

For Sale Home Builders Business Model in Today's Environment

Escalating land costs, scarcity of land, material and labor shortages, and an increasing shortage in the supply of affordable housing affect the sustainability and growth of the for-sale business. What are business strategies that for-sale developers might consider to set themselves on path toward feasible performance? What are the hard questions for-sale developers must ask themselves? What could they consider?

Questions

- All participant lines are muted.
- Please use the **Raise Hand** feature if you would like to speak.
 - Raise hand feature is located in the Participant panel.
- You may also use the **Chat** feature to ask questions.
- Send a **Chat** to the Host if you have a technical issue.

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- **Polls are Required for CPEs**
 - If you are seeking CPE credits, please submit ALL polls within each session, and the conference evaluations.
 - If you miss a poll, send a **Chat** message to the Host immediately.
- We use **Polls and the Zoom attendance record** to verify participation throughout the webinar.
 - **Participants must submit ALL polls and be logged in no later than 10 minutes after the scheduled session start time to receive a certificate.**

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 - Links to the evaluations are emailed to all registrants.
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CPE Feedback Poll

- If you are seeking CPEs, please complete this brief feedback poll.
- Note: All registrants will receive links to the conference evaluations via email.
 - Please complete the conference evaluations to request CPE credit and to provide qualitative feedback.

For Sale Home Builders Business Model in Today's Environment

Speakers

Andrew Hawes, President, The Housing Partnership, Inc.

Patrick Cornett, EVP and CFO, The Housing Partnership, Inc

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- New Strategies to Carry Forward a Sustainable Single Family Business Model

Learning Objectives

- Explore business strategies and practices to support long-term feasibility of the affordable housing for-sale line of business
 - What are the characteristic of a healthy single-family development model?
 - What are the pitfalls to avoid?
- Discussion on new strategies for a sustainable single-family business

About the Housing Partnership, Inc. (HPI)

Who We are?

The Housing Partnership, Inc. is a Louisville-based 501(c)3 real estate development organization. Since inception in 1990, HPI has leveraged over \$1 billion in new affordable housing development and has created over 12,000 affordable housing units. Currently, HPI assists over 1,500 individuals and families in its multi-family and single-family housing communities.

Our mission is to create, preserve and promote access to affordable housing opportunities. We do this to encourage family stability, support communities, revitalize neighborhoods, and empower local economy.

Our vision is to create communities in which affordable housing of choice is available to everyone.



HPI is a proud member of national nonprofit affordable housing organizations.



HOUSING
PARTNERSHIP
NETWORK

About the Housing Partnership, Inc. (Continued)

Lines of Business



Real Estate Development
Single Family & Multi Family Production



Development Consultation
HUD Certified and KHC Approved



Homebuyer Education & Financial Counseling



Home Sales & Lease Purchase Opportunities



Downpayment Assistance
HPI secures downpayment assistance for buyers

About the Housing Partnership, Inc. (Continued)

Our Beyond 9th
Initiative

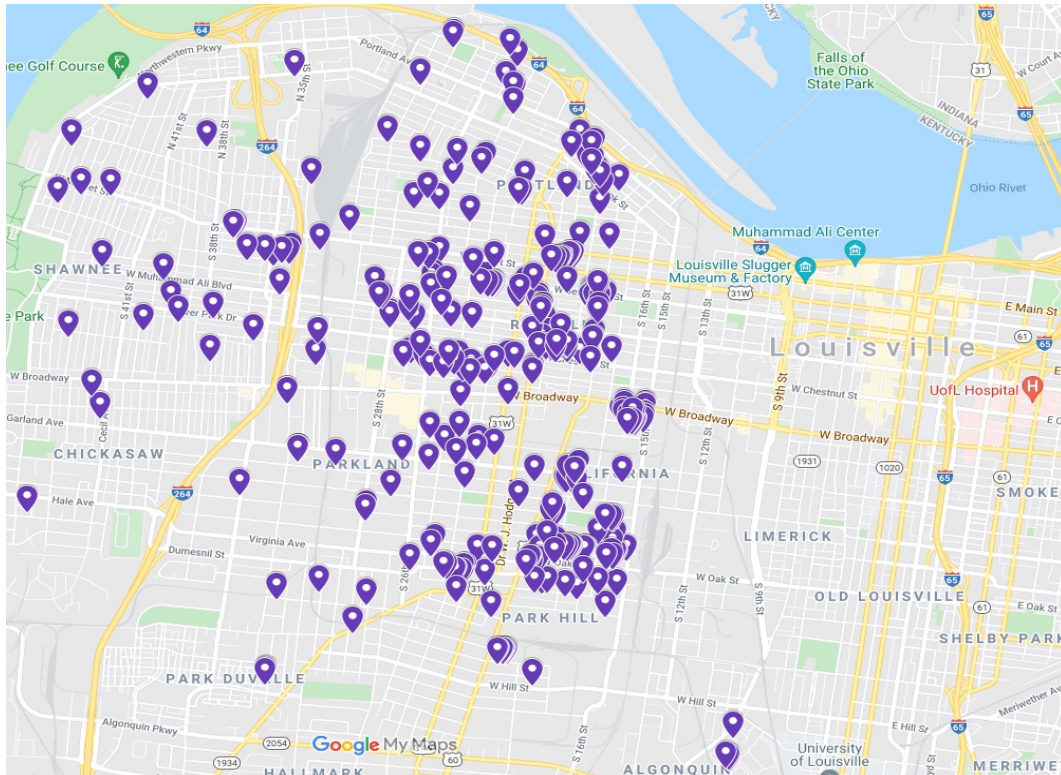
BEYOND 9TH

Revitalizing West
Louisville through
Strategic
Homeownership



Our Beyond 9th Initiative (Continued)

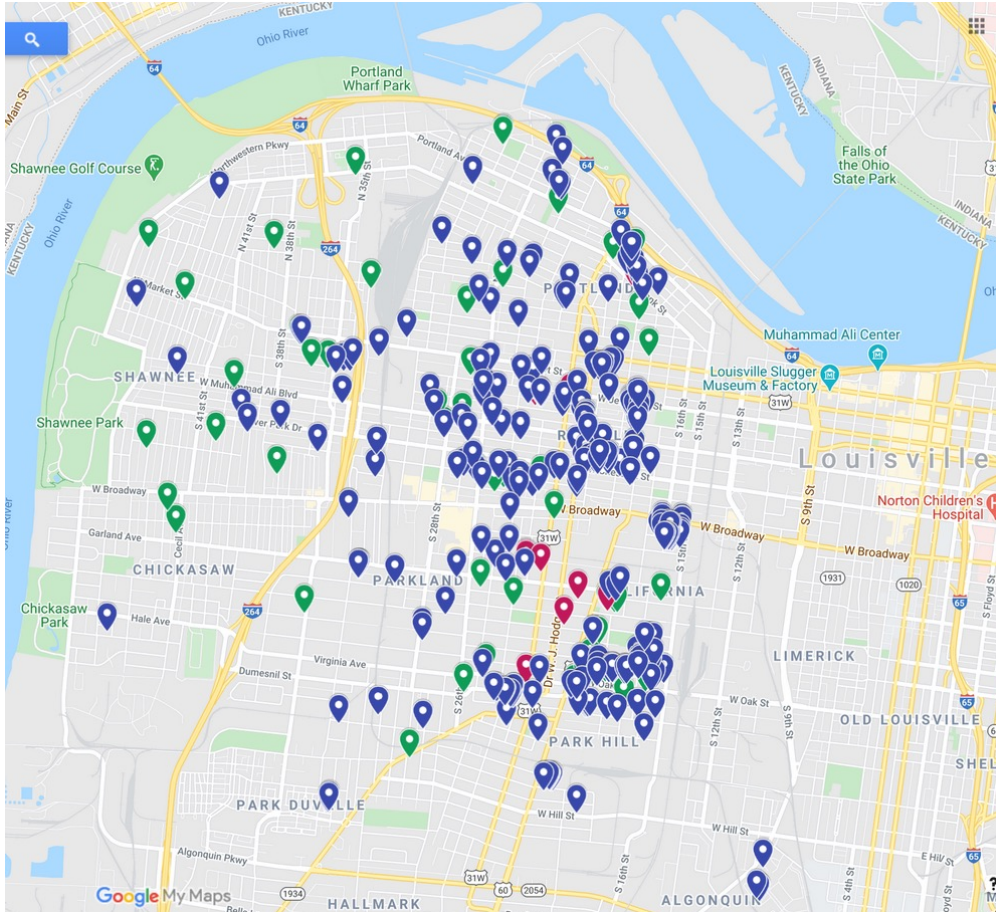
The below markers represent our existing holdings in West Louisville



The Below markers represent vacant/abandoned or neglected properties, layered over our assets



HPI Single Family Business model OVERVIEW



SINGLE FAMILY HOUSING DEVELOPMENT

With approximately 375 houses in our current portfolio, HPI acquires single-family houses in need of renovation to provide affordable homeownership opportunities and to remove blight from disinvested communities.

- Housing inventory primarily focused in West Louisville (with some assets in south Louisville and eastern neighborhoods); From 2015-2018, West Louisville represent approximately 50% of our inventory, but now represents 90%.
- Heavily focused on Rehab vs. new construction
- Single family portfolio primarily built using LIHTC
- The Majority of assets are in West Louisville
- We offer 2 channels for selling single family housing
- For Sale Approach
 - 75 houses marked for sale
- Lease Purchase
 - 300 classified as lease/purchase

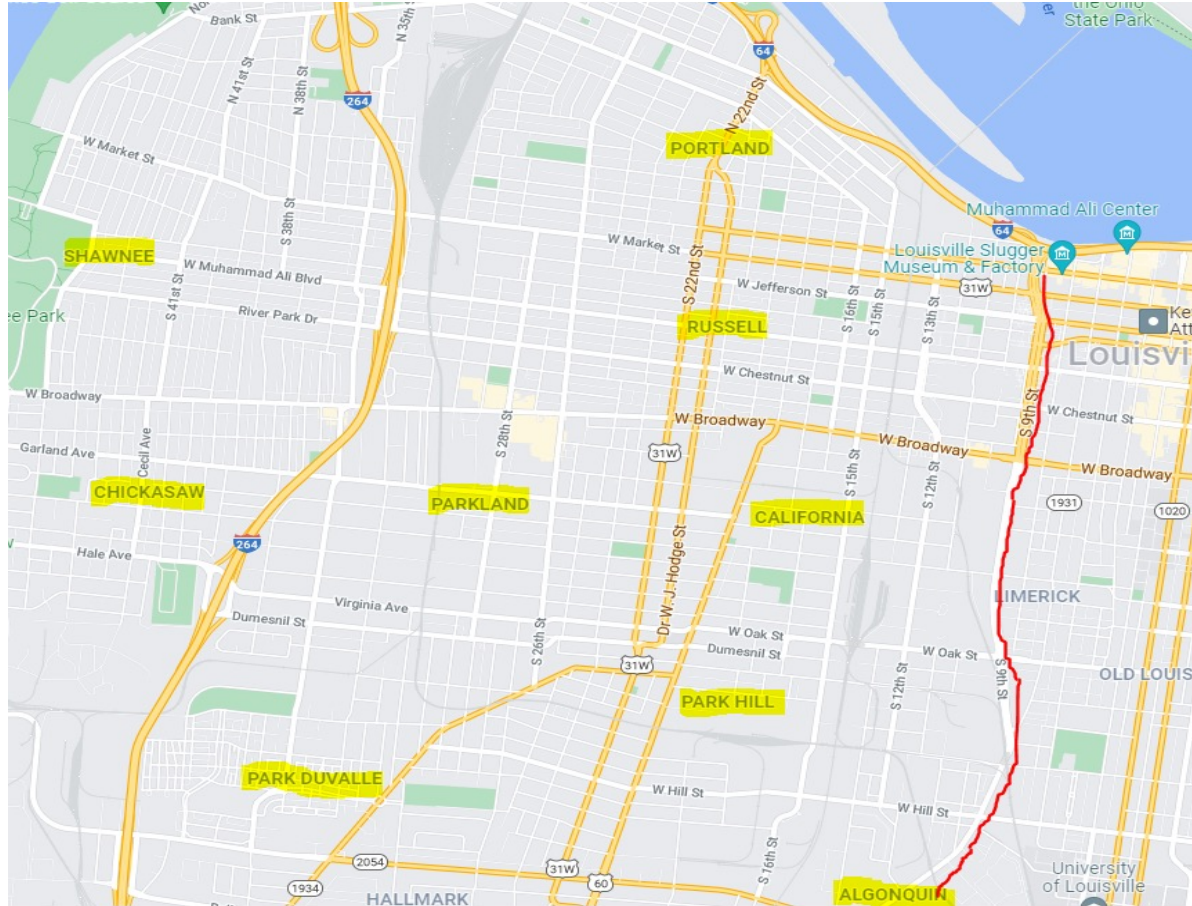
HPI Single Family Business model OVERVIEW (Continued)

- 'For sale' option
 - Allows families to purchase newly renovated homes at market rates, supported by down payment assistance. These buyers are mortgage ready (credit score is good, Have savings, etc.).
 - History of home sales in recent years
 - FY2018-53 home sales
 - FY2019-20 home sales
 - FY2020-30 home sales
 - FY2021-15 home sales
- 'Lease Purchase' option
 - Targets families not yet ready to be homeowners
 - Provided free homebuyer education and counseling
 - Resident to purchase the house at a predefined price when the lease is signed
 - 90 active families in our lease-purchase program

The Louisville Housing Market / HPI's Housing Market

Residential sales statistics	2019	2020	2021
Metro Louisville			
Median selling price	\$ 193,000	\$ 210,000	\$ 229,900
% change	<i>n/a</i>	9%	9%
Average days on market	41	41	21
The Housing Partnership, Inc.			
Average sales price	\$ 90,000	\$ 100,000	\$ 110,000
% change	<i>n/a</i>	11%	10%
Average days on market	90-120 days	90-120 days	90-120 days

The Louisville Housing Market / HPI's Housing Market(Continued)



Metro Louisville's West End Divide

HPI is working in 9 distinct neighborhoods in Louisville's West end to improve homeownership rates primarily for minority communities.

By the 1940s, West Louisville had grown into array of distinctive Black neighborhoods. Russell was known as "Little Harlem" due to the large number of successful Black-owned businesses. Redlining practices, however, barred many black families from becoming homeowners.

In the 1950s, City Officials created the 9th Street Divide, expanding the expressway and cutting off the West End from Louisville's Downtown Business district.

The Louisville Housing Market / HPI's Housing Market (Continued)

West Louisville Neighborhood Demographics									
* Information provided by U.S. Census Bureau, 2011-2015 American Community Survey unless otherwise indicated (2020 Census Data will be released March 31, 2021).	Jefferson County (city-wide)	California	Chickasaw	Park Duvalle	Park Hill-Algonquin	Parkland	Portland	Russell	Shawnee
Current Home Ownership Rate	62%	31%	57%	42%	29%	42%	37%	20%	52%
Median Household Income (in 2015 dollars)	\$48,695	\$16,591	\$31,497	\$25,044	\$19,894	\$22,615	\$23,705	\$17,264	\$29,157
Median AMI	100%	34%	65%	51%	41%	46%	49%	35%	60%
Total Population Below Federal Poverty Line	16%	46%	24%	32%	52%	40%	39%	52%	28%
Ethnicity & Race									
Asian	2%	0%	0%	0%	0.5%	0%	1%	0%	0%
Black or African American	20%	87%	96%	96%	66%	87%	32%	89%	85%
White or Caucasian	70%	9%	2%	3%	30%	4%	63%	6%	13%
Hispanic, Of Any Race	5%	1%	0%	0%	0.5%	2%	1%	0%	1%
Multiple Race, Non Hispanic	3%	3%	2%	1%	3%	7%	3%	5%	1%

Strengths Behind our Business Model

- **Operating a business at Scale** (History of recent acquisitions)
 - Property 81 Acquisition- 81 single family houses in 2018
 - \$3.2 million transaction supported by a \$1.1 million subordinate loan from a NW Capital (CDFI), functioning as equity for HPI.
 - PARCS 33 Acquisition- 33 single family houses in 2019
 - \$1.3 million transaction supported by a \$300k Sellers' note, functioning as equity for HPI
 - Oracle 50 and 64 limited partnership acquisitions- 114 Single family houses in 2020
 - Oracle 50-\$3.3 million transaction, supported by \$1 million in subordinate debt from State and city sources (payments based upon excess cash flow)
 - Oracle 64-\$8.1 million transaction, supported by \$2 million from State and city sources (payments based upon excess cash flow)

Risks to Manage-Recognize early on that insufficient capital reserves can negatively impact disposition strategies of post year 15 year single family LIHTC.

Strengths Behind our Business Model (Continued)



- To **maintain scale**, we are working to acquiring smaller portfolios of houses adjacent to existing assets or individual houses.
- This strategy will also protect the values of our renovated houses
- However, tracking down owners of abandoned structures can be time consuming and complex

Strengths Behind our Business Model (Continued)

- **Access to Construction Financing and Development Subsidies**

- Louisville Affordable Housing Trust Fund (LAHTF)-Local tax payer funds contribute \$10 million annually to cover development gaps for rental and home ownership projects, serving up to 80% AMI.
 - HPI has received \$800,000 in construction capital, with ½ forgivable to support Single family construction.
- Louisville CARES- Locally funded Revolving loan fund to support construction/rehab of multi-family housing, serving up to 80% AMI
 - HPI used funds to recapitalize the 114 house Oracle limited partnership acquisition
- New Market Tax Credit Development Subsidy through HPN-Federal subsidy supporting the renovation of 60 vacant single family homes; approximate development subsidy of \$17,000 per house
- Philanthropy from foundations- HPI received grants of \$1 million over 3 years to support single family activities

Strengths Behind our Business Model (Continued)

- **Managing the Construction/Rehab Process**-We are renovating 110 Single family homes over 18 months, deploying \$5.6 million.
 - Construction Team-
 - In House Expertise-Project managers must be knowledgeable of your specific housing stock and general construction methods/Industry standards/codes and regulations
 - Contractor Base-Broad base of skilled general contractors and sub contractors (to support volume of work)
 - Look for opportunities to support the contractor base through pricing and payment terms for smaller enterprises.
 - Supporting minority owned businesses has been a focus
 - Construction Process
 - Preparing Internal cost estimates and managing the bid process
 - Have multiple options when selecting contractors
 - Minimize choices around design and finishes, without jeopardizing customer priorities
 - Securing Assets when working in disinvested neighborhoods
 - Alarm systems, properly securing vacant houses, frequent inspections
 - Relationship with local code enforcement
- **Risks to Manage**-Your construction lead must know your inventory; For example, expertise in overseeing large multi-family construction or single family new construction may not translate into successfully managing single family rehab.

Strengths Behind our Business Model (Continued)

- **Managing the Construction/Rehab Process (Continued)**



Rehab Standards

- Quality Workmanship by Local Contractors- Licensed and Insured reputable contractors
- Quality Materials made for Durability- Evaluation or replacement of roofing, windows and flooring for minimum of 10-year life expectancy. 100% waterproof luxury vinyl plank flooring, stain resistant carpeting.
- EPA Approved Energy Efficient Products-High efficiency HVAC, LED lighting, WaterSense & Energy Star™ products for savings on water and electric bills.
- Installed Home Security-Wireless Home Security, increased exterior visibility & lighting, installed steel security and storm doors, and privacy fencing.



Contractor Requirements

- Licensed with Louisville Metro; Insured; Referrals and examples of work performed; Competency; knowledge of state/local laws and regulations; 1 year warranty of work; Signed lien waivers required.
- **Risks to Manage**-Trust but verify work performed by contractors; failure to do so has resulted in HPI buying back 2 houses sold because of insufficient oversight.

Strengths Behind our Business Model (Continued)

- Managing the Construction/Rehab Process (Continued)

Homeowner:		Housing Partnership Incorporated		Date Prepared: 6/27/2019	
Address:		In House Estimate		Zip: 40210	
Telephone #:		The Housing Partnership Inc		Superintendent Paul DeSpai	
		1825 Date St			
		502-298-3742			
Itemized Repairs		Quantity	Unit Cost	Totals	
		ea.	ea.		
Roof,Gutters & drainage	Clean and secure existing/ install new where missing to ensure best flow away from foundation. Include all fittings: elbows, splash blocks etc. Include garage guttering.	1 ea	600.00 sq.	6,030.00	
Windows	Repair or install new where damaged or missing. Install screens where missing or damaged.	5	380.00 sq.	1,900.00	
Doors exterior & interior	Exterior: Install new rear (9light) entry door. Repair attached shed door. Locksets are to be keyed alike. Repair rear door framing under threshold. Interior doors: Install new "in-kind" to replace where missing. Include new brushed nickel hardware.	7 lf.	275.00 lf.	3,370.00	
Siding & Trim	Pressure wash exterior of home and garage. Caulk fill butt end seams of siding where needed to prep for new paint.	1 lot	570.00 lot	570.00	
Fence,Porches & Rails	Repair or install rails where damaged or missing. Install fence rear of property.	1 lot	400.00 lot	2,050.00	
Plumbing	Take house plumbing system from rough in state to stop valves and fixtures installed. Install new Enviro-Temp 40 gal gas water heater.	1 lot	1,200.00 lot	2,090.00	
Electrical	Install new builder grade brushed nickel fixtures throughout to include bath and range exhausts and bulbs. Repair/replace switches, receptacles and smoke detectors.	1 lot	1,600.00 lot	4,800.00	
Ceilings/Walls/Trim	Repair or replace and finish drywall and trim to prep for paint finish. Include patch repair "in-kind" at tile shower wall.	1 lot	1,450.00 lot	1,450.00	
Paint	Prep and paint exterior: siding, trim and previously painted accessories (handrails, mailbox, etc.) Paint Interior complete (ceilings-walls-trim), owner spec'd colors.	1 ea	7,800.00 ea.	7,800.00	
Kitchen	Install new base & wall cabinets (same layout), counter top, sink and faucet. Install new dishwasher. Install new 1/4 turn stops and supply connectors	1 ea	4,000.00 ea.	5,417.00	
Materials	Supply all materials, fasteners, plumbing and electrical supplies	1 ea	5,000.00 ea.	5,974.59	
Bath/s	Install new toilets, sinks faucets, base cabinets and mirrors. Install new bathroom accessory kit.	1 ea	3,200.00 ea.	3,200.00	
Interior Miscellaneous	Perform thorough cleaning to make ready for sale. Install cordless mini-blinds throughout. Garage: repair missing gutter boards, gutters, soffitt, aluminum wrap, and vehicle door (leave plywood inside of garage for HPI's use). Site Security	1 lot	1,800.00 lot	2,545.00	
				Total In-House Estimate \$47,196.59	

Strengths Behind our Business Model (Continued)

- **The Home Sale Process and Knowing the Market**
 - Assemble the proper sales team
 - Hire realtors that knows the specific market and understand affordable housing
 - In house expertise associated with compliance from all funding sources is a priority
 - Continue to evaluate the market and be aware of demand from customers being targeted (i.e. AMI levels) to avoid missed opportunities
 - Down Payment Assistance-Multiple options for down payment assistance
 - State Housing Finance Agency, Affordable Housing Trust Fund
 - Federal Home Loan Bank (FHLB) Affordable Housing Program
 - Metro Louisville Office of Housing Down payment assistance
 - HPI' Home Access Down payment assistance Program. (HUD Approved)

Risks to Manage-Some DPA programs require a thorough knowledge of the program to maximize use. The FHLB is one such funding source.

Strengths Behind our Business Model (Continued)

The Home Sale Process and Knowing the Market (Continued)

- Advertising down payment assistance programs to prospective buyers



Step Up.
To A Home Of Your Own.

HPI offers grants of up to \$14,500 to lower the cost of entry for homeownership to low-income buyers

- Buyers are required to complete pre-purchase home buyer education. Check out HPI's Homebuyers Education & Financial Counseling program and eHome America Online Buyer Education!
- Assistance may be used for Downpayment, Closing Costs, and/or Principal Reduction.
- Kentucky Housing Corporation requires a five-year deed restriction. Notice must be given of any refinancing, sale, foreclosure, deed-in-lieu of foreclosure, or change in ownership during the five-year period.

Household Size	Maximum Income at 50% of AMI
1	\$27,150
2	\$31,000
3	\$34,900
4	\$38,750
5	\$41,850
6	\$44,950
7	\$48,050
8	\$51,150

CALL TODAY!
502-491-8577



Metro Advantage Realty
Opening the Door to Your Dream!



The Housing Partnership, Inc. is an Equal Housing Opportunity Provider and does not discriminate on the basis of handicap, race, color, national origin, religion, sex, familial status, or age.

Downpayment Assistance is Here!



AFFORDABLE HOUSING PROGRAM

\$10,000 GRANTS AVAILABLE

FOR CLOSING COSTS AND DOWN PAYMENT ASSISTANCE

- ♦ Limestone Bank can offer \$10,000 grants.
- ♦ Designed to assist low-income households achieve homeownership.
- ♦ Eligible property must be an HPI-owned single-family residence.
- ♦ Buyer must obtain 1st mortgage with Limestone Bank to receive grant.
- ♦ Buyer must maintain ownership in this property for a period of five (5) years.
- ♦ Assistance is secured by deed restriction.
- ♦ Assistance can be used in conjunction with other DPA programs.
- ♦ Buyer must contribute \$500 towards the purchase of the property.
- ♦ Buyer must complete pre-purchase home buyer education.

Strengths Behind our Business Model (Continued)

The Home Sale Process and Knowing the Market (Continued)

- Advertising down payment assistance programs to prospective buyers



HPI Lowers the Cost of Entry

Listing Price	\$105,000
Downpayment Assistance*	
The Housing Partnership, Inc.	\$14,500
Louisville Metro DPA	\$21,000
Mortgage Need	\$69,500
Income Restriction	50% AMI or below
Est. minimum household income feasible for mortgage	\$22,500/year

Based on 30-year mortgage at the current interest rate of 3.25%, and including taxes & homeowners insurance, mortgage payments would be an estimated **\$527** per month.

HPI Single Family Home Sale Examples

HPI Example Home Sales

	Address		
Type	HPI Original Developer <u>1825 Date Street</u>	Purchased out of Foreclosure <u>2202 W Oak Street</u>	Purchased from Developer <u>1910 Bank Street</u>
Sales price	\$ 100,705	\$ 128,562	\$ 110,000
Development subsidy	32,000	17,000	31,794
asset cost	(31,650)	(18,000)	(52,592)
Turn costs-3rd party	(60,870)	(90,758)	(49,578)
Direct Labor	-	(6,718)	(2,230)
General conditions/Overhead/Profit	(8,522)	-	(7,253)
Developer Fee	(13,135)	(15,012)	(14,515)
Closing costs	(5,878)	(8,216)	(6,295)
Utilities	(1,000)	(1,500)	(1,000)
Insurance	(1,871)	(944)	(930)
Lawn care	(2,245)	(1,133)	(1,116)
Interest carry-perm loan	(6,571)	(1,969)	(5,427)
Interest carry-construction loan	(963)	(1,312)	(858)
Net Sources (Uses)	0	(0)	(0)
Profit to HPI	\$ 13,135	\$ 15,012	\$ 14,515
Reimbursement of HPI costs	8,522	6,718	9,483
Cash flow to HPI	\$ 21,657	\$ 21,730	\$ 23,998

- The Table to the left provides 3 examples of homes renovated and sold in 2020-21.
- All 3 homes were held as vacant houses for 1-3 years before raising capital for renovations
- Developer fee represents profit earned by HPI
- HPI acting as the general contractor
 - We were the general contractor for 1825 Date Street and 1910 Bank street and charged overhead and profit to the project in that capacity
 - We hired an outside general contractor to renovate 100% of 2202 W. Oak Street
- Development subsidy was essential to making these projects viable.

HPI Single Family Home Sale Examples (Continued)

2202 W. Oak Street



Before



After

HPI Single Family Home Sale Examples (Continued)

2202 W. Oak Street



Before



After

HPI Single Family Home Sale Examples (Continued)

2202 W. Oak Street

Before



After



HPI Single Family Home Sale Examples (Continued)

2202 W. Oak Street



Before



After

HPI Single Family Home Sale Examples (Continued)

1825 Date Street



Before



HPI Single Family Home Sale Examples (Continued)

1825 Date Street



Before



After

HPI Single Family Home Sale Examples (Continued)

1825 Date Street



Before



After

HPI Single Family Home Sale Examples (Continued)

1825 Date Street



Before



After

HPI Single Family Home Sale Examples (Continued)

1825 Date Street



Before



After

New Strategies to Carry Forward a Sustainable Single Family Business Model

- Non-profit mortgagor loan (with Banking Partner)
- Acquiring smaller portfolio of assets at a time
- Working with co-developers to reach scale
 - Minority developer program
 - Developers with common goals to support affordable housing (Louisville Urban League)
- New construction opportunities
 - Housing designs technique to make new construction affordable
- FHA Distressed note sales



homewise®

www.homewise.org



Santa Fe Homeownership Center: 1301 Siler Road Building D Santa Fe, NM 87507

Albuquerque Homeownership Center: 500 2nd Street SW, Albuquerque, NM 87102



THE HOMEWISE MISSION

is to help create successful homeowners and strengthen neighborhoods so that individuals and families can improve their long-term financial wellbeing and quality of life.



Who Are Our Clients

HOMEWISER CLIENT HOUSEHOLD DEMOGRAPHICS

Santa Fe & Albuquerque markets: 1/12 - 3/21

1,427



.... SINGLE ADULTS

821



.... MARRIED + CHILDREN

584



.... SINGLE PARENT

438 female, 146 male

403



.... MARRIED, NO CHILDREN



Homewise Team of Services

Path to Homeownership

Personalized One-One Coaching Team

Free Homebuyer Education

Free Financial Fitness Education

Help in Buying and Selling Your Home - Real Estate Sales Team

Homewise Homes – Real Estate Development Team

Competitive Mortgage Loans – Lending Team

Home Mortgage Refinance and Home Improvement Loans

Homewise Loan Service Team



Real Estate Development Key Questions

What does the market need?

- Rehab the current supply?
- Create new supply?

What does your client need?

- What can they afford?
- What do they want?



Real Estate Development Strategy

- We build high quality, energy efficient homes in both Santa Fe and Albuquerque for our clients
 - We create mixed income communities for all of our clients
 - Our Business model allows for scale
 - Land acquisition is opportunistic



Real Estate Development Diversification Model

- Build in multiple communities with various price points
- Build a range of unit types and sizes
- Work with and manage multiple General Contractors
- Work all phases of the development cycle simultaneously



Real Estate Development Helpful hints

- Start simple – Finish pads or infill is easier to budget
 - Pilot small projects for learning experience
- You must take the first step in development, subsidy opportunities will come once established
 - Strategies in housing change quickly, be flexible



A new direction forward...
Development

Community



The Orpheum is a renovated vaudeville theater, which we restored as our office in Albuquerque. We also restored an existing theater space, which is open for community use and hosts performances and workshops, and 19 affordable apartments on the second floor which we rent at a below market rate amount.