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Atlanta's Experts in Real Estate

New Markets Tax Credits: Helping Finance Deals

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No question, developers have been hit hard by the economic recession and the lack of liquidity in the financial markets. Access to funds, whether debt or equity, have been a controlling factor on whether projects can move forward.

While the economic realities still remain difficult to face, and stricter lending requirements limit the amount of debt available for a project, many developers are exploring other options to help fill gaps in their development sources. One of those options is to use New Markets Tax Credits.

Even though this program has been around for 10 years (enacted in 2000), the influx of developers looking for subsidies has shed new light to this program, created to drive private investment in "New Markets" or, more specifically, low income communities.

Overseeing the NMTC program, the Community Development Financial Institutions Fund ("CDFI") has issued \$26 billion in NMTC allocation to entities known as Community Development Entities ("CDE"). Formed by a vast collection of parties including institutional banks, development authorities, private developers, not-for-profits and tax credit syndicators, a CDE is simply an entity formed by these parties for the sole purpose of applying for NMTC allocation.

While a project developer will still need to secure debt and equity to finance the bulk of the projects costs, the proceeds from the sale of New Markets Tax Credits can help subsidize 20-25% of a project's costs, usually in the form of a low interest rate loan. The tax credits themselves are equal to 39 percent of the amount invested and tax credit investors are on average paying \$.70 per tax credit dollar.

Although this program has been used sporadically in Atlanta over recent years, the financial meltdown has spurred local developers to begin checking to see whether their projects are located in census tracts qualified for these tax credits. Pockets of North Atlanta and a majority of South Atlanta are areas known as qualified census tracts where New Markets Tax Credits can be used.

Many of the local CDEs including SunTrust Community Capital, LLC, and the Atlanta Development Authority's Imagine Downtown, Inc. have been the catalysts in helping transform the Atlanta landscape. Imagine Downtown, Inc. and SunTrust have worked together in the past to close \$30 million in NMTC allocation on Jacoby Development's Aerotropolis Atlanta project and recently Imagine Downtown, Inc. was successful in closing \$12 million in NMTC allocation on the 200 Peachtree project.

While the subsidies generated from these closings likely equal 25% of the allocation used, the successful closings help to bridge a shortfall in financing proceeds that otherwise would make these projects financially unfeasible.

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