

## FY 25 AHSP Application Staff Summary: MHO Star Point Construction Loan

<b>60</b> Units to Be Constructed	<b>\$33,333</b> AHSP Request Per Unit	<b>\$1.00 : \$7.04</b> Leverage Ratio AHSP \$ : Other \$	<b>≤80%</b> AMI Target	<b>30 yr</b> Period of Affordability
<b>\$268,085</b> Average Cost Per Unit		<b>\$377</b> Average Cost per Unit Square Foot		<b>Eff., 1, 2</b> Bedrooms per Unit

**Project Description:** Mountain Housing Opportunities, Inc. submitted a **New Construction Units for Rent Multifamily Loan** application requesting **\$1,500,000** as an addition to the existing **\$500,000** FY24 AHSP allocation to construct Star Point for a combined total of **\$2,000,000**.

**AHSP Goal:** Increase the supply of affordable housing for rent.

**AHSP Objective:** Impact, by 2030, a total of 1,500 to 1,850 rental units for households at ≤80% AMI: with an average at ≤60% AMI across all households; where 1,200 to 1,480 of those units leverage the LIHTC program; and where 200 of those units are for households at ≤30% AMI.

**Summary:** The request (\$1,500,000) is intended to support the \$16,085,116 Star Point 60-unit construction project. The proposed unit mix includes 60 units for households at ≤80% AMI with 14 efficiency units, 35 one-bedroom units, and 11 two-bedroom units. The proposed units will serve the general population. The project is located within the City of Asheville at 16 Restaurant Court. The project received conditional zoning approval from the City of Asheville in April 2023. The site is currently owned by the applicant. The project estimates approximately 40% of renters will use vouchers and 5% of units will be accessed by homeless households referred through the Continuum of Care. In August 2023, the project was awarded \$1,166,500 in 9% Low Income Housing Tax Credits (LIHTC) and a \$1,200,000 Rental Production Program loan from the North Carolina Housing Finance Agency (NCHFA).

**Capital Stack:** The capital stack includes:

*Committed:*

- \$10,380,812 in 9% LIHTC (estimate of \$0.89 price per tax credit)
- \$1,200,000 from NCHFA Rental Production Program (20 years at 2%, cashflow loan)
- \$850,000 from Asheville Housing Trust Fund (40 years at 0%, principle deferred for 40 years)
- \$500,000 from Buncombe County FY 24 AHSP (20 years at 2%, cashflow loan)

*Requested:*

- \$1,654,304 in permanent financing (35 years at 6.8%, principal and interest)
- \$1,500,000 from Buncombe County AHSP (20 years at 2%, cashflow loan)

*Deferred Developer Fee:*

- The project budget indicates \$0 in deferred developer fees.

**Requested Terms:** 20-year term, at an interest rate of 2.00%, annual payment from cashflow with principal balloon. The project appears to demonstrate a need for the cashflow and principal balloon loan structure.

**Exceptions to Program Guidelines:** The total amount requested (\$2,000,000) represents 12.4% of the project cost and would exceed the AHSP maximum loan limit of 10% of cost per affordable unit.

**Consideration for Open Space Bond Activities:** The project is not located in an area prioritized for greenways, passive recreation, or conservation.

**County Funding Source Options:** General Fund, AHSP Program Income or Bond Funds.

**Finance Department Assessment of Audits and Financial Position:** MHO provided a relatively timely audit free of qualifications and findings. As of December 31, 2022, MHO's financials show a reasonably healthy financial position.

## **Review and Recommendations:**

Community Development Division staff reviewed the project based on AHSP guidelines.

*Program Requirements:* The project appears to meet program requirements.

*Review of Assumptions:* The proforma includes a 35-year permanent loan of \$1,654,304 with an interest rate of 6.8% in line with the bulk of its peers. The estimated LIHTC equity of \$10,380,812 is based on credit pricing of \$0.89, which is within the current market range of \$0.85 - \$0.89. In this project, each \$.01 in tax credit represents roughly \$117,000 in capital stack impact. With 0% interest, the 40-year, deferred loan of \$850,000 from the Asheville Housing Trust Fund (AHTF) will not require any debt service or cashflow payments. The RPP loan of \$1,200,000 is structured with a 20-year term at 2% interest with minimum principal and interest payments necessary for the project to maintain a 1.15 debt service ratio and a balloon payment at maturity. Per NCHFA requirements, any deferred developer fee must be able to be repaid by year 15.

*Proforma Analysis:* The applicant requested more funding from Buncombe County (\$2,000,000) than is permitted (\$1,608,512). This creates a gap in the proposed capital stack of \$391,488 which impacts both the sources and operating proforma. The proforma estimates annual property taxes of \$30,000. Projects funded in the FY25 AHSP application cycle may request a property tax exemption as allowed by state statute. Based on the 35-year permanent loan with an 6.8% interest rate, a property tax exemption of \$30,000 could be used to increase the project's permanent debt capacity. At a 7% vacancy rate, the project could close the gap with a larger permanent loan of \$2,045,792, but there would not be enough cashflow to cover a deferred developer fee and soft loan interest payments, leaving the principal balloons and unpaid interest.

Considering a 3% vacancy rate more reflective of our community, the project could support the larger permanent loan and a deferred developer fee of \$317,505. Assuming the 2% interest rate and no prepayment of principal, the available cashflow would be sufficient to repay the \$536,403 of interest for a 20-year AHSP loan of \$1,341,007.

*Deferred Developer Fee:* The proforma does not include a deferred developer fee. A maximum deferred developer fee of 50% (\$600,000) is permitted under NCHFA LIHTC guidelines. The request to the County could be reduced by increasing the deferred developer fee. Any deferred developer fee would result in

changes to the analysis of cashflow; however, preliminary review suggests cashflow is sufficient to repay deferred developer fee and accrued interest from soft loans.

**Affordable Housing Committee Consideration:** The Affordable Housing Committee may recommend an increase to the existing \$500,000 loan up to \$1,341,007 with a 20-year term, at an interest rate of 2%, annual payment from cashflow with balloon payment. Any award considered from the FY25 application cycle could allow the project to seek a property tax exemption. This loan could be supported with general fund or bond funds.

<b>PROJECT SUMMARY SHEET</b>		<b>Y/N</b>
<b>Project Description/Narrative</b>		
Clearly affordable housing focused		Y
Aligns with all components of the application		Y
Aligns with all guidelines of the AHSP program		N
Aligns with the selected strategic goal		Y
<b>Designed to Serve Households with AMI</b>		
<80%		Y
<50%		Y
<30%		Y

<b>Designed to Serve</b>		
General populous eligible for the program		Y
Individuals who are age 55 or older		Y
Individuals with a disability		Y
Individuals who are hard to house		N
Individuals who are homeless		Y
Individuals who are BIPOC		Y
Individuals who are justice involved		Y
Individuals who have vouchers		Y
Individuals who are referred by the Continuum of Care		Y
<b>Project Expenses</b>		
Complete		Y
Reasonable		Y
<b>Project Sources</b>		
Complete		N
Reasonable		Y
Includes leveraging additional investment (non-AHSP funds)		Y
<b>Project Schedule</b>		
Complete		N
Reasonable		Y
<b>Project Team</b>		
Relevant experience and qualifications to complete the project		Y

<b>Project History</b>	
Indicates success in completing projects in the program category	Y
<b>Applicant</b>	
Has timely audits free of qualifications and findings which would adversely indicate ability to manage an AHSP allocation	Y
Shows a healthy financial position	Y
Is a non-profit applicant	Y

<b>CONSTRUCTION PROJECT ADDITIONAL SUMMARY INFO</b>	<b>Y/N</b>
<b>Project</b>	
Preserves long-term affordability beyond the loan term	Y
Emphasizes quality design and construction	Y
Participates in an energy efficiency program	Y
Contains mixed unit types (affordable, workforce, market)	N
Contains mixed unit types (multifamily and single family)	N
Contains mixed unit types (units with varied number of bedroom (1,2,3+))	Y
Is geographically separated from other affordable housing projects	Y
Is coordinated with employment, services, and existing infrastructure	Y
Is located within 3/4 miles of a public transportation route	Y