

Income Averaging: Case Study

Heritage at Church Ranch - Westminster, CO

- About the Development
- Why Income Averaging?
 - Benefits
- What are the Challenges?



About Heritage at Church Ranch

- 205 - Unit Senior
- LIHTC development
- Standard Dominion Development
- Amenities:
 - ✓ Party Room
 - ✓ Outdoor common area (grills, games, gazebos, sitting areas, etc.)
 - ✓ Movie Theater
 - ✓ Fitness Room
 - ✓ Beauty Salon
 - ✓ Surface Parking
 - ✓ Underground parking
 - ✓ Laundry – In-unit & common areas



Why Average Income (IRS code term)?

- Allows 70% and 80% AMI units to be LIHTC eligible...
 - If there are enough corresponding 20%, 30%, 40%, and/or 50% units
- We saw the need: potential residents that were slightly over income – the “Missing Middle” 60% - 80% of the AMI
- Also allowed us to serve residents at the other end of the housing spectrum those between 30% - 60% of the AMI
- Improved the capture rate: often a consideration by state agencies when allocating LIHTC and PAB (especially when PAB is scarce)



Challenges – IRS, Lenders, Agencies and Syndicators

- IRS had some bad rulings that are now fixed:
 - Cliff event if one unit is out of compliance = loose your minimum set aside (syndicator issue)
 - Lenders & State Housing Authorities were requiring a “cushion” forcing the project to be set up at a 58% AMI
 - Hurt underwriting and loan sizing...
 - Required to “fix” the designated units – no swapping 80% units with 30% units, even if the property was maintaining the 60% average



Challenges – Property Management & Compliance

You need a strong team for the higher AMI homes:

- 80% AMI can be a narrower band to find
- 80% AMI units can sometimes compete with Market Rate developments (\$100 - \$200 rent advantage)
 - Paperwork – can diminish the value of the small rent advantage.
- NIMBYism is real – not just at neighborhood meetings. Some 80% AMI don't like the perception of living in an affordable development (55 and older in particular)
 - This happens at straight 60% AMI deals as well – “Will Section 8 people be living here?”
 - Sometimes its good to know a property is not a good fit for some who do qualify
- This can be overcome with a beautiful property.
- Software is critical. In the beginning many accounting systems did not have great programs for Average Income. Yardi now has some very good systems.
 - Syndicators are now asking about what accounting systems/software we are using to for managing Average Income developments when considering investing.