

FED PROGRAM TO BOOST AFFORDABLE ACQUISITIONS

Escalating apartment cap rates, higher returns for tax-credit investors and a \$2B federal program aimed at affordable housing should inspire a bumper crop of low-income housing tax credit (LIHTC) apartment acquisitions and new market entries through late September and beyond. Look for more life insurance companies and other investors to plump this sector with cash. Developer **The NRP Group** should slice some cash for acquisitions from a \$200M to \$225M development goal this year. Private investment trust **CAPREIT** looks toward \$100M to \$150M worth of acquisitions of existing properties and general partnership interests. **Dominium Development & Acquisition** looks toward further expansion as it moves closer to acquiring another Texas asset. **Summit Housing Partners** wants to acquire a few more assets this year in addition to an estimated 1,000 units under contract in separate transactions. **Boston Capital** seeks deals nationwide for its newly minted \$150M Boston Capital Tax Credit Fund XXXII.

A combined \$2.5B worth of federal money — through the Tax Credit Assistance Program (TCAP) — awarded to state housing agencies will increase this sector's visibility. The deadline for states to commit capital to developer/investors is Sept. 30. Each state makes its own rules as to how to apply the funds but apartment acquisitions are allowed across the board. Tax credit investors' current returns push 10% or beyond, with per-credit pricing around 70 cents. This is a high-water mark compared to a tight 6% return and a more than \$1 per-credit pricing in big metro areas a couple years ago.

Generally speaking, cap rates nationwide have risen from an estimated 6.5% to the mid-8% to 9% range since last year. If cap rates increase further from the current range, expect to see more developers join the investor fold through joint ventures with equity partners, even though the tax credit pool has shrunk with the disappearance of Lehman Brothers and other erstwhile heavy hitters.

Developers Delve into Distressed Assets

More developers such as The NRP Group will acquire existing LIHTC apartments for rehab, while buying land and starting new construction projects. About 10% of The NRP Group's estimated \$200M to \$225M development capital pool may be used for acquisitions of designated tax-credit properties, distressed assets, partially completed developments, or to fund an equity JV partnership with financially distressed developers. Look for interest in assets of more than 200 units for acquisitions and rehab work. The NRP group typically develops properties in the 100- to 250-unit range. The investor seeks net returns in the 14% to 17% plus range during a 10- to 15-year hold. Acquisitions may exceed \$20M to \$25M depending on the opportunity; rehab costs usually range from \$30,000 to \$40,000 per unit.

Look for The NRP Group to expand into central and northern Florida, in addition to scouting out properties in the core markets of Arizona, Indiana, Michigan, North Carolina, Ohio, South Carolina, Texas, and western New York. Usually, larger markets will get more attention.

Boston Capital will roll out a \$125M to \$150M successor fund to pursue existing tax-credit housing properties and new developments nationwide. The investor searches for properties — in and independent of joint ventures — for its recently introduced \$150M Boston Capital Tax Credit Fund XXXII. After-tax IRRs exceeding 10% are wanted. Don't be surprised to see the company participate in the TCAP program through developer partnerships.

Summit Housing Partners has an appetite for three more acquisitions this year; the company has contracted to acquire seven properties collectively valued at \$42M in Florida, Ohio, Tennessee and Texas by December. These are a mix of Section 8 and LIHTC-designated buildings.

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Look for Summit Housing Partners to scan such markets as Birmingham, Ala., in addition to Louisiana and Texas for future purchases. The company won't look at deals at less than an 8% going-in cap rate.

Dominium dealmakers watch states' progress in allocating funds and approving TCAP projects. Already the developer/investor has applied to the Minnesota and Texas state housing agencies. The company looks to expand its California base after entering the state last year. Another purchase in Houston is imminent. Look for the company to scan markets including Arizona, California, Florida and Texas, in addition to Minnesota and other Midwest markets for 100 unit-plus buildings. They aim to acquire project-based Section 8 buildings where LIHTC/Section 42 credits may be applied, along with pure LIHTC deals.

General partnership purchases will account for the bulk of Dominion's 2009 activity. GPs are on the hook if a deal goes belly up. On the flip side, general partners reap a majority of cash flow and management fees. Developers holding GP interests — and needing to exit — will prove a rich source to buyers. Generally, GP interest buyers want gross returns in excess of 20%.

CAPREIT Has Money to Buy

CAPREIT targets \$100M to \$150M worth of existing property and general partnership interest purchases this year. As with others, company dealmakers are paying attention to TCAP stimulus money but progressing on purchases nonetheless. The company paid an estimated \$6.5M for a low-income housing senior apartment complex in Frederick, Md., called Creekside Apartments. The company targets 9% to 10% cash-on-cash returns during a five-year hold.

Affordable buyers may compete against **AIMCO, Forest City Enterprises** and **Trammell Crow** if these companies decide to return to the market. AIMCO may reverse its position that tax credit investments aren't good propositions and could move to acquire more assets. Watch developer/investors Forest City Enterprises and Trammell

Crow: they're familiar with LIHTC and may dip into the market this year for additional deals, if they can afford them.