

Preserving At-Risk Rental Housing

"...the realization as soon as feasible of the goal of a decent home and a suitable living environment for every American family."

National Housing Act of 1949
81st Congress

Blake Chambliss FAIA

Rural Community Assistance Corporation

the best of times ... the worst of times

- ❖ Homeownership rate hit a high of 67.9 percent in 2002
- ❖ Housing continued to prop up the economy in 2002
- ❖ 88 percent of mortgage borrowers had equity of at least 20 percent in their homes

- ❖ The affordability problem has worsened over the past 25 years
- ❖ Three in ten US households have housing affordability problems
- ❖ New multifamily apartments being built are substantially more expensive than the ones being lost
- ❖ A priority must be to preserve the supply the existing supply of lowest-cost housing

State of the Nation's Housing 2003
Joint Center for Housing Studies of Harvard University

Changing strategies for the future

Millennial Housing Commission:

- ❖ Support preservation with a broad system of tools
- ❖ ... authorize preservation entities to acquire and commit to preserve existing affordability

The Brookings Institution:

- ❖ Preserve and expand the supply of good-quality housing units to ensure availability of decent housing

Harvard Joint Center for Housing Studies:

- ❖ Because it is so difficult to build affordable units... preserve -- and improve – existing housing
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How Much is at Risk?

- ❖ Over 500,000 Below Market, HUD assisted apartments will expire in the next five years
 - ❖ Every month, 2,500 federally-assisted and / or insured apartments are removed from the nation's inventory
 - ❖ USDA-RHS has 16,400 multifamily rural rental units, totaling 450,000 units
 - ❖ GAO estimates 25% of owners would repay, leaving 110,000 units at risk of loss
 - ❖ Rising real estate markets increase the potential for loss of affordable rental units
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Office of Rental Housing Preservation (ORHP)

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Worthy of Preservation:

- ❖ **Needed to address Critical Rural Housing Needs**
 - ❖ **Provides Quality Housing**
 - ❖ **Less Expensive than New Housing**
 - ❖ **Loss of Housing may be Permanent**
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Issues

- ❖ **Affordability in Jeopardy**
 - ❖ **High end properties**
 - ❖ **Low end properties**
 - ❖ **Aging of Physical Asset**
 - ❖ **Deteriorating Property**
 - ❖ **Lack of Maintenance**
 - ❖ **Disinterested Ownership**
 - ❖ **Lack of Community Interest / Concern**
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515 Inventory - projects

State	Number of Projects	Number of Units	Average Project Size
Alaska	39	899	23
Arizona	117	3734	32
California	450	13,945	31
Colorado	147	3909	27
Hawaii	21	856	41
Idaho	203	4544	22
Montana	165	2604	16
Nevada	73	2018	28
New Mexico	104	1726	17
Oregon	197	3439	17
Utah	91	2031	22
Washington	301	8904	30
Wyoming	65	1855	29
TOTAL	1973	50,464	24

515 Inventory - incomes

State	Number of Units	Rental Assistance	Average Income
Alaska	899	753	\$10,747
Arizona	3734	2750	\$6,835
California	13,945	13,815	\$8,262
Colorado	3909	2479	\$7,579
Hawaii	856	613	\$7,383
Idaho	4544	4002	\$6,274
Montana	2604	1817	\$7,165
Nevada	2018	1563	\$8,229
New Mexico	1726	2921	\$5,757
Oregon	3439	4116	\$7,796
Utah	2031	1516	\$7,156
Washington	8904	6170	\$7,723
Wyoming	1855	1166	\$6,620
TOTAL	50,464	43,681	\$7,600

ORHP Preservation Strategy

- ❖ **Improve the Effectiveness of the Agency's Prepayment Process**
 - ❖ **Develop Understanding and Support for Agency Preservation Initiatives**
 - ❖ **Protect the Integrity of the Preservation Process**
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Enhanced Process

- ❖ **Collaborative**
 - ❖ **Community Based**
 - ❖ **Nonprofit / PHA Focussed**
 - ❖ **Assertively Marketed**
 - ❖ **Results Oriented**
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Preservation of RD 515 Aging and At-Risk Properties

	Identify Properties	Negotiations	Commitment	Const/Rehab	Operation
Owner	explore transfer options educate owners decision to sell	select transfer option equity tax consequences	prepare for transfer	transfer files & documents	
USDA RD	identify properties publish property list publish rfq select npo	appraisal reamortize rehab funds agree to terms	mortgage re-amortize rehab Close	Transfer property doc approval inspection dispersal of funds	close permanent loan servicing and monitoring
	explore and identify new ownership	Site Control	commit financing	transfer property/rehab	operation
Nonprofit Org	learn program bd, staff training board support community support submit qual. devel team	due diligence financial analysis tenant survey physical needs market study environmental	program plan resident comfort marketing financing applications mgmt plan	take ownership management plan temp relocation prepare docs bid rehab mgmt	asset mgmt marketing tenant support close monitoring, reports operation
Financing	priority for preservation state - home/cdbg state hfa educate lenders fhb foundations lenders	private lenders home/cdbg lihtc challenge grant predevelopment funds	secure const/perm conventional home/cdbg lihtc ahp	const loan dispersal of funds inspection	close permanent financing loan servicing
Other	RCAC - facilitator community education bldg dept	tech assistance seek community support rehab review	tech assistance community resources approvals	tech assistance inspections	cert of completion

Tasks of the Principals: USDA-RHS

- ❖ **Publicize properties to npo / pha**
 - ❖ **Educate Owners about Options**
 - ❖ **Provide Priority Commitment to npo / pha**
 - ❖ **Facilitate financing**
 - ❖ **Transfer Loan Balance**
 - ❖ **Re-amortize Existing Loan**
 - ❖ **Provide Rehab Financing**
 - ❖ **Seek Priority Financing from Others**
 - ❖ **Extend / add RA**
 - ❖ **Predevelopment Funding**
 - ❖ **Help Educate Community**
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Tasks of the Principals: Existing Owner

- ❖ **Consider Sale/Transfer to npo/pha**
 - ❖ **Learn about Transfer Options**
 - ❖ **Work to develop win-win Transfer Strategy**
 - ❖ **Tax/Financial Management Counsel**
 - ❖ **Charitable Contribution**
 - ❖ **PHA “Condemnation”**
 - ❖ **Review Interests of Partners, Syndicators**
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Tasks of the Principals: Nonprofit Organization

- ❖ **Be Wise and Patient**
 - ❖ **Educate/Train Board and Staff**
 - ❖ **Create Ownership Structure**
 - ❖ **Assemble Experienced Development Team**
 - ❖ **Perform Due-Diligence**
 - ❖ **property**
 - ❖ **management**
 - ❖ **finances**
 - ❖ **Develop Community Support**
 - ❖ **Act as Tenant Advocate in Transition**
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Tasks of the Principals: Financing

- ❖ **State Housing and Finance Priority**
 - ❖ **Predevelopment Funding**
 - ❖ **Fed and State Administered Funds**
 - ❖ **LIHTCs**
 - ❖ **Private Lenders, Fannie Mae**
 - ❖ **Foundations and Charitable Trusts**
 - ❖ **Federal Home Loan Bank**
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Tasks of the Principals: Local Government

- ❖ **Political Support to Preserve Affordability**
 - ❖ **Accelerated Processing**
 - ❖ **Local Funding Support**
 - ❖ **Fee Waivers, In-Kind Services**
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Tasks of the Principals: Intermediaries

- ❖ **Technical Assistance**
 - ❖ **Organizational Training and Support**
 - ❖ **Project Due diligence**
 - ❖ **Financial Analysis**
 - ❖ **Financing, Identification of Sources**
 - ❖ **Surveys and Program Analysis**
 - ❖ **Financial Alternatives**
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Case Study -- College Overlook Apartments

1701 Lincoln Avenue

La Junta, CO

24 units – Family housing

20 2-Bedroom units

1 1-Bedroom unit

1 2-bedroom manager's unit

Three story brick and siding faced apartment
built in 1989 by out-of-state for-profit developer

Case Study -- College Overlook Apartments

La Junta, CO

Population 7500

Farming and ranching community

\$38,000 median income

Tri-County Housing

Suzanne Buckner, Executive Director

501 (c) 3, CHDO

Case Study -- College Overlook Apartments

Owner notified RHS office of intent to sell
Tri-County began negotiating in June 2000

Condition:

- ❖ Asbestos in floors and pipes
 - ❖ Substantial deferred maintenance
 - ❖ Not handicapped accessible
 - ❖ Laundry not functioning
 - ❖ 23 units with rental assistance
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Case Study -- College Overlook Apartments

Acquired March 2001

Completed Repairs by 2002:

- ❖ New carpet
 - ❖ Replaced cabinets (Prison donated)
 - ❖ HVAC systems
 - ❖ New office and laundry
 - ❖ Handicapped accessibility
 - ❖ Siding, sidewalks, paving, landscaping
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Case Study -- College Overlook Apartments

Project Costs:

Acquisition	\$390,000
Rehabilitation	<u>\$605,000</u>
Total	\$1,005,000

Project Sources:

USDA-RHS (exist. mort.)	\$272,000
purchase/rehab	\$150,000
CO Division of Housing	\$299,000
CHFA	\$125,000
Federal Home Loan Bank	\$99,000
Tri County Housing	<u>\$60,000</u>
Total	\$1,005,000

Lessons

- ❖ Perseverance and patience of Tri County
 - ❖ Willing to take risk
 - ❖ Strong community relationships – builds trust/support
 - ❖ Creative in seeking funding and other resources
 - ❖ Working with all funding sources together
 - ❖ Identified it as a community transaction
 - ❖ Ask for what they need, not what they want
 - ❖ Celebrate!! Share the credit
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