NOVOGRADAC TAX CREDIT TUESDAY PODCAST

Summary: July 14, 2020

In this week's Tax Credit Tuesday podcast, Michael J. Novogradac, CPA discusses a proposal from presumptive Democratic nominee Joe Biden and Sen. Bernie Sanders to make significant investments in affordable housing, renewable energy and community development, which includes a recommendation to expand and make permanent the new markets tax credit. Then he shares highlights from the Novogradac Affordable Housing Friday Forum and panelists' discussion of debt and equity trends during the pandemic and the future of affordable housing in California. Next, he talks about nearly $76 billion in funding for fiscal year 2021 approved by the House Transportation-HUD Committee. He wraps up with updates on the extension and expansion of state historic tax credits in Mississippi and Delaware.

Summaries of each topic:

GENERAL NEWS

Biden-Sanders Unity Task Force

Former vice president Joe Biden and Sen. Bernie Sanders formed a task force after Sanders suspended his presidential campaign. The Biden-Sanders task force last week jointly released a set of policy recommendations. The policy blueprint outlines priorities of a Biden administration, assuming Biden wins the presidential election in November.

The policy outline addresses topics from economic recovery to universal health care. There are also key affordable housing, community development and renewable energy sections that are of particular relevance to our listeners.

For one, the framework calls for expanding and making permanent the new markets tax credit. As you likely know, the new markets tax credit is scheduled to expire at the end of this year, so the clock is ticking for an extension. The Biden-Sanders task force also calls for doubling funding for community development financial institutions, or CDFIs.

On the affordable housing front, the task force recommends fully funding Section 8 vouchers, expanding investment in the National Housing Trust Fund and investing in rehabilitating public housing, among many proposals

The task force also calls for robust investment in renewable energy.

As the election draws nearer, I'll continue to share policy priorities from the candidates, as they relate to affordable housing, community development, historic preservation and renewable energy.

I should note that before these task force recommendations were released, Biden's campaign had already made a commitment to expand the low-income housing tax credit by at least $10 billion, this among other housing policy commitments.
In the meantime, you can find the Biden-Sanders policies document on the Novogradac website. I'll also tweet the link.

Affordable Housing Friday Forum

This past Friday Novogradac hosted the second of three affordable housing Friday Forums. Our third Friday Forum is this Friday.

These forums are a series of virtual events, with each forum focusing on a different topic that affects low-income housing tax credit financing, development and compliance. The first Friday Forum was on June 23 and focused on the outlook of low-income housing tax credit legislation this year and potentially next year. We also featured a panel of HUD multifamily officials describing the COVID-19 response and plans for future guidance.

Last Friday's forum provided an update on low-income housing tax credit equity and debt markets. Particularly how each is being affected by the COVID-19 pandemic.

During our equity session of the forum, our panelists discussed how their initial expectations for the equity market in 2020 compare to what they're seeing now. Across the board, our syndicator panelists went into 2020 optimistic that this would be a largely positive year for low-income housing tax credit investment. Some investors continue to "lean in" to the low-income housing tax credit because the tax credit is still considered a stable and profitable asset class.

However, COVID-19 has had an impact.

Some of the larger banks investing directly in low-income housing tax credit developments are holding off on new investments for now. COVID-19 plays in, but also one of the reasons is that many bank investors are waiting to see what happens with the Office of the Comptroller of the Currency's new final rule on the Community Reinvestment Act or CRA regulations.

The CRA has historically been a significant incentive for banks to invest in low-income housing tax credits and other tax incentives. Recent changes to the CRA regulations de-emphasize these types of equity investments. And as a consequence, many bank investors are waiting to see what happens with the presidential election. The expectation is that if there is a change in administration, the OCC's final rule would likely be revoked.

Bank investors are not the only ones pulling back a bit on low-income housing tax credit investments. Many economic investors, such as life insurance companies, are also taking a pause.

Insurance companies have generally seen a decrease in premiums since the pandemic. Insurance companies' with fewer premiums have decreased tax liability, which generally means diminished demand for tax credits.

Another factor affecting the slowdown in investor demand is the availability of human capital. Meaning, a reduced capacity to process and manage new investments among many investors.

Panelists mentioned that many banks have been processing Paycheck Protection Program loans as part of pandemic relief. As of last Thursday, July 9, nearly 5,500 lenders have processed nearly 4.9 million PPP loans. Panelists say this participation in PPP lending has further put a strain on human capital and banks' capacities.

The silver lining is that although there is a general pause or weakening in the equity market, panelists have not observed any investors leaving the market completely. Some investors have reached their capacity for 2020 and are asking syndicators about potential investments in 2021.

So, what kinds of transactions are being funded right now? Or what types of funds are investors investing in?

Panelists said most of the deals at the property level currently flowing are ones being funded through multi-investor funds. What that means for developers is more volatile pricing. For example, a transaction that could have otherwise fetched $1.03 per credit in a direct investment from a bank that had high CRA needs, might now end up in a syndicated channel where the price per credit could be about 92 cents, an 11-cent drop. Panelists said pricing typically ranges from 82 cents to $1.02 per credit.

That's a pretty wide range but transactions that command a dollar or more per credit are much rarer than they were last year. Nine percent low-income housing tax credit transactions tend to have a tighter pricing range with a majority falling in the high 80 cent range. Four percent transactions tend to be in the mid-80s cents per credit, but have a wider range from the low 80s to low 90s.

For our listeners who are housing sponsors, you're probably wondering what kinds of transactions are commanding the best prices right now. Panelists said that more and more, demand for equity investments is tied to lending opportunities. Also, location is still a top factor.

Community Reinvestment Act considerations, deal types and underwriting terms are other major factors that affect pricing. Panelists observed that the size of a transaction can play a significant role in funding availability.

Many transactions are being funded in the $5 million to $15 million range by multi-investor funds in certain high-cost markets, especially on the coasts. If you're looking for $25 million to $75 million or more for a single development, panelists say to keep in mind that those transactions will likely be too big for syndicated deals. And there are only so many propriety fund placements that will handle a transaction of that size. What that means for larger developments is that credit pricing will often be lower than average and you may have to bring in multiple investors.

Another topic discussed was how COVID has affected underwriting. If you're a sponsor or a syndicator, investors want to know how you, as a sponsor or syndicator, are going to make sure that everything goes according to schedule during the pandemic and that you're prepared for potential delays. Do you have a plan for delays? Do you have a built-in time cushion for your placed-in-service date? If not, you should.

Investors also, according to panelists, want to know that sponsors have a COVID-19 safety plan and that the general contractor and property manager are on the same page when it comes to health and safety precautions. There are particular concerns about keeping vulnerable populations, such as seniors, safe during acquisition-rehab developments.

So that's a recap of our equity panel discussion.

The Friday Forum also had a separate panel to discuss debt market trends.
Our debt panelists say that while COVID considerations continue to be a top concern, borrowing rates still favor borrowers.

Our panelists report rates from the low 3 percent range to breaching the 4 percent threshold. For immediate funding transactions, rates are at about 3 to 3.25 percent for a standard 16-

17 year loan for agencies. Freddie Mac adds about 35 to 50 basis points for borrowers on top of that. And Fannie Mae is closer to the immediate funding deals or slightly lower.

On the Federal Housing Administration side, pricing sits in the mid-to-high 2 percent range for 223f loans. You can add about 50 basis points for new construction loans. The standard 10-year loan, depending on the size and credit worthiness, are usually priced in the mid-to-high 2 percent range.

If you have any questions about debt and equity options for your low-income housing transaction, I encourage contact a Novogradac office to see how we can be of assistance.

In addition to our debt and equity panels, we offered a bonus session on the future of affordable housing in California. My partner Thomas Stagg moderated that discussion, and that discussion was with Tia Boatman Patterson, who is the executive director of the California Housing Finance Agency, or CalHFA, and Judith Blackwell who is the executive director for both the California Tax Credit Allocation Committee and the California Debt Limit Allocation Committee.

The panelists discussed how year to date, California has already financed more new construction housing units than they did in the entirety of 2019. Panelists attributed that activity to the availability of soft funding from CalHFA, such as the moderate income program commonly referred to as MIP, and to the additional $500 million in additional state low-income housing tax credits that were authorized beginning this year. $200 million of that total was set aside for the mixed income program, which is administered by CalHFA.

Another bit of good news from the panel is that there have been zero CalHFA loans in forbearance, despite the COVID-19 pandemic. Tia Boatman Patterson attributes that fact to the quality of CalHFA's development partners and strong underwriting requirements.

Judith Blackwell also shared a recent update from the Tax Credit Allocation Committee. She said that for the $980 million in federal disaster tax credits available in California, demand exceeded supply by nearly 2.5 times. Applications for the disaster tax credits were due July 1, and the Tax Credit Allocation Committee is in the process of reviewing those applications.

Speaking of applications, executive director Blackwell said she anticipates bond applications will be highly competitive in both the final funding round of this year and in 2021.
As always, Novogradac is available to assist you with reviewing and preparing your application, so if you're applying for bond allocation, please contact Novogradac.

As I mentioned earlier, the next Affordable Housing Friday Forum is this Friday, July 17. Low-income housing tax credit development sponsors, owners and property managers will be particularly interested in the upcoming forum. Discussion topics include COVID-19 LIHTC compliance issues and underwriting issues for multifamily properties during COVID-19.

I invite you to register for this week's Friday Forum today. I'll include a registration link in today's show notes and I'll tweet out the link as well.

OTHER NEWS

Next, I have some good news for the affordable housing community. The House Subcommittee on Transportation and HUD last Wednesday approved a fiscal year 2021 spending bill that includes a one-time special investment of $49 billion for HUD programs, on top of regular HUD appropriations.

The additional $49 billion essentially doubles the HUD budget for fiscal year 2021. This happened in the House, and the additional $49 billion is very unlikely to be adopted by the Senate. The additional amount represents key HUD priorities for the House Transportation-HUD Appropriations Subcommittee Democrats.

You can read a summary of the spending bill on the Notes from Novogradac blog. I'll include a link to the blog post in today's show notes.

Now, I have two exciting updates on state-level historic tax credits. First up, Mississippi.

Last week on Tuesday, Mississippi Gov. Tate Reeves signed H.B. 1729 into law. This legislation extends the state historic tax credit from the sunset date of 2020 to 2030 and expands the aggregate credit cap to $180 million. For those of you interested in the Mississippi historic tax credit, the bill makes a couple of changes you should note.

One change is that the bill allows a taxpayer the option to choose a rebate of 75 percent of the credit in lieu of a 10-year carryforward. The second change to note is that there is a priority for taxpayers who were issued a certificate of eligibility for the state historic tax credit before July 1, 2020, but did not receive the credit due to the aggregate tax credit cap.

The other state-level update is from Delaware.

The Delaware state budget that was signed into law provides a one-year extension to fund the state historic tax credit through 2026. The state budget funds the Delaware historic tax credit at $8 million annually from 2021 through 2026.

I'll include a link to the Mississippi and Delaware legislation in today's show notes. If you have questions about applying for the Mississippi or Delaware state historic tax credits or state tax credits in other areas, please reach out to a Novogradac office near you.

Also, the September issue of the Novogradac Journal of Tax Credits will focus on state and federal historic tax credits. Make sure you're subscribed to the Journal to get access to these articles. I'll include a link to subscribe to the Journal in today's show notes.

Related Resources

Biden-Sanders Task Force

Biden-Sander Unity Task Force Recommendations

Affordable Housing Friday Forums

Affordable Housing Friday Forum, July 17

THUD Appropriations

Press Release: Appropriations Committee Releases Fiscal Year 2021 Transportation-Housing and Urban Development Funding Bill

Notes from Novogradac: House Appropriations THUD Subcommittee Approves $61 Billion FY 2021 HUD Spending Bill with Additional $49 Billion in One-Time Investments

Mississippi State Historic Tax Credit

H.B. 1729

Delaware State Historic Tax Credit

S.B. 242

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