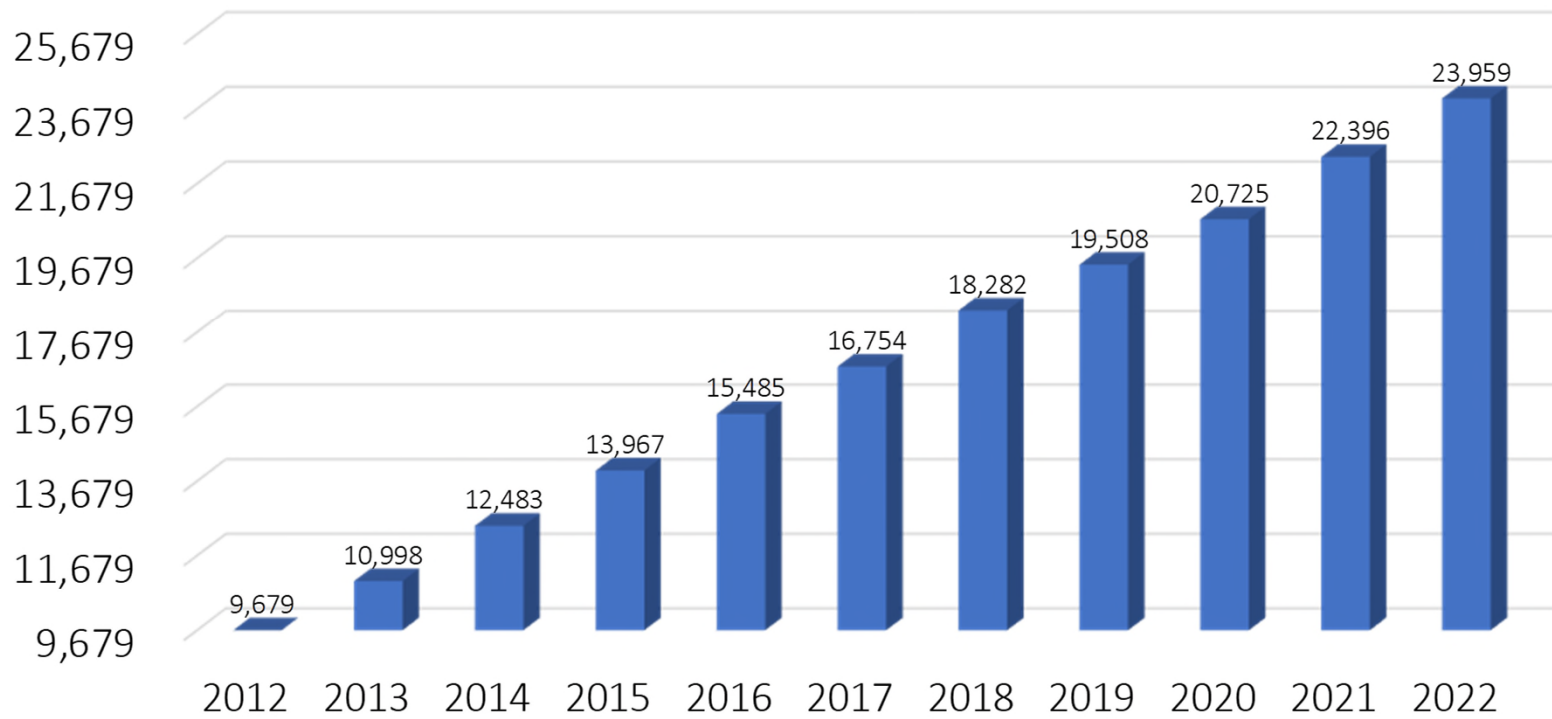


UNLOCKING VALUE AND SEIZING OPPORTUNITIES IN YEAR 15: OWNER/ GP & LP PERSPECTIVES

IPED's Learn the Basics: Housing Tax Credits 101
March 24-25, 2022 Boston, MA



Number of properties beyond 10-year credit period



KEY QUESTIONS

Transactions

- / What are the Year 15 provisions and how do they work
- / Common perspectives of today's buyers and sellers?
- / Financing strategies and sources being used?
- / Can deals get done before Year 15



“What’s your exit strategy?”

TYPICAL YEAR 15 TRANSACTIONS

- / GP buys LP interest
- / Refinancing
- / Sale

Post-Year 15:

- / Recapitalization with new round of tax credits or other financing
- / Qualified Contract Process

Pre-Year 15:

- / Recapture Guarantee
- / Put and Call

FINANCING STRATEGIES AND SOURCES

- / Low interest rates high values = refi opportunities to buy out partners
- / Markets flooded with low-cost LIHTC friendly equity and debt for recapitalization
- / Fannie/Freddie vs. FHA Loans
- / Some owners using their own funds to buy-out LPs. Portfolio 'pruning' to keep winners
- / Re-syndication easier with Bridge to FHA

TYPICAL 3RD PARTY PROPERTY BUYERS

- / Existing affordable and market rate owners
- / Developers looking to build a pipeline of LIHTC syndications
- / Private equity partnerships or individuals
- / CRA-motivated buyers

3RD PARTY BUYER PERSPECTIVES

Third-party buyer incentives:

- / Cash on cash yield
- / Plan to improve revenue through renovation and repositioning
- / Rarely anticipating QCP or market rate conversion
- / Expiration of Extended Use on the horizon

GP AND LP PERSPECTIVES

Existing GPs—buying the LP's interest:

- / Maintain existing cash distribution and fees
- / Benefit from LP's losses
- / Resyndication opportunity

LP wants a timely exit after Year 15:

- / LIHTC benefits have been delivered
- / Tax losses of limited value
- / No recapture risk (post YR15)
- / Investors are keenly aware of residual value
- / Market sale best determinant of value

HOW TO ACHIEVE A SUCCESSFUL EXIT

GP and LP Perspectives

- / Start the process early and communicate often; understand the goals of your partner
 - Surprises = Delays
- / Understand the Partnership Agreement. What are the GP's and LP's rights
- / Maturing Debt, Lockouts, and Prepayment Penalties, Unpaid Development Fees.
- / The * $\&\wedge\%$ BOV as a valuation tool

HOW TO ACHIEVE A SUCCESSFUL EXIT

GP and LP Perspectives

- / Tax Consequences – Consult the Partnership’s Accountant
 - Capital Accounts – Impact on Splits vs. Partnership Agreement Waterfall. When is the Waterfall not a Waterfall ? Upon dissolution..
- / Impact on value of HAP Contract, Limited Distributions, Regulatory Agreements, and other Subsidies
- / Documents...Words matter...Read each one.
 - The 32M (a) in the Right of First Refusal
 - The 860K word ‘First’ in the waterfall language

POINTS ON VALUE

Definition of Market Value

Foundational Formula

/ Revenue – Expenses = Net Operating Income (NOI)

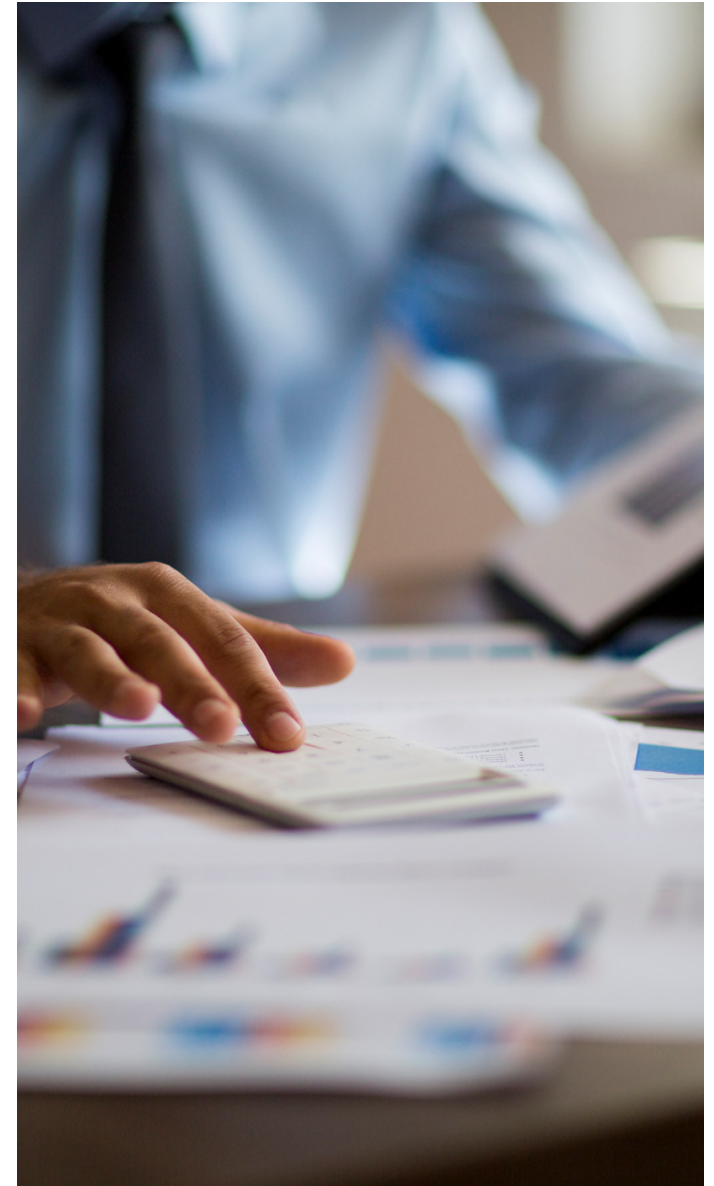
/ NOI when Capitalized = Value

Important items in the above equation:

/ Revenue

- AMI
- HAP Contracts

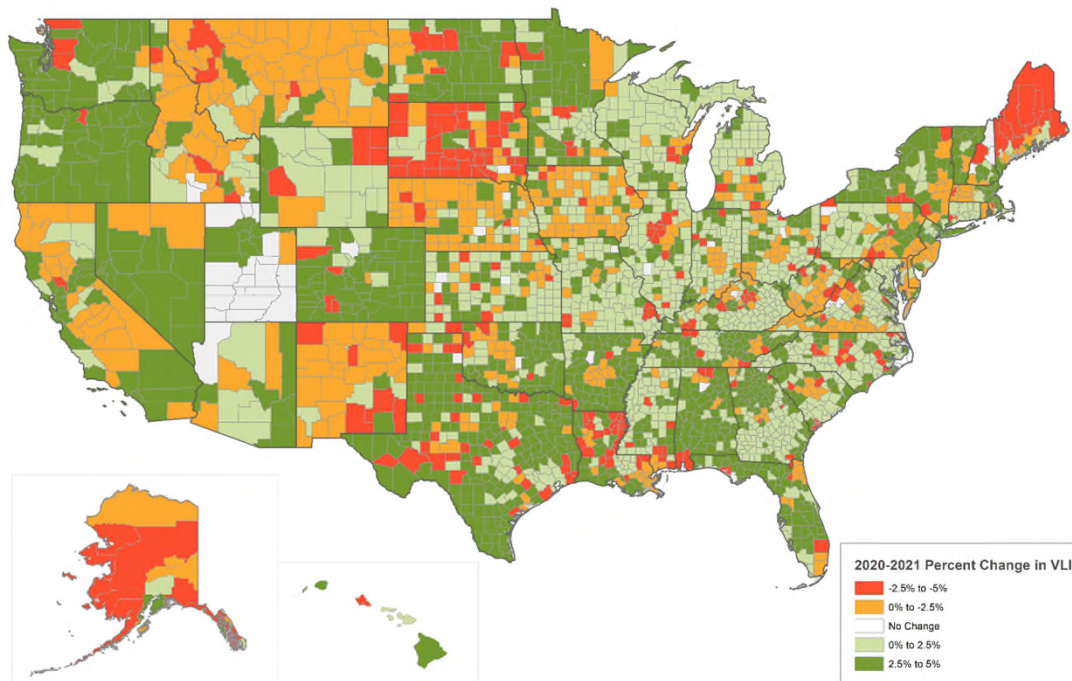
/ Expenses – Trends in inflation and efficiency etc.



REVENUE — CHANGES ARE HERE AND MORE ARE COMING

HUD MTSP Income Limits

2020-2021 Percent Change in VLI



VALUATION PITFALLS AND DETAILS

Valuation Pitfalls

- / Broker Opinion of Value (BOV)
- / Market Value isn't someone you can name
- / Fair Market Value vs Market Value
- / FMV with these stipulations

The Devil is always in the Details

- / Revenue
- / Capital accounts
- / Partner Debt

OTHER KEY YR 15 MARKET OBSERVATIONS

- / Residual value varies greatly
- / What about no value deals?
- / Transactions are all complex and different
- / Multiple approvals often necessary
- / Tax implications further complicate transactions (IRS and Transfer Taxes)

QUESTIONS?



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