

Banks, we need you

Affordable housing has to have local investment, panel says

In what was part press conference, part sales pitch and part opportunity to show off the Birches at Esopus senior affordable living complex in Port Ewen, a varied group of bankers, local, state and federal officials and media types — protected by a small platoon of off-duty Kingston police officers — gathered last week to talk about the future of affordable housing financing.

The objective, it seems, was to take the keep-it-local movement, which has caught on in terms of eating and shopping, to the funding of affordable housing projects. While the need for it has only intensified with the recession, the mass spooking-off of large lenders, whose money previously financed much of the affordable housing built in this country, has forced developers and government officials to look elsewhere for the wherewithal to get the shovels turning.

To that end, Steve Aaron, whose Birchez Associates built the Birches complexes in both the towns of Esopus and Saugerties, and the Chambers complex (soon to be complexes as Chambers phase two nears completion) in the Town of Ulster, invited the eclectic gathering to Port Ewen. Joining him at the table up front were U.S. Rep. Maurice Hinchey, Deborah VanAmerongen, commissioner of the New York State Division of Housing and Community Renewal, Ulster Town Supervisor Nicky Woerner and two top execs from the Great Lakes Equity Fund, a 501(c)(3) not-for-profit corporation which pools money from various sources in equity funds (like mutual funds for real estate) to invest in affordable housing and its lucrative federal tax credits.

"We want to have direct conversations with folks on what is going on with the financing of affordable housing and we're looking to ensure that we can keep affordable housing preservation and production going in these difficult economic times," said VanAmerongen. "The issues that



Great Lakes Equity Fund CEO James Logue speaks while affordable housing developer Steve Aaron (left) and Deborah VanAmerongen, commissioner of the New York State Division of Housing and Community Renewal (right) listen.

we're confronting in our agency and working with developers in the housing field and in our banking community, the problems have nothing to do with what our track record is."

The commissioner went on to outline the problem.

"It's about what's happening in the broader economy and a model for financing that has really been adversely impacted by the broader problems in the financial market," said VanAmerongen. "Much of the investment in affordable housing in the past decade has been by large financial institutions, and [those institutions], not because of their financing of affordable housing, but because of decisions they made with other types of products they were financing, are really suffering and they do not have the ability to continue to invest in this market as they had in the past."

But, affordable housing is still a glaring need and still must be paid for; government has increased its role. "The state and federal governments have both stepped up, most recently the federal government with its stimulus package. It's really thanks to the work of our congressional delegation that we keep having the ability to put public subsidy dollars into the financing of affordable housing. But there's never going to be enough [public] money to finance this on its own," VanAmerongen said. "There's going to have to be private market investment coming into these buildings as well. It only works as a model that has both private and public sector investments."

"When I first started in the business, we opened Chambers Court in the Town of Ulster in 2002," Aaron said. "As soon as the tax-credit awards [were announced], I didn't have enough phone lines" to handle the calls from interested investors. "The phone just rang off the hook."

As Aaron started to close on the loans last year for the second phase of Chambers, things had changed. "I was calling bankers and they weren't calling me back. Investors weren't calling me back."

"This building here is a great example of how people's lives can be more secure," Hinchey said of the Birches. "There are very few things in life that are more significant, more important than having a roof over your head, particularly having a roof over your head that's comfortable, enjoyable and has a lot of other things going for it."

Hinchey also spoke to civic duty. "The need for investments in these processes is very critically important, so whatever you can do to continue this movement, help it be secure and make it as fine as these places that Birchez has put together, I think you'll be doing something that's very

positive, but also very satisfactory."

"Growing up in the City of Kingston, I lived in Rondout Gardens and Stuyvesant Charter, which are two affordable housing projects," Woerner said. "So, I understand the importance of the benefit of affordable housing. ... This is extremely important. The key to continuing to provide affordable housing is to have local banks begin to invest in funds like this. ... The waiting list of these projects is five times the number of available units."

Since November 2008, as a response to money from big players for affordable housing drying up, state officials have been trying to create an "equity fund model" in New York, VanAmerongen said. "We're going to keep talking to people about the opportunity to invest in a strong market, with a beautiful product and a worthy investment."

'Do well by doing good'

That was the cue for James Logue, CEO of the Great Lakes Capital Fund. A 501(c)(3) not-for-profit, started 16 years ago in Michigan. Besides Michigan, Great Lakes also serves Illinois, Wisconsin, Indiana and, as of 2009, upstate New York. Logue said Great Lakes is a "complete financial institution," also involved with economic development, community planning and development and youth and adult leadership development, which stem from its affordable housing work. The company currently has about \$1.3 billion in cumulative investment in 17 funds and has helped to build more than 25,000 homes.

What makes affordable housing an attractively stable investment, Logue said, is the extensive federal tax credits available to those who put money in, Logue said. The Low Income Housing Tax Credit (LIHTC) program provides a 9 percent credit for development costs and 4 percent credits for building acquisition and developments using federal financing, as well as extra credits for some developments. A \$675,000 LIHTC investment will bring \$900,000 in tax credits over a 10-year span, along with other tax benefits, Logue said.

The federal housing tax credit program has been "the most successful program for affordable housing in perhaps the history of the United States," said Logue. "It's been around since 1986, Congress has routinely and consistently improved the program, extended it, made it permanent. It's really been the structure around which almost all affordable rental housing in the country is done today. ... The problems we're facing today have nothing to do with the program." Banks can also benefit from having their involvement in afford-

able housing count toward fulfilling their Community Reinvestment Act obligations.

"You can do well by doing good," Logue said. "It is the safest class of real estate. Housing tax credits have been among the safest real estate investments in the company."

According to a 2006 Ernst & Young study cited by Logue, the annualized foreclosure rate of housing tax credit projects is 0.08 percent, compared to 0.27 percent for apartments, 0.58 percent for retail and 1.15 percent for office space. Logue said Great Lakes has never had a project go into foreclosure or recapture of credits. "All of our investors have always gotten all that they've bargained for," Logue said. "Going back to 1995, we have either met or exceeded our investment objectives in every fund we've done since our startup."

Logue said \$8-9 billion of equity is needed to support affordable housing, but "current estimates are that there are only \$3 to \$4 billion of private equity to support that \$8 billion of need. There's a large gap."

Looking for \$30M

"Our target is trying to raise \$30 million by the end of this year or the beginning of next year," for Hudson Valley affordable housing, with that money helping to finance from eight to 15 projects, Logue said. "This is multiple projects ... all of the investors will have a proportionate share of the investment in all of the projects."

Great Lakes, said Logue, supports projects which build workforce housing — "the typical resident makes between \$15,000 and \$30,000 a year. This is not luxury housing by any stretch of the imagination. ... You're investing in the communities that your companies live in, that your employees live in — it is a true return. You can go out and see what you're investing in."

Logue gave an indication of what investors can expect. "The current yield on our fund in upstate New York will be a 9 percent after-tax yield, which equates to something over 13 percent, pre-tax." Logue said that how long it takes for investors to see a return depends on the structure of the individual fund invested in, but typically a fund will start producing benefits within 12 to 18 months. Benefits are taken over a span of 10 years, with a 15-year compliance period.

According to information provided by Great Lakes, their funds have been a success, meeting or exceeding their target rate of returns. The most current fund listed is hitting its target rate of return of 6.5 percent as of June 2008.

Logue said an advantage of investing in an equity fund rather than an individual project, similar to the advantage of investing in a mutual fund rather than an individual company's stock, was spreading the risk. Up to 20 investors are in one fund; a minimum of \$250,000 is required to join in, but Logue said investors often put in millions, up to \$10 million in some instances. Another advantage Great Lakes offers, said Logue, was expertise and experience in dealing with the federal regulations, and the economy of scale principle helps cut down on overhead costs.

"We think there's a terrific opportunity in upstate New York," Logue said. "Investors have options. They can invest in New York City, which is a fairly easy sell in this environment, or they can invest in the Hudson Valley, Rochester and Buffalo," Logue said. "Right now, there is a real competition for investment capital, and unfortunately, a lot of that investment capital is being attracted to areas that don't provide as broad a geographic dispersion as we would like, certainly from a public policy point of view."

Dennis Quinn, a Great Lakes senior vice president, talked about the pipeline of "investment quality" projects the equity funds need to fund. "What we have done thus far is meet with several developers in the region, not only in the Hudson Valley ... we have developed our pipeline of about \$300 million worth of total development for investment here. Out of that \$300 million, \$145 million represents the tax-credit equity piece. Under the current market, about half will be the equity investment and half in some sort of either debt or soft financing to make these deals work. ... In the Hudson Valley region ... we have already identified about \$140 million worth of projects in just this six- to eight-county region."

How easy is the process for the banks, asked a representative from a local bank. "We try to make it as straightforward as possible," Logue replied. "The biggest challenge that an institution has that hasn't invested in a credit before has ... is its own due diligence process. We understand that process and can help with that process. We try to make it as simple as possible."

Dan Barton