WATERFORD
PROPERTY COMPANY

C&C Development

# "MIDDLE INCOME" WORKFORCE HOUSING PROGRAM

CSCDA
CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY

CSAC
LEAGUE OF CALIFORNIA CITIES

130 NEWPORT CENTER DRIVE, SUITE 230
NEWPORT BEACH, CA 92660
949.529.3530
WWW.WATERFORDCO.COM

SUPPLEMENTAL
COMMUNICATION

Meeting Date: 2/16/2021

Agenda Item No.: Study Session #1
(21-157)

# PROJECT TEAM

## WATERFORD PROPERTY COMPANY/C&C DEVELOPMENT

- Waterford Property Company "Waterford" is an experienced owner and developer of institutional "Class A" multifamily rental projects throughout the State of California. Since its founding in 2013 Waterford has acquired over $650,000,000 in real estate assets.
- Waterford is an expert in the development of affordable housing. Sean Rawson, Co-Owner of Waterford, has developed and has been a principal and owner of over 2,000 affordable residential units during his career.
- C&C Development is an experienced owner and developer of affordable housing projects with over 2,000 units in its portfolio

## CALIFORNIA STATEWIDE COMMUNITIES DEVLOPMENT AUTHORITY (CSCDA)

- The CSCDA was created in 1988 by the League of California Cities and California State Association of Counties, under California's Joint Exercise of Powers Act, to provide California's local governments with an effective tool for the timely financing of community based public benefits projects.
- Huntington Beach is currently a member of CSCDA.
- The CSCDA has 533 member cities as well as counties and special districts throughout California. CSCDA helps local governments build community infrastructure, provide affordable housing, create jobs and provide access to quality healthcare. CSCDA has issued over $63 billion in bonds for local governments throughout California.

## GOLDMAN SACHS

- Goldman Sachs is an expert in municipal bond offerings for public infrastructure and housing projects.
- Goldman Sachs will be the lead investment banker and underwriter for the project.

# CRISIS, CAUSE, SOLUTION

## (CRISIS) CALIFORNIA HAS FAILED ITS MIDDLE-INCOME WORKFORCE…

- Our nurses, teachers, librarians, bank tellers, first responders and civil servants earn above "very low" and "low" income households, yet are still priced out of the communities they serve
- The ripple effects of these housing shortfalls include congestion, pollution, crime, homelessness, health issues, poor student performance and social unrest and dislocation
- The effects of the dislocation of "middle income" employees is harmful to California employers, as they may have positions that go unfilled cost impacts of workers commutes.

## (CAUSE) CALIFORNIA'S MIDDLE-INCOME HOUSING CRISIS IS COMPLEX…

- Restrictive land use policies
- Organized Not In My Back Yard (NIMBY) policies
- Record construction costs
- Widening income inequality
- Insufficient housing choices
- Nonexistent middle-income housing supply

## (SOLUTION) WATERFORD'S BEST IN CLASS TEAM TO PROVIDE INNOVATIVE HOUSING SOLUTIONS TO CALIFORNIA'S SUPPLY PROBLEM…

- Preserve Existing Tenant Population
- Create "Middle Income" Housing with no public subsidies and no equity investments
- Restrict Annual rent increased to 4%
- Impose "Middle Income" Regulatory Agreements

# TARGET DEMOGRAPHIC

## THE "MISSING-MIDDLE"

- California has a significant shortage of available workforce housing for the "Missing Middle". These are individuals and families that earn too much to qualify for traditional affordable housing, but not enough to afford the market rate rents within the communities they work and serve.
- Workforce housing (also known as moderate-income housing) is housing for individuals and families earning between 80% and 120% of the Area Median Income (AMI).
- Typically, the "Missing Middle" is the most difficult segment of the population to provide housing for because the rents are not low enough to make projects eligible for government subsidies, but the rents are still too low to justify the construction costs.






# OVERVIEW OF WORKFORCE HOUSING PROGRAM

## PROCESS

- CSCDA and its Projects Administrator (Waterford/C&C) acquires new or existing rental multifamily communities and records a regulatory agreement restricting rents to the property between 80% and 120% AMI
- All properties are financed through CSCDA tax exempt governmental bonds
- The City enters into a Public Benefits Agreement whereby the City (along with the County and School District) receives all surplus revenue upon the sale of the property.

## PROPERTY TARGETS

- CSCDA and its Projects Administrator (Waterford/C&C) plan to acquire Class A existing multifamily properties in core supply- constrained markets targeted to the "Missing Middle" while maintaining their Class A/luxury designation
- All properties will be professionally managed and be operated as if there is no "income restriction" in place
- **Since all residual cash flow will be used to pay down the outstanding balance and because the local government is the ultimate financial beneficiary to all developed equity in the asset, Waterford/C&C and its team will have ample capital to reinvest back into the property and guarantee that all properties are operated in a Class A manner.**



# FLOW CHART OF MIDDLE INCOME TRANSACTIONS

A California City Joins CSCDA Community Improvement Authority (the "Authority")

↓

CSCDA acquires a market-rate multifamily project in that City

↓

CSCDA finances the property with municipal bonds

↓

CSCDA limits the rents to 80% to 120% AMI households

↓

Waterford/C&C and its best in class asset management team operates the property and acts as the Project Administrator

# PUBLIC BENEFITS TO CITY

## HOUSING POLICY

- Since 2012 the cost to build Class A luxury apartments has risen nearly 40%
- In order to make Class A luxury projects financially feasible developers have continued to increase rents at record levels increasing nearly 27% in the last 8 years.
- In urban areas where developable land is scarce and higher density construction is required the only way to make multifamily projects viable is to utilize Low Income Housing Tax Credits (LIHTC) for "low" and "very low" income households or build project that target households earning in excess of 120% AMI

## FINANCIAL BENEFITS

- Under the Public Benefit Agreement, the City, at its sole discretion, may force a sale of the property between Year 15 and Year 30 (the end of the life) of the bonds, and the City, along with other taxing agencies (including the County and School District) would receive the net sale proceeds.
- All properties are financed through the issuance of tax-exempt bonds and have no equity partners which means that after paying off the bond payments upon a sale, all excess sales proceeds go to the City and other taxing agencies.

## COMMUNITY BENEFITS

- Cities can provide much needed "middle income" housing without using financial resources to build it
- Cities will reap large financial windfalls starting in Year 15 and can be accessed at their discretion
- Cities will ensure that all properties in the program are operated to highest standards and best practices because all excess cash flow after servicing the bonds will be invested back into the asset

# CITY CONTROL

## OWNERSHIP

- Assets are owned by CSCDA and Waterford/C&C is the Project Administrator
- Waterford/C&C will oversee all operations of the asset and maintain the business plan in conjunction with its property manager

## REGULATORY AGREEMENT

- Restrict occupancy to moderate income households or lower (80%-120% AMI)
- Limit annual rent increases to a maximum of four percent (4%) annually
- Prevent displacement of existing residents that do not meet income eligibility requirements

## FINANCIAL REPORTING

- CSCDA shall provide annual reports to the City regarding the status of its acquisition, financing and operation of property
- City is allowed to review and audit all financials for the property

## PUBLIC BENEFIT AGREEMENT

- The City, at its sole discretion, may force a sale of the asset of the property between Year 15 and Year 30
- The project is financed through the issuance of limited obligation bonds; bonds issued will be indebtedness solely for the Authority, and payable from revenues of the project.
- No financial expenditures, liabilities, or obligations are created by joining the Authority or executing the public benefit agreement.

# Case Study #1

## The Property

- The subject property is a 216 unit recently constructed luxury multifamily community
- Project Overview:
  - Completion: 2020
  - Total Units: 216
  - Property Type: "Class A" Multifamily Community
  - Unit Mix: Studios-15, 1B/1b-100, 2B/2b-94 and 3B/2b-7
  - Amenities: Luxury

# CASE STUDY #1

## FINANCING STRUCTURE

- The acquisition of the subject property will be financed through the issuance of tax-exempt bonds
- Upon the acquisition of the property, CSCDA will restrict the rents to the following income categories:
  - Households earning less than 80% of the Area Median Income (AMI)
  - Households earning between 81% and 100% of the AMI
  - Households earning between 101% and 120% of the AMI
- Upon the acquisition of the property, existing tenants will not be displaced
- Maximum allowable rents for each income category will not exceed 35% of the respective income limit for Orange County, adjusted for household size, as published annually by HUD and utilized by the California Tax Credit Allocation Committee
- Existing tenants who qualify will be granted income restricted rents at the time that their lease expires
- Rent increases will be subject to a 4% cap on rent increases annually

| Total Rooms | Total Units | Market Rent | AMI Rent | CSCDA Rents | Discount to Market |
|---|---|---|---|---|---|
| 0 BR | 15 | $ 2,450 | $ 2,301 | $ 2,149 | 12.29% |
| 1 BR | 100 | $ 2,750 | $ 2,628 | $ 2,437 | 11.38% |
| 2 BR | 94 | $ 3,700 | $ 2,951 | $ 2,951 | 20.24% |
| 3 BR | 7 | $ 5,275 | $ 3,284 | $ 3,284 | 37.74% |
| | 216 | $ 3,224 | $ 2,767 | $ 2,668 | 17.25% |

# CASE STUDY #1 (Continued)

## FINANCING STRUCTURE

- The Year 1 rent savings will be $1,441,000 and will be a 17% decrease over current market rents. The % difference between market rents and income restricted rents will increase year over year due to the rent caps put in place.
- The subject property will be kept in its current "Class A" condition. The Proforma has $1,400,000 of "excess" capital funded through the bond issuance for on-site maintenance in addition to $300 per unit in annual "Op-ex" reserves and will grow at 2.5% annually and will increase to $700 per unit starting in year 11
- Five Key Beneficial Reasons that Time is of the Essence:
    - Interest Rates: Municipal Bond Interest Rates are near all-time lows
    - COVID-19: Renters throughout the nation are experiencing economic hardships which has led to rent decreases in "Class A" multifamily assets. By doing these projects now, Cities can lock in lower rents for their residents
    - Economic Stimulus: Turning the project into "moderate" income housing provides renters with increased "discretionary" spending to put back into the local economy
    - Market Dynamics: There is currently less competition to buy "Class A" assets than Pre-Covid; this environment will be short-term

# CASE STUDY #1 (Continued)

## FINANCIAL BENEFITS TO THE CITY

- The property is assessed at $110,923,530. Based on a 1% property tax rate the annual taxes generated from the property are $1,178,675. Assuming a 16% share it is estimated that the City receives approximately $262,000 annually from the property.
- Over a 30-year period the City will forgo approximately $9,665,000 in total tax revenue but make $166,000,000 in net proceeds at the end of Year 30.
- Starting in Year 15, per the Public Benefit Agreement (PBA), the City can dictate if the project is sold, re-financed or continues to operate "as-is".
- Below is a financial analysis showing that assuming a 4% cap rate reversion analysis the City will be due $166,159,642 in Year 30 if the asset is sold. If the City chooses not to sell the asset it will be the beneficiary of all "cash flow" once the bonds are paid off.

| | Exite Cap Rate | 4.00% | Exit Cap Rate | 5.00% |
|---|---|---|---|---|
| | | **Year 30** | | **Year 30** |
| Exit NOI | | $12,612,559 | | $12,612,559 |
| Total Tax Roll | | $2,363,649 | | $2,363,649 |
| Adjusted NOI | | $10,248,910 | | $10,248,910 |
| **Sale Proceeds** | | **$256,222,744** | | **$204,978,195** |
| Senior Debt Service Reserve | | $5,397,360 | | $5,397,360 |
| Series A | | -$45,732,739 | | -$45,732,739 |
| Series B | | -$5,397,360 | | -$5,397,360 |
| **Surplus Proceeds** | | **$210,490,005** | | **$159,245,456** |
| Other Taxing Entities | | $34,959,137 | | $34,959,137 |
| City Property Tax | | $9,665,751 | | $9,665,751 |
| Total Voted Indebtedness | | $9,371,226 | | $9,371,226 |
| Net Surplus Proceeds | | $200,824,254 | | $149,579,705 |
| Net Surplus Proceeds to City | | $166,159,642 | | $114,915,093 |
| City Equity Multiple | | 18.19 | | 12.89 |

# NEXT STEPS

## HUNTINGTON BEACH

- City Council adopts one single resolution
- City acknowledges CSCDA's issuance of bonds for eligible projects
- City agrees to receive surplus revenue
- The City incurs no fees, costs, liability or administrative responsibilities in connection with the program or individual programs

## PARTNERS

- CSCDA/Waterford views this socially beneficial and financially beneficial structure as a true partnership with the City of Huntington Beach
- CSCDA/Waterford are active participants and investors in the Cities where they do business
- CSCDA/Waterford is excited about the opportunity to reinvest in this beautiful transcendent property and become long term partners with the City

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## Contact Information

SEAN RAWSON
Co-Founder
949.529.3534
srawson@waterfordco.com

JOHN DRACHMAN
Co-Founder
949.529.3535
jdrachman@waterfordco.com

PHIL CHRISTIAN
Vice President
949.529.3532
pchristian@waterfordco.com

YASHAAR AMIN
PARTNER
949.529.3533
yamin@waterfordco.com