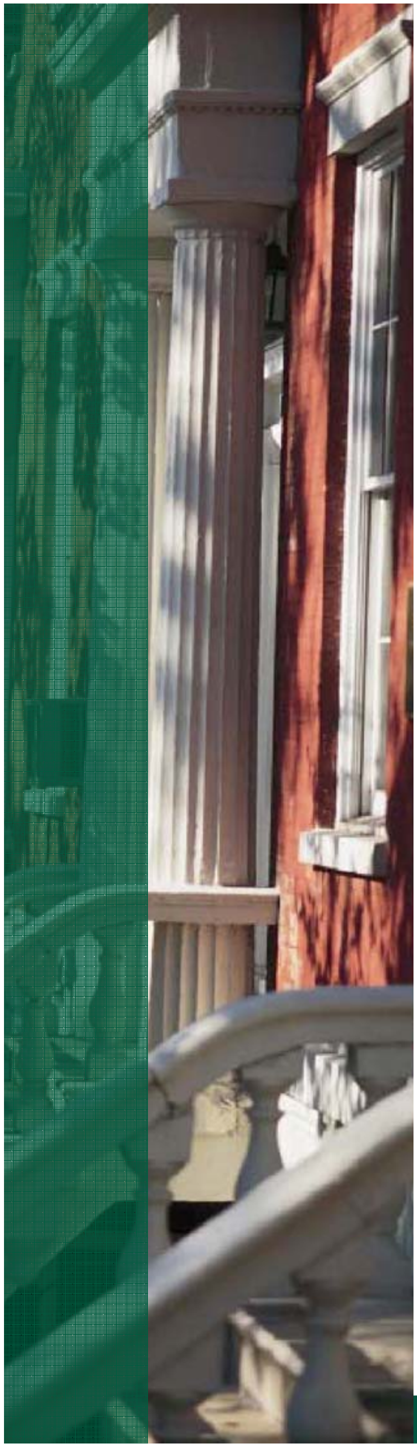

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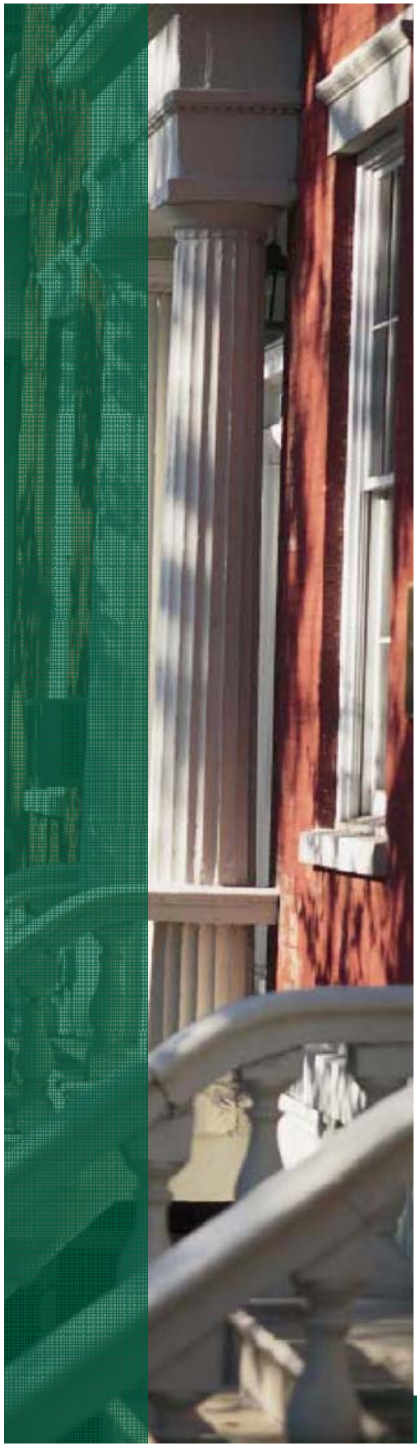
Historic Tax Credits as a Development Tool

March 27, 2009
Columbia, South Carolina

The Players

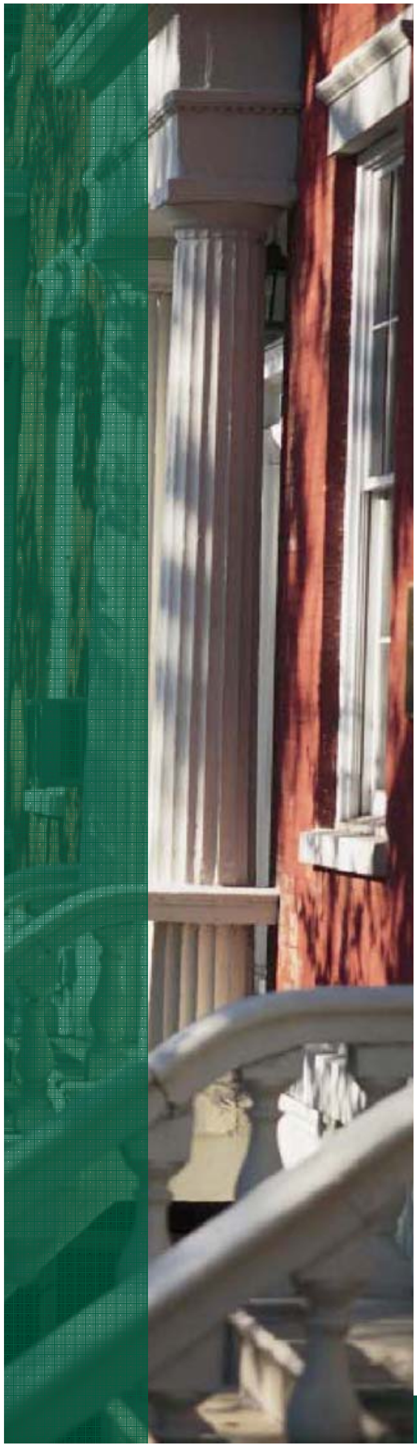
- Developer/Owner
- State Historic Preservation Officer (SHPO)
- National Park Service
- Lender
- Investor / Credit Buyer (Federal & State if applicable)



What is a tax credit?

A *tax credit* is a dollar for dollar reduction to a taxpayer's income tax liability

A taxpayer claims a tax credit when it files its annual Federal income tax return



Credits vs. Deductions

	A	B
Income	$1000	$1000
Less: Deductions	-200	0
Taxable Income	800	1000
Tax @ 20%	160	200
Less: Credits	0	-200
Net Tax Due	160	0

How is it used?

- Governments use tax credits as an incentive for certain types of investment, such as community development, housing and commercial real estate production
- Common types of tax credits used today:
  - Historic Rehabilitation Tax Credit
  - State Tax Credits
  - Affordable Housing (Low Income Housing) Tax Credit
  - Energy Investment Tax Credits
  - New Markets Tax Credits

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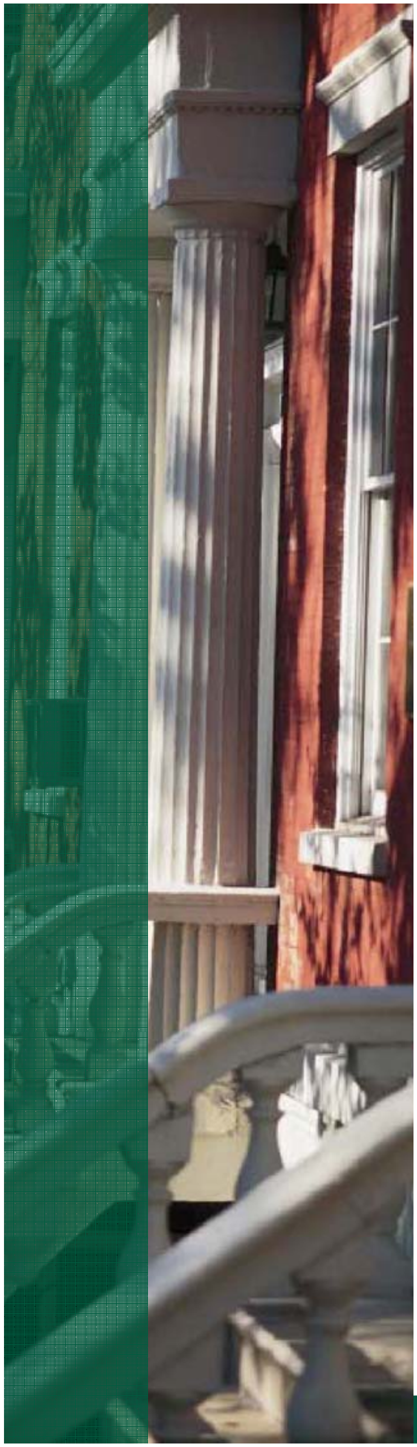
Who Can Use Credits?

- C Corporations Can Use Losses and Credits Against Ordinary Income and Taxes
- Generally cannot use credits against AMT
  - H.R. 3221 legislation "fixed" this issue
- Individuals Limited Under Passive Loss Rules to Approximately $8,750/Year
- Limitations on "Closely-Held" Corporations



Tax Credit Use in Real Estate Projects

- Tax Credits generate equity for a project as they are sold to investors seeking to use them on their tax returns.
- Market is almost exclusively corporations.
- Prices paid for Tax Credits fluctuate in the market.
- Limited Partnerships and Limited Liability Companies are the preferred vehicle to “flow” out the credits and other tax attributes.

Qualifying for the Historic Credit

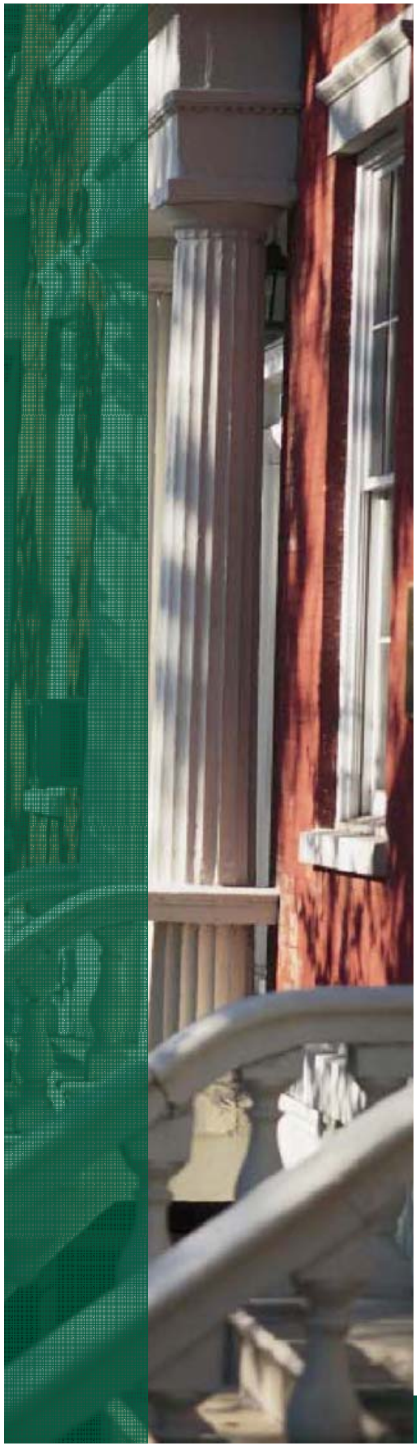
Does the building qualify?

- **Certified Historic Structure - 20% Credit**
  Age Doesn't Matter: must be either in a historic district or listed on the National Register
- **Non-Historic Structure - 10% Credit**
  Age Matters - Location Doesn't Matter: must have been originally placed in service before 1936.

Calculating the Credit

Qualified Rehabilitation Expenditures (QRE's) typically include costs for:

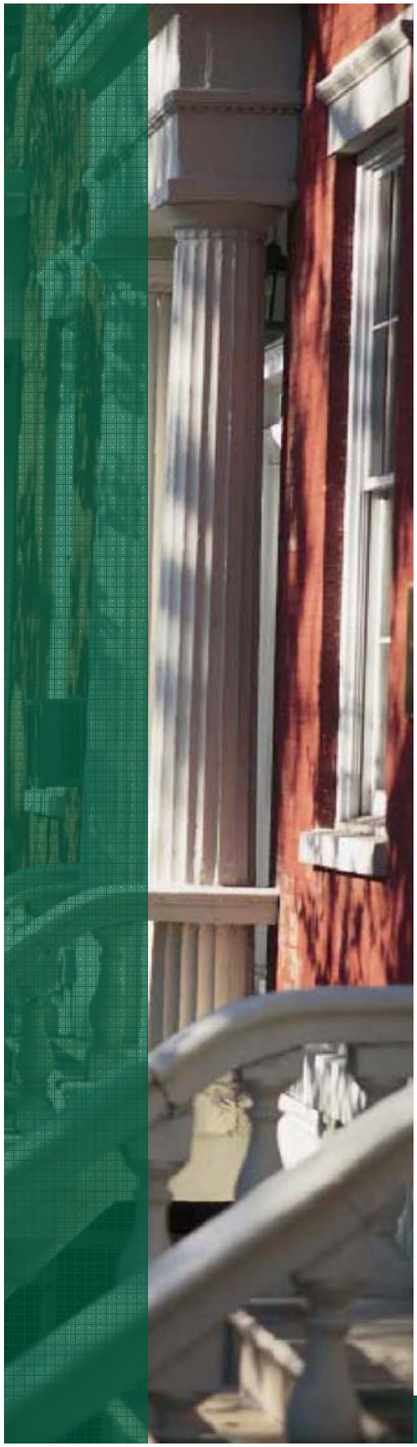
- Hard costs of rehab/construction
- Architect and engineering fees
- Developer fees
- Interior demolition
- Construction period interest



Calculating the Credit

What is NOT a QRE?

- Land and Interest Carry on Land
- Building Acquisition and Interest Carry on Acquisition
- Acquisition Related Costs
- Site Improvements and Landscaping
- Enlargements and Demolition
- Personal Property
- Tax Exempt Use Property



Calculating the Credit

When can QRE's be Incurred to Qualify?

- Starting at the beginning of the rehab project
- Throughout the test period for determining Substantial Rehabilitation
- Through the end of the year in which the Substantial Rehab Test ends

Calculating the Credit

QREs	$1,000,000
Credit Rate:	20%
Credits:	$ 200,000

* Credit Rate is sometimes 10%.

The Chamberlin, Hampton, VA

The Chamberlin, Hampton, VA

The Chamberlin, Hampton, VA

Claiming the Credit

What triggers the credit?

- Placement in Service
  - CO
  - TCO
  - U & O

Equity Calculation

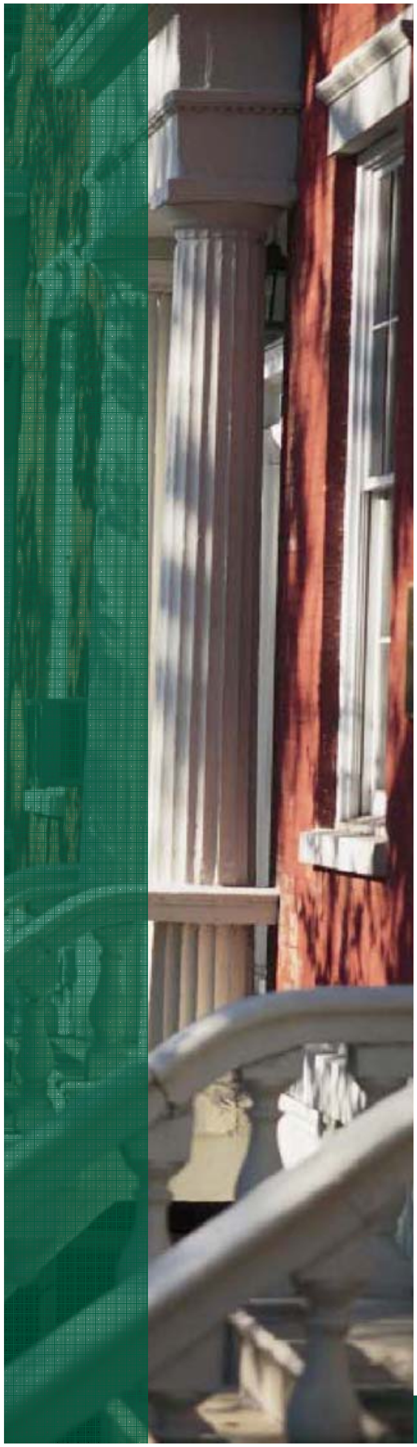
$1,000,000 (HTC to Project)

x 99.99% (typical investor allocation)

$999,900 (HTC available to Investor)

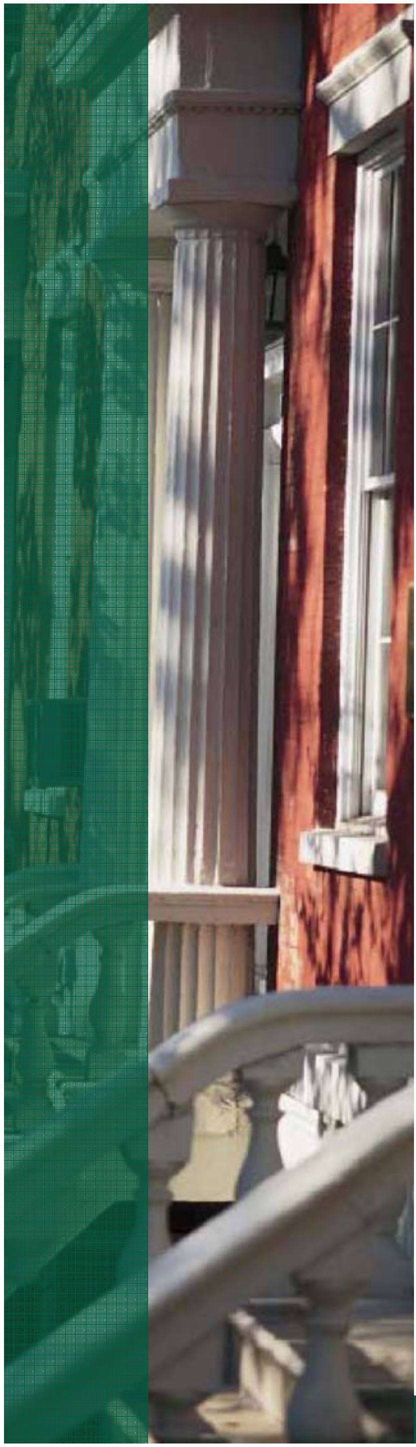
x $1.10 (Price per $1 of HTC)

$1,099,890 (Equity Raised)



Downside of Taking the Credit

- Potential for Reduced Depreciation
- Potential For Additional Rehab Costs
- Architectural Requirements May Not Meet Needs of the Market
- May Require Partners in Ownership
- Transaction Costs
- Risk of Recapture



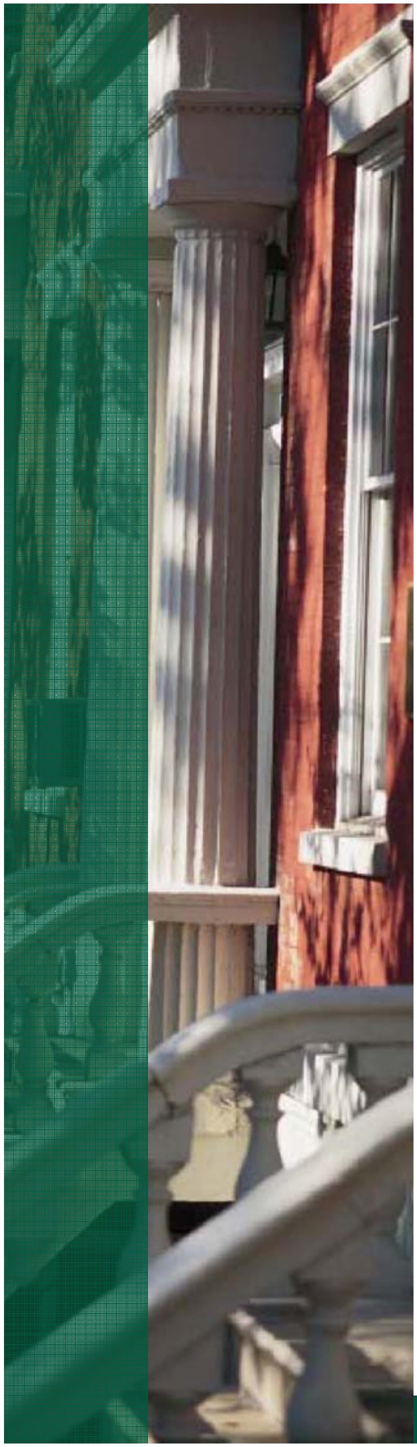
Downside of Taking the Credit

The Risk of Recapture

- Triggering Recapture
  - Disposition of the Property
  - Disposition of at least 1/3 of Partnership Interest
  - Noncompliance
- Amount of Recapture
  - 100% in the first year after Placed in Service date
  - Declines 20% every 12 months thereafter

Other Tax Credit Issues

- Development Fee
  - Amount
  - Payment
- Tax Exempt Use Property
  - Check the tenants!!!
- Basis Adjustment and Impact on Depreciation

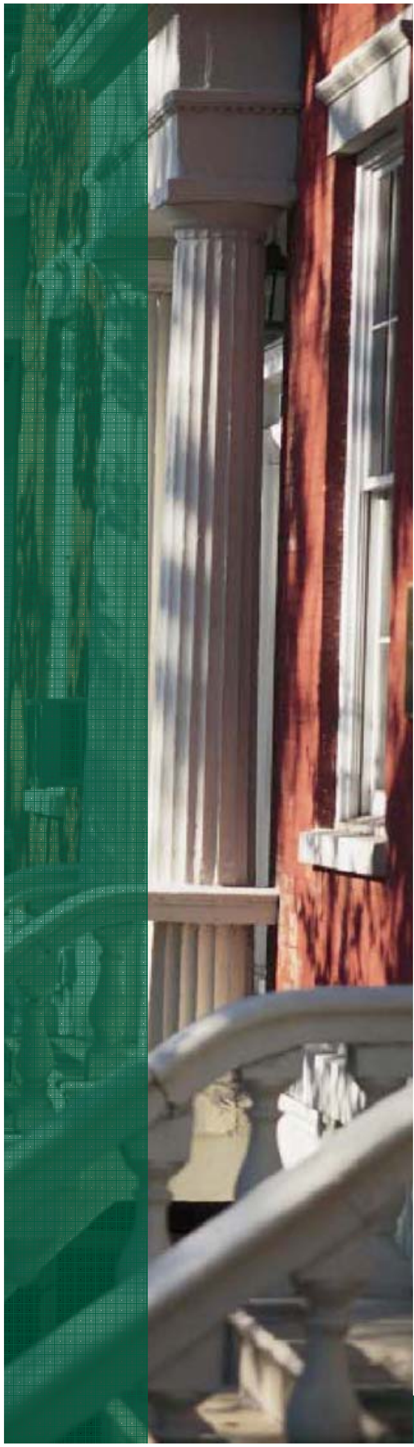


State Tax Credits

– The value of a state credit can be diminished by the federal tax system

– State credit laws vary in many respects from state to state

– There is a limited universe of buyers



South Carolina Historic Tax Credit

- Income Producing Property vs. Certified Historic Residential structure
- Qualification for the 20% Federal Rehabilitation Credit (Section 47) qualifies the project for 10% State Rehabilitation Credit
- Credit taken in equal installments over 5 years
- Allocation among partners

South Carolina Textile Credit

- Qualifications
  - Abandoned textile mill
  - Textile Mill Site - definition
  - Definition of facility includes ancillary uses
  - 80% of the mill has been non operational for at least 1 year immediately preceding Notice of Intent to Rehabilitate

South Carolina Textile Credit

- Process
  - Notice of Intent to Rehabilitate
  - Positive Vote of local governing body
  - Credit taken in equal, annual installments over five years
  - Carry forward un-used credit for five years
  - Allocation of Credit

Ware Shoals Inn, Ware Shoals SC

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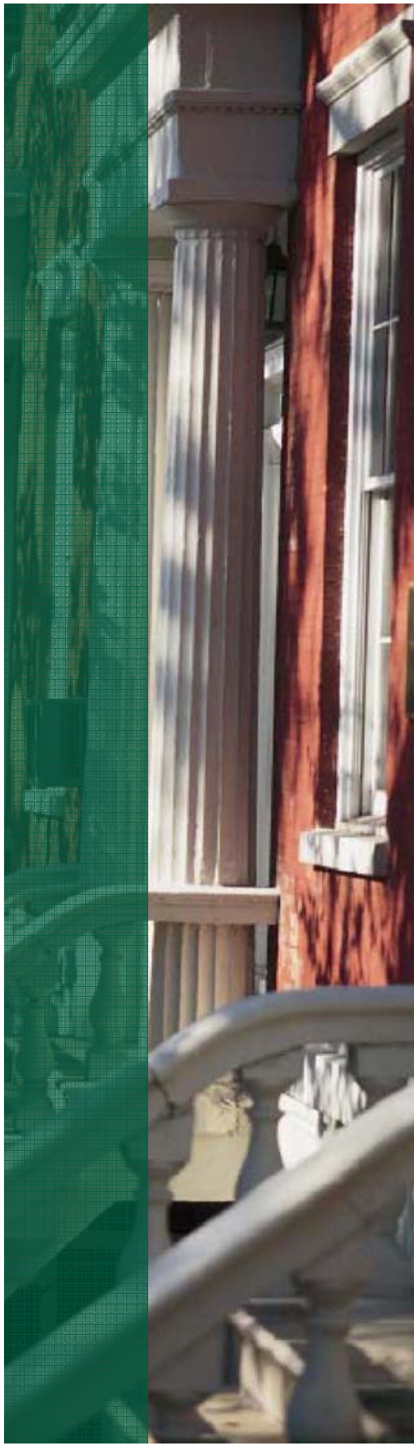
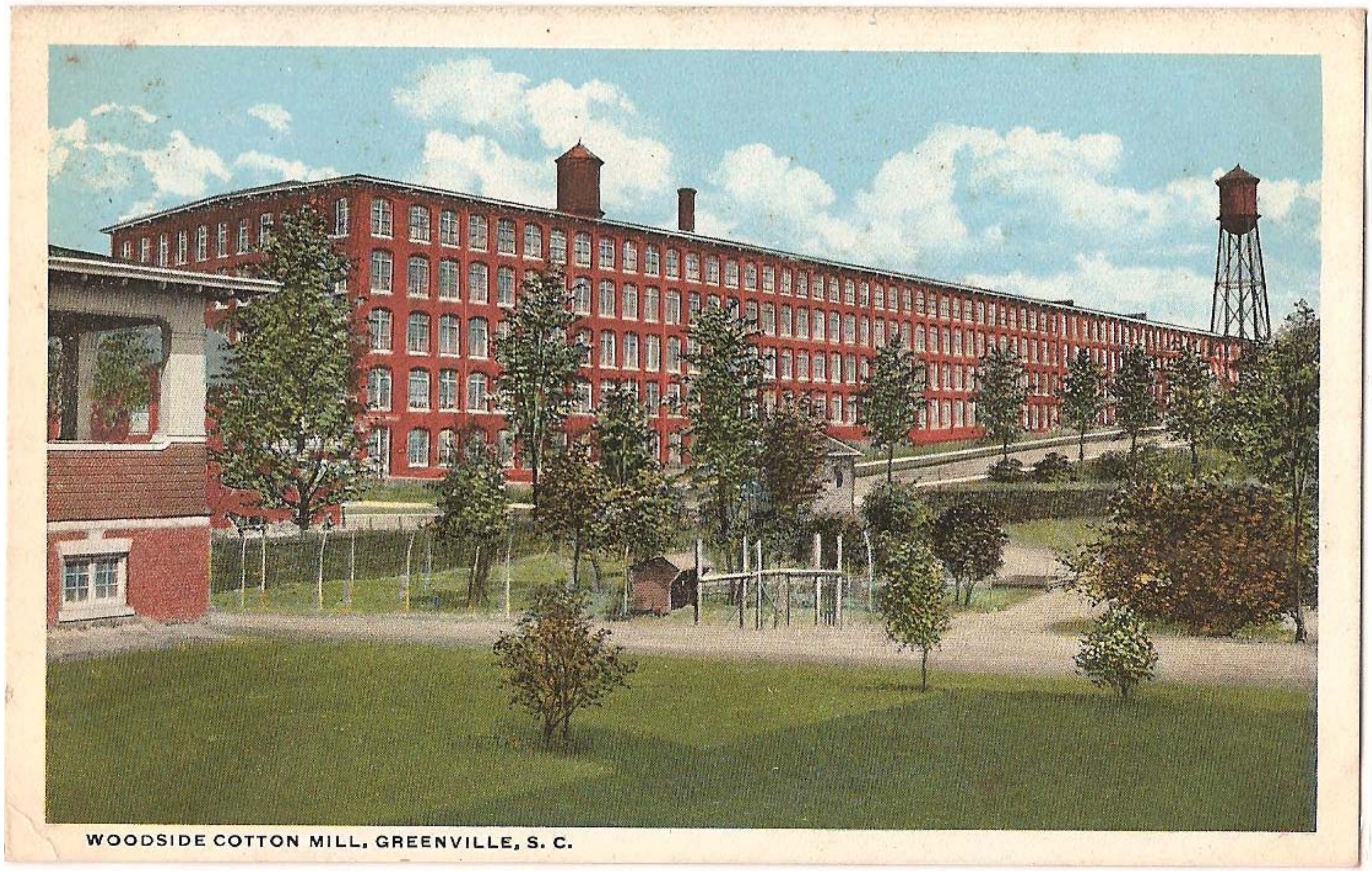


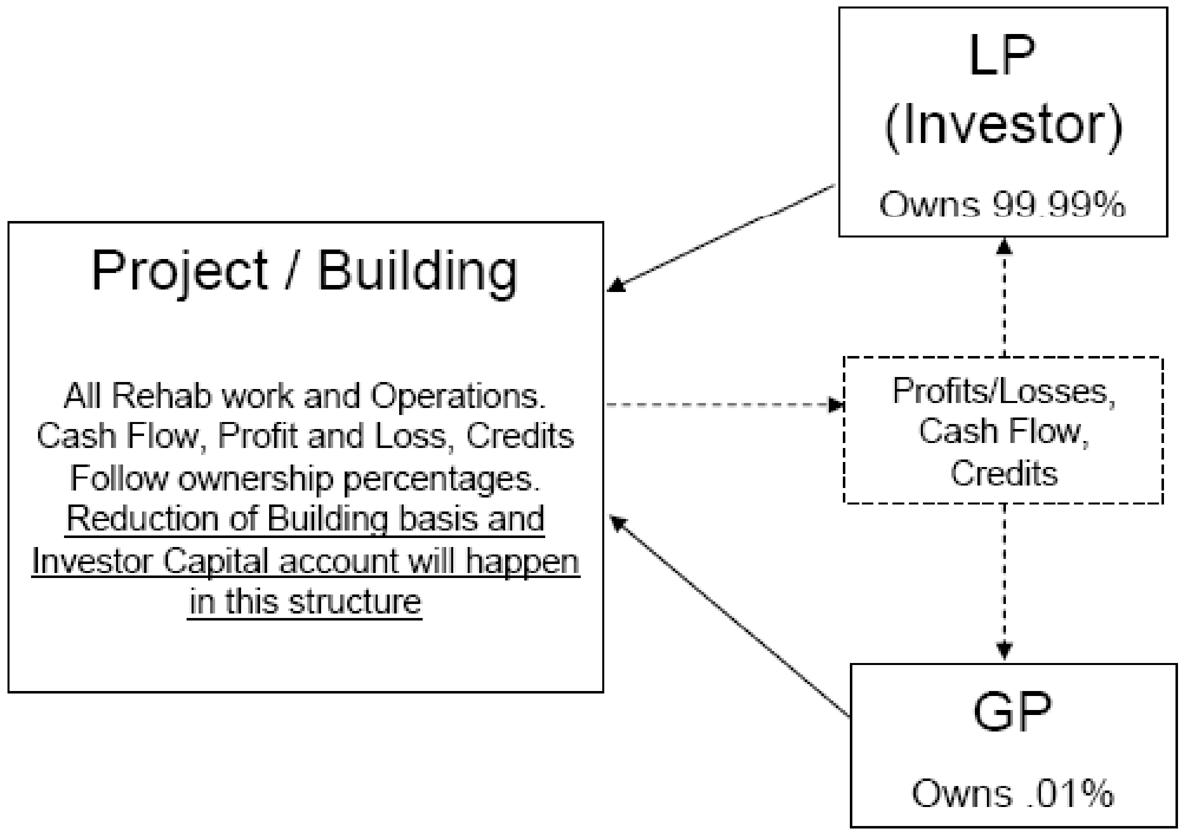
Ware Shoals Inn, Ware Shoals, SC

- Built in 1923 by Ware Shoals Manufacturing Co
- Public Gathering Place
- Community Center
- Textile operations have moved on
- Building survives
- Integral part of the History of Ware Shoals
- Currently being restored
- Business plan centers around Senior Living

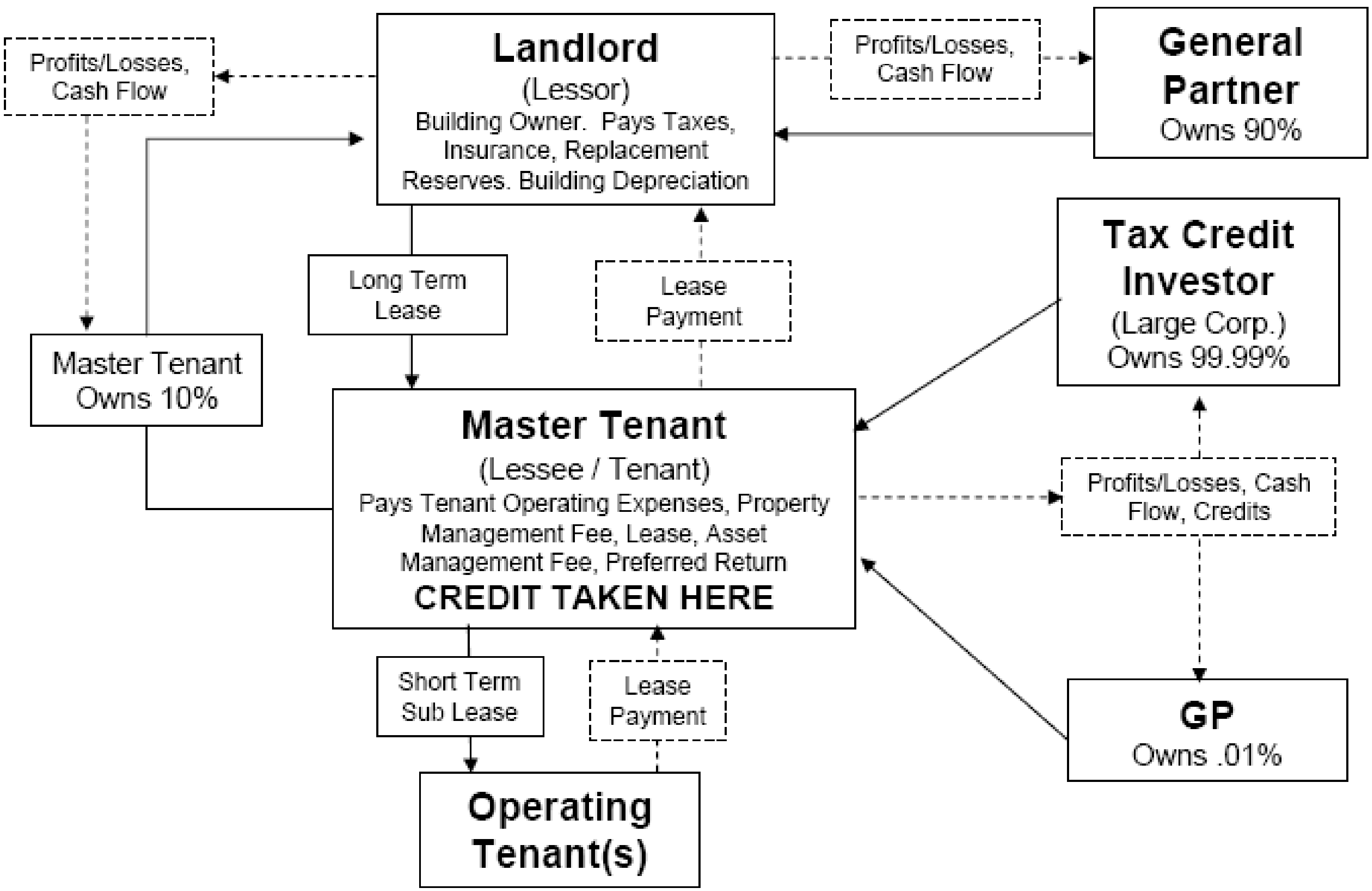
Woodside Mill, Greenville, SC

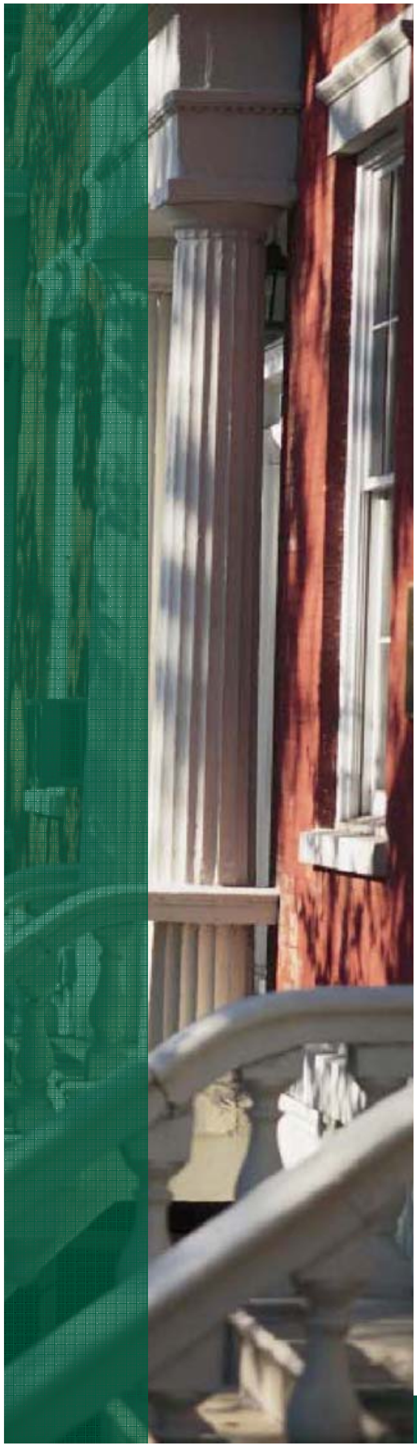


Plain Vanilla – Structure Diagram



Lease Pass Through Structure Diagram





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