Preservation of Rental Properties in Florida Housing Finance Corporation's Portfolio: Background and Conceptual Strategies

In September 2016, several presentations were made to Florida Housing's Board of Directors by owners of properties in the corporation's portfolio and other stakeholders about the long affordability periods imposed on rental properties. Concern was expressed about limited opportunities or strategies provided by Florida Housing to assist in maintaining these properties over the long affordability period, which is currently 50 years for most properties receiving financing through the corporation's programs.

In summary, proponents of longer affordability periods speak to the loss of units in prime locations (close to high concentrations of jobs, good schools/amenities and transit, with varied economic opportunities) when these properties exit affordability and are restructured to market rate (or sold as condos). The belief is that replacing these units will be costlier than preservation and because of limited access to expensive, prime land in many areas. This will also cause displacement of lower income residents in these areas.

Opponents of longer affordability periods, mainly in the development community, speak to the inevitable decline in condition and value of the housing stock over the term of the longer affordability period without recapitalization and additional assistance for properties that are required to be affordable for 50 years. They state that such assistance is currently unavailable in a way that will be useful to them through Florida Housing's programs.

Additionally, national research from over five years ago showed that most properties with shorter affordability periods are continuing to provide naturally occurring affordable rents after they exit their program restrictions. Thus, why maintain restrictions for as long as 50 years if properties will offer affordable rents anyway? With the tightening rental market in Florida, recent analysis shows this is not the case today. This issue is examined later in this paper.

Historically the corporation's strategy has primarily focused on preserving properties not already in the portfolio that have precious, federal project-based contracts for rental assistance that allow properties to serve extremely low income (ELI) residents. But now that properties in our portfolio are getting older, providing opportunities for recapitalization and rehabilitation is important to ensure that as many properties as possible remain viable over their full affordability periods. In some cases, a property owner simply desires to seek lower cost financing to position an affordable property in a stronger financial position, but after about 15 years, if recapitalization is sought to update and stabilize a property's financial structure, at least some rehabilitation of the property is also sought for capital repairs. The older the property, the more rehab is generally needed, but this is also dependent on the market where the property is located (stronger markets generally bring in higher rents, providing more income for upkeep), and the owner's approach to maintenance and repairs.

This report looks at several issues:

- How old properties in Florida Housing's portfolio are;
- Whether properties that exit the affordable portfolio continue to provide affordable rents, both nationally and in Florida;
- The pros and cons of shorter/longer affordability periods when considering preservation; and
- An approach for Florida Housing to preserve properties in its portfolio and a timeline for development of a strategy.

How Old Are Properties in Florida Housing's Rental Portfolio?

Florida Housing Finance Corporation Porfolio Developments and Units by Age, July 2018

		30+ Years Old	15-29 Years Old	<15 Years Old
Property and Unit Counts	Properties	2	630	800
	Units[1]	747	97,351	86,280
	% of All FHFC Assisted Units	0.4%	53%	47%
Target Population	Family	100%	85%	67%
	Elderly/Family	0%	11%	26%
	Elderly	0%	2%	1%
	Other	0%	2%	6%
	Average Tenant Income[2]	$50,544	$25,773	$22,050
Location	Large County	100%	60%	62%
	Medium County	0%	36%	34%
	Small County	0%	4%	4%
	Counties Most Affected	Broward, Orange only	Large Counties (except Pinellas) + Osceola, Lee, Volusia, Seminole	-

Notes:

Age information refers to the most recent funding received by a development, excluding renewal of a project-based rental assistance contract, so if a property first received funding in 1996 and then again in 2017, the age is based on the 2017 funding.

This table only includes properties with Housing Credits 9%, Housing Credits 4%, SAIL, State Bonds, and State HOME. Properties may also have funding from other programs. Excludes properties with no Florida Housing funding or with funding from Florida Housing programs (e.g., Elderly Housing Community Loan, Demonstration Project).

[1] The total number of units in this table refers only to affordable units in the portfolio, not the units that have no restrictions.

[2] The Average Tenant Income for the two 30+ year old properties is high, because these both are bond-only properties, with 20-30% of the units set aside at 80% of AMI (the rest at market rate). They are located in Davie and Orlando.

Source: Shimberg Center for Housing Studies, Assisted Housing Inventory

What Happens When Properties Exit the Affordable Portfolio?

The Year 15 Qualified Contract Process. While all properties in the portfolio are not Low Income Housing Tax Credit (LIHTC) properties, many are, and "Year 15" is relevant to these properties. Year 15 is when limited partners – the investors – typically no longer have an economic interest in a LIHTC property and are likely to exit the investment through various means. This disposition often occurs somewhere between Year 15 and Year 20. Typical dispositions include transfer of the property to the general partner (the entity we informally refer to as the owner) and/or sale of the property to new, third party owners.

While LIHTC property owners agree to abide by the household income, maximum rents, physical suitability and other restrictions during the affordability period, federal law also provides them with an option to convert to market rate after the 14th year through the "Qualified Contract" process. Through this process, owners formally request their state housing finance agency (HFA) to search for a new buyer at any time after the 14th year of the original compliance period. If one cannot be found, owners are released from all restrictions and are free to sell properties to any willing buyers, who are only bound to keep rents affordable to existing qualified households for three years.

How the Qualified Contract (QC) Process Has Impacted Properties in Florida. As of June 2018, Florida Housing had received 66 eligible requests for a qualified contract. To date, 9,154 units in 43 developments have exited our portfolio via the Qualified Contract process. Another 4,628 units in 17 developments have been preserved through the QC process, including two developments that were sold to new owners. Although bona fide offers were presented to the owners of 14 developments, those owners were unwilling to sell the developments and the housing credit restrictions have remained in place.

Since 1996, Florida Housing's application language has incentivized applicants to waive their right to a Qualified Contract and keep their properties affordable for the entire length of the period committed to in their application in exchange for competitive housing credit funding. This includes applicants seeking SAIL funding to use with tax exempt bonds and noncompetitive 4% LIHTC. However, for developments with just noncompetitive 4% LIHTC allocated with just bond financing (i.e., no SAIL), applicants are rarely incentivized to waive their right in the same way as developers seeking the more valuable 9% LIHTC or SAIL funding.

As a result of developments funded before the waiver was in place and no waivers placed on more recently funded bond/4% LIHTC-only properties, by the year 2020, over 80,000 units in more than 440 properties in Florida Housing's rental portfolio will be eligible to request a Qualified Contract. For context, Florida Housing's portfolio includes ~200,000 units, so this equals more than 40 percent of the stock in our portfolio.

In 2012, Abt Associates prepared a report for HUD about what happens nationally to LIHTC properties at year 15 and beyond. The research found that LIHTC properties that exit affordability through the

Qualified Contract process are more likely to be in stronger housing markets where rents can be increased.

What Happens to Housing Exiting Affordability in Other States. Florida Housing surveyed several state HFAs, particularly those with shorter affordability periods, to find out what happens to properties that exit their restrictions. Most states have only a general knowledge about the status of exited properties, telling us that some of their properties remain affordable to their original lower income target population. Some states noted that their properties are often constructed in neighborhoods that would not naturally allow higher market rents, but in high demand, high growth neighborhoods, rents at exiting housing are most often much higher than LIHTC rents. A minority of surveyed states do not track their properties after they exit their portfolios. The table below provides information on the loss of housing in HFAs we surveyed.

What Happens to Units Leaving Other State HFAs' Rental Portfolios?

State	Affordability Period (Years)	Current Rental Portfolio Size	Number of Properties/Units that have Exited Portfolio	What Happened to these Units?
Florida	50	1,617 properties/ 203,234 units	~280 properties/ ~37,500 units	Current rents at most properties not affordable at 60% AMI rent level.
Arkansas	35	480 properties/ 21,300 units	188 properties	Rural areas: majority are naturally occurring affordable housing.
Colorado	40	1,380 properties/ 72,000 units	~200 properties	Affordable rents on par with market rate rents in rural areas. Some properties in urban or high demand areas convert to rates at what the market will bear.
Delaware	30	12,000 units	A "handful" of pre-EUA properties were lost between 2002-2005	At time of loss, market rents in urban areas was similar to tax credit rents; current status unknown.
Georgia	30	1,225 properties/ 115,238 units	56 properties	Majority of exiting properties are in Atlanda area; rents in Atlanta are usually much higher than affordable rates.
Michigan	30	1,450 properties/ 95,000 units	HFA uncertain of count; 40 properties are in various stages of the QC process	Market rents are often near the 60% AMI rent level in numerous markets.

What Happens to Units Leaving Other State HFAs' Rental Portfolios? (cont'd)

State	Affordability Period (Years)	Current Rental Portfolio Size	Number of Properties/Units that have Exited Portfolio	What Happened to these Units?
New Mexico	35	19,634 units	4 properties/ 732 units	The HFA guesses that rents in rural areas are close to tax credit levels, while rents in urban areas are higher, dictated by the market.
North Carolina	30	1,214 properties/ 74,207 units	962 properties/ 8,169 units (includes 442 pre-EUA properties)	Majority are affordable to renters who exceed tax credit income levels, but properties still well below market rate.
Pennsylvania	35	~133,000 units	10 properties/ 437 units	95% remain affordable at tax credit levels in rural areas; 5% convert to substantially higher rents in larger urban areas.
Tennessee	30	593 properties/ 50,573 units	2 properties/387 units; 11 properties/ 1,287 units have requested to enter the QC process	HFA uncertain of status
Wisconsin	30	930 properties/ ~47,000 units	~2,500 units	Still affordable in rural areas, but increased rents in urban areas

In summary, we found that most of these HFAs and even those with longer affordability periods are not closely following what happens to exiting properties, but are aware of previous and future losses and have begun to think about strategies for preservation.

What Happens to Housing Exiting Affordability in Florida. In 2009, the Shimberg Center for Housing Studies at the University of Florida created the Lost Properties Inventory (LPI) to track formerly subsidized developments in Florida that are no longer subject to affordability requirements. The initial survey included not only Florida Housing-financed properties in the LPI, but inactive properties financed through other programs as well.

This 2009 evaluation of rent affordability levels during the early part of the recession showed that most (70 percent) were continuing to operate as rental housing, with 61 percent (just under 100 properties) of those offering naturally affordable rents to households at about 60% of AMI. None of the properties offered rents affordable to ELI residents. One-fifth of the developments had been converted to condominiums, and the rest of the properties were vacant or demolished.

At Florida Housing's request, the Center completed a 2018 review this July focused solely on properties exiting out of Florida Housing's portfolio to provide insight into the status of these properties (see Attachment 1 for the full review). The LPI includes a total of 135 inactive developments with 13,940 units of affordable housing originally financed by the corporation. Many were early tax credit developments that reached the end of their 15-year affordability periods in the early 2000s. Most were built between 1985 and 1999 (~20-30+ years old). The 2018 survey evaluated rents at 61 of these properties, including nearly three-fourths (10,181) of the exited units.

The Shimberg Center compared online advertised rents for these inactive properties to Florida Housing's rent limits for active properties. The Center wanted to see whether these properties would still be considered affordable under current LIHTC and SAIL rent restrictions. They found that current rents at most properties were not affordable at the 60 percent of AMI rent limit. In fact, many properties listed rents higher than 80 percent AMI limits. A summary of results shows:

- 49 properties (80%) were unaffordable at the 60 percent AMI limit. That is, average rents were above Florida Housing's 2018 60 percent AMI rent limits for the corresponding unit size and county.
- Rents for 21 of the 49 properties above exceeded Florida Housing's 80 percent AMI rent limits.
- 12 properties (20%) had rents affordable at or below the 60 percent AMI limit for at least some unit sizes. Of these, six properties had average rents below the 60 percent AMI limit for all unit sizes. The other six were "mixed" properties with rents for some unit sizes below the 60 percent AMI limit and others above the limit.
- None of the properties were affordable at the 30 percent AMI limit.

Not surprisingly, the locations of the more affordable properties reflect weaker neighborhood market conditions. Overall, only 42 percent of the properties are in Qualified Census Tracts (QCTs), which are lower income areas. Most of the properties with continued affordability are found in QCTs, but not all properties located in QCTs have ended up remaining affordable.

It is possible that the reason very few properties have remained affordable is due to the current, strong rental market in Florida with high occupancies throughout the state (Florida Housing's portfolio occupancies are higher than the state as a whole). Rents may shift over time as the market changes. In summary, we cannot rely on rents remaining affordable at all properties exiting affordability.

The Pros and Cons of Shorter Affordability Periods for Preservation Purposes

State HFAs set their own affordability periods during which income and rent restrictions must be in place. Periods are set from the minimum federal requirement of 30 years up to "perpetual" affordability, as summarized below and shown by state in Attachment 2:

- 30 years – 18 State HFAs;
- 31-39 years – 7 State HFAs; and
- 40 years to perpetual affordability – 25 State HFAs.

In our interviews with a number of state HFAs, we did not find a correlation between length of affordability periods and access to preservation opportunities offered.

Aside from broader pluses and minuses to shorter versus longer affordability periods outlined in the introduction to this paper, the question here is how these periods impact Florida Housing's ability to provide decent, affordable rental housing over time.

Longer Affordability Periods

- **PRO:** Ensures that properties receiving finite public assistance will be available at lower rents to help lower income renters for many years.
- **PRO:** Initial longer affordability periods have allowed Florida Housing to create a larger supply of units than if we were using a 30-year restriction. Attachment 3 shows that, assuming new units are required to abide by a 50-year restriction, the portfolio would grow to 225,000 units before the first units begin to expire and growth levels off. Under the 30-year restriction (assuming all units were at a 30-year restriction), the portfolio would have leveled off at 135,000 units.
- **CON**: Finite public resources are not enough to assist all affordable housing in the portfolio to remain in good condition over the long affordability period.
- **PRO:** Longer restrictions provide an HFA with the ability to negotiate and incentivize preservation of highest priority properties, including possible lowered affordability periods for housing that is deemed to continue to naturally provide affordable rents over the remainder of the affordability period.

Shorter Affordability Periods

- **PRO:** If a property is income and rent restricted for 30 years, it is less likely that additional financial assistance provided by the HFA is needed for the property before its restrictions end.
- **PRO:** Provides a simpler way for properties to exit the portfolio just at the point that they need more financial assistance to maintain their physical condition. May be less work for HFA staff, who can just focus on incentives to keep most valuable properties in the portfolio.
- **CON:** Loss of valuable properties in high opportunity areas – if a property's restrictions end at year 30, properties that are in strong markets with high rents will be much less likely to seek additional HFA financing to remain affordable, even with incentives provided by Florida Housing. This is truer of for profit owners than nonprofits, which have a mission-based approach to serve lower income residents. Most of the properties in Florida Housing's portfolio are owned by for profits.

The staff believes that when considering the question of preservation, on balance, longer affordability periods are preferable because they provide us with the greater opportunity to keep properties in high opportunity areas in the portfolio. However, longer affordability periods mean that, without a thoughtful strategy to sort properties effectively and (likely) allow certain properties to leave the portfolio before their 50-year restriction ends, the aging portfolio will include many blighted properties. Whether Florida Housing chooses shorter or longer affordability periods, either way, we must develop an approach to preserve properties in our portfolio.

A Beginning Approach to Preserve Properties in Florida Housing's Portfolio

Interviews with Owners of Affordable Housing Properties in Florida Housing's Portfolio. National research and other literature on preservation suggests that nonprofit owners typically desire to own and preserve their properties over a long time to carry out their primary mission to provide decent, affordable housing for residents. Nevertheless, from conversations with nonprofit owners, we know that preservation at an appropriate time is important to maintain the good physical and financial condition of aging properties.

Conversations with a sample of for profit owners of substantial portfolios in Florida – often but not always owners who are still in the business of developing new housing – showed that those who are good asset managers have various reasons to keep properties in good shape: to continue to receive income from a well run property; the ability to sell these properties at some point, sooner or later, before or after restrictions end, as high quality assets; and to maintain the reputation of the owner's company. These owners also spoke about the pride they take in maintaining their properties to assist residents in obtaining affordable housing.

We also spoke with companies that are either in the business of resyndication or purchasing properties to stabilize and resell to new owners who will resyndicate them. Finally, we spoke with two companies who are primarily in the business of purchasing single or portfolios of existing affordable properties, and are typically purchasing properties that are 15-20 years old.

We talked to these representatives about a key issue: the point at which properties need Florida Housing (or another entity) to assist them with recapitalization. In summary, we heard a set of points that impact the longevity of a property and that set the stage for the state's preservation strategy, listed below.

- Properties that are built to high standards, with high quality surfaces and sustainable materials are likely to last longer with fewer repairs over time.
- The asset management approach of the property owner is critical to maintaining a property in good condition.

- Regular physical inspections by the owner/property manager and an ongoing process for maintenance help ensure repairs are handled at the earliest moment, keeping costs down.
- Several owners said that they do not believe in touching property replacement reserves[1] for any reason until extremely large, capital repairs are needed (e.g., water intrusion problems in the building envelope), instead using property cash flow for this purpose. Based on our Asset Management Unit's experience, we see a varied approach to the use of replacement reserves by owners.
- Some owners said that they do not just rely on property cash flow for repairs; if needed, they will go into their pockets to ensure that repairs are made.

- Properties located in higher income or economically vibrant areas typically provide more income from higher occupancies and rents. These properties should be able to be kept in better condition over time and should be able to be recapitalized more easily. Conversely, properties located in lower income areas where maximum rents cannot be obtained, or in poor locations such as out-of-the-way sites that limit occupancies or rents (even in a good market), will not receive the same income. In these cases, repairs will be harder to keep up just with property cash flow, and private lender interest in recapitalization may be more limited.
- While not all owners/investors agreed on this point, most said that minimal or no rehab of properties is necessary at Year 15 (particularly true for those well maintained), and that the key time for insertion of capital is at Year 25 and later. (Note that most of the preservation currently financed by Florida Housing is on 30+ year old HUD and RD properties. These properties are quite tired by this time, with many key systems in need of replacement.) Some owners said that some help may be needed during years 15-20, particularly at properties in lower income areas with lower rents.
- During years 15-20, refinancing may be useful to strengthen the financial structure of properties and/or to take advantage of more favorable financing.
- Most of the for profit owners indicated their interest in keeping many of their properties past Year 15, and nonprofits definitely take this approach. Some for profit owners choose to sell certain of their properties for various reasons. One owner's approach is to sell most of its properties somewhere between Year 15 and 20, but to date this strategy is rare.

What Other State HFAs Are Doing to Recapitalize Properties. States surveyed often target preservation to properties with rental assistance, just as Florida Housing does. However, a number of states are

[1] Replacement reserves are funds set aside out of a property's cash flow each year to pay for future capital repairs, such as structural building repairs, major building system replacements and other items included on the Eligible Reserve for Replacement items list set out by Florida Housing (eff. Oct 2010), rather than normal maintenance and repairs. Currently Florida Housing requires properties to place $300/unit/year into replacement reserves, or the amount to cover scheduled repairs in the capital needs assessment (CNA). The initial reserves have limitations on the ability to be drawn upon: generally not during the first five years in new construction, and in preservation/rehab, not until the start of the scheduled activities per the CNA (but not sooner than the third year).

moving into preservation of younger LIHTC properties that are now reaching an age where they need rehabilitation. Key approaches include:

- Resyndication with tax exempt bonds and 4% LIHTC alone (this is already available through Florida Housing). However, these programs alone do not always provide enough financing to fully rehabilitate a property. Smaller properties and those in very low income areas that will not generate as much income are less likely to be able to use this financing option. A particularly successful approach involves using this tool for a pool of properties – for instance, when a new buyer or existing owner wants to recapitalize a number of these properties at once. This has been shown to provide the necessary rehab funds on younger properties, or in situations (e.g., USDA RD) when other non-FHFC financing is also available.
- Outreach to connect sellers with mission conscious buyers who want to maintain housing as affordable for many years to come.
- Use of a priority matrix to determine which properties should be funded due to the limitation of available funding. Examples of higher priorities include areas where it will be difficult or very expensive to build new affordable housing; and locations closer to amenities.
- Allowing properties to adjust their income mix after the initial 15-year compliance period to allow for increased income from rents, thus providing more income for repairs or a greater ability to obtain lender financing for recapitalization. This appears to be focused on non-LIHTC properties that have state funding.

An Approach for Florida Housing to Preserve Properties its Portfolio. With 200,000 units in the corporation's portfolio, Florida Housing will be unable to provide financing to every property for preservation. This means that we must create a comprehensive approach with a menu of market-based preservation opportunities that incorporate policy priorities. Florida Housing should remove barriers to accessing private lender funding for limited refinancing or full recapitalization, and only use finite resources (i.e., 9% LIHTC, SAIL and HOME funds) for properties that meet further tests that make them a high priority for preservation. Categories that should be considered as appropriate for finite resources include, but are not limited to:

- Properties serving special needs and homeless populations. This should include housing that is already set up or is prepared to be rehabilitated to serve older, frail elders – those typically aged 75 and older – thus acting as supportive housing for this population;
- Properties in a neighborhood or area of great economic opportunity/viability where transit is available and access to good schools and other amenities is high. These should be areas where properties exiting the affordable system will be able to go to rents (or for sale condos) that are far above the LIHTC rents currently commanded. A growing, national body of research documents the impact of neighborhood characteristics on long term outcomes for low income residents across educational and economic attainment and health. Note, however, that because of the high rents often commanded for properties in these areas, Florida Housing should

carefully limit the finite resources going to these properties, and harness private financing solutions which are more likely available in these areas; and

- Properties in very low income neighborhoods where a concerted neighborhood transformation effort is underway as shown by indicators broader than simply housing development – akin to the revitalization request for applications currently issued by Florida Housing each year. This category should also include gentrifying low income areas that are becoming higher income markets, but not necessarily because of local government revitalization efforts.

Conceptual Strategies. These strategies should be market-based, and applicants (owners or new buyers) should be only those who have a proven track record of maintaining properties in good physical and financial condition according to Florida Housing specifications (to be developed). The concepts outlined below must be fleshed out by Florida Housing working with owners, investors and other stakeholders. The list below provides strategies in order from those that do not use finite resources (e.g., SAIL and 9% LIHTC), to those that use additional finite resources. Following program strategies is a list of infrastructure items that Florida Housing must implement to determine which strategies are best used for each property/market situation. As Florida Housing implements these recapitalization strategies, we will incorporate lessons learned into our requests for applications to build new developments.

1. SAIL Program Changes to Allow First Mortgage Refinancing for Recapitalization

- Targeted to older SAIL properties which require some capital investment (i.e., $5,000-$10,000/unit), but do not require significant rehab funding to remain viable.
- The proceeds from refinancing the first mortgage could be used for this rehab, but the SAIL rule creates a barrier to this approach by only allowing an increase in the amount of the first mortgage if a proportionate amount of the increase is used to reduce the outstanding SAIL loan balance, rather than using the entire amount of the proceeds for rehab.
- The rule could be revised to allow such a refinance to include new funds up to a certain amount per unit to be used solely for capital improvements/reserves per an approved credit underwriting report and CNA, with no cash out or developer fee to the owner, before the SAIL outstanding loan balance is paid down (if at all). This would include specified debt service coverage ratios and other terms as appropriate to ensure that properties are not too highly leveraged.
- **Timeline:**
  - Begin immediate work; carry out pilot using rule waiver.
  - Revise the rule, with change estimated to become effective in mid-2019.

2. Changes to Allow a Portion of Units at a Property to Serve Higher Income Residents

- To provide additional income to properties, after a certain number of years (e.g., 15-20), allow properties to change the income restrictions on a portion of their units – e.g., 20-30 percent – from 60 percent to 80 percent AMI.
- This approach will not be useful in lower income census tracts where getting maximum rents at 60 percent AMI may be difficult.

- It is unclear whether this approach is legal before the 30-year federal compliance period ends due to the Section 42 applicable fraction requirement. It is possible this approach may not be legal for LIHTC properties under 30 years old.
- **Timeline:**
    - Begin immediate evaluation of Florida Housing's legal capacity to carry this out, and if so, under what circumstances.
    - If available before the end of the 30-year federal compliance period, determine appropriate use for this approach and how to implement this.
    - Projected implementation date: Late 2019, assuming a need for rule revisions.

3. Limited Rehabilitation or Full Recapitalization Using SAIL (with or without bonds and 4% LIHTC)

- Option 1: Provide $5,000-$10,000/unit in rehab targeted to older SAIL properties which require some capital investment based on a CNA, with no or very limited developer fee.
- Option 2: Provide SAIL with 4% LIHTC/bonds for full recapitalization for much older properties (~25 years and older).
- Develop priority matrix to determine which types of properties have priority for these options, based in part on which properties need these options.
- **Timeline:**
    - Begin development of limited rehabilitation approach (timing is reliant on completing priority matrix), and complete necessary rule revisions with a goal to implement possibly starting September 2019.
    - Evaluate the type of properties that will be targeted for full recapitalization and the timing necessary to assist properties based on their age; based on this, develop timeline.

4. Full Recapitalization Using 9% LIHTC

- Provide financing for specifically identified properties aged 30+ years old based on a priority matrix, and based on which properties need 9% LIHTC for recapitalization.
- **Timeline:**
    - Develop approach only after priority matrix is developed, other program options above are in place, and most of the infrastructure strategies below are completed. Timing TBD.

5. Allow Certain Properties to Exit the Portfolio Earlier than Specified Affordability Period

- Maintain longer affordability periods as a requirement of initial funding, but at a determined time in the property's lifecycle, negotiate shorter periods (~ 30+ years old) on a case-by-case basis based on parameters to be developed.
- This strategy would be best for properties in lower income areas that are deemed to remain naturally affordable. An assessment tool should be developed for this purpose.

- **Timeline:**
  - Develop approach only after priority matrix is developed, other program options above are in place, and most of the infrastructure strategies below are completed. Timing TBD.

6. FHFC Infrastructure Needed to Implement Recapitalization Programs

a. Develop a more robust portfolio management structure. FHFC currently oversees a property's financial performance, physical condition and compliance with applicable regulations.
   - Enhance the asset management structure to incorporate additional physical, operational and financial performance measures of both individual properties and portfolios owned by principals for a more focused understanding of a property's past, current and potential performance as well as to identify strategies to improve operations and inform future RFA methodologies.
   - Develop indicators of performance as they relate to locations/markets throughout the state for comparisons among developments.
   - **Timeline:**
     - Select financial and operational performance indicators for tracking in proposed new software. Develop plan for implementation, including resources needed for this structure.
     - Begin and complete first phase of this iterative structure in 2019.

b. Implement and fine tune the new CNA system to ensure that only those Florida Housing resources necessary are used to improve properties. **Timeline:** In progress now.

c. Develop and implement a "Development Management Scoring" system to monitor the performance of principals during both the development and management phases of their developments and score applications for new funding based on that performance.
   - This was first proposed and discussed publicly in 2016, but implementation was put off until Florida Housing brings on its new software system to manage data throughout the application-to-asset management lifecycle of properties (in contract negotiations with software provider currently).
   - This approach will complement priorities to be set for preservation based in part on owner/principal actions and practices resulting in good development and management.
   - **Timeline:**
     - On hold waiting for new software to be installed and working at full capacity to support existing development and asset management functions.
     - Possibly begin development in 2020.

d. Develop parameters for prioritizing developments for recapitalization within each program strategy, to be based on such parameters as:
   - Market where property is located.
   - Demographic served by the property.
   - (Related to prior bullet, but may be additional items) Owner decisions related to:

        - Use of replacement reserves and owner out-of-pocket or other funds to maintain properties.
            - The experts we interviewed agreed that replacement reserves are sometimes insufficient after 15 years to cover current needs for renovation and upgrading. Nevertheless, we did not find a consensus about the extent of renovation and repair needs across LIHTC properties at Year 15.
        - Compliance and past due issues.
    - Become more knowledgeable about other public/private financing options that can be used with 4% LIHTC/bonds and other programs to ensure that Florida Housing's finite resources are used only where necessary.
    - End of affordability period nearing.
    - **Timeline:**
        - Begin immediate development, with completion of preliminary matrix in 2019.

e. Carry out replacement reserve study to learn how and when reserves are being used.
    - Evaluate what is required for reserves, how they are being used and best practices across the country.
    - **Timeline:**
        - Develop study parameters and budget.
        - Request budget funding and carry out study in 2019.

July 2018

The Lost Properties Inventory: Affordability of Post-Subsidy Rents
Shimberg Center for Housing Studies, University of Florida

The Shimberg Center's Assisted Housing Inventory (AHI) is an online database of affordable rental developments receiving subsidies from Florida Housing Finance Corporation (Florida Housing), the U.S. Department of Housing and Urban Development (HUD), the U.S. Department of Agriculture's Rural Development (RD) program, and local housing finance authorities. In exchange for subsidies, the developments are required to comply with tenant income caps and, in most cases, rent limits.

In 2009, the Shimberg Center created the Lost Properties Inventory (LPI) to track formerly subsidized developments that are no longer subject to compliance requirements. Depending on their funding sources, housing developments may exit the assisted housing stock when subsidy-related restrictions expire, owners opt out of renewing rental assistance contracts, or poor financial and physical conditions lead to termination of subsidies or foreclosure. Most LPI properties continue to provide rental housing. Some are converted to condominiums, demolished, or otherwise converted to land uses other than multifamily rental housing. The Center updates the LPI annually, with the last update in June 2018.

Current rents for LPI properties provide insight into what happens when affordability restrictions expire for developments in Florida Housing's portfolio. Do properties continue to offer affordable rents, or do rents rise in the absence of restrictions? To explore this question, the Shimberg Center compared online advertised rents for LPI properties to Florida Housing's rent limits for active multifamily properties. We wanted to see whether these properties would still be considered affordable under current tax credit and SAIL rent restrictions.

We found that current rents in most properties were not affordable at the 60 percent of area median income (AMI) rent limit. In fact, many properties listed rents in excess of 80 percent AMI limits. This brief summarizes our data analysis and findings.

Data and Methods

Florida Housing provides property data to the Center several times a year, including information on subsidies that have become inactive. A property enters the LPI only when all relevant subsidy programs become inactive, indicating that the property is no longer operating under rent and income restrictions.

The LPI includes a total of 135 inactive developments that were previously funded by 9% Housing Credits, 4% Housing Credits, SAIL, or a combination of these. Some of the properties also received funding from other programs such as state or local mortgage revenue bonds, USDA's mortgage programs, or Florida Housing's Guarantee program. The 135 properties are referred to as the "full dataset" below. They previously provided an estimated 13,940 units of affordable housing. Many were early tax credit developments that reached the end of their 15-year affordability periods in the early 2000s. Most were built between 1985 and 1999, which means they are reaching 20-30 or more years of operation.

We searched for the properties online by name and address and found advertised rents for 61 properties on their own websites or on property listing sites such as apartments.com, apartmentguide.com, and Zillow.com.[1] These are referred to as the "survey sample" below. Table A1 in the appendix shows the characteristics of the full dataset and survey samples.

While the 61 properties found made up just under half of the 135 original properties, they included nearly three-fourths (10,181) of the formerly assisted units. Many of the other 74 properties in the full dataset were small. In other aspects, as Table A1 shows, the 61 survey sample properties were similar to the full 135-property dataset: predominantly family developments in large counties built in the late 1980s or 1990s.

We recorded rents listed for units by the number of bedrooms. For properties that listed rent ranges or multiple floor plans units with a given number of bedrooms, we recorded the minimum and maximum rents for each. The minimum and maximum rents by unit size (0-4 bedrooms) were averaged to estimate a single contract rent by unit size by property. Because most properties require at least some tenant-paid utilities, particularly electricity, we added a monthly estimated utility allowance.[2] This generated an estimated gross rent by unit size for each property. Note that the data collection did not include information about the physical condition of the properties, including whether they had been renovated following their exit from the subsidy programs.

Finally, estimated gross rents for each property and unit size were compared to Florida Housing's 2018 rent limits by AMI level, county, and unit size. These rent limits generally correspond to 30 percent of income for a household of a given size (corresponding to a number of bedrooms), AMI level, and county. We use these limits rather than the 40 percent affordability standard used in the Rental Market Study because Florida Housing's rent limits are the standards that the properties would have to meet if they were still within their compliance periods.

Each unit size/property combination from the survey sample was placed in an affordability level: 0-30%, 30.01-60%, 60.01-80%, or greater than 80% AMI. A property was categorized as "affordable," "unaffordable," or "mixed" for a particular AMI level based on whether rents were below Florida Housing's rent limits. For example, a property with a three-bedroom gross rent in the 30.01-60% AMI range but a two-bedroom gross rent in the 60.01-80% AMI range was categorized as "affordable" at the 80% AMI level, "mixed" at the 60% AMI level, and unaffordable at the 30% AMI level.

Results

Affordability

Current rents for most of the formerly subsidized properties would not be affordable by the standards of the Housing Credit and SAIL programs. Of the 61 properties in the survey sample:

- **49 properties (80%) were unaffordable at the 60 percent AMI limit**. That is, average rents were above the Florida Housing's 2018 60 percent AMI rent limits for the corresponding unit size and county. Rents for 21 of these properties exceeded Florida Housing's 80 percent AMI rent limits.

[1] The websites did not include information about whether rents were current, so some may have changed since they were posted. This was a limitation of collecting data on the Web instead by phone or mail survey.
[2] Utility allowances were based on average allowances for currently active 1990s-era Housing Credit and SAIL properties in the counties with sample properties: $61 for a studio/efficiency, $89 for a one-bedroom, $108 for a two-bedroom, $130 for a three-bedroom, and $162 for a four-bedroom.

- **12 properties (20%) had rents affordable at or below the 60 percent AMI limit for at least some unit sizes**. Of these, six properties had average rents below the 60 percent AMI limit for all unit sizes (number of bedrooms). The other six were "mixed" properties with rents for some unit sizes below the 60 percent AMI limit and others above the limit.

- **None of the properties were affordable at the 30 percent AMI limit.**

In dollar terms, the current median 1-bedroom gross rent across the survey sample was $1,079; median 2-bedroom rent was $1,149; and median 3-bedroom rent was $1,415. Table A2 in the appendix compares Florida Housing's 30, 60, and 80 percent AMI rent limits for 1-3 bedroom units across the sample counties to the range of rents for LPI properties in the survey sample.

One caveat is that higher-rent properties may be more likely to advertise their rents online, both because they have more resources and because they need to market their units more heavily to ensure occupancy. That is, it is possible that the survey sample rents are high relative to rents for properties for which we could not find online data.

However, the affordability findings are very consistent with overall statewide data on the affordability of the multifamily rental stock built at the same time. In 2016, 72 percent of all rental units were unaffordable to households at 60 percent of AMI. For multifamily units built in 1990 or later–the properties most comparable to Florida Housing's portfolio–84 percent of units were unaffordable at 60 percent AMI.[3]

The current survey results differ from the findings of a previous survey of LPI developments conducted in 2009.[4] In that year, most formerly subsidized properties continued to be affordable at the 60 percent AMI rent limit; as with the current study, however, none were affordable at 30 percent AMI. The new results reflect substantial tightening in Florida's rental markets from 2009 to the present, which has pushed market rents above the 60 percent AMI level in many neighborhoods throughout the state.

Characteristics of Affordable Properties

As Table A1 shows, the 13 affordable and mixed properties at the 60 percent AMI level were mostly located in the large counties. Six are in Duval County alone. As with the full dataset and survey sample, most were family properties when they were subsidized, although two of the three former elder properties in the survey sample also continued to be affordable.

Not surprisingly, the locations of the affordable properties reflect weaker neighborhood market conditions. Most of the properties with continued affordability were located in Qualified Census Tracts (QCTs), while most in the survey sample were not. None of the affordable and mixed properties were located in Difficult Development Areas, and only one was in a Florida Housing-designated Geographic Area of Opportunity tract (Table A1).

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[3] Based on Shimberg Center analysis of 2016 1-Year American Community Survey Public Use Microdata Sample (PUMS). Units are classified as multifamily if they are located in structures with at least five units. They are classified as affordable if they cost no more than 30 percent of income for a household at 60 percent of AMI. Severely substandard units and units occupied by student-headed households are excluded.
[4] Andres G. Blanco et al. "Affordability After Subsidies: Understanding the Trajectories of Former Assisted Housing in Florida," Housing Policy Debate 25, no. 2 (2015): 374-394, doi: 10.1080/10511482.2014.941902.

Conclusion

The analysis shows that properties do not necessarily stay affordable once they exit rent restrictions. The rent limits imposed by the SAIL and Housing Credit programs can be considerably lower than rents charged by similar properties without restrictions. Most of the survey sample properties were charging higher rents than would have been allowed under 60 percent AMI limits. Florida Housing's income targets below 60 percent (ELI units, 50 percent AMI units) are particularly important, as very few of the previously subsidized units are now affordable at those rent levels.

Appendix

Table A1. Property Characteristics and Program Information

Programs, demographics, and assisted unit counts refer to the properties' characteristics while they were still operating under affordability restrictions.

		Full Dataset		Survey Sample		Affordable or Mixed at 60% AMI	
		Properties	Formerly Assisted Units	Properties	Formerly Assisted Units	Properties	Formerly Assisted Units
Total		**135**	**13,940**	**61**	**10,181**	**12**	**1,232**
Programs	HC 9%, No SAIL	94	7,940	35	4,941	8	670
	HC 9% or 4% and SAIL	15	1,621	7	1,025	2	357
	HC 4%, No SAIL	18	3,834	16	3,713	1	not avail.
	SAIL, No HC	8	629	4	502	2	205
County Size[5]	Large	83	8,760	34	5,782	9	1,051
	Medium	49	5,017	28	4,399	3	181
	Small	3	163	-	-	-	-
Demographic Served[6]	Family	113	12,486	56	9,767	9	947
	Elderly	6	701	3	285	2	249
	Not Available	16	753	2	129	1	36
Earliest Year Funded	1985-1989	60	3,997	11	1,816	1	44
	1990-1999	60	7,652	38	6,224	8	911
	2000-2003	5	1,224	5	1,224	-	-
	Other or Not Available	10	1,067	7	917	3	277
Neighborhood Characteristics	In QCT	76	5,977	26	3,531	8	759
	In DDA	27	3,666	10	2,719	-	-
	In Area of Opportunity	33	4,860	20	4,325	1	208

[5] Properties in the full dataset were located in these counties: Large (Broward, Duval, Hillsborough, Miami-Dade, Orange, Palm Beach, Pinellas); Medium (Alachua, Bay, Brevard, Charlotte, Collier, Escambia*, Indian River, Lake, Lee, Leon*, Manatee, Marion, Okaloosa*, Polk, Sarasota, Seminole, St. Lucie, Volusia); and Small (Bradford*, Hendry*, Monroe*). Starred counties had no properties among the 61 "rents available" properties.

[6] The family category includes a combined family/farmworker development. The elderly category also includes properties with a combined family and elderly target population.

Table A2. Florida Housing Rent Limits Compared to Survey Rents

Florida Housing rent limits vary across the 21 counties represented in the survey sample. Ranges for the Florida Housing limits refer to the lowest (Marion County) and highest (Broward County) values for each AMI level and unit size.

	1 BR		2 BR		3 BR	
	Range	Median	Range	Median	Range	Median
30% AMI limit	$300-454	$360	$360-546	$432	$416-630	$498
60% AMI limit	$601-909	$720	$721-1,092	$864	$833-1,260	$997
80% AMI limit	$802-1,213	$960	$962-1,456	$1,152	$1,111-1,681	$1,330
Survey sample rents	$654-1,533	$1,079	$768-1,773	$1,149	$905-$2,273	$1,415

See the Income & Rent Limits page on the Florida Housing Data Clearinghouse for a full list of Florida Housing's 2018 rent limits by county.

State Housing Finance Agency Affordability Periods for Low Income Housing Tax Credit Developments

Section 42 of the Internal Revenue Code requires Housing Credit properties to be affordable for a 15-year compliance period, followed by a 15-year extended use period. During the 15-year extended use period, properties may choose to "opt-out" through a Qualified Contract. At any time after the 14th year of the 15-year compliance period, the owner can request that the state housing finance agency find a buyer who will operate the building as a LIHTC property. If the housing agency is unable to find a qualified buyer within a year, the land use restrictions terminate. The owner is free to operate the building at market rate subject to a three-year de-commitment period that caps rents for exiting tenants at LIHTC rent levels and prohibits eviction except for good cause.

Most state Housing Finance Agencies require or incentivize property owners to waive their right to opt out for the entire 15-year extended use period, or for a specific number of years. Some states require or incentivize properties to maintain affordability beyond the 15-year compliance period and 15-year extended use period, thus the property will be affordable for more than 30 years.

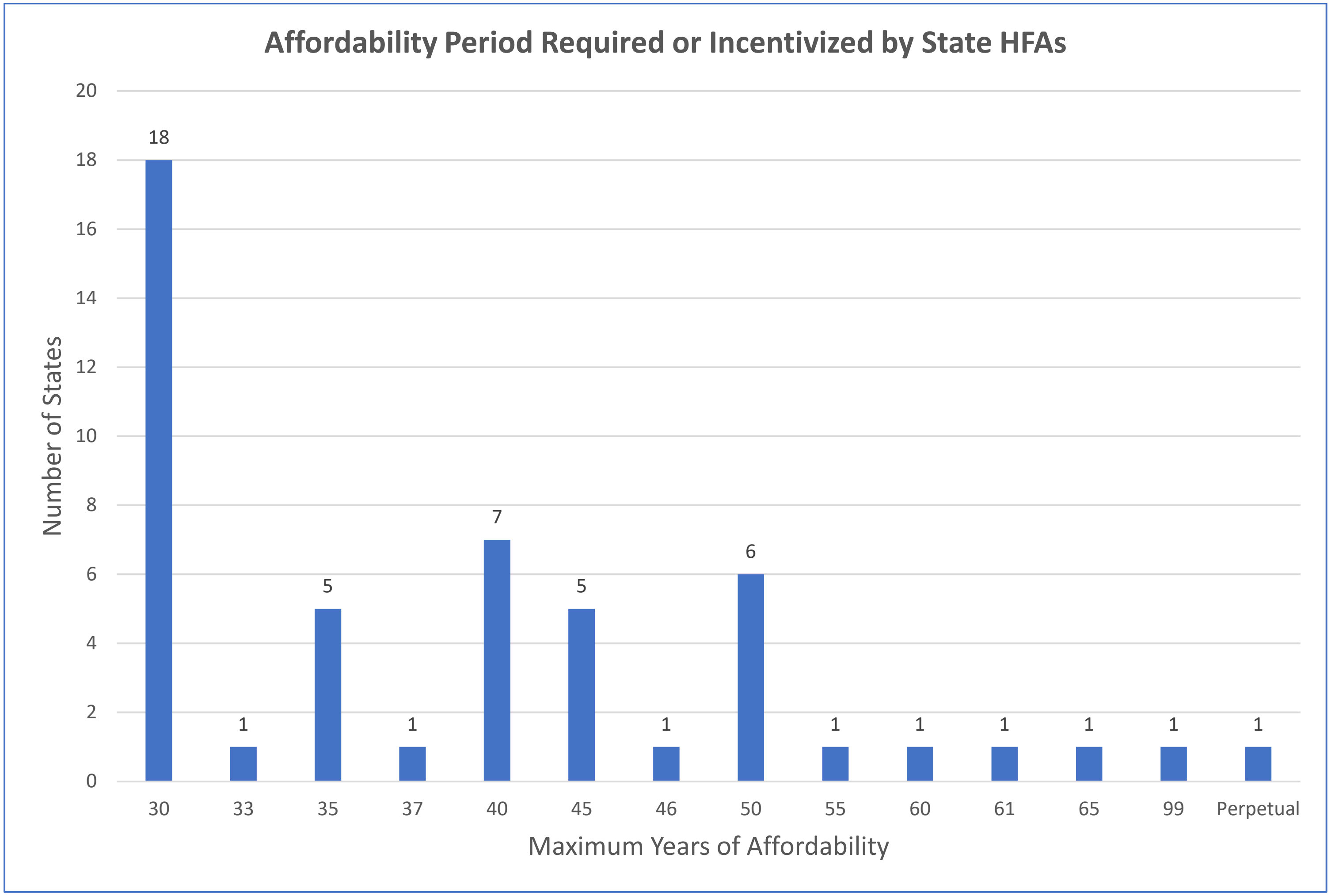
9% Housing Credits

For both new construction and rehabilitation developments, Florida Housing requires a total affordability period of 50 years and applicants must waive their right to opt-out during this period.

The following is a summary of the affordability periods required or incentivized by state housing credit programs:

- 32 states either require or incentivize an affordability period of greater than 30 years;
  - 20 of those 32 states offer an incentive to waive the right to opt-out of the qualified contract during the 15-year extended use period and extend the term of affordability beyond the extended use period;
  - 12 of those 32 states require owners to waive their right to opt-out of the qualified contract during the 15-year extended use period and commit to maintain affordability for a specific term beyond the extended use period;
  - 12 of those 32 states require or incentivize an affordability period of 50 or more years.
- 18 states use the standard 30-year requirement;
  - 8 of those 18 states offer an incentive to waive the right to opt-out of the qualified contract for either a portion of, or the entire 15-year extended use period;
  - 10 of those 18 states require owners to waive their right to opt-out of the qualified contract during the 15-year extended use period;

The following chart displays the number the years state HFAs require or incentivize properties to maintain affordability:



Housing Finance Agency LIHTC Affordability Periods, 2018

Housing Finance Agency	Years of Affordability	Year HFA Founded
Alabama	30	1980
Alaska	30	1971
Arizona	30	2002
Arkansas	35	1977
California	55	1975
Colorado	40	1973
Connecticut	40	1969
Delaware	30	1968
Florida	50	1980
Georgia	30	1974
Hawaii	61	2006
Idaho	40	1972
Illinois	30	1967
Indiana	30	1978
Iowa	30	1975
Kansas	30	2003
Kentucky	33	1972
Louisiana	45	1980
Maine	45	1969
Maryland	40	1970
Massachusetts	50	1966
Michigan	45	1966
Minnesota	30	1971
Mississippi	40	1980
Missouri	30	1969
Montana	46	1975
Nebraska	45	1978
Nevada	50	1975
New Hampshire	99	1981
New Jersey	45	1967
New Mexico	35	1975
New York	50	2010
North Carolina	30	1973
North Dakota	30	1982
Ohio	30	1983
Oklahoma	40	1976
Oregon	60	1971
Pennsylvania	35	1972
Rhode Island	30	1973
South Carolina	35	1971
South Dakota	40	1973
Tennessee	30	1973
Texas	35	1991
Utah	50	1975
Vermont	Perpetual	1974
Virginia	50	1972
Washington	37	1983
West Virginia	30	1968
Wisconsin	30	1972
Wyoming	65	1975

Rental Housing Affordability Periods: The Housing Credit and SAIL Inventory
Shimberg Center for Housing Studies, University of Florida

This data brief explores the impact of expiring income and rent restrictions on affordable housing funded through Florida Housing Finance Corporation's Low Income Housing Tax Credit (LIHTC, or Housing Credit) and State Apartment Incentive Loan (SAIL) programs. The analysis is intended to provide background information for the current debate over the impacts of 30- and 50-year affordability periods on the subsidized housing inventory.

The analysis explores two questions: 1) how would a change in affordability periods affect the supply of housing with affordability restrictions over time, and 2) to what extent do the restrictions imposed by the Housing Credit and SAIL programs result in units that are more affordable and available to low-income households than if no restrictions were in place? The results show that extending affordability restrictions to the full 50-year period has a substantial impact on the availability of affordable multifamily housing in the state.

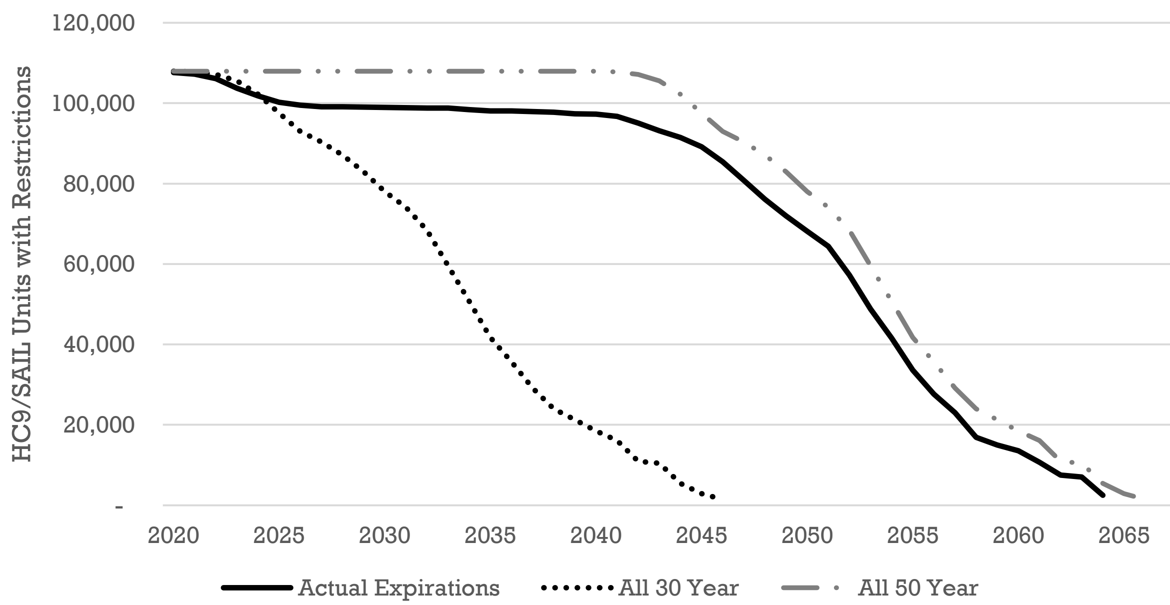
Part I: 30- and 50-Year Affordability Scenarios for the 9% Housing Credit/SAIL Inventory

To answer the first question, the Center analyzed data from the Assisted Housing Inventory (AHI; http://flhousingdata.shimberg.ufl.edu/AHI_introduction.html), a property-level database of subsidized rental housing in the state. There are 830 developments in the current inventory that were funded by 9% Housing Credits, SAIL, or both (referred to as the "HC9/SAIL" supply below). These developments contain 107,972 affordable units with income and rent restrictions subject to expire between 2020 and 2065. Most HC9/SAIL units (83 percent) are restricted to serving tenants at 60 percent of Area Median Income (AMI). The remaining units are under stricter limits: 10 percent have restrictions ranging from 40 to 50 percent of AMI, and seven percent are restricted to 35 percent of AMI or below.

Since 1989, federal law has required affordability periods of at least 30 years for LIHTC developments. A number of early 1990s-era LIHTC developments carry 30-year affordability restrictions. Beginning in the mid-1990s, however, Florida Housing began to incentivize, and then require, 50-year affordability periods for most developments funded by 9% Housing Credits. Similarly, most developments funded by SAIL operate under 50-year set-aside periods.

The inventory of existing HC9/SAIL developments provides an illustration of the impacts of 30- versus 50-year affordability periods on the long-term availability of rent-restricted housing. Figure 1 below shows how the total number of restricted units from the *existing stock only* will change over time as developments reach their expiration dates. It does not show additions to the supply from future development. Figure 1 shows three scenarios for the changing inventory: 1) the number of HC9/SAIL units under income and rent restrictions each year, given properties' actual expiration dates ("Actual Expirations"); 2) the hypothetical change in the inventory if all HC9/SAIL developments had been funded with 30-year expiration periods ("All 30 Year"); and 3) the hypothetical change if all HC9/SAIL developments had been under 50-year affordability periods ("All 50 Year").

Figure 1. Expiration Scenarios for Existing HC9/SAIL Inventory, 2020-2065



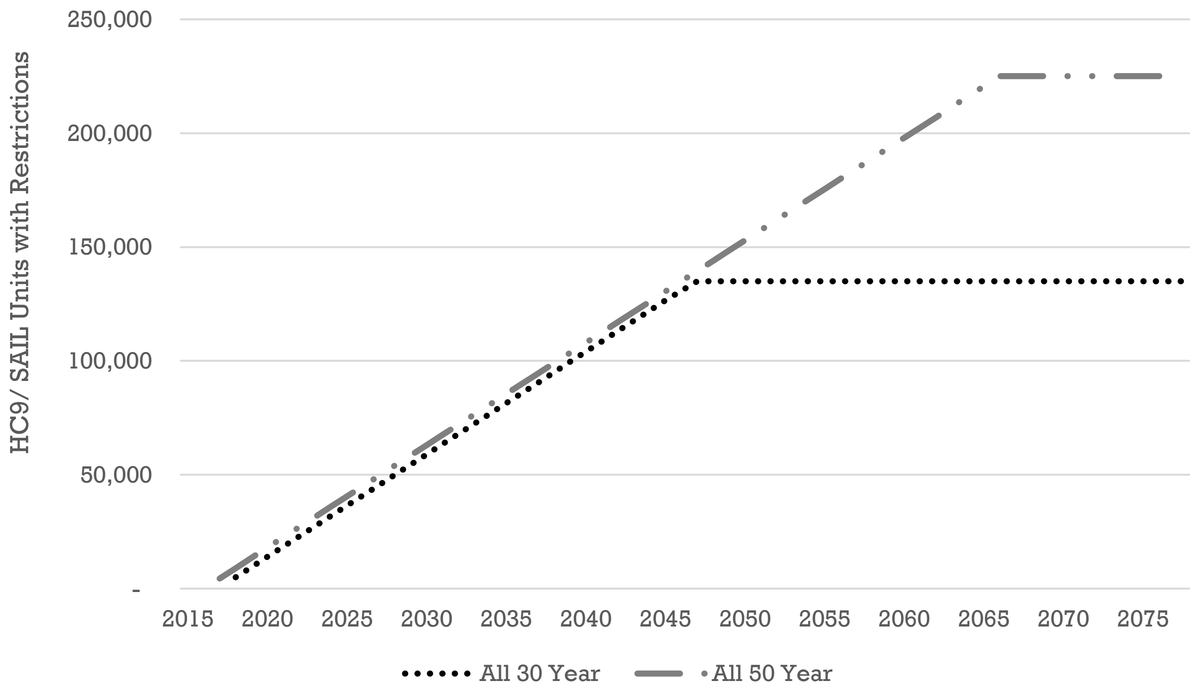
Source: Shimberg Center for Housing Studies, Assisted Housing Inventory

Under actual affordability periods, represented by the bold line in Figure 1, approximately 8,500 HC9/SAIL units from the early 1990s will exit Florida Housing's affordability restrictions in the first half of the 2020s decade.[1] Because of the introduction of 50-year affordability periods, expirations will level off after the mid-2020s. At that point, the current inventory will remain largely stable until a wave of expirations of 50-year affordability restrictions in the 2040s and, in particular, 2050s.[2]

As Figure 1 shows, because Florida Housing imposed 50-year affordability restrictions early in the life of the subsidy programs, the pattern of actual expirations after the initial early losses will closely mirror the hypothetical "All 50 Year" scenario through 2065, the last expiration year for developments funded through 2015. The hypothetical "All 30 Year" scenario, which shifts most expiration dates back 20 years, looks quite different. Instead of a plateau, the expirations would have accelerated throughout the 2030s, and the entire current inventory would have exited affordability restrictions by the end of 2045.

However, the inventory is not static. Between 2000 and 2015, Florida Housing funded an average of 4,500 affordable units per year under the HC9 and SAIL programs. The simplified example in Figure 2 shows how the size of inventory developed *in future years* would change over the long term given 30-year versus 50-year affordability periods. In this scenario, we assume that Florida Housing adds 4,500 units each year to the HC9/SAIL inventory, starting in 2016 and continuing annually over 60 years. In this way, the inventory continues to build until restrictions on the first units start to expire. At that point, new units are replacing expiring units, and the supply remains constant.

Figure 2. Expiration Scenarios for Future Additions to HC9/SAIL Inventory, 2015-2075



As the "All 50 Year" line shows, if new additions to the HC9/SAIL inventory are placed under 50-year restrictions, the stock has time to grow to 225,000 units in 2065 before the first units begin to expire and growth levels off. Under the 30-year scenario, at 4,500 units per year, the stock hits a plateau at 135,000 restricted units in 2045 and continues at that level.

Figures 1 and 2 both show simplified versions of change in the assisted housing inventory. In practice, both processes happen simultaneously, with units entering and exiting the restricted stock; the number of units added to the inventory each year varies based on funding and market conditions; and some units exit the restricted stock for other reasons, such as deterioration and default. Nevertheless, both figures show the approximate scale of the added unit-years in the affordable inventory given the longer 50-year period, and in particular how patterns of affordability would change during the gap between 30 years from now (2045) and 50 years from now (2065) under the two scenarios.

Part II: Impact of Restrictions on Affordable/Available Units

The second question for analysis is whether long-term income and rent restrictions imposed by the HC9/SAIL programs are meaningful. After 30 years of operation, will market rents for these units tend to fall below the 60 percent of AMI limit even if formal restrictions have expired? If so, will the units be available to tenants with incomes below 60 percent of AMI, or will low-income tenants' access to affordable, but now unrestricted units be limited by competition from higher income renters?

To explore this future possibility with a current-time example, we used 2014 Census data to examine rents and incomes in Florida's stock of older multifamily units. Specifically, we analyzed affordability and tenant incomes in 350,569 rental units located statewide in 10+ unit buildings that were at least 35 years old.[3] Units were classified by gross rents as affordable or unaffordable to tenants with incomes at

60 percent of AMI, adjusted by unit size and county location. Similarly, tenants occupying the units were classified as above or below 60 percent of AMI based on income, household size and county location.

The larger, older multifamily developments were chosen as the best approximation of what the HC9/SAIL inventory might look like if it entered the market-rate stock after 30 years of operation. Note, however, that the Census data does not allow separation of market-rate and subsidized units. Therefore, the results below underestimate the potential lack of affordability in the market-rate stock alone.

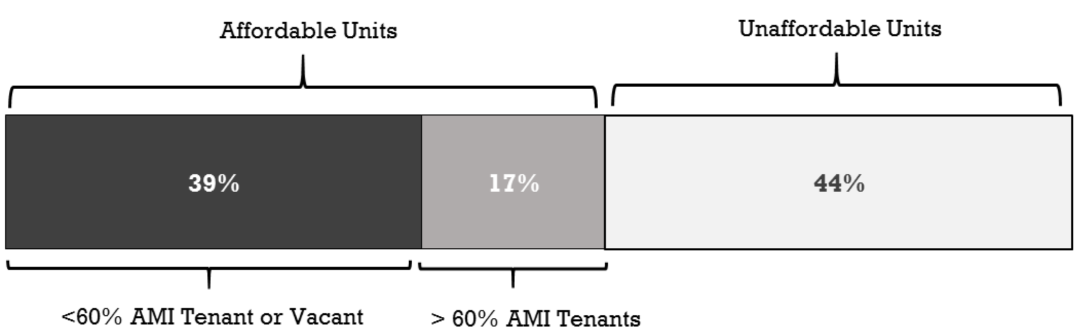
In the first version of the analysis, units are considered "affordable" if gross rent does not exceed 40 percent of income for a 60 percent of AMI household, adjusted for unit size and location. The 40 percent threshold is the same as that used in the 2016 Rental Market Study. Table 1 and Figure 3 summarize the results.

Table 1. Multifamily Units Built 1979 and Earlier by Tenant Income and Affordability (40%), Florida, 2014

		Rent Level (60% AMI, 40% Affordability Threshold)		
		Affordable	**Unaffordable**	**Total**
Tenant Occupancy	**<=60%AMI or Vacant Unit**	137,252	69,362	206,614
	>60%AMI	60,667	83,288	143,955
Total		197,919	152,650	350,569

Source: U.S. Census Bureau, 2014 1-Year American Community Survey, Public Use Microdata Sample (PUMS).

Figure 3. Multifamily Unit Affordability/Availability Summary, 40% Affordability Threshold



Source: U.S. Census Bureau, 2014 1-Year American Community Survey, Public Use Microdata Sample (PUMS).

As Figure 3 shows, just 39 percent of older multifamily units are both affordable and available to households at 60 percent of AMI (either occupied by an income-qualified tenant or vacant). Another 17 percent of units are affordable, but they are occupied by tenants above the 60 percent of AMI income ceiling. The other 44 percent of the units have gross rents above the 60 percent AMI rent ceiling.

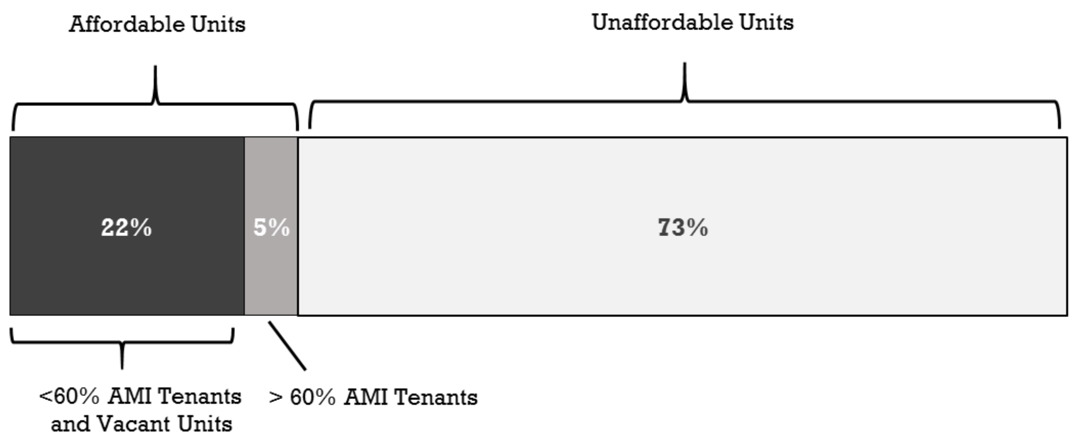
In a second version of the analysis, we assumed that an affordable unit would cost no more than *30 percent* of income for a household at 60 percent of AMI, mirroring the basic method by which LIHTC and SAIL rent limits for most regions are set.[4] Using the 30 percent of income threshold greatly reduces the number of units that are considered affordable, as Table 2 and Figure 4 show.

Table 2. Multifamily Units Built 1979 and Earlier by Tenant Income and Affordability (30%), Florida, 2014

		Rent Level (60% AMI, 30% Affordability Threshold)		
		Affordable	**Unaffordable**	**Total**
Tenant Occupancy	**<=60%AMI or Vacant Unit**	77,829	128,785	206,614
	>60%AMI	17,930	126,025	143,955
Total		95,759	254,810	350,569

Source: U.S. Census Bureau, 2014 1-Year American Community Survey, Public Use Microdata Sample (PUMS).

Figure 3. Multifamily Unit Affordability/Availability Summary, 30% Affordability Threshold



Source: U.S. Census Bureau, 2014 1-Year American Community Survey, Public Use Microdata Sample (PUMS).

With the 30 percent of income threshold, only 22 percent of units are both affordable to 60 percent of AMI tenants and available to them. Twenty-seven percent of units are affordable; of these, a small portion (5 percent of total units) are occupied by households with incomes above 60 percent of AMI and thus are unavailable to low-income renters. The remaining 73 percent of units would not be affordable at the 60 percent of AMI level.[5]

To summarize, under either version of the analysis, most units in the older multifamily developments are not affordable and available to tenants with incomes below 60 percent of AMI. If a 40 percent affordability threshold is used, then almost half of units are unaffordable, and nearly of third of the units that are affordable are occupied by higher income households. If the traditional 30 percent measure is used, then nearly three-quarters of the older multifamily units are unaffordable. This implies that under current market conditions, the 60 percent of AMI income and rent restrictions imposed by the Housing Credit and SAIL programs do provide a level of affordability and access for low-income tenants that would otherwise be unavailable in much of the inventory.

Moreover, this analysis was performed using the highest possible AMI percentage under HC9/SAIL rules. To the extent that developments include set-asides for extremely low-income households or those at

40-50 percent of AMI, even fewer units would be affordable and available to income-qualified households in the absence of rent and income restrictions.

Conclusion

This analysis shows that extended income and rent restrictions can have a substantial effect on future affordability of housing developed under the Housing Credit and SAIL programs. Part I shows the scale of added affordability-years when restrictions are extended from 30 to 50 years. For the current inventory, extended restrictions prevent an escalating loss of affordability during the late 2020s through the early 2040s. For the future inventory, the extensions allow the assisted stock to grow for 20 additional years before leveling off, resulting in a substantially larger baseline affordable inventory over the long term. Part II shows that when rental markets are tight, as under current conditions, even 30 year old multifamily units frequently surpass 60 percent of AMI rent levels. Extended restrictions ensure that units remain affordable and available to their target populations over the long term.

Endnotes

[1] Some of the expiring HC9 developments will continue to offer affordable units due to restrictions from other funders, particularly USDA Rural Development. For a full discussion of expiring affordability in LIHTC developments, see the 2016 Rental Market Study.

[2] Many developments financed with 4% Housing Credits and Multifamily Mortgage Revenue Bonds but without SAIL in the 1990s and 2000s do operate under 30-year affordability restrictions. Restrictions for these developments will continue to expire throughout the late 2020s and 2030s. These developments are not included in this analysis. A small number of public housing developments receiving 9% Housing Credits for preservation are also excluded, as they are not subject to expiring restrictions.

[3] Source: U.S. Census Bureau, 2014 1-Year American Community Survey (ACS). The ACS tracks year built for housing units by decade. To approximate the 30-year-old assisted housing inventory, we chose the closest decade: properties built in 1979 or earlier.

[4] Because calculations were made directly from the Census data, the values for 60 percent of AMI rent and income limits do not equal the 2014 FHFC program income and rent limits exactly. In most cases, the Census values are close approximations. In Miami-Dade County, where program income and rent limits are adjusted upward to account for low area incomes and high housing costs, Census values using the 40 percent threshold more closely approximate program rents.

[5] Until recently, the 60 percent of AMI limit represented a more typical rent level for the older multifamily stock. In 2000, for example, nearly half (45 percent) of older multifamily units had rents affordable at 60 percent of AMI or below (30 percent of income affordability threshold). As the state's rental markets tightened and rents escalated over the past decade and a half, the share of 60 percent AMI-affordable units steadily declined to 34 percent of older units in 2005 and to 30 percent in 2010 before falling to 27 percent in 2014. (Sources: U.S. Census Bureau, 2000 Decennial Census and 2005/2010/2014 1-Year American Community Survey)

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