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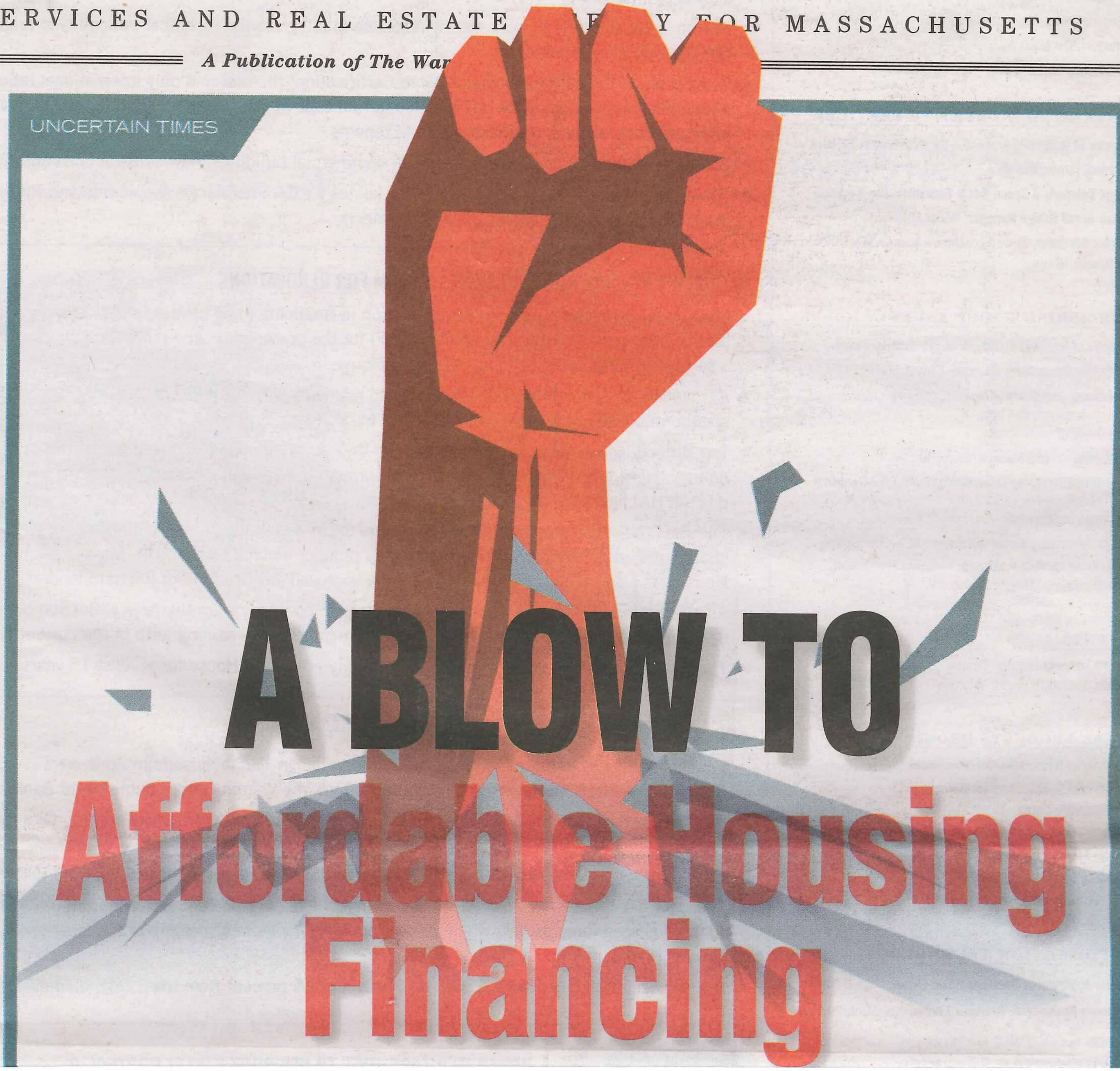

Source Of Equity Shrinks Amid Tax Debate

BY STEVE ADAMS
BANKER & TRADESMAN STAFF

A planned 61-unit affordable housing complex for senior citizens in Brighton ran into unexpected turbulence shortly after the presidential election when a crucial source of financing threatened to dry up.

Developer Jewish Community Housing for the Elderly (JCHE) had received three letters of interest from investors for low-income housing tax credits it was awarded last August. After the election, all three parties reduced their offers by approximately $1.1 million amid a nationwide decline in the market value of low-income tax credits.

That was a potential deal-breaker, with equity from the sale of the tax credits estimated at more than half of the $23 million project costs. After a six-month process, the project received a $1.2 million grant from The Harry and Jeanette Weinberg Foundation. That, combined with some cost controls, will enable JCHE to close on the project in mid-June and break ground in July.

"We went out and raised $1.2 million in

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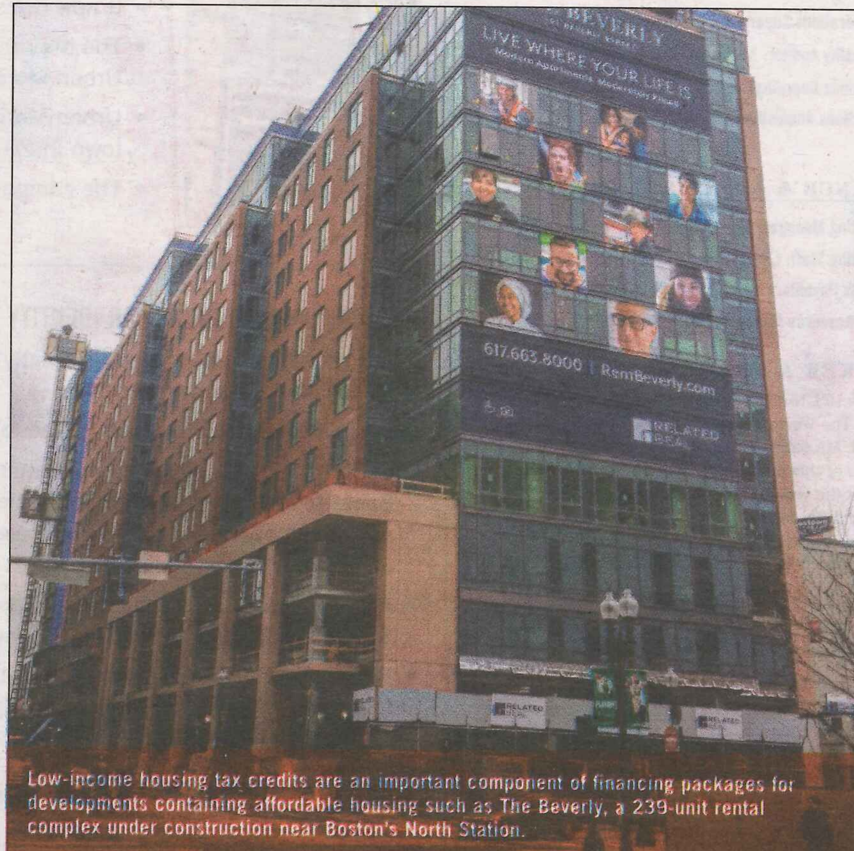

Low-income housing tax credits are an important component of financing packages for developments containing affordable housing such as The Beverly, a 239-unit rental complex under construction near Boston's North Station.

Photo by Steve Adams | Banker & Tradesman Staff

COMMERCIAL & INDUSTRIAL

Affordable Housing Developers Face Uncertainty

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philanthropic dollars, but you can't do that every time, and not everyone can do that" at all, said Amy Schechtman, CEO of JCHE.

Tax Reform Debate Jars Market

It's often said that the markets hate uncertainty, and speculation about the prospects for tax reform under the new administration have disrupted a once-reliable source of funding for affordable housing.

The low-income housing tax credit (LIHTC) program has since 1986 been a key component of the complex public and private financing packages that typically enable affordable housing construction. Such public incentives offset high land and construction costs in areas such as Boston, but are popular in a wide range of communities. Last year, the state Department of Housing and Community Development awarded $31 million in LIHTCs to projects in 16 communities with the goal of creating or preserving 1,334 affordable housing units.

But with the incoming Trump administration advocating deep corporate tax cuts, demand for tax-savings vehicles immediately declined. Investors became unwilling to bid as high on tax credits, with the market value declining approximately 10 to 20 percent since the election, according to syndicators and affordable housing advocates.

"Any one project can get to the finish line, but the implication is if you cut funding by 10 percent, you're going to do 10 percent fewer units, which we can ill-afford in our state," said Joe Kriesberg, president of the Massachusetts Association of Community Development Corporations.

Last year the Department of Housing and Community Development awarded **$31 million** in low-income housing tax credits to projects in **16 communities** with the goal of creating or preserving **1,334** affordable housing units.

So far, Kriesberg said, there's been a limited effect upon developers' ability to move forward on projects, with many financing packages largely completed before the decline. But the long-term effects could stunt housing production in Greater Boston.

Prices for LIHTCs have declined 15 to 20 percent since last year, said Sarah Laubinger, an executive vice president at Boston Financial Investment Management, a major syndicator of tax credits through investment funds.

"Developers are having a very hard time getting both new construction and rehab affordable housing deals to 'pencil,'" Laubinger said. "We've seen many investors pull back from investing entirely as well as others taking this opportunity to take advantage of the lower pricing environment."

In recent weeks as prospects for deep corporate tax cuts have declined, the LIHTC market has somewhat stabilized, said David Gasson, a vice president at Boston Capital.

"We're dealing with uncertainty like everyone else who looks at corporate tax rates, but reality has started to set in," Gasson said. "No one is realistically looking at a 15 or 20 percent (corporate tax rate), and 25 percent might be a reach. The investor market has come back."

Banks continue to have incentives to invest in LIHTCs directly or through investment funds because they receive enhanced ratings under the Community Reinvestment Act, Gasson noted.

"Volume will not likely be the same as it has been in the past, but you'll see prices go back to normal," he said.

But if the tax debate drags on or results in deep rate cuts, the effects on housing production will start to become evident next year, Kriesberg predicted.

One option to bridge the gap, according to Boston Financial's Laubinger: a federal increase in the allocation of tax credits for distribution by individual states.

"Pricing either needs to be restored to 'before-Trump' levels or the states need greater allocating authority," she said. "Until investors know with certainty what corporate tax credit they should assume when buying a 15-year LIHTC stream, we will continue to see investors discount the price they'll pay, and sadly the country will see a lot less affordable housing production." ■

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