

# IMPACT OF INCOME SERVED ON RISK TO AFFORDABLE HOUSING PROJECTS

- Note the reduction in actual dollars per unit net cashflow realized from a 1.15 DCR based on MFI level served.
- Note the reduction in cushion against variances to budget at the lower MFI levels (net cashflow as % of revenues or expenses).
- Finally, note the decrease in operating expense/ revenue ratios of lowest MFI levels and see lower chart for impact on net cash over time represented by these operating expense ratios.

SAMPLE 1: STUDIO APARTMENT, ONE UNIT				
Median Income Served	@ 30%	@ 40%	@ 50%	@ 60%
Annual Net Revenues (7% Vacancy)	\$3,229	\$4,458	\$5,844	\$7,151
less Operating Expenses (per unit per year)*	\$4,000	\$4,000	\$4,000	\$4,000
Net Operating Income per unit per year	-\$771	\$458	\$1,844	\$3,151
Available Debt Service at 1.15 dcr (no debt at 30%, at 1.15 DCR for balance)	\$0	\$399	\$1,603	\$2,740
<b>Net Cash Flow Per Unit Per Year at 1.15 DCR</b>	<b>-\$771</b>	<b>\$60</b>	<b>\$240</b>	<b>\$411</b>
<b>Operating Expense to Net Revenues Ratio</b>	<b>124%</b>	<b>90%</b>	<b>68%</b>	<b>56%</b>
Net Cash Flow as % operating expenses	-19.3%	1.5%	6.0%	10.3%
Net Cash Flow as % net rents	-23.9%	1.3%	4.1%	5.7%

\* Recent study of studio and SRO operating costs

SAMPLE 2: TWO BEDROOM APARTMENT, ONE UNIT				
Median Income Served	@ 30%	@ 40%	@ 50%	@ 60%
Annual Net Revenues (7% Vacancy)	\$4,046	\$5,725	\$7,405	\$9,084
less Operating Expenses (per unit per year)*	\$4,200	\$4,200	\$4,200	\$4,200
Net Operating Income per unit per year	-\$155	\$1,525	\$3,205	\$4,884
Available Debt Service at 1.15 dcr	\$0	\$1,326	\$2,787	\$4,247
<b>Net Cash Flow Per Unit Per Year at 1.15 DCR</b>	<b>-\$155</b>	<b>\$199</b>	<b>\$418</b>	<b>\$637</b>
<b>Operating Expense to Net Revenues Ratio</b>	<b>104%</b>	<b>73%</b>	<b>57%</b>	<b>46%</b>
Net Cash Flow as % operating expenses	-3.7%	4.7%	10.0%	15.2%
Net Cash Flow as % net rents	-3.8%	3.5%	5.6%	7.0%

\* Estimated average operating expenses

- The following chart demonstrates the changes in net cashflow over time based on the ratio of operating expenses to net revenues (see ratios above). This chart assumes industry standard accelerators of rents increasing by 2% annually and expenses increasing by 3%.
- Projects at ratios higher than approximately 58% eventually see negative cashflow.

**Operating Expenses as a Percentage of Rent and How that Effects DCR**

