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The Low Income Housing Tax Credit Program

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Public Private Partnerships have been increasingly successful in meeting the extraordinary costs of real estate development, most specifically affordable housing. The Low Income Housing Tax Credit Program (LIHTC) under Section 42 of the Internal Revenue Code has been a major financial component in the affordable housing delivery system in the last 25 years. Since its introduction in 1986, the LIHTC program has financed 2.4 million affordable rental homes, averaging approximately 100,000 annually, and most recently the LIHTC program has been the dominant financial resource for multifamily housing (overall multifamily permits for 2010 were less than 160,000), and a major catalyst for advances in smart and green development, energy efficiency, and supportive living services. Recent performance data from three independent accounting firms serving the industry attest to the viability and effectiveness of the LIHTC program.

LIHTC is a federally funded program, allocated by states competitively according to local needs and priorities to private and non-profit developers to finance affordable housing for a variety of needy qualifying households. Public federal, state and local grant and loan programs for supportive services, energy efficiency, smart growth and infrastructure programs are often combined with LIHTC to provide service-rich housing to specific populations. The typical LIHTC project is underwritten rigorously at least three times - for tax credits, loans, and equity investment, and because of government regulatory oversight, the process is relatively transparent. Non-profit funding sources often augment public and quasi-public sources. Equity for the tax credits is provided by tax-paying private sector, dominated by banks, insurance companies and corporations.

The National Council of Affordable Housing Market Analysts (NCAHMA) was established in 2001 to refine the body of knowledge for comprehensive market analysis required by IRC Section 42. At the NCAHMA Chicago meeting in October, I moderated a panel of non-profit and for-profit developers of LIHTC projects on developing in high cost markets. Case studies characterized the variety and complexity of the capital stack required to meet high capital costs. Panels including equity syndicators, representing 20% of the volume raised, and state federal tax credit allocators, representing 5 states and Chicago, described current market conditions including pricing, problems and practical issues. Approximately 50% of the attendees were professional market analysts enhancing underwriting skills jointly with their counterparts from major public and private client groups. The engaging quality and candor of the panels and the Q&A sessions were a public private partnership in action.

The historic performance of LIHTC properties has been closely watched by industry participants and monitored by regulatory bodies. The Reznick Group released its Property Performance Report for LIHTC properties during 2008-2010 in August 2011 and Novgorod & Company released its report on comparative analysis of LIHTC and other federal affordable rental housing subsidies in May

2011. RSM McGladrey, Inc. has recently released its periodic Tax Credit Housing Disposition Survey summary for the second quarter 2011. Periodic reports by Reznick, Novogradic and McGladrey, all independent accounting firms, and reports by other industry groups move affordable housing from the secret handshake business, and this public private partnership from the back room.

In September, The counselors' New England chapter co-sponsored a panel on affordable housing with Appraisal Institute's Massachusetts chapter. The panel featured Winn Development Company and Bank of America, a major LIHTC lender and investor. Case studies described the public private partnership with local properties. The counselors annual meeting in Washington, D. C. on November 25, 2011 will once again feature a business issues panel on Public Private Partnerships. With so many stimulus efforts stymied in the bureaucratic mud, affordable housing, more specifically LIHTC development, is a job-rich beam in housing and the overall economy.

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