



FAQ's – Rent Increases

Q: What is a Schedule II?

A: The Schedule II is the official rent increase document issued by MHDC that lists the newly approved rents. The new rents cannot be increased until on or after the Effective Date listed on the previous Schedule II. A new Schedule II must be issued every time rents are increased during the development's initial compliance period.

Q: Where can I find my Schedule II?

A: Newly approved Schedule II's can be found under the rent increase module in MHDC's AMRS system. Schedule II's are no longer mailed or emailed to the Owner/Agent.

Q: When can I submit my rent increase?

A: The window for submitting a rent increase is open from **October 1st - December 31st**. Rent increases submitted outside of the applicable window will not be processed.

Q: When is the earliest a rent increase can be requested?

A: The earliest a development can request a rent increase is one year from when the development's last building was placed in service.

Q: How do I submit my rent increase?

A: All rent increase requests are to be submitted online through AMRS, MHDC's online reporting system. MHDC will no longer accept mailed rent increase requests. Please reach out to MHDC's Asset Manager for AMRS setup if your development has **12 units or less**.

Q: What is considered when determining the minimum and maximum rent increase amounts that can be requested?

A: MHDC considers, but is not limited to the following economic conditions and factors to set the minimum and maximum rent increase percentages each year:

- Previous Year Annual Social Security Cost-of Living Adjustment Factor.
- Industry Standard 15 year Cash Flow analysis of 2% annual rent increases and 3% Expense increase.
- US Inflation Calculator as published by U.S. Department of Labor.

Q: What is the maximum rent increase that can be requested?

A: Maximum rent increases may be allowed only for developments that are not senior designated (i.e., properties for residents age 55 and older). Rent increase requests for senior designated properties are capped at the greater of 2% or the prior year Social Security Cost of Living Adjustment (COLA). (In years of 0% COLA adjustments, the owner may be allowed to increase rents by a maximum of 2%.) For planning purposes, MHDC will notify Owner/Agents of the maximum rent increase percentage that may be requested for family designated developments no later than September of each year.

Q: Why are my development's rents on the approved MHDC Schedule II lower than the federally published maximum Section 42, HOME, or other applicable program rent limits?

A: The published Section 42, HOME, or other applicable program rent limits are maximum rent limits allowable under federal policy. Under its authority, MHDC has created additional rent polices that are more reflective of the demographic and economic conditions of Missouri. Development rent increases are based off the initial rents agreed to during the Underwriting/Firm Commitment process. The initial rents are typically significantly below the published maximum rent levels. Under no circumstances may the gross rent (tenant's rent plus utility allowance) ever exceed the maximum rent limits posted for that year. If an increase in utility allowance causes gross rent to exceed the maximum rent limits, the tenant's rent must be adjusted downward by the difference within 90 days of the change in utility allowance.

Q: Are there different types of rent increase request options?

A: Yes, the Owner/Agent has a choice to request either a non-budget based rent increase or a budget based rent increase.

Q: What is a non-budget rent increase, and how is it implemented (family developments only)?

A: Each year, MHDC establishes a non-budget rent increase threshold. A non-budget based rent increase is a rent increase for a development that is not subject to a budget review. A non-budget based amount is lower than the thresholds published for a budget based review. Non-budget rent increase requests are submitted with all supporting documentation and a new Schedule II will be issued as long as the development can demonstrate that they are in compliance with the following:

- The development must be in compliance with all MHDC policies and procedures.
- Certification Portal (Tenant Data) reporting must be in compliance.
- Occupancy submission must be current, and average occupancy must not be below 90% over a rolling 12 month period.
- The most recent inspection must be closed in compliance.
- The development must demonstrate that they are charging the current approved rents to at least 90% of existing tenants, based on the most recent approved Schedule II.
- The proposed rents may not exceed maximum Section 42, HOME, or other applicable program rent limits.
- If applicable, the development's mortgage must be current.
- Approved rents **MUST NOT** be implemented before the Schedule II has been signed by MHDC and returned to the owner, or before the effective date. In the event the Owner/Manager has not complied with the above, the Schedule II will be placed on hold until the non-compliance is corrected.

Example: For all 2022 rent increase submissions, MHDC approved a 3.5% non-budget threshold with a maximum budget based rent increase cap of 7%. Rent increases submitted under the non-budget based election would have received a 3.5% rent increase provided that the development was in compliance. Please note the approved MHDC non-budget and maximum budget based thresholds can change each year.

Q: What is a budget-based rent increase, and how is it implemented (family developments only)?

A: A budget based rent increase is when the Owner/Agent would like to increase rents greater than the non-budget based threshold and up to a maximum amount allowed by MHDC for that year. When submitting a budget based rent increase request, the development's annual budget **MUST** demonstrate a need for a rent increase, and the development must be in compliance. MHDC considers a healthy development to maintain a 1.20 DCR. Any budget that projects a development to exceed a 1.20 DCR may have their rent increase reduced or denied. Higher DCRs may be allowed for properties to achieve their agreed upon owner distribution and repay surplus cash notes and remaining deferred developer

fees. In any event, MHDC will not approve an increase that is more than the maximum rent increase percentage allowed per MHDC policy for that year.

Note: Under the budget-based rent increase policy, the Owner/Agent waives the right to a non-budget based rent increase if the budget cannot demonstrate the need for a rent increase.

Example: For all 2022 rent increase submissions, MHDC approved a 3.5% non-budget threshold with a maximum budget based rent increase cap of 7%. All rent increase requests submitted with percentages greater than 3.5% and up to 7% would need to submit a budget for review. If a development submitted a 6% rent increase and the budget review supported the increase, a Schedule II would be issued for 6%. If a development submitted a 6% rent increase and the budget review only supported a 2% increase, a Schedule II would be issued for 2%. Please note the approved MHDC non-budget and maximum budget based thresholds can change each year.

Q: What are the key performance indicators that MHDC looks at when approving, reducing, or denying a rent increase?

A: The two main performance indicators MHDC looks at when approving rent increases are cash flow and DCR after agreed upon owner distribution. MHDC regards a development as healthy that maintains a 1.20 DCR or above. When a budget that projects a development to exceed a 1.20 DCR, a requested rent increase may be reduced or denied. Higher DCRs may be allowed for properties to achieve their agreed upon owner distribution, repay surplus cash notes, or pay remaining deferred developer fees. In any event, MHDC will not approve an increase that is more than the maximum amount published by MHDC or the previous year Social Security COLA adjustment. Under no circumstances, will gross rents be allowed to exceed the maximum Section 42 LIHTC rent limits.

Q: How do I determine the effective date for my rent increase submission?

A: The effective date must be at least one year from the effective date of the last approved rent increase, indicated on the approved Schedule II.

Q: Do I have to fully implement the MHDC approved rent increase in any given year?

A: No – However, keep in mind MHDC’s approval process is based on what the development requests, and that request should be based on what the market can support. Failure to implement a MHDC approved rent increase to at least 90% of existing tenants may lead to future a rent increase being denied until the development can provide proof that the market can now support a rent increase. Existing tenants can only have their rent increased at lease renewal after the effective date listed on the Schedule II. A tenant cannot have their rent increased mid-term and leases should not allow for mid-term rent increases. In addition, a tenant cannot receive more than one rent increase in a 365 day period, and this includes tenants with month-to-month leases.

Q: Does MHDC have a required format for notifying residents of a rent increase?

A: Yes - Owner/Management is required to post for public viewing a **signed Exhibit A-21** - “*Notice to Residents of Management’s Intention to Submit a Rent Increase Request to MHDC for Approval.*” The notification must be distributed to all existing tenants and posted **prior** to submitting a rent increase request to MHDC for approval. A **signed** copy of the notice to residents must be included with the rent increase request in AMRS to MHDC. This notice may not be altered or substituted. 21. The notice to the residents and the posting of the Exhibit A-21 at the time of the rent increase submission to MHDC satisfies MHDC’s 30 day notice rule.

Q: Can I request a rent increase at the same time I submit my budget?

A: Yes - the rent increase request window is **October 1st – December 31st**. To submit during the budget process, the system will ask whether you want to submit a rent increase. Answering “yes” will open the rent increase input screens. Answering “no” will trigger a warning that no rent increase has been approved and you will need to submit your rent increase request by the following deadlines. There are no exceptions:

- November 15th to be considered for a January 1st effective date
- December 15th to be considered for a February 1st effective date
- December 31st for all others

Q: Why do I need to submit a rent roll?

A: MHDC reviews the development’s rent roll to verify current rents and occupancy levels. This information is used to help MHDC determine if a rent increase is needed. Rent increase requests may be denied if MHDC determines a significant number of tenants are not being charged current rents, as only **one** rent increase can be implemented in any given year.

Q: Can low occupancy at my development affect my rent increase request?

A: Yes, a development must maintain an average occupancy of 90% or greater over a rolling twelve month period in order to be considered for a rent increase. If occupancy drops below 90% at the time of review the rent increase will be denied. A denial can be appealed once average occupancy is maintained at 90%.

Q: Can I appeal MHDC’s rent increase decision?

A: Yes - a development may appeal MHDC’s decision to amend or deny a rent increase request. The development must submit their appeal in writing. Appeals must include additional information for consideration significant enough to change the rent increase decision.

Q: Who approves my rents if my development has Project Based Section 8 Units?

A: Rents are approved by HUD or HUD’s Contract Administrator when the development has Project Based Section 8 Units. When both MHDC financing and Project Based Section 8 Units are present, MHDC’s rent increase policies only apply to the units that are **not** Project Based Section 8 Units.

Q: MHDC policy states the Owner/Management is required to post for public viewing MHDC Exhibit A-21. How long does this notice have to be posted for public viewing?

A: MHDC Exhibit A-21 should be posted for public viewing from the time the rent request is submitted to MHDC until the earlier of MHDC’s approval of the request or implementation.

Q: Where does the Exhibit A-21 need to be posted for public viewing?

A: MHDC Exhibit A-21 should be posted in common areas that are visible to its residents i.e., community room, office lobby, laundry room.

Q: The Exhibit A-21 mentions that the Owner/Management shall make available to its residents the materials submitted for a rent increase. What information is supposed to be made available to the residents, if requested?

A: If requested, the Owner/Management should make the following information available for its residents:

- A copy of the rent increase request submitted to MHDC.
- Backup supporting the items listed as reason for the increase in the opening paragraph of Exhibit A-21 (i.e., utility rate increase letter, estimated cost of major repair or initiative, etc.).

Q: When can I expect to receive approval of my rent increase?

A: MHDC reviews rent increases in “proposed” effective date order. Rent increase requests with proposed effective dates in January and February of the upcoming year are reviewed before rent increase requests with later requested effective dates. In order to allow MHDC staff adequate time to review and turnaround rent increase requests, properties with January and February effective dates must submit their rent increase to MHDC by November 15th and December 15th respectively. All other requests are due to MHDC no later than December 31st.

Q: I need to offer rental concessions due to soft market conditions. How should the approved rent and corresponding rental concessions be reflected in the tenant’s lease?

A: MHDC recommends that the rent listed on the tenant’s lease be the most current approved Schedule II rent amount. For review purposes, this amount will be considered the base rent. It is recommended that a concession addendum be attached to the lease when rental concessions are offered. The maximum allowed percentage will be calculated on the amount reported as base rent in the lease.

Q: I have not fully implemented the rent increase per the most current approved Schedule II. Can I still increase rents, and do I need MHDC approval to do so?

A: Yes – rents can be increased in cases where a development has not fully implemented the previously approved rent increase, up to the previously approved amount. MHDC approval is not required since rents are below the Schedule II rents on file with MHDC. Residents must be given a 30-day notice of the rent increase, and may not receive more than one rent increase in a 365 day period.

Q: What is a EUP Schedule II?

A: Extended Use Period (EUP) Schedule II’s are issued by MHDC upon request from the Owner/Manager once the development reaches their Extended Use Period as determined by the development’s Land Use Restriction Agreement or LURA. A development that has an active loan with MHDC does not qualify for a EUP Schedule II even though the development’s tax credits may have reached their EUP period. An EUP Schedule II allows the development to immediately charge new tenants the Maximum Section 42 rent limits listed for that development’s county. Existing tenant’s rents cannot be increased more than the maximum amount allowed by MHDC for that year until either the unit is vacated, or the development eventually reaches their full thirty year compliance period. A 30-day notice must still be given, increases can only occur at lease renewal, and existing residents cannot receive more than one rent increase in a 365 day period. The development will only receive **one** EUP Schedule II. The rents listed will be the maximum rents listed for the county the development is located in for that year only. It is the Owner/Manager’s responsibility to continuously check the applicable maximum Sec 42 rents limits thereafter to ensure tenant rent plus utility allowance does not exceed the maximum Section 42 published rent limits. Once a EUP Schedule II is issued, the Owner/Manager no longer needs to seek MHDC approval for rent increases.

Q: What rents are charged when a unit goes over 80% of the HOME income limit at recertification?

A: Once a household’s income at recertification exceeds 80% of the area median income, the household is considered over-income by HOME Program standards and the amount of rent the resident must pay is the lesser of the amount required by state or local law or 30% of their adjusted income. The development will still be in compliance provided the requirements of 24 CFR 92.252(i) are met. Residents of HOME-assisted units that have been allocated LIHTCs must pay the rent governed by Section 42 of the Internal Revenue Code.

Please note that if a unit is both LIHTC and HOME, the rent charged would be the approved MHDC LIHTC rent in the most recent Schedule II. Reference: 24 CFR Part 92.252 and HUD

Exchange HOME Guidance <https://www.hudexchange.info/programs/home/home-rent-limits/>

