

**April 2-3 | Hyatt Regency Washington on Capitol Hill | Washington, DC**

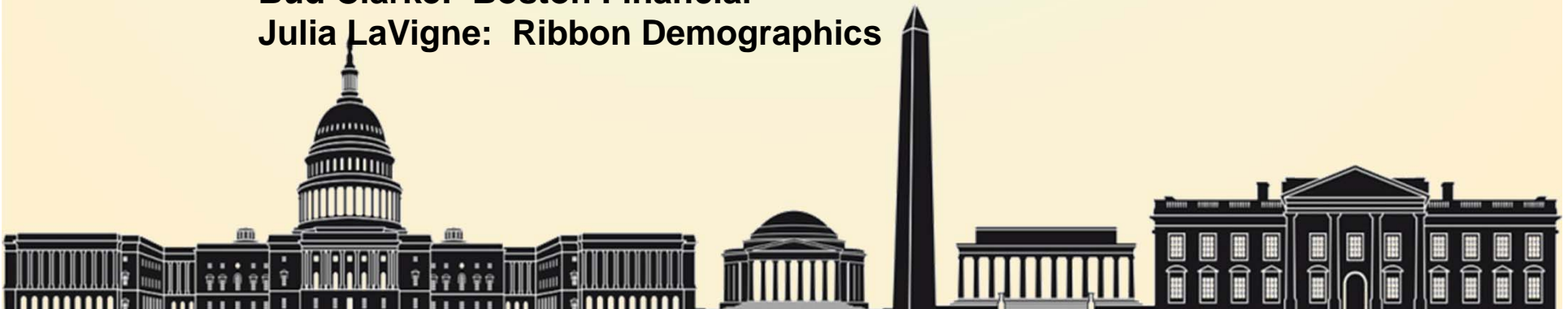


Formerly known as  
National Council of Affordable  
Housing Market Analysts

# **2013 Multifamily Housing Exchange**

**Get the Rent Right: Demystifying Rent and  
Capture Rate Calculations & Methodologies**

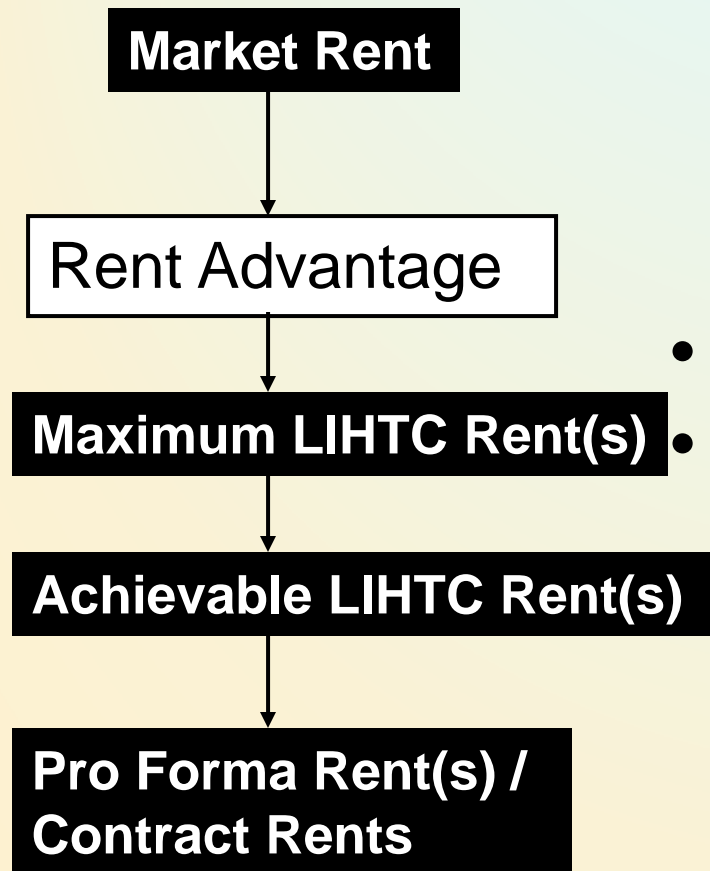
**Speakers: Rob Vogt, Vogt Santer Insights  
Bud Clarke: Boston Financial  
Julia LaVigne: Ribbon Demographics**



# What Rent? What Capture Rate?

- What rent is being assessed?
- How do we assess the right rent?
- What analytical tools are at our disposal to assess rent?
- What is capture and penetration rate?
- Why do we see vastly different capture rates in different states?
- What should one consider in assessing the capture and penetration rate?

# What Rent is Being Assessed?



- Market Advantage provides insulation to market risk over long-term.
  - Limited universe of renters
  - Annual re-certifications
  - Perceptions
- Industry Benchmark = 10%
- Exceptions:
  - Strong markets with strong rent growth.
  - Stagnant/rural markets with few alternative housing choices.
  - Superior Product provides advantage

# What Rent is Being Assessed?

- **Market Rent**

- The rent an apartment, without rent or income restrictions or rent subsidies, would command in the open market considering its location, features, and amenities.

# What Rent is Being Assessed?

- **Maximum Allowable Tax Credit Rent**
  - The highest rent a property can charge for a units based on the assigned Area Median Income rent restrictions, calculated as a percentage of the AMI, and to represent no more than 30% of that income level, less the appropriate utility allowances.

# What Rent is Being Assessed?

- **Achievable Tax Credit Rent**

- The rent an apartment, with rent and income restrictions or rent subsidies, would command in the market considering its restrictions, location, features, and amenities.

# What Rent is Being Assessed?

- **Pro Forma Rent**

- The rent used in underwriting which is at or below the Achievable Tax Credit Rent.

- **Contract Rent (Section 8)**

- The rent used in underwriting which is a function of a project based contract. Contract rents are also referred to as Pro Forma Rents, however may be above or below Market Rents and Achievable Tax Credit Rents.

# How Do We Assess The Right Rent?

- **Market Rents & Achievable Tax Credit Rents**
  - Identify comparable properties
    - Principal of substitution
    - Senior, Rehab, Rural
  - Evaluate PMA/SMA and market position
    - Survey and shop comparable properties
    - Organize and analyze comparable data
    - Adjustment process
    - Overriding local and regional economic trends



# What Analytical Tools Are At Our Disposal?

- Adjustment Grids - Quantitative
- Arrays – Qualitative
- Average / Median – Statistical

# What is the Right Rent Conclusion?

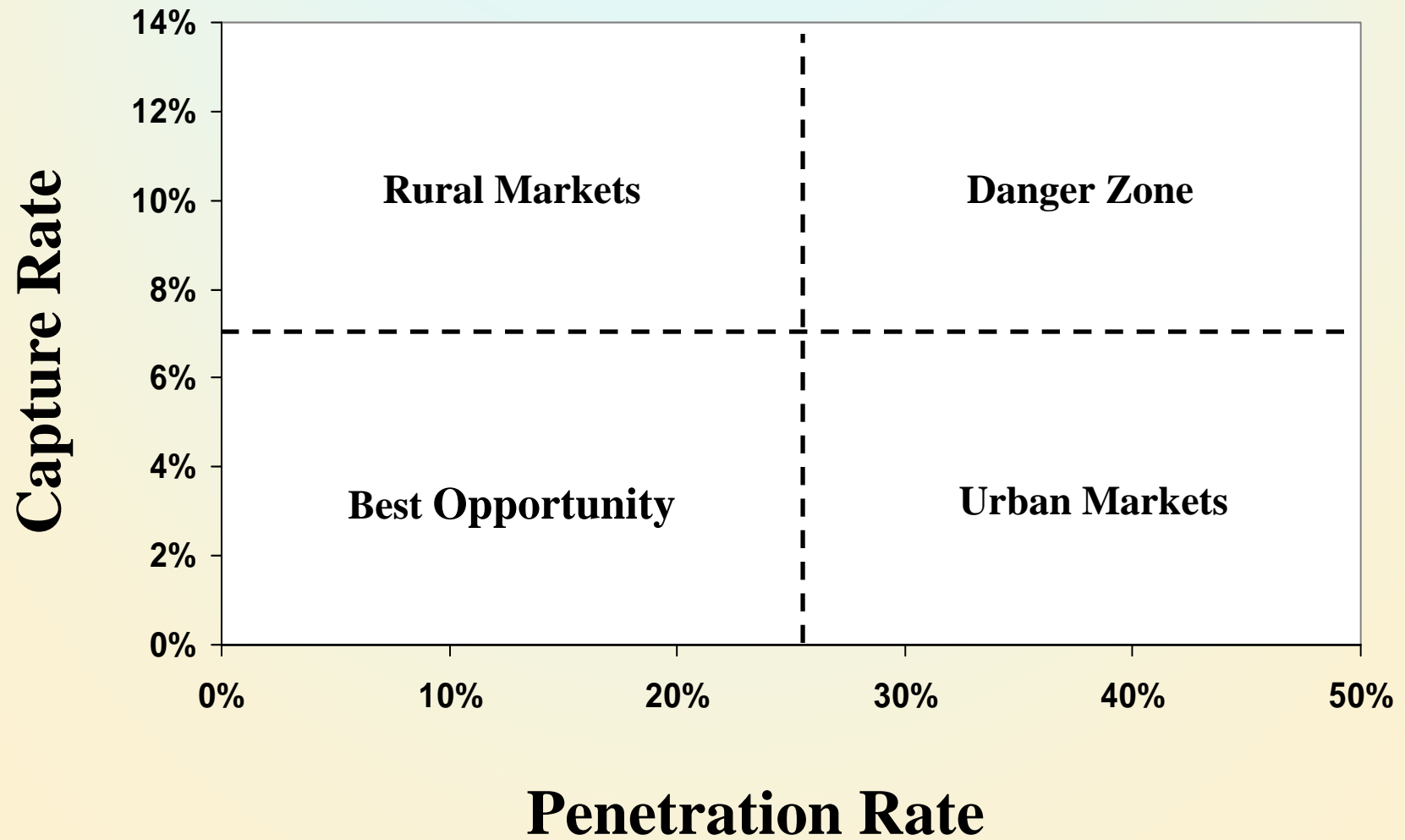


Anytown, USA

# What are Capture and Penetration Rates?

**CAPTURE RATE** – The share of age, size and income qualified renter households in the Primary Market Area that *the subject property* must capture to achieve a stabilized level of occupancy.

**PENETRATION RATE** – The share of age, size and income qualified renter households in the Primary Market Area that *all Tax Credit properties* must capture to maintain stabilized occupancy.

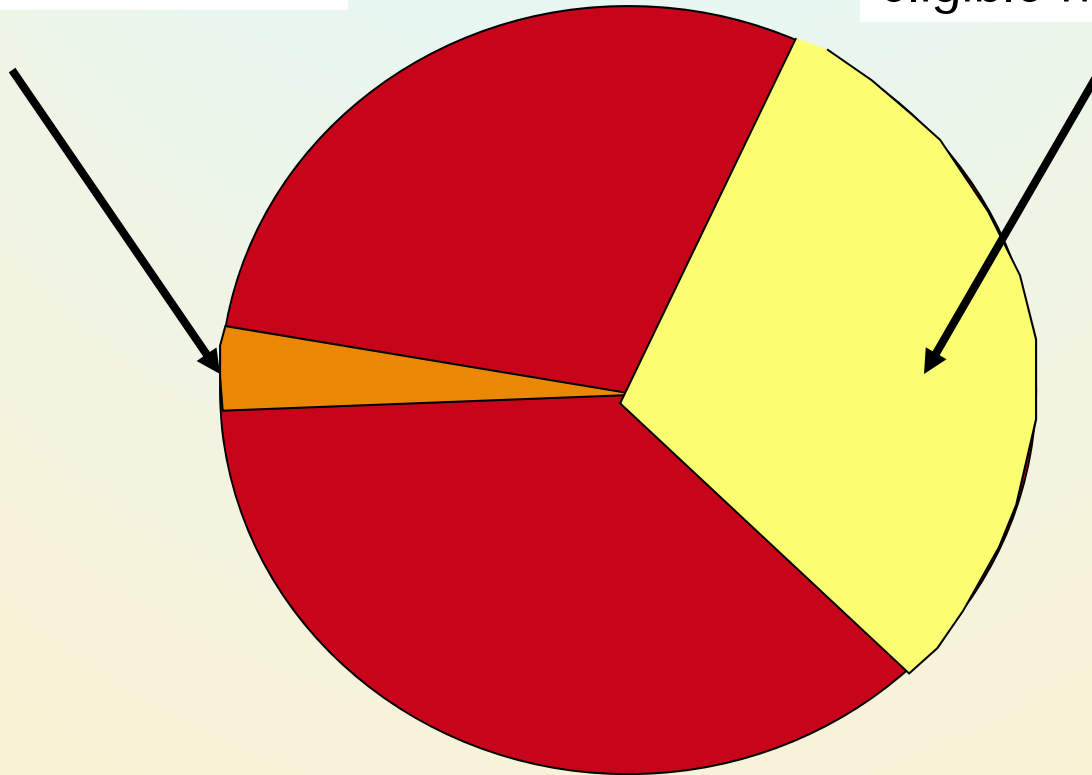


# Why Should We Care?

- Unlike market-rate, the band of affordability is narrow.
- In many markets, Tax Credit qualified households represents less than one quarter of all renter households.
- The lower the subject property's capture rate, the more selective management can be in approving tenants.

5% Capture Rate  
(need to get 1 in every  
20 eligible households)

33% Capture Rate  
(need to get 1 in every 3  
eligible households)



**Income-qualified households**

# Why Should We Care?

- Generally, low capture rates can yield more aggressive rents (closer to market-rate).
- Capture rate calculations can assist with project design.
- As the penetration rate increases, it is likely that the market will see higher vacancy rates in affordable properties.

# Capture rate calculations

*No specific calculations recommended by NCHMA at this time, but following steps are required:*

- To calculate the capture rate, the appropriate income range for residents to qualify for the project must be established.
- Maximum allowable household incomes for the subject project are based on published limits with the highest based on largest appropriate household size.
- Persons per housing unit can be adjusted by analysts - NCHMA occupancy guidelines :

One-bedroom: 1-2

Two-bedroom: 2-4

Three-bedroom: 4-6

Four-bedroom: 5+





# Capture rate calculations

- Minimum income required to live at the property is based on the lowest gross rents (including all utilities) offered at the subject site
- Accepted ratio of rent to income is 35% for families and 40% for seniors
- May vary by state or situation
- Example: \$500 gross rent requires an annual income of \$17,140 ( $\$500 / 35\% \times 12 \text{ mos.} = \$17,140$ )
- With rent subsidies minimum income = \$0, but capture rate should also be calculated using TC minimum incomes

# Sample capture rate calculations

HH Age by Income Data	
Income	Age 15 - 54 Years
Less than \$15,000	589
\$15,000 - \$24,999	593
\$25,000 - \$34,999	777
\$35,000 - \$49,999	1,605

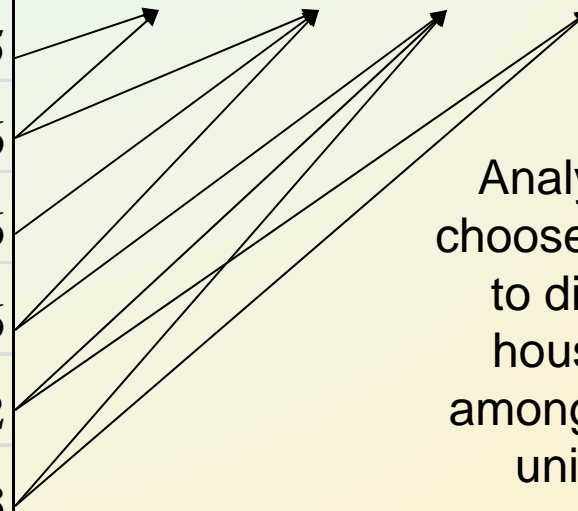
Estimated Eligible Households - All Sizes		
Income	Percent of Income Band	Eligible HHs 15 - 54 Years
<b>\$12,000</b> - \$15,000	20%	118
\$15,000 - \$24,999	100%	593
\$25,000 - \$34,999	100%	777
\$35,000 - <b>\$42,500</b>	50%	<u>803</u>
Total:		2,290
% Renters (\$10-50k)	<b>70%</b>	1,603

Be sure to use  
income or age  
appropriate  
tenure rate

# Sample capture rate calculations

Estimated Eligible Households - All Sizes		
HH Size	Percent of Renters	Eligible HHs
One-person	37%	595
Two-person	32%	516
Three-person	10%	166
Four-person	13%	216
Five-person	6%	92
Six-person	1%	18
<b>Total:</b>	<b>100%</b>	<b>1,603</b>

Unit Mix			
<u>1 BR</u>	<u>2 BR</u>	<u>3 BR</u>	<u>4 BR</u>



Analyst must choose how best to distribute households among different unit sizes

# Sample capture rate calculations

Unit Mix				
	<u>1 BR</u>	<u>2 BR</u>	<u>3 BR</u>	<u>4 BR</u>
Number Units	20	20	20	15
Estimated HHs	<u>853</u>	<u>532</u>	<u>163</u>	<u>55</u>
Capture Rate	2.3%	3.8%	12.3%	27.1%

Based on 1,603 households

Similar exercise should be repeated  
for multiple AMI levels

# Sample capture rate calculations

Unit Mix				
	<u>1 BR</u>	<u>2 BR</u>	<u>3 BR</u>	<u>4 BR</u>
Number Units	20	20	20	15
Estimated HHs	<u>853</u>	<u>413</u>	<u>210</u>	<u>127</u>
Capture Rate	2.3%	4.8%	9.5%	11.8%

Based on SAME 1,603 households but with adjustment to how households are distributed

# Sample capture rate calculations

Estimated Eligible Households By Eligible HH Sizes	
Income	Eligible HHs 15 - 54 Years
<b>\$12,000-20,000</b>	<b>182</b>
<b>\$20,000-30,000</b>	<b>447</b>
<b>\$30,000-40,000</b>	<b>73</b>
<b>\$40,000-42,500</b>	<b><u>3</u></b>
<b>Total:</b>	<b>706</b>

HISTA - Renter Households Age 15 to 54 Years							
	1-Pers HH	2-Pers HH	3-Pers HH	4-Pers HH	5-Pers HH	6+-Pers HH	Total
\$0-10,000	67	82	14	12	9	2	186
\$10,000-20,000	90	103	49	48	25	5	320
\$20,000-30,000	173	208	88	56	18	8	551
\$30,000-40,000	268	122	126	56	6	1	579
\$40,000-50,000	129	325	140	162	36	17	809
\$50,000-60,000	131	168	149	80	69	29	626

Calculating by income range for each household size **excludes ineligible households** – in this case more than half of those calculated before:

**1,600 vs. 700**

**4.7% or 10.7% capture rate based on 75 units**

# Sample capture rate calculations

Unit Mix				
	<u>1 BR</u>	<u>2 BR</u>	<u>3 BR</u>	<u>4 BR</u>
Number Units	20	20	20	15
Estimated HHs	<u>299</u>	<u>320</u>	<u>69</u>	<u>17</u>
Capture Rate	6.7%	6.2%	28.9%	87.6%

Based on 706 households  
calculated with HISTA

Again, similar exercise should be  
repeated for multiple AMI levels

# Why do we see vastly different capture rates in different states?

- Accepted/required capture rate methodologies have evolved over time leading to differences among states.
- The trend is for more refinement aiming for greater certainty of sufficient demand.
- The inclusion of varying added factors can lead to vastly different results.
- There is no single “correct” method, but consistency is key – the same elements should be compared.





# Why do we see vastly different capture rates in different states?

Added factors include:

- Household growth
- Turnover
- Mobility
- Rent burdened households
- Households living in substandard conditions
- Existing/planned supply

# Why do we see vastly different capture rates in different states?

When including these various factors in a capture rate, you are estimating the percent of these groups that a property needs to capture:

- Percent of new households
- Percent of households moving (turnover & mobility)
- Percent of rent burdened households
- Etc.

Including one or more factors can significantly reduce the number of allowable eligible households = higher capture rates

# Why do we see vastly different capture rates in different states?

Basic overall income eligible capture rate – no additional factors:

50 units / 1,000 income eligible renter households  
= **5.0%** capture rate

- Important to calculate this for all projects in addition to any required differing calculations

# Why do we see vastly different capture rates in different states?

Income Restrictions	30% AMI	40% AMI	50% AMI	60% AMI	Market Rate
New Rental Households					
+					
Existing HHs-Rent Overburdened					
+					
Existing HHs-Substandard Housing					
+					
Senior Homeowners					
=					
Total Demand					
-					
Supply					
=					
Net Demand					



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# Why do we see vastly different capture rates in different states?

Total capture rate example:

1,000 eligible HHs x 3% growth = 30

1,000 eligible HHs x 35% rent burdened HHs = 350

1,000 eligible HHs x 2% substandard = 20

Subtotal: 400

Less supply = 25

Total: 375

50 units / 375 income eligible renter households

= **13.3%** capture rate



# Why do we see vastly different capture rates in different states?

Income-qualified renter HHs	1,000
x	
Turnover (25%)	250
+	
New Rental Households	30
=	
Total Demand	280

50 units / 280 income eligible renter households  
= **17.8%** capture rate

# What should one consider in assessing the capture and penetration rate?

- Consistency – compare apples to apples.
- Capture rates by AMI and bedroom count.
- Outlier units inflating overall demand estimates.
- Market context necessary to determine achievability of capture rates.
- The risks of too much reliance on thresholds.
- Reliability of data – small area ACS based data, projections, reported turnover rates.
- Can too many factors impact reliability of results?

# What We Have Learned

- Assess the rents. Your project might meet LIHTC guidelines, but it's overpriced.
- Conversely, you may be leaving rent on the table
- What is the right capture rate? *It depends.*
- Understand the capture rate methodology. If you're not sure, ask the analyst.
- Finally, use the capture rate to assess a project's potential beyond overall depth of market.