Preservation of Multifamily Affordable Housing: the Focus of Affordable Housing Study Commission's 2005 Final Report

BY ODETTA MACLEISH-WHITE

Pick up any Florida newspaper you will probably read about the increasingly urgent issue of affordable housing, and how quickly housing options are moving beyond the reach of Floridians. For low income families who rely on rental housing, the situation is even more precarious. In its 2004 final report, the Affordable Housing Study Commission noted that, by 2008, tens of thousands of affordable multifamily units in the United States may be converted into market rate units. Adding to the problem, federal funding for programs that maintain affordability has decreased over the years.

Further compounding the urgency of addressing preservation is the fact that rental assistance provided to some 27,000 units, through Section 8 contracts and other rental assistance programs, will slowly disappear as HUD's budget is cut. These units are most likely to house Florida's extremely low income families, who often struggle with housing costs that overburden their income.

In the May 2005 edition of the Housing News Journal, Nancy Muller, Florida Housing Finance Corporation's Policy Director explained the preservation pressures that are making it ever more difficult to keep and maintain sorely needed rental housing and outlined the aging issues facing Florida Housing's portfolio and federally subsidized units.

With the release of the Study Commission's 2005 Report in July 2005, specific data on aging and expiration for Florida's rental housing is available. This article highlights some of that data and briefly outlines the obstacles that stand in the way of preservation deals.

What is the aging and expiration data for Florida?

A variety of HUD programs finance affordable multifamily housing in Florida including Section 221(d)(3), Section 236 and Section 202/811 in addition to the Section 515 and 514/516

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programs from USDA Rural Development (RD). Both the HUD and RD programs face serious expiration issues; HUD programs face peak losses in the next 10 years (12,553 units) and again in 2030 (13,078) while RD programs will face a loss of 13,409 units over the next fifteen years.

Even as we consider the impact of permanently losing these units, the issue of aging also demands our attention. Almost 39,000 units of Florida's rental housing are public housing. Approximately 70% of this stock is over 30 years old, making it some of the oldest in the state. Maintenance and upgrades, rather than expiring affordability, is the issue for these units.

Next, let's consider the housing financed through Florida Housing Finance Corporation programs. Over 40 percent of Florida's affordable housing stock is 1 to 10 years old, with 95 percent of these newer units financed through Florida Housing's programs. Still, over 40,000 of the units in Florida Housing's portfolio are 11 to 20 years old, and another 3,100 units are in the 21 to 30 year old range.

The relative youth of Florida Housing's portfolio means expirations will not pick up speed until 2030. The bad news is that over 13,000 units have already expired, mostly from the Bond program, and in the next five years, another 7,200 units (mostly from the 9% Housing Credit program) will also lose their affordability.

What are the obstacles to preservation?

The Study Commission's 2005 report also outlines the barriers that complicate preservation and rehabilitation deals.

Financial Barriers

Many in the affordable housing industry believe that the exit tax is the single largest barrier to maintaining the affordability tax credit developments. Exit taxes often exceed what the seller receives in cash proceeds and keeps owners from transferring their older properties. Decreased federal funding for Section 8 subsidies and other rental assistance programs means that owners who do manage to restructure the debt on their properties may be forced to pass on higher rents to residents.

Informational Barriers

There are no widely available standardized risk analysis tools to assist states and local governments in identifying properties that may be facing expiration. Notice requirements for owners wishing to end Section 8 contracts or prepay their federal mortgages do not provide enough time to find new owners who will maintain permanent affordability. Finally, state and local government officials and community leaders must be educated about the aging stock in their communities and the impact of losing this housing.

Capacity Barriers

The enhanced capacity of nonprofits and public housing authorities to execute preservation deals could greatly decrease the rate of loss of these properties. These entities tend to target their housing activities to meet the needs of lower income families, and seek to create housing in neighborhoods that are facing multiple challenges on the road to revitalization. Most nonprofit developers maintain a small staff, and have neither the capital nor the expertise to expedite these transactions. Attention to a variety of community issues may reduce the time spent by an already limited staff on the complicated task of developing and financing preservation deals.

Governmental Barriers

State and local governmental regulations, such as code and design requirements, can make preservation transactions more expensive although some updated code features are necessary, especially those related to wind safety and other environmental factors.

Conclusion

The Study Commission has started to develop specific recommendations to address the barriers listed above and plans to propose a statewide preservation policy by July 2006. To read the 2005 Report in its entirety, please visit ***http://www.floridahousing.org/ahsc/AnnualReports/2005AnnualReport.***

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