

## Increasing Demand: Syndicators Court New LIHTC Investors

By Jennifer Dockery, Staff Writer, Novogradac & Company LLP

It's no secret that the departure of Fannie Mae and Freddie Mac from the low-income housing tax credit (LIHTC) equity market has affected tax credit prices, or that the failure of many traditional tax credit investors has led to a surplus of credits. With fewer national banks and government-sponsored enterprises buying credits, the affordable housing industry needs new LIHTC investors. During the past year, syndicators have spent numerous hours decoding the LIHTC program for community banks and other companies interested in investing in affordable housing.

"We're expending a lot of shoe leather and reaching new investors and new opportunities. Large corporations that haven't invested in the past require a few different items," said Douglas M. Able, senior vice president in capital markets at Enterprise Community Investment Inc. Able and other syndicators have been teaching LIHTC basics, cold calling businesses and hosting seminars to introduce potential investors to the product.

### Keeping in Local

Like many regional syndicators, Great Lakes Capital Fund (GLCF) is returning to a model that it used 15 years ago—state specific equity funds. The syndicator has designed community investment funds to attract investors interested in the five states in which it operates—Michigan, Indiana, Wisconsin, Illinois and upstate New York.

"We think it has a lot of resonance right now for investors who might have an interest in investing in one state ... we're targeting those institutions that haven't been in [the market] before. [We've] tailored the threshold pay to a level more digestible for smaller banks," said James L.

Logue III, chief operating officer at GLCF. GLCF equity funds have had a \$1 million minimum commitment, but investors can buy into the new funds for \$250,000.

The response has been good and Logue is encouraged by the number of meetings that GLCF has had with potential investors. He expects to see investments in the fourth quarter of this year or early next year.

"The real attraction is that [local investors] would be making an investment in their state when this capital is really needed," Logue said.

Mountain Plains Equity Group Inc. (MPEG), based in Billings, Mont., is reducing the number of properties and geographical reach of its funds. MPEG, which syndicates LIHTCs for properties in Montana, Wyoming, Colorado and the Dakotas, is approaching local banks about investing in a single property rather than a portfolio. The smaller, local investment appeals to many community banks that like the idea of a hometown property with a defined investment.

"It's a way to elevate a local project, to open the door for smaller banks that may not have had the opportunity to invest in LIHTC projects in the past," said Donald J. Sterhan, president and chief executive officer (CEO) of MPEG. MPEG said that the community banks could invest as little as \$2 million in a property. "This is something they can touch and feel in their own hometown."

MPEG has been incorporating bridge loans in its transactions to allow for a smaller initial investment. By using a bridge loan, the investor can invest smaller amounts in the property over a longer period rather than investing the

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entire amount up front. Investors can use borrowed capital to delay their investment and increase their returns, Sterhan said.

Community Affordable Housing Equity Corporation (CAHEC) is creating funds more attractive to community banks in the Southeastern and mid-Atlantic states it serves. The syndicator, based in Raleigh, N.C., hopes that an initial investment will lead to continued investment in the CAHEC's equity funds.

"We're very cognizant of [smaller investors], especially community banks. Helping them understand the process and coming up with a product that is geographically appealing. You're laying the foundation ... as time goes on they will become programmatic investors," said Dana Boole, president and CEO of CAHEC.

In New Hampshire and Maine, the Northern New England Housing Investment Fund (NNEHIF) has also been reaching out to community banks. In order to attract more community banks to funds, NNEHIF is encouraging developers to approach their community banks di-

rectly.

Most syndicators, including NNEHIF and Enterprise Community Investment Inc., have also participated in seminars that the Federal Home Loan Banks have offered for medium and small banks.

## Beyond Banks

When the LIHTC program began in the 1980s, it attracted a significant number of investors from outside the financial sector. As yields fell and banks' appetites for Community Reinvestment Act-related investments increased, most non-financial companies left the market. Now, rising yields are making an investment in LIHTCs more attractive to companies with large tax appetites.

"We have seen the reemergence of certain investors in the marketplace. [We're] seeing some of the old names come into the marketplace ... the return is a driver. The returns in the marketplace are up steadily in the past couple years," Able said.

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ISSN 1940-4980

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Boole said that CAHEC has been highlighting increased yields when talking to investors.

“We’re marketing a fund from a yield perspective ... talking about historical performance of the portfolio. We’re not making promises, but showing how successful it has been, showing how diversification has led to a strong portfolio,” Boole said.

In addition to the returning investors, syndicators are seeing interest from new investors, including utility companies, and manufacturing and insurance companies. Logue said that GLCF has been in talks with a computer company and a medical equipment manufacturer. Because of its footprint, MPEG has been targeting energy companies, particularly gas and coal.

“In today’s political environment, energy companies have an ongoing battle. This gives them a good opportunity to demonstrate to the community and the nation that they are interested in investing in low-income area. They have a vested interest in some of these communi-

ties,” Sterhan said. Last year’s changes to the alternative minimum tax rules have also removed some of the barriers that energy companies faced in the past.

## On the Horizon

As of mid-September, most potential investors were still in the information gathering stage. Able said that new investors usually need 12 to 18 months to become comfortable with the program. Sterhan agrees that it can take as long as a year for companies to become comfortable enough with the LIHTC program to invest. GLCF’s Logue said that the syndicator has a few smaller banks investing in its funds, but doesn’t expect to see new investors entering the market until late 2009 or early 2010.

“We’re very encouraged with this platform. It’s a lot of hard work, effectively retail sales, but we see it starting to show some signs that it will serve the needs of our development partners and get some quality housing in the states we’re working in,” Logue said. ❖

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*This article first appeared in the October 2009 issue of the Novogradac Journal of Tax Credit Housing.*

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