

Net Leased and Low Income Housing Tax Credit Properties

- 2021 AAP Virtual Conference -



SAMMARTINO, STOUT & LO PRESTI

REAL ESTATE ANALYSTS, APPRAISERS & CONSULTANTS

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Introduction

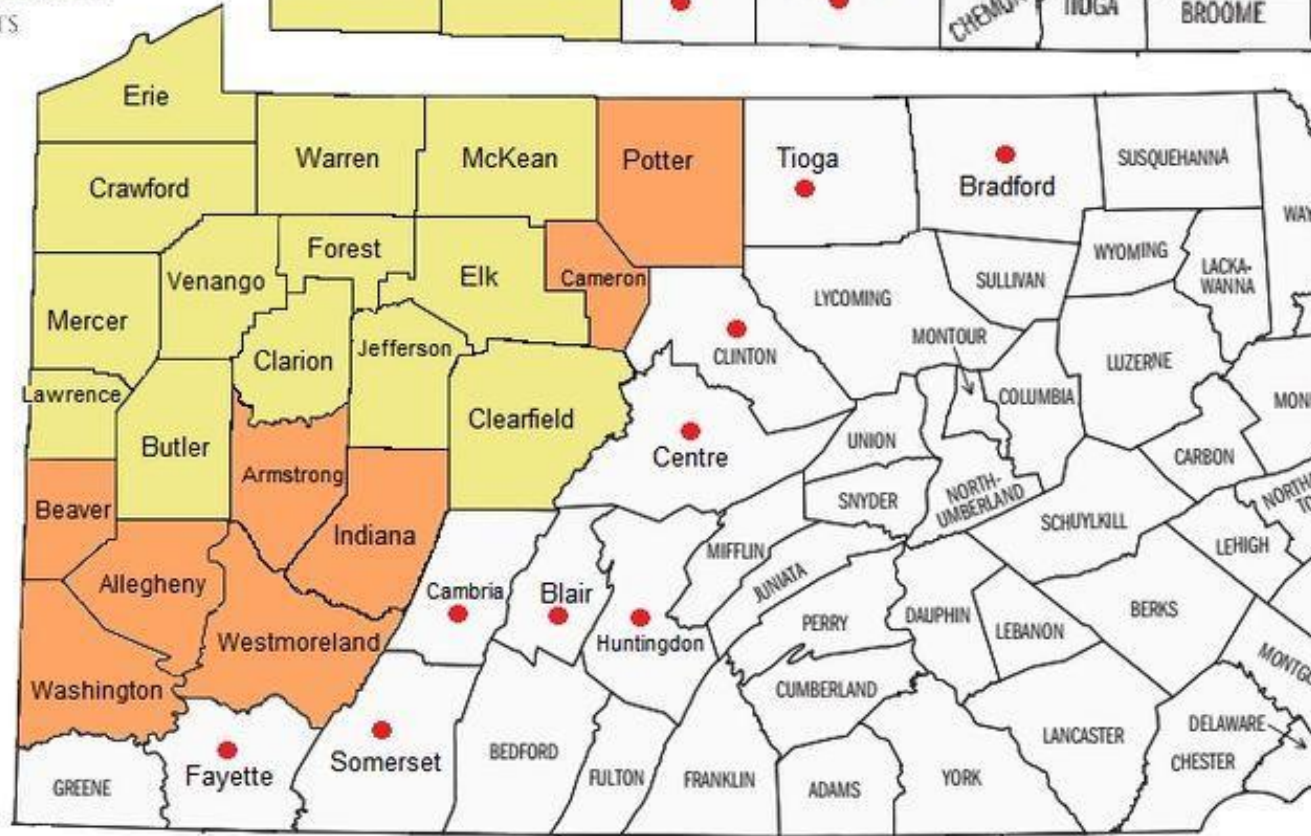
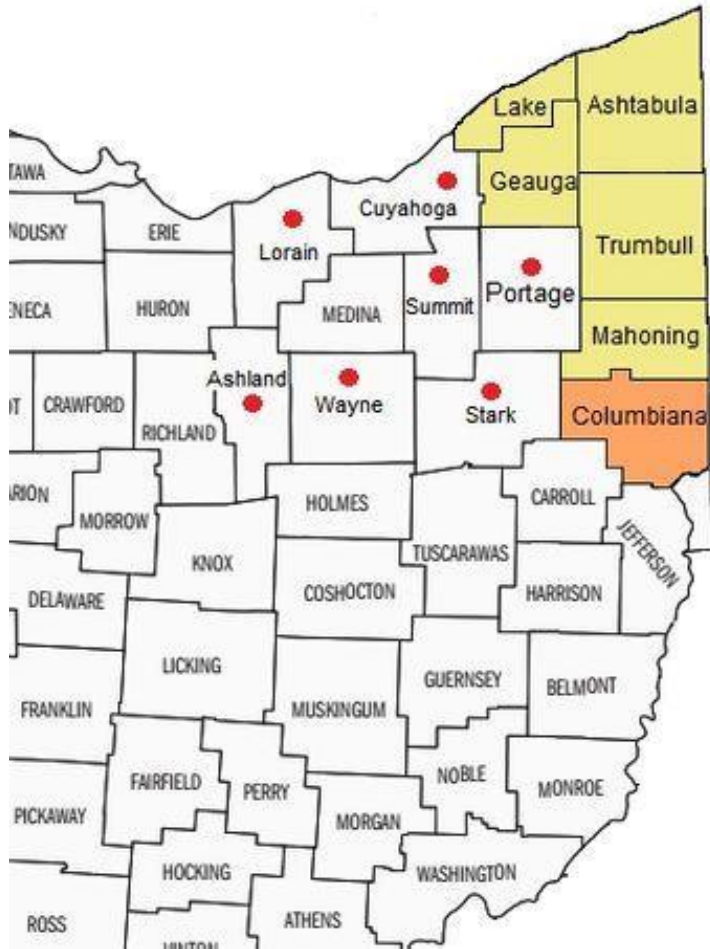
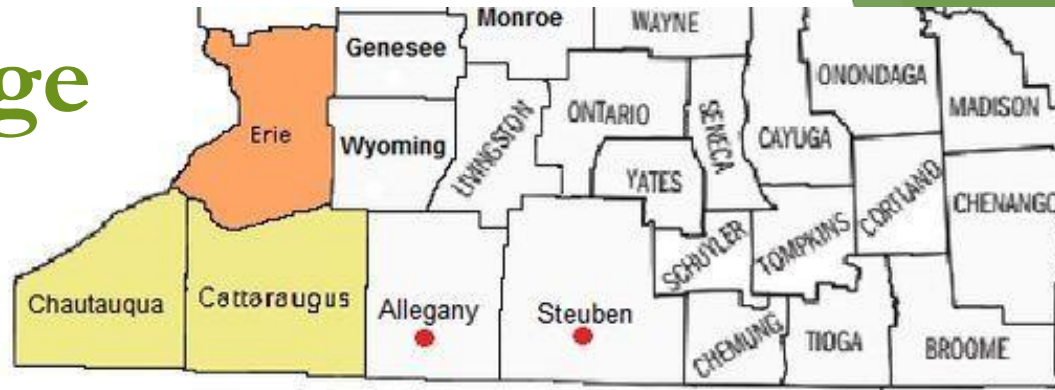
- ▶ Sammartino, Stout & Lo Presti, Inc.
- ▶ Headquartered in Erie, PA
- ▶ Founded 1991
- ▶ 2 MAI appraisers, 2 Certified Appraisers, 1 Trainee, 2 Support Staff, 1 Position Available
- ▶ Regional firm - Western Pennsylvania, Eastern Ohio, Southwestern New York
- ▶ Primarily non-residential property types
- ▶ Special Use: Golf Course, Casino, Winery/Vineyard, Car Wash, LIHTC and others
- ▶ Financing, internal planning, estate planning, condemnation, tax appeal, litigation
- ▶ Robert G. Stout, Jr., MAI & Sergio S. Lo Presti, MAI





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Coverage Map



- Primary Market Area
- Secondary Market Area
- Tertiary Market Area

Net Leased Investments

- ▶ Definition
 - ▶ A single tenant commercial property where the tenant pays “all” property expenses. The occupant is often a national credit tenant.
- ▶ What Expenses?
 - ▶ Typically
 - ▶ Real Estate Taxes
 - ▶ Building Insurance
 - ▶ Utilities
 - ▶ Repairs / Maintenance
 - ▶ AKA “Triple” or “Double” Net
 - ▶ Sometimes
 - ▶ Roof, Structural, and Parking Lot
 - ▶ Management
 - ▶ AKA “Absolute Net”

Net Leased Investments

- ▶ Tenant Motivation
 - ▶ Lower Upfront (real estate) Capital
 - ▶ Potentially Greater Return On Business Investment
 - ▶ Most Are Not Land Development Or Construction Experts
- ▶ Developer / Investor Motivation
 - ▶ Standardized / Prototype Development Process
 - ▶ Profitable Development
 - ▶ Some developers can secure sale contracts before construction is completed
 - ▶ Low Risk Investment
 - ▶ Generally Passive Income / Low Management
 - ▶ Secured By Underlying Real Estate
 - ▶ Well Defined Market

Common Credit Tenants

Dollar Stores	Auto Parts	Medical	Drug Stores
Dollar General	Advance Auto Parts	DaVita Dialysis	CVS
Dollar Tree	AutoZone	Fresenius Medical Care	Walgreens
Family Dollar	O'Reilly Auto Parts	Aspen Dental	Rite Aid
		Medcare Urgent Care	

QSR Corporate	QSR Franchise	Banks	Gas Stations
McDonald's	Burger King	Bank of America	Sheetz
Chick Fil A	Dunkin'	Chase Bank	7-Eleven
Panera Bread	KFC	PNC Bank	Wawa
Starbucks	Pizza Hut	TD Bank	
	Taco Bell		
	Wendy's		

Other Tenants

- ▶ Medical Practice - Possibly Hospital Affiliated
- ▶ Industrial Tenants - Small and Large
- ▶ Corporate Offices
- ▶ Supermarkets
- ▶ Big Box
- ▶ “Local” (non-credit) Tenants

Income Approach Process

- ▶ 1) Analyze Lease / Project Year 1 Net Operating Income (NOI)
- ▶ 2) Reconcile An Appropriate Capitalization Rate
- ▶ 3) Divide NOI by Capitalization Rate

- ▶ Example: $\$90,000 \text{ NOI} / 6\% \text{ Cap Rate} = \$1,500,000 \text{ value}$

Lease Analysis

The subject is encumbered by a lease under the following terms:

Lessor:	Confidential																
Lessee:	Dolgencorp, LLC																
Leased Area:	9,026 sf																
Lease Commencement:	September 21 st , 2020																
Expiration Date:	September 30 th , 2035																
Years Remaining:	14 years, 9 months +/-																
Options:	(2) 5-year options; (1) 4 year/11 month option																
Base Rent:	<table><thead><tr><th>Initial Term</th><th>Years (1-15)</th><th>\$108,352 annum</th><th>\$12.00/sf</th></tr></thead><tbody><tr><td>Option 1</td><td>Years (16-20)</td><td>\$119,187 annum</td><td>\$13.20/sf</td></tr><tr><td>Option 2</td><td>Years (21-25)</td><td>\$131,106 annum</td><td>\$14.53/sf</td></tr><tr><td>Option 3</td><td>Years (26-30)*</td><td>\$144,216 annum</td><td>\$15.98/sf</td></tr></tbody></table>	Initial Term	Years (1-15)	\$108,352 annum	\$12.00/sf	Option 1	Years (16-20)	\$119,187 annum	\$13.20/sf	Option 2	Years (21-25)	\$131,106 annum	\$14.53/sf	Option 3	Years (26-30)*	\$144,216 annum	\$15.98/sf
Initial Term	Years (1-15)	\$108,352 annum	\$12.00/sf														
Option 1	Years (16-20)	\$119,187 annum	\$13.20/sf														
Option 2	Years (21-25)	\$131,106 annum	\$14.53/sf														
Option 3	Years (26-30)*	\$144,216 annum	\$15.98/sf														

**Option 3 is based on 4 years, 11 months*

Lease Type:	Absolute Net
Lessor Expenses:	None
Lessee Expenses:	Responsible for all property expenses, including structural items and the parking lot

Rental Analysis

Dollar General Rental Data						
#	Known As Address	Year Built	Lease Type	Current Annual Rent	Size SF	Rent Per SF
1	Dollar General	2020	Abs. Net	\$109,190	7,500	\$14.56
2	Dollar General	2019	Abs. Net	\$119,868	9,100	\$13.17
3	Dollar General	2018	Abs. Net	\$104,200	9,026	\$11.54
4	Dollar General	2019	Abs. Net	\$104,006	9,100	\$11.43
5	Dollar General	2017	Abs. Net	\$102,904	9,026	\$11.40
6	Dollar General	2020	Abs. Net	\$103,350	9,100	\$11.36
7	Dollar General	2020	Abs. Net	\$102,216	9,100	\$11.23
8	Dollar General	2020	Abs. Net	\$99,888	9,100	\$10.98
9	Dollar General	2019	Abs. Net	\$94,400	9,002	\$10.49
10	Dollar General	2020	Abs. Net	\$94,072	9,100	\$10.34
			Low	\$94,072	7,500	\$10.34
			High	\$119,868	9,100	\$14.56
			Average	\$103,409	8,915	\$11.65
Subject		2020	Abs. Net	\$108,352	9,026	\$12.00

Rental Data Sources

- ▶ Appraisal Files
- ▶ For Sale Listings
 - ▶ CoStar
 - ▶ Crexi
 - ▶ Broker websites or email lists
 - ▶ Various “Net Leased” websites
- ▶ Closed Sales
- ▶ Developers

Projected Operating Statement

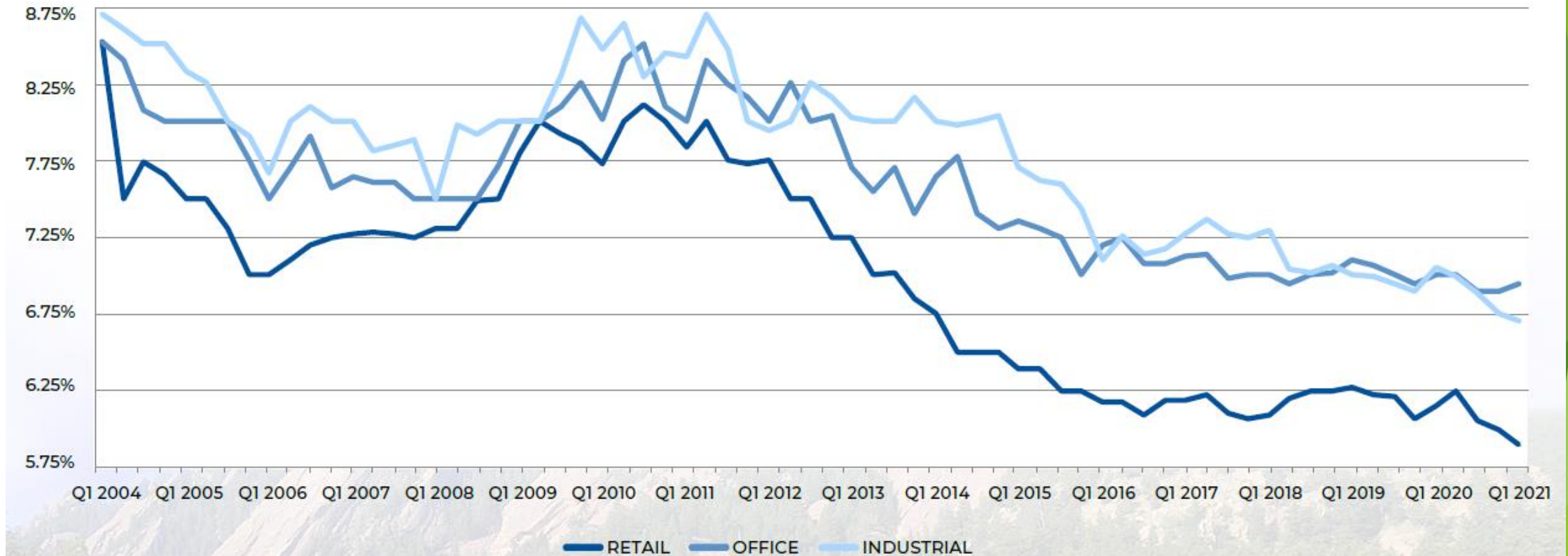
Projected Operating Statement		
Building Area (SF)	9,026	\$ psf
Potential Gross Income (PGI)	\$108,352	\$12.00
Vacancy/Credit Loss	Implied	
Effective Gross Income (EGI)	\$108,352	\$12.00
Expenses		
Fixed		
Taxes	Tenant	
Insurance	Tenant	
Variable		
Management/Administrative	Implied	
Repairs/Maintenance	Tenant	
Utilities	Tenant	
Misc./Reserves	Implied	
Total Operating Expenses	\$0	\$0.00
Net Operating Income (NOI)	\$108,352	\$12.00

Cap Rate Factors

- ▶ Tenant Type - Local, Regional, National
- ▶ Tenant Credit Rating - Moody's / S&P
- ▶ Lease Type - Ground Lease or Build to Suit
- ▶ Remaining Lease Term
- ▶ Lease Structure - Double Net to Absolute Net
- ▶ Rent Escalations and Remaining Options
- ▶ Building Age / Condition
- ▶ Local Market Conditions

Net Lease Trends Overview

NET LEASE CAP RATE TRENDS



Recent Transfers

Sale Date	Sector	Tenant	City	State	Price	Price Per SF	Cap Rate	Lease Term Remaining
Jan-21	Office	Huntsman Headquarters	The Woodlands	TX	\$107,000,000	\$478	7.01%	9
Jan-21	Industrial	Owens-Illinois, Inc.	Fairfield	CA	\$73,500,000	\$121	4.75%	3
Feb-21	Industrial	FedEx	South Windsor	CT	\$50,000,000	\$164	5.62%	10
Jan-21	Retail	Kohl's	Pleasant Hill	CA	\$36,700,000	\$363	7.73%	10
Jan-21	Industrial	Blue Buffalo	Bellevue	NE	\$24,400,000	\$66	6.00%	4
Feb-21	Retail	Whole Foods	Milwaukee	WI	\$23,500,000	\$436	5.50%	10
Jan-21	Retail	Wawa	Doral	FL	\$10,800,000	\$1,765	4.59%	19
Jan-21	Retail	Academy Sports	Jacksonville	FL	\$9,800,000	\$126	7.76%	8
Feb-21	Retail	Sprouts	Pearland	TX	\$9,617,000	\$343	5.82%	15
Jan-21	Retail	Kum & Go	Aurora	CO	\$8,258,000	\$1,457	5.39%	20
Feb-21	Retail	Grocery Outlet	Desert Hot Springs	CA	\$7,635,000	\$382	5.25%	15
Feb-21	Retail	Walgreens	Tucson	AZ	\$7,567,000	\$485	5.95%	10
Jan-21	Retail	Sportsman's Warehouse	Ankeny	IA	\$7,534,247	\$158	7.30%	6
Feb-21	Retail	Bob's Discount Furniture	Glendale	AZ	\$7,090,000	\$229	7.00%	10
Jan-21	Retail	Wendy's	Jamaica	NY	\$6,500,000	\$2,708	5.38%	20
Mar-21	Retail	Walgreens	Kingston	PA	\$6,400,000	\$449	6.44%	7
Feb-21	Retail	Natural Grocers	Denton	TX	\$6,250,000	\$291	6.30%	7
Mar-21	Retail	Rite Aid	Kingston	WA	\$6,168,000	\$357	7.10%	9
Mar-21	Retail	Caliber Collision	Acworth	GA	\$5,560,000	\$369	6.00%	15

Typical Cap Rates

MEDIAN ASKING CAP RATES BY YEAR BUILT

Tenant	2017-2021	2011-2016	2005-2010	Pre 2005
7-Eleven	4.90%	5.10%	5.75%	6.00%
Advance Auto Parts	5.95%	6.40%	7.00%	7.75%
AutoZone	5.25%	5.55%	6.00%	6.90%
Bank of America	5.00%	5.25%	6.00%	6.80%
Chase Bank	4.50%	4.70%	5.10%	5.85%
CVS Pharmacy	5.00%	5.50%	6.60%	7.10%
DaVita Dialysis Center	5.65%	6.40%	6.90%	7.60%
Dollar General	6.15%	6.75%	7.25%	8.00%
Family Dollar	7.00%	7.40%	7.85%	8.50%
FedEx	5.90%	6.30%	6.90%	7.25%
Fresenius	5.60%	6.30%	6.80%	7.50%
McDonald's (GL)	4.00%	4.20%	4.70%	5.00%
O'Reilly Auto Parts	5.35%	5.95%	6.15%	6.80%
Rite Aid	NA	7.15%	8.00%	8.75%
Starbucks	5.10%	5.50%	5.90%	6.40%
Walgreens	5.35%	5.85%	7.00%	7.40%

Credit Rating Summary

Moody's	S&P	Rating Description	
Aaa	AAA	Prime	
Aa1	AA+	High Grade	
Aa2	AA		
Aa3	AA-		
A1	A+	Upper Medium Grade	
A2	A		
A3	A-		
Baa1	BBB+	Lower Medium Grade	
Baa2	BBB		
Baa3	BBB-		
Ba1	BB+	Non-Investment Grade Speculative	
Ba2	BB		
Ba3	BB-		
B1	B+	Highly Speculative	
B2	B		
B3	B-		

Tenant Profiles

DOLLAR GENERAL TENANT OVERVIEW



PROS

- Absolute NNN lease
- Lower price point
- High visibility and good access
- Essential Retail

CONS

- Tertiary market locations
- Some NN leases make landlord responsible for at least roof and structure

Average Cap Rate

6.75%

12 mo avg with 10+ yr lease term

Average Property & Lease

Average Sale Price	\$1,333,565
NOI	\$91,570
\$/Square Foot	\$133 - \$144
Building SF	9,000 - 10,000
Lot Size	1.0 Acres
Lease Term	10 - 15 Years
Escalations	In Option Periods
Stock Symbol	DG

Credit Rating

S&P **BBB**
Moody's **Baa2**

Tenant Profiles

MCDONALD'S TENANT OVERVIEW



PROS

- High credit
- Increases in primary term
- Low price point

CONS

- Low cap rates
- New leases are flat for first 10 years
- Ground leases don't allow for depreciation

Average Cap Rate

4.30%

12 mo avg with 10+ yr lease term

Average Property & Lease

Average Sale Price	\$2,700,000
NOI	\$118,457
\$/Square Foot	\$600
Building SF	4,500
Lot Size	0.75 - 1.25 Acres
Lease Term	20 Year
Escalations	10% Every 5 Years
Stock Symbol	MCD

Credit Rating

S&P **BBB+**
Moody's **Baa1**

Tenant Profiles

PNC BANK TENANT OVERVIEW



PROS

- Strong corporate guarantee
- Secure NNN ground lease structure
- 10% + rent bumps throughout lease term
- Well-located assets
- Essential business
- Long base lease terms

CONS

- Financial markets questioning strength of banking industry
- Low asking cap rates
- Often have high initial rents
- No depreciation with a ground lease

Average Cap Rate

5.58%

12 mo avg with 10+ yr lease term

Average Property & Lease

Average Sale Price	\$2,910,000
NOI	\$171,841
\$/Square Foot	\$730-\$830
Building SF	3,500 - 4,000
Lot Size	.5 - 1.5 Acres
Lease Term	15 - 20 Years
Escalations	10 - 15% Every 5 Years
Stock Symbol	PNC

Credit Rating

S&P **A**
Moody's **A2**

Tenant Profiles

AUTOZONE TENANT OVERVIEW



PROS

- Corporate guaranteed
- Investment grade tenant
- Increases in primary term

CONS

- NN leases make landlord responsible for roof and structure
- Usually "B" grade real estate

Average Cap Rate

5.36%

12 mo avg with 10+ yr lease term

Average Property & Lease

Average Sale Price	\$1,483,357
NOI	\$87,770
\$/Square Foot	\$211
Building SF	7,000
Lot Size	0.5 - 1.5 Acres
Lease Term	15 Years
Escalations	10% Every 5 Years & Options
Stock Symbol	AZO

Credit Rating

S&P **BBB**
Moody's **Baa1**

Net Lease Auto Report

AUTO PARTS STORE PROPERTIES MEDIAN ASKING CAP RATES

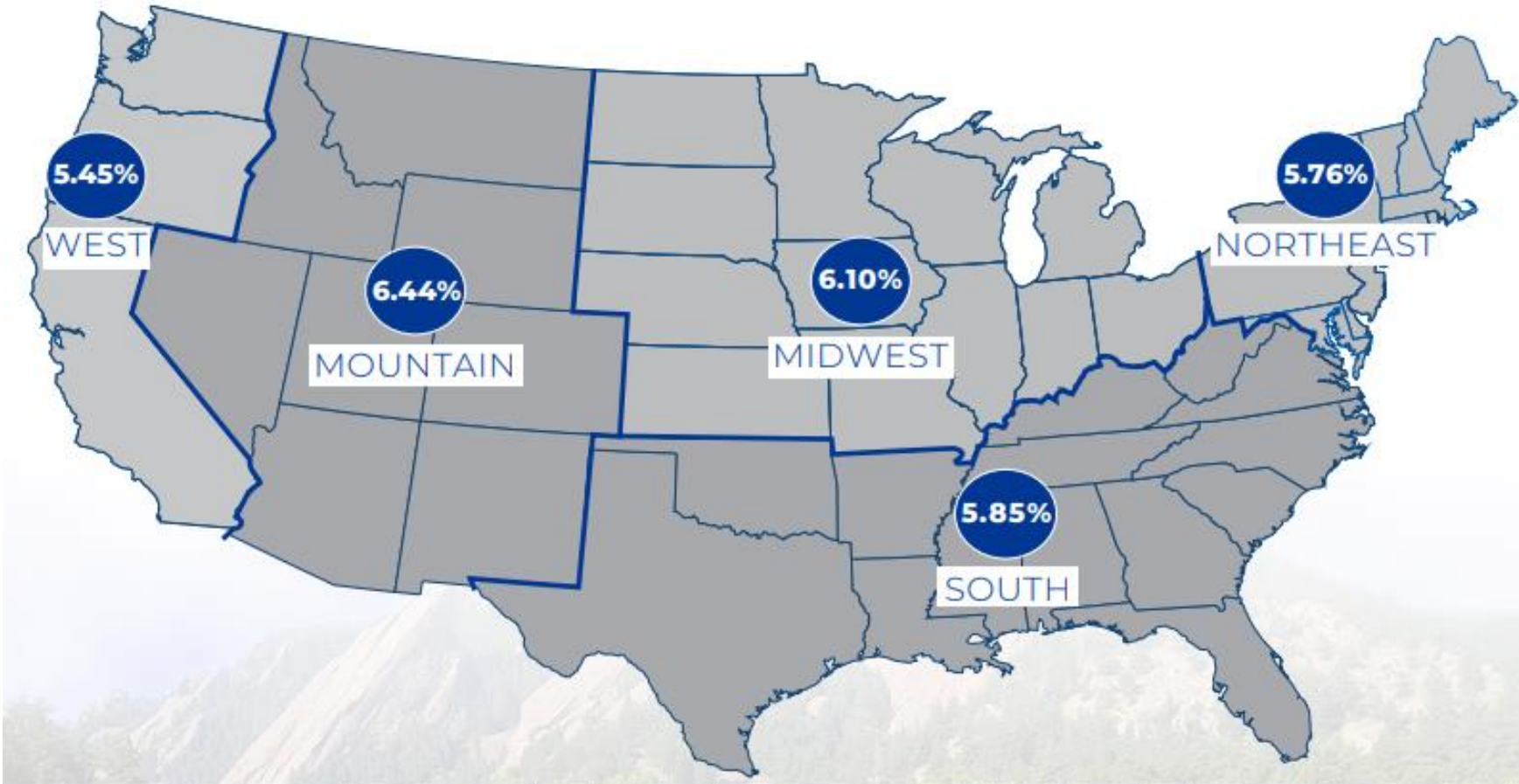
Tenant	Q4 2019 (Previous)	Q4 2020 (Current)	Basis Point Change
Advance Auto Parts	6.95%	6.50%	-45
AutoZone	5.70%	5.25%	-45
Bridgestone/Firestone	5.15%	5.00%	-15
Caliber Collision	6.25%	6.00%	-25
Jiffy Lube	6.00%	5.75%	-25
National Tire & Battery	6.00%	5.50%	-50
O'Reilly Auto Parts	5.85%	5.95%	+10
Take 5	6.00%	5.88%	-12
Service King	6.15%	6.00%	-15
Valvoline	6.20%	6.05%	-15

MEDIAN ASKING CAP RATES BY LEASE TERM REMAINING

Years Remaining	Auto Parts	Auto Service	Collision
16-20	5.30%	5.00%	5.75%
11-15	5.75%	5.50%	5.90%
6-10	6.25%	5.90%	6.70%
5 & Under	7.10%	6.85%	7.25%

Net Lease Auto Report

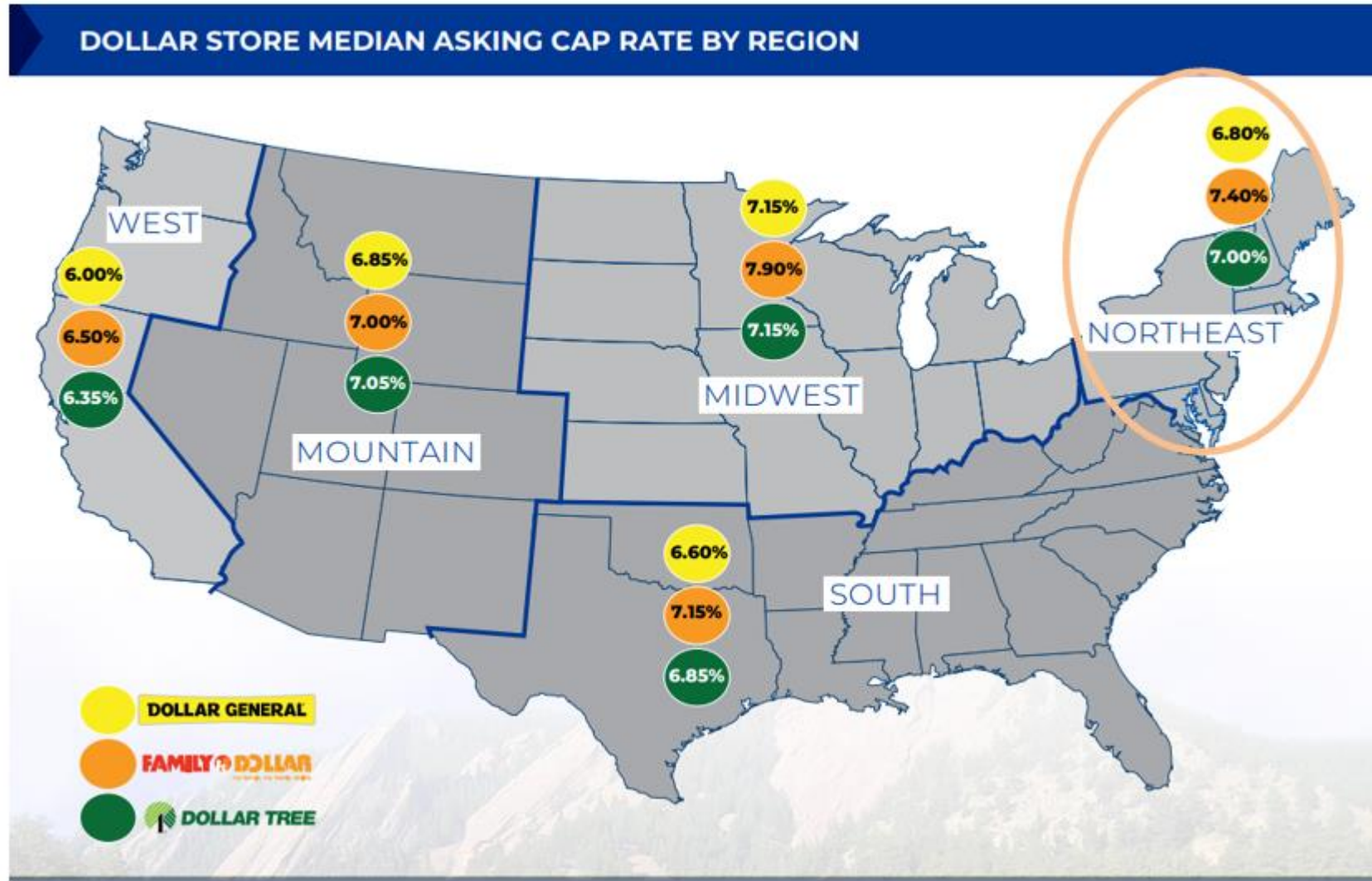
MEDIAN ASKING CAP RATE BY REGION



Published Dollar General Data

MEDIAN ASKING CAP RATE BY LEASE TERM REMAINING			
Years Remaining	Dollar General	Family Dollar	Dollar Tree
12-15 Years	6.60%	6.85%	NA
9-11 Years	6.95%	7.15%	7.00%
6-8 Years	7.60%	7.55%	7.35%
3-5 Years	8.10%	8.35%	7.80%
Under 3 Years	8.75%	9.00%	8.50%

Published Dollar General Data



Published Dollar General Data

National Capitalization Rate Surveys					
Survey	Survey Date	Property Type	Cap Rates		
			Low	High	Avg
PWC Investor Survey	3rd Qtr. 2020	National Net Lease Market	4.0%	8.0%	6.22%
CoStar, national	2020 Sold	Dollar General - Built 2020	5.5%	7.0%	6.40%
Boulder Group	2nd Qtr. 2020	Dollar General - 12-15 years remaining Asking			6.60%

Researched Dollar General Data

Dollar General Capitalization Rate Data - 15 Year Absolute Net Leases									
#	Address	Sale Date	Cap Rate	Lease Start	Lease to Sale		3 Mile Population	3 Mile Income	Traffic Exposure (ADT)
					Months	5 Year Renewals			
1		Active	6.34%	Dec-20	0	3 with 10% steps	3,429	\$51,578	4,264
2		Active	6.40%	Dec-20	0	3 with 10% steps	2,505	\$52,155	4,685
3		Active	6.40%	Oct-20	2	3 with 10% steps	16,229	\$48,534	2,361
4		Active	6.25%	Oct-20	2	5 with 10% steps	6,305	\$60,432	9,540
5		Active	6.20%	Mar-20	9	3 with 10% steps	30,043	\$53,159	11,025
6		Active	6.00%	Nov-20	1	3 with 10% steps	18,921	\$73,769	11,883
7		Active	5.75%	Proposed	0	3 with 10% steps	32,993	\$37,996	-
Averages			6.19%	Sep-20	2.0		15,775	\$53,946	7,293

8		Sep-20	6.56%	May-19	16	3 with 10% steps	20,569	\$37,062	N/A
9		Oct-20	6.50%	Oct-19	12	3 with 10% steps	10,530	\$40,923	4,555
10		Oct-20	6.50%	Sep-20	1	4 with 10% steps	8,440	\$47,240	5,157
11		Mar-20	6.50%	Nov-19	4	3 with 10% steps	5,960	\$47,552	2,499
12		May-20	6.50%	Mar-20	2	5 with 10% steps	62,326	\$43,759	12,790
13		Oct-20	6.47%	Aug-20	2	3 with 10% steps	14,875	\$35,109	-
14		Pending	6.45%	Aug-20	4	3 with 10% steps	21,311	\$46,065	3,746
15		Aug-20	6.43%	May-20	3	Assumed typical	11,405	\$53,240	4,134
16		Oct-20	6.40%	Aug-20	2	3 with 10% steps	15,166	\$50,336	19,508
17		Mar-20	6.40%	Oct-19	5	4 with 10% steps	24,523	\$58,276	9,108
18		Sep-20	6.34%	Mar-20	6	3 with 10% steps	22,531	\$89,391	4,154
19		Oct-20	6.25%	Sep-20	1	5 with 10% steps	24,441	\$46,739	12,438
20		Oct-20	6.20%	Jul-20	3	3 with 10% steps	40,300	\$68,182	4,396
21		Jul-20	6.00%	Dec-19	7	5 with 10% steps	27,897	\$68,525	17,100
22		Nov-20	5.95%	Sep-20	2	3 with 10% steps	122,543	\$54,405	12,489
Averages			6.36%	Mar-20	4.8		28,854	\$52,454	8,621

Subject	12/8/20	9/21/20	2.6	3 with 10% steps	7,471	\$55,594	11,817
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(historically 14,000)

Cap Rate Data Sources

- ▶ Appraisal Files
- ▶ For Sale Listings
 - ▶ CoStar
 - ▶ Crexi
 - ▶ Broker websites or email lists
 - ▶ Various “Net Leased” websites
- ▶ Closed Sales
- ▶ Developers and Brokers

Capitalization Rate Selection

Capitalization Rate Conclusion

The following strengths and weaknesses of the subject property are considered:

Strengths

National net lease/credit tenant
2020 built
Absolute net lease with nearly 15 years remaining
Moderate traffic corridor
Good population base
Near traffic signal
Low interest rate environment

Weaknesses

Potential for long-term cap rate increases
(which may affect reversion value)

After considering the aforementioned information, and considering current market demand for this property type, the subject location, age/condition, the remaining lease term, traffic count/population base, and the strength of this tenant through 2020, a capitalization rate of **6.1% is reconciled.**

Income Approach Conclusion

INCOME CAPITALIZATION APPROACH CONCLUSION

Net Operating Income	/	Capitalization Rate	=	Indicated Value
\$108,352	/	6.1%	=	\$1,776,262
		Rounded	=	\$1,780,000

Sales Comparison Approach

- ▶ Traditional Sales Approach Based Solely on Physical Factors Is Not Sufficient
- ▶ Relevant Unit of Comparison: Net Operating Income (NOI) Per Square Foot
 - ▶ This is the metric that the most likely buyer, an investor, would consider
- ▶ Analysis Should Link Price Paid Per SF to NOI Per SF
- ▶ Sales Should Have Similar Investment Characteristics
- ▶ Visual or Regression Analysis

Sales Comparison Approach

Comparable Dollar General Sales Data											
#	Known As	Address	Building Age	Building Size	Sale Price	Sale Date	NOI	Lease Type	NOI per sf of building	Capitalization Rate	Price per sf of building
1	Dollar General		2020	7,500	\$2,226,000	Nov-20	\$132,492	Abs. Net	\$17.67	5.95%	\$296.80
2	Dollar General		2020	7,489	\$1,678,000	Oct-20	\$104,859	Abs. Net	\$14.00	6.25%	\$224.06
3	Dollar General		2020	9,002	\$1,787,841	Active	\$111,740	Abs. Net	\$12.41	6.25%	\$198.60
4	Dollar General		2020	9,100	\$1,698,000	Jul-20	\$105,276	Abs. Net	\$11.57	6.20%	\$186.59
5	Dollar General		2020	9,026	\$1,662,249	Active	\$106,384	Abs. Net	\$11.79	6.40%	\$184.16
6	Dollar General		2020	9,002	\$1,632,422	Mar-20	\$104,475	Abs. Net	\$11.61	6.40%	\$181.34
7	Dollar General		2020	10,640	\$1,900,000	Active	\$117,791	Abs. Net	\$11.07	6.20%	\$178.57
8	Dollar General		2020	9,026	\$1,559,062	Active	\$93,565	Abs. Net	\$10.37	6.00%	\$172.73
9	Dollar General		2020	9,100	\$1,560,000	Sep-20	\$98,880	Abs. Net	\$10.87	6.34%	\$171.43
10	Dollar General		2019	9,100	\$1,665,000	Jul-20	\$99,896	Abs. Net	\$10.98	6.00%	\$182.97
				Low	\$1,559,062		\$93,565		\$10.37	5.95%	\$171.43
				High	\$2,226,000		\$132,492		\$17.67	6.40%	\$296.80
				Average	\$1,736,857		\$107,536		\$12.23	6.20%	\$197.73

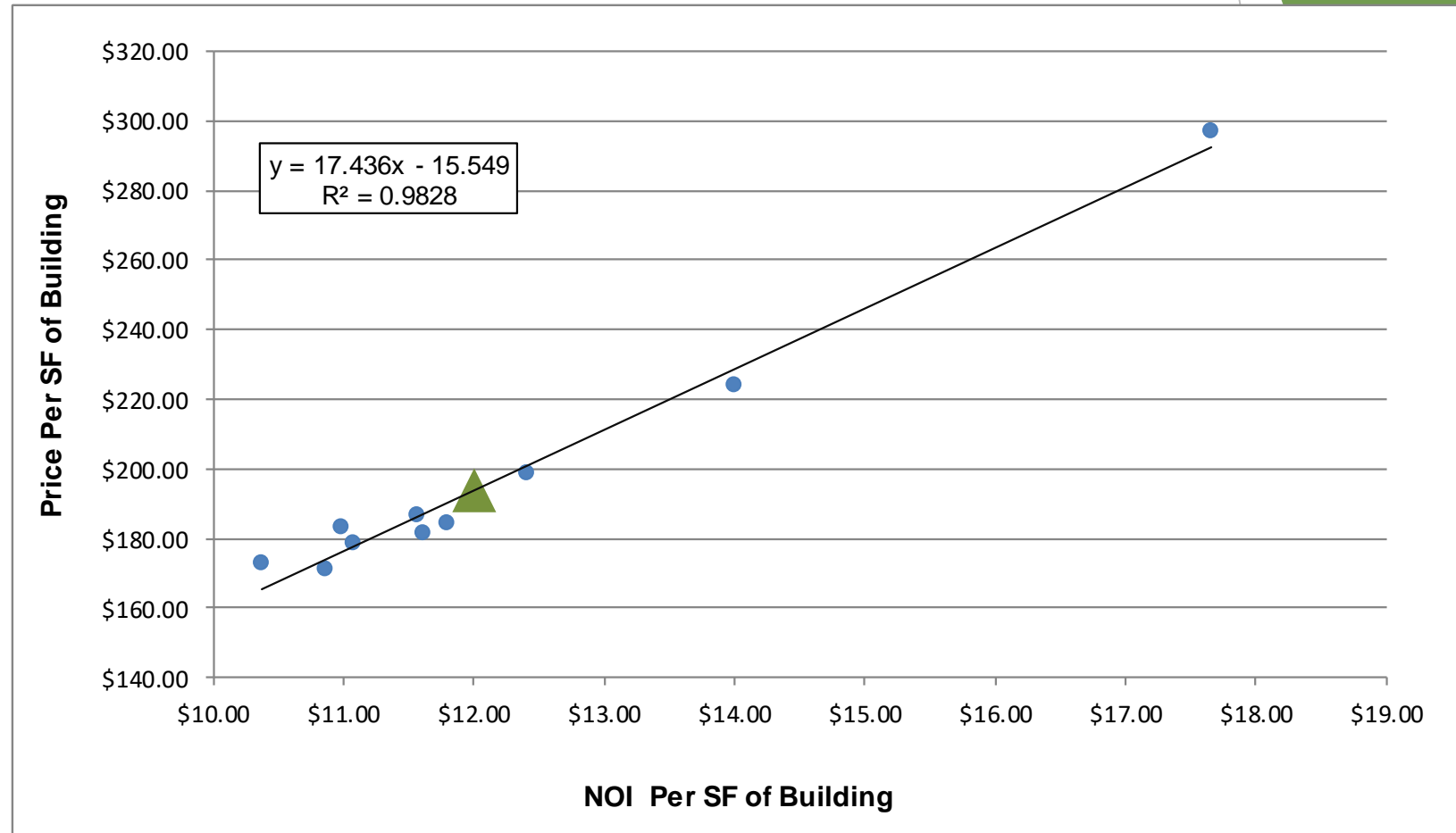
Subject		2020	9,026
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Abs. Net	\$12.00
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► At \$12 psf NOI, subject value is likely near \$190 per square foot or \$1,715,000

Regression Analysis

Sale #	NOI PSF (X)	Price PSF (Y)
1	\$17.67	\$296.80
2	\$14.00	\$224.06
3	\$12.41	\$198.60
4	\$11.57	\$186.59
5	\$11.79	\$184.16
6	\$11.61	\$181.34
7	\$11.07	\$178.57
8	\$10.37	\$172.73
9	\$10.87	\$171.43
10	\$10.98	\$182.97
Subject	\$12.00	\$193.76 (forecast)



Regression Analysis Conclusion

NOI PSF of Building = \$12.00				
Y =	m	(x)	+	b
Y =	17.436	(12.00)	+	-15.5490
Y =	17.436	(12.00)	+	-15.5490
Y =	209.31		+	-15.5490
Y =	Projected Value Per Sqft =			\$193.76

Building Area (sf)	X	Unit Rate (psf)	=	Indicated Value
9,026	X	\$193.76	=	\$1,748,878
		Rounded		\$1,750,000

Cost Approach

- ▶ Limited Applicability As Investors Are Focused On Net Income And Not Cost New
- ▶ $\text{Cost New} - \text{Depreciation} + \text{Land Value} + \text{Property Rights Adjustment} = \text{Market Value}$
- ▶ Estimate of Cost New
 - ▶ Actual Costs
 - ▶ Replacement Cost New (MVS)
 - ▶ Cost Comparables
 - ▶ Soft and Site Costs Can Be Significant
- ▶ Property Rights Adjustment
 - ▶ Typically based on Income Approach, some market data available

RCN Comparables

Source: appraisal files		Total	Size	\$ PSF
A	Dollar General, Western PA	\$1,193,163	9,301	\$128.28
B	Family Dollar, Western PA	\$1,146,944	9,100	\$126.04
C	Family Dollar, Western PA	\$1,309,850	10,640	\$123.11
D	Dollar Tree, Eastern OH	\$1,216,650	10,000	\$121.67
E	Dollar General, Western PA	\$1,235,046	10,857	\$113.76
Avg.		\$1,220,331	9,980	\$122.57
Subject - Dollar General		\$1,177,800	9,212	\$127.85

► Conclusion: \$1,180,000 Cost New

Property Rights Adjustment

Source: appraisal files

		Total Development Costs (fee simple)	Sale Price (leased fee)	Property Rights Adj.	Property Rights Adjust. %
1	Family Dollar, Western PA	\$1,620,700	\$1,835,000	\$214,300	13%
2	Dollar General, Western PA	\$1,415,046	\$1,637,382	\$222,336	16%
3	Dollar General, Western PA	\$1,340,520	\$1,525,000	\$184,480	14%
	Avg.	\$1,458,755	\$1,665,794	\$207,039	14%

Cost Approach Example

Proposed Family Dollar	
Control Data:	
Building Type:	Discount Stores
Class:	"S"
Construction Quality:	Slightly above average
Age:	2019
Total Building Area SF:	9,100
Unit Cost Data:	
Base Cost:	\$60.00
Adjustments to Base Cost:	
(a) Perimeter (400', 9,000 sqft)	0.943
(b) Story Height Multiplier (16' avg; base = 12'):	x 1.085
(c) Current Cost multiplier:	x 1.050
(d) Local Cost Multiplier:	x 1.090
Composite Factor:	= 1.171
Base Cost/SF:	x \$60.00
Adjusted Base Cost/SF	= \$70.26
Total Building Area SF:	x 9,100
Total Building Cost:	= \$639,366
Developer's Projected Cost:	\$631,355
Differential	-1.25%
Building Cost Reconciliation:	\$635,000

Replacement Cost New:	
Building Cost	\$635,000
Add: Soft Costs*	+ \$191,699
Add: Site Development:*	+ \$344,216
Replacement Cost New (RCN):	= \$1,170,915
Add: Entrepreneurial Incentive: 10%	+ \$117,092
Total RCN:	= \$1,288,007
Less: Depreciation 0%	- \$0
Depreciated Value of the Improvements	= \$1,288,007
Add: Land Value Estimate:	+ \$695,000
Indicated Value (fee simple):	= \$1,983,007
Property Rights Adjustment:	+ \$315,000
Indicated Value (leased fee):	= \$2,298,007
Prospective Market Value "As Completed"	\$2,300,000

*Based on the developer's costs, which are reasonable based on similar discount-store properties constructed in the region, as follows:

Youngsville, PA: Soft Costs at \$189,914, Site Dev. Costs at \$370,614

Plumsville, PA: Soft Costs at \$175,471, Site Dev. Costs at \$282,000

Waterford, PA: Soft Costs at \$185,700, Site Dev. Costs at \$260,000

Boardman, OH: Soft Costs at \$150,550, Site Dev. Costs at \$289,500

► Implied Property Rights Adjustment: 15.9%

Reconciliation

- ▶ Income Capitalization Approach - Most Applicable
- ▶ Sales Comparison Approach - Secondary Support
- ▶ Cost Approach - Limited Applicability
- ▶ **Final Value Conclusion - All or most weight on Income Approach**

Assessment Issues

Our Observations

- ▶ Assessments Appear To Be Based On A Cost Analysis
 - ▶ Base cost may be low compared to current costs / tenant specifications
 - ▶ May not include entrepreneurial incentive
 - ▶ May not include sufficient soft costs
 - ▶ May not include sufficient site development costs
 - ▶ May not account for property rights
- ▶ Trend Of School Districts Filing An Appeal After A Sale
 - ▶ Difficult to defend
 - ▶ In most cases it's appropriate
 - ▶ Tenant typically pays the increased tax liability
 - ▶ Increased taxes may affect future negotiations (at renewal or lease expiration)

Questions & Answers



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Low Income Housing Tax Credit Property

- ▶ Also known as “LIHTC”
- ▶ Rent restricted / affordable housing
- ▶ Rent restrictions and increased expenses greatly reduce property value
- ▶ Developer can charge a developer’s fee
- ▶ Developer or investor can take a dollar for dollar tax credit over 10 years
- ▶ Developer can sell the tax credits to an investor to raise capital for construction costs
- ▶ Tax credits are valued as an intangible asset

LIHTC Background

- ▶ Tax Reform Act of 1986 (TRA86)
 - ▶ Major simplification of the tax code
 - ▶ Drastically reduced the number of deductions and the number of tax brackets
 - ▶ Increased the Home Mortgage Interest Deduction
 - ▶ Changed the treatment of local property taxes and mortgage interest to favor homeownership, while phasing out many investment incentives for rental housing
 - ▶ Since low-income residents are more likely to live in rental housing rather than in owner occupied housing. It was believed that TRA86 could decrease the new supply of housing accessible to low-income residents
 - ▶ **The Low Income Housing Tax Credit (LIHTC) was added to encourage continued investment in multi-family housing for people with low incomes**
 - ▶ LIHTC is a tax credit incentive program for affordable (low income) housing investments

LIHTC Structure

- ▶ Originally structured so that the annual tax credit per year is approximately 4% of the cost of acquisition or 9% of the costs of new construction or substantial rehabilitation
- ▶ Reduced to 4% of all components if funded with federal subsidies or tax exempt financing
- ▶ Tax credits are taken over a 10-year period, even though the holding period is longer
 - ▶ Tax credits can be up to 90% of total construction costs
- ▶ Capital can be raised by selling the rights to the future credits in exchange for up-front cash or “syndicating” the credit to an investor or investors; an intangible asset
- ▶ The IRS allocates housing tax credits to state agencies on an annual basis
 - ▶ PA: the Pennsylvania Housing Finance Agency (PHFA)
- ▶ State awards tax credits for projects (annually) to developers
- ▶ Projects with lower income tiers are preferred

LIHTC Requirements

- ▶ Agencies give priority to projects that:
 - ▶ Serve the lowest income families
 - ▶ Are structured to remain affordable for the longest period of time
- ▶ To be eligible for consideration, a proposed project must:
 - ▶ Be a residential property
 - ▶ Commit to one of two possible low-income occupancy threshold requirements;
 - ▶ 20-50 Rule: At least 20% of the units must be rent restricted and occupied by households with incomes at or below 50% of the HUD-determined Area Median Income (AMI).
 - ▶ 40-60 Rule: At least 40% of the units must be rent restricted and occupied by households with incomes at or below 60% of the HUD-determined AMI.
 - ▶ Restrict rents, including utility charges, in low-income units
 - ▶ Operate under the rent and income restrictions for 30 years or longer (i.e. 15-year compliance period and subsequent 15-year extended use period), pursuant to written agreements with the agency issuing the tax credits known as a LURA
- ▶ LURA - Land Use Restriction Agreement: Agreement between the government and a property owner to restrict a property in exchange for tax credits

LIHTC Developer Benefits

- ▶ Developer fee - can be substantial
- ▶ Strong demand for low income housing
 - ▶ Quick absorption
 - ▶ Stable cash flow
 - ▶ High occupancy
- ▶ Ability to sell tax credits to fund most of the construction costs (up to 90%)
- ▶ Potential for future tax credits for rehabilitation
- ▶ Senior Housing Submarket
 - ▶ Performs well in aging, lower income markets

LIHTC Developer Risks

- ▶ Projects are awarded on an annual basis - not guaranteed
- ▶ Risk of non-compliance penalties
 - ▶ Recent example: slow lease up; a project must be stabilized within a certain time frame
 - ▶ IRS has extended lease up times due to COVID-19
 - ▶ Example project impact: rent concessions have been given to speed up lease up
- ▶ Change in tax credit value between conception and execution
 - ▶ Currently less than \$0.85 (15% discount) vs. near \$1 pre-COVID (limited discount)
- ▶ Risk of utility costs (typically included) increasing faster than rent increases
- ▶ Delay and construction cost risks
- ▶ Assessment risk
 - ▶ An over assessment may significantly impact net income or result in a negative cash flow (see example in Income Approach)

LIHTC Value Impacts

- ▶ Restricted Rent - Substantially Reduces Income Potential
- ▶ Rent Increases - Determined by PHFA, if any
- ▶ Utilities Included - Increases Expenses
- ▶ Greater Management Expense
 - ▶ Can range from 20% to 40% +/-
- ▶ Reserves Are Required - Set by PHFA
 - ▶ 2020: \$410 per unit plus 3% annual escalation - Crawford County Project
- ▶ Tax Credits are typically sold for a lump sum to raise capital for construction
- ▶ Tax Credits are an Intangible Asset

LIHTC and Assessments

- ▶ Valuation for assessment must consider rent restrictions
- ▶ Tax credits should not be considered real property
- ▶ Over assessment may result in a limited or negative cash flow

According to the Pennsylvania General County Assessment Law:

“In arriving at the actual value of real property, the impact of applicable rent restrictions, affordability requirements or any other related restrictions prescribed by any Federal or State programs shall be considered. Federal or state income tax credits with respect to property shall not be considered real property or income attributable to real property.”

Source: Pennsylvania General County Assessment Law, Section 402 (c-1, c-2).

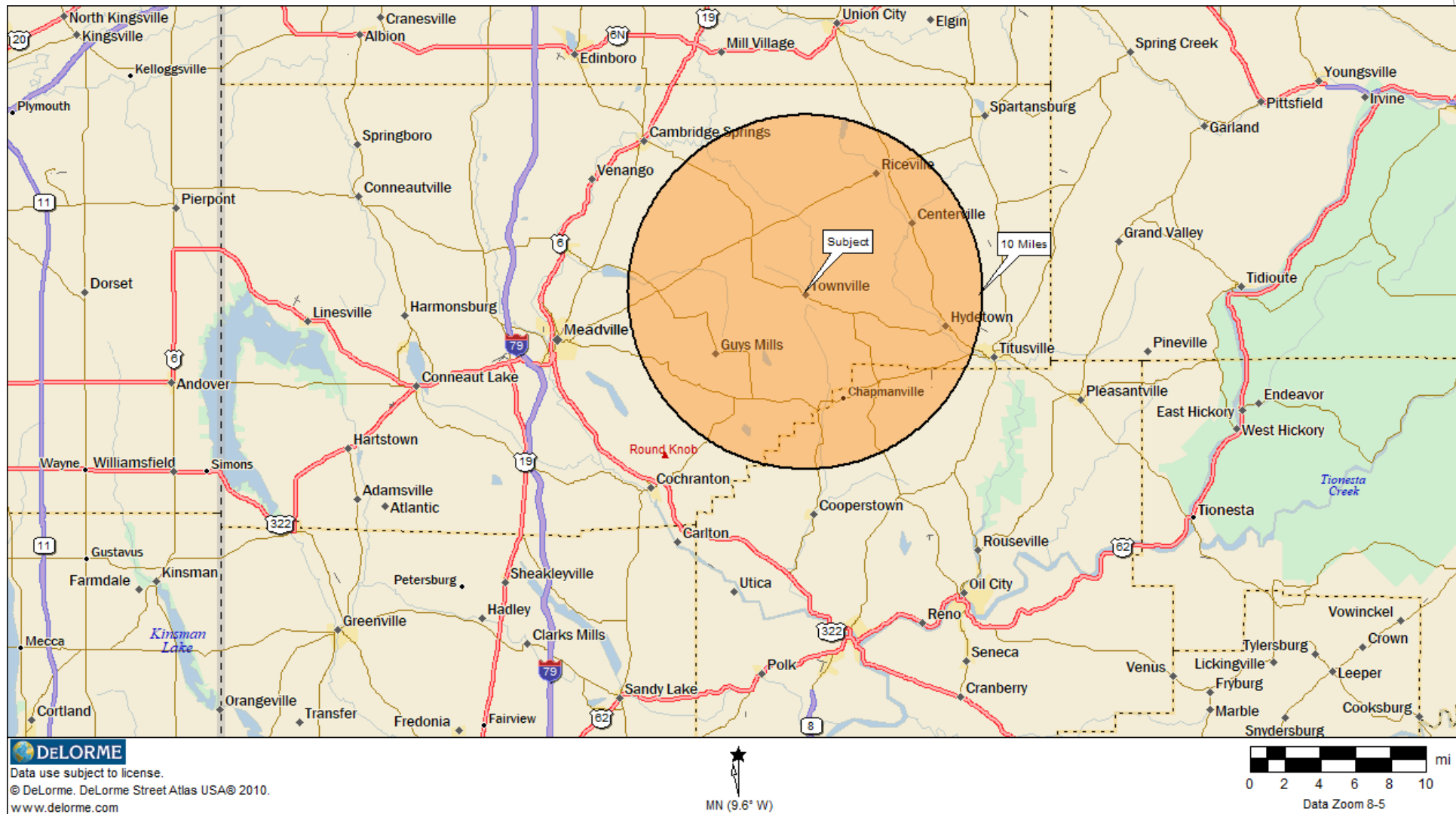
Hypothetical Example Project

- ▶ 42 Unit Complex, Built 2017
- ▶ 4 units are for residents with up to 20% of AMHI, 17 units are for residents with up to 50% of AMHI, and 19 units are for residents with up to 60% of AMHI.
- ▶ Rent levels are as much as 80% less than “market” rent
- ▶ Projected rent over the next 12 months: \$290,000
- ▶ Operating expenses over the next 12 months: \$210,000
- ▶ Projected Net Operating Income: \$80,000
- ▶ Applicable Capitalization Rate: 7%
- ▶ **Real Estate & FF&E Value: \$1,140,000 (rounded)**
- ▶ FF&E Value: \$200,000
- ▶ **Real Estate Value: \$940,000**
- ▶ **Development costs: more than \$9 million**, which was mostly funded by the sale of the federal tax credit benefit to a third party (\$8 million)

Market Analysis – Demand

- ▶ Define the Primary Market Area (PMA)
- ▶ Example for rural market
 - ▶ Local municipality
 - ▶ 1 mile radius
 - ▶ 5 mile radius
 - ▶ 10 mile radius
- ▶ Review
 - ▶ Population and household trends
 - ▶ Housing tenure
 - ▶ Household income
 - ▶ Age distribution
 - ▶ Target market

Market Analysis – Demand



Primary Market Area (PMA) Example

Market Analysis – Demand

Population Change							
Area	2010	2020	2025	2010-2020 # Change	Avg. Annual # Change	2020 - 2025 # Change	Avg. Annual Change
Borough	653	666	662	13	1	-4	-1
1-Mile Radius	1,136	1,145	1,132	9	1	-13	-3
5-Mile Radius	8,026	7,818	7,669	-208	-21	-149	-30
10-Mile Radius	40,466	39,178	38,405	-1,288	-129	-773	-155
Crawford County	88,765	85,744	83,951	-3,021	-302	-1,793	-359

Source: STDB.com

Household Change							
Area	2010	2020	2025	2010-2020 # Change	Avg. Annual # Change	2020 - 2025 # Change	Avg. Annual Change
Borough	322	332	331	10	1	-1	0
1-Mile Radius	569	581	577	12	1	-4	-1
5-Mile Radius	3,482	3,446	3,395	-36	-4	-51	-10
10-Mile Radius	16,891	16,570	16,296	-321	-32	-274	-55
Crawford County	35,028	34,284	33,683	-744	-74	-601	-120

Source: STDB.com

Analysis: Population and Households are both expected to decline through 2025 in all areas.

Market Analysis – Demand

Household Tenure Change								
Area	Occupant Type	Year			2010-2020 # Change	Avg. Annual # Change	2020 - 2025 # Change	Avg. Annual Change
		2010	2020	2025				
Borough	Renter	106	82	82	-24	-2	0	0
	Owner	216	250	248	34	3	-2	0
1-Mile Radius	Renter	138	140	140	2	0	0	0
	Owner	431	442	437	11	1	-5	-1
5-Mile Radius	Renter	675	664	660	-11	-1	-4	-1
	Owner	2,807	2,782	2,734	-25	-3	-48	-10
10-Mile Radius	Renter	5,402	5,249	5,199	-153	-15	-50	-10
	Owner	11,489	11,321	11,097	-168	-17	-224	-45

Source: STDB.com

Analysis: Renter occupied housing is flat to declining in the various areas. Rental demand in the PMA is likely to weaken going forward.

Market Analysis – Demand

2020 Household Income											
Area / Income Level	< \$15,000	\$15,000 to \$24,999	\$25,000 to \$34,999	\$35,000 to \$49,999	\$50,000 to \$74,999	\$75,000 to \$99,999	\$100,000 to \$149,999	\$150,000+	2020 Median HH Income	2025 Median HH Income	% Change 2020 - 2025
Borough	8.7%	7.5%	13.5%	13.8%	25.4%	11.7%	15.0%	4.5%	\$54,381	\$57,173	4.9%
1-Mile Radius	9.3%	7.2%	13.1%	12.2%	24.3%	13.6%	13.8%	6.6%	\$56,023	\$59,668	6.1%
5-Mile Radius	7.5%	7.9%	12.9%	11.8%	23.6%	15.6%	12.4%	8.4%	\$57,982	\$61,544	5.8%
10-Mile Radius	12.4%	11.5%	13.3%	12.4%	20.8%	13.5%	10.8%	5.4%	\$50,326	\$52,194	3.6%
Crawford County	11.1%	10.5%	12.8%	13.1%	21.3%	14.8%	11.2%	5.3%	\$52,006	\$54,311	4.2%

Source: STDB.com

Analysis: 30% to 37% +/- of residents in the PMA have income levels below \$35,000. This implies good demand for low or very low income housing.

Market Analysis – Demand

2020 Age Distribution							
Area	Age Category					Median Age	
	0-19	20-34	35-54	55-64	65+	2020	2025
Borough	20.8%	12.9%	22.3%	16.3%	27.6%	50.5	51.1
1-Mile Radius	19.7%	12.1%	21.6%	18.1%	28.4%	52.3	53.6
5-Mile Radius	19.4%	13.5%	24.1%	17.5%	25.3%	50.0	51.8
10-Mile Radius	22.0%	17.8%	22.2%	15.4%	22.6%	44.9	46.1
Crawford County	22.5%	17.6%	23.6%	15.1%	21.1%	43.9	45.0

Source: STDB.com

Analysis: The median age in the PMA - particularly in the immediate area - is well above the national average and moderately above the county average. The highest percentage of residents is in the 65+ age bracket, suggesting there is good demand for senior related housing. Review of projected demographic data revealed that the 65+ age group is growing.

Conclusion: Although the overall populating is declining in the PMA, there appears to be good demand for low income and/or senior housing.

Market Analysis – Demand

Example project - Lower Income Limit:

Includes (2) units targeted at 20% of AMI, (19) units at 50% of AMI, and (19) units at 60% of AMI.

PHFA limits housing affordability to 45% of household income for senior citizen targeted developments.

Using the 2021 rent schedule and a 45% affordability ratio, the minimum eligible income level for each unit type is calculated in the following table:

SUBJECT RENT LIMITATIONS AND CONFIGURATION							
Unit Type	# of Units	Program Type	AMHI Target Income Level	Total Monthly Rent Per Unit	Total Annual Rent Per Unit	Affordability Ratio	Eligible Income Level
1 Bdrm.	2	LIHTC	20%	\$246	\$2,952	45.0%	\$6,560
	9	PennHomes	50%	\$576	\$6,912	45.0%	\$15,360
	9	LIHTC	50%	\$588	\$7,056	45.0%	\$15,680
	16	LIHTC	60%	\$711	\$8,532	45.0%	\$18,960
2 Bdrm.	1	PennHomes	50%	\$686	\$8,232	45.0%	\$18,293
	3	LIHTC	60%	\$849	\$10,188	45.0%	\$22,640

Market Analysis – Demand

Example project - Upper Income Limit - Based on Household Size

PHFA Rent Level Restriction - PennHomes Program							
% of Median	Median Income Eff. Date	PennHomes					
		Income Limits - Household Size				Max. Rent - Apt. Size	
		1 Person	2 Person	3 Person	4 Person	1 BR	2 BR
20%	\$66,000	\$9,240	\$10,560	\$11,880	\$13,200	\$247	\$297
30%	7/1/20	\$13,860	\$15,840	\$17,820	\$19,800	\$371	\$445
40%		\$18,480	\$21,120	\$23,760	\$26,400	\$495	\$594
50%		\$23,100	\$26,400	\$29,700	\$33,000	\$577	\$724
60%		\$27,720	\$31,680	\$35,640	\$39,600	\$577	\$724

PHFA Rent Level Restriction - LIHTC Program							
% of Median	Median Income Eff. Date	LIHTC					
		Income Limits - Household Size				Max. Rent - Apt. Size	
		1 Person	2 Person	3 Person	4 Person	1 BR	2 BR
20%	\$66,000	\$9,240	\$10,560	\$11,880	\$13,200	\$247	\$297
40%	4/1/20	\$18,440	\$21,080	\$23,720	\$26,320	\$495	\$594
50%		\$23,100	\$26,400	\$29,700	\$33,000	\$618	\$742
60%		\$27,720	\$31,680	\$35,640	\$39,600	\$742	\$891

Market Analysis – Demand

- ▶ Lower and Upper Income Conclusion:

Based on both the calculated eligible income levels and the published data based on expected number of occupants, it appears that the target residents are those **with income levels between \$6,560 and \$10,560 (20% of AMI) and \$15,360 and \$31,680 (50% and 60% of AMI).**

Market Analysis – Demand

Households in the Target Group (age and income)

Conneaut Lake Borough (65+)	2020		2025	
	Number of Households	% of Households	Number of Households	% of Households
Income Interval				
< \$15,000	13	4.10%	12	3.90%
\$15,000 - \$24,999	15	4.73%	14	4.55%
\$25,000 - \$34,999	19	5.99%	17	5.52%

1-Mile Radius (65+)	2020		2025	
	Number of Households	% of Households	Number of Households	% of Households
Income Interval				
< \$15,000	26	4.65%	26	4.72%
\$15,000 - \$24,999	25	4.47%	23	4.17%
\$25,000 - \$34,999	34	6.08%	33	5.99%

5-Mile Radius (65+)	2020		2025	
	Number of Households	% of Households	Number of Households	% of Households
Income Interval				
< \$15,000	118	3.38%	126	3.71%
\$15,000 - \$24,999	154	4.41%	159	4.68%
\$25,000 - \$34,999	248	7.10%	244	7.19%

10-Mile Radius (65+)	2020		2025	
	Number of Households	% of Households	Number of Households	% of Households
Income Interval				
< \$15,000	813	4.89%	845	5.15%
\$15,000 - \$24,999	963	5.79%	1021	6.23%
\$25,000 - \$34,999	1004	6.04%	1039	6.34%

Analysis: projected household growth in the target market - low income / senior households

Market Analysis – Supply

LOW INCOME HOUSING COMPLEXES - CRAWFORD COUNTY					
Development/ Known As	Address	Municipality	Type of Subsidy	Resident Type	# of Units
Bartlett Gardens	257 S. Main St.	Cambridge Springs	LIHTC	Senior	43
Evans Square	490 Line Street	Conneaut Lake	LIHTC	Senior	40
Washington Street Apartments	705 Washington Street	Conneautville	Section 8	Senior	30
Fairmount Apartments	494 Willow Street	Meadville	Section 8	Any	55
Fairview Apartments	494 Willow Street	Meadville	Section 8	Any	50
Parkside Commons	359 Walnut Street	Meadville	LIHTC	Any	56
Shyrock Senior Apartments	218 Chestnut Street	Meadville	LIHTC	Senior	41
Proposed	Confidential	SE Crawford Co.	LIHTC	Senior	39
Snodgrass Building	970 Park Avenue	Meadville	LIHTC	Any	11
Elm Street Apartments	617 W. Elm Street	Titusville	LIHTC	Any	18
Titusville Apartments	820 Rockwood Drive	Titusville	LIHTC	Any	30
Titusville Elderly Housing	227 Water Street	Titusville	Section 8	Senior	65
Forest Green Estates	19758 Forest Green Drive	West Mead Twp.	Section 8	Any	100
Total					578
Total - LIHTC					278
Total - Senior Only Units					258

Source: Pennsylvania Housing Finance Agency (PHFA) & HUD LIHTC Database

Analysis: 578 total low income housing units of which 258 are senior units. 300 given additional supply.

Market Analysis

Demand & Supply

UNDERSERVED HOUSEHOLD CALCULATION				
Total Eligible Households	Percentage Renters	Eligible Renter Households	Number of Competing Units	Unserviced Eligible Renter Households
2,500	30%	750	300	450
2,500	35%	875	300	575
2,500	40%	1000	300	700

Analysis: Within 10 miles, there are an estimated 2,500 eligible households of which 750 to 1,000 are likely renters. With only 300 low income senior units in the market, there appears to be excess demand. This is supported by occupancy data: all complex are at or near full occupancy and many have wait lists.

Cost Approach

- ▶ Limited Applicability As Investors Are Focused On Net Income And Not Cost New
 - ▶ According to the Valuation and Market Studies for Affordable Housing published by the Appraisal Institute, there is no correlation between cost and value of income-restricted properties that are designed to serve a public purpose.
- ▶ Substantial Depreciation Due To Rent Restrictions and Management Costs
 - ▶ Typically based on the Income Approach
- ▶ Estimate of Cost New
 - ▶ Actual Costs
 - ▶ Replacement Cost New (MVS)
 - ▶ Cost Comparables

Cost Approach – Actual Cost

ACTUAL PROJECT COST SUMMARY				
Item	Cost			
	Total	\$/Unit	\$/SF	%
Site Development Costs	\$835,000	\$20,875	\$22.03	9.1%
Hard Costs				
General Requirements	\$467,500	\$11,688	\$12.34	5.1%
Structure	\$5,445,000	\$136,125	\$143.67	59.4%
Builder's Overhead	\$125,000	\$3,125	\$3.30	1.4%
Builder's Profit	\$375,000	\$9,375	\$9.89	4.1%
Construction Contingency	\$224,925	\$5,623	\$5.93	2.5%
Total Hard Costs	\$6,637,425	\$165,936	\$175.13	72.4%
Soft Costs				
Fees - Architectural, Legal, Engineering, Survey, Environmental, Market Study, Appraisal, Etc.	\$623,044	\$15,576	\$16.44	6.8%
Misc. Development Charges - Multi-family App. Fee, Lease-Up, Tap-In & Munic. Fees, Etc.	\$194,210	\$4,855	\$5.12	2.1%
Construction & Financing Charges	\$86,512	\$2,163	\$2.28	0.9%
Development/Project Reserves - Operating, Rental Subsidy, Taxes, Insurance, Supportive Services, Etc.	\$401,268	\$10,032	\$10.59	4.4%
Syndication Fees & Expenses	\$356,846	\$8,921	\$9.42	3.9%
Other	\$33,500	\$838	\$0.88	0.4%
Total Soft Costs	\$1,695,380	\$42,385	\$44.73	18.5%
Total Development Costs (excluding Land & FF&E)	\$9,167,805	\$229,195	\$241.89	100.0%
Furniture Fixtures and Equipment (FF&E) Costs				
Unit Appliances, Trash Compactor, Common Area	\$245,489	\$6.137	\$6.48	
TOTAL PROJECT COST (Excluding Land Acquisition):	\$9,413,294	\$235,332	\$248.37	

¹ Source: Development Cost Certification w/ Independent Auditor's Report (Aug. 2018)

Gross Building Area (GBA):	37,900
Number of Units:	40

Cost Approach – Cost Comps

Local/Regional Apartment Cost Comparables										
	Datum 1 - November 2014 Construction Class "C" Masonry 25 Units, 32,982 s/f (LIHTC - Renov. w/ Addition) 27 Parking Spaces / 1.08 spaces per unit					Datum 2 - January 2012 Construction Class "D" Frame 36 Units, 53,812 s/f (LIHTC - Elderly) 36 Parking Spaces / 1 space per unit				
	Reported Costs	Cost Index to Current Costs	Adjusted Costs	\$/Unit	\$/SF	Total Cost	Cost Index to Current Costs	Adjusted Costs	\$/Unit	\$/SF
Hard Costs	\$4,407,709	1.105	\$4,870,518	\$194,821	\$147.67	\$5,080,028	1.205	\$6,121,434	\$170,040	\$113.76
Soft Costs	\$312,843	1.105	\$345,692	\$13,828	\$10.48	\$995,274	1.205	\$1,199,305	\$33,314	\$22.29
Site Development Costs	\$389,170	1.105	\$430,033	\$17,201	\$13.04	\$825,000	1.205	\$994,125	\$27,615	\$18.47
Total Costs Excl. FF&E & Land	\$5,109,722		\$5,646,243	\$225,850	\$171.19	\$6,900,302		\$8,314,864	\$230,968	\$154.52
FF&E	\$104,500	1.105	\$115,473	\$4,619	\$3.50	\$87,300	1.205	\$105,197	\$2,922	\$1.95
Total Costs (Excl. Land)	\$5,214,222		\$5,761,715	\$230,469	\$174.69	\$6,987,602		\$8,420,060	\$233,891	\$156.47

Datum 3 - July 2018 Construction Class "D" Frame 42 Units, 49,013 s/f (LIHTC - Elderly) 50 Parking Spaces / 1.19 spaces per unit					Datum 4 - June 2019 Construction Class "D" Frame 39 Units, 40,297 s/f (LIHTC - Elderly) 39 Parking Spaces / 1.00 spaces per unit				
Total Cost	Cost Index to Current Costs	Adjusted Costs	\$/Unit	\$/SF	Total Cost	Cost Index to Current Costs	Adjusted Costs	\$/Unit	\$/SF
\$7,414,383	1.025	\$7,599,743	\$180,946	\$155.06	\$7,600,425	1.013	\$7,699,231	\$197,416	\$191.06
\$2,309,106	1.025	\$2,366,834	\$56,353	\$48.29	\$2,130,776	1.013	\$2,158,476	\$55,346	\$53.56
\$928,360	1.025	\$951,569	\$22,656	\$19.41	\$825,000	1.013	\$835,725	\$21,429	\$20.74
\$10,651,849		\$10,918,145	\$259,956	\$222.76	\$10,556,201		\$10,693,432	\$274,191	\$265.37
\$270,000	1.025	\$276,750	\$6,589	\$5.65	\$260,000	1.013	\$263,380	\$6,753	\$6.54
\$10,921,849		\$11,194,895	\$266,545	\$228.41	\$10,816,201		\$10,956,810	\$280,944	\$271.90

Cost Approach – MVS

Control Data:

Unit Style:

Multiple Residences – Senior Citizen

Class:

“D” - Masonry Veneer

Construction Quality:

Excellent

Total GBA:

37,900 s/f

Unit Cost Data:

Base Cost:

\$141.00 psf

Add Refinements:

Elevator²:

\$2.57 psf

Sprinkler System:³

\$3.48 psf

Covered Porch:⁴

+ \$1.86 psf

Adjusted Base Cost:

\$148.91 psf

Adjustments to Base Cost:

(a) Area Multiplier (40,000 s/f, 40 units):

0.947

(b) Current Cost Multiplier (09/20, Sect. 12, Class D, Eastern):

1.020

(c) Local Cost Multiplier (Erie, PA, Class D, 7/20):

X 1.090

Composite Factor:

1.053

Adjusted Base Cost:

\$156.80 psf

Replacement Cost New (RCN):

Total Hard Costs: 37,900 s/f X \$156.80 psf:

\$5,942,720

Add:

Soft Costs (20% of hard costs):

+ 1,188,544

Site Development Costs (\$22,500 per unit):

+ \$900,000

Replacement Cost New (RCN) – soft, hard, & site costs:

\$8,031,264

\$200,782 per unit or \$211.91 psf

Cost Approach – Analysis

Cost Approach Conclusion			
Replacement Cost New (hard, soft, site costs)			\$10,000,000
Add: Entrepreneurial Incentive:	10.0%	+	\$1,000,000
Total RCN:		=	\$11,000,000
Less: Depreciation	92.5%	-	(\$10,175,000)
Depreciated Value of the Improvements		=	\$825,000
Add: Land Value Estimate:		+	\$100,000
Indicated Value (Real Estate Only)		=	\$925,000

Depreciation (all forms): Estimated by comparing the Total RCN to the value via the Income Approach (less land and FF&E value). The Income Approach best reflects the value of the property subject to the rent restrictions. Also, for this project the tax credit was based on 90% of the cost new, which is intangible asset. This accounts for the vast majority of the depreciation estimate.

Income Approach – Income

POTENTIAL GROSS INCOME		
	Total Monthly Rent	Annual Rent
Total Rent Income	\$24,442	\$293,300
Rent Assistance Payments (3 Units)	\$610	\$7,320
Total Potential Gross Income	\$25,052	\$300,620

Rent levels are restricted and set by PHFA.

Average \$626 per unit (40 units), ranges from \$205 to \$771
(30% to 80% less than “market” rent)

Without rent roll, review maximum permitted as published by PHFA

Maximum Allowance Rent

PHFA Rent Level Restrictions					
% of Median	Median Income Eff. Date	PennHomes		LIHTC	
		Max. Rent - Apt. Size		Max. Rent - Apt. Size	
		1 BR	2 BR	1 BR	2 BR
20%	\$66,000	\$247	\$297	\$247	\$297
30%	7/1/20	\$371	\$445	N/A	N/A
40%	(PennHomes)	\$495	\$594	\$495	\$594
50%	4/1/20	\$577	\$724	\$618	\$742
60%	(LIHTC)	\$577	\$724	\$742	\$891

Market: Crawford County

Income Approach – Expenses

- ▶ Real Estate Taxes
 - ▶ Should be based on the value of the rent restricted property
- ▶ Insurance
 - ▶ Typically greater than ordinary multi-family properties
- ▶ Management / Administrative: 20% to 45% +/-
 - ▶ Substantially more than ordinary multi-family properties
 - ▶ Increased government oversight
 - ▶ Monthly and annual reports
 - ▶ Legal expenses
 - ▶ Auditing costs
 - ▶ On-site manager and sometimes assistant manager
 - ▶ Percentage is partly skewed upwards due to lower rent / lower basis

Income Approach – Expenses

- ▶ Utilities
 - ▶ Property owner / lessor typically pays all expenses
- ▶ Repairs / Maintenance
- ▶ Reserves
 - ▶ Required by PHFA
 - ▶ Example property: \$410 per unit in 2020 plus 3% annual increases
 - ▶ National (market rate) average is closer to \$250 to \$300 per unit
- ▶ Total Operating Expense Ratio
 - ▶ Greater due to increased expenses and lower rent level (lower basis)
 - ▶ Typically 70% to 85% OER, can be higher

Income Approach – Expenses

- ▶ Expense Sources
 - ▶ Subject history, 3 years preferred
 - ▶ Other facilities
 - ▶ Published data

Income Approach – Expense History

SUBJECT HISTORY

SUBJECT HISTORY									
Number of Units		40	\$/PSF	\$/Unit				\$/PSF	\$/Unit
Rentable Area		27,190							
2019				2020 YTD (8 Months)		Annualized			
Rental Income	\$265,635	\$9.77	\$6,641	\$175,232	\$262,848	\$9.67	\$6,571		
Other Income	\$2,513	\$0.09	\$63	971	1,457	\$0.05	\$36		
Effective Gross Income (EGI)	\$268,148	\$9.86	\$6,704	\$176,203	\$264,305	\$9.72	\$6,608		
Expenses									
Fixed									
Taxes	\$128,822	\$4.74	\$3,221	\$24,261	\$24,261	\$0.89	\$607		
Insurance	12,248	0.45	306	12,602	12,602	0.46	315		
Variable									
Management/Admin.	119,189	4.38	2,980	79,400	119,100	4.38	2,977		
Utilities	68,644	2.52	1,716	41,970	62,955	2.32	1,574		
Repairs & Maintenance	27,711	1.02	693	16,756	25,134	0.92	628		
Miscellaneous	0	0.00	0	0	0	0.00	0		
Reserves for Replacement	15,935	0.59	398	10,304	15,456	0.57	386		
Total Operating Expenses	\$372,549	\$13.70	\$9,314	\$185,293	\$259,508	\$6.81	\$6,488		
Operating Expense Ratio (OER)	138.9%			98.2%					
Net Operating Income (NOI)	-\$104,401	-\$3.84	-\$2,610	-\$9,090	\$4,796	\$0.18	\$120		
Management/Admin. (% of EGI)	44.4%			45.1%					

Income Approach – Expense Comps

LOW INCOME HOUSING EXPENSE COMPARABLES															
	Datum 1 (D-438) Public Housing (Elderly) 2017			Datum 2 (D-408) Section 202 (Elderly) 2016			Datum 3 (D-449) Section 8 (Elderly) 2018			Datum 4 LIHTC (Elderly) Pro-Forma 2019			Datum 5 (D-463) Section 202 (Elderly) 2019		
	Number of Units	\$/PSF	\$/Unit	57	\$/PSF	\$/Unit	200	\$/PSF	\$/Unit	39	\$/PSF	\$/Unit	201	\$/PSF	\$/Unit
Rentable Area	99,647			30,457			117,716			27,148			113,052		
Rental Income	\$1,304,001	\$13.09	\$6,756	\$344,773	\$11.32	\$6,049	\$1,460,480	\$12.41	\$7,302	\$250,139	\$9.21	\$6,414	\$1,427,920	\$11.32	\$7,104
Other Income	34,870	\$0.35	\$181	5,178	\$0.17	\$91	84,486	\$0.72	\$422	0	\$0.00	\$0	20,425	\$0.17	\$102
Effective Gross Income (EGI)	\$1,338,871	\$13.44	\$6,937	\$349,951	\$11.49	\$6,139	\$1,544,966	\$13.12	\$7,725	\$250,139	\$9.21	\$6,414	\$1,448,345	\$12.81	\$7,206
Expenses															
Fixed															
Taxes	\$44,404	\$0.45	\$230	\$73,097	\$2.40	\$1,282	\$43,300	\$0.37	\$217	\$32,955	\$1.21	\$845	\$82,069	\$0.73	\$408
Insurance	50,085	0.50	260	\$1,218	0.04	21	\$36,127	0.31	181	\$12,200	0.45	313	\$43,166	\$0.38	215
Variable															
Management/Admin.	633,145	6.35	3,281	\$89,239	2.93	1,566	\$559,250	4.75	2,796	\$88,130	3.25	2,260	\$380,786	\$3.37	1,894
Utilities	295,190	2.96	1,529	84,670	2.78	1,485	298,955	2.54	1,495	20,944	0.77	537	283,442	\$2.51	1,410
Repairs / Maintenance	222,698	2.23	1,154	59,087	1.94	1,037	165,363	1.40	827	52,270	1.93	1,340	190,917	\$1.69	950
Miscellaneous	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	0	26,334	\$0.23	131
Reserves for Replacement	0	0.00	0	28,630	0.94	502	0	0.00	0	0	0.00	0	0	0.00	0
Total Operating Expenses	\$1,245,522	\$12.50	\$6,453	\$335,941	\$11.03	\$5,894	\$1,102,995	\$9.37	\$5,515	\$206,499	\$7.61	\$5,295	\$1,006,714	\$8.90	\$5,009
Operating Expense Ratio (OER)	93.0%			96.0%			71.4%			82.6%			69.5%		
Net Operating Income (NOI)	\$93,349	\$0.94	\$484	\$14,010	\$0.46	\$246	\$441,971	\$3.75	\$2,210	\$43,640	\$1.61	\$1,119	\$441,631	\$3.91	\$2,197
Management/Admin. (% of EGI)	47.3%			25.5%			36.2%			35.2%			26.3%		

	Datum 6 (D-399) Section 8 (Elderly) 2016			Datum 7 (D-434-18) LIHTC (Elderly) Pro-Forma 2016			Datum 8 (D-405) LIHTC (Elderly) 2016			Datum 9 (D-474-20) Public Housing (Elderly) 2019			Datum 10 (D-475-20) Public Housing (Elderly) 2019			Averages	
	Number of Units	\$/PSF	\$/Unit	42	\$/PSF	\$/Unit	41	\$/PSF	\$/Unit	160	\$/PSF	\$/Unit	75	\$/PSF	\$/Unit	\$/PSF	\$/Unit
Rentable Area	44,275			27,945			25,598			73,920			33,900				
Rental Income	\$726,361	\$16.41	\$9,557	\$254,870	\$7.15	\$6,068	\$211,582	\$8.27	\$5,161	\$932,177	\$12.61	\$5,826	\$427,091	\$8.71	\$5,695	\$11.05	\$6,693
Other Income	16,579	\$0.37	\$218	2,400	\$0.33	\$57	12,775	\$0.50	\$312	102,304	\$1.38	\$639	7,427	\$0.22	\$99	\$0.42	\$225
Effective Gross Income (EGI)	\$742,940	\$16.78	\$9,776	\$257,270	\$9.21	\$6,125	\$224,357	\$8.76	\$5,472	\$1,034,481	\$13.99	\$6,466	\$434,518	\$12.82	\$5,794	\$12.16	\$6,918
Expenses																	
Fixed																	
Taxes	\$0	\$0.00	\$0	\$34,125	\$1.25	\$813	\$40,207	\$1.57	\$981	\$33,845	\$0.46	\$212	\$22,860	\$0.67	\$305	\$1.01	\$588
Insurance	\$30,000	0.68	395	\$10,673	0.57	254	\$10,866	0.42	265	\$30,507	0.41	191	\$16,843	0.50	225	0.43	232
Variable																	
Management/Admin.	\$232,570	5.25	3,060	\$81,056	1.44	1,930	\$76,336	2.98	1,862	\$362,768	4.91	2,267	\$167,930	4.95	2,239	4.02	2,315
Utilities	197,260	4.46	2,596	34,587	1.37	824	33,895	1.32	827	260,268	3.52	1,627	178,044	5.25	2,374	2.75	1,470
Repairs / Maintenance	59,687	1.35	785	61,360	0.80	1,461	51,372	2.01	1,253	231,326	3.13	1,446	91,879	2.71	1,225	1.92	1,148
Miscellaneous	0	0.00	0	2,520	0.09	60	0	0.00	0	0	0.00	0	0	0.00	0	0.16	96
Reserves for Replacement	113,664	2.57	1,496	15,750	0.87	375	0	0.00	0	0	0.00	0	0	0.00	0	1.46	791
Total Operating Expenses	\$633,181	\$14.30	\$8,331	\$240,071	\$6.39	\$5,716	\$212,676	\$8.31	\$5,187	\$918,714	\$12.43	\$5,742	\$477,556	\$14.09	\$6,367	\$10.49	\$5,905
Operating Expense Ratio (OER)	85.2%			93.3%			94.8%			88.8%			109.9%				
Net Operating Income (NOI)	\$109,759	\$2.48	\$1,444	\$17,199	\$0.62	\$410	\$11,681	\$0.46	\$285	\$115,767	\$1.57	\$724	-\$43,038	-\$1.27	(\$574)	\$1.45	\$1,013
Management/Admin. (% of EGI)	31.3%			31.5%			34.0%			35.1%			38.6%				

Income Approach – IREM

IREM Expenses ¹											
	Low Rise Buildings										Averages
	Region 3			Region 5			Total USA (Elderly)			2010 - Present	
	Low	Median	High	Low	Median	High	Low	Median	High	Median	
Rentable Area (sqft)	62,575			56,680			37,377				52,211
Total Units	82			77			56				72
	\$/sqft	\$/sqft	\$/sqft	\$/sqft	\$/sqft	\$/sqft	\$/sqft	\$/sqft	\$/sqft	\$/sqft	\$/sqft
Expenses											
Taxes	\$0.45	\$1.01	\$1.27	\$0.12	\$0.66	\$0.84	\$0.40	\$0.73	\$1.21	\$0.30	\$0.70
Insurance	0.33	0.41	0.48	0.38	0.52	0.70	0.38	0.53	0.66	0.37	\$0.48
Management/Administrative	2.06	2.84	3.19	2.07	3.00	3.54	2.38	3.05	3.64	2.28	\$2.81
Repairs/Maintenance	1.58	2.15	2.82	1.50	2.00	2.86	1.36	2.12	3.54	2.30	\$2.22
Utilities ³	2.89	3.38	3.65	1.59	2.34	2.86	1.79	2.50	3.28	1.63	\$2.59
Miscellaneous	0.01	0.04	0.05	0.01	0.03	0.05	0.00	0.02	0.06	0.08	\$0.04
Operating Expenses	\$7.32	\$9.83	\$11.46	\$5.67	\$8.55	\$10.85	\$6.31	\$8.95	\$12.39	\$6.96	\$8.83
Operating Expense Ratio (OER)	79.8%	78.1%	69.6%	55.6%	74.0%	72.1%	62.0%	68.3%	70.6%	75.9%	70.6%
Operating Expenses per Unit	\$6,688			\$5,491			\$5,364			\$5,447	\$5,748
Management/Admin. (% EGI)	22.5%	22.6%	19.4%	20.3%	26.0%	23.5%	23.4%	23.3%	20.7%	24.9%	22.4%

1. Institute of Real Estate Management (IREM), Federally Assisted Apartments, 2018 Income/Expense Analysis.

2. Region 3 includes PA, while Region 5 includes Ohio and great lakes/midwest states.

3. All utilities are included.

Income Approach – POS

PROJECTED OPERATING STATEMENT				
Rentable Area		27,190		
# of Units		40		
Potential Gross Income (PGI)		\$ PSF	\$ Per Unit	
Rental Income (2020 restricted rents)	\$300,620	\$11.06	\$7,516	
Other Income	2,000	\$0.07	\$50	
Total PGI	302,620	\$11.13	\$7,566	
Vacancy/Credit Loss (2%)	(\$6,052)	(\$0.22)	(\$151)	
Effective Gross Income (EGI)	\$296,568	\$10.91	\$7,414	
Expenses				
Taxes	\$21,500	\$0.79	\$538	
Insurance	12,779	0.47	\$319	
Management/Admin.	25.0% of EGI	74,142	2.73	\$1,854
Utilities	65,256	2.40	\$1,631	
Repairs/Maintenance	27,190	1.00	\$680	
Misc./Reserves	\$450.00 per unit	18,000	0.66	\$450
Total Operating Expenses	\$218,867	\$8.05	\$5,472	
Operating Expense Ratio	73.8%			
Net Operating Income (NOI)	\$77,700			
	(round)	\$77,700	\$2.86	\$1,943

Tax Calculation Via Iteration		
NOI		\$77,700
Cap Rate	/	6.75%
Indicated Value w/ FF&E	=	\$1,151,111
Less FF&E	-	(\$225,000)
Value of Real Property/Assessor's MV		\$926,111
Common Level Factor	/	3.85
Assessment	=	\$240,548
X Millage Rate (grown @ 1%)	X	0.089284
Indicated Tax Expense		\$21,477
Taxes (Round)		\$21,500

Income Approach – Cap Rate

LOCAL / REGIONAL CAPITALIZATION RATES					
Apartment Name	Location	Age	# of Units	Sale Date	Capitalization Rate
Confidential	Mansfield, OH	Unk.	Unk.	January-17	7.00%
	Massillon, OH	1921	66	March-17	10.60%
	Meadville, PA	1870-1950s	42	April-17	8.35%
	Perryville, MD	2005	92	May-18	4.70%
	Erie, PA	1968	52	January-19	9.72%
	Bellefonte, PA	2003-07	48	January-19	6.35%
	Frederick, MD	1995	120	January-19	5.95%
	Euclid, OH	1969	126	March-19	8.29%
	Mechanicsburg, PA	1998	61	May-19	6.93%
	Warren, OH	1977	200	June-19	8.73%
Average					7.66%

The Perryville property had significant upside potential. The majority of the data include older properties with more risk. Conclusion: 6.75%.

Income Approach – Conclusion

Net Operating Income	/	Capitalization Rate	=	Indicated Value
\$77,700	/	6.75%	=	\$1,151,111
		Less – Depreciated Value of FF&E:		<u>- \$225,000</u>
		Indicated Retrospective Market Value (Real Estate Only):		\$926,111
		Round:		\$925,000

FF&E Value: typically based on depreciated cost. See next slide.

FF&E Value

- ▶ Typically based on depreciated cost
- ▶ The ownership typically maintains a schedule of items, date in service, and cost new
- ▶ Cost new is checked against MVS data
- ▶ Depreciation is applied considering straight line or MVS data
- ▶ More accurate for newer projects
- ▶ Older projects may include fully depreciated items that are still in use
- ▶ If no information is available or provided, a typical percentage may be applied

Sales Comparison Approach

- ▶ Rarely sell, especially within the initial 10 year tax credit period
- ▶ Developer has an interest in retaining the property to ensure compliance
- ▶ Adjusting market rate apartment sales is not reliable
 - ▶ The lack of LIHTC sales during the initial 10 year period reduces this potential
 - ▶ An extraction of a discount for older properties may be possible, but the Income Approach is more direct
- ▶ According to the **Valuation and Market Studies for Affordable Housing published by the Appraisal Institute:**
 - ▶ *The Sales Comparison Approach to valuing LIHTC real estate has been of little use because comparable sales of tax credit properties are rare. The tax credit program is predicated on the investors remaining in the investment for the stipulated holding period, which is no less than 15 years and is usually longer [30 years]. To take advantage of the tax credits, investors must remain in an ownership position. Consequently, there is little interest or reason for them to promote sale activity that could threaten the tax credit investment and trigger recapture provisions.*

Tax Credit Valuation

- ▶ Intangible asset
- ▶ Tax credit = dollar for dollar reduction in tax liability
- ▶ Tax credit owner can also depreciate the real estate asset
- ▶ Typically sold at a discount, but sometimes premiums are paid
 - ▶ Premiums typically occur in more built up / high demand markets
 - ▶ Premiums are sometimes paid to satisfy other requirements or goals
 - ▶ Even at a premium, the real estate depreciation usually results in a net savings
- ▶ Valuation Formula: 10 year (gross) tax credit X tax credit rate = value of tax credits
- ▶ Recent Example, Northwest PA (2018)
 - ▶ 10 year tax credit amount: \$10,113,350
 - ▶ Purchase price: \$9,506,549
 - ▶ Implied tax credit rate: \$0.94 (6% discount)
 - ▶ Formula: $\$10,113,350 \times 94\% = \$9,506,549$

Tax Credit Rates/ Sales

*Current tax credit rates are reportedly below \$0.85 vs. near \$1 pre-COVID

Location	# Units	Year	Tax Credit Sale Price
Ross Township, PA	20	2012	\$ 0.92
Richland Township, PA	66	2012	\$ 1.02
Homewood (city of Pgh), PA	41	2012	\$ 0.96
Oakland (city of Pgh), PA	158	2012	\$ 0.83
Hempfield Township, PA	45	2012	\$ 0.97
North Versailles, PA	84	2013	\$ 0.94
City of Pittsburgh, PA	47	2013	\$ 0.99
City of Erie	36	2013	\$ 0.87
State College, PA	58	2014	\$ 0.94
Ross Township, PA	42	2014	\$ 1.04
Wheeling, WV	40	2014	\$ 0.91
Plum Borough, PA	62	2014	\$ 0.98
Erie, PA	25	2014	\$ 0.93
Oxford, PA	64	2015	\$ 1.02
Spring Twp., PA	40	2015	\$ 1.00
Pittsburgh, PA	66	2015	\$ 1.01
Youngstown, OH	40	2015	\$ 1.06
New Brighton, PA	101	2015	\$ 1.08
Butler Township, PA	50	2015	\$ 0.98
Birdsboro, PA	58	2016	\$ 1.06
Morningside, PA	40	2016	\$ 1.05
Glassport, PA	49	2016	\$ 1.04
Squirrel Hill, PA	33	2016	\$ 1.08

Reconciliation

- ▶ Income Capitalization Approach - Most Applicable
- ▶ Cost Approach - Secondary Support
- ▶ Sales Comparison Approach - Limited Applicability, If Any

- ▶ **Final Value Conclusion - All or most weight on Income Approach**

Questions & Answers



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