

CELEBRATING

NMHC 40

1978-2018

STUDENT HOUSING COMMITTEE

WASHINGTON UPDATE

Matthew Berger & Dave Borsos



@ApartmentWire
#NMHCannual

KEY STUDENT HOUSING TAX PRINCIPLES

- Protect Flow-Through Entities / REIT Structure
- Retain Full Business Interest Deduction
- Ensure Depreciation Rules Avoid Harming Real Estate
- Maintain Like-Kind Exchanges for Real Property
- Preserve Carried Interest
- Maintain Estate Tax and Basis Step-Up



TAX RATES

■ Prior Law Tax Rates

- ❑ Individual: 39.6 percent max rate
- ❑ Flow-through entity: 39.6 percent max rate
- ❑ REIT: 39.6 percent max rate on dividends
- ❑ Corporate: 35 percent max rate

■ Tax Cuts & Jobs Act

- ❑ Individual: 37 percent max rate
- ❑ Flow-through entity: 20 percent deduction (29.6 percent max rate) for qualifying business income (through 2025)
- ❑ REIT: 20 percent deduction for REIT dividends (through 2025)
- ❑ Corporate: 21 percent max rate (permanent)



DEDUCTIBILITY OF BUSINESS INTEREST

■ Prior Law

- Business interest fully deductible.

■ Tax Cuts & Jobs Act

- Imposes limitation on business interest (exempts firms with less than \$25 million in average annual gross receipts over past three years).
- Real estate companies may elect to maintain full deductibility of interest.
- Election requires longer depreciation period for buildings.



DEPRECIATION

■ Prior Law

- Depreciation of Residential Structures: 27.5 years.

■ Tax Cuts & Jobs Act

- 30 years if electing out of limits on interest deductibility
- 27.5 years if firm abides by limits on interest deductibility.



LIKE-KIND EXCHANGES

■ Prior Law

- Like-Kind Exchanges: Available for all property held for investment or use in a trade or business.

■ Tax Cuts & Jobs Act

- Like-Kind Exchanges: Limited to exchanges of real property.



CARRIED INTEREST

■ Prior Law

- Carried Interest: Eligible for capital gain if asset held for at least one year.

■ Tax Cuts & Jobs Act

- Carried Interest: Eligible for capital gain if asset held by partnership and partnership interest held by partner for at least three years.



ESTATE TAX

■ Prior Law

- ❑ Exemption: \$5.49 million individual / \$10.98 million married couple
- ❑ Top Rate: 40%
- ❑ Basis Rule: Step up

■ Tax Cuts & Jobs Act

- ❑ Exemption: Doubled in 2018 (reverts to prior law in 2026)
- ❑ Top Rate: 40%
- ❑ Basis Rule: Step up



FINAL THOUGHTS

- **BOTTOM LINE:** Tax Reform Act favorable to industry
- **Implementation issues:**
 - Qualification for 20% pass-through rate
 - Depreciation of existing assets



HOUSING FINANCE REFORM- 2018

Activity level from Legislators is highest in 4 years

House and Senate are individually working on their own proposals

Timing is crucial given it is a critical mid term election year

- If meaningful work is not in process by the end of 1Q the prospects are very dim

Similar to our approach on tax reform NMHC supports principles of reform not specific structure



@ApartmentWire
#NMHCannual



KEY PRINCIPLES FOR HOUSING FINANCE REFORM

An explicit government guarantee

Support all markets at all times; emergency funding does not work

Access to the government guarantee must be fully paid for by the market

Promote continued involvement of private markets as primary lenders and first loss providers

Protect the taxpayer for both single family and multifamily by using the proven multifamily risk management models

Serve the needs of affordable and workforce housing

Do no harm- manage the transition and preservation of multifamily lending programs



@ApartmentWire
#NMHCannual



WHAT IS THE HILL AND NMHC DOING?

Hearings, testimony, information gathering, evaluation of proposals- we are plugged in

What is different this time and does it raise probability of reform?

- More bipartisan support for explicit government guarantee
- Recognition of success of multifamily model
- Bipartisan support to do-no-harm to multifamily business models

What remains a challenge?

- How to address affordability
- Capitalization
- Size of business
- Competition
- Guaranteeing entity



@ApartmentWire
#NMHCannual



CELEBRATING

NMHC 40

1978-2018

STUDENT HOUSING RESEARCH UPDATE

Taylor Gunn, RealPage, Inc.

Caitlin Walter, NMHC



@ApartmentWire
#NMHCannual

PROJECT OVERVIEW - AFFORDABILITY OF HOUSING OPTIONS FOR STUDENTS

Goal: Analyze the widespread view that purpose-built student housing communities are amenity-rich places that are not affordable.

- Part 1: Examine the costs of on-campus vs. off-campus living (purpose-built student housing as well as traditional market-rate) for students
- Part 2: Analyze the financial conditions of students and their families



@ApartmentWire
#NMHCannual



PART 1 OVERVIEW

- 25 Schools examined (range of urban/suburban, public/private, geographic regions)
- Analysis of per bed cost, potentially per square foot
- Breakouts for amenities offered, number of bedrooms, type of residence hall, etc.



@ApartmentWire
#NMHCannual



THINGS TO CONSIDER

- Best way to present data (\$ per square foot, \$ per bed)
- How to quantify differences in amenities such as bathroom availability, common area availability, distance from campus, as well as square footage
- How to quantify differences in leasing structure- academic year vs. 12 months
- Further breakouts by type of residence hall, location of university, etc.



@ApartmentWire
#NMHCannual



PRELIMINARY RESULTS – NATIONAL RESULTS

Type of Housing	Monthly Rent per Bed	Annualized Rent per Bed
On Campus	\$745	\$7,451
Off-Campus Purpose Built	\$689	\$8,268
Off-Campus Student Competitive	\$997	\$11,964

Note: Purpose Built and Student Competitive averages are weighted. All figures are preliminary.

...But the story differs tremendously when broken down by bedroom sizes, amenities offered, proximity to campus, age, etc.



@ApartmentWire
#NMHCannual



PART 2 OVERVIEW

- Same 25 Schools examined
- Potential variables to include: median household income of students, other expenses for students beyond housing (tuition, meals)
- Comparison of costs for different housing options to median household income



@ApartmentWire
#NMHCannual



SUMMARY

Anticipated Completion

- Part 1: Beginning of Q2 2018
- Part 2: Student Housing Conference (2018)

Deliverables

- White Paper available free of charge to all NMHC members
- Potential for academic journal submissions

Presentation Opportunities (Potential)

- NMHC Conferences
- Academic conferences (American Real Estate Society)



@ApartmentWire
#NMHCannual



QUESTIONS?



@ApartmentWire
#NMHCannual

NMHC 40