

LIHTC MONTHLY REPORT

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Louisiana Recovery: GO Zone Proposed Units at Risk of Losing Funding

By Anne Townsend, Staff Writer, Novogradac & Company LLP

Nearly 65 percent of most proposed multi-family housing units receiving Gulf Opportunity Zone (GO Zone) tax credit allocations are at risk of losing funding due to the increase in insurance and construction costs, according to the Louisiana Housing Finance Authority (LHFA).

During 2006, LHFA and the Louisiana Office of Community Development (OCD) allocated approximately \$186 million in 2006, 2007 and 2008 GO Zone low-income housing tax credits (LIHTCs) while layering onto such transactions nearly \$417 million in community development block grant (CDBG) funds. Current law requires projects receiving 2007 and 2008 GO Zone tax credits underwritten with a 30 percent increase in qualified basis, and which are located outside of the designated qualified census tract to be placed in service on or before December 31, 2008. However, the cost to insure single-family and multifamily developments has sky-rocketed, anywhere from 1.5 to 2 times the pre-hurricane rate. This, paired with rising construction costs, has left many multifamily development projects at a stand still.

"Louisiana desperately needs Congress to extend the GO Zone placed-in-service dates until 2009 and 2010," said Milton Bailey, president of LHFA, in a recent letter to the press. "This will allow us to overcome the insurance cost issues, provide developers with the opportunity to construct their projects cost-effectively and allow a greater number of families and individuals to return home."

Insurance

Single-family homeowners in Louisiana are already receiving help from LHFA to offset the price of insurance, and lawmakers are hopeful they can create a similar program for multifamily developers. To help reduce the increased cost of single-family homeowner

insurance, a portion of the interest on mortgage loans financed with the LHFA's single-family mortgage bonds issued during 2006 was allocated directly back to low-income borrower's insurance escrow account as an insurance premium increase offset. The Insurance Premium Offset (IPO) program deposits up to \$165 per month into a low-income borrower's escrow account to help take the sting out of higher insurance premiums while simultaneously providing 30-year fixed rate interest at 4.5 percent.

Bailey says he is hopeful the LHFA and other groups can work together to similarly counterbalance the rising costs to multifamily developers. This sentiment brought together financiers, developers, lawyers and other industry professionals at a special February 2 meeting of LHFA to seek insight on the obstacles facing multi-family developments.

According to a February 3 article in *The Times Picayune*, the four-hour meeting brought to light a series of obstacles facing the industry, including "insurance woes and concerns about the spiraling construction costs, theft, labor shortages, rising utility rates, taxes, future rents and the looming deadlines for the projects that conspire to make projects financially unfeasible."

David Kapiloff of the Business Insurance Group in Houston, Texas, agrees that developers in the GO Zone are facing a series of challenges, and says that the lack of storm activity in the Gulf Coast confused the marketplace last year but that the state of the market should become clearer by late spring, which should settle some of the woes.

"When you have new capacity and when you have new money at work, hopefully for the multifamily developer, it creates competition for clients for insurers.

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And when you have competition you have price variations," Kapiloff said. "What is going on right now is a positioning process in which insurance companies want to extend more capacity to the multifamily developers — i.e. what they can afford and which ones want to stay in the same zone they were in last year with the same terms, deductibles, et cetera, versus the potential of the new guys finding more attractive terms and conditions to the benefit of the insured."

Tax Credits

LHFA is urging Congress to extend the December 31, 2007 placed-in-service deadline to December 31, 2008 and the December 31, 2008 deadline to December 31, 2010. Bailey explained the serious hurdles facing multifamily developers in the GO Zone, and how an extension would provide Louisiana with enough time to iron things out.

"Under normal circumstances it takes 18 to 24 months to build affordable housing. Eighteen months for a simple 1 to 2 unit development, 24 months for a more complex development," Bailey said. "When you think in terms of insurance issues, the vast number of construction service and supply workers having been displaced and when you think what is it going to take to clear the sites and build something — it's those incidental yet clearly important elements of the project that also impinge upon our ability to meet these service dates. This is not to suggest that a tremendous amount of work has not been done."

Louisiana also receives approximately \$8.6 million of per capita in LIHTCs each year to satisfy the housing needs of the state. The hurricanes, however, displaced tens of thousands in the GO Zone and distorted the supply and demand balance for affordable housing throughout the state. Because the GO Zone tax credits can be used only in difficult development areas (DDAs) within the GO Zone, Louisiana officials see an immediate need for additional per capita LIHTCs to fund the housing needs of those displaced and now living and working in other regions of the state. Louisiana is also asking Congress to increase its per capita LIHTC allocation to \$17.2 million annually for the next five years.

Lawmakers' Response

In late January, the U.S. Senate Homeland Security and Governmental Affairs Committee met in New Orleans' French Quarter to discuss Louisiana's recovery efforts. According to a January 30 article in the *New York Times*, Sens. Barack Obama, D-Ill., Mary L. Landrieu, D-La., and Joseph Lieberman, I-Conn., had their say about the slow pace of reconstruction, while criticizing officials on the federal and state level for regulations that have slowed the pace at which government assistance has reached the public.

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LIHTC INFORMATION

Novogradac & Company LLP
246 First Street, 5th Floor
San Francisco, CA 94105
E-mail: cpas@novoco.com

Address all correspondence and editorial submissions to:
Jane Bowar Zastrow
Telephone: 415.356.8034

Address inquiries regarding advertising opportunities to:
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Then, on February 6, the House Financial Services Committee held its first hearing on the federal housing response to Hurricane Katrina. Four panels of witnesses, including lawmakers, professors, business leaders and housing advocates, testified during the nine-hour hearing. In his opening statement, Barney Frank (D-Mass.), committee chair, noted that there has been a “shocking neglect” for the need for rental housing in the Gulf Coast and a “complete failure to respond to the rental housing crisis” created by the hurricanes.

“The federal government, which bore the responsibility for responding to the crisis and continues to bear the responsibility for dealing with the remaining needs from the storm, failed completely to live up to that responsibility and its own promises. I think it would be entirely appropriate for the federal government to apologize to the people of Katrina,” Frank said. He said that the members of the committee would listen carefully to recommended solutions during the hearing because they plan to introduce comprehensive legislation with the Homeland Security Committee that would address remaining needs by March.

Later in the day, several other witnesses urged Congress to extend the placed-in-service date for the GO Zone credits. After a short recess for votes, Frank returned to say that witnesses should no longer mention the need to extend the placed-in-service date. “I’ve just spoken with Charlie Rangel [Chairman of the House Ways and Means Committee], and we both agree this will get done. I don’t see why anyone would oppose the extension. It will happen.” (For more on the hearing, please see page 24.) ❖

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