

**SECTION 42 LOW-INCOME HOUSING**

**Section M**

**North Carolina General Statute # 105-277.16**

In North Carolina low-income housing which has been allocated a federal tax credit under Section 42 of the Code is designated a special class of property under Article V, Section 2 (2) of the North Carolina Constitution and must be appraised, assessed and taxed in accordance with this section. The assessor must use the income approach as the method of valuation for property classified under this section and must take rent restrictions that apply to the property into consideration in determining the income attributable to the property. The assessor may not consider income tax credits received under Section 42 of the Code or under G.S. 105-129.42 in determining the income attributable to the property. (2008-146, s. 3.1;2008-187, s. 47.6).

**General Application**

Identify the low-income housing property being appraised and request copies of the audited financial statements for current year (revaluation year) and three prior years.

Analyze the actual income stream; apply expense ratios, capitalization rates, and Gross Rent Multipliers (GRM) developed for use in the 2017 Haywood County Revaluation Project.

**Standardized Operating Expenses & Vacancy Rates**

Based on information provided by the Institute of Real Estate Managers of the National Association of Realtors (IREM) for typical expense ratios for Section 42 and senior housing, the following analysis was used in developing procedures used by Haywood County for the 2017 Revaluation Project.

	National Average	Charlotte, NC	Southeast Region	Average
Expense Ratio	48.9%	51.9%	49.6%	50.13%
Net Operating Income	44.4%	45.5%	42.3%	44.06%

**Operating Expenses**

Based on the analysis above an expense ratio of 50% to 60% has been adopted for use by Haywood County.

**Vacancy Rates**

Analysis of vacancy rates provided by IREM indicates average vacancy rates of 0% to 5%, a rate of 3% has been adopted for use by Haywood County.

**Reserve for Replacements**

Analysis of typical reserve for replacements for traditional apartment properties in Haywood County indicates a range of 3% to 5%. A rate of 5% has been selected for use in Section 42 low-income housing appraisal.

**Capitalization Rate**

Realty Rates Investor Survey indicates an average capitalization rate of 8.85% for Apartments, a rate of 7.50% was selected for use in Section 42 low-income housing appraisal

**SAMPLE INCOME APPROACH APPRAISAL****SECTION 42 LOW INCOME HOUSING**

(G.S. 105-277.16)

**100 UNIT APARTMENT COMPLEX @ \$450 PER MONTH BASE RENT**

<b>POTENTIAL GROSS INCOME (100 x \$450 x 12 MONTHS)</b>	<b>\$540,000</b>
<b>VACANCY (3%)</b>	<b>(-\$16,200)</b>
<b>OTHER INCOME</b>	
<b>EFFECTIVE GROSS INCOME</b>	<b>\$523,800</b>
<b>OPERATING EXPENSES (50%)</b>	<b>(-\$261,900)</b>
<b>RESERVE FOR REPLACEMENTS (5%)</b>	<b>(-\$26,190)</b>
<b>NET OPERATING INCOME</b>	<b>\$235,710</b>
<b>CAPITALIZATION RATE (7.5%)</b>	<b>{.075}</b>
<b>APPRAISED VALUE</b>	<b>\$3,142,800</b>
<b>VALUE PER UNIT (ROUNDED)</b>	<b>\$31,428</b>