

# U.S. Case Study Low Income Housing Tax Credits

October 2014





# Low Income Housing Tax Credits

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- Based on Section 42 of the IRS Code, enacted in 1986
- Each state receives \$2.00 per capita
- Serves low-income households, at or below 60% AMI
- Restricts rents
- Remains affordable for a minimum of 30 years
- Between 1987 and 2012, 39,094 projects with almost 2,458,000 housing units were placed in service
- On average, 1,400 projects with 105,000 units are placed in service each year
- Investor stays in project during 15 year compliance period; exits usually for \$1.00 or residual value

# Low Income Housing Tax Credits

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Annual Federal Allocation \$8,000,000,000

Pennsylvania Allocation in 2013 \$28,671,000

2013 Competitive application process managed by the PA Housing Finance Agency – 130 Applications, 37 Awarded

Selection of Uptown Lofts on Fifth Project  
Allocation of 2013 Tax Credits \$1,200,000



# Uptown Lofts on Fifth – 2013 Credit Award



***FIFTH AVENUE ELEVATION***

1/16" = 1' - 0"

**UPTOWN LOFTS ON FIFTH  
NORTH BUILDING**

29 OCTOBER 2012



FortyEightyArchitecture



# Uptown Lofts on Fifth – Development Sources

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2013 LIHTC Award	\$ 1,200,000
Total Credits over 10 years	\$12,000,000
Syndicator/Investor paid \$.99 Resulting in direct investment of	\$11,919,608
Other Sources	
Keystone Loan	\$ 300,000
Urban Redevelopment Authority	\$ 752,000
Federal Home Loan Bank, AHP Loan	\$ 250,000
Developer Fee Reinvested	<u>\$ 129,042</u>
Total Project Cost	\$ 13,350,750

# Uptown Lofts on Fifth – Benefits to Investor

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Tax Credits, dollar-for-dollar reduction in investor's tax obligation over ten years,  $\$1,200,000 \times 10 =$  \$12,000,000

interest  
15 year  
years.  
Tax Losses, expenses including depreciation, amortization of certain costs, expense on debt, etc., are deductible from the investor's taxable income over 15 year compliance period. Depreciation is estimated to total \$7,185,936 over 15 years.

Bridge Loan, from BNYM, investor and lender

Interest	\$ 162,000
Origination Fee	\$ 82,000

Asset Management Fees (over 15 years)	\$ 100,784
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Investing in Uptown Lofts on Fifth allows BNYM to earn "credit" towards its Community Reinvestment Act obligations, an important factor in future acquisitions

# Uptown Lofts on Fifth – Benefits to Developer

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Creation of 47 units of low-income housing with little debt

Developer fee: \$1,500,000

Annual Incentive Management Fee

Share of cashflow

In year 15, property will likely be debt-free or have a minimum of debt remaining





## Uptown Lofts on Fifth – Risks to Developer

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Development Completion Guaranty – up to  
\$9,000,000

Operating Deficit Guaranty -- \$150,000

Tax Credit Shortfall

Capped at level of developer fee – up to  
\$1,500,000



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