Fannie Mae

Multifamily Affordable Housing Commentary:
Sales of LIHTC and Section 8 Properties Slowed in First Half 2017

The creation of the National Low Income Housing Coalition Preservation Database allows for a wide range of analyses on subsidized affordable properties. For instance, by matching the Preservation Database to the Real Capital Analytics (RCA) database of multifamily property transactions, sales of properties with various types of subsidies can be more fully identified. Although this matching does not result in a full list of all subsidized affordable properties sold, it still provides a window into the multifamily affordable market.

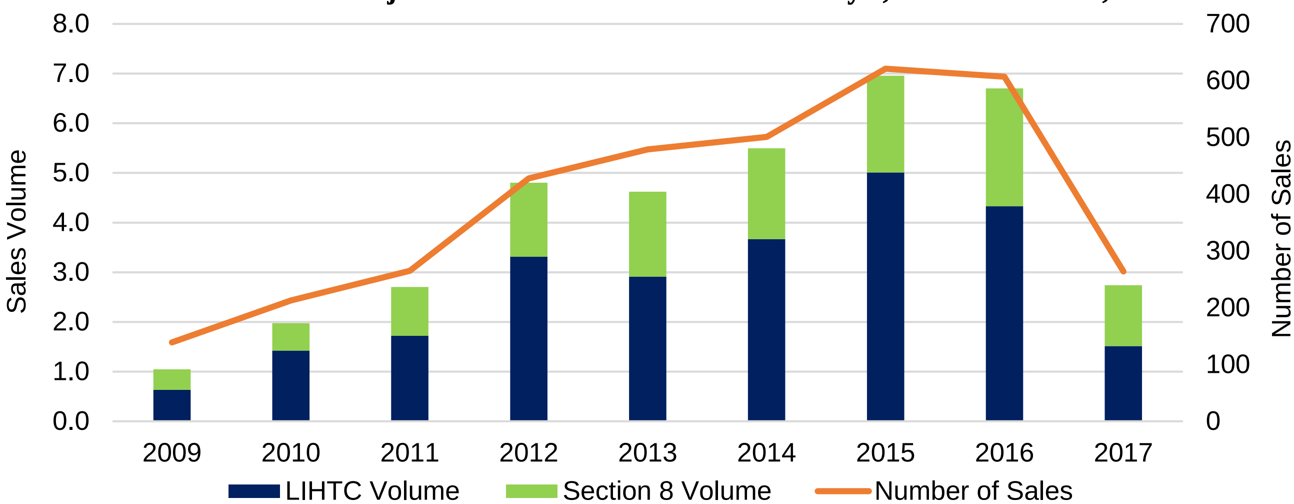
What is the Preservation Database?

The Preservation Database is a property level database which was created and is updated by the National Low Income Housing Coalition (NLIHC) and the Public and Affordable Housing Research Corporation (PAHRC). It identifies all properties subsidized by Federal programs and identifies all the Federal subsidies associated with a given property. The data comes from the US Department of Housing and Urban Development (HUD) and the US Department of Agriculture (USDA). It does not include properties with state and local subsidies.

Subsidized Affordable Property Sales Slowing?

As shown below, confirmed sales of Low Income Housing Tax Credit (LIHTC) and Project-Based Section 8 properties valued at $2.5 million or higher totaled at least $6.7 billion in 2016. This is just below the estimated $7.0 billion volume in 2015 but above the estimated $5.4 billion in 2014. Sales of these two property types seem to have slowed somewhat this year, totaling $2.7 billion in 1H 2017 compared to $6.7 billion for all of 2016. However, this is likely the minimum volume of sales as subsidized properties are not a primary property type tracked by RCA.

LIHTC and Project-Based Section 8 Sales January 1, 2009 - June 30, 2017



Source: Real Capital Analytics, National Low Income Housing Preservation Database, Fannie Mae
Some properties may include both LIHTC and Section 8 subsidies, Subsidized properties are not a primary property type tracked by RCA

Reaching Equilibrium in LIHTC and Section 8 Property Sales

As shown in the chart above, historically the majority of sales were for properties subsidized with LIHTC, with volumes ranging between 60 and 70 percent of total volume. In 2016, LIHTC property sales totaled an estimated $4.3 billion on 400 properties, while Section 8 property sales totaled an estimated $2.4 billion on 207 properties. The average sale price of a property subsidized with LIHTC was $10.8 million compared to $11.5 million for Section 8 properties.

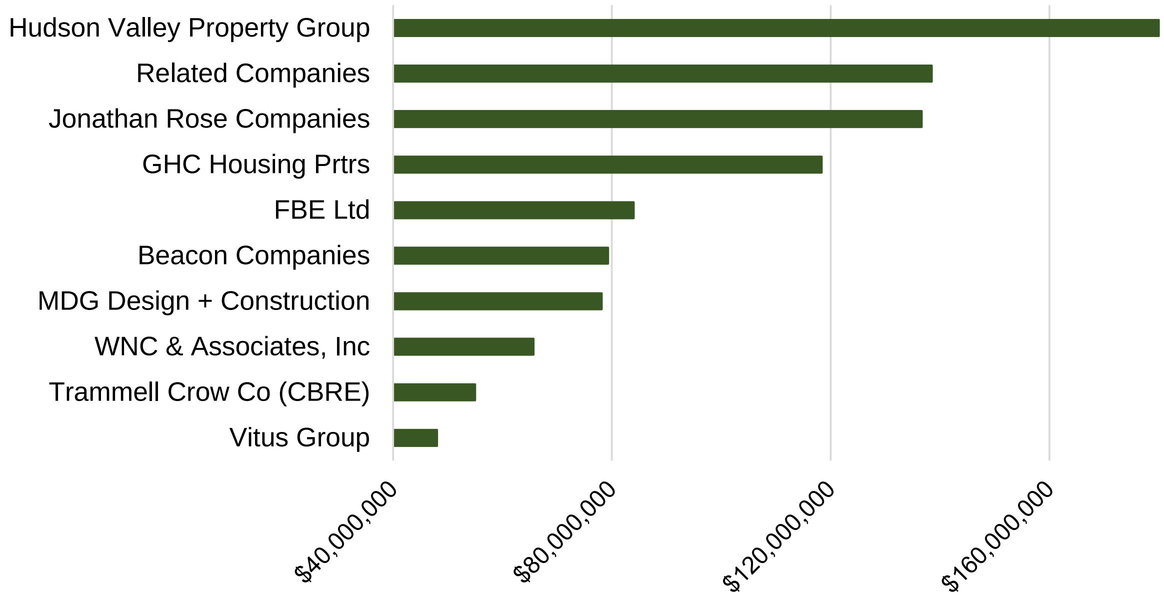
For the first half of 2017, this historic trend seems to be changing. Sales of properties subsidized with LIHTC totaled an estimated $1.5 billion, running just ahead of the $1.2 billion recorded for properties subsidized with Section 8. This trend may be due to preliminary indications on corporate tax reform at the beginning of the year which showed that the corporate tax rate might decline to 15% from 35%. This decreased the value of LIHTC somewhat leaving both developers and LIHTC investors wary at the start of 2017.

Multifamily Affordable Housing Commentary:
Sales of LIHTC and Section 8 Properties Slowed in First Half 2017 *(cont.)*

Project-Based Section 8 Property Sales

While sales of properties subsidized with Project-Based Section 8 contracts reached a high of $2.4 billion in 2016, since 2012 sales have generally totaled between $1.5 and $2.0 billion annually. Through the first half of 2017, sales of Section 8 properties totaled an estimated 1.2 billion, making it possible that 2017 sales will match 2016's peak. Going forward, sales should get an assist from the recent change to HUD's Rental Assistance Demonstration program which increased the total number of public housing units eligible to convert to project based Section 8 financing to 225,000 units from 185,000 units.

Top Buyers of Properties Subsidized with Section 8 Contracts January 1, 2016 - June 30, 2017



Source: Real Capital Analytics, National Low Income Housing Preservation Database, Fannie Mae

Hudson Valley Property Group a Top Buyer of Section 8 Properties

As shown in the chart above, the top investor in properties subsidized with Section 8 contracts over the past 18 months was the Hudson Valley Property Group (HVPG), a New York City–based affordable housing preservation firm. HPVG acquired a portfolio of seven properties located across Northern New Jersey, thereby preserving over 1,000 units of affordable housing in a higher housing cost market. Walker & Dunlop arranged the financing for the $181 million acquisition by a joint venture of Hudson Valley Property Group LLC, Red Stone Companies LLC, and Wheelock Street Capital by securing $144 million in financing from Fannie Mae. With the properties having been built between 1979 and 1983, HPVG plans extensive renovations despite keeping the units affordable.

Omni New York -- An Active Buyer

One notable entrant into the subsidized affordable housing investment market is former professional baseball player Mo Vaughn. Mr. Vaughn was the first baseman for the Boston Red Sox from 1991 to 1998. In his post-baseball career, Mr. Vaughn started Omni New York, LLC in 2004, which is dedicated to rebuilding severely deteriorated low income housing. Omni has a portfolio of over 7,000 units.

While not among the top ten investors over the past 18 months, Omni has still been active, most notably acquiring the 240-unit Newport Gardens built in 1986 in Brooklyn for an estimated $27.5 million. The asking rent for the property is estimated to be about $1,200 per month, which is less than half of the submarket's average of $2,500, according to data from CoStar.

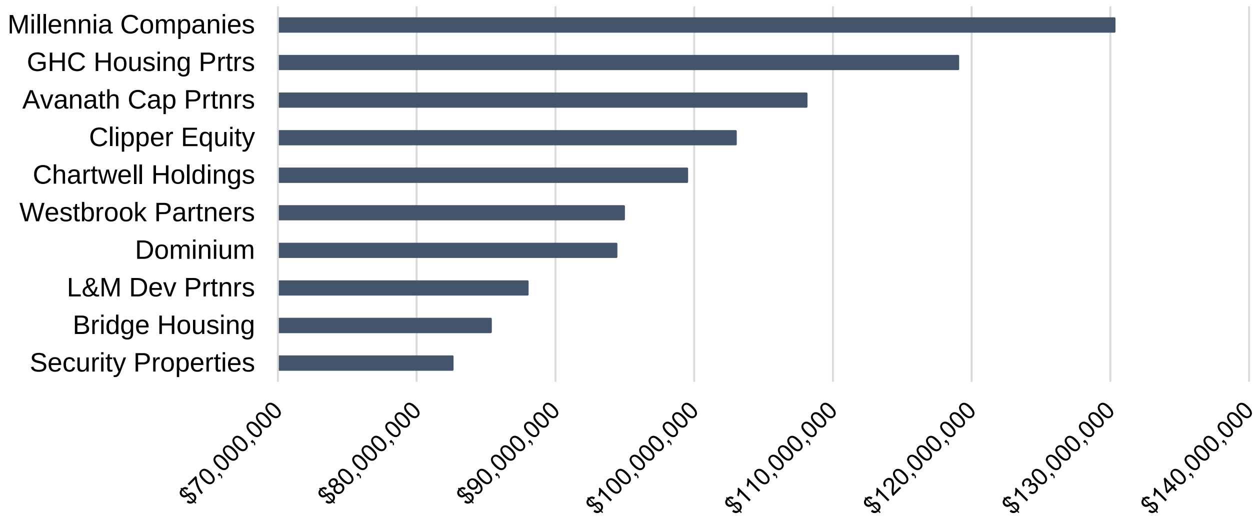
Multifamily Affordable Housing Commentary:
Sales of LIHTC and Section 8 Properties Slowed in First Half 2017 *(cont.)*

Top Buyers of LIHTC Properties

As shown in the chart below, Cleveland-based Millennia Companies have been the largest purchasers of properties subsidized with LIHTC over the past 18 months. This is largely due to Millennia's purchase of a Lawler Wood portfolio in August 2016 of 10 properties with almost 2,200 units for $108 million. Most of the properties were located primarily in Illinois, Tennessee, Alabama, and Oklahoma.

GHC Housing Partners, located on the west coast, was the second-most active buyer purchasing properties in Oregon, Colorado, and Washington. Avanath Capital Partners rounded out the top three with a June 2017 portfolio purchase of three properties in Sacramento with 468 units almost $57 million.

Top Buyers of Properties Subsidized with LIHTC January 1, 2016 - June 30, 2017



Source: Real Capital Analytics, National Low Income Housing Preservation Database, Fannie Mae

Age Restricted Properties Figured Prominently

Interestingly, many of the properties were age restricted properties – a critical source of housing serving lower income seniors. One of the three properties acquired by Avanath Capital Management was Sierra Creek in Antelope, Calif. The property features 144 units for seniors earning between 50 and 60 percent of the area median income (AMI). According to Avanath, the property's wait list includes over 200 applicants at any given time. A select list of age restricted affordable properties which sold during the first half of 2017 is shown below:

Selected Age Restricted Affordable Property Sales -- First Half 2017

Property Name	Price	Location	Units	Built	Buyer	Seller
SIERRA CREEK	$14,500,000	Sacramento, CA	144	2006	Avanath Cap Prtnrs	St. Anton Partners
LINCOLN CREEK	$26,000,000	Vallejo, CA	172	2006	Avanath Cap Prtnrs	St. Anton Partners
HARLEM GARDEN	$2,825,000	Baltimore, MD	96	1920	Stern Properties	Pinnacle Realty
MEADOWS AT ANCHOR BAY	$6,200,000	Detroit, MI	100	2001	N/A	Centrum-NEW Baltimore
SUMMER HILL APARTMENTS	$12,800,000	Wayne, NJ	164	1998	Christian Health Care	Wayne Housing LP
SIERRA PINES	$4,000,000	Las Vegas, NV	90	1998	Nevada HAND Inc	N/A
ANNADALE HOUSING PROJ.	$6,425,000	Fresno, CA	222	1991	Heather Dawson	Annadal Housing Partner
VILLA ESCONDIDO	$5,075,000	San Diego, CA	112	1999	AOF/Pacific	Michael Tozzi
PRINCE GEORGES MANOR	$12,800,000	Washington, DC	148	2000	Greystone	Jerome J Parks Co.
CLARE HEIGHTS SENIOR	$2,550,000	Milwaukee, WI	45	2002	Premier Clare Heights	Horizon Design Build

Source: Real Capital Analytics, National Low Income Housing Preservation Database, Fannie Mae

Multifamily Affordable Housing Commentary:
Sales of LIHTC and Section 8 Properties Slowed in First Half 2017 *(cont.)*

A Sale Worth Noting

A relatively recent purchase of properties financed with LIHTC is worth noting for its source of financing. In July 2015, Element Properties acquired the 150 unit Osage apartments and 52 unit Thunderbird apartments in south Boulder. A third apartment complex, a 36 unit project called The Nest in north Boulder was acquired in December 2014. The properties will get a new infusion of LIHTC to finance renovations. Including both acquisition and construction costs, the deal is worth $63 million and will preserve 57 units available to those making 50 percent of AMI and 181 apartments available to those making 60 percent of AMI.

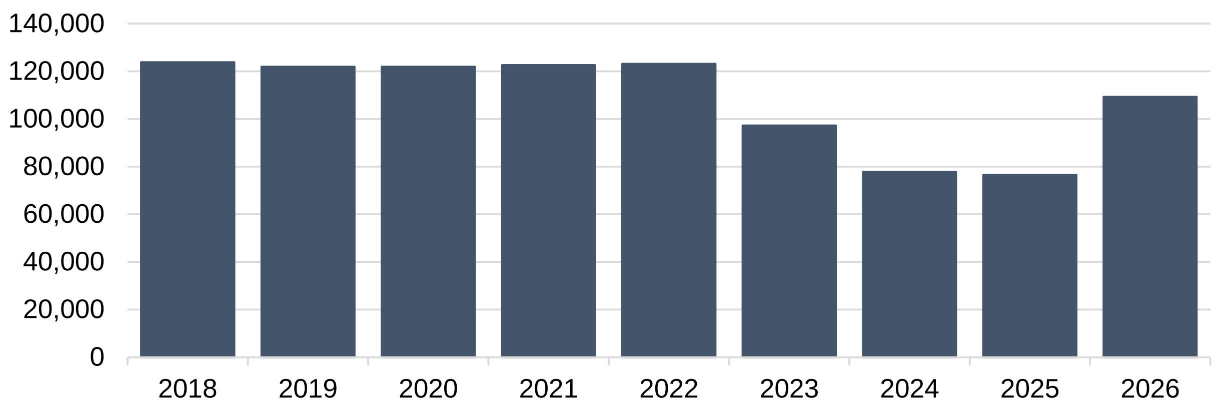
The sales are worth noting because a non-bank, Google, helped finance the deal through the purchase of a $42 million tax exempt bond through Red Stone Tax Exempt Funding. According to Google, Red Stone and Google have done similar deals elsewhere, investing in 48 properties in 44 cities helping fund development of an estimated 8,600 affordable apartments and homes.

Expiring Tax Credits

In 2018, just under 125,000 units will have expiring tax credits, likely leading to sales of these properties. The top metro area likely to see sales in 2018 by properties is New York, but a greater number of units are located in Washington, DC.

Although Houston is among the top metros for units with expiring tax credits, given the catastrophic after-effects and flood damage from Hurricane Harvey, the current and future condition of these properties is uncertain at best.

Number of Units With Expiring Tax Credits 2018 - 2026



Source: HUD Low Income Housing Tax Credit Database,
Retrieved August 30, 2017
Note: LIHTC subsidy expiration date based on the assumption of a 15 year compliance period

Sales Activity Facing Volatility

Sales involving properties subsidized with LIHTC and project based Section 8 were lagging somewhat in mid-year 2017. Although sales of Section 8 properties remained healthy, sales of properties involving LIHTC slowed. This was most likely due to a decline in tax credit pricing at the beginning of the year which left investors scrambling to find gap financing.

While sales of Section 8 properties should remain robust, sales of LIHTC properties may experience additional volatility due to the potential of legislation on corporate tax reform being introduced later this year. Even so, the multifamily affordable housing sector remains attractive to investors due to a shortage of affordable rental housing across the country and fewer than 120,000 units of new subsidized rentals added annually. A clear resolution for corporate tax reform coupled with swift passage of legislation would benefit both investors and tenants.

Tanya Zahalak

Senior Multifamily Economist
Multifamily Economics and Market Research
September 2017