



Opportunity is Knocking

**USDA Rural Housing
Sec. 515 Revitalization
and
Sec. 538 New Construction**

MBA CREF

February 6, 2006

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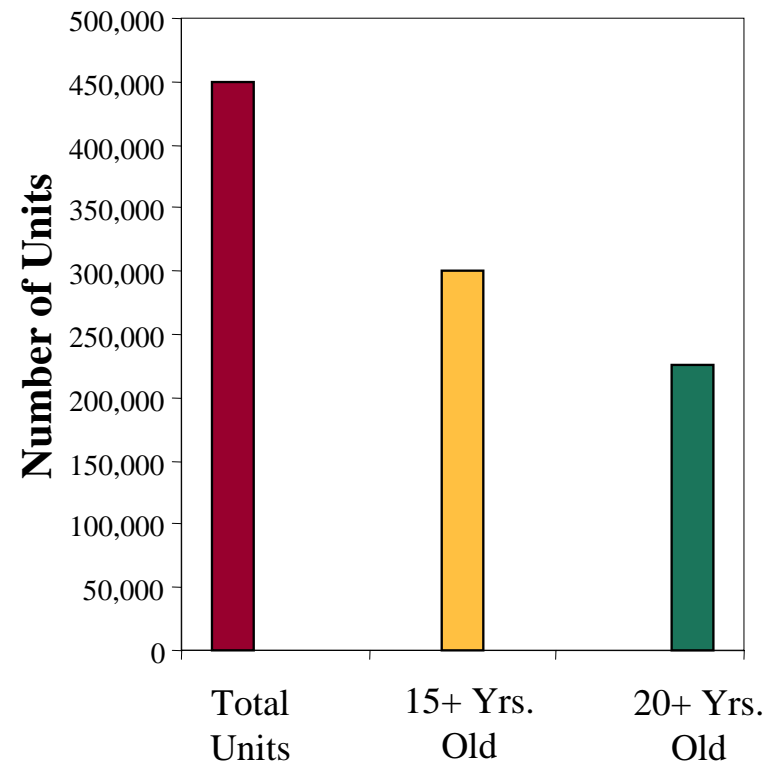
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Agenda

- Review USDA Sec. 515 Revitalization Opportunities
- Using the Section 538 Guaranteed Rural Rental Housing Program

What does the Sec. 515 portfolio look like?

- 17,000 projects
- Avg. project size: 27 units
- Avg. adjusted tenant income: \$9,200
- \$12,600: about 30% of US median income
- 57% elderly, disabled/handicapped
- 27% minority households



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Sec. 515 Portfolio Issues

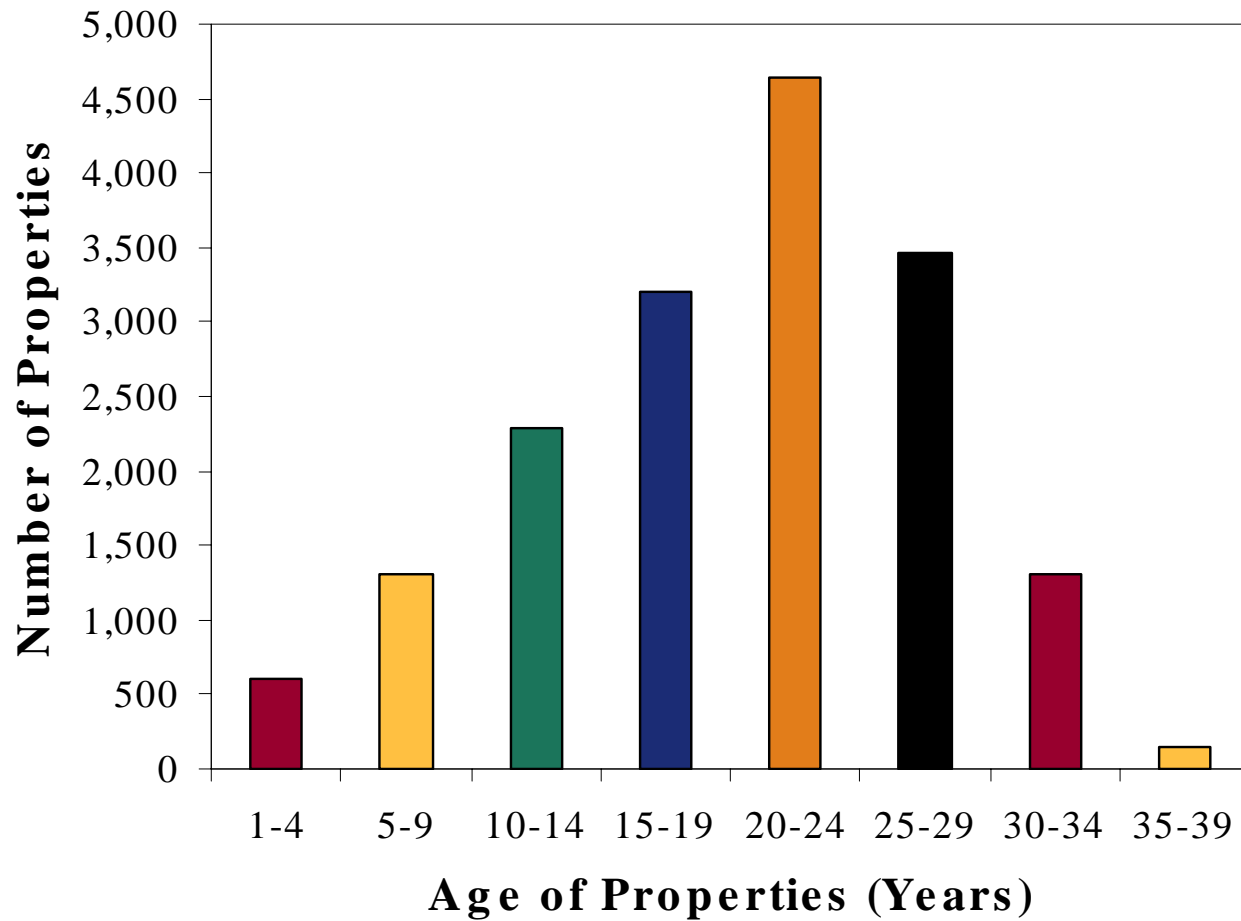
- Loss of units to prepayment
- Aging of physical asset
- Lack of capital resources
- Lack of adequate tenant subsidy
- Owners wanting or needing to sell
- Acquisitions with rehabilitation
- Tax implications

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Why Consider Preservation?

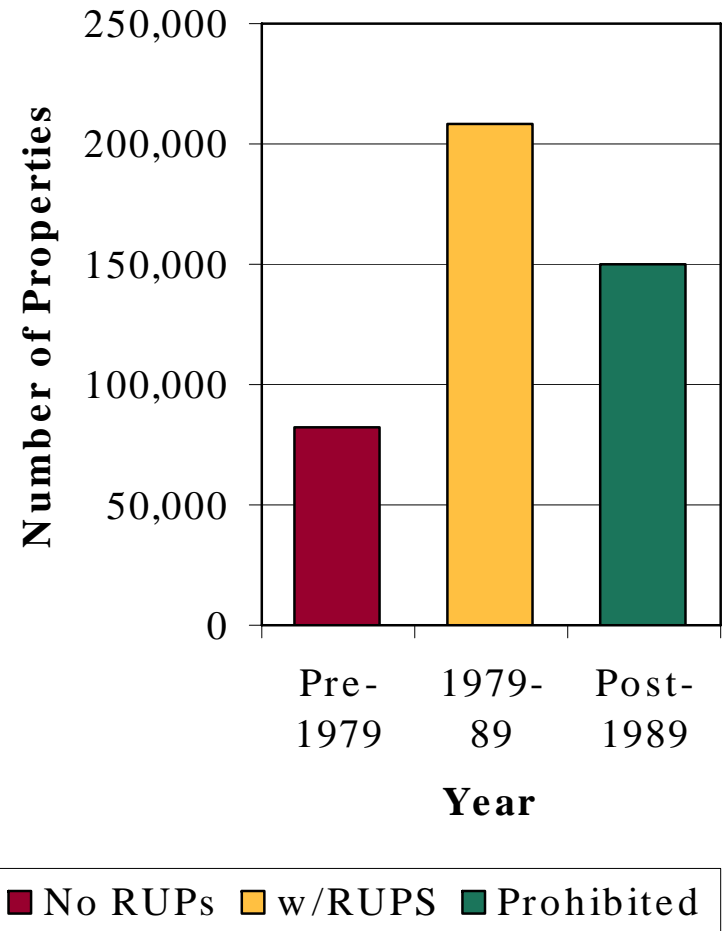
- Addresses critical needs
- Quality housing
 - Supervised by Agency
 - 1.6% delinquency
 - Few projects in inventory
- Less expensive than new housing
- Loss may be permanent
 - Most restrictions cover current tenants only
 - Projects in poor markets begin to decline

Sec. 515 Rural Rental Housing Portfolio Age



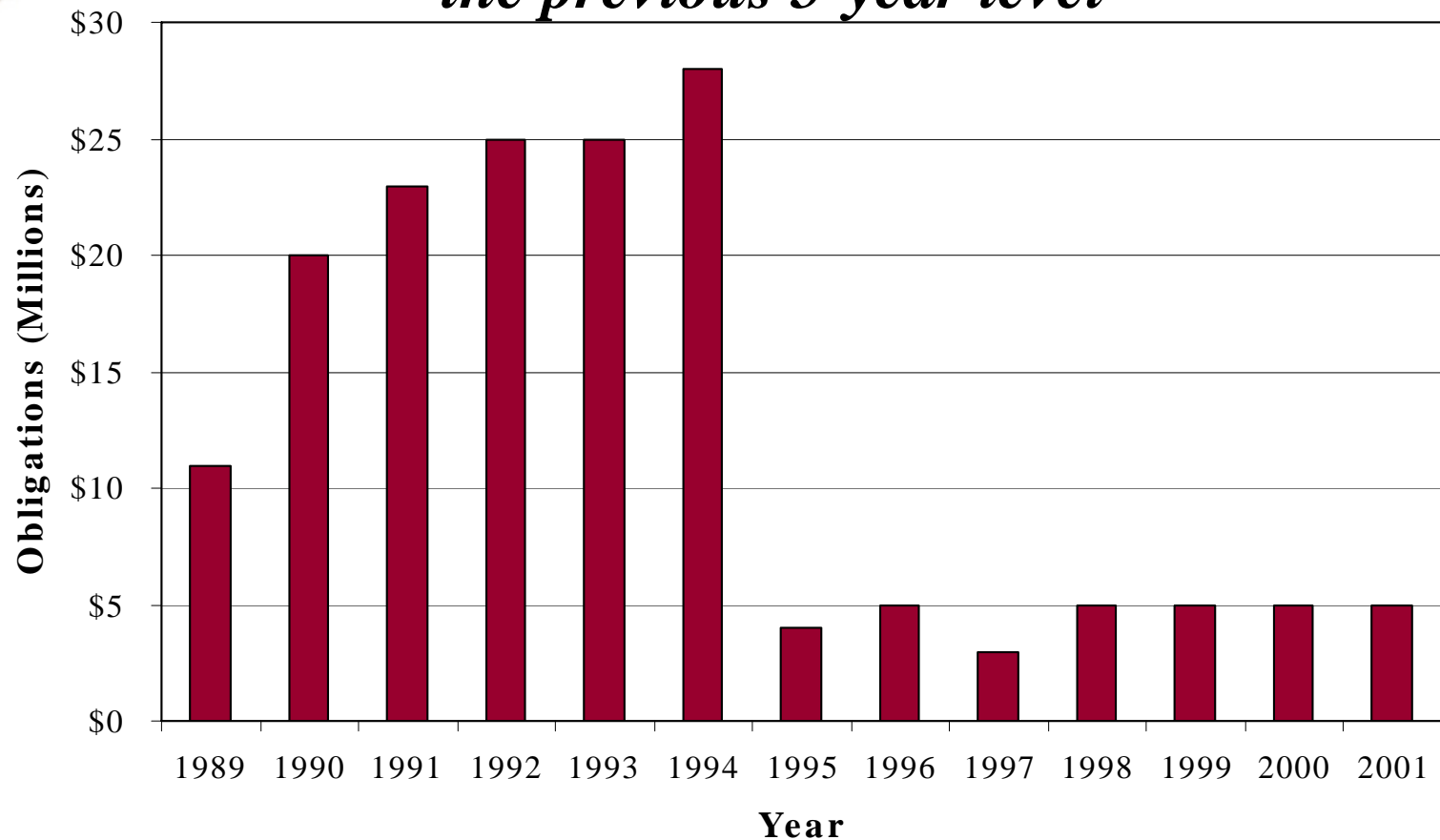
At Risk to Prepayment Nationwide

- Pre-1979 - 82,000 units (no restrictions)
- 1979-89 - 208,000 units (restrictions)
- Pre-1989 projects - 11,114 (Pre-79 & 79-89 combined)
- Post-1989 - 150,000 (prohibited)
- 10,000 Units - LH
- Restrictions expire on 1979-89 loans between 1999-2009 at an average rate of 20,800 units/year



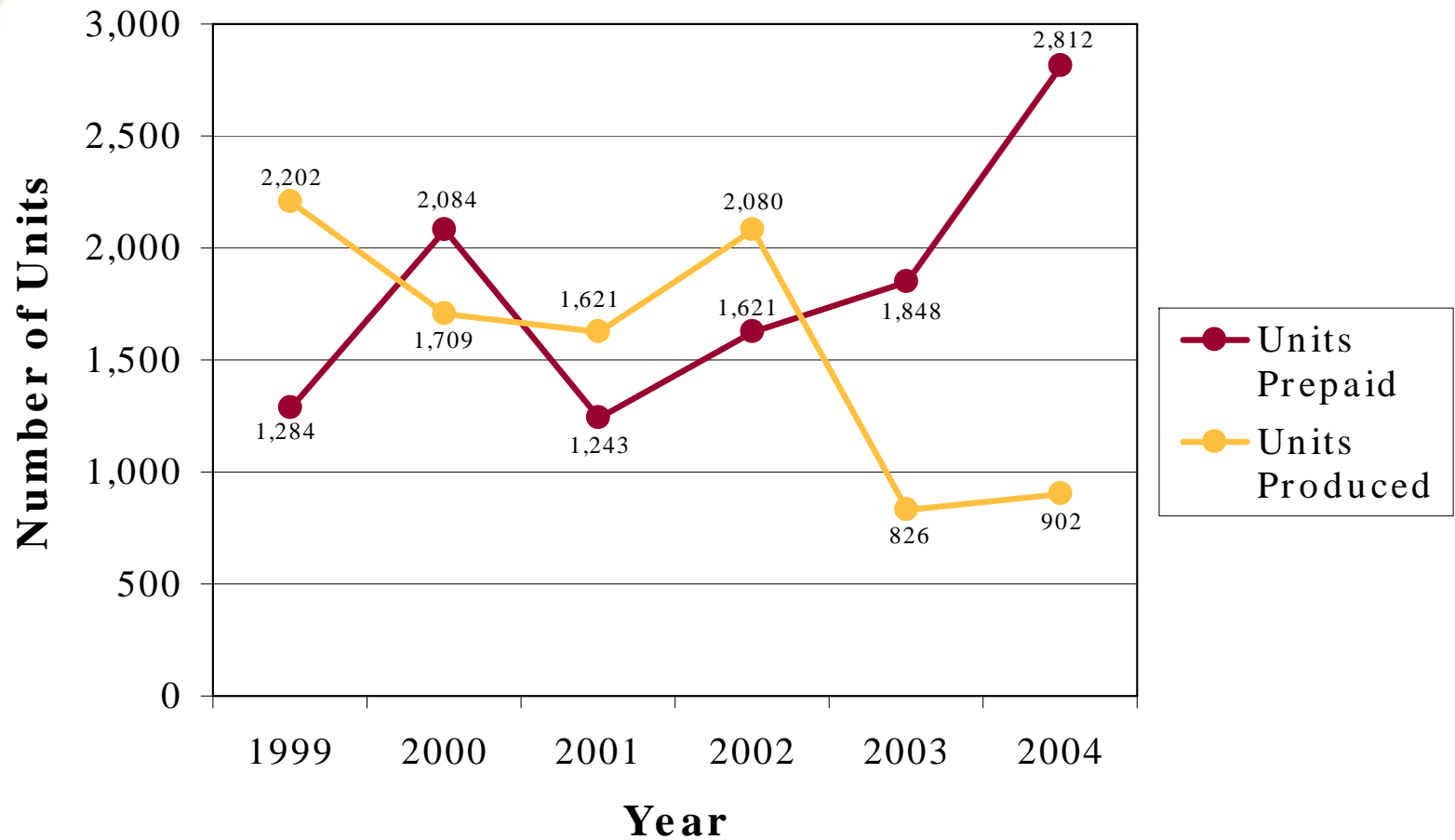
Equity Loan Obligations by Year

Since 1995, Sec. 515 direct loans have been 1/6 of the previous 5-year level



Prepayment vs. Production

Net decrease in units every year since 2000



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What are an owners options?

- Incentives
 - Equity loans
 - RA
 - Increased return on investment (ROI)
 - Interest credit
 - Release of excess reserves
- Sale to nonprofit or public body
- Subordinations to 3rd party equity loans

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What Opportunities Exist for Owners?

- Transfer ownership of property
- Refinance existing debt
- Revitalize existing property
- Acquire existing property

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What have we heard?

The USDA:

- Wants to preserve the Sec. 515 portfolio and protect the tenants.
- Has some ideas for new tools.
- Has existing tools, but they do not work on all the properties or for all owners.
- Has limited resources, both capital and experienced revitalization personnel.
- Is willing to consider any viable solution for preservations.

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Recapitalization

Need: Repair and upgrade aging properties

- Accessibility (ADA)
- Life safety systems

Solution:

- Recapitalize property

Benefit:

- Improve current and future marketability
- Improve quality of life for residents

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Selling

Need: Sell and divest property

Solution:

- Help owner understand tax implications involved in sale
- Explore prepayment opportunities to refinance existing debt

Benefits:

- Owners may be able to realize accumulated equity in property




Acquisition

Need: Acquire property to expand portfolio

Solution: Gain access to national 515 portfolio

Benefit:

- Assess acquisition opportunities
- Streamlined application process

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How do we propose to fund the capital needs of the 515 portfolio?

Subordinate the current Section 515 mortgage and place a new Guaranteed Rural Rental Housing Section 538 in the first lien position.

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How does the Sec. 538 work?

- It is a guaranteed loan made by a conventional lender.
- Term 25 year min. 40 year maximum.
- Can have a balloon
- 10% equity requirement for for-profits
- 3% equity requirement for not-for-profits.

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Sec. 538 Creates Affordability

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Creating Affordability

- Offers interest credit to buy down interest rate (now approximately 5% effective rate), thereby reducing overall expenses.
- Flexible tool that works well with 9% and 4% tax credits, as well as other sources of financing.
- Rents are restricted to 30% of median income (or less, depending on funding source).

What Does a Typical Sec. 538 Property Look Like?

Pleasant Hill Apartments
Guthrie, Okla.
(Case Study)





Project Overview

Project:	Pleasant Hill Apartments
Location:	Guthrie, Okla.
Financing:	LIHTC (9%) and Sec. 538 GRHP Loan
TDC:	\$5,300,000
Sec. 538 Loan:	\$2,219,400
LTV:	46.5%
Type:	Family Property
Rents:	Range from \$ 690 - \$797 (30% X \$38,732 median income/12=\$959)



A Perfect Sec. 538 Candidate *Guthrie, Okla.*

- Population: 9,925
- Median household income: \$38,732
- Household size: 2.34
- Total occupied housing units 3,854
 - Owner occupied housing units 2,498
 - Renter occupied housing units 1,356

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A Perfect Sec. 538 Candidate

Pleasant Hill Apartments

- 60 units
 - 44 2-bedroom units (w/ outside storage)
 - 16 3-bedroom units
- 916 average square feet (per unit)
- 2,500 sq. ft. common area
- Washer and dryer hookups in units
- Dishwasher and microwave

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Community Amenities

- Central laundry facilities
- Meeting room with appliances
- Computer learning center
- Community storm shelter
- 1.9 parking spaces per unit



Key Players

Borrower: Pristine Developments, LLC

- Extensive real estate development experience but first 538 GRHP

Mgmt. Co.: Western Property Mgmt. Inc.

- Extensive 515 management experience

Lender: Lancaster Pollard Mortgage Co.

- USDA-approved lender for Sec. 538 and Community Facilities programs



Presenters:

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