BREAKING DOWN AFFORDABILITY

LAYERS OF THE LOW-INCOME HOUSING TAX CREDIT (LIHTC) PROGRAM

The Low-Income Housing Tax Credit (LIHTC) program was created via the Tax Reform Act of 1986 and nearly three million affordable housing units were built or "placed in service" between 1987 and 2015, per the Department of Housing and Urban Development (HUD). HUD budgets approximately $8 billion in tax credits annually to state agencies, such as the Georgia Department of Community Affairs (GA DCA) and North Carolina Housing Finance Agency (NCHFA). These agencies allocate tax credits to developers via an application process for the construction or acquisition-and-rehabilitation of low-income housing. Developers receive the tax credits prorated over a 10-year period and sell the tax credits to investors in order to raise equity. In turn, the developers provide below market-rate housing for a 30-year period. At Year 15, owners may apply to exit the program via the qualified contract process if the property is eligible.

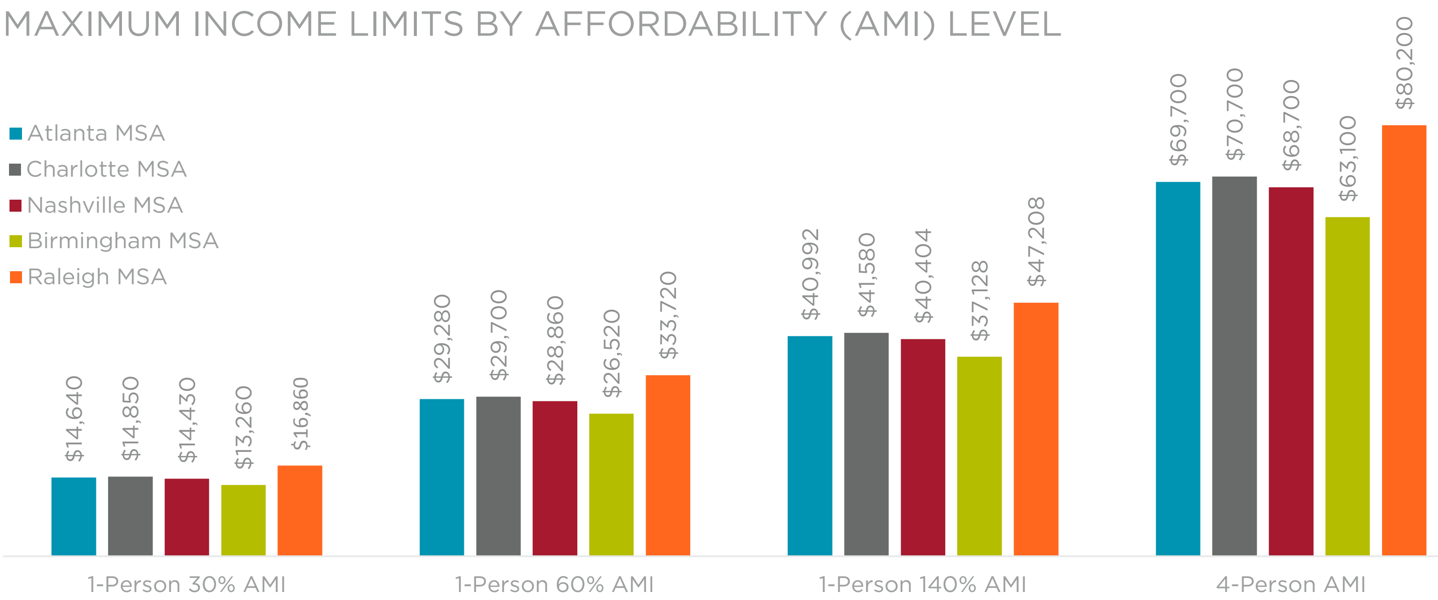
The LIHTC program is broken into two types. The 4% tax credit subsidizes 30% of new construction and can be combined with other federal subsidies. The 9% tax credit subsidizes 70% of new construction and cannot be combined with other federal subsidies.

The program is the primary driver of generating affordable housing in the U.S. and has benefitted from long-standing bipartisan support. Its economic impact is significant as it supports an estimated $9.1 billion in wages and business income and 95,700 jobs, according to the National Multifamily Housing Council (NMHC). This year, new legislation has been introduced to upgrade the policy. The Affordable Housing Credit Improvement Act of 2017 (H.R. 1661) was introduced in March 2017, proposing to expand the LIHTC program by $4.1 billion over a 10-year period. It also includes other modifications such as allowing select students to be eligible for LIHTC housing. The bill's sponsors project that the expansion would create or preserve 1.3 million affordable units over the 10-year period.

WHAT IS "AFFORDABLE HOUSING"

Affordable housing is defined as housing whose costs do not exceed 30% of a household's gross income. The following graph illustrates the current maximum allowable incomes for one-person households across major Southeast metros by target income cohorts. The income groups are defined by the percentage of each MSA's area median income (AMI). Raleigh maintains the highest AMI of the five metros included.

MAXIMUM INCOME LIMITS BY AFFORDABILITY (AMI) LEVEL



Source: Novogradac & Company LLP, Cushman and Wakefield Research

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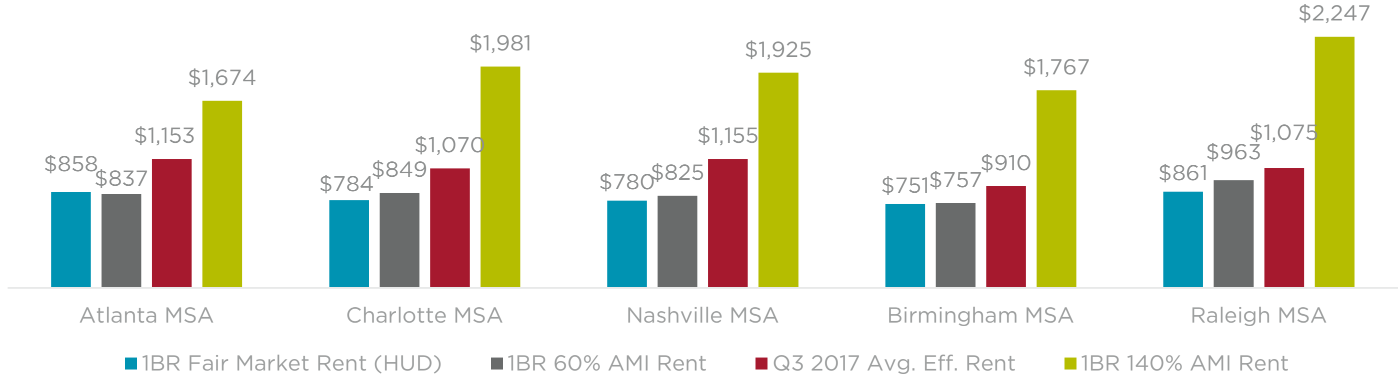
BREAKING DOWN AFFORDABILITY

WHAT IS "AFFORDABLE HOUSING" (CONTINUED)

The current supply gap really lies in rental housing that targets households earning between 60% and 120% of AMI. These households are often referred to as the "workforce housing" cohort, although the definition of this term is subject to wide variation. Rents targeting households at the 140% AMI level are considered to be market rate. The following graph demonstrates the maximum allowable gross rents by AMI level in each major metro.



Source: Novogradac & Company LLP, Cushman and Wakefield Research

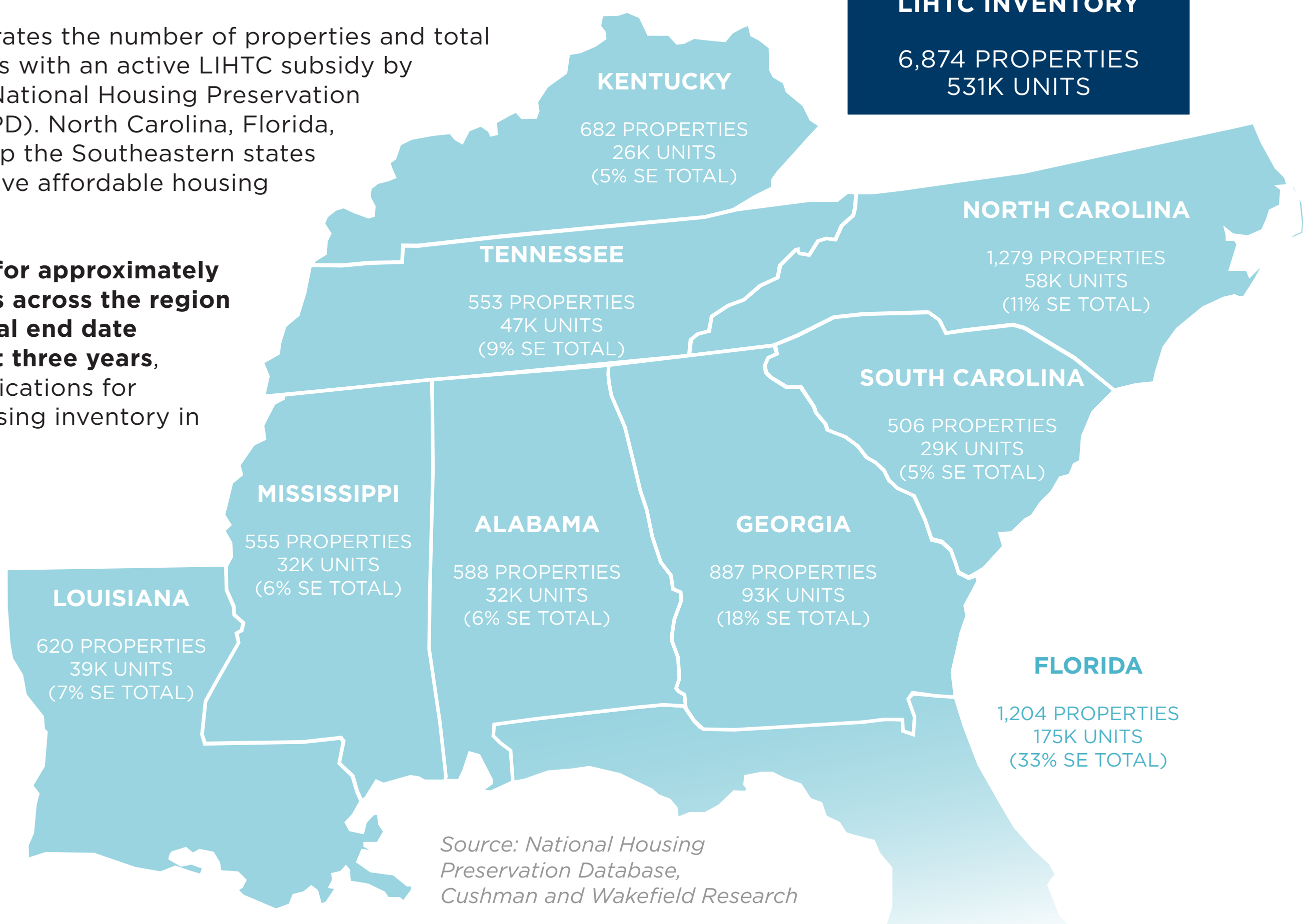
LIHTC RENTAL HOUSING INVENTORY IN THE SOUTHEAST

SOUTHEAST ACTIVE LIHTC INVENTORY

6,874 PROPERTIES
531K UNITS

This map illustrates the number of properties and total number of units with an active LIHTC subsidy by state, per the National Housing Preservation Database (NHPD). North Carolina, Florida, and Georgia top the Southeastern states in terms of active affordable housing inventory.

The subsidies for approximately 480 properties across the region have a potential end date within the next three years, which has implications for affordable housing inventory in the future.



Source: National Housing Preservation Database, Cushman and Wakefield Research

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