Affordable Housing Ad Hoc Committee

Minutes

March 26, 2024
5:03 p.m.

Committee Meeting Room
301 University Ridge
Greenville SC

Pursuant to the Freedom of Information Act, notice of the meeting date, time, place and agenda was posted online, at 301 University Ridge, Greenville, and made available to the newspapers, radio stations, television stations and concerned citizens.

Present

Ennis Fant, *Chairman, District 25*
Chris Harrison, *Vice-Chairman, District 20*
Benton Blount, *District 19*
Alan Mitchell, *District 23*
Butch Kirven, *District 27*

Others Present

Monroe Free, *Habitat for Humanity*
Gail Peay, *Habitat for Humanity*
Bryan Brown, *President and CEO, Greenville Housing Fund*

Item (1) ***Call to Order*** Chairman Fant

Item (2) ***Invocation*** Vice-Chairman Harrison

Item (3) ***Approval of Minutes***

a. January 23, 2024 – Affordable Housing Ad Hoc Committee Meeting

Action: Councilor Kirven moved to amend the January 23, 2024 Affordable Housing Ad Hoc Committee Meeting minutes as follows:

Page 1 - **Present**

Change "**Butch Kirven,** *District 29*" to "**Butch Kirven,** *District 27*"

Motion to amend carried unanimously.

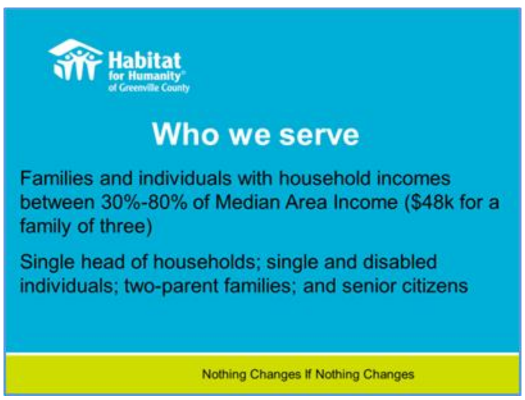
Action: Without objection, minutes approved as amended.

Chairman Fant stated the purpose of the meeting was to provide an update regarding what was going on in "the world of affordable housing", in an effort to be more knowledgeable, more aware and possibly formulate legislation to be more effective in efforts to address affordable housing. Mr. Fant stated there were two presentations scheduled; the first was from Habitat for Humanity. He introduced Monroe Free and Gail Peay.

Item (4) ***<u>Update from Habitat for Humanity</u>***

Presenters: *Monroe Free*
Gail Peay

Mr. Free stated Greenville County was making progress on what he considered a monumental, affordable housing deficit. The County's Housing Incentive Policy had set aside $5 million dollars for the next couple of years, which would be tremendously helpful; however, he did want anyone to think the problem had been solved.

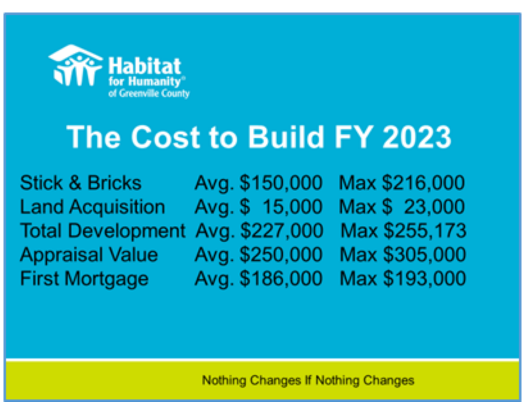


Mr. Free stated Habitat for Humanity served families with household incomes between 30 - 80% of the Median Area Income; for example, $48,000 for a family of three. Those families included individuals working in restaurants and assisted living centers; one might argue they were the hardest working in our society, due to the nature of their jobs. Other families included senior citizens and some two parent families. Mr. Free stated 70% of their clients were African American and about 10% were Hispanic. Most clients were single mothers with children.

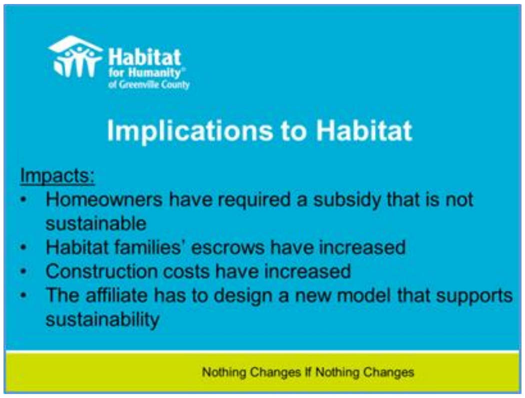
Mr. Free stated since 1985, Habitat for Humanity had provided 420 homes for families with new mortgages. He stated they had also completed 300 home repairs and weatherizations in the past five years. Mr. Free stated Habitat for Humanity was a construction company, a housing developer, a retail organization and a traditional nonprofit.

Mr. Free stated owning a home was the key to unlocking a number of new opportunities for families. Habitat for Humanity hired Clemson to do some research on the families it served. He stated 44% of the families who entered a Habitat for Humanity home reported improved job status, 42% reported reduced public benefits, 67% reported confidence in funding for their children's college education, 64% reported improved financial well-being, 64% reported improved health and 69% reported improvement in their children's academic success in school. Mr. Free stated one of the most interesting statistic was that 11% of families reported that someone in the household obtained a graduate degree after becoming a Habitat for Humanity homeowner; that number was greater than the national average.

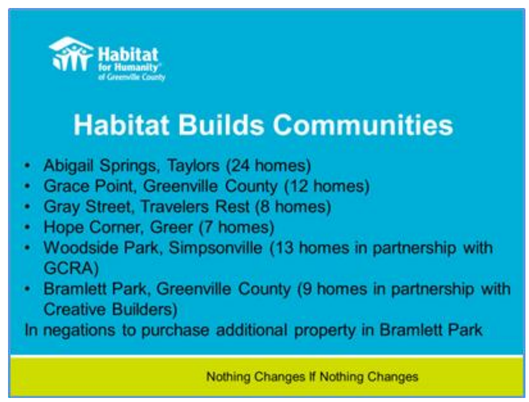
Mr. Free stated the families served by Habitat for Humanity were not just low income; they were hardworking, dedicated to their family and to improving their lives. He stated homeownership generated wealth for families and provided a pathway out of poverty. Prior to participation in the program, a large number of families were paying over 50% of their income for housing; almost all of the participants paid more than 40%. Homeownership also provided better security and safety. He stated households paid property taxes and purchased durable goods contributing to the local economy. Mr. Free stated Habitat for Humanity families were more likely to be involved in their neighborhoods and in volunteering. During the last election, over 90% of those families reported voting.

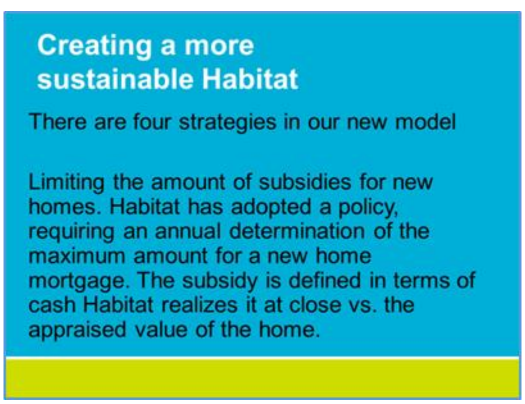


The average cost to build a Habitat for Humanity house in 2023 was $150,000, with a maximum average of $216,000. Mr. Free stated due to some infrastructure problems, land acquisition averaged $15,000 per lot, with a maximum of $23,000. He stated the average total development cost was $227,000, with a maximum of $255,000. The average appraised value of a Habitat for Humanity home was $250,000, with a maximum value of $305,000. appraising at about $265,000. Mr. Free stated Habitat for Humanity's average "first mortgage" was $186,000, with a maximum of $193,000.



Mr. Free stated Habitat for Humanity guaranteed two things when a house was sold; it was sold at the appraised price and the mortgage would not be more than 30% of the owner's income. He stated it was difficult to do that when the appraised value of home was rising. To compensate for those higher values, first mortgages were up to 30% of the buyer's income and a second mortgage was taken for the difference between what the buyer could pay and the appraised value; those second mortgages were forgivable over time. Mr. Free stated up to two years ago, Habitat for Humanity had never issued a second mortgage on a home. In 2022, the value of its second mortgages was $162,000; that amount rose to $1.5 million for 2023. Mr. Free stated that amount was simply not sustainable. He stated when appraised values rose, insurance and taxes increased. During 2023, Habitat for Humanity families paid about $100 more a month in escrow than they did the previous year. He stated construction costs had increased 40% since 2022. Given that information, Habitat for Humanity was having to design a new business model that supported sustainability.





Mr. Free stated there were four strategies in Habitat for Humanity's new model. The first strategy was limiting the amount of subsidies for new homes. Habitat adopted a policy that required an annual determination of the maximum amount of subsidy on a new home mortgage. Subsidy was defined in terms of cash Habitat realized at closing versus the appraised value of the home.

Creating a more sustainable Habitat

Implement a construction financing model that limits the impact on operational cash flow: a development fund that allows for the building of homes without affecting operational cash flow – a $500,000 fund charging no greater interest than 2% and will be refunded back at closing.

Mr. Free stated the second strategy was the implementation of a construction financing model that limited the impact on operational cash flow. Habitat was working to establish a development fund of $500,000 that would allow for the building of homes without affecting cash flow. The fund would charge no more than 2% interest for construction costs and would be refunded at closing.

Creating a more sustainable Habitat

The long-standing model of only building single-family detached homes is less efficient in today's economy. New models to be explored include:

- Modular homes
- Homes utilizing subcontractors/less volunteer labor
- Multifamily projects
- Homes built utilizing a land trust

Habitat for Humanity was looking at new technologies for homes such as modular homes, utilizing subcontractors with less volunteer labor, multifamily projects, and homes built through land trusts. He stated GCRA had been a great partner with them for land, procurement, and infrastructure work.

Creating a more sustainable Habitat

Land availability is fundamental to developing affordable housing. Habitat has successfully used funding sources to procure land and build infrastructure. The future model includes:

- Capital campaigns/increased government funding
- Partnerships with municipalities/impact investors/developers/Greenville Housing Fund

Land availability was fundamental to developing affordable housing; Habitat was competing with all the "for profit" builders. Those builders were buying land all over Greenville County. Habitat had been successful in the past and would continue to procure land and do infrastructure through capital campaigns and government funding, partnerships with municipalities, impact investors, developers and the Greenville Housing Fund.

Opportunities to Partner with Greenville County

- Reduce permit and fee costs
- Property tax abatement for the construction of affordable homeownership units
- Expand prioritization of infrastructure through the newly adopted Uniformed Development Ordinance – supported with designated funding

Mr. Free stated there were opportunities for Habitat for Humanity and Greenville County to partner. He stated a number of municipalities across the county made affordable housing work for them. He suggested the County offer some type of tax abatement for affordable housing homeowners. Many of them were struggling to make their mortgage payment and pay taxes. One suggestion was to offer a Homestead Exemption to any homeowner with income under 80% AMI. Mr. Free stated that was a "state issue' and Habitat was working with the state to address it. He stated it was important to expand the prioritization of infrastructure through poor, historically African American neighborhoods. Inadequate Infrastructure was one of the chief obstacles Habitat faced in assisting families.

Chairman Fant asked if homeowners residing in homes with a second mortgage through Habitat were required to pay on it.

Mr. Free stated those homeowners did not pay on those mortgages as they were unable to do so. The mortgage was forgivable over time.

Chairman Fant asked if Habitat for Humanity had ever considered mezzazine funding.

Mr. Free stated all of Habitat's first mortgages had shared equity. If a house was sold within the first five years of a mortgage, Habitat received 100% of the equity. After five years, the amount was reduced to 90%. If a home was sold after the 16th year, the owner was entitied to 100% of the equity. Mr. Free stated if there was a second mortgage, Habitat was entitled to the second mortgage value over the 30 years. He stated those requirements were in place to prevent people from "flipping" Habitat for Humanity homes.

Councilor Harrison stated the County had an affordable housing policy in place. He stated they were aware of the rental side of things but the homeownership side was more difficult to help with. Mr. Harrison asked if the mortgages on Habitat homes were private mortgages.

Mr. Free answered in the affirmative.

Councilor Harrison asked if Habitat had considered selling at cost as opposed to appraised value. A number of private lenders were doing "loan to cost mortgages." He stated he was not aware of Habitat's ability to prevent "flipping" of homes due to shared equity.

Mr. Free stated if his neighbor sold his house for $150,000 less than its value, it would not be good for the neighborhood. Doing so would drive down the value of the other homes in the neighborhood. He stated Habitat for Humanity had to make a profit on the houses it sold.

Coucilor Harrison asked if all of Habitat's homes "new builds."

Mr. Free stated during the last calendar year, Habitat built 16 new homes and completed approximately 35 repair projects on existing homes.

Councilor Kirven asked Mr. Free how long he had been with Habitat for Humanity.

Mr. Free stated he had been with Habitat since 2009.

Councilor Kirven asked when was Habitat established.

Mr. Free stated Habitat was established in Greenville in 1985.

Councilor Kirven inquired about changes in the market since 1985.

Mr. Free stated the biggest difference was cost.

Councilor Kirven stated the cost to build a home had increased faster than people's income.

Mr. Free stated that while income had increased, the cost for housing had inceased even more. For a number of years, personal income and housing costs grew together. In approximately 2013, those numbers began to separate. From 2019 to 2020, the trajectory on appraised values was "just crazy." He stated that he and his wife bought their house for $185,000 in 2007; it was now worth $400,000.

Councilor Mitchell stated he wanted everyone to know that Habitat for Humanity was doing a tremendous job throughout Greenville County. There was one project in his district comprised of 29 homes; that was not an easy task. Mr. Mitchell stated if everyone worked together, they could make a difference throughout the County. He encouraged everyone to offer their services.

Chairman Fant asked Mr. Kirven if the County had reduced premitting fees for affordable housing by 50%.

Councilor Kirven stated he thought he recalled that reduction.

Mr. Free stated Habitat took advantage of all fee reductions offered by the County as well as the municipalities. He stated there were not enough resources available to solve the affordable housing problem; it would take millions of dollars. It was necessary to make small, incremental changes. The cumulative effect would be positive. Mr. Free stated that approach applied to affordable housing rentals, too.

Chairman Fant thanked Mr. Free for his presentation.

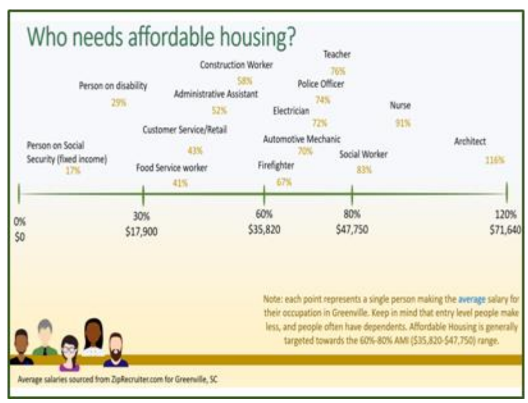
Item (5) ***<u>Function of Low Income Housing Tax Credits (LIHTC)</u>***

Presenter: *Bryan Brown*
Libba King
Greenville Housing Fund

Mr. Brown stated the Greenville Housing Fund was working on affordable homeownership with various community partners and through its Greenville Affordable Housing Coalition. He stated affordable housing, workforce housing and attainable housing were all the same thing; the terms were interchangeable. Anyone living in what was considered "low income housing" that was capable of working, were actually working.

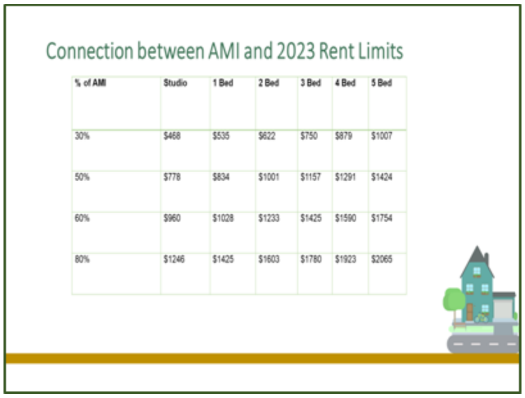
2023 Greenville AMI

Household Size	30% (Extremely Low)	50% (Very Low)	60%	80% (Low Income)
1	$18,700	$31,150	$37,380	$49,850
2	$21,400	$35,600	$42,720	$57,000
3	$24,860	$40,050	$48,060	$64,100
4	**$30,000**	**$44,500**	**$53,400**	**$71,200**
5	$35,140	$48,100	$57,720	$76,900
6	$40,280	$51,650	$61,980	$82,600
7	$45,420	$55,200	$66,240	$88,300
8	$50,560	$58,750	$70,500	$94,000

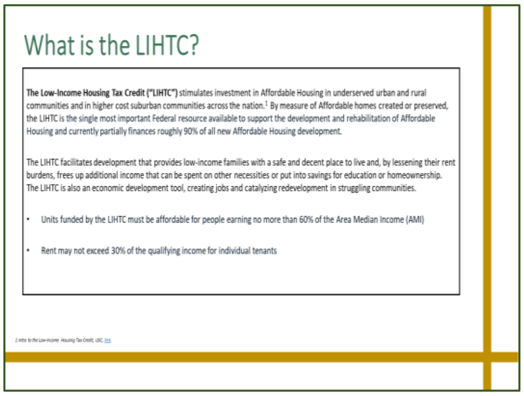


Mr. Brown stated on the federal level, low income was defined as at or below 80% AMI, 50% AMI was very low and 30% and below AMI was extremely low income. The attached slide defined the income levels by household size. The 60% AMI column was included as it had a lot to do with the LIHTC Program.

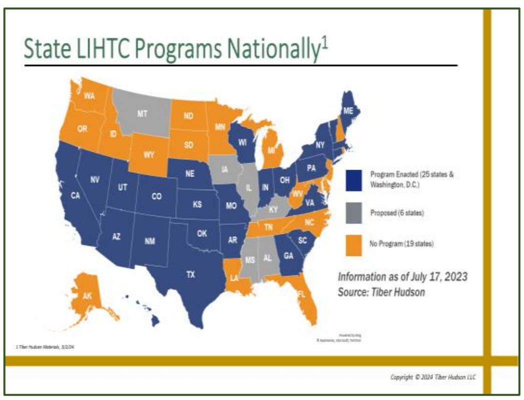
Affordable housing was needed by hard working members of the community who were having challenges finding attainable housing, whether it be in the rental market, or the ownership market. Those individuals included, but were not limited to, service workers, retail, administrative, construction, firefighters, police officers, and teachers. Mr. Brown stated Greenville County's median income level was outpacing earned wages, due to fact that so many people were moving to the County with higher incomes.

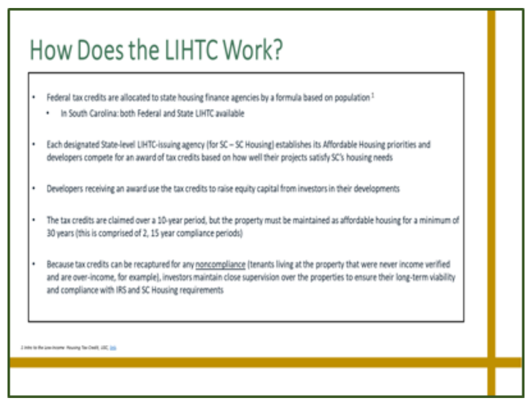


Mr. Brown stated even in affordable housing communities, hard-working members of the community were having an increasingly tougher time keeping up with rents based on those income levels. Particularly hard hit was the senior communities; those individuals were on a fixed income. As income levels increased, their ability to keep up with those rental amounts was severely constrained.

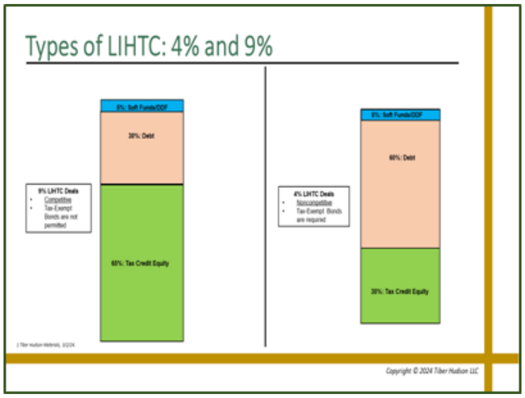


Mr. Brown stated LIHTC was the largest affordable housing program in the nation, having produced about 3.5 million units over the last 34 years. On average, between 100,000 to 110,000 units of affordable housing stock was produced through the program on a yearly basis. Mr. Brown stated units funded by LIHTC must be affordable for people earning no more than 60% AMI. Recently, the program had allowed income averaging. Mr. Brown stated it was similar to the County's Affordable Housing Incentive Policy. If 60% AMI was the target and that figure could not be exceeded, a developer could create a mixed income development.



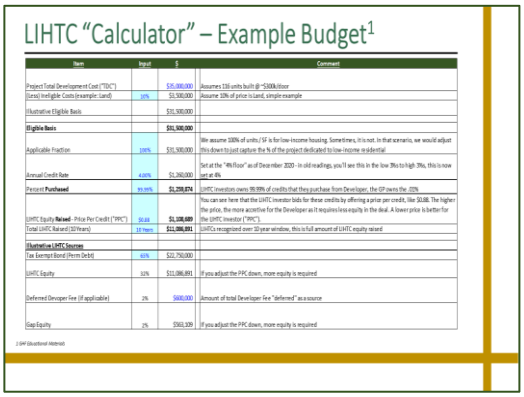


The State of South Carolina also had a State Housing Credit Program; it was one of 25 in the nation. The program was recently adopted in South Carolina. There was a lot of interest in adoption of the program; it was fairly unconstrained when it was first introduced. The Legislature put the brakes on it, which resulted in a big backlog of developments in the pipeline that did not go through. In 2023, Senate Bill 739 was adopted which allocated additional resources to approximately 30 developments across the state, a few of which were here in Greenville, to allow those projects to proceed.



There were two versions of the LIHTC program: the 4% and the 9%. The 9% LIHTC was very competitive. SC Housing administered it in Greenville County. Under the current Qualified Allocation Plan, the County could receive no more than two awards per year. The 4% program gave less than half the equity as compared to the 9% program. Mr. Brown stated when the 4% program was used, the result was fewer credits in capital stock. The State Credit Program was designed to fill that gap and allowed more of those projects to go forward. Other states in the country focused on the 4% program, as well.

Mr. Brown introduced Libba King.

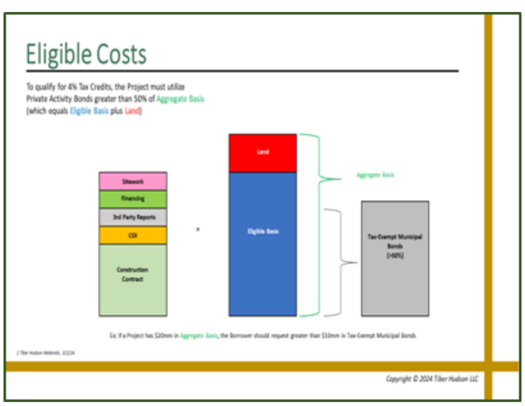


Item	Input	$	Comment
Project Total Development Cost ("TDC")		$35,000,000	Assumes 116 units built @ ~$300k/door
(Less) Ineligible Costs (example: Land)	10%	$3,500,000	Assume 10% of price is Land, simple example
Illustrative Eligible Basis		$31,500,000	
Eligible Basis		**$31,500,000**	
Applicable Fraction	100%	$31,500,000	We assume 100% of units / SF is for low-income housing. Sometimes, it is not. In that scenario, we would adjust this down to just capture the % of the project dedicated to low-income residential
Annual Credit Rate	4.00%	$1,260,000	Set at the "4% floor" as of December 2020 - in old readings, you'll see this in the low 3%s to high 3%s, this is now set at 4%
Percent **Purchased**	99.99%	**$1,259,874**	LIHTC investors owns 99.99% of credits that they purchase from Developer, the GP owns the .01%
LIHTC Equity **Raised** - Price Per Credit ("PPC")	$0.88	**$1,108,689**	You can see here that the LIHTC investor bids for these credits by offering a price per credit, like $0.88. The higher the price, the more accretive for the Developer as it requires less equity in the deal. A lower price is better for the LIHTC investor ("PPC").
Total LIHTC Raised (10 Years)	10 Years	**$11,086,891**	LIHTCs recognized over 10 year window, this is full amount of LIHTC equity raised
Illustrative LIHTC Sources			
Tax Exempt Bond (Perm Debt)	65%	$22,750,000	
LIHTC Equity	32%	$11,086,891	If you adjust the PPC down, more equity is required
Deferred Devoper Fee (if applicable)	2%	$600,000	Amount of total Developer Fee "deferred" as a source
Gap Equity	2%	$563,109	If you adjust the PPC down, more equity is required

1 GHF Educational Materials

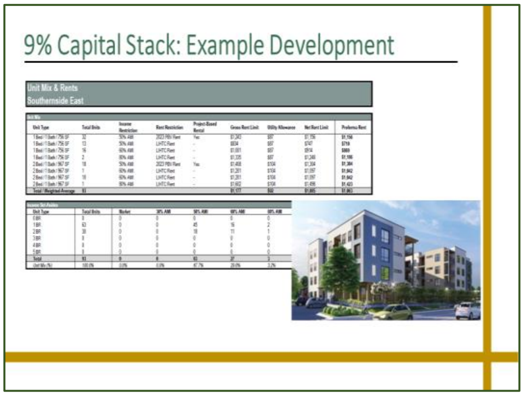
Ms. King stated LIHTC had been a powerful policy tool since 1986, creating or preserving 3.5 million units. Three and a half million units created or preserved. Ms. King stated for a typical real estate deal, there was debt from a lender along with some equity. LIHTC was really an extra source and atypical for most transactions.

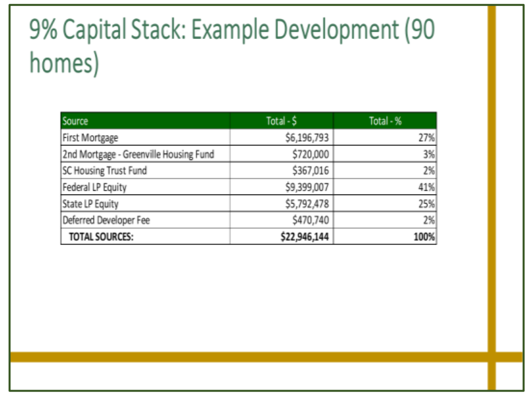
Ms. King stated South Carolina had both the federal and state tax credit; SC Housing was the LIHTC issuing agency. Every year, the Governor signed a Qualified Allocation Plan, QAP, which effectively dictated the priorities through which SC Housing looked at the deals that had applied for either the 4% or 9% credits. Those deals were ranked based on the priorities in the QAP, as well as what the proposed developments looked like. She stated developers received the awards from SC Housing and sold those credits to private companies that had the tax liability to absorb them. Typically, those companies were large financial institutions, such as bank holding companies, under a federal mandate called the Community Reinvestment Act. Every bank holding company was required to invest a certain percentage of their depository accounts into LMI (low-moderate income) communities every year; they were graded by the federal governments and it affected their business. The credits were claimed over a 10 year period; therefore, the investor had an annual amount of its tax liability negated through the purchase of those credits. The amount of equity on day one was the entire amount of the 10 credits. Properties developed using the credits were able to keep rents affordable for 30 years. They were split between two tax credit compliance periods; an initial 15 year tax credit compliance period and an extended use taxpayer compliance period. She stated for the first 15 years, the IRS could claw back the tax credits, if the development failed to comply with the guidelines.



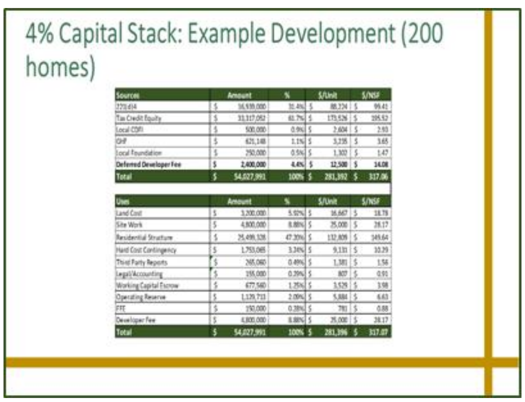
Ms. King stated 9% deals were competitive; 4% deals were technically uncompetitive and were financed with more debt in the form of taxes on bonds. She referred the committee to a handout she had provided. Currently, the total cost to build was $275,000 to $300,000 per unit. The total cost to build 116 units at $300,000 each was roughly $35 million. Ms. King stated LIHTC did not allow for non-depreciable cost to be factored into the credit calculation. Land was not considered an eligible basis. In the example, after taking out certain non-depreciable costs, the project total was approximately $31.5 million of eligible basis.

Ms. King stated after determining the amount eligible for LIHTC, it was important to ascertain what percentage of units or square footage was for low income housing versus commercial versus market rate. She stated if using the example above and 100% of the units were for low income housing, the project cost of $31.5 million was multiplied by a 4% credit rate; the amount of annual credits that were able to be sold was $1.26 million. Prior to 2020, that credit rate actually floated between 3% to 3.75%. She stated it was now fixed at 4%. Ms. King provided information regarding how the credits accumulated over a 10 year cycle as well as gap equity needs, which rose after the COVID pandemic.





Ms. King provided information regarding a capital stack of a 9% development, a 93 unit senior development located across the street from Miracle Hill. Within the development, the Greenville Housing Fund had bank debt and a second mortgage. It was a surplus cash mortgage. She stated most deals of that type were meant to be thin and not meant to incentivize a ton of cash. SC Housing had guardrails in place to make certain property cash flow did not extend beyond a certain level.



Ms. King stated 4% projects had less LIHTC credits and more debt on them, and usually required more secondary soft funding. It was more complex and technical, but it was available to create and preserve high volumes of affordable housing on a yearly basis.

Councilor Harrison stated LIHTC credits were sold on the front end for initial equity and the receiving companies got the 10-year tax credits. With a private, non-profit development, LIHTC credits did not translate to operating cost. Those costs were on the front end from a construction standpoint. The County only had the ability to work with a developer on the property tax side.

Ms. King stated the major cost of a development was to build it and get the units leased, which was the bulk of the need and the LIHTC was most helpful during that phase. Once a property was stabilized at 95% plus occupancy, the rents were set at 60% AMI. There was no additional operating subsidy from the IRS. It was up to the landlord and their property management team to manage an annual budget dictated by the rents. Ms. King stated there was no annual cash infusion from HUD to help with operating support.

Mr. Brown cited, for example, a 200 unit development that was a $54 million deal. The private developer signed personal guarantees on the first mortgage debt. The tax credit syndication proceeds, the amount left after the credits were sold, was a source in the capital stack. He stated there was a regulation on the maximum developer fee that could be earned. It was very common for those fees to be deferred as part of the deal, paying out over time. There was a limit on how much cash flow, on a per unit basis, those properties were allowed to generate. If that maximum was exceeded, SC Housing would reduce the amount of credit allocated. The two biggest expense categories for an owner/operator for properties was taxes and insurance. In America, and particularly along the southeast coast, there was an insurance crisis; costs continued to rise. He stated it was his opinion that there were no properties more deserving of a tax abatement than affordable housing developments.

Councilor Harrison stated he was glad to have conversations regarding affordable housing. It was important for people to understand that the County's Affordable Housing Policy was designed to help with operating expenses for those properties. Mr. Harrison stated he heard all the time that developers were "lining their pockets with money" because of the tax savings; that statement was just not true.

Councilor Fant asked how to overcome the pushback in regards to LIHTC deals and tax abatements.

Mr. Brown stated it was important to look at the numbers. There were properties the Greenville Housing Fund was involved in, in which it would not recoup monies put into them. He stated he was always out in the community, trying to raise money to place on those properties to support housing opportunities and make them as affordable as possible. Mr. Brown stated he liked the fact that the County's Affordable Housing Incentive Policy focused on encouraging the delivery of housing opportunities at the 40-60-80% AMI level. The policy was initiated to encourage the private sector to offer a component of affordability. It was written to offer more abatement the more affordability a project delivered. Mr. Brown stated he would like for the County to offer a full tax exemption to LIHTC properties, as that were not that many due to the financial constraints involved. He stated that while the 4% program was non-competitive, in South Carolina it was competitive to the extent that it could not be done without the state credit program; it had been capped at $20 million per year.

Councilor Fant stated increasing homeownership was critically important. An estimated 250,000 people were expected to move to the area over the 20 years. The public and private sectors were going to have to work better together. He thanked the presenters for the information provided.

Item (5) ***<u>Adjournment</u>***

Action: Vice-Chairman Harrison moved to adjourn.

Motion carried and the meeting was adjourned at 6:00 p.m.

Respectfully submitted:

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Jessica Stone
Deputy Clerk to Council