



WORKING WITH NONPROFIT HOUSING DEVELOPERS

AFFORDABLE HOUSING 101



Understanding Housing Development – 12 Stages

- ◆ Creating the development concept
- ◆ Testing the market
- ◆ Identifying site and design constraints and developing construction budget

12 Stages (con't)

- ◆ Preparing pro forma I/E statement
- ◆ Preparing sources and uses of funds
- ◆ Obtaining permanent financing
- ◆ Managing the project
- ◆ Disposing of the project

12 Stages (con't)

- ◆ Finding equity and gap financing
- ◆ Obtaining construction financing
- ◆ Negotiating tri-party agreement
- ◆ Constructing the project

Development Concept

- ◆ Determining kind of project – supportive housing
- ◆ Identifying suitable site, e.g., vacant land, existing project, adaptive re-use (school building, manufacturing plant)

Testing the Market

- ◆ Determining rental rates - how much can you reasonably expect to get/charge for rent
- ◆ Anticipating occupancy rates – using comps, waiting lists, etc.

Site & Design Constraints/ Construction Budget

- ◆ Services available to the site, e.g., water, sewer, streets
- ◆ Regulatory issues: zoning, land use, building regulations
- ◆ Development team for site plan, construction costs: A&E consultants, general contractor

Pro Forma

- ◆ Income and Expense Statement: key financial projection for operating budget
- ◆ Estimate of project's rent levels and vacancy (income) and expenses
- ◆ Calculates \$\$ available for debt service and cash flow (profit)
- ◆ Determines project's value and potential loan amount

Sources and Uses Statement

- ◆ Uses: total cost to develop project (land, A&E, legal, construction, financing fees, developer fee, reserve accounts, etc.)
- ◆ Sources: amount of debt and equity the project can reasonably attract

Permanent Loan

- ◆ Prerequisite for construction loan (does not take construction risk)
- ◆ Perm lender concerns: 1) sufficient income to cover TOEs and DS and 2) ability to sell project and recover outstanding loan balance
- ◆ Appraisal to verify I/E and estimate market value

Equity and Gap Financing

- ◆ Sources of equity: developer, investors, syndicators
- ◆ Public assistance or subsidy financing: local, state, and federal sources (e.g., HOME, CDBG, LIHC, AHP)

Construction Financing

- ◆ Construction lender reviews permanent financing commitment and evaluates developer and general contractor
- ◆ Construction lender concerns: cost over-runs (affects amount of contingency) and rent-up risk

Tri-Party Agreement

- ◆ Signers typically include developer and both lenders (construction and perm); can also include subsidy providers
- ◆ Primarily benefits construction lender – assures take-out upon project completion, rent-up

Project construction

- ◆ Cost over-runs (rising material costs, unforeseen expenses)
- ◆ Timely completion of project (weather delays)

Project Management


- ◆ Professional on site management
 - ✓ Collect rents
 - ✓ Maintain property
 - ✓ Screen tenants and monitor tenant eligibility and other compliance requirements
 - ✓ Record keeping
- ◆ Previous experience with governmental housing programs


Property Disposal


- ◆ Timing depends on subsidy requirements
- ◆ For-profits generally want to recoup initial investment
- ◆ Nonprofit owners typically want to fulfill mission and maintain ownership of property

Role of Nonprofits

- ◆ Project concept: prepare project profile/targeted beneficiaries
- ◆ Site selection: id sites with development potential
- ◆ Site acquisition: may have ability to acquire public sites at reduced cost (need developer to finance purchase)
- ◆ Site approvals: may have political contacts to obtain and accelerate approvals

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- ◆ Market feasibility: may have insights into local market preferences, size of targeted population
 - ◆ Equity: may have preference in award of credits or funding under some state and local programs; also may have access to foundation funds
 - ◆ Packaging: may have more experience with various subsidy requirements


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- ◆ Production/construction: may not have any experience
 - ◆ Infrastructure support: may have ability to organize community to obtain needed government services
 - ◆ Community liaison: hopefully has ties to community to mitigate against NIMBYism; can bring credibility to process




◆ Project management: may provide social or supportive services; may also seek additional funds (grants or subsidies) for such services

Organizational Considerations

- ◆ Board of directors approval of proposed project
- ◆ Board understanding of financial structure and implications for organization
- ◆ Board willingness to accept terms and conditions of proposed financing

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- ◆ Previous experience with real estate development (type, size, role)
 - ◆ Staff capacity: person on staff familiar with real estate development process, financial structuring, etc.
 - ◆ Plan for managing project development phase



◆ Plan for managing completed project (handling typical management duties vs. social services): staffing, leasing, annual operating budget, record keeping, compliance, maintenance, etc.

Working with Consultants

- ◆ Identify TA and consulting needs for project completion and management
- ◆ Define role for consultant and control consultant's activity
- ◆ Schedule periodic meetings and require regular reporting

Contact Information

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