Syllabus for USP 496/596- Affordable Housing Finance – Spring 2013

Instructor:
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Class location and time: Monday evening, 6:40, URBN 270

Text and reading:
- Schwartz, Alex F., Housing Policy in the United States, Second Edition
- Hecht, Ben. Developing Affordable Housing: A Practical Guide for Nonprofit Organizations
- Other readings as assigned, including reading related to Bud Clark Commons, a City of Portland housing development for the formerly homeless.

General requirements:
- Written work product should be professionally presented. Unless otherwise discussed, work product will be due one week after it is assigned and late assignments will be docked except under extraordinary circumstances. Unless indicated, either email or hard copy (pdf) will be acceptable.

Course Requirements:

Attendance/reading/participation: 10% of the grade. This course is intended to be interactive: dialogue is encouraged, and class participation is mandatory. Completing the reading and assignments before class, presenting case studies, and bringing your interpretations, critical thinking, and where pertinent, other experiences, are crucial. Throughout the term, there will be short assignments, meant to check your knowledge and engagement and to encourage structure for class participation. These short assignments and knowledge checks will be included in this category.

Case studies: 2, 15% each, for a total of 30% of the grade. Students will respond to a real-world situation, using a combination of financial analysis and critical thinking. Group discussion is encouraged, but the work product will be individual papers between 3 – 5 pages for each case study, of which no more than one page total may be charts or other graphic aids.

Essay/research papers: 2, 15% each, for a total of 30%. These short-form (no more than 2-3 pages) essays will respond to broad policy topics that arise as a result of examining affordable housing finance and development.

Graduates students will be expected to do a moderate level of independent research in support of their themes. Undergraduate students may do independent research but will only be expected to cover topics in the class reading.

* Note: both case studies and essay/research papers will be graded on intellectual honesty, creative and analytic analysis coherently presented, a understanding of and connection to the
reading as evidenced by appropriate citations and an analysis of the topics, and where appropriate a connection to class discussions. Consistency, accuracy, and professionalism in presentations are all required. Additional research and exploration are all encouraged and will be noted as part of the grade.

**Final project and presentation:** 30%. The class will form small groups and work together on a final project and presentation. The final project will be analysis of an actual investment package (redacted) and a recommendation to a hypothetical committee for approval or disapproval of the investment. The work product will have four components: a PowerPoint (or similar) presentation to be turned in, a written recommendation from each student individually, an in-class group presentation of no more than 10 minutes, and a self-evaluation of your own participation in the final project.

Graduate students will be expected to use financial analysis to support their recommendation: specifically, elements related to leverage (debt), operating income, expenses, and revenues. Graduate students will also be expected to consider real estate principles discussed in class.

Undergraduate students may use financial analysis, but will be expected to form a recommendation based on real estate principles discussed in class.

**Course Summary:**

Since the end of World War II, the lack of affordable housing in America has been an urban, and increasingly, a suburban and rural, problem. “Affordable” housing has a wide variety of definitions and garners an equally wide variety of responses. For the last 30 years, the private, nonprofit, and quasi-public sectors – not the federal government – have been the main developers of affordable housing, as a result of government disinvestment in direct building and the creation of financial and capital subsidies encouraging private and nonprofit affordable development.

The course is designed to provide an overview of affordable housing finance, starting with related policies in the last 50 years and how those policies have shaped finance and financial tools. As part of the overview, we will focus on affordable multifamily housing of various types: very low income supportive housing, workforce housing, transitional housing, and its alternative, “housing first” models. We will look at the metrics that define “affordable:” area median incomes, income restrictions, the “housing burden,” and others.

We will look at government policies, including the establishment of subsidies, tax incentives (federal and local) and capital assistance to encourage the production of affordable housing. This will include a discussion about for profit and non profit housing developers in the production of affordable housing, and examine the advantages and disadvantages of government-produced housing vs. private housing.

The core of this course is an examination of the financial tools available for affordable housing production in the United States. Students will gain an understanding of the capital structure (specifically, common construction sources and uses and operational period income statements) for multi-family housing development. Through this examination, the student will gain an understanding of federal capital subsidies, including the low income housing tax credit and tax-exempt bond financing. We will also review and understand long-term operating subsidies: tenant-based Section 8 vouchers, project-based Section 8 vouchers, and others, and how those subsidies affect both the capital structure of affordable housing development and ongoing operations.
The course will be a mixture of lecture/discussions and discussions. Please be prepared to present your case study analysis in class, and to comment on the work of others (see course requirements).

**Week 1 - April 1 – Introduction to Affordable Housing**

Introduction to the class – discussion of objectives, introductions, discussing previous professional or personal experiences with housing development or management, familiarity with basic conceptions, discussion of classroom and analytic expectations.

Concepts and language: what is “affordable housing?” How do we define it? Is there a difference between affordable and low income housing? What images comes to mind when we think about affordable or low income housing? What is the definition of affordable in Portland for multi-family properties? For home ownership? What is work force housing? Who lives in affordable housing? Housing first models, transitional housing, family housing.

Why does the production of affordable housing matter to communities? What are the implications – societal, economic, social – when affordable housing is inadequate in a community? What does it mean for housing to be “unaffordable” to a household and what is an excessive housing burden? What is the government’s role in determining what is “affordable?”

And finally, a discussion of affordable by choice vs. accidentally affordable – consider the role of single room occupancy or motel housing in a system – is it predatory? Is it necessary? What are the disadvantages of government regulation in affordable housing? What are the advantages?

**Class assignment:** identify and catalogue three affordable housing properties in the city of Portland, using whatever vehicle you’d prefer: photographs, advertisements, public agency websites. For at least one of these properties, consider whether you believe it contributes or detracts from the community at large, and be prepared to discuss why. Please also be prepared to discuss whether you believe the housing identified is affordable by choice or by accident.

**Reading assignments for this week:**

Schwartz, Chapters 1 – 4


Supplemental; American Enterprise Institute: “Free Fall: how government policies brought down the housing market.” Peter Wallison and Edward Pinto


**Week 2 – April 8 – Government’s Role in Affordable Housing**
Review of identified affordable housing properties – depending on class size, we may hear from every student. If you are not called on, please email me a brief description of the three properties you chose.

Lecture and discussion of the context of affordable housing – an examination of federal policies, using the Department of Housing and Urban Development interactive timeline, and an introduction to pros and cons of government-built vs. privately developed multi-family housing. Overview of income compliance, fair housing, the Community Reinvestment Act, redlining, and the involvement of the private sector in affordable housing, using financial vehicles created by the federal (and to a lesser extent, local) government.

Discussion of government as developer (public housing), as facilitator, and as lender to public housing – discussion of tax policy, tax reform, impact of the tax code generally.

An introduction to other entities involved in the production of affordable housing – federal, state, and local governments, including housing authorities, private developers, non-profit developers, providers of subsidy, regulators, banks/lenders, equity investors – who invests in affordable housing and who lends, and why? Financing affordable housing is not solely driven by altruistic organizations – should it be?

**Homework assignment – Essay #1:** write a 2 – 3 page essay paper on the evolution of affordable housing and the financial tools used by governments to facilitate its development. Consider the following questions in your response: how has tax policy changed affordable housing since the Tax Reform Act of 1986? How might tax policy change affordable housing again? What is the highest and best role of the private sector – consider this from the developer’s standpoint, the lender/investor standpoint, or both.

**Reading assignments for this week:**

Review resources available in the City of Portland: be prepared to discuss the Consolidated Plan, STRA (short term rental assistance), and homelessness programs.

http://www.portlandoregon.gov/phb/

Hecht, Part One (pages 3-31), Chapter Six, and pages 245 – 265 in Chapter 9

From the LIHTC pro forma for Bud Clark Commons – review sources and uses

Supplemental reading: Hecht, Chapters 7 and 8 (skimming is fine)

**Week 3 – April 15 – Basic mathematical concepts in affordable housing**

Class discussion of homework assignment: 20 – 30 minutes. Should tax policy be used as a form of social engineering? Why or why not? What does the private sector do well? The public sector? Can the private sector participate in ending homelessness? How?

Discussion of the reading, City of Portland resources: short term vs. long term subsidies and their merits – emergency shelters vs. long term housing.

Lecture/discussion with a focus on definitions and broad financial concepts in affordable housing, primarily multi-family – building a basic sources/uses balance sheet and income statement, significant metrics: debt coverage ratio, yield (or internal rate of return), discounted cash flows,“
value” in income-restricted properties, the effect of property tax abatements and exemptions on cash flow. Introduction to tax-exempt bond financing and the low income housing tax credit.

**Class assignment** – due 4/22 – one page knowledge check.

**Reading assignments for this week:**

State of Oregon application for the 9% tax credit for Bud Clark Commons (skimming is OK – you are seeking a general understanding of how this application works and what the State of Oregon wants from developers who are applying for tax credits), most recent City of Portland Notice of Funds Availability (from the Portland Housing Bureau website)

Hecht, Chapter 14 and 15
Schwartz, Chapter 11

[Supplemental material provided for case study via email]

**Week 4 – April 22 – Affordable housing development finance – feasibility**

Project level discussion - how does an affordable housing development begin? Basic steps and feasibility analysis, beginning with finding land, developing a concept, through application for funds and identification of financial partners. Discussion of which comes first – the plan or feasibility. Who should decide the needs of a community – practitioners? Government?

Introduction to basic structures and documents associated with affordable housing development and finance:

- Tax credit applications, Notice of Funds Availability – examples of documents

- Capitalization - discussion of hard debt vs soft debt vs. equity, and the connection to household median income in financing. Brief discussion of capital markets and how they affect large-scale housing production: interest rates and their effect on the ability to finance, interest rates and their effect on investors’ yields, spread to treasuries, alternative investments.

- Lending requirements and underwriting: reliance on project financials vs. reliance on developer background, history, and financial strength. Does this equation change with nonprofit housing developers? Should it?

**Homework assignment – due to me via email by April 30th:** Case study #1: Underwriting an Affordable Housing Project. Note: this case study may or may not be discussed in class, as time allows.

**Reading assignments for this week:**

In preparation for the visit, review materials provided for Bud Clark Commons – tax credit application, pro formas, project description, and HUD mixed finance documents, both “First Amendment to Mixed Finance Amendment to Consolidated Annual Contributions Contact,” and the “Mixed Finance Application” form from HUD.

Hecht, Chapter 10, emphasis on mixed finance section.
Schwartz, Chapter 5, 6

Separate reading package provided: Bud Clark Commons
Week 5 – April 29 – Tour of Bud Clark Commons & discussion with representatives of HomeForward (note: I will be out of town on this day, but will provide logistics for the property tour via email).

**Homework assignment, Essay #2:** due 5/6: 2 – 3 pages reacting to Bud Clark Commons and the cost to develop and operate it. Your essay should cover public policy questions posed, and perhaps those answered, by this development. Some questions to consider in developing your argument: How does the Bud Clark Commons compare to other affordable housing properties in Portland – you may refer back to the properties chosen for the first class, or choose another property in the metropolitan area, from the reading, or from research. What most struck you about the Commons from a development and/or a financial perspective? Was the level of development subsidy necessary? Operating subsidy? Why or why not?

**Reading assignments for this week:**

Hecht, Chapters 6, 7 – skim Chapter 8

You may find it helpful to review again the Hecht chapters on feasibility before next week’s discussion of the development budget.

Week 6 – May 6th– Financing Affordable Housing Part I – the development budget and process

Class discussion – 20 minutes – impressions of Bud Clark Commons, discussion of essays.

Lecture/discussion:

- Detailed look at a specific balance sheet and discussion of various components. “Hard” or foreclosable debt, debt coverage ratios vs. “soft” or cash-flow only debt. Policy question: is it reasonable for cities to expect to be repaid for money contributed to affordable housing? Why or why not? Discussion of repayment provisions and their effect on income levels served.
- Tax credit equity discussion – calculation of the 9% tax credit pricing, using the concept of “yield” or IRR – why would an investor pay 95 cents/dollar for tax credits? Discussion of benefits over time – liquidity issues, market issues.
- Brief introduction to limited partnerships in real estate and a discussion of different investing models: proprietary, multi-investor funds, direct investing.
- Examination of roles: compliance, ongoing oversight – developer’s role vs. investor’s role vs. municipality.

**Reading assignments for this week:**

Application for Section 8 vouchers, HomeForward – find the application for Section 8 tenant-based vouchers on homeforward.org, review the requirements for both tenants and landlords.
From the Bud Clark Commons LIHTC pro formas: review all tabs related to operations – rents, income, and expenses. Review again the First Amendment to Mixed Finance Amendment.

**Week 7 – May 13th – Financing Affordable Housing Part II - operating affordable housing.**

An examination of a basic net operating income statement for affordable housing.

Examine income subsidies, discuss policy issues – Section 8 project-based and Section 8 tenant-based (“portable”). Advantages and disadvantages of each – from the landlord’s point of view, and from the resident’s point of view. Discuss public housing subsidies – some advocates believe public housing, owned and often managed by the government, to be the only “permanent” affordable housing. Is this true? Why or why not? Discuss the state of public housing in the country today as detailed by the Center for Joint Studies, as well as the history of HOPE VI housing – is “permanent affordability” better than mainstreaming tenants? Why or why not?

What expense components are different from market-rate multi-family housing?
- Compliance
- Services
- Fees
- Bad debt/economic vacancy issues - ?
- Security/tenant related issues

Discuss various policy implications of underwriting/reviewing operating statements for affordable housing. Some lenders may require additional replacement reserves or higher underwritten expenses for properties located in some areas – is this a reasonable view? Discuss.

**Homework Assignment: Case Study #2** – Developing a Request for Proposal. This case study is due on or before 5/27, which is Memorial Day. We will discuss students’ responses during the first 30 minutes of the June 3rd class.

**Reading assignments for this week:**

Long term Low Income Housing Tax Credit Policy Questions - Joint Center for Housing Studies, Harvard University, November 2010.

http://www.urban.org/UploadedPDF/1001483-Housing-Tax-Credit.pdf

Schwartz, Chapter 10, 13

**Supplemental reading: the Low Income Housing Tax Credit and Racial Segregation** - Keren Horn and Katherine O’Regan, *Housing Policy Debate*:


**Week 8 – May 20th – How do the financial tools created by governments influence the creation of specific kinds of affordable housing?**
Guest speaker: local housing advocate and provider, including question and answer, first 45 – 60 minutes of class.

Local governments providing various forms of housing subsidy generally have a limited supply, whether in the form of Section 8 vouchers for housing authorities, or soft money available to assist with new housing development or rehabilitation. Over time, various municipalities have evolved policies about how to disburse funds — some municipalities spread resources as widely as possible, believing it is better to help as many households as possible. Other municipalities disburse funds to targeted, deeply subsidized populations, believing it is better to help those most in need. Class discussion of the merits of both approaches, and a discussion of the “housing burden,” or the percentage of income a low income housing contributes to its own housing costs, both rent and utilities. Should there be an upper limit on the housing burden, or should households be “allowed” to choose for themselves? Are there financial implications to this choice, either way? How should developers view this issue?

As the population ages, more and more low income households are aging. HomeForward, and other housing agencies are serving more elderly and disabled households in 2012 than in 2002, and this trend is expected to continue and even accelerate. Discuss the ways in which financing vehicles may prioritize (intentionally or not) specific households, while leaving others behind.

**Final Assignment**, due on June 10th (final class day): detailed discussion of final project, questions and answers, forming small-group teams.

**Week 9 – May 27th - MEMORIAL DAY AND PREP FOR FINAL PROJECT**

**Week 10 - June 3** - class wrap up and final discussion. Undergraduate final presentations due, group presentations given.
Discuss case studies – how did you make decisions? Were you influenced by local politics in your answers? Why or why not? How were you influenced by the scarcity of the resources you had available to fund?

Discussion/lecture: the future of affordable housing – possible impact of tax reform, domination of the tax credit market by a few very large participants, scarcity of local and state resources, consolidation of developers and emphasis on financial condition – what happens when a cottage or specialty industry becomes part of capital markets overall?

**Week 11 - June 10th – Final presentations, graduate students**