

VALUATION OF SECTION 42 PROPERTIES

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Statutory Requirements for Taxation of Low-Income Housing

- ▣ Article V, Section 2(2) of NC Constitution
- ▣ Must use Income Approach as method of valuation

Statutory Requirements for Taxation of Low-Income Housing

- ▣ Must take rent restrictions that apply to the property in consideration
- ▣ May not consider income tax credits received under section 42

Uniform Appraisal Standard

- ▣ Appraised and valued at its True Value.
 - True Value = Market Value

- ▣ Market Value –
 - Price estimated in terms of money at which property would change hands between willing and financially able buyer and a willing seller.

Low Income Housing Programs

- ▣ North Carolina Housing Finance Agency
- ▣ Department of Housing and Urban Development
- ▣ US Department of Agriculture
- ▣ Habitat for Humanity
- ▣ Local Housing Initiatives

NCHFA Programs

- ▣ Targeting Program –
 - With NC Dept. of Health & Human Services
 - ▣ Persons with Disabilities and/or Homelessness

- ▣ Key Rental Assistance
 - Only available in Targeting Program (Above)

NCHFA Programs

- ▣ Transitions to Community Living Voucher
 - For Persons with Behavioral Health Disabilities

Department of Housing & Urban Development

- ▣ Section 8 Housing Voucher
 - Assists very low-income families, elderly, & disabled to afford decent, safe, sanitary housing in private markets
 - Administered locally by Public Housing Agencies (PHAs)
 - Recipient responsible for finding suitable housing where owner agrees to rent under the program
 - Payment made directly to landlord by PHA,
 - Family pays difference between actual rent and amount subsidized by program

Department of Housing & Urban Development

- ▣ Section 8 Eligibility
 - Determined by PHA based on:
 - ▣ Total Gross Income & Family Size
 - Limited to US citizens & specific categories of non-citizens who have eligible immigration status.
 - PHA must provide 75% of vouchers to applicants whose incomes do not exceed 30% of area median income.

USDA – Low Income Housing

- ▣ For Individuals
 - Multi-Family Housing Rentals
 - Single Family Housing Direct Home Loans
 - Single Family Housing Guaranteed Loan Programs
 - Single Family Housing Repair Loans & Grants

USDA – Low Income Housing

- ▣ Housing Development Opportunities
 - Farm Labor Housing Direct Loans & Grants
 - Housing Preservation Grants
 - Multi-Family Housing Direct Loans
 - Mutual Self-help Housing Technical Assist Grants
 - Rural Housing Site Loans

USDA – Low Income Housing

- ▣ Lender Opportunities
 - Multi-Family Housing Loan Guarantees

- ▣ Housing Regulations
 - Federal (OSHA) Migrant Housing Regulations
 - Rural Development Handbooks

Habitat for Humanity

▣ Mission:

- Habitat for Humanity brings people together to build homes, communities and hope.

▣ Vision

- A world where everyone has a decent place to live.

Habitat for Humanity

- ▣ Principles:
 - Focus on Shelter
 - Advocate for affordable housing
 - Dignity and Hope
 - Sustainable and transformative development

Habitat for Humanity

- ▣ To Qualify for Habitat Home
 - Applicant must demonstrate need for safe, affordable housing.
 - Applicant must partner with Habitat throughout the process.
 - ▣ “Sweat Equity” – helping build own home, homes for others, or other volunteer service to Habitat
 - Applicant must be able and willing to pay an affordable mortgage.

Local Housing Initiatives

- ▣ BRACE Cottages

Conventional or Subsidized

- ▣ Physical Differences
- ▣ Economic Differences
- ▣ Management Differences



















Valuation Issues with Cost Approach

- ▣ Replacement Cost New > Feasibility Rent
- ▣ Physical Depreciation
- ▣ Functional/External Obsolescence
- ▣ Treatment of Tax Credits

Valuation Issues with Sales Comparison Approach

- ▣ Limited Transactions
- ▣ Limited Data
- ▣ Units of Comparison
 - Expense Per SF
 - Expense Ratios
 - Expense Per Unit
- ▣ Residual Value of Reversion
- ▣ Extraction of Capitalization Rates

Valuation Issues with Income Approach

- ▣ Must Use Restricted Rents
- ▣ Stabilized Occupancy
- ▣ Actual vs. Projected Operating Expenses
- ▣ Development of Capitalization Rate
- ▣ Impact of Beneficial Financing
- ▣ Loaded Capitalization Rate

Comparative Analysis

Property Type	Conventional	Subsidized	
Metric	Per Unit	Per Unit	Difference
Rental Income	\$11,237	\$8,558	-\$2,679
Other Income	\$237	\$47	-\$190
Gross Income	\$11,474	\$8,605	-\$2,869
Vacancy	\$535	\$137	-\$398
Effective Gross Income	\$10,939	\$8,468	-\$2,471
Expenses			\$0
Administrative	\$1,105	\$1,727	\$622
Operating	\$711	\$746	\$35
Maintenance	\$691	\$536	-\$155
Insurance	\$178	\$241	\$63
Recreational/ Amenities	\$598	\$902	\$304
Subtotal Expenses	\$3,283	\$4,152	\$869
Taxes	\$903	\$306	-\$597
Total Expenses	\$4,186	\$4,458	\$272
Net Operating Income	\$6,753	\$4,010	-\$2,743
Total Payroll	\$1,164	\$1,575	\$411
Source: IREM 2017 RAL/DUR Low Rise>24 Units			

Areas to Challenge

- ▣ Vacancy Rate
- ▣ Operating Expenses
 - Administrative
 - ▣ Head Count
 - ▣ Central Office Charge Backs
 - ▣ Benefits
 - ▣ Program Eligibility
- ▣ Utilities
 - Direct Payments to Tenants

Areas to Challenge

- ▣ Maintenance
 - Turnover Ratios
 - Capital Items Expensed
- ▣ Taxes
 - Use Loaded Cap Rate
 - Show Methodology
- ▣ Reserves
 - May Back Out due to Program Requirements

Capitalization Rate

▣ Debt Coverage Ratio

- $R_o = DCR \times M \times R_m$

- Where:

- ▣ $R_o =$ Overall Rate
- ▣ $DCR =$ Debt Coverage Ratio
- ▣ $M =$ Loan to Value Ratio
- ▣ $R_m =$ Mortgage Constant

Capitalization Rate

▣ Band of Investment Method

- Valuation Components

- Mortgage / Equity

$$R_o = (M \times R_m) + (E \times R_e)$$

- Land / Building

$$R_o = (L/V \times R_l) + (B/V \times R_b)$$

Conclusions

- ▣ Must Use Restricted Rents
- ▣ Must Use Actual Expenses
 - (Projected if new)
- ▣ Must Develop an appropriate Capitalization Rate

References

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- ▣ Appraising Low-Income Housing Tax Credit Real Estate, The Appraisal Journal (Fall 2010)