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Making affordable housing work with low income tax credits

October 27, 2011 - Front Section

The Appraisal Institutes Massachusetts Chapter held its third meeting of the year at the Federal Reserve Building in Boston on September 23rd. The programs topic was "Making Affordable Housing work with Low Income Housing Tax Credits." We had the honor of having a panel of experts in the industry who presented to over 50 professionals. The panel consisted of Larry Curtis, president of Winn Residential, Patricia Marinilli and Kim McLaughlin from the Bank of America and Richard Cohen, principal of Cohen Realty Services. The topics discussed included developers strategies, underwriting multi-family real estate, the current state of the Low Income Housing Tax Credits (LIHTC) marketplace, credit pricing and its demand, real estate tax assessment issues and a LIHTC case study.

Curtis presented a case study of a property in Fall River containing 97 apartment units with 65% of them being affordable units. The development cost of the project was $26 million. These types of projects generate a lower NOI than most standard properties. Therefore the conventional financing part in this case is only $2 million. So the rest of the funding comes from mostly federal and state credit programs (see box below). In New England most of these projects are rehabs of an existing older apartment complex or mill type structure.

Patricia Marinilli and Kim McLaughlin from the Bank of America offered a perspective on the underwriting process for these types of deals. They identified five key components that they review to determine if it is a project that they can fund. Below is a list of these items along with the specifics concerns:

Sponsorship- Development experience, financial resources, joint ventures, consultants.

Location/Market- Key location influences, submarket trends and local support.

Affordability Restrictions- LIHTC at 60%, mix income, special populations (section 8, low income households), recorded restrictions and priority of restrictions.

Sources and Uses- Construction loan, fixed rate debt, tax credit awards, grants, developer fee, hard costs, soft costs, environmental remediation and operating reserves.

Development Team- Developer experience, general contractor, architect, legal representation and consultants.

Cohen discussed the real estate tax assessment issues in regards to assessing LIHTC properties. He stated that when considering the three approaches to value, cost, sales and income that the income approach is the best method to use. A direct capitalization of the actual income should be valued. The expense considered should be directly related to the property. Business expenses, depreciation and interest should not be included. The cap rate should be developed considering the effect of the tax credits and any other government benefits.

Overall it was a very informative program. Please join us at our next meeting in Norwood on October 24th at the New England Real Estate Appraisers Expo. I look forward to seeing you there.

Michael Tarello, MAI, ASA, MRA, is the 2011 president of the Mass. chapter of the Appraisal Institute, and senior appraisal analyst/appeals manager at Vision Appraisal Technology, Northboro, Mass.