What You Need to Know About HUD's 2024 Rent and Income Limits

The U.S. Department of Housing and Urban Development (HUD) released 2024 rent and income limits earlier this month–limits that determine renter eligibility for HUD-assisted programs and for properties financed by low-income housing tax credit (LIHTCs). The limits also determine the maximum rents that owners of LIHTC properties can charge tenants. In this week's podcast, Michael Novogradac, CPA, and Novogradac partner Thomas Stagg, CPA, discuss the rent and income limits. They look at key takeaways, how the new 10% ceiling affected limits, what geographic areas saw income limit growth that was below the national average of 6% or decreased and how the income limits affect (or don't affect) HERA special properties. They also look to what to expect in 2025 and key dates for data release that will affect those 2025 limits.

Summaries of each topic:

1. Introduction (0:00-6:12)
2. Key Takeaways (6:13-9:51)
3. Effect of the 10% Ceiling (9:52-15:08)
4. Areas With Lower Growth or Decreases (15:09-22:08)
5. HERA Special (22:09-25:44)
6. Looking to 2025 (25:45-39:14)
7. Off-Mike Section (39:15-41:41)

Transcript

Introduction

[00:00:11] **Michael Novogradac, CPA:** Hello, I'm Michael Novogradac. And this is Tax Credit Tuesday. This is the April 16, 2024, podcast.

Two weeks ago, on April 1, HUD released income limits for 2024. These are the limits that determine renter eligibility for HUD-assisted programs, as well as low-income housing tax credit-financed properties. These income limits also are used to determine the maximum rents owners of tax-credit-financed properties can charge tenants.

As our viewers on YouTube can see, I'm pleased to have Thomas Stagg as my guest today. Thomas is a partner in our Seattle Metro office, and as longtime listeners of this podcast know, there's probably no one outside of HUD who knows more than Thomas about rent and income limits for tax credit-financed properties. I'm really happy to have him back on the podcast.

Now let's turn back to the big news. The 2024 income limits that were released increased, on average, about 6% over the 2023 income limits. Now, I do emphasize on average because income limits for many areas were higher than 6% and for many areas, they were lower.

Now, tenants and owners of tax credit properties are most interested in the change in income limits for their individual area. And to that end, in terms of how HUD was going to make the calculations, earlier this year, in January, they did say that for purposes of the 2024 income limit calculations, they would use the same methodology as they used in 2023 for purposes of determining the maximum percentage increase in area median incomes.

They did, though, add in one notable addition. In addition to saying they would do the calculations the same as in 2023, they said there would be an overall 10% ceiling on increases in area incomes. And this announcement of the 10% overall ceiling did get a lot of press attention. Under the methodology used in 2023, if that had been used solely that was in 2024, then the maximum increase in any area would have been 14.8%. But since HUD also has this overriding 10% cap, the maximum increase was 10% for any area for 2024. Now I do say the maximum increase is no more than 10% in 2024 for any area, but I do note that income limits are complex in many ways and there is a category of properties that are not subject to this overarching 10% limit.

And these properties are colloquially referred to as HERA special properties. And just to keep you wondering, if you don't know what they are, we will discuss them later in the podcast. But I want to go back to the overarching 10% increase and the impact that it had or at least had in part, and that is with this 10% increase. Thomas was able to calculate that roughly 20% of areas in the United States were limited by the cap, which means, but for the cap, the income limits would have been higher.

Now, I'll also note that last year, the cap was about 6%. And not surprisingly, a much greater number of areas were limited by the cap. Last year, roughly 85% of areas were limited by that nearly 6% cap. My guest Thomas has been on this podcast several times to discuss the income limits. And as I mentioned earlier, I'm really happy to have him back, there's no one else I'd want to have on this podcast from Novogradac to discuss income limits. And I know you, our listeners, appreciate having him on as well.

In today's episode, Thomas and I will first talk about the main takeaways from last week's announcement, or the announcement two weeks ago, and what the cap and 10% ceiling means to tenants and property owners.

After that, we'll discuss some exceptions to the general trends with income limits. And then we'll also look at what's coming and some important upcoming dates for determining next year's income limits. This is obviously a critical topic. It affects every tax credit property in the United States and its possessions.

So, if you're ready, let's get started. Thomas, welcome back to Tax Credit Tuesday.

[00:04:31] **Thomas Stagg, CPA:** Thanks Mike. It's great to be back.

[00:04:34] **Michael Novogradac, CPA:** And before we dive into income limits, please remind our listeners about some of the services you provide to clients at Novogradac.

[00:04:41] **Thomas Stagg, CPA:** Yeah, so in addition to providing income limit knowledge and expertise, and also providing our Income Limit Estimator that estimates future income limits, I also provide audit and tax services to, mainly to developers who are building affordable housing. And in addition, I also help developers who are applying for tax credits navigate state agency requirements and submit complete and accurate applications. So, as you can imagine, this is a busy time of year.

We're coming off our main audit and tax season and rolling right into application season. So, it's an exciting time.

[00:05:16] **Michael Novogradac, CPA:** And I do appreciate you joining me. We're recording this on April 15th, which I don't think Thomas was expecting to be recording a podcast on April 15th. So thanks for making time for the podcast. I know our listeners appreciate it.

[00:05:28] **Thomas Stagg, CPA:** Yeah, it's a good thing I didn't qualify for the Boston Marathon this year.

[00:05:32] **Michael Novogradac, CPA:** Good point.

As we discussed before, this is your 13th appearance on the podcast, which does tie you with our partner, Tony Grappone for the second-most appearances. You've reached your baker's dozen podcast appearances.

And in case our audience is wondering who has the most, that would be Peter Lawrence. He's been a guest 15 times, so you and Tony are just a bit behind him.

[00:05:58] **Thomas Stagg, CPA:** I think it's more impressive I've been on here more times than there are Fast and Furious movies. I feel like there's a lot of Fast and Furious movies, so, if somebody wants to marathon my podcasts, like they do Fast and Furious movies, I'd recommend that.

Key Takeaways

[00:06:13] **Michael Novogradac, CPA:** So, let's jump into our discussion. I gave a brief overview on the recent income limits release, but I wanted you to share with our audience some of the key takeaways that you observed after seeing this year's income limits.

[00:06:29] **Thomas Stagg, CPA:** Yeah, and you touch on some of them. I think the good news is income limits are going up, which is good because wages are generally increasing as well.

And so, if income limits aren't increasing at the same rate, then it's harder for people to qualify for affordable housing. So, we want this kind of steady increase in income limits. And this year at just under 6%, that's a nice steady increase. It's also good for owners and developers as a steady increase in rents help keep up with inflation, help keep projects operating and help upkeep on maintenance and those sort of things.

So, all in all, it's a good year with income limits increasing. Now, again, we the impact of the cap this year, as we mentioned, 21% of all areas, but to put that in perspective, I think it's more important to look and say that's 31% of the population. So about a third of the country lives in an area that has a cap, but this year it's interesting if we strip away the cap, instead of having a 6% increase, the increase would have been 7.52%, so it's not as big of a spread as in past years, and we'll talk a little bit as to why it's not as big of a spread as we've seen in past years, but the cap really isn't as impactful this year across the board as it was in past years. Last year, 85% of areas were capped. So you can imagine the difference between the capped and uncapped limit was a lot larger.

But we can look across the country, we see that there was a little bit of a divide between our metro and nonmetro areas. Metro areas were increasing a little bit faster at 6.1%, whereas our nonmetro was increasing at 5.7%, so a little bit slower. But what's interesting is the metro were more volatile: 8% of all metro areas had a decrease, whereas only 5% of the nonmetro areas had a decrease.

So, I thought it was interesting when we looked at that spread there. And then one real interesting area, well at least to 3.6 million people, is Minneapolis-St. Paul. It was actually flat this year, and so it's not often we see an area that large be flat, and so if you look at our maps that we're going to show in the webinar coming up, and we can probably link to them in your show page as well, you see this big gray area right there that covers this huge area that's in Minnesota and Wisconsin that's flat year over year.

We look at the states with the biggest movers. Massachusetts had the biggest increase, an average increase of 9.5%. So, you're looking at, they're increasing across the state right at the cap. Then Rhode Island, Arizona, New Mexico, Idaho and Washington round out all the states at an increase of greater than 8%. And you look at those states, they're spread across the country. You got Washington over on one side, Massachusetts on the other, Arizona, New Mexico in the south or Southwest, I should say. And so you see that the country all in all was increasing, was spread across the entire country.

[00:09:22] **Michael Novogradac, CPA:** Now, thanks for that survey. That's really helpful in terms of a broad overview of the income limits. I don't want to spend too much time on this overarching 10% cap on income increases, but that did get a lot of fanfare and it probably gets undue attention given the impact that it has. Maybe you could talk a bit more about those areas that did end up being limited by the 10% that would have otherwise been 14.8%.

Effect of the 10% Ceiling

[00:09:52] **Thomas Stagg, CPA:** Yeah, and so before we dig into the areas, I want to remind people HUD has always had a cap, right? We've had a cap for the last 10 years. It's just now this year they had a ceiling of 10% and that caught news partially because that was spawned by some of the news some of the people were covering it. But if we look back historically, there's only been three years. I forget which side my camera's facing. Three years so we've had an increase over 10% and that's 2018, 2019 and 2022 that the cap has been higher than 10%. And you can count 2024 as well. So four years over the last 14 years has it been over 10%.

So, it's not going to be this huge, impactful thing I think was made up to be. As I mentioned earlier, it also wasn't as impactful because we look at the change between the capped areas at 5.9% average increase, and without the cap 7.5%, so not a huge difference there, but what I think is really interesting to look and say, OK, 20% of the areas were capped, which is right around 1,100 areas, but how many areas fell between this new 10% ceiling and the old 14.8% ceiling? And that was 617 areas. So, of the 1,000, 400 would have been capped at 14.8 regardless, and then we have the 600 that fell between 10 and 14 that would have been capped. It was slightly higher than 10, but still less than 14. So if you really look at, to me, those are the ones, 1,000 were impacted, right? Because they are lower than they would have been. But of those, 600 would have been in this small window. The rest would have been capped regardless of what that cap was and we're just be talking about the magnitude of the cap. What I think is those interesting, was if the cap had been 14.8%, then the percentage of areas that were capped would have right around that 10%, which is in line with what it used to be. So it seems as though the 14.8% cap is really kind of getting back to where we used to be, where we're just catching the outliers. And this 10% ceiling is serving the purpose of saying that we want to catch the outliers, but we also want to manage the amount of increases that are happening at the property level.

So it seems as though it's a good balance. I can't be too upset about it–20% of the areas is more than we'd like, but it's not, I think, overly impactful this year.

[00:12:12] **Michael Novogradac, CPA:** That's a good point. And I would also just note for listeners that one of the overarching reasons to have an income limit at all, a cap, is just some concern about on a year-over-year basis, as you go through the estimation process, could the data overshoot and be too high. So the notion is to come up with some overall standards to limit those increases in a given year so you don't run the risk of overshooting such that an area would have no income growth for a number of years based upon the manner in which the estimates are done. So that is something for listeners to keep in mind. So it does serve a purpose beyond simply in the short-term impacting rent qualifying income levels.

[00:13:00] **Thomas Stagg, CPA:** Yeah, and Mike, I think there's an interesting follow up to that. So, our Income Limits Working Group had its meeting on Friday, and HUD joined us, and they talked about this. Somebody asked HUD, they said, is this 10% ceiling here to stay, or is it going to change? Will it be a 5% ceiling some year, or something different? And I think HUD is being very pragmatic about it. First, they said the 10% ceiling is here to stay for the foreseeable future, but if something were to change, if we suddenly had rapid inflation, obviously 10% ceiling wouldn't make sense in that environment anymore.

And what they're doing is they're looking at two things. They're looking and saying how much of the areas are capped, year over year? So, they're looking to say, are we really burdening specific areas with this cap and do we need to revisit that? And they're also looking and saying what percentage of the population lives in a capped area? Are we impacting population so that people aren't qualifying? So I think HUD is being very pragmatic about this and looking into it and being very transparent and so that's been a real advantage of the members of the Income Limits Working Group is being able to hear straight from HUD what they're thinking about this and how that's working.

[00:14:07] **Michael Novogradac, CPA:** Now, thank you for sharing that. That's really helpful and provides added insight into the durability of this 10% cap, and it certainly makes sense, everything that you said. I will also note, as we also discussed and the Income Limits Working Group discussed it as well, there was also a notion of, well, maybe there was a middle ground on the cap and not apply the cap on incomes to properties that are in the development phase, because the one thing about the cap is in these 20% of areas, if you have a property under development and projecting out, you won't have quite the income level you might otherwise have, which means that's what's part of financing. So, a handful more properties will be financially feasible for a while.

That obviously has a little complication to it. So I don't want to go there. I wouldn't even have to comment on that, but I'll just put that out there.

[00:15:00] **Thomas Stagg, CPA:** Well, that's a great plug for the podcast No. 12 that we did together where we talked about the cap and people really want to dig into that. We have a great discussion on the impacts of it.

Areas With Lower Growth or Decreases

[00:15:09] **Michael Novogradac, CPA:** Yes. Good. Good point. Good callback. So maybe we should talk a bit about the other end of the spectrum. I noted in the introduction that there was an average 6% increase, which does mean that many areas had increases of less than 6% or even decreases. I thought it might be interesting or would be interesting for you to share some interesting patterns or observations you had about those areas with lower income growth and or a decrease in measured income.

[00:15:43] **Thomas Stagg, CPA:** Yeah. So when we look at it, about 6% of areas had a decrease. So, not a ton of areas, and it's interesting, preparing for this, I looked back at previous years and when we first started really tracking income limits and did our first webinar, it was back around 2010, 2011, and in those years, we were seeing 20% to 30% of areas having decreases, so all in all, it's been a very good last few years for developers because we've had these steady increases, but this year we do have more decreases than we've had in past, in the recent history.

So 6% are decreased, but we do see it a little more pocketed and we see some states that were really hard hit. Nebraska, 52% of the areas had a decrease. Wyoming, 47% of the areas had a decrease. What's interesting is even with 52% of the areas having a decrease, the average change in Nebraska was still positive, 2.25%, an average change in Wyoming was still positive, 1.7%, but wasn't only rural areas that were impacted, Connecticut had 43% of its areas with a decrease and an average across the state of an increase of just under 2.25%, so we still see that these areas have decreases across the country, kind of in pockets. A lot of this, if you dig into it, some of it's being driven, about half of it's being driven by the state nonmetro adjustment that HUD applies when calculating the VLI, and in a few states, the state nonmetro decreased, so all the areas that were adjusted by that were more likely to have a decrease due to that, and as we talked about earlier, if we look at the spread, 8% of the metro areas had a decrease, 5% of the nonmetros had a decrease. So it is hitting kind of all over the country.

[00:17:37] **Michael Novogradac, CPA:** So I'm sure there are some listeners that are hearing you say 6% of areas had a decrease in income limits. And some listeners might be thinking, oh my goodness, does that mean my property rents have to be reduced? So if you could explain why this is generally not the case, that would be super helpful.

[00:17:58] **Thomas Stagg, CPA:** Yeah, and so ever since 2009, or 2008 as part of the Housing Economic Recovery Act, HERA, we now have this codified hold harmless. It says once your project's in service, your project-specific income limits and rent limits can never decrease. So if HUD publishes an income limit that's lower for your area, you're held harmless at the previous year's amount.

So if last year you were $50,000 was your income limit and this year HUD published $49,000, you continue to qualify tenants at $50,000 and continue to charge a rent calculated off of $50,000. So realistically your project is not harmed, it's held harmless on your income and rent limits. But of course, unfortunately there's no provision that says if your rents don't go up, expenses cannot increase for your project.

And so even though they maybe are held harmless, they're still going to feel a little bit of a squeeze because costs are increasing. But you'll never decrease once you're in service. Where this has a much bigger impact are for projects that are newly coming online. So if you come online after the effective day of the income limits, you're not in service, so you're not held harmless at these previous income limits, so you'd have to use the then-effective income limits.

And for rent limits, you'd have to use either those limits or whatever your gross rent for election was. And we won't delve into that, but there is a little bit of a look-back there. But what we will talk a little bit more about is, when I said effective date, I didn't say April 1, and that's because we have this 45-day window after HUD releases the income limits before they're effective. Well, not before they're effective, before you have to rely on them. So the IRS has stated in, and this is in a newsletter, so it's somewhat informal guidance, but it ties back to the formal guidance. We have in this 45-day rule, and they've said if you place in service in this 45-day window, you can consider yourself in service in whichever year is most beneficial for you.

So if you place in service today, well, today for podcast purposes, April 16, you could choose to either use the 2023 limits if they are higher, or the 2024 limits if they are higher. So again, look at my example, if the 2024 limits are $49,000 and the 2023 limits are $50,000, you're going to say, yep, I was in service in 2023 because I was in this 45-day window.

So what do we do then? So if you're a developer who has a project that's coming online soon in an area that had a decrease, you really want to work to try and get one unit in your project in service, because then that can lock your entire project into the 2023 limits. And so that date is May 16. You really want to have at least one unit in service in your project prior to May 16 so you can rely on these old limits. That doesn't give you much time, but it does give you a little bit of time to try and do something. It's of no help if you're placing service in August, but it is something.

[00:20:56] **Michael Novogradac, CPA:** And of no help if you listen to the podcast on May 16.

[00:21:00] **Thomas Stagg, CPA:** Yes, that too.

[00:21:01] **Michael Novogradac, CPA:** Another reason to listen to the podcast right when it comes out.

I did want to just mention a nuance. That when we talk about your rent can't go down on a property. I'm sure there's some listener out there that works in property management or something else that are thinking or screaming into the, they're driving, screaming into their phone or whatever, however they're listening to it. We mean the gross rent won't decrease because, of course, utility allowances do rise over time, so your actual net rent, net of utility allowances still can be declining, but you won't have a decrease in your gross rent.

So, in the introduction, Thomas, I mentioned HERA special properties. And how HERA special properties aren't subject to this overarching 10% income limit cap. And maybe you could explain, I know you can, not maybe you can, I know you can. So if you will, please explain what HERA special income limits are, just generally. And then which properties qualify to use them.

HERA Special

[00:22:09] **Thomas Stagg, CPA:** Yeah, so HERA special is a special calculation of income limits that's based solely on the change in AMI. And it benchmarks back to 2008 when HERA came out. And that's why it's called HERA special, the Housing Economic Recovery Act. And so it's only available to projects that are in service prior to 1-1-09. So if you have a new project coming online, you cannot use HERA special for that project. But if you have a project that was in service prior to 1-1-09, you can use HERA special. Now, thankfully, HUD calculates and publishes this for us. So if you're in service prior to 1-1-09, and HUD publishes the HERA special limit, that's the highest limit for that area. And so you'll want to use HERA special for your project. And what's interesting is HERA special also, because of this special calculation, does not have this ceiling or cap that HUD applies to other income limits.

So you can have a HERA special income limit that goes up by 40%, like we saw in Santa Cruz this year. Now, of course, you're not going to raise the rent 40%, but it does help with qualifying tenants. It does help with again, you'll be held harmless at this higher limit, and so it helps you have this real confidence that you can smooth in increases over a number of years that make sense for your tenant population and to meet those demands.

And so HERA special is not subject to this cap, but what's interesting is this year, HERA special, as I mentioned, HERA special is based on area median income, and we didn't really talk about this yet, but area median income only grew on average by 2% this year. So we see this spread between non-HERA limits and HERA special limits being much tighter and the average increase for projects for areas, I should say, that had a HERA special in both '23 and '24 is only 4.27%. And so it's growing much slower than we've seen in previous years, and that's because AMI generally has slowed down a little bit.

[00:24:13] **Michael Novogradac, CPA:** Thank you for that explanation. I just, the only thing I'll add is for the listeners that are wondering how HERA special income limits ever came to be.

There is a story here to suggest that we do respect the fact that HUD is deliberate in their calculations of income limits and trying to be careful not to overshoot. Because there was a rebenchmarking that occurred many years ago before the HERA special income limits came in, and this rebenchmarking of the area median incomes led to some areas seeing no growth.

And they would not see any growth for a number of years based upon this rebenchmarking. And that led many properties to look at their operations and say expenses are going up, income limits weren't going to rise at a pace to keep track, keep up with the expense increases. So this special income limit rule came into effect to basically grandfather in older properties so they could see income limit increases, and as a consequence, rent increases that cover higher operating expenses, while the HUD-calculated income limits outside of the HERA special rules were taking time to rise up to the HERA special income limits. And as Thomas noted, obviously we're 15-plus years later, there are areas that are catching up. So I don't know if you have anything to add to that, Thomas, if I didn't confuse listeners too much.

[00:25:44] **Thomas Stagg, CPA:** No, I think it was great.

Looking to 2025

[00:25:45] **Michael Novogradac, CPA:** No, I think it's good to know just so when you think about the HUD income limit calculations that you bear in mind that we want to be sensitive to not overshooting the income estimates because we are always estimating incomes based upon data that's two years or three years old or depending upon which year we're doing the calculations.

So we've talked a fair amount about the 2024 rent and income limit releases. And now I'd like to look ahead a bit. Now, HUD's announcement, as we've talked about in detail in January, they announced how the income limit calculations would be handled, and we noted that in addition to doing it the same way in 2023, they created this overall 10% cap and based upon HUD providing that guidance, you were able to update the Income Limit Estimator based upon knowledge as to how the calculation will be done. And as a consequence for county-based income limits and MSAs, your income limit estimates were essentially 100% accurate. Now we're looking to 2025, and what are our income limits looking like April 1 of 2025? And I thought it'd be useful if you shared with the audience, what are some of the areas of uncertainty that we should be thinking about as we think about income growth over the next year or two?

[00:27:11] **Thomas Stagg, CPA:** Yeah, so I think that definitely 2025 is going to be a year of more uncertainty. In 2023, as we mentioned, 85% of areas were capped, so we kind of knew we had this pent-up increase that we were able to rely on for 2024.

Only 20% of areas are capped and so for those other 80%, we're really going to be looking forward to 2024 only at the year-over-year change. And there's nothing to come in and push those up. And so income limits, when we talk about area median income, there's two components. There's American Community Survey data and a CPI component where we trend that forward.

And if you think about it, this trend factor, if CPI is staying flat year over year, then your change in income limits are really going to equal exactly what the change in the American Community Survey was. If inflation is growing faster, it's gone up over this two-year period, then your income limits are going to grow faster than the ACS data.

Now, unfortunately, we're in the environment right now where CPI is slowing down and so that means that our trend factor is going to be lower than it was in the prior year, and so we're going to grow slower than what the American Community Survey data is showing. And right now, the trend factor used last year was 1.6. Our estimate of the trend factor for next year is about 1.45 or 1. 5. I'm sorry, last year. Yeah, it's a 1.6 versus 1.45. So we're growing already about 1.5% slower than we did last year. And so we already know we have this about 1.5% headwind. I apologize, it's 1.06 and 1.045. I can't figure out why this wasn't making sense in my head as I was saying it, but 1.06 or 1.05 or said another way, a 6% trend factor versus a 4.5% trend factor. And so when we look at this lower trend factor, we know that we're going to grow slower on area median income. Then the ACS data. So now we have to ask ourselves what's happening with incomes between 2022 and 2023, which is the ACS data we're going to use this year.

We use 2022 for this year, for 2024, we're going to use 2023 for 2025. So if ACS is, if we also think incomes have grown slower during that period and we have a slower trend factor, we could be predicting a really a slowdown in growth for 2025 if we think income limits have grown faster from 03 to 04.

Then, I'm sorry, 02 to 03, then we're going to be predicting an increase, but with a headwind of CPI slowing that down a little bit. And so those are the things that we're looking at right now when we're trying to get our initial 2025 estimates in control. And then there's two other things I think we should talk about on this.

Number one, I already mentioned we have a lot less caps, so we have less backstop here to protect us, but also a big driver of increases this year was fair-market rents. So in these high housing cost areas, your limits are driven by fair market rents. But I think if you look across the country in some of these fair market rent areas, from what I hear, and again, I'm not the one who's charging rents or doing those sort of things, but I hear that rents are also slowing down, or rent growth is, and so I think our fair market rent driver is going to be lower for 2025.

So unfortunately, I have a little bit of my pessimistic hat on for 2025 and if we're working on projects, I'd say we want to be very conservative in our estimates and be reaching out to us so we can help you understand what is your kind of area specific data that we do know right now, what is your area specific data that we don't know, but what kind of hints do we have that can help you understand more so what's happening for your specific area so that you're not thinking, it's been growing at 6%, 10% over the last three years and that's what I'm going to estimate again.

We need to really look at what the actual underlying data is telling us going forward.

[00:31:22] **Michael Novogradac, CPA:** No, thank you for that. I always think of it as you have the American Community Survey data year over year. What's the increase in the survey data year over year? And then how does that compare to the assumed, we'll have that compared to the CPI across those years, and you have those kind of going back and forth, and, you know, in years with low inflation, the year-over-year ACS growth is more meaningful when you have high inflation, then the projection based upon the higher inflation rate becomes more meaningful, and it's almost like a percentage calculation or weighting of the two.

All right, we've spent so much time talking about the 10% overarching cap. What's your prognostication in terms of whether that 10% overall cap is going to matter in 2025?

[00:32:17] **Thomas Stagg, CPA:** Yeah, if we hit the 10% cap for 2025, I'll be very surprised. Just because of, it would require, well I guess it would require ACS to grow by 5%. I could still see wages growing by 5%, but then our actual data is going to be tampered down by 1.5% there when we look at individual areas. I'd be very surprised if we get to 10%.

[00:32:42] **Michael Novogradac, CPA:** And when we talk about the 10% cap, just to refresh our listeners, I mentioned that if we didn't have the 10% cap, it would have been 14.8%.

But what Thomas is saying is that that overarching limit of 14.8% is going to be in all likelihood be below 10%, such that the 10% cap won't be relevant in terms of kicking in. There'll be another overarching cap that's lower. So to do the projecting of income limits, which many clients use to project rents on properties under development and the like, as well as if they're acquiring portfolios, and then looking at what rent growth is likely to be on individual properties.

I know you have lots of clients that subscribe to this Rent and Income Limit Estimator service. And as part of that service, they get automatic updates to those estimates as additional data is released. And as data is released, the estimates that you can provide for most areas become obviously that much more accurate. And unless there's a surprise when HUD releases the data on April 1st, you can be pretty much dead on in most areas. Now, what are some of the coming dates that are going to be so important in terms of estimating income limits for the next release?

[00:34:04] **Thomas Stagg, CPA:** Yeah, it's really this kind of July to September window when we get a lot of data flowing.

So first, the CPI estimate that's used is the Congressional Budget Office estimate of CPI, and they usually publish their second estimate of the year in July or August. So that will give us a really a better picture of what's happening with CPI if we think it's going to be a headwind, a tailwind, or just kind of level, and we also will receive fair market rent figures in September, which will allow us to calculate high housing cost areas. But most important is we'll receive the American Community Survey data, the one-year ACS data, which will really allow us to start calculating area-specific income limits that are based on the actual same data HUD's going to use with just a CPI factor that's going to be updated one more time. So at that point, we start to get really accurate income limits that are only subject to kind of change in the CPI estimate and so that's when you should really be looking for those very project-specific estimates.

[00:35:08] **Michael Novogradac, CPA:** Thank you for that. We'll obviously be keeping an eye on those dates, and something tells me that maybe we'll have you back as a guest, if not sooner than in the fall, as to how things are looking with respect to rent and income limits for next year. But before we move on, is there anything else our listeners should know about the income limits and the work you're doing?

[00:35:30] **Thomas Stagg, CPA:** Yeah, so I would say, we have our free calculator up on our website. We turned that around pretty quick this year. The income limits were released late Monday night. I thought it was going to be an April Fool's joke, and HUD wasn't going to release the limits for us. Then, about, I think, 8 Pacific, they showed up on their website.

And we were able to update the calculator same week. So that's up in Beta format for people to go and start running initial income limits on that. And then this coming Thursday, so two days from now, we have our webinar, which, you know, the podcast is great, because we're going to talk about these limits, but the webinar is really good because we have visuals to help really drive home the point we're making. We have maps, so you can see that big gray area around Minneapolis. You can see where the greens are across the country and we really get into very kind of specific examples. So that'll be Thursday. It's not too late to register.

And then more important for ongoing work is this Income Limits Working Group. We've had great interaction with HUD, but HUD has also been doing a lot of policy changes lately. They changed how we calculate fair-market rents. They changed the ceiling equation. The Income Limits Working Group started in the rise of lack of data out of COVID, but we're seeing that there's a lot that we're still doing on income limits, a lot of interfacing with HUD, a lot of interfacing with other agencies. And so the working group is I think doing a lot of good work. And so, you joining that helps us continue to interface and underwrite these kind of projects we're taking on. And so then come and you get to come and here HUD talk to us directly and, and other perks. And you get to see me a little more regularly. I'm not sure that's good or bad.

[00:37:12] **Michael Novogradac, CPA:** That's a value.

[00:37:13] **Thomas Stagg, CPA:** And then finally our, we have our conference in, what, two weeks in San Francisco. I'll be there. You can corner me at one of the cocktail hours, and we can talk about income limits, and we have a couple blog posts up as well, and this is a little bit off topic, but we're posting a blog post today on the California cap on rent increases that was passed at the second meeting. Not May 2nd, April 2nd. So if that's of interest to you, be sure and read that blog post because there's a lot of really good information in there.

[00:37:46] **Michael Novogradac, CPA:** And that's also another example of something that the Income Limits Working Group will have discussions on--California is creating these state-based income limits, and it has happened in other states. It's not like it's the first, but it is something for listeners to be mindful of. So I would encourage everyone to join the Income Limits Working Group.

I'd also encourage you to reach out to Thomas if you have any questions. I will include his email in the show notes. I'll also include links to the Rent and Income Limit Calculator that Thomas mentioned, as well as a link to the webinar, the conference, the blog post. I'll include a link to joining the Income Limits Working Group. And then, of course, I'll include a link to the Rent and Income Limit estimator. I'd encourage everyone to subscribe to that estimator so as the data is available for 2025, you'll be the first to know of it and how it's affecting the properties that you have under development and that you own and operate.

Now, before we move on to the Off-Mike section of the podcast, I did want to remind our audience to subscribe to our podcast on whatever platform you prefer. And if there's a platform you prefer that we're not on, please let us know that. Send an email to cpas@novoco.com. I also encourage you to share the podcast with your colleagues who may also be interested in some of the many topics that we cover.

Off-Mike Section

So now I did want to turn to our Off-Mike section, and Thomas, you've been asked a baker's dozen, or actually a, I guess a baker's dozen of questions over your previous appearances on the podcast, or I guess a dozen. This is your baker's dozen. So I thought I'd give you a, a different question, or really not even a question, I'd give you an opportunity if you had anyone you wanted to give a shout out to who's done, who's made great contributions to the field of affordable housing.

[00:39:47] **Thomas Stagg, CPA:** Yeah, so I think just in line with what we talked about today, I do want to give a shout out to HUD. It's been great working with HUD on these issues over the last couple of years. They've been, I feel like they've been very transparent. They released the notice in January outlining how they were going to do the cap, outline the ceiling, giving industry time to discuss it and comment on it and think about it before they became effective.

We didn't find out about it when we were reading the HUD income limit briefing notice, right? And they've been very willing to join the working group and to listen to our comments and feedback. And in fact, on the working group, they've been alluded to a discussion we had on the working group that they were considering.

And so it's just been great working with this iteration of HUD. Every iteration with HUD has been great, but this iteration especially has been very transparent and viewing it as a partnership and helping understand, us helping them understand the issues we're facing and then helping us understand their thought process.

So my shout out is to HUD today, especially Adam and Kurt at HUD.

[00:40:54] **Michael Novogradac, CPA:** Thank you for that. I'll echo that shout out. And I really appreciate the work that they're doing to create predictability here. Predictability is important, when you're out there developing and operating rental real estate financed by tax credits, being able to predict your income stream is very important and there have to be changes and the rest along the way, but you know, the more predictable they are and the more advanced information that we have, the better for all parties. So my thanks to HUD as well.

Thomas, thank you again for your baker's dozen podcast appearance. I look forward to number 14.

[00:41:36] **Thomas Stagg, CPA:** All right. Me too, Mike.

[00:41:39] **Michael Novogradac, CPA:** I'm Mike Novogradac. Thanks for listening.

Additional Resources

Email

Thomas Stagg

Tools

Rent and Income Limits Estimator©

Free Rent and Income Limits Calculator©

Webinar

Novogradac 2024 HUD Rent and Income Limits and Outlook for 2025 Webinar

Conference

Novogradac 2024 Affordable Housing Conference

Working Group

Income Limits Working Group

Blog Posts

California Institutes LIHTC Rent Increase Cap

2024 Income Limits: A Closer Look