



Novogradac Journal of Tax Credits

News, Analysis and Commentary On Affordable Housing, Community Development and Renewable Energy Tax Credits

June 2015 • Volume VI • Issue VI

Published by Novogradac & Company LLP

Focus on: Las Vegas

MARK O'MEARA, STAFF WRITER

NOVOGRADAC & COMPANY LLP

Las Vegas is a city of immense wealth. It is known for its gambling, shopping, fine dining and nightlife as well as being the financial and cultural center of Southern Nevada. It is one of the premiere destinations in the United States for conventions, business and meetings and is one of the wealthiest major cities in the country. In addition, the city is a global leader in the hospitality industry and is one of the top tourist destinations worldwide.

With all that wealth, some might assume Las Vegas has little need for affordable housing. Affordable housing professionals say this is far from true. In fact, a market study by Novogradac & Company LLP found the accommodation/food services, construction, arts/entertainment/recreation, and retail are some of the area's largest industries. With those types of jobs often come lower wages and a need for more affordable housing. In addition, local developers note that Las Vegas is a popular destination for retirees, who also need affordable housing options as they often live on fixed incomes.

About Las Vegas

Las Vegas, which had a population of 603,448 in 2013, according to the U.S. Census Bureau, is located in southern Nevada. It is the most populous city in Nevada and is the 30th-most populous city in the United States. Las Vegas is also the county seat of Clark County. Las Vegas is part of the Las Vegas-Henderson-Paradise, Nev. metropolitan statistical area (MSA). Los Angeles is approximately 275 miles southwest of Las Vegas and Salt Lake City, Utah, is roughly 420 miles to the northeast. The MSA's population was 2,043,870 in 2014. During the next five years, the MSA is expected to grow by 1.3 percent annually to reach 2,175,978. That's almost double the projected national annual growth rate of 0.7 percent.

Households in the MSA are expected to grow at the same rate as the MSA's population. In 2014, there were 745,051 households in the MSA. That number is expected to increase by 1.3 percent annually through 2019, when it reaches 791,830. The MSA's household growth rate is slightly higher than the national household growth rate. The number of households in the United States is expected to increase by 0.8 percent annually through 2019 when it reaches nearly 123.46 million households.

Household Income

Residents in the MSA earn slightly less than the national average. The median household income in the Las Vegas-Henderson-Paradise, Nev., MSA was \$50,717 in 2014. By comparison, the national average income was \$51,314 in 2014. That gap is expected to increase during the next five years. The median household income in the MSA is

YEAR	LAS VEGAS-HENDERSON-PARADISE, NEV. MSA		USA	
	NUMBER	ANNUAL CHANGE	NUMBER	ANNUAL CHANGE
2000	1,375,765	-	281,421,906	-
2010	1,951,269	4.2%	308,745,538	1.0%
2014	2,043,870	1.1%	314,467,933	0.4%
2019	2,175,978	1.3%	325,843,774	0.7%

Source: ESRI Demographics 2014, Novogradac & Company LLP, April 2015

continued from page 1

expected to increase by 2.9 percent annually through 2019 when it reaches \$58,019. The national average is expected to grow by 3.2 percent annually through 2019 when it reaches \$59,580.

In 2014, there were 323,458 renter households in the MSA. This is significantly higher than the 209,183 renter households in the MSA in 2000. In 2014, 40.8 percent of renter households in the MSA were considered rent-overburdened, meaning they spent at least 35 percent of their income on rent. This is substantially higher than the 29.5 percent of renter households across the country that were considered rent-overburdened in 2014, according to a Novogradac & Company LLP market study. By comparison, 23.9 percent of renter households in the MSA were considered extremely rent-overburden in 2014, meaning they spent at least 50 percent on the income on rent. This is higher than the national average of 17.6 percent.

Due to the higher-than-average rent overburdened rates, affordable housing developers see extremely high occupancy rates at their properties. George Gekakis Inc., which owns and maintains seven senior housing communities with 860 units of affordable housing in the area, has occupancy rates between 97 and 100 percent. "With the aging population, there is an ever-increasing need [for affordable housing], said George Gekakis, president of George Gekakis Inc. "With significant improvements in design, construction materials and techniques, and environmental efficiencies, old properties are hard-pressed to compete unless they are rehabilitated. Tenants leave old apartments for new and improved ones."

Lorri Murphy, vice president of real estate development at Ovation, has seen a similar trend. Ovation's Las Vegas affordable housing developments are experiencing occupancy rates from 95 to 100 percent. Ovation completed five affordable housing developments in Las Vegas for a total of 580 units of affordable housing. Two more developments are under construction, with an additional 260 units of affordable housing coming online. These five developments are also reserved for seniors. "It is hard to get family low-income projects zoned. Neighbors fight zoning quite a bit." said Murphy. Ovation has been building LIHTC properties since 2010.

YEAR	LAS VEGAS-HENDERSON-PARADISE, NEV. MSA		USA	
	NUMBER	ANNUAL CHANGE	NUMBER	ANNUAL CHANGE
2000	514,256	-	105,991,193	-
2010	715,365	3.9%	116,716,292	1.0%
2014	745,051	1.0%	118,979,182	0.5%
2019	791,830	1.3%	123,464,895	0.8%

Source: ESRI Demographics 2014, Novogradac & Company LLP, April 2015

YEAR	LAS VEGAS-HENDERSON-PARADISE, NEV. MSA		USA	
	AMOUNT	ANNUAL CHANGE	AMOUNT	ANNUAL CHANGE
2000	\$44,650	-	\$42,164	-
2014	\$50,717	1.0%	\$51,314	1.5%
2019	\$58,019	2.9%	\$59,580	3.2%

Source: ESRI Demographics 2014, Novogradac & Company LLP, April 2015

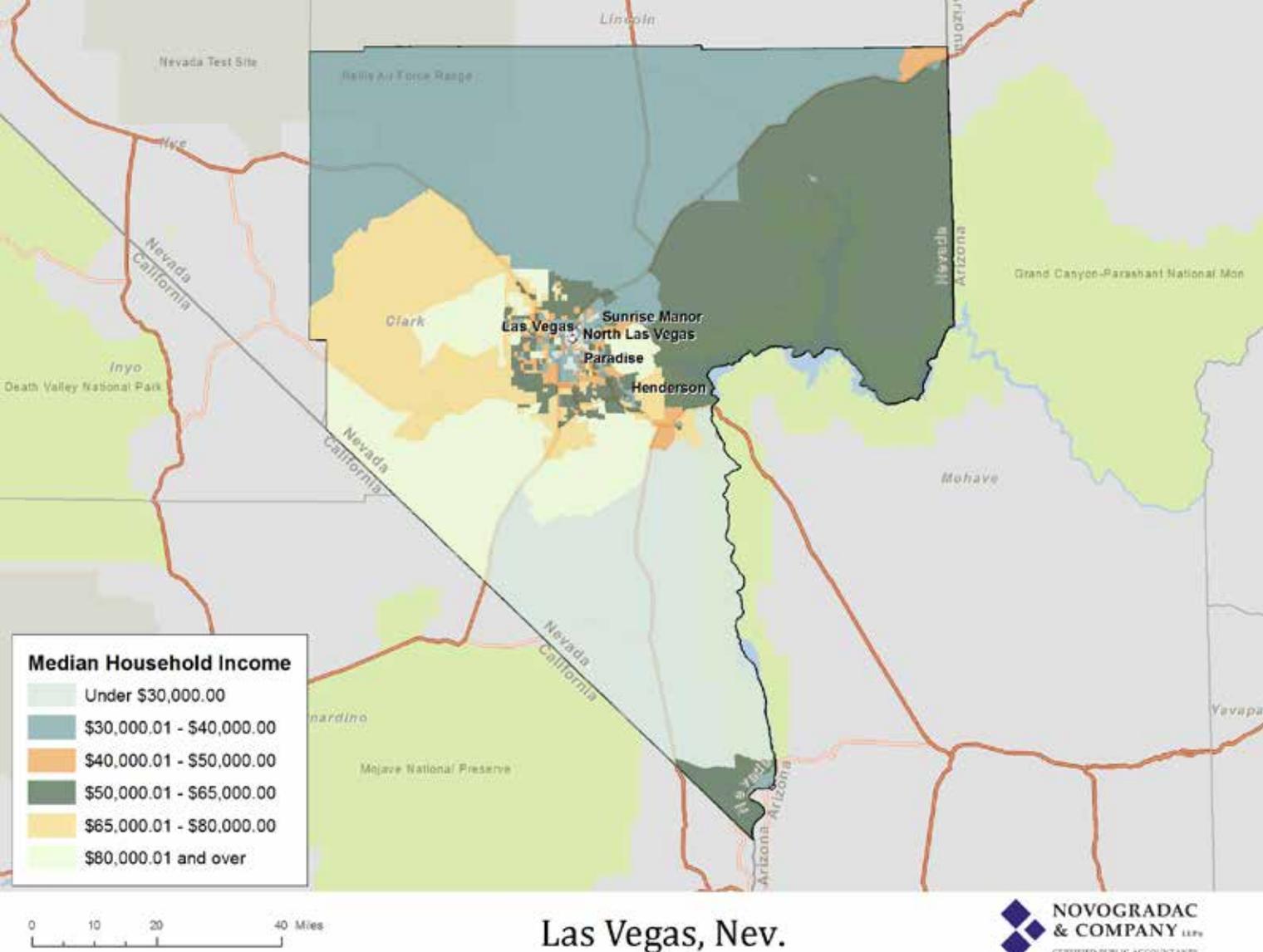
"The LIHTC process is extremely competitive, allowing only so many projects to receive a reservation and move forward each year," said Gekakis. "To be competitive, the developer must make a tremendous financial commitment to the project before it is anywhere near becoming a reality. It is a great leap of faith, or rather, a 'roll of the dice' here in Las Vegas. If a project is not awarded, it must wait until next year to apply again, still carrying the financial burden until the next round."

Employment

Total employment levels increased annually between 2004 and 2009 in the MSA, according to the Novogradac market study. The study showed that in 2009 employment levels declined, similar to that of the nation, due to the Great Recession. From October 2013 to October 2014, the MSA's employment rate increased by 3.4 percent, which is higher than the national average over the same time period. The MSA was significantly affected by the national economic recession, but appears to be recovering, as its current employment levels are increasing year-over-year since 2011 and are above the pre-recession peak, according to the market study.

In addition, the job market in the Las Vegas-Henderson-Paradise, Nev. MSA is showing signs of a modest recovery.

continued on page 3



continued from page 2

The MSA has experienced a significant decrease in total employment and increase in the unemployment rate related to the Great Recession, according to the market study. Although the tourism industry is beginning to show signs of recovery, it will likely take years to recoup pre-recession levels in hotel collections, occupancy and rates. However, it appears that the economy is recovering, as the employment levels have increased year-over-year and exceed pre-recession totals, according to the market study.

“Although Las Vegas is recovering from the recession, household income is not increasing as quickly as housing costs. Census data is still showing that over 40 percent of households with low-income have a housing cost burden of greater than 30 percent of their income,” said Earlie King, grant program coordinator with the city of Las Vegas Office of Community Services. King helps manage the state’s Low-Income Housing Trust Fund

(LIHTF), which is a state-funded program for affordable housing that is administered by the Nevada Housing Division (NHD). King said that funds are allocated by formula to participating jurisdictions (state and local governments) to expand and improve the supply of rental housing through new construction and rehabilitation of multifamily developments. King said that allocated funds must be used to benefit those whose income does not exceed 60 percent of the area median income, as defined by the U.S. Department of Housing and Urban Development (HUD).

Barriers to Entry

Murphy said that soft money that has traditionally been available to developers is disappearing. Murphy specifically noted that HUD HOME funds have been cut recently, making that source of gap financing available to fewer developments or in smaller amounts. In addition, she said the HUD Difficult Development Area (DDA)

continued on page 4

continued from page 3

boost is no longer available in Clark County for 4 percent LIHTC developments, making them less viable because the funding gap is larger. Finally, Murphy said that on the 9 percent LIHTC side, the tax credits are capped at \$1 million per developer, which makes developments smaller.

That being said, as mentioned earlier, one additional source of funding for affordable housing in Las Vegas and throughout Nevada is the LIHTF. "In most cases LIHTF funds are paired with LIHTC, private activity bonds and HOME funds," said King. "The Trust Fund was created to fund low-income housing activities and serve as a match credit for federally funded programs. LIHTF funds that are not paired with the LIHTC or private activity bonds are used to provide tenant-based rental assistance."

Gekakis said that developers in Las Vegas encounter regulatory barriers, including land use and zoning

issues, building code restrictions and financial obstacles. Gekakis also said that the cost and availability of land, as well as the availability of water to Clark County are the issues developers will have to be cognizant of for the next several years. Murphy agreed. She said when land costs went down during the recession, no one wanted to sell. And, when land costs are high, Murphy said it is harder to make deals work financially.

Conclusion

With an ever-increasing senior population and the steady return of the service industry, developers anticipate the need for affordable housing in Las Vegas will continue to grow. Their prediction is further backed by the fact that the city has exceedingly high rent overburdened rates. Combine that with growing competition among developers for LIHTCs, and the demand for affordable housing is the closest thing to a safe bet that you'll find in Las Vegas. ❖

This article first appeared in the June 2015 issue of the Novogradac Journal of Tax Credits.

© Novogradac & Company LLP 2015 - All Rights Reserved

Notice pursuant to IRS regulations: Any U.S. federal tax advice contained in this article is not intended to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties under the Internal Revenue Code; nor is any such advice intended to be used to support the promotion or marketing of a transaction. Any advice expressed in this article is limited to the federal tax issues addressed in it. Additional issues June exist outside the limited scope of any advice provided – any such advice does not consider or provide a conclusion with respect to any additional issues. Taxpayers contemplating undertaking a transaction should seek advice based on their particular circumstances.

This editorial material is for informational purposes only and should not be construed otherwise. Advice and interpretation regarding property compliance or any other material covered in this article can only be obtained from your tax advisor. For further information visit www.novoco.com.

EDITORIAL BOARD

PUBLISHER

Michael J. Novogradac, CPA

EDITORIAL DIRECTOR

Alex Ruiz

TECHNICAL EDITORS

Michael G. Morrison, CPA

James R. Kroger, CPA

Owen P. Gray, CPA

Thomas Boccia, CPA

Daniel J. Smith, CPA

COPY

ASSIGNMENT EDITOR

Brad Stanhope

SENIOR WRITER

Teresa Garcia

STAFF WRITER

Mark O'Meara

EDITORIAL ASSISTANT

Elizabeth Orfin

CONTRIBUTING WRITERS

Bruce Gerhart

Owen Gray

Peter Lawrence

John M. Tess

ART

CARTOGRAPHER

David R. Grubman

PRODUCTION

Alexandra Louie

Jesse Barredo

CONTACT

CORRESPONDENCE AND EDITORIAL SUBMISSIONS

Alex Ruiz

alex.ruiz@novoco.com

415.356.8088

ADVERTISING INQUIRIES

Carol Hough

carol.hough@novoco.com

415.356.8040

EDITORIAL MATERIAL IN THIS PUBLICATION IS FOR INFORMATIONAL PURPOSES ONLY AND SHOULD NOT BE CONSTRUED OTHERWISE.

ADVICE AND INTERPRETATION REGARDING THE LOW-INCOME HOUSING TAX CREDIT OR ANY OTHER MATERIAL COVERED IN THIS PUBLICATION CAN ONLY BE OBTAINED FROM YOUR TAX ADVISOR.

ADVISORY BOARD

LOW-INCOME HOUSING TAX CREDITS

Bud Clarke

BOSTON FINANCIAL INVESTMENT MANAGEMENT

Jana Cohen Barbe

DENTONS

Tom Dixon

BOSTON CAPITAL

Rick Edson

HOUSING CAPITAL ADVISORS INC.

Richard Gerwitz

CITI COMMUNITY CAPITAL

Rochelle Lento

DYKEMA GOSSETT PLLC

John Lisella

U.S. BANCORP COMMUNITY DEV. CORP.

Philip Melton

BELLWETHER ENTERPRISE

Thomas Morton

PILLSBURY WINTHROP SHAW PITTMAN LLP

Mary Tingerthal

MINNESOTA HOUSING FINANCE AGENCY

Rob Wasserman

U.S. BANCORP COMMUNITY DEV. CORP.

PROPERTY COMPLIANCE

Michael Kotin

KAY KAY REALTY

Michael Snowden

HIGHRIDGE COSTA HOUSING PARTNERS

Gianna Solari

SOLARI ENTERPRISES INC.

Kimberly Taylor

HOUSING DEVELOPMENT CENTER

HOUSING AND URBAN DEVELOPMENT

Flynann Janisse

RAINBOW HOUSING

Ray Landry

DAVIS-PENN MORTGAGE CO.

Denise Muha

NATIONAL LEASED HOUSING ASSOCIATION

Monica Sussman

NIXON PEABODY LLP

NEW MARKETS TAX CREDITS

Frank Altman

COMMUNITY REINVESTMENT FUND

Merrill Hoopengardner

ADVANTAGE CAPITAL

Scott Lindquist

DENTONS

Matthew Philpott

U.S. BANCORP COMMUNITY DEV. CORP.

Matthew Reilein

JPMORGAN CHASE BANK NA

Ruth Sparrow

FUTURES UNLIMITED LAW PC

Elaine DiPietro

ENTERPRISE COMMUNITY INVESTMENT INC.

HISTORIC TAX CREDITS

Jason Korb

CAPSTONE COMMUNITIES

John Leith-Tetrault

NATIONAL TRUST COMM. INVESTMENT CORP.

Bill MacRostie

MACROSTIE HISTORIC ADVISORS LLC

John Tess

HERITAGE CONSULTING GROUP

RENEWABLE ENERGY TAX CREDITS

Bill Bush

BORREGO SOLAR

Ben Cook

SOLARCITY CORPORATION

Jim Howard

DUDLEY VENTURES

Forrest Milder

NIXON PEABODY LLP

© Novogradac & Company LLP

2015 All rights reserved.

ISSN 2152-646X