



Affordable Housing Equity Market Update

January 27, 2025

Contents:

- I. Headlines
- II. Outlook:
 - a. Broader Economy
 - b. LIHTC Pricing
- III. Multi-Investor LIHTC Funds
- IV. Supply & Demand
- V. Interest Rate Environment: 10 Year U.S. Treasury and Corporate Bond Rates
- VI. Regulation:
 - a. CRA
 - b. Basel III
- VII. Legislative Update
- VIII. Transferable Energy Credits
- IX. State LIHTC
- X. Secondary Transactions
- XI. Preservation and Workforce Housing

Friends & Colleagues,

First off, we'd like to welcome industry veteran, Albert "Al" Vaccaro to our team. Al joined Beacon Hill Capital at the end of 2024 after more than 30 years in the tax credit space at Bank of America. We've all worked with Al in some capacity for decades. He has extensive experience in Federal and State affordable housing credits and has performed advisory work for numerous investors and syndicators. His knowledge and experience is particularly deep with respect to the guaranteed and secondary segments of the LIHTC market and will provide opportunities to both buyers and sellers.

The intent of this newsletter is to provide our investor and syndicator clients a market update with respect to low-income housing tax credit (LIHTC) funds, and to a lesser extent, preservation and workforce housing funds. *We use italics for text that has been carried forward from previous issues.* This makes it easier for regular readers to quickly identify new material while providing important context for readers new to the newsletter, or the industry.

As always, this update is a collaborative effort between Strategic Tax Credit Investments and Beacon Hill Capital. Together, we represent nearly a dozen affordable housing syndicators of various sizes, including both for-profit and non-profit sponsors. Combined, our syndicator partners account for a large percentage of the syndicated LIHTC market. Broad market representation is the foundation of our information-based approach to the brokerage and advisory services we provide, and it is the basis of the commentary that follows.

For LIHTC funds, our primary focus is on multi-investor fund pricing, yields and trends. We also consider pricing across the entire market, including proprietary funds, guaranteed funds, secondary sales, and direct investor activity.

In the context of this newsletter, preservation funds (or naturally occurring affordable housing (NOAH)) and workforce housing funds are non-tax advantaged multi-family real estate equity funds generally comprised of Class B and C properties or developments. Investments in these funds may qualify under Regulation H (12 CFR Part 208) as public welfare investments (PWIs) by targeting low- to moderate-income households, which can help attract equity from CRA investors. These types of funds fall along a spectrum depending upon how oriented they are toward PWI criteria. In terms of portfolio composition, some include a component of new construction workforce housing while others do not.

This issue follows our July 2024 newsletter. Previous newsletters are available on our websites:

StrategicTaxCreditInvestments.com and BHCapital.com

We hope you find this update informative and useful. As always, we welcome your questions, comments and perspective.

Headlines

Our last newsletter was relatively brief as the market entered a wait-and-see period leading up to the November election. This edition continues that theme as the Republican sweep in the executive and legislative branches of government has brought fresh uncertainty to a variety of issues that could impact the LIHTC market.

November's election has changed the outlook for 2025 on several fronts. For starters, the yield on the benchmark U.S. 10-year treasury bond is up 50-60 bps since our interim update at the beginning of Q4. Trump's campaign promises to extend expiring tax cuts, deport large numbers of undocumented workers, and increase tariffs on imported goods have given rise to concerns about renewed inflationary pressures. In addition, a number of investors have taken a more cautious approach with respect to 2025 planning given Trump's reference to changing corporate tax rates, at least for some companies, and general uncertainty around what policies will ultimately be enacted. Another key element contributing to uncertainty is the relatively narrow Republican majority, particularly in the Senate, which will make reconciling contradictory goals, such as extending expiring tax cuts with fiscal responsibility, a big challenge. Lastly, issues that we have been tracking for some time like CRA reform and minimum corporate tax rates seem to be DOA for the time being until the new administration declares its intentions.

Six months ago, we anticipated LIHTC returns would remain level over the second half of 2024. We were wrong. At the high end, LIHTC fund yields rose by as much as 50-70 basis points for multi-investor national funds as supply exceeded demand and some syndicators aggressively pursued the remaining equity commitments available. Add increased uncertainty and rising 10-year treasury yields and we expect that upward pressure on LIHTC yields will continue for the first six months of 2025.

Los Angeles Fires

According to the California Department of Forestry and Fire Protection (CAL FIRE), as of January 15, there were 153 active fires, which had burned 40,660 acres and destroyed more than 12,300 structures¹. The largest wildfires—the Palisades Fire, the Eaton Fire and the Hurst Fire—were all located in Los Angeles County and had burned more than 38,000 acres. For context, the acreage destroyed accounts for approximately 2% of LA County land area. Our latest information is that the Eaton Fire is 91% contained and the Palisades Fire 68% contained. Just this week, the new Hughes fire, has exploded to consume 9,400 acres approximately 40 miles to the northwest in the Castaic Lake area.

A summary provided by the Affordable Housing Tax Credit Coalition (AHTCC) estimates that the LA area has lost over 12,000 homes so far and additional homes may be uninhabitable due to smoke damage. The large number of displaced residents from the affected areas are actively looking for replacement housing in an already tight rental market as they seek to secure housing for multiple years while rebuilding takes place. Fire victims are likely to get priority for vacant units, making it even harder for low-income families to find quality, affordable rental housing in the LA metro area. To date, AHTCC is aware of only one LIHTC apartment community which totaled 21 units that has become uninhabitable due to fire damage. Residents at another ten properties have been displaced due to evacuations. The

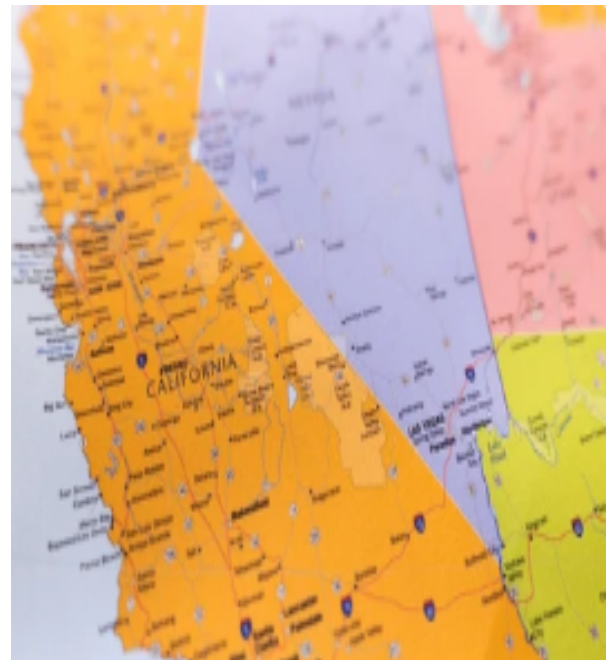
¹ <https://www.cnn.com/us/maps-damage-los-angeles-wildfires-dg/index.html>

status of an additional six LIHTC properties located in the affected area could not be confirmed at this time.

California Property Insurance

While California has always been vulnerable to devastating wildfires, the fires have become more frequent and severe in recent years as global temperatures have increased. Faced with the growing likelihood of paying billions in damage claims every year and unable to raise premiums as much as they'd like because of the state's regulations, insurers have been cutting coverage and canceling policies across California—especially in the most at-risk zones.² While insurance companies reduce exposure by canceling existing policies, or limiting new policy underwriting, insurance premiums on existing policies have also spiked. This has triggered an ongoing crisis in the state's property insurance sector, which could be exacerbated by the current wildfires.

According to the California Department of Insurance (CDI), 7 out of 12 of the Golden State's top insurers cut coverage in the state over the past four years. As a result, California's FAIR Plan, which offers fire insurance to those who can't find it in the traditional market, "is becoming the insurer of first resort, not last resort, for many," the department wrote.³ As a result, California's FAIR Plan, which offers fire insurance to those who can't find it in the traditional market and serves as the insurer of last resort, covered \$242M in commercial properties in the Pacific Palisades neighborhood alone in 2024.⁴ Currently, the FAIR Plan has a 3 percent market share in the state and the reduced coverage by private insurers could challenge the solvency of the FAIR Plan. It is worth noting that California has issued a year-long moratorium on insurance companies dropping coverage for policyholders in areas affected by the wildfires.



These insurance trends are a major concern for the affordable housing industry across the state. Insurance costs and operating expenses have escalated sharply, adding to construction costs that are up dramatically since before the pandemic and financing that remains expensive. Property owners already expected insurance rates to climb significantly after the state issued the new directive allowing them to pass along reinsurance costs.

It is important to note that California isn't alone with respect to rising property insurance rates. Most U.S. states have seen a rapid rise in insurance rates over the last several years.

² <https://www.latimes.com/business/story/2025-01-09/la-fires-property-home-insurance-crisis-fair-plan-lara-state-farm-allstate-palisades-eaton-altadena-wildfires>

³ <https://www.newsweek.com/these-california-insurers-cut-policies-before-devastating-wildfires-2012158>

⁴ <https://www.costar.com/article/1752741492/apartment-developers-worry-higher-insurance-costs-from-la-fires-could-make-some-building-unprofitable>

Outlook

Broader Economy

The core components of the Trump administration's expected agenda are deregulation, tax cuts, tariffs, and immigration reform. Deregulation and tax cuts would presumably drive economic growth, while tariffs and restricted immigration (and potentially deportations) would likely drive inflation through the higher cost of imported goods combined with a constricted labor market. While Trump has said that tax cuts will be paid for by tariffs, the estimated cost of extending just those tax provisions included in the 2017 Tax Cut and Jobs Act has been estimated at more than \$5 trillion over 10 years. The combination of these assumptions is reflected in rising long-term interest rates which have increased 50-60 basis points since Thanksgiving.

Higher for longer core inflation combined with strong economic growth and tight labor markets in 2024 resulted in fewer interest rate cuts to the Federal Funds rate by the Federal Open Market Committee (FOMC). By year-end, the Fed had reduced the key lending rate by a full 100 basis points from its peak, but less than the 150 basis points of reduction that was anticipated by markets at the beginning of 2024. At its December meeting, the Federal Open Market Committee signaled a shift toward a more cautious approach in 2025 with fewer and smaller reductions to the key overnight lending rate anticipated. While inflation has continued to trend down since the latter half of 2022⁵, the overall rate remains well above the Fed's 2.0% target level.

LIHTC Pricing

As previously stated, we anticipated LIHTC returns to remain level over the second half of 2024, but instead LIHTC yields rose. This happened despite incremental increases in demand from both CRA and non-CRA investors during the year. Our sense is that yields were driven up more by the number of fund offerings and syndicators aggressively pursuing equity rather than investors demanding higher returns relative to alternative investments. We believe this can be attributed to an expansion of offerings in the market.

For 2025, we believe there will continue to be upward pressure on LIHTC returns for two reasons. One, a number of investors are signaling a cautious approach given uncertainty around Trump administration policies. Two, there will be a higher risk premium demanded given the benchmark U.S. 10-year bond rate has risen by 50-60 basis points since November reflecting the broader market uncertainty.

Early indicators of tax credit pricing at the lower tier are already reflecting this anticipated increase in yields. Sponsors generally report flat to declining pricing trends over the last six months and report equity bids dropping from the \$0.86-0.89 range down to \$0.80-0.86 for LIHTC projects in noncompetitive CRA markets since the election.

⁵ <https://www.cbo.gov/system/files/2024-09/60480-Inflation.pdf>

The higher interest rate environment has impacted the feasibility of LIHTC transactions and stressed the finances of many LIHTC developers. Several of our syndicator partners report spending more time than ever reviewing the REO schedules of sponsors in addition to understanding their financial capacity. Many sponsors have portfolio stress caused by increased operating expenses that have outpaced rent increases. The primary cause of expense increases are insurance, utilities and payroll. However, the biggest effect on sponsor liquidity is related to construction loan interest where budgeted interest reserves were insufficient to address rate increases. As a result, we are hearing of an increasing number of developers/local general partners who are looking to sell assets or GP interests to generate additional liquidity. On a positive note, we are also hearing that some developers are being more conservative on operating expenses, reserves and rent increase assumptions as a result. A higher for longer interest rate environment which looks likely to be perpetuated by the new administration's goals and policies may continue these trends.

As always, we emphasize that there is a range in LIHTC yields across the market. Reasons for this include, but are not limited to, differences in portfolio composition, sponsor strength, load, the use of bridge financing as well as inefficiencies in the market. In general, investors with CRA needs are less price sensitive than non-CRA buyers. CRA pricing can apply to investors who require a CRA letter on individual transactions or groups of transactions depending upon their geographic location. As a result, there is often bifurcated pricing in the market. Furthermore, there has been an increasing trend to pair equity with debt on transactions. Developers who are considering equity offers that are contingent with a specified bank securing the debt can often see higher equity pricing as a result.

While the influence of the non-CRA component of the equity market on lower-tier pricing (property level) is limited because it comprises only about 15-20% of the total market, this segment can still move the market. When non-CRA investors pull back, fund sponsors who rely on non-CRA investor equity will typically cut fees and raise yields as necessary to obtain the investor equity needed to clear their funds. If this pricing pressure persists at the fund level, ultimately lower tier pricing will follow suit.

Our pricing summary focuses on three specific segments: multi-investor national funds; CRA versus non-CRA; and regional funds. Our pricing outlook for the next six months is based on both fund-level and property-level information from syndicators and investors. It is important to look at both because property-level and fund-level pricing do not always move in concert in the short-term. Historically, there has been a pricing lag of at least six months in the LIHTC market.

Tax credit pricing can be somewhat inelastic due to a number of factors including the long project lifecycle from conception to construction, and the protracted negotiations between syndicators and developers over terms and pricing. There is also a lag in feedback from investor demand to resulting adjustments in property-level negotiations with developers.

Multi Investor LIHTC Funds

Currently, national funds seeking to attract non-CRA equity are generally priced in the **\$0.87-\$0.98** per credit range on a fully loaded basis with after-tax QIRRs in the **6.00-8.25%** range with some exceptions both above and below.

At the lower-tier, supply remains somewhat constrained and higher borrowing costs still severely challenge project feasibility. Our syndicator partners generally report flat to declining pricing trends at the property level over the last six months for transactions that will comprise the portfolios of first-half funds in 2025. For more detailed metrics on current offerings, please see the attached LIHTC Fund Summary Exhibit. Please note we no longer include a summary of California Regional and Preservation funds due to the limited number of current offerings.

Due to a few factors, we are no longer seeing the volume of California regional funds as in the past. Demand from California based investors has largely waned due to the banking crisis of 2023 that saw the exit of key anchor CA LIHTC investors: Silicon Valley, First Republic & Signature Bank. Secondly, pricing for California transactions has steadily climbed toward base national fund pricing eliminating a prior need to keep higher priced CA product out of national funds with the intention of improving fund metrics such as price per credit and debt service coverage ratios. Lastly, there are less investors in the market with requirements to invest only in California funds, thus several prior California funds have evolved into regional funds with properties in surrounding states as well.

In addition to the larger multi-investor fund market, we continue to see smaller, more strategic multi-investor fund offerings comprised of projects in select geographic regions, or with unique developer profiles (BIPOC, emerging, etc.) offered by syndicators from time to time. While this subset of funds does not account for a large percentage of the market, they are notable as many investors are signaling the desire to make a more targeted impact with their dollars invested.

In the most competitive CRA areas (e.g. NYC, Boston, Utah, etc.) investors can see yields under 4% for certain transactions. Conversely, some syndicators are able to secure product at more favorable pricing in less competitive markets and can then offer yields to CRA investors above 7.00%. Funds may be able to achieve this depending upon the specific composition of the fund, investment size and the syndicator's investor base.

Pricing can fall outside of these ranges based on geographic location of properties, investment size and other special circumstances (e.g. a sponsor replacing a lost equity commitment). At the higher end of the yield spectrum, there are several economic investors that will make larger investments to secure premium yields within national multi-investor funds. We have seen those break point levels increase over the last couple years with the highest returns now typically linked to investment sizes in the \$40-50 million range. There are also larger CRA-motivated banks that are making blended investments that mix both CRA selections at lower yields with non-CRA selections to achieve higher overall returns.

Outside mainstream LIHTC multi-investor funds, some investors who require higher returns are willing to invest in funds and projects with higher risk profiles including mixed-income developments, assisted living properties, LIHTC transactions with higher leverage, and locations such as Puerto Rico and other U.S. territories.

One variable affecting the IRR and price per credit ranges above is the amount of bridge financing being utilized by the fund sponsor. In general, fund bridging becomes more prevalent as interest rates decline and arbitrage opportunities increase. Most national funds assume at least some modest level of bridge financing to manage capital calls. When the interest rate environment permits, a number of syndicators use additional bridging to more effectively compete for product and enhance yields. For investors that are focused on the lowest price per credit and little or no bridging, some funds will offer an unbridged investment class option (“cash needs”), which results in a lower IRR.

Conversely, some syndicators offer bridged returns, when positive arbitrage exists, for investors focused on a higher IRR, which generally increases the gross price per credit. These options appeal to different investors based on their internal investment models. It should be noted that the use of bridging by syndicators varies depending on the spread between the cost of bridging and fund yields.

Supply

The total supply of LIHTC credits, including both 4% and 9% credits, will increase roughly 2-3% in 2025. The 9% federal Low Income Housing Tax Credit (LIHTC) per capita multiplier will increase 5 cents in 2025 to \$3.00. The small-state minimum for 9% LIHTC also increases to a record \$3,455,000 (from \$3,360,000) while the private activity bond (PAB) per capita multiplier increases to a record \$130 from \$125, and the PAB small-state minimum also increases to \$388,780,000⁶.

For 2025, the LIHTC equity market is estimated to be around \$25 billion in total size, essentially unchanged as increasing allocation amounts are offset by lower tax credit pricing. However, we should note that the size of the market does not accurately account for the reduced feasibility of many transactions, or the fact that several states continue to forward allocate credits to make transactions work as previously mentioned.

In the broader context of tax credits, the Inflation Reduction Act enacted in 2022 under the Biden Administration increased and expanded many existing energy credits and created new climate credits. We had been concerned that the market for renewable energy credits could grow from being slightly smaller than LIHTC to double its size, potentially impacting LIHTC market pricing, but the future of these credits is now uncertain under the Trump Administration.

⁶ <https://www.novoco.com/news/lihtc-per-capita-multiplier-reaches-3-for-first-time-pab-per-capita-multiplier-130-for-2025>

Demand

Some non-CRA investors that were on the sidelines or participating in a limited way in recent years returned to the LIHTC market in 2024 and CRA demand remained steady. However, a number of investors adopted a more cautious posture in the months leading up to the election last November and that posture remains in place as a result of the Republican “sweep” causing uncertainty around the new Trump administration’s policies as they relate to corporate taxation, fiscal policy, immigration and their combined potential effects on inflation and interest rates.

Demand from the GSEs in 2024 (Fannie Mae and Freddie Mac) increased by \$300M for each of them as authorized by the FHFA. The new cap for the GSEs includes a provision that any annual investments beyond \$500M must be for transactions identified as having difficulty attracting investors and the investments can only be in LIHTC developments that have 30-year affordability restrictions.

There has been recent speculation that the GSE’s (Fannie Mae and Freddie Mac) will begin the process of moving out of government conservatorship under the Trump Administration. At this time, there is no reason to believe that would change their demand for LIHTC investments going forward, but we will continue to monitor the topic.

Interest Rate Environment: 10 Year Treasury & Corporate Bond Rates

The Federal Funds Rate currently stands at a targeted 4.25-4.50% as of Jan. 22, down 100 bps since our July newsletter, but the historic rise in interest rates over the last several years is well documented. The Fed Funds rate was 0.0 – 0.25% just three years ago. While the market had been anticipating perhaps another 75-100 bps of rate reduction during 2025, that has been tempered by expectations that the new Trump administration and Republican controlled Congress will enact policies that are pro-growth, but also inflationary and will add to federal debt levels. As we go to press, the market seems to be expecting little in the way of additional rate cuts for the first half of 2025 and perhaps one or two cuts of 25 basis points at most for the coming year.

The U.S. 10-Year Treasury bond rate has moved around substantially over the past six months. Approximately 4.25% at the time of our July newsletter, it fell to 3.75% in early October, then increased 50 bps by Thanksgiving and another 50-60 bps by year-end but has since fallen about 20 bps. At approximately 4.60% as we go to press, it is 30-35 basis points off the post-pandemic high of 4.98% in October 2023.

Due to the industry's size and specific characteristics, LIHTC yields do not correlate directly with Treasury yields. However, the U.S. 10-Year Treasury bond rate (10-year) remains a common and important reference point. Over the past 15 years, the spread between LIHTC yields (non-CRA yields in national funds) and the 10-year yields (on an after-tax basis) has ranged widely from a low of approximately 133 basis points (bps) in 2006 to a high of around 925 bps in 2010. The historic average has been approximately 436 bps. Using a non-CRA **7.70%** after-tax QIRR based off the most recent offering of multi-investor funds, today that spread is close to the historic long-term average at approximately 406 bps; an increase of about 50 basis points since our July newsletter.

Over the years, many investors have indicated that BBB rated corporate bonds may be the best credit proxy for LIHTC investments. Historically, LIHTC yields have maintained a spread of approximately 318 bps over BBB's after-tax equivalent. As we go to print, BBBs are sitting at 5.57% with the resulting after-tax equivalent spread to LIHTC staying close to the historical average at **330 bps**.

Please see our attached exhibits for graphical representations of our yield data.

Regulation

CRA (Community Reinvestment Act)

The new CRA regulations (detailed below) which were ratified in 2023 will likely be scrapped given the incoming Trump administration and new regulatory appointments. We expect that the banking industry will follow a business-as-usual course in the meantime, resulting in a neutral impact from a demand perspective.

In October of 2023, the Federal Reserve Board of Governors (FRB), Office of the Comptroller of the Currency (OCC), and Federal Deposit Insurance Corporation (FDIC) jointly released the final CRA rule changes to modernize the Community Reinvestment Act (CRA).

While the rule became effective April 1, 2024, examinations under the new rules generally do not begin until 2028. A legal challenge to the new rules raises the question as to whether the new CRA rules will be upheld or possibly repealed before they are implemented. A [lawsuit](#) was filed by the American Bankers Association, the US Chamber of Commerce and other banking trade associations against the OCC, FDIC and Federal Reserve, for "exceeding their statutory authority and acting arbitrarily and capriciously with their recent amendments to the Community Reinvestment Act rules." The groups are seeking for the court to vacate the final regulations, as well as a preliminary injunction while the case is debated.

Basel III

It remains to be seen what the Trump Administration's plans are for implementation of the international set of banking standards, Basel III, and the impact their approach will have on large U.S. banks with respect to their LIHTC equity investment activity.

The Notice for Proposed Rulemaking (NPR) issued jointly by the Federal Reserve (Fed), the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) was published in July 2023. According to EY's report, Basel III Endgame: What you need to know⁷, Basel III would fundamentally alter how banks with \$100B or more of assets approach risk-based regulatory capital and capital management. The NPR proposed a July 1, 2025, compliance date for most banking organizations.

Legislative Update

2025 will provide the affordable housing industry with the opportunity to have their top legislative priorities included as part of a much larger tax bill. Trump and fellow Republicans have stated that extending the tax cuts included in the 2017 Tax Cut and Jobs Act is a top priority. Whether this will happen through a single large bill with multiple Trump Administration priorities, or in a separate tax reform bill remains to be seen, but it will likely be Q2 or later before we know more.

The Affordable Housing Tax Credit Coalition's (AHTCC) top two housing credit production priorities continue to be restoring the 12.5 percent allocation increase for 9% credits and lowering the 50 percent bond financing threshold for 4% credit transactions. Both would result in a significant increase in the total supply of credits. Congressional support for these and other affordable housing priorities is high. As of late December, about 274 members of the House of Representatives had signed on to H.R. 3238 (122 Republican and 152 Democrat). In the Senate, 35 Senators have signed onto S. 1557 (17 Republican and 18 Democrat) with another 24 Democrat Senators on the waitlist to support it.

While bipartisan support is at an all-time high, the industry's priorities will be a very small part of a massive tax package and scrutiny of all costs will likely be equally high given that the extension of the 2017 TCJA provisions alone are estimated to cost more than \$5 trillion over 10 years.

Inflation Reduction Act (IRA) of 2022 & the 15% Corporate Minimum Tax

The Republican sweep in the November elections calls into question the future of many provisions in the Inflation Reduction Act as well as both the 15% Corporate Minimum Tax and Global Minimum Tax Pillar II. Investors are likely to remain conservative and move cautiously as the new administration's priorities and policies unfold over the coming months. In a recent conversation, one investor stated that even though the prospect of a minimum corporate tax rate may be dead for now, they would likely reserve against its future possibility.

The industry was hoping for additional guidance from the Treasury Department sometime in 2024, which is needed to address certain technical questions and provide clarification on the new corporate minimum tax. Without this guidance, the economic benefits of tax advantaged investments such as LIHTC can be called into question. At least one large economic LIHTC investor has curtailed their investment activity pending this guidance, and a few others have referenced it as one reason their appetite for LIHTC investments has been limited.

⁷ https://www.ey.com/en_us/insights/banking-capital-markets/basel-iii-endgame-what-you-need-to-know

Signed into law in August 2022, the Inflation Reduction Act establishes a 15% minimum corporate tax rate for large companies on “book” income (those that average more than \$1 billion in adjusted financial statement income, before taxes, over three taxable years). For most companies, the Act protects certain tax incentives and allows general business credits, including LIHTC, to be taken against the minimum tax. In addition, adjustments such as accelerated depreciation and amortization are allowed.

According to the Baker Institute for Public Policy, “the 15% minimum tax in the IRA does not align the U.S. corporate income tax mechanism with the Organization for Economic Cooperation and Development’s (OECD) Global Minimum Tax, although both use a 15% rate and apply to book income. For instance, the income threshold for in-scope companies under the OECD agreement is much lower threshold than the U.S. minimum tax. In addition, the OECD agreement aims to stop corporate profit shifting to low-tax jurisdictions through global harmonization, with U.S. companies likely paying more taxes in foreign jurisdictions as an end-result. However, the objective of U.S. Inflation Reduction Act is to increase domestic corporate tax revenue. Finally, details — such as loss carryforward, depreciation deduction, and treatment of certain credits — are inconsistent across the two systems.”⁸

Transferable Energy Credits

Republican control of the executive and legislative branches for 2025 brings uncertainty to the renewable energy tax credit market and subsequent potential impact on the housing credit market.

The 2022 Inflation Reduction Act created the largest ever federal subsidy for climate investments. It facilitates the transferability of renewable energy tax credits for distributed generation, energy efficiency, electric vehicle infrastructure, clean transportation along with other energy storage, carbon capture and clean hydrogen projects. The one-time transfer provision provided new sources of capital to developers and owners of renewable energy projects by allowing them to monetize the eligible credits through a one-time sale of a renewable energy credit to an unrelated party.

Interest in the credit gained momentum in 2024 from bank, insurance and other corporate investors. Some LIHTC investors have expressed interest in participating in the program but we have not yet seen demand for LIHTC impacted as a result. Likewise, a few LIHTC syndicators have made concerted efforts to capitalize on the transfer market, with varying degrees of success. Unlike LIHTCs which are largely syndicated, thus far, the vast majority of renewable transfer credits have been traded directly.

State LIHTC

Due to growing interest from investors in state LIHTC, we've included a summary reference of state LIHTC programs below. Investors often focus on states where the state credit is bifurcatable (can be purchased separately or disproportionately allocated) from the federal credit. States with bifurcatable state LIHTC include: AL, AR, CA, CO, CT, D.C., GA, HI, IL, IN, KS, MA, MO, NM, NY, OK, TX, UT, and VT. A summary of the recently enacted programs in Texas and Alabama is provided courtesy of Cabretta Capital below.

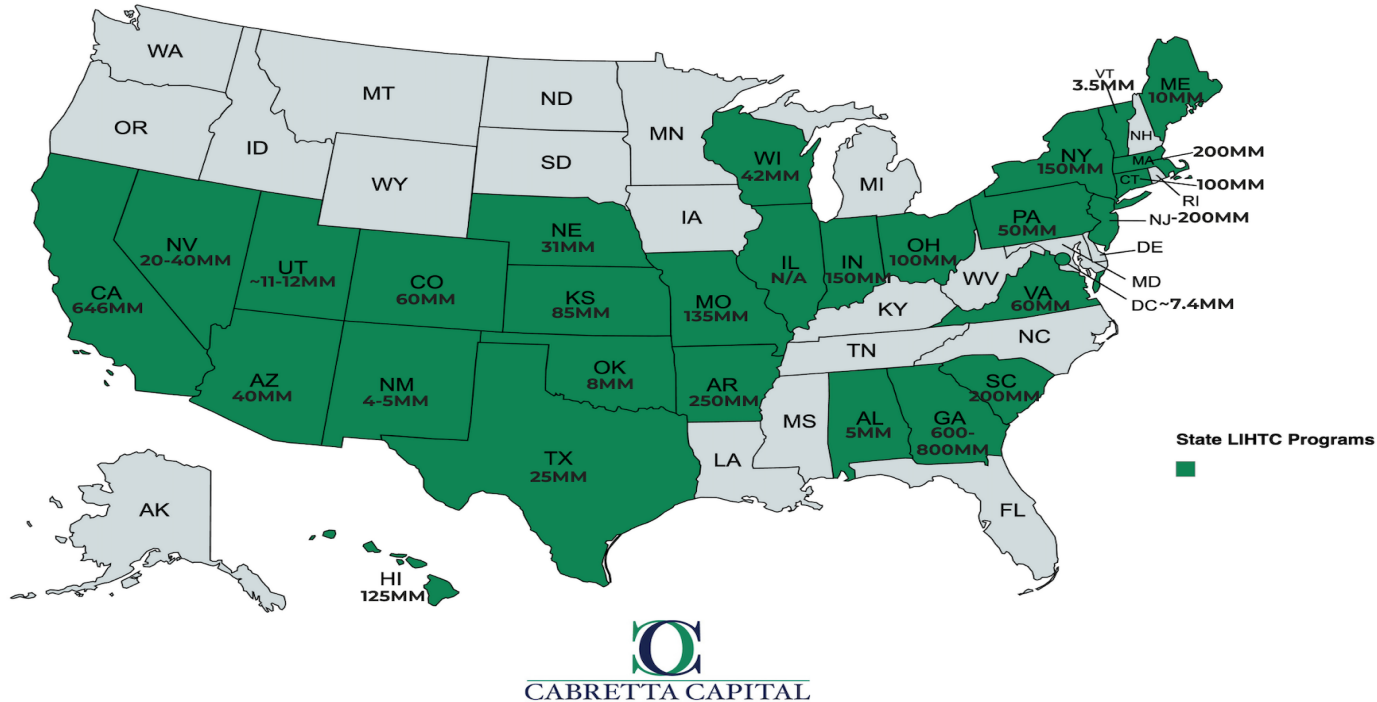
The Texas State Low Income Housing Tax Credit was enacted in 2023 and began in January 2024. It is scheduled to sunset in December 2029. The legislation included a \$25 million annual cap and the credit can be used against franchise and insurance premium tax and has a three year carry back (not before 2026) and a 10 year carry forward. Unfortunately, the legislation was not clear on the \$25M cap and it has been interpreted to mean \$2.5M annually for the 10 year credit, so the program is extremely small. Industry groups such as the Texas Affiliation of Affordable Housing Providers (TAAHP) are working to expand the program in the 2026 legislative session.

Per Capita Spend Rank	State	Population	Annual Credit Authorization	Per Capita Credit Spend	Population Rank
1	Hawaii	1,475,000	125,000,000	\$ 84.75	40
2	Georgia	10,917,000	700,000,000	\$ 64.12	8
3	South Carolina	5,218,000	200,000,000	\$ 38.33	23
4	Kansas	2,955,000	85,000,000	\$ 28.76	35
5	Massachusetts	7,127,000	200,000,000	\$ 28.06	15
6	Connecticut	3,613,000	100,000,000	\$ 27.68	29
7	Indiana	6,846,000	150,000,000	\$ 21.91	17
8	Missouri	6,189,000	135,000,000	\$ 21.81	19
9	New Jersey	9,389,000	184,000,000	\$ 19.60	11
10	California	39,996,000	646,000,000	\$ 16.15	1
11	Nebraska	1,989,000	31,000,000	\$ 15.59	37
12	Washington D.C.	645,000	7,400,000	\$ 11.47	50
13	Colorado	5,923,000	60,000,000	\$ 10.13	21
14	Nevada	3,186,000	30,000,000	\$ 9.42	32
15	New York	20,366,000	150,000,000	\$ 7.37	4
16	Maine	1,370,000	10,000,000	\$ 7.30	42
17	Wisconsin	5,936,000	42,000,000	\$ 7.08	20
18	Virginia	8,758,000	60,000,000	\$ 6.85	12
19	Arizona	7,304,000	40,000,000	\$ 5.48	14
20	Vermont	647,000	3,500,000	\$ 5.41	49
21	Pennsylvania	13,063,000	50,000,000	\$ 3.83	5
22	Utah	3,374,000	11,500,000	\$ 3.41	30
23	New Mexico	2,130,000	4,500,000	\$ 2.11	36
24	Oklahoma	4,001,000	8,000,000	\$ 2.00	28
25	Alabama	5,074,000	5,000,000	\$ 0.99	24
26	Texas	31,965,000	25,000,000	\$ 0.78	2
27	Arkansas	3,031,000	250,000	\$ 0.08	33

Alabama signed the Workforce Housing Tax Credit into law this year which will begin in 2025. The program allows for the allocation of \$5,000,000 annually in state tax credits through September 30, 2027, totaling \$150,000,000 that can be claimed over ten years. The allocation of these tax credits will prioritize projects supporting after-school care for tenants' children. The Act is scheduled to come into effect on October 1, 2024, with applications for the tax credit being accepted from January 1, 2025.

Legislative initiatives for state affordable housing credits continue their steady march. Over thirty states now have a State LIHTC program. States that currently enjoy the benefit of a state affordable housing credit have proven far more attractive to developers amid recent finance and labor headwinds. With more than half of the states now offering a state credit incentive, this resource has become a permanent and critical piece of the country's affordable production engine.

State Credit Programs' Annual Funding Authorization



Secondary Transactions

The addition of Al Vaccaro to our collective team brings greater depth to our secondary market expertise and provides opportunities to both buyers and sellers. As usual, a certain amount of LIHTC secondary offerings will be available in the market in 2025. Several bank investors (primarily CRA focused banks) will need to re-apportion certain risk exposure (e.g. tax risk, credit concentration risk, or overall bank equity exposure) in order to continue investing at historic levels and meet their CRA objectives. We anticipate secondary product in 2025 will range from \$400 to \$700M. The majority of these offerings will include ongoing 3rd party/syndicator asset management, although there may be a “direct” portfolio or two available as well.

One advantage of secondary offerings is the shorter tax credit period (perhaps 7 to 9 years), and that pricing can be at or near primary levels, despite the shorter investment horizon and the reduced risk related to the construction and lease-up phases of the projects. Another possible attraction to secondary offerings is the potential ability of the seller to “bridge” an investor’s capital calls at relatively low implicit interest rates, resulting in higher after-tax yields than might otherwise be available. The purchase of secondary LIHTC product would NOT serve to compliment any need to purchase

corresponding levels of LIHTC debt, although secondary opportunities could help meet CRA geographical targets.

We do not foresee the secondary product to have any measurable impact on overall market pricing in 2025, as the supply will likely be immaterial. Nor do we forecast a significant amount of secondary product to come from economic investors who may want to sell a portfolio in the context of trading gains. Pricing is not moving in a direction that would make for positive arbitrage.

Secondary market activity occurs in a few different ways. We think of a traditional secondary sale as when a LIHTC investor simply decides to sell part or all their portfolio due to reduced need for credits. This happens sporadically and can impact the primary market if the secondary volume is large enough that it reduces a significant amount of demand for primary product.

Alternatively, an investor, typically a bank, may buy and sell LIHTC programmatically. They may purchase more credits than they need as part of meeting their on-going CRA goals and then choose to sell down a portion of their portfolio to free up investment capacity and/or tax capacity. Usually this is part of a strategy around banking relationships, securing debt and other CRA opportunities. These transactions are typically bank-to-bank and account for some portion of secondary activity every year.

Preservation & Workforce Housing

The number of preservation and workforce housing funds has continued to decline in large part due to the interest rate environment. Preferred returns have generally held steady in the 7.00%-8.00% range on a pre-tax basis with total returns in the 10.00%–14.00% range. Please refer to our attached summary of current offerings.

Preservation funds constitute a segment of the multi-family market that is typically comprised of existing, older multi-family rental properties with rents at or below 80% of area median income (AMI) which may or may not have some form of government subsidy and generally cater to renter households with incomes at or below 80% of median income. The fund sponsors range from those with stated missions to preserve affordable housing, to those that see value-add plays for older multi-family real estate with strong occupancy and cash flow history.

Interest in the preservation and workforce housing fund sector grew in the years leading up to the pandemic as investors looked for value in the multifamily sector (non-tax credit) coupled with an increased corporate focus on social impact investing. Competition from institutional investors for quality transactions has kept property acquisition competitive and yields steady despite increasing interest rates.

The rapid rise in interest rates and their still relatively high level has led to a significant decline in transaction activity and new capital commitments to funds. As a result, the number of preservation and workforce housing fund offerings is less than a few years ago. Another headwind that is challenging

developers is the cost of insurance. There are many factors contributing to the rapid increase in insurance costs, but higher premiums are mainly a result of greater impact from natural disasters such as floods, hurricanes and fires.⁹ The longer-term prospects for preservation funds, however, should improve given the strong fundamentals of multifamily real estate combined with continued demand from institutional investors for social impact investments and the asset class.

Wrap Up

Please look for our pricing update at the end of Q1 when we send out our updated summary of fund offerings to capture any pricing changes before our next newsletter in July 2025. Please feel free to contact us with any questions or if you'd like to discuss the LIHTC market and fund offerings in more detail.

As always, we appreciate your feedback and welcome your questions and comments.

You can reach Dave Robbins at 617-340-7040
& Brian Rajotte at 503-575-9232.

You can reach Mike Connolly, Chris McCarthy and Garret Daigler of
Beacon Hill Capital at 781-740-8981.

You can reach Al Vaccaro at 925-787-4812.

⁹ https://www.housingfinance.com/management-operations/industry-insurance-challenges-worsen_s

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LIHTC Market Overview

Q1 2025

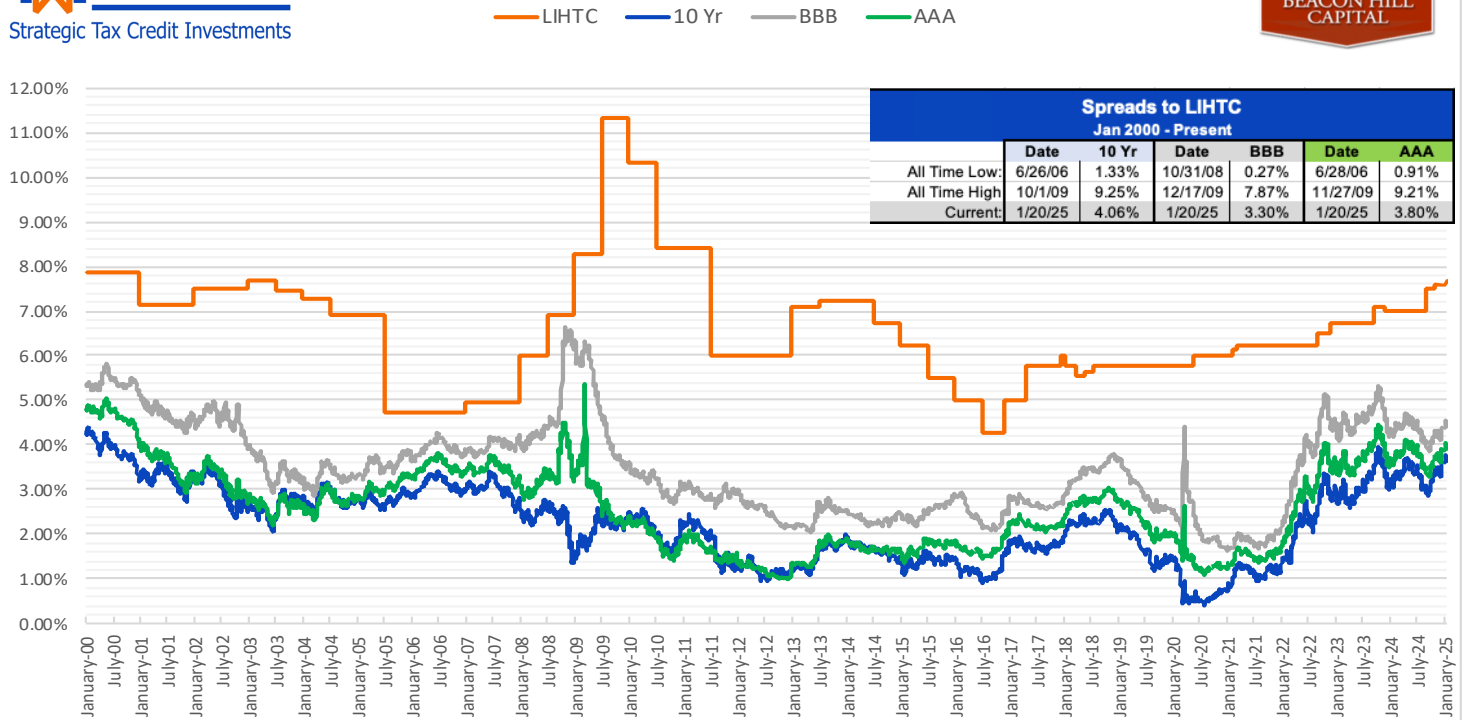


National Funds																		
Sponsor	Fund	Close	Approx Size (\$MM)	Status	Investment Pricing After Tax Quarterly Effective IRR (%) Price Per Credit (\$) Investment Class							Hard Debt %	9% / 4%	Repeat Developer	New Const / Rehab	Loss Ratio	Family / Senior	Notes
CREA	109	Dec/Jan	326.6	Closed	8.25%	8.00%	7.00%	6.45%	5.50%	>	4.00%							
					\$0.90	\$0.91	\$0.94	\$0.96	\$0.99	>	\$1.05	34%	28% / 72%	80%	57% / 43%	88%	71% / 29%	100% specified. \$276.3MM closed, \$50.3MM under LOI. 25 properties in 18 states identified. 25% of properties are located in Census Tracts with minority populations greater than 90%
					>=\$40M	>=\$30M	>=\$20M	<\$20M	CRA 1	>	CRA 5							
CREA	110 Eco	February	92	Closing	8.00%							33%	58% / 42%	79%	50% / 50%	84%	60% / 40%	Club fund for three non-CRA investors of similar size. 100% specified; 100% closed. 10 properties in 10 states including AK, FL, IN, MD, ME, MN, MO, NC, OK, and TX
					0.92%													
					\$30mm													
Enterprise	46	February	226.2	Closing	7.75%	7.30%			7.00%	>	4.00%							
					\$0.900	\$0.920			0.93%	>	N/A	21%	30% / 70%	83%	60% / 40%	N/A	97% / 3%	Portfolio spread across 10 states. 100% of deals under LOI.
					>=\$50M	>=\$25M			CRA	>	CRA							
Grow America	20	Sept/March	130	Available					5.25%									
									\$0.970			33%	53% / 47%	N/A	73% / 27%	99%	40% / 60%	15 properties, 9 states, 12 deals closed, 3 under LOI.
									CRA									
PNC	98	June	250	Pre-Launch	7.75%	TBD	TBD	TBD		Various								
					TBD	TBD	TBD	TBD		Various		TBD	TBD	TBD	TBD	TBD	TBD	Accelerated credit delivery via closed properties, Co-investment by PNC Bank
					>=\$35M	TBD	TBD	TBD		CRA								
RBC	37	Dec/Q1	153	Available	8.00%	7.00%	6.50%	6.00%	5.25%	>	3.50%							
					\$0.920	\$0.950	\$0.950	\$0.950	N/A	>	N/A	28%	59% / 41%	88%	72% / 28%	N/A	72% / 28%	RBC affiliate is a long term investor in the fund. ESG: 85% of portfolio in an underserved market or high opportunity location. 77% offer services or housing to special needs groups.
					>=\$30M	>=\$25M	>=\$10M	< \$10M	CRA 1	>	CRA 4							
Red Stone	113	November	263.2	Closed	7.85%	7.60%	7.35%	6.85%	6.00%	5.35%		24%	44% / 56%	69%	73% / 27%	152%	73% / 27%	19 properties in 11 states. 58% of properties with rental subsidy. 5.35% CRA yield reserved for Boston, Cambridge and Arlington, VA MSA's
					\$0.902	\$0.909	\$0.917	\$0.932	\$0.960	\$0.983								
					>=\$40M	>=\$30M	\$30M CRA	>= \$20M	< \$20M	CRA								
Richman	155	October	160	Closed	7.65%	7.50%	7.10%	6.10%		Various								
					\$0.887	\$0.892	\$0.905	\$0.938		Various		21%	31% / 69%	95%	55% / 45%	146%	70% / 30%	100% specified, 95% repeat developers, 17 properties in 10 states. Over 40% of total units covered by Rental Assistance Contract, 20% of total units to serve Special Needs Tenancy
					>=\$40M	>=\$30M	>=\$15M	< \$15M		CRA								
Stratford	43	May	150-200	Available	7.00%		5.50%		3.75%									
					\$0.908		N/A		N/A			30%	50% / 50%	TBD	50% / 50%	100%	TBD	N/A
					Cash Needs		CRA		CRA									
Stratford	43	Dec/Q1	150	Closed	7.00%				6.15%	5.50%	5.00%							
					\$0.876				\$0.911	\$0.936	\$0.957	34%	37% / 63%	84%	60% / 40%	111%	74% / 26%	Two additional CRA classes: 5.88% at \$0.922 and 5.25% at \$0.948. 17 properties in 12 states. 7 of 17 transactions with rental subsidy.
					Non CRA				CRA	CRA	CRA							
Walker & Dunlop	124	April	260	Available	8.00%	7.85%	7.25%	7.00%	6.75%	Various								
					\$0.910	\$0.914	\$0.930	\$0.937	\$0.944	TBD		32%	25% / 75%	66%	34% / 66%	104%	87% / 13%	75% of properties to deliver credits in 2025. December 2025 delivers 57% of fully stabilized monthly tax credits. 56% of total units in the Fund include project-based section 8 contracts
					>=\$45M	>=\$35M	>=\$25M	>=\$15M	<\$15M	CRA								
WNC	57	April	250	Available	7.75%	7.50%	7.10%	6.75%	6.75%	6.00%								
					\$0.902	\$0.910	\$0.922	\$0.933	TBD	TBD		29%	40% / 60%	59%	66% / 34%	92%	99% / 1%	20 properties in 18 states, 100% under LOI, 35% closed, approx. 25% of equity has rental subsidy
					>=\$35M	>=\$25M	>= \$15M	< \$15M	CRA	CRA								
WNC	CA22	April	109	Available	6.50%													
					N/A							N/A	N/A	100%	34% / 66%	88%	71% / 29%	100% specified and under LOI. All deals will be closed at fund closing.
					Base													

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Loss Ratio: Tax losses before disposition as a percentage of capital invested
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LIHTC Yields vs. Tax Adjusted Alternatives



Notes: 35% Corp. Tax Rate 2000-2017, 25% for 2017, 21% for 2018-present

Avg. LIHTC Yields: Informal survey of non-CRA economic self yields for multi-investor national LIHTC funds on a quarterly effective after tax basis.

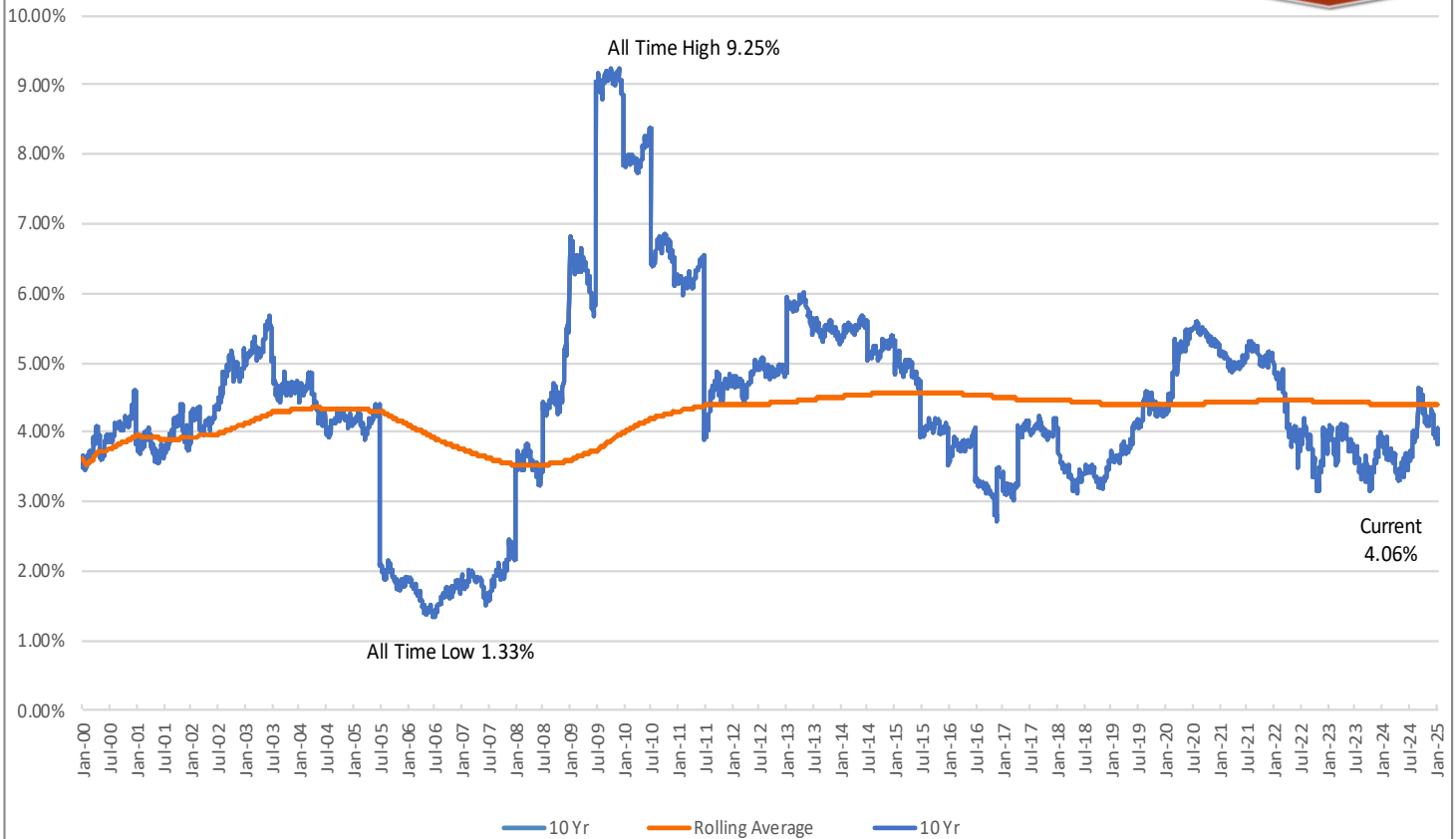
AAA, BBB & 10 Yr: Yields adjusted to represent an after tax yield

Source: <https://fred.stlouisfed.org/series/>

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Tax Adjusted 10 Yr Spread to LIHTC vs. Rolling Average



Notes: 35% Corp. Tax Rate 2000-2017, 25% for 2017, 21% for 2018-present

Avg. LIHTC Yields: Informal survey of non-CRA economic self yields for multi-investor national LIHTC funds on a quarterly effective after tax basis.

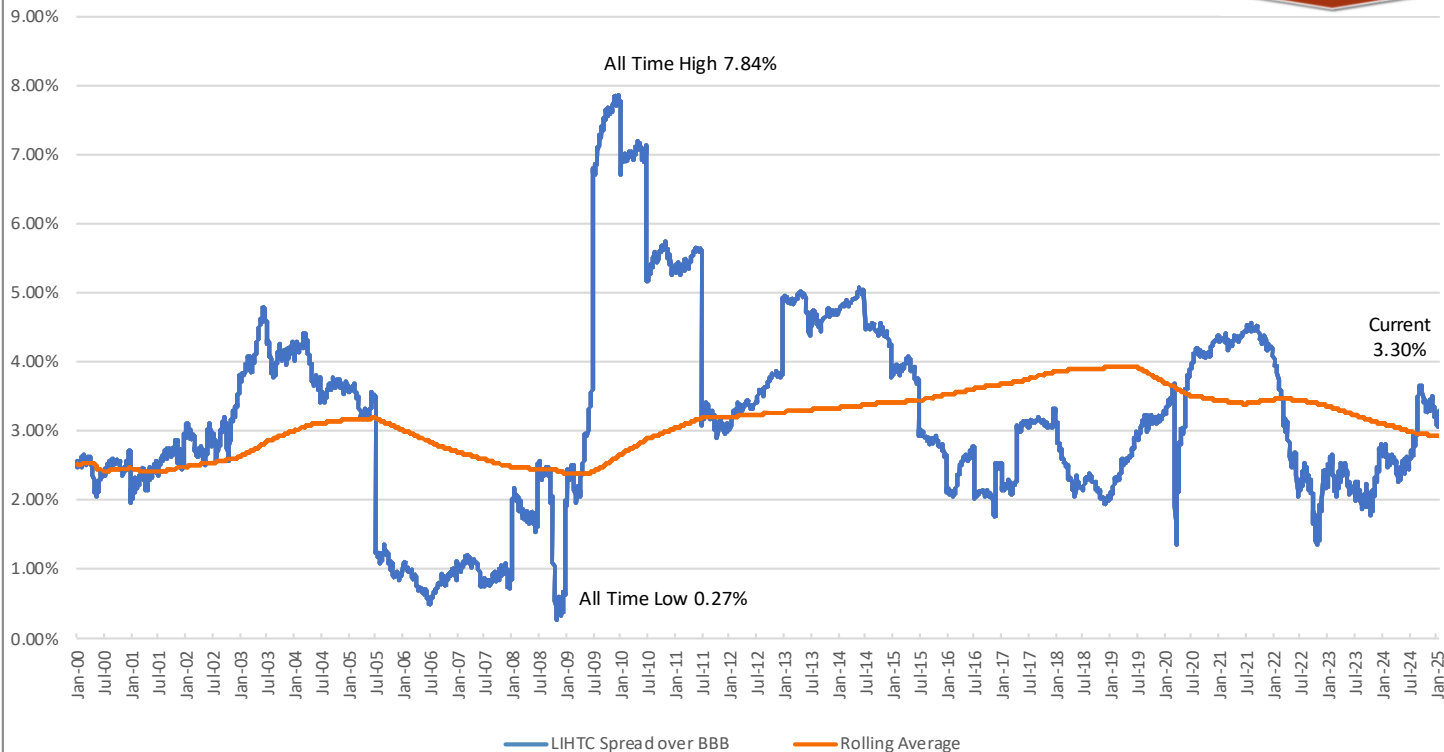
BBB & 10 Yr: Yields adjusted to represent an after tax yield

Source: <https://fred.stlouisfed.org/series/>

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Tax Adjusted BBB Spread to LIHTC vs. Rolling Average



Notes: 35% Corp. Tax Rate 2000-2017, 25% for 2017, 21% for 2018-present

Avg. LIHTC Yields: Informal survey of non-CRA economic self yields for multi-investor national LIHTC funds on a quarterly effective after tax basis.

BBB & 10 Yr: Yields adjusted to represent an after tax yield

Source: <https://fred.stlouisfed.org/series/>

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