The Elusive Stabilization

LIHTC Fund Yields May Have Bottomed, but Boosting Them Is Tough to Do

Maybe, just maybe, yields on low-income housing tax credit (LIHTC) multi-investor fund yields have hit bottom. That's the suggestion of some industry participants as the second quarter unfolds. But the market isn't stabilized yet and it's unclear whether that will happen this year given several wild cards.

Syndicators reported they are still securing investors for and filling their multi-investor LIHTC funds, and working on proprietary funds for individual investors. But some multi-investor funds are taking longer to complete, there are more of them, and syndicators have seen insurance companies scale back their investment or exit the market because of lower fund yields.


Fred Copeman

"There's been a steady decline in the number of insurance [company] investors since the first quarter of 2010," says Fred Copeman of Reznick Group. While 24 actively invested in housing credits at various points in 2010, today the number is "something like 8 or 10," he noted.

Fortunately, Copeman points out, "the decline seems to have halted," and the banks – the so-called "CRA" investors motivated in part by the Community Reinvestment Act – "continue to have very strong appetite for housing credit deals."

The LIHTC investment goal of U.S. Bancorp Community Development Corporation, a huge LIHTC investor on behalf of parent U.S. Bancorp, is the same for 2012 as it was for 2011, said executive Beth Stohr. About one-third of its LIHTC investment is through multi-investor funds and two-thirds through direct investments.

Some See a Bottom

Copeman, who noted that about $8.5 billion in total LIHTC equity was raised in 2011 and about $8 billion in 2010, believes that yields on multi-investor funds, generally in the range of 6% to 6.5% today, have hit bottom. Developers and syndicators, he explained, don't want to return to the "one-pony market" of 2009 when CRA-driven banks – after the exit of Fannie Mae and Freddie Mac and before the insurance companies rushed in – were about the only source of LIHTC equity.

Syndicator Dana Boole, of CAHEC, speaking at a recent Washington, D.C. conference, indicated that when yields fell to 7%, the non-CRA investors that jumped into the market during 2009-2011 because of lofty yields started bolting. "They've been the ones that we've seen shutting off the spigot quickly," he said.


Photo by David Tucker Photography
Ben Mottola

"The insurance companies have all but said they're not going below 6%," said syndicator Ben Mottola, of Stratford Capital Group, referring to the feedback he's received. Syndicator Eric McClelland, of Red Stone Equity Partners, LLC, noted that "economically motivated" investors have made it clear that they don't want to follow CRA investors down to lower yields.


Eric McClelland

Syndicator Greg Judge, of Boston Financial Investment Management, also felt that multi-investor fund yields have bottomed. Among investors generally, he cited "fair" demand for LIHTC product "depending where you are in the yield range. Above 7, there's a ton of people that are interested. As you get down to the low 6s, you start to sift through the investors and end up with just a few that are interested in the low 6s."


Greg Judge

Boston Financial's current national multi-investor fund, and a national multi-investor fund by R4 Capital Inc., offer outlier yields of 7%. Hunt Capital Partners has a fund offering 7.15% or 7.05% depending on investment size.


Photo by Glenn Kulbako Photography
Marc Schnitzer

R4 Capital Inc. executive Marc Schnitzer said investor demand is "mixed in the low 6s" and "much more solid at 7% or above," noting there's "a fairly significant

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amount of multi-investor fund product in the market right now."

Judge noted, "Last year [some syndicators] were starting to test going below 6. For the most part that did not work out. So [now] more of the multi funds seem to be at 6. And I'm guessing most are going to be in the 6 to 6.35 range because it is really difficult to buy properties that will work in a fund that would yield above 6.30 or 6.40."

"It is becoming increasingly difficult to find appropriately priced good projects for multi-investor funds," said syndicator Raoul Moore, of Enterprise Community Investment, Inc. "We continue to see pushback on the drop in yields on new funds. However, we continue to see rising prices, or consistently high prices, at the project level."


Michael Gaber

Syndicator Michael Gaber, of WNC & Associates, Inc., said current credit pricing to developers generally ranges from the high 80s to low 90s [in cents per dollar of tax credit] in most areas of the country, and from the high 90s to above $1.05 in "CRA hot spots" such as New York City and California.


Tony Alfieri

Syndicator Tony Alfieri, of RBC Tax Credit Equity Group, estimated that his company is paying an average price of 90-92

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LIHTC Multi-Investor Fund Activity

- **Boston Capital** launched a new $200 million national multi-investor fund (6% projected yield) in early April that is 100% specified in properties. It is expected to close this summer, said executive Jeff Goldstein.
- **Boston Financial Investment Management** anticipated a final closing in the near future for its current $160 million national multi-investor fund (7% yield) that is 100% specified in properties, said executive Greg Judge. He expected the company to roll out by the end of April a new $160 million national multi-investor fund with a probable yield in the "low 6s."
- **City Real Estate Advisors, Inc.** expected a mid-April closing of a $121 million national fund that has nine investors, including three new to CREA. The fund will invest in 20 properties in 10 states and has a 6.35% projected yield to all investors but one, a CRA specific investor that will receive a lower yield, said executive Tony Bertoldi. CREA will be coming out with a new national multi-investor fund of about $125-$150 million (yield to be determined) that should close in mid-September.
- **Enterprise Community Investment, Inc.** has no multi-investor funds on the street but expects to roll out a $100 million national multi-investor fund, $100 million California multi-investor fund, and $50 million Pacific Northwest multi-investor fund in the third quarter, said executive Raoul Moore.
- **Hunt Capital Partners** *(see article on p. 32)*
- **Michel Associates, Ltd.** closed a $45 million national multi-investor fund in December 2011 (7.55% yield) that is investing in 543 units in 12 states.
- **R4 Capital Inc.** hoped to close by the end of April its first national multi-investor fund, a $100 million offering (7% yield) that was just under 80% specified in properties (11 in nine states and D.C.), noted executive Marc Schnitzer.
- **Raymond James Tax Credit Funds, Inc.** closed a $205 million national multi-investor fund (6% IRR) in February, expected to close a $65 million California multi-investor fund (4.75% IRR) near the end of April, and was working to launch a new national multi-investor fund (minimum $200 million, expected IRR 6% or higher) to close in the third quarter, said executive Steve Kropf.
- **RBC Tax Credit Equity Group** closed a $149 million national multi-investor fund (6% IRR) on February 29, and was putting together a new national multi-investor fund that will probably roll out in May, said executives Craig Wagner and Tony Alfieri. The new fund's likely size and yield are $125-$150 million and around 6%.
- **Red Stone Equity Partners, LLC** is out with a $125 million national multi-investor fund (projected yield around 6.25%) that will probably close mid-second quarter, said executive Eric McClelland. The company just celebrated raising and investing $1 billion in LIHTC equity in its fifth year in business.
- **Stratford Capital Group** anticipated a late second quarter closing of a $100 million multi-investor fund (6.25% yield) that will invest in about 15 properties, and plans to do another $100 million national multi-investor fund in late 2012 or early 2013, noted executive Ben Mottola.
- **The Richman Group** is circling investors for a new roughly $200 million national multi-investor fund with a yield target of 6% that is fully specified in properties, said executive Stephen Daley.
- **WNC & Associates, Inc.** closed a $100 million national multi-investor fund (6% IRR) on February 29 that is investing in 18 properties in 12 states, said executive Michael Gaber. The company is on the street with a $125 million national multi-investor fund (6.25% IRR) and a $50 million California multi-investor fund (5% IRR).

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cents per credit dollar for deals today, compared to an average 88 cents last fall.

Syndicators are between a rock and a hard place. To lure back substantial insurance company capital, they have to find a way to boost fund yields significantly – say well above 6.5%. But many have already cut their loads to shore up yields and are having a tough time – even in non-CRA markets – finding deals they can buy at prices permitting higher fund yields. This is due to the intense competition for product by direct investors and a larger number of syndicators.

Price Correction Anyone?

Some believe that something has to give, though industry participants don't expect any let-up in the very aggressive pricing for deals in hot CRA markets.

Stephen Daley

"With the pullback by the non-CRA investors I believe we may see prices fall somewhat in the non-CRA markets," said syndicator Stephen Daley, of The Richman Group. The reason? Insurance companies have been the ones heavily investing in multi-investor funds acquiring LIHTC properties located in non-CRA markets, since these can generate higher fund yields.

WNC's Gaber predicted "pricing will start softening a little bit" shortly.

Steve Kropf

Syndicator Steve Kropf, of Raymond James Tax Credit Funds, said, "We expect current pricing to stabilize for non-CRA deals given our belief that the current 6% floor for multi-fund executions will hold for 2012. But do we expect pricing in the hottest CRA locations to continue to trend up slightly due to competitive pressures and lack of supply to meet all demand."

Michael Riechman

Syndicator Michael Riechman, of Centerline Capital Group, felt that prices to developers for deals in non-CRA markets will start to fall by the end of June, as part of a correction that will elevate fund yields to investors by at least 50 basis points. This boost will

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result, he noted, from lower credit prices to developers and "more margin squeeze" to syndicators.

Riechman said Centerline has decided not to market a national multi-investor fund for the time being because of current market conditions, namely that some syndicators have had difficulty in filling out their multi-investor fund and the cessation or substantial cutback in LIHTC investment by many investors. "We're taking a wait-and-see approach and letting markets improve," he said, noting Centerline continues to work on 5 to 7 proprietary accounts. Riechman expected Centerline to roll out a smaller national multi-investor fund of maybe $50-$75 million later in 2012 or in early 2013.

One possible dampener on upward price pressure could be the forthcoming surge in the supply of new deals with 9% credit allocations from state housing credit agencies. "We're in this lull right now where the allocation season hasn't started yet," said Red Stone's Eric McClelland. During the spring, summer, and early fall, numerous states will be announcing their tax credit allocation awards, including Pennsylvania (mid-April), Florida, and others.

Craig Wagner

"By late summer, fall, when all these allocations come out, we'll see how robust the market is," observed Craig Wagner of RBC Tax Credit Equity Group.

"My hope is that the irrational exuberance [in pricing] will subside as more product comes on," said U.S. Bancorp CDC's Beth Stohr, who expressed concern that the falling yields to investors caused by the very aggressive credit pricing for deals is exposing the LIHTC market to "the risk of losing that broader base of investors that came into the marketplace. And that is not good for the industry."

Wild Cards

Several wild cards also could affect future prices and yields.

One is the "fixed 9%" rate issue. Unless Congress passes an extension, the current minimum rate of 9% for the 70% present value housing credit is limited to projects placed in service before December 30, 2013. Those placed in service later would have to use the monthly variable rate (7.44% in April 2012). Therefore, new "9%" projects underwritten at the variable rate will require extra sources to make up the gap and pencil out, such as additional tax credits, a basis boost, more soft funds, or a larger deferred developer fee. If state agencies award more tax credits to projects underwritten at the variable rate and/or projects deals soak up more soft funds from the shrinking supply of these, there could be fewer new tax credit deals for syndicators and investors to joust over.

Syndicators and investors are grappling with how to assess and underwrite "9%" deals coming in the door, specifically whether to utilize the flat 9% rate or a variable rate. Several expected it will be several months before crunch time, when some deals closing then will flirt with or likely surpass the current placed-in-service deadline (e.g., large new construction projects).

Tony Bertoldi

Syndicator Tony Bertoldi, of City Real Estate Advisors, Inc., said that if deals underwritten at the floating rate don't have enough cushion in their sources, CREA will require a

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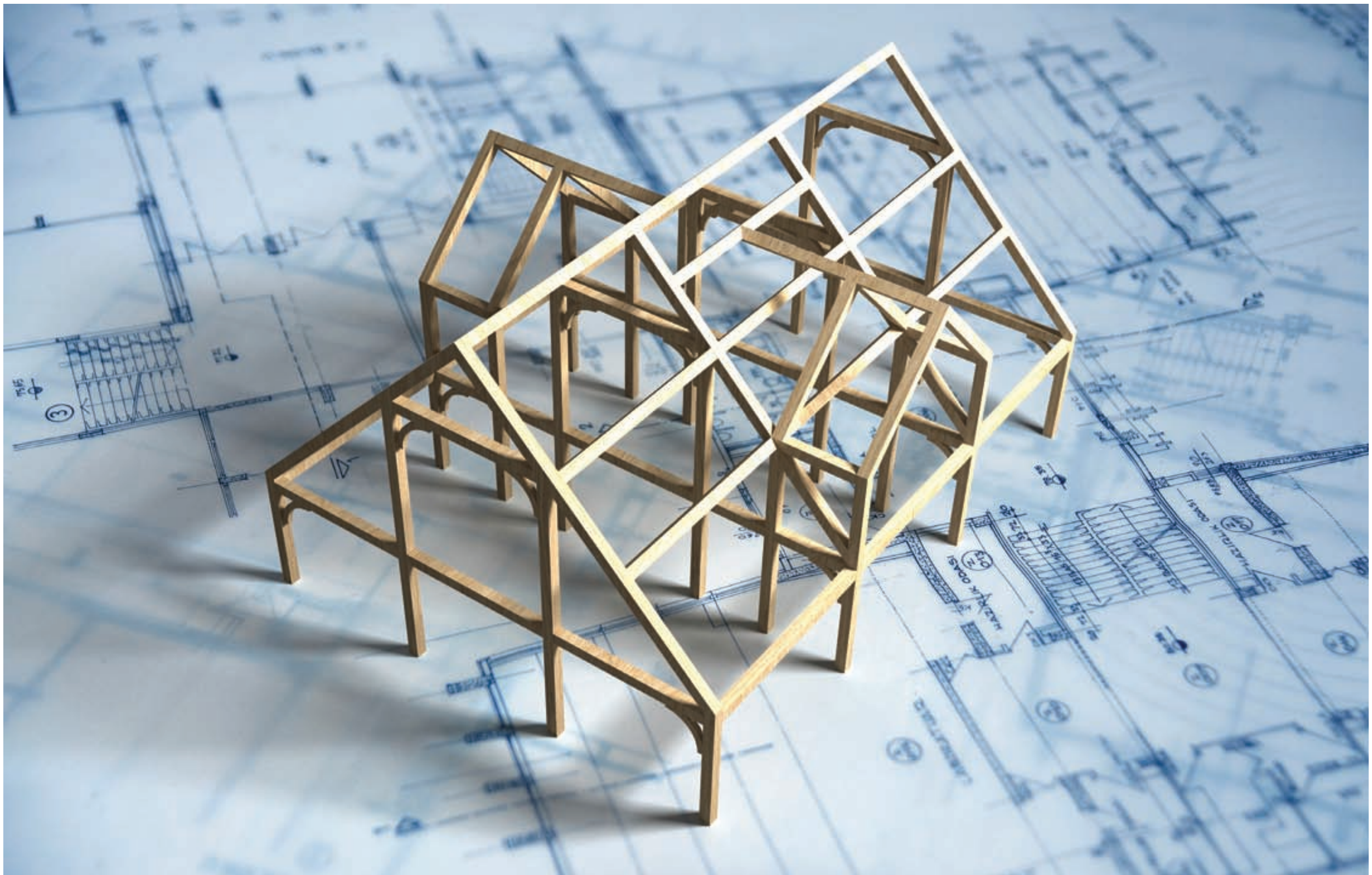

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specific guarantee to cover this risk to the extent it isn't covered within the deal.

A second wild card is the possibility, depending on the outcome of the fall elections, that Congress passes tax reform legislation in 2013 reducing corporate tax rates, thereby reducing the yield on LIHTC investments. Potential tax reform is being talked about by investors but so far hasn't impacted their LIHTC investment decisions, said syndicators. Still, Bertoldi was aware of some investors running their projected benefits from LIHTC investments assuming a 28% corporate tax rate versus the top current rate of 35%, which he estimated could trim the yield by 50-75 basis points.

For now, though, the current wild cards remain just uncertainties, and syndicators say LIHTC investments – even at today's lower yields – still provide an attractive return to investors with few other options.


Jeff Goldstein

"Let me remind you that a 6% yield is 9-something [percent] pre-tax," says syndicator Jeff Goldstein of Boston Capital. "And 9ish pre-tax relative to alternative investments is still pretty good." TCA

Start-Up Syndicator Hunt Capital Partners Working on New Fund


Carl Wise

Hunt Capital Partners, a relatively new syndicator of low-income housing tax credits, is marketing its second national multi-investor fund and fifth fund overall and expects to raise between $250 million and $300 million in total LIHTC equity in 2012, says Senior Vice President Carl Wise.

Formed in the fall of 2010, Hunt Capital Partners is wholly owned by The Hunt Companies, a national real estate company headquartered in El Paso, Texas that together with its affiliates is a major owner, contractor, developer, and property manager of multifamily housing projects.

Wise, based in Sherman Oaks, Calif., joined Hunt Capital Partners at the end of February after leaving syndicator Alliant Capital. He noted Hunt Capital Partners manages both multi-investor and single-investor LIHTC funds, acquiring 9% and 4% credit deals, and has raised about $160 million in LIHTC equity across three proprietary and two national multi-investor funds in its first 18 months of operation.

Wise, interviewed in late March, said the company was beginning to close investors into a new $100 million national multi-investor fund expected to finish up in April or May offering a projected 7.15% yield to investors buying tickets of $25 million or larger and 7.05% to investors taking a smaller amount. The firm is able to offer a higher yield, he explained, because it draws on a line from its parent company to acquire and close deals. The new fund is 100% specified in properties that are about a 75%/25% split between 9% and 4% deals with a 17% ratio of hard debt-to-total development costs, Wise noted.

"We're not a traditional start-up," he explains, noting Hunt Capital Partners also acquired the guaranteed LIHTC portfolio of Capmark. "Combined with the Capmark portfolio, we have about 77,000 LIHTC units and about 530 properties under management." TCA