

Housing Credit 101


The Development Process

Thomas Giblin
Partner
Nixon Peabody LLP
tgiblin@nixonpeabody.com

Patrick Sheridan
Executive Vice President, Housing
Volunteers of America
psheridan@voa.org

Terry Sween
Development Associate
Dominium
tsween@dominiuminc.com









THE DEVELOPMENT PROCESS

PANEL OVERVIEW

- Overview of development process: development timeline
- Placement in service and other key deadlines
- Working effectively with development partners and additional practical considerations
- New opportunities/challenges/trends
- Questions

National Council of
State Housing Authorities



THE DEVELOPMENT PROCESS	
Tax Credit Development Timeline	
June 2018	Read State QAP. Analyze Prior Winners, Meet With Staff.
June 2018	Pick Site, Plan Type of Project.
July 2018	Develop Cash Pro Forms and Construction Budget. Investigate Loan Availability and Interest Rates. Request Market Study.
October 2018	Option Land (With Conditions Regarding Zoning, Approvals).
October 2018	Apply for Soft Loans/Grants, if Necessary.
December 2018	Receive Soft Loan Commitment.
January 2019	Apply for Tax Credits.
March 2019	Receive Reservation of Tax Credits.

DOMINIUM Volunteers of America NP NCSHA National Council of State Housing Authorities

HOUSING CREDIT CONNECT

THE DEVELOPMENT PROCESS

Tax Credit Development Timeline

March 2019	Work on Site Plan/Zoning Approvals. Submit Loan Applications.
June 2019	Obtain Site Plan and Zoning Approvals.
June 2019	Purchase Land. Select Equity Investor and Execute Commitment Letter for Debt/Equity.
December 2019	Obtain Carryover Allocation (for 2019 Credits).
January 2020	Close on Equity Investment and Construction Loan. Begin Construction.
December 2020	Submit Cost Certification of 10% of Reasonably Expected Basis for Carryover Allocation (State Deadlines Vary But 1 Year Under Federal Rule).

HOUSING CREDIT CONNECT

THE DEVELOPMENT PROCESS

Tax Credit Development Timeline

October 2021	Place All Buildings in Service (Required by 12/31/21).
November 2021	Finish Construction. Begin Leasing.
January 2022	Start First Year of Credit Period. Continue Leasing. Submit Cost Certification for Forms 8609.
April 2022	Achieve Full Lease-up and Beginning of Break-Even Period.
August 2022	Close Permanent Loan, Obtain IRS Forms 8609 and Achieve Final Equity Contribution.

HOUSING CREDIT CONNECT THE DEVELOPMENT PROCESS

PLACEMENT IN SERVICE AND OTHER KEY DEADLINES

DOMINIUM Volunteers of America NP NCSHA National Council of State Housing Agencies

HOUSING CREDIT CONNECT THE DEVELOPMENT PROCESS

Federal Placement in Service Deadline

General Rule

- A Project Must Generally Be Placed in Service in the Year that the Housing Tax Credit Is Allocated by the State Tax Credit Agency

Carryover Exception





- A Project that Receives a Valid Carryover Allocation May Be Placed in Service No Later Than the End of the Second Calendar Year After the Year that a Carryover Allocation Is Made
- To Obtain Such an Extension, a Project Must Receive a Valid Carryover Allocation Agreement and Satisfy the “10% Test” in a Timely Manner

DOMINIUM Volunteers of America NP NCSHA National Council of State Housing Agencies

HOUSING CREDIT CONNECT THE DEVELOPMENT PROCESS

Requirements for a Valid Carryover Allocation





- The address of the building (or if none exists, a specific description of its location)
- The name, address and taxpayer identification number of the building owner
- The name and address of the state tax credit agency
- The taxpayer identification number of the state tax credit agency
- The date of the allocation
- The credit dollar amount allocated to the building
- The taxpayer's total reasonably expected basis in the project as of the close of the second calendar year after the allocation year
- The taxpayer's basis in the project at the close of the calendar year in which the allocation is made and the percentage that this amount bears to the total reasonably expected basis
- The date the building is expected to be placed in service
- The building identification number assigned to the building

    National Council of State Housing Authorities

HOUSING CREDIT CONNECT THE DEVELOPMENT PROCESS

Satisfying the 10% Test





- **Federal Rule:** 10% of the reasonably expected basis in the project (as of the close of the second calendar year) must be paid or incurred by the later of (i) the end of the calendar year for which the credit allocation is made, or (ii) twelve (12) months after the date of the carryover
- States may impose stricter standards as long as the terms do not violate the Federal credit rules
- 10% test is a “cliff” test

    National Council of State Housing Authorities

HOUSING CREDIT CONNECT THE DEVELOPMENT PROCESS

Defining “Reasonably Expected Basis” for 10% Test Purposes





- Reasonably expected basis means the adjusted basis of land and depreciable property (whether or not it is included in eligible basis)
- Eligible costs include building/construction costs, related personal property and land costs
- Basis attributable to non-residential rental property (i.e., commercial property/site improvements) may be includable in carryover allocation basis even though such property is not included in eligible basis
- Ineligible costs include permanent loan fees, reserves, syndication fees, partnership organizational costs and tax credit fees
- Costs may be incurred by taxpayer prior to the calendar year of the allocation
- QCT/DDA increases not included in 10% test calculations

    National Council of State Housing Authorities

HOUSING CREDIT CONNECT THE DEVELOPMENT PROCESS

Common 10% Test Expenditures

- Acquisition costs for land and buildings
- Construction costs (e.g., materials, permits, etc.)
- Development fee
- Fees for services (e.g., architect, contractor and engineer)
- Construction financing fees/construction period interest





    National Council of State Housing Authorities

HOUSING
CREDIT CONNECT

THE DEVELOPMENT PROCESS

Working Effectively With Development Partners

- Tax credit agency
- HUD
- Lenders
- Local municipalities
- Joint venture partners
- Partnering with nonprofits

National Council of State Housing Authorities

HOUSING
CREDIT CONNECT

THE DEVELOPMENT PROCESS

Case Studies

National Council of State Housing Authorities

HOUSING CREDIT CONNECT
THE DEVELOPMENT PROCESS

Meadows at Montbello

- New 86 unit LIHTC service enriched senior project in the Montbello neighborhood of Denver completed in 2017.
- Located on 3.2 acres of land directly adjacent to Montbello Manor, a 79 unit HUD Section 202 also owned and managed by Volunteers of America.
- The unit mix includes 67 one-bedroom units and 19 two-bedroom units at 30%, 50% and 60% AMI as well as 35 Project Based Vouchers provided by Denver Housing Authority.
- Common area amenities include a business and computer center, a fitness room, a library/craft room, TV/movie lounge, roof deck, and a community room to host a variety of programs and activities for residents. A service coordinator provides on-site and referral services to residents.
- The outdoor space offers resident garden plots, generous landscaping and seating areas, and a perimeter fence and trail around both properties; Meadows and Manor.
- The physical linking of a 10 year old HUD 202 project with a new LIHTC project posed a unique challenge.
- VOA had to go through the HUD "Partial Release of Security" process to release the 3.2 acres of vacant land to build the project. Through this process, VOA negotiated with HUD to take the value of the land and place it in a "Service Reserve" fund that could be used to fund services in both projects. The construction of Meadows has had the additional impact of increasing the adjacent value of the HUD 202 and quality of life for the associated residents.
- Other roadblocks included changes in the priorities of the HFA which had to repeatedly put our project on the backburner as it dealt with the results of severe flooding in Colorado.
- 5 CHFA LIHTC applications and 5 years to get the project funded and built. Started as 9% LIHTC. Ultimately became one of the first developments in Colorado to utilize a combined 4% and State Tax Credit execution.

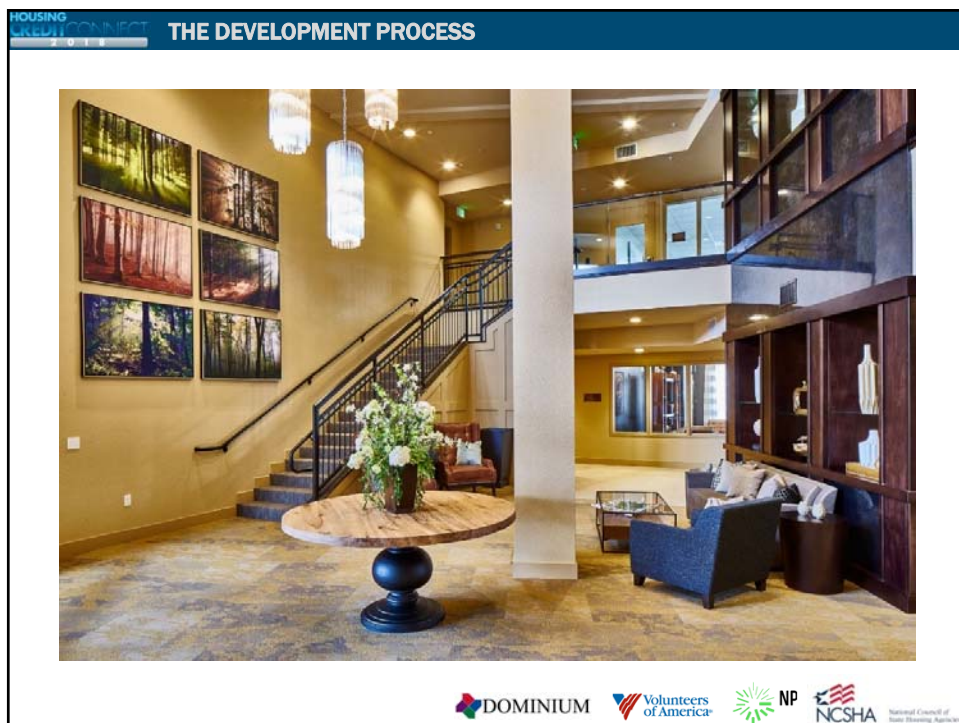
HOUSING CREDIT CONNECT
THE DEVELOPMENT PROCESS

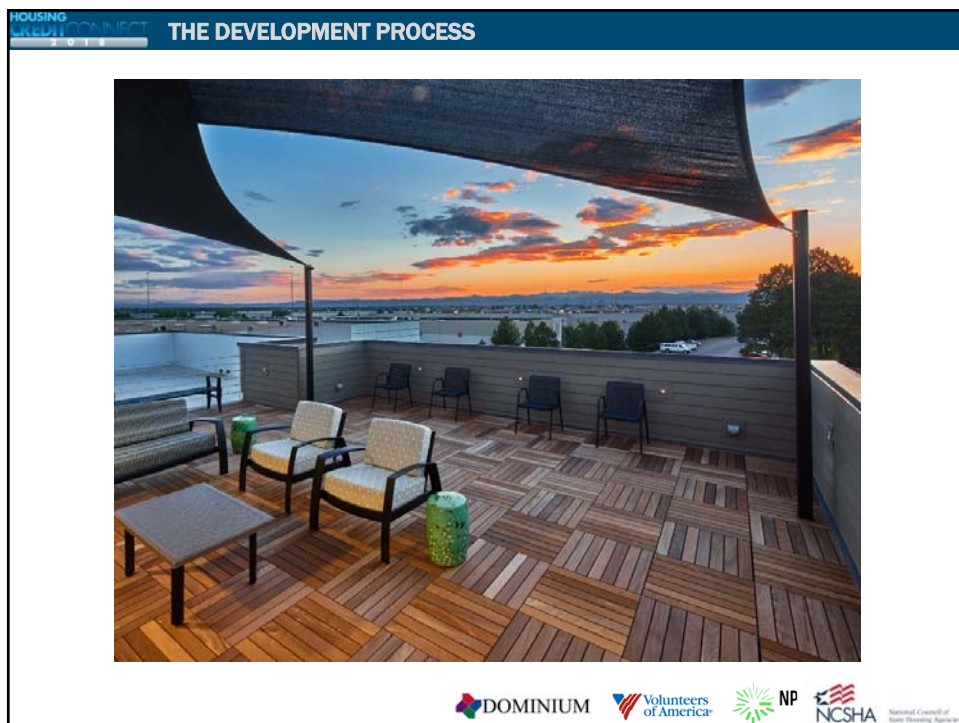
Meadows at Montbello

Sources and Uses Summary

SOURCES	
LIHTC Equity	\$7.5mm
State Tax Credit Equity	\$3.7mm
CHFA Bond Loan	\$5.1mm
FHLB AHP	\$740k
City General Funds	\$585k
State HOME Funds	\$585k
CHFA HOF Loan	\$250k
TOTAL SOURCES OF FUNDS:	\$18.5mm

USES	
Acquisition Costs	\$435k
New Construction Costs	\$13mm
Professional Fees & Other Soft Costs	\$1.2mm
Developer Fee	\$1.9mm
Construction Interim Costs	\$1.2mm
Permanent Financing Costs	\$311k
Tax Credit & Syndication Costs	\$61k
Start-Up Costs, Reserves & Escrows	\$481k
TOTAL USES OF FUNDS:	\$18.5mm










HOUSING CREDIT CONNECT
THE DEVELOPMENT PROCESS

Lonnie Adkins

- St. Paul, MN
- 79 units
- Section 42/Section 8
- Acquired and Renovated using 4% credits











National Council of State Housing Authorities

HOUSING CREDIT CONNECT
THE DEVELOPMENT PROCESS

Lonnie Adkins – S & U

Source of Funds		
	Total	Per Unit
1st Mortgage	\$4,180,000	\$157,342
Soft Funds - Only \$600k in new funds	2,320,000	29,367
Seller Financing	1,540,000	19,494
LIHTC Equity	<u>4,390,000</u>	<u>55,570</u>
Total	\$12,430,000	\$12,430,000

Uses of Funds		
	Total	Per Unit
Acquisition Costs	\$5,690,000	\$72,025
Construction Costs	3,550,000	44,937
Transactional Costs	2,160,000	27,342
Developer Fee	<u>1,030,000</u>	<u>13,038</u>
Total	\$12,430,000	\$157,342





National Council of State Housing Authorities

HOUSING CREDIT CONNECT THE DEVELOPMENT PROCESS

Renovations to Exterior



DOMINIUM Volunteers of America NP NCSHA National Council of State Housing Authorities

HOUSING CREDIT CONNECT THE DEVELOPMENT PROCESS

New Clubhouse & Play Structure



DOMINIUM Volunteers of America NP NCSHA National Council of State Housing Authorities

HOUSING CREDIT CONNECT THE DEVELOPMENT PROCESS

Clubhouse Amenities



DOMINIUM Volunteers of America NP NCSHA National Council of State Housing Authorities

HOUSING CREDIT CONNECT THE DEVELOPMENT PROCESS

Clubhouse Amenities



DOMINIUM Volunteers of America NP NCSHA National Council of State Housing Authorities

HOUSING CREDIT CONNECT THE DEVELOPMENT PROCESS

Common Area Renovations



DOMINIUM Volunteers of America NP NCSHA National Council of State Housing Authorities

HOUSING CREDIT CONNECT THE DEVELOPMENT PROCESS

Renovation of Units



DOMINIUM Volunteers of America NP NCSHA National Council of State Housing Authorities

HOUSING CREDIT CONNECT THE DEVELOPMENT PROCESS

Renovation of Units



DOMINIUM Volunteers of America NP NCSHA National Council of State Housing Agencies

HOUSING CREDIT CONNECT THE DEVELOPMENT PROCESS

Laundry Room – NEW!!



DOMINIUM Volunteers of America NP NCSHA National Council of State Housing Agencies

