A Study on Income Averaging and Its Use For Affordable Housing

Prepared for: Urban Land Conservancy
1600 Downing St., Suite 300
Denver, CO 80218
www.urbanlandc.org

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Written by: Alan Gottlieb
REPORT SUMMARY

This report explores the use of income averaging in conjunction with Low-Income Housing Tax Credit developments. As an organization grounded in and driven by the growing needs of displaced communities, Urban Land Conservancy is always searching for new equity-driven approaches in creating affordable housing. When income averaging became a ready-to-use tool in 2017, ULC was the first organization in Colorado to put it to use.

In 2017 ULC needed to rehabilitate The Villas at Wadsworth Station, an affordable housing development ULC purchased in 2012. If traditional financing were to be used, ULC would have been forced to displace some of the building’s residents who no longer fit into the median income structure. But ULC used income averaging to ensure existing residents remained in place. The renovations were successfully completed in 2019.

In partnership with Columbia Ventures, ULC used income averaging again, with LIHTC, at the 48th and Race property. The development, Viña, broke ground in October 2020 and opened for occupancy in March of 2022 with 150 affordable apartments and community-serving space, including Tepeyac Community Health Center. Using income averaging allowed for a deeper level of affordability without having to rely on Section 8 housing vouchers.

As ULC looks to the future of income averaging, it hopes to build on the success of these two projects and share with others the effectiveness of this tool.

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INTRODUCTION

A recent Urban Land Conservancy (ULC) report examined how ULC has deftly employed a combination of Low-Income Housing Tax Credits (LIHTC) and a community land trust (CLT) to increase the stock of permanently affordable rental housing in and around Denver. Over the past four years, ULC and development partners have added access to a new tool created by the December 2017 federal tax reform law, which provides more flexibility and makes more affordable rental housing development financially feasible.

In other words, there are a few complimentary advantages to income averaging. First, and most importantly, it makes it financially feasible to provide a substantial number of apartments in any given development for extremely low-income (ELI) people—those at or below 30 percent of Area Median Income (AMI)—without having to scrap for scarce federal housing vouchers. Second, it allows essential workers like teachers and firefighters, many of whom earn at incomes below 80 percent of AMI and who previously would have earned too much money to qualify for affordable housing, to rent an apartment in affordable developments. Again, for example, in Denver, to current 30 AMI for a household of three people is $27,000 a year.

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or below 80 percent of AMI and who would have otherwise been too much to qualify for affordable housing, to rent an apartment in affordable developments. Again, tis and essential workers remain in a city with increasingly unaffordable rental costs.

Income averaging offers developers and residents several advantages. First, and most importantly, it makes it financially feasible to provide a substantial number of apartments in any given development for extremely low-income (ELI) people—those at or below 30 percent of Area Median Income (AMI)—without having to scrap for scarce federal housing vouchers. Second, it allows essential workers like teachers and firefighters, many of whom earn at incomes below 80 percent of AMI and who previously would have earned too much money to qualify for affordable housing, to rent an apartment in affordable developments. Again, for example, in Denver, to current 30 AMI for a household of three people is $27,000 a year.

INCOME AVERAGING ON LIHTC PROJECTS

Permission to use income averaging in LIHTC developments resulted from the passage of the 2017 tax reform law which took effect on January 1, 2018. One of the main reasons Congress approved this change was explained in an article from Novogradac, a real estate professional services firm:

“In high-cost jurisdictions (like Denver), many people at 80 percent AMI have difficulty affording any kind of market-rate housing. The result is an unusual circumstance where there are options not those in between.

An objective of some community revitalization plans is to bring in higher-income households. Having LIHTC units serve those at the lower end of the spectrum is at least as important as the goals above. However, doing so means reduced rental income. Income averaging would allow LIHTC properties to offset the revenue reduction and make more affordable rental housing development financially feasible.”

In other words, there are a few complimentary advantages to income averaging. First, it allows for a healthier mix of incomes in affordable housing developments. Second, it will enable employed people of any kind of market-rate housing. And third, it allows rental housing for very low-income people without relying on federal housing vouchers.

The second community is Viña, part of a large-scale development at East 48th Avenue and Race Street in the Swansea-Elyria neighborhood. Viña, which opened for occupancy in March 2022, offers 150 permanently affordable homes, half of which will be available to people earning under 50 percent of AMI, with 30 percent of all the apartments set aside for ELI residents.

The remainder of this report details how these deals came together and what they portend for the future of affordable housing. But, first, we will provide a brief overview of how income averaging works.
THE VILLAS AT WADSWORTH STATION

ULC purchased the Villas at Wadsworth Station in 2012 for $7 million to preserve the apartments as affordable. It was the WJQQLDRLQWWVSURSHUWDFTXLQWVH in the Denver suburb of Lakewood. The development sits adjacent to the Wadsworth Light Rail Station connecting Downtown Denver to Golden, which opened two years later, in 2014. The station also features an under-utilized RTD 1,000-car parking garage. When ULC purchased the two buildings, LWZDVRXWGHDWQGQHHLHGVJQLWIEHQPQH.

Still, buying the apartments made sense to ULC’s Miropol. Affordable housing adjacent to public transit—known as transit-oriented development (TOD)—was one of ULC’s main areas of focus as it worked to acquire SURSHUWULHUIURQWHUHPFPXQXLWIEHQPQH.

"We liked the buildings because they were adjacent to the West light rail line, and we believed Denver’s Transit-Oriented Development Fund needed to expand beyond WKH&LWLQPLWDOGJRUHJQRDOPLULSRQOL shares.

Denver’s Affordable Housing TOD fund ZDVFUDHWHQLQKHGVWXFKIXQG anywhere in the U.S., it was spearheaded by ULC, the City and County of Denver, QWHISLVLHGHQXQPGQLWLVHVDQDLRQDOQRQSU focused on affordable housing), and several philanthropic and banking investors. While the $15 million fund (which later grew to $24 million) was initially set up to serve only acquisitions within the Denver city limits, Miropol was among those pushing from the outset for a metro-wide approach. He saw the Villas at Wadsworth Station as an ideal investment for the TOD fund and hoped to receive a $6.3 million loan from the fund toward the $7 million purchase price—or 90 percent loan to value.

But other fund partners balked, which Miropol laments as a missed opportunity to this day. "We have a TOD fund with money, and we WJQQLDRLQWWVSURSHUWDFTXLQWVH? Here was an opportunity to take it regionally. It seemed like common sense, EXWIVDRWIIKLVLQWFRPPQVHQVH.

With the TOD fund off the table, ULC had to turn to more traditional—and expensive VRXUFWRIQDOFLQIIRUWKHXSFUKDVHPWQXQGPPXQXQG.

Citywide Bank provided a $5.25 million loan, which funded the bulk of the purchase. ULC had to raise the other $1.75 million with subordinate debt and its own cash. Eventually, the project received $1 million from the Colorado Division of Housing covering a portion of ULC’s investment.

"The value in a rehab project like this is that it helps preserve naturally affordable housing that is not covenant restricted OLNHWGDLRLDQOQ+,76SURMFVVDWXU&ODUNZKTVHJPEQODUN&RPXQXPHV helped ULC pull together the project DQDFLQWOHRHKGDOWDHVRQH.

In addition, state credits often used to augment four-percent deals, were not available at that time. Two years after the acquisition, CRHDC determined that using only four-percent federal tax credits, ZRXOGRQWZRUNIRUKHPQDFQLDDQ stepped out of the deal.

Once CRHDC pulled out, ULC looked at XVLQWDJHPWQRQDOFLQIRUWKH renovation. However, using tax-exempt bonds wouldn’t have brought in enough cash to do the critical upgrades—only offering about $5,000 per apartment—when $20,000 per apartment ($2M total) was what the buildings needed.

Ultimately, ULC returned to four-percent tax credits, which were received in early 2018. These credits would allow renovations at just over $20,000 per unit, which attracted investors to the deal through New York-based Richman Capital, a tax credit syndicator.
VIÑA AT 48TH AND RACE

ULC and its partners also used LIHTC and income averaging for a 150-unit affordable housing development which sits on a two-acre parcel in the Elyria-Swansea neighborhood near East 48th Avenue and Race Street.

The development, Viña, broke ground in October 2020 and opened for occupancy in March 2022. It is part of a larger, six-acre piece of land ULC bought in March 2015 for $5.5 million after Denver’s economic development office brought the opportunity to ULC’s attention. It sits just two blocks east of the N Line Regional Transportation District rail station connecting downtown Denver to the suburb of Thornton.

The two buildings, constructed in the early 1970s, suffered from deferred maintenance and required a new roof and a paint job. In addition, apartments needed new flooring, HVAC units, appliances, kitchens, cabinetry, and bathrooms.

Rather than move families out, the renovation renovations began in the spring of 2018 and were completed in early 2019.

Today, the Villas at Wadsworth Station’s 100 apartments average about 55 percent of the AMI. Some residents are as high as 75 percent of AMI, and a number are at 30 percent AMI. The building holds 72 one-bedroom apartments and 28 two-bedrooms.

“Residents are a very diverse group. We have
different needs, and a paint job. In
HVAC units, appliances, kitchens, cabinetry,
and bathrooms.

The development will also feature a
fresh food market—a bodega or a carneceria.

“The City and County of Denver viewed this

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As part of its agreement with the city, ULC promised that 51 percent of the housing would be reserved for people earning below 80 percent of AMI and that the development of the entire six-acre parcel would ultimately create 26 permanent jobs.

**FINDING A DEVELOPER**

As is true with many large real estate transactions, assembling the development portion of the deal took time and perseverance. Soon after ULC bought the land, it searched for a master developer and a partner, said when Pickett made overtures, Columbia Ventures of Atlanta, through Tony Pickett, his company was immediately intrigued. Dillon Baynes, Columbia’s managing partner, said when Pickett made overtures, “Generally, we want to operate within a two-hour drive or flight of Atlanta,” Baynes says, “But when the partner, said when Pickett made overtures, we came out and saw this property, learned about Savannah and Augusta, Georgia, and Jacksonville, Florida as other cities where Columbia has done developments. “But when we came out and saw this property, learned about the project, and got to know all the partners involved, we thought the opportunity was apparent.”

Baynes also said the TOD angle was “super relevant” in piquing Columbia Ventures’ interest in the project.

**SECURING TAX CREDITS**

It is often the case that securing tax credits is the most challenging piece of affordable housing in the rapidly gentrifying Globeville-Elyria Swansea area was so apparent that ULC knew it had a strong argument for the credits. “Our pitch to CHFA (Colorado Housing Finance Authority) was that Viña quadruples the supply of permanently affordable housing in the area. Viña is also among the first income-averaging developments approved in Colorado using the new income-averaging option.

As part of its tax credit application, Columbia committed to serving a substantial number of working people earning up to 80 percent of AMI, and 75 units are restricted for those earning up to 30 percent AMI.
THE IMPACT OF TEPEYAC COMMUNITY HEALTH CENTER

Having a full-service health clinic built into Viña’s ground floor is one of its most unique and appealing features. Tepeyac is a community health center in Globeville currently operating at capacity. "Many of our patients are essential frontline workers who are integral to our economy and live with disproportionate health risks, like COVID-19," says Jim Garcia, Chief Executive Officer of Tepeyac. "Our families often need a combination of services and resources that we will be able to offer in this new and significantly larger Tepeyac facility."

The new clinic, 24,500 square feet, will feature 20 medical exam rooms, a dental suite, and a behavioral health suite, including dedicated space for art therapy and play therapy. There will also be a full-service pharmacy on-site. The original, much smaller Globeville clinic will remain open as well. Garcia said the new clinic would increase the capacity by a factor of five and will eventually more than triple the number of people it can serve each year. "This project made a lot of sense for us in several ways," Garcia says. "We have been committed to staying in the Globeville-Elyria-Swansea area, and with the new light rail, we can continue to serve people from all over the metro area. It is a great, central location for us."

The clinic is set to open in Fall of 2022.

THE FUTURE OF INCOME AVERAGING

As an organization grounded in and driven by the community, ULC is always searching for new equity-driven approaches to affordable housing. "After learning that income averaging would allow us to decrease our reliance on housing vouchers and increase our impact across the AMI level, we knew we had to give it a shot," says Aaron Miripol. "Developers are not always quick to jump to new financing options when they have readily available tools that are tried and tested, so we were especially grateful to Columbia Ventures in this new territory with us and using Income Averaging at Viña Apartments," Miripol adds.

In fact, Miripol regards ULC’s use of income averaging for the Villas at Wadsworth Station and Viña projects as a blueprint for future affordable housing developments. "It’s another available tool that is tried and tested, so we were especially grateful to Columbia Ventures in this new territory with us and using Income Averaging at Viña Apartments," Miripol adds.