

Working Session: Resources for Growing Rural Markets

1:15 p.m.-2:45 p.m.

Room 305, Level 3

Panelists and participants will think first about the scale of what is needed to meet rental housing needs in America's rural areas, with a focus on preserving existing affordable units, and then the hallmarks of legislation and policy to support the vision.

Moderator: Moises Loza, Housing Assistance Council

Panelists: Gideon Anders, National Housing Law Project
Janaka Casper, Community Housing Partners Corp
Tom Hannah, USDA Rural Development Housing and
Community Facilities Programs
Bob Rapoza, Rapoza Associates
Colleen Fisher, Council for Affordable and Rural Housing
(CARH)

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Rural Housing
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Authored by: Leslie Strauss
Housing Assistance Council

The Challenge and Opportunity

Rural Renters

About one quarter of households in the rural United States rent their homes, a total of more than 6.3 million housing units. Rural renters experience low incomes, housing problems, and years of declining federal support. There are not enough decent, affordable rural rental units for all who need them, and many existing subsidized units are threatened by physical deterioration or by owners' desires to prepay their mortgages.

Rural renters generally have much lower incomes than rural homeowners; rural renters' median household income is approximately \$21,000 compared to \$43,000 for rural owners. Poverty levels among rural renters are also much higher. Over 20 percent of rural renters have incomes below the poverty level compared to less than 10 percent of rural owners.

As is true in the nation as a whole, in rural areas a greater percentage of minorities than whites are renters. Approximately one-fifth of rural white-headed households rent their homes compared to 39 percent of rural minority-headed households.

Not surprisingly given their low incomes, approximately 36 percent of rural renter households pay more than 30 percent of their monthly incomes for housing costs and are considered cost-burdened. In addition, about 11 percent of rural renters live in either moderately or severely inadequate housing, compared to 5 percent of rural owners. For rural minority renters, the substandard housing rate increases to 16 percent. Additionally, over half of all rural households with multiple housing problems (e.g., quality, crowding or affordability) are renters.

High proportions of rural renters occupy single-family homes or small buildings with one-four units, and are vulnerable if owners default.

Rural Housing Programs

While HUD resources add value in rural communities, the only public entity to focus exclusively on housing in rural America is USDA Rural Development (RD) Housing and Community Facilities. The key RD programs in support of affordable rental housing are Sections 515 Rural Rental Housing, Section 521 Rental Assistance (RA), and Section 538 Rural Rental Housing Guaranteed Loan Program. In addition, USDA's Section 514/516 program makes loans to producers of rental housing for farmworkers.

Section 515, which makes loans directly to nonprofit, public, or for-profit entities developing rural rentals, has financed more than 550,000 decent, safe, sanitary, and affordable homes, which are often the only such rental housing in rural communities. Residents' incomes average just under \$11,000 per year, and more than half of resident households are headed by elderly people or people with disabilities. Almost two thirds (63 percent) of Section 515 households receive USDA Rental Assistance, and some of the rest rely on HUD Section 8 or state rental assistance.

In broad brush strokes, the 515 national portfolio grew with support from the Johnson administration in the 1960s but received neither adequate monitoring nor capitalization for improvements in the last two decades of the 20th century, an alarming trend confirmed by a Comprehensive Property Assessment (CPA) in 2004. The CPA found that in USDA's Section 515 portfolio:

- few properties have immediate life and safety issues but all face significant maintenance costs within the next 20 years;
- 92 percent of properties need funds for capital improvements; and
- 62 percent of properties are eligible for mortgage prepayments, removing them from the Section 515 program. Some developments remain affordable after prepayment, but others do not.

Since the CPA, RD has focused its attention on addressing the physical issues of properties in its portfolio. For several years, including FY 2009, the Administration's budget has recommended no funding for new Section 515 developments. The budgets recommend relying on the Section 538 program, through which USDA guarantees loans made by private lenders. Since Section 538 (private) loans carry higher interest rates than Section 515 (government) loans, the rents in those developments are higher and the lowest income rural renters cannot afford them. Congress has continued to fund Section 515 new construction, though at ever lower amounts.

Even in the Section 515 and 514/516 programs, many tenants need assistance to pay their rents. Yet funding for the Section 521 RA program has been limited as well. In FY 2009, RA needs almost \$1 billion just to renew existing contracts, so the Administration did not propose funding any new contracts, and in its continuing resolution to fund the first part of FY 2009 Congress agreed.

Efforts to improve rental housing conditions face extra challenges in rural places. There are few economies of scale, for example, since a small town may need only a few rentals. Many rural areas lack experienced developers of affordable rental housing. On Native American lands, any development is complicated by the trust status of the land. Infrastructure such as water and sewer lines may be limited, and RD-funded multifamily properties can be built only where such infrastructure exists.

Guiding Principles

The often-quoted 1949 Housing Act promise of “a decent home and a suitable living environment for every American family” remains a vision in the distance. New policy recommendations for rural rental housing should be set within a values-based national policy framework that revitalizes a national commitment to safe, decent, and affordable shelter for all residents.

Such a framework might include the following principles.

- Rental housing should be recognized as a viable, desirable living option in its own right, not solely, or even primarily, as a step towards homeownership.
- The public sector should be recognized as an indispensable force in providing decent, affordable homes for the lowest income people, because the private sector cannot or will not serve that population.
- Tenants in subsidized rental units should have the right to uniform rental housing quality standards.
- Public investments in rural rental housing should be designed to perform as community assets. This means, for example, they should be constructed of quality building materials, use green technologies, and incorporate smart growth ideas.
- Differences between rural and urban rental housing situations should be recognized. For example, transit-oriented development usually is not possible in rural areas.
- Public commitment to the development of new rental units should be linked to a parallel or integrated commitment for rental assistance for tenants who need it.

- Preservation should be understood to be the correct choice in some situations, not all. An analysis of avoided costs can be used to determine, on a market to market basis, the appropriate balance of public investment between preservation of existing units and development of new rentals.
- The importance of unsubsidized affordable rural rental properties should be recognized, and owners of those properties in markets where the units are needed should be incentivized to keep their properties affordable.

The Strategic Value

Well before the national foreclosure tsunami and the resulting economic decline, rural places were facing shortages of decent, affordable rental housing. The current crisis can only add to the pressure on available rural rental housing. A re-commitment to safe, decent, and affordable rental housing across rural America realigns fundamental American values with investment priorities. Improving our nation's rural rental housing will not only preserve investments already made in our housing infrastructure, but also help re-stabilize the economy and avoid higher costs in the future.

USDA alone has invested well over \$15 billion in Section 515 properties since the program's inception in 1964. Substantial additional funds have come from HUD, tax credit investors, state and local agencies, and numerous other sources. Those investments are lost when properties deteriorate from lack of maintenance because funds are not available to cover the costs, and when properties leave the affordable housing inventory.

On the other hand, preserving existing rural rental properties makes good use of the investments already made. In most cases, upgrades will cost less than new construction. (In some situations it will be more cost-effective to replace a building than to renovate it.) Preservation, therefore, usually provides the biggest bang for the taxpayer buck.

Preservation does, of course, require funds, as does new construction. In the current economy, as private sector spending is dropping and jobs are disappearing, public sector improvements to rural rental housing can sustain existing building trade jobs or create new ones, with positive secondary impacts throughout rural communities.

At the same time, well planned upgrades to rental living environments have ripple benefits in a variety of avoided costs, including energy and health. For example, spending on insulated windows and Energy Star appliances can save significant utility

costs in the future. And poor quality housing has been linked with a wide variety of health impacts from asthma to substance abuse.

As if these benefits were not enough, investments in the preservation and new development of rural rental housing today will avoid higher costs tomorrow. Crisis interventions are inevitably more costly than planned investments over time.

Recommendations

Broad Housing Policy Framework

- **Rural policy advocates and national housing advocates should work together** in a broad-based push for a refreshed national housing policy, endorsed and supported by the executive branch.
- **The new values-based policy framework should be tied to overarching goals** that reverse the steady decline in federal support for rural rental housing and lead to a time when annual production levels of new and refurbished units equal projected need. Specific rural production goals should be included.
- **Core public agencies responsible for implementing assisted housing policy should receive appropriations based upon performance.** Their performance goals should be outcome-based and tied to specific national goals that are specific, measurable, attainable, realistic and timely (SMART).

New Production

- **Construction of new rental housing and preservation of existing properties should be framed as an effective economic stimulus,** and that principle should be used in the determination of annual goals and prioritized locations.
- **Nonprofit and for-profit national intermediaries should be linked to the federal housing agencies responsible for national housing goals** in order to expedite production, improve communication, and increase accountability up and down the delivery system.
- **Rental assistance should be available for new Section 515 rental units and Section 514/516 farmworker housing units** to make them affordable for the lowest income rural residents; without RA, the intended beneficiaries often cannot afford the rents in these properties.

- **Appropriations should be tied to national production goals** for one-year and five-year periods.
- **In establishing production goals, the relative value of preserving and reinvesting in existing units should be weighed along with the value of developing new projects.**

Preservation

- **Financial incentives should be built into redevelopment schedules** to reward high performers and override bureaucratic delays. Preservation efforts should be undertaken with clear performance standards that apply to both USDA RD and to owners/developers.
- **In hot markets where loss of subsidized units to prepayment options is acute, a buy-back option in the public interest should be created** that allows owners to retain a portion of the market benefit while renewing affordability restrictions for a fresh 20-year cycle.
- **Renters should be protected from sudden eviction when lenders foreclose** on property owners.
- **Renters should be protected from displacement or increased rents when property owners prepay** their subsidized mortgages.
- **Policy should not focus on protecting current renters exclusively**, but should take into account communities' likely future rental needs.
- **Nonprofit and for-profit national intermediaries should be linked to the federal housing agencies responsible for national housing goals** in order to expedite production, improve communication, and increase accountability up and down the delivery system.

Possible Interventions

H.R. 4002, the Rural Housing Preservation Act, would retain existing restrictions on prepayment of Section 515 mortgages, create a new rural preservation program, require use restrictions (i.e., continued affordability for low-income tenants) lasting at least 30 years, and cap rents for all tenants in revitalized properties at 30 percent of income. It

would also authorize vouchers to keep rents affordable for tenants in preserved Section 515 properties and tenants in Section 515 properties whose mortgages were prepaid or foreclosed, whether the tenants relocated or remained in the properties.

H.R. 3873 and S. 3363, the Section 515 Rural Housing Property Transfer Improvement Act, would expedite transfers of ownership of Section 515 rural rental properties in connection with rehabilitating them and preserving them as affordable housing.

The Housing and Economic Recovery Act of 2008 created a national housing trust fund, to be used in both urban and rural areas to fund affordable housing, primarily for those with incomes below 30 percent of area median.

Attachment

Executive Summary of the Final Report of the Task Force on Rural Rental Housing Preservation

Sources for Additional Information

Housing Assistance Council, www.ruralhome.org/infoSheets.php?id=235
National Housing Law Project, www.nhlp.org

**FINAL REPORT OF THE TASK FORCE ON RURAL RENTAL HOUSING
PRESERVATION¹
EXECUTIVE SUMMARY**

The Section 515 Rural Rental Housing (RRH) program has produced over 550,000 decent, safe, sanitary, and affordable homes since it was created over 40 years ago. This housing continues to fulfill a dire need, often providing the only decent and affordable rental housing in rural communities. Residents' incomes average less than \$10,000 per year, and more than half of resident households are headed by elderly persons or persons with disabilities.

There are significant challenges to the preservation of these properties as decent, affordable housing for low-income people. Loans financing over 50,000 units of Section 515 housing have already been prepaid and many more are likely to be prepaid over the next several years; it can be assumed that some of those 50,000 units are no longer part of the affordable housing stock, while others are. At the same time, the age and condition of the Section 515 inventory threaten its continued viability as decent housing. Finally, Congress has cut back the program's funding dramatically for the past ten years, and very few new units are being built.

Recognizing the importance of preserving the stock of Section 515 developments, the John D. and Catherine T. MacArthur Foundation funded the Housing Assistance Council and the National Housing Law Project to undertake a variety of activities, including convening a task force to study the topic and develop recommendations. Twelve experienced individuals agreed to serve on the task force, representing the many interests involved: owners, tenants, private lenders, RHS, local nonprofit developers, and national nonprofit housing organizations. The task force held three meetings and numerous conference calls between August 2004 and February 2005. This report presents the group's findings and recommendations.

The Task Force agreed on three broad recommendations and several categories of more detailed recommendations:

- **Strengthen incentives and administrative processes to encourage responsible stewardship of the 515 portfolio.**
 - Give more authority to the Rural Housing Service National Office and take other steps to ensure timely, consistent, coordinated actions by USDA Rural

¹ Published in 2005 by the Housing Assistance Council and available online at <http://www.ruralhome.org/manager/uploads/PreservationTaskForceReport.pdf>

- Development and RHS offices.
- Facilitate transfers of properties to owners that commit to keeping them decent, safe, sanitary, and affordable for long-term occupancy by low- and very low-income households.
- Identify special strategies to preserve small properties in remote areas.
- Improve information sharing and communications.
- **Preserve for long-term occupancy by low- and very low-income households all properties currently in the Section 515 portfolio that are needed in their communities. Revitalize the properties' physical condition so that all are, maintained as, decent, safe, and sanitary housing.**
 - Increase the supply and efficiency of funding from all sources for all preservation purposes (revitalization, refinancing by remaining owners, and financing by new owners).
 - Empower and enable third-party funding.
- **Protect tenants.**
 - Protect tenants against displacement, ensure that their homes remain decent, safe, sanitary, and affordable, and ensure that the housing is managed in a manner that protects their interests.

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