Stability at Last

LIHTC Multi-Investor Fund Yields, Credit Pricing to Developers, Hold Steady

The low-income housing tax credit (LIHTC) market appears to have stabilized, with yields on national multi-investor funds and tax credit pricing to developers generally the same as in April.

Richard Floreani of Carlisle Tax Credit Advisors, which reviews LIHTC funds for client institutional investors, says projected after-tax yields on current national multi-investor LIHTC funds "are pretty tightly clustered" around 7.25 to 7.50 percent.

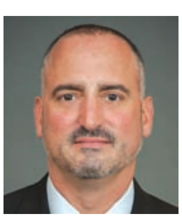
Indeed, the latest edition of *Corporate Tax Credit Fund Watch*, prepared for *Tax Credit Advisor* by Ernst & Young LLP, shows nine national funds with yields ranging from 7.25% to 7.50% and two outliers at 7.0% and 7.70%, for an average yield of 7.314% *(see p. 30 for chart)*. The previous version of *Corporate Tax Credit Fund Watch*, published in the April issue of the magazine, showed 10 national funds with yields ranging from 7.0% to 7.70% for an average yield of 7.335%.


Sarah Laubinger

"CRA (bank) investors continue to remain very active and economic investors are re-visiting the asset class given the improving yield environment," says Sarah Laubinger of Boston Financial Investment Management. "However, the capital market generally remains limited and the syndicator space is crowded so competition among sponsors is very high."

"Investor demand among banks is good," says Marc Schnitzer of syndicator R4 Capital, Inc. "Among insurance companies, the demand's okay; it's not great."

"On the CRA side," says Steve Kropf of Raymond James Tax Credit Funds, Inc., "demand from major banks continues to be strong, and midsize and large regional banks are also coming off the sidelines as capacity increases."

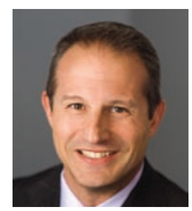

Tony Bertoldi

Tony Bertoldi, of City Real Estate Advisors, Inc., cited a "slight uptick in demand from investors, both banks and insurance companies," suggesting that some may have felt they needed to begin allocating their investment dollars after holding off at the beginning of the year to see where yields on funds settled out.

Syndicators generally reported that a resurgence of insurance company investors back into the LIHTC market that some expected when multi-investor yields rose to 7% and above really hasn't materialized. In 2011, when yields on such funds ranged upwards of 10%, many insurance companies were active investors in housing credits.

Schnitzer noted that insurance companies don't have an imperative to make LIHTC investments because, unlike banks, they are not subject to the Community Reinvestment Act (CRA) and therefore are not motivated by CRA to make such investments.

"There are a few returning investors (primarily insurers) that we've seen come into the market in the first half," says Floreani. "But there hasn't been a dramatic shift...There are still quite a few investors that remain on the sidelines."


Ben Mottola

Ben Mottola of Stratford Capital Group suggested that since the beginning of the year the yield expectations of economic/multi-fund investors has increased by about 50 basis points.

Deal Supply, Credit Pricing

The apparent end to the rise in yields on national multi-investor funds has been one positive for syndicators, whose margins have been squeezed due to little compensating decline in pricing to developers.


Jeff Goldstein

Another is a larger supply of new deals with recent 9% credit reservations; a number of states have made such awards, including California. "With the recent awards, there is a large and growing amount of credit in the market," says Jeff Goldstein of Boston Capital.

The old relationship between greater supply and lower pricing doesn't appear to be holding true, though. "We have yet to see much of an impact in terms of lower credit pricing due to the increased supply of

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LIHTC Multi-Investor Fund Activity

Boston Capital is on the street with a new national multi-investor fund expected to close in the late third quarter, said executive Jeff Goldstein. The anticipated size is around $150 million and the expected after-tax yield to investors between 7.0% and 7.2%, he said.

Boston Financial Investment Management closed an $86 million national multi-investor fund (7.25% projected yield) in June that was 100% specified in properties, according to executive Sarah Laubinger. The fund has seven investors and 16 properties in 14 states. Laubinger and Grey Voyentzie reported that the firm is out with a new $100 million national multi-investor fund (7.50% IRR) that should close before year-end.

City Real Estate Advisors, Inc. closed a roughly $80 million national multi-investor fund in May, said executive Tony Bertoldi. The fund had two classes: one for investors investing $20 million or more (7.35% yield); and a second for investors investing a smaller amount (7.05% yield). He said CREA is marketing a new national multi-investor fund targeted at $125 million of which about $50 million is circled. There are two classes: one for investors investing $25 million or more (7.5% yield), and a second for investors investing less (7.35% yield).

Enterprise Community Investment, Inc. is on the street with a $150 million national multi-investor fund that is 100% specified in properties, said executive Raoul Moore. He declined to state the projected yield. The fund was rolled out in June and is expected to close in mid-August.

Great Lakes Capital Fund is marketing a regional multi-investor fund targeted at around $100 million that should close in third quarter, said executive Marge Novak. The fund will invest in properties in Michigan, Illinois, Indiana, Minnesota, and Wisconsin and has a projected yield of 7.75% for investors investing $25 million or more and 7.5% for investors investing smaller amounts.

R4 Capital, Inc. expected an initial closing soon of $70-80 million of a roughly $125 million new national multi-investor fund and to close the balance early in the fourth quarter, said executive Marc Schnitzer. The national fund has a projected yield of 7.5% for investors investing $20 million or more and 7.25% for investors investing less. The firm is also marketing a $50 million California multi-investor fund that has a projected yield of 6%; an initial closing is expected in the late third quarter or early fourth quarter.

Raymond James Tax Credit Funds, Inc. launched a new $150 million national multi-investor fund in early June that is 100% specified in properties and expected to close in September, according to executive Steve Kropf. The fund has a projected yield of 7.25%. The firm aims to close a $65 million California multi-investor fund in late August.

RBC Capital Markets' Tax Credit Equity Group closed a new $127 million national multi-investor fund (7.25% IRR) at the end of April that had seven investors and 19 properties, said executive Tammy Thiessen. In May, RBC closed the first tranche (5% IRR), of about $48 million with two investors, of a fund that will invest mostly in properties in the Southeast U.S. A second tranche closing before October will bring the total raised to around $80 million. RBC is also marketing a $37 million California multi-investor fund with a targeted IRR of 5.50% expected to close in August.

Red Stone Equity Partners is aiming for a mid-August closing of a new $100 million national multi-investor fund that is fully subscribed in investors and is 100% identified in 11 properties, according to executive Ryan Sfreddo. The projected IRR is 7.5% for investors investing $20 million or more and 7.25% for investors investing less. He indicated that the next national fund may be rolled out late in the fourth quarter or early in the first quarter of 2014.

Stratford Capital Group continues marketing a new national multi-investor fund (7.5% IRR) of approximately $100 million that is 80% specified in properties and expected to close in September, said executive Ben Mottola.

The Richman Group closed a roughly $166 million national multi-investor fund at the end of May that had a projected yield "north of 7 percent" for all investors but one, a CRA investor whose yield is below 5%, said executive Stephen Daley. He said the firm is also: pre-marketing a new national fund expected to exceed $100 million with a yield above 7%; is closing a $125 million multi-investor fund with a sub-5% yield investing in properties only in New York City; and soon expects to launch a California regional fund of at least $50 million with a probable yield above 5%.

WNC expects to close a new national multi-investor fund of $130 million to $135 million by the end of July, said executive Michael Gaber. The fund has two classes: one (7.45% yield) for investors investing $25 million or more, and a second (7% yield) for investors investing a smaller amount. In May, WNC closed a roughly $50 million California multi-investor fund that had a projected yield of 6.25% for investors investing $15 million or more and 5.75% for investors investing smaller amounts. Gaber expected WNC to roll out another California fund of probably $50-75 million after September 1. TCA

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Sponsor (1) Investor Contact Acquisition Contact	CURRENT MULTI-INVESTOR LIHTC CORPORATE FUND Fund Name Geographic Focus	Tax Credit Equity Raised to Date	Expected Size of Current Fund	Average Net Tax Credit Price	Cash Needs Basis IRR
Boston Financial Investment Management Sarah Laubinger (617) 488-3230 Greg Voyentzie (617) 488-3203	***Boston Financial Institutional Tax Credits XL, LP*** National	$30M	$100M	$0.88	7.50%
Community Affordable Housing Equity Corp. Mark Gipner (919) 788-1801 Greg Mayo (919) 788-1810	***Community Equity Fund XVIII, LP*** Southeast and Mid-Atlantic	$75.2M	$80M	$0.88	6.50%
Great Lakes Capital Fund Marge Novak (517) 364-8929 Jennifer Everhart (517) 364-8911	***Great Lakes Capital Fund for Housing Limited Partnership XXVIII*** IL, IN, MI, MN, NY, WI	$85M	$100M	$0.84	7.50%
Massachusetts Housing Investment Corp. Peter Sargent (617) 850-1027 Paul Chan (617) 850-1088	***MHEF XX*** Massachusetts	$27M	$42M	$0.93	6.50%
Michel Associates, Ltd. Kenneth Michel (617) 261-4646 Peter Talbot (207) 775-4400	***Countryside Corporate Tax Credits XXII LP*** National	NA	$50M	$0.85	7.70%
Midwest Housing Equity Group, Inc. Becky Christoffersen (402) 334-8899 Tom Stratman (402) 334-8899	***MHEG Fund 40, LP*** Midwest	NA	$150M	NA	7.25%
National Equity Fund Mark Siranovic (312) 697-6173 Michael Jacobs (312) 697-8166	***NEF 2013*** National	$0	$120M	$0.86	7.25%
NDC Corporate Equity Fund, LP Ann Vogt (212) 682-1106 John Linner (419) 242-5713	***NDC Corporate Equity Fund XI, LP*** National	$10M	$60M	$0.87	7.25%
PNC Real Estate Rick Gonzales (503) 808-1344 Robert Courtney (502) 581-3260	***PNC Real Estate Capital Institutional Fund 52, LP*** National	$12M	$125M	$0.89	7.25%
R4 Capital Marc Schnitzer (646) 576-7659 Peter Dion (617) 502-5943	***R4 Housing Partners II LP*** National ***R4 California Housing Partners LP*** California	$0 $0	$125M $50M	 NA	 NA
Raymond James Tax Credit Funds Steve Kropf (800) 438-8088 James Horvick (800) 438-8088	***RJTCF Fund 40*** National	$115M	$160M	$0.88	7.25%
RBC Capital Markets – Tax Credit Equity Group Tony Alfieri (216) 875-6046 Craig Wagner (980) 233-6459	***RBC Tax Credit Equity National Fund – 18*** National ***RBC Tax Credit Equity California Fund – 3*** California	NA NA	$100M $37M	$0.8934 $1.0286	7.00% 5.50%
Red Stone Equity Partners, LLC Ryan Sfreddo (212) 225-8300 Rob Vest (704) 200-9505	***Red Stone - 2013 National Fund, LP*** National	NA	$100M	$0.89	7.25%
Stratford Capital Group, LLC Benjamin D. Mottola (978) 535-5600 Kyle F. Wolff (978) 535-5600	***Stratford Fund XI, LP*** National	$75M	$100M	$0.86	7.50%
The Richman Group Affordable Housing Corp. Stephen M. Daley (740) 321-1355 David Salzman (203) 869-0900 ext 333	***U.S.A. Institutional Tax Credit Fund XCVI L.P.*** National	$0	$150M	NA	7.25%
Virginia Community Development Corp. Arild Trent (804) 343-1200 x116 Tyler Nichols (804) 343-1200 x122	***Housing Equity Fund of Virginia XVIII*** Virginia	NA	$40M	$0.87	7.25%
WNC & Associates, Inc. Christine Cormier (949) 236-8233 Darrick Metz (888) 798-0557	***WNC Institutional Tax Credit Fund 38, L.P.*** National	$0M	$125M	$0.92	7.25%

1) All data has been provided directly by the fund sponsors. Accordingly, neither Ernst & Young LLP nor *The Tax Credit Advisor* take any responsibility for the accuracy of the data or any calculations made by the sponsors. 2) The gross equity needed for properties for which an executed syndication contract is in place, as a percentage of total expected gross proceeds, assuming all single-payment cash investors.
3) The estimated expense load is the percentage of gross proceeds the sponsor expects to expend for offering costs and expenses, acquisition fees and expenses, brokerage commissions and all other front-end costs (other than working capital reserves) assuming all available units are sold to single-payment cash investors. If you would like to have a fund listed in the next edition of *The Tax Credit Advisor*, call Jillian Flynn, Tax Credit Investment Advisory Services, Ernst & Young LLP, at Jillian.Flynn@ey.com, 617-375-3796. There is no charge for a listing.

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# of Properties Specified	% of Gross Proceeds (2)	Estimated Front End Expense Load (3)	Total Equity Raised to Date in 2013
25	60%	10.00%	N/A
19	94%	4.25%	$79M
16	56%	6.00%	$63.4M
5	69%	5.00%	$27M
10	66%	7.50%	NA
NA	NA	7.25%	$42.5M
15	100%	NA	$534M
11	50%	6.50%	$20M
15	60%	8.00%	$211M
15	90%		
6	85%	NA	$43M
31	100%	7.00%	$411M
12	75%	NA	
6	100%	NA	$413M
11	95%	5.00%	$108M
15	80%	7.00%	$75M
NA	NA	NA	$371M
0	0%	6.50%	$10.5M
25	100%	NA	$65M

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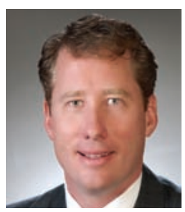
deals," says Raymond James' Steve Kropf.


Steve Kropf

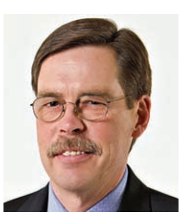
Sources said the competition for new 9% deals, both in "hot CRA" markets and in non-CRA markets, continues to be heated.

Beth Stohr, of U.S. Bancorp Community Development Corporation (USBCDC), a major LIHTC investor, reported that oftentimes a deal will get bid on by direct investors and syndicators trying to fill proprietary and/or multi-investor funds. USBCDC, which currently invests in housing credits about 70% through direct investments and 30% in multi-investor funds, is on track for 2013 LIHTC investment volume of the same or slightly higher than in 2012, said Stohr, who declined to provide a figure. However, she said that the expected total 2013 volume by USBCDC from housing, historic, new markets, and renewable energy tax credit investments should exceed $1.5 billion. Parent U.S. Bancorp is mid-way through its three-year CRA cycle, Stohr said.


Craig Wagner

Tammy Thiessen and Craig Wagner of RBC Capital Markets' Tax Credit Equity Group reported that they have been successful finding investors for their multi-investor funds. "The biggest challenge," Wagner says, "is finding good quality product that is priced right for multi funds."

"We're seeing pricing range from the mid-80s [cents per dollar of tax credit] to over one dollar, based on the deal's size and location" says Boston Capital's Jeff Goldstein. "We haven't seen any significant shift in pricing over the past three months."


Raoul Moore

According to Raoul Moore of Enterprise Community Investment, Inc., "There's a large disparity between pricing in CRA markets versus non-CRA markets, resulting in pricing ranging from the low 80s up to $1.10."

Steps to Boost, Maintain Yields

Syndicators are trying a few things to try to produce sufficiently high yields on multi-investor funds to attract insurance companies and other "economic" investors motivated primarily by financial return.

A number of current multi-investor funds have two classes: one offering a higher yield to investors making large investments, generally of at least $20 million or $25 million, and a second offering a lower yield for smaller amounts. Insurance companies investing in the large annual regional fund of Great Lakes Capital Fund, for example, "generally like to invest at the twenty to twenty-five million dollar level," says GLCF executive Marge Novak. GLCF's current $100 million fund, which will invest in properties in five states, offers a 7.75% yield for investments of $25 million or more and 7.50% for smaller investments. Separately, GLCF also sponsors "state community funds" which invest in properties in one state, target community banks, and feature a lower minimum investment amount. GLCF has done two of these funds each so far in Michigan and Indiana.

Another step taken by many to offer attractive multi-investor fund yields is to try to acquire properties mostly or entirely in non-CRA markets where credit prices are lower, and largely avoid the "hot CRA" markets such as New York, Los Angeles, and San Francisco where new deals can fetch well over a dollar per dollar of tax credit as banks – or syndicators looking to fill proprietary funds for banks – aggressively bid up prices.

For example, The Richman Group will be targeting projects in Hawaii, Puerto Rico, Mississippi, West Virginia, and Michigan for a new $125 million national multi-investor fund that it is pre-marketing, said executive Stephen Daley.


Ryan Sfreddo

Finally, some sponsors are blending a bit of existing LIHTC investments – "secondary" product – into their new national multi-investor funds. "In our last two multi-investor funds we've had a small amount of secondary product to blend in with primary market product," says executive Ryan Sfreddo of Red Stone Equity Partners. Mixing in secondary product can sometimes boost the overall yield and reduce construction and lease-up risk for investors, and provides for some immediate credit flow.

Potential Accounting Rule Change

Industry participants are eagerly hoping for approval in the near future of an accounting rule change that many syndicators believe could boost corporate investment in housing credits.

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In mid-April, the Financial Accounting Standards Board Emerging Issues Task Force issued an "exposure draft" for public comment proposing changes to accounting rules to expand the ability of public companies to utilize the effective yield method to account for non-guaranteed LIHTC investments. At present this method is allowed for guaranteed LIHTC investments but not for non-guaranteed investments. FASB received 73 comment letters, which it has posted online *(go to http://tinyurl.com/ooo6r6y)*. FASB's EITF next meets September 13 when it might discuss the issue further.

Syndicators generally feel that adoption of the accounting rule change would benefit the LIHTC equity market by both attracting new or returning corporate investors and by prompting some current investors to invest more.

"Investors are reacting favorably" to the proposed change, says R4 Capital's Marc Schnitzer. "We've spoken to a number of investors who have not historically invested in housing tax credits that are looking at getting into the market once the accounting treatment changes. We've also spoken to a number of investors who are considering increasing what they're doing in response to that."

Photo by Glenn Kulbako Photography

Marc Schnitzer

Schnitzer suggested that adoption of the accounting change, by boosting investment demand, could potentially cause a decline in LIHTC multi fund yields. "If demand grows, you'd expect yields to go down," he says. "We're suggesting to investors that current yields might present a pretty attractive opportunity based on where things might be at the end of the year or the beginning of next year."

Sfreddo said another issue the industry is focusing on is potential CRA reform, which could possibly liberalize the current rules and make it easier for banks to get CRA credit for LIHTC investments in projects outside their service areas. Several months ago federal banking regulators solicited comments and suggestions from the public for changes to enhance CRA requirements. TCA