Key continues to boost affordable housing biz

By JEREMY NOBILE
jnobile@crain.com | @JeremyNobile

It will be two years ago this May that KeyBank directed one of its own to elevate the bank’s affordable housing business to one of the company’s top revenue drivers.

Robert Likes, national manager of Key’s community development lending and investment platform, was given three years to achieve that goal.

He didn’t need that long.

Key had its best year yet in the affordable housing business in 2016 — the first full year for that line under direction by Likes, who led the business’ nationwide expansion.

The bank lent $1.4 billion in debt and equity financing to designated affordable-housing projects last year. That’s a 47% increase over loan levels in 2015, and 250% over the $400 million lent out in 2014.

Key aims to replicate similar performance this year, but that could be a challenge as demand for affordable housing projects is expected to simmer down slightly.

That doesn’t seem to bother Likes, though.

“We won’t stop here,” he said. “Hopefully, we’re just getting started.”

Key’s lending activity in 2016 puts the Cleveland-based bank, which now represents about $140 billion in total assets with its recent acquisition of New York’s First Niagara Financial Group, in the company of the largest banks in the U.S. in terms of affordable housing.

According to a recent ranking by Affordable Housing Finance, KeyBank Real Estate Capital is the fifth most-active affordable-housing lender in the country.

Companies ahead of them, though, in order, are JPMorgan Chase Bank, Bank of America Merrill Lynch, Wells Fargo and Citi Community Capital — large national banks that each control well more than $1 trillion in assets a piece.

Of course, banks are required by regulators to invest loans in local communities, and affordable housing can be part of that. The larger banks would be required to do more, and they have deeper bases to lend from, so their numbers should be high.

There also was pent-up demand for affordable housing in the extended wake of the last recession that’s been met the last few years, with demand bolstered by prolonged low interest rates. According to Affordable Housing Finance, $27 billion was lent to affordable housing properties last year, which marked a significant increase from the $22.9 billion lent out in 2015.

But for Key to be lending as much as the U.S.’ largest companies clearly shows a concerted effort to grow the business.

So how did they do it?
As Likes, a 14-year KeyBank veteran who previously led the bank’s Northwest income property group, transitioned into his current role, resources were pushed into hiring new bankers and cross-training, and they’re still beefing up lending teams. Likes declined to say how much has been invested in those efforts.

“We’ve had the support from management since day one,” Likes said, referencing the bank’s corporate goal of maintaining a longstanding “outstanding” ranking per the Community Reinvestment Act (CRA). “We’ve been adding employees and products and have all the support we need from the top.”

Those efforts supported the goal of taking the community lending platform across the country.

Today, Key has a physical presence in 15 states — the First Niagara deal, which was consummated since Likes’ appointment, added three more — but does business in all 50. Community development lending, which supports affordable housing projects, was being pursued only in those footprint states before Likes came into the picture.

Key, which typically is a 99% equity partner in the deals it lends to, sees the business as low risk with very high demand. At the corporate level, that’s where the bank reasoned the affordable housing business was loaded with growth potential.

CRA equity investments stay in the footprint states.

But balance sheet lending providing construction loans, rehab loans, bridge loans and lines of credit, for example, was pushed across the United States. Fannie Mae, Freddie Mac and HUD loans saw a similar expansion.

There’s not one state driving demand, Likes said, which is ultimately spread out. People tend to think of need on the coasts, like in New York and Seattle. But Likes said the demand varies by states, which tend to have their own individual plans for affordable housing.

“I think the demand is much larger than what’s publicized,” he said. “Not every state is even doing a full-blown assessment of need.”

The First Niagara deal also gave a jolt to the business, adding loans across New England in addition to western New York, where Key will undoubtedly finance additional projects as part of a plan for $16.5 billion in community lending projects over five years -- a commitment that followed the First Niagara acquisition. Housing is a component of that. That doesn’t mean Key has lost sight of Cleveland, though. The bank provided $100 million in lending and investment to affordable housing projects in Cleveland in 2016, and it ended the year with another $100 million in the pipeline.

Some of the projects that Key completed in Cleveland and hopes to replicate in its newer markets, including upstate New York, could look like Hough Heritage, a 60-unit affordable-housing complex for seniors. Key provided $17.7 million to that project, which included an $8 million construction loan and a $9.7 million Low-Income Housing Tax Credit (LIHTC) investment from Key’s Community Development Corp.

Another project Likes pointed to is Emerald Alliance IX in Cleveland, a 66-unit building for chronically homeless individuals, which Key provided $9.6 million in LIHTC equity.

Interest rates are finally starting to rise, prices for LIHTC are falling and construction costs are rising. Those elements indicate developers may take out fewer loans, which has some experts leery of the demand for affordable housing projects moving forward.

Likes, though, doesn’t see things quite that simply.

“The demand for affordable housing hasn’t subsided at all. It’s actually grown,” Likes argues. “There may be less demand to purchase tax credits. But there’s no less demand from tenants to occupy those buildings.”

The way Likes sees it, the fact that some headwinds might push other lenders away from affordable housing actually creates opportunity.

“What you’re going to see this year is demand grow even faster because of headwinds out there that will constrain the new supply coming online,” he said.

There are other factors creating uncertainty in the market, including what could happen as the Trump administration seeks lower corporate tax rates, that also could hinder demand by lenders for tax credits.

Despite all those factors, “we’re not wavering,” Likes said.

“I’m budgeting to do more this year. It’s going to be a challenge,” he said. “There are major headwinds, but it shows we believe in community development and affordable housing. We know it’s good business and the right thing to do and we are planning to do more. We think we can do it.”