

Indiana Housing Conference

Indiana's must-attend conference for affordable housing professionals.

Preservation / Disposition Discussion (Y15)

Doug Koch

Ryan Kelly

T.J. Leybold

Nancy Morton

Jerome Sullivan



Dauby O'Connor & Zaleski, LLC
A Limited Liability Company
Certified Public Accountants

Preservation/Disposition Discussion (Y15)

Indiana Housing Conference August 15, 2017 10:05 AM

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Introductions

- Panelists

- Ryan Kelly, Acquisitions Director, The Whitsett Group (TWG)
- Jerome Sullivan, CFO Churchill Stateside Group, LLC
- T.J. Leybold, Vice President, Tax Credit Disposition Manager, PNC Real Estate
- Nancy M. Morton, Member, Dauby O'Connor & Zaleski, LLC
- Moderator, Douglas P. Koch, MAI, AICP , Dauby O'Connor & Zaleski, LLC



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Overview of Property for Case Study Discussion

- 250 unit property located in Midwest urban setting
- Year 13 of credit compliance period
- Extended use agreement- 30 years (15 year compliance period and minimum additional 15 years)
- Property built in 1920



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Overview of Property for Case Study Discussion

- Total uses of property
 - Acquisition \$3,000,000
 - Hard Costs- \$12,500,000
 - Developer Fee- \$2,000,000
 - Soft Costs- \$300,000
 - Reserves- \$250,000
 - Other- \$100,000
 - Total- \$17,850,000



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Overview of Property for Case Study Discussion

Total Sources

Federal historic credit equity- \$1,800,000

Federal LIHTC equity - \$4,360,500

Tax-exempt bonds- \$10,600,000

Deferred developer fee- \$600,000

Cash flow soft debt- \$489,500



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Overview of Property for Case Study Discussion

- 20% of units occupied by families at 50% of area median income
- 80% of units at 60% of area median income
- Current DSCR of 1.03



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Questions and Discussion

Additional issues to explore?



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TWG
DEVELOPMENT, LLC

CASE STUDY



- 250 Units
 - *Size is suitable for a 4% bond deal. Review QCT map for 30% boost*
 - *Perform market analysis of affordable vs. market (student, workforce, luxury) (rent spread)*
 - *Consider Qualified Contract; conversion to market or increase tenant base with less restrictions.*
 - *Qualified contract would potentially void preservation set-aside for 9%*
 - *Consider change in MIP if HUD*
- Year 13
 - Review LPA and negotiate exit of limited partner
 - Review back-end valuation and sale waterfall
 - Review LP tax capital account
 - Review forced sale or put provisions
- Property built in 1920
 - Review ability to use federal and state historic tax credit equity for rehab

PNC Real Estate – Tax Credit Capital

Dispositions Overview

Syndicator Perspective

T.J. Leybold
Vice President of Dispositions



Partnership Agreement – Exit Mechanism

- Know your Partnership Agreement!

- Exit Mechanisms
 - Put / Call Option? Forced Sale Rights?
 - Or, purely negotiated...
 - ILP interest buyout vs. Real Estate Sale

Real Estate & ILP Interest Valuation

- Source of Real Estate Valuation
- Arriving at ILP's portion of distributable cash
- Liquidation versus Capital Transaction

Investor Consent Process

- Understanding the role of the syndicator
- What is the syndicator's internal process
- Understanding the investor's motivation and its internal process
- Understanding the consent process timeline

What Can Go Wrong?

- Investor opinion on Early Exits is changing
 - Guarantee requirements are getting tighter
 - More focused on perceived recapture risk
- Distribution of proceeds via capital transaction waterfall vs. liquidation of capital accounts
- Valuation determination on GP purchase of ILP interests – Third Party Opinion (“BOV”)



Experience & Integrity

Fun with Dispositions

Indiana Affordable Housing Conference
August 2017

About CSG

CSG is a private financial services company that provides debt and equity finance and investment solutions to owners and developers of affordable housing and renewable energy installations that utilize the appropriate tax credit of the Internal Revenue Service. CSG is a leading provider of Renewable Energy Tax Credits, Low Income Housing Tax Credits (LIHTC), Historic Rehabilitation credits, and Entertainment credits.

With over \$1 Billion under asset management, CSG has long-standing and successful investment relationships with numerous corporate investors and pension funds. The company, through its subsidiary Churchill Mortgage Investment LLC, is an approved USDA Rural Development and HUD/FHA MAP and LEAN lender and Ginnie Mae Issuer.



The cornerstones of our business are to provide our clients with excellent *Expertise, Service, Value and Flexibility.*



Developer Considerations – on Disposition

Know what you want and what you have

Initial Obligations under the Partnership Agreement

Current Status of the Capital Accounts

Housing Finance Agency view on the property and current programs available for preservation





Syndicator Considerations – on Disposition

Know what you want and what you have

Initial Obligations under the Partnership Agreement

Current Status of the Capital Accounts

Obligations to Investors

Philosophy on preservation





Investor Considerations – on Disposition

Know what you want and what you have

Initial Obligations under the Partnership Agreement

Current Status of the Capital Accounts

Cash value of partnership interest





Considerations w/ variations

State credit deals frequently have separate partners; a federal investor and a state investor

....And State Investor has the largest capital account at the end of fifteen years

Non- LIHTC deals are usually simpler exits. Historic deals generally have already had their ownership interests “flipped” and the exit values are set. Generally, less room for interpretation and no HFA involvement





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