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- Budgets for 3-5 year projections must take regression to the mean into account

Operating Cost Adjustment Factors (OCAF)

- OCAF rates are used to determine the rent increase adjustments for Section-8 properties
- OCAF rates vary by state. Since 2008 state OCAFs have ranged between 50% of the national average to nearly 100% above the national average. In the long-term, each trend will reverse as the state's OCAF regresses to the mean.
- Budgets for 3-5 year projections must take regression to the mean into account
- Rent Studies can offer a financially viable alternative to adverse OCAF Rates

Ohio Operating Cost Adjustment Factors, 2008-2015



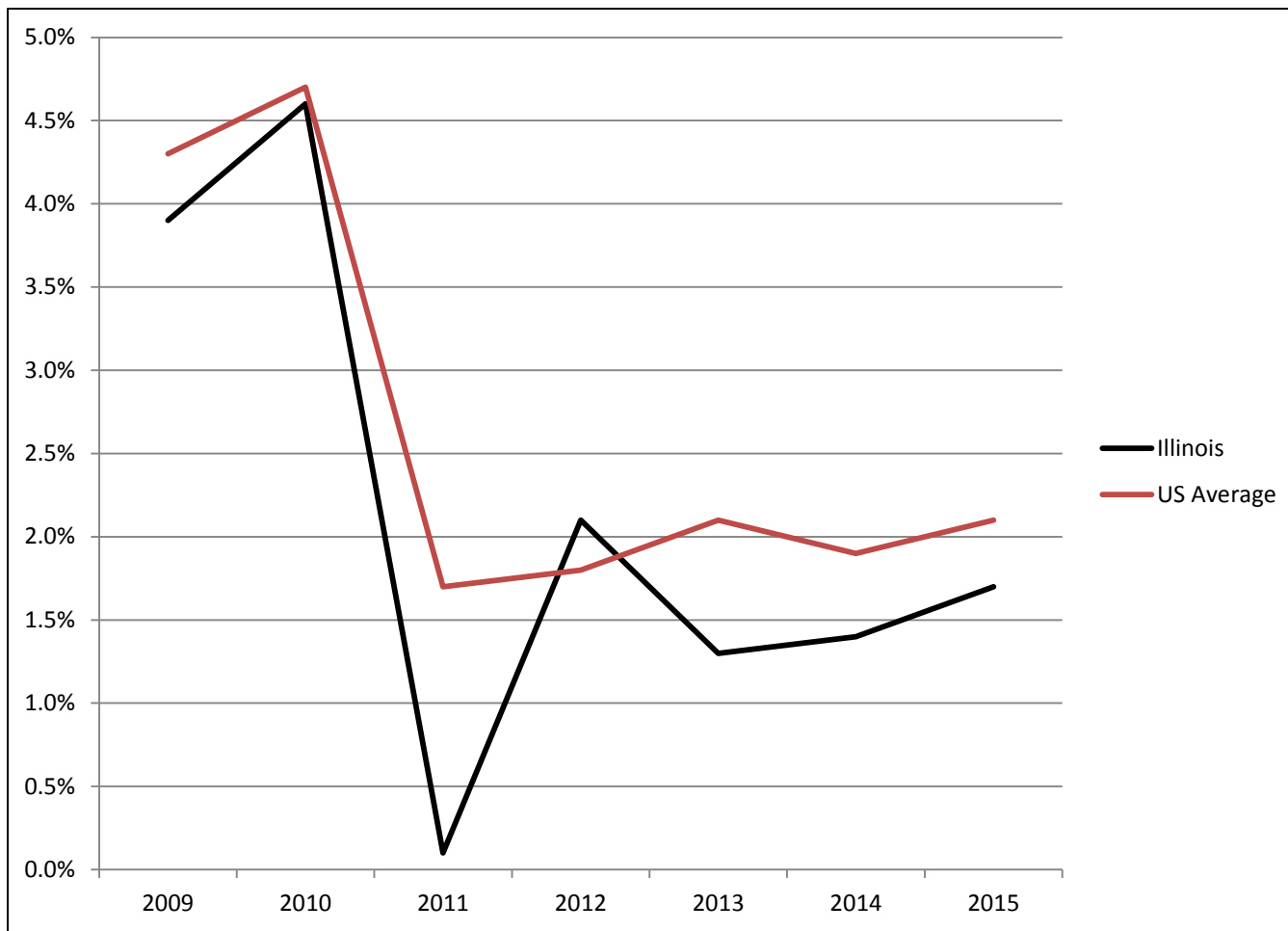
State	2008	2009	2010	2011	2012	2013	2014	2015
US Average	\$1.00	\$1.04	\$1.09	\$1.11	\$1.13	\$1.15	\$1.18	\$1.20
Ohio	\$1.00	\$1.04	\$1.09	\$1.12	\$1.14	\$1.16	\$1.18	\$1.20

Texas Operating Cost Adjustment Factors, 2008-2015



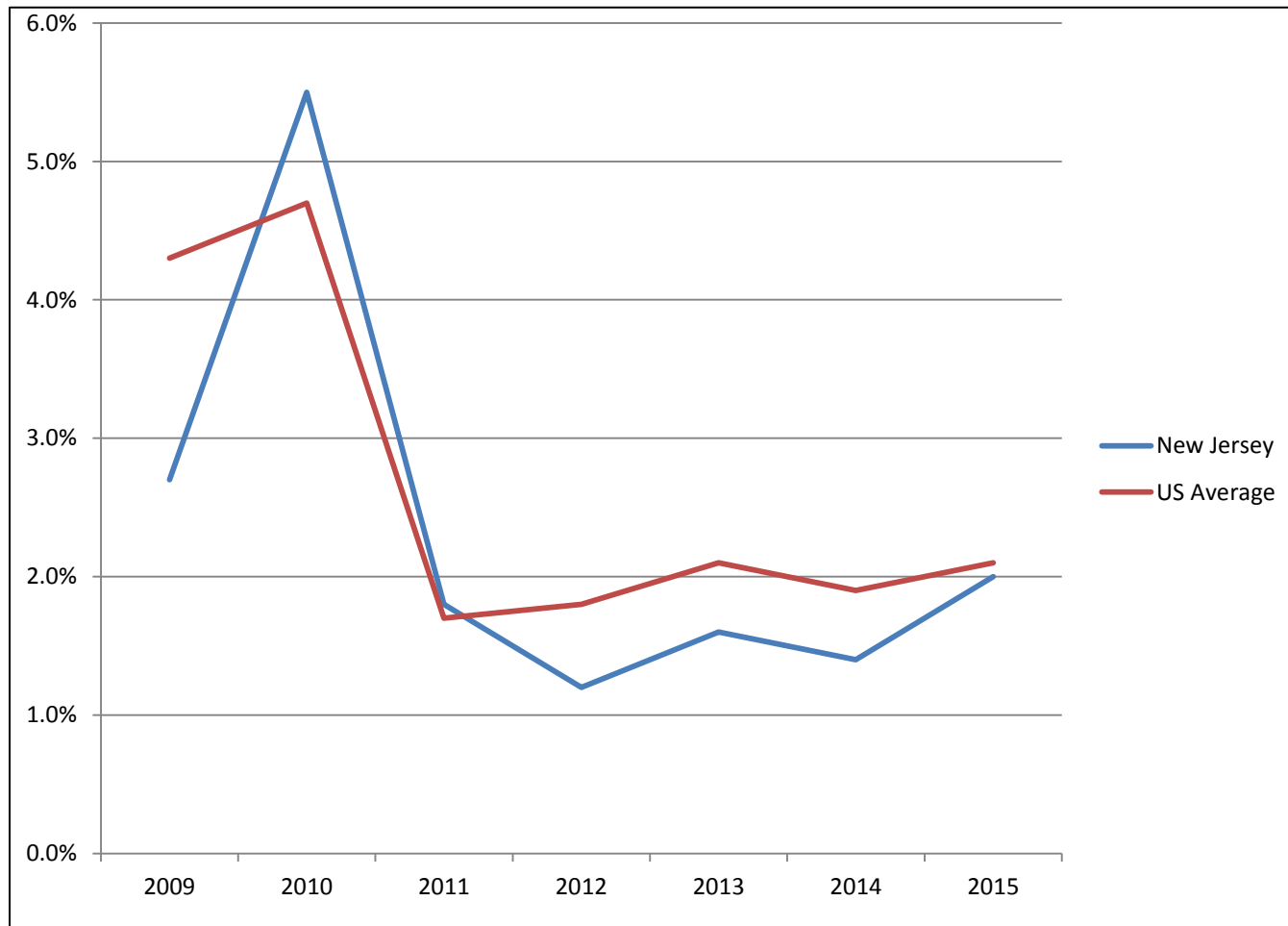
State	2008	2009	2010	2011	2012	2013	2014	2015
US Average	\$1.00	\$1.04	\$1.09	\$1.11	\$1.13	\$1.15	\$1.18	\$1.20
Texas	\$1.00	\$1.03	\$1.09	\$1.11	\$1.13	\$1.15	\$1.17	\$1.20

Illinois Operating Cost Adjustment Factors, 2008-2015



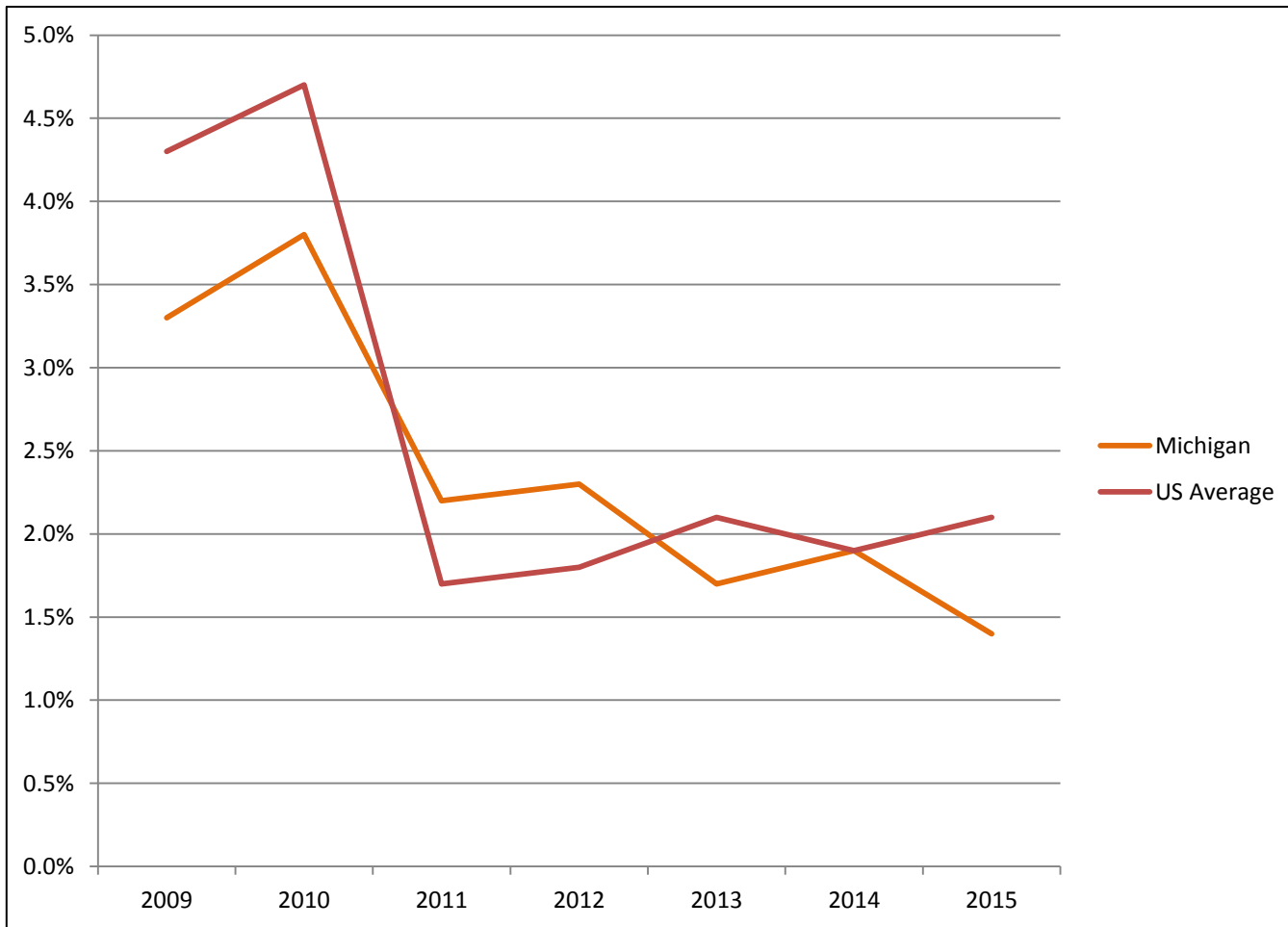
State	2008	2009	2010	2011	2012	2013	2014	2015
US Average	\$1.00	\$1.04	\$1.09	\$1.11	\$1.13	\$1.15	\$1.18	\$1.20
Illinois	\$1.00	\$1.04	\$1.09	\$1.09	\$1.11	\$1.13	\$1.14	\$1.16

New Jersey Operating Cost Adjustment Factors, 2008-2015



State	2008	2009	2010	2011	2012	2013	2014	2015
US Average	\$1.00	\$1.04	\$1.09	\$1.11	\$1.13	\$1.15	\$1.18	\$1.20
New Jersey	\$1.00	\$1.03	\$1.08	\$1.10	\$1.12	\$1.13	\$1.15	\$1.17

Michigan Operating Cost Adjustment Factors, 2008-2015



State	2008	2009	2010	2011	2012	2013	2014	2015
US Average	\$1.00	\$1.04	\$1.09	\$1.11	\$1.13	\$1.15	\$1.18	\$1.20
Michigan	\$1.00	\$1.03	\$1.07	\$1.10	\$1.12	\$1.14	\$1.16	\$1.18

Washington State Operating Cost Adjustment Factors, 2008-2015



State	2008	2009	2010	2011	2012	2013	2014	2015
US Average	\$1.00	\$1.04	\$1.09	\$1.11	\$1.13	\$1.15	\$1.18	\$1.20
Washington	\$1.00	\$1.02	\$1.06	\$1.09	\$1.12	\$1.14	\$1.17	\$1.19

Massachusetts Operating Cost Adjustment Factors, 2008-2015



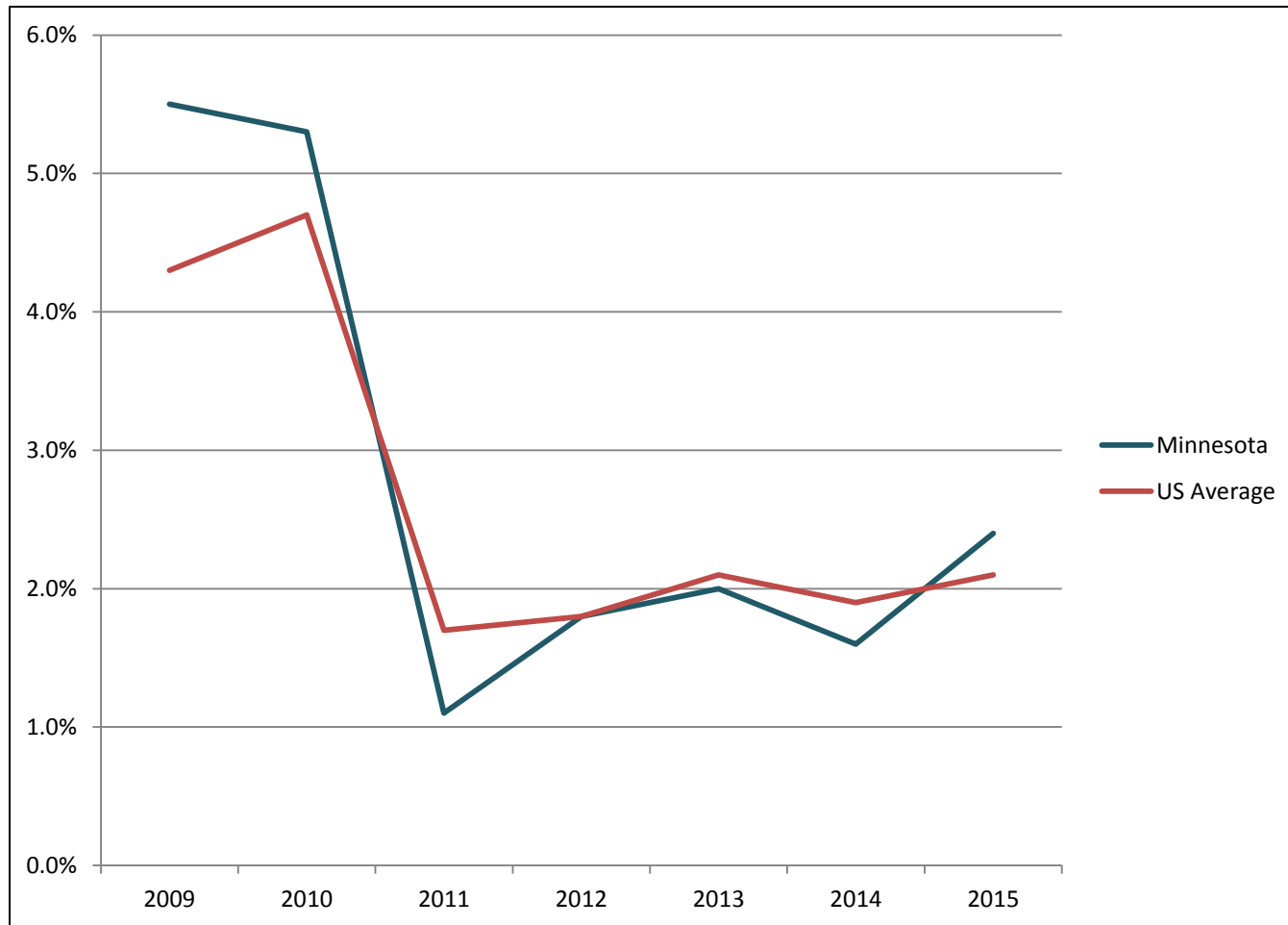
State	2008	2009	2010	2011	2012	2013	2014	2015
US Average	\$1.00	\$1.04	\$1.09	\$1.11	\$1.13	\$1.15	\$1.18	\$1.20
Massachusetts	\$1.00	\$1.04	\$1.10	\$1.11	\$1.12	\$1.14	\$1.16	\$1.19

District of Columbia Operating Cost Adjustment Factors, 2008-2015



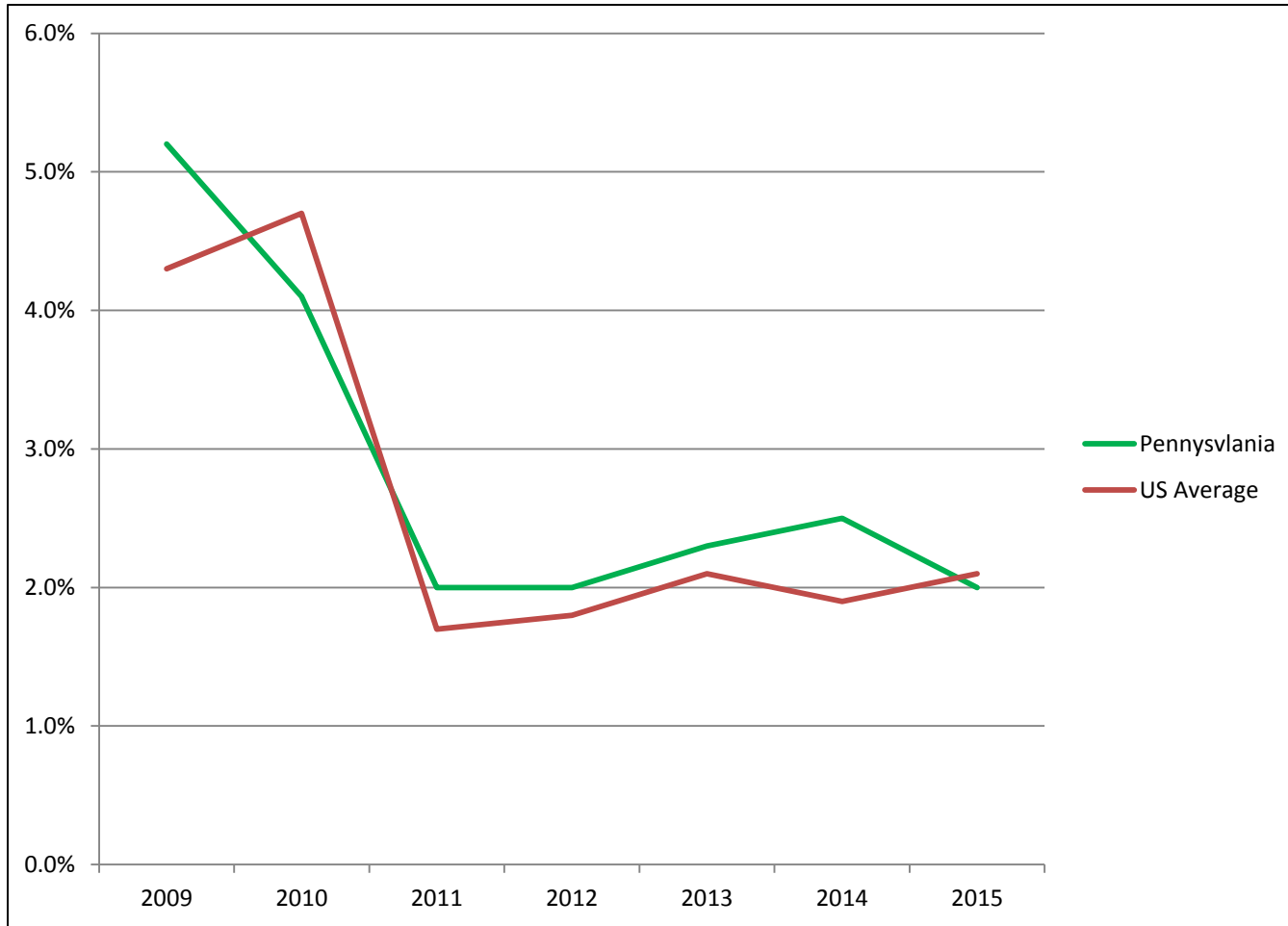
State	2008	2009	2010	2011	2012	2013	2014	2015
US Average	\$1.00	\$1.04	\$1.09	\$1.11	\$1.13	\$1.15	\$1.18	\$1.20
District of Columbia	\$1.00	\$1.06	\$1.11	\$1.13	\$1.15	\$1.17	\$1.19	\$1.21

Minnesota Operating Cost Adjustment Factors, 2008-2015



State	2008	2009	2010	2011	2012	2013	2014	2015
US Average	\$1.00	\$1.04	\$1.09	\$1.11	\$1.13	\$1.15	\$1.18	\$1.20
Minnesota	\$1.00	\$1.06	\$1.11	\$1.12	\$1.14	\$1.17	\$1.18	\$1.21

Pennsylvania Operating Cost Adjustment Factors, 2008-2015



State	2008	2009	2010	2011	2012	2013	2014	2015
US Average	\$1.00	\$1.04	\$1.09	\$1.11	\$1.13	\$1.15	\$1.18	\$1.20
Pennsylvania	\$1.00	\$1.05	\$1.10	\$1.12	\$1.14	\$1.17	\$1.19	\$1.22

OCAF vs. Rent Studies as Financial Training Tools

- While some states have seen higher-than national average OCAF adjustments, these are highly probable to regress to the mean in the future via several years of below-average OCAF

OCAF vs. Rent Studies as Financial Training Tools

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- Section-8 properties located in low OCAF states and in a strong local market will not achieve their maximum revenue potential

OCAF vs. Rent Studies as Financial Training Tools

- While some states have seen higher-than national average OCAF adjustments, these are highly probable to regress to the mean in the future via several years of below-average OCAF
- Section-8 properties located in low OCAF states and in a strong local market will not achieve their maximum revenue potential
- Mid-contract rent studies can be useful in achieving market-rate adjustments

Financial Planning Tool

I. Macroeconomic Scale - States

- National OCAF vs. State OCAF

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- National OCAF vs. State OCAF
- OCAFs will Eventually Regress to the Mean:
 - If Below US Average → Increase to Mean
 - Annual rent percent adjustment will increase
 - If Above US Average → Decline to Mean
 - Annual rent percent adjustment will decrease

Financial Planning Tool

I. Macroeconomic Scale - States

- National OCAF vs. State OCAF
- **OCAFs will Eventually Regress to the Mean:**
 - If Below US Average → Increase to Mean
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II. Microeconomic Scale – Metropolitan Areas

- Metro Market Rent Trends vs. State OCAF

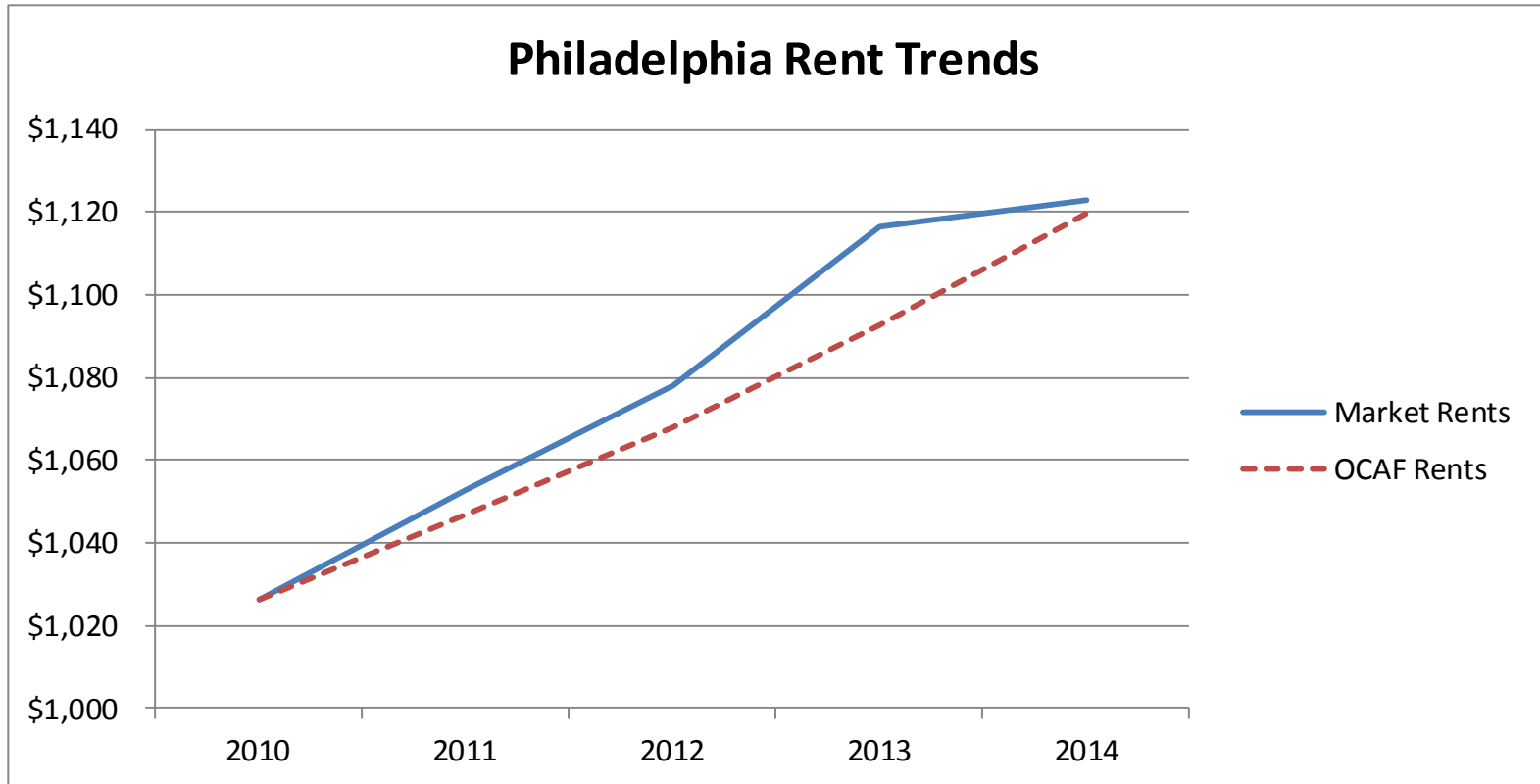
Financial Planning Tool

	2011-2014 Overall Rate	4-YR Average Annual Rate		State 2015 OCAF	4-YR US Average OCAF	OCAF Projection: Above (Below) 4- YR Average
Houston	13.6%	MKT	3.1%			
OCAF	7.1%	OCAF	1.7%	2.4%	1.9%	↑ ↑

Year	2010		2011-2014 Overall Rate	4-YR Average Annual Rate		State 2015 OCAF	4-YR US Average OCAF	OCAF Projection: Above (Below) 4- YR Average
				MKT				
Philadelphia			9.4%	MKT	2.2%			
	OCAF	4.1%	9.1%	OCAF	2.2%	2.0%	1.9%	↓
Detroit			8.1%	MKT	1.9%			
	OCAF	3.8%	8.3%	OCAF	2.0%	1.4%	1.9%	↔
Cleveland			7.2%	MKT	1.7%			
	OCAF	5.4%	7.6%	OCAF	1.9%	2.0%	1.9%	↔
Northern New Jersey			8.9%	MKT	2.1%			
	OCAF	5.5%	6.1%	OCAF	1.5%	2.0%	1.9%	↑↑
Chicago			9.7%	MKT	2.3%			
	OCAF	4.6%	5.0%	OCAF	1.2%	1.7%	1.9%	↑↑
Washington D.C.			10.5%	MKT	2.5%			
	OCAF	5.2%	6.7%	OCAF	1.6%	2.3%	1.9%	↑↑
Boston			10.6%	MKT	2.5%			
	OCAF	5.6%	6.2%	OCAF	1.5%	2.4%	1.9%	↑↑
Minneapolis			12.3%	MKT	2.8%			
	OCAF	5.3%	6.7%	OCAF	1.6%	2.4%	1.9%	↑↑
Houston			13.6%	MKT	3.1%			
	OCAF	5.5%	7.1%	OCAF	1.7%	2.4%	1.9%	↑↑
Seattle			20.3%	MKT	4.5%			
	OCAF	3.9%	9.8%	OCAF	2.4%	2.2%	1.9%	↓↓
US AVERAGE OCAF	4.7%		7.7%	OCAF	1.9%	2.1%	1.9%	

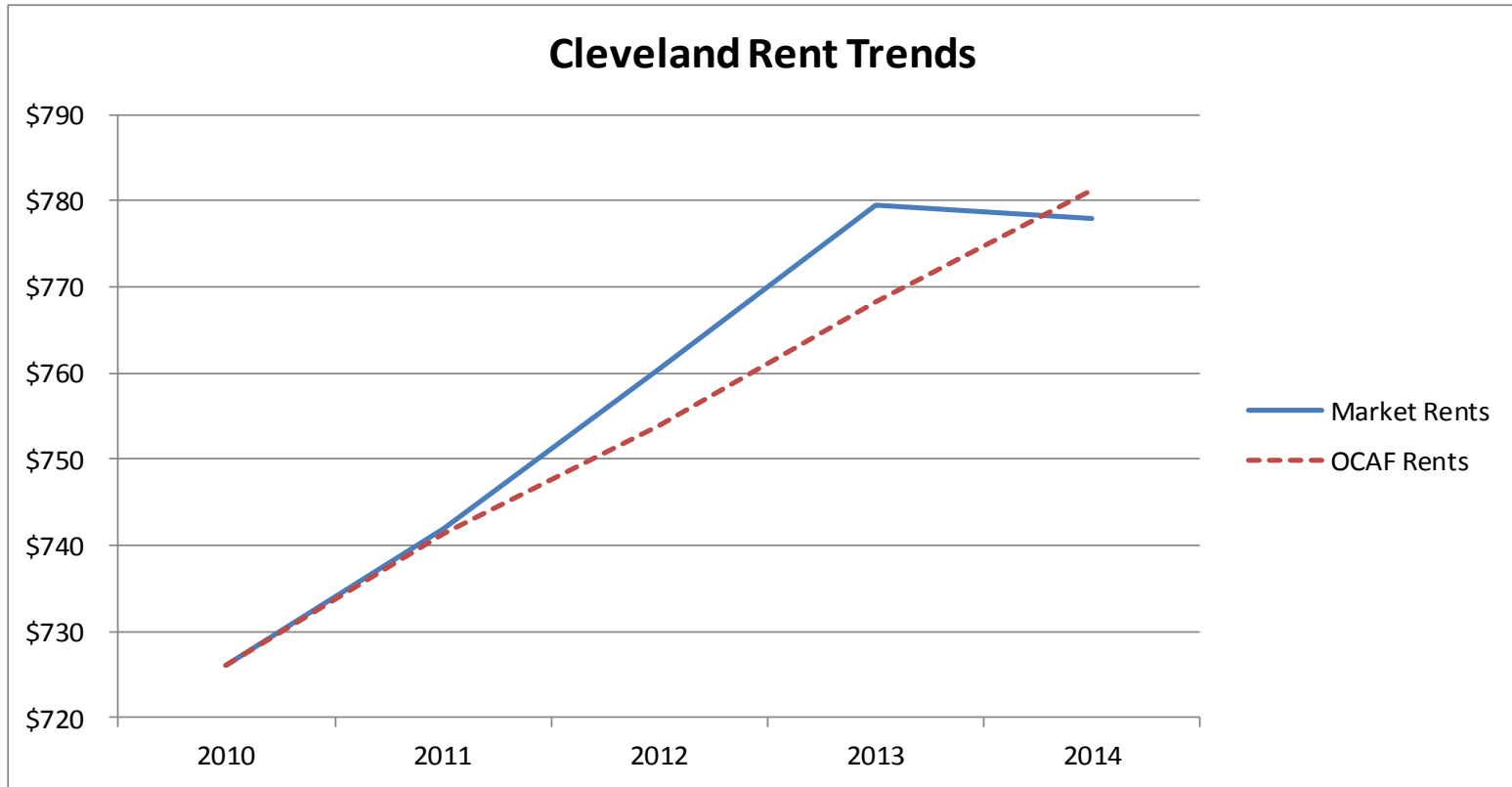
Source: Federal Register (2008-2014); Marcus & Millichap's National and Regional Surveys (2008-14); Cassidy Turley, 2014 Asking Rents; HUDRentStudy.com

Market Equal to OCAF



Year	2010	2011	2012	2013	2014	2011-2014 Overall Rate	4-YR Average Annual Rate		State 2015 OCAF	4-YR US Average OCAF	OCAF Projection: Above (Below) 4-YR Average
Philadelphia Market	\$1,027	\$1,053	\$1,078	\$1,117	\$1,123						
Year over Year Change	1.3%	2.5%	2.3%	3.4%	0.6%	9.4%	MKT	2.2%			
OCAF	4.1%	2.0%	2.0%	2.3%	2.5%	9.1%	OCAF	2.2%	2.0%	1.9%	↓

Market Below OCAF



Year	2010	2011	2012	2013	2014	2011-2014 Overall Rate	4-YR Average Annual Rate		State 2015 OCAF	4-YR US Average OCAF	OCAF Projection: Above (Below) 4-YR Average
Cleveland Market	\$726	\$742	\$761	\$780	\$778						
Year over Year Change	0.5%	2.2%	2.4%	2.4%	-0.2%	7.2%	MKT	1.7%			
OCAF	5.4%	2.1%	1.7%	1.9%	1.7%	7.6%	OCAF	1.9%	2.0%	1.9%	↔

Market Below OCAF

REACTIVE

- Re-invest
 - Curb Appeal and Capital Improvements
 - Administration: Outreach to quasi-public and government services

Market Below OCAF

REACTIVE

- Re-invest
 - Curb Appeal and Capital Improvements
 - Administration: Outreach to quasi-public and government services
- Reposition
 - Senior: Pull cords, Aging in Place Services
 - Family: After school enrichment, employment coaching, GED

Market Below OCAF

REACTIVE

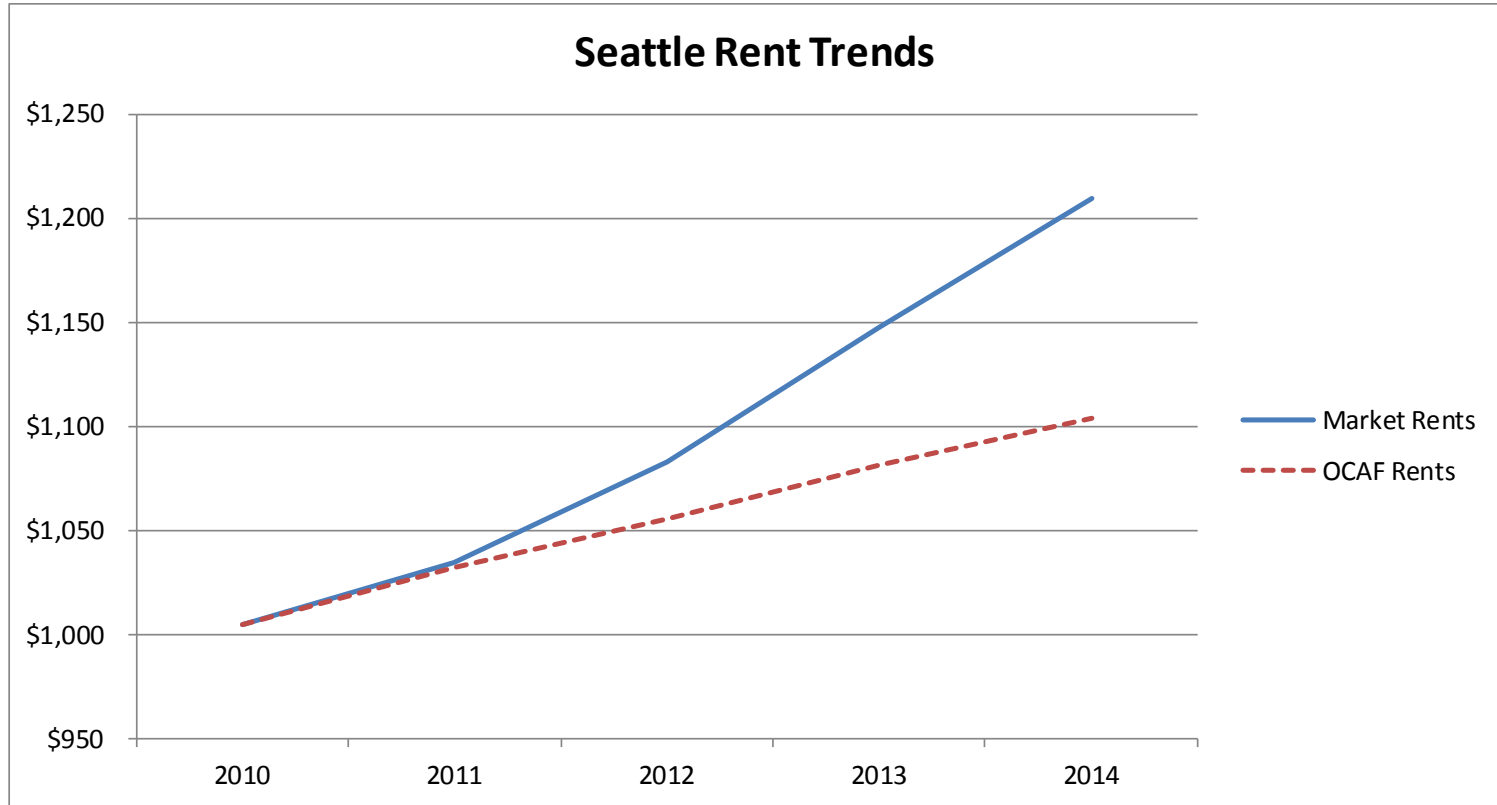
- Re-invest
 - Curb Appeal and Capital Improvements
 - Administration: Outreach to quasi-public and government services
- Reposition
 - Senior: Pull cords, Aging in Place Services
 - Family: After school enrichment, employment coaching, GED
- Rent Increase
 - Administrative Assistant recast as Service Coordinator (Job Description)
 - Line 32 Rent adjustment

Market Below OCAF

REACTIVE

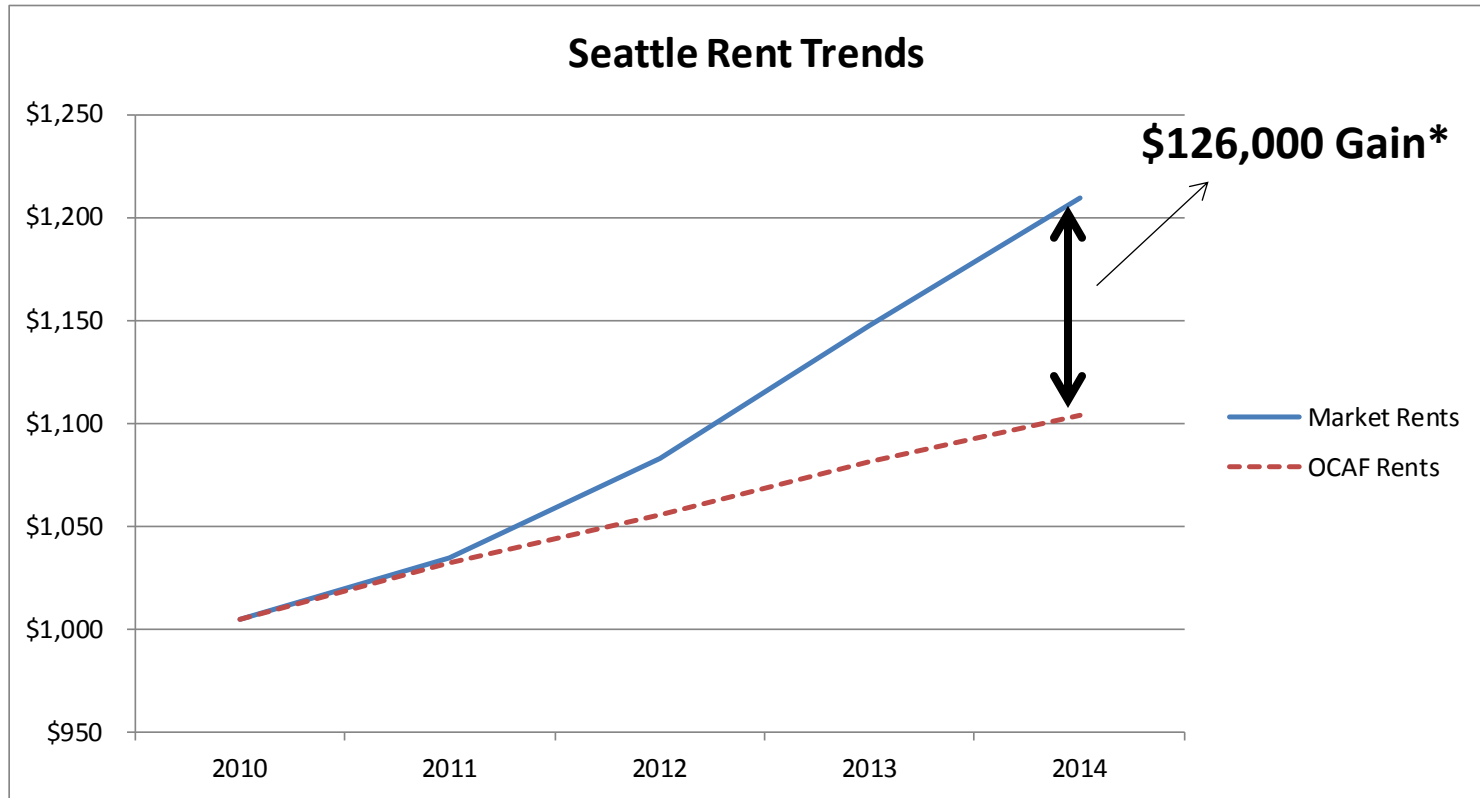
- Re-invest
 - Curb Appeal and Capital Improvements
 - Administration: Outreach to quasi-public and government services
- Reposition
 - Senior: Pull cords, Aging in Place Services
 - Family: After school enrichment, employment coaching, GED
- Rent Increase
 - Administrative Assistant recast as Service Coordinator (Job Description)
 - Line 32 Rent adjustment
- Review- The blogs about the property
 - Address the issues

Market Above OCAF



Year	2010	2011	2012	2013	2014	2011- 2014 Overall Rate	4-YR Average Annual Rate	State 2015 OCAF	4-YR US Average OCAF	OCAF Projection: Above (Below) 4-YR Average
Seattle Market	\$1,005	\$1,035	\$1,083	\$1,147	\$1,209					
Year over Year Change	1.1%	2.9%	4.5%	5.6%	5.1%	20.3%	MKT 4.5%			
OCAF	3.9%	2.7%	2.3%	2.4%	2.1%	9.8%	OCAF 2.4%	2.2%	1.9%	↓↓

Market Above OCAF



Year	2010	2011	2012	2013	2014	2011- 2014 Overall Rate	4-YR Average Annual Rate		State 2015 OCAF	4-YR US Average OCAF	OCAF Projection: Above (Below) 4-YR Average
Seattle Market	\$1,005	\$1,035	\$1,083	\$1,147	\$1,209	20.3%	MKT	4.5%	2.2%	1.9%	↓ ↓
Year over Year Change	1.1%	2.9%	4.5%	5.6%	5.1%						
OCAF	3.9%	2.7%	2.3%	2.4%	2.1%	9.8%	OCAF	2.4%			

* Assumes 100 units

Market Above OCAF

PROACTIVE

- Re-invest
 - Refinance

Market Above OCAF

PROACTIVE

- Re-invest
 - Refinance
- Reposition
 - Renovate units/property
 - Kitchens, bathrooms
 - Washer/Dryer in unit
 - Community Room upgrades

Market Above OCAF

PROACTIVE

- Re-invest
 - Refinance
- Reposition
 - Renovate units/property
 - Kitchens, bathrooms
 - Washer/Dryer in unit
 - Community Room upgrades
- Rent Increase
 - Renovation Date/Effective Date (Line 7 rent adjustment)
 - Washer/Dryer (Line 18 rent adjustment)
 - Community Room (Line 27 rent adjustment)

Market Above OCAF

PROACTIVE

- Re-invest
 - Refinance
- Reposition
 - Renovate units/property
 - Kitchens, bathrooms
 - Washer/Dryer in unit
 - Community Room upgrades
- Rent Increase
 - Renovation Date/Effective Date (Line 7 rent adjustment)
 - Washer/Dryer (Line 18 rent adjustment)
 - Community Room (Line 27 rent adjustment)
- Regress to the Mean
 - High market rent increases will eventually level out to equal CPI

Financial Planning Tool

- Are there storm clouds ahead in your portfolio?
- Is your ship ready to weather the storm?

Reposition your property accordingly

Prepare your property today