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Low-Income Housing Tax Credit Property Set Rental Income Record in 2021

Novogradac Analysis of Nearly 125,000 LIHTC Units Finds Increase in Operating Expenses–Likely Driven by Inflation

SAN FRANCISCO–Despite hurdles presented by pandemic-related challenges, rental income increased 0.8% in 2021 at properties financed by low-income housing tax credit (LIHTC) equity and tracked by national accounting and consulting enterprise Novogradac, hitting a new record of $9,702 per unit.

The 2021 increase in rental income was offset by a 4.3% increase in LIHTC operating expenses, which led to the first one-year drop in median net operating income (NOI) since 2017 for the properties tracked by Novogradac. However, NOI for those properties shows a 3.8% compounded annual growth rate over five years–and the 2021 figures are likely a result of inflation affecting operating expenses before rental income.

The data comes from the 2022 Novogradac Multifamily Rental Housing Operating Expenses and Income Report: Survey and Analysis of LIHTC Properties. The report includes data from more than 1,200 properties (with more than 125,000 units).

“We saw some challenges for rental income in 2021 due to a tumultuous year that saw an end to many of the COVID-19-related tenant protections, including eviction moratoriums, said Blair Kincer, MAI, CRE, a partner in the metro Washington, D.C., office of Novogradac and principal author of the report. “Further, increased turnover and market factors created concern for collected income for the first time in many years. It is impressive that, given the tumult, that income increased in our survey set in 2021. The increase in maximum allowable rents in April of this year leads us to expect rental income figures to return to the longer-term trend, which helps grow NOI. However, there are also some categories of expenses–particularly property insurance–that merit attention from LIHTC stakeholders.”

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The 2021 data comes from a period when the nation was emerging from the worst of the COVID-19 pandemic and reflects a period of substantial inflation. The increase in expenses was highlighted by a 33.5% year-over-year jump in property insurance expenses and a 13.2% increase in repairs and maintenance expenses. The property insurance expense increase continued a multiyear trend, while the repairs and maintenance increase was at least partly attributable to delayed routine maintenance from 2020, according to the report.

"This analysis informs property managers and owners–as well as lenders and investors–of short- and long-term trends in expenses and income," said Michael J. Novogradac, CPA, managing partner of Novogradac. "For example, this report shows that property insurance expenses increased virtually across the board in 2021 for LIHTC properties, but that the median amount per unit varies greatly, depending on location. Significantly, the report provides a long-term look to help stakeholders see what's happening over a five- or 10-year window and whether changes in 2021 were one-year outliers or part of a trend."

Novogradac Multifamily Rental Housing Operating Expenses and Income Report: Survey and Analysis of LIHTC Properties provides comparisons between different types of LIHTC properties, such as senior versus family tenancy, acquisition-rehabilitation versus new construction developments and small versus large properties. The report also breaks down LIHTC properties by geography and state, as well as by large metropolitan, small metropolitan, micropolitan and nonmetropolitan developments.

Novogradac has been issuing the report since 2014 and data tracks expenses and income since 2010. Novogradac will provide a series of blog posts with further detail on the report and the report will be the subject of the Nov. 29 edition of the Tax Credit Tuesday podcast. Novogradac is also able to benchmark developer, syndicator and investor LIHTC portfolios and individual properties to its database of operating information. To learn how benchmarking can aid in assessing performance and identifying areas of potential improvement, contact Blair Kincer at 240-235-1701.

About Novogradac

Novogradac began operations in 1989 and has grown to more than 700 employees and partners with offices in more than 25 cities. Tax, audit and consulting specialty practice areas for Novogradac include affordable housing, community development, historic rehabilitation and renewable energy.