

# Federal Trends, Opportunities and Challenges for Affordable Housing

for the CalHFA Workshop and General Meeting

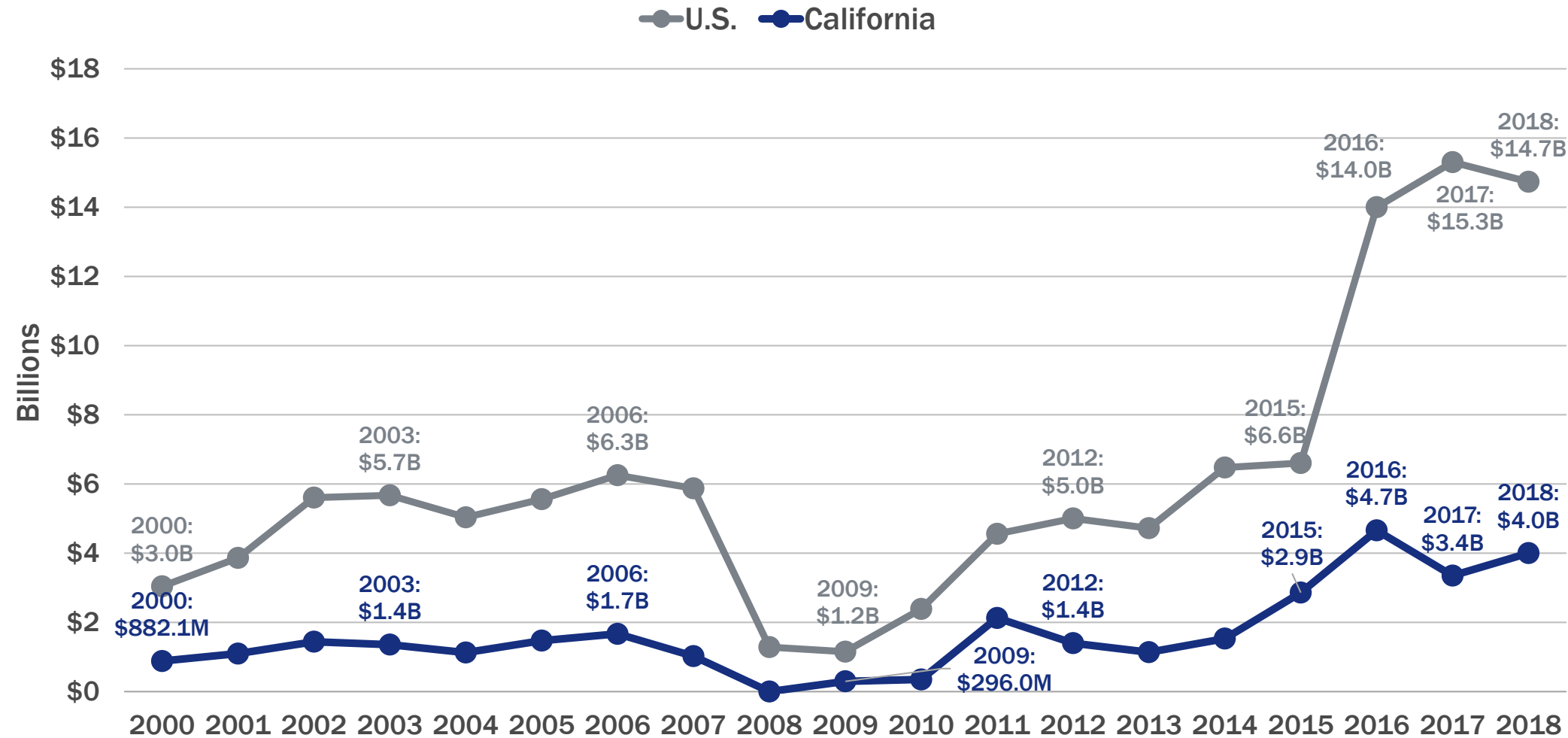
**Michael Novogradac**

Managing Partner

Novogradac & Company LLP

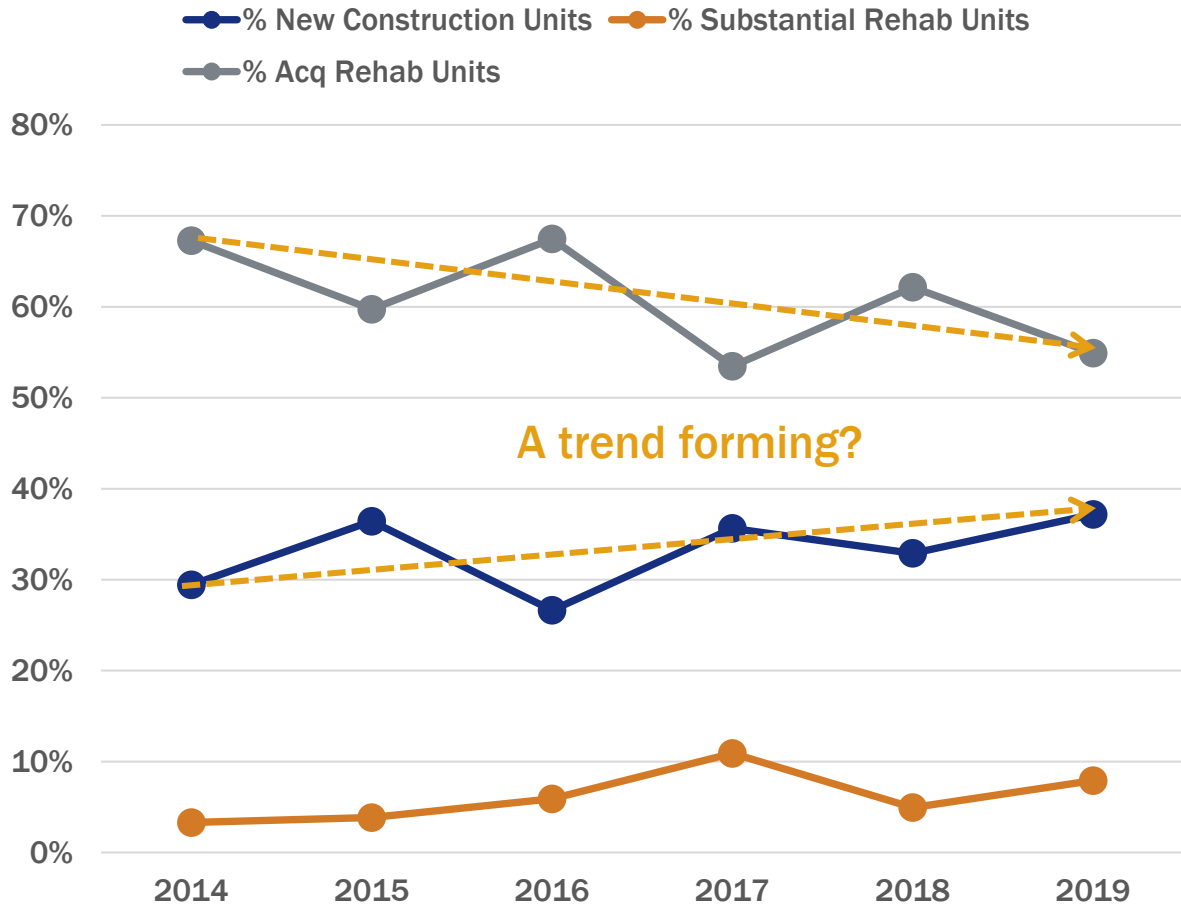
 @Novogradac

# Rental Housing Bonds: *Over Double Since 2015*

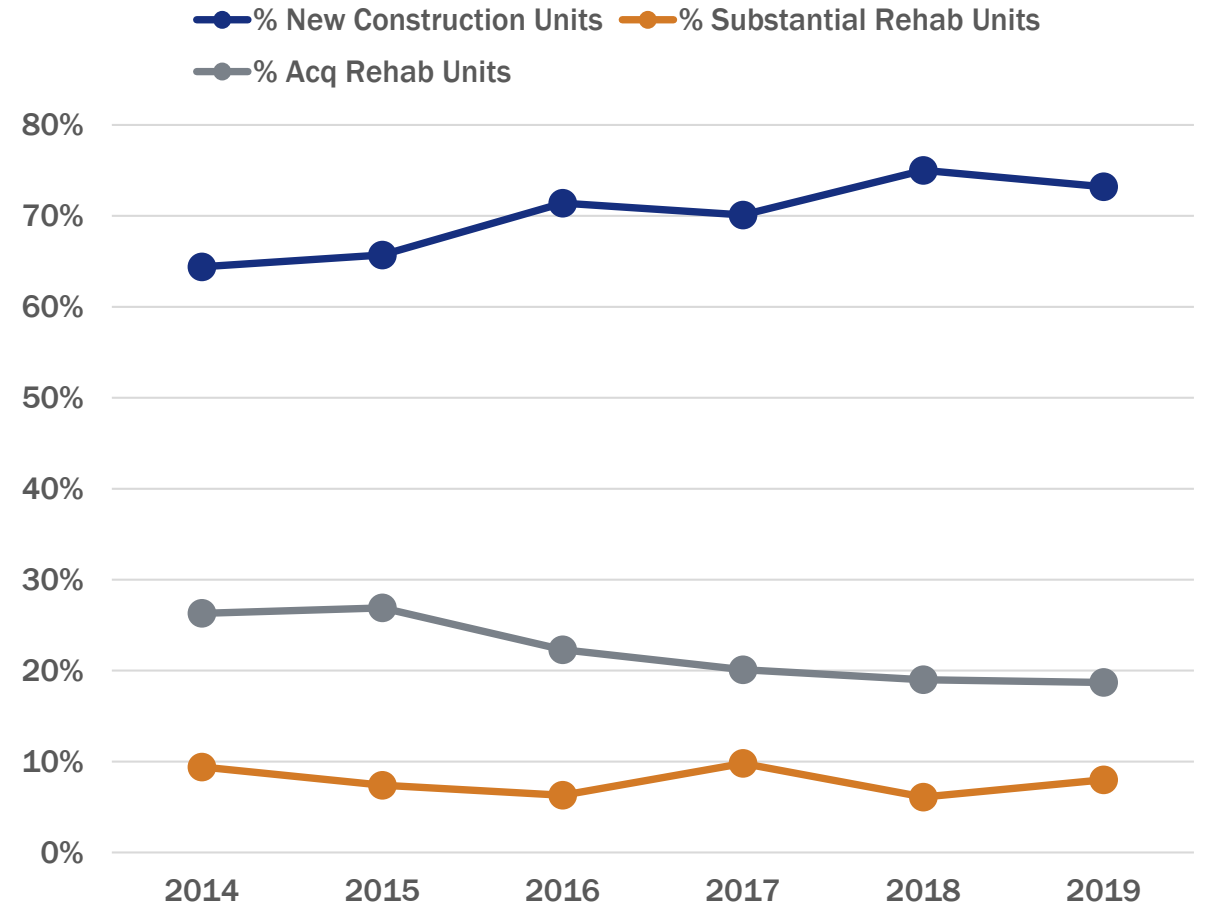


# LIHTC Use: *New Construction vs. Rehabilitation*

## Percentage of Tax-Exempt Bond Units



## Percentage of 9 Percent Units



# 4% Floor: Estimate of Additional Equity for California

Over 10 Years: 2021-2030

Estimated LIHTC Equity  
*without* 4% Floor

**\$25.2 billion**

Estimated LIHTC Equity  
*with* 4% Floor

**\$31.5 billion**

Additional LIHTC Equity  
Available *with* 4% Floor  
Over 10 Years

**\$6.3 billion**

Pipeline developments: *\$500 million to 1 billion or more?*

# At Least \$1.2 billion Allocation of Disaster LIHTC Authority

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- **11 states** and **Puerto Rico** that experienced non-COVID-19 major disasters in 2020
- Timeline for disaster declaration:
  - Disaster incident period:  
**12/28/2019-12/27/2020**
  - Disaster declaration period:  
**1/1/2020-2/25/2021**
- Overall cap of **no more than 65%** of the respective state LIHTC ceiling
- LIHTC properties in disaster zones have an **additional 12 months** to satisfy 10% test and PIS deadline
- Disaster LIHTC allocations must be used only in disaster counties, but states are not forced to allocate each county's per-capita share

# At Least \$1.2 billion Allocation of Disaster LIHTC Authority

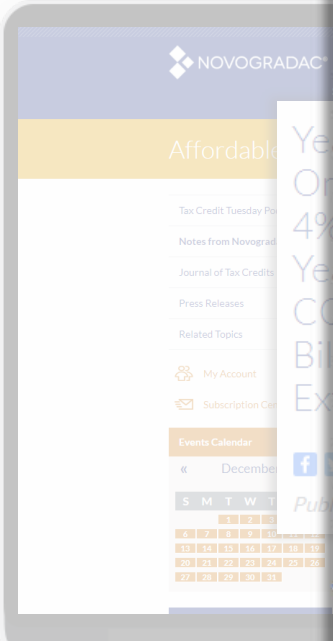
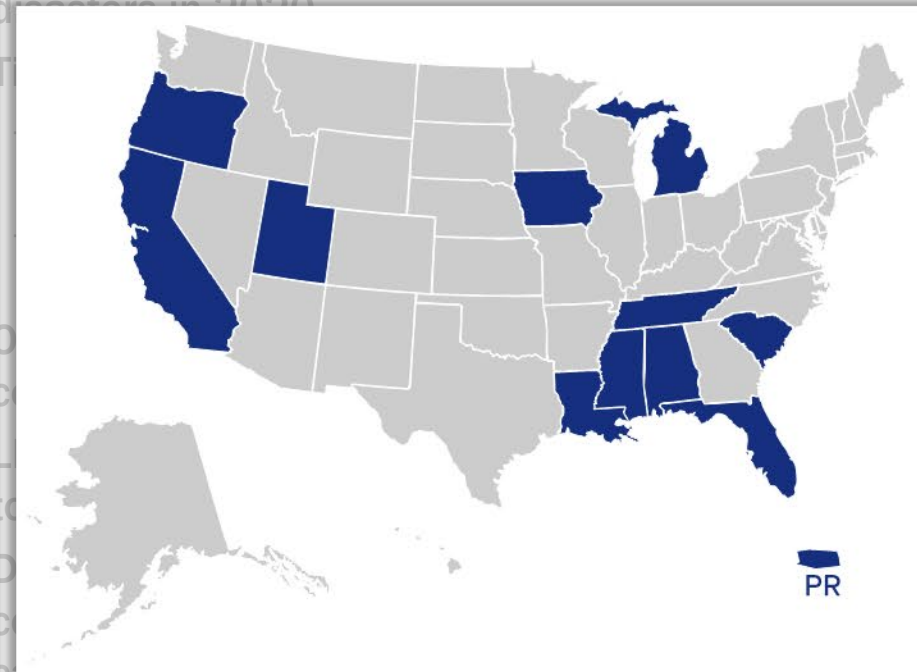
States with (Non-COVID-19) Major Disaster Declarations	State Population	Disaster County Population	2021 Disaster Authority Estimate	Disaster LIHTC Allocation Percentage of 2020 State Ceiling
Alabama	4,903,185	788,380	\$2,759,330	20.01%
California	39,512,223	23,069,525	\$80,743,338	38.50%*
Florida	21,477,737	962,143	\$3,367,501	5.57%
Iowa	3,155,070	1,235,213	\$4,323,246	48.72%
Louisiana	4,648,794	2,123,480	\$7,432,180	56.84%
Michigan	9,986,857	339,154	\$1,187,039	4.23%
Mississippi	2,976,149	667,359	\$2,335,757	27.90%
Oregon	4,217,737	1,805,895	\$6,320,633	53.28%
Puerto Rico	3,193,694	1,053,857	\$3,688,500	41.06%
South Carolina	5,148,714	795,267	\$2,783,435	19.22%
Tennessee	6,829,174	1,394,960	\$4,882,360	25.42%
Utah	3,205,958	1,515,918	\$5,305,713	58.84%
<b>Total</b>			<b>\$125,129,029</b>	
<b>10-Year Stream</b>			<b>\$1,251,290,285</b>	

\*This percentage includes the \$98 million in Disaster Authority originally authorized for the 2017-18 wildfires.

Source: Novogradac



11 states and Puerto Rico that experienced non-COVID-19 major disasters in 2020





# State of the Equity Market

www.novoco.com/Journal



Insights On Affordable Housing, Community Development, Historic Preservation,  
October 2020 • Volume 31 • Issue X

## THE 4 PERCENT LIHTC/BONDS ISSUANCE MARKET



### STORIES INSIDE

4 Percent LIHTC Equity Market Remains Stable Despite Pandemic

Compliance Differences Between IRC 42 and IRC 142: Part 2  
Looking at FHA-Insured 4 Percent LIHTC-Bond Structures  
NH&RA Interview: How 4 Percent LIHTC Twins with HT

LOW-INCOME HOUSING TAX CREDITS

## The 4 Percent LIHTC Equity Market Persists during Pandemic

MARK O'MEARA, COPY EDITOR, NOVOGRADAC

Investors in the 4 percent low-income housing tax credit (LIHTC) equity market appeared cautious at the beginning of the COVID-19 pandemic. However, business continued and the market has settled.

"The market has settled down since mid-March/early April," said Jay Segel, executive vice president at R4 Capital, a LIHTC syndicator. "What was once a slight pullback [for some investors] seems to have now stabilized."

"The equity market, in general, has been somewhat uncertain. Large investors like Bank of America have been consistent, continuing to make investments in 9 percent and 4 percent LIHTCs," said Todd Gomez, market executive, community development banking at Bank of America, which is a primary lender for construction and permanent financing and is an investor in 9 percent and 4 percent LIHTCs. "Smaller investors stepped away in March and are slowly coming back, while large investors have been focusing on quality investments with existing clients. We have been doing deals with familiar financial structures and long-term clients."

CREA, a tax credit syndicator, was careful at the beginning of the pandemic, but was pleasantly surprised by the market's resilience.

"Once the pandemic hit and we sheltered in place, we made a strategic decision not to make a fall national fund," said Charles Anderson, executive vice president, acquisitions at CREA. "However, [one of our other] funds evolved into what would have been our fall national fund and we are estimating that fund will close out at \$250 million. I was really humbled and

encouraged by that. ... Investors stuck with us and with the market during this period of disruption."

**LIHTC Equity Pricing and Yield**  
Equity pricing for 4 percent LIHTC investments has dipped during the pandemic.

"Pricing has come down over the past six to 12 months by several cents," said Segel. "There are plenty of buyers. It's just a function of price and yield for many of them." For national, non-Community Reinvestment Act (CRA) funds, Segel has seen tax credit equity pricing for 4 percent LIHTCs range between 86 to 90 cents per credit. And, for CRA investments, Segel is seeing tax credit equity pricing in the mid- to upper-90s.

Anderson is also seeing a 2-to-3 cent drop in 4 percent LIHTC equity pricing. "The average price per credit was north of 90 cents before the pandemic, including investments from CRA and economic investors," said Anderson.

Yields, on the other hand, have gone up.

"Yields were already increasing before COVID-19," said Segel. "Yields have moved up—probably 25 to 50 basis points."

Gomez has seen a similar uptick in yields, between 15 to 25 basis points. "That reflects the change in available

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capital for financial institutions," said Gomez. "The yield increase reflects the adjusted risk."

Anderson observed the same trend. "Yields are anticipated to move up 25 to 50 basis points given the uncertainty of corporate earnings," said Anderson.

**Rent Collections Remain Strong during COVID-19**  
As the pandemic continues to impact the global economy, especially employment, affordable housing rent collections remain stable at the time of this publication.

"Rent collections are going surprisingly well," said Segel. "A large percentage of our portfolio is covered by long-term Section 8 HAP [Housing Assistance Payments] contracts. Those projects are performing well. We also have a large senior component and seniors tend to be less dependent on employment income. Collections are stable at above 92 percent."

"We have been pleasantly surprised with collections, which are at or above 92 percent in our portfolio on average," said Anderson.

"There has been no huge drop-off in rent collections," said Gomez. "There has been some softening as employment benefits roll off, but rent collections have remained pretty strong through the middle of August."

**Potential CRA Reform Has Not Affected the Equity Market**

While LIHTC equity investors are aware and interested in the potential impacts of CRA reform, those concerns haven't disrupted the market.

"Our experience thus far shows that CRA investors have not been sidelined by the news of CRA reform," said Anderson.

"This has not impacted our current business plan," said Segel. "Many investors will raise questions with us, asking how potential CRA changes would impact their investment."

Bank of America is also continuing with business as usual.

"For us, we have been in the business for years. We have been through up cycles and downturns before and will continue to lend and invest in the affordable housing space," said Gomez. "It's uncertain where CRA reform is going and what product requirements are going to be for financial institutions. So we are continuing to do business."

**Bond Volume Cap**  
Private activity bonds (PABs) are a vital piece of a 4 percent LIHTC development's capital stack. In years past, many state's PABs went unused. However, as the demand for housing has surged across the country, states are incentivizing the use of their PABs. As a result, some states are reaching their PAB caps.

"As recently as a few years ago, concerns over volume cap were present in a handful of states," said Segel.

For example, Segel experienced increased demand due to a shortage of volume cap in Tennessee.

"Markets like Tennessee ran into its volume cap issues last year with fewer deals being allocated bonds," said Segel. "Deals that were fortunate to receive a bond allocation ended up trading at higher than expected pricing due to stronger demand. But, that was a relatively short window. That said, I haven't come across that kind of price competition in at least six months. We see a lot of bond deals and there is definitely no shortage of bond transactions going on now."

"Volume cap has been available in most states that we cover in our national footprint," said Gomez. "California and New York continue to be competitive and there has been some concern about cap in a few states. However, I have not seen a dramatic impact on the market overall."

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LOW-INCOME HOUSING TAX CREDITS

Novogradac Journal of Tax Credits • October 2020



Bond Volume Cap



Rents Post-COVID



Potential CRA Reform



4 Percent Floor Success



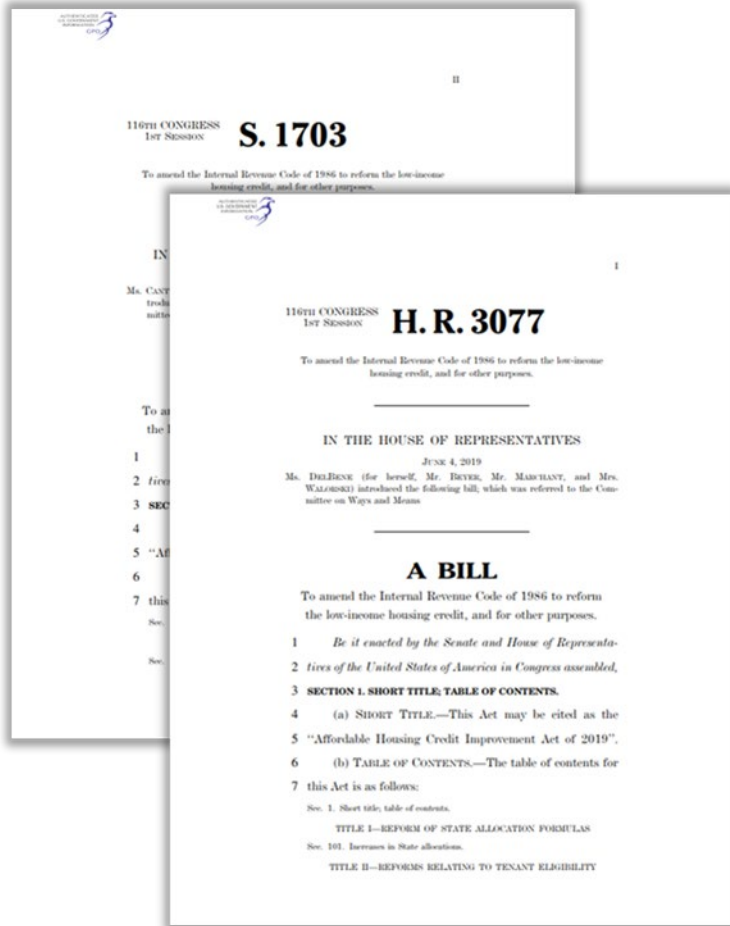
LIHTC Equity Pricing and Yield

# Potential Federal Legislative Changes



# Affordable Housing Credit Improvement Act

To be Introduced Imminently in the 117<sup>th</sup> Congress



CANTWELL  
D-WA



YOUNG  
R-IN



WYDEN  
D-OR



R  
Cosponsor



DELBENE  
D-WA



WALORSKI  
R-IN

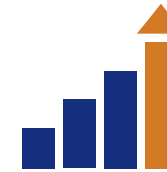


BEYER  
D-VA



R  
Cosponsor

## PRIORITIES



9 Percent Allocation  
Increase



25% Financed-By  
Test



30% Basis Boost



Bond Recycling

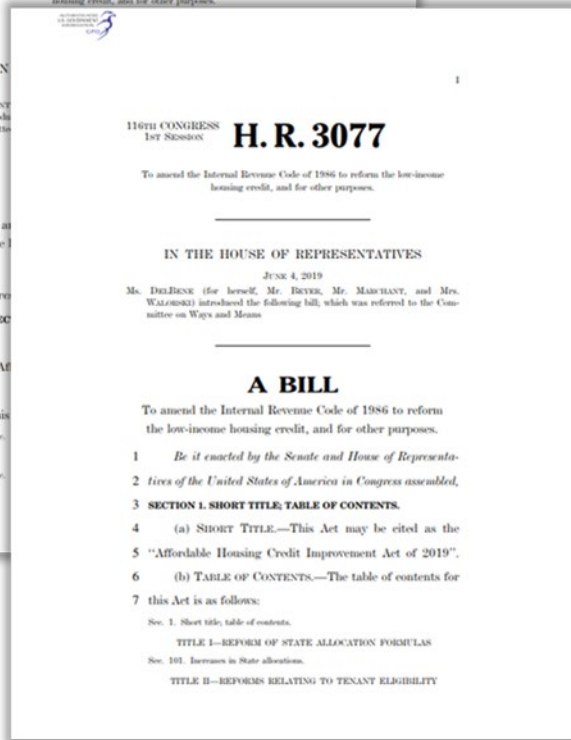
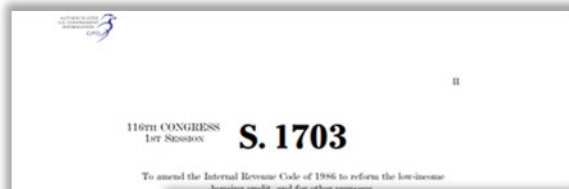
# Affordable Housing Credit Improvement Act

To be Introduced Imminently in the 117<sup>th</sup> Congress

Novogradac estimates the three major unit financing provisions will finance as much as

**2,015,000 additional affordable rental homes over 10 years**

Estimated additional rental homes in **California** over 10 years: **329,440**



## Lower PAB financed-by threshold to 25%

- 50% scalable: **747,000** affordable rental homes over 10 years
- 100% scalable: **1,494,000** affordable rental homes over 10 years

## Increase in 9% allocations (25% in 2021 and 2022 plus an inflation adjustment in 2022)

**299,000** affordable rental homes over 10 years

## 30% basis boost provisions

**222,000** affordable rental homes over 10 years

# Possibility of Infrastructure Package and Other Resources

## INFRASTRUCTURE PACKAGE

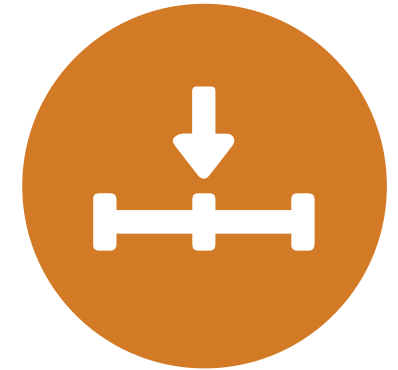


- \$3 trillion infrastructure plan expected from Biden
  - \$200 billion for housing infrastructure
  - Includes \$100 billion for additional supply
- Bipartisan or not?
  - A rare common ground
- Moving Forward Act
- Possible Infrastructure tax credit

## OTHER POSSIBLE RESOURCES



Neighborhood Homes  
Investment Act



Middle-Income Housing  
Tax Credit

# Questions?

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