Advising Your Clients: Exploring Key Tax Credit and Affordable Housing Issues

Cost Containment

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GAO Reports Due in 2016

- HFA focused – Spring 2016
- Private side focused – late 2016
- GAO reports being performed by separate teams. Anticipated that both reports will comment on costs to develop
Current Market Trends
Fueling the Fire

- Hot market
- Construction cost increases
- Labor shortage
- Delays
- Land and building acquisition cost
- High equity pricing and low interest rate environment
Challenges

- Not easily comparable to market rate
- Difficultly aggregating all LIHTC properties
- Requires detailed analysis by property and by state/region
- Balance between providing safe, affordable, quality housing for reasonable cost. What’s reasonable?
Diligent and efficient underwriting and oversight – HFA, lenders, syndicators and investors

HFA QAP is tailored to its needs and ability to react to market conditions

Strict limits on fees

Design standards - minimums
Public/private partnership which develops housing that has a measurable impact on health, safety and economic vitality of communities and individuals including fair housing initiatives.

Need to develop measurements around the cost of NOT developing affordable housing.
Common Cost Drivers

- Construction requirements
- Contract type – lump sum/cost plus
- Prevailing wages
- Energy/Green requirements
- Reserve requirements
- Land – walkability and access to transportation
- Social service requirements
Common Cost Drivers - continued

- Professional fees
- LIHTC fees
- Compliance and oversight
- Relocation costs
- Other QAP requirements
- Number of funding sources
# Development Cost Analysis

<table>
<thead>
<tr>
<th>Year of Construction Completion</th>
<th>2013</th>
<th>2015</th>
<th>2013</th>
<th>2015</th>
<th>2013</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location</td>
<td>Kansas City, MO</td>
<td>St. Louis, MO</td>
<td>Tulsa, OK</td>
<td>Memphis, TN</td>
<td>St. Louis, MO</td>
<td>Miami FL</td>
</tr>
<tr>
<td>Total Units</td>
<td>78</td>
<td>47</td>
<td>9%</td>
<td>9%</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>Total Square Footage</td>
<td>102,282</td>
<td>57,428</td>
<td>107,566</td>
<td>58,011</td>
<td>57,542</td>
<td>85,402</td>
</tr>
<tr>
<td><strong>Development Costs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hard Costs</td>
<td>$ 8,757,211</td>
<td>$ 7,307,043</td>
<td>$ 15,304,220</td>
<td>$ 6,301,993</td>
<td>$ 7,923,014</td>
<td>$ 16,526,032</td>
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<tr>
<td>Architectural/Engineering/Survey</td>
<td>403,410</td>
<td>281,340</td>
<td>858,294</td>
<td>173,324</td>
<td>237,913</td>
<td>484,643</td>
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<tr>
<td>Soft Costs</td>
<td>482,234</td>
<td>283,870</td>
<td>1,030,715</td>
<td>412,008</td>
<td>237,913</td>
<td>3,961,946</td>
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<tr>
<td>Financing Costs</td>
<td>232,878</td>
<td>217,922</td>
<td>296,414</td>
<td>293,692</td>
<td>214,630</td>
<td>542,021</td>
</tr>
<tr>
<td>Acquisition</td>
<td>20,083</td>
<td>110,000</td>
<td>—</td>
<td>511,550</td>
<td>467,088</td>
<td>1,874,644</td>
</tr>
<tr>
<td>Developer Fee</td>
<td>981,000</td>
<td>815,000</td>
<td>1,900,000</td>
<td>1,059,000</td>
<td>800,000</td>
<td>4,517,835</td>
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<tr>
<td>Reserves</td>
<td>387,551</td>
<td>279,200</td>
<td>840,358</td>
<td>525,000</td>
<td>159,000</td>
<td>1,433,931</td>
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<tr>
<td>Total Development Costs</td>
<td>$ 11,264,367</td>
<td>$ 9,294,375</td>
<td>$ 20,230,001</td>
<td>$ 9,276,567</td>
<td>$ 10,039,058</td>
<td>$ 29,341,052</td>
</tr>
</tbody>
</table>

| Development Cost per Unit        | $ 144,415 | $ 197,753 | $ 158,047 | $ 144,946 | $ 250,976 | $ 312,139 |
| Development Cost per Sq. Ft.     | $ 110     | $ 162     | $ 188     | $ 160     | $ 174     | $ 344    |