

2024 Financial Management Conference

A Development Primer for CFOs

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Panelists:

Sal Bosco, Senior Vice President, Urban Edge

Jeanne Marie Coronado, Vice President, CBRE Affordable

Gayle Lacroix, CFO, Volunteers of America of Massachusetts

Moderator:

Len Tatem, Principal, Tatem Consulting

A Development Primer for CFOs

Session Description

The CFOs office is where the financial performance of a portfolio and the strength of the organization meet. And Real Estate development is usually the biggest investment and risk that an organization takes. This session offers CFOs an overview of the development process and will focus on the key decision points in the process: choosing deals, financing resources and support. What are the danger points, and red flags along the way? How to build an integrated process for your organization

A Development Primer for CFOs

Moderator



**Len Tatem, Principal
Tatem Consulting**

[-----Panelists-----]



**Jeanne Marie Coronado,
Vice President CBRE
Affordable Housing**



**Gayle Lacroix,
CFO/IT Director
Volunteers of America of
Massachusetts**



**Sal Bosco
Senior Vice President
Urban Edge**

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Audience Questions

- We will pause for questions during presentation and again at the end for Q&A.

Format

- While this is a panel, we are looking to have our audience participate in the discussion.

Polls

- We have a number of polls that throughout the session. Some will be simply answered by raising your hand and others might be electronic. Its going to me a surprise.

Learning is Fun

- Enjoy the session and each other.

Continuing Professional Education (CPEs) Requirements for CPAs

- Please find the **SESSION HOST** to **SIGN IN** at the beginning and **SIGN OUT** at the end of every session using the QR code. We use that attendance log to verify your participation for CPE credits.
- Please **submit all conference evaluations**. Evaluation links are emailed to registrants daily. Please see the session host (the person monitoring the sign-in process) if you prefer a paper evaluation.
- For more information on CPE credits, contact Lindsay Wells at consult.lwells@gmail.com.

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How Long Have You Been a CFO
or Lead Financial Manager?

1. **One to three years?**
2. **Four to seven years?**
3. **Seven to ten years?**
4. **Feels like since the dawn of time!**



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What are the elephants in the room at the Enterprise Level?

- Development risk prioritization.
- Enterprise risk management (ERM) requires tools such as heat maps, bowtie analysis and scenario planning.
- Climate reporting as its not only global issues but also challenges in your own part of the country, state and locality. And issue in any part of the country really impacts us all.
- Cybersecurity risk management to mitigate attaches as well as access to organization funds.



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What is the elephant in the room at the property level?

- Interest Rate Increases
- Delinquent Rents & Eviction Pressure
- Projected rent increases that were not taken
- Inflation driven cost increases
- Staff turnover and Hiring challenges
- NOI and cash challenges
- Climate Disasters
- Insurance Rate & Deductible



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As we work our way through this presentation, we want you to continually ask yourself this question in your role as the lead financial professional for your organization:

DO YOU HAVE A SEAT AT THE TABLE?



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So with what is seemingly a herd of elephants adding challenge after challenge into the operation of our properties and portfolios, what should we be thinking about and planning for to manage the challenge?



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CFO/ORGANIZATION ROLES

- During the development process, the CFO has to be a key participant in the run up to and participate in the construction close, the ongoing development and the run up to the and participation in the final close.
- The CFO needs to be in on closing calls.
- This includes review of relevant documents concerning on going reporting
- Production of financial statements and ad hoc requests
- Review of the proposed operating budgets
- Handle lender/investor underwriting
- Manage the development accounting

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Has your organization used any of the following options in the development or capitalization process?

1. **9% housing tax credits**
2. **4% housing tax credits**
3. **Hybrid of both types of tax credits?**



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Deciding Whether to Pursue Tax Credits or Not

- Qualified Asset Plans (QAP)
- What Allocation Pool Does The Project Fall In?
- How Does The Project Score?
- Do we use 9% or 4% credits?
- How Competitive Is Your Application Round?
- Is There Sufficient Scope?
- Does It Fit Your Timeline?
- Can You Secure Public Funds?



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Go/No-Go Development Policy Attribute Considerations

- **Geography**
- **Size of Property/Number of Units**
 - **Development Fee**
- **Asset Management and Resident Service Fees**
 - **Community Space**
 - **Specific Amenities**
 - **School Systems**
 - **Safety**

Questions to Ask

- **Do You Have A Checklist?**
- **Do You Have a Safety Net?**
- **What is the Board Committee, Full Board Process for Approval?**
 - **Long-term Cash Flows?**
- **Relation to Other Portfolio Deals?**

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Legal Standpoint

- **LLC or LP – different requirements**
 - **Who is the managing GP**
 - **Who is in the game?**
 - **Joint-Venture**
 - **Other Partners**
 - **Who is taking distributions**

Financing Structure

- **Long-term Cash Flows**
- **Relation to Other Portfolio Deals**
 - **TDC considerations**
- **Acquisition Process in Your State**
 - **Income Averaging**
 - **Market Study**

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Deal Structures: Finance Considerations

- ❖ Partnerships
 - ❖ For profit/ non profit – who has control?
 - ❖ Managing risk of promoting other community based organizations
- ❖ Twinning structures
 - ❖ 4% and 9% in same deal (potentially market rate too!)
 - ❖ Is this the ONLY way to get the deal done? (Juice worth the squeeze)
- ❖ Non-LIHTC New Construction
- ❖ Recapitalization

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Deal Structures: Finance Considerations

- ❖ Ask lenders and finance partners what creative structures they are seeing
 - ❖ Example: cash collateralized bond structures increase sources without soft debt
 - ❖ Ensuring they assess varying structures net of additional cost
- ❖ Non-LIHTC New Construction
- ❖ Ensure long term view
 - ❖ Are development teams so focused on closing the gap they lose sight of long-term viability?
 - ❖ What restrictions or service requirements are attendant with what financing is accepted?
 - ❖ (ex. Amazon Equity Fund)

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Picking Financing Partners:

Will you choose a partner based upon pricing?

What else should be considered:

1. Relationships matter, especially when issues arise. Do you have a feel for the working style of those that you choose as a partner? Are they a true partner or dictator?
2. Are you too leveraged with one lender/investor?
3. Do you have a few allowing you to see the benefits of each?
4. Does your partner operate in your area so that they understand the state and local finance partners ?
5. Are you able to negotiate terms (i.e. audit and budget timing, guarantees and the burn-off of these items etc.)?

You are looking for a true partner for your business!

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General Assumptions

- **The prospective lender/investor is reviewing the development pro-forma separately.**
- **General practice is for the organization to create the development sources and uses together.**
- **In a refinancing, the finance group (CFO) puts the deal together with assistance from RE and AM.**
- **There could be variations on this model in organizations depending on the organization chart and whether the organization is large enough to have an asset management function.**

Materials Needed

- **Providing all requested financial information concerning the sponsor/developer**
 - **Participation in all question and answer sessions**
 - **Production of any ad hoc financial information during the development period**
- **Once the project gets underway, finance should be the source of the financial statements of the sponsor/developer and the actual project.**

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Has your organization had issues with any of the following?

1. Collecting developer fees?
2. Collecting deferred developer fees?
3. Collecting waterfall payments for asset management and/or resident services?
4. All of the above or a combination of the above?



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Have You Had Issues with
Converting to Permanent Financing

1. **Yes, we have**
2. **No, we have not**



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Handling Overruns

- Issues with the Deferred Developer Fee
- Construction Value Engineering
 - Managing the Cost Cert in the Process
 - 50% Test
 - Bond Test
- Additional Credits
- Additional Soft Debt



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Strategies to Improve Chances of a Successful Recapitalization

- Debt Refinancing
- Grants and Subsidies
- Private Equity and Impact Investors
- Energy Efficiency Programs
- Increase Operating Income
- Partner with HFAs
- Income Diversification



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Has your organization used any of the following options in the development or recapitalization process?

- Interest only as a bridge loan
- HOME loan
- Fannie Mae or Freddie Mac Loan
- Bonds
- Conventional Loan
- Combination of the above options



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Addressing Capital Needs Before Its Too Late

- Regular Physical Needs Assessments
- Capital Reserve Planning
- Complete Preventative Maintenance
- Invest in Technology
- Tenant Engagement

Southwest MN Housing Partnership

Mission: We partner with communities to develop places for people to call home.



Five Cities Portfolio

SWMHP Five Cities LLC

Five Communities
in Rural Minnesota
Jackson
Dawson
Marshall
Montevideo
Lakefield
81 total units



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Enterprise Risk Management

Begin the journey of building a risk management strategy using a simple process so that it does not feel overwhelming.

1. Identify your organizations “Crown Jewels” – what about your organization drives it to be successful?
 - a) Mission, Reputation, Business Approach to solving a particular problem, Location etc.
2. Evaluate the at least the top 10 risks that could impact your “Crown Jewels”. These should include both internal and external threats. They can also include short -term or long-term risks.

For each risk start with “there is a risk that...” and finish with “which may...”

1. Develop a Risk Ranking or “heat map”
2. Determine if you will
 - a) Tolerate the risk, but monitor
 - b) Terminate the activity causing the risk
 - c) Transfer the risk by adding insurance, an external partner etc.
 - d) Treat the risk to reduce the likelihood of negative impact

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Enterprise Risk Management

Are you involved with your Company's Risk Management Strategy?

You should have a seat at the table!

- For those of you that have a plan or are working on one – excellent!
- For those of you just starting – no worries. It can begin with a meeting of key internal executive staff and the development of a SWOT analysis.

Presentation includes materials from UNC North Carolina, Poole College of Management ERM Initiative

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Enterprise Risk Management

A Good Risk Management Strategy:

1. Is tied to your organizations Strategic Plan
2. Is in a continuous state of review
3. Includes input from all levels of staffing
4. Involves senior staff and the Board
5. Involves the identification of opportunities at the same time
6. Has at least one Champion to keep the process moving



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Contingent Liabilities and Guarantees

- Familiarity with contingent obligations, generally as a result of sponsor guarantees
- Manage off balance sheet liabilities:
- LIHTC delivery
- Operating deficit guarantees
- LIHTC recapture
- Completion guarantee
- Most of these are time or event sensitive

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Best Practices

Improving future development outcomes starts during the underwriting process. Ensuring that strategies that help build on the lessons of the past are key. How do we best accomplish this:

- Asset Management and the Development team should be involved in the review of the difference between the original proforma and the “conversion proforma” so that variations from the underwriting are understood.
- Track how revenues, expense, NOI, subordinate debt and depreciation and amortization vary from the proforma. This is important with LIHTC projects as these results impact the capital accounts.
- Development team members will benefit from a review of the results after the conversion of the permanent financing. This may be accomplished by having the specific project manager and/or their supervisor participate in the review of the audit for the first three years. In this way, they get to see what challenges presented themselves.

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REO Schedule Review and Considerations

Global Portfolio Analysis Metrics to consider



1. **Strong Financial Performers**
2. **Weak Financial Performers**
3. **Properties needing rehab**
4. **Deeply mission aligned properties**

- Identify near term maturities
- Can financially stronger properties support those others? The deeply mission driven properties, the small properties?
- If it is not meeting mission and not financially strong, does it make sense to keep it in the portfolio?
- Beneficial to review with outside partners so they can provide information to aid in decision making

Preservation Debt Products

Features	Freddie Mac Preservation	Fannie Mae Preservation	Fannie Mae Tax Exempt Bond	FHA Preservation	Private Placement Debt Fund or Bank
Loan-to-Value Ratio	80%	80%	80%	85%	Up to 90%
Debt Service Coverage Ratio	1.20-1.25	1.20	1.15-1.20	1.11-1.18	1.15
Interest Rate Benchmark	5, 7 or 10-Year Treasury	5, 7 or 10-Year Treasury	MMD based on bond term, typically 10 year	10-year Treasury	Typically 10-year Treasury
Interest Rate Spread	145-170 bps*	125-165 bps*	200-225 bps	140-175 bps**	200-350 bps
Amortization Period	30-35 Years	30-35 Years	30-35 Years	35-40 Years	Varies
Loan Term	5-15 Years	5-15 Years	5-15 Years	35-40 Years	Typically 10 Years
Minimum Loan Size	\$1,000,000	\$1,000,000	\$8,000,000	None	\$10,000,000
Processing Time	60-90 days	60-90 days	75-120 days	120-240 days	75-120 days

* Fannie and Freddie spreads assume a loan over \$6 million. Under \$6MM would add approximately 30 bps to the rate.

** Rate does not include Mortgage Insurance Premium.

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Case Study CBRE

Affordable Housing:

Pepperwood Apartments

- Rancho Cucamonga, CA
- 230 Units – 35%, 45% and 60% of AMI
- **Rate: 4.47%**
 - (similar taxable transactions at the time 5.95%-6.35%)
- Closing DSCR: 1.45x
- Closing LTV: 48.40%
- Execution: Fannie Mae MTEB with 501(c)(3) Bonds
- **10 year term**
- Closed: December 2023

Sources	
Fannie MTEB Loan	\$10,000,000
Borrower Contribution	\$425,925
Accrued Interest	\$20,833
Total	\$10,466,759
Uses	
Payoff Existing Debt	\$6,409,848
Rehabilitation	\$3,119,673
Bond Cost of Issuance	\$322,740
Mortgage Costs	\$275,478
Escrow Costs	\$233,185
Deposit to Neg Arb Account	\$75,000
Deposit to Revenue Fund	\$20,833
Surplus	0
Total	\$10,466,759

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Case Study:
Pepperwood Apartments

CBRE Affordable Housing

Max Proceeds	Tax Exempt	Taxable
NOI	\$818,582	\$818,582
Rate	4.43%	6.15%
Min DSCR / AM	1.20x / 35 year	\$1.20x/ 35 year
Max Proceeds	\$12,112,460	\$9,795,989
Bonds Cost of Issuance	-\$322,740	\$0
Net Additional Proceeds	\$2,003,732	\$0
\$10,000,000	Tax Exempt	Taxable
NOI	\$818,582	\$818,582
Rate	4.43%	6.15%
Min DSCR / AM	1.20x / 35 year	\$1.20x/ 35 year
Requested Proceeds	\$10,000,000	\$9,795,989
Annual Debt Service	\$562,717	\$682,151
Net Additional Proceeds	\$119,434	

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Debt and Financing Considerations – Preservation

■ Resyndications

- Often the first choice of development team
- Long timeline
- Uncertain in volume cap constrained states
- Requires the organization to bring on another tax credit partner
- Great option when high amount of capital needs

■ Refinance

- Maintain ownership
- Faster execution
- Often supports some rehab
- Can be a bridge to a future resyndication

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Has Today's Session Provided You with Any Valuable Take-aways?

1. **Yes, it did!**
2. **No, it did not!**
3. **More Please!**
4. **I already know everything!!**
5. **Lame question – every session provides a chance to grow, learn and exchange ideas with my peers!!**



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Wrap Up And Thank You!

- Final Thoughts from the Panel?
- Final Thoughts from our Audience?
- Final Questions from our Audience?



Evaluation Reminder

- Please submit all conference evaluations. Use the electronic evaluation link in your email.
- Contact consult.lwells@gmail.com if you do not receive the link.

Affordable Housing

Investment Properties

Debt & Structured Finance

Investment Banking

cbre.com/affordablehousing

CBRE

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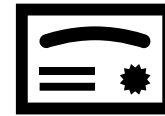
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