Going Strong

Current Trends in LIHTC Property Sales

By Armand Tiberio, Tax Credit Group of Marcus & Millichap Real Estate Investment Services

Every now and then, it is useful to take a look at the prevailing trends in the low-income housing tax credit (LIHTC) sales market. What is the current supply of properties and where are they located? Who are the sellers and buyers? How are acquisitions being financed?

The Tax Credit Group of Marcus & Millichap Real Estate Investment Services (TCG), based in Seattle, Wash., has specialized exclusively in LIHTC properties for more than 13 years, providing valuation services and acting as a broker for sellers and buyers.

During this period TCG has brokered sales of more than 650 LIHTC transactions totaling $18.9 billion. In 2013 alone, we brokered 150 transactions totaling more than $1.1 billion.

Nationwide, the current inventory contains existing LIHTC properties with more than two million units. Given the pick-up in development over the last two years, the volume continues to grow at a strong pace as the addition of more units each year heavily outweighs the small number of units lost through exits such as qualified contract sales or foreclosures.

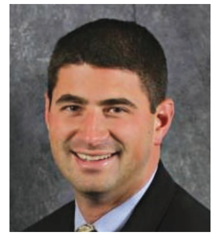

Photo by Will Dann of the Tax Credit Group of Marcus & Millichap

Armand Tiberio

The greatest amount of LIHTC supply is in states with the highest populations. These states, which have the largest volume of housing credits to award, include the strongest growth states of California, Florida, New York, Georgia, and Texas. The states with the smallest amount of LIHTC properties include North Dakota, South Dakota, Wyoming, and New Mexico.

Buyer Characteristics

There has not been much change in the last year in the characteristics of the buyers of LIHTC properties in brokered sales. About 70% are market-rate multifamily owners that have expanded into owning and operating affordable rental housing, while the remaining 30% are classic tax credit developers.

Typical sellers are a variety of large GP's looking to re-deploy capital towards newer developments, looking to exit out of building affordable properties, or those who did not build many LIHTC units and never made owning affordable properties a main part of their business.

Only a very small share of the properties – less than 15% – are being sold for immediate recycle transactions, that is acquisition/rehabs using new housing tax credits. The main reason is that many of the assets are less than 15 years old and therefore not eligible for new tax credits for acquisition costs.

The average sales year of LIHTC properties continues to be Year 13. This has not changed much in the last seven to eight years and is unlikely to change any time soon.

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Capital Sources

The main source of equity used by buyers has been private capital. Fannie Mae and Freddie Mac account for about 90% of debt. Some institutional investors have begun to invest in this space, but equity still tends to be more private and opportunistic.

Very few buyers are targeting a "convert to conventional house" approach, meaning taking the property to market through the qualified contract process. Most buyers are looking for B and C class properties that they can "value engineer" through management and new capital investment to produce a higher return than that generated by market-rate apartment product. The overall apartment sector continues to be the hottest commercial product type with demand outstripping supply.

Cap Rates for Properties

Cap rates for LIHTC properties have held fairly constant over the last 12 months, with the exception of a slight adjustment in July 2013 when interest rates shot up 75 basis points. Very few transactions at that time failed to close because of the rate hike, but there was some slight correction in pricing for properties to offset the higher cost of new debt financing

Pricing for LIHTC properties isn't likely to change much over the next nine months. However, further out, once rates start to climb again, the market will see pricing correct, starting with LIHTC properties that are at maximum tax credit rents with very little room for future rent growth or LIHTC properties in locations where the area median income has drastically fallen in the last couple years. TCA

Armand Tiberio is Senior Vice President Investments in the Tax Credit Group of Marcus & Millichap Real Estate Investment Services. He is also a member of the Editorial Advisor Board of Tax Credit Advisor. *He may be reached at 206-826-5772, atiberio@marcusmillichap.com.*