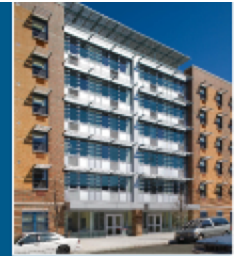


# Preserving Rental Housing in Rural Illinois

Housing Matters Conference  
Housing Action Illinois.  
October 24, 2019



# Welcome & Agenda

- About Enterprise Community Partners
- About Your Presenter
  
- Why Focus On Rural Rental Housing?
- Why Focus on Preservation?
  
- Background on Rural Rental Housing 515 Program
- Where We Are Today
- Future Outlook
- Audience Input - Questions

# Enterprise Community Partners, Inc.

- Created in 1982 by James & Patty Rouse
- National Not for Profit & Intermediary
- Focus: Affordable Housing and Community Development
  - Syndication of LIHTC: Enterprise Housing Credit Investments, LLC
  - Debt Platform: Bellwether-Enterprise (includes 538 Guaranteed Lending)
  - CDFI: Enterprise Community Loan Fund (New Markets, Capital Magnet, OZ)
  - Offices in 11 Metro Markets (includes Chicago, IL)
  - National Initiatives: Green Communities, Health & Housing, Rose Fellowship, Rural & Native American Initiative
  - Policy Office: Wash DC & 7 Metro Markets
  - [www.enterprisecommunity.org](http://www.enterprisecommunity.org)



# Enterprise Community Partners, Inc.

- Rural & Native American Initiative
  - 5 person staff
  - Training & Technical Assistance
  - Capacity Building for CDC's, CHDO's, Tribal NP's
- Buyer-Seller Conference in Texas October, 2019 Partnered with Federal Reserve Bank of Dallas, Fannie Mae, Texas State Affordable Housing Corporation & RD-USDA
- Technical Assistance Contract with USDA on Maturing Mortgages
- Capacity Building Grant Program – Section 4

# Rural Rental Housing Landscape in Illinois

- Rural Rental Market Nationwide & Illinois
  - Rents Are Rising but Still Low
  - Incomes Typically Lower Than Urban/Suburban
  - Inventory Consists of Mobile Homes, SFH, Few MFH Complexes
  - Production/Construction Not Happening
  - LIHTC New Construction Not Reaching Many Rural Communities (size, scale, incentives)
    - Incomes
    - Cost of Construction
    - Market
    - Growth/Infrastructure/Amenities

# Why Rural, Why Preservation?

- LIHTC Drives Affordable Housing Production
- Rural Communities
  - Few MFH Complexes > 10 Units Unless H.A. or RD-USDA
  - RD-USDA Complexes Have Some Scale
  - Avoid NIMBY Already Sited
  - Keeping Low Income Especially Seniors & People With Disabilities Housed
  - Keeping a Valuable Subsidy In State

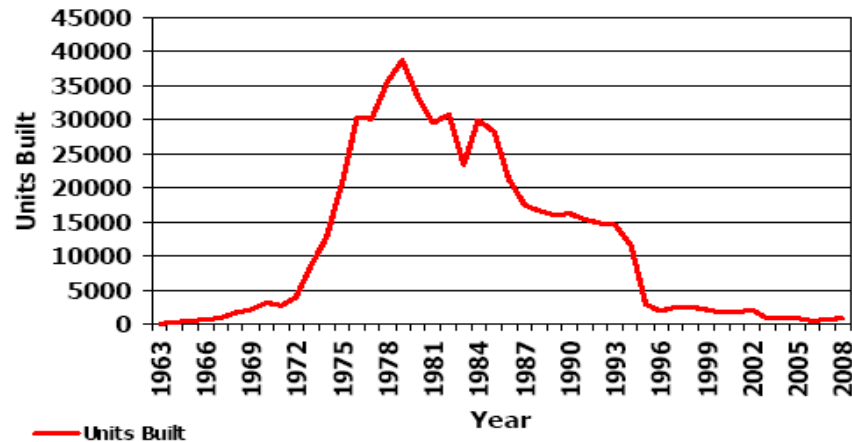
# Defining The Program – What Am I Getting Into?

- Section 515 of Housing Act of 1949 (42 U.S.C. 1485)
  - Multifamily Rural Rental Housing
  - Serves Very Low and Low Income Families & Elderly/Disabled
  - 13,766 complexes nationally with over 400,000 units
  - Program & Units are “seasoned”, i.e. old, majority need rehab
  - Peak Funding Years 1975-1985 (over 1,000 loans each year)
- # as of September 30-2018 RD-USDA Statistics Represent 515, 514/516 combined

# Defining The Program – What Am I Getting Into?



## Section 515 Rural Rental Housing Program, FY 1963 - FY 2008



Source: HAC Tabulations of USDA-Rural Development Data



# Defining The Program – What Am I Getting Into?

- More units created in 1979 (38,650) than all units constructed between 1994-2019.
- Focus from New Construction to Preservation
- What Changed?
  - 1976-1980 President Carter declared FmHA to be lead credit agency for rural development (increased funding, increased projects & units)
  - 1980-1986 Less funding for rural direct programs and urban housing programs
  - 1986 Tax Reform Act
    - Created LIHTC, further reduced federally subsidized \$\$ for new construction
    - LIHTC is a Treasury-IRS program, continues strong 31 years later
    - Public-private partnerships, main affordable housing new unit/rehab driver
    - Flexibility of program, states decide use of tax credit priorities, new construction, acquisition/rehab, Historic Rehabs, Rental Assistance Demonstration (RAD), geographic preferences, set asides including rural
  - 2017 Tax Reform LIHTC Survives

# Defining The Program – What Am I Getting Into?

- **RRH 515**
  - One Source/Federal \$\$
  - Rental Assistance
  - Target Small Communities
  - Senior or General Occupancy
  - Scale Not An Issue
- **LIHTC**
  - Leverage Private \$\$, Multiple Sources of \$\$, Lasagna Effect
  - Treasury-IRS affords discipline to process, hard penalties
  - Ability to earn development fee
  - Flexibility of Program
  - Scale – rural communities may not be served as well as 515

# Defining The Program – What Am I Getting Into?

- Comprehensive Property Assessment Report – 2004
- Findings:
  - Tenant base is 58% elderly, H/C or both
  - Average property age is 23 years
  - Average annual adjusted income was \$9,075
  - Average outstanding loan balance \$25,722/unit
  - No immediate life/safety issues BUT no property has reserves or cash flow to perform repairs and adequate maintenance
  - Owners may lack motivation to maintain, upgrade or transfer properties due to tax consequences, lack of equity in property, and inability to receive return on investment.

# Defining The Program – What Am I Getting Into?

- Study Continued....
  - Concluded that public interest is best served by revitalizing most of 515 housing as affordable and long term.
  - Concluded that prepayment would unlikely be an attractive alternative vs. continuing in the program.
  - Proposed the Multifamily Preservation & Revitalization Program
  - Led to the MPR program over past 15 years.
  - MPR allows debt deferral, grants, soft seconds all to allow rehab & preservation

# MFH PROGRAM NATIONWIDE

Statistics as of June 30, 2018

	2015	2018	Difference
Projects	14,601	13,826	- 775
Direct 515	13,994	13,282	- 712
Farm Labor Housing	607	544	- 63
Number of Units	436,787	422,960	- 13,827
Direct 515	419,953	405,994	- 13,959
Farm Labor Housing	16,834	16,966	+ 132
Number of RA Units	284,498	281,255	- 3,243
Direct 515 - RA	272,985 / 65%	269,604 / 66%	- 3,361 / +1%
Farm Labor Housing - RA	11,513 / 68%	11,651 / 68%	+ 138 / even

# MFH PROGRAM IN Illinois

	9/2016	9/2018	Difference
Projects	542	525	-17
Direct 515	538	521	- 17
Farm Labor Housing	4	4	0
Number of Units	10,107	9,853	-254
Ave Income	11,580	11,907	+327
% RA Units	74%	76%	+2%
Avg RA Income	9,769	10,090	+321
% Elderly/H-C	62%	64%	+2%

## Defining The Program – What Am I Getting Into?

- All Section 515 Units 404,798
  - All Section 515 Units with R/A 259,120 (67.4%)
  - Elderly/Disabled 241,190 units (63%)
  - Non Elderly 142,555 Units (37%)
  - Ave household income \$12,588
  - Ave household income of Rental Assistance households \$10, 504
  - Female head of h/h represents majority of households 71% +
- 
- As of 9/2018 Source: USDA-RD Multi-Family Statistics

# Defining The Program – What Am I Getting Into?

- Funding

	FY19	FY16
■ RRH 515 Direct	\$40M	\$28.4M
■ Rental Assistance	\$1,331.4	\$1.39B
■ MPR	\$24.5	\$22M
■ 542 Rural Vouchers	\$27	\$15M



# Maturing Mortgages

- GAO Report of May 2018
  - Maturing Mortgages Will Accelerate in 2020 & Beyond
  - Statutory Agreement, Debt Paid Off, Rental Assistance Goes Away
  - For Illinois, 6,567 Units Received Rental Assistance
  - Total Dollars Into State for R/A \$30,596,885/yr.
  - Without R/A, Majority of VL, Low Income Will Need to Move
  - Where Do You Rent When Income Is \$10,000/year?

## Defining The Program – What Am I Getting Into?

- Seller Motivation
  - Retirement - Estate Planning – Individuals
  - Death of GP, family or survivors do not want property
  - Return to Owner not assured or too low.
  - Tax benefits used up, depreciation is gone, negative accounts
  - Exit strategy

## Defining The Program? – What Am I Getting Into?

- Buyer Motivation
  - Meet Affordable Housing Mission for Area
  - Acquire & Rehab Existing Property w/o NIMBY
  - Earn a Development fee (with LIHTC)
  - Earn Management Fees to Complement Existing Org Income
  - Provide Long Term Stability to Community Based Housing

## Defining The Program – What Am I Getting Into?

- Seller Want Out – Buyer Wants In
- Buyer
  - Buying Real Estate and Depreciable Building(s)
  - Buying a Program, a Process (i.e. compliance, reporting, audits, inspections, budgets and rental assistance)
  - Buying a relationship (with RD-USDA, Community, Tenants)
  - Buying Reserves, Deferred Maintenance (potential short/long term issues)

## Defining The Program – What Am I Getting Into?

- Seller Concerns
  - Ability to Exit Without Tax Issues
  - Ability of Buyer to Follow Through with Purchase
  - Timing – How Long Will This Process Take?

# Preservation Strategies

- Multi-family Preservation & Revitalization Program (MPR)
  - Debt payment deferral for up to 20 years
  - Grants to NP applicants only, limited to correcting health and safety violations, accessibility issues, fair housing mandates
  - Zero percent loans with monthly payments
  - Soft Second Loan with 1% interest rate with principal/interest deferred to a balloon payment
  - Transfers/subordinations/consolidations
  
- **Pros**
  - Multi-faceted tool
  - Controlled by key stakeholder
  - Commits to long term affordability
  - Retains eligibility for 521 R/A
  
- **Cons**
  - Limited capital available
  - Slow processing times

# Preservation Strategies

- Low Income Housing Tax Credits
  - Two options: competitive 9% credits and noncompetitive 4% credits combined with tax-exempt bonds.
  - **Pros**
    - Commits property to long term affordability
    - Injects new equity capital to address maintenance needs
    - Regularly used tool
    - Significant levels of stable funding
  - **Cons**
    - Limited funds are available, very competitive (9% credits)
    - Needs to be deployed at scale adding complexity (4% credits)
    - If transaction includes pay-off of 515 debt, no longer eligible for R/A

# Preservation Strategies

- **Multi-stakeholder Collaboration & Awareness**
  - Property owners, potential buyers, USDA, residents, potential funders, local and state government entities and other stakeholders come together to identify properties set to mature out of the program and craft property specific preservations strategies.
  - State-level efforts underway in Texas, Minnesota, Indiana, Colorado and Montana.
  - National effort to coordinate information exchange regarding key policy and practice issues being led by the Housing Assistance Council through the Rural Preservation Working Group.



## Advocacy & Policy

- Affordable Housing Credit Improvement Act (AHCIA)
  - S.1703/H.R. 3077
    - Expand the housing credit by 50% phased in over 5 years
    - Fix the credit rate for bond transactions at 4%
    - Provide a basis boost for properties in rural communities
    - Standardize rural income limits
    - Provide a basis boost for properties serving extremely low-income residents
    - Support the preservation of rural housing

# H.R. 3620

## **H.R. 3620, Strategy and Investment in Rural Housing Preservation Act of 2019**

The bill would authorize the appropriation of \$1 billion over the 2020-2024 period for assistance to owners of housing for farm workers and rural renters

Authorize the appropriation of \$50 million in 2020 for loan processing technology

Makes Multifamily Preservation & Revitalization (MPR) a permanent program

Expand eligibility for rental assistance

Establish a committee to advise the Department of Agriculture on preserving farm labor and rental housing in rural areas

Status: Passed the House by voice vote, now being reviewed in Senate

# Test Your Rural Knowledge

Trivia Question: Name The Top Five States in # of 515 Projects

Minnesota

Texas

Missouri

Illinois

Michigan

Mississippi

Indiana

North Carolina

Alabama

Kentucky

# Top Five

Trivia Question: Name The Top Five States in # of 515 Projects

1.	Texas	630
2.	Missouri	603
3.	North Carolina	589
4.	Illinois	521
5.	Michigan	506
6.	Mississippi	475
7.	Minnesota	473
8.	Indiana	458
9.	Alabama	440
10.	Kentucky	427

# Let's Preserve Rural Housing in Illinois

Thank You For Being Here Today

Listen, Question, Participate

We Will All Benefit if You Do!

Russ Kaney

[rkaney@enterprisecommunity.com](mailto:rkaney@enterprisecommunity.com)



# Questions?

Any questions?

Comments?

Opinions?

Advice?

Thanks again!



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