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BLUEPRINT FOR APRIL

By Marty Bell

We Need Advocates

One of the primary roles of the President of the United States is encouraging and overseeing creation. Nations have problems and we elect a head of state to find solutions. The Presidents who are usually rated in the top ten in surveys are all men who implemented the most creative solutions.

A few months into our current presidency we seem to have a president who ignores solutions in favor of take-aways. Thus far, he has begun actions to take away healthcare and Medicaid services from the neediest, immigrant children from their parents, funding from the arts and humanities, environmental standards, even Meals on Wheels, of all things, without creating anything. During his campaign, he promised creation and bragged it would all be "the best." But where's the beef?

There is probably no single gesture that defines the Take-Away President as clearly as his proposed FY2018 budget. Among the list of take-aways to 19 separate government departments (and as a result, the people) are successful programs that have been cornerstones of our business, such as New Markets Tax Credits and CDFIs, HOME and a quick toodle-loo to the highly creative, though relatively small, Obama Administration Choice Neighborhoods initiative that brought together Housing, Treasury, Health, Education and Transportation to collaborate on neighborhoods that could reinvigorate cities.

The President's budget is only a suggestion to Congress, which has the final say on spending money. Each member of both houses has their own priorities, hopefully their constituents' preferences. And that is where we come in. We are the constituents and we need to be vocal advocates for the programs we understand, we believe in and we have seen succeed.

Much of this issue of *TCA* is devoted to advocates. There may not be a stauncher advocate for affordable housing in America than Washington Senator Maria Cantwell, who has bravely proposed a bill that goes smack in the jaw of Congressional majorities and proposes a 50 percent increase in Low Income Housing Tax Credits. At first glance, you might think this will never happen. But Cantwell is a bulldog and already has four Republican Senators as co-sponsors. You'll learn more about her bill, her background and her unique style in "A Dependable Advocate" (p. 25).

Another staunch advocate has been Tom Davis, who oversees HUD's Rental Assistance Demonstration program that is in the process of preserving its current limit of 185,000 affordable housing units and has a long waiting list for support. In this month's *Talking Heads* feature (p. 10), Davis tells staff writer Darryl Hicks about the program's efforts and how a developer can take advantage of the RAD opportunities while they last. The interview is the lead-in to a section of five stories that update the progress of the RAD program.

NH&RA member company, Cinnaire is a mission-driven, full-service community development partner whose advocacy include a University of Affordability. Staff writer Mark Olshaker talks with Mark McDaniel and his team about the preservation of the Colony and Fisher Arms Apartments in Detroit from a crime-infested development at which 32 people were arrested in a police raid into the new, much desired Rivercrest Apartments. (*Rehabbing Hope*, p. 32)

You will also find content and means for advocacy from our regular columnists Thom Amdur and David A. Smith. And this month our itinerant Housing USA columnist, Scott Beyer, visits San Francisco where he looks at both the largest RAD deal thus far and workforce housing in the nation's most expensive housing market.

We hope what you will take away from all this will be inspiration that results in more active involvement in NH&RA's future advocacy efforts.

Marty Bell
Editor


The Tower
DORSEY MANOR

Trump budget neglects the neediest

Thom Amdur

Affordable housing developers take on many risks during their day-to-day business. There is construction risk, interest rate risk, headline risk and, as we are experience more and more of today, political risk.

Since the election last November, NH&RA and our members have redoubled our advocacy efforts to confront the biggest existential political risk we have faced in thirty years – the potential for comprehensive tax reform. While the actual prospects of tax reform succeeding in this Congress are uncertain at best, the "hidden hand" of tax credit equity market has priced in the potential for lower corporate tax rates into investor-yield models. This "correction" has caused so much consternation into our industry that it has sucked up much of the air in affordable housing policy circles and dominated the discussion at conferences. As significant as this has been for our industry, tax reform is not the only political risk our industry faces.

On March 16, President Trump released his 62-page FY-2018 "America First Budget" proposal and we got our taste of the potential scale of the *appropriations* risk our industry may face in the coming year. The "skinny"[1] budget would cut HUD funding from $46.9 billion in FY-2017 to $40.7 billion – a 13.2 percent reduction. The budget blueprint "insists on $54 billion in reductions to non-Defense programs. We are going to do more with less, and make the Government lean and accountable to the people." The document acknowledges that "it makes hard choices" but justifies such cuts by arguing, "State and local governments are better positioned to serve their communities based on local needs and priorities."

The budget blueprint is light on specifics – the HUD portion is just over one page long – so we will have to use our powers of deduction to make some conclusions until a full budget is released later this spring. The blueprint proposes to eliminate funding for the Community Development Block Grant (CDBG) noting that the program has "not demonstrated results" and eliminates funding for "lower priority programs" or "duplicative" including **HOME Investment Partnership Program, Choice Neighborhoods Initiative, Section 4 Community Development and Affordable Housing** and the **Self-help Homeownership Opportunity Program**. Combined, these programs account for approximately $4.135 billion in FY-2017 Budget Authority.

At press time, it is still unclear where specifically the remaining $2 billion in proposed cuts will be incurred. The blueprint provides $35 billion for HUD's rental assistance programs (as well as undisclosed "reforms that reduce costs while continuing to assist 4.5 million low-income households") but does not mention specific rental programs. We deduce based on an earlier draft of the budget leaked to the *Washington Post*, that this $35 billion is a "roll up" of numerous programs including project-base and tenant-based Section 8, Section 202, Section 811, HOPWA, etc., as well as public housing capital and operating funds too. If this is the case, it likely represents a $2 billion+ cut to be felt across these critical multifamily programs.

If enacted, these cuts would cause substantial harm to our industry. Many affordable housing transactions, particularly those serving the elderly, disabled and/or lowest income individuals, depend directly or indirectly on HUD grants and rental assistance programs.

There is much we do not know about the program specifics, as well as "to be announced" policy changes to make HUD programs more efficient. Still, it is hard to reconcile how a budget that proposes such deep cuts to programs serving the most vulnerable members of our society puts "America First".

Now more than ever, we must do more to educate the Administration and members of the House and Senate about the vital role HUD and its program's play in serving working class Americans, the elderly, the disabled, returning veterans and how these investments create jobs, revitalize communities and break the cycle of poverty. As you engage with your elected officials on the LIHTC this spring, don't forget to share with them the vital role HUD plays in your communities. TCA

[1] Typically, new Administrations, issue a "skinny" budget summary in their first year which outlines their discretionary spending priorities. A "full" budget document will be released later this spring that details the President's mandatory and tax proposals, as well as outlines in far greater detail the individual discretionary spending program proposals.

RAD and the preference cascade

RAD comes at a critical juncture for the public housing inventory, because dramatic reinvention is needed. This could be the most exciting time in public housing in four decades.
– David A. Smith, State of the Market, June, 2012

The voluntary public housing revolution has yet to cost HUD a dollar: in fact, the Rental Assistance Demonstration (RAD) has leveraged $8.90 for every dollar of public housing funds deployed, generating $3.9 billion of construction investment on the 59,000 apartments that have closed, with another 126,000 on deck, which together are liberating 185,000 apartments from the 1.3 million home public housing inventory and awakening the hitherto squelched or sublimated entrepreneurial capacity of public housing authorities, many of whom may never have known they had it in them.

Did I mention RAD hasn't cost HUD a dime?

Equally important, that 15 percent of the inventory now in motion has become a RAD preference cascade. With its successes now widespread and the reasons why evident[1], a program that was greeted with skeptical hostility has changed the political and policy dynamic. Those not in the program wish they were – already 18,000 apartments are on the waiting list, a number that is certain to grow. What then should happen do? Just two things:

1. ***Congress: Lift the cap on total RAD apartments – better yet, eliminate it altogether.*** Because RAD was a pilot program, one feared by many (including many who should have known better), originally it was allowed for only 60,000 apartments, a figure that in short order was blown through, resulting in an increase to 185,000. Even that higher cap has inhibited activity, forcing HUD to create and then enforce processing milestones that do nothing to improve transaction quality, speed, or volume, and instead add only uncertainty and hence cost.

   If, instead, RAD were open-ended – no production cap, no sunset date – then processing under RAD would be as straightforward as a private developer applying for FHA insurance. Rules would be reliable, relevant financial information published and accessible.[2] Housing authorities could then work at their own speeds, sequencing their filing to other calendars (e.g. state-level resources, such as LIHTC Qualified Allocation Plans, volume-cap bond allocations, or state housing trust funds), and external funders (e.g. service providers, philanthropies) could make forward commitments confident their money would be deployed.

   Note to Congress: Were you aware that RAD hasn't cost the federal government a nickel?

David A. Smith

2. ***HUD: Offer RAD-EZ for mini- and micro-housing authorities.*** Of the roughly 3,200 public housing authorities nationwide, roughly half of them are mini-authorities (100 apartments or less), and half of those are micro-authorities (under 50 apartments). Together the mini- and micro-housing authorities represent only seven percent of the total public housing inventory nationwide, yet they're governed by the same cumbersome regulations that have been put in place, paper ream by ream, to address perceived and real problems with mega-authorities.

   Virtually every other part of the government has de minimis exceptions – why not RAD-EZ, with these features:

   - ***Get-out-of-covenant free card.*** Allow mini- and micro-HA's in good standing[3] to convert to Project-Based Vouchers (PBVs) or Project-Based Rental Assistance (PBRAs) without having to submit detailed RAD Capital Needs Assessments, a comprehensive development budget,

[1] See David A. Smith, *Why RAD Worked*, *Tax Credit Advisor*, August, 2015

[2] HUD already posts RAD rents for SMSA's on the HUD website; see http://www.radresource.net/.

and so on. Or if you're feeling truly deregulatory, let them speedily convert to vouchers[4] (say on a majority vote of the resident households).

- *No mandatory refinancing review.* In RAD Part 2, Rent Supplement and RAP property owners are presumed to be intelligent enough to evaluate for themselves when to refinance. With publicly accountable housing authorities showing themselves adept at financial structuring, and with the multiple overlays of state-level financing and resource review, do we really need HUD as an additional truss?

In just a few years, RAD has achieved results nobody including me thought possible. Allowed to grow, it will finish revolutionizing and revitalizing an inventory and a system that many had quietly given up for dead.

With its successes now widespread and the reasons why evident[1], a program that was greeted with skeptical hostility has changed the political and policy dynamic. Those not in the program wish they were – already 18,000 apartments are on the waiting list, a number that is certain to grow.

Note to HUD: Has anyone told Secretary Carson that RAD isn't costing HUD a cent?

All RAD needs now is further room to grow – *without* picking up additional tertiary mandates or special-interest features by former naysayers who now want to festoon the program with their particular gewgaws.

Note to both Congress and HUD: When you make the two key changes, resist the temptation to 'fix' RAD. It ain't broken. TCA

[3] Just to spray on some scandal-repellent, exclude agencies with audit problems or very low Uniform Physical Condition Standards (UPCS) scores.

[4] Housing authorities can do this now under Section 22, but it's difficult and almost never used.

San Francisco

Sleeping in a Closet

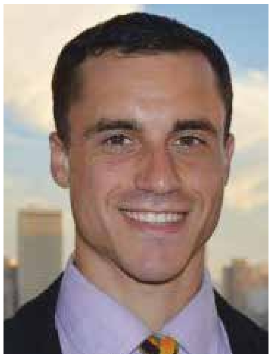
San Francisco, CA—Before entering San Francisco, I'd heard that high housing costs were forcing even six-figure-salary techies into cramped apartments. But I found this hard to believe, until I actually met one, while attending a local activist event. His name was Steven Buss, a 30-year-old software engineer who earns over $100,000 in salary working for Google. He moved here from Los Angeles several years ago hoping to make more money, so that he could save up and start a business. His goal was thus to spend no more than $2,000 monthly on rent, while living within an hour's commute of Google's offices in the SoMa neighborhood.

In most cities, Buss would have found numerous centrally-located and expansive flats within this price range. But in San Francisco, it took him six months to find an apartment, and it wound up being an 850-square-foot flat in the Mission neighborhood, with a bedroom hardly bigger than Buss' queen-sized bed. And there was another housemate living in the second room, ending any hope of privacy.

"I could've gotten a studio for $3,500 a month. But that's insane."

San Francisco's Workforce Housing Dilemma

Buss' situation, while not extreme by local standards, speaks to a larger regional crisis, both for workers, employers and anyone seeking a decent quality-of-life. Amid rapid job and population growth, San Francisco housing prices have skyrocketed to the nation's highest by some metrics, with median one-bedroom city rents at $3,270 and median metro home prices at $833,600.



Scott Beyer

This means that knowledge workers like Buss, who can make money pretty much anywhere, often make calculated decisions about the payoffs of locating in San Francisco. While wages here are higher (the average Bay Area software engineer makes $132,000, tops in the country) general living costs are too, driven by housing prices. A *Governing Magazine* analysis found that in San Francisco, these factors cancel each other out, with the metro's cost-of-living-adjusted wage rates sitting roughly at the national average.

Companies must respond to this by further bidding up for workers, or employing fewer of them and having them work longer hours. This explains why much of the tech industry is leaving Silicon Valley for cheaper but culturally-similar cities, like Portland and Austin. Given that other industries—both white-collar and blue-collar—are also hurt by these housing-induced wage mark-ups, it has stopped the Bay Area from forming business agglomerations that might otherwise exist.

How We Got Here

It doesn't have to be this way. Sure, San Francisco is a desirable place with new people flooding in yearly, many of them wealthy. But there are a lot of U.S. metros like this—between 2010 and mid-2015, seven of the ten largest metros added more population than San Francisco did, and some even had greater business growth. But none are this expensive.

The difference lies in housing growth figures, with Houston and Dallas, for example, complimenting their upward economic trends by allowing far more units. According to 2010-2015 Census figures, the Houston and Dallas-Fort Worth metros issued permits for 217,000 and 159,000 new units, respectively. The San Francisco-Oakland-Hayward metro area issued permits for 40,000 units—despite adding 321,000 people. As a result, the latter has seen median home prices increase since 2010 by $309,000, compared to a $43,000 increase in Houston and a $65,000 increase in Dallas-Fort Worth.

San Francisco's lack of construction can be blamed on NIMBYism and anti-growth sentiment, which is strongest, perhaps not coincidentally, in the areas with the most jobs and highest demand for living. San Francisco proper, for example, is an 837,000-person city that in the last decade added just over 2,000 units annually.

"The city's height limits, its rent control and its formidable permitting process," wrote journalist Kim-Mai Cutler, in a landmark 2014 TechCrunch essay, "are all products of tenant, environmental and preservationist movements that have arisen and fallen over decades."

The cities within job-intensive Silicon Valley—such as Palo Alto—sometimes keep these annual unit figures down into the hundreds. Some of the Bay Area cities most willing to grow, meanwhile, are outlying ones like Dublin that require 90-minute one-way morning commutes into San Francisco.

Sure, San Francisco is a desirable place with new people flooding in yearly, many of them wealthy. But there are a lot of U.S. metros like this—between 2010 and mid-2015, 7 of the 10 largest metros added more population than San Francisco did, and some even had greater business growth. But none are this expensive.

What It Means

As mentioned above, this means that the organic process of business and workforce formation has been distorted. This has already caused the Bay Area's recently-robust job growth to slow, leading local economist Stephen Levy to claim that the region has reached peak jobs.

Even more, housing constraints mean the region isn't providing decent living standards for people up and down the income ladder, often in ways that can't be labeled with price tags or economic metrics.

Take, for example, the issues of over-crowding and long commutes. Buss, who suffers from both problems, says that his situation is actually better than many within his peer group, which he says can be divided into two segments. His first set of friends—consisting of fellow professional-class singles like him—live in the central city, and every last one of them has housemates. Some, he says, don't even enjoy individual rooms, but instead sleep in closets, on couches, on bunkbeds, or in living rooms divided by curtains.

His second group of friends—professional-class families with children—must, because of the high living costs, move outside the city altogether. This means that parents have to balance long commutes and grueling work schedules while being far away from the children they're raising.

And, of course, there are demographic groups that aren't among Buss' peers, don't make six figures, and thus have worse experiences. Some are living in even more crowded inner-city situations or remote townships, like Antioch. Others are suffering from homelessness, which is rising in San Francisco while declining nationwide. And because many of these working-class groups grew up in San Francisco, they're having to watch their old neighborhoods gentrify in the process.

There are, indeed, numerous problems occurring right now in San Francisco—loss of jobs, companies and innovative workers; overcrowding; long commutes; homelessness; and gentrification. All of them are tied to the unwillingness, by different Bay Area cities, to allow more housing. These problems, collectively, are a high price to pay for simple inaction. TCA

Talking Heads

Tom Davis, Director, HUD Office of Recapitalization: *How to do a RAD deal*

By Darryl Hicks

Among the many innovative housing programs devised by the Obama Administration was the Rental Assistance Demonstration (RAD), which Congress authorized in 2012 to test a new way of meeting the large and growing capital improvement needs of the nation's aging public housing stock.

Interest in the program has exceeded RAD's statutory cap of converting 185,000 housing units, and the wait list grows daily. The person orchestrating this massive effort is Tom Davis, whose 20-plus year career in affordable housing spans many roles, from attorney to nonprofit developer to consultant, for a range of private sector clients.

Because of his deep background revitalizing urban neighborhoods and working with PHAs – not to mention his familiarity with RAD – Davis was the ideal choice to become the next director of the Office of Recapitalization, a position he has held since June 2015.

Tax Credit Advisor sat down with Davis to talk about what RAD has achieved, what developers looking for new opportunities need to know about the program, and where it's headed.

Tax Credit Advisor: *What advice would you give to affordable housing developers who have experience using Low Income Housing Tax Credits, New Markets Tax Credits, or HUD programs, like HOME, but have never done a RAD deal?*

Davis: There is extensive guidance in the RAD Notice and the Fair Housing, Civil Rights and Relocation Notice, which can be downloaded from the RAD web page at HUD.gov. Also on the RAD page, you can find training webinars and resource materials that newcomers and experienced users of RAD find informative. As a developer, it's important to understand the public housing authority's objectives. These are partnerships. Be clear with each other about what you're trying to get out of the partnership and what each party in the relationship is bringing and offering. It's also useful for the PHA's team to have

Tom Davis

a long-term vision, not just for the transaction at hand, but for the housing authority's portfolio as a whole. Pairing properties as part of an integrated plan can sometimes make a recapitalization work, while stand alone, one or both of them, might be unfeasible. A RAD transaction may also be the moment to launch a new strategic vision for resident engagement or for administrative staffing. It's about making your work more impactful for the people you are trying to serve. The most interesting and most exciting RAD transactions are the ones where people have stepped back and said, 'how can we use RAD as a tool for our ten- and 20-year vision for these properties and not just as a tool to fix the roof.'

TCA: What areas of the country do you see the highest concentrations of RAD activity? What percentage of the deals are rehabilitations versus new construction? How long do these projects generally take once construction starts?

Davis: The Southeast region of the U.S., which includes Texas, east to the Carolinas, and as far north as Maryland, was an early adopter of the RAD program, both in terms of applications received and number of units under construction. About 31 percent of the public housing stock is in this region and about 24 percent of our RAD conversions. Activity has been slowest in the Northeast, but it has picked up recently. New construction and significant rehab ($25,000 per unit or more) have accounted for 46 percent of all closed transactions – almost half the portfolio. New construction accounts for 12 percent of our trans-

Talking Heads, continued on page 12

Paul J. Weissman
Senior Managing Director
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Talking Heads, continued from page 10

actions and significant rehab accounts for 34 percent, with the remaining 53 percent of transactions doing more modest rehab. And getting to your question about how long these projects take, that can vary depending on the scale of the project, but the bigger projects are comparable to typical LIHTC or recapitalization projects that take anywhere from 12 to 18 months.

***TCA:* What funding sources are typically used in RAD deals?**

Davis: It's all of the things that LIHTC and affordable housing developers are familiar with. We see tax credit equity, both LIHTC and Historic Rehabilitation Tax Credits, local and state funding sources, which may include federal dollars that are administered locally, like CDBG, or state funds that support RAD transactions. We see first mortgage debt, some of it FHA-insured and some of it standard commercial debt. Housing authorities will sometimes contribute capital funds or operating reserves and they can do seller financing if they are selling the property to a tax credit ownership entity. One of the exciting things about RAD is that it is a budget neutral program. By shifting from the public housing regulatory platform to the Sec. 8 regulatory platform, which is more flexible, housing authorities and developers have tapped into a lot of opportunities without any new funding from the federal government. They have been able to put together transactions that have resulted in over $3.9 billion in construction work at these RAD properties – estimated to be 73,000 jobs. This budget-neutral effort generates an incredible amount of economic stimulus and improvement in the quality of housing offered at these sites.

***TCA:* If you could change one thing about the RAD program to make it function more efficiently, what would that be? What program enhancements are you working on?**

Davis: We are constantly looking for ideas to make RAD more impactful. A lot of those ideas come from creative housing authorities and development teams floating an idea to us and saying 'might we be able to do this?' A lot of the evolution of the program has been in response to ideas that come from folks on the ground who say, 'if only we could do x,' and those ideas often show up in subsequent revisions of the RAD Notice. For example, rent bundling was not in the first RAD Notice but it was added to the second Notice and remains in the third Notice where a development team can say, 'we've got one property where the rent level is higher than that property needs, and another property with a rent level that is lower than the property needs, can we – on a budget neutral basis – move rents from one property to the other, so that both deals work?' A lot of the changes are ideas that respond to problems. We are constantly looking to stretch the impact of RAD and do transactions that are financially on the edge. In the most recent version of the RAD Notice, we expanded how replacement housing factor funds – a particular type of public housing money – can be deployed and used. We are examining ways that housing authorities can more easily provide public housing subsidies in apartment buildings mixed in with non-subsidized units while still meeting all of the requirements of the statute. And we want to make RAD more accessible to small PHAs that don't have the staff capacity to think about a complex transaction.

TCA: Please comment on some of the barriers that prevent more RAD deals from getting done. Is HUD trying to fix them?

Davis: The biggest barrier is the statutory cap of 185,000 public housing units that can participate in RAD. That number has been reached and we have a wait list exceeding 20,000 units that continues to increase. There has been some interest on Capitol Hill about boosting the cap, but your crystal ball is as good as mine on what actions they might take.

TCA: Describe the types of PHAs that participate in RAD. Is there an ideal property size and staffing level that you like to see before approving a RAD deal? Who generally initiates these projects? The PHA, developer, or both?

Davis: We will work with any public housing authority that expresses an interest in RAD. There is interest across the entire spectrum, small (1-249 units), medium (250-1,249 units) and large (1,250 to 10,000 + units) PHAs. We've seen a slightly higher participation rate among medium-sized PHAs: their units account for 28 percent of the public housing inventory across the country, while 35 percent of RAD units are owned by medium-sized PHAs. But we see participation from all three groups. A small PHA that may only have three to five staff will more likely need to bring in expertise in the form of consultants or developer partners if they choose to go in the direction of a tax credit transaction, because it's possible they've never worked with tax credits. If we look at who initiates a RAD deal, we've seen deals initiated by both parties, but the PHA is ultimately the one who needs to submit the application.

TCA: What advice would you give to a developer who has never dealt with a PHA?

Davis: Like any business relationship, a developer should be honest and open about its objectives in the partnership. It should also recognize that PHAs, as public entities, may have a different sensibility around how they interact with residents and what their posture is toward outside stakeholders. PHAs may well want to be transparent, and we hope they are transparent, about what they are doing and how they are doing it. A developer may want to be in conversation with the PHA about how to implement a good communication process about the plans as they evolve because PHAs very much want to be in regular communication with residents and stakeholders.

TCA: What have resident experience and satisfaction levels been like? Have there been any challenges relocating residents?

Davis: RAD transactions that have a lot of construction often have some relocation component. Anytime we talk about relocation, it can be intimidating for residents. That's something that RAD teams need to pay attention to, which is why we have an entire stand-alone notice about fair housing, civil rights and relocation concerns. We've heard some great stories from all over the country about residents working well with their housing authorities, including people who were initially skeptical but once they saw the results, they were really pleased. That said, I don't want to understate that these deals can be disruptive to residents. There are situations where we have had challenges with the housing authorities not understanding their obligations to the residents. When HUD became aware of those situations, we stepped in and guided them in the right direction. Residents, by the way, have the right to come back to the property once construction is completed; not necessarily to the same unit, but definitely to the assisted property. HUD is working on a RAD evaluation, due out in 2018, which will include a focus on resident satisfaction. The contractor working on the evaluations will be studying resident satisfaction in great detail.

TCA: What other noteworthy RAD trends are you seeing right now?

Davis: One of the exciting trends that we are seeing is that more and more PHAs are looking at, playing around with, and using the "transfer of assistance" tool. It's a mechanism that allows a PHA and development team to move housing units from one site to another, perhaps from an older, distressed property to a new site with access to better schools, shopping and transportation. Sometimes it is used to reduce site density and in other instances to deconcentrate poverty in an area and distribute affordable units across the metropolitan area. Last year, there were twice as many transfers of assistance compared to the previous year. So housing authorities are recognizing that this is a tool that's helpful to them as they think about how they want to be supporting the low-income households in their communities for the next 20, 40, 50 years. TCA

RAD's Revision 3

Highlights of simplified rule

By Christian Robin

The Rental Assistance Demonstration (RAD) program began in 2012 with the purpose of addressing a $26 billion backlog of deferred maintenance for public housing. RAD converts both public housing, as well as properties funded under HUD's Legacy Programs (Rental Supplement, Rental Assistance Payment and Moderate Rehabilitation) to Project-Based Section 8. As of February 2017, RAD is responsible for converting 58,154 units and leveraging $3.9 billion in construction investment (not including acquisition, soft costs, reserves and developer fees). An additional 18,000 units are currently on the waiting list, and the number of units converted has increased each year, with 22,885 conversions in FY2016 and 15,702 units already as of February 16, 2017.

In January of this year, HUD published its third revision to RAD (Rev-3). NH&RA's RAD User Group discussed the revision in detail, resulting in a comment letter that was submitted to HUD in February. Furthermore, NH&RA's 2017 Annual Meeting played host to HUD Office of Recapitalization Director Tom Davis, who gave an update on the program and some additional thoughts on Rev-3. The majority of changes brought on by Rev-3 serve to streamline the program. For the larger, first component of RAD, covering public housing conversions, changes included:

- Elimination of the 50 percent cap of PBV units at a project. Under this revision, there is no limit on the number of units within a project that may receive Project-Based Voucher assistance.
- Extending eligibility for all contiguous phases of a HOPE VI project, as long as the original phase is at least ten years old. NH&RA asked in its comment letter that HUD define "contiguous," as it is defined differently by various programs. The letter asks for a broad definition of contiguous, allowing for the entire footprint of the original public housing site, as well as immediately adjacent parcels. Bisecting roads, as well as properties separated by related facilities integral to the project, such as schools, community facilities, retail, etc. should not break the "contiguity" of the site. It's likely this was HUD's intent in writing the revision.
- Equity and Acquisition Proceeds – Revision 2 stated that loan proceeds from a transaction could be taken out of a deal. This statement led to the interpretation that equity proceeds and acquisition proceeds were off limits. Rev-3 clarifies that those proceeds can also be taken out. Acquisition proceeds are, however, limited to affordable housing purposes.

As for the 18,000 unit waiting list, HUD realizes there is little benefit in putting forth all the effort in a full application to be on such a list. Rev-3 now allows for a simple letter of intent. Once the applicant nears the top of the list, HUD notifies the applicant and gives 60 days for a full application to be completed. The improved process may also hopefully serve to maintain a large waiting list, showing Congress that RAD conversion authority should be increased and the program made permanent. The waiting list does have turnover, as allocation occurs before projects have completed their due diligence resulting in some deals dropping out after the fact.

Creation of a high-priority tier for the waitlist for high investment /new construction projects has also been created. The simple letter of intent will not put applicants in this tier, only a full application will (the earlier date of an LOI will also not be used for a later submitted full application for high investment projects).

For the second component of RAD (HUD Legacy programs) where there is no budget neutral requirement, Rev-3 creates opportunity for increased income. For Mod Rehab projects, rent may now be increased up to 110 percent of FMR or, for certain Project-Based Rental Assistance conversions, up to 120 percent. There is now also the ability to use small area FMRs rather than Metropolitan Statistical Areas. Small area FMRs are based on zip codes – benefitting projects in high-cost markets. While there is plenty in Rev-3 for the developer community to be happy about, there are also areas for concern, hence NH&RA's comment letter. The most controversial issue is the new limit on the developer fee. TCA

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Caption Lavonia, GA

The Many Flavors of RAD

Unique challenges of completing conversions

By Bendix Anderson

Public housing is threatened – again – with deep funding cuts in the latest proposed federal budget, released in March by President Donald Trump.

News like this makes housing authorities even more eager to access programs, like the Rental Assistance Demonstration (RAD) from the U.S. Department of Housing and Urban Development (HUD). "RAD was originally conceived to address just that problem," says Joseph Hague, vice president for Red Capital Markets.

RAD allows housing authorities to convert public housing apartments to housing that receives project-based operating subsidies through HUD's Section 8 program. All HUD programs are subject to potential budget cuts by Congress, but the project-based Sec. 8 program has historically been consistent.

Housing authorities starting a RAD conversion will face a set of challenges as unique as the property they are converting. Even relatively simple conversions can be full of surprises. The latest proposed cuts to housing programs will make these conversions even more challenging.

Simple RAD refinancing provide consistent operating funding

Public housing has been underfunded for years. The shortage of money has forced many housing authorities to defer basic maintenance. Public housing communities across the country need major repairs that would cost $26 billion, according to HUD.

However, of the public housing properties that go through RAD, some properties are in relatively good condition and can often go through a simple RAD conversion with little or no other funding.

In October 2014, the Lavonia Housing Authority (LHA) in Lavonia, GA, closed on the RAD conversion of its entire 180-unit portfolio.

It was the simplest kind of RAD transaction. The public housing apartments were in good condition. The housing authority didn't need to take loans, soft funding or LIHTC equity to make the deal work.

In Lavonia, RAD converted the public housing apartments into affordable housing with a project-based Sec. 8 contract to provide rental subsidies to the people living in the apartments.

That's a huge relief for the authority, because the federal subsidies that are supposed to pay the costs to operate public housing have not been dependable.

Congress often passed federal budgets that provided less money to public housing than what federal officials at HUD estimated housing authorities would need to operate the properties.

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"Sec. 8 has traditionally been funded at the budgeted level. But public housing operating subsidies – 'Sec.9' has not been," said Red Capital's Hague.

Prior to its RAD conversion, LHA operated its portfolio with funds that, in some years, only covered 77 percent of what good management would require.

Also, Congress sometimes failed to pass a budget. The "continuing resolutions" passed instead made it challenging for LHA to keep the lights on, let alone pay for major repairs.

Project-based Sec. 8 subsidies have been more dependable over the years. Conversion set the new Sec. 8 rents at the portfolio at 95 percent of what LHA received in Fiscal 2012 – much closer to the actual cost to operate the properties than what the property received in other years.

Unlike other, more complicated RAD conversions, LHA kept ownership of its portfolio, though the apartments are no longer subject to public housing rules. LHA's role is now similar to a private company that manages a private, project-based Sec. 8 property.

"They became enlightened landlords of a Sec. 8 property, though they have a charitable mission," says Richelle "Shelly" Patton, principal with Tapestry Development Group, which consulted with LHA on the conversion.

LHA can also now take out a loan secured by the portfolio. "If they want to bring debt onto the property later they can," says Patton.

HOPE VI redevelopments benefit from RAD

Tens of thousands of public housing units have been comprehensively redeveloped in recent decades to become new, mixed-income communities through the HOPE VI program. Many of these communities are still in solid physical condition, but their public housing apartments can still benefit from RAD conversions.

For example, Monterey Place in New Haven, CT, and Southwood Square in Stamford, CT, were two of the first public housing communities comprehensively redeveloped through HOPE VI. Both completed RAD transactions in late 2016.

Just like in Lavonia, these HOPE VI properties are still in very good condition. "All we did was a subsidy swap," says Darcy Jameson, development director for Beacon Communities Development, which partnered with the housing authorities to complete the transactions. "Neither property needed an infusion of new tax credits."

RAD conversions simply allowed these communities to move to a more dependable form of operating subsidy.

"Both of these properties were starting to face challenges before their RAD conversions," says Jameson. "If you don't have enough operating subsidy, it is difficult to maintain the apartments in a standard that attracts market-rate residents."

RAD conversions have also eased the stress levels of many private partners in HOPE VI transactions, who no longer have to manage the budget shortfalls from public housing apartments.

Substantial rehabilitation

Public housing communities that need more serious repairs can find funding – but there are limits to how much RAD can provide.

By late 2017, renovations will be complete at Twin Lakes of Leesville, which includes 194 affordable apartments spread over four properties in Leesville, LA. Until recently, these apartments comprised the entire public housing portfolio of the Leesville Housing Authority.

The housing authority partnered with Bennett Group Consulting to complete a RAD conversion that turned these public housing units into affordable apartments subsidized with project-based, Sec. 8 rental subsidies.

Because Twin Lakes is no longer subject to public housing rules, Twin Lakes can now support a $3.5 million tax-exempt bond mortgage secured by the property. The U.S. Department of Agriculture Rural Development program provided the loan.

One of the challenges of RAD conversions, however, is that even though Sec. 8 operating subsidies have been much more consistent than public housing operating subsidies, they still are not very large.

More income would support a larger loan. To increase the net operating income at Twin Lakes, the developers made the apartments much more energy efficient. Most of these savings will reduce the utility bills for residents, which are paid for by HUD. The developers convinced HUD to recognize the energy savings, lower the utility allowances for the apartments and shift the savings over to the operating subsidies provided to the apartments.

"We can reduce the utility allowance to recognize up to 75 percent of the energy savings," says Holly Knight, vice president of development for Bennett Group Consulting, based in Auburn, AL.

Renovations at Twin Lakes will save $66,000 a year. HUD has allowed the developers to reduce the utility allowance accordingly, resulting in more income for the property, which allowed the properties to take out an extra $800,000 in debt.

The developers made the loan even larger by convincing the town of Leesville to forgive for 15 years the already low "payment in lieu of taxes" that the property would have had to pay. The extra net operating income allowed the property to support a little more debt.

RAD conversion also allows the housing authority to sell the property – just like the owners of any other Sec. 8 affordable housing property. At Twin Lakes, the housing authority sold the buildings and retained ownership of the land underneath, which it leased to the development.

That sale meant Twin Lakes could receive an allocation of LIHTCs and sell them, along with an ownership interest in the property, to Enterprise Community Investments for $8.3 million.

Again the developers squeezed all the funding they could out of their reservation of LIHTCs. For example, they made sure the property was appraised to reflect the property's unrestricted value, even though the covenants that will keep Twin Lakes affordable are layered and strong, says Knight.

A higher appraised value increased the price the LIHTC partnership paid the housing authority to buy the buildings. The housing authority accepted a $6 million note from the partnership, instead of cash. Meanwhile the purchase prices got included in the development cost and helped generate more LIHTCs to pay for redevelopment.

Even with all this work, the RAD redevelopment and conversion only added up to a total development cost of $23.4 million, or $121,000 per unit – and much of that expenditure was soft costs like the price of land.

RAD demolitions move public housing

The most intense kinds of RAD conversions involve the demolition of obsolete public housing.

In January 2017, the Wicomico County Housing Authority (WCHA) and affordable housing developer Pennrose opened 84 new apartments at Stone Grove Crossing in Salisbury, MD. It's the $17 million first-phase of the redevelopment of Booth Street, a former, 100-unit public housing site. Fifty of the apartments at Booth Street were demolished to make room for the new development.

However, even this success illustrates the complexity and difficulty of redeveloping public housing. HUD approved the RAD conversion of the subsidy from just 50 of the units at the old Booth Street to the new Stone Grove Crossing.

But the remaining 50 units cannot be redeveloped in the same location, according to HUD, because of Fair Housing Law.

"All RAD transactions must be approved by HUD's Office of Fair Housing and Equal Opportunity (FHEO)," says Ivy Carter for Pennrose. "They won't approve a transaction to place public housing in areas where minorities and poverty are already concentrated."

So the second phase of the RAD conversion of Booth Street must use the rental subsidies converted by RAD in a "community of opportunity," according to HUD. Pennrose

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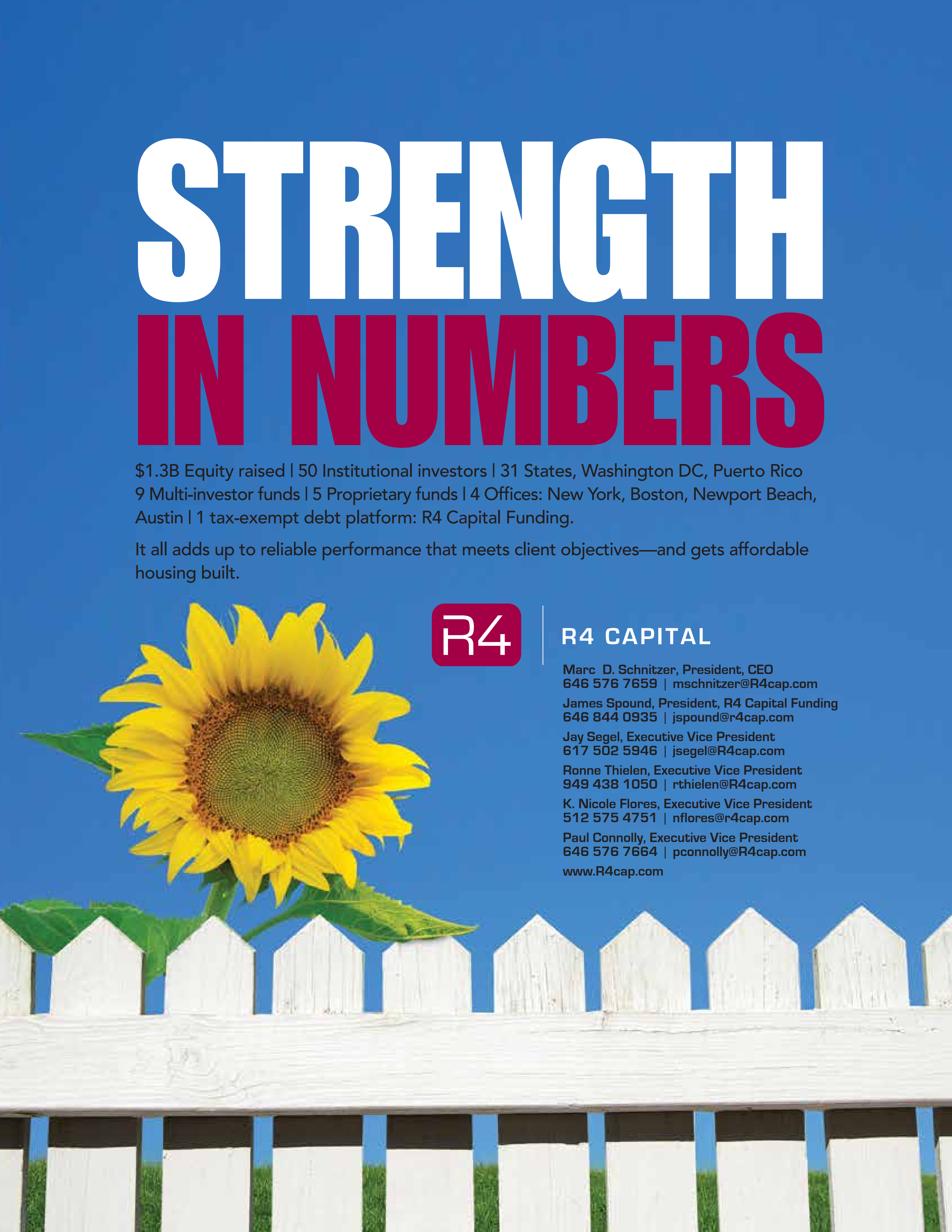
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has now secured a site for its second phase in the City of Salisbury and is applying to LIHTCs.

And HUD did not approve phase one immediately. A full year after phase one received a reservation of LIHTCs, FHEO questioned whether redevelopment was legal. Several months of anxiety followed before the deal could move forward.

"We had already spent $800,000 in predevelopment costs," says Carter.

The lesson learned for Pennrose is to make as sure as possible that there are no unexpected hurdles to redevelopment early in the process.

"Make sure you get your deal into FHEO before you go too far," says Carter.

Caption Stone Grove Crossing

RAD deals have so many moving parts, and often include so many different lawyers for the various partners, it pays to go over deals again and again, looking for potential issues and failures of communication. Problems can lurk in any aspect of the deal, from compliance with Fair Housing law to the title for the land under the public housing, which probably hasn't been examined in decades and may contain mistakes.

"In these transactions there are so many parties involved, communication is really key," says Red Capital's Hague.

HAs caught by funding cuts

Housing authorities that have already completed RAD conversions are now in a much better position the next time Congress dramatically cuts funding for HUD programs. However, a funding cut will put stress on housing authorities trying to complete RAD conversions.

For example, the New York City Housing Authority is expected to run a $28 million surplus this year. That would go a long way in hiring and training staff to manage complicated, difficult deals, like RAD conversions.

But if President Trump's budget plan is enacted, that surplus is likely turn into a $153 million budget gap, according to NYCHA officials who briefed city politicians on March 3.

NYCHA recently announced plans to convert 3,100 public housing apartments through the RAD program – including some of the City's "most challenging" public housing.

Many RAD deals depend on some contribution of funding from their local housing authority, such as capital funds. For RAD deals that are underway now, housing authorities, like NYCHA, have probably already set aside those funds.

"Most of the capital funds that the HAs are contributing, they have those funds already," says Red Capital's Hague

However, as cuts push housing authorities into the red, they are less likely to be able to sweep in to help RAD projects that have budget shortfalls for other reasons, like the fall in the price of LIHTCs.

The funding shortage might also squeeze the capacity of housing authorities to maintain the staff and resources they need to complete a RAD transaction.

The rest of the HUD budget also creates challenges for housing authorities attempting to complete RAD conversions. The proposed HUD budget eliminates the $950 million HOME program and the $3 billion Community Development Block Grant program.

"You are looking at deals that are maybe not going to be able to move forward," says Carter. TCA

A Visit to SF-RAD

Largest government-to-private ownership conversion in history

By Scott Beyer

In 2015, San Francisco approved the largest conversion of government housing into private ownership in American history. The deal is a mass overhaul of the city's decrepit public housing stock, as units across multiple neighborhoods are being restored and transferred to new management. The deal also represents the largest single application thus far of the Rental Assistance Demonstration (RAD) program, a recent voluntary reform initiative from HUD. This initiative in San Francisco, known as SF-RAD, is supposed to improve public housing services while preserving some of the city's ever-dwindling affordable housing stock. Recently, I was given a tour of various properties within SF-RAD's portfolio, to see how the repairs are coming along.

Before the SF-RAD project began in 2015, San Francisco had dealt with a poorly-run public housing authority that oversaw mold- and rodent-infested properties. In the prior year, HUD, recognizing that public housing was suffering similar mismanagement and disrepair nationwide, launched RAD. The program, according to the department's website, "allows public housing agencies to leverage public and private debt and equity in order to reinvest in the public housing stock." This means that such projects can adopt private-sector qualities, by funding repairs through a combination of Low Income Housing Tax Credit (LIHTC) equity and Section 8 vouchers. It also means that investors and developers can (so long as they follow certain rules) replace public agencies as the owners and operators of projects.

Such privatization was embraced by San Francisco mayor Ed Lee, who thought it would help compliment the struggling local housing authority. During the SF-RAD project, the city is rehabilitating a whopping 3,500 units, across 29 different projects, using eight private developers. Project costs will be $2.2 billion, and the repairs should be complete by 2020.

The finances driving this gargantuan project are unique. Bank of America Merrill Lynch—which was founded in 1904 in San Francisco as Bank of America, and has historically financed many of the city's affordable housing projects—financed the entire SF-RAD project alone. Indeed, the company is the sole construction lender and LIHTC investor, loaning money to the developers for repair and maintenance (Freddie Mac bought some of this debt, and is the project's permanent lender, while the seller-carryback lender and soft-lender, respectively, are the San Francisco Housing Authority and the city government). Ari Beliak, vice president of the bank's Community Development branch, which is overseeing SF-RAD, said having just one financier is unusual for such a large project. But the advantage to it, he said, while touring me around San Francisco, "was streamlining the logistics for the City of San Francisco and the Housing Authority to have a single point of contact to create transactional efficiencies to make the project simpler for them."

I had decided to meet Beliak to better grasp the scope of the SF-RAD project. It turned out to be an even bigger project in life than how the numbers read on paper. We first met in the city's Mission District to visit the Mission Dolores Senior Apartments, a high-rise structure that caters to low-income elderly people. Like every other project in the SF-RAD portfolio, it was currently under renovation, surrounded by scaffolding and construction workers.

From there Beliak and I traveled by Lyft to the city's southeast side, where public housing encompasses large swaths of certain neighborhoods. This mainly included various low-rise projects in the Hunters Point area, which roll along the hills just above a shipyard. As Beliak noted, these units have excellent views of downtown San Francisco, in all its prosperity, yet have long been segregated poverty clusters.

Finally, Beliak and I visited some properties in the downtown area. These included some of the highest-density buildings within the SF-RAD portfolio, such as a 234-unit tower on Pacific Avenue that fit nicely beside Chinatown's commercial heart. Other SF-RAD properties—which we didn't have time to visit—are in Bernal Heights, Western Addition, The Tenderloin and other neighborhoods.

What connects these properties is that they house low-income tenants, including some who are mentally ill, substance abusers, or coming from tough family situa-

A Visit to SF-RAD, continued on page 24


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RAD Green Incentive

By Ravi Maholtra

We all know the PHA program faces approximately $27 billion shortfall for capital improvements. HUD's Rental Assistance Demonstration (RAD) program was designed in large part to finance these capital improvements. While it is common knowledge that RAD can provide financing for capital improvements, few are aware that RAD also provides an opportunity, through green improvements, to reduce operating costs and increase NOI. And the good news – HUD pays for these green improvements!

When designing RAD, the Office of Recapitalization included a 'green incentive' to overcome the traditional pitfalls of the split-incentive i.e. why would an owner spend money to reduce utility costs for tenants? As PHAs rehabilitate their properties through RAD, any green improvements they make that results in utility costs savings, even for tenants, can be captured by the PHA. RAD allows 75 percent of the value of the savings in tenant-paid utilities, achieved as a result of green upgrades, to be subtracted from the utility allowance and transferred to the PHA as a rent increase! For example, if green improvements will lower a tenant's utility bill by $40, HUD allows an increase of $30 to the Contract Rent.

The RAD 'green incentive' provides a mechanism for PHAs to make their properties more efficient and capture the ensuing cost savings, which in turn increases the NOI and creates an opportunity to access additional financing. Despite these benefits, the 'green incentive' has been severely underutilized in most RAD conversions. And the irony – ALL rehabs under RAD, whether designed to be Green or not, will likely result in utility cost savings that could be captured as a rent increase or simply as increased NOI. This is because the old, inefficient systems have to be replaced with what is currently available, i.e. newer, more efficient systems.

PHAs should have a green consultant on their RAD team to assess the value of their green incentives. In an era of budget cuts, no PHA should miss out on opportunities to garner additional resources. TCA

A Visit to SF-RAD continued from page 22

tions. This is a big reason, noted Beliak, that many of the units first fell into disrepair. And it's why Bank of America, while financing SF-RAD, voluntarily allocated $2.2 million for onsite counseling. That, he said, would be "necessary to enable these tenants to thrive and for the properties to be managed appropriately."

Another social issue that the city and Bank of America hope to address through SF-RAD is the housing situation. "San Francisco," said Beliak, "is going through an extreme affordability crisis, which is impacting all segments of society."

This is highlighted by a housing shortage that, as I note in my latest Housing USA column, results from San Francisco's housing growth falling significantly behind its population growth. The SF-RAD project at least chips in for this problem: not only will it preserve low-income units, but it will, in a sense, be adding units, since many existing ones within the portfolio were so run-down that they'd been abandoned.

Yet, because the project isn't dedicated to significant housing growth beyond just repairing what exists, it feels like a massive wasted opportunity, especially given the city's land constraints. Take, for example, the aforementioned portions of the SF-RAD portfolio throughout the southeast side. They mirror the failed public housing found nationwide—they are low-density, suburbanized, and remote from private and public services. One option —which is possible through RAD—would've been to tear those structures down and replace them with buildings that have better designs, mixed incomes and more units. San Francisco has done this elsewhere via its Hope SF program, and some of those projects were financed by Bank of America. But it wasn't the city's strategy for SF-RAD, due to the same concerns about density and scale that inhibit many market-rate projects, too. (Olson Lee, director of the mayor's Office of Housing, didn't respond to multiple requests for comment).

That said, the SF-RAD project is still massive and ambitious; the largest of its kind in America. And it looks like repairs are moving along, with the before-and-after differences between adjacent units growing visible from street level. SF-RAD thus testifies to the coordination that occurred between different interest groups, the streamlined implementation of HUD's new RAD policy—and the vast resources of one financial institution. TCA

U. S. Senators Murray and Cantwell at ribbon cutting, grand opening of Lincoln Place Apartments in Vancouver, Washington

A Dependable Advocate

Senator Cantwell argues for more LIHTC

By Marty Bell

In 2011, on a Labor Day break from her job as the State of Washington's junior Senator, Maria Cantwell joined a party of five to climb 14,000 feet to the peak of Grand Teton. When asked how she negotiated one particularly steep and dangerous segment, Cantwell replied, "I didn't look down."

On March 7 of this year, in collaboration with Republican Senator Orrin Hatch of Utah, and with the bipartisan support of nine other senators, Cantwell introduced the Affordable Housing Credit Improvement Act of 2017, highlighted by a 50 percent increase in Low Income Housing Tax Credits, and began another steep climb. This 115th Congress may be dominated by Republican lawmakers in search of budget cuts to counteract tax cuts. But don't expect Maria Cantwell to back down. Addressing homelessness and the need for more affordable housing has been a priority of the senator that best-selling author Ron Suskind once described as "The irrepressible Maria Cantwell," for close to a decade now.

In 2009, at the tail end of the Great Recession during which tax liabilities and, as a result, private investment in tax credits dropped significantly, Cantwell first proposed an amendment to the American Relief and Recovery Act to encourage investment by accelerating benefits of the credit. In 2010, Cantwell introduced a bill that increased the value of the credits and would allow investors more flexibility, including a five-year carry back of deductions. In 2015, Cantwell succeeded in making the nine percent LIHTC a permanent rate as part of a congressional omnibus spending bill. And in 2016, Cantwell and Hatch first proposed a version of the current bill, which faded when Congress was unable to pass a budget.

Cantwell, continued on page 26

Cantwell, continued from page 25

Speaking before the National Association of State Housing Agencies in Washington, DC on the day prior to releasing the 2017 bill, Cantwell said, "We need to learn to crystallize this issue in an even more emphatic way. Our affordable housing crisis in America is growing deeper every day. In this decade, we have had an explosion of demand and a contraction of supply."

Crystalizing the Issue

Along with the release of the bill, Cantwell's office issued a report to explain its necessity entitled "Meeting the Challenges of the Growing Affordable Housing Crisis." "We need to be able to unpack this issue for my colleagues (in Congress)," the senator said.

What she unpacked is a trunkful of data and historical developments that paints a frightening picture of where we are as a society and yet tells a very sensible story of how we got here.

Following the Bush Administration's over-eager attempt to significantly increase homeownership via unjustifiable loans that laid a path towards far too many foreclosures, seven million American families lost their homes. At the same time, the boomer generation reached retirement age where a percentage prefer multifamily living situations to single homes. This created the largest increase in the number of renters in any decade. At the same time as the need for apartments was increasing, we lost 13 percent of the housing stock to crime and time. So as the demand increased, availability decreased and, as a result, rent costs rose.

So now we find ourselves 7.4 million living units short. And another 11.2 million renters are paying more than 50 percent of their earnings on rent.

"This crisis demands action by our leaders," the report reads. "If we do not act, the number of Americans driven into poverty by crushing rents will continue to rise. Research from the Harvard Joint Center for Housing Studies and Enterprise Community Partners shows that with no action by 2025, nearly 15 million Americans could be spending half of their monthly income on rent—an increase of 25 percent."

Beginning to Solve the Problem

The Cantwell/Hatch Bill doesn't look to reinvent the wheel, but instead to "build on the success of the LIHTC program that has leveraged over $100 billion in private sector investment and created 3 million affordable housing units spread among all 50 states."

The AHCIA proposes:

- Expanding the annual LIHTC allocation of nine percent credits by 50 percent, which, according to the Bipartisan Policy Commission, will allow the creation or preservation of 400,000 additional new units or a total of 1.3 million over the next decade (and also create 452,000 new jobs).
- Promoting broader income mixing in LIHTC projects. Historically the LIHTC program has encouraged preference for the lowest-income segment of the population. But the rents they can pay even with subsidy make the buildings financially unfeasible especially in the higher cost markets, where the most jobs usually are available. While the local workforce—teachers,

police, firemen, municipal workers—and recent college graduates, seek to live in the cities, they no longer can afford to. Not expanding this program earlier has vastly expanded the needs. AHCIA reforms the LIHTC income limitation formula to promote greater income mixing and financial feasibility.

- Allowing states more flexibility in financing projects targeting homeless individuals and extremely low income families. State housing credit allocating agencies are now permitted to provide a boost (more housing equity) to make development financially feasible. AHCIA increases that boost.

Growing up with politics

Maria Cantwell grew up in a home in Indianapolis where politics dominated the dinner conversation. Her father Paul F. Cantwell worked as a county commissioner, city councilman, state representative and chief of staff for Congressman Andrew Jacobs Jr. After earning a bachelor's degree in public administration at Miami of Ohio, she relocated to the state of Washington to work on the unsuccessful presidential bid by California Senator Alan Cranston.

By the time she was 28 years old, Maria was elected to the Washington State House of Representatives. After serving three terms, she was elected by Washington's 1st Congressional District, to the United States House of Representatives. In 1995, Cantwell lost her re-election bid amidst a Republican sweep by 2000 votes, became discouraged by politics and took a job as vice president of marketing for an innovative tech company, Real Networks, that focused on linking television and radio to the internet. When she joined RealNetworks it was a company of 60 in one room above a pizza parlor filled, according to *Seattle Times* reporter Diane Searcey, with "pony tails, tattoos and dreadlocks," quite a contrast for a former state rep whose style leaned towards suits. Her greatest thrill there was the first broadcast of a major league baseball game (between the Mariners and Yankees) on the internet. "There were moments like that," she said, "when you felt like you were part of history." Within five years, Cantwell was running a department with 100 employees in a company of 800 and the growth in the staff was mirrored by the growth in the stock's value and consequently Cantwell's worth.

Cantwell has a Debra Winger kind of spunk. People working for her described her as "driven and demanding." The combination of her determination and new found wealth led her to challenge three-time Senator Slade Gorton in the 2000 election. She won that by just 2500 votes. But in 2006 she won reelection with 57 percent of the state vote and in 2012 she won with over 60 percent.

In the Senate, some have referred to her as a "west coast Elizabeth Warren." In addition to affordable housing, Cantwell has been a staunch advocate for natural resources and small businesses. She has had her moments of feistiness. Coming from a state with a significant Native American population, she proposed eliminating the National Football League's anti-trust exemption as punishment for the Washington Redskins not changing their name. Though a supporter of the Affordable Care Act, colleagues criticized

Cantwell, continued on page 28

Cantwell, continued from page 27

her for backing off the single payer option, though she preferred it, but argued she could not find enough votes in the Senate to pass the act without a different approach. Wiseguy opponents have labeled her "Senator Can't-smile," but what progressive civil servant can smile in a chamber where venom is more apparent than good sense?

Representing Washington, she is faced with 390,000 constituent households that pay more than half their income for rent, 16 percent fewer available rental homes than the average in other states, and, since 2000, a 2.4 percent decline in income coupled with a 7.6 percent rise in median rents. The *Seattle Times* has reported that rents in Seattle have grown at a higher rate than in any other city in the country. According to Zillow, rents in Washington have risen four and a half times faster than the national average.

Are we dreaming?

What is the likelihood of Senator Cantwell successfully navigating her bill through the current Congress?

The LIHTC program is legislated by Congress, overseen by HUD and administered by the Internal Revenue Service, which allocates the credits and is responsible for audits.

Though the president has not officially released a proposed budget as of this writing, reports are the administration is considering a $6 billion cut in HUD financing. Among the community enrichment programs mentioned for elimination are Community Block Grants and Obama's Choice Neighborhoods program, which brought cabinet departments together to conceive and fund urban development. Not a good omen.

On the other hand, the president is a builder and one would think he understands what it takes to finance construction and the role home plays in stabilizing lives. Aspects of the LIHTC program that may garner bipartisan philosophical support include the fact that this is a model for private/public partnerships that uses an average of $6 billion in uncollected tax revenue per year to attract significantly more than that in private investment. LIHTC is also a model federal project where much of the responsibility is handed off to the states, presumably a priority of the current majority.

The last increase in the LIHTC program was made by the 104th Congress in a Lame Duck session at the end of 2000 prior to the inauguration of George Bush, the first year of the Bush Administration. In that Congress, Republicans held a 55-45 majority in the Senate and a 223-211 majority in the House. At the time, the credits had been awarded at $1.25 per capita since the program's inception 13 years prior, while construction costs continued to rise so each dollar resulted in less new affordable housing. At that time, the per capita amount allocated to states was raised to $1.75 over two years, plus an annual inflation adjustment. Currently, allocations are awarded at $2.35 per capita.

Cantwell now faces a 52-48 Republican majority, but along with Senator Hatch also already has Republican Senators Orrin Hatch, Dean Heller (NV), Lisa Murkowski (AK) and Todd Young (IN) as co-sponsors. But the mountain for Senator Cantwell to climb is the House's 246-188 majority. On this trip, you need someone who won't look back or back down. TCA

Beware the Aggregator

Avoiding bad investor exits

By David Davenport

Created by the Tax Reform Act of 1986, the Low Income Housing Tax Credit (LIHTC) has become the most important resource for creating and maintaining affordable housing in the United States. The LIHTC program provides state and local allocating authorities the equivalent of approximately $8 billion in annual budget authority to issue tax credits for the acquisition, rehabilitation or new construction of rental housing targeted to lower-income households. Because the LIHTC program brings real estate developers and tax credit investors together to achieve the laudable purpose of providing affordable housing and has helped to finance nearly 2.4 million units of affordable housing since 1986, the program is a great illustration of how the public and private sectors can come together to address important social needs.

Experience has shown that the vast majority of relationships that are formed between real estate developers and tax credit investors are good, long-term relationships, generally guided by reasonableness and fairness, and governed by complex partnership agreements. These "project partnerships," in general, include a general partner entity (often a subsidiary of the developer), who operates and manages the partnership; and a limited partner entity (the investor), who generally plays a passive role in the operation of the partnership, possesses certain negotiated rights regarding management, and receives the vast majority of the tax credits during the first ten years of the partnership's operation of its affordable housing development. The limited partner entity, often a partnership itself, and commonly referred to as the Upper Tier Partnership, is typically comprised of a general partner who manages or controls the tax credit investment and a limited partner who actually made the capital investment for the tax credits.

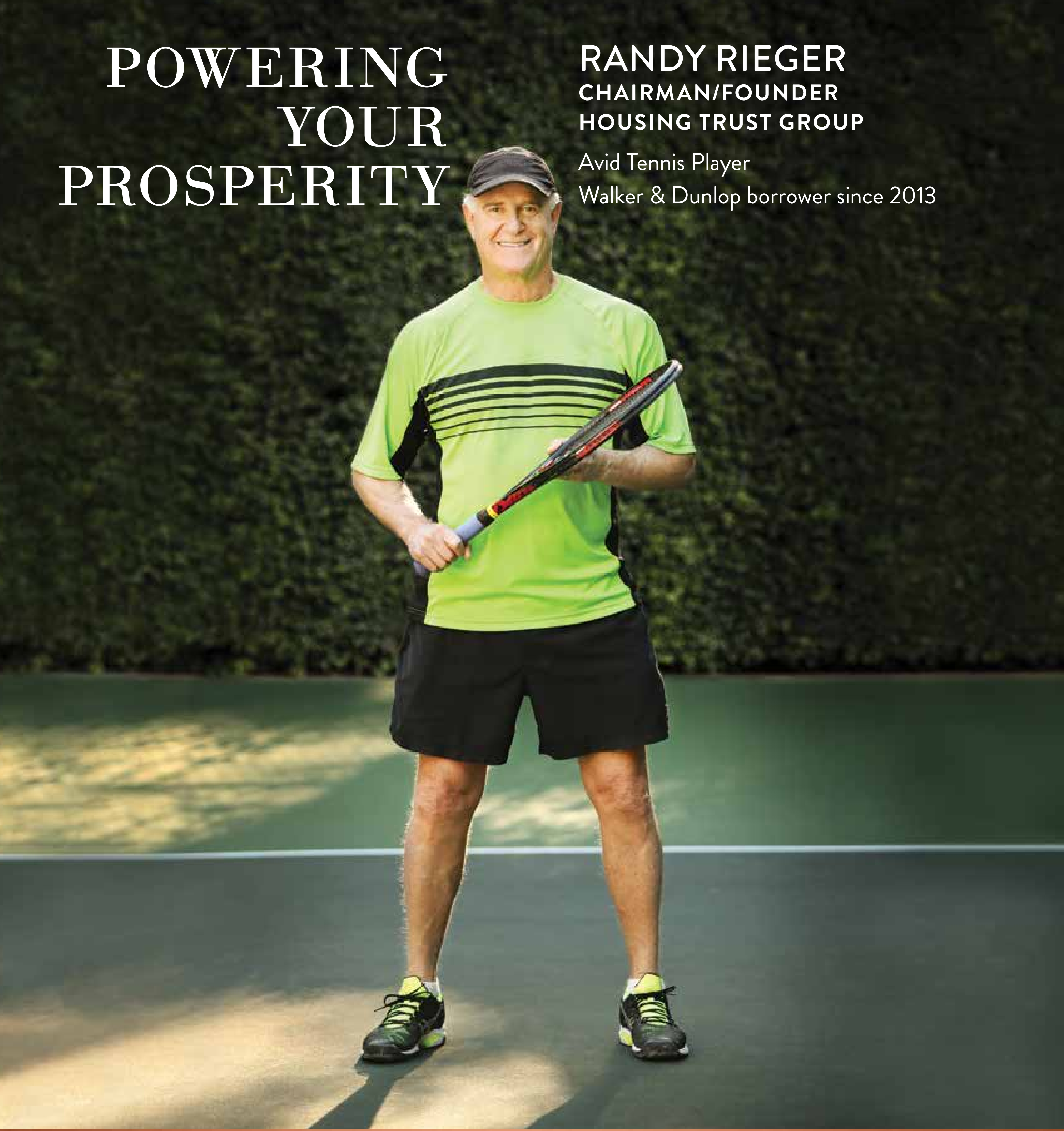
The Aggregator is someone new to the general partner; who was not part of the initial transaction that lead to the partnership or the development; and, as experience has shown, views the partnership and its development as a financial instrument rather than a real estate investment.

Enter the Aggregator

I am a Shareholder with the law firm of Winthrop & Weinstine, P.A, which is located in Minneapolis, MN; and I am a trial lawyer. Over the last several years, I have seen significant changes take shape in the industry, and participants, usually real estate developers, find themselves in project partnerships where their limited partner tax credit investor is now managed or "controlled" by what has become known within the industry as an Aggregator.

An Aggregator—unlike a typical syndicator or investor that developers have worked with for years—is usually an organization that has acquired limited partner interests in the project partnership or may have obtained control of the Upper Tier Partnership through ownership of its general partner entity long after the creation of the original project partnership. In other words, the Aggregator is someone new to the general partner; who was not part of the initial transaction that lead to the partnership or the development; and, as experience has shown, views the partnership and its development as a financial instrument rather than a real estate investment. Thus, once the project partnership's tax credits have been fully allocated and realized due to the developer's successful operation of the development, and the development reaches the end of the Compliance Period (i.e., year 15) such that recapture of the tax credits is no longer a possibility, the Aggregator aggressively seeks to dispose of the limited partner's interest in the project partnership. And, in my experience, the Aggregator often casts reason, fairness, good faith, and legal principles aside because it is not an industry participant interested in developing more affordable housing; rather, it hopes to extract more financial return from the development than the tax and other benefits it purchased.

Beware the Aggregator, continued on page 31


POWERING YOUR PROSPERITY
RANDY RIEGER
CHAIRMAN/FOUNDER
HOUSING TRUST GROUP
Avid Tennis Player
Walker & Dunlop borrower since 2013

Beware the Aggregator, continued from page 29

In my work with developers on a variety of year 15 issues and concerns, I have seen this happen many times. For instance, a few years ago, I represented a nonprofit organization who was a general partner in a project partnership and had negotiated for, and received, a right of first refusal to purchase the development at the end of the compliance period for the statutorily discounted price of debt plus taxes. The partnership agreement, like the right of first refusal, was entered into in 1999. Fifteen years later, when the nonprofit went to exercise its right, the Aggregator rejected the exercise and claimed that the document giving rise to the right had been invalid from its inception. Upon investigation, the nonprofit realized that the right of first refusal document had an error in it because it identified a for-profit affiliate, rather than the nonprofit as the entity possessing the right. Thus, according to the Aggregator, because the contract had a provision stating that the right would expire if the nonprofit lost its nonprofit status during the compliance period, the nonprofit never actually had the right at all. On its face, the Aggregator's position was entirely unreasonable, but it provided a platform for the Aggregator to create controversy and argue for a sale of the development based upon a fair market value rather than debt plus taxes. Fortunately, but after being in litigation for more than a year, we obtained a court order to reform the right of first refusal, correct the error, and allow for the nonprofit to move forward as the party with the right of first refusal.

While adversarial relationships are not the norm in the LIHTC industry, the presence of the Aggregator has created conflict unlike that which we have seen in the past.

Additionally, I have represented several real estate developers involved in refinance disputes that arise when project partnership debt is scheduled to mature around year 15 and the limited partner tax credit investor refuses to consent to the refinance, or contrives arguments that consent is needed to refinance when, in reality, it is not based on the operative partnership agreement. In these cases, large positive capital accounts generally exist and the Aggregator, who may also have rights to substantial deferred asset management fees, posits that refinancing at year 15 is simply not allowed, under any circumstances; unless, for instance, the proceeds from a refinance are used to acquire the tax credit investor's "interests" in the project partnership for a price determined by the Aggregator. In expressing the perceived value of this interest, the Aggregator may condition its price to the balance of a positive capital account or to a 99 percent distribution of the proceeds from a hypothetical sale of a development since the partnership agreement (for tax reasons) made the limited partner a 99 percent owner of the project partnership. To create leverage, and where consent to refinance is needed, the Aggregator may withhold consent, even as the project partnership's debt is scheduled to mature and default is imminent. Fortunately, I have been able to help real estate developers navigate these situations and obtain court orders to allow for refinances without consent from the tax credit limited partners. Most recently, last November, following a bench trial, my developer client was successful in proving that the Aggregator had acted unreasonably and in violation of the partnership agreement and an implied duty of good faith and fair dealing (which exists in all contracts).

Property Raids

Lastly, recent experience suggests that efforts to remove developers from their posts as general partners in project partnerships may be on the rise and become more common. In fact, in helping clients address a recent property raid—where six people (including two security guards and a locksmith) showed up unannounced at 9:30 on a Monday morning at a senior housing development with the intent to physically "take over" the property—we learned that the raid was only one out of approximately 20 removal raids that had been orchestrated over the last four years. We also learned that the raid followed a standard protocol and was coordinated by an employee whose job duties include initiating and overseeing raids intended to remove general partners from project partnerships.

In sum, while adversarial relationships are not the norm in the LIHTC industry, the presence of the Aggregator has created conflict unlike that which we have seen in the past. TCA

CASE STUDY

Rehabbing Hope

Detroit crime swamp transformed

By Mark Olshaker

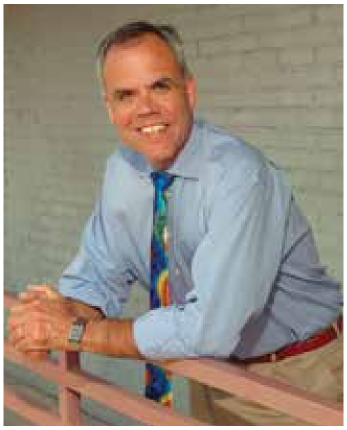
On the morning of Friday, November 15, 2013, a 150-person combined force of the Detroit Police Department and SWAT team, Michigan State Police, the state department of corrections, the FBI and ATF executed a raid on the Colony and Fisher Arms Apartments at 9303 East Jefferson Avenue, on Detroit's east side. Numerous police vehicles and EMS units blocked off the corner of East Jefferson and McClellan Street as a police helicopter hovered overhead. The raid netted 32 arrests in the low-income residences that Detroit Police Chief James Craig characterized as a hotbed of criminal activity and members of his department declared was "the most problematic building in the city."

On the morning of Friday, January 27, 2017, a public ceremony was held at the same site to rename the buildings as River Crest Apartments, now among the most desirable and safest affordable housing facilities in the city. Mayor Mike Duggan, whose official residence, the Manoogian Mansion, is two blocks away, was on hand to proclaim proudly, "It is a completely different place. This is the quality we're going to continue to build for the people of the city of Detroit." Police chief Craig was back on the scene, much happier this time around. City council president Brenda Jones was also in attendance.

What happened in slightly more than three years to transform this 161-unit urban blight from a place even the police feared to the mayor and city council's pride?

Vision, optimism, passion, patience, community and government involvement, and a complex funding stack, according to the collective evaluations of several people closely associated with the effort. "It is always a challenge, but if you keep your eye on the goal, you can get through it," says Dennis Quinn, senior vice president of Building Blocks Nonprofit Housing Corporation of Lansing, MI. Building Blocks partnered with its fellow Lansing-based organization, Cinnaire – a nonprofit community development group – and Chesapeake Community Advisors of Baltimore to complete the $24 million renovation.

The twin apartment buildings had been constructed in 1924 with period design features and residential amenities suitable to the "Gold Coast" of the nation's premier manufacturing city. "This was a high-end, preferred address," explains Mark S. McDaniel, Cinnaire's president and CEO.



Mark McDaniel

"But in the late 1950s, the '60s and '70s, we saw an escalation of middle class flight from Detroit. A way to save the buildings was to convert them into project-based Section 8 housing, which is what happened in the early 1980s. Even then it was a good, safe, nice place to be. But in the late '80s and '90s, Detroit spiraled down. There was bad property management that combined with the negative dynamics of the city. It's hard to reverse that. Things quickly disintegrated and got out of control. Drug dealers had free reign over the property and surrounding neighborhood. Even the police didn't want to go in."

In the year prior to the raid, Detroit PD had logged more than 600 calls from the buildings. Drug-related crimes, burglary, robbery and homicide were rife in the area.

"My first week here, a guy got shot in the building. He was dead in the hallway," says Sherman Jones, a seven-year resident.

"When I first moved down here, I was scared to walk outside," three-year resident Katherine Bradford recalls.

HUD had concluded that Colony and Fisher Arms were in such a state of disrepair and poor management that they were no longer serving their intended affordable housing purpose and the department was therefore prepared to revoke the Sec. 8 contract and walk away. "The existing general partner essentially threw up his hands in despair," McDaniel adds.

In addition to the crime and dilapidation problems, a 2011 power outage made conditions so intolerable that many residents started sleeping outside. And a bedbug infestation was chronic.

There was no suitable developer in the marketplace

River Crest Apartments

willing to get involved with such a troubled property. "That was when Chesapeake came to us and said, 'It would be a shame to lose all this Sec. 8,'" McDaniel relates. "We could see a slumlord buying it and the whole area would be no better off. So we thought we should take a look."

Cinnaire has a long and productive history with Detroit, having contributed more than $500 million worth of investments in the city over the past 23 years. "From our very formative years, one reason we were created was to take on developments no one else was interested in or would touch. But that's who we are. We've had great successes over the years with taking on very tough stuff, like new construction in bad neighborhoods. We are conservative in our calculations, methodical in every step of the process, and we have investors who have faith in us and the companies we work with."

McDaniel is a Michigan State graduate in urban planning who worked with a developer for 15 years but found his greatest satisfaction was working with the nonprofits when he realized the impact affordable housing could make. With some coaxing from associates in that sector – he was a single dad raising two children at that stage – he ended up taking a 50 percent pay cut to head up what was then known as Great Lakes Capital Fund, set up to build with tax credit allocations. The organization was rebranded a couple of years ago as Cinnaire when its vision and mandate expanded. The name is taken from Celtic words meaning "forward thinking and progressive," and "helpful and caring."

"The whole idea exceeded all our expectations. The impact on people's lives was beyond comprehension. All the people who work here have a passion for what they do, and it all revolves around those two sets of words," say McDaniel. "What we really looked at [with Colony and Fisher] was a master plan, not only for this property, but the neighborhood around us. Any community we enter into, our goal is to transform it and make it a safe, quality place to live and work."

Cinnaire's two development partners are equally committed to their affordable housing missions. Building Blocks, according to Quinn, also takes on the hard challenges and will step in and facilitate development transactions when others don't want to take on the challenge. Colony and Fisher was a near perfect case study. Once involved in a new endeavor, Building Blocks will seek new general partners and team up with other development entities, like Cinnaire, with which it has had a close working relationship.

Founded in 2001 by David Prout, a veteran of affordable housing finance, Chesapeake Community Advisors specializes in structuring and developing Low Income, Historic, New Market Tax Credit and federally financed projects, from preserving existing facilities to identifying new opportunities, real estate consulting, underwriting and syndication, as well as exit strategies, workouts and dispositions.

"Because of the architectural significance of the buildings," says Quinn, "we applied to have them designated as historic by the National Park Service. This allowed us to seek, and successfully receive, federal Historic Tax Credits." Other elements of the complex package included federal nine percent LIHTC, a new FHA

River Crest, continued on page 34

River Crest, continued from page 33

223(a)(7) mortgage, long-term renewal of project-based Sec. 8 rental subsidies and financing from the Federal Home Loan Bank of Indianapolis Affordable Program Fund. *(See Funding Sidebar)* In addition, the city of Detroit contributed vacant city-owned land adjacent to the property to be used for parking.

"We applied for a new Sec. 8 contract that would be mark-to-market at 105 percent of fair market rate, based on the improvement of the area," Quinn adds.

The project is configured into nine efficiency units, 104 one-bedrooms apartments and 48 two-bedrooms. All received new paint, carpeting, appliances and central air conditioning. The lobby was upgraded to enhance the historic aspects, such as paneled walls, tile floors and new gas fireplaces. A tunnel was dug at the basement level connecting the two buildings for the first time.

"We also got control of two houses behind the property that had seen a lot of troublesome activity," McDaniel says. "We tore them down and combined them with the city land for a playground and community garden."

Because of the condition and reputation of the buildings, there was a 60 percent vacancy rate, which made the rehabilitation logistics somewhat easier. The two buildings were done in succession, so that as each floor was under construction, residents could be moved to the other building.

One of the greatest challenges was addressing the crime and safety issue. "It all comes down to property management," McDaniel declares. "We recognized the security issues and installed monitoring cameras and state-of-the-art technology. We have a really strong security team on site, some of whose members lived in the property when it was so horrible. They know who should be there and who should not, and they chased away all the bad activities. We now have an excellent relationship with the Detroit Police Department and we have community police officers personally committed and emotionally engaged in this property, looking out for the mothers, children and elderly. The police chief has made a personal commitment to the community and the neighborhood has gone from one of the highest homicide rates in the city to one of the lowest."

When the project was completed, response was so overwhelming that the waiting list had to be closed within a few weeks.

River Crest Lobby, Open House

Katherine Bradford declares, "Now that it's been fixed up, everyone wants to move in here. We've been through the storm and back before we got here."

"Now," says Sherman Jones, "there is nothing like this; not even close."

With a 20-year Sec. 8 contract, resident income levels are restricted to 60 percent or less of area median income. And though River Crest is not officially designated as a supportive housing project, Quinn says, "We decided to treat this as supportive housing. We set aside funds to keep that going for two years and contracted with Semaritas, the Lutheran social services agency, to work with children, with families, with single parents, with employment challenges and literacy."

City Council President Brenda Jones awarded McDaniel and Cinnaire the Spirit of Detroit award for improving the city's quality of life. WXYZ television quoted Mayor Duggan as saying projects like this are crucial for the city to thrive again.

In many respects, River Crest can be viewed as a model of affordable housing and urban revitalization. But Quinn notes that to make a project like this work, a number of elements have to come together. "You have to have reliable funding partners, the scale large enough for it to be effective, you have to have a housing assistance payment agreement, tax credits, a definable need for affordable housing, and you have to have support from government and the community. And, of course, you have to have confidence and optimism."

"Everything had to match up just right to make it work," McDaniel asserts. "But we have a lot of experience in this area."

Colony and Fisher Arms Apartments

- "Transfer of Physical Asset" from Seller to Building Blocks
- Designation of Building Blocks as a "Qualified Non Profit" (QNP)
- New 20-year "Housing Assistance Payment" (HAP) contract (Project-based Sec. 8) (105 percent of Fair Market Rents - FMR)

SOURCE OF FUNDS

New First Mortgage (FHA 223a7 – immediate) ($3,077,100.00)

Assignment and Assumption of Mortgage Restructure Note/Mortgage and Contingent Payment Note/ Mortgage by Building Blocks ($3,078,418.00)

Federal Home Loan Bank of Indianapolis (FHLBI), Affordable Housing Program (AHP) Grant ($500,000.00)

Cinnaire (Limited Partner/Equity Investor – LIHTC/HRTC) equity investment ($17,125,440.00)

Building Blocks Non-Profit Housing Corporation deferred developer's fee ($443,209.00)

Transfer of Existing Tax and Insurance Escrow ($71,239.00)

Transfer of Existing Replacement Reserves ($125,126.00)

USE OF FUNDS

Acquisition of adjacent properties (City Lot $160,000.00 & two-duplex houses $50,000.00)

Purchase price (Land $595,000.00/Buildings $2,883,418.00)

Construction ($15,203,135.00) (including contingency $1,374,376.00)

Professional fee/Soft costs ($3,090,000.00) (including developer's fee $1,800,000.00)

Financing Costs ($775,442.00) (including construction loan interest $425,809.00)

Tax credit syndication Costs ($198,475.00)

Reserves ($1,540,062.00)

Total Source/Use of Funds ($24,420,532.00)

Unsecured construction/bridge loan from Huntington Bank ($11,238,911.00}

OPERATIONS

Annual Gross Potential Income ($1,507,968.00) (Increasing @ 2 percent)

Annual Expenses ($1,026,782) (Increasing @ 3 percent)

Annual Net Operating Income ($481,186.00) (Decreasing @ 1 percent)

Annual Debt Service First Mortgage & Required Reserves ($270,000.00)

Annual Cash Flow to Second and Third Mortgage & Deferred Developer's Fee ($210,000.00 – Decreasing)

Mayor Duggan told *Tax Credit Advisor*, "This project is a great example of the city we are trying to build, which is a place that has room for families of all income levels. In what was once a very troubled and crime-infested building, we now have 161 beautiful units of affordable housing that will be here for the long term, and that is an asset to the surrounding neighborhood. The partnership that made this happen is a great model for other communities."

"I appreciate that somebody cared enough to try to solve the situation and try to make it better for us," Katherine Bradford comments.

"It's a community of hope now," says McDaniel. TCA

Corporate Tax Credit Fund Watch | *April 2017*

Sponsor (1) Investor Contact Acquisition Contact	CURRENT MULTI-INVESTOR LIHTC CORPORATE FUND Fund Name Geographic Focus	Amount of Equity Raised to Date for Fund	Expected Size of Current Fund	Average Net Tax Credit Price	Cash Needs Basis IRR
Alliant Capital Stacie Nekus (312) 342-9696 Jen Erixon (303) 916-6311	***Alliant Tax Credit Fund 89*** National	N/A	$125,000,000	$0.93	5.5% to 5.75% Tiered
Boston Financial Investment Management Sarah Laubinger (617) 488-3230 Greg Voyentzie (617) 488-3203	***Boston Financial Institutional Tax Credits 47, LP*** National	N/A	$100,000,000	N/A	Tiered
Cinnaire (formerly Great Lakes Capital Fund) Marge Novak (517) 364-8929 Jennifer Everhart (517) 364-8911	***Cinnaire Fund for Housing LP 32*** Midwest and Mid-Atlantic	N/A	$100,000,000	$0.901	5%, Tiered
CREA, LLC Tony Bertoldi (617) 892-6071 Charles Anderson (317) 808-7365	***CREA Corporate Tax Credit Fund 54, LLC*** California	$16,000,000	$65,000,000	N/A	5.25%
Enterprise Community Investment Kari Downes (503) 553-5659 Raoul Moore (410) 772-2685	***EHP 29*** National	N/A	$130,000,000	N/A	N/A
Massachusetts Housing Investment Corp. Peter Sargent (617) 850-1027 Kathy McGilvray (617) 850-1008	***MHEF XXIII*** MA, CT, RI	$39,700,000	$50,000,000	$1.02	4.25%
Midwest Housing Equity Group, Inc. Becky Christoffersen (402) 334-8899 Tom Stratman (402) 334-8899	***MHEG Fund 48, LP*** Midwest	N/A	$150,000,000	N/A	5.60%
Ohio Capital Corporation for Housing Hal Keller (614) 244-8446 Hal Keller (614) 244-8446	***OEF XXVII*** OH, KY, WV, PA	N/A	$225,000,000	$0.89	5.25%
PNC Real Estate Tax Credit Capital Megan Ryan (202) 835-5965 Gayle Manganello Ellis (978) 244-1116	***PNC Real Estate Tax Credit Capital Institutional Fund 65, LLC*** National	N/A	$125,000,000	$1.01	Tiered
R4 Capital LLC Marc Schnitzer (646) 576-7659 Peter Dion (617) 502-5943	***R4 California Housing Partners III LP*** California	$58,000,000	$72,000,000	N/A	N/A
	R4 Housing Partners VIII LP National	$0	$195,000,000	N/A	N/A
Raymond James Tax Credit Funds Steve Kropf (800) 438-8088 James Horvick (800) 438-8088	***RJTC Fund 43*** National	$0	$150,000,000	N/A	Tiered
RBC Capital Markets Tony Alfieri (216) 875-6046 Craig Wagner (980) 233-6459	***RBC Tax Credit Equity National Fund - 25, LP*** National	$0	$120,000,000	N/A	Tiered
The Richman Group Affordable Housing Corp. Stephen M. Daley (843) 936-3030 David Salzman (203) 413-0333	***USA Institutional Tax Credit Fund CXI LP*** National	N/A	$150,000,000	N/A	5.00%-5.50%
	USA Institutional Tax Credit Fund CXV LP NYC	N/A	$100,000,000	N/A	5.00%
WNC & Associates, Inc. Christine Cormier (949) 236-8233 Darrick Metz (888) 798-0557	***WNC Institutional Tax Credit Fund 43, LP*** National	$90,000,000	$130,000,000	$0.9253	5.65%

1) All data has been provided directly by the fund sponsors. Accordingly, neither Ernst & Young LLP nor *The Tax Credit Advisor* take any responsibility for the accuracy of the data or any calculations made by the sponsors. 2) The gross equity needed for properties for which an executed syndication contract is in place, as a percentage of total expected gross proceeds, assuming all single-payment cash investors.
3) The estimated expense load is the percentage of gross proceeds the sponsor expects to expend for offering costs and expenses, acquisition fees and expenses, brokerage commissions and all other front-end costs (other than working capital reserves) assuming all available units are sold to single-payment cash investors. If you would like to have a fund listed in the next edition of *The Tax Credit Advisor*, call Jillian Flynn, Tax Credit Investment Advisory Services, Ernst & Young LLP, at Jillian.Flynn@ey.com, 617-375-3796. There is no charge for a listing.

EY Building a better working world

# of Properties Specified	% of Gross Proceeds (2)	Estimated Front End Expense Load (3)	All LIHTC Equity Raised & Closed by Syndicator in 2017
12	97%	N/A	$81MM
0	0%	N/A	$13.4MM
N/A	N/A	N/A	$3MM
7	100%	7.35%	$76MM
N/A	N/A	N/A	$58.5MM
3	62%	5.00%	$20.4MM
N/A	N/A	7.25%	$0
30	80%	up to 6.5%	$25MM
16	50%	up to 7%	$64.7MM
9	N/A	N/A	
21	N/A	N/A	$14MM
14	75%	7.00%	$320MM
N/A	N/A	N/A	$79MM
25	100%	N/A	
13	100%	N/A	$35MM
13	71%	N/A	$0

State Roundup

More state qualified allocation plan updates, deadlines, and documents at www.housingonline.com/resources/facts-figures/qualified-allocation-plans/

California: Almost 32,000 Affordable Units At Risk Over Next Five Years

The California Housing Partnership Corporation's annual assessment of risk of loss of affordability in California not only outlines the loss of 28,152 affordable housing units in California, but also reports that 31,988 affordable housing units are at risk of conversion to market-rate over the next five years. The figure is particularly alarming considering that the number of units already lost was over a span of roughly 20 years – to lose an even greater number in just five years could have a significant impact on the state's affordable housing supply.

The CHPC Preservation Clearinghouse assesses California's affordable properties, including HUD subsidized, USDA Section 515, and LIHTC. The database is made available to local governments and nonprofit housing partners upon request. Contact Danielle Mazzella at dmazzella@chpc.net for more information.

Louisiana to Present Draft QAP to Board for Approval, Public Hearing March 30

A redline draft of the QAP has been released and was presented to the Board of Directors on March 15. A public hearing was held March 30. Proposed changes to the QAP include:

- One funding round rather than two.
- New Rural Pool (25 percent of allocation after ten percent non-profit is allocated). Half of this pool is set aside for rehabilitation projects.
- New 30 percent AMI Pool (25 percent of allocation after ten percent non-profit is allocated). Reserved for projects with at least ten percent of project units set aside for incomes at or below 30 percent AMI.
- Market Study Challenge. Applicants may request a second market study to challenge a market analyst's findings, as long as the request is in writing and submitted with the challenge response packet by August 22, 2017.

Ohio Finalizes 2017 QAP Amendment Recognizing Equity Changes for 2016 Projects

To help bridge funding gaps for 2016 awarded projects, the Ohio Housing Finance Agency has released a final approved 2017 QAP amendment. Some significant changes include:

- The 2017 Competitive HTC Program calendar is postponed four weeks. A revised calendar is attached in Exhibit A of the Amendment.
- Set-Aside for 2016: of the $27.3M allocated for 2017, up to $4.59M will be set aside for 2016 allocated projects as gap filler. Owners of such projects with "unused eligible basis" as listed in the final application may request additional HTCs in an amount not to exceed 15 percent of the previous binding reservation amount.
- There will be no rescoring or requirements on 2016 projects to maintain commitments made for points in the categories of "Leveraging" or "Credits Per Affordable Unit."
- Owners requesting additional tax credits will have to abide by a deferred developer fee schedule as outlined in the Amendment (bottom of page 1).
- 2017 pools will be reduced proportionately in regards to the amount used as gap funding for 2016 projects.
- For applications submitted in the 2017 housing funding round, the maximum allowable HTC awards per developer and per application by funding pool are increased by ten percent.

In accordance with these changes, Ohio more recently announced allocation increases to 35 2016 Housing Tax Credit recipients, totaling under $3.3M. The 2017 pool amounts were reduced proportionally by the total amount of credits and, as a result, all pools were reduced approximately 12 percent.

Oregon Begins Waitlist for Agricultural Workforce Housing Tax Credits

Due to high demand, Oregon Housing and Community Services has awarded all its 2017 Agricultural Workforce Housing Tax Credits (AWHTCs). A waitlist is available should tax credits become available, and there is no $200 fee to apply for the waitlist. The AWHTC program is a state tax credit which may be taken on 50 percent of eligible costs for agricultural workforce housing projects.

Virginia Responds to Equity Market Changes, Doubles REACH Loan Allocation Limits

Virginia Housing Development Authority (VHDA) is increasing the REACH Virginia loan allocation limits for the 2017 nine percent and nine percent / four percent (Hybrid) LIHTC application round. This is being done primarily in response to reduced equity pricing. The increase is essentially doubling the standard allocation limits that have previously been in effect. TCA

NH&RA News

Information on NH&RA and its Councils is available online at http://www.housingonline.com

NH&RA's Spring Developers Forum in California May 8-9

Registration is still open for NH&RA's 2017 Spring Developers Forum at the Ritz Carlton in Marina del Rey, CA. The conference will include program updates from key policy makers, like Mark Stivers, executive director of the California Tax Credit Allocation Committee, and other key California agencies. Case studies from around the country will exhibit successful use of the combined four percent/nine percent tax credit structure considering California's recent policy change. An update will also be provided regarding changes in Washington, and how those changes directly affect various tax credits.

NH&RA Signs Letter in Support of National Housing Trust Fund

This past March, The National Low Income Housing Coalition composed a sign-on letter urging Congress to maintain funding for the National Housing Trust Fund, the only federal program designed to preserve and build housing for the lowest income bracket. In light of recent budget discussions from the Trump Administration, it's possible this program faces significant budget cuts. NH&RA is proud to be a signatory of the letter and urged members to sign on as well.

Pre-Sale Discount Available for NH&RA's Asset Management Conference in Baltimore June 6-7

NH&RA is excited to announce its 2017 Asset Management Conference, to be held June 6-7 at the Embassy Suites Baltimore Inner Harbor & Grand Historic Venue in Baltimore, MD. The early discount registration fee is currently available so sign-up while it lasts! Topics will include dispositions, data systems, insurance issues and more.

Save the Date: NH&RA Summer Institute in Quebec City July 19-23

NH&RA goes international as this year's Summer Institute will be held at the Fairmont Chateau Frontenac in Quebec City, Canada. Attendees can expect familiar programming topics, as well as a look into Canada's affordable housing programs. The Chateau Frontenac, situated on the St. Lawrence River, is a National Historic Site of Canada and one of the most photographed hotels in the world. TCA

Member News

Partner Andrew Potts Returns to Nixon Peabody After Serving as Executive Director of US/ICOMOS

Nixon Peabody recently announced that tax credit finance and syndication partner Andrew S. Potts has returned to the firm's Washington, DC office after a 24-month sabbatical. Andrew spent that time serving as the Executive Director of the United States National Committee of the International Council on Monuments and Sites (US/ICOMOS). His work with US/ICOMOS adds an international dimension to Andrew's nearly 20 years of practice in the area of Historic Tax Credits and financing for heritage-based community revitalization.

US/ICOMOS is a nonprofit, non-governmental organization that promotes international collaboration in the field of historic preservation and cultural heritage. As executive director, Andrew implemented US/ICOMOS's KnowledgeExchange strategic plan, which aims to increase the connectivity of U.S. historic preservationists to international cultural heritage efforts.

Andrew's time at US/ICOMOS coincided with a crucial period in international development. Andrew had the opportunity to participate in the creation of the 2030 UN Sustainable Development Goals (SDG), which include a groundbreaking heritage and development target. As part of his work in this mission, Andrew participated in the 2016 UN Habitat 3 Conference with more than 30,000 urban experts to create best practices on urban sustainability and resilience, including commitments on leveraging and safeguarding cultural heritage.

Andrew's law practice focuses on the use of Federal and State Historic Tax Credits (HTCs) and New Markets Tax Credits (NMTCs) as a means for financing community revitalization projects. Andrew's clients include for-profit and nonprofit developers and building owners, as well as investors and syndicators. The projects Andrew has worked on represent all sections of real estate including both affordable and market-rate housing, hospitality, theaters and cultural centers, higher education, social services uses, and office, retail and industrial.

Woda Group's Willoughbeach Terrace Earns LEED Gold Certification

The Woda Group, Inc. announced Willoughbeach Terrace has earned LEED Gold Certification from the US Green Building Council (USGBC). Willoughbeach Terrace is a new 50-unit affordable senior community located on the waterfront of Lake Erie in Willowick, OH, about 17 miles northwest of Cleveland.

Willoughbeach Terrace offers one- and two-bedroom units in a modern three-story elevator building with many amenities including off-street parking, fitness center, recreation room, library and access to public transportation. In addition, the building features a third-floor sunroom facing the lakefront and a gazebo on the bluff also overlooking the lake.

Catholic Charities Housing Corporation assisted Woda in developing a plan for onsite services geared for seniors including items such as transportation, meal delivery, planned social activities and connections with area agencies serving seniors. St. Mary Magdalene, a Catholic church in Willowick, was also an early supporter and catalyst for the development, according to Woda Vice President of Development Joseph P. McCabe.

The City of Willowick's Lake Shore Boulevard Corridor is a mixed-use neighborhood of over 100 retail shops, services and restaurants. Willoughbeach Terrace is the first affordable housing option for Willowick seniors on fixed incomes.

Funding for Willoughbeach Terrace was provided through tax credits allocated by the Ohio Housing Finance Agency (OHFA). Key Community Development Corporation purchased those credits in exchange for equity. OHFA's Housing Development Loan program supplied a $3M bridge loan. Other construction and permanent loans were provided through KeyBank Community Development Lending and RiverHills Bank.

RED Capital and The Michaels Organization Close RAD Deal in Philadelphia

RED Mortgage Capital, LLC, the mortgage banking arm of RED Capital Group, LLC, recently announced that it has closed a $31.75M FHA Section 221(d)(4) loan and RED Capital Markets, LLC, the investment banking arm of RED Capital Group, LLC, underwrote $39.73M of tax-exempt bonds for the rehabilitation of Courtyard at Riverview in Philadelphia, PA. This project is being redeveloped by The Michaels Organization, a long-standing client of RED's, in partnership with the Philadelphia Housing Authority. The bonds were issued by the Pennsylvania Housing Finance Agency.

The transaction involved careful coordination between bonds, tax credits, sub-debt, FHA and the Housing Authority. It was processed in conformance with the MAP guidelines for properties seeking FHA Section 221(d)(4) mortgage insurance in conjunction with the Rental Assistance Demonstration (RAD) program. The project also included both senior and family units.

This complex transaction represents one of the largest RAD projects in Pennsylvania and a significant deal for RAD transactions across the country.

Courtyard at Riverview sits on approximately 13 acres and is a 470-unit multifamily complex that includes a 26-story high-rise and 37 two-story townhouse buildings. The complex includes 165 senior unit high rise apartments and 305 modern low-rise homes. TCA

Bulletins

Breaking news from Washington and beyond

2017 NLIHC Research: 7.4 Million Unity Gap in Affordable Housing Need

The National Low Income Housing Coalition has published a 2017 study, "The Gap: A Shortage of Affordable Homes," which reports over 11.4 million extremely low income (ELI) renter households in the United States (up from 10.4 million households reported in the 2016 gap analysis). A comparison of the 2016 and 2017 reports also shows an increase in the gap itself: from 7.2 million units up to a 7.4 million unit gap of affordable and available rental units.

The shortage of affordable housing equates to 35 affordable and available units per 100 ELI renter households in the United States.

The report recommends reforming the Mortgage Interest Deduction so that more revenue is directed towards low income housing programs like the Housing Trust Fund, rental assistance programs, and the LIHTC. Such a proposal was recently introduced in the House by Rep. Keith Ellison (D-MN).

Senator Cantwell Reintroduces Legislation to Expand Housing Credit

Sen. Maria Cantwell (D-WA) announced that she is reintroducing legislation with co-sponsor Sen. Orrin Hatch (R-UT) and at least nine other Senators to improve and expand the LIHTC.

Sen. Cantwell also spoke on the Senate floor regarding the LIHTC. Included in her explanation of reasons for increasing the credit, she provided an economic impact model by the National Association of Homebuilders showing significant increases in federal, state, and local tax revenue per multifamily unit built with the LIHTC. The report concludes that if the LIHTC were expanded in line with Cantwell's 2016 proposed legislation, S. 2962, then the resulting 400,000 additional units would create 452,000 additional jobs, as well as a gross increase in federal revenues of $11.4B, and state and local revenues of $5.6B over ten years.

Legislation Introduced to Nullify HUD's Affirmatively Furthering Fair Housing Rule

Rep. Paul Gosar (R-AZ) recently introduced H.R. 482, as Senator Mike Lee (R-UT) introduced S. 103, an identical piece of companion legislation in the Senate. The legislation would nullify a HUD rule and notice – specifically voiding the 2015 AFFH rule and 2015 AFFH Notice relating to the Assessment Tool. The legislation also prohibits federal funds from being used to "design, build, maintain, utilize, or provide access to a federal database of geospatial information on community racial disparities or disparities in access in affordable housing."

In place of the AFFH Rule, the bills call for the HUD Secretary to consult with a group composed of state officials, local government officials, and public housing officials representing various regional, economic, and geographic perspectives within the United States to develop recommendations in line with Supreme Court rulings on how to appropriately further the Fair Housing Act. The bills discuss this process, including minimum timelines for public comments and processes for dealing with absence of consensus.

If such legislation were put in place, it would not change the Supreme Court's decision in Inclusive Communities, allowing disparate impact claims as a viable legal theory in fair housing cases. Legal liability concerns, as well as the replacement recommendation report may encourage officials to still assess fair housing issues addressed in the 2015 rule, but such assessments would no longer be required. Furthermore, without a federal database of geospatial information, if assessments were performed at all, they would likely be less stringent and less detailed. Plaintiffs could experience more difficulty in asserting specific types of violations without the database as well.

H.R. 482 currently has 24 Republican cosponsors while S. 103 has one Republican cosponsor.

Bulletins, continued on page 46

Proposed Legislation Would Reform Mortgage Interest Deduction to Benefit Affordable Housing

Rep. Keith Ellison (D-MN) has introduced H.R. 948, a piece of legislation calling for modest reforms to the Mortgage Interest Deduction. By reducing eligibility for the Mortgage Interest Deduction from the first $1M of home indebtedness to the first $500,000 of home indebtedness, the government would realize a savings. A portion of that savings would be diverted to increase the amount of tax credit allocation for the LIHTC, 60 percent of the remaining revenue would go to the Housing Trust Fund, 30 percent of remaining revenue to rental assistance (either in the form of a new renter's tax credit or any HUD or RD program).

GAO Publishes Study on the Role of Syndicators in LIHTC Industry

The U.S. Government Accountability Office published a report investigating the role of syndicators in the LIHTC Credit Industry. GAO surveyed 32 syndicators, 19 for-profit and 13 nonprofit, and reports on things like the value syndicators bring to the industry and their typical fee structure. Since 1986, the surveyed syndicators have collectively raised more than $100B in tax credits equity. The report makes no recommendations.

IRS Releases Population Estimates for 2017, Affecting LIHTC Ceiling and Private Activity Bond Caps

The IRS recently released Notice 2017-19, which gives states population figures used in determining LIHTC allocation amounts as well as private activity bond caps. Rev. Proc. 2016-55 specifies that for the year 2017, each state shall receive the greater of $2.35 multiplied by the state's population or $2,710,000. Section 3.20 of the same Re. Proc. outlines bond cap as the greater of $100 multiplied by the state's population or $305,315,000.

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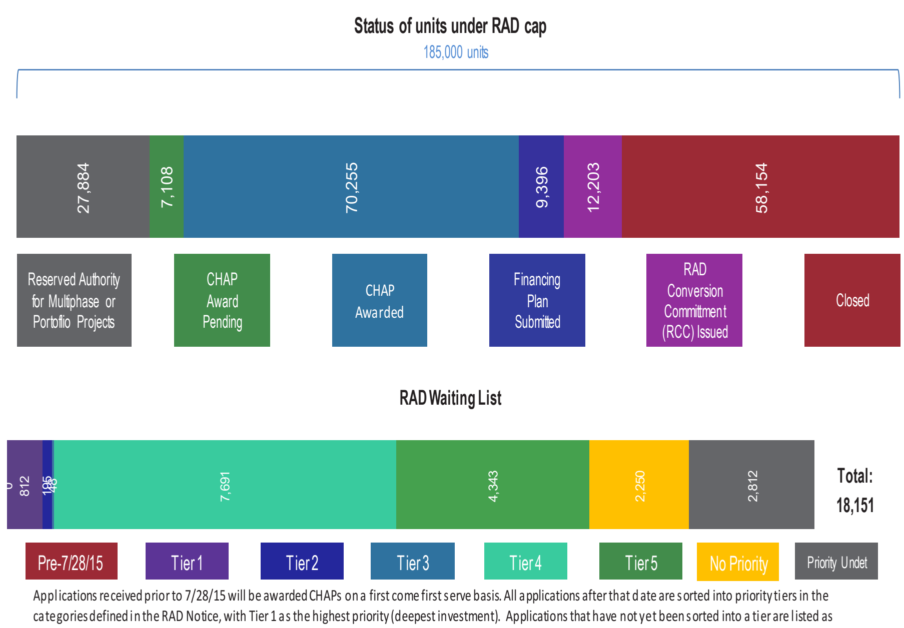
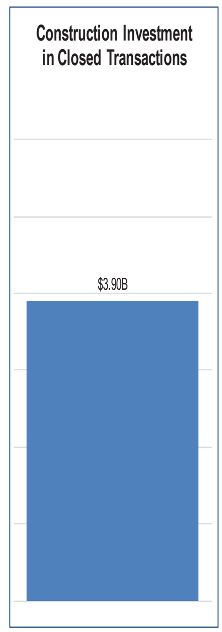
Numbers

RAD Program Status Report



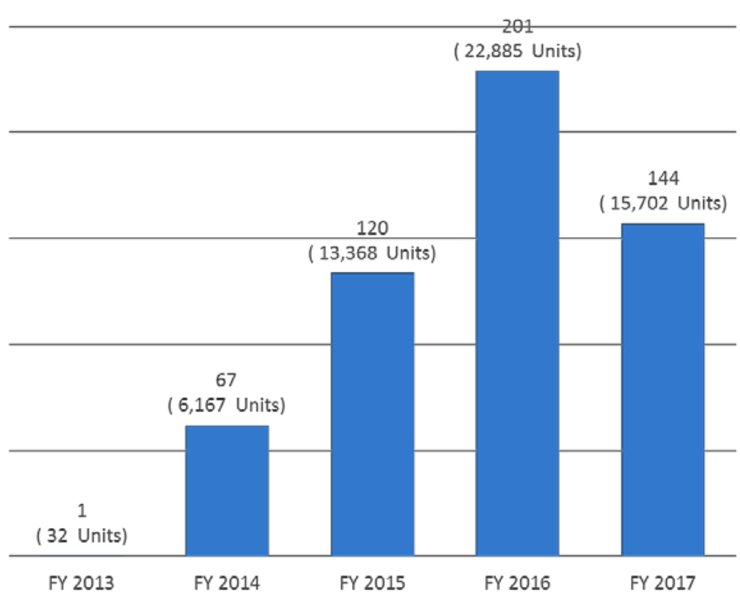


$3.9 Billion (>$67K per unit) in construction investment in RAD properties. This doesn't include items such as acquisition, soft costs, reserves & developer fee

58,154 units converted.

≈18,000 units on the waiting list.

Total Public Housing Conversions by Fiscal Year



NOTE: FY2017 data from RAD 1 closed transactions only through February 16, 2017.

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