PRESERVE HOUSING

Preserving affordability across Kentucky

Kentucky Preservation Summit

October 28, 2014

Beginning a statewide conversation about preserving at-risk affordable rental housing.

The Preservation Challenge

Long-Term Subsidies and Restrictions are Expiring

Over the past 30+ years, millions of dollars in tax credits, government-backed loans, development gap subsidies, and rent subsidies were awarded to, for-profit and nonprofit, developers to build and manage thousands of affordable rental units across Kentucky. In exchange, owners committed to keep apartments affordable for 15 years or more. These obligations are expiring, and Kentucky Housing Corporation (KHC) anticipates a surge in expirations in coming years.

Aging Properties Need Repair and Renovation

Many owners lack financial incentives or means to invest in costly repairs or rehabilitation. Motivated owners may be unable to raise capital if their properties are in a weak or unattractive market.

Increases in Operating Costs are Outpacing Rents

Property owners report difficulty keeping up with rising property taxes, energy costs, and insurance while maintaining affordable rents and remaining compliant with funding restrictions.[i]

Households are Increasingly Housing Cost Burdened

Housing cost burden continues to be the greatest housing problem for Kentuckians. Nearly one-quarter of all households—187,925 renter households—spend more than 30 percent of their income on housing, with many spending over half of their income on housing. Over the past decade, Kentucky's real median household income fell 10 percent, while median rent grew 27 percent. The gap between affordable rent and fair market rent across the state is worse for lower-income households:[ii]

- Average Renter Wage Earner: $88/month gap
- Extremely Low income: $237/month gap
- Minimum Wage Earner: $283/month gap
- SSI Recipient: $444/month gap[iii]

"Every at-risk unit translates to an at-risk family."

-Kathryn Peters

Executive Director, KHC

It's Complicated

Supporting the aim of preserving affordable housing is simple, but making it happen is a complex process. Ownership structure may change, tenants may have to be temporarily relocated, and the restrictions of an array of funding sources must be navigated: Project-Based Section 8, Rural Development Funding, Low Income Housing Tax Credits (LIHTC), Federally-Backed Loans, HOME funds, Federal Home Loan Bank dollars, and others.

Preservation: The Challenge in Numbers

49,380*

Estimated Units At Risk Now or by 2020

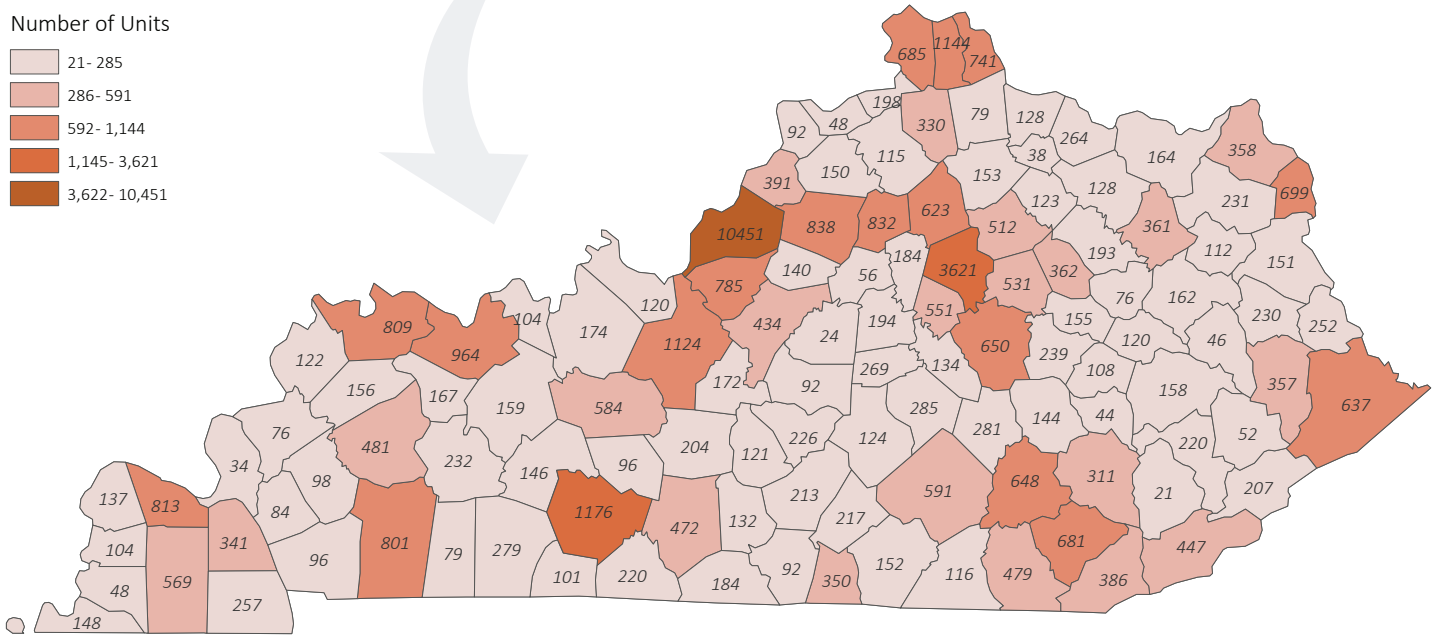
24,410	13,530	11,440
Project-Based Section 8	*LIHTC, HOME, 202, etc.*	*USDA Rural Development*

Key Risk Factors

1. No other funds in project except FHA/RiskShare
2. REAC score <70
3. Identified as troubled per KHC
4. LIHTC expiring by 2020

1. Subsidy expiring by 2020
2. Reaching year 15 of tax credit compliance period
3. Anticipated changes in ownership structure

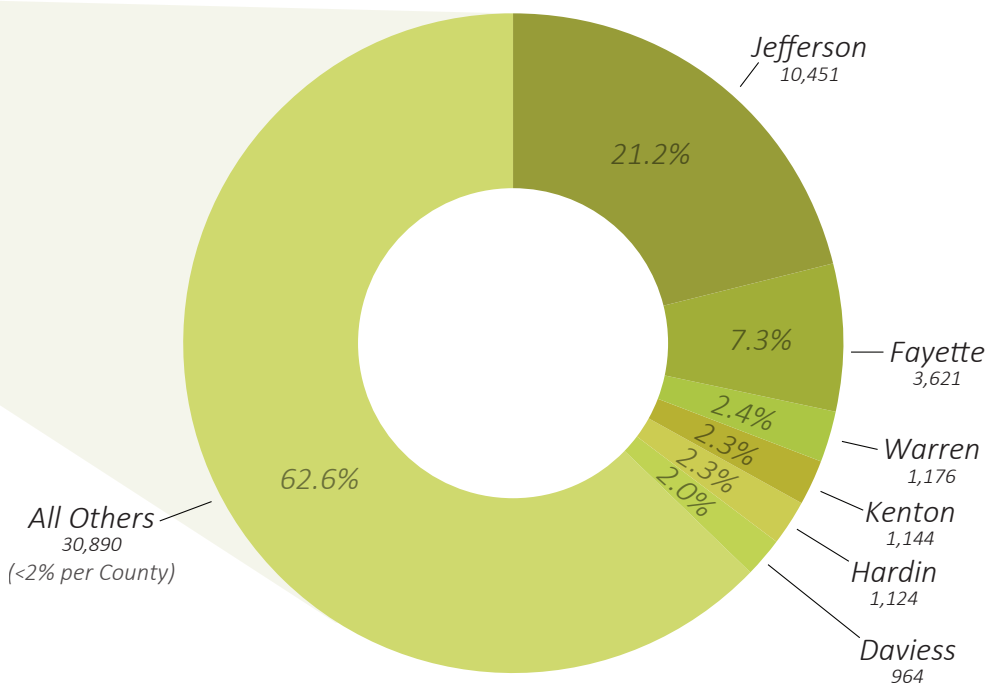
1. Property age 19+ years
2. No transfer/rehab underway
3. No RD Rental Assistance



***Sources:** National Housing Preservation Database (www.preservationdatabase.org)
Kentucky Housing Corporation Project Files
USDA Rural Development Reports for KY Properties

Public Housing Authority (PHA) Owned Units Not Included — Kentucky contains 22,732 PHA units.

Units At-Risk Now or By 2020



Rural vs. Urban:

We have the greatest concentration of units in Louisville, but most at-risk units are scattered throughout the state. Our strategy must address both.

What is meant by *at-risk*?

At-risk means different things to many organizations, but is usually defined as one or more of the following:

- Chronic high vacancy.
- Poor physical condition.
- Risk of losing rent subsidy.
- Expiring subsidies.
- Exiting owners/partners.
- Rents cannot support operations and debt service.
- Cannibalized by newer projects.

Owner/Developer Feedback

On September 10, 2014, KHC convened a focus group with owners and developers of affordable properties in Kentucky. Here are the takeaways:

Many are currently having or foresee problems with their maturing portfolios. Some "chased points" to get tax credits and have found those commitments hard to uphold. Declining median income along with increasing utility allowances and operating costs means many properties now charge less than their original contract rent. Lastly, property tax exemptions on LIHTC projects are difficult to secure and sustain, further threatening financial feasibility.

Tax Exempt Bonds + 4% Credits are not a sufficient source for portfolio deals that pull together scattered small, often rural projects into one application. More subsidies or soft debt is needed to make larger preservation deals work.

KHC should consider:

- Committing more subsidy dollars (HOME/AHTF) to preservation.
- Increased flexibility for struggling and/or expiring projects.
- Creating a streamlined application process for preservation projects.

Rural Development is a much-needed partner for preservation, but their processes and requirements are not well-aligned with other funding sources.

Owners/Developers may need to organize. Participants identified a need to advocate for a state affordable housing tax credit and property tax exemptions for affordable properties.

Not just a Kentucky Challenge

Preservation is a concern across the country, high on the agenda for many state housing finance authorities. The U.S. Department of Housing and Urban Development (HUD) created the Office of Recapitalization, and national organizations are focusing on the challenge, including the MacArthur Foundation, Harvard's Joint Center for Housing Studies, Enterprise Community Partners, and the National Rural Housing Coalition.

What we're hearing from other funders...

- Current go-to resources are dwarfed by the volume of preservation candidates.
- Focus on properties with rental assistance—once they are lost, those subsidies won't return.
- Shift from funding individual properties to larger portfolios to achieve scale and make recapitalization work.
- Steer feasible projects to tax-exempt bond and 4% credit financing. This necessitates at least 50+ units.
- Bonds and tax credits work for moderate rehab and recapitalization but is often insufficient for complete rehab.
- Nonprofits are often the next-generation owners of preservation properties. Some organizations are acquiring older properties to grow their portfolios.

How KHC Currently Supports Preservation

- Preservation is one of KHC's over-arching strategies, with goals to analyze the inventory of at-risk units, build partnerships, and develop a preservation plan to direct our investments and development of new finance products.
- KHC Qualified Allocation Plan (QAP) for LIHTC commits significant resources to preservation.
- KHC recently released a Notice of Funding Availability seeking preservation applications that combine multiple projects into a portfolio application. Funds available included:
  - 4% Housing Credit Equity
  - Tax Exempt Bonds
  - $6 million KHC Equity Bridge Loan
  - $2 million Rural Preservation Loan Fund
  - $1.5 million HOME as gap subsidy
  - $600,000 Affordable Housing Trust Fund as gap subsidy
- KHC allocated an additional $12 million for construction/bridge loans supporting 2015 LIHTC projects.

KHC Kentucky Housing Corporation

Investing in quality housing solutions.

Where Do We Go Next?

- Streamline processes for preservation.
- Clarify and align investment strategies.
- Coordinate asset management.
- Address troubled properties together.
- Hold preservation sessions at the **2015 Kentucky Affordable Housing Conference** in Lexington on Wednesday and Thursday, April 8-9, 2015.

For today's full presentation, visit www.kyhousing.org

Register for eGrams to receive future information about Preserve Housing.

[i] MacArthur Foundation, *Window of Opportunity: Preserving Affordable Rental Housing*, www.macfound.org.
[ii] Federal Reserve Economic Data (FRED), 2014.
[iii] National Low Income Housing Coalition, *Out of Reach*, 2014.

EQUAL HOUSING OPPORTUNITY