Facts, Myths, and a Market Overview

The business of housing

This is your lucky day: You're a syndicator for the next hour!

Afford Really Nice Cars

Endless Business Meals

Experience Exciting Travel

Conferences Galore

NCSHA

Syndicators: Who needs ‘em?

- Syndication creates the market – always seeking new investors
- Syndicators were inventors of the multi-investor fund, which reduce risk to investors
- Multi-investor funds allow for innovation
  - FmHA 515/rural deals (Boston Capital & Raymond James)
  - Native American deals (Raymond James)
  - Non-profit deals (Enterprise & NEF)
  - Homeless veterans deals (NEF)
- Syndicators create investment opportunities for investors with smaller shops

You are now in the buy/sell business

You are charged with buying deals from developers and selling them to investors with the goal of making a fee

Buy a deal for $0.90

Sell a deal for $0.94

Trailor Development LLC	60 Unit Deal
Total Amount of Credits	$10,000,000
Total Paid to Developer	$0.90
Total Project Equity	$9,000,000
Total Amount of Credits	$10,000,000
Amount Sold to Investor	$0.94
Total Investor Equity	$9,400,000
Difference (Fee earned)	$400,000

Developer choices

Investment Type	Execution	Pricing	CRA Impact	Underwriting	Post Closing Approvals
Direct	By Investor	★★★★★	High	Investor	Investor
Proprietary	Syndicator	★★★★	Medium	Syndicator/Investor	Syndicator/Investor
Multi-fund	Syndicator	★★★	Low	Syndicator	Syndicator

Developer decides where to bid her deal

Send it out to one or all of the 23 active syndication firms

Seek or is solicited by a direct investor

Where will it go? Basic deal questions
(Assume that it is a feasible deal)

- Ask a series of questions about the deal
  - Is the developer willing to work with other lenders, especially one that is the equity investor?
  - Rate the CRA Impact – High, Medium or Low?
  - When do the credits start flowing? Right away or 12-18 months from start of construction?
  - Does it have Section 8 Overhang?

Making the offer

Developer sends out the numbers to various syndicators

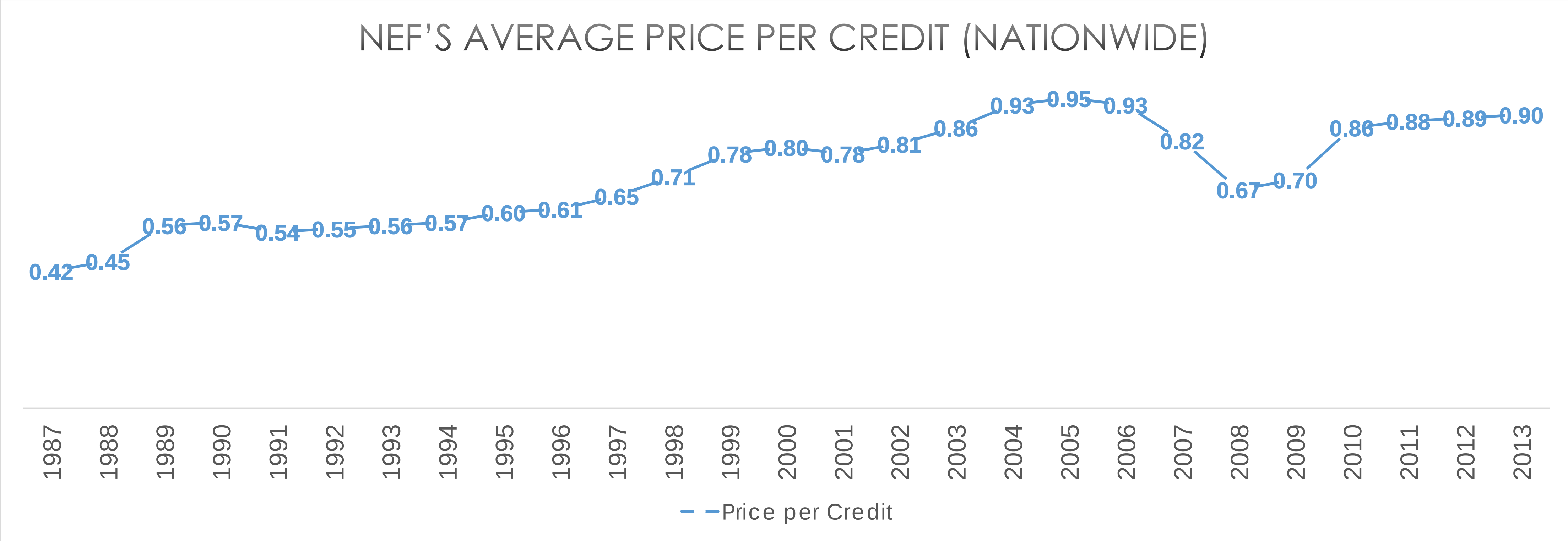
Syndicator Options

Single Investor Fund

Multi-Investor Fund

Win the Bid!!!

26-Year History of LIHTC Pricing Volatility



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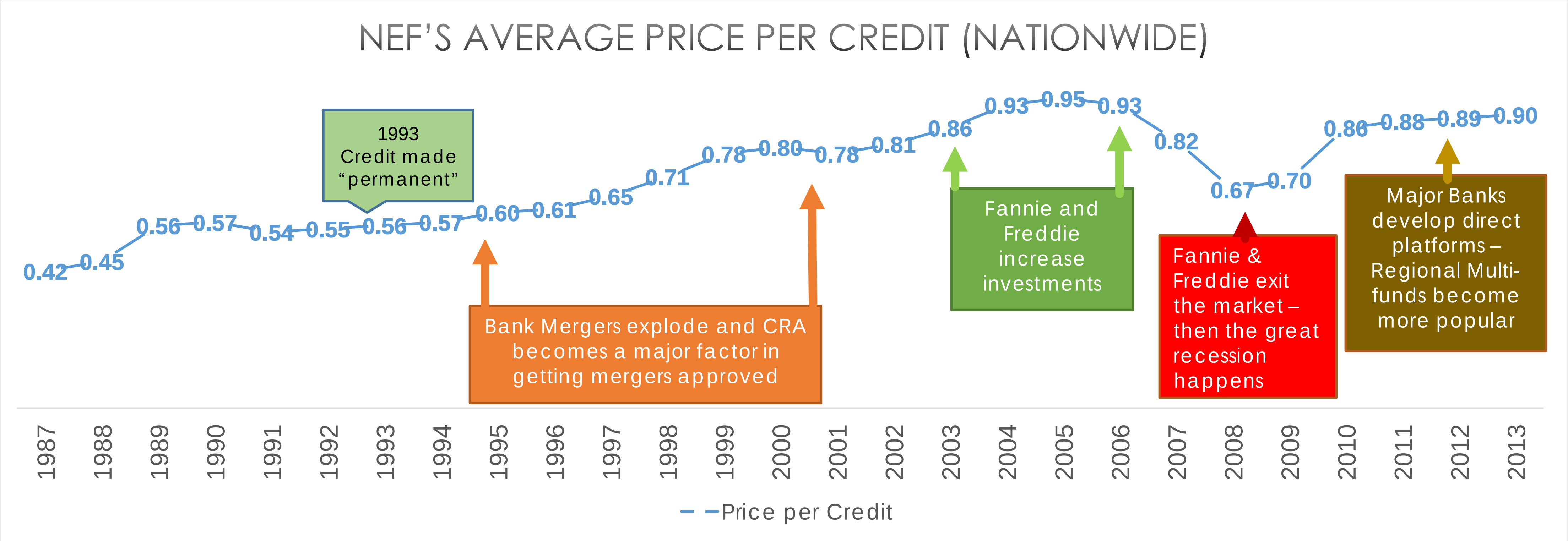


Exposure to Price Volatility

Closed Deals

We include all deals on the warehouse Line

Deals Closing in 30 days

We include any deals due to close in 30 days

Worst Case Assumptions

Assume a $0.06 drop in investor price

Risk base adjustments. Multi-Funds vs. Proprietary Funds

Syndicator Risk – The market shifts downward

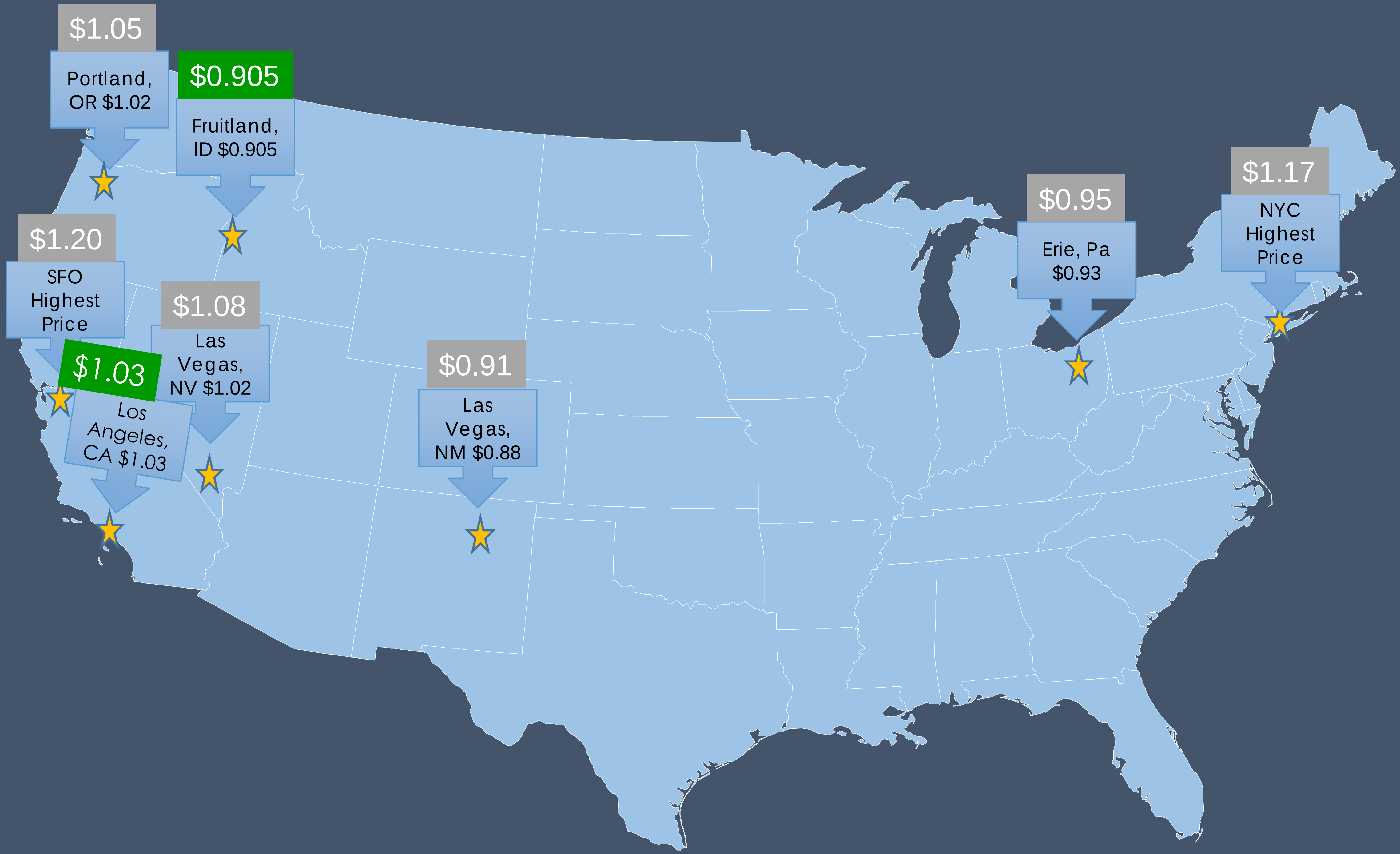
Total Exposure (closed deals)	Price paid to the developer	Assumed Price to Investor	Our Fee (4%)
$250,000,000	$0.90	$0.94	$10,000,000

The Market falls by $0.03 Cents per deal (100 basis points)			
Total Exposure (closed deals)	Price paid to the developer	New Price to the Investor	Assumed Fee (1%)
$250,000,000	$0.90	$0.91	$2,500,000

The Market falls by $0.06 Cents per deal (200 basis points)			
Total Exposure (closed deals)	Price paid to the developer	New Price to the Investor	Loss to Syndicator
$250,000,000	$0.90	$0.88	($5,000,000)

Let’s see if you can make it as a syndicator

- We know that the market is hot. There is more than enough equity to do all feasible deals.
- I will show you a series of deals that I have given you authorization to bid at a certain price. Needless to say you have complained that you can’t win the deal at my authorization price.
- All of these are 2015 bids.
- Dan & Todd will give a little flavor about the deals in the western states.
- Tell me if we WON or LOST the bid.


$1.05
Portland, OR $1.02
$0.905
Fruitland, ID $0.905
$1.20
SFO Highest Price
$1.03
Los Angeles, CA $1.03
$1.08
Las Vegas, NV $1.02
$0.91
Las Vegas, NM $0.88
$0.95
Erie, Pa $0.93
$1.17
NYC Highest Price

Myth Number 1: Most deals are underwritten with a 2%-3% increase in revenues & expenses

AMI & Underwriting

Phoenix MSA		
AMI Analysis	**AMI**	**% Change**
2009	65,900	
2010	66,600	1.06%
2011	65,500	-1.65%
2012	66,400	1.37%
2013	63,100	-4.96%
2014	61,900	-1.90%
Average		**-1.21%**

Tucson MSA		
AMI Analysis	**AMI**	**% Change**
2009	57,500	
2010	59,000	2.61%
2011	59,600	1.02%
2012	60,400	1.34%
2013	59,900	-0.83%
2014	57,000	-4.84%
Average		**-0.14%**

Underwriting Requirements (Assuming no Section 8)

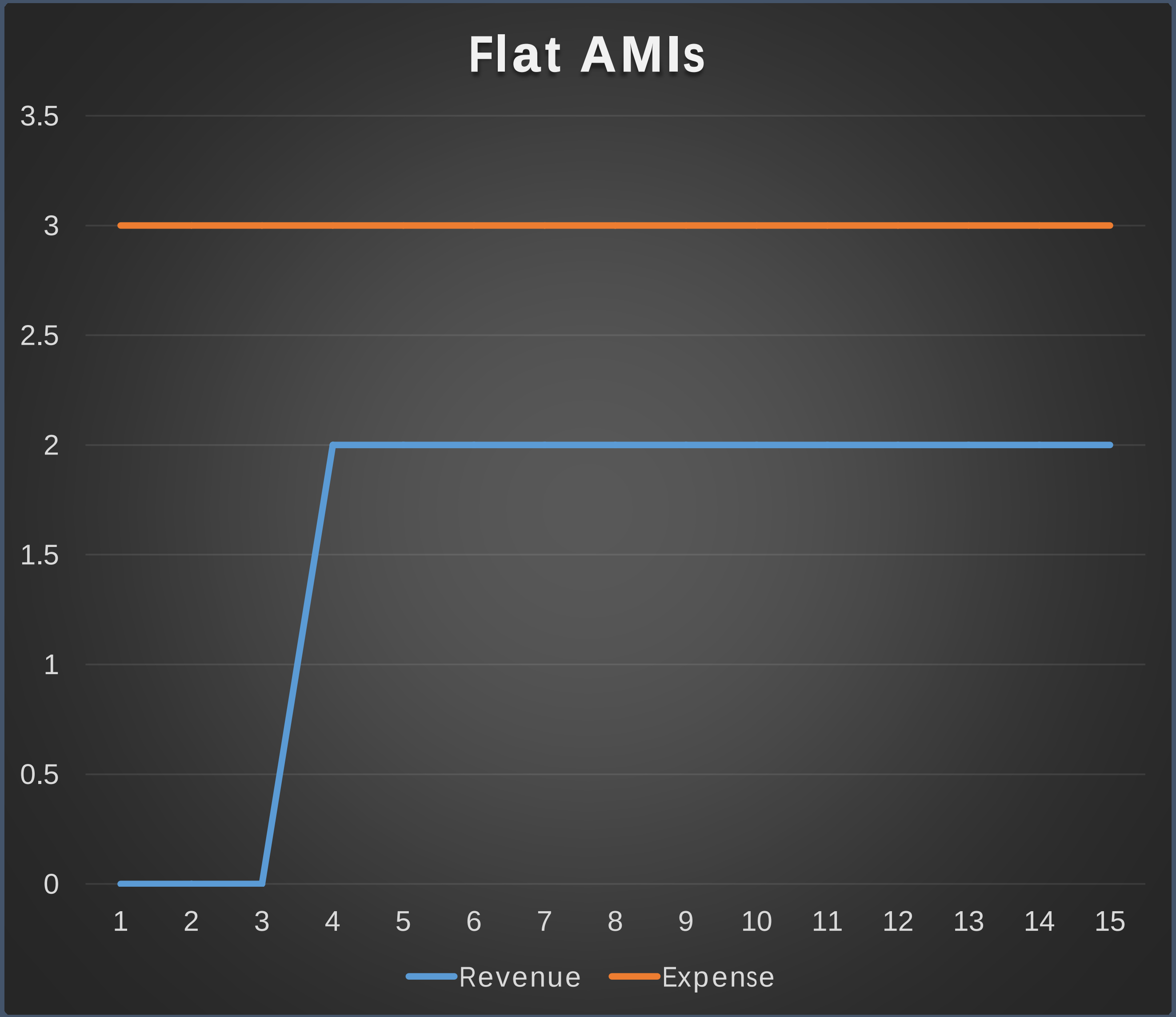
Investors are now looking carefully at this issue.

We look back five years and then determine the average increase in rents based on the results.

So, if the 5-year average is 1%, then we underwrite the first three years with a 1% increase.

If the average is negative, then we underwrite the first three years at a flat rate.

(We allow for a 2% increase for Section 8 rents.)



**If AMIs continue to fall, underwriters will stretch out the flat rents further.
What are the solutions?**

Do you think that AMIs will remain flat for the next couple of years?

What can ADOH do?

If Congress was willing to help, what changes would you suggest?

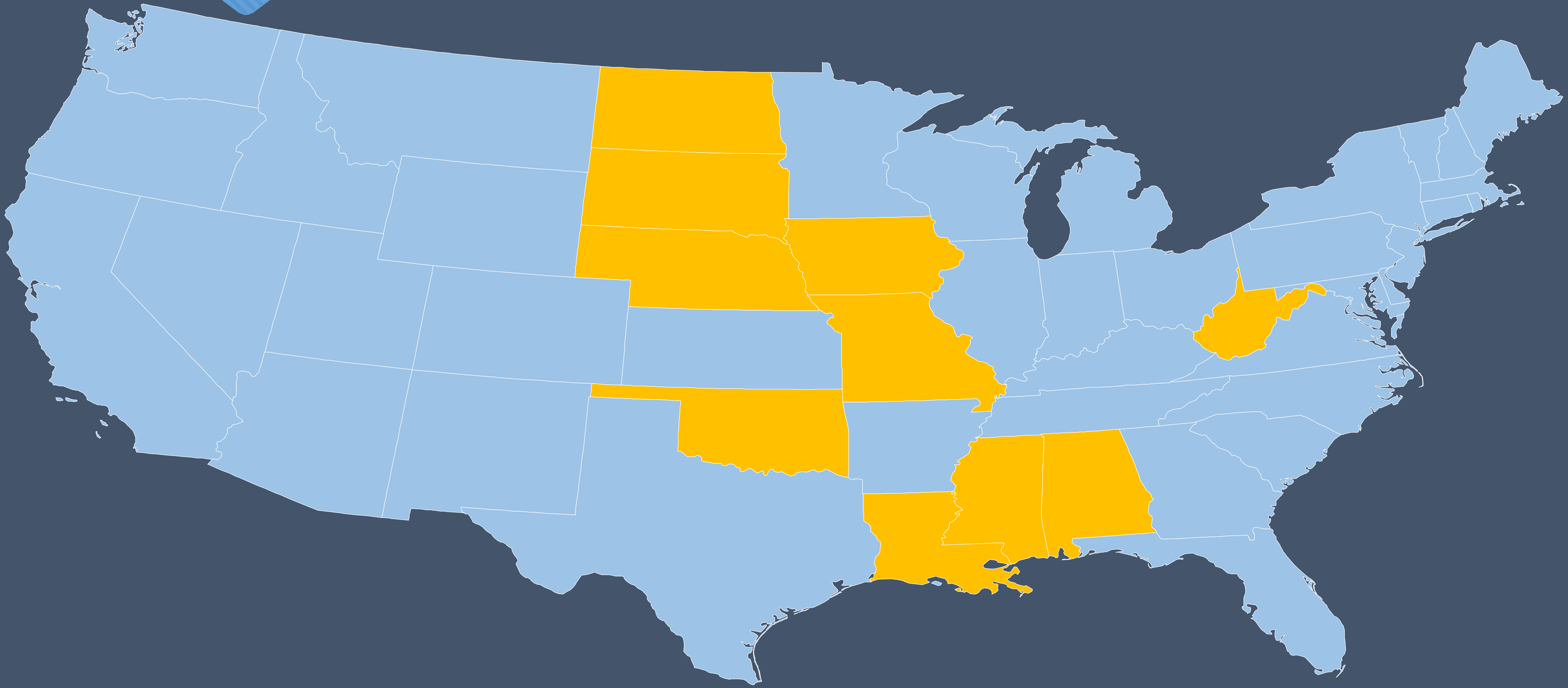
Myth Number 2: Investors make investment decisions based on the Internal Rate of Returns

IRRs are used as barometers; Three primary methods

- Many investors use a Return on Equity (ROE) model
  - Interest rates play a significant role in this methodology. Given the current interest rate environment, ROE investors have the greatest flexibility on pricing. Most direct investors use the ROE method. If interest rates increase, pricing for the credit will decline.
- Some still use the IRR method
  - There are many tricks to increase the IRRs: bridge loans, secondary deals, slow disbursements, etc.
    - Example: a fund at 7.70% has an "all-in" price of $0.98 vs. a fund out at 7.25% with an "all-in" price of $0.93
- A few use the total price-per-credit method (They don't like the IRR tricks.)
  - These investors generally want to pay less than a $1.00 for their credit (including fees and reserves)

Myth Number 3: Flyover states are ignored in the LIHTC Market

Deals that we bid with competition



Overall Housing Market

- Homeownership
  - 70% owned homes in 2007
  - 65% in 2014
  - Estimated to be 64% in 2015
- Mortgage lending has dropped significantly
  - Wells Fargo Home Mortgage saw a 67% decrease in lending activity from Q1 2013 to Q1 2014
- House values
  - Long-term average increase per year is expected to be 3% (adjusting for inflation). At the peak, some homes were increasing at a pace of 20% annually.
- What is causing the reduction in home ownership?
  - New underwriting requirements: Total Debt, including the mortgage payment, can not exceed 43%
    - Student loan debt was $350 Billion in 2005; now it is $1.3 Trillion
    - Family Net Worth– in 2003 the Median Net Worth was $87,992; now it is $56,335 (adjusted for inflation)
    - Household formations averaged 1.3 million a year prior and now are just under a million
    - Average age of first-time homebuyer is 34 years vs. 30 years before recession
  - No more 100% Loan to Value loans. Down payments are now required.

Foreclosures

- Foreclosures
  - Non-Judicial Foreclosure States have seen values increase much more rapidly than Judicial Foreclosure States
    - Non-Judicial States - 12-14 months (27 States)
      - Arizona, Nevada, California, Oregon
    - Judicial States - 30-36 months (23 States)
      - New Jersey, Ohio, New York, Florida

- Private companies and "Mom & Pop" owners are buying the foreclosed single family homes
  - $21 Billion invested in 2010
  - Blackstone owns 40,000 Single Family Homes
  - Harmony owns 23,000 Single Family Homes
- Their stated goal is to keep these properties as rentals for the long term. Creates a shadow rental market.

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