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Welcome to the 9th Annual
Spring Housing Conference

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Session One: The Washington Update

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Opportunity In Focus: Latest
Pronouncements from RAD/FHA
Update

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Session Two: QOZ's – Optimizing
Opportunities

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Qualified Opportunity Zones

Ballard Spahr | CSG Advisors Ninth Annual Spring Housing Conference – April 4, 2019
Molly R. Bryson, Partner | 202.661.7638 | brysonm@ballardspahr.com

Form 8996 (December 2018) Department of the Treasury Internal Revenue Service	Qualified Opportunity Fund ▶ Go to www.irs.gov/Form8996 for the latest information. ▶ Attach to your tax return. See instructions.	OMB No. 1545-0123 Attachment Sequence No. 996
Name	Employer identification number	
Part I General Information and Certification		
1 Type of taxpayer: <input type="checkbox"/> Corporation <input type="checkbox"/> Partnership		
2 Is the taxpayer organized for the purpose of investing in qualified opportunity zone property (other than another qualified opportunity fund)? <input type="checkbox"/> No. STOP. Do not file this form with your tax return. <input type="checkbox"/> Yes. Go to line 3.		
3 Is this the first period the taxpayer is a Qualified Opportunity Fund? <input type="checkbox"/> Yes. By checking this box, you certify that by the end of the taxpayer's first qualified opportunity fund year, the taxpayer's organizing documents include a statement of the entity's purpose of investing in qualified opportunity zone property and the description of the qualified opportunity zone business. See instructions. <input type="checkbox"/> No. Go to Part II.		
4 If "Yes" on line 3, list the first month in which the fund chooses to be a Qualified Opportunity Fund. _____		

Introduction

- Economic development program created by the Tax Cuts and Jobs Act of 2017
- New section 1400Z-1 and 1400Z-2 of the Internal Revenue Code
- First set of guidance released 10/19/18; hearing held 2/14/19
- Two additional guidance packages are expected this year

Who and What

- Who gets the tax benefits?
 - A taxpayer that rolls over long or short term capital gain within 180 days of sale (to an unrelated party) into a QOF
- What are the tax benefits?
 - Deferral of tax on that gain until the earlier of (i) when the taxpayer sells its interest in the QOF, or (ii) 12/31/2026
 - 5-year benefit - 10% of roll over gain is eliminated
 - 7-year benefit - another 5% of roll over gain is eliminated
 - Elimination of tax on the QOF's appreciation if the taxpayer holds its interest in the QOF for 10 years

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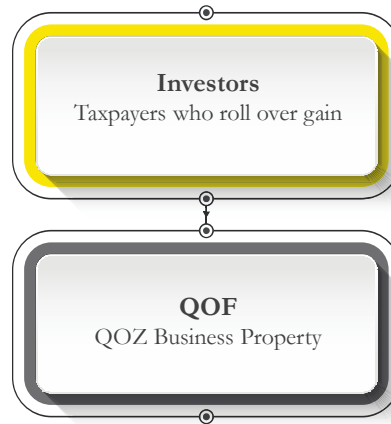
Establishing and Qualifying a QOF

- A QOF self-certifies by attaching IRS Form 8996 to the QOF's tax return beginning with the first tax year of the QOF and continuing for each year the QOF exists
- To be a QOF, 3 tests must be satisfied on an ongoing basis:
 - Organizational Test (corporation, partnership, LLC)
 - Purpose Test (investment vehicle formed for the purpose of investing in QOZ property)
 - Asset Test (90% of all of the QOF's assets must be QOZ property)
 - QOZ business property (direct), or
 - QOZ partnership interest or QOZ stock (indirect)

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Structuring QOF Investments

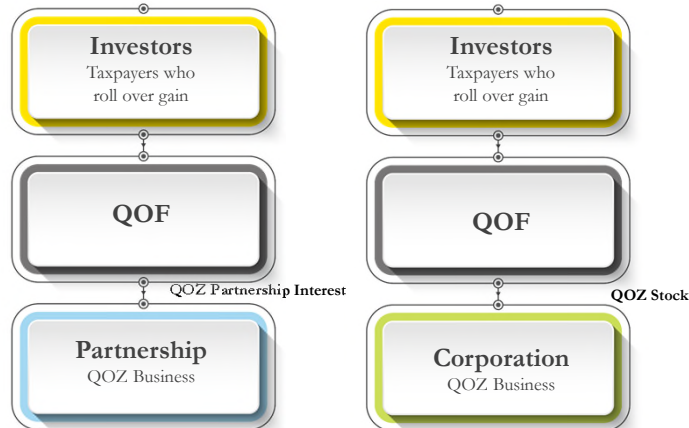
A. Direct investment by QOF in QOZ Business Property



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Structuring QOF Investments

B. Investment by QOF in QOF Partnership Interest / Stock



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QOZ Business Property

- Tangible property;
- Acquired by purchase from an unrelated party (20% test) after 12/31/17;
- Original use of the property in the QOZ commences with the QOF or subsidiary, or the property is substantially improved by the QOF or subsidiary; and
- During substantially all of the QOF's holding period, substantially all of the use of such property is in a QOZ

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Subsidiary QOZB

- Must meet the QOZ Business Property requirements, plus
- 70% of its tangible assets (owned/leased) are QOZBP;
- At least 50% of its gross income is from the active conduct of its trade or business in the QOZ;
- Substantial portion of its intangible property is used in the active conduct of its trade or business in the QOZ;

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Qualified Opportunity Zone Business

Examples of businesses that could qualify as a QOZ Business:

- affordable, workforce, market rate rental housing
- mixed-use developments
- strip centers
- parking facilities
- retail-grocery stores
- research facilities
- sports facilities
- hotels
- restaurants
- health clinics
- office buildings
- manufacturing business



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Locating QOZs

- More than 8,700 census tracts located in each State, DC and possessions
- The QOZs meet basic low income criteria, but some contiguous census tracts not meeting low income criteria also are designated
- The list is available from the IRS organized by state
- States also have interactive websites for confirming address in a QOZ, listing potential projects, etc.

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Considerations

- Should I form a QOF for my project or seek a third party QOF?
- Should I use a subsidiary QOZB so I can take advantage of the working capital safe harbor?
- How do I generate liquidity for the exit?
- IRS guidance on churning is expected. Should I wait for that and/or guidance in other areas?
- Are there federal and/or state incentives that I can combine with QOZ benefits? How well does a combo QOZ/LIHTC deal work?
- Will the 7-year QOZ benefit spur investment by 12/31/19?

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CO Opportunity Zone Program

The Mission: Position Colorado as a leading destination nationally for capital investment in Opportunity Zones, and use this investment to benefit distressed communities

Nomination

- *Designating 126 Opportunity Zones across the state*

Education

- *Spreading the word to investors, community leaders, developers and other stakeholders*

Community Support

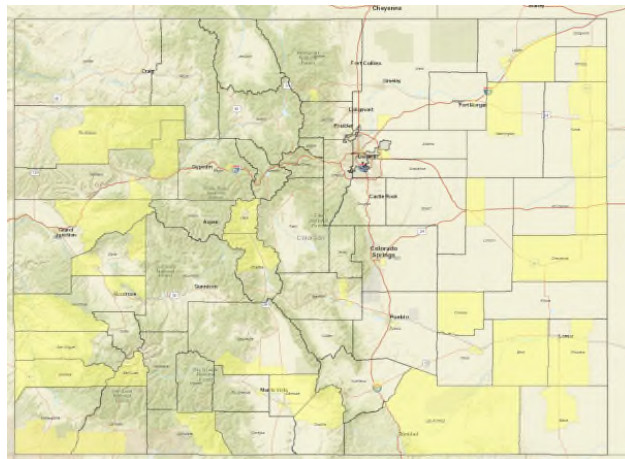
- *Empowering communities to understand how Opportunity Zones work and how they can benefit*

Investment Facilitation

- *Helping capital and projects find each other*



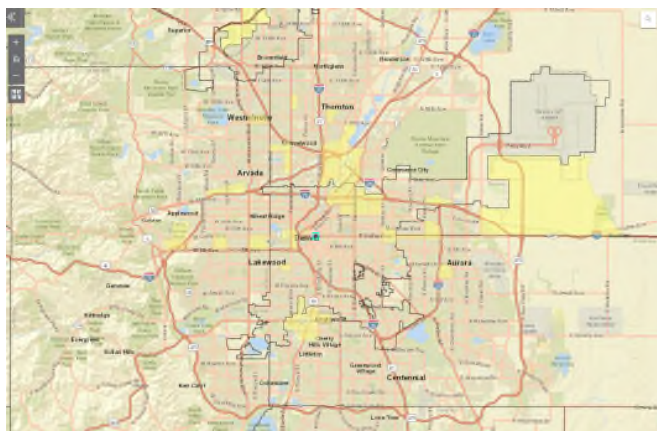
Colorado's Opportunity Zones



Interactive map: www.choosecolorado.com/oz



Denver's Opportunity Zones



Interactive map: www.choosecolorado.com/oz





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Opportunity In Focus: LIHTC
Alternative: The Equity Participation
Model

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Opportunity In Focus

LIHTC Alternative
The Equity Participation Model

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Equity Participation Model

Moderator

Nicole Graham
CSG Advisors

Panelists

Polina
Bakhteiarov

New York City
Housing
Authority

Matt Rooney
MDG Design +
Construction

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NYCHA's Betances Houses



- NYCHA's second RAD Conversion
- 39 Buildings scattered across the South Bronx
- 1,088 Units (738 RAD and 350 Section 18)
- \$120mm in construction needs including contingency
- Completed with no tax credits and no net subsidy

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The Problem

- NYCHA's portfolio is suffering a \$32 billion capital need deficit
- Scarce subsidies such as bond volume cap and local subsidy currently limit RAD conversions to an average of 1,500 to 2,000 units per year in NYC
- If RAD is to be an effective tool in NYC, alternative financing sources are needed



NYCHA needs \$32B over the next five years for repairs

A new investigation has revealed larger financial requirements than previously reported

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Solution: Equity Participation Model

- Utilize RAD to convert these properties to Section 8
- Procure long-term private debt utilizing the new cash flow generated from renewable Section 8 contract and decreased expenses possible because of new private management
- Leverage socially-driven equity that can utilize the tax benefits generated by the properties while still receiving a reasonable cash on cash return

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How Does it Work?



- Housing Authorities are unable to utilize the tax losses generated by real estate
- For-profit developers and investors are able to utilize these losses in a non-tax credit deal by allocating 99% of P&L (similar to an LP)
- In exchange for taking the full amount of losses, the developer can take a reduced fee (waived on Betances)

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The Structure

- Housing Authority enters into a long-term land lease with a JV between the developer, investor, HA, and any other partners
- Developer / Investor takes a 99% profit and loss interest in the JV. The capital interest can be bifurcated, however, the HA can have no more than 20% ownership in either interest for OZ projects
- Developer / Investor must input a minimum amount of equity in at closing (in Betances, the at-risk minimum was determined to be 5% of appraised value)

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The Structure

- In order to avoid all the cash flow going to the developer, the HA holds a lessor note equal to the appraised value less the paid acquisition to the HA
- This Lessor note is paid out of a % of cash flow pending lender approval
- Developer must have some cash-on-cash return to show profit motive

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Benefits

- Maximize up-front proceeds to Housing Authority
- Minimize reliance on volume-constrained resources
- Allow large format investment into HA's that are in more competitive areas
- Can be combined with other soft-funding sources
- Minimize amount of cash needed to pay developer
- Housing Authority maintains ownership of land

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Potential Drawbacks

- Larger investors may need higher returns
- Potential for future tax reform to hurt investor returns
- HA must give up majority ownership in the lease
- Atypical structure that requires a lot of homework to fully understand

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Source and Uses

Sources of Funds	Permanent
FNMA First Mortgage	\$120.64 Million
NYCHA Subsidy Loan	\$2.65 Million
NYCHA Lessor Note	\$71.67 Million
RDC Equity	\$6.5 Million
RDC Equity (Preferred Return)	\$9.91 Million
Interim Cash Flow	\$14.25 Million
Total	\$225.61 Million

Uses of Funds	Permanent
Acquisition Cost	\$80.52 Million
Contractor Price	\$109.15 Million
Contingency	\$10.92 Million
Third Party Costs	\$9.49 Million
Financing Costs	\$13.1 Million
Insur. Reserve and Soft Cost Conting.	\$2.43 Million
Developer Fee	\$0. Million
Total	\$225.61 Million

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Source and Uses

Sources of Funds	Equity Participation	Standard Debt/Equity	Difference
Hunt Mortgage / FNMA First	\$120.6 Million	\$120.6 Million	-
NYCHA Subsidy Loan	\$2.7 Million	\$23.7 Million	\$21. Million
NYCHA Lessor Note	\$71.7 Million	\$71.7 Million	-
RDC Equity	\$6.5 Million		-\$6.5 Million
RDC Equity (Preferred Return)	\$9.9 Million	\$9.9 Million	-
Interim Cash Flow	\$14.2 Million	\$14.2 Million	-
Total	\$225.6 Million	\$240.1 Million	\$14.5 Million

Uses of Funds	Equity Participation	Standard Debt/Equity	Difference
Acquisition Cost	\$80.5 Million	\$80.5 Million	-
Contractor Price	\$109.2 Million	\$109.2 Million	-
Contingency	\$10.9 Million	\$10.9 Million	-
Third Party Costs	\$9.5 Million	\$9.5 Million	-
Financing Costs	\$13.1 Million	\$13.1 Million	-
Insur. Reserve and Soft Cost Conting.	\$2.4 Million	\$2.4 Million	-
Developer Fee	-	\$14.5 Million	\$14.5 Million
Total	\$225.6 Million	\$240.1 Million	\$14.5 Million

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Session Three: Scattered Sites – Seizing
Opportunities to Strengthen and
Leverage Your Portfolios

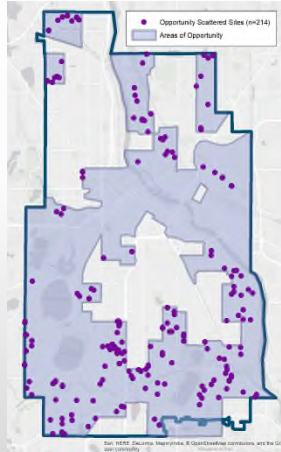
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Opportunities in Public Housing Scattered Sites

Greg Russ, Executive Director



Scattered Sites in Areas of High Opportunity



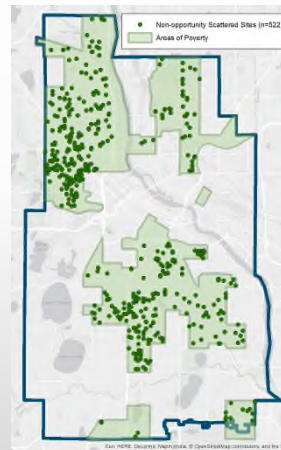
- MPHA owns 214 homes in areas of high opportunity

Why invest in these homes?

- To provide opportunities for low-income families
- Research shows that the income levels of low-income children who grew up in these areas are above the city median compared to low-income children who grow up in other areas



Scattered Sites in Areas of Low Opportunity



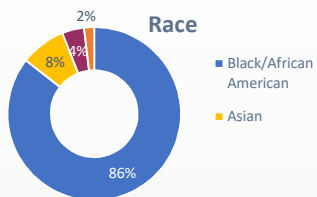
- MPHA owns 522 homes in areas of low opportunity

Why invest in these homes?

- To preserve quality housing for low-income families
- To invest public (and private) resources in neighborhoods that have experienced high levels of disinvestment historically while ensuring affordability



Demographics of Scattered Site Residents



Income Profile

- Average Income \$30,104
- 75% of scattered site households are employed
- Almost half of scattered site households show income gains while housed with MPHA, increasing their income by 130% on average

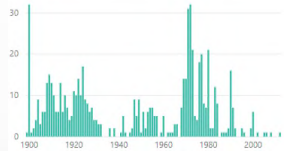
Tenancy Profile

- Average tenure is 6.1 years
- 12% of vacating scattered site households move out because they purchased their own home



The Portfolio

Scattered Sites by Year Built



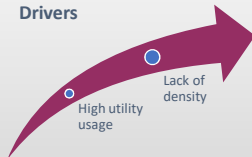
- Average property is 71 years old

Estimated Market Value

- Total aggregate value of 736 scattered units is \$172 million

Maximum single family home value: \$532,000	Minimum single family home value: \$82,000
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Scattered Sites Cost Drivers



MPHA's Response: Reinvestment Plus Density



Energy Efficient Retrofits

- Reinvestments in properties will include additional energy and utility savings upgrades... making the units more affordable to operate.

Same land, but more units AND/OR

Same number of units, but less land



- Reinvestment also means replacing some single family homes with higher density options, clustering the units to make them more affordable to operate and maintain.
 - Accessory Dwelling Units
 - Duplexes
 - Triplexes
 - Rowhomes
 - Larger multi-family redevelopment opportunities
 - Land swaps with City and Land Bank for long-term affordable
 - homeownership opportunities



Minneapolis Land Use Policy

- Minneapolis 2040, the City's Comprehensive Plan, was approved in December 2018
- This plan changes zoning citywide to allow up to three units on any residential lot
- This provides MPHA with an opportunity to consider densification on sites to serve more families



Financing via Tenant Protection Vouchers

- When HUD approves MPHA's Scattered Site Section 18 application, MPHA will transfer ownership of the scattered site portfolio to an MPHA-owned non-profit
- MPHA will request an award of tenant protection vouchers (TPVs) from HUD and will project-base the TPVs into the units
- Benefits of TPVs:
 - Generates 1.5 times more subsidy to MPHA and the units
 - Allows MPHA to raise debt based on contract rents to reinvest in the portfolio
 - Current estimate of raiseable debt is \$80 million



Financial Impact of Conversion

Family Housing: 
Application for conversion of single-family units

Section 18 Program to Tenant-Protection Vouchers (TPVs)

HUD's Conversion Path from Public Housing	Public Housing	TPVs
HUD's provided subsidy dollars, per unit per year	\$3,960 operating + separate Capital Grant \$2,740 (\$6,700 total)	\$9,360 HAP subsidy + separate admin fee of \$790
Why? After conversion, MPHA can access more money for renovations from loans, bonds, and other funding sources.	This conversion leads to a large increase in the subsidy dollar amount that can be used to improve and rehab housing. MPHA plans to attach the TPVs permanently to the housing, but this doesn't change the above subsidy dollars received.	

These calculations are for illustrative purposes only and are based on average estimates of MPHA properties and funding from 2018. These numbers vary every year by property, by unit type, by rent paid, and by federal funding. The federal funding has been inconsistent.



Next Steps

- Section 18 approval
- Full portfolio physical needs assessment- underway
- Tiering portfolio based on needs and opportunity
- Soliciting funding partners
- Developing standard packages for rehabilitation and new construction



Questions?

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Opportunity In Focus: Innovations in
Financing Workforce Housing

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Session Four: Opportunities at the
Intersection of Healthcare and Housing

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