

# Housing New Mexico | MFA

## Affordable Housing Development 101

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# Overview of Housing New Mexico | MFA

- Created by the New Mexico State Legislature in 1975, Housing New Mexico is a self-supporting quasi-governmental agency that receives no operational money from the state.
- We use funding from housing bonds, tax credits and federal and state programs to provide down payment assistance for low-to moderate-income homebuyers, to finance affordable housing construction and to rehabilitate homes and make them more efficient.
- Over 30 Programs covering all continuums of affordable housing.
- Approximately 350 partners statewide: lenders, real estate agents, nonprofit service providers, developers and local and tribal governments.
- Housing New Mexico Website: [www.housingnm.org](http://www.housingnm.org)

# Development 101 Outline

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- I. Due Diligence
  - II. Design and Feasibility
  - III. Financing
  - IV. Closing and Construction
  - V. Post Construction

# Part I: Due Diligence - Program Planning & Concept

## Establish population served:

- Assess housing needs & market
- What housing problems are you trying to solve?
- Locational and design implications

## Build a basis site criteria:

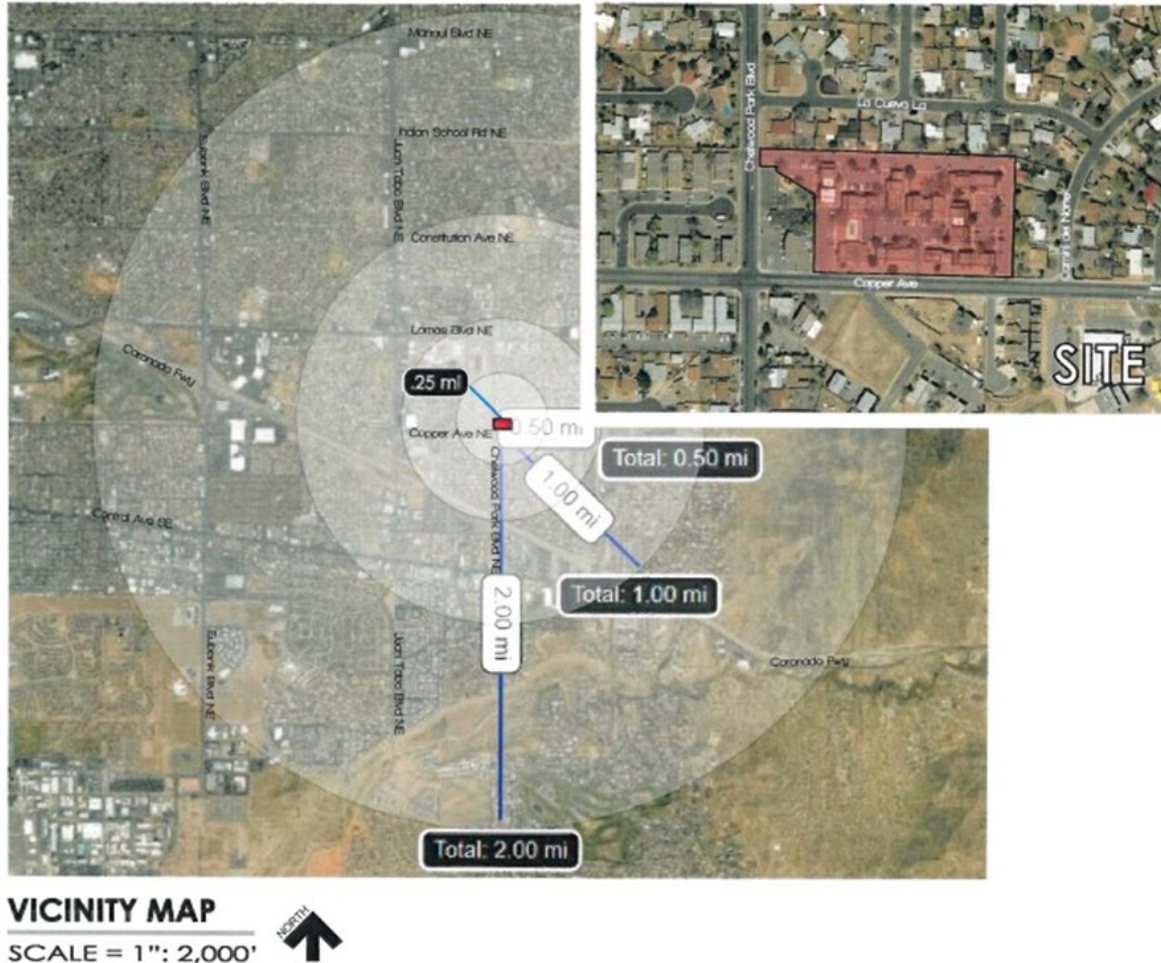
- Access to
  - Utilities
  - Public transportation
  - Employment
  - Services
  - Health care
  - Schools
  - Nearby residential communities
- Building type
- Number of units needed



For more details about the Integrated Development Ordinance visit: <https://www.albuquerque.gov/development/development-services/development-services>



## Part I: Due Diligence - *Site Selection*



## Identify a site:

- Land availability and cost are significant challenges to affordable housing development
- Research sites with planning department, local housing authority, and/or assessor's office
- Identify land or building(s) the city owns which can be used for housing development

# Part I: Due Diligence - *Site Evaluation*

## Entitlements and Access

- Confirm seller and clear title
- Accuracy of legal description
- Recent surveying/plat maps
- Free of tax liens, judgments, encumbrances
- Review property search for any covenants, conditions, restrictions, reservations, and easements
- Access to utilities

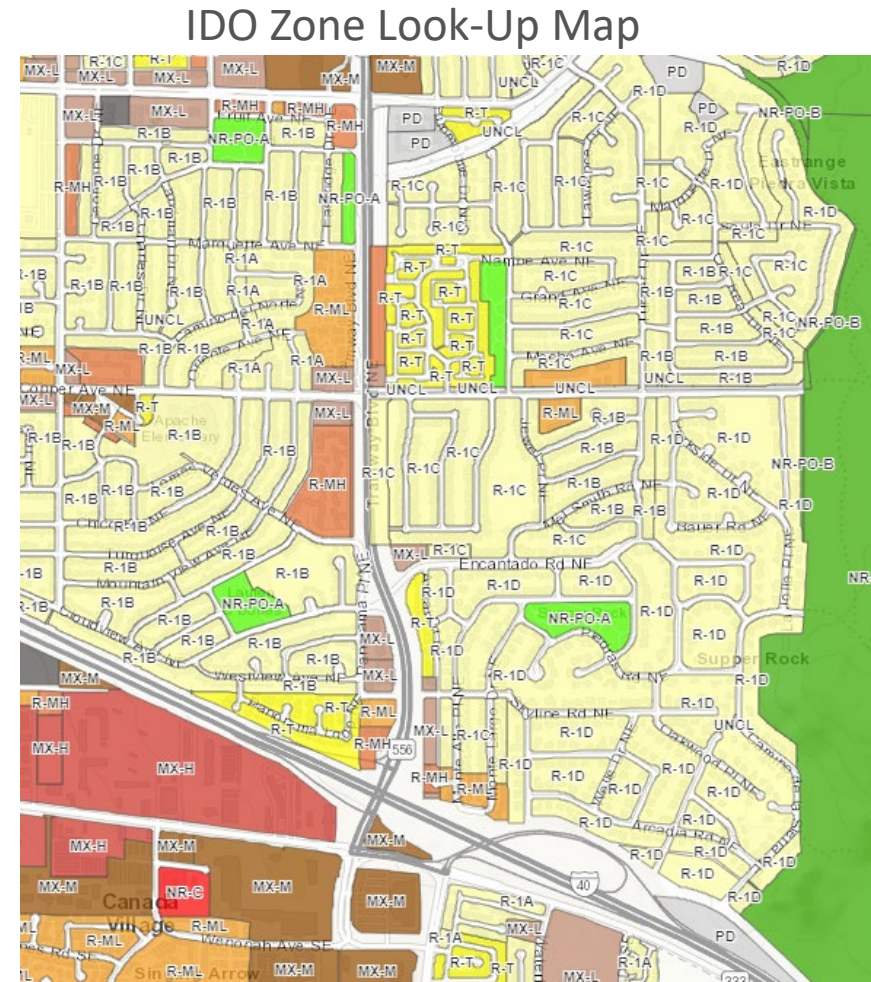




# Part I: Due Diligence - *Site Evaluation (continued)*

## Land Use & Zoning

- Residential code
- Permissible Density
- Floor area ratio (FAR) and setbacks
- Assess adjacent uses
- Parking requirements
- Right of way and road access



# Part I: Due Diligence - *Site Evaluation (continued)*

## Environmental Due Diligence

- Historical structures and materials
- Adjacent properties and uses
- Wetlands and sensitive habitats
- FEMA Flood Map
- Phase I Environmental Site Assessment or other recent reports

Environmental issues may pose serious challenges but may also present unique opportunities.....





## Part II: Design & Feasibility - *Preliminary Site Feasibility*

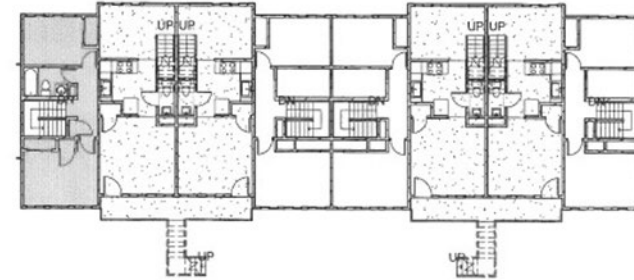
Now that you've selected a site that meets your basic criteria and established site control...

- Determine **number of units**
- Determine **unit mix and size**
- Approximate space needed for **community rooms and amenities**
- Approximate **outdoor and landscaping** space
- Assess **market need/demand** for your initial concept (market study)
- Develop **community support** for your project early on

# Part II: Design & Feasibility– Preliminary Site & Building Design

## Site and Building Design

- Select an architecture firm with experience on similar projects
- Architect produces preliminary building design and floor plans (emphasis on preliminary!)
- Likely will work through several iterations throughout development lifecycle
- Ensure compliance with funding source design standards



⑤ Building Typ. 6 - Level 2  
1/16" = 1'-0"



② Building 6 - B  
1/16" = 1'-0"



① Building 6 - A  
1/16" = 1'-0"

# Part III: Financing – *Development Budget*

## Develop a budget

- Discuss materials and level of finishes with architect
- Architect completes preliminary site and building design
- Establish relationship with general contractor(s) for a preliminary cost estimate
- Utilize cost data from recent projects
- Consultant may be essential to developing more complete budget
- Determine Total Development Cost budget
- Calculate annual rents, vacancy, and operating budget to determine Net Operating Income (NOI)



# Part III: Financing – *Capital Stack*

## Secure funding

- Conventional first mortgage (almost always largest loan source)
- First mortgage lender will base loan size on maximum Loan-to-Value (LTV) or Loan-to-Cost (LTC)
- Consider construction vs permanent funding
- Permanent first mortgage critical to securing other funding
- Lenders require project's NOI to cover annual debt service with cushion of income left over (Debt Service Coverage Ratio)
- **How much debt can the project afford?**

# Part III: Financing – *Low Income Housing Tax Credit*

## Low Income Housing Tax Credits (LIHTC)

- IRS Program created in Tax Reform Act of 1986
- In New Mexico, LIHTC Program is administered by Housing New Mexico
- **Purpose:** to stimulate private investment in affordable housing
- **Mechanism:** investors fund projects, and, in exchange, they can claim dollar for dollar credit against their tax liability for 10 years
- **Qualified Allocation Plan** governs allocation of tax credits
- Credit amount is based on the depreciable cost of acquiring, constructing, or rehabilitating affordable housing units (known as “Eligible Basis”)

# Part III: Financing – *Low Income Housing Tax Credit*

## 9% and 4% Tax Credits

- 9% credits are competitive
  - Application due in January, one round per year
  - States receive a finite allocation of tax credits each year
  - \$2.90 per capita to each state (2024)
    - NM 2,114,371 people x \$2.90 = \$6,131,676
  - Provides the deepest federal subsidy, funding roughly 70% of total development cost
- 4% credits are non-competitive
  - “As of right” with the use of tax-exempt bonds
  - Applications on a rolling basis
  - Limited by available private activity bond volume cap
  - Attract less equity, funding roughly 30% of total development cost



# Part III: Financing - *Tax-Exempt Bond Issuance*

## Mechanisms:

- Private Activity Bond Volume Cap (PAB)
  - most common because they come with 4% LIHTC
- Refunding outstanding bond issues
- Issuing new 501(c)3 bonds

**Conduit issuer** – loans from other sources

## Process for PAB:

1. Apply for 4% LIHTC
2. Once approved, draft 42(m) letter provided
3. Inducement Resolution issued
4. Applicant prepares State Board of Finance (SBOF) application for Housing New Mexico to submit to SBOF for approval
5. TEFRA hearing
6. Bond Resolution to Housing New Mexico Board for approval
7. Closing



# Part III: Financing – *Low Income Housing Tax Credit*

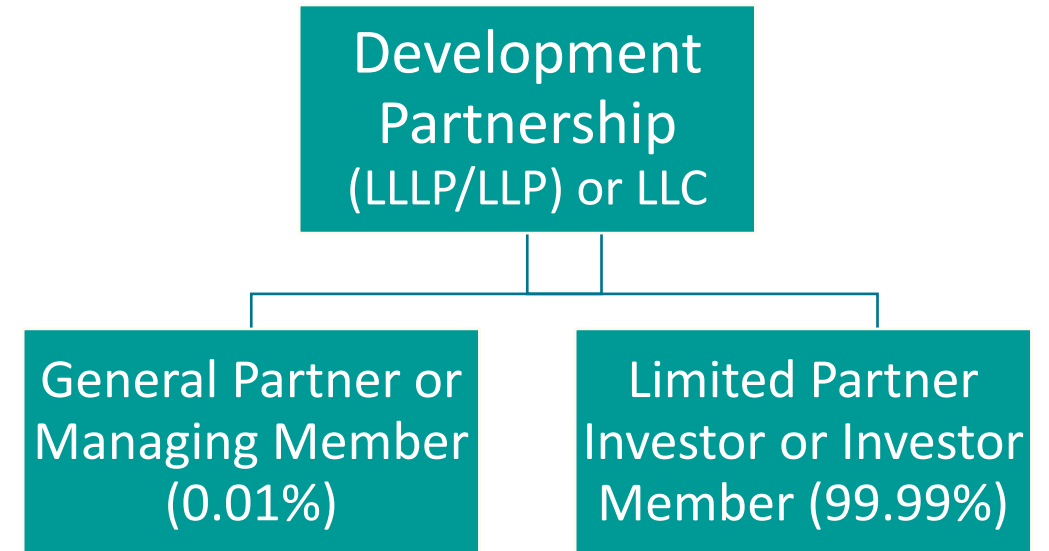
## Tax Credit Affordable Use

- Minimum set asides:
  - 20% of units for households earning no more than 50% of Area Median Income (AMI), or
  - 40% of units for households earning no more than 60% AMI (most common), or
  - Average Income: can serve households up to 80% AMI if at least 40% of total units are restricted, and the average of the imputed income limits of all restricted units does not exceed 60% AMI
- Land Use Restriction Agreement (LURA) effective for a minimum of 30 years required (income and rent limits)

## Part III: Financing– *Low Income Housing Tax Credit*

### Partnership Structure to Receive LIHTC

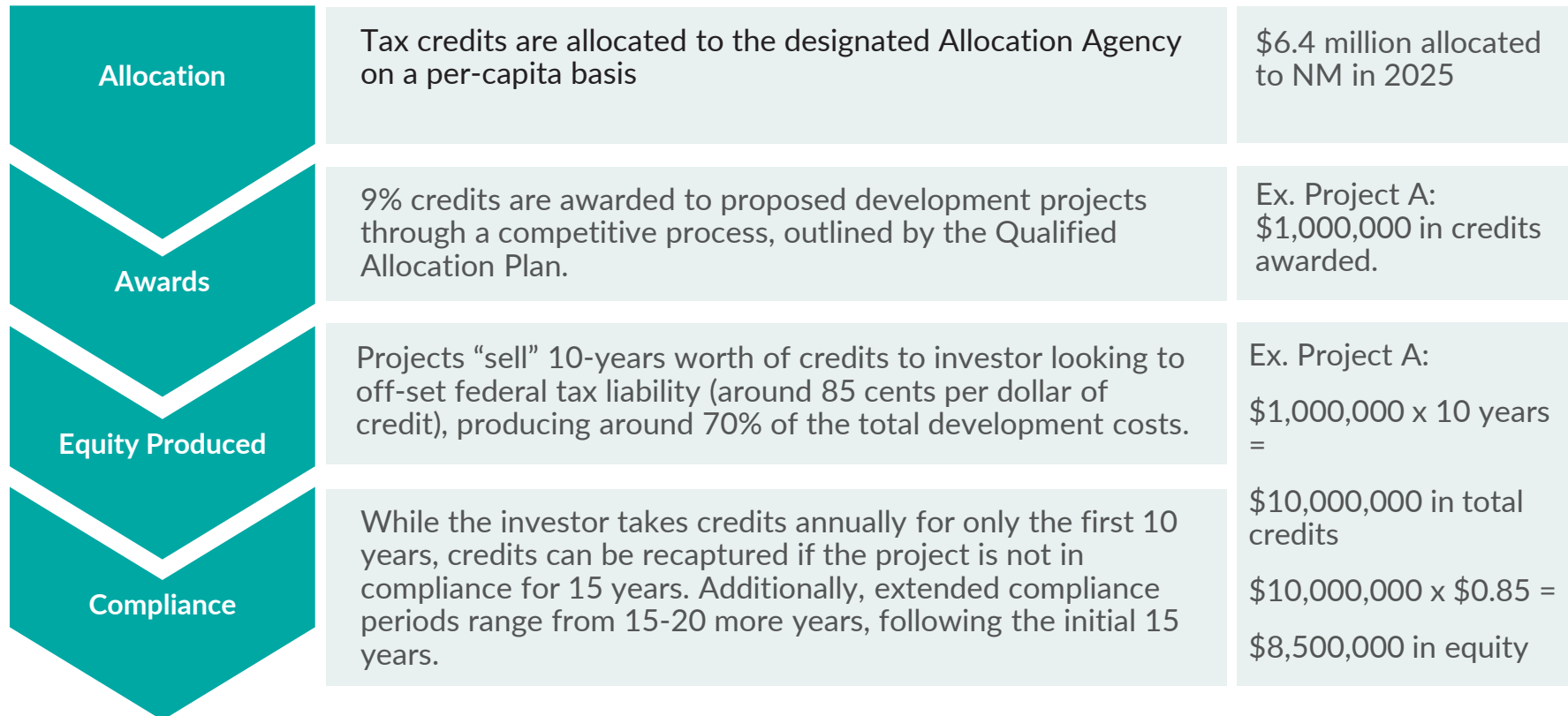
- General partner controls and operates the project, **provides guarantees**
- Passive limited partner invests equity in return for 99.99% ownership
- Limited partner gets its return almost exclusively from the tax credits and tax losses from the project
- Equity from the sale of credits reduces need for debt & other financing needs of the project, allowing for lower rents





# Part III: Financing– *Low Income Housing Tax Credit*

## 9% Low-Income Housing Tax Credit Process



# Part III: Financing – *Gap Financing*

## Fill the gap

- Almost all projects will have a gap due to lower rents
- Determine gap leftover after first mortgage and tax credit equity
- Five or more funding sources for a project is common
- Understand eligibility and constraints of funding programs
  - Expect to meet the most conservative of overlapping requirements
- Adjust preliminary rents/NOI accordingly in projections
- Apply for gap funding with full proforma (projected capital stack, rents, operating expenses, and resulting cash flow)

# Part III: Financing – *Housing New Mexico Financing Sources*

## Housing New Mexico offers:

- HOME Investment Partnerships (federal)
- National Housing Trust Fund (federal)
- New Mexico Housing Trust Fund
- Primero Investment Fund
- Ventana Fund
- Land Title Trust Fund
- 538 Guaranteed Rural Rental Housing Program
- 542(c) FHA-Insured Multifamily (Risk Share)
- Tax-Exempt Bond Issuances
- State Tax Credit (Donation based)

**Universal Rental Development Application** for most sources; apply for all Housing New Mexico financing concurrently



# Part III: Financing – *Housing New Mexico Financing Sources*

	NMHTF	HOME	NHTF
Loan Limits (9% Tax Credits)	\$3,000,000 Construction \$2,000,000 Permanent	\$500,000 \$1,250,000 CHDO	\$400,000
Loan Limits (4% Tax Credits)	\$3,000,000 Construction \$2,000,000 Permanent	\$1,000,000 \$1,250,000 CHDO	\$400,000
Permanent Term	40 Years	40 years	30+ years
Amortization	40 Years	40-80 Years	N/A
Repayment & Interest Rate	Principal and Interest 1.00% – 5.00% Interest Rate	Principal Only 0% Interest Rate	Available Cash Flow or Fixed Annual Payment of \$500



## Part III: Financing – *Other Gap Financing Sources*

### Other Gap Financing Examples:

- Deferred developer fee
- Developer or contractor contributions
- Other tax credits (solar, historic)
- Federal Home Loan Bank Affordable Housing Program grants
- Local government contributions made under New Mexico's Affordable Housing Act
  - City or County land
  - Impact fee waiver
  - Property tax abatement
  - Infrastructure contribution
  - Low-interest rate loans
  - Grants and soft loans



Mesquite Village, Las Cruces



# Part III: Financing – *Capital Stack*

## Capital Stack Example (9% LIHTC):

Financing Sources	Amount
First Mortgage – XYZ Bank	\$ 1,800,000
Second Mortgage – HOME Loan	\$ 800,000
Third Mortgage – National HTF Loan	\$ 400,000
Fourth Mortgage – New Mexico HTF Loan	\$ 2,000,000
Fifth Mortgage – Developer Cash Flow Loan	\$ 1,000,000
City Soft Loan	\$ 3,500,000
County Grant	\$ 780,000
Tax Credit Equity	\$13,000,000
Deferred Developer Fee	\$ 180,000
<b>TOTAL:</b>	<b>\$23,460,000</b>

## Part IV: Closing and Construction

- Closing calls begin between all lenders, the developer, tax credit investor, attorneys, title, etc.
- Lenders draft loan documents and language is negotiated between developer, lenders, tax credit investors, and attorneys
- Documents fully executed and all encumbering documents recorded at closing
- Initial draws disbursed to the partnership
- Construction period takes roughly 24-months
- Housing New Mexico monitors construction progress with on-site inspections at 33%, 66% and 100% completion milestones (which may be more frequent depending on funding source).



# Part V: Post Construction

- Final draw made
- Permanent financing pays off construction financing (conversion)
- Monthly principal and interest payments begin
- Project placed-in-service and LIHTC LURA recorded
- IRS Form 8609 issued allowing tax credits to flow to investor
- Project is complete and moves from Housing Development to Asset Management department
- Asset Management monitors for long-term compliance (income/LURA requirements, property inspections, annual compliance reporting, etc.)





# Questions?

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*We Are Housing New Mexico*