

# Novogradac Journal of Tax Credits

News, Analysis and Commentary On Affordable Housing, Community Development and Renewable Energy Tax Credits

August 2010, Volume I, Issue VIII

Published by Novogradac & Company LLP

## State of the State Credit: Experts Reveal Market Trends

**By Jennifer Dockery, Staff Writer, Novogradac & Company LLP**

In a time of tight credit markets and high construction costs, state tax credit programs can provide the final piece of a project's financing puzzle. More than a dozen states have low-income housing tax credit (LIHTC) programs and more than 30 have historic tax credit (HTC) programs. Although it is impossible to provide average credit prices for the varied programs, industry experts have seen a few trends nationwide.

### **Reduce Risk, Increase Interest**

"I've seen very good investor interest. The market is pretty stable and we're expecting to do more state credit projects," said Caleb Roope, The Pacific Companies' president and chief executive officer. Roope, whose company develops properties using California LIHTCs, recently had six offers to invest in a five-property fund.

In the rest of the country, credit programs with shorter credit periods and less recapture risk continue to attract the most equity. Demand has remained strong for Virginia's one-year HTCs, while interest in Georgia's 10-year LIHTC has decreased. Companies are planning for one-year rather than five- or 10-year credit periods, says Chuck Newcomer, vice president of acquisitions and underwriting for Community Affordable Housing Equity Corporation (CAHEC), which decreased investor interest in the multiyear credits. To increase the attractiveness of multiyear credit programs, syndicators are breaking off a single year's credits and offering investors that portion.

Chris Hite, acquisitions director and counsel for state tax credit syndicator Sugar Creek Realty LLC, says that this has

allowed him to place more of Georgia's LIHTCs with investors at a time when interest in 10-year credits has waned.

Another attractive feature of the one-year credits is that investors do not have to worry about the project's long-term viability. Newcomer says this results in a shorter partnership and reduces recapture risk. "We've seen people having a lot harder time placing [long-term credits] in the last couple years," he says.

Lenny Jurden, managing director of state HTC and LIHTC syndicator Cohen-Esrey Tax Credit Advisors LLC, agrees that credits with less risk attract more investors. "A state credit that is subject to recapture and that requires an investor to be a partner in a partnership for a period of years makes a state credit less desirable," he says.

### **Multifamily and Museums**

Sources say that the state LIHTC and HTC markets should improve when the capital markets improve. Lack of conventional debt for multifamily development has increased the need for state tax credit equity. Jurden said that he has seen more owners of multifamily properties apply for state HTCs in the last two years.

"There is more activity in the multifamily market because of the availability of nonbank loans, but from our perspective, most of that development is rehabilitation of existing projects," Jurden says. He adds that foreclosed properties available for rent have reduced demand for new multifamily properties.

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Commercial HTC projects have all but stopped, according to Jurden. The recession has reduced demand for commercial real estate in general, so it is harder to fill funding gaps. Newcomer says that he, too, has seen a shift away from projects that rely on the commercial real estate market. Most HTC projects he has seen lately have been special use projects, such as museums.

### Under Fire

“What investors and [syndicators] are concerned about now is what the states are doing with the credits. State budgets are being impacted by the lower tax revenues, and the legislatures are generally viewing tax credits as a cost that can be saved. If the credits are at risk, then investors can be reluctant to commit resources to an investment that may change,” Jurden says.

State legislatures have threatened to terminate tax credit programs as they struggle to cut spending. Missouri’s HTC and LIHTC programs weathered opposition this spring, as did Oklahoma’s HTC program. At press time, historic preservation and affordable housing activists in New York were fighting a fiscal year 2010 budget bill that threatened to delay redemption of HTCs and LIHTCs for three years. Experts were concerned about legislatures’ efforts to reduce or limit credit programs, because the challenges increase the perceived investment risk, driving away investors.

“Any time there is not certainty in the ability to deliver a clean credit it is going to impact business and drive it away from that state,” says Thomas Adamek, Stonehenge Capital Company’s president.

Sugar Creek’s Hite agrees that state budget scenarios are creating uncertainty for investors, but says that interest in state LIHTCs remains strong.

### A Return to Normal

Although syndicators have seen renewed interest in state tax credits, they anticipate challenges in the years ahead. Adamek expects states to continue their existing tax credit programs and Jurden says that state legislatures will have the greatest effect on investor interest in 2010 and 2011.

Hite says that it will take most states a couple of years to resolve their budget issues and after that the state tax credit markets will stabilize. “In some respects the state tax credit market will be clearer after states get through fiscal year 2012,” Hite says.

Newcomer agrees. “Change is coming where you’ll get a nice balance between supply and demand,” he says. ♦

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ISSN 2152-646X

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