Analyzing the Impact of the Financial Crisis on LIHTC Property Values

National Council of Affordable Housing Marketing Analysts
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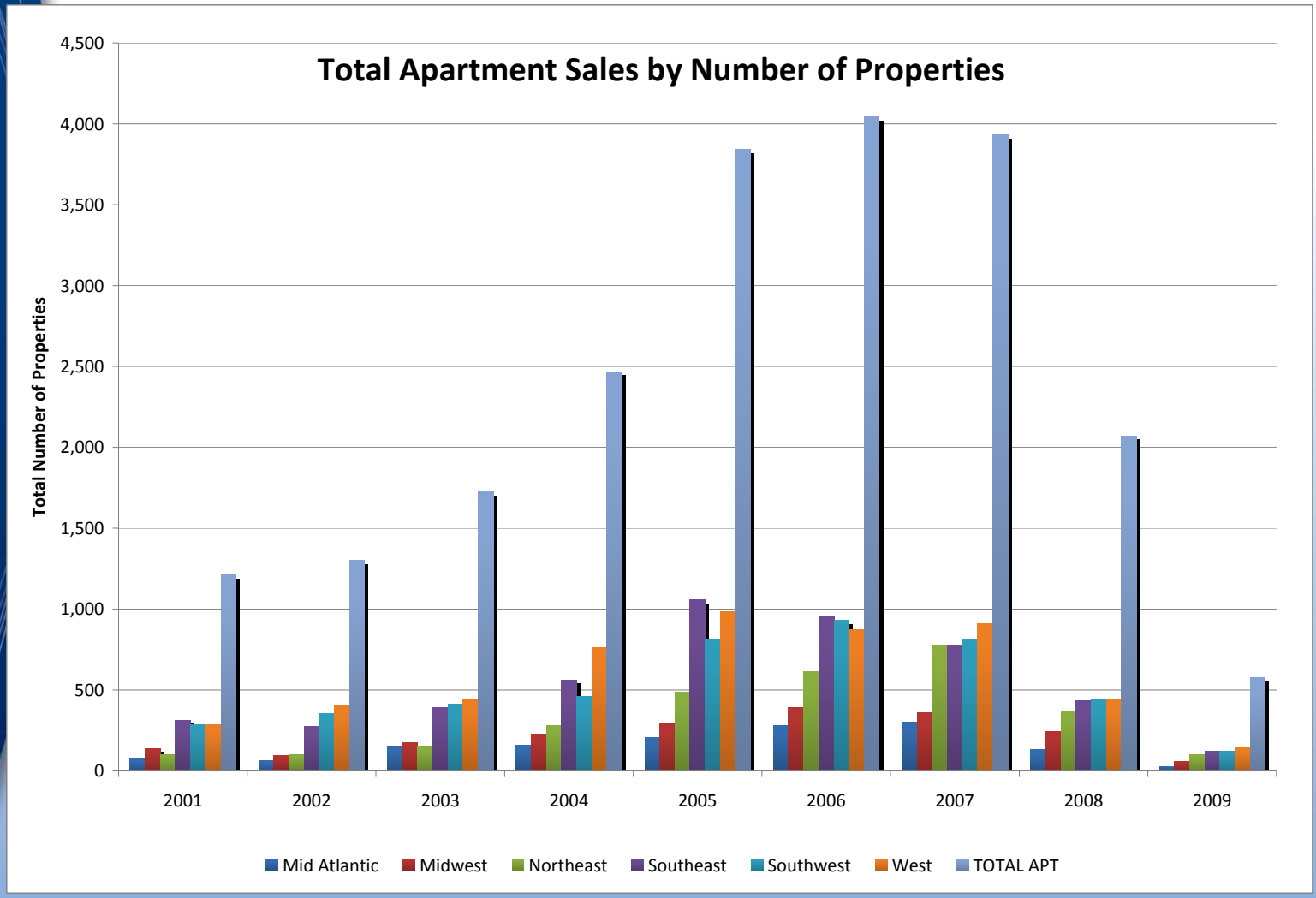
THE CLIFF

Total Apartments Sales



Source: Real Capital Analytics

Total Apartment Sales by $ Volume

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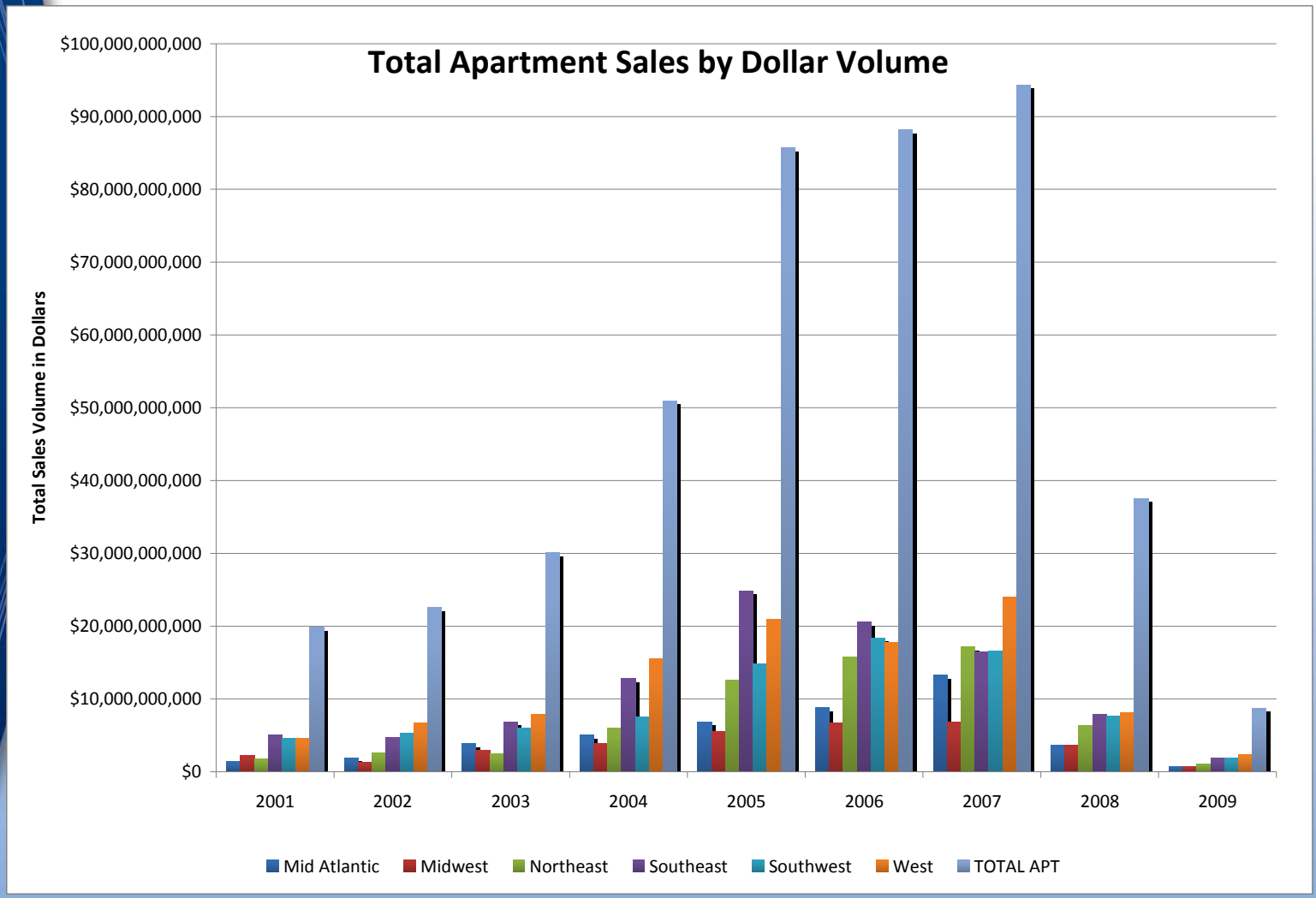
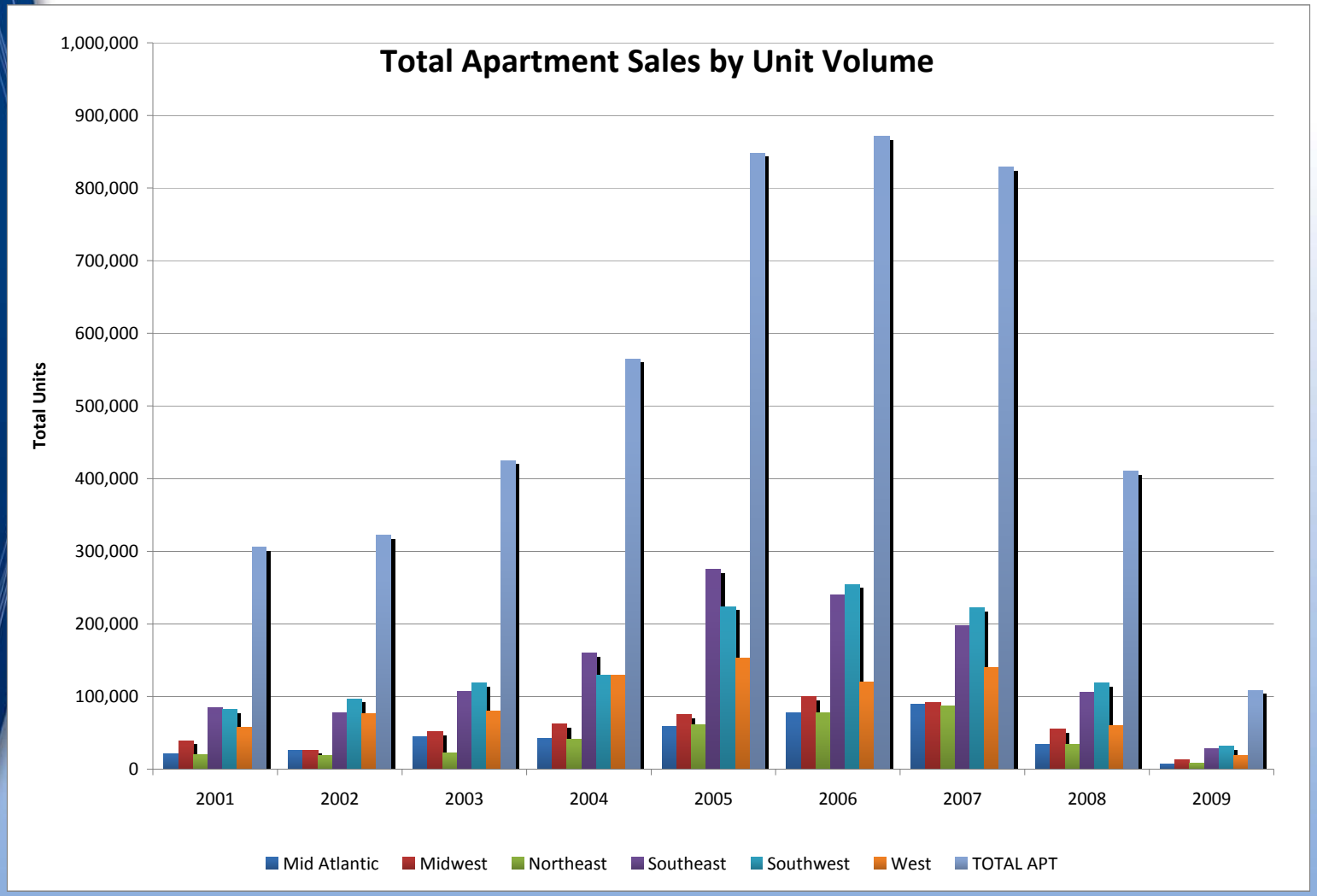


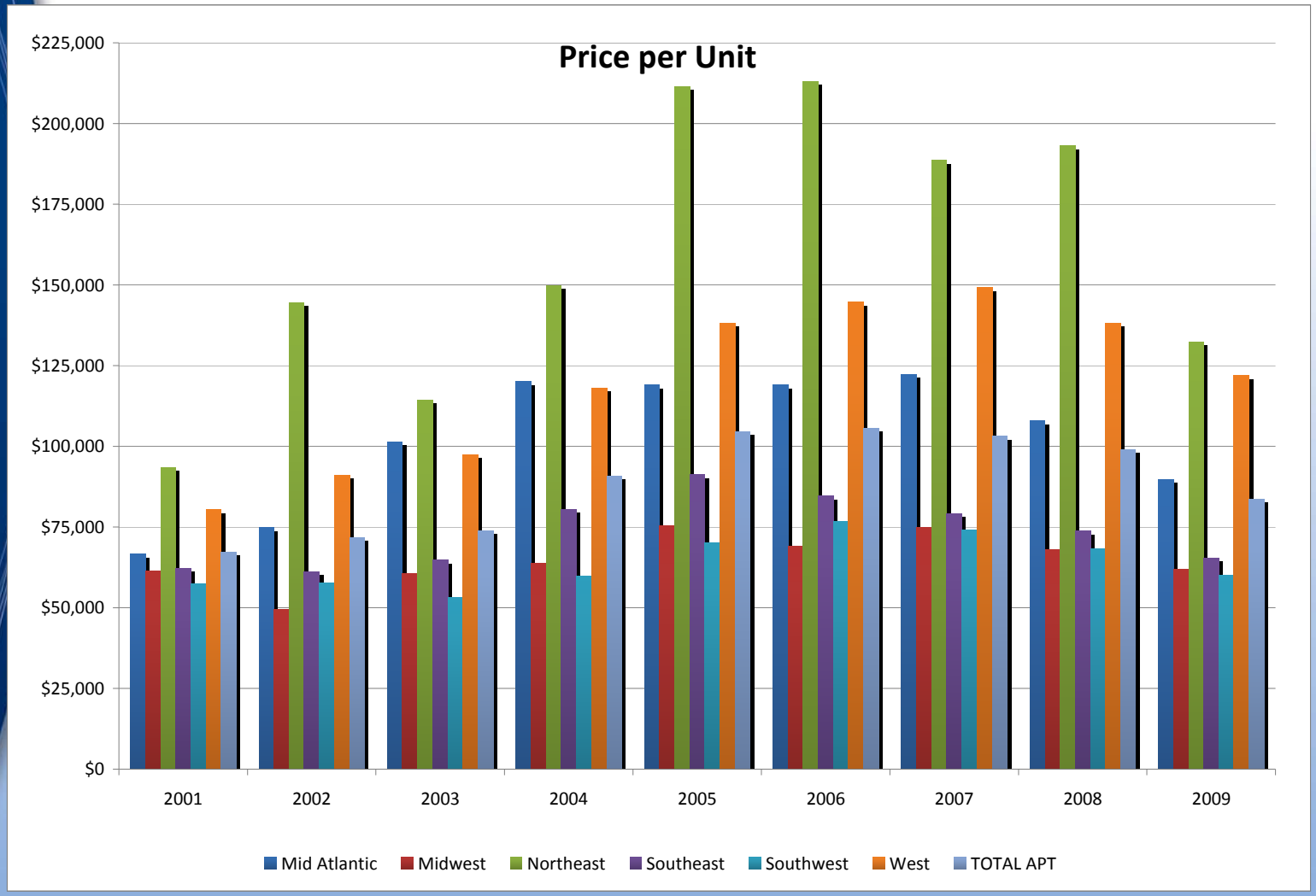
Source: Real Capital Analytics

Total Sales in Units



Source: Real Capital Analytics

Price per Unit



Source: Real Capital Analytics

Cap Rate Trends

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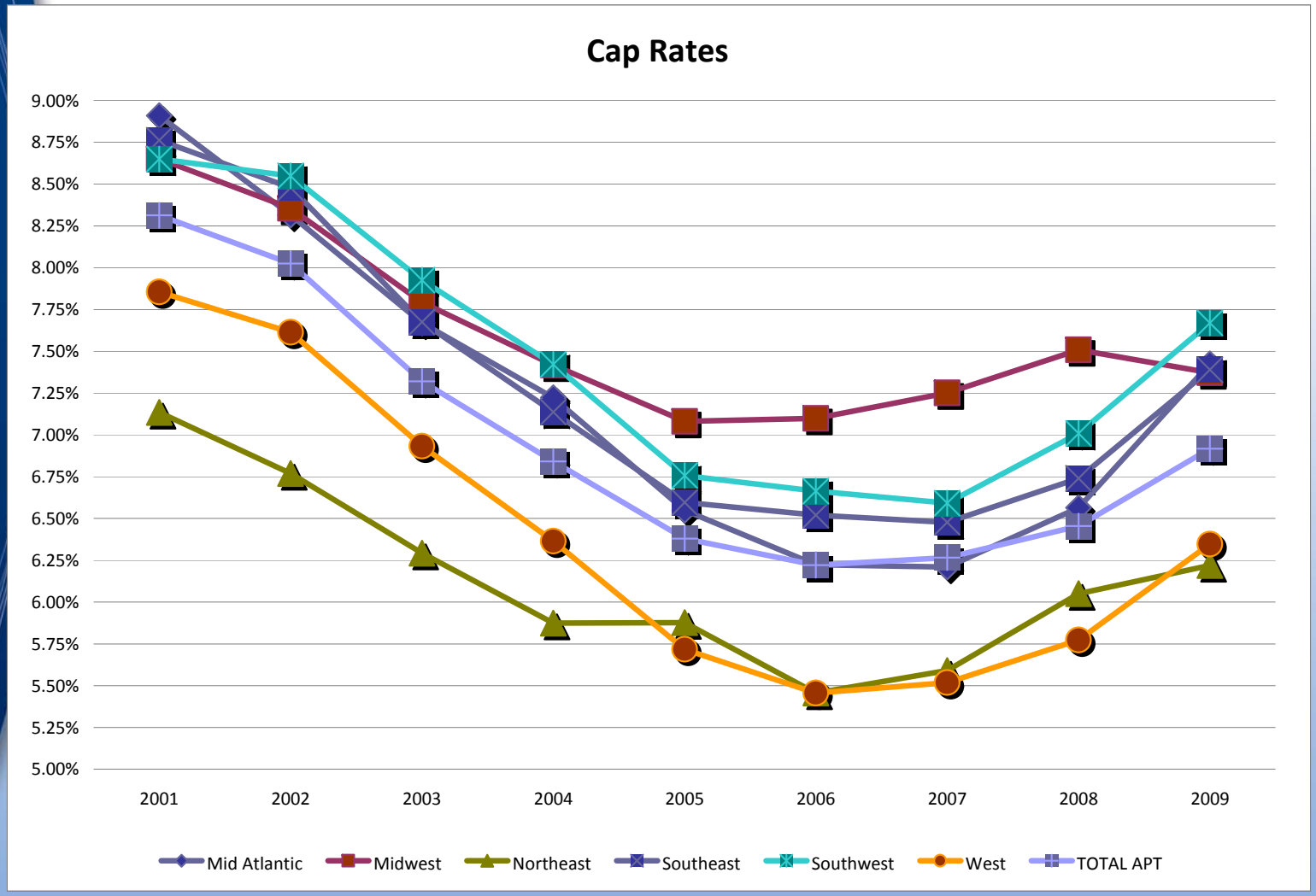

Financing

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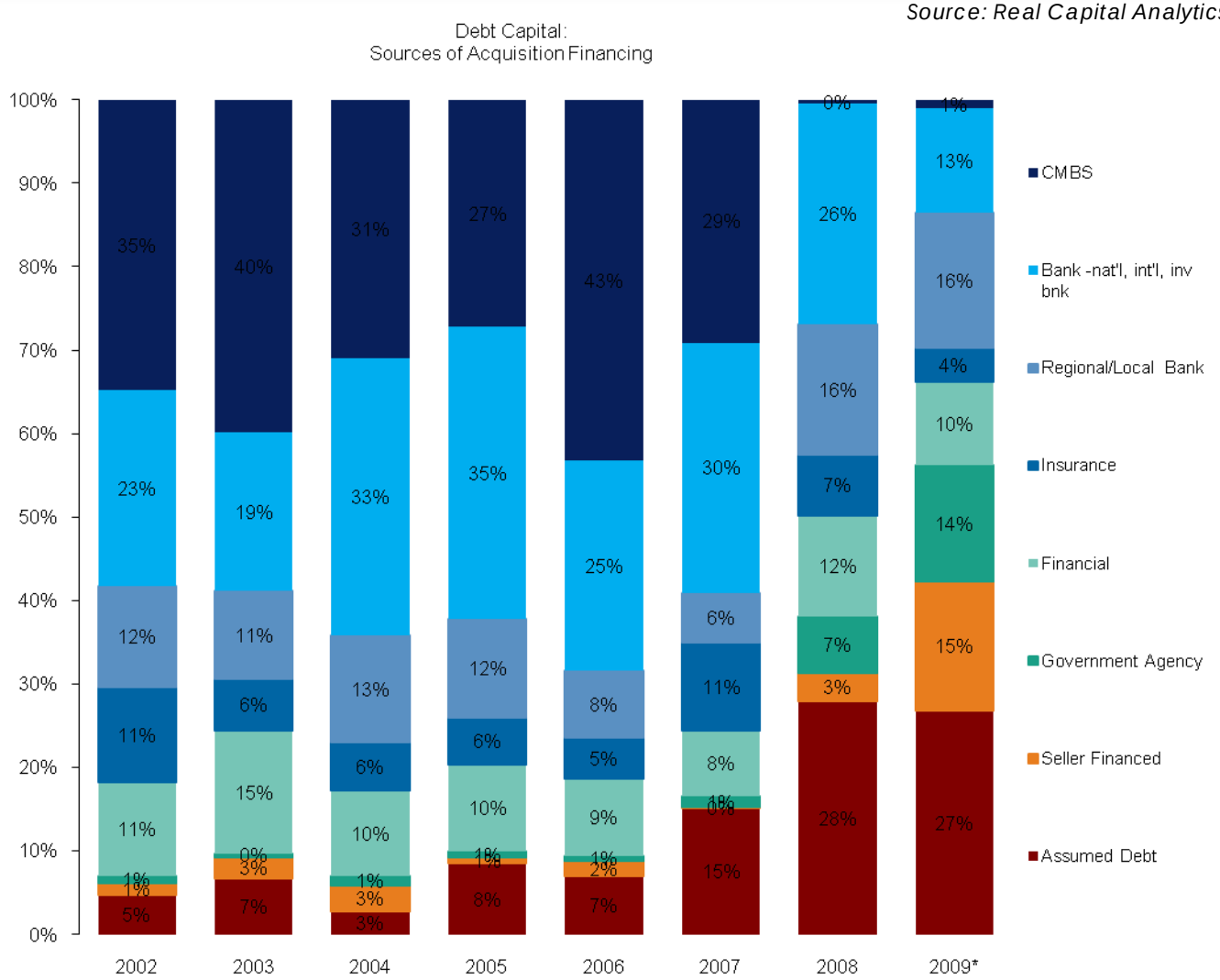
Source: Real Capital Analytics



Apartment Cap Rates & Spreads

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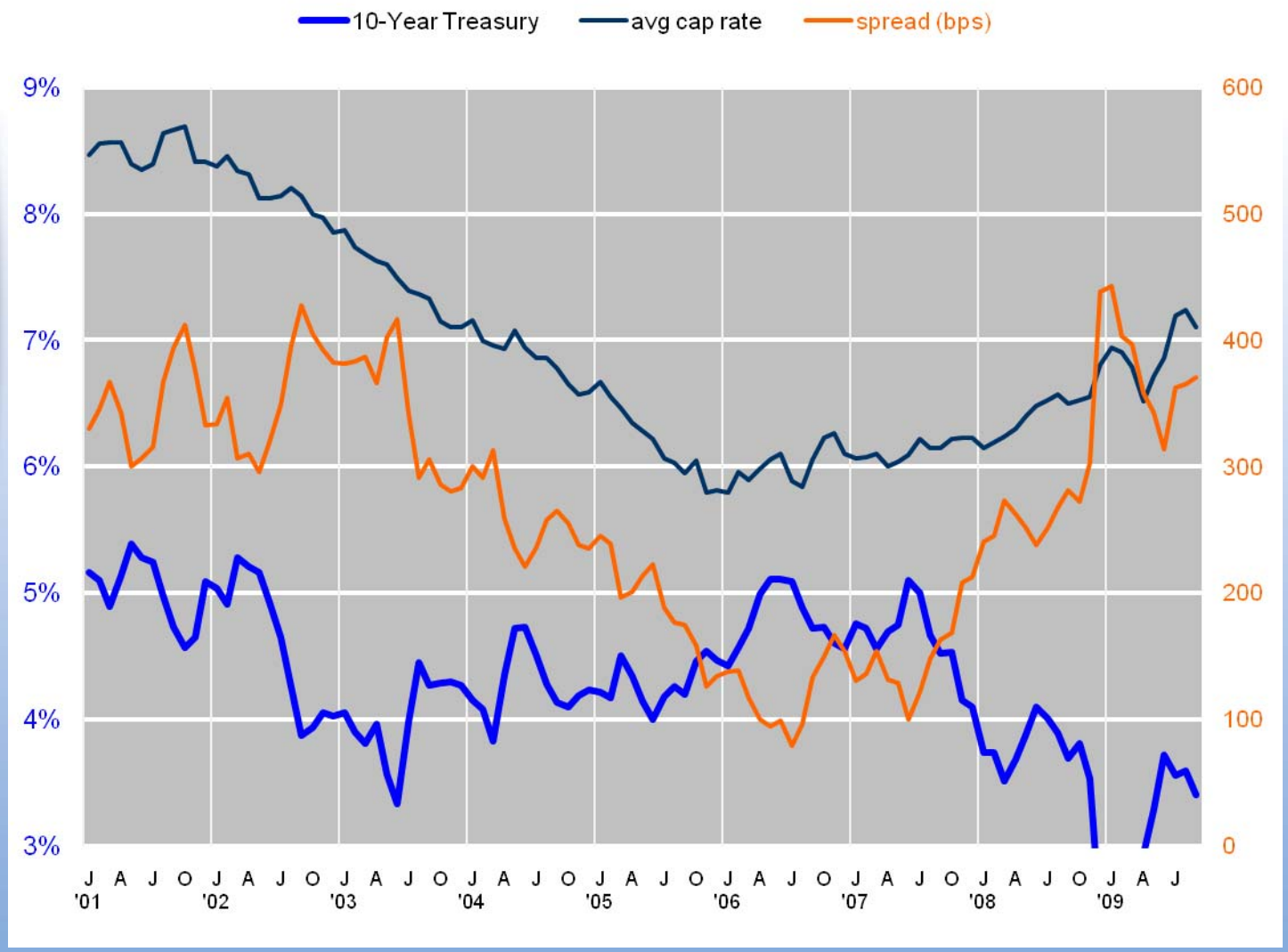
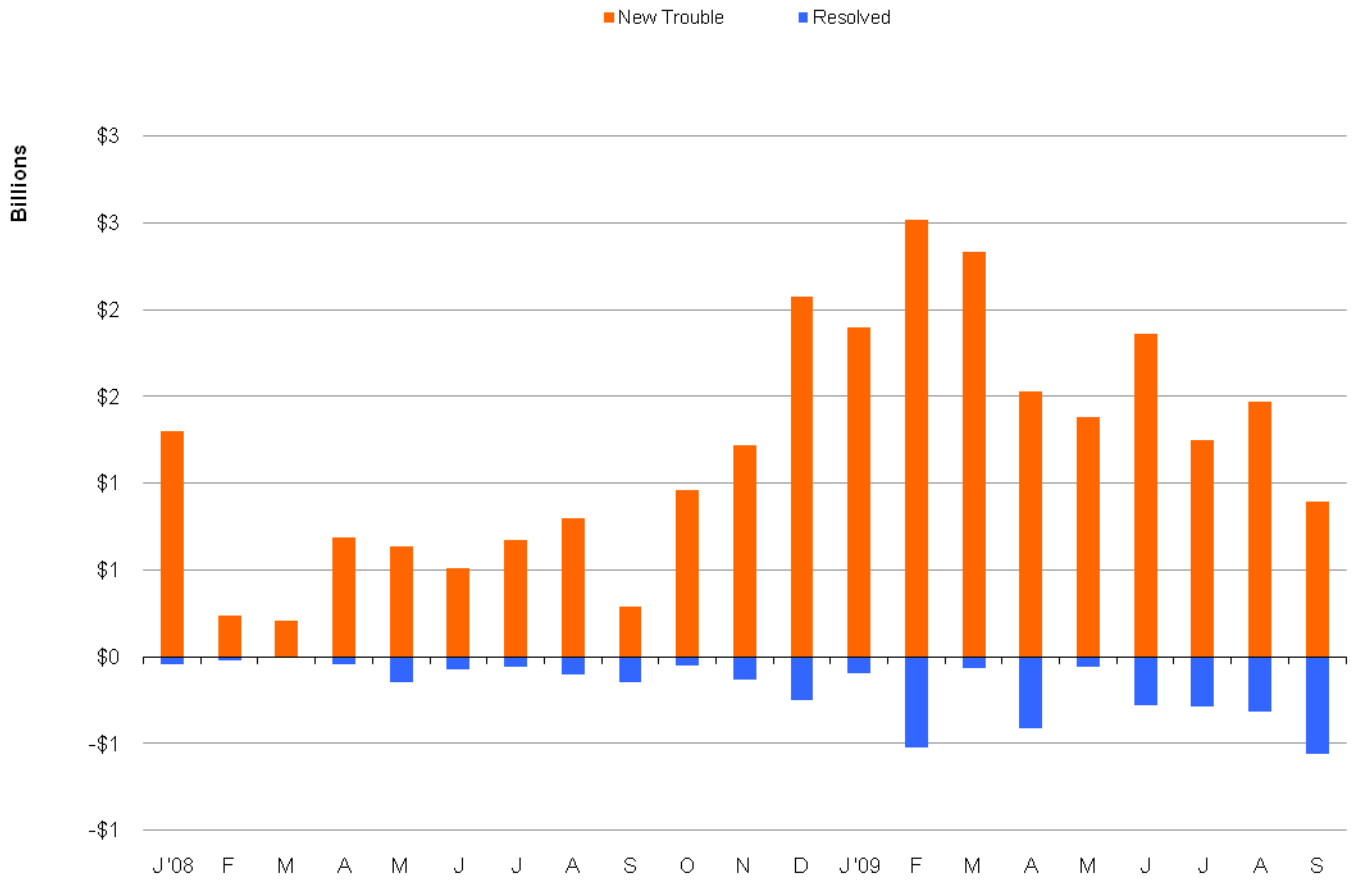
Source: Real Capital Analytics



Distress by Month - Apartments



Source: Real Capital Analytics

Cumulative Apartment Distress

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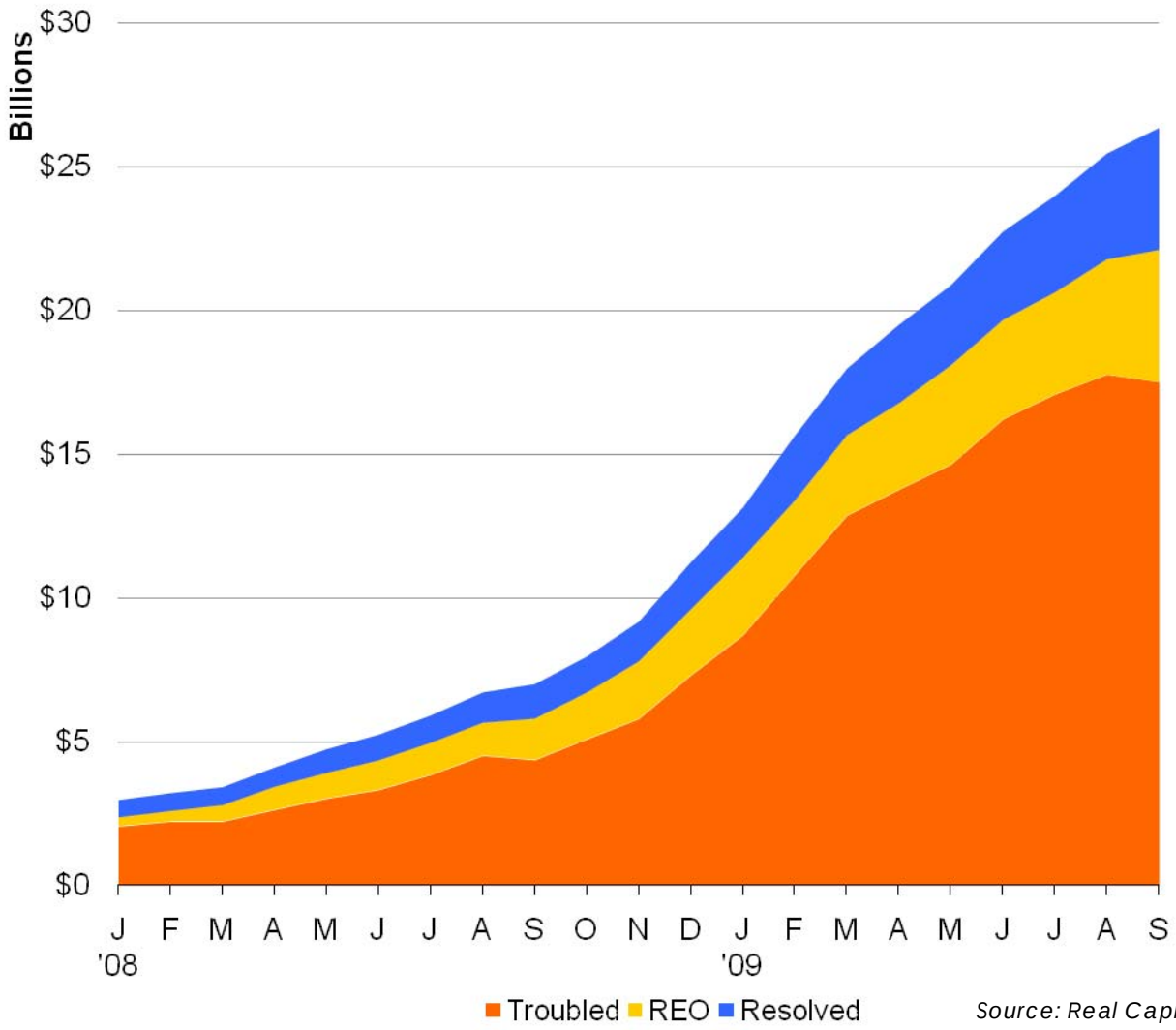

Source: Real Capital Analytics

Who buys/bought LIHTC Properties?

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Developers who re-syndicate

- Offers usually contingent on TEBs / tax credits
- Location not as important
- No real developer equity – equity is DDF
- Cap rate a byproduct of Sources & Uses

Yield / Cash Flow Buyers

- Actually put equity in a deal
- Cash on cash yield
- Management fees
- Conventional buyers mindset

Resyndication Pre-Meltdown

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- Aggressive TEB underwriting
- Loan terms approaching 40 years on Freddie or Fannie enhanced swap
- All in rates on Swap under 5%
- Swaps pushed proceeds
- Credit pricing approaching $1.00 is most markets and up to $1.25 in select markets
- No real differentiation for risk by investors (just as much demand in third tier markets as core markets)
- Developer willing to defer up to 70% of Fee
- Rehab requirements $10,000 to $15,000
- Location a non issue (developers fee driven)

Yield Buyers Pre Meltdown

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- Aggressive conduit lending
  - DCR under 1.15 on Proforma NOI
  - Interest Only periods up to 10 Years
- Fannie and Freddie second choice
- HUD not even a consideration
- Equity available in form of mezz loans and from venture funds
- Potential exit as a resyndication
- Asking cap rate spread 100 to 150 bps
- Despite access to capital, most conventional buyers have limited interest in LIHTC deals
- EVEN WITH THIS – Offers from yield buyers not as competitive as resyndication

What has changed?

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Developers who re-syndicate

- Equity scarce and often unavailable for acquisition / rehab bond deals
- Credit pricing from low $0.60's to mid $0.70's
- Developers want more contingencies
- Lenders more cautious – shorter term, higher DCR, Pre-review markets
- Investors want more rehab ($25k or more)
- Sources down – uses up – GAP
- Location more important
- Net – Most Developers unable to pencil out traditional LIHTC deal

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Resyndication
Good Times vs. Not so Good Times

Acquisition Rehab

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4% TAX CREDIT SYNDICATION	
THE GOOD TIMES	
Units	120
NOI/Unit	$3,000
NOI	$360,000
Interest Rate	5.0%
Amortization Period	35 Years
Minimum DCR	1.15
Loan to Costs	61%
New Bond Proceeds	$5,169,000
Monthly Payment	$26,087
Annual Payment	$313,043
THE NOT SO GOOD TIMES	
Units	120
NOI/Unit	$3,000
NOI	$360,000
Interest Rate	5.0%
Amortization Period	35 Years
Minimum DCR	1.25
Loan to Costs	75%
New Bond Proceeds	$4,755,000
Monthly Payment	$24,000
Annual Payment	$288,000

Acquisition Rehab

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THE GOOD TIMES

Acquisition Price	**$5,350,122**	**$44,584.35**
Less Land (10%)	($535,012)	
Rehab/Unit ($15,000)	$1,800,000	
Soft Costs	$300,000	
Developer Fee (15%)	$1,037,266	
Total Eligible Basis	$7,952,376	
Annual Credits (3.5%)	$278,333	
Total Credits	$2,783,332	
LIHTC Equity ($0.95/credit)	$2,644,165	

THE NOT SO GOOD TIMES

Acquisition Price	**$2,248,950**	**$18,741.25**
Less Land (10%)	($224,895)	
Rehab/Unit ($25,000)	$3,000,000	
Soft Costs	$300,000	
Developer Fee (15%)	$798,608	
Total Eligible Basis	$6,122,663	
Annual Credits (3.5%)	$214,293	
Total Credits	$2,142,932	
LIHTC Equity ($0.65/credit)	$1,392,906	

Acquisition Rehab

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THE GOOD TIMES

Sources	
Bond Proceeds	$5,169,000
LIHTC Equity	$2,644,165
Deferred Developer Fee (65%)	$674,223
TOTAL SOURCES	**$8,487,388**

Uses	
Acquisition Price	$5,350,122
Rehab	$1,800,000
Developer Fee	$1,037,266
Soft Costs	$300,000
TOTAL USES	**$8,487,388**

Imputed Cap Rate	**6.7%**

THE NOT SO GOOD TIMES

Sources	
Bond Proceeds	$4,755,000
LIHTC Equity	$1,392,906
Deferred Developer Fee (25%)	$199,652
TOTAL SOURCES	**$6,347,558**

Uses	
Acquisition Price	$2,248,950
Rehab	$3,000,000
Developer Fee	$798,608
Soft Costs	$300,000
TOTAL USES	**$6,347,558**

Imputed Cap Rate	**16.0%**

What has changed?

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Yield Buyers

- Competing against Distressed Assets
- Equity picky – cash is king
- Cash on cash requirements up
- What's a Proforma!
- How do I finance?
  - HUD now a preferred lender
- The resyndication exit story no longer compelling
- Qualified Contract still untested
- Many buyers unwilling to provide guarantees for recapture

End Result for 2009

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- Few Non Distressed Transactions in 2009
  - No compelling reason to sell
  - Owners Equity eroded
  - Buyer pool diminished
- Fewer LIHTC developers
- Stronger LIHTC Buyers rely on:
  - Private equity funds
  - Direct Investors
  - Exchange Funds and TCAP
  - Soft Funds

- Yield Buyers able to be more competitive on cap rate but buyers still few and far between

Market Analyst Challenge

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Data
- Pre-meltdown Data (2007 and before) useless
- Noise in Data for new deals (Soft $)
- Distressed sales often have loan modifications

Highest and Best Use
- Who will the buyers be?
- How do you maximize value?
- Buyer pool has changed which has changed investment value

Financing
- Is an asset financeable?
- Assumable debt attractive (higher LTV)