

Low Income Housing Tax Credits

September 2019

As presented by Emily Chen, VP and Regional Manager

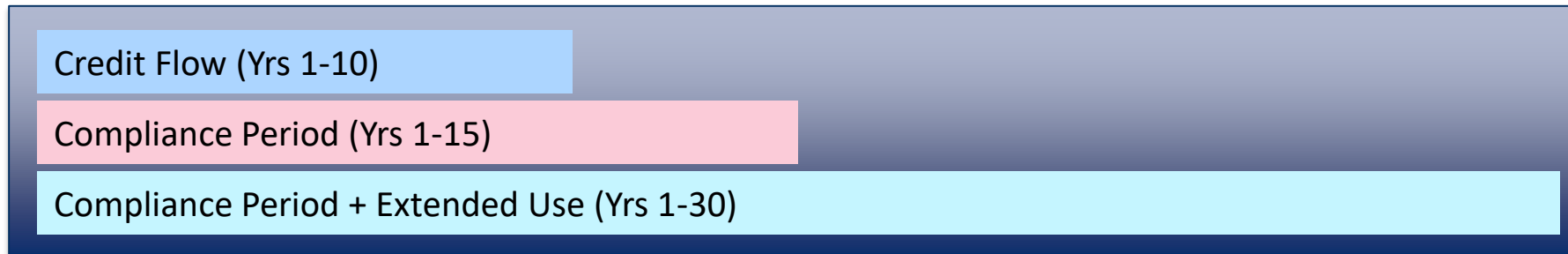
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Background

- Created in 1986 as part of the Tax Reform Act to encourage private investment in affordable housing
- Federal subsidy given to states on a per capita basis
- State housing authorities allocate funds to specific projects based on a competitive application process
- Tax credits are sold by developers to fund up to 70% of eligible development costs
- Dollar-for-dollar reduction of federal tax liability over a ten year period

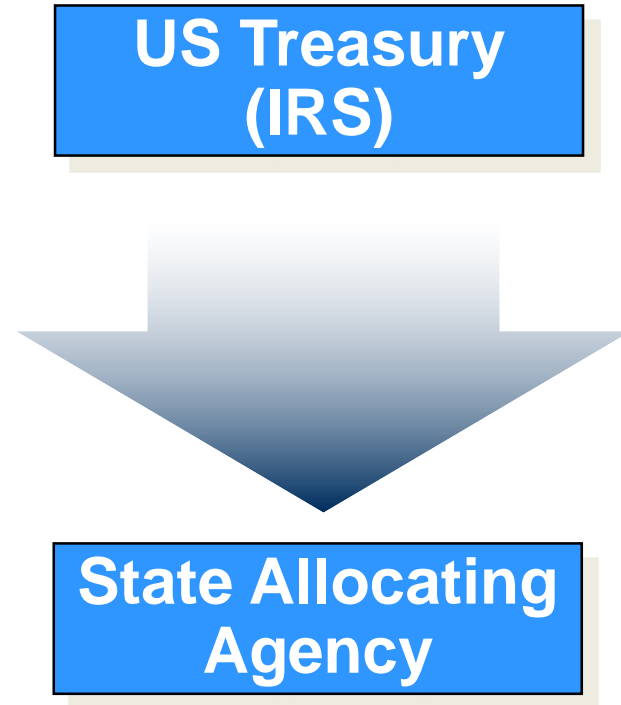
Additional Considerations

- LIHTC projects have a 15 year compliance period
- In addition, there will be at a minimum a 15 year extended use requirement (Investors typically exit after 15 year compliance period)
- Tax Credit Recapture rules apply in the first 15 years
- Rent and Income Restrictions are imposed for the entire 30 year period. Rent and Income restrictions are based upon the Area Median Income which are reviewed annually.



Allocation of Tax Credits

Credits awarded to each state by IRS



Credits are awarded annually by the IRS (based on the state's population) to the State Housing Finance Agency.

The total annual allocation is the greater of either \$2.75 per capita (indexed to inflation) or \$3.1 million.*

* As of Jan 2019

Allocation of Tax Credits

Qualified Allocation Plan

State Allocating Agency



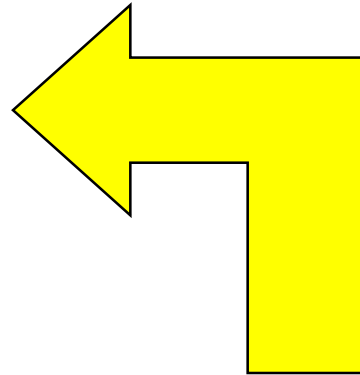
Each State Housing Finance Agency (HFA) is required to develop a Qualified Allocation Plan (QAP). Developers apply for the credits, and the HFA makes awards to those projects which best meet the goals laid out in their QAP.

There can be strong competition for the credit depending on the State, often with multiple applicants for every award.

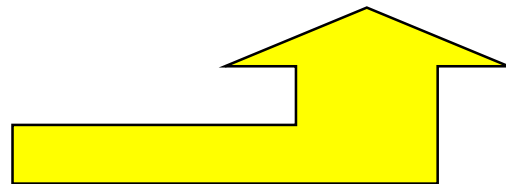
The Developer Sells the Credits



Investors

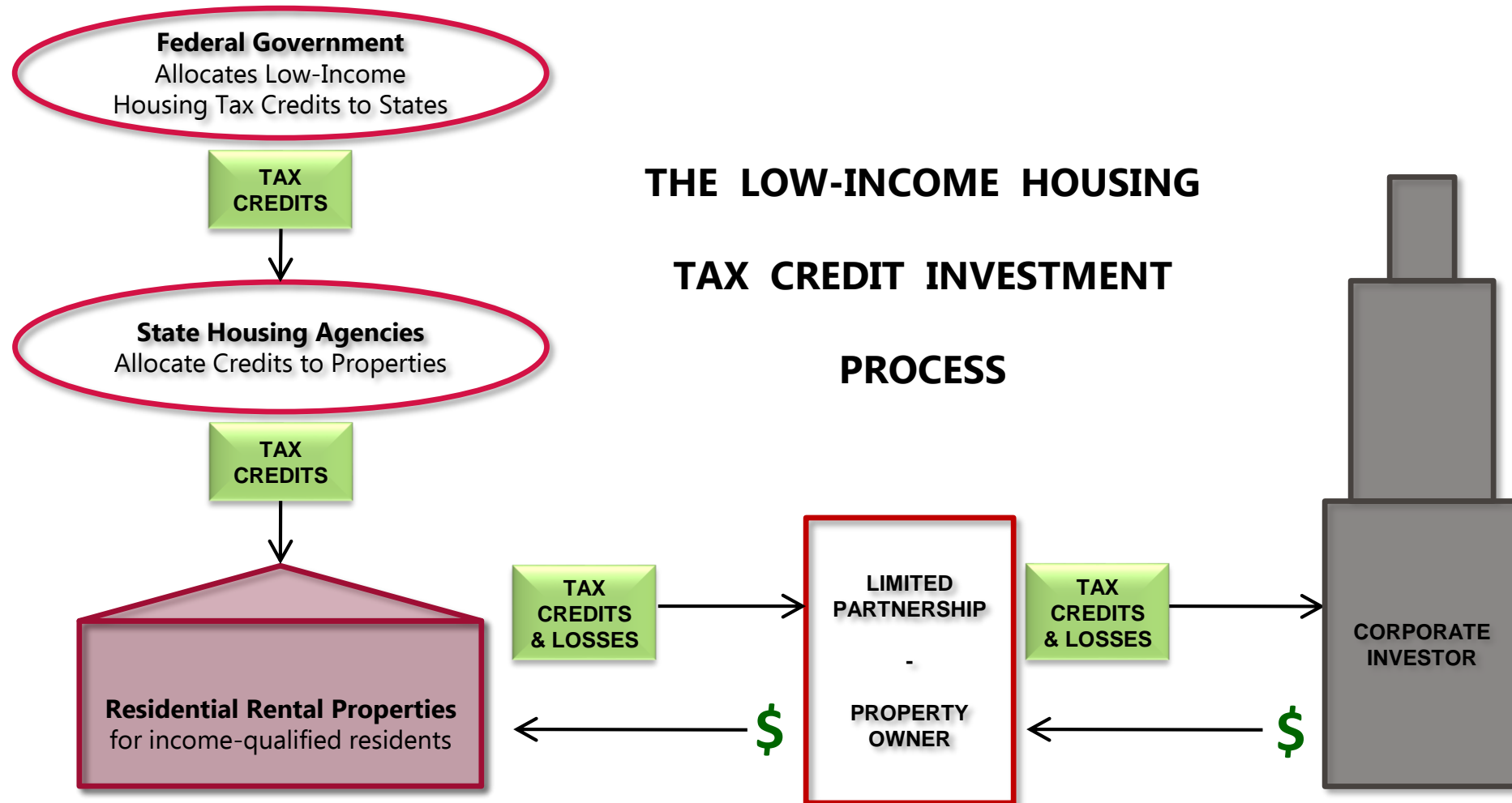


The return to the investor is based on the tax credits in addition to the tax savings from the project's operating losses.



The investor's equity enhances the developer's ability to charge lower rents and keeping units affordable.

Summary: How Tax Credits Flow



Source: Reznick

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What Determines Tax Credit Price

- Attractiveness of the property location for regulated investors (Banks' Federal Community Reinvestment Act)
- Strength of the development team and guarantors
- Timing of the equity investment and the delivery of benefits to the investor
- Strength of the market, including demand from income qualified households and likely achievable rents given income restrictions and asking rents at competing properties

Types of Credits

9% New Construction/ Rehab Credit

4% New Construction/ Rehab Credit - used when project is financed by tax-exempt bonds

Calculating Credits

- **Eligible Basis** (depreciable assets):
 - Total developments costs minus land costs, federal grants, fees (legal, syndication, finance, etc), and reserves.
- **Applicable Fraction** – Percent of Low-Income units or Floor Area Ratio (whichever is lower)
- **Qualified Basis** – Eligible Basis multiplied by the Applicable Fraction
- **Tax Credit Rate** –
 - 9% Credit rate set at 9%
 - 4% Credit rate Published monthly by the IRS
 - *Qualified Basis * Tax Credit Rate * 10 (Years) = Total Credit Award* (See next page for example)

Calculating Credits

Units	100
Cost Per Unit	\$50,000
Total Cost	\$5,000,000
Cost of Land	(\$800,000)
Non-Depreciable Expenses	(\$200,000)
Depreciable Basis	\$4,000,000
Tax Credit Rate	9.00%
Annual Credit	\$360,000
Multiplied By	10 Years
Available Credits	\$3,600,000
Price Per Credit	\$0.85
Available Equity	\$3,060,000

Eligible Basis - EXCLUDES

- land and land-related costs
- building acquisition and related costs
- historic tax credits taken on residential part of project
- fees and costs related to permanent loan financing
- syndication-related costs
- tax credit fees
- reserves
- post-construction working capital
- federal grants
- non-residential costs
- Landscaping not adjacent to building

Eligible Basis - INCLUDES

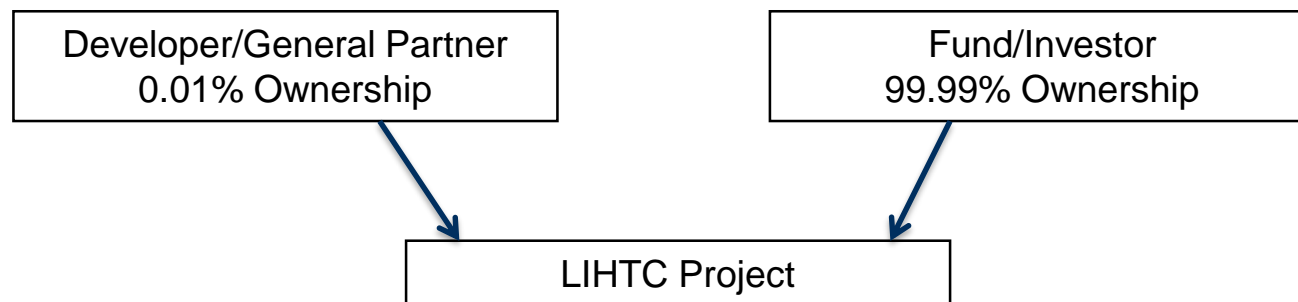
- Impact Fees
- Onsite Roads, sidewalks and parking lots
 - Offsite if adjacent, functionally related and owner maintained
- Cost of Utility Hookup
- Landscaping if adjacent to building
- Final grading of building site
- Common area
- Full time manager' s unit
- Community space

Income Restrictions

- **40/60 Election** – At least 40% of the units must be set aside for households at or below 60% of the Area Median Income (60%)
- **20/50 Election** – At least 20% of the units be set aside for households at or below 50% of AMI
- **NEWEST: Income Averaging** allows the election to serve households with incomes of up to 80% of area median income (AMI) and have these household qualify as LIHTC units, so long as the average income/rent limit in the project remains at 60% or less of AMI.

Partnership Structure

- LP or LLC structure
- General Partner owns 0.01%, but controls and operates the project
- Limited Partner/Managing Member is a passive investor, and gets its return almost exclusively from tax credits and losses



Tax Credit Development Timeline

- Apply for tax credits
- Get a tax credit reservation
- Receive carryover allocation
- Incur more than 10% by required date
- Complete project and place it in service
- Apply for 8609s for all buildings
- Rent tax credit units to qualified tenants
- Elect when to start tax credits
- Maintain tax credit compliance
- Exit tax credit partnership

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