

National Trust Community Investment Corporation

a subsidiary of the National Trust *for* Historic Preservation

Financing the Rehabilitation of Historic Buildings Through Tax Credits

WILLIAM FIEDERLEIN – FEBRUARY 9TH, 2017



National Trust Community Investment Corporation
a subsidiary of the National Trust *for* Historic Preservation

Intro to NTCIC

Historic Tax Credits

New Markets Tax Credits

Outlook & Success Stories

National Trust Community Investment Corporation
a subsidiary of the National Trust *for* Historic Preservation

NTCIC

- NTCIC was formed in 2000 and is a wholly owned subsidiary of the National Trust for Historic Preservation
- Syndicator of tax credits-serves as an intermediary between investors and real estate and solar developers
- NTCIC syndicates HTCs, NMTCs, ITCs (solar), and LIHTCs
- NTCIC is a successful CDE, most recently receiving $65mm of NMTC allocation
- NTCIC always does projects with HTC or with a historic property in the overall project if we do only NMTC
- Since inception, we have originated over $1 billion in total transactions (134 investments) across the country

Dalton Building Rock Hill, SC First NTCIC Investment of $1million



National Trust Community Investment Corporation

a subsidiary of the National Trust *for* Historic Preservation

Intro to NTCIC

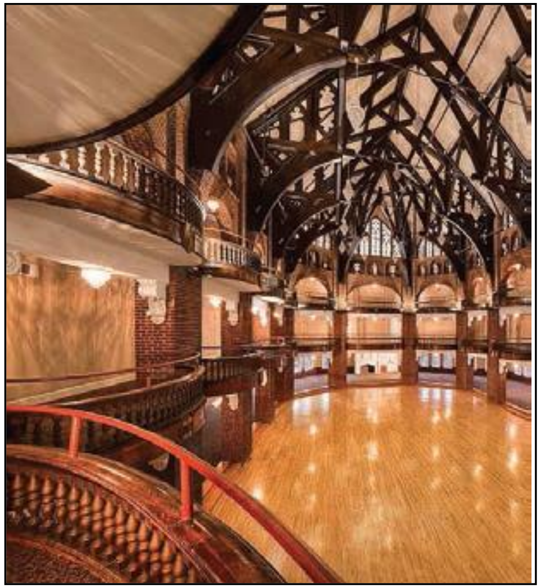
Historic Tax Credits

New Markets Tax Credits

Outlook & Success Stories

National Trust Community Investment Corporation
a subsidiary of the National Trust *for* Historic Preservation

The Impact of the HTC



Historic Tax Credits (1977 – 2015)

Adaptive reuse of **41,254**

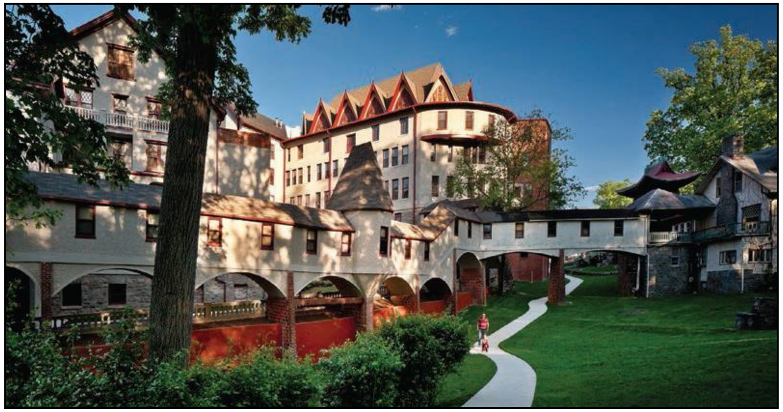
Total HTC Credits generated: **$23.1 billion**

Total federal tax revenue generated: **$28.1 billion**

Total HTC financed investment: **$120.8 billion**

Total direct and indirect/induced jobs: **2.4 million**

Total income generated: **$99.1 billion**



Source: Annual Report on the Economic Impact of the Federal Historic Tax Credit for FY 2015

Intro to Historic Tax Credits (HTC)

- The National Historic Preservation Act of 1966 authorized the National Register of Historic Places. The National Register coordinates and supports public and private efforts to identify, evaluate, and protect America's historic and archeological resources.
- The HTC was enacted in 1976 to preserve and rehabilitate historically significant properties. The HTC has remained in effect since 1976 and is a permanent tax credit.
- There are two types of HTC
  - 20% Rehabilitation Tax Credit (most commonly used)
    - The Certified Rehabilitation of a Certified Historic Structure
  - 10% Rehabilitation Tax Credit
    - Rehabilitation of non-historic, non-residential buildings built prior to 1936

Qualified Rehabilitation Expenditures (QRE)

- Qualified Rehabilitation Expenditures (QRE) are tax credit eligible development costs on which the HTC is calculated
- **What counts?**
  - Hard Costs (Construction, Demo, Electrical, Plumbing, HVAC, etc)
  - Some Soft Costs (Architectural Fees, Insurance, Construction Period Interest, Taxes, Application Fees, Project Management Fees, etc)
- **What doesn't count?**
  - Acquisition Costs
  - Enlargements that expand the total volume beyond the original building footprint
  - FF&E (furniture, appliances, cabinets, tacked carpeting, etc)
  - New Construction
  - Sitework (Landscaping, Fencing, Parking Lots, Sidewalks)

National Trust Community Investment Corporation
a subsidiary of the National Trust *for* Historic Preservation

20% HTC Qualification

- Four tests must be met in order for a project to qualify for the 20% HTC
  - Building must be a “Certified Historic Structure”
    - Individually listed on the National Register or a contributing building in a National Register Historic District
  - Project must be a “Certified Rehabilitation”
    - Renovation adheres to the Secretary of the Interior’s Standards for Historic Rehabilitation
  - Property must be income producing
    - Apartments, Hotel, Office, Retail, Theatres, etc.
    - Owner-occupied residences do not qualify
  - Project must be a “Substantial Rehabilitation”
    - Spend > $5,000 or the “Adjusted Basis” of the building
    - Adjusted Basis = Price Paid for Building – Land + Previous Work – Depreciation

National Trust Community Investment Corporation
a subsidiary of the National Trust *for* Historic Preservation

Historic Development – NPS Process

- Part I – Evaluation of Significance
  - Confirms the building is a “Certified Historic Structure”
    - Individually listed on the National Register of Historic Places
    - Contributing Building in a National Register Historic District
- Part II – Description of Rehabilitation
  - Confirms renovation adheres to the Secretary of the Interior’s Standards for Historic Rehabilitation
- Part III – Certification of Completed Work
  - Submit photo documentation that confirms renovation adhered to plans approved in Part II

National Trust Community Investment Corporation
a subsidiary of the National Trust *for* Historic Preservation

HTC Basics

- Timing
  - The HTC is generated when the building is placed in service, i.e. receives its Certificate of Occupancy
  - 100% of the credit is claimed the year the building is PIS
  - Third Party Investor must be admitted prior to PIS
- Compliance: 5-year period in which credits are subject to recapture
  - Cannot make material alterations to the building
  - Cannot transfer ownership via sale or foreclosure
  - Potential recapture amount decreases by 20% per year
- Monetization
  - Developers frequently do not have enough tax liability to efficiently use the credit so it is commonly monetized with a third party
  - Federal Tax Credits cannot be freely bought and sold, so a legal structure must be established to admit a third party investor into the transaction
  - Investor contributes equity in exchange for their ability to claim the tax credit

National Trust Community Investment Corporation
a subsidiary of the National Trust *for* Historic Preservation

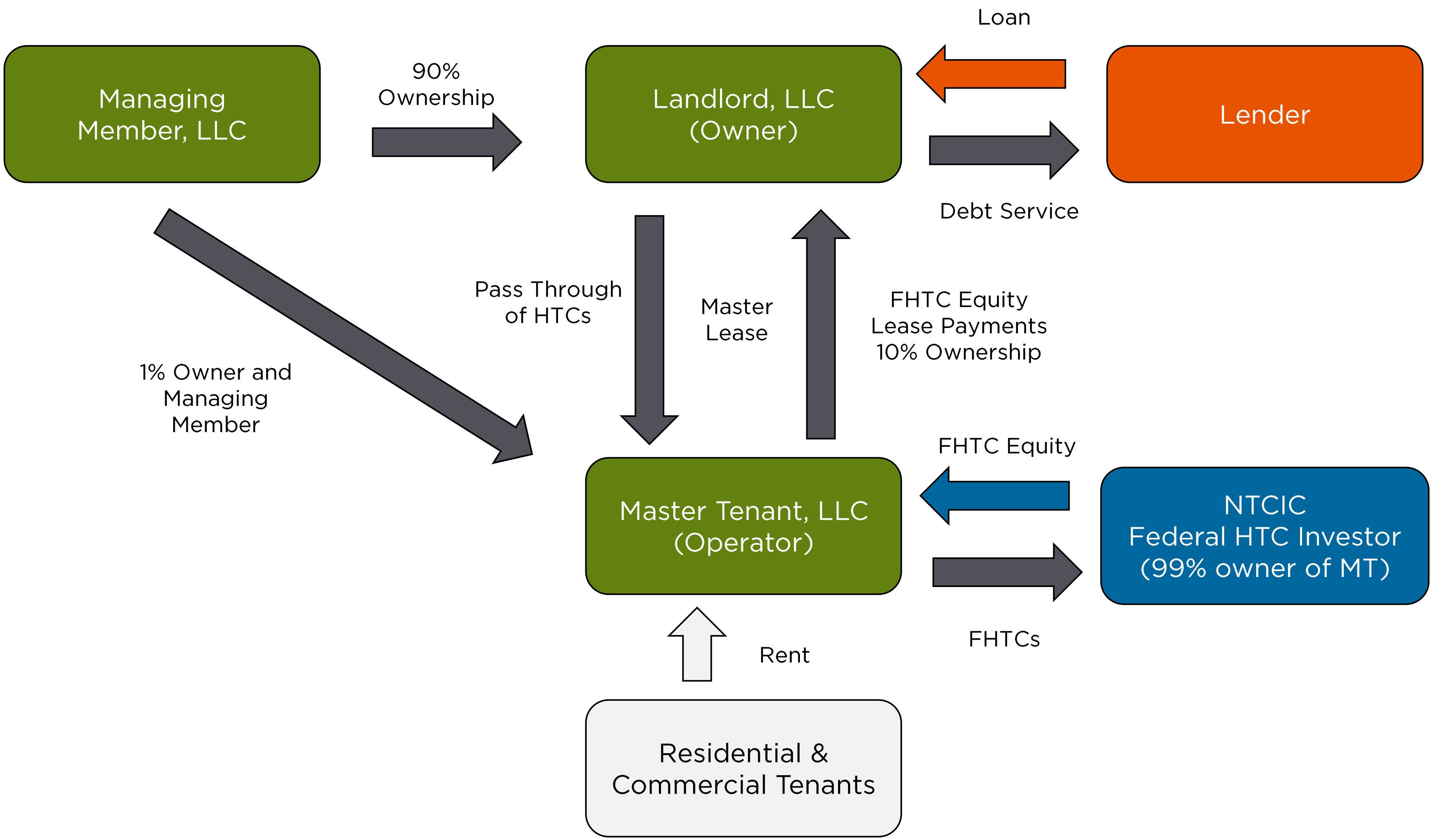
Typical HTC Deal Terms

Third Party Investor will memorialize their investment parameters within a LOI. Multiple factors can vary depending on the size (in $) of the project.

- Pricing
  - QRE > $10M – low to mid .90s
  - QRE < $10M – mid .80s and below
- Timing of Equity Contributions
  - Must have at least 20% of equity in prior to PIS
  - NTCIC – 30% at Closing, 45% at PIS, 15% at Part III, 10% at Stabilization
- Return on Investment
  - HTC Investor must receive cash back over life of deal.
  - NTCIC – target 2% of equity per year for five year compliance period
- HTC Investor Exit
  - Investor has Put Option, typically priced at 5% of equity

National Trust Community Investment Corporation
a subsidiary of the National Trust for Historic Preservation

Monetizing the HTC Master Lease Structure



National Trust Community Investment Corporation
a subsidiary of the National Trust *for* Historic Preservation

Sizing the HTC Benefit

Example 1

Sources			Revenue	100	
Equity	200		Expenses	30	
Debt	800		NOI	70	
HTC	-				
Total	1,000		Debt Service	($56.76)	5%, 25 year am
Uses			Cash Flow	$13.24	
Acquisition	100				
Hard Costs	700				
Soft Costs	200				
Total	1,000				

Use of the HTC reduces the amount of debt or equity a project needs to secure to become feasible

Example 2

Sources			Revenue	100	
Equity	200		Expenses	30	
Debt	656		NOI	70	
HTC	144				
Total	1,000		Debt Service	($46.54)	5%, 25 year am
Uses			Cash Flow	$23.46	
Acquisition	100				
Hard Costs	700				
Soft Costs	200				
Total	1,000				

National Trust Community Investment Corporation
a subsidiary of the National Trust *for* Historic Preservation

Participants in a Tax Credit Deal

- Developer
- Investor
- Syndicator
- Lender
- Bridge Lender
- Asset Manager
- NMTC Consultant
- Attorneys
- Accountant
- IRS
- NPS
- SHPO
- Historic Consultant

Multiple parties to the transaction makes it difficult to realize benefit from the use of HTC on projects <$3M in QRE

National Trust Community Investment Corporation
a subsidiary of the
National Trust *for* Historic Preservation

Intro to NTCIC

Historic Tax Credits

New Markets Tax Credits

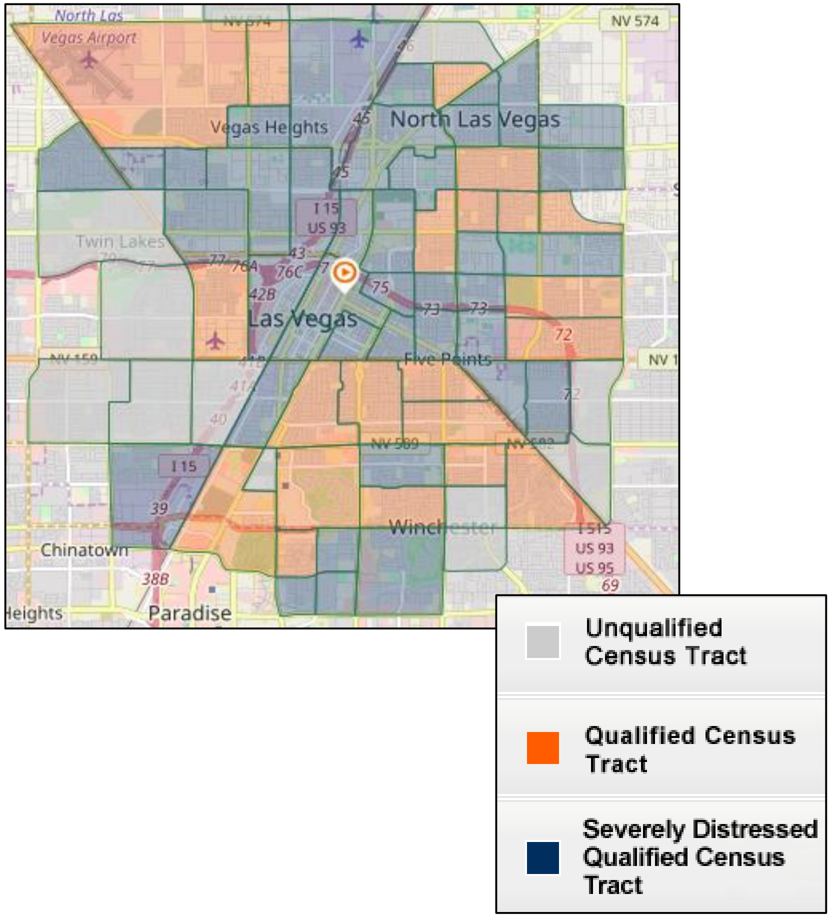
Outlook & Success Stories

Intro to the New Markets Tax Credit (NMTC)

- The NMTC was created in 2000. The purpose of the legislation was to stimulate economic development in low income communities by offering tax credits to investors who in invest in projects that generate jobs and create benefits for low income people.
- NMTC can be used on all property types-office, retail, mixed use, health centers, grocery stores, etc
- For a property to be eligible for NMTCs, it must be located in a low income census tract
- Authority to allocate credits is granted to Community Development Entities (CDEs) on an annual basis
- If a property is eligible for both HTC and NMTC, both credits can be used on the property. This is common and is known as “twinning” of the credits. This provides more equity to the developer for projects in low income census tracts.

NMTC Basics

- Competition for NMTC allocation is fierce, with demand from Projects far exceeding the supply of available allocation from CDEs
- QALICBs, the Project, can secure an allocation of NMTCs up to the size (in $) of the Project. The NMTC is a 39% tax credit against the amount of allocation secured, and Investors typically pay ~$.85 per $1 of NMTC, so the equity proceeds to the Project average ~20% of total allocation secured.
- First step is to contact a CDE who has allocation to solicit interest. Visit CDFI Fund website for awards.



National Trust Community Investment Corporation
a subsidiary of the National Trust for Historic Preservation

NMTC/HTC Calculation

Uses

Acquisition Costs	$ 3,000,000
QRE-eligible hard Costs	$ 10,000,000
Eligible soft Costs	$ 2,000,000
	$15,000,000

Sources

1st mtg = 50%	$ 7,500,000
HTC Equity = 15%	$ 2,352,000
NMTC Equity = 21%	$ 3,189,092
Developer Equity = 13%	$ 1,958,908
	$15,000,000

Twinning the HTC & NMTC results in ~35% subsidy to Project

HTCs Generated

$ 12,000,000 QREs
X 20% Tax Credit
$2,400,000 HTC generated
X 98 cents/dollar
$2,352,000 Net Equity

NMTCs Available

$9,852,000 allocation x 39% = $3,842,280 @ .83 cents = $3,189,092 investor equity

National Trust Community Investment Corporation
a subsidiary of the National Trust for Historic Preservation

HTC/NMTC Comparison

	Historic 20% or 10% Credit	New Markets 39% Credit
Hold Period	5 years from Placement in Service (PIS)	7 years from QEI
Timing of Credit Use	100% at PIS; vests or "burns off" over 5-year recapture period	7 year stream of credits from first QEI; does not vest
Credit Earned By	Building owner (profits %) or tenant (by pass through election)	QEI holder
Credit Calculation	20% of project-level Qualified Rehabilitation Expenditures (QREs); generally hard & soft cost expenses, but not acquisition	39% of QEI
Qualifications	Must meet Rehabilitation Standards and be approved by SHPO/NPS. Part 1, 2, 3; commercial or residential rental; limitations on tax-exempt owners and users	QALICB must be in active conduct of a "qualified business"; no residential rental; certain disqualified businesses
Economics	Varied pay-in; $.70-.95 pricing; annual cash return; investor has option to put interest for fixed (below FMV) cost	QEI/QLICI typically funded at same time; pricing in $.80s; credits are primary value for investor; nominal put price or call of FMV

National Trust Community Investment Corporation
a subsidiary of the National Trust *for* Historic Preservation

NTCIC Main Street Small Deal Fund

- NTCIC offers low-cost tax credit financing to Main Street Communities. Our Main Street Small Deal Fund (MSSDF) provides up to $2 million in tax credit financing per project with a combination of HTCs and NMTCs
- Projects must be historic rehabilitations that meet the following requirements and have the support of their local Main Street organization

1 Location

Located in a Low-Income Community that has:

- Poverty rates greater than 30%; or
- Median incomes less than 60%; or
- Unemployment greater than or equal to 11.85%

2 Size

- Qualified Rehabilitation Expenditures must be between $3,775,000 and $7,400,000
- All other sources of financing have been committed

3 Readiness

- National Park Service (NPS) Part I is complete
- Part II should already be submitted to NPS, if not already approved
- All local approvals have been received and building permits have been issued
- Architectural drawings have been prepared and general contractor has been identified

4 Impact

Community impacts must include:

- Housing locally-owned and small community businesses
- Creating jobs accessible to low-skilled workers
- Support from the local community
- If there are residential units, at least 20% must be set aside at below market rents and must be leased to households earning 80% of Area Median Income or less

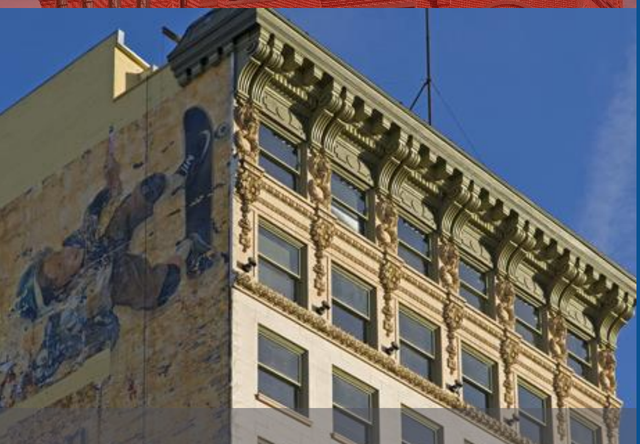
5 Tax Credits

- HTCs are enhanced with NMTCs resulting in an estimated price of $1.36 per HTC
- Fees are minimized and transaction costs are capped

6 Structure

The NTCIC MSSDF will invest in both the NMTCs and HTCs. A project cannot elect to take only HTC or NMTC equity.

- A leverage NMTC structure with an HTC master tenant structure will be utilized
- No other NMTCs can be utilized outside NTCIC's investment
- A third party will be required to bridge the majority of financing needed during construction


National Trust Community Investment Corporation
a subsidiary of the
National Trust *for* Historic Preservation

Intro to NTCIC

Historic Tax Credits

New Markets Tax Credits

Outlook & Success Stories

HTC Outlook

- Tax Reform
  - It is anticipated that the first draft tax reform bill circulated by the House will closely mirror Paul Ryan's "Better Way" blueprint for tax reform which did not include the HTC or NMTC and should be out in April
  - This does not come as a surprise to the HTC Coalition, and mobilizing efforts are underway to get back into future iterations of the tax reform bill
- What can you do?
  - Contact your Representatives and Senators to express support for the HTC (Sen. Heller is on the Senate Finance Committee)
  - **Lobby in DC in 2017**—Come to Washington D.C. and lobby on behalf of the HTC during Preservation Lobby Day, March 14-16 (**www.preservationaction.org**) or at any time in 2017 that fits your schedule. Contact us for help setting up meetings with congressional offices both in Washington and in-district:
    - **Mike Phillips**, mphillips@ntcic.com
    - **Renee Kuhlman**, rkuhlman@savingplaces.org
    - **Shaw Sprague**, ssprague@savingplaces.org

National Trust Community Investment Corporation
a subsidiary of the National Trust *for* Historic Preservation

Case Study: *American Brewery, Baltimore, MD*

- Former American Brewery brew house, built in 1887, renovated into office and program space for Humanim, 40 year old nonprofit social and human services provider
- Project utilized the 20% HTC as well as a 25% State of MD HTC and NMTCs
- Tax Credit Equity accounted for \$12 million of \$22 million total project costs
- NTCIC served as Federal HTC Syndicator; BofA was HTC & NMTC investor

National Trust Community Investment Corporation
a subsidiary of the
National Trust *for* Historic Preservation

Case Study: *American Brewery, Baltimore, MD*