

# INCOME AVERAGING

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## MARKETABILITY CONSIDERATIONS

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# Income Averaging



- ➔ Bowen National Research Background
- ➔ Income Averaging Trends
- ➔ Developers' Perspective
- ➔ State Finance Agencies', Syndicators' & Investors' Perspectives
- ➔ Market Study Implications
- ➔ Resources
- ➔ Case Study on Income Averaging Projects

# IA Project Trends – Type and Location

## *Frequency of IA projects*

- Minimal Projects in 2018
- Increasing Activity in 2019, with Each Passing Month (Impacted by SHAs)

## *Project Types w/ IA Units*

- Family vs. Senior
- New Construction vs. Rehab
- Large vs. Small Projects
- Targeted Income

## *Markets with IA Projects*

- More developed markets with numerous housing choices, less in rural markets
- Markets with higher median incomes than state median
- Markets with more high-end market-rate product

# Developer Considerations

*By including units at 70% or 80% AMHI levels, how does that impact:*

## Design

- Amenities
- Finishes
- Square footage
- Utility Responsibility
- Storage
- Number of Bathrooms
- Architectural Considerations

## Marketing

- How units are marketed (how are they portrayed, what is promoted?)
- What methods/media used to promote projects
- Does this impact the geographical area where you advertise

## Site Location

- Do Sites need to be in Better Areas (Higher-Income, Better Schools)
- What is the Impact on Need for Certain Community Services
- Does Proximity to Employment Centers & Transit Change
- How do Surrounding Land Uses Impact Project

# Developer Considerations

## Rents (What is Achievable)

- Start with **Maximum Allowable**
- Consider **Fair Market Rents/Payment Standard to Possibly get Voucher Support**
- Look for **Other LIHTC Rentals** Restricted to 70% & 80%, then **Market Rate**
- Can **Set Rents at 60% Initially**, then Move Rents **Upwards** as You Get a Better Feel for the Market and What Rents are Actually Achievable
- Can **Set Rents At or Near Market-Rent** Levels, If Market Conditions Warrant (Tax Credit Rents Set the Market, Markets Lacking Modern Product, Etc.)
- If the **Rent Differential** b/w what You Can Get for 70% and 80% Unit is Minimal, It **May Make More Sense to do 70% Units Over 80% Units**, as You Can Likely Do More of Them (and Fewer Lower Income Targeting)

# SHA, Syndicator, & Investor Perspectives

- ⇒ Still Waiting on **IRS Guidance** on Many Issues, Particularly on **Compliance**
- ⇒ Should Projects Still Show Minimum of 10% Rent Advantages
  - ⇒ Is There a Difference in **Rural vs. Urban** Markets
  - ⇒ How do SHA's Deal with **Rent Advantage Thresholds**
  - ⇒ **Relying on Market Analysts/Study** for Rent Justification
- ⇒ Do Assumptions on **Depth of Market Support** Change
- ⇒ Are Markets at Risk of Having **Fewer Units at 60%** of AMHI
- ⇒ How does IA Impact Annual **Turnover** (Is it Greater w/ Income IA)
- ⇒ How does IA Impact Monthly **Absorption** Rates (Faster Like Market-Rate)
- ⇒ State Housing Authority Examples:
  - ⇒ **Ohio** – Limiting IA Aggregate Share to 55% of AMHI
  - ⇒ **Indiana** – If Competing for Workforce Housing, Must Use IA
  - ⇒ **S. Carolina** – Has Delayed Income Averaging (Could be Threshold Issue)
  - ⇒ **Georgia** - Proposed 70% & 80% Rents Not Being Higher than “Market Rents” in Rural Areas

# Market Study Implications – General

- How Does the **Primary Market Area Change**, If at All (What Data or Local Stakeholder Insight Backs Up Market Selection)
- What is a **Comparable Property** (Market-Rate & Subsidized? Need Explanation of Why Properties Selected or Not Selected)
- Provide Developers & Users of Market Studies Guidance on the **Value of Select Amenities** and What They Mean to Marketability (Rents, Absorption, Etc.)
- May Need to **Break Out Absorption** for 70% & 80% AMHI Units, if Warranted

# Market Study Implications – Assessing Rents

## *How to Assess Appropriateness of Rents*

- First Years of the LIHTC Program **Comps Were Hard to Find**
- Ideally, Compare with **LIHTC Projects Targeting 70% & 80% of AMHI**
- If No 70% or 80% Units, Then Units at **60% of AMHI Set the Baseline**
- **Affordable Market-Rate** Product Helps Refine Achievable Tax Credit Rents
- Projects in **Urban and High Growth** Markets More Likely to **Achieve Maximum Allowable Rents**
- **Rent Growth Data/Trend** is Even More Critical to Determine if Rents can be Increased



# Market Study Implications – Assessing Demand

- The Base of **Support is Expanded**, as You are Serving a Broader Market of Both Higher AND Lower Income Households. This is Particularly True of Lower Income Targeting for which Vouchers, RA and Public Housing **Cannot Fully Meet the Needs**. From a Demand Standpoint, You will have **Lower Capture Rates**.
- Helps with the **Preservation of Existing Housing**, by Increasing Opportunities to Serve a Large Swath of Tenants in a Property that May have **Otherwise been Ineligible Under Previous Income Restrictions**
- Studies Should Illustrate **Capture Rates at Individual AMHI Levels**
- IA May Fall in Line with **Workforce Housing**, Meeting Local Goals
- **Development Pipeline** Needs to Address **Market-Rate Product**, in Addition to LIHTC

# Recommendations – What to Keep in Mind

- **Be Sure You Understand SHA Expectations, Requirements and Thresholds** as they relate to IA – **DON'T IGNORE MARKET STUDY REQUIREMENTS OR THRESHOLDS!**
- **Talk to SHA Representatives** about Their Potential Concerns with IA in Your **Specific Market**
- Use **Obtainable Market Data** to **Help Guide You** on Setting Rents, Unit Mix and Income Targeting
- **Work with Market Analyst** to Establish or Refine Project Concept, Most Notably the Rents

# Income Averaging Resources

## ***NCSHA***

<https://ncsha.org/wp-content/uploads/2018/12/State-Income-Averaging-Policies-12-6-18.pdf>

## ***NCSHA***

<https://ncsha.org/wp-content/uploads/2018/04/Housing-Credit-Income-Averaging-NCSHA-04-09-2018.pdf>

## ***Novogradac***

<https://www.novoco.com/resource-centers/affordable-housing-tax-credits/application-allocation/state-income-averaging-policies>

## ***National Housing Law Project***

<https://www.nhlp.org/wp-content/uploads/NHLP-Income-Averaging-Memo-.pdf>

# Case Study Research

## *Bowen National Research – Summer 2019 Initiative*

### *Identify and Survey IA Projects around the Country*

- Where are Tenants Originating (How Far Away)
- Who are the Tenants (Incomes, Household Sizes, Ages, Etc.)
- Who is Their Primary Competition
- Market Rent Advantages – Do they have 10% discount to Market
- Amenity and Design Consideration (lessons learned)
- Demand for such units (Trouble Finding Qualified Renters)
- Absorption Experience
- Turnover Experience
- Rent Concession Pressures
- Rent Growth Trends

### *Other Information Needed?*

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