Smooth Sailing

LIHTC Equity Market Stays Robust, Sees Rising Yields

The low-income housing tax credit (LIHTC) equity market continues to hum along with rising yields on new multi-investor funds and softening credit prices in some areas.

Current national multi-investor LIHTC funds generally have projected after-tax yields to investors ranging from 7.0% to 7.5% – with many clustered around 7.25%.

"We've seen multi-investor yields rise over the last six to eight months," says Kristen Walsh of Ernst & Young LLP. She indicated that with the yield increase to 7.0% to 7.5% "we've seen renewed interest from insurance companies, which is great."

Kristen Walsh

There are several reasons for the rise in multi-investor fund yields. "The economic investors, the insurance companies, want higher yields," says Ben Mottola of Stratford Capital Group. Numerous insurance companies that had invested in LIHTC left the market or scaled back their volume when fund yields fell to levels they felt were too low.

Ben Mottola

A second reason for the higher yields, said some sources, is some major investors shifting to do more LIHTC investing through proprietary funds or direct investment. A third reason is competition from more secondary LIHTC product. Jack Casey of Meridian Investments, for example, said his company is helping three major corporations remarket $196 million in existing LIHTC investments to other corporations.

Strengthening Investor Demand

Casey characterized overall corporate demand for LIHTC investments currently as "very robust" and "getting a little stronger. People are looking for yield. And a lot of companies have built a lot of cash up."

Jack Casey

"At this rate – north of 7% – there seems to be good interest and good demand," said Jeff Goldstein of Boston Capital.

While some insurers have continued to invest in housing credits all along, sources said the higher yields on new multi-investor funds have prompted some insurance companies to resume or expand their LIHTC investing.

"Insurance companies are investing again, but primarily in funds

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Accounting Body Issues Proposal Regarding LIHTC Investments

The Financial Accounting Standards Board Emerging Issues Task Force has issued for public comment an exposure draft outlining proposed changes to accounting rules that would expand the ability of public companies to utilize the effective yield method of accounting for low-income housing tax credit investments.

The organization released the proposed standards update April 17, and is seeking comments by June 17

Many in the LIHTC industry believe that allowing more corporations to use the effective yield method would increase the number of corporate investors in housing credit investments.

The amendments to current accounting standards contained in the proposed update would permit reporting entities investing in a qualified affordable housing project through a limited liability entity to elect to account for the investment using the effective yield method if:

1. It is probable that the tax credits allocable to the investor will be available;
2. The investor retains no operational influence over the investment other than protective rights, and substantially all of the projected benefits are from tax credits and other tax benefits (for example, tax benefits generated from the operating losses of the investment);
3. The investor's projected yield based soley on the cash flows from the tax credits and other tax benefits is positive; and,
4. The investor is a limited liability investor in the affordable housing project for both legal and tax purposes.

At present, an entity may elect to use the effective yield method for a LIHTC investment made through a limited partnership only if Nos. 3 and 4 above apply and if the availability of the tax credits allocable to the investor is guaranteed by a creditworthy entity through a letter of credit, tax indemnity agreement, or similar arrangement.

The exposure draft solicits responses to 10 questions, including whether the proposed changes should be extended to other types of tax credit investments as well.

(Proposed guidance: http://tinyurl.com/buct8c9) TCA

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Raoul Moore

that include only economic investors," said Raoul Moore of Enterprise Community Investment, Inc.

"Demand has been marginally higher in the multi-investor fund space as some insurers begin to return to the LIHTC market this year due to more favorable yield trends," said Steve Kropf of Raymond James Tax Credit Funds, Inc. "On the CRA side, demand from major banks continues to be strong, and midsize and large regional banks are also coming off the sidelines as capacity increases."

Steve Kropf

Rob Golden of Capital One, which invests in multi-investor and proprietary LIHTC funds, said the company had a "big year" in terms of housing credit investment volume in 2012 and expects "to have a good year in 2013. We'll do as much good business as we can."

Rob Golden

Sources said banks are still investing heavily in housing credits. But some said a few major banks appear to be tapering back a bit so far in 2013, noting that they've recently completed their three-year CRA exam cycle and therefore aren't under pressure to make new investments right away to maintain a high CRA rating.

Moderating Competition

David Leopold of Bank of America Merrill Lynch, which invested just over

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LIHTC Multi-Investor Fund Activity

Boston Capital recently closed a $132 million national multi-investor fund (7% projected yield) and is on the street with a new $175 million national fund (7.25% yield), said executive Jeff Goldstein.

Boston Financial Investment Management has rolled out a new $100 million national multi-investor fund (7.25% yield) expected to close around mid-June, and anticipates coming out in July with a national fund of $75 million to $100 million, said executive Sarah Laubinger.

City Real Estate Advisors, Inc. expected to finish a new national multi-investor fund at $80 million-$100 million, said executive Tony Bertoldi. The fund has two classes: one for investors investing $25 million or more (7.30% yield); and a second for investors investing less (7.05% yield).

Enterprise Community Investment, Inc. will launch a new national multi-investor fund – anticipated size $150 million-$200 million – in May, said executive Raoul Moore.

First Sterling is in the late stages of specifying a $100 million national multi-investor fund that will have an offered yield of 7.25% to 7.35%, said executive Victor Sostar.

Ohio Capital Corporation for Housing is out with a $180 million multi-investor fund (7% yield) that will invest in properties in Ohio and Kentucky, said executive Hal Keller.

R4 Capital, Inc. finished its first national multi-investor fund at $105 million (7% yield) and is marketing a new $125 million national multi-investor fund and a $50 million California fund, 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 California fund has a projected yield of 6%.

Raymond James Tax Credit Funds, Inc. plans to roll out a new $200 million national multi-investor fund with an expected yield above 7% in the second quarter, said executive Steve Kropf. The company expects to close a $65 million California fund (5% IRR) in the late second quarter.

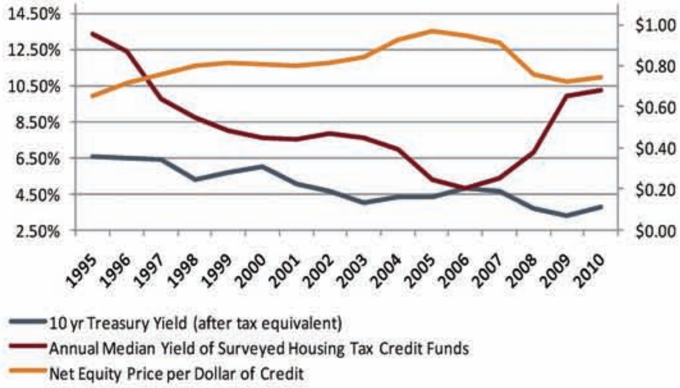
RBC Capital Markets' Tax Credit Equity Group expected to close a new $126 million national multi-investor fund (7.25% yield) by the end of April, said executives Craig Wagner and Tony Alfieri. RBC also planned to launch a $53 million California fund – probable yield of 5.50% to 5.75% – and is working on a Southeast regional fund of $40 million-$80 million that will invest mainly in properties in Florida, Georgia, and North Carolina.

Red Stone Equity Partners is marketing a new $100 million national multi-investor funds with a targeted after-tax IRR of 7.5% for investors investing $20 million or more and 7.25% for investors investing less, said executive Ryan Sfreddo.

Stratford Capital Group is out with a new national multi-investor fund (7.5% yield) expected to raise $100 million-$120 million, said executive Ben Mottola.

WNC has launched a new national multi-investor fund (7.45% yield) with a target size of $125 million that is expected to close in July, and a California fund (5.75% yield) with a target size of $50 million that is expected to close in May, said executive Michael Gaber. TCA

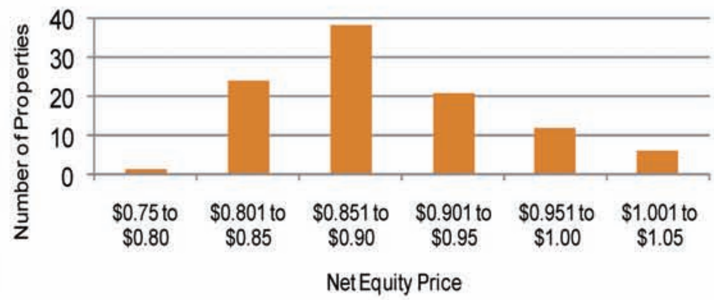
How Much WAS a Dollar of Housing Tax Credit Worth?



- Historical housing tax credit pricing and yield data were compiled in the CohnReznick report, *The Low Income Housing Tax Credit Program at Year 25: An Expanded Look at Its Performance.*
- Housing tax credit fund yields generally trend inversely to the trend of housing tax credit prices. Historically high housing credit prices in 2006 led to declining yields which for the first time were nearly at par with 10-year treasury yields (after tax equivalent).
- National multi-investor funds have settled in the 7.25% - 7.50% yield range, with properties specified for a weighted average price of $0.88 per dollar of credit.

How Much IS a Dollar of Housing Tax Credit Worth?

- The following table represents the distribution of lower tier pricing for participating syndicators, by way of investment committee vote or its equivalent, during the last 60 days. Pricing data presented is for federal credits only.
- With median pricing between $0.85 and $0.90, syndicators may continue to struggle to generate yields at a level that is attractive to the investor market.
- CohnReznick speculates that the recent developments with the Financial Accounting Standards Board (FASB) will broaden the housing credit investor base, and in turn impact the price at which housing tax credits trade.



Current Multi-Investor Funds

National Funds

Syndicator/ Fund Name	Estimated Fund Size (in million)	Projected After-Tax Cash Needs IRR	Net Equity Price	Target Closing
Alliant Capital ATC Fund 68	$120	7.50%	NA	May 2013
Boston Capital BCCTC Fund XXXVII	$132	7.00%	$0.88	March 2013
Boston Financial BFITC Fund XXXIX	$100	7.25%	$0.90	June 2013
City Real Estate Advisors CREA Fund XXXII	$80	7.30%	$0.88	May 2013
First Sterling Sterling Corporate Fund 53	$100	7.25%	$0.90	July 2013
Michel Associates Countryside Corp. Fund XXII	$50	7.75%	$0.85	Sep 2013
National Equity Fund NEF 2013	$100	7.25%	$0.93	April 2013
R4 Capital R4 Housing Partners II	$125	NA	NA	NA
Raymond James RJTCF 40	$150	NA	NA	Aug 2013
RBC Capital Markets RBC National Fund 17	$127	7.25%	$0.86	April 2013
Red Stone Equity Partners 2013 National Fund	$100	7.25% - 7.50%	$0.88	July 2013
Stratford Capital Group Stratford Fund XI	$120	7.50%	$0.86	Sep 2013
WNC WNC Institutional Fund 38	$100	NA	NA	June 2013

Regional Funds

Syndicator/ Fund Name	Regions	Estimated Fund Size (in million)	Projected After-Tax Cash Needs IRR	Net Equity Price	Target Closing
CAHEC CEF XVIII	Southeast Mid-Atlantic	$80	6.50%	$0.97	May 2013
Enterprise Community Investment CalGreen III /Pac NW	CA /WA,OR	$50 /$40	NA	NA	May 2013
Great Lakes Capital Fund Fund 28	MI,IN,WI MN,IL,NY	$100	7.50%	$0.87	Sep 2013
Mass. Housing Investment Corp MHE Fund XX	MA	$40	6.50%	$0.89	June 2013
Midwest Housing Equity Group MHEG Fund 40	Midwest	$150	7.05%	Mid $0.80s	Sep 2013
Northern New England Housing Invst. Fund Community Cap 2013	ME,NH	$25	6.50%	$0.85	Dec 2013
Ohio Capital Corporation for Housing Ohio Equity Fund XXIII	OH,KY	$190	7.00%	$0.85	May 2013
R4 Capital California Housing Partners	CA	$50	NA	NA	NA
Raymond James RJ California II	CA	$65	5.00%	$1.05	June 2013
Virginia Community Development Corp. Fund XVII	VA	$28	6.25%	$0.90	April 2013
WNC WNC Inst. Fund X CA 11	CA	$50	5.75%	$0.94	April 2013

Equity-weighted Average	Net Equity Price	Projected After Tax IRR
All National Multi-Investor Fund	$0.88	7.32%
All Funds Excluding CA Funds	$0.88	7.18%

Note: All fund data was provided by fund sponsors and compiled by CohnReznick. Neither CohnReznick nor the Tax Credit Advisor takes responsibility for the accuracy of the data represented by the sponsors. If you would like a fund included in the next Housing Tax Credit Monitor, please contact TCIS@cohnreznick.com or (617) 648-1414 to speak with a professional with CohnReznick's Tax Credit Investment Services practice.

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$800 million in housing credits in 2012, said there seems to "some moderating of the extreme competition" of LIHTC deals in CRA markets that are also strong real estate markets. BAML invests in LIHTC about 70% through direct investments and 30% through proprietary funds with a tiny share in multi-investor funds.

David Leopold

Tony Alfieri

Tony Alfieri of RBC Capital Markets Tax Credit Equity Group felt that yields on multi-investor funds will remain in the 7.25% to 7.50% range, a range he said is currently not attracting more economic investors.

"I've heard from a lot of the insurance companies that they're waiting for yields to hit 7.5% and north before they get back in the market in a bigger way," says Stratford Capital Group's Ben Mottola.

Fred Copeman of CohnReznick LLP characterized the LIHTC equity market currently as one that's "moving along at a measured pace. It's not racing for the front door to write the check."

Fred Copeman

Industry officials differed in their views about the current level and trend in credit pricing to developers. Some felt prices have softened a little for projects in high CRA demand markets while others said they have generally held steady. Most, though, felt that pricing has fallen in non-CRA markets in recent months.

"Credit pricing has been going down a bit" in both CRA and non-CRA markets, said Marc Schnitzer of R4 Capital, Inc.

Victor Sostar

"With regard to credit pricing," said Victor Sostar of First Sterling, "we have noticed a pronounced bifurcation and perhaps the widest historical spreads between primary, CRA-driven markets and secondary and tertiary non-CRA

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Carreden Group is a recognized market leader in structuring and placing Section 42 low income housing tax credit (LIHTC) investments with institutional investors. Since 1995, we have raised over $7 billion in LIHTC equity, including over $5 billion in credit enhanced product and over $2 billion in secondary market product.

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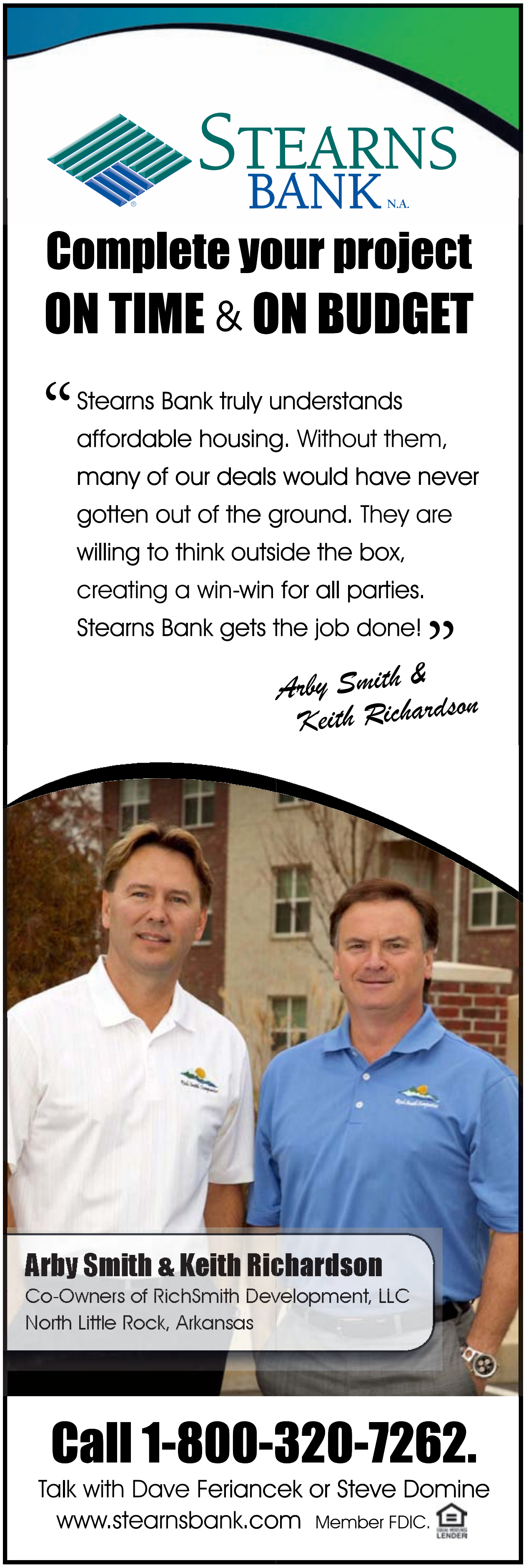

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markets. Prices generally range from the mid-80s [cents per dollar of tax credit] to as high as $1.10 plus in the high-demand CRA markets of the coasts."

Sources said there has been a relatively small number of new 9% tax credit deals available in the first quarter but that this would be changing soon. "There's not a tremendous amount of credit out there now," said Boston Capital's Jeff Goldstein. "But we project that by June 30 almost 50% of the credits will be allocated."

Jeff Goldstein

Potential Accounting Rule Change

Industry officials are excited about a possible accounting rule change. The Financial Accounting Standard Board's Emerging Issues Tax Force just issued for comment a proposed change that would allow more public companies to use the more favorable effective method of accounting for non-guaranteed LIHTC investments. *(See article on p. 18.)*

Tony Bertoldi

"This has the potential," says Tony Bertoldi of City Real Estate Advisors, Inc., "to attract a significant amount of new capital into the [LIHTC] market from some large household names that have been shying away from the asset class because of the [currently required] accounting method." TCA

Industry Veterans Start New Firm

Greg Judge, Catherine Talbot, and Mike Caliva have started a new company providing advisory and consulting services to syndicators, investors, and developers in the low-income housing tax credit field.

The firm, Affordable Investment Advisors, is based in Boston, Mass.

All three partners of the new firm are LIHTC industry veterans who previously worked for years at Boston Financial Investment Management and its predecessor companies (MMA Financial, LendLease, Boston Financial Group).

"Everything we're doing is focused on the LIHTC space," said Judge, who is focusing on assisting syndicator clients with their business while Talbot focuses on working with developers. TCA