



SUBSCRIBE

[AHF Table of Contents](#)

[About the Magazine](#)

[Professional Services](#)

[Tax Credit/Tax Exempt](#)

[Bond Contracts](#)

[2006-07 Affordable Housing and
Community Development Directory](#)

[Online Housing Resources](#)

[Housing Reference Center](#)

Affordable Housing Finance

SPECIAL FOCUS

Preserving the Nation's Housing Stock

The Case for Preservation

AFFORDABLE HOUSING FINANCE • October 2009

Market conditions, legislation push issue forward

BY DONNA KIMURA

One of the best arguments for preserving affordable housing emerges out of the wreckage left by the housing and financial crisis. "In many markets right now it doesn't make a lot of sense to build new housing, but in all markets it makes sense to preserve all or most of the existing housing," says Bill Kelly, president of the Stewards of Affordable Housing for the Future (SAHF).

With new construction projects tough to do these days, industry advocates say preservation is more important than even a few years ago in helping to meet the nation's housing need.

"If you take a look at what's going on in the homeownership and rental market, I think it's more and more clear that we need to, for both environmental and housing reasons, maintain existing housing," agrees Michael Bodaken, president of the National Housing Trust (NHT), a nonprofit organization focused on preservation. "As we see markets beginning to absorb product at a slower rate, it makes economic and social sense to try to preserve housing that's already built. I think you are seeing that by the way governments, developers, and others are looking at making decisions for their businesses and the allocation of resources for housing."

The issue has largely been about housing that is at risk of losing their affordability as different restrictions come to an end. The threat is that the housing will then convert to market-rate apartments.

However, today's tough economic climate is raising additional worries for affordable housing owners.

"I think there's more concern about losing housing due to financial and physical distress," says Bodaken.

One of the biggest challenges right now is the low-income housing tax credit (LIHTC) market, which has struggled as several companies, including Fannie Mae and Freddie Mac, have stopped or reduced their investments. The lack of capital means that pricing to developers has fallen, and many deals may not get funded at all this year.

"Over 50 percent of the units that were able to receive financing from the credit in 2007 were preservation units," says Bodaken. "The ability of preservation to do deeper rehabs and more meaningful affordability is conditioned at least in part on the LIHTC market being reinvigorated."

Major preservation bill

The case for preservation will be made in the halls of Congress. Affordable housing developers and advocates are waiting on a bill that could be the most significant preservation legislation in years.



R Street Apartments in Washington, D.C., originally built in 1912, has been renovated to include contemporary energy-efficient and sustainable features. (Photo by Marvin T. Jones)

PRESERVATION BY THE NUMBERS

- The National Housing Trust (NHT) estimates that it costs about **40 PERCENT** more to build a new affordable apartment than to preserve one in the same community.
- Over the next five years, contracts on more than **900,000** Sec. 8 units will expire, estimates the NHT.
- Nearly **200,000** affordable apartments in properties with Department of Housing and Urban Development subsidized mortgages will be at risk of conversion to non-affordable use when the mortgages mature over the next 10 years, according to the NHT.
- Number of affordable apartments preserved with 4 percent and 9 percent low-income housing tax credits, according to the NHT.
2000: 20,000
2007: 65,000
- From 1995 to 2005, **1.5 MILLION UNITS** renting for less than \$600 a month in 1995 were demolished or otherwise removed from the housing inventory, according to Harvard University's Joint Center for Housing Studies.

Rep. Barney Frank (D-Mass.), chairman of the Financial Services Committee, has prepared a draft bill aimed at saving existing urban and rural low-income housing. The likes of such a bill, which addresses properties financed by the Department of Housing and Urban Development (HUD) and the Department of Agriculture's Rural Housing Service (RHS), haven't been seen in a decade, according to advocates.

"I think it's fair to say it's a sweeping measure that would without significant costs to the taxpayer dramatically improve the prospects for preserving both HUD and RHS housing," says Bodaken.

The draft bill calls for providing federal assistance to extend the affordability of assisted housing projects. Assistance could be either loans or grants to help owners rehabilitate their properties for continued use as affordable housing and to help nonprofits buy properties. The bill also provides new project-based Sec. 8 assistance for currently assisted units.

A controversial component in the draft has involved a mandatory first right of purchase before subsidized projects can be converted to market rate. Several industry organizations have voiced opposition to such a provision.

A bill had yet to be introduced as of press time. In light of the Financial Services Committee's

congested calendar, some watchers don't expect to see the bill enacted this year.

Other preservation-related bills have been introduced, including H.R. 2876, by Rep. Lincoln Davis (D-Tenn.), which addresses rural housing projects, and S. 1676 by Sen. Ron Wyden (D-Ore.), which would allow the residual receipts of project-based Sec. 8 properties to be transferred at the time of a qualified sale or exchange to a preservation entity.

HUD action

Even without a new bill, preservation efforts were boosted this year when HUD provided new guidance on using Federal Housing Administration (FHA) loans with tax credit financing, says Kelly of SAHF, a network of nine leading nonprofit organizations that acquire and preserve affordable housing.

The move came on the heels of the Housing and Economic Recovery Act of 2008, which called on HUD to enhance the use of LIHTCs with FHA. In Mortgagee Letter 2009-24, HUD outlined several changes, including the elimination of FHA multifamily mortgage insurance as a basis to require a subsidy layering certification. In addition, projects with FHA mortgage insurance and tax credits can be exempt from certain cost certification obligations if HUD determines that the ratio of loan proceeds to the actual cost is less than 80 percent. In another move, officials report that an equity escrow may be eliminated for these projects if other conditions are met.

Since most preservation deals are done with LIHTC financing and the commercial lending market has been difficult, it's important to have access to FHA insurance, says Kelly.

He cites the recent action as changes that were done without legislation. SAHF has focused on recommending other administrative moves that can be taken to help accelerate preservation. They include asking HUD, "by general policy, to make 20-year HAP contracts, subject to appropriations, available in preservation sales and refinancings, regardless of when the current contract will expire."

Bodaken is excited about "green preservation," specifically the growing understanding about the connections between the preservation of existing housing and the reduction of greenhouse gas emissions. "We at the Trust think that preserving an existing building is the greenest thing you can do in affordable housing," he says.

He points to recent collaborative efforts between HUD and the Department of Energy. "The resources that they are putting into making existing housing more energy efficient is, at least in my memory, the first time that this has been approached on a holistic basis."

HUD Secretary Shaun Donovan has stressed that a “flexible menu of solutions will be required.” For example, the needs of a troubled property in a challenged neighborhood may be different from those of a well-maintained property in a good market at the end of its mortgage term.

“One concept that we are very interested in pursuing is linking the preservation of the existing affordable housing developments with broader initiatives that benefit communities,” he said before the Financial Services Committee. “We want to look at prioritizing the preservation of developments that are integral to sustainability such as those adjacent to transit or with great access to job opportunities.”

Carol Galante, HUD deputy assistant secretary for multifamily housing, has been working on different preservation initiatives for the department. ([See guest commentary.](#))

MacArthur key to preservation

An important driver in the preservation effort has been the MacArthur Foundation, which is investing \$150 million toward saving affordable rental housing, including awarding \$32.5 million this year to 12 state and local jurisdictions.

The jurisdictions will use the funds to support innovative preservation efforts. For example, the Pennsylvania Housing Finance Agency will use a \$1 million grant to determine how energy conservation improvements help preserve affordable housing and ultimately help reduce the utility costs of needy families.

One industry leader calls the Foundation a linchpin in the recent progress that has been made.

The Foundation has also funded 25 nonprofit developers, including Volunteers of America, NHT/Enterprise Preservation Corp., and Preservation of Affordable Housing, Inc.

Developers have deployed the funds in various ways, including acquiring properties that were at risk of becoming market-rate developments and retrofitting buildings for energy efficiency.

The Chicago-based foundation expects to help preserve and improve at least 300,000 affordable homes nationwide. So far, more than 60,000 units have been preserved in more than 40 states.

The initiative is touching a variety of markets, demonstrating that preservation is an issue in every kind of community, says Debra Schwartz, director of program-related investments.

“For many, homeownership is not an appropriate option,” she says. “We have believed that rental housing is a critical part of a balanced housing policy.”



SUBSCRIBE

Affordable Housing Finance

GUEST COMMENTARY

Preservation Priority for HUD

AFFORDABLE HOUSING FINANCE • October 2009

BY CAROL GALANTE

WASHINGTON, D.C.—I am delighted to serve as a guest editor of *AFFORDABLE HOUSING FINANCE*, particularly because this issue's focus is on housing preservation, which is so closely aligned with our work at the Department of Housing and Urban Development (HUD).

Preserving affordable housing is essential. Today, there are less than three housing units available for every four very low-income households—and only half the number of units needed for families in extreme poverty. Our existing stock of affordable housing is a critical resource for families who otherwise would not have access to safe, decent places to call home.

Our task is formidable. HUD's portfolio includes more than 22,000 privately owned multifamily properties and more than 1.4 million assisted housing units. Developed up to 40 years ago, many are seeing their original financing supports expire just as major building systems give out, reserves dwindle, and original owners grow fatigued from decades of navigating the federal bureaucracy.

Far too often, HUD has been an obstacle rather than a partner in housing preservation. That is about to change. HUD is working with housing owners, tenants, policy advocates, and members of Congress to develop a flexible menu of preservation programs. We know that what is needed for a troubled property in a challenged neighborhood may be very different from what is needed for a well maintained property in a strong housing market at the end of its mortgage term.

HUD is committed to doing all that we can to provide project owners the tools and resources to renew their aging properties. We can establish after-rehab Sec. 8 rents before the rehab begins, and enable more owners to use residual receipts funds to aid in the rehab effort. HUD can also extend 20-year Sec. 8 contracts to these properties (subject of course to appropriations), providing more certainty for the project's future.

Not all project owners wish to hold on to their HUD properties for the long term. We will look to facilitate transfers to "preservation purchasers" who commit to long-term affordability.

Renewing HUD's portfolio will require significant investment from outside entities. HUD is working to better match our processes with the low-income housing tax credit program. We have already taken significant steps to improve the way our Federal Housing Administration multifamily lending tools work with tax credits.

A vision of preservation goes hand-in-hand with a vision of sustainable communities. We will look to prioritize those developments adjacent to transit, with energy-saving "green" building features, and with great access to good jobs.

As a practitioner, I know firsthand that preservation is the unsung, often unglamorous work that can yield the greatest benefits for residents, and for the broader community. Thank you for your accomplishments in this area. I look forward to partnering with you.

Carol Galante is HUD's deputy assistant secretary for multifamily housing.

