

What Matters in LIHTC Acquisition Rehab

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Which Community is a rehab vs. new construction?



A

or

B

A

**Jamestown
Place**

**Before
&
After**



What Matters in LIHTC Acquisition Rehab

- Investor friendly
 - Confidence of investors in stagnant markets
 - Predictability of revenue if it includes a HAP contract or USDA RD rental assistance
 - Flow of credits more predictable than new construction
 - Frequently no new debt or reduced debt
 - History of operating costs so know guesses necessary

What Matters in LIHTC Acquisition Rehab

- Funding sources
 - LIHTC credits
 - HOME funds
 - State housing trust funds
 - HUD loans assumed
 - USDA RD 515 loans assumed
 - TCAP
 - Exchange (1602 funds)
 - FHLB AHP funds



What Matters in LIHTC Acquisition Rehab

- The current market place
 - Still a large number of older HUD and USDA RD developments that need rehabbed and recapitalized
 - Inferior marketability yet still has demand
 - Original funding streams were rigid, less flexible and the product suffered



What Matters in LIHTC Acquisition Rehab

- Community impact
 - New look = new attitude, new perspective from community and neighbors
 - Brings a renewed sense of pride by current residents
 - A change in management often improves living environment
 - Is often well received by locals – removes blight

What Matters in LIHTC Acquisition Rehab



- Developer plans
 - Modernize units
 - Zoning in place
 - Building permits easier
 - Water and sewer in place
 - No impact fees
 - No subdivision

What Matters in LIHTC Acquisition Rehab

- Design considerations
 - Small, unusable units
 - Horrible mix when first constructed, efficiencies
 - Community spaces too large or don't exist
 - Obsolete laundry facilities
 - Inadequate HVAC, energy efficient systems don't conform well to existing units
 - Inadequate electrical services (200 vs 100 amp service)

What Matters in LIHTC Acquisition Rehab

- Allocations and financing
 - Some states have preservation set-aside
 - HUD, RD, State Housing Agencies may have funds set aside for preservation
 - Preservation Compacts are showing up committed to preservation

What Matters in LIHTC Acquisition Rehab

- Due diligence required
 - Market study (analyst has to understand financing assumed vs new requirements)
 - Appraisal
 - Capital needs assessment
 - HUD, RD, State Housing Agencies transfer approval



What Matters in LIHTC Acquisition Rehab

- Due diligence required (Cont'd)
 - Relocation plan
 - Engineering study
 - Structural failures
 - Moisture infiltration, improper ventilation
 - Surveying



What Matters in LIHTC Acquisition Rehab

- Negatives
 - Tax consequences of old owners
 - Appraisals don't support purchase price



What Matters in LIHTC Acquisition Rehab

- Environmental and ADA issues
 - Mold
 - Lead based paint
 - Asbestos
 - 504 accessibility applicable if federal funds involved (i.e. running slopes exceed 5% and cross slopes exceed 2%)
 - Fair Housing many times exempt but State Housing Agency requires

What Matters in LIHTC Acquisition Rehab

- Environmental and ADA issues (Cont'd)
 - Entrances are not accessible (narrow and not a zero threshold)
 - Two story walk ups stacked flats are not accessible
 - Interior accessible doors (2'10" door in 3' hall)
 - Convert old kitchen to current UFAS or ANSI standards

What Matters in LIHTC Acquisition Rehab

Grace Meadows – Case Study

- Rural Ohio development
- Existing USDA RD 515 property
- 40 units consisting of 16 – 1BR units, 16 – 2 BR units, and 8 – 3BR units
- Rental assistance on 20 units
- Vacancy issues due to substandard facility

What Matters in LIHTC Acquisition Rehab

Grace Meadows

- Sources

– USDA RD 515 Loan	\$1,330,291
– Investor equity	\$3,312,061
– Soft (HOME) loan	\$ 550,000
– Deferred developer fee	\$ 8,459
– Total Sources	\$5,200,811

What Matters in LIHTC Acquisition Rehab

Grace Meadows

- Uses

– Land/bldg acquisition	\$1,480,291
– Construction	\$2,424,151
– Soft costs	\$ 427,036
– Developer fees	\$ 700,000
– Reserves	\$ 169,333
– Total Uses	\$5,200,811

What Matters in LIHTC Acquisition Rehab

Grace Meadows

- Operating proforma
 - Net revenues projected \$191,138
 - Net operating expenses projected \$146,760
 - Net operating income \$44,378
 - Annual debt service (hard) \$35,241
 - DCR projected 1.26



What Matters in LIHTC Acquisition Rehab

Mason Greene – Case Study



What Matters in LIHTC Acquisition Rehab

Mason Greene

- Rural KY development
- Existing HUD debt post mark-to-market.
- 68 units consisting of 28 – 1BR units, 20 – 2 BR units, 16 – 3BR units, and 4 – 4BR units.
- HAP contract on all units.



What Matters in LIHTC Acquisition Rehab

Mason Greene

- Sources

– Bank loan with USDA RD 538	\$ 255,000
– Investor equity	\$1,537,473
– Exchange (1602) funds	\$5,313,955
– HUD loan assumed	\$ 853,196
– Soft (TCAP) loan	\$ 854,091
– HUD reserves	\$ 259,924
– Deferred developer fee	\$ 458,232
– Total Sources	\$9,531,871



What Matters in LIHTC Acquisition Rehab

Mason Greene

- Uses
 - Land/bldg acquisition \$1,449,396
 - Construction \$5,100,000
 - Soft costs \$1,256,707
 - Developer fees \$ 807,200
 - Reserves \$ 918,568
 - Total Uses \$9,531,871



What Matters in LIHTC Acquisition Rehab

Mason Greene

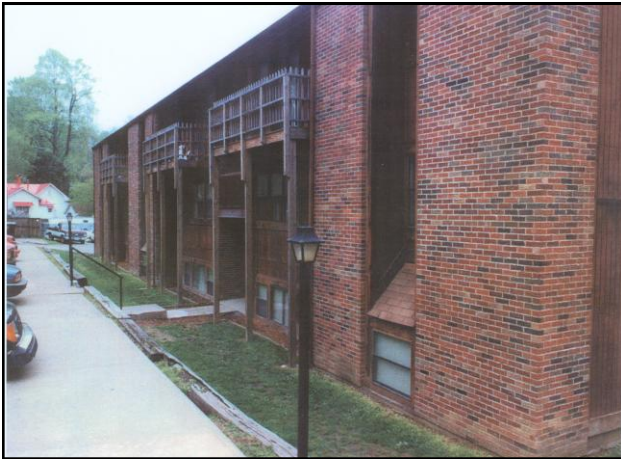
- Uses include a pay down of \$288,347 of existing HUD debt
- Uses include \$109,208 of relocation
- Uses include \$259,924 of HUD reserves being transferred with purchase



What Matters in LIHTC Acquisition Rehab

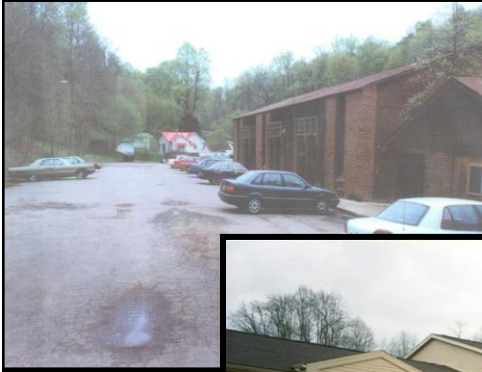
Mason Greene

- Operating proforma
 - Net revenues projected \$334,631
 - Net operating expenses projected \$294,426
 - Net operating income \$40,205
 - Annual debt service (hard) \$20,136
 - DCR projected 1.99

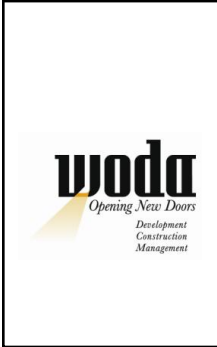


Colonial Park





Colonial Park



What Matters in LIHTC Acquisition Rehab

Questions?

The End

