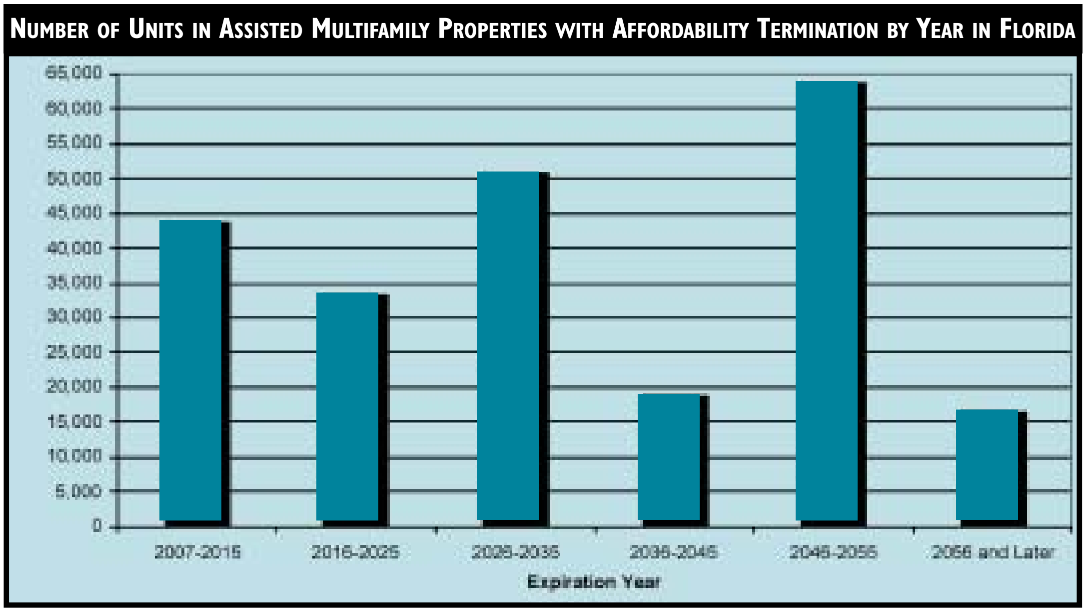


Source: Florida Housing Data Clearinghouse, Shimberg Center for Affordable Housing (2007)

Making the Case for Preservation with Data

By Patricia Roset-Zuppa

Preservation of the affordable housing stock has been a major research focus for the Florida Housing Data Clearinghouse at the Shimberg Center for Affordable Housing at the University of Florida. This focus grew out of a mounting concern at the federal and state level about the loss of units in the assisted housing stock, and the impact this has on residents and local communities. To underpin the anecdotal evidence of properties already lost and to enhance the understanding of properties at risk of loss, the Clearinghouse started an effort to collect preservation-related data three years ago. In 2006, we developed a broader research agenda around this topic and partnered with the Florida Housing Finance Corporation to undertake a research project with support from the John D. and Catherine T. MacArthur Foundation. The project has two major objectives: to improve the availability of data at the national level and to enhance Florida's capability to produce information that will contribute to solutions to the housing supply challenges.

Preservation Defined and Defended

Preservation of assisted multifamily housing means both maintaining affordability for low income households for an extended period, and keeping these properties in good physical and financial condition. Assisted multifamily properties have finite periods of affordability under the terms of their subsidies and use restrictions. At the end of the period of affordability, when market rents can be charged, the housing will likely be lost to low income families unless other funding can be secured to keep it affordable. Affordable housing developments can be at risk of loss prior to maturity of a subsidized mortgage if an owner decides to prepay the loan, which can be a financially attractive option in a strong local market. A property is also at risk if it faces large capital needs and repairs, but lacks the reserves and cash flow to address these. This situation can lead to default and foreclosure.

In Florida, nearly two out of three low income renter households pay more than 40 percent of their income for rent. Preservation is an important strategy to address the existing and growing demand for affordable housing by low-income families. While new construction efforts also contribute to the supply of affordable units, new construction alone cannot catch up to the housing need and is often not as cost efficient as preservation of existing properties.

Florida's Assisted Housing Inventory

The cornerstone of our research has been the Assisted Housing Inventory (AHI) that is available on our website at ***flhousingdata.shimberg.ufl.edu/AHI_introduction.html***. This is a database of multifamily properties in Florida that are privately-owned and funded under programs by the U.S. Department of Housing and Urban Development (HUD), U.S. Department of Agriculture Rural Development (RD), Florida Housing Finance Corporation and Local Housing Finance Authorities. AHI currently reports on 23 housing programs and lists more than 2,200 developments with over 272,000 units. In addition to general development data such as address, target population and housing programs, the AHI holds preservation-specific information such as expiration year of funding or use restriction, type of ownership and approximate year built.

> In Florida, an estimated 5,800 units in these HUD-assisted properties have already been lost to the affordable housing stock as a result of mortgage prepayment or rental assistance opt-out since the 1990s.

Lost HUD-Assisted Properties

The preservation discussion has long focused on older assisted HUD properties built during the 1960s and early 1970s under the Section 221(d)(3) Below Market Interest Rate and Section 236 programs. The earliest properties first became eligible for prepayment in the 1980s and several owners decided to convert to market rate housing at that time. The preservation discussion was extended to the so-called newer assisted properties funded with HUD Section 8 project-based rental assistance and constructed between the mid 1970s and the early 1980s. Many of these older and newer HUD-assisted properties now not only have the option to prepay the subsidized mortgage or opt-out of a rental assistance contract, but are also in a state of physical deterioration. In Florida, an estimated 5,800 units in these HUD-assisted properties have already been lost to the affordable housing stock as a result of mortgage prepayment or rental assistance opt-out since the 1990s. This figure underestimates the total number of HUD-assisted units lost to the affordable inventory, since it does not include units lost to foreclosure and demolition.

Geographic Concentration of At-Risk Properties

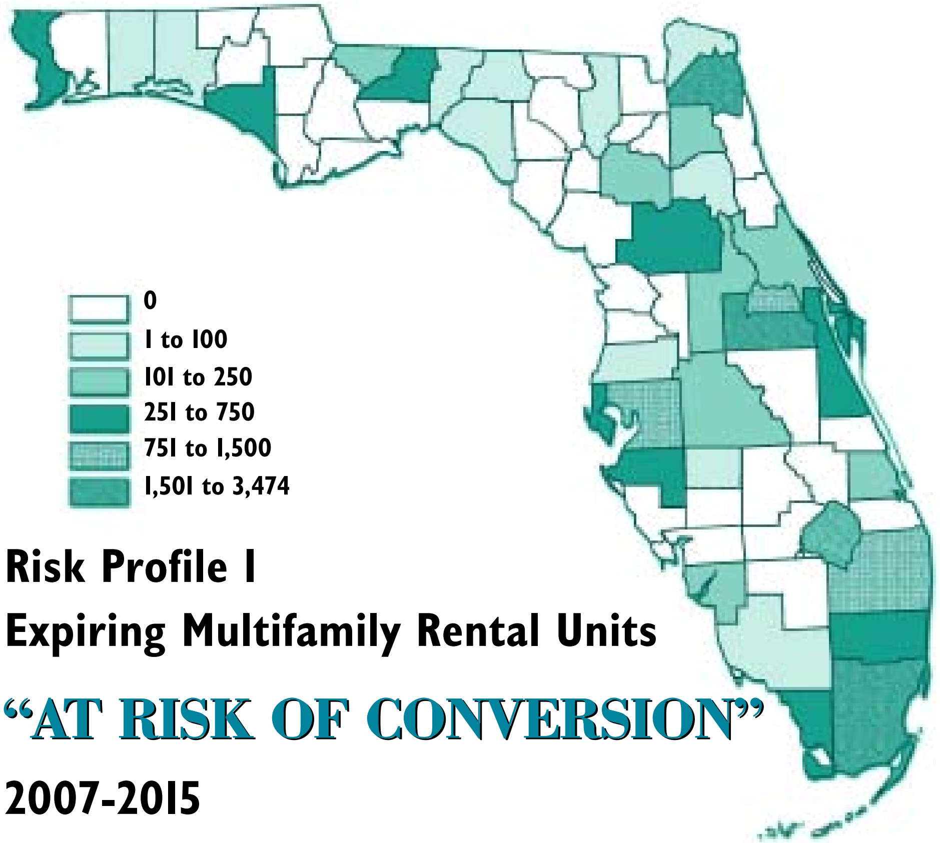
A simplistic approach to assess the number of units at risk of loss is to base the analysis only on the end date of the subsidy or period of affordability. This analysis is somewhat complicated for subsidized properties with more than one funding layer and multiple end dates, which applies to more than half of the subsidized properties in AHI. To address this challenge, the end date of the most restrictive funding program was used. The 2007 data show that the largest number of units are at risk during 2046-2055 (63,774 units), followed by 2026-2035 (50,930 units) and 2007-2015 (43,830 units). The majority of units at risk after 2025 are funded by Florida Housing Finance Corporation programs. Prior to 2025, the majority of at-risk units are funded under HUD. This implies that many extremely low-income households are at a high risk of displacement in the next two decades, since more than 76 percent of all HUD units are estimated to serve this income group.

The immediate concern is for those units at risk to lose affordability restrictions by 2015. Almost 50 percent of these units are concentrated in five counties: Miami-Dade, Duval, Hillsborough, Pinellas, and Orange. An additional 25 percent of units at risk by 2015 are located in the following eight counties: Palm Beach, Broward, Brevard, Escambia, Polk, Alachua, Lee, and Seminole.

Risk Profiles to Target Resources

The Assisted Housing Inventory is a useful tool for creating nuanced risk profiles that, in turn, can inform policy

Total Units at Risk for Conversion 2007 - 2015



Risk Profile I
Expiring Multifamily Rental Units
"AT RISK OF CONVERSION"
2007-2015

Data Source: Shimberg Center for Affordable Housing, University of Florida, 2007

Notes: 1) Risk of conversion for units assisted through local, state and federal housing programs is based on: expiration of affordability between 2007 and 2015, ownership is for-profit/limited dividend/'other', target population is family, and HUD project rent to Fair Market Rent percentage is below 100 percent. 2) This risk profile is an assessment of risk developed by the Shimberg Center for Affordable Housing based on available data. The risk profile is a general indicator of heightened risk that a property may leave the affordable housing stock.

decisions about how to preserve affordable housing and which communities to target. We created two risk profiles of properties at risk by 2015, based on specific property characteristics (instead of only considering the end of the subsidy restriction). The first risk profile identifies properties at high risk of conversion to market rate housing. The second risk profile determines which properties are at high risk of deterioration and default.

The risk profile for conversion to market rate housing is based on three parameters: ownership is for profit or limited dividend, target population is family, and the project rent as a percentage of the Fair Market Rent is below 100 percent. As found by a 2006 HUD study, these are characteristics of properties that prepaid or opted out of a rental assistance contract. It confirms the general assumption that profit-motivated owners are driven by financial returns. If the project rent is lower than Fair Market Rent, the market offer opportunities to improve cash flow when converting to market rate housing. Our analysis identified 136 developments with 16,803 units at risk of loss by 2015. Of these, a total of 98 developments with 10,499 units are exclusively funded by HUD.

The risk profile for deterioration and default is built on the following parameters: ownership is non-profit, target population is family, and the approximate year built is prior to 1987. These characteristics are deemed indicators of higher risk of deterioration and default. The 2006 HUD study found that the majority of developments in foreclosure served families and had lower physical condition scores. This risk profile also assumes that the risk of deterioration and default mostly affects non-profit entities, because of the lack of capital reserves and limited access to capital from other sources. The analysis identified 37 developments with 4,928 units at risk. Of these, a total of 25 developments with 2,578 units are exclusively funded by HUD.

Estimating the number of units at risk based on affordability expiration dates and property characteristics is by no means an exact science that can predict owners' decisions. Also, not every property identified to be at risk will be worth preserving. But the judicious use of data can provide a general picture of the extent of the potential problem and the opportunity to preserve much needed affordable housing.

The Florida Housing Data Clearinghouse is a joint project of the Shimberg Center for Affordable Housing at the University of Florida and the state of Florida through funding from Florida Housing Finance Corporation.

PATRICIA ROSET-ZUPPA works as a Research Analyst for the Shimberg Center for Affordable Housing. She brings to her role more than ten years of experience in research on urban planning issues and analysis of development feasibility in the private and non-profit sector. She is also enrolled in the Ph.D. program of the College of Design, Construction and Planning at the University of Florida. She can be reached at roset@dcp.ufl.edu.