Affordable Housing Portfolio Viability Trends and Practices

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Katy Breazeale, Partner

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Key Takeaways - The Low-Income Housing Tax Credit Program at Year 30: Recent Investment Performance (2013-2014)

I. LIHTC Property Performance is Strong

- All basic metrics have continued to improve; compare 2012 to 2014
- Physical Occupancy: **97.0% to 97.5%**
- Debt coverage ratio (DCR): **1.30 to 1.33**
- Per unit per annum cash flow improved from **$498 to $597**

II. Properties that are "underperforming" have decreased

- 2005 – roughly 35% operating below breakeven (less than 1.00 DCR)
- 2014 – fell to 16.9% and majority of those only by relatively modest amounts

III. Units are full and rents are being paid

- For the 1st time the relationship between Economic (96.6%)and Physical Occupancy (97.5%) is nearly 1:1
- LIHTC properties have generated stronger cash flows as demand for affordable units has lowered turnover rates, rent skips and collection issues.
- Future growth in cash flow will be limited by growth in median income level

IV. No meaningful difference Not-for-Profit and For-Profit performance

V. Investors have realized 98.4% of the credits promised though 2014

VI. Incredible strength in the demand for Affordable Housing exists in virtually all parts of our country

Key Takeaways - The Low-Income Housing Tax Credit Program at Year 30:An Operating Expense Analysis

- 20,000 housing tax credit properties were submitted and analyzed
- 15,000 stabilized housing credit properties were included in the results

Key Findings

Median Annual Expenses

- According to the report, the total operating expenses for 2014 (not including replacement reserve contributions)across the surveyed portfolio were $5,336 PUPA on a national median basis.

Geography

- Statewide median operating expenses ranged widely, from as low as $3,634 PUPA in Alabama to as high as $8,453 PUPA in Massachusetts.
- New England states generally ranked as the most expensive to operate a housing tax credit property, followed by Washington, D.C., and New York. In addition to a high cost of living expense, these states' portfolios had a larger share of rehabilitations vs. new construction properties, a concentration of older buildings, and some severe winter weather conditions to contend with.
- With all three factors combined (higher cost of living, older inventory, and more severe weather conditions), properties located in Massachusetts reported the highest operating expenses in 2014 among all 50 states.

Operating Expense Analysis (cont.)

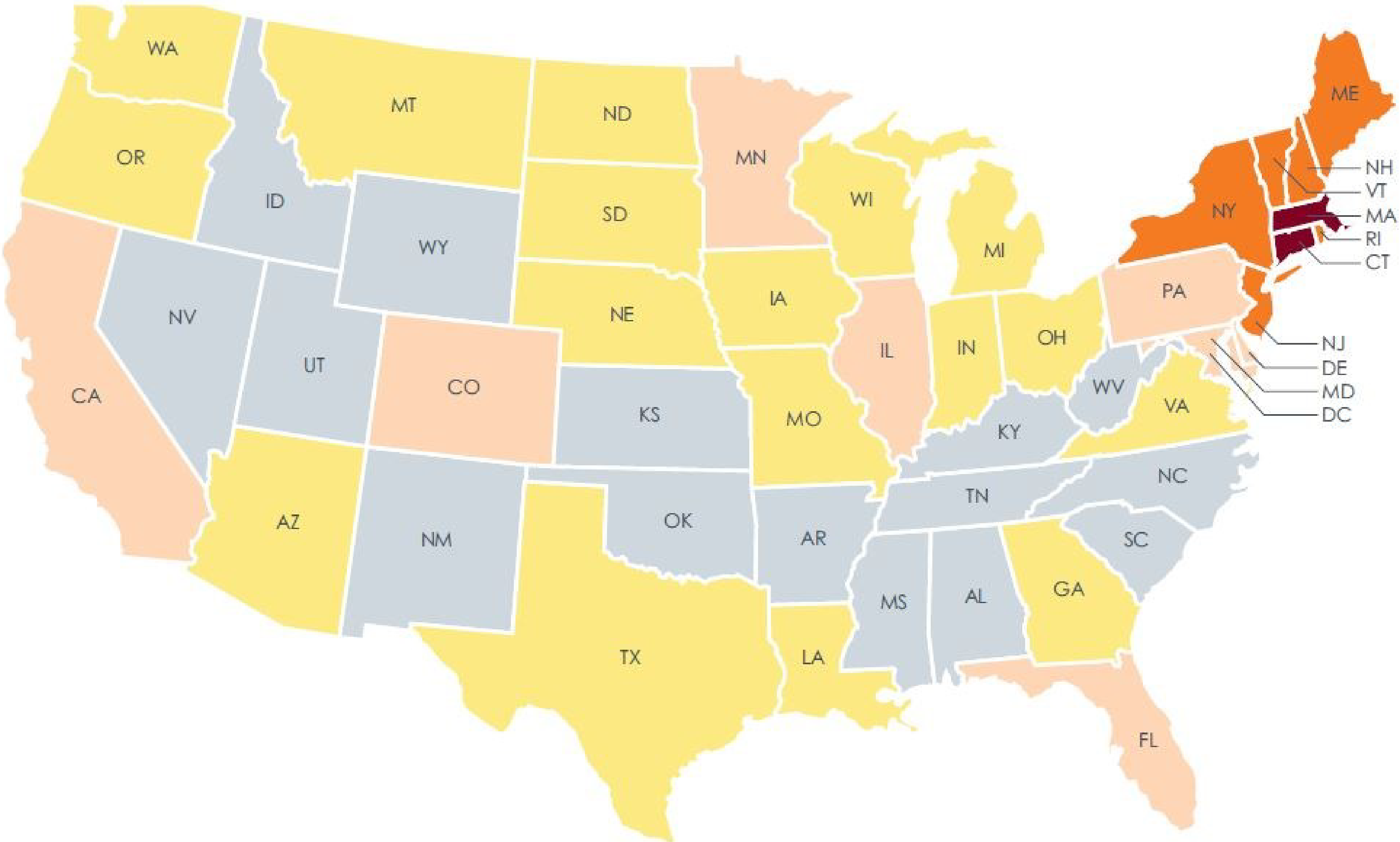
Expense Type

- Salary, repairs & maintenance, and utilities constituted the majority of gross expenses. The remaining categories each represented less than 10% of total expenses.
- Salary and administrative expenses, on a national basis, were $1,169 PUPA and $574 PUPA, respectively, in 2014, constituting nearly 32% of total operating expenses. Older projects incurred lower salary and administrative expenses post-year 15.
- Median repair and maintenance expenses were $1,076 PUPA in 2014 on a national basis. The primary determinant of repairs and maintenance expenses was found to be property age. The data confirmed that newly constructed or rehabilitated properties spent 19% of total expenses, or $955 PUPA, on repairs in 2014 on a national median basis, which gradually increased to more than 23%, or $1,270 PUPA, after year 15.
- Property taxes constituted less than 9% of total operating expenses on a median basis. However, there is a distinct correlation between property tax expense and a state/municipality's stance on including the value of housing tax credits in a property's valuation and the availability of property tax exemption or abatement programs.

Operating Expense Analysis (cont.)

Property Type

- New construction properties reported median operating expenses that were approximately 10% less than the overall median. This is because new construction properties reported the lowest median repair and maintenance expenses ($1,053 PUPA) of any development types and the lowest utility expense as a percentage of gross expenses.
- Historic rehab projects cost 24% more to operate, on a median basis. This, in part explains the consistently below average operating performance reported at these properties. Anecdotal evidence suggested that historic buildings tend to generate higher-than-projected expenses particularly with respect to utilities and repairs and maintenance.
- On a median basis, special needs projects cost 27% more than average to operate. These projects incurred much higher per-unit salary and administrative expense in 2014 than projects targeting other tenancy types. We assume that the comprehensive supportive services offered by special needs projects often require a more robust management team whose compensation package would contribute to the overall expense of the project.



Gross 2014 Operating Expenses

$4,200 and below | $4,201 to $5,000 | $5,001 to $6,000 | $6,001 to $7,500 | $7,501 and above

Washington

PROPERTY COUNT: 590

TOTAL UNITS: 49,344

AVERAGE UNITS PER PROPERTY: 84

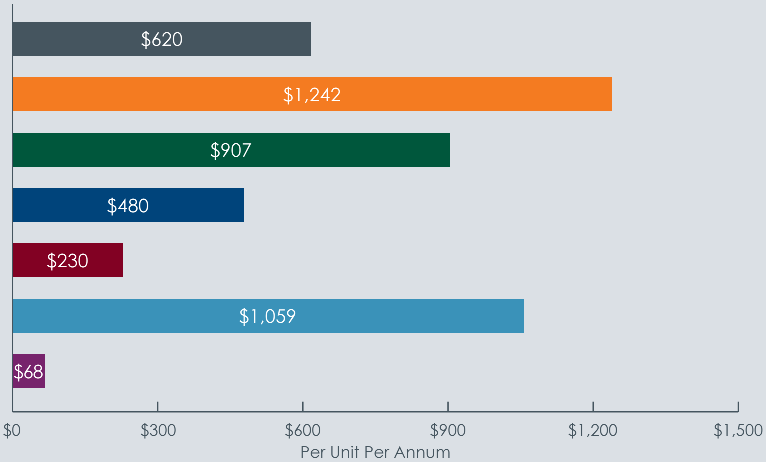
AVERAGE NET EQUITY PER PROPERTY:
$4,320,730

PROPERTIES WITH RENTAL ASSISTANCE: 33.7%

PROPERTIES WITH TAX ABATEMENT: 19.3%

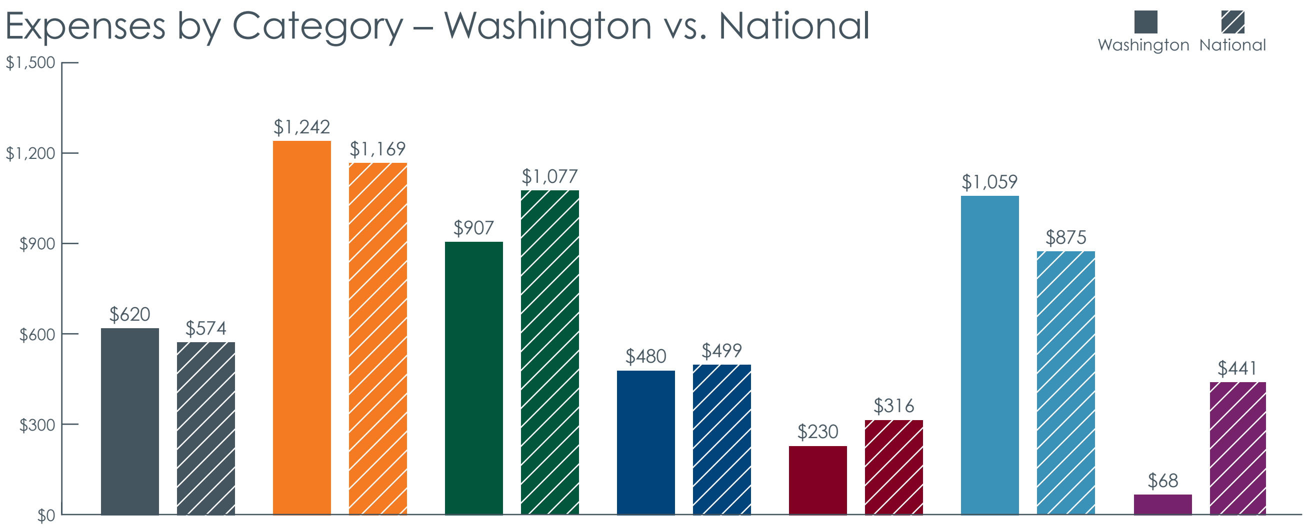
STATE PORTFOLIO BY DEVELOPMENT TYPE:
New Construction – 68.5%
Acquisition Rehab – 25.8%
Other – 5.8%

Median Expense by Category

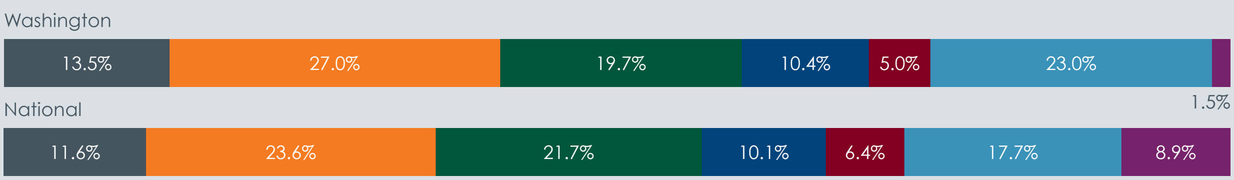


WASHINGTON GROSS EXPENSE: $4,606 PUPA

Expenses by Category – Washington vs. National



Gross Median Operating Expenses by Category



Key

Admin | Salary | R&M | Mgmt | Insurance | Utility | Property Tax