



Affordable Multifamily Housing Fundamentals

STRATEGIC HOUSING FINANCE CORPORATION PRESENTATION

PRESENTED BY SARAH ANDRE – STRUCTURE DEVELOPMENT MAY 29, 2025

Introduction

About Me

Ms. André has worked in affordable housing since 1994. Her experience includes both consulting on and development of a variety of housing options. Since 2005 her focus has been on multifamily development using Low Income Housing Tax Credits. In this capacity she has been involved in the creation of more than 19,000 units of multifamily housing across Texas with investments of more than \$1 Billion.

Awards for her work include honors from Livable City, Envision Central Texas, Preservation Texas and a Jack Kemp Chairman's Award from the Urban Land Institute.

Ms. Andre has held positions at Diana McIver & Associates, The Enterprise Foundation and Austin Revitalization Authority.

www.structuretexas.com

Agenda

- ❑ Multifamily Finance- How it works
- ❑ The Role of Housing Finance Corporations (HFCs)
- ❑ Bond Basics
- ❑ Tax Credit Basics
- ❑ Workforce Housing

About You

- ❑ Name
- ❑ Any Affiliation
- ❑ What you hope to learn

Multifamily Finance - How it Works

- ▶ Very similar to SF finance, just a lot more zeroes (and lawyers)
 - ▶ Down Payment = *Equity*
 - ▶ Mortgage = *Perm Debt*
- ▶ Perm Debt and Equity cover the cost of Construction
 - ▶ *Capital Stack*
- ▶ Tenant Rents (income) is used to pay for the cost of operations and *Debt Service*
 - ▶ Income (rents) minus expenses = *Net Operating Income (NOI)*
- ▶ NOI is used to pay the mortgage and provide *Cash Flow (aka profits)*

Rents Drive the Perm Loan Amount

Market Rate – 100 1-BR Units

- ▶ Rent per Unit = \$2,008/month (or more!)
- ▶ $\times 12 \times 100 = \$2,409,600$ Gross Income
- ▶ Expenses of \$5,000 per unit per year
- ▶ NOI of \$1,909,600
- ▶ Loan of \$20,708,706 (*assumes 6.5% for 30 years*)

Affordable 100 1-BR Units

- ▶ Rent per Unit = \$1,506/month
- ▶ $\times 12 \times 100 = \$1,807,200$
- ▶ Expenses of \$5,000 per unit per year
- ▶ NOI of \$1,307,200
- ▶ Loan of \$14,225,250

So what's the big deal?

\$6MM = 20 units



Rents for a Two Bedroom Unit Across Income Levels

	30%	40%	50%	60%	70%	80%
Monthly Rent	\$903	\$1,205	\$1,506	\$1,807	\$2,108	\$2,410
Income for Year	\$10,836	\$14,460	\$18,072	\$21,684	\$25,296	\$28,920
NOI Generated	\$5,836	\$9,460	\$13,072	\$16,684	\$20,296	\$23,920

If rents are too low, or expenses too high – Deal does not work!

Net Operating Income is Used to pay the mortgage and any profits (cash flow)



Value of the Tax Exemption

Value of the Tax Exemption

Expenses – With Taxes

- ▶ \$588,800
- ▶ \$7,851 per unit per year (PUPA)
- ▶ NOI \$333,533
- ▶ CANNOT make mortgage payments

Expenses – No Taxes

- ▶ \$422,129
- ▶ \$6,669 PUPA
- ▶ NOI \$422,129
- ▶ Debt Coverage Ratio (DCR) is 1.16

ANNUAL OPERATING EXPENSES				
General & Administrative Expenses				
Accounting		\$	7,000	
Advertising		\$	5,377	
Legal fees		\$	4,183	
Leased equipment		\$	6,630	
Postage & office supplies		\$	2,300	
Telephone		\$	1,860	
Other		\$	1,500	
Other	Bank Fees, Compliance Fees	\$	5,750	
Total General & Administrative Expenses:				\$ 34,600
Management Fee:	Percent of Effective Gross Income:	6.00%		\$ 55,340
Payroll, Payroll Tax & Employee Benefits				
Management		\$	70,000	
Maintenance		\$	52,000	
Other	Payroll, Insurance, Worker Comp, Benefits	\$	30,005	
Other	describe			
Total Payroll, Payroll Tax & Employee Benefits:				\$ 152,005
Repairs & Maintenance				
Elevator		\$	18,000	
Exterminating		\$	2,500	
Grounds		\$	16,500	
Make-ready		\$	20,000	
Repairs		\$	15,000	
Pool		\$		
Other		\$		
Other		\$		
Total Repairs & Maintenance:				\$ 72,000
Utilities (Enter Only Property Paid Expense)				
Electric	Common area only	\$	13,500	
Natural gas		\$		
Trash	Smiliar Product in Austin	\$	12,519	
Water/Sewer	Common Area Only	\$	15,000	
Other	describe	\$		
Other	describe	\$		
Total Utilities:				\$ 41,019
Annual Property Insurance:	Rate per net rentable square foot:	\$	1.97	\$ 112,500
Property Taxes:				
Published Capitalization Rate:	na	Source:	Tax Exempt	
Annual Property Taxes				\$ 88,596
Payments in Lieu of Taxes				\$
Percentage of Property Tax Abatement Assumed	100.00%			
Reason for Property Tax Abatement	HFC/PFC			GP is an HFC
Total Property Taxes:				\$ 88,596
Reserve for Replacements:	Annual reserves per unit:	\$	250	\$ 18,750
Other Expenses				
Cable TV		\$		
Security		\$	900	
Supportive Services (Staffing/Contracted Services)		\$	4,500	
TDHCA Compliance fees (\$40/HTC unit)		\$	3,000	
TDHCA Direct Loan Compliance Fees (\$34/MDL unit)		\$		
TDHCA Bond Compliance Fees (TDHCA as Bond Issuer Only - \$25/unit)		\$		
Bond Trustee Fees (ALL Tax-Exempt Bond Developments; entry or explanation required)		\$	4,000	trustee fees
Local Issuer Ongoing Compliance Fees (entry or explanation required)		\$	1,590	AHFC ongoing fee
Other		\$		
Other	describe	\$		Enter explanation here
Total Other Expenses:				\$ 13,990
TOTAL ANNUAL EXPENSES	Expense per unit:	\$	7851	\$ 588,800
NET OPERATING INCOME (before debt service)	Expense to Income Ratio:		63.84%	\$ 333,533
Annual Debt Service				
Amegy Perm Mortgage		\$	363,326	Principal and Interest
		\$		Enter explanation here
Direct loan proposed debt service		\$		Enter explanation here
Local Bond Issuer Admin Fee (entry or explanation required)		\$		Enter explanation here
TDHCA Bond-Issuer Admin Fee (0.10%)		\$		Enter explanation here
TOTAL ANNUAL DEBT SERVICE	Debt Coverage Ratio:		0.918	\$ 363,326
NET CASH FLOW				\$ (29,794)

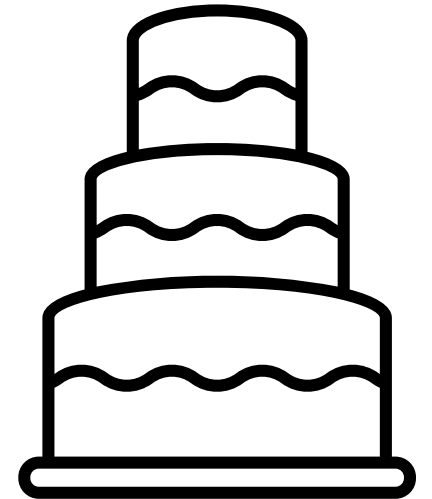
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Other	describe	\$		Enter explanation here
Total Other Expenses:				\$ 13,990
TOTAL ANNUAL EXPENSES	Expense per unit:	\$	6669	\$ 500,204
NET OPERATING INCOME (before debt service)	Expense to Income Ratio:		54.23%	\$ 422,129
Annual Debt Service				
Amegy Perm Mortgage		\$	363,326	Principal and Interest
		\$		Enter explanation here
Direct loan proposed debt service		\$		Enter explanation here
Local Bond Issuer Admin Fee (entry or explanation required)		\$		Enter explanation here
TDHCA Bond-Issuer Admin Fee (0.10%)		\$		Enter explanation here
TOTAL ANNUAL DEBT SERVICE	Debt Coverage Ratio:		1.162	\$ 363,326
NET CASH FLOW				\$ 58,802

Sycamores at Pleasant Valley

- ▶ 75 Units, 1/2/3 Bedroom unit mix
- ▶ Rents set at 40% and 50% AMFI
- ▶ Small site, critical water quality zone
- ▶ 5-story, Elevator Served
- ▶ Partial Podium
- ▶ Total Costs (TDC) \$30,041,911

Capital Stack

Perm Loan	\$ 5,300,000
Equity	\$12,514,080
Soft Loan	\$ 8,950,000
Deferred Fee	\$1,140,164
Bond Income	\$1,387,167
Grant Funds	\$ 750,000



What is the role of an HFC?



Created to “Further” Affordable Housing

- ▶ Issue Bonds
 - acts as collateral, lowers the interest rate, provides capital
- ▶ Provide Tax Exemptions
 - lowers the costs to build and to operate
- ▶ Important Partner to the Private Sector

Partner Tasks

Before You Partner

- ▶ Policy Creation
- ▶ Screen Potential Partners
 - Are they solvent?*
 - Can they guaranty the loan?*
 - Do they have a track record? – TDHCA, Local Governments*
 - Lawsuits?*
 - Are they amenable to negotiation/discussions?*
 - Do they have strong financial partners?*

Before You Sign

- ▶ Screen the Deal
 - Is the site location attractive (not in the flood zone, high crime area, other hazards (industrial, under the Airport runway etc)*
 - Are there political hurdles*
 - Is it entitled, or can it be (zoning)*
 - How do the numbers look? Is it in line with past projects in terms of total costs; operating expenses, units produced, AMFI levels*

Partner Tasks

During the Partnership

Proceed with approvals in a timely manner

Sign Documents as needed

Retain legal representation that is timely and reasonable

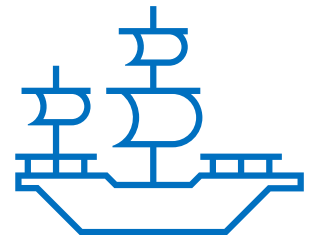
Monitor progress

Take all the credit!

The Board Steers the Ship

Let Staff Run the Sails – review audits, report issues to the Board, ask for correction

Let Partner & Management Company Swab the Deck – put together the funding, due diligence, deal with tenants, property maintenance



The Team

HFC

Developer

Financial Advisor

Tax Credit Consultant

Trustee

Lawyers! – Bond Counsel

More Lawyers! – Lender Counsel

Wait there's More – Partner Counsel

Lender

Syndicator/Investor

The Tasks

Issue Bonds, Ensure Public Purpose

Hire the Team, Drive the Development Process, Oversee Construction and Management

Review the Numbers/Bond Structure, Sell the Bonds

Make sure the Tax Credits are Awarded, Ensure TDHCA Milestones are met

Ensure Bonds are Spent According to Law

Review the Bond Documents

Review the Loan Documents

Create Organizational Documents

Provide Construction and Perm Debt

Sell Tax Credits, Provide Cash

Risks

Legal

- Texas Law (50% Test)
- IRS Code (AMFIs)
- Local Codes and Ordinances (Permits)
- Federal Law (ADA)

Financial

- Loss of Pre Development Funds (architect, engineer)
- Construction Guarantees (over time, poor quality)
- Investment Guarantees (will qualify for credits)
- Operational Guarantees (loss of income)
- Loss of Building (storm)

Reputational

- Partners
- The Public

Bond Basics



ONLY SPECIFIC
ENTITIES CAN
ISSUE BONDS



BONDS ARE
USED TO
COLLATERALIZE
A LOAN

*KEEPS INTEREST RATE MORE
FAVORABLE, ALLOW 4%
CREDITS*



MUST SERVE
HOUSEHOLDS AT
OR BELOW 60%
OF AMFI



CAN AVERAGE
INCOMES



DIFFERENT
INCOME LEVELS
= DIFFERENT
“PRIORITY” IN THE
BOND QUEUE

Important Bond Terminology

Inducement

Reservation

Issuance

The Lottery

Public
Placement

Private
Placement

Carry
Forward

Trustee

Tax Credit Basics

- ▶ IRS Program
- ▶ Administered on a Statewide Basis - TDHCA
- ▶ QAP and Multifamily Rules

They review the Tax Credit Application and “award” or allocate the credits; developer will enter into LURA and compliance activities with TDHCA

- ▶ Tax Credits are exchanged for Equity used to build the development
- ▶ 50% Test
- ▶ Equity provider is the Limited Partner
- ▶ SHFC is the General Partner

Calculating Tax Credits

Awarded on **Eligible Basis**

Good Every Year for Ten Years

Sold at a Discount to an Investor

Category	Cost	Eligible Basis?
Land	\$2,000,000	NO
Architecture	\$500,000	\$500,000
Marketing	\$50,000	NO
Legal	\$200,000	\$150,000
Construction	\$10,000,000	\$9,000,000
Developer Fee	\$1,000,000	\$1,000,000
TOTAL	\$13,750,000	\$10,750,000

The Magic



Turning Basis Into Tax Credits

\$10,750,000 Basis

X 130% for **Boost**

\$13,975,000 Eligible Basis

X 4% Tax Credit Percentage

\$559,000 Annual Tax Credit

Turning Credits Into Cash

\$559,000 Annual Credit Basis

X 10 Years

\$5,590,000 in Tax Credits

X .99.99% Investor Ownership

\$5,589,441 Total Tax Credits

X .87 Cents **Pay In Rate**

\$4,862,814 CASH

What is Workforce Housing?

PFCs v HFCs

Partner with a Developer to Create Workforce Housing - Example of AISD

Half at 80% AMFI, Half Market Rate

Tax Exemption

PFC Can Add Requirements

Travis County “Competitors”

