

Structuring a Historic Rehabilitation Partnership

Financial Example

Assumptions

Rental Net Operating Income

Base Year Net Operating Income	\$	80,000
Annual Inflation		2.00%

Construction/Permanent Loan

Loan	\$	500,000
Interest		7.50%
Amortization period (yrs)		25

Sale Analysis

Capitalization rate		10.00%
Closing Costs		5.00%
Allocation of Proceeds:		
Owner		95.00%
Tax Credit Investor		5.00%

Owner Allocations	Tax Credit		Total
	Owner	Investor	
Equity Contribution	\$ 258,000	\$ 180,000	\$ 438,000
Ownership % before Flip	0.1%	99.9%	100.0%
Ownership % after Flip	95.0%	5.0%	100.0%
Annual Preferred Return on Equity		3.00%	
Tax Credit Equity Price per \$ of Credit		\$ 0.90	
Deferred Development Fees	\$ 100,000		

Sources & Uses of Funds

DATES	Placed in		
	Construction	Service	State Refund
	Jun-09	Jun-10	Jun-11
USES			
Acquisition Cost	\$ 200,000	\$ -	\$ -
Building Rehabilitation*	900,000	-	-
Tax Distributions to Owners			88,000
Development Fees	100,000	-	-
Total Project Uses	\$ 1,200,000	\$ -	\$ 88,000
SOURCES			
Construction/Permanent Loan*	\$ 500,000	\$ -	\$ -
Bridge Loan*	342,000	(180,000)	(162,000)
Owner Equity	258,000	-	-
Deferred Development fees	100,000	-	-
State Refund	-	-	250,000
Federal Tax Credit Investor	-	180,000	-
Total Project Sources	\$ 1,200,000	\$ -	\$ 88,000

*Construction and Bridge loan interest included with Building Rehab Amounts

Historic Tax Credits

	Federal		Iowa
Qualified Rehabilitation Expenditures	\$ 1,000,000	Qualified Rehabilitation Expenditures	\$ 1,000,000
Tax Credit Percentage	20.00%	Tax Credit Percentage	25.00%
Tax Credits	200,000	State Tax Credit Refund	\$ 250,000
Percentage to Tax Credit Investor	99.90%	Federal Income tax rate	35%
Tax Credits to Tax Credit Investor	199,800	Federal Income Tax on State Refund	\$ 88,000
Tax Credit Price	\$ 0.9000	Net State Refund Retained	\$ 162,000
Tax Credit Equity	\$ 180,000		

Operating Cash Flow Analysis

	Rental NOI	Debt Service**	Subtotal Cash Flow	Preferred Return to Tax Credit Inv.	Payment of Deferred Dev Fee	Excess Cash Flow		Tax Credit Investor \$		Owner
Year 1	\$ 80,000	\$ (44,000)	\$ 36,000	\$ (5,000)	\$ (31,000)	\$ -	99.9%	\$ -	0.1%	\$ -
Year 2	82,000	(44,000)	38,000	(5,000)	(33,000)	-	99.9%	\$ -	0.1%	-
Year 3	84,000	(44,000)	40,000	(5,000)	(35,000)	-	5.0%	\$ -	95.0%	-
Year 4	86,000	(44,000)	42,000	(5,000)	(1,000)	36,000	5.0%	\$ (2,000)	95.0%	(34,000)
Year 5	88,000	(44,000)	44,000	(5,000)	-	39,000	5.0%	(2,000)	95.0%	(37,000)
Total	\$ 420,000	\$ (220,000)	\$ 200,000	\$ (25,000)	\$ (100,000)	\$ 75,000		\$ (4,000)		\$ (71,000)

**Terms of the permanent loan are: 7.50% interest rate
25 year amortization period

Sale Analysis in Year 6

Net Operating Income (year of sale)		\$ 90,000
Capitalization rate		10.00%
Gross sale proceeds		\$ 900,000
Less:		
Closing Costs	5.00%	(45,000)
Repayment of permanent loan		(463,000)
Repayment of deferred developer fee balance		-
Net Proceeds available for distribution		<u>\$ 392,000</u>
Allocation of Property Owner's Net Proceeds:		
Owner	95.00%	372,000
Tax Credit Investor	5.00%	20,000
Total	100.00%	<u>\$ 392,000</u>

Tax Credit Investor Benefit Analysis

	Investment	Historic Tax Credits	Cash Flow		Proceeds from Sale	Total
			Preferred Return	% of Excess Cash Flow		
Construction	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Year 1	(180,000)	199,800	5,000	-	-	24,800
Year 2	-	-	5,000	-	-	5,000
Year 3	-	-	5,000	-	-	5,000
Year 4	-	-	5,000	2,000	-	7,000
Year 5	-	-	5,000	2,000	-	7,000
Year 6	-	-	-	-	20,000	20,000
Total	\$ (180,000)	\$ 199,800	\$ 25,000	\$ 4,000	\$ 20,000	\$ 68,800

Owner Benefit Analysis

	Investment	Historic Tax Credits	Cash Flow		Proceeds from Sale	Total
			Deferred Dev Fee	% of Excess Cash Flow		
Construction	\$ (258,000)		\$ -	\$ -	\$ -	\$ (258,000)
Year 1	-	200	31,000	-	-	31,200
Year 2	-	-	33,000	-	-	33,000
Year 3	-	-	35,000	-	-	35,000
Year 4	-	-	1,000	34,000	-	35,000
Year 5	-	-	-	37,000	-	37,000
Year 6	-	-	-	-	372,000	372,000
Total	\$ (258,000)	\$ 200	\$ 100,000	\$ 71,000	\$ 372,000	\$ 285,200
Internal Rate of Return (IRR)						16.53%