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June 21, 2018

Creative Approaches to Cost Control

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Costs of Developing LIHTC Transactions

- The AHTCC is a member of an affordable housing GAO working group, along with other partners in the ACTION Campaign like NCSHA. We are taking the lead on developing a communications strategy in response to the GAO report that will be tailored for the press, members of Congress (both affordable housing champions and skeptics), and other stakeholders.
- While we do not yet know what the GAO may find or recommend, we recognize that concerns about cost can jeopardize the future of any program, and are working to proactively identify any issues that may arise, develop data-backed responses, and brainstorm potential solutions.
- Many AHTCC members have cooperated with the GAO to provide qualitative and quantitative data, and have also provided data to the National Council of State Housing Agencies for their related research on development costs.

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- LIHTC Developers receive a development fee that is fixed and is capped by the respective state.

- This fee is typically not received until the property is stabilized and the permanent mortgage is converted. The fee is also utilized by the syndicators and investors as the ultimate contingency. If a property has cost over runs, then the developers cash fee is decreased to cover the additional costs. While market rate developers don't receive a development fee per se, they have the ability to sell the property at any time and receive the equity and any additional upside in the deal.

- Market rate developers have the flexibility to sell or refinance at any time.

Cash Flow

- LIHTC developers receive very limited cash flow from the property's operations due to the rent restrictions of the LIHTC program, and the typical structuring of soft debt in a LIHTC property.

- Market rate developers may receive unlimited cash flow from the operations of the property with no restrictions.

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Compliance Period

- LIHTC developers hold the property for a minimum of the compliance period (15 years) and LIHTC properties also have extended use periods that restrict rents for an additional 30 to 55 years.

- Market rate developers may sell the property at any time with no restrictions. Many market rate new developments are sold within 5 years at double digit return levels.

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Guarantees and Structural Mitigates

- Construction Completion
- Lease up
- Reserves
- Operating Deficits
- Tax Credit Delivery and Recapture
- Compliance
- Development fee guarantee

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Pre-Development Costs

- LIHTC Developers have significant pre development costs with no guarantee of an allocation. These costs include but are not limited to application fees, market study and environmental report costs and options to take down the land.

- Typical LIHTC transactions have a 2 year window prior to winning an award.

Post Development Costs

- Compliance monitoring – initial tenant file review and ongoing file maintenance and review.
- Legal – tax opinions and partnership structuring.
- Accounting – 10% test, cost certifications, bond tests.
- Financing - additional layers of financing

- Typical LIHTC transactions require significant upfront reserves and on going reserves for the duration of the compliance period. These reserves require cash, not typically needed in a market rate transaction. These include:
- Lease Up – typically 4 months of revenue
- Operating Deficit – 6 months of operating expenses, debt service and reserves
- Replacement – funded monthly on a per unit basis, typically $300 per unit per year.

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