FORSYTH STREET ADVISORS

ישראל בונה
Israel Builds: A Public / Private Partnership to Finance Affordable Housing

Knesset Presentation

May 28, 2014

Our Focus

- The high cost of land and bank lending policies make it difficult to induce developers to build rental housing.
- Recently, several successful tenders in high demand areas have attracted developers.
- Innovative financing techniques may be helpful in achieving a meaningful scale
- These are our observations from experiences in the United States.

Close to 30% of Israeli households currently rent their homes, demonstrating broad demand

Interim	• College Students • Unmarried Singles • Newly Married Couples • Temporary Workers
Permanent	• Low- and Moderate-Income Households
Permanent with Services	• People with Special Needs • Seniors

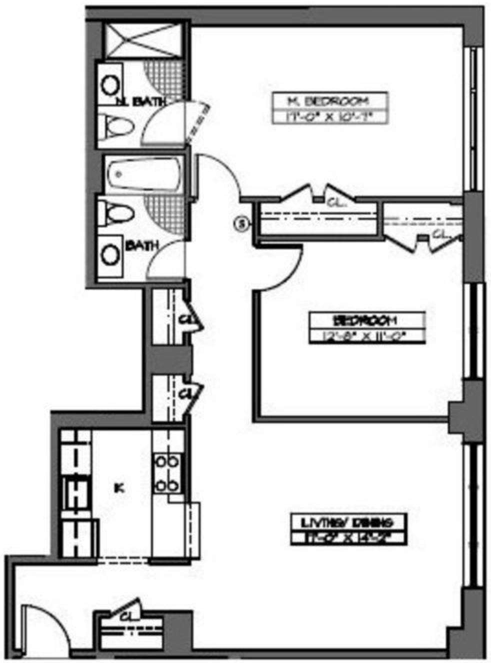
The US Rental Market

- A highly developed rental housing industry.
- A wide spectrum of target markets:
  - High-end luxury rentals (private owned)
  - Middle class rentals (private owned)
  - Low- and moderate-income rentals (private owned)
  - Very low-income rentals (government-owned public housing)
  - Special needs
- The industry is large and profitable to developers, property managers and lending institutions.
- For the government, diversified housing choices provides mobility and flexibility to the overall housing market
- Private development of middle-class and low-income rentals has spurred the redevelopment of blighted areas.

Harlem Development Site Before

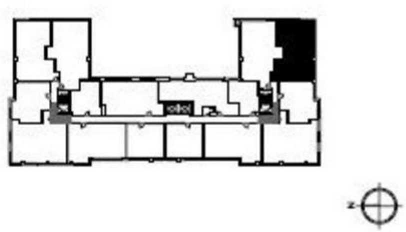
Harlem Development Site After

A Mixed-Income Project



APT. 2D-6D (2 BEDROOM)

1/8"=1'-0"



	Units	
By Tenant Income		
Low-Income Units:	25	@ 40% and 50% median income
Middle-Income Units:	87	@ 80% to 250% median income
Market Rate Units:	10	No program requirements
Total Units:	**122**	

By Unit Size	
Studio:	22
1 Bedroom:	28
2 Bedroom:	72
Total Units:	**122**

Comparing Two Projects Done by the Same Israeli Developer

Non-recourse, 30-Year First Mortgage

1% Subordinate Mortgage

Low Equity Requirement

Full-recourse, 20-Year First Mortgage for no more than 50% of cost

Substantial Equity Requirement

Very Low Land Cost

Harlem Project	Total	Per Unit	%
Sources			
Agency First Mortgage	17,111,138	139,683	62%
d Mortgage	4,200,000	34,286	15%
	6,141,675	50,136	22%
Total Sources	**27,452,813**	**224,105**	**100%**
Uses			
Acquisition	1,592,500	13,000	6%
Hard Costs	20,580,000	168,000	75%
Soft Costs	2,784,603	22,731	10%
Developer Fee	2,495,710	20,373	9%
Total Sources	**27,452,813**	**224,105**	**100%**

IRR	11.87%
Cash on Cash Return	16.69%

Israel Project	Total	Per Unit	%
Sources			
First Mortgage	9,646,845	80,390	30%
Second Mortgage	-	-	0%
Cash Equity	22,921,305	191,011	70%
Total Sources	**32,568,150**	**271,401**	**100%**
Uses			
Acquisition	10,200,000	85,000	31%
Hard Costs	17,010,000	141,750	52%
Soft Costs	5,358,150	44,651	16%
Developer Fee	-	-	0%
Total Uses	**32,568,150**	**271,401**	**100%**

IRR	4.21%
Cash on Cash Return	1.31%

Higher Land Cost

How to Fill the Gap

- The Israeli deal needs more leverage to incentivize the developer to invest.
- The bank also needs its risk to be mitigated.
- There are several ways to get there:
  - Reduce the cost of land
  - Provide credit support to lender to address risks and reduce the cost of borrowing
  - Provide subordinate debt to further bring down the developer’s equity requirements
- In the US, all of these methods are used, sometimes in combination in a single deal.

Israel Bond Concept:
A Possible Way to Raise Subordinate Capital

Expand State of Israel Bond Program

Create an 'Affordable Housing Fund'

Provide the necessary 'gap' financing.

Provide subordinate capital and/or loan guarantees equal to 25% -35% of total development costs.

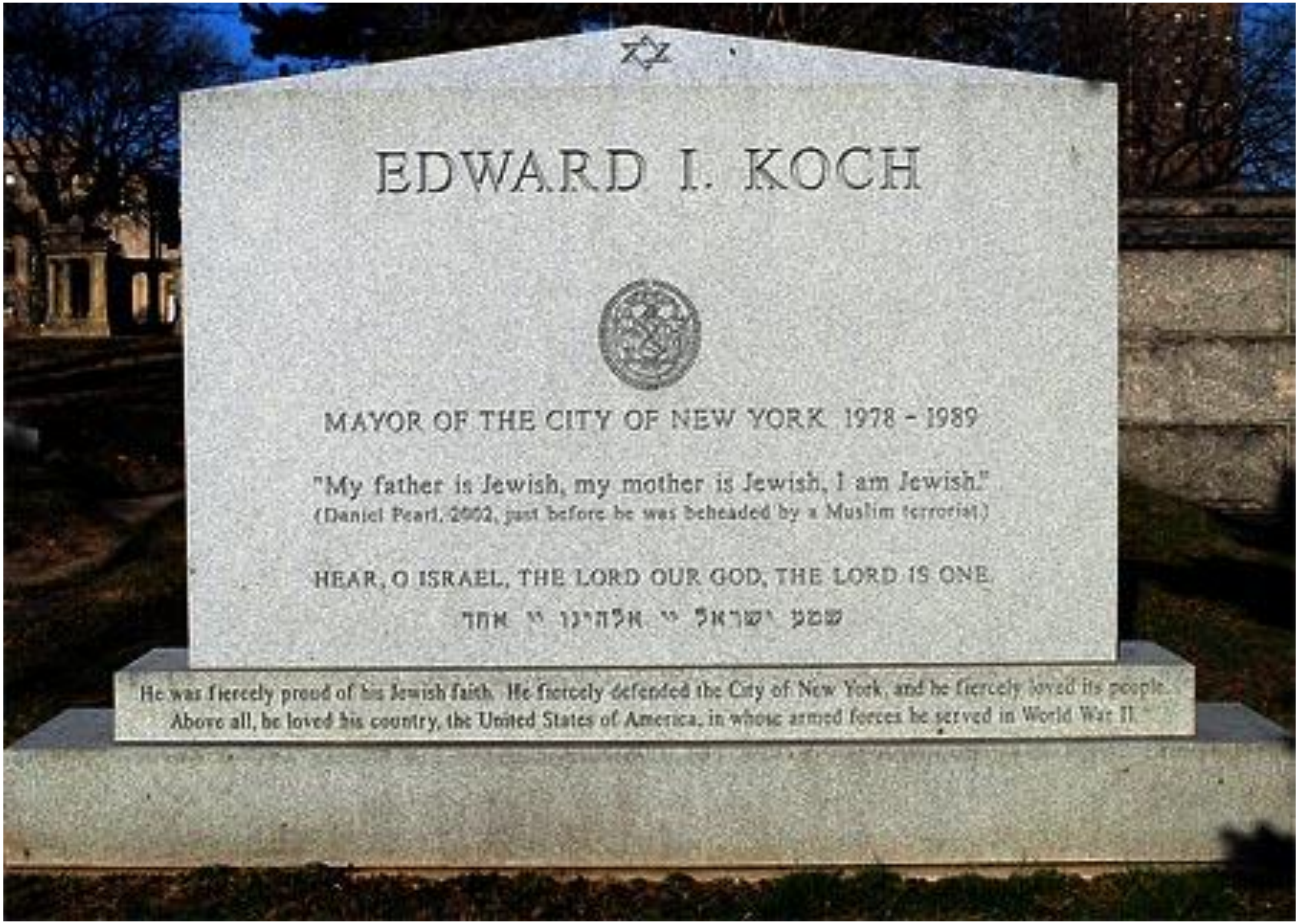
A $200 million Fund could stimulate the development affordable rental housing.

Israel Bonds

- Development Corporation For Israel
- Who invests in Israel Bonds?
- How are Israel Bonds Used?

Next Steps

- Additional analysis of how subsidy, including Israel Bond debt could be layered into land tenders to provide favorable outcomes for developers, lenders and the government.
- Distribute findings to Finance Ministry and engage in strategic conversations


EDWARD I. KOCH
MAYOR OF THE CITY OF NEW YORK 1978 - 1989
"My father is Jewish, my mother is Jewish, I am Jewish."
(Daniel Pearl, 2002, just before he was beheaded by a Muslim terrorist)
HEAR, O ISRAEL, THE LORD OUR GOD, THE LORD IS ONE.
שמע ישראל יי אלהינו יי אחד
He was fiercely proud of his Jewish faith. He fiercely defended the City of New York, and he fiercely loved its people.
Above all, he loved his country, the United States of America, in whose armed forces he served in World War II.