

March 13-14, 2025 | InterContinental, Boston MA

Opportunities in Year 15

IPED's Learn the Basics: Housing Tax Credits 101



Our Speakers

Opportunities in Year 15



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Moderator



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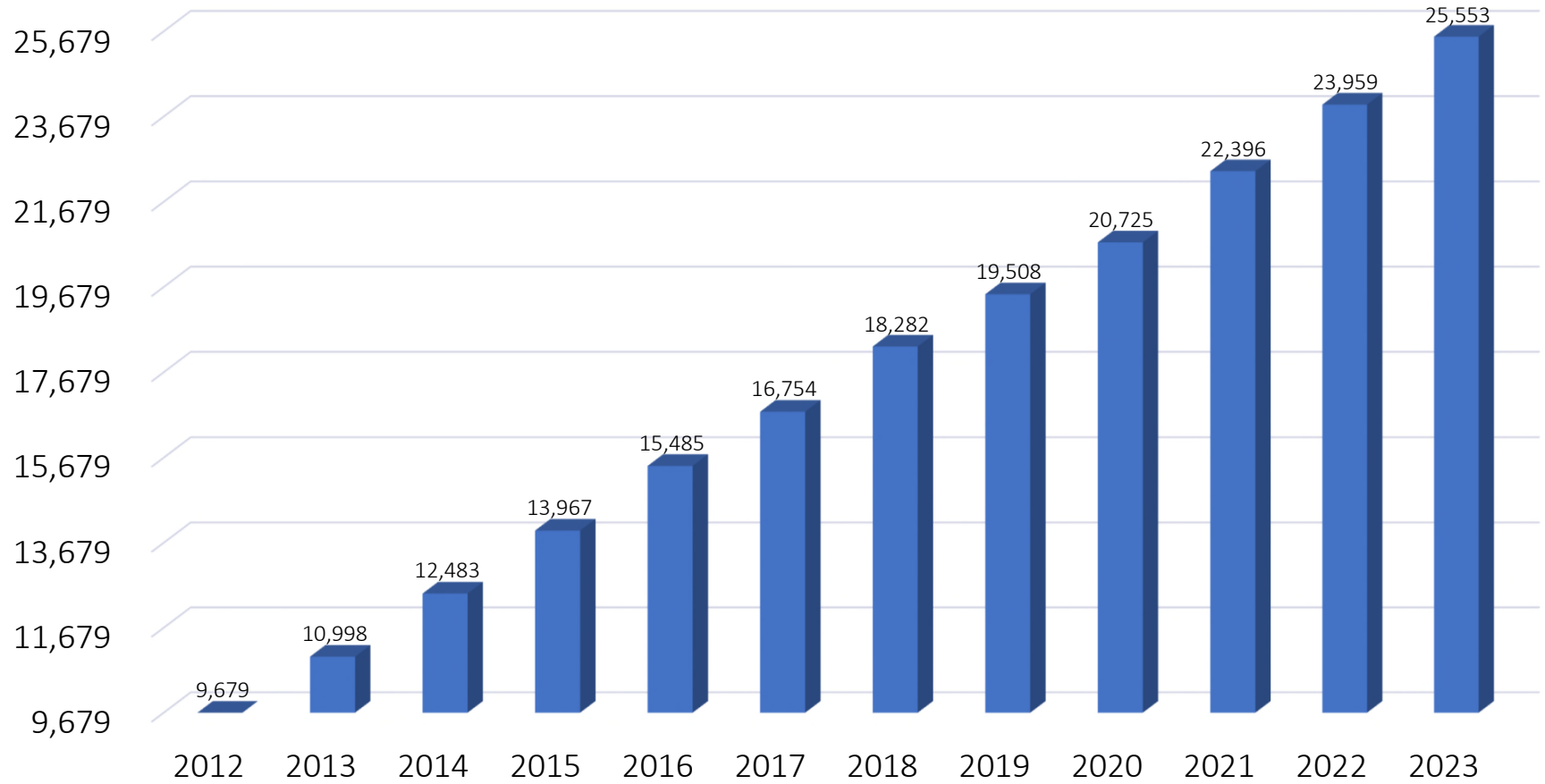


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Number of properties beyond 10-year credit period



Key Questions

Transactions

- / What are the Year 15 provisions and how do they work
- / Common perspectives of today's buyers and sellers?
- / Financing strategies and sources being used?
- / Can deals get done before Year 15





STEVENSON

“What’s your exit strategy?”

Typical Year 15 Transactions

- / GP buys LP interest
- / Refinancing
- / Sale

- / Recapitalization with new round of tax credits or other financing
- / Qualified Contract Process

- / Recapture Guarantee
- / Put and Call

Financing Strategies and Sources

Markets Change:

2021

- / Low interest rates high values = refi opportunities to buy out partners.
- / Markets flooded with low-cost LIHTC friendly equity and debt for recapitalization.
- / Result: many options for Y-15 refi, recapitalization, property or Pship sale or LIHTC recycle.
- / Bronx property; NOI \$1.47M Value @3.5 cap = \$42M @70% LTV = \$29.4M loan rate 3.07%

2025

- / High interest rates = few refi opportunities to cash in Property equity for partners.
- / LIHTC pricing has not kept up w increased debt and construction costs. GAP funding needed. 4% deals don't work well w/o soft funds.
- / Previous exit strategies such as Bridge Loan to FHA perm don't work now.
- / More soft debt to close LIHTC deals means Less equity to owners in Y-15.
- / Bronx property; NOI \$1.47M Value @ 5.0 cap = \$29.4M @70% LTV = \$20.6m loan rate 6.75%

3rd Party Property Buyers...Market Changing

2021

- / Affordable and market rate buyers bullish on high occupancy and rent growth.
- / LIHTC Developers looking to build a pipeline of properties for future LIHTC syndications.
- / Private equity partnerships or individuals like leveraged returns with 3% 30-year loans.
- / CRA-motivated buyers for LIHTC equity.
- / San Antonio year 15 LIHTC deals sold for sub 4 cap.

2025

- / Cap rates are up, property prices down, Transaction volume significantly slower.
- / Lender standards tightening LTV down, Fewer Interest only loan options.
- / Buyers much more conservative in underwriting.
- / Bridge loans, Interest Only and high leverage loans are starting to default.
- / Some LIHTC developers/owners lack liquidity. Sales of GP interests to raise cash.
- / San Antonio deals now pricing at 6 cap.

3rd Party Buyer Perspectives

Third-party buyer incentives:

- / Cash on cash yield expectations higher.
- / REPLACEMENT cost is a huge incentive for buyers. New construction/development costs up significantly, therefore older properties have a competitive cost advantage.
- / Plans to improve revenue through renovation and repositioning, Now more conservative underwriting. (a discipline enforced by lenders and investors).
- / Expense growth not 3%, Labor up, insurance cost increases is an unknown. \$2,000 PU?
- / Buyers rarely anticipating an immediate Qualified Contract Price or market rate conversion.
- / However, strong market interest in 30-year expiring LIHTC use properties for 3year conversion to market. Good for LIHTC property market liquidity but bad for long term affordable housing stock.

GP and LP Perspectives

Existing GPs—buying the LP's interest:

- / Maintain existing cash distribution and fees
- / Benefit from LP's losses
- / Resyndication opportunity

LP wants a timely exit after Year 15:

- / LIHTC benefits have been delivered
- / Tax losses of limited value
- / No recapture risk (post YR15)
- / Investors are keenly aware of residual value
- / Market sale best determinant of value

Steps to Achieve a Successful Exit

GP and LP Must Know the deal and the facts:

/ Start the process early and communicate often; understand the goals of your partner

- Surprises = Delays

/ Understand:

Maturing Debt, Lockouts, and Prepayment Penalties, Unpaid Development Fees.

The LURA, restrictions and obligations (30 years of tenant services?)

Soft debt and grants terms and conditions (due on sale?)

Future political impacts, e.g. 20 year expiring PILOT RE tax abatement to be extended?

HAP contract to be extended?, City or State green or carbon mandates (NYC)

The availability of 4% LIHTC or resources to rehabilitate 15-30 year-old properties.

The relevant property markets and capital markets

Steps to Achieve a Successful Exit

GP and LP Perspectives

- ✓ CRITICAL... understand the Partnership Agreement and all Amendments esp. Options
- ✓ The BOV VS appraisal as a valuation tool
- / Tax Consequences for both parties –Capital Accounts – Impact on Splits vs. Partnership Agreement Waterfall. When is the Waterfall not a Waterfall? Upon dissolution..
- / Documents...Words matter...Read each one.
 - The \$32M (a) in the Right of First Refusal
 - The \$860K word ‘First’ in the waterfall language
 - When is the GP disposition fee earned?

Value of LIHTC Property at (or near) Year 15

Internal Property Valuation

Problems – GP & LP value may be substantially different

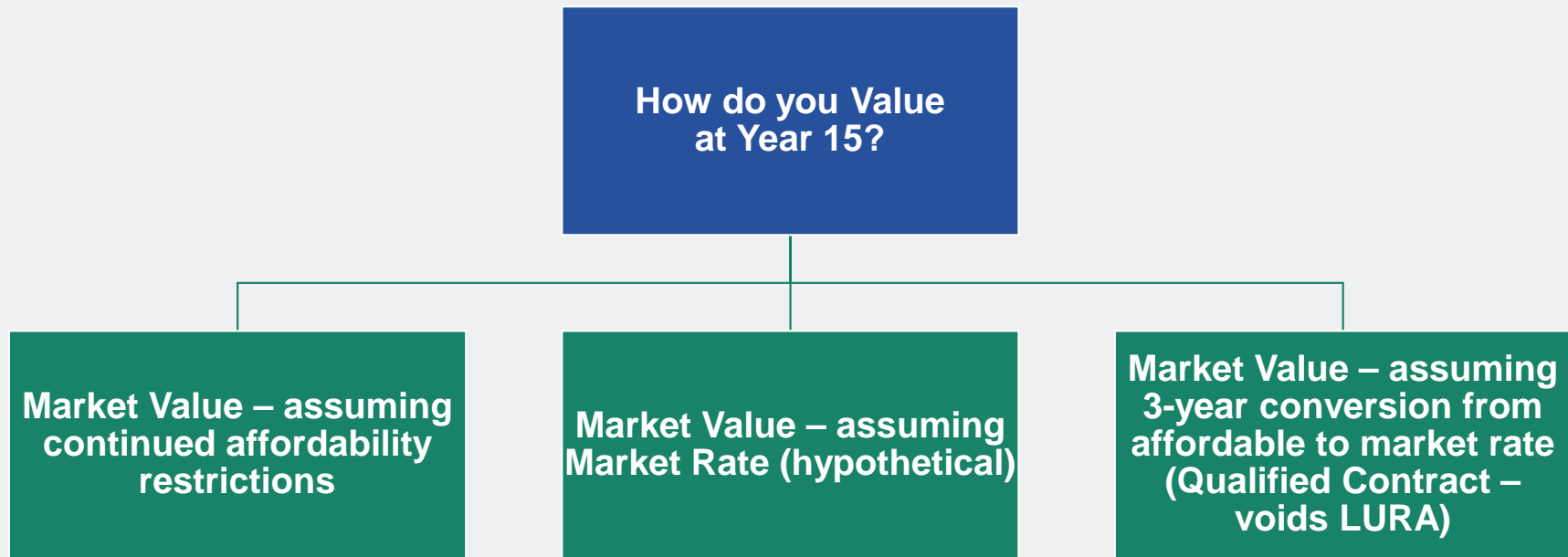
Many partnership agreements require an independent appraisal

Market Value – Underlying Real Estate Asset First

More supportable for legal proceedings

Unbiased third party opinion of value, subject to the scope of work

Value of LIHTC Property at (or near) Year 15



Issues to Consider

Abatement or
PILOT termination.

Impact of
reassessment
on sale.

Cash flow
restrictions
per regulatory
Agreement.

Changing liability
insurance
requirements.

Immediate
repairs/capital
needs.

What scenario is
being valued per
scope of work,
investment value
vs. Fair Market
Value, (restricted vs
unrestricted?

Mark up or down
to market of HAP
Contract.

New potential
sources of income
(wireless/offline
commercial, etc). Is
nonprofit operator
holding rents below
market?

What are we fighting for ... Distributions

LIHTC Commons Apartments			
Valuation and Waterfall Analysis		LP Value	GP Value/appr
	NOI	\$164,000	\$72,000
Property Value		\$2,900,000	\$1,318,050
Less transaction costs:			
Broker fee (assume sale to 3rd party) 2.5%		-\$72,500	-\$32,951
Estimated legal and closing		-\$50,000	-\$50,000
Sale proceeds.		\$2,777,500	\$1,235,099
Balance Sheet Assets and Liabilities. (2023 AFS)			
Add cash, reserves escrows		\$407,210	\$407,210
Less current operating liabilities		-\$131,627	-\$131,627
First mortgage HMFA		-\$212,131	-\$212,131
Second: HDC County		-\$1,000,000	-\$1,000,000
MM incentive Management Fee due		-\$33,088	-\$33,088
MM Disposition Fee 6% gross no offset for 3rd party broker			-\$79,083
Distributable Cash		\$1,807,864	\$186,380
Residual sale proceeds to be split % waterfall			
Investor Member: Corporate Tax Credit Fund XLIV LP (99.08)	9.99%	\$178,979	\$18,452
Special Member: SLP Corporate Services, Inc. (0.01)	.01%	\$1,808	\$186
Managing Member: LIHTC Commons Manager LLC . (0.01)	90.00%	\$1,627,078	\$167,742
TOTAL DISTRIBUTIONS			
Investor Member: Corporate Tax Credit Fund XLIV LP (99.08)	9.99%	\$178,979	\$18,452
Special Member: SLP Corporate Services, INC (0.01)	.01%	\$1,808	\$186
Managing Member: LIHTC Commons Manager LLC (0.01)	90.00%	\$1,660,166	\$279,913
Total estimated distributions		\$1,840,952	\$298,551



Other Key Yr. 15 Market Observations

- / Residual value varies greatly
- / What about no value deals?
- / Transactions are all complex and different
- / Multiple approvals often necessary
- / Tax implications further complicate transactions



Questions?



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Thank you!

