



## Austin Housing Finance Corporation (AHFC)

### Development Partnership Evaluation Process

#### **AHFC Mission**

The mission of the AHFC is to generate and implement strategic housing solutions for the benefit of low- and moderate-income residents of the City of Austin.

#### **Background**

Between 2001 and 2009 AHFC entered into agreements to create a formal partnership interest in three affordable rental developments. As any investor in a joint venture would expect, these partnerships typically offer a financial return, unlike most rental developments funded by AHFC.

#### **Underlying Principles for Partnerships**

- Increase the supply of affordable housing.
- Generate revenue for the corporation to further affordable housing initiatives.
- Minimize AHFC's risk.

#### **Process**

The process AHFC employs is much like evaluating a funding application through the Housing Developer Assistance Program. An important difference is the greater emphasis placed on evaluating the proposed partner. The vetting process can take anywhere from 3-9 months, particularly if the developer is unknown to AHFC and/or a new identified potential partner to the Austin area.

- When evaluating a proposed partner, AHFC considers:
  - Experience: Are there recent examples (i.e., within the last 5 years) of successful, similar developments that are completed and operational? For each example:
    - What type of partnership structure was used?
    - Who else is partnering in the deal?
    - What is the principal developer's experience?
    - Who provided interim financing?
    - What type of permanent financing was used? Conventional mortgage, HUD-insured mortgage, investor(s), private activity bond financing?
    - Who is managing the property? How long has this management company been employed?
    - How many properties are in the organization's portfolio? Is the portfolio managed in-house?
    - What properties have been added to the portfolio within the last 3 years?

- Reputation/References;
  - Obtain references such as other funders and development partners.
  - If applicable, obtain with permission, HUD Real Estate Assessment Center (REAC) scores and copies of state agency monitoring reports for other properties owned/managed by developer.
    - Are there indications of ongoing management issues with respect to tenant files or property conditions?
  - If applicable, make inquiry with other municipalities about their experience with the developer if the municipality provided funding to a project.
  - If possible, check for code violations at properties
  - Inquire informally with others in the industry about the developer.
  
- Financial Capacity
  - For selected properties comparable to the proposed development:
    - The last 12 months of financial statements, looking for net income after all operating expenses and mortgage and/or investor payments have been made.
    - The most recent financial audits on the properties.
    - Consolidated financial reports for the parent company.
    - Do the projects have operating deficit guaranties, and if so, what are the guarantors' dollar amount limits on funding a deficit?
    - In the event a guarantor is required to fund an operating deficit, what is the interest rate on the funds loaned to the project?
    - Has a guarantor had to fund an operating deficit on any of these properties?
    - If so, how much did the guarantor have to provide, and how recent was this occurrence?
  
- Organizational structure
  - Who are the key players?
  - What are their respective roles?
  - What is their experience in developing and/or managing affordable rental property?
  - Is there a local representative of the company? A regional representative?
  
- When evaluating the proposed deal, the following are considered.
  - What is the type of housing being proposed and where would it be located?
    - The housing would need to meet the core values of deep affordability, long-term affordability, and geographic dispersion.
  
  - What levels of affordability can be achieved?
    - AHFC negotiates for more units to serve extremely low-income persons, recognizing that the units will be "subsidized" by the rents of higher-cost units.
  
  - What is being asked of AHFC?

- Typically AHFC would be asked to take ownership of the land for the property tax exemption. AHFC may also be asked for a certain level of funding. This is another way to subsidize the cost of lower-income units because AHFC's funds typically will be provided as deferred-payment, zero percent interest loans.
- What is the proposed partner bringing to the deal?
  - Experience, sources of capital, and willingness to take on the financial risk. Also, if AHFC owns the land and leases it back, the developer agrees to be responsible for all day-to-day operations, management and upkeep, and agrees to indemnify and defend AHFC against any claims made with respect to the development.
- Is the deal feasible?
  - The proposal would be reviewed and evaluated according to the Rental Housing Developer Assistance (RHDA) application evaluation process, including meeting the scoring threshold.
- What is AHFC getting in return? What is the Return in Investment (ROI)?
  - Affordable units, certainly, but the deal can be negotiated such that AHFC could receive any or all of the following in the form of cash or equity:
    - a portion of the developer fee,
    - regular cash flow payments,
    - a of percentage ownership interest in the development.
    - an annual ground lease payment.
    - an annual monitoring fee.

### **Additional Needs**

Another difference with partnerships is the added layer of legal work necessary to create a separate AHFC-related entity. The new entity will only be part of the new development which serves to limit AHFC's liability. Legal counsel is also needed to represent AHFC's interests when negotiating and developing a partnership agreement.

- Legal Representation
  - If moving forward, outside legal counsel is obtained to represent AHFC's interests in the partnership, review of all partnership documents, and evaluate the proposed partner's financial capacity, especially in the case of individuals acting as personal guarantors.
  - City of Austin Law Department assists with the formation of an AHFC-related non-profit corporation that typically acts as a General Partner in a Limited Partnership or acts as a Managing Member if a Limited Liability Company is formed.