

# Washington State Affordable Housing Portfolio Study

March 2015



**Department of Commerce**  
Innovation is in our nature.



WASHINGTON STATE  
**HOUSING FINANCE  
COMMISSION**

*Opening doors to a better life*

**Housing**  
DEVELOPMENT  
CENTER

## Presentation Outline

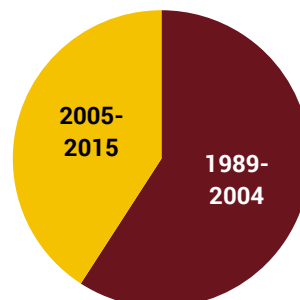
1. Background
2. Physical Condition of Our Affordable Housing
3. How Will We Pay for Needed Improvements?
4. Role of Public Funders
5. Strategies for Sustainability



## Background

- 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.

Number of Properties in Combined Portfolio by Placed in Service Year



Background

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## 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.

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## Background

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

Component	Expected Useful Life (Years)
Roof	20-40
Siding	20-30
Windows	15-20
Plumbing	20
Heating	15
Electrical	50+
Ventilation	20

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

Background



## 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.

Background




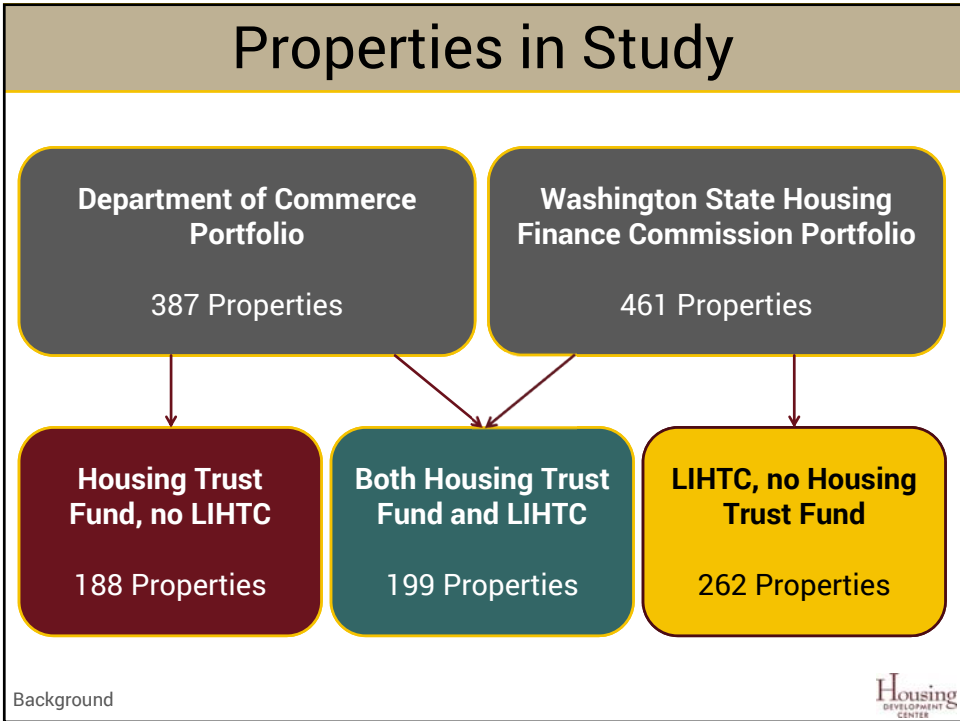
## Properties in Study

**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**

Background 



## Overview of Data Sources

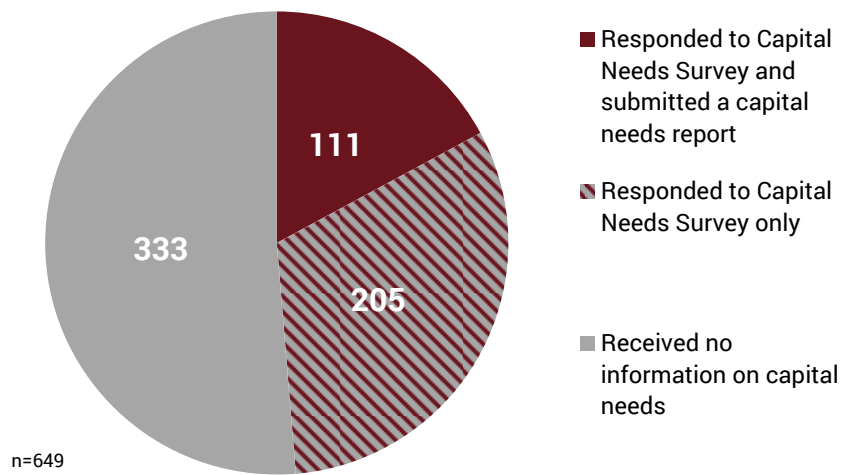
Data Source	Level of Knowledge
A. Walsh Construction Co. Capital Needs Assessments	<b>Detailed</b> , property-specific
B. Owner-Provided Capital Needs Reports	<b>Detailed</b> , property-specific
C. Capital Needs Surveys	<b>Detailed</b> , property-specific
D. Model Cost Data	<b>General</b> , not property-specific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

Background



## Property-Specific Knowledge

Number of Properties by Level of Knowledge



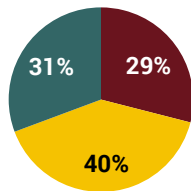
Background



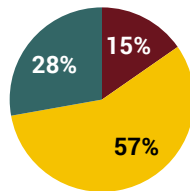
## Five-Year Capital Needs Costs

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

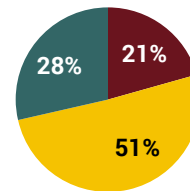
Properties in Study



Units in Study



Capital Needs Costs

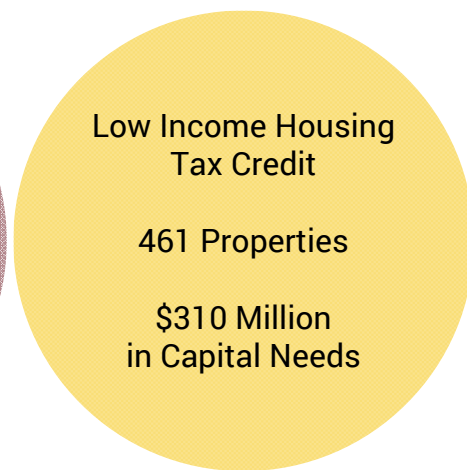


HTF only LIHTC only Both

Physical Condition of Our Affordable Housing



## Five-Year Capital Needs Costs

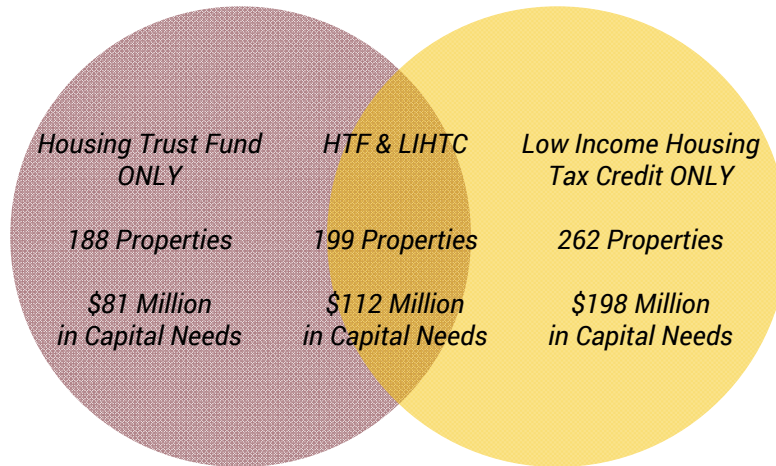


Physical Condition of Our Affordable Housing



# Five-Year Capital Needs Costs

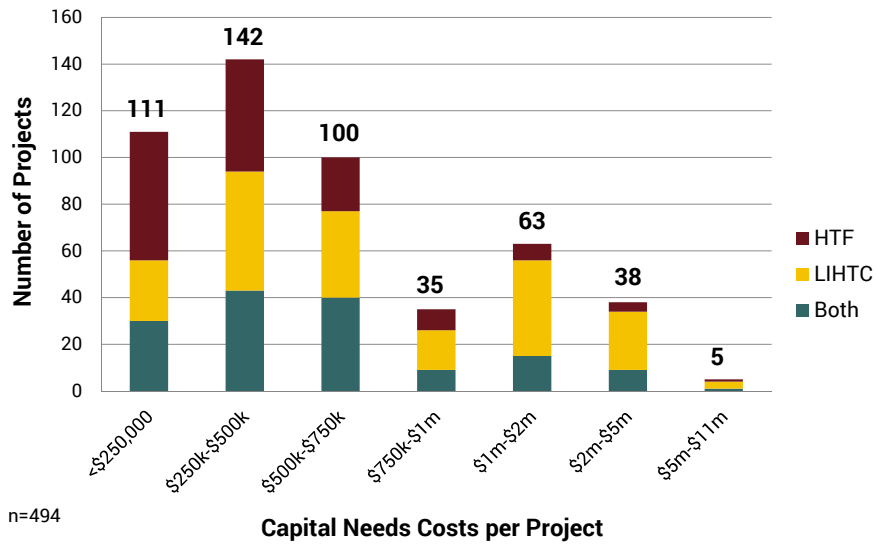
Collective Capital Needs Costs of \$391 Million



Physical Condition of Our Affordable Housing

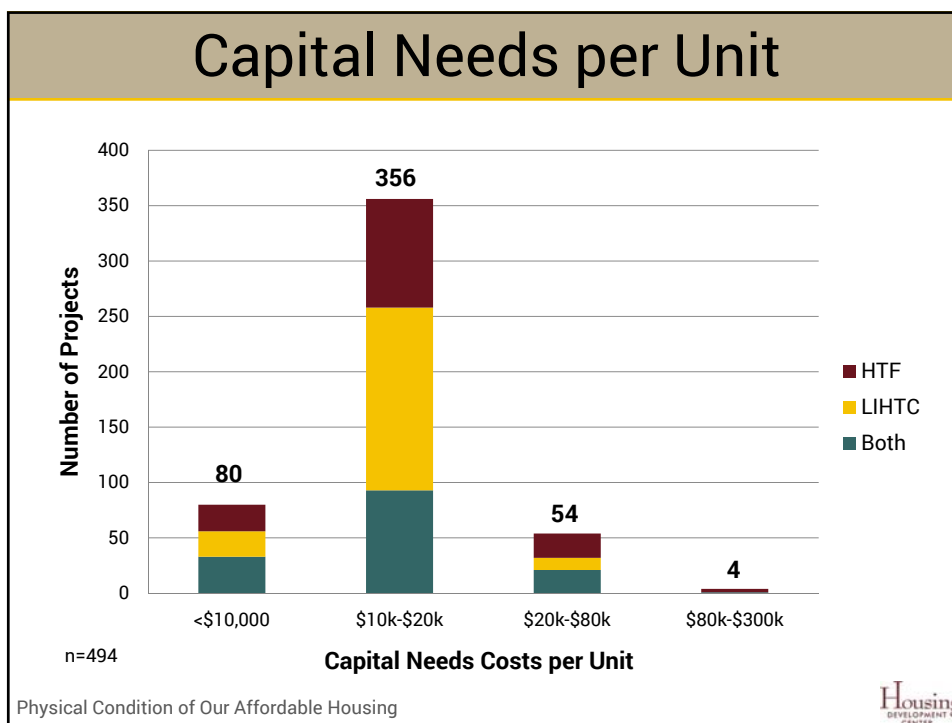


# Capital Needs per Project



Physical Condition of Our Affordable Housing





## Factors Affecting Capital Costs

### 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.

Physical Condition of Our Affordable Housing

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## How Will Improvements be Funded?

### A. Need

*Existing Property Resources:*

**B. Existing reserves**

**C. Ability to refinance**

**Gap (A – B – C)**

How Will We Pay for Needed Improvements?

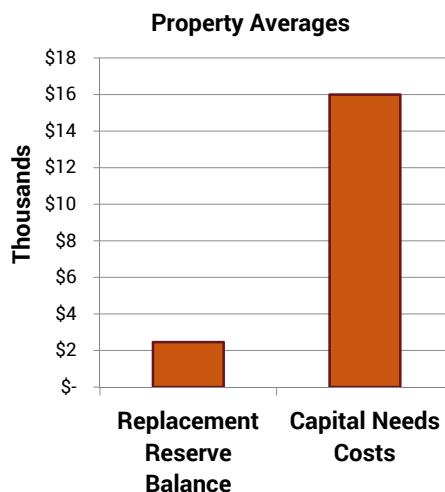


## Property Resources

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

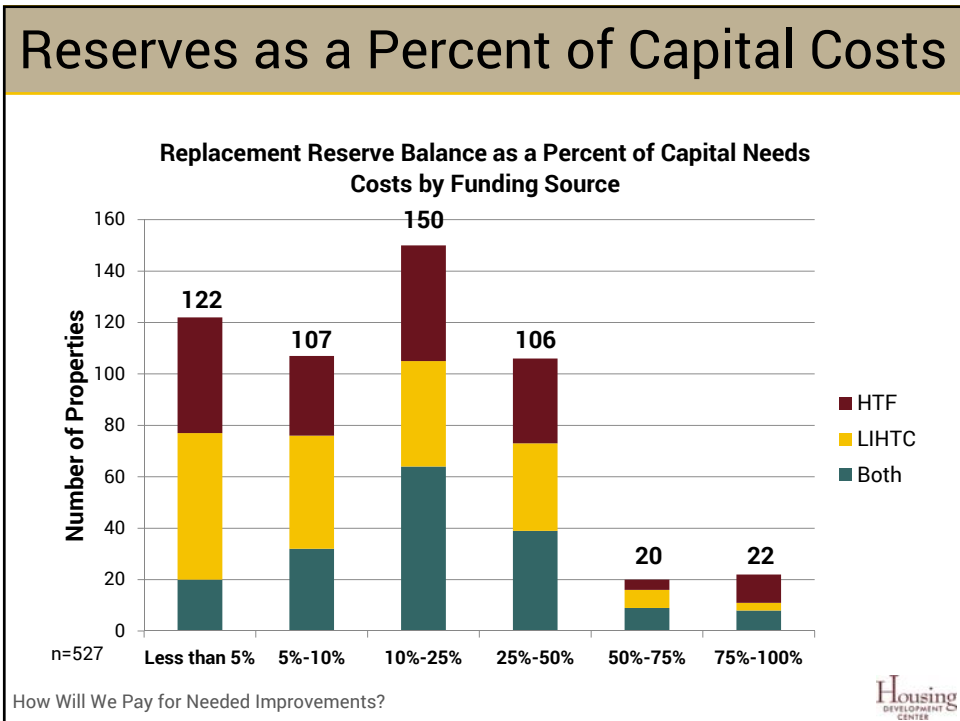
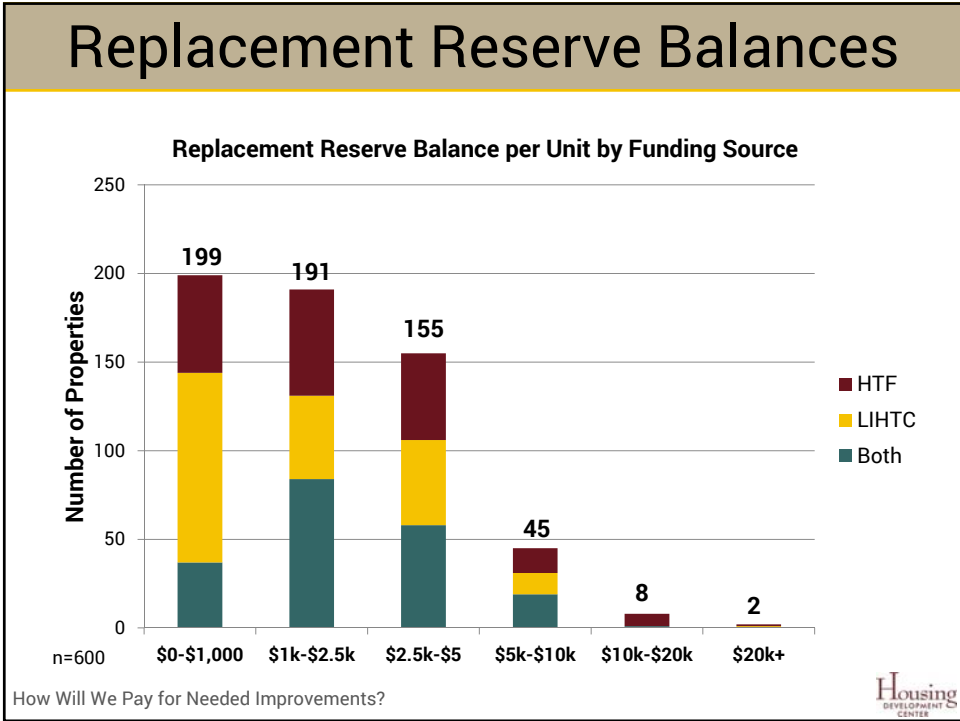
Another 25% of properties have sufficient replacement reserves to cover 25% to 50% of their capital costs.

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.

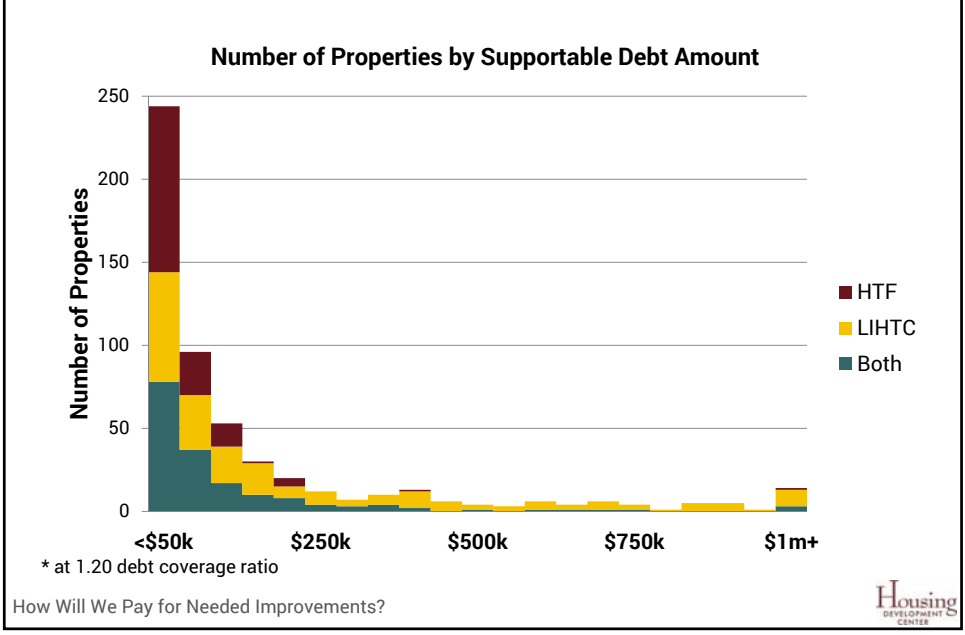


How Will We Pay for Needed Improvements?

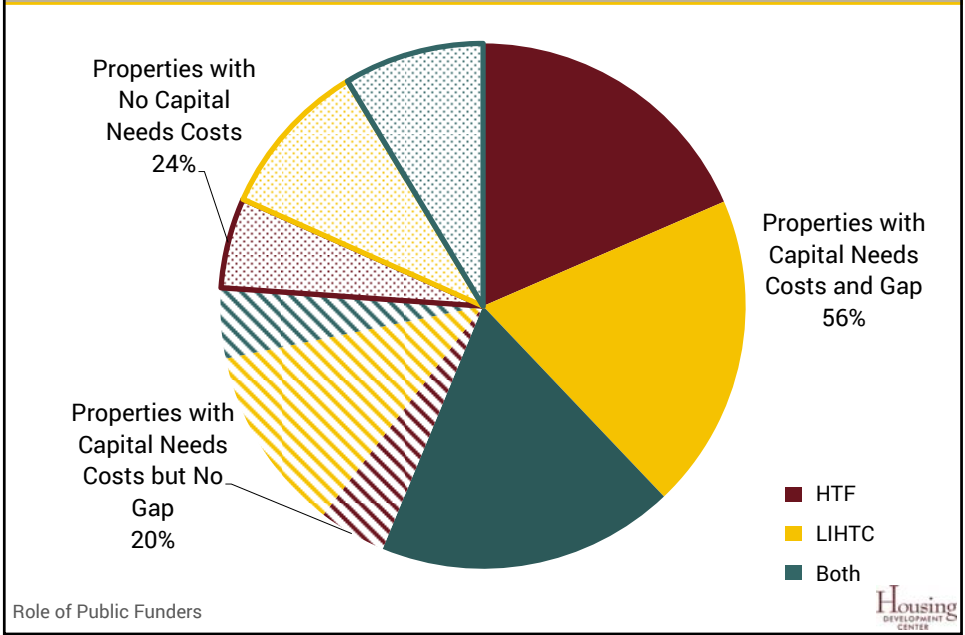




# Properties' Ability to Service Debt




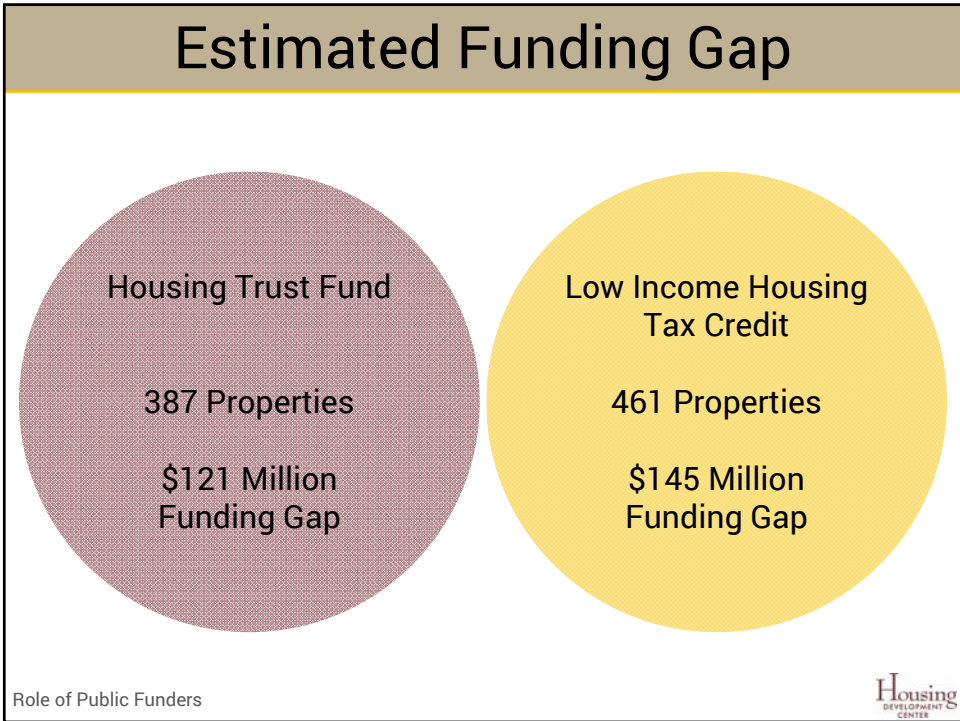
# Ability to Cover Capital Needs Costs

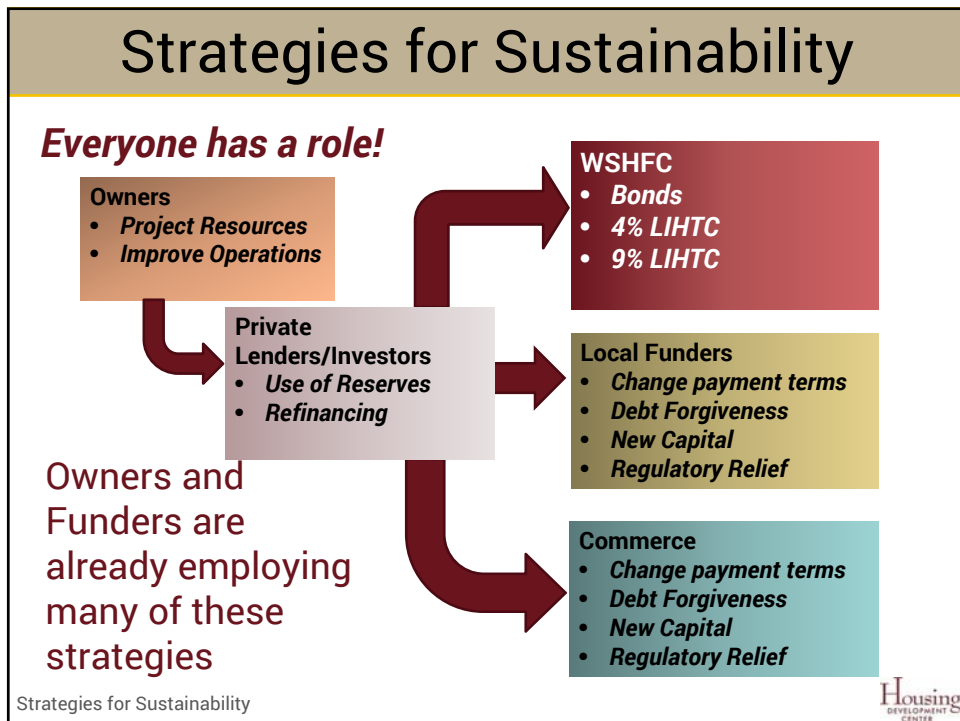
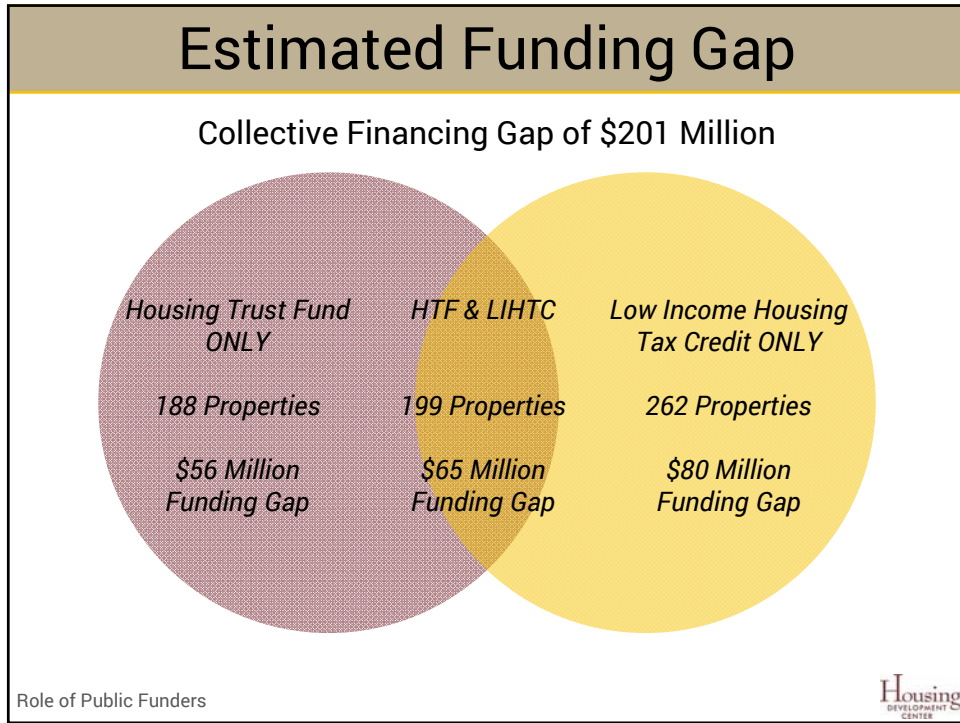


## Breakout of Properties

Funding Source	Study Universe		Properties with No Capital Needs Costs		Properties with Capital Needs Costs but No Gap		Properties with Capital Needs Costs and Gap	
	#	%	#	%	#	%	#	%
HTF only	188	29%	36	23%	28	22%	124	34%
LIHTC only	262	40%	63	41%	74	57%	125	34%
Both	199	31%	56	36%	27	21%	116	32%
<b>Total</b>	<b>649</b>	<b>100%</b>	<b>155</b>	<b>100%</b>	<b>129</b>	<b>100%</b>	<b>365</b>	<b>100%</b>

Role of Public Funders 





## Strategies for Owners

- ✓ Maximize operations
- ✓ Share reserves among properties



- ✓ Bundle small properties



- ✓ Consider disposition

Strategies for Sustainability

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## 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.

Promote lifecycle cost view of world to achieve increase in unit years

Strategies for Sustainability

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## 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.



Strategies for Sustainability

McAllister Village, Ace/REACH Vancouver

## Questions?



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Gateway Garden