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The Effects of COVID on NMTC Asset Management

MERILL HOOPENGARDNER, PRESIDENT; MIKE PALIEN, MARKETING MANAGER; NATIONAL TRUST COMMUNITY INVESTMENT CORPORATION

Since the widespread onset of COVID, asset management teams like those at National Trust Community Investment Corporation (NTCIC), a tax credit syndicator and community development entity (CDE), have been supporting projects and investors facing myriad challenges. The initial shutdown and the massive disruption that followed created a level of uncertainty and volatility many communities have not seen since the Great Depression. It disrupted a wide range of projects at all phases of project life cycles, even among historically stable assets.

"Project sponsors are still facing tremendous challenges," said Bret Mosher, NTCIC's vice president of asset management. "The pandemic has cost them time, money and most importantly, the opportunity to serve the communities they are trying to help. Our team is in constant contact with our projects and investors to help mitigate risk, solve issues as they arise and ensure projects are successful."

The Asset Management Experience

Over the past year, a CDE's role as an intermediary between the project, developer and investor has grown tenfold. The market's initial instability created a significant amount of risk for investors who must now assess and monitor troubled assets on an unprecedented scale. Many investors have asked CDE investment partners to increase the depth and frequency of reporting. In NTCIC's portfolio alone, what was once a quarterly process among the nearly 100 active projects expanded into biweekly mini-reporting updates at the height of the pandemic.

Meanwhile, sponsors more frequently seek guidance and may require additional financial assistance from their partners. "Several projects under NTCIC's active management had to use the Paycheck Protection Program (PPP) to help them get by financially this past year," said Sarah McDonnell, senior asset manager. "Additionally, there were some loan maturities last year and, due to the financial issues the projects were facing, they were not able to meet the requirements to qualify for the loan extensions under their existing financing. This caused some restructures of the current loans or sometimes a refinance with a new lender. Our investors and financing partners have been receptive and supportive in approving PPP loans and refinances or restructures of loans. Close collaboration and frequent communication have been critical for success."

Flexibility from financing partners enables project sponsors to better support customer-facing tenants. In Durham, North Carolina, an NTCIC-financed new markets tax credit (NMTC) project supporting several local African American startup businesses worked tirelessly to ensure their tenants stayed afloat. With the support of their financial partners and NTCIC's asset manager, the project sponsors coordinated open-ended rental deferrals for tenants experiencing operational challenges. The project's leasing team worked directly with the tenants on marketing strategies and model updates to promote their businesses and remains committed to working with them to succeed. This collaborative support has enabled all project tenants to stay open and adjust to the new landscape.

NMTCs Provide Critical Subsidy and Flexibility

NTCIC is a national CDE with a diverse portfolio of transactions financed with various incentive programs, including federal and state historic tax credits (HTCs), NMTCs and solar investment tax credits. The portfolio includes a range of project sizes at various development phases, from initial construction through tax credit exit. It includes many different types of assets, including small business incubators, education and health care-focused community facilities, mixed-use multitenant real estate projects and hospitality. While all projects have faced one or more challenges resulting from COVID-19, it has been interesting to assess the trends and impacts at the one-year mark. Notably, the patient capital and subsidy provided by the NMTC program have supported projects in the most challenging circumstances.

Fortunately, some of the most significant early challenges appear to have subsided. When we first entered the pandemic, many developments newly under construction were included in shutdown orders, which stopped work in its tracks for months at a time in some cases. Areawide social distancing mandates also slowed or paused many construction projects as local jurisdictions developed proper safety measures. Of NTCIC's 20 managed projects under construction when the pandemic hit, 70% experienced some delay. Projects in midconstruction or nearing completion when the pandemic hit were more favorably positioned than others as project teams prioritized completing transactions that were the furthest along. A year later, these issues are becoming less frequent; however, construction material availability, pricing and delivery delays have persisted and continue to impact schedules.

For developments that had placed in service or were completing construction and actively leasing in spring of 2020, the severity of challenges depended on asset type. For example, while the flight to suburban and rural areas soon after the onset of the shutdowns had a marked impact on downtown markets, residential and multifamily leasing and tenancy rates have generally endured this past year. Commercial-oriented projects, on the other hand, are still experiencing increased vacancies and challenging leasing efforts. In these instances, NTCIC's asset management team has found that the additional capital from the NMTC, below-market interest rates and leasing terms, and flexible lending terms have helped to reduce the economic pressures these projects have faced. This allowed NTCIC's developer partners to adapt to the pandemic by working with tenants and other investor partners the ameliorate financial problems experienced by qualified active low-income community businesses (QALICBs) and tenants.

Perhaps counterintuitively, projects in the most economically challenged areas serving very low-income individuals are faring better than ones in more affluent communities or supporting market-rate rents. A common theme among the success stories is the combination of flexible capital and mission orientation.

"Many NMTC projects that include commercial space are viewing the situation with optimism for the long term even if the recovery from these short-term challenges may be less brisk than originally contemplated," said Andrae Baly, NTCIC senior asset manager.

Outlooks

As a participant in NMTC since the inception of the program and CDE that has deployed more than $608 million in NMTC allocation, NTCIC has long seen how NMTC is a vital tool to support opportunity and resiliency. NMTCs are a critical tool for projects to get financed initially and support them when significant headwinds come, even enabling stability and hopeful recovery in the most challenging times like the past year of COVID. As we see in our own portfolio, the pandemic has disproportionately affected low-income communities, people of color and other marginalized groups. By ensuring mission-oriented organizations and projects receive the patient and affordable capital, NMTCs are helping to protect the resources disenfranchised communities need most.

As we consider lessons learned since the onset of COVID and how they can be applied to ways we approach our work in the future, we believe it is time to double down on NMTC as an indispensable tool. For NTCIC, patient tax credit capital is a critical source of gap financing that balances the equation between the steep cost of rehabilitating deteriorated historic assets and the reduced income that will be generated if the new use of the property is community-serving.

"NMTC-financed projects are pioneering by intent and some investment risk comes with the territory," said Margaret Whitesides, senior asset manager. "The NMTC program was designed to support the most challenging projects through both struggle and prosperity, and the NMTC program can help offset the longer-term COVID-related consequences."

When lenders and other investment partners tighten up, the need for soft/flexible capital is even more critical. NMTCs, in particular, can be offered with flexible terms–long-term, low-interest financing. While the number of projects facing distress has more than tripled in the past 12 months, none have ended up in a worst-case workout situation. We can be patient and accommodating to help things get back on track.

The recent extension of the NMTC and positioning for hopeful permanency is an important next step. Having more certainty at the program level encourages investors to enter or stay in the market, even while financial institutions are facing challenges of their own. This shows us that partners see the light at the end of the tunnel and that the NMTC will be on the other side. We are pleased that Congress has recognized the NMTC as a tool for economic recovery and community stability, extended and expanded the credit for an additional five years, and is considering permanency. Please join us in advocating for this important tool that supports resiliency and economic vitality in the communities that need it the most for post-COVID recovery.

NOVOGRADAC®

CONTACT

CORRESPONDENCE AND EDITORIAL SUBMISSIONS
Alex Ruiz
alex.ruiz@novoco.com
925.949.4243

ADVERTISING INQUIRIES
Christianna Cohen
christianna.cohen@novoco.com
925.949.4216

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