The Bluffs at Nine Mile Creek
Eden Prairie, Minnesota
Photo by Dominium

Beyond 100% Tax Credit

Keys for Successful Mixed-Income LIHTC Properties

By Allen Feliz, TCAM

Especially strong and effective strategies and execution in marketing, leasing, management, and compliance are essential for success in mixed-income low-income housing tax credit (LIHTC) projects, according to our observations and "do's" and "don'ts" from developers, owners, and property managers.

A typical mixed-income LIHTC project is a development in which at least 20% of the apartments are leased at restricted rents to low-income households making up to 60% of the area median income and the remaining units are leased at unrestricted rents to households of any income. These latter "market-rate" units may have significantly higher rents than the LIHTC units.

The most common types of mixed-income LIHTC projects are redeveloped public housing communities funded by federal HOPE VI grants, which usually have a mix of public housing, tax credit, and market-rate units, and "80-20" developments financed by tax-exempt bonds. In addition, some states have density bonuses, inclusionary zoning ordinances, and other land-use regulations that promote mixed-income developments. Common in states such as California, these programs require developers of market-rate single-family homes to simultaneously provide a certain amount of affordable rental units.

Allen Feliz

Given the huge demand for affordable rental housing, leasing up the LIHTC units in a mixed-income development is relatively easy. The keys to success are (1) attracting and retaining a sufficient number of moderate-income renters to fill the market-rate units, and (2) creating an appealing and comfortable atmosphere within the community for residents of all income levels.

The first step is having the right product.

Successful mixed-income projects generally have larger apartments and better amenities than 100% LIHTC developments. At Dominium, a Minneapolis-based multifamily developer/owner/manager, its mixed-

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income LIHTC properties offer a wider variety of floor plans and feature larger apartments with better finishes and more appliances (e.g., in-unit washers/dryers, high ceilings) than the company's 100% LIHTC developments. They also have underground parking and such features as enhanced fitness centers, clubhouses, rooftop decks, and game rooms.

For example, The Bluffs at Nine Mile Creek, a Dominium property in Eden Prairie, Minn., has underground parking, a fitness center, movie room, swimming pool, and other upscale amenities. The eight-year-old bond-financed development, now 95% occupied, has 63 LIHTC units with monthly gross rents ranging from $720 to $858 and 125 market-rate units renting from $1,155 to $2,000. Dominium constantly updates its mixed-income properties as they age with a robust maintenance program and new amenities and services to keep them attractive and competitive in the market. For instance, common areas such as community rooms, theaters, and fitness rooms are periodically re-furnished with couches, new equipment, and art work. Festive events such as Oktoberfest and chili cook-offs often feature live music performed free of charge by local bands.

Dominium offers services and activities that appeal to residents of all income levels and does not tailor services to any specific income band.

Services and Activities Crucial

Services and activities are crucial for successful mixed-income projects. Dominium offers services and activities that appeal to residents of all income levels and does not tailor services to any specific income band. Budgets for these social services are typically larger at its mixed-income properties compared to its 100% LIHTC developments, and common areas – used for social gatherings and other tenant events – are usually larger as well.

The amenities and services previously described are typically available at mixed-income properties with a higher proportion of market-rate units. At properties with a higher share of affordable units, such as HOPE VI developments, services may be tailored more toward the needs of lower-income tenants. For example, Interstate Realty Management, an affiliate of The Michaels Organization, Marlton, N.J., offers residents health care seminars, scholarship opportunities, job training, and employment opportunities.

Marketing, Leasing, Management

Executives reported that the marketing, leasing, and management strategies and techniques that their companies use for their mixed-income developments are generally the same as for their 100% LIHTC properties.

Brendt Rusten, Senior Vice President of Asset Management, and Jean Ferguson, Vice President of Property Management, believe that Dominium's success with mixed-income properties is due to marketing to prospective tenants across all income bands in the same fashion, presenting each development as "one property."

Dominium's comprehensive marketing strategy is similar for both its mixed-income and 100% low-income properties and includes print and online advertising, community outreach, and open house events. Marketing plans for Dominium-managed properties differ mostly by location. For example, less outreach is needed for properties in stronger, high-demand markets.

Similarly, Finlay Management, Inc., a Jacksonville, Fla.-based firm, employs the same advertising and marketing vehicles to target prospective affordable and market-rate renters.

At New Orleans, La.-based Latter & Blum, Inc., site managers begin the lease-up process at least 90 days prior to receiving certificates of occupancy. During this period they obtain a temporary CO to create a model unit and begin taking calls to build a waiting list. The firm advertises each property on the company's Web site and apartment Web sites and places ads, for example, on buses and at the local airport.

These owners/managers stress the importance of hiring and retaining highly qualified and motivated site management employees to assure successful lease-up and operation of mixed-income properties. They also mention having site staff willing to go the extra mile. For example, site managers for Finlay Management and Interstate Realty Management actually help new tenants move into their apartments.

Successful companies also often invest more

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resources in maintenance and capital improvements at their mixed-income properties to help in attracting and retaining residents.

LIHTC Compliance

The operators employ the same basic screening checks for prospective affordable and market-rate tenants (e.g., credit, criminal, background, employment).

A big difference, though, is in tax credit program compliance – making sure that the mixed-income property satisfies the LIHTC program requirements. As in 100% low-income properties, this means verifying that households applying for and living in the LIHTC units meet the tax credit program's income limits and other eligibility requirements.

However, owners and managers at mixed-income LIHTC properties must keep close track of which units are occupied by qualified low-income households and which units are occupied by market-rate residents in order to assure that the property's applicable fraction (i.e., minimum set-aside requirement) is met continuously. They must also monitor LIHTC households for income increases that would trigger the tax credit program's "next available unit" rule; make sure there is a proper distribution of affordable and market-rate tenants among comparable units; and properly manage move-ins, move-outs, and unit switches by tax credit residents to assure ongoing compliance.

Mixed-income tax credit properties must be managed effectively in order to be successful. Attentive and highly qualified site staff as well as sound maintenance programs that keep buildings and apartments in excellent physical condition are important for all types of multifamily rental housing developments. However, these features and strategies are even more crucial for mixed-income properties. TCA

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People in the News

Doug Snyder and **Trent Carroll** have joined Volunteers of America, a national nonprofit housing developer/owner, as Development Directors in Denver and Detroit, respectively. Each is focusing on development, acquisition and recapitalization of affordable housing opportunities in their multistate regions. Both were previously consultants.

Ted Toon has been named Director of the Office of Multifamily Housing Development at the U.S. Department of Housing and Urban Development (HUD) and **Margaret Salazar** has been named Deputy Director of HUD's Office of Affordable Housing Preservation.

Orlando J. Cabrera has joined Squire Sanders in its Washington, D.C. office to lead its Housing, Tax Credits and Community Development Industry Group, a new group within the real estate practice.

Brian Hudson, Executive Director & CEO of the Pennsylvania Housing Finance Agency, was elected as the new President of the National Council of State Housing Agencies at NCSHA's 42nd Annual Conference in Orlando in late October.

Larry Curtis, President and Managing Partner of Boston-based WinnDevelopment, has been elected to the Board of Trustees of the National Trust for Historic Preservation. Curtis is also a member of the Board of Directors and a past chairman of the National Housing & Rehabilitation Association.

Paul Barrett has joined multifamily housing mortgage lender Oak Grove Capital as Senior Vice President. He will focus on new loan originations and lead a new office the company is opening in Boston. He was previously the Northeast director for the AFL-CIO Housing Investment Trust. TCA