

SECTION 42 LOW-INCOME HOUSING

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 2019 Durham 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 Durham County for the 2019 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 55% has been adopted for use by Durham 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 Durham County.

Reserve for Replacements

Analysis of typical reserve for replacements for traditional apartment properties in Durham County indicates a range of 3% to 5%. A rate of 3% 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 8% 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**

POTENTIAL GROSS INCOME (100 x \$450 x 12 MONTHS)	\$540,000
VACANCY (3%)	(-\$16,200)
OTHER INCOME	
EFFECTIVE GROSS INCOME	\$523,800
OPERATING EXPENSES (55%)	(-\$288,090)
RESERVE FOR REPLACEMENTS (5%)	(-\$14,405)
NET OPERATING INCOME	\$221,305
CAPITALIZATION RATE (8%)	{.08}
APPRAISED VALUE	\$2,766,313
VALUE PER UNIT (ROUNDED)	\$27,700