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HISTORY AND THE HILL

HTC Transaction Volume Hits Pre-Recession Levels

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The recession is finally over for the federal historic tax credit (HTC). It took five years to recover, but annual report statistics recently released by the National Park Service (NPS) indicate that HTC private investment volume has finally nearly climbed back to its 2009 peak. The 2014 qualified rehabilitation expenditures (QREs) totaled \$4.32 billion compared to \$4.57 billion in 2009. Last year's investment volume was the result of 762

separate Part 3 approvals. HTCs certified by the NPS in FY14 totaled \$864 million compared to \$914 million in 2009. (See Diagrams 1 and 2 below.)

The numbers were surprising because as recently as 2013, the HTC was hovering around \$3.4 billion in QREs, about \$1 billion below its pre-recession peak. The jump in total investment was not due to a material change in Part 3

Diagram 1

HTC by Year

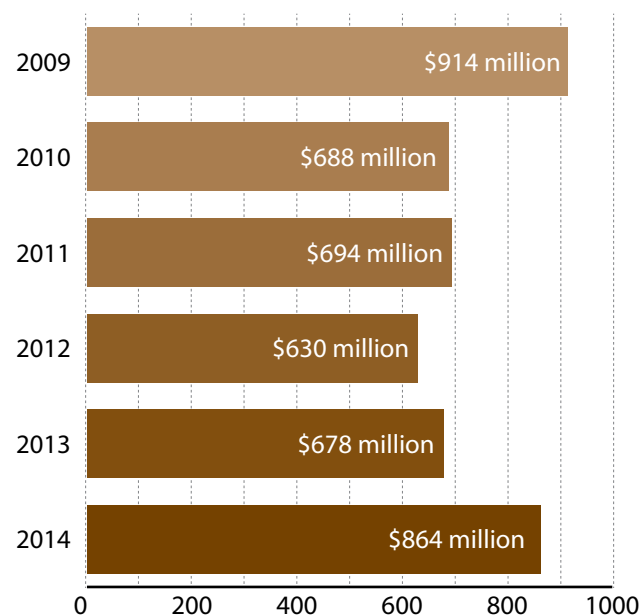
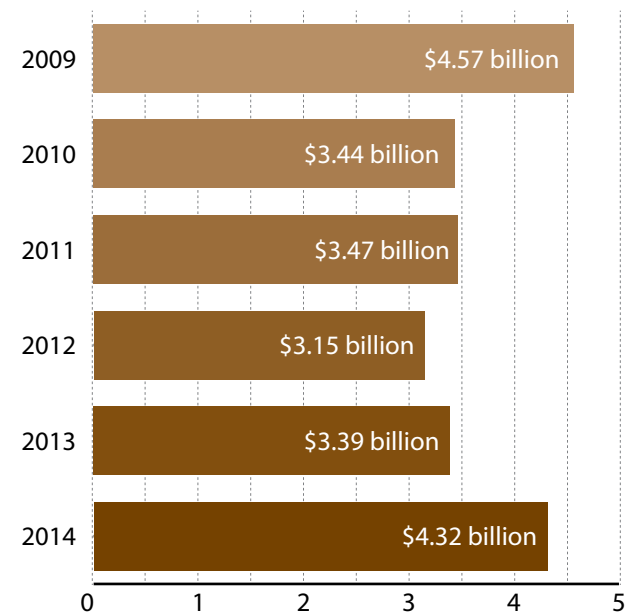


Diagram 2

QRE by Year



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certifications. Part 3 approvals were actually down by 41 from a 2013 total of 803. However the average investment per project jumped 36 percent to \$5.7 million compared to \$4.2 million in 2013.

These volume increases were also unexpected given the amount of disruption there has been in the investor

marketplace due to the Historic Boardwalk Hall decision, Revenue Procedure 2014-12 and an uptick in Internal Revenue Service (IRS) audit activity. Developments receiving a Part 3 in 2014 were seeking HTC investors during the on-and-off market freezes of late 2012 and early 2013. The market-calming effects of the revenue procedure did not occur until early 2014.

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Diagram 3

QRE Comparison

	FISCAL YEAR 2013	FISCAL YEAR 2014
Less than \$1 million	\$147,264,323.00	\$4,680,128.00
\$1-4.99 million	\$454,867,910.00	\$606,197,628.00
\$5-9.99 million	\$391,156,937.90	\$609,566,885.00
\$10-14.99 million	\$227,487,599.00	\$337,254,564.00
\$15 million or more	\$2,069,327,928.00	\$2,736,009,268.00

Diagram 4

Part 3 Certification

	FISCAL YEAR 2013	FISCAL YEAR 2014
Less than \$1 million	449	74
\$1-4.99 million	189	487
\$5-9.99 million	56	84
\$10-14.99 million	19	28
\$15 million or more	55	80

Photo: Courtesy of National Trust Community Investment Corporation

The Landmark Theater in Richmond, Va. used federal historic tax credits and was placed in service in September 2014.





Photo: Courtesy of National Trust Community Investment Corporation

The Landmark Theater in Richmond, Va. used federal historic tax credits. It was part of a surge in HTC developments.

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To explain this apparent anomaly, History and the Hill decided to do its own statistical analysis. As background to its annual report, the NPS provides to the Historic Tax Credit Coalition (HTCC) a list of developments that include data points on location, property use and transaction size. Using this NPS database, we wanted to see if the increase in HTC investment was due to a few very large developments that skewed the outcome or whether the dramatic increase in investment per development was due to a broader market shift to larger transactions.

As illustrated in Diagrams 3 and 4, we broke out FY13 and FY14 Part 3-approved properties by deal size and found that there was a significant drop in the number of transactions with QREs less than \$1 million and across-the-board increases in every size category, from \$1 million to \$4.99 million up to \$15 million in QREs and larger. Part 3 certifications showed a similar trend.

That was not shocking to Bill MacRostie, senior partner with MacRostie Historic Advisors. "I am not too surprised

by the increase in program volume because we have prepared a lot of large project applications over the past year," he said. "The economic recovery is helping these transactions move forward."

Brian Goeken, who directs the historic preservation tax incentives program for the NPS, said, "I am pleased with the program's rebound and give credit to my staff and to state historic preservation offices who have worked very hard to keep the tax incentives program growing in a time of economic uncertainty. We want to continue collaborating with developers and equity investors to make the program even stronger."

Patrick Roberts of FTI Consulting, who staffs the HTCC, also said the rebound is no surprise. "The numbers for the HTC show how resilient the industry has been given the headwinds of adverse court decisions and IRS regulatory attention," he said. "It shows that our developers are resourceful and efforts to find new investors for the HTC have paid off."

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As HTC advocates head to the Hill this year for another round of discussions about tax reform, the news of increased use and reliance on the federal HTC should help make the case that job creating credits like the HTC must be retained in the tax code. ♦

preservation, training and organizational development. He has held senior management positions with Neighborworks, Enterprise Community Partners, Bank of America and the National Trust for Historic Preservation. He is the founding president of the National Trust Community Investment Corporation and chairman of the Historic Tax Credit Coalition. He can be reached at (202) 588-6064 or jleith@ntcic.com.

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