



What are “Affordable” Apartments?

An overview of Low Income Tax Credit Properties in Orange County

BY JOYCE HUMMEL

In 1987 the IRS introduced “Section 42,” better known as the Low Income Housing Tax Credit (LIHTC) program to replace the Section 8 housing construction program that provided deeply subsidized apartments for households earning 0–80% of the Area Median Income (AMI).

Presently, a portion of the financing for most affordable housing is provided by the Section 42 program which allows tax credits to landlords and their equity investors over 10 years while the credits are subject to recapture for 15 years. Significant IRS penalties can be assessed if the owner fails to adhere to strict operational covenants. Owners receive the benefit of a dollar for dollar reduction of their tax liability; in exchange, the apartments must remain restricted to Very Low (30% to 50% AMI) and Low Income (at or below 60% AMI) households, now for up to 55 years. Most LIHTC apartment communities are 100% restricted; however some are “Mixed-Income” and provide conventional and LIHTC units within the a complex.

Annually, HUD publishes county-by-county income limits by household size and maximum allowable rents by bedroom count. Applicants for LIHTC units must prove their household income does not exceed prescribed limitations; additionally families must certify they earn a minimum of 2.5 times the published rent to income-qualify. (Note, seniors are generally held to 2.0 times the rent.) In 2010,

the **maximum** annual income for a three-person household qualifying for a Very Low Income (50%AMI) unit is \$41,850. Since the 2010 Orange County 50% AMI rent for a 2 Bedroom unit is \$1,046, the household must earn a **minimum** of \$2,615 per month, or \$31,380 per year to be considered for a unit. Housing Choice (formerly known as Section 8) Vouchers are generally accepted at LIHTC projects.

Since 1988,126 LIHTC apartment communities containing approximately 14,000 units have been built (or to a lesser degree, acquired, rehabbed and refinanced) in Orange County. Of the 126 complexes, 80 (64%) properties containing 9,300 units are geared toward families; 39 (31%) communities with more than 4,000 units are reserved for seniors, aged 55+ or 62+; 3 “Special Needs” properties with nearly 100 units were expressly built for the disabled; and 4 Single Room Occupancy (SRO) communities serve one person households within 460 studio units. The newest family LIHTC communities sport clubhouses with tutoring classrooms, computer centers, after school activities, pools and tot lots.

Skilled property management is key to a successful LIHTC community. Tenant selection is closely regulated. It is common for 3,000 households to apply for a new 80-unit project; employment, criminal background checks, incomes and assets are examined. Most Orange County LIHTC family projects have been absorbed at the rate of 40-60 units per month. Once

stabilized, it is not unusual for the projects to enjoy 75-95% renewal rates. Annual turnover is extremely low, usually below 10% for years 1–5; turnover may climb to 25% as the community ages. [A.A.](#)

.....
Joyce Hummel is a Principal of Apt Market Research in Costa Mesa — www.aptmktresearch.com