TAX CREDIT EQUITY SOURCES

# On the Cusp of Further Growth

## *LIHTC Industry Hopeful for Boost in Equity Volume from Accounting Change*

Syndicators are getting positive feedback as they talk to companies to try to get them to start investing in low-income housing tax credits, while nervously trying to keep the after-tax yield on new national multi-investor funds at or above 7%, a tough challenge given persistently strong credit pricing to developers.

"With the new accounting treatment a lot of investors are looking at [LIHTC investments]," says Marc Schnitzer of R4 Capital, Inc. "I can't tell you that the floodgates have opened as of yet. But I do know that a lot of people are considering it."

Photo by Glenn Kulbako Photography

*Marc Schnitzer*

"But it takes time," he added. "It takes time for big organizations to decide to get involved in something that is outside their core business."

In December, the Financial Accounting Standards Board (FASB) ratified the use by public companies of a new, more favorable "proportional amortization" method of accounting for LIHTC investments.

"We're meeting with a lot of companies to explain it," says Jack Casey of Meridian Investments, Inc., a broker of tax credit investments. "And they're reciprocating by saying, 'Here's the business process that takes place here.'"

*Jack Casey*

"The yields now are probably in the right place at 7%, 7½% on an after-tax basis," said Casey. "That's fairly attractive in a low interest rate environment. So I think you'll get a lot of companies that will test the product, approve the asset class, and see what happens."

Casey expected a couple large investors to come into the market in September. But he cautioned that the sales process for new investors is lengthy, generally requiring meetings and sign-offs at different levels in a company before the board of directors gives final approval and authorizes an initial budget.

LIHTC industry officials are optimistic that the accounting rule change will bring some new investors into the LIHTC market, lure back some prior investors that had been on the sidelines, and perhaps motivate

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# Low-Income Housing Tax Credit Multi-Investor Fund Activity

**Boston Capital** finished closing a $193 million national multi-investor fund in late March that has a projected after-tax IRR to investors of 7.25%, said Jeff Goldstein. The company is on the street with a new $150 million national fund (7% IRR) that was 50% specified in properties as of early April.

**Boston Financial Investment Management** launched a $125 million national multi-investor fund in March that has a projected yield of 7.10% and is scheduled to close in July with six investors, said Sarah Laubinger. She said the company plans to roll out another $125 million national fund in the second half of 2014.

**City Real Estate Advisors, Inc.** expects a June closing of its current $112 million national multi-investor fund that is fully subscribed with five investors and was about 90% specified with 18 properties in 11 states as of early April. According to Tony Bertoldi, the fund has five investment categories with different projected yields: Super Premium Class (7.25% yield); Premium Class (7.1%); Class A (6.90%); California Investor Class (6.6%); and Florida Investor Class (6%). Super Premium Class is for investors contributing 40% of the total equity raised for the fund across any combination of investment classes; Premium Class, for 25% or more.

**Enterprise Community Investment, Inc.** is out with a new multi-investor, multi-yield fund that provides investors with market yields according to the CRA location, according to Raoul Moore. Enterprise Housing Partners 25, which has a similar structure to EHP 24 in 2013, is expected to be $250-300 million in size and close in July.

**Great Lakes Capital Fund** launched a $130 million regional multi-investor fund on March 31, targeted to close in September, which will include properties in Indiana, Illinois, Michigan, Minnesota, Upstate New York, and Wisconsin, said Marge Novak. There are two target yields: 7.26% for investors investing $25 million or more, and 7% for investors contributing less. GLCF has also launched two state multi-investor funds, each with target sizes of $15 million, for Michigan and Indiana (6.81% target yield for both).

**National Equity Fund** recently closed a roughly $55 million Homestead multi-investor fund (target 6% yield, focused on the Northwest) and is on the street with a $70 million California fund (5% yield) and a roughly $42 million Northeast fund (5.75%), according to Mark Siranovic. NEF is also looking at a second Chicago-focused fund and a Texas fund and is starting discussions with investors about a 2014 national fund targeted at $100 million with a 7% return.

**R4 Capital, Inc.** expected before the end of April to close in the last $30 million of investor equity into a national multi-investor fund that will finish up at $125 million in size, according to Marc Schnitzer. The fund has a projected yield of 7.5% for investors investing $20 million or more and 7.25% for investors contributing less. In March, the company rolled out a new $150 million national fund that also has two investor classes with the same yields that is fully subscribed in investors and fully specified with 20-25 properties. The goal is to close the fund in June. R4 Capital finished up a $57.5 million California multi-investor fund in March (6% yield) and closed a separate $35 million California fund in the first quarter.

**RBC Capital Markets' Tax Credit Equity Group** is targeting a June closing for its current $100 million national multi-investor fund (7% IRR), which is fully specified in properties, according to Tammy Thiessen. The company is also out with a $37 million California multi-investor fund (5.6% IRR) that is almost fully subscribed by investors. All of the properties have been closed into the fund.

**Raymond James Tax Credit Funds, Inc.** closed a $72.5 million California fund in February that has 10 investors, according to Steve Kropf. The fund has three tiers of yields ranging from 4.5% to 5.5% depending on the geography sought by the investor for CRA purposes. The company plans to launch a new $150 million national multi-investor fund (7% anticipated yield) in the second quarter.

**Red Stone Equity Partners** recently launched a $100 million national multi-investor fund with a projected yield of 7% that is expected to invest in approximately 14 underlying assets, according to Ryan Sfreddo.

**The Richman Group** has closed $110 million in investor equity so far into a national multi-investor fund (7.25% yield) that may be expanded for certain CRA investors for an additional $30 million, said Stephen Daley. The company is preparing to roll out a $200 million national fund (7% targeted yield).

**Stratford Capital Group** is about to roll out a new national multi-investor fund expected to be $100 million to $125 million in size with an anticipated yield of 7% to 7.15%, said Ben Mottola.

**WNC** launched a California multi-investor fund in late January that is fully specified in properties and expected to finish around $45 million in size, according to Michael Gaber. The fund has a projected yield of 7% for investors investing $10 million or more and 6% for investors investing less. In late March, the company launched a new national multi-investor fund with an expected size of $105 million that is fully specified in properties. Projected yields are 7.25% for investors contributing $25 million or more and 7% for investors contributing less. TCA

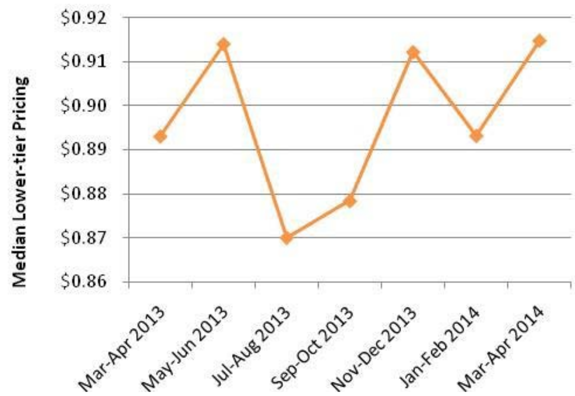
## 16-Month Look Back on Yield & Pricing Data

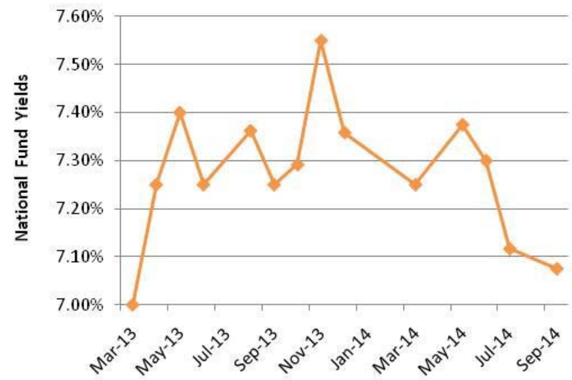
Since CohnReznick issued its inaugural edition of the Housing Tax Credit Monitor in March 2013, we have collected pricing and yield data for 600 properties and 60 multi-investor funds.

- **Lower-tier Pricing**: Survey respondents reported that lower-tier pricing has remained within a fairly narrow range between $0.87 and $0.91 during the last 16 months. As illustrated in the pricing graph, median pricing has fluctuated, but has been generally increasing since mid 2013.

- **Fund Yields for National Funds**: Based on 33 national investor funds that had expected closing dates between March 2013 and September 2014, fund yields steadily increased through 2013, but since the beginning of 2014 have trended downward. The 2013 median yield was 7.30% whereas the projected median yield for 2014 is 7.20%. Most syndicators expect to hold the line at 7% for the balance of the year.

- **Fund Yields for Regional Funds**: Based on 16 non-California regional multi-investor funds, fund yields have generally remained within a narrow range between 7.00% and 7.20% since the end of 2013. The 10 California multi-investor funds yields' have largely remained between 5.40% and 6.00% since mid 2013. No discernable trend of increasing or decreasing yield was observed.




### *Current Multi-Investor Funds*

### National Funds

| Syndicator/ Fund Name | Estimated Fund Size (millions) | Projected After-Tax Cash Needs IRR | Net Equity Price | Target Closing |
|---|---|---|---|---|
| Alliant Capital - Fund 76 | $125 | 7.10% | TBD | 6/14 |
| Boston Capital - Fund 38 | $230 | 7.25% | $0.87 | 3/14 |
| Boston Financial - Fund 41 | $125 | 7.10% | $0.91 | 7/14 |
| City Real Estate Advisors - Fund 39 | $102 | 7.25% | $0.91 | 6/14 |
| First Sterling Financial - Fund 53 | $100 | 7.25% - 7.40% | $0.88 | 5/14 |
| Enterprise - Housing Partners 25 | $250-$300 | TBD | TBD | 7/14 |
| Hunt Capital Partners - Fund 10 | $140 | 7.35% - 7.50% | $0.88 | 5/14 |
| Michel Associates - Fund 22 | $50 | 7.85% | $0.85 | Q2/14 |
| R4 Housing Partners III | $150 | TBD | TBD | 7/14 |
| Raymond James - Fund 41 | $150 | TBD | TBD | TBD |
| RBC - Tax Credit Equity Fund 19 | $100.8 | 7.00% | $0.95 | 6/14 |
| Red Stone - 2014 National Fund | $100 | 7.00% | $0.90 | 7/14 |
| Richman - Institutional Tax Credit Fund 98 | $200 | 7.00% | TBD | Q3/14 |
| Stratford Capital Group - Fund XV | $125 | 7.15% | $0.87 | 9/14 |
| WNC Institutional Tax Credit Fund 39 | $105 | 7.25% | $0.88 | 7/14 |

| Equity-weighted Average | Net Equity Price | Projected After Tax IRR |
|---|---|---|
| All National Funds | **$0.89** | **7.19%** |

### State / Regional Funds

| Syndicator/ Fund Name | Regions | Estimated Fund Size (millions) | Projected After-Tax Cash Needs IRR | Net Equity Price | Target Closing |
|---|---|---|---|---|---|
| CAHEC - Community Equity 19 | Southeast and mid-Atlantic | $107 | 7.15% | $0.86 | 5/14 |
| Great Lakes Capital Fund - Fund 29 | MI,IN,WI MN,IL,NY | $130 | 7.00% - 7.26% | TBD | 9/14 |
| Housing Vermont - Green Mountain Housing Equity Fund VI | VT | $25 | 7.25% | $0.88 | 6/14 |
| Mass Housing Investment Corp. -MHEF XXI | MA | $40 | 6.75% | $0.95 | 6/14 |
| Merritt Community Capital - Fund XVII | CA | $70-$80 | 5.25% - 5.50% | TBD | Q1/15 |
| Midwest Housing Equity Group - Fund 42 | Midwest | $150 | 7.25% | TBD | 9/14 |
| Ohio Capital Corp. for Housing - Fund XXIV | OH, KY, WV | $180 | 7.00% | $0.89 | 6/14 |
| RBC - Tax Credit Equity California Fund 3 | CA | $36.6 | 5.60% | $1.05 | 4/14 |
| WNC - Tax Credit Fund X California Series 12 | CA | $45 | 6.00% | $0.96 | 4/14 |

| Equity-Weighted Average | Net Equity Price | Projected After Tax IRR |
|---|---|---|
| State/Regional Funds Excluding CA | **$0.89** | **7.11%** |
| California-only Funds | **$1.00** | **5.61%** |

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. Visit CohnReznick's website at www.cohnreznick.com.

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some current investors to increase their volume.

Syndicators and brokers said they have been meeting with a variety of prospective new investors, including financial services firms not already in the market as well as tech, consumer products, manufacturing, and retail companies. But they cautioned that projected-after tax yields on national multi-investor LIHTC funds must be at attractive levels to bring in new investors; that the accounting rule change itself isn't a sufficient carrot.

Another positive development is an indication that Google may be preparing to increase and diversify its volume of housing credit investment. The company, which so far has done limited investment in guaranteed product, recently sent a request for qualifications to a number of for-profit and nonprofit syndicators, asking for responses by March 28. "There's a beauty contest going on to compete for Google's business," said Fred Copeman of CohnReznick LLP.

It's unclear how many current LIHTC investors – nearly all banks and insurance companies – will decide to switch from the less favorable equity method of accounting to the proportional amortization method, as permitted by the FASB guidance. "The benefit is not as clear in some cases as it is in others," says Copeman. But he added, "In my experience most of them have made a decision to switch. But implementation is taking longer than they thought it would."


*Ben Mottola*

"Informally it appears that around 50% of our investors have elected to become early adopters of the proportional amortization method," said Ben Mottola of Stratford Capital Group.

"We do know that some of our long-time investors are making the switch," said Raoul Moore of Enterprise Community Investment, Inc. "We'll have to wait and see if this has a long-term effect on the market."


*Raoul Moore*

Bank of America Merrill Lynch hasn't decided yet whether or not to change from the equity method to

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## Historic Tax Credit Market Still Lagging

The amount of investor equity for new stand-alone historic rehabilitation tax credit deals still hasn't rebounded to the level of a few years ago before the *Historic Boardwalk Hall* decision. Industry officials reported that investors, developers, and tax attorneys are still trying to reach agreement on certain structuring aspects for new deals to be comfortable they will fall under the safe harbor outlined in recent IRS Revenue Procedure 2014-12.

"With respect to historic investors, I think it's safe to say that there are a number of the traditional investors who are still contemplating what it would take for them to do a deal," says Eric Darling of Carlisle Tax Credit Advisors, LLC, a Boston-based firm whose clients include investors and syndicators. "Very few of them have been done."

"What I see is that with respect to the big investors, most of them are still on the sidelines," said Darling.

David Leopold of Bank of America Merrill Lynch, a major historic credit investor, said the bank is continuing to close stand-alone historic tax credit transactions. He said the bank has seen more deals since the IRS safe harbor guidance came out. "But the pace of closing those deals has not exactly picked up the way we would have hoped."

"The safe harbor guidance, Revenue Procedure 2014-12, provides a great deal more clarity around deal structuring," said Leopold. "And we intend for our deals to fit within that safe harbor. The hope was we roadmap, we quickly execute against the roadmap, and everything closes very smoothly. But no two deals are exactly the same. So while the revenue procedure does contribute to clarity and uniformity within stand-alone historic deals, there's still a lot of ambiguity. The industry is still feeling its way through and there's some stuff in [the revenue procedure] like third party reports and validation or structure for which there aren't a whole lot of comps. It's hard to get that stuff."

Industry officials, though, expect the remaining issues to be worked out and for investors and developers to come to agreement in the near future on the structural characteristics and terms for new deals and the level of credit pricing. But they said there is not likely to be any single cookie-cutter structure or uniform credit pricing for all stand-alone historic deals, but rather variations in structures and pricing based on the type of project, specifically the amount of free cash flow generated.

In the meantime, some historic tax credit developers are hurting, Carlisle noted. "Some deals have gone forward with the credit going to the developer," he says. "Some deals have gone forward with no credit. A few deals have been done and have happened. And some deals are under construction and the developer's feeling great pressure finding an investor. So it's very difficult for the developer." TCA

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the proportional amortization method for its LIHTC investments, said executive David Leopold. He anticipated that the bank if it makes the election probably wouldn't do so until near year end. Leopold said the bank continues to be active in making new LIHTC investments, and hopes in 2014 to match its 2013 housing credit investment volume of $1.038 billion.


*David Leopold*

### Strong Investor Demand

Investor demand for LIHTC product remains robust, syndicators reported.

"Demand from both the major CRA investors and economic investors continues to be very strong," said Steve Kropf of Raymond James Tax Credit Funds.


*Steve Kropf*

"The market right now is completely opposite from what we saw in the first half of 2013," said Tony Bertoldi of City Real Estate Advisors, Inc. "Last year it seemed that investors had a wait and see attitude and our first fund of the year was smaller than expected. This year we have had to turn some dollars away as we cannot find enough product and investor interest appears to be increasing."


*Tony Bertoldi*

"Investor demand is strong," said Tammy Thiessen of RBC Capital Markets' Tax Credit Equity Group. "Our challenge is winning good deals at pric-

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ing that balances the yield to investors and profitability to syndicators."

Richard Floreani of Carlisle Tax Credit Advisors LLC, a Boston-based firm whose clients include investors and syndicators, said projected after-tax yields on current national multi-investor funds are "pretty tightly clustered" in the 7% to 7¼% range.

In the current issue of CohnReznick's *Housing Tax Credit Monitor (see p. 26)*, projected yields on 12 national funds range from 7% to 7.85%, with 9 of the funds between 7% and 7¼%.

Yields on most new national multi investor funds tend to be dropping slightly. Syndicators with new national multi-investor funds that have a projected yield lower than the yield on their prior national fund include Boston Capital, Boston Financial, CREA (for two of the investment classes), and RBC Capital Markets' Tax Credit Equity Group. Meanwhile, National Equity Fund, Raymond James, The Richman Group, and Stratford Capital Group are planning to roll out new national funds with a yield below that on their prior national fund.

**Yields on most new national multi-investor funds tend to be dropping slightly.**

*Jeff Goldstein*

Boston Capital's Jeff Goldstein explained the reason for the lower yield on its new national fund – 7% compared to 7¼% on its prior one. "It's more and more difficult to find deals even at 7s," he said. "It's an extremely competitive marketplace…We can't find enough product at 7¼%. There's not enough product at 7¼% or 7½%."

Floreani called a 7% yield a "strong psychological barrier" among syndicators, noting that when national multi-investor fund yields fell below 7% at a point in 2013, "a number of investors pulled back from the market. I think syndicators are quite mindful of that and are very nervous about breaking the 7% level on a national fund."

"I think the industry generally feels that that 7% mark is sort of the sweet spot for keeping both economic and CRA investors engaged," said Beth Stohr of U.S. Bancorp Community Development Corporation, a major investor in housing, historic, and new markets tax credits.

## Credit Pricing Robust

Most syndicators felt that housing credit pricing to developers has generally held steady at robust levels, both for deals in strong CRA markets such as New York City as well as in "non-CRA" markets, though with wide variations.

*Michael Gaber*

"There is a large variation between CRA and non-CRA pricing," said Michael Gaber of WNC," with pricing anywhere from as low as the mid-80s [in cents per credit dollar] to a high of a dollar in the highly concentrated CRA markets. Nine percent deals are still in very strong demand as well, and we are certainly seeing such deals in non-CRA markets still being extremely competitively priced."

Several syndicators said pricing for some deals in the strongest CRA markets can still range up to above one dollar per dollar of tax credit.

"The lowest tax credit price that we're seeing right now is about 83 cents and probably the highest is about $1.02," said Schnitzer.

"We're seeing very aggressive CRA pricing in what might not be considered hot CRA areas like several markets in the Midwest," said CREA's Tony Bertoldi. "For national funds, the average price per credit is now above 90 cents, whereas six to nine months ago it was in the mid-80s."

Marge Novak of Great Lakes Capital Fund, which sponsors an annual regional multi-investor fund, said, "Within our footprint, current lower tier pricing is in the 83 to 89 cent range for rural deals and in the 86 to 93 cent range for urban deals, with some hot CRA market deals outside this range."

"We're experiencing strong competition everywhere, including secondary or tertiary and non-CRA markets," said U.S. Bancorp CDC's Beth Stohr, which makes LIHTC investments both directly and through multi-investor funds.

She said the positive result from the higher pricing to developers is the greater amount of equity generated that allows the housing projects to get built, offsetting headwinds such as the floating rather than fixed rate for

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the 9% credit, the rise in mortgage rates, and declining gap sources.

Jim Silverwood, president and CEO of San Diego-based Affirmed Housing Group, which develops LIHTC properties in California, is one of those enjoying the benefit of the lofty credit pricing in the strong CRA markets his company operates in. "We're currently getting quotes on 4% acquisition/rehab deals at about $1, and getting quotes on 9% new construction deals at about $1.05, $1.06" he said.

One positive factor for syndicators is that state housing credit agencies still have a lot more 9% housing credits to award this year, which could ease credit pricing in the future. According to Boston Capital, as of the end of March, only 21% of all anticipated 2014 housing credits had been reserved by state agencies.

## Legislative Proposals

Officials said they haven't seen any impact so far on investor demand from the provisions to modify the LIHTC program contained in the tax reform "discussion draft" recently released by House Ways and Means Committee Chairman Dave Camp (R-Mich.). While the housing credit industry has concerns about some of the proposed changes, overall the reaction has been that the draft's retention of LIHTC is a positive endorsement of the program.

Industry officials also hope that Congress will find a way this year to renew the minimum 9% rate for the 70% present value housing credit that lapsed at year-end 2013 and perhaps also establish a minimum 4% rate for the 30% present value credit for non-bond financed acquisition costs. Both provisions are in the tax extenders bill recently approved by the Senate Finance Committee. "We're feeling pretty good about that and cautiously optimistic," said Boston Capital's Jeff Goldstein.

In the meantime, syndicators generally believe that 2014 will turn out to be another good year for the LIHTC equity market.

"Right now the market is working pretty well by and large," says Floreani. "Deals are getting done. Deals are finding equity. And investors are getting returns they're happy with." TCA