

RURAL RENTAL HOUSING UPDATE

National Rural Housing Coalition
November 29, 2017

Panelists: Tanya Eastwood
David Lipsetz
Richard Price

Moderated by Marty Miller

NRHC's Rural Rental Housing Research

A Review of Federal Rural Rental Housing Programs, Policy and Practices

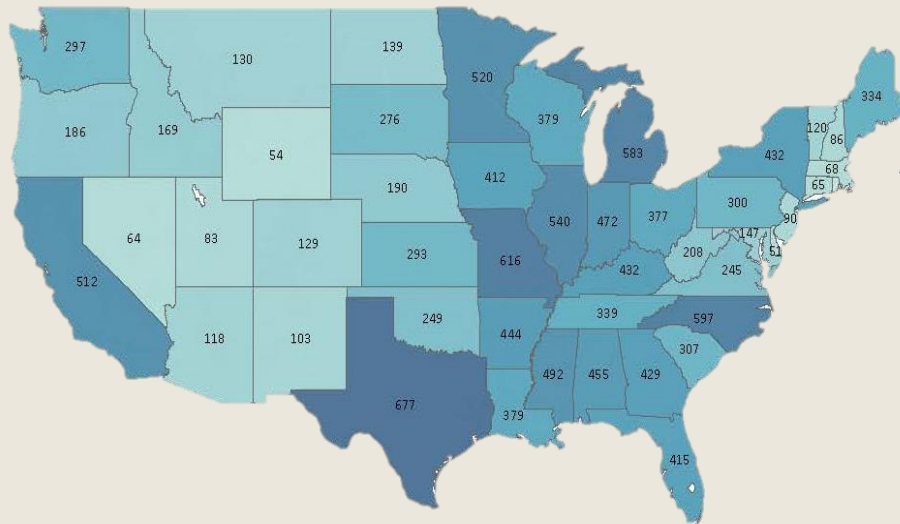
April 2017

**National Rural Housing Coalition
1331 G Street, NW 10th Floor · Washington, DC 20005**

USDA's Multifamily Housing Portfolio

As of March 2017 there are:

- ✓ 14,067 USDA Multifamily properties
- ✓ On average these properties are 34 years old



Who are the tenants?

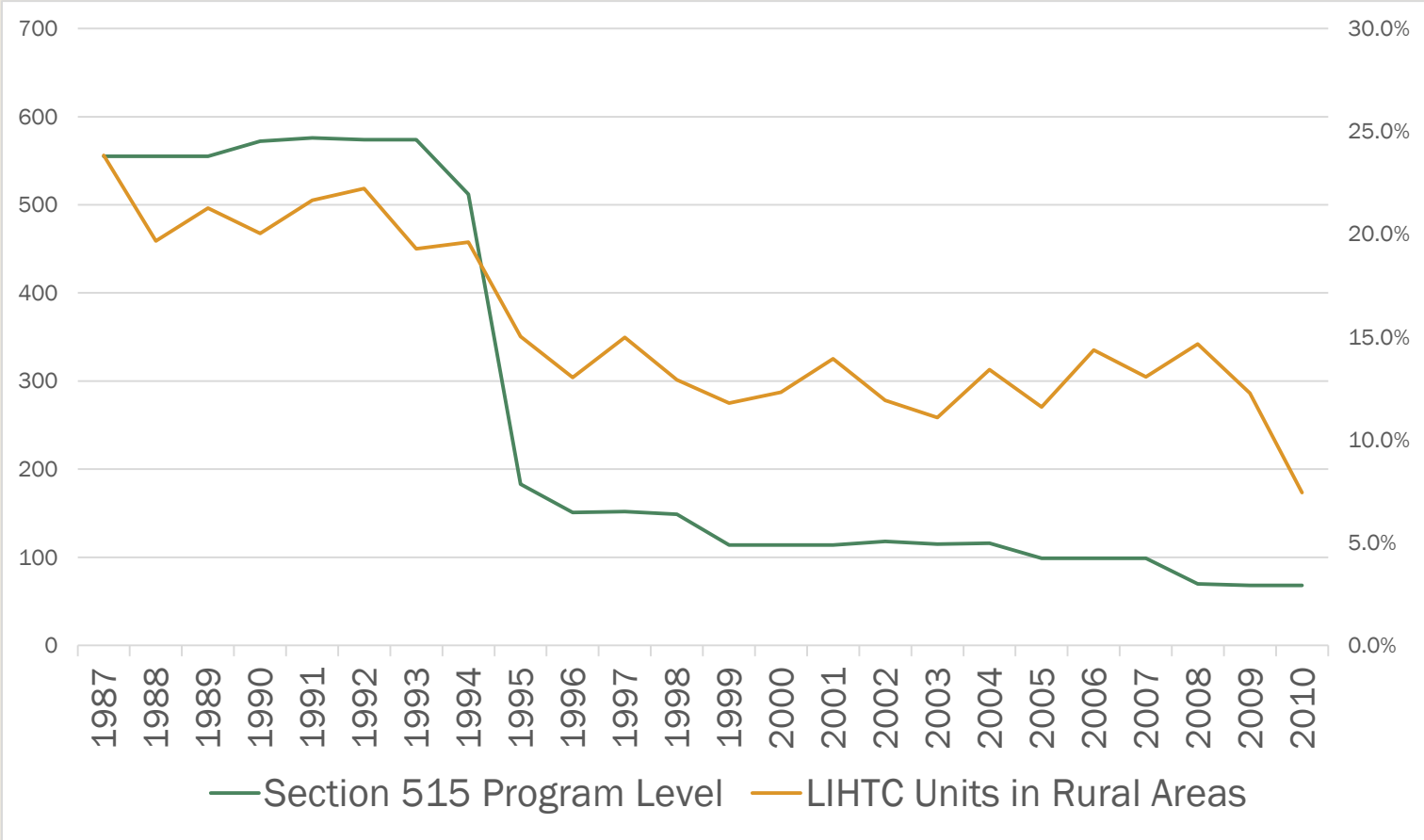
- ✓ Average income of \$12,377 per year
- ✓ 92.25% are very-low-income
- ✓ 62% of households are elderly or disabled

Quick Overview of Rural Rental Housing Programs

- Section 515
- Section 514/516
- Section 521 Rental Assistance
- Multifamily Housing Preservation and Revitalization demonstration program
- HOME Investment Partnership Program
- Community Development Block Grants
- Low-Income Housing Tax Credit



LIHTC and Section 515



NRHC's recommendations

USDA should:

1. Revamp Section 515 rules to accommodate other partners, including state housing agencies and other federal agencies.
2. Encourage participation of nonprofit organizations and public housing agencies.
3. Help Section 515 owners understand the relevant rules, regulations and resources to allow the owners make the right decisions in preserving housing.
4. Address the emerging increase of maturing mortgages by encouraging owners to take advantage of MPR and other tools for refinancing developments with Section 515, so that Rental Assistance remains available for the property.

Policy makers at the state level should:

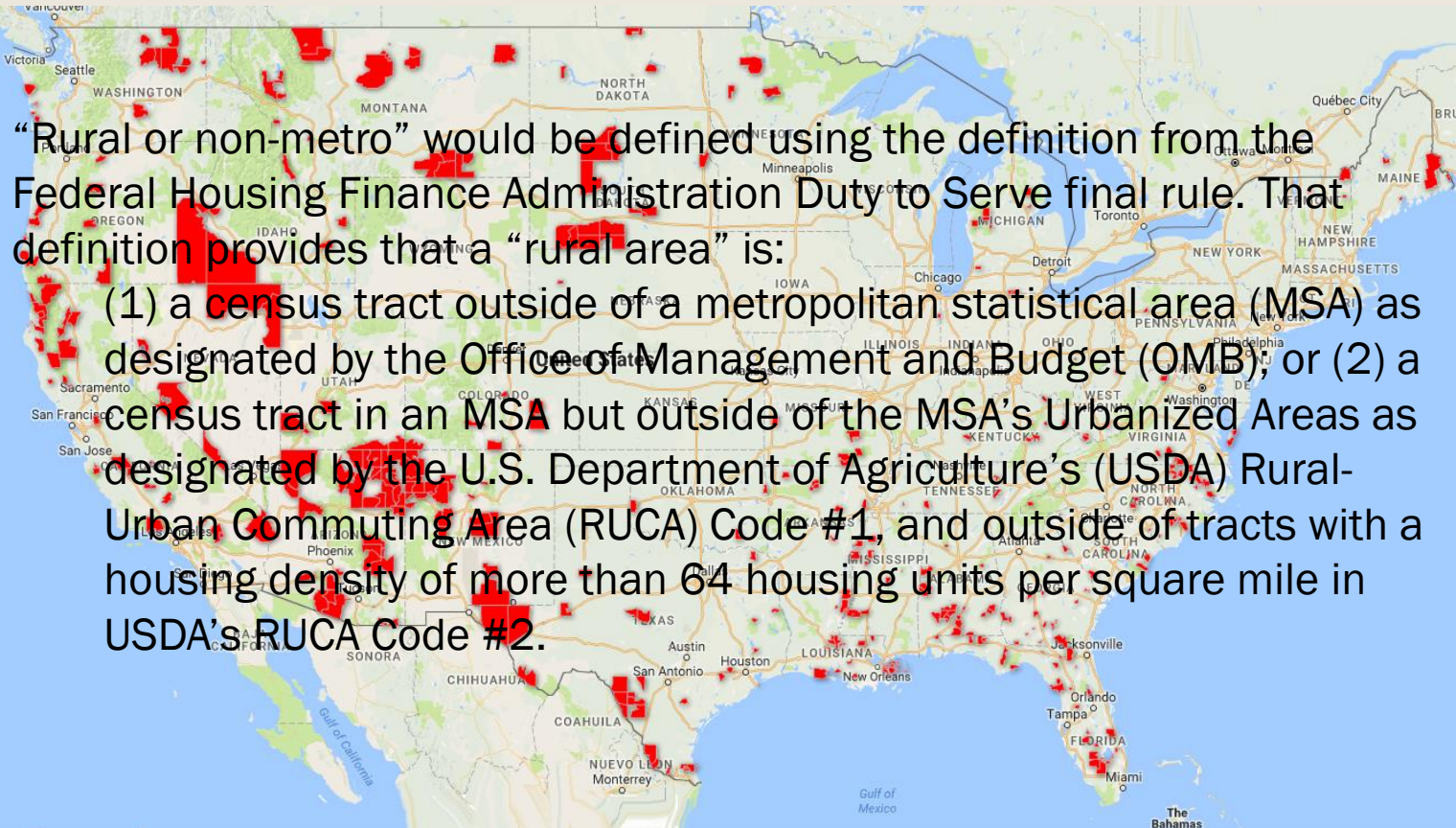
5. Consider providing additional 9% LIHTC credits to rural areas or, failing that, encourage the greater allocation of HOME and CDBG to accommodate the four percent credit in rural areas.

LIHTC Proposal

Our proposal is to increase the basis boost for rural or non-metro QCTs to 150 percent. This would cover 12,000 census tracts across the U.S.

“Rural or non-metro” would be defined using the definition from the Federal Housing Finance Administration Duty to Serve final rule. That definition provides that a “rural area” is:

- (1) a census tract outside of a metropolitan statistical area (MSA) as designated by the Office of Management and Budget (OMB); or
- (2) a census tract in an MSA but outside of the MSA’s Urbanized Areas as designated by the U.S. Department of Agriculture’s (USDA) Rural-Urban Commuting Area (RUCA) Code #1, and outside of tracts with a housing density of more than 64 housing units per square mile in USDA’s RUCA Code #2.



AFFORDABLE RENTAL CHALLENGES



National Rural Housing Coalition
November 29, 2017

LEGISLATIVE UPDATE

Tax Reform – House Bill, Senate Bill, Reconciliation—

- Housing Credits are preserved, but PABs are in play
- Collateral impacts of reduced corporate rate and bank tax

Budget implications in tax reform and in the Budget Resolutions

- Upcoming issue of the FY 18 Appropriations (looking forward at 2019 and concerns of cuts, sequestration)

Other issues not in the board at the moment — GSE reform and liquidity

FHFA Duty to Serve and re-entering LIHTC market



PRESERVATION RECOMMENDATIONS

The PAT has continued to work well

- Has been a centerpiece
- But ongoing debates about RTO have been an issue

Obstacles for preservation –

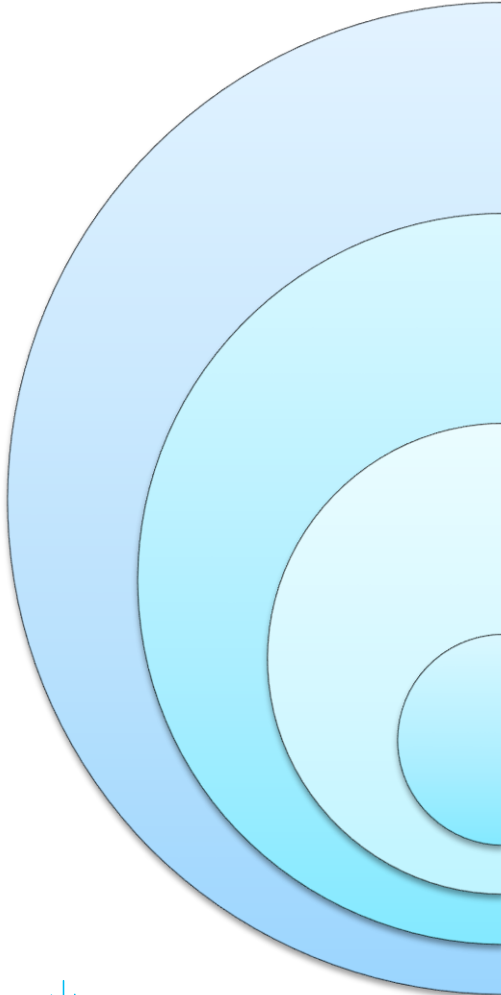
- Concerns about RD under Secretary and role of RD
- Bonds and credits?

Processing times and complexity of applications

The ability to transfer without a new CNA



ASSET MANAGEMENT ISSUES



There has been a rethinking of closed deals; but RD refusing to acknowledge, countermanding prior approvals

There is an issue with partially secured 514 loans; fully approved but following the approval is somehow a “violation”

Lack of flexibility in working with controlled funds—bank double signature is inefficient

RD’s fear of “tiered rents” needs to be overcome

CHANGES NEEDED

Expiring multifamily mortgage loans, need RA “decoupling” and a quick form prepay for maturing mortgages

Need rent flexibility

Firmer chain of command for implementing policies

Clarity on following NAD decisions

Need a regionalized production staff to handle most of the preservation processing, with local office assistance



AFFORDABLE HOUSING BLOG

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housingblog.nixonpeabody.com

Join the conversation!

What are industry practitioners saying about Nixon Peabody's Affordable Housing Blog?

- **“I read it every day.”**
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- **“It's an excellent resource!”**



QUESTIONS?



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GREYSTONE

Multifamily Preservation of Aging 515 Properties

National Rural Housing Coalition
Annual Board Meeting
November 29, 2017

Where People Matter

Where People Matter

WHAT

Greystone is a **real estate lending, investment and advisory** company.

HOW

We **exceed our customers' expectations.**
Our customers' success is our success.

WHY

What matters most is what we do *with* our success: **make a difference in peoples' lives.**

REAL ESTATE

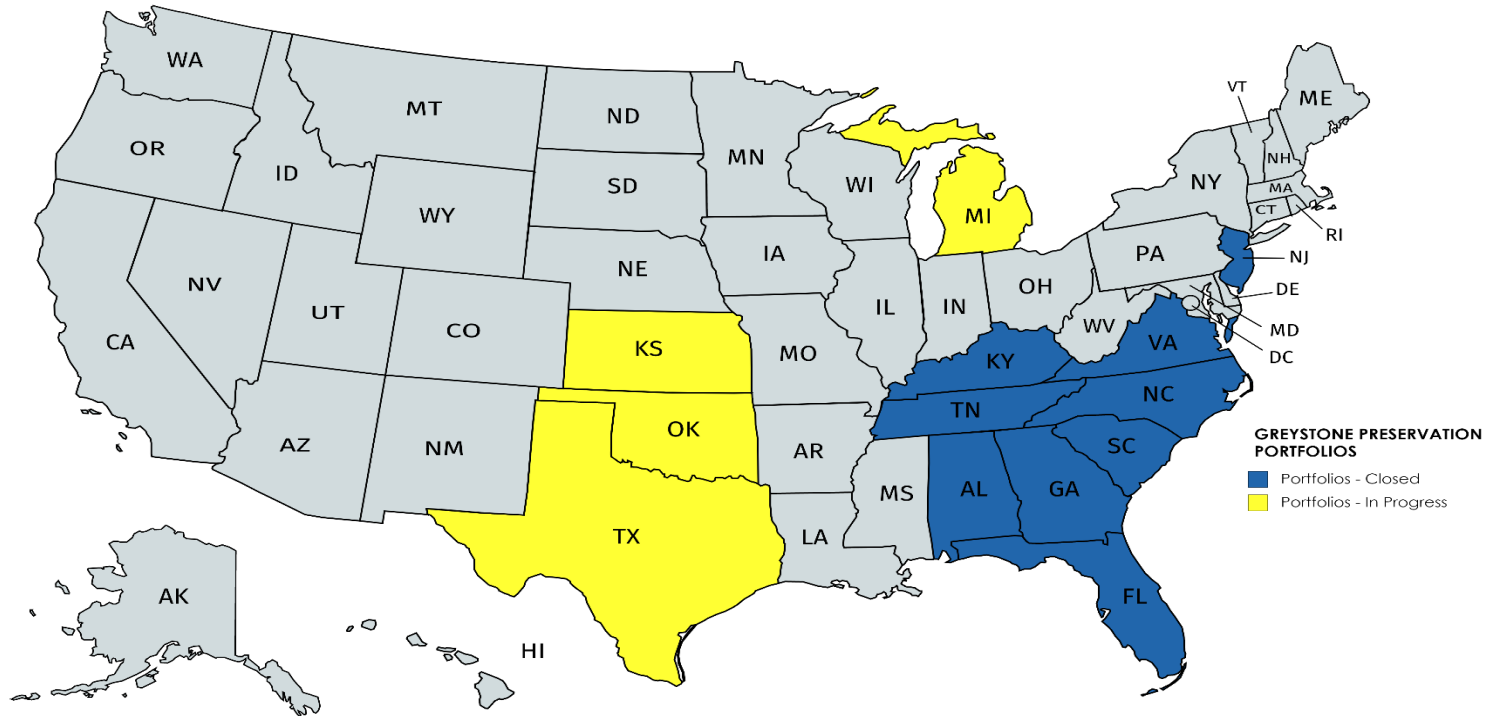
Lending | Investment | Advisory

Portfolio Preservation Transactions By the Numbers

\$1.3 billion Total Development represents



Preservation Portfolios To Date



4% Portfolio vs. 9% Single LIHTC Transaction

Pros:

- Impacts large group of rural properties at one time ... up to 45 at one time
- Lowers development costs **PER** property... allocate fixed transaction costs
- Removes properties from competitive LIHTC 9% cycles
- Creates jobs / local investments / public interest in small rural markets which otherwise receive very little attention
- Recapitalizes & resizes reserves for continued sustainability
- No lease up risk (in place rehabs)
- Allows sellers to exit / close out funds – stronger negotiating power

4% Portfolio vs. 9% Single LIHTC Transaction

Cons:

- Costly transaction (legal, COI, etc.)
- Less resources – requires sufficient 3rd party funding, can be difficult to find
- Volume of work
- Requires cooperation of multiple lenders and state agencies (sometimes with competing agendas)
- Completed with tenants in place (pro & con)
- Lengthy process – about 1 year from kickoff to initial closing
- Not for everyone – hire experts

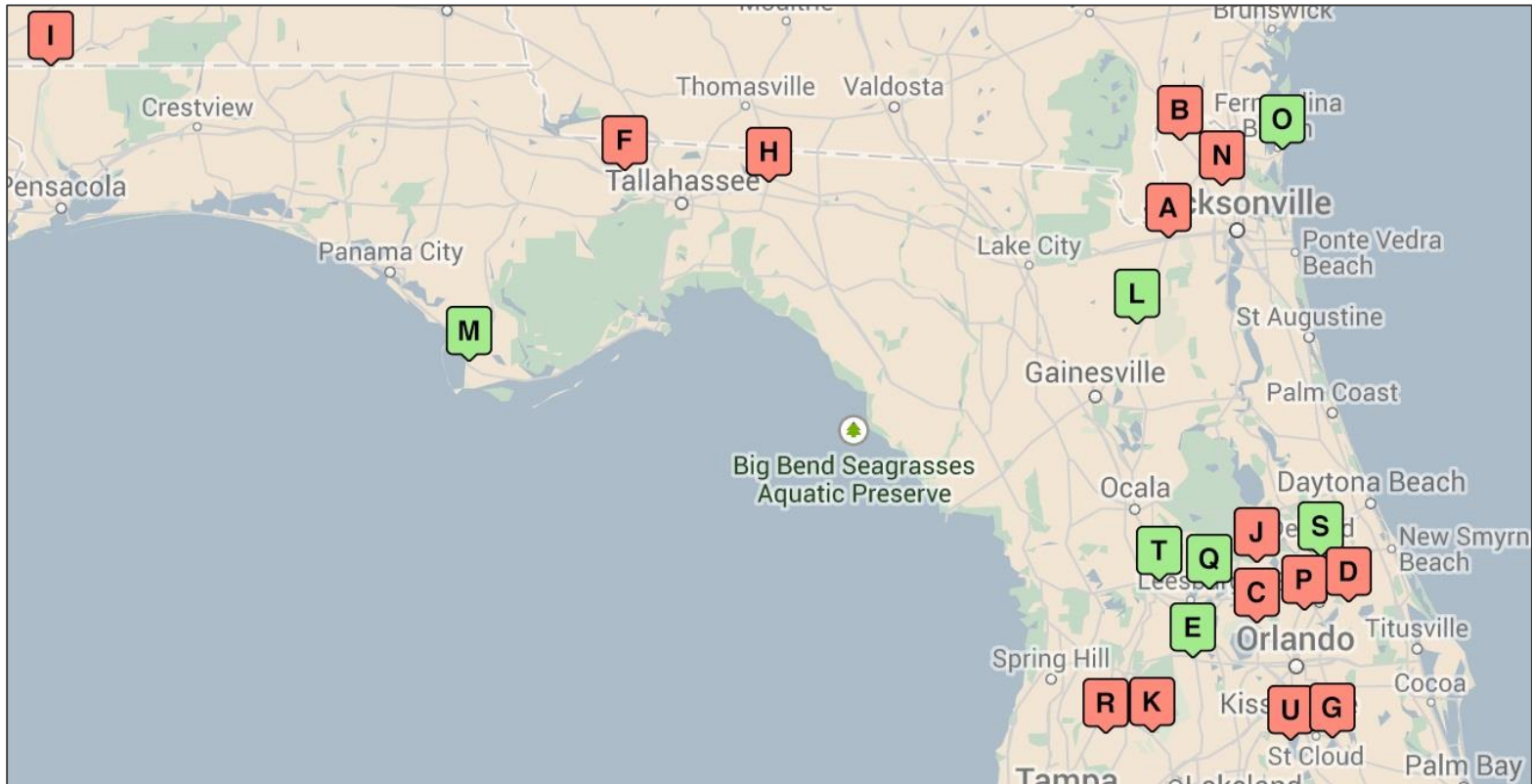
Greystone's Typical Role

- 1 Feasibility Analysis**
- 2 Co-Developer**
- 3 Applications**
- 4 Guarantees**
- 5 Construction Management**
- 6 Financial Management**
- 7 Compliance**

Florida Portfolio Preservation Transaction

- 24 Properties
- Located in 12 Counties
- 1058 units
- 24 Sellers
- Avg \$23 rent DECREASE
- Avg OpEx - \$3,624
- 62% Section 521 Rental Assistance

Florida Preservation Portfolio



SOURCES & USES - Florida

SOURCES

| | |
|--------------------------------|------------------|
| Bonds / Gross Issuance | \$41,574,000 |
| Senior Debt (538 & 515) | \$29,868,000 |
| Subordinate Debt (Assumed 515) | \$26,658,983 |
| Tax Credit Equity (4% LIHTC) | \$28,077,147 |
| Other (RR Surplus) | \$3,471,451 |
| DDF | <u>\$995,586</u> |

TOTAL

\$130,645,167

USES

| | |
|-----------------------------|---------------------|
| Acquisition | \$33,476,838 |
| Pre-Development | \$524,502 |
| Architectural / Engineering | \$1,058,000 |
| Construction | \$31,233,132 |
| Contingency | \$2,352,380 |
| Legal & Finance | \$5,075,940 |
| Soft Costs | \$13,901,297 |
| Reserves & Escrows | \$1,449,078 |
| Bond Redemption | <u>\$41,574,000</u> |

TOTAL

\$130,645,167

WHAT'S NEXT?



PRAYER ... Lots and lots of prayer that our Congress does not ultimately do something really stupid like eliminate PABs for Affordable Housing!

GREYSTONE

Thank you

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President

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Where People Matter

USDA Section 515 Preservation Transactions By the Numbers

The **\$64.4 million** deal represents

563 units of **30,000**

that currently need to be rehabilitated in Kentucky.

\$31,700

per unit spent on renovations



253 OUT OF **563**

APARTMENT UNITS TO GET
ENERGY INCENTIVES AND REBATES

GOAL TO IMPROVE ENERGY
EFFICIENCY BY AT LEAST

30%