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Housing Preservation Discussion

Florida Housing Coalition Conference
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Introduction

The practice of preserving existing affordable housing ("preservation") is widely acknowledged as being a necessary element of affordable housing administration.

Preservation is also a method to maintain critically needed affordable housing opportunities for at-risk populations in Florida's most competitive markets.

As Florida Housing funding affordability restrictions expire, it is important to understand the amount, location and type of units that are at risk of exiting Florida Housing's portfolio.

Background

- Florida Housing has historically designated resources for preservation of non-portfolio affordable properties that are greater than 20 years old with a HUD or USDA-RD contract.
  - Prior to 2014, the Qualified Allocation Plan (QAP) designated 35 percent of the 9 percent housing credit allocation to this type of preservation.
  - From 2014-2020, the QAP designated 15 percent of the 9 percent allocation to this type of preservation.
  - In 2021, the Corporation removed this specific preservation set aside from the QAP, pooling it with permissible new construction uses and moved to a funding this type of preservation goal in SAIL RFAs.
- Florida Housing has not historically designated resources for the preservation of its portfolio properties.

Background

- In 2017, at the Board's request, Florida Housing staff reviewed the status of portfolio properties, as more began to approach the end of their affordability periods.
- The efforts included data-driven research and extensive stakeholder engagement, resulting in the presentation of a Portfolio Preservation Action Plan to the Board for approval in 2018.

Portfolio Preservation Action Plan

The Portfolio Preservation Action Plan is intended to present strategies that are freely available for Florida Housing to use, or may be implemented in the future, as determined by need.

The Plan provides a set of strategies to promote the recapitalization of aging properties within Florida Housing's portfolio, while also providing prioritization guidance based on general criteria and property risk factors in a matrix format.

Portfolio Preservation Action Plan

- Strategies Immediately Available in Plan:

1. SAIL program to allow first mortgage recapitalization.
2. Use of 4% housing credits and bonds to recapitalize at or after year 15.
3. Viability analysis to determine how to provide rehabilitation/recapitalization after year 30.

Portfolio Preservation Action Plan

- Strategies needing further development in Plan:

  4. Limited rehabilitation or full recapitalization with SAIL resources.
  5. Full recapitalization using 9 percent LIHTC.
  6. Allow certain developments to exit portfolio depending on market conditions.

- The development of Strategies 4-6 require continued review of the conceptual matrix to prioritize preservation of rental developments in Florida Housing's portfolio.

Portfolio Preservation Action Plan

Conceptual Matrix to Prioritize Rental Developments in FHFC's Portfolio for Preservation **Proposed for Future Discussion 12/2018**

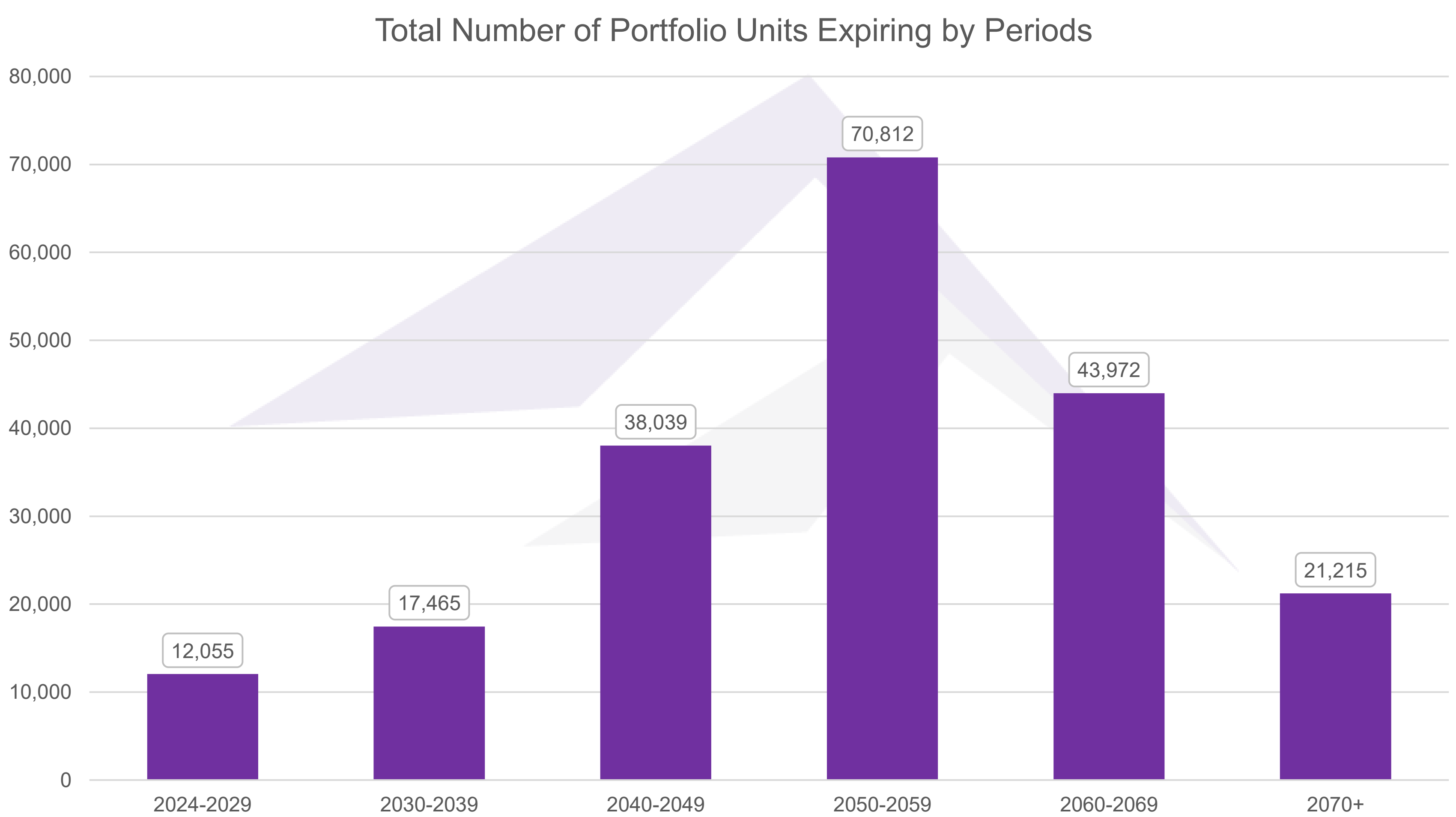
When Florida Housing begins discussions in the future about using valuable, competitive resources for portfolio preservation, it would be useful to consider how to prioritize properties to receive this funding. This matrix is a starting point for those discussions and can be tailored to the priorities of the day. One or more of these factors may apply to a property; by themselves, they may not be particularly important; altogether, it may spell great risk. This matrix is unnecessary for situations when non-competitive funds are available for a property to recapitalize.

	TIER 1 Higher Priority	TIER 2 Middle Priority	TIER 3 Lower Priority	COMMENTS
Property Risk Factor				
Affordability Expiration: Risk of loss of lower income units due to ability to increase rents b/c of strong market	Strong rental market with no impediments to conversion	Strong market, but weak performer or poor location; OR weak market, but strong performing, attractive property	Weak market or inability of property to compete for market rate tenants	Factors to consider: regulatory issues, marketability of property, conversion costs, owner mission, etc.
Affordability Expiration: Risk of loss of units serving high priority demographic population	Imminent loss due to affordability expiration	Loss of property in next 2-4 years due to affordability expiration	Loss of property in 5-10 years due to affordability expiration	Possible mitigation if nonprofit ownership structure and housing still fits nonprofit's mission; however, other concerns, such as property condition , combined with location in strong market, might mean property is lost
Aging Stock: Risk of impacts/loss due to deteriorating physical condition	Imminent loss due to condemnation proceedings or governmental action to close the property	Probable loss of the property in the next 2-4 years. Likely to have significant code and safety issues	Risk of loss, but time unknown: poor physical inspections and/or tenant complaints	Factors to Consider: Year property was built, # years since last rehab, annual replacement reserves contribution, total reserves balance
Aging Stock: Risk of impacts/loss due to financial viability	Lender has declared a default	Property is not current on loan or covenants but no default has been declared	Property is financially troubled but able to maintain loan payments	Analysis based on 3 yrs of financials. Factors to consider: vacancy, municipal liens, sponsor financial condition, owner & property mgmt practices
Qualified Contract: Risk of loss in a strong market if qualified contract not obtained	Imminent QC request risk due to timing, market and property location	QCP occurs in next 2-4 years, and market is strong; or QCP imminent but market or property location is less strong	QCP is 5+ years out, and/or market where property located is weak	Factors to consider: regulatory issues, marketability of property, conversion costs, owner mission, etc.
Market Condition Opportunity	Unique opportunity to purchase a project at a below market price due to seller motivations	Sale price based on present value of reduced income stream - value will increase as expiration date approaches	Property for sale - no particular economic benefit to purchase at this moment	

Portfolio Preservation Action Plan

	TIER 1 Higher Priority	TIER 2 Middle Priority	TIER 3 Lower Priority	COMMENTS
General Criteria for All Projects				
Certain demographic served or unit mix	For example: Majority of units with 1 bedroom	For example, general family occupancy	For example, restricted to elderly occupancy only	This might be based on likelihood of certain properties being more or less able to go to market
Project based rental assistance	Most units have long term rental assistance (doesn't include vouchers unless project based)	Some units have long term rental assistance	No units have rental assistance	Recognizes value of federal subsidy, but also must consider the possibility of owner's choice not to renew if other program restrictions have come to an end
ELI units and/or high proportion of ≤60% AMI units at the property	High % of ELI units	Some ELI units	No ELI units	ELI = extremely low income
Risk of tenant displacement	No tenant protections	Some tenants protected	Vouchers (regular or enhanced) for all tenants	Relates to existing tenant income profile
Importance of the property in the community: is this the only affordable housing? Are broader losses occurring or imminent? What is the scale of loss?	To be determined	To be determined	To be determined	For example, if an at-risk project = 40% of all the affordable rental units in a locale, this might make it a high priority. Or what if many other properties are also expiring in the area in the same 5-year period?
Location, e.g., close to amenities, transit, opportunity areas	Near schools, transit, jobs	Near schools, transit OR jobs	Not close to schools, transit, jobs	Must be evaluated among like communities (i.e., higher and lower population centers)
Owner development and management performance	Strong owner performance	Moderate owner performance	Poor owner performance	Performance to be defined, but could focus on "Development Management Scoring" items (if implemented) or more specifically on asset management activities. Poor owner performance could be mitigated by sale to or takeover by another entity

Status of Portfolio



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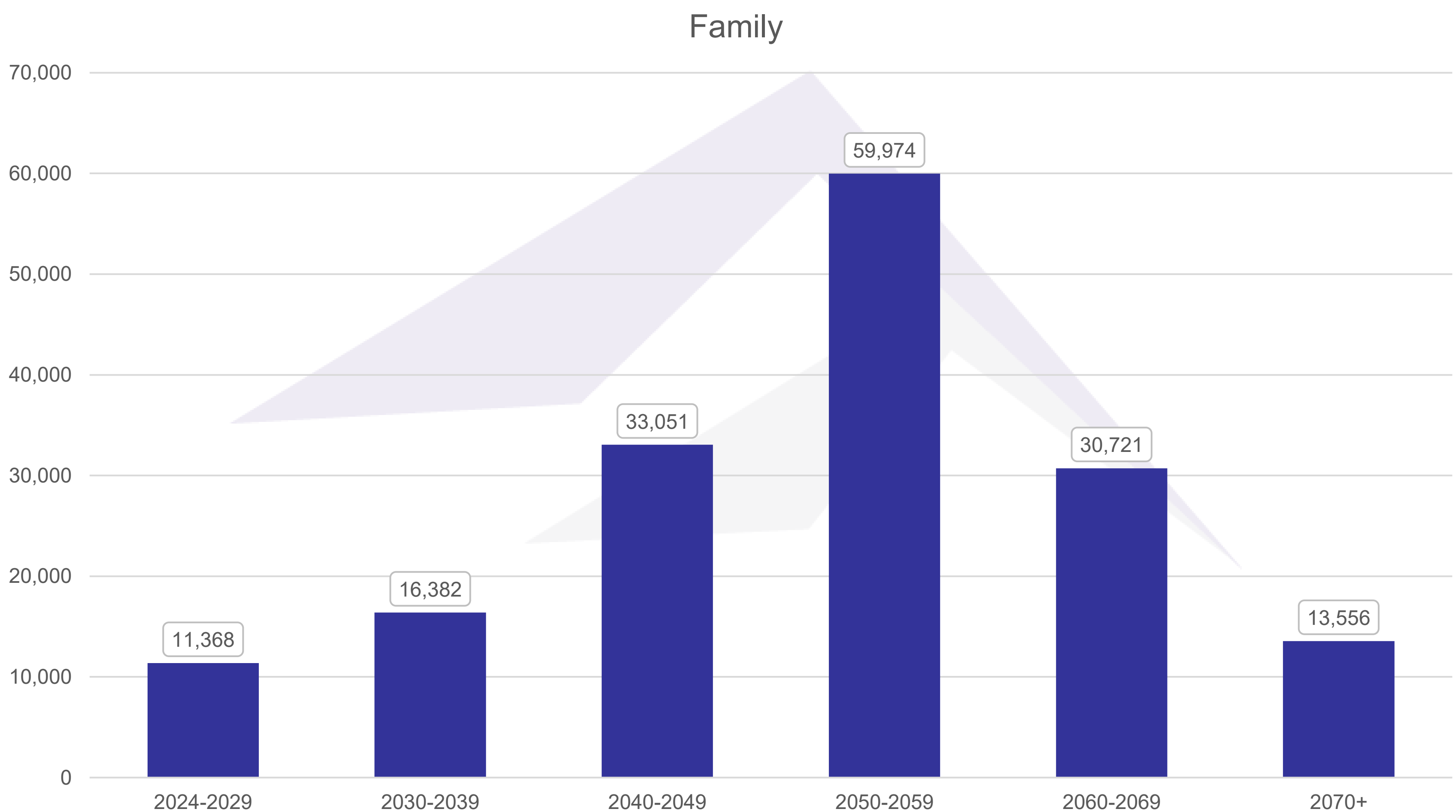
Demographics



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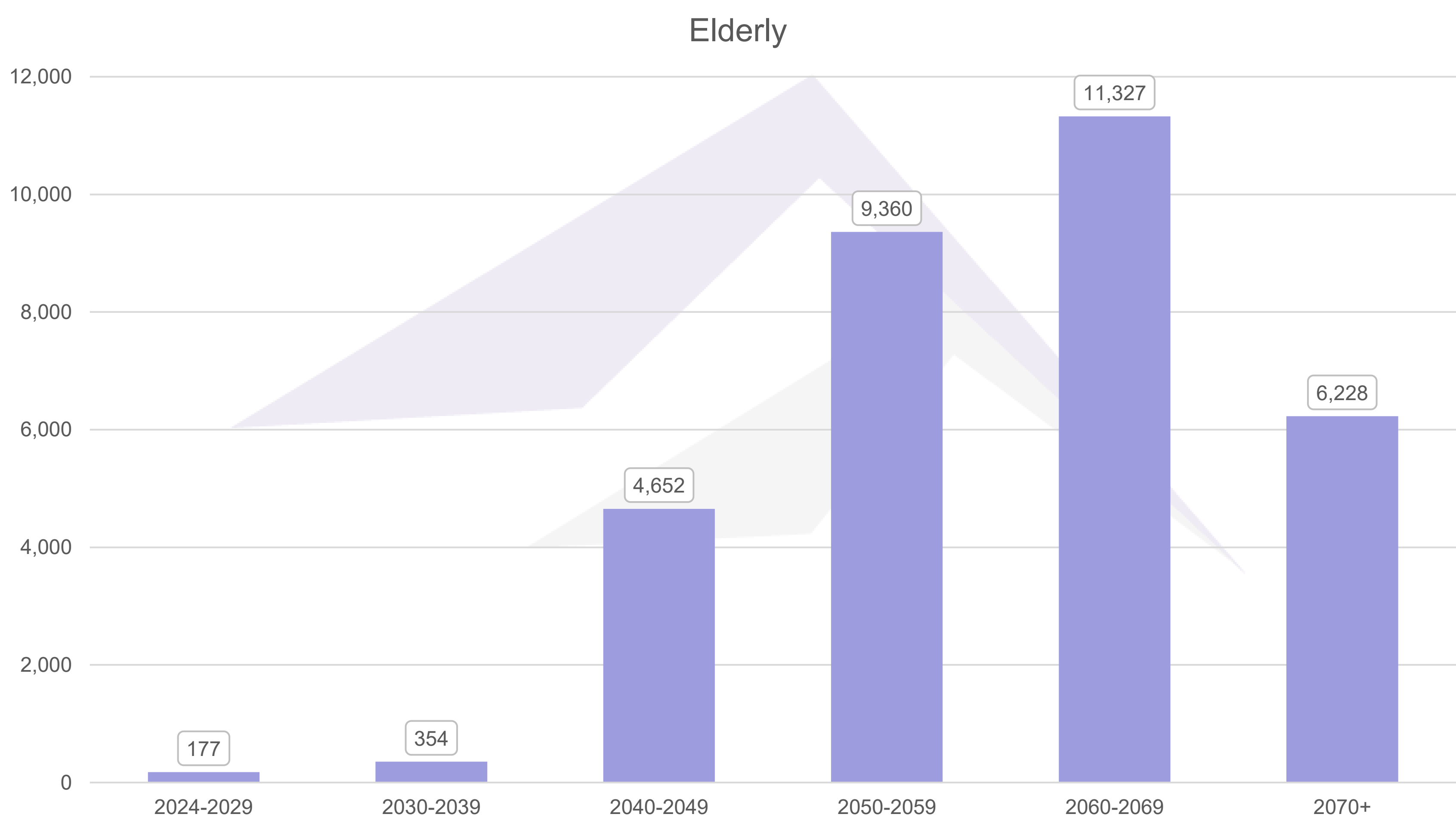

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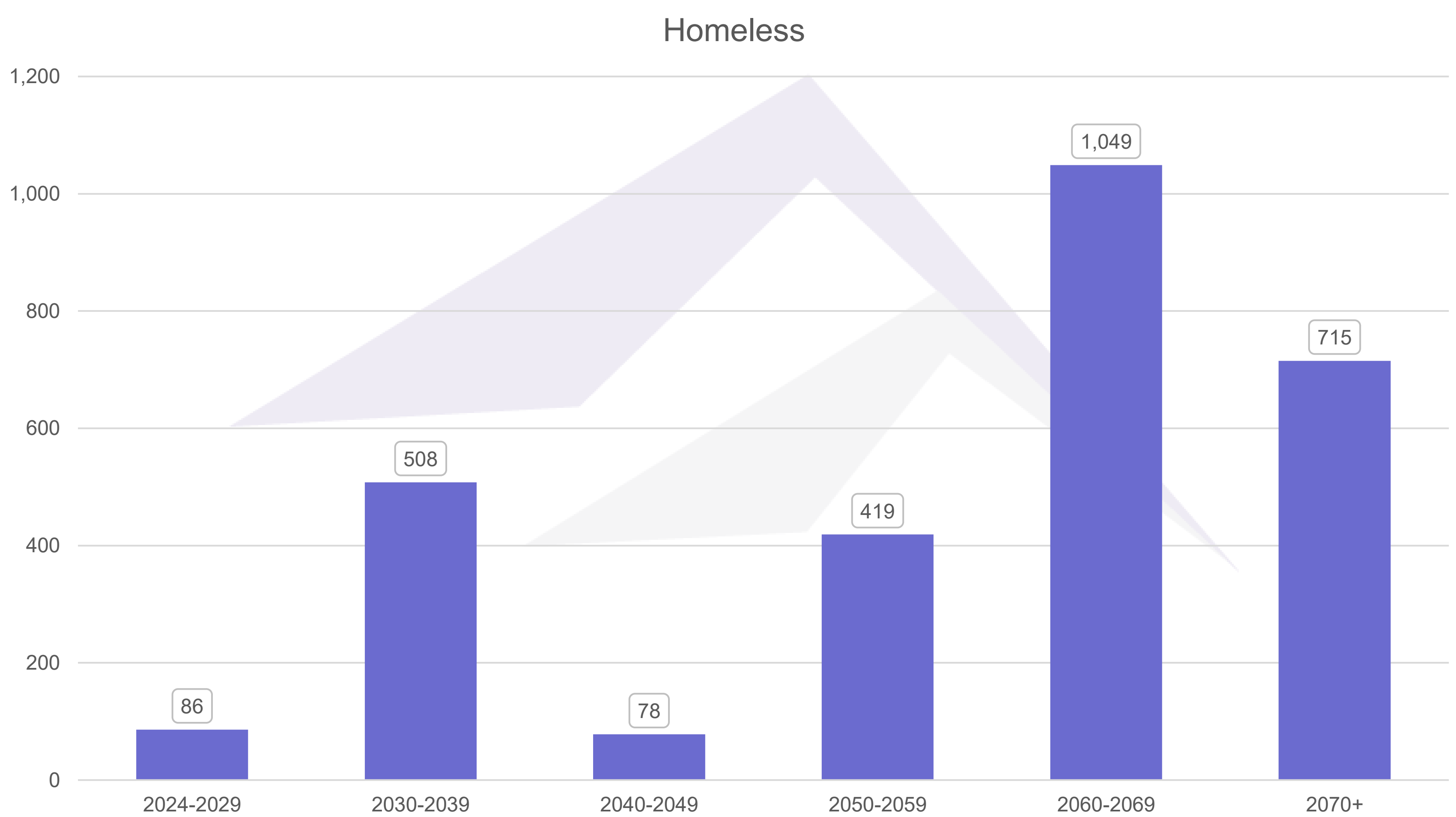

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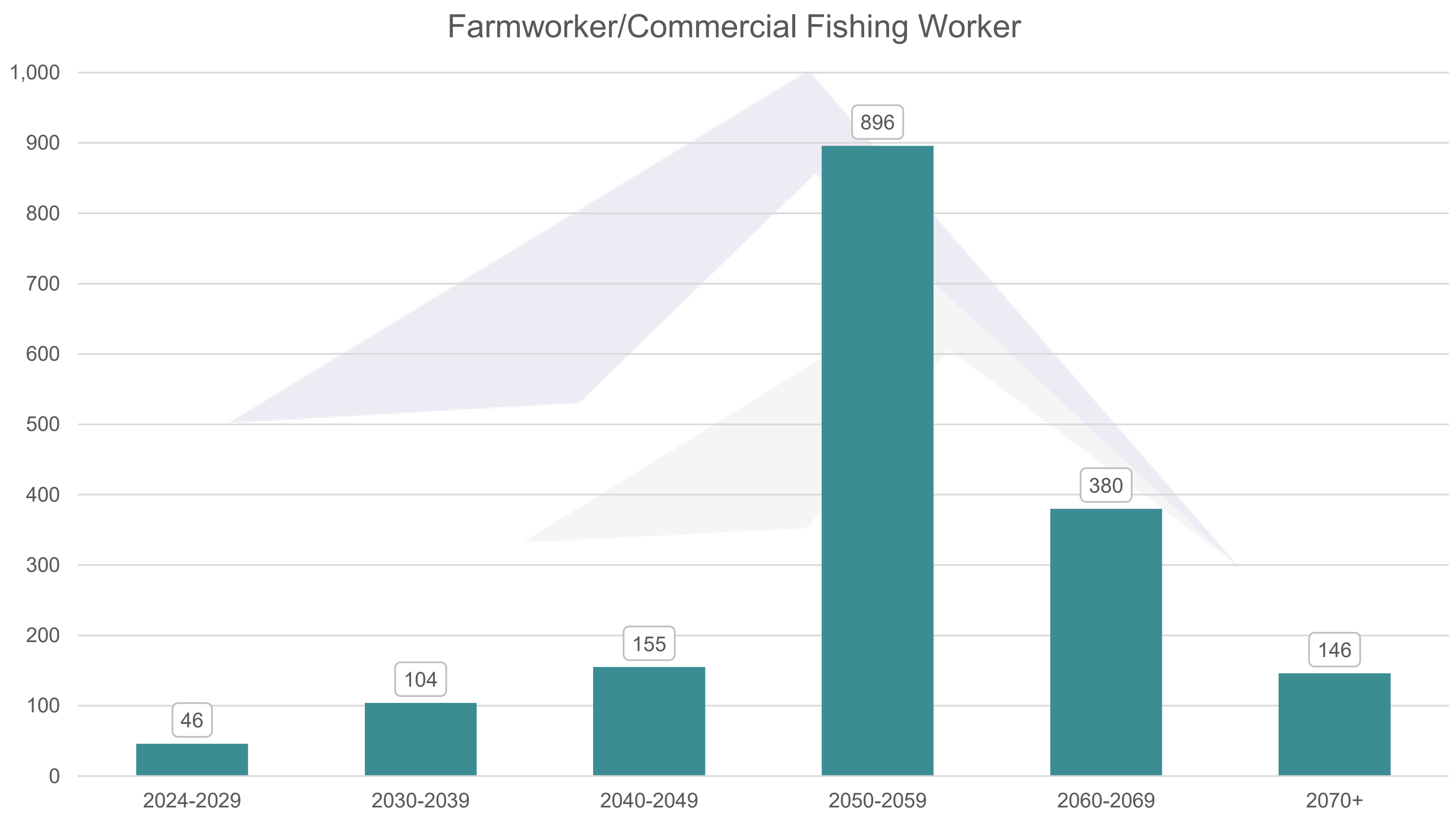

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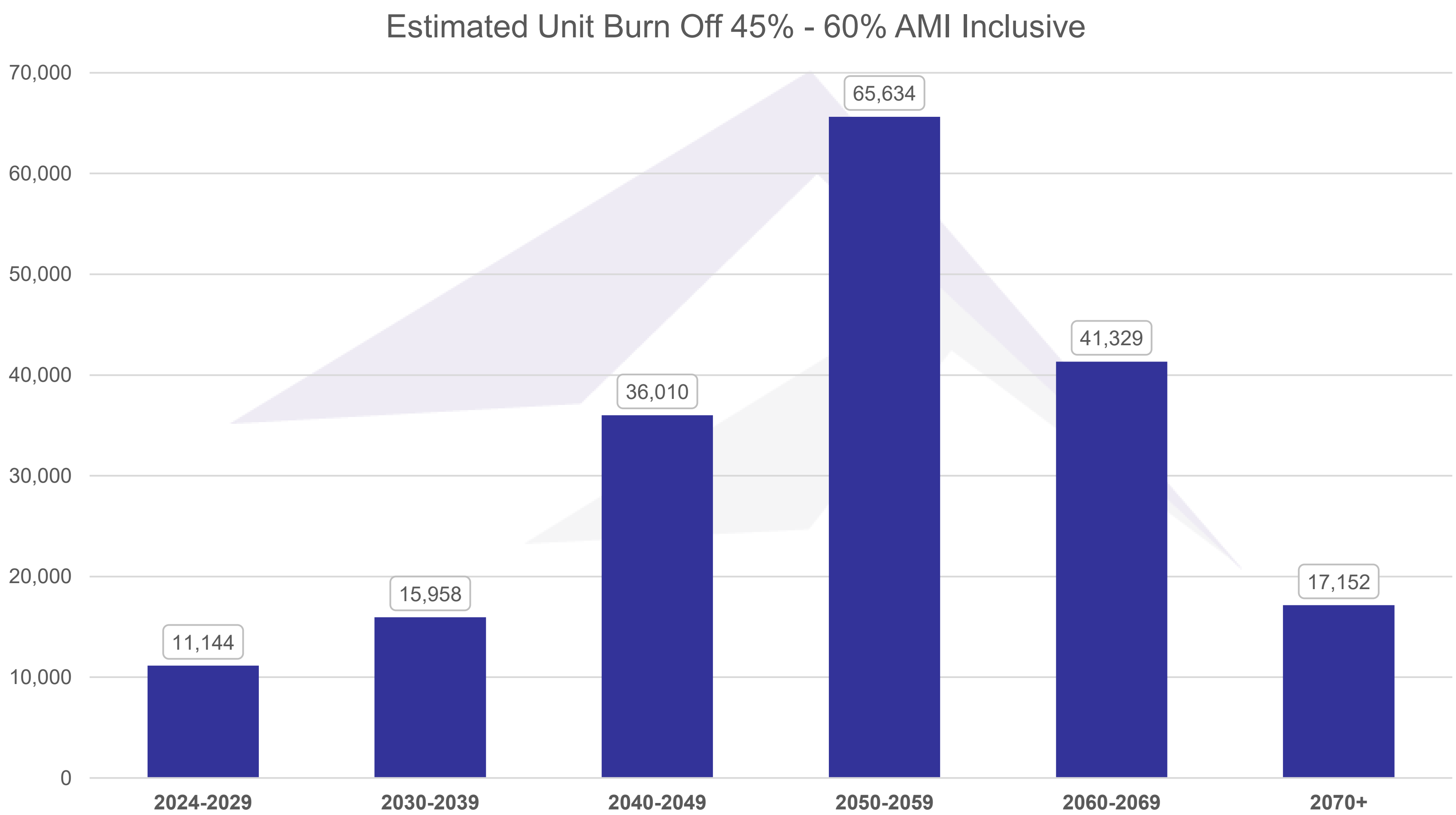
Set Asides



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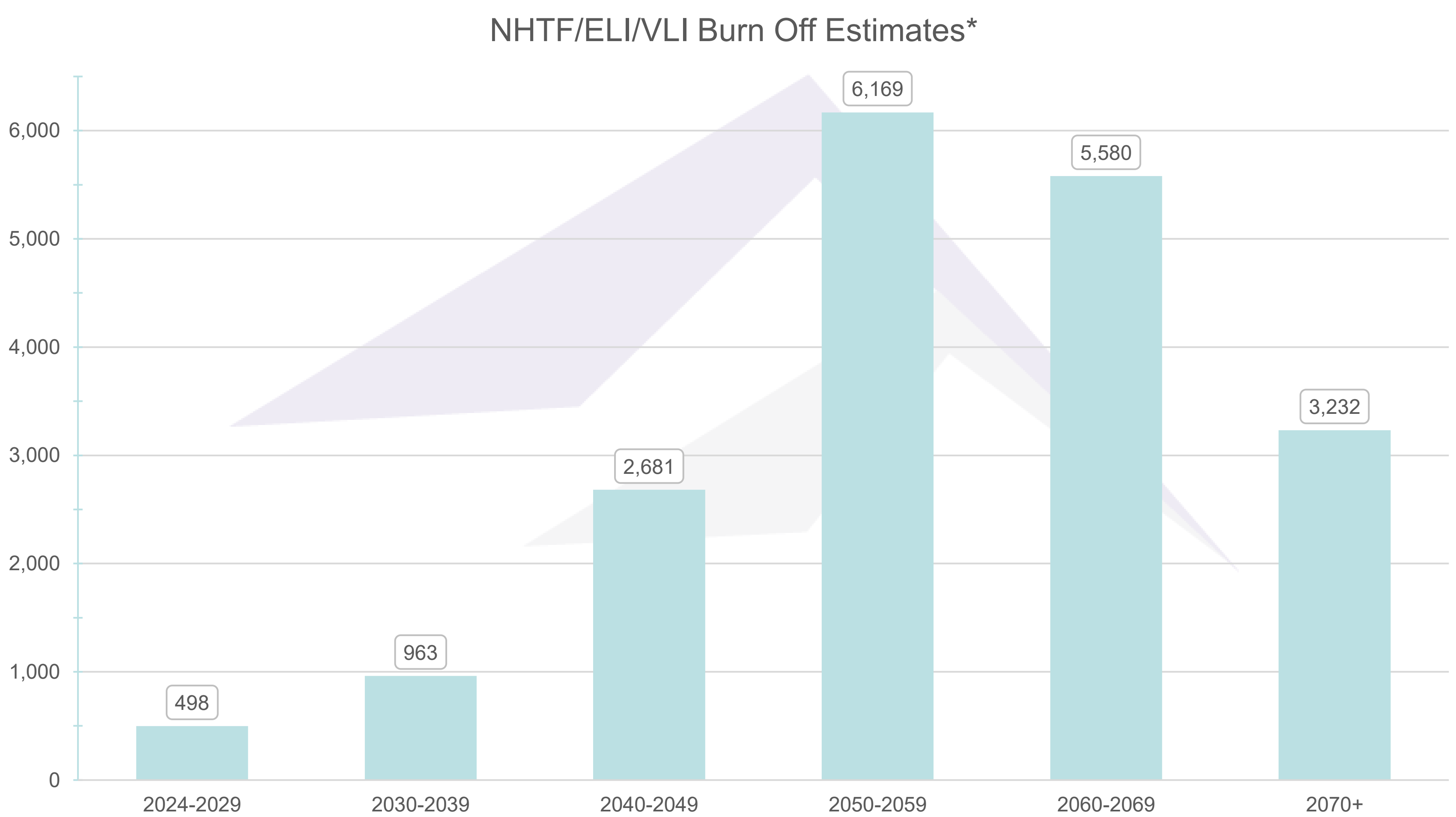

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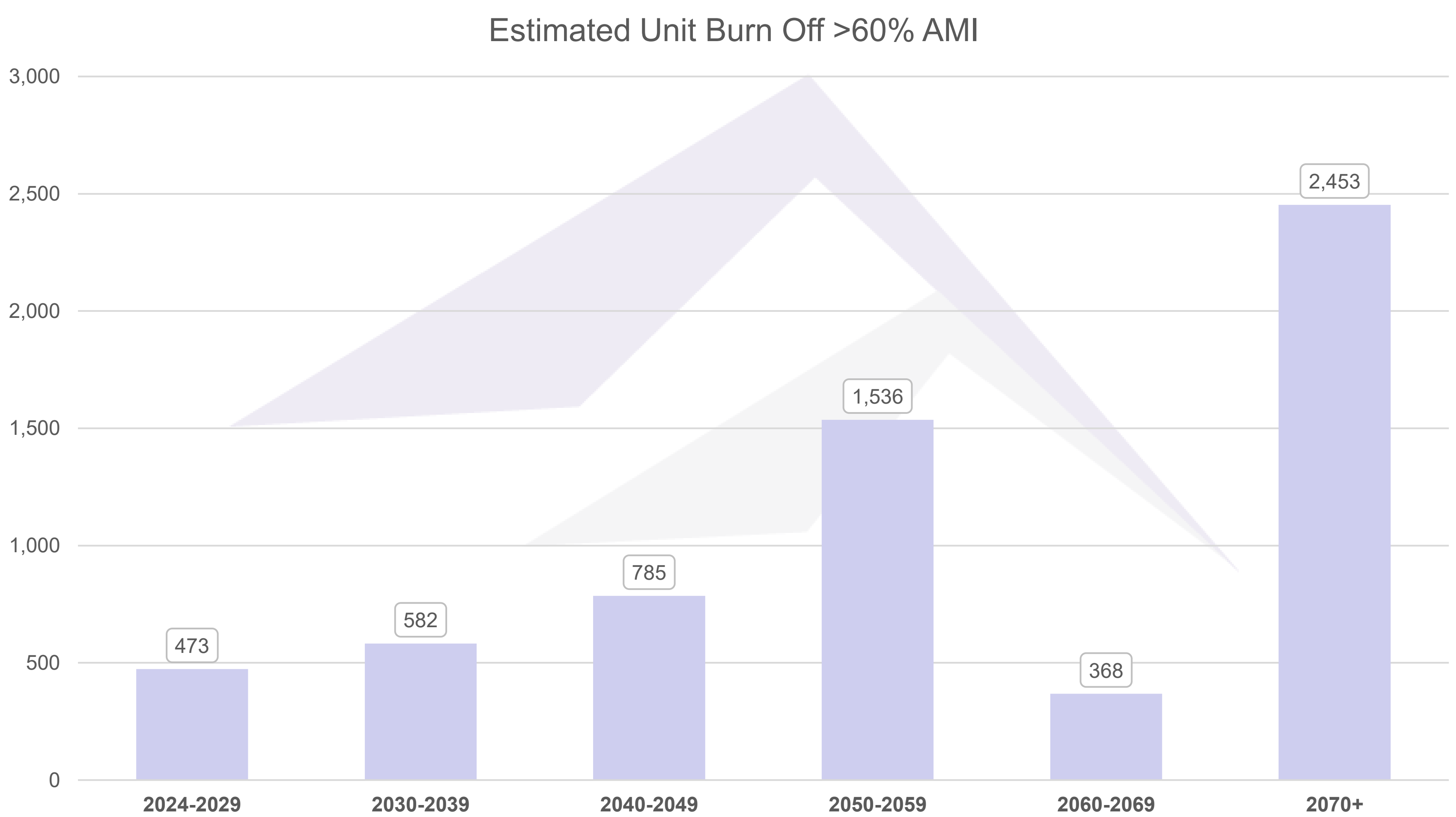

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Why Does This Matter?

- Over the past 5 years, FHFC has averaged financing approximately 15,000 units per year, a majority of which are new construction.
- While in the next 5 years the trend in unit production (assuming funding sources and development cost remain stable) exceeds the amount of units exiting the portfolio, the data reflects that the gap begins to close in the coming years.
- Furthermore, there are certain geographic locations at risk of losing units where they will be almost impossible to replace, as well as certain ELI unit set asides that will expire and be difficult to maintain or replace.
- Florida Housing has the opportunity to move forward with an approach to identify properties where there is a threat of the loss of units (the threat could be related to demographic, geographic location, or set-aside AMI) and implement strategies to proactively address these issues.

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