FINANCE

Tax Credit Equity

LIHTC Market Unsettled After Election

Syndicators, investors discuss the prospects of tax reform

BY DONNA KIMURA

The election has brought a cloud of uncertainty over the low-income housing tax credit (LIHTC) market.

With Donald Trump moving into the White House with a Republican-controlled House and Senate, the prospects of tax reform have shot up dramatically. That's heightened concerns that the LIHTC program could be significantly hampered, or even eliminated, under a sweeping tax reform effort. Trump has called for slashing the business tax rate from 35% to 15%. That's pushed investors and syndicators to calculate what such a move would mean to their investments and how to get new deals done.

Syndicators estimate that a drop in the business tax rate to 25% could trigger a decline of 180 to 220 basis points in the yield for a proposed investment. The reason for this is that an investor buys a stream of tax benefits (both LIHTCs and tax losses). If the tax rate falls to 25%, one of the components of the tax benefits just lost almost 30% of its value—a 10% rate drop divided by the 35% tax rate, says Jeff Weiss, president of Alden Capital Partners.

If the corporate tax rate is reduced, LIHTC pricing will have to fall to maintain current market yields. Some estimate the drop could be between 5 and 10 cents per dollar of credit for a 9% LIHTC deal. The alternative is that investor yields decline and prices remain the same.

It's going to be a tough balancing act, and the prospects are causing everyone to take a hard look at new deals.

"Thankfully, a number of our investors have told us that, for deals in the pipeline, they are going to honor their commitments," says Weiss, a LIHTC syndicator.

Still, he and others will likely have to sharpen their pencils to make new deals work. Syndicators and investors discussed the changing landscape during the Tax Credit Equity Outlook Power Panel at AHF Live: The Affordable

ALEX OAKENMAN

"We can, as an industry, speak to our [congressional] representatives to make sure [any potential tax] changes all work together." —Vihar Sheth, senior vice president, U.S. Bancorp

Housing Developers Summit in Chicago this past November.

Looking back at the recent financial crisis, deals were working a couple of months later at a notably lower price, Weiss said during the panel.

"It was painful for everyone, but we were able to get it done," he said. "This is not a hit on the program itself. It's a bump, an interim bump, in pricing and sources and uses."

Weiss said he doesn't think the LIHTC program will go away during the upcoming administration. "Your choice is a public-private partnership or HUD [the Department of Housing and Urban Development]," he said. "You have a Republican Congress and a Republican president. They're not going to say, 'Let's go back to public housing.' They're going to go to states' rights, with states having the ability to push credits."

LIHTC advocates also remain upbeat. They've been meeting with key officials in Washington, D.C., and say the venerable housing credit maintains a strong position.

Vihar Sheth, senior vice president and director of business development at U.S. Bancorp Community Development Corp., noted that "there's almost a zero percent chance" the tax rate will change alone. Other complex moves, such as accounting and tax credit regulation changes, will be involved.

"All of you, based on whatever your business is on the development side or investor side, should be testing your platform for how resilient it can be to these outcomes and making adjustments," Sheth said at the conference. "We do have to solve these problems in the short term, but based on the outcomes of your own analysis, we can, as an industry, speak to our representatives to make sure the changes all work together."

The rate is going to come down, and that's going to be bad for pricing, added Sheth, one of the investors on the panel.

However, understanding the different changes and market factors will allow the industry to make adjustments, he said.

Susan Moro, senior vice president at Bank of America Merrill Lynch, is another major LIHTC investor. She pointed out that the Community Reinvestment Act (CRA) remains a big motivator for banks to invest in LIHTCs, and CRA obligations will likely remain in place.

"It's hard to assess what these deals are going to look like without knowing all the variables that are going to change," Moro said, agreeing that other factors beyond the tax rate will likely be affected.

Trump didn't discuss LIHTCs during the presidential campaign, but he has called for improving the nation's infrastructure and a possible infrastructure tax credit.

That's opening the door for LIHTC leaders to frame affordable housing as part of America's infrastructure, said Hal Keller, president of the Ohio Capital Corporation for Housing.

Words of wisdom

Moderator Michelle Norris, executive vice president of external affairs and strategic initiatives at National Church Residences, called on panelists to share their best advice.

The period ahead may be turbulent for the usually steady LIHTC program. Corporate tax changes will likely require a few years, but, in the meantime, some economic investors will put their activities on hold as they evaluate the market.

"We will see pricing adjustments, but some of those adjustments may be addressed using adjuster language," said Stacie Nekus, senior vice president, investor relations, at Alliant Capital.

"Let's keep trying to work together," she said. "We all have to get deals closed. We all have to keep moving forward, so let's work through this together."

James Horvick, vice president and director of originations at Raymond James Tax Credit Funds, added that developers will likely see shorter duration letters of intent from syndicators and investors.

Communication between developers and their investors and syndicators is going to be the No. 1 priority, agreed Weiss. "You're going to have to talk about, 'This is my schedule, this is what I need, this is what's going to happen,'" he said.

Syndicators advised developers to close their deals if the numbers work.

"If I were a developer with a deal that's funded, I'd check out every trusted syndicator and direct investor and see if there's a hole in a closed fund or with a direct investor's portfolio and then strike a deal fast and close fast," said Philip Porter, vice president, syndication, at Enterprise Community Investment. **AHF**

2017 CAPS FOR LIHTCs, BONDS RELEASED

The Internal Revenue Service has revealed the low-income housing tax credit (LIHTC) and private-activity bond caps for 2017.

The amounts used to calculate each state's LIHTC ceiling this year will be the greater of $2.35 multiplied by the state population, which remains the same as in 2016, or $2,710,000, a $30,000 increase over last year's cap.

For 2017, the amounts used to calculate the state ceiling for private-activity bonds is the greater of $100 multiplied by the state population, which has been the same since 2014, or $305,315,000. That's up from $302,875,000 in 2016.