

MANN REPORT

FEBRUARY 2009

RESIDENTIAL

HOUSING INNOVATIONS



When There's Blood In The Streets, Do Affordable Housing

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Foreclosures, tightening credit, plunging real estate prices—all of these conditions affected the real estate market of the early 1990's, as banks found themselves stuck with projects that could not proceed. In other cases, builders just walked away from unfinished houses that no longer penciled out.

Such was the case of a for-sale project in Peekskill, New York.

In 1995, Community Housing Innovations, Inc., a nonprofit housing agency, approached a developer who had taken back a half-finished market-rate development of seven two-family houses. CHI applied for and received fourteen \$25,000 down payment assistance grants from New York State, which were attached to each of the units for buyers. With those grants as buyer equity, and with the haircuts taken by the original bank and former developer, CHI was able to sell the properties in a matter of two months to qualified buyers and the new developer made a handsome, and virtually guaranteed, profit.

In the Northeast, 'the blood in the streets' is yet to flow because everyone is still holding on, hoping for a bailout, but you need look no further than ten to fifteen years ago for guidance on where we're headed and how to benefit.

The years 1989 to mid-1995 were marked by fire sales conducted by the Resolution Trust Corporation, which closed or re-constituted 747 thrifts with total assets of \$394 billion.

Once we figure out who will take the haircut today, properties will be selling for pennies on the dollar to multi-million dollar real estate syndicates and hedge funds eager to turn them over.

And then, one of the only viable models will be to convert market rate properties into affordable housing, which is defined as affordable to people making up to 80% of the Area Median Income.

Many developers are loathe to working with the government, which typically requires full transparency, limited profit (usually a developer fee of 15%), and lots of paperwork. But a guaranteed profit is better than a surefire loss in this market, and there

are plenty of non-profits like Community Housing Innovations, Inc., who can take the pain out of affordable housing.

By partnering with a nonprofit organization, developers may access millions of dollars in Federal Low Income Housing Tax Credits (non-profits get a preference) for rental housing, state funding for both rental and for-sale housing, and additional funding for targeted populations such as homeless or mentally ill. Still more capital is available from non-housing agencies for special populations—such as ex-offenders—and developers may avoid paying sales tax on construction materials or mortgage recording taxes by partnering with a nonprofit.

But you have to know what you're doing with an experienced nonprofit and affordable housing attorney. For example, in New York, a nonprofit partnering with a for-profit company such as CHI may form a 'Housing Development Fund Company' to hold bare legal title to the land comprising the project as nominee of a single purpose limited liability company ("LLC") organized by the developer, which would beneficially own and operate the project.

Mortgages granted by an HDFC are exempt from mortgage recording tax and, as a result, the developer (and the project) would receive the benefit of the resulting mortgage recording tax savings and usually a sales tax exemption.

Another popular strategy is to turnkey the project to the nonprofit, after it has received government funding, of course.

For any New York area developer and property management contractor facing the challenges I have described in prospective housing projects for Long Island, Westchester, Rockland, and Orange, CHI is available to provide technical information as a 'how to' resource expert. There is a whole different dimension to today's housing and real estate construction industry. There are other options and alternatives that should now be considered. ■

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