Miller Village Apartments, Kingsport (Sullivan County)

153 Units- built in 1973; All Units are Covered by Project Based Section 8 Housing Assistance Payments (HAP) Contract that pays <u>Market Rents</u>.

- Purchased in 2011 by Lawler Wood Housing for $3,695,741.21 ($24,155 per unit).
- Annual Gross Potential Rents paid by HUD under the HAP Contract prior to LIHTC Rehab were $966,384 ($526 per unit per month average) based on comparable market rents adjusted for age and condition.
- Tax appraisal first updated post-purchase/post-rehab in 2012 for $3,788,900 ($24,764 per unit).

<u>Miller Village Photos Pre-LIHTC Rehab</u>


- In late 2011, Lawler Wood Housing awarded $1,024,774 in annual LIHTC to acquire & rehab this property. Rehab costs totaled $6,464,745 ($42,250 per unit). All existing amenities and systems were updated and a new community building and leasing office was constructed.
- Annual Gross Potential Rents after LIHTC Rehab (after LIHTC Use Restriction was recorded) <u>were increased</u> by HUD for a market-derived rent adjustment to $1,172,340 ($639 per unit per month average) based on comparable market rents adjusted for improved condition. This was a 21% rent increase after becoming a LIHTC restricted property. The maximum LIHTC rents in Sullivan County at this time were $598 for this bedroom mix. Miller Village rents therefore are 107% of LIHTC limits.
- Tax appraisal updated in 2014 to take into consideration LIHTC, increased to $10,612,600 ($69,363 per unit). This was a 280% increase in value.

<u>Miller Village Photos Post-LIHTC Rehab</u>


Issues Concerning Proposed Rules/Spring Hill Methodology:

- What is restricted use component of rent? HUD HAP contract paid market rents before the award of LIHTC and updated market rents after the award of LIHTC (adjusted for condition and amenities). No incremental restriction of rents that accompany the use restrictions imposed by the LIHTC. In fact, Miller Village rents exceed LIHTC maximum permissible rents for this county. Property serves same tenants, who already were only qualified to live there by virtue of their low income status. Needy tenant contribution toward Gross Potential Rent (pre and post rehab) is, and remains roughly 15% of the total collected rents (about $80 per unit per month paid on average).
- LIHTC proceeds were used to acquire and rehabilitate an existing affordable rental property. Property existed as affordable rental housing before award of LIHTC. Rehab consisted of replacement/upkeep of existing amenities and systems and the installation of current code-compliant life safety systems (sprinkler system/fire alarm system). No new rental units created, but all 153 existing rental units that were nearing end of their useful life were modernized and preserved for another 30+ years.
- At the Governor's Housing Summit Panel- the DPA official used the example of this valuation concept trying to capture the concept of a $10,000,000 project that would have been completed with rents that only support a $6,000,000 project- with the differential between the two being effectively the LIHTC benefit that has to be valued. In this case, the rents were and remain at market- with a <u>21% increase</u> in annual rent as a result of the LIHTC-funded rehab representing the market rent potential of the improved asset. The LIHTC resource was used to preserve the value of the asset as the effects of time and usage took their tolls on the ongoing viability of the property. Effectively, LIHTC used to prevent the existing asset from depreciating further in value.
- We believe the benefit of the LIHTC is reflected in the higher rents we receive by virtue of having performed this LIHTC-funded rehab. No differential between Miller Village rents and comparable market rents. Why not on this type of LIHTC property simply use the income method of valuation in recognition that the value of the credit is already imbedded in the new market rents?* (there is no "restricted use component" of rent)

* Data from FY 2014 Audited Financial Statements:

Net Operating Income:	$390,514
Add-Back Property Tax:	$121,976 (May 2014 re-appraisal)
Adjusted Net Operating Income:	$512,490
"Loaded" Cap Rate:	10.5%
Resultant Post Rehab Value:	$4,880,000 (29% increase from 2011 post-purchase reappraisal)