



Novogradac 2018

# Credit and Bond Financing for Affordable Housing Conference



# Other Year 15 Options

## MODERATOR

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## PANELISTS

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# How do you Determine Value?

Value will drive **Strategy**

Determine value by asking:

- **What's the market today and in the future?**  
Property and investment markets change each year
- **What's possible to do with the property?**  
Market sale? 4% execution? Wait for the elusive 9%?
- **What's the Highest and Best Value on a **RISK ADJUSTED BASIS?****

**Use a detailed, disciplined Valuation Model**

# Gather the Right Information

- Last three years of Audited Financial Statements
- The LP Agreement and **Amendments**
- Option Agreements & ROFR
- LURA and any other regulatory agreements
- Current rent roll, operating statements & budget
- Recent site visit reports & or capital needs study
- Two years of Tax Returns including Form 8609
- Loan documents
- Appraisals/Brokers Opinion of Value (if available)

# What to look for

<b>Audited FS:</b>	Read the Notes: related party transactions, audit concerns, Yr. to Yr. changes
<b>Pship Agreement:</b>	Who controls the process & has leverage? What consents needed, timing, process
<b>Options/ROFR:</b>	control, timing, participants (State? NFP)
<b>Operating statements:</b>	income and expenses in range?
<b>Site visit reports/CNA:</b>	locational, tenant issues, cap X
<b>Loan Docs:</b>	maturity, balances, prepayable, restrictions
<b>Tax Returns:</b>	EOC date, partial credits, Capital accounts
<b>ALL DOCS:</b>	<b>WHO HAS LEVERAGE</b>

# PRO FORMA REVIEW

	Historical Audit			Quarterly Financials				Pro Forma - Restricted				
	2014	per unit		TTM Q3-2015	per unit		Annualized	per unit		2016	per unit	
<b>Operating Income</b>												
Gross Rental Income		561,733			558,363			565,412			661,251	
Vacancy	14%	(79,895)		16%	(87,760)		15%	(83,493)		5%	(33,063)	
Bad Debt and Concessions	1%	(7,468)		0%	-		0%	-		1%	(6,613)	
Other Income		16,090	251		10,999	172		6,225	97		16,090	251
<b>Total Income</b>		<b>490,460</b>			<b>481,602</b>			<b>488,144</b>			<b>637,666</b>	
<b>Operating Expenses</b>												
Management Fee	0%	-	-	0%	-	-	0%	-	-	4%	25,507	399
Admin/Misc.		111,649	1,745		107,646	1,682		114,969	1,796		99,742	1,558
Utilities		42,959	671		43,675	682		43,659	682		39,338	615
Maint		150,659	2,354		205,216	3,207		170,267	2,660		182,048	2,845
Payroll		118,585	1,853		52,414	819		76,668	1,198		74,276	1,161
RE Taxes		-	-		-	-		-	-		-	-
Insurance		26,925	421		21,020	328		31,909	499		29,422	460
Marketing		-	-		-	-		-	-		-	-
Land Lease		17,388	272		17,388	272		17,388	272		17,388	272
<b>Total Operating Expenses</b>		<b>468,164</b>	<b>7,315</b>		<b>447,359</b>	<b>6,990</b>		<b>454,860</b>	<b>7,107</b>		<b>467,721</b>	<b>7,308</b>
Less: Replacement Reserve Deposits		12,792	200		12,792	200		12,792	200		19,200	300
<b>Net Operating Income</b>		<b>9,504</b>			<b>21,451</b>			<b>20,492</b>			<b>150,745</b>	
Hard Debt Service		(3,864)										
DSCR		2.46										
Net Cash Flow		5,640										

## Comments

**No management fee - GP provides management services without compensation. Estimated Proforma income to match consultant's 2015 proforma**

# Re-Underwrite Rents and Analyze Historic Operations

## Unit Mix and Rental Income

	Current	Current	Utility	Max	Unrestr.	Pro		
# BRs	# Units	SqFt Per Unit	AMI% Set Aside	Rent 1/17/12	Allowance a/0 1/31/12	TC <u>Rent</u>	Market <u>Rent</u>	Forma <u>Rent</u>
Efficiency/Studio	2	300 - 454	60%	350	0	1,129	700	385
JR1BA/1BA	2	500	60%	633	0	1,209	870	696
1BA/1BA Flat	13	478	60%	636	0	1,209	800	699
1BA/1BA	1	585	60%	400	0	1,209	825	440
1BA/1BADen	6	725	60%	795	0	1,209	900	874
2BA/1BA Flat	9	577	60%	862	209	1,243	850	948
2BA/1BADen	20	767	60%	824	209	1,243	970	907
2BA/1BA	2	800	60%	975	209	1,243	1,000	1,073
3x1 TH	8	833	60%	952	250	1,427	1,070	1,047
4TH	1	1,000	60%	890	297	1,573	1,125	979
	64	655		783	137	1,256	914	861

\* Current rents includes excess S8 rents.

Section 8 Status	
Section 8 Contract?	<input type="text" value="No"/>
Units (unit mix above)	<input type="text"/>
Contract expiration date	<input type="text"/>

## Historic Operations

	Last 5 Yr Avg	2010	2011	2012	2013	2014
<b>Per Audits</b>						
Rent (EG)	467,786	490,460	436,010	426,670	489,395	496,396
Expenses	(419,367)	(468,164)	(412,278)	(399,377)	(445,824)	(371,190)
RR Deps	(11,086)	(12,792)	(8,528)	(8,528)	(12,792)	(12,792)
NOI	37,333	9,504	15,204	18,765	30,779	112,414
Debt Service	(40,490)	(3,864)	(42,980)	(50,367)	(51,581)	(53,657)
Cash Flow	(3,157)	5,640	(27,776)	(31,602)	(20,802)	58,757

5 Yr Rent Growth **-1.19%**  
 5 Yr Expense Growth **+26%**  
 5 Yr NOI Growth **-91%**

# VALUATION SUMMARY

## Property Valuation Summary

SCENARIO	Property Value	Price Per Unit	LP Proceeds (Waterfall)	LP Proceeds (Capital Acct)	GP Proceeds (Waterfall)	GP Proceeds (Capital Acct)
Market Value (restricted)	2,009,935	31,405	1,471,903	1,074,414	-	397,443
4% Resyndication	1,240,138	19,377	717,502	600,454	-	117,048
9% Resyndication	2,112,948	33,015	1,572,856	1,124,880	-	447,919
ROFR Price	483,455	7,554	-	-	-	-
Option Price	3,147,845	49,185	2,587,055	1,631,879	-	955,019
Qualified Contract Price	4,766,116	74,471				
Market Value ( no restrict)	3,147,845	49,185	2,587,055	1,631,879	-	955,019
LP Cash Flow Multiple			33,310	33,310		
Refinance Scenario			1,130,953		-	

<b>CONCLUDED SALE VALUE</b>	<b>2,000,000</b>	<b>31,250</b>	<b>1,462,167</b>	<b>1,069,547</b>	<b>-</b>	<b>392,574</b>
Accrued SLP Fees & Proceeds			28,000	28,046		
<b>TOTAL TO LPs</b>			<b>1,490,167</b>	<b>1,097,593</b>		

## Capitalization Rate Analysis

	Amount	Rate
2015 NOI	9,504	<b>0.5%</b>
Avg 5 Yr. NOI	37,333	<b>1.9%</b>

## Comments

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# PARTNERSHIP SALES TABLE

## Distribution of Proceeds (Waterfall)



	Partnership Net		Transaction expenses	Gross Sales Proceeds	Repayment of debt and obligations due upon sale, other than amounts to Partners	SLP Fees	To LP, its Investor Contributions	Unpaid balance of Voluntary Loan	Residual Splits			Totals		
	Cash and Reserves	3rd Party A/P							49.99%	0.01%	50.00%	LP	SLP	GP
<b>Property Purchase Price</b>	<b>66,619</b>	<b>(22,997)</b>	<b>(70,000)</b>	<b>1,973,622</b>	<b>483,455</b>	<b>30,000</b>	<b>1,460,167</b>	<b>-</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,460,167</b>	<b>30,000</b>	<b>-</b>
2,000,000	66,619	(22,997)	(70,000)	1,973,622	483,455	30,000	1,460,167	-	0	0	0	1,460,167	30,000	-
2,250,000	66,619	(22,997)	(75,000)	2,218,622	483,455	30,000	1,705,167	-	0	0	0	1,705,167	30,000	-
2,500,000	66,619	(22,997)	(80,000)	2,463,622	483,455	30,000	1,950,167	-	0	0	0	1,950,167	30,000	-
2,750,000	66,619	(22,997)	(85,000)	2,708,622	483,455	30,000	2,195,167	-	0	0	0	2,195,167	30,000	-
3,000,000	66,619	(22,997)	(90,000)	2,953,622	483,455	30,000	2,440,167	-	0	0	0	2,440,167	30,000	-
3,250,000	66,619	(22,997)	(95,000)	3,198,622	483,455	30,000	2,685,167	-	0	0	0	2,685,167	30,000	-
3,500,000	66,619	(22,997)	(100,000)	3,443,622	483,455	30,000	2,930,167	-	0	0	0	2,930,167	30,000	-
3,750,000	66,619	(22,997)	(105,000)	3,688,622	483,455	30,000	3,175,167	-	0	0	0	3,175,167	30,000	-
4,000,000	66,619	(22,997)	(110,000)	3,933,622	483,455	30,000	3,420,167	-	0	0	0	3,420,167	30,000	-
4,250,000	66,619	(22,997)	(115,000)	4,178,622	483,455	30,000	3,502,770	49,201	56,586	11	56,597	3,559,356	30,012	105,799
4,500,000	66,619	(22,997)	(120,000)	4,423,622	483,455	30,000	3,502,770	49,201	179,061	36	179,097	3,681,831	30,037	228,299
4,750,000	66,619	(22,997)	(125,000)	4,668,622	483,455	30,000	3,502,770	49,201	301,537	60	301,597	3,804,307	30,061	350,799
5,000,000	66,619	(22,997)	(130,000)	4,913,622	483,455	30,000	3,502,770	49,201	424,012	85	424,097	3,926,782	30,086	473,299

# PARTNERSHIP SALES TABLE

## Distribution Upon Liquidation of Partnership (Capital Accounts)



	Partnership Net			Transaction expenses	Gross Sales Proceeds	Repayment of debt and obligations due upon sale, other than amounts to Partners	SLP Fees	Unpaid balance of Voluntary Loan	Capital Account Splits			Residual Splits			Totals		
	Cash and Reserves	3rd Party A/P							LP	SLP	GP	LP	SLP	GP	LP	SLP	GP
									840,946	-	163,928	49.99%	0.01%	50.00%			
<b>2,000,000</b>	<b>66,619</b>	<b>(22,997)</b>	<b>(70,000)</b>	<b>1,973,622</b>	<b>483,455</b>	<b>30,000</b>	<b>49,201</b>	<b>840,946</b>	<b>0</b>	<b>163,928</b>	<b>203,005</b>	<b>41</b>	<b>203,046</b>	<b>1,043,952</b>	<b>30,041</b>	<b>416,175</b>	
2,250,000	66,619	(22,997)	(75,000)	2,218,622	483,455	30,000	49,201	840,946	0	163,928	325,481	65	325,546	1,166,427	30,065	538,675	
2,500,000	66,619	(22,997)	(80,000)	2,463,622	483,455	30,000	49,201	840,946	0	163,928	447,956	90	448,046	1,288,903	30,090	661,175	
2,750,000	66,619	(22,997)	(85,000)	2,708,622	483,455	30,000	49,201	840,946	0	163,928	570,432	114	570,546	1,411,378	30,114	783,675	
3,000,000	66,619	(22,997)	(90,000)	2,953,622	483,455	30,000	49,201	840,946	0	163,928	692,907	139	693,046	1,533,854	30,139	906,175	
3,250,000	66,619	(22,997)	(95,000)	3,198,622	483,455	30,000	49,201	840,946	0	163,928	815,383	163	815,546	1,656,329	30,163	1,028,675	
3,500,000	66,619	(22,997)	(100,000)	3,443,622	483,455	30,000	49,201	840,946	0	163,928	937,858	188	938,046	1,778,805	30,188	1,151,175	
3,750,000	66,619	(22,997)	(105,000)	3,688,622	483,455	30,000	49,201	840,946	0	163,928	1,060,334	212	1,060,546	1,901,280	30,212	1,273,675	
4,000,000	66,619	(22,997)	(110,000)	3,933,622	483,455	30,000	49,201	840,946	0	163,928	1,182,809	237	1,183,046	2,023,756	30,237	1,396,175	
4,250,000	66,619	(22,997)	(115,000)	4,178,622	483,455	30,000	49,201	840,946	0	163,928	1,305,285	261	1,305,546	2,146,231	30,261	1,518,675	
4,500,000	66,619	(22,997)	(120,000)	4,423,622	483,455	30,000	49,201	840,946	0	163,928	1,427,760	286	1,428,046	2,268,707	30,286	1,641,175	
4,750,000	66,619	(22,997)	(125,000)	4,668,622	483,455	30,000	49,201	840,946	0	163,928	1,550,236	310	1,550,546	2,391,182	30,310	1,763,675	
5,000,000	66,619	(22,997)	(130,000)	4,913,622	483,455	30,000	49,201	840,946	0	163,928	1,672,711	335	1,673,046	2,513,658	30,335	1,886,175	

# If You Think you have a Strategy...

## Test it ...

- Draft a compelling Memo to your stakeholders.
  - Does the deal make sense for everyone?
- Draft Sources and Uses.
  - Does everyone (LP, GP, Lenders all debts) get paid?
  - Is there enough capital (sale or recycle or refi ) to execute?

# Bolton North Apartments Baltimore, MD

- 209 units located in Baltimore, MD
- Long-term Section 8 contract with HUD
- Uniquely structured to avoid tax complications
  - Equity structured as mezzanine debt
- Negotiated a real estate tax reduction
- Received a bond allocation from the state of MD
- Received an allocation of tax credits
- Tax exempt bonds closed in August 2017 along with PNC acquisition loan
- LIHTC investor admitted in March 2018 to repay acquisition loan
- PNC claimed CRA investment (\$7.6M) and lending (\$15.7M) credit

### 2013 Acquisition:

Preservation Fund Equity	\$7.7 million
PNC Balance Sheet Loan	<u>\$15.7 million</u>
<b>Total Acquisition Sources</b>	<b>\$23.4 million</b>

### 2017 Disposition:

Sales Price	\$24.8 million
Rehab Costs	\$27,000 per unit

Purchase Price	\$22.5 million
Closing Costs	<u>\$0.9 million</u>
<b>Total Acquisition Cost</b>	<b>\$23.4 million</b>



Information is accurate as of 10/1/2018.



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# Qualified Contract

- LIHTC properties are required to meet initial **15- year compliance period**
- Extended use agreement requires an additional **15 year compliance period**
- Qualified contract terminates regulatory agreement after the initial **15 year compliance period**
- Offer must be “bona fide”
- Did you waive your right?

# Qualified Contract Price

**FMV** of the **non low-income portion** of the building

+

**Statutorily calculated price** for the **low-income portion** of the building

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**Qualified Contract Price**

# Low-Income Portion

FMV of the **non low-income portion** of the building

Statorily calculated price for the **low-income portion** of the building

+

**Qualified Contract Price**

$$\left[ \text{Outstanding Indebtedness} + \text{Adjusted Investor Equity} + \text{Other Capital Contr.} - \text{Cash Distr.} \right] \times \text{Applicable Fraction} = \text{Low-income Portion}$$

# Other Year 15 Options

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