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Assessing the status of the tax credit equity market in 2024 and beyond

IPED's Learn the Basics: Housing Tax Credits 101



Our Speakers

Assessing the Status of the Tax Credit Equity Market in 2024 and Beyond



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Agenda

1. General Market Overview
2. Recent Trends
3. What to Watch

General Market Overview

Equity Market Overview – how did we get here

1. Investor Motivations in LIHTC

2. Types of Funds

3. Historical Perspective

- / Growth of the equity market
- / Yield/performance
- / Foreclosure



WHO WE ARE

- **CohnReznick LLP** is a leading advisory, assurance and tax firm in the U.S. with one of the largest and most experienced tax credit practices in the country.
- **Tax Credit Investment Services (“TCIS”)** is a dedicated business unit within CohnReznick that provides strategic advisory and due diligence services to help clients make informed decisions on acquiring and managing tax-advantaged investments.
- TCIS is well-regarded in the industry for:
 - Having authored 3,000+ investment due diligence reports for tax credit investors;
 - Having authored numerous affordable housing industry studies and spoken frequently at industry conferences and events;
 - Being sought after by the bank regulators and GAO to provide industry data and insights;
 - Publishing housing tax credit equity market trends on a bi-monthly basis in the *Tax Credit Advisor* magazine.



EQUITY MARKET OVERVIEW



HOUSING TAX CREDIT BASICS

35+ Year History

Most Successful AH
Production Program

P3

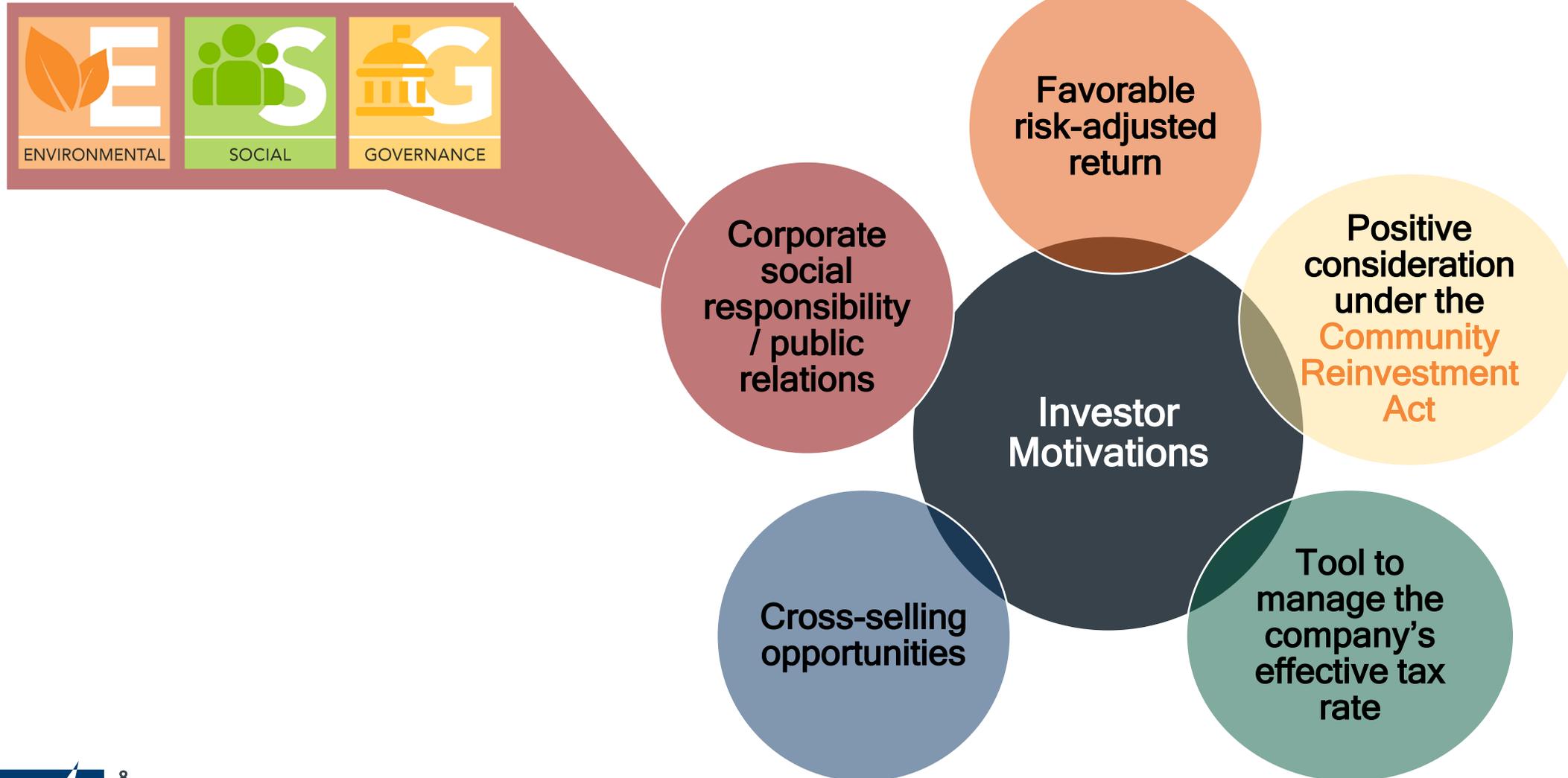
10-15 Year Hold

Complimentary
Programs

- The Low-Income Housing Tax Credit is one of the few major federal investment tax credit programs; was authorized in 1986 and made permanent in 1993.
- Having been the most important program for creating and rehabilitating affordable housing in the US, the housing tax credit program finances the construction or rehabilitation of more than 75,000 affordable housing units every year.
- The IRS sets rules through IRC Section 42, while administration of the program resides with the state credit allocating agencies. Many states also have their own state housing credit programs.
- Credits are delivered over ten years to the equity owner of housing tax credit projects, with a 15-year holding period for compliance reasons; early exits are possible.
- In addition to housing tax credits, there are many federal and state rental assistance, and subsidized loan programs available to support the production of affordable housing.



INVESTOR MOTIVATIONS





HOW DO INVESTORS CHOOSE INVESTMENT VEHICLES?

Direct investment - Investor owns a 99% LP interest in an operating partnership with the developer as GP and no third-party intermediary. A few large investors have full time staff to underwrite & asset manage such investments. This option would be difficult to execute otherwise.

Fund investment - Investors acquire LP interests in an investment fund organized by a syndicator/Fund GP. The syndicator finds and underwrites investments in a series of operating partnerships

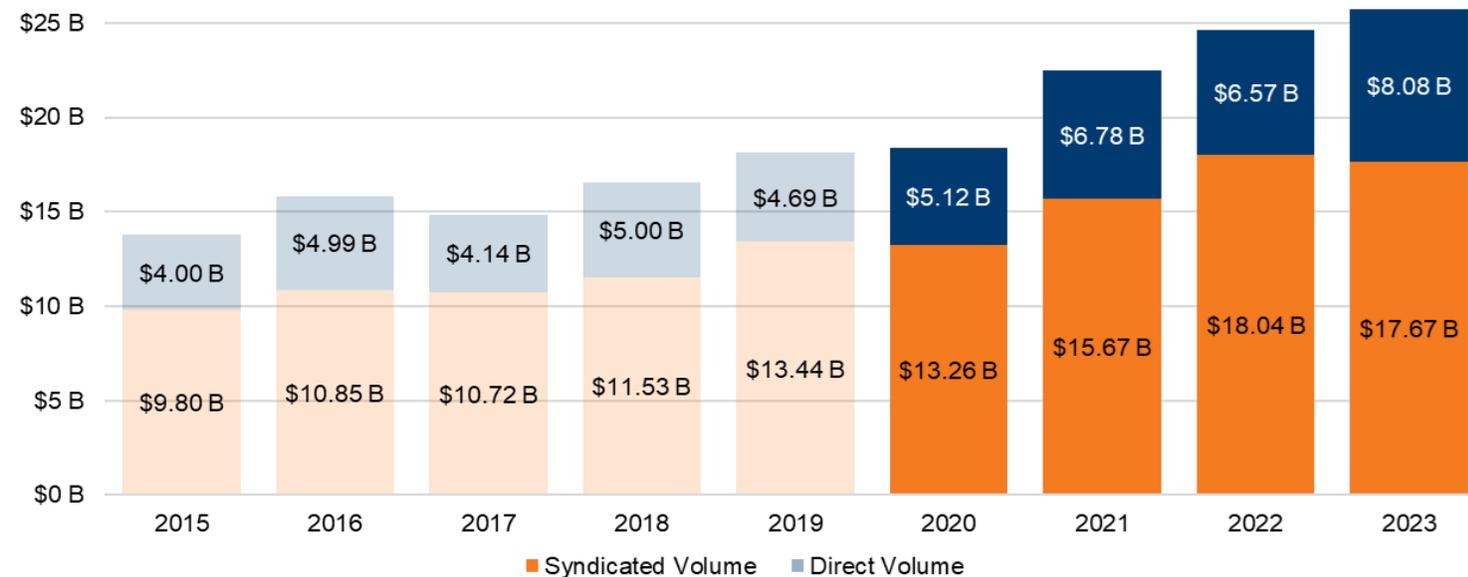
- **Multi-investor Funds** - typically 5-10 corporate LP's, investors can typically review about 70% of the fund's property investments before committing
- **Single Investor (Proprietary) Funds** - same idea with an experienced investor keeping more control e.g. veto rights on property selection



THE HOUSING CREDIT EQUITY MARKET

- CohnReznick's annual survey of all syndicators and direct investors, concluded that approximately **\$26.2 billion** of investor equity was closed in 2023.
- The total volume is a **7%** increase from the 2022 surveyed amount.
- **69%** was syndicated and **31%** was directly invested.

Annual Equity Volume: Syndicated vs. Direct





CURRENT FUND OFFERINGS

Top volume discount (\$30M+) tiers range from **7.40% to 7.70%**

CRA tiering is a wide range from **4.00% - 5.50%**

Current REGIONAL Multi-Investor Funds

Syndicator / Fund Name	Region	Estimated Fund Size (millions)	After-Tax Cash Needs IRR	Net Equity Price	Target Closing
CAHEC Community Equity Fund XXIX LP	SE and Mid-Atlantic	\$150	TBD	TBD	September 2024
Cinnaire Cinnaire Fund for Housing 41	Midwest	\$150	TBD	\$0.80 - \$0.8773	May 2024
CREA Fund 108 (Spring 24)	W & SW States	\$150	5.5% - 7.5%	TBD	June 2024
Merritt Fund 25	California	\$150	TBD	TBD	December 2024
Midwest Housing Equity Group MHEG 59, LP	Midwest	\$200	TBD	TBD	June 2024
Raymond James RJTCF 53	Western	\$250	TBD	TBD	TBD
US Bank USB LIHTC Fund 88	Western	\$100	TBD	TBD	October 2024
WNC Fund X California Series 21	California	\$100	6.25%	\$0.87	July 2024

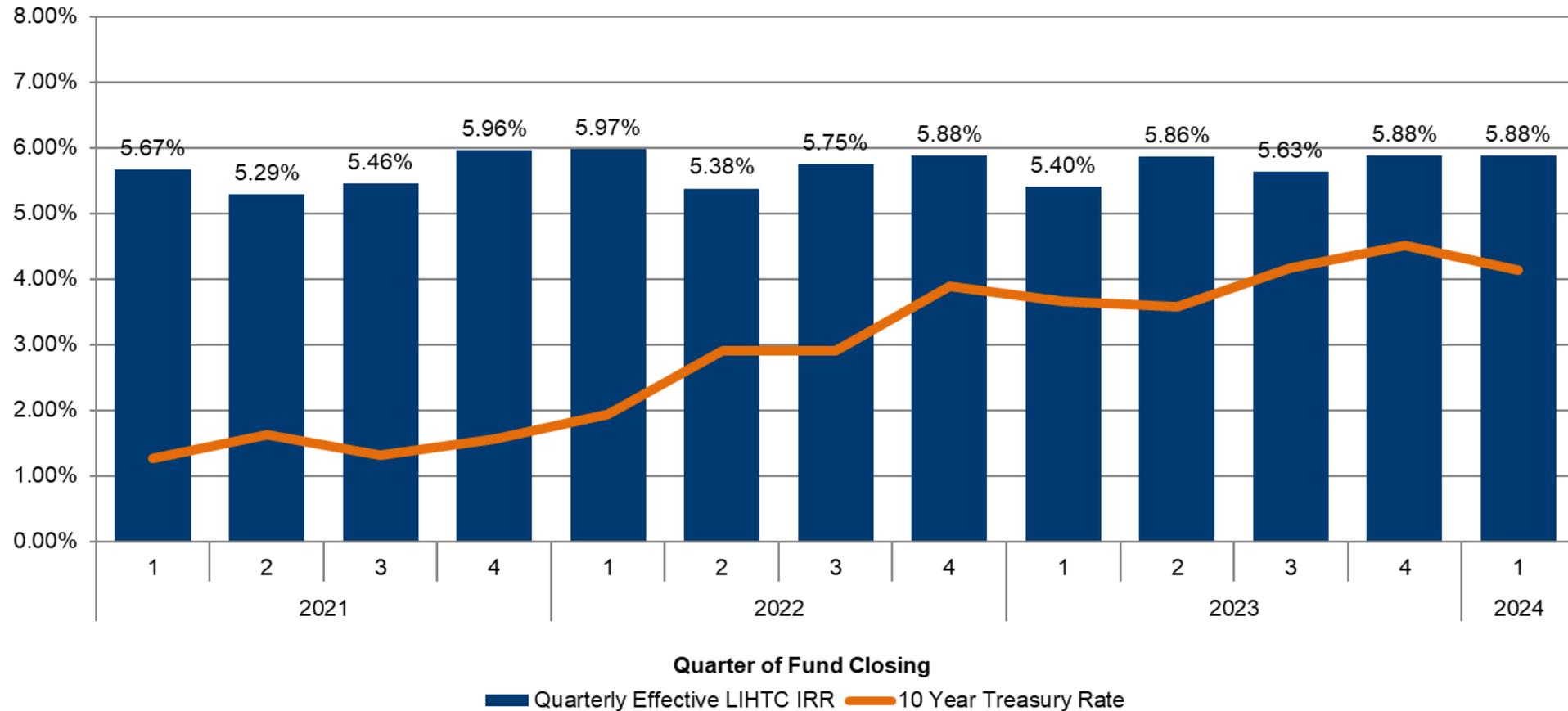
Current NATIONAL Multi-Investor Funds

Syndicator / Fund Name	Estimated Fund Size (millions)	After-Tax Cash Needs IRR	Net Equity Price	Target Closing
Boston Financial Boston Financial ITC 60	\$175	TBD	\$0.74 - \$0.95	June 2024
CREA Fund 107 (Spring 24 NF)	\$250	4.5% - 7.4%	TBD	June 2024
Enterprise EEUMF 2	\$100	TBD	TBD	September 2024
Enterprise EHP 44	\$325	TBD	TBD	June 2024
Hunt Hunt Capital Partners 51	\$200	TBD	TBD	July 2024
R4 Capital R4 Housing Partners XXII	\$295	TBD	TBD	July 2024
Raymond James RJTCF 54	\$250	TBD	TBD	TBD
RBC Community Investments RBC National Fund - 36	\$175	TBD	TBD	June 2024
RBC Community Investments RBC National Fund - 37	\$175	TBD	TBD	October 2024
Red Stone Equity Partners Fund 111	\$225	TBD	TBD	June 2024
Regions Affordable Housing Corporate Partners Fund 80	\$125	TBD	TBD	October 2024
US Bank USB LIHTC Fund 87	\$133	5.75% - 7.6%	TBD	May 2024
Walker & Dunlop Affordable Equity ACTF 119	\$166	4.40% - 7.7%	\$0.81 - \$0.91	April 2024
WNC Institutional Tax Credit Fund 58	\$295	4% - 7.5%	\$0.80 - \$0.93	April 2024



FUND IRR VS. 10-YEAR TREASURY

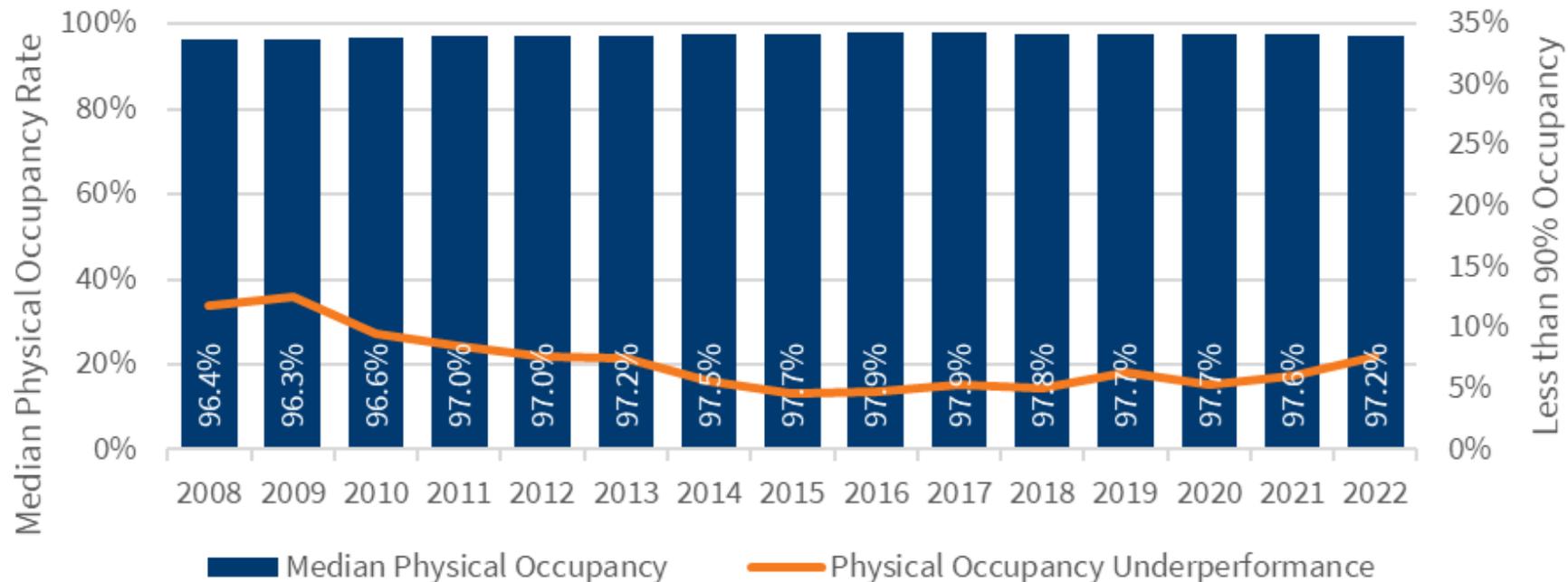
Housing Tax Credit Yield vs. 10-Year Treasury





PHYSICAL OCCUPANCY

National Physical Occupancy Trend



Housing tax credit properties reported a **97.2%** median physical occupancy rate in 2022



DEBT COVERAGE RATIO

Strong financial performance trend sustained as evidenced by a **1.38** national median DCR in 2022

Less than **22%** of the national portfolio operated below breakeven in 2022, significantly declined from 32% in 2008

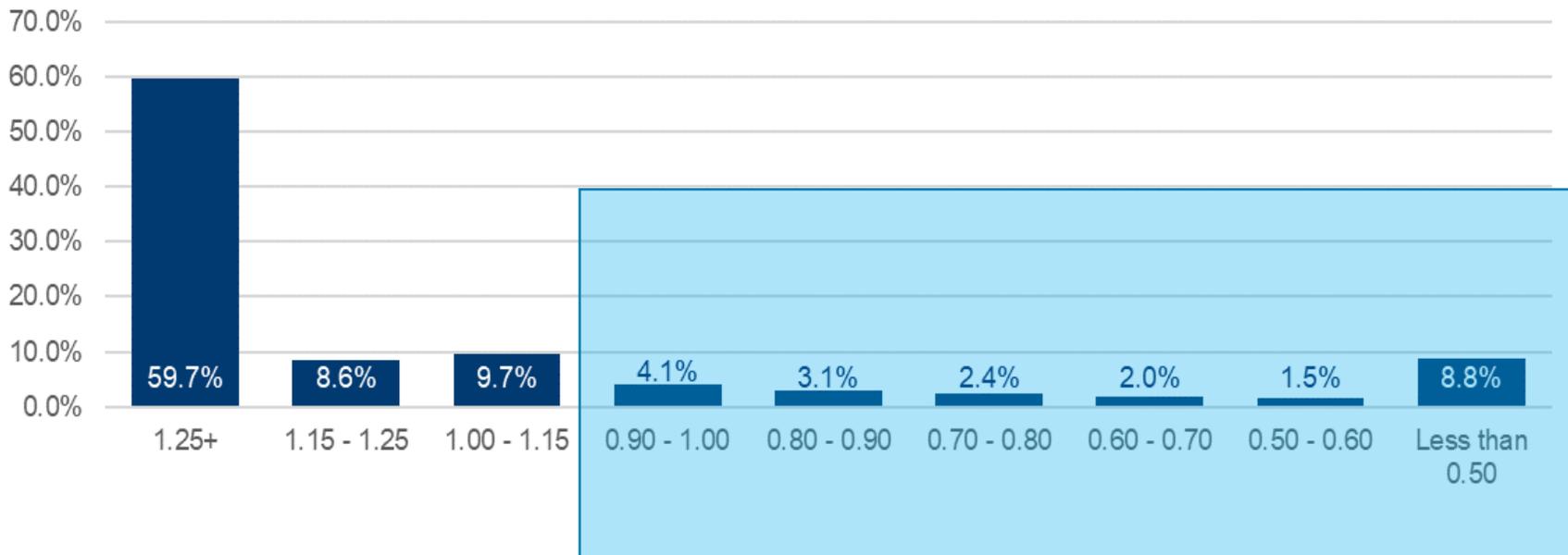
National Debt Coverage Ratio Trend





DEBT COVERAGE RATIO

**Debt Coverage Ratio Distribution
All Stabilized Properties - 2022**



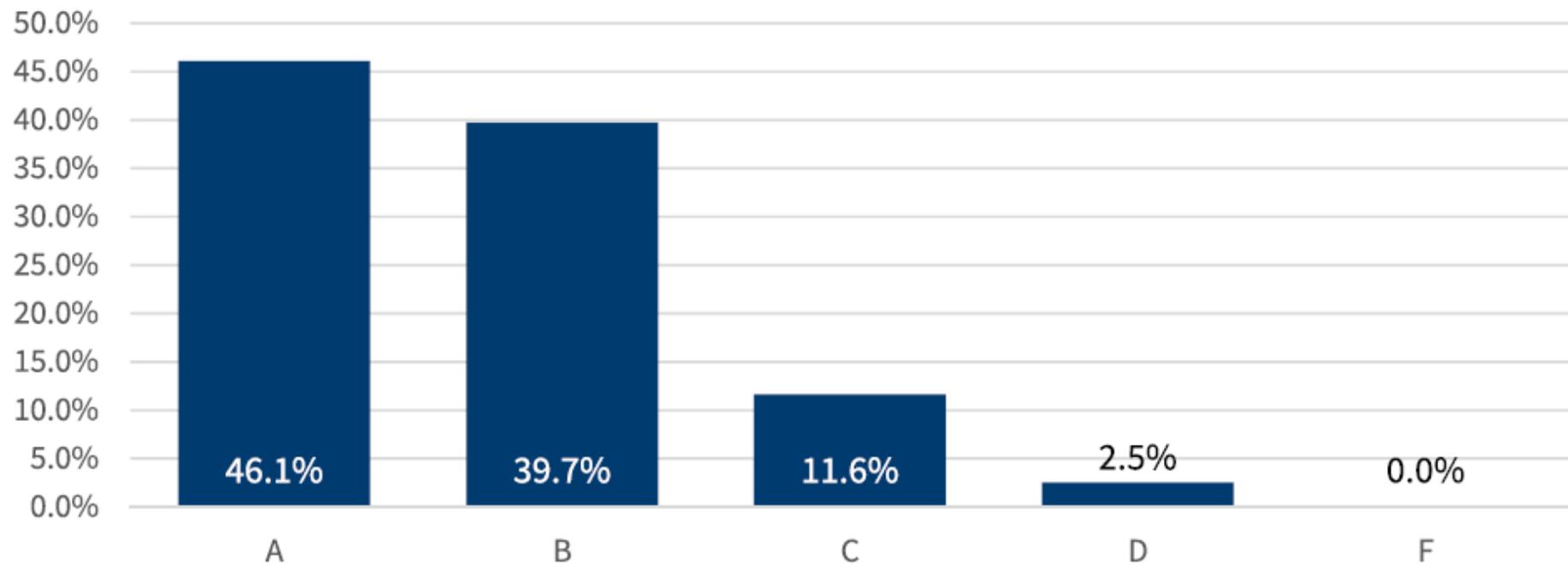
15% of the national housing tax credit portfolio reported less than a 0.80 DCR (up from 9% in 2020); and 8.8% reported less than a 0.50 DCR (up from 3.6% in 2020).



AHIC RISK RATING

Watch list was 14.2% in 2022, up from 10.5% in 2020

Risk Rating Distribution 2022

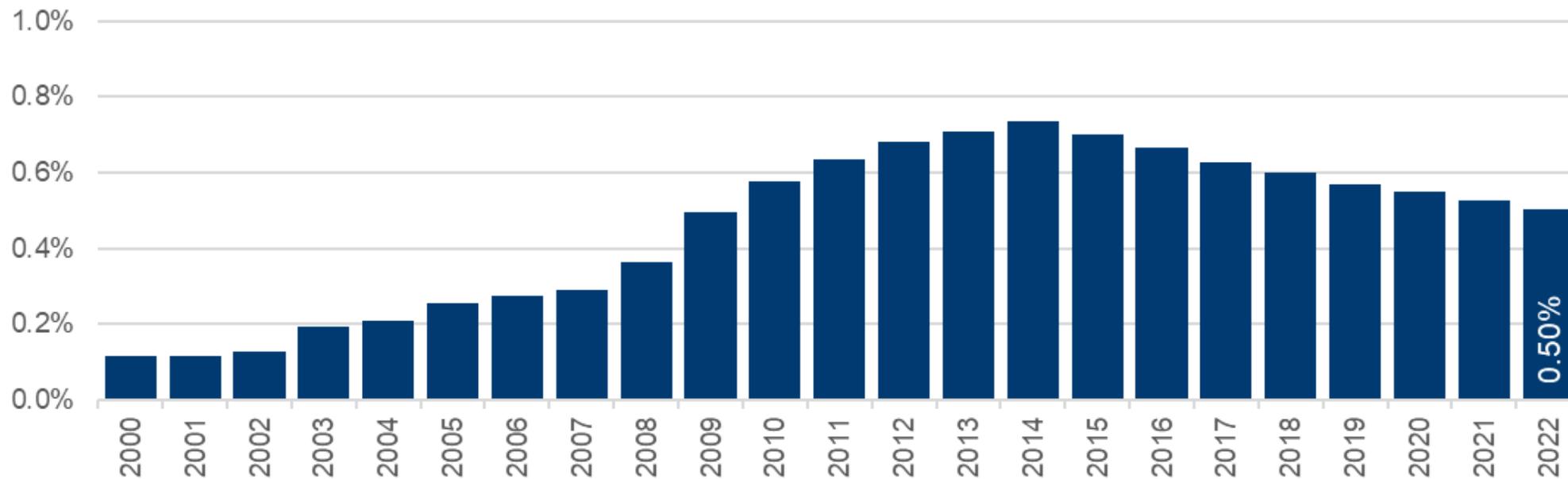




FORECLOSURE RATE

The cumulative foreclosure rate of **0.50%** ranks tax credit properties amongst the safest real estate asset classes

Cumulative Foreclosure Rate by property count



Recent Trends

What are we seeing now?

1. **Interest Rates**
2. **Credit Layering**
3. **Exit Options**

Recent Trends

Adjusting to interest rate hikes

- / Closing timelines
- / Lower perm loans, tighter budgets
- / LP capital accounts taking losses faster
- / Swaps agreements
- / Have interest rates stabilized? Is this the new normal?



Recent Trends

Uptick in credit layering

- / 45L credits, state credits, solar credits
- / Impact of state credits on pricing?
- / Changes to Energy Credits with IRA
 - Are boosters impacting deals?
 - Third party sale of Credits?
 - No longer reduce basis

Exit options

- / ROFRs, purchase options (post-credit period and post-compliance period) – how are higher interest rates impacting?
- / Appraisals
- / Exit Taxes – Is this a concern?

What to Watch

So....where are we going?

What to Watch

- 1. Changes to income standards**
 - / What AMI limits can/should look like
 - / Income averaging standards
- 2. Cost of capital and rising ROR expectations**
- 3. Fewer units with skyrocketing construction costs**
- 4. Changes to the Investor Market – Are investors getting more selective with their equity?**
- 5. Expansion of the Investor pool/CRA changes?**

Questions?



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