LIHTC Exit Strategies 2011 Update

NH&RA Spring Forum
May 24, 2011
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Successful Exit Strategies: 2011 Changes

- **Operate "as is" A sale… or refi LP s out**
- **~~Convert to market (pre 90 ..or QC)~~**
- **~~Convert to Condo (pre 90…post 2009)~~**
- **Recycle as 4% or 9% tax credit**
- **Partner with non-profits**
- ***Pre year15 sales***
- ***Sales of GP/LP interests***

2011 DEBT IS CHEAP

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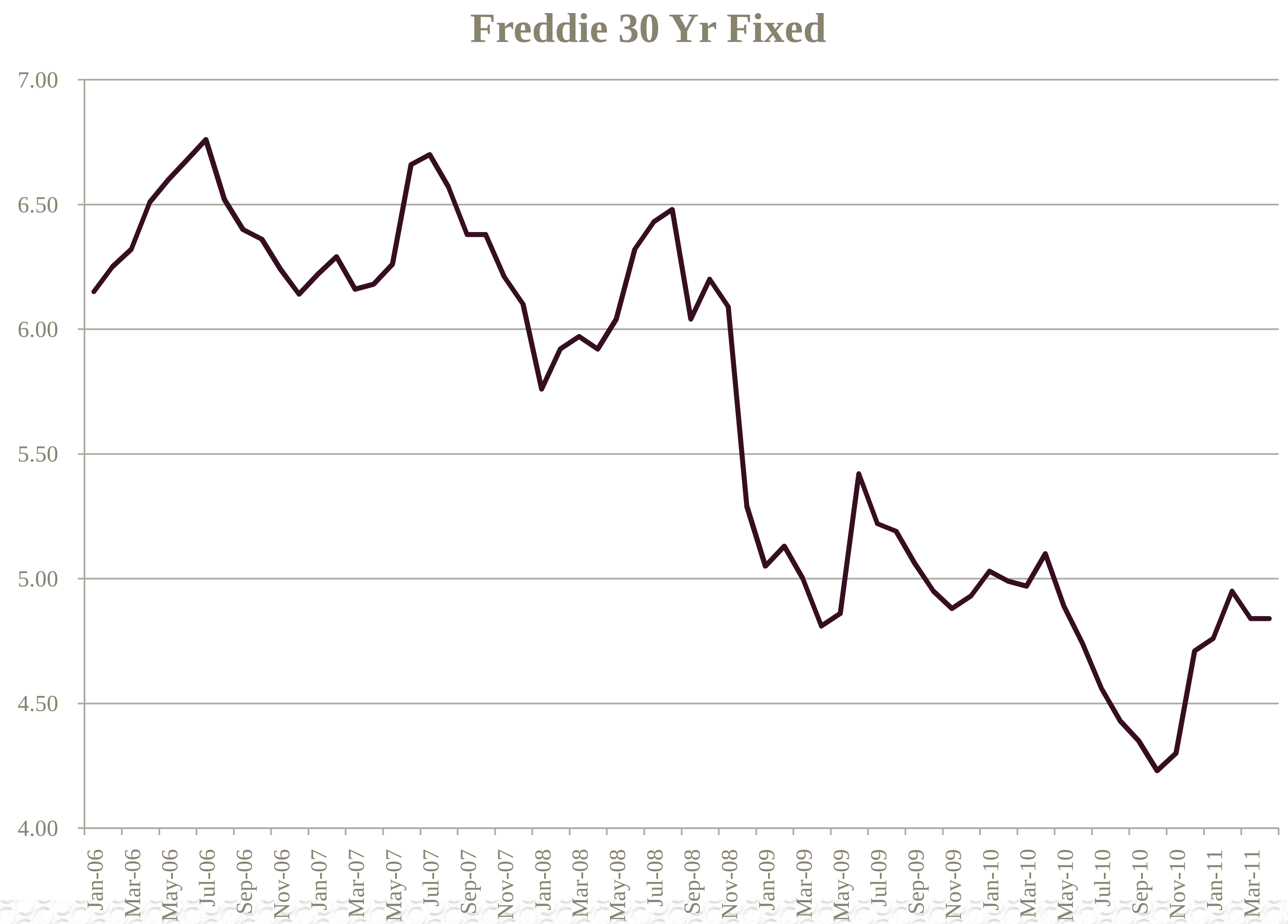

DUS Fannie (almost free money)

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	DUS			
	5/4.5/30	7/6.5/30	10/9.5/30	10/9.5/30** 1510 PR
T- yield	1.83%	2.51%	3.18%	3.18%
Spread	2.38%	2.30%	2.09%	1.86%
Note Rate	4.21%	4.81%	5.27%	5.04%

***$5M min, Tier 2 Leverage requirements**

***Actual/360, 30 Day Settlement**
**** 1510 PR. $15MM Min.**
****Tier 2 1510 PR Max LTV 70%**
Min DSCR 1.30x

GNMA.. Almost Free (but the process)

	GNMA			
	FHA-223F*	FHA-221d4**		
T- yield	3.18%	3.18%		
Spread	0.65%	1.65%		
Note Rate	**3.83%**	**4.83%**		
MIP	0.45%	1.00%		

***35 year Fully Amortizing. 2yr L/O, 87654321.**

****40 year Fully Amortizing. 3yr L/O, 7654321.**

Freddie

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	FREDDIE CME			
10/30* ($5M-$25M)			10/30* ($25M-$50M)	
T- yield	3.18%		T- yield	3.18%
Spread	2.05%		Spread	1.90%
Note Rate	5.23%		Note Rate	5.08%

* Standard 30 day Settle, Defeasance prepay
* 75% LTV, 1.30x DSCR
* Average Borrower/Market.
* Assume 10bps higher for 80/1.25x

Freddie ARM

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	FREDDIE Capped ARM			
7/30* ($5M-$25M)			7/30* ($25M-$50M)	
30 Day LIBOR	0.20%		30 Day LIBOR	0.20%
Spread	3.55%		Spread	3.45%
Note Rate	**3.75%**		**Note Rate**	**3.65%**

*** INDICATIONS ONLY. NOT TO BE USED FOR APPLICATION PURPOSES.**

*** Standard 30 day Settle, Prepay 3,2,1…Par final 90 Days**

*** 75% LTV, 1.05x DSCR at Max Note Rate of 7.00%**

Analysis Drives the Strategy
Especially in rapidly Changing times

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Ask the Questions:

– WHAT'S THE MARKET?

….Significant changes in <u>some</u> Property and Investment Markets

– WHAT'S POSSIBLE?

…Where are the 4% executions ? Wait for the elusive 9% ?

– WHAT'S THE HIGHEST & BEST VALUE?

….Will continue to change w/pent up investment demand

Find the Answers : with a Disciplined Valuation Model

Valuation Summary

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Property Information	
Project Name:	Main Street Apartments
Units	50
Address:	123 Main Street
City, ST:	Seattle, WA
Zip:	98101
Partnership Name:	Main Street Apt, LP
GP Contact:	John Q. Developer
Management Agent:	ACME Management
CTG Lead:	Stephen Roger
Analyst:	
Fund:	Centerline Fund #1, LP
Centerline Equity:	$2,076,491

Property Valuation Summary			
Scenario	Property Value	Price Per Unit	LP Proceeds
Market Value (w/ restrictions)	2,892,612	57,852	309,811
4% Resyndication	N/A	N/A	N/A
9% Resyndication	1,929,630	38,593	-
ROFR Price	N/A	N/A	N/A
Option Price	2,892,612	57,852	309,811
Qualified Contract Price	4,503,777	90,076	N/A
Market Value (w/o restrictions)	N/A	N/A	N/A
LP Cash Flow Multiple			89,089
Refinance Scenario			-
Concluded Sale Value	2,900,000	58,000	316,919

Cap Rate Analysis	2009 NOI	Avg 5 Yr NOI
	230,735	191,645
	8.0%	6.6%

Compliance End Date, Option/ROFR & Restrictions

Compliance End Date	
8609 - last building PIS date	12/2/1994
1st Yr credits	1995
Initial Compliance End Date	12/31/2009

Regulatory Agreements and Qualified Contract

Please indicate if you have obtained copies of the following:

Extended Use Agreement/LURA (issued by tax credit allocating agency)	Yes
Bond Regulatory Agreement (if property was financed with tax exempt bonds)	No
Other financing/acquisition regulatory agreements	No
Do the regulatory agreements allow the property to request a qualified contract?	No

Owner may not submit for QC Process until after the 10-year Additional Low-Income Use Period Stipulated in the Fern Ridge Regulatory Agreement.

Option Agreement and Right of First Refusal (ROFR)

Market Value - Restricted	2,892,612
Debt Plus Taxes	1,689,839

Debt Plus Taxes Calculation	
Outstanding Debt	1,638,219
LP Taxable Gain on Sale	-
Tax liability @ 35%	-
Transfer Tax	51,620

Does Partnership have an Option Agreement?	Yes
If "Other", enter Option Price	$2,892,612
Does Partnership have a ROFR?	No
If "Other", enter ROFR Price	N/A

For the six-month period following the end of the Compliance Period, the GP has the right to pursue a purchase of the interests of the Investor Limited Partners for the Fair Market Value, as ultimately determined by dueling appraisers.

Balance Sheet Review

Assets		Notes
Cash	90,549	Per 2009 Audit
Replacement Reserve	51,164	Per 2009 Audit
Other Reserves		
Escrow Accounts	22,366	Per 2009 Audit
Tenant Accounts Receiveable		
Prepaid Expenses		
Security Deposits	14,099	Per 2009 Audit
Other (specify)		
Total Assets	**178,178**	
Accounts Payable (3rd party)	32,210	Per 2009 Audit
RE Taxes Payable	-	
Security Deposits Payable	-	
Due to GP and affiliates	-	
Developer fee	718,591	*Developer Note; 7.86% Interest; Matures 1/1/2010*
Management fee	-	
Developer Note	-	
Other (explain)	803,218	*GP Developer Note 2; 7.86% Interest ; Matures 1/1/2015*
Due to LP		
Due to SLP		
1st Mortgage Principal	1,551,548	*Bank of America; 5.38% Interest; Matures 7/15/2010*
Accrued Interest		
2nd Mortgage Principal	86,671	*Soft Debt with City of Seattle, 0% Interest; Matures 2025*
Accrued Interest		
3rd Mortgage Principal		
Accrued Interest		
Other Liabilities		
Total Liabilities	**3,192,238**	

Partner Capital Accounts		
GP	Prior Year Increase (Decrease)	-
	Withdrawals & Distributions	-
	Ending Capital Account	(828,647)
LP	Prior Year Increase (Decrease)	
	Withdrawals & Distributions	
	Ending Capital Account	777,884
SLP	Prior Year Increase (Decrease)	
	Withdrawals & Distributions	
	Ending Capital Account	(132)

Property Book Value	
Carried Land Value	364,307
Book Value	2,623,440
Annual Depreciation	105,622

Pro Forma Review

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	Historical Audit			QFS			Pro Forma	
	2009	per unit		TTM Q3-2009	per unit		2010	per unit
Operating Income								
Gross Rental Income	448,000			444,190			448,440	
Vacancy	(26,151)			(59,687)		6%	(27,788)	
Bad Debt & Concessions				(4,712)				
Other Income	15,129	303		10,891	218		14,700	294
Total Income	436,978			390,682			435,352	
Operating Expenses								
Management Fee	17,479	350		15,066	301		17,414	348
Admin/Misc	8,569	171		31,212	624		9,975	200
Utilities	41,950	839		31,777	636		42,000	840
Maint	37,562	751		45,246	905		38,750	775
Payroll	47,856	957		47,056	941		50,000	1,000
RE Taxes	26,556	531		22,126	443		32,267	645
Insurance	10,555	211		9,383	188		11,000	220
Marketing	3,216	64		3,056	61		4,500	90
Total Operating Expenses	193,743	3,875		204,922	4,098		205,906	4,118
Less: Replacement Reserve	12,500	250		12,500	250		12,500	250
Net Operating Income	230,735			173,260			216,946	0.47
Hard Debt Service	(116,448)							
DSCR	1.98							
Net Cash Flow	114,287							

Rental Income

# BRs	# Units	Sq Ft Per Unit	Current AMI % Set-Aside	Current Rent	Utility Allowance	Max TC Rent	Market Comp Rent	Pro Forma Rent	Mkt
1x1	18	605	60%	660	90	787	645	645	675
2x1	16	850	60%	765	100	945	770	770	800
3x2	16	1,009	60%	890	110	1,092	840	840	875
	50	813			100	935	747	747	

Historic Operations

	Last 5 Yr	2009	2008	2007	2006	2005
Rent (EGI)	399,180	436,978	426,536	406,556	369,569	356,259
Expenses	195,035	193,743	177,016	198,632	204,672	201,110
NOI	191,645	230,735	237,020	195,424	152,397	142,649
Debt Service	(116,448)	(116,448)	(116,448)	(116,448)	(116,448)	(116,448)
Cash Flow	75,197	114,287	120,572	78,976	35,949	26,201

Comments

Pro Forma is based on Centerline due diligence with input from Third Party Appraiser

Valuation Analysis (Including 4% and 9% Execution)

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Market Value (w/restrictions)

Pro Forma NOI		216,946
Cap Rate	7.5	2,892,612
Total Property Value		**2,892,612**

Qualified Contract Price

Net Equity to Partnership	2,076,491
Outstanding Debt	1,638,219
COLA Adjustment	138%
Distributions	-
Qualified Contract Price	**4,503,777**

Market Value (w/o restrictions)

Pro Forma NOI	N/A
Cap Rate	N/A
Total Property Value	-

4% Resyndication

SOURCES			
Mortgage	75%	2,314,090	46,282
Equity (4%)		681,000	13,620
State TC Equity			
New Soft		-	
Soft		**86,671**	1,733
Deferred Dev Fee		-	-
Total Sources		3,081,761	61,635
Debt forgiveness	-		
Rollover of soft	*86,671*		
USES			
Acquisition		1,292,161	25,843
Hard Const		1,200,000	24,000
Soft		300,000	6,000
Developer Fee		289,600	5,792
Reserves		-	-
Total Sources		3,081,761	61,635

4% Credits

Acq. Basis	1,061,875
Rehab Basis	1,655,578
Annual credits	90,763

9% Resyndication

SOURCES			
Mortgage		2,169,459	43,389
Equity (9%)		1,545,000	30,900
State TC Equity			
New Soft		-	
Assumed Soft		**86,671**	1,733
Def Fee		-	-
Total Sources		3,801,130	76,023
Debt forgiveness	-		
Rollover of soft	*86,671*		
USES			
Acquisition		1,929,630	38,593
Hard Const		1,200,000	24,000
Soft		300,000	6,000
Dev Fee		321,500	6,430
Reserves		50,000	1,000
Total Sources		3,801,130	76,023

9% Credits

Acq. Basis	1,746,210
Rehab Basis	1,640,613
Annual credits	205,979

Property Purchase Price	**1,292,161**
Post-recycle CF	**43,389**
Bond Allocating Agency:	WSHFC
Application Deadline:	3/1/2010

Purchase Price	**1,929,630**
Post-recycle CF	**54,236**
LIHTC Allocating Agency:	WSHFC
Application Deadline	3/1/2010

Financing Assumptions for Resyndication

Tax credits

DDA	No	Credit Rate	Dec-09
QCT	No	4%	3.34%
Other Basis Boost	No	9%	9.00%
Developer fee		Price/credit	0.75
Acquisition	5%	Rehab/unit	24,000
Rehab	15%	Soft/unit	6,000
		Reserves/unit	1,000

Tax-exempt bonds

Rate	6.00%
Term	30
DSC	1.20
LTV Limit	80%

Taxable financing

Rate	6.30%
Term	30
DSC	1.25
LTV Limit	75%

LP Cash Flow Multiple and Refinance Analysis

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LP Cash Flow Multiple		
Pro Forma Cash Flow	87,998	
LP Portion of CF	-	
see Cash Flow Waterfall for details		
8 X LP CF	-	add CF mult var
50% of P'ship Assets (excl. S	89,089	
2 X Value of LP Losses X 35¢	-	
Total LP Value AS-IS	**89,089**	

Refinance scenario

				Debt Terms		
Sources					Rate	6.00%
	Supportable Debt		2,169,459		Term	30
	Less financing costs	2%	(43,389)		DSC	1.25
	Gross Financing Proceeds		2,126,070			
	Less capital needs		-		LTV Limit	80%
	Cash and reserves		89,089			
	Total Sources		2,215,159			
				Valuation		
Uses				Pro Forma NOI		216,946
	Prepayment penalty		-	Value		2,711,824
	Payoff mortgages		1,638,219			
				LTV Limit		2,169,459
Refi Proceeds			576,940			
i	GP Mgmt Fees		-	New Debt Service		156,084
ii	SLP Fees		-			
iii	Repayment of loan to any Partner other tha		-			
iv	Repayment of Voluntary Loans (including a		-			
v	Repayment of Operating Loans		-			
vi	Repayment of Developer Note 1		-			
vii	Repayment of Developer Note 2		576,940			
viii	To the LP, its Capital Contribution		-			
ix	To the GP, its Capital Contribution		-			
Partner Splits						
	GP	50.00%	-			
	LP	49.99%	-			
	SLP	0.01%	-			
	Total to LP		-			

Seller's Sources and Uses & Capital Gain Analysis

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Seller Sources and Uses

Sources	
Property Purchase Price	2,900,000
50% of Cash and Reserves	89,089
3rd Party A/P	(32,210)
Gross Sales Proceeds	**2,956,879**
Uses	
Broker Fee	58,000
Legal Costs	25,000
Other seller closing costs	-
Prepayment penalty	-
Transfer taxes	51,620
Payoff mortgages	2,505,340
Holdback for final audit and A/P	20,000
Total Uses	**2,659,960**
Gross cash from sale	296,919
Priority Distribution to Partners	
LP	-
GP	-
SLP	-
Co-GP	-

Gain (Loss) on Sale

Purchase Price	2,900,000
Less Cost of Sale	(154,620)
Book value of property and land	2,882,125
Gain (loss) on Sale	(136,745)

Allocation of Profits on Sale (Section 9.1.B)

LP	**98.99%**
GP	**1.00%**
SLP	**0.01%**
Co-GP	**0.00%**

Capital Accounts

LP Capital Account as of 12/31/2009	777,884	
Increase/decrease until Sale *	-	
LP Capital Account Prior to Sale	777,884	
Allocation of Gain	(135,364)	
Priority Distribution	-	
LP Capital Account After Sale	642,520	100%
GP Capital Account as of 12/31/08	(828,647)	
Increase/decrease until Sale *	-	
GP Capital Account Prior to Sale	(828,647)	
Allocation of Gain	(1,367)	
Priority Distribution	718,591	
GP Capital Account After Sale	(111,423)	0%
SLP Capital Account as of 12/31/08	(132)	
Increase/decrease until Sale *	-	
SLP Capital Account Prior to Sale	(132)	
Allocation of Gain	(14)	
Priority Distribution	-	
SLP Capital Account After Sale	(146)	0%
Co-GP Capital Account as of 12/31/08	-	
Increase/decrease until Sale *	-	
Co-GP Capital Account Prior to Sale	-	
Allocation of Gain	-	
Priority Distribution	-	
Co-GP Capital Account After Sale	-	0%

* Assumes annual net profit and distributions from last tax return continue through sale date

Partnership Waterfall (Sale and Refinancing)

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Priority	Description	Amount	Source
i	Transaction expenses		see below
ii	Repayment of debt and obligations due upon sale	1,638,219	
iii	reserve for liabilities; any remaining balance distributed according to (iv) through (x)		
iv	Repayment of loan to any Partner other than the GP	-	
v	Repayment of Voluntary Loans (including any accrued interest)	-	
vi	Repayment of Operating Loans	-	
vii	Repayment of Developer Note 1	-	
viii	Repayment of Developer Note 2	867,121	
ix	To the LP, its Capital Contribution	2,076,491	
x	To the GP, its Capital Contribution	1	
		-	
Balance			
	Co-GP	0.00%	
	LP	49.99%	
	GP	50.00%	
	SLP	0.01%	

	Are GP Affiliated Management Fees specified in the Waterfall above?	N	
	Are SLP Local Admin Fees specified in the Waterfall above?	N	
	Investor Contributions *(as defined in Agreement of Limited Partnership)*	2,076,491	*Note*

Transaction Expenses			
	Broker Fee	2%	
	Legal Costs	25,000	
	Other seller closing costs	-	
	Prepayment Penalty	-	
	Transfer taxes	1.78%	
	Split of Cash and Reserves	50%	

Partnership Sales Table

	Partnership Net Assets								Residual Splits			Totals		
									49.99%	0.01%	50.00%			
Purchase Price	50% of Cash and Reserves	3rd Party A/P	Transaction expenses	Gross Sales Proceeds	Repayment of Debt	Repayment of Developer Note 1	Repayment of Developer Note 2	Repayment of LP Contributions	LP	SLP	GP	LP	SLP	GP
2,500,000	89,089	(32,210)	(119,500)	2,437,379	1,638,219	-	799,160	-	-	-	-	-	-	799,160
2,600,000	89,089	(32,210)	(123,280)	2,533,599	1,638,219	-	867,121	28,259	-	-	-	28,259	-	867,121
2,700,000	89,089	(32,210)	(127,060)	2,629,819	1,638,219	-	867,121	124,479	-	-	-	124,479	-	867,121
2,800,000	89,089	(32,210)	(130,840)	2,726,039	1,638,219	-	867,121	220,699	-	-	-	220,699	-	867,121
2,900,000	89,089	(32,210)	(134,620)	2,822,259	1,638,219	-	867,121	316,919	-	-	-	316,919	-	867,121
3,000,000	89,089	(32,210)	(138,400)	2,918,479	1,638,219	-	867,121	413,139	-	-	-	413,139	-	867,121
3,100,000	89,089	(32,210)	(142,180)	3,014,699	1,638,219	-	867,121	509,359	-	-	-	509,359	-	867,121
3,200,000	89,089	(32,210)	(145,960)	3,110,919	1,638,219	-	867,121	605,579	-	-	-	605,579	-	867,121
3,300,000	89,089	(32,210)	(149,740)	3,207,139	1,638,219	-	867,121	701,799	-	-	-	701,799	-	867,121
3,400,000	89,089	(32,210)	(153,520)	3,303,359	1,638,219	-	867,121	798,019	-	-	-	798,019	-	867,121
3,500,000	89,089	(32,210)	(157,300)	3,399,579	1,638,219	-	867,121	894,239	-	-	-	894,239	-	867,121
3,600,000	89,089	(32,210)	(161,080)	3,495,799	1,638,219	-	867,121	990,459	-	-	-	990,459	-	867,121
3,700,000	89,089	(32,210)	(164,860)	3,592,019	1,638,219	-	867,121	1,086,679	-	-	-	1,086,679	-	867,121
3,800,000	89,089	(32,210)	(168,640)	3,688,239	1,638,219	-	867,121	1,182,899	-	-	-	1,182,899	-	867,121
3,900,000	89,089	(32,210)	(172,420)	3,784,459	1,638,219	-	867,121	1,279,119	-	-	-	1,279,119	-	867,121
4,000,000	89,089	(32,210)	(176,200)	3,880,679	1,638,219	-	867,121	1,375,339	-	-	-	1,375,339	-	867,121
4,100,000	89,089	(32,210)	(179,980)	3,976,899	1,638,219	-	867,121	1,471,559	-	-	-	1,471,559	-	867,121

Successful Exit Strategies 2011 Changes

- *Operate "as is" A sale… or refi LP s out*
- ~~*Convert to market (pre 90 ..or QC)*~~
- ~~*Convert to Condo (pre 90….post 2006)*~~
- *Recycle as 4% or 9% tax credit*
- *Partner with non-profits*
- **Pre year-15 sales**
- **Sales of GP interests**

Pre Y-15 Sales.. Buying out LPs Early
We delivered the Yield… now what ?

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Arguments for an early exit to our Investors:

- Cash now.
- Capital Reserves released.
- Credits are gone only Losses remain.
- For most investors Losses hurt their EPS
- For Investors with positive capital accounts there is a tax benefit to an early exit.
- For investors with a negative capital account a tax payment today with cash, is less than the tax payment in the future.(contra argument follows)

Pre Y-15 Sales.. Buying out LPs
We delivered the Yield… now what ?

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Additional arguments for an early exit:

- Property ops may deteriorate due to higher operating costs
  - **2011.. Utility Costs and Allowances** ⬆
- Future Capital Markets ?? Cap rates ,debt and equity⬆ ??
- CRA Benefits are largely exhausted
- Value derived from NOI is established after 10 years of ops.
- Accounting and reporting costs (for Fund and Investors) will continue to erode returns.
- Bonding costs are gone (BUT responsibility for recapture…)

Pre Y-15 Sales.. Buying out the LPs
We delivered the Yield… now what ?

Arguments for staying in for years 10-15:

- For investors w/ a negative capital account, deferring tax payment and getting additional losses may be beneficial
- Property values may increase in the future
- Less quality time with your Syndicator

HOWEVER: Investors want Fair Market Value

Sale of GP interests:
Syndicator as seller

- May be broken deals ….but a motivated PARTNER/Seller
- Sweat equity rewarded
- Institutional quality information available for due diligence
- Cleaner transactions, no motivation for LP to hide issues
- Price secondary to long term performance
- Expedited approvals

Sale of GP interests:
Syndicator as Seller.

Centerline's experience

- " With your $... I'll buy anything"
- "Buy down the debt to 1.40 coverage and I'll make it work"
- "Let me try it out.. If I can get rich, I'm a buyer" .. If not…

Therefore Centerline's approach:

- We fix it. Much easier that expected.
- Debt sizing.. The 18-24 mo. <u>s</u>tabilization rule
- The 1-14 ratio
- The 2011 buyer/seller market spread HAS CLOSED.

Sale of GP interests…

GP as Seller… Motivations

- Immediate cash needs.. Recession fallout

  2 yrs of no development & deficit fundings = no cash

- Monetize Value.

  No love of operations.. Merchant Builder or Operator ?

- Buyer focus may compliment GPs desire to sell.

  Yrs 1-11 Buyer focus: cash, management, synergy

  Yrs 12-15+ Buyer Focus: resyndication and residuals

- GPs Need to address LP concerns:

  Why should LP take risks so GP can monetize prior to Y-15 ?

Sale of GP interests:
Investor/Syndicator Concerns

- Over payment and over leverage of GP interests
- Loss of a good partner… LP risk… but no reward.
- LP Burden… But no benefit. Takes underwriting time
- Operational risks …(if its sold it may break)
- Compliance and other issues… (who's 8823 ?)
- GP s Investor Rights a layer of risk and approvals for LP
- Tax Issues Capital accounts/disaffiliation, 40 vs 27 yr D.

Helpful Hints for Exit Strategies

- Start early…Strategies should be decided in year 13, prepared in Y14, executed in Y15
- Analyze all possible strategies in light of the local market and capital markets
- Many new financing programs and combinations available for preservation, but take time to implement
- Know your regulatory agreements, partnership and loan agreements.. and approvals needed.
- Pick the right local partner to help you execute your strategy
- Patience Perseverance and Prozac