NATIONAL LOW INCOME HOUSING COALITION

Mountain West Regional Buyers Sellers Conference:
2020 Picture of Preservation

Andrew Aurand, *Vice President for Research,*
National Low Income Housing Coalition

PAHRC

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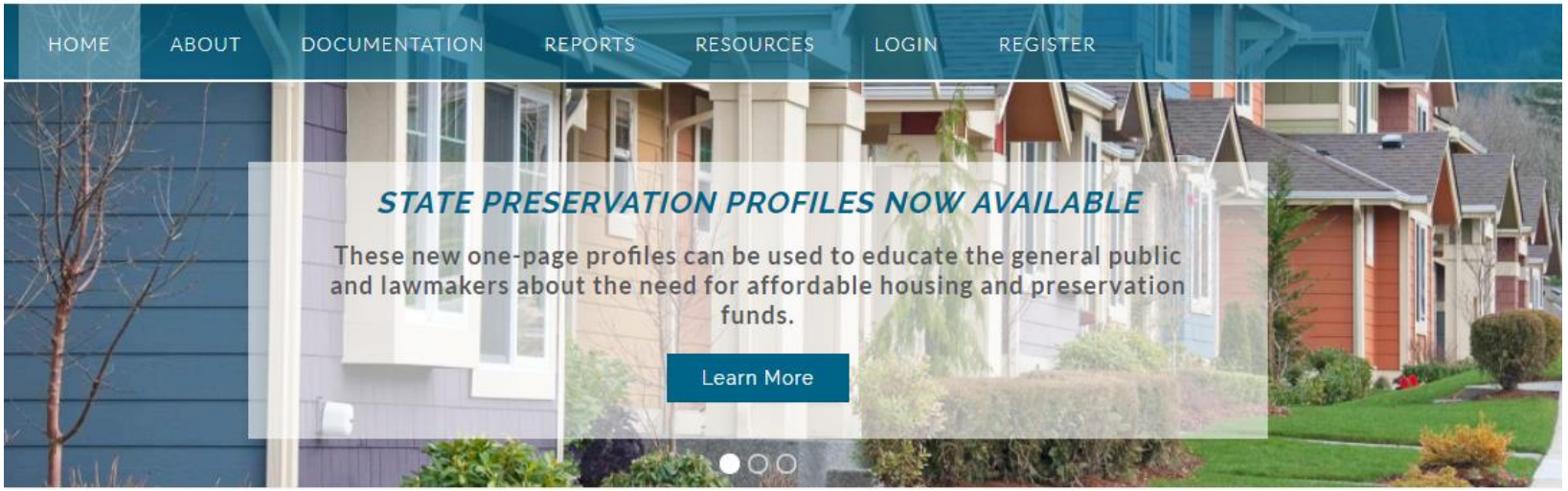
National Housing Preservation Database (NHPD)



Advocate

View annual reports on the aggregate number of affordable housing properties and units by state and county.

Read more

Register

Access the database and customize your search of affordable housing properties by location, funding stream, or subsidy end date support affordable housing preservation efforts.

Register here

Locate

Access interactive maps to view where affordable housing is located in your community, identify new affordable properties, and locate properties that are at risk of loss.

See more

Support

Increase the preservation of affordable housing by supporting this important resource for data-driven preservation strategies.

Read more

www.preservationdatabase.org

2020 **Picture of Preservation**

A joint report by

Public and Affordable Housing Research Corporation &
National Low Income Housing Coalition

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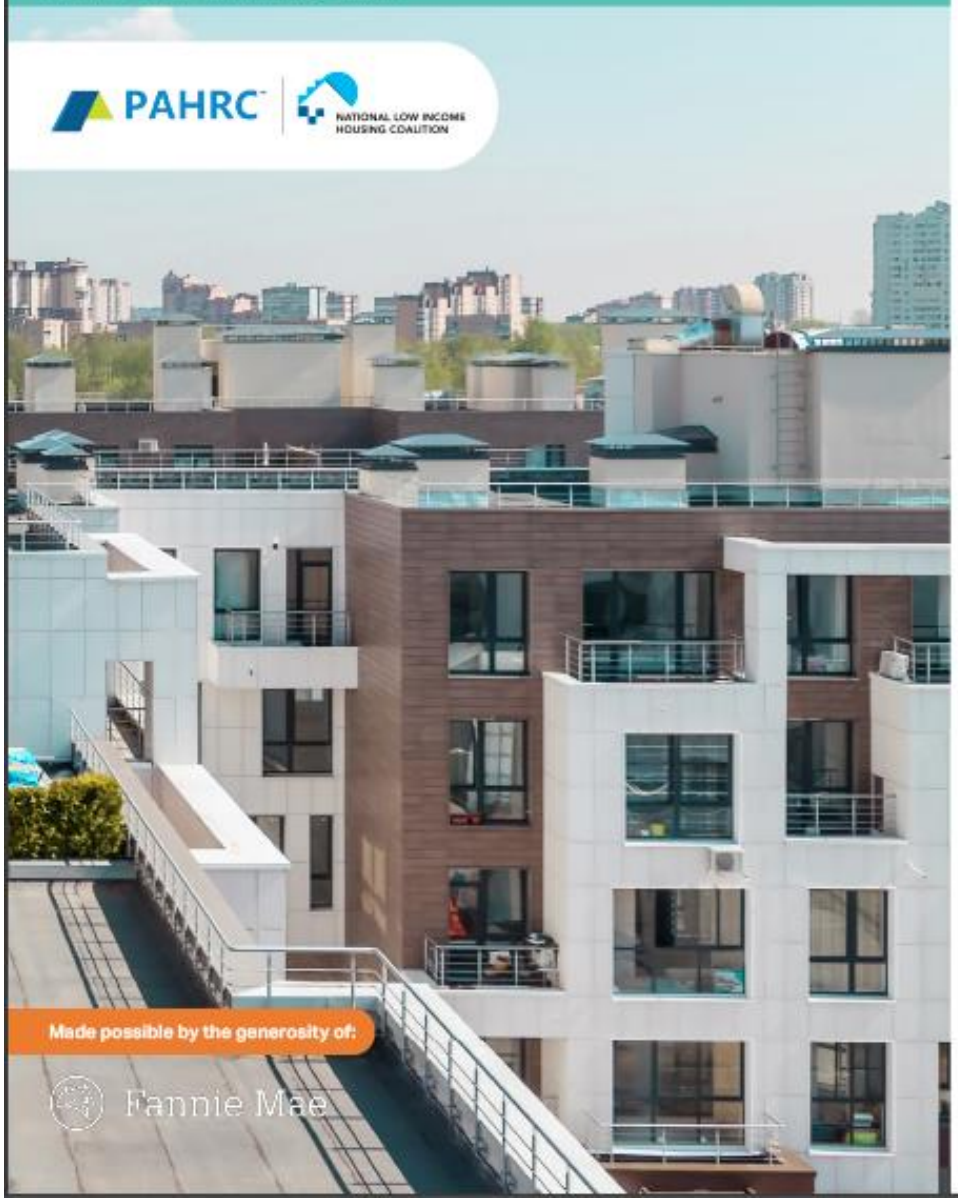

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Fannie Mae

Risks to Affordable Rental Housing Stock

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Exit Risk

- Subsidy expiration
- Owner opt out

Depreciation Risk

- Deteriorating financial stability
- Poor housing quality

Appropriation Risk

- Lack of adequate funding to continue operating affordable housing

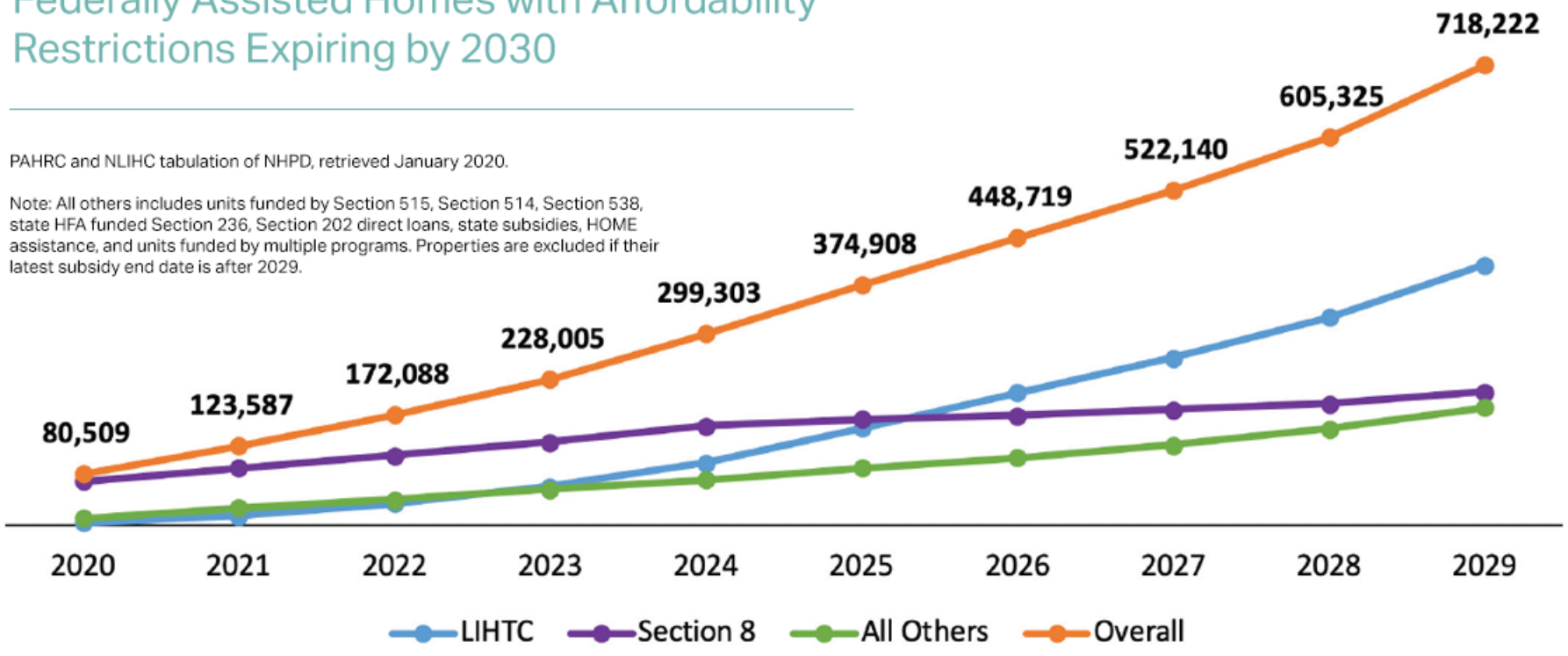
Reina, V. (2018). The preservation of subsidized housing: what we know and need to know.

Affordability restrictions are set to expire for 299,303 federally assisted homes in the next five years

Federally Assisted Homes with Affordability Restrictions Expiring by 2030

PAHRC and NLIHC tabulation of NHPD, retrieved January 2020.

Note: All others includes units funded by Section 515, Section 514, Section 538, state HFA funded Section 236, Section 202 direct loans, state subsidies, HOME assistance, and units funded by multiple programs. Properties are excluded if their latest subsidy end date is after 2029.



Mountain West Expirations, Next 5 Years

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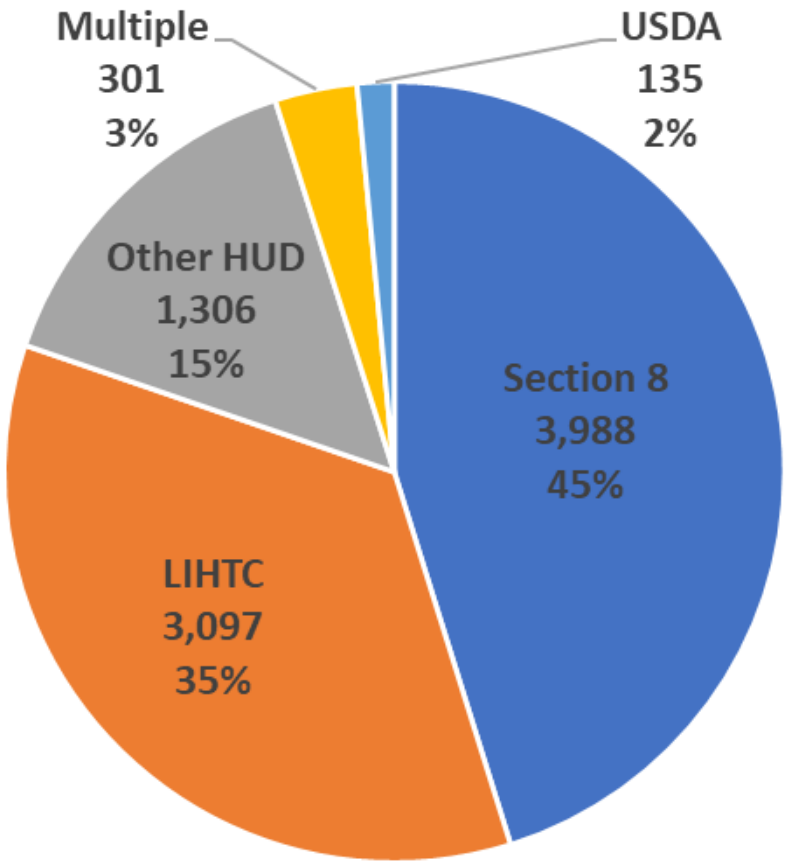

Source: National Housing Preservation Database

Risk Factors that Increase Risk of Loss

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Property

- For profit ownership
- Built before 1975
- Family target tenant type
- Less than 50 units
- Low REAC Scores

Neighborhood

- High housing values
- High median rent relative to region
- Low poverty rates

Expiring Properties in Next Five Years Demonstrate Factors that Increase Exit Risk

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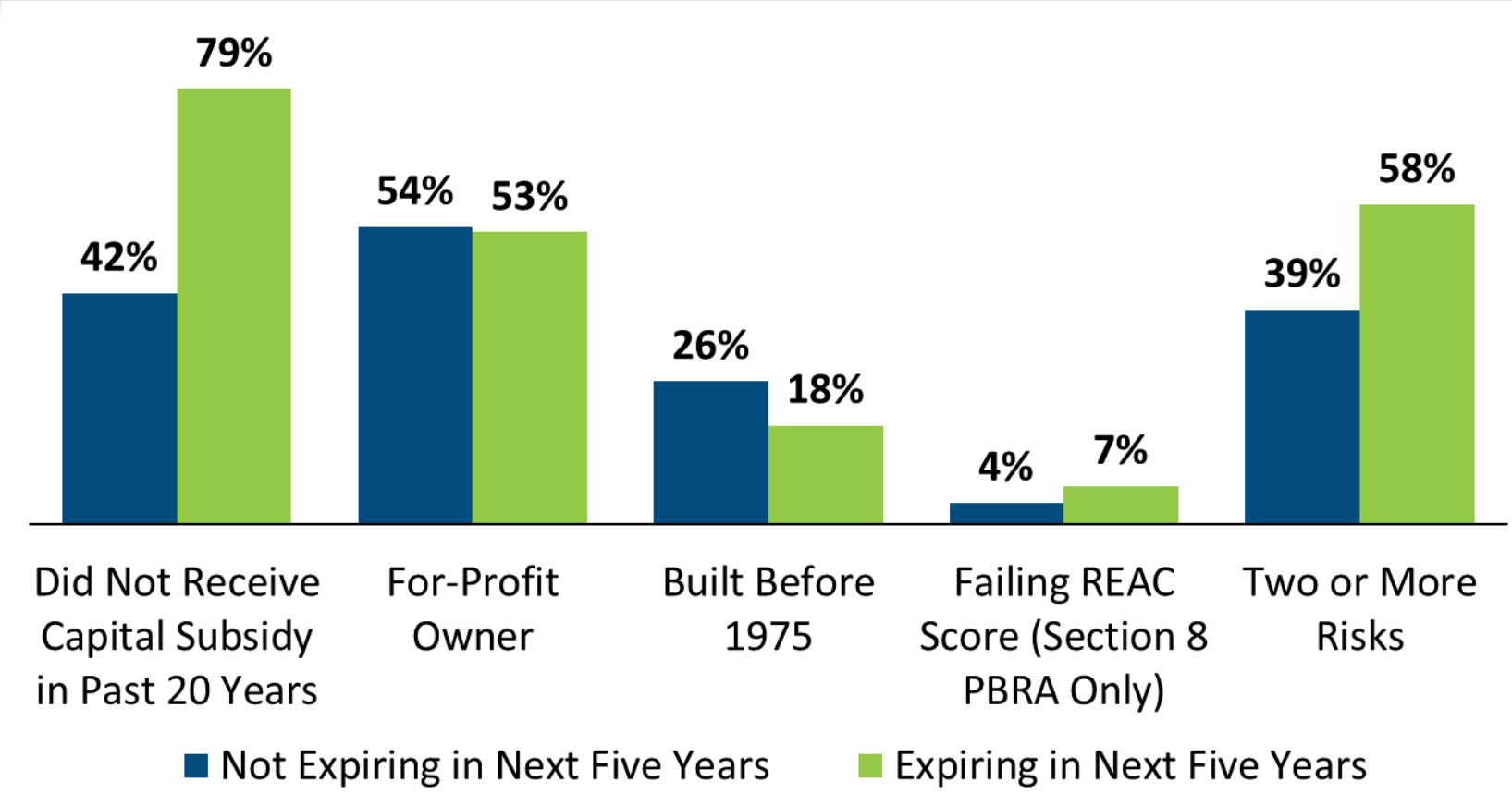

Appropriations Risk

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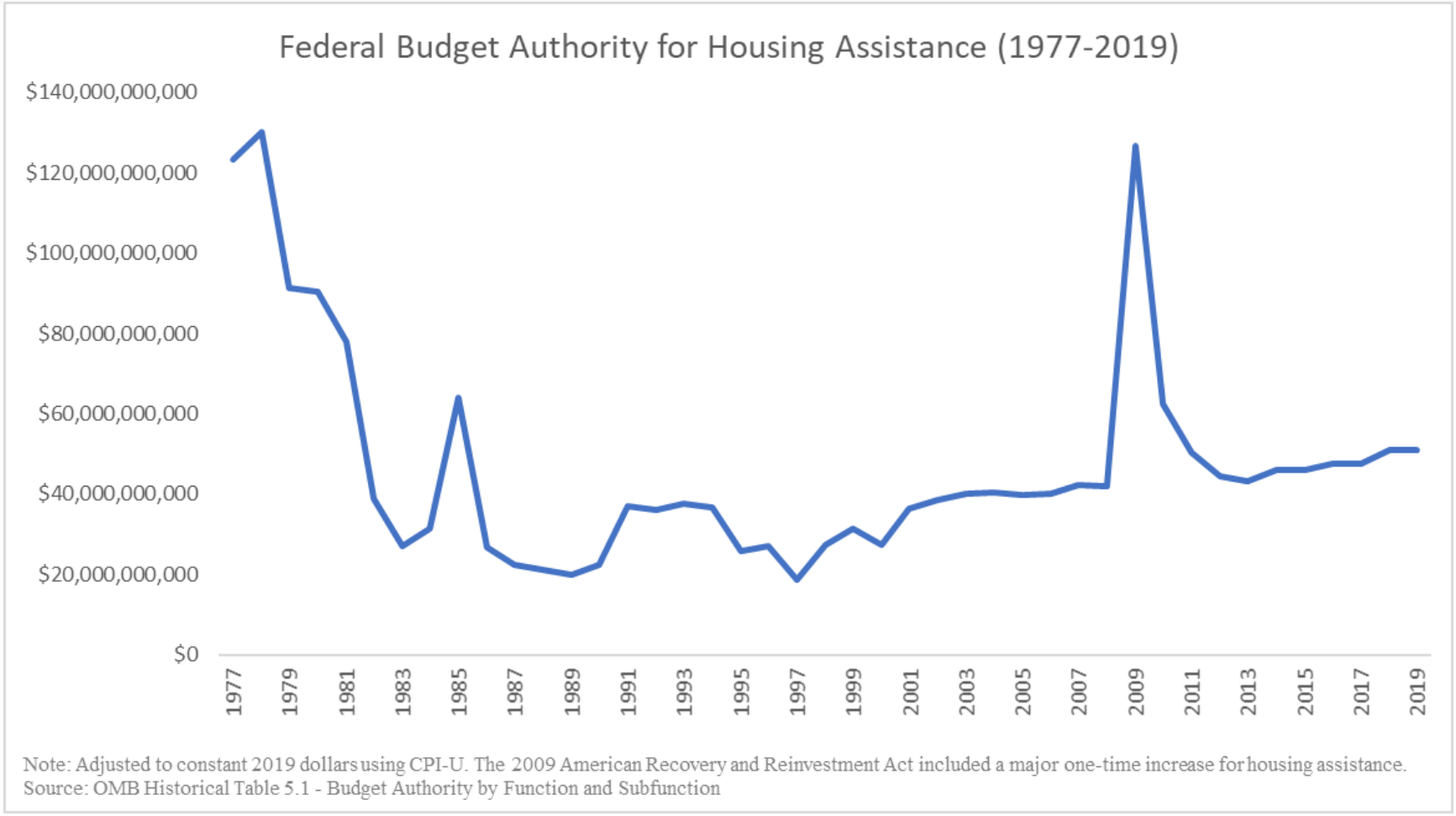

Note: Adjusted to constant 2019 dollars using CPI-U. The 2009 American Recovery and Reinvestment Act included a major one-time increase for housing assistance.
Source: OMB Historical Table 5.1 - Budget Authority by Function and Subfunction

(Early) Exit Risk

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- LIHTC Program – Qualified Contract process
  - annual loss of 10,000+ rent units per year (Source: Kincer & Shelburne, *Tax Credit Advisor*, 2017)

- USDA 515 – Mortgage Prepayment
  - 28,000+ rental units in properties with pre-paid mortgages between 2001-2016 (Source: HAC, 2018)

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Preservation of Section 515 Rural Rental Properties by Understanding Market Concentration

Andrew Jakabovics, Enterprise Community Partners

Brian An, Georgia Institute of Technology
Anthony Orlando, CalPoly Pomona
Seva Rodnyansky, Occidental College

CalPolyPomona

OXY Occidental College

Georgia Tech

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- USDA Rural Development's Section 515 Program is a critical source of affordable rental housing in rural communities
  - Housing Assistance Council finding: 515s supply >10% of occupied rental housing in 250 counties across 36 states
- Program exit is a growing problem
  - Between 2011 and 2019, 17% of properties exited the program, based on our analysis of the National Housing Preservation Database
  - Owners' desire to retire is an identified factor (HAC research)
  - Other critical factors: property characteristics, local economic conditions, industrial organization of local 515 market

Leads to larger question about ownership and management patterns and the role they play in future of properties…and why we're here today

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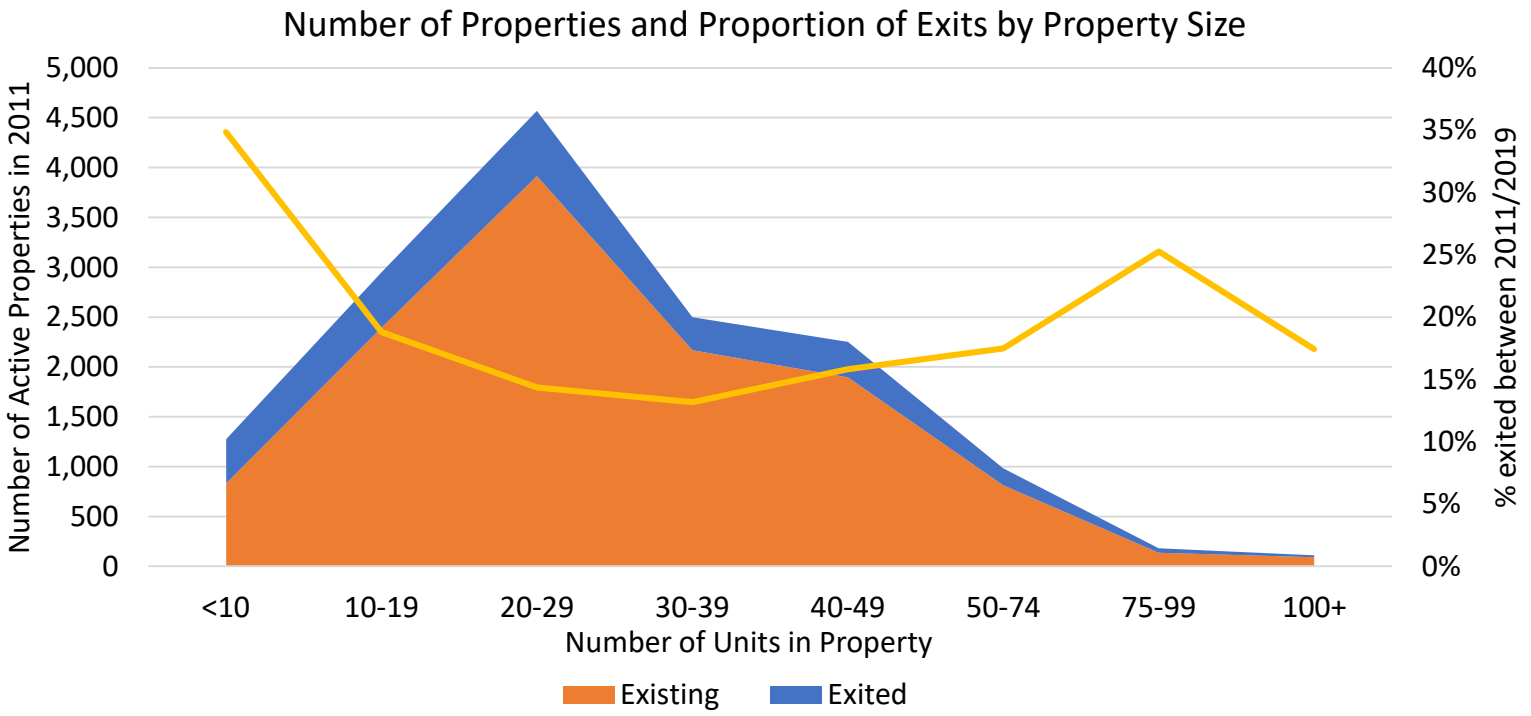
Number of Properties and Proportion of Exits by Property Size
Number of Active Properties in 2011
5,000
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
40%
35%
30%
25%
20%
15%
10%
5%
0%
% exited between 2011/2019
<10
10-19
20-29
30-39
40-49
50-74
75-99
100+
Number of Units in Property
Existing
Exited

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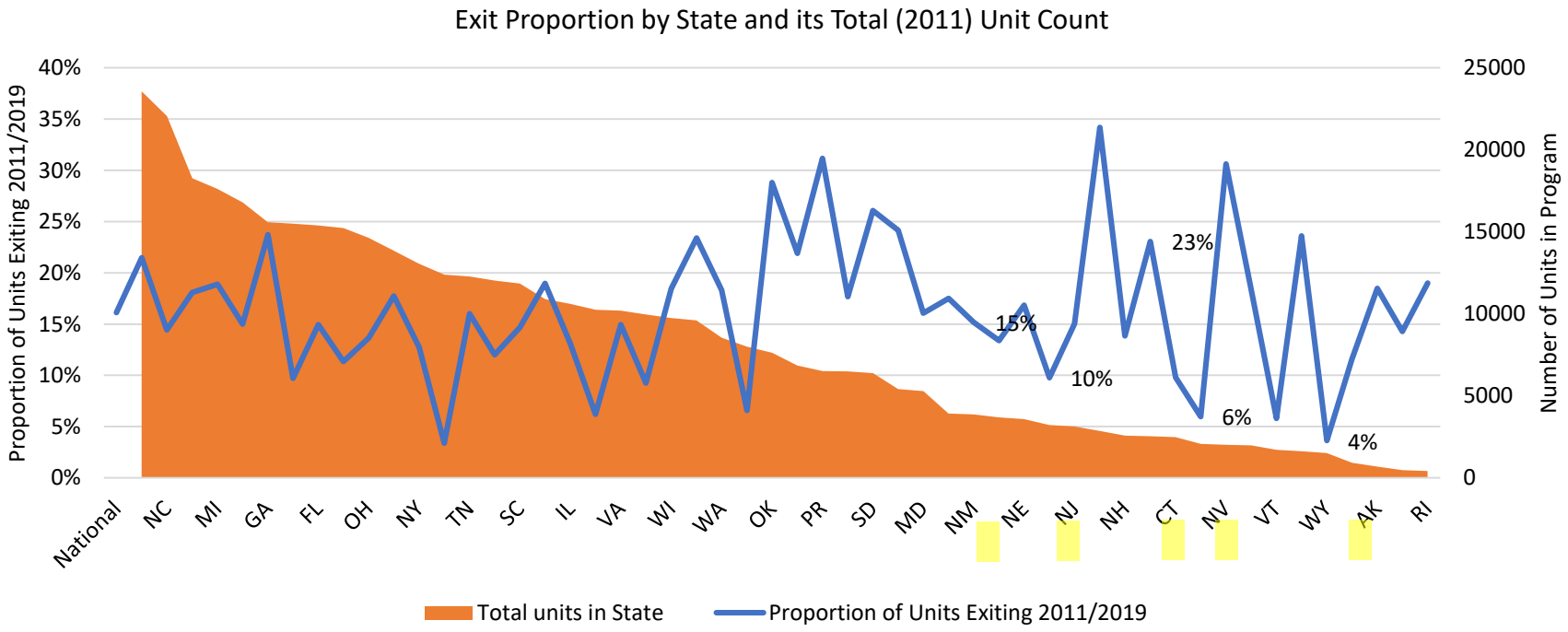
Exit Proportion by State and its Total (2011) Unit Count
Proportion of Units Exiting 2011/2019
Number of Units in Program
40%
35%
30%
25%
20%
15%
10%
5%
0%
25000
20000
15000
10000
5000
0
15%
10%
23%
6%
4%
National
NC
MI
GA
FL
OH
NY
TN
SC
IL
VA
WI
WA
OK
PR
SD
MD
NM
NE
NJ
NH
CT
NV
VT
WY
AK
RI
Total units in State
Proportion of Units Exiting 2011/2019

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- Identify key stakeholders for preservation-related activities
  - How do you get the biggest return on engagement?
- Understand owner/manager motivations and financial capacity
  - Who is most likely to leave?
  - What are the systemic implications?
- Develop appropriately scaled financial products and programs
  - Do we have the right tools?
  - How large are owner/manager's portfolios?
  - Are there opportunities to engage/support at the portfolio rather than property level?

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- Ownership is diffuse… but management is considerably less so
  - Top 25 owners (out of about 9,800) have a 6 percent market share
  - Top 25 management companies (out of about 2,400) have a 25 percent market share
- Approximately 12% of properties are managed by their owners, while 37% changed management companies between 2011 and today
- Within states, there is considerably more concentration

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- Measure concentration using Herfindahl-Hirschman Indices (HHI)
  - Ranges from 0 (perfect competition) to 10,000 (monopoly power)
  - For horizontal mergers, DOJ and FTC consider:
    - 1,500-2,500 is “moderately concentrated”
    - 2,500+ is “highly concentrated”
    - 200 point increase in highly concentrated markets presumed to “enhance market power”

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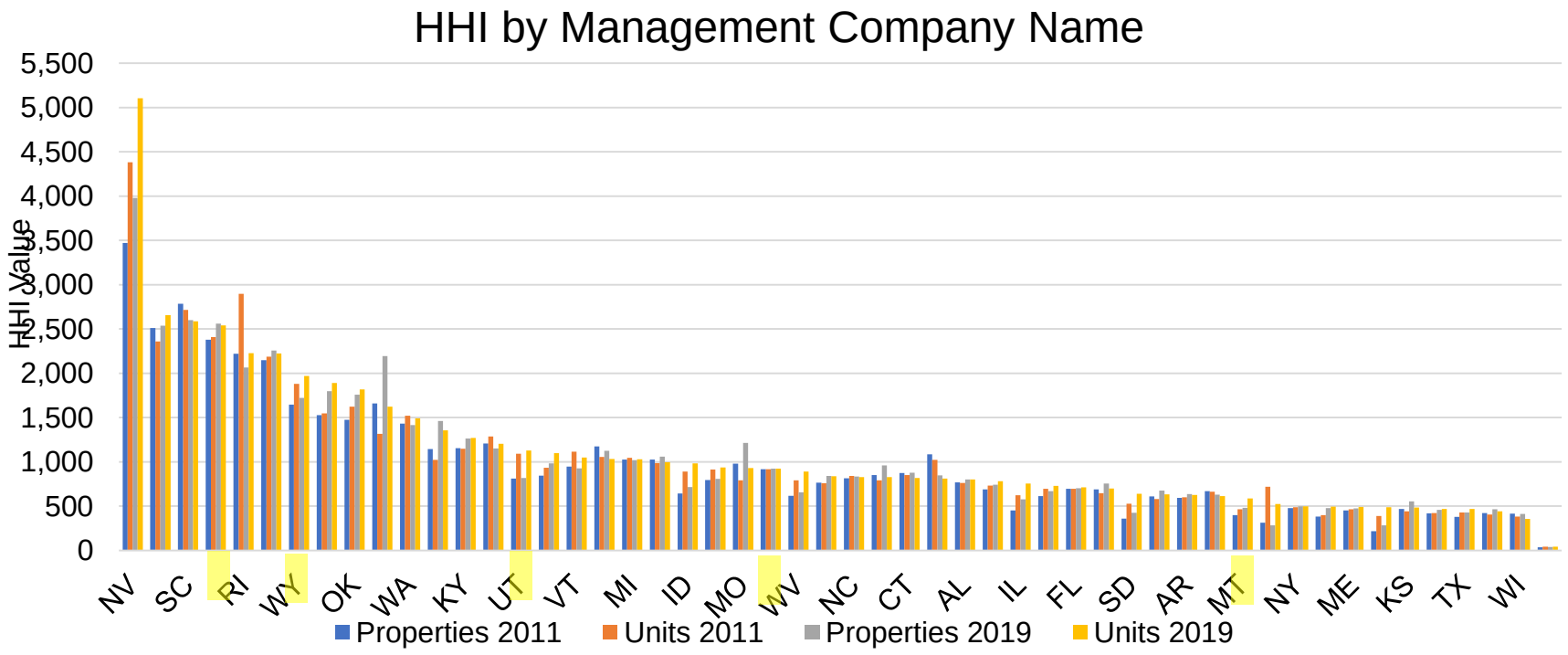
HHI by Management Company Name
HHI Value
5,500
5,000
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
NV
SC
RI
WY
OK
WA
KY
UT
VT
MI
ID
MO
WV
NC
CT
AL
IL
FL
SD
AR
MT
NY
ME
KS
TX
WI
Properties 2011
Units 2011
Properties 2019
Units 2019

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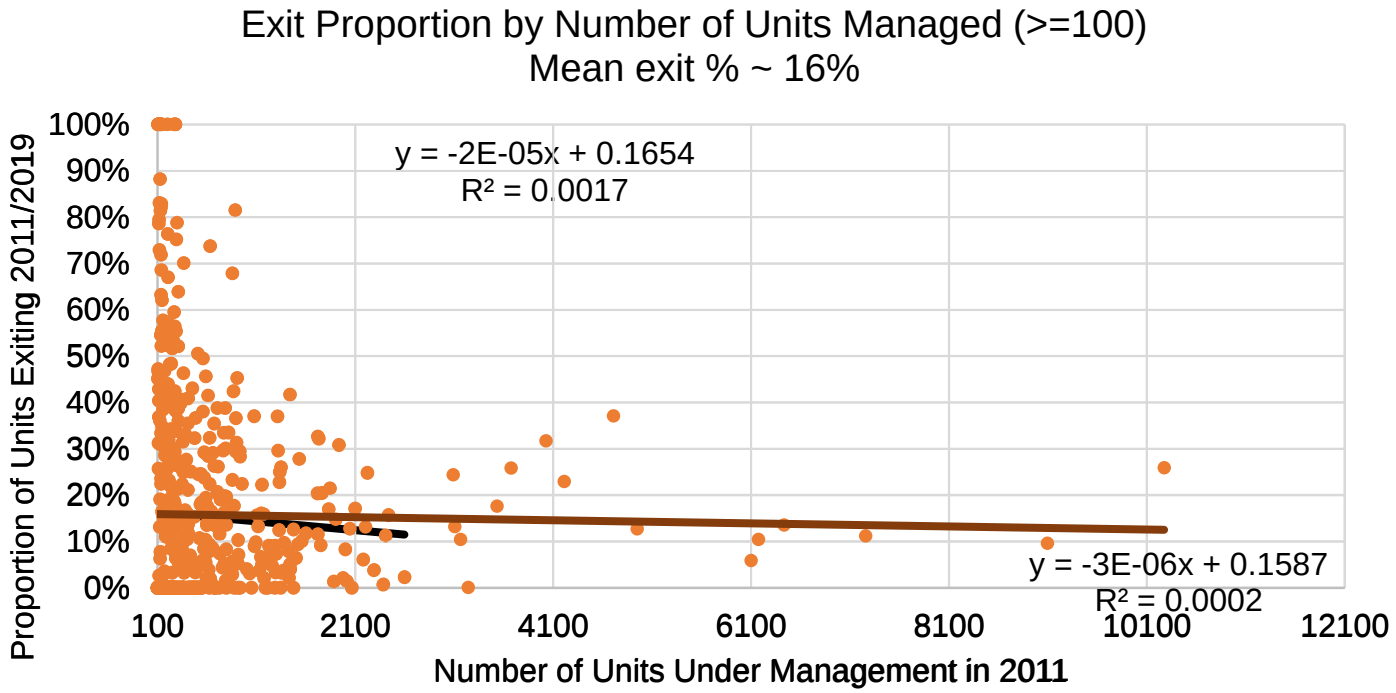

Black line: trend if upper limit at 3,000 units
Brown Line: trend if no upper limit

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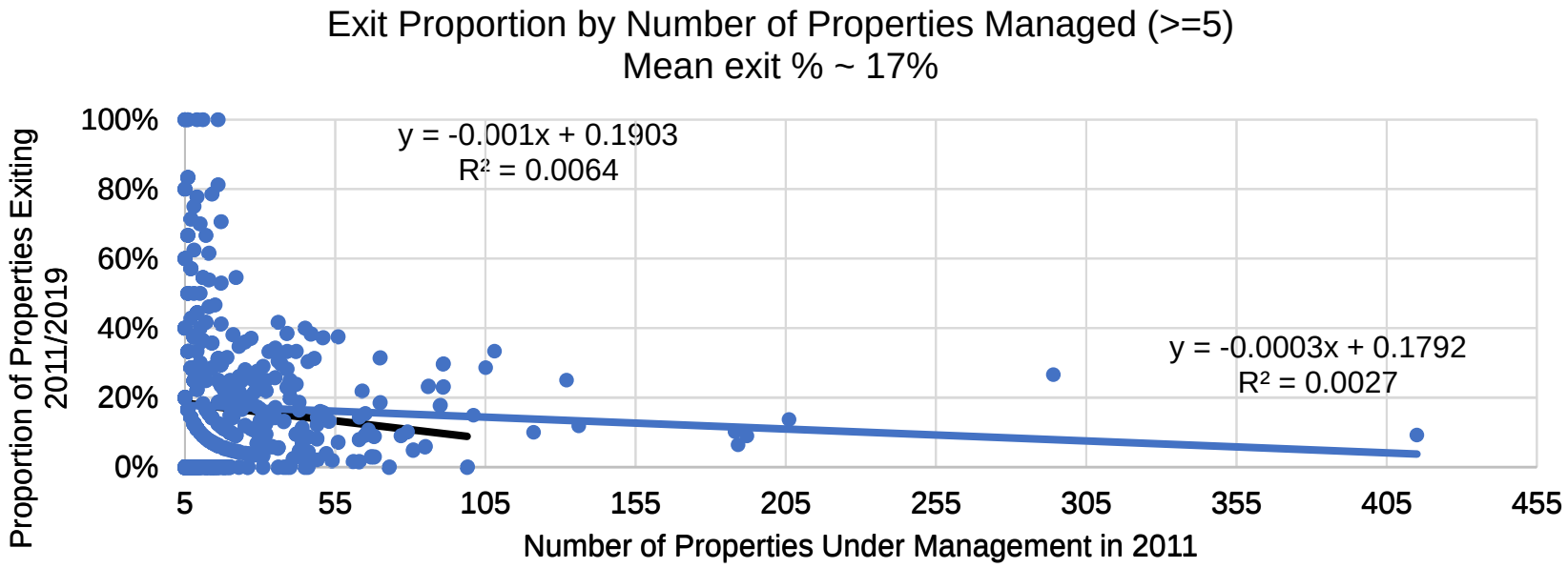

Black line: trend if upper limit at 100 properties
Blue Line: trend if no upper limit

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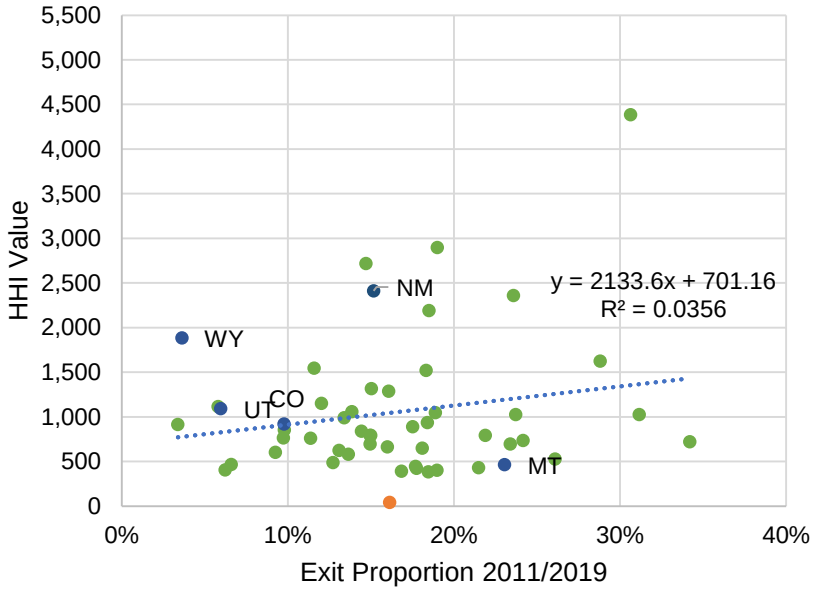
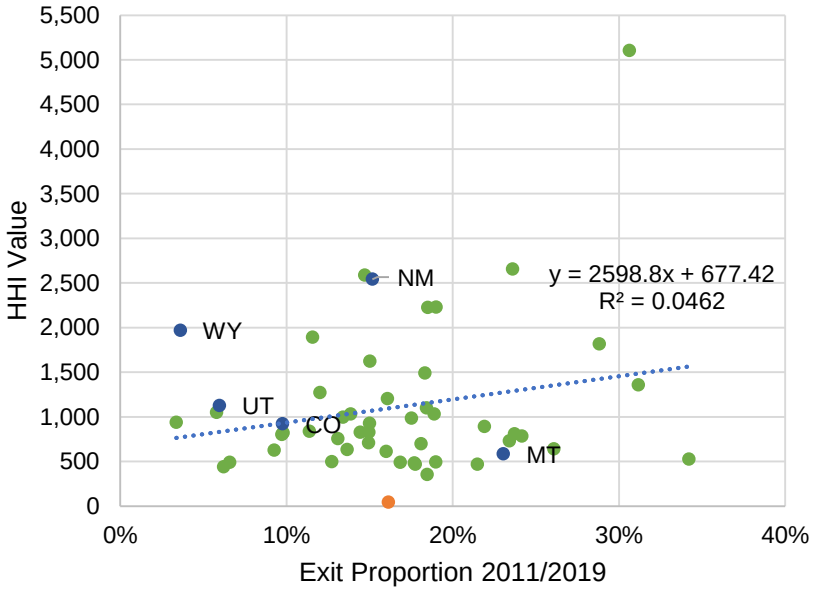
HHI by # of Units in 2011 versus Exit Rates



HHI by # of Units in 2019 versus Exit Rates



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- Incorporate owner/manager variables and HHI metrics into exit probability model including property and local condition variables

- Further exploration of ownership and management patterns:
  - Do 515 owners specialize in 515s? Subsidized properties?
  - Do they own other real estate? Where?
  - Do managers specialize in 515s? Subsidized properties? Local multifamily?
  - Leverage fuzzy pattern matching algorithms to merge 515 data with other administrative data sources

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USDA Rural Development
Multi-Family Housing Future State
MFH Integration Wave 2 Update | September 23rd, 2020

MFH Integration | Overview

The MFH Future State organizational model integrates all staff into a integrated, virtual model. The model builds on the Four Pillars model as well as the MFH Guaranteed Loan and Preservation pilots.

Current Program Context

- **State Office Administration:** Multi-Family Housing programs are administered by 47 State Offices
- **Variation Across the Country:** State Offices often differ in structure, policy interpretations, and turnaround times
- **Staff Roles:** Staff have multiple roles in delivering the programs and are not specialized in any one function

Current Program Challenges

- **Inadequate Program Structure:** Antiquated structure means MFH is unable to meet affordable housing demands in rural areas
- **Inconsistent Customer Service:** Customers face inconsistent guidelines and processing times across states
- **Lack of Program Risk Ranking**: Properties are not evaluated based on risk, making it difficult to prioritize resource allocation

Reorganization

- **Virtual Teams:** Three divisions (Field Operations, Production and Preservation, and Asset Management) integrate oversight and delivery of MFH activities
- **Local Servicing:** Regional Servicing teams, led by four regional directors, maintain local presence for servicing and provide support for marketing and outreach for State Offices
- **Increased Focus/Expertise:** New structure promotes specialization among MFH staff to lessen workloads and allow for more focused training and staff development

MFH Integration Benefits

Enable the Four Pillar Model: Continue to align our work with industry standards to allow for increased consistency and specialization, ultimately improving the way we serve our customers

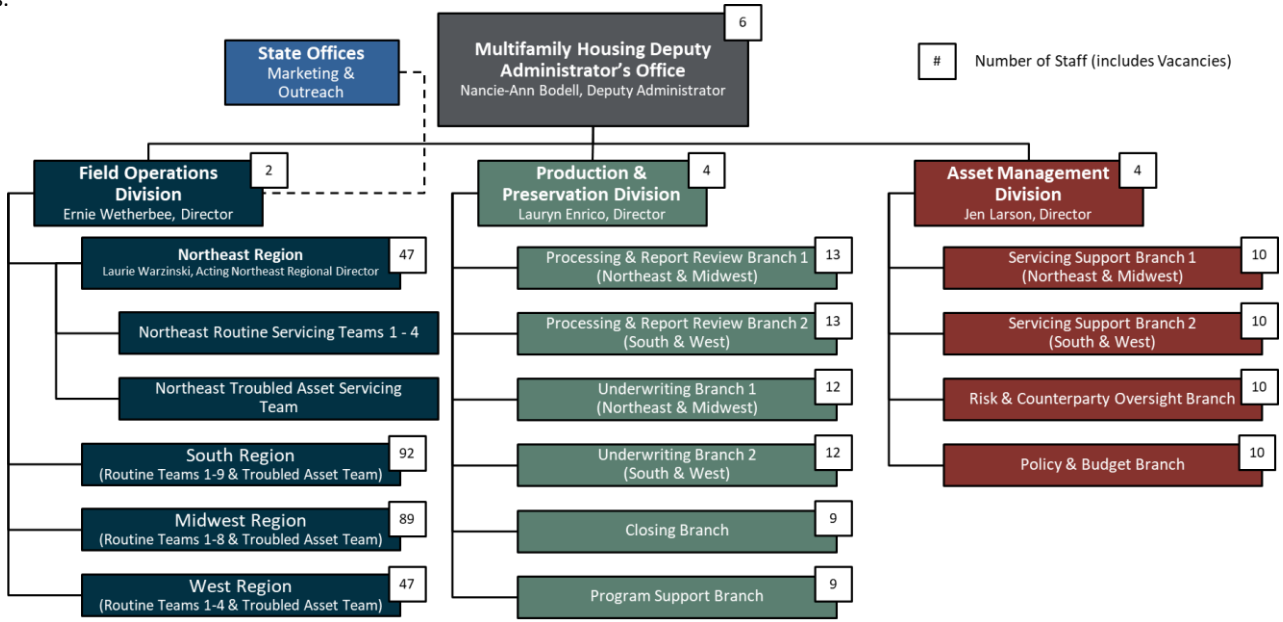
Streamline Business Processes: Provide the opportunity for a much needed refresh to our business processes, allowing MFH programs to operate more efficiently

Elevate the Employee Experience: Invest in our people, with tools and resources to support ongoing development and career progression, as well as allowing staff to specialize to help manage workload and improve program delivery

Continue Exceptional Customer Experience: Manage important local relationships with lenders, property managers, and tenants throughout the lifecycle of an asset and focus on marketing and outreach (Pillar 1) in State Offices

MFH Structure Overview

The MFH Future State organizational model integrates all staff into a integrated, virtual model. The model builds on the Four Pillars model as well as the MFH Guaranteed Loan and Preservation pilots.



Field Operations

- Organized regionally with teams delivering Routine Servicing and Troubled Asset Servicing
- Report through a regional structure up to divisional leaders
- Coordinate with State Offices on Marketing & Outreach Function

Production and Preservation

- Process, underwrite, and close all multi-family direct, preservation, and guaranteed loan transactions
- Branches support 515, 538, Multi-Family Preservation and Revitalization (MPR) prepayments, and preservation efforts

Asset Management

- Oversee portfolio risk and overall portfolio health
- Provides support, guidance, and oversight to the Field Operations servicing teams
- Administers rental assistance, vouchers, and counterparty oversight


USDA