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Affordable Housing Rental Income, Operating Expenses Jump Sharply in 2019

Novogradac Analysis of Nearly 160,000 LIHTC Units Finds Rental Income, Operating Expenses Grew at 8.5 Percent and 6.8 Percent, Respectively, Over 2018

SAN FRANCISCO–Rental income for low-income housing tax credit (LIHTC) properties rose 8.5 percent in 2019, according to the 2020 Novogradac Multifamily Rental Housing Operating Expense Report. This follows an increase of 4.1 percent in 2018. These two years of substantial rental income growth–after years of lean budgets during and immediately following the Great Recession–allowed for increased spending on operating expenses, in many cases likely allowing LIHTC properties to catch up on previously deferred expenditures. In fact, operating expenses for LIHTC properties saw a substantial year-over-year increase in 2019, growing 6.8 percent over 2018, making it the largest increase in the 10 years that Novogradac has tracked annual operating expenses.

Higher management fees (14.9 percent jump over 2018) and repairs and maintenance expense (12.7 percent) are the main drivers of the 2019 increase. All other expenses grew at 4.0 percent. The double-digit increase in management fees and repairs and maintenance likely reflects compensating for leaner expenditures in previous years. Further, the fact that management fees are tied to revenue means that they will generally move proportionately with income. In 2019, the increase in LIHTC property income may have precipitated the larger than average increase in management fees. Putting the steep 2019 operating expense increase in context, the report finds that while there is some volatility from year to year, operating expenses for LIHTC properties have grown at a compounded annual rate of 3.0 percent from 2010 to 2019.

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“This analysis provides insight and significant details about operating multifamily rental real estate, and it also informs property managers about what to expect in different situations,” said H. Blair Kincer, MAI, CRE, a partner in the metro Washington, D.C., office of Novogradac. “For example, Novogradac’s data shows the increase in expenses in 2019 for repairs and maintenance and in management fees both followed significant increases in the previous year, which could indicate a longer-term trend in those categories after several years of larger than average growth. The other major area of expense growth in 2019 was property insurance, which increased by double-digit percentages (13.3 percent and 10.2 percent) in each of the past two years, perhaps reflecting higher property values and the impact of natural disasters. These findings can help inform planning for developers, investors and property managers.”

Operating expenses for multifamily rental housing properties vary over time as well as by type, location and property size. National, regional and local economic forces affect specific and overall expenses. For example, Novogradac has seen the Western states’ operating expense grow at its fastest rate from 2018-2019, with notable growth in repairs and maintenance, operating, management fee and property insurance. Because of that, Novogradac surveys multifamily rental housing properties–both market rate and those financed with LIHTCs–to track and analyze the factors that contribute to those variations and presents the findings in its annual Multifamily Rental Housing Operating Expense Report. The 2020 report uses data from more than 1,500 properties that include more than 160,000 individual apartment rental homes.

“Each year this report confirms much of the conventional industry wisdom about affordable housing expenses, such as larger LIHTC properties–those with more units–have lower per-unit expenses than smaller properties, due to economies of scale,” said Michael J. Novogradac, CPA, managing partner in the firm’s San Francisco office. “But the findings also help identify shifts in trends over time, making it a great benchmarking tool for LIHTC developers, investors, property managers and others. For example, Novogradac’s data indicates that operating expenses are often lowest in the first few years of a property and then remain relatively stable for two decades before beginning an increase again as LIHTC properties move past 25 years.”

For more details and a copy of the report, go to www.taxcredithousing.com. Novogradac is also able to benchmark developer, syndicator and investor LIHTC portfolios and individual properties to its database of operating results. To learn how benchmarking can aid in assessing performance and identifying areas of potential improvement, contact Blair Kincer at (240) 235-1701.

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