



Affordable Housing Preservation Tools *The HUD Policy Agenda*

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WHAT DO WE MEAN BY "PRESERVATION"?

Preservation refers to maintaining the affordability, rental assistance (if applicable) and physical viability of Multifamily and public housing properties, and protecting tenants from displacement.

In the last 15 years we have lost nearly 170,000 Section 8 units due to opt-out, foreclosure or abatement. Another 450,000 units are "at risk."

Major risks include:

- Opt-Outs
- Other contract terminations (Rent Supplement and RAP)
- Maturing mortgages and expiring Use Agreements
- Physical deterioration
- Financial trouble/default






EXPIRING CONTRACTS: OPT-OUTS

- Most property owners have annual or 5-year contracts. When they expire the Owner has the option of renewing or "Opting-Out."
- 2006 PD&R Study: "Opting In, Opting Out, and Remaining Affordable." Great primer on why Owners Opt-Out
- Market conditions are key. 2010 had a record low number of Opt-Outs nationally (37) due to economic uncertainty.
- Education of Owners: Some owners do not know what tools HUD has to offer them.
- Owner incentives to "Opt-In": Mark up to Market program, Mark-to-Market restructuring, Mark up to Budget for capital Repairs





EXPIRING CONTRACTS: RENT SUPP AND RAP

Approximately 25,000 units of Rent Supp and RAP still remaining (originally funded 30-40 years ago).


Approximately 25 projects expiring FY11


Unlike other Section 8 projects, HUD has no authority to renew these contracts.

HUD has two tools:

- 1. Rent Supp and RAP tenants receive Tenant Protection Vouchers when the contracts terminate (expire).
- 2. HUD has new authority in new FY11 appropriations bill to extend the contracts for one year only. 15 projects fit this time frame.


HUD also proposed a Rental Assistance Demonstration in FY12 budget (Formerly called TRA) to convert the expiring contracts to long-term Section 8 contracts.






MATURING MORTGAGES

- In 1960s, 1970s and 1980s HUD worked with thousands of private and nonprofit owners to build Multifamily properties. Today the mortgages on these properties are reaching maturity.
- When mortgages mature, the affordability use restrictions expire. Owner no longer required to maintain as affordable housing.
- More and more Owners are letting their mortgages mature rather than prepaying the mortgage – even Nonprofit owners.
- Current Owner incentives: Prepay and refinance mortgage to make repairs and continue affordability.







MATURING MORTGAGES: SCOPE OF ISSUE

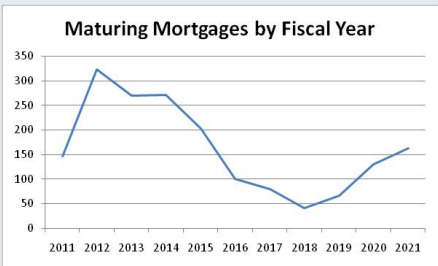
- Estimated 7,000 units maturing this FY.
- Nearly 150,000 units at risk over the next 10 years.
- Certain regions heavily impacted: California is home to approximately 15% of the units in maturing mortgages.
- Primarily Section 236 properties.

Maturing Mortgages, 2011-2021	Section 221(d)(3)	Section 236	Total
Properties	79	1250	1329
Units	9,308	137,172	146,480





 **WAVE OF MATURING MORTGAGES ABOUT TO HIT...**

2004 GAO Study highlighted the issue of impending mortgage maturities. 2012 to 2015 are the peak years. California is disproportionately impacted with more than 300 maturing properties.




Fiscal Year	Number of Maturing Mortgages
2011	150
2012	320
2013	270
2014	270
2015	220
2016	100
2017	70
2018	40
2019	60
2020	120
2021	160



 **TROUBLED PROJECTS**

- Many projects are reaching the end of their useful lives.
- Physical issues: deferred maintenance and lack of holistic repair program (and Under 60 REAC)
- Obsolete housing: Efficiency units that go vacant because not meeting the need of the market. Need for Accessibility upgrades, "aging-in-place," or features and amenities tenants desire.
- Financial issues: Owners may lack capacity to budget for repairs and growing costs of operating housing, or existing loans with high interest rates.
- HUD may be forced to Abate Section 8 or property may go through foreclosure process. HUD may be able to transfer Section 8 assistance.



 **THE MULTIFAMILY PRESERVATION AGENDA**

Office of Multifamily Housing has a comprehensive administrative and regulatory agenda to preserve properties and address these issues.

Major areas include:

1. Facilitating Refinance and Rehab of properties
2. Improve outreach and public awareness of Owners, tenants and stakeholders.
3. Innovative new programs to preserve rental housing, with an emphasis on no or low-cost solutions.



 **PRESERVATION IN ACTION: LOS ANGELES**

740 South Olive, senior and disabled property with 100% of the units assisted under a Section 8 contract.



Completed Substantial rehab using \$52.45 million of tax-exempt bond financing, FHA 221d4 mortgage insurance and \$15.4 million of LIHTC equity





 **FACILITATING REFINANCE AND REHAB**


Goal: to incentivize owners to prepay HUD mortgage before it matures, and refinance and repair the property, or sell to a purchaser who will maintain affordability. *Strategies include:*

- Refinance and subordination of Section 202 Direct Loans to facilitate the preservation of supportive housing for the elderly. Providing Enhanced Vouchers to unassisted seniors at prepayment.
- Conversion of units to reduce vacancies (address obsolete housing) and defer "flexible subsidy" debt.
- See Housing Notices 10-14, 10-26, 11-03 and 11-05:
http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/notices/hsg



 **REFINANCE AND REHAB CONTINUED...**

- Tax Credit pilot – streamlined processing of FHA mortgage insurance applications with tax credits, including properties with Section 8 rental assistance.
- Section 8 Renewal Guide – forthcoming guide makes changes that make it easier to use Section 8 with Low Income Housing Tax Credits and to secure financing for repairs.
- Incentives to sell properties – forthcoming Notice allowing Nonprofits to sell properties to purchasers who will guarantee affordability and have capacity to operate property.
- Residual Receipts – changes to Handbook chapter on Residual Receipts to facilitate Owners accessing project resources to make repairs.





BUILDING THE TOOLBOX

- Training for Multifamily Owners: Comprehensive training for owners on preservation options such as 20 year contracts, refinance and repairs, selling property to preservation purchaser. 8 cities, 3 days per city, kicks off Fall 2011.
- Tenant Resource Network: NOFA providing \$10 million in grants to nonprofits to outreach, engage and educate tenants on their rights in the event of an Opt-out, prepayment, or mortgage maturity.
- Improving communications and data to inform and engage stakeholders.
- Setting concrete goals for field offices to track/prevent the loss of assisted units and to encourage 20 year contract renewals.





FINANCING PRESERVATION: CHICAGO

4/28/11

Lawndale Restoration, Chicago, IL:

•1,240 apartment units in 100 scattered sites

•Delinquent \$47m mortgage

•HUD, the City of Chicago and small, local housing developers worked to rescue this housing development from foreclosure and to leverage Section 8 assistance to secure new financing for the properties



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