “Just Build It”?

## Building new affordable units for ELI & VLI cannot be justified without subsidy / gap financing

- Based on Atlanta AMI and basic affordability standards:
  - ✓ ELI renters afford max rent of \$561 per month
  - ✓ VLI renters afford max rent of \$935 per month
- At these rental levels, unlevered returns are not sufficient to justify market-based development
- Gap financing or government subsidy is required to fill the void

Rent Sizing & Pro Forma	Extremely Low Income	Very Low Income	Low Income
<b>Affordable Rental Income (for Single Unit)</b>			
Atlanta AMI	\$ 74,800	\$ 74,800	\$ 74,800
Annual Income as % of AMI	30%	50%	80%
<b>Annual Income (\$)</b>	\$ 22,440	\$ 37,400	\$ 59,840
% of Income Spent on Rent	30%	30%	30%
<b>Max Affordable Annual Rent</b>	\$ 6,732	\$ 11,220	\$ 17,952
<i>Max Affordable Monthly Rent</i>	\$ 561	\$ 935	\$ 1,496
<b>Operating Pro Forma (for Single Unit)</b>			
Max Affordable Annual Rent	\$ 6,732	\$ 11,220	\$ 17,952
(-) Vacancy Rate 7.0%	\$ (471)	\$ (785)	\$ (1,257)
<b>Net Effective Rent</b>	\$ 6,261	\$ 10,435	\$ 16,695
(-) Operating Expenses	\$ (5,274)	\$ (5,274)	\$ (5,274)
<b>[A] Net Operating Income (NOI)</b>	\$ 987	\$ 5,161	\$ 11,421
<b>Stab. Return on Cost = [A/B]</b>	<b>0.5%</b>	<b>2.6%</b>	<b>5.7%</b>
<i>*Compared to Typical Minimal Return on Cost Requirements of 6.5%+ for multifamily development</i>			

# Sizing the “Gap”: How Much Gap Financing is Needed?

Based on unit costs and debt markets, ELI and VLI units need major subsidy to “pencil out”

- Build costs for new units can be as high as ~\$200K
- Market based lending practices do not support development of new affordable housing
  - ✓ Loans are sized based on hurdles related to i) LTV and ii) DSCR
  - ✓ ELI construction generates ~90% “gap”
  - ✓ VLI construction generates ~60% “gap”
- Potential to reduce needed gap financing via lower-cost construction methods (e.g. modular)

"Gap" Sizing per Unit	Extremely Low Income	Very Low Income	Low Income
<b>Construction Budget ("Uses of Capital")</b> <sup>[1]</sup>			
Land Costs / Unit	\$ 12,965	\$ 12,965	\$ 12,965
Hard Costs / Unit	\$ 147,896	\$ 147,896	\$ 147,896
Soft Costs / Unit	\$ 39,384	\$ 39,384	\$ 39,384
<b>[B] Development Costs / Unit</b>	<b>\$ 200,246</b>	<b>\$ 200,246</b>	<b>\$ 200,246</b>
<b>Sources of Capital</b>			
Maximum Construction Loan <sup>[2]</sup>	\$ 14,585	\$ 76,286	\$ 168,836
Implied Loan to Cost (LTC)	7.3%	38.1%	84.3%
Implied Loan to Value (LTV)	85.0%	85.0%	85.0%
<b>[C] Total Sources of Capital</b>	<b>\$ 14,585</b>	<b>\$ 76,286</b>	<b>\$ 168,836</b>
<b>[D]=[B-C] "Gap" Capital Needed</b>	<b>\$ 185,661</b>	<b>\$ 123,960</b>	<b>\$ 31,410</b>

[1] Source: Urban Institute & National Housing Conference.

[2] Traditional bank-funded construction loan, sized based on a minimum of i) LTV at 5.75% valuation cap rate, and ii) minimum interest-only DSCR of 1.15x at interest rate of 5.0%.

# Sizing the “Gap”: How Much Financing does Atlanta Need?

Potential need for up to \$7.4BN of additional gap financing across multiple sources

Total "Gap" Financing Needed"	Extremely Low Income	Very Low Income	Low Income	
<b>How Much \$ Required to Fill the Affordable Unit Shortfall TODAY in Atlanta?</b>				
[D] "Cap Capital Required" per Unit	\$ 185,661	\$ 123,960	\$ 31,410	Total
x Total Unit Shortfall Today	24,267	22,960	1,763	48,990
<b>Total Capital Required (\$ MM)</b>	<b>\$ 4,505</b>	<b>\$ 2,846</b>	<b>\$ 55</b>	<b>\$ 7,407</b>
<b>How Much \$ Required to Replace Lost Affordable Units between 2010 &amp; 2014?</b>				
[D] "Cap Capital Required" per Unit	\$ 185,661	\$ 123,960	n/a	Total
x Total Units Lost	2,619	2,690	n/a	5,309
<b>Total Capital Required (\$ MM)</b>	<b>\$ 486</b>	<b>\$ 333</b>	<b>n/a</b>	<b>\$ 820</b>

- ELI & VLI unit shortfall is highest given difficulty to develop this product based on market rents and loan sizing techniques
- \$820MM of total gap financing could backfill 5,309 affordable units lost since 2010
- LTF cannot/should not be sole source - Gap financing can take the form of grants, forgivable loans, federal/state/local rental subsidies, tax credits (e.g. LIHTC, NMTC, OZs, etc.), NOAH preservation

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# Filling the “Gap”: What City of Atlanta is Doing Now

## CURRENT ACCOMPLISHMENTS

### Anti-Displacement

- Owner Occupied Rehab program – March 2018 Launch
  - Targets 60% AMI
    - ✓ Atlanta Heritage Program - \$5MM
    - ✓ Westside Heritage - \$2MM
    - ✓ Choice Neighborhoods Heritage - \$2MM
- \$9MM committed YTD – additional \$2 MM TBA

## INITIATIVES IN PROGRESS

### Workforce Housing

- Legislative Efforts such as Inclusionary Zoning

### TOD

- Fund (for Acquisitions, construction costs)
- Earmarked for this initiative, NOT disclosed

### Affordable Housing Creation

- Invest Atlanta working with AHA – Creation of database of available properties for developers (60-90 days)
- Access to sites available, capital resources, and all programs

# Filling the “Gap”: Select Atlanta Stakeholders We Interviewed



- Own significant land holdings (400+ acres) for affordable housing development – primarily on transit lines
- Holding discussions with MARTA, Beltline, and Invest Atlanta
- Opportunity for PPPs (e.g. \$30MM HUD financing available)



- Subsidized financing partner for TOD with affordable components
- Capital to “fill the gap” and mitigate risk for developer via equity grants and junior capital
- E.g. King Memorial TOD – Russell/Place Properties (\$50MM, 1/3 workforce housing) \$6MM TAD financing



- Focused on mixed use TOD projects – contributing excess land
- At least 20% of units must be affordable for renters at 60%-80% of AMI
- E.g. King Memorial TOD – Russell/Place Properties (\$50MM, 1/3 workforce housing) – ground leased land





# Filling the “Gap”: King Memorial Transit TOD

**\$50MM, 297 Unit partnership between MARTA, Invest Atlanta, HJ Russell and Place Properties**



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# Case Study #1: Los Angeles ETOD Fund

## MATCH Loan Program

- \$9MM fund size - matched up to \$75MM
- Funded by sales tax
- Structured as low interest loans and discounted land
- ½ mile from Transit
- ≤ 60% AMI and 35% min. affordability
- Partners include: CA Community Foundation, Low Income Investment Fund (LIIF), Enterprise Community Partners, LA Thrives
- Matched by local community development financial institutions to = \$75MM
- Impact: 1,500 units



# Case Study #2: Detroit Affordable Housing Leverage Fund

## Affordable Housing Leverage Fund

- Total Fund Size of \$250MM - \$50MM Grant + \$150MM low interest loan + \$50MM public funds
- Subsidized developers to provide 20% min. affordable units
- Target families  $\leq 60\%$  AMI
- 13,700 acres of publicly owned land
- Partners include: Invest Detroit, CDFIs, Philanthropic Organizations
- Impact: Preservation of 10,000 units + creation of 2,000 new units by 2023





# Case Study #3: Bay Area Transit Oriented Affordable Housing Fund

## Bay Area TOAF Fund

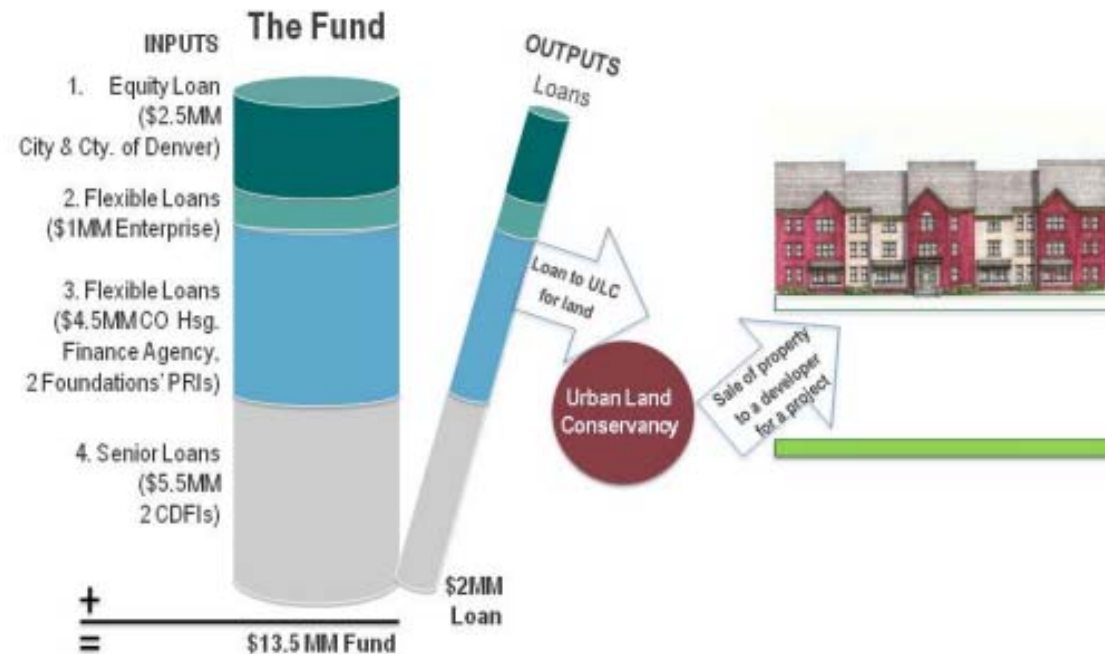
- Total Fund Size of \$50M, including \$10MM from San Francisco Metro Transportation Commission
- Selected LIIF as fund manager/administrator
- Partners include: Corporation for Supportive Housing, Enterprise Community Loan Fund, Citi Community Capital, Morgan Stanley, Ford Foundation, SF Foundation, Living Cities, Among Others
- Total impact to date of 500 new units
- Borrower can access loans of up to \$750K for pre-development costs and \$7.5MM for other deal costs



# Case Study #4: Denver Regional TOD Fund

## TOD Fund

- \$15m city fund created with seed capital.
- Partners Include: City of Denver, Enterprise Community Loan fund, State of Colorado Housing Finance Agency, various Foundations, Banks, CDFIs
- Structured as a revolving credit facility with Urban Land Conservancy (“ULC”) as sole borrower
- Expanded to \$30m regional fund with additional funding from foundations and government agencies and banks
- Grants received include \$4.5MM Sustainable Communities Regional Planning Grant and \$2.9MM HUD Challenge Grant



## Comparison of Various ETOD Funds

City	Goals	Structure	Funding Sources	Impact
Los Angeles	35% units affordable	Land discounted up to 30% off market MATCH Loan Program -- \$9MM for AH within 1/2 mile of transit -- available to people making 60% or less AMI + \$1MM to small businesses Low Interest Loan	Low Income investment fund (LIIF) \$9MM matched by Cali Endowment and local comm dev fin inst = \$75MM (CDFIs)	1,500 units
Detroit	-Subsidized developers to provide 20% min. affordable units -Target families </= 60% AMI	\$50MM Grant + \$150MM low interest loan + \$50MM public funds	CDFIs, Philanthropic Organizations, Public Funds	Preserve 10,000 units + create 2,000 units by 2023
San Francisco	gap financing	\$50MM \$10MM from Metropolitan Transportation Commission	Enterprise Community Partners; LIIF	500 Unit impact to date
Denver	gap financing	\$15MM city fund created with seed capital, expanded to \$24MM for regional efforts Revolving Credit Agreement	Enterprise Community Partners; CDFIs	1,000+ unit impact

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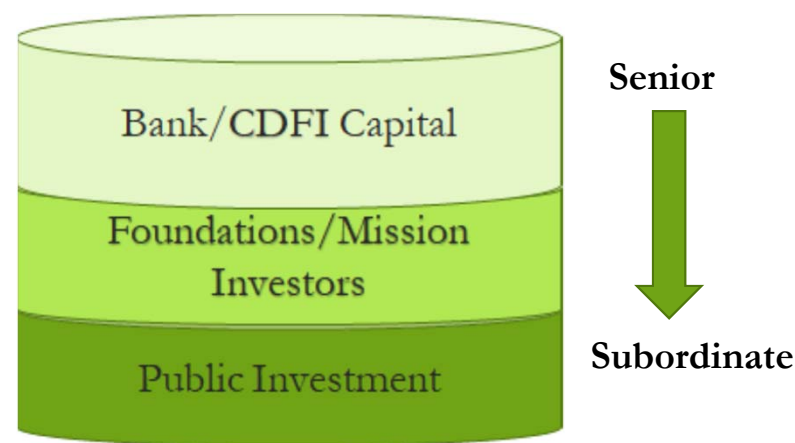
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# Suggestions – Fund Structure Considerations

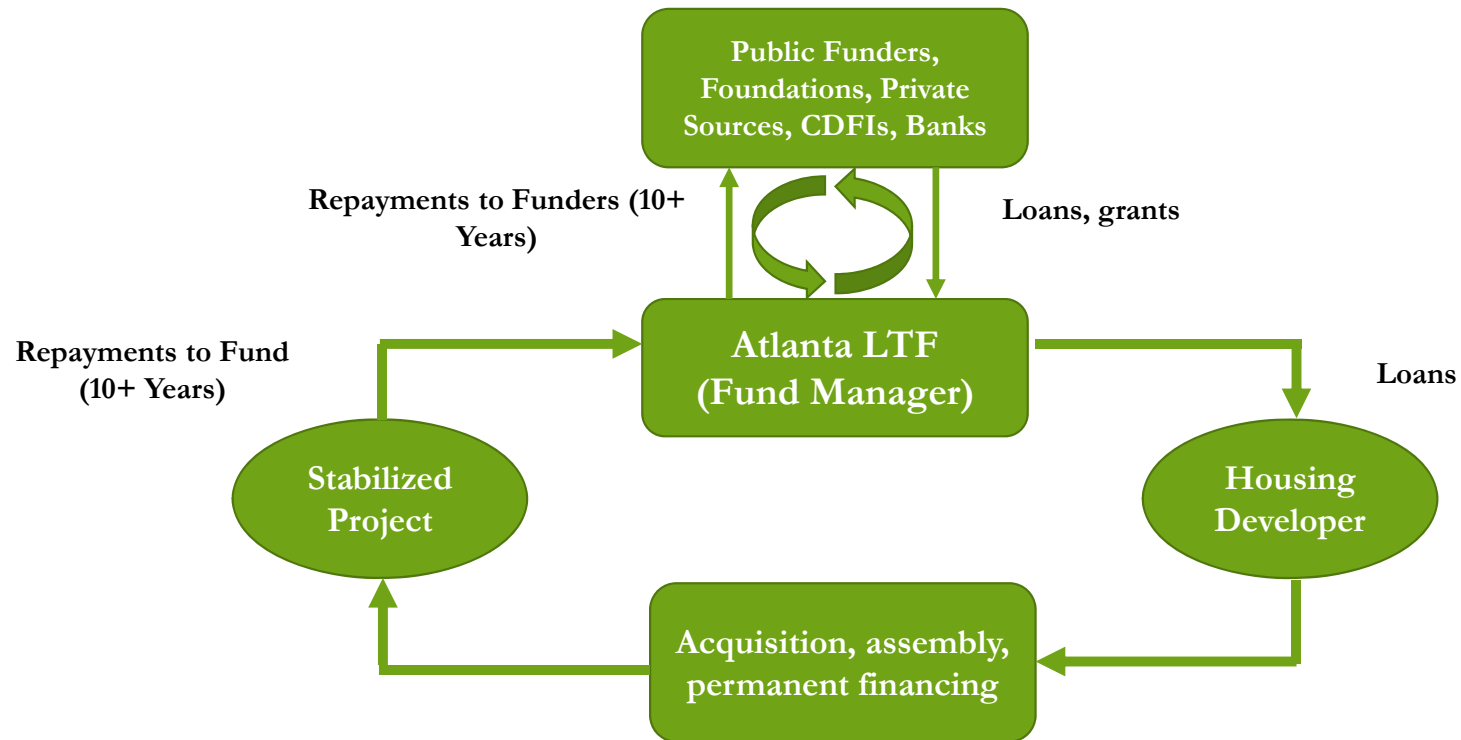
## Fund Structure Suggestions

- Most case studies from other markets leverage the same basic three-tier fund structure
  - ✓ **Tier 1:** Public Investment (20-25% of fund, at 0% interest)
  - ✓ **Tier 2:** Loans from Foundations and Mission Investors (20-25% of Fund, at 1-2% interest.
  - ✓ **Tier 3:** Banks and CDFIs (50-60% of fund, rates of 4-6%)
- Actual structure is flexible, with some capital held by fund manager, other funds drawn at deal closings
- Fund manager selection is crucial
- Involve key stakeholders in Oversight Committee

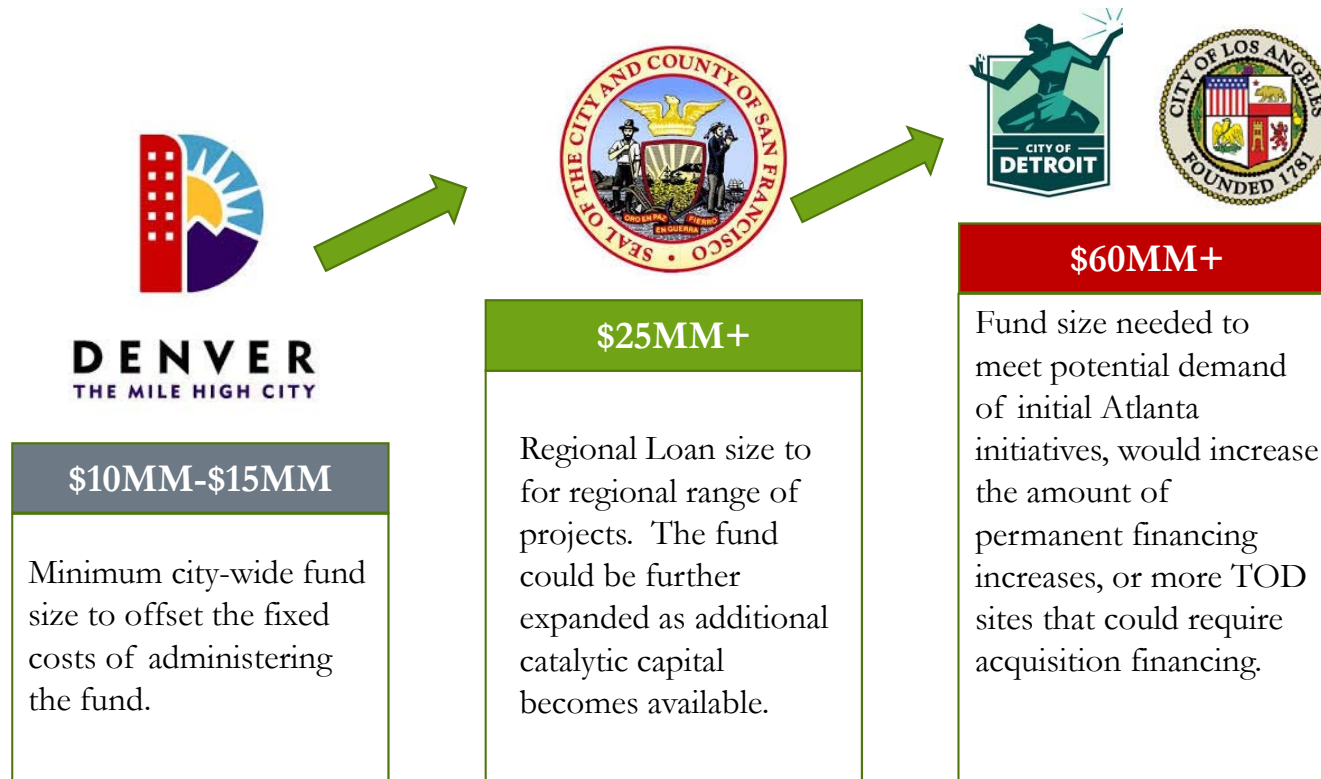


Funding Type	Amount	Interest Rate
<b>First Tier</b> 'Top loss' ( catalytic capital)	\$5,000,000	0%
<b>Second/Third Tiers</b> Mission Investment	\$7,500,000	1.5%
<b>Senior Debt</b> Banks, CDFIs	\$12,500,000	6% (estimated)*
<b>Total</b>	\$25,000,000	3.45% (blended cost of funds)**

# Suggestions – Revolving Funding Process



# Suggestions – Fund Size Considerations



*“How do you eat an elephant? One bite at a time,” “we are getting there day by day.”*

**- Mayor Keisha Lance Bottoms**

# Suggestions: Next Steps Moving Forward

## Next Steps Moving Forward

### 1) Secure Commitment of Public Catalyst Investment

- ✓ AHA
- ✓ City of Atlanta
- ✓ MARTA Sales Tax
- ✓ Government Grants

### 2) Select Fund Manager

- ✓ Competitive Process
- ✓ Entity with combination of fund management and lending experience

### 3) Secure Capital Commitments from other Funders

- ✓ Foundations
- ✓ Mission driven organizations and individuals
- ✓ Banks and financial institutions

### 4) Establish Oversight Committee

- ✓ Investing Organizations
- ✓ Other Stakeholders who have vested interests in ETOD

### 5) Final Business Plan and Fund Agreements

## ULI mTAP Team Interviews & Resources

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- Invest Atlanta
- MARTA
- ANDP/Reinvestment Fund
- Enterprise Community Partners
- Place Properties
- Atlanta Housing Authority
- BB&T
- Atlanta City Council
- SunTrust
- Building Community Workshop
- Federal Reserve Bank of Atlanta
- Saporta Report
- Transit Center
- US Department of Transportation
- Metropolitan Housing & Communities Policy Center
- Urban Institute
- Kansas City TOD Policy
- Federal Transit Administration
- Metropolitan Area Planning Council
- MZ Strategies

## Appendix: Funding Sources

# Suggestions: Funding Resources

## Government Sources

- 1) Federal Transit Administration Grants
  - 5305: Planning Programs
  - 5307: Urban Formula Grants
  - 5316: Job access and Reverse Commute Grants
  - 5317: New Freedom Program
- 2) SAFETEA-LU Transportation, Community & System Preservation
- 3) Economic Development Administration
  - Planning and Local Assistance Programs
  - Strong Cities, Strong Communities Visioning Challenge
- 4) HUD Sustainable Communities Regional Planning Grants
- 5) Local and State Grants / Taxes

## CDFIs

- 1) Low Income Investment Fund (“LIIF”)
- 2) Living Cities
- 3) Enterprise Community Partners
- 4) Local Initiatives Support Corporation (“LISC”)
- 5) Reinvestment Fund / ANDP
- 6) Regional Banks: SunTrust, BB&T, etc.

## Philanthropic / Mission Investors

- 1) Ford Foundation: Transformation Alliance Partner
- 2) Robert Wood Johnson Foundation: Supports transportation endeavors through a myriad of intermediary entities such as LISC and Living Cities.
- 3) Surdna Foundation: Has a Sustainable Environments Program
- 4) Atlanta Community Foundation
- 5) Urban Land Institute Foundation Annual Fund
- 6) Crowdsourcing and Individuals

## Funding Sources – New Market Tax Credits (NMTC)

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- Enterprise Community Partners
- Reinvestment Fund
- SunTrust
- Invest Atlanta



# Funding Sources - SPARCC

- SPARCC Funding- Atlanta was 1 of 6 cities to win SPARCC (Strong, Prosperous and Resilient Communities Challenge) funding
  - \$90 million program / \$1 Million over the first three years (2018-2020)
  - Access to more than \$70 million in capital to help developers fund more affordable housing
  - Funding would target neighborhoods around existing MARTA stations and along the Beltline
  - Over 30 projects identified/ 14 projects were shortlisted (\$39 Million Financing Gap)

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