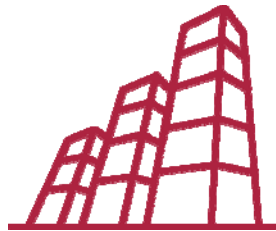


Leveraging the Energy Efficient Home Credit



Make it big.
Real Estate

Co-presented by



Candor. Insight. Results.



Presenters



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Polling questions



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Have you developed any tax credit projects using 1602 funds?

- A. Yes
- B. No

How many residential projects have you developed since 2007?

- A. 0-1
- B. 2-4
- C. 5-6
- D. 7+

Please respond using the polling section in the WebEx screen to the right.

- > **2005 – Energy Policy Act of 2005 enacted (aka “EPAAct”)**
 - §45L Credit effective 1/1/06 through 12/31/07
- > **2008**
 - IRS issues clarification and revised guidance
 - Emergency Economic Stabilization Act extends 45L through end of 2009
- > **2010 – Tax Relief Act of 2010**
 - §45L Credit is extended for 2 more years through 2011 and made retro-active
- > **2011**
 - Many bills at committee level to expand and extend incentives

Energy efficient residential buildings



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- > Was originally only intended only for production/spec homebuilders
- > NAHB / NMHC lobbied for applicability to apartments
- > IRS releases Notice 2008-35 that includes leased units
- > Most developers of apartments and mixed-use still don't know this

Energy efficient residential



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- > Tax credit of \$2,000 per energy efficient dwelling unit
 - Less stringent \$1,000 tax credit available for manufactured homes
- > Mixed use, apartment, condo developments, condo conversions and home builders are eligible
- > Construction completed after 8/8/05
- > Units must be first leased or sold after 1/1/06
- > Units must be located in the US
- > 3 stories or less
 - “podium style” buildings

Energy savings requirements



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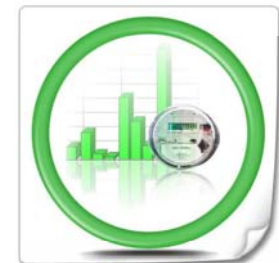
- > Heating and cooling energy consumption must be at least 50% below that of a reference dwelling unit in comparison to 2004 International Energy Conservation Code (IECC) and
- > Building envelope must provide a level of heating and cooling that is at least 10% below reference unit

Certification Process



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- > Analysis of drawings and as-built specifications for each unit
- > Energy simulation modeling using IRS-approved software
- > Certification by “qualified individual” that meets all 7 requirements by the IRS
 - Energy Consultant
 - Unrelated third party
- > Analysis of drawings KBKG employs staff with all credentials necessary



Example: 55 Unit Apt – Danville, CA New construction



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- > 100% Units passed;
\$110,000 Tax Credits
- > Barely passed 2005 T24
 - HVAC
 - » 13.0 SEER A/C
 - » Hydronic heat
 - Insulation
 - » R-13 wall, R-38 attic
 - Windows
 - » U-Factor 0.39, SHGC 0.38

Example: 206 Unit Apt – Columbus, GA New construction



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- > 100% Units passed;
\$412,000 Tax Credits
- > Keep specs include:
 - HVAC
 - » 13.0 SEER A/C
 - » 7.7 HSPF Heat Pump
 - Insulation
 - » R-13 wall, R-30 attic
 - Windows
 - » U-Factor 0.45, SHGC 0.385

Example: LIHTC
65 Units in Glencoe, MN
New construction



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- > All Qualified - \$130,000 Tax Credits
- > Key Specs include:
 - Hydronic baseboard floor heating
 - » 93% Recovery Efficiency
 - Cooling – wall mounted ductless packaged terminal AC units
 - » 9.4 SEER
 - 2X6 Construction R-19 in walls
 - Masonry Stone Exterior and insulated floor slab
 - Windows
 - » U Factor - .3
 - » SHGC - .24

Example: LIHTC
55 Units in Decatur, IL
Substantial rehabilitation



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- > Partially qualified
- > Key Specs include:
 - Hydronic baseboard floor heating – no central boiler
 - » .57 Energy Factor
 - Cooling – wall mounted ductless packaged terminal AC units
 - » 9.5 SEER
 - Masonry veneer
 - Windows
 - » U Factor - .49
 - » SHGC - .64

Example: LIHTC
34 Units in Ada, OK
New construction



Candor. Insight. Results.

- > All qualified
- > Key Specs include:
 - Split Heat Pump – Ducted System
 - » 14 SEER
 - » 9 HSPF
 - 2X6 Construction R-19
 - Masonry veneer all floors
 - Windows
 - » U Factor - .34
 - » SHGC - .34

Why don't all my units qualify?



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> Horizontal Orientation

- 360 Possibilities of how a unit will perform
- Northern / Cold Climates
 - » Southern Exposure to get sun
- Southern / Warm Climates
 - » Northern exposure to avoid sun

> Vertical Orientation

- First Floor with slab
- 2nd Floor - conditioned space above and below
- 3rd Floor with an attic above

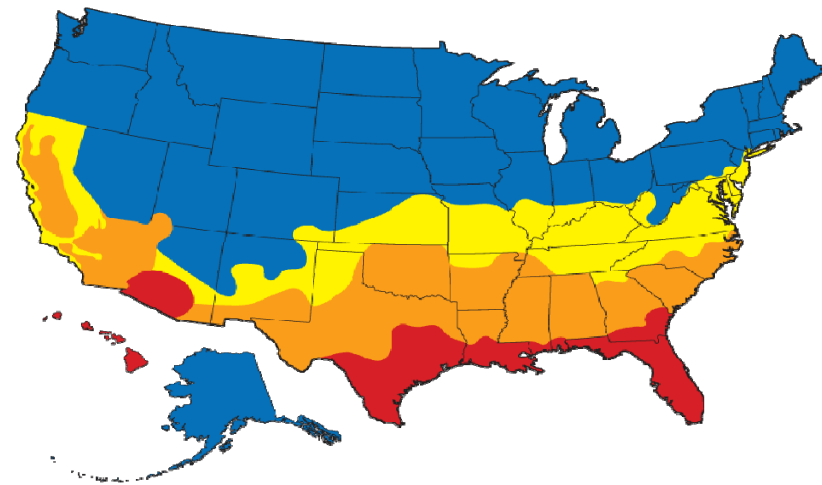


What do I do to qualify?



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- > No prescriptive formula we can tell you
 - You could have poor HVAC and great envelope features and get there
 - You could have poor envelope features and great HVAC and qualify
- > Climate Zone
 - Changes criteria
- > Need to review your design



> YOU DON'T NEED ALL OF THESE TO QUALIFY

- AC – SEER 13 or Higher
- Insulation – R-13 or higher in walls
- R-30 or higher in the ceilings
- Heater efficiency of 80% or higher
- Heat Pump Systems or Hydronic Heat Systems
- Vinyl Windows with SHGC and U Factors of .35 or lower
- Renovated properties should include new windows **and** HVAC

What we DON'T like to see



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- > In colder climate zones (northern US), units with ducted electric heat systems
- > In colder climate zones, non-insulated slab floors
- > In warmer climate zones (southern US), AC units with SEER lower than 13

Consider having the building plans reviewed before construction

- > Understand various incentive criteria
 - State Programs as well as Federal
- > Work with the design and construction team
- > Make cost effective design recommendations to ensure qualification

A 45L specialist can provide construction recommendations



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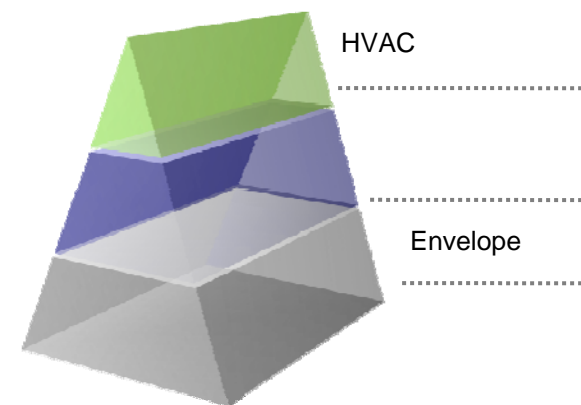
> Envelope

- Window glass / tinting
- Installation of insulation
- Reflective coatings
- Thermal mass – exterior walls
- Attic radiant barrier
- Orientation

> HVAC

- More efficient HVAC equipment and controls
- Matched equipment (outdoor and indoor)
- Hydronic systems and heat pumps
- Duct leakage

And more...



Certification process



Candor. Insight. Results.

- > Analysis of drawings and as-built specifications for each unit
- > Energy simulation modeling using IRS-approved software
- > Certification by “qualified individual” that meets all 7 requirements by the IRS
 - Energy consultant
 - Unrelated third party
 - Accredited by RESNET or an equivalent rating network
- > Cost Segregation Engineers are not qualified

- > Projects financed with 1602 funds with no equity investor
- > Projects leased-up in 2009-2011
- > Any project meeting the qualifications with the majority of units leased-up by December 2011
 - Need to have your equity investor pay for these credits in order to receive the benefit (cannot specially allocate to developer)
 - » Educating your investor – general business tax credit
 - » Pricing
- > Prospectively, ask to have language included in your operating agreement
- > Green buildings are a plus, but not necessary

LIHTC considerations



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- > Actual credit does reduce depreciable/eligible basis
- > Tax credit does not offset AMT (except for credits claimed in 2010)
- > Carryforward 20 years, carryback 1 year
- > Interaction with historic tax credit and Section 48 geothermal credit
- > Not subject to recapture on sale
- > Must amend to retroactively claim credit
- > Tax credit is not refundable
- > General Business tax credit

Claiming the credit



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Process

- > Obtain certifications for package
- > Report on Form 8908, Schedule K, Form 3800

- > Extended through 2011
- > Included in several other bills for extension and expansion
 - Extension through 2013
 - Increase of the credit to \$5,000 per unit
 - For affordable housing, the credit will be increased by 150%
 - Several proposals to include incentives for REITs

Questions?



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Any Questions?

Please feel free to ask questions in the screen to your right.

We will answer as many questions as time permits.