

# **Getting Started:** Assessing the Market, Working with Your Tax Credit Agency and Understanding the Development Process

IPED Conference  
Presentation by Kenan Bigby  
April 4, 2019

**TRINITY**  
DEVELOPMENT & MANAGEMENT

## Agenda

- 1) Line-by-Line Discussion of Sources
- 2) Pictures of Trinity Projects

Sources	Total
Permanent Loan	
9% LIHTC	
Federal Historic Tax Credits	
State/City Soft Debt	
Deferred Developer Fee	
<b><i>Total Sources</i></b>	

# On Monday morning, your boss walks in to tell you...



1) Computer Network Crashed



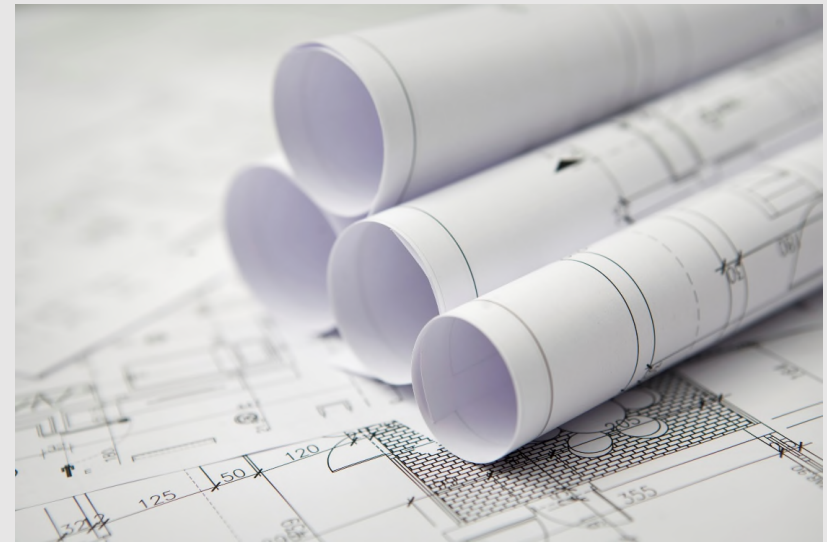
2) Co-worker has moved to Florida

## Raw Materials & Assumptions



Historic Mill in Markleyville

- Built in 1908
- 80,000 Square Feet
- 65 units



100% Complete Architectural Plans

- Pricing from a General Contractor
- \$400,000 total development cost/unit and TDC of \$26 million



### Markleyville Market Analysis

- Market demand for affordable housing is strong
- Comparable properties show low vacancy
- Absorption should be quick

**Deadline: Noon on Friday**

Sources	Total
Permanent Loan	
9% LIHTC	
Federal Historic Tax Credits	
State/City Soft Debt	
Deferred Developer Fee	
<b>Total Sources</b>	<b>\$0</b>
<b>Total Uses</b>	<b>\$26,000,000</b>
<b>Gap</b>	<b>(\$26,000,000)</b>

# Permanent Loan

## Considerations

- **Unit Mix**
  - Look at the QAP for agency's unit mix preference.
  - Look at your market study.
  - Try to incorporate extremely low-income units at 30% of AMI.
- **Revenue**
  - Allow some cushion on market-rate rents.
  - Use Novogradac's tax credit rent calculator.
- **Expenses**
  - Look at expenses for comparable properties.
  - Talk to management company.
  - Typically \$8,000 - \$9,000 per unit per year.
- **Vacancy**
  - Affordable: 5%
  - Market-Rate: 7%
- **Trending Assumptions**
  - Revenue: 2% per year
  - Expenses: 3% per year

	Studio	1 BR	2 BR	3 BR	Total	Percentage
30% of AMI	2	2	3	3	10	15%
60% of AMI	5	6	17	14	42	65%
Market-Rate	3	4	4	2	13	20%
<b>Total</b>	10	12	24	19	65	100%
<b>Percentage</b>	15%	19%	37%	29%	100%	

Sources	Total
Permanent Loan	\$3,000,000
9% LIHTC	
Federal Historic Tax Credits	
State/City Soft Debt	
Deferred Developer Fee	
<b>Total Sources</b>	<b>\$3,000,000</b>
<b>Total Uses</b>	<b>\$26,000,000</b>
<b>Gap</b>	<b>(\$23,000,000)</b>

# 9% Low-Income Housing Tax Credit

## Considerations

- Highly competitive resource
- Look at the QAP to see how competitive your project and its location will be in the next tax credit funding round.
- Does my tax credit investor have Community Reinvestment Act (CRA) need in this area?
- How strong will my tax credit pricing be?

## Assume

- \$1,000,000 allocation annually over ten years
- Pricing of \$0.95 per credit

Sources	Total
Permanent Loan	\$3,000,000
9% LIHTC	\$9,500,000
Federal Historic Tax Credits	
State/City Soft Debt	
Deferred Developer Fee	
<b>Total Sources</b>	<b>\$12,500,000</b>
<b>Total Uses</b>	<b>\$26,000,000</b>
<b>Gap</b>	<b>(\$13,500,000)</b>



# Federal Historic Tax Credit

## Considerations

- Federal Historic credit is a 20% credit
- Is this site part of a historic district? Or is the building more than 50 years old and considered historically significant?
- Do my plans respect the National Park Service's guidelines?
- How quickly can I secure approval from the NPS and SHPO?
- How strong will my tax credit pricing be?

## Assume

- Back out ineligible costs  $\approx$  10%
- Pricing of \$0.92 per credit

Sources	Total
Permanent Loan	\$3,000,000
9% LIHTC	\$9,500,000
Federal Historic Tax Credits	\$4,300,000
State/City Soft Debt	
Deferred Developer Fee	
<b>Total Sources</b>	<b>\$16,800,000</b>
<b>Total Uses</b>	<b>\$26,000,000</b>
<b>Gap</b>	<b>(\$9,200,000)</b>

# City/State Soft Debt

## Considerations

- What is soft debt?
  - Low- or no-interest loan
  - Non-amortizing
  - Interest accrues and principal and interest are paid off at end of term
- Soft Debt Sources
  - State Level (Massachusetts): Affordable Housing Trust Fund and Housing Stabilization Fund
  - Local: HOME and CDBG
- Consider per unit and/or per project caps
- Secure a local/matching commitment
- Choice Limiting Actions

## Assume

- \$2,000,000 in state soft debt
- \$500,000 in city HOME funds

Sources	Total
Permanent Loan	\$3,000,000
9% LIHTC	\$9,500,000
Federal Historic Tax Credits	\$4,300,000
State/City Soft Debt	\$2,500,000
Deferred Developer Fee	
<b>Total Sources</b>	<b>\$19,300,000</b>
<b>Total Uses</b>	<b>\$26,000,000</b>
<b>Gap</b>	<b>(\$6,700,000)</b>

# Deferred Developer Fee

## Considerations

- What is deferred developer fee?
- Tax credit allocating agencies like to see that developers have “skin in the game”
- Ensure your deferred developer fee can be paid off with cash flow in no more than 15 years

Sources	Total
Permanent Loan	\$3,000,000
9% LIHTC	\$9,500,000
Federal Historic Tax Credits	\$4,300,000
State/City Soft Debt	\$2,500,000
Deferred Developer Fee	\$700,000
<b>Total Sources</b>	<b>\$20,000,000</b>
<b>Total Uses</b>	<b>\$26,000,000</b>
<b>Gap</b>	<b>(\$6,000,000)</b>

# Value Engineering

## Considerations

- What is value engineering?
- Exercise will not yield more than 10-15% of cost savings
- Reduction in cost will reduce federal historic tax credit equity (and 4% LIHTC equity)

## Assume

- \$2,500,000 reduction in cost

Sources	Before VE	After VE
Permanent Loan	\$3,000,000	\$3,000,000
9% LIHTC	\$9,500,000	\$9,500,000
Federal Historic Tax Credits	\$4,300,000	\$3,800,000
State/City Soft Debt	\$2,500,000	\$2,500,000
Deferred Developer Fee	\$700,000	\$700,000
<b>Total Sources</b>	<b>\$20,000,000</b>	<b>\$19,500,000</b>
<b>Total Uses</b>	<b>\$26,000,000</b>	<b>\$23,500,000</b>
<b>Gap</b>	<b>(\$6,000,000)</b>	<b>(\$4,000,000)</b>

# State LIHTC Program

## Considerations

- Usually a highly competitive resource
- Consider per unit or per project caps from allocation agency
- How strong will be tax credit pricing be?

## Assume

- Assume \$1,000,000 of state LIHTC annually for five years
- Pricing of \$0.80 per credit

Source	Total
Permanent Loan	\$3,000,000
9% LIHTC	\$9,500,000
Federal Historic Tax Credits	\$3,800,000
State LIHTC	\$4,000,000
State/City Soft Debt	\$2,500,000
Deferred Developer Fee	\$700,000
<b>Total Sources</b>	<b>\$23,500,000</b>
<b>Total Uses</b>	<b>\$23,500,000</b>
<b>Gap</b>	<b>\$0</b>

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**Appleton Mills**  
Lowell, MA  
130 units

**TRINITY**  
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Lowell, MA  
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**TRINITY**  
DEVELOPMENT & MANAGEMENT





**Appleton Mills**  
Lowell, MA  
130 units

**TRINITY**  
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**Van Brodie Mill**  
Lawrence, MA  
102 units

Van Brodie Mill



Broadway



**Van Brodie Mill**  
Lawrence, MA  
102 units



**Treadmark**  
Dorchester, MA  
83 units



**TRINITY**  
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**Treadmark**  
Dorchester, MA  
83 units



July 2017



**Treadmark**  
Dorchester, MA  
83 units

**October 2017**



**Treadmark**  
Dorchester, MA  
83 units

**March 2018**

Cranshaw Construction - Treadmark - Trinity Financial  
Camera 1 - March 30 2018 09:56:50



**Randolph Houses**  
Harlem, NY  
283 units

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**Randolph Houses**  
Harlem, NY  
283 units