Using the Low Income Housing Tax Credit

Presentation to the George Mason University Center for Real Estate Entrepreneurship

April 19, 2017
AHC Inc.

*AHC’s mission is to produce and preserve affordable housing in the mid-Atlantic region, and to build strong futures for our residents through onsite educational programs*

AHC is a 501(c)(3), mission-driven, private sector, real estate development firm
AHC History

- 40-year track record of developing complex projects from concept to lease-up

- Developed over 7,300 units of low- and moderate-income rental housing at more than 50 communities throughout the Washington region

- The AHC team includes in-house construction management, asset management, relocation services, resident services and property management
Financial Strength

AHC has a well-capitalized balance sheet and substantial liquidity

- $80 million annually recurring rental revenue
- Real estate portfolio with a ‘book value’ of over $1 billion
- $10 million annual budget funded entirely from earned development fees and cash flows generated by its portfolio
Jackson Crossing (Alexandria)
The Frederick at Courthouse (Arlington)
Arbor Heights (Arlington)
Saint James Plaza (Alexandria)
LIHTC Investors

Low Income Housing Tax Credits are a dollar–for–dollar off–set of an investor’s federal tax liability

- LIHTC Investors
  - Profitable firms seeking to reduce their tax liability
  - Banks subject to the Community Reinvestment Act

- Investment approaches
  - Direct
  - Syndication
  - Single project investment
  - Fund encompassing multiple LIHTC projects
Investment Criteria

Investors typically evaluate three key elements of a project

- Project economics
- Real estate market fundamentals
- Financial strength of the developer
The Path to Closing

- Underwriting / financial projections
- Due diligence
- Legal documents
  - Limited Partnership Agreement with LIHTC investor
  - Loan documents:
    - Senior: supportable
    - Subordinate: local jurisdictional subsidy
  - Regulatory agreements:
    - State: tax credits
    - Locality: subordinate loan funds
Beginning the LIHTC Process

Developer issues Request for Proposals to obtain terms from potential equity investors

- Credit pricing
  - 9% typically new construction
  - 4% acq/rehab; coupled with tax-exempt bonds

- Equity pay-in schedule

- Guarantees

- Cash flow distributions

- Right of First Refusal sale to not-for-profit
Credit Pricing

Current tax credit pricing has exceeded $1.00 per credit dollar for the past decade

- Investment represents 99.98% ownership of asset

- Tax credit investor is entitled to proportional share of:
  - LIHTC
  - Financial losses
## Computing the Equity Amount

<table>
<thead>
<tr>
<th>LIHTC Calculation</th>
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<tbody>
<tr>
<td>Total Project Cost</td>
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<tr>
<td>Four or nine percent credit?</td>
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<td>Current credit rates as of:</td>
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<tr>
<td>Depreciable (Eligible) Basis</td>
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<tr>
<td>Low-Income Occupancy Percentage</td>
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<td>Qualified Basis</td>
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<tr>
<td>Credit Percentage</td>
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<td>Calculated Annual Credit</td>
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<td>Credits to Limited Partner @ 99.99%</td>
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<td>Equity Price</td>
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<td><strong>Total Equity for Property</strong></td>
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Putting the Pieces Together
LIHTC development has typical real estate risks

- Entitlement
- Construction completion
- Lease-up
- Conversion to permanent financing
- On-going operations

PLUS

- Tax credit risk: recapture thru Year 15
- Rent control constrains revenue growth
Returns to the Developer

LIHTC development upside is capped

- Low DSC ratios limit cash flow which is then typically shared with jurisdictional lender
- Due to limited cash flow, subordinate debt often accrues and eats into long-term upside
- State tax credit allocating agencies limit allowable developer fee
Why Bother?
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