Historic Tax Credits Overview

• 20% or 10% tax credit to rehabilitate a certified historic or very old structure (built prior to 1936)
• Must be taxable income producing property and rehabilitation must be ‘substantial’
• Tax credit based on Qualified Rehabilitation Expenditures (basically most rehab work less acquisition and site work)
• State of Ohio with 25% competitive credit
Credit Monetization

- Need to monetize the credit so developer can obtain $$ to assist with construction
- Unique structures to monetize/syndicate the HTC (single tier or master lease pass through)
- High transaction fees similar to other programs such as NMTCs
- Minimum project size to make monetization ‘worth it’ – MainStreet America Fund (MAF) has reduced this threshold
Small Deals: Investor Perspective

‘Small Deal’ Definition:

- QRE’s of between $1MM and $10MM
- Geographic location, developer experience, strength of guarantor, complexity of capital stack
Problems Syndicating Small Deals

- TRANSACTION FEES as percent of the tax credits
  - Legal
  - Accounting
  - IRS
  - Cash Flow
- Benefit to investor of small deal < large deal - same amount of work. Sometimes more
- Structuring issues
- Potentially thin cash flow
Developer Considerations

- Should you syndicate?
  - Source gap for construction
  - Bank requirement
  - Appraisal too low
  - Ability/Inability for developer to take credits individually
  - Cost of funds
Strategies to Attract an Investor

- Project ready to go
  - Site control, bank lined up, tenants in place
- Prepared with due diligence and ‘investor package’
- Add scale with state credits or multiple properties
- Come with strong guarantor
- Assemble an experienced project team
  - Architect, GC, Lawyer, Accountant
- Use a historic consultant
MainStreet America Fund - Eligible Projects

- MAF can invest in almost ANY project with between $200K and $2-3MM of Federal HTCs
- MAF is a national fund and unlike a bank, has no CRA or geographic restrictions
- Can invest in any TYPE of project as well, from mixed-use to multifamily, commercial, hotel...
- Can be a nonprofit sponsor and can layer with other types of credits or financing
What **We** Look For

- Underwrite the real estate
  - NOI/Cash Flow
  - Realistic projections
  - Neighborhood
  - End use
- Personal guaranty with some liquidity
- Experienced project team - confident the project will be constructed and will receive the Part III
Choosing an Investor: Understand the True ‘Net’ Benefit

- Do not focus on the gross pay-in
- Manage expectations
- Look at the costs over the entire life of the historic transaction
- Do not discount the intangibles
  - Investor will be partner for at least 5 years - do you like them?
  - How easy is the investor to work with
  - How quickly can the investor close the transaction?
Minimize Transaction Costs

- Preset legal documents
- Capped legal fees
- Capped accounting fees
- Smaller preferred return
- No requirement for a tax opinion, lease or developer fee opinions
- No audited financial statements
Net Benefit Calculation Example: Project with $1MM in Credits

MAF
Gross Pay In: $.80 ($800,000)
Legal Costs - $15,000
Accounting Costs - $30,000
Tax Opinion - $0
Annual Costs (over 5 years) - $190,000
Put - $40,000

NET PAY IN - $525,000

Other Investor
Gross Pay In: $.90 ($900,000)
Legal Costs - $80,000
Accounting Costs - $30,000
Tax Opinion - $15,000
Annual Costs (over 5 years) - $315,000
Put - $45,000

NET PAY IN - $415,000
Choosing MAF: Other Considerations

- Easy to work with
- Come from the developer perspective
- Fast closer
- Technical assistance
- Aggressive Pay-In Schedule
- Work with developer to minimize costs throughout process
MAF Deals

• Closed Transactions:
  – Unity Food Hub, Unity, Maine
  – The Hive, Rochester, NY
  – The Hurbson, Syracuse, NY

• In Process:
  – Hotel in Durham, NC
  – Hotel in Edenton, NC
  – Mixed Use in Mobile, AL
  – Warehouse Conversion in Raleigh, NC
  – Brewery in Columbia, SC
  – Residential Tower, Elgin, IL
  – Neighborhood redevelopment, St. Louis, MO
Project Example: Unity Food Hub

• Project Issues:
  • Non-profit sponsor - Maine Farmland Trust
  • Untested market - rural Maine
  • Tiny project - $300K in Federal Credits
  • Inexperienced developer
  • Business needed to open in 1 month
Project Example: Unity Food Hub

• Outcome
  • Worked through structuring issues
  • Kept costs low through sharing site visit with other projects
  • ‘Hand-holding’ through the process
  • Closed on time