

New Jersey Association of Housing & Redevelopment Authorities



VICTOR CIRILO

DEVELOPMENT AND REPOSITIONING OPTIONS FOR HOUSING AUTHORITIES



AFFORDABLE HOUSING DEFINED

- Rent burdened: Families paying more than 30% of their monthly income towards rent.
- Below AMI: Generally 80% of median down to less than 30% of median income.
- Program eligibility varies depending on the AMI.
- It can be provided as rental or for sale housing.
- It can be in mixed-use or mixed income developments.

PUBLIC HOUSING NOW REQUIRES INNOVATION

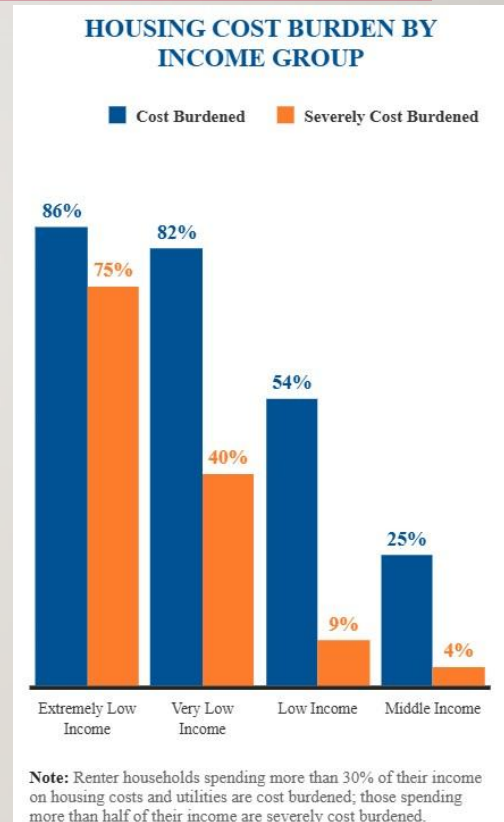
- QHWRA of 1998 eliminated funding for PH, capping units at October 1, 1999 levels.
- HUD agreed to fund new affordable housing through the HOPE IV program in mixed income communities
- Housing Authorities and partners had to adjust and become innovative by looking at non-traditional sources and partnerships.



AFFORDABLE HOUSING NEED

- **New Jersey:**

- The DCA has identified an immediate need of 65,000 affordable units across the 564 municipalities.
- During the 4th round obligation assessment, it was also found that the state is in need of 84,698 units by 2035 under the Mt. Laurel ruling
- 75% of our extremely low income residents are severely cost burdened. While 86% are cost burdened. (Paying more than 30% on housing and utilities)



AFFORDABLE HOUSING NEED

Across New Jersey, there is a shortage of rental homes affordable and available to extremely low income households (ELI), whose incomes are at or below the poverty guideline or 30% of their area median income (AMI). Many of these households are severely cost burdened, spending more than half of their income on housing. Severely cost burdened poor households are more likely than other renters to sacrifice other necessities like healthy food and healthcare to pay the rent, and to experience unstable housing situations like evictions.

KEY FACTS

296,565
OR
23%

Renter households that are extremely low income

-205,063

Shortage of rental homes affordable and available for extremely low income renters

\$34,190

Average income limit for 4-person extremely low income household

\$83,173

Annual household income needed to afford a two-bedroom rental home at HUD's Fair Market Rent.

75%

Percent of extremely low income renter households with severe cost burden

PUBLIC HOUSING PRESERVATION NEED

- **Nationwide:**
 - **Capital Backlog:** There is an estimated \$70 billion capital needs backlog for public housing with many units failing inspections and requiring immediate H&S investment.
 - **Expiring affordability:** The expiration of affordability restrictions leaves lots of units at risk of market rate conversion or lack of capital investment.
 - **Aging buildings** require significant rehabilitation to maintain adequate quality, becoming more energy-efficient, and improving climate change resilience.

OUR INDUSTRY IS IN NEED OF CONTINUOUS CREATIVITY

- Housing authorities have a fiduciary responsibility to recommend options that are in the best interest of the agency and its mission to preserve and enhance affordable housing opportunities.
- We need community leaders who are meeting with potential partners, elected officials, housing professionals, advocates and business groups (banks, realtors, etc.).
- The paradigm has shifted at many housing authorities from the traditional public housing operational model to one of creativity and a deeper understand that it will take many resources in order to be successful.

THERE IS STRENGTH IN TAPPING INTO YOUR EXPERIENCE

- PHA's have extensive experience in managing public housing and at certain agencies also developing.
- You have an existing relationship with local leadership as an instrumentality.
- There are resources such as existing staff and professionals as well as non-federalize funds that can be utilized for pre-development.
- Experience with regulatory compliance allows for qualification to serves as third party administrators, partners, or in roles such as a municipal housing liaison.

STRATEGIES: CREATE A NON-PROFIT CORPORATION

- Can be used strategically to augment financial gaps and also as a control vehicle.
- Registered as a Community Housing Development Organization. This provides access to HOME financing and also operating grants.
- Can serve as an independent entity.
- Be mindful of HUD's identity of interest limitations.

STRATEGIES: PARTNERS

- A redevelopment partner offers expertise and resources to streamline projects, shared risk to reduce financial burdens, and enhanced project efficiency through better coordination and optimization.
- They bring innovative solutions, manage risks more effectively, and can help attract investors and secure financing by reducing barriers to entry.
- Additionally, partnering can lead to significant economic benefits as a result of institutional experience brought into the deal.

FINANCIAL RISK CONCERNS

- Cost of Land (make or break a project)
- Cost of Professionals (architect, attorney, accountant, bond counsel, tax credit consultant, appraiser, etc).
- Other costs (insurance, permits, title work, capitalized interest, bank fees, etc.)
- Expenditure Caps
- Prevailing wage
- Realistic capital stack for the total development costs

Sample Development Budget

ACQUISITION		PROJECTED COST	Predevelopment
Land Acquisition		\$177,000	\$177,000
Carrying Cost	3 yrs	\$33,600	\$33,600
TOTAL		\$210,600	\$210,600
CONSTRUCTION (HARD COSTS)			
Environmental Cleanup		\$15,000	
Demolition and Clearance		\$100,000	
Construction - residential		\$16,242,900	
Construction - commerical		\$1,383,885	
Parking Structure		\$1,476,000	
Site Improvements		\$100,000	
Contractor OH and Profit	10%	\$1,920,279	
Contingency	10%	\$1,931,779	
TOTAL		\$23,169,842	
PROFESSIONAL SERVICES			
Legal Fees		\$175,000	\$131,250
Architectural/Engineering	5%	\$812,145	\$406,073
Civil Engineering/ Site plan		\$125,000	\$125,000
Geotechnical Engineering		\$25,000	\$25,000
Survey		\$12,000	\$12,000
Environmental Consultant		\$25,000	\$25,000
Project Consultants		\$120,000	\$90,000
Marketing/Leasing		\$75,000	\$56,250
Appraisal		\$10,000	\$10,000
CARRYING AND CLOSING COSTS AND FEES			
Construction Interest	7%	\$753,396	
Real Estate Taxes		\$40,000	
Insurance		\$30,000	
Water & Sewer/Utilities		\$25,000	
Commitment Fees/Financing Fees		\$50,000	\$50,000
Title and Recording Fees		\$18,000	\$18,000
Escrow and Operating Reserve		\$80,000	
Soft Cost Contingency	8%	\$183,643	\$91,822
Developers' Fee	12%	\$2,945,878	
TOTAL		\$5,505,063	\$1,250,994
TOTAL DEVELOPMENT			
Total Development Budget		\$28,885,505	

SAMPLE FUNDING SOURCES

<ul style="list-style-type: none">• HOME Investment Partnership Program• National Housing Trust Fund• NJ Affordable Housing Trust Fund• NJ Aspire Program• Conduit Bond Financing• Redevelopment Area Bonds	<ul style="list-style-type: none">• Federal Home Loan Bank of NY• PHA non-federalized funds• Deferred Developer fees• LIHTC• Tax abatements, Fee waivers, Etc.

UNDERSTAND FUNDING SOURCES

TOTAL DEVELOPMENT			
Total Development Budget			\$28,885,505
FINANCE SOURCES			
Sponsor Equity - Developers' Fee	0.25		\$736,470
Funding Source #1 - FHLB			\$450,000
Funding Source #2 - LIHTC			\$17,578,045
Funding Source #3 - Bond Financing			\$8,320,990
Funding Source #4 - Debt Financing			\$1,800,000
TOTAL			\$28,885,505

SAMPLE FUNDING SOURCES

Federal Affordable Housing Programs

- **HOME Investment Partnerships Program**
 - HUD-administered block grant
 - Targets $\leq 80\%$ AMI households
 - Requires 25% local match
- **National Housing Trust Fund**
 - Funded by Fannie/Freddie earnings
 - Focus on $\leq 30\%$ AMI rental housing
 - Used for construction, rehab, and operating costs

SAMPLE FUNDING SOURCES

NJ Affordable Housing Trust & ASPIRE

- **NJ Affordable Housing Trust Fund**
 - Realty transfer fee-funded
 - Supports ≤25-unit projects
 - Prioritizes court settlement compliance
- **NJ ASPIRE Program**
 - Tax credit for redevelopment in distressed areas
 - Up to 85% of eligible costs
 - Credits disbursed over 10 years

SAMPLE FUNDING SOURCES

NJ Conduit Bonds & Redevelopment Area Bonds

- **Conduit Bond Financing**
 - Issued by NJ HMFA
 - Tax-exempt bonds for affordable housing
 - Lower interest rates, long terms
 - Repaid by project revenue
- **Redevelopment Area Bonds (RABs)**
 - Issued by municipalities
 - Secured by PILOT revenues
 - Used for land, construction, equipment

SAMPLE FUNDING SOURCES

Other Financing Mechanisms

- **Federal Home Loan Bank of NY**
 - Grants via member banks
 - By law, FHLBNY must contribute **at least 10% of its annual net income** to affordable housing initiatives.
 - Rental: $\geq 20\%$ units at $\leq 50\%$ AMI
- **Public Housing Non-Federalized Funds**
 - PHAs use mixed financing
 - Supports expansion beyond traditional public housing
- **Deferred Development Fees**
 - Developer fees deferred to close gaps
 - Paid from future cash flow

SAMPLE FUNDING SOURCES

LIHTC & Tax Abatements

- **Low Income Housing Tax Credit (LIHTC)**
 - 9% traditionally for new construction and 4% credits for rehab/bond deals
 - Income/rent restrictions for 15–30 years
- **Real Estate Tax Abatement**
 - Reduces property taxes
 - Often paired with PILOT agreements
 - May have a long term affordability requirements

LONG-TERM RISK CONCERNS

- Do we have enough rental income to cover all expenses and debt service (debt service ratio)?
- Do we have a long-term plan to ensure that the property maintains its long-term viability?
- Do we have capable staff that understands subsidy layering and the importance of full occupancy?



LONG-TERM RISK CONCERNS

OPERATING PRO FORMA

	Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
	9/15/2025	9/15/2026	9/15/2027	9/15/2028	9/15/2029	9/15/2030	9/15/2031
REVENUE							
Potential Gross Income (PGI)	\$ 320,688	\$330,309	\$340,218	\$350,424	\$360,937	\$371,765	\$382,918
Vacancy & Collection Loss	\$ 16,034	\$16,515	\$17,011	\$17,521	\$18,047	\$18,588	\$19,146
Other Income	\$ 8,640	\$8,899	\$9,166	\$9,441	\$9,724	\$10,016	\$10,317
Effective Gross Income (EGI)	\$ 313,294	\$346,824	\$357,229	\$367,946	\$378,984	\$390,354	\$402,064
OPERATING EXPENSES							
Administrative	\$ 10,000	\$10,400	\$10,816	\$11,249	\$11,699	\$12,167	\$12,653
Maintenance Contracts	\$ 15,000	\$15,600	\$16,224	\$16,873	\$17,548	\$18,250	\$18,980
Management Fees (6%)	\$ 7,050	\$7,332	\$7,625	\$7,930	\$8,248	\$8,577	\$8,920
Maintenance & Repairs	\$ 30,000	\$31,200	\$32,448	\$33,746	\$35,096	\$36,500	\$37,960
Payroll	\$ -	\$0	\$0	\$0	\$0	\$0	\$0
Utilities	\$ 18,000	\$18,720	\$19,469	\$20,248	\$21,057	\$21,900	\$22,776
Property Taxes	\$ 11,750	\$12,220	\$12,709	\$13,217	\$13,746	\$14,296	\$14,867
Insurance \$1,000 (PU)	\$ 18,000	\$18,720	\$19,469	\$20,248	\$21,057	\$21,900	\$22,776
Replacement Reserves \$525 PU	\$ 6,300	\$6,552	\$6,814	\$7,087	\$7,370	\$7,665	\$7,972
Total Operating Expenses	\$ 116,100	\$120,744	\$125,574	\$130,597	\$135,821	\$141,253	\$146,904
Net Operating Income	\$ 197,194	226,080	231,655	237,349	243,163	249,100	255,161
Debt Service	\$ 158,493	158,493	158,493	158,493	158,493	158,493	158,493
Net Cash Flow	\$ 38,701	67,587	73,162	78,856	84,670	90,607	96,668
Debt Coverage Ratio NOI/DS	1.24	1.43	1.46	1.50	1.53	1.57	1.61

Borrowed:

New Jersey Community Capital \$1,800,000

Trending Assumptions

Income	3.0%
Expenses	4.0%
Vacancy	5.0%

SUBSIDY LAYERING

- You must maintain occupancy according to the standards established in your funding approvals:
 - LIHTC (20% at 50% AMI or 40% at 60% AMI)
 - Tax Exempt Financing 20% of units at $\leq 50\%$ AMI under the 20-50 test and 40% of units at $\leq 60\%$ AMI under the 40-60 test. So an **80/20 deal** LIHTC deal would typically elect the **20-50 test**, while a **60/40 deal** might elect the **40-60 test**.
 - HOME (90% have to be at $< 50\%$ of AMI & 10% at 80%)
 - COAH Programs (50 $< 50\%$ & 50 = 50 to 80%)
 - FHLB (100 $< 50\%$ AMI)
 - Affordable Housing Trust (40% max of income for rent)
 - Section 8 (75% of new admissions $< 30\%$ & 25% = 30 to 80%)

MANAGEMENT CONCERNS

- Do we have a complete list and grasp of the regulatory reporting requirements (HUD, LIHTC, HOME, NJHMFA, etc)?
- Do we have financial reporting procedures in place to ensure that we understand the project's financial condition on a monthly basis (budget to actual)?

OTHER IMPORTANT CONSIDERATIONS

- Development Methods Conventional or Turnkey
- Tax Abatements (PILOT)
- Site Selection
- Selection of Professionals
- Rental vs. For Sale
- Admission, Occupancy, & Management

BEST OF LUCK

- Questions
- Thank you.