LIHTC LIFE CYCLES: CREATING A PORTFOLIO LADDER FROM Y₁ TO RE-SYNDICATION

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Agenda

• Introduction & Goals
• Pop Quiz #1
• Portfolio Ladders
  • Y1 to Y10
  • Y10 to Y15
• Pop Quiz #2
• Resyndication
• Preservation
• Pop Quiz #3
• Q&A and Feedback
Pop Quiz!

The best time to plan for Y15 is:

A. As soon as you lease-up the project
B. Start thinking about it in Y10
C. When your Option period begins
D. Year Zero
Pop Quiz!

You notice on a property audit that the capital account for the Limited Partner has gone negative, what do you do?

A. Freak out and call your attorney
B. Pull out the LPA and review your options
C. Nothing, you already knew this was going to happen
D. Something else
Y1 to Y10

- Performance against closing projections
- Identification of physical defects
- Operations right sizing
- Maintenance period
- Tracking capital accounts
- Physical Needs
Transition documents

Create a checklist and sign off procedure to get documents to Accounting and Asset Management teams

- Loan Documents
- Regulatory Agreements
- Partnership documents
Operational Overview

Review and summarize the project specific items that will impact the Asset Management team

• Operating budget
• Subsidy Requirements
• Reporting Requirements
• Reserves
  • Prefunded reserves
  • Annual Replacement Reserves
    • Annual amount
    • Allowable uses
Review Financial Projections

Financial

• Developer Fee
  • Deferred- Year of estimated payback
  • Contributed

• Debt
  • Hard debt- Is it a traditional perm loan or unusual (SWAP, Freddie TEL, etc.)
  • Soft Debt- What are the payment expectations
  • AHP- Are the funds going direct to the LP or coming in through the GP
  • Seller Carryback loans

• Capital Accounts
  • What is the expectation
  • Are you projecting for a negative LP account?
  • Opportunity Zones?
Annual Audit reviews

• For first few years include the development team in the Audit review process
• Compare to closing projections
  • Capital accounts
  • NOI/DCR
  • Correct waterfall distribution
• What could change from projections?
  • Tenant based section 8
  • Operating expenses
  • Occupancy
  • Rent increases above 2.5%
  • Changes in Utility Allowances
Preparing for LP Buy Out & Resyndication

- Understanding the LPA
  - Back end terms & agreements
  - Option – when can you exercise?
  - Who gets cash assets
    - operating account
    - replacement reserves
    - operating reserves

- Track capital accounts yearly – project out year 10 / 15.

- How to address reserves

- Try to minimize capital accounts
Differing Interests

**Investor:**
- Syndicator or Corporation
- Use of losses and depreciation for tax purposes (in addition to tax credits themselves)
- Compliance Period of 15 years

**Their Goal**
- Reduce tax liability while paying as little as possible
- Limit liability during the 15 years they are in the deal
- Project requires no additional funds from them during the 15 Year Recapture Period
Non-Profit General Partner

- Mission driven
- Long-term affordability
- Development and preservation of a vital community asset

Our Goal

- Create and maintain quality affordable housing, vital to healthy, safe, vibrant, and diverse communities.
- Provide housing options and support to seniors, families, youth, veterans, and people with disabilities;
Understanding Capital Accounts

• Audit vs. Tax capital accounts
• Options if capital account is going negative
The Back End (Y11 to Y15)

Option
Right to purchase Property or LP Interest at FMV or similar

Right of First Refusal
Purchase Property at minimum price of Debt + Taxes, not including reserves

Taxes owed if Investor gets too many benefits

How Local Lenders can help
Anticipating Buy Out (Y11 to Y15)

Goal is to keep the reserves & cash assets with the property
- Spend Down Plan
- Approval of Release of Operating Reserves to spend on improvements

Value

Why Resyndication?
- Preserves the asset
- Extends the useful life of the project
- Energy Efficiency measures

Recasting Existing Soft Debt – FLEXIBILITY is important

Scattered site
Create Your Ladder

Y1-5
- Operational Review
- Financial Projections
- LPA

Y6-10
- Reserves
- PNA
- Capital Accounts
- Value Analysis

Y11-15
- Troubled Assets
- Assessments
- Prioritization
- Pipeline

Preservation
- Resyndication
- Scattered Sites
- Public Agency Input

Value Analysis
Pop Quiz!

Nice People Housing has 20 properties they own and manage. You are hired in a newly created Asset Manager position. What is your strategy to assess the portfolio?

A. Go visit the properties and evaluate the physical needs
B. Review the regulatory agreements, lender and investor documents
C. Scour the financials and sit down with property management
D. Talk with other department heads about what properties are considered a “problem”
E. All of the above
You have finished your evaluation of Nice People Housing’s portfolio and identified that Kindness Place, a LIHTC project that is 14 years old, is leaking like a sieve, has a high vacancy rate, and is on the local housing agency’s radar as a problem project. What is your strategy?

A. Talk to the development staff and start to discuss resyndication
B. Call another nonprofit to see if they want to take on the property
C. Call the Housing Authority and local housing agency to set up a meeting to discuss the property’s prospects
D. Something else
Resyndication Strategies

Assessing the projects
• Tools
• Organizing data
• Creating a pipeline
• Troubled properties
Prioritization of Projects in your Portfolio:

Timing may depend on:
- Physical Needs
- Evaluate existing debt & tax considerations early. Time sensitive financing opportunities – May have window to prepay loans without penalty or loan interest rate may be resetting
  - DDA status going away
  - May need original Investor to be bought out first or anticipating buy out
- Scattered Sites
- Positioning property to be ready
- Development of Scope of Work
- Development of Post-Rehab Budget
- Dissafiliation
Accessing Local Funds for Refinancing
Pop Quiz!

You are planning a meeting with staff of the local housing agency to discuss the refinancing of Kindness Place. What should you do to prepare for the meeting?

A. Meet with elected officials beforehand to advocate for the project.
B. Engage consultants and bring them with you to meeting.
C. Complete a Physical Needs Assessment and prepare a detailed rehabilitation budget.
D. Assume that your project’s needs can and will be met by the local agency.
E. All of the above
Local Agency Support for Preservation

- Community need for new units vs. preservation
- Long-term and strategic planning
- Increased public value: deeper income targeting, hardest to house, better services
- Resource allocation: bang for the buck
Public Agency Options

Extend existing debt
- Generally meets with approval (provide adequate notice)
- Supports preservation
- Can be counted towards public contribution and/or tax credit calculations
- Current debate - lower vs. higher interest rates

Provide new funds
- Additional considerations and longer lead time
- Show added public value
- Weighed against program income that may support new units
- Agencies increasingly require fees and cash flow distributions
Public Agency Considerations

- Readiness, most likely to succeed - with a caveat for the underdog
- Leverage ratio swagger
- Diversity of housing types
- Leading edge of sustainability
- Improvement of blighted conditions
- High profile project or area
- Tailored to succeed in a State funding program
- Competency of the developer as evidenced through both track record and completeness of application

*Et pas*

- The arrival of Year 15
Q & A and Feedback

• What are your top 3 concerns about preservation of older LIHTC properties?

• What information presented today was most helpful?

• What trainings are you interested in?

• Questions?
More Questions? Contact Us!

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Thank you for attending our panel!