ULI Los Angeles StimULI Panel
What is Affordable Housing?
A presentation by the ULI-LA Housing Council Affordable Housing Sub-Committee
Wednesday, December 16, 2020 | 8:00 AM - 9:30 AM PST | Via Zoom
Upcoming Events at ULI-LA

Visit la.uli.org/events

Housing Council presents: Never Let a Crisis Go to Waste - Taking Development Services Digital
Wednesday, January 6, 2021 | 8:00 AM - 9:30 AM PST

ULI Member Event - West Coast District Councils (BC to Baja) Virtual Happy Hour
Thursday, January 7, 2021 | 4:30 PM - 6:00 PM PST

ULI Los Angeles New Member Mixer
Wednesday, January 27 | 5:00 PM - 6:00 PM PST

ULI Los Angeles Innovation Committee presents Shark Tank
Wednesday, January 27, 2021 | 12:00 PM - 1:00 PM PST

Emerging Trends 2021: Leaving California
Thursday, January 28, 2021 | 8:00 AM - 9:30 AM PST

ULI Los Angeles Movers and Shakers with Faisal Roble - Chief Equity Officer, L.A. City Planning Department
Thursday, January 28, 2021 | 12:00 PM - 1:00 PM PST
What is affordable Housing

- Definition
- Drivers
- Funding
- Timing
- Applications & Funding Rounds
- Political/Community Outreach
- Case Studies
- Lender/Investor
- Construction/Completion/Lease Up
- Property Mgmt./Compliance/Reporting
What is affordable Housing

▶ ULI LA Affordable Housing Subcommittee

▶ Bob Buente  President/CEO 1010 Development
▶ Steven Spielberg  Director EAH Housing
▶ Moe Mohanna  President Highridge Costa
▶ Steve PonTell  CEO National CORE
▶ David Grunwald  Senior VP National CORE
▶ Eric Olsen  Partner TCA Architecture
▶ Dora Gallo  President/CEO A Community of Friends
What is Affordable Housing

Deed restricted to households earning 60% or less of the Area Median Income (AMI). Restrictions for 55-years.

In Los Angeles County, AMI is $78,900 for a one-person household. Increases per person - Two-person household earns $90,100, etc.

Affordability levels typically 30% to 60% of AMI
Individual income $23,670 - $47,340
Two-person $27,030 - $54,060

Rents are also restricted target households to pay 30% of their income.

<table>
<thead>
<tr>
<th>LA County</th>
<th>30% - Extremely Low</th>
<th>50% Very Low</th>
<th>60% Low Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Studio</td>
<td>$591</td>
<td>$986</td>
<td>$1,183</td>
</tr>
<tr>
<td>One-Bedroom</td>
<td>$633</td>
<td>$1,056</td>
<td>$1,267</td>
</tr>
<tr>
<td>Two-Bedroom</td>
<td>$760</td>
<td>$1,267</td>
<td>$1,521</td>
</tr>
<tr>
<td>Three-Bedroom</td>
<td>$878</td>
<td>$1,464</td>
<td>$1,757</td>
</tr>
</tbody>
</table>
Drivers of Affordable Housing

What, Where and For Whom Driven By Funding Sources

WHERE - Qualified Census Tract, Difficult to Develop Area, Transit Oriented, Highest Resource, Services/Amenities

WHAT - Construction standards, Unit sizes, Common areas, Laundry rooms, Playgrounds, Green requirements, Cost

WHO - Working Families, Seniors, Formerly Homeless, Mental Illness, Veterans, Individuals w/ Developmental Disabilities,
Funding of Affordable Housing

LIHTC 101 - Tax Credit Equity

The Federal Low-Income Housing Tax Credit (LIHTC) - Section 42 of the Internal Revenue Code - administered by the California Tax Credit Allocation Committee (CTCAC)

Tax credits provide the equity in most affordable housing types and does not need to be repaid.

Monetized by admitting investor as a 99.99% limited partner, to allow 99.99% of tax benefits to flow through.

Federal LIHTC's are a 10-year credit, but capital is invested up front.
State Credits are a supplemental source of tax credit equity.

EXAMPLE:
- Developer awarded $1MM annual federal credits
- Investor purchases 99.99% limited partner interest for $0.90 per credit
- Project gets $9,000,000
- Investor/Limited Partner receives 99.99% of $1MM in credits for each of the next 10-years as well as depreciation and losses.
Funding of Affordable Housing

Public Debt, Grants and Loans

Debt is typically comprised of multiple public funding sources + a conventional perm loan or tax-exempt bonds from a bank.

Public funding sources come from local cities, counties and the State, are competitive, and dictate population.

To be competitive, most sources require inclusion of the lowest income levels and/or homelessness.

Examples include local sources like HHH from City of LA, County of LA, and State sources, which include specific programs for Veterans, reduction of greenhouse gasses, farmworkers etc.

Public sources are “residual receipts loans”, which requires a 50% or more sweep of the available cash flow.

Public sources restrict rents, which results in MUCH lower NOI and MUCH smaller perm loans.
Funding of Affordable Housing

Other Considerations

Tax credit equity, public and private debt make up entire capital stack.

Projects deed restricted for 55-years, and the tax credit investor must stay in the partnership for 15 years.

Developer fees are typically capped at 15% of eligible costs or $2,500,000, of which typically a portion is contributed or deferred to cover any budget shortfalls.
Funding of Affordable Housing

Example - The Pointe on Vermont

- $1,420,000 Perm Loan – US Bank
- $1,500,000 LACDC – County of LA
- $7,900,000 HHH – City of Los Angeles
- $1,700,000 HOME – City of LA
- $2,500,000 CRA/former RDA – City of LA
- $9,780,000 4% Tax Credit Equity – US Bank – $1.01

Total: $24,800,000

$469,000/unit

25 formerly homeless, 24 low-income + 1 mgr = 50
Timing of Affordable Housing

Putting it all together

Example - The Pointe on Vermont

Summer 2016 - JV w/owner, Meetings with Council office, determine program - 50 units family affordable
Fall 2016 - Apply to City of LA (HCID) for HOME funds/HCID publishes self-scores
Winter 2016 - Invited to apply for HHH - Round 0
Spring 2017 - HHH Application/Denial - 49 units homeless + 1 mgr.
Spring 2017 - Community Engagement/Program Revision: 25 homeless + 24 low income + 1 mgr. + retail + recording studio + community space + WiFi
Summer 2017 - HHH Award
Fall 2017 - LA County funding Application/Award
Spring 2018 - HCID HOME Funds Application
Summer 2018 - HOME Funds Award
Fall 2018 - HCID - CRA Funding Award
Winter 2018 - TCAC/CDLAC Application
Winter 2018 - TCAC/CDLAC Award
Summer 2019 - Partnership Closing/Construction Start
Winter 2020 - Estimated construction completion/Lease Up
Applications & Funding Rounds/Effects

- Funding Applications:
  - Oversubscribed by as much as 1:5 ratio
  - Typically one or two rounds per year
  - Minor changes to submittal rules and application yearly, major changes every few years

- Effects:
  - Land Holding Costs
  - Construction Cost increases
  - Building Code changes
  - Loss of other previously allocated funding
Community & Political Outreach

Affordable Housing Provider takes careful consideration when planning outreach efforts to ensure engagement is tailored to the needs of each individual community. Community outreach can include but is not limited to:

- Visioning workshops
- Open houses
- Focus groups
- Charettes
- Bus tours
- Community fairs
- Targeted messaging campaigns

Partners typically include:

- Government liaisons
- Local non-profits
- Housing advocates
- Business leaders
- Service partners
Social Services

- Customized onsite supportive services are provided to improve the health and wellness of residents such as:
  - Transportation assistance
  - Healthcare management
  - Fitness classes
  - Financial literacy workshops
  - Stress management
  - Community resources
  - After-school activities
  - Homework assistance and tutoring
  - Mental health
Affordable Housing Myths

- The concept of affordable housing is often misunderstood. People associate images of dilapidated and run-down apartment communities with what is being proposed.
- Contemporary affordable housing is usually indistinguishable from market rate properties.
- Common affordable housing misconceptions include:
  - Lower property values
  - Increase crime
  - Increase emergency service calls in neighborhood
  - Add more traffic
  - Be an eyesore in the community
  - Will not “fit in” with the neighborhood
Project Case Study

Mercy Placentia

1945 S. Veterans Way, Placentia, CA 92870

- Formerly a dirt lot sandwiched between railroad tracks and a maze of industrial parks off Lakeview Avenue

- The 3.65-acre unimproved site was comprised of two parcels. One parcel was owned by the Orange County Flood Control District and the adjacent parcel was owned by a private party.
Project Case Study

Mercy Placentia

Mercy Placentia is a cooperative project of the city, the county, the U.S. Department of Veterans Affairs and several lenders and nonprofit groups.

Population served:
- Military veterans who are homeless or disabled. New Directions for Veterans offers on-site services and case management.

Key Official(s):
- Placentia City Administrator Damien Arrula
- Mercy Housing Development

Funding:
- $20 million project - paid for largely by federal housing tax credits, as well as $2.7 million in county funds and various loans.
- Federal Low-Income Housing Tax Credit
- California Proposition 41
- a conventional mortgage (relying on a HUD VASH subsidy)
- Project Based HUD VASH and/or Project Based Section 8
- Orange County Housing Authority
- City of Placentia Development Impact Fee Deferral.
Project Case Study

Marv’s Place

Provides 20 units of affordable housing for formerly homeless families in the beautiful city of Pasadena. The elegant Mediterranean style development encompasses a three-story building surrounding a central recreational courtyard to bring privacy and community for the families who live there.

Population served:
- PSH: Families experiencing homelessness

Funding:
- Private Construction Loan
- City of Pasadena
- Pasadena HOME
- First 5 LA Loan
- First 5 LA Grant
- Los Angeles County Community Development Commission
- LIHTC Equity - 9%
Project Case Study

Firestone Phoenix

- Located in unincorporated Los Angeles County, Firestone Phoenix is a 44-unit supportive housing development with rich amenities: community room and kitchen, computer room, laundry rooms, outdoor lounges, community garden, and children’s play area. Designed to meet high environmental standards, the project will pursue LEED Gold Certification.

**Population served:**
- PSH with seven (7) regular affordable
- 55% of PSH units for homeless veterans

**Funding:**
- 4% LIHTC/Bond
- Permanent Loan
- State Veteran Housing and Homeless Prevention Program (VHHP)
- LA County Development Authority (Trust Fund, MHHP, and HOME)
- Project-Based Rental Subsidy
Lender/Investor

- Identify lender and investor at funding application submittal
- Interest rate risk
- Tax credit pricing risk
- Date of the Wage Determination Letter
- Construction Loan LTC 85%
- Permanent Loan LTV 85 - 90% at a 1.15 DCR
- Partial tax credit equity contributions during construction period
Construction start / completion / lease-up deadlines

- 180-day Readiness Test from receipt of an allocation
  - Issue building permits & start construction
  - Close & fund construction
- Completion: 9% tax credit allocations require that the project be placed in service within 2-years of receipt of an allocation
- Lease-up: all units must be qualified within 1-year of project placed in service - 10-year credits become 15-year credits - loss of equity
Property Management / Compliance / Investor Reporting

- Detailed income qualification and verification process to ensure compliance with AMI levels
- State audits of income qualification
- Tax investor reporting
- Recapture
Questions?

Thank You

**ULI LA Affordable Housing Subcommittee**

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