Enterprise

California
Community
Land Trust
Network

Perpetual Home Affordability·Stewardship·Community Control

PEOPLE OF COLOR SUSTAINABLE HOUSING NETWORK

An urban, indigenous women-led land trust that seeks to:

- “Facilitate the return of indigenous land to indigenous people through practices of rematriation, cultural revitalization, and land restoration”
- “Heal and transform the legacies of colonization, genocide, and patriarchy and to do the work our ancestors and future generations are calling us to do”

Learn about reparations and how you could support Sogorea Te by contributing to a voluntary land tax: https://sogoreate-landtrust.org/shuumi-land-tax/

Part 1: Overview of Acquisition-Rehab and Financing Affordability

- What is Acquisition-Rehab?
- Capacities and Stakeholders
- Overview of the Development Process

Part 2: Acquisition-Rehab Finance Basics

3

What is “Acquisition-Rehab”?

- [redacted] of housing that is currently occupied by low to moderate-income residents, especially those facing displacement pressures.

- Typically involves light to intensive [redacted] to address deferred maintenance and make sure the property is safe and healthy for residents.

- [redacted] to new ownership and management model.


AFFORDABLE RENTAL
LIMITED EQUITY HOUSING COOPERATIVE
COMMUNITY LAND TRUST

The Acquisition-Rehab

Process

“The 12 Capacities”

Tenant

Developer Role

Relations

Financing

City
Relations

Tenant Coordination

Political Support

Site ID + Broker Relations

Sponsor Financial Capacity

Underwriting

Tenant Relocation

City Permitting + Approvals

Construction Management

Compliance with regulatory and financing requirements

Marketing/ leasing up

Property Management; Tenant Certs

Asset Management

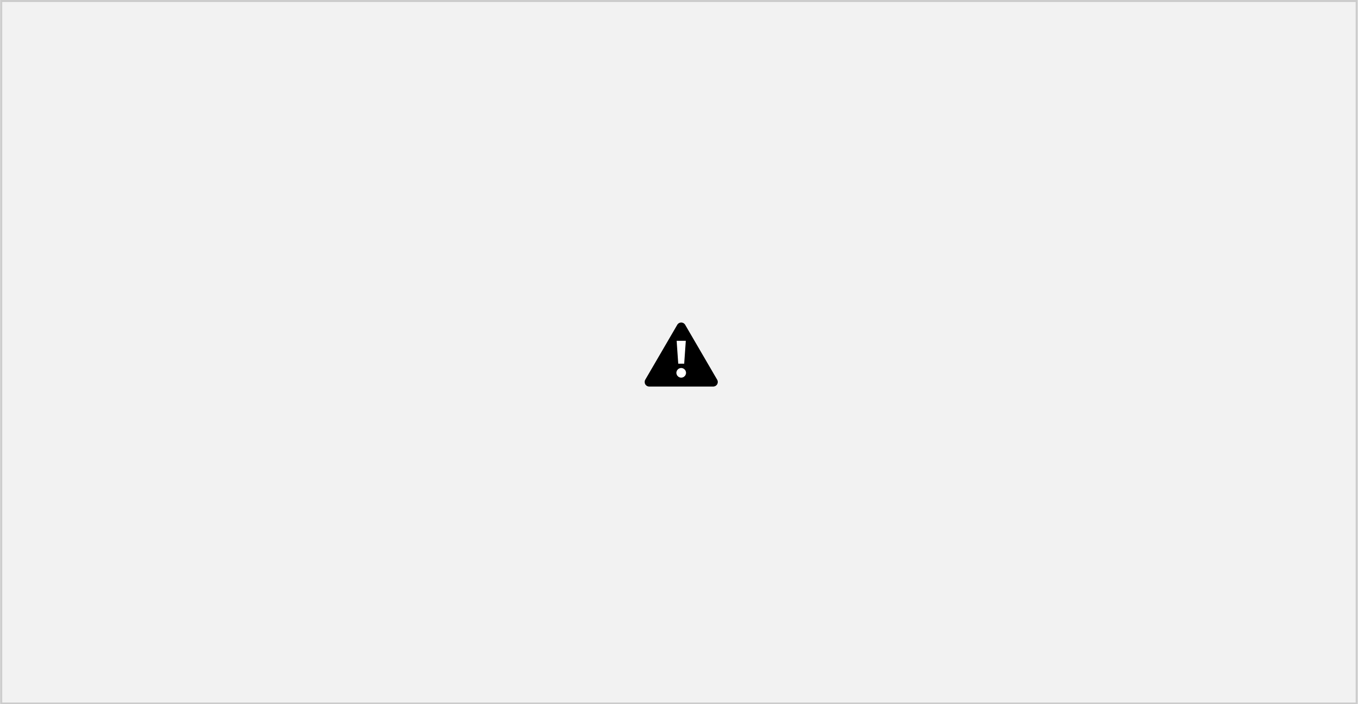
Refinancing plan

Stakeholder Networks

- **Identify** high-priority properties.
- Begin resident engagement, if possible.
- Conduct basic feasibility analysis with available information.
- **Evaluate** building conditions, development scope, and management needs.
- **Identify** available **funding sources** and conduct deeper feasibility and pro forma analysis.
- Engage owner, begin negotiation
- Deepen **community outreach and education**
- **Negotiate** and finalize purchase agreement.
- **Close** acquisition financing with various sources.
- Perform pre-construction tasks, including **inspections**, **construction plans**, securing **building permits**, etc.
- Develop and execute construction plan.
- Communicate and coordinate rehab work with residents.
- Oversee **construction management**.
- Work with residents to find best structure for **ongoing resident involvement** and potentially **ownership**.
- **Property management**, including ongoing leasing, resident onboarding, and maintenance.
- Engage **service providers**.
- Perform **asset management**.

Keep in Mind: Affordable Housing Development is an iterative

process.



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Challenges for Doing Acq-Rehab -

Resources don’t always match the need

- Construction is complex and costs can be unpredictable; older buildings can have hidden but serious rehab needs

- Competition and negotiations

- The transition can be hard for residents

- Limited existing capacity and interest

within affordable housing industry

16

10 Minute Stretch Break

Part 2: Understanding Development Cost Factors and

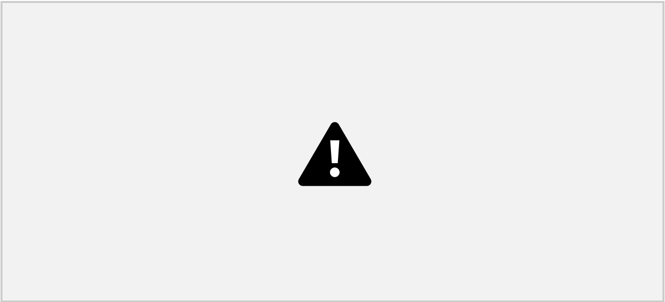
Financial Feasibility

- Unpacking development costs
- Unpacking operating costs
- Interplay between revenue and expenses - digging into the **pro forma**
- Sizing debt (doing the math)
- Filling the gap with public subsidy (soft debt)

How is development

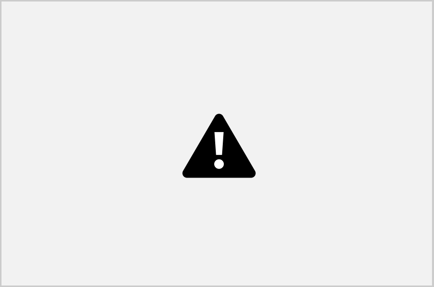
paid for?

19



Hard Costs

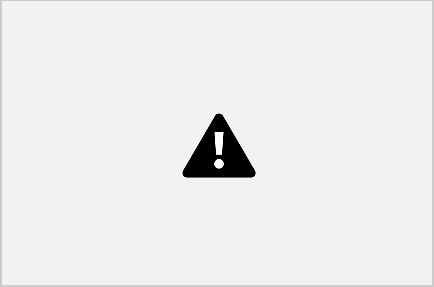
Soft Costs



Planning

Building

Operating



Planning

Building

Operating

1)

2)

Permanent Financing / Permanent Affordability!

Operating Expenses 26

Operating Pro Forma (Sizing debt and understanding NOI)
Example 1: Market-Rate Housing

TAKEAWAY:

Market rents allow the project to leverage mortgage debt AND generate cash flow.

Market Rents

Operating Expenses

27

Example 2: Affordable Housing

Restricted to **Lower Income** Households (up to 80% AMI)

TAKEAWAY:

Restricted rents reduce mortgage loan and cash flow

Affordable

Rents **Operating**

Expenses

When an

[redacted]

affordable-housing developer is ready to build, she has to finance the property with **debt** and **equity**.

established cost of funds (interest rate).

Debt

▪ Borrowed money with expectation of repayment at an

▪ ***Hard Debt:*** contributed by a lender with the expectation that it will be paid back on a specific schedule. Sizing depends on cash flow from rents.

▪ ***Soft Debt:*** public or philanthropic money with flexible expectations for re-payment. AKA Gap funding.

Equity

▪ A share of ownership, invested with the expectation of returns

30

▪ Low Income Housing Tax Credit (LIHTC) equity: Cash investment with return achieved via tax credits and losses to offset the investor’s tax bill

Example Project 1: 10-Unit Building in Oakland

- $250,000/Unit Sale Price
- Downtown Oakland, near transit
- “Moderate rehab needs”
- Mix of Studios and 1-Bedroom Units
- Average AMI = 68%
- **What information do we need to know to move forward?**

Net Operating Income → Sizing a First Mortgage

Key Loan Factors

- Interest Rate
- Amortization Period (how long payments of principal and

interest are stretched out)

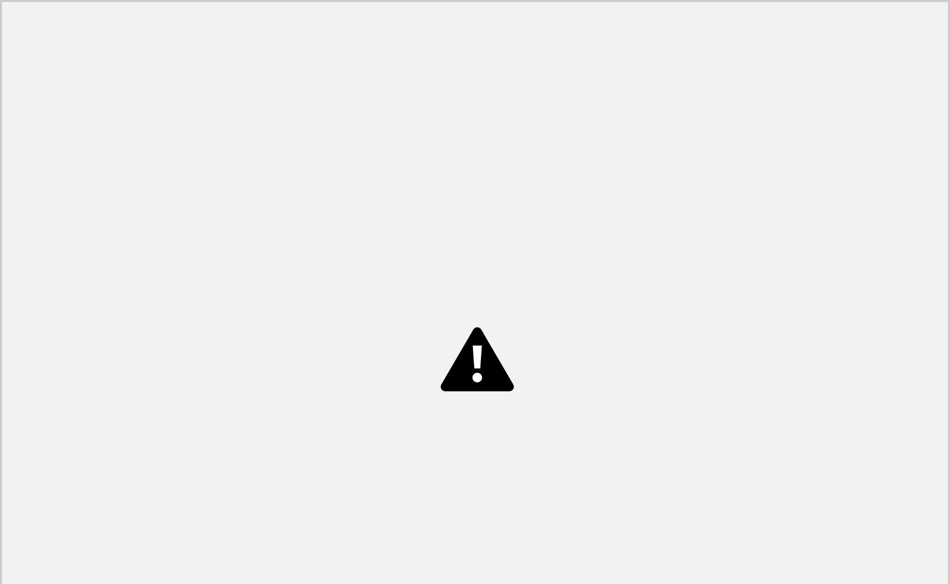
- Loan Term (length of loan)
- Additional Reserves Required
- Fees & Costs

Filling the Gap: Public Subsidy ("soft debt")

- City, County, occasionally State Funds
- Structured as a loan, but positioned behind senior loan •
More flexible terms (e.g. lower interest, non-amortizing, interest-only, etc.)

- Typically capped by $/unit, as opposed to ability to pay back a loan
- Repayment through “**residual receipts**,” if at all
- Long-term **regulatory agreement**

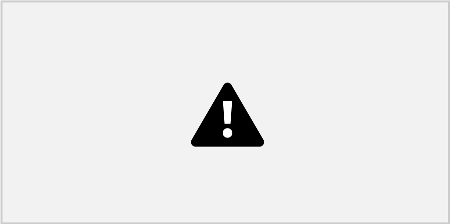
Example Project 2: 6-Unit Building in Redwood City



- $448,000/Unit Sale Price
- Significant rehab needs, ~$65,000/Unit
- All 2-bedroom Units
- Average AMI = 60%
- **What else would we want to know when making a funding decision here? What other factors should be taken into consideration beyond**

cost?

WRAP UP



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