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BGR MEDIA RELEASE

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BGR Releases Report on Rental Housing Projects Awarded GO Zone Tax Credits

Today the Bureau of Governmental Research releases the report *Public Investment, Private Developers: How Louisiana Deployed its GO Zone Housing Tax Credits*. The report analyzes the unit production and geographic distribution of developments awarded \$1.7 billion worth of Gulf Opportunity Zone Housing Tax Credits. In addition, it analyzes the financing and costs of projects that received tax credit awards in December 2006. Developments in that group (the Piggy-Back Round) were eligible to “piggy-back” the tax credits with no- or low-interest loans of federal Community Development Block Grant funds made available through a Louisiana Recovery Authority program (the Piggy-Back Program).

Louisiana awarded the GO Zone Housing Tax Credits to 178 projects. Of these, 149 are exclusively low-income developments and 29 contain a significant number of market rate units. Five of the projects involve major redevelopments of public housing sites in New Orleans.

If all of the developments come to fruition, they will generate approximately 15,000 rental units, including 12,400 rent-restricted units available only to low income households and 2,600 unrestricted, market

rate units. The unit production is significantly below the 18,000 to 33,000 units that the Louisiana Recovery Authority anticipated when it formulated the Piggy-Back Program. The percentage of market rate units is also far below the original projection (17% versus estimates in the range of 28 to 45%).

One factor limiting unit production in the Piggy-Back Round is high development costs. The costs are especially high in the case of public housing redevelopments, where the median Total Development Cost per unit is \$272,805. The median Total Development Costs for private mixed income developments and for private low income developments are approximately \$175,000 per unit. (Total Development Cost, as used in BGR's report, includes construction costs, soft costs, property acquisition, and other development costs.)

Total Development Costs for the 44 projects in the Piggy-Back Round range from \$90,000 to \$340,000 per unit and from approximately \$100 to \$334 per square foot. They vary significantly within development types. For example, the Total Development Costs for private mixed income developments range from \$105,000 per unit to an extraordinary \$340,000 per unit for the conversion of an historic downtown office building into mixed income studio and one-bedroom apartments. The most expensive private developments are located in New Orleans' Central Business District and Warehouse District.

In the Piggy-Back Round, the public is funding 87% of the development costs either indirectly through tax credits or directly through grants or low- or no-interest loans (Gap Financing). Most of the remaining investment is in the form of private-sector loans. There is no unsubsidized private equity to speak of in the developments.

The developments in the Piggy-Back Round are heavily subsidized. Nearly 60% of the funding for development comes in the form of low income housing tax credit equity, historic preservation tax credit equity, and funds contributed by the Housing Authority of New Orleans. Such subsidies provide 83% of the funding for low-income housing developments, 70% for public housing redevelopments, and 37% for mixed income developments.

In addition to the development subsidies, the public is providing major operating subsidies, such as project-based rent vouchers, no-interest loans for insurance costs, and interest savings on the Gap Financing provided for development. The interest savings on Gap Financing, which was awarded to most private mixed income developments and the public housing redevelopments, can run into tens of millions of dollars over the life of a loan. Some developments are also seeking significant additional subsidies in the form of tax abatements from local governments. The Industrial Development Board of the City of New Orleans has approved tax abatements for three projects, and has pending applications for others.

In terms of the geographic distribution, Orleans Parish will receive a significant number of the 178 projects and the majority of the low income units. Orleans is slated to receive 61% of all GO Zone Housing Tax Credit units (7,507 of 12,345). By contrast, Jefferson Parish would receive only 6% (787) and St. Tammany Parish 5% (652). Other parishes in the metropolitan area do not receive any. Citywide, the tax credit developments would replace 18% of heavily damaged rental units.

It remains to be seen how much of the tax credit investment will actually be built. The Louisiana Housing Finance Agency, the state entity that awards the tax credits, is concerned that many developers are in danger of missing the federal deadline of December 31, 2008 to place completed units in service. In addition, several of the public housing redevelopments face ongoing litigation. Other projects may not have adequate funding, an issue that the State is attempting to address by providing additional low income housing tax credits and loans to cover some insurance costs.

“The public is making a substantial, and in many cases expensive, investment in low and mixed income housing developments,” said BGR Chairman Lynes R. Sloss. “We hope that this report will provide citizens and policymakers with a better understanding of how the public’s limited resources are being deployed.”

BGR is a private, nonprofit, independent research organization. Since its founding in 1932, it has been dedicated to informed public policy-making and the effective use of public resources in the Greater New Orleans area. For more information call 525-4152 or visit BGR's website, www.bgr.org.

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