


World Bank Group, 6th Global Housing Finance Conference

Private Capital for Affordable Housing Development: Getting to Scale

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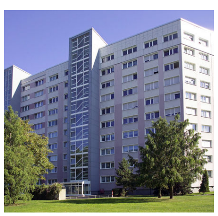



Developing New Affordable Housing to Meet Demand Requires Private Capital

Private capital requires:

- Risk-adjusted rates of return
- Credit and Underwriting Standards
- Appraisal and Title
- Control of Development and Operating Costs
- Sound, long-term asset and property management

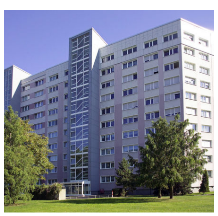
Case 1:

Corporate Equity Investment in Rental Housing

Case 2:

Long-Term Debt for Rental Housing

Case 1: Corporate Equity Investment Model: Low Income Housing Tax Credit (U.S.)



$5 B US/year

50,000-100,000 units/year

2 Million Units 1987-2013

25,000 Projects

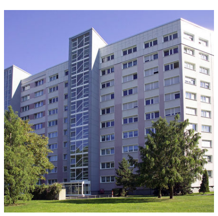
27% Nonprofit Developer/Operator

73% For profit Developer/Operator

Provides tax credit for qualified affordable housing developments, which:

- Defines Affordable Rent for Compliance Term
- Requires occupancy by Income-Eligible Households




Structure

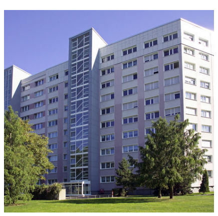
1. Developer of Qualified Project Receives Allocation of Tax Credits from State Housing Agency.
2. Developer Sells Credits through Skilled Intermediaries Who Assess Risk and Provide Asset Management.
3. Limited Partnership (LP), Limited Liability Corporation (LLC):

Corporate Investor (Limited Partner, LP) = 99.99% owner
General Partner (Developer/Operator, GP) = 0.01% owner

Benefits

- Market Discipline Applied to Public/Private Partnerships
- Compliance Enforcement with Tax Penalty
- Third Party Oversight of Property and Asset Management
- Annual Compliance and Financial Audit
- Efficient Pricing in Competitive, Transparent Market
- Price is driven by value of tax credit, not housing market value



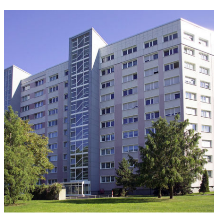




Equity Pays for 30% - 70% of Total Development Cost:

Dependent on value of credit, level of affordability (% AMI)
Market price of tax credits

Requires:

- State allocating agency with underwriting and asset management capacity;
- Corporate tax payers;
- Capable developers, property and asset managers;
- Capital sources (debt, subsidy) to pay for the balance of development costs



- **Issues**

  1. Assure long-term (permanent) affordability
  2. Provide property reinvestment every 10-15 years
  3. Provide for no cost investor (LP) exit
  4. Equity is subordinate to Senior, Amortizing Debt
  5. Credit Efficiency Goal: 90% direct housing investment

Scale

Example:

- ___% of annual corporate tax revenue to Credits

×

- 90% credit efficiency factor

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- 50% of total development costs from tax credits

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Total units financed per year





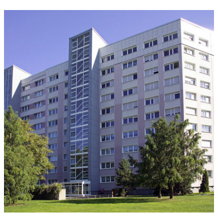
Case 2: Long-Term Debt for Rental Housing

Structures:

- Construction to Permanent, Joint Underwriting
- Construction and Permanent, Separate Underwriting
- Credit Enhancement
  - State-supported loss reserves
  - State-supported yield maintenance
  - Value of sovereign guaranty
  - Third party credit enhancement (e.g., World Bank)

Volume Constrained by:

- Bank Capital
- Liquidity Structures:
  - Securitization
  - Credit Enhancement
  - Capital Advances from (Bank)



Underwriting Standards

- Loan to Value (Construction/Permanent)
- Debt Coverage Ratio
- Reserves for Operations, Replacements (Capitalized, Ongoing)
- Income and Expense Escalators
- Vacancy and Bad Debt
- Operating Expense Standards, verifiable
- Physical Needs Assessment for Rehabilitation Projects
- Construction Cost Verification: New, Rehabilitation
- Conversion of Construction to Permanent Loan: Stabilization of Income and Expenses

A Capital Plan for Scale

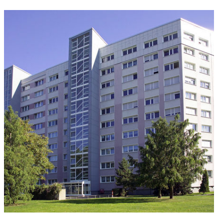
Supportable, Sustainable Permanent Debt

+

Private Equity Investment (e.g., Tax Credits)

+

Capital (and Operating) Subsidies



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Total Development Costs per Unit

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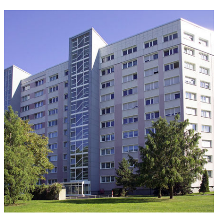
Housing Units which Can Be Financed



Thank You

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