Washington State Affordable Housing Portfolio Study
March 2015

Presentation Outline

1. Background
2. Physical Condition of Our Affordable Housing
3. How Will We Pay for Needed Improvements?
4. Role of Public Funders
5. Strategies for Sustainability
• Maintaining the existing supply of affordable housing is a critical piece of an overall strategy to meet the growing housing needs of Washington’s residents.

• Preservation of these investments is a shared priority of Commerce and the Commission.

Background

• **Affordable housing faces unique challenges:**
  – Restricted revenues, due to required income/rent limits; therefore,
  – Reduced ability to raise add’l debt for rehabilitation; additionally,
  – Insufficient replacement reserves to sustain property through use/affordability restrictions period.

• **Most market-rate strategies not available to owners of affordable housing:**
  – Properties typically recapitalized when real estate changes hands.
  – Owners can renovate property and then increase the rents and pay for the renovations either through raising additional debt or through cash flow.
Background

- Recapitalization is inevitable.
- Expected Useful Life of building systems and components is not as long as restricted use period.

<table>
<thead>
<tr>
<th>Component</th>
<th>Expected Useful Life (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roof</td>
<td>20-40</td>
</tr>
<tr>
<td>Siding</td>
<td>20-30</td>
</tr>
<tr>
<td>Windows</td>
<td>15-20</td>
</tr>
<tr>
<td>Plumbing</td>
<td>20</td>
</tr>
<tr>
<td>Heating</td>
<td>15</td>
</tr>
<tr>
<td>Electrical</td>
<td>50+</td>
</tr>
<tr>
<td>Ventilation</td>
<td>20</td>
</tr>
</tbody>
</table>

- Public investment will be required to handle aging properties, especially property major recapitalization needs (roof/siding/windows).

Goals of the Study

- **Examine the need for additional capital investments** in properties funded by the Housing Trust Fund (HTF) and Low Income Housing Tax Credit (LIHTC) programs.
- **Approximate owners’ financial capacity** to address the needs of their properties.
- **Estimate resources required** of Commerce and the Commission in order to preserve its investments.
- **Provide a system and methodology** for periodic updates to these estimates.
Properties in Study

Included properties that are most likely to require significant resources for rehabilitation:
- Multifamily rental housing
- 10 or more housing units
- 10 or more years since placed in service
- Excluded emergency shelters, seasonal farmworker housing, and small, mission-based projects

Study Universe
649 projects containing approximately 38,000 units

Properties in Study

- Department of Commerce Portfolio
  - 387 Properties
- Washington State Housing Finance Commission Portfolio
  - 461 Properties
- Housing Trust Fund, no LIHTC
  - 188 Properties
- Both Housing Trust Fund and LIHTC
  - 199 Properties
- LIHTC, no Housing Trust Fund
  - 262 Properties
## Overview of Data Sources

<table>
<thead>
<tr>
<th>Data Source</th>
<th>Level of Knowledge</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Walsh Construction Co. Capital Needs Assessments</td>
<td>Detailed, property-specific</td>
</tr>
<tr>
<td>B. Owner-Provided Capital Needs Reports</td>
<td>Detailed, property-specific</td>
</tr>
<tr>
<td>C. Capital Needs Surveys</td>
<td>Detailed, property-specific</td>
</tr>
<tr>
<td>D. Model Cost Data</td>
<td>General, not property-specific</td>
</tr>
<tr>
<td>E. WBARS Tables</td>
<td>Detailed, property-specific [Financial]</td>
</tr>
</tbody>
</table>

### Property-Specific Knowledge

**Number of Properties by Level of Knowledge**

- 333 properties responded to Capital Needs Survey and submitted a capital needs report
- 205 properties responded to Capital Needs Survey only
- 111 properties received no information on capital needs

n=649
### Five-Year Capital Needs Costs

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>Properties in Study</th>
<th>Units in Study</th>
<th>Capital Needs Costs Total</th>
<th>Avg. Per Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>HTF only</td>
<td>188</td>
<td>5,790</td>
<td>$80,600,533</td>
<td>$17,672</td>
</tr>
<tr>
<td>LIHTC only</td>
<td>262</td>
<td>21,512</td>
<td>$198,465,276</td>
<td>$12,208</td>
</tr>
<tr>
<td>Both</td>
<td>199</td>
<td>10,514</td>
<td>$111,557,831</td>
<td>$13,698</td>
</tr>
<tr>
<td>Total</td>
<td>649</td>
<td>37,816</td>
<td>$390,623,639</td>
<td></td>
</tr>
</tbody>
</table>

#### Physical Condition of Our Affordable Housing

![Pie chart showing the distribution of properties, units, and capital needs costs by funding source.](chart.png)

- **Properties in Study**
  - HTF only: 31%
  - LIHTC only: 29%
  - Both: 40%

- **Units in Study**
  - HTF only: 28%
  - LIHTC only: 15%
  - Both: 57%

- **Capital Needs Costs**
  - HTF only: 28%
  - LIHTC only: 21%
  - Both: 51%

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### Five-Year Capital Needs Costs

- **Housing Trust Fund**
  - 387 Properties
  - $192 Million in Capital Needs

- **Low Income Housing Tax Credit**
  - 461 Properties
  - $310 Million in Capital Needs

![Circle chart showing the distribution of properties and capital needs costs by funding source.](chart.png)
Five-Year Capital Needs Costs

Collective Capital Needs Costs of $391 Million

- Housing Trust Fund ONLY
  - 188 Properties
  - $81 Million in Capital Needs

- HTF & LIHTC
  - 199 Properties
  - $112 Million in Capital Needs

- Low Income Housing Tax Credit ONLY
  - 262 Properties
  - $198 Million in Capital Needs


- Physical Condition of Our Affordable Housing

Capital Needs per Project

- HTF
- LIHTC
- Both

n=494

Physical Condition of Our Affordable Housing
Physical Conditions Correlations

Key Findings:

– Years since placed in service was the strongest predictor of high capital needs costs.

– For each unit of bedroom density, capital costs per unit increase by 34%.

Other Findings:

– Walsh identified more systems replacement costs (envelope, MEP), while owners identified more interior replacements.

– CNAs done by engineers vs. owners who tend to be focused on marketing and resident experiences.
How Will Improvements be Funded?

A. Need

Existing Property Resources:
B. Existing reserves
C. Ability to refinance

Gap \((A - B - C)\)

Property Resources

Only 4% of properties have sufficient replacement reserves to cover at least 75% of their capital costs.

Another 25% of properties have sufficient replacement reserves to cover 25% to 50% of their capital costs.

Refinance is an option for about 35% of the properties (228 properties); however, only 189 of these 228 properties can fully cover costs through refinancing.
Replacement Reserve Balances

Replacement Reserve Balance per Unit by Funding Source

- HTF
- LIHTC
- Both

How Will We Pay for Needed Improvements?

Reserves as a Percent of Capital Costs

Replacement Reserve Balance as a Percent of Capital Needs Costs by Funding Source

- HTF
- LIHTC
- Both

How Will We Pay for Needed Improvements?
Properties’ Ability to Service Debt

Number of Properties by Supportable Debt Amount

- Number of Properties
- <$50k
- $250k
- $500k
- $750k
- $1m+
- HTF
- LIHTC
- Both

* at 1.20 debt coverage ratio

How Will We Pay for Needed Improvements?

Ability to Cover Capital Needs Costs

- Properties with No Capital Needs Costs: 24%
- Properties with Capital Needs Costs and Gap: 56%
- Properties with Capital Needs Costs but No Gap: 20%

Role of Public Funders
### Breakout of Properties

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>Study Universe</th>
<th>Properties with No Capital Needs Costs</th>
<th>Properties with Capital Needs Costs but No Gap</th>
<th>Properties with Capital Needs Costs and Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>#</td>
<td>%</td>
<td>#</td>
<td>%</td>
</tr>
<tr>
<td>HTF only</td>
<td>188</td>
<td>29%</td>
<td>36</td>
<td>23%</td>
</tr>
<tr>
<td>LIHTC only</td>
<td>262</td>
<td>40%</td>
<td>63</td>
<td>41%</td>
</tr>
<tr>
<td>Both</td>
<td>199</td>
<td>31%</td>
<td>56</td>
<td>36%</td>
</tr>
<tr>
<td>Total</td>
<td>649</td>
<td>100%</td>
<td>155</td>
<td>100%</td>
</tr>
</tbody>
</table>

### Estimated Funding Gap

- **Housing Trust Fund**
  - 387 Properties
  - $121 Million Funding Gap

- **Low Income Housing Tax Credit**
  - 461 Properties
  - $145 Million Funding Gap
Estimated Funding Gap

Collective Financing Gap of $201 Million

- **Housing Trust Fund ONLY**
  - 188 Properties
  - $56 Million Funding Gap

- **HTF & LIHTC**
  - 199 Properties
  - $65 Million Funding Gap

- **Low Income Housing Tax Credit ONLY**
  - 262 Properties
  - $80 Million Funding Gap

Role of Public Funders

Strategies for Sustainability

**Everyone has a role!**

- **Owners**
  - Project Resources
  - Improve Operations

- **Private Lenders/Investors**
  - Use of Reserves
  - Refinancing

- **WSHFC**
  - Bonds
  - 4% LIHTC
  - 9% LIHTC

- **Local Funders**
  - Change payment terms
  - Debt Forgiveness
  - New Capital
  - Regulatory Relief

- **Commerce**
  - Change payment terms
  - Debt Forgiveness
  - New Capital
  - Regulatory Relief

Owners and Funders are already employing many of these strategies.
Strategies for Owners

✓ Maximize operations
✓ Share reserves among properties
✓ Bundle small properties
✓ Consider disposition

Strategies to Preserve HTF Portfolio

✓ Leverage additional private debt by:
  • subordinating HTF debt,
  • changing terms of HTF debt, or
  • forgiving debt, in case of loan-to-value issues.

✓ Fill gaps by reinvesting new HTF dollars or employing new financing strategies, e.g., resyndication through bundling smaller properties.

✓ Underwriting considerations – lessons learned for the future.
Strategies for LIHTC Portfolio

- Allocate new 9% LIHTCs.
- Combine 4% and 9% LIHTCs.
- Use 4% LIHTCs with tax-exempt bond financing.*
- *Contribute additional public dollars to fill gap.

Questions?