So You Want to be a LIHTC Developer: Operating Expenses and Income

In this installment of the "So You Want to be a LIHTC Developer" series, Michael Novogradac, CPA, is joined by Novogradac partner Blair Kincer and Novogradac principal Kelly Gorman to discuss the annual Novogradac LIHTC operating expenses and income report. They discuss overall impressions from the report, which includes a survey of nearly 125,000 units financed by the low-income housing tax credit (LIHTC), then they look at factors for income in 2021, followed by a look at the increase in property insurance and repairs and maintenance expenses and the drop in payroll expenses in 2021.

Summaries of each topic:

Transcript

Introduction

[00:00:10] **Michael J. Novogradac, CPA:** Hello, I'm Michael Novogradac, and this is Tax Credit Tuesday. This is the November 29th, 2022, podcast.

This week's episode is another installment for our ongoing "So You Want to Be a LIHTC Developer" series. We launched this series to help real estate developers improve their understanding of the low-income housing tax credit, which is currently responsible for the vast majority of affordable housing built and renovated in the United States. This ongoing series is specifically designed for developers who are interested in learning how to access low-income housing tax credit financing to build or renovate affordable rental housing. Each episode goes into depth in a particular aspect of the development, financing and operation of low-income housing tax credit properties.

While this is designed for those new to housing tax credit development, we believe they are not the only audience that can benefit from listening to this series. We're confident that each episode will include some tidbits that will be of use to even the most experienced housing tax credit stakeholder. If you don't learn something new, at a minimum, you may be reminded of something you forgot. We're confident listening to each episode will be of value.

In our first episode of the series, we discussed the importance of location and local market conditions when assessing the financial visibility of a low-income housing tax credit development. A follow-up episode focused on the importance of accurately calculating tax credit basis, and the role of final cost certifications. Today's podcast deals with another fundamental underwriting matter that must be addressed to assess the financial feasibility of a low-income housing tax credit property. Today's podcast will address benchmarking annual operating income and expenses for tax credit financial housing properties. This podcast coincides with our recent release of Novogradac's annual operating expenses and income special report. The 2022 Low-Income Housing Tax Credit Operating Expenses and Income Report is available now. This report provides an in-depth look at operating expenses and income of housing tax credit properties. The analysis is based on a property database that includes 125,000 tax credit units tracked by Novogradac. The report includes operating data through the end of last year, calendar year 2021. The report breaks down operating expenses into categories such as utilities, repairs and maintenance, payroll and the like. The report also compares and contrasts annual per-unit income and expenses of different types of properties, such as properties serving families versus seniors. Comparisons of high-rise, mid-rise and low-rise are also included along with other property type comparisons. Now, beyond categories of cost and property types, the report also compares and contrasts properties based on geography such as different states and regions, as well as metropolitan and nonmetropolitan areas.

Now, there is a notable change in the calculation of operating expenses in this year's report. Real estate taxes have been removed from operating expense comparisons. We made this change because the manner in which property taxes are determined can vary widely across the country, within states, and even within local communities. As a consequence, we found that the wide variation in property tax expense across properties distorts aggregated data. Now also, this year's report does include a deeper look at rental income and net operating income across a variety of property types. Beyond looking at cost and income categories on a per-unit basis and across property types and based on geography for given year, the report also provides historical data on annual increases or decreases in operating expenses and income. Now we'll get into the details later, but the high-level takeaway from the report are that operating expenses sans real estate taxes increased by 4.3% in 2021. That's 4.3% higher in 2021 versus 2020. Income saw just a 0.8% increase, although that increase in income was still enough to set a record for the nominal per-unit income amount. Of course, the 2021 expense and income figures were greatly influenced by the ongoing COVID-19 pandemic. Our report does examine how the pandemic affected different types of expenses and income, and also includes analysis as to whether these trends will continue going forward.

My guests today are key contributors to the report, Blair Kincer and Kelly Gorman. Blair is my partner in our metro Washington, D.C., office, in our government consulting evaluation advisory services group or Go-Val. Blair works in market analysis and appraisal for a variety of property types, including low-income housing tax credit developments. He's been a guest on the podcast several times before and always brings an understanding of the issues involved and experience in the field. He is the lead author of the Operating Expenses and Income Report. Kelly is a principal at Novogradac's Clark, New Jersey, office, and she also works in valuation. Kelly has vast experience performing appraisals, market studies, written studies and consulting services, making her an expert on the subject of operating expenses and income, and she is a contributing editor to the report.

We're going to break down today's topic into three parts, and then we'll dive deeper into each one. We'll start by discussing that operating income, both in the recent term and longer. Then we'll talk about the elements of net operating income. That would be, of course, rental income and operating expenses. We think you'll find today's podcast informative and expect that you'll want to get a copy of the report. I will provide a link to purchase the report in today's show notes. There's a lot to talk about concerning income and expenses. So if you're ready, let's get started.

Blair and Kelly, welcome to Tax Credit Tuesday.

[00:06:20] **Kelly Gorman:** Thanks, Mike. Happy to be here.

[00:06:22] **Blair Kincer, MAI, CRE:** Thanks, Mike. It's good to be here.

[00:06:25] **Michael J. Novogradac, CPA:** So let's start a discussion with overarching observations. So I'll ask you, Blair, first, what do you take away from the report at a really high level before we dig down into some of the details?

Every year, we step into this thinking what is it going to tell us? This year, I expected revenue growth to be stunted. Turns out that was true. We did expect some expense categories to show some significant growth and that turns out to be true. I was a bit surprised by some of the increases that continued from previous years just kept pushing up and up. I was also surprised by some increases that we didn't see. So it was a little bit of what we expected and a little bit of a surprise.

[00:07:11] **Michael J. Novogradac, CPA:** Yeah, always a good reason to be doing this work to confirm what you maybe thought was true, but also to point out what you weren't expecting. So Kelly, what would you add to your overarching observations about the report?

[00:07:27] **Kelly Gorman:** Well, we've seen a lot of volatility in the last two years in the report. We look at year-over-year change and the compounded annual growth rate. Many investors prefer the compounded annual growth rate because it smooths out the volatility that we see year over year. This year, we saw that rental income increased only 0.8% year over year and that's down the two prior years. The compound annual growth rate over the timeframe that we've been doing this report is 1.9%. Expenses increased 4.3%, and the year-over-year is in the historic range, but the compound annual growth rate is 3.2%. So the very slight increase in income, coupled with the larger increase in expenses resulted in an overall declining NOI this year. When you break down the income and the expenses, it's clear that COVID is to blame for many of the anomalies. However, as we will discuss later, inflation also begins to be a factor on the expense side in 2021.

Operating Income Observations

[00:08:32] **Michael J. Novogradac, CPA:** So thank you for that, Kelly. And as I noted in the intro, I wanted to start with net operating income and then break down the two aspects of net operating income: income and expenses in a moment. But Blair, what did you see with respect to that operating income other than the fact that it declined year over year, as Kelly just noted?

[00:08:55] **Blair Kincer, MAI, CRE:** So net operating income, the product of around $10,000 per unit in revenue, minus around $6,000 in expenses, give us, gives us $4,000 of per-unit net operating income. Obviously, we talked about that is growth, however, it's very minimal in terms of the revenue creating the loss in net operating income. However, over the previous five years, which is the tail end of that mature economic expansion that we remember, plus, then of course the pandemic, rental income outpaced expenses, yielding greater growth in net operating income. if we look even further back, going back to 2010, that would include the modest income growth coming out of the Great Recession. I want to remind everyone that there's a three-year delay in the AMI growth, which may impact our revenue indications and AMI growth started out as minimal during that period, but gained steam as recovery matured.

[00:09:53] **Michael J. Novogradac, CPA:** I appreciate those observations because as we were talking about this podcast and preparing, we were discussing how it's been an odd 10 or 11 years. And when I think about before the Great Recession, there was a sense of normalcy and then we had the Great Recession, which as you noted, you get the '08, '09 Great Recession with the three-year lag and how the area median income numbers are released, they end up having an impact until 2012, 2013, in terms of the area median income levels, which determine what your rent growth can be for most properties. So maybe from '13 until 2019, you have what I would've thought would've been a little more normalized period, and then you get into the pandemic. So it's been a bit rocky and hopefully the notion of having that smaller time period in between some pretty notable events, a Great Recession and a pandemic, that'll be the exception and we'll be heading towards a path of more normalized experience. But let's unpack a little bit more.

We talked about net operating income. We've talked about over the last 12 years these different periods that have led to a bit of volatility during the Great Recession and during the pandemic. But when we look at the individual components of net operating income, we obviously start with the income side, so maybe Kelly, you could talk about what the report says about income growth in 2021 and what some of the drivers of the maybe lack of notable income growth.

Income Growth in 2021

[00:11:35] **Kelly Gorman:** Sure. Working at Novogradac, the question that I get asked is what will happen with tax credit rents next year. Folks, including clients and nonclients, they rely on our rent and limit calculator and our estimator, and they want to know what will happen in the following year. In fact, my favorite webinar and the one that I recommend the most to my clients is the webinar that Thomas Stagg puts together every April about the new rent and income limits. I know you and Thomas also had a podcast in, I think it was October 4th, discussing the results of the ACS survey and what you think will happen in 2023. So many in the industry assume the properties can charge the max rents, but sometimes the max rent is above what the market can bear a nd sometimes it's also above what might be permitted by state and local areas. Beginning in 2020, many state and local areas had moratoriums on rent increases and also on evictions. So the result was that tenants could not be evicted and there was an increase in non-payment. Rents were also limited due to the added state and local COVID restrictions and then of course there are some benevolent property owners and developers that didn't want to have rent increases during the pandemic. Looking at the numbers, our report saw that the rental income increased 0.8% over 2020. The compound annual growth rate is 1.9%. So 0.8% is low. Like Blair said, we generally saw strong revenue growth after 2015, and then it was weaker in the early 2010s.

Looking at vacancy, vacancy almost leveled off from 2019 to 2020 with a loss of $246 and $248 a unit in 2019 and 2020. But then it spiked to $346 a unit, our highest ever, in 2021. So the increase in vacancy, AMI also had an impact on revenue. I'll discuss vacancy in more detail later, but the good news for property owners is that we don't expect that the low revenue and the high vacancy numbers will continue for 2022. We know that this April, the new rent income limits came out and over 95.7% of counties in the nation experienced an increase in AMI. I believe the average increase in AMI was around 12%. Again, in some markets, the max rents increased so much that they were beyond what the market convey and so properties may not have experienced that sort of increase. I don't wanna go into too much detail here though, because I know that Blair has more to say on this topic also.

[00:14:16] **Michael J. Novogradac, CPA:** Go ahead, Blair, please expand.

[00:14:20] **Blair Kincer, MAI, CRE:** So, it's been really interesting. This program, or the tax credit has seen four recessions and one thing that we are constantly doing is revisiting the data and trying to learn what has happened with the properties as we go through these recessions. Some things, I am constantly reminding myself that there is this AMI lag, reminding myself that the AMI data that I'm seeing in whatever year it is is going to be three years old. So that reminder tells me that I need to be patient to watch the economics articulate through the AMI. The other thing to keep in mind, AMI does not equal the MTSP. The HUD sausage grinder produces many different levels of high housing costs, the hold-harmless all affect the max rent that a property can achieve. I think the strong rent growth that we've seen in the late teens and early twenties also means, as Kelly alluded to, max rents are the max, but they're not necessarily achievable. However, with this strong rent growth from the market side driving market rents, many properties have been able to increase more and more to, max. I think the final thing that I think about when I look forward is the volatility. There's, in my mind, there's three types of volatility affecting the max rents that we would expect and the achievable rents that we expect. The first is actual income. The changing economy the significant shock that the economy went through. Plus, there's some structural changes to the economy. Job changes, some jobs disappearing while others are seeing impacts to income that underlying data or that underlying reality will affect AMI. Also the simple fact that the data's is messy. 2020 was a difficult year for the census to collect data, that means that the data may not be as reliable in that year. The good news is we see in the 2021 ACS much more predictable results and that gives us confidence in that year. However, that data still is a bit messy for 2020. The final point of volatility is the actual formula has changed and could change. We know that the 2020 data is going to need to be accommodated in 2023. We're not quite sure exactly how that will be happening yet, but it will be accommodated. Then the news out of 2022 was we have a new max calculation. That's a change. So the predictability is Thomas, Stagg's efforts this every year and he is quick to caution these equations change, so that produces some volatility. That said, rents receipts were exceptionally strong in 2018 and 2019 and even into 2020 as the pandemic hit us. I optimistically expect that property landlords are going to be able to see their N.I. return to growth after this current period of uncertainty based on experience coming into the pandemic, recession and our current situation.

[00:17:31] **Michael J. Novogradac, CPA:** So thank you for those additions, Blair and I will emphasize we have you talked on this podcast quite a bit over the last number of months that as you noted, the 2020 American Census Survey data is statistically not significant enough to be able to rely on, so HUD will have to come up with a new manner potentially, or a new manner or revert back to an old manner, but HUD won't be able to use the traditional approach to calculating the income limits for next year. And Thomas Stagg does lead the Novogradac Income Limits Working Group, which has made suggestions to HUD as to how to determine the income limits in 2023, given the fact that there's this gap in the census data for 2020. And I think as we mentioned in the past, if they don't come up with a new methodology, they would use the average of the last five years, which could lead to results that would limit income increases for a large number of tax credit properties might otherwise be the case. And we're suggesting that one approach HUD should consider is just taking the 2021 data and the 2019 data, just averaging the two and using that for 2020, which seems like a logical approach, but you also pointed out that the cap changed and this year, the cap in terms of how much higher rents could go. That cap did change. And as Kelly noted, that ended up being roughly 12%, slightly less than 12%, if I remember correctly, which does mean that there are large number of areas that had almost like a built-in additional increase in the following year, subject to how area median incomes operate in that area.

But let's move away from incomes for a moment and pivot to expenses, look at the expense side of the ledger, and as I noted in the intro, and as I think Kelly already noted also, operating expenses increased 4.3%. I'm stuttering just because it seems like a notable percentage increase, although not the largest increase we've seen in a year over year in the study. It can be a little bitvariable in the course of a number of years, but 4.3% is a large increase. Even though I say it's a large increase, now here we are in the midst of inflation. So even now, 4.3% maybe doesn't seem like such a large increase when we have top-line inflation numbers at the 8-plus percent level. So Blair, please unpack the increase of operating expenses of 4.3% in 2021 and feel free to make predictions about 2022.

[00:20:20] **Blair Kincer, MAI, CRE:** Predictions for 2022 will be fraught with peril. But, I think the word that keeps coming to mind is inflation. 4.3 is a big number. There's no arguing that honestly, offsetting that against year over year, inflation of sixes and eights that we see, I thought, well, why isn't it higher? But then I had to jump into the data a little bit and remind myself that really inflation kicked in mid-year 2021. So, we spent the early part of the year spending, the property spent money on buying replacement parts of refrigerators and such, and they didn't buy those things in that same inflationary environment. So that inflation didn't really kick in until mid-year. The other thing to think about in terms of inflation is inflation doesn't affect all things in the same way. The more I read about inflation, the more I understand that inflation in the price of things is much more quick to be experienced than say, wage growth or in services. So when we look at one category versus another, payroll versus repairs and maintenance, which we'll talk about in a little bit, you're going to see different impacts because of inflation. Energy, for example. Energy was actually in a deflationary period early in 2021. And as the economy was recovering from as the world's economy was recovering from the COVID crisis, we started to see inflationary impacts in terms of energy as it became much more in demand. The prices were going up. So I think that the watchword from 2021 and that 4.3% is without a doubt inflation. Obviously, the specific impacts of managing a property during a COVID crisis also impacted specific levels or specific expense category levels.

[00:22:17] **Michael J. Novogradac, CPA:** It also, in some ways, it validated a lot of what we wrote about the effects of inflation on low-income housing tax credit properties. because, as we noted in a prior article, a Washington Wire, that income is slow to respond to inflation for tax credit properties in particular because the rent limits are based upon wage income from three years ago. There's an interesting interaction between old wage data but high inflation and the wage data is accreted forward based upon CPI. So, Thomas Stagg's work in estimating income levels through our estimator service, along with his work on income and its working group is a little bit more challenging in a higher inflationary time, particularly since in part they look to the Congressional Budget Office to estimate what inflation is. But the whole impact of inflation is slower on the rental side of tax credit properties. And then the expense side, as you were noting, if the report is showing is how some expenses respond to inflation much more rapidly than others. I did want to, since I did mention Thomas and all of his work on income limits and such, that he was on the podcast a year ago and a year ago when he was discussing the income limits, and this wasn't the, this is not the 2022 limits that were quite substantial that came out six-plus months ago, eight months ago now. If you go back 20 months ago, Thomas was on the podcast and he was reviewing the income limits in 2021 and that would be the 2021 increase over 2020. And on the podcast, he had noted that nonmetro counties averaged about a 0.7% increase and metropolitan areas had about a 1.53% increase. And more notably, he noted that 65% of the country had an increase of 2.9%, on average. And bearing in mind that if an area had a decrease because of the hold harmless, you would be zero, so you wouldn't go below. You can't have a little bit of loss revenue because utility allowance is going up. But when you see this 65% of the country at 2.9%, you see metropolitan areas at 1.53% nonmetropolitan at 0.7. The 0.8% increase in rental income in 2021 seems like it's not reflecting what the reality was in terms of area median incomes increasing. How do you explain those differences? Maybe I'll ask that to you, Kelly.

[00:25:08] **Kelly Gorman:** Yeah, I think it was due to the moratoriums on the rent increases and then the state and local areas limiting those rents. And also developers that didn't want to increase the rents too much and possibly drive away tenants during an uncertain time. Then there were also moratoriums on evictions and so developers were not able to evict nonpaying tenants. And there was a lot of, when I've been at properties and I've spoken to property managers, there was a lot of nonpayment as well. And some of that was significant for a small handful of tenants at some of the properties. I also think when you're looking at income, that vacancy was a factor. We haven't seen an increase this large since we've begun tracking the data. I think one reason that the vacancy was so high was due to the greater number of force turnovers due to evictions, which didn't occur in 2020, but it could start to happen in 2021. When you see tax credit tenants turnover and compare it to market-rate tenants, turnover is generally low. Not only are there very few affordable housing options, but moving is expensive and they generally don't have the extra money to do a move. Blair and I did this, we did a blog in November 2020 about the urban exodus in New York due to the pandemic. And in the blog, we referenced a study that was done, which tracked cell phone use during the pandemic and it saw that it was the wealthiest neighborhoods that emptied out. They were the ones that were able to afford it, but the lower-income neighborhoods could not move as they couldn't afford it. I heard the same thing about the San Francisco area, but didn't see as much data on that as we saw for New York. So, we did the blog on New York. Property managers have told me that they generally see a spike in moveouts around tax time, and that's because tax credit households often get an earned income tax credit and they get a refund of several thousand dollars around tax time, and that gives them the money that they need to make a move. But the American Rescue Plan funds began to be distributed in 2021, and it's likely that gave renters the financial boost that they needed to save up for a move and what resulted was an unprecedented amount of turnover and vacancy in 2021. So we think that also impacted revenue numbers in our report.

[00:27:40] **Michael J. Novogradac, CPA:** Yeah. Thank you for that, Kelly. Blair, any thoughts on explaining the difference between the 0.8% and what properties were able to charge if they could maximize their rents?

[00:27:54] **Blair Kincer, MAI, CRE:** Yeah, I'll continue down the path you mentioned about the lags caused between revenue seeming to lag expenses. In terms of the opportunity for growth and one more example I'll give, now this example is from 2022, but it's relevant to this topic. Rents when the AMI was released and the max rents were increased in April and we all cognitively understood, oh, now rents can go up 11%, 12%, 11% or whatever. They can go up. Missouri for example, requires properties to ask for permission to increase tenant's rents at their tax credit properties. That request isn't processed until October. So we're talking about one more lag on top of these other lags that we've mentioned. I had an underwriter actually say to us, well, the properties in the local market aren't achieving max rents. You're suggesting that maybe this new property could achieve max rent in your market study, but how can you say that because the existing properties aren't? My response was because they hadn't even been given a chance to achieve that rent when I did the market study in September. So that lag is real. And that lag is one more lag on top of the other lags that you mentioned previously.

Property Insurance Increase

[00:29:12] **Michael J. Novogradac, CPA:** No, thank you for that. So much of the special report is focused on expenses by various categories, and each of you have written blog posts about various categories that were significant in 2021. One of the highlights from the report is the continuing increase in property insurance. Kelly, please share some detail with listeners about the level of the increase in property insurance and any thoughts you have on why property insurance is increasing so rapidly.

[00:29:47] **Kelly Gorman:** Sure. To give some context, insurance is a relatively small part of the total expenses. We totaled up the expenses over the years and when we broke it down, insurance comprised about 7% of the total expense. Again, we included real estate tax from this analysis. Payroll was the highest, that was 28%. Repairs and maintenance was 17%. If you add in operating expense, which is contract expense, trash, exterminating, that type of thing, the repair, maintenance and operating goes to 23%. Utilities is 18%. Administration is 14%. Management fee is 11%, and insurance is the smallest at 7%. Yet that's the category that saw the largest increase. And that's why I thought that the trend with insurance was so interesting. As I mentioned, there's a lot of volatility over the last couple of years and I attribute that to COVID and inflation. But insurance was increasing for different reasons. Across all of the properties in the data set, property insurance had a year-over-year increase of 33.5%. In 2021, the increase in property insurance was the largest among all expense categories in terms of dollar value in 2021 at $129 per unit. There are many reasons for the increase. We know that climate-related catastrophes are increasing. FEMA has redrawn flood maps. Social inflation is also a factor. That's a term specific to the insurance industry, it describes the rising costs of insurance claims above and beyond what can be explained by the overall inflation rate. Policies are also covering less, and as a result, carriers are leaving the market. 2021 insurance costs were tied to what happened in 2020 and prior years. In the news, we saw in 2021 that there was a deep freeze in Texas. There was that Surfside, Florida, condominium collapse and all of these catastrophes eat up insurance capacity. And what happens is providers drop out of the market. So due to the large increase in insurance, owners really will need to shop around and try and find the best policies that they can, but that will be harder with fewer providers. So they're going to need to have some smart risk-management policies to minimize the need for claims going forward.

[00:32:15] **Michael J. Novogradac, CPA:** Thank you for that, Kelly. I did want to touch on another major category of expenses that saw a big increase. Not a 30%-plus increase, but still a notable increase at 13.2% year over year, and that was repairs and maintenance. Now certainly some of that increase could be attributable to work that was put off from 2020 to 2021 because of the pandemic, but I'm sure it's not the only factor. Blair, what are your thoughts in terms of what was driving the increase in repairs and maintenance expense?

Repairs and Maintenance Expenses

[00:32:50] **Blair Kincer, MAI, CRE:** I agree. It is partially a pandemic- related issue. However, I also think it's maybe even more significantly related to inflation. Again, referencing my point about inflation affects the price of things, of stuff first, before it impacts services or impacts wages. Repairs is a category that has a lot of things in it. The appliance repair, the painting, lumber are all almost headline words that we have seen in the discussion of inflation over the past year and a half. These all are witnessed in repairs and maintenance, which is a heavy user of things versus services and versus wage.

[00:33:31] **Michael J. Novogradac, CPA:** So thank you for those insights. So we've talked a lot about inflation and the impact of inflation on expenses. We've talked about the average expenses going up 4.3% and given the effects of inflation in 2021, many would've expected all cost categories to increase, but in fact, we did not see increases in every expense category. And one category that may actually be of a particular surprise to some of our listeners is per-unit payroll expenses actually dropped in 2021 versus 2020. Kelly, if you could unpack what you noticed and what you think was driving the decrease in payroll expense.

Payroll Changes in 2021

[00:34:16] **Kelly Gorman:** Yeah, that, that was interesting. Payroll is the largest expense category. It was steadily increasing every year until 2021, when it dropped for the first time with a decrease of 1.9%. We think there's several reasons for it. There was some consolidating of staff roles. there was also an inability to fill positions. There was a worker shortage. They were also intentionally limiting office staff and using new like techniques, new softwares. There's new leasing and document management software, which cut down on the need for staffing. It's also interesting, I wanted to mention I had a stint in asset management and when we had positions we could not fill, particularly in maintenance, we would contract out, which meant that expense, which was normally a payroll expense, would now show up in a different category, as a contract expense. So this year we saw payroll go down and then the repair and maintenance and operating were up. So that low payroll could have also been offset by the higher repair, maintenance and operating expense.

[00:35:23] **Michael J. Novogradac, CPA:** That's a good point about the payroll shifting in the repairs and maintenance through contract expense. So that's a good observation. Blair, anything to add?

[00:35:36] **Blair Kincer, MAI, CRE:** I'll just reiterate the issue of the number of hires that a property can have. All the property inspections that we do, you're constantly walking around with the maintenance supervisor or the property manager. It is so common for them to say, oh, we're so understaffed. The simple fact that they can't hire means there's less people to have on your payroll. It doesn't mean that they're not trying to run to property appropriately. It's just means they can't hire people. It's one of those kind of conundrums where because the staff is fundamentally, staffing of a property is fundamentally based on the number of units, very rarely do you find a property overstaffed because they simply hire to what they need, and then when they can't hire, they're going to be understaffed. So that issue just seems to jump out at me on a lot of inspections.

[00:36:30] **Michael J. Novogradac, CPA:** Thank you for those observations, those additions, Blair, and thank you Blair, thank you Kelly for joining me today. We've discussed a lot of the key takeaways from the operating income and expense report. That said, there's a whole lot more in the report than we've had a chance to discuss, and as I mentioned in the intro, we will have a link in the show notes so our listeners can purchase the report. But before we do wrap up, I wanted to see, Blair, if you and Kelly had anything additional, anything more you wanted to say before we go to our Off-Mike section.

[00:37:03] **Kelly Gorman:** I wanted to ask a question. Recently, the producer price index decreased in October and some suggest that inflation is beginning to curb. We've talked a little bit about inflation today and some clients are asking what we expect to happen with inflation over the next six months to a year. So Mike and Blair, I'm curious if you have any thoughts and you're willing to share your opinion on that?

[00:37:32] **Michael J. Novogradac, CPA:** Feel free to wade right in, Blair.

[00:37:35] **Blair Kincer, MAI, CRE:** Goodness, my goodness.

[00:37:37] **Kelly Gorman:** I know there's no crystal ball

[00:37:39] **Blair Kincer, MAI, CRE:** There's not, and, going back to, we've talked about inflation several different ways and several different times during this podcast and even others. Again, I remind myself that we always talk about year over year and we're always thinking in calendar-year discussions and I think last year we talked about how half the year looked different than the other half. I think we're also looking at that this year. Five out of the first six months we had month-over-month inflation that was higher than 2021. Hence the whole discussion about inflation. But since then, the second half, we've either been lower or equal to the months that have been replaced. So do I look at that optimistically, and think, well, maybe we're in a more moderate period of inflation. The optimist in me definitely thinks that. I think that the numbers would support that. That doesn't mean I don't remain concerned, but I think that is reason for optimism.

[00:38:39] **Michael J. Novogradac, CPA:** And I would just sort of note that the amount of inflation that is going to be reported for the next year is still going to remain high. And both of you have heard me discuss this before that the data that gets reported is year over year. And even if the prices did not rise at all on a month-to-month basis, it would be 12 months before inflation went to zero and I don't think prices are going to stay, I don't think we're in a level-price environment yet. So even a moderate level of inflation, when you look at the top line, year-over-year numbers, they're going to show pretty notable for many months to come. And whether or not we're in a 12-month or 24-month, or how what the new normal will be in terms of a target inflation rate. And the rest, I don't have any big insights to share there. I wish that I did, but I don't. I mean, I will observe that inflation's been a much stickier issue than I originally thought it was going to be because initially I looked at the inflation numbers and said, let's look at over multiple years, not just year over year and we had a deflationary period because of COVID and all the rest, the pandemic and the rest. So the fact that you had periods of comparatively high inflation, if you looked at it over multiple years. It wasn't, nearly as significant measured in that manner, but it's been much more enduring than I thought. And now those multiple-year inflation numbers are beginning to become quite notable, so it's hard to know when it dips back down. I guess I'll ask you, Kelly, since you asked me the question about inflation. How about a recession? Are we in a recession? Are we going into a recession and will it be a long recession?

[00:40:34] **Kelly Gorman:** I think we could be going into a recession and if so, I would hope it would be a short one. I would hope for no recession, but possibly there are some indications that we might be.

[00:40:47] **Michael J. Novogradac, CPA:** So thank you for that. any other comments, Blair?

[00:40:51] **Blair Kincer, MAI, CRE:** None for me.

[00:40:53] **Michael J. Novogradac, CPA:** Any other comments for you, Kelly?

[00:40:55] **Kelly Gorman:** No, thank you. Thanks for having me.

Wrap-up

[00:40:58] **Michael J. Novogradac, CPA:** Well, thanks again to both of you for joining me on the podcast this week. And both of you, please do stick around for the Off-Mike section, where I get to ask each of you some off-topic questions to give readers a little bit more insight on topics not related to operating expenses and income for affordable housing. I will provide email addresses for Blair and Kelly today's show notes in case you want to reach out to them. I'm sure many of you will. And as I noted, I'll have a link to the operating expenses and income report in the show notes as well.

Next week's podcast is also tax credit housing related, and it's particularly timely topic as we approach the beginning of next year. We're going to discuss next week what developers should do to prepare for a successful audit tax season and to help them meet their investor deadlines. My partner Christina Apostolidis from our Naples, Florida, office will join me and we'll discuss what you can do to prepare for those deadlines now so you can help save yourself time, money and stress.

You can make sure that you're notified of next week's episode and each week's episode by following the subscribing to the Tax Credit Tuesday podcast. Go to www.novoco.com/podcast to subscribe to and stream the show on our website. You can also follow or subscribe to Tax Credit Tuesday on iTunes, Spotify, Google podcast, Stitcher, Radio Public and now on YouTube. Please leave a review. It helps other people find the show.

Off-Mike Section

And now we reach our Off-Mike section, where I ask our guests some off-topic advice and words of wisdom. Blair, you've been a guest before, so I'm going to ask the first question of Kelly, so she gets to go first and then you can follow up. My first question, so Kelly, what is one habit you would suggest listeners add to their daily routines to increase productivity?

[00:42:52] **Kelly Gorman:** Well, can I say two?

[00:40:54] **Michael J. Novogradac, CPA:** You could do three if you want.

[00:42:56] **Kelly Gorman:** OK. So, like probably most of you do, I multitask a lot and I keep a list and I check off my list as I go through the day. And it helps kind of keep me on track and I find that really helpful. But then the other thing that I do most days is I do yoga. And yoga really helps with mindfulness. And if you are a person that multitasks, you might not be very mindful sometimes. So I feel like that's really helpful to me just as a reminder to take a deep breath and to reset and to really focus on what is important. So I think both of those things were helpful to me.

[00:43:39] **Michael J. Novogradac, CPA:** Thank you, Kelly. Blair?

[00:43:43] **Blair Kincer, MAI, CRE:** Interesting, because mine will be very similar to Kelly's, because one of the things, and I wish I could take my own advice more often than I do, but one of the things that I've been saying a lot to myself recently is to go slow, to go fast by going slow and I've been trying to not multitask, trying not to have a noisy brain. I've had some various other techniques that I apply, but fundamentally, I've been trying to say to myself, OK, well, your to-do list is very long, but what are the three things that really want to focus on and pausing on those three things and saying, OK, here's my plan for how I'm going to accomplish these three, and to enter that into a little bit more of a slow process, but thinking that it will helping me be more focused and more productive.

[00:44:34] **Michael J. Novogradac, CPA:** Thank you for that, Blair. I'll even say, I'll even add one: sleep

[00:44:40] **Blair Kincer, MAI, CRE:** There you go.

[00:44:42] **Michael J. Novogradac, CPA:** I'm reading a book, "Why We Sleep," by Matthew Walker and if there's any, if you need any reason to make sure you're getting enough sleep, read that book. And there are hundreds of reasons in that book about the importance of sleep and one of them is it can make you much more productive. Which leads to my next question and you cannot use sleep as the answer. What is your most indispensable productivity tool, and why is it so useful?

[00:45:11] **Kelly Gorman:** Should I go? My iPhone I just, I use it all the time.

[00:45:17] **Michael J. Novogradac, CPA:** Blair?

[00:45:18] **Blair Kincer, MAI, CRE:** And I'm going to go the exact opposite direction, a pen and paper that I write a to-do list on. The old fashioned piece of paper with my to-do list on it where I can do the actual physical checking off. I find that helps me be productive. It helps me be focused on accomplishing the most important things.

[00:45:39] **Michael J. Novogradac, CPA:** It's funny with both of your answers, mine's kind of in between the two of yours, and I've talked about this on the podcast before. I'm a big fan of OneNote, and OneNote can go across applications, so I use it on my iPhone, but it also can go over to my laptop and iPad and the rest. And one things like about OneNote is you can put little boxes next to it and check them off. It's also something on my iPad, I'll use it much like pad and paper with the Apple pencil so I can be, it feels a lot more paper-like, and I do have a lot of the appreciation for pen and paper. My problem is I can't always keep track of the pen and paper and the beauty of doing it on an iPad is it's with me no matter what device I have.

So thank you both. Thanks for those productivity tips and ways to be productive every day. And thank you again both for joining me on the podcast.

[00:46:39] **Kelly Gorman:** Thanks.

[00:46:39] **Blair Kincer, MAI, CRE:** Thank you, Mike. Thank you, Kelly.

[00:46:41] **Kelly Gorman:** Thank you.

[00:46:41] **Michael J. Novogradac, CPA:** And to our listeners, thanks for listening.

Additional Resources

Email

Blair Kincer

Kelly Gorman

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