



TaxCreditAdvisor News, Ideas and Information for Tax Credit Developers and Investors

Issue Theme: LIHTC Market Studies

Witnesses Recommend Specific Changes to LIHTC, Bond, Historic Credit Programs at Congressional Hearing

A HOUSE WAYS AND MEANS Committee subcommittee on 5/24/07 held a hearing at which witnesses suggested numerous legislative changes to improve the federal low-income housing tax credit (LIHTC), tax-exempt multifamily housing bond, and historic rehabilitation tax credit programs.

The Select Revenue Measures Subcommittee, chaired by Rep. Richard Neal (D-MA), took testimony from witnesses representing

*Legislation,
continued on page 25*

Affordable Homes in Los Angeles County Being Developed Using New Markets Tax Credit

A NONPROFIT SPONSOR IS DEVELOPING affordable for-sale homes in Southern California for mostly low- to moderate-income buyers using the new markets tax credit in a leveraged structure.

The sponsor, Heritage Housing Partners (HHP), will be developing multiple homeownership projects – first in Pasadena and later in Glendale – in a complex deal crafted to ensure that the tax credit investor's capital will remain invested for the full NMTC seven-year recapture period.

*Pasadena,
continued on page 19*

CASE STUDY

LIHTC Helps Produce Supportive Community for Foster Child Families, Seniors in Massachusetts

ADOPTING A FOSTER daughter was just the beginning for Judy Cockerton, chief executive of the nonprofit Treehouse Foundation in Easthampton, MA. The former toy storeowner soon realized that families need help from an entire community to make adoptions work.

That inspiration sparked Treehouse at Easthampton Meadow, a \$16 million, 60-unit affordable housing development – assisted by low-income housing tax credits

*Case Study,
continued on page 22*

Inside This Issue

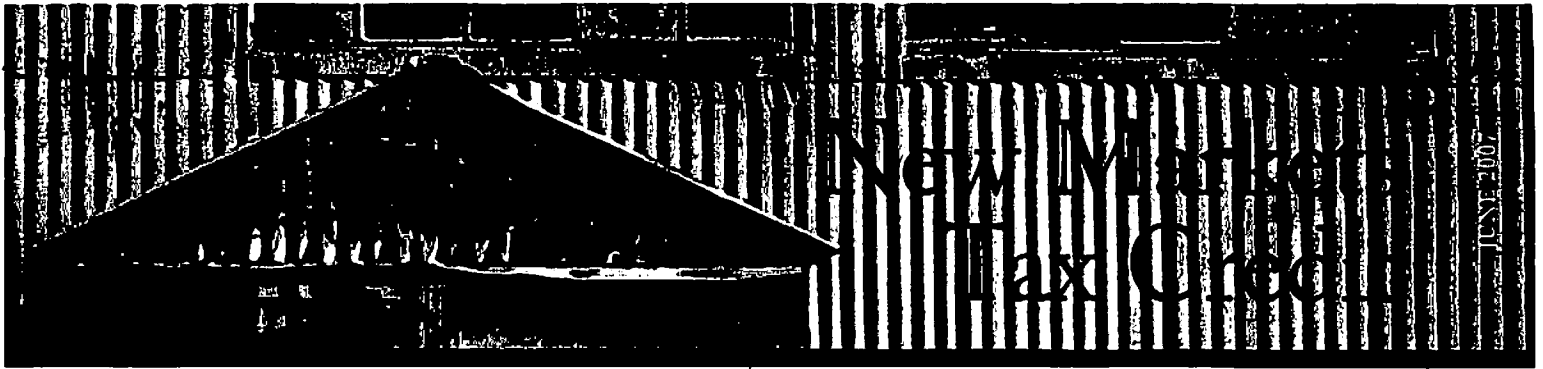
Low-Income Housing Tax Credit.....	3
LIHTC Market Studies	12
Historic Rehabilitation	17
New Markets Tax Credit.....	19
Washington and State Update.....	21

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Pasadena,

continued from page 1

The transaction was described in recent interviews with the *Tax Credit Advisor* by: developer Charles Loveman, executive director of Pasadena-based Heritage Housing Partners; Douglas Bystry, President and CEO of Clearinghouse CDFI, Lake Forest, CA; and Los Angeles attorney Michael A. Williamson, a shareholder in the law firm of Buchalter Nemer. Clearinghouse CDFI is the community development entity (CDE) that is funding the project using part of one of its allocations of NMTC investment authority. Williamson helped structure the deal.

First Use of NMTC

Loveman said the new project marks the first time HHP has used the new markets tax credit. "We needed the money," he explained as the reason for tapping the NMTC. He noted rising construction costs occurring after the financing pieces were lined up forced a choice between reducing the affordability of the homes produced or finding an extra funding source.

Loveman chose the latter, which led to the NMTC. "I knew that new markets was, at least in theory, available to fund for-sale housing," he said. "So the trick was to figure out how to make it work."

In the first phase, HHP is developing 44 for-sale housing units – structured as condominiums – in the city of Pasadena (2005 est. pop. 146,000) on three different sites. Two, on Cypress and Carlton Avenues, will include two new and two rehabilitated units sold to moderate-income buyers. Two have already been finished and sold; the other two should be sold by July.

The third site, along Fair Oaks Avenue, will contain 40 units – 31 new and nine rehabilitated – in a development called Fair Oaks Court. Loveman reported these units are "well under construction" and should be completed by January 2008.

Reinvestment Risk Issue

Loveman, Bystry, and Williamson said key to

doing the deal as an NMTC project – it took over a year to put it together – was finding an investor. To do this, they noted, the transaction had to be structured in a way to eliminate the recapture or reinvestment risk for an investor.

Under the NMTC program, capital invested by an investor must remain deployed in eligible NMTC investments (e.g., projects) for seven years, at which time all or some of the investor's original capital may be returned. If its capital is returned sooner, an investor can suffer recapture of NMTCs already claimed and be denied further credits.

While keeping an investment out seven years generally isn't a problem with most types of NMTC projects (e.g., commercial, industrial), it can be a challenge for homeownership projects. "You can build and sell a house in a much shorter time period than seven years," said Bystry. "Therein lies the problem."

Williamson said "investors are focused on the reinvestment risk." He noted in many NMTC deals his firm works on, investors "like to be able to make the investment and expect it'll be out for seven years in one project."

To eliminate recapture risk in the transaction, the Pasadena project will be the first of multiple NMTC-assisted homeownership projects developed by HHP. Once all the Pasadena homes are completed and sold, the net proceeds will be rolled into a subsequent, second NMTC homeownership project in the nearby city of Glendale expected to total about 55 units. Loveman said there may also be a third, later project, depending on whether another is needed to stretch out the NMTC investment to seven years.

Multiple Funding Sources

With the reinvestment risk mitigated, Bystry persuaded Commercial Capital Bank (since acquired by Washington Mutual) to be the NMTC investor. Bystry said the bank invested about \$6 million in tax credit equity.

In addition to the tax credit equity, other funding

Pasadena,

continued on page 20

Pasadena,
continued from page 19

came in the form of separate loans from the cities of Pasadena and Glendale. All of these funds have been combined and run through an investment fund using a leveraged structure, maximizing the amount of NMTCs generated for the investor, and stretching the benefit of the two cities' loan and subsidy dollars.

Bystry said since the investor will get most of its total investment return from tax credits, it will be receiving a smaller return of capital after seven years – just about \$930,000. He said this has enabled the Pasadena project to achieve “fantastic levels of affordability.”

Sales Prices, Buyers

Loveman said 36 of the 40 homes at Fair Oaks Court will be sold to low- and moderate-income first-time home buyers, and four homes to “workforce” or market-rate buyers. Low-income is 50%-80% of county median income; moderate-income, 80%-120%. Median family income in Los Angeles County for a four-person household is \$56,500.

Home sales prices will vary by the size of the units – the homes range from one to five bedrooms – and the income of the purchaser. Loveman said the average sales price will be about \$100,000 for low-income buyers and about \$250,000 for moderate-income buyers.

Loveman said HPP develops

for-sale housing exclusively, mostly in the northwest section of Pasadena, primarily for moderate-income households. He noted these households “typically make too much money to benefit from any of the various housing programs oriented toward rental households, but they are priced out of the [home-ownership] market.” He said the median home sales price in Los Angeles County exceeds \$500,000.

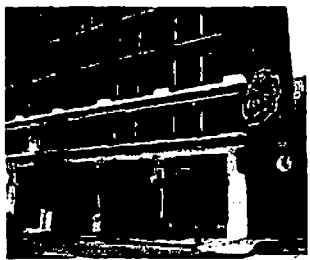


To assist the low- and moderate-income buyers in purchasing the units, HHP has lined up, for those who want it, 30-year first mortgages at a fixed rate of 5.625%, available from the California Housing Finance Agency through three participating lenders.

In addition, to subsidize the cost of these homes, HHP will originate three “silent,” 45-year junior mortgages for each low- and moderate-income unit. Loveman said the junior mortgages will total, on average, about \$230,000 for each low-income buyer and about \$170,000 for each moderate-income buyer. He noted the sum of the first and junior mortgages – the “fully liened value” – will still be below the roughly \$500,000 average market value of the homes.

Loveman said resale restrictions will be attached to the low- and moderate-income units, designed to discourage “flipping” by buyers and to ensure the long-term affordability of the homes.

According to Loveman, HHP has received more than 250 applications from prospective buyers for the 36 low- and moderate-income homes at Fair Oaks Court, after initial inquiries from 600 house-

Pasadena,
continued on page 28

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GENERAL CONTRACTOR	CONSTRUCTION MANAGER	DESIGN-BUILD

State Historic,*continued from page 17***Maryland Historic Credit Changes Enacted***Maryland Gov. Martin*

O'Malley (D) on 5/17/07 signed into law two bills (S.B. 613/H.B. 598) to extend and revise the state's Heritage Structure Rehabilitation Tax Credit program, which provides a 20% state income tax credit against qualified rehabilitation costs for historic commercial buildings and owner-occupied homes.

The new laws continue the program through FY 2010; require the governor's annual budget to earmark funds for tax credits for commercial projects; require credits awards to favor project in localities that have been historically underrepresented in credit awards in the past; lengthens from 24 to 30 months the deadline for completion of a commercial project after getting an initial credit certificate award; and repeal a previous requirement that at least 10% of all commercial credits be awarded to nonprofit organizations. ■

Monthly LIHTC, AFR Rates

The most recent monthly low-income housing tax credit rates and Applicable Federal Rates may be found online at

<http://www.housingonline.com>

Implementation,*continued from page 18*

sands of windows and tall buildings where most windows are viewed at a distance.

A fifth working paper deals with the reevaluation and revision of NPS policy on functionally related complexes (e.g., military bases, hospitals, educational campuses).

The remaining two papers address areas for further education and guidance for SHPOs and program users, and on training programs including conferences and other means. ■

Pasadena,*continued from page 20*

holds. The ultimate buyers will be selected by HHP in consultation with the city of Pasadena.

Glendale Project

Loveman said the money loaned by the city of Glendale has already been used to purchase a portion of the site for the Glendale NMTC homeownership project, which he anticipated will break ground in March or April 2008.

He said 37 of the 55 units will be sold to moderate-income buyers, and 18 to market-rate buyers. ■

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