



MIT Affordable Housing Forum

Innovative Affordable Housing Finance: The Latest from MassHousing

December 4, 2006

Presented by Nancy Andersen, Manager, Rental Development, MassHousing



MassHousing Background

- State's Affordable Housing Bank, since 1966
- \$6 billion in financing, 93,000+ units under management
- 2002-2006: included three years of largest volume of rental financing in MassHousing's history
- Current focus: New Production, TOD, "Smart Growth", Mixed-Income and Mixed-Use developments

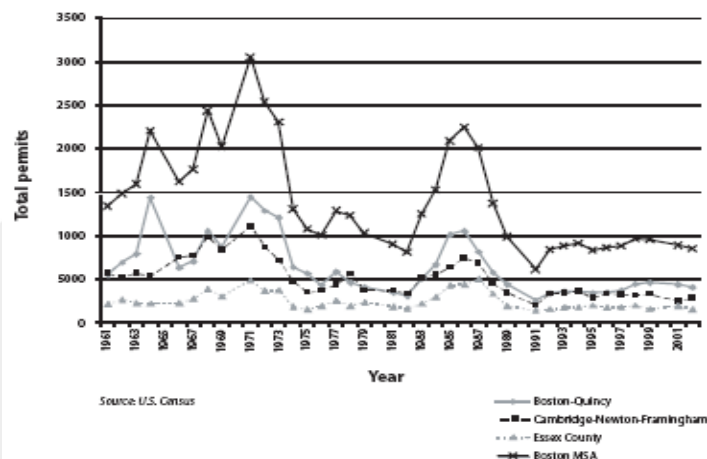
The Affordability Gap: Origin

- Inadequate supply: Massachusetts has ranked among 2nd and 5th lowest of States in # permits issued annually
- Number of permits issued in 2004 in metro areas:
 - Phoenix: 57,273 (Pop. 3.7 million)
 - Las Vegas: 35,579 (Pop. 1.6 million)
 - Boston: 5,001 (Pop. 4.4 million)
- Why? Heterogeneous & restrictive land use regulations by cities and towns. Of 187 communities surveyed:
 - Large minimum lot size: one acre typical
 - Growth caps (54 communities)
 - Strict wetland regulations (over 2/3s of communities)
 - Subdivision rules (181 communities)

Source (bullets 2,3): "Regulation and the Rise of Housing Prices in Greater Boston," by Glaeser, Schuetz, and Ward, Harvard University, published by Pioneer Institute, Jan. 5, 2006

The Affordability Gap: Origin

Figure 2. Total Permits in Boston Metro Area, 1961–2002



Source: "Regulation and the Rise of Housing Prices in Greater Boston," by Glaeser, Schuetz, and Ward, Harvard University, published by Pioneer Institute, January 5, 2006

The Affordability Gap: Impact

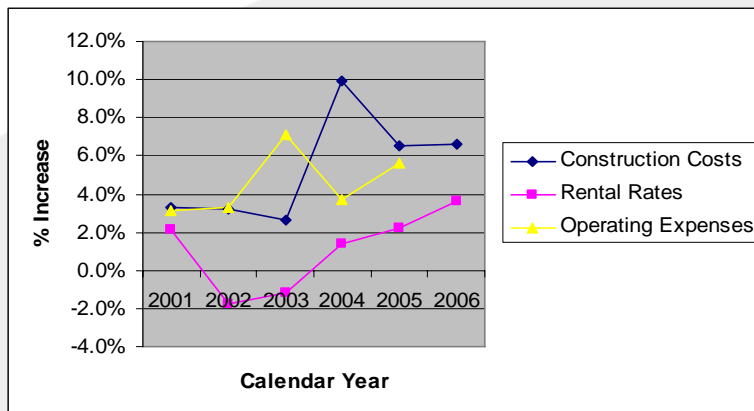
SAMPLE INCOMES VS. HOUSING COSTS IN BOSTON

Sample Income Levels	Annual Income	Income Available For Mo. Rent/Mtg	Median Mo. Rent or PITI Payment	Mo. Gap: Required vs. Available Income
Frail Elder With SSIG	\$ 12,800	\$ 320	\$ 1,281 Rent	\$ 961
4-Person Hshld @ 50% AMI	\$ 41,350	\$ 1,034	\$ 1,891 Rent	\$ 857
4-Person Hshld @ 100% AMI	\$ 82,700	\$ 2,068	\$ 2,630 PITI	\$ 563

NOTE: 2005 Statistics

Current Market Context

Growth Rates of Construction Costs, Rents and Operating Expenses – Boston Metro Area



Source: REIS, Inc., RS Means, and MassHousing Executive Info Systems

Solving The Gap

Financing/Subsidy Tool	Avalon	Arbor-point	Ash-mont
Traditional housing subsidy: tax credits, HOME, AHT, etc.			√ √ √
Cross subsidization of low income w. high-end rental or for-sale units	√ √	√ √	
Use of variable rate taxable or tax exempt debt	√		
Creative new subsidy: Priority Development Fund (PDF), State TOD, CATNHP		√	√ √

Solving The Gap

Policy Objective	Avalon	Arbor-point	Ash-mont
Encouraging development with modest or no subsidy	√ √ √	√	
Fostering social, economic integration	√ √	√ √	√
Promoting Green Building, Renewable Energy, Efficient Design		√	√ √
Transit Oriented Development		√	√ √
Re-deployment of underutilized public land		√	√
Neighborhood Revitalization			√ √

The Priority Development Fund

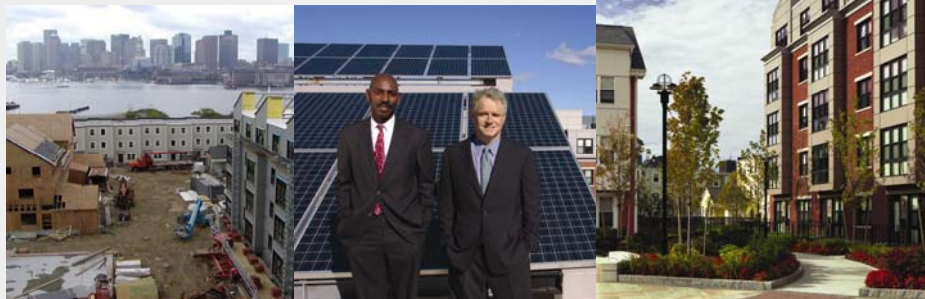


- \$100 million commitment by MassHousing to spur new housing production
- \$63m for mixed-income developments
- \$12m earmarked for low-income developments
- \$22m for TOD Projects
- \$3m for planning for municipalities

Form of subsidy very flexible: amortizing or deferred payment loans; 0% interest; back-up guarantees; can fund non-housing uses.

Green Affordable Housing Initiative:

- Partnership w. Enterprise Foundation, Mass Technology Collaborative
- MTC feasibility grants up to \$30,000, design grants up to \$50,000, & construction grants up to \$500,000 for renewable energy systems
- Enterprise grants of \$1000/low-income unit (maximum \$50,000) for planning, design and construction;
- MassHousing Priority Development Fund
For new housing production





Avalon at Newton Highlands

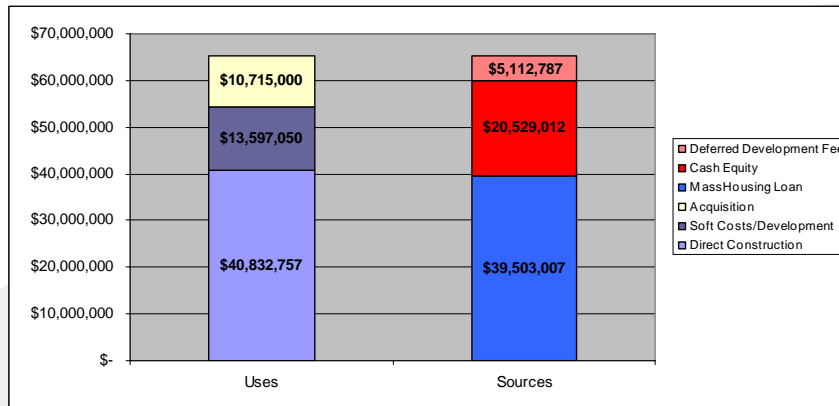
Typical Profile of Variable Rate Borrower/Development



- Borrower: Public REIT. Cash is king!
- 294 studios, 1,2, and 3 bedroom units
- 25% affordable: \$671-928 rent/mo
- 75% market: \$1,400-3,025 rent/mo
- Luxury Amenities: concierge, recreation center, pool, putting green, basketball court, upgraded finishes, structured pkg



Avalon at Newton Highlands Sources & Uses



- TDC of \$203,113/unit; loan of \$134,693/unit
- Operating expenses of \$7,857 per unit
- Debt service coverage ratio of 2.17 (First Year), 1.46 (Average)
- Market driven, cash flow deal, No scarce subsidy sources.
- Higher than typical cash equity



Avalon at Newton Highlands Financing Structure

“5+5” Variable Rate Program

- 5 year initial term plus 5-year extension option
- \$40m taxable variable rate loan pegged to 1-week LIBOR
- “Multi-modal”: Borrower can fix rate at any time for remaining term
- MassHousing provides underlying credit through its GO
- Main Risks:
 - Interest Rate Risk
 - Balloon Risk
 - Liquidity/Remarketing Risk



Avalon Newton Highlands Variable Rate Debt Interest Rate Risk & Mitigation

- Borrower purchases 5 year interest rate cap, from AA-rated entity
- Annual escrows from cash flow to fund future cap purchase
- Debt sized by underwriting at “strike rate” plus spread & all other costs

	<u>Week 1*</u>	<u>Maximum*</u>
LIBOR	1.79%	7.00%*
LOC/Remarketing	.45%	.45%
MHFA spread/GO fee	.60%	.60%
Cost of Issuance	<u>.22%</u>	<u>.22%</u>
TOTAL:	3.09%	8.30%

“Strike Rate”

PLUS: Annual amortization based on set 20 yr schedule

PLUS: 1.10 Debt Service Coverage on All Costs

* Nominal annual fees to trustee, rating agency and for LOC draw not included. Maximum rate is based on borrowers purchase of 7% cap rate.

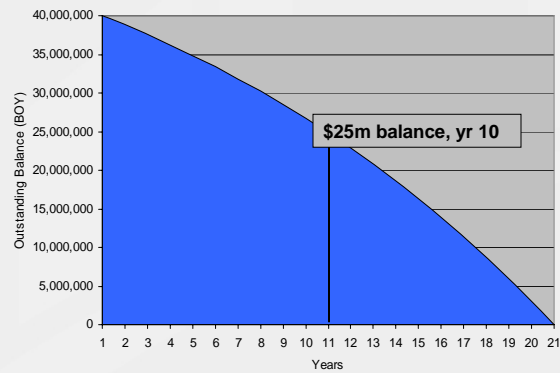
NOTE: Reflects August 2004 Pricing.



MASSHOUSING

Avalon Newton Highlands Variable Rate Debt Balloon Risk & Mitigation

- Fixed amortization payments required based on 20-year amortization at assumed rate.
- Loan amount limited to lesser of:
 - 70% of appraised value or:
 - amount enabling refinancing at end of 10 year term for a new 20 year term at assumed adverse (15%) interest rate



MASSHOUSING

Arbor Point at Woodland Station From Park N' Ride Lot to Live and Ride Community



6.9 Acre MBTA Surface Lot Transformed Into:

MBTA Parking Facility

- 3-level, 548-space commuter parking facility
- Handicap accessibility improvements, shared access drive and utilities connections.

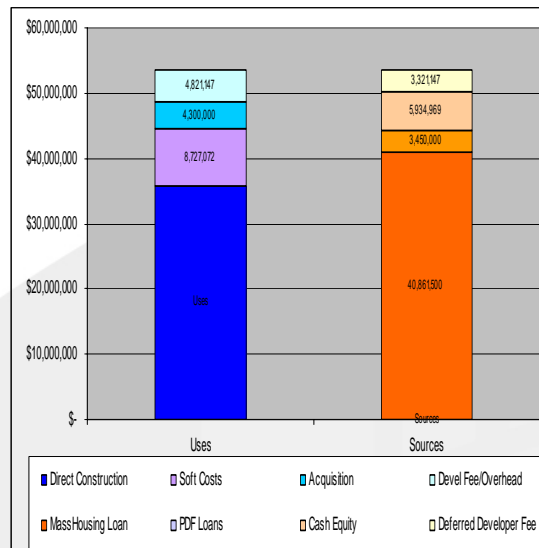
Rental Housing Development

- 180 rental units w. 1-3 brs each
 - 20% affordable @ \$711-1,186 rents
 - 80% market @ \$1,987-3,200 rents
- 295 spaces of parking underneath
- Amenities: business center, lounge, fitness center, pool, patio, picnic area and tot lot.



TOD and Smart Growth Features:

- Row of 2-story Townhomes facing track relates residences with street and pedestrian activity
- Zipcar location on site and T-Pass purchase program further reduce auto dependency
- Apartments designed to Energy Star standards
- High density – 46 units/acre
- Residential parking – at 1.6 spaces/unit -- reduced from city zoning requirements



- TDC of \$293,549/unit; somewhat high due to garage; typical cost components for high-end suburban product.
- High Rental Market Area, supports large first mortgage loan (\$227k/unit)
- Priority Development Fund 40 year 0% interest loan plus supplemental 10 year 0% interest loan to boost early year returns
- Higher than typical cash equity, since owner's return comes from substantial cash flow

Dorchester, Massachusetts

- Population: 92,862, Median household income ~\$38,590
- Inner city neighborhood in process of revitalization



Ashmont Station

- Total property < 1 acre adjacent to transit station. currently used as surface parking for MBTA employees
- Provides intermodal bus, trolley and rapid transit services to nearly 17,000 daily commuters.
- Promotes the ongoing revitalization of the Ashmont Peabody Square neighborhood



New Rental Housing Development

- 74 rental units w. 1-2 brs
 - Affordable at 30-60% AMI
 - \$426 -1,064 avg. rent/mo
- 42 for-sale condos
 - Market rate
 - \$265,000-\$365,000/unit
- 80 spaces of parking underneath
- 10,000 square feet of neighborhood retail

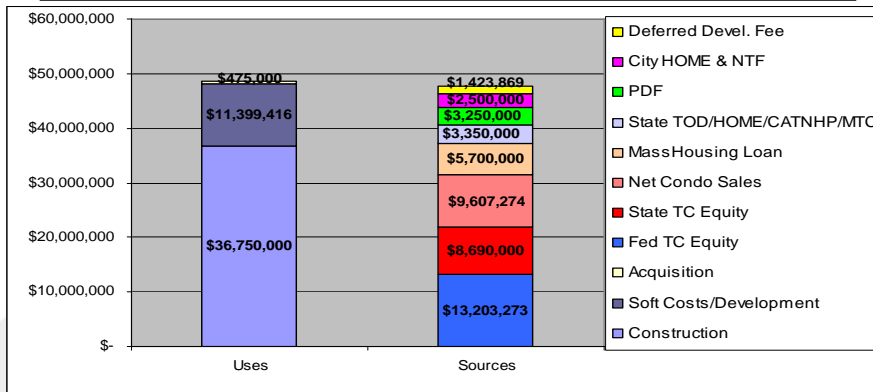


MBTA Ashmont Peabody Station

- MBTA undertaking \$40m replacement of the station as part of a modernization program focused on the four Dorchester Red Line stations.



Ashmont Station Financing Structure (Housing Component)



- TDC of \$419,176/unit
 - Uncharacteristically high costs (even for Boston) due to commercial space, underground parking, difficult site conditions and steel frame construction.
 - Substantial amount of subsidy required to support TDC (eight separate subsidy sources totaling 73% of TDC)
 - Low Rental Market Area results in relatively small permanent mortgage loan
 - Even market-rate condo units not self-supporting: subsidized by TOD, PDF