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# Building Trust, Structuring Returns: The New Standard in LIHTC Investment

JOSH GHENA, CINNAIRE

In today's affordable housing landscape, investor due diligence is more than just a box-checking exercise. It's a strategic process driven by precision, partnership and performance.

As capital deployment becomes increasingly complex, investors in low-income housing tax credit (LIHTC) properties are sharpening their focus on fundamentals: sponsor reliability, regional knowledge, alignment with impact priorities and financial returns that remain competitive despite macroeconomic headwinds.

"This isn't a passive market," says Matt Hodges, senior vice president of investor relations at Cinnaire. "Investors want transparency, strong underwriting and confidence that the property pipeline matches their criteria. Our job is to listen carefully, match their objectives and then deliver on the promise."

## Investor Appetite in 2025: What the Market Is Saying

In today's market, macroeconomic uncertainty—rising interest rates, policy shifts, inflationary pressure—has tempered enthusiasm among some investors. But demand for LIHTC investments remains.

"There's still a healthy appetite for affordable housing," Hodges says. "But investor expectations have shifted. We're seeing a 50-75 basis-point increase in yield requirements across the board over the past year. That forces syndicators to be more creative and efficient."

Meanwhile, investor interest in specialized or thematic funds has waned. Instead, Cinnaire is integrating

special program developments—emerging developers, supportive housing, recovery communities—into its core fund offerings.

## Evolving Expectations and a More Sophisticated Investor Base

Community banks motivated by Community Reinvestment Act compliance dominated investor markets in the past, but today's funds feature a more diverse investor mix with additional motivating factors. Economic investors and mission-aligned institutions have different needs, yet they share a common demand: confidence that the property list aligns with their strategy.

One of Cinnaire's strategies with Fund 43, the company's most successful equity fund to date, was to focus on geographic diversification, return predictability and alignment with mission-driven outcomes.

"Confidence in our process and our people really carried Fund 43," Hodges says. "We spent considerable time gathering investor feedback in advance. We asked about their target geographies, return expectations and what would make them feel secure committing capital."

The results was a risk-balanced fund that closed \$340 million in investment and funded 33 developments across 11 states, delivering 2,455 affordable housing units that will serve more than 5,400 individuals.

## The Power of Partner Selection

At the heart of Cinnaire's model is deep engagement with both developers and investors. Around 90% of the developments in Fund 43 were placed with repeat development partners, a testament to the power of long-term collaboration. Investor trust is gained in learning how a developer operates and navigates challenges over time. Investors must also be discerning during the underwriting process.

## Data-Driven Diligence in a Cautious Climate

Due diligence today goes far beyond site visits and developer references. In a risk-aware market, investors are scrutinizing financials, balance sheets and contingency planning with heightened sensitivity. Investors are now doing much closer reviews of developer real estate owned (REO) schedules, liquidity and the ability to weather construction delays or material cost increases

This also requires a shift in how opportunities are framed. Developments that can initially appear higher-risk—due to location, sponsor size or perceived complexity—may ultimately represent low risk when evaluated against the right criteria.

“Sometimes a sponsor doesn't have a \$10 million balance sheet, but their local ties and long-standing community involvement create stability that financials alone don't capture,” Hodges says. “It's our responsibility to present that full picture to our investors.”

## Scaling with Purpose

One key question for any syndicator is how to maintain quality and mission-focus while scaling. For Cinnaire, the answer lies in internal alignment and cross-functional collaboration from the origination to the asset management teams.

Fund 43's success was also tied to thoughtful property selection—including properties in rural communities, Native American tribal areas, and historically disinvested urban corridors. These are not the easiest developments to close, but they matter.

One such development, Imani Village IV in Wilmington, Delaware, exemplifies these types of mission-aligned properties. Developed by Pennrose, Imani Village IV is part of the national Purpose-Built Communities model focused on revitalizing the city's disinvested northeast Riverside neighborhood. The development features 84 units, 57 of which are affordable to households earning up to 30% to 60% of area median income, with 43 units receiving project-based rental assistance from the Wilmington Housing Authority. Imani Village reflects Cinnaire's goal of selecting properties that are not only financially sound but also deeply rooted in community-led transformation. Developments like Imani Village IV, coupled with high occupancy demand and a strong capture rate, helped give investors confidence that Fund 43's portfolio would perform both socially and economically.

“We're committed to doing the hard deals,” says Mark McDaniel, president and CEO of Cinnaire. “We go into markets where others might hesitate. And that's where our credibility comes into play. Our investors know we aren't just chasing the easiest return—we're doing what's necessary to bring capital where it's most needed.”

## The Role of Advocacy and Market Intelligence

Looking ahead, staying competitive requires more than a strong track record. It also means being informed, agile and policy aware. Cinnaire leverages its Capitol Hill presence and robust advocacy team to navigate and influence policy changes that could affect fund structure, pricing or investor behavior.

“We have real-time insight into what’s happening at the state and federal level,” says McDaniel. “That gives us an edge in planning our offerings and managing risk. We also engage policymakers directly—bringing them on-site to see properties and better understand the program’s effectiveness at work in their communities.”

That visibility is vital. In 2016, the LIHTC incentive faced existential risk during tax reform debates. Today, it enjoys bipartisan support, thanks in part to sustained industry advocacy, strong performance data and the advocacy efforts.. Cinnaire has played its part in supporting those efforts by engaging actively on Capitol Hill, helping to educate lawmakers on the program’s impact along with the demonstrable impact the LIHTC has had in communities of all types, from urban to rural areas. Those efforts paid off in the recent tax reconciliation bill, which includes an historic \$15.7 billion investment in the LIHTC—the largest in decades.

## Looking Forward: Practical Advice for Investors

The path forward for new or prospective LIHTC investors is clear: Research, ask questions and find a partner who offers more than just yield. Qualities such as a long history of performance, transparency and commitment to communities are invaluable in developers.

In a sector as nuanced and competitive as LIHTC, those who thrive will be those who listen intently, execute reliably and adapt without losing sight of mission. For 2025 and beyond, investor due diligence remains less about ticking boxes and more about forging durable partnerships—grounded in trust, informed by data and committed to outcomes that benefit both communities and capital alike. ❖

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*Josh Ghena joined Cinnaire in 2014 and serves as senior vice president, Equity Management. He is charged with management of Cinnaire’s investment strategies, oversight of our equity funds, investor due diligence and fund modeling.*

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