The Low Income Housing Tax Credit Program

CohnReznick
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How the Program Works

A **Developer** applies to state housing agency for LIHTC for their development

Multiple applications are reviewed by the **State Housing Agency** in competition for each LIHTC allocation

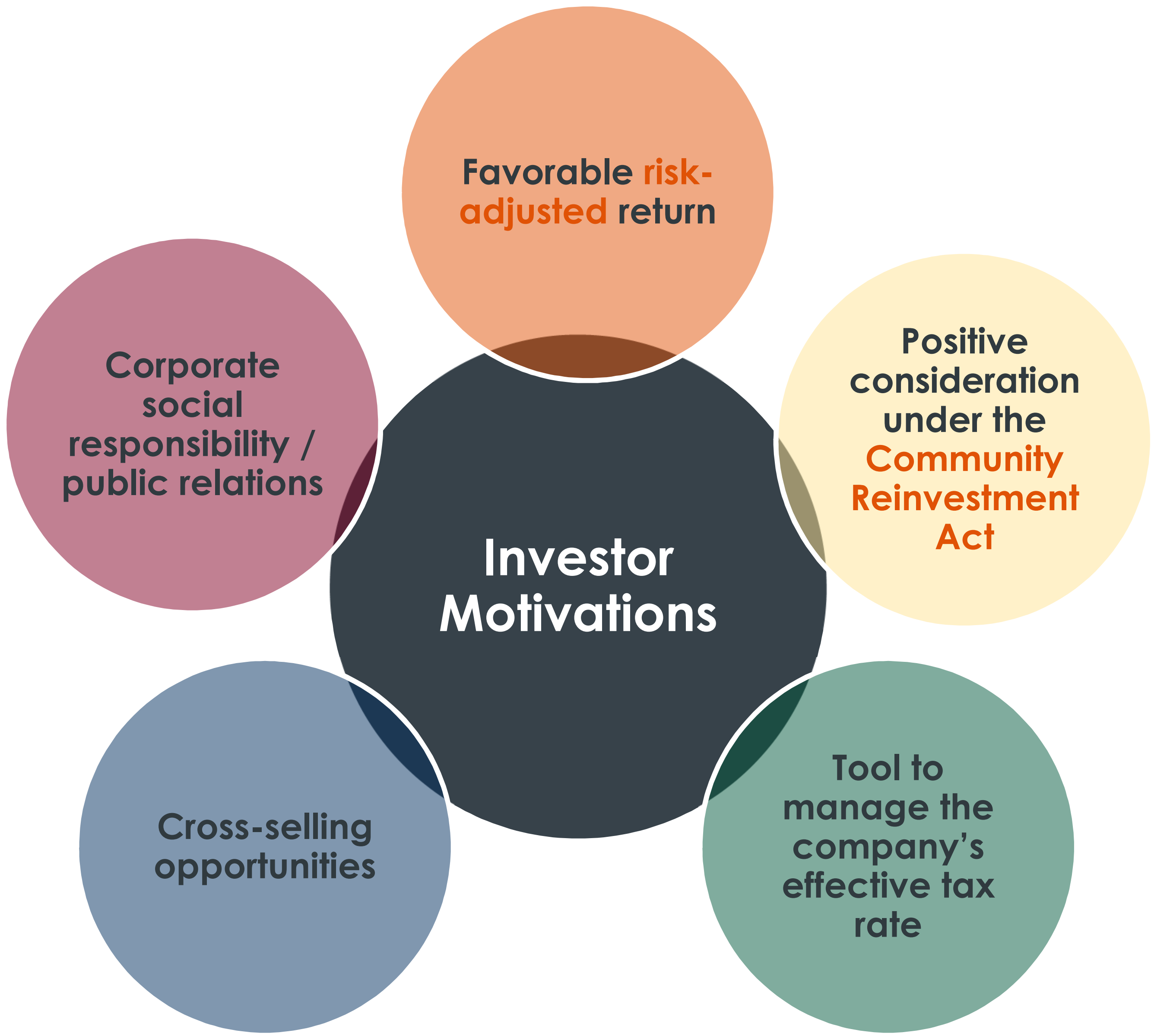
The **State Housing Agency** award credit allocations to **Developers** with the highest scoring projects according to the Qualified Allocation Plan

Syndicators bid to acquire **Developer's** LIHTC projects – developers weigh the price offered, speed of execution and existing syndicator relationships through the bidding process. Capital from **Investors** is also raised to finance the projects' development

Investors provide equity, **Developers** can build with less debt and **Syndicators** receive fees for setting up the transaction, and ongoing asset management.

Reduced debt burden allows for lower rents to low income tenants

Investor Motivations



How do investors choose investment vehicles?

Direct investment – Investor owns a 99% LP interest in an operating partnership with the developer as GP and no third party intermediary. A few large investors have full time staff to underwrite & asset manage such investments. This option would be difficult to execute otherwise.

Fund investment – Investors acquire LP interests in an investment fund organized by a syndicator/Fund GP. The syndicator finds and underwrites investments in a series of operating partnerships

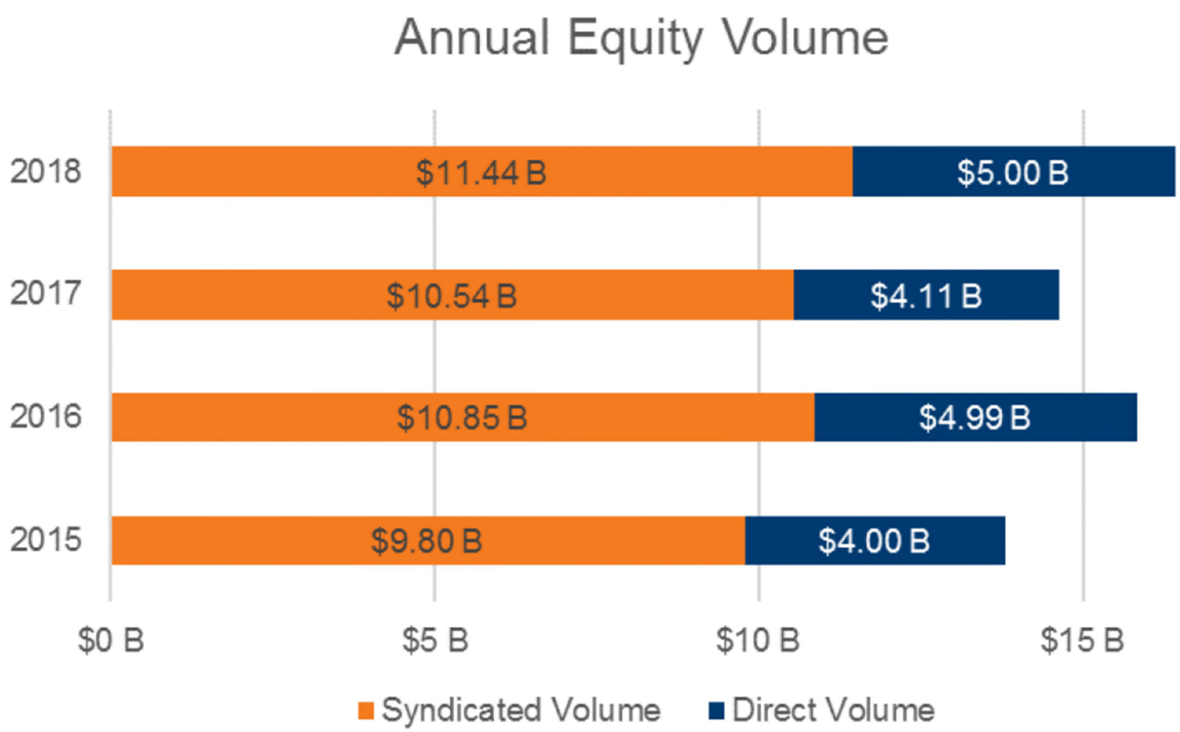
- **Multi-investor Funds** – typically 5-10 corporate LP's, investors can typically review about 70% of the fund's property investments before committing
- **Single Investor (Proprietary) Funds** – same idea with an experienced investor keeping more control e.g. veto rights on property selection

Growth & Composition of the Housing Tax Credit Program

Years	Market Size	Investors	Yields
1986 -1992	$1 Billion	Individuals	20%+
1993 -1999	$2 Billion	Corporations	11% - 18%
2000	$4 Billion	Corporations	10%
2001-2007	$9 Billion	Corporations	4.5% - 7%
2008 -2009	$5 Billion	Bank Investors	8% - 10%
2010	$10 Billion	Banks, insurance companies	10% - 12%
2011-2012	$11 Billion	Banks and other corps	6% - 8%
2013-2015	$12-13 Billion	Predominantly banks	4.5% - 7%
2016-2018	$15-16 billion	Predominantly banks	3.5%-5.5%

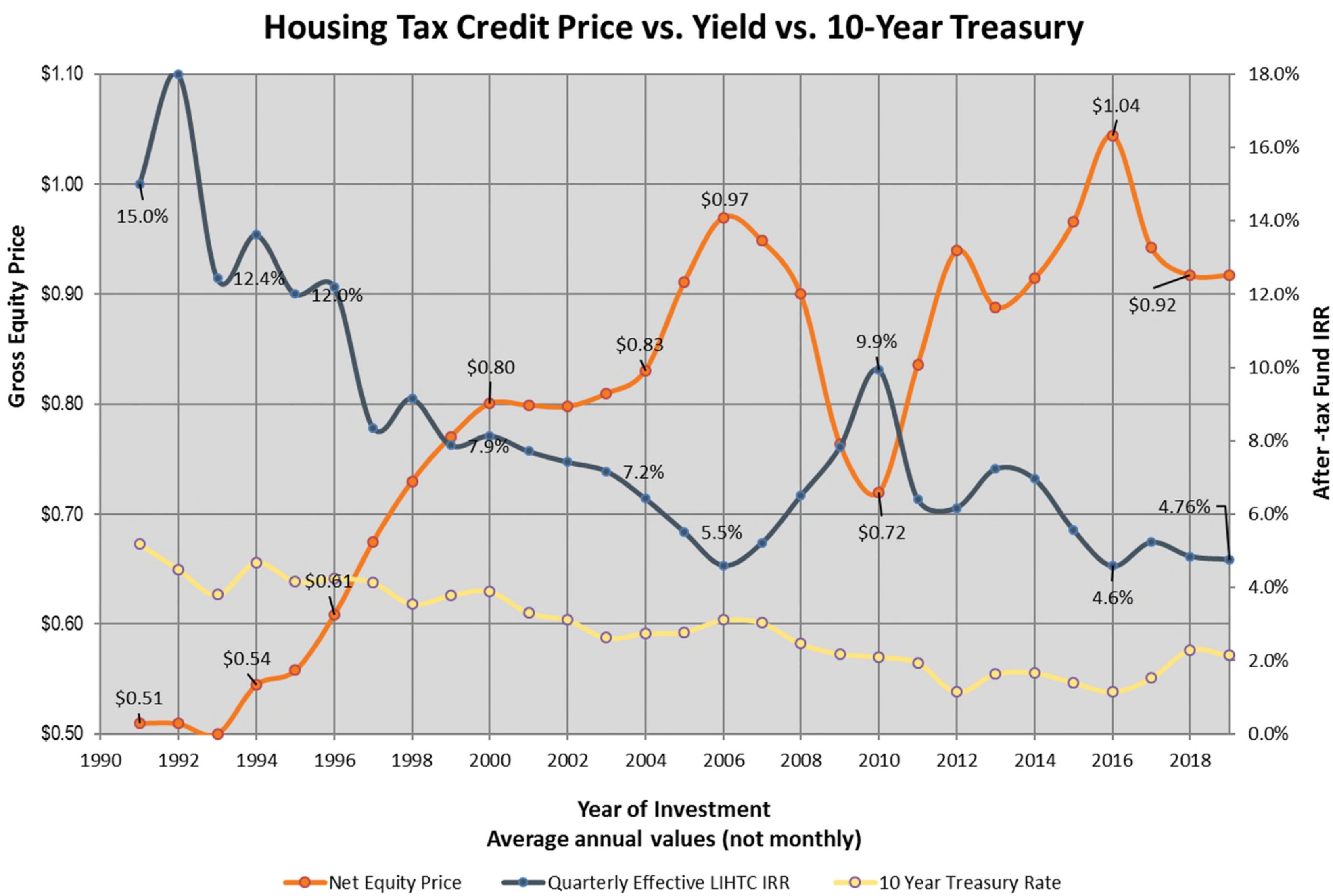
Size of the Market

- We surveyed all of the active syndicators of housing credits, and the largest direct investors annually regarding their equity volume.



- Respondents indicated the equity market was **$16.4 billion** in 2018; versus $14.5 billion in 2017.

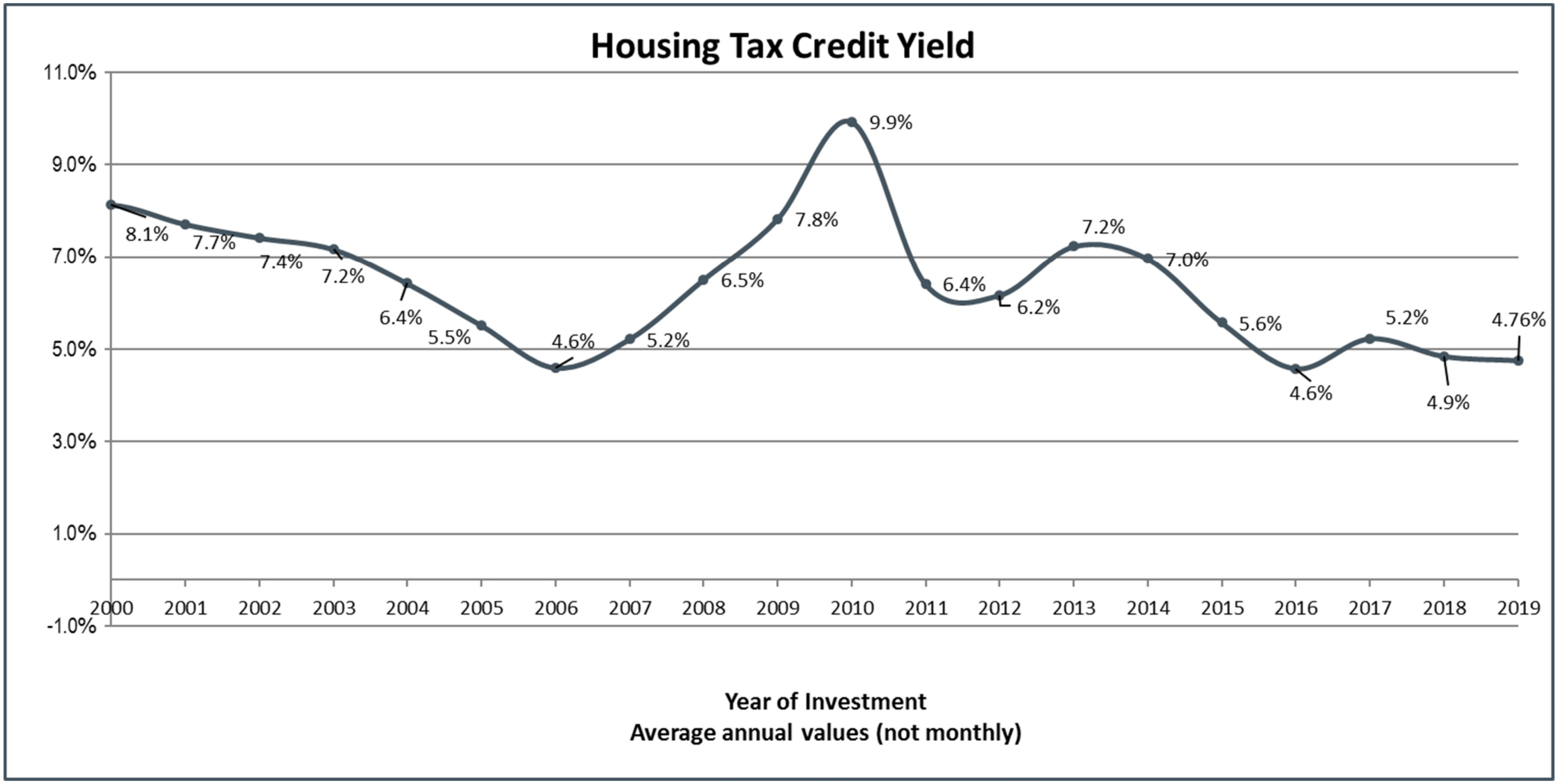
Internal Rate of Return



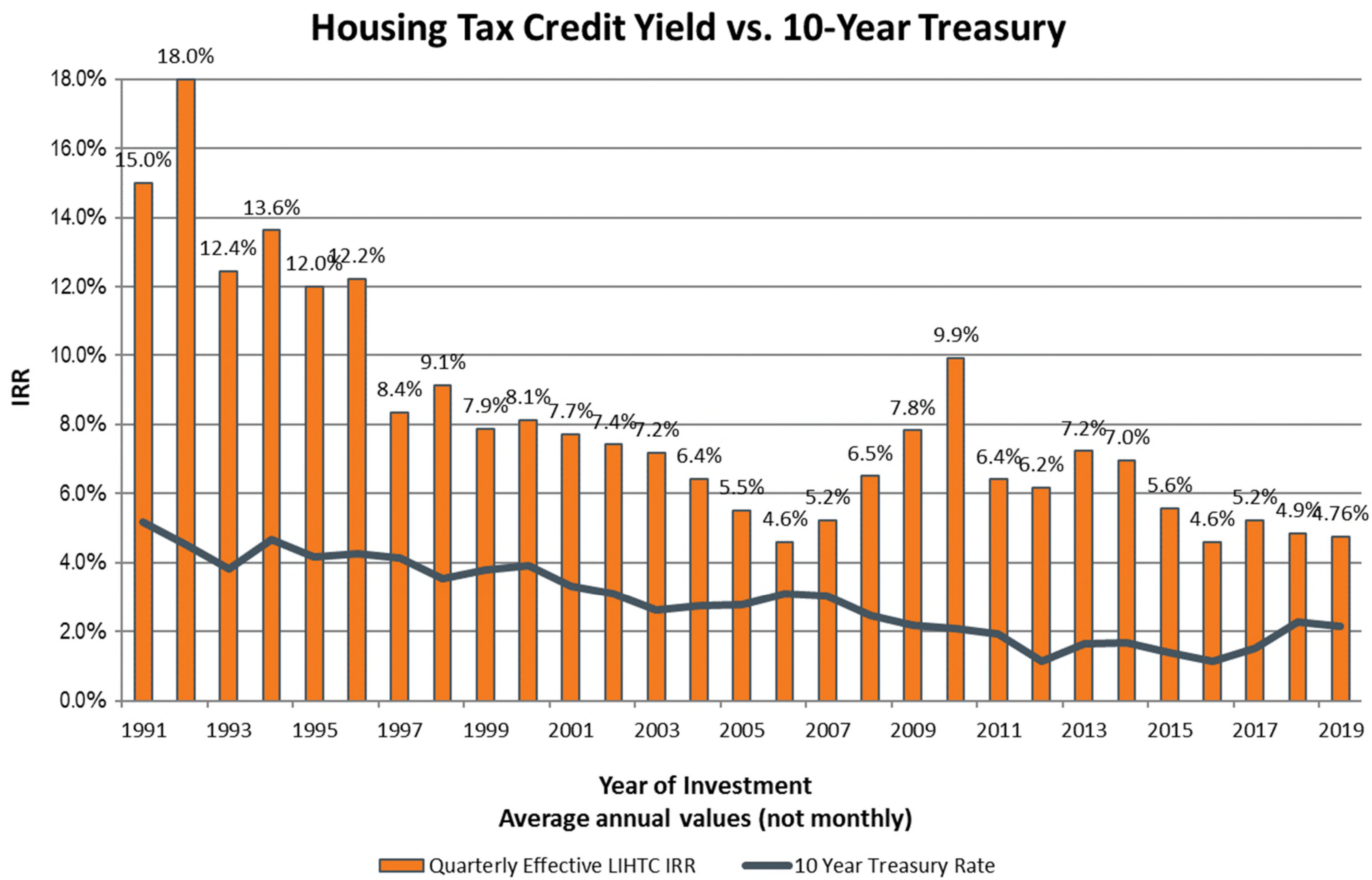
Internal Rate of Return

- A 4-6% after-tax **Internal Rate of Return** (“IRR”)
  - Housing credits reduce tax liability on a dollar-for-dollar basis and are a permanent reduction of federal tax liability
  - Investors also receive tax losses from depreciation, interest and/or operations
  - Credits and tax losses are reflected on corporate financial statements, increasing after-tax earnings

LIHTC Yield History



LIHTC Yield History



Study Background

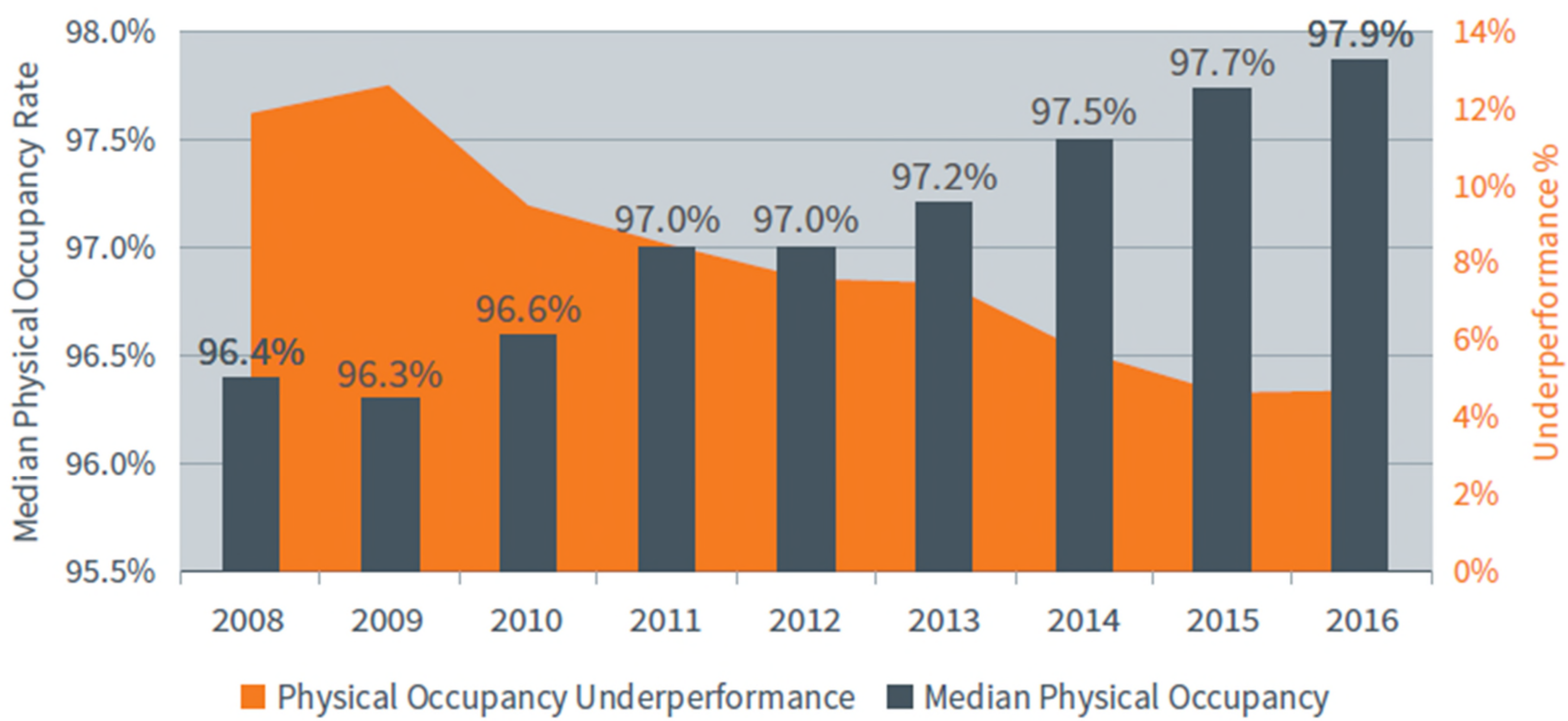
- Over **22,000 properties** surveyed in 2017; representing approximately 70% of "*actively managed*" LIHTC properties and 90% of those placed in service in the last five years

- Data contributed by **35 participants,** including 32 syndicators and 3 direct investors

Portfolio Performance - Occupancy

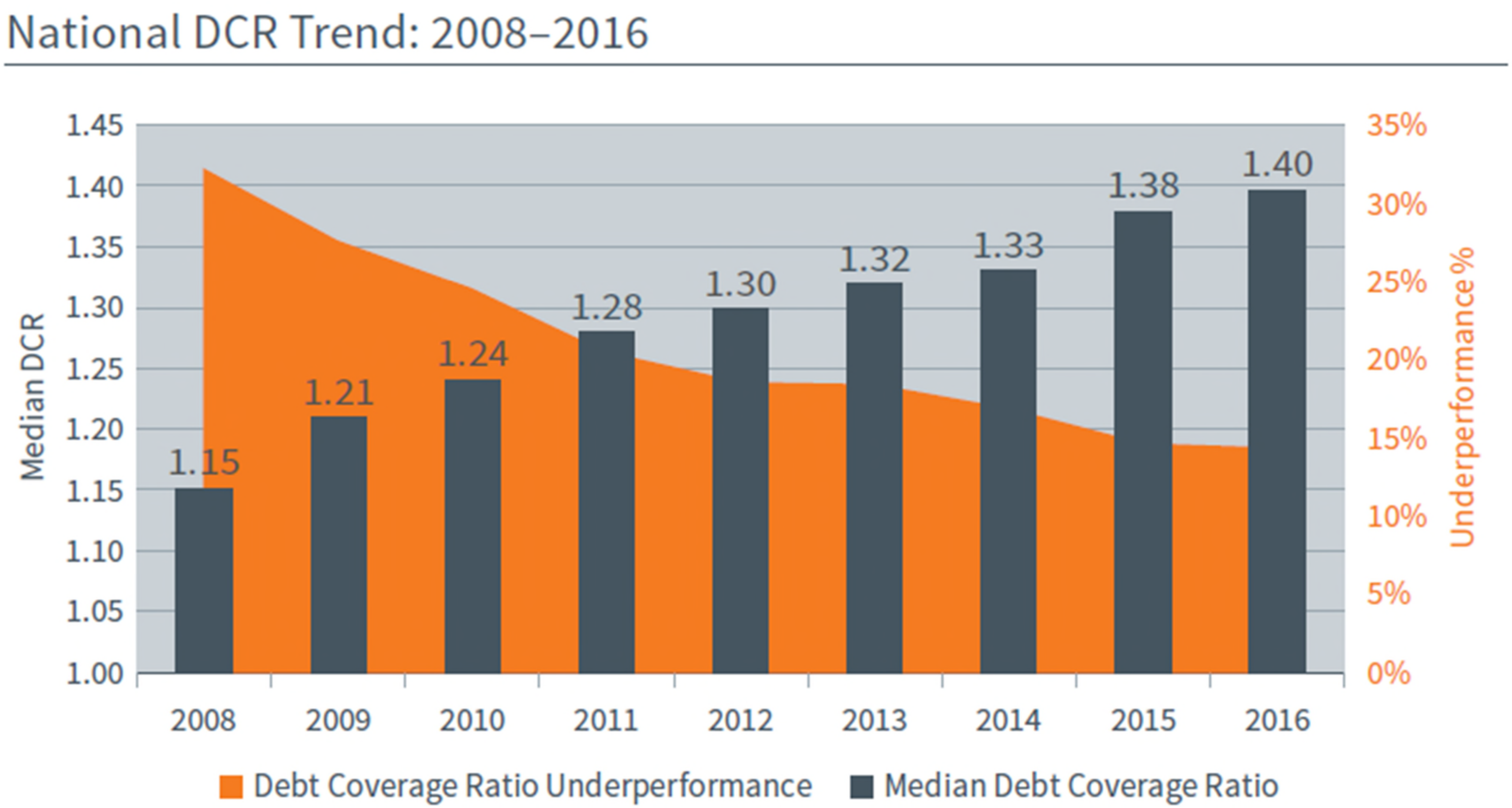
- **High occupancy continued**
  - Occupancy levels in LIHTC properties have been remarkable consistent from one year to the next; **98% in 2017**

National Physical Occupancy Trend: 2008–2016



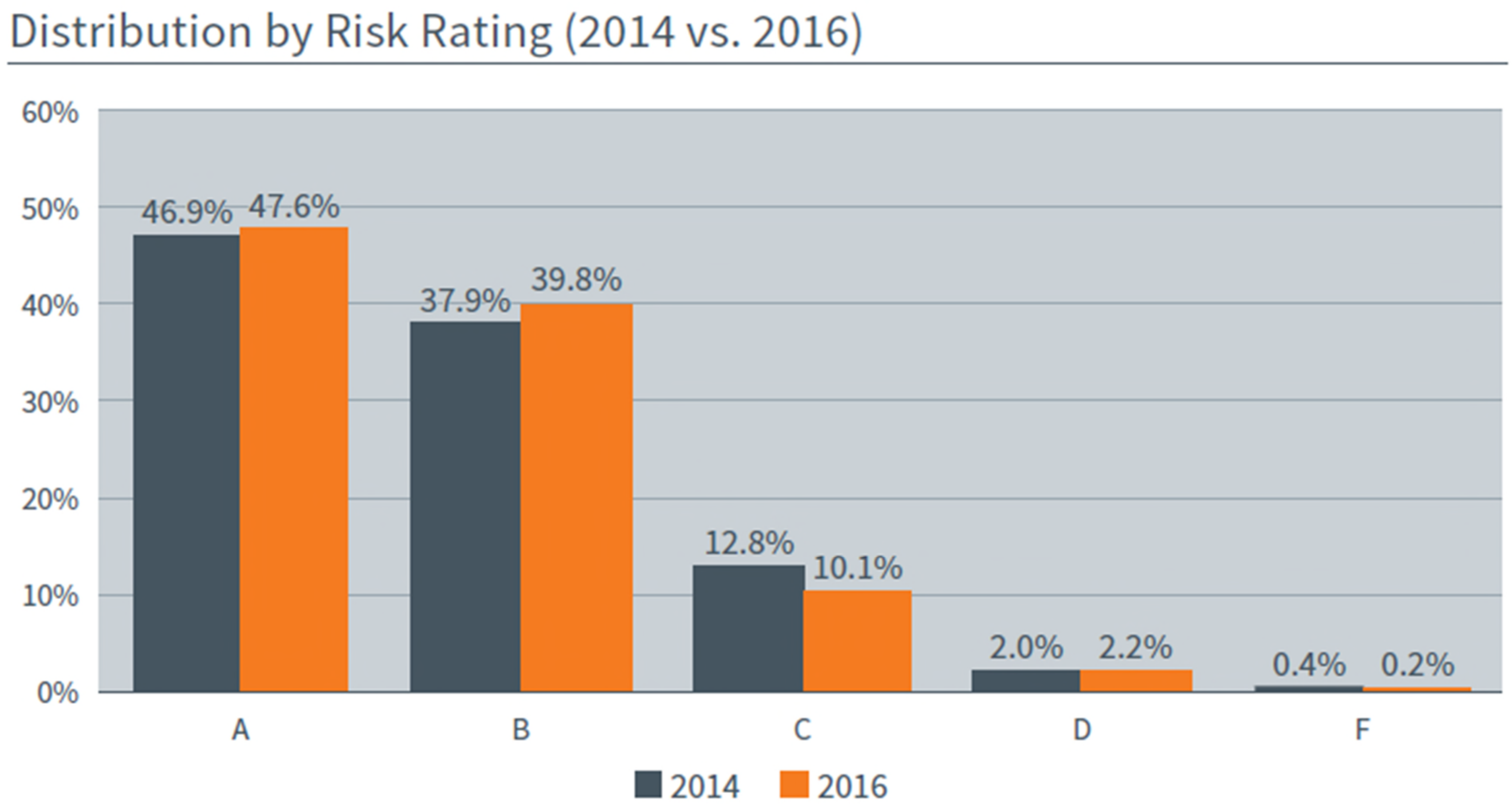
Portfolio Performance - DCR

- **Improved financial performance sustained**
  - 2010 marked the first year when none of the states operated below 1.00 DCR
  - Strong financial performance was observed across every segment and nearly every participant's portfolio; **1.38 in 2017**

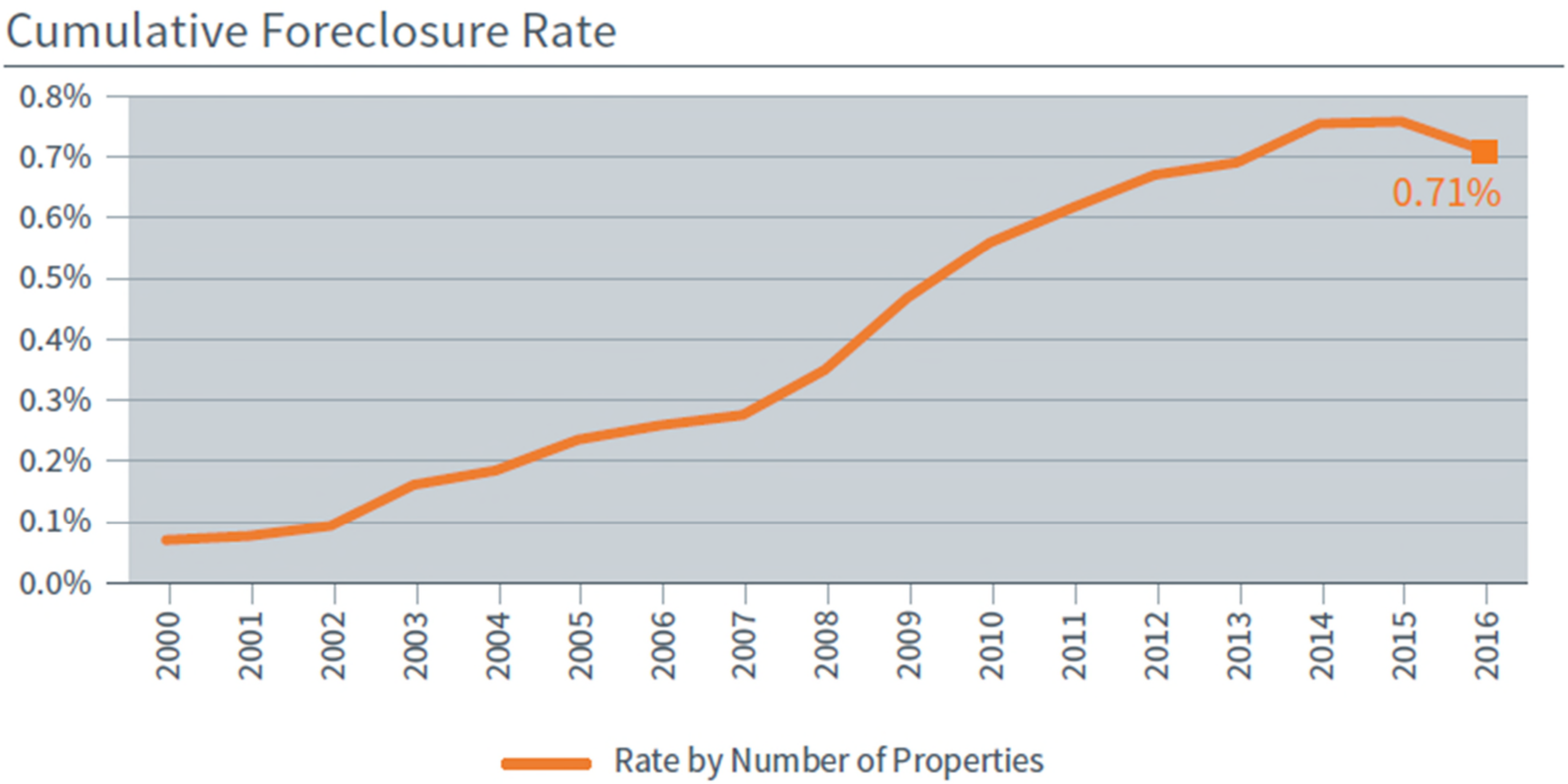


Portfolio Performance – Risk Rating

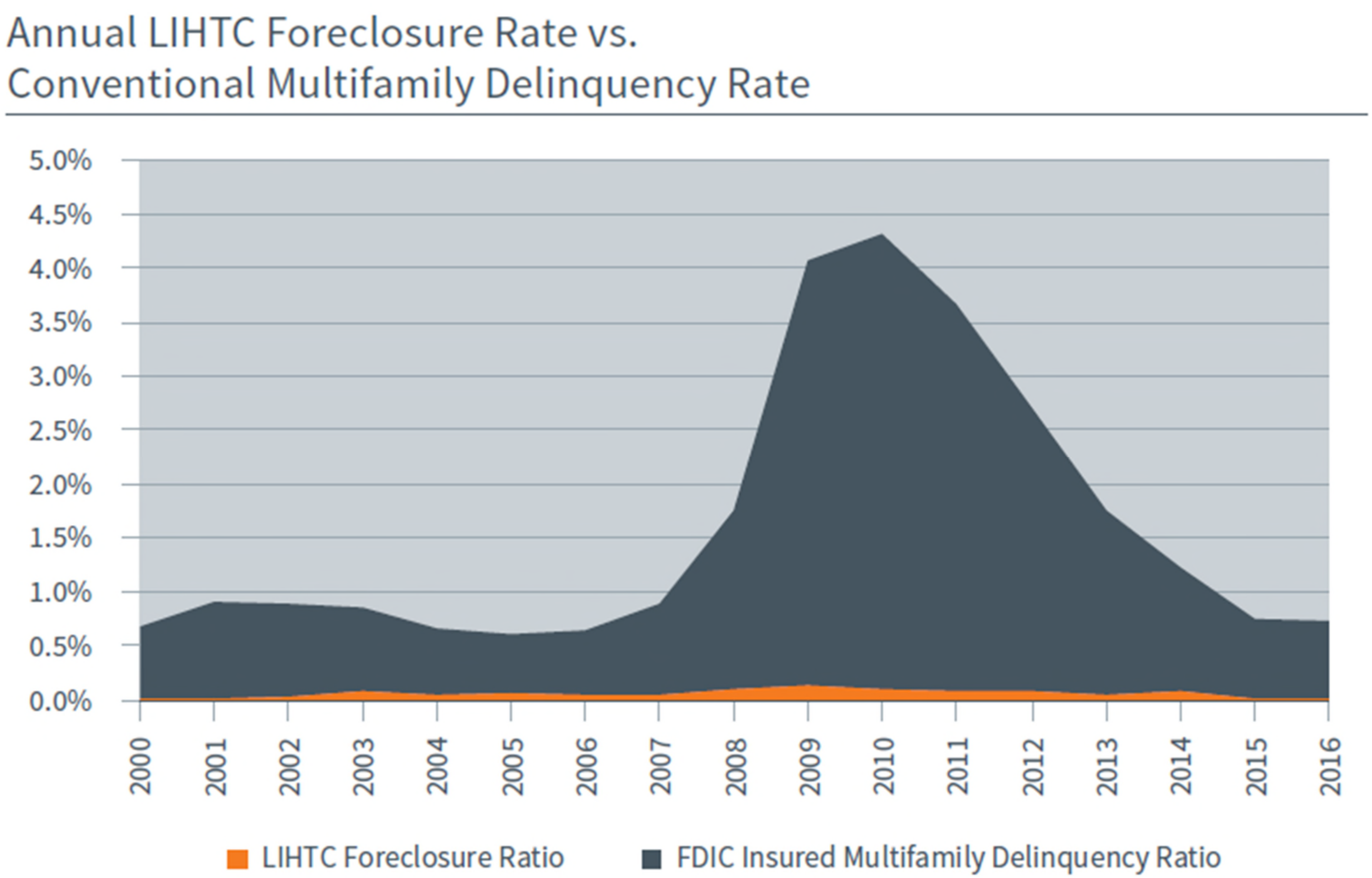
- **12% on the watch list in 2017**



Cumulative Foreclosure Rate



Annual LIHTC Foreclosure Rate vs. Conventional Multifamily

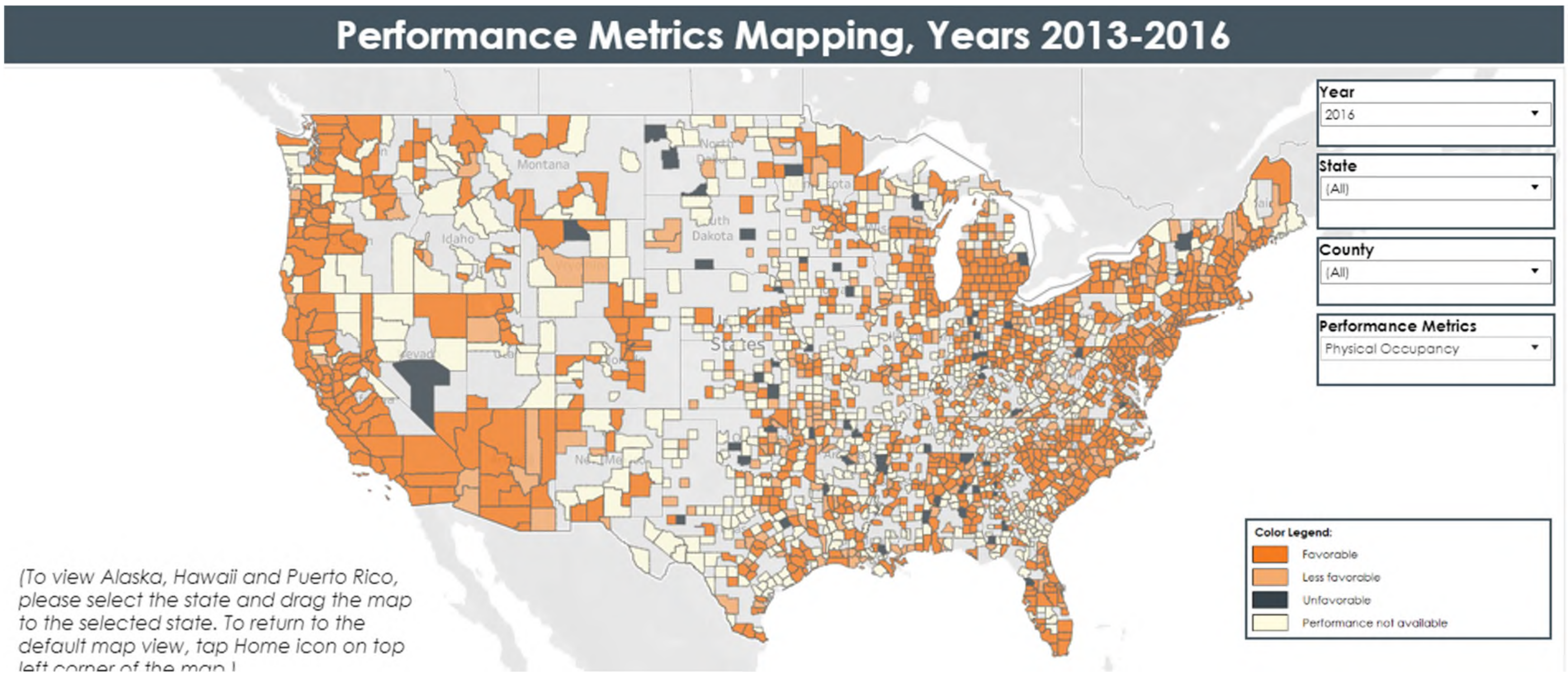


Online Tool

To access all the data, please visit:

https://www.cohnreznick.com/insights-and-events/tcis-lihtc-county-interactive-report

Or google: “TCIS tool”



THANK YOU!

Feel free to contact me:

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