Income Restriction Analysis Guide, South Carolina Multifamily Assets

Additional Rules & Steps for Multifamily Underwriting in South Carolina

When Income Restrictions Are Present

1. Unit Mix Segregation

Rule: Create separate line items for market-rate vs. income-restricted units

Implementation Steps:

- Identify total units by type (1BR, 2BR, etc.)
- Determine which unit types have restrictions
- Split restricted unit types into two categories:
  - Market Rate Units
  - Income-Restricted Units
- Create expanded unit mix table showing both categories

Example Format:

```
| Unit Type | Total Units | Market Rate | Income-Restricted | Restricted Rent |
|-----------|-------------|-------------|-------------------|-----------------|
| 1BR      | 230        | 124        | 106              | $869           |
```

2. Revenue Calculations with Restrictions

Rule: Calculate gross potential rent using different rates for restricted vs. market units

Steps:

1. Market Rate Units: # units × market rent × 12 months
2. Restricted Units: # units × restricted rent × 12 months
3. Sum all unit types for total GPR

Calculation Format:

```
1BR Restricted: 106 units × $869 × 12 = $1,105,968
1BR Market: 124 units × $1,088 × 12 = $1,618,944
[Continue for all unit types]
Total GPR = Sum of all categories
```

3. Property Tax Research & Calculation

Rule: When requested, research specific jurisdiction tax rates

Research Steps:

1. Search for "[City/County] [State] property tax rate commercial property [year]"
2. Identify:
   - Total millage rate on multifamily apartment communities
   - Assessment ratio for multifamily apartment communities
3. Calculate tax burden:
   - Assumed Property Value × Assessment Rate = Assessed Value × Assessment Ratio × Millage Rate
   - Always request

Example:

- Property Value: $100,000,000
- Assessment Rate: 26%
- Assessed Value: $26,000,000
- Assessment Ratio: 6%
- Millage Rate: 0.549
- Tax = $26,000,000 × 0.06 × 0.549 = $856,440

4. Multi-Scenario Stabilized Analysis

Rule: Create comprehensive comparison showing restricted vs. unrestricted scenarios

Required Scenarios:

1. In-Place (T12)
2. Stabilized with Restrictions
3. Stabilized Unrestricted (with property taxes)

Table Structure:

```
| Line Item | In-Place | Stabilized w/ Restrictions | Stabilized Unrestricted | Variance |
```

Key Differences:

- Unrestricted GPR = All units at market rent
- Unrestricted OpEx = Include calculated property taxes
- Show variance column to highlight trade-offs

5. Net Benefit Analysis

Rule: Quantify the economic impact of maintaining restrictions

Calculation Steps:

1. Calculate gross rent gain from removing restrictions
2. Calculate property tax burden triggered
3. Calculate net impact (usually negative due to tax burden)

Format:

```
Gross Rent Gain: +$277,968
Property Tax Burden: -$856,440
Net Annual Benefit of Restrictions: +$600,710
```

6. Enhanced Metrics Reporting

Rule: Include both restricted and unrestricted metrics in summary

Additional Metrics Required:

- Stabilized NOI (Unrestricted)
- Implied Cap Rate (Unrestricted)
- Annual Property Tax Savings
- Net Annual Benefit of Restrictions

Calculation Notes:

- Implied Cap Rate = NOI ÷ Implied Terminal Value
- Calculate for all NOI scenarios (In-Place, Stabilized w/ Restrictions, Stabilized Unrestricted)

Documentation Standards

Always Document:

1. **Assessment Assumptions**
    - Assessment rate (% of market value)
    - Assessment ratio by property type
    - Source of assessment data
2. **Tax Rate Components**
    - Base millage rate
    - Total millage including all jurisdictions
    - Year of rates being used
3. **Restriction Details**
    - Number and type of restricted units
    - Restriction level (e.g., 50% AMI)
    - Monthly rent for restricted units
4. **Calculation Methodology**
    - Show full formulas with numbers
    - Include step-by-step calculations
    - Label all scenarios clearly

Summary Formula Reference

Property Tax Calculation:

```
Property Tax = Assessed Value × Assessment Ratio × Millage Rate
```

Net Benefit of Restrictions:

```
Net Benefit = Property Tax Savings - Revenue Loss from Restrictions
```

Stabilized NOI Comparison:

```
NOI (Restricted) = Revenue (w/ restricted rents) - OpEx (no taxes)
NOI (Unrestricted) = Revenue (all market rents) - OpEx (with taxes)
```