NOVOGRADAC
Journal of Tax Credits™

June 2024 • Volume XV • Issue VI
Published by Novogradac

EXCERPT

Debt and Equity Market Updates

Outside Forces Slow OZ Investment, but Economy, Extension Could Spur Increase

A looming expiration date and a decrease in capital gains events are combining to put a damper on OZ investing, but many advocates are confident that things could change quickly.

Affordable Housing Debt and Equity Outlook: What Affordable Housing Developers Should Know

Affordable housing developers are navigating myriad challenges, including the oversubscription of private-activity bond volume cap, high interest rates and increasing insurance premiums.

NMTC Investor Market Remains Strong in 2024, But Questions are on the Horizon

Demand for NMTC investment is robust. How might NMTC permanence or a combined allocation round affect appetite and pricing?

The ABCs of NMTC Source Leverage Lending

The leverage loan structure has evolved substantially from the early days of the NMTC incentive, including ways to mitigate certain risks.

Insights on Affordable Housing, Community Development, Historic Preservation and Renewable Energy

NMTC Investor Market Remains Strong in 2024, But Questions are on the Horizon

MARK O'MEARA, SENIOR COPY EDITOR, NOVOGRADAC

New markets tax credit (NMTC) practitioners describe the investment market as "strong, "stable" and "robust."

"The market is very strong. The last year has been as strong as ever," said Steve Kramer, director of business development for NMTCs and historic tax credits at U.S. Bancorp Impact Finance, an NMTC investor, syndicator and community development entity (CDE). "The Increase from $3.5 billion to $5 billion in allocation has been well received. It's the second year of the $5 billion rounds, which have been absorbed easily."

Maurice Coleman, market executive, community development banking at Bank of America, used the exact same word to describe the NMTC investor market.

"The market is strong. Investors are looking for opportunities to deploy capital using NMTCs for community impact, investor yield and local job creation in [low- and moderate-income] communities," said Coleman. "There is still very high demand for NMTC investment, especially as more businesses consider footprint expansion into low- and moderate-income census tract communities."

En Jung Kim, head of the NMTC team for JPMorgan Chase, used a synonym of strong to describe the investor market.

"Based on our pipeline of activity, the appetite for credits appears robust," said Kim. "We invested $400 million in NMTCs [last year]. The pace of investment is at a record high. We closed 19 projects in March alone. We have never closed that many deals in a single month."

Todd Crow, executive vice president and head of PNC Multifamily Capital, called the market "stable."

"With increased interest rates, we saw upward pressure on yields across most types of financial assets," said Crow. "NMTC pricing seems to have remained more stable than most as increased funding costs did not impact pricing as much as other types of financial assets or even other types of tax credit investments."

Pricing and Yield

"In the short run, I don't see anything that is going to move pricing in any material way," said Crow. "Currently, we are seeing pricing in the mid-70s to the low-80s [cents per credit]. That's about the range. I don't see anything moving it in the short term."

Coleman said the equity market remains steady.

"Pricing and yields are consistent [to one year ago]," said Coleman. "Our focus remains on investing in deals that meet our return metrics, fulfill our [Community Reinvestment Act] CRA needs, and have impact on the communities that we serve as a leading financial institution."

Coleman said 'competition' is what's effecting pricing and yields. "As more banks wrap up the CRA cycle, some will pay a premium for the right deal with the right client in the right market," said Coleman.

Popular Investment Locations and Development Types

NMTC investors invest in different geographical areas for their own reasons.

Kramer said that the targeted states are getting increased investment as well as states with a state NMTC program.

"Where investments are made by CDEs and investors is partly driven by the CDFI Fund's identified underserved states, which change each year based on where prior allocations are invested. With the two most populous states of Texas and California currently identified as targeted states, we are seeing a lot more investment opportunity in those states," said Kramer. "States that have active state NMTC programs–like Illinois and Louisiana–drive federal NMTC investment there as well."

Crow said that PNC has focused on investing coast-to-coast for years, but with an emphasis on major PNC market locations.

"We are as committed as ever to support the markets where we and our clients live and work," said Crow.

Chase casts a broad net for NMTC investing.

"Chase is a national investor," said Kim. "We invest in both rural and urban locations and prioritize markets with income disparity."

The NMTC program is a flexible tool that can finance community development of all shapes and sizes.

"Some of the most compelling features of investing in NMTCs are the ability to work with CDEs that are passionate about the communities they serve and the variety of worthwhile projects we can help finance, including charter schools, food banks, manufacturing facilities, etc.," said Crow.

In terms of investment types, Kramer is seeing more of the same.

"Health care facilities, education and social services are very competitive projects," said Kramer. "So is job creation in rural areas."

Chase's broad investment approach also applies to project types.

"We are flexible," said Kim. "We invest in both nonprofit and for-profit developers, manufacturing facilities (for-profit), community facilities (nonprofit) and we have seen a lot of investment in federally qualified health centers."

Conversely, Kim said that traditional community facilities, like a YMCA, are seeing less investment.

"Community facilities historically received a lot of NMTC allocation," said Kim. "They are having more difficulty now and this may have to do with job metrics. Sometimes for these types of projects, the impact data is harder to quantify."

CRA Considerations

"CRA is very important–It's a key tenet to our 'profit with our purpose' strategy," said Coleman.

For Chase, CRA needs are a piece of the puzzle.

"CRA continues to be an important part of NMTC activity," said Kim. "Over recent years, there has been a real effort to overhaul CRA. But that's on pause."

The Possibility of Combining the Last Two Rounds of Allocation and a Push for Permanency

"There are some efforts to combine the last two rounds [of NMTC allocation] into one $10 billion round," said Kim. "This would expedite the discussion of permanency.

But we have never seen $10 billion hit the market. What that does to tax appetite would be very interesting to see."

Crow had one question about the effects of a double allocation round.

"Will increased supply effect pricing?" said Crow.

Kim acknowledged both positives and potential pitfalls to a double allocation round.

"How do we do a double round?" said Kim. "I'm optimistic we can absorb the $10 billion. On the project side, there are plenty of good projects that go unallocated each year. Seeing $10 billion would be exciting because it would allow for the industry to do more. If we are able to invest the $10 billion, that will create a strong case for program permanency."

Program permanency is something the entire industry is pushing for. Industry participants agreed that program permanency would not only bring stability, but it would grow the program.

"The program needs to be formalized since it's been around for 20 years," said Coleman.

"We are in a perpetual state of temporary extensions," said Kramer. "There are two more rounds authorized. A lack of permanency keeps other investors at bay. It has been that way since 2006. Now, a five-year extension is ending at the end of 2025. … Push for permanency and once we get it, we will see impacts expand even more."

It's important to advocate for program permanency.

"Permanency is by far the most important thing," said Kim. "Storytelling is important. Go to ground breakings and ribbon cuttings, share your experiences with local elected officials so they can advocate on behalf of the program."

NOVOGRADAC®

CONTACT

CORRESPONDENCE AND EDITORIAL SUBMISSIONS
Teresa Garcia
teresa.garcia@novoco.com
925.949.4232

ADVERTISING INQUIRIES
Christianna Cohen
christianna.cohen@novoco.com
925.949.4216

ISSN 2152-646X