Novogradac 2017

Historic Tax Credit Conference

Building the Capital Stack

MODERATOR

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IRVIN HENDERSON

Developer / Development Perspective

Types of Capital

- Pre-development—studies, feasibility, investment and loan fees, structuring cost
- Construction—investment account, bridge loans, construction financing, equity
- Permanent—debt, equity, soft debt, grants, tax increment financing, exotics

Timing of Capital

- When committed, how hard is the commitment?
- Regulations, certifications and assurances
- When does it expire, how and why?

Compatibility of Capital

- Which sources can play well together—track record, administration, communication
- Collateral commitments and conflicts
- Agreements / Closing / Compliance—federal, state and local

Things to manage

- Terms of debt
- Investor interest and demand
- Leasing
- Term Sheets

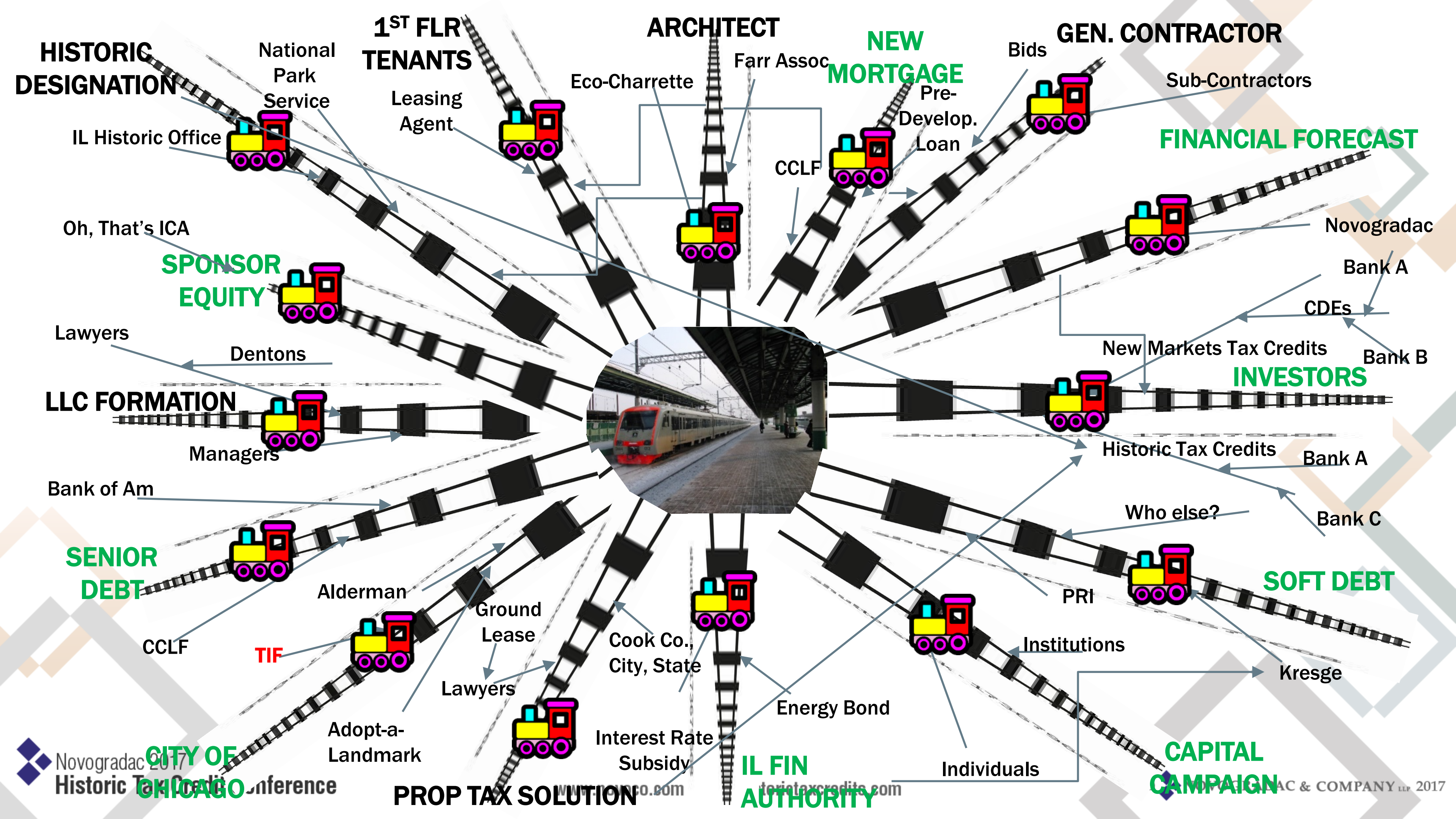
Time forecast of development environment

Regulatory Context

- IRS, SHPO,NPS
- Historic commission, local historic districts
- TIF/ED/COC

- CDE's, Private Equity
- Grants
- QRE's
- Other income / Uses

GAP


HISTORIC DESIGNATION
National Park Service
IL Historic Office
1ST FLR TENANTS
Leasing Agent
ARCHITECT
Eco-Charrette
Farr Assoc
NEW MORTGAGE
Pre-Develop. Loan
CCLF
Bids
GEN. CONTRACTOR
Sub-Contractors
FINANCIAL FORECAST
Novogradac
Bank A
CDEs
New Markets Tax Credits
Bank B
INVESTORS
Historic Tax Credits
Bank A
Bank C
Who else?
PRI
SOFT DEBT
Institutions
Kresge
CAPITAL CAMPAIGN
Individuals
Energy Bond
IL FIN AUTHORITY
Interest Rate Subsidy
Cook Co., City, State
PROP TAX SOLUTION
Ground Lease
Lawyers
Adopt-a-Landmark
Alderman
TIF
CITY OF CHICAGO
CCLF
SENIOR DEBT
Bank of Am
LLC FORMATION
Managers
Lawyers
Dentons
SPONSOR EQUITY
Oh, That's ICA

Nixon Peabody LLP

JOHN CORNELL

Federal Incentives

- Rehabilitation Tax Credit (IRC Section 47).
- Low-Income Housing Tax Credit (IRC Section 42).
- New Markets Tax Credit (IRC Section 45D)
- Energy credits (IRC Section 48).
- Qualified Conservation Contributions (IRC Section 170(h)).

State Credits

- State Historic Tax Credits
- State Brownfields Tax Credits
- State Mill Tax Credits
- State LIHTC, NMTC, Green Building Credits
- Tax issues

Debt financing

- Mortgage Loans
- Bridge Financing
- Deferred Developer fees
- EB-5
- At risk issues

Grants and Soft Loans

- Generally a taxable event
- Grants to Charities. The receipt of a grant by a charity, if consistent with its charitable purpose, should be nontaxable
- *Grants to Corporations*. ***not*** taxable if it is used to fund capital expenditures, but no basis in the capital assets acquired with the grant

Donation/Loan Structures

- Loans of grant funds, state credit proceeds
- "Capital contribution" by the charity to through taxable subsidiary

Munsch Hardt Kopf & Harr, P.C.

PHILLIP GEHEB

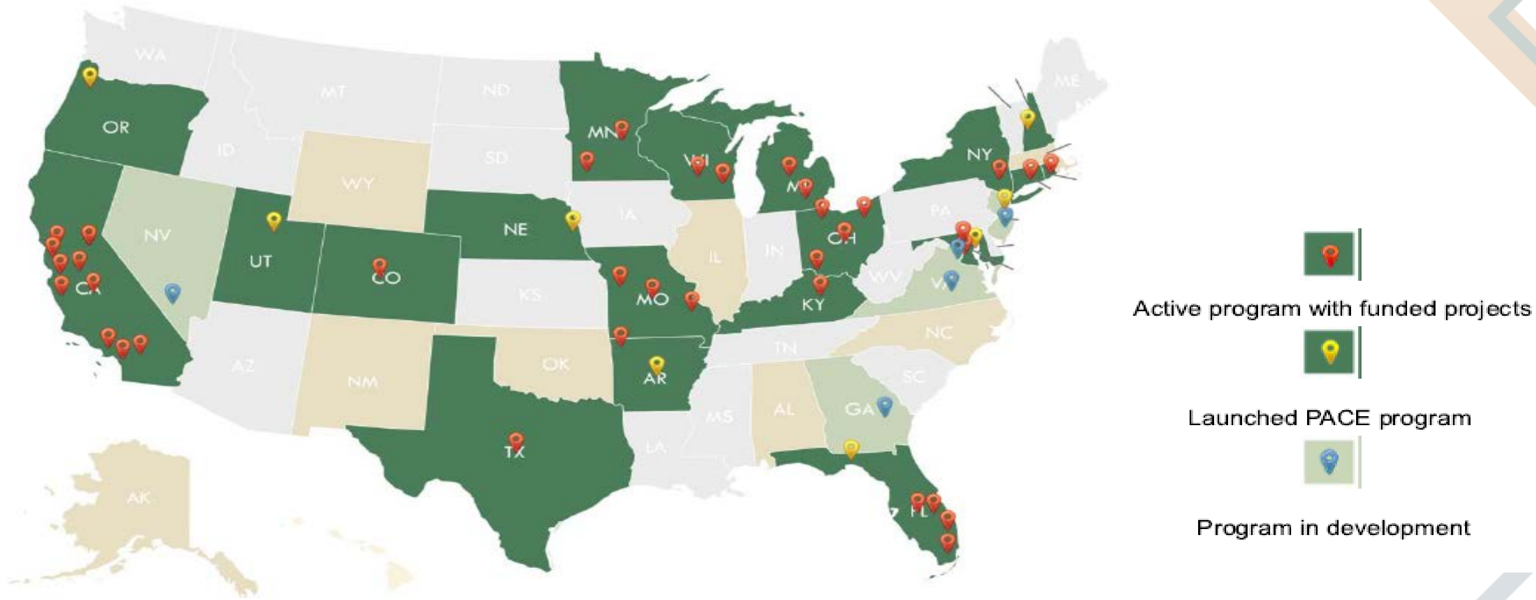
What is C-PACE?

Commercial Property Assessed Clean Energy Financing (C-PACE) is a financing program for all real estate asset classes that provides up to 100% financing for water conversation, energy efficiency, resiliency, and distributed generation retrofits.

C-PACE is financed through a voluntary assessment lien imposed by a sponsoring governmental body that is given the same priority as a tax lien on the real estate, which is then pledged to a private lender as security for a loan.

Unlike conventional financing, defaults do not permit the C-PACE lender to accelerate the C-PACE loan and only amount which are then due or delinquent can be collected through foreclosure sale proceeds.

States with C-PACE Programs

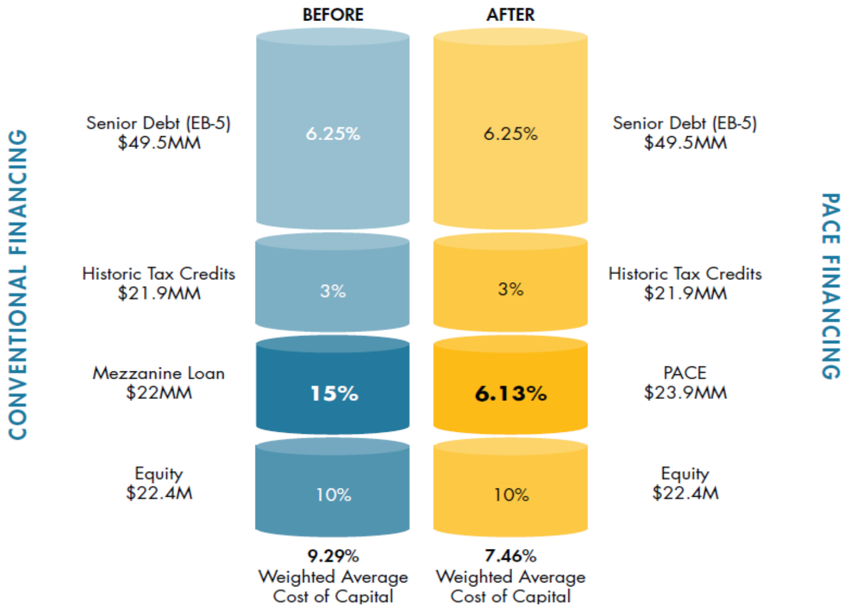


Source: http://pacenation.us/pace-programs/commercial/

Butler Brothers Case Study

Building:	750,000 sf 1910 historic mercantile warehouse
Developer:	Alterra International
Project:	238 apartments; 270-room dual brand Marriott Hotel; ground floor retail and small office
Original Closing:	December 2015 (single tier HTC structure)
PACE Closing:	July 2017
Completion:	April 2017 Apartments; October/November 2017 Hotel

Butler Brothers Case Study



<u>Transaction Notes</u>

- Largest PACE transaction in Texas and 2nd largest in US
- 1st Bond Conduit PACE financing in US
- Largest PACE / HTC transaction closed to date
- 6.6MM KwH energy reduction
- 3.5 metric ton reduction in carbon
- 700,000 gallons of water reduction

Sponsor Benefits

Benefit	Description
De-Leverage the first lien	30% to 50% first lien LTV rather than 50% to 65%; can increase marketability of Project to Lenders in tight credit market
High Capital Stack Position	Finance up to 100% of the "Qualified Improvements" and depending on lender, will go as high as 80% to 90% LTV
Reduced Cost of Capital	Rather than 15% to 18% mezzanine financing or 20%+ preferred equity, 6% to 8% financing on 20-30 year amortization
Non-Recourse after Completion	Most PACE Lenders only require a completion guaranty
Increased NOI to Project	Energy Efficiency and Water Reduction technology decreases operating costs
"Green" Label	Enhanced market perception
"Qualified Improvements" = QREs	Loan provides eligible basis for QREs

Key Tax Credit / Lender Issues

ISSUE	SOLUTION
PACE Assessment Lien has first priority solely with respect to delinquent and then current assessments PACE Lenders are not permitted by law to enter into standstill / SNDA agreements	1. Establish PACE Assessment reserves for the Project for the operating period that are required to be pre-funded / funded from monthly revenue. 2. Establish PACE Assessment reserve from PACE proceeds for construction period 3. Enter into side letter agreement with PACE Lender providing additional notice and cure rights 4. Review PACE Act to understand timing of potential foreclosure remedy and whether it applies to non-monetary defaults

Key Tax Credit / Lender Issues

ISSUE	SOLUTION
PACE Loan can only fund "qualify improvements" as the expenses are incurred rather than fully funding prior to the Construction Loan	1. Require Borrower to submit draws to PACE Lender for qualifying improvements first to fully expend funds as soon as possible within the project 2. Lender has side letter with PACE Lender that it will fund draws for qualifying improvements and permit Lender to submit requests for the same should Borrower be in default 3. Require PACE Lender to fund PACE loan proceeds into escrow account to ensure funds will be available for draws
Is a Project with a PACE Assessment marketable if the Project has to be sold with a PACE Assessment?	There is an emerging market for these projects and a great awareness of the financial tool but it will be market specific.

Dentons

SCOTT DEMARTINO

The Capital Stack: Foibles The Untold Story

- You've worked hard to line-up your sources, but what are you missing . . .

Traps for the Unwary

- Collateral packages - Who gets what?
- Mezzanine/hybrid debt - sweeping cash
- Grants and those pesky strings
- Intercreditors - Who gets priority?
- Fund Investors - Living in the box

And Don't Forget…

- When structures meets local law
  - Transfer taxes
  - Property tax abatement
- Timing and costs, oh my!
- Building the right team is key

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