

Vehicles, Drivers and Road Maps

DOES WHAT YOU DRIVE SAY WHO you are? In low-income housing tax credit investing, the destinations are known, so what you choose to ride in matters much more than where you're trying to go. And, as the LIHTC demand side recovers, which type of vehicle these new investors choose tells a lot about what they are, what they care about, and what they should worry about.

Arriving at LIHTC airport, a new investor has four principal ways to get into town, each with its own features, pluses, and minuses.

1. Airport shuttle = multi-investor fund. Like the airport shuttle, the multi-investor fund is standardized and runs a predictable route set beforehand. In terms of minimum cost to board, it's the cheapest alternative (smallest unit size), and the newcomer has the comfort and potential camaraderie of traveling with others, some of whom may be experienced visitors.

Against that, it's a passive experience in many ways, including the likely inability of passengers to coordinate action if the driver veers off the road.

2. Ecotourism = specialized fund. Whether focused regionally or by mission, specialized funds not only get investors to their destinations (annual LIHT returns consistent with projections), they also provide an experiential journey along the way (access and exposure to specialized properties and sponsors).

Their routes are a little more particular, and their buses (and bus companies) tend to be smaller, so they don't run quite as frequently, have all the amenities of the full airport shuttles, or maintain the same backup fleet in the event of

breakdowns. As there are many specialized vehicles, passengers have to know which type they want, whereas a shuttle rider can see a broader range of alternatives.

3. Taxi/limousine = private label fund. Private label taxi/limousine services offered by syndicators pick up the investor at the airport, and follow a route planned by the passenger (buying properties consistent with the customer's specifications, which can be very specific). Often the driver will consult the passenger based on traffic conditions (pricing and Community Reinvestment Act demand) or at inter-sections (investor prior approval of every acquisition), so the journey may take longer. Passengers come to have favorite drivers who learn their habits and whims.

4. Rent-a-car = direct investment. Experienced travelers who like the autonomy of driving themselves can pick up a rental car (direct investment), and go precisely where they wish, when they wish.

But to do this, they better know the city well (maintain up-to-date market knowledge). And if they get lost (lack of suitable investments to acquire), if their car breaks down (workouts) or runs out of gas (capital calls), or if they get a parking ticket (IRS Forms 8823), they own these problems, too.

Since any vehicle can get you to the same destination (the same deal)—and in fact, often multiple vehicles are competing for exactly the same deal—the LIHTC investor's strategic choice is which vehicle to ride. Each choice is largely irreversible (for those properties, anyway), and each has its risks. Each vehicle represents a distinctive blend of cost, optionality, service (asset management), autonomy, and responsibility.

Each vehicle has evolved to meet the needs of particular investor types.

Oversimplifying slightly, newcomers tend to take the shuttles or ecotourism options, while more experienced investors favor the custom-control of a taxi/limousine private label fund or their own proprietary direct-investment car. The logic of this evolution explains the current revival of multi-investor funds—newbies are the least experienced, so they go with the familiar routes and the scaled services. Of course, this passivity comes at a cost—shuttle-van passengers depend utterly on the driver, over whom they have no practical control, and have the fewest resources if the bus has an accident.

As investors learn the terrain and its quirks, they move onward to more personalized vehicles that impose on them more responsibility. Conversely, drive-it-yourself investors either need to be their own mechanics or to have them on speed-dial, as reality always surprises us, and the map is not the territory.

Whatever choice you make, don't buy a clunker (the tax credits for that program have long since expired).

Make certain you're not being taken for a ride—and be sure you have a good mechanic on contractual speed dial. **NN**

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