



Beyond Buildings



Addressing the Housing Shortage

By Rob and Mike Lowe

Contributing positively to communities is one of Lowe's six core values and has always been an important part of the Lowe culture. As the dramatic shortage of affordable housing worsened during the pandemic and ensuing recession, growing to an estimated seven million units, Lowe made the decision to take action to address this critical need. Our goal is to be a part of the national affordable housing solution, and we are passionate in this pursuit.

To achieve this goal, Lowe has created a new company that harnesses its extensive expertise in design, construction and project finance, and deep experience in working with local communities. Lowe will work with the federal government's Low Income Housing Tax Credit (LIHTC) program to build communities that serve people in need by creating safe and welcoming living environments. Concord Communities (Concord) was born as a subsidiary of Lowe to serve this need.

Concord combines the strength and resources of a national real estate company with the insight of local teams that have experience in affordable housing and an intimate understanding of each community's needs. We have a unique ability to deliver creatively-designed and high-quality residences, to use our strong balance sheet to control and invest in projects, manage through the complex financing requirements, and provide disciplined management. This

will assure investors that the properties are well maintained and managed while satisfying all income and rental rate requirements.

Our goal is to implement the program in our core markets. However, rather than completing singular or standalone projects in many locations, we intend to concentrate multiple projects within neighborhoods so that we have a real impact on enhancing the built environment of a specific community. As such, the first market we are targeting is Baltimore, Maryland, where we now have five projects under control.

LIHTC is a federal program to help finance the needs of affordable housing. Since it received legislative approval in 1986, the program has led to the creation of over 3 million affordable housing units. State governments are allocated these tax credits, which they then award to developers. A developer in turn attracts investors, typically large banks, that will utilize these tax credits to reduce their federal tax burden. The banks also receive Community Reinvestment Act (CRA) credit for the investment. This equity is then used to deliver units with a lower rent structure than a project otherwise could offer, because the investment return on the tax credit equity comes primarily from the tax credits, rather than project cash flow.

CONCORDTM COMMUNITIES

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A typical project is financed through a combination of bonds, the tax credit equity, and “soft” debt. The bonds are a tax-exempt first mortgage and are sized based on the ability of the project income to service the debt. The amount funded by the tax credit investor is based upon the following formula: the project development costs (excluding limited ineligible line items), multiplied by the percentage of the project that is affordable, multiplied by the tax credit rate (which was recently increased to 4% as part of a recent stimulus bills), multiplied by the length of the tax credits (10 years), multiplied by the price per credit (which fluctuates with the market but is currently running about 80%-90% of face value). The gap between the total costs and the bonds and tax credit equity is filled by the “soft debt”. The soft debt is provided by agencies, many with state and local government or non-profit affiliations, and is deeply subordinated with any repayments contingent on available cash flow. Upon delivery, the project is leased to low income qualifying tenants at rates based upon local household income metrics. Because the tax credit equity and the soft debt effectively are not required to be repaid by project cash flows, the LIHTC capital structure allows the development of a quality residential project leased at rates much lower than otherwise would be required by similar projects with market rate financing. Securing the soft debt is a time-consuming and complex activity that becomes the key to a successful project. The LIHTC income limitations and associated obligation to enforce the limitations typically last for 15 years. The soft debt often comes with requirements that can be longer.



Projects can be both new construction and conversions. For new construction projects, the developer takes on the risk of funding the pre-development costs. Upon closing of the financing, the developer is repaid its investment and then earns a development fee. For conversions, the developer typically takes ownership of the project and then is able to recover its costs when the LIHTC financing closes, usually about 12 months later. In both, the developer also has a deeply subordinated ownership position in the project.

In exchange for the risks that the developer must take, in addition to the substantial societal benefits, the model offers an attractive and ongoing fee income stream. Further, the assets have very low default risk and often have wait lists as demand greatly exceeds supply for affordable housing, even during recessionary environments. For example, in a 340-unit portfolio Concord recently purchased, the properties average over 300 rental applications per month.

The time to increase production of affordable, quality housing is now. In addition to the growing demand, extensive new financial commitments from banks, corporations, federal, state and local governments, and social investment groups enhance Concord's ability to leverage our resources to implement our vision for the future of affordable housing, which aligns with our company vision statement, *people are the most valuable asset in real estate*. Concord's expertise and alliances will bring enhanced living experiences and go “beyond housing” for those we serve. We will apply our considerable real estate expertise, capital and collective efforts to work toward meeting our nation's need for affordable housing communities that will connect people to quality housing environments.

