Multi-Investor Funds Popular Again as LIHTC Equity Volume Increases

The low-income housing tax credit equity market continues to see increased activity by corporate investors, including a renewed popularity of multi-investor funds. This heftier flow of equity dollars – from more players – has increased competition for deals, boosted credit pricing to developers, and decreased yields to investors.

"We're on pace to raise about $250 million [in LIHTC equity] for the year," compared to $125 million in 2009, says syndicator Jeff Whiting, of City Real Estate Advisors, Inc., Indianapolis, Ind. The firm, in business 10 years, syndicates housing credit deals nationally, with a heavy Midwest focus.

Jeff Whiting

Interviews with syndicators, a major investor, and others revealed strong demand today by corporate investors for housing credits, making it virtually certain of a higher volume of LIHTC equity raised in 2010 than in 2009. The increase is the result of new, often larger investment commitments by existing investors, as well as new tickets from both investors returning or brand new to LIHTC investing, such as insurance companies (*see article on p. 34*).

Still, there are uncertainties that could impact the future of the LIHTC market. Among these are whether Congress will pass legislation to extend the Section 1602 credit exchange program, and about the future course of the national and many local economies.

Upswing in Multi-Investor Funds

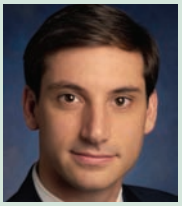
One aspect of the recharged industry is the greater number and larger size of national multi-investor funds, which waned considerably during the worst of the LIHTC market downturn.

"We're in the process of closing our second multi-investor fund [of 2010]," said syndicator Jeffrey Goldstein, of Boston Capital. He attributed the fund's large size – $305 million, the company's biggest in three years – to "more investor demand." In addition, developers whose deals Boston Capital closed during the downturn "have really stuck by us and, therefore, in addition to a lot of equity, we have a lot of property to invest in." About one-fourth of the equity raised so far for the new fund, which has a projected after-tax yield of 9.75%, is from investors new to Boston Capital.

Jeffrey Goldstein

Other sponsors with new national multi-investor funds include:

- **Centerline Capital Group**, New York City, whose $100 million fund, the company's first multi-investor fund since the completion of its restructuring, is expected to close in December. According to executive Andrew Weil, the fund has a projected yield of 9.5%. Specified so far are seven 9% projects and one 4% Section 8-assisted project: two each in Texas and Virginia, and one apiece in Hawaii, Illinois, Missouri, and Pennsylvania.



Andrew Weil

- **Boston Financial Investment Management**, whose new fund, of $100 million with possible expansion to $125 million, already has $75 million committed. Boston Financial's first multi-investor fund in several years will have a projected yield in the mid-9% range for the two lead investors and probably 9% or below for the two follow-on investors, according to executive Greg Judge. "It's a little bit of a unique fund," he says. The company marketed a fund concept and obtained seed capital from the lead investors to begin acquiring properties. "Now we've put together a property list which we're marketing to the additional investors," says Judge. Marketing of the firm's next multi-investor fund, probably $100-150 million in size, will likely begin in November.

- **Michel Associates, Ltd.**, of Boston, whose roughly $60 million fund has a projected yield of about 13%. "We're targeting a closing for later this month," said Ken Michel in mid-September. "We're working through some final due diligence items with various investors." He attributed the fund's high yield primarily to the large amount of soft debt and subsidies in the transactions. "The net price to developers is approximately 62 cents," said Michel. Some of the fund's properties are in Boston, Kansas, Mississippi, Arkansas, and Wisconsin.

- **City Real Estate Advisors**, whose $100 million fund, with a projected yield of 10.75%, will close in the fourth quarter. In February, the company closed a $25 million multi-investor fund with a yield that was

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even higher because many of the properties had federal stimulus funds, said Whiting.

Syndicators are also briskly raising LIHTC equity for proprietary funds they manage for individual corporate investors.

Single-investor funds are the primary focus today of Cleveland-based RED STONE Equity Partners, LLC. "We'll probably raise around $350 to $400 million in proprietary business" in 2010, says President Eric McClelland, compared to a total LIHTC equity raise of about $175 million in 2009. But, he added, "We're getting more demand from [our] relationships to do multi-funds, so it may become a line of our business in 2011."

There is still said to be little available in terms of guaranteed product – LIHTC funds with a guaranteed minimum yield – because of a shortage of guarantors. However, City Real Estate Advisors' Jeff Whiting, said, "We do have a guaranteed fund. I'm working with a guarantor right now." The $40 million, California fund will have one investor and close in late 2010 or early 2011.

As a result of increased investor demand (and dollars), equity providers are experiencing greater competition in trying to land new LIHTC deals – not only projects in the popular "CRA" markets (e.g., New York, Los Angeles, San Francisco), but also properties in many of the non-CRA, secondary, and tertiary markets that have had a tough time attracting equity in the recent past. "Competition for deals is intense in cities like Milwaukee," says Leila Ahmadifar, Director of LIHTC Investments, Citi Community Capital, a major LIHTC investor.

The greater availability of equity for deals in non-CRA markets is largely due to increased LIHTC investment commitments by insurance companies, which unlike

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Historic Tax Credit Market May Be Improving But Is Still Challenged

The historic tax credit (HTC) equity market may be showing some improvement but remains challenged, according to industry sources. "What we're seeing are the very earliest signs of an improvement in the market," says Eric Darling, of Boston-based Carlisle Tax Credit Advisors, which advises corporate investors and finds proprietary federal historic tax credit investments for major investor Chevron. "I've seen maybe two or three individual [historic tax credit] deals done by banks recently, whereas for five or six months there's been virtually none. There's still lots of deals being done [as investors] by non-banks – paint companies and oil companies.

"But in terms of any broad-based market, like existed three of four years ago where there were at least six major investors, we haven't seen that yet," Darling added, speaking primarily about "stand-alone" HTC transactions rather than deals "twinning" historic with other tax credits such as new markets.

U.S. Bancorp Community Development Corporation continues to actively invest in stand-alone historic credit deals, and some twinned deals, said executive Marc Hirshman. The firm, a major investor, has seen it stand-alone historic deal volume drop this year, he noted, primarily because of difficulty getting conventional construction and permanent debt financing for new projects.

Bank of America Merrill Lynch is actively investing in stand-alone historic credit deals, and some twinned deals, said executive Leigh Ann Smith. The company pursues mid- to large-sized stand-alone historic transactions.

Darling cited the lack of conventional permanent debt as "the biggest impediment to historic transactions." But he added, "Now the banks have started to lend again, and I've seen national banks signing term sheets for [permanent] loans that they haven't been doing over the past 18 months."

According to Darling and Hirshman, the historic credit transactions getting done are primarily residential projects, as opposed to commercial projects like office buildings. The former are economically viable and can better secure debt financing, including HUD-insured loans.

They felt that pricing for historic tax credits hasn't changed much in the recent past, but is still well below a year or so ago. Hirshman estimated typical pricing at probably 80-90 cents per credit dollar for smaller transactions, and 90 cents to $1.00 for larger transactions. Darling estimated average pricing at probably $1.00-$1.05, compared to $1.05-$1.10 some 12-18 months ago. Smith is seeing current pricing, for mid- to large-sized transactions where Bank of America is making a direct investment, generally from 95 cents to $1.10. She said prices have inched up in the last six months or so.

Darling said the average equity amount is $3 million or less for deals going into Chevron's single-investor fund. U.S. Bancorp CDC generally won't do stand-alone historic deals where the historic credit amount is below $3 million, Hirshman said. TCA

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banks – the predominant LIHTC investors – are not subject to the Community Reinvestment Act.

Changing Pricing, Yields

The increased competition for product has caused an increase in credit prices being paid to developers, and downward pressure on yields to investors.

Judge estimated current credit pricing for deals as high as the mid-90s [cents per credit dollar] in the New York City area and in parts of California; in the 80s in the Dallas and Houston areas; and down to as low as the high 60s sometimes in other, non-CRA markets. "It's widely divergent, depending on where you are." Others cited pricing generally ranging from the mid-60s to upper 70s, and sometimes higher, in non-CRA markets.

Greg Judge

"Yields have been going down and prices have been increasing more than anticipated," said syndicator Vic Sostar, of First Sterling Financial, Inc., Manhasset, N.Y., which has traditionally managed proprietary LIHTC funds. He suggested that the significant run-up in pricing and decline in yields has occurred in the last 3 to 4 months, and been primarily in the major CRA markets on the East and West Coasts.

"We're seeing in the primary markets, rates [yields] coming in below 8 percent, and dropping, and secondary markets maybe 8 to 9 percent, and the tertiary markets still seeing rates go up to 10, 11 percent to get them done," Sostar said. "That's what we're hearing."

Sources expect yields on LIHTC funds and investments to continue falling.

"There is a significant difference between [multi-investor] funds that are closing between now and year-end, and funds that are closing in the first quarter of 2011," said Rick Floreani, of Boston-based Carlisle Tax Credit Advisors, whose clients are corporate tax credit investors.

He said after-tax yield levels for the first group are generally from 9.75% to 13%, and average around 10%. For the second group, preliminary talks are about yields in the general range of 8.25% to 8.75%, Floreani noted. "We have a very much constrained supply [of deals]. We've got a lot, a significant, increase in [investor] demand."

Greater Activity at Citi

One example of the increased demand can be found at New York City-based Citi Community Capital, which plans to invest significantly more in LIHTC in 2010 and beyond."We expect to increase our investments dramatically over the next three years," says Leila Ahmadifar.

City Community Capital, with an LIHTC portfolio of just under $4 billion, has closed about $500 million so far in 2010 through mid-September.

The company is also changing how it invests in housing credits.

"Historically we have been a multi-fund investor," says Ahmadifar. "However, last year we executed a debt and equity program where we're on both sides of the table doing debt and equity for transactions that are located in areas where we have CRA requirements.

"When we started that program we started investing on a proprietary basis. We essentially moved away from the multi-investor fund model and started doing solely proprietary investing.

"This year we have expanded our investing. We're still investing under the proprietary model, but we're also doing direct investments on a select basis."

She adds, though, "We are still looking at certain opportunities to invest in multi-investor funds." TCA