

The New Wave

Surge of Investment by Insurers Is Boosting the LIHTC Equity Market

Much of the buzz in the low-income housing tax credit world this year has been about the increase in equity investment by insurance companies. This flow includes existing insurance company investors, insurance companies that dropped out of the market and have returned, and some that are brand new to housing credit investment.

But what kinds of insurers are investing? How much are they investing? Why are they investing? And will they keep investing as LIHTC yields drop?

In recent interviews and responses to written questions, syndicators, four insurance companies, and others provided some answers.

Busy Writing the Checks

Reznick Group's Fred Copeman, whose clients include corporate investors, said that increased interest by insurance companies in LIHTC investments began in the fourth quarter of 2009, when yields on new LIHTC funds started to rise significantly – hitting and later exceeding 10% after-tax – and has picked up. “We are now past the point ‘we’re interested’ and ‘we need approval’ stage,” says Copeman. “We’re at the point where people are literally closing now and writing checks.”

Copeman says LIHTC investment commitments by insurance companies could easily top \$1 billion in 2010, compared to 2009 volume that “might have been \$100 million.” He estimated total LIHTC equity raised in 2010 could approach \$8 billion, a huge jump from 2009.

Syndicators said they are seeing increased investment by a larger number of insurance companies this year. “We’ve seen several insurance companies that are relatively new to the business come in in 2010, given the attractive yields relative to the risk,” says Eric McClelland, of Cleveland, Ohio-based RED STONE Equity Partners, LLC. Ken Michel, of Boston-based Michel Associates, Ltd., noted four of five new investors his firm had direct contact with were insurance companies.

Insurance companies today generally are seeing



Fred Copeman

larger profits and therefore have greater need for tax shelter.

Chicago tax attorney Jana Cohen Barbe, of the law firm Sonnenschein Nath & Rosenthal LLP, indicated that insurance companies are being drawn to LIHTC investing because of their current attractive yields on housing credit investments, and to help fulfill the moral obligation that they impose on themselves to do social investing – to “give back” to the communities they serve.



Jana Cohen Barbe

Variety of Insurers

Syndicator Jeffrey Goldstein, of Boston Capital, said all kinds of insurance companies are investing in LIHTCs. While most are life companies, there are also property and casualty insurers and companies that offer multiple insurance products. Copeman said life companies are most prevalent because they have familiarity with real estate underwriting, and generally have consistent, steady profits from year to year that allow better predictability of future tax shelter need.

A popular LIHTC investment vehicle for insurance companies is the multi-investor fund, which give insurers diversification in location and types of LIHTC projects as well as the benefit of the experience and asset management of the sponsoring syndicators. A number of insurers also invest through proprietary (single-investor) funds managed by syndicators, or, less frequently, make direct investments.

The surge in LIHTC investment by insurance companies has increased the availability of equity for projects in parts of the country (“non CRA” markets) and for certain kinds of projects that have had difficulty securing equity during the LIHTC market downturn. Insurance companies are not subject to the Community Reinvestment Act, which heavily drives the geographic LIHTC investment decisions of banks.

Allstate Corporation

Allstate Investments makes LIHTC investments on

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behalf of the parent corporation, a publicly traded company that is primarily a property and casualty insurer but also has an arm that sells life insurance and retirement products.

Mary Pat McKeown, Portfolio Manager at Allstate Investments, Northbrook, Ill., said Allstate began investing in housing credits in the mid- to late-1990s, stepped out in 2007, and resumed investing "in full force" this year. "We intend to make a substantial investment in LIHTC," she said, declining to specify the 2010 target amount or the size of Allstate's LIHTC portfolio.



Mary Pat McKeown

Allstate currently invests only through multi-investor funds. The primary driver for its LIHTC investing is "to serve the communities in which we do business. Affordable housing is one way to do that." Secondly is economic return. "When you stack it [LIHTCs] up with other investment opportunities, the yields today are particularly attractive," says McKeown.

She says Allstate, through multi-investor funds, invests in a variety of LIHTC projects spread around the country. Multi-investor funds, McKeown noted, gives Allstate good geographic diversification and "a diversity in property types. And it also allows us to invest larger amounts of money in a shorter period of time."

AEGON

AEGON, through its predecessor companies, began investing in LIHTCs near the beginning of the program (1987). Its strong preference is to invest directly, though it has invested in syndicated funds as well.

AEGON USA Realty Advisors is the arm that invests in housing credits on behalf of parent AEGON, which is parent to several life insurance companies (e.g., Transamerica, Monumental). In addition to investing on the parent's behalf, AEGON invests in housing credits for third-party investors that are interested in AEGON guaranteed product. The company also expects to soon offer unguaranteed LIHTC product to third-party investor where AEGON will co-invest through its life companies.

San Francisco-based Christoph Gabler, of AEGON USA Realty Advisors, said AEGON, which took an invest-

ing hiatus in the first half of 2009, is actively investing in housing credits today and expects 2010 volume to be near historical levels. Regarding portfolio size, AEGON's total committed capital to date is about \$2.5 billion, of which about \$1.5 billion has been invested on behalf of third-party clients.

As for location and type of LIHTC projects, Gabler said AEGON will consider investing anywhere, and, "We feel that there can be a story to any deal." The average size of its equity investment is currently about \$7 million, down from an historical average size of \$15 million. "Certainly deal sizes have shrunk in tandem with the pricing reduction the market has seen but we are also broadening our targeting to smaller deals," says Gabler.

State Farm

State Farm began investing in housing credits in 2010, on behalf of its parent, State Farm Mutual Automobile Insurance Company, which is headquartered in Bloomington, Ill. The company's total LIHTC commitment to date is \$30 million. The firm is not actively seeking new LIHTC investments, according to Lori Manning, Director-Public Affairs.



Lori Manning

"We invest in LIHTCs to provide opportunities for affordable housing in our communities, as well as for economic returns," she says. State Farm prefers and generally invests in proprietary funds. Preference is given to projects in cities selected by the company's field offices, which are located nationwide.

"The projects State Farm invests in are on a project-by-project basis," says Manning, "depending on several variables with the flexibility to meet our community development strategic plan and business goals."

In May, for instance, State Farm announced a LIHTC equity investment of about \$4.3 million in Silver City Townhomes, a project of 20 new rent-to-own townhomes being built on a vacant lot in Milwaukee, Wisc.

MetLife

MetLife, the giant New York-based insurance company, has invested in housing credits since 1995, through its investment department.

The company is actively making LIHTC investments in 2010 after suspending its investment in late 2008

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when the LIHTC market slowed dramatically.

As of June 30, 2010, MetLife has made cumulative LIHTC investment commitments of about \$1.3 billion, according to Matt Sheedy, an associate director in the company's private placements group.

Most of MetLife's LIHTC volume is principally for economic return. Sheedy noted, though, that the company's initial LIHTC investments were made for corporate social responsibility goals. MetLife continues to make a relatively small volume of high-impact LIHTC investments through the company's social investment program. In addition, MetLife Bank makes these investments to meet its CRA obligations.

MetLife invests with syndicators in both multi-investor and proprietary funds. The typical size of the company's equity investment is \$25-35 million in multi-investor funds and \$50 million in proprietary funds, with the investment per project in proprietary funds typically \$5-15 million.

MetLife invests nationally in urban, rural, and suburban markets. Sheedy said the company has a preference for 9%, new construction projects in markets where LIHTC rents are significantly below market, but "invests in a much wider range of projects that with conservative structuring can provide a similar risk profile."

Other Investors

Other insurance companies that have been longtime investors in housing credits include Nationwide Insurance, which also acts as a guarantor of tax credit investments; MassMutual; and John Hancock, which is currently out of the market. Prudential, Aetna, New York Life, and Torchmark are said to have resumed LIHTC investing, while those reported to be among the newcomers to LIHTC investing include Liberty Mutual and Unum.

Will insurance companies continue to make new housing credit investment commitments if LIHTC yields, which have dropped, fall much further?

"It certainly put the product on their radar screen when yields exceeded 10% after tax," says syndicator Eric McClelland. "The unknown is how attractive the product is as demand increases and yields drop. I don't know." **TCA**

People in the News

WNC & Associates, Inc., based in Irvine, Calif., has appointed **Michael Gaber**, Executive Vice President, as Chief Operating Officer. As COO, he will be leading WNC's tax credit syndication, asset management, and portfolio management businesses. Joining Gaber's team will be **Paula Hall**, appointed as Vice President - Asset Management, and **Tom Hollingsworth**, appointed as Vice President - Portfolio Management.

Terri L. Ludwig has been appointed as the new President and CEO of Enterprise Community Partners, Inc., effective January 1, 2011. She has been executive vice president and chief operating officer at Enterprise since 2009. From 2002 to 2009, Ludwig was president of the Merrill Lynch Community Development Company. Ludwig succeeds Doris W. Koo, Enterprise's president and CEO since 2007, who will assume the position of senior advisor at Enterprise after December 31, 2010. **TCA**

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