An Underwriting Aid

New Report Provides Data, Analysis on Operating Expenses for LIHTC, Market-Rate Properties

Per-unit total operating expenses for low-income housing tax credit (LIHTC) properties in a large national sample increased by an average 5.92% between 2010 and 2012, with the three largest cost categories being for payroll, repairs and maintenance, and utilities, according to a new report released by Novogradac & Company LLP, a national accounting, tax, and consulting firm.

The 52-page publication contains a wealth of data and analysis on operating expenses over the three-year period for 2,100 LIHTC and market-rate apartment properties containing 585,000 units. The report suggest reasons for changes in operating costs from year to year as well as cost differences between LIHTC and market-rate properties. In addition, the document provides data and analysis for a number of individual categories of operating expenses as well as on national, regional, and state levels. The analysis excluded properties smaller than 30 units.

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The author of the report, H. Blair Kincer, a partner at Novogradac & Company, said the information in the report can help developers in preparing budgets for proposed new LIHTC projects as well as serve as a benchmarking tool for assessing the performance of existing properties.

"Insight into operating expense trends, such as the size, composition and rate of change, can help developers anticipate potential costs that will affect future cash flow," says the report. "Likewise, it can help property managers effectively plan how to allocate resources and help investors predict a property's future rate of return more accurately."

Trend in Expenses

The report provides data and findings on total operating expenses for LIHTC properties and market-rate properties over 2010-2012 and for each year. Operating expenses included amounts in 11 categories: administration; supportive services; ground lease; repairs and maintenance; operating; utilities; payroll; management fees; property insurance; real estate taxes; and reserves.

Photo courtesy of Novogradac & Company LLP

H. Blair Kincer

For the LIHTC properties, total operating expenses per unit rose consistently over the three-year period from $4,091 to $4,333. The same trend occurred in operating expenses excluding taxes and utilities, rising from $3,125 to $3,329.

For the market-rate properties, however, per unit total operating expenses climbed between 2010 and 2011 but then fell in 2012. Excluding taxes and utilities, per unit operating expenses fell every year.

The LIHTC properties went from having lower total operating expenses per unit than market-rate properties in 2010 and 2011, to having higher expenses in 2012. Excluding taxes and utilities, LIHTC properties had higher operating costs than

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Total Operating Expenses – Per Unit

	2010	2011	2012
LIHTC Properties	$4,091	$4,165	$4,333
Market-Rate Properties	$4,269	$4,339	$4,036

Total Operating Expenses Without Taxes & Utilities – Per Unit

	2010	2011	2012
LIHTC Properties	$3,125	$3,173	$3,329
Market-Rate Properties	$3,023	$3,004	$2,916

Source: Figures from Novogradac & Company LLP report

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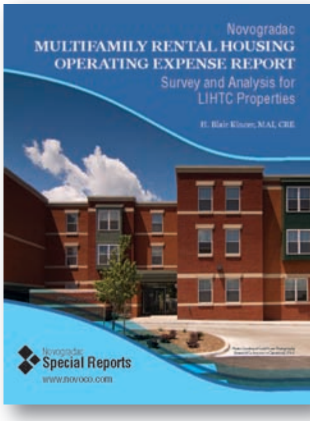
market-rate properties in all three years.

For the three years combined, total operating expenses rose by 5.92% for the LIHTC properties while declining 5.45% for the market-rate developments.



Over the three-year period, tax credit properties had higher administrative costs than market-rate properties (averaging 8.27% more per unit), which the report attributed to LIHTC program compliance costs. Tax credit properties also had higher repair and maintenance expenses, payroll, and management fees, while market-rate properties had higher taxes and insurance costs.

Breakdowns

The report also contains pie charts showing the breakdown of the expense categories for each year for the LIHTC properties and for the market-rate properties.

For both types of properties, the three largest cost categories were the same: payroll, repairs and maintenance, and utilities.

The study also provides comparisons of total operating expenses for all of the multifamily properties over 2010-2012 broken down by geography: metropolitan areas; micropolitan areas; and non-metropolitan areas.

Finally, the report provides data and analysis for all of the multifamily properties for each of the three years for 10 regions of the country, and for the 10 states with the most properties.

The publication, *Novogradac Multifamily Rental Housing Operating Expense Report Survey and Analysis for LIHTC Properties*, is the first by the firm and will be updated yearly. It may be ordered at http://www.novoco.com. TCA