Affordable Housing Overview

Clyde's Chinatown
Washington, DC
12:00 am to 1:30 pm

December 15, 2023

About

- Capitalization and development of 300+ properties
- Comprising over 37,000 apartment homes across 40 states.
- Total capital raised to date is over $2.5 billion resulting in a total capitalized value for the entire portfolio of over $6 billion.
- Active development projects in 12 states Offices in Tysons, Virginia and Peabody, Massachusetts.

SCG DEVELOPMENT

Stratford CAPITAL GROUP

Our Mission

- At SCG Development, we develop, own, and operate high-quality rental housing that is affordable through our commitment to providing our clients, suppliers, partners, and the communities we serve with creative solutions.

- Founded in integrity, adaptability, trust and expertise, our goal is to establish mutually rewarding relationships. SCG Development is focused on delivering outstanding service and providing an exceptional value to clients and partners by staying true to our principles.

Agenda

1) National Affordable Housing Condition
2) Affordable Housing – The 1986 Tax Reform Act
3) The Capital Stack - Solving for the Funding GAP
4) Illustrative Cost Per unit Comparison
5) Development Period Continuum
6) LIHTC Transaction Structure
7) LIHTC Debt Financing Market
8) Other Federal, State and Local Sources of Funds
9) LIHTC Equity Investor Market
10) Select Local Developments

1) National Affordable Housing Condition

- Renters with extremely low incomes face the biggest challenges. There are only 7 million affordable units for 11 million households with extremely low incomes. Of the 7 million affordable units, 3.3 million are occupied by households with higher incomes.

- There is a shortage of 7.3 million affordable and available rental homes for renters with extremely low incomes in the United States, up 8 percent from 6.8 million in 2019

- In all 50 of the largest metropolitan areas, more than 60 percent of renters with extremely low incomes are severely cost burdened (meaning more than 30% of a renter’s incomes is paid for housing costs).

- The incentives under the 1986 Tax Reform Act have created approximately 3 million units (approximately 80,000 units per year on average). At this production rate, it will take over 91 years to meet existing demand.

2) Affordable Housing – The 1986 Tax Refrom Act

- The IRC §42 Low Income Housing Credit Program was enacted by Congress as part of the Tax Reform Act of 1986 to encourage new construction and rehabilitation of existing buildings as low-income rental housing for households with income at or below specified income levels.

- Congress recognized that a private sector developer may not receive enough rental income from a low-income housing project to cover the costs of development and still provide a return to investors sufficient to attract the needed equity investment.

- The IRC §42 program provides tax incentives for investors to make equity investments. In exchange for equity, investors receive tax credits and other tax benefits associated with ownership of the project to offset federal income taxes for a ten-year period.

- Developments apply for/and receive LIHTCs in exchange for agreeing to rent properties to tenants at certain lower income and rent levels, generally at or below 60% AMI.

- The Federal Treasury allocates LIHTC's to states based on upon population – adjusted annually (2021) $935 million, (2022) $870 million, (2023) $924 Million

Affordable Housing Since the 1986 Tax Reform Act (continued)

- The State Allocating Agencies allocates the credits on a competitive basis to projects based upon a set of criteria outlined in the Qualified Allocation Plan (QAP) – the “rule book.” Developers submit competitive applications periodically (usually once a year)
- The competition in significant (i.e., the number of requests for each credit dollar is 5 to 1+) States’ priorities can encourage features and other objectives that stress the capital stack
- The States then monitor the properties during the 15-year compliance period.
- Affordable Housing Credit Improvement Act Introduced in Senate & House - May 2023 (restore the 12.5% LIHTC cap increase, reduce the tax-exempt bond 50% test to 25%)
- Workforce Housing Tax Credit (WHTC) introduced. To qualify for the credit, at least 60% of the building’s units must be occupied by individuals with an area median income (AMI) of 100% or less where the rents are restricted to 30% of the designated income. The affordability restrictions would remain in place for a 30-year affordability period

3) The Capital Stack – Solving the for the Funding GAP

- Affordable housing development is a math equation whereby the objective is to get the Sources to equal (or exceed) the Uses
- Made very difficult by the following:
- Balancing Competing Objectives
- Predicting the future of interest rates and construction costs
- Typical gestation period for a transaction could be 2 years to 5 years depending on of the type of deal (acquisition/renovation, new construction, new construction with entitlements – rezoning/comprehensive plan amendment)

4) Illustrative Costs Per Unit Comparison

Illustrative Costs Per unit	LIHTC Affordable		Market Rate		Difference
Acquisition	40,000	8%	40,000	8%	-
Hard Construction Costs	300,000	60%	320,000	64%	(20,000)
Construction Contingency	15,000	3%	15,000	3%	-
Architect and Engineering	12,000	2%	12,000	2%	-
Soft Costs	45,000	9%	45,000	9%	-
Financing/Interest	43,000	9%	43,000	9%	-
Reserves	10,000	2%	10,000	2%	-
Development Fee	35,000	7%	15,000	3%	20,000
Total Uses	500,000	100%	500,000	100%	-
LIHTC Capital Contributions	185,000	37%	-	0%	185,000
Equity Capital Contribution	-	0%	150,000	30%	(150,000)
First Mortgage Loan	200,000	40%	350,000	70%	(150,000)
Subordinate Debt	100,000	20%	-	0%	100,000
Deferred Development Fee	15,000	3%	-	0%	15,000
Total Sources	500,000	100%	500,000	100%	-

LAND ECONOMICS SOCIETY

SCG DEVELOPMENT

5) Development Period Continuum

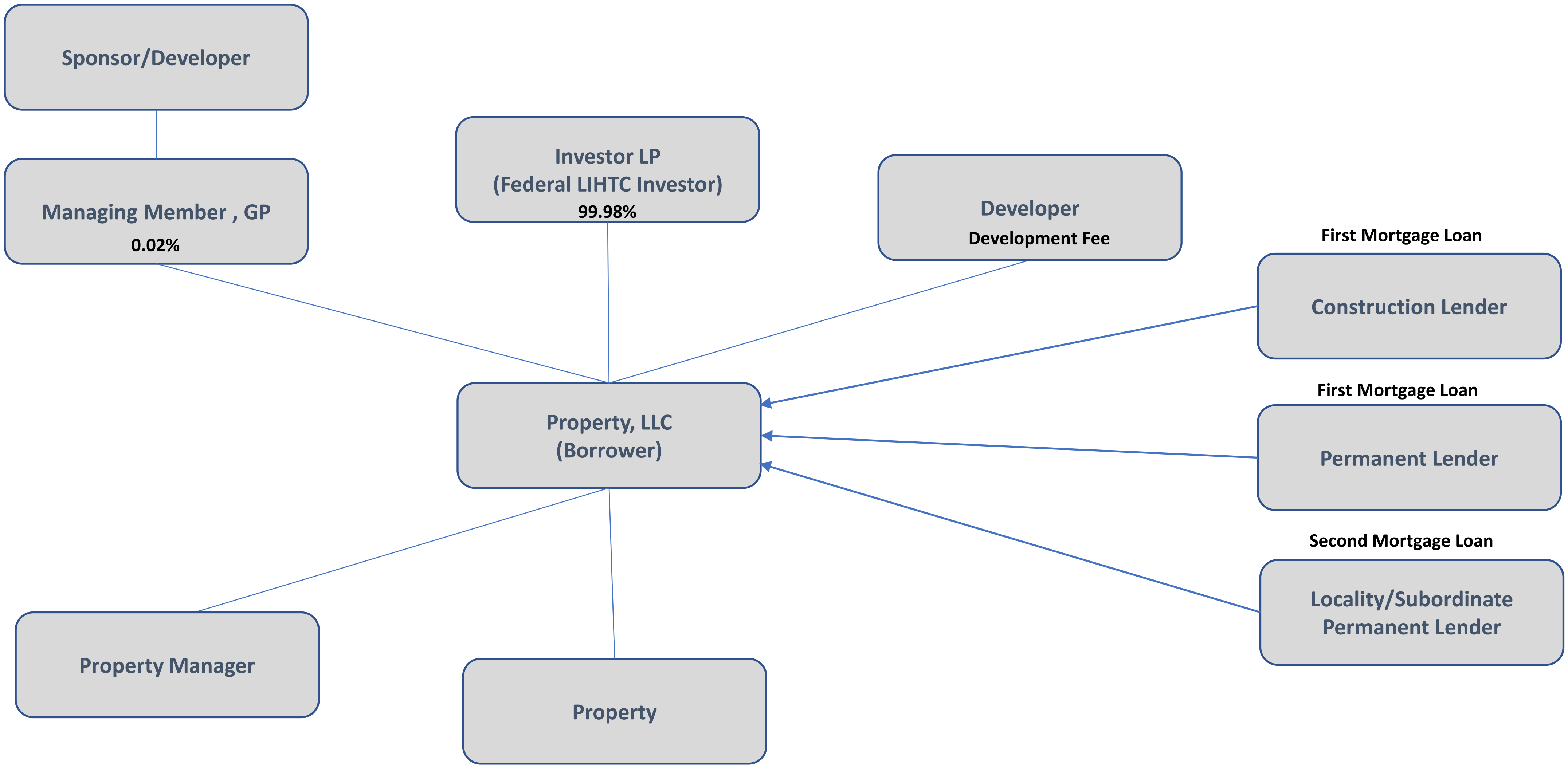
Development Process Risk/Reward Continuum

Type of Development	Years of Effort										
		Predevelopment Period						Closing	Construction	Stabilization	
						Year 1	Year 2		Year 3	Year 4	
Acquisition Renovation	4										
Predevelopment Expenses						yes	yes				
Staff time						yes	yes		yes	yes	
					Year 1	Year 2	Year 3		Year 4	Year 5	Year 6
New Construction	6										
(with zoning and entitlements)											
Predevelopment Expenses					yes	yes	yes				
Staff time					yes	yes	yes		yes	yes	yes
			Year 1	Year 2	Year 3	Year 4	Year 5		Year 6	Year 7	Year 8
New Construction	8										
(without zoning and entitlements)											
Predevelopment Expenses			yes	yes	yes	yes	yes				
Staff time			yes	yes	yes	yes	yes		yes	yes	yes

Differentiations

Acquisition Renovation	1	no entitlement risk or expense	1	shorter construction period
	2	no site plan processing risk or expense	2	less construction risk (no soils, smaller GMP per unit and therefore less impact from cost increases)
	3	building permit process	3	Larger projects (over $55 million) are not compensated for additional risk as development fees are capped at $5 million
	4	less interest rate risk asscociated with shorter predevelopment period		
New Construction (with zoning and entitlements)	1	site plan risk and expense	1	longer construction period
	2	building permit process longer	2	more construction risk (soils, substantial GMP per unit and therefore higher impact from cost increases)
	3	more interest rate risk asscociated with longer predevelopment period	3	Larger projects (over $55 million) are not compensated for additional risk as development fees are capped at $5 million
New Construction (without zoning and entitlements)	1	zoning and entitlement risk	1	longer construction period
	2	site plan risk and expense	2	more construction risk (soils, substantial GMP per unit and therefore higher impact from cost increases)
	3	building permit process longer	3	Larger projects (over $55 million) are not compensated for additional risk as development fees are capped at $5 million
	4	the most interest rate risk asscociated with longer predevelopment period		

6) LIHTC Transaction Structure



7) LIHTC - Debt Financing Market

- Construction Financing
  - Conventional (commercial banks) – full recourse
  - HUD FHA – non-recourse with direct conversion to permanent loan
  - Timing to close
- Permanent Financing
  - Conventional (commercial banks)
  - HUD FHA
  - Agency (Freddie/FNMA)
  - Underwriting - loan to value, debt service coverage ratio (DCR)
  - Timing to close
- Tax Exempt Financing – See Next Slide
- Subordinate Financing to promote affordable housing within their or Federal jurisdictions.

LIHTC - Tax Exempt Debt Financing (continued)

<u>100% Affordable/Mixed Income/Mixed Use Projects</u>

- Two possible means to qualify for the "automatic" 4% LIHTC
  Tax exempt during construction *<u>OR</u>* tax-exempt permanent

1) Private Placement
2) Freddie Tax Exempt Loan (TEL)
3) Fannie MAE (Mteb)
4) FHA Short term cash collateralized TE Bonds [223(f)/221(d) 4]
5) Other – 20/50 or 40/60 Master Lease

8) Other Federal, State and Local Sources of Funds

Housing Funds Used in LIHTC Projects

- HOME Investment Partnerships Program (HOME) provides at least $3 million annually to each eligible jurisdiction in the US
- Community Development Block Grant (CDBG) is another source of HUD funding.. In fiscal year 2018, $3.4 billion was allocated to 1,209 eligible jurisdictions
- State Housing Trust Funds exist in 47 states and the District of Columbia to promote affordable housing within their jurisdictions.
- Affordable Housing Program of the Federal Home Loan Banks - granted $324 million in subsidies in 2016, making it the single largest private source of affordable housing funds.
- National Housing Trust Fund was created by the Housing and Economic Recovery Act of 2008. In 2017, $219 million were allocated to states
- Local County/Cities – many have their own sources of public subsidy.
- State Housing Tax Credits & Federal Historic Tax Credits

9) LIHTC Investor Market

- $18 billion annual market
- Low risk adjusted returns (IRR)
- 0.25% default rate among LIHTC properties
- Investors – Banks, Insurance Companies, Financial Service Institutions, Industrial Companies
- Banks represent 85% of the market according to Cohn Reznick
- Syndicators/Director Investors
- Benefits to Investors – Income Tax Losses, LIHTC's, CRA Credit

10) Select Local Developments

- Ovation at Arrowbrook
- Residences at Government Center
- One University
- Momentum

Ovation at Arrowbrook

OVATION
AT ARROWBROOK

Initial Closing Occurred on 12/22/20 – 100% Occupied December 2023

- 274 affordable family units
- 38,000 sf ground floor retail space
- 470-space structured parking garage
- 7,000 sf of amenity space
  (Fitness, Business Center, Club Rooms)
- 10,000 sf interior courtyard with grilling and fire pits
- Trail to Innovation Center Metro Station
- Adjacent to Arrowbrook Centre Park with lighted soccer fields, basketball courts, play areas, and Arrowbrook Summer Concert Series

Aerial

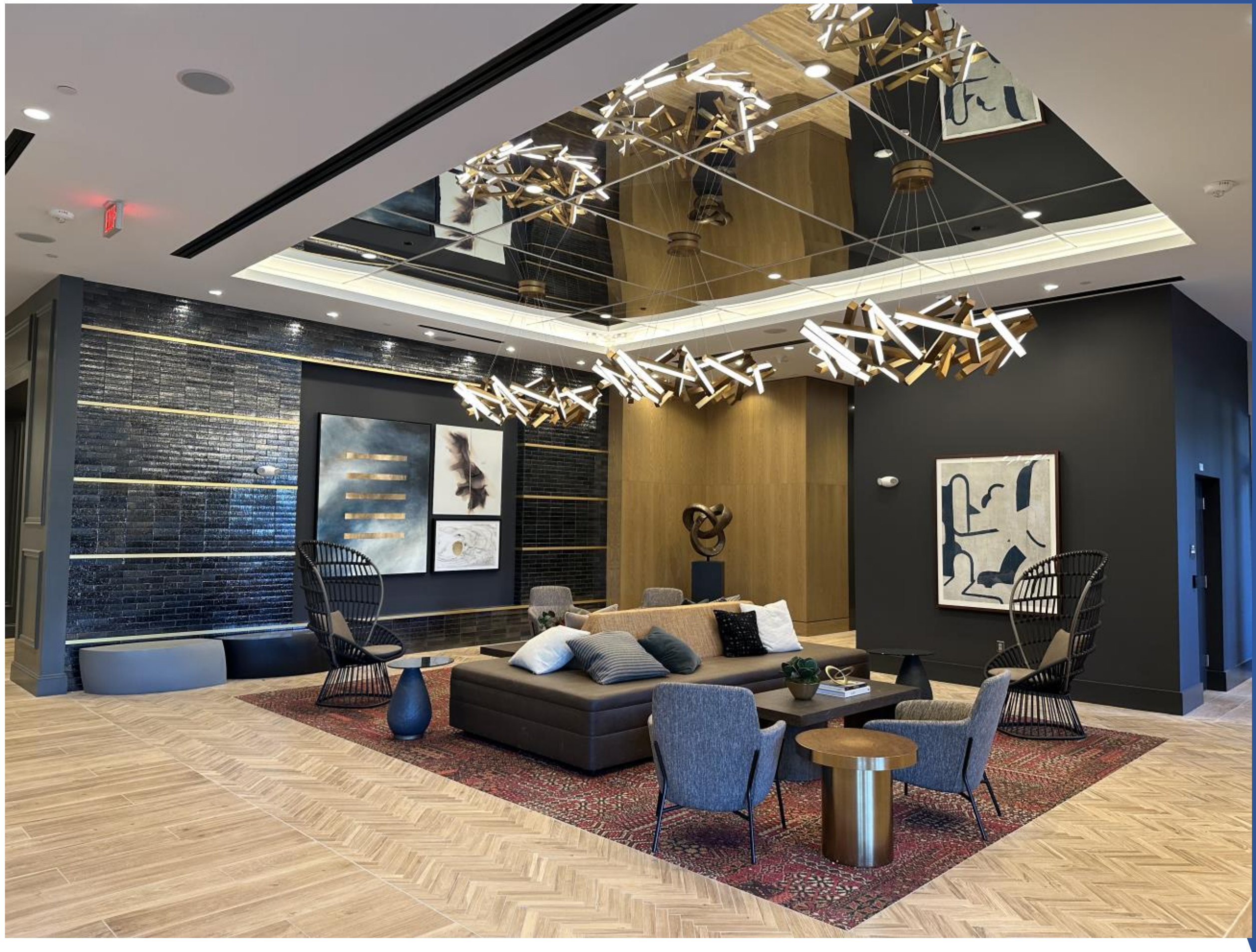
1 Innovation Station

2 Arrowbrook Centre

3 Herndon Station

OVATION AT ARROWBROOK

Entry Lobby



Interior Courtyard

Fitness Facility

Mail/Package Room

Government Center

THE NATIONAL COUNCIL FOR PUBLIC-PRIVATE PARTNERSHIPS
2017 Outstanding Project
INNOVATION AWARD

RESIDENCES
AT GOVERNMENT CENTER

SCG Development – Closed March 2015

- 270 newly constructed family apartment homes
- EarthCraft Home-certified Gold
- 40% - 60% AMI Set asides
- Mix of studios, one, two, and three-bedroom apartment homes
- First New Construction 9/4 LIHTC Twinned project in Virginia/Maryland/DC
- Awarded the 2017 Outstanding Project Innovation Award by NCPPP
- $68,000,000 total development costs

One University

SCG Development – Closed December 2021

- 240 apartment homes (120 family apartment homes, 120 senior [62+] apartment homes)
- 300-space below-ground garage
- Earthcraft Gold Certified
- 40% - 60% AMI plus 46 RAD units
- Mix of studios, one, two, three, and four bedrooms
- 9/4 LIHTC Twinned project
- Anticipated Construction Start Date: Q2/Q3 2021
- $77,000,000 total development costs

Momentum at Shady Grove

MOMENTUM AT SHADY GROVE

SCG Development – Closed June 2018

- 110 apartment homes
- Mix of studios, one, two, three bedrooms
- 4% LIHTC Tax Credits, substantial subordinated capital subsidy from Montgomery County and the State of Maryland
- 30% - 60% AMI Rents
- $38,000,000 – Total Development Costs