



# Introduction to Affordable Housing Finance

October 8, 2024

City of Encinitas



# Chelsea Investment Corporation

- Chelsea is a Carlsbad-based affordable housing developer with over 40 years of experience
- Developed over 145 affordable communities totaling almost \$3 billion
- Focused on a wide-range of affordable housing, including housing for seniors, farmworkers, homeless, families, and inclusionary housing, as well as mixed-use developments
- Specializes in structuring financing solutions to consistently deliver on time and on budget and to ensure long-term feasibility and sustainability



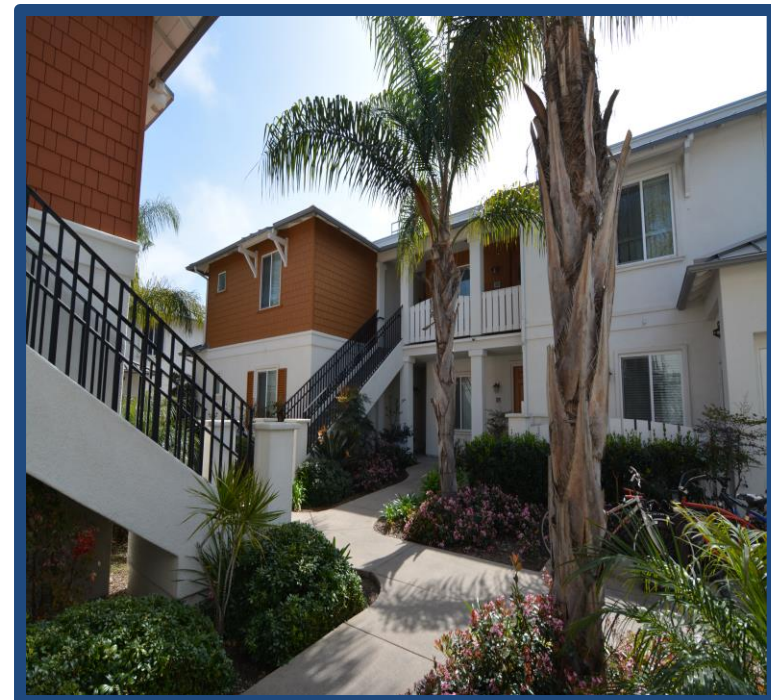


**Over 10,000 units developed, including:**

- 2,000 units of special needs/supportive housing
- 2,000 units of senior housing

**Repeat clients include:**

- Service Providers such as Father Joe's Villages, Serving Seniors and Alpha Project
- Homebuilders such as Shea, Brookfield, Pardee and Lennar

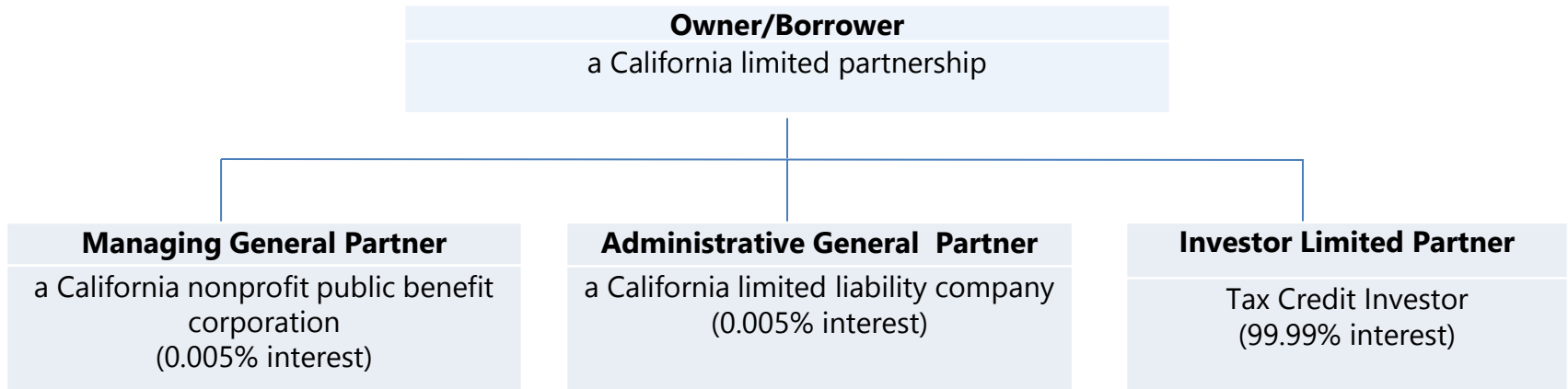


# Intro to LIHTCs

- Tax Reform Act of 1986 created Low Income Housing Tax Credits, an incentive for private developers & investors to provide new and renovated affordable rental housing.
- Investor benefit = eligible development costs result in a \$ for \$ tax credit, claimed pro rata over 10 years

	Sample Project					
	DDA/QCT		DDA/QCT			
	Tax Exempt Bonds w/ 4% Tax Credits		9% Tax Credits			
Total Development Cost	\$	31,600,000		\$	31,600,000	
Less: Land	\$	(5,000,000)		\$	(5,000,000)	
Less: Other in-eligible costs	\$	(1,300,000)		\$	(1,300,000)	
Total Eligible Basis *	\$	25,300,000.0		\$	25,300,000	
Reduction in Basis for 9% Tiebreaker		N/A		\$	(6,920,000)	
				\$	18,380,000	
QCT or DDA Boost **		130%			130%	
	\$	32,890,000.0		\$	23,894,000	
4% or 9% Tax Credit		4.0%		\$	0	
Annual Tax Credit Allocation	\$	1,315,600.0		\$	2,150,460	
10 years Period		10		\$	10	
Total Credits over 10 Years	\$	13,156,000		\$	21,504,600	
Credit Price	\$	0.900		\$	0.885	
99.99% Equity Raised	\$	11,840,400	37.5%	\$	19,031,571	60.2%
Debt and Gap Funding	\$	19,759,600	62.5%	\$	12,568,429	39.8%
Total Project Cost	\$	31,600,000		\$	31,600,000	
* Eligible Basis are costs that can be depreciated as building, site work, personable property. Does not include land or other non-depreciable costs						
** QCT is Qualified Census Tract and DDA is Difficult Development Area						

# Typical California LIHTC Partnership Structure



# Tax Credit Methodology

The Tax Credit Program Finances Affordable Rental Housing with Units  
from 30% AMI up to 80% AMI

## 4% LIHTCs

- Finances, on average, approx. 40% of Total Project Costs (TPC)
- Highly competitive beginning in January 2020 for first time in 14 years leading up to 2020
- Larger projects tend to be financed with 4% credits
- No cap on the amount of credits requested
- Obtaining soft subsidy is critical to financial feasibility
- Average affordability not greater than 60% AMI

## 9% LIHTCs

- Finances, on average, approx. 60% of Total Project Costs (TPC)
- Highly competitive; uncertain timing
- Limits the size of a project to 150 units
- Annual credits capped at \$2.5M
- Obtaining soft subsidy is essential to successful application
- Average affordability not greater than 50% AMI
- Must qualify as defined "Housing Type" = Family, Senior, Special Needs, SRO or At-Risk

# Forms of Gap Financing

- **Affordable Housing Program (AHP)** - from the Federal Home Loan Bank
- **AHSC (aka Cap & Trade)** - from HCD in connection with Strategic Growth Council
- **MHP financing** - from HCD
- **HOME Investment Partnership Program**
- **Local Agencies**
- **Project Based Vouchers**
- **State Tax Credits**
- **USDA Rural Development Funding** - loans and rental assistance

# Case Study: Iris Apartments completed in April 2013

- 20-unit apartment project built in City of Encinitas to fulfill the inclusionary obligation for Shea Homes, consisting of two and three-bedroom apartments.
- Financed with a land contribution from Shea Homes, 9% LIHTC credits and a City Loan
- Units targeted from 30% AMI to 60% AMI
- Rents currently range from \$745 to \$1,720



## Sources:

9% Federal LIHTC Equity -59% total costs	\$4,552,600
Permanent Mortgage Loan	\$450,000
Loan from City of Encinitas	\$350,000
Land Donation	<u>\$2,300,000</u>
<b>Total Sources</b>	<b><u>\$7,652,600</u></b>

## Uses:

Value of Land Donation	\$2,300,000
Direct Construction	\$3,505,000
A&E	\$55,000
Impact Fees	\$508,000
Capitalized Operating Reserves	\$210,000
Other Soft Costs	<u>\$1,074,600</u>
	<b><u>\$7,652,600</u></b>



# Case Study: Juniper at The Preserve completed in October 2017

- 64 family apartments comprised of one-, two- and three-bedroom units with clubhouse, tot lot and laundry rooms financed with 4% LIHTC + bonds
- Developed in Carlsbad to fulfill the inclusionary requirement for Cornerstone Communities - 3.17-acre site
- 10% of the units are at 50% AMI and 90% of the units are at 60% AMI, with rents currently ranging from \$1,320 to \$2,180



<b>Uses: (Land = \$0)</b>	
Direct Construction	\$10,700,000
Offsite/Infrastructure	\$2,700,000
A&E	\$300,000
Impact Fees	\$1,300,000
Other Soft Costs	<u>\$3,700,000</u>
	<b>\$18,740,000</b>
<b>Sources:</b>	
Federal LIHTC Equity (42% TDC)	\$7,800,000
Subordinate Citi Loan	\$440,000
Conventional Permanent Mortgage	\$7,100,000
Contribution of Infrastructure Costs	\$2,100,000
City Loan	<u>\$1,300,000</u>
	<b>\$18,740,000</b>

# Case Study: Hunters Pointe completed in December 2007

- City of Carlsbad
- 168 family apartments with clubhouse, tot lot and laundry rooms financed with 4% LIHTC + bonds – MHP Financing (state prevailing wage applied)
- Rents targeted at 35% AMI, 50% AMI and 55% AMI
- Rents currently range from approximately \$891 to \$1,990



## Uses:

Land - Inclusionary	\$0.00
Direct Construction	\$30,622,000
Offsite/Infrastructure	\$2,700,000
A&E	\$1,800,000
Impact Fees	\$3,497,000
Other Soft Costs	<u>\$4,255,000</u>
	<b>\$42,874,000</b>

## Sources:

Federal LIHTC Equity- 45.8%	\$19,620,000
MGP Loan	\$500,000
Permanent Mortgage Loan	\$9,772,000
Deferred Developer Fee	\$1,050,000
MHP Loan	\$10,000,000
City Loan	<u>\$1,932,000</u>
	<b>\$42,874,000</b>

# Case Study - Fox Point Farms

## Shea Homes – Under Construction 40 Affordable Rental Homes

- Financed with 9% Tax Credits – awarded May 2024
- Unit Mix:

<u>AMI</u>	<u>1BR</u>	<u>2BR</u>	<u>3BR</u>	<u>Totals</u>
Note: for 45% AMI & 50% AMI rents shall not exceed 50% HCD Rents				
50% TCAC	8	4	4	16
45% TCAC	9	5	5	19
TCAC 30%	2	1	1	4
Mgr.	1	0	0	1
Totals	<u>20</u>	<u>10</u>	<u>10</u>	<u>40</u>
TCAC Average Affordability		45.51%		



### Uses:

Land Donation	\$0.00
Direct Construction	\$16,700,000
A&E	\$2,155,000
Impact/Permit Fees	\$1,675,000
Other Soft Costs	<u>\$6,095,000</u>
	<b>\$26,625,000</b>

### Sources:

Federal LIHTC Equity- 71% (assuming land = \$0)	\$19,032,000
Permanent Mortgage Loan	\$1,785,000
Deferred Developer Fee	\$1,208,000
Seller Loan (Shea)	\$4,200,000
City Loan	<u>\$ 400,000</u>
	<b>\$26,625,000</b>

# Fox Point Farms

Shea Homes – Under Construction  
40 Affordable Rental Homes



## Unique Features of Fox Point Farms:

- Integration of 40 affordable rental units among 210 for-sale condominium homes, disbursed across 19 different buildings
- Larger than average size apartment units

- Very low average affordability, subject to HCD Rents instead of TCAC Rents due to Inclusionary Housing requirements and applicability of Density Bonus
- HCD Rent Limits at 50% AMI translate to less than 45% AMI TCAC Rent Levels
- Modification for TCAC Housing Type



# Q & A