

THE VALUATION REPORT

A MONTHLY PUBLICATION ON THE LOW-INCOME HOUSING TAX CREDIT INDUSTRY

January 2006, Volume V, Issue I, Published By Novogradac & Company LLP

Using a QAP to Meet Local Housing Needs

By Brandi Day, Real Estate Analyst

Every state completes a qualified allocation plan (QAP) for the distribution of its low-income housing tax credits (LIHTCs). The plans outline where the funds will be distributed, as well as the priorities for distribution. They also provide information on application procedures and, most importantly, how to make a project appeal to the allocating agency. Because the QAP is based on a state survey of needs, it is an important tool for developers to use in determining what type of project to build and where to build it. Using the QAP produced by the Virginia Housing Development Authority (VHDA), this article will illustrate how to use the QAP to design a property to suit the needs of the local community.

In Virginia, as with most other states, the QAP first details the general allocation pools, usually based on geography. In Virginia, 15 percent of all LIHTC funds will go to developments sponsored by non-profit organizations and 7.5 percent will go to local housing authorities, this is down from 15 percent the previous year. After that, there are five geographic pools: 19.44 percent for Northern Virginia, 13.15 percent for the Richmond MSA, 20.47 percent for the Tidewater MSA, 16.31 percent for small MSAs and micropolitan areas, and 8.13 percent for the remaining rural areas. The eighth is the at-large pool for all unreserved credits from the other seven pools.

This tells developers where the largest needs are in the state: the Tidewater area and Northern Virginia. However, when choosing where to build, this should not be the only point of reference. The cost of building in these locations means fewer properties can be funded, even with more money. In addition, these areas are likely to have the most competition for funding as they are rapidly developing areas. To further evaluate a building location, a brief demographic analysis can show the areas of greatest need. Also, a survey of applications from previous years will show the areas of greatest competition. Any

developer choosing to build in one of these areas must create a project that will shine among the competition.

Given that, the other sections of the QAP can give guidance to the needs for the residents of the state. This is done by awarding points to proposed projects based on specific criteria. Many of the points are given based on public support for a property, the readiness of the project as evidenced by permit approval, or the experience of the development team. However, there are also points awarded for amenities, design features and location.

Points are available for the property based on the average unit size. With all housing units, including single-family and multifamily, increasing in size, it is important that affordable housing units keep up with this trend. This will not only ensure marketability during the compliance period by making the properties more competitive with non-subsidized housing, but larger unit sizes will also put the property on a more level field with market-rate housing of a similar age at the end of the compliance period.

The VHDA QAP for 2006 provides that as many as 60 points can be awarded for specific amenities and design characteristics. These include energy-efficient appliances, heating/air conditioning systems and windows; multiple bathrooms; full or partial brick exteriors; DSL or wireless Internet capability; and low-flow shower heads and faucets. While the energy-efficient and resource-saving features are included to meet the environmental needs of the state, there is an added advantage of making the units more affordable to the tenant, who is generally responsible for the electric bill. The QAP also offers five points for having the water individually metered so including low-flow faucets and shower heads will also help the tenant save on monthly expenses. With reduced utility costs due to environmentally friendly

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amenities, the developer may be able to argue for a reduced utility allowance and higher net rent, thereby increasing income in the long-term.

Other amenities, such as the brick exterior, community room and Internet-ready units, should be included only if it is consistent with the market. Including a brick exterior in a neighborhood where there is no other brick housing could make the design incompatible with the surrounding and may cause delays in the local permitting process. In contrast, a community room is a fairly standard amenity and should be included in properties when feasible.

Including infrastructure for Internet service is becoming increasingly necessary as today's lifestyles almost require online connectivity. Offering Internet access to low-income households increases their opportunities by providing them with easy access to employment listings, online classes for expanding education and research resources for students.

In its 2006 QAP, VHDA provides six points for properties or units specifically designed to serve the elderly or disabled population. These are practical design features, such as front controls on cooking ranges, an emergency call button, a heat source in the bathroom, and two peepholes to accommodate a person of standard height as well as someone who may be wheelchair-bound.

Other points for design are available for rehabilitation projects that use storm windows to promote energy efficiency. Five points are available for historic properties as certified by the Secretary of the Interior. Other project characteristics that earn points include meeting HUD accessibility standards, offering units to very low-income households, and setting aside units for households with special needs.

As many as 20 points can be awarded to a development if it is located within one-half mile of an existing commuter rail, light rail, or subway station or if it is within one-quarter mile of an existing public bus line. This is another feature that not only increases a property's appeal with VHDA, but with potential renters as well. Low-income households are more likely to rely on public transportation for everything from going to work to going to the grocery store. Locating a property within walking distance of public transportation will give it a competitive advantage in the market.

The QAPs for other states include a more detailed breakdown of points. They also reflect the housing priorities of the specific state. Following these guidelines will not only give a developer an advantage in

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ISSN 1541-2474

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the allocation process, but will also increase the marketability of the property and its ability to capture tenants.

It is important to note that each housing market has its own specific needs and a thorough market analysis should be conducted in order to determine what amenities beyond the basic requirements of the QAP will be needed to properly position the development in the market. ❖

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