

Indiana Housing Conference

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

LIHTC 301 – Structuring and Monitoring Deals with Your Projection Model

- Doug Koch
- Charles Anderson
- Nancy Morton
- Todd Sears



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LIHTC 301-Structuring and Monitoring Deals with your Projection Model

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Introductions

- Panelists

- Todd Sears, Executive Vice President – Portfolio Management & Analysis, Herman & Kittle Properties, Inc.
- Charles Anderson, Executive Vice President-Acquisitions, CREA
- Nancy M. Morton, Member, Dauby O'Connor & Zaleski, LLC
- Moderator, Douglas P. Koch, MAI, AICP , Dauby O'Connor & Zaleski, LLC



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Key Projection Model Considerations

- The relationship of underwriting model to the Life Cycle of LIHTC Project
- Identify the key exhibits in the model and how they relate to the Life Cycle
- Understand how changes in the key assumptions affect the overall economic strength and the tax benefits of the project



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Key Projection Model Considerations

- Realize the importance of cash flow analysis and the waterfall provisions in the underwriting process.
- The Model should show how combining different federal and state credits enhances the economics of a project.
- The Model should recognize the elements impacting the estimate of first year credits and how that can effect the IRR of a project.



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Structuring and Modeling Transactions

- Introduction
 - Overview perspective.
 - Individual results may vary depending upon investment targeting, product type , etc.
- Underwriting considerations
 - Sponsor Strength
 - Financial wherewithal
 - Guarantor
 - Developer



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Structuring and Modeling Transactions

- Financial wherewithal (Continue)
 - General Partner
 - General Contractor
- LIHTC wherewithal
 - Developer
 - General Partner
 - Management Company
- Credit / Background Checks



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Structuring and Modeling Transactions

- Real Estate Analysis
 - Operations
 - Income / Expense Analysis
 - Trending assumptions
 - Historic data
 - Independent Market Study
 - CREA portfolio
 - Developer portfolio
 - Debt Analysis
 - DSCR requirements & trending analysis



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Structuring and Modeling Transactions

- Primary Market Area
 - Population & population trends
 - Absorption
 - Tax Assessor feedback
- Insurance analysis
 - Contractor's Risk
 - Liability
 - Flood
 - Seismic
 - Wind & other.



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Structuring and Modeling Transactions

- Construction
 - Related Party versus third party
 - Contractor wherewithal
 - Financial
 - Experience
 - Capacity
 - Development Budget / construction timeline analysis
 - Environmental review
 - Replacement Reserve analysis



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Structuring and Modeling Transactions

- Construction (Continued)
 - P&P Bond or LOC
 - Inspections
- Management
 - LIHTC & transaction type experience
 - Capacity
 - Portfolio results
 - Negative findings



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Structuring and Modeling Transactions

- Tax / Audit
 - Accountant
 - First Year files / Compliance
 - Depreciation assumptions
 - Capital Account analysis
 - Projected credit delivery
 - Eligible Basis assumptions



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Structuring and Modeling Transactions

- Metrics / Economics – Brief description of overall market for product and current yields.
 - Corporate tax rates
 - Leverage
 - Loss ratios
 - Geography
 - Pricing



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Structuring and Modeling Transactions-GP processes

- Developer/GP Process
 - Underwriting before, during, and after
 - Evaluating the evaluator
 - Having your own version of the “truth”
 - Pleasing many masters
 - The Pirate’s Code



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Structuring and Modeling Transactions-GP Process

- Moving the guidelines?
 - What can existing portfolio tell you about underwriting?
 - Issues that bend the edges
- Delivering the deal



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Questions and Discussion Additional issues to explore?



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