Case Study:
Securing LP Capital

Summary

The client in this case study is a private firm that develops, owns and operates mid to high-rise multifamily properties spanning over 45 markets in North America and Europe. Collectively, they have an interest in over 200 assets with an estimated portfolio value of $10 billion.

This case study outlines how RETC's tax projections were instrumental in helping this firm to secure equity funding for a unique, age-restricted multifamily development project.

Problem

Our client had reached an impasse with its Limited Partner in the equity funding approval process and the major point of contention was the estimated tax liability that would burden the development. The LP believed that our client was greatly underestimating the tax liability as it related to the overall construction spend for the development and as such, was very close to withdrawing their commitment.

Our client was proposing that the tax liability burdening the development would be based upon roughly 67% of the total construction cost, however, the LP felt that a more accurate estimation of the property taxes would be closer to 100%.

Due to these disputes, RETC was brought in as a consultant to provide an impartial property tax projection for the planned development project. In addition to having worked with other clients in similar situations, RETC's managing partners have firsthand experience with real estate development deals. Because of that, RETC fully understood the severity and urgency of the situation and knew exactly what would be required to move this deal forward.

At this juncture, the entire deal rested on the tax estimates that RETC would provide. If the evidence presented did not solidly support those of our client, the deal was sure to be over. Given only a 24-hour turnaround time, RETC was tasked with providing a thorough property tax projection, detailing several scenarios, their tax implications and the evidence used to support our findings.

Solution

At first glance, our client's initial tax estimate appeared to be aggressive. However, in unique cases like these, it is important for RETC to review the situation with an open mind and bring all of RETC's knowledgebase and expertise together before determining the validity and accuracy of the initial tax projections.

RETC began the process by reviewing the analytics and evidence behind our client's initial tax projections. After having reviewed it, it was easy to see why the LP was hesitant to move forward. The projections provided were based on stale data and many of the assumptions had a high degree of uncertainty.

The next step in the process was to review the proposed construction budget. After reviewing the schedule line-by-line and making appropriate adjustments/omissions that are standardly allowed for property tax valuation purposes, our first round of estimates arrived at a tax liability that was roughly 87.5% of total construction cost, a figure right in between the GP's and the LP's original estimates and a step in the right direction. However, it was not enough to convince the LP to fund.

Going further into our analysis, we knew that in Texas, the most advantageous method of property tax appraisal for large developments is most often the Equal and Uniform approach. This essentially states that one property cannot be unfairly (under or over) taxed in relation to other comparable assets.

Given that the proposed development was a unique and abnormal product type, we reached out to the local taxing authorities in order to gain better clarity over how the development will be treated. Since we had a very short timeline to work with, getting a quick response from a trustworthy source could be difficult. Because of the rapport we have established over the years, the taxing authorities were able and willing to provide us immediate clarity into their valuation approach and what they would consider as comparables.

With this confirmation, we were then able to proceed by conducting a comprehensive equity analysis of the comparable properties. We determined that the appropriate equity valuation should be near 71% of the total construction spend, a figure strictly by chance, very close to our client's original 67% approximation.

With the solid tax estimates in hand, the next hurdle would be the actual presentation. We knew that the presentation would be just as critical to this process since it gets passed from GP to the LP point person and then finally the LP Investment Committee, the final decision maker. Therefore, our analysis would have to be complete and include all of the supporting data that would make our projections strong, thorough and clear.

We delivered our analysis package to our client and showed them step-by-step how we arrived at our figures. Our methodology was completely different than theirs, but luckily for them, we arrived at nearly the same figures. In addition to delivering the package, we also made ourselves available to be part of any presentations and respond to questions, comments or concerns that the LP might have.

With our tax projections and continued support, our client was able to provide substantive justification to the Limited Partner highlighting that their original estimated tax liability was in fact a reasonable projection.

We are pleased to say that this inevitably resulted in our client securing the necessary equity funding to get the deal off the ground and this project is now moving forward in the next stages of its development.

Evaluation

This case study clearly shows the impact that RETC can provide to investment firms during the budgeting phase of new development or acquisitions projects and how its value can be much greater than tax consulting administered on the back end of deals.

RETC has made it our primary focus to be an industry leader in providing property tax consulting during the underwriting process of new developments and acquisitions. The value of our services go well beyond our analytics and includes intangibles such as deal making savvy and firsthand knowledge of the intricacies of acquisitions and development deals. This is what separates RETC from other property tax service providers and has propelled us into the level of valued partner with our clients.

We look forward to working with you on your next deal and helping you to solve your toughest tax related investing issues.

Contact Us

Address: 5151 Belt Line Rd, Ste 725
Dallas, TX 75254

Email: info@retcgroup.com
Website: www.retcgroup.com

Tel: 972-596-5005
Fax: 972-596-0490