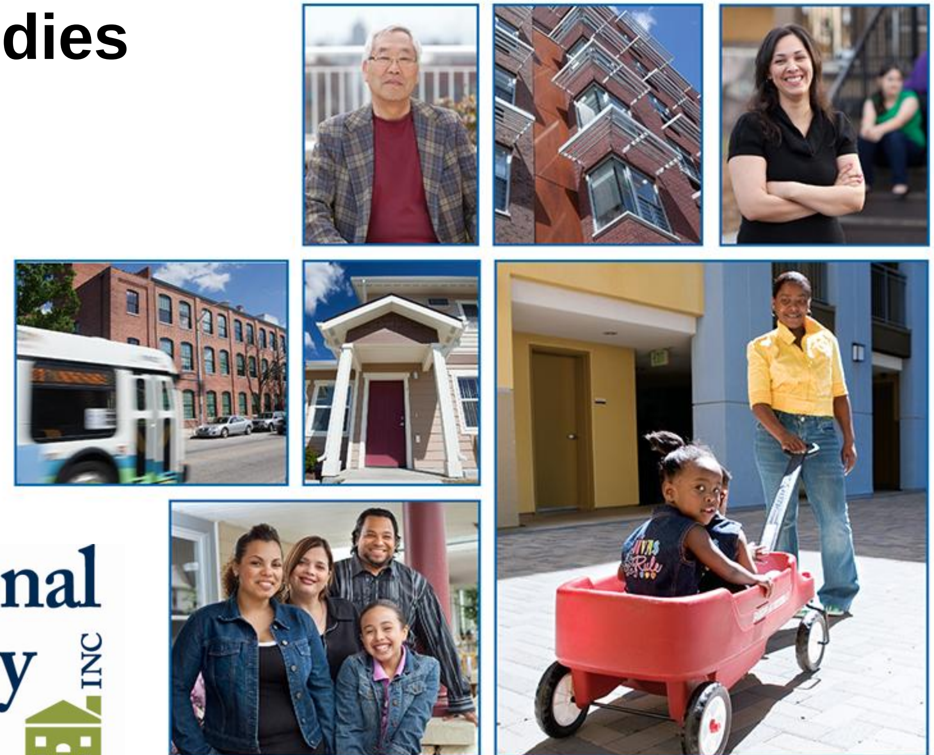
RAD Conversion Case Studies

June 14, 2012



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Financing Communities with FHA

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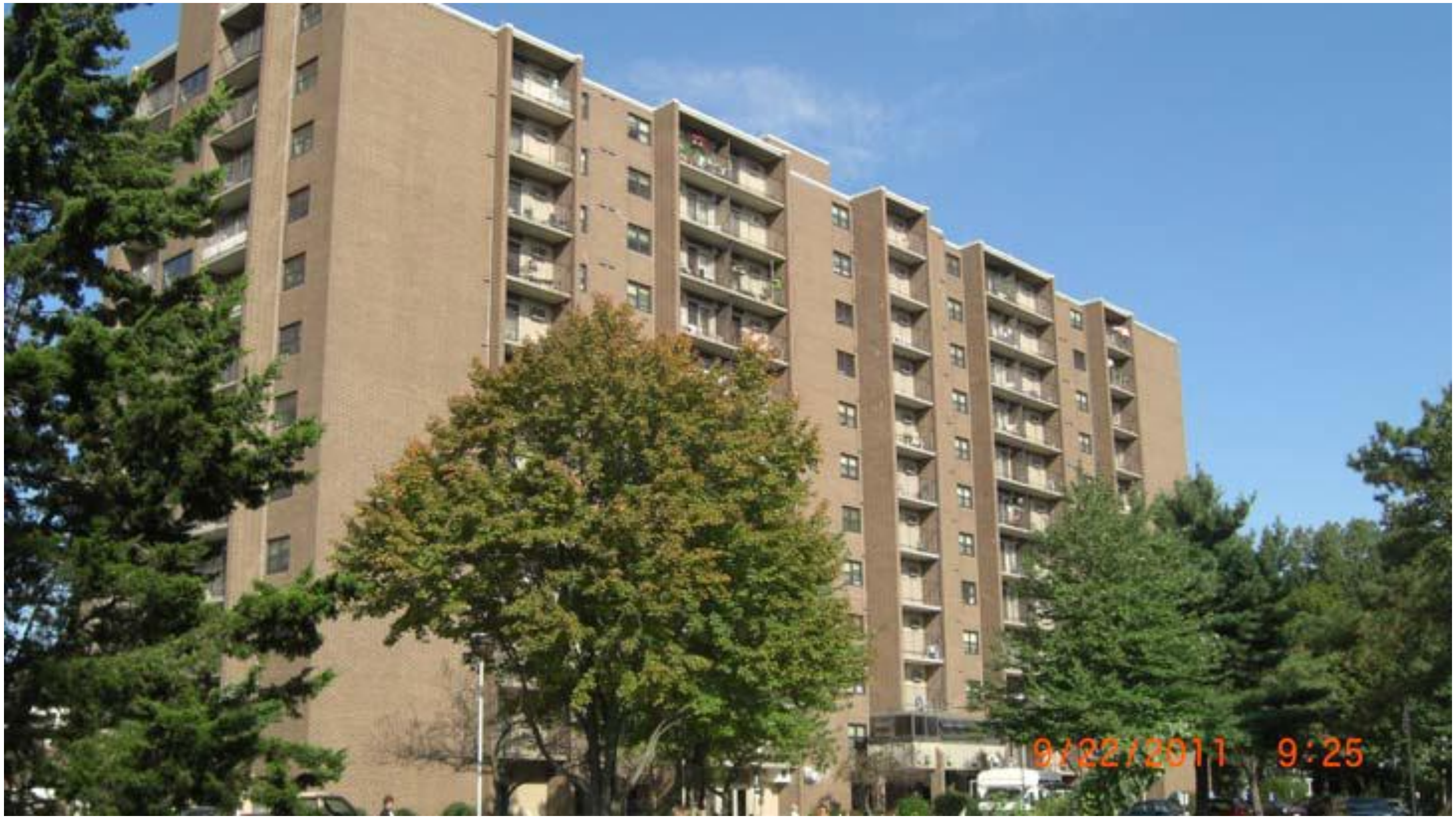
Ray C. Sutliff Apartments, Cuyahoga Falls, OH



Ray C. Sutliff Apartments: Common Areas

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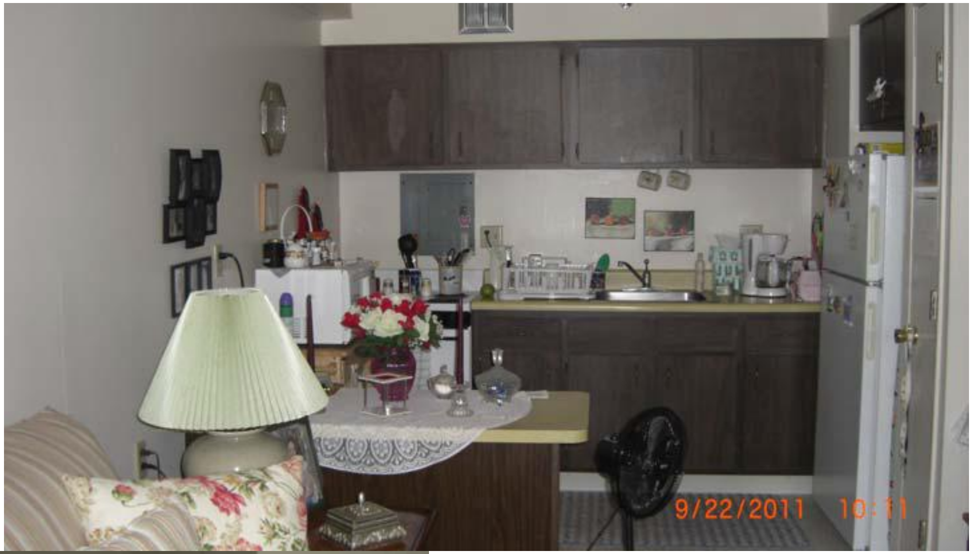
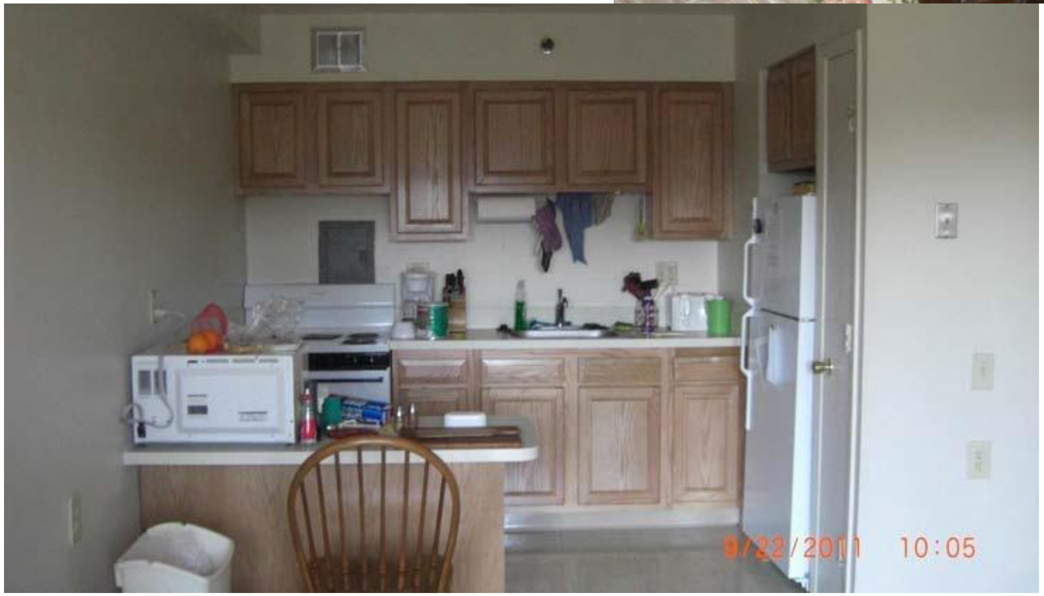
Sutliff: Typical/Updated Unit Kitchens





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Ray C. Sutliff Apartments, Cuyahoga Falls, OH

- 12 story building constructed in 1974
- 185 units, elderly and disabled public housing
- Section 8 rents assumed: $764 average
- Operating expenses: $5,602 pupa net of repl reserve
- Year 1 expense ratio (including repl res) is 78%
- Significant common area upgrades in 2009
- Recap CNA identified capital needs as:
  - $828,000 in year 1 needs
  - $4.5 million in 20 year PNOT
  - $5.3 million total ($29k/unit total)

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Sutliff: Sources and Uses, 4% LIHTC/bond Deal

Sources

		per unit
FHA 223(f) Loan	4,000,000	21,622
Seller Note	4,089,000	22,102
Deferred Dev Fee	462,000	2,497
LIHTC Equity	3,252,000	17,578
Total:	11,803,000	63,799

Uses

Acquisition	4,089,000	22,102
Rehabilitation	5,094,000	27,535
Soft Costs	465,000	2,514
Financing Fees	571,000	3,086
Development Fee	925,000	5,000
Operating Reserve	659,000	3,562
Total:	11,803,000	63,799

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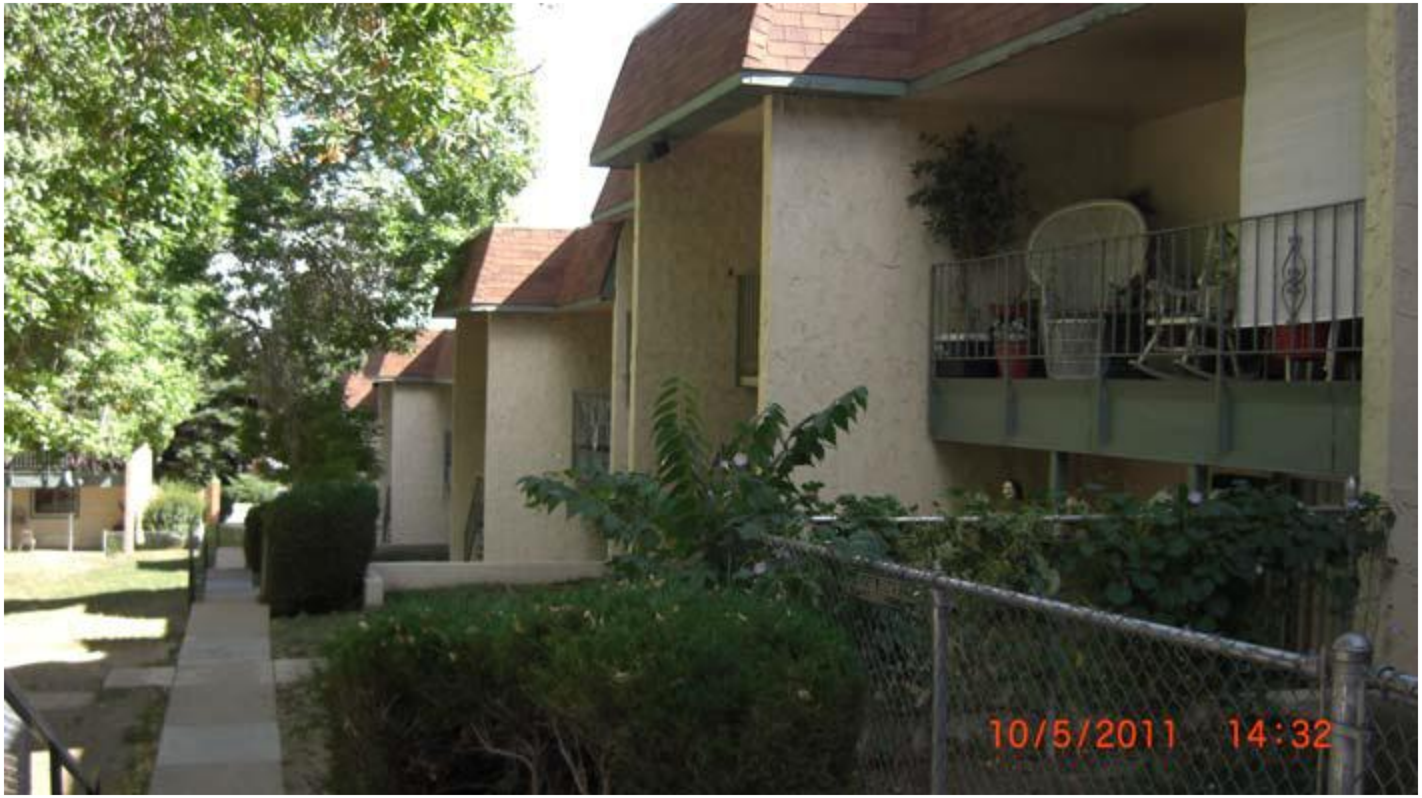
Sutliff: Sources and Uses, FHA Loan

Sources		per unit
FHA 223(f) Loan	4,000,000	21,622
Total:	4,000,000	21,622

Uses		
Immediate Repairs	828,439	4,478
Repair Escrow	121,000	654
Capitalized Replacement Reserve	2,775,000	15,000
Transaction Costs/Financing Fees	276,000	1,492
Total:	4,000,000	21,622

Disbursed South, Denver, CO



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Disbursed South Portfolio, Denver, CO

- 420 units of scattered site public housing, includes duplexes and multifamily properties of four to 71 units.
- Located throughout the south and southwestern areas of Denver County
- Properties built from the early 1970s to the mid-1990s
- Renovations have been “as needed” over the years.
- Section 8 rents assumed: $801 average
- Operating expenses: $7,134 pupa net of repl reserve
- Year 1 expense ratio (including repl res) is 82%
- DHA identified capital needs as:
  - $6.3 million in year 1 needs
  - $10.9 million in 20 year PNOT
  - $16.9 million total ($40k/unit)

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Disbursed South Sources and Uses, 4% LIHTC/bond Deal

Sources		**per unit**
FHA 221(d)(4)	7,650,000	18,210
Seller Note	9,620,000	22,900
Deferred Dev Fee	1,050,000	2,500
LIHTC Equity	9,932,000	23,650
Other Capital	6,149,000	14,640
Total:	34,401,000	81,900

Uses		
Acquisition	9,620,000	22,900
Rehabilitation	18,601,000	44,290
Soft Costs	1,017,000	2,420
Financing Fees	1,292,000	3,080
Development Fee	2,100,000	5,000
Operating Reserve	1,771,000	4,220
Total:	34,401,000	81,900

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Disbursed South Sources and Uses, 9% LIHTC Deal

Sources		per unit
FHA 221(d)(4)	7,650,000	18,210
Seller Note	9,620,000	22,900
LIHTC Equity	19,800,000	47,140
Total:	36,620,000	88,250

Uses		
Acquisition	9,620,000	22,900
Rehabilitation	18,601,000	44,290
Soft Costs	1,017,000	2,420
Financing Fees	662,000	1,580
Development Fee	2,100,000	5,000
Operating Reserve	1,771,000	4,220
Total:	33,771,000	80,410

Additional Sources: 3,299,000 7,840

Disbursed South Debt Sizing Illustration

Shows effect of high expense ratio with 2% income/3% expense trending

	Year 1	Year 5	Year 10	Year 15
Effective Gross Income	3,906,933	4,313,570	4,762,530	5,258,218
Less Operating Expenses	(2,996,409)	(3,473,660)	(4,026,924)	(4,668,309)
Less Replacement Res	(189,000)	(189,000)	(189,000)	(189,000)
Net Operating Income	721,524	650,910	546,606	400,909
Loan of $7.65 million				
Debt Service	390,050	387,893	385,323	382,264
Debt Coverage Ratio	1.85	1.68	1.42	1.05
Loan of $12.2 million				
Debt Service	627,139	623,670	619,540	614,620
Debt Coverage Ratio	1.15	1.04	0.88	0.65

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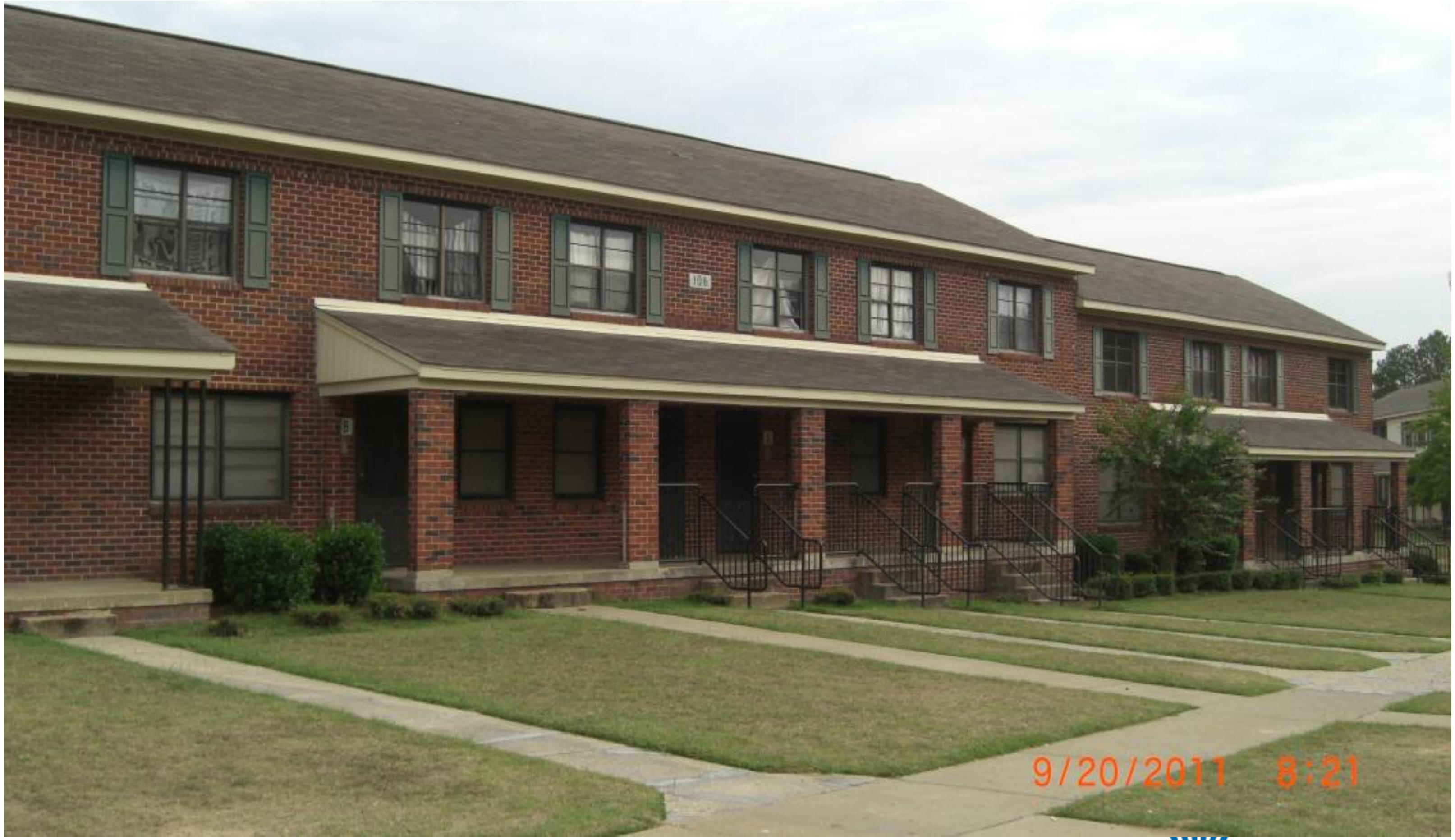
Warren Williams Homes, Columbus, GA



Warren Williams Homes, Columbus, GA

- 160 family apartments contained in 26 one and two story buildings.
- Property has received numerous upgrades over the years, with the most recent occurring between 2000 and 2004 at a cost of $6 million ($37k/unit)
- Section 8 rents assumed: $606 average
- Operating expenses: $6,252 pupa net of repl reserve
- Year 1 expense ratio (including repl res) is 97%
- Recap CNA identified capital needs as:
  - $128,000 in year 1 needs
  - $3.04 million in 20 year PNOT
  - $3.2 million total ($20k/unit)

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Warren Williams: Convert with 9% LIHTCs

Sources		
Seller Note	517,000	3,230
Deferred Dev Fee	400,000	2,500
LIHTC Equity	4,103,000	25,640
Other Capital	1,040,000	6,500
Total:	6,060,000	37,880
Uses		
Acquisition	517,000	3,230
Rehabilitation	3,481,000	21,760
Soft Costs	406,000	2,540
Financing Fees	320,000	2,000
Development Fee	800,000	5,000
Operating Reserve	536,000	3,350
Total:	6,060,000	37,880

Financing RAD Conversions: Concluding Observations

- LIHTCs structures are appropriate for substantial recapitalization/repositioning of public housing assets
  - Best where significant rehab work is to be done upfront
  - Projects which convert to low rents under RAD may need to compete for 9% credits, as project won't support must-pay debt.
  - Scattered site projects can work, but raise other concerns (management, operating expenses, investor/lender appetite)
  - Rent levels under RAD probably wouldn't require additional Section 8 reserves
- Housing authorities should consider the benefits of competing for 9% LIHTC allocations, even in projects where 4% LIHTCs and/or a non-LIHTC debt execution might "work":
  - Less soft costs and complexity than a bond deal
  - Less need for leverage, creating the opportunity for greater cash flow to the housing authority over time, and less vulnerability to Section 8 funding risk
  - More opportunity to earn a developer fee

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Financing RAD Conversions: Concluding Observations

- For projects needing more moderate capital upgrades up-front, FHA or other debt executions may be preferable, less costly and faster to execute.
- Post-conversion operating expenses, and ratio of expenses to Section 8 income, will be a critical financial feasibility issue.
  - Affects up-front debt sizing, as well as sustainability of operations over time, especially if expense increases outpace OCAF increases to Section 8 rent contracts
  - Housing Authorities participating in RAD should consider how they could operate RAD-converted properties more efficiently than in the past.

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