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***Risks and Opportunities for
Affordable Rental Housing:
A Rapidly Changing Environment***

*Toby Halliday
National Housing Trust
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National Housing Trust

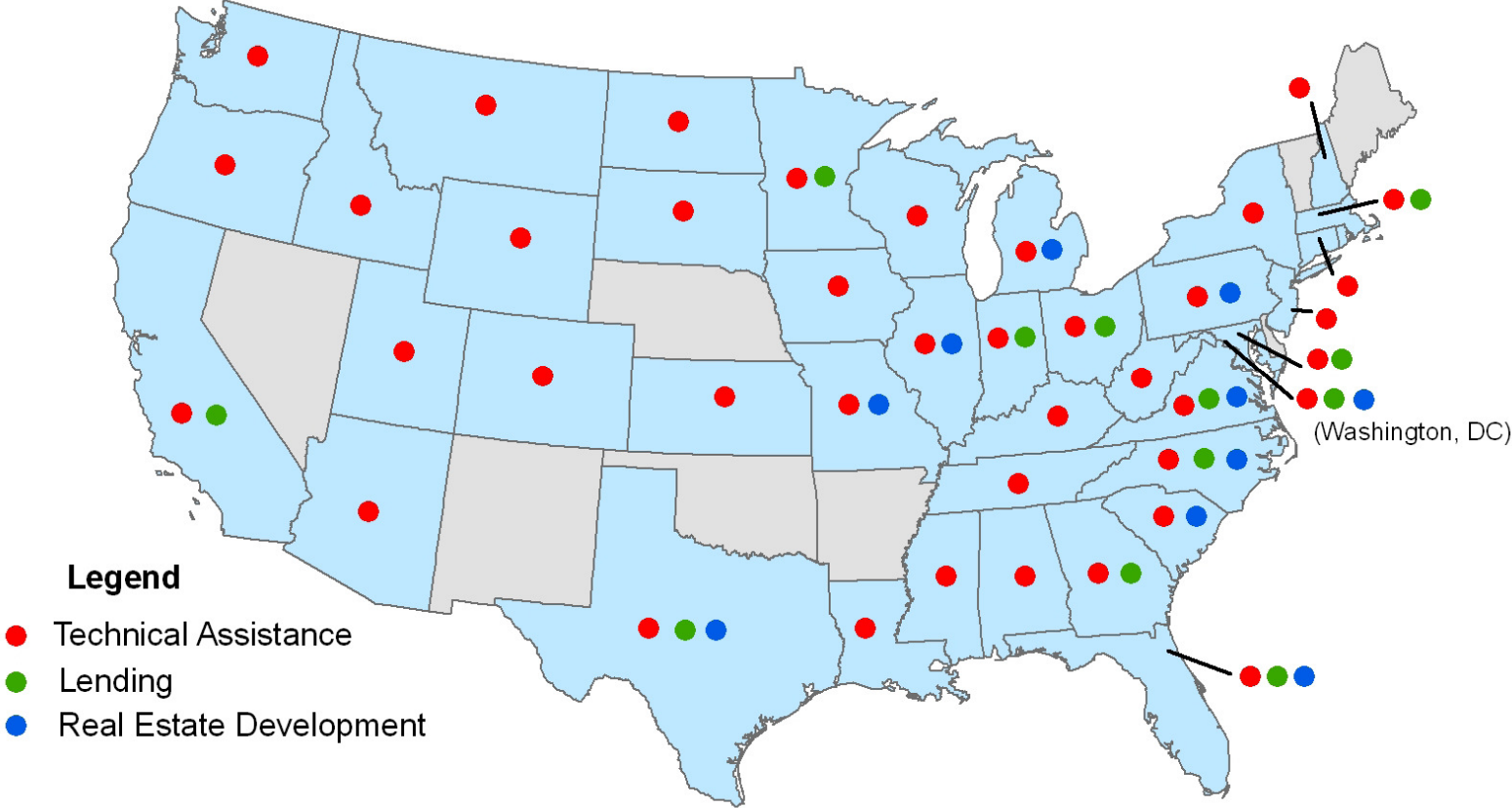


- Committed to safeguarding affordable housing.
- Only national nonprofit engaged in housing preservation through real estate development, lending **and** public policy initiatives.
- Partners with investors to raise capital to buy and renovate affordable apartments. *Preserved 4,800 affordable apartments.*
- Lends early money to developers to help them purchase and renovate affordable apartments. *Loans have helped preserve 5,000 apartments.*
- Educates policymakers of the need to dedicate resources towards the revitalization of existing affordable apartments.

National Housing Trust



The National Housing Trust has helped to save more than 22,000 affordable apartments in 41 states.



Threats to Subsidized Housing



- Changes in the market make property more valuable under different use—owners prepay or “opt-out” to release affordability restrictions
- Owners no longer want to deal with federal administrative and regulatory requirements
- Regulatory agency takes action against non-complying owners, usually for substandard conditions and/or financial default, due to insufficient income or mismanagement
- Insufficient federal subsidies to continue current rent and affordability restrictions

What is affordable housing preservation?



- When a privately owned, subsidized property is preserved, action is taken to ensure the federal subsidy and low-income restrictions remain in place, preserving long-term affordability.
- This is usually combined with raising new capital to repair the property.
- Often the property is transferred to a new owner who is committed to the long-term affordability of the property.



Hazel Hill Apartments, 147 apartment homes in Fredericksburg, VA preserved by NHT/Enterprise

Why Preserve?



- Shortage of affordable rental units
 - 10.8 million renter households in bottom quintile (income < \$17,000) seeking 7.9 million affordable rentals
 - Many residents are elderly and/or disabled
- More choices for households
- 300,000 units lost between 1995 and 2003; 1.7 million units still at risk
- Minorities disproportionately displaced
- Loss of units has negative impact on fragile neighborhoods
- Replacement is expensive and often infeasible

Preservation is Green



Comprehensive climate change must improve existing buildings

- √ Residential buildings account for 36% of electricity consumption in the U.S.
- √ Over 20% of U.S. carbon emissions are from residential buildings
- √ 15% of HUD's total budget, \$5B/annually, used to pay utility costs!
- √ Half of the buildings that will be in use in 2030 are already built

The greenest building is the one already standing

- √ It takes 65 years for a new energy efficient building to save the energy lost when demolishing an existing building
- √ Existing housing is located in developed areas near transportation and utility services, conserving energy and construction waste

Rehabilitating and “greening” residential housing is good for the housing, the people who live there, and the environment

Make this part of the “*Green Jobs Agenda*”

Make Smart Growth Equitable: Preserve Housing Near Transit



- Much of the federally assisted housing stock is accessible to affordable transportation options.
- Reconnecting America and NHT identified project-based Section 8 properties near existing or proposed rail stations in Boston, Chicago, Cleveland, Denver, NYC, Portland, St. Louis, and Seattle.
- The number of apts. near public transportation increases dramatically when one includes frequent service bus lines.



Effective Preservation Strategies



State Housing Trust Funds

- Housing trust funds provide a continuous stream of funding not dependent on annual appropriations and are often the most flexible funds jurisdictions have available for affordable housing.
- 30 state housing trust funds support affordable housing preservation. Some states award a preference for preservation, incl. IN, NJ, UT, VT, WA and DC.

Resources for Preservation

- Fairfax County, VA dedicates **one penny of the real estate tax rate** to the “Penny for Affordable Housing Fund.” Fund solely used for preservation and has helped preserved more than 2,200 affordable apartments in first two years.
- Virginia and Washington State have developed **nonprofit CDFIs** that fund predevelopment and acquisition financing for preservation.
- NYC **Acquisition Fund** insulates banks' money from the riskiest position within the Fund, encouraging significant private investments.

Effective Preservation Strategies



State LIHTC Preservation Set Asides

- Five years ago, 6 states set aside 9% credits for preservation: today, 46 states prioritize preservation through points or set-asides:
 - ✓ DE – 78% set-aside
 - ✓ MS, SD, WI – 40%-60% set-aside
 - ✓ IN, MA, MI, MT, NC, OH, OR, SC – 20%-35% set-aside
 - ✓ FL, IA, NY, ND, PA, TN, TX, VA, WV – 10%-15% set-aside
 - ✓ CA, IL – less than 10%

Information Sharing

- Good policy follows good information: local data about the at-risk stock are essential.
- Create an Early Warning System with property data that indicate whether a property is at-risk.

Housing and Economic Recovery Act Supports Rental Housing



Significant, positive changes to the Low Income Housing Tax Credit:

- Temporary 10% increase in LIHTC tax credits
- Discretion for states to provide a 130% basis boost to improve project feasibility.
- \$3.9B in CDBG for state and local governments for the purchase and rehab of foreclosed and abandoned properties, including rental properties.
- Additional \$11 B in tax exempt bonds to refinance subprime loans, finance the construction of rental housing, etc.
- Repeal of prohibition on using LIHTC w/ Sec. 8 Mod Rehab.
- If and when Fannie and Freddie are able to generate new products, charges a levy on loans for an “Affordable Housing Trust Fund” and “Capital Magnet Fund.”

Historic Presidential Election



The “Prize:”

- Stabilize and calm credit markets/ economy
- Manage and draw down wars in Iraq and Afghanistan
- Bring in Cabinet with a focus on domestic policy
- Take on perhaps one other big issue, like energy or health care

Issues for HUD



- New Secretary sets the tone for quality and intensity of engagement in housing issues—is the government part of the solution? Need a seasoned executive
- Quality of the new senior HUD staff is key
- Need to repair a strained and beleaguered workforce and broken systems
- Tie housing to issues such as energy, environment, and transportation

Issues for Congress



- Second stimulus package expected in November or February
 - Reinvigorate tax credits to re-prime the market
- Fannie and Freddie reform, financial oversight
- Fiscal 2009 Appropriations, with full 12-month funding for project-based Section 8
- Possible climate change/energy policy bill
- Tax and transportation bills will be deferred
- Comprehensive affordable housing preservation legislation

Back to the Future: Blame Affordable Housing!



Affordable housing did NOT precipitate this crisis, but many will attempt to scapegoat CRA.

The goal: retain government interventions that shape a profitable market but throw affordability goals under the bus.

Some facts:

- Most subprime, high-cost loans are not made by lenders subject to CRA.
- Many “affordability products” created lower payments but had no durability.
- Many were designed for purchase of super-homes, depending on future refis.
- Many were equity-stripping devices for refis and loan consolidations w/ high fees, high rates, and exorbitant prepayment penalties.
- Loans to underserved communities perform much better than sub-prime loans.
- Default rates on LIHTC properties are also relatively low.
- The big hole in the GSE portfolio is undocumented loans to middle-income borrowers (alt-A loans): 11% of the portfolio accounts for 50% of the losses.

Stuff to Remember:



- We need a balanced housing policy, with meaningful choices (including decent rental options) for working families. Make sure your voice is heard!
- Leadership at the state and local level will continue be critical for affordable housing policy. CDBG \$ in HERA; AHTF; QAPs, etc.
- Executing successful preservation transactions is as important as ever, and as hard as ever. Partner with the best you can find.



For more information:



**NATIONAL
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TRUST**

**Toby Halliday
National Housing Trust**

- ◆ **E-mail:** thalliday@nhtinc.org
- ◆ **Address:** 1101 30th St, NW, Suite 400
Washington, DC 20007
- ◆ **Phone:** (202) 333-8931
- ◆ **Web:** www.nhtinc.org