

Tax Credits 101 and Beyond

Year 15 Disposition Scenarios

October 17th, 2012



Scenario 1: Market Rate Sell-Off

Property Specifics

- Units: 72 Units (1, 2, 3 BRs)
- Type: Townhouse
- Affordability: 100% LIHTC (15 Yrs)



- Financing
 - 1st Mortgage: \$1.09m
 - 2nd Mortgage: \$988,000
 - State Agency
 - LP Equity: \$2.23m*
- Valuation
 - \$2 million (\$28,000 per unit)

*Must be repaid before GP distribution



Scenario 1: Market Rate Sell-Off

Strategy: **Capitalize on Neighborhood Dynamics**

- Secured Ownership Structure
 - Buy-out LP for \$1
 - Pay down first mortgage
 - State Agency debt was entirely forgiven
 - Ingerman had funded nearly \$1 million in deficits and deferred management fees through transition (8-10 years)
- Performed moderate rehab (\$20,000 per unit) when affordable covenants expired in Year 15
- Sell-off
 - Condos ranging from \$120,000 - \$200,000
 - 65 Units have sold to date



Scenario 2: Repositioning

Property Specifics

- Units: 122 Units (1, 2, 3 BRs)
- Type: Garden Apartment
- Affordability: 100% LIHTC (30 Yrs)
- Financing
 - 1st Mortgage: \$3.62m
 - 2nd Mortgage: \$1.5m (*State Agency*)
 - \$700k in deferred interest
 - 3rd Mortgage: \$500 (*local non-prof*)
 - LP Equity: \$6.4m*
- Valuation
 - \$5.8m at 8.5% Cap Rate



*Must be repaid before GP distribution



Scenario 2: Repositioning

Strategy: **Reposition for Long-term Flexibility**

- Secure Ownership Structure
 - Negative asset value based on income valuation (with existing liabilities)
 - Bought out LP investor for \$100,000

- Reduce Financial Expenses
 - First Mortgage (7.43% interest) matures in 2015
 - Refinance balloon principal at lower rate (est. annual debt service savings: \$110k+)

- Position for Increased Operating Revenue
 - LIHTC restrictions ended in 2012
 - Increase rents to ceiling of affordability controls imposed by secondary financing



Scenario 3: Restructuring

Property Specifics

- Units: 228 (1, 2 BRs)
- Type: Garden Apartment
- Affordability: Mixed-income
(70% LIHTC)



- Financing
 - 1st Mortgage: \$6.5m outstanding on private placement bond @ 6%
 - LP Equity: \$1.77m*
- Dueling Valuations
 - \$10.7m at 8% Cap Rate (*LP value*)
 - \$14.5m at 6% Cap Rate (*Financing Value*)

*Must be repaid before GP distribution



Scenario 3: Restructuring

Strategy: **Strengthen Cash Flow for Long Term Operations**

- Secure Ownership
 - Bought out 20% LP investor equity stake for \$800,000

- Refinance
 - Closed \$10.5m Fannie Loan @ 4.3%
 - Pay-off existing first mortgage
 - Reduce debt service by \$200k/year
 - Recapture \$3m in equity

- Additional Covenants
 - Ingerman had to guarantee tax credit compliance for addition 18 mos.

