

Tax Credit Equity

Assessing the status of the tax credit equity market in 2023 and beyond

Meet the Panel



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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 2,500+ 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

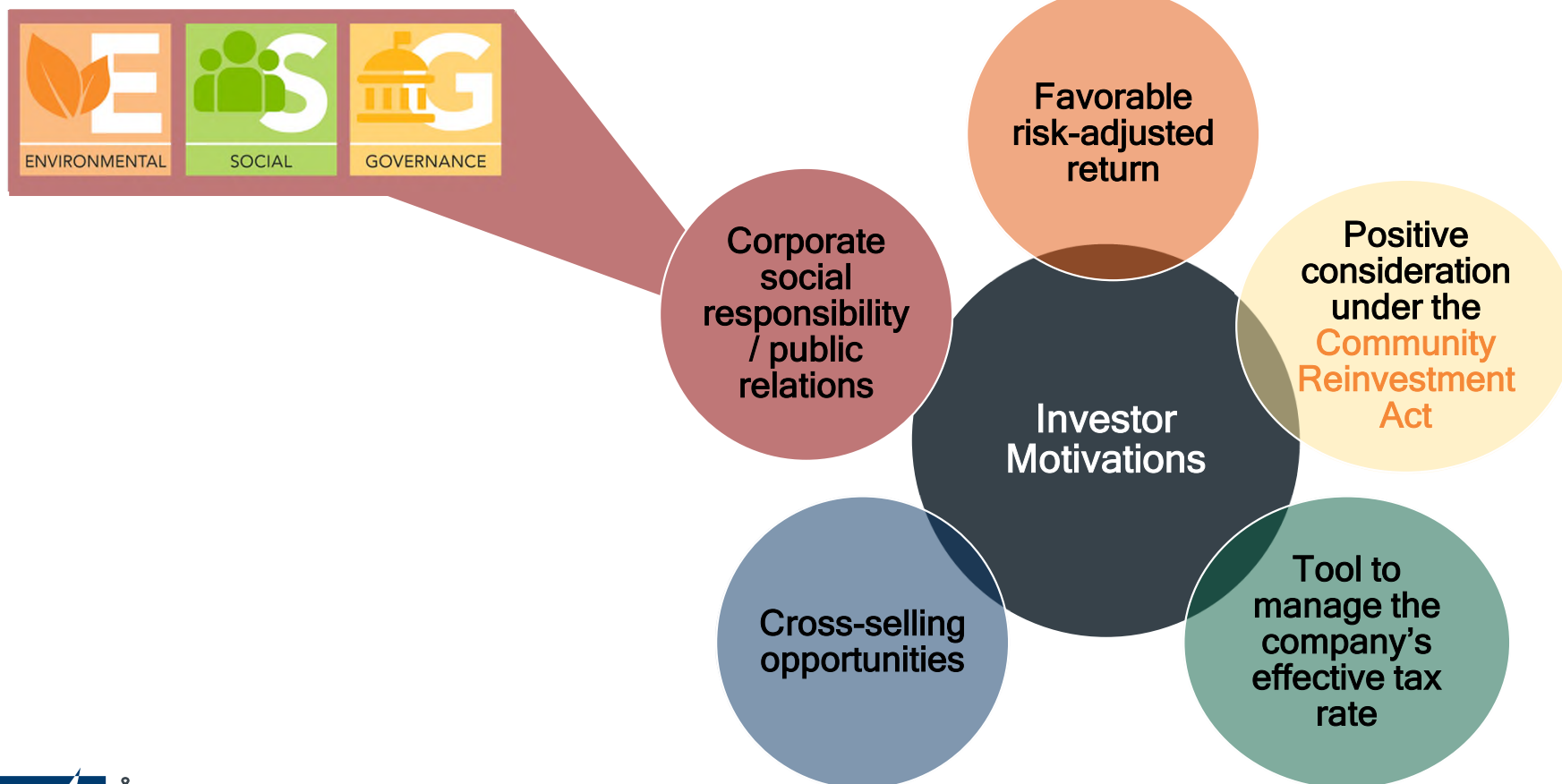
10-15 Year Hold

**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

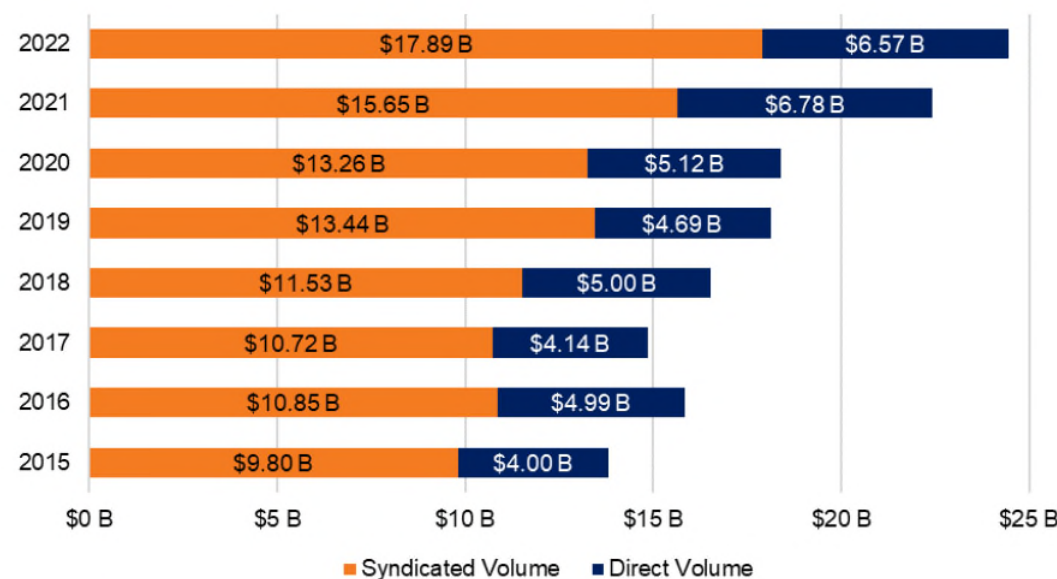
- **Multi-investor Funds** - typically 5-10 corporate LP's, investors can typically review about 70% of the fund's property investments before committing
- **Single Investor (Proprietary) Funds** - same idea with an experienced investor keeping more control e.g. veto rights on property selection



THE HOUSING CREDIT EQUITY MARKET

- CohnReznick's annual survey of 38 syndicators and direct investors, concluded that approximately **\$24.5 billion** of investor equity was closed in 2022.
- The total volume is a **9%** increase from the 2021 surveyed amount.
- **73%** was syndicated and **27%** was directly invested. The syndicated share of the equity market increased by **14%**.

Annual Equity Volume: Syndicated vs. Direct





CURRENT FUND OFFERINGS

Top volume
discount
(\$30M+) tiers
range from
7.15% to 7.40%

CRA tiering is a
wide range from
3.75% - 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 XXVIII	Southeast and Mid-Atlantic	\$150	TBD	TBD	July 2023
Cinnaire Cinnaire Fund 39	Midwest	\$140	4.00% - 7.25%	TBD	May 2023
Cinnaire Ubuntu Equitable Access Fund	Midwest	\$60	4.75%	TBD	March 2023
Enterprise EHCF 9	CA	\$120	TBD	TBD	August 2023
Evernorth Housing New England, Fund IV LP	ME, VT, NH	\$75	5.33%	\$0.83 - \$0.92	March 2023
Merritt Fund 24	CA	\$175	TBD	TBD	September 2023
Midwest Housing Equity Group MHEG 57	Midwest	\$150	TBD	TBD	June 2023
Raymond James CAHOF 12	CA	\$175	TBD	TBD	April 2023
RBC Community Investments RBC CA Fund-8	CA	\$102	4.50% - 6.00%	\$0.885 - \$1.01	February 2023
WNC Fund X California Series 20, L.P.	CA	\$150	6.00% - 7.00%	\$0.9306	August 2023

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 58	\$160	3.71% - 7.00%	\$0.82 - \$0.96	March 2023
CREA CREA Emerging Developer Fund	\$45	5.00%	TBD	June 2023
Enterprise EHP 41	\$250	TBD	TBD	June 2023
Hunt Hunt Capital Partners 49	\$165	TBD	TBD	May 2023
Marble Cliff Capital MCC Community Equity Fund 3	\$100	5.00% - 6.50%	\$0.82 - \$0.91	September 2023
Merchants Capital Tax Credit Equity Fund 14	\$299	6.25% - 7.25%	\$0.885	May 2023
NDC NDC Corporate Equity Fund XIX	\$110	4.75%	TBD	June 2023
PNC Real Estate PNC LIHTC Fund 87, LLC	\$175	TBD	TBD	June 2023
R4 Capital R4 Housing Partners XIX LP	\$235	TBD	TBD	TBD
Raymond James RJTCF 51	\$450	TBD	TBD	February 2023
Red Stone Equity Partners Fund 99 Limited Partnership	\$175	4.35% - 7.10%	TBD	April 2023
Richman USA 150	\$250	TBD	TBD	June 2023
WNC Institutional Tax Credit Fund 54	\$165	5.33% - 7.40%	\$0.866	March 2023

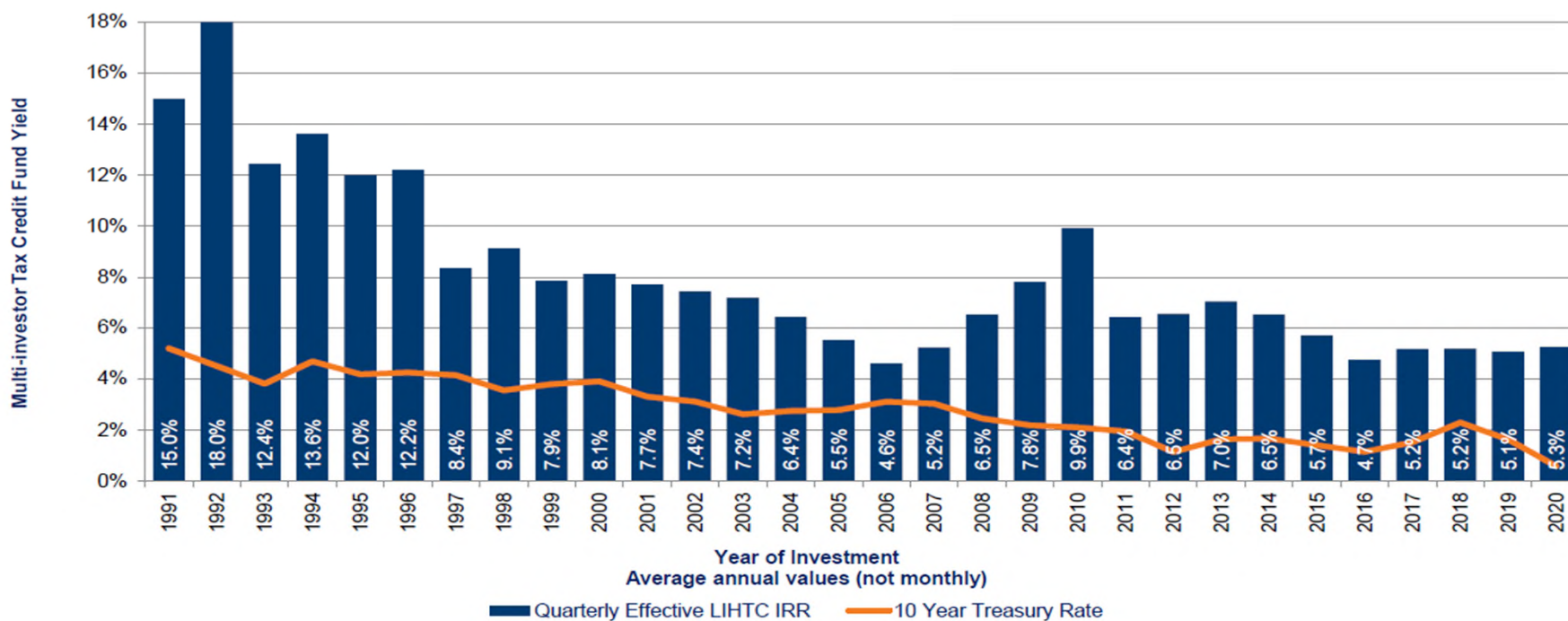


#CRTaxCredit



FUND IRR VS. 10-YEAR TREASURY

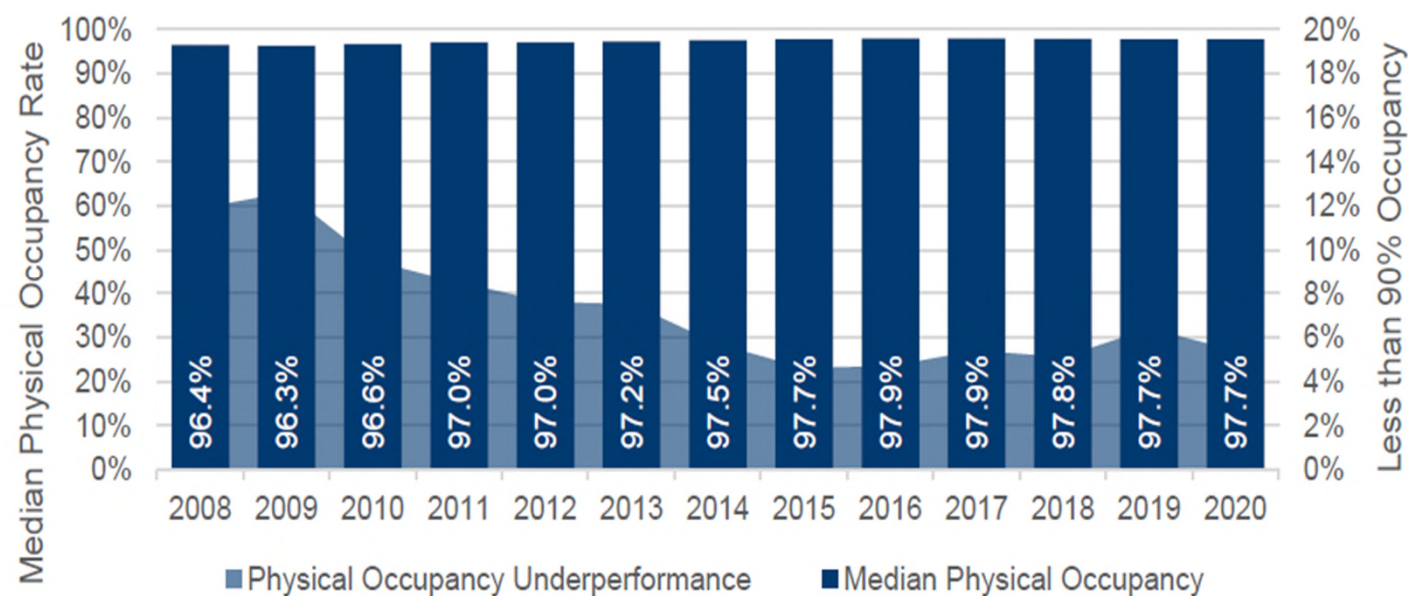
Multi-investor Tax Credit Fund Yield Vs. Ten-Year Treasury Rate





PHYSICAL OCCUPANCY

National Physical Occupancy Trend

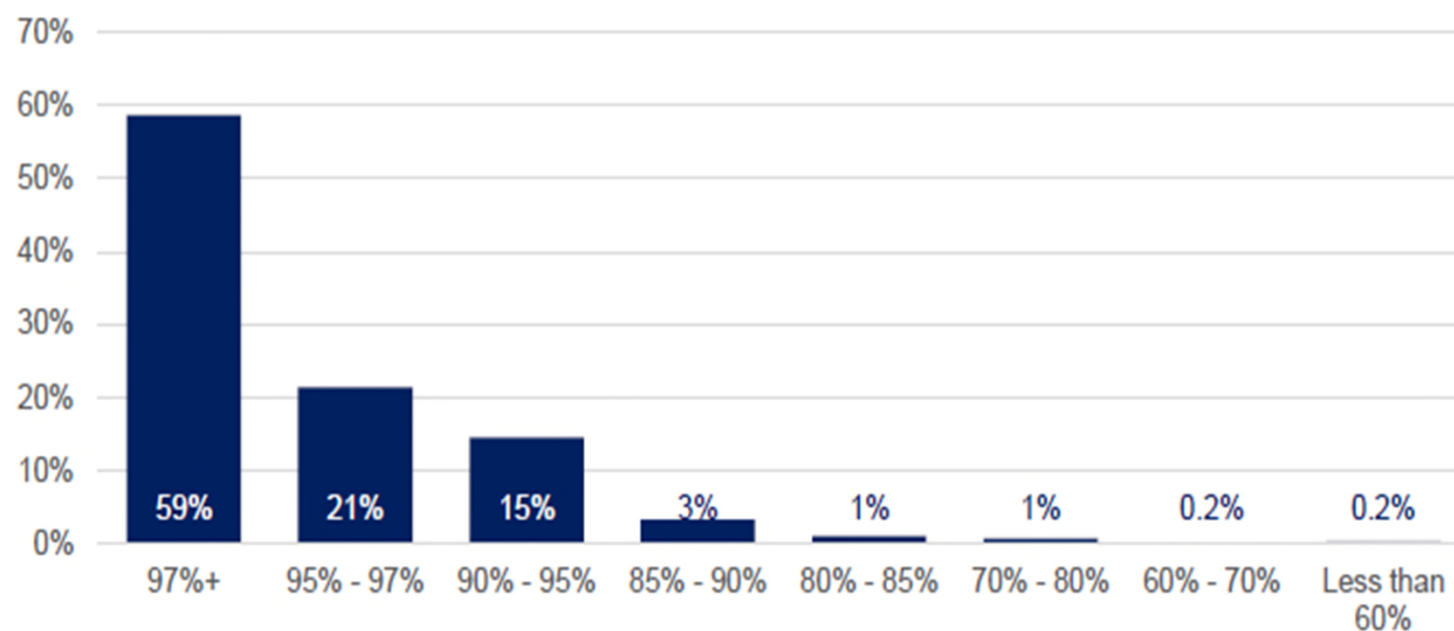


Housing tax credit properties reported a **97.7%** median physical occupancy rate in 2020



PHYSICAL OCCUPANCY

National Distribution of Physical Occupancy: 2020



Only **5%** of the national stock was less than 90% occupied in 2020

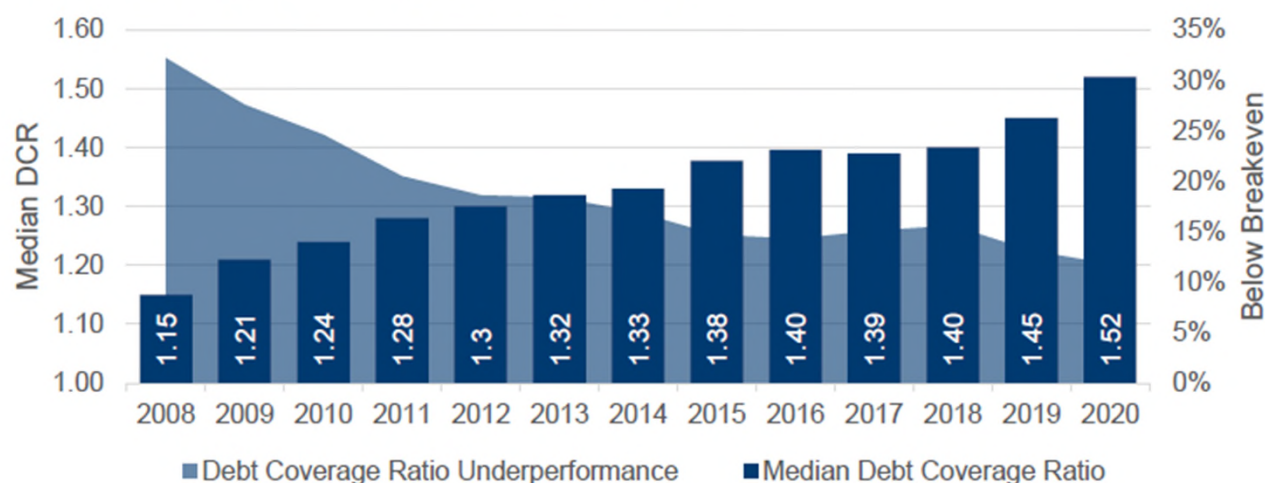


DEBT COVERAGE RATIO

Strong financial performance trend sustained as evidenced by a **1.52** national median DCR in 2020

Less than **12%** of the national portfolio operated below breakeven in 2020, significantly declined from 32% in 2008

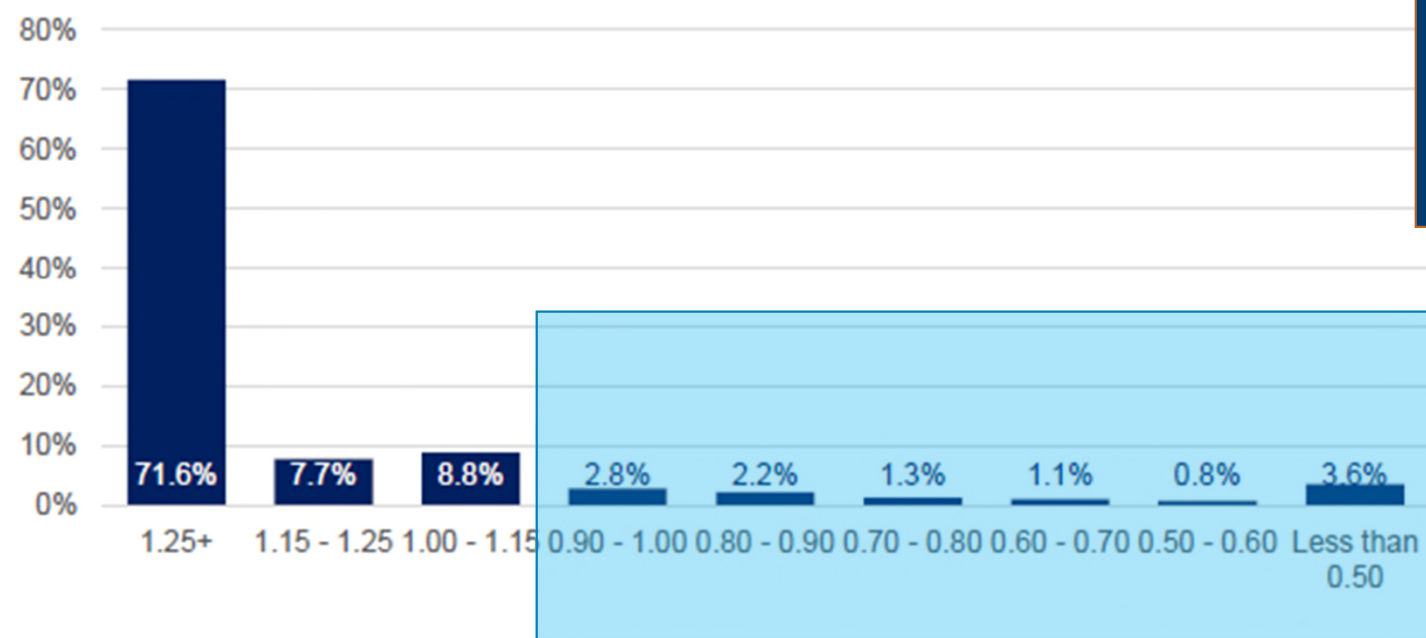
National Debt Coverage Ratio Trend





DEBT COVERAGE RATIO

National Distribution of Debt Coverage Ratio: 2020

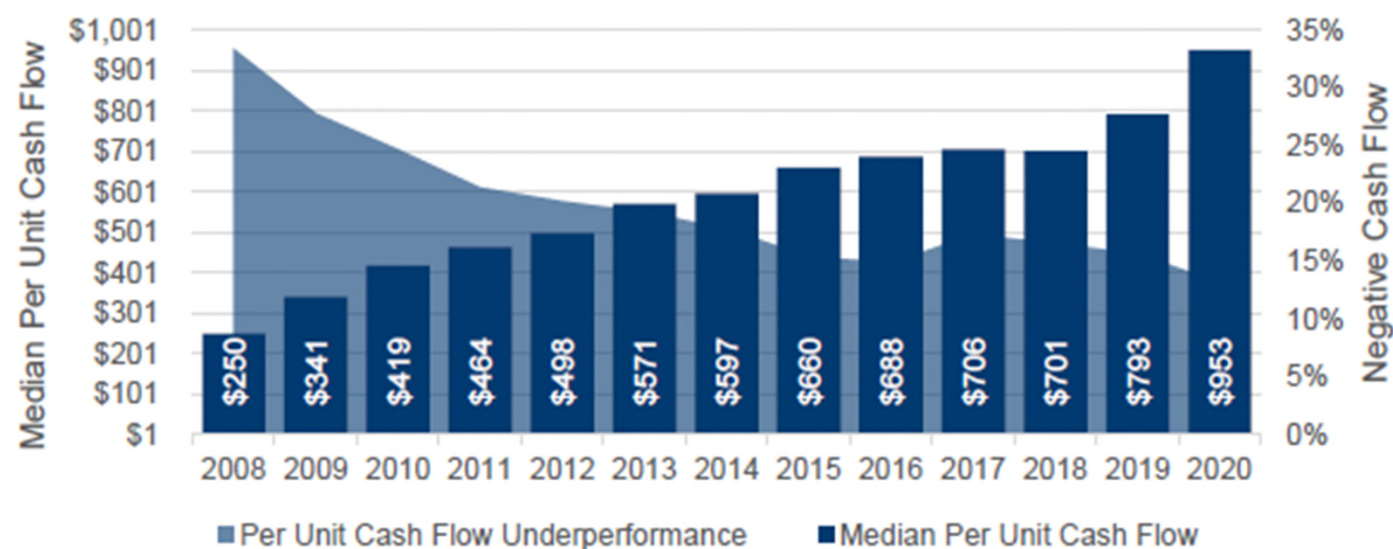


Strong financial performance trend sustained as evidenced by a **1.52** national median DCR in 2020



PER UNIT CASH FLOW

National Per Unit Cash Flow Trend



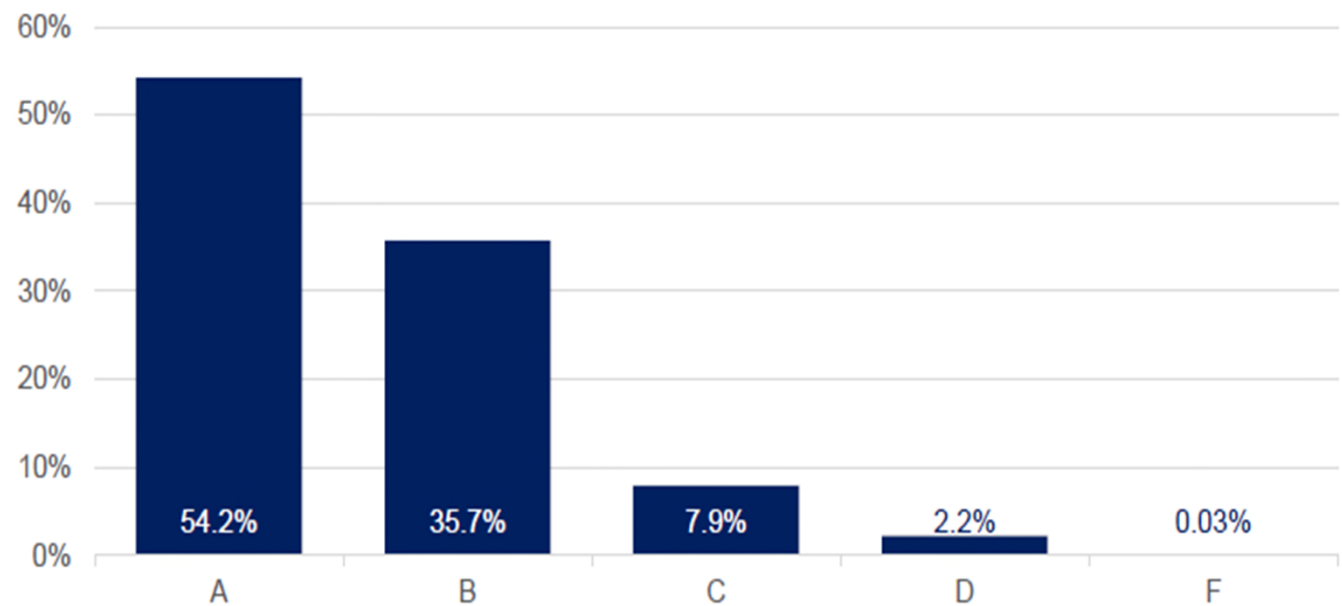
Consistent with DCR trend, per unit cash flow increased again in 2020



AHIC RISK RATING

Watch list reached a
historical low of under
10.5%

Risk Rating Distribution 2020

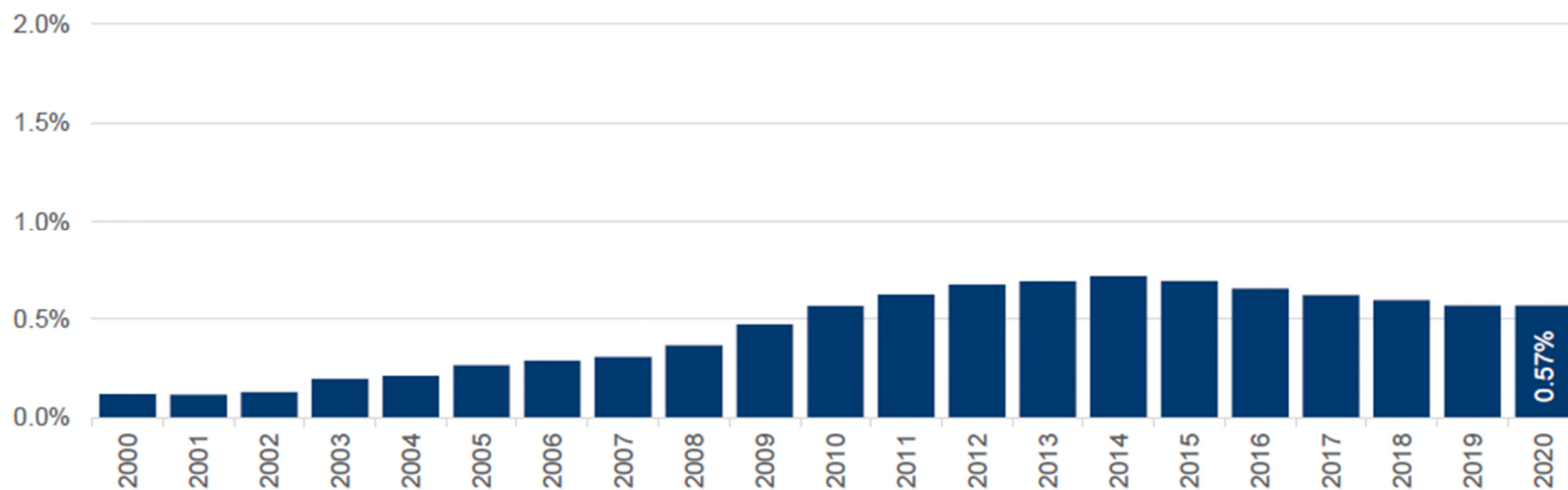




FORECLOSURE RATE

The cumulative foreclosure rate of **0.57%** ranks tax credit properties amongst the safest real estate asset classes

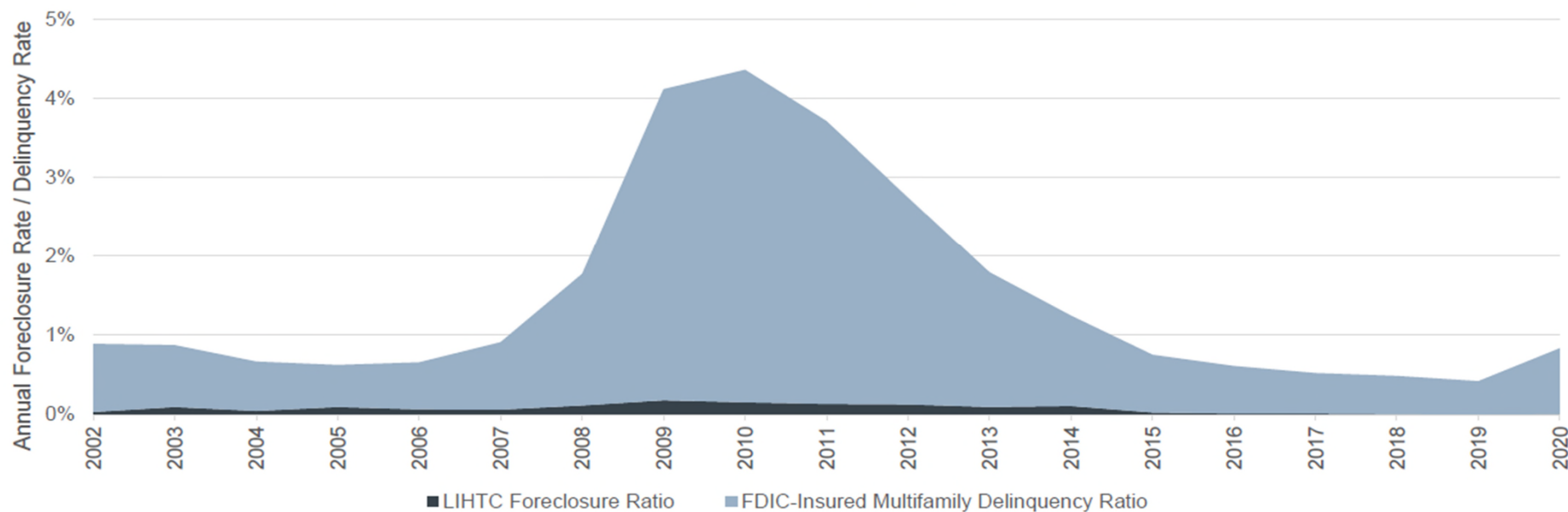
Cumulative Foreclosure Rate (by property count)





LIHTC FORECLOSURE VS. CONVENTIONAL

Annual LIHTC Foreclosure Rate vs. Conventional Multifamily Delinquency Rate



Recent Trends

What are we seeing now?

1. Interest Rates
2. ESG
3. Credit Layering
4. Exit Options

Recent Trends

Adjusting to interest rate hikes

- / Closing timelines
- / Lower perm loans, tighter budgets
- / LP capital accounts taking losses faster
- / Swaps agreements

Recent Trends

ESG – Environmental Social Governance

ESG considerations in LIHTC

- / Investors have an appetite for ESG and this is driving lower-tier changes
- / Responsible growth: What does this look like?
- / Funds specific to BIPOC developers, aimed at social and racial equity

Bank of America and Enterprise Community Partners - Equitable Path Forward

☐ Purpose –

- ☐ Proprietary fund to help facilitate racial equality in affordable housing real estate development by increasing access to LIHTC equity and debt financing for Black, Indigenous People of Color (BIPOC) Developers.
- ☐ This initiative is designed to create sustainable, intergenerational wealth amongst BIPOC for-profit developers while having a positive, transformational impact on LMI communities

☐ Program –

- ☐ Bank of America Community Development Banking is the first bank to launch a fund with dedicated financing and support to BIPOC developers.
- ☐ In partnership, Enterprise Community Partners will provide support and guidance to increase the bandwidth of those BIPOC developers that come through the program.
- ☐ BofA - CDB in partnership with Enterprise Community Partners is investing \$60 million – \$30 million in construction loans and \$30 million in LIHTC equity financing to support Black, Indigenous People of Color.
- ☐ \$60MM BIPOC Affordable Housing Initiative ([April 28, 2021 Press Release](#))
- ☐ Closed 1st Project in 2022 located in Washington, DC deploying over 62% of committed capital

☐ Parameters –

- ☐ *Target Population:* Must be BIPOC led, owned and/or operated (a non-minority women would not qualify)
- ☐ *Experience:* Some LIHTC experience as a Developer and/or GC – ideally, has successfully participated in one or two LIHTC deals solely or as JV partner
- ☐ *Financial Strength:* Positive liquidity and net worth, ideally \$500K and \$1MM (or close to these targets)
- ☐ *Pipeline:* BIPOC Developer should have a target LIHTC or active LIHTC potential pipeline s



Recent Trends

Uptick in credit layering

- / 45L credits, state credits, solar credits
- / Impact of state credits on pricing?

Exit options

- / ROFRs, purchase options (post-credit period and post-compliance period)
- / Appraisals
- / Exit Taxes

What to Watch

So....where are we going?

What to Watch

1. ESG initiatives—just getting started
2. Changes to income standards
 - / What AMI limits can/should look like
 - / Income averaging standards
3. Cost of capital and rising ROR expectations
4. Fewer units with skyrocketing construction costs
5. How to transition from affordable housing to affordable homeownership?

Thank you! Questions?



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