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Affordable Housing Industry Gears Up for Active Year 15 LIHTC Market

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The late 1990s and early 2000s saw a significant increase in affordable rental housing development. Combine that with the fact that the low-income housing tax credit (LIHTC) is nearing its 30th birthday and the industry is seeing many LIHTC properties reach Year 15–the end of the mandatory compliance period.

At Year 15, two things can happen:

- The properties can be resyndicated and/or preserved as affordable housing, or
- they can be converted to market-rate housing (with the qualified contract process).

"In the early- to mid-2000s, there were a lot of 9 percent and 4 percent [LIHTC] developments being built. There was a big building boom," said Phil Melton, executive vice president and director of affordable housing at Bellwether Enterprise. "There was a tremendous amount of growth in the larger markets."

Milt Pratt, senior vice president of The Michaels Development Company, one of the largest affordable housing owners and developers in the country, said that since the end of 2013-14, the number of Year 15 properties has increased dramatically.

That can mean a variety of outcomes. Boston Capital is seeing roughly one-third of its affordable housing developments resyndicated and preserved as affordable housing while Vihar Sheth, head of the LIHTC business development team at U.S. Bank, is seeing a 50-50 split between developments being resyndicated and those being converted to market-rate housing. Nicki Cometa, chief financial officer at Affirmed Housing Group (AHG), said that of the last four of AHG's developments to reach Year 15, two were resyndicated and two were sold. Over the next three years, AHG will have three additional properties reach the end of their 15-year compliance period. AHG is a housing developer with a portfolio of 2,284 housing units with another 250-plus units coming online this year, said Cometa.

To better understand how this affects the marketplace, industry experts point to a growing market for acq/rehab developments and an increased demand for 4 percent and 9 percent tax credits. They also give advice about what to look for approaching Year 15.

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A Growing Acq/Rehab Marketplace

"There is a really vibrant market for Year 15 properties now," said Katie Alitz, head of dispositions and special assets at Boston Capital, an active syndicator in the market since the inception of the LIHTC program.

Dominium, a housing developer looking to double in size by 2025, found there is an active market for acquiring LIHTC developments after Year 15. "We continue to develop new construction, but most of our growth comes from acquisition and resyndication," said Chris Barnes, vice president and partner at Dominium. The company has 25,000 housing units in its portfolio, 95 percent of which Barnes says is affordable housing. Barnes says there are many acq/rehab opportunities because "a lot of players in this space are single businesses. It's a 'mom and pop' business. We can take on those assets and preserve them," said Barnes.

Industry experts found there are more resyndication opportunities in larger markets. "Areas with a lot of syndication going on are those where LIHTC rents are far below market-rate rents. There is not a lot of resyndication in areas where LIHTC rents are at or above market-rate. … So city areas are hot, but rural areas not as much," said Alitz.

"Urban areas tend to be very, very hot. They are expensive to get in to," said Melton. "Tremendous growth can happen in 15 years. The value of these assets, in some cases, have tripled. A lot of people may look to get out. … It can be hard to keep urban areas affordable." However, he said many states mandate that these urban areas operate under extended-use agreements where the development must remain affordable for 30 years.

While there are more opportunities to resyndicate aging LIHTC properties in metropolitan areas, by no means is it an easy task. "People have to be motivated to keep it affordable," said Sheth. The Michaels Development Company certainly has that motivation. "We want to make sure that these assets are repositioned as affordable for the long term," said Pratt. "Generally speaking, that is what we are doing, keeping these [properties approaching Year 15] as affordable housing."

Demand

The number of LIHTC properties reaching Year 15 has averaged about 1,300 properties per year during the past decade and approximately 924,000 affordable rental homes are projected to reach the end of their 15-year compliance period between 2014 and 2020, according to the 2015 Novogradac LIHTC Year 15 Handbook. But this increase hasn't slowed demand.

"The whole country seems to be hot. There are no fly-over states anymore; no CRA [Community Reinvestment Act] hot versus CRA not," said Sheth. "The demand is at least five times supply across the country." That statement is backed by what industry experts are seeing for credit prices. Sheth said that U.S. Bank has seen the price per credit range from 90 cents to $1.10. Not including coastal deals, Barnes said that during the past 12 months, credits have been sold for between $1.05 per credit and $1.15. And in 2015, Melton has seen credits go for between 97 cents and $1.10.

"It is a robust credit market with plenty of demand for banks and others," said Melton. He said there is a scarcity of credits on both the 9 percent side and the 4 percent side. This scarcity of credits raises credit prices and makes it "harder to find yield," he said. Melton is seeing 4.5 percent yields in the market. Sheth, meanwhile, recommends using the 4 percent LIHTC for resyndication developments. "We have more interest in the 4 percent credit for resyndication. The 9 percent credit is oversubscribed," said Sheth.

To help meet this demand, Pratt hopes that states' qualified allocation plans (QAPs) will put more emphasis on preserving the existing affordable housing stock. Alitz said five to six years ago, the state QAPs

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focused more on the rehabilitation of existing affordable housing than they do now. Pratt said that during the past few years, the focus has been on new construction. Pratt hopes that QAPs will make a larger portion of the 9 percent credit available for acq/rehab properties.

Advice

The biggest piece of advice industry experts give about Year 15 is, "start early. The earlier the better," said Cometa. Cometa added it is important to look at a property's physical needs assessment and understand the scope of work needed if a developer chooses to resyndicate and rehabilitate the property.

Starting early also entails going over partnership agreements. "Look at all of the documents from 15 years ago. Those older partnership agreements are very complicated," said Pratt. "We get excited about Year 15. They are an important part of our business." Cometa said to be sure to ask yourself, "What are everyone's rights?" She added that setting milestones or goals a few years out for a property is an important step.

Sheth said it is important to "know the value of your interest and the value of the property." He added that understanding the interests of your partners will help the "unwind" go as smoothly as possible. Melton said Year 15 pitfalls can be avoided when beginning to develop a LIHTC property if you partner with an experienced developer that can manage risk, manage tenants and keep a development on budget. Barnes then recommends checking in with your partnership every five years or so to stay up-to-date on everyone's needs.❖

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