

# Public Private Partnerships: Trends in Affordable Housing

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# Overview of Low Income Housing Tax Credits

# What is a Low-Income Housing Tax Credit?

- Authorized under Section 42 of the Internal Revenue Code
- Designed to help fund low-income housing
- Investors purchase tax credits from developers of low-income housing. The money paid by investors is contributed to the project as equity.

# Types of LIHTCs

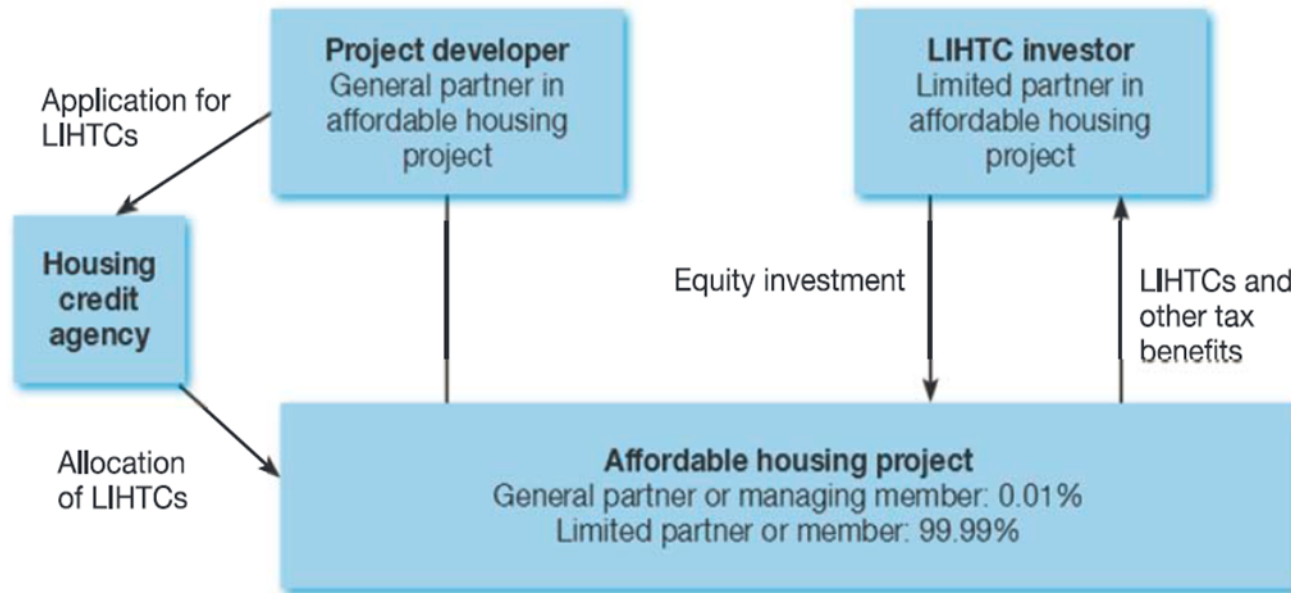
## **9% Credit**

- New construction or substantial rehabilitation – awarded through competition

## **4% Credit**

- New construction or substantial rehabilitation awarded in conjunction with tax-exempt bonds

# Housing Credit Structure



Source: OCC

# Understanding Roles, Motivations and Responsibilities of Developer and Investor

# Developer's Perspective

- Developer Fee
- Control property management and management fee
- Control majority of any positive cash flow from operations and residuals
- Highest equity price
- Fastest equity pay-in
- Retain control of property at end of 15 year compliance period
- Least exposure under investor deal guarantees

# Investor's Perspective

- Looking for reasonable certainty with respect to amount of losses and credits – Investor Benefits
- Looking for reasonable certainty with respect to timing of Investor Benefits
- LP Agreements written attempting to “manage” the Investor Benefits Flow
- If there is positive cash flow, GP/developer is generally entitled to as much as 90% as an Incentive Management Fee
- If there is negative cash flow, GP/developer is generally obligated to fund Operating Deficits



# Investor's Perspective

- If a project's NOI/Cash Flow is close to zero, depreciation, amortization, and accruing interest on soft debt will result in a net annual tax loss
- Generally, LIHTCs, Depreciation & Amortization and Accruing Interest deductions are reasonably quantifiable in the deal projection process
- Investors price deals based on projections and strength of GP/developer guarantees

# Deal Guarantees

- Development Deficit Guarantee
- Construction Completion Guarantee
- Operating Deficit Guarantee
- LIHTC Guarantee – amount, timing & recapture
- All LIHTC deals will have some form of these guarantees somewhere within the deal documents

# Completion Guarantee

Guarantees construction completion of project

No material modifications from original plans and specs without prior approval

Usually provides for repurchase of investor interest if completion does not occur by a date certain or defaults prior to completion

Sometimes included as part of Development Deficit Guarantee

# Operating Deficit Guarantee

GP/Developer guarantees funding of any operating deficits occurring after project has achieved breakeven operations

GP/Developer risk may be mitigated with sizing of partnership operating reserves

Absolute funding obligation usually capped

Duration of funding obligations usually capped

# LIHTC Guarantees

Guarantee of total amount and timing of LIHTCs

Guarantee against recapture

All LIHTC deals will have some form of these guarantees somewhere within the deal documents

# Housing Tax Credit Investments: Investment and Operational Performance

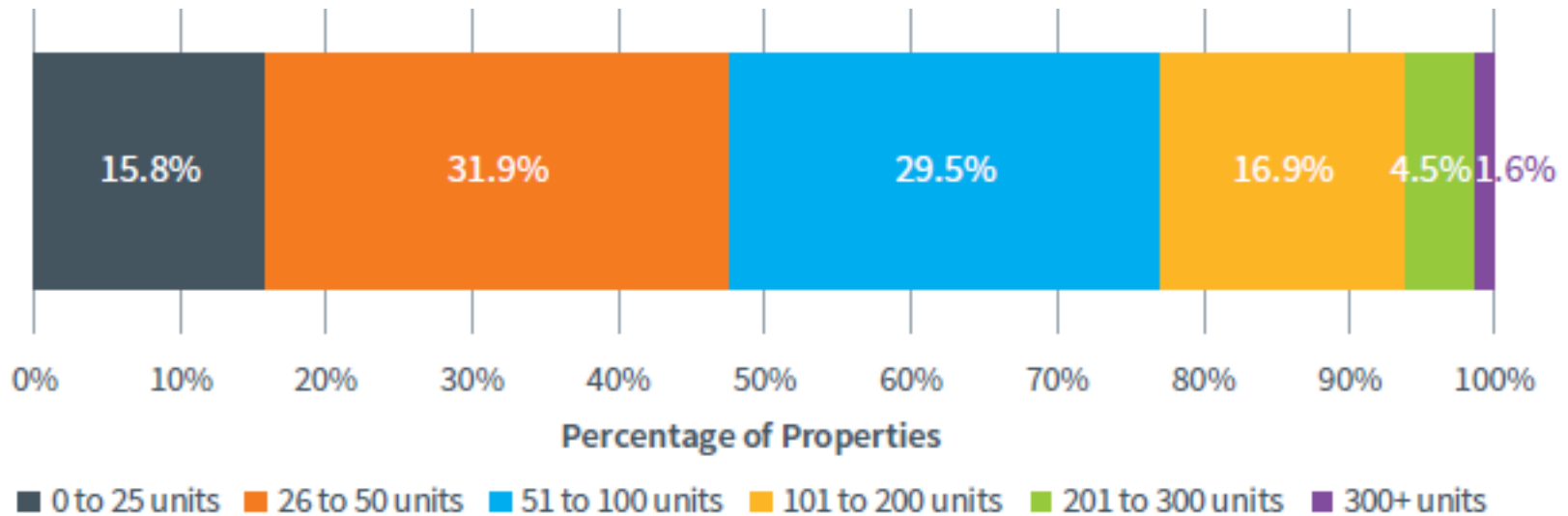
# Total Property Metrics

## Overall Portfolio Composition

	Survey Total	Stabilized Properties	Percent Stabilized
Number of Properties	22,993	15,523	67.5%
Number of Units	1,793,810	1,229,065	68.5%
Number of LIHTC Units	1,692,314	1,167,956	69.0%

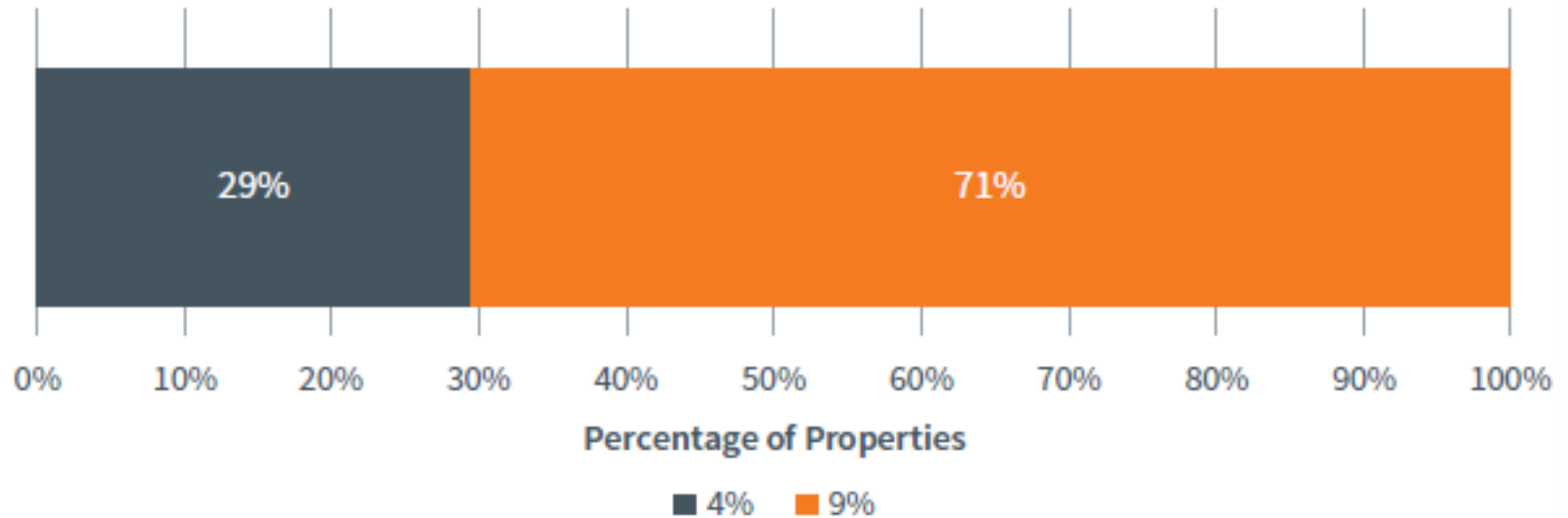
The national stabilized portfolio continued to show strong operating performance in both 2015 and 2016 on a national median basis for every metric.

# Portfolio by Property Size

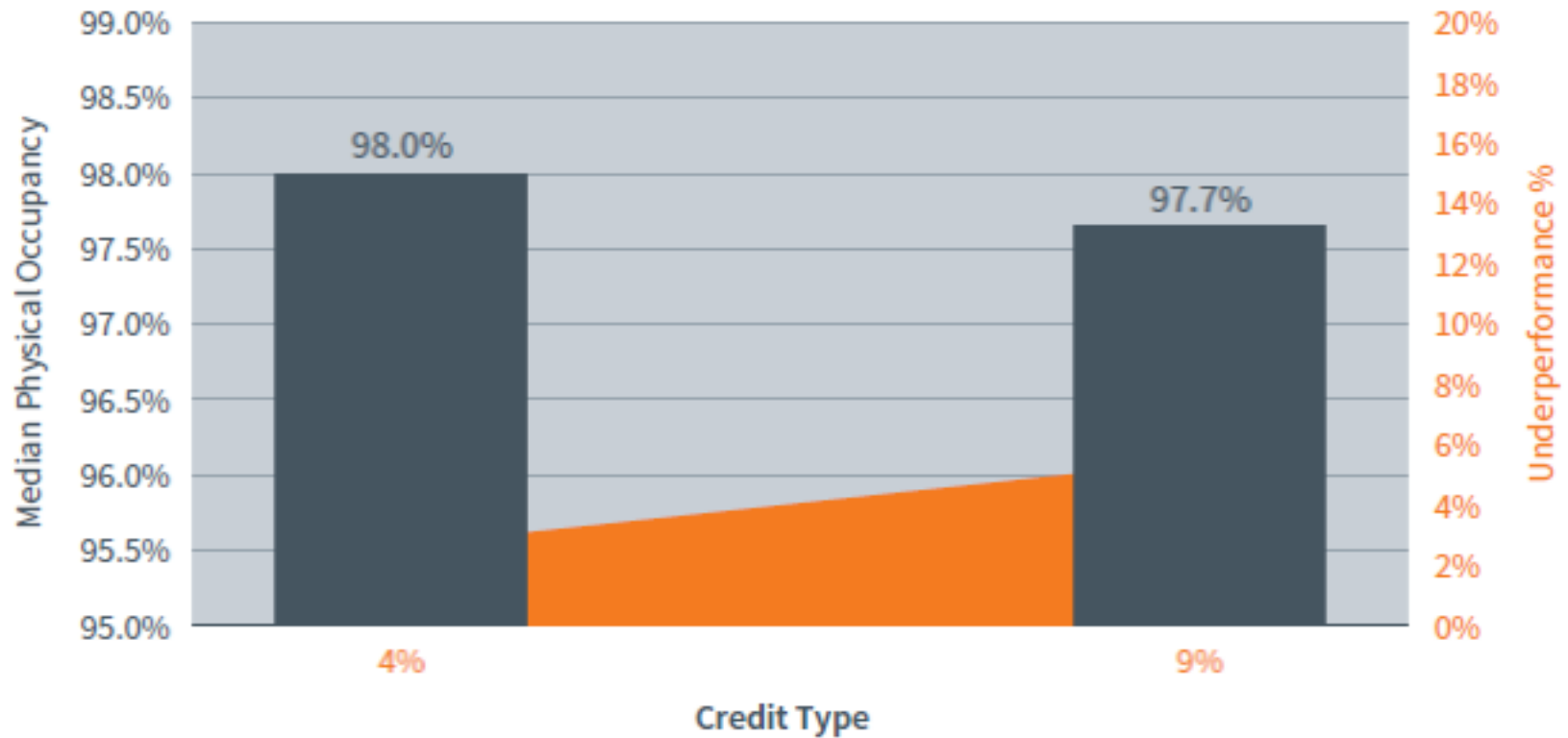




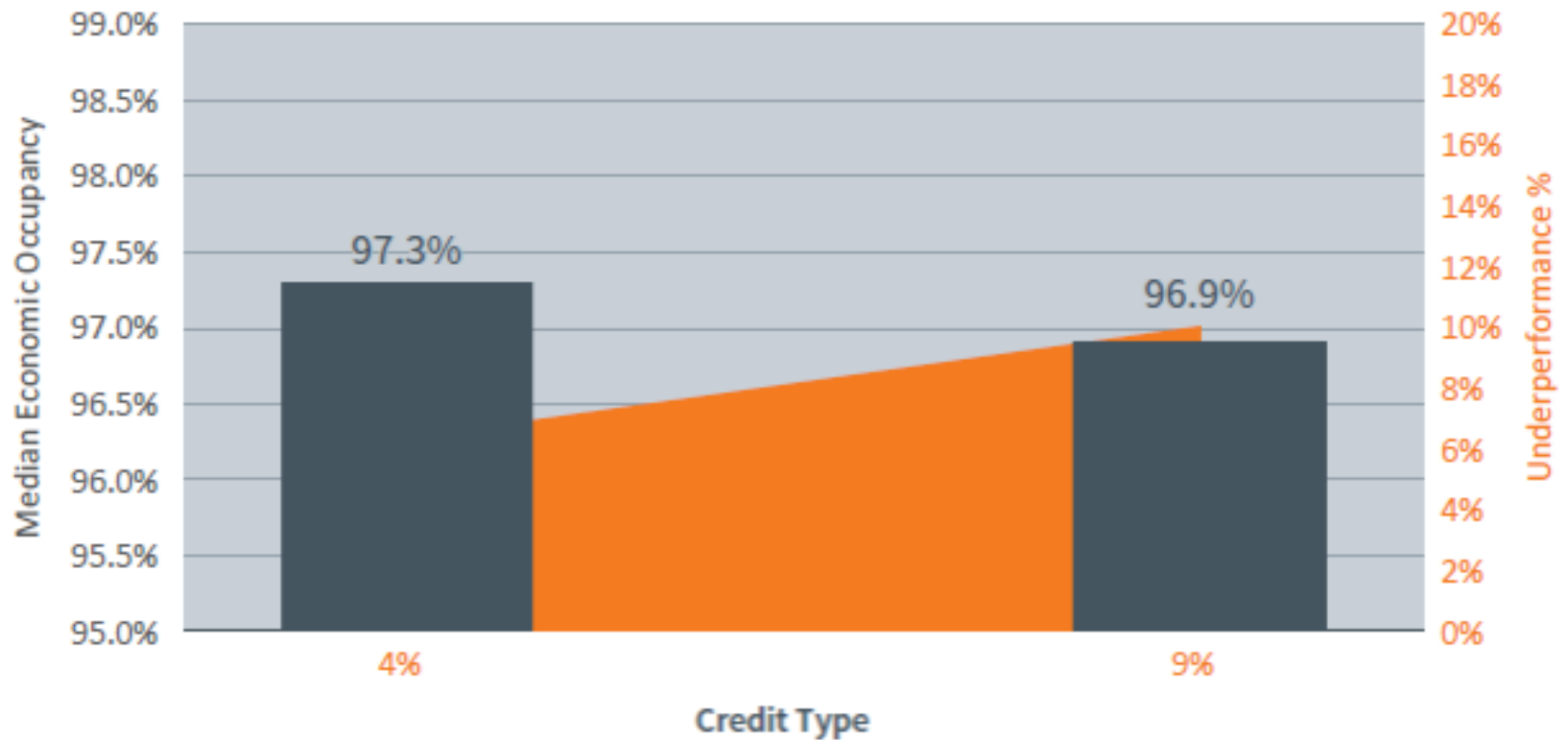
# Property Count By Credit Type



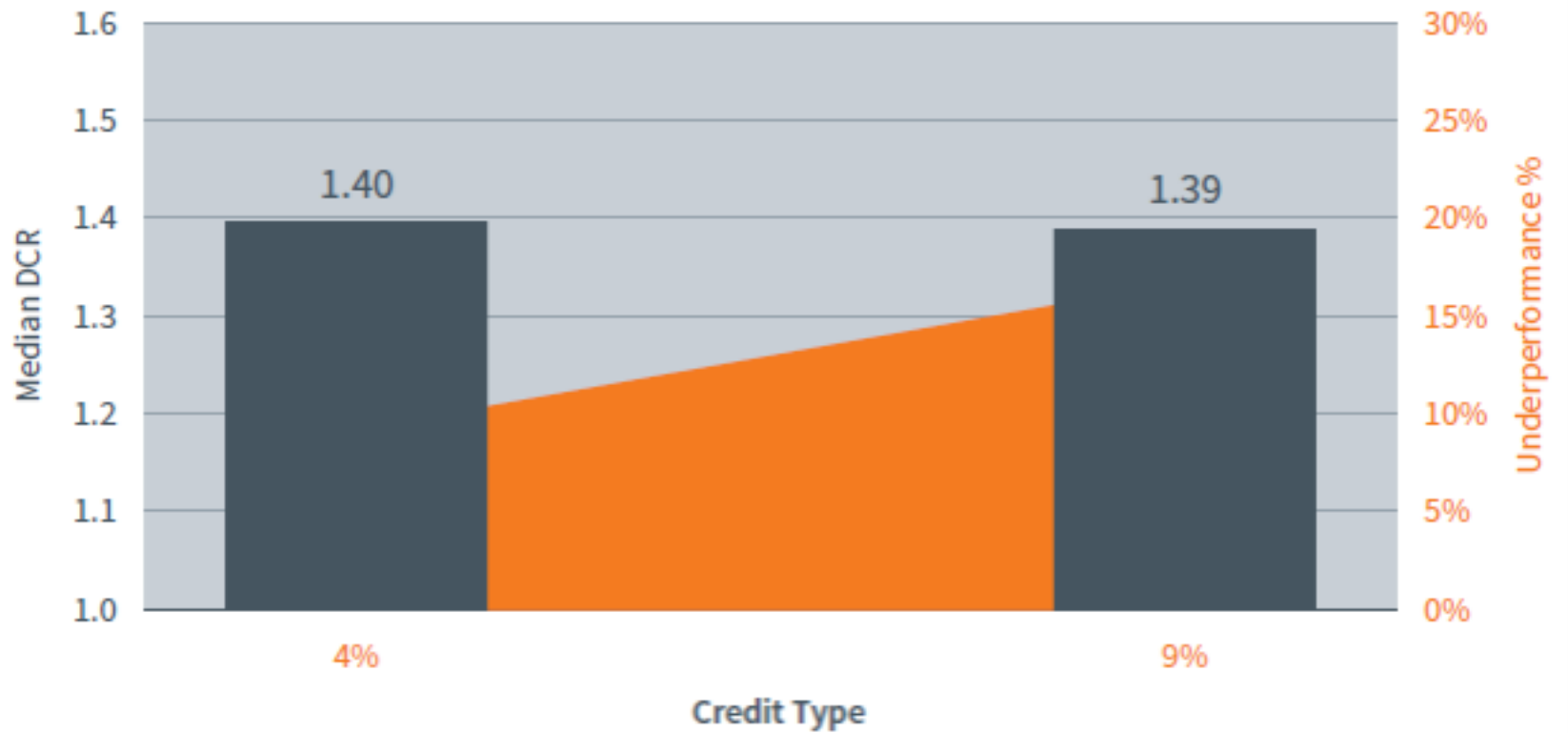
# Physical Occupancy by Credit Type



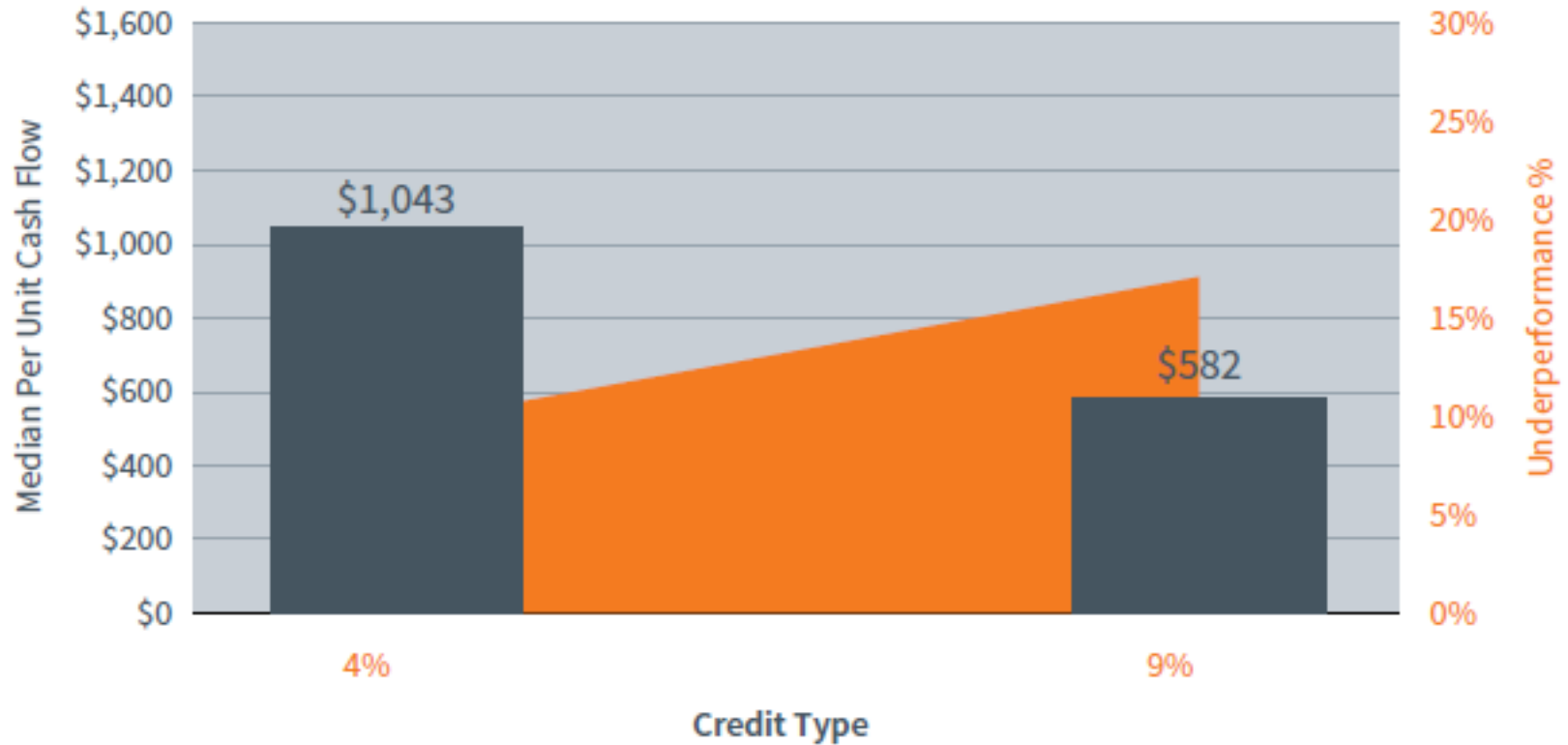
# Economic Occupancy by Credit Type



# Debt Coverage Ratio by Credit Type



# Per Unit Cash Flow by Credit Type



# A Closer Look at Housing Tax Credit Metrics in Washington, DC

# Washington, DC Property Performance Metrics

**138** PROPERTY COUNT

**18,563** TOTAL UNITS

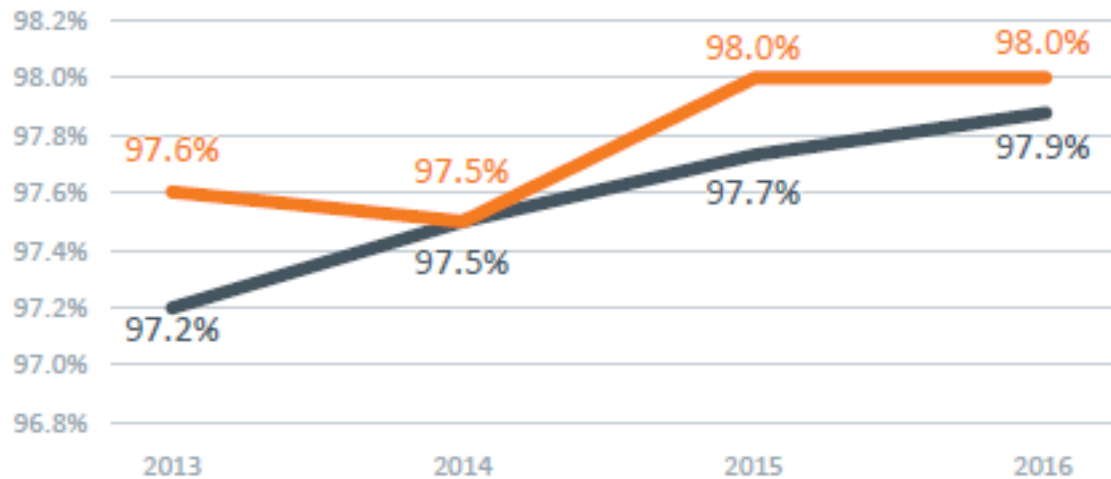
**135** AVERAGE UNIT PER PROPERTY

**\$7,186,579** AVERAGE NET EQUITY PER PROPERTY



# Median Physical Occupancy Trend

Median Physical Occupancy Trend (2013 – 2016)

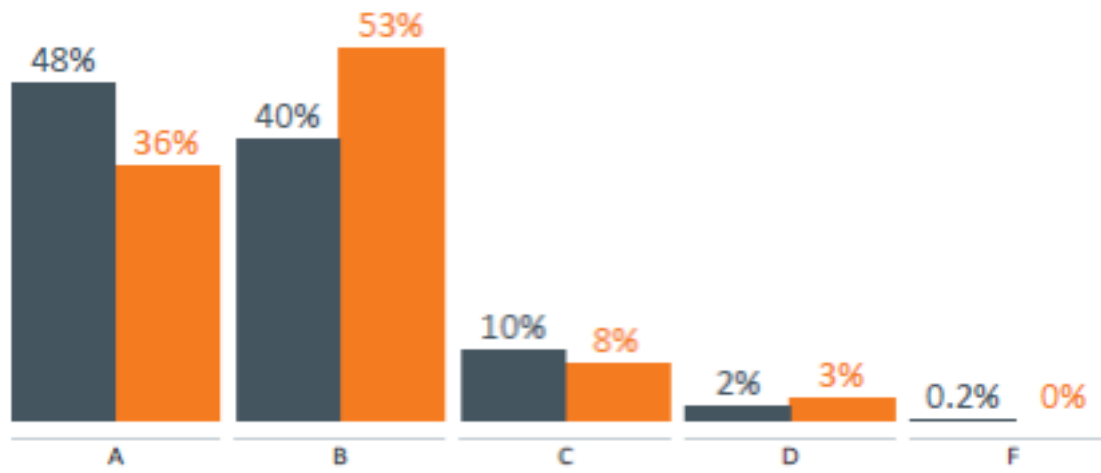


Washington, DC National

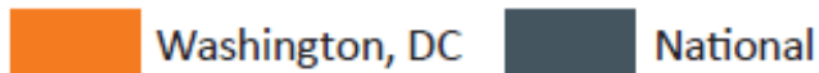


# Risk Rating Distribution Vs. National

2016 Washington, DC Risk Rating Distribution vs. National

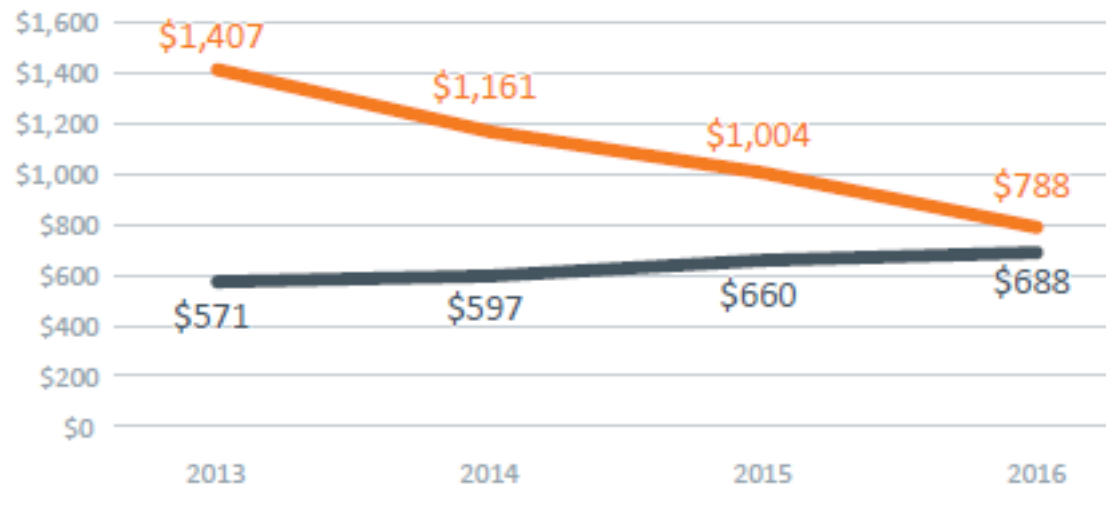


C, D, and F are watch list properties.



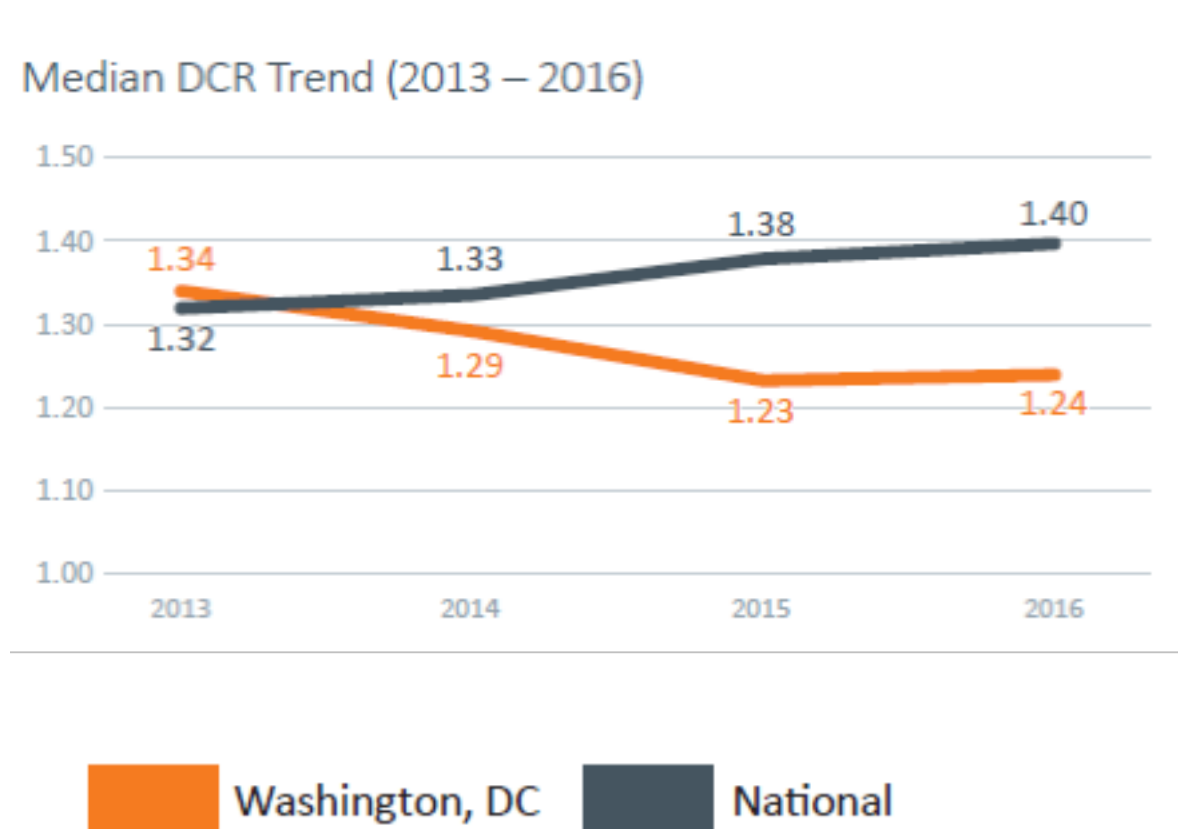
# Median Per Unit Cash Flow Trend

Median Per Unit Cash Flow Trend (2013 – 2016)

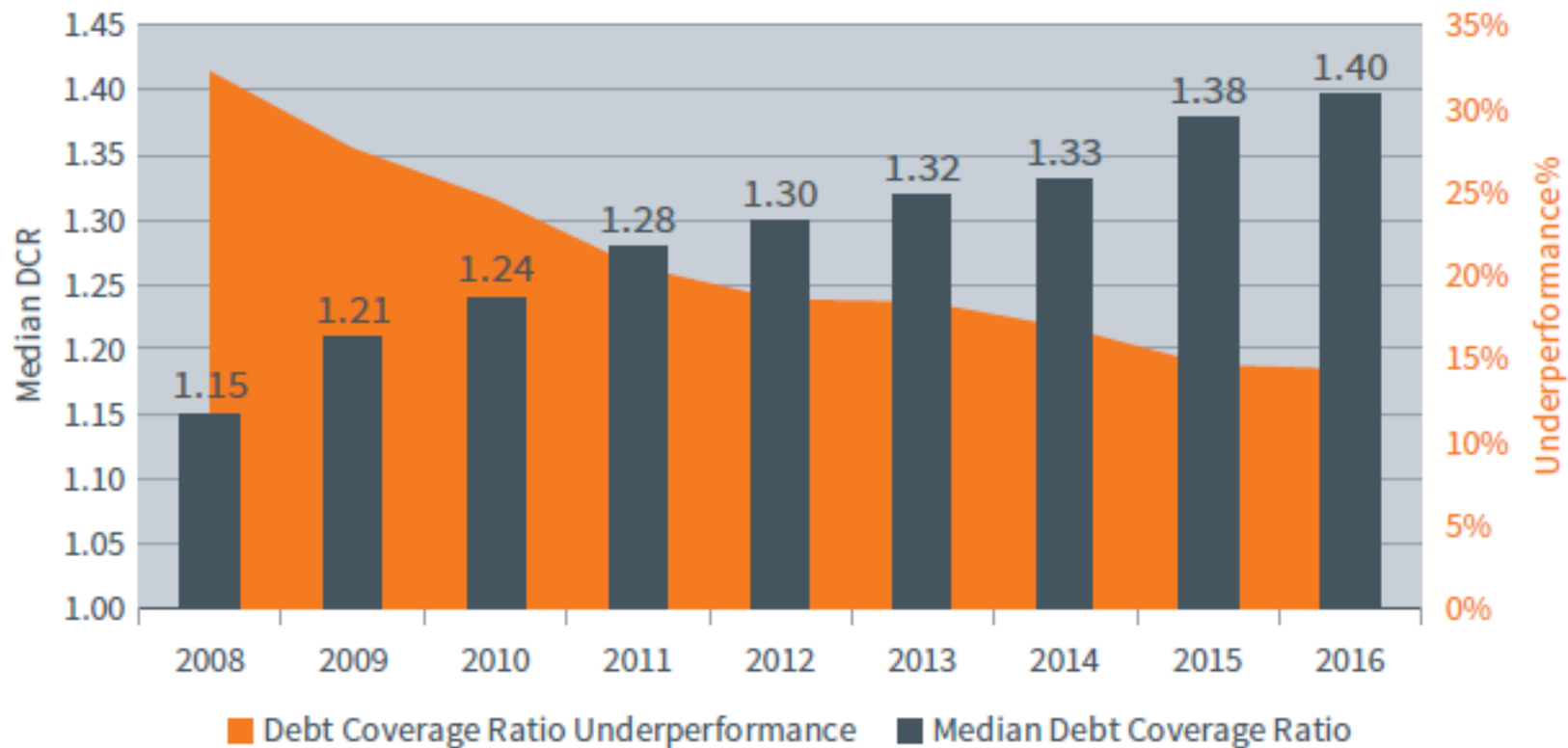


Washington, DC National

# Median DCR Trend

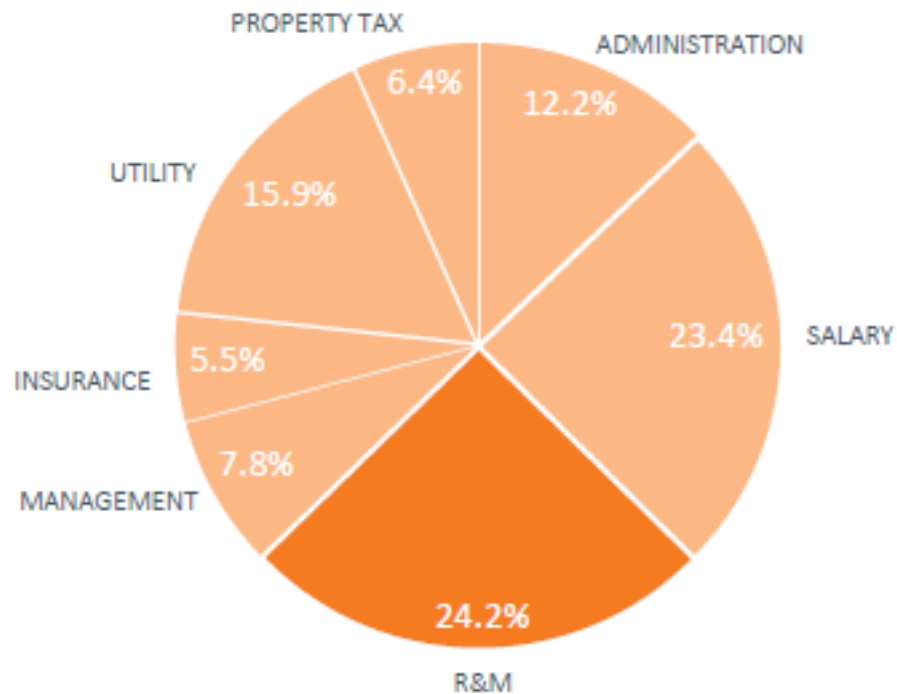


# National DCR Trend



# Gross Median Operating Expense Distribution

2016 Washington, DC Gross Median Operating Exp. Distribution



# Gross Operating Expense Range

## Administrative Fees.

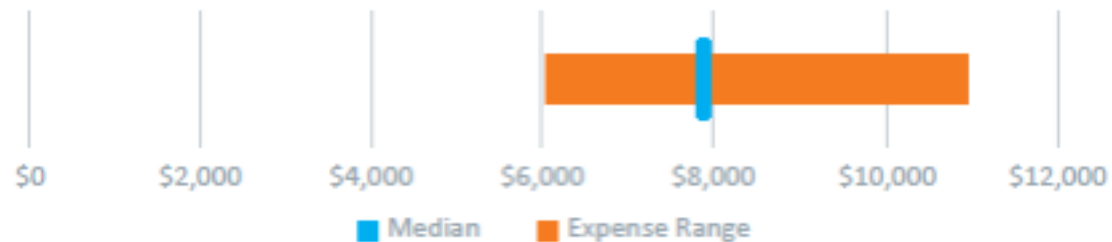
Legal & Accounting

Telephone/Internet

Monitoring/Compliance fees

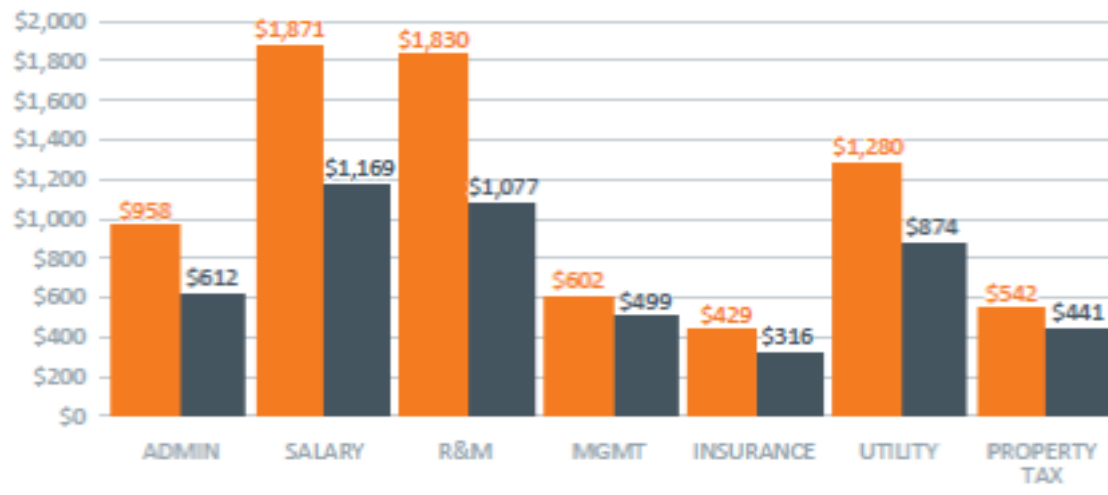
- Salary
  - Direct Property Staffing
- Repairs and Maintenance (“R&M”)
  - Cost of contracts i.e. Landscaping, pool
- Management Fees
- Insurance
- Utilities
- Taxes

2016 Washington, DC Gross Operating Expense Range



# Expenses by Category

2016 Expenses by Category



Washington, DC National

# A Closer Look at Housing Tax Credit Metrics East of the Anacostia River



# A Closer Look at Properties East of the Anacostia River

<b>Total Development Cost</b>	\$19,835,848
<b>Net LIHTC Equity</b>	\$7,023,000
<b>LIHTC Price</b>	\$0.95
<b>Number Of Units</b>	124
<b>Number Of LIHTC Units</b>	124
<b>Hard Debt Ratio</b>	39.0%

# A Closer Look at Properties East of the Anacostia River

<b>PhysicalOccupancy</b>	96.56%
<b>EconomicOccupancy</b>	94.99%
<b>DCR</b>	1.21
<b>CashFlowPerUnit</b>	\$878.78

# Hot Topics in Housing Finance

# Housing Credit Pricing Update

- Net equity price reported in latest surveys
  - September – October 2018      \$0.91
  - July – August 2018                \$0.91
  - May – June 2018                    \$0.903

# Income Averaging

- Minimum set asides:
  - At least 20% of units rent restricted and occupied by tenants at 50% or less of Area Median Income (AMI)
  - At least 40% of units rent restricted and occupied by tenants at 60% of AMI
  - NYC – special 25% of units at 60% of AMI
- New Minimum Set Aside - Consolidated Appropriations Act of 2018
- Applies to elections made after enactment – March 23, 2018
- Owner designates income limitation for each low income unit
- Designation can be 20%, 30%, 40%, 50%, 60%, 70% or 80%
- Average of unit designations must be 60% or less of AMI
- Also at least 40% of units rent restricted

# Income Averaging

- Many ways to get to 60% average
- 10 unit building – 4@80%, 3@60% 3@30% - Average 59% - ok
- 10 unit building – 5@80%, 5@40% - Average 60% - ok
- 10 units – 2@80, 1@70, 2@60, 1@50, 2@40, 2@mkt – Ave. 60% -ok
- Rents charged to tenants based on unit income designation
- Calculation not based on units size – just number of units

# Year-End Planning Opportunities for Developers

- Meeting the 50% test –

Bond Proceeds  
Aggregate Basis  
(of building and land)

- Consider impact of new average income minimum set-aside
- Review projections to understand if there is a loss reallocation in your transaction's future
- HUD 2530 Approvals

# Resources

- Download a full copy of the Housing Performance report <https://www.cohnreznick.com/insights-and-events/lihtc-report-housing-tax-credit-investments>
- Opportunity Zone Mapping: <https://www.cohnreznick.com/nmtc-map>
- On-demand Opportunity Zone webinar: [http://go.cohnreznick.com/OpportunityZones\\_Activity-Progress.html](http://go.cohnreznick.com/OpportunityZones_Activity-Progress.html)