

## Report of the Rent-Restricted Housing Projects Valuation Committee

December 1, 2017

Chairperson Pat Albro

The Rent-Restricted Housing Projects Valuation Committee (Committee) hereby issues this report in accordance with Neb. Rev. Stat. § 77-1333(7).

The Committee has the statutory obligation to determine a capitalization rate or rates to be applied to the income stream for all low-income housing projects receiving tax credits under Section 42 of the Internal Revenue Code (LIHTC projects) in the State of Nebraska.

The Committee has reviewed income and expense statements submitted by LIHTC projects on or before July 1, 2017 in developing its rate. A spreadsheet of that information is attached to this report as Exhibit A. The Committee also considered information provided by David Levy, an attorney representing certain low-income housing projects in the State. That information is included as tabular information in Exhibit A.

The Committee found that some information submitted by LIHTC projects regarding equity and debt was incomplete and therefore excluded from the Committee's analysis. The Committee considered information provided by Midwest Housing Equity Group regarding equity return rates, which is attached to this report as Exhibit B.

Because the equity and debt information clearly overcomes the statutory assumption that equity should be weighted at 80 percent and the debt should be weighted at 20 percent, the Committee has determined that weighting equity at 60 percent and weighting debt at 40 percent is appropriate using the band-of-investment technique required by the statute.

The Committee has considered an overall mortgage constant of 7.2%, and an equity rate of 5.4%.

The minutes of the Committee's meetings for tax year 2017 are attached as Exhibit C.

**Based on all of the foregoing, the Committee has determined that the capitalization rate to be applied against the income stream derived for each project by every county assessor for the 2018 tax year is 6.5%.**

This is an unloaded capitalization rate, which means

- (1) that the local property taxes must be removed from the expenses that have been received by the county assessor, which will result in a higher indicated NOI; and
- (2) the effective consolidated property tax rate applicable to each project should be loaded onto (added to) the statewide capitalization rate in determining the project's assessed

value for tax year 2018. The Committee recommends that the assessor correlate and round the effective property tax rates to be loaded from the actual 2015, 2016, and 2017 tax years.

The Committee was comprised of the following members:

Rob Ogden, representing the county assessors;  
John Wiechmann, representing the low-income housing industry;  
Lori Johnson, representing appraisers from the private sector; and  
Pat Albro, chairperson, representing the Property Tax Administrator.

Faithfully submitted this 1<sup>st</sup> day of December, 2017.

  
Patricia S. Albro, Chairperson