

March 13-14, 2025 | InterContinental, Boston MA

Getting Started: Assessing the Market, Working with Your Tax Credit Agency, and Understanding the Development Process

IPED's Learn the Basics: Housing Tax Credits 101



Our Speakers

Getting Started: Assessing the Market, Working with Your Tax Credit Agency, and Understanding the Development Process



Dara Histed

Nixon Peabody LLP

Moderator



Emily Bouton

Beacon Communities



William Dunn

MassHousing



Jesse Elton

The Community
Builders, Inc.



Josiah Madar

MassHousing



Alex Rosso

Nixon Peabody LLP



IPED LEARN THE BASICS: HOUSING TAX CREDITS 101

**Getting Started: Assessing the Market, Working with
Your Tax Credit Agency, and Understanding the
Development Process**

The Lender Perspective



Massachusetts Housing Finance Agency ("MassHousing")

The Commonwealth's Affordable Housing Bank

- Quasi-public state agency created by statute in 1966;
- Commenced operations in 1968, first loans made 1969
- Provides construction, bridge, and permanent senior mortgage financing
- Tax-exempt and taxable sources of funds
- Conduit Financing – tax-exempt sources
- Subordinate Loans – Opportunity Fund
- Commonwealth Builder Program
- Massachusetts Affordable Housing Trust Fund – Administrator
- Massachusetts Community Climate Bank



MassHousing

Roles as Lender and/or Issuer

- MassHousing acts as first mortgage lender AND as issuer of either tax-exempt or taxable securities to finance its loans.
- The Commonwealth of Massachusetts Executive Office of Housing and Livable Communities (EOHLC) is the credit allocating agency for Massachusetts.
- This divided structure is unlike many/most states, where these functions are typically unified within a single agency.



How are LIHTC Developments Financed?

Equity

- LIHTC (9% and 4%) Syndication Equity
- Other (e.g. federal historic credits)

Debt

- Senior Mortgage (Construction and/or Permanent, with or without Bridge Financing)
- Subordinate Mortgage Financing
 - Federal, State and Local Government Loan Programs
 - Seller Financing
 - Sponsor Acquisition Loans
 - Deferred Developer Fee



Which Comes First?

How much debt?

How much equity?

How much affordability?

All three are tied together. The determination of how much affordability drives the determination of how much debt (and forms of debt) and equity is required.



Senior Loan – Pre-Commitment

Getting in the Pipeline

Developers communicate with EOHLC

- Allocation and awarding of subordinate sources

Developers contact MassHousing:

- Share project plans
- Ask questions about underwriting
- Discuss timing
- Request feedback or letters of interest

Origination Team develops and manages a pipeline, taking into consideration:

- Preservation Matrix
- Resources needed – state, local, MassHousing, other
- Readiness to proceed
- Other priorities



Senior Loan – Pre-Commitment

Structuring a Transaction

Understanding Project Elements

- Ground lease
- Condominium structure
- Commercial space
- Homeownership units
- Construction & lease up timeline

Setting the Role of Each Stakeholder

- Construction debt
- LIHTC equity provider
- Other development team members



Senior Loan – Pre-Commitment

Structuring a Capital Stack

Sizing the Senior Loan

- Rental subsidies
- Rent setting
- Operating budget review
- Debt execution

Compiling Diligence

- Development team members
- Entitlements
- Necessary subsidies



Senior Loan – Pre-Commitment

Moving toward Commitment and Closing

Internal Review

- Design and Construction
- Appraisal and Marketing
- Rental Management
- Diversity and Inclusion

Additional Review

- Loan Committee and Board
- HUD Risk Share



Senior Loan – Post-commitment and Closing

Drafting of Loan Documents – principal documents include:

- Loan Agreement(s)
- Note(s)
- Mortgage(s)
- Regulatory Agreement
- Residential Compliance Agreement
(aka Bond Regulatory Agreement)

Tax Exempt Debt – requires:

- Borrower's Tax Certificate
(with 95/5 and 50% Test Letters)



Senior Loan – Post-commitment and Closing

Lender Diligence – Borrower Organizational Documents

Review of Partnership/Company Documents:

- Structure and Timing of Capital Contributions
- Review of Repurchase Provisions
- Reserve Requirements
- Cash Flow Waterfall
- Payment of Developer Fee
- Incorporation of MassHousing Rider
(re: primacy of Loan Documents)



Senior Loan – Post-commitment and Closing

Lender Diligence – Property Management

- Operating Budget
- Management Agreement
- Affirmative Fair Housing Marketing Plan
- Tenant Selection Plan
- Other (e.g. tenant relocation plans, supportive services, commercial leases, etc.)

Senior Loan – Post-commitment and Closing

Lender Diligence – Construction

- Architect's Contract
- Scope of Work/Plans and Specifications
- Construction Cost and Contingencies
- Construction Contract

Other Diligence Materials

- Environmental
- Title and Survey



Senior Loan – Post-commitment and Closing

Closing Diligence – Lender’s Perspective:

The Senior Lender’s interests are both aligned with, and potentially adverse to, the other parties in the transaction:

- Developer/Sponsor
- Investor
- Subordinate Lender(s)
- Government Entities



Senior Loan - Construction

Construction/Rehabilitation Phase

- Construction Monitoring

Senior Loan – Completion

- Construction Completion
- Sustaining Occupancy
- Cost Certification
- Supplement to Borrower's Tax Certificate
(with updated 95/5 and 50% test letters)
- Permanent Loan Conversion (including payoff of construction and/or bridge loans and Risk Sharing Endorsement)

Lender's Perspective: Things to Consider

1. Simplify structures (entities, funding schedules) where possible.
2. Be realistic with schedule/timing – don't continue to compress a schedule to meet a target date if benchmarks are not achieved.
3. Review and refine diligence materials (draft documents, title proformas, surveys, etc.) before they are shared with a wider audience.
4. Seek to understand the institutions and programs that you're working with and try to recognize potential conflicts.
5. If you need help or discover a potential conflict, reach out to agency/lender to discuss how it might be resolved.
6. Keep a positive attitude – everyone involved wants the same goal – to create affordable housing.



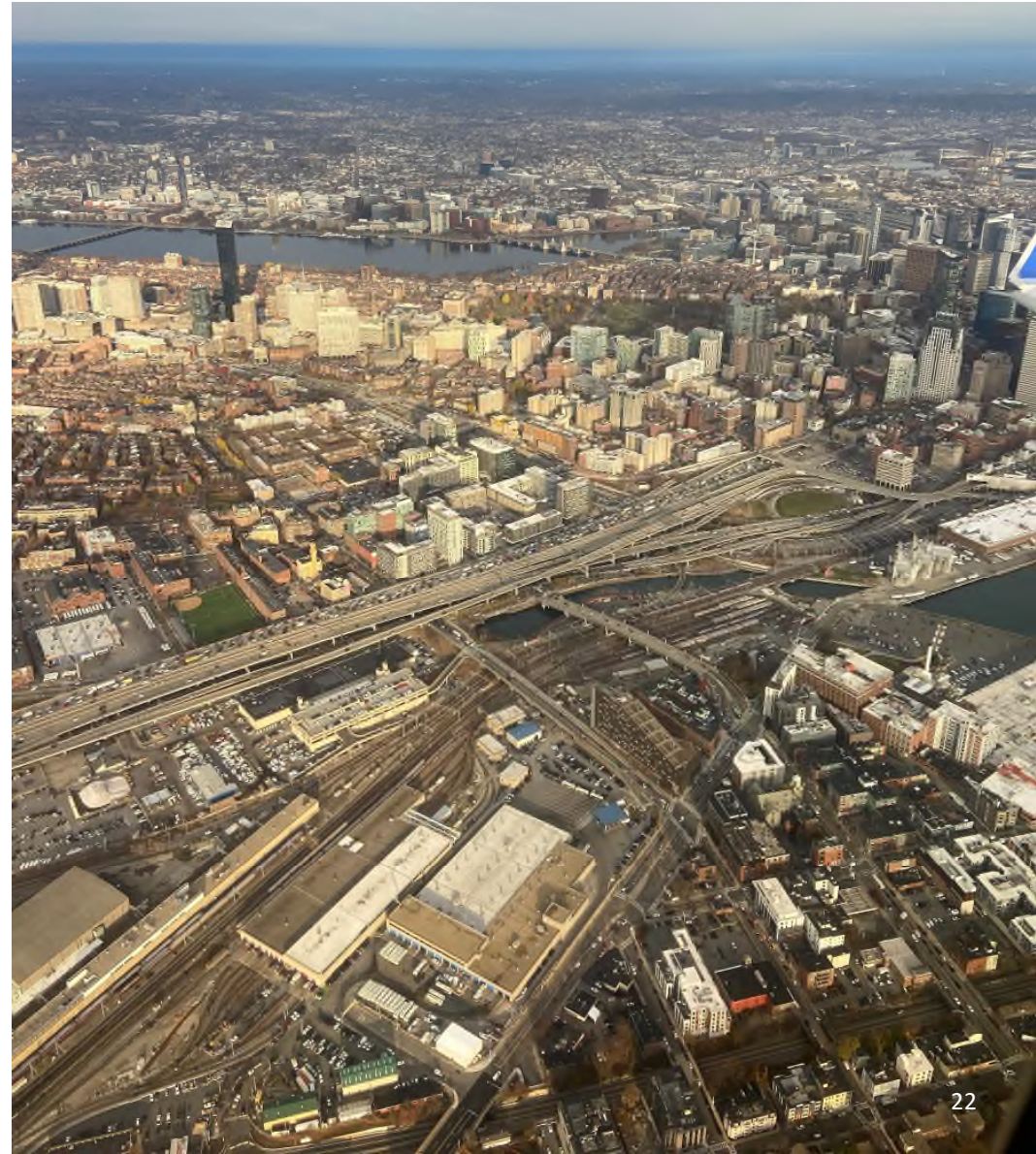
Pok Oi Residences

- New construction on former surface parking lot
- Single building: five stories of wood over steel podium covering parking
- 100% affordable
- 85 units (family housing): mix of 1-, 2- and 3-BRs
- Joint venture with the Chinese Consolidated Benevolent Association of New England (CCBA)
- Passive House



Assumptions & Plan

- Site selection: selected as developer after responding to competitive Request for Proposal
- Developing building program is constrained by site size, available funding resources, zoning regulations, etc.
- Mission also dictates program: affordable? Market? What is the income mix?
- Available funding sources also help shape program: QAP, City funding guidelines, etc.



Uses: How much is this going to cost?

- Acquisition: deal-dependent
- Hard costs: depends on construction type, size, union, prevailing wage, etc.
- Soft costs: initially use portfolio comps for similar project type + location
- Financing fees (i.e. construction loan interest)
- Reserves
- Developer fee

<u>Key Dates</u>		<u>Construction</u>	<u>Perm</u>
Start		12/1/22	12/1/25
Duration		24 months	12 months incl lease-up
<u>Uses</u>		<u>Construction</u>	<u>Perm</u>
Acquisition		2,125,000	2,125,000 25,000 / unit
Construction (496/NRSF-390/GS)		33,927,133	33,927,133 399,143 / unit
Contingency		1,696,357	1,696,357 5%
FF+E		200,000	375,000
Soft Costs (excl. interst & FF+E)		4,694,754	5,415,059 63,707 / unit
Capitalized Interest		2,361,720	3,695,434 43,476 / unit
Reserves & Escrows		-	972,137 11,437 / unit
Developer Fee & Overhead		935,000	4,371,026 0.083135475
Total Uses		45,939,963	52,577,146 618,555 / unit
<i>Sources/Uses Variance</i>		-	-

Permanent Loan/Hard Debt

- Funding from a private bank or public agency (MassHousing/Massachusetts Housing Partnership/Bank of America, etc.)
- Fully amortizing
- Principal and interest payments are made regularly so that the loan is paid off in full at end of term, usually 30 to 40 years
- “Hard” vs. “soft” – payments are required, and are not contingent on cash flow availability, for example
- Payments generally start once construction is complete and the property is leased up & stabilized
- Variables to size debt include:
 - Revenue
 - Expenses
 - Interest rate (market-rate generally or tax-exempt interest rate for bond deals like 4%^s)
 - Term/amortization (how quickly does the loan need to get paid off)

Permanent Loan/Hard Debt

Considerations/Assumptions to Size Debt

- **Unit Mix** dictated by funding sources (QAP, etc.), mission
- **Revenue**
 - LIHTC rents (with some 80% AMI exceptions for City-funded projects); discounted
 - Subsidy sources have their own payment standards
- **Expenses**
 - BRM is heavily involved in forecasting expenses for new development
 - Use portfolio comps to understand expenses; location can mean efficiency of expenses (staffing, etc.)
- **Trending Assumptions**
 - Revenue: 2% per year
 - Expenses: 3% per year
- **Vacancy**
 - Affordable, non-subsidized: 5%
 - Affordable, subsidized: 3%?
- **Debt Service Coverage: 1.15 in Year 15**

Rents						
Type	Count	2023	Applicable Rent	UA	Underwritten per SF	Underwritten
		FMR (120%)				
80% AMI LIHTC - 1BR	8		1,980	80	2.88	1,801
80% AMI LIHTC - 2BR	10		2,376	105	2.50	2,152
80% AMI LIHTC - 3BR	4		2,745	130	2.45	2,478
60% AMI LIHTC - 1BR	7		1,578	80	2.27	1,419
60% AMI LIHTC - 2BR	9		1,893	105	1.96	1,693
60% AMI LIHTC - 3BR	2		2,187	130	1.93	1,948
50% AMI LIHTC - 1 BR	11		1,315	80	1.87	1,169
50% AMI LIHTC - 2 BR	13		1,577	105	1.62	1,393
50% AMI LIHTC - 3 BR	4		1,823	130	1.58	1,602
30% AMI MRVP LIHTC - 1 BR	4		2,198	17	3.48	2,181
30% AMI MRVP LIHTC - 2 BR	4		2,635	18	3.04	2,617
30% AMI MRVP LIHTC - 3 BR	1		3,207	19	3.15	3,188
30% AMI LIHTC PBV - 1 BR	0	2,638	2,638	30	4.17	2,608
30% AMI LIHTC PBV - 2 BR	4	3,162	3,162	31	3.63	3,131
30% AMI LIHTC PBV - 3 BR	4	3,848	3,848	32	3.77	3,816
Annual Gross Rent					2.37	1,949,400

Other Sources

Sources	Total
Permanent Loan/Hard Debt	\$11,200,000
4% Low-Income Housing Tax Credit Equity	
State/City Soft Debt	
Deferred Developer Fee	
Total Sources	\$11,200,000
Total Uses	\$52,500,000
Gap	(\$41,300,000)

4% Low-Income Housing Tax Credit Equity

Considerations

- Accurate basis will be important to calculate your annual credit amount on 4% deals
- Which tax credit investor has Community Reinvestment Act (CRA) need in this area?
- How strong will my tax credit pricing be?

Assumptions

- Eligible basis: \$45.3m
- Applicable fraction: 100%
- Basis boost: 130% (QCT)
- Applicable rate: 4.0%
- Annual credit: \$2.4m
- Pricing: \$0.9675
- Total equity: \$2.4m x 10 years x \$0.9675 x 99.979% = **\$22.7m**

Sources	Total
Permanent Loan/Hard Debt	\$11,200,000
4% Low-Income Housing Tax Credit Equity	\$22,600,000
State/City Soft Debt	
Deferred Developer Fee	
Total Sources	\$33,800,000
Total Uses	\$52,600,000
Gap	(\$18,800,000)

45L + ITC Tax Credit Equity

Considerations

- Certain project characteristics/physical improvements make you eligible for additional tax credit equity
- Pok Oi: 45L and ITCs
- 45L is based on a per unit amount
- ITCs based on cost of physical improvements

Assume

- ITCs: $\$150,000 * 0.3 * (100\% - 54.28\%) * \$0.9675 = \$$
- 45Ls: $\$500/\text{unit} * 85 * \0.9675
- **Total = \$61,023**

Sources	Total
Permanent Loan/Hard Debt	\$11,200,000
4% Low-Income Housing Tax Credit Equity + 45L/ITC Tax Credit Equity	\$22,700,000
State/City Soft Debt	
Deferred Developer Fee	
Total Sources	\$33,800,000
Total Uses	\$52,600,000
Gap	(\$18,800,000)

State/City Soft Debt + SLIHTCs

Considerations

- What is soft debt?
 - Competitive funding sources allocated by City or State
 - Low- or no-interest loan
 - Non-amortizing
 - Principal and interest (if any) are paid off at end of term, usually 40-50 yrs or some portion is paid from available cash flow
- Soft Debt Sources
 - City, state generally
 - MA: EOHLC (AHT, HSF, TOD)
 - Pok Oi: EOHLC + City of Boston MOH
- Consider per unit and/or per project caps
- Any set asides that come along with funds
- Some funding sources come with parameters that can affect hard costs, unit program, design decisions

Sources	Total
Permanent Loan/Hard Debt	\$11,200,000
4% Low-Income Housing Tax Credit Equity + 45Ls/ITC Equity	\$22,700,000
State/City Soft Debt (incl SLIHTC loan)	\$17,000,000
Deferred Developer Fee	
Total Sources	\$50,900,000
Total Uses	\$52,600,000
Gap	(\$1,700,000)

Deferred Developer Fee

Considerations

- Funding sources often mandate some deferral of fee
- Deferred developer fee is a portion of the developer fee that is paid by the property's cash flow
- State housing agencies like to see that developers have "skin in the game"
- Can also be used to fill a gap
- Must be paid back via cash flow in ~15 years

Sources	Total
Permanent Loan/Hard Debt	\$11,200,000
4% Low-Income Housing Tax Credit Equity + 45Ls/ITC Equity	\$22,700,000
State/City Soft Debt (incl SLIHTC loan)	\$17,000,000
Deferred Developer Fee	\$1,700,000
Total Sources	\$52,600,000
Total Uses	\$52,600,000
Gap	\$0

The Deal Works!

Sources	Total
Permanent Loan/Hard Debt	\$11,200,000
4% Low-Income Housing Tax Credit Equity + 45Ls/ITC Equity	\$22,700,000
State/City Soft Debt (incl SLIHTC loan)	\$17,000,000
Deferred Developer Fee	\$1,700,000
Total Sources	\$52,600,000
Total Uses	\$52,600,000
Gap	\$0



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The Final Project!



CASE STUDY ON THE DEVELOPMENT PROCESS: Southbridge

Jesse Elton



THE **C**OMMUNITY
BUILDERS

THE COMMUNITY BUILDERS

The Community Builders mission is to build and sustain strong communities where all people can thrive.



WHAT WE DO | OUR MISSION DRIVEN BUSINESSES



Develop Healthy Housing

33K Apartment homes completed since 1964



Invest in Thriving Neighborhoods

\$240MM In New Markets Tax Credit allocations for neighborhood businesses amenities



Manage Well and Own Responsibly

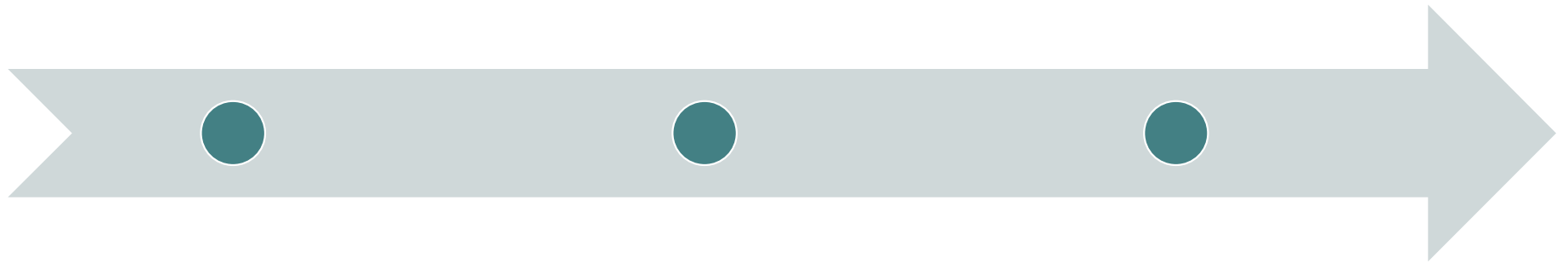
14K Apartment homes owned or managed



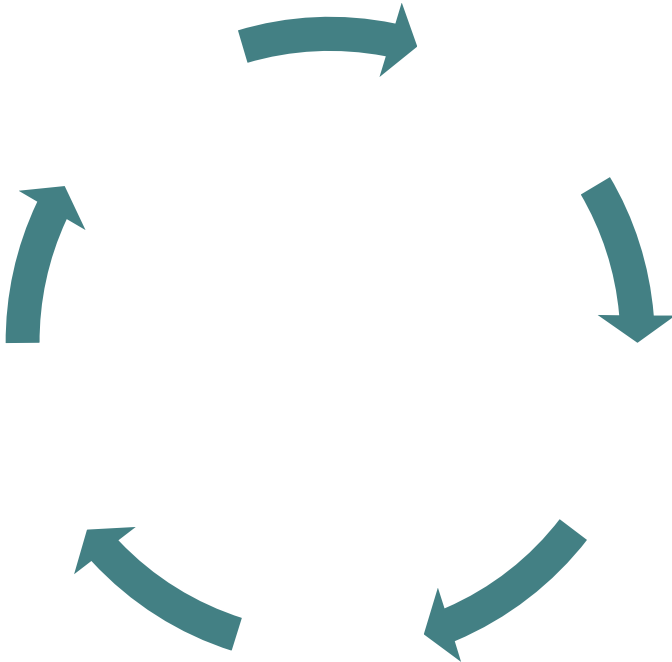
Connect Residents

92% Young adults have someone they can turn to when they feel isolated

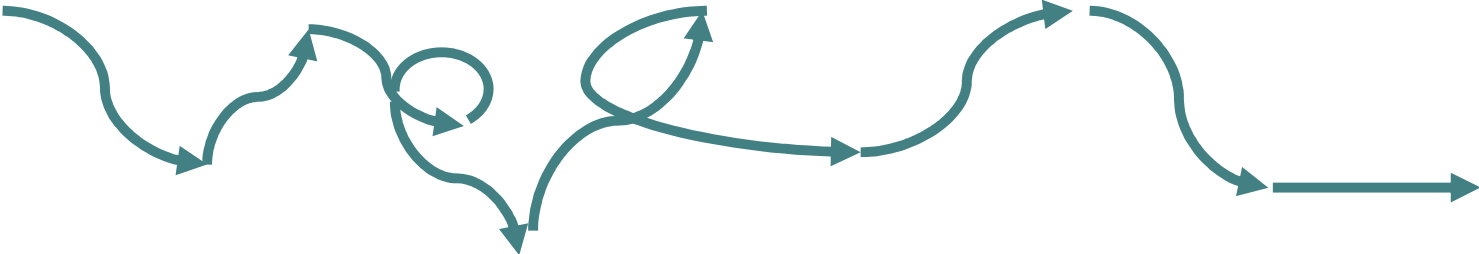
THE DEVELOPMENT PROCESS?



THE DEVELOPMENT PROCESS?



THE DEVELOPMENT PROCESS



SOUTHBRIDGE



SOUTHBRIDGE MASTER PLAN PROGRAM

- 767 units rental (RAD S.8 CHA replacement, LIHTC, market rate)
- 110 units for-sale
- 65,000 sq ft retail

STAKEHOLDERS AND PARTNERS

- Public agencies
 - Chicago Housing Authority
 - City of Chicago DOH
 - Illinois Housing Development Authority
- Residents and neighbors
 - Returning public housing residents
 - New residents
 - Neighbors
 - Alderman
 - Local businesses
 - New retail tenants
- Development and Management Team
 - The Community Builders and McCaffrey Interests
 - Management Agent: Habitat Group
- Private Financial Partners
 - Goldman Sachs (Phase 1A/1B)
 - Citibank (Phase 1A/1B)
 - USBank (Phase 1A/1B)
 - CIBC (Phase 1C)
 - Stratford Capital (Phase 1C)

PHASING

- How should we break the site plan into phases?
- How big should each phase be?
- Where on the site plan should we start with Phase 1?
- Considerations:
 - Public agencies directives
 - Local elected/neighborhood preferences
 - Financial feasibility
 - Public resources
 - Private financing partner parameters
 - Marketing (residential and commercial)

THE DEVELOPMENT PROCESS



FINANCING STRUCTURE

- Some key parameters:
 - Approximately 50% market/50% affordable
 - “Checkerboarded” mix of residential units types across income levels
 - Retail component (18,000 sq ft in Phase 1A/1B)
- The master lease structure:
 - Project Owner entity leases a subset of units to LIHTC Owner entity
 - All project loans run through the Project Owner
 - Subordination and Nondisturbance Agreement provided by perm lender IHDA protects LIHTC Owner lease in event of a foreclosure caused by the market or commercial components

PARTNERING

- Three public agencies with unique, key roles:
 - Chicago Housing Authority
 - City of Chicago
 - Illinois Housing Development Authority
- Private financing partners selection considerations
 - Experience with City of Chicago/CHA/IHDA
 - Comfort with master lease structure
 - Perspective on neighborhood housing and retail market
 - Financial competitiveness of terms
 - Non-financial terms

SOURCES AND USES: PHASE 1A/1B

	Phase 1A (4%)	Phase 1B (9%)	Total
Uses			
Acquisition	\$ 99	\$ 99	\$ 198
Site Work	\$ 5,778,847	\$ -	\$ 5,778,847
Construction	\$ 30,589,796	\$ 29,485,413	\$ 60,075,209
Soft Costs	\$ 4,645,560	\$ 4,492,099	\$ 9,137,659
Financing Costs	\$ 4,722,057	\$ 3,343,013	\$ 8,065,071
Reserves	\$ 3,583,508	\$ 2,428,838	\$ 6,012,346
Developer Fee Paid	\$ 2,805,784	\$ 1,868,653	\$ 4,674,437
Developer Fee Deferred	\$ 1,382,349	\$ 622,884	\$ 2,005,233
Total Uses	\$ 53,508,000	\$ 42,241,000	\$ 95,749,000

	Phase 1A (4%)	Phase 1B (9%)	Total
Sources			
IHDA First Mortgage	\$ 8,100,000	\$ 6,600,000	\$ 14,700,000
IAHTC (DTC)	\$ 2,299,909	\$ 1,340,000	\$ 3,639,909
CHA Capital Funds	\$ 10,849,285	\$ 10,390,000	\$ 21,239,285
TIF	\$ 12,750,000	\$ 4,250,000	\$ 17,000,000
City of Chicago HOME	\$ 2,340,435	\$ 2,257,305	\$ 4,597,740
IHDA Trust Fund	\$ 4,762,234	\$ -	\$ 4,762,234
Donation from US Bank	\$ 10,000	\$ 10,000	\$ 20,000
Accrued Soft Interest	\$ 547,514	\$ 492,811	\$ 1,040,325
Deferred Dev Fee	\$ 1,382,349	\$ 622,884	\$ 2,005,233
Fed LIHTC	\$ 8,665,407	\$ 15,226,477	\$ 23,891,884
Mezzanine Financing	\$ 1,800,000	\$ 1,050,000	\$ 2,850,000
GP Contribution	\$ 867	\$ 1,523	\$ 2,390
Total Sources	\$ 53,508,000	\$ 42,241,000	\$ 95,749,000

THE PRODUCT



THE PRODUCT



Getting Started: Legal Issues

Term Sheets

- / Price and capital contributions
- / Deferred developer fee
- / Guarantees
- / Reserves
- / Right of First Refusal/Option

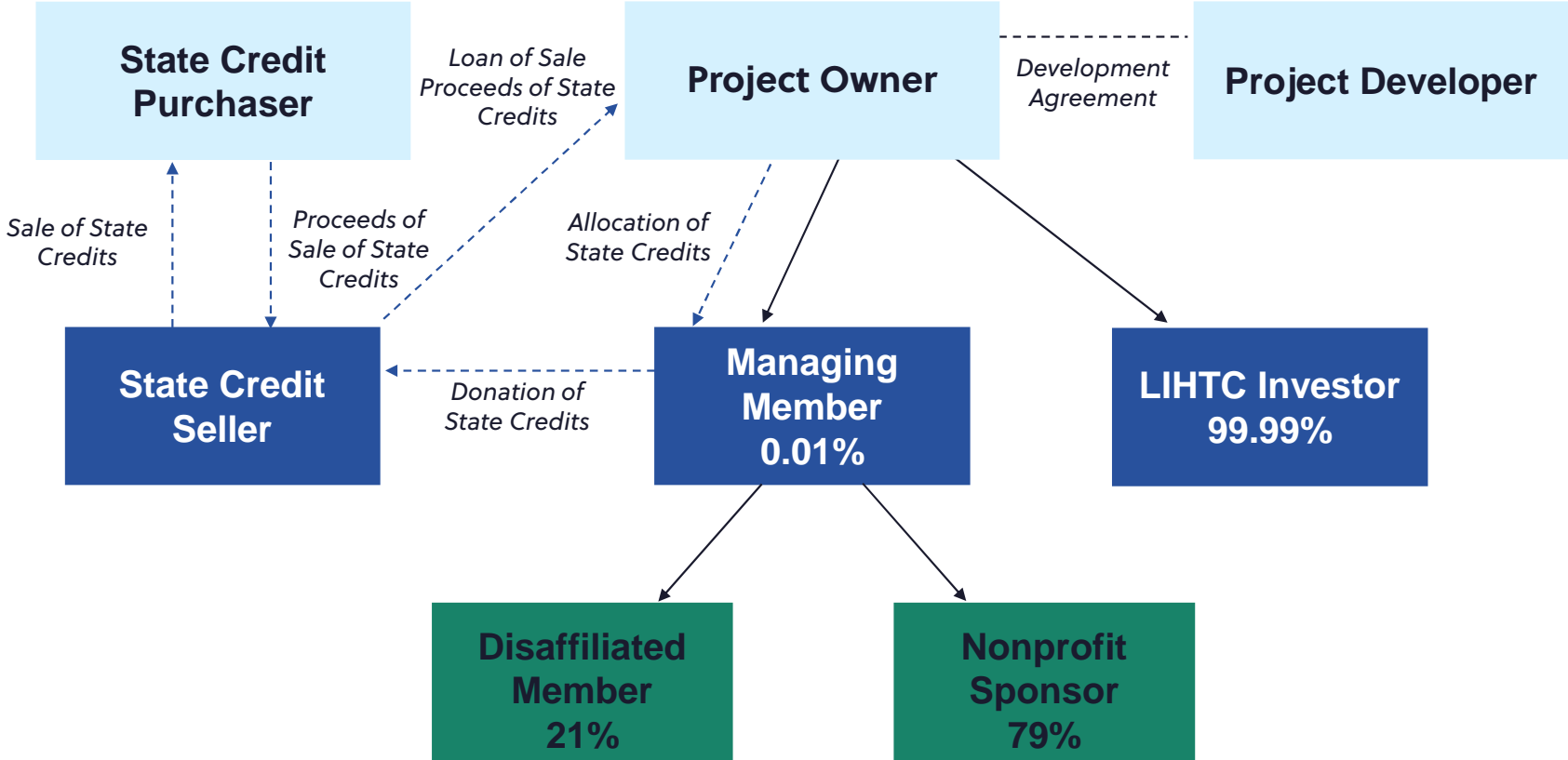
Title/Survey

- / Chain of title
- / Restrictive covenants
- / Existing debt/subordination issues

Deal Structure

- / How do sources impact structuring?

Organizational chart



Questions?



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Thank you!

