Preservation Working Group

November 3, 2016

The Honorable Tim Scott
Chair, Housing, Transportation, and
Community Development Subcommittee
Committee on Banking
534 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Robert Menendez
Ranking Member, Housing, Transportation, and
Community Development Subcommittee
Committee on Banking
534 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Scott and Ranking Member Menendez:

The undersigned members of the national Preservation Working Group (PWG) greatly appreciate your leadership and long term support of affordable housing for low income residents. PWG is a national coalition of housing owners, developers, advocates, tenant associations, and state and local housing agencies dedicated to the preservation of multifamily housing for low income families.

We wanted to share with you our comments regarding the testimony of Dr. Ed Olsen, who appeared as a witness before the Senate Committee on Banking, Housing, and Urban Affairs Subcommittee on Housing, Transportation, and Community Development on the occasion of its hearing on "Oversight of the HUD Inspection Process" on September 22. In his testimony, Dr. Olsen espoused a theory of reducing federal spending and alleviating poverty by phasing out funding for project-based rental assistance (PBRA) in favor of tenant-based rental assistance. We would like to respond to Dr. Olsen's statement and provide you with important data about federal PBRA and the limitations of vouchers in some markets. PWG members also would like to express support for the October 11 letter sent to you from the Affordable Rental Housing ACTION (A Call to Invest in Our Neighborhoods) Campaign, correcting several misleading claims by Dr. Olsen about the Low Income Housing Tax Credit (Housing Credit) program.

Dr. Olsen advocates that the federal government not renew contracts with the owners of private subsidized projects. This would require Congress to change the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA), which obliges the U.S. Department of Housing and Urban Development (HUD) to renew project-based assistance contracts with private owners in good standing, subject to appropriations. This modification would fundamentally alter our nation's system of providing rental assistance to low income households, a system which includes both project-based assistance and vouchers.

PWG believes that our nation's affordable housing needs require a range of tools, as different approaches produce the best outcomes in divergent housing markets, depending on a variety of factors, including rent and wage levels, vacancy rates, population density, and the existing physical housing stock. **Federal housing assistance, both project-based and tenant-based combined, currently serves only 25 percent of the Americans who are eligible.** Both PBRA and vouchers provide critically needed affordable housing for low income Americans. We urge you not to adopt a one size fits all approach to meeting the housing needs of low income Americans and not to eliminate PBRA, which is irreplaceable in many markets and for many populations.

PBRA Meets Critical Needs through a Successful Public-Private Partnership

The project-based Section 8 program provides rental assistance for **1.2 million low income and very low income households across the country**. Fifty-five percent of these households include a family member with a disability or who is elderly.[1] The average household income is less than $12,000. Project-based Section 8 assistance allows seniors to live in the communities they helped to build, provides modest homes for residents who cannot work because of injury or disability, and offers a foundation to build on to young families who are just starting out or who are struggling with our slow economy.

PBRA funding directly reduces worst case housing needs. Worst case housing needs are defined as paying more than half of one's income for rent and/or living in severely inadequate physical conditions. During fiscal year 2011, a study conducted by HUD's Office of Policy Development and Research (PD&R) study found that without federal housing assistance, at least 68 of every 100 currently assisted families would have worst case housing needs. It is likely that over 810,000 families currently occupying assisted units would have worst case housing needs if their assistance was withdrawn. Increased housing costs in turn would deplete the already limited incomes of these families, even for necessities such as food, health care, child care, education, and transportation costs. In addition, without housing assistance, many would likely face the real prospect of actual homelessness.

Privately owned properties with project-based Section 8 assistance generate $460 million in property taxes for local municipalities annually and directly support 55,000 jobs. Failure to renew these contracts would have a devastating effect on thousands of apartments, more than half of which are occupied by elderly and disabled households.

Project-based Section 8 contracts act as a critical support for project financing, allowing owners to leverage private debt and equity (often through the Housing Credit program) to permit project refinancing and rehabilitation. According to HUD, the PBRA portfolio leverages over $17 billion in private financing and equity. Failing to renew these contracts would harm private investors and lenders, as their properties would be unable to meet critical debt servicing and operating obligations. This would reverberate through the finance and lending industry and destroy important public-private partnerships designed to meet the housing needs of the poorest Americans.

Nearly 10,000 of the 17,723 project-based Section 8 properties are insured by the Federal Housing Administration (FHA). The estimated unpaid balance of the FHA insured debt underlying properties assisted by project-based Section 8 contracts is over $13.5 billion. Without Section 8 rental assistance, these projects would be unable to sustain current housing services and continue debt payments and the FHA would be left paying the tab**.**

In HUD's own words, without full funding "the value of this underlying debt to both FHA and private lenders as well as existing equity in the physical structures would be severely eroded, contributing to

[1] HUD Congressional Justifications FY 2017, page 24-5

significant loss of privately held wealth and community investment."

Over half of project-based Section 8 tenants are elderly or persons with disabilities. Many rely on Supplemental Security Income (SSI) and have few other economic resources. According to the National Low Income Housing Coalition's Out of Reach 2015, "The maximum federal monthly SSI payment for an individual is $733 in 2015. On this income, an SSI recipient can afford rent of only $220 per month…Among those reliant on SSI, there is not a single county in the U.S. where even a modest efficiency apartment, priced according to the Fair Market Rent (FMR), is affordable."

Many owners of HUD-assisted properties provide valuable supportive services which help their residents succeed and maintain their independence. These services help reduce taxpayer expenditures in Medicaid, Medicare, and emergency shelter and healthcare services. Private property owners without project-based assistance do not provide comparable supportive services to their low income tenants. Residents with vouchers do not enjoy these services unique to properties with project-based assistance.

Finally, we take issue with Dr. Olsen's cost comparison between PBRA and vouchers, which relies on over 35-year-old data based on the original cost of the Section 8 New Construction and Substantial Rehabilitation program. HUD has not funded any new construction or preservation development activities in many years, so a more legitimate cost comparison would look at the relative cost of renewing PBRA and vouchers annually. According to HUD's Congressional Justifications for its Fiscal Year 2017 Budget, the current cost of renewing tenant-based rental assistance contracts is $9,363 per unit per year while the cost of renewing PBRA contracts is significantly less, $8,852 per unit per year.[2]

Preservation is Essential and Cost Effective

Renewing PBRA contracts annually is critical to preserving the nation's assisted housing stock, in which the federal government has invested for over 50 years. While the nation is experiencing an affordable rental housing crisis, for every new affordable apartment built, two are lost due to deterioration, abandonment or conversion to more expensive housing. Without preserving existing affordable housing, we fall two steps back for every step we take forward.

Preserving affordable housing is more cost effective and easier than new construction. Rehabilitating an existing affordable apartment can cost one-third to one-half less than building a new apartment. Restrictive land use regulations common in many communities make it difficult to build rental housing affordable to very low income families and seniors. Replacing every lost affordable apartment is often unrealistic. Preservation is also fundamentally energy efficient, as it reuses existing buildings and infrastructure, protects green spaces, and reduces household energy use.

In distressed neighborhoods, preserving affordable housing can catalyze the revitalization of an entire community. Saving decent, affordable housing protects a critical community asset. It also signals the reversal of years of neglect and disinvestment and can spark the public-private investment that is essential for community revitalization.

[2] HUD Congressional Justifications FY 2017, page 6-1 and page 24-1

Vouchers Do Not Effectively Meet Housing Needs in All Markets

In his testimony, Dr. Olsen asserts that an exclusively tenant-based housing assistance program would rely substantially on market mechanisms to achieve social goals. He states, "Under a program of tenant-based assistance, only suppliers who provide housing at the lowest cost given its features can remain in the program." Dr. Olsen's theory is based on the assumption that residents with vouchers have full freedom in choosing rental units and locations. Recent research has proven that this is not the case in many markets. Erin Graves of the Federal Reserve Bank of Boston reviewed 20 qualitative studies of the Housing Choice Voucher (HCV) program published between 2000 and 2014.[3] She identified key barriers found in the housing market and the voucher program itself that constrain housing choice and mobility among voucher recipients.

Graves found that racial and income discrimination constrains housing choice. In many jurisdictions across the country, landlords can refuse to accept vouchers, a decision is that is often driven by bias against racial minorities and/or voucher recipients. Uneven availability of public transit also limits voucher holders' housing choices. Further, Graves reported that landlords in weak rental markets are more willing to accommodate voucher households with insufficient funds for deposits or poor credit than landlords in strong rental markets, thereby limiting the neighborhoods available to voucher holders. Recipients reported choosing a less-than-ideal housing unit because a landlord was willing to make concessions to accommodate their financial constraints. In some cases, tenants accepted a below market-rate quality apartment at a market-rate price.

Many households who would like to utilize vouchers are subject to long and uncertain waiting lists. In some areas, voucher waiting periods are as long as eight years. A voucher can become available at any time of the year, eliminating recipients' ability to control the timing of their move to coordinate with family obligations or work schedules. Another constraint to housing choice is the 60 to 120-day time limit that a new recipient is given to find housing. The pressure to find housing within the specified time frame, combined with financial constraints and poor timing, can pressure a voucher recipient to choose a lower quality house or location.

This evidence disproves Dr. Olsen's assertion that market forces will enable a housing assistance system which relies exclusively on vouchers to meet the needs of all low income residents. Vouchers do help many low income households access affordable housing, but other forms of housing assistance are needed. Decades of experience with the voucher program has not demonstrated that owners in all markets will "compete" for vouchers holders, as Dr. Olsen suggests.

Rural markets are particularly challenging for voucher use because the rental housing is often scarce and options for voucher holders are few. In some communities, no rental housing exists other than a property with PBRA from HUD or the U.S. Department of Agriculture. In rural areas, vouchers alone will not address the rental housing affordability crisis.

Dr. Olsen's testimony also presents an inaccurate generalization that when use agreements for project-based properties are not renewed, current occupants receive other housing assistance, almost always

[3] Rooms for Improvement: A Qualitative Metasynthesis of the Housing Choice Voucher Program Erin Graves Regional and Community Outreach, Federal Reserve Bank of Boston, MA May 2016

tenant-based vouchers. Although this is true for project-based Section 8 contract terminations and for certain HUD prepayments, it is not the case under current law for expiring mortgage regulatory agreements under the Section 202, Section 236, and Section 221d3 BMIR programs, nor for use agreements under the Emergency Low Income Housing and Preservation Act of 1987 (ELIHPA). Residents in these expiring properties are not legally guaranteed tenant protection vouchers, other than through the extremely limited set-aside that Congress has authorized in the past few years, which requires both that the project is located in a low-vacancy area and the owner apply for the assistance. Tenants in some of these properties are not guaranteed vouchers when their landlords prepay their HUD-supported mortgages, either. Even when residents of properties with expiring use agreements do obtain vouchers, these vouchers do not always have a payment standard based on the market rent for the unit and a right to remain; instead, the voucher could be tied to a regular payment standard that may not be sufficient to cover the landlord's requested rent, which often leads to economic hardship or displacement.

Finally, Dr. Olsen's testimony freely associates the renewal of PBRA contracts in terms of use agreements, which belies a shallow understanding of the program in general. A significant percentage of PBRA properties have no use restriction other than the contract itself. He unfortunately conflates over 50 years of housing finance programs to support his arguments, without addressing important differences with significant cost implications and potential effects on residents.

The United States Needs a Variety of Housing Tools

Dr. Olsen's prescription to phase out PBRA would displace many existing tenants, most of whom are elderly or disabled, and terminate decades of investment in high quality affordable housing in communities across the country. We urge you to reject this proposal, to avoid the permanent loss of valuable affordable housing.

Dr. Olsen poses a false dichotomy between tenant-based rental assistance and PBRA. To meet Americans' housing needs, we need greater federal funding for both. Federal housing assistance currently serves only 25 percent of the Americans who are eligible. Both PBRA and vouchers provide critically needed affordable housing for low income Americans. To face the challenge of our nation's rental housing affordability crisis, we encourage you to champion greater resources for housing assistance so that all Americans have access to opportunity and economic mobility.

Sincerely,

California Housing Partnership

CF Housing Group, LLC

Coalition on Homelessness and Housing in Ohio

Coastal Enterprises, Inc.

Community Economic Development Assistance Corporation

Consortium for Citizens with Disabilities Housing Task Force

CSH

Emily Achtenberg

Florida Housing Coalition

Housing Assistance Council

Housing Partnership Network

Klein Hornig, LLP

LeadingAge

Local Initiatives Support Corporation

Lutheran Services in America

Minnesota Housing

National Alliance of HUD Tenants

National Council of State Housing Agencies

National Housing Conference

National Housing Law Project

National Housing Trust

National Housing Trust-Enterprise Preservation Corporation

National Low Income Housing Coalition

Network for Oregon Affordable Housing

NHP Foundation

Preservation of Affordable Housing, Inc.

Stewards of Affordable Housing for the Future

The Community Builders