

The Development Process

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THE FLORIDA HOUSING COALITION



Presenters



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Catalyst Training Schedule



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Logistics for Today's Webinar

- All attendees are muted
- Please type in your questions. We will answer questions throughout the webinar.
- Webinar is being recorded and will be posted to our website
- Handouts
 - PowerPoint for today's webinar
 - Site Selection Checklist
 - Developing and Monitoring Rental Housing with SHIP Guidebook
 - Credit Underwriting Guidebook
 - Predevelopment Loan Program information

Poll #1

- Who's attending today?
 - Local government staff
 - Elected official or advisory board member
 - Nonprofit developer – staff or board member
 - For profit developer
 - Other

Poll #2

- Where are you in your development process?
 - We have a concept, but no site
 - We have a concept and a site
 - We have a concept and site, but need to fill out our development team (including potential joint venture with experienced developer) and/or financing
 - We have closed on financing but not sure what's next
 - As a local government, we need guidance on projects we have approved or will approve

The Development Process

Rental

- Conceptual vision
- Site Selection
- Programming/Preliminary Design
- Funding Application
- Credit Underwriting
- Funding Award and Initial Closing
- Construction and Lease-Up
- Project Stabilization and Final Closing
- Project Operation and Program Compliance

Homeownership

- Conceptual vision
- Site Selection
- Programming/Preliminary Design
- Funding Application
- Funding Award and Construction Loan/LOC Closing
- Construction and Sales

Predevelopment – 4 Meetings

Board of
Directors

City and County
Housing Staff

Team Members

Technical
Advisor

Predevelopment – Conceptual Stage

- What is your mission?
- What type of project is contemplated?
 - Multifamily
 - Single family
 - Large scale, small scale
 - Urban or Rural
 - Supportive
- Do you have the capacity?
 - Staff skillset and experience
 - Financial capacity



Predevelopment – Your Target Market

- Low-Income (<80% AMI)
- Moderate-Income/Workforce (<140% AMI)
- Seniors
- Farmworkers
- Homeless
- Disabling Condition
- Other Special Needs

Predevelopment – Need for Your Product

- Needs Assessments
 - Local studies
 - Home Matters Reports
 - Shimberg Center data
 - Market studies
- Some Key Data Points
 - Cost Burden
 - Homeless counts
- Disaster Recovery – displaced households
- **But is there funding available?**

Predevelopment – Site Selection and Evaluation

- The site should match the project concept!
 - Broker listings
 - Seller solicitation
 - Target areas – public funding or policy initiatives
 - Riding Around
- Often, the attributes of the site may determine the project!
- Surplus Land Inventory [See Guidebook](#)

Site Selection – Neighborhood and Community Factors

- Neighborhood conditions
- Crime stats
- Investing or divesting

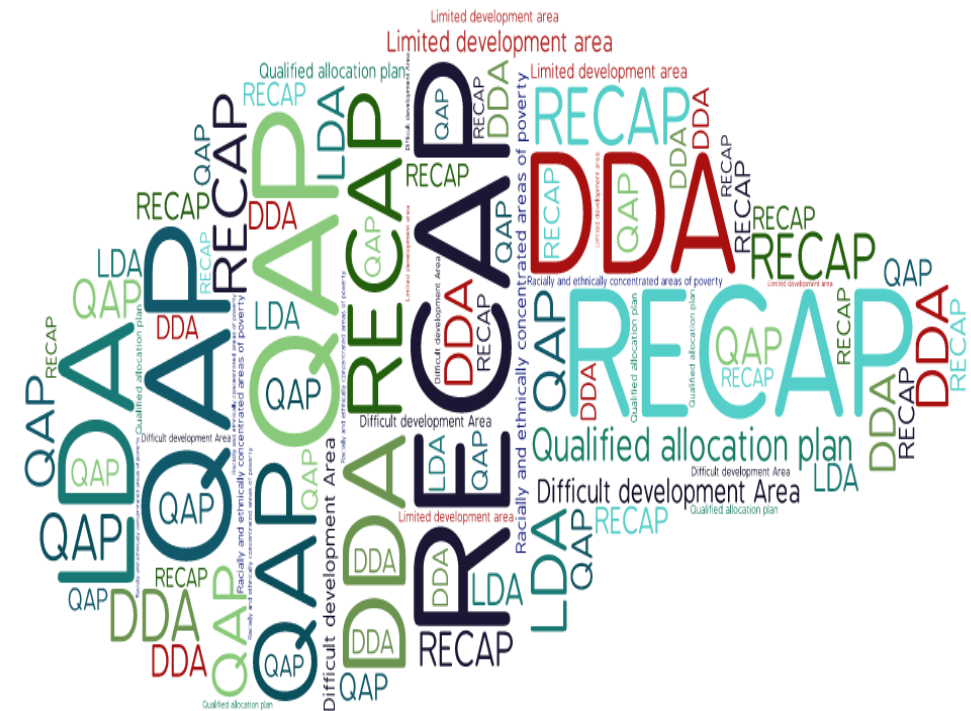


Site Selection – FHFC's RFA Proximity Factors

- Schools
- Transportation
- Personal Services
 - Shopping, healthcare, daycare
- Public facilities and services
 - Police, fire, EMS
- Proximity to employment

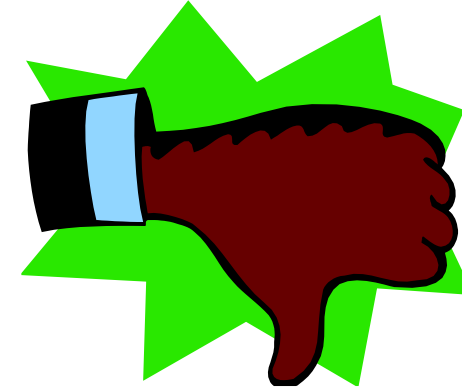
Site Selection – FHFC's RFA Locational Factors

- QAP
- Proximity- points
- DDA
- Local Government Area of Opportunity
- Who can apply
- What was funded before



Site Selection – Political Factors

- NIMBY
- Local Government Support
- Local Government Contribution



OR



Site Selection – Social Factors

- Will site serve your target demographics?
- Will project costs impede target income levels?
- Is site within good proximity to employment of your target?
- Is site consistent with special needs considerations- transit, accessible neighborhood, access to services?

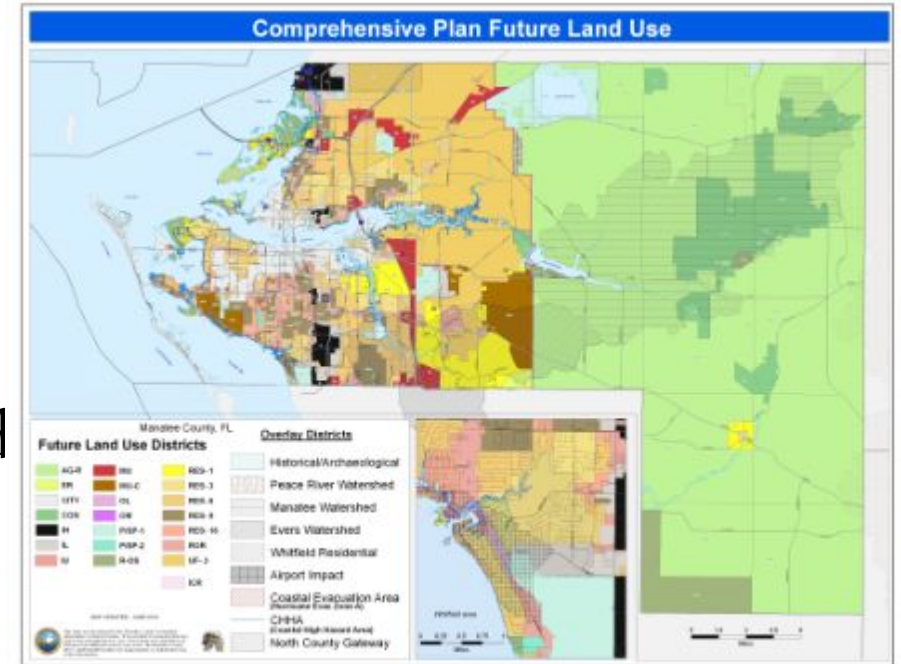
Site Selection – Market Factors

- Know your competition
- Know what proposed projects are coming online
- What are rents and sales prices
- Formal market analysis during credit underwriting



Site Selection – Land Use and Zoning

- Land development regulations
 - Future Land Use element
 - Housing element
 - Zoning – base and overlay
 - Special concerns- historic or form based
- Buy zoned land if possible
- Buy land with infrastructure
- Make flow chart of approvals needed



Site Selection – Approvals Requiring Public Input

- Prepare for NIMBY syndrome
- Talk to local staff
- Do community outreach and meetings
- Anticipate issues



Site Selection – Infrastructure

- Water, sewer, drainage, power, roads
- City or County provided if possible
- Engineering can be expensive- and is frequently underestimated
- Most funding sources only pay for on-site utilities
- Can use CDBG to bring it to site

Site Selection – Environmental Factors (initial considerations)

- Adjacent Uses- railroad, landfill, drainage, expressway, commercial...
- Infrastructure
 - Availability of utilities to site or in vicinity
 - Paved roads
 - Sidewalks
 - Type of street- arterial, side, connector...
- Views and visibility

Site Selection – Environmental Factors (suitability)

- Soil – type, stability, previous use
- Slope – runoff
- Flood Plain – zone classification, elevation
- Conservation areas – wetlands



Site Selection – Economic Factors

- Land Cost per Unit
- Financing Availability
- Impact Fees
- Utility Connection fees, Impact fees, Rates
- Earnest Money
- Special Incentives- Density
- Surplus Land

Site Selection – Density and Land Cost Matrix

<div> <div>Land Cost/Acre</div> <div>100,000</div> </div> <div> <div>Acreage</div> <div>10</div> </div> <div> <div>Total Cost</div> <div>1,000,000</div> </div>				
Density	10	12	16	18
Cost/Unit	10,000	8,333	6,250	5,556
Site Work/Unit	10,000	10,000	10,000	10,000
Impact Fees/Unit	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>
Gross Cost/Unit	35,010	33,345	31,266	30,574

Site Selection – Existing Buildings

- Environmental- asbestos or lead paint- pre-1978
- Structural Condition
- Mechanical Systems
- Security
- Paving and Drainage
- Code compliance



Site Selection – Legal Factors

- Contracts and Contingencies
- Title Search and Report
- Easements
- Closing
- Recording process

Site Selection – Incentives (Will They Work for You?)

- Density bonus
- Expedited permitting
- Zoning relief
- Fee waivers or mitigation
- Surplus land
- Lien removal
- Others?
- Ask for what you need or offer what you can!

Poll #3

- What incentives are offered in your location?
 - Expedited review
 - Zoning relief
 - Fee waivers, reductions or assistance
 - Density bonus
 - Other

Real Estate Acquisition Factors

- Making the Offer
- Contract
- Title Search
- Closing Process

Development Team

- Owner
- Developer
 - Non-profit w/ for-profit partner
 - Independent non-profit or for-profit
- General Contractor
- Architect and Engineers
- Property Manager
- Other Consultants



Partners, Investors and Other Parties

- Lenders- commercial, community development financial institutions, Fannie Mae or Freddie Mac
- Investors- developer partners
- Support Services for Tenants
- Local Government
- Housing
- Planning
- State Government

Legal Structure

- Typically a Limited Liability Corporation (LLC)
- Protects both you and your assets
- Legal entity for each project

-- “At least we’re an LLC”

Development Team – Developer Partner Capacity

- Have they done this before?
- Do they deliver a quality product?
- What is their reputation?
- Do they have appropriate staffing?
- What other projects are in process?
- Are they financially sound?
- Do they know the funding rules?
- Are all funding sources committed?
- What is their marketing plan?



Development Team – General Contractor

- Selection by RFP/RFQ (consider program regulations in selection process)
- Contract
 - Maximum price contract recommended
 - Have construction contract expert to review contract
- Regular, timely communication & meetings
- Legal & financial controls
 - Performance & payment bond
 - Retainage
 - Lien releases/waivers – suppliers & subs
 - Warranties

Development Team – Architect

- Selection criteria
- Draft design
- Preliminary Cost review
- Final design
- Construction docs and specs
 - Construction Cost estimator
- Bid package

Development Team – Engineer

- Geotechnical
- Civil
- Environmental
- Structural
- Surveyor
 - Tree, boundary, archeological, topographic

Development Team – Successful Partnerships

- Common mission and objectives
- Nice
- Responsible
- Financially sound
- Experienced
- Available
- Delineate tasks
- Share of proceeds/developer fee/rents

Funding Sources – Rental

- Low Income Housing Tax Credits (LIHTC)
- Multifamily Mortgage Revenue Bonds (MMRB)
- State Apartment Incentive Loan (SAIL)
- HOME Investment Partnership funds
- National Housing Trust Fund
- SHIP
- CDBG
- Rural Development (RD)
- Surplus land

Funding Sources – Homeownership

- SHIP
- HOME
- CDBG
- RD
- HOP
- Surplus land

Projections: Development Pro Forma

- Two categories: sources and uses
 - Start with uses
- Land/building acquisition
- Hard costs
- Soft costs
- Developer fee
- Required reserves

Projections: Operating Pro-Forma

- Projection of income and expenses
- Generally for 15-years
- Detailed income and expenses
- Typical Assumptions
 - 5% Vacancy
 - 2% annual growth in rental income
 - 3% annual growth in expenses
 - Required debt service coverage ratio of 1.15

Projections: The Draw Schedule

- Anticipation of how funds will flow and expenses will be incurred from initial closing to final closing
- Used to monitor development budget
- Required by funders/investors
- Continuously updated throughout the process at every draw of funds

Projections for Homeownership Developments

$$\begin{array}{|c|} \hline \text{Price of} \\ \text{Unit} \\ \hline \end{array} - \begin{array}{|c|} \hline \text{Development} \\ \text{Costs (Uses)} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Net} \\ \text{Revenue} \\ \hline \end{array}$$

- Consider whether development costs exceed affordable price
- Factor in developer and buyer subsidies for net revenue calculation

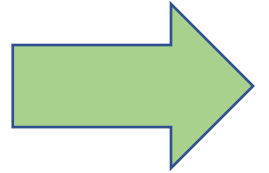
Predevelopment Evaluation: Summary

- Site Selection
- Due Diligence and contingencies
 - Good faith deposit/option
 - Appraisal
 - Title insurance /lien search
 - Closing date
 - Insurance
 - Taxes
 - Surveys
 - Environmental reviews
 - Market studies

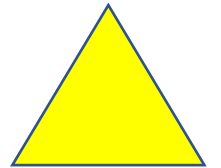
Predevelopment Evaluation: Summary (continued)

- Feasibility analysis
 - Property/ Capital needs inspection
 - Proximity to Services
 - Historical?
 - Project Budget
 - Land use/zoning/NIMBY
 - Financing
 - Timeline
 - Feasibility analysis/operating proforma – ongoing

GO!



OR



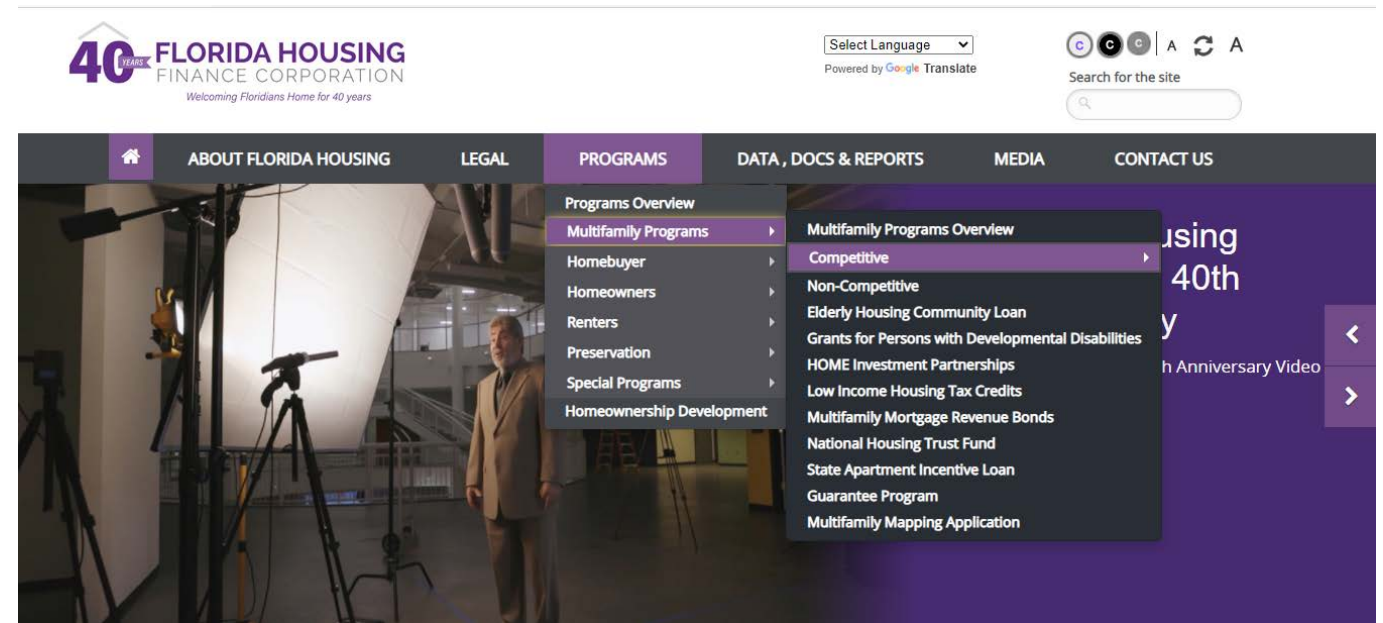
NO GO!

Funding Applications – Local Government Funding and Private Sources

- Understand the timing in relation to
 - Closing dates
 - State funding application deadlines
 - Other sources
- Understand letters of intent v. firm commitments

Funding Applications – FHFC's Request for Application Process

- Rule-making process
- Workshops
- Application Cycles
- FHFC Training for Local Governments:
<https://www.floridahousing.org/programs/developers-multifamily-programs/competitive>



Due Diligence Period – Credit Underwriting for Rental Developments

- Purpose is to evaluate
 - Suitability of site
 - Feasibility of the project
 - Borrower Capacity
- Preliminary Analysis then Final Credit Underwriting Report
- Timing of final report dependent on project
- 3 Credit Underwriters
 - Assigned to project by FHFC
 - Will work with same credit underwriter through entire development process through operations

Due Diligence Period – Fees to be Paid

- Credit Underwriting Fee
- Market Study
- Appraisal
- Capital Needs Assessment
- Plan and Cost Review Fee
- Building Permit Fees
- For nonprofits, Predevelopment Loan Program can help!

Due Diligence Period – Permitting Process

- Understand the process
 - Informal review
 - Site Plan Approval
 - Development Order
 - Utility connection plan
 - Permit issuance
- Estimate timeframe for reviews
- Ask for expedited review from beginning
- Will need permit ready drawings and permits to complete underwriting process



Due Diligence Period – Role of Local Government

- Obtain and review third-party reports prior to initial closing
- Monitor building permitting process
- Participate in closing calls (if necessary)
- Monitor any changes in closing dates
- Have approvals in place to release funds on closing date if part of initial closing

Due Diligence Period – Homeownership Developments

- Environmental
- Planning/Zoning
 - Variances/exceptions
 - Redevelopment and Neighborhood Plans
 - Community design input
- Survey
- Appraisal/Market Study
- Title/Final Lien Search
- Utility connections
- Building Permits

Initial Closing – Rental Developments

- First draw on development funds
- Usually used to close on site acquisition and pay development startup expenses
 - Including “reimbursable” expenses
- May involve partial payment of developer fee
- May involve repayment of predevelopment financing

Construction Period – Construction Management

- Objectives:
 - Scope: Make certain you get what you are paying for
 - Schedule: Monitor & respond promptly to changes
 - Payment: Make sure everyone gets timely payment
- Construction management “redundancy”
 - Architectural supervision
 - Lender construction inspections
 - Public agency inspections
 - Owner’s rep, clerk of works or construction manager

Construction Period – Elements of Construction Draws

- Required documents: AIA forms, invoices, title update, current insurance, third party reports
- Architect certifies AIA forms and is notarized by General Contractor
- May need AIA forms and insurance for major contractors
- Need itemized invoices
- Show clear title—lien free
- Borrower/Owner may be charged for third party inspector as part of Loan Agreement and/or Partnership Agreement.

Construction Period – Completion of Construction

- AIA forms must show 100% complete and the third-party inspector must agree
- Additional requirements to typical construction draw including:
 - Certificates of Occupancy or Completion
 - As-built drawings
 - Architect and inspector certifications
 - Owner and Contractor Affidavits
- Refer to loan documents and/or partnership agreement for any other Completion requirements

Lease-Up Period – Marketing To and Qualifying Perspective Tenants

- Work with professional management company
- Start marketing within 6 months of completion
- Begin qualifying tenants 120 days prior to anticipated move-in date
- Have as many units pre-leased at time of certificate of occupancy as possible

Lease-Up Period - Implications

- Financial projections based on lease-up
 - Ability to make income prior to Final Closing
 - Ability to deliver housing credits as projected
 - Ability to convert to permanent financing on time
 - Ability to stay in compliance with funding requirements
- Requires strong communication and coordination with Owner/Developer and General Contractor

Sales Period for Homeownership

- Pre-sales
 - Plans
 - Model home w/ staging
 - Marketing
- Pre-purchase education and counseling
- Pre-approval for mortgage loans
- Contracts
- Approval for purchase assistance
- Closing
 - Partial repayment of construction loan with each sale
 - Net revenue on each sale
- Post purchase education and counseling

Sales Period for Homeownership – Assistance Available to Prospective Buyers

- SHIP Purchase Assistance
- HHRP Purchase Assistance
- Florida Assist Down-Payment Assistance
- HFA Preferred Grant Down-Payment Assistance
- Rural Development Single-Family Loan (Section 502) and Guarantee program

Final Closing – Rental Developments

- Conversion to permanent financing phase
 - Payoff or construction loan, or
 - Reduction of construction loan to permanent level
 - Payment of developer fee
- Typical Requirements
 - Stabilized Operations
 - Updated title and insurance
 - Confirm any required environmental testing and mitigation
 - Confirm all required low-income units are qualified
 - Any other item as required by financing agreements

Compliance Period – General Requirements

- Monthly/Quarterly Financial Statements
- Monthly/Quarterly Rent Rolls
- Annual Reports
- Tax Returns
- Audited Financial Statements
- Other required IRS Forms
- Files for new move-ins
- Program Reports

Compliance Period – Things to Know and Do

- Know reporting requirements outlined in loan documents and/or partnership agreement
- Create schedule to stay on task
- Communicate regularly with on-site management, regional manager or party responsible for reporting
- Communicate any anticipated delays in reporting prior to due date
- There may be fees for late submissions
- There will be periodic inspections

Compliance Period – Local Government Role

- Obtain all closing documents for Housing office if not previously received
- Know your reporting requirements and hold developers/owners to it
- Set and maintain reporting calendar for each project
- If piggybacking on state monitoring reports, obtain and review for noncompliance

ANY
QUESTIONS
?

THE FLORIDA HOUSING COALITION



Upcoming Trainings

- Weekly FHC Hurricane Member Update – Fridays @ 1:30 PM, except December 25th and January 1st
- Adjustments to your SHIP Program in 2020-2021 – January 12th @ 2 PM
- Survive and Thrive as a Nonprofit – January 19th @ 2 PM
- Proficiency in Income Qualification – February 3rd @ 2 PM
- Comprehensive Overview of SAIL – February 18th @ 2 PM
- [Register Here](#)

Suggested Webinars (1)

- Affordable Housing Funding Sources- Part 1- [Recording](#), [PowerPoint](#) *(June 2, 2020)*
- Affordable Housing Funding Sources- Part 2- [Recording](#), [PowerPoint](#), [HBLP Flyer for Real Estate Agents](#), [CDBG](#), [2019 HOP Program Summary](#), [Salute our Soldiers Loan Program](#) *(June 15, 2020)*
- The Credit Underwriting Process – [Recording](#) – [PowerPoint](#)– *Feb. 10, 2020*

Suggested Webinars (2)

- Building Capacity to Build- The Nonprofit as Affordable Housing Developer – [Recording](#) – [PowerPoint](#) – *Jan. 9, 2019*
- Financing and Monitoring Rental Housing with SHIP – [Recording](#) – [PowerPoint](#) – *Feb. 3, 2020*
- Joint Ventures Series, Part 1: Options for Partnership – [Recording](#) – [PowerPoint](#) – *April 30, 2018*
- Joint Ventures Series, Part 2: Successful Partnerships – [Recording](#) – [PowerPoint](#) – [Successful Partnerships – Survey Report](#) – *May 18, 2018*

Contact us!



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