

LIHTC MONTHLY REPORT

A MONTHLY PUBLICATION OFFERING NEWS, OPINION, FEATURES AND COMMENTARY ON THE LOW-INCOME HOUSING TAX CREDIT INDUSTRY

April 2007, Volume XVIII, Issue IV, Published By Novogradac & Company LLP

LIHTC Prices Expected to Stabilize, Investors Achieve Higher Yields

By Anne Townsend, Staff Writer, Novogradac & Company LLP

The low-income housing tax credit (LIHTC) market peak witnessed by developers and investors last fall began a downward trend during the final quarter of 2006 and the first quarter of 2007, but industry professionals expect the price of the LIHTC to stabilize in the coming months. Generally, those within the industry say they have seen LIHTC prices drop to between 90 cents and \$1, with premiums along the Pacific and Atlantic coasts falling to the mid 90s. Investors, on the other hand, are achieving higher yields.

David Kunhardt, director of investor relations and marketing at RBC Apollo Equity Partners, has observed the decline in prices. "I can tell you that there was definitely a drop off in pricing by 5 to 10 percent of the going price per credit from a year ago," Kunhardt says. "We see some evidence of stabilization in certain parts of the country, especially where there is a strong fundamental multifamily rental market and where there are lots of bank merger activities — in those areas we have seen rebound and stabilization."

Authorities within the industry attribute the trends to basic supply and demand. "Overall in the first quarter of 2007 the market was long on product," says Paul Buckland, director of Wachovia Corporation's tax credit investment group. "There was just a lot of product that needed to be sold. That gave upper tier investors the ability to pick and choose. There were a lot of funds in the market at that point."

Other factors affecting the current LIHTC market trends include a desire on behalf of investors to escape the high pricing of a year ago, the fact that a few of the larger investors backed away from the market, and the recent changes with the U.S. Department of Housing and Urban Development's (HUD) 2530 process. The latter pushed

many investments back to 24 percent to avoid added paperwork and red tape.

Paul Weissman, director of Credit Suisse and senior vice president of Column Capital, says that current pricing reflects a rationalization of the market. "I think the prices are coming down to a level where there are rational economic buyers who are in the market, and not buyers who are purely motivated by other factors like housing goals or the Community Reinvestment Act [CRA]," he says.

LIHTC specialists say that the usual suspects are making waves within the pool of investors. "If not for General Electric's (GE's) fairly aggressive positioning in the market right now, the prices would have fallen further," Weissman says.

"With some increase in yields, I think we are going back up the bell curve of the total investor pool to a wider part of the curve. There are more companies coming in and willing to put money in our business right now because of that recovery," Kunhardt says. "When we were way down in the tail of pitiful returns, the number of investors was smaller so the industry was vulnerable to a smaller number of decisions."

Buckland says that so far in 2007, investors are looking to conventional deals. "They're looking at the most conservative deals in the highest populated markets, such as downtown Los Angeles and the inner-city Los Angeles — locations where affordable rents are at least 10 percent below market," he says.

Kunhardt says that 9 percent credit deals are the most appealing right now; "new construction or very substantial rehab — but not lightweight rehab," he says.

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"Projects that are going to be successful for 20 years boast great management, strong sponsorship, a nice healthy rent advantage to the market going in, and adequate financing and coverage of development costs without too much debt."

On tax-exempt bond (TEB) deals, Buckland says: "Investors are avoiding over-leveraged bond deals. If you have a bond deal, [investors are] looking at location a little bit harder. You want to be in just as good an area to do [TEB deals]." Buckland also noted that rural areas may attract TEB projects.

Investors also report increasing their yearly business goals. Depending on the market, Wachovia is looking to do anywhere from \$300 million to \$400 million in business this year. "Quality — we're trying to do quality volume," Buckland says.

Apollo closed on \$300 million of new investments dollars last year. "We are expecting to do \$500 million in 2007," Kunhardt says.

At \$400 million, Column Capital's goal for 2007 is also higher than last year. "Our goal is a little higher than we had originally anticipated and spreads are less. In order to generate the revenue we need to buy a little more than what we were planning," Weissman says. ❖

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ISSN 1094-8684