The Sky Isn't Falling

> *If you see ten troubles coming down the road, you can be sure that nine will run into the ditch before they reach you.*
> – Calvin Coolidge

Among those destabilized by the aftershocks from our recent presidential election are many of my colleagues and friends, for whom the conjoining of 'tax reform' and 'Trump' have had an effect on their check-writing hands similar to a crowbar whacking their ulnar nerves. The numb tingling feeling has most affected those with transactions expected to close imminently, as some previously verbalized equity commitments are burrowing themselves into the unfulfilled subject-tos, and many in the industry seem emotionally on tenterhooks or window ledges. For them, and for all my colleagues and friends, allow me to quote:

> *Five letters for everybody out there: R-E-L-A-X. We're going to be okay.*
> – Aaron Rodgers

Here are the reasons why.

'Tax reform' + 'Presidential upset' + 'unpredictability' = Over-reaction

It's year-end; whatever tax appetite America's LIHTC buyers had for 2016, they have now satiated. Corporate planning for 2017 is underway, and it's a process that takes awhile, with decisions filtering down from CEO, CFO, CRO, Corporate Director of Tax, and then to the tax credit investment department. Along the way, most of these executives have a question scrolling at the bottom of their minds: Which choice is more likely to get me fired? When uncertainty spikes, the answer is easy: Nobody will fire me for waiting 60 days before choosing.

The traffic jam backs up from the front

For more than a year, investors have been complaining about high prices and weak terms, but few of them have stopped buying. All that buyer exuberance has worked its way back up the development pipeline into smaller LIHTC reservations per property, deeper income targeting, more soft debt requirements and so on. Meanwhile, the closer a

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property gets to equity closing, the greater the disruption of equity pricing uncertainty, especially in the bass-ackwards world of LIHTC financing assembly, where the most important resource, the tax credit, locks its price only when all other sources have largely locked. For a property that has 24 months before potential closing, you can reorient and adjust to a drop from $1.13 to $0.95 in pricing; two weeks before closing, you can't.

We've been here before and we're still standing

- ***2008, Credit crunch and GSE conservatorship.*** After the 2007 Minsky Moment[1] of risk spread spiking, it took a full year for Fannie Mae and Freddie Mac suddenly to collapse into conservatorship, taking 40 percent of national demand out of the market overnight. Even this massive disruption, unprecedented in US history, blew over within 18 months and caused less damage than feared[2].
- ***2003, Dividend tax exemption.*** This Presidential proposal to eliminate the double taxation of dividends, which could potentially have cut LIHTC pricing by 35 percent, not only was never enacted but never even made it through the tax-writing committees.
- ***1995, Proposal to eliminate HUD as a cabinet branch.*** When the unexpectedly Republican Congress proposed to eliminate four cabinet branches, HUD Secretary

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[1] http://www.levyinstitute.org/publications/the-us-credit-crunch-of-2007

[2] Of course TCAP arrived with its equity-swap-plug (at $0.85, remember), but that was not serendipity.

Henry Cisneros gave tour de force testimony that boiled down to *Don't eliminate us, we're reforming ourselves.* It was brilliant, and it worked.

- *1986, Tax reform act.* After a solid year-and-a-half of political posturing that led many in the industry (my younger self included) to conclude nothing would happen, the one-weekend meteor of Rostenkowski-Packwood triggered the Cretaceous extinction of all tax shelters – and the birth of LIHTC. Thirty years later, LIHTC is the most successful affordable rental housing program in American history.

Price adjustments are usually cataclysmic only for an unlucky handful

While in an infinite universe all things are possible, a cataclysm is extremely unlikely because:

1. Tax credits are a 1-for-1 coupon against taxes payable, and they are the backbone of demand. Sure, corporate earnings impact, impairment analysis and tax deduction treatments play a role, and if those benefits are cut air will be let out of the pricing balloon, but as long as there are credits, they will clear at some price.
2. CRA investment-test assets will still be scarce – even more precious if CRA's reach expands, which I think is much more likely than it shrinking, because a broader CRA can boost investment activity without costing the government a cent.
3. Tax credits are Trumpian (as evidenced by their deployment in building his hotel in DC, as well as in persuading Carrier to keep its jobs in Indiana), they transfer risk and responsibility and they're not appropriated programs that create big-government oversight. They'll be far from the first sacred cow in the pen.

Rather than focus on the proposal, analyze the proponent

Fear tends to focus us on our own weaknesses and blinds us to the other player's tactics. Before he was a candidate, the President-Elect was a *residential real estate developer*. More than any president in half a century, he truly understands the impact of construction, the economy and the political economy, the impact of supply-side subsidy (including tax credits) on construction and the built environment. And he is a *New York City* developer, a species with which so many of us are familiar. Those I have encountered have three basic rules: (a) Always be self-promoting, (b) Demand everything and bluster about it, and (c) In the end, make the rational choice. Analogizing from development to politics, the developer-president would seize the narrative and the initiative, put everybody on the defensive, and keep his goals to himself, the better to position making the rational choice as a magnanimous compromise.

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Keep calm but keep moving forward

'Relax' doesn't mean 'be idle,' rather it means 'frame affirmative action in terms that align with the new administration's message and its media.' Expressed in tweets, these might include:

- Housing is infrastructure.
- Affordable housing is where entry-level jobs go to sleep at night.
- To boost the economy, boost housing construction and housing's value.
- Housing choice is school choice.
- To make housing affordable, tear down NIMBY fences and cost barriers.

Panic is contagious and can be a self-fulfilling prophecy. Worrying will never change an outcome: acting decisively and smartly will.

> *We must, indeed, all hang together or, most assuredly, we shall all hang separately*
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> – Benjamin Franklin TCA