



AHC INC.

COLONIAL VILLAGE WEST BOND FINANCING CASE STUDY

MARCH 28, 2018



AHC'S HISTORY

- 40-year track record of developing complex projects from concept to lease-up
- Over 7,200 units of low- and moderate-income rental housing at more than 50 communities
- In-house construction management, asset management, resident services and property management



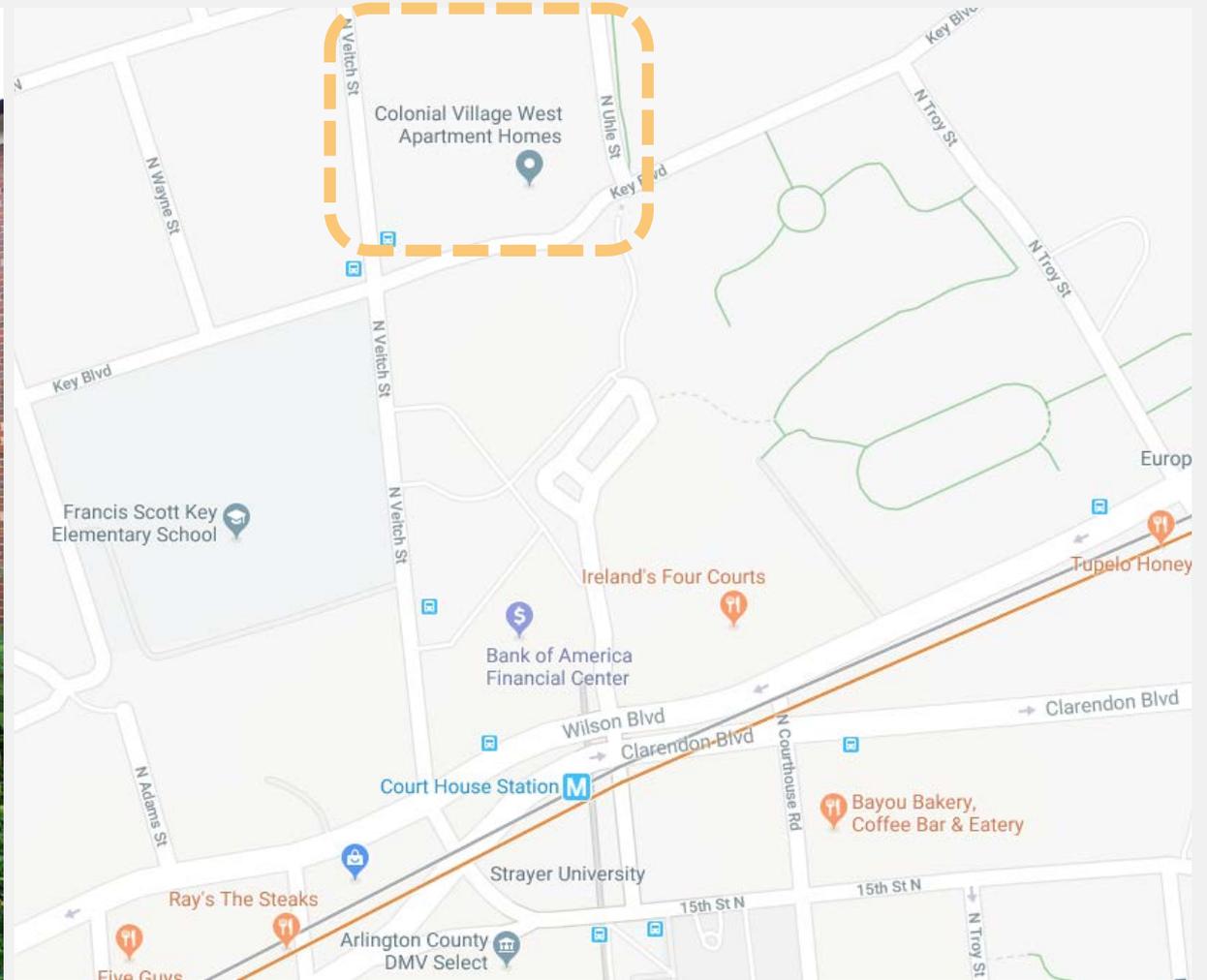
AHC'S FINANCIAL STRENGTH

- \$80 million annually recurring rental revenue
- Real estate portfolio with book value of over \$1 billion
- \$10 million annual budget funded entirely from earned development fees and cash flows generated by its portfolio



COLONIAL VILLAGE: PROJECT OVERVIEW





- 1 block from Courthouse Metro in Arlington VA



- Owned by AHC since 1982



- 70 units (1-, 2-, 3- bedroom units)



- 100% affordable; all units supported with HAP project-based rental assistance

GOALS OF RECAPITALIZATION

- Take advantage of (currently) lower rates
- Renovate major building systems for long-term sustainability
- Reduce operating expenses



FINANCING SOURCES: THEN

- Permanent financing/tax-exempt bond issuance
- 4% LIHTC equity
- Seller Note
- Deferred Fee
- Historic Tax Credit equity
- Arlington County funds

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- What Changed (+)
 - HAP Mark-Up-To-Market Renewal → Loan Size and Acquisition Credits Way Up
 - Difficult to Develop Area → Basis Boost

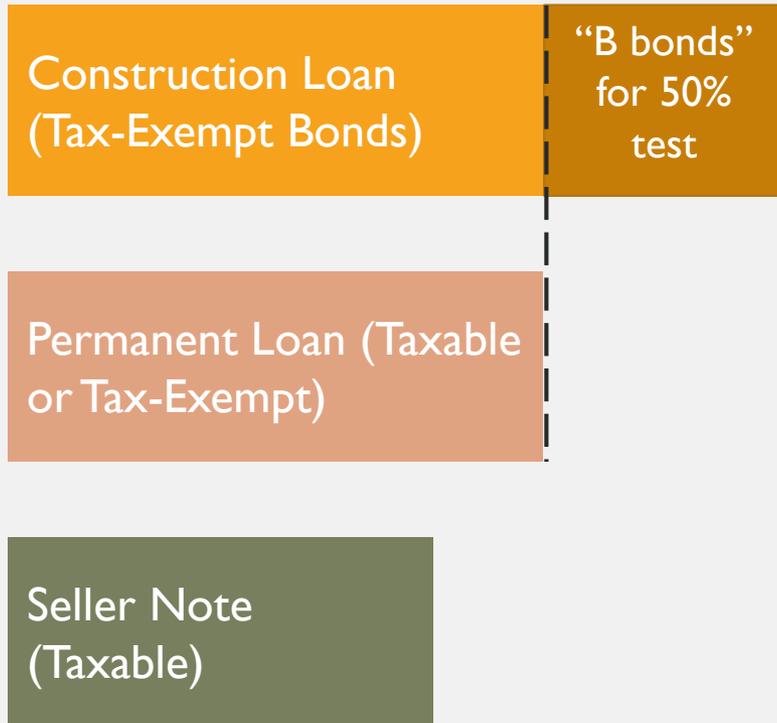
- What Changed (-)
 - Substantial Rehab Test → Ineligible for HTCs
 - LIHTC Pricing → Down 10%
 - Interest Rates → Project Risk Factor

STRUCTURING THE DEAL

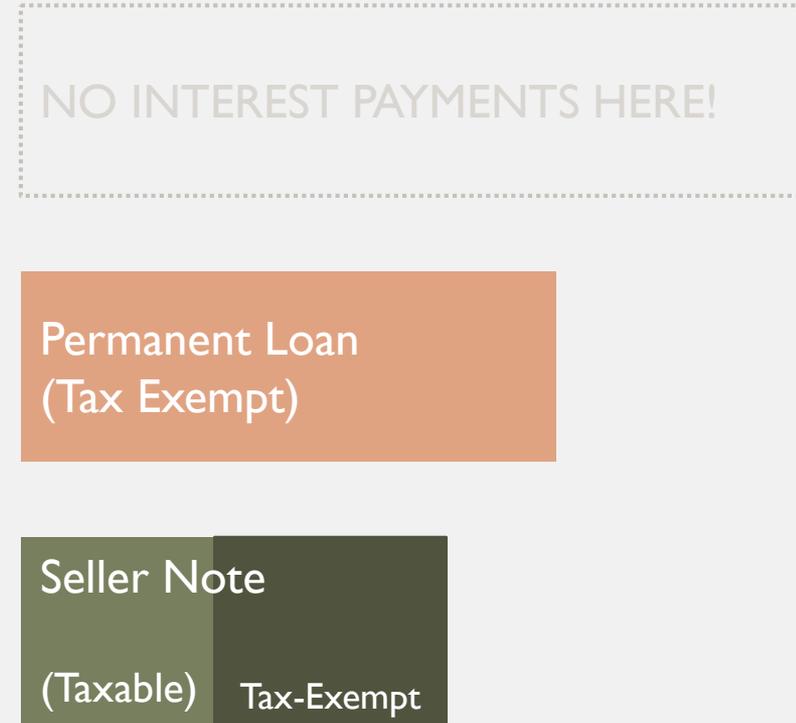
- Keep costs low.
- Keep the execution simple.



TYPICAL STRUCTURE



PROPOSED STRUCTURE



DEVELOPER CONSIDERATIONS

- **Permanent financing/tax-exempt bond issuance**

- Underwriting flexibility
- Minimize costs and interest
- Simplicity
- Construction period vacancy restrictions
- Rates and overall terms

FANNIE/FREDDIE TAX-EXEMPT LOAN ADVANTAGES

- Will underwrite to HAP rents (assuming loan term corresponds with HAP term) and projected utility savings from green upgrades
- Forward perm eliminates construction loan fees, interest - as opposed to private placement
- Depending on product, allows certain amount of construction-period vacancy

DEVELOPER CONSIDERATIONS, CONT'D

- **4% LIHTC equity**

- Would private activity bonds exist in 2018!?
- LIHTC program expenses & VHDA requirements

Ran projections to evaluate project without LIHTC...

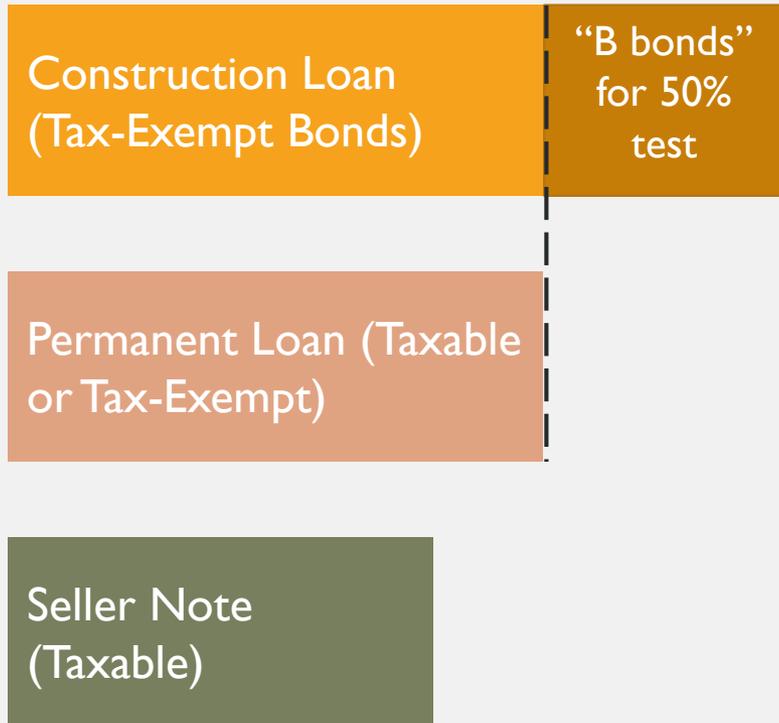
= Program survived and the choice was clear

DEVELOPER CONSIDERATIONS, CONT'D

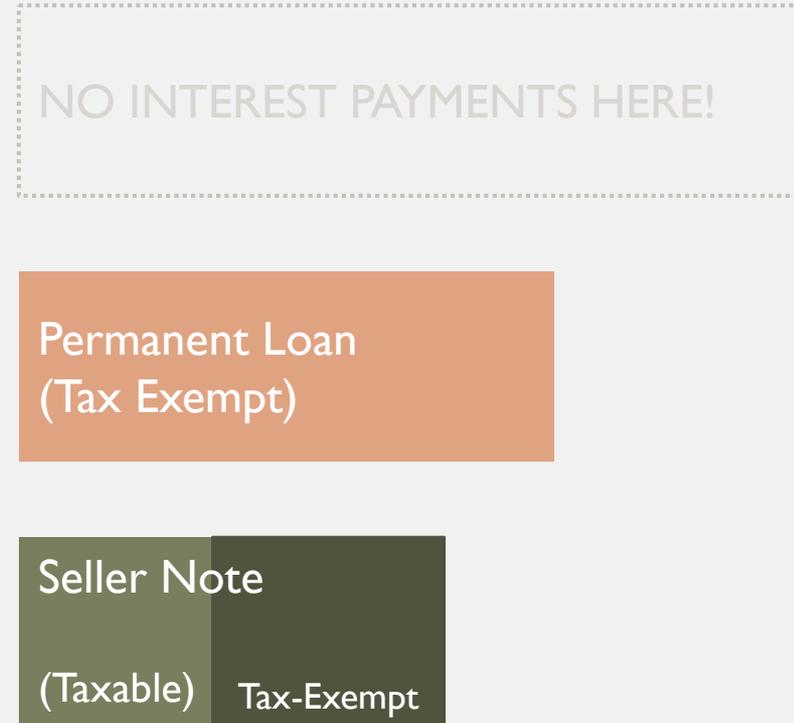
- **Seller Note**

- Monetize AHC's equity while adding LIHTC acq. basis
- Cash flow directed to AHC entity, not taxable LP
- Use to meet 50% test and save on construction-period interest – \$\$\$

TYPICAL STRUCTURE



PROPOSED STRUCTURE



LESSONS LEARNED (SO FAR)

- Mark-Up-To-Market rents had enormous impact on deal structure
- Think intentionally about rehab scope for occupied property
- Stay flexible!

contact: laura.manville@ahcinc.org

