CohnReznick
Realty Capital Advisors

AFFORDABLE HOUSING INVESTMENT OPPORTUNITY

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AFFORDABLE HOUSING INVESTMENT OPPORTUNITY

Attractive Industry Segment

- Affordable housing market is sizeable (i.e. 20% of all multi-family is regulated affordable)
- Attractive industry drivers from increased need for housing, limited production, aging of LIHTC inventory expanding pool of properties near end of initial compliance period, strong demographic trends
- Opportunity to realize social / impact investing benefits (e.g. CRA, preservation, other)

Supply / Demand Fundamentals

- "Nearly 39 million US households live in housing they cannot afford. The shrinking supply of low-cost rentals, along with potential losses of subsidized units and declines in the value of tax credits, could widen the already substantial gap between the demand for and supply of affordable housing." Source: Harvard JCHS State of the Nations Housing, 2017
- New supply of inventory slow to be built. Few soft sources of capital to fill the sources and uses gap in order to make affordable housing development feasible in many markets
- Unprecedented demand for affordable housing exists – especially where significant spreads exist between affordable rents at 60% AMI and market rate rents

Attractive Risk / Reward Profile

- Affordable housing market offers an attractive risk / return profile, and is typically less cyclical than traditional multi-family
- Vacancies historically below 3%, low default rate on debt
- Granular equity deployment (lower equity check per deal) enables effective diversification of risk (especially under programmatic JV capital)
- Targeting value-add investments at / near key industry transaction points (i.e. post 10 year tax credit flow, and 15 year end of initial / final compliance period) provides significant embedded value optionality (value add rehabs, preservation and / or conversion to market) and deeper buyer pools upon exit

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Fragmented under-served capital market

- Ownership highly fragmented, consisting of small to regional developers and operators primarily motivated by development and other fees
- Unlike market rate model, LIHTC developers did not use their own capital to build / acquire the assets initially, and are resistant to using substantial personal capital to buyout partners, rehab assets, re-syndicate etc., prompting sales or recapitalization opportunities
- Aging of sponsor groups with needs to monetize and address succession planning

Transaction Drivers

- Over 1M units approaching critical 10 year (end of tax credit flow period) and 15 year compliance dates (end of initial compliance)
- Replace GP and create greater asset value through implementation of higher level property and asset management greater operating efficiency and cost savings, strategic property investments and enhancements
- Reconstitute capital stack (e.g. achieve fee simple) at or near compliance dates through new capital structures creating alignment and incentive to maximize asset value
- Potential for either rehab and re-syndicate or conversion to market (via qualified contract)

Barriers to Entry

- Investment strategy would rely upon industry expertise of operating partner – involving public finance, government regulations, tax structuring, and other complexities to reduce competition
- Partnerships with non-profit structures, subordinated soft debt, and capital account adjustments are common and create complexity (and opportunity) in underwriting transactions
- Each transaction often requires guarantees from the acquisition entity or sponsor for potential recapture obligations related to compliance Operators need significant balance sheet strength to assume those guarantee obligations along with the compliance protocols in place to manage all such risks