

# 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

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- 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

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## **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

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# LIHTC Investors

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**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

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**Investors typically evaluate three key elements of a project**

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

# Beginning the Process

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**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

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- 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

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**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

# Credit Pricing

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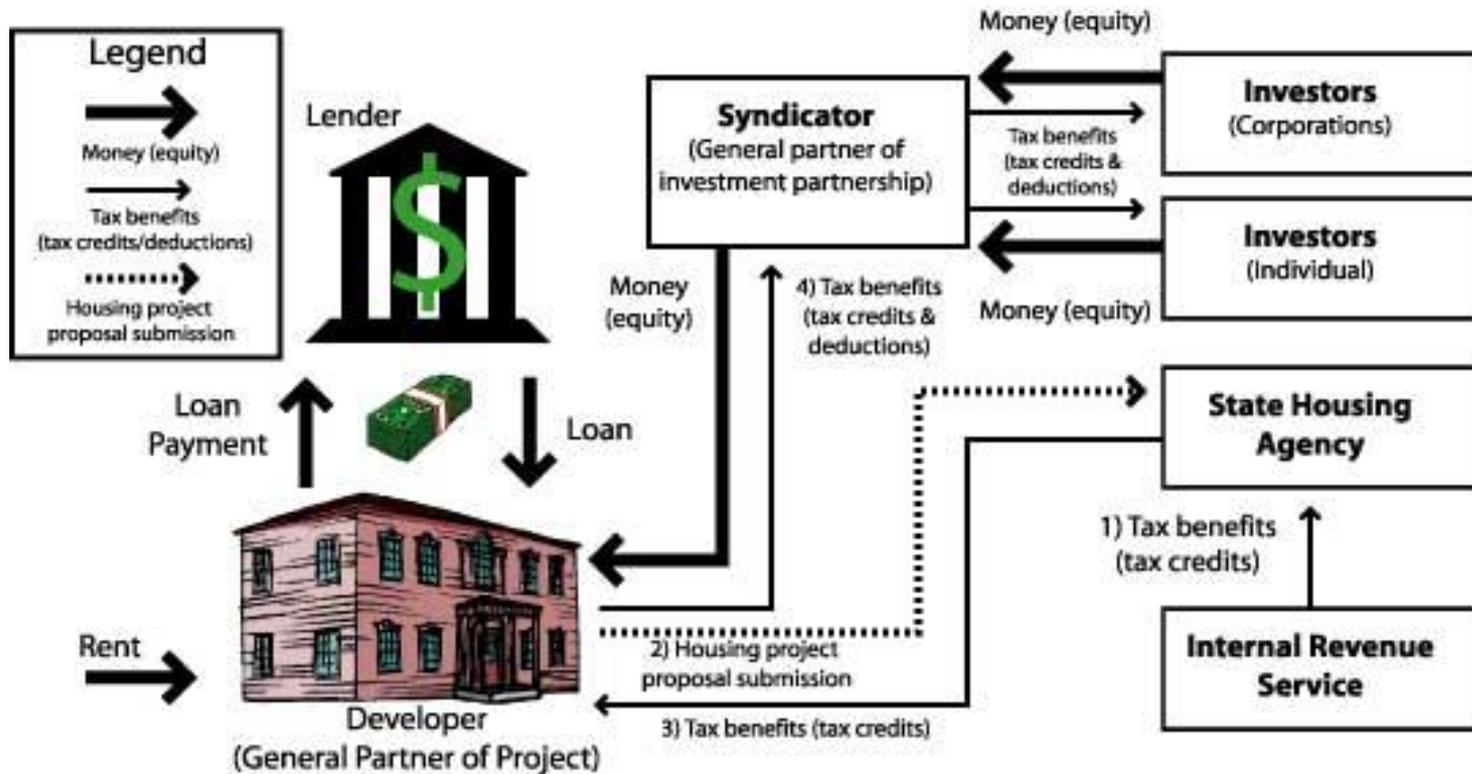
**Current tax credit pricing exceeds \$1.00 per credit dollar**

- Investment represents 99.98% ownership of asset
- Tax credit investor is entitled to proportional share of:
  - LIHTC
  - Financial losses

# Computing the Equity Amount

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

# Putting the Pieces Together



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