

HOUSING BOND REPORT

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Some States Report Increased Interest in Acquisition/Rehabilitation Deals

By Anne Townsend, Staff Writer, Novogradac & Company LLP

As states continue to revisit threshold requirements in order to ensure tax-exempt bond (TEB) allocations are awarded according to the greatest need of the population, one general trend in allocating this important resource has emerged: the need to preserve existing affordable housing stock.

"We've seen a lot of rehab development," said Robbye Meyer, director of the Multifamily Finance Division at the Texas Department of Housing and Community Affairs (TDHCA). "Texas continues to see quite a bit of new construction, and we have quite a bit of acquisition/rehabilitation in the low-income housing tax credit (LIHTC) competitive round. This demand has spilled into the bond side in recent years." She explained that the LIHTCs are useful to developers in Texas who wish to acquire the developments, while the TEBs are helpful during the rehabilitation.

New York is also encouraging developers to acquire and rehabilitate the existing housing stock, even in the face of the state's depleted multifamily TEB cap. "We've been trying to encourage 80/20 developments, but we've focused on the state's aging housing stock and putting into place particular financing programs to help preserve existing housing developments throughout the state," said Marianne Zucker, executive vice president of Housing Programs and Policy at the State of New York Mortgage Agency (SONYMA). "We are looking to make possible 100 percent affordable housing programs."

The Michigan State Housing Development Authority (MSHDA), which issues a pool of loans as opposed to individual multifamily mortgages, is promoting the use of its multifamily TEBs in accordance with the greatest needs of its population. "We have been encouraging the multifamily development community to look

more toward preservation of deals, as opposed to new units, and a lot has to do with economic conditions in the state of Michigan," said Jeff Sykes, director of finance at MSHDA. "Our population isn't necessarily growing, and therefore our needs aren't necessarily growing in the rental arena." Sykes also said that Michigan works to provide incentives to developers who are ready to refinance existing developments for a new 35-year period.

California reported that, in general, 2007 requests for multifamily allocations have increased over 2006 requests. "As to types of projects, acquisitions and rehabilitation projects outnumber new construction," said Joe DeAnda, spokesperson for the California Debt Limit Allocation Committee (CDLAC). "The vast majority of CDLAC awards to date were made to 100 percent affordable family or senior-designated housing." DeAnda also noted that urban projects outnumber rural projects.

Meyer echoed DeAnda, confirming that in Texas the number of urban projects funded with TEBs exceeds that of rural projects. "Bond transactions work more in major metropolitan states and areas," she said. "Because you have so much more development and a lot of older, existing product in the metro areas, it's more attractive to use bonds [in urban areas] than it is to use them in rural areas." She also said that fewer not-in-my-back-yard [NIMBY] sentiments exist when using bonds in urban areas because many developers use the awards to build where development has already taken place. Residents see the developments as an addition to the neighborhood. It is also more economically feasible, Meyers said, to fund TEB developments in urban areas because developments in rural areas tend to be smaller.

TDHCA has instituted a points system for amenities into its qualified allocation plan (QAP), which is used

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to award both LIHTCs and TEBs. Some of these points are awarded for the use of "greener," or ecologically friendly amenities, such as Energy Star appliances, double flush toilets, certain water systems and landscaping. Meyer reported that most developers go above and beyond the basic threshold requirements in this regard.

This pattern of exceeding basic threshold requirements spills into the construction arena as well. "A lot of developers are going with laminate flooring as opposed to carpeting or putting hardwood down, which is better than replacing carpet," Meyer said. "Some are going with granite countertops instead of Formica [a plastic-based product]. A lot of developers are using 75 percent Masonite product [a higher quality hardboard product used in the construction process], which is important because in the Gulf Coast region we have hurricane problems. Developers are using higher quality product."

California has also included a points system, called the sustainable building method electives, into its procedures. "The majority of projects are now able to utilize these materials and/or building methods and, as a result, are also able to earn points in the sustainable building method category [of California's threshold requirements]," DeAnda said. "Previously there were five scoring opportunities and now there are about 15."

DeAnda also discussed trends that may be seen in California in the coming years. "It is likely that recently passed legislation, such as Proposition 1C, will increase the number of 'special needs' requests for TEBs received by CDLAC in the coming years. These public funds, coupled with TEBs and LIHTCs, will provide the necessary financing for projects such as these," he said.

Other important and interesting state-specific goals in regard to the use of TEBs also exist alongside national trends. For instance, in New York, SONYMA is examining ways to further partner with civic and not-for-profit organizations. A relationship with the New York Metropolitan Transit Authority (MTA) is being formed to encourage smart growth near public transportation. SONYMA is also exploring a relationship with the New York State Energy Research and Development Authority (NYSER-DA) to bring energy efficiency programs to existing and new multifamily developments, thereby creating a greener housing stock. ❖

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HOUSING BOND REPORT INFORMATION

Address all correspondence and editorial submissions to:

Jane Bowar Zastrow

Housing Bond Report

Novogradac & Company LLP

246 First Street, 5th Floor

San Francisco, CA 94105

Telephone: 415.356.8034

E-mail: cpas@novoco.com

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