Mixed Income Projects – Positive Features

Many state housing agencies have embraced the concept that mixed income projects benefit the LIHTC program, and communities in general. The arguments are numerous:

- Communities prefer the diversity in income levels, and the projects are much more readily approved by city planners.
- There is much experience with mixed income in cities like New York and Boston.
- There is a broader tenant base, and hence less risk for the project.
- The unit mix gives property managers more flexibility in leasing.

Developer's Perspective

Developers prefer mixed income projects as well, as they foresee greater benefits:

- Building permits are easier to obtain.
- They can often build a larger project with no additional equity.
- The project can often built with lower per unit building costs. The land cost is fixed, and soft costs only increase nominally.
- A larger project translates into lower operating costs per unit.
- The larger projects allow for higher GC and developer fees.

The Economics of Mixed Use

	Model	Version	Expectation
	100 Units	180 Units	180 Units
	(all LIHTC)	(56% LIHTC)	(56% LIHTC)
Construction Costs			
Land	$ 2,000,000	$ 2,000,000	$ 2,000,000
Hard Costs	$ 12,000,000	$20,700,000	$ 20,700,000
Soft Costs	$ 3,500,000	$ 5,000,000	$ 5,000,000
Developer Fee	$ 2,100,000	$ 2,100,000	$ 3,600,000
Total	$ 19,600,000	$29,800,000	$ 31,300,000
Tax Credit Equity	$ 13,000,000	$13,000,000	$ 13,000,000
HUD Loan	$ 6,600,000	$15,000,000	$ 15,000,000
Deferred Fee	$ -	$ 1,800,000	$ 3,300,000
Debt/Unit	$ 66,000	$ 83,333	$ 83,333

The Economics of Mixed Use

	Initial Model 100 Units (all LIHTC)	Investor Version 180 Units (56% LIHTC)	Developer Expectation 180 Units (56% LIHTC)
Rental Income	$ 920,700	$ 1,807,920	$ 2,008,800
Average Rents	$ 825	$ 900	$ 1,000
Operating Expenses	$ 520,000	$ 900,000	$ 936,000
NOI	$ 400,700	$ 907,920	$ 1,072,800
Debt Service	$ (345,961)	$ (786,276)	$ (786,276)
Cash Flow	$ 54,739	$ 121,644	$ 286,524
DSC	1.16	1.15	1.36
Year 15 Equity	$ 2,000,000	$ 4,200,000	$ 8,700,000

Investor Perspective

- Developers are often using aggressive rental assumptions to leverage the properties. LURAs often do not limit rents for the market rate.
- There are no detailed statistics to track the record of mixed income.
- The higher income has an adverse impact on investor yields.
- Is the amenity package competitive for market rate units?
- To whom should the project marketing be oriented?
- Compliance rules can be confusing.

In summary, investors are seeing larger, more complicated deals with returns that do not often mirror market rate properties. Market rate investors typically earn returns in excess of 15%.