



Positioning Your Property for Year 15 and Beyond

CHAM ASSET MANAGEMENT CONFERENCE



NEW ORLEANS
JUNE 9-11, 2025

Sheraton Hotel

CHAM Conference 2025

Speakers

- **Moderator:** Kristine Hanson, Enterprise Community Investments
- Julie Shelton, Self-Help Enterprises
- Garrick Gibson, Baker Tilly Advisory Group
- Sean Barnes, Enterprise Community Asset Management
- Bryan Dove, Eden Housing

Agenda



Introductions



Self Help Enterprises



Baker Tilly



Enterprise Community Investments



Eden Housing



An Asset Managers Point of View

Julie Shelton | Self-Help Enterprises



Rancho Lindo Partners, L.P.
44 units
Located in Kern County California

Financing :

RD 514 Loan with
100% Rental Assistance
County of Kern HOME
9% LIHTC

Managing General Partner:

SHE-CEF 1, Inc

Withdrawing Limited

Partner:

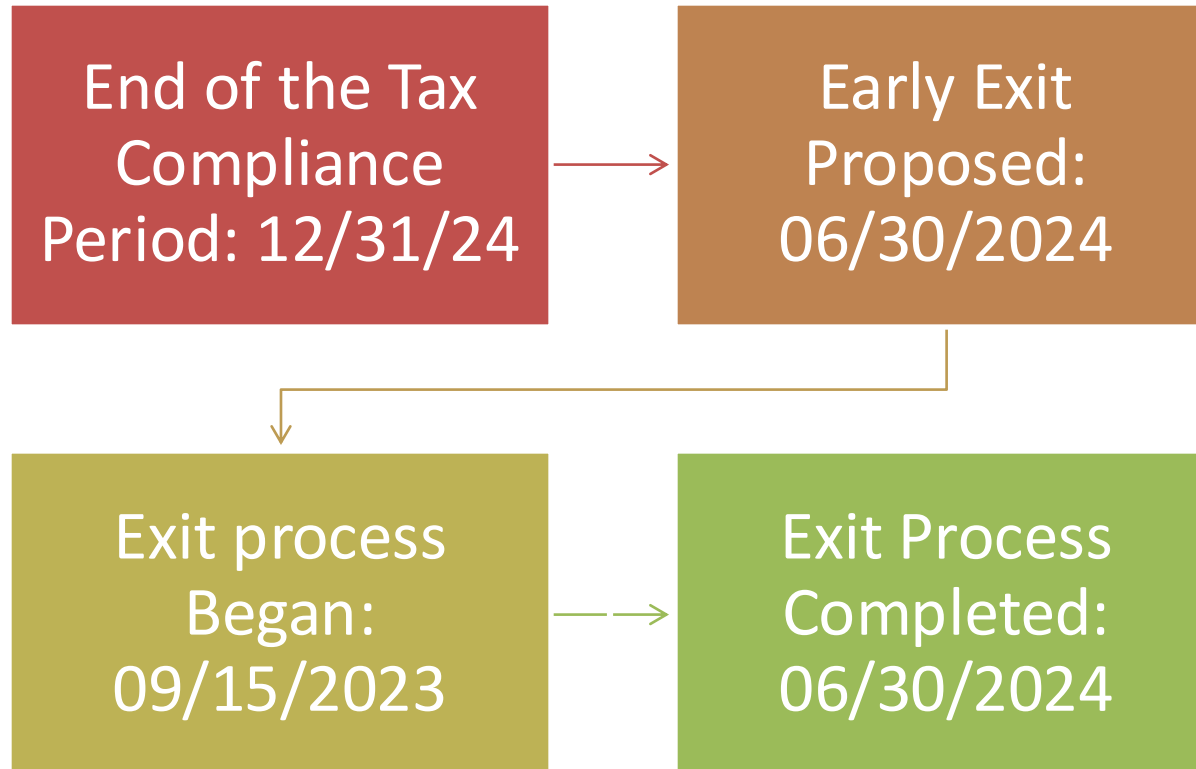
US Bank

Substitute Limited Partner:

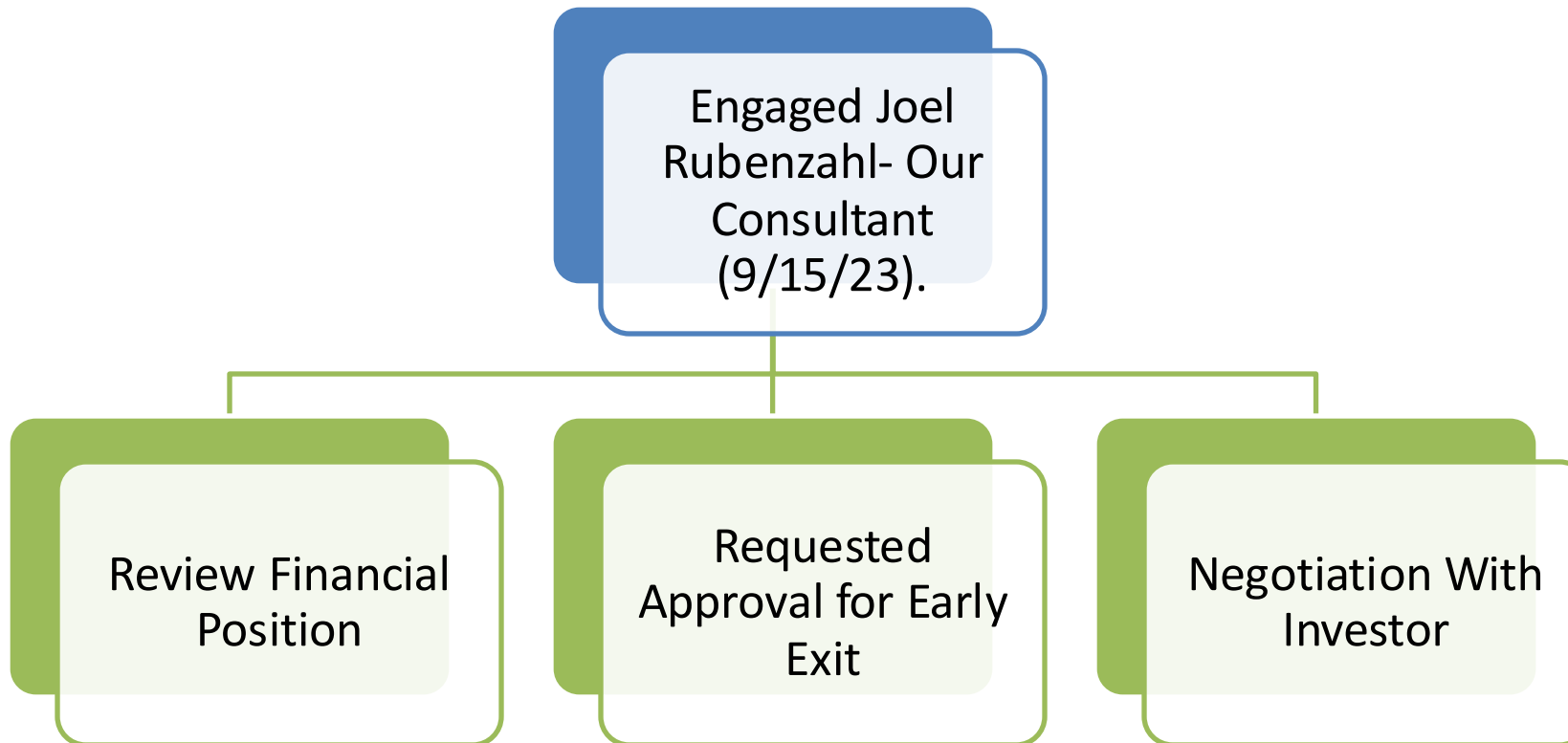
Almond Court Inc.



Overview of 15-Year Exit Process Rancho Lindo



Begin the process



Document Review

Regulatory
Agreements

Limited
Partnership
Agreement and
Amendments

2022 Tax Returns

2022 Audited
Financial
Statements

July 31 2023
Financial
Statement

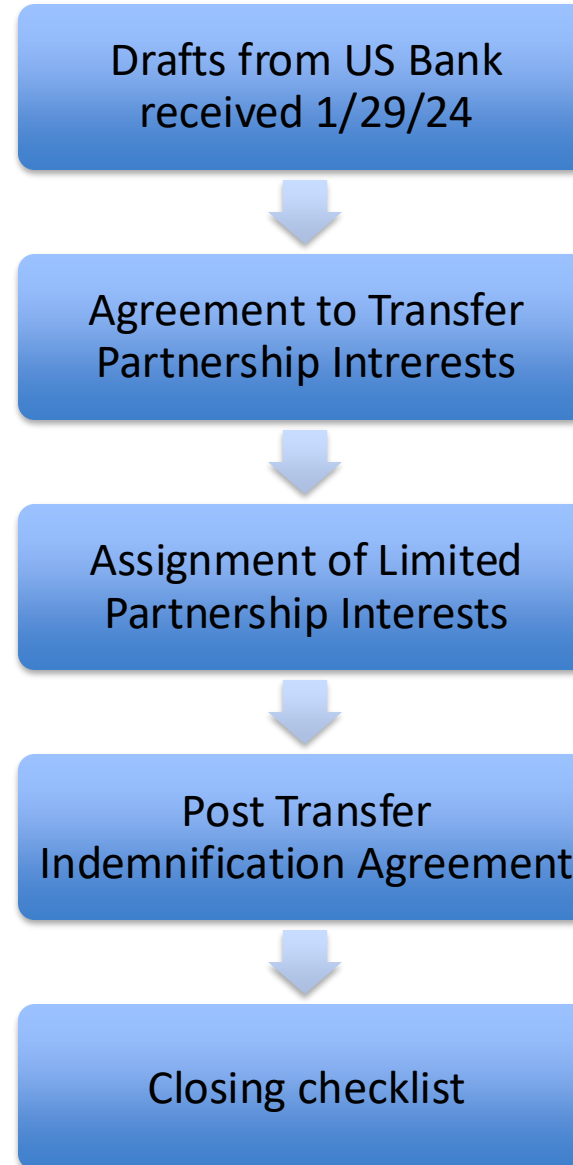
Lender Notifications & Approvals

Lenders notified of
end of compliance
period

Ownership transfer
and fiscal year
change proposed

Approvals pursued
from all relevant
lenders

Exit Documents



Legal Review and Edits



GRUBB & BARSHAY
REVIEWED
DOCUMENTS
(2/2/24)



COMMENTS
RETURNED
(2/15/24)



EDITS SENT
(3/14/24)



FINAL DOCS
TO US BANK
(3/18/24)

Final Steps & Regulatory Approvals

March 2024

- Final docs: 3/21/24, checklist: 4/8/24

Approvals:

- CTCAC (4/30)
- Kern Co. (5/13)
- USDA notified

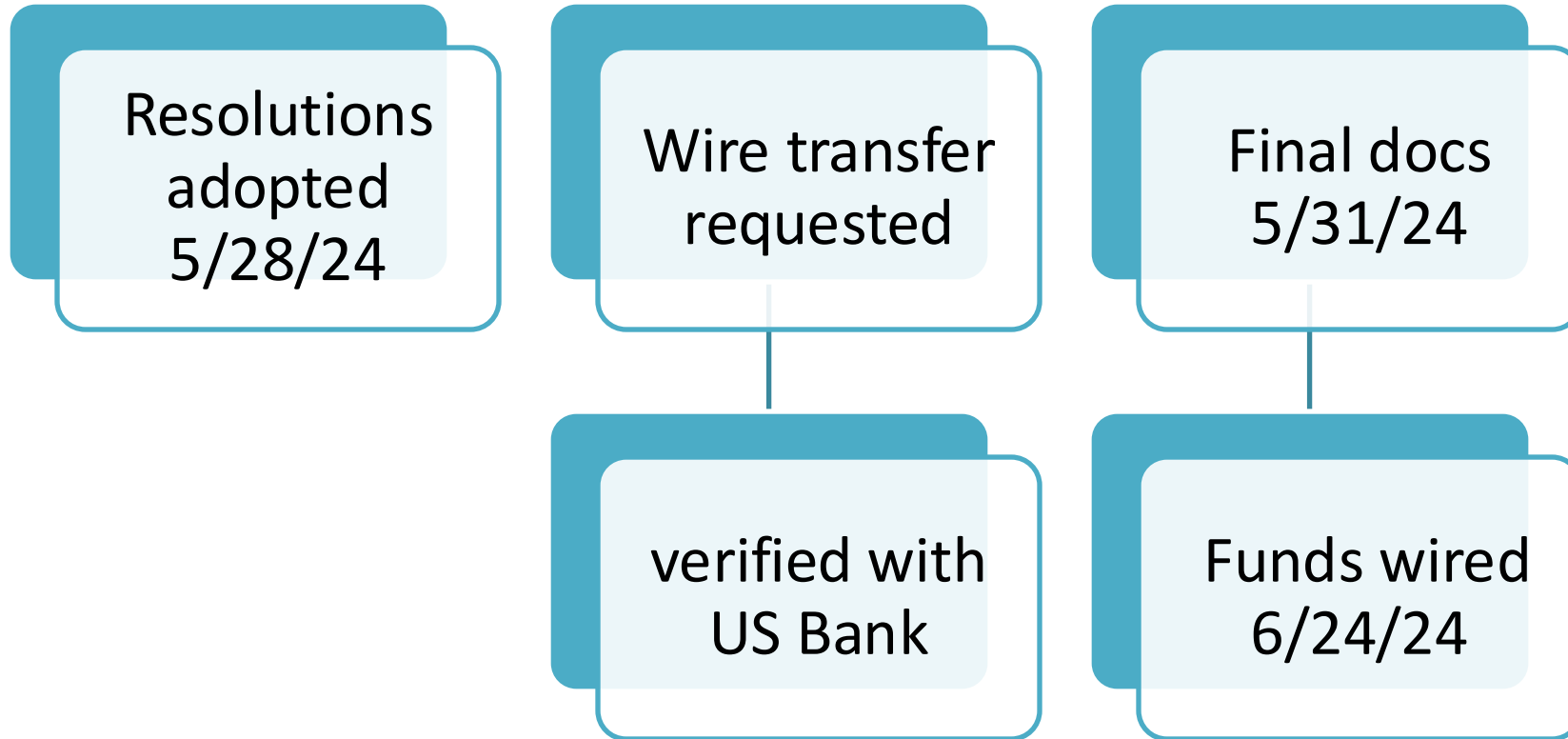
Apr. 2024

Mar. 2024

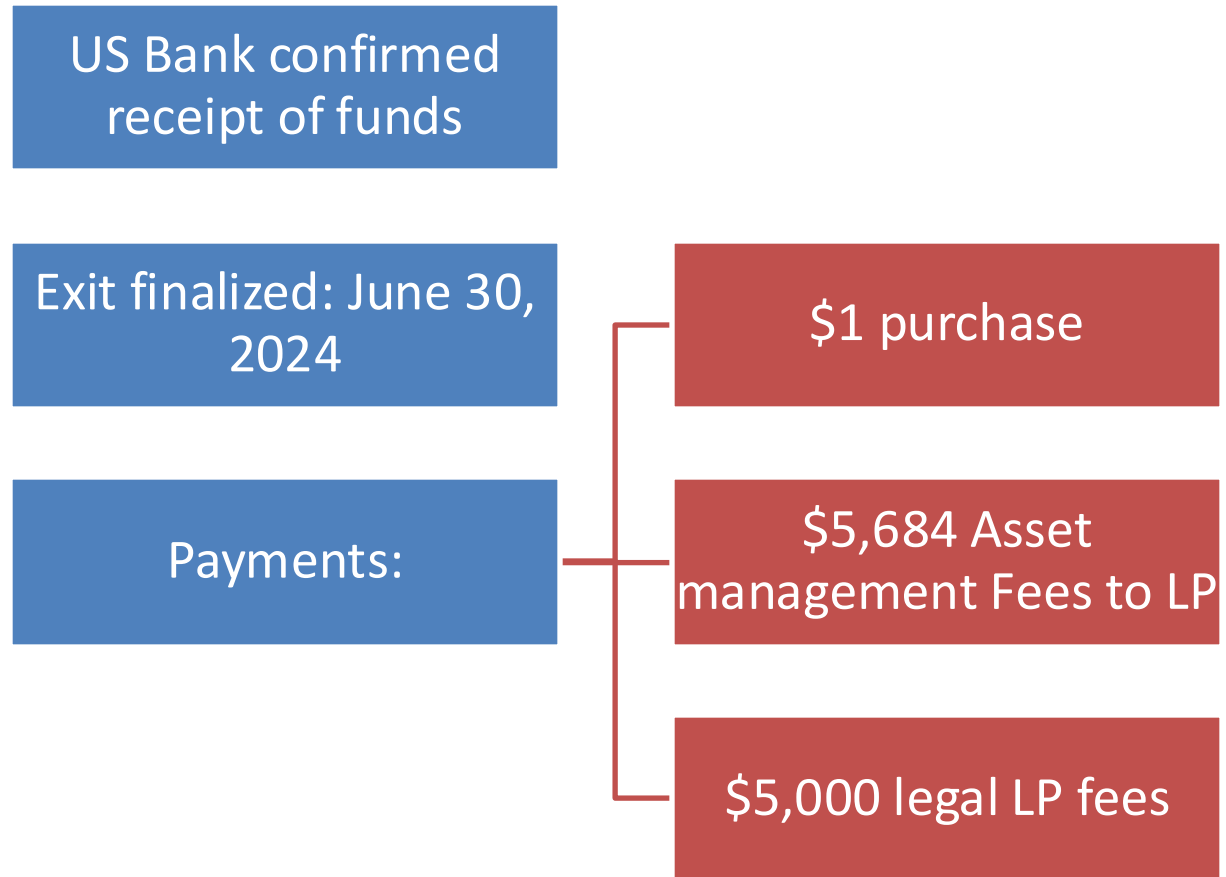
May 2024

CTCAC questionnaire submitted 4/24/24

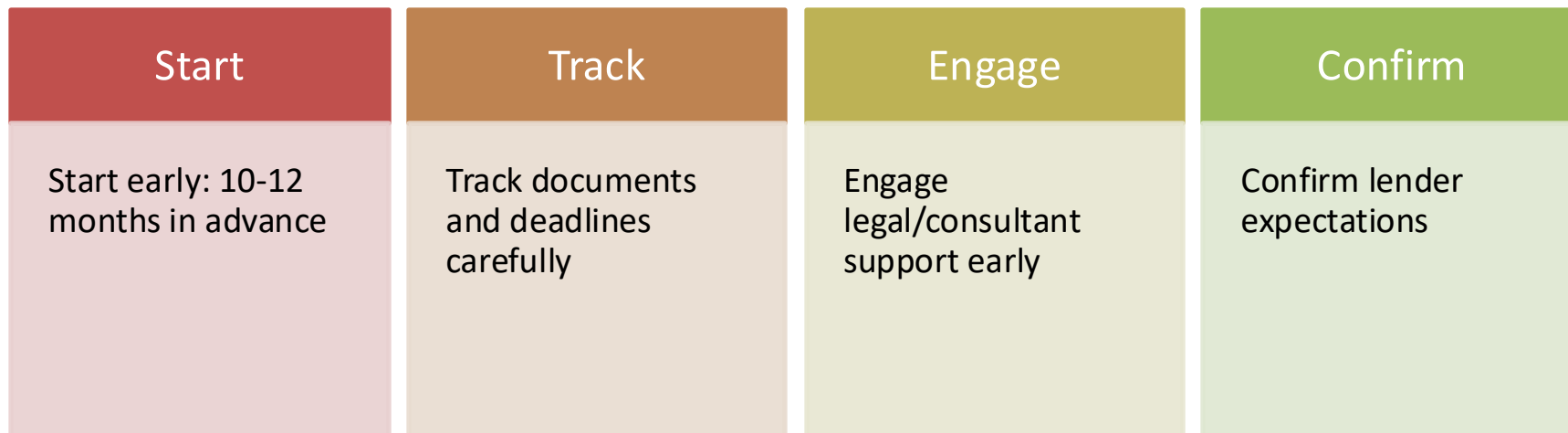
Board Resolutions & Funds



Completion of Rancho Substitution of Limited Partnership



Lessons from Rancho Lindo Exit



Questions / Next Steps



OPEN FLOOR FOR
QUESTIONS



DISCUSS IMPROVEMENTS
FOR FUTURE EXITS

Baker Tilly



Garrick Gibson

PRINCIPAL | DEVELOPMENT ADVISORY

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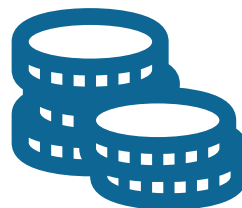
Capital Accounts & Liquidation

YEAR 15 AND BEYOND

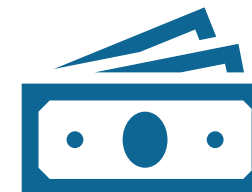
Overview of LIHTC Partnership Structure



Role of limited and general partners



Flow of tax credits and depreciation



Importance of capital accounts for tax and economic alignment

Capital Account Basis

Defined under IRC
Section 704(b)

Tracked Annually:
initial contributions,
allocations,
distributions

Must reflect
economic
arrangement of
partners

Depreciation and Capital Accounts



Depreciation drives down limited partner capital accounts



Impacts investor IRR and exit planning



Can lead to negative partner capital accounts

Liquidation Consequences

Must liquidate
based on positive
capital accounts

May complicate
desired economic
arrangement at
exit

Exit Example

(Greater of FMV or Exit Tax)

NEGATIVE CAPITAL ACCOUNT

GAIN ON SALE		5,000,000
NET SALE PROCEEDS		2,149,900
CAPITAL ACCOUNTS		
GP		(100)
LP		(2,850,000)
GAIN ALLOCATION		
1st (NEG. CAP. ACCOUNTS)		
GP		100
LP		2,850,000
REMAINING GAIN		
2nd ALLOCATION (SALE CASH %)		
GP	90%	1,934,910
LP	10%	214,990
GREATER OF:		
LP BUYOUT - LIQUIDATING VALUE		214,990
EXIT TAX - LP	21%	757,595

Exit Example

(Greater of FMV or Exit Tax)

POSITIVE CAPITAL ACCOUNT

GAIN ON SALE		5,000,000
NET SALE PROCEEDS		5,749,900
CAPITAL ACCOUNTS		
GP		(100)
LP		750,000
GAIN ALLOCATION		
1st (NEG. CAP. ACCOUNTS)		
GP		100
LP		-
TARGET LIQUIDATION DISTRIBUTION		
GP	90%	5,174,910
LP	10%	574,990
REMAINING GAIN		
2nd ALLOCATION - 704(b)		
GP		4,999,900
LP		-
ACTUAL LIQUIDATING DISTRIBUTION		
GP	87%	4,999,900
LP	13%	750,000
GREATER OF:		
LP BUYOUT - LIQUIDATING VALUE		750,000
EXIT TAX - LP	21%	-

Key Takeaways for Stakeholders

5 CRITICAL POINTS

- 1. Capital Accounts Determine Liquidation Rights**
 - **Why It Matters:** Ensures compliance with partnership agreement and IRS §704(b)
 - **Who Cares:** CPA (audit compliance), Board (fiduciary duties)
- 2. Depreciation Drives Tax Equity Yield**
 - **Why It Matters:** Heavy depreciation drives investor returns through loss allocations
 - **Who Cares:** CFO (modeling returns), Board (project viability)
- 3. Negative Capital Accounts Are Normal, But Must Be Tracked**
 - **Why It Matters:** Avoids unanticipated tax consequences at exit/liquidation
 - **Who Cares:** CPA (K-1 reporting), CFO (investor relations)
- 4. Liquidation Must Follow Capital Accounts**
 - **Why It Matters:** Prevents IRS recharacterization of allocations, potential recapture
 - **Who Cares:** Board (risk oversight), CPA (tax compliance)
- 5. Exit Planning Depends on Capital Account Strategy**
 - **Why It Matters:** Enables clean transfer or refinance at Year 15
 - **Who Cares:** CFO (financial forecasting), Board (strategic planning)

YEAR 15 AND BEYOND

Enterprise's Experience to Date

OVER 1,580

Projects Transferred

Projecting in Excess of

70/YEAR

Over the Next

5 YEARS

YEAR 15 AND BEYOND

Enterprise's Goals

- Deliver Expected Investor Benefits
- Exit investor in Year 16
- Transfer to Sponsors
- Works with the sponsor to develop its Year 15 transition plan
- Preserve affordability & viability
- Avoid displacement of low-income residents
- Can provide equity to re-syndicate the project with new tax credits
- Can provide debt to refinance the project



YEAR 15 AND BEYOND

The Year 15 "Mantra"



YEAR 15 AND BEYOND

Exit Strategies: Possible Scenarios



- Right of First Refusal to purchase property
- Buyout option to purchase investor interest in partnership
- Purchase within compliance period (“Early Exit”)
- Unilateral Withdrawal
- “Puts”: Obligation for GP to Purchase Investor Interest
- Sale to 3rd party

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Right of First Refusal

Formula Price = Debt Plus Exit Taxes

Issues with Right of First Refusal:

- Is a bona-fide 3rd party offer required?
- Reserves not included
- Transaction costs
- Formula Price may exceed fair market value



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Buyout Option of Investor Interest

Typically, Option Price is GREATER OF:

Fair market value of investor interest
as determined by an appraisal of limited partnership interest

Or

\$10 + all federal, state, and local taxes attributable to the investor
interest sale, including investor exit taxes

* Terms of buyout option may depend on investor and upon vintage of the agreement

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Early Exit



- Investor can dispose of its interest prior to Year 16, provided:
 - LIHTC compliance is maintained
- Early exits may not be feasible for multiple investor funds
- An indemnity agreement is required to protect the exiting investor and syndicator may retain rights to access property and files through Year 15

YEAR 15 AND BEYOND

Prepare for Y15 Strategy & Negotiations

Develop strategic plan:

- Through Year 15
- After Year 15

Determine when compliance period ends

The GP Perspective

- Does the GP have the desire and capacity to purchase the project?

Investor Perspective

- Is the Investor flexible with sale or transfer?
- Were Investor benefits realized?

Review current performance and develop projections

- Will cash flow be sufficient to sustain future operations?
- Are there any anticipated changes in the budget, such as loss of rental subsidies or tax abatements

YEAR 15 AND BEYOND

Prepare for Y15 Strategy & Negotiations continued...

Market Conditions

Is the project marketable?

Is there competition from other projects?

Review capital needs

- Is there a Capital Needs Assessment (CNA)?
- Consider a Green CNA
- What are reserve balances and restrictions?

Review and project capital account and exit taxes

- How will exit taxes be handled?

Analyze Debt

- Maturity, balloon payments?
- Restructure?



Study #1: Non-Profit ROFR without Equity

STAKEHOLDERS

- General Partner – Municipality Affiliated Entity (Nonprofit)
- Limited Partner – Multi-Investor Fund
- Syndicator – Enterprise
- Lenders -Conventional & Public Purpose Debt
- State Allocating Agency
- Residents

NEGOTIATION POINTS

- GP holds the Right of First Refusal to purchase property for debt + taxes
- Positive Capital Account - No Exit Taxes Due
- GP also has Buyout Option to purchase LP interest
- Accrued debt exceeds estimated property value
- \$5.3MM in related party debt (2nd & soft loans)
- Significant capital needs

Study #1: Partnership Economics

Property (Net) NOI	\$200,975
Cap Rate	<u>6.05%</u>
Property Value (NOI/Cap Rate)	\$3,321,900
 <u>Plus</u>	
Operating Reserves	\$204,745
Replacement Reserves	\$356,352
T&I Escrows	\$59,528
Cash in Bank	<u>\$128,242</u>
	\$748,867
 <u>Less</u>	
AP/Current Accruals	\$ 105,362
Debt	<u>\$6,561,351</u>
	\$6,666,713
 = Net Partnership Assets	 \$(2,595,946)



→ real estate valued at less than ROFR price of debt + taxes



Study #1: Non-Profit ROFR without Equity

VIEW FROM THE FUND

- Business Purpose: includes long term preservation after fund exit
- Operating Partnership - Investor benefits delivered
- Fund IRR exceeds target
- Partnership Agreement provides ROFR disposition in Y16
- **Assign limited partner interest to GP (affiliate) for debt**
- GP assumes all assets and liabilities

Due to the lack of any value in excess of debt, a sale of the investor interest in this partnership for no monetary consideration would be appropriate for a nonprofit or a for-profit partner.



Study #2: Non-Profit ROFR with Equity

NEGOTIATION POINTS

- Project has equity in the real estate.
- GP has a ROFR to purchase property for debt plus taxes, resulting in partnership dissolution and distribution of remaining balance sheet items.
- LPA allows for replacement reserves to be spent in preparation of a sale
- Project has significant annual cashflow

Study #2: Partnership Economics



Property NOI (Less Reserves)	\$219,155
Cap Rate	<u>6.05%</u>
Property Value	\$3,622,397
<u>Plus</u>	
Cash	\$ 161,633
Operating Reserves	\$ 63,002
Replacement Reserves	<u>\$ 77,475</u>
TOTAL =	\$302,110
<u>Less</u>	
AP/Current Accruals	\$ 176,664
Debt	<u>\$2,776,947</u>
= Net Partnership Assets	\$ 970,896

→ real estate greater than ROFR
price of debt + taxes



Study #2: Non-Profit ROFR with Equity

Property Sale	
Debt	\$2,776,947
Taxes	0
Less: Debt	<u>2,776,947</u>
= Sale Proceeds from Property	(0)
<i>Plus: Cash Assets (Cash & Reserves)</i>	302,110
<i>Less: Replacement Reserves</i>	77,475
<i>Less: AP/Accruals/Fees</i>	176,664
<i>Less: Wind-up costs</i>	<u>25,000</u>
= Net Assets Available for Distribution	\$22,971 *

→ vs. property valued at \$3.6mm

Real estate equity of \$845,450 goes to nonprofit per IRC section 42 ROFR

* In this scenario, precise ROFR calculation resulted in distribution of \$22,971 to the investor.



Study #2: Non-Profit ROFR with Equity

Highlights of Transaction

- Depending on investor expectations, sales price may be negotiated in the range of \$0 - \$22,971
- ROFR allows GP to retain equity in property
- LPA allows replacement reserves to stay with property
- Structured as transfer of LP interest to the benefit of all parties (reduced costs, example)
- Extended land use agreement restricts rent through the year 2036 – partnership will need resources for capital needs.

Eden Housing

- California-based non-profit
- Established in 1968 in Alameda County
- 150+ properties in 15 counties & 50 cities
- 11,000+ homes
- 25,000+ residents



Bryan Dove
Senior Director Asset Management
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YEAR 15 AND BEYOND



YEAR 15 AND BEYOND



YEAR 15 AND BEYOND

Resyndication Funnel



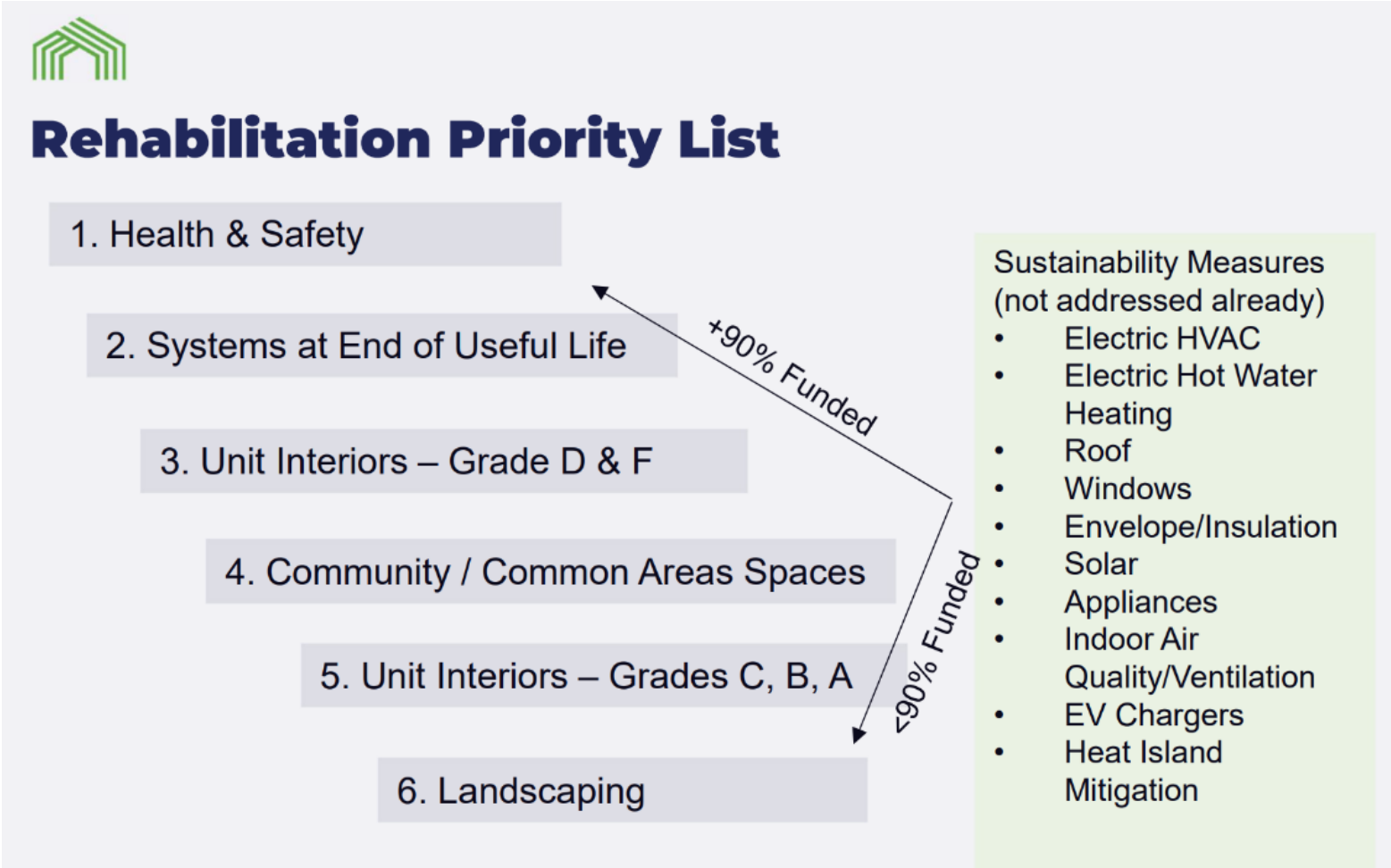
YEAR 15 AND BEYOND

Setting Expectations



YEAR 15 AND BEYOND

Setting Expectations



YEAR 15 AND BEYOND

Analysis



Transactions

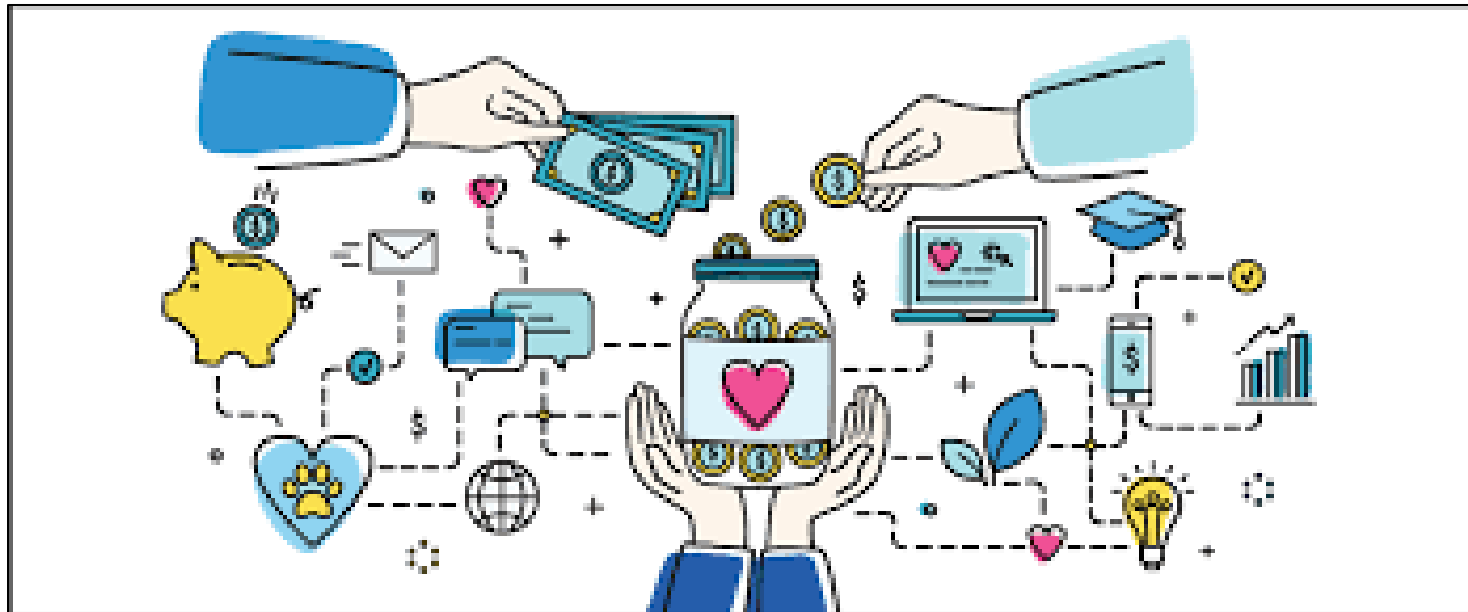


2025 Five-Year Budgeted Capital Plan Analysis

Property	# of Units	Beginning Balances (Total \$)					
		2025	2026	2027	2028	2029	2030
Vista Terrace	262	702,523	738,047	-401,455	-643,350	-1,127,708	-1,361,983
Owl's Landing	72	725,023	736,532	-1,063,842	-1,121,275	-1,170,947	-1,229,179
Josephine Lum Lodge	150	645,619	613,695	587,173	560,651	461,565	-891,997
Quail Run	200	158,810	88,810	-62,626	-214,062	-365,498	-516,934
Nuevo Amanecer	63	33,972	46,397	24,417	-527,621	-509,601	-491,581
Sparks Way	45	56,477	14,446	-74,916	-170,161	-273,780	-386,608
801 Alma	50	334,424	333,184	57,869	56,189	-334,958	-349,172
Olive Tree	26	0	-105,266	-129,956	-154,646	-321,616	-343,506
Vista Point	49	131,469	171,469	162,951	-241,841	-234,073	-202,881
Woodside Court	129	685,346	325,956	170,566	55,176	-60,214	-175,604
Leidig Court	16	55,555	41,978	21,183	-164,148	-168,610	-162,724
Jardines	15	19,987	7,037	-120,031	-133,567	-147,267	-159,347
Coronado Terrace	312	913,552	665,333	337,697	379,277	428,577	-144,733
Sara Conner Court	57	140,600	102,501	567	-53,779	-97,685	-141,591
E.C. Magnolia	21	126,027	20,082	-115,639	-122,559	-129,101	-135,749
Studio 819	49	107,146	52,643	68,667	-52,353	-101,609	-102,419
Lincoln Square	19	51,536	15,676	-11,332	-38,340	-65,348	-91,236
Downtown River	81	0	3,625	-18,931	-41,487	-64,619	-87,175
West Rivertown	57	83,191	83,191	-32,007	-46,170	-60,333	-74,496
Huntwood Commons	40	106,520	95,331	23,741	26,664	-75,824	-72,917
The Surf	46	293,819	268,819	254,733	-44,685	-56,103	-67,521
Foss Creek	64	104,787	64,509	38,273	-363	-23,799	-62,435
Sobrato Family	60	434,648	377,205	245,070	145,893	43,321	-61,539
Rivertown Place	40	65,489	40,000	20,667	1,334	-17,999	-37,332
Aspen Grove	24	112,182	81,845	29,634	11,288	-9,178	-34,580
Rancho Rustic	73	169,801	157,822	41,962	-439	-15,957	-31,475
Victoria Green	132	103,993	75,255	20,117	3,379	-13,359	-30,097

YEAR 15 AND BEYOND

Fundraising



Questions?

- Any questions for the speakers before we end?

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