



Affordable Senior Apartments - Cibolo, TX

Paving the Way

Affordable housing developer is working with industry leaders to forge ahead in a post-tax reform environment



Highridge Costa Companies

President and CEO :: Michael Costa | Location :: Gardena, California

Highridge Costa Companies, one of the nation's most reputable and prominent affordable housing players, is working with other industry leaders to address emerging challenges facing the industry in the wake of the federal tax reform.

"[Tax reform] has already been impacting our company," says Michael Costa, President and CEO of Highridge Costa Companies. "It started eight or nine months ago, when it looked like the whole idea was headed down a path to become a reality. We had this huge cloud of uncertainty over us."

In recent months, the Low-Income Housing Tax Credit (LIHTC) has decreased in value due to the reduction in the corporate tax rate. Housing agencies and affordable housing developers are now struggling to identify sources of gap funding to close development deals.

"We now must work even harder with states, counties, cities and local governments to find financing that we can use to fill that gap," Costa says. "Because we had a lot in the pipeline, we had a number of deals in which we had to take no cash portion of our developer fees to make the deals work."

To help address the shortage of funding, Costa, along with fellow industry leaders Michael Potter, Dani Evanson and Robert Tetrault, is heading up Align Finance Partners, an innovative new funding vehicle reliant on tax-exempt B-bonds. It has the potential to change the way affordable housing development deals get done on a national scale.

A NEW APPROACH

Align Finance Partners is developing creative solutions to the shortage of accessible gap funding for affordable housing. The company uses tax-exempt private activity housing bonds to help affordable housing owners and operators to develop, acquire and rehabilitate their housing stock.

"This unique structure offers investors distributions that are qualified to be exempt from federal income tax, excluded from alternative minimum taxable income and, in certain instances, exempt from state taxes," says Potter, who serves as Principal of Align Finance Partners and Managing Director at Regis Metro Associates, Inc.

According to Potter, Align's financing structures are allowing the organization to facilitate the development of affordable housing in an uncertain environment.

"Historically, tax-exempt subordinate bonds have only been issued on a project-by-project basis, which has made it difficult for borrowers to access them," he says. "Align is offering this type of debt on a programmatic, institutional level, providing financing that benefits borrowers and supports the development of affordable housing."

This model enables developers, owners and agencies to retain greater control over their operations and housing stock.

"The potential clients are 501(c)3 nonprofit organizations that are general partners of existing tax credit properties that are in years 10 to 15 of their cycles," says Evanson, Principal at Align and Managing Director at Regis Metro Associates, Inc. "This subordinate financing can help facilitate the early purchase of the limited partner in their existing partnerships, giving them full ownership of the project."

Under Align's program, 501(c)3 organizations can obtain between 90 percent and 95 percent financing through the issuance of B bonds.

Align is facilitating the creation of housing units that will serve low-income communities throughout the country.

"Align requires qualifying projects reserve a minimum of 20 percent of the units for low-income residents and comply with all applicable qualification regulations," Evanson says.

Align is now raising money to put into the Align Affordable Housing Bond Fund, L.P.

"The fund offers affordable housing owners and developers the opportunity to obtain additional financing at rates that are approximately 300 to 600 basis points less than the cost of private equity," Potter says.

Considering the nation's pressing need for more affordable housing, Align's bonds represent a sound investment for lenders.

"This situation represents an investment opportunity with increased demand and restricted supply," Evanson says. "Because of this shortage, affordable housing has historically been characterized by high occupancy and stable revenue."

INCLUSIONARY ZONING

According to Costa, the ever-increasing demand for affordable housing is "a battle that we seem to be losing."

"The demand for affordable housing is outpacing our ability to develop new product," he says.

Inclusionary zoning measures are one part of a comprehensive solution to the problem. These actions require developers to incorporate a certain number of affordable units into each market-rate community they build.

"What's happening throughout the United States, especially here on the West Coast, is that inclusionary zoning requirements are really having an impact," Costa says. "What that ends up doing over time is affecting the land values, versus funding from government entities."

Inclusionary zoning ultimately adjusts and reduces land values to more accurately reflect a site's true property value. In many cases, it can make a once-impossible development much more feasible.

Inclusionary zoning laws exist in some of the nation's largest and most expensive cities, including New York City, San Francisco and Washington, D.C. Many municipalities offer tax incentives or looser zoning rules in exchange for the affordable housing unit mandate.

A BRIGHT FUTURE

Despite the challenges, the Costa Companies continues to carry out its mission of creating safe, stable and accessible affordable housing across the country.

"We are developing a lot of new products right now, and we've been doing a lot of acquisition rehabilitation on our existing portfolio," Costa says.

The firm is also working to bring bipartisan attention to the needs of affordable housing owners, operators and residents.

"We need more Republican support," Costa says. "We are trying to educate as many Republicans as possible coming into both the House and Senate as to the value of these programs."

Costa advocates for a holistic approach to public services and affordable housing. He says that integrating Medicaid and cash assistance programs with affordable housing can improve long-term outcomes for low-income communities.

"In the long run, if we can put some of these programs together, we can provide assistance to people who need more than just housing help," he says. "We are trying to push for that. [Elected officials] are starting to realize that an investment upfront will save money in the long run."

Costa also says that more state and local participation in the affordable housing financing process is needed.

"We're lobbying the state of California to increase the amount of state tax credits they can allocate," he says.

In the past, the primary usage of state tax credits was to provide gap financing in difficult-to-develop areas.

"Now, we're going to use them to fill an even bigger gap," Costa says. "Local governments are

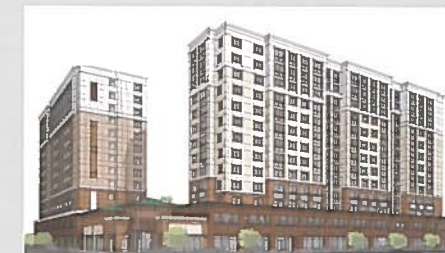
starting to recognize that they need to be playing a little bit more on the front of creating financing for feasible affordable housing."

Highridge Costa is now pursuing several development and redevelopment efforts that showcase its dedication to creating affordable, accessible housing. One such development is a two-phase development in the Honolulu suburb of Kapolei, composed of two residential towers.

"One's an all seniors community, and the other is for families," Costa says. "They are both sitting on top of a platform that's all retail."

The company currently maintains a portfolio of more than 20,000 units, more than half of which are located in California. Its team expects to begin at least a half-dozen additional development projects in the coming year.

"We are very active on that front," Costa says. ▲



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Align Finance Partner's founding member, Michael Costa, is the "Voice Of The Industry"

ALIGN FINANCE PARTNERS

Why Align Finance?

- ✓ Financing up to 90% LTC/LTV
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- ✓ Interest only / flexible current pay rate
- ✓ Experienced lender in affordable housing

www.AlignFinance.com

Mezzanine Financing for Affordable Housing

Align Finance Partners is a private commercial real estate finance company that provides mezzanine financing for the acquisition, renovation and development of multifamily properties (with at least 20% of the units classified as affordable) located in the Western U.S. The financing is structured as a tax-exempt private activity housing bond or 501(c)(3) bond.

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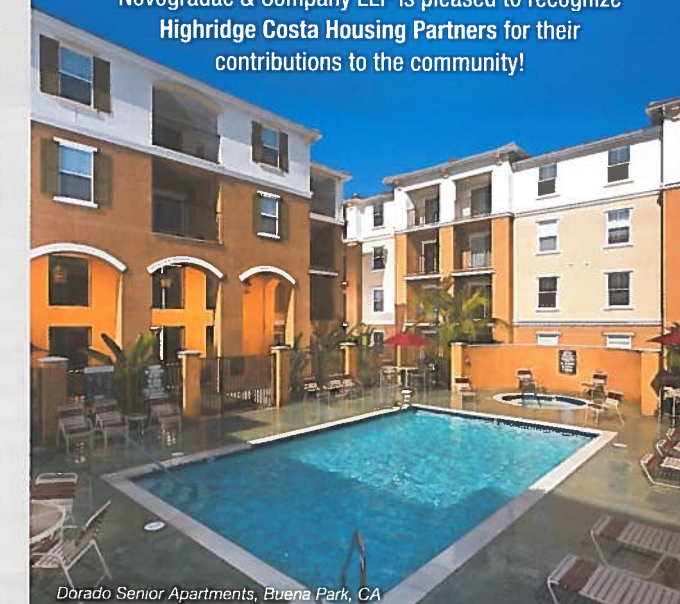
We are proud of our association with Highridge Costa Housing Partners and their mission to "create viable housing options for the future."



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Novogradac & Company LLP is pleased to recognize Highridge Costa Housing Partners for their contributions to the community!



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