

A F F O R D A B L E H O U S I N G

ISSUES

SHIMBERG CENTER FOR AFFORDABLE HOUSING

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Florida's Commitment to Preservation of Affordable Housing

The February 2006 issue of the Shimberg Center's newsletter focused on the growing need to preserve Florida's affordable rental housing stock. To summarize, government-subsidized affordable rental housing is permanently being lost at a time when the need is soaring. Under the terms of federal housing programs enacted in the 1960's through 1980's, many private property owners have become eligible to opt-out of rental assistance contracts, prepay subsidized mortgages, or end affordability of tax credit properties. This has spurred conversion of rental units to market-rate housing or non-residential use, a shift that is influenced by market factors, financial and physical property conditions, owner motivation, and availability of funding resources. This issue continues the conversation about preservation by discussing the recent work of the Affordable Housing Study Commission and outlining efforts at the state level to improve data collection and encourage more preservation transactions.

On a national scale, preservation efforts have been haphazard, due in part to the lack of understanding about the extent of the problem, including limited property-level data that would provide insight into the risk of loss. Spearheaded by the Governor's Affordable Housing Study Commission, Florida has taken a proactive approach to assessing its preservation challenges and developing a preservation strategy.

Identifying the Preservation Issue

During its 2003-2004 study year, the Study Commission examined the housing needs of extremely low-income households - families who earn less than 30 percent of the area median income. The Commission identified over 637,000 extremely low-income households in Florida, many of which are severely cost-burdened, paying

more than 50 percent of total household income for housing. Extremely low-income renter households are especially hard hit with more than 75 percent severely cost-burdened. Furthermore, elderly, disabled and single-parent renter households are disproportionately represented. This means that the most vulnerable households are facing a crisis of unprecedented proportions.

The Commission identified that contributing to this crisis was the fact that many subsidized housing units currently in use by extremely low-income households had reached, or were about to reach, the end of their life as subsidized housing. The Commission's 2004 final report states that some experts tag the loss in Florida at more than 11,000 units over the past five years, but that yet no one knows the exact numbers. The Commission warned that solutions had to be found to produce more units for extremely low-income households, and that serious efforts must be undertaken to preserve existing affordable housing for extremely low-income families through rental assistance or other means.

Assessing the Problem

After initial consideration of the preservation issue as part of its 2004 research agenda, the Study Commission recognized that a comprehensive multifamily state preservation policy should be developed. Before the Commission could begin to develop such a policy, it would be necessary to educate itself about the aging and expiration status of Florida's existing affordable multifamily housing stock, the programs that funded this stock and the barriers that limit preservation transactions. The Study Commission found that Florida has over 259,000 affordable multifamily units financed by myriad state and federal programs over the last 70 years. Almost 39,000 of these units are public housing which will remain part of the affordable housing stock; the preservation focus for these units is maintaining or improving, where necessary, their physical condition. The other 220,000 of these units were built in exchange for a commitment by the property owners to maintain the affordability of the units at predetermined levels over set periods of time. Depending on the program and year in which the units were built, the affordability period ranges from 15 to 50 years.

The majority of units with affordability restrictions must be maintained as affordable for at least another 25 years. However, current affordability requirements for approximately 60,000 units will expire over the next 15 years. Upon expiration of the affordability requirement, a property owner may choose to convert

to market rate housing or even non-residential use. This is a serious concern, since many of the state's lowest income residents rely on subsidized affordable housing. An added concern is that additional rental assistance will slowly disappear as HUD's budget is cut. Rental assistance is provided to some 27,000 of these units to make them even more affordable,

The age of Florida's affordable housing stock adds another element to the preservation debate. The Study Commission's 2005 final report states that while over 40 percent of Florida's affordable housing stock is 1-10 years old (95 percent of these newer units have been financed through Florida Housing Finance Corporation programs), almost one-third of the stock – 83,847 units – is over 20 years old. Public housing and units funded with early HUD programs, such as Section 202 for elderly housing, make up the highest proportion of the older stock. Even if these units maintain affordability restrictions and rental assistance into the future, they are aging and in need of rehabilitation to keep them as decent housing

The Commission also outlined obstacles that may complicate the implementation of preservation policy if these are not addressed:

- Financial barriers: Onerous tax implications often come into play upon sale of a property, limited capital is available to maintain affordable developments, and, most importantly, public sector programs are generally not well positioned or sufficiently funded to encourage preservation;
- Information barriers: Comprehensive data is limited about the status of Florida's assisted and conventionally financed housing stock, and about the regulatory and real estate market issues of a particular development. Also, notice requirements to announce the property owner's intent to end affordability are very limited and do not improve the chances that new owners will be found to preserve the affordability of the units;
- Governmental and regulatory barriers: Tax requirements, building code requirements and affordable housing program requirements may all impact the ability to carry out a preservation transaction; and
- Capacity barriers: Across Florida's affordable housing delivery system, stakeholders generally lack the tools and experience to handle complex preservation transactions.

Recommendations for a Statewide Preservation Policy

The Study Commission's 2006 final report draws together multiple years of study and testimony to offer a comprehensive statewide preservation policy. Detailed recommendations were organized in five parts and key recommendations are highlighted here:

Encourage private sector involvement in preservation:

- Florida Housing Finance Corporation ("Florida Housing") should create a Preservation Set-Aside for 9% Housing Credits;
- Florida Housing should combine the acquisition and rehabilitation costs of a preservation transaction into a single total development cost and award a developer fee equivalent to that received for new construction; and
- The Florida Legislature should appropriate \$25 million for the creation of an affordable housing preservation bridge-loan program, to be matched by private lenders to create a program totaling a minimum of \$50 million.

Make existing state funding programs and processes more preservation friendly:

- Florida Housing should allow HOME funds to be combined with other state administered funding programs to make preservation transactions financially feasible;
- Florida Housing should prioritize the preservation of properties with project-based rental assistance in its preservation funding efforts. These properties generally house extremely low-income families, and once this federal subsidy expires, the affordable units are permanently lost;
- The Florida Legislature should revise the SHIP statute to increase the per unit loan or grant limit on rental units, which triggers annual monitoring and tenant income certification in the SHIP program from \$3,000 to \$15,000; and
- The Commission strongly encourages local governments to consider how unrestricted SHIP program income can support preservation of smaller affordable and conventionally financed housing properties.

Knowledge is power:

- Florida Housing should prioritize comprehensive data collection for the properties in its portfolio and make this information available to the public through the Florida Housing Data Clearinghouse; and
- The Florida Legislature should adopt a notice policy with a minimum notification period of 12 months, covering prepayments and opt-outs for all affordable rental housing of five units or more with permanent financing from the state. The policy should pertain to developments funded after the date of policy adoption.

Encourage nonprofit and public housing authority participation in preservation:

- Florida Housing should broaden the field of experienced and efficient developers by using the Affordable Housing Catalyst Training and Technical Assistance Program to provide a series of preservation workshops for nonprofit developers, public housing authorities and local governments.

Converting Affordable Multifamily Housing into Condominiums:

- Several developers have asked Florida Housing to terminate the long term affordability requirements on units built with funds from the state's affordable housing programs. Releasing these units from the affordable rental housing inventory represents an important and, in the opinion of the Commission, unwelcome precedent. The recommendation is therefore that Florida Housing should deny any requests for termination of a Land Use Restriction Agreement or an Extended Use Agreement for the purpose of converting affordable rental units into condominiums.

Continued Preservation Research with MacArthur Funding

In June 2006, the Shimberg Center for Affordable Housing and Florida Housing Finance Corporation received funding from the John D. and Catherine T. MacArthur Foundation through its Window of Opportunity: Preserving Affordable Rental Housing

initiative for a project to improve national data collection and analysis related to the preservation of subsidized rental housing.

The project seeks to develop a national consensus on the design of a national preservation data infrastructure that will allow data to be aggregated at the state and national level for purposes of prioritizing and tracking preservation efforts over time. As part of this effort, the Shimberg Center will identify the data on subsidized properties that provide the most useful information for policy decisions and program delivery. It will also develop tools that use these data to help policymakers and housing professionals identify properties most at risk of loss from the inventory.

Funding for the project will also allow the Shimberg Center to increase its capacity to collect and analyze these data for subsidized properties in Florida localities. It will provide the opportunity to expand the existing assisted housing inventory that Shimberg has developed for Florida. The assisted housing inventory consists of a general database and a preservation database, both with property-level data. It is publicly available through the Florida Housing Data Clearinghouse (<http://www.flhousingdata.shimberg.ufl.edu/>). An expanded preservation inventory that contains the most critical property-level data will be of high value to policymakers in making preservation decisions.

This newsletter is based on excerpts from the annual reports of the Affordable Housing Study Commission, available on the following website:

<http://www.floridahousing.org/ahsc/AnnualReports/>

Affordable Housing ISSUES is prepared bi-monthly by the Shimberg Center for Affordable Housing for the purpose of discussing contemporary issues facing affordable housing providers. Reproduction of this newsletter is both permitted and encouraged. Comments or questions regarding the content are welcome and should be addressed to Robert C. Stroh, Director.

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