

Affordable Housing Debt Market Update

The market for debt financing on multifamily affordable housing assets remains very stable and is one of the few bright spots when compared to the market for commercial debt as a whole.

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For acquisition or refinancing loans, Fannie Mae, Freddie Mac, and FHA/ HUD remain viable options throughout the country and borrowers are currently enjoying historically low interest rates ranging from 4.25% to 5.25% depending on execution type, loan term and size, leverage, asset quality, and borrower quality.

On the new construction or substantial rehabilitation front, FHA/ HUD remains a viable option nationwide and like the market for LIHTC equity, banks are active in areas with high CRA demand. Fannie Mae and Freddie Mac have developed programs that are very competitive on rehabs which do not involve significant tenant displacement or a significant change in net operating income. On new construction financing, Fannie Mae and Freddie Mac offer a very competitive execution for tax-exempt bond credit enhancements; however, their product offerings for taxable permanent forward commitment financing on new construction are not very competitive from a rate and transaction cost perspective.

Timing and flexibility become an important consideration when choosing a lender for your next multifamily affordable housing financing. FHA/ HUD remains perhaps the best execution "on paper" for those that seek fully amortizing non-recourse financing

SAMPLE AFFORDABLE LOAN TERMS			
FHA/ HUD - Acquisition or Refinancing Loan Sizing Parameters			
DSCR: 1.15 to 1.20	LTV: 85%	Rate: 4.25% (plus MIP)	Amortization: 35 years
Fannie Mae/Freddie Mac Acquisition or Refinancing Loan Sizing Parameters			
DSCR: 1.20	LTV: 80%	Rate: 4.50% to 5.00%	Amortization: 30 years
FHA/ HUD - New Construction or Sub Rehab Loan Sizing Parameters			
DSCR: 1.11 to 1.20	LTC: 83% to 90%	Rate: 5.25% (plus MIP)	Amortization: 40 years
Fannie Mae/Freddie Mac - General Liquidity and Net Worth Requirements for Borrower Principals			
Liquidity equal to 10% of loan amount		Net worth equal to one times loan amount	

at a very attractive rate. However, FHA has been simply overwhelmed by application volumes which have nearly quadrupled over historical loan volume. Processing times from application to closing can range from five to seven months on acquisition or refinancing loans and processing times can range from zero to twelve months for new construction or substantial rehabilitation loans. Additionally, FHA has not yet made material changes to its programs to allow for more flexibility on matters such as transaction costs, surety bonding requirements, plans and specifications, Davis-Bacon requirements, eligibility of subordinate financing, tax abatements, prepayment terms, loan terms, replacement reserve requirements, etc.

Fannie Mae and Freddie Mac remain a much more efficient execution with average processing times in the 60 to 90 day range, substantially lower transactions costs and with more ability to be flexible on underwriting, mortgage credit, loan terms, prepayment terms, etc.

As is the case with all affordable housing assets, there is not a "one size fits all" category so please feel free to contact me should you have any questions about utilizing Fannie Mae, Freddie Mac or FHA/ HUD to meet your financing needs.



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financing through Fannie Mae, Freddie Mac, and construction and permanent financing through HUD. Mr. Leonhard has been involved in the development and finance of affordable housing since 1998 and to date has closed financing in excess of \$2 Billion for affordable housing projects in more than 35 states.

Market Spotlight: Austin Metro Area

Private Investors Target Value-Add Opportunities as Institutions Dominate Top Tier

As the development pipeline thins and population growth generates housing demand, the Austin apartment market will strengthen this year. Additions to supply will decrease by roughly 70 percent in 2010, after spiking last year, facilitating absorption as companies resume hiring. With employment growth gaining momentum, aided by several corporations relocating their headquarters to the region, more job seekers will migrate to Austin, fueling renter demand. Further, the recent expiration of the federal homebuyer tax credit will buoy demand in the coming months, as some would-be homebuyers remain in the rental pool. Class A properties will benefit most from these trends in submarkets where construction levels were minimal last year, including North Travis, Far South and Near South Central, as top-tier vacancy rates in these areas will improve more rapidly in the second half. Conversely, the Round Rock/Georgetown/Hutto submarket, where more than 30 percent of the metro's new inventory came online in 2009, will lag the recovery, forcing owners of recently built complexes to delay withdrawing concessions. The metro's building cycle is ending, though, which will allow owners to gradually trim concessions and increase rents in the coming months.

ECONOMY

The recovery of the Austin job market is under way. Since the start of the year, employers have hired 10,800 workers, bringing the 12-month total to 7,100 new positions, a 0.9 percent gain. In the prior year, local employment contracted by 17,500 jobs.

The unemployment rate in Austin reached 7.2 percent in June, up 20 basis points from one year earlier. The rate fell 10 basis points since January, however and, as of the second quarter, was 230 basis points below the national rate.

Outlook: Employers will add 19,100 jobs this year, a 2.5 percent increase. In 2009, head counts contracted by 18,400 positions, or 2.4 percent.

HOUSING AND DEMOGRAPHICS

Driven by the federal tax credit for homebuyers, single-family permit issuance increased 12 percent to 7,100 units during the year ending in the second quarter. Pulled permits for multifamily housing, however, dropped nearly 67 percent in that time to 1,140 units.

The median existing home price in Austin has appreciated 1.8 percent so far this year to \$188,400, bringing values on par with the levels recorded a year ago. Homes remain affordable, as the median household income of \$54,770 per year is 14 percent more than the minimum required to qualify to purchase a median-priced residence.

Outlook: The expiration of the homebuyer tax credit will deter some would-be homebuyers from stepping into ownership, helping to maintain a large pool of renters. Last year's flood of new units, however, will encourage operators of recently built complexes to maintain above-trend concessions through lease-up.

CONSTRUCTION

The delivery of 1,390 apartment units during the first half of this year brought the trailing 12-month total to more than 5,650 units, or an inventory expansion of 3.6 percent. During the previous 12-month period, builders completed 9,000 units.

Approximately 1,540 apartment units and 2,600 for-sale units are under construction throughout the metro. The Central submarket contains the largest share of rental units slated for delivery this year, with roughly 470 new units expected to come online

Outlook: The development pipeline will thin considerably this year, easing supply threats. After delivering 10,340 apartment units in 2009, builders will complete 2,860 units in 2010, increasing metrowide stock by 1.8 percent.

VACANCY

Resumed job growth and a significant decrease in completions supported positive net absorption of nearly 6,400 units over the past year, translating into a 90 basis point vacancy improvement to 9.6 percent.

As job growth drives some households to "debundle," the pace of Class B/C weakening slowed. Over the past year, the lower-tier vacancy rate climbed 100 basis points, but rose only 10 basis points in the first half of this year.

Outlook: Strong employment gains and a more than 70 percent decrease in apartment deliveries will help improve occupancy levels in 2010. Vacancy will fall 110 basis points this year to 9 percent, after a glut of new supply drove up the rate 240 basis points in 2009.

RENTS

During the 12 months ending in the second quarter, asking rents fell 1.7 percent to \$848 per month, and effective rents retreated 0.6 percent to \$765 month. Owners are leveraging occupancy gains to raise rents and withdraw concessions. In the first half of 2010, asking and effective rents grew by 0.5 percent and 1.1 percent, respectively.

Operational improvements have contributed to increasing revenues 1.6 percent year to date, following a 1.2 percent drop in the prior two quarters.

Outlook: This year, asking rents will appreciate 2.4 percent to \$864 per month, after slipping 3 percent in 2009. Effective rents will climb 3.4 percent to \$783 per month, restoring last year's losses.

SUBMARKET VACANCY RANKING

- 1 North Travis 7.0%
- 2 Near South Central 7.2%
- 3 Far Northwest 7.4%
- 4 Near Northwest 8.5%
- 5 Far South 8.8%

Market Spotlight: San Antonio

Metrics Poised for Rebound as Job Gains Increase, Building Slows

Following a slow start in the first half of 2010, the San Antonio apartment market will begin to firm through the rest of the year as employment growth and household creation pick up and the construction cycle decelerates. Along with strengthening job growth, elevated residential foreclosures also will generate renter demand in the coming quarters. The largest catalyst of apartment demand this year, however, will stem from Base Realignment and Closures (BRAC) actions. As part of the BRAC military base consolidation efforts, Fort Sam Houston will become the world's largest medical training campus. The base restructuring will bring nearly 10,000 new households to the metro through 2010 and into next year, with some of these relocations already under way. Metrowide, supply growth will drop off considerably in the coming months, as 86 percent of this year's scheduled completions came online in the first half. As a result, apartment operations will begin to tighten, particularly in complexes catering to military personnel, facilitating some rent increases and concession withdrawals.

ECONOMY

Most sectors have begun to re-expand staffing levels. The government segment posted the largest year-to-date gain, adding almost 2,900 workers, though some of the increase was due to the hiring of temporary census positions that will be cut in the third quarter. The education and health services sector grew by 750 employees during the first half, bringing its annual gain to 1,500 jobs.

InCube Labs plans to open five life-science laboratories in the metro over the next five years. The addition of the facilities will create 50 jobs in that span, though city officials anticipate at least 400 local jobs could be generated by the labs within the next 10 years.

Outlook: Following the loss of 20,600 jobs last year, local employers will

increase head counts by 7,500 spots in 2010, a 0.9 percent gain.

HOUSING AND DEMOGRAPHICS

Single-family permit issuance totaled 6,040 units in the past 12 months, up from 5,200 units one year earlier. Permitting activity for multifamily housing plunged 58 percent year over year to 765 units.

Renting will remain the most affordable option for residents. Using traditional financing, the average Class A asking rent is roughly \$100 per month less than the typical mortgage payment on a median-priced home.

Outlook: While home purchases will continue to pose a considerable threat to apartment owners as job growth picks up, many residents remain unable to qualify for a home loan or are reluctant to commit to substantial debt. As demand for rental units intensifies early in the recovery, the rent/own affordability gap will enable Class A owners to gradually raise rents this year.

CONSTRUCTION

Apartment builders are slowing activity, as fewer than 650 units are under way. Proposed projects account for 6 percent of existing inventory, or 8,500 units, though no groundbreaking dates have been set.

The largest project completed this year, the 436-unit Haven Blanco, came online in the Far North Central submarket during the first quarter and expanded the area's inventory by 1.3 percent.

Outlook: Builders will deliver 2,680 apartment units this year, down from 4,770 units in 2009 and a stock expansion of 1.8 percent.

VACANCY

Despite an influx of new supply, the metro's vacancy rate held flat year over year at 10.2 percent. Job gains, demand generated by Fort Sam

Houston and foreclosures contributed to the absorption of recently delivered units.

The vacancy rate in the lower tiers pushed up 10 basis points in the last year to 10.7 percent, as Class B/C renters moved into newer assets with additional amenities. Over the past two quarters, however, lower-tier vacancy improved 30 basis points.

Outlook: As completions slow in the second half and companies expand payrolls modestly, the San Antonio apartment market will tighten. This year, vacancy will reach 9.9 percent, a 30 basis point annual improvement, following a 120 basis point spike in 2009.

RENTS

Stabilized occupancy levels, along with the delivery of newer, more expensive space, helped push up asking rents in the metro by 1.3 percent over the past year to \$695 per month. As owners raised concessions to fill units, however, effective rents grew just 0.8 percent to \$648 per month.

Top-tier asking rents advanced 1.4 percent during the 12 months ending in the second quarter to \$818 per month, while Class B/C owners scaled back rents 0.2 percent to \$587 per month. Year to date, however, lower-tier rents increased 0.5 percent.

Outlook: Modest occupancy gains in the coming quarters will encourage owners to raise rents. Asking rents will advance 2.2 percent in 2010 to \$700 per month, and effective rents will increase 2.4 percent to \$651 per month.

SUBMARKET VACANCY RANKING

- 1 South 7.1%
- 2 East 8.1%
- 3 Airport/Northeast 9.4%
- 4 Central San Antonio 9.6%
- 5 Far Northwest 9.8%

The information contained in these reports were obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Note: Metro-level employment growth is calculated using seasonally adjusted quarterly averages. Sales data includes transactions valued at \$500,000 and greater unless otherwise noted. Sources: Marcus & Millichap Research Services, Bureau of Labor Statistics, CoStar Group, Inc., Economy.com, National Association of Realtors, Real Capital Analytics, Reis, TWR/Dodge Pipeline, U.S. Census Bureau.

Sales of LIHTC Properties Trend Higher

Buyer interest in existing low-income housing tax credit (LIHTC) properties is heating up, with annual sales on track for higher volume in 2010, according to industry broker Armand Tiberio. Reasons for the uptick include a mending economy, increased buyer optimism, cash heavy pockets, and a greater supply of product.

“The trend is growing,” says Tiberio, Senior Director of the Tax Credit Group of Marcus & Millichap Real Estate Investment Services. “The number of transactions that are hitting year 15, the number getting beyond the credit flow period that are eligible for sale, is definitely a growing trend.”

Limited partners and tax credit investors are becoming more and more interested in exiting their investment in an LIHTC property between the ends of the 10-year credit flow period and the 15-year initial compliance period. These transactions are taking place as general partners buy out their limited partners, through 100% partnership purchases, and through fee simple purchases where both GP and LP exit together. In addition, there is still a very small market for some general partners who may wish to liquidate their GP interests for transactions where the limited partner wants or must stay put.

In 2009, Marcus & Millichap brokered the sale of 68 LIHTC properties, up 10% from 2008. “This year we’re anticipating a similar increase,” says Tiberio.

He noted the average sales price is about \$7.5 to \$8.0 million; the average sale is in year 13 of the initial compliance period. The company brokers sales mostly to high net worth individuals and not to institutional buyers.

According to Tiberio, reasons for the increase in LIHTC sales include:

- The market heating up in the first

five months of 2010. The overall buyer demand has launched upwards compared to year-end 2009. “We are seeing CAP rates dropping in many markets around the country and pricing becoming tighter. The demand pick-up combined with low debt rates is making for a strong seller market. In the last 60 days, we have seen bidding wars on well-located stabilized assets. We have not seen this type of demand since 2007.”

- An accelerating pool of candidates. A big ramp-up in the annual number of LIHTC properties reaching year 15 reflects the peak housing credit allocations to projects during 1995-97. “You’re starting to hit those prime years,” notes Tiberio.

- A desire to capture value. Many partners (general and limited) want to “capitalize on value, to get out prior to the end of year 15,” says Tiberio. “The assets at that point are starting to get older, they haven’t seen a lot of capital; operations start to decline; they might also be just trying to take advantage of market dynamics.”

- Itchy investors. Many cash-laden, yield-driven buyers that were on the sidelines the last 12 to 18 months are now more optimistic about the economic recovery and ready to invest and put their dollars to work. Multifamily housing - LIHTC properties particularly - is also viewed by investors as one of the safest real estate asset classes.

- Interest rates. The current environment is extremely favorable with interest rates on new debt around 5%. This benefits sellers since these assets are priced based on yield. In the event that rates rise quicker than increases in project net operating income, sellers could easily see values drop in the next 12-36 months, depending on how the economic recovery impacts rates. Many sellers are

taking advantage of this timing.

Buyer Profile, Return Levels. Tiberio estimated that about 80% of interested buyers are owners of market-rate and affordable rental projects - generally local and regional players - rather than strictly tax credit developers. They often understand affordable housing or can comprehend its income and rent restrictions while modeling a certain specific yield, he notes.

These yield-driven buyers, Tiberio explains, generally plan to continue the use of the properties as affordable rental housing for the balance of the property’s extended use period, but intend only minimal initial capital improvements - say \$1,000 to \$3,000 per unit. This comports with their desire for yield, generally a cash-on-cash return of around 7 percent.

Tiberio said that buyers typically fund acquisitions with 20 to 25 percent equity, usually from private sources or their own pockets, plus new debt. Roughly 70% of new debt is a Fannie Mae or Freddie Mac loan; 30% a FHA or recourse regional bank loan.

Tiberio, however, though said that some sales involve a resyndication with new housing credits (9% or 4%).

LIHTC property sales aren’t particularly heavy in one part of the country. Volume, though, has been light in economically “struggling” markets, where equity and debt are tough to raise. Tiberio said LIHTC foreclosure sales have been “extremely limited.” There have been some, however, including by the Florida Housing Finance Corporation, Fannie Mae, HUD, and a few life insurance companies.

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TAX CREDIT GROUP: CURRENT LIHTC ACTIVITY

	Closed	Escrow/Mktg.	Total
PROPERTIES	310	57	367
UNITS	43,858	8,809	52,667
STATES	35	25	-
DOLLAR VOLUME	\$1,904,773,754	\$455,710,941	\$2,360,484,695

TAX CREDIT GROUP Marcus & Millichap

Experience ♦ Market Making ♦ Results

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