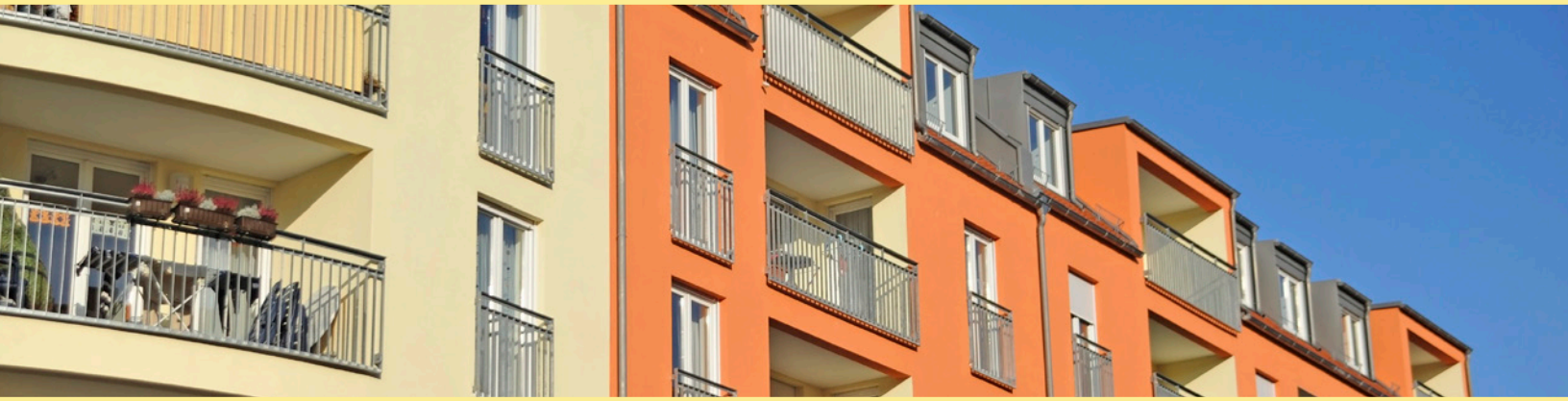

WHAT HAPPENS TO LOW–INCOME HOUSING TAX CREDIT PROPERTIES AT YEAR 15 AND BEYOND?

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WHAT HAPPENS TO LOW–INCOME HOUSING TAX CREDIT PROPERTIES AT YEAR 15 AND BEYOND?

Prepared for
U.S. Department of Housing
and Urban Development
Washington, D.C.

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DISCLAIMER

The contents of this report are the views of the authors and do not necessarily reflect the views or policies of the U.S. Department of Housing and Urban Development or the U.S. Government.

ABSTRACT

The Low-Income Housing Tax Credit (LIHTC) program has been a significant source of new multifamily housing for a quarter century, producing more than 2 million units of affordable rental housing since 1987. In recent years, LIHTCs have provided funding for approximately one-third of all new multifamily housing units built in the United States. In the past few years, however, thousands of properties financed through LIHTC have become eligible to leave the program, ending rent and income-use restrictions. In the worst-case scenario, more than 1 million LIHTC units could leave the stock of affordable housing by 2020, a potentially serious setback to the goal of expanding housing choices for low-income households.

In addition to exploring the issue of whether owners of older LIHTC properties continue to provide affordable housing for low-income renters, this study examines the factors that affect those owners' decisions to leave the LIHTC program and the implications of these departures for the rental housing market. Based on interviews with owners, with tax credit syndicators and brokers, and with direct investors, the study describes the issues and decisions that LIHTC property owners confront as their tax-credit projects reach the 15-year mark. The information from interviews was analyzed in conjunction with tabulations from the U.S. Department of Housing and Urban Development National LIHTC Database and used to describe what happens to LIHTC properties as they reach the end of their tax-credit compliance period.

The results demonstrate that most LIHTC properties remain affordable despite having reached and passed the 15-year period of compliance with Internal Revenue Service use restrictions. A limited number of exceptions are closely related to the characteristics of the local housing market, as well as to events that occur at Year 15 and beyond. Some LIHTC properties will be recapitalized with new tax credits. Others will be repositioned as market-rate units, especially if they are located in low-poverty areas. Most property owners will confront the issue of how to meet substantial capital needs while preserving the housing as affordable. Future inquiry and research should address these issues as compliance periods continue to expire and tax credit properties continue to age.

FOREWORD

Enacted in 1987, the Low-Income Housing Tax Credit (LIHTC) program has become the most significant federal program for the production and preservation of affordable rental housing in the nation. To date, more than 2 million affordable units have been developed or preserved using the LIHTC, making the tax credit's portfolio substantially larger than the public housing stock at any point of that program's history. At LIHTC's quarter-century mark, however, policymakers are facing a growing challenge: tens of thousands of units have reached or are nearing the conclusion of a compliance period that restricts their affordability to tenants with incomes at or below 60 percent of Area Median Income. As the United States faces growing rental affordability challenges, the release of this study that examines the outcomes of LIHTC properties at the termination of their compliance period could not have come at a better time.

The U.S. Department of Housing and Urban Development (HUD) has a mission to serve low-income families by providing quality affordable housing. Tax credits are administered by the U.S. Department of the Treasury, however, and HUD has a relatively minor role. Nonetheless, policymakers have been concerned about the period of time during which LIHTC properties would continue to provide affordable housing. In response, Congress changed the provision of the law that governs the period of restricted use for LIHTC properties. Thus, properties that received LIHTC allocations before 1990 are subject to a 15-year period during which LIHTC units must remain affordable. For those properties with allocations in 1990 or later, there is an additional 15-year restricted-use period, for a total of 30 years. However, in some circumstances the owner of an LIHTC property with a 30-year restriction can elect to leave the program early. Since 2009, 10,634 LIHTC properties with 374,675 affordable rental units have either reached or passed their 15-year period of restricted use. The owners of these properties may apply for a new round of tax credits, may continue to operate the property as affordable housing without new subsidies, or may opt out of the program and reposition the former LIHTC property as market-rate housing.

HUD commissioned this study, *What Happens to Low-Income Housing Tax Credit Properties at Year 15 and Beyond*, to determine whether properties that reached the end of the 15-year compliance period remain affordable, the types of properties that do or do not remain affordable, and the major factors by which owners reach the decision to remain or leave. Based on in-depth interviews with more than 50 owners, tax-credit syndicators, and brokers, the researchers describe the issues and decisions that LIHTC property owners confront as their tax-credit compliance period ends.

This study's exhaustive review of the multifaceted processes that take place before, at, and after the compliance period is, in and of itself, a major contribution to the slim body of literature that seeks to better understand the effects of the LIHTC's simple conception, yet oftentimes complicated execution. The results of the study's interviews and data analysis are compelling. For instance, the researchers conclude that most LIHTC properties remain affordable after having completed the 15-year compliance period. One possible explanation posited by the authors is that many of these LIHTC property owners are committed to HUD's mission to expand housing options for low- and moderate-income families by preserving the affordability of existing units. There are indeed exceptions to this rule, however, which this paper attempts to examine. Moreover, it is unclear to what extent properties remain affordable for the very neediest of families across this country.

Some LIHTC properties will be recapitalized in the near future with new tax credits. Others will be repositioned as market-rate units in areas where the rental housing market is robust. For the properties that remain affordable, most owners will confront the issue of how to meet substantial capital needs. What happens to those properties is beyond the scope of this study, but should be investigated further, particularly as compliance periods continue to expire.

We trust this study will be of great interest to policymakers and others actively working with the LIHTC program, including syndicators, owners, investors, financial institutions, public agencies, and residents who are interested in evaluating the effectiveness of the program. We also believe that the release of this report comes at a critical time, as policymakers struggle to find ways to meet the ever-growing housing affordability challenge.

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Development and Research

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EXECUTIVE SUMMARY

The Low-Income Housing Tax Credit (LIHTC) program has been a significant source of new multifamily housing for more than 20 years, providing more than 2.2 million units of rental housing. LIHTC units accounted for roughly ***one-third*** of all multifamily rental housing constructed between 1987 and 2006. As the LIHTC matures, however, thousands of properties financed using the program are becoming eligible to end the program's rent and income restrictions, prompting the U.S. Department of Housing and Urban Development's (HUD's) Office of Policy Development and Research to commission this study. In the worst-case scenario, more than a million LIHTC units could leave the stock of affordable housing by 2020, a potentially serious setback to efforts to provide housing for low-income households.

This study demonstrates that the worst-case scenario is unlikely to be realized. Instead, our answer to the question of whether older LIHTC properties continue to provide affordable housing for low-income renters is a qualified "yes." ***Most LIHTC properties remain affordable despite having passed the 15-year period of compliance with Internal Revenue Service (IRS) use restrictions, with a limited number of exceptions.*** These exceptions are closely related to the characteristics of the local housing market, as well as to events that occur at Year 15.

In addition to considering the question of whether older LIHTC properties continue to provide affordable housing for low-income renters, this study also addresses several other questions:

- How many properties leave the LIHTC program at or after reaching Year 15?
- What types of properties leave, and what types remain under monitoring by state housing finance agencies (HFAs) for compliance with program rules?
- What are owners' motivations for staying or leaving?
- What are the implications of properties leaving the LIHTC program for the rental market? To what extent do properties that leave the LIHTC program continue to provide affordable housing?
- How do ownership changes and financing affect whether LIHTC properties continue to provide affordable rental housing and whether they perform well?

THROUGHOUT THE REPORT, **AFFORDABLE HOUSING** REFERS TO HOUSING WITH RENTS AT OR BELOW THE LIHTC MAXIMUM FOR THE AREA.

In answering these questions, we focused on properties that would have reached Year 15 by 2009—properties placed in service under LIHTC between 1987 and 1994. Over the course of this study, we conducted interviews with a number of industry participants, including syndicators, direct investors, brokers, owners, and HFA staff, as well as experts on multifamily finance and the LIHTC program. We also collected property-level records provided by syndicators, brokers, and owners. Sources of quantitative data used for this study include HUD's LIHTC database of properties and units placed in service each year; HUD's Public Housing Information Center database of units rented under the Housing Choice Voucher Program; and a survey conducted for this study of rents of a sample of LIHTC properties no longer monitored by HFAs.

Our interview sources reported remarkably consistent impressions of the real estate outcomes for Year 15 properties:

- *The vast majority of LIHTC properties continue to function in much the same way they always have, providing affordable housing of the same quality at the same rent levels to essentially the same population, without major recapitalization.* These properties may have some rehabilitation done at or shortly after Year 15, often

in connection with a change of ownership or refinancing, but the amount of work done is not extensive enough to be characterized as recapitalization.

- *A moderate number of properties are recapitalized as affordable housing with a major new source of public subsidy.* This new subsidy is most typically new tax credits, either 4 or 9 percent. These properties usually undergo a substantial program of capital improvements.
- *The smallest group of properties is repositioned as market-rate housing and ceases to operate as affordable.* The risk of this shift occurring is greatest in strong housing markets.

WHAT ARE THE OUTCOMES AT YEAR 15?

Which of the three outcomes will be realized is linked to events that happen at Year 15 and that affect the likelihood that a property will continue to serve as affordable housing in the years to come. These outcomes include whether the property's use restrictions change, whether the property is sold to a new ownership entity, and whether the property became financially or physically distressed before Year 15. The outcome may also be affected by market conditions where a property is located.

CHANGE IN USE RESTRICTIONS

During the first 15 years of a LIHTC property's compliance period, owners must report annually on compliance with LIHTC leasing requirements to both the IRS and the state monitoring agency. After 15 years, the obligation to report to the IRS on compliance issues ends, and investors are no longer at risk for tax credit recapture. For properties built before 1990, this requirement also marked the end of the affordability period required by federal law. Beginning in 1990, federal law required tax credit projects to remain affordable for a minimum of 30 years, for the 15-year initial compliance period and a subsequent 15-year extended use period.

In addition to complying with federal affordability restrictions, many LIHTC developments, including those placed in service between 1987 and 1994, are subject to other use restrictions that last well beyond Year 15. Some sources of such restrictions include mortgage financing from housing finance agencies or other mission-oriented lenders; subordinate debt or grant financing from state or federal sources (including HOME and Community Development Block Grants) that bear requirements for long-term use restrictions; and land-use agreements with states or municipalities that have contributed resources to the projects in exchange for long-term affordability commitments.

Properties subject to an extended LIHTC use restriction may seek to have that restriction removed. The legislation that extended LIHTC use restrictions from 15 to 30 years also established a Qualified Contract (QC) process under which owners may request regulatory relief from use requirements any time after Year 15. In the QC process, the owner requests the state agency to find a buyer for the property, and the state agency then has one year to find a potential buyer who will maintain the property as affordable housing. If the state is unsuccessful in finding a buyer, then the owner is entitled to be relieved of LIHTC affordability restrictions, and those restrictions phase out over 3 years.

In practice, each state agency can define its own regulations for implementing the QC, so there are in practice "fifty flavors of process." The process ranges from relatively simple and straightforward to so complex and

difficult—perhaps intentionally—that the process is essentially unworkable. Furthermore, a number of states either require or persuade developers seeking LIHTC to waive their right to use the QC process in the future. In these states, no QC applications are likely to be submitted. Therefore, QC sales tend to be concentrated in a few states and are not common.

CHANGE IN OWNERSHIP

A change in ownership for a LIHTC property can happen at any time. The ownership change is most likely to take place around Year 15, however, because it is in the interest of limited partners (LPs) to end their ownership role quickly after the compliance period ends. They have used up the tax credits by Year 10, and after Year 15 they no longer are at risk of IRS penalties for failure to comply with program rules.

By far the most common pattern of ownership change around Year 15 is for the LPs to sell their interests in the property to the general partner (GP) (or its affiliate or subsidiary) and for the GP to continue to own and operate the property. This pattern is overwhelmingly the case for properties with nonprofit developers, but also true in many cases of for-profit developers.

The minority of GPs who end their ownership interest at Year 15 almost always do so by selling the property. Almost always these are for-profit owners selling to for-profit buyers. These buyers, usually interested in larger LIHTC properties, appear to be motivated by the economies of scale they can achieve through expanding their portfolios. Other buyers who are also property managers reportedly may buy LIHTC properties mainly for the chance to earn management fees, and they may also be interested in smaller LIHTC properties. Still other buyers, the minority, aim to refinance and recapitalize a property with a new allocation of LIHTC credits or other subsidy funds. Owners proceed with these transactions with the goal of earning developer fees and positioning the property for at least 15 more years of physical and financial health.

FINANCIAL DISTRESS AND CAPITAL NEEDS

While the strong majority of LIHTC projects operate successfully through at least the first 15 years after they are placed in service under the tax credit, some properties fall into financial distress by the time they reach Year 15. Poor property or asset management practices, a problematic financial structure, poor physical condition of the property, and a soft rental market are the most common reasons for the rare instances of failure.

LIHTC properties tend to operate on tight margins both because of the stiff competition to obtain these subsidies initially and because of allocating agencies' obligation to ensure that they are providing the minimum amount of subsidy necessary to render the deals feasible. Given these tight margins, the percentage of foreclosures is surprisingly small, in the range of 1 to 2 percent. Both LPs and GPs are anxious to avoid foreclosure, because it would be considered premature termination of the property's affordability and subject them to recapture of tax credits, with interest, and forfeiture of all future tax credit benefits from the property. GPs most typically, but also investors and even syndicators, may fund operating deficits to avoid this consequence.

LIHTC properties are usually required to fund replacement reserves annually, out of operating income, to pay for capital repairs and renovations. The experts we interviewed agreed that these reserves are usually insufficient after 15 years, however, to cover current needs for renovation and upgrading. Nevertheless, we did not find a consensus about the extent of renovation and repair needs across LIHTC properties at Year 15. Probably the

most important determinant of physical condition at Year 15 is whether the property was newly constructed or rehabilitated when it was placed in service, and, if rehabilitated, the scope of the renovation work that was done then. If a property was new construction or a gut rehabilitation when initially placed in service under LIHTC, it is less likely to need significant upgrades at Year 15 than if it had only moderate renovations initially.

Market conditions may also affect property conditions over time. Properties in strong housing markets that can be rented at or near the maximum LIHTC rents are more likely to have high occupancy rates and to generate more operating funds that can be used for maintenance and repairs than can be obtained from housing in a weaker market, and thus enter Year 15 with fewer deferred repair and maintenance needs. Other factors that may be important are the target tenant population, property size, and the efficiency and skill of the property manager.

The extent and nature of a property's financial and physical distress will inevitably shape its Year 15 outcomes. For example, owners may be more likely to seek a new allocation of LIHTC or other major financial assistance to rescue a property with major capital needs, or with a problematic financial structure. If a property is continuing to operate at LIHTC rents, it may have to compete for tenants with new LIHTC properties, and the property in better physical condition will likely win out. Finally, if properties do fall into foreclosure, they may leave the affordable portfolio altogether as a consequence of the property sale to a buyer without affordable housing obligations.

OUTCOMES AFTER YEAR 15

After Year 15, properties take one of three paths: they remain affordable without recapitalization, remain affordable with a major new source of subsidy, or are repositioned as market-rate housing.

REMAIN AFFORDABLE WITHOUT RECAPITALIZATION

All the information gathered for this study shows that most LIHTC properties that reached Year 15 through 2009 are still owned by the original developer and that most are operating the properties as affordable housing, either with LIHTC restrictions in place or with rents that nonetheless are at or below LIHTC maximum levels. Even for properties subject to extended use restrictions, many owners reported that it simply was not worth the effort to try to leave the tax credit program through the QC process, because they could not increase rents outside the program or could increase them only marginally.

At least two types of properties will continue to provide housing at or below LIHTC rents despite the absence of use restrictions: properties with owners committed to long-term affordability and properties for which market rents are no higher than LIHTC rents. Nonprofit owners usually continue to operate properties as affordable housing beyond the term of any regulatory requirements because it is their mission to do so. Some for-profit owners interviewed for this study also described their missions as providing high-quality affordable housing, long-term.

When a property is not subject to use restrictions and does not have a mission-driven owner, the owner may still charge rents that are within the LIHTC standard of affordability, because the market will not support higher rents. Properties in which owners are able to charge rents higher than the LIHTC maximum have to be in locations where local rental market standards will support higher rents.

This pattern of properties remaining affordable with their original owners and without major recapitalization is common in strong, weak, and moderate markets alike. However, the specific financial condition of properties may vary. Properties able to achieve high occupancy levels and high rents—even if restricted below market levels—can generate significant cash flow and have real market value. So, although it is apparently true that most post-Year 15 LIHTC developments from the program's early years have slipped into the mainstream of properties with rents around the middle of the market, over time these developments will continue to fare quite differently depending on where they are located.

Among the minority of LIHTC Year 15 properties sold to new ownership entities, most were sold to buyers willing to accept the LIHTC affordability restrictions and, at the same time, not buying for the purpose of recapitalizing the property with additional tax credits. These buyers describe the projects' LIHTC history as more or less irrelevant to their business decisions and operations, regardless of whether they have to continue complying with LIHTC rules.

Both continuing and new owners typically refinance at Year 15, and low interest rates have enabled them to fund modest renovations at Year 15 without recapitalizing with new tax credits. Properties needing more extensive renovation have sometimes been able to obtain other sources of subsidy such as a new soft loan or an exemption from local real estate taxes.

REMAIN AFFORDABLE WITH NEW SOURCES OF SUBSIDY

Some LIHTC properties are recapitalized as affordable housing at Year 15 or shortly thereafter with a new allocation of tax credits. In addition to obtaining new tax credits, LPs typically refinance the mortgage and may also obtain new sources of soft debt. The new equity and debt are used to pay for renovation costs that often are substantial.

When deciding whether to seek a new allocation of tax credits to recapitalize a property—and accept a new period of use restrictions—owners weigh a variety of factors. At a minimum, the property must have some capital needs, because in order to qualify for a new LIHTC allocation, owners must complete rehabilitation of at least $6,000 per unit per federal regulation (and, in many states, more extensive renovation per state requirements). Other factors internal to the property include: the need for modernization to compete with new affordable housing, whether an infusion of additional equity appears to be the only way to bail out a distressed property, whether it appears that the deal will generate substantial profits for the property's owners such as new developer fees, and whether the owners might do even better by selling the property after current use restrictions have ended rather than extending them further.

State LIHTC policies and priorities also affect the decision to seek a new allocation of tax credits. Some states reserve 9-percent LIHTCs for creating additional units of affordable housing rather than preserving existing units. For some properties, 4-percent credits may be a good alternative because they may be more readily accessed than 9-percent credits for preservation projects. Analysis of the HUD LIHTC database to identify properties that appear to have been resyndicated with additional tax credits shows a gradual rise in the second use of tax credits.

REPOSITION AS MARKET RATE

By far the least common outcome for LIHTC properties is conversion to market-rate housing. Some properties are repositioned as market rate after a QC process, although this shift is not common. In cases where properties are repositioned as market rate, one owner told us that this option avoided the costs of reporting requirements rather than to raise rents. Some HFAs are using the QC process as a way to help properties in weak housing markets, such as parts of the Midwest, remain financially viable. With use restrictions lifted, the owner of the property is able to reach a slightly expanded pool of potential tenants and, sometimes, to charge rents that are slightly higher than the LIHTC maximum. For these properties, local conditions will limit rents to affordable levels for the foreseeable future.

Another outcome sometimes seen for a few LIHTC properties in weak markets is financial failure. Foreclosure of the loan on the property is followed by a property disposition by the lender to a new owner who will operate the property as market-rate housing at higher rents if the market will bear them.

The most likely properties to have been repositioned as unaffordable, market-rate housing are properties in low-poverty locations. We conducted a survey of the rents of a sample of a properties no longer reporting to an HFA and found that, even for this group of properties that should be at particularly high risk of becoming unaffordable, nearly one-half had rents less than the LIHTC maximum, and another 9 percent had rents only slightly more than LIHTC rents (see the exhibit that follows).

Affordability of Properties in Low-Poverty Census Tracts and No Longer Monitored by Housing Finance Agencies

Property Rents		
Greater Than 105 Percent of LIHTC Rent	Between 100 and 105 Percent of LIHTC Rent	Less Than LIHTC Rent
42%	9%	49%

Source: HUD National LIHTC Database

LATER YEAR PROPERTIES

Approximately 1.5 million housing units, in more than 20,000 LIHTC properties, were placed in service from 1995 through 2009 and will reach their 15-year mark between 2010 and 2024. How likely are those properties to follow the patterns that we observed around Year 15 for the early year LIHTC properties? The later year LIHTC properties appear to be at even lower risk of being repositioned as market-rate housing with unaffordable rents than the early year LIHTCs. A key factor is the very existence of extended use restrictions through Year 30, with the only possibility of relief being a QC process that some states have required owners to waive, while others make it procedurally difficult to succeed. Another factor is the much larger percentage of later LIHTC properties than early LIHTC properties that have nonprofit sponsors. Key differences between early year LIHTC properties and later year properties are summarized in the exhibit that follows.

One potentially offsetting factor is the lower share of later year properties that combined LIHTC with Section 515 loans from the Rural Housing Service (RHS), which have extended affordability restrictions that are difficult to remove. In addition, higher shares of later year properties are in high-value locations.

Later year LIHTCs typically have more complex financial and rent structures, which may mitigate repositioning as market-rate housing. These structures may also make it more difficult for later year LIHTC properties to use simpler conventional refinancing to join the mainstream of housing with affordable rents. More likely, many of the later year properties will continue to be part of a self-conscious industry of affordable housing providers. Although the greater proportion of later year LIHTCs that were either newly built or substantially renovated when placed in service may suggest a lower need for recapitalization at or around Year 15, both ongoing and new owners of tax credit properties may try to use a second round of tax credits.

Key Characteristics of LIHTC Properties Placed in Service, 1987 Through 1994 and 1995 Through 2009

	Early Year Properties: 1987–1994	Later Year Properties: 1995–2009
Number of projects	11,543	20,567
Number of units	411,412	1,521,901
Average project size	36.4	74.8
Construction type		
New construction only	56.7%	63.3%
Rehabilitation	43.3%	36.7%
	100%	100%
Nonprofit sponsor	10.1%	27.6%
RHS Section 515	31.1%	9.0%
Tax exempt bond financing	3.1%	21.7%
Location type		
Central city	46.6%	45.1%
Suburb	25.9%	30.9%
Nonmetropolitan	27.5%	24.0%
	100%	100%
Poverty rate of 10 percent or less	24.9%	29.8%
Percent of units with two or more bedrooms	54.5%	64.4%

RHS = Rural Housing Service.

LIHTC PROPERTIES AT YEAR 30

The three patterns observed at or somewhat after Year 15 will continue beyond Year 30: (1) some properties will continue to provide affordable rental housing, despite the absence of LIHTC use restrictions; (2) some will be recapitalized with public subsidies that bring new use restrictions; and (3) some will be repositioned with rents substantially greater than LIHTC-restricted rents or will no longer be rental housing. The balance among those three outcomes will shift after Year 30 in favor of the third pattern—repositioning and no longer affordable—but by how much?

Several types of properties will nearly certainly not be repositioned. These include properties with a mission-driven owner, a location in a state or city with use restrictions beyond Year 30, and the presence of restrictions associated with financing. Of the latter two groups, some of these properties will have agreed to rents less than the LIHTC maximum for some or all units and may be able to raise rents to something closer to the LIHTC

maximum. These units would still provide affordable housing to households with incomes around 60 percent of Area Median Income and still potentially be available to households using tenant-based vouchers.

Owners of the remaining properties—for-profit owners of properties with no use restrictions continuing beyond Year 30—are likely to make a financial calculation about what to do with the property that depends on the housing market. The key consideration is whether the location will support market rents substantially higher than LIHTC rents. Properties likely to no longer provide affordable rental housing are those for which market equivalent rents—or the value of converting the property to homeownership or commercial use—will be substantially higher than LIHTC rent. However, the large portion of LIHTC developments that have rents similar to unrestricted rents at about the middle of the housing market will continue to operate as affordable housing after the end of their use restrictions.

Some of these properties may have a difficult time producing enough cash flow to meet their operating needs and remain in even passable condition. Properties in rural areas and in other places with declining populations are most likely to fall into this category. Unmet capital needs may induce many of these properties to apply to their HFAs for additional allocations of LIHTC, although how HFAs will respond to this demand and assess its priority compared with other potential uses of LIHTC is difficult to predict.

CONCLUSIONS AND RECOMMENDATIONS FOR POLICYMAKERS

Most older LIHTC properties are not at risk of becoming unaffordable, the notable exceptions being properties with for-profit owners in favorable market locations. Maintaining physical asset quality turns out to be a larger policy issue for older LIHTC properties than maintaining affordability. Older LIHTC properties likely will follow one of three distinct paths: (1) some will maintain their physical quality through cash flow and periodic refinancing, in much the same way that conventional multifamily real estate does; (2) some will maintain their physical quality through new allocations of LIHTC or another source of major public subsidy; and (3) some will deteriorate over the second 15 years, with growing physical needs that will ultimately affect their marketability and financial health. This implies that an increasing number of owners, however, will apply for new tax credit allocations, either for 9-percent tax credits or for bond financing and 4-percent credits.

Given both of these kinds of needs, state HFAs will come under great pressure as the large stock of LIHTC housing ages. Restricted by finite resources, state policymakers are going to have to make choices. We recommend that those choices be made on the basis of a set of guiding principles and on careful examination of the housing markets in which the older LIHTC stock within their state operates. We suggest that HFAs place the highest priority on the developments that are most likely to be repositioned in the market—as higher rent housing or conversion to homeownership or another use. HFAs could benefit from additional data and tools from HUD to help identify the most appropriate properties. Having made a list of high-risk properties, HFAs should then make clear that resources will be available to preserve those properties as affordable housing—for example, additional allocations of 9-percent tax credits and other subsidies under the control of the HFA or other state agencies.

Some properties not at risk of being repositioned should still have high priority for investment in meeting their capital needs. These needs include—

- Properties that serve a special-needs population.
- Properties that have committed—or are willing to commit—to rent tranches of units below the LIHTC maximum, if the property is financially sustainable over the long term.
- Properties in a neighborhood where substantial public resources have been committed to a multifaceted revitalization effort and only if rehabilitation of the older LIHTC property is needed to prevent it from blighting the neighborhood.

In general, state policymakers should recognize that the majority of older LIHTC properties will, over time, become mid-market rental properties indistinguishable from other mid-market rental housing, and that this result is good.

We do not recommend that states extend use restrictions beyond 30 years because of the tradeoffs required. First, the longer the use restrictions last, the higher the initial subsidy needs to be. Second, under some market conditions, inflexible use restrictions may undermine the goal of preserving affordable housing in good condition by overly restricting the rental market for those properties.

We also suggest that federal policymakers take actions—specifically by revising Qualified Allocation Plan standards—that will create a high priority for preserving those older LIHTC properties that are at greatest risk of no longer being affordable, as well as those that serve a special-needs population. Federal policymakers should also recognize that LIHTC developments at risk of being lost to the affordable housing stock are not evenly distributed across the United States in proportion to population. Instead, they are most likely to be in states with high housing costs and limited housing supply, suggesting that LIHTC should be allocated on the basis of a measure of housing need, rather than per capita. Short of this change, which could weaken support for LIHTC, an alternative would be to enact a pool of bonus LIHTC funding to be used by the Treasury to reimburse states that allocate tax credits to carefully defined at-risk properties.

Additional research is essential for making policy about the future of the older LIHTC housing stock. One important area is research that focuses on the role of LIHTC in creating mixed-income housing, both by making housing available to low-income renters in locations where it otherwise would not be and by creating housing that has a mixed-income character within the development itself. Another recommendation is for research to understand better the role that adding new units of subsidized rental housing such as LIHTC plays in transforming—or weakening—a neighborhood. A better understanding of how to use LIHTC for special-needs housing and how to best link units with supportive services is also important.

A final set of issues is suggested by our observation that HFAs and other policymakers will have to make decisions about the LIHTC stock within constrained resources. HUD-sponsored research on the development and operating costs of LIHTC housing and how they vary around the country could be very useful for informing HFA policy standards, as well as for allocating tax credits and underwriting specific properties.

1. INTRODUCTION

The Low-Income Housing Tax Credit (LIHTC) program has been a significant source of new multifamily housing for more than 20 years. As the LIHTC matures, however, thousands of properties financed using the program are becoming eligible to end the program's rent and income restrictions, prompting U.S. Department of Housing and Urban Development's (HUD's) Office of Policy Development and Research to commission this study. In the worst-case scenario, more than a million LIHTC units will have left the stock of affordable housing by 2020, a potentially serious setback to efforts to provide housing for low-income households.

The research conducted for this study—including interviews with syndicators, LIHTC property owners, and industry experts, as well as analysis of HUD's LIHTC database and market research—demonstrates that the worst-case scenario is unlikely to be realized. Our answer to the question of whether older LIHTC properties continue to provide affordable housing for low-income renters is a qualified 'yes.' Most LIHTC properties remain affordable despite having passed the 15-year period of compliance with Internal Revenue Service (IRS) use restrictions, with a limited number of exceptions.

Other research issues addressed by this study include why and how owners and investors make decisions about the future of their properties, whether properties still in the LIHTC program are performing well financially, and the extent to which properties at around Year 15 seek additional allocations of tax credits.

THROUGHOUT THE REPORT, **AFFORDABLE HOUSING** REFERS TO HOUSING WITH RENTS AT OR BELOW THE LIHTC MAXIMUM FOR THE AREA.

The remainder of this chapter provides an introduction to the LIHTC and its role in the multifamily market, comparing it with previous rental production subsidies. Chapter 2 provides more detail on who owns LIHTC properties and how they are financed. Chapters 3 and 4 describe the outcomes for properties at the end of the 15-year IRS compliance period, including the mechanisms through which properties change ownership and the extent to which LIHTC properties are no longer monitored by state agencies after Year 15. Chapter 5 reports our findings on properties' financial and physical condition at Year 15. Chapter 6 describes three outcome patterns for early year LIHTC properties: remaining affordable without major recapitalization with new tax credits, recapitalization with new tax credits, and leaving the affordable housing stock. Chapter 7 assesses whether the patterns observed for early year LIHTC properties are likely to continue for properties placed in service in 1995 and later. Chapter 8 is a conclusion with a discussion of policy implications and recommendations for future research.

1.1 WHAT IS THE LOW-INCOME HOUSING TAX CREDIT?

The LIHTC was created by the Tax Reform Act of 1986, in part to replace the generous tax benefits for affordable multifamily housing that were abolished by the same legislation. As suggested by its name, it provides a subsidy to private developers of affordable housing through the federal tax code. Congress allocates tax credits to states based on population, in the amount of $2.15 per state resident (as of 2011). In turn, states allocate tax credits through a competitive process, often administered by the state's housing finance agency (HFA). Properties must meet one of two criteria to qualify for tax credits: either a minimum of 20 percent of the units must be occupied by tenants with incomes less than 50 percent of Area Median Income (AMI), or 40 percent of units must be occupied by tenants with incomes less than 60 percent of AMI. These affordability restrictions

remain in place for a minimum of 15 years. Points are awarded to qualifying development proposals based on priorities documented in a Qualified Allocation Plan (QAP), which is created individually by each state and which states revise annually.

The tax credits are provided to developers through federal tax credits received annually for 10 years. Tax credits are set at either 70 percent of the present value of the qualifying costs (initial development costs, excluding the cost of land and certain other expenses), which translate to a yearly tax credit of about 9 percent. Credits in the amount of 30 percent of qualifying costs, which amounts to a yearly tax credit of about 4 percent, are distributed outside the allocation system. These are discussed in Section 6.2. The amount of the 9-percent credits depends on whether the project is new construction, substantial rehabilitation, or acquisition and minor rehabilitation of an existing property, whether it is in a difficult development area (DDA) or qualified census tract (QCT),[1] the share of units set aside for low-income households,[2] and other factors. With boosts in the qualified basis of a project for meeting certain requirements, the ultimate government subsidy can cover up to 91 percent of construction costs (Eriksen and Rosenthal, 2007).[3]

LIHTC developers frequently sell the tax credits to equity investors through a syndicator; syndicators serve as matchmakers between developers and tax credit investors, who are generally corporations with substantial and predictable federal tax obligations. Syndication is necessary because the real estate project itself is unlikely to generate enough federal tax liability for the owner to be able to claim the full value of the tax credits for itself. Purchasers have sufficient tax liability to be able to use the tax credits and may also benefit in other ways such as sharing in cash flow and resale value.

THE LIHTC IS THE LARGEST RENTAL HOUSING PRODUCTION PROGRAM IN HISTORY

Perhaps surprisingly for a government program embedded in arcane IRS regulations (Section 42 of the Internal Revenue Code), the LIHTC program is an important source of new rental housing. Recently, it has produced roughly 100,000 units each year. Altogether, about 2.2 million units in some 35,000 separate properties[4] were placed in service under the program between 1987 and 2009, the latest year for which we have data.[5] As of 2011, the number may be close to 2.4 million units. The LIHTC program has outstripped both public housing (with 1.1 million units currently existing) and HUD-assisted, privately owned housing (with up to 1 million units). LIHTC is thus the largest program in U.S. history providing property-based subsidies to rental housing, and since the early 1990s, has been the only such program developing substantial numbers of additional units.[6]

1. As part of the Omnibus Reconciliation Act of 1989, Congress added provisions to the LIHTC program designed to increase production of LIHTC units in hard-to-serve areas. Specifically, the act permits projects located in DDAs or QCTs to claim a higher eligible basis (130 percent of the standard basis) for the purposes of calculating the amount of tax credit that can be received. Designated by HUD, DDAs are defined by statute to be metropolitan areas or nonmetropolitan areas in which construction, land, and utility costs are high relative to incomes, and QCTs are tracts in which at least 50 percent of the households have incomes less than 60 percent of the AMI. The Housing and Economic Recovery Act of 2008 broadened this authority to allow any building designated by the state housing credit agency as requiring the increase in credit in order to be financially feasible to be treated as located in a difficult development area.
2. In reality, nearly all units in tax credit projects qualify as low-income, including 95 percent of units placed in service from 1995 to 2007 (Climaco et al., 2010).
3. The highest subsidies are for properties that receive both 9-percent credits and a 30-percent basis boost for locating in a QCT or a DDA.
4. The term *property* is used interchangeably with *project* and *development*.
5. http://www.huduser.org/portal/datasets/lihtc.html.
6. The HOME program is also used to produce new rental units, although on a much smaller scale. In addition, HOME funding is often used in combination with tax credits and does not produce units on a stand-alone basis.

Beyond the fact that they now outnumber other government-funded rental units, LIHTC-funded units increasingly represent an important share of all rental housing units. From 1987 to 2006, LIHTC units accounted for roughly one-third of all multifamily rental housing constructed (Eriksen and Rosenthal, 2010) and as of 2009 made up about 6 percent of all renter occupied housing units.[7]

LIHTC DIFFERS FROM OTHER RENTAL HOUSING PRODUCTION PROGRAMS

The tax credit program differs from earlier subsidized rental housing production programs such as the public housing built from the 1930s to the 1980s and the Section 8 projects built in the 1970s and 1980s, in several important ways. Tax credit units' rents are not related to specific tenants' income. Researchers have pointed out that, in many of the housing markets and specific locations where LIHTC housing has been built, LIHTC units compete with market-rate units because rents are quite similar to market rents. LIHTC projects sometimes have layered subsidies, however, and tiers of rents that are lower than either the LIHTC maximum rents or market rents.

Another programmatic difference from traditional public housing or Section 8 projects is that the federal role in tax credit projects is small, and the projects are allowed to fail if their financial condition is poor. Regardless of the fact that tax credit projects are subject to market discipline because of their similarity to market-rate housing, some inefficiencies exist in the program. Each of these features of LIHTC is discussed in more detail in the following section.

LIHTC RENTS ARE NOT BASED ON THE INCOMES OF INDIVIDUAL TENANTS

Tax credit rents are not based on the income of the tenants. Although tax credit units must be affordable to households at either 50 percent or 60 percent of the AMI, rents do not vary with actual tenant incomes—nor is rent limited to 30 percent of the tenants' income, an amount considered affordable. As a result, the program reaches a somewhat higher income group than previous production programs, unless it is coupled with other subsidies such as tenant-based housing vouchers. Wallace (1995) estimated that only 28 percent of LIHTC residents had incomes less than 50 percent of AMI, compared with 81 percent of those who reside in traditional public housing. That analysis was done at a time when lower tiers of rents in LIHTC properties were less common than they became later, so the percentage may be higher now.[8]

7. Based on a calculation using data on the total number of renter occupied units from the American Housing Survey: http://www.census.gov/housing/ahs/data/ahs2009.html.

8. Until recently, no systematic data were collected about the income levels of LIHTC tenants across the program. In 2008, HUD began collecting data on the elected rent/income ceiling for the low-income units in LIHTC projects (either 50 or 60 percent of area median gross income) and whether any units were set-aside to have rents that are less than the elected rent/income ceiling. (The 2008 collection included properties placed in service through 2006.) In 2010, HUD implemented a new mandate to collect tenant-level data, including annual income, for tenants residing in LIHTC units. These tenant-level data are not yet available for analysis.

LIHTC RENTS ARE SIMILAR TO MARKET RENTS

In some markets, tax credit units are no more affordable than rental units generally. Burge (2011) conducted a study of LIHTC projects in service as of 2002 in Tallahassee, Florida, considered to be a typical medium-sized metropolitan statistical area (MSA). Tallahassee has had a weak housing market in recent years, but not during the period covered by the study. Using hedonic regression analysis, Burge found that maximum tax credit rents are initially less than implied market rents because of the properties' high quality—their newness—when placed in service. This market advantage eroded, however, as the properties aged and declined in quality during the 15-year period of affordability required for compliance with the tax code.

This dynamic does not hold in all markets. In strong housing market areas such as parts of the Northeast and California, tax credit rents tend to be lower than market-rate rents for comparable units and may remain so over time. Even in strong housing markets, however, this trend depends on the specific location of the LIHTC property, as the competition for rental housing is for nearby properties, not those in a different part of a metropolitan area or rural region.

Baum-Snow and Marion (2009) analyzed 330 MSAs and also found that, in many cases, LIHTC maximum rents in 2000 did not result in LIHTC rents that were below unsubsidized rents. The nonbinding effect of the LIHTC restrictions was the case regardless of the income level of the neighborhood, but especially in low-income neighborhoods. They found that, when LIHTC properties were in tracts where 50 percent or fewer households were LIHTC-eligible, two-thirds of occupied rental apartments had rents below the LIHTC maximums. When LIHTC properties were in tracts with more than 50 percent of households LIHTC-eligible—that is, in low-income neighborhoods—82 percent of apartments had rents below the maximum rents.

Both Burge and Baum-Snow and Marion used maximum tax credit rents because they were not able to observe actual rents paid for LIHTC units. This highlights two points. First, although these authors' conclusions may be strictly accurate, the LIHTC units may be providing more affordability than they suggest because rents may be set below the LIHTC rent ceiling. Second, the LIHTC database does not include information on tenant-specific rent payments. The lack of data on LIHTC rents actually paid is an important gap in the information available about these units.

LIHTC UNITS COMPETE WITH MARKET-RATE RENTS

Unlike public housing and project-based Section 8, for which residents pay a percentage of their actual income, however low, tax-credit units often are in competition with other middle-market rental housing because the HUD-defined LIHTC maximum rent is often similar to market rent. This competition for renters provides incentives for owners to manage the projects well (Khadduri and Wilkins, 2008). Because of this competition, and also because of the design standards required by some HFAs and chosen by some LIHTC developers, tax-credit properties can be difficult to identify as low-income housing. Under some circumstances, they can create positive amenity effects such as the revitalization of low-income neighborhoods (Burge, 2011 and Freedman and Owens, 2011). The need to compete with other housing may also provide an incentive to avoid locating tax-credit projects in the most undesirable locations, where renters with a range of options would not choose to live.

LIHTC PROJECTS CAN INCLUDE HOUSEHOLDS WITH MIXED INCOMES

Tax-credit projects can sometimes be considered mixed income, because households with incomes close to 60 percent of AMI reside in the same complex as those assisted with Housing Choice Vouchers (HCVs), who usually have incomes below 30 percent of AMI. This income mixing allows tax-credit projects to serve households with poverty-level incomes, but also reduces the stigma attached to government-subsidized housing and, therefore, acceptance of the projects in relatively high-income communities. However, a lack of information about the tax credit program makes it impossible to assess the extent of income mixing (Khadduri and Wilkins, 2008).

THE FEDERAL ROLE IN PROGRAM DECISIONS IS LIMITED

LIHTC also differs substantially from previous production programs in that the federal role in program decisions is quite limited. As described previously, LIHTCs are allocated and monitored at the state level. Applications for tax credits almost always exceed the total availability of tax credits, which gives HFAs latitude in making awards. The role of the federal government is limited to funding the program through the income tax system and setting some broad parameters that are spelled out in law: maximum rents and income limits, a minimum percentage of nonprofit owners, the percentage of development costs that may be taken as a credit, and some requirements for QAPs.[9] Because LIHTC is a tax provision rather than an appropriation of funds, the regulations governing the program have focused on appropriate interpretations of tax policy rather than on using the program as an instrument of housing policy. The federal government has essentially no role in the management of tax credit properties.

OWNERS OF LIHTC DEVELOPMENTS BEAR RISKS OF FINANCIAL FAILURE

Correspondingly, the risk that a property will fail is not taken by the federal government, but by owners, investors and lenders. In some cases, the federal government provides financing such as Federal Housing Administration (FHA) insured loans for tax credit properties, but tax credit properties often rely solely on conventional financing in addition to the equity provided by the tax credits. In general, LIHTC projects are at low risk of failure—at least during the first 15 years—because of monitoring by the syndicator, investors, and the developer and perhaps also because of the stringent penalties under the federal tax code for investors and owners for foreclosure. The state also monitors LIHTC projects and has a particularly strong incentive to ensure the financial viability of projects in cases where the HFA has provided some of the financing. According to a recent study of a sample of LIHTC projects, the cumulative foreclosure rate through 2006 was only 0.85 percent, and the annualized foreclosure rate since inception was 0.08 percent (Ernst & Young, 2010).

THE LIHTC PROGRAM DESIGN CREATES BOTH EFFICIENCIES AND INEFFICIENCIES

There is much debate about using a tax credit as the subsidy mechanism for housing development. Unlike previous rental production programs in which developers received a lump sum grant, developers of tax credit units receive the subsidy in an illiquid form and over a relatively lengthy period of time. Because credits are paid out over 10 years, although the investor supplies equity at the beginning of the deal, the tax credit price is discounted. That

9. For example, federal law requires QAPs to give priority to projects that serve the lowest income households and that ensure affordability for the longest period of time.

is, $1 of tax credits is worth less than $1 in affordable housing. The program has grown more efficient over time, however, increasing from below 50 cents per dollar of tax credits in the early years of the program to more than 90 cents per dollar for properties placed in service in 2006 (Ernest & Young, 2010). Discounting the stream of tax credits over the appropriate 10-year period indicates higher implied prices for tax credits (Cummings and DiPasquale, 1999). Investors also realize tax benefits from depreciation, which affects the cost of the housing subsidy to the federal government.

Some research suggests that the value of the tax credit subsidy is eroded by the complexity of the subsidy mechanism, which includes the costs of syndication and of complying with IRS affordability requirements. Eriksen (2009) analyzed a sample of tax credit properties in California allocated credits from 1999 to 2005 and found that the sale of developers' tax credit equity alone—required to realize the full value of the tax credits—required transaction fees of 15 percent or more during that period. Similarly, the Government Accountability Office (GAO) found that syndication costs amount to 10 to 27 percent of total equity raised (GAO, 1997).

Eriksen argues that the calculation of the qualified basis on which the amount of tax credits is awarded provides an incentive for developers to construct more expensive housing units than they would otherwise. He compared LIHTC housing units in his sample with unsubsidized units built over the same period, and found that unsubsidized units cost about 20 percent less per square foot to construct. A number of other explanations for this cost differential may exist, however, including the prevailing wage laws that may be triggered by sources of funds commonly paired with LIHTC; carrying costs associated with the long periods of time needed to apply for and secure tax credit allocations and other financing; and costs associated with additional regulation, oversight, and reporting involved in developing and leasing LIHTC housing.

And on the flip side, other researchers argue that the subsidy mechanism used by the LIHTC creates efficiencies. An important example is the delegated compliance monitoring (done primarily by investors and syndicators) and the powerful enforcement mechanism built into the program, the threat of tax credit recapture if the project is not maintained as affordable. Investment in tax credits has been allowed as a way for banks to meet their Community Reinvestment Act (CRA) obligations, which in some markets may increase the price of tax credits to more than their actuarially fair value (Desai et al., 2008). In addition, competition for tax credits may introduce efficiencies as well as allow states to best meet their housing policy goals (Deng, 2005).

LIHTC UNITS ARE AT RISK OF LOSS FROM THE AFFORDABLE HOUSING STOCK

Like earlier housing production programs, units subsidized using the LIHTC may eventually convert to market-rate housing with higher rents and thereby be lost from the stock of affordable housing. Initial affordability restrictions for the LIHTC program were limited to 15 years, after which the units could convert to market rate. Previous multifamily production programs have addressed the risk that privately owned, subsidized units might eventually become unaffordable by using grants to cover rehabilitation costs, forgiveness of debt (when properties had FHA insurance), and increases in the rents paid under subsidy contracts with HUD. Nonetheless, some properties left the affordable housing stock by prepaying mortgages with use restrictions and by opting out of their rental subsidy contacts (Finkel et al., 2006; Hilton et al., 2004).

Similar policy concerns about tax credit units motivate this research, but the relatively limited active involvement of the federal government means that federal legislative or regulatory tools for preserving the units as affordable are limited. Beginning in 1990, federal law required tax credit projects to remain affordable for a

minimum of 30 years, for a 15-year initial compliance period and a subsequent 15-year extended use period. However, the Qualified Contract (QC) process provides an option for owners to leave the LIHTC program after 15 years by asking the HFA to find a buyer, at a formula-determined price, who will agree to maintain the property under affordability restrictions. If no such buyer is found, affordability restrictions phase out over 3 years. The QC process is described in detail in chapter 4.2.

STATE EFFORTS TO PREVENT TAX CREDIT UNITS FROM REPOSITIONING TO MARKET RATE

Beyond this federally mandated period of affordability, the task of preserving tax credit units as affordable primarily belongs to the states, and states have responded by taking a variety of measures. California made longer affordability periods mandatory almost from the beginning of the program, and, by 2001, 41 states either required or gave preference to projects with affordability periods of longer than 30 years. These periods extend from 40 to 60 years and even to perpetuity in the case of Massachusetts, Michigan, and Vermont (Gustafson and Walker, 2002).

The binding constraint on the period of affordability is sometimes not the federal requirement or state QAPs, but the conditions imposed by other funders. States, local governments, and nonprofits sometimes provide additional sources of funding for construction of tax credit properties and often require periods of affordability longer than 30 years.

Finally, a number of states require tax credit applicants to waive the use of the QC process, ensuring that the property cannot phase out of the tax credit program as early as Year 18. According to our interviews, some states also discourage the use of the QC process by making the process complicated and expensive.

OTHER FACTORS AFFECTING THE AFFORDABILITY OF TAX CREDIT UNITS

Other factors also affect whether LIHTC properties will be repositioned to market rate. Many developments have socially motivated sponsors, often nonprofits whose mission is to create and preserve affordable housing in their neighborhoods. Even if no additional affordability restrictions prevent these organizations from converting properties to market rate, they typically maintain the units' affordability to achieve their mission. Federal law requires that 10 percent of tax credits be allocated to projects with nonprofit sponsors. In the first 2 years of the LIHTC program, states were not meeting that target but, by 1993, 18 percent of properties had nonprofit sponsors, and the percentage continued to grow.

Perhaps most important, the dynamics of rental markets affect whether tax credit properties are repositioned. In many places, rents for tax credit properties—particularly by Year 15, when the properties have aged—may already be at market potential.

OTHER FEDERAL HOUSING PROGRAMS ARE MORE COST-EFFECTIVE THAN LIHTC IN SOME MARKETS

Given the cost of the LIHTC program to the federal government—roughly $5 billion in annual tax expenditures—surprisingly little research examines its cost-effectiveness. A body of literature beginning with the Experimental Housing Allowance Program (starting in the 1970s) demonstrates that housing production

programs are generally more expensive than housing vouchers.[10] However, few studies specifically compare the costs of LIHTC—with its built-in private-market efficiencies—to other housing subsidy mechanisms. We are aware of only two studies, both are described in the following section.

Most recently, Deng (2005) compared newly constructed units placed in service after 1994 with vouchers in six metropolitan areas. She compared the subsidies required to produce a LIHTC unit with the voucher subsidy required to house a family with the same target income[11] in the metropolitan area. This research required detailed review of individual project cost certification forms and project evaluation worksheets to compile the necessary data on project development costs, which points to an important gap in the data readily available to researchers on LIHTC projects. Both state and federal subsidies were included in the analysis.

Deng found that the LIHTC units, all subsidized with 9-percent credits, were more expensive than the cost of vouchers over a 20-year period, but that the size of the LIHTC premium depends on the voucher payment standard and characteristics of the local housing market as well as local program administration.

Assuming a housing voucher payment standard of 90 percent of Fair Market Rent (FMR), tax credit units are more expensive than vouchers in all six metropolitan areas. In Atlanta, tax credit units are, on average, six times more expensive than vouchers. In Miami, tax credit units are 66 percent more expensive than vouchers under this payment standard. With a higher payment standard (110 percent of FMR), the cost-effectiveness of tax credit units increases, but are still more expensive than vouchers in four of the six metropolitan areas (Atlanta, Boston, Cleveland, and New York). With a voucher payment standard of 100 percent of FMR, tax credit units are more expensive than vouchers in all metropolitan areas, but only by 2 percent in San Jose and 12 percent in Miami.

Housing market tightness did not necessarily drive the cost effectiveness of tax credit units. Tax credit units are most cost effective in Miami, a balanced market, and in San Jose, a tight market, although the reasons for this effectiveness are quite different in each market. They are least cost effective in Atlanta, a balanced market, and Boston, a tight market. Again, the reasons for this are quite different in Atlanta and Boston. For example, Deng attributes the high cost of tax credit units in Atlanta to two primary factors. First, Atlanta's FMRs are relatively low, making the comparative cost of vouchers low. Second, the income targets for LIHTC units in Atlanta are relatively high: 50 to 60 percent of the AMI, a target driven by both program administration and local market conditions. In this market, most households residing in tax credit units would not qualify for a housing voucher because they could easily afford market rents (demonstrated by the fact that their minimum rent contributions are often higher than FMR). The voucher subsidy to these households is thus $0, while tax credit units to house these families are expensive to build.

On the other hand, LIHTC units were estimated to be roughly equivalent to the cost of vouchers in San Jose, a tight market. Again, local conditions and program administration are important factors. FMRs are high in San Jose (higher than in either New York or Boston) and the metropolitan area has a history of high growth rates in FMRs, both conditions that make vouchers relatively expensive. In addition, LIHTC production costs are relatively low in San Jose because projects are relatively large (thus achieving economies of scale) and tend to be developed in suburban areas.

10. These studies are reviewed by Olsen, 2000, and include HUD 1974; Mayo et al. 1980; Olsen and Barton 1983; and Wallace et al. 1981. More recent studies include McClure 1998; and Shroder and Reiger, 2000.

11. Where the units' targeted family income was not available, maximum allowable rent was used.

In New York and Boston, the other tight markets, even new construction LIHTC projects tend to be smaller and developed in infill areas, increasing the costs of construction and thus reducing the cost effectiveness of tax credit units. The location of LIHTC projects in these areas is influenced by these states' focus on community revitalization as a secondary goal of affordable housing development.

An earlier study by GAO (2002) compared the cost (both of development and operations over the useful life of the project[12]) of six federal housing programs and found that LIHTC units are less expensive *to the government* than housing vouchers, but only because tenants—who are relatively higher income households and also often pay more than 30 percent of their income for rent—pay a larger share of the bill. The *total* cost of LIHTC units, considering costs both to the government and to tenants, is higher than the cost of housing vouchers. This was true in both metropolitan and nonmetropolitan areas, although not in all housing markets. Further, of the four production programs compared, LIHTC units were the most expensive for both one- and two-bedroom units in metropolitan areas, although differences in unit quality could not be controlled for by the study.

The GAO study did not consider other sources of project subsidies such as grants and soft debt from state or local governments or other sources. The study assumed that capital reserves would be sufficient to cover the properties' needs for a 30-year period during which the properties would provide housing for low-income renters. The authors noted that shortfalls in capital reserves, which are historically underfunded by production programs, would result in costs that were higher than estimated, perhaps by nearly 15 percent.

The present study strongly suggests that reserves for LIHTC properties are indeed often underfunded, as evidenced both from the interviews conducted for the study and from the observation that some LIHTC properties are resyndicated with new allocations of tax credits at Year 15.

LIHTC UNITS SUBSTITUTE FOR SOME PRIVATE MULTIFAMILY PRODUCTION

Unlike earlier public housing and Section 8 developments that were very heavily concentrated in low-income areas, Eriksen and Rosenthal (2010) point out that LIHTC projects are relatively well-distributed geographically across the income spectrum. As of 2000, nearly one-half of LIHTC projects (44 percent) were in neighborhoods in either the upper or middle third of their MSA's income distribution. In comparison, 77 percent of public housing units were in low-income neighborhoods in 2000. This may indicate that the program is expanding the stock of affordable housing in higher income neighborhoods.

A point of contention about the LIHTC, however, is whether the properties expand the overall stock of housing. That is, to what extent do tax credit units built substitute for—or crowd out—other multifamily rental housing that would have been built without a subsidy. If tax credit units completely replace private units, then there is no net addition to the housing stock, although the quality of the housing stock may improve. The substitution of tax credit units for privately funded units stems from their similarity to market-rate units. This similarity plays the useful role of imposing market discipline on tax credit projects. It also suggests, however, that in places where tax credit units have rents similar to unsubsidized rental housing, conversion of LIHTC properties to market-rate properties may not seriously threaten the total number of units that are affordable to moderate-income households.

12. This period was assumed to be 30 years.

Subsidized housing generally has been found to substitute for private housing to some degree, so that one unit of subsidized housing results in less than one unit of additional housing on net (Murray, 1983 and 1999 and Sinai and Waldfogel, 2002). Research conducted specifically on LIHTC developments finds some degree of substitution for private rental housing, but is mixed in its conclusions on whether tax credit units entirely crowd out unsubsidized housing. Malpezzi and Vandell's (2002) study produced point estimates that indicate that place-based housing subsidies fully crowd out private, unsubsidized construction. Their analysis was at the state level, however, and they were unable to draw firm conclusions about crowding out because of a small number of observations (51) and thus large standard errors. Eriksen and Rosenthal (2010) studied tax credit properties using tract-level data for 1990 and 2000 with more conclusive results. Their estimates indicate that, over a 10-mile radius area, nearly all LIHTC development is offset by reductions in private unsubsidized construction. They suggest that the program may affect the location of affordable housing units more than the overall number of new housing units developed.

Two recent studies concluded that the degree of crowding out depends on the type of neighborhood where the housing is built. Eriksen and Rosenthal (2007) examined high- and low-income communities (those in the top third and bottom third of the income distribution in the MSA) and found that the impact of LIHTC developments was quite different between the two. In low-income communities, the developments had a positive effect. Within a small area, LIHTC units may actually encourage private construction. The opposite was true in high-income communities. For those communities, within an area with a 0.5 mile radius, construction of LIHTC units substituted fully for private, unsubsidized construction. Here LIHTC did not increase the total stock of rental housing, but instead may have affected who gets to live in those communities.

Baum-Snow and Marion (2009) likewise found that the LIHTC program's impacts on housing development differ across neighborhood types. In areas where home prices had been declining, new tax credit units nearby increased property values. In gentrifying areas, nearby development of tax credit units had a negative impact on incomes. Consistent with these impacts, they concluded that tax credit units crowd out private multifamily rental construction much more in gentrifying areas than in declining areas. In declining areas, new tax credit units increased the overall rental stock by 0.8 units within one kilometer of the project site. In gentrifying areas, however, each new tax credit unit increases the overall rental housing stock by only 0.37 units.

THE FINANCIAL HEALTH OF LIHTC PROPERTIES

Although very few LIHTC developments fail to the point where they are foreclosed, this does not mean that tax credit properties are without financial problems. The physical condition of units is often closely intertwined with financial health, as the financial stability of the property is an important factor in the decisions property managers make about maintenance and capital improvements.

As Cummings and DiPasquale (1998) point out, investment in a tax credit property is investment in real estate, and real estate investment is risky. Beyond the typical risks involved in real estate investment, LIHTC projects face some unique risks, including the rent restrictions, the complexity of the program and its compliance requirements, the special needs of the population being served if projects are designed to serve people with special needs, such as the homeless or disabled, and other factors related to the design of the tax credit program.

RENT RESTRICTIONS

The program's maximum rents restrict the cash flows that can be used to replenish reserves, pay debt, and make capital improvements to the property. That is the theory behind compensating owners who agree to rent restrictions with a development subsidy—the equity raised through the tax credit—that reduces the need for debt.

On the other hand, LIHTC properties in markets where maximum tax credit rents are below market rents may perform better because other affordable housing is scarce and also because higher incomes in areas such as the Northeast and California mean that the maximum tax credit rents in these markets may be high relative to the costs of operating the housing. Ernst & Young (2010) analyzed the operating performance of a sample of tax credit properties that were placed in service and leased by the end of 2005 and found that properties in the Northeast and Pacific regions had better median debt coverage and cash flow than properties in the Midwest, where tax credit rents and market rents tend to be very similar.

PROJECT MANAGEMENT

As in all real estate, the quality of management of LIHTC developments affects their financial and physical condition. In addition to facing the typical complexities of multifamily property management, LIHTC project managers must also screen applicants for compliance with required income levels, report to the HFA, and submit to property inspections. They may serve special-needs populations that require additional services.

In addition, the LIHTC program's design provides incentives for property managers to operate on very thin margins, with net cash flow frequently near zero. Importantly, LIHTC investors typically do not expect to receive their returns from cash flows, but from tax-related events. In addition to benefiting from the tax credits, investors may claim deductions for the project's depreciation and other expenses against other income, and positive cash flow reduces the value of the depreciation deductions (Usowski and Hollar, 2008). In practice, investors do not press for positive cash flow, but may instead encourage property managers to use operating income for property expenses. Some financing arrangements also provide incentives for partners to keep net income at or near zero: some soft loans, often provided by states or other government entities, require repayment only if cash flow is positive (Cummings and DiPasquale, 1998).

Managing the project's cash flow to achieve this balance adds to the difficulty of operating LIHTC projects. If cash flow is not managed successfully—for example, because cash flow projections made at the time of underwriting were too optimistic—the resulting negative cash flow may lead the project into a downward spiral of financial and physical deterioration. Although tax credit projects typically are of high quality compared with other nearby market-rate units when placed in service, over time inadequate operating income may cause property maintenance and physical condition to suffer, leading to increasing difficulty in attracting and retaining tenants.[13] This can lead to a downward spiral by further exacerbating financial and physical problems as operating costs increase and rental income decreases (Korman-Houston, 2009).

13. Not surprisingly, the relationship between physical condition and occupancy is strong: one study found that mean occupancy was higher for properties in excellent condition (97 percent) than those in good and satisfactory condition (95 and 93 percent, respectively), and occupancy dropped sharply for properties in poor condition (85 percent) (Korman-Houston, 2009).

FACTORS RELATED TO LIHTC PROGRAM DESIGN

Healthy reserves are particularly important for properties operating on thin margins, and here the design of the LIHTC program works against the financial stability of the properties. When LIHTC properties are financed and decisions are made about budgeting for operations, reserves generally are budgeted at a higher level than is typical for conventionally financed properties. Unlike conventional properties, however, LIHTC properties are expected to operate for 15 years without raising capital for repairs by refinancing. LIHTC reserves—constrained by the property's projected cash flow—generally are not funded at a high enough level to cover capital needs that arise over that period. The problem of inadequate reserves is exacerbated when negative cash flow leads to the use of reserves to cover operating costs. Several studies of the financial health of LIHTC properties find that a significant minority operate with negative cash flow, at least temporarily. More detailed discussion of this is presented in chapter 5.

The financial health of LIHTC projects—and the need for reserves—is also affected by production standards, including how much rehabilitation is done to older properties. In her analysis of Enterprise's portfolio of tax credit projects, Korman-Houston (2009) found that rehabilitation projects were more likely to experience cash flow underperformance than new construction. Rehabilitation projects were also less likely to be in good condition than new construction projects, suggesting that the initial quality of rehabilitation projects is lower than that of new construction. For this reason, rehabilitation projects typically contribute more to replacement reserves than new construction projects (Ernst & Young, 2010).

1.2 THE EARLY YEAR LIHTC PROGRAM

As of 2009, more than 11,000 LIHTC properties, with more than 400,000 housing units, had reached their 15-year mark. These were properties placed in service under LIHTC between the start of the program in 1987 and 1994. Exhibit 1.1 shows, first, that the program grew steadily from 1987 through 1994, although it did not reach the 100,000 units per year that became typical in later years. Average property size grew as well, but remained relatively small even in 1993 and 1994, with 44 or 45 units per LIHTC development on average in those years. The percentage of larger properties, those with 100 units or more, also grew steadily, but during the 1987 through 1994 period less than 9 percent of all properties had that scale. This is reflective primarily of properties placed in service from 1987 through 1992. More than 11 percent of properties placed in service in 1993 and 1994 had at least 100 units.

During the first 3 years of the program, more than one-half of the properties were rehabilitated existing structures. By 1990, more than one-half of properties were new. During the period as a whole, about 57 percent of properties were newly constructed. The share of properties with nonprofit sponsors grew during 1987 through 1994, but for the whole period, only about 10 percent had nonprofit GPs.

Perhaps the most notable feature of the early year LIHTC program is the substantial use of the program for housing with Rural Housing Service (RHS) Section 515[14] loans, 31 percent for the period as a whole. In contrast, a very small percentage of early year properties were financed with tax-exempt bonds.

14. Following the Department of Agriculture Reorganization Act of 1994, the USDA's Office of Rural Development was created and took over administration of Farmers Home Administration (FmHA) activities, and the FmHA Section 515 loans became known as Rural Housing Service (RHS) Section 515 loans.

Exhibit 1.1. Number and Characteristics of LIHTC Properties Placed in Service, 1987 Through 1994

	1987	1988	1989	1990	1991	1992	1993	1994	All 1987–1994
Number of projects	812	1,726	1,784	1,410	1,472	1,425	1,452	1,462	11,543
Number of units	20,781	43,792	54,095	53,722	53,320	52,957	65,289	67,456	411,412
Average project size and distribution	27.2	26.3	31.5	38.6	36.8	37.3	45.2	46.6	36.4
0–10 units	42.3%	49.6%	44.4%	34.3%	30.7%	30.2%	19.4%	16.7%	33.5%
11–20 units	15.3%	13.3%	10.9%	11.8%	14.1%	14.0%	15.8%	12.2%	13.2%
21–50 units	31.7%	25.5%	29.0%	35.0%	38.3%	36.9%	40.3%	46.0%	35.2%
51–99 units	5.4%	5.5%	8.1%	9.2%	8.6%	10.9%	13.4%	14.0%	9.5%
100+ units	5.2%	6.2%	7.6%	9.8%	8.3%	8.0%	11.2%	11.2%	8.6%
	100%	100%	100%	100%	100%	100%	100%	100%	100%
Construction type									
New construction only	51.2%	46.5%	49.3%	59.5%	56.5%	65.5%	62.3%	66.0%	56.7%
Rehabilitation	48.8%	53.5%	50.7%	40.5%	43.5%	34.5%	37.7%	34.0%	43.3%
	100%	100%	100%	100%	100%	100%	100%	100%	100%
Nonprofit sponsor	1.7%	2.7%	8.2%	6.3%	9.8%	14.0%	18.4%	18.1%	10.1%
RHS Section 515	32.1%	23.2%	26.9%	36.5%	33.6%	34.6%	32.1%	33.8%	31.1%
Tax exempt bond financing	3.2%	2.3%	4.0%	3.7%	3.2%	3.1%	1.8%	3.4%	3.1%

LIHTC = Low-Income Housing Tax Credit. RHS = Rural Housing Service.

Notes: Projects used for analysis include only records with placed-in-service year data. Missing data information is in appendix E.

Source: HUD National LIHTC Database

1.3 RESEARCH QUESTIONS

This is not the first study to examine the outcomes for LIHTC developments after 15 years. In 2004 and 2005, Alex Schwartz and Edwin Meléndez interviewed seven LIHTC syndicators and other tax credit experts and, based on those interviews and on published literature on LIHTC, described the factors that would influence what happened to older LIHTC properties over time. They concluded that "the biggest threat to the long-term viability of tax credit housing as a resource for low-income households stems less from the expiration of income and/or rent restrictions and more from the need for major capital improvements. A relatively small segment of the inventory is likely to convert to market-rate occupancy—primarily housing built during the earliest years of the program, housing located in the most expensive housing markets, and housing that is not subject to additional regulatory restrictions" (Schwartz and Meléndez, 2008: 263).

Schwartz and Meléndez emphasized the small portion of the LIHTC inventory for which tax credits were allocated before 1990, before use restrictions that extended through Year 30 were in effect, and the fact that as many as one-half of those earliest properties were thought to have affordability restrictions other than those mandated by the LIHTC statute. They also cited expert opinion that few owners of LIHTC properties for which tax credits were allocated in 1990 and later would try—or succeed—in opting out of the 30-year use restrictions by asking the HFA to try to find a buyer for the property willing to pay a QC price. Finally, they pointed to the very small fraction of LIHTC properties that are located in census tracts where median rents are greater than the metropoli-

tan median rent. Their view was that only owners of properties in such locations would have a strong incentive to leave the LIHTC program to seek market rents (Schwartz and Meléndez, 2008).

The research questions for this study are essentially the same as those suggested by Schwartz and Meléndez, now examined at least five years later and after many more properties have passed the 15-year mark:

- How many properties leave the LIHTC program after reaching Year 15?
- What types of properties leave, and what types remain under monitoring by HFAs for compliance with program rules?
- What are owners' motivations for staying or leaving?
- How are properties that remain in the LIHTC program performing physically and financially?
- What are the implications of properties leaving the LIHTC program for the rental market? To what extent do properties that leave the LIHTC program continue to provide affordable housing?
- How do ownership changes and financing affect whether LIHTC properties continue to provide affordable rental housing and whether they perform well?

In answering those questions, we focused on properties that would have reached Year 15 by 2009—that is, properties placed in service under LIHTC between 1987 and 1994. Given the time frame for data collection for this study, 2010 and early 2011, we anticipated that we would have data collected from HFAs on the universe of LIHTC properties through 2009 and that we would have interview-based information on properties that had reached Year 15 in 2009 or earlier.

We also decided to examine the outcomes after Year 15 primarily for those properties that do not have either project-based rental subsidies from Section 8 or similar programs or RHS Section 515 loans. Those federal subsidy programs carry other use restrictions and, perhaps more importantly, a different set of incentives. Instead, we focus on properties governed primarily by the rules and incentives of the LIHTC program itself.

Originally, we also decided to focus on properties that had not used LIHTC a second time. As data collection for the study progressed, however, it became clear that the extent to which LIHTC developments will be recapitalized and resyndicated with new tax credits is central to the future of LIHTC properties after Year 15. The further use of tax credits—both those allocated competitively by HFAs and the 4-percent credits that are available automatically to rental properties financed with tax exempt bonds—is an important dimension of how financing affects the future performance and affordability of LIHTC properties. Schwartz and Meléndez (2008) noted that additional tax credits were one way to meet an older property's capital needs, without offering a view as to how common this would become.

Many of the research questions are about LIHTC properties that are leaving the program, which we define as no longer being monitored by an HFA for compliance with LIHTC rules. However, the earliest properties, those that received LIHTC allocations before 1990, had use restrictions that lasted only 15 years. For those properties, no longer reporting to an HFA may imply nothing about whether a property continues to provide affordable housing. Owners may stop reporting simply because they no longer are required to do so. The properties may have other affordability restrictions, or they may continue to charge rents that are at or below the LIHTC standard because those are market competitive rents. For properties subject to 30 year use restrictions as well, no longer being monitored by the HFA may have ambiguous implications, because some HFAs do

not require reporting between years 15 and 30, instead relying on owners to comply with the use agreements to which they committed. Despite these ambiguities, we consider properties no longer monitored by HFAs to be those that *potentially* have left the LIHTC program and *potentially* are no longer affordable. Therefore, this is a useful group of properties to examine to answer some of the research questions.

1.4 DATA SOURCES AND METHODS

We used many data sources to answer the study's research questions. We can divide these data sources into quantitative data that lend themselves to numerical estimates because they are comprehensive or systematic and data that may support generalizations but must be considered qualitative.

Sources of quantitative data used for this study are—

- HUD's LIHTC database of properties and units placed in service each year.
- HUD's Public Housing Information Center (PIC) database of units rented under the HCV Program.
- A survey conducted for this study of rents of a sample of LIHTC properties no longer monitored by HFAs.

Sources of qualitative data used for this study are—

- Interviews with syndicators of and direct investors in properties that were placed in service from 1987 through 1994.
- Interviews with brokers who handle sales of early year LIHTC properties.
- Property-level records provided by syndicators and brokers.
- Interviews with owners.
- Property-level records provided by owners.
- Interviews with experts on multifamily finance and the LIHTC program.
- Discussions with HFA staff about agencies' policies and trends seen within the LIHTC program.

QUANTITATIVE DATA

The most comprehensive source of data on LIHTC properties is the HUD database of information collected from HFAs on the characteristics of LIHTC properties at the time they were placed in service.[15] The data include the number of units in the property and their distribution by size (number of bedrooms), whether the property was newly constructed or rehabilitation of existing buildings, whether the sponsor (the General Partner) was a for-profit or a nonprofit entity, whether the property received 9- or 4-percent credits, whether the property had a Section 515 loan, the street address of the property, and contact information for the owner. The current data collection form for the HUD LIHTC database can be found in appendix A.

15. The HUD National LIHTC Database and recent reports based on database updates and revisions are available from HUD at http://www.huduser.org/portal/datasets/lihtc.html.

The HUD LIHTC database has been a rich source of information on the LIHTC program and has been used extensively by researchers (Freeman, 2004; Ellen and O'Regan, 2011; McClure, 2006 and 2010; Khadduri, Buron, and Climaco, 2006; Schwartz and Meléndez, 2008). The precise information on the location of LIHTC developments has been particularly useful for analyzing how LIHTC relates to housing markets and to racial segregation. The data have also been useful for describing trends in the LIHTC program over time. (Climaco et al., 2010, 2009, 2006)

HUD has been collecting data for the LIHTC database every year since the early 1990s on properties placed in service in the most recent year for which HFA records are complete. When collection of data began, HFAs were asked to provide data on properties placed in service between 1987 and 1994. HUD has requested updates and corrections to LIHTC project records through the data collection process, however, those data from the earliest years were less complete than data for properties placed in service since 1995. Therefore, for this study we asked the HFAs to review the data for early year properties and to add data both for missing properties and for missing data elements. We asked HFAs to provide data elements that HUD started collecting for the HUD National LIHTC Database only in recent years and to clarify the status of the oldest LIHTC properties by signifying properties no longer being monitored for the LIHTC program, checked if duplicate records existed in the database that may indicate a new allocation of tax credits, and to identify whether projects have left the program by the QC process. Because we wanted to make sure we could analyze separately those properties that did not have Section 8 rent subsidies, we asked HFAs to add information on that property characteristic, which had not been included in the early years of the database, and we also matched the addresses of LIHTC developments to HUD administrative data on Section 8 projects. For agencies that have upgraded their data systems in recent years, data on the earliest LIHTC projects were readily available, and in fact, many of these agencies had already provided updated information through HUD data collection for the LIHTC database. For many agencies, however, data on the early year properties were not maintained electronically, and the files were in storage and not readily accessible. Because of those difficulties, we were not able to get updated information from all HFAs.

The HUD LIHTC database does not include much information on the financial characteristics of the property. For example, no information is available about development costs, nor about the equity that was raised on the basis of the tax credit, the property's debt, or the rents actually charged for the units. Recently, HUD began to request data on the amount of the tax credit allocation, but those data have not been consistently provided for earlier tax credit properties. No information is available on the property's performance over time, both because HFAs often would not have this information and because the data are largely fixed at the time the property was placed in service. Therefore, the research questions that relate to the property's financial structure and performance cannot be answered using this data source.

Furthermore, the HUD LIHTC data are not updated to record changes in ownership over time. This limits the usefulness of the database for drawing a sample of properties for owner interviews, especially for a cohort of properties for which the owner contact information is at least 15 years old. Research that used the HUD LIHTC database as a sampling frame conducted much closer to the time the properties were placed in service already found much of the contact information was inaccurate. That research also found that many owners who could be reached refused to agree to be interviewed (Abravanel and Johnson, 1999).

Although in general the HUD LIHTC data reflect the property as it was when originally placed in service under the LIHTC program, there are two exceptions. In recent years, HFAs have been asked to provide a list of LIHTC properties that they no longer monitor, and those properties are given a flag in the database that identi-

fies them as such.[16] Therefore, we are able to identify a set of early year properties that may have left the LIHTC program and may no longer have affordable rents.

Second, the HUD LIHTC data make it possible to identify properties that appear to have used LIHTC for a second time, by matching the street addresses and other identifying information for properties placed in service each year to those already in the database. One goal of data collection and updating the database is to account for properties and units only once. When new data are collected for the database, the records are checked against the current database for revisions, updates and duplicates. If a new record appears to represent an earlier record, the earlier record is removed from the database, and the new record has a notation added to indicate the record was previously in the database with a different record identifier. The record identifier for the database includes the project placed-in-service year, so a review of the data notation can show whether the project's placed-in-service year changed by only one or 2 years or much longer. When the timing suggests that the second appearance of the property in the database is not simply a correction by the HFA of an earlier data error, we can infer that the property has been refinanced and recapitalized with new tax credits.

To better understand the outcomes for LIHTC properties that are no longer monitored by HFAs and, in particular, to answer the questions about the extent to which these properties remain affordable, we used two approaches. Generalizations about the implications for the rental market of properties leaving the LIHTC program are based on those efforts.

First, we matched the addresses of properties no longer monitored by HFAs to the addresses of properties that had at least one tenant using an HCV during 2010. HUD's PIC database has street addresses for all properties rented under the voucher program. The premise for this analysis is that, if a property has rents that can be reached by a tenant with a voucher subsidy, that property has not left the housing stock of rental housing that can be made available for low-income families and individuals, although they made need rental assistance to make the housing affordable.[17]

Second, we conducted web searches for current rents of a small sample of about 100 properties no longer monitored by HFAs in locations where we thought market repositioning was most likely: census tracts with low poverty rates. We compared those rents with the LIHTC maximum rents applicable to the property's location. The premise for this analysis is that properties with rents that remain at or below the LIHTC standard have not left the affordable housing stock. For properties with rents that are greater than the LIHTC standard, we took into consideration that the property was a mixed affordable and market-rate property. Such properties are fairly rare in the LIHTC program.

QUALITATIVE DATA

Given the limited information in the HUD LIHTC database on what are the outcomes for LIHTC properties over time and our conclusion that a representative sample of owners of LIHTC properties could not be found and persuaded to be interviewed, we decided that the best single source for understanding what the outcomes are for LIHTC properties over time would be syndicators. That was the same determination made by earlier researchers who asked similar questions about LIHTC (Cummings and DiPasquale; Ernst & Young; Schwartz

16. The name of the variable is NONPROG.

17. Many tenants may need rental assistance to be able to afford LIHTC units even during the period when the units are subject to the program's rent restrictions.

and Meléndez). Syndicators understand the properties' ownership and financing structures, because they helped create them. They monitor the financial performance of the properties on behalf of the limited partner (LP) equity investors. They play a central role in property sales or changes in ownership structure. They are in a position to provide information about why and how LIHTC properties leave the affordable housing stock and about the properties' physical condition and financial performance. Therefore, a major element of the data collection for this study was telephone interviews and site visits with syndicators of early year LIHTC properties, as well as with some of the companies that had made equity investments in LIHTC properties during that time period and with real estate brokerage firms that have been active in sales of LIHTC properties to new owners or ownership entities.

- Seven syndicators participated in interviews and/or site visits for the study. LIHTC investment portfolios for these syndicators ranged from 1,150 properties to 2,800 properties; five of the seven had invested in 1,500 or more properties. All of the syndicators interviewed work across the country. All of the organizations have been in business since the LIHTC program's inception—or very shortly thereafter—and thus been associated with many properties placed in service during the early years of the program, 1987 through 1994.
- Four direct investors participated in telephone interviews or submitted written responses to questionnaires. All four have been major players in the program since the early days. Three of these direct investors had amassed LIHTC portfolios of 5,000 or more properties (in at least one case because of acquisition of other banks and their investments). These are all financial institutions or insurance companies.
- Three real estate brokerage firms with specialized practices in post-Year 15 properties participated in interviews and/or site visits for the research study. All three operate nationally. According to syndicators and other industry experts, these three brokers handle a very significant portion of the country's current sales of Year 15 properties that are being sold to new owners. Sales are being made to both individual and corporate owners. New owners have a variety of motives for buying mature LIHTC properties, as will be discussed later in this report.

The 11 syndicators and direct investors interviewed for this study during 2010 through 2011 had, among them, disposed of their interests in roughly 2,000 properties, meaning that they either transferred their limited partnership ownership interests or sold the properties to another owner. They all expected to continue disposing of their interests as additional properties in their portfolios approached Year 15.

At all these organizations, the research team interviewed senior staff who are knowledgeable about what is happening to properties as they reach Year 15. LIHTC syndicators and large investors have asset management staff who are responsible for tracking the performance—always including financial and usually also physical condition of LIHTC properties—and representing the interests of the LPs throughout the years that the LPs hold ownership interests in the properties. These staff annually review financial reports on each property, may inspect it periodically, and may intervene if they think a property is encountering major financial or physical problems. Most syndicators and investors with large portfolios also now have asset disposition staff who are specifically responsible for unwinding the LPs' interests in the property after 15 years.

These were the kinds of staff interviewed for this report. At a few organizations, interviews also included staff responsible for investing in new LIHTC properties, staff responsible for inspecting and monitoring the physical condition of properties, or in-house legal counsel with a broad overview of the organization's LIHTC investments. At the brokerage firms, senior brokers who handle the sale of LIHTC properties for both sellers (that is, existing owners) and buyers (prospective owners) were interviewed. During the site visits, the study team

collected detailed information from each organization's files on specific LIHTC properties that were placed in service between 1987 and 1994.

Because these organizations have each seen many properties pass through the Year 15 benchmark, they are able to generalize about what has happened to properties across the portfolio, as well as provide examples of diverse types of outcomes.

We estimate that together these organizations have information about a very large share of all the properties placed in service between 1987 and 1994. The properties we were most likely to miss learning about were small properties that were not syndicated. Given that most developers would have difficulty using the tax credits without bringing in partners (see chapter 2.2), we believe that such properties comprise a very small minority of early year LIHTC units.

We also conducted interviews with 13 other experts on the LIHTC program and multifamily finance. We also discussed with selected HFA staff their observations about what has happened to their earliest projects, including whether they noticed properties returning to apply for a new round of tax credits and what policies the HFAs had about awards of new tax credits for the earliest tax credit recipients.

The interview guides for the syndicator and broker interviews and the site visits can be found in appendix B. A list of syndicators, corporate investors, brokers, and other experts interviewed for the study can be found in at the end of this report.

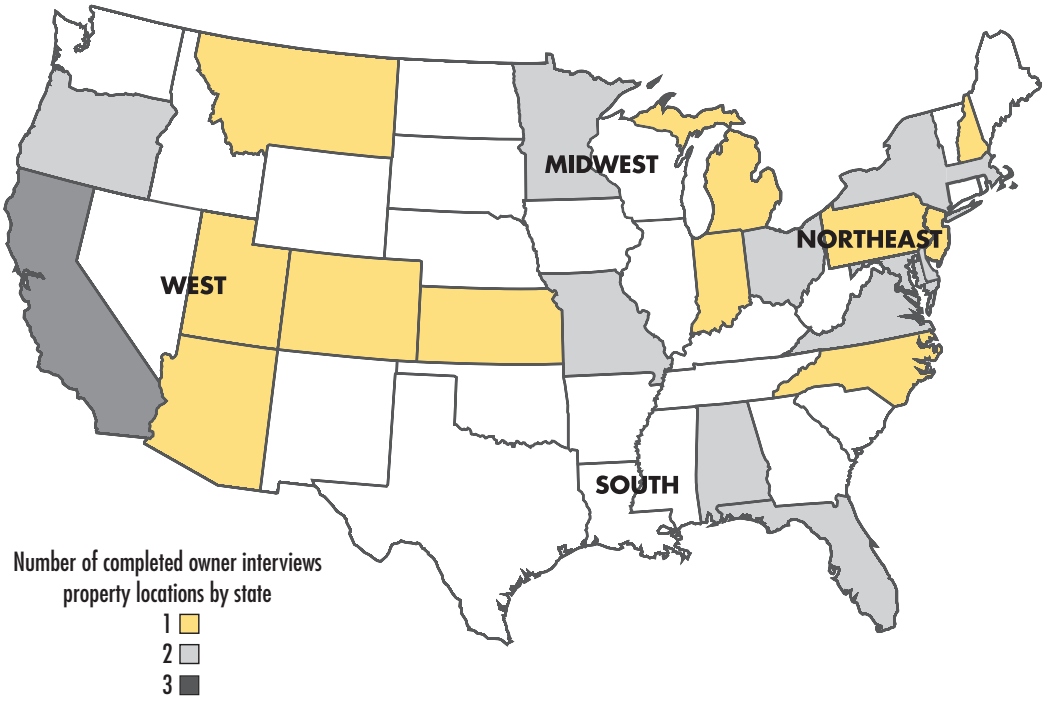
In addition, the research team completed 37 interviews with individual owners of post-Year 15 properties. The interview was with the General Partner (GP) or, in the case of properties whose initial limited partnerships had been dissolved, the owner. In one case, the interview was with the LP. These owners provided the study team with direct information about what was happening to their properties around Year 15 and prospects for the property going forward.

This was a convenience sample, based on owners who were identified by syndicators, by HFAs, by the study team, and by other LIHTC experts and who agreed to be interviewed for the study. It was also a purposive sample, however, in that we sought to interview owners whose properties illustrated several distinct outcome patterns that had been described by syndicators, brokers, and other experts and also to interview owners of properties in different parts of the country. Although this is not a large enough sample to provide statistical information, it enabled the research team to confirm and provide examples of the patterns that were identified by syndicators, investors, and brokers. The owner interviews included—

- 26 for-profit and 11 nonprofit organizations.
- Organizations throughout the country (see exhibit 1.2).
- Owners of properties in diverse kinds of areas: central cities, suburbs, exurban areas, and rural areas.
- Owners in diverse economic markets, ranging from strong markets such as large cities in California and Massachusetts to weak markets in Ohio and Michigan, and mid-range markets such as Maryland.
- Both developers of the properties originally, when they initial obtained LIHTCs, and more recent purchasers of properties at least 10 years after they were awarded LIHTCs. We interviewed 27 original and 10 new owners.

- Both properties that had been newly constructed when first placed in service (25) and properties that had been rehabilitations of existing structures (8) (original construction type was not known for four properties).
- Owners whose properties have been continuously in sound financial condition and those whose properties have encountered financial problems that required refinancing or sometimes a sale to a new owner before or around Year 15.

Exhibit 1.2. Locations of the 37 Owner Interviews



Note: The guides for the owner interviews are in appendix C.

Source: Owner interviews

ANALYSIS

The syndicator and broker interviews, together with the interviews of experts, are the basis for most of the generalizations made in this report about patterns of outcomes for different types of properties. The study team reviewed the files documenting those interviews. We found a lot of consistency in what we were told by representatives of different organizations.

We also reviewed systematically the documentation of the interviews with owners and the documents on property financing and performance that we received from owners or reviewed during site visits. That information is used in this report to provide illustrations and examples of the outcome patterns for early year LIHTC developments. The descriptions in this report of the outcomes of specific LIHTC properties, either from the syndicator

and broker files or from interviews with individual owners, have been worded in a way that masks the identity of specific owners and their properties.

We used the updated HUD LIHTC database to describe the characteristics of properties that were placed in service between 1987 and 1994 and to compare them with properties placed in service after 1994. This may help assess whether what the outcomes for the early year properties is a good indicator of the outcomes for properties that will pass the 15-year mark in the future.

We also used the LIHTC database to show the differences between properties that no longer report to the HFAs under the LIHTC program and those that do and to characterize the types of properties that appear to be using the tax credit for a second time. Finally, we used the data match between LIHTC properties and HCVs and the survey of rents of properties no longer under monitoring by HFAs to make generalizations about the extent to which LIHTC properties placed in service in the early years of the program are no longer affordable for low-income renters.

2. OWNERSHIP AND FINANCING

2.1 HOW ARE LIHTC DEVELOPMENTS FINANCED?

Conventional multifamily housing is financed with a combination of debt and equity. Developers will borrow a portion (say, 75 percent) of the cost of acquiring and building a property, and will provide equity capital for the balance. Depending on their resources and business arrangements, developers may provide their own equity capital, or they may secure additional equity capital from other investors.

In exchange for their capital, investors in conventional housing hope to get returns from three sources:

- ***Cash flow:*** Cash available to be paid out to owners from rents after all operating expenses and debt service payments have been covered.
- ***Resale value:*** Investors hope that property will appreciate over time, and that they will be able to realize a profit on the eventual sale of the multifamily development.
- ***Tax benefits:*** For conventional real estate, tax benefits from the property are generally limited to reductions in taxable income because of depreciation of the property.

HOW DO TAX BENEFITS FROM DEPRECIATION WORK?

Under the U.S. Internal Revenue Code, depreciation enables taxpayers to convert the up-front cost of developing a property to tax-deductible expenses over a period of time. For example, suppose a multifamily development is built at a cost of $5 million. Current federal tax law allows residential properties to be depreciated over 27.5 years, on a straight-line basis. Thus, each year, the owners can claim 1/27.5 of the depreciable acquisition and construction costs as an expense—$181,818 per year. This $181,818 is not a current use of cash: the development costs were paid for up front, from debt and equity, when the project was built. Nonetheless, the owners can use this noncash expense to reduce their taxable income from the property. Let's say, for example, that this property has $500,000 in rent revenues and $250,000 in operating expenses. Before depreciation, the owners would have to pay income taxes on $250,000 in profits. After depreciation is taken into account, however, the owner's taxable income is reduced by $181,818 to $68,182. In essence, for that year, the owner gets to enjoy $181,818 in cash proceeds on which no federal income taxes are due.

Depreciation is a deferral rather than an elimination of tax liability. Let's say that, after operating this property for 5 years, the owners sell it for $6 million—$1 million more than it cost to develop. Because they have depreciated the property over time, the book value of the property will be reduced by the amount of depreciation taken: $181,818 for 5 years, or $909,090 in total. The fact that the property has depreciated by this amount means that the owners will need to pay taxes not only on the $1 million appreciation in the property's value, but also on the $909,090 in depreciation that is essentially reimbursed by the sale proceeds.

The depreciation deduction is valuable despite the fact that it defers, rather than eliminates, taxes, for several reasons:

- First, taxpayers benefit from deferral of taxes because of the time value of money; investors benefit from the use of the dollars that would have been paid in taxes during the years intervening before the property is ultimately sold.
- Second, capital gains, and recaptured depreciation, may be taxed at a lower rate than income; so when taxes are ultimately paid on sale, the tax burden may actually be less than it would have been if income had not been sheltered by depreciation.

Although the tax benefits associated with real estate ownership are valuable to investors in conventionally financed and operated multifamily real estate, these benefits are usually of secondary value. Generally, much larger shares of expected returns for owners of conventional real estate come from cash flow and profits on sale.

Real estate financed with the LIHTC alters this conventional formulation in a number of ways. The LIHTC program is designed to motivate developers to build properties with rents restricted to levels affordable to low-income households. Restricting the rents changes the overall financing picture in a number of critical ways:

- Properties with restricted rents have less revenue with which to pay a mortgage, and thus can support smaller amounts of debt than properties at higher market rents.
- Properties with restricted rents will typically generate less cash flow for owners than properties with higher market rents, reducing a major benefit of ownership.
- To the extent that rent restrictions are long term, they will reduce properties' resale value, reducing another major benefit to owners.

The LIHTC program is designed to counter these effects of reduced rents by providing a tax benefit to owners that compensates for the loss of cash flow and resale profits. Unlike the depreciation deduction (from which LIHTC investors also benefit), the LIHTC program offers federal tax credits to investors—a flat reduction, rather than a deferral, in the amount of federal income taxes paid. A project with a $5,000,000 development cost might, for example, be eligible for roughly $420,000 in annual LIHTC credits. That credit entitles the owners to subtract $420,000 from their federal tax bill every year for 10 years.

This tax benefit is of a generous enough size that it motivates owners to contribute much greater amounts of equity than would be justified by cash flow or resale value alone, compensating for the reduction in debt that results from lowered rents. Typically, then, LIHTC properties differ from conventionally financed multifamily properties as follows—

- A much greater share of the financing comes from equity: While the capital structure of conventional residential real estate might have 20- or 25-percent equity and 75- to 80-percent debt, a LIHTC property might have 50-, 60-, or even 70-percent equity in its capital structure, with one-half or less of development costs paid for by mortgage debt.

- A much greater share of the benefits flowing to owners comes from tax benefits as opposed to cash flow or resale value.
- The tax benefits going to the owners are largely 10 years of direct tax credits against their income taxes, with only a minority of tax benefits coming from depreciation and other tax losses such as interest owed on deferred debt, although both kinds of tax benefits are available in LIHTC properties.

2.2 WHO OWNS LIHTC PROPERTIES?

To take advantage of the federal tax reductions offered by the LIHTC program, owners need to owe taxes in the first place. LIHTC credits are really valuable only to firms that have large and predictable federal tax obligations. In most cases, real estate developers themselves do not have income that is large enough or predictable enough to be able to fully use 10 consecutive years of tax reductions worth hundreds of thousands of dollars per project. As a result, LIHTC projects have almost always been developed using a limited partnership ownership structure.[18]

In a typical tax credit project, the real estate will be owned by a limited partnership formed for the single purpose of developing and owning that property. The limited partnership will typically be owned by the combination of (1) one GP holding a minority interest (1 percent or less) in the limited partnership and (2) one or more LPs holding the lion's share of the ownership (99 percent or more). The GP, typically the sponsor/developer or its affiliate or subsidiary, has day-to-day managerial responsibilities for developing and operating the real estate, completing financial and tax reporting, and ensuring compliance with use restrictions, as well as seeing to long-term asset management. GPs make the bulk of their profits through developer fees, most of which are typically paid after a property is fully occupied and operating at or greater than break-even levels for a specified period of time. GPs may also have rights to some or all of the property's cash flow, often through fees structured to provide incentives for good management of the real estate.

The LPs have restricted responsibilities and managerial rights, although they hold the right to approve any major alterations to the project or its management team and the right to step in and remove the GP if the development runs into trouble. LPs get financial returns primarily from tax benefits, including both tax credits and tax losses.

Businesses known as syndicators emerged to broker these arrangements, recruiting investors and matching them with LIHTC development projects, structuring the investment vehicle to minimize risks and maximize investor returns, and monitoring the assets over time to ensure that the investors' returns (largely provided by tax benefits) are preserved.

Most syndicators are private, for-profit firms, working predominantly (but not exclusively) with for-profit developers.[19] From the early years of the program, however, national nonprofit syndicators emerged, with the goal of raising equity to support the work of nonprofit developers of affordable housing. Enterprise Community Investment, Inc. (formerly known as Enterprise Social Investment Corporation) was founded in 1984; the National Equity Fund was founded by Local Initiatives Support Corporation (LISC) in 1987. Both firms participated in

18. In more recent years, many LIHTC properties are owned by Limited Liability Companies (LLCs) instead of LPs. These LLCs operate in much the same way as LPs, with a managing member playing the role of the GP and limited members in the limited partner role. This shift to LLCs happened only in the more recent years of the program, so the discussion here will refer to limited partnerships, but the discussion applies equally to LLCs.

19. For-profit syndicators interviewed for this study reported that 75 to 80 percent of their developers were for-profit and 20 to 25 percent were nonprofit entities.

syndicating LIHTC investments from the program's inception in 1986. They were created by the parent organizations to support the development of affordable housing by nonprofit, often community-based, organizations. For example, LISC was founded in 1979 by the Ford Foundation to connect community organizations with the resources to improve their neighborhoods. From the outset, LISC helped provide access to financing that might typically not be available from conventional lenders—for example, predevelopment loans for community-sponsored real estate. When the LIHTC program began in 1986, LISC created the National Equity Fund to assemble investment monies from businesses and invest them in community-sponsored LIHTC properties. Over the years, NEF has expanded its activities to include for-profit sponsored housing, but it has retained a great interest in nonprofit sponsored properties.

State and regional nonprofit syndicators began to form a few years later—Merritt Capital in California (1989), the Ohio Capital Corporation for Housing (1989), and the Massachusetts Housing Investment Corporation (1990), to name only a few. Currently, a total of 14 state-based and regional nonprofit syndicators exist around the country. Although they invest in both for-profit and nonprofit sponsored projects, they have always had a strong interest in working with projects sponsored by nonprofits such as community development corporations.

Interviews with long-time industry participants, along with a series of studies on LIHTC investment performance published by Ernst & Young, reveals patterns in LIHTC investment vehicles over time. In the early years of the program, both private individuals and public corporations invested in tax credit properties. In the LIHTC program's first years, many syndicators created public funds for LIHTC investment. Syndicators marketed these funds to wealthy individual investors, selling fund shares through public offerings. A single public fund might have dozens or even hundreds of individual investors and would make investments in a portfolio of affordable housing projects, often spanning the entire country. These public funds required SEC registration and reporting. Marketing of LIHTC funds to individuals effectively ended by the early 1990s, however, because LIHTC program rules severely limited the amount of active income that individuals could shelter with these tax credits, rules that did not apply to corporate investors. The original 1986 legislation authorizing the LIHTC program provided some transition rules for projects that were already in development that facilitated their being marketed to individual investors, but these rules also ended by the early 1990s. Moreover, marketing to corporate investors was simpler because SEC registration was not required for institutional funds and typically such funds had many fewer investors than funds marketed to individuals, so long-term reporting and fund management were less complex.

Other syndicators recruited corporate investors to purchase the tax credit equity in portfolios of properties, creating institutional funds. The nonprofit syndicators limited their investor recruitment to corporations rather than individuals from the earliest days of the program, as did some private sector syndicators. The entire LIHTC equity market shifted sharply towards corporate rather than individual investors in 1993 through 1994 (although one of the syndicators interviewed for this study reported offering private funds as late as 2003). Changes in the federal tax code in 1993 prompted this shift. First, the LIHTC program became a permanent part of the tax code, giving corporate investors greater motivation to invest the time and effort necessary to understanding LIHTC investments. At the same time, the 1993 changes in the tax code also limited individual taxpayers' use of passive losses (such as the losses generated by real estate in which the investors do not play an active managerial role) to offset passive income (that is, investment income earned without the taxpayer's active managerial involvement). The passive loss rule did not apply to corporations, so they remained able to fully use the losses generated by LIHTC investments to offset their taxable income. LIHTC investments thus became more valuable to corporate investors than to individuals. Finally, syndicators found that working with corpo-

rate investors was less labor-intensive: public funds require SEC reporting and ongoing communications with a large pool of individual investors. Selling LIHTC investments to corporate buyers does not entail SEC reporting, and, since institutional funds involve a smaller number of entities making larger capital investments, the volume of communications required with investors is much smaller.

While many corporations invested in institutional funds through syndicators, several corporations became major direct purchasers of LIHTC investments from the early years of the program. Rather than work through a syndicator, these firms created the internal capacity to reach out to the developer community to acquire limited partnership interests in affordable housing projects and to underwrite deals, as well as to oversee management of these investments over time. Direct corporate investors included financial services firms (such as Fannie Mae, J.P. Morgan, and Bank of America) and insurance companies (such as Hancock, SunAmerica, and Transamerica/Aegon). Today, financial services firms and insurance companies are the dominant investors in the LIHTC market, both through direct investment and working through syndicators. In the program's early years, a number of nonfinancial firms also made extensive investments in LIHTC properties (for example, Chevron, Clorox, and Edison). Even today, a scattering of other kinds of businesses invests in LIHTCs, including such firms as Verizon and Google.

Some LIHTC equity investors have been motivated by community issues, as well as by financial returns. Banks around the country are regulated by the federal Community Reinvestment Act, which requires them to provide some financial services to their local geographic area. When banks seek federal approval for such actions as creating new branches or merging with another bank, they are evaluated, in part, by their range of CRA activities. Investing in LIHTC properties qualifies as a CRA activity, so for many large financial institutions, this type of investment has become an important way of satisfying CRA requirements while also sheltering income from federal taxes. This combination of investment and tax shelter is a major reason why financial institutions have been among the most frequent LIHTC investors, both through direct investments and syndication funds. Over the years, increasing numbers of financial institutions have become interested in this double benefit.

3. WHAT ARE THE OUTCOMES AT YEAR 15? CHANGES IN OWNERSHIP

A change in ownership for a LIHTC property can happen at any time. It is most likely to take place around Year 15, however, because it is in the interest of limited partners (LPs) to end their ownership role quickly after the compliance period ends. They have used up the tax credits by Year 10, and after Year 15 they no longer are at risk that the tax credits will be recaptured because of failure to comply with program rules.

3.1 SALES OF LIMITED PARTNER INTERESTS TO THE GENERAL PARTNER

By far the most common pattern of ownership change around Year 15 is for the LPs to sell their interests in the property to the General Partner (GP) (or its affiliate or subsidiary) and for the GP to continue to own and operate the property.

One nonprofit syndicator estimates that 95 percent of its Year 15 properties are transferred to the original nonprofit developers: indeed, adding these properties to the nonprofits' permanent ownership portfolio is part of most nonprofit syndicators' missions. They expect the properties to remain with the nonprofit owners in perpetuity and to continue to be operated as affordable housing.

WHY DO LIMITED PARTNERS WANT TO SELL AT YEAR 15?

The low-income housing tax credits themselves, the greatest benefits of ownership, are used up after 10 years of occupancy; the next five years of ownership oversight allows investors to minimize the risk that the credits already taken will be subject to Internal Revenue Service (IRS) recapture for noncompliance. After these 15 years, however, the benefits are both gone and safeguarded, because the IRS will no longer seek recapture of prior tax benefits, even if the properties fall out of compliance with LIHTC income limits or other requirements, regardless of whether the properties are supposed to comply for 30 years. Although some state agencies may have some recourse against owners who violate compliance requirements between years 15 and 30, their sanctions do not carry the heavy weight of potential IRS tax recapture. Therefore, most investors find little economic motivation to stay in the deal after Year 15. Syndicators also are motivated to end the limited partnership to avoid tax reporting and other administrative burdens.

Tax losses might continue to flow for some time after Year 15, but these losses may not be desirable for corporate investors because they will reduce reported profits. This negative factor will no longer be offset by the need to protect the tax credit from recapture. All of the syndicators and direct investors interviewed for this study indicated that as a matter of policy, they work to engineer an investor exit as quickly as possible after the initial 15-year LIHTC compliance period: within a fairly short time after Year 15, most original investors will have exited the Limited Partner owner role. This exit can be accomplished by selling the Limited Partner interests (usually to the existing General Partner) or by selling the property (either to the existing General Partner or to a third party). If the property is sold to a third party, then the Limited Partnership is dissolved, and both the Limited and General Partners end their ownership roles.

Direct investors and for-profit syndicators also report transferring the majority of properties to the original developer/GP. While one syndicator estimated that only 60 percent of its dispositions go to the original GPs, other syndicators and direct investors reported selling 75 to 85 percent of their properties to the original GPs or their affiliated companies.

TERMS OF THE SALE OF LIMITED PARTNER INTERESTS TO THE GENERAL PARTNER

The terms of the sale of the LP interests to the GP make a difference for the ability of the property to continue to operate as affordable housing in good condition. If the GP is required to finance a sales price that exceeds the property's outstanding debt, that will limit the cash flow that is available for operating the property and meeting its capital needs over time.

In the early years of the LIHTC program, many partnerships were formed under terms that permitted the LPs to share in the property's value at the time of sale. In those cases, the exit processes involve an assessment of each property's market value, usually under a range of scenarios, and often including a formal real estate appraisal. Sometimes a brokerage firm is asked to give an opinion of value. If a property has LIHTC income restrictions for 30 years, then these restrictions will be used in assessing market value, although the assessment might also include what the property might sell for under a Qualified Contract (QC) sale. The assessment may change current operating assumptions—for example, increasing rents to the maximum allowed under LIHTC if rents are below that level or assuming more efficient property operations (if plausible), leading to greater cash flow and so greater market value. New mortgage financing at current rates is assumed in these valuation analyses.

If a property is determined to have value in excess of outstanding debt, then the LP investors may seek a sale of the property for the greatest achievable value, which may not be a sale to the GP. The partnership documents may give the GP a right to consent to any proposed sale, however, and therefore an ability to bargain for a price less than maximum value.

When properties have real economic value in excess of debt, the terms of a transfer may be subject to considerable negotiation between the LP and GP. An example is a property with more than 200 units in a strong housing market suburban area in the Upper Northwest, where the GP wanted to retain ownership beyond Year 15. After some discussion, the GP and LP agreed to seek an opinion of the property's value from a brokerage firm, and they used the resulting valuation to negotiate a multi-million dollar payment, beyond the value of the debt on the property, from the GP to the LP. The GP paid for this by refinancing the mortgage debt on the property, with the same national lender that had originally underwritten it, taking advantage of lower mortgage interest rates.

Other partnerships provide a right for the GP to purchase at specified terms. The two national nonprofit syndicators have always structured their projects to facilitate a sale to the nonprofit sponsor at around Year 15. One common scenario is for the GP to acquire the LPs' interests in return for assuming the obligations of all the existing debt on the property, including both hard and soft (nonamortizing) debt. In nonprofit-sponsored deals,

a right of first refusal is often granted up front to the nonprofit sponsor for the exit price specified in the federal tax code, which is assumption of outstanding debt plus exit tax liability.[20]

The interviews conducted for this study suggest that exit taxes are not a major issue in establishing Year 15 sales prices. Only one syndicator, one of the nonprofit firms, named recovery of exit tax liability as a goal they seek to achieve for the LP investors.

Negotiations concerning the cost of buying out LP interests may also be extensive if the predefined price in the original partnership agreement is an unattractive proposition for a GP who thinks the property is not worth the stated amount. In other situations, the GP buyout price may be ambiguous in the initial documents or subject to interpretation and assessment (for example, if the right of first refusal is for the property's current market value). These situations can also lead to long negotiations between the two partners.

Many original GPs, both nonprofits and for profits, are in fact able to buy out LP interests for little or no consideration beyond assumption or repayment of outstanding debt. Syndicators indicate that most LIHTC properties have little value beyond debt at the end of Year 15: one syndicator claims that 80 percent of their properties are in this category. Other industry experts place this percentage even higher. The absence of value in excess of debt is particularly likely to be the case for projects with soft loans that remain unpaid during the compliance period, since these soft loans grow in value by virtue of accruing interest.

A transfer of LP interests to the GP for outstanding debt can occur in both strong and weak markets. For example, one project in the Upper Midwest was viewed by both parties as being in a weak market and having debt that exceeded the project's value. Before Year 15, the GP had fed the property nearly $500,000 to keep it going. By selling it to the GP for $1, the limited investor ended the risk that it, too, might have to invest more capital to keep the housing out of foreclosure. A property in a strong, stable market area of a major California city offers a market contrast, but with the same result. This 119-unit property, sponsored by a nonprofit and with a large amount of soft debt and a service population of homeless individuals, was acknowledged by both the LP and the GP to have debt in excess of its market value based on a real estate appraisal. The LP, therefore, agreed to transfer its interest to the GP for $1.

In another example, also of a property in a strong housing market in California, the GP and LP agreed that the value of the project was less than the debt on the 180-unit property. The LP interest was transferred in exchange for the GP assuming the debt. In addition, per the partnership agreement, $40,000 in replacement and operating reserves was distributed to the LP with the dissolution of the partnership. This was because it was not necessary for the GP to contribute to the capital account to maintain the property during the life of the partnership, so the GP did not have enough credit in the capital account to keep the reserves.

20. Section 42 of the federal tax code provides the option for nonprofit sponsors to have a right of first refusal to purchase a LIHTC property at the end of the compliance period for a specified price, which includes the assumption of all outstanding debt, plus payment of any investor exit taxes. Thus nonprofit syndicators tended to anticipate back-end sale at this price in the deals' initial structure from the outset of the LIHTC Program. Over time, as more syndicators and investors have worked on more nonprofit sponsored deals, this option has been more commonly included in their initial partnership agreements. If a partnership agreement contains this option, then the transfer of a property to full control of a nonprofit-owned GP may be quickly discussed and concluded between the GP and LP.

WHICH PROPERTIES ARE LIKELY TO HAVE EXIT TAX LIABILITY?

Investors will face exit taxes on sale if the tax losses they have been allocated exceed their invested capital and if they have used those losses along the way to reduce their taxable income. In general, bond deals are more likely to have issues with exit taxes. Exit taxes are difficult to predict for the funds that were syndicated to individual investors, both because individuals' tax situation may have fluctuated during the years they held the investment and because of changes to the federal tax law in 1993. That year, new federal tax law said that individual taxpayers could only use passive losses (such as those generated by a real estate investment) against passive income (generated by other investments in which the individual does not play an active role such as other real estate). This change meant that LIHTC investments by individuals could no longer shelter ordinary or earned income. Since many individual investors were unable thereafter to fully use the losses generated by their tax credit investments, the ultimate sale of those assets would actually produce a tax benefit by releasing suspended losses.

Investors most likely to face substantial exit tax liability are corporate investors who have used all of the tax losses and who have invested in properties where losses are particularly large because, in addition to depreciation, the properties have soft loans with large amounts of accruing interest. Interest on real estate loans becomes an operating expense or loss for tax purposes. Less commonly, large tax losses are generated during the life of a LIHTC property because of deeply negative property operations. All tax losses are passed through to Limited Partners in proportion to their legal ownership share of the limited partnership that owns a property.

Nonprofit-sponsored projects more commonly fit this profile of generating large losses because they are more likely to take on large amounts of soft debt in order to reduce at least some units' rents significantly below LIHTC levels. Sources of soft debt include HOME, CDBG, foundation funds, programs of the Federal Home Loan Bank, and state and local housing programs. Without soft loans or substantial operating cash losses, depreciation alone is unlikely to drive investor capital accounts negative. Still, exit taxes can be a problem for for-profits as well as nonprofits.

INTENTIONS OF THE GENERAL PARTNER AFTER YEAR 15

GPs or their affiliated companies may want to retain ownership of a LIHTC property for a number of reasons. Mission-driven owners—most nonprofit project sponsors, as well as some for-profit organizations—have an organizational plan that is to develop and own affordable housing long term.

GPs may also be motivated by the financial returns from the ongoing operations of the housing, through property management fees and/or cash flow. Continued ownership of the property after Year 15 may be critical to maintaining the scale or geographic concentration of a property management operation.

Some owners of LIHTC properties retain them at Year 15 with an eye toward the future: they hope that at a later date they can sell them at a profit or refinance them in a manner that will provide a financial return. These owners may or may not also be interested in the financial return from ongoing housing operations.

3.2 SALES OF THE PROPERTY TO A NEW OWNERSHIP ENTITY

Although most GPs retain ownership of their LIHTC properties at Year 15, a minority sells out. This exchange is almost always done by selling the property, although occasionally the GP interest is transferred to another organization, with the original partnership continuing to exist.

REASONS GPS SELL AROUND YEAR 15

Based on the research done for this study, GPs' motivations for selling are varied, sometimes driven by personal reasons and sometimes by financial considerations.

The most commonly reported GP motivations for selling are—

- *Retirement.* The GP has been a single individual who wants to retire or a small company whose several owners want to retire from the real estate business.
- *Leaving the business or change in business model.* A GP may decide that it no longer wants to be engaged in LIHTC properties, perhaps because its business model has shifted to focus on other kinds of housing or real estate. In one instance, the study team was told about a small LIHTC property sold by a national for-profit to a local nonprofit because the original owner decided that it no longer wanted to deal with such small properties. In another, the founder of the real estate firm that was the GP was about to retire, and his son wanted to focus on commercial real estate.
- *Outlier properties.* An outlier is a property that is remote geographically from other owned real estate, perhaps its sole property in a state, so a GP's ongoing ownership is, therefore, inefficient administratively and financially.
- *Financial difficulties at the property.* The property has been troubled financially, and the GP no longer wants to work on it or invest in it, or perhaps thinks another GP can operate it more effectively.
- *Corporate problems.* The GP or its sponsoring organization has run into corporate financial difficulties, and so is disposing of all or most of its assets. This was the case for a 123-unit property in a southeastern state. The previous sponsor was a large nonprofit that went through bankruptcy.
- *GP seeking financial return.* The GP is able to realize a good financial return by selling the property. One example of this was a 150+ unit senior property in a strong California market. The GP decided that the recent period of low interest rates on mortgages would be an ideal time to realize value, because the low rates would translate into a higher sale price, ongoing LIHTC use restrictions notwithstanding.
- *LPs seeking financial return.* Under the terms of some partnership agreements, syndicators or investors may be able to insist on a third-party sale if they believe the property has value, even with extended use restrictions, in excess of its outstanding debt and more than the price the GP is willing to pay.

MOST NEW OWNERS ARE FOR-PROFIT ORGANIZATIONS LOOKING FOR CASH FLOW AND OPERATIONAL SCALE

In recent years, a market has developed for the resale of properties reaching the end of the Year 15 tax credit compliance period. These properties are with for-profit owners, and the buyer also is a for-profit.[21] The three market-dominant brokers specializing in sale of LIHTC properties reported to the research team that the dominant business feature of the for-profit buyers for these properties is that they are very strong operators. They are able to minimize operating costs and maximize revenues, usually within the confines of extended use restrictions.

Brokers describe most buyers of Year 15 properties as "conventional real estate guys" who generally rely on a conventional combination of debt plus private equity for financing. The equity comes from either their own resources or from a limited number of private business partners, without any formal syndication. Fannie Mae products are frequently mentioned as a source of new mortgage financing, although some buyers use conventional bank debt financing. Post-Year-15 LIHTC property buyers often use short-term debt. A popular Fannie Mae program described by one broker offers terms as short as 7 years.

Brokers and syndicators described for-profit buyers of older LIHTC properties as falling into two broad categories. First, many of the organizations buying older LIHTC properties are large-scale regional or national owners who achieve economic efficiencies through economies of scale. Residential real estate is very much a business of scale—per unit operating costs decline as property size increases, so much more money can be made operating a large property than a small one. Therefore, it is no surprise that most of the properties that end up sold to third parties appear to be among the largest in the LIHTC portfolio. Although more than 90 percent of LIHTC developments placed in service before 1995 have 99 or fewer units, one broker reports 100 units as the average size of Year 15 deals that they sell. Another broker publishes an annual report of their LIHTC dispositions group; the average size of LIHTC property sold each year between 2006 and 2009 ranged between 131 and 146 units—definitely at the larger end of the LIHTC portfolio.

The second category of for-profit buyer of LIHTC Year 15 properties consists of small, hands-on operators who own and operate modest-sized portfolios in a relatively tight geographic range. These businesses are able to achieve efficiency through close personal control and intimate knowledge of local markets and resources. Their sales are less likely to be handled by brokers and more likely to be arranged privately, either by the original owner or by the syndicator.

Some buyers who are also property managers have reportedly been willing to buy LIHTC properties solely for the chance to expand their operating portfolio, even when the properties have slim chance of generating economic benefits from cash flow or future resale value. The property price may be a multiple of management fees, since that is where the primary value is assumed to reside. Such properties tend to be smaller deals, under 50 units, located in mid- to weak-range market areas, where LIHTC rents are at or greater than market rents.

Occasionally a nonprofit organization will purchase an older LIHTC property. The research conducted for this study indicates that these acquisitions have been infrequent but are not unknown. One example was a nonprofit that was ending its real estate activities and sold its only LIHTC property to another nonprofit.

21. Only rarely do nonprofit owners sell their properties. When they do sell, the new owner also is almost always a nonprofit. We learned of one case of a for-profit organization selling a property to a nonprofit organization that had access to additional subsidies for recapitalizing the property.

Some buyers aim to refinance and recapitalize a property with a new allocation of LIHTC credits or other subsidy funds. Owners proceed with these transactions with the goal of earning developer fees and positioning the property for at least 15 more years of physical and financial health. The brokers interviewed for this study reported that a minority of buyers of older LIHTC properties are seeking to use new tax credits. We discuss what drives recapitalization, including use of LIHTC, in chapter 6.2 of this report.

4. WHAT ARE THE OUTCOMES AT YEAR 15? CHANGES IN USE RESTRICTIONS

4.1 USE RESTRICTIONS AFTER YEAR 15

During the first 15 years of a LIHTC property's compliance period, owners must report annually on compliance with LIHTC leasing requirements to both the Internal Revenue Service and the state monitoring agency. After 15 years, the obligation to report to the IRS on compliance issues ends, and investors are no longer at risk for tax credit recapture. For properties with extended LIHTC restrictions through Year 30, the use agreements between the original owners and the state allocating agencies remain in force. States vary in the extent and type of reporting they continue to require. Although an exhaustive survey of state monitoring regarding extended use restrictions was beyond the scope of this study, owner interviews revealed a range of state practices. Many states require reporting after Year 15 that is identical to the first 15 years. Some owners, however, claim that they continue to comply with extended affordability restrictions but the state agency enforces them through the honor system (or, perhaps, through the risk of litigation on behalf of tenants).

PROPERTIES SUBJECT TO USE RESTRICTIONS FROM ANOTHER FUNDING SOURCE OR MONITORING AGENCY

Many LIHTC developments, including those placed in service between 1987 and 1994, are subject to other use restrictions that last well beyond Year 15. Some sources of such restrictions are—

- *Mortgage financing from housing finance agencies or other mission-oriented lenders.* State HFAs around the country are some of the most frequent mortgage lenders for LIHTC properties. HFA mortgages may have terms of 30 or even 40 years. State HFAs typically require affordability restrictions that run the entire length of the mortgage term. These loans vary in other terms (for example, whether or not they permit prepayment and whether or not prepayment would end affordability restrictions). Other mission-oriented lenders include Community Development Finance Institutions or similar nonprofit financial institutions.
- *Subordinate debt or grant financing from state or federal sources (including HOME or Community Development Block Grants [CDBGs]) that bear requirements for long-term use restrictions.* These restrictions vary among programs and funders. For example, although the federal HOME program sets minimum affordability terms that are relatively short,[22] states or localities that allocate these funds not uncommonly require longer affordability periods. Many states and localities have their own funds on which they set the length of affordability restrictions. For example, one nonprofit-sponsored development in a Northern California city has city sources of financing that come with 50-year use restrictions.

22. Federal minimum affordability requirements for HOME funds vary depending on the type of project. Refinance of a rehabilitation project previously assisted with HOME funds has a 15-year minimum affordability period; new construction must remain affordable for 20 years. Existing housing that is rehabilitated or acquired must remain affordable for 5, 10, or 15 years, depending on the average amount of HOME funds spent per unit.

- *Land use agreements with states or municipalities that have contributed resources to the projects in exchange for long-term affordability commitments.* While it may be possible to extinguish use restrictions associated with debt simply by repaying that debt, land use agreements typically run with the deed to the property and are more difficult to remove. LIHTC projects with sites acquired from state or local government agencies not uncommonly have affordability covenants that may extend for 40 or 50 years.

4.2 THE QUALIFIED CONTRACT PROCESS

Properties subject to an extended LIHTC use restriction may seek to have that restriction removed. The legislation that extended LIHTC use restrictions from 15 to 30 years for properties for which tax credits were allocated in 1990 and later also established a Qualified Contract (QC) process under which owners may request regulatory relief from use requirements after Year 15. The owner requests this relief from the state agency that originally awarded the tax credits to a property.

Although the overall QC process is outlined in the federal law that governs the LIHTC program, Section 42 of the Internal Revenue Code, the IRS has never issued final regulations detailing the process. As a result, each state agency can define its own regulations for implementing the QC process, so there are in practice "fifty flavors of process."[23] Furthermore, a number of states either require that developers seeking LIHTC waive their right to use the QC process in the future or award competitive scoring points in return for waiving this right. In these states, no QC applications are likely to be submitted.

The steps in the QC process are—

- The owner requests the state agency to find a buyer for the property. The documentation that an owner must submit when making this request varies substantially from state to state and, in some places, is extensive, including for example, financial statements from the entire life of the property and capital needs assessments.
- The state agency then has one year to find a potential buyer who will maintain the property as affordable housing. The state then presents to the owner a QC to buy the property at a sales price governed by the formula specified in federal law.
- If the state presents a QC to the owner, then the owner is supposed to sell the property to the new owner. But, if the state cannot find a new owner that will offer a QC, then the owner is entitled to be relieved of LIHTC affordability restrictions, and those restrictions then phase down over 3 years.

23. Kevin Day, Vice President of Centerline Capital Group, speaking at a November 9, 2011, IPED conference on *Tax Credit Property Dispositions.*

THE QUALIFIED CONTRACT SALES PRICE

The "qualified contract" is supposed to name a price that will acquire any non-low-income portion of the property for "fair market value" and the low-income portion for the sum of—

- The "outstanding indebtedness secured by or with respect to the building," plus
- The "adjusted investor equity in the building," plus
- "Other capital contributions," minus
- "Cash distributions from (or available for distribution from) the project."

Without IRS regulation, the terms from federal law that define the qualified contract price are subject to interpretation. For example—

- Does "outstanding indebtedness" include loans made to the property by a general or limited partner and not secured by a mortgage?
- "Adjusted investor equity" is supposed to be increased by the value of the Consumer Price Index (up to 5 percent per year) for the time it has been invested. But does this include any funds invested by the limited partners that were not anticipated at the time the original partnership agreement was executed?
- How will "cash distributions" be computed? Are they computed before or after paying for any deferred developer fee or incentive management fees to either general or limited partners? Do they include reserve funds?

Perhaps because it is so complex and uncertain, the syndicators and experts interviewed for this study report that the QC process has rarely been used, even for properties that have not waived their right to use it. Chapter 6.3 describes some properties for which the QC process has been used.

4.3 PROPERTIES NO LONGER MONITORED AFTER YEAR 15

A total of 3,699 LIHTC properties were no longer monitored by HFAs as of 2009, according to information supplied by HFAs to the HUD LIHTC database (exhibit 4.1). Among properties that had only 15-year LIHTC restrictions because the allocation was made before 1990, about one-half of the properties are no longer monitored by HFAs: 2,712 are monitored and 2,737 are not. The fact that so many still are monitored may reflect HFA financing of the property's debt. It may also reflect longer use restrictions that were imposed by a few states and encouraged by many, even for the earliest properties.[24] Some HFAs may continue to monitor properties that have use restrictions from other programs under agreements with the local or state public agencies that administer these funding sources, and they may or may not be included among the 2,712 properties still under monitoring.

24. As of 1990, at least 41 states required or gave preference to properties providing affordability for periods of longer than 30 years. By 2001, this trend was true for at least 47 states.

Exhibit 4.1. LIHTC Properties Placed in Service, 1987 Through 1994, and No Longer Monitored as of 2009

	No Extended Use: LIHTC Allocation, 1987 Through 1989		Extended Use: LIHTC Allocation, 1990 Through 1994	
	Monitored	No Longer Monitored	Monitored	No Longer Monitored
Number of projects	2,712	2,737	4,879	962
Number of units	94,217	74,925	209,425	21,071
Average project size and distribution	35.3	29.0	43.2	22.3
0–10 units	42.8%	40.4%	20.7%	58.9%
11–20 units	10.8%	14.9%	14.2%	10.0%
21–50 units	28.8%	31.9%	42.9%	20.1%
51–99 units	8.4%	7.1%	12.0%	6.1%
100+ units	9.2%	5.8%	10.1%	4.9%
	100%	100%	100%	100%
Construction type				
New construction only	46.3%	54.5%	65.4%	49.1%
Rehabilitation	53.7%	45.5%	34.6%	50.9%
	100%	100%	100%	100%
Nonprofit sponsor	6.2%	4.8%	15.1%	12.6%
RHS Section 515	24.5%	31.6%	38.1%	13.9%
Tax exempt bond financing	4.9%	1.7%	3.4%	2.1%
Location type				
Central city	57.0%	44.5%	40.6%	58.4%
Suburb	23.4%	29.6%	25.6%	24.1%
Nonmetropolitan	19.6%	26.0%	33.9%	17.5%
	100%	100%	100%	100%
Poverty rate of 10 percent or less	19.1%	26.6%	27%	21.8%
Percent of units with 2 or more bedrooms	59.5%	48.0%	53.7%	61.7%

LIHTC = Low-Income Housing Tax Credit. RHS = Rural Housing Service.

Notes: Projects used for analysis include only records with placed-in-service year data and tax credit allocation or award year. Projects do not include all allocations through 1994, only those placed in service by 1994. Missing data information are in appendix E. Data on whether a tax credit project was being monitored for LIHTC compliance are based on information provided by state allocating agencies.

Data on location type and poverty rate of 10 percent or less are based on LIHTC projects that were geocoded with census tracts from the 2000 Census. The geocoding rate for projects placed in service from 1987 through 1994 was 88.9 percent. Central city locations are based on central cities defined by 1999 metropolitan statistical areas (MSAs) defined by the Office of Management and Budget. Suburb locations are within an MSA but not in a central city. Nonmetropolitan locations are not in an MSA. Poverty rates are census tract-level rates from the 2000 Census.

Source: HUD National LIHTC Database

The 2,737 properties that were subject to 15-year LIHTC restrictions (because the tax credits were allocated in 1989 or earlier) and are no longer monitored are somewhat smaller, somewhat more likely to have been newly constructed, somewhat less likely to be in central cities, and much less likely to have project-based rental assistance than those that are still under monitoring. They also are somewhat more likely to be in census tracts with poverty rates less than 10 percent. These characteristics probably reflect differences in state policy and other sources of funding rather than decisions on the part of owners to leave the LIHTC program and no longer provide housing at affordable rents. For example, the high percentage of properties still under monitoring that have project-based rental assistance probably reflects HFA debt financing that would cause HFA monitoring to continue for those properties.

A much smaller number of properties that had 30-year LIHTC restrictions are no longer subject to HFA monitoring: 962 properties or about 16 percent of all properties placed in service before 1994 that had tax credits allocated in 1990 or later. These properties may include some properties that have gone through the QC process and are out of the 3-year phase down of LIHTC restrictions. They may also include properties in states that do not monitor compliance with use restrictions between Year 15 and Year 30. Properties with 30-year restrictions that are no longer monitored are much more likely to be small (10 units or fewer). They also are more likely to be in central cities and less likely to have been newly constructed when first placed in service. These differences are hard to interpret. They may suggest the type of properties likely to try—and succeed—in getting through the QC process. Or they may simply reflect differences between states that monitor compliance after 15 years and those that do not.

4.4 IMPLICATIONS FOR AFFORDABILITY OF CHANGES IN USE RESTRICTIONS

Properties that no longer have use restrictions from LIHTC or from other funding sources may or may not continue to provide affordable housing. At least two types of properties will continue to provide housing that is priced at or below LIHTC rents despite the absence of use restrictions: properties with owners committed to long-term affordability and properties for which market rents are no higher than LIHTC rents.

PROPERTIES WITH OWNERS COMMITTED TO LONG-TERM AFFORDABILITY

Nonprofit owners usually continue to operate properties as affordable housing beyond the term of any regulatory requirements because it is their mission to do so. Some for-profit owners interviewed for this study also described their missions as providing high-quality affordable housing, long term. These owners believe they can "do well, while doing good" and may be dedicated to retaining their properties to serve needy households.

Nonprofit syndicators interviewed for this study describe structuring the terms of the sale of LP interests to put extended use restrictions in place, ensuring long-term affordability even when no other agreement restricts a property's use after Year 15. Corporate investors who choose to work with these nonprofit syndicators do so with the understanding that resale value is not expected to be among the investors' own benefits.

Two direct corporate investors, both financial institutions, described long-term affordability as being among their primary goals in negotiating exits from their LIHTC investments. One of these investors described a willingness to sacrifice back-end value in exchange for assurances of long-term affordability.

PROPERTIES FOR WHICH MAXIMUM TAX CREDIT RENTS ARE AT OR GREATER THAN MARKET RENTS

When a property is not subject to use restrictions and does not have a mission-driven owner, the owner may still charge rents that are within the LIHTC standard of affordability, because the market will not support higher rents.

It is among the 3,699 properties that were no longer monitored by HFAs as of 2009 that we might find properties that are no longer affordable because their owners now charge rents that are higher than the LIHTC maximum. Those properties, however, would also have to be in locations where charging higher rents is possible.

5. WHAT ARE THE OUTCOMES AT YEAR 15? FINANCIAL DISTRESS AND CAPITAL NEEDS

5.1 PROPERTIES IN DISTRESS BY YEAR 15

While the strong majority of LIHTC projects operate successfully through at least the first 15 years after they are placed in service under the tax credit, some properties fall into financial distress by the time they reach Year 15.

FINANCIAL PERFORMANCE OF LIHTC PROPERTIES

The most commonly used indicators of financial distress are—

- *Negative cash flow*: The property's revenues are lower than its cash obligations, including operating expenses and debt service.
- *Debt service coverage ratio of less than 1.0:* This is the ratio of Net Operating Income (operating revenues minus operating expenses) to debt service. If this ratio is greater than 1.0, then the property is producing more than enough operating profit to fully pay its debt service. If the debt service coverage ratio is less than 1.0, then the property cannot pay its debt service obligations from operations alone and will need to make up the shortfall in some other way to avoid default. Generally, underwriters prefer to see properties operating at a debt service coverage ratio of 1.15 or higher.

LIHTC PROPERTIES ARE VULNERABLE TO FINANCIAL DISTRESS BECAUSE THEY ARE UNDERWRITTEN WITH TIGHT MARGINS

LIHTC properties are vulnerable to financial distress because of their financial structure. As distributors of scarce financial resources, the allocators of tax credits and other subsidies such as soft debt have been charged with providing each project with the minimum amount of subsidy necessary to make the deal work. HFAs and other subsidy allocators establish underwriting guidelines—for example, minimum and maximum debt service coverage ratios and expected ranges for operating costs and replacement reserve contributions—that allow them to determine that projects are supporting a reasonable amount of hard debt and are not over subsidized. Therefore, tax credit properties tend to operate with narrow margins.

At the same time, rents are limited to the lower of the LIHTC formula or the prevailing market rents. Projects with Section 8 subsidies can apply for modest annual rent increases to reflect the growth of operating costs. LIHTC properties without Section 8, by contrast, have no such option if markets are flat. Operating expenses tend to increase from year to year, even if rents do not. Levels of debt that may seem reasonable at initial financing can turn out to be excessive if rental revenues are flat or falling while expenses continue to grow.

The financial picture that emerges in the Ernst & Young *Understanding the Dynamics* reports confirms that LIHTC properties operate at narrow performance margins. The latest report, *Understanding the Dynamics V,* was published in 2010 and covers operating data that was provided by 51 syndicators and direct investors about

their properties' performance from 2000 through 2006. Median cash flow was a very modest $247 per unit in 2006, and more than a one-third of properties experienced negative cash flow or debt coverage ratio of less than 1.0. At the same time, most negative cash flow was very close to breakeven, and most properties that underperformed in one year returned to positive cash flow and debt service coverage more than 1.0 in the next year.

The share of properties that had negative cash flow in any 2 consecutive years during the five-year Ernst & Young survey ranged from 9.5 percent (for the years 2002 through 2003) to 18.5 percent (for the years 2003 through 2004). The share of properties that had debt service coverage of less than 1.0 for a pair of consecutive years ranged between 16 percent (for the years 2002 through 2003) and 27.2 percent (for the years 2003 through 2004). In other words, between one in six and one in four properties suffered through at least 2 consecutive years where income was insufficient to pay both operating expenses and debt service (Ernst & Young, 2010).

FEW LIHTC PROPERTIES EXPERIENCE DEFAULT OR FORECLOSURE

Given the tight margins with which many LIHTC properties operate, the percentage of foreclosures is surprisingly small: Ernst & Young reports a cumulative foreclosure rate of only 0.85 percent from the program's inception through 2006. Syndicators interviewed in 2010 through 2011 for the current study reported similar results, with all syndicators reporting foreclosure rates of less than 2 percent and most reporting foreclosure rates of less than 1 percent.

Negative operating results are troubling for both limited and GPs. GPs may look to property cash flow as an important source of financial return for their efforts. LPs are less likely than GPs to look to cash flow as a source of financial return, but are deeply concerned with avoiding foreclosure, which is considered a premature termination of the property's affordability and results in recapture of tax credits, with interest, and forfeiture of all future tax credit benefits from the property. A property's operating success can also have an impact on its resale value. Therefore, partnership agreements typically allow the LPs to intervene if a property falls into distress.

Properties with cash flow insufficient to cover their obligations can avoid falling into default by drawing on reserves or through additional capital contributions from the GP, the LP or both. Most LIHTC properties capitalize operating reserves out of the development budget. Those reserves are intended to cover operating or debt service shortfalls. In addition, syndicators generally maintain reserves at the fund, or upper tier, level. They may choose to disperse these funds to support troubled properties in the portfolio and keep them out of foreclosure.

GPs and LPs may contribute capital beyond the original financing to support floundering properties. Partnership agreements generally obligate GPs to fund operating deficits for a period of time by advancing operating deficit loans. Beyond these requirements, many GPs interviewed for this study described it as their obligation to subsidize properties that run into operating difficulties. Several interviewees mentioned as a point of pride that they had always provided any support needed by struggling properties, even beyond the operating guarantees to which they were contractually obligated, and that they have never relied on syndicators or investors to contribute additional capital. They consider this part of their overall responsibilities as developers.

The Ernst & Young report shows that more than one-half (54 percent) of operating shortfalls are covered by the properties' operating reserves, and another 17 percent are covered by upper tier reserves. But reserves are finite and may not be sufficient to cover indefinitely the operating deficits of a chronically underperforming property. General partners (GPs) make loans to properties to cover 9 percent of operating deficits, and another 13 percent

are covered by deferral of property management fees.[25] Syndicators and investors cover a smaller percentage of operating deficits with additional capital contributions (6 and 1 percent, respectively).

PATTERNS OF DISTRESS AT YEAR 15

Floundering properties typically run into trouble for one or more of the following reasons:

- Poor property or asset management practices.
- Problematic financial structure.
- Physical condition of the property (damage, defects, or obsolescence).
- Soft rental market.

The following examples from the property-level data we collected for this study illustrate those reasons and the patterns of response by the property's owners and investors.

- *Poor property or asset management practices:* When occupancy plunged at a 120-unit property in a solid Pacific Northwest market and the property fell into disrepair, the syndicator diagnosed poor management as the cause. The LPs exercised their right to replace the original sponsor with a new GP they believed could turn the property around.
- *Problematic financial structure:* A 60-unit property in a suburban Ohio neighborhood struggled from the outset when projected commercial revenues from garage rentals never materialized. The property was thus saddled with debt that was much greater than it could ever support in practice. The investor was called on to make supplementary capital contributions from fairly early on in the property's life to avoid foreclosure. The investors ultimately replaced the GP. The new GP, in turn, recruited a trusted local property manager to turn the property around.
- *Physical condition of the property (damage, defects, or obsolescence):* Construction defects were among a number of problems plaguing a renovated historic hotel in a small southwestern town. The requirements of the historic renovation led to the problematic placement of air conditioning units on the building's roof, in a system that resulted in endlessly leaky pipes and extremely high air conditioning costs.
- *Soft rental market:* Market difficulties further added to problems faced by this historic hotel-turned-senior LIHTC property. With a declining local economy and the occupancy rate at a devastatingly low 59 percent, the property was never able to come close to financial stability, falling into default even before the construction loan was repaid. The syndicator, however, felt it was imperative to its reputation and relationships to keep the property out of foreclosure and protect the investors' credits. The syndicator ended up feeding the property more than $1 million during the course of the compliance period—far more than the amount of the outstanding debt. The market continued to lose population, and demand for the units went from weak to weaker. When the property finally finished the compliance period, the investors gave the first mortgagee the deed in lieu of foreclosure: with no rescue scenario in sight, the property was much more of a liability to its owners than it had ever been a benefit.

25. Presumably, it is far simpler to get these fees deferred for self-managed rather than third party-managed properties, so deferred property management fees are effectively GP contributions.

The extent and nature of a property's distress will inevitably shape its Year 15 outcomes:

- If a LP has replaced the GP of a failing property at some point during the initial compliance period, the new GP may have been given a Year 15 purchase option in exchange for its services and investment in turning the property around. Such was the case for the Pacific Northwest property described previously, which had suffered as the result of poor performance from the original GP.
- Owners may seek a new allocation of LIHTC or other major financial assistance to rescue a property with major capital needs, or with a problematic financial structure. This was the case with a property in a strong southwestern market that needed to install an expensive rockfall mitigation system after a boulder crushed one of the units; failure to address this physical threat would have rendered the development unsafe and unsustainable had it not been addressed.
- Finally, if properties do fall into foreclosure, they may leave the affordable portfolio altogether. Such was the case with a 330-unit Florida property, on which the first mortgage lender (in that case the state housing finance agency (HFA) foreclosed. The property was resold to a buyer who is converting it to market-rate housing during a 3-year period.

5.2 CAPITAL NEEDS BY YEAR 15

The physical condition of LIHTC properties at Year 15 is widely varied, and so too are their renovation or repair needs. Probably the most important determinant of physical condition at Year 15 is whether the property was newly constructed or rehabilitated when it was placed in service 15 years previously, with key factors being the quality of the original, new construction and, if rehabilitated, the scope of the renovation work that was done then. Other factors that may be important are the target tenant population, market conditions, property size, and the efficiency and skill of the property manager.

CONDITION OF THE PROPERTY WHEN PLACED IN SERVICE UNDER LIHTC

If a property was new construction or a gut rehabilitation when initially placed in service under LIHTC, it is less likely to need significant upgrades at Year 15 than if it had only moderate renovations initially. Gut rehabilitation usually means that all HVAC systems and finishes in a property are replaced, exteriors are repaired or replaced (for example, new siding and roofing are installed), windows are replaced, and kitchens and bathrooms are remodeled and given completely new equipment. The property may also have had living spaces reconfigured. In contrast, much less is done under moderate renovation: only some systems may be replaced, while others are repaired; some kitchens and bathrooms may not be modernized; exterior improvements may be limited. After 15 years of occupancy, a property with only moderate renovation is likely to be quite worn out. For example, systems that were not replaced are at—or near—the end of their useful lives, and kitchen and or bathroom equipment is worn out and out-of-date. Roofs or windows that were middle-aged a decade-and-one-half ago likely need replacement.

Some new construction projects may have encountered unusual physical problems and need extensive renovations at Year 15. One syndicator described a new construction property where the exterior building envelope failed, leading to interior leaks and related problems and generating renovation needs of $70,000 per unit by Year 15. Such a dramatic deficiency, however, is the exception rather than the rule.

Of the LIHTC properties placed in service between 1987 and 1994, 43 percent were rehabilitation projects rather than new construction, according to the HUD LIHTC database. What these data do not tell us is the level of renovation done. According to those interviewed for this study, however, in the early years of LIHTC a high proportion of projects received only moderate renovations. At that time, federal regulations for the LIHTC program required that a minimum of $3,000 per unit be spent on renovations, and many projects were reportedly done with this minimum physical investment.

OTHER FACTORS AFFECTING PHYSICAL CONDITION BY YEAR 15

Properties that serve families with children usually endure greater wear and tear than properties targeted to the elderly. Family housing may have three to six, or even seven, people living in a unit, compared with, typically, only one adult in an apartment targeted to seniors. The owner of a property in a large city in the Northeast described a new construction family property, which after 15 years, needs renovations of more than $100,000 per unit because of a combination of failing wood exterior siding, trim and related roof problems, wear and tear from large families with many children, and the need to provide improved, more energy-efficient systems and more environmentally friendly finishes, such as wood flooring instead of carpet—which is linked to asthma for some children.

Market conditions may affect property conditions over time. If a property can be rented at or near the maximum LIHTC rents because it is in a strong housing market and has high occupancy rates, higher rents are likely to generate more operating funds that can be used for maintenance and repairs than can be obtained from housing in a weaker market, so the higher market property may enter Year 15 with fewer deferred repair and maintenance needs. If a property is in a tough neighborhood where operating funds have to be spent on security, the property may, again, have less rental income available for ongoing maintenance and repairs, and so greater physical repair needs at Year 15.

A common industry view, shared by those interviewed for this study, is that the operating economies achievable by larger properties make it easier to generate funds for maintenance and repairs. Ernst & Young's analysis of the financial performance of LIHTC properties confirms this, reporting that cash flow per unit is twice as high for large properties as it is for small properties (Ernst & Young, 2010, reporting on performance through 2006). Larger properties are likely to be in better condition at Year 15 than smaller properties, although this is not universally true.

Some syndicators and a broker interviewed for this study pointed out that the skill and efficiency of property managers can have a large impact on the quality of LIHTC housing. Some managers run their property more effectively than others, doing more with the same rental income stream, because they have figured out how to get better economies in purchased services such as insurance or have figured out how to save by doing maintenance with their own staff (for example, doing snow plowing in house rather than through third-party contractors). The more efficient managers may be able to devote money to maintenance that can prevent larger repair or renovation needs—for example, fixing small leaks before collateral damage occurs or more regularly updating appliances, repainting, and replacing carpet or other flooring, so these remedies do not become a major call on capital funds or replacement reserves.

EXTENT OF CAPITAL NEEDS FOR EARLY YEAR LIHTC PROPERTIES AT YEAR 15

Syndicators, investors and other industry experts interviewed for this report have a range of views about the extent of renovation and repair needs across LIHTC properties at Year 15. One of the investors believes nearly all LIHTC deals need significant renovations by Year 15. In contrast, one broker thinks that repair needs are in the eye of the beholder, noting that private real estate operators looking at nearly any Year 15 property that was originally new construction would say that it needs little if any upgrading. LIHTC investors, in contrast, are accustomed to tapping public resources such as tax credits to provide improvements, and so they perceive a need for renovation.

LIHTC properties are required by state housing agencies, mortgage lenders, and investors/syndicators to fund annually, out of operating income, replacement reserves to pay for capital repairs and renovations that exceed routine maintenance. The annual reserve contribution funded by LIHTC properties typically runs between $250 and $400 per unit per year, and occasionally is higher. The general consensus of those interviewed for this report is that these reserves are insufficient after 15 years to cover current needs for renovation and upgrading. One large investor believes that most LIHTC properties—with a few large-scale properties perhaps exceptions—run out of reserves by Years 5 to 8 and, after that, spend reserves nearly as soon as they are funded.

Given the unpredictability of the rates at which building systems wear out or become obsolete, it is difficult to provide an estimate of the right level of reserves to cover capital needs during a period of 15 years or longer. A recent study conducted for HUD by Abt Associates of the capital needs of public housing developments estimates that the average annual accrual of needs for this multifamily housing is about $3,000 per unit per year (Finkel et al., 2010). For many of the LIHTC properties we observed, this level would require that 6 months' rent each year be put into reserves, severely reducing or even eliminating rent available to retire debt. The properties would need more tax credit equity or more soft debt, either to create a substantial replacement reserve up-front or to permit a reserve to absorb such a large portion of the property's rental income. HFAs have been—and probably would be—reluctant to expend scarce tax credit and other resources to create reserves on this level, since that would reduce the overall number of affordable housing units they can support.

If reserves are insufficient to pay for renovations and major repairs at or around Year 15, LIHTC owners will need to figure out how to recapitalize their properties. Even if the property was originally newly constructed, more extensive needs will arise within another 5 to 10 years, both because physical systems such as roofs and heating systems will reach the end of their useful lives and because kitchens, bathrooms and finishes will need to be updated to remain competitive in the market, even when properties are continuing to be affordable. If a property is continuing to operate at LIHTC rents, it may have to compete for tenants with new LIHTC properties, and the property in better physical condition will likely win out. Even if they do not need to be modernized, finishes and equipment in kitchens and bathrooms are likely to wear out after 15, 20, or 25 years of use, depending on how high the quality was initially and how hard they have been used.

Periodic recapitalization is the way in which most privately owned housing (including single family homeownership housing) meets major repair and replacement needs over time. It is probably unavoidable for LIHTC developments to follow this pattern as well.

6. PATTERNS FOR LIHTC PROPERTIES AFTER YEAR 15

Study participants from all of the syndicators and direct investors interviewed, as well as a range of other industry experts, reported remarkably consistent impressions of the real estate outcomes for Year 15 properties:

- *The vast majority of LIHTC properties continue to function in much the same way they always have, providing affordable housing of the same quality at the same rent levels to essentially the same population, without major recapitalization.* These properties may have some rehabilitation done at Year 15, often in connection with a change of ownership or refinancing, but the amount of work done is not extensive enough to be characterized as recapitalization.
- *A moderate number of properties are recapitalized as affordable housing with a major new source of public subsidy.* This new subsidy is most typically new tax credits, either 4 or 9 percent. These properties usually undergo a substantial program of capital improvements.
- *The smallest group of properties is repositioned as market-rate housing and ceases to operate as affordable.*

These outcomes may be linked to the property's LIHTC use restrictions, to whether the property is sold to a new ownership entity, and to whether the property became distressed before Year 15. However, each of the three outcome patterns occurs for properties with and without extended use restrictions, for properties with both original and new GPs, and for properties that were and were not distressed before they reached Year 15.[26]

6.1 PROPERTIES CONTINUING TO OPERATE AS AFFORDABLE HOUSING

Most early year properties continue to operate as affordable housing, in much the same manner as they had previously, after the expiration of the initial 15-year affordability period. This outcome is typical both for properties that continue to be owned by the General Partner (GP) or its affiliated organization and for properties that have changed ownership. Continued affordability may have one of several reasons:

- First, there may be use restrictions from other regulatory sources such as land use restriction agreements or soft funding that survive longer than 15 years. The sponsor may have initially waived its right to seek a Qualified Contract (QC).
- Second, the initial sponsor (or, less commonly, the investor) may have a long-term commitment to continued affordability. Nonprofit sponsors usually have such organizational commitments to providing affordable housing, and a few for-profit sponsors do as well.
- Third, the property may have other subsidies—for example, Section 8 housing assistance payment contracts—attached to the units, creating a secure source of occupancy and rental income that the owner does not want to give up.

26. A very small number of properties leave the rental housing stock altogether following a downward spiral of physical and financial distress. The site may or may not be redeveloped as market-rate housing. We do not consider this trend as a separate pattern, but instead group those examples with properties that are repositioned as market-rate housing with unaffordable rents.

- Finally, for a very large number of LIHTC properties, LIHTC rents are indistinguishable from market rents. This varies both by region of the country and by the narrower housing market within which the LIHTC property operates. If these properties are no longer covered by LIHTC or other use restrictions, they are simply absorbed into the general rental market with no particular competitive advantage by virtue of greater affordability. Owners of properties where LIHTC rents are indistinguishable from market rents, whether they are original sponsors or new purchasers, often describe these properties' post-Year 15 LIHTC status as irrelevant.

PROPERTIES REMAINING AFFORDABLE WITH ORIGINAL OWNERS

All the information gathered for this study shows that most LIHTC properties that reached Year 15 through 2009 are still owned by the developer who placed them in service between 1987 and 1994, and that most of those original GPs are operating the properties as affordable housing, either with LIHTC restrictions in place or with rents that nonetheless are at or below LIHTC maximum levels. They may or may not still be reporting to the HFA. These GPs may have refinanced the properties to take advantage of lower interest rates and to support modest levels of renovation, but they have not recapitalized them with new infusions of equity from a new syndication with additional tax credits. Many of the owners interviewed for this study told us that it simply was not worth the effort to try to leave the tax credit program through the QC process, because they could not increase rents outside the program or could increase them only marginally.

The pattern of properties remaining affordable with their original owners and without major recapitalization is common in strong, weak, and moderate markets alike. A 210-unit property in a suburb of a Pacific Northwest city provides a strong housing market example. The original GP is a family run developer/operator with a portfolio of 6,500 units in five states. A solid property in a strong housing market, this development had value beyond its outstanding debt at Year 15. The GP refinanced in order to buy out the LPs, who made a profit on the transaction. The refinanced debt was sufficient to replace the roof at the time of repurchase. Owners report that the property continues to operate successfully, generating sufficient cash to cover capital needs as they arise, and that the biggest operating challenge is finding tenants in the proper income window—that is, with incomes low enough to qualify but high enough to pay the rents.

An example in a very different market is a 100-unit property in a small Michigan city. Although the property had high occupancy initially, it suffered greatly from the decline in the dominant local manufacturing industry and from competition from new LIHTC properties that continued to come on-line despite the city's continuing economic distress. The LPs ended up selling their interest to the GP for no consideration beyond the outstanding debt. The state HFA contributed $15,000 per unit in soft debt to meet Year 15 capital repair needs, not enough for us to consider this a major recapitalization and without a new allocation of LIHTC. The property remains affordable, and the original GP continues to operate the property at breakeven, despite the substantial market challenges.

Finally, an average market example is a 48-unit property in a rural community in the Midwest. The original developer also owns and operates the management company that has operated the property since inception and took full ownership of the property at about Year 15. While this property's owners might be able to use the QC process to end the LIHTC use restrictions, the local market limits rents to roughly LIHTC maximum levels. The property continues to operate solidly, and owners believe that they will be able to cover capital needs from reserves and cash flow for about 10 more years before they will need to refinance to cover larger repairs.

Owners of these affordable post-Year 15 properties seek to earn profits from operating cash flow, from property management fees, or both. As noted in chapter 5.1, the Ernst & Young studies show that most LIHTC properties provide positive cash flow most of the time. Whether nonprofit or for-profit, these owners consider themselves to be in the affordable housing business, and many own portfolios of properties that provide them with the scale important to efficient real estate operations.

Even if rents of nearby rental developments are a bit higher, owners may choose to keep LIHTC rents lower to achieve high occupancy. Like any other business operator, owners and managers of rental residential property need to find the ideal balance between price and volume to maximize revenues. High occupancy at lower rents may generate greater revenues than lower occupancy with higher rents. Property managers earn fees as a percentage of revenues, so higher revenues will lead to increased property management fees. Property managers' flexibility in setting rents in LIHTC properties, however, may depend on the properties' age. A study by Burge (2011) found that maximum tax credit rents are initially less than implied market rents because of the properties' newness when placed in service, which increases the appeal of the units to potential renters. During the 15-year compliance period, however, the properties aged and deteriorated in quality, and their market advantage eroded. At this point, property managers may be forced to trade off higher occupancy for higher rents or vice versa.

Sometimes the original GP of a LIHTC property will have refinanced before Year 15 to take advantage of better financing terms such as lower mortgage interest rates. This requires the approval and cooperation of all parties to a deal: GPs and Limited Partners (LPs) plus funders. An example of an early refinancing is a large new construction property serving families with two- and three-bedroom units, in the Mid-Atlantic region. The GP decided to refinance when the property was only 10 years old. A lower interest rate on a new mortgage from the same housing finance agency (HFA) that had held the original mortgage (6.9 percent compared with nearly 10 percent) plus a new 40-year mortgage term enabled the property to carry a larger mortgage that generated significant capital payments to both the GPs and LPs. Funds from the refinancing were also added to the property's replacement reserves. Since the LP investor had to approve the refinancing, it used the opportunity to negotiate the price of a "put" to sell its interest when Year 15 arrived. At Year 15, the GP bought the LP interest for the agreed-upon price, with the intention of continuing to operate the property as affordable housing under LIHTC rules.

At other times, the GP refinances at the same time as buying out the investors in the original syndication, because cash beyond the current mortgage is needed to meet the syndicator/LPs' price. Whether the property can take on additional debt at around Year 15 depends on such factors as the sales price of the LP interests, the ability of the property's rents to cover additional debt, how much of the original debt has been amortized, and whether current interest rates are favorable.

PROPERTIES REMAINING AFFORDABLE WITH NEW OWNERS

Among the minority of LIHTC 15-Year properties sold to new ownership entities, most were sold to buyers willing to accept the LIHTC affordability restrictions but, at the same time, not buying for the purpose of recapitalizing the property with additional tax credits. These properties are behaving much like conventional real estate: for-profit owners buy and hold them for a relatively short period, with a modest program of capital improvements. The buyers themselves describe the projects' LIHTC history as more or less irrelevant to their business decisions and operations, regardless of whether they have to continue complying with LIHTC rules.

Refinancing is nearly inevitable when a new owner purchases a property, since most first mortgages cannot be assigned to new owners, and since new owners will need to raise funds to pay for the purchase price and any needed renovations. The relatively short terms of the debt typically used by for-profit organizations to finance such purchases of LIHTC properties imply that these new owners will refinance or sell the properties in a much shorter timeframe than is customary for newly syndicated LIHTC properties, which generally are locked into financing for 15 years or more.

Brokers describe typical buyers as planning to own and operate properties for 3 to 7 years, a timeframe typical for conventional multifamily property owners. These buyers will generally perform a modest scope of renovation as part of the purchase transaction. One broker mentioned $3,000 to $5,000 per unit as a typical level of expenditure, used to update the property to make it more attractive—for example, improving landscaping or security systems, updating kitchen equipment, or replacing flooring.

Such was the buyer of a 44-unit property in a working class neighborhood in a Southern California city. This purchaser holds a residential portfolio of slightly more than 600 units, all in the same region. While he bought the property subject to an additional 40 years of LIHTC use restrictions required by the California state agency, he describes his interest in the property very much in conventional terms. He financed the purchase with conventional debt of 60 to 65 percent of the purchase price, with his own private equity making up the balance. On purchasing the property, he invested roughly $2,275 per unit in improvements, largely cosmetic: landscaping, signage, and improvements to the courtyard and hallways, as well as the installation of a security system. He spoke of the improvements as growing out of a "certain pride of ownership in our buildings and a commitment to how we want to keep our buildings." In this case, the owner plans to hold the property and operate it for cash flow indefinitely. With no soft funding in the project and no investors remaining in the deal, any cash flow the owner can achieve will be his to keep and to use to support periodic refinancing when needed for renovations. Although this is the owner's first LIHTC property, he finds the regulatory framework (including qualifying tenants based on their income) familiar because of his work with Section 8 and other subsidy programs. Even though he considers LIHTC rents to be somewhat below market, he sees this as a business advantage, since it enhances occupancy and reduces unit turnover.

Another buyer of a LIHTC property in California with long-term use restrictions, in this case a 150+ unit senior property that is in a market where unrestricted rents would be higher, is generating substantial cash flow from the restricted LIHTC rents—which, given the property's location, are quite substantial. The property originally carried soft debt that could have eaten into cash flow, but that debt was retired as part of the sale.

Another example, from a weaker market, is a 270-unit property in a small city in central Florida. The firm that purchased the property is based in the Southwest and develops and operates a large and diverse portfolio of properties of all types, including shopping malls, hotels, and single-family subdivisions. The firm recognized a value opportunity in this development, purchased for slightly more than $30,000 per unit. Although the property was in good physical condition, the owner invested $3,000 in improvements per unit. The owner's intention is to operate the property for cash flow and management fees. Buying at a low price in a weak market, the new owner is well-positioned to benefit from appreciation in value if and when the market improves.

A fourth example is a 156-unit property in a Mountain state, purchased in part because investors in the new partnership wanted Community Reinvestment Act credit. The property was bought in the 12th year of the 15-year compliance period, and the buyer could have considered applying for a QC process (QCP). The buyer told us: "We would not consider a QCP. We don't have experience with it, different states have different processes,

and we think the market is what it is." The affordability restrictions had no negative impact on the decision to purchase the property, and the buyer intends to operate the property as affordable for the 8- to 10-year period during which the the organization plans to hold the property. In this market, maximum LIHTC rents are higher than unrestricted rents, so although the new owner made minor renovations and raised rents slightly, the units remain affordable.

Even properties that were distressed around Year 15 can follow the pattern of continuing to operate as affordable housing without recapitalization. The new GP of a distressed Pacific Northwest property invested close to $6,000 per unit and turned the property around. In return, he was permitted to buy the investors out at a very reasonable price and to recapture his investment capital as part of the financing. The property is now thriving, producing several hundred thousand dollars per year in cash flow.

PAYING FOR RENOVATIONS SHORT OF RECAPITALIZATION WITH NEW TAX CREDITS

The interviews conducted for this study indicate that many LIHTC properties incur rehabilitation costs at the modest level of $1,000 to $5,000 per unit around Year 15 if they are transitioning to more conventional real estate operations—that is, with owners motivated by cash flow and resale value rather than by LIHTC-driven developer fee, and where the expected ownership period is 3 to 7 years rather than 15 years. Generally, that work is paid for by simple refinancing of the property's debt. Properties seeking refinancing often have been able to take advantage of lower interest rates.

A number of owners described properties that needed somewhat higher levels of renovation—in the range of $7,500 to $15,000 per unit, but still not enough to justify seeking new tax credits. One such property is a 47 unit, new construction development for families, largely two- and three-bedroom units in a city in the South. When the property reached Year 15, its rehabilitation needs included some new siding, new air conditioning systems, and some refurbishing of the apartments, at a cost of about $10,000 to $11,000 per unit. The GP acquired the LP interests for $400,000 ($8,500 per unit). As the sole owner of the property and a nonprofit, the GP was able to obtain an exemption from local real estate taxes, freeing up rents for both ongoing operations and new financing. The owner used both project reserves that the property had been funding at the unusually high level of $500 per unit per year and a new soft loan from a national housing intermediary to cover rehabilitation costs.

A distressed property sometimes can pay for needed renovations without major recapitalization with new tax credits but instead using conventional types of financing. For example, the new manager of an Ohio project with a problematic financial structure ultimately bought the property for the value of the outstanding debt and was eventually able to take advantage of principal amortization and lower interest rates and refinance the debt down to levels the property could manage, while taking care of needed renovations.

Rents that are the lower of the LIHTC maximum or what the market will bear are extraordinarily different in different housing markets, both because the LIHTC formula is tied to the local Area Median Income (AMI) and because market rents vary. For example, rents reported by owners interviewed for this study include $410 in rural Missouri, $500 in suburban Ohio, $750 in St. Paul, Minnesota, $900 in a Montana resort community, $1,000 in a distant suburb of New York City, and $1,155 in a Virginia suburb of Washington, DC. Occupancy rates that can be achieved vary similarly. A property in Boston, Massachusetts, might operate with a 1- to 2-percent vacancy rate, while a high-performing property manager in rural Ohio might cap out at an 85-percent occupancy rate.

Properties able to achieve high rents and high occupancy levels can generate significant cash flow. Such properties have real market value, even with rents restricted below market levels. Their owners have opportunities to refinance in order to pay for capital improvements or to simply cash out some of their equity. A rental complex with $950 average rents and a 5-percent vacancy rate is in a far better position to install dishwashers to keep up with the competition or deal with a surprise roof leak than a development with $500 average rents and a 15-percent vacancy rate. So, although it is apparently true that most post-Year 15 LIHTC developments from the program's early years have slipped into the mainstream of properties with rents around the middle of the market, over time these developments will continue to fare quite differently depending on where they are located.

6.2 PROPERTIES RECAPITALIZED AS AFFORDABLE HOUSING WITH NEW TAX CREDITS

Some LIHTC properties are recapitalized as affordable housing at Year 15 or shortly thereafter with a new allocation of tax credits. New equity is brought into the property through a new partnership, which may include the original GP or may be a completely new ownership entity. In addition to new tax credits made available to the new limited partnership, the property typically is refinanced and may also have new soft debt. The new equity and debt are used to pay for renovation costs that often are substantial.

WHICH PROPERTIES ARE MOST LIKELY TO SEEK ADDITIONAL TAX CREDITS?

When deciding whether to seek a new allocation of tax credits to recapitalize a property, owners weigh a variety of factors, both factors internal to the property and factors in the external economic and policy environment.

FACTORS INTERNAL TO THE PROPERTY include the extent of the property's capital needs, the need for modernization to compete with new affordable housing, whether an infusion of additional equity appears to be the only way to bail out a distressed property, whether it appears that the deal will generate substantial profits for the property's owners, and whether the owners might do even better by waiting until current use restrictions have ended rather than extending them further.

- ***Dealing with major capital needs.*** When properties have major capital needs, resyndication with new tax credits can be an effective way to generate equity capital to pay for these expenses. We learned about two examples of properties with large, *unanticipated* capital needs by Year 15. One property in a strong southwestern market sought a new LIHTC allocation after a mountainside abutting the development became unstable and a boulder crashed into one of the units, revealing the need for an expensive rockfall mitigation system. Another property, in a city in the Northeast, suffered from defects in the original siding that led to water infiltration and a host of other problems.
- ***Competing with newer housing.*** Even where boulders have not crashed into the walls, many owners describe properties as tired and in need of updating after 15 years of operations. In some markets, there has been continuing development of new LIHTC properties, and owners say they need to complete improvements to retain existing residents and attract new residents when units become vacant. One owner of several elderly housing developments described needing to invest significantly both in modernizing apart-

ments and in better community space such as exercise rooms to compete with new LIHTC senior housing. Improvements to apartments include updated bathrooms, kitchens, and finishes, and are more important for marketing than community space, according to this owner. Another owner, in this case the purchaser of a family property, similarly reported that the new flooring, countertops, and appliances supported by new tax credit equity were important for making the property competitive with other LIHTC housing. If owners believe such renovation needs are extensive, they are more likely to seek a new allocation of tax credits than to try to finance them through cash flow or another type of refinancing.

- ***Rescuing a property from financial stress.*** Properties can use LIHTC recapitalization as a way to recover from financial distress. This was the case for a family property in an inner suburban low-income location in the Mid-Atlantic. The property had been distressed once before and was sold from the HUD property disposition inventory in the early 1990s with Section 8 rental subsidies and an allocation of LIHTC from the state agency. By Year 15, the property had become distressed once again and was again resyndicated with tax credits and soft debt.
- ***Earning profits for the owners.*** A number of development firms around the country have embraced resyndication and rehabilitation of older affordable properties as a business model. They can earn developer fees and then proceed to operate the property for cash flow. For some properties, the economics of resyndication may also support a higher transfer price from the old to the new owners, enabling them to realized greater profits on sale. Thus, resyndication of older LIHTC properties can be a way to achieve strong financial returns for both old and new owners. This was the case for a northern Florida property sold by a for-profit interested in liquidating its affordable housing portfolio. New tax credit equity was used by the purchaser to purchase the property and for renovations that in this case were fairly modest, $16,000 per unit. Most of the development budget went to the acquisition cost.
- ***Accepting ongoing reporting requirements and use restrictions.*** If a project gets a new allocation of tax credits, it begins again the cycle of use restrictions and required reporting on LIHTC compliance. Depending on the owner's expectations for the housing market specific to the property's location and on other property characteristics, the owner may judge the net current benefits of resyndication with more tax credits more valuable than the possibility of drawing out future appreciation during the next 15 years.

FACTORS EXTERNAL TO THE PROPERTY include state LIHTC policies and priorities and the current market for equity investments in LIHTCs.

- ***Responding to state LIHTC policies and priorities.*** States have diverse policies and priorities that help determine whether or not they will award LIHTCs to a property. Some states are supportive of giving second allocations of competitive, limited 9-percent LIHTCs to the same properties, while others try to preserve this resource for creating additional units of affordable housing. In at least one state, New Hampshire, applications for resyndication are described as not competitive, and therefore unlikely to be funded with 9-percent credits. An alternative to competing for 9-percent credits is to seek a noncompetitive allocation of 4-percent LIHTCs. A state may be more willing to provide 4-percent credits because they depend only on the availability of tax-exempt private activity bonds within the state's overall ceiling.
- ***Assessing the current market for LIHTCs with equity investors.*** When evaluating whether to resyndicate with tax credits, an owner needs to assess the market for tax credits, just as is done when initially

determining a potential project's financial feasibility. Several syndicators and brokers reported that, during the economic downturn beginning in late 2007, the market for resyndications plummeted, just as it did for initial development of LIHTCs, so that fewer properties were resyndicated for several years thereafter.

STATE POLICIES AND PRIORITIES FOR NEW ALLOCATIONS OF 9-PERCENT TAX CREDITS

We heard a variety of opinions from syndicators, brokers, and other experts on how easy or difficult it is to get a second allocation of 9-percent credits. The 9-percent credits are awarded through a process that, in most states, is extremely competitive. Many industry participants and observers report that most states favor new production more than preservation in their Qualified Allocation Plans (QAPs). Even where the QAPs include a set-aside for preservation, allocators may be reluctant to award new 9-percent credits to projects that received a first allocation 15 years earlier. Other industry experts provided a different view and said that HFAs with which they are familiar prioritize preservation of older LIHTC developments.

Some of the properties covered in interviews for this study that were resyndicated with 9-percent credits received those credits in response to particularly dire and expensive capital needs crises that would have threatened the developments' continued operation as housing. For example, the two properties that had large, unanticipated capital needs (rockfall mitigation and siding defects) received 9-percent LIHTC allocations in states that did not include a preservation priority in their QAPs.

Data collected and analyzed by the National Housing Trust (NHT) show that most states have some type of priority in their QAPs for preservation and rehabilitation of existing housing. How an older LIHTC development would fare competitively within those priorities is difficult to determine in many cases. However, as of 2010 through 2011, California, Colorado, Delaware, Georgia, Hawaii, Illinois, Indiana, Michigan, Minnesota, Missouri, New York City, North Dakota, Oklahoma, Oregon, and Texas stated explicitly in their QAPs that existing tax credit developments qualified for points or a set-aside for preservation. Appendix D is a table provided by NHT showing more detail.

Even when an older LIHTC property qualifies for a set-aside or additional points for preservation of existing housing, it still must compete with other properties that get the points or qualify for the set-aside as well. Properties other than older LIHTC properties may score better on other aspects of the state's system for competitive allocations of 9-percent credits. Furthermore, the older LIHTC property may have to pass some threshold criteria such as the minimum level of rehabilitation needed to qualify for a 9-percent credit.[27]

However, we heard of cases in which new owners bought LIHTC properties with the knowledge that they would be likely to get new 9-percent LIHTC allocations from the HFA because the state has a priority for preservation and also is the mortgage lender for the property.

Indeed, some experts told us that an industry of LIHTC preservation appears to be developing. One developer of affordable housing noted that his organization was only just getting started looking at acquiring properties that were reaching Year 15. Generally, their property acquisitions were for properties still in the initial 10-year period. In anticipation of more properties reaching Year 15, in 2011 the firm began to hire staff to deal with

27. The tax code establishes a minimum amount of rehabilitation work needed to be done—the greater of $6,000 per unit or 10 percent of acquisition costs—to be able to qualify for LIHTCs, whether the 4-percent credit or the 9-percent credit. A state's QAP may establish other thresholds, for example, a minimum amount of rehabilitation work, for preservation projects to qualify for 9-percent credits.

acquisition opportunities that are coming up in the next 1 to 2 years. We spoke with another for-profit developer who bought the GP interest in a LIHTC property a few years before Year 15 from another for-profit who wanted to get out of the affordable housing business. The new owner wants to operate the property for cash flow and management fees, but also intends to form a new partnership and resyndicate the property with new tax credits as soon as that becomes possible.

WHEN DOES BOND FINANCING WITH 4-PERCENT CREDITS WORK?

Most developers would choose a 9-percent credit over a 4-percent LIHTC allocation if they were equally available. The 9-percent formula generates more than twice the equity for a given dollar amount of rehabilitation. Moreover, the use of 4-percent credits entails the issuance of tax-exempt bond debt, which brings a whole range of transactional costs and complications. But if 9-percent credits are not available, 4-percent credits may be a good alternative for some properties.

Since the 4-percent tax credits can be used only with tax-exempt mortgage financing, tapping them means assessing whether this kind of debt is appropriate for a project.

FINANCING WITH TAX-EXEMPT BONDS AND 4 PERCENT CREDITS

To qualify for 4 percent credits, properties must be financed with tax-exempt private activity mortgage bonds in an amount equal to 50 percent or more of their basis. This can be achieved in two ways:

- The bonds can be used for permanent financing: This strategy can only work for properties with very strong rents and relatively low operating expenses, because the properties must be able to support debt equal to at least one-half of their value (something many rent-restricted properties cannot achieve). Properties that have Section 8 rental assistance are likely to have high rents, and so may be able to afford tax-exempt bond financing.
- The bonds can be used for construction financing, or for a mix of construction and permanent financing: If some or all of the bonds are going to stay in the project only for construction financing, then there needs to be a permanent source for repayment of those bonds. Tax credit equity is one such source; but the formula for calculating 4 percent credits makes it impossible to generate sufficient equity to cover one-half of the development budget. Therefore, 4 percent projects that cannot support large amounts of mortgage debt can use private activity bonds for construction financing, but they must eventually bring a large amount of alternative funding (such as soft debt) into the projects to pay off the portion of the bonds that cannot be supported by permanent property operations. These projects will also need to find a bond-issuing agency willing to use their private activity bond allocation to provide construction financing in this way (not all state HFAs have adopted this practice).

Bond deals offer the advantage of keeping owners out of the highly competitive 9-percent credit application arena. Even if the property succeeded in obtaining a 9-percent allocation, the greater predictability of a 4-percent credit would reduce the developer's risk. But bond deals are complex, and transaction costs are high. So they are really only appropriate for larger projects that have sufficient scale to amortize the transaction costs over a large number of units. Furthermore, the economics of bond deals are such that tax losses comprise a significantly

higher proportion of benefits for investors than in 9-percent deals (9-percent deals will see a relatively higher proportion of benefits flowing from the tax credits themselves). Four-percent projects are perceived as somewhat higher risk than 9-percent deals, because they typically involve higher amounts of mortgage debt relative to equity. In addition, 4-percent deals generally offer smaller amounts of annual tax credits than 9-percent projects, making them less efficient as investment vehicles. Because of their smaller size and higher risk profile, it may be difficult for some 4-percent tax credit projects to attract investors, especially in weaker markets.

Perhaps most important, a property must be able to generate enough rental income to take on the amount of debt required for bond financing (see text box). A common industry perspective is that bond financing will work only in markets where both LIHTC rents and market competitive rents are quite high—or where the property has above-market rents supported by Section 8 subsidies.

Still, in cases where the economics of the market and the property support 4-percent tax credit refinancings, some industry observers believe there is a strong motivation for owners (new or old) to resyndicate with 4-percent credits, regardless of whether the property's current capital needs are particularly pressing. One owner interviewed for this study built a national portfolio of more than 10,000 units largely by purchasing properties in need of moderate levels of rehabilitation and syndicating—in some cases, resyndicating—these properties with 4-percent credits. These transactions can earn substantial fees for developers and offer the prospect of ongoing cash flow and management fee income for competent operators in strong housing markets.

HOW MUCH REHABILITATION IS DONE WHEN PROPERTIES ARE RESYNDICATED WITH NEW TAX CREDITS?

To qualify for a new LIHTC allocation, owners must complete rehabilitation costing a minimum of $6,000 per unit or 20 percent of adjusted basis, whichever is greater, according to the rules in the federal tax code.[28] In practice, renovation programs for resyndicated properties often are much greater than the statutory minimum. Some owners interviewed about resyndicated projects pointed to construction budgets of $68,000, $80,000 and even $130,000 per unit. We saw a rehabilitation budget of more than $200,000 per unit for a small property in a Mid-Atlantic city that was a school converted to residential use when originally placed in service. The HFA had not yet allocated the requested 9-percent credits or approved the budget.

A variety of stakeholders influence the required scope of renovations:

- First, state HFAs often have rehabilitation expenditure requirements that exceed the federal statute because they want to be sure that properties remain in good condition for at least 15 years, and they think $6,000 per unit will not provide this.
- Second, all of the syndicators interviewed for this study about their current practices cited minimum rehabilitation requirements for new syndication deals that they would be willing to support. These minimum requirements ranged from $25,000 to $40,000 per unit. In contrast, in its early years, the LIHTC program included many properties with more moderate levels of rehabilitation. Many of the industry participants and observers interviewed for this study pointed to these moderate renovation projects as the most likely to run into severe difficulties before the end of the initial compliance period. The industry seems determined not to make the same mistake again.

28. Requirements were increased to these levels in the 2008 HERA legislation. Previously, the requirement was $3,000/unit or 10 percent of adjusted basis.

- Third, the GPs of the new partnerships themselves want to be certain that properties will be in sound operating condition for at least another 15 years. They do not want to be faced with unexpected major repair needs for which they often are required to cover part or all of the costs by the terms of partnership agreements. GPs looking for cash flow or property management fees do not want to spend income on major physical needs.
- Fourth, rehabilitation performed in the context of a resyndication will typically be subject to a much more stringent level of oversight and reporting requirements (from investor LPs and possibly also the state HFA) than renovation done without new tax credits. Other eyes may perceive and then require additional improvements.
- Fifth, some new subordinate debt sources, if they are involved, may require that the owners pay prevailing wages, which are widely thought to be significantly higher than unregulated construction wages.
- Finally, a major driver of renovation expenditures in resyndicated properties is the expected length of time between rounds of recapitalization and repair. Conventional properties turn over every 3 to 7 years. Each new owner brings new financing and typically conducts a modest scope of repairs and improvements. LIHTC properties, on the other hand, are not expected to have any refinancing or recapitalization events before 15 years have elapsed. By the time the typical LIHTC property changes ownership, a typical conventional property will have turned over three times—and undergone refinancing and moderate renovation at each turn.

HOW COMMON IS RESYNDICATION OF LIHTC 15-YEAR PROPERTIES WITH NEW TAX CREDITS?

One brokerage firm that is active in the LIHTC market reports that the interest of buyers of tax credit properties in resyndicating them with new tax credits has fluctuated over time. When the earliest LIHTC properties were sold in the early 2000s, most without extended affordability restrictions because the tax credits had been allocated before 1990, only 10 percent of them were resyndicated. Then, from around 2005 to early 2008, as much as 80 percent of the sales the firm brokered were to owners who intended to resyndicate. Tax credit pricing was very favorable during that time period. As the price for tax credit from investors plunged, so too did resyndications, which dropped to roughly 10 percent of sales. As of 2010 through 2011, the market for tax credits has stabilized and, according to the brokerage firm, 15 to 20 percent of LIHTC sales are resyndicated.

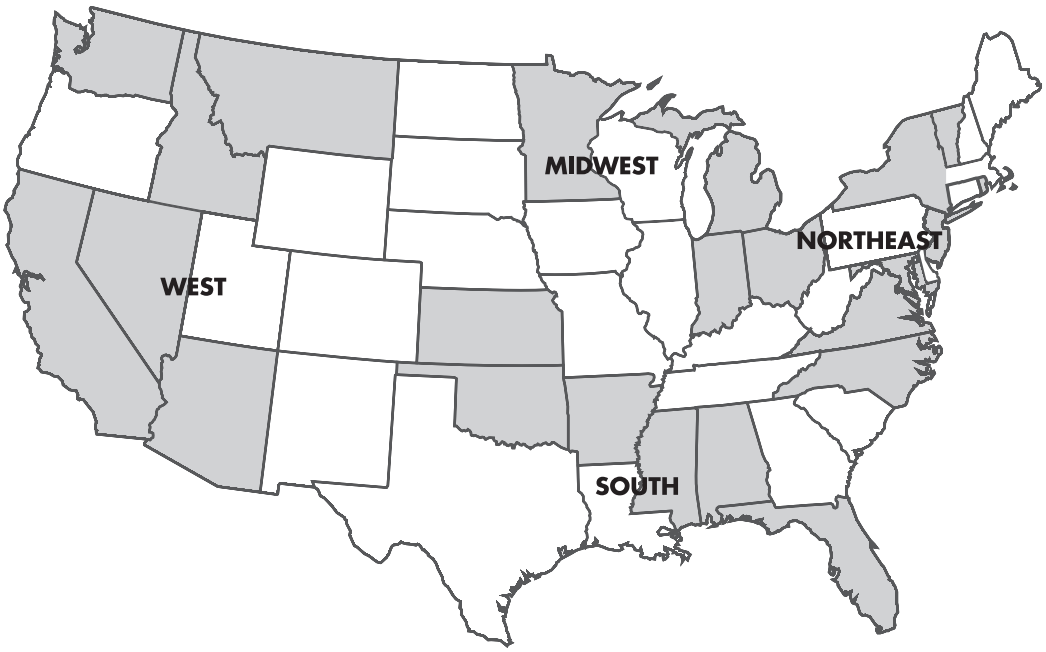
Syndicator estimates of the current percentage of Year 15 properties that are resyndicated are similar, 15 to 20 percent. They also agree that the portion was much lower during the period when tax credit pricing was unfavorable, with one syndicator estimating 5 percent resyndication from 2007 through 2009.

The HUD LIHTC database permits us to identify some LIHTC properties that appear to have been resyndicated with additional tax credits. When a property has a second placed-in-service date that is more than 10 years after the original date, we consider this a second use of LIHTC (rather than the correction of a data error by the HFA). Because we have data only through 2008, and partial data for 2009, and because the data are for properties placed in service, not those for which new tax credits have been approved and development is under way, this information misses a great deal of activity that has taken place recently. Nonetheless, it shows a gradual rise in second use of tax credits. Exhibit 6.1 is a map showing the states where second uses of LIHTC had reached a new placed-in-service date as of 2008 through 2009.

Somewhat surprisingly, more of these properties with second LIHTC allocations had been new construction when originally placed in service than had been rehabilitation, 58 versus 42 percent. If these limited data reflect

real patterns, it appears that new allocations are not used primarily to meet the capital needs of properties for which systems are reaching the end of their expected lives. They are used more often by nonprofit owners than the percentage of all early year LIHTCs that had nonprofit owners, 14 versus 10 percent. This makes sense, since HFAs are likely to look favorably on applications from nonprofits because of their concern for long-term stewardship and their lower emphasis on financial return via cash flow.

Exhibit 6.1. States With Properties With a Second LIHTC Allocation



Source: HUD National LIHTC Database

MAJOR RECAPITALIZATION WITH OTHER PUBLIC SUBSIDY

Properties sometimes are able to secure other, non-LIHTC forms of major public subsidy at Year 15 that make recapitalization with tax credits unnecessary, even for properties that cannot meet their capital needs from refinancing supported by cash flow. One property, purchased from a nonprofit owner in bankruptcy, was able to secure more than $7 million in Neighborhood Stabilization Funds from a county government to perform a fairly extensive renovation ($57,000 per unit), including security systems that the new owner deemed essential to tenant recruitment and retention and a new community center. The property has a tiered rent structure that enables it to reach some families with incomes considerably less than the LIHTC maximum and limits its cash flow. This property was purchased for $0 by a joint venture between a private developer and the original syndicator, with the HFA agreeing to roll over soft debt that had been part of the original financing. It continues to operate subject to the original long-term use restrictions required by both LIHTC and the soft debt from the state.

6.3 PROPERTIES REPOSITIONED AS MARKET-RATE HOUSING

By far the least common outcome for LIHTC properties is conversion to market-rate housing. None of the syndicators or investors interviewed for this study could name more than one or two properties that had been repositioned to serve as market-rate housing. Those we interviewed had handled, among them, more than 2,000 LIHTC property dispositions—that is, transfers or sales of the LP interest to the GP or sales of the properties to a new ownership entity. The nonprofit syndicators said that none of their properties had been repositioned with above-LIHTC rents.

Staff of the major national broker interviewed most extensively for this study reported that very few sales to new owners have involved repositioning and said that this has become even less common for properties LIHTC use restrictions that extend to Year 30. Only a handful of owners have attempted to go through the QC process.

The Ernst & Young report, based on a much earlier and smaller set of dispositions, estimated that only 5 percent of them involved conversions to market-rate housing, and that was at a time (through 2006) when properties were likely to have been subject only to 15-year LIHTC restrictions.

Among the very few examples that syndicators and brokers were able to tell us about were a property that was repositioned at the end of use restrictions that lasted only 15 years and a few properties that had gone through the QC process. Two other properties had gone through foreclosure and probably were still operating as rental housing, but perhaps not at rents below the LIHTC maximum.

The property subject to only 15-year restrictions is in Puerto Rico and dated from the earliest days of the LIHTC program. The original sponsor took advantage of the development's excellent location and converted the property to condominiums. Sales proceeds were shared between the GP and the LPs. The conversion was completed in 2007.

PROPERTIES REPOSITIONED THROUGH THE QC PROCESS

When originally created, the QC process was seen as a mechanism that would balance preserving affordability of LIHTC properties with a way to give owners a back-end possibility of at least some profit. The data from the interviews conducted for this study suggest that few QC sales have occurred nationwide, and sales that are occurring may be concentrated in a few states. Owners are more likely to go through the QC process seeking relief from the LIHTC restrictions than with the expectation of receiving the proceeds of a QC sale. We heard that some owners start the QC process hoping it will give them leverage with the HFA in applying for a new allocation of 9-percent tax credits.

One property in a Central Plains state had a history of high occupancy and largely successful operations. The owner submitted a QC proposal to the state. No buyer was found, so the owner was ultimately allowed to extinguish the extended use requirements. The property was sold to a third party, netting a profit of roughly $1 million for the original LPs. It is not clear whether ongoing rents for this property, which is now unregulated, remain within LIHTC program limits. If so, it would be because of market limitations.

One large LIHTC owner, an LP in several tax credit properties, is winding down its portfolio of properties, except in markets where the units provide CRA credit. This owner described most of his properties as having no value to the LP after paying off the mortgage, the GP's support loans, and developer fees. However, 20 percent of the properties have substantial remaining value, and his firm's approach to selling its interests in these properties always includes considering a QC process and applying for the process in cases where the QC price is higher than market value.

An owner's decision on whether to apply for relief from LIHTC use restrictions by requesting a QC sale must take into consideration the process set up by the particular HFA with jurisdication over the property. Some states appear to have deliberately made the QC process difficult to prevent LIHTC properties from leaving the affordable housing stock. In Texas, for example, this large investor in LIHTC properties considers the QC process unworkable. He said, "We have GPs who have spent hundreds of thousands of dollars trying to go through the QC process and ultimately given up." He noted that investors believe they are entitled to a fair QC process, but are unwilling to challenge a state that may intentionally be making the process difficult—for example, through a lawsuit.

In another example, use restrictions were extinguished on a 57-unit property in the Midwest through the QC process, and then the property was sold. The property struggled financially during the compliance period, with a loan at 8.6-percent interest that could not be refinanced. The owner's decision to apply for the QC process was purely financial: the selling broker's opinion was that the property was worth about 15 percent more if use restrictions were lifted. The HFA was unable to find a buyer at the QC price, which was well more than market value, so the use restrictions were lifted. The property is currently in a 3-year decontrol period during which affordable units are converting to market rate. The former owner said about the QC process, "It was a simple, smooth process."

The units had been renting at well below maximum LIHTC rents, and the former owner believes the new owner will do substantial renovations—which are badly needed—and raise rents to encourage income-qualified renters to leave. The rent increase may be temporary; rents may revert to previous levels or lower after the controlled units have turned over. In this area, market-rate rents for units that are larger and newer than in this property are still below maximum permitted LIHTC rents. However, employment prospects in the area are improving, and the lack of use restrictions gives the new owner flexibility to raise rents in the future.

Another owner, also in a state in the Midwest, is partway through the QC process on a 112-unit property that was placed in service in three phases. The first phase has already been released from use restrictions by the state HFA through the QC process and is in a 3-year decontrol period. The remaining two phases are in the process of being released from use restrictions, also through the QCP. The owner, who operates primarily in the Midwest, has met little resistance in pursuing the QC process: "So long as it doesn't hurt the affordable housing market, we haven't had much pushback [from the HFA]," he said.

The owner's goal is always to convert properties to market rate after their 15-year compliance period has ended. After use restrictions have been lifted on all three phases of this particular property, the owner plans to sell it. The decision is financial, but is not driven by differences between market rents and LIHTC rents, but rather by savings on compliance costs. In this market, tax credit rents are less than market rents by only about $20 per unit, but the owner described needing an additional staff person per property to do the work of verifying applicant and tenant incomes and meeting other reporting requirements.

Some HFAs are using the QC process as a way to help properties in weak housing markets remain financially viable. After the HFA fails to find a QC buyer, the owner of the property is able to reach a slightly expanded pool of potential tenants and, sometimes, to charge rents that are only slightly more than the LIHTC maximum. For these properties, local conditions will limit rents to affordable levels for the foreseeable future, especially if the relatively low LIHTC maximum rents (based on AMI) in these areas are taken into account.

An example involves two adjoining properties in a small city in the Upper Midwest. One of these properties had no extended use restrictions. The original sponsor eliminated the use restrictions on the second property

by going through a QC process. The original owners were then able to sell both properties without any use restrictions in place. The purchasers made some modest improvements to the properties and added some amenities, and then repositioned them to serve a slightly higher income demographic. The differential between rents available under the LIHTC program and market rents was not great, but repositioning allowed the new owner to achieve slightly higher rents and to recruit from a much wider range of potential tenants.

In another example, an Ohio property struggled to maintain occupancy in a weak local market with a glut of comparatively new multifamily housing development. The GP appealed for QC regulatory relief to expand the pool of eligible renters. He described having to turn away many households whose income narrowly exceeded the LIHTC limits. Cash flow at this property had been negative for several years, and the LPs and GPs had contributed hundreds of thousands of dollars to keep the property operating. The owner is hoping that the ability to rent to a wider range of tenants will help the development to improve occupancy and restore it to financial health. This is not the only property in Ohio for which the state HFA has worked through the QC process cooperatively to relax LIHTC rules in troubled housing markets.

PROPERTIES REPOSITIONED FOLLOWING FORECLOSURE

Another outcome sometimes seen for LIHTC properties in weak markets is financial failure. Foreclosure of the loan on the property is followed by a property disposition by the lender to a new owner who will operate the property as market-rate housing at higher rents.

An example is a large property in a floundering market in Florida. After the development's initial financial failure, the mortgagee (the state HFA) foreclosed on the property and extinguished all use restrictions. The property was then sold at bargain price. The new owner is phasing out affordable rents over 3 years, with the plan of making improvements to attract market tenants and achieving profitability when the market eventually improves.

Another example is the property discussed in chapter 5.1, a historic hotel that had been turned into senior housing and experienced both physical problems and a collapsing market. The first mortgagee received a deed in lieu of foreclosure, and the property no longer is in the affordable housing stock.

REPOSITIONING IS LIMITED BY MARKET RENTS

We asked each of the 37 owners we interviewed whether market rents for the property were higher than the LIHTC maximum rents. Only 13 of the owners we interviewed said that they were higher. The other 24 said that LIHTC maximum rents were comparable to market rents or higher than market rents.

Some examples of properties where market rents are indistinguishable from LIHTC rents, from owner interviews conducted for this study are—

- A 100-unit property in an industrial city in the Midwest, where the market has softened considerably in the wake of auto industry upheavals, was purchased after 15 years by the original GP for the existing debt and maintained at the same rent levels, which were lower than LIHTC maximums.
- A 64-unit property in the Rocky Mountain states, in a small city largely supported by tourism, was bought by a new operator after Year 15 but maintained at the same LIHTC rent levels, which are at about market rates.

- Two adjoining properties with a total of 156 units in an inner suburb of a major city in the Southwest were sold to new owners, who performed a modest level of rehabilitation to make the development competitive with others in the area. They continue to rent the units at LIHTC rents, which are similar to market rent levels.

PROPERTIES NO LONGER UNDER MONITORING BY HFAS

We may have simply missed properties that have left the affordable stock, given the nature of the data we collected for this study. Syndicators, investors, and even brokers may simply not know about LIHTC properties that have been converted to above-LIHTC market rents. HFAs that helped us find owners to interview are unlikely to have ongoing relationships with owners of properties that have been repositioned.

Therefore, we focused on the set of properties that, according to data submitted by the HFAs, are no longer monitored for compliance with LIHTC rules and conducted two types of analysis.

First we matched the addresses of LIHTC properties without project-based rent subsidies or Section 515 to HUD's administrative data on the addresses of households using Housing Choice Vouchers as of 2010. The premise is that, if households with vouchers can afford to live in the property and the owner is accepting them, the property provides housing that can be made available to low-income renters, although they may need rental assistance to make the housing affordable.[29] The results of that data match are shown in exhibit 6.2. That data match shows that, even among properties that are not reporting to HFAs, nearly 30 percent have at least one voucher holder renting in the property. The rate of voucher use is only slightly lower than for properties that *are* reporting to HFAs, which is 36 percent.

Properties with the earliest placed in service years, likely to have only 15-year restrictions, are less likely to have voucher users than those placed in service in 1992 through 1994 (39 percent), but 28 percent do have voucher users.[30]

29. Many tenants may need rental assistance to be able to afford LIHTC units even during the period when the units are subject to the program's rent restrictions.

30. For properties not reporting to HFAs, the difference in the percent of properties with at least one voucher household from the earlier years compared to the later years is statistically significant.

Exhibit 6.2. Presence of Housing Choice Voucher Households in Earliest LIHTC Projects Properties Placed in Service 1987 Through 1994, Properties Without Rural Housing Service Section 515 Loans or Project-Based Rental Assistance

	Properties Reporting to HFAs			Properties Not Reporting to HFAs		
	Property Has an HCV Household	Property Has no HCV Household	Total Number of Properties	Property Has an HCV Household	Property Has no HCV Household	Total Number of Properties
All properties	36%	64%	5,579	30%*	70%	2,907
Placed-in-service year						
1987–1991	29%	71%	2,795	28%	72%	2,526
1992–1994	44%	56%	2,784	39%	61%	381
Nonprofit sponsor	51%	49%	843	40%*	60%	182
No nonprofit sponsor	35%	65%	4,736	30%*	70%	2,725
Poverty rate of 10 percent or less	36%	64%	1,343	28%*	72%	642
Location type						
Central city	38%	62%	3,351	33%*	67%	1,664
Suburb	37%	63%	1,317	27%*	73%	800
Nonmetropolitan	30%	70%	911	22%*	78%	443
Distribution by region						
Northeast	47%	53%	792	37%*	63%	738
Midwest	30%	70%	2,134	25%*	75%	976
South	34%	66%	1,815	24%*	76%	817
West	49%	51%	838	43%	57%	376

HCV = housing choice voucher. LIHTC = Low-Income Housing Tax Credit.

*Difference in the percent of properties not reporting to housing finance agencies (HFAs) with at least one voucher household and properties reporting to HFAs with at least one Housing Choice Voucher (HCV) household is statistically significant to the 95-percent confidence level.

Notes: Projects used for analysis include only records with placed-in-service year data. Missing data information is in appendix E. Information on the use of project-based rental assistance, including state or federal project-based rental assistance, was first collected by the U.S. Department of Housing and Urban Development with the 2006 placed-in-service year. Some state allocating agencies have been able to update this information for earlier placed-in-service years, but it is primarily missing for property records. To help fill in information on the use of project-based rental assistance, LIHTC project addresses were matched against data in a file created 3/22/2010 of *Multifamily Assistance & Section 8 Contracts.* The address match confirmed the existence of a project-based rental assistance contract but did not indicate that the LIHTC property did not have a federal project-based rental assistance contract. Because of inconsistencies in the completeness and formatting of address data, LIHTC property records that did not match to a record in the file of *Multifamily Assistance & Section 8 Contracts* may still have a federal or state project-based rental assistance contract.

Data on location type and poverty rate of 10 percent or less are based on LIHTC projects that were geocoded with census tracts from the 2000 Census. The geocoding rate for projects placed in service from 1987 through 1994 was 88.9 percent. Central city locations are based on central cities defined by 1999 metropolitan statistical areas (MSAs) defined by the Office of Management and Budget. Suburb locations are within an MSA but not in a central city. Nonmetropolitan locations are not in an MSA. Poverty rates are census tract-level rates from the 2000 Census.

Presence of an HCV household residing in a LIHTC property was based on address matching. The data file of HCV households was from December 2010. LIHTC properties were identified as having an HCV household if at least one HCV household address matched to the representative LIHTC project address.

Source: HUD National LIHTC Database

Even in relatively high-income census tracts, those with poverty rates of 10 percent or less, 28 percent of non-reporting properties have voucher users. Use of vouchers in nonreporting properties is more pronounced in the Northeast and the West than in the South or West. This may reflect the relatively higher costs of rental housing overall in the Northeast and West, so that voucher holders are more likely to seek to rent in properties that were developed under the LIHTC program.[31]

Properties without voucher users may remain affordable because their rents are relatively low. They may simply have stopped reporting to the HFA because they are no longer required to do so. The most likely properties to have been repositioned as unaffordable, market-rate housing are properties in low poverty locations. To explore further whether these properties have become unaffordable, we conducted a survey of the rents of a sample of properties no longer reporting to the HFA, with 20 or more units, and in census tracts with poverty rates below 10 percent. Properties with Rural Housing Service Section 515 Loans or that were found to have project-based rental assistance were excluded. The resulting list was 234 properties. We did web searches for those properties based on property name and address to find out their current rents, usually through a phone call to the management office. We asked for the rents of each unit size and the utilities that were tenant-paid. We found current rents for 100 properties and then compared those rents (including both contract rent and an estimate of tenant-paid utilities) with the LIHTC rent limit, 18 percent of AMI, (that is, 30 percent of 60 percent). We found that, even for this group of properties that should be at particularly high risk of becoming unaffordable, nearly one-half had rents below the LIHTC maximum, and another 9 percent had rents only slightly more than LIHTC rents (exhibit 6.3). For the properties with rents more than 105 percent more than LIHTC rents, a small portion of the properties (15 percent) were known to include affordable rental units, as noted by the property management office.[32]

Exhibit 6.3. Affordability of Properties in Low-Poverty Census Tracts and No Longer Monitored by HFAs

Property Rents		
Greater than 105 Percent of LIHTC Rent	Between 100 and 105 Percent of LIHTC Rent	Less Than LIHTC Rent
42%	9%	49%

Notes: Surveyed projects included only those with at least 20 units for which we had data on the year placed in service and on whether a tax credit project was being monitored for LIHTC compliance by the housing finance agency. Low-poverty census tracts were defined as having a poverty rate of 10 percent or less based on 2000 Census data. Because criteria for inclusion in the survey included census tract poverty rate, only geocoded properties were included. The geocoding rate for properties placed in service from 1987 through 1994 was 88.9 percent.

Source: HUD National LIHTC Database

Similar results on continued affordability were found by a rent survey conducted by the Shimberg Center at the University of Florida of the rents of Florida properties that formerly were in one of several federal and state subsidy programs and left the program between 2000 and 2008. More than one-half (57 percent) of properties formerly subject to LIHTC rent restrictions (not including those properties that had other forms of subsidy with lower affordability standards) still were renting at or below the LIHTC maximum rent (Blanco et al., 2011).

31. For properties not reporting to HFAs, the difference in the percent of properties with at least one voucher household by region is statistically significant.

32. Looking at the unit mix when these properties were first placed in service with tax credits, about a quarter of the properties were mixed LIHTC/market properties. The properties we found to have rents that are greater than 105 percent of the LIHTC standard were more likely to have been mixed LIHTC/market properties than those properties with rents at or less than the LIHTC standard, 34 percent compared to 20 percent.

6.4 WHAT WILL HAPPEN WHEN THESE PROPERTIES REACH YEAR 30?

So far this discussion has focused on what has happened at around Year 15 to LIHTC properties that were placed in service between 1987 and 1994. Some of those properties were subject to extended LIHTC use restrictions because their tax credits were allocated by the state HFAs in 1990 or later. As exhibit 6.4 shows, of the 5,841 such properties (with a total of 230,496 units), most were placed in service between 1992 and 1994. The extended use restrictions were to last until Year 30, unless the owner of the property was able to receive relief from the LIHTC income and rent restrictions from the QC process.

Exhibit 6.4. Extended Use Period Expiration of LIHTC Properties Placed in Service, 1990 Through 1994, With Extended Use Restrictions

Placed-in-Service Year		1990	1991	1992	1993	1994	1990–1994
Extended-Use Period Expiration		2020	2021	2022	2023	2024	2020–2024
		Projects Units	Projects Units	Projects Units	Projects Units	Projects Units	Projects Units
Allocation Year	1990	530 17,799	519 17,583	249 15,859	32 1,642	1 32	1,331 52,915
	1991		641 18,927	721 22,960	510 28,685	31 2,892	1,903 73,464
	1992			391 10,743	543 21,757	486 25,950	1,420 58,450
	1993				301 9,964	558 22,847	859 32,811
	1994					328 12,856	328 12,856
	1990–1994	530 17,799	1,160 36,510	1,361 49,562	1,386 62,048	1,404 64,577	5,841 230,496

LIHTC = Low-Income Housing Tax Credit.

Source: HUD National LIHTC Database

Notes: Projects used for analysis include only records with placed-in-service year data and tax credit allocation or award year. Missing data information are in appendix E. Data on whether a tax credit project was being monitored for LIHTC compliance are based on information provided by state allocating agencies.

For LIHTC projects allocated tax credits in 1990 and later, use restrictions expire 30 years following the placed-in-service date.

Speculating on what will happen at Year 30 to the early year properties with extended use restrictions is difficult. The earliest properties will reach Year 30 in 2020, and most will reach the end of extended use restrictions only beginning in 2022, 10 years from now. Many things may change in 10 years: housing markets will change in ways that are particularly difficult to predict in the wake of the turmoil of the past few years; resources available to support affordable rental housing may change, because of federal policy shifts, shifts in financial markets, or both; and state policies for using LIHTC and other public subsidy resources under state control also may change. Nonetheless, we will attempt some observations about what may happen when the properties placed in service through 1994 with extended use restrictions reach Year 30.

WHAT WILL THE OUTCOMES BE AS OF YEAR 30?

Basing our analysis on patterns we observed for what happened when these properties passed Year 15, we expect that, by the time properties placed in service in the early to mid-1990s reach Year 30:

Some additional properties will have been repositioned in the market and no longer provide affordable rental housing because they will have gone through the QC process. However, we do not expect a large percentage of owners to seek QC sales and to succeed in obtaining relief from LIHTC restrictions before they reach Year 30. Moreover, as discussed elsewhere in this report, until now a large proportion of properties that have successfully gone through the QCP have been in weak markets where owners have sought regulatory relief while continuing to have rents within LIHTC limits.

Some additional properties will have been recapitalized with new tax credits. Although the number doing so will not be trivial, it will not be most of the properties. HFAs will have competing priorities for 9-percent credits, and many properties will not be suitable for 4-percent credits and bond financing. Some owners will not want to commit to another 30 years of LIHTC use restrictions that will come with a new allocation of tax credits.

Some properties will have been refinanced based on cash flow. Despite the LIHTC use restrictions, some properties in some housing markets generate sufficient cash flow to follow the pattern of periodic refinancing to meet capital needs, sometimes with an ownership change, that is typical of private market real estate.

A large number of properties, probably the majority, will have large unmet capital needs. All properties will be at least 30 years old. Some will be older and will not have had all systems replaced before they were placed in service under LIHTC. Properties that have aged for 30 years and have not had major capital improvements will need to replace major systems such as wiring, plumbing, heating, and roofs; most will also need to upgrade finishes, cabinets and appliances. Regardless of their financial condition or market location, few—if any—properties will be able to cover their capital needs from reserves.

Ownership patterns will vary. Properties with nonprofit owners will almost all still have nonprofit owners, usually the same as the original developer that placed the property into service under LIHTC. Some for-profit owned properties will still be owned by entities that include LP investors, but many will have simpler ownership structures. The original for-profit developer likely will continue to be the owner for many properties. Others will have been sold, for a variety of reasons. The property may have been attractive to new owners because of positive cash flow, and the original owner may have decided it was time to realize value or may have changed its business focus. Or a new owner may have taken over a financially troubled property with the intention of running it more efficiently or applying for additional subsidies.

Exhibit 6.5 shows the characteristics of the projects that were placed in service in the early years of the LIHTC program, through 1994, with use restrictions that extend for 30 years. Among the notable characteristics of this slice of LIHTC properties are the very large number of properties (more than one-third) and units (about a one-fourth) that also have Rural Housing Service (RHS) Section 515 loans. Those properties are not the primary focus of this study.[33]

33. Section 515 loans made after 1989 did not include a right to prepay. Of the roughly 16,000 properties in the entire RHS 515 portfolio, it has been estimated that about 10 percent have an economically viable prepayment option, primarily those in urbanizing areas. (ICF Consulting, 2004)

Exhibit 6.5. Characteristics of Early Year LIHTC Properties With Use Restrictions Expiring, 2020 Through 2024

	Projects	Units
Number of projects and units	5,841	230,496
Average project size and distribution	39.8	
0–10 units	26.9%	
11–20 units	13.5%	
21–50 units	39.2%	
51–99 units	11.1%	
100+ units	9.3%	
	100.0%	
Construction type		
New construction only	62.6%	57.8%
Rehabilitation	37.4%	42.2%
	100.0%	100.0%
Nonprofit sponsor	14.7%	17.7%
RHS Section 515	34.5%	24.6%
Tax-exempt bond financing	3.1%	9.6%
Location type		
Central city	43.6%	50.0%
Poverty rate of 10 percent or less	12.9%	16.7%
Poverty rate greater than 10 percent	87.1%	83.3%
Suburb	25.3%	30.0%
Poverty rate of 10 percent or less	51.5%	52.3%
Poverty rate greater than 10 percent	48.5%	47.7%
Nonmetropolitan	31.1%	20.0%
Poverty rate of 10 percent or less	23.9%	23.9%
Poverty rate greater than 10 percent	76.2%	76.1%
	100.0%	100.0%
Poverty rate of 10 percent or less	26.1%	28.8%
Percent of units with two or more bedrooms		54.5%

RHS = Rural Housing Service.

Notes: Projects used for analysis include only records with placed-in-service year data and tax credit allocation or award year. Missing data information are in appendix E. Data on whether a tax credit project was being monitored for LIHTC compliance are based on information provided by state allocating agencies.

Data on location type and poverty rate of 10 percent or less are based on LIHTC projects that were geocoded with census tracts from the 2000 Census. The geocoding rate for projects placed in service from 1987 through 1994 was 88.9 percent. Central city locations are based on central cities defined by 1999 metropolitan statistical areas (MSA) defined by the Office of Management and Budget. Suburb locations are within an MSA but not in a central city. Nonmetropolitan locations are not in an MSA. Poverty rates are census tract-level rates from the 2000 Census.

Source: HUD National LIHTC Database

HOW WILL PATTERNS SHIFT AFTER YEAR 30?

The three patterns observed at or somewhat after Year 15 will continue beyond Year 30: (1) some properties will continue to provide affordable rental housing, despite the absence of LIHTC use restrictions; (2) some will be recapitalized with public subsidies that bring new use restrictions; and (3) some will be repositioned with rents that are substantially higher than LIHTC-restricted rents or will no longer be rental housing. The balance among those three outcomes will shift after Year 30 in favor of the third pattern—repositioning and no longer affordable—but how much?

PROPERTIES THAT CONTINUE TO OPERATE AS AFFORDABLE HOUSING

This is likely the most common pattern for the early year LIHTC stock, despite the expiration of extended LIHTC use restrictions at Year 30.

Several types of properties will almost certainly not be repositioned. These properties include those with the following characteristics—

- *A mission-driven owner.* This includes the 15 percent of properties placed in service through 1994 with 30-year use restrictions that have nonprofit owners (exhibit 6.5).
- *Location in a state or city where use restrictions extend beyond Year 30.* This includes properties in three of the places where LIHTC properties are most likely to have greater value if no longer restricted: New York City, California, and Massachusetts.
- *The presence of use restrictions associated with financing.* This includes properties placed in service a second time under LIHTC. Some properties have other use restrictions—for example, use restrictions associated with land acquisition or with a source of debt that carries a use restriction with a very long term limit.

Owners of the remaining properties—for-profit owners of properties with no use restrictions continuing beyond Year 30—are likely to make a financial calculation about what to do with the property that depends on the housing market. The key consideration is whether the location will support market rents substantially higher than LIHTC rents. The large portion of LIHTC developments that have rents similar to unrestricted rents at about the middle of the housing market will continue to be affordable after the end of their use restrictions since the market will not sustain much higher rents.

These properties will now be 30 years old and, even if kept in good condition through cycles of refinancing and capital investment, may have drifted down in value in comparison with newer nearby rental housing. Relief from LIHTC restrictions will broaden the market for this housing to include students and those with incomes that are higher than the LIHTC income limits. The properties are likely to continue to provide rental housing and to do so at rents that families and individuals with modest incomes (around the LIHTC income standard of 60 percent of AMI) can afford. In many locations, they also will be available to households seeking private rental housing in which to use an HCV or similar tenant-based rent subsidy. The obligation that LIHTC properties have to accept voucher holders who pass regular landlord screening will cease, but many owners will be accustomed to renting to voucher holders and will appreciate the broadening of the market for their housing to include households that otherwise could not afford the rent.

Some properties with use restrictions that will expire starting in 2020 will have agreed to rents below both the LIHTC maximum and what the property would be able to charge without restrictions, either for the entire property or for "tiers" of units. Those agreements may have been made to make the project competitive for 9-percent tax credits in the state, or they may have been associated with soft debt. Although this was less common for early year LIHTC properties than it became later, some properties placed in service in 1994 or earlier are of that type. At Year 30, those properties may be able to raise rents to something closer to the LIHTC maximum—which will still provide affordable housing to households with incomes around 60 percent of AMI and will still be potentially available to households using tenant-based vouchers.

Another group of properties will continue to have affordable rents, but the rents they are able to charge with or without LIHTC restrictions are substantially below maximum LIHTC rents. These properties may have a difficult time producing enough cash flow to meet their operating needs and remain in even passable condition. As noted in a previous section, LIHTC rents—pegged to AMI—do not mean the same thing everywhere. In some locations, even rents at or only slightly below the LIHTC standard may produce inadequate cash flow—for example, properties in rural areas, in soft housing markets such as some midwestern communities, and in other places with declining populations. Some properties will be protected by having project-based Section 8 subsidies that have been set, administratively, at a level higher than competitive market rents.[34] Both HFAs and the federal government are likely to come under pressure to make additional subsidy resources available for these properties as their growing capital needs become apparent.

PROPERTIES RECAPITALIZED WITH NEW INFUSIONS OF LIHTC OR SIMILAR SUBSIDY

Even before properties with extended use restrictions reach Year 30 and are "at risk" of leaving the affordable housing stock, unmet capital needs will induce many of these properties—especially those in market areas that are not high in value and are not trending up—to apply to their HFAs for additional allocations of LIHTC. Some properties may be able to use bond financing and 4-percent credits. How HFAs will respond to this demand and assess its priority compared with other potential uses of LIHTC is difficult to predict. After Year 30, applications for new tax credits will come with the additional rationale that the property is at risk of becoming unaffordable—a point that may or may not be accurate for the particular property.

PROPERTIES THAT NO LONGER PROVIDE AFFORDABLE RENTAL HOUSING

For this group, market equivalent rents—or the value of converting the property to homeownership or commercial use—will be substantially higher than LIHTC rents, and the property is likely to be repositioned in the market within a fairly short period of time after the expiration of 30-year use restrictions. We can make only a very general estimate of how many properties fall into this category. It could be true of the 12.9 percent of the properties that are in central cities and the 51.5 percent in suburban locations that are in middle or middle or upper income census tracts with poverty rates of 10 percent or less (exhibit 6.5). This is only a rough indicator, but the number of properties, 960 (840 without a nonprofit sponsor), and the number of units, about 50,000 (42,700 without a nonprofit sponsor), is not huge. The modest numbers make preserving those properties a feasible policy objective, for which we make recommendations in the conclusion to this report.

34. From this study's interviews with syndicators and other experts, we know that many early year properties had project-based Section 8 subsidies. The HUD LIHTC database does not have sufficient data on the use of project-based rental assistance for early year properties to support a numerical estimate, so we do not include one in exhibit 6.5.

7. LATER LIHTC PROPERTIES: WILL WE SEE THE SAME PATTERNS GOING FORWARD?

Approximately 1.5 million housing units in more than 20,000 LIHTC properties were placed in service from 1995 through 2009 and will reach their 15-year mark between 2010 and 2024. How likely are those properties to follow the patterns that we observed around Year 15 for the early year LIHTC properties? Are they more or less likely to continue to operate as affordable rental housing, without major recapitalization? Are they more or less likely to be recapitalized with new allocations of tax credits? And, finally, are they more or less likely to be repositioned as market-rate housing with higher rents?

Exhibit 7.1 provides the information available from the HUD LIHTC database for comparing properties placed in service between 1995 and 2009 with those placed in service earlier. The data show some notable differences. We also know about other differences that are not measured by the database, but that were evident from the syndicator, investor, and expert interviews conducted for this study.

LATER YEAR PROPERTIES ARE MUCH LESS LIKELY TO HAVE RURAL HOUSING SERVICE SECTION 515 LOANS

In the early years of the program, the LIHTC was heavily used together with Rural Housing Service (RHS) Section 515 loans. The HFA-supplied data in the HUD LIHTC database show that nearly one-third of all properties had this financing, 31.1 percent (exhibit 7.1). Between 1995 and 2009, only 9 percent tapped this RHS financing. The heavy use of LIHTC with Section 515 is reflected in the greater percentage of properties in nonmetropolitan locations in the early years. This combination of funding sources also dropped because of the declining fortunes of the Section 515 program. In 1995, funding for the Section 515 program was cut dramatically and has never been restored, and the program recently has produced only a few hundred units each year (Rapoza, 2006).[35]

We deliberately did not focus on the Section 515 component of the LIHTC program in this study, because we considered those properties at less financial risk and also at less risk of being repositioned. Original Section 515 loans had 40- and 50-year terms, and the process of prepaying the loan—and thus removal of affordability restrictions—is complex. In general, owners of projects that received loans between 1979 and 1989 can request prepayment, although there are a number of restrictions and some incentives offered to owners encourage affordable housing preservation. Section 515 mortgages received before 1979 can be prepaid largely without restriction, and mortgages made after 1989 cannot be prepaid (George, 2007). We asked syndicators to talk to us about properties *without* Section 515 loans, but many told us that housing in this program was heavily represented in their early year LIHTC portfolios.

While it is not unknown for properties that have Section 515 loans to leave that program to seek higher rents, overall the smaller proportion of later year properties with this financing *increases* the number of properties with owners who might try to use the Qualified Contract (QC) process to end LIHTC use restrictions. Exhibit 7.1 also shows the characteristics of the approximately 19,000 later year properties that were not financed with Section 515.

35. In fiscal year 2006, Congress provided less than $100 million for the Section 515 program.

Exhibit 7.1. Characteristics of LIHTC Properties Placed in Service, 1987 Through 1994 and 1995 Through 2009

	All Properties		Properties without RHS Section 515 Loans	
	1987–1994	1995–2009	1987–1994	1995–2009
Number of projects	11,543	20,567	8,817	18,967
Number of units	411,412	1,521,901	331,795	1,467,055
Average project size and distribution	36.4	74.8	38.7	78.3
0–10 units	33.5%	5.9%	42.5%	6.2%
11–20 units	13.2%	9.4%	11.4%	8.6%
21–50 units	35.2%	37.2%	23.5%	34.5%
51–99 units	9.5%	23.5%	11.5%	24.8%
100+ units	8.6%	24.0%	11.1%	25.9%
	100%	100%	100%	100%
Construction type				
New construction only	56.7%	63.3%	47.2%	64.9%
Rehabilitation	43.3%	36.7%	52.8%	35.1%
	100%	100%	100%	100%
Nonprofit sponsor	10.1%	27.6%	12.7%	28.6%
RHS Section 515	31.1%	9.0%	--	--
Tax exempt bond financing	3.1%	21.7%	4.1%	22.9%
Project-based rental assistance	NA	32.4%	NA	31.6%
Home funds	NA	23.1%	NA	23.1%
CDBG funds	NA	5.6%	NA	5.7%
Location type				
Central city	46.6%	45.1%	58.5%	48.5%
Suburb	25.9%	30.9%	25.0%	31.2%
Nonmetropolitan	27.5%	24.0%	16.5%	20.3%
	100%	100%	100%	100%
Poverty rate of 10 percent or less	24.9%	29.8%	23.2%	29.8%
Percent of units with two or more bedrooms	54.5%	64.4%	58.3%	64.8%

CDBG = Community Development Block Grant. LIHTC = Low-Income Housing Tax Credit. RHS = Rural Housing Service.

Notes: Projects used for analysis include only records with placed-in-service year data. Missing data information are in appendix E. Information on the use of project-based rental assistance, including state or federal project-based rental assistance, was first collected by the U.S. Department of Housing and Urban Development with the 2006 placed-in-service year. Some state allocating agencies have been able to update this information for earlier placed-in-service years, but it is primarily missing for property records.

Data on location type and poverty rate of 10 percent or less are based on LIHTC projects that were geocoded with census tracts from the 2000 Census. The geocoding rate for projects placed in service from 1987 through 1994 was 88.9 percent. The geocoding rate for projects placed in service from 1995 to 2009 was 93.5 percent. Central city locations are based on central cities defined by 1999 metropolitan statistical areas (MSAs) defined by the Office of Management and Budget. Suburb locations are within an MSA but not in a central city. Nonmetropolitan locations are not in an MSA. Poverty rates are census tract-level rates from the 2000 Census.

Source: HUD National LIHTC Database

A SUBSTANTIAL PORTION OF LATER YEAR PROPERTIES HAVE PROJECT-BASED RENTAL ASSISTANCE

Nearly one-third of later year LIHTC properties have project-based rental assistance (exhibit 7.1). In this case, we cannot make a direct comparison between properties placed in service between 1987 and 1994 and those placed in service later. This property characteristic was not included in the original data collection for the early year properties, and efforts to fill in that information retrospectively were not successful.[36] The syndicator and investor interviews, however, suggest that an even higher portion of the early year LIHTC program was linked to project-based rental assistance. In addition, when seeking to interview owners of early year properties, we often were told that an owner's early year LIHTC portfolio consisted entirely of properties with Section 8 contracts.[37]

We focused data collection for this study away from Section 8 properties, because owners of most properties with rental assistance consider it very valuable and do not attempt to end their Section 8 contracts and reposition the housing to serve a higher income group of tenants at higher rents. An owner we interviewed about a LIHTC property that turned out to have project-based Section 8 said that competitive market rents in the property's location would have been lower than the rents permitted by HUD under the Section 8 contract.

The continued high percentage of LIHTC properties with project-based rental assistance reduces the number of properties likely to be repositioned as market-rate housing.

LATER YEAR PROPERTIES ARE LIKELY TO BE LARGER

The average size of a LIHTC property was 75 units in the later years, compared with only 36 units in the 1987 through 1994 period. Perhaps more important, nearly one-fourth of later year properties have 100 or more units, compared with only 8.6 percent in the earlier years (exhibit 7.1). This, together with the continued prevalence of rental assistance, may mean that many later year properties will have both the scale and the stream of rents needed for potential bond financing with 4-percent tax credits. As discussed in the next section, however, other features of later year properties may make them less suitable for bond financing.

LATER YEAR PROPERTIES ARE MORE LIKELY TO HAVE BEEN NEWLY CONSTRUCTED WHEN PLACED IN SERVICE AND, IF REHABILITATED, MORE LIKELY TO HAVE HAD SUBSTANTIAL WORK DONE

The percentage of LIHTC properties that were new when placed in service rose somewhat, from 57 percent in the early years to 63 percent from 1995 through 2009. Not counting Section 515 properties, the increase was larger, from 47 percent new to 65 percent new (exhibit 7.1).

Not available from the HUD LIHTC data, but a common theme in the syndicator, investor, and expert interviews is that many fewer later year properties were placed in service with only moderate levels of renovation supported

36. In addition to attempting to collect this information retrospectively from HFAs, we attempted to match data to HUD administrative data. The number of properties positively identified as having project-based rental assistance in the early years was too small to be credible.

37. The Section 8 Moderate Rehabilitation program was still active in the earliest years of LIHTC, and many owners who participated in that program were able to obtain LIHTC allocations, in part because the development process was already under way and HFAs considered that the properties would be completed and placed in service within the required time. The early year LIHTC program also coincided with efforts to preserve older Section 8 and other assisted properties through federal grant programs. LIHTC allocations frequently were obtained for those properties as well (ICF, 1991).

by LIHTC and other financing. This was discussed in chapter 6.2 in connection with the levels of rehabilitation now required when early year LIHTCs are resyndicated with second allocations of LIHTC. The higher renovation standards for later year LIHTCs reflect the shared perception of owners, syndicators/investors, and HFAs: when housing receives only modest renovations, it is more likely to encounter major physical problems.

With more properties that were newly built when placed in service, and with higher levels of renovation for rehabilitated properties, later year LIHTCs should be less likely to seek new allocations of tax credits because they have substantial capital needs at Year 15 and more likely to keep operating as affordable housing without recapitalization. Addressing a backlog of capital needs is not the only reason owners seek to resyndicate properties with additional tax credits, however, as discussed in chapter 6.2. Owners may want to upgrade the housing to keep it competitive or simply to earn the fees that are associated with a new redevelopment effort.

MANY MORE LATER YEAR LIHTC PROPERTIES HAVE NONPROFIT SPONSORS

During the 1987 through 1994 period, only 10.1 percent of LIHTC properties had nonprofit sponsors (General Partners), barely exceeding the minimum target required of LIHTC allocators by the tax credit law. In contrast, between 1995 and 2009, nearly 28 percent of all properties placed in service under LIHTC had nonprofit sponsors (exhibit 7.1). This set of owners is highly unlikely to attempt to reposition properties as market-rate housing with higher rents. Instead, at the end of the first 15 years, the nonprofit General Partners (GPs) will buy out the Limited Partner (LP) interests for most of these properties and continue to operate them as affordable housing.

Adding together the later year properties with nonprofit owners and those with for-profit owners and project-based rental assistance, more than one-third of LIHTCs placed in service during the 1995 through 2009 period (34.7 percent) are highly unlikely to seek to reposition their properties as market-rate housing by going through the QC process for relief from LIHTC restrictions.

LATER YEAR LIHTC PROPERTIES ARE LIKELY TO HAVE OWNERSHIP STRUCTURES THAT MAKE IT EASY FOR THE GENERAL PARTNER TO BUY THE LIMITED PARTNER INTERESTS

For-profit as well as nonprofit owners of later properties may find it easy to buy out the LPs for outstanding debt. Syndicators and industry observers describe a shift over time in the nature of LIHTC investment agreements. In later years, as investor competition to purchase LIHTC equity intensified, "back-end" dynamics moved decidedly in favor of GPs. The industry has evolved to the point that benefits offered to investors now often include little or no residual value or return of capital.

With a sales price no greater than the outstanding mortgage, many of these continuing owners will be able to continue to operate the property as affordable housing without a major recapitalization. However, the ability to refinance and the availability of cash flow may be complicated by the property's financial structure and target population.

LATER TAX CREDIT PROPERTIES HAVE MORE COMPLICATED RENT STRUCTURES AND MORE COMPLICATED FINANCING

Many of the early year LIHTC projects profiled as part of this study were financed simply, with debt and tax credit equity, but with relatively smaller amounts of debt and larger amounts of equity than would be expected in conventional real estate. Debt for these projects was typically provided either by commercial lenders or by HFAs. Furthermore, many early year projects established affordability at the level required by the federal tax code—that is, they simply agreed to charge rents that were no more than 30 percent of 60 percent of Area Median Income (AMI).

As the LIHTC program matured, project financing became considerably more complex. By the mid-1990s, the LIHTC program had become well-established, and competition for tax credit allocations had become intense. State agencies took advantage of this opportunity to raise the bar for tax credit applicants, requiring developments to provide greater levels of public benefits to be competitive. Later projects often have multiple tiers of affordability—for example, some units affordable for households at 30 percent or 40 percent of AMI, some at 50 percent AMI, and some at 60 percent AMI. With data collection on LIHTC projects placed in service in 2006, HUD started to ask whether the elected rent/income ceiling for projects was 50 percent of AMI or 60 percent of AMI, and whether any project units were set-aside at levels below the program election. For projects placed in service in 2006 through 2007, more than two-thirds of projects placed in service had some units at a lower rent tier, according to the HUD LIHTC database (Climaco et al., 2010).[38]

In addition to having lower rents, these properties are more costly to administer because property managers must work hard to identify and attract the households to whom apartments may be rented. Furthermore, many states award extra points in the tax credit application process for projects serving special-needs populations—homeless people or people with disabilities, for example. Properties serving special-needs populations often need to create working partnerships with organizations that can deliver health and social services.[39]

Lower rents from greater income "tiering," coupled with higher costs for administering those complex income tiers and for serving more needy resident populations, have lower net income projections and, therefore, can support less mortgage debt. With higher development costs and lower first mortgage debt, many later year LIHTC properties raised soft debt to cover the funding gap. While relatively few of the early year LIHTC developments had soft loan financing, a great many projects in the more recent years of the program did. We do not have this information for earlier years, but nearly 30 percent of all projects placed in service between 2003 and 2007 had HOME subsidies, and nearly 7 percent had Community Development Block Grants (Climaco et al., 2010).[40] Others (not recorded in the database) have soft debt from state- or city-funded housing programs.

Brokers and industry observers speculate that later year LIHTC properties will prove more difficult than early year properties to refinance and move into the conventional real estate world—either with affordable rents or with repositioned, higher rents. The upshot may be that a larger percentage of later year LIHTC properties end up being recapitalized with additional allocations of 9-percent tax credits.

38. The database records one rent/income ceiling election for each project. If properties with multiple buildings may have different rent/income ceiling elections, the maximum rent/income ceiling election is recorded.

39. These services might include mental health counseling, family intervention, adult job training and/or employment placement, or education services for children, with the specific services depending on the households that are targeted.

40. Data on the use of HOME and CDBG subsidies were first collected by HUD in 2005 for projects placed in service in 2003.

Properties with soft debt may be more difficult to finance with bonds and 4-percent tax credits, especially if the property has lower rent tiers, nontraditional expenses, or both—and, therefore, not much cash flow for amortizing bond-financed hard debt. These properties may also be more likely than earlier year properties to encounter exit tax issues when establishing a price for the sale the LPs' interests. On the other hand, public funders may be willing to provide additional subsidies for properties that serve households with special needs or in lower income tiers. When permanent financing includes substantial soft debt, the property can meet the 4-percent tax credit test that 50 percent of the property's financing must be tax-exempt private activity bond debt through bond-funded construction loans repaid in part by the soft debt.

A SOMEWHAT HIGHER PERCENTAGE OF LATER YEAR LIHTCS ARE IN LOW-POVERTY CENSUS TRACTS

The poverty rate of the location of a LIHTC property can serve as a rough proxy for locations that might have the ability to charge rents greater than the LIHTC maximum and, therefore, as defined by this study, unaffordable. The percentage of properties in census tracts with poverty rates of 10 percent or less rose from about 25 percent in 1987 through 1994 to about 30 percent in 1995 through 2009, and the percentage in the suburbs rose as well (exhibit 7.1; McClure 2006). These properties could be at risk of repositioning through the QC process, as they are more likely to have rents that exceed the LIHTC maximum rents.

CONCLUSION

Overall, the later year LIHTC properties appear to be at even lower risk of being repositioned as market-rate housing with unaffordable rents than the early year LIHTCs. A key factor is the very existence of extended use restrictions through Year 30, with the only possibility of relief a complicated QC process that some states have required owners to waive, while others make it procedurally difficult to succeed. Another factor is the much larger percentage of later LIHTC properties that have nonprofit sponsors.

Offsetting factors might be the lower share of later year properties with Section 515 loans and the lower share with project-based rental assistance, as well as the higher share that are in high-value locations. Nearly one-third of later year properties, however, do have project-based rental assistance contracts.

The more complex financial and rent structures of later year LIHTCs also may militate against repositioning as market-rate housing. However, those structures also may make it more difficult for later year LIHTC properties to use simple, conventional refinancing to "melt into" the mainstream of housing with affordable rents. More likely, many of the later year properties will continue to be part of a self-conscious industry of affordable housing providers. Although the greater proportion of later year LIHTCs that were either newly built or substantially renovated when placed in service may suggest a lower need for recapitalization at or around Year 15, both ongoing and new owners of tax credit properties may try to use a second round of tax credits.

8. CONCLUSIONS: POLICY RECOMMENDATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

8.1 POLICY RECOMMENDATIONS FOR MAINTAINING A STOCK OF AFFORDABLE RENTAL HOUSING

A key objective of rental housing subsidy programs, including the Low-Income Housing Tax Credit, is for localities and housing markets across the nation to have a stock of housing that is affordable for low-income renters and in reasonable physical condition. This study has confirmed that policies for the older LIHTC stock will need to focus both on preserving affordability and on preserving physical quality. We have identified three basic paths that older LIHTC properties take: (1) they are repositioned as higher rent or no longer rental, (2) they are recapitalized with new public subsidy, or (3) they remain affordable even after their use restrictions expire. Based on observations made during this study, the third outcome has been the most common and would continue to be the most common even if no public policy tools were available to affect what the outcomes are for the older LIHTC housing stock. But policymakers and stakeholders do have tools, and their actions will affect not only the magnitude of each set of outcomes, but also which properties follow which path. Policymakers who affect the outcomes for this stock of housing comprise three groups:

- **State housing finance agencies (HFAs).** HFAs and associated state housing and community development agencies[41] control most of the resources and other policy levers: they devise the Qualified Allocation Plans (QAPs) and other rules and processes for awarding new 9-percent credits; they define the rules and processes for Qualified Contract (QC) sales; they establish thresholds for bond financing and 4-percent credits; and they control other sources of soft debt such as state-funded programs and HOME. HFAs also have ongoing relationships with housing developers who may want to do business with them in the future.
- T**he federal government—HUD, Treasury, and Congress.** The federal government can change the resources and policy levers available to HFAs. Congress can do so through new law, the Department of the Treasury (Treasury) through interpretation of the tax code, and HUD through proposals to Congress and Treasury. HUD also, through development of data on LIHTC and through research such as this study, can provide information that helps other policymakers make decisions.
- **Advocates, housing intermediaries, and mission-driven developers.** These organizations also make choices that shape policies and outcomes for the LIHTC housing stock. They influence policy on the state and federal levels and, in the case of developers, they make choices about where to focus their priorities: maintaining what they own, acquiring and reinvigorating older properties, or developing new ones.

41. In some states the agency that allocates LIHTC is different from the agency that administers the HOME program and state-funded housing subsidy programs.

RECOMMENDATIONS FOR STATE HOUSING FINANCE AGENCIES

State HFAs will come under great pressure as the large stock of LIHTC housing ages. Most use restrictions will not expire until 2022 or later, but the QC sale process will be open to owners before then. As LIHTC developments age, owners will seek new LIHTC allocations and other state-controlled resources for older LIHTC properties to replace worn-out systems and finishes and, in some cases, to improve the appeal of their developments in the face of competition from other rental housing. State policymakers are going to have to make choices—with finite resources, they will not be able to do everything. In view of the findings of this study on what happens to LIHTC properties in different market conditions, we recommend that those choices be made on the basis of a set of guiding principles and on careful examination of the housing markets in which the older LIHTC stock within their states operates. HFAs then should use their policy levers to carry out those principles as they make choices about particular older LIHTC developments.

OLDER LIHTC PROPERTIES AT RISK OF BEING REPOSITIONED IN THE MARKET

HFAs should place the highest priority on the developments that are most likely to be repositioned in the market—as higher rent housing or conversion to homeownership or another use. The starting point should be an analysis of the older LIHTC housing stock in the state—probably focusing on properties that have been in service for 15 years or more and are owned by for-profit entities—to create a priority list of properties that are in locations where they already could charge substantially higher rents, if unrestricted. The list should also identify properties in areas that are gentrifying and, therefore, are likely to be able to charge market-determined rents that are higher than LIHTC rents, or are likely to be able to do so within a few years because substantial evidence indicates that the area is gentrifying. The good news from this study is that this list is likely to constitute a minority of LIHTC properties and units in most states. The bad news is that it is likely to take considerable resources to forestall the conversion of the particular properties that are in valuable locations. Preserving these properties as affordable housing will almost always be less costly than investing in creating new affordable developments in neighborhoods that are not otherwise likely to provide housing opportunities to modest income households. This investment may be the most cost-effective way to encourage or maintain some amount of economic integration and diversity.

For properties that are nearing the end of the use restriction and have been identified as at high risk of conversion away from affordable rental housing, the HFA could announce that it is prepared to make resources available to a preservation purchaser or to a current owner willing to further extend the affordability period. These resources might include new allocations of 9-percent tax credits or soft debt from a state-controlled program, or both.

A property at risk of becoming unaffordable might need renovation at the time a preservation sale or an agreement by the current owner to extend use restrictions occurred, but might not. So, for these properties, the HFA should not impose a minimum on the amount of rehabilitation done with a new allocation of LIHTC beyond the federal minimum of $6,000 per unit. In addition, to make these preservation deals feasible, the HFA might have to waive whatever standards it has established as maximum amount of tax credit per unit or per property.

Properties at risk of being repositioned with higher rents would be able to charge rents at the LIHTC maximum if continued under use restrictions. Therefore, especially in regions where the LIHTC maximum is relatively high, the property might be able to support enough debt to be able to use bond financing. So the HFA might decide it was advantageous to encourage preservation purchasers to use bond financing and 4-percent tax credits rather than applying for 9-percent credits, along with soft debt provided by the HFA or other state agency as needed.

OLDER PROPERTIES NOT AT RISK OF BEING REPOSITIONED IN THE MARKET

For properties not at risk of becoming unaffordable because they are not in locations where LIHTC rents are substantially below market rents, HFAs will have to decide how to identify those properties for which it is both necessary and important to provide resources for recapitalization from a fixed pot of housing subsidy resources. Establishing some principles is important for being able to say no to the owners of other properties. As long as bond financing and the 4-percent LIHTC equity that accompanies it is, in reality, not a finite resource—because demand does not exhaust the state's private activity bond ceiling—HFAs should not place barriers in the way of LIHTC owners using that resource by itself to meet their recapitalization needs. But the HFA (and its sister agencies) should not agree to use finite resources such as allocations of 9-percent credits, state housing trust funds, or HOME dollars unless a property meets a further test that makes it a high priority for physical preservation. Only then should the state choose that property over the development of additional affordable housing.

We suggest the following categories of properties that should have high priority for investment in meeting their capital needs, despite their not being in locations where market rents already are higher than LIHTC rents or are likely to become so soon.

- Properties that serve a special-needs population should get high priority. Supportive housing for people with disabilities, including permanent supportive housing for formerly homeless people, is an obvious example. Supportive housing for seniors is another example, but housing that serves elders who do not need special services probably is not, as most housing markets have a good supply of housing units of a size suitable for individuals or couples at rents around the LIHTC standard.
- Properties that have committed—or are willing to commit—to rent tranches of units below the LIHTC maximum may be deserving of high priority. However, the HFA, when underwriting such projects, should scrutinize project feasibility carefully. LIHTC operators often have found it difficult to manage turnover and waiting lists to fill units within the tranches. If the state-controlled resource that could support recapitalization of these properties may be used instead for tenant-based assistance—as the HOME program and some state-funded housing programs can be—it probably makes more sense to meet the needs of households who cannot afford rents near the LIHTC maximum rents by making vouchers available to renters with incomes well below 60 percent of AMI.
- Properties that are in a neighborhood where a concerted neighborhood transformation effort is going on might get priority, but only if the older LIHTC property is in such bad physical condition—or is so badly managed—that a preservation program is needed to prevent it from blighting the neighborhood. Otherwise, any use of state housing development resources should be for additional housing—homeownership or rental—that could have a substantial positive impact on the neighborhood, rather than the marginal impact of fixing up a property that already is in reasonable condition. Furthermore, the bar should be set high for what qualifies as a concerted neighborhood transformation effort. Proposal rhetoric is not enough. The sponsor should be able to demonstrate that substantial public resources have been committed to a multifaceted revitalization effort in order to persuade the HFA that investment in old (or new) LIHTC developments is a priority use of resources.

Without such a concentrated neighborhood revitalization effort, the HFA's policy should be to avoid weakening fragile neighborhoods further by creating a surplus of low-rent properties that compete with each other for a limited base of tenants. The HFA might make an exception and agree to allocate new resources in those

rare cases where properties placed in service under LIHTC are damaged by natural disasters or fail because of unforeseen defects in construction.

The overall principal should be that state housing resources are finite. A property's previous use of LIHTC (or LIHTC and other state-controlled subsidies) is not a sufficient reason for choosing to subsidize that property a second time, unless the property is at real risk of becoming unaffordable or serves a special-needs population or has another compelling function.

Instead, state decisionmakers should recognize that most older LIHTC properties will, over time, become mid-market rental properties indistinguishable for other mid-market rental housing, and that this is a good result. These properties will develop capital needs—all properties do. But it is not within the resources of HFAs to keep all mid-market rental housing in like-new physical condition. Instead, state policies should welcome and encourage older LIHTC properties to meet their capital needs in the same way that other rental housing does—through a combination of reserves and periodic refinancing. In some cases, the state agency may choose to resubordinate existing soft debt to facilitate this process.[42]

For properties states can identify as not at risk of becoming unaffordable but that are struggling to find income-qualifying tenants, HFAs should not place barriers in the way of requests for QC sales that result in older LIHTC properties having their extended 30-year use restrictions lifted. Instead, HFAs should be willing to lift use restrictions for such properties through the QC sales process as a way of broadening the market for the properties enough to make them self-supporting. As noted in this report, some midwestern HFAs have already begun doing this.

NEW LIHTC PROPERTIES

Given that some older LIHTC properties, albeit a minority, are at risk of being repositioned as unaffordable at the end of 30-year use restrictions and that considerable expenditures of resources will be needed to prevent that from happening, should HFAs extend use restrictions beyond 30 years for which allocations are made in the coming years? We do not recommend this, for the following reasons.

Extended use restrictions come at a cost. This is inherent in the design of the LIHTC program, in which the tax credit compensates investors for reduced expectations of cash flow and resale potential. The longer the use restrictions last, the higher the initial public subsidy needs to be.

As this study has shown, under some market conditions, inflexible use restrictions may undermine the goal of preserving affordable housing in good condition by overly restricting the rental market for those properties. For example, we learned that in some midwestern states, many LIHTC properties are very similar to market-rate properties but use restrictions constrict the market for those properties just enough that they are at risk of failing physically and financially. The Ohio HFA has been willing to remove use restrictions for properties that will still provide good quality housing at modest rents.

Periodic reassessments of the relative importance of a particular property for expanding the opportunities for low-income renters to live in good quality, affordable housing are valuable. Such reassessments are triggered by the impending end of use restrictions and may not happen otherwise. Locking properties into very long-term

42. Whether resubordinating soft debt at the time of refinancing constitutes subsidizing the property a second time depends on whether a real expectation exists that the soft debt would be repaid.

use restrictions may place de facto obligations on public funders to continue to make investments in those properties, even if other properties with other locations and physical characteristics would be better places for low-income renters to live. The history of the public housing program is instructive.

RECOMMENDATIONS FOR THE FEDERAL GOVERNMENT

Federal government support for the LIHTC program has shown great resilience in the face of budget pressures, and we assume that it will continue to do so. At the same time, policies for the use of this resource need not be set in stone, and some were changed as recently as the changes made by the Housing and Economic Recovery Act in 2008. The 2013 federal budget includes some further proposals for changes to the LIHTC program.

Just as we have recommended some principles for states to follow in making choices about using their resources to preserve older, affordable housing, we suggest that federal policymakers take actions that will create a high priority for preserving those older LIHTC properties that are at greatest risk of no longer being affordable, as well as those that serve a special-needs population. Our recommendations for federal policy relate to QAPs, to the allocation of LIHTC authority to the states, and to the development of databases and analytical tools for states to use in making implementing their LIHTC programs and for advocates, intermediaries and mission-driven developers to use in carrying out their roles.

QUALIFIED ALLOCATION PLANS

Section 42 of the Internal Revenue Code sets the framework within which states draw up their QAPs for awarding 9-percent tax credits. The preferences and selection criteria included in the law are not exclusive and leave HFAs with broad leeway to add other criteria and to create scoring systems that emphasize some criteria more than others. *Notably absent from the federal QAP standards is whether the project is in a location where market rents are higher than rents at the LIHTC standard.* The selection criteria listed in the statute include location, but without further explanation of what features of the location are important. Similarly, the preferences include "projects which are located in qualified census tracts…and the development of which contributes to a concerted community revitalization plan," but without further describing such a plan (IRC §42(m)(1)(C)(v)). The selection criteria also include tenant populations with special housing needs. The time may be ripe for federal agencies to propose—and Congress to enact—a revamped version of the QAP standards that sets the framework for when allocations of 9-percent LIHTC credits should be made to older LIHTC developments, those that have previously been placed in service under the tax credit. Alternatively, the Treasury (with advice from HUD) might issue guidance on QAPs that elaborates on the current statutory language to define location as a place where market rents are not affordable judged by the LIHTC standard, "concerted community revitalization plan" (IRC §42(m)(1)(B)(ii)(III)) as a commitment of substantial resources in such areas as school improvement, access to health services, access to job training and employment, and substantial physical redevelopment (such as investment in upgrading existing deteriorated housing or commercial properties or creating new housing), and "tenant populations with special housing needs" (IRC §42(m)(1)(C)(v)) as those who need health or other social services to maintain their tenancies.

ALLOCATION OF LIHTC AUTHORITY TO THE STATES

LIHTC developments likely to be repositioned in a way that makes them unaffordable are not evenly distributed across the United States in proportion to population. Instead, they are most likely to be in states with high housing costs and limited housing supply. The need for preventing LIHTC properties from becoming unaffordable is strongest in those states—as, for that matter, is the need for producing additional units of LIHTC-supported, affordable rental housing. The concept that LIHTC should be allocated on the basis of a measure of housing need, rather than *per capita*, is not new (Nelson, 1999, Nelson, 2002). However, the risk that large number of units in older LIHTC developments will become unaffordable when 30-year use restrictions expire, and the need to enable HFAs to act proactively to preserve them, means that the time may have come to make the change to a needs-based allocation formula. For example, a formula could allocate more LIHTC authority to states that have a relatively high level of mismatch between the number of renters with income below the LIHTC standard and the number of rental units affordable to households at or below that income level. Khadduri et al., (2004) provide a specific proposal for an allocation formula that includes this as well as other factors. The formula might also take into account differences in development costs in different parts of the country. The basis boost permitted for properties in Difficult Development Areas was intended to recognize differences in development costs that are not matched by differences in rent potential. Basis boosts, however, are made by HFAs out of the fixed, *per capita* amount of LIHTC allocated to the state.

A disadvantage of this proposed change is that moving away from a *per capita* allocation formula could weaken support for LIHTC from representatives of states that would lose LIHTC resources in a reallocation of a fixed national amount of LIHTC authority. On the other hand, developers and owners of private-market rental housing in those same states—where most LIHTC property competes directly with other rental housing—might be in favor of such a change. An alternative to a new formula for allocating 9-percent LIHTC credits would be to enact a modest pool of bonus LIHTC funding to be used by the Treasury to reimburse states that allocate tax credits to carefully defined at-risk properties. Yet another possibility is to permit basis boosts to the same, narrowly defined properties when they use bond financing and 4-percent credits. This is effectively a more narrowly targeted variation of a proposal in the 2013 budget intended to bring more resources into the LIHTC program by permitting basis boosts with 4-percent credits.

DATABASES AND ANALYTICAL TOOLS

HUD does a lot and could do more to create and maintain data and analytical tools that support decisionmaking at all levels around the LIHTC program. HUD has created and updates every year the LIHTC database on the characteristics of properties placed in service each year, one of the sources of information used for this study. That database has already been enhanced by additional questions on the type of financing used for projects placed in service in recent years. The database soon will be greatly enhanced by the addition of data on the demographic and income characteristics of the households that occupy LIHTC properties, on the rents actually paid for LIHTC units (which may be below the maximum rents permitted), and on whether the unit or the household also has a Housing Choice Voucher (HCV), Section 8, or other subsidy that permits the occupant to pay a much lower rent. HUD should certainly continue the basic effort and should make the enhanced data publicly available as soon as is possible and with whatever detail about unit occupancy and rents is consistent with privacy protections.

The 2-year time lag between HFA allocations of LIHTC and the date when properties are placed in service, together with the further time lag needed for receiving data for the past year from the HFAs and assembling it for publication, limits the usefulness of the HUD LIHTC database for monitoring recent changes in state policies and the evolution of the LIHTC program. HUD might consider collecting from HFAs, a separate set of data, information on each year's LIHTC awards, with a smaller number of property characteristics, not including those most likely to change before the property is placed in service. It might be possible for HUD to build on the annual survey of HFAs carried out by the National Council of State Housing Agencies that already collects some of this information. The LIHTC allocation data would include key indicators such as the street addresses where the developments will be located, the estimated number of units in the property, and whether the property is intended for a target population group.

In addition to this continued data development, HUD also could create analytical tools to help HFAs make the lists that we have recommended of properties most at risk of being repositioned as unaffordable housing. In particular, HUD could develop a methodology for states to use to identify housing markets and sub-markets where rents are greater than the LIHTC maximum or where neighborhood characteristics suggest that the neighborhood is on an upward trajectory.[43] HUD could make the methodology available to states and, possibly, also publish a list of such places.

RECOMMENDATIONS FOR ADVOCATES, INTERMEDIARIES, AND MISSION-DRIVEN DEVELOPERS

Advocates and housing intermediaries play a vital role both in recommending policy changes to HFAs and the federal government and in the implementation of policies as they affect individual properties. Given the findings of this study, we recommend these organizations support HFA efforts to identify those older LIHTC properties most at risk of becoming unaffordable. In some states, the HFA might ask advocates or intermediaries to take the lead in the analysis that creates and maintains a priority list of properties. Mission-driven developers, in turn, are the organizations to which HFAs will frequently need to turn to purchase older LIHTC properties in high-value locations and to operate the housing under use restrictions that keep it affordable. Leaders of those development entities should be engaging in strategic planning that positions their organizations to assume those responsibilities. This may mean being less reactive and more strategic about opportunities that come their way to develop and redevelop housing and declining opportunities to acquire properties that do not expand the range of locations in which low-income renters are able to live.

8.2 RECOMMENDATIONS FOR FUTURE RESEARCH

As suggested by the policy recommendations that flow from this study, understanding the role that LIHTC housing plays in housing markets and what it accomplishes for its residents are essential for making policy about the future of the older LIHTC housing stock. Therefore, one of our recommendations is for research that focuses on the role of LIHTC in creating mixed-income housing, both by making housing available to low-income renters in locations where it otherwise would not be and by creating housing that has a mixed-income character within the development itself. Some of the specific questions that this research would address are—

43. In addition to continuing in its general capacity of analyzing housing market data, HUD's Office of Policy Development and Research is in the process of developing a Neighborhood Opportunity Database that could be useful in identifying gentrifying locations.

- Besides average market rents, what identifies a location in which low-income renters would not be able to live without housing with use restrictions such as LIHTC?
- To what extent and in what sense do properties that contain both LIHTC and non-LIHTC units create opportunities for low-income families to live in mixed-income settings? Are these properties financially viable, and what are the challenges to operating them successfully?
- To what extent and in what sense do LIHTC properties that have income tiers with the maximum LIHTC rent limits create opportunities for low-income families to live in mixed-income settings? Are these properties financially viable, and what are the changes to operating them successfully?
- To what extent and in what sense do LIHTC properties in which families use HCVs create opportunities for low-income families to live in mixed-income settings? Are some of these properties becoming concentrations of poor families rather than mixed-income communities? If so, what leads to that result?
- Do LIHTC properties that no longer are subject to the program's use restrictions provide opportunities for mixed-income housing? To what extent does this depend on the availability of HCVs? What role do former LIHTC developments that *also* formerly had project-based Section 8 play in the housing market?
- What types of households (by income, race and ethnicity, and household type) live in different types of LIHTC developments (by location, property type, property ownership, etc.)? How are LIHTC properties marketed, and how do prospective tenants find out about them?

Another recommendation is for research to understand better the role that adding new units of subsidized rental housing such as LIHTC plays in transforming—or weakening—a neighborhood. HUD is undertaking an evaluation of Choice Neighborhoods that will document neighborhood change in a few places where the effort to change a neighborhood brings together concentrated resources across housing and other sectors. Other research has focused on New York City's massive investments in housing in the 1980s and 1990s. A broader research program should focus on other cities and on a broader range of neighborhoods. Some of the questions that this research would address are—

- How much new or substantially rehabilitated housing is needed to change the trajectory of a neighborhood?
- What combinations of rental and homeownership housing are most successful in changing a neighborhood? Of subsidized and market-rate rental housing?
- Which other investments or policy transformations are critical to neighborhood revitalization? Are neighborhood-focused employment efforts essential, or are transportation links to employment sufficient? How important is investment in school quality to attracting and retaining residents?
- What can we learn from revisiting investments in neighborhoods associated with the HOPE VI program?
- What can we learn from the housing recession about the role of rental housing in neighborhood dynamics?

Yet another area of research suggested by this study has to do with definitions and financing mechanisms for special-needs housing supported by LIHTC. For example, some of the research questions are—

- When should subsidized housing for seniors be defined as special-needs housing? At what level of linked services is this housing that low-income seniors would not otherwise be able to access?

- What models for supportive housing best link health programs to subsidized rental housing such as LIHTC developments? How can HFAs and state health agencies best coordinate their efforts? What level of commitment of services from the health system should HFAs seek in selecting LIHTC special-needs developments?
- How do LIHTC-funded developments that include both supportive housing units and units for general occupancy work? How many supportive housing units are needed to make service linkages feasible? Do such developments face underwriting challenges?

A final set of issues is suggested by our observation that HFAs and other policymakers will have to make decisions about the LIHTC stock within constrained resources. HUD-sponsored research on the development and operating costs of LIHTC housing and how they vary around the country could be very useful for informing HFA policy standards, as well as for allocating tax credits and underwriting specific properties. As described in chapter 1.1, the few studies that carefully compare the costs of LIHTC with other federal housing subsidies are limited by their inability to fully account for the costs of LIHTC development and operations.

For example, such research might examine—

- Development costs of LIHTC properties and how they vary by property characteristics such as floor space, amenities, design, and finish materials, as well as community space to meet the needs of special populations.
- Operating costs of LIHTC properties and how they compare with the operating costs of other affordable housing. This includes factors that affect operating costs such as where the property is in the compliance period and what type of population it serves.

Life-cycle costs of LIHTC properties and how that is affected by the timing of refinancing and recapitalization. This includes the life-cycle cost tradeoffs of front-end investments in energy-saving features such as highly insulated walls and windows and solar panels.

The Low-Income Housing Tax Credit is a major source of new production of multifamily rental housing, accounting for one-third of all new units in recent years. An often-mentioned strength of the program is that it is a front-end subsidy, placing no ongoing obligation on the federal government or state governments to provide operating support for the housing over time. As this study has shown, the role of the housing placed in service under LIHTC in local housing markets is diverse. State, federal, and private policymakers should keep that diversity in mind when making decisions about whether the older LIHTC stock should receive additional public subsidy with new, extended use restrictions or should be permitted—and encouraged—to blend into the broader stock of moderately priced private rental housing.

SYNDICATORS, BROKERS, AND LIHTC INDUSTRY EXPERTS INTERVIEWED FOR THE STUDY

The following tax credit syndicator and broker firms and organizations participated in the study by agreeing to be interviewed for this research effort. Organizations marked with an asterisk (*) allowed project staff to meet with them to complete more in-depth interviews.

Aegon USA

Apartment Realty Advisors

Bank of America

Boston Capital*

Boston Financial Investment Management*

CB Richard Ellis

Centerline*

Enterprise Community Investment, Inc.

Fannie Mae

JP Morgan Capital Corporation

Marcus & Millichap*

National Equity Fund

Raymond James Financial

Richman Capital

The following tax credit syndicators, brokers, state allocating agency staff, and other industry experts helped this research effort by agreeing to be interviewed for the study. Interviews completed for the owner survey are not included in this list.

Katherine (Katie) M. Alitz
Boston Capital

Dorothy Anderson
North Dakota Housing Finance Agency

Randy Archuleta
Arizona Department of Housing

Charles (CJ) Baier
Raymond James Financial
Raymond James Tax Credit Funds, Inc.

Eric Barteldes
Federal National Mortgage Association

Timothy Bartlett
Boston Capital

Regina Bender
Bank of America

Georgette Benson
District of Columbia Department of Housing and Community Development

Michael Bodaken
National Housing Trust

Cassandra Brown
Michigan State Housing Development Authority

Judy Brummett
Arkansas Development Finance Authority

Sylvia Burgess
North Dakota Housing Finance Agency

Joseph Callender
Ernst & Young, LLP

Brian Carnahan
Ohio Housing Finance Agency

Brenda Champy
Boston Capital

Robert Collier
Mississippi Home Corporation

Christopher Collins
First Atlantic Capital, LLC

Herbert Collins
First Atlantic Capital, LLC

Marianne Cortland
Boston Capital

Kevin Day
Centerline

Dan DeLong
Illinois Housing Development Authority

Renee Dickinson
Minnesota Housing Finance Agency

Matt Dillis
Boston Capital

Rose Eaton
National Equity Fund

Cindy Fang
Ernst & Young, LLP

Thomas G. Fischer
CB Richard Ellis, National Tax Credit Advisory Group

Gerald (Jerry) Flemming
National Equity Fund

Tim Flint
Marcus & Millichap

David M. Fournier
Apartment Realty Advisors, National Affordable Housing Group

James A. Fox
Housing Investments
JP Morgan Capital Corporation

Anthony Freedman
Holland and Knight

Noah Freiberg
New Jersey Housing and Mortgage Finance Agency

Michael Gladstone
Boston Financial Investment Management

Dmitri Gourkine
Marcus & Millichap

Greg Griffin
Enterprise Community Investment, Inc.

Brandon Grisham
Marcus & Millichap

Ethan Handelman
National Housing Conference

William Haynsworth
Boston Financial Investment Management

Ben Henderson
Aegon USA

Jack Hodgkins
Community Investments and Lending Group
Wells Fargo

Jocelyn Iwamasa
Hawaii Housing Finance and Development Corporation

Teresa Kile
Nebraska Investment Finance Authority

Korey Kopp
Wisconsin Housing and Economic Development Authority

Mark Koppelkam
New Hampshire Housing Finance Authority

Peter Lawrence
Enterprise Community Investment, Inc.

Thalia Lee
Arkansas Development Finance Authority

Teri Mamaril
Mississippi Home Corporation

Sandra McGougan
Oklahoma Housing Finance Agency

Dan Mendelson
Chesapeake Community Advisors, Inc.

Brian Myers
Richman Capital

Peter A. Nichol
The Reliant Group

Vincent O'Donnell
Local Initiatives Support Corporation

Beth O'Leary
Enterprise Community Investment, Inc.

David Player
Fannie Mae

Jeffrey Rahn
Boston Financial Investment Management

Michael Regan
Boston Capital

Will Renner
Boston Financial Investment Management

David Reznick
The Reznick Group

Mark Romick
Alaska Housing Finance Corporation

Judy Schneider
National Equity Fund

Robert Sheppard
Marcus & Millichap

Ammer Singh
California Tax Credit Allocation Committee

David Smith
Recap Advisors

Bettie Teasley Sulmers
Tennessee Housing Development Agency

Marianne Votta
Bank of America

Walter Williams
Boston Capital

APPENDIX A. HUD NATIONAL LIHTC DATABASE: CURRENT PROJECT DATA COLLECTION FORM

HUD LIHTC DATABASE DATA COLLECTION FORM — OMB APPROVAL NO. 2528-0165 (EXP. 05/31/2013)

State: _____ Allocating Agency Name: _____
Project Identifying Number (if any): _____

Project Name: _____

Project Address: _____
(NUMBER) (STREET)

_____
(CITY) (STATE) (ZIP)

Building Identification Numbers (BIN #): _____ *(ST-YR-XXXXX)*

Building Address: _____
(STREET) (CITY) (ZIP)

_____
(STREET) (CITY) (ZIP)

Owner/Owner's Representative: _____
(FIRST NAME) (LAST NAME)

_____
(COMPANY NAME)

_____
(NUMBER) (STREET)

_____
(CITY) (STATE) (ZIP)

_____
(AREA CODE AND TELEPHONE NUMBER)

Annual Amount of Tax Credits Allocated: $_____

Number of *Total* Units: _____

Number of Total Units *by Size:* _____ _____ _____ _____ _____=_____
OBR 1BR 2BR 3BR 4+BR TOTAL

Number of *Low-Income* Units: _____

What is the elected rent/income ceiling for Low-Income Units in this Project? ☐ 50% AMGI ☐ 60% AMGI

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PREVIOUS EDITIONS UNUSABLE — REVISED MAY 2010

Are any units set aside to have rents below the elected rent/income ceiling? ☐ Yes ☐ No
If "Yes," how many units? _____

Year Placed In Service: _____

Year Project Received Allocation or Bond Issued: _____

Type *(check all that apply):*

☐ New Construction ☐ Rehab (with or without acquisition)

Credit Percentage *(check one):*
☐ 9% (70% present value) ☐ 4% (30% present value) ☐ Both

Does this LIHTC project:	**Yes**	**No**	**If Yes, please provide:**
Have a non-profit sponsor?	☐	☐	
Have increased basis due to qualified census tract/difficult development area or HERA-based designation?	☐	☐	
Have tax-exempt bond financing?	☐	☐	
Have a Rural Housing Service (FmHA) Section 514 loan?	☐	☐	RD Loan #: _____
Have a Rural Housing Service (FmHA) Section 515 loan?	☐	☐	RD Loan #: _____
Have a Rural Housing Service (FmHA) Section 538 loan?	☐	☐	RD Loan #: _____
Have HOME Investment Partnership Program (HOME) funds?	☐	☐	IDIS Activity ID: _____ Amount: _____
Have Community Development Block Grant (CDBG) funds?	☐	☐	IDIS Activity ID: _____ Amount: _____
Have an FHA/Risk Sharing loan?	☐	☐	Loan #: _____
Form part of a HOPE VI development?	☐	☐	Amount: _____

Target a specific population? (If yes, check all that apply)

☐ Families ☐ Elderly ☐ Disabled ☐ Homeless ☐ Other _____

Have a federal or state project-based rental assistance contract?

☐ Federal ☐ State ☐ Neither

INSTRUCTIONS

State: Enter the Postal Service two-character abbreviation for your state.

Project Identifying Number: Enter the Project Identification Number. If there is not an established method of assigning PINs, HUD recommends using the following format: State Postal Abbreviation - Allocation Year – First two digits of BIN; e.g. CT-10-01.

Project Name: Enter the name of the project. Do not enter a partnership name (e.g., Venture Limited II).

Project Address: Enter the complete address of the property, including address number and street name, city, state, and ZIP Code. If the project has multiple addresses (e.g., 52-58 Garden Street), please provide the address range. Also, please provide the address for each building (BIN). Do not enter a P.O. Box.

Building Identification Number and Address: Enter the Building Identification Number (BIN) assigned to the building (from IRS Form 8609). According to IRS Notice 88-91, the BIN consists of a two-character state postal abbreviation followed by the two-digit designation representing the allocation year, and a five-digit numbering designation. For example, the identification number for one of 25 buildings allocated a credit in 2010 by the Connecticut Housing Finance Authority (the only housing credit allocating agency in the state) might read CT-10-01001 .

Owner's Contact Name, Address and Phone Number: Enter the name, address and phone number of the owner or owner's contact person. This will often be a representative of the general partner. This information will be used for future mail or telephone contacts regarding the development. As such, we need an individual and company name and address as opposed to the partnership name.

Annual Amount of Tax Credits Allocated: Enter the total dollar amount of federal tax credits that may be claimed each year by the owners of this project.

Number of Total Units: Enter the total number of units in the project, summing across buildings if needed.

Number of Total Units by Size: Enter the number of units in the project (summing across buildings if necessary) that have 0, 1, 2, 3, or 4 or more bedrooms. Make sure the units sum to the total number of units in project.

Number of Low-Income Units: Enter the number of units the in project (summing across buildings if necessary) that were qualified to receive Low-Income Housing Tax Credits when the building(s) was/were placed in service.

Elected Rent/Income Ceiling: Indicate whether the project qualifies for tax credits with units set aside for tenants with income less than or equal to 50% of Area Median Gross Income (AMGI) or 60% of AMGI. "1" =50% or "2"="60%

Units Below Elected Rent/Income Ceiling: Check yes if any units in the project have rent levels set below the elected maximum. If yes, enter the number of units which meet this criteria. "1" =yes; "2"=no

Year Placed in Service: Enter the year the project was placed in service. If this is a multiple building project, with more than one placed in service date, enter the most recent date. Placement in service date is available from IRS Form 8609, Item 5.

Year Project Received Allocation or Bond Issued: Enter the initial allocation year for which tax credits were awarded for the project. Allocation date is available from IRS Form 8609, Item 1a. If the project received multiple allocations, use earliest allocation year. If no allocation was required (i.e., 50 percent or greater tax-exempt bond financed) and IRS Form 8609 Item 1a is blank, enter the year the bond was issued.

Type (New Construction or Acquisition/Rehab): Enter the production type for which the project is receiving tax credits, i.e., a newly constructed project and/or one involving rehabilitation. If the project involves both New Construction and Rehab, check both boxes. (Construction type can be inferred from IRS Form 8609, Item 6. If box a or b is checked, the building is new construction. If box c and d or e is checked, the building is acquisition/rehab.) "1"=New Construction; "2"=Acquisition and Rehab; "3"=Both New Construction and A/R

Credit Percentage: Indicate the type of credit provided: 9% credit (70% present value) or 4% (30% present value). Maximum applicable credit percentage allowable is available from IRS Form 8609, Item 2. The entry on the 8609 is an exact percentage for the project and may include several decimal places (e.g., 8.89% or 4.2%). Please check the closest percentage -- either 9 or 4 percent. The box marked "Both" may be checked for where acquisition is covered at 4% and rehab at 9%. "1"= 4% credit (30% present value); "2"= 9% credit (70% present value); "3"=both

Non-profit sponsor? Check yes if the project sponsor is a 501(c)(3) nonprofit entity. Use the same criteria for determining projects to be included in the 10 percent non-profit set aside. "1"=yes; "2"=no

Increased Basis Due to Qualified Census Tract (QCT) or Difficult Development Area (DDA)? Check yes if the project actually received an increase in the eligible basis due to its location in a QCT, DDA, or HERA-authorized DDA designation. Increased basis can be determined from IRS Form 8609, Item 3b. (Note: Projects may be located in a QCT or DDA without receiving the increase.) "1"=yes; "2"=no

Tax-exempt bond financing? Check yes if financing was provided through tax-exempt bonds. Use of tax-exempt bonds can be determined from IRS Form 8609, Item 4, which shows percentage of basis financed from this source. "1"=yes; "2"=no

Rural Housing Service (RHS) Section 514 loans? Check yes if the project was financed with a Rural Housing Service Section 514 direct loan, and provide the loan number. "1"=yes; "2"=no

Rural Housing Service (RHS) Section 515 loans? Check yes if the project was financed with a Rural Housing Service Section 515 direct loan, and provide the loan number. "1"=yes; "2"=no

Rural Housing Service (RHS) Section 538 loans? Check yes if the project was financed with a Rural Housing Service Section 538 loan guarantee, and provide the loan number. "1"=yes; "2"=no

HOME or CDBG funds? Check yes if the project was developed using HOME or CDBG funds, and provide the IDIS Activity ID number and the dollar amount of funds. "1"=yes; "2"=no

FHA/Risk Sharing loan? Check yes if the project has an FHA /HUD Risk Sharing loan, and provide the loan number. "1"=yes; "2"=no

Part of a HOPE VI development? Check yes if the project is part of a HOPE VI public housing revitalization effort, and provide the dollar amount of HOPE VI funds related to development or building costs only. "1"=yes; "2"=no

Population targeting? Check yes if the project targets a specific population, such as families, elderly, people with disabilities, homeless, or other. "1"=yes; "0"=no or not indicated

Federal or state project-based rental assistance contract? Check if the project has a signed contract for federal or state project-based rental assistance, subsidizing rent for low-income tenants. "1"=Federal; "2"=State; "3"=neither

PUBLIC BURDEN STATEMENT

Public reporting burden for this collection of information is estimated to average 1 hour for each response. This includes the time for collecting, reviewing, and reporting the data. The information will be used to measure the number of units of housing financed with the Low-Income Housing Tax Credit (LIHTC) that are produced each year. The information will also be used to analyze the characteristics of these housing units, and will be released to the public. This agency (HUD) may not collect this information, and you are not required to complete this form unless it displays a currently valid OMB control number.

APPENDIX B. SYNDICATOR AND BROKER INTERVIEW GUIDES

SYNDICATOR INTERVIEW GUIDES
LIHTC YEAR 15 STUDY SYNDICATOR INTERVIEWS (REVISED JANUARY 22, 2010)

INITIAL EXPLORATORY CALLS (APPROXIMATELY 2–3)

1. Explain the study briefly.
2. How would you describe your portfolio of early LIHTC (pre-1994) properties
   a. Did it include many Farmer's Home projects?
   b. Did it include many projects with project-based Section 8s?
3. Were most of your early TC investments done as public offerings to individuals or private offerings to institutional investors? If this changed over time, when did that occur and why?
4. Were many of your earliest properties (pre-1990) subject to extended affordability restrictions beyond 15 years? Do you know what were the primary sources of these restrictions: other financing (Farmer's Home, HOME, etc)? State agencies distributing the tax credits? Other sources (local land use restrictions, etc?)
5. Do you have a database that includes information about what has happened to your LIHTC properties that have reached Year 15? That is, whether there has been a disposition, and if so, what was the nature of the disposition? (GP purchase versus third-party sale, for example)
   a. If you have such a database would you be willing to share it, confidentially, with the study?
   b. Would this data include information on other major types of financing that the LIHTC projects had initially (e.g., Farmers Home, FHA, project based Section 8, etc?)
   c. What other kind of information might be available in your database of post-Year-15 properties? Does it include information on property size, unit configuration, special populations served in the original project, property condition on disposition, etc?
6. Do you aggressively pursue Year 15 property dispositions? Do you usually initiate the process, or does the general partner? Do you begin planning for this in earlier years, e.g., years 13 or 14?
   a. If you work actively to initiate property dispositions, why do you do this? E.g., to end reporting requirements and administrative burden?

7. Do you have a general set of goals or exit strategy when the initial limited partnerships end? For example, is your objective to end them as simply and quickly as possible? Minimize exit taxes for LPs? Maximize residual value and financial return? Manage a transition to new ownership? Or see whether your firm can play an ongoing role such as resyndicating the property?
   a. Do your goals or strategy vary depending upon the type or location or the property or other variables? For example, whether there were individual or institutional investors, the market location, property condition, whether nonprofit or for profit GP/project sponsor?
8. When you are involved in the disposition of a Year-15 property, how much do you usually know about plans for the property's continued use? Would you know, for example:
   a. Whether the property continued to be operated as affordable housing, under continued regulatory oversight (PROG)?
   b. Whether the property was relieved of regulatory oversight, but continued to essentially serve the same population/income groups at the same rents (NON-PROG)?
   c. Whether the property was repositioned to become market-rate rentals or condos, or was perhaps torn down altogether (NON-PROG)?
   d. Whether the property has been resyndicated (PROG)?
9. [If respondent seems to know this]: What proportion do you think have remained affordable housing and what have not?
10. Do you have information on the new property owners? Do you have contact information for the new owners? Do you maintain any kind of ongoing relationship with these new owners?
    a. [If the respondent seems to have information on new owners]: Our study will involve interviewing a modest number of new owners of post-Year-15 properties around the country to learn about what happened to these properties and why. Would you be able to help us contact a modest number of the new owners of post-disposition properties?
11. [If respondent says they have good data about many or all early TC investments]: Would you be willing to participate in the study?
    a. All information collected will remain strictly confidential. Findings will be reported only in the aggregate.
    b. Participation in the study will involve, at a minimum, sharing database information (if available) and an hour-long telephone interview.
    c. We will be following up with day-long visits to a more limited number of syndicators. We would hope to have the opportunity to interview individual asset managers or disposition team members both about your firm's general approach to disposition and about specific properties.

PHONE INTERVIEWS (10 GROUPS; APPROXIMATELY 1 HOUR EACH)

The questions for these interviews are divided into three major sections:

A. Overview of Your LIHTC Portfolio
B. Your Approach to Projects At Year 15
C. Information about Your Projects Which Have Reached Year 15

A. OVERVIEW OF YOUR LIHTC PORTFOLIO

1. Explain the study briefly and describe confidentiality policy
2. Can you briefly describe your overall LIHTC portfolio
   a. How many properties and how many units are in it?
   b. Does it have a geographic focus?
   c. Are the general partners (or their sponsoring affiliates) generally nonprofits, for profits or a mix?
   d. Is there any focus on specific resident populations, e.g, families, elderly, or people with special needs?
   e. Do you know how many projects in your portfolio have been foreclosed? Do you see an increase in foreclosures?
3. How would you describe your portfolio of early LIHTC (pre-1994) properties
   a. Did it include many Farmer's Home projects?
   b. Did it include many projects with project-based Section 8s?
   c. Were project sponsors mostly for-profits, nonprofits, or a mix?
4. Were most of your early TC investments done as public offerings to individuals or private offerings to institutional investors? If this changed over time, when did that occur and why?
5. Were many of your earliest properties (pre-1990) subject to extended affordability restrictions beyond 15 years? Do you know what were the primary sources of these restrictions: other financing (Farmer's Home, HOME, etc)? State agencies distributing the tax credits? Other sources (local land use restrictions, etc?)
6. We have some questions about the market characteristics of your early LIHTC projects in comparison to later ones:
   a. What proportion of early projects are in strong versus weak market areas? E.g., could you estimate what proportion were located in areas with high housing demand versus low housing demand? How does this compare to later projects' locations?
   b. What proportion of early projects are in high rent areas versus low rent areas? How does this compare to later projects' locations?
   c. What proportion of early projects received a basis boost for locating in a QCT (qualified census tract)? For locating in a DDA (difficult development area)? How do these compare to later projects' locations?

d. Could you comment on the standards of design for the early projects? What proportion of early projects were built to modest design standards that are below those of the conventional rental market today? How does this compare to later projects' design standards?

B. YOUR APPROACH TO PROPERTIES AT YEAR 15

7. Do you aggressively pursue Year 15 property dispositions? Do you usually initiate the process, or does the general partner? Do you begin planning for this in earlier years, e.g., years 13 or 14 or even after Year 10 when the TCs end?

   a. If you work actively to initiate property dispositions, why do you do this? E.g., to end reporting requirements and administrative burden?

8. Do you have a general set of goals or exit strategy when the initial limited partnerships end? For example, is your objective to end them as simply and quickly as possible? Minimize exit taxes for LPs? Maximize residual value and financial return? Manage a transition to new ownership? Or see whether your firm can play an ongoing role such as resyndicating the property?

   a. Do your goals or strategy vary depending upon the type or location or the property or other variables? For example, whether there were individual or institutional investors, the market location, property condition, whether nonprofit or for profit GP/project sponsor?

   b. Are exit taxes an issue for any/many (what proportion) of your early TC projects? How are they covered? Do you anticipate exit taxes being less of an issue for later projects? If so, why? E.g., they were covered in initial yield calculations; higher TC prices mean they are less of an issue, etc.?

   c. Have you had properties sold through a Qualified Contract sales process? How many and in which states? How were the sales handled?

   d. Do you think most (the majority, what percentage of) deals do or do not have much market value at Year 15? If not, why not? E.g., debt exceeds value; rents aren't sufficient to carry much real debt or barely cover operating costs; they were built modestly and don't meet current market standards for design or finishes; they haven't been well maintained; ongoing use restrictions limit their value, etc.

9. When you are assessing how to end limited partnerships at year 15, how do you go about preparing an assessment of the property's value? How do you document your exit analysis? If there is some market or residual value, are you obliged to try to realize it for limited investors? If so, how do you approach this?

10. Do you see many/any limited partners who are selling their shares on the secondary market before or after Year 10? Do you arrange such sales? If so, do you see any increase in them? If you have such sales, do they impact what happens at and after Year 15?

    a. If these sales have occurred, how many have there been?

    b. If they have occurred, does your role continue or change?

C. INFORMATION ABOUT YOUR PROPERTIES THAT HAVE REACHED YEAR 15

11. How many properties that have reached Year 15 have left your portfolio?

12. What information do you retain about the outcomes for post-year 15 properties that have been in your portfolio? (NOTE: for each of these questions, we should ask how accessible this information is: i.e., could it be retrieved from a database, or would it have to be researched through a case-by-case review of the files. I'm guessing that a – d could go either way, but that e & f will definitely need to determined through deal memos, etc.)

    a. Will you know whether the property continues to be subject to compliance monitoring due to extended use LIHTC restrictions, based on its original financing? (PROG)

    b. Will you know whether the property continues to be subject to compliance monitoring due to use restrictions from other sources in its original financing? (PROG, maybe)

    c. Will you know whether or not the property has had a disposition? (DISPOSITION/NON-DISPOSITION)

    d. Whether the property was relieved of regulatory oversight, but continued to essentially serve the same population/income groups at the same rents (NON-PROG)?

    e. Whether the property was repositioned to become market-rate rentals or condos, or was perhaps torn down altogether (NON-PROG)?

    f. Whether the property has been resyndicated (PROG)?

13. Do you have a database that includes information about what has happened to your LIHTC properties that have reached Year 15? That is, whether there has been a disposition, and if so, what was the nature of the disposition? (GP purchase versus third-party sale, for example)

    a. If you have such a database would you be willing to share it, confidentially, with the study?

    b. Would this data include information on other major types of financing that the LIHTC projects had initially (e.g., Farmers Home, FHA, project based Section 8, etc?)

    c. What other kind of information might be available in your database of post-Year-15 properties? Does it include information on property size, unit configuration, special populations served in the original project, property condition on disposition, etc?

14. What other information might you have on Year 15 properties? As in question 10, we will ask about each piece of information, whether it's available in readily accessible form through a database query, or whether it would need to be researched through an individual review of the files. *Note: We think it is unlikely they will have this information for properties that have been sold, unless they are involved in resyndicating them.*

    a. Term of LIHTC restrictions/extended use

    b. Term of other original restrictions (other than LIHTC)

    c. Sponsor types – profit/nonprofit; multiple properties v. single properties

    d. Target populations (elderly, spec. needs, etc.) served by developments

e. Rehab needs at the time of refinance

f. Operating statements or audits for post-Y15 properties that have not yet undergone a disposition?

g. Operating statements or audits as of the time of disposition for post-Y15 properties that have already left the portfolio?

15. Do you have information on the new property owners? Do you have contact information for the new owners? Do you maintain any kind of ongoing relationship with these new owners?

    a. Our study will involve interviewing a modest number of new owners of post-Year-15 properties around the country to learn about what happened to these properties and why. Would you be able to help us contact a modest number of the new owners of post-disposition properties?

16. [If respondent says they have good data about many or all early TC investments]: Would you be willing to share more detailed information with us, in a site visit to your office? *Note: If they have a data base but aren't willing or are unsure about a site visit, ask if they will share the data base with us, confidentially.*

    a. All information collected will remain strictly confidential. Findings will be reported only in the aggregate.

    b. Participation in the study will involve, at a minimum, sharing database information (if available)

    c. We will be following up with day-long visits to a more limited number of syndicators. We would hope to have the opportunity to interview individual asset managers or disposition team members both about your firm's general approach to disposition and about specific properties.

SITE VISITS (APPROXIMATELY 4-5 ORGANIZATIONS)

Site visits should include 1-2 interviews with senior asset management or dispositions staff about general trends in dispositions, followed by individual meetings with asset management or dispositions staff about specific properties.

Recommend that we secure as much data in advance of the site visits as possible and that we send the questionnaires to syndicators & staff in advance.

Meeting with Director of Asset Management or other senior A.M. staff, regarding overall impressions of exiting properties. Note, if we don't already have the information, ask about the size and major characteristics of their LIHTC portfolio (see Questions 2, 3 and 6 for the phone interviews).

1. What portion of the portfolio of projects from 1992 and earlier is subject to use restrictions that are longer than the 15-year LIHTC period? (These questions try to identify how much we can count on this syndicator to identify PROG/NON-PROG properties.)
   a. How many properties are subject to extended LIHTC restrictions? Properties from 1990 and earlier? Properties from 1990-1994?
   b. How many properties are subject to use restrictions from other sources: USDA rural funding; project-based Section 8; HOME funds, longer state-required tax credit compliance, other state funding programs, local funding, land-use regulatory agreements? Do you collect and maintain information on these restrictions?
   c. Are you aware of any properties that have taken steps to terminate ongoing use restrictions? How has this worked?
2. In your role as asset managers, how much information do you have about the physical condition of the properties as they approach Year 15? If you do get this information, how would you characterize the physical condition of most properties as they reach the end of their compliance period? What proportions are:
   a. In good physical shape, with needs readily met through existing reserves;
   b. In poor condition, needing major capital improvements that can only be realized through an infusion of new capital;
   c. Somewhere in between—acceptable but a bit tired?
   d. Do you think the condition of many early TC properties is more problematic than later properties? If so, why is this? E.g., Is it because more of the early projects received only moderate rehab compared to later ones?
   e. Do you know whether or not projects approaching Year 15 have reserve funds to tap for capital needs? If you know, what proportion of projects do you think have (1) little or no reserves, (2) modest reserves, (3) substantial reserves?
3. Do you think most (the majority, what percentage of) deals do or do not have much market value at Year 15? If not, why not? E.g., debt exceeds value; rents aren't sufficient to carry much real debt or barely cover operating costs; they were built modestly and don't meet current market standards for design or finishes; they haven't been well maintained; ongoing use restrictions limit their value, etc.

4. Please describe your overall policy or strategy regarding projects reaching the end of the compliance period.
   a. Do you attempt to initiate a disposition as a matter of general practice? Or does this vary with ownership, market conditions, or some other aspect of the situation?
   b. If you seek to end the limited partnerships as a matter of general practice, why do you do this?
   c. Is an assessment of the highest-and-best use of the property a part of your disposition process? Do you actively seek disposition options that maximize real estate sale prices?
5. What are your overall impressions about projects that have completed the compliance period?
   a. Have most undergone some sort of disposition?
      i. For what proportion of properties does the GP or sponsor acquire the LP interests, or purchase the properties outright?
      ii. In what kinds of situations do the GP/sponsors choose NOT to acquire the properties or LP interests? What other kinds of buyers have you found for these properties?
   b. Who tends to initiate these dispositions – syndicator, investor, GP?
   c. What motivates the different parties who might initiate a transition?
   d. Do outcomes/dispositions tend to vary between nonprofit and for-profit sponsors? Strong versus weak markets? Partnerships with individuals v. institutions as investors?
6. For properties that do not transition ownership or undergo a major refinancing at the end of Year 15, do you continue to perform an asset management function? *Note: We suspect that there are not many properties in this category.*
   a. Collect operating information?
   b. Perform audits or file checks?
   c. Monitor compliance with any post-LIHTC restrictions?
7. For properties that do not transition ownership or that are simply taken over and continue to be owned by the initial GP or its affiliate, do you have a sense of what the plans were for these properties?
   a. How often were owners trying to reposition the property to take advantage of higher market rents or other market potential, i.e. condo conversion?
   b. How often were owners trying to raise additional funds for major capital improvements? Do you know what sources were typically tapped?
   c. Did you see properties that were torn down?
8. For properties that do transition ownership to someone other than the initial GP or its affiliate, in other words, which have been sold to a new owner:
   a. What proportion try to reposition the property to take advantage of higher market rents or other market potential, i.e., condo conversion?

b. What proportion re-syndicate with a new infusion of LIHTCs? (How many 9%? How many 4%?)

c. Do you see many properties repositioning to serve another low-income or special needs segment of the population?

d. Do you see any buyers who are purchasing large numbers of TC properties or entire portfolios? Who are they? Do you have any view of their objectives/motivations?

e. Have you had properties sold through a Qualified Contract process? Do know know how many and in which states? How were these sales handled?

Meeting with individual Asset Managers, working off a portfolio list of properties they have handled:

For each post-Year 15 property:

1. Based on the information you have about the new or continuing owner's plans for this property, can you tell us whether this property:

   a. Continued to be operated as affordable housing, under continued regulatory oversight (PROG)?

   b. Was relieved of regulatory oversight, but continued to essentially serve the same population/income groups at the same rents (NON-PROG)?

   c. Repositioned to become market-rate rentals or condos, or was perhaps torn down altogether (NON-PROG)?

   d. Has this property been resyndicated (PROG)?

2. Has this property undergone a disposition to someone other than the initial GP or its affiliate?

3. How would you characterize the original GP? Nonprofit? Small for-profit developer? Mid- or large-size private developer?

4. How would you characterize the rental market in which this property is located? E.g., weak demand, moderate demand, high demand? Rising, stable or falling rents?

   a. How high are vacancy rates?

   b. Are LIHTC rents appreciably lower than market rents, or are they comparable?

   c. What is the general condition of the market's rental properties? Is quality at unrestricted properties better than, worse than, or comparable to the subject?

5. What financing did this property use during its original syndication? Do any of those sources involve affordability restrictions that outlast the 15 year TC compliance period?

6. Who initiated the disposition? What was their motivation?

   a. To maximize economic value/profit

   b. To serve an affordable housing or community development mission

   c. To end an administrative burden

   d. To free up capital for reinvestment elsewhere

7. How much do you know about the property's physical condition on transfer? If you have this information, how would you describe the property's condition:
   a. In good physical shape, with needs readily met through existing reserves; in poor condition;
   b. Needing major capital improvements that can only be realized through an infusion of new capital;
   c. Somewhere in between—acceptable but a bit tired?
8. As far as you know, did the refinance involve recapitalization and rehab? How would you assess the scope of the rehab performed? (Dollar value, overall description—*should we use a 1-to-3 or 1-to-5 scale?)*
9. How much do you know about the property's post-transfer use? Did the property remain affordable to a low- or moderate-income population? Was this affordability under any regular compliance review?
10. What other information can you provide about the disposition of this property? Do you have a disposition or deal memo that you can share with us?
11. Does your firm have any ongoing role with this property?
    a. If so, do you have access to post-LIHTC or post-transfer operating performance information? Will you share it with us? (Audits (if relevant); year-end statement of profit & loss, etc.) (*Note: this is extremely unlikely unless there has been no disposition, or unless the firm is involved in an ongoing role due to a re-syndication, etc.*)
12. Can you provide contact information for the property's current owner so that we can attempt to interview him/her?

BROKER INTERVIEW GUIDE

LIHTC YEAR 15 STUDY BROKER INTERVIEW GUIDE (JANUARY 14, 2010)

QUESTIONS FOR BROKERS HANDLING LIHTC PORTFOLIO DISPOSITIONS

Introduction: Describe the study and its purpose; confidentiality

1. We understand that your firm has been involved in brokering the dispositions of LIHTC portfolios. How many LIHTC portfolio sales have you brokered? Approximately how many transactions, properties, units?
   a. Do you handle sales of individual LIHTC properties or only portfolios? How many individual properties have you handled?
   b. Are you seeing an increase in the number of sales transactions over time?
2. Please describe a typical transaction (any details you choose to divulge will be held in complete confidence):
   a. How big was the portfolio? How many properties? How many units?
   b. Who was the owner at the time? Nonprofit? For-profit?
   c. Who bought the properties? What was their intended use?
   d. Is there a typical profile to the transitions, e.g., types of markets, geographic location, property condition, etc.
3. Do sales of LIHTC properties or portfolios constitute a major portion of your business? Do you only handle transactions of a certain size – i.e., involving a minimum number of properties, units, potential sales price? Or are you focused on a certain geographic area or kinds of markets?
4. How do you get engaged in these deals? Who tends to seek you out – owners, syndicators, potential buyers?
5. What tends to motivate the sellers?
   a. Desire to get cash from the sales?
   b. Desire to exit the business?
   c. Other reasons?
   d. What proportion of sellers are for profits v. nonprofits?
6. What tends to motivate the buyers?
   a. Secure property management contracts/work?
   b. Reposition the properties and rent or sell for profit or cashflow?
   c. Preserve affordability?
   d. Other reasons?
   e. What proportion of buyers are for profits v. nonprofits?

7. For the properties whose sale you broker, do the affordability restrictions tend to remain in place? Or do you and the buyer actively work to end those restrictions in order to increase the properties' value and options for repositioning?
   a. Does this answer vary by property types, buyer or seller characteristics, or markets?
   b. If you/the buyer do take steps to end affordability restrictions, how does that process typically work?
8. [Ask the following question if it seems relevant.] When affordability restrictions have ended, what do you see happening to the properties? E.g., they remain relatively affordable within the market, they are rehabbed and converted to higher end rentals; converted to condos; torn down and the site use changed?
9. For projects that remain affordable, what kinds of financing are typically used by the buyers to finance the acquisition?
   a. Do they often use a new allocation of LIHTCs? If so, do you typically see 9% or 4% credits plus bond financing?
10. Do most properties need capital improvements? If so, would you characterize these as modest or substantial? Are they needed to reposition the housing up to today's market standards or to remedy deficiencies or worn out materials?
11. Would you be willing to share data with us on a sample of sale transactions, with appropriate assurances that all information will be held in strict confidence?
12. Would you be willing to put us in touch with buyers or sellers of LIHTC portfolios so that we can interview them for our study?

APPENDIX C. OWNER SURVEY

OMB APPROVAL NO. 2528-0269 (EXP. 07/31/2014)

RESPONDENT INFORMATION

Respondent:

Name:

Company:

Address:

Phone:

Email:

Property Information:

Project Address:

Name of Original Project Sponsor: - choose one -

Nonprofit Status:

Number of Units:

Bedroom Distribution:

Construction Type: - choose one -

Allocation Year:

Name of HFA:

Placed in Service Year:

Items to request prior to interview/survey:

- Current unit mix and rents
- Confirmation of LIHTC-based initial use restrictions, 15-year or 30-year
- Original sources of financing
- Data available from HUD National LIHTC Database

Items to track during interview/survey:

Owner Type

☐ New Owner
☐ Continuing Owner
☐ Old Owner

Affordability Period

☐ 15 Years
☐ 30 Years Or More

LIHTC PROGRAM STATUS

☐ In LIHTC Program
☐ Not In LIHTC Program

Name of interviewee: **Date of interview:**

OMB APPROVAL NO. 2528-0269 (EXP. 07/31/2014)

LIHTC 15-YEAR STUDY: INTERVIEW GUIDE FOR OWNER INTERVIEWS

PUBLIC BURDEN STATEMENT

Public reporting burden for this collection of information is estimated to average 1 hour for each response. The survey will collect data on LIHTC property owners' experience with the LIHTC program, gathering information that factored into property disposition decisions. Data will also be collected on whether projects were sold and whether projects continued as affordable rental housing. This agency (HUD) may not collect this information, and you are not required to complete this form unless it displays a currently valid OMB control number.

OMB APPROVAL NO. 2528-0269 (EXP. 07/31/2014)

I. SCREENING AND BASIC PROPERTY INFORMATION

I-1. Are you / is your company the owner of _____?

☐ YES

CURRENT OWNER: If the current owner, were you or your affiliate also the owner of the property when it was originally placed in service under LIHTC?

☐ YES, CONTINUING OWNER

☐ NO, NEW OWNER
If address is wrong, enter correct address: _____

☐ NO

NOT CURRENT OWNER: If not the current owner, were you the owner when the property was first placed in service?

☐ YES, FORMER OWNER **(owner when property was first placed in service with tax credits)**
In what year did you sell the property? _____

☐ NO

If neither current nor former owner, ***terminate*** *the interview. Ask if the respondent can give you name and contact information for current or former owner and try to interview.*_____

Q I-1 comment: _____

Based on these questions, determine whether to treat this as a NEW OWNER property or a CONTINUING OWNER property when asking further questions. Note that even if you're talking to the old FORMER OWNER, you should treat the property as a NEW OWNER property if it has a new owner. But try to talk to the new owner, if possible.

☐ NEW OWNER

☐ CONTINUING OWNER

☐ FORMER OWNER

OMB APPROVAL NO. 2528-0269 (EXP. 07/31/2014)

I-2. Are you / is your company or were you / was your company either the sole owner of the property or the general partner or sponsor of an ownership entity that also includes limited partners?

Ownership entity with partners may be a Limited Partnership (LP) with a general partner (GP) or a Limited Liability Corporation (LLC) with a managing member.

☐ YES, sole owner, the GP or sponsor, or managing member

☐ NO

Not the sole owner or the GP or the managing member, confirm that the respondent is in a position to discuss the property's status and decisions made about it. Confirm the role of the possible interviewee; property or asset managers may not be able to discuss owner decisions about the property.

If not a good informant, ask for name and contact information for someone more appropriate, and ***terminate*** *the interview.* _____

I-2a. If some other type of owner, please explain. _____

Q I-2 comment: _____

I-3. Please tell me a little more about your company. Is your company for profit or nonprofit?

☐ FOR PROFIT

☐ NONPROFIT

I-3a. Approximately how many units does your company own altogether, including this property?

Number of Units: _____

I-3b. *[If not sure of total units]* Does the company own…

☐ MORE THAN 100 UNITS

☐ MORE THAN 400 UNITS

☐ MORE THAN 1,000 UNITS

☐ MORE THAN 2,500 UNITS

I-3c. Please describe where your company does business. Do you own properties in many states around the country, or only in certain regions? _____

Q I-3 comment: _____

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I-4. (NEW OWNERS ONLY) Do you know the name of the original owner? My information shows that the original sponsor, _____ of the property was a _____- choose one -_____ Is that correct?

☐ DON'T KNOW

☐ YES

☐ NO

Enter corrected information, including name of original owner and/or status of for profit/nonprofit.

_____

☐ FOR PROFIT

☐ NONPROFIT

☐ DON'T KNOW

Q I-4 comment: _____

I-5. Please describe your experience and what happened at property disposition.

The purpose of this question is to allow the owner to tell the story of what happened at the time of property disposition. Some of the later questions may be answered through this narrative. Please confirm answers given here as you go through the rest of the survey.

_____

_____

_____

_____

_____

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Historical Property Information

New owners may not know answers to some of these historical questions about the property. Also, data on the property may be missing from HFA data sources. For data filled in from HFA records that the respondent does not know or cannot confirm, continue the interview based on the available HFA-based data.

I-6. I now have some more historical questions about the tax credit property. My information shows that this property was placed in service with (low-income housing) credits in _____. Is that correct?

☐ DON'T KNOW/CAN'T CONFIRM

☐ YES

☐ NO

Corrected placed in service year _____

If placed in service later than 1995, ask if the property was originally placed in service in 1994 or earlier under an earlier allocation of LIHTC. If so, confirm or record both that date and the new PIS date; ***terminate*** *and find a replacement property, using same source that found this property.*

_____

Q I-6 comment: _____

I-7. Do you know if the project ever had a Rural Housing Service Section 515 loan? My information shows that when the property was placed in service in _____ it ***did not*** have a Rural Housing Service Section 515 loan.

☐ DON'T KNOW/CAN'T CONFIRM

☐ YES, there was a Section 515 loan when the property was placed in service

If the property had an RHS 515 loan when placed in service; ***terminate*** *and find a replacement property, using same source that found this property.*

☐ NO, there was no Section 515 loan when the property was placed in service

Did the property get a 515 loan at some time after the original placed-in-service date?

☐ YES

☐ NO

☐ DON'T KNOW

Can continue with the interview if the property got a 515 loan after the original placed in service year.

Q I-7 comment:_____

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I-8. Do you know if the project ever had project-based Section 8 or subsidies from a similar state or local project-based rental assistance program? My information shows that the property ***did not*** have project-based rental assistance.

☐ DON'T KNOW/CAN'T CONFIRM

☐ YES, there was project-based Section 8 or similar

Was Section 8 or other rental assistance attached to the property after the original placed-in-service date?

☐ YES

How many units or what proportion of units in the property had project-based Section 8 or other rental assistance? _____

☐ NO

☐ DON'T KNOW

Continue interview if project-based rental assistance was attached after the original LIHTC placed in service year and less than 10 percent of the total units got project-based rental assistance. Otherwise, ***terminate*** *and find a replacement property.*

☐ NO, there was no project-based Section 8 or similar

Q I-8 comment: _____

I-9. My information shows that the property hadunits, including:_____.
Is that correct?

☐ DON'T KNOW/CAN'T CONFIRM

☐ YES

☐ NO *[If available, enter correct unit count and unit distribution by bedrooms.]*

Q I-9 comment: _____

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I-10. When originally placed in service, was the property targeting any particular population group – for example, family, elderly, disabled, homeless, special needs, or some other population? *[Other than low-income populations.]*

- ☐ DON'T KNOW/CAN'T CONFIRM
- ☐ YES

  What group? _____

  Does the property still target a particular population?

  - ☐ YES *[list group(s)]* _____
  - ☐ NO
- ☐ NO

Q I-10 comment: _____

I-11. My information shows that the property was _____ - choose one - _____. Is that correct?

- ☐ DON'T KNOW/CAN'T CONFIRM
- ☐ YES
- ☐ NO *[Corrected answer]* _____

If rehabilitation:

I-11a. Was the property converted from non-residential to residential use?

- ☐ YES
- ☐ NO

I-11b. Was the rehab substantial, moderate, or light?

- ☐ SUBSTANTIAL
- ☐ MODERATE
- ☐ LIGHT
- ☐ DON'T KNOW

I-11c. What was the approximate cost of the rehab?

- ☐ LESS THAN $6,000 PER UNIT
- ☐ MORE THAN $20,000 PER UNIT
- ☐ SOMEWHERE IN-BETWEEN $6,000-$20,000 PER UNIT
- ☐ OTHER _____
- ☐ DON'T KNOW

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I-11d. Please describe the scope of the rehab.

Allow respondent to provide details of rehab work, and also probe on the conditions of the building systems, whether new or like new, etc.

_____

Q I-11 comment: _____

I-12. When this property was financed under LIHTC, was it syndicated through an investment firm, sold to one or more corporate investors, or sold to individual investors?

Note to interviewers: Some interviewees may not know whether the investment firm which syndicated a property put it into an individual investor fund or into a fund with corporate investors. We have also seen at least one property whose investor put its LIHTCs into 2 funds, one with individual investors and one with corporate investors.

☐ SYNDICATED

IF SYNDICATED, Can you tell us the name of the firm which syndicated the tax credits in the property?

☐ NAME OF FIRM _____

Did the firm invest the LIHTCs in a fund with individual investors or with corporate investors?

☐ INDIVIDUAL INVESTORS

☐ CORPORATE INVESTORS

☐ DON'T KNOW

☐ CORPORATE INVESTORS

IF CORPORATE INVESTORS, Can you tell us the name(s) or the corporate investors?

☐ NAME OF FIRM _____

☐ DON'T KNOW

Q I-12 comment: _____

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I-13. What debt financing and what other financing was used in the original financing of the property, in addition to tax credits? For example, did it use a commercial mortgage, HFA, and/or a HUD-insured mortgage? HOME funds, CDBG funds, state or local own source funds, charitable funds, was it an RTC sale?

Respondent may not have clear information regarding original financing.

Debt Financing: _____

Other Financing *[May be considered equity if it doesn't need to be repaid or soft debt that is not required to be repaid.]*

_____

I-13a. Did any of these funding sources require longer terms of affordability than 15 years? Please explain.

_____

I-13b. Were there any other regulatory restrictions on the length of time during which the property would be subject to affordability restrictions? For example, was there a land use restriction agree ment? Please explain.

_____

Q I-13 comment: _____

I-14. My information shows that the tax credit allocation/award for the property was made in _____. Is that correct?

- ☐ DON'T KNOW/CAN'T CONFIRM
- ☐ YES
- ☐ NO *[Corrected answer]* _____

Q I-14 comment: _____

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I-15. The earliest (low-income housing) tax credit awards required a federal 15-year affordability period, and later tax credit awards required a 30-year affordability period. Was the property able to leave the LIHTC program after the 15-year affordability period?

- ☐ YES, earliest LIHTC award with no further IRS use restrictions
- ☐ YES, later award with further IRS use restrictions but it has left the LIHTC program
- ☐ NO, an early award but the state awarding the credits already required an affordability period longer than 15 years
- ☐ NO, later award with further IRS use restrictions
- ☐ OTHER *[Describe]* _____
- ☐ DON'T KNOW

Code as 15 year property or 30 year property:

- ☐ 15 YEAR PROPERTY
- ☐ 30 YEARS OR MORE PROPERTY

Q I-15 comment: _____

I-16. Do you know if this property is still in the (low-income housing) tax credit program? My information shows that this property **[continues to be monitored/is no longer being monitored]** by _____ or compliance with LIHTC rules. Is that correct?

- ☐ DON'T KNOW/CAN'T CONFIRM
- ☐ YES, property continues to be monitored by the HFA for LIHTC compliance
- ☐ NO, property is no longer being monitored by the HFA for LIHTC compliance

Code project's LIHTC PROGRAM STATUS.

- ☐ IN LIHTC PROGRAM (monitored by the HFA for LIHTC compliance)
- ☐ NOT IN LIHTC PROGRAM (no longer monitored by the HFA for LIHTC compliance)

Q I-16 comment: _____

OMB APPROVAL NO. 2528-0269 (EXP. 07/31/2014)

II. TRANSITION IN OWNERSHIP AND LIHTC PROGRAM

II-1. (CONTINUING OWNERS NOT IN LIHTC PROGRAM) How did you come to stop reporting data on compliance with LIHTC program rules to the HFA? How did that work? What notifications or approvals, if any, did you need? How long did it take? *[May have to explain that we're defining leaving the program as being no longer subject to LIHTC use restrictions and no longer reporting to the HFA]*

_____

II-1a. [30 YEAR PROPERTY] How were you able to leave the program if subject to the extended, 30-year use restrictions? _____

Q II-1 comment: _____

II-2. Is this property still affordable, still renting at rents that are within the LIHTC limits?

☐ YES

Why did you continue to keep rents affordable?

☐ STILL UNDER LIHTC IRS USE RESTRICTIONS

☐ OTHER USE RESTRICTIONS

☐ MARKET RENTS ARE COMPARABLE TO LIHTC RENTS

☐ ORGANIZATIONAL MISSION

☐ OTHER REASONS *[Describe.]* _____

☐ NO

Q II-2 comment: _____

For CONTINUING OWNERS NOT IN LIHTC PROGRAM, go to Section III.

OMB APPROVAL NO. 2528-0269 (EXP. 07/31/2014)

II-3. (NEW AND CONTINUING OWNERS IN LIHTC PROGRAM) Did you ever consider changing all or part of the property to market use?

☐ YES

Why didn't you pursue the change?

☐ MARKET WOULDN'T SUPPORT HIGHER RENTS

☐ HFA OR OTHER ENTITY OFFERED INDUCEMENTS TO STAY IN

☐ OWNER/SPONSOR COMMITMENT TO AFFORDABLE HOUSING

☐ OTHER REASONS *[Describe.]* _____

☐ NO

Q II-3 comment: _____

II-4. (NEW AND CONTINUING OWNERS IN LIHTC PROGRAM) [30 YEAR PROPERTY] Did you ever consider trying to leave the program through the Qualified Contract process and change all or part of the property to market use?

☐ YES

Did you file for the Qualified Contract Process?

☐ YES

What happened? Please explain. _____

☐ NO

☐ NO

Why not?

☐ ORGANIZATIONAL MISSION

☐ COMMUNITY COMMITMENT

☐ FORMAL OR LEGAL REQUIREMENTS

☐ MARKET LIMITATION ON RENTS

☐ OTHER REASONS *[Describe.]* _____

Q II-4 comment: _____

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II-5. (NEW OWNERS) What year did the property change ownership?

Year _____

II-5a. Was that before or after the property passed its 15 year date?

- ☐ BEFORE
- ☐ AFTER
- ☐ DON'T KNOW/NOT SURE

Q II-5 comment: _____

II-6. (NEW OWNERS NOT IN LIHTC PROGRAM) Was leaving the program (no longer being subject to LIHTC use restrictions and reporting to the HFA) part of changing ownership or done before the ownership was changed?

Note to interviewers: if the new owner does not know the answer to some of these historical questions, you may have to seek an interview with the original owner. New owners may not know details that happened before change in ownership.

- ☐ PART OF CHANGING OWNERSHIP
- ☐ DONE BEFORE CHANGING OWNERSHIP

II-6a. How did that work? What notification or approvals were needed? _____

II-6b. How long did it take? _____

II-6c. [30 YEAR PROPERTY] How was the property able to leave the program if subject to the extended, 30-year use restrictions? _____

Q II-6 comment: _____

II-7. What was the mechanism used to accomplish the ownership transition in [year]?

- ☐ GP BOUGHT OUT LP
- ☐ SALE TO NEW ENTITY
- ☐ OTHER *[Describe.]* _____

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II-7a. (CONTINUING OWNERS) Do you know if the original documents on the property such as the partnership agreement or possibly an option-to-purchase or right of first refusal for the GP defined how a 15 year sale/disposition would be handled?

☐ YES

What was originally defined and was this scenario followed at the disposition, or was something different done? _____

☐ NO

☐ DON'T KNOW

II-7b. Was the price originally agreed upon?

☐ YES

☐ NO

☐ DON'T KNOW

II-7c. If the price was determined another way, how was it determined? For example, did the general partner and/or limited partner have the property appraised? Was a buy-out price established as part of a refinancing prior to Year 15? Did the new owner make a bid price for the property?

_____

II-7d. If a new owner, did it work through a broker in buying the property or buy it directly from the owner?

Q II-7 comment: _____

II-8. What approvals, if any, were needed from the state tax credit regulatory agency or other public agencies for the disposition of the property? Please explain.

_____

II-9. Were any approvals needed from local government? Please explain.

_____

Q II-9 comment: _____

OMB APPROVAL NO. 2528-0269 (EXP. 07/31/2014)

II-10. (NEW AND FORMER OWNERS) Is there any relationship between the previous sponsor(s) and current owners/sponsor(s) *[In other words, the former owner and the new owner, respectively.]?*

☐ YES. Please explain: _____

☐ NO

II-11. (NEW AND FORMER OWNERS) If the new GP or its sponsor was a nonprofit, was there a bargain sale to it?

☐ YES. Please explain: _____

☐ NO

II-12. (CONTINUING AND FORMER OWNERS) Did the LP have to pay exit taxes and, if so, were these covered through sales proceeds paid to it? Were there any sales proceeds net of expenses and, if so, how were they split between GC and LP?

_____

II-13. (NEW AND CONTINUING OWNERS) Have you re-syndicated the property with a new allocation of tax credits or sold Limited Partnership interests to one or more corporate investors or individual investors?

☐ YES

☐ RE-SYNDICATED

What is the identity of the new syndicator?

NAME OF FIRM _____

CORPORATE INVESTORS

What is the name of the new corporate investor?

NAME OF FIRM _____

OTHER Please explain: _____

☐ NO

Do you intend to re-syndicate the property with a new allocation of (low-income housing) tax credits or sell Limited Partnership interests to one or more corporate investors or individual investors?

☐ YES

☐ NO

Q II-13 comment: _____

OMB APPROVAL NO. 2528-0269 (EXP. 07/31/2014)

II-14. (NEW OWNERS) When you bought this property, what were the sources of financing/refinancing, including any mortgage financing, when you bought the property, including public sources (HOME, CDBG, etc.)?

Note to interviewers: If the new owner says above that they re-syndicated the property, this may be financing in addition to the re-syndication.

Debt Financing: [Any sources of mortgage debt that must be paid currently.]

_____

Other Financing: [May be considered equity if it doesn't need to be repaid or soft debt that is not required to be repaid.] _____

Equity: _____

II-14a. What was the amount from each source? *[May be listed with sources above.]*

_____

II-14b. Did any of these sources carry with them any sort of new or extended regulatory limitations or requirements? _____

II-14c. Would you be willing to send us a budget with the source and uses for your acquisition financing?

- ☐ YES
- ☐ NO
- ☐ OTHER _____

Q II-14 comment: _____

II-15. (CONTINUING OWNERS) Did you ever refinance the property?

☐ YES

II-15a. Why was it refinanced? (For example, to pay for repairs, to qualify for rent subsidies, to take ad vantage of lower, more favorable interest rates, etc.) _____

II-15b. When was it refinanced? _____

II-15c. Using what sources, including public sources (HOME, CDBG, etc.) and what amount from each source? _____

II-15d. Did any of these sources carry with them any sort of new or extended regulatory limitations or requirements? _____

☐ NO

OMB APPROVAL NO. 2528-0269 (EXP. 07/31/2014)

II-16. (CONTINUING OWNERS IN LIHTC PROGRAM) Did the property ever need an investment of funds from its limited investors or from the general partner in order to address financial problems?

☐ YES

When and why? For example, was the property at risk of mortgage default, unable to maintain a high level of occupancy, had large repair needs, had higher than projected operating expenses for taxes, utilities, etc.? _____

Who invested these funds: the general partner, the investor(s), or someone else? _____

How much was invested? _____

☐ NO

OMB APPROVAL NO. 2528-0269 (EXP. 07/31/2014)

III. MARKET CONSIDERATIONS – NOT IN LIHTC PROGRAM

III-1. (NOT IN LIHTC PROGRAM) Have you taken all or part of the property to market since leaving the program – that is, have you altered the income mix of tenants, did you raise the rents beyond what LIHTC would have permitted, or did you convert the property to condos rather than rental housing? Was all or any part of the property demolished or converted to non-residential use? Please explain.

If not taken to market, go to section IV, but come back here if you decide later if the property was taken to market. _____

III-1a. Was all or part of the property changed?

☐ ALL OF PROPERTY CHANGED

☐ PART OF PROPERTY CHANGED

Please describe: _____

III-1b. Did taking the property to market include changing the target population—e.g., no longer intended to serve elderly, special needs, families, if one of those was the original target population?

☐ YES. Please describe: _____

☐ NO _____

Q III-1 comment: _____

III-2. (NOT IN LIHTC PROGRAM) Please describe how the decision to take the property to market was made. For example, who participated in this decision and how did that play out? Was the decision made when the property was first placed in service under LIHTC, as 15 years approached, or at a later time?

_____

III-3. (NOT IN LIHTC PROGRAM) What were the reasons for conversion? For example, was it done because of market opportunities (higher rents/more cash flow), to convert the property to other residential or non-residential use? Were there other financial reasons, such as loss or change of rent subsidies or other financing? Please explain.

_____

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III-4. (NOT IN LIHTC PROGRAM) Did the conversion include refinancing? Did the property have unmet capital needs? What role did that play in the decision to convert? Please explain.

_____

III-5. (NOT IN LIHTC PROGRAM) Were any approvals needed from the HFA, other public agencies, or other financing entities to change the use of the property? Were any approvals needed from local government? If so, explain how they worked.

_____

III-5a. Did the HFA try to persuade you to keep the property affordable?

☐ YES. Please describe how: _____

Did you modify your plan as a result of their efforts?

☐ YES. Please describe how: _____

☐ NO

☐ NO

III-6. (NOT IN LIHTC PROGRAM) Did local government try to influence the changes?

☐ YES. Please describe how:

☐ NO

III-7. (NOT IN LIHTC PROGRAM) Did local community organizations and/or residents of the property play a role in the decision-making or approvals?

☐ YES. Please explain: _____

☐ NO

III-8. (NOT IN LIHTC PROGRAM) Are there any circumstances in which you would have kept the entire property affordable rental housing?

☐ YES. Please explain: _____

☐ NO

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IV. REFINANCING, PHYSICAL CONDITIONS OF PROJECT

IV-1. Did the property need significant repairs/rehab before year 15, at year 15 (if new owner, at the time you bought the property), or since then?

☐ YES

IV-1a. When were these significant repairs needed?

☐ BEFORE YEAR 15. When: _____

☐ AT YEAR 15 OR AT SALE

☐ AFTER YEAR 15. When: _____

IV-1b. What kind of repairs / rehab were needed (for example, updating systems, modernizing units to meet current standards, meeting current codes, etc.)?

_____

IV-1c. How/why these repairs prioritized? Were these repairs focused on infrastructure or market enhancement?

_____

IV-1d. Were these completed?

☐ YES

☐ NO. What was completed? _____

IV-1e. What was the approximate cost per unit?

Cost Per Unit: _____

IV-1f. How were the repairs financed? Did this include any public subsidies? What were they?

_____

☐ NO

Q IV-1 comment: _____

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IV-2. (CURRENT OWNERS) Do you think the property reserves are adequate for its ongoing repair/rehab needs?

☐ YES

Over what period of time do you think you will be able to meet the property's needs for further capital investments? _____

☐ NO

IV-3. (CURRENT OWNERS) Do you expect it will need to be refinanced in the next five to ten years? Please explain. _____

IV-4. (IN LIHTC PROGRAM) Is the property meeting your expectations for cash flow or financially stable operations?

☐ YES

☐ NO

Please explain. _____

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V. CURRENT STATUS AND FUTURE PLANS

V-1. *[Ask if information was not received prior to interview.]* If the property has remained rental, what is the current residential rent schedule for the property?

RENTS FOR 0 BR UNITS _____

RENTS FOR 1 BR UNITS _____

RENTS FOR 2 BR UNITS _____

RENTS FOR 3 BR UNITS _____

RENTS FOR 4 BR UNITS _____

OTHER *[Describe.]* _____

Q V-1 comment: _____

V-2. Can you provide financial performance information (one year of audited or year-end operating statements) for this property?

☐ YES

☐ NO

Q V-2 comment: _____

V-3. (NEW AND CONTINUING OWNER) Do you plan to sell the property?

☐ YES.

Please explain: _____

☐ NO

Plans for Other LIHTC Properties

V-4. If you have other LIHTC projects which have not yet reached 15, do you think you will leave them under HFA monitoring or try to leave the LIHTC program? Will you convert the properties to market or leave them affordable? Why?

[Probe if the answer will vary for different types of properties or properties in different markets (e.g., urban v. rural v. suburban, or strong v. weak) or different geographies.]

_____

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V-5. Do you plan to acquire other LIHTC properties?

☐ YES

☐ NO

V-5a. What do you plan to do with those properties?

_____

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VI. OWNER VIEW OF NEIGHBORHOOD AND MARKET

VI-1. How would you describe the location of the property? E.g., rural, suburban, inner city neighborhood, other central city neighborhood, small town?

_____

VI-2. How would you generally describe the condition of the surrounding neighborhood with regard to:

Physical Conditions (Good, Deteriorated, Mixed)

_____

Security (e.g., High, Medium or Low Crime Rates)

_____

VI-3. Has the neighborhood changed significantly since the property was first placed in service under the LIHTC program?

- ☐ YES
- ☐ NO
- ☐ DON'T KNOW

VI-3a. If it has changed significantly, how has it changed?

VI-4. Has the neighborhood changed significantly since year 15 or since you bought the property?

- ☐ YES
- ☐ NO
- ☐ DON'T KNOW

VI-4a. If it has changed significantly, how has it changed?

_____

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VI-5. How would you describe the residential real estate market in which the property is located? For example, not much demand, steady demand or weak demand for rental housing.

_____

VI-5a. What are vacancy rates? _____

VI-5b. Are rents and values in the area stable, increasing, decreasing?

- ☐ STABLE
- ☐ INCREASING
- ☐ DECREASING

VI-5c. Are tax credit rents lower, higher, or comparable to unrestricted rents?

- ☐ LOWER
- ☐ HIGHER
- ☐ COMPARABLE

Q VI-5 comment: _____

APPENDIX D. NATIONAL HOUSING TRUST ANALYSIS OF LIHTC PRESERVATION POLICIES

HFA INCENTIVES FOR USING 9 PERCENT TAX CREDITS FOR PRESERVATION, INCLUDING OLDER LIHTC DEVELOPMENTS, 2010-2011

Source: Analysis of the National Housing Trust database of state LIHTC policies conducted by National Housing Trust, 2011.

State Agency	2010 Incentives
Alabama HFA	In the 2010 QAP, AHFA has defined rehabilitation projects as being 50% or more occupied at the time of application to be considered existing multifamily residential rental housing. Rehabilitation costs must be at least $20,000 in hard-construction costs per unit. A rehabilitation project that is less than 50% occupied at the time of the application is not considered existing housing and is treated as new construction when considering funding for targeting the elderly and families. The targeted population is not considered for rehabilitation projects that are at least 50% occupied. Rehabilitation properties are exempt from the minimum size requirements listed under the building characteristics. To encourage diverse site locations, only one new construction project (or rehabilitation project with less than 50% occupancy) for families and one new construction project for the elderly will be approved within each county.
Alaska HFC	Alaska's 2010 QAP awards points to rehabilitation properties based on per-unit hard costs. The range of possible points begins at 2 points for developments which have $15,000 - $25,-000 in hard construction costs per unit and reaches 10 points for projects with costs of $50,001 or more in hard costs per unit. Rehabilitation costs must be the greater of $15,000 per unit or 10% of the 'adjusted basis' of the building and must consist of work items that are more than just cosmetic in nature. Five points are awarded to all projects including rehabilitation. At a minimum, the rehabilitation must consist of some sort of building renovation and/or demolition and reconstruction where a building is currently located at the project site.
Arizona DoH/HFA	In Arizona's 2010 QAP, two of the general goals for allocating Tax Credits include: 1) to enable substantial rehabilitation of existing rental housing in order to prevent losses to the existing supply of affordable apartments, and 2) to prevent the loss from the existing stock of low-income rental housing of those units under expiring contracts with federal agencies or subject to prepayment which, without the allocation of tax credits, would be converted to market rate apartments. Properties containing acquisition/rehabilitation and new construction will be given up to 30 points if the rehabilitation apartments total 50% or more of the total property and the acquisition/rehabilitation is 100% of the acquired apartments. Points awarded are proportional to rehabilitation costs per apartment. These points are also available to projects proposing the acquisition of an existing building. The points available depend on the pro rata rehabilitation hard costs per unit including site and demolition costs less property costs, as follows: $35,000+ earns 30 points; $25,000 - $35,999 earns 15 points; $15,000 - $24,999 earns 10 points. In the 2010 QAP, up to 30 points are available to projects that preserve existing program or project-based rental assistance, such as project based Section 8 or other program-based rental assistance. The number of points available shall not exceed the product, rounded down to the next whole number, of 35 times the ratio of the number of section 8 or RD rental assistance units to the total number of units. Up to 30 points may be awarded for proposals to preserve historic properties. Projects are only eligible for one of the three perseveration incentives. Rehabilitation projects also receive 4 points (out of a possible 13) in the tie-breaker criteria.

State Agency	2010 Incentives
Arkansas DFA	The 2011 QAP awards up to 10 points when a proposed development "involves preservation and rehabilitation of residential rental housing under an existing state or federal affordable housing program." (Points are awarded according to what percent of the apartments under the affordable housing program are or become LIHTC.) The state also provides 10 points for properties involving 'rehabilitation of existing structures.' Rehabilitation hard costs must be no less than $15,000 per apartment and no less than 20% of the developer's total costs. The basis boost is directed toward assisted living projects and projects located in certain low-income counties.
California TCAC & CDLAC	The 2010 Allocation regulations provide a 5% set-aside for 'at-risk' properties defined as properties with subsidies (including tax credits) that expire within five years prior to or after the application date. Additionally, 10 points are provided to at-risk properties as meeting housing needs. Unit square footage requirements may be waived for rehab projects at the discretion of the executive director. Acquisition tax credits are only available to projects at risk of conversion. Applicants applying for competitive 9% tax credits and involving rehabilitation of existing buildings are required to complete the higher of: a minimum of $20,000 in hard construction costs per unit unless they are 'at risk' properties which must complete $10,000 in hard construction costs or 20% of the adjusted basis of the building.
Colorado HFA	The 2011 QAP provides 15 points for preservation developments, defined as existing tax credit developments eligible for acquisition/rehab credits that are retaining their current income targeting and developments which are eligible for acquisition/rehab credits and have federally subsidized rental assistance (HUD Section 8, Rural Development Section 515, etc.). Projects involving rehabilitation of blighted buildings, and/or those with serious building code violations that are abandoned or uninhabitable, are eligible for 5 project points. An additional point is available for rehabilitation developments that are located in an area that is part of a community revitalization plan. Colorado's 2011 QAP also requires that the owner keep the units affordable for another 15 year extended use period (for a total of 30 years). The only way for an owner to get out of this is in the event of foreclosure OR if they sell the property to another party. Colorado awards points for projects that waive any rights to terminate the extended use period in the following increments: 15 Years of Compliance + 5 Years of Waiver = 10 pts; 15 Years of Compliance + 10 Years of Waiver = 20 pts; 15 Years of Compliance + 15 Years of Waiver = 30 pts; 15 Years of Compliance + 20 Years of Waiver = 34 pts; 15 Years of Compliance + 25 Years of Waiver =38 pts. Colorado was among the first in the nation to use Tax Credit Assistance Program (TCAP) funding available through ARRA - $1.7 Million in TCAP Funding to Support $14 Million purchase and renovation of Denver Gardens Senior Housing.
Connecticut HFA	Connecticut's 2010 QAP designates as a priority the development of housing which "preserves the existing stock of Federally assisted low-income housing, where loss of low-income service is possible upon prepayment of a mortgage or expiration of housing assistance contracts." All applicants that meet the state's threshold eligibility criteria are classified into one of three possible Allocation Priority Classes according to the characteristics of the proposed developments. General Class II includes applications for assistance necessary to preserve federally assisted apartments that will be lost due to mortgage prepayment, subsidy contract opt-out or subsidy contract termination. LIHTCs will be allocated first to nonprofit set-aside applicants, then to applications from General Class I (which can include acquisition and/or rehabilitation properties if they meet the Class I requirements, such as being part of Urban Regional Centers or Neighborhood Revitalization Zones), then to the extent available to applications from General Class II, and then to General Class III applications.Special Class I allows for qualified new construction or rehabilitation that is part of a comprehensive plan to replace and/or rehabilitate public housing units. The 2010 QAP also awards up to 10 points for new construction or rehabilitation proposals that provide additional apartments and 5 points for adaptive re-use of historic buildings, effectively acting as small preservation disincentives. Ten (10) additional points are available for the preservation of units as long as the proposed application does not result in a net loss of units after revitalization. The QAP also awards up to 20 points for per-unit cost effectiveness, a key characteristic of preservation.

State Agency	2010 Incentives
Delaware SHA	In the 2010 QAP, projects apply to specific pools, developments are ranked within those pools and the highest scoring developments in each are separately evaluated to determine the amount of tax credits required. For 2011, conversion developments now qualify for the Preservation Pool, which has approximately $1,199,250 of Tax Credit Authority (45% of Delaware's credit pool). The following types of properties are eligible for this pool: 1) any tax credit housing development, which has completed its compliance period that is a) in need of substantial rehabilitation or b) at risk of losing its affordability; and 2) any currently subsidized housing development that is a) in need or substantial rehabilitation or b) at risk of losing its affordability. Up to 5 points will be awarded to developments that are of imminent risk of losing their affordability restrictions, depending on how soon affordability restrictions will expire. Substantial rehabilitation is defined as: at least $35,000 hard cost in rehabilitation per unit and, the most recent use must be residential, 100% of the units must be rehabilitated, and no more than 25% new units can be added.
District of Columbia	The 2009 QAP awards 10 points to preservation projects. For projects involving rehabilitation, the costs must be the greater of $6000/unit or 20% of the eligible basis. The 2009 QAP provides an exception to the 10-year rule for acquisition properties with Federal or other mortgages that are subject to prepayment provisions. 15 points will be awarded to projects that extend the affordability period 10 years beyond the required 30 year restriction, and 30 points are awarded to projects that extend the period by 20 years. Projects will also be awarded 10 points for the preservation of existing Section 8 and Section 236 projects as long as the applicant waives the rights to the developer fee. DHCD directs the 30% basis boost toward QCTs and DDAs.
Florida HFC	The 2011 draft QAP includes an increased 50% set-aside for preservation developments. Preservation projects are defined as rehabilitation of existing project based rental assistance developments and are required to have construction costs of at least $10,000 in qualified basis per unit. There is a required 30-year period of occupancy restriction (includes 15 year federal requirement). A commitment to waive the option to convert after year 14 and to set-aside units beyond the required 30-year period is awarded up to 5 points on a pro-rata basis. Minimum extension period is 1 year and the max is 20 years, for a maximum total length of 50 years. There are separate points for new construction and rehab projects under "optional features and amenities."

State Agency	2010 Incentives
Georgia DCA/ HFA	In Georgia's 2010 QAP, 1.8M credits have been set-aside for preservation projects. Projects must fit into one of the following categories to be considered for this set-aside: existing tax credit project in the 14th or 15th year; PHA development using replacement housing factor funds or the PHA as the primary source of loans/cap funds; Section 515 for at least 50% of the units; project based Section 8 contract with opt-out eligible with 1 year notice to tenants; HUD 236; and any other HUD subsidized designated by HUD as a preservation project - DCA has veto power. 3 points are awarded for LIHTC project beyond 14th year or DCA HOME if statutory of affordability has expired (points can be claimed even if structure is demolished) New construction and rehab have same accessibility requirements. Rehab projects are required to complete a Physical Needs Assessment and a market analysis which considers the retention of existing tenants that are not rent burdened. Average per unit rehabilitation hard costs must equal or exceed $25,000 for properties 20 years old or less and the average per unit rehabilitation hard costs equal or exceed $30,000 for properties more than 20 years old. The total hard cost of any rehabilitation project must not exceed 90% of the as-completed unrestricted appraised value of the property. Rehabilitation properties will be considered for funding only if the average per unit rehabilitation hard costs equal or exceed $25,000 for properties 20 years old or less and the average per unit rehabilitation hard costs equal or exceed $30,000 for properties more than 20 years old. Rehab projects must have $350 per unit per year for replacement reserves. Rehab projects that are awarded credits in 2010 must commence no later than Sept 30, 2011 and be completed by Dec 31, 2012.
HCDC of Hawaii	In the 2009 - 2010 QAP, Hawaii provides up to 2 points for "preservation of existing affordable rental housing at risk of being converted to market." To qualify for these points, proposals must be 1) acquisition/rehabilitation of a LIHTC property with an expiring compliance period (pre-1990) or an expiring extended use period (post-1990) and agree to extend the affordability for 30 additional years; or 2) acquisition/rehabilitation of a property which is at risk of being converted to market rate rental or for sale, which would result in lost affordable rental apartments. In this case, the property must have a contractual obligation with HUD, USDA RD or State or County housing programs to provide affordable housing, and must extend affordability for 30 additional years. The 2009 - 2010 QAP also provides up to 4 points for a property that "will be receiving project based rental assistance subsidies which would result in eligible tenants paying approximately 30% of their gross monthly income towards rent." Eligible programs include, but are not limited to, Section 515 or Section 8 programs. The number of points awarded depends on how many of the apartments have project based subsidies.
Idaho HFA	In the 2010 QAP, Idaho awards 15 points to developments that preserve existing rent-restricted units (defined as a development that will be converted to market rate apartments, as determined by the Association's review, at the end of its affordability regulatory agreement). This is a 5-point increase from the 2008 level, returning it to the 2007 level. Ten points are also available to developments which, due to the loss of federal project-based rental assistance subsidy, may revert to market use. This is a 5 point decrease for the 2008 level. For a building to be considered substantially rehabilitated, hard rehab costs during any 24-month period much equal or exceed an average of $20,000 per unit.

State Agency	2010 Incentives
Illinois HDA	The 2010 QAP (which governs both 9% transactions and private activity bonds) removed the $2 million set-aside from in the 2009 QAP for rehabilitation of currently occupied low-income housing developments whose conversion to market rate housing is likely or properties otherwise in danger of being lost due to need for substantial rehabilitation. There is a required 30-year period of occupancy restrictions (includes 15 year federal requirement). Eight (8) points are given to projects that incorporate an extended use period into the extended use agreement beyond the 30 year requirement, and 2 points are awarded for each additional 5 years beyond the 30 year requirement. Preservation projects can receive a maximum of 15 points in the 2010 QAP, 15 points if the project is rehab of a current low-income housing development that is financed under Sec 8, 202/811, public housing with a 1:1 replacement rate -or- 10 points if financed under 515 or 514 -or- 5 points if financed under 236, 42 or projects that are currently occupied, has no rent or income restriction and whose unit rents do not exceed 60% AMI. Chicago The City of Chicago receives a suballocation of tax credits from the state of Illinois. Chicago's 2009 QAP gives preference to non-public, at-risk federally assisted housing when awarding tax credits.
Indiana HFA	Indiana's 2011 QAP has a 20% preservation set-aside for developments which involve the substantial rehabilitation of an existing structure (affordable, market rate or otherwise) and/or a development otherwise in danger of being lost as affordable and/or the demolition and decentralization of housing units utilizing the same site (over 50% of the units must be replaced). The Authority may increase the eligible basis up to 30% for developments whose buildings are placed in service after July 30, 2008 if the eligible basis otherwise would be a low percentage of the total development costs due to competing under the preservation set-aside. This includes developments being removed from the affordable housing stock by a federal agency (i.e. HUD, Rural Development), rental housing RHTC developments with compliance periods that have expired or are expiring in the current year, developments which entail demolition and decentralization of apartments with replacement of apartments on the same site as described above, and the re-use of an existing structure for conversion into affordable housing where a minimum of 75% of the development is converted to affordable housing and/or its common areas. Rehabilitation hard costs must be in excess of $30,000 per apartment to be considered in this category ($20,000 for all other set-aside categories). Indiana also provides up to 8 points for preservation of existing affordable housing including: 8 points for the preservation of an affordable property with rental housing tax credits that expire in the current year or earlier; up to 8 points for the preservation of a previously HUD or USDA funded non-public housing development (such as project-based Section 8 or RD 515 properties), with developments receiving designation of high preservation priority from HUD or USDA getting 8 points, 5 points for medium priority and 3 point for low priority; or 6 points for proposed preservation of any other affordable housing development. Indiana awards 7 points for rehabilitation developments that support community preservation; the development must be at least 75% rehabilitation, part of a city of town's revitalization plan, or Infill housing that conforms to the existing neighborhood. The 2011 QAP offers up to 3 points for use of an existing, 100% vacant structure into rental housing. Two points are also available for projects that are historic in nature. Five points are available for federal assisted revitalization. New construction and rehabilitation projects are held to different standards concerning unit size square footage.
Iowa HFA	The 2010 QAP includes a 10% competitive set-aside for preservation of qualifying existing affordable properties where more than 50% of the units are income-restricted and rent-restricted to households at or below 60% AMI by Land Use Restriction Agreement, Reg Agreement, or Sec 8 project-based contract (a decrease in 10% from 2007). Additionally, 20 points will be awarded to projects where no less than 50% of the units are subsidized by a project-based rental assistance contract. The 2010 QAP also requires 30-year period of occupancy restriction (includes 15 year federal requirement).

State Agency	2010 Incentives
Kansas HRC	Kansas's 2010 QAP offers 10 points for proposals that preserve existing affordable housing "that would be subject to foreclosure or default if tax credits were not available as indicated by deteriorating physical condition, high vacancy rate, or poor financial performance." Up to 20 additional points are available for rehabilitating existing units that are structurally sound, energy efficient, and affordable. The amount of points offered in this category depends on the cost of rehabilitation. Five (5) points are available for rehabilitation costs between $10,000 and $15,000 per unit; 5 additional points are available for every additional $5,000 per unit up to 20 points for costs in excess of $25,000 per unit. Fifteen (15) "bonus points" are awarded for each priority housing need that is met, preservation being one of these needs. Kansas lists additional criteria for selecting properties for acquisition and rehabilitation credits. These include preferences for: developments with low acquisition to rehabilitation cost ratio, developments with low proposed rent increases, developments with no expected tenant displacement, developments with evidence that the private sector will not finance the acquisition and rehabilitation, developments under immediate threat of foreclosure and removal of existing tenants. All rehabilitation proposals must involve average rehabilitation costs of at least $10,000 per unit.
Kentucky HC	In the 2011-2012 QAP, 10 points are awarded for projects that rehabilitate existing rental units in order to preserve the rental stock (minor rehabilitation such as cosmetic updates is not applicable). Substantial building rehabilitation of at least $20,000 per low-income unit or 20% of adjusted basis, which is greater, is required. Housing credit in the amount of approximately $750,000 is reserved for projects that have a pending application submitted to RD for the 515 or 538 programs or to HUD for the 202 or 811 programs to receive funds. This set-aside is for projects financed by RD or HUD for new construction or for projects in need of rehabilitation or order to preserve affordable rental units. Five (5) points will be awarded to proposals submitting an existing unsubsidized project which has rents at or below the affordable rent level.
Louisiana HFA	Louisiana's 2010 QAP grants 10 points for properties which require substantial rehabilitation (more than $20,000/unit), 10 points for projects that involve historic rehabilitation, and 6 points for redevelopment projects (a property can't qualify as both redevelopment and rehab). Abandoned properties receive 10 points. Up to 5 penalty points may be deducted from a rehabilitation applicant's score if hard costs are less than $20,000/unit, or if the development fee exceeds 25% of hard costs. Properties that extended the affordability period between 25-35 years may earn up to 4 points. Louisiana directs the 30% basis boost toward QCTs and DDAs.
Maine SHA	In Maine's 2011 QAP one 'Housing Need/Priority' identified by the MSHA is, "rehabilitation of existing housing stock, which does not result in displacement or substantially increased housing costs" and establishes a priority of the housing tax credits for, "projects involving acquisition and/or rehabilitation, which add to or significantly rehabilitate existing rental housing stock, and are rent-restricted to the lowest income households." $100,000 is set-aside for rural development projects, currently financed under a multifamily housing program, where funding must be primarily for rehabilitation. The QAP provides 3 points to properties involving rehabilitation of existing housing stock of 5 or more apartments that also provide protection against displacement and substantial increases in housing costs attributable to the rehabilitation. In addition, rehabilitation projects containing more than 5 units that are located within designated community revitalization areas will receive 1 additional point. The QAP also includes a 90-year affordability period as a threshold requirement.

State Agency	2010 Incentives
Maryland DHCD	In the 2009 QAP, up to 20 points are awarded to applicants with long-term operating subsidies (up from 10 points in 2008), including project based rental subsidies. Applicants requesting tax credits from the 2009 QAP must agree to at least 40 years of low-income occupancy restrictions unless a structured 15 year homeownership program is created and accepted. For projects in either a qualified census tract or difficult to develop area, 10 points may be awarded under this category for rehabilitation or replacement projects, or 5 points for new construction projects, in neighborhoods that have existing community revitalizations plans. There is a $15,000/apartment rehabilitation threshold, but DHCD may waive this if there is a strong need for preservation in the area of the proposal or if affordable apartments will be lost if the property in question is not financed using Department funds. Maryland has a 30% state basis boost that they will direct toward projects that need additional funding to be financially feasible. This is separate from the 30% boost reserved for QCTs and DDAs.
Massachusetts DHCD	For 2010, 40% of the available allocated credits are set aside for preservation properties (up from 35% in 2008), defined as: 1) housing at risk due to market conversion, 2) housing at risk due to physical condition and financial distress, 3) application represents a time-limited opportunity to purchase existing affordable housing, and 4) units are located in a large-scale significantly distressed public housing development and HOPE VI was already awarded. The minimum property size for the preservation set-aside is 8 apartments. One of the eight priorities established in the 2010 QAP is "projects that preserve valuable existing affordable units." Additionally, a property must meet the threshold of demonstrating consistency with the Commonwealth's Principles of Sustainable Development. The first of these 10 principles encourages re-using existing structures. Applicants are required to commit to a 30 year term of affordability; projects which commit to 50 years of affordable rents receive 6 points. The 30% basis boost may not be applied to the acquisition basis - only rehab projects that are located in a QCT or difficult-to-develop areas. Massachusetts has a unified application process, allowing developers to apply for low-income housing tax credits along with a variety of other funding options.
Michigan SHDA	MSHDA's 2011 QAP targets 30% of its competitive 9% credits to preservation proposals. Preservation applies to the acquisition and renovation of existing properties. Adaptive re-use projects and entirely vacant residential buildings will not be considered new construction. Additionally, MSHDA provides substantial incentives available only to preservation applicants, including points for: containing rent increases, preserving project-based subsidies for the duration of or longer than the compliance period, acquisition costs less than 60% of the development cost, insufficient capital to provide needed continuing renovations and repairs, high-risk distressed properties (not in need of demolition), rehabilitation costs greater than $20,000 per unit (with more points awarded to applicants proposing costs greater than $30,000 per unit), local funding of at least $5,000 per unit, federal funding for at least 30% of units, and replacement or redevelopment of public housing units. Eligible preservation properties include those with financing from HUD, USDA Rural Development, or MSHDA that is within 5 years of permitted prepayment of equivalent loss of low-income use restrictions; other below-market financing, properties with previous government funding of at least $100,000; redevelopment of public housing units; or year 15 LIHTCs, allocated in 1994 or earlier. Projects meeting the threshold requirements for preservation are eligible for the 30% basis boost.

State Agency	2010 Incentives
Minnesota HFA	Minnesota's 2011 QAP requires applicants to meet at least one out of five thresholds requirements. One of these threshold requirements is: properties which preserve existing subsidized housing, if the use of tax credits is necessary to (1) prevent conversion to market rate use or (2) to remedy physical deterioration of the property which would result in loss of existing federal subsidies. Minnesota awards 10 selection points for the preservation of existing tax credit apartments and 20 preference points for the preservation of federally assisted apartments. Ten (10) points are also awarded for rehabilitation properties that meet certain minimum criteria, with 2 additional points if the proposal is part of a community revitalization plan. In order to receive preservation points, applicants must demonstrate that, without tax credit allocation, the affordable units would be lost either through the loss of subsidies within the next two years, conversion to market rate, or deterioration. Minnesota awards 3 selection points to applications proposing to acquire and rehabilitate a Foreclosed Property or are located in a Foreclosure Priority Area identified by Minnesota Housing that has been heavily impacted by the foreclosure crisis.
Mississippi HC	The 2010 QAP provides 15 points for applicants that are preservation, Hope VI developments or Historic preservation. There is another 10 possible points for a property that "preserves existing developments serving low-income residents that would be lost due to conversion to market rate, loss of rental assistance, foreclosure or default, and mortgage prepayment, or housing lost in a presidentially declared disaster area. To be eligible, the development must be currently in danger of conversion, foreclosure, default." In addition, the QAP awards 10 points (up from 7 in 2008) for applicants with development-based rental assistance for at least 51% of the development's apartments for five or more years or 3 points can be awarded if the project has tenant-based rental assistance (but not if receiving points for development-based assistance). Five (5) points are awarded for projects that received a commitment from the Preservation Loan Fund - rehab 515 housing. All properties committing to an extended compliance period of 40 years or longer are awarded 5 points. Ten (10) points are available if 20% of the units are set-aside for residents at 50% or lower AMI plus there is a commitment to provide housing for 40 years.
Missouri HDC	Missouri's 2011 QAP lists preservation of existing affordable housing as one of its six housing priorities. Developments that are not considered for the preservation priority but that do not contemplate the acquisition and rehabilitation of existing housing are encouraged and given extra consideration. The QAP does not have a numerical criteria system but MHDC will prioritize developments that have project-based rental assistance or operating subsidy or have a loan made prior to 1985 from any of the following loan programs: HUD 202/811, 221(d)(3) or (d)(4), 236 or USDA RD 515. Projects can also qualify under this priority through participation in HUD's Mark-to-Market restructuring program or by having a previous allocation of LIHTC prior to 1996. Rehabilitation projects seeking 9% credits must have construction costs equaling 40% of more of the total replacement costs. Proposals determined to meet the preservation priority quality for a 30% basis boost.

State Agency	2010 Incentives
Montana BoH/HD	The 2011 QAP provides up to 2 points for properties that propose the preservation of existing federally assisted housing stock or increase the affordable housing stock through the use of the Rural Development 515 program, HOME program, the CDBG program or the FHLB Affordable Housing Program. If an owner substantially rehabilitated a building (by incurring rehabilitation expenditures the greater of either $10,000 hard costs per rental unit or an amount which is not less than 205 of the adjusted basis of the building during a 24-month or shorter period), the rehabilitation expenditure is treated as a separate new building for purposes of the tax credit. The QAP also provides up to 4 points for the appropriateness of the property for the area's housing market (rehab. vs. new construction, or addressing vacant buildings). Comparisons will be made with the Market Study to determine how it addresses the considerations for rehabilitation or preservation of existing housing versus need for new construction. The QAP also provides 2 points for existing housing stock or properties applying for rehabilitation tax credits that have completed their initial 15-year compliance period. Projects are eligible for up to 10 points for committing to extend low-income use beyond 15 years depending on the length of the commitment.
Nebraska IFA	In the 2011 LIHTC application Self-Scoring Other Selection Criteria, 3 points are given to federally-assisted buildings in danger of having the mortgage assigned to HUD, RD, or of creating a claim on the federal mortgage insurance fund. Four points are available to developments involving the preservation of existing affordable housing.
Nevada HD	The 2010 QAP provides 3 points for projects that involve either "the acquisition and rehabilitation of at-risk properties listed in the National Housing Trust Publication" or preservation of a property "in an area covered by a state or local revitalization plan/strategy targeting the rehabilitation of existing housing." Rehabilitation developments must demonstrate that the rehab is substantial and involves at least $40,000/apartment for expiring Section 8 and HAP projects or $10,000/apartment for other rehab projects in direct hard costs. Acquisition/Rehab, Conversion or Change of Use Properties will be ranked based on the per-apartment rehabilitation investment (hard construction costs/number of apartments in the property). The property with the highest per-apartment rehabilitation investment will receive 10 points and the second highest scoring property will receive 5 points. Applications are scored and ranked by project type: Individuals/Families with Children; seniors; Assisted Living Developments; Mixed Income/Mixed Use; Projects Promoting Eventual Tenant Ownership; and Acquisition/Rehabilitation projects. The Acquisition/Rehabilitation category includes acquisition/rehab for projects with expiring Section 8 or HAP contacts, acquisition/rehab/conversion/change of use, and rehabilitation only. To qualify for acquisition/rehab for projects with expiring Section 8 or HAP contracts, 75% of the units must be preserved as affordable housing with rents at or below LIHTC rents. The application with the highest percentage of units receiving rental assistance times the number of years of the contract will be awarded 15 points. The application with the second highest will receive 10 additional points.
New Hampshire HFA	In New Hampshire's 2011 QAP, preservation projects are not eligible to apply for 9% LIHTC except for projects that are to be demolished and/or reconstructed while retaining or extending the project based rent subsidy contracts. Preservation projects are those that have been funded with federal project based rent subsidies that are currently subject to recorded regulatory documents limiting unit rents and/or tenant incomes. Properties that are located in formally-designated community revitalization areas, such as HUD Enterprise Zones, Main Street programs, designated blighted areas, or otherwise targeted areas can receive an additional 1 point if they preserve or renovate existing housing. The plan also establishes a minimum rehabilitation threshold of $6,000 per apartment or 20% of the depreciable basis of the building. In a tie-breaker, new construction is favored over preservation. Combination projects are considered new construction.

State Agency	2010 Incentives
New Jersey HMFA	New Jersey's 2010 QAP includes four funding cycles: Family will receive at least $9 million, Senior will receive at least $3 million, Supportive will receive at least $2 million, and Final will receive whatever credits are left over from the other cycles. For the Final cycle the highest ranked preservation proposal will be the first development funded. Preservation projects are defined as housing projects that are at least 50% occupied and at risk of losing its affordability controls or level of affordability. In general, minimum rehabilitation projects, proposals in which construction costs are less than $25,000 per unit, are not eligible for competitive tax credits but they may be funded if there are no other eligible projects during the Supportive or Final cycles. In the family and final cycles, rehabilitation projects receive 3 points that generally only low-density buildings with large family units are eligible for. In all cycles, rehabilitation of historic buildings is worth 2 points.
New Mexico MFA	New Mexico's 2011 QAP awards 15 points to all rehabilitation properties incurring average rehabilitation hard costs of $10,000/apartment or more. In combined new construction and rehabilitation, rehabilitated apartments must account for at least 20% of the total apartments and the separation of rehabilitation costs and new construction costs should be designated in the application. An additional 15 points is awarded to conversion plus rehabilitation properties that convert at least 50% of the existing market rate apartments to low-income apartments. There are 15 points available for preserving previously subsidized properties in which rents for 75% of the apartments are currently in excess of HTC Ceiling Rents and will be reduced to HTC Ceiling Rents, or for which use restrictions are to expire on or before December 31st, 2015. Rents will be limited to HTC ceilings despite other subsidy rules, except in properties with project based subsidies that allow for rents in excess of HTC ceilings. Note that projects receiving points from the rehabilitation-only category can receive points under the conversion plus rehabilitation OR the preservation category but not both, even if they are otherwise eligible for them. Rehabilitation expenditures qualify for the 9% tax credit when rehabilitation costs incurred during the 24-month period equal or exceed the greater of $6,000 per low-income unit or 20% of the adjusted basis.
New York State DHCR	DHCR The New York State Division of Housing and Community Renewal (DHCR) is the lead Housing Credit Agency for the State of New York. DHCR's 2009 QAP defines preservation as property being rehabilitated to extend its useful life, which averts the loss of affordable housing and currently serves a population whose housing need would justify the replacement of the housing if it ceased to be available to that population. This definition does not distinguish between affordable unsubsidized or subsidized rental housing. The scope of the rehabilitation must be sufficient for the property to function in good repair as affordable housing for a period equal to at least 30 years from the date of issuance of the final credit allocation. Projects are required to maintain a 30-year period of occupancy restrictions (includes 15 year federal requirement). Ten (10) points are given for further extensions and 15 points for waiver of the right to terminate the extended use period. Preservation projects only need to meet visit ability standards as feasible. The acquisition cost cap (of 25% of total costs) is waived for preservation projects. Some competitive criteria act as preservation disincentives: Projects get 1 point for being located on a brownfield or grayfield, or for being an adaptive re-use project. Projects get 6 points for having a certain percentage of fully accessible units.
NY HFA	
Dev. Auth. of N. Country	

State Agency	2010 Incentives
NYC HPD	HPD New York City's Department of Housing Preservation and Development (HPD) receives an annual sub allocation of tax credits from the state. DCP's 2010 QAP states as one of its goals preserving "73,000 units of affordable housing for 220,000 New Yorkers, with a special emphasis on preserving units where subsidies are set to expire in the near future." Up to 16 points are available for "project characteristics." Preservation projects -- projects that preserve existing affordable housing that either: a) have, and continue to use if possible, project-based rental assistance and/or operating subsidy; b) have a loan made prior to 1984 from any of the following loan programs; HUD 202/811, 221(3)3 or (d)4 or 236; c) an HPD LIHTC Preservation Program where HPD has approved a re syndication plan -- and rehabilitation of existing housing are eligible for these points.
North Carolina HFA	North Carolina's 2011 QAP includes a 20% rehabilitation set-aside. To be eligible for the rehabilitation set-aside, a property must have either mortgage subsidies from a local government in excess of $5,000 per unit or have federal rental assistance for at least 30% of the total apartments plus hard construction expenses in excess of $15,000/unit and been placed in service on or before December 31, 1995. Preservation and rehabilitation applications do not receive point scores but instead are evaluated using an alternate criteria set. Priority will be given to the state's most distressed federally subsidized housing.
North Dakota HFA	The 2011 QAP awards 10 points for preserving federally assisted properties "at-risk" of being lost to market rate, including existing housing credit projects. In addition, properties with rehabilitation expenditures of $15,000 up to $30,000 per apartment receive 5 points, those with rehabilitation expenditures of $30,000 or more per apartment receive 10 points, and all rehabilitation projects part of a community revitalization plan will receive an additional 3 points. NDHFA will waive the $15,000 minimum rehabilitation threshold requirement if a capital needs assessment supports a lower rehabilitation requirement. NDHFA awards up to 9 points for extending the affordability period for 5, 10, or 15 years. North Dakota directs the 30% basis boost toward to QCTs, DDAs, and (1) projects designed to primarily serve special needs populations, i.e. homeless or those requiring permanent supportive services; (2) projects that target 20 percent or more of the units at 30 percent of area median income or less; (3) projects within tribal reservations, including the Trenton Indian Service Area; (4) new construction projects on in-fill lots a) with existing structures which need to be demolished, or b) require substantial environmental remediation; and (5) projects in rural areas without sufficient soft financing to be financially feasible in low market rent areas. Proposed rents (including utility allowance) must be the lesser of a) Fair Market Rents (FMR) or b) a minimum of 20% below Housing Tax Credit rent ceilings, either of which will be enforced through a land use restriction agreement (LURA). Developments with a project based federal rent subsidy are not eligible.

State Agency	2010 Incentives
Ohio HFA	In the 2011 QAP, Ohio set aside $9.5 million of the low-income housing tax credits in a "preservation pool." Properties that are eligible for the preservation pool include the following: a) Properties receiving project-based rental subsidy through a Section 8 Housing Assistance Payment Program (HAP) contract; b) Troubled properties that have received assistance through the USDA Rural Development (RD) office; c) Properties participating in the HUD Portfolio Reengineering Program (so-called Mark to Market). Projects that have closed their financing under this program and have not yet placed-in-service are eligible for the pool; d) Existing HUD Section 202 or 811 projects; e) Existing HUD Section 236 properties; f) New construction projects that preserve existing subsidies, such as HOPE VI, Choice Neighborhoods, or the use of Section 8 portability; g) Other properties judged by OHFA to encompass preservation principles. The minimum hard construction costs for rehabilitation properties are $10,000/unit or 40% of total project costs, whichever is greater with the exception of project with tax-exempt bond financing in which minimum hard costs equal $6,000/unit. The QAP grants exceptions for rehab projects from mandatory design standards infeasible for existing buildings. There is a required 30-year period of occupancy restrictions (includes 15-year federal requirement). Projects with a demonstrated financial need will be considered for the 30% basis boost on a case-by-case basis.
Oklahoma HFA	For 2010, the application packet awards 5 points to projects that preserve affordable housing units from pre-1995. These projects can be: • Properties with expiring project-based Section 8 contracts • Properties with USDA Section 515 loans • Properties financed with Low-Income Housing Tax Credits • Properties financed with Section 202/811 loans • Properties financed with 1937 Housing Act funds.
Oregon HCS	In the 2009 Qualified Allocation Plan, the state maintains its 25% set-aside for preservation properties (note that the amount of 9% tax credits actually used for preservation in 2006 was about 30%). Preservation properties include but are not limited to federally-financed existing properties where at least 25% of the property's apartments have project based rental assistance or are expiring LIHTC properties which are currently offering rents 10% below market. Properties participating in, but not limited to the following programs, are considered federally financed: HUD, USDA Rural Development, and properties participating in programs that include the replacement of existing affordable housing units, including the HOPE VI program, as long as 25% of the units have project based assistance, and expiring LIHTC projects. In funding preservation projects, preference is given to applications that have at least 25% project based rental assistance. Projects are required to maintain a 30-year period of occupancy restrictions (includes 15-year federal requirement). Additional consideration will be given to projects which agree to extended use beyond 30 years. Preservation projects are considered "difficult-to-develop areas" and are therefore eligible for the 30% basis boost. Projects that serve permanent supportive housing goals, address workforce housing needs, are located in Transit Oriented Districts (TODs) or Economic Development Regions (EDRs) or in a designated state or federal empowerment/enterprise zone or Public Improvement District (PIDs), or other area designated for neighborhood preservation, redevelopment, or use of public transportation are also eligible for the basis boost. All projects must also commit to an extended use term of affordability of a minimum of 30 years.

State Agency	2010 Incentives
Pennsylvania HFA	Pennsylvania's 2010 QAP maintains the 15% preservation set-aside. Eligible properties include: (a) existing low-income units receiving project-based rental subsidies that are within two years of any permitted prepayment or subsidy contract expiration with a likely conversion to market rate housing or equivalent loss of low-income use restrictions; (b) developments requiring rehabilitation of systems or components in immediate need of repair or replacement, or (c) rehabilitation of already existing low-income units provided that the rehabilitation is being funded through the Agency and the development will be monitored through an Agency preservation program. Preference may be given to developments that face conversion to market or which have rehabilitation scope of work that addresses significant life safety issues. Developments must expend for rehabilitation a minimum of $10,000 per unit in construction costs on major systems and components. Preservation projects are exempt from the requirement to ensure at least 25% of total units of a rehab development are visitable. They may be required to provide air conditioning if financially feasible. Rehab and preservation developer fees are limited to 10% of purchase price of the property less the cost of land. There is also a required commitment to serving low-income residents for a period of not less than 30 years OR offer homeownership opportunities to qualified residents after the initial 15 year compliance period.
Puerto Rico HFA	
Rhode Island HMFC	In the 2011 QAP, priority will be given to properties involving the substantial rehabilitation or redevelopment of deteriorated residential properties (substantial rehabilitation entails construction/rehabilitation costs in excess of 50% of replacement value). For a building to be substantially rehabilitated, the expenditures during any 24-month period must be at least the greater of: (a) 20% of the depreciable basis of the building determined as of the first day of the 24-month period; or, (b) an average of $6,000 per low-income unit. Exceptions may apply for properties acquired from government entities and "expiring use" properties. Rhode Island may also provide an exception to their 10 year placed in service restriction for expiring use properties.
South Carolina SHFDA	In the 2011-2012 QAP, the South Carolina State Housing Finance and Development Authority (SHFDA) reserved up to $1,200,00 (down from $1,275,00) for preservation projects. This set-aside is for 100% rehabilitation developments only. SHFDA reserves up to $700,000 of the state LIHTC ceiling for the exclusive use of eligible Rural Housing Service (RHS) developments. HOME funds will be provided to the set-asides as follows: Rehabilitation - $780,000; RHS - $390,000. Rehabilitation properties applying for 9% tax credits must have at least $15,000 in hard constructions costs per unit, with at 50% of the costs attributable to interior unit costs. Projects can receive 5 points for extending the commitment period an additional 5 years. The eligible basis boost is directed toward QCTs, DDAs, 100% elderly projects, 100% special needs housing, and projects for older persons or families.
South Dakota HDA	South Dakota removed their 60% preservation set-aside in the 2011-2012 QAP. Properties involving existing development receive 75 points while new construction properties receive up to 10 points. To be eligible for competitive tax credits projects must have substantial rehabilitation costs, at least $10,000 per unit or 20% of the original basis, whichever is greater. South Dakota's definition of preservation allows for presently affordable, multifamily, unsubsidized rental housing to qualify as preservation. Projects that commit to a 40 year extended use affordability agreement will receive 80 points. The 30% basis boost is directed to projects located in QCTs or DDAs; projects that are part of a concerted community revitalization plan; service-enriched housing; rural projects; and historic rehabilitation.
Tennessee HDA	Tennessee's 2011 QAP awards up to 40 points for rehabilitation developments involving replacement of major building components. Developments involving the use of existing housing as part of a community revitalization plan receive 1 point. No more than 40% of the total amount of tax credits available will be allocated to developments involving rehabilitation.

State Agency	2010 Incentives
Texas DHCA	In the 2010 QAP, at least 15% of the allocation to each region is set aside for 'at-risk' developments. To be eligible, subsidized properties include those insured under the HUD Section 221(d)(3) and (5), Section 236, Section 202, Section 101; those provided subsidies via project-based Section 8 programs; USDA Section 514, 515, 516; and Section 42 of the IRS Code. The property's contract providing the subsidy must be nearing expiration, or the mortgage must be eligible for prepayment or nearing the end of its mortgage term. Developments must be at risk of losing all affordability on the site and properties must renew or retain any federal assistance for which they remain eligible. TDHCA allows expiring tax credit properties to apply under the 'at risk' set-aside. All rehabilitation proposals (including reconstruction) or adaptive reuse proposals are awarded 3 points. In the event of a tie, applications involving any rehabilitation of existing apartments will win this first tier tie breaker over applications involving solely New Construction. Developments proposing adaptive re-use or proposing to increase the total number of units in the existing residential development are not considered rehab or reconstruction. In addition, developments that consist solely of acquisition/rehabilitation or rehabilitation only may exceed the maximum unit restrictions. Rehabilitation developments must establish that the rehabilitation will substantially improve the condition of the housing and will involve at least $15,000 per unit in direct hard costs unless financed with TX-USDA-RHS in which case the minimum is $9,000. If a developer extends the years of affordability beyond the required 30 by 5 years, 2 points are available - by 10 years, 4 points are available.
Utah HC	Utah's 2011 QAP designates the 'preservation and improvement of existing affordable housing units' as a housing need and the rehabilitation of 'existing housing stock for tenants at the same or less than current rents' as a housing priority for the allocation of credits (although no specific set-aside is given). The 2011 QAP awards 10 points to properties that rehabilitate the existing housing stock and maintain rents at or below the rent levels before negotiations were entered into for the Housing Credit Application. This is only available to substantial rehabilitation properties that maintain or lower targeted rents below those paid by the current tenants and to preservation properties that maintain rent levels. The minimum rehabilitation expense per unit for substantial rehabilitation projects is $6,000 or 20% of the adjusted basis, whichever is greater. The following minimum rehabilitation expenditures are based on the age of the building(s): pre-1940 necessitates a minimum of $50,000 per unit; 1940 - 1970 necessitates a minimum of $35,000 per unit; 1971 - 1990 necessitates a minimum of $25,000 per unit. The state also awards 5 points to properties that involve the use of existing housing as part of a Community Revitalization Plan.
Vermont HFA	Vermont's 2009 - 2010 QAP does not provide a point allocation system but instead states Evaluation Criteria and Top Priorities. The 5 Top Tier of these priorities include projects the provide rehabilitation, including lead-based paint abatement, accessibility modifications, and energy efficiency upgrades (along with infill new construction or places that lack affordable housing). The Second Tier priorities include creative rehab of a historic structure of statewide significance. Preference must also be given for the acquisition and rehab of existing federal subsidized projects, where preserving affordability is at-risk. Nine percent (9 %) credits required to be affordable into perpetuity. Rehab projects should be at least $6,000/unit or 20% of adjusted basis. Projects that are less than 49 units and either meet Green Building and Design Standards or are 15% market unites are eligible for the 30% basis boost.
Virgin Islands HFA	

State Agency	2010 Incentives
Virginia HDA	The 2011 QAP awards 20 points to developments currently subject to HUD's Section 8 or Section 236 programs or Rural Development's Section 515 program. In addition, 10 points are awarded to developments receiving new project-based subsidy from HUD or RD for the greater of 5 apartments or 10% of the apartments of the proposed development. All applications seeking credits for rehabilitation of existing apartments must provide for contractor construction costs of at least $10,000 per unit.
Washington State HFC	The 2010 QAP provides non-numerical priority for projects intended to 'preserve federally assisted projects as low-income housing units' and 'rehabilitate buildings for residential use.' At-risk properties that meet the following criteria are awarded 10 points: (1) the project has one or more Federally Assisted Building(s); (2) at least 50% of the total housing units in the project are low-income; (3) the applicant agrees to maintain the low-income housing units included in the project for a minimum of 30 years (i.e., make an additional low-income housing use period Commitment of at least 12 years); (4) the Federal agency regulating the low-income use certifies that the owner may be released from all low-income use restrictions within five years of the date of the Application; and (5) the market study clearly demonstrates that (a) market rate rents are significantly greater than current rents being charged and (b) those market rate rents are achievable, creating the likelihood that existing residents will be displaced as a result of increasing rents. Points are also awarded to rehabilitation proposals. Five points are awarded if a rehabilitation proposal rehabilitates at least 80% or more of the total existing housing units that exist in the project prior to rehabilitation or the conversion of one or more buildings from non-residential use and 50% or more of the total residential units in the project are included in the converted building(s). Rehabilitation proposals that are part of a community revitalization plan receive an additional 2 points. Projects located in Difficult to Develop Areas, Qualified Census Tracts, and rural areas are eligible for the 30% basis boost.
West Virginia HDF	West Virginia's 2009-2010 QAP sets aside 15% of credits for rural preservation and 25% for "HUD preservation or new construction." In the latter set-aside, new construction proposals receive between 40-50 points, depending on size, while rehab and acquisition/rehab proposals can only earn 0-30. However, in addition, for substantial rehabilitation properties or acquisition and substantial rehabilitation properties, an additional 10 points will be awarded if any such property includes the use of existing housing that is a clearly and specifically stated part of a community revitalization plan. Ten points will be awarded to properties committed to continuing to serve qualified tenants at rent-restricted rates for each year beyond the close of the initial 15-year minimum compliance period, up to a total of 150 points for 15 years beyond the minimum compliance period. Several "quality of housing" criteria may act as moderate preservation disincentives, including 25 points for minimum room sizes, 10 points for roofs with 30 year manufacture warranties, and 5 points for offering washer and dryer hookups in each unit.
Wisconsin HEDA	Wisconsin's 2011-2012 QAP includes a preservation set-aside of 30% (approximately $3,562,507) for federally assisted housing units. Federally Assisted Housing Preservation includes low-income housing developments subsidized under the following or similar programs: Section 236, Section 221(d)(3) Below Market Rate (BMIR), Section 221(d)(3) Market Rate with Section 8 rental assistance, Section 8 project-based new construction, Section 202, Section 811, Section 221(d)(4), and Section 515-Rural Rental Housing Program, Rural Development, USDA and NAHASDA or other tribal subsidies. Additionally, 30 points are available for acquisition/rehabilitation, defined as a development proposing rehabilitation, or acquisition and rehabilitation, of existing housing units.

State Agency	2010 Incentives
Wyoming CDA	In Wyoming's 2011 QAP, rehabilitation properties must have a minimum expenditure of $15,000 of actual rehabilitation hard costs per apartment in Life, Safety, Health, or Code Requirements which includes required major systems repairs or replacements of electrical, heating, roofing, foundation/structural, major energy upgrades. No more than 30% of rehabilitation costs can go for required General Property Improvements, (non-Life, Safety, Health, or Code Requirements). A property will receive up to 10 points if the current property involves use of existing housing as part of a community revitalization plan. Under the tie-breaker criteria, rehabilitation properties can receive up to 40 points for amenities and/or cost-effective upgrades. Wyoming awards up to 35 points for extending up to 20 years beyond the initial 30 year affordability period. The basis boost is directed toward difficult to develop areas.

APPENDIX E. HUD NATIONAL LIHTC DATABASE, MISSING DATA BY PLACED IN SERVICE YEAR

	Year Placed in Service											
Variable (or Variable Group)	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Project Address[a]	0.74	0.58	0.90	0.64	0.61	0.49	0.21	0.41	0.33	0.49	0.51	1.03
Owner Contact Data	6.40	3.77	4.88	6.17	5.98	7.09	7.99	9.92	4.90	3.21	5.99	7.96
Total Units	6.03	3.42	3.64	1.21	1.49	0.49	0.62	1.03	0.13	0.28	0.73	0.29
Low-Income Units	2.46	2.67	4.20	4.47	2.24	1.89	1.79	0.82	1.19	1.05	1.83	0.88
Number of Bedrooms[b]	38.42	40.85	43.27	39.15	33.97	36.21	39.39	37.28	17.01	14.68	16.67	12.68
Allocation Year	1.97	0.87	1.57	0.14	0.14	4.49	3.65	4.99	0.26	0.07	0.07	0.07
Construction Type (new/ rehab)	12.93	9.62	10.26	9.86	10.12	15.65	15.77	19.43	5.43	4.47	3.51	3.98
Nonprofit Sponsorship	21.92	26.25	31.33	29.72	33.22	29.33	29.34	25.72	14.30	12.30	11.33	9.80
Use of Tax-Exempt Bonds	36.58	38.47	40.47	33.55	36.48	37.61	38.29	34.88	4.96	3.21	4.09	5.08
Use of RHS Section 515	19.09	20.10	23.65	25.60	20.31	26.74	24.59	31.33	11.85	9.36	10.53	14.81

	Year Placed in Service											
Variable (or Variable Group)	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Project Address[a]	1.03	1.04	0.87	0.49	0.37	0.33	0.79	1.16	0.85	0.84	3.18	3.04
Owner Contact Data	7.96	7.85	7.11	5.76	3.26	3.25	3.17	4.07	1.24	0.77	9.94	11.13
Total Units	0.29	0.71	0.87	0.35	1.11	0.73	0.40	1.52	1.11	1.95	4.82	3.88
Low-Income Units	0.88	1.56	1.74	0.84	1.55	1.79	2.97	4.92	1.70	4.31	14.86	14.00
Number of Bedrooms[b]	12.68	10.06	10.22	7.37	13.47	12.67	11.36	11.25	2.81	3.41	11.68	13.32
Allocation Year	0.07	0.39	0.44	0.77	0.44	1.26	1.19	1.16	2.55	3.20	13.22	12.98
Construction Type (new/ rehab)	3.98	3.31	3.34	2.39	8.51	4.44	8.12	9.06	2.87	3.34	8.40	7.76
Nonprofit Sponsorship	9.80	10.58	7.32	5.27	14.29	6.70	11.36	8.39	7.83	4.18	23.87	17.20
Use of Tax-Exempt Bonds	5.08	4.28	2.32	1.40	7.85	3.78	8.26	12.58	9.27	0.77	9.32	7.93
Use of RHS Section 515	14.81	11.68	5.80	4.99	11.84	9.62	20.48	13.07	8.94	13.50	41.19	34.40

Source: HUD National Low-Income Housing Tax Credit Database, 1987-2009.

Notes: Analysis included properties with data on placed in service year. Properties in Guam, Puerto Rico, and the Virgin Islands were not included in analysis.

[a] Indicates only that some location was provided. Address may not be a complete street address.

[b] For some properties, bedroom count was provided for most but not all units, in which case data is not considered missing. The percent of units with missing bedroom count data is based on properties where no data were provided on bedroom count.

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