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LIHTC Survey Confirms Consistent Yield Delivery, Low Foreclosure Rates

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Investments in federal low-income housing tax credit (LIHTC) projects continue to meet investor yield expectations, exceeding anticipated returns by an average of 1 percent, according to an updated survey of the LIHTC investment sector. The results were released in late June as an updated to a previous report undertaken in 2000.

"This year's survey gives further credence to the conventional wisdom that housing tax credit investments deliver solid returns to investors," said Fred Copeman, national director of tax credit investment advisory services at Ernst & Young LLP.

"Understanding the Dynamics II: Housing Tax Credit Investment Performance," was based on audited financial statements and information for the calendar year 2002. The survey, undertaken jointly by Ernst & Young's Tax Credit Investment Advisory Services and Quantitative Economics and Statistics, captures more than one-third of all LIHTC properties produced to date - more than 7,000 properties representing nearly \$15 billion of equity investment since 1987. The study analyzed 2002 operating data reported by these properties and compared the data with the 2000 study.

Among the key findings in the survey:

- ♦ Average LIHTC properties continued to perform well in 2002, reporting average occupancy of 95 percent, an average hard debt coverage ratio of 1.11 and annual cash flow of \$211 per apartment unit.
- ♦ In 2002, properties representing 15 percent equity invested reported less than 90 percent occupancy and properties representing 20 percent of equity invested reported negative cash flow. However, the survey found that a more

modest 5 percent of investments reported less than 90 percent occupancy and only 12 percent reported less than \$0 cash flow in both 2000 and 2002, indicating that the incidence of underperformance appears to be a temporary phenomenon for most properties.

- ♦ From 2000 to 2002, occupancy rates remained fairly constant while cash flow per unit decreased. The percentage of properties that reported cash flow of less than \$0 increased by 14 percent between 2000 and 2002. Despite this occurrence, foreclosure rates for this real estate class remain low at 0.01 percent annually, and investment yields exceed original projections by 1.0 percent.
- ♦ Larger LIHTC properties tend to outperform smaller properties on a per-unit basis.
- ♦ LIHTC properties located in coastal markets including California, the Northeast and Florida continue to outperform those located in the upper Midwest and portions of the Southern United States. ❖

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