

# LIHTC MONTHLY REPORT

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## NAHB Warns Income Limit Restrictions Threaten Viability of LIHTC Properties

By Alex Ruiz, Managing Editor, Novogradac & Company LLP

Significantly increasing operating costs are putting in financial jeopardy hundreds of affordable apartment communities across the country that were built using low-income housing tax credits (LIHTC), according to the results of a new study released by the National Association of Home Builders (NAHB). Adding to the threat is a recent change in the data used by the U.S. Department of Housing and Urban Development (HUD) to calculate income limits. The group says this change in data methods has artificially frozen both the maximum income limit requirements of eligible residents and the rents that can be charged in a large number of areas across the county. In these areas, owners are unable to offset rising costs through increases in rents that would normally occur as the result of ordinary inflation.

"It is definitely a Catch-22," said Steve Lawson, an affordable housing developer from Newport News, Va., and chairman of NAHB Multifamily's Housing Credit Group, in a statement released on May 23. The group represents private owners and developers of LIHTC properties. "The very income restrictions meant to ensure that these properties are available to serve people in need of affordable housing are actually threatening the long-term sustainability of many of these projects."

Changes in the data used by HUD to calculate income limits, which in turn determine rent ceilings, has resulted in LIHTC rents in some areas of the country being frozen for the past five years, according to Paul Emrath, NAHB assistant staff vice president for housing policy research, who led the study. NAHB found nearly 200 counties across the country where flat income limits had completely frozen rents at LIHTC properties since 2001. Over that time period, NAHB reports that utility costs across the country had risen by an average of almost 27 percent.

"Over the last few years, many projects have faced large increases in both insurance costs and utility costs. Combined with flat rents, the net result is often operating deficits," said George Littlejohn, CPA, a member of the NAHB Housing Credit Group and partner in the Austin office of Novogradac & Company LLP. "The recent increases in credit price have really helped on the development-side budgets, but I have also seen many good projects complete construction and then struggle just to break even."

NAHB says the problems created by the large data-related changes in 2007 will keep LIHTC rents frozen in many areas for years to come. To measure the severity of the problem, NAHB calculated a "critical gap" to see how far HUD's median family income estimate in an area must increase before the income-rent limits also start to increase. NAHB found that 1,748 counties had a critical gap of at least \$1,000. Under HUD's current system of calculating income limits, the majority of those counties will see little or no increases in allowable gross rents for LIHTC properties in 2008. In more than 700 other counties, the situation is even more acute — the critical gap is at least \$2,000; in 175 other counties, it is at least \$4,000, and in 48 counties, the critical gap is \$6,000.

In the most extreme cases, Emrath said, some counties are looking at flat income limits — and therefore flat tax credit rents — for the next decade. "Because some LIHTC projects lack the resources to deal with the problem of flat rents for an extended period, these projects could be lost from the stock of low-income housing," he said. "Addition-

*(continued on page 2)*

# NAHB Warns

(continued from page 1)

ally, the prospect of flat rents in the future will hinder the program going forward, preventing some of the most needed projects from being built.”

“The situation is so dire that seeking a legislative or regulatory solution to the income limits problem has become a top priority for NAHB’s Housing Credit Group,” Lawson said. “We must find a way to keep these projects viable so that they can continue to provide much-needed affordable housing to America’s lower-income families.”

The complete study of income limits and their impact on tax credit properties can be found at [www.nahb.org/multifamily](http://www.nahb.org/multifamily). ❖

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