



City of Madison's Housing Strategy Committee

Feb. 22, 2024



Agenda

- Why do we need affordable housing tools?
- Debt sources
- WHEDA low-income housing tax credits
- Gap sources needed
- Example of gap sources
- Considerations of gap sources

Affordable housing financial tools needed – value is far less than cost



100+ unit affordable housing project in Madison



Rents ranged from \$568 to \$1,459, with a mix of one, two and three bedroom units



Project costs are over \$30 million



Maximum loan size is about \$12 million, so \$18 million that needs to be filled

If only equity, would yield a large negative return – the private market cannot product

Debt financing comes from a myriad of sources, private and public

Lenders for 1st mortgages for affordable projects

- Private banks – local, regional and national
- Agencies
 - HUD, Fannie Mae, Freddie Mac
- CDFI's
 - Some active in Wisconsin include FCI and IFF
- WHEDA
 - Very active in lending for LIHTC deals, as well as workforce projects
- Rates for most of these programs are currently 6% or higher, depending on the specific project/product type. Rates two years ago were around 150 to 200 bps lower

Low-income housing tax credits through WHEDA a main tool for production

In the last three years, around 670 units have been awarded competitive 9% or 4% with state tax credits.

- These credits are providing around 50 – 60% of total sources in a project

Some larger non-competitive 4% projects have either started construction or close to starting

- Rise apartments – 245 units at the former bakery site on East Washington

What is needed to make affordable projects financially feasible

Example 60-unit project - \$21M total project costs

\$11M

Tax credit equity

\$5.5M

First mortgage

\$1M

Deferred developer fee

\$3.5M

Other sources needed

Various sources to help fill the gap

City of Madison
Affordable
Housing Fund

City of
Madison TIF

Dane County
Affordable Housing
Fund

Dane Workforce
Housing Fund

Capital Magnet
Funds

Wisconsin
Economic
Development
Corporation
Brownfield Grant

Federal Home Loan
Bank - AHP

Energy investment
tax credits

- Solar and geothermal
- Electric vehicle charging station

Various sources to fill the gap (cont.)

Focus on energy

- Rebates for energy efficiency from the Inflation Reduction Act – up to \$14,000 per unit for electrification

United Way Affordable Housing Fund

WHEDA sources

- Subordinate loans (through WHEDA's balance sheet)
- National affordable housing trust funds

“Free” money isn’t “free”

- Developers need to consider the requirements that come along with these various sources of funds
 - Additional costs?
 - Additional compliance?
 - Changing the intended tenancy of the building and how does that effect lease-up and operations
 - Timing to receive the funds
 - What needs to be repaid from cash flow or residual value
 - Involving additional parties in the transaction