Apartment Valuation Illustration

(Conventional, Section 42- traditional, Section 42- level)

Overview: This is an example of how an Apartment would be appraised based on three different scenarios of Apartments types (Conventional Apartments, Section 42 Apartments with declining tax credit values, and Section 42 Apartments with level tax credit value). All three (3) approaches assume market conditions do not change during the 11 year period. Total value added per the tax credits (over the 11 year period) are the same in both instances. Valuation spreadsheets are included as additional documentation.

The Conventional Apartment Appraisal (Current method for non-subsidized apartment valuation):

This valuation technique applies direct capitalization of the net operating income to derive a value conclusion. Market Rents, market vacancy, market expenses, and market cap rates are utilized to determine the value. The subject property was built in 2010, has 96 units, and a market rent of $961/unit, misc. income of 2%, a market vacancy and collection loss of 5%, market expenses of $3.50/sf and reserves of $250/unit. The market derived cap rate 7.6% includes the effective tax rate.

Income Approach Applied: Conventional

Potential Gross Income (PGI):	($961 x 96 units x 12 months)	=	$1,107,072
Vacancy and Collection Loss (V&C):	(PGI x 5%)	minus	($ 55,353)
Misc. Income: (PGI x 2%)		plus	$ 22,141
Effective Gross Income (EGI):	(PGI – V&C loss + Misc. Income)	=	$1,073,860
Operating Expenses: ($3.50 per sqft + $250/unit reserves)		minus	($ 359,664)
Net Operating Income (NOI):	(EGI – expenses)		$714,196
Cap Rate			7.6%
Indicated Value: (NOI / Cap Rate)		=	**$9,397,300**
Per Unit			**$97,889**

The Section 42 Apartment Appraisal– Declining Credit Valuation **(Current method for section 42 apartments)**:

This valuation technique also applies direct capitalization of the net operating income to derive a value conclusion but also adds the present value of the tax credits awarded to owner to the value. The present value of the tax credits decline over an 11 year period. Restricted rents are utilized in valuation instead of market rents. Market vacancy, market expenses, and market cap rates are utilized to determine the value. This subject property is virtually identical to the conventional apartment in the first example. It was built in 2010, has 96 units, and a restricted rent of $633/unit, misc. income of 2%, a market vacancy and collection loss of 5%, market expenses of $3.50/sf and reserves of $250/units. The market derived cap rate 7.6% includes the effective tax rate. The total value declines as the present value of the tax credits decline over the 11 year period.

Income Approach Applied: Subsidized Restricted Rents + present value of tax credits (declining)

Potential Gross Income (PGI):	($633 x 96 units x 12 months)		=	$ 729,600
Vacancy and Collection Loss (V&C):	(PGI x 5%)	minus		($ 36,480)
Misc. Income: (PGI x 2%)		plus		$ 14,592
Effective Gross Income (EGI): (PGI – V&C loss + Misc. Income)			=	$ 707,712
Operating Expenses: ($3.50 per sqft + $250/unit reserves)		minus		($ 359,664)
Net Operating Income (NOI): (EGI – expenses)			=	$ 348,048
Cap Rate				7.6%
Indicated Value: (NOI / Cap Rate)			=	**$ 4,579,600**

Total Value Year 1: (Present Value Tax Credits $8,683,600 +$4,579,600)	=	$13,263,200
Total Value Year 2: (Present Value Tax Credits $8,541,800 +$4,579,600)	=	$13,121,400
Total Value Year 3: (Present Value Tax Credits $7,816,900 +$4,579,600)	=	$12,396,500
Total Value Year 4: (Present Value Tax Credits $7,055,800 +$4,579,600)	=	$11,635,400
Total Value Year 5: (Present Value Tax Credits $6,256,500 +$4,579,600)	=	$10,836,100
Total Value Year 6: (Present Value Tax Credits $5,436,200 +$4,579,600)	=	$ 9,997,000
Total Value Year 7: (Present Value Tax Credits $4,536,200 +$4,579,600)	=	$ 9,115,800
Total Value Year 8: (Present Value Tax Credits $3,611,100 +$4,579,600)	=	$ 8,190,700
Total Value Year 9: (Present Value Tax Credits $2,639,600 +$4,579,600)	=	$ 7,219,200
Total Value Year 10: (Present Value Tax Credits $1,619,600 +$4,579,600)	=	$ 6,199,200
Total Value Year 11: (Present Value Tax Credits $548,600 +$4,579,600)	=	$ 5,128,200

Total Value added per Tax Credits over the period = $51,570,000

The Section 42 Apartment Appraisal– Level Credit Valuation (Proposed method for section 42 apartments):

This valuation technique also applies direct capitalization of the net operating income to derive a value conclusion but also adds the present value of the tax credits awarded to owner to the value. The value of the tax credits for this example is spread evenly over the 11 year period resulting in stabilized value. Restricted rents are utilized in valuation instead of market rents. Market vacancy, market expenses, and market cap rates are utilized to determine the value. This subject property is virtually identical to the conventional apartment in the first example. It was built in 2010, has 96 units, and a restricted rent of $633/unit, misc. income of 2%, a market vacancy and collection loss of 5%, market expenses of $3.50/sf and reserves of $250/units. The market derived cap rate 7.6% includes the effective tax rate. The total value stays constant over the 11 year period.

Income Approach Applied: Subsidized Restricted Rents + tax credits (leveled)

Potential Gross Income (PGI):	($633 x 96 units x 12 months)		=	$ 729,600
Vacancy and Collection Loss (V&C):	(PGI x 5%)	minus		($ 36,480)
Misc. Income: (PGI x 2%)		plus		$ 14,592
Effective Gross Income (EGI): (PGI – V&C loss + Misc. Income)			=	$ 707,712
Operating Expenses: ($3.50 per sqft + $250/unit reserves)		minus		($ 359,664)
Net Operating Income (NOI): (EGI – expenses)			=	$ 348,048
Cap Rate				7.6%
Indicated Value: (NOI / Cap Rate)			=	**$ 4,579,600**

Total Value Year 1: (Present Value Tax Credits $5,157,000 +$4,579,600) = $ 9,397,300

Total Value Year 2: (Present Value Tax Credits $5,157,000 +$4,579,600) = $ 9,397,300

Total Value Year 3: (Present Value Tax Credits $5,157,000 +$4,579,600) = $ 9,397,300

Total Value Year 4: (Present Value Tax Credits $5,157,000 +$4,579,600) = $ 9,397,300

Total Value Year 5: (Present Value Tax Credits $5,157,000 +$4,579,600) = $ 9,397,300

Total Value Year 6: (Present Value Tax Credits $5,157,000 +$4,579,600) = $ 9,397,300

Total Value Year 7: (Present Value Tax Credits $5,157,000 +$4,579,600) = $ 9,397,300

Total Value Year 8:(Present Value Tax Credits $5,157,000 +$4,579,600) = $ 9,397,300

Total Value Year 9: (Present Value Tax Credits $5,157,000 +$4,579,600) = $ 9,397,300

Total Value Year 10: (Present Value Tax Credits $5,157,000 +$4,579,600) = $ 9,397,300

Total Value Year 11: (Present Value Tax Credits $5,157,000 +$4,579,600) = $ 9,397,300

Total Value added per Tax Credits over the period = $56,727,000

CONVENTIONAL vs. LIHTC APARTMENT VALUATION INPUT DATA

SUBSIDIZED - Section 42 Declining Tax Credit Value vs. Leveled Tax Credit Value

CONVENTIONAL - Based on Market Rate Rental

The example below is based on a single housing complex that is valued using the different approaches listed in this spreadsheets header. The economic data used in this analysis was derived from the 2013 Reappraisal of Cheatham County. Two complexes, Sycamore Place Apartments - A Section 42 property built in 2003, and Vantage Point Apartments - A Conventional property built in 2010, are located side-by-side. Their parcel numbers are 062-013.01 and 062-013.03 respectively. Their average unit size is 999sf/unit and 997sf/unit respectively. This comparison is going to be based on the Sycamore Place Apartments unit breakdowns and overall footage. Syacamore Tax Credits had one year remaining as of 2013. For this analysis, the 2011 THDA new complex average allocation per unit is used. New complex THDA tax credit allocations usually so not begin disbursal until 2 years after their awarding. It usually coincides with the construction date of the improvements. The information used here is taken from Tax Year 2013. The numbers would adjust slightly for Tax Year 2015 but the relationship between these comparable approaches should not .

SUBJECT RENT

SUBSIDIZED				CONVENTIONAL			
APT TYPE	# UNITS	RENT/MO	ANNUALIZED	APT TYPE	# UNITS	RENT/MO	ANNUALIZED
2 BDRM	64	$600	$460,800	2 BDRM	64	$908	$697,344
3 BDRM	32	$700	$268,800	3 BDRM	32	$1,067	$409,728
TOTALS:	96	$633	$729,600	TOTALS:	96	$961	$1,107,072

V & C	MISC INC
5%	2%

CAP RATE	
RERC @ 1st Tier	6.30%
+ETR	1.2975%
OVERALL RATE	7.60%

TAX CREDITS ALLOCATION - $120,000/Unit/Yr (Based on 11 Year Allocation where 1st Year is Not Available for Income Approach)

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
$576,000	$1,152,000	$1,152,000	$1,152,000	$1,152,000	$1,152,000	$1,152,000	$1,152,000	$1,152,000	$1,152,000	$576,000

TAX CREDITS PRESENT VALUE DISCOUNTED AT 5%

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
$8,683,600	$8,541,800	$7,816,900	$7,055,800	$6,256,500	$5,417,400	$4,536,200	$3,611,100	$2,639,600	$1,619,600	$548,600

LEVELED TAX CREDITS PRESENT VALUE

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
$5,157,000	$5,157,000	$5,157,000	$5,157,000	$5,157,000	$5,157,000	$5,157,000	$5,157,000	$5,157,000	$5,157,000	$5,157,000

EXPENSES

LIHTC COMPLEX

IREM @ $3.50/sf +

Reserves @ $250/Unit =

$359,664

CONVENTIONAL COMPLEX

Same as LIHTC

$359,664

CONVENTIONAL vs. LIHTC SECTION 42 APARTMENT VALUATION

LIHTC Declining Tax Credit Analysis

YEAR	PGI	+Misc	-V&C	EGI	-Exp	=NOI	/Cap Rate	Value	+ T.C. Value	=TOTAL VALUE
2014	$729,600	2.0%	5.0%	$707,712	$359,664	$348,048	7.6%	$4,579,600	$8,683,600	$13,263,200
2015	$729,600	2.0%	5.0%	$707,712	$359,664	$348,048	7.6%	$4,579,600	$8,541,800	$13,121,400
2016	$729,600	2.0%	5.0%	$707,712	$359,664	$348,048	7.6%	$4,579,600	$7,816,900	$12,396,500
2017	$729,600	2.0%	5.0%	$707,712	$359,664	$348,048	7.6%	$4,579,600	$7,055,800	$11,635,400
2018	$729,600	2.0%	5.0%	$707,712	$359,664	$348,048	7.6%	$4,579,600	$6,256,500	$10,836,100
2019	$729,600	2.0%	5.0%	$707,712	$359,664	$348,048	7.6%	$4,579,600	$5,417,400	$9,997,000
2020	$729,600	2.0%	5.0%	$707,712	$359,664	$348,048	7.6%	$4,579,600	$4,536,200	$9,115,800
2021	$729,600	2.0%	5.0%	$707,712	$359,664	$348,048	7.6%	$4,579,600	$3,611,100	$8,190,700
2022	$729,600	2.0%	5.0%	$707,712	$359,664	$348,048	7.6%	$4,579,600	$2,639,600	$7,219,200
2023	$729,600	2.0%	5.0%	$707,712	$359,664	$348,048	7.6%	$4,579,600	$1,619,600	$6,199,200
2024	$729,600	2.0%	5.0%	$707,712	$359,664	$348,048	7.6%	$4,579,600	$548,600	$5,128,200

LIHTC Leveled Tax Credit Analysis

YEARS	PGI	+Misc	-V&C	EGI	-Exp	=NOI	/Cap Rate	Value	+ T.C. Value	=TOTAL VALUE
2014-2024	$729,600	2.0%	5.0%	707,712	359,664	348,048	7.6%	$4,579,600	$5,157,000	$9,736,600

CONVENTIONAL HOUSING ANALYSIS

YEARS	PGI	+Misc	-V&C	EGI	-Exp	=NOI	/Cap Rate	Value	+ T.C. Value	=TOTAL VALUE
2014-2024	$1,107,072	2.0%	5.0%	1,073,860	359,664	714,196	7.6%	$9,397,300	$0	$9,397,300

The Tax Credits in this analysis are estimated to be disbursed over an 11 year period. This is consistant with most LIHTC Section 42 complexes. The Appraisal Date for Property Tax purposes is January 1st. That date is also used for Income Tax purposes. The first year's Tax Credit is often prorated to that date because Tax Credits are far more likely to sell at a point in the year other than January 1st. This Income Approach Analysis covers the 11 year disbursal schedule. The first and last tax credit added together are equal to the nine years in between.