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How a Georgia bond deal made an affordable housing difference

By

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One bond underwriter undertook a unique two-pronged approach aimed at tackling the lack of affordable housing in the Southeast.

KeyBanc Capital Markets priced the Clayton County Housing Authority, Georgia's $41 million of tax-exempt bonds for the Villas at Mt. Zion and the Flats at Mt. Zion. Separately, KeyBank Real Estate Capital secured a $28.1 million Fannie Mae fixed-rate financing for the construction of the properties.

They developments consist of two affordable housing communities: the Villas at Mt. Zion, a 96-unit senior independent living community for those 55 and older, and the Flats at Mt. Zion, a 210-unit multi-family community for families with children. These affordable housing communities plan to offer special services that focus on education and the social and emotional health of the residents.

A rendering of the Flats at Mt. Zion in Clayton County, Georgia, which are being developed with the help of tax-exempt bonds. KeyBanc Capital Markets

Both properties are being developed with the help of Fannie Mae's MBS as Tax-Exempt Bond Collateral financing.

MTEBs can be used as new fixed-rate bond issues in conjunction with 4% Low-Income Housing Tax Credits.

They are structured to mirror mortgage-backed securities and are rated Aaa by Moody's Investors Service and AA-plus by S&P Global Ratings. They are single-term and monthly pay.

The program was designated to help individuals and families whose income limits are within 50%, 60% and 70% of the Area Median Income as determined by the U.S. Department of Housing & Urban Development.

“The MTEB program is one that Fannie Mae really designed a number of years ago to provide the strength of their credit to support the low-income housing tax credit market,” Sam Adams of KeyBanc Capital Markets’ Public Finance Group told The Bond Buyer. “There had been lots of discussion on how to utilize tax credits for affordable housing development in this country — some of which don’t fit well into the traditional real estate market, not from a credit perspective, but just from a deal perspective.”

He said demand for the securities has been solid.

“Right now in the market, demand for affordable housing bonds is very strong, particularity for bonds that have a social impact,” Adams said, noting that affordable housing bonds, as many investors have discovered, is actually a very strong asset class.

“Unfortunately, there’s a strong need for affordable housing in this country and a result, from a credit perspective, it’s actually a very attractive asset class,” he said.

The bond deal was structured in two series — Series A MTEBs and Series B short-terms. The tranches consisted of $19.95 million Series A MTEBs and $8.05 million of Series B short-terms for the Flats and $8.15 million of Series A MTEBs and $4.85 million of Series B short-terms for the Villas.

The Series A MTEBs maturing in 2039 were priced at par to yield 1.99% and the Series B short-terms due in 2024 were priced at par to yield 0.24%.

KeyBank Real Estate Capital secured the Fannie Mae MTEB 4% unfunded forward permanent loan commitments of $8.15 million for Villas and $19.95 million for the Flats. Proceeds will help pay off construction loans.

The developments are a joint venture between Zimmerman Properties and TriStar LLC, which was formed to build and operate affordable housing communities that offer innovative services for residents. Amenities include a swimming pool, exercise facility, computer library, playgrounds, outdoor garden, wellness center and an Early Learning Center.

The ELC will be staffed by Star-C Inc., an Atlanta based 501(c)3 non-profit, which will provide free on-site services including an after-school K-through-5 program, healthy living and eating initiative classes, community gardening and summer camp.

“Good developers like this and great partners like Fannie Mae are really doing everything they can to make an affordable housing impact — and there really is a growing need for it — and a lot of the legislation that is out there is targeted at it, much of which could help to expand that effort,” Adams said.

President Joe Biden has backed a plan to create, preserve and sell to homeowners and non-profits almost 100,000 additional affordable homes over the next three years, with an emphasis on the lower- and middle-income segments of the market.

Federal agencies have been tasked to work with state and local governments to boost housing supply by using existing federal funds to spur local action, explore federal rules to help states and local governments reduce exclusionary zoning and to launch learning and listening sessions with local leaders.

Some housing experts noted the growing need for solutions.

“Our nation is in an affordable housing crisis, and it’s something we should have started heading off years ago and now we’re woefully behind in righting things,” Amy Ford, vice president of strategic partnerships for Silvernest, a roommate finder and home-sharing platform, told The Bond Buyer.

Ford noted that for many Americans, the costs of housing are rising as a fast pace.

“Research from the Joint Center for Housing Studies of Harvard University shows that 20.4 million American renter households are cost burdened, paying more than 30% of their income for housing,” she said. “For areas in the Southeast, such as Shreveport, Sarasota and Macon-Bibb, we’re seeing that number exceed 50%.”

Ford pointed out that 62% of lower-income renter households nationwide are severely cost burdened, meaning they are paying more than 50% of their income for housing.

“Homeowners are facing their own challenges, working to cover rising housing costs and pay down their mortgages, many of which have been in a forbearance that will soon end. The standard single family home is out of reach for so many, and difficult to maintain for thousands upon thousands of people,” she said.

"Demand for affordable housing bonds is very strong," said Sam Adams of KeyBanc

She said there is no instant fix for this situation, but said there is a need to act quickly and bring new solutions to the table.

“One creative solution that is emerging to help head curb the affordable housing crisis is home-sharing, where a homeowner rents out spare rooms to long-term housemates,” Ford said. “Through home-sharing, homeowners can earn extra income to keep up with home maintenance, pay taxes, cover insurance and make necessary home modifications. Housemates can live more affordably in a shared home than renting a place alone and can often live closer to where they work.”

Looking at repurposing land and properties, Invest Atlanta and the Department of City Planning recently issued a request for proposal for the redevelopment of a 1.3-acre city-owned vacant parcel across the street from City Hall. The city wants to redevelop the site to create affordable housing units that will be focused on lifestyle affordability, a mix of incomes and use, and sustainability.

The Invest Atlanta board of directors approved a Housing Opportunity Bond Program in January, which includes $50 million of taxable draw-down bonds and $100 million of taxable revenue bonds.

It will be the third and largest issuance of Housing Opportunity Bonds sponsored by the city government to fund housing programs, according to Invest Atlanta, the city's economic development authority. Previous issuances were in 2007 and 2017, totaling $75 million.

In Louisiana, New Orleans Mayor LaToya Cantrell on Tuesday signed an ordinance to move forward with a Cooperative Endeavor Agreement with the New Orleans Redevelopment Authority, outlining the terms and responsibilities for the redevelopment of city-owned properties.

In Florida, a state law passed this year establishes an infrastructure plan to prioritize investing in state and local affordable housing programs. The legislation provides funding on a recurring basis and in the upcoming fiscal year affordable housing programs would receive over $200 million.

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