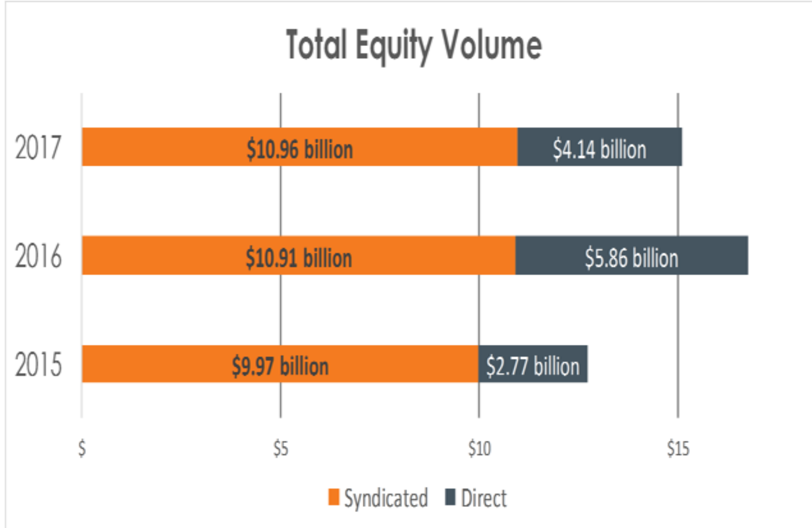
2017 Housing Credit Equity Volume Survey

- Through a survey of housing tax credit market participants, including 36 syndicators and director investors, CohnReznick estimates the 2017 gross housing credit equity volume to approximate **$15.1 billion**. Last year's volume reflects a $1.7 billion (10%) reduction from the 2016 level.

- The equity volume retraction, which is probably to no one's surprise, is attributable to the prospective reduced corporate tax rate that the industry grappled with for most of last year.

- From December 2016 to December 2017, housing tax credit net equity pricing dropped by $0.10 to a national median of **$0.92**, once tax losses were devalued at the 25% hypothetical tax rate. Fund offering cycles were disrupted in 2017 until adjuster provisions and tax rate assumptions normalized. Volume in the second half of 2017 was robust as the industry worked hard to share the risk of uncertainty and maintain production goals.

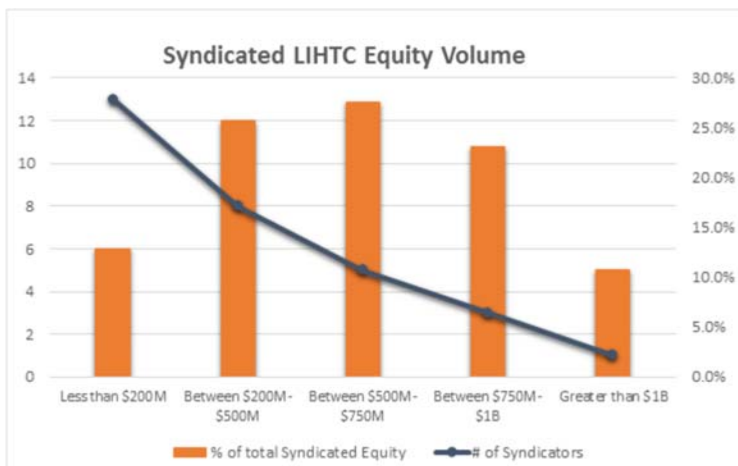


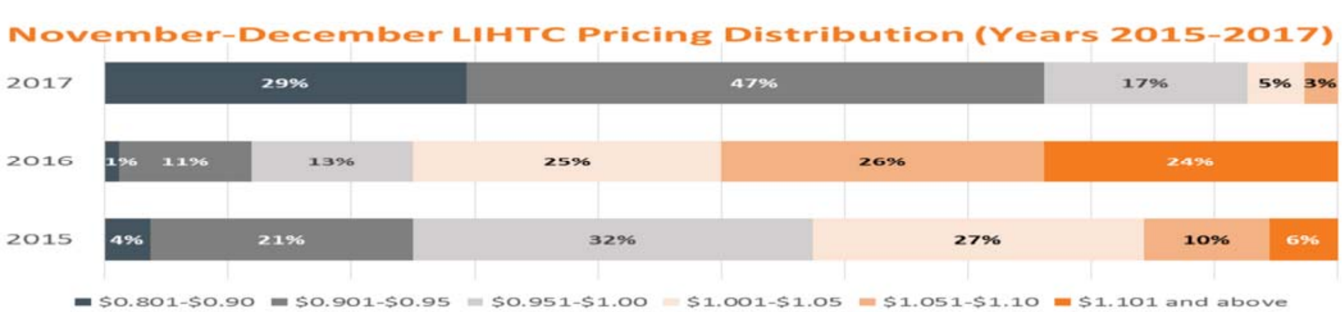
- Of the $15.1 billion total equity closed in 2017, 73% ($11.0 billion) was syndicated and 27% ($4.1 billion) was directly invested. While the surveyed direct investors collectively reported a seemingly much larger volume reduction from 2016, we note that the 2017 syndicated volume included carried over product from 2016 that did not close until early 2017; otherwise the 10% overall reduction would have been more pronounced.

- Of those syndicators that closed over $200 million on average in the last two years, 2017 volume reported a wide range of a 38% decrease to a 43% increase over their respective 2016 volume levels, largely due to timing of 2016 year-end fund closing.

- The presence of banking institutions continued to dominate the investor base. Along these same lines, because of the predominance of CRA investors, proprietary funds were the preferred fund execution in 2017, representing approximately 55% of the syndicated volume.

- In comparing lower-tier net equity pricing distribution form the same November-December period during the last three years, we saw a clear down-ward pricing adjustment as more properties were priced in the range of $0.901-$0.950 and fewer in the $0.951 and above.





2018 Housing Credit Equity Outlook

- While ultimately governed by the law of supply and demand, what drives pricing and return considerations, and how have these considerations been affected by the most sweeping tax reform since 1986?

- It remains to be seen how investor demand will impact pricing/return targets and overall volume for 2018. Many investors, while having verbally expressed their commitment to the industry, are taking the first few months of the year to recalibrate their legacy portfolios and tax appetite going forward at the 21% corporate tax rate. As 2016 has proven, the industry appears to be resilient enough to handle this level of delay/adjustment.

- Impact of corporate tax rate change from the hypothetical 25% rate used in 2017 to the current 21% corporate tax rate resulted in a negative impact to IRR ranging from 45 bps to 85 bps for national multi-investor funds. We note that the impact on IRR was directly related to the level of hard debt leverage on the lower tier properties. The industry is working collaboratively to share the risk and manage investment returns. While, the IRR is negatively impacted by the corporate tax rate reduction, it is worth noting that the quality of the return (measured in the ratio of credits to total tax benefits) appears to have improved.

- The Base-Erosion and Anti-Abuse Tax (BEAT) could depress the value of housing tax credits by 20% through 2025 or 100% after 2025 for those foreign-owned investors or investors with significant overseas operations. Assessing impact to BEAT-affected multinational corporations is not straightforward. Beyond the quite complex formula itself, the exact impact would depend on individual companies' business structure, as well as reflecting a balanced act of tax management strategy and Community Reinvestment Act (CRA) related considerations. There are a number of secondary trades contemplated for BEAT and other reasons. While there will be some impact felt by the market, the industry consensus including that gathered from BEAT-impacted investor is that the impact is not expected to be significant enough to cause any turmoil in the market. Further, anticipated economic growth and repatriation of profits could ultimately increase investors' tax appetite.

- Actions taken by the two Government-Sponsored Entities also suggest that their participation this year could nicely fill in some holes left in the market and bring diversification to the investor market.

- As of mid-Feb 2018, multi-investor funds that are poised to enter the market for second quarter closing were priced to offer a base/economic-tier internal rate of return (IRR) of up to 5.50%, with varying tiers for CRA-motivated investors that are expected to continue paying a higher price premium in exchange of products in their target CRA footprints. The 5.50% base return/economic tier would be similar to the 2017 level necessary to attract economic investors, indicating that the hurdle rate for economic investors would not necessarily be lowered by moving from the 25% hypothetical tax rate assumption to the new 21% corporate tax rate. Everything else being held constant, pricing would have to further come down by roughly 4 cents to accomplish a level return under a lower tax rate scenario; which may be hard for the market to swallow for multiple reasons.

- While IRR is the most frequently quoted return metric amongst housing tax credit industry professionals, most investors have other means of benchmarking housing tax credit investments internally. A 2017 survey run by the Affordable Housing Investors' Council concluded that return on equity (ROE) was ranked as the most important methodology when it comes to evaluate and compare potential housing tax credit investments. More so than IRR, ROE will be affected by cost of fund increases in a rising interest environment.

- As we anticipate the 2018 inventory to hit the market, let's not forget about the existing inventory. Based on what we've heard, investors are receptive to having a consistent set of reporting requirement to govern post tax reform fund reporting. CohnReznick is working with our syndicator and investor clients to ensure a consistent, easy-to-understand method of reporting, including bifurcating any yield variances into pure tax-rate effected changes and economic performance caused changes. Some investors have taken (or are taking) the opportunity to upscale their portfolio management tools to enhance their ability to asses their portfolios in a real-time, dynamic fashion.

- CohnReznick is committed to you and the industry-at-large. For additional inquiries about this report or the housing credit equity market, please contact your Tax Credit Investment Services (TCIS) team:

Cindy Fang, Partner
617-603-4524
Cindy.Fang@cohnreznick.com

Matt Barcello, Senior Manager
617-603-4514
Matthew.Barcello@cohnreznick.com

Regan St. Pierre, Senior Manager
617-603-4518
Regan.St.Pierre@cohnreznick.com

Ryan Kim, Manager
857-264-3864
Ryan.Kim@cohnreznick.com