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News, Ideas and Information for Tax Credit Developers and Investors

Issue Theme: Historic Rehabilitation

LIHTC Market Nervous After Financial Events; Some Equity Players Are Still Active

AFTER MAJOR HITS IN September to the U.S. financial markets, low-income housing tax credit (LIHTC) program participants are nervous about the potential impact on their industry going forward. With the industry already beset by a shortage of tax credit equity and lower credit prices that have left many developers with credit awards scrambling to find equity and close funding gaps, the latest financial tsunami portends possible further challenges ahead.

Meanwhile, however, syndicators and corporate investors interviewed

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Financing of Mixed-Income Multifamily Residential Developments

*By Kenneth G. Lore, Bingham McCutchen LLP**

DEVELOPERS OF TAX-EXEMPT, bond-financed, mixed-income residential rental developments typically receive significant benefits and face many challenges.

These benefits include a mortgage with a lower interest rate and longer term, potential incentives from local government, access to federal low-income housing tax credits, and strong cash flow that boosts the property's value. Challenges include finding a jurisdiction suitable for mixed-income development, obtaining other needed funds or subsidies,

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Housing Credit, Loans Fund Project for Retired Farm Workers

THE SOUTHERN CALIFORNIA desert city of Indio has seen its first new affordable housing development in more than a decade, thanks in part to the low-income housing tax credit.

The new project, called Horizons at Indio, was developed by Santa Ana, CA-based Urban Housing Communities LLC (UHC). Half of its 80 apartments are targeted to retired low-income farm workers, who spent their lives picking crops or working other agricultural jobs throughout the Coachella Valley.

The development's total cost of $18.7 million was financed by hous-

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ing tax credit equity, tax-exempt bond proceeds, a state-funded farm workers housing program loan, and other sources.

Opened in June 2008 and now 85% occupied, Horizons at Indio is restricted entirely for rental to seniors (55 or older) earning from 40% to 60% of area median income (AMI). Monthly rents range from $463 to $713 for the 47 one-bedroom apartments and from $553 to $852 for the 33 two-bedroom apartments.

Thirty one units are set aside for tenants earning no more than 40% percent of AMI ($18,640 for one person, $21,320 for two); eight units for tenants at or below 50% of AMI ($23,300 for one person, $26,650 for two); and 40 units for tenants at or below 60% of AMI ($27,960 for one person, $31,980 for two). One apartment is a manager's unit.

The remaining units are expected to be leased by the facility's grand opening event in October.

Chas Metivier for Urban Housing Communities

Horizons at Indio, Indio, California

Need for Housing

"Urban Housing Communities was attracted by Indio's need for affordable senior housing that was safe, clean, supportive, attractive, and well-located," UHC spokesperson Merilee Langdon told the *Tax Credit Advisor*. The company bills itself as a "mission driven for-profit" affordable housing development partner of Morgan Stanley that operates in California and Hawaii.

When Horizons at Indio opened, UHC's market studies identified the need for at least 172 units of affordable housing for retired, low-income farm workers at 60% of AMI, and 171 units for farm workers earning between 40% and 50% of AMI. It also forecast the number of households in the market area to increase by 4% this year and by 22% by 2012.

"The farm worker population needs affordable housing because the cost of housing in California is high in relation to their wages," Langdon said.

The city of Indio (pop. 80,000) is located in Riverside County, about 127 miles east of Los Angeles and 26 miles east of Palm Springs.

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Indio Mayor Lupe Ramos Watson said Horizons at Indio is not only the first new affordable housing development in the city in recent memory, but also the only such apartment complex with s pecial areas in the units that enable the senior residents to have their caretakers live with them.

Like other California cities, Indio faces a challenge in attracting and developing affordable housing for its residents, including the large farm worker population that makes up the region's labor pool, Watson noted. Farm workers maintain fields, harvest crops, pack and sort goods, and perform other tasks.

"To be able to provide a (housing) product that is affordable, is just a plus for the community," she said.

Amenities, Services

Affordability is just one reason why the new development is welcomed by seniors. The 7.78 acre property also includes a 2,100-square-foot community center, computer lab, swimming pool and spa, and 135 parking spaces.

Green design features include solar panels and a radiant barrier on the community room roof, specialized glass windows, carpeting, and Energy Star appliances.

Mark Irving, UHC director of land planning and entitlement, said the green features had minimal effective costs but should reduce the property's ongoing operating expenses.

The project's residents have access to a host of low- or no-cost services coordinated by Heritage Community Housing, Inc., UHC's nonprofit partner. These include quarterly health screenings, twice-weekly prescription deliveries, income tax and immigration services, GED and ESL courses, and employment counseling.

Funding Sources

The $18.7 million project utilized multiple funding sources.

A chief component was $4.9 million in equity generated by the syndication of low-income housing tax credits by Capmark. The credits were allocated by the California Tax Credit Allocation Committee.

In addition, the project has a $3.3 million permanent mortgage that was funded by the proceeds of tax-exempt bonds issued by the California Statewide Communities Development Authority.

Another key piece was a $3 million balloon loan (3%, 55 years) from the California Department of Housing and Community Development under its Joe Serna, Jr, Farmworker Housing Grant Program, said program manager Ben Dudek. He noted the Department can extend the loan for another 10 years, if necessary.

The program offers funding, through a competitive application process, which can be used to help finance owner-occupied or rental housing for agricultural workers. Eligible fund uses include land acquisition, site development, construction, rehabilitation, and design services.

The Indio Redevelopment Agency made a $3.2 million loan

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9/10/08 by the U.S. Office of the Comptroller of the Currency, designed to educate national banks about, and interest them in making, LIHTC investments.

Developer Experiences

Meanwhile, the stockpile of proposed LIHTC projects with credit awards seeking equity grows.

Boston Capital reported that, as of 9/1/08, states so far had awarded roughly 78% of their total per capita 2008 housing credits. Many of these deals are in the hunt for equity, as well as some struggling deals with 2007 and 2006 credit awards, and deals with forward commitments of 2009 credits.

LIHTC developers are having varied experiences and success in seeking equity. A few shared their stories with *TCA*.

Tom Capp, of Gorman & Company, Inc., Oregon, WI, said his firm has one group of deals it is working on, with awarded or approved credits, "where we have equity or are fairly confident in the equity." But he added he's also struggling in some instances, like a 4% partnership deal with a housing authority and a fair sized credit award, where his firm, for the first time in its history, hasn't been able to find an investor. "We're up against some deadlines, and we're stymied," said Capp.

Capp said his firm, which has primarily developed projects in the Midwest, and has seen credit pricing and deal terms change, has also altered how it picks future LIHTC projects. He said his firm isn't spending significant time or money on a potential new project unless it has a specific equity investor lined up or likely, is only putting in tax credit applications for projects virtually assured of an investor, and is focusing more on types and locations of projects that are most appealing to investors, such as 9% new construction projects located in strong growth markets, such as the Phoenix area, "where we are getting a positive reaction from multiple investors."

Capp noted his firm, when unable to interest traditional equity investors, is also pursuing potential new sources. For example, he said his firm is now working out agreements with some regional banks.

Developer Mike Seltz, of Volunteers of America, Alexandria, VA, said VoA is "scrambling" to find equity in some cases as a result of today's changed market conditions. For instance, he said VoA has one tax credit deal that was scheduled to close in October where the equity investor has backed out. He noted VoA is also nervous about some additional deals with scheduled closings further out. "In some cases the deals have to be postponed until you have an answer," he said.

Michigan developer Rod Lockwood, Jr., of the Lockwood Companies, Bingham Farms, MI, said he's now on the sidelines as far as new LIHTC projects go, due to the poor Michigan economy and sharply lower credit pricing that make it "very difficult to make deals pencil."

Lockwood said his last LIHTC project was a 40-unit new construction senior project that closed about three to four months ago after a delay, where the syndicator renegotiated the deal to a lower price and after one of the syndicator's two investors – both banks – pulled out of the tax credit market entirely. Fortunately, Lockwood noted, the remaining bank filled the equity gap.

For the time being, Lockwood said he's focusing on managing his existing properties. "We're pretty much concentrating on operations," he said, "trying to keep our occupancy up, keep our rents where they need to be, and collect our rental money." ■

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to the project from its Low and Moderate Income Housing Fund, and the Riverside County Economic Development Agency made a $1.4 million loan capitalized by federal HOME Investment Partnership Program dollars. Each of the loans is at 1% for 55 years.

Finally, the project received $316,000 from the Federal Home Loan Bank of San Francisco through its Affordable Housing Program.

Dave Bigley, UHC chief financial officer, said that the project was originally going to receive California state housing tax credits, but that an issue arose in the courts about whether state tax credits trigger payment of prevailing wages. As a result, UHC removed the state tax credits from the project and made up the substantial funding gap through a "deferral of developer fees and an additional non-tax credit equity contribution," Bigley said. ■

– Stephen K. Cooper