TIPS on Entering the LIHTC/Affordable Housing Sector

Sean Kelly
Executive Vice President, LNWA Inc.

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The Low Income Housing Tax Credit Simplified

- Created under the Tax Reform Act of 1986
- Private sector incentive to invest in income restricted rental housing. $1 for $1 offset in federal tax liability
- Majority of all new construction/preservation of affordable housing
- Equity generated from 9% LIHTC is designed to finance 70% of total project costs vs. 20-30% equity typical with market rate housing. 4% LIHTC is a 30% Subsidy.

Lower debt service = Lower Rents = Affordable Housing!
9% “Competitive” credits are allocated to states based on a per capita formula that is adjusted annually.

- For Pennsylvania and Ohio, it is about $30M in annual credits.

Qualified Allocation Plan (QAP) provides structure for how each state allocates tax credits.

States are tasked with prioritizing/scoring competitive applications.

The LIHTC Simplified

9% Low-Income Housing Tax Credits
The TIPS Summarized

01. Education
NAHB Housing Credit Group, Novogradac

02. Build the Team EARLY
Co-developer, property management (Compliance)

03. Identify your State Selection Criteria in the QAP

04. Understand the “GAP” financing resources
CASE STUDY

Nationwide: $4 is requested for every $1 available. What wins??

Sellersville Senior Residences
- Bucks County, PA (1-hour NW of Philadelphia)
- 2019 award of 9% Low Income Housing Tax Credits
- Partnership between for profit developer/builder/manager and nonprofit sponsor
- 50 apartments for ages 55+
- 8 units for Behavioral Health priority
LIHTC Tips: Understand the QAP Selection Criteria

Community and Economic Impact (20%)

- High Owner-Occupied Market
- School Proficiency
- Local Revitalization Plan
- Walkability or Transit Oriented
LIHTC Tips: Understand the QAP Selection Criteria

Energy and the Environment (15%)

• Brownfield Redevelopment
• Adaptive Reuse
• Green Building Programs
  • NGBS, LEED or Enterprise
  • Advanced: US DOE Net Zero Ready, Enhanced HERS, Passive House
LIHTC Tips: Understand the QAP Selection Criteria

Resident Profile and Services (30%)

- Low Rent Targeting
- Supportive Service Package
- ADA and HVI
- Supportive Housing Set-Aside
LIHTC Tips: Understand the QAP Selection Criteria

Development Team Experience (30%)

• 10 or more previous developments
• Over 300 LIHTC units under active management (Compliance!)
• Experience of Legal Counsel, General Contractor and Architect
• MBE/WBE/VBE
• Ability to Proceed (Zoning)
LIHTC Tips: Understand the QAP Selection Criteria

Leveraging/Cost Savings (5%)

- Secondary Funding/Resources
  - Tax Abatements
  - Project Based Subsidy (HUD/USDA)
  - Soft Debt *
- Construction Cost Containment
  - Percentage below the mean
LIHTC Tips: “Gap” Financing Tools

- FHLB AHP Program
- HOME/CDBG
  - “Soft Financing”
- Trend spotting: Healthcare and Housing

Percentage of Capital Stack

1. PHFA Amortizing Mortgage 16.0%
2. 9% Tax Credit Equity 72.0%
3. FHLB AHP Soft Loan 2.8%
4. County HealthChoices Soft Loan 6.0%
5. Local Foundation Contribution 2.0%
6. Energy Rebates 0.2%
7. Deferred Developer Fee 1.0%

SEVEN SOURCES OF FUNDING! 100%
Recap

01. EDUCATE

02. BUILD AN EXPERT TEAM

03. LEARN THE QAP

04. FIND THE GAP FINANCING
New housing—tangible results
Nexus of policy, finance and design
Cutting edge product (modular, passive house)
Earn development fees
Opportunity for management fees
Opportunity for cash flow
Opportunity for Builder profit
Residual (ownership) benefits, now or in future
Mission and Reputation in the community
Thank you!

Contact: Sean Kelly
(302) 761-7313
skelly@lnwa.com
www.lnwa.com