

Valuing Affordable Housing and LIHTC Properties

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*“Sure, we need affordable housing—just so long as it doesn’t
come at the expense of unaffordable housing.”*

Why Affordable Housing?

- **Supply**

- 1,400,000 Units Per Year¹

- **Demand**

- 1,700,000 Units Per Year¹

- **GAP**

- 7,300,000 Unit Existing Shortage

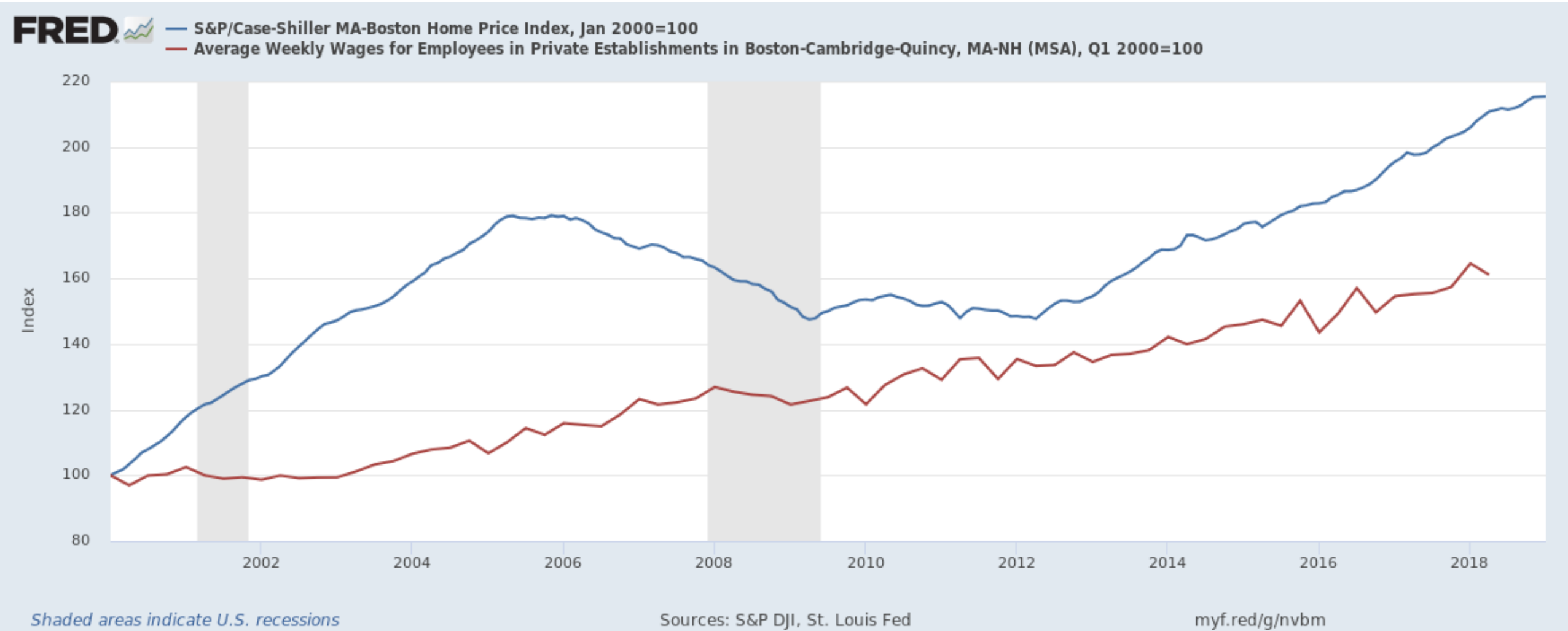
- **Cost**

- Median Single Family (Mass/Suffolk County) - \$379,450/**\$535,000**²
- Median Condominium (Mass/Suffolk County) - \$328,000/**\$595,000**²
- Median Boston Rent (all neigh, all unit types) - **\$2,400/Month**³
- Massachusetts Cost of Living Index – **139** vs. 100 USA/Housing **210**⁴

- **Equality & Social Motivation**

- Raj Chetty – Race/Economic Opportunity/Childhood Dev./Mobility⁵

What Does it Look Like?



Quick and Dirty AMI by the Numbers

Boston-Cambridge-Quincy, MA-NH HUD Metro FMR Area	Income	Rent - 2B
Median Family Income	\$107,800	
Income to Afford Median Rent - Boston	\$96,000	\$2,400
Income to Afford Rent - Boston - One India	\$176,600	\$4,415
30% AMI - Extremely Low Income	\$32,350	\$728
50% AMI - Very Low Income	\$53,900	\$1,213
60% AMI - Typical LIHTC Limits	\$64,680	\$1,456
80% AMI - Low Income	\$81,100	\$1,942
120% AMI - MassHousing Workforce Limit (typical)	\$129,360	\$3,234

What Exactly IS Affordable Housing?

- **Affordable Housing** – ‘Big A’ Affordable Housing
- **affordable housing** – ‘Little A’ affordable housing
- **Low-Income Housing** – LIHTC Program/Section 42 of the US Tax Code
- **Public Housing** – Traditional Government (State/Fed) Housing
- **Subsidized Housing** – Government Subsidized Private Housing
- **Housing Affordability** – General Topic of Access to Housing

‘There’s no such thing as a fish’ – Stephen Jay Gould

Expiring Use Restrictions
Opportunity Zones
Up-Zoning
Section 223(f)
Fair Market Rents (FMR)
Operating Subsidy
Extremely Low-Income
Massachusetts Rental Voucher Program
YIMBY
Fair Housing Act
Fannie Mae
DUS
Rent Comparability Study (RCS)
Community Preservation Act (CPA)/ Chapter 44B
Section 236
Twinning
Section 8 Housing Choice Voucher
Chapter 40R
NIMBY
Department of Housing and Community Development (DHCD)
Capital Subsidy
Area Median Income (AMI)
Housing Finance Agency (HFA)
Qualified Allocation Plan (QAP)
New Market Tax Credit - NMTC
Project Based Voucher
Year 15
Hope VI
Workforce Housing
Citizens' Housing & Planning Association (CHAPA)
HOME Investment Partnership Program (HOME)
Moderate Income
Low-Income Housing Tax Credit - Section 42 LIHTC
Chapter 40B
Soft Debt or Soft Money
Community Development Block Grant (CDBG)
Naturally Occurring Affordable Housing (NOAH)
Qualified Census Tract (QCT)
Section 221(d)(4)
FHA
Enterprise zone
Historic Rehabilitation Tax Credit - HRTC
Community Development Corporation (CDC)
Section 202
Massachusetts Housing Investment Corporation (MHIC)
Department of Housing and Urban Development (HUD)
Community Economic Development Assistance Corporation (CEDAC)
Section 8 Housing Assistance Payment
HUD MAP
OneStop Application
Right of First Refusal - RoFR
Capture Rate
Land Use Restrictive Agreement
Massachusetts Housing Partnership (MHP)
Section 811
Section 13A
Very Low-Income
CRA - The Community Reinvestment Act
Inclusionary Zoning
Low-Income Housing
Income Averaging

Types of Affordable Housing Programs

- **Operating Subsidy**

- Project Based Section 8 (or others)
- Mobile Vouchers/Tenant Based Vouchers

- **Interest Subsidy**

- Section 236/USDA Rural Section 515 and others (State Equivalents) – MA Section 13A

- **Capital Subsidy**

- Section 42 Low Income Housing Tax Credit Program (LIHTC)

- **Public Housing (Direct Operations)**

- State and Federal Housing (Housing Authorities)

Why is it different and Why Does it Matter?

Investor and Developer Motivations are Different

- Benefits of Ownership and Where they Go...
- **Who Gets What?**
 - Management Fees
 - Upside
 - Is there any?
 - Cash Flow
 - Is there any?
 - Losses
 - Tax losses offset earnings
 - Tax Credits
 - Depreciation

Typical Sources/Uses Multifamily – AcqRehab

Sources:

1. Developer Equity

+

2. Hard Debt

=

3. Total Sources

Uses:

1. Acquisition

+

2. Hard Costs

+

3. Soft Costs

=

4. Total Uses

Typical Sources/Uses Multifamily – AcqRehab

Sources:

1. Construction & Perm Loan
2. MassHousing Workforce Housing Funds
3. Federal LIHTC Tax Credit Equity (4%)
4. Mass State LIHTC Equity
5. Historic Tax Credit Equity
6. NMTC Tax Credit Equity
7. DHCD Affordable Housing Trust Fund
8. State HOME Funds
9. Com. Area Transit Node Housing Program (CATNHP)
10. Housing Stabilization Fund (HSF)
11. Housing Innovations Fund (HIF)
12. City HOME Funds
13. City CPA Funds
14. City CDBG Funds
15. City Affordable Housing Trust Fund
16. MHIC Healthy Neighborhood Equity Fund
17. Developer Equity
18. Deferred Developer Fee

=

Total Sources

Uses:

1. Acquisition

+

2. Hard Costs

+

3. Soft Costs

=

4. Total Uses

Practical Application - Valuation

- **Ownership Structure**
 - Fee, LP, LLC, Nonprofit, Splits
- **Benefits** and Who do they Accrue To?
 - Subsidy
 - Capital
 - Operating
 - Low and No Cost Debt
- **Detriments** and How Might they Impact Value?
 - Affordability Restrictions
 - Transferability Restriction
 - Right of First Refusal ROFR
 - Compliance Efforts
 - Land Use Restrictions – LURA
 - Legal Arrangements
- **Regulations**
 - Local Real Estate Tax Arrangements

Valuation Methodology – QUESTIONS!

- **WHAT** are you appraising?
 - Real Estate
 - Partial Interest
 - Tax Credits (pricing)
 - Ground Lease/Master Lease
- **WHY** are you appraising it?
- **WHO** are you appraising it for?
- **WHEN** are you appraising it?
 - Prospective Value
 - Mid-Compliance Period
 - Post Year 15
 - When Do the Restrictions Burn Off, if Ever?

“In many ways the subsidized housing investment is analogous to a net lease investment transaction in which a long-term lease suppresses rents well below the market. In that case the value of the ownership position equals, in effect, the discounted present value of the expected cash flow stream, plus the present value of the expected reversion when the lease runs out.”⁶

Source Material

¹ Mark Zandi – Moody's

<https://www.economy.com/getlocal?q=867546e8-545c-4f78-b1c5-7fd90908dc6d&app=eccafile>

² The Warren Group - <http://rers.thewarrengroup.com/sor/tssearch.asp>

³ Zumper Rent Report: October 2018

<https://www.zumper.com/blog/rental-price-data>

⁴ https://www.bestplaces.net/cost_of_living/state/massachusetts

⁵ http://www.rajchetty.com/papers-categorized/#papers_opportunity

⁶ *Appraising Subsidized Housing*, David S. Kirk & David A. Smith, Real Estate Review – Fall 1983