Texas Housing Conference

TWENTY NINETEEN

TEXAS AFFILIATION OF AFFORDABLE HOUSING PROVIDERS

BUILDING A BETTER TOMORROW

THE 9% HOUSING TAX CREDIT PROGRAM:

An Introduction

THE HOUSING TAX CREDIT PROGRAM

Moderator:

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Panelists:

- **Christine Richardson,** Locke Lord LLP
- **Andrew Smith,** CohnReznick LLP
- **David Saling,** JP Morgan Chase
- **Drew Foster,** RedStone Equity
- **Nathan Kelley,** Blazer Building Texas, LLC

WHAT TODAY'S SESSION WILL COVER

- **The Basics of the Housing Tax Credit Program**
  - **The Role of the Attorney**
  - **The Role of the Accountant**
  - **The Role of the Lender**
  - **The Role of the Investor**
- **The Art of the Deal: A 9% Case Study**
    - The Specifics of Developing with Tax Credits – an interactive exchange between a Developer, Lender and Investor

HISTORY OF THE TAX CREDIT PROGRAM

1986 Congress through the Tax Reform Act, enacted Section 42 of the Internal Revenue Code.

- ✓ Section 42 created the Low Income Housing Tax Credit (LIHTC) to provide incentives to the private sector to invest in affordable housing.
- ✓ Credit is a dollar-for-dollar tax reduction.
- ✓ Credit is based on the Cost of Construction or Rehabilitation
- ✓ The Tax Credit program is 32 years old and is the oldest (longest lived) supply side housing program. More than 2.5 million units have been built under this program.

1993 Congress made the LIHTC program permanent.

2005 TDHCA removed the words ‘Low Income’ from the program name. Now in Texas it is called the Housing Tax Credit (HTC) Program.

HISTORY, CONT.

2008 Congress enacted the Housing & Economic Recovery Act of 2008 (HERA) – with the most significant changes since 1986.

2009 Congress enacted American Reinvestment and Recovery Act of 2009 (ARRA) which created the Tax Credit Assistance Program (TCAP) & Tax Credit Exchange (Exchange) on a temporary basis.

2017 Tax Cuts & Jobs Act aka "Tax Reform" (December 2017): preserved housing tax credits & private activity bonds; created Opportunity Zones

2018 Omnibus Budget Bill (March 2018): 50% cap increase (over 4 years) in the 9% program and added income-averaging.

TWO TYPES OF TAX CREDITS: 9% & 4%

9% CREDIT (Competitive)

- Each State receives a per capita allocation, adjusted annually. In 2017, the amount was $2.40 per capita. In 2018, that jumped to $2.70 per capita thanks to the Omnibus Bill. Approximately $76,677,700 was available in 2018 for Texas.
  - In 2019, the per capita rate increased to $2.75625. When multiplied against the State population of 28,701,845, Texas will receive a credit allocation of $79,109,460.
- Allocated on a competitive basis
- 10 Year Credit (longer compliance period)
- New construction or substantial rehabilitation

TWO TYPES OF TAX CREDITS, CONT.

4% CREDIT

- 4% Credit is used in tandem w/Private Activity Bonds – you get the bond allocation and then apply for the tax credits from TDHCA.
- States have $105 per capita limit on ALL Private Activity Bonds, also called Volume Cap.
  - Texas receives annual volume cap of approximately $2.97 billion
  - Eligible Uses are many – from water resources to student loans to affordable housing
  - Approximately $654 million is reserved in Texas for multifamily housing bonds. In 2018, this created approximately 5,700 multifamily apartments.
- The 4% Credit is a 10 year Credit (Compliance is 30 years).

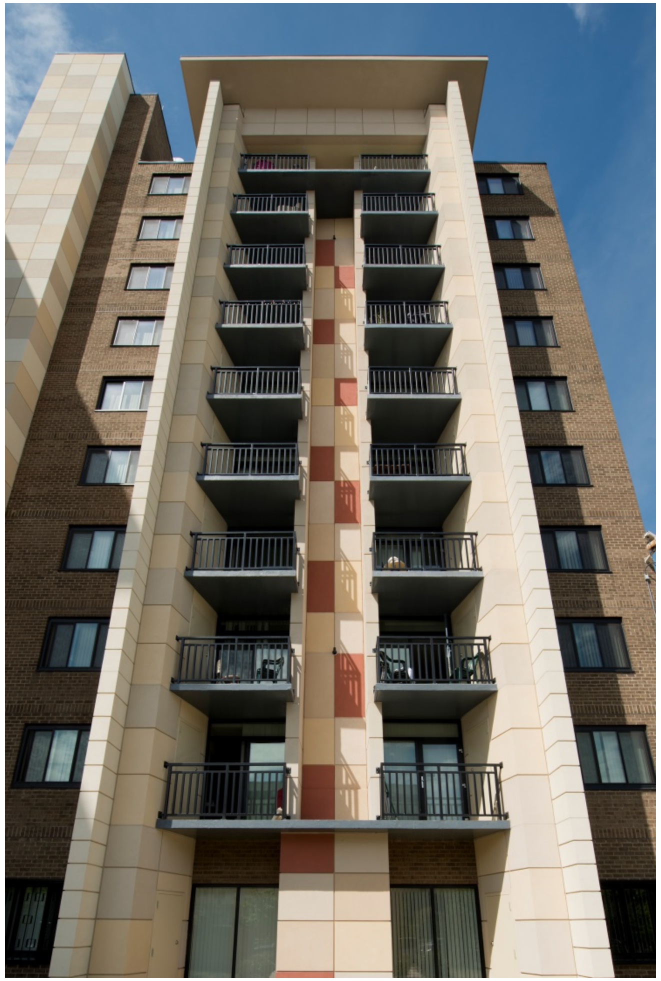
AFFORDABILITY REQUIREMENTS

- 40% of the units @ rents based on 60% Area Median Income (AMI), or
- 20% of the units @ rents based on 50% AMI
- Must keep project affordable for at least 30 years (some states may require longer). In Texas, extra points are awarded to 9% HTC developments for keeping the housing affordable for 40 years.
- Credits are only awarded on the units that meet the long term affordability test. Although Market Rate units are allowed, no tax credits are available for these units.
- NEW: With the new income averaging, a development can get tax credits on units with rents based on 80% AMI; however, the average throughout the development cannot be greater than 60%.

What Can Be Built?

Housing Types – can be multiple types (both new construction and rehab) but must meet the definition of "qualified residential rental property"

- ✓Multifamily Rental, e.g., family, workforce housing
- ✓Senior Rental (age 55+)
- ✓Single Room Occupancy (SROs) for Homeless



Who Can Live in a Tax Credit Community?

- Individuals or Families or Seniors or Persons with Disabilities with incomes at or below 80% of Area Median Income will soon be eligible to live in Tax Credit Housing – however, since there is no rent subsidy, they must be able to afford the rent. (Existing developments will continue to have 60% AMI restrictions.)
- *A resident with a voucher from a housing authority can live in Tax Credit Housing and pay 30% of their income for rent.*

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HOW IS A TAX CREDIT RENT CALCULATED?

Two Bedroom Rent assumes 3 person family (1.5 persons per bedroom)	
Imputed income at 60% of AMI:	$36,000
Multiplied by:	x30%
Maximum Annual Rent:	$10,800
Divided by (months):	÷12
Maximum Monthly Rent:	**$900***

**must include both rent and utilities – e.g., if the utility allowance on 2BR is $120. Max rent would be $780.*

WHAT ARE 9% CREDITS WORTH?

$17,500,000	Cost to develop
$15,000,000	"Eligible Basis" costs
X .09	Monthly credit percentage
$ 1,350,000	Annual Credit Allocation
X 10	Years
$13,500,000	10 Year Credit Allocation
X .92	Today's Credit Pricing
$12,420,000	Potential Purchase Price
X 99.99%	Investor Percentage
$12,295,800	**Investor Equity**

HOW DO YOU GET 9% TAX CREDITS IN TEXAS?

The Qualified Allocation Plan (QAP)

Every state is required to prepare a Qualified Allocation Plan (QAP) governing its Tax Credit Program.

- ✓ The QAP outlines the policy objectives and application processes. It has three elements: 1) Set-asides, 2) Threshold Requirements, and 3) Preferences (Scoring)
- ✓ In Texas, the administering agency for the Housing Tax Credit Program is the Texas Department of Housing and Community Affairs (TDHCA)
- ✓ In Texas, the State Legislature establishes certain parameters for the operation of the program, including major scoring criteria.

THE QAP, CONTINUED

- **Each year, TDHCA posts a draft QAP in early September for public comment.**
- **TDHCA implements the legislated requirements, both state and federal, as part of its QAP. QAP must be signed by the Governor no later than November 30.**
- **TDHCA accepts applications on an annual basis.**
- **Credits must be allocated by July 31 of each year.**
- **Each year's application may be different due to changes in the QAP.**

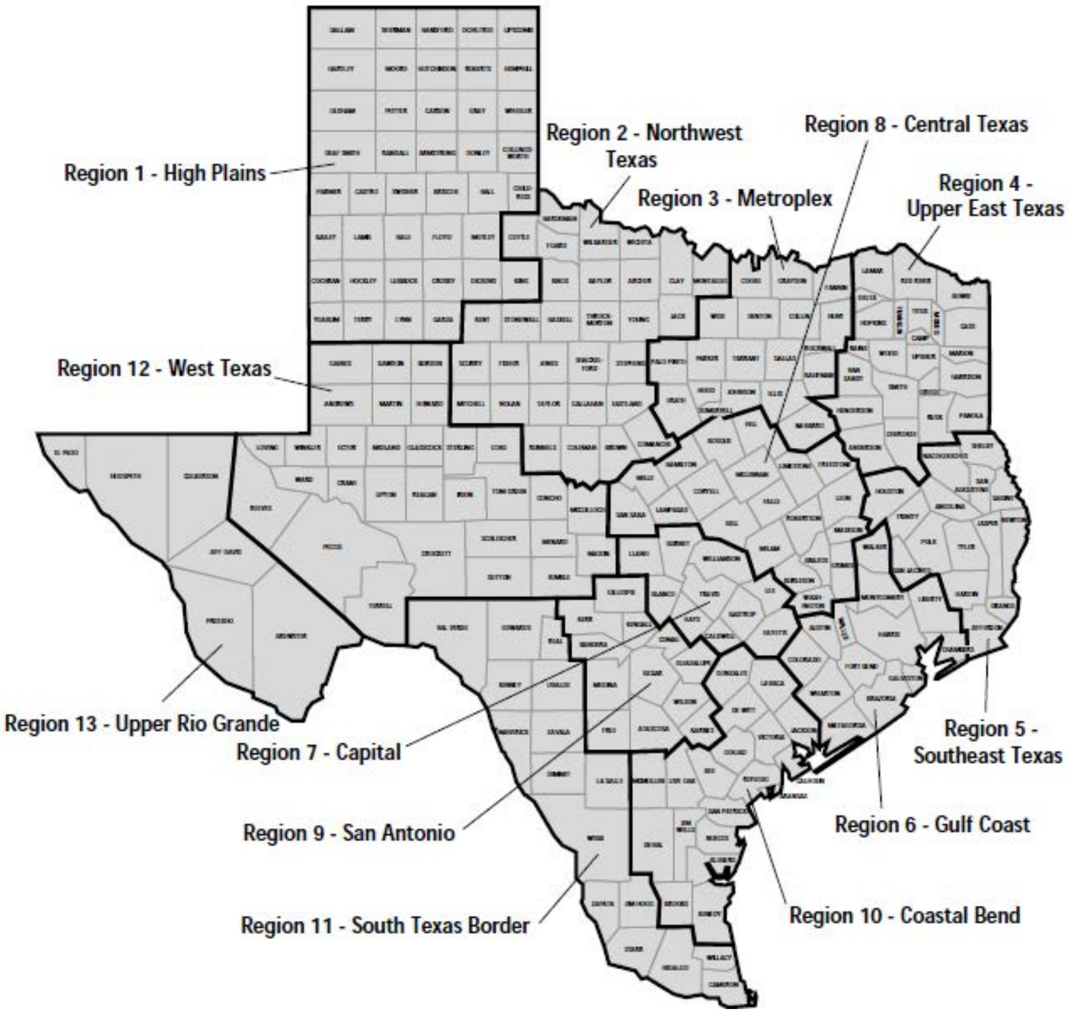
HOW ARE 9% CREDITS ALLOCATED STATEWIDE?

TDHCA prepares a formula for distribution, known as the Regional Allocation Formula (or RAF), to the 13 State Regions based on population, housing conditions and participation in other funding programs.

- **Allocation for each Region is split between Urban and Rural, referred to as sub-regions. An Applicant cannot apply for more than 150% of the amount available in the sub-region.**
- **Additionally, there are mandated set-asides:**
  - ✓ Nonprofit – 10% (Statewide) *
  - ✓ "At Risk" – 15% (Statewide) – of this, 1/3 is allocated for Rural Development (USDA financing). Eligible applications must have units "at risk" of being taken out of the affordable housing market.

****Not a true set-aside, as nonprofits compete in all categories, but if at final tally, there is not at least 10% of the allocation being awarded to NPs, TDHCA must move lower scoring developments up to satisfy this requirement.***

13 STATE REGIONS



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IS THE TAX CREDIT PROGRAM COMPETITIVE? YES!

- **2018: TDHCA received 362 Pre-Applications and 138 Applications, and made 73 awards. This equates to a 53% success rate (or 1 in 2) for full applications – or if you factor in pre-apps, a 20% survival rate!**

SCORING (ONLY APPLIES TO 9%)

The Texas Legislature has statutorily mandated the following scoring items in descending order:

- ✓ Financial Feasibility
- ✓ Local Government Support
- ✓ Income Level of Tenants
- ✓ Quality of Units
- ✓ Rent Levels
- ✓ Cost of Development per SF
- ✓ Tenant Services
- ✓ Declared Disaster Area
- ✓ Quantifiable Community Participation
- ✓ State Rep Support (w/2019 Statute modification)

SCORING, CONTINUED

The Legislature has also mandated lower scoring items of Leveraging and Local Funding Contributions (reduced in statute in 2015 from high scoring to low scoring).

TDHCA has the right to add additional scoring items as long as the points for these items do not exceed the "top ten". TDHCA typically gives points for:

- ✓ **High quality development such as unit sizes, amenities, and sponsor characteristics**
- ✓ **Serving those most in need including deeper targeting, siting developments in high opportunity areas, and serving special needs populations**
- ✓ **Promoting community support and engagement such as Community Revitalization Plan or support from local civic groups.**
- ✓ **Promoting the efficient use of resources and applicant accountability such as extending affordability, right of first refusal to nonprofit and tenant purchasers, and historic preservation**

THRESHOLD REQUIREMENTS: APPLY TO 9% & 4%

- **Project Size:** Minimum of 16 units. No greater than 80 units in a Rural Community. No other limitations.
- **Developer Experience:** Developer must meet minimum experience requirement, successful development of at least 150 units.
- **Architectural Design/Drawings:**
  - ✓Must meet minimum energy standards
  - ✓Comply with 504 accessibility guidelines
  - ✓Provide an amenity package (common area and units)
  - ✓Minimum unit sizes
- **Site Control, acceptable to TDHCA:**
  - ✓Mandatory Site features: Must meet minimum site standards.
  - ✓Site must not contain any negative site features (next to landfill, etc.) or be in an area with undesirable neighborhood characteristics (high poverty, high crime, inferior schools, etc.)

THRESHOLD, CONTINUED

- **Supportive Services:** Must agree to provide a minimum number of resident services.
- **Third Party Reports:** Market Study, Environmental Study, Appraisals for "identity of interest" transactions and Rehab, Property Condition Assessment (PCA) for Rehab
- **Preliminary commitments from lenders and investors**
- **Notifications to public officials**
- **Applicant must not have any unresolved compliance issues**
- **Maximum Credit Allocation:** $1.5M in credits for single project ($2M for At-Risk) and $3M cap per individual Applicant. Limit applies only to 9% developments.

THE ROLE OF THE ATTORNEY

Structuring a Tax Credit Deal: Legal Issues and Considerations

OWNERSHIP STRUCTURE

- The housing development is owned by a limited partnership (LP) or limited liability company (LLC).

- Must be a pass-through for federal income tax purposes.

OWNERSHIP STRUCTURE

HOUSING DEVELOPMENT

Owner Entity, LP

or

Owner Entity, LLC

General Partner (for LP)

Managing Member (for LLC)

.01%

Investor Limited Partner (for LP)

Investor Member (for LLC)

99.99%*

*An affiliate of the investor will often act as a special limited partner/ member for administrative oversight and protection of the investor's rights.

OWNERSHIP STRUCTURE:
GENERAL PARTNER/MANAGING MEMBER

- In an LP, the ***general partner*** is the controlling party and is responsible for the construction and operation of the housing development.
- In an LLC, the ***managing member*** is the functional equivalent of the general partner.
- General Partner/Managing Member is often structured as an LLC (but can have another form, such as a corporation, etc.)
- The general partner or managing member is typically an affiliate of the developer/guarantor.
- Compensation is usually structured as fees or distributions paid from cash flow.

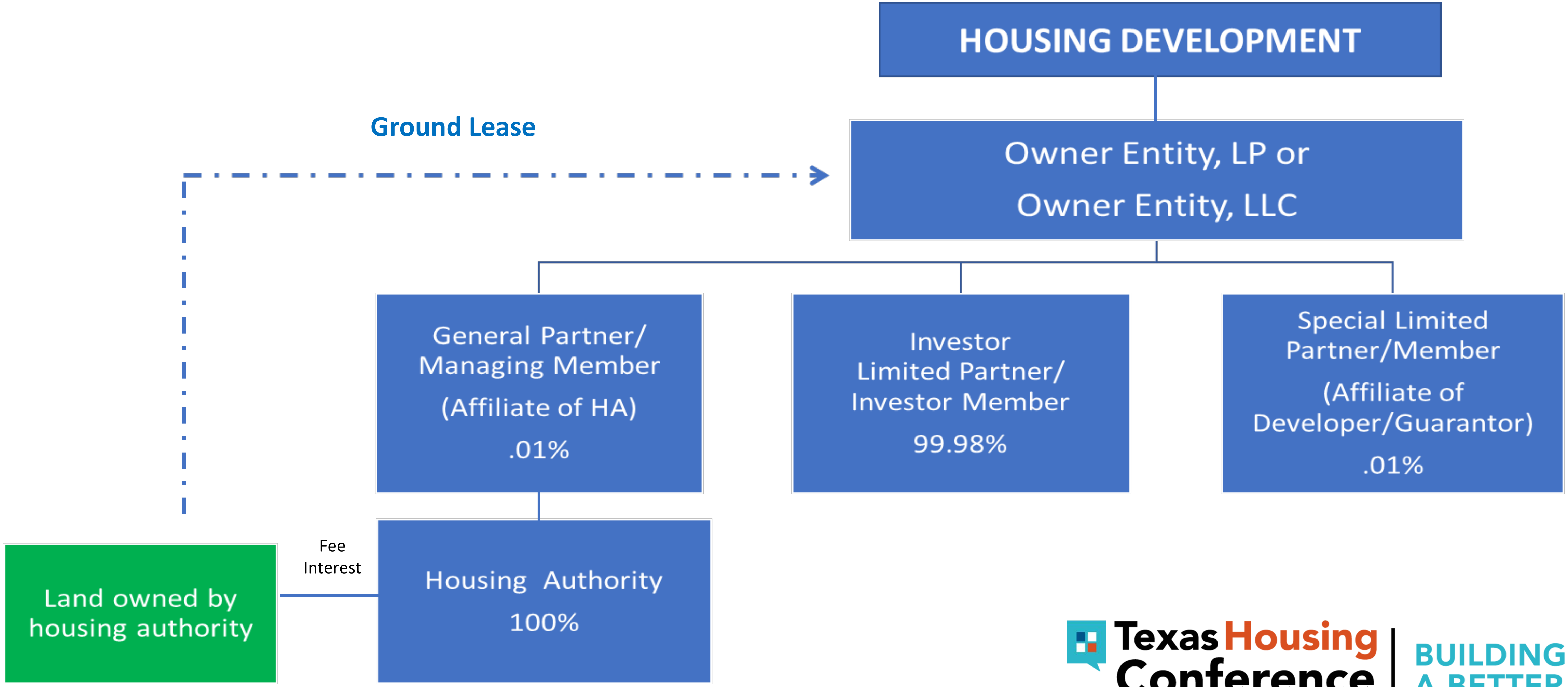
OWNERSHIP STRUCTURE:
INVESTOR LIMITED PARTNER/INVESTOR MEMBER

- Investor limited partner in an LP; investor member in an LLC.
- Purchases the tax credits by making capital contributions to the Owner.
- Has consent rights over major decisions in order to protect its investment.
- Typically receives an asset management fee as compensation for its oversight activities.

OWNERSHIP STRUCTURE – GROUND LEASE

- Used in transactions with housing authorities in order to obtain a property tax exemption.
- Same LP or LLC ownership structure, with key differences:
  - The housing authority has legal title to the land and ground leases it to the LP/LLC owner
  - LP/LLC owner develops, owns, and operates the project.
  - Typically includes a special limited partner or member that is an affiliate of the developer/guarantor.

OWNERSHIP STRUCTURE – GROUND LEASE



DEVELOPER

- Responsible for coordinating all aspects of a tax credit deal from inception through stabilized operations.
- Receives a developer fee (typically limited to 15% of eligible basis).
- Often an affiliate of the general partner/managing member (but not always).
- Also responsible for guaranties, either directly or through affiliates.
- Multiple developers can be structured as co-developers or through a fee sharing arrangement.

LEGAL CONSIDERATIONS IN THE LIFE OF A TAX CREDIT DEAL

Site selection → Tax Credit application → Selection of financing partners → Equity/debt closing → TDHCA compliance → Permanent loan closing → Property disposition/Year 15

LEGAL CONSIDERATIONS IN THE LIFE OF A TAX CREDIT DEAL, CONT.

- Site selection
  - Review/negotiation of purchase contract
  - Title review
- Tax Credit application
  - QAP/Rules issues
  - Appeals
  - Deal structuring considerations
- Selection of financing partners
  - Review equity/debt term sheets
- Equity/debt closing
  - Review/negotiation of financing documents
  - Due diligence
  - Legal opinions

LEGAL CONSIDERATIONS IN THE LIFE OF A TAX CREDIT DEAL, CONT.

- TDHCA compliance
  - Required submissions (10% test; cost certification, etc.)
  - Compliance matters
- Permanent loan closing
  - See equity/debt closing
- Property disposition/Year 15
  - Structuring considerations
  - Review/negotiation of documents
  - TDHCA change of ownership
  - LURA amendments

ROLE OF ACCOUNTANT

- **Trusted Advisor**
- Financial Projections analysis
- Deal Structuring
- Tax Planning
- Exit Strategy
- Keeping up with changes in the industry (Federal and State Level)

ROLE OF ACCOUNTANT, CONT.

- Compliance
- Audits/Tax Returns
- 10% Test Report (9% deals)
- Cost Certification
- Bond Specific Reports (50% test, 95/5 test, arbitrage calculation)
- Project Specific Requirements (cost segregation, lease testing, credit adjuster, DSCR report, qualified contract pricing) of AMI.

10% TEST – WHAT IS IT? (9% DEALS ONLY)

- A 10% Test supports **Basis Incurred** in a project. Basis incurred must be at least 10% of the **Reasonably Expected Basis** of the project on a specific date.
  - ✓ **Basis Incurred:** Total costs incurred to date which represents a project's depreciable basis plus land.
  - ✓ **Reasonably Expected Basis:** A project's depreciable basis plus land costs. This amount is generally stipulated by the Owner as part of the Carryover Allocation.

** Note: 10% tests are only for 9% competitive credits*

THE 10% CALCULATION

$$10\% \geq \frac{\text{Basis Incurred (land + depreciable basis)}}{\text{Reasonably Expected Basis (total expected land + depreciable basis)}}$$

50% TEST – WHAT IS IT (4% DEALS)

The 50% test is calculated by dividing the Bond Proceeds by the Aggregate Basis of the Project. For these purposes:

- **Bond Proceeds:** Include only the amount of bonds used to finance the acquisition, hard construction and soft costs of the project. Generally this will equal the mortgage amount. Bond Proceeds do include interest earned on the bonds or bond reserve funds.

- **Aggregate Basis:** Includes the Project's depreciable basis and land costs.

** Note: 50% Test are only for 4% Bond Deals (credits noncompetitive)*

THE 50% TEST: TAX EXEMPT BONDS (4% DEALS)

$$50\% \geq \frac{\text{Bond Proceeds}}{\text{Aggregate Basis (total expected land + depreciable basis)}}$$

WHAT HAPPENS IF A 50% TEST FAILS?

If the Project does not meet the 50% Test the Project is limited to 4% credits on the amount of eligible basis times the final ratio. *This has a severe impact on the available credits!*

Example:

Volume Cap Bonds	10,000,000
Aggregate Basis	20,100,000
50% Test Ratio	49.7512%
Land in Aggregate Basis	2,000,000
Eligible Basis	18,100,000
Eligible under 50% Test	49.7512%
Final Eligible Basis	**9,004,975**

COST CERTIFICATION

- CPA's audit of project costs. Required by Housing Credit Agency (HCA) to certify eligibility for low income housing credits.
- Each HCA has specific information required to be included. Typically required:
  - ✓ Schedules of total and eligible costs by project and building.
  - ✓ Calculation of credits.
  - ✓ Sources and uses of funds.
  - ✓ Gap analysis.
  - ✓ Project Proformas.
- Upon acceptance from the HCA, the Agency issues Form 8609

ELIGIBLE BASIS

- Eligible Basis = adjusted basis of building at end of 1^{st} year credit period
- Includes common areas
- 30% Boost in QCTs or DDAs
  - ✓ Projects located in HUD-designated Qualified Census Tracts or Difficult to Develop Areas receive a 30% increase on eligible basis.

ELIGIBLE BASIS, CONT.

- Costs that **ARE** included:

  - ✓ Building acquisition
  - ✓ Engineering and architecture
  - ✓ Appraisals
  - ✓ Construction costs
  - ✓ Furniture, Fixtures & Equipment
  - ✓ Impact fees/permits
  - ✓ Inspections
  - ✓ Depreciable land improvement
  - ✓ Developer fee (subject to Agency limits)
  - ✓ Interest during production

ELIGIBLE BASIS, CONT.

- Costs that **ARE NOT** included:

  - ✓ Land
  - ✓ Permanent loan fees
  - ✓ Marketing and lease-up costs
  - ✓ Tax credit fees
  - ✓ Reserves
  - ✓ Syndication fees
  - ✓ Commercial or income-producing space

ELIGIBLE BASIS, CONT.

- Costs that **MIGHT BE** included:
  - ✓ Tenant relocation
  - ✓ Accounting
  - ✓ Legal
  - ✓ Acquisition Interest
  - ✓ Construction loan fees
  - ✓ Real estate taxes
  - ✓ Environmental

CREDIT ADJUSTER

- Occurs when project does not meet negotiated credit delivery amounts
- Spelled out in the partnership/operating agreements
- Generally will reduce LP final equity payment
- Typically there are two types of adjuster calculations (Permanent and Timing)

PERMANENT ADJUSTER

- Occurs when there is a change in eligible basis or tax credit percentage.
- Can be adjusted upward or downward depending on the LPA.
- A small variance in basis allocated over the life of the credits can mean a large variance between actual and expected contributions made by the investor.

Federal Tax Credit Downward Basis Adjuster:	
Projected Aggregate Federal Tax Credits	750,000
Actual Federal Tax Credits	700,000
Variance	50,000
Adjusted for 10 years	500,000
LP ownership %	99.99%
Net Variance to LP	499,950
Downward Basis Adjustment Factor	0.90
Permanent Credit Adjuster	449,955

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TIMING ADJUSTER

Federal Tax Credit Downward Timing Adjuster:		
	Projected	Adjusted
Total Estimated Credits to investor in first year	750,000	700,000
Actual credits delivered in first year	350,000	350,000
Variance		(350,000)
Timing Adjuster Fraction		0.6500
Downward Timing Adjuster		(227,500)

THE ROLE OF THE LENDER

Tax Credit developments need both a construction loan and a permanent mortgage.

- The term of the construction loan will depend on the construction time period.
- The permanent mortgage will generally have an 18 year term and a 30 or 35 year amortization.
- These lenders may be the same entity or different entities.

CONSTRUCTION/PERMANENT LENDER

- Underwriting and initial assessment
  - Borrower financial statements and track record
    - Liquidity and net worth
    - Experience-number of units developed/types of projects developed
  - Borrower proforma
    - Rents and Utility Allowance
    - Market rate rents vs. tax credit rents
      - Do market rate unit rents represent a discount to achievable market rate rents?
    - Operating expenses
    - Construction costs
  - Borrower market study/appraisal
    - CAP rate and rationale
    - Absorption and capture rates for each unit type

CONSTRUCTION/PERMANENT LENDER, CONT.

- Review Environmental Reports
  - Does the report provide for no further action items
  - Does the report provide for further action items/additional reports
    - If environmental action items are identified:
      - Can these items be remediated prior to construction start
      - Will these items be remediated during the construction process
      - If environmental items are identified does the budget provided address remediation does the construction budget include remediation costs and are these costs reasonable to remediate the identified items
      - Follow up reports upon completion of environmental remediation

CONSTRUCTION LENDER (ONLY)

Must Approve General Contractor

- Financial Statements
- Work in Progress
- Experience
- Payment and Performance Bonding
- AIA contract to be utilized
  - Stipulated Sum
  - Cost Plus
  - Retainage

PERMANENT LENDER (ONLY)

Determines How Much Debt Can Be Generated by Rental Income

Variables

- Unit Mix (1, 2, 3 & 4 BR units)
- Income Targeting – Number of units at 30% and 50% rents?
- Expenses (utilities & taxes on the rise)
- Interest Rate charged by Lender and Term of Loan (standard is 18 year term, 30 year amortization)
- Debt Service Coverage (DSC) Requirement: 1.15 – 1.20
- Loan to Value (LTV)Max: 85%
- Debt Yield (NOI/Perm Mortgage Amount X 100)

THE ROLE OF THE INVESTOR

Limited Partner Role

- Take 99.98% interest in the partnership in return for equal percentage of tax credits and other tax benefits (losses/depreciation)
- Passive Partner/Investor – typically looking for tax benefits and basic projected return where cash flow and operational upside goes to the General Partners
- Investments made through multi-investor syndicated funds or single-investor "proprietary" funds – pros and cons to both structures

WHAT DO THE INVESTOR/GP NEGOTIATE?

- Price for Tax Credits
- Pay-in Schedule
- Early and Late Delivery “Adjustors”
- Schedule for Developer Fee payments
- Cash Flow Waterfall (including distributions to LP and GP)
- Reserves – what kind, how much, and how long
- Guaranties – by whom and caps on amounts
- Management Fees
- Asset Management Fees to Investor
- Terms of exit at end of Compliance Period

WHAT DETERMINES HOW MUCH AN INVESTOR WILL PAY?

- **Strength of Developer & General Partner**
  - Financial strength (deep pockets)
  - Experience on similar projects
- **Location of Development**
  - Bank needs CRA Credit
  - Strong market for proposed housing type/population served
  - Major metropolitan areas are favored today
- **New Construction vs Rehab**
- **Timing of capital contributions**
  - Aggressive pay-in = Lower $$
  - Time is Money

THE ART OF THE 9% DEAL: A CASE STUDY

Starring

Nathan Kelley, Blazer Building Texas

BLAZER

A 9% Housing Tax Credit Mixed-Income Apartment Community
Houston, Texas

9% Housing Tax Credit

Mixed-Income Apartment Community

BLAZER

Development Considerations:

- Planning/ Zoning/ Annexations
- Site Design
- Market – Competition & Barriers to Entry
- Neighboring Land Uses
- Utility Adequacy & Locations
- Environmental – Pipelines, Existing Land Use, Noise & Hazardous Materials
- Flood Risk

9% Housing Tax Credit

Mixed-Income Apartment Community

BLAZER

Units: 150
Location: Houston
Design: 3-story, elevator-served, interior corridor design
Acreage: 7.0849
Buildings: 6
Cost: $22.3 million

Unit Mix:

One Bedroom	95	63%
Two Bedroom	55	37%
Total	150	

Affordability Mix:

30% of AMI	11	7.3%
50% of AMI	44	29.3%
60% of AMI	55	36.7%
Market	40	26.7%
Total	150	

9% Housing Tax Credit

Mixed-Income Apartment Community

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- LIHTC Units reserved for families whose income is at or below 60% of area median income (AMI)
- Income threshold is determined by number of household members
- Rent payments are capped at 30% of income limit for each apartment
- Rent for different floor plans factored based on household size

INCOME LIMITS

2019 Area Median Income: $76,300

AMFI %	Number of Household Members 1	2	3	4	5	6	7	8
20	$ 10,700	$ 12,220	$ 13,740	$ 15,260	$ 16,500	$ 17,720	$ 18,940	$ 20,160
30	$ 16,050	$ 18,330	$ 20,610	$ 22,890	$ 24,750	$ 26,580	$ 28,410	$ 30,240
40	$ 21,400	$ 24,440	$ 27,480	$ 30,520	$ 33,000	$ 35,440	$ 37,880	$ 40,320
50	$ 26,750	$ 30,550	$ 34,350	$ 38,150	$ 41,250	$ 44,300	$ 47,350	$ 50,400
60	$ 32,100	$ 36,660	$ 41,220	$ 45,780	$ 49,500	$ 53,160	$ 56,820	$ 60,480
70	$ 37,450	$ 42,770	$ 48,090	$ 53,410	$ 57,750	$ 62,020	$ 66,290	$ 70,560
80	$ 42,800	$ 48,880	$ 54,960	$ 61,040	$ 66,000	$ 70,880	$ 75,760	$ 80,640

RENT LIMITS

AMFI %	Number of Bedrooms 0	1	2	3	4	5
20	$267	$286	$343	$397	$412	$488
30	$401	$429	$515	$595	$664	$733
40	$535	$573	$687	$794	$886	$977
50	$668	$716	$858	$992	$1,107	$1,221
60	$802	$859	$1,030	$1,191	$1,329	$1,466
65						
70	$936	$1,002	$1,202	$1,389	$1,443	$1,710
80	$1,070	$1,146	$1,374	$1,588	$1,772	$1,955

9% Housing Tax Credit

Mixed-Income Apartment Community

BLAZER

UNIT MIX

Floorplan	AMI Restriction	# of Units	Sq. Ft.	Gross Rent	Utility Allow.	Net Rent	Lender Net Rent
1-Bed	30%	7	748	429	(71)	358	358
	50%	28	748	716	(71)	645	645
	60%	36	748	859	(71)	788	788
	Market	24	748	1,166	0	1,166	933
2-Bed	30%	4	986	515	(92)	423	423
	50%	16	986	858	(92)	766	766
	60%	19	986	1,030	(92)	938	938
	Market	16	986	1,411	0	1,411	1,129
Total		150	835	933	(58)	875	808

- Rents & Expenses generally adjusted during lender/investor underwriting
- Adjustments can cause need for alternative sources of funding with lower costs of capital; i.e. soft or gap financing

INCOME	Borrower's Underwriting	Per Unit	Lender's Underwriting	Per Unit
Potential Gross Rental Income	$ 1,575,108	$ 10,501	$ 1,453,776	$ 9,692
Secondary Income	54,000	360	36,000	240
POTENTIAL GROSS INCOME	$ 1,629,108	$ 10,861	$ 1,489,776	$ 9,932
Vacancy & Collection Loss (6.5%)	(105,892)	(706)	(96,835)	(646)
Rent Concessions (1.0%)	(16,291)	(109)	(14,898)	(99)
EFFECTIVE GROSS INCOME	$ 1,506,924	$ 10,046	$ 1,378,042	$ 9,187
EXPENSES				
General & Administrative	$ 52,500	$ 350	$ 52,500	$ 350
Management Fee @ 5.0%	75,346	502	68,902	459
Payroll & Employee Benefits	210,000	1,400	225,000	1,500
Repairs & Maintenance	88,200	588	88,200	588
Electric & Gas Utilities	39,380	263	39,380	263
Water, Sewer & Trash Utilities	91,500	610	91,500	610
Property Insurance Premiums	48,750	325	52,500	350
Property Tax	152,400	1,016	152,400	1,016
Reserve for Replacements	37,500	250	45,000	300
Other Expenses	14,400	96	14,400	96
TOTAL OPERATING EXPENSE	$ 809,976	$ 5,400	$ 829,782	$ 5,532
NET OPERATING INCOME	$ 696,948	$ 4,646	$ 548,260	$ 3,655
DEBT SERVICE				
1st Lien Loan Payment:	$ 504,197	$ 3,361	$ 391,774	$ 2,612
2nd Lien Loan Payment:	0	0	63,685	425
NET CASH FLOW	$ 192,751	$ 1,285	$ 92,801	$ 619
Debt Coverage Ratio	1.38		1.20	

9% Housing Tax Credit

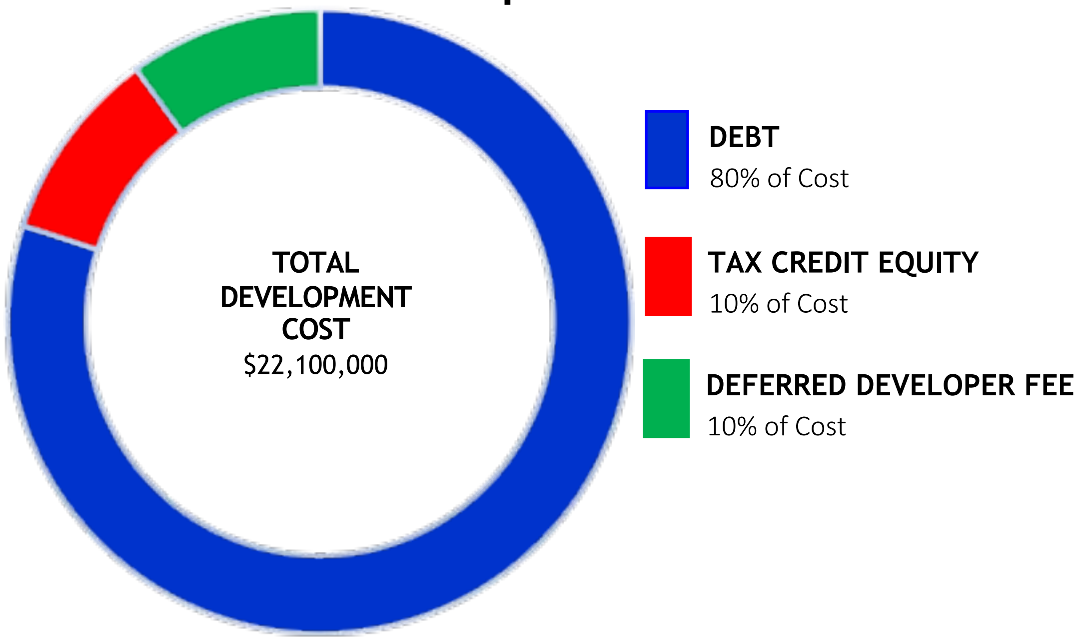
Mixed-Income Apartment Community

BLAZER

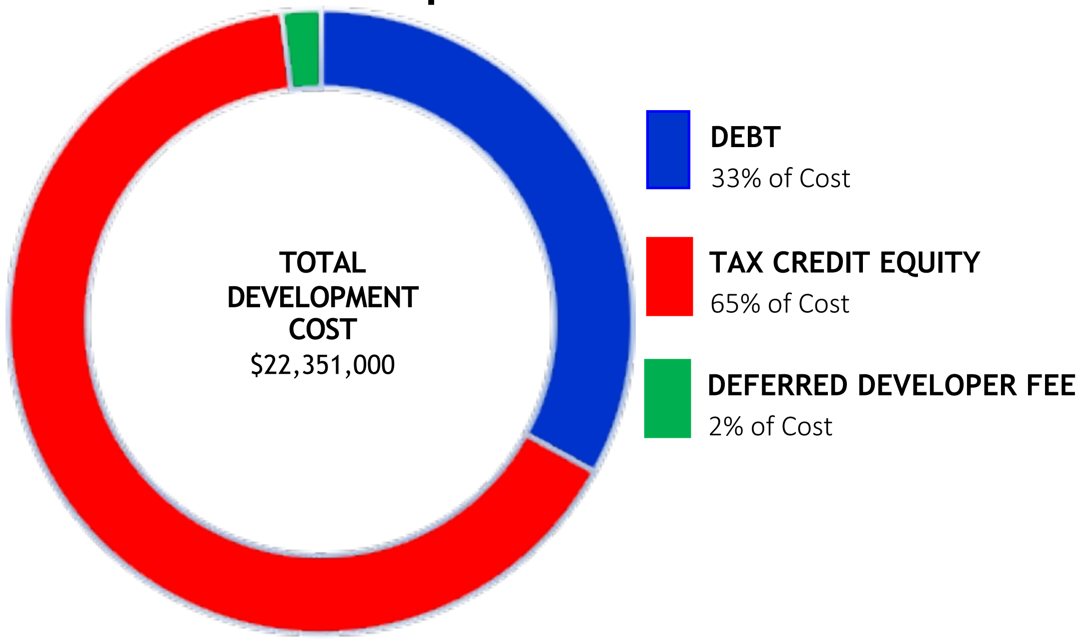
Sources of Funds

	CONSTRUCTION	BORROWER UW PERMANENT	LENDER UW PERMANENT
Conventional Loan	$ 17,912,243	$ 7,400,000	$ 5,750,000
Housing Tax Credit Syndication Proceeds	$ 2,176,657	$ 14,511,049	$ 14,511,049
Soft / Gap Financing	$ -	$ -	$ 1,650,000
Deferred Developer Fee	$ 2,011,100	$ 439,951	$ 439,951
Total	$ 22,100,000	$ 22,351,000	$ 22,351,000

Construction Period Capital Stack



Permanent Period Capital Stack



9% Housing Tax Credit

Mixed-Income Apartment Community

BLAZER

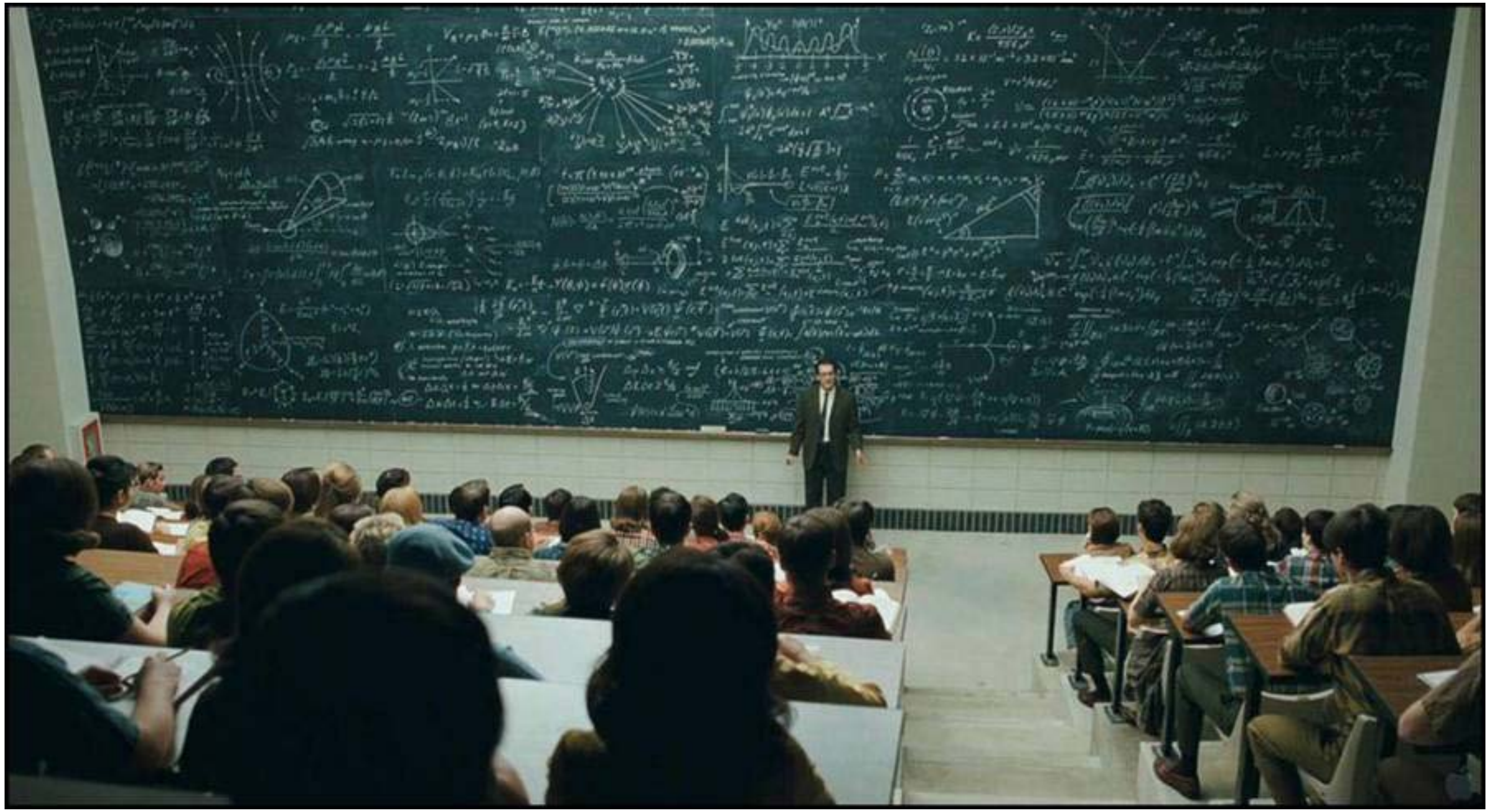
Uses of Funds

	CONSTRUCTION	PERMANENT
Land Acquisition	$ 3,419,800	$ 3,419,800
Direct Construction Costs	$ 14,159,490	$ 14,159,490
Design, Permitting & Other Soft Costs	$ 1,015,211	$ 1,015,211
Financing Costs	$ 1,075,499	$ 1,075,499
Developer's Fees	$ 2,366,000	$ 2,366,000
Reserves	$ 64,000	$ 315,000
Total	$ 22,100,000	$ 22,351,000

Cost Considerations

- Estimates can vary significantly between application and construction loan closing
- Suburban vs. Urban Designs Options
- Land Cost Drivers
- Interest & Cash Flow During Construction
- Reserve Requirements

And thus, dear students, we have arrived at the formula for understanding the housing tax credit program . . .



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