*SAMPLE CAPITAL COST PRO FORMA*
*FOR MIXED-INCOME OWNERSHIP PROJECT*

| Capital Cost Line Item | Total Cost | Cost/Unit<br>44<br>Units |
|---|---|---|
| **SITE ACQUISITION** (Based on independent 40B "by-right" land value appraisal) | **$800,000** | **$18,182** |
| **HARD COSTS** | | |
| Site Preparation (Clearing, grubbing, rough grading, utilities, road, sidewalks, storm drainage, street lighting, signage, wetlands replication, central mail box) | $990,000 | $22,500 |
| Common Landscaping/Screening/Fencing | $132,000 | $3,000 |
| Residential Construction ($100 per gross square foot) | $7,040,000 | $160,000 |
| Builder's General Overhead (2%) | $163,240 | $3,710 |
| General Requirements (6%) | $489,720 | $11,130 |
| Builder's Profit (6%) | $489,720 | $11,130 |
| Hard Cost Contingency (5%) | $465,234 | $10,574 |
| **TOTAL HARD COSTS** | **$9,769,914** | **$222,044** |
| **SOFT COSTS** | | |
| Building Permit | $66,000 | $1,500 |
| Water and Sewer Tie-In Fee | $110,000 | $2,500 |
| Architectural (Including as-built unit drawings for closings) | $66,000 | $1,500 |
| Engineering/Wetlands Scientist/TIAS Traffic Study/Surveys | $110,000 | $2,500 |
| Legal (40B, title insurance, construction loan closing, condo docs and 44 closings) | $88,000 | $2,000 |
| Deed Stamps ($4.56/$1,000* Total Sales Revenue) | $65,960 | $1,499 |
| Insurance (During construction) | $66,000 | $1,500 |
| Security | $0 | $0 |
| Construction Manager (Contractor is related-party. No separate CM Fee allowed.) | $0 | $0 |
| Property Taxes (During construction) | $20,000 | $455 |
| Construction Loan Interest | $286,000 | $6,500 |
| Application/Peer Review/Financing Fees | $66,000 | $1,500 |
| Appraisals | $7,500 | $170 |
| Utilities (Unsold units) | $44,000 | $1,000 |
| Accounting/Cost Certification/Monitoring Agent | $35,000 | $795 |
| Developer Overhead (Per 40B Guidelines) | $128,000 | $2,909 |
| Soft Cost Contingency (5% all Soft Costs above) | $57,923 | $1,316 |
| Affordable Lottery | $50,000 | $1,136 |
| Marketing & Commissions (Market Units @ 5.00% + Model Unit) | $667,000 | $15,159 |
| **TOTAL SOFT COSTS** | **$1,933,383** | **$43,941** |
| **TOTAL DEVELOPMENT COSTS** | **$12,503,297** | **$284,166** |

| | | |
|---|---|---|
| **SALES REVENUE** | | |
| Affordable Units (11 units @ $175,000) | $1,925,000 | |
| Market Units (33 units @ $380,000 Average Sales Price) | $12,540,000 | |
| **TOTAL SALES REVENUE** | | **$14,465,000** |
| **TOTAL DEVELOPMENT COSTS** | | **$12,503,297** |
| **TOTAL DEVELOPER'S FEE** | | **$1,961,703** |
| **DEVELOPER'S FEE AS A PERCENTAGE OF TOTAL DEVELOPMENT COSTS** | | **15.69%** |

# *SAMPLE OPERATING PRO FORMA FOR A MIXED-INCOME RENTAL PROJECT*

| | | |
|---|---|---|
| Potential Gross Income (PGI) | | $1,221,000 |
| ***Less*** **:** Vacancy: 5% | | $61,050 |
| ***Equals*** : Effective Gross Income (EGI) | | $1,159,950 |
| ***Less*** : Total Operating Expenses and Replacement Reserve | | $319,000 |
| ***Equals*** *:* Net Operating Income (NOI) (Year 1) | | $840,950 |
| ***Less*** : Debt Service Payment (Interest and Principal) | | $672,760 |
| ***Equals*** : Cash Flow (Before Income Tax) | | $168,190 |
| Total Development Cost (TDC) | | $13,200,000 |
| ***Less*** : Mortgage Loan | | $10,747,363 |
| ***Equals:*** Equity Required | | $2,452,637 |
| Return on Equity Year One of Stabilized Operation | (Cash Flow/Equity) | 6.86% |

### *ESTIMATED LIKELY MORTGAGE LOAN AMOUNT*

Underwriting Based Upon NOI, Debt Service Coverage Factor and Annual Constant

| | | |
|---|---|---|
| Net Operating Income (NOI) | | $840,950 |
| Lender's Debt Service Coverage Factor (DSCF) | 1.25 | |
| Funds Available for Debt Service (FADS) | NOI/DSCF | $672,760 |
| Annual Constant (AC) | | |
| Interest Rate | 4.75% | |
| Amortization Term (Years) | 30 | |
| Annual Constant (AC) | 6.2598% | |
| Maximum Supportable Debt Service Mortgage | FADS/AC | $10,747,363 |
| Property Value Based Upon a Capitalization Rate of | 5.75% | $14,625,217 |
| Loan/Value Ratio | | 73.49% |
| Loan/Cost Ratio | | 81.42% |
| Return on Total Cost (ROTC) | NOI/TDC | 6.37% |

Edward H. Marchant
EHM/Real Estate Advisor
Brookline, MA 02445
617-739-2543
emarchant@msn.com

**OVERVIEW OF SEVEN BASIC GAP FINANCING SUBSIDY VEHICLES: DEVELOPMENT COST, TAX CREDIT, FINANCING, OPERATING, RENTAL ASSISTANCE, ENTITLEMENT, AND PROJECT- GENERATED CROSS SUBSIDIES**

# I. DEVELOPMENT COST SUBSIDIES

**(*Any subsidy that helps reduce the Total Asset Cost)***

A. Local, state or federal public funding grants
   1. Local: Municipal Affordable Housing Trusts,
   2. State: Community Preservation Act (Massachusetts)
   3. Federal: HOME (HOME Investment Partnerships Program), CDBG (Community Development Block Grants), ESG (Emergency Solutions Grants), HOPWA (Housing Opportunities for People with Aids), CHOICE NEIGHBORHOODS Planning or Implementation Grants, Continuum of Care Homeless Assistance Programs

B. Private grants/foundation grants (E.g., Federal Home Loan Bank AHP, Community Reinvestment Act, Ford Foundation)

C. Free land or below market land cost

D. Charitable contribution (donor receives tax deduction benefit)

E. Free or reduced cost building supplies/labor (E.g., Habitat for Humanity)

F. Infrastructure improvements by city (E.g., streets, sidewalks, utilities)

G. State Enterprise Zone benefits (E.g., elimination of a state sales tax on building materials)

H. Tax Increment Financing (TIF) for infrastructure or other improvements

I. Pro bono legal/accounting services

J. Sweat equity

K. Energy conservation grant

L. Bake sales

# II. TAX CREDIT SUBSIDIES

***(Any subsidy that creates a source of equity funding for a project through federal, state, and/or local income tax credit programs)***

A. LIHTC (Low Income Housing Tax Credit)/Section 42 of Internal Revenue Code
B. Numerous state low income housing tax credit programs
C. Federal Historic Preservation Tax Incentives Program (20% Rehabilitation Tax Credit)
D. Numerous state historic preservation tax incentive programs
E. New Markets Tax Credits (available for certain commercial projects providing public benefits in designated neighborhoods)

# III. FINANCING SUBSIDIES

***(Any financing mechanism that helps increase the maximum supportable level of debt)***

A. BMIR (Below Market Interest Rate) financing (E.g., FHLB Affordable Housing Program, Community Reinvestment Act motivated lending programs, state and local Affordable Housing Trusts, energy conservation loan )
B. "Soft" second loans
C. Interest reduction subsidy programs
D. Tax-exempt bond financing
E. Tax Increment Financing (TIF) for infrastructure or other improvements
F. Favorable mortgage loan terms (E.g., a 40-year term that helps reduce the annual constant)
G. Reduced debt service coverage factor (E.g., 1.10 rather than 1.15)
H. Credit enhancement resulting in a lower interest rate (E.g., FHA mortgage insurance)

# IV. OPERATING SUBSIDIES

***(Any subsidy that reduces Operating Expenses and Replacement Reserves, thereby increasing Net Operating Income and thereby ultimately helping to increase the maximum supportable level of debt)***

A. Real estate tax concessions based upon a legal enabling statute

B. Free or reduced cost utilities

C. Pro bono accounting, legal services, etc.

D. Operating deficit subsidy (public housing)

E. City services not normally provided for privately-owned residential developments (E.g., trash pick-up, snow plowing, etc.)

# V. RENTAL ASSISTANCE SUBSIDIES

***(Any subsidy that increases a project's Potential Gross Income, thereby increasing Net Operating Income and thereby ultimately increasing the maximum supportable level of debt)***

A. Section 8 Project Based Assistance (PBA) or Tenant Based Assistance (Certificates/Vouchers). Now known as the Housing Choice Voucher Program.

B. Rental Assistance Demonstration (RAD)

C. Other state/federal rental assistance programs

# VI. ENTITLEMENT SUBSIDIES

***(Any public entitlement/permitting action that helps reduce the Total Asset Cost.)***

A. Density bonuses or other zoning variances (E.g., Floor-to-Area Ratio, Height, Setbacks, Open Space, and/or Coverage requirements)

B. Subdivision Rules & Regulations variances/waivers (E.g., road width, curbing location and material requirements, maximum length of dead end street)

C. Expedited entitlement review (Green Tape vs. Red Tape) (Time = $)

D. Fee waivers by permitting agencies (E.g., Building Permit, Water and Sewer Tie-In Fees, Certificate of Occupancy Fees)

E. Applies to Inclusionary Zoning only when entitlement benefits are offered that offset the cost of creating the required percentage of affordable housing units that must be "included" in the proposed development.

# VII. PROJECT - GENERATED CROSS SUBSIDIES

***(Any subsidy that uses project-generated rental income or sales income from market rate units to make it financially possible to create affordable rental or ownership units. Project must be located in strong market area to be able to utilize this subsidy.)***

A. Mixed-income rental or ownership housing (sometimes resulting from Inclusionary Zoning requirements) where revenue from Market-rate units offsets the costs of providing Affordable units.

**NOTE: IN ADDITION TO THE FUNDING SUBSIDY VEHICLES LISTED ABOVE, INFORMATION ON REPRESENTATIVE FUNDING PROGRAMS ADMINISTERED BY THE MASSACHUSETTS DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT (DHCD) IS PROVIDED AT THE END OF THIS HANDOUT.**

**CRITICAL QUESTIONS TO ASK**
**WHEN EVALUATING EACH POTENTIAL SUBSIDY VEHICLE**

1. Is funding available? How much funding is available? How many awards are likely to be made? What is the minimum/maximum award amount? When is the next funding application round? Will “pre-qualification” be required to submit a funding application?

2. Is your proposed type of sponsor and or project type eligible for this type of funding? What are the sponsor/project type eligibility guidelines? Are there any specific Development Program requirements (e.g., unit mix, unit sizes, or income tiers)?

3. When will funding award decisions be announced? How does this schedule mesh with your project development timetable?

4. What are the submission requirements for this particular subsidy? Is there time to prepare an acceptable application? What will it cost to prepare an application? What members of the development team do you need in order to prepare a competitive application?

5. Are the funding criteria and scoring system clearly defined? How is your proposed project likely to rank? Can certain project modifications be made to enhance the likelihood of receiving this subsidy, without defeating your primary program/targeted population objectives?

6. Will the use of the funding program trigger any requirements that otherwise would not exist (E.g. Davis-Bacon prevailing wage requirements or Secretary of the Interior historic rehabilitation design requirements)?

7. Who is your primary competition? Are there any rumors that a certain project or sponsor is likely to get an award that will account for most of the available funds?

8. How can you create a competitive advantage for your project?

9. What are the politics of receiving this funding? How can the political attractiveness of and support for the proposed project be enhanced?

10. Are there any conflicts that might be created if this subsidy is combined with other subsidies that you are considering or have already secured? Are there any negative financial or programmatic effects that need to be taken into consideration to evaluate the net value of the subsidy?

11. How will this particular subsidy affect the long term operation of your project?

10. How much of the defined funding gap will this particular subsidy plug?

11. Is there a benefit to “getting in line” to establish your position for the next funding round?

# FUNDING PROGRAM INFORMATION AVAILABLE AT THE MASSACHUSETTS DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT (DHCD) WEBSITE

## Affordable Rental Development

Housing Development programs provide funding opportunities to for-profit and non-profit developers. The programs offered encourage the development of affordable rental projects that serve both families and individuals with annual incomes at or below 80% of area median income.

- Affordable Housing Trust Fund (AHTF)

- Capital Improvement and Preservation Fund (CIPF)

Capital Improvement and Preservation Fund (CIPF) is a state funded program that provides funds for the preservation of expiring use properties or for properties with expiring project-based rental assistance contracts.

- Commercial Area Transit Node Housing Program (CATNHP)

Commercial Area Transit Node Housing Program (CATNHP) is a state funded bond program available to municipalities, non-profit and for-profit sponsors to support rental housing production or rehabilitation.

- Community Based Housing (CBH)

The Community Based Housing (CBH) program provides funding for the development of integrated housing for people with disabilities, including elders, with priority for individuals who are in institutions or nursing facilities or at risk of institutionalization.

- Facilities Consolidation Fund (FCF)

Facilities Consolidation Fund (FCF) is a state funded program for non-profit developers to create and preserve affordable rental housing for clients of the Department of Mental Health and the Department of Mental Retardation.

- ## HOME Investment Partnerships Program (HOME)

The HOME Program is a federally funded program that provides funding to non-profit or for-profit developers for affordable rental housing production and rehabilitation.

- ## Housing Innovations Fund (HIF)

The Housing Innovations Fund (HIF) is a state funded program for non-profit developers to create and preserve affordable rental housing for special needs populations.

- ## Housing Stabilization Fund (HSF)

The Housing Stabilization Fund (HSF) is a state funded program for municipalities, non-profit, or for-profit developers to support affordable rental housing production and rehabilitation.

- ## Lead Abatement Program

The Massachusetts Lead Abatement Program is a federally funded program for municipalities and non-profit developers serving communities that have been determined to be at "high risk" for lead paint contamination.

- ## Low Income Housing Tax Credit (LIHTC)

The Low Income Housing Tax Credit Program (LIHTC) is a federally authorized program for non-profit and for-profit developers to promote the construction and rehabilitation of affordable rental housing. Often these units are within a larger mixed income development.

- ## Qualified Allocation Plan

Each year, the state allocating agency for the federal Low Income Housing Tax Credit (LIHTC) program is required to publish a plan describing how it intends to award the credit. DHCD, as the allocating agency, is responsible for preparing the annual allocation plan and making it available for review by interested members of the public before final publication.