A Sizzling Market

Brokered Sales of LIHTC Properties Are Robust

The volume of brokered sales of low-income housing tax credit properties has risen substantially. And unlike a year ago, "affordable" buyers are now able to outbid yield-driven purchasers for properties in select markets, according to Armand Tiberio, National Director of the Tax Credit Group of Marcus & Millichap Real Estate Investment Services.

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

Armand Tiberio

The Seattle-based group specializes exclusively in tax credit multifamily housing, providing valuation and brokerage services.

In 2010, the Tax Credit Group brokered 65 LIHTC transactions totaling $451 million. In 2011, its volume jumped to 105 transactions totaling $960 million. And Tiberio anticipates 2012 volume of 120-125 transactions totaling $1.1 billion to $1.2 billion.

The group's average LIHTC transaction size today is around $8 million and the typical property about 150 units, he notes. Sales are still typically occurring in Year 12 or 13 of the 15-year tax credit compliance period.

NH&RA will explore the state of the Year 15 expiring LIHTC market on July 26-28 during its 2012 Summer Institute conference on Martha's Vineyard, Mass. For details and to register, go to http://www.housingonline.com/Events.aspx

More Properties, Competition

According to Tiberio, the growing volume of brokered LIHTC property sales is due to several reasons.

One is simple math: there are a larger number of LIHTC projects with each passing year, as new projects are developed and many older projects get re-syndicated with new tax credits.

Another reason is a larger number of would-be buyers competing for properties. According to Tiberio, many "yield-driven" buyers – including institutional investors – that traditionally acquire market-rate multifamily rental properties are now going after affordable multifamily properties in pursuit of attractive returns from cash flow and potential future residual benefits. The reasons, he explained, include a smaller supply of Class B and C conventional apartment properties being offered for sale and a decline in cap rates on Class A market-rate assets. Cap rates on Class A properties have tumbled back into the 5s (percent) and in some cases sub-5%, Tiberio notes, while the brokered offerings of B and C assets are down because many owners of these kinds of properties purchased them at peak prices 5 to 8 years ago and must hold them longer to profit from a sale.

Another driver is that more and more local apartment markets in the U.S. have hit bottom and either are starting to recover or not getting any worse in terms of the fundamentals (e.g., local rental vacancy rates, concessions). Once a market bottoms, would-be buyers are "jumping in hard and fast," Tiberio says.

For example, in Michigan, he noted that the Tax Credit Group was about to close one transaction and come to market with a portfolio of 10 LIHTC properties. "Today, believe it or not, five to six different groups that said they were on the sidelines are now back in the game," says Tiberio. "They believe the fundamentals of even the Michigans of the world are starting to improve."

Other contributors to robust LIHTC property sales are low interest rates and the availability of cheap debt to acquire properties, including short- to intermediate-term loans to tie up properties in preparation for a future re-syndication; the availability of private capital for yield-driven buyers; and some LIHTC developers/owners looking to "cash out" and sell their projects.

According to Tiberio, the average cap rate for sales of LIHTC properties is around 6.5% for properties in coastal markets and about 7.5% for properties in non-coastal areas.

Affordable Buyers Back in the Hunt

Tiberio said more LIHTC properties are being pur-

Sales, continued on page 26

Sales, continued from page 24

chased today to be done as tax credit syndications – the most in three years. "That is a trend that did not exist 12 months ago," he notes. "At that point it was extremely difficult to find a competitive buyer for the tax credit, in acq/rehab deals."

Higher prices for housing tax credits are enabling more affordable housing developers to outbid yield-driven buyers for LIHTC properties, according to Tiberio. But he noted this is limited to select markets – metro areas with strong apartment fundamentals and "CRA" tax credit investors willing to pay higher prices for new LIHTC deals. Examples are certain local markets in California, Colorado, Nevada, Texas, and Virginia.

Tiberio said another factor favoring affordable buyers is that LIHTC investors are willing to consider acquisition/rehab deals with less in rehab costs per unit than in the past. "For a while there was this theory that you needed $30,000-plus a unit in order to sell a re-syndication deal," he notes. "That number has come down to be realistic and practical, whether it's $18,000 a unit or $20,000 to $22,000 a unit."

Tiberio suggested that favorable current conditions – low interest rates, high credit prices, and higher-than-usual demand for LIHTC properties due to yield-driven buyers – make it an opportune time for LIHTC owners to consider selling their properties. Three to five years from now, he indicated, interest rates will likely be higher, market-rate multifamily transactions will have heated up again, credits prices may be lower, and there could be less buyer demand for LIHTC properties but a larger supply.

By the same token, he suggested it may also be an opportune time for affordable developers to buy properties, to re-syndicate now or in the near future.

"A lot of people are trying to focus on the timing, says Tiberio, "of whether it makes sense to own an asset long term, to recapitalize it, or to sell it. We are in a very unique time in the marketplace for multifamily." TCA

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