Using the Low Income Housing Tax Credit

Presentation to the Alexandria Housing Affordability Advisory Committee
June 2, 2016
AHC’s mission is to produce and preserve affordable housing in the mid-Atlantic region, and to build strong futures for our residents through onsite educational programs.

AHC is a 501(c)(3), mission-driven, private sector, real estate development firm.
AHC History

- 40-year track record of developing complex projects from concept to lease-up
- Developed over 7,000 units of low- and moderate-income rental housing at more than 50 communities throughout the Washington region
- The AHC team includes in-house construction management, asset management, relocation services, resident services and property management
Financial Strength

AHC has a well-capitalized balance sheet and substantial liquidity

- $80 million annually recurring rental revenue
- Real estate portfolio with ‘book value’ of over $1 billion
- $10 million annual budget funded entirely from earned development fees and cash flows generated by its portfolio
AHC in Alexandria: Jackson Crossing
AHC in Alexandria: Saint James Plaza
LIHTC Investors

Low Income Housing Tax Credits are a dollar–for–dollar off–set of an investor’s federal tax liability

- LIHTC Investors
  - Profitable firms seeking to reduce their tax liability
  - Banks subject to the Community Reinvestment Act

- Investment approaches
  - Direct
  - Syndicators
  - Single investment
  - Fund
Investment Criteria

Investors typically evaluate three key elements of a project

- Project economics
- Real estate market fundamentals
- Financial strength of the developer
Beginning the Process

Developer issues Request for Proposals to obtain material terms from potential investors

- Credit pricing
- Equity pay-in schedule
- Required guarantees
- Cash flow distributions
The Path to Closing

- Legal documents
  - Letter of Intent / Limited Partnership Agreement
  - Loan documents

- Underwriting / financial projections
  - Revenues
  - Operating expenses

- Due diligence
  - Appraisal / Market study
  - Environmental assessment
Post-closing

LIHTC projects often extend over an nearly 20 year period including pre-development

- Construction oversight
- Lease-up / credit delivery
- 15-Year compliance period
- Limited Partner buy-out / resyndication
Current tax credit pricing exceeds $1.00 per credit dollar

- Investment represents 99.98% ownership of asset

- Tax credit investor is entitled to proportional share of:
  - LIHTC
  - Financial losses
## Computing the Equity Amount

<table>
<thead>
<tr>
<th>LIHTC Calculation</th>
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<tbody>
<tr>
<td>Total Project Cost</td>
<td>$18,478,283</td>
</tr>
<tr>
<td>Four or nine percent credit?</td>
<td>4.00%</td>
</tr>
<tr>
<td>Current credit rates as of:</td>
<td>May-07</td>
</tr>
<tr>
<td>Current credit rates as of:</td>
<td>3.47%</td>
</tr>
<tr>
<td>Depreciable (Eligible) Basis</td>
<td>$16,625,000</td>
</tr>
<tr>
<td>Low-Income Occupancy Percentage</td>
<td>100%</td>
</tr>
<tr>
<td>Qualified Basis</td>
<td>$16,625,000</td>
</tr>
<tr>
<td>Credit Percentage</td>
<td>3.47%</td>
</tr>
<tr>
<td>Calculated Annual Credit</td>
<td>576,888</td>
</tr>
<tr>
<td>Credits to Limited Partner @ 99.99%</td>
<td>$576,830</td>
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<tr>
<td>Equity Price</td>
<td>$0.9000</td>
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<tr>
<td><strong>Total Equity for Property</strong></td>
<td><strong>$ 5,191,468</strong></td>
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Putting the Pieces Together
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