



**NOW SHOWING**

**LEGO** Movie: MasterBuilders Required

**232 Affordable Loans**

# Affordable 232 Deals: Masterbuilders Required

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# Aging Trends

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- Baby Boomers are entering the market
- By 2030
  - 65+ Americans will make up 19% of the total population
  - 85+ Americans will make up 2.3% of the total population

Sources: U.S. Census Bureau, Esri, Social Security Administration, JLL Market Overview



# Income of Aging Population

- Households 75+ reported medium income in 2018 of \$33,107
- Aggregate income was made up of
  - 33% Social Security
  - 34% Earnings (not defined)
  - 9% Asset Income
  - 20% Pensions
  - 4% Other
- Social Security constituted 90% or more of the income received by 34% of beneficiaries
- Average monthly Social Security benefit is \$1,461 (\$17,532 annually)



Source: U.S. Census Bureau, Esri, Social Security Administration

# Increasing Cost of Care

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- Average monthly cost of private pay assisted living nationally is \$3,700 (\$44,400 annually) and increasing at a pace of 8.0% over 5 years.
- It is clear affordable healthcare facility options are going to be needed



# Medicaid Programs

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- Currently, 44 states and Washington DC offer some level of assistance for individuals in assisted living and other non-nursing home settings.
- Source for state program summaries:  
<https://www.payingforseniorcare.com/medicaid-waivers/assisted-living.html>
- A majority of the programs cover care and other services received, but not actual room & board. Residents must fund room & board themselves, often with Social Security and occasionally with Section 8



# Medicaid Programs Continued

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- Medicaid assistance is partly funded by the federal government and partly by the states. The federal government sets guidelines on how each state spends money but the states are permitted considerable leeway. Each state sets their own policies on how they utilize the Medicaid funding.
- While operations are funded partially through the Medicaid Waiver program, affordable projects are often built utilizing LIHTC, both 4% & 9% credits and then will have restrictions commensurate with award.



# Medicaid Programs Continued

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- Financial assistance from Medicaid for Assisted Living Facilities comes through several different types of Medicaid programs, most common of which are Medicaid Waivers or Medicaid managed care model. States are increasing the level of assistance they offer in Assisted Living since this is less expensive than skilled nursing homes; however, Medicaid's assisted living benefits are inconsistent





# Affordable 232 Loans- Program overview

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- No difference in loan constraints from typical 232 deals
- Favorable LIHTC MIP rate of 45 bps
- LIHTC projects go to front of the queue
- ORCF more favorable treatment on waiver requests



# Waiver Requests

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- LTV Waivers for 232 New Construction
  - ORCF has been willing to grant waivers
  - Market Strength & Demographics
  - Low LTC, High Cash Equity
  - Success with similar projects



# Waiver Requests

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- Debt Service Coverage Waivers
  - No waivers have been granted for DSCR
  - Both New Construction and Refinance projects can encounter DSC limitations.



# Waiver Requests

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- Meal Waivers

- Conflict between HUD requirements and IRS rules:

- 4232.1 Rev-1 Section II Production, Chapter 2.2.B.5 of the 232 Handbook, (1) residents in accommodations without kitchens must take three meals a day provided by the facility and (2) residents whose accommodations have a kitchen must take at least one meal a day provided by the project.
    - Based on Treasury Regulations, Subchapter A, Sec. 1.42-11, a condition of being awarded Low Income Housing Tax Credits is that the services that are generally provided as part of rent to private-pay residents at typical Assisted Living Facilities must not be mandatory. Care and assistance with daily living, medication management, meals, activities and other services must be optional at LIHTC facilities.



# New Construction Considerations

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- Repurposed hotels
  - Often assumes savings in development costs that don't materialize
  - Marketability
  - Most hotels are wood frame and if over two stories, will not comply with 2012 IBC or NFPA Fire Codes without costly rehab
  - Recent data seems to show that these projects struggle with lease-up and occupancy



# New Construction Considerations

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- Design Considerations
  - Smaller units / more studios
  - Semi-Private with shared living room
  - Projects are larger in size (100+ units) in order to achieve economies of scale
- Other Challenges
  - Construction costs
  - Timing



# New Construction Lease Up

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- ALF LIHTC with Medicaid
  - How many slots?
  - Status of Medicaid funding within the state?
  - Timing on approval for facility to admit Medicaid waiver residents?
- Known problems
  - Indiana
  - Florida



# LIHTC New Construction Loans

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- Relatively new frontier
  - Smaller number of LIHTC investors/syndicators willing to price LIHTC ALF deals – pricing is 2 to 8 cents lower compared to MF LIHTC deals
- LIHTC age restriction 55+ compared to HUD age restriction of 62+ and Medicaid eligibility requirements differ by state
- 232 New Construction LIHTC ALF deals mainly cost constrained or value constrained
- 9% LIHTC NC deals challenging and 4% LIHTC/Bond NC deals require additional sources of equity
  - For 4% deals, a high percentage of development costs are Non Mortgageable – NM costs averaged 30% of total development costs (down to 23% if half developer fee is considered mortgageable)
  - Challenges with private secondary debt not permitted under 232 New Construction; must be public or quasi-public debt





# LIHTC New Construction Loans

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- LIHTC NC Deals - Market and Valuation:
  - HUD allows project to be valued as 100% private pay facility if market demand for private pay facility Demand for affordable housing typically never a concern.
  - Income restrictions inherently drive down the value – Price Per Unit much lower on ALF LIHTC Projects than typical private pay ALFs
  - Difficulty in finding good expense comparables – affordable properties generally have lower acuity and may not offer the same level of care services as 100% private pay – this translates to lower expense ratios



# LIHTC New Construction Loans

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- LIHTC NC Deals - Market and Valuation:
  - Capitalization Rates
    - Limited pool of investors & government funding risk
  - Real Estate Tax exemptions
    - Must run with the property (not the ownership) for the expense to be excluded from the appraisal proforma



# LIHTC New Construction Loans

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- Management/Operator experience
  - Research and experience with LIHTC and Medicaid Funding program is critical
    - Medicaid Program - how does the program work? Who are the target recipients of Medicaid? What services are offered? What are the eligibility requirements? Is there a limit on the funding? Has funding been increasing or decreasing? Are there certain number of waiver slots available? What approval is required for the Facility to receive Medicaid residents and what's the process? Does the approval process impact lease up? What's the qualification process for a new Medicaid resident at the facility? What is the timing for approval on qualifying a resident for Medicaid? What is the timeframe for reimbursement? LIHTC and how it pairs with Medicaid waiver
  - Section 8 and Medicaid Waiver
    - Determine how Section 8 and Medicaid Waiver work together, whether they can be stacked or if the Section 8 income decreases the Medicaid Waiver payment.



# Case Study- Indiana LIHTC ALF Project

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- State of Indiana performs Bi-annual evaluations on the Medicaid Reimbursement rates
- There are a fixed number of Medicaid Waiver slots in IN. 15,265 in 2013 increasing each year to 22,519 in 2017
- The Medicaid program in Indiana has three reimbursement rate tiers (Level 1, 2 and 3) depending on acuity.
  - Valuation needs to assume an allocation.
  - Discussions with management agents that manage other Medicaid facilities and/or the state department responsible for administering the program can be helpful
- Reimbursement is approximately 2-3 weeks once a request for reimbursement is submitted
- Tenant Screening
- Research is important
  - discussions with the borrower, the management agent,
  - the state website for Division of Aging,
  - calls with the Division of Aging to ask more specific questions.
- The advantages of this facility – comparables only offered Medicaid in a few instances and residents had to move to semi-private rooms



# Case Study- Florida LIHTC ALF Project

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- Medicaid is under Managed Care model
- Medicaid eligibility, tiers, and Income layers
  - Medicaid eligibility based on income and assets; LIHTC based on income alone; income limit for Medicaid was \$2,163 compared to the LIHTC income restriction at 60% AMI of \$2,020
  - Medicaid eligible residents fall under three categories: very low, low and moderate income - all would meet the LIHTC income eligibility requirements. PBV would cover room and board. Social Security Income (SSI) would cover a portion of the service income while the Medicaid Waiver would cover the rest. The very low residents receive a supplemental income. The moderate income residents would be able to contribute additional money on top of the SSI income and Medicaid income.
  - A portion of the residents at the property were projected to be VA residents and spend down residents (residents that do not qualify for Medicaid eligibility but have assets / disposable income to pay higher rates more similar to private pay but lower than typical market private pay rates since this is an income restricted facility)
  - The mix between the tiers for the Medicaid residents (Very Low, Low and Moderate) along with the VA and spend down residents was based on discussions with the management agent and Agency of Health Care Administration or an MCO for information on reimbursement rates/timing for reimbursement



# Supportive Living Facilities

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- What is an SLF?
  - An alternative to nursing care for low-income older persons or persons with disabilities under Medicaid
    - Illinois has most well-known program and requires that facilities designate which of these two populations will be served.
  - Projects combine apartment-style housing with personal care and other services
  - Services provided are more ala carte than typical assisted living and residents may only use some intermittently.



# Opportunity #1

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- Reduced MIP for “Broadly Affordable” Projects
  - Instituted in 2016 on the MAP side for Section 8 and LIHTC
    - 25 bps for projects with 90% or greater units covered by a Section 8 Project-based contract or LIHTC affordability use restrictions
    - 35 bps for projects 10% to 90% of units covered under same programs



# Opportunity #2

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- Opportunity Zones
  - On May 9<sup>th</sup>, MAP released a Housing Notice that offers incentives for investing in Opportunity Zones
- ORCF has a similar notice drafted that is currently under review
  - Contemplating giving priority placement in the queue for these deals
  - Contemplating a reduction in the application fee for these projects





# Opportunity #3

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- **Make the Developer Fee Mortgageable in LIHTC Deals**
  - The 4232.1 Lean Handbook remains silent on whether or not developer fee is considered a mortgageable cost. The Multifamily MAP Guide 3.1.BB, HUD allows for developer fees to be a mortgageable cost on affordable LIHTC projects.
  - ORCF concerned that the developer fee could be perceived as payment to the developers and cash out. ORCF is prohibited from giving cash out to the borrowers in Section 232 mortgages.
  - ORCF provided a waiver to allow for 50% of the Developer Fee as a mortgageable cost on a 232 New Construction ALF LIHTC transaction that would have otherwise been cost constrained.



# Opportunity #4

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- Reduce the program LTV or DSC constraints for affordable projects



# Questions??

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