

Need to Know:

LIHTC Operating Expenses Trending

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Novogradac & Company LLP

A panoramic view of Washington, DC, featuring the Washington Monument on the left, the Jefferson Memorial in the center, and cherry blossoms in the foreground. The scene is reflected in the water of the Tidal Basin.

NCHMA SPRING MEETING

June 16-17, 2014 | NCHMA/NH&RA Conference Center | Washington, DC

Operating Expenses



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Operating Expenses

Novogradac MULTIFAMILY RENTAL HOUSING OPERATING EXPENSE REPORT

Survey and Analysis for
LIHTC Properties

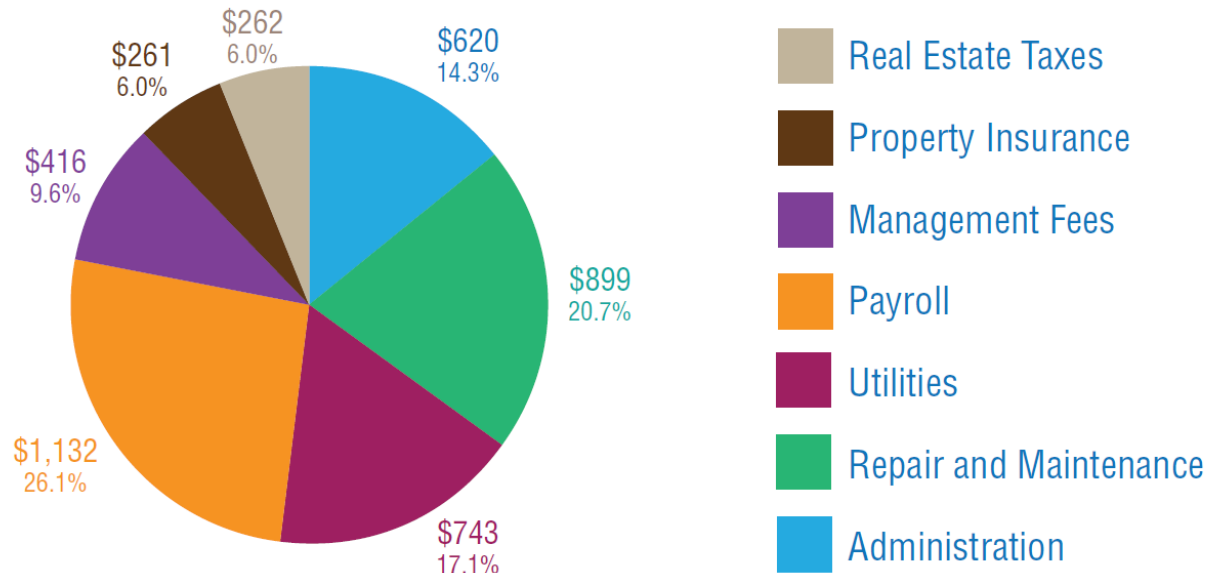
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Operating Expenses by Category

Operating Expense Categories Percentages: LIHTC 2011



Operating Expense Categories Percentages: LIHTC 2012



Source: Novogradac & Company LLP, 2014.

Operating Expenses

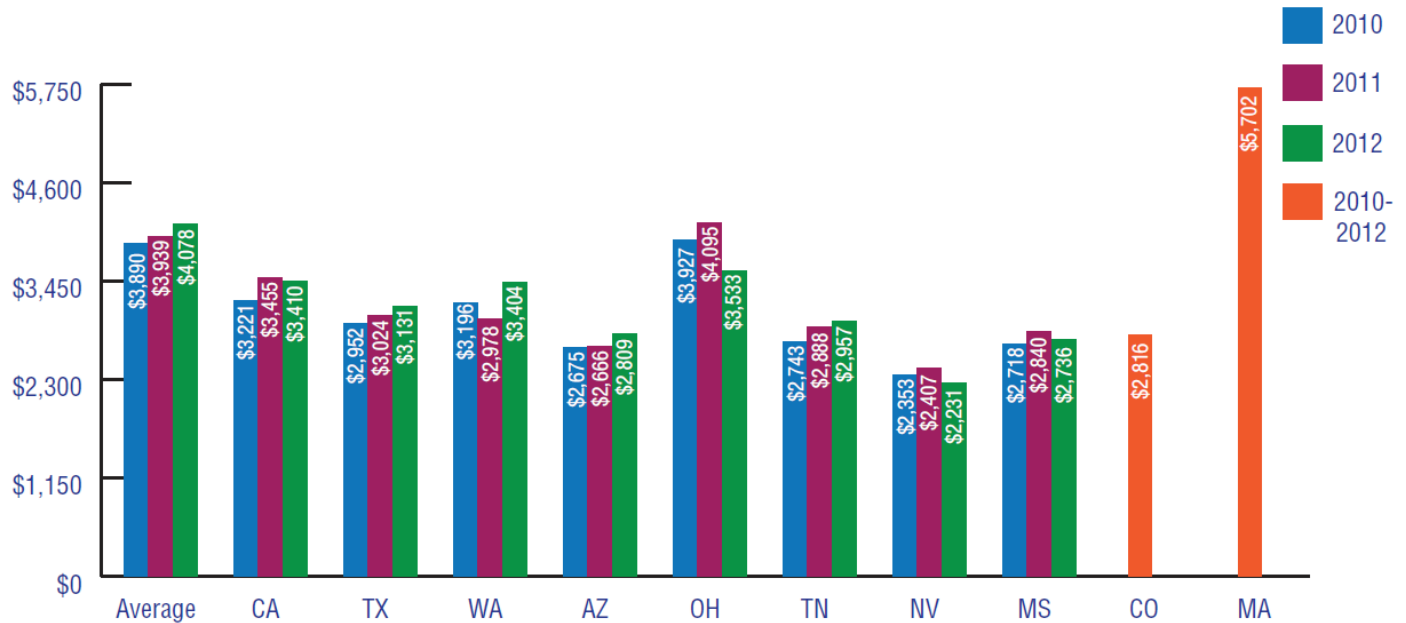
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Operating Expenses by Category

Regional Analysis

Total Operating Expenses By State 2010-2012



Note: Colorado and Massachusetts data consists of all three years.
Source: Novogradac & Company LLP, 2014.



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Novogradac Multifamily Rental Housing Operating Expense Report—Survey and Analysis for LIHTC Properties

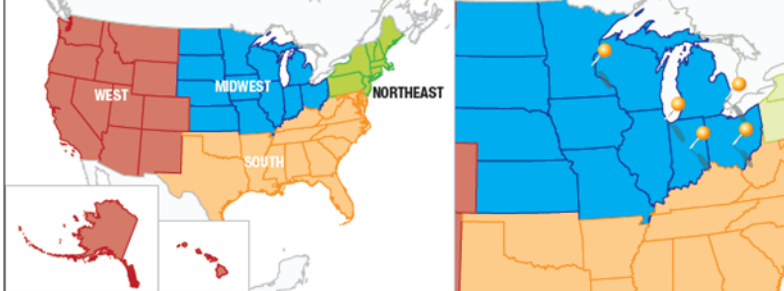
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Income & Expense Trends

CALCULATION BASED ON YEARS 2009-2014



	5 YEAR ANNUAL GROWTH IN		3 YEAR ANNUAL GROWTH IN
	AMI	VLI	
WEST	1.303%	1.066%	3.066%
MIDWEST	1.155%	1.551%	3.333%
SOUTH	1.293%	0.952%	2.403%
NORTHEAST	0.916%	0.842%	-2.533%

5 YEAR ANNUAL GROWTH IN		5 YEAR ANNUAL GROWTH IN		5 YEAR ANNUAL GROWTH IN				
AMI	VLI	AMI	VLI	AMI	VLI			
ALABAMA	0.90%	0.45%	KENTUCKY	1.16%	0.78%	NORTH DAKOTA	3.57%	3.42%
ALASKA	1.10%	1.04%	LOUISIANA	1.89%	1.69%	OHIO	0.27%	0.10%
ARIZONA	0.50%	0.30%	MAINE	1.02%	0.64%	OKLAHOMA	2.22%	1.99%
ARKANSAS	0.80%	0.79%	MARYLAND	1.01%	1.36%	OREGON	0.88%	0.69%
CALIFORNIA	0.06%	0.17%	MASSACHUSETTS	0.31%	0.96%	PENNSYLVANIA	1.65%	0.81%
COLORADO	2.19%	1.02%	MICHIGAN	0.46%	0.46%	RHODE ISLAND	1.79%	1.79%
CONNECTICUT	0.60%	0.67%	MINNESOTA	1.41%	0.87%	SOUTH CAROLINA	-0.30%	-0.32%
DELAWARE	1.07%	1.07%	MISSISSIPPI	0.71%	0.56%	SOUTH DAKOTA	3.22%	2.44%
DISTRICT OF COLUMBIA	0.82%	0.82%	MISSOURI	1.66%	1.39%	TENNESSEE	0.65%	0.09%
FLORIDA	0.53%	0.23%	MONTANA	1.89%	1.79%	TEXAS	2.96%	2.38%
GEORGIA	0.40%	-0.12%	NEBRASKA	2.43%	2.12%	UTAH	2.38%	2.22%
HAWAII	4.19%	1.14%	NEVADA	0.64%	0.31%	VERMONT	1.15%	1.14%
IDAHO	0.58%	0.74%	NEW HAMPSHIRE	0.76%	0.91%	VIRGINIA	0.32%	0.32%
ILLINOIS	1.39%	1.16%	NEW JERSEY	0.94%	0.47%	WASHINGTON	0.61%	0.65%
INDIANA	0.31%	-0.27%	NEW MEXICO	1.61%	1.39%	WEST VIRGINIA	1.62%	1.84%
IOWA	1.60%	1.36%	NEW YORK	1.14%	0.91%	WISCONSIN	0.61%	0.27%
KANSAS	1.99%	1.47%	NORTH CAROLINA	0.65%	0.17%	WYOMING	2.54%	2.42%

NOTES
Area Median Income (AMI) and Very Low-Income (VLI) are based on the annual HUD published income data. The VLI data has not been adjusted for hold harmless or HERA Special. The growth rate represents the average annual growth in income limits over the last 5 years. For example a 2% growth rate would mean that the income for the area grew by 2% each year on a compounded basis.

Operating expenses data represents the median per-unit cost by region. Data is derived from Novogradac audit data from 2010-2012. Sample size for Northeast is significantly smaller than other regions, causing a negative growth rate. The data is not an accurate portrayal of operating growth in the region.



The "Novogradac Multifamily Rental Housing Operating Expense Report: Survey and Analysis for LIHTC Properties" features national and regional data based on Novogradac & Company's survey of thousands of multifamily rental housing properties.

LIHTC properties' operating expenses increased at an annual rate of 2.92 percent between 2010 and 2012. Data from the 10 states with the largest numbers of audits — California, Texas, Washington, Arizona, Ohio, Tennessee, Nevada, Mississippi, Colorado and Massachusetts — showed some variation of operating expenses growth rates at the state level.

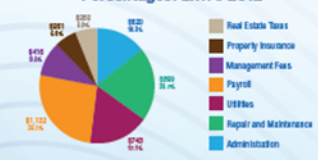
Total Operating Expenses By State 2010-2012



Note: Colorado and Massachusetts data consists of all three years. Source: Novogradac & Company LLP, 2014.

For the 10 states as a whole, total operating expenses rose 4.84 percent between 2010 and 2012.

Operating Expense Categories Percentages: LIHTC 2012



Source: Novogradac & Company LLP, 2014.

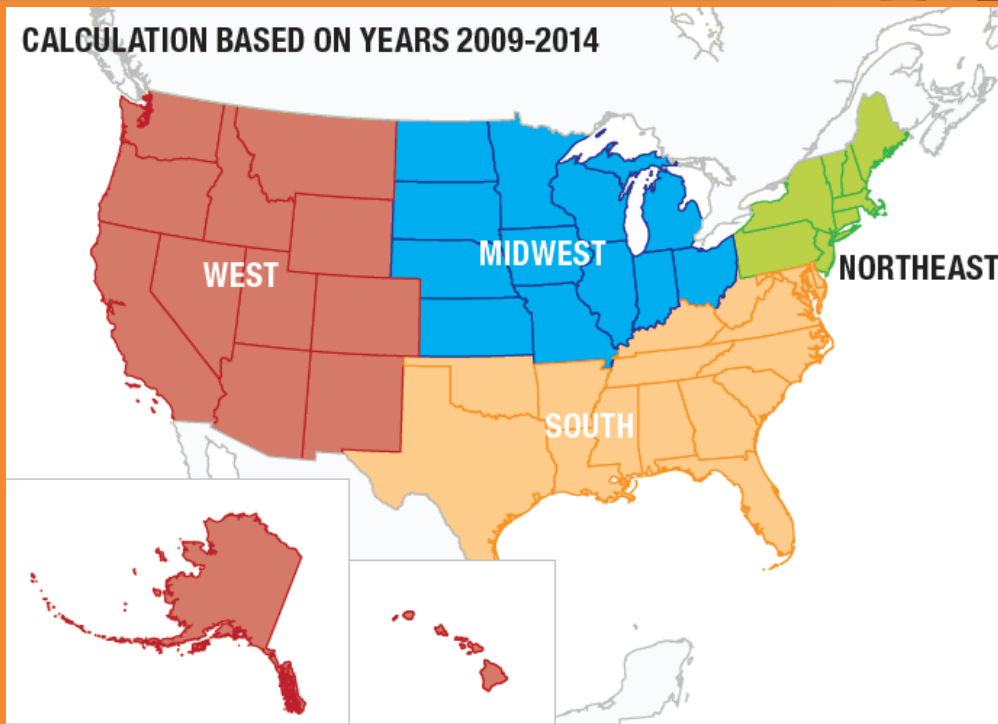
Determining how much property owners spend on various expenses in a given year or how the allocation of expenses changes from year to year can be crucial for investors, developers and other affordable housing stakeholders, especially for LIHTC properties.

In 2010, the three largest expense categories were payroll (27 percent), repair and maintenance, including operating costs (21 percent) and utilities (17 percent). In 2011, the percentages for all categories were nearly unchanged. The only shift was a 1 percent decline for management fees and a 1 percent gain for real estate taxes. In 2012, LIHTC property expenses by category saw only moderate, relative shifts.

This strongly suggests that LIHTC developers, investors and other stakeholders can plan for a relatively stable allocation of expenses among various categories.

The report, "Novogradac Multifamily Rental Housing Operating Expense Report: Survey and Analysis for LIHTC Properties" is available for purchase online at www.novoco.com/products.

CALCULATION BASED ON YEARS 2009-2014



5 YEAR ANNUAL GROWTH IN

3 YEAR ANNUAL GROWTH IN

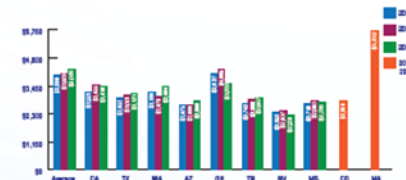
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properties' operating expenses increased at an average rate of 2.92 percent between 2010 and 2012. Data from the 10 states with the largest numbers of audits — California, Texas, Washington, Arizona, Ohio, Tennessee, Florida, Mississippi, Colorado and Massachusetts — showed some variation of operating expenses growth rates from state to state.

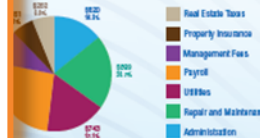
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Novogradac & Company LLP, 2014.

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AMI/VLI Growth vs. OPEX

	5 Year Growth in AMI	5 Year Growth in VLI	3 year Growth in Operating Expenses
National Average	1.355%	1.035%	1.588%
Regional Averages:			
West	1.303%	1.066%	2.034%
Midwest	1.551%	1.155%	2.210%
Northeast	0.916%	0.842%	-1.696%*
South	1.293%	0.952%	1.596%

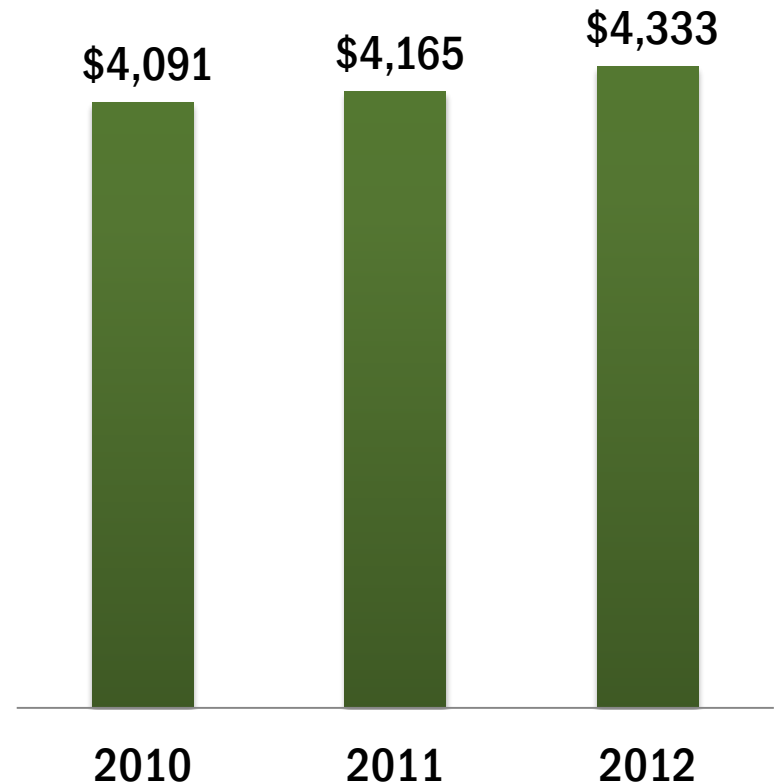
*Limited Data

Data represents a weighted average by County

Operating Expense Analysis

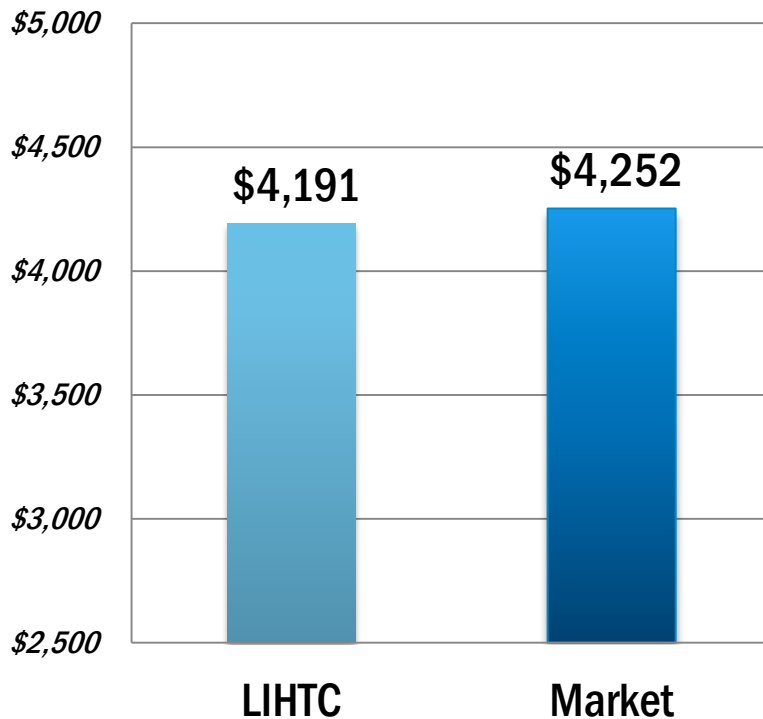
- Partnership between Novogradac's Tax/Audit and GoVal teams
- Report uses audits from 2010, 2011, and 2012
- More than 2,100 LIHTC and market-rate apartment properties containing 585,000 units
- Valuable Resource for property managers, developers or syndicators
- Will be updated annually

LIHTC Expenses Per Unit

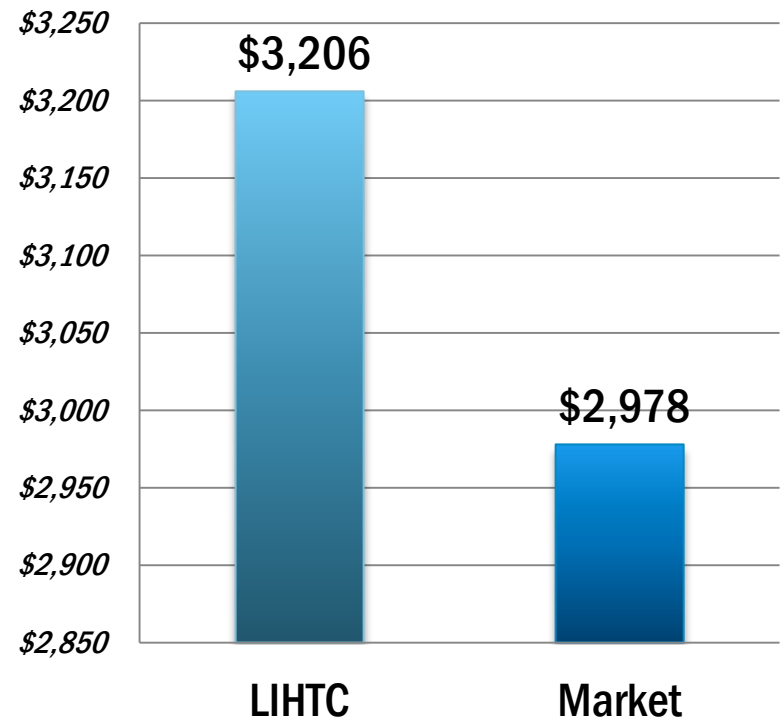


Total Operating Expenses

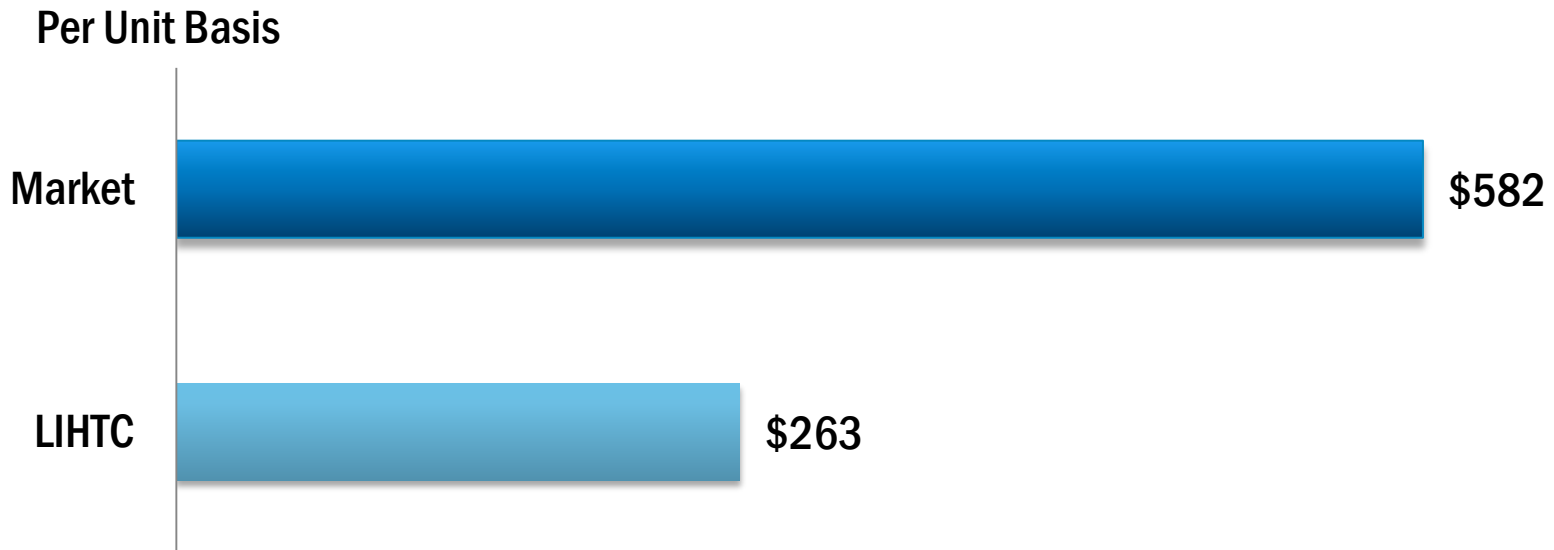
Total Operating Expenses



Total Expenses excluding Taxes and Utilities



Real Estate Taxes

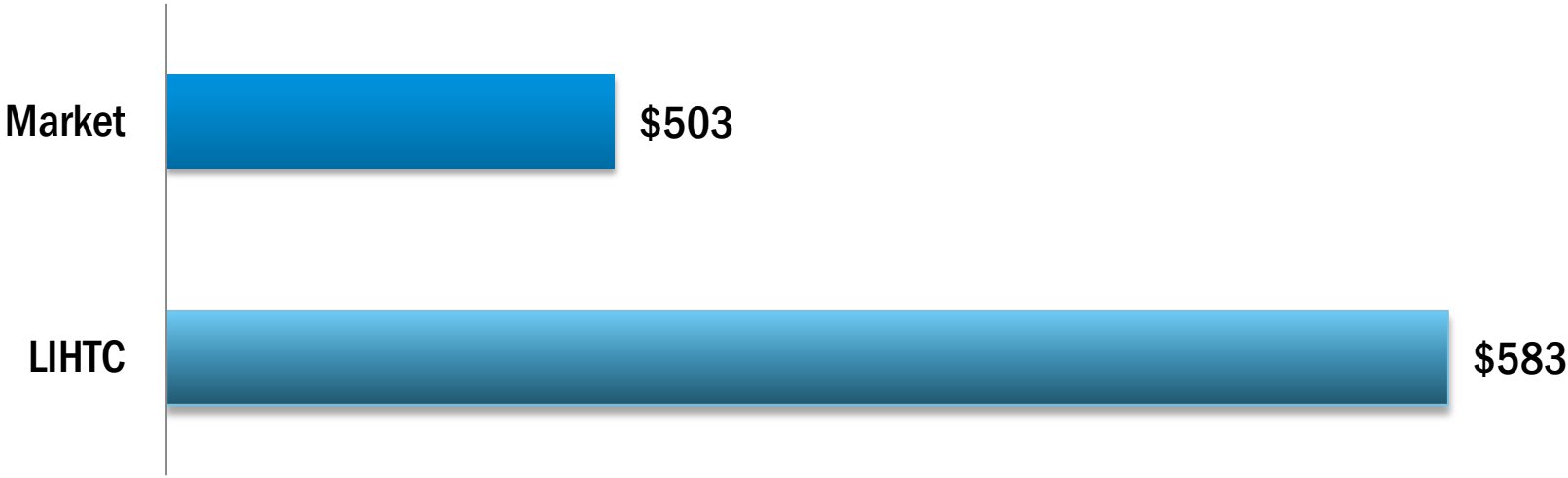


Driven by local taxing jurisdictions

Often calculated differently for LIHTC properties

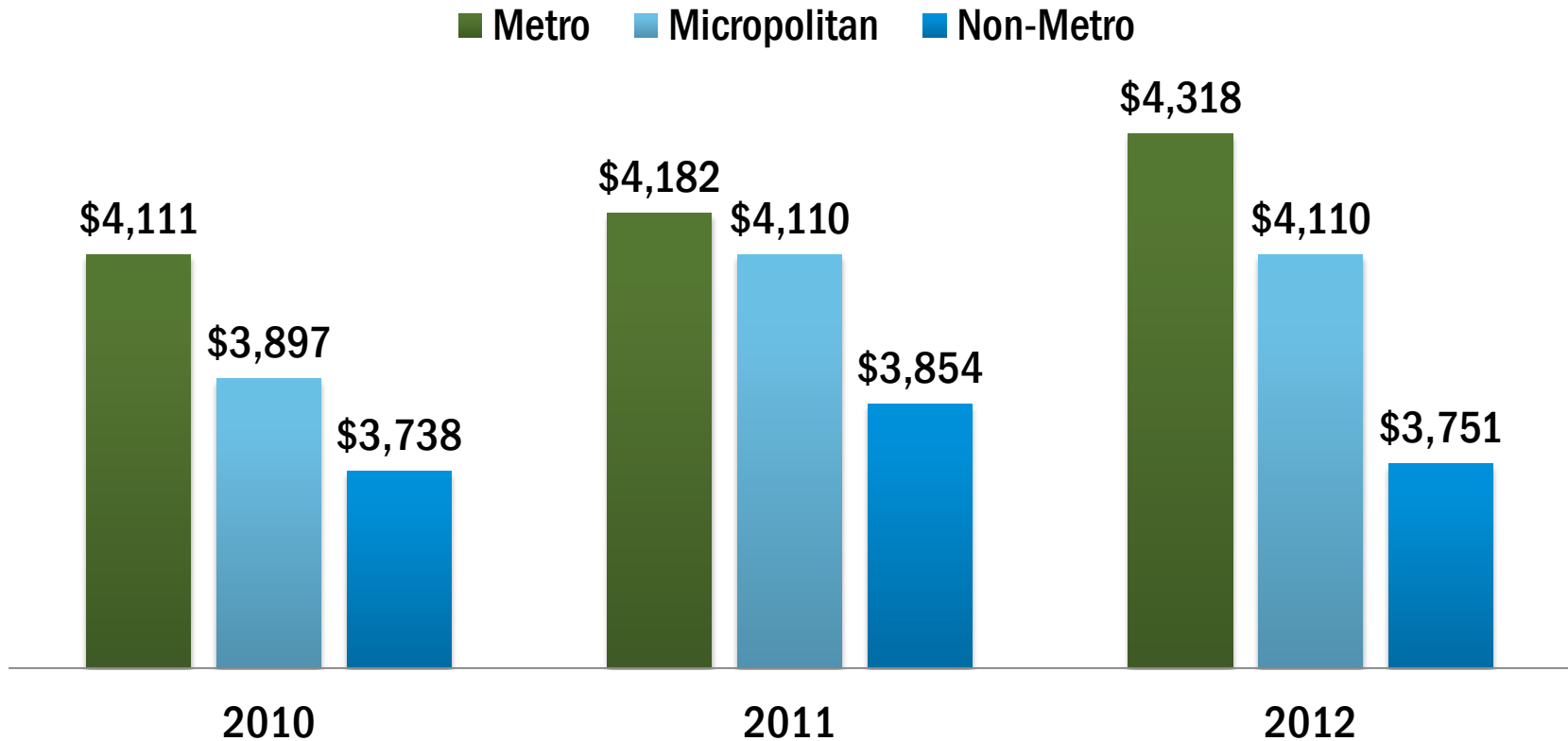
Administrative Expenses

Per Unit Basis



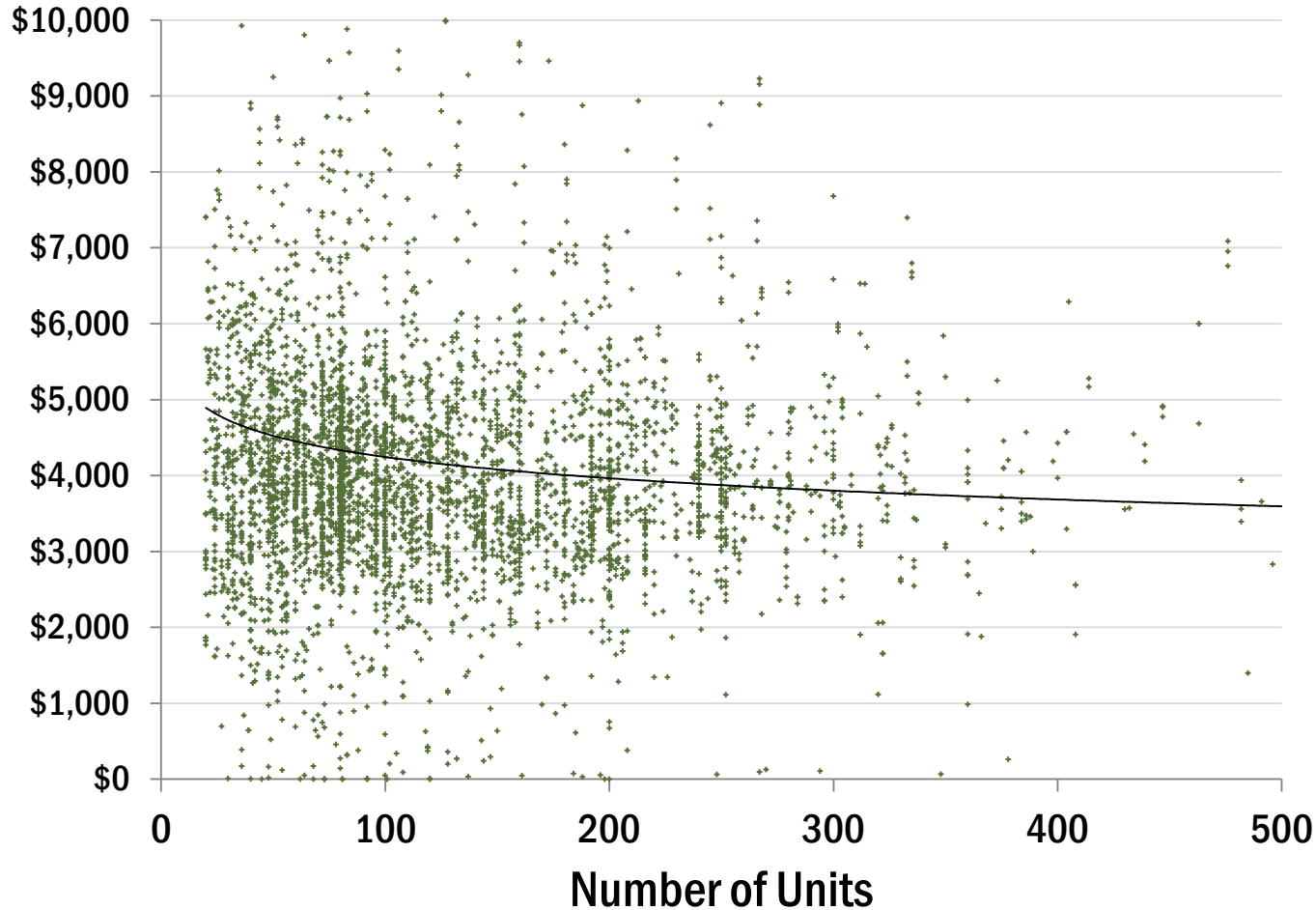
Additional Compliance Costs
Income verifications

Metro vs. Non-Metro



Geographic differences in total expenses

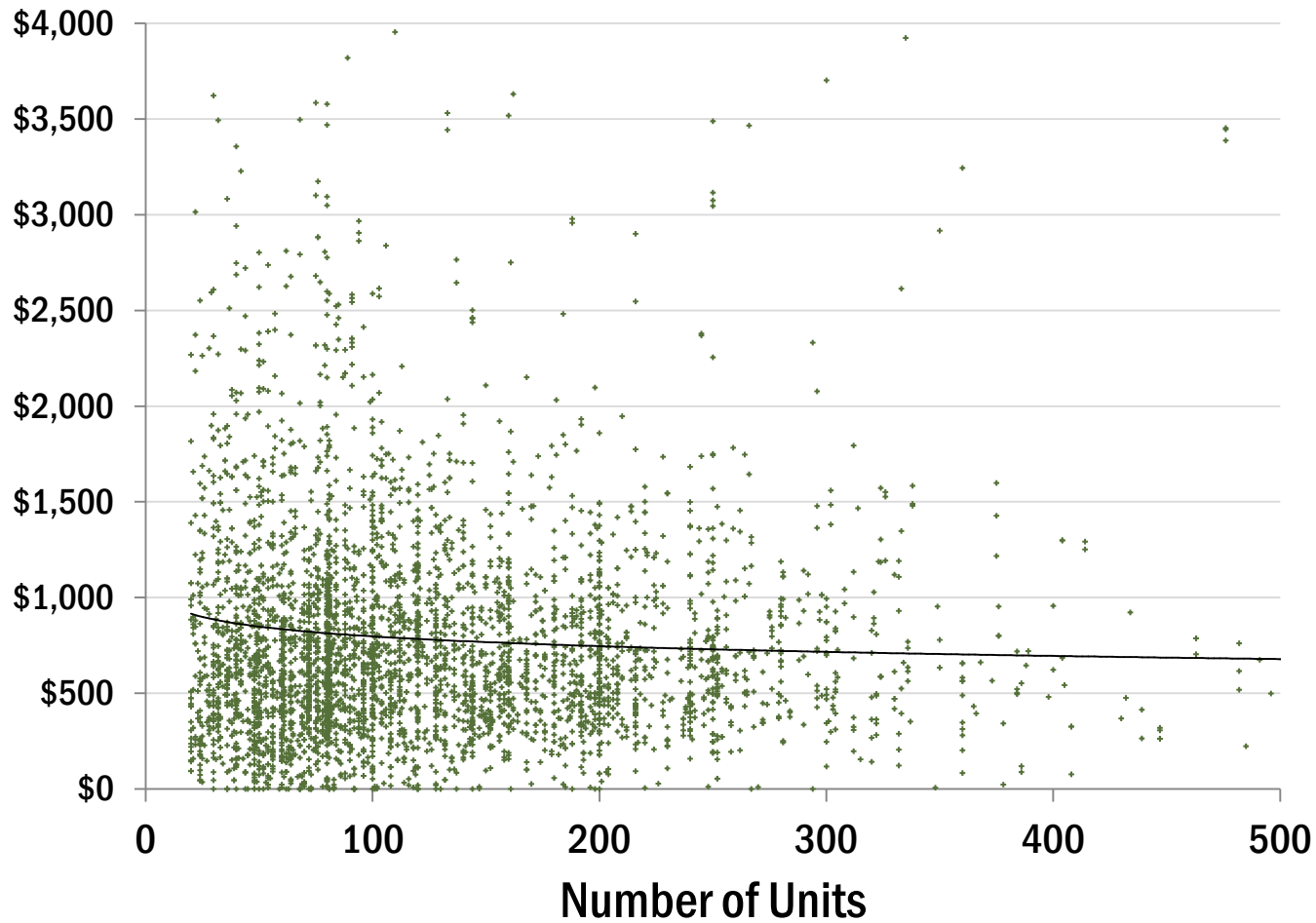
Total Operating Expenses



· Total Expenses
— Log. (Total Expenses)

$$y = -403.6\ln(x) + 6102.5$$

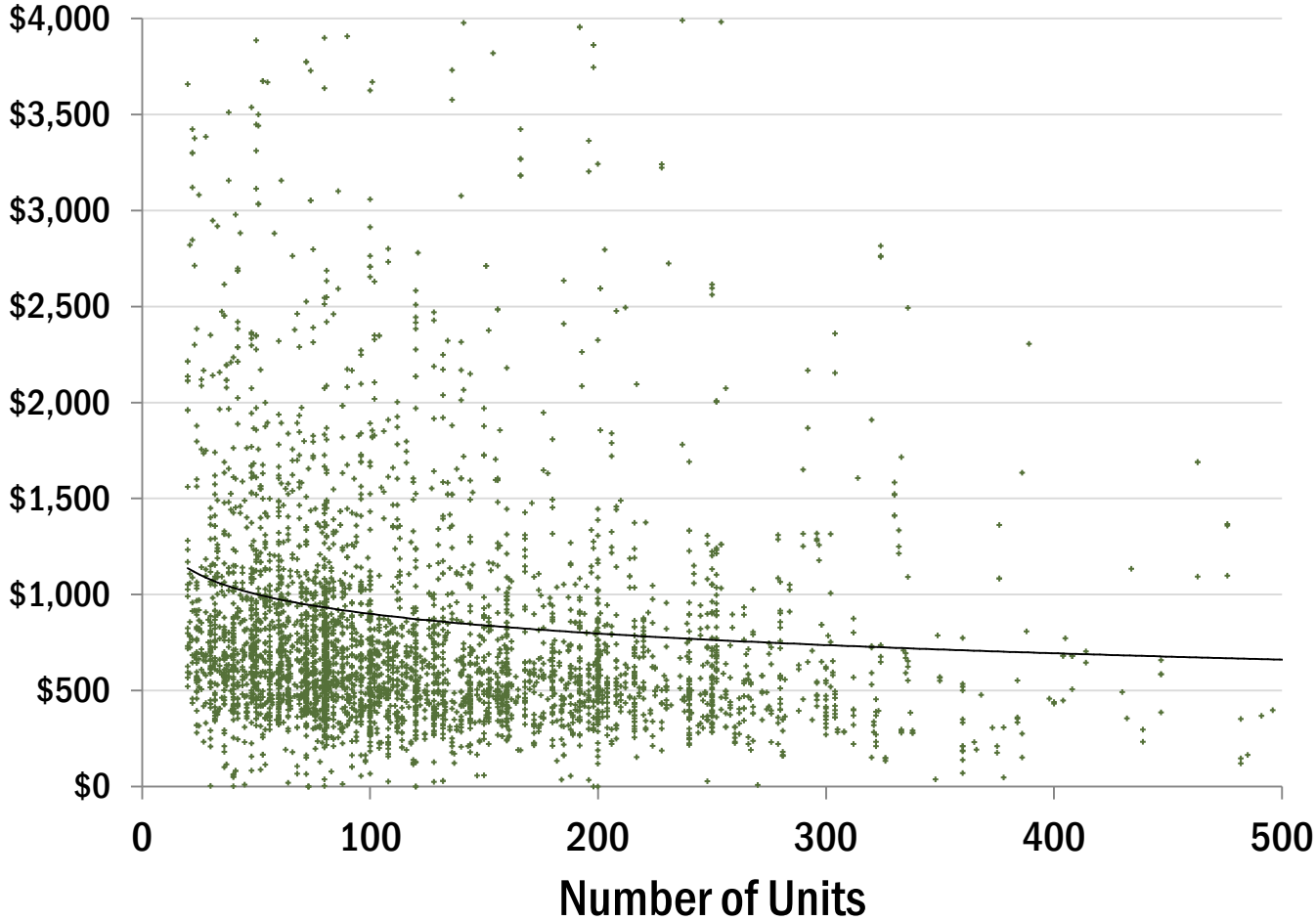
Repairs per Unit



· RepairsPerUnit
— Log. (RepairsPerUnit)

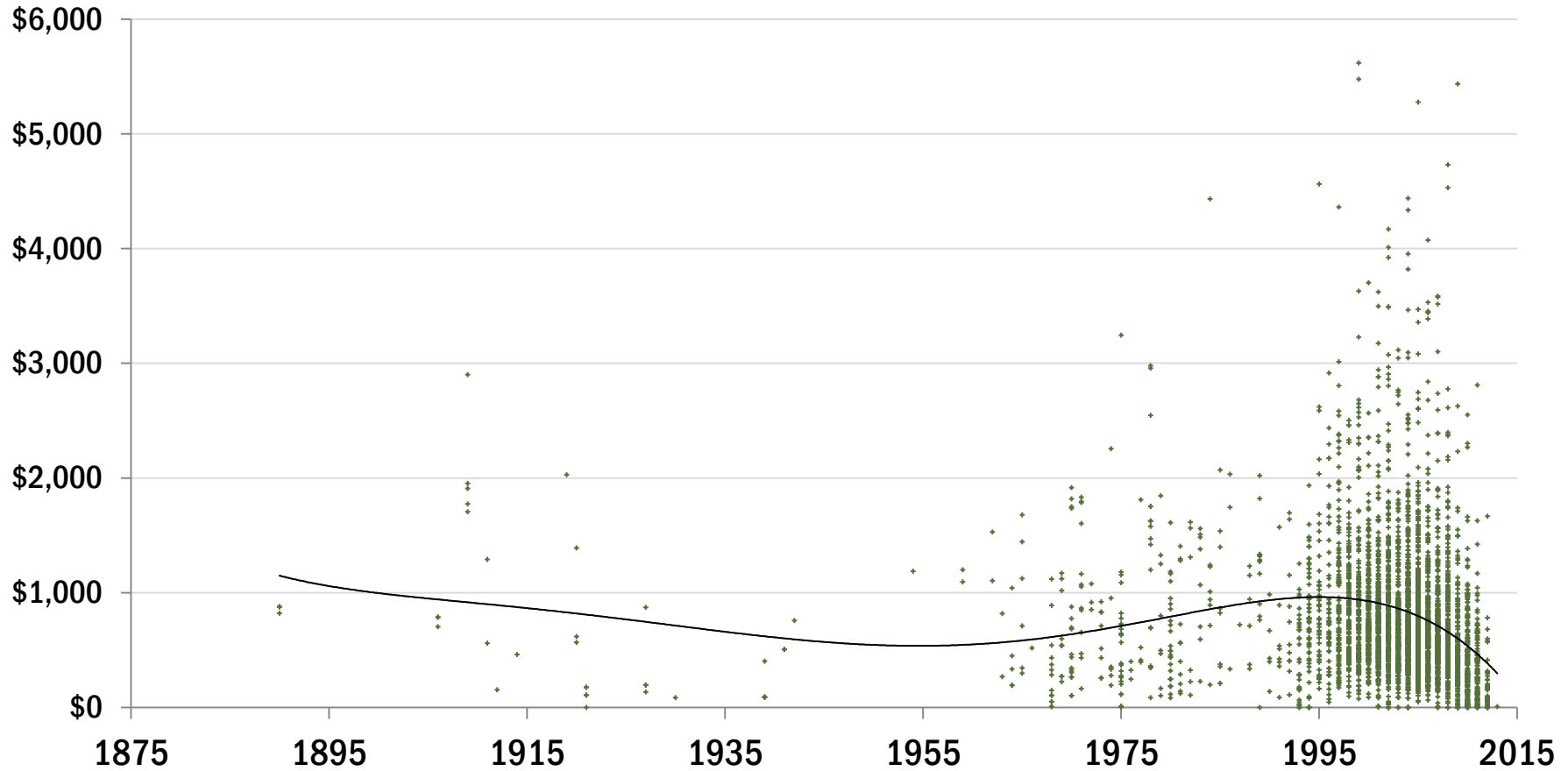
$$y = -73.61\ln(x) + 1136.2$$

Admin per Unit



· RepairsPerUnit
— Log. (RepairsPerUnit)
 $y = -148.1\ln(x) + 1581.7$

Repairs per Unit – Polynomial

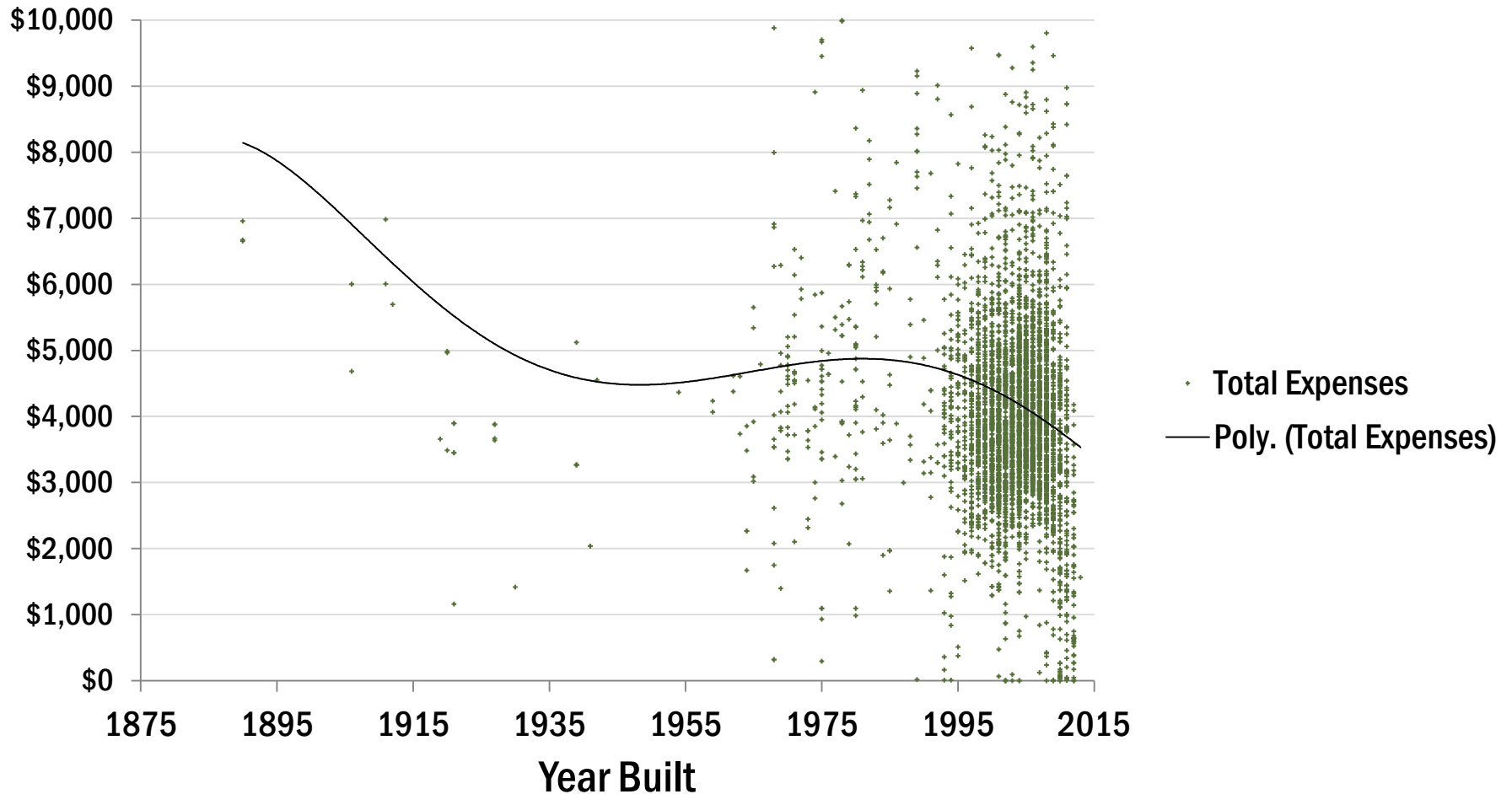


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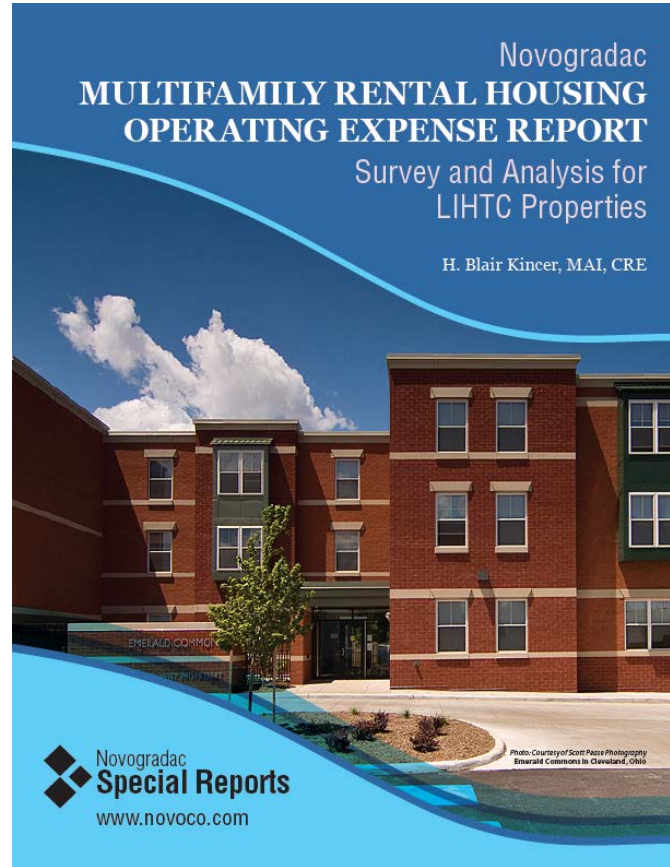
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Total Expenses per Unit – Polynomial



Full Report Available Online



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