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# Competing in the Marketplace: Nonprofits' Place in the Existing Property Acquisition Market

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Opening remarks by Matt Slepín

Managing Partner  
Terra Search Partners

# Introduction

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- Thesis – acquiring existing properties should be a meaningful part of the portfolio strategy for nonprofit housing organizations
- Challenge – existing market share in acquisitions is poor and there are significant headwinds
- Purpose –
  - diversifying nonprofit business model from just development
  - preserving affordability via existing asset buys is a virtuous goal

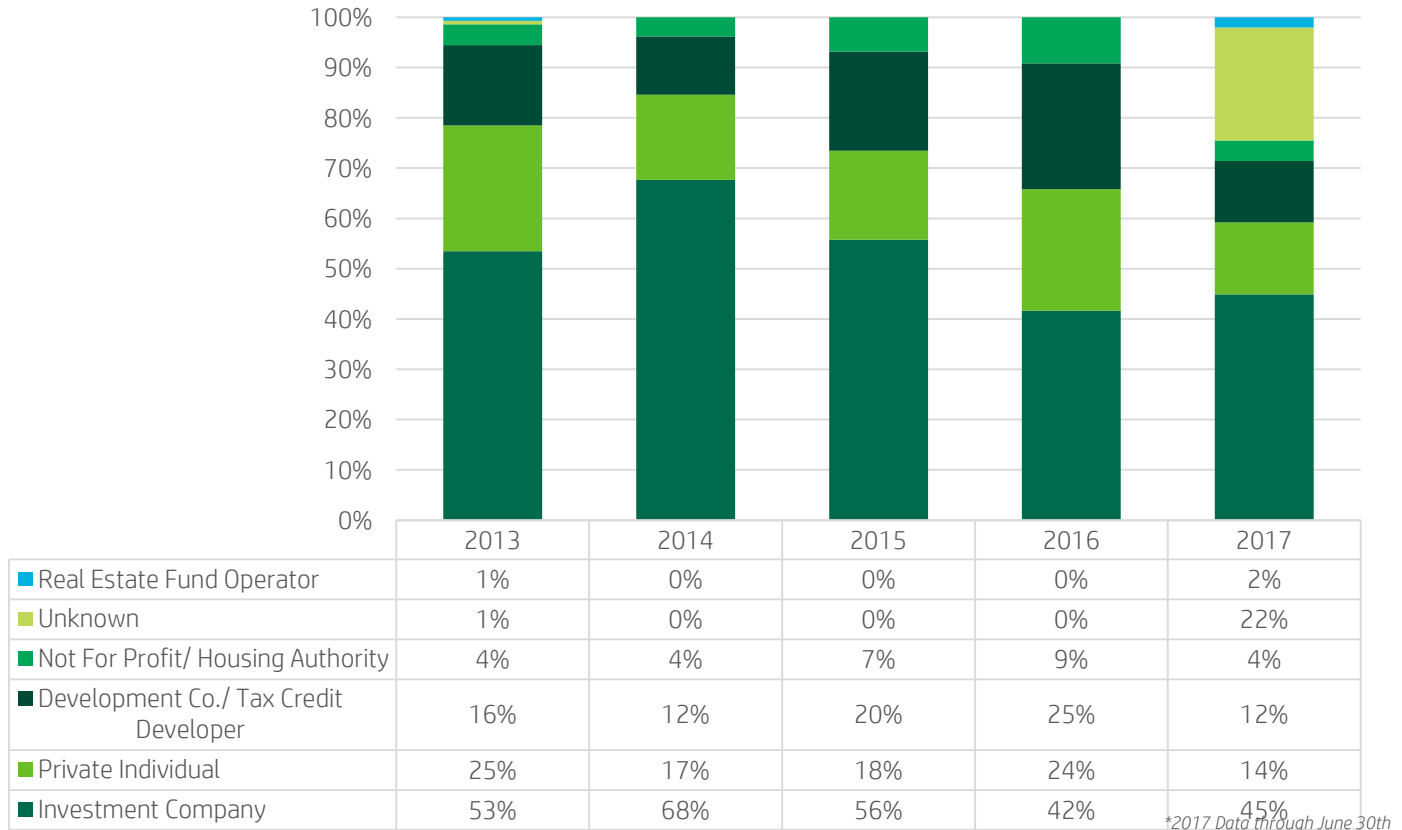


# The Reality in Existing Subsidized Housing Trades

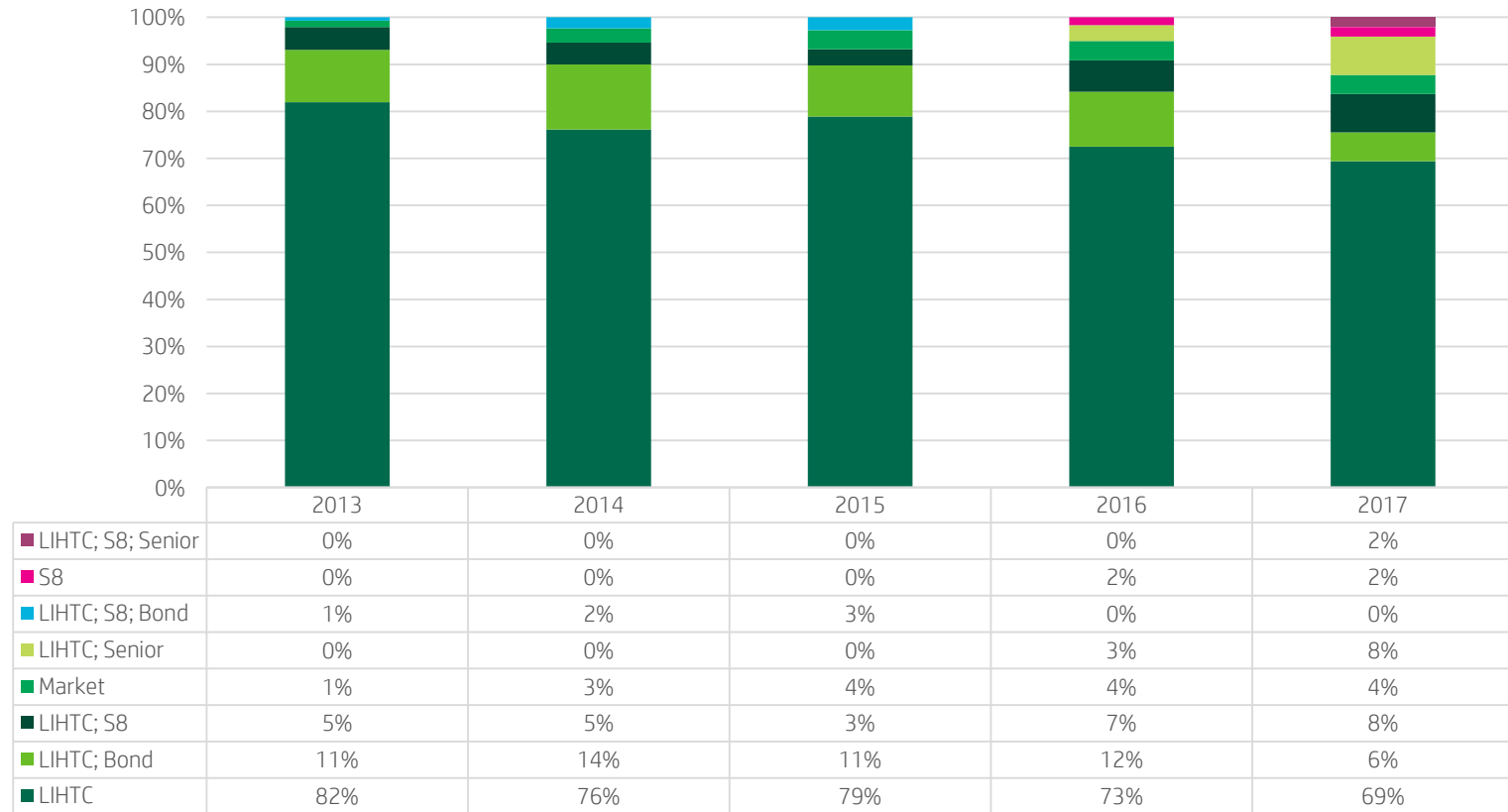
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- Per CBRE Affordable Housing Group, nonprofits capture only 4 to 7% of existing subsidized housing trades.
- Competition – smaller players plus of-scale for profits such as Avanath, Jonathan Rose, GHC, Security Properties, Dominion, Vitus, and others. Most are likely through IRR driven, limited life investment vehicles.

## WINNING BIDDER ACCOUNT TYPES

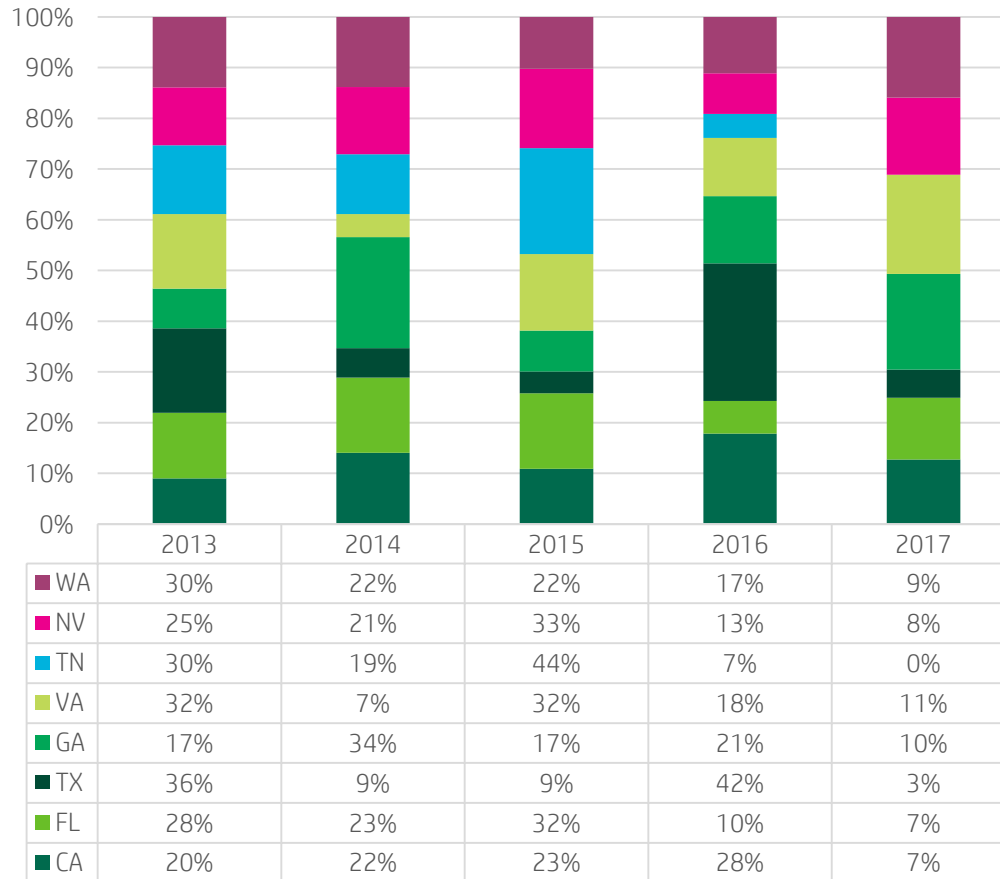


## AFFORDABILITY TYPE



\*2017 Data through June 30th

## TOP STATES COMPRISING 50% OF TOTAL TRANSACTIONS



\*2017 Data through June 30th

## UNIT COUNT BY AFFORDABILITY TYPE

	2013	2014	2015	2016	2017	Grand Total
LIHTC	15,812	13,769	14,129	11,244	5,698	60,652
LIHTC; Bond	2,790	2,895	3,395	2,893	783	12,756
LIHTC; S8	1,120	1,301	845	1,295	338	4,899
Market	478	557	434	561	300	2,330
LIHTC; S8; Bond	372	782	892			2,046
LIHTC; Senior				584	462	1,046
S8				133	120	253
LIHTC; S8; Senior					82	82
Grand Total	20,572	19,304	19,695	16,710	7,783	84,064

*\*2017 Data through June 30th*

# The Reality in Overall Multifamily Housing Trades

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- Per Real Capital Analytics, total multifamily trades are about a \$150BB market annually. This is non-differentiated for A, B, and C properties, etc.
- Nonprofits have < 0.3% market share in overall market!!
- Competition in the B&C space is huge for both longer term hold and “value-add” or other short-mid term hold strategies.
- “Pushing” rents to market levels is the norm. Many use “rent optimization” and “dynamic pricing” software...



# Headwinds: Financial Factors

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- What is discount due to limiting rent increases?
- What is discount due to longer term hold?
  - What capital will participate with you on the long term hold (long term affordability...) versus limited life vehicle?
- Less sources of (equity) capital...
- Others...

# Headwinds: Behavioral Factors

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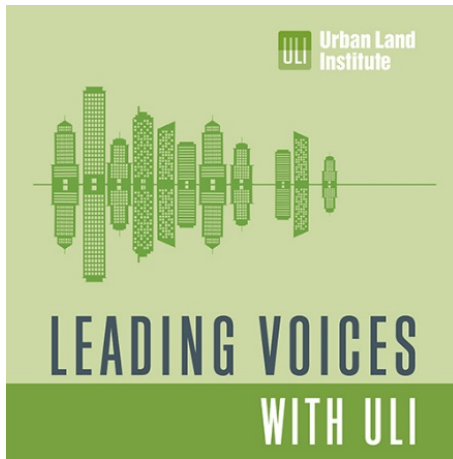
- NP Property management used to subsidized, not market – hurts both bid terms and operations. How to manage to a return hurdle.
- NP used to major renovations versus value-add, ROI improvements.
- Market expects speedy and non-refundable commitment. Certainty of close is critical to sellers.
- Acquisitions relationships are different than development relationships
- Need for consistent, sector wide (?) approach to rent increases, asset management, etc.
- Others...



# Discussion

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- Examples of success stories
- How can nonprofit sector work together to access capital and create mandate *and behavior model* for nonprofits to succeed
- Potential of gap subsidy in exchange for long term affordability approach
- Other...



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Hosted by Matt Slepín

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