

Washington Update

How will the recent election impact the affordable rental housing industry?



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Richard Gerwitz
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Citi Community Capital
Co-Heads



Your Webinar Speakers

Michael J. Novogradac, CPA Novogradac and Company, Managing Partner



Michael Novogradac has more than 25 years of experience specializing in affordable housing, community development and renewable energy. He is author of numerous real estate-related tax and accounting articles and books, and serves on the executive committee of the Housing Advisory Group and the boards of directors of the Affordable Housing Tax Credit Coalition, the National Housing Conference, the NMTC Coalition and Historic Tax Credit Coalition. He is an original member of the National Multifamily Housing Council's Affordable Housing Committee.

John Heppolette Citi Community Capital, Co-Head



John Heppolette is Co-Head of Citi Community Capital, the community development lending and investing division of Citi, with over 20 years of experience in the municipal, non-profit and real estate markets. He sits on Citibank's firm-wide Fair Lending and CRA Committee, and is an Advisory Board member for the NYU Furman Center for Real Estate and Urban Policy.

David S. Gasson Boston Capital, Vice President Housing Advisory Group, Executive Director



David Gasson is Vice President and Director of Corporate Communications at Boston Capital Corporation and Executive Director of the Housing Advisory Group. He is on the Steering Committee of the Affordable Rental Housing ACTION Campaign and advises a number of national and state housing associations. He has been instrumental in drafting legislative responses to tax reform and housing proposals as well as formulating the ACTION Campaigns advocacy and grassroots outreach efforts.

Richard Gerwitz Citi Community Capital, Co-Head



Richard Gerwitz is Co-Head of Citi Community Capital, the community development lending and investing division of Citi, with over 35 years of experience in the tax-exempt securities and real estate markets. He is a member of the advisory boards of the Journal of Tax Credits, the New York State Association for Affordable Housing, the New York Housing Conference, and the Citizens Housing and Planning Council.

Agenda

- Who are the new players
- What are the new administration's priorities
- How would a revised tax code affect affordable housing
- How would the markets react
- Q&A

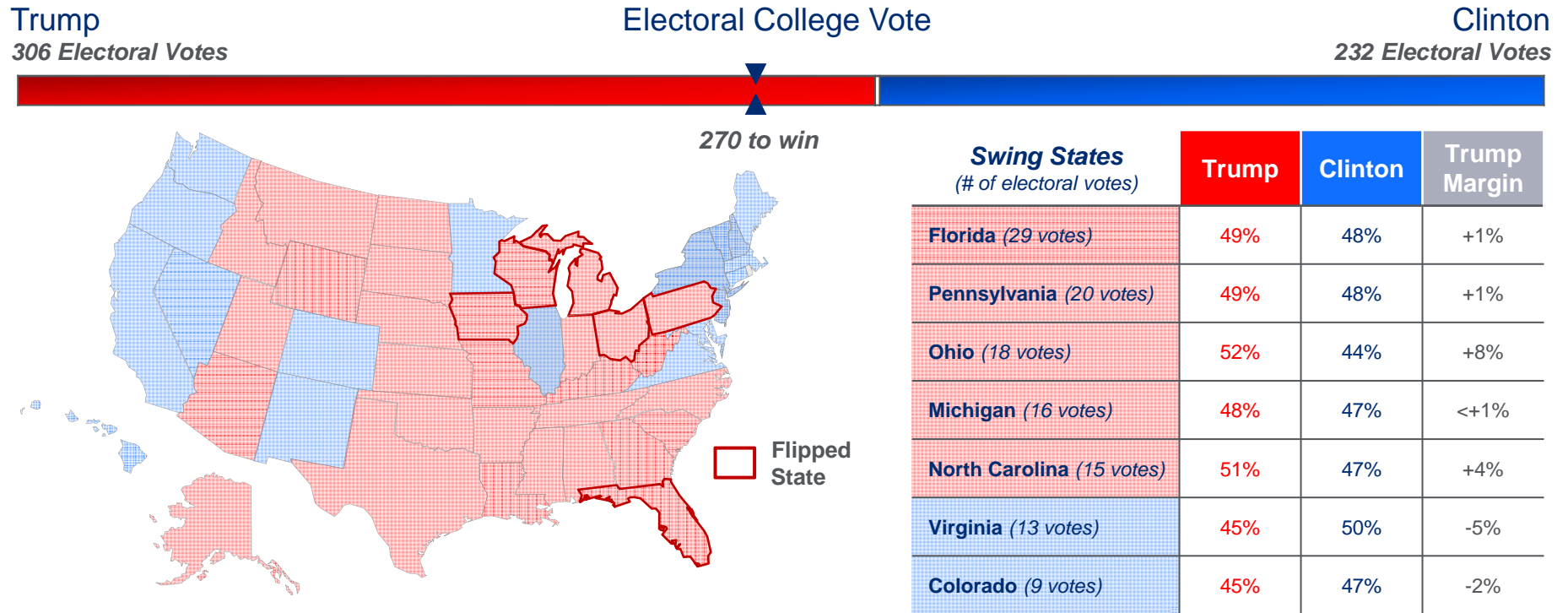
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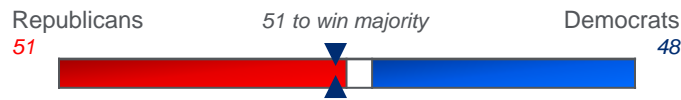
Election Results

Election Results & Insights

Donald Trump's surprise presidential victory, along with Republican control of the Senate and the House, will have far-reaching impact on public policy, debt and equity markets, and affordable housing development.



Republicans won the US Senate



Republicans won the US House



Insights

- Trump ultimately surpassed 270 electoral votes by flipping several states that President Obama won back in 2008 and 2012, including Iowa, Florida, Ohio, Pennsylvania, Wisconsin and Michigan
- Trump's support across rural America allowed him to garner votes necessary to defeat Hillary Clinton and her urban supporters
- Clinton made significant gains in large metropolitan areas, but was soundly defeated in smaller cities, especially in the industrial heartland

Source: AP, Bloomberg.

To ask a question, email AskCitiCommunityCapital@citi.com now



Key Senate Race Results

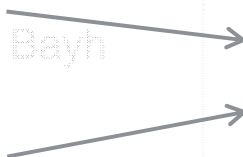
State	Democratic Candidate	Republican Candidate	Result
Fla.	Rep. Patrick Murphy	Sen. Marco Rubio (incumbent)	
Ill.	Rep. Tammy Duckworth	Sen. Mark Kirk (incumbent)	
Ind.	Former Sen. Evan Bayh	Rep. Todd Young	
Mo.	Jason Kander	Sen. Roy Blunt (incumbent)	
Nev.	Catherine Cortez Masto	Rep. Joe Heck	
N.H.	Gov. Maggie Hassan	Sen. Kelly Ayotte (incumbent)	
N.C.	Deborah Ross	Sen. Richard Burr (incumbent)	
Ohio	Former Gov. Ted Strickland	Sen. Rob Portman (incumbent)	
Pa.	Kate McGinty	Sen. Pat Toomey (incumbent)	
Wis.	Former Sen. Russ Feingold	Sen. Ron Johnson (incumbent)	

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Mo.	Rep. Jason Kander	Sen. Roy Blunt (incumbent)	
Nev.	Rep. Catherine Cortez Masto	Rep. Joe Heck	
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SUPPORTER**

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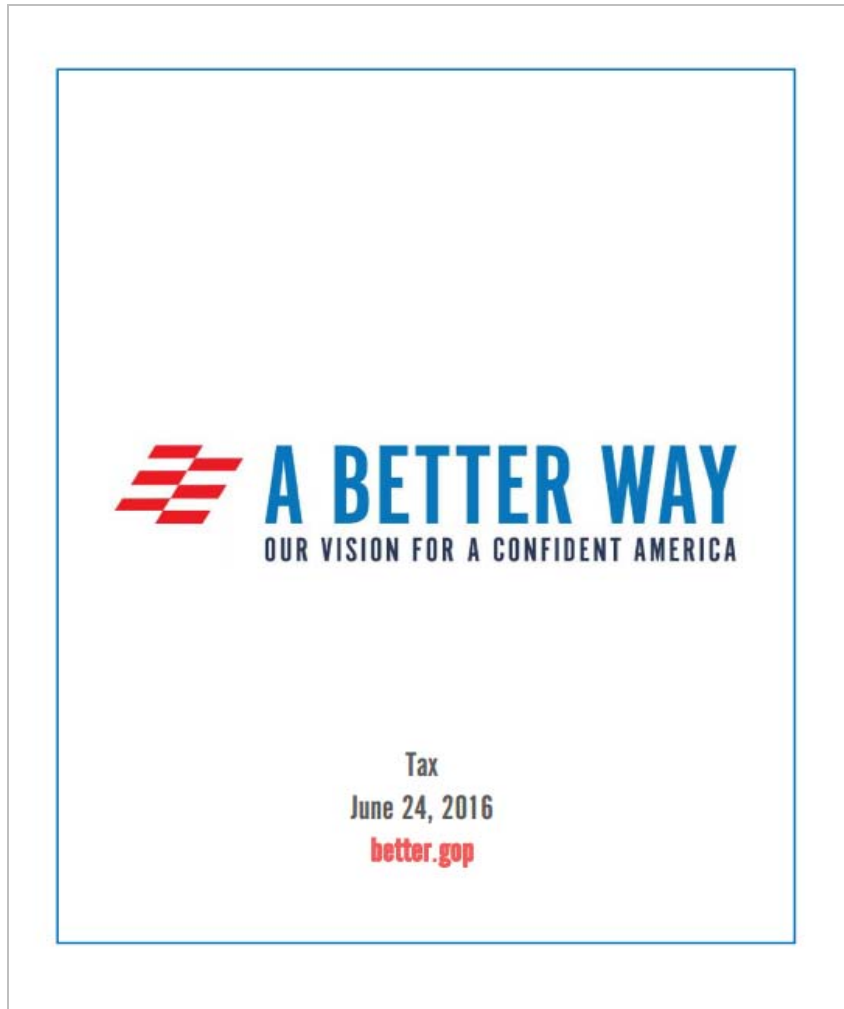
Key Senate Race Results

State	Democratic Candidate	Republican Candidate	Result
Fla.	Rep. Patrick Murphy	Sen. Marco Rubio (incumbent)	Rubio
Ill.	Rep. Tammy Duckworth	Sen. Mark Kirk (incumbent)	Duckworth
Ind.	Former Sen. Evan Bayh	Rep. Todd Young	Young
Mo.	Jason Kander	Sen. Roy Blunt (incumbent)	Blunt
Nev.	Catherine Cortez Masto	Rep. Joe Heck	Masto
N.H.	Gov. Maggie Hassan	Sen. Kelly Ayotte (incumbent)	Hassan
N.C.	Deborah Ross	Sen. Richard Burr (incumbent)	Burr
Ohio	Former Gov. Ted Strickland	Sen. Rob Portman (incumbent)	Portman
Pa.	Kate McGinty	Sen. Pat Toomey (incumbent)	Toomey
Wis.	Former Sen. Russ Feingold	Sen. Ron Johnson (incumbent)	Johnson

What are the administration's priorities?

- Repeal or replace Affordable Care Act
- Renegotiate Trade Agreements
- Generate job growth
- Revise the tax code
- Create and implement an infrastructure plan
- Immigration reform

House GOP Tax Reform Tax Force

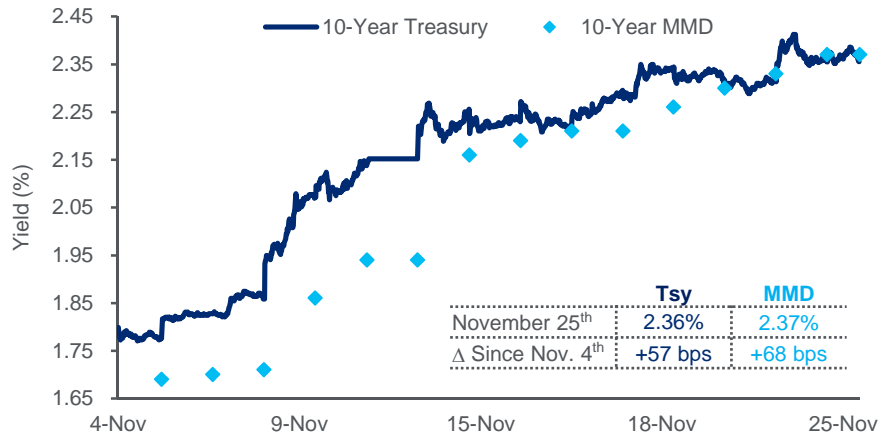


- Calls for top 20% corporate tax rate
 - No deduction for net interest expense, but immediate depreciation of new investments (excluding land)
- Top 33% individual tax rate, with 50% scalar for all investment income
- Silent on LIHTC, NMTC, HTC and tax-exempt bonds
- Document does say that tax reform as proposed “generally will eliminate special-interest deductions and credits in favor of providing lower tax rates.”
- Tax Reform Task Force describes the blueprint as “the beginning of our conversation about how to fix our broken tax code.”
- Legislative language by the first quarter of 2017

Market Movement Since November 4th

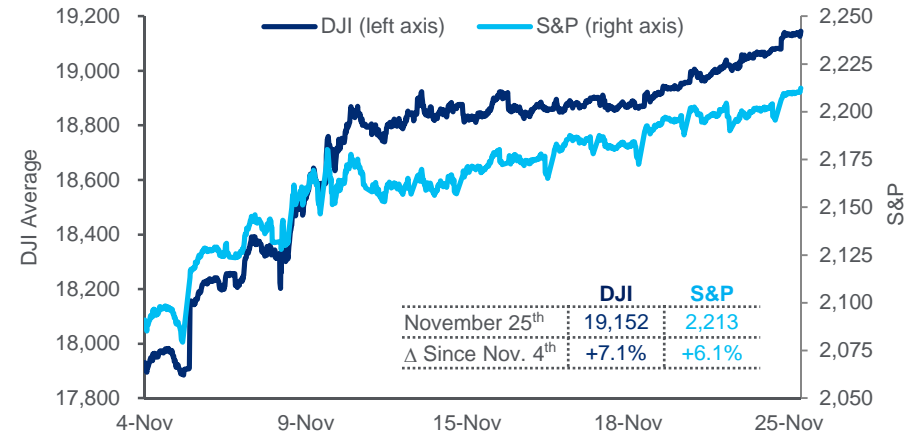
Treasury and Municipal Yields Continue to Rise

After rallying significantly throughout 2016 the benchmark 10-Year Treasury sold off 57 bps since November 4th, while municipals finished off 68 bps to settle at 2.37% on November 25th



Major U.S. Equity Indices Post Gains

The Dow Jones Industrial Average (DJI) fell 800+ points in after hours trading on the night of the presidential election, recovering those losses and finishing up 7.1% since November 4th



USD vs Mexican Peso (USDMXN)

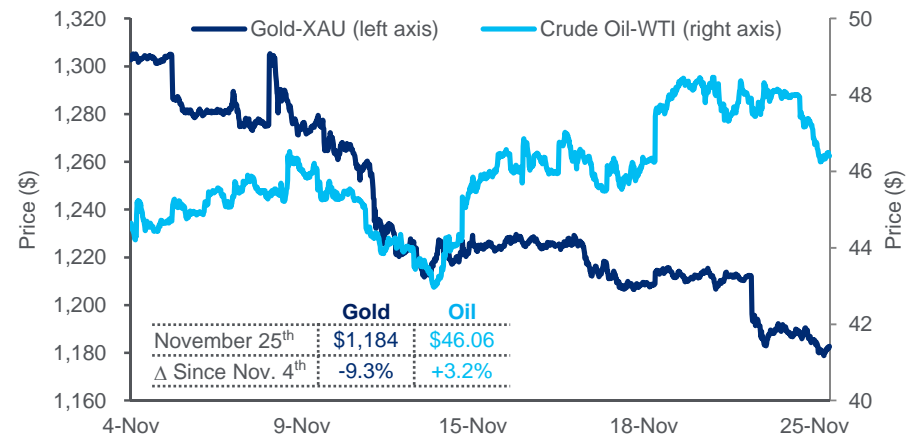
USD vs Mexican Peso fell 8.6% in reaction to Trump's surprise presidential win



Commodities Falter

Gold (XAU) & Crude Oil (WTI)

After initially selling off, Oil outperformed Gold, and is now up 3.2% since Nov. 4th



Source: Bloomberg and Thomson Reuters, data as of November 25, 2016.

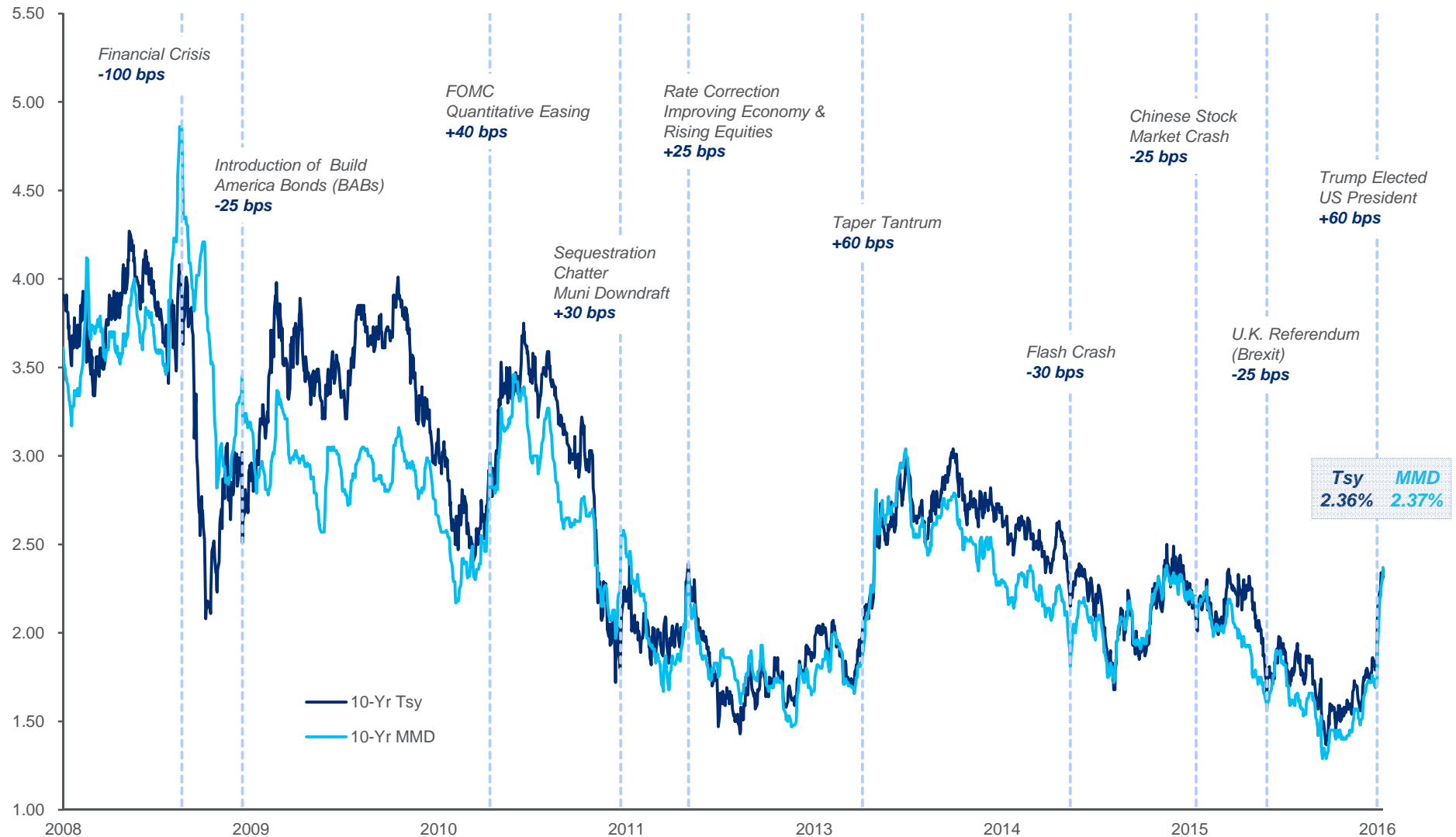
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Treasury and Municipal Yield Movement in a Historical Context

10-Year MMD and 10-Year Treasury Yields

A number of macroeconomic and municipal specific events have caused significant rate movements in the municipal market since 2009, with the recent presidential election, held on November 8th 2016, causing rate movements not experienced since the financial crisis in September/October of 2008 or the Taper Tantrum in May/June of 2013



Source: Bloomberg and Thomson Reuters, data as of November 18, 2016.

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Tax Reform Effects on LIHTC Pricing and Yields

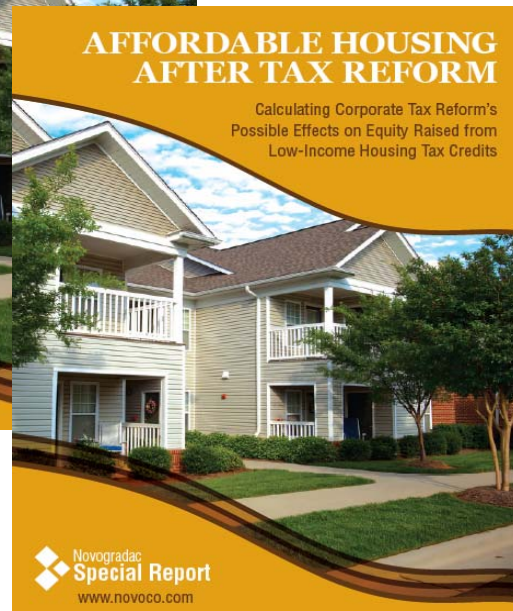
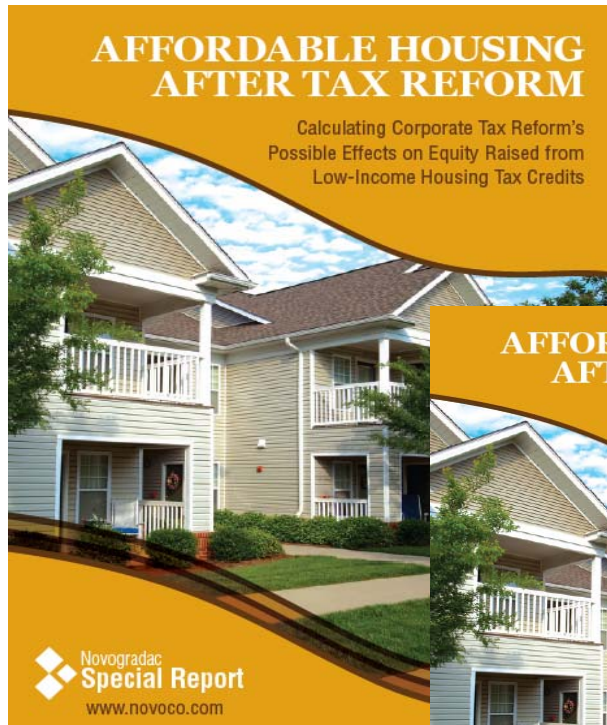
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The screenshot shows the top navigation bar of the Novogradac & Company website, including links for Company, Partners, News and Analysis, Careers, Login, and View Cart. Below the navigation is the article title "How Would Tax Reform Affect LIHTC Pricing and Yields?". The article content is partially visible, starting with "The prospect of tax reform raises a myriad of questions. Even if the low-income housing tax credit (LIHTC) itself emerges from tax reform unchanged, other changes to the tax code could affect the LIHTC market. As such, it's worth considering the possible ripple effects of various amounts of equity raised." A sidebar on the left contains sections for "Notes from Novogradac", "Journal of Tax Credits", "Press Releases", "Related Topics", "My Account", "Subscription Center", and an "Events Calendar" for November. At the bottom of the sidebar is a "Sign Up For Novogradac Industry Alert Emails" button.

- Impact of lower rates & longer depreciation lives
- 9% volume cap new construction investment
 - Tax rate/LIHTC price per dollar relationship

The report cover features a photograph of a modern, two-story apartment building with a balcony. The title "AFFORDABLE HOUSING AFTER TAX REFORM" is prominently displayed in white text on a yellow background. Below the title, the subtitle reads "Calculating Corporate Tax Reform's Possible Effects on Equity Raised from Low-Income Housing Tax Credits". The Novogradac logo and "Special Report" branding are visible at the bottom, along with the website URL "www.novoco.com".

Tax Reform Effects on LIHTC Pricing and Yields

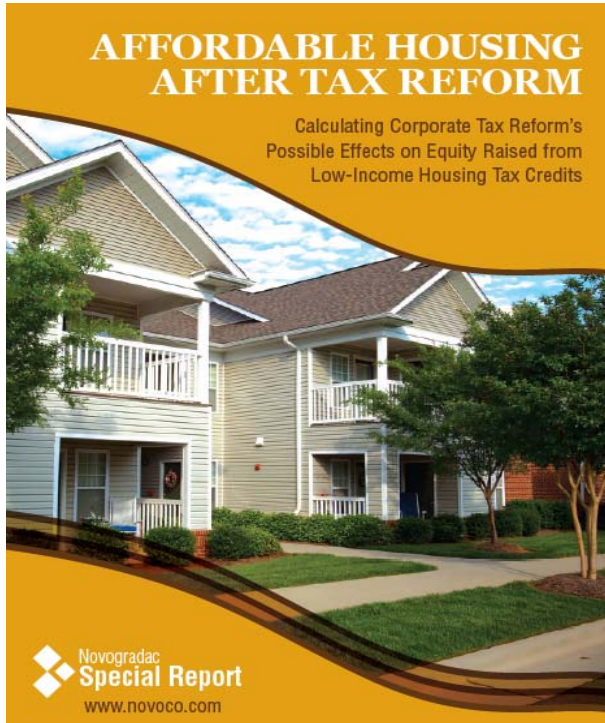


35% Corporate Tax Rate:
\$1.00 Per Tax Credit Equity Raise =
\$1.35 Federal Tax Benefits

Corporate Tax Rate:
Per Tax Credit Equity Raise =
5 Federal Tax Benefits

Reduction in Nominal Return!

Tax Reform Effects on LIHTC Pricing and Yields



Bottom Line Impact

Equity Raised:

8% – 12% Less

Industry Wide:

\$700 million

to \$1 billion

in Lost Equity

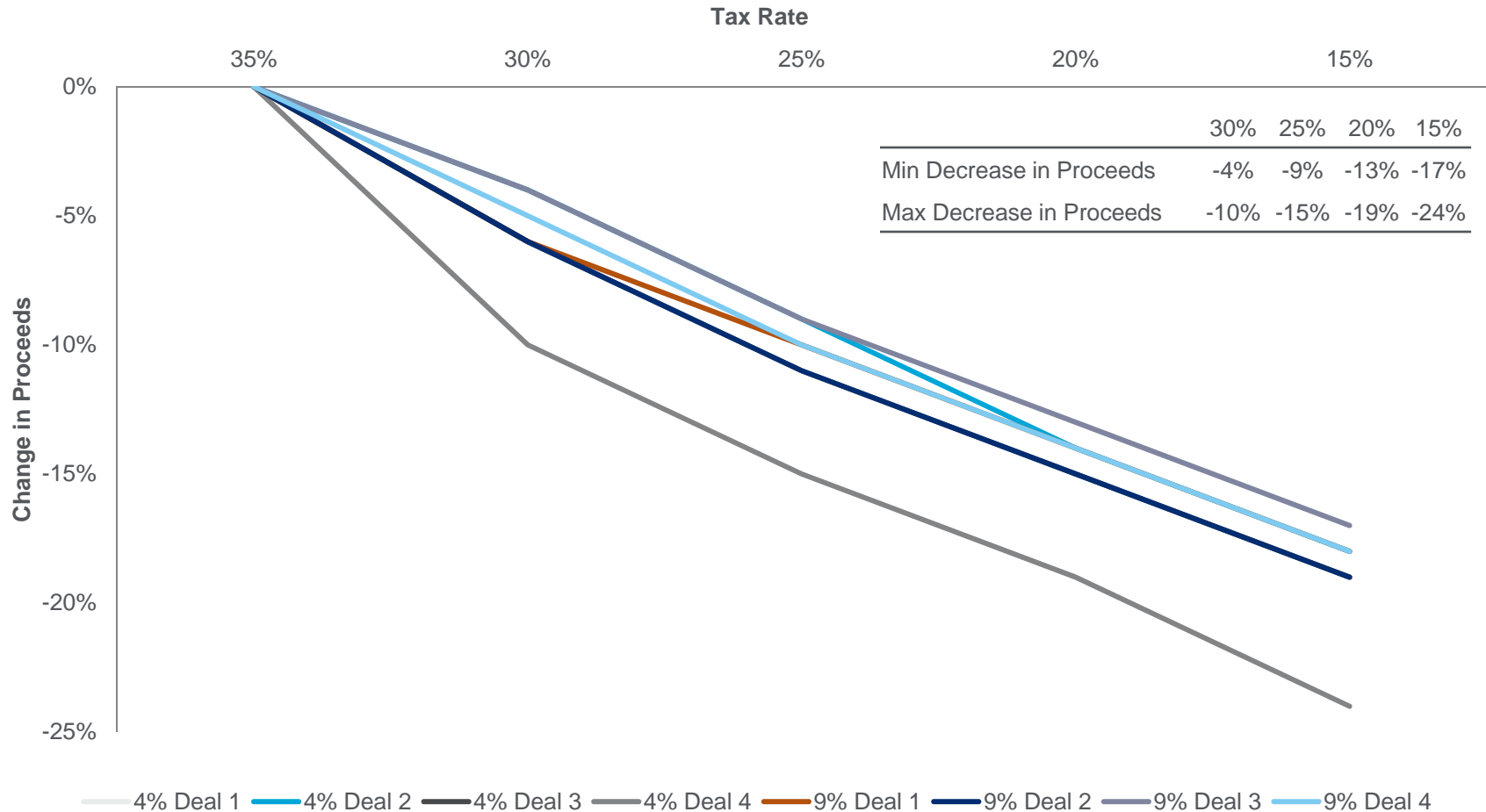
Tax Reform Effects on LIHTC Pricing and Yields



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Hypothetical LIHTC Pricing Sensitivity to Corporate Tax Rates

Unlike tax-exempt and taxable debt products, which are modestly effected by tax reform, LIHTC proceeds will vary significantly due in particular to the after-tax value of loss benefits under different tax rate assumptions.



Hypothetical Proceeds Gap Due To Interest Rates and Tax Rates

While every deal is different, and there are limitless possible paths for rates as well as the tax code, these simple examples show the significant potential impact on the financing of affordable housing developments in 2017.

\$34.8mm 9% Project	Original Underwriting	Equity @ 25% Debt +50bp
LIHTC Net PPC	\$1.07	\$0.96
Equity Contribution	\$16.05	\$14.48
Reduction in Equity Proceeds		-\$1.58
Perm Loan Rate	5.02%	5.52%
Perm Loan Amount	\$16.20	\$15.30
Reduction in Loan Proceeds		-\$0.90
Total Change in Proceeds		-\$2.48
Cash Developer Fee	\$2.09	-\$0.39
Deferred Developer Fee	\$1.77	\$4.25
Total Developer Fee	\$3.86	\$3.86

Hypothetical Proceeds Gap Due To Interest Rates and Tax Rates

While every deal is different, and there are limitless possible paths for rates as well as the tax code, these simple examples show the significant potential impact on the financing of affordable housing developments in 2017.

\$25.6mm 4% Project	Original Underwriting	Equity @ 25% Debt +50bp
LIHTC Net PPC	\$1.15	\$1.03
Equity Contribution	\$8.35	\$7.51
Reduction in Equity Proceeds		-\$0.84
Perm Loan Rate	4.67%	5.17%
Perm Loan Amount	\$13.50	\$12.70
Reduction in Loan Proceeds		-\$0.80
Total Change in Proceeds		-\$1.64
Cash Developer Fee	\$0.55	-\$1.09
Deferred Developer Fee	\$2.72	\$4.36
Total Developer Fee	\$3.27	\$3.27

Thank You

Thank you for your participation

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 - email AskCitiCommunityCapital@citi.com
 - Follow instructions from the Operator - Press *1 for the operator to open your line. This will enter you into the queue to ask a question
- The recording will be available within the next 24 hours at http://www.citibank.com/icg/sa/citicommunitycapital/resource_center.jsp
- Resources
 - Novogradac – www.novogradac.com
 - Citi Community Capital – www.citicommunitycapital.com
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 - @dsgasson

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