NEWS RELEASE

For Immediate Release
Contact: Tina McDaniel
410-772-2780
tmcdaniel@enterprisecommunity.org

Colleen Mulcahy
312-697-2482
cmulcahy@nefinc.org

LEGISLATIVE CHANGES COULD GENERATE $5 BILLION IN PRIVATE CAPITAL TO SPUR NEW AFFORDABLE HOUSING, STUDY REVEALS

(Washington, D.C., November 4, 2009) – Institutional investors are ready to finance an additional $5 billion in affordable rental housing through the federal Low Income Housing Tax Credit (LIHTC) program if Congress enacts legislation that addresses ongoing market dislocation, according to a study commissioned by Enterprise Community Partners, Inc. (Enterprise) and the Local Initiatives Support Corp. (LISC).

Respondents identified the five-year carry-back proposal supported by Enterprise, LISC and other industry organizations and now it is before Congress as the most likely to attract significant new investment capital. If Congress approves the carry-back change, respondents said they would invest 50 percent more in 2010 and 2011 than they currently plan. The $5 billion increase in investment understates the proposal's likely impact, since not every potential investor participated in the study.

If Congress enacts the carry-back proposal, LISC, Enterprise and others estimate that the LIHTC would drive the construction and/or rehabilitation of 123,000 affordable apartment homes, create 232,000 new jobs, stimulate $50 billion in local construction-related income and generate $8 billion in additional revenue for states and local government nationwide.

LISC and Enterprise commissioned Ernst & Young LLP (E&Y) to help better understand the current market in the wake of a steep decline in available equity for affordable housing investments. LIHTC investments have fallen from a high in 2006 of nearly $9 billion to as little as a projected $4.4 billion for 2009. The dramatic shift is the result of severe economic pressure on financial institutions, which make the lion's share of the investments but currently lack enough taxable profits to use tax credits.

E&Y looked at the factors impacting the current LIHTC environment. It asked investors and syndicators to detail motivations for investing and to evaluate the impact of potential legislative enhancements to the LIHTC program.

"Jump starting the LIHTC market is critical for a whole host of reasons," commented Michael Rubinger, LISC, president and CEO. "It drives job creation in places hard-hit by the recession. It ensures that families stung by job loss and foreclosures will be able to find quality affordable homes in which to raise their children. And it is vital to the health of low- and moderate-income communities — where affordable housing so often anchors more comprehensive revitalization. It is important for the long-term viability of the many community-based organizations that have long been the redevelopment infrastructure in struggling neighborhoods, but today find themselves sitting on stalled projects with no financing available to move forward."

The five-year carry-back proposal works in two ways. First, it allows investors to take credits delivered in the tax years 2008-2010 for their existing investments and carry them back up to five years to offset taxable income in more profitable years. To do so, they are required to reinvest dollar-for-dollar in new LIHTC developments to the extent they carried back credits. Carried back LIHTCs would not be subject to the alternative minimum tax. This would reduce pressure to existing investors to sell credits they cannot claim in the 2008-2010 tax years as well as provide an immediate stimulus for new investment demand of projects in search of investment.

Second, LIHTC investments made going forward also could qualify for a rolling five-year carry back during the 10-year period in which investors earn the credits. This would be a permanent change to the program, and it would help remove one of the major concerns of former and new prospective investors because it offers "predictability of their future tax profile," as the E&Y study concluded. It would help attract a wider diversity of corporate investors to the program, providing a more stable investor base.

"LIHTC revolutionized affordable rental housing finance and has become the nation's largest and most effective affordable rental housing production program," said Charles Werhane, president and CEO, Enterprise Community Investment, Inc. "Since 1986, it has helped finance more than two million affordable rental homes at a pace of about 120,000 apartments annually. With the weakened economy and investors reduced demand for tax credits, as many as 60,000 fewer units will be constructed or preserved this year and up to 90,000 jobs could be lost annually. This 50 percent cut comes at a time when the current foreclosure crisis is creating an even greater need for affordable rental housing."

Survey respondents included 35 investors, which reported a collective investment of $6.9 billion in 2007 and $5.9 billion in 2008. Based on E&Y's broader market estimates, it appears that most major 2008 investors participated in the study, as well as some investors who had invested in previous years but had stopped participating in the market primarily because of low yields prior to the economic downturn and more recently a reduced need for credits amid lower earnings or net losses.

Respondents identified those factors that would play the largest role in increasing their investment activity. Most influential was higher yields. E&Y noted, however, that LIHTC yields now stand at or above 10 percent—up from historic lows in 2007 of 4.25 percent, with little increase in investor activity. Increased tax liability was the next most prominent investor motivator, as were concerns that community investment goals were not being met; a shorter investment benefit and compliance period and more liquid investment features. To access the full study, visit www.enterprisecommunity.org/public_policy/ or http://www.lisc.org/content/publications/detail/17728 .

LISC and Enterprise urge Congress to adopt legislation that will secure financing, reactivate affordable rental housing investment for the long term and bring back LIHTC to its full potential to produce, rehab and preserve affordable rental housing nationwide.

###

Enterprise is a leading provider of the development capital and expertise it takes to create decent, affordable homes and rebuild communities. For 25 years, Enterprise has pioneered neighborhood solutions through public-private partnerships with financial institutions, governments, community organizations and others that share our vision. Enterprise has raised and invested $10 billion in equity, grants and loans to help build or preserve more than 250,000 affordable rental and for-sale homes to create vital communities. Enterprise is currently investing in communities at a rate of $1 billion a year. Visit www.enterprisecommunity.org and www.enterprisecommunity.com to learn more about Enterprise's efforts to build communities and opportunity, and to meet some of the half a million people we have helped.

LISC combines corporate, government and philanthropic resources to help nonprofit community development corporations revitalize distressed neighborhoods. Since 1980, LISC has raised more than $9 billion to build or rehab more than 244,000 affordable homes and develop 36 million square feet of retail, community and educational space nationwide. LISC support has leveraged nearly $28 billion in total development activity. For more information, visit www.lisc.org.