

## LIHTCs Down An Average of 10 Cents

By Anne Townsend, Staff Writer, Novogradac & Company LLP

The peak in low-income housing tax credit (LIHTC) pricing witnessed by developers and investors in the fall of 2006 is long gone. Industry professionals report that in today's market it's more difficult to see a project through to completion because of a decline in credit prices. Current tax credit prices range from the mid 70 cents to the mid 80 cents—notably lower than the \$1 or more price per credit that some deals were fetching 18 months ago.

Dave Martin, of Red Capital Group (Red), reports prices from 80 cents to 88 cents on the dollar, while one year ago, he said, Red was paying 92 cents to \$1.02 depending on the deal. Meanwhile, Paul Cummings, vice president of Enterprise Community Investment Inc.'s (Enterprise's) tax credit syndication group, said he's seeing prices of a similar vein.

"Generally we're seeing pricing in the 80-cent range, anywhere from 80 to the high-80s," Cummings said. "This is a drop from a year ago, and I think that in most markets the price per credit probably dropped at least 10 cents. On the coasts, or in California or New York for instance, you probably aren't seeing the kind of price drop as you are in central parts of the country."

However, Cummings said, every market is experiencing a price drop.

Sebastian Corradino, managing director of RBC Capital Markets and president of the tax credit syndication group, reports pricing in the mid to high 80s but says that in rare circumstances, some deals see pricing in the mid 90s. He also says that when considering a potential LIHTC investment, he looks for deals with lower leverage.

"We don't want to be weighed down with a lot of debt," Corradino said. He also said he looks for deals that rep-

resent a strong real estate investment opportunity, have good sponsorship, and have excellent financial structure. But this is nothing new for RBC.

"We haven't been operating differently, we're not profiling differently," he said. "We're buying with the same qualitative filter that we've had for some time. This has not changed with the market."

Beth Stohr, LIHTC director at U.S. Bancorp CDC, a direct investor, said that the manner in which an investment is underwritten hasn't materially changed. Rather, she said, the way investments are viewed in the current market has changed.

"For instance, in today's environment there is a much higher visibility given to a flat rent scenario and to rising utility costs, so you have to look at different ways that you stress-test the deal," Stohr said. "The ultimate goal of this investment is the production of sustainable housing. And if you don't underwrite the project at a sustainable level, then we undermine the point of the program."

Stohr said U.S. Bancorp looks for experienced sponsorship, strong markets and modest leverage when considering a possible LIHTC investment.

Cummings said that the quality of investment is first and foremost.

"In light of the market credit concerns across the board, real estate has seen an increased focus on disinvestment," he said. "Quality is generally underwritten, and people look at how the deal is structured, [its] timing, the market it's placed in, the demand for the unit type, whether it's designed or rehabbed. With less equity in the marketplace

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the filter is becoming more fine and quality drives the potential to support a certain price.”

The market is more geographically focused this year, Cummings said, because there is scarce equity in regions other than Community Reinvestment Act (CRA)-driven markets. Corradino said that rural markets have always had a strike against them because those markets tend to be less robust.

“[Rural markets] can be less desirable from a CRA standpoint,” Corradino said. “Having said that, we do plenty of rural deals because you can buy them at a certain price. Just because it’s rural doesn’t mean it’s no good.”

In regard to the type of projects favored, Corradino reports RBC made a conscious decision to move away from acquisition/rehabilitation deals about two years ago.

“We found the stressed properties tend to be acquisition/rehabilitation deals,” he said. “We have manifested for 9 percent new construction by bidding less aggressively

on bond deals. If you look at our fund profile now, [80 percent of it is comprised of] 9 percent deals and new construction deals.”

Martin reports that RED tends to avoid light rehabilitation deals, special needs housing and rural transactions. Cummings, on the other hand, reports that Enterprise favors housing that best serves the community.

“I think that if a rehabilitation is done well, and is structured well, [an investment of this type] can be a very efficient utilization of a scarce resource,” he said.

Louis Journey, managing member and owner of New Horizon Development, a developer doing a lot of business in the Southeast and Southwest, reports that banks, which tend to pay a little more, have offered him 90 cents for credits on certain deals, but that most prices range from 78 cents to 82 cents in Louisiana. This price, Journey said, is a 10 cent drop from prices he’d seen in the Gulf Opportunity (GO) Zone last year, and a 5-cent to 8-cent drop elsewhere.

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Journey attributes this drop in price to Fannie Mae, Freddie Mac and other big investors scaling back their investment in the LIHTC market. He also reports investors looking for new deals as opposed to rehabilitation and acquisition deals, while housing finance agencies (HFAs) favor rehabilitation of existing housing stock.

“If investors have to choose, they’re going new, not re-

hab,” Journey said.

Journey also acknowledged that many HFAs are making certain procedural changes in order to make it easier on developers in today’s market. (For more information on these changes, please see the related article on page 15 of the Journal.) “Anything that the industry can do to support these deals is important.” ❖

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