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Refinancing in 2014: Don’t Miss Out

Mike Jehle
MJehle@Arbor.com
248.646.0458
www.arbor.com

Paul Meyer
PJM@Briscap.com
248.515.0226
www.briscap.com
State of the Real Estate World 2014

- **July 2014 - Housing Stats Rose 21.7% Since July 2013** *(Forbes.com)*

- **2014 Outlook: Upswing in Market**
  - 36.9% of homes have little to no equity, while 13.2% are still underwater – 1st Quarter. *(Zillow)*
  - 3.46% of homeowners are at least two months behind in payments (down from 4.32% in June 2013). The last time the rate was lower was in the 1st Quarter of 2008. *(CNBC.com)*
  - Home foreclosures at lowest point since December 2007 – 1.8% of all homes *(corelogic.com)*
  - The median sales price of new houses sold in July 2014 was $269,800; the average sales price was $339,100. The seasonally adjusted estimate of new houses for sale at the end of July was $205,000. This represents a supply of 6 months at the current sales rate. *(Census.gov)*

- **Apartments**
  - 2nd Quarter 2014 – apartment vacancy 4.1% unchanged (lowest since 1999-2000) *(REIS)*

- **Shopping Centers, Office Buildings and Industrial Buildings**
  - Rents have stabilized, vacancies have stabilized – very market specific
  - Commercial property values continue to increase *(NCREIF)*

Little Uncertainty in Co-ops – Let Us Show You Why!
Interest Rates Continue to be Historically Low

- +/-4.5% Co-op/Apartment Loans For 10-Year Fixed Rate

**Fannie Mae/Freddie Mac - Industry Standard**

- Federal Conservatorship – what will happen to GSE’s - probably very little until after 2016.
- Bonds backed by Fannie/Freddie apartment loans have surged to record values with single-family values coming back – What does it mean?
- July 9, 2014: “The Federal Reserve said on Wednesday that it planned to stop adding to its bond holdings in October, in a sign of its confidence that the economy is gaining strength even as the central bank gradually withdraws its support.” *(The New York Times)*
- “The decision, described in an account of the Fed’s most recent policy-making meeting in June, signals the end of one of the central bank’s most aggressive efforts to stimulate the economy.” *(The New York Times)*
- “But the account underscored that many Fed officials remained guarded in their optimism about the economy. It also suggested that they had not yet decided when to take an even more important step in their retreat: raising short-term interest rates for the first time since December 2008.” *(The New York Times)*

**Credit Crunch Loosening For Commercial Real Estate**

- Bank financing returns - sporadic
- Conduit/MBS definitely a competitive force
- Life companies competitive – mainly focus on Class A Properties
As For Us, What to Make of It?

Cooperatives are a Great Place to Live!!

- Well-maintained & high satisfaction level
  - Beautiful grounds
  - Call your maintenance staff
  - Great quality of life
  - Coopers look out for neighbors
- Low monthly carrying charge
- Low cost of membership
- Pride of ownership
- Part of a positive movement
- Most importantly, predictable cost of housing
Yes?

- Low interest rate!
- Limit HUD oversight through conventional refinancing
- Capital Improvement Program
  - Roofs
  - Heating & Air Conditioning
  - Repave roads
  - New kitchens & baths
  - Exterior updates
  - Siding, gutters, windows, etc.
- Low Interest Rates
  - May not require carrying charge increase. If so, usually 5% or less.
- Maintain competitive position in marketplace
  - Must compete with newer apartments & condominiums
Maybe?
- Not sure of continuing affordability
- Not sure of condo conversion (not happening in today’s world!)
- Hopefully decision is made before rates rise (who knows?)

No?
- No existing debt – loan paid off
- No upgrading needed (Yeah, sure!)
- Large reserves
- Coopers happy just the way they are
Why Refinance in this Market

We generally cannot predict whether interest rates will go up or down; clearly interest rates are historically low right now!

Thesis of our class:

• Over the past 12 years, we have funded 85+ Co-op Mortgages totaling more than $350 million
• The circumstances of the loans have been very consistent
• Co-ops need capital improvements to remain competitive in the market
• Low interest rates keep new carrying charges low
• Take advantage of government programs, such as Decoupling and Flex Loan Extension
• Achieve common goals of decreasing HUD involvement
Rates Are Historically Low & Stable!
Refinance Case Studies
Town Park Cooperative

Detroit, MI
38-Unit Co-op – August 2014

Town Park is a Market Rate Cooperative in the Lafayette Park Neighborhood, Convenient to Downtown Detroit – The Units are in High-Demand and Shares Have Tripled in Value in the Past Few Years.

- $1.1 Million loan proceeds – Fannie Mae DUS® Program
- 5.02% Interest
- 20-Year Term/20-Year Amortization

Goals Accomplished

- Paid off maturing Fannie Mae loan
- 5.02% Interest fixed for 20 years
- Reasonable monthly payment – No increase in carrying charge required
- Timely closing
- Co-op can plan for the future, having long-term, fixed-rate debt
- Secondary supplementary financing available
- No Capital Improvement reserve as property is in excellent condition
- No HUD oversight
Noble Square Cooperative

Chicago, IL
483-Unit Co-op – September 2014
Noble Square is a Landmark Chicago Cooperative on Milwaukee Avenue, 1 ½ Miles West of the Loop - There are 324 Units in High-Rise and 159 Townhomes

- New $18 Million Fannie Mae DUS loan closed September 2014
- 5.07% Interest
- 30-Year Term/30-Year Amortization

Goals Accomplished

- Achieved long-term, fixed-rate loan at 5.07%
- Funded $5,230,000 Capital Improvement Program
- Timely closing at first opportunity for free pre-payment
- Secondary financing available
Pembroke Cooperative – 357 West 55th Street

New York, NY
71-Unit Co-op – July 2014
Pembroke Cooperative – 357 West 55th Street

New York, NY
71-Unit Co-op – July 2014

Pembroke Co-operative is a 71-Unit Market Rate Co-operative on the West side of Manhattan. Shares sell between +/- $400,000 to $1 Million.

- $4 Million loan – Freddie Mac Program
- 3.53% Interest Rate
- 10-Year Term / Interest Only (No Amortization)

Goals Accomplished

- Paid off existing $1 million loan - Lowered interest rate from 7.37% to 3.53%
- Provided $2.2 million to acquire four commercial units (1st Floor Store fronts)
- Provided $800,000 Capital Improvement Account
- Timely closing to coincide with acquisition deadline to purchase the commercial unit shares
Discussion

• Programs Available
• Rates/Costs
• Flex Deferral
• Section 8
• Use Agreements
• Affordability
• Market Competition