Returns

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NORTHERN NEW ENGLAND HOUSING INVESTMENT FUND REPORT

NNEHIF Broadens Its Commitment

Listen. That was the charge from NNEHIF President Bill Shanahan and the rest of the senior management team when they began creating a strategic plan for the years of 2018-2021. NNEHIF enlisted the services of consultant Valerie Landry who had in-depth conversations with more than 40 people, including staff, board members, developers, investors, regulators, and community organizations.

"Listening to the observations of NNEHIF staff and partners was the priority," said Landry. "While the goal was to develop a blueprint for decision making, NNEHIF wanted the process itself to be a vehicle for engaging these important stakeholders."

EXPAND, ENHANCE, INVEST

After hours of interviews and analysis, many perspectives were woven into NNEHIF's 2018-2021 strategic plan entitled "Broadening Our Commitment." The plan lays out three overarching priorities: 1) Expand our business model, 2) Enhance business value, and 3) Invest in people.

While NNEHIF remains firmly committed to its core mission of Low Income Housing Tax Credit (LIHTC) syndication, the organization intends to explore new sources of financing and services to assist its partners. One option may be to offer short-term lending for partners that might not have that available to them through banks or other institutions. Other possibilities include expanding NNEHIF's asset management consulting and service platform, or growing the HIF Consulting business even more.

The first priority to expand the business model goes hand in glove with the second priority: enhance business value. One practical example is NNEHIF's goal to improve customer service through professional coaching.

"We're constantly reminded of the fact that we're in a competitive environment," said Holly Burbank, VP of Finance & Administration. "We want to take a close look at how we do things and consider if there's a new, better way that adds more value for our partners."

Finally, NNEHIF has always understood that success depends on a top-notch team that enjoys their work and is good at it. The company's plan to invest in people includes mapping out what skills and strengths currently exist among the staff, as well as providing guidance and training to people in areas where they need support.

"We want working at NNEHIF to be a great experience where staff can grow professionally," said Burbank.

THE MORE THINGS CHANGE

NNEHIF is still the leading syndicator in Northern New England, and their level of LIHTC expertise and regional relationships in the affordable housing industry remain unparalleled. Now, the organization is ready to implement their strategic plan, gradually and with intention.

"We can't remain static," said NNEHIF President Bill Shanahan. "The environment for investors, developers, property managers, community organizations, and regulators is continuously changing. We must stay attuned to their needs to preserve and expand the supply of affordable housing."

After more than two decades of leadership in this arena, NNEHIF will continue to play an integral role in affordable housing for many years to come, by listening – and responding – to the communities it serves. ◆

Northern New England Housing Investment Fund

Tax Reform: A Conversation with Bill Shanahan

For much of 2017, we were all anxiously waiting to see what tax reform would look like. The affordable housing community was concerned about the possibility of a cut in the corporate tax rate. Rumors of tax reform in late 2016 and early 2017 produced a drop in Low-Income Housing Tax Credit (LIHTC) pricing: nationally the average price dropped from $1.02 to $0.93 in a short period of time, leaving many projects with credit reservations with a funding gap that had to be made up with other scarce resources.

Now that the tax bill has been passed, we know the corporate tax rate is 21%, which will probably mean further erosion in equity pricing. Still, many questions remain. In this article, NNEHIF President Bill Shanahan offers his thoughts.

First things first: was the LIHTC program ever in jeopardy?

When tax reform was taking shape, the LIHTC program was not a sure thing. NNEHIF worked alongside local and national groups to educate legislators about the program and its importance. Eventually, there were only two expenditures that found their way into the House's version of tax reform: Housing Tax Credits and R&D credits. We all breathed a sigh of relief... and then the other shoe dropped.

Before we talk about that other shoe, explain how changes to the tax code – especially the corporate rate cut – affect the LIHTC program.

Although the Housing Tax Credit was preserved, the corporate tax rate was lowered from 35 percent to 21 percent. The two most significant drivers in calculating a return on a Housing Tax Credit investment are the credits and the non-cash losses that the properties provide investors. Both reduce an investor's tax liability, and with a lower corporate tax rate there are fewer non-cash losses for the investor. In order to get the same return at 21% that an investor would get at 35%, the investor will now pay less for the housing credits.

Bill Shanahan, President of NNEHIF

Now that investors have a lower tax rate they may not have the same motivation to seek tax credits to reduce their tax liability. Other tax code changes that deal with interest deductibility and depreciation will also affect LIHTC investments, and we are still trying to sort those out. Many will need clarification from the IRS – or a legislative fix. Additionally, everyone with a portfolio of housing credit investments now has to think about the value of that portfolio vis a vis the new tax rules.

All of these factors are causing investors to pause. I expect that investors will certainly stay in the market, but it's going to take time for them to adjust to this new legislation. Most of our investors still have to consider their CRA obligations – that will likely create demand, but it may happen later than usual this year.

Are housing investment funds still good investments?

Absolutely. The fundamentals have not changed; this is a mature asset class that has performed very well with virtually no defaults or foreclosures and very high occupancy rates. The 15-year holding period is a long-term investment, but the after-tax returns are better than investment alternatives. CRA rules also still apply and continue to be a strong motivator for investors.

Let's go back to that other shoe... private activity bonds.

One of the biggest shocks came when the House came out with their tax reform package: it eliminated private activity bonds (PAB's). These tax-exempt bonds are used extensively in the public sector for municipal projects, school and infrastructure improvements as well as housing production and preservation.

The Senate preserved the PAB's in their version of the tax bill, so during the reconciliation process we did tons of advocacy, alongside groups like Maine Affordable Housing Coalition, Housing Action NH, and the Maine Real Estate Developers Association. We fought really hard to preserve PAB's, talking constantly with our congregational delegation and educating legislators about the importance of keeping the bonds. In fact, we drew a lot of attention from other states in New England – and across the country – because Susan Collins is our Senator, and she has such a pivotal role in the Senate.

Are there any other highlights in the tax bill?

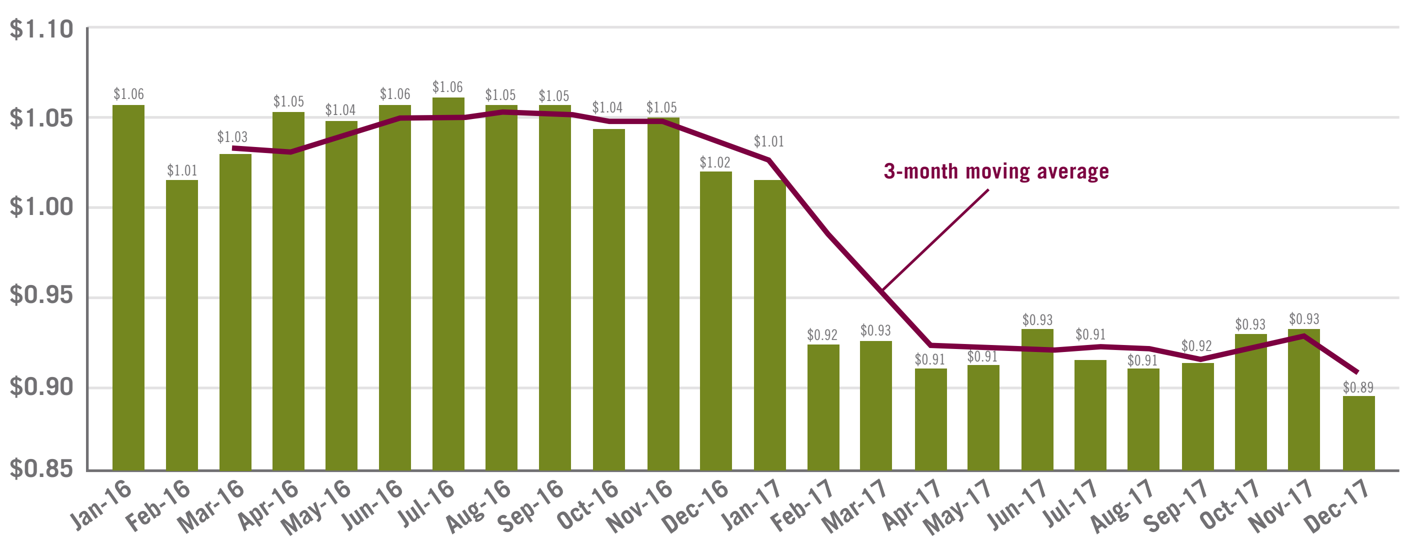
New Market Tax Credits (NMTC's) will be preserved until 2019, however, there's still some uncertainty about whether they'll continue after that. Historic Tax Credits were adjusted to a 5-year credit, reducing its potency (and pricing) from the first-year "high premium" credit that it once was. There's also something in the tax code called Opportunity Zones, which are closer in kind to NMTC's than Housing Tax Credits. It's a bright spot for low-income communities, but it's complicated and unclear exactly what it is – or if it will help increase the supply of affordable housing.

Since the tax bill has been passed and parsed, now what?

We got through tax reform and we've got some ground rules, but it's a challenge in early 2018 to understand them all. The fact that LIHTC survived with bipartisan support is huge. Now we have budget battles to fight to preserve the other programs that buttress LIHTC. The most disappointing thing about the advocacy experience was that we were fighting from a very defensive position and not finding many allies. Right now it's hard to find housing heroes that are championing housing initiatives as legislators, although there are a few. Meanwhile, the demand for affordable housing is not slowing down. We in the industry need to keep beating the drum and make policy makers understand why housing is a priority. ◆

LOW-INCOME HOUSING TAX CREDIT EQUITY PRICING PER CREDIT

JANUARY 2016 - DECEMBER 2017



This low-income housing tax credit equity pricing chart is presented for general information purposes only. Per credit equity pricing is based on syndicator Letter of Intents (LOIs) provided to Novogradac & Company LLP by market participants. The equity price reported for each month is the average equity price for LOIs issued in that month. No adjustments to equity pricing are made for timing of capital contributions or other considerations. Data labels are rounded to the nearest cent.

Source: Novogradac & Company LLP

The NLIHC educates, organizes, and advocates

NATIONAL LOW INCOME HOUSING COALITION

There are many national groups working to preserve and expand affordable housing, but the National Low Income Housing Coalition (NLIHC) is the primary organization that focuses on making sure that Americans with the lowest incomes have access to decent housing.

Founded in 1974 by Cushing N. Dolbeare, NLIHC is made up of more than 1,100 individuals and organizations across the country, including Housing Action NH and the Maine Affordable Housing Coalition (MAHC).

Greg Payne, a Development Officer at Avesta Housing, is the Director of MAHC. He is also the Chair of the Board of Directors of NLIHC.

"Fundamentally, NLIHC is a policy advocacy organization," said Payne. "Their staff educates lawmakers about housing needs to help shape socially just public policy, and they mobilize members, like MAHC, to do the same."

In addition, NLIHC has a research arm that studies trends and analyzes data to create a picture of the need for affordable housing. One important study is the annual Out of Reach report, which uses HUD data to document the gap between renters' wages and the cost of rental housing. According to Payne, when Maine policymakers call, Out of Reach is "one of the go-to" education tools.

TAX POLICY AND BUDGET BILL

Along with groups like NNEHIF and the National Association of State and Local Equity Funds (NASLEF), NLIHC was deeply involved in the advocacy work around tax reform legislation. While NLIHC fought to protect the LIHTC program, they are also very concerned about the pressure on future budgets that will likely occur from the increased deficit as a result of the tax bill.

Housing advocates were worried that the two-year budget agreement that Congress recently passed would exacerbate the problem by making massive cuts to non-discretionary programs. The agreement did not contain those budget cuts, but Payne and NLIHC leadership keep the good news in perspective.

"We are relieved that these programs weren't killed, but the status quo is still woefully inadequate to meet housing needs," explained Payne. "The recent budget agreement combined with the new tax policy still puts us in a worse place than before the 2016 election – here in Maine, we can expect to see about a 10% decline in the number of affordable apartments that we'll be able to build."

GOING FORWARD

In the coming year, the NLIHC will continue to put a focus on the level of unmet housing needs in the U.S. One policy item that they'll be actively engaging with is housing finance reform and the opportunity to expand the National Housing Trust Fund.

NLIHC is also anticipating that the federal government will likely propose changes to housing programs, such as raising minimum rents for extremely low income people and proposing work requirements. The coalition will work to ensure that those kinds of policy debates are based in a factual understanding of who lives in assisted housing.

Another important issue is the need for housing for people affected by the devastating hurricanes in 2017. NLIHC has been bringing organizations and communities together to speak to what the housing needs are in recovery, both in Puerto Rico and on the mainland. The goal is to make sure that the federal response to disaster recovery is equitable – and keeps the need for housing front and center. ◆

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Northern New England Housing Investment Fund

The Northern New England Housing Investment Fund (NNEHIF) is a private, nonprofit 501(c)(3) corporation that promotes housing and community development by providing equity capital, technical assistance and consulting to affordable housing developers throughout Maine and New Hampshire.