



**Housing Assistance Council**

# **CONNECTING THE DOTS:**

*A Location Analysis  
of USDA's Section 515  
Rental Housing  
and Other Federally  
Subsidized Rental Properties in  
Rural America*

\$10.00  
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HAC, founded in 1971, is a nonprofit corporation that supports the development of rural low-income housing nationwide. HAC provides technical housing services, loans from a revolving fund, housing program and policy assistance, research and demonstration projects, and training and information services. HAC is an equal opportunity lender.

## TABLE OF CONTENTS

Executive Summary .....	1
Findings: Counties with High Proportions of Section 515 Properties .....	1
Findings: Proximity to Other Subsidized Properties .....	2
Recommendations: Connecting the Dots .....	3
Introduction .....	5
Rental Housing in Rural America: A Backdrop .....	6
Rural Rental Housing Characteristics .....	6
Housing Problems Among Rural Renters .....	7
USDA’s Section 515 Rental Housing Program .....	8
The Section 515 Prepayment Dilemma .....	9
The Geography of Section 515 Rental Housing .....	10
Section 515 Prepayment and Minorities .....	11
Analysis .....	12
Methodology .....	12
What’s Not Included .....	13
A Cautionary Note About Cross-Subsidy .....	15
What is Rural? .....	16
County Level Analysis .....	16
Metropolitan Status .....	17
Population Decline .....	20
Urbanization .....	22
Minority Populations .....	24
Housing Stress .....	26
Distance Analysis .....	27
How It Works .....	30
Discussion .....	34
Findings: Counties with High Proportions of Section 515 Properties .....	34
Nonmetro Counties, Particularly OCBSA Counties .....	34
Urbanizing Counties .....	35
Housing Stress Counties .....	35
Native American and Other Minority Counties .....	36
Findings: Proximity to Other Subsidized Properties .....	36
Recommendations: Connecting the Dots .....	37
Endnotes to Text .....	40
Appendix A: Section 515 Rental Housing Properties in Proximity to Selected Federally Subsidized Housing Properties .....	43
Public Housing .....	44
HUD Project Based Section 8 Rental Assistance .....	46
Low Income Housing Tax Credit .....	48

HUD Section 202-811 Elderly and Supportive Housing .....	50
HUD Section 236 Loans .....	52
Section 538 Guaranteed Rural Rental Housing Program .....	54
Endnotes to Appendix A .....	56
 Appendix B: Selected Data Tables .....	 57
Table 1. Section 515 Properties and Units by State .....	58
Table 2. Section 515 Rental Housing Program and Prepayment Status .....	59
 Appendix C: Selected State Level Maps .....	 60
USDA Section 515 Properties and Units by State.....	61
Section 515 Prepayment Eligibility Status by State.....	62
Section 515 Rental Housing Loan Prepayments 2001-2006.....	63
Subsidized Rental Units by Program and State .....	64
 Figures	
1. Housing Tenure by Residence.....	6
2. Housing Affordability by Tenure.....	7
3. Section 515 Rural Rental Housing Program, FY 1963-FY 2006 .....	8
4. USDA Section 515 Prepayment Status, Properties .....	9
5. USDA Section 515 Rental Housing Units .....	10
6. USDA Section 515 Properties.....	11
7. Location Analysis: Research Model.....	14
8. Cross Subsidy, USDA Section 515 and LIHTC.....	15
9. Section 515 Units as a Percent of All Subsidized Units by Metropolitan Status .....	18
10. Section 515 Units as a Percent of all Subsidized Rental Units.....	19
11. Counties Where Section 515 Units Make up More than Half of All Subsidized Rental Units .....	20
12. Population Loss Counties .....	21
13. Population Loss Counties: Section 515 Units as a Percent of All Subsidized Rental Units .....	22
14. Urbanizing Counties .....	24
15. Urbanizing Counties: Section 515 Units as a Percent of All Subsidized Rental Units .....	24
16. Rural Minority Counties.....	25
17. Section 515 Rental Units in Rural Minority Counties.....	26
18. Housing Stress Counties .....	27
19. Housing Stress Counties: Section 515 Units as a Percent of All Subsidized Rental Units .....	28
20. Average Distance to Nearest Subsidized Property .....	29
21. Distance Buffers, USDA Section 515 Rural Rental Properties .....	30
22. USDA Section 515 Rental Properties in Proximity to Other Subsidized Housing Properties .....	32
23. Percent of Section 515 Properties within 10 Miles of Another Subsidized Property.....	33

## ANALYSIS

### *Methodology*

The study undertakes a location analysis of federally subsidized housing properties in rural America. Data on federally assisted housing are used to illustrate the location and scope of subsidized rental properties across rural areas. The analysis also helps determine the extent to which USDA's Section 515 rural rental housing units co-exist with other federally subsidized programs, as well as understanding their role in a rural community's rental housing network.

The report investigates the geographic interplay between Section 515 properties and other federally subsidized properties through a two-tiered analysis from the 1) county and 2) distance-specific perspectives. The county level analysis provides the ratio and composition of subsidized rental housing with an emphasis on various contextual and demographic factors particularly salient to the provision of affordable rural rental housing. For greater depth and detail, this is followed by a distance-specific analysis of Section 515 and other subsidized rental properties. Both levels of analysis also focus on the issue of prepayment of Section 515 projects in relation to geographic location.

The federally subsidized housing programs incorporated into the geographic analysis include:<sup>1</sup>

- △ *USDA Section 515 Rural Rental Housing.* USDA Rural Development's primary rental housing program, Section 515 is targeted to rural areas and currently encompasses 15,988 properties with 445,681 housing units. The most recent available data show that tenant households' annual incomes averaged \$9,785 as of January 2006.<sup>9</sup>
- △ *HUD Public Housing.* The public housing program administered by the U.S. Department of Housing and Urban Development (HUD) is one of the oldest and largest subsidized rental housing programs in the United States. Public housing was created in 1937 and currently encompasses over 1.2 million housing units located within 14,000 public housing properties operated by 3,050 public housing authorities.<sup>10</sup> The average household income for public housing tenants was \$10,000 in 2000.<sup>11</sup>
- △ *HUD Project Based Section 8 Rental Assistance.* Project Based Section 8 properties are privately owned, multifamily developments that receive federal subsidy through a mortgage and/or rental assistance. Over 1 million households live in homes with Section 8 project-based assistance, and more than two-thirds of these housing units are occupied by elderly or disabled residents.<sup>12</sup>
- △ *Low Income Housing Tax Credit.* Created by Congress in the 1986 Tax Reform Act, the Low Income Housing Tax Credit (LIHTC) provides a reduction in the dollar amount of federal taxes owed by an individual or corporation, in exchange for its investment in low-income rental housing. There are over 25,000 LIHTC properties located across the United States and Puerto Rico encompassing 1.4 million units of rental housing. Approximately 90 percent of LIHTC units are occupied by low-income households.

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<sup>1</sup> Detailed information on these housing programs and specific program analyses is provided in Appendix A.

- △ *HUD Section 202 and 811.* HUD's Section 202 and 811 programs provide capital and operating funds to nonprofit organizations that develop and operate housing for seniors and disabled persons, respectively. As of 2006, there are approximately 3,871 Section 202-811 properties across the United States. These properties account for nearly 210,000 units of affordable rental housing for seniors and persons with disabilities. The average annual income of Section 202 residents is just over \$10,000.<sup>13</sup>
- △ *HUD Section 236.* Under Section 236 of the National Housing Act, HUD subsidizes interest payments on mortgages for rental or cooperative housing owned by private nonprofit or limited-profit landlords and rented to low-income tenants. The program is no longer funding new properties, but there are approximately 2,700 Section 236 properties accounting for nearly 330,000 units of affordable housing. The average household income for Section 236 tenants was \$11,200 in 2000.<sup>14</sup>

### **What's Not Included**

To provide the most comprehensive picture of subsidized housing in rural communities, the study includes as many federally subsidized housing properties and units as possible. There are several notable omissions, however.

One of the largest sources of rental subsidy not included in this analysis is HUD's Housing Choice Voucher (HCV) program. Often referred to as tenant-based Section 8, HCVs allow low-income households to access privately owned units of their choosing. HCVs are currently utilized by 1.8 million households. In many respects, HCVs and subsidized physical properties are not directly comparable. Subsidized properties include actual units whereas vouchers subsidize households who may move from unit to unit or even state to state. Units with vouchers are also not reserved for long-term occupancy by low-income households, whereas other subsidy programs require property owners to keep their rentals affordable for 15 or more years. Additionally, HUD does not report the specific location of units occupied by voucher holders.

Rental properties developed with HUD's HOME Investment Partnerships Program, Community Development Block Grant, or other federal funding sources that are passed through to, and administered by, states and local governments are also not included in the comparative analysis.

USDA Rural Development's Section 514/516 Farm Labor Housing properties are also omitted from the analysis because only farmworkers are eligible to live there. RD Section 521 Rental Assistance units are excluded because Section 521 aid is available only in Section 515 and 514/516 properties.

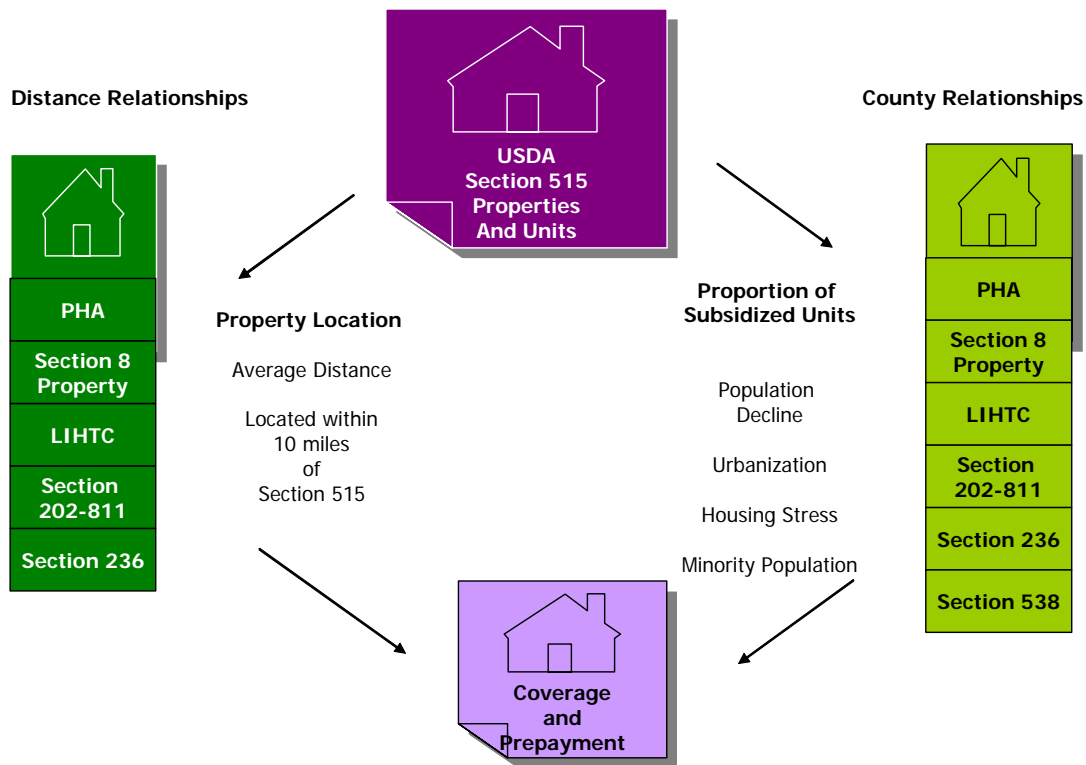
*For more information on data and housing programs incorporated in the analysis please consult Appendix A.*

- △ *USDA Section 538 Guaranteed Rental Housing.* Under the Section 538 program, USDA RD guarantees loans made by private lenders for the development of affordable rural rental housing with at least five units. Tenants in the Section 538 program must have incomes at or below 115 percent of area median income at the time of initial occupancy. The current Section 538 portfolio contains approximately 150 rental properties with more than 8,000 units of affordable rental housing.

Local geography and geographic components are also integral aspects of the analysis. Geographic patterns are particularly important for rural areas that tend to have smaller and more sparsely settled populations over a large land area. Extensive use of geographic information systems (GIS) and mapping technologies are incorporated into the analysis.

**Figure 7.**

### Location Analysis: Research Model



The analysis relies most heavily on HAC tabulations of secondary data sources of federally assisted housing programs from HUD and USDA RD. One primary source of data for the analysis is the *2000 Picture of Subsidized Housing* produced by HUD. This dataset provides the location and tenant characteristics of most HUD-assisted housing developments, including public housing.

The “Picture” data was augmented with more recent information on HUD properties from public use data sets including the *Low-Income Housing Tax Credit Database* and HUD’s Project Based Rental Assistance (Section 8) and Section 202-811 properties through the *Multifamily Assistance and Section 8 Contracts Database*. In addition, updates of HUD Section 236 data were accessed on the HUD User website. Data for USDA Section 515 and Section 538 properties were provided by USDA Rural Development. For more information on data and housing programs incorporated in the analysis, please consult Appendix A.

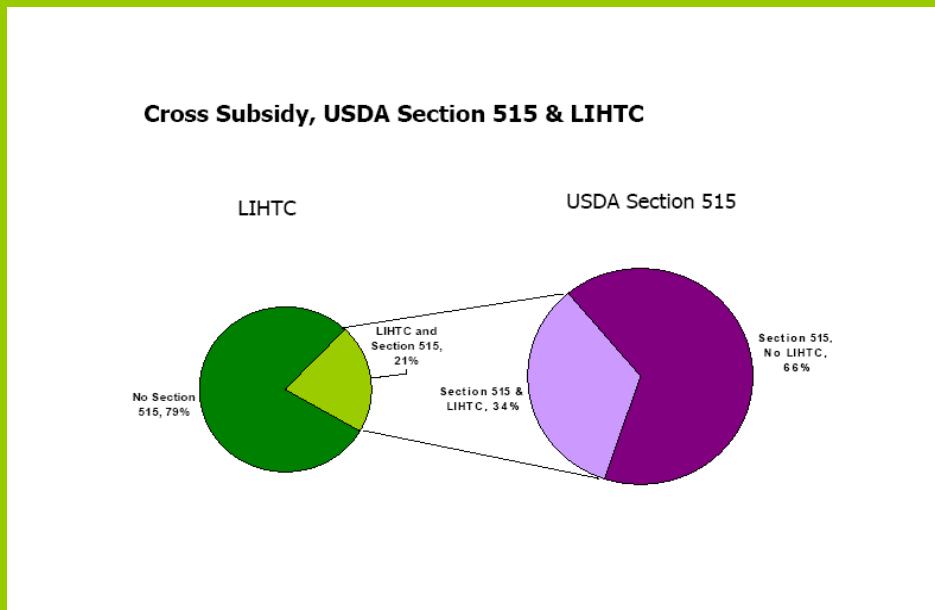
### A Cautionary Note About Cross-Subsidy

Multiple sources of housing subsidy are usually required to make a single affordable housing project feasible. For example, Section 515 loans are often used in conjunction with Low Income Housing Tax Credits. Approximately 21 percent of LIHTC projects (5,542 properties) also include USDA Section 515 funding. Likewise, approximately 10 percent of HUD Section 8 project-based properties (1,464) are also Section 515 developments.

The analysis attempts to control for cross-subsidy of differing programs by excluding Section 515 units from the HUD property databases when possible. Similar exclusions were made in other cross-subsidized housing properties, particularly Section 202-811 properties, which often have HUD Section 8 project-based rental assistance. In other words, if a property has Section 515 funding it is counted as a Section 515 property only, not as an LIHTC or Section 8 property.

This procedure of mutual exclusion helps minimize potential double counting of affordable housing units within the analysis. Cross-subsidies cannot be entirely accounted for, however, and this fact presents one of the major limitations of the analysis.

**Figure 8.**





## What is Rural?

Numerous definitions of “rural” are available for use in statistical analyses of social characteristics and trends. In general, rural areas share the common characteristics of comparatively few people living in an area, limited access to large cities, and considerable traveling distances to “market areas” for work and everyday living activities. But rurality, like most other aspects of society, exists along a continuum and varies extensively based on proximity to a central place, community size, population density, total population, and various social and economic factors. Over the years, public agencies and researchers have used combinations of factors to define and designate geographic areas as rural.<sup>1</sup>

One of the most commonly used definitions, and the one employed for this analysis, is the Office of Management and Budget’s classification of Metropolitan Statistical Areas. Metropolitan and Micropolitan Statistical Areas are delineated along county lines, as follows:<sup>1</sup>

*Metropolitan Statistical Areas (used here as a proxy for urban places).* Metropolitan Statistical Areas have at least one urbanized area of 50,000 or more population, plus adjacent counties that have a high degree of social and economic integration with the core as measured by commuting ties.

*Micropolitan Statistical Areas (used here as a proxy for rural places and small towns).* Micropolitan Statistical Areas – a new set of statistical areas first defined in 2003 using data from the 2000 census – have at least one urban cluster of at least 10,000 but less than 50,000 population, plus adjacent counties that have a high degree of social and economic integration with the core as measured by commuting ties.

*Outside Core Based Statistical Areas (used here as a proxy for remote rural places).* Places that are Outside Core Based Statistical Areas are those not included in Metropolitan or Micropolitan Statistical Areas.

It should be noted that these terms do not correspond to the definition of “rural” that determines where USDA rural housing program funding can be used. Therefore Section 515 and 538 properties may be found in metro, micro, and Outside Core Based Statistical Areas.

## County Level Analysis

The first component of the study involves a county-level location analysis of all USDA Section 515 rental properties and units in relation to other federally subsidized housing properties. An investigation from the county perspective contextualizes Section 515 units based on the social, economic, demographic, and housing characteristics of the communities in which they are located and their proximity to other subsidized housing in rural areas. The county was chosen as the level of geographic analysis because of its significance and importance in rural America. In many rural areas, the county is often the most identified geographic unit in political, social, and economic contexts. Additionally, there is a wealth of easily accessible and uniform social,

economic, and political data available at the county level from which to make contextual comparisons.<sup>15</sup>

Counties are relatively large geographic entities, and most counties in the U.S. – even rural counties that are remote from urban centers – contain several different types of subsidized housing properties. Nationwide there are roughly 63,000 subsidized housing properties encompassing 3.1 million units of federally subsidized rental housing.

Prior studies and market analyses of Section 515 rural rental properties indicate that the feasibility of prepayment and the propensity to prepay are influenced greatly by population and demographic characteristics, in addition to individual property characteristics. A *Comprehensive Property Assessment and Portfolio Analysis* (CPA) prepared for USDA divided Section 515 properties into three segments. It estimated that prepayment was “economically viable” for approximately 10 percent of the Section 515 stock in hot or urbanizing markets, and recommended that USDA allow those properties to prepay. It also recommended prepayment for properties in depressed or declining markets, estimated to be another 10 percent. The remaining 80 percent of the stock was deemed to be still viable as subsidized affordable housing, and the CPA recommended those properties be targeted for revitalization efforts.<sup>16</sup>

There are several limitations to the CPA’s calculations. First, researchers admitted property owners seek to prepay for many reasons unrelated to the economics of continuing to operate a rental property. Second, the CPA did not attempt to identify what locations fit each tier. While the CPA recommended protecting current tenants by providing vouchers, its authors did not consider the availability of other units for displaced tenants with vouchers – even if owners who prepay in order to raise rents in growing markets are required to retain low-income tenants and accept their vouchers, tenants in communities that are losing population may not have the option to remain in their homes if a financially unsustainable, perhaps partially unoccupied, property is closed down. Finally, the CPA researchers were not asked to consider the plight of the millions of rural renters currently not served by any housing assistance program.

To investigate these elements of potential prepayment further, various contextual factors such as urbanization, population decline, minority population, and housing characteristics are examined in relation to geography and proximity to other subsidized rental properties.

### Metropolitan Status

#### Findings

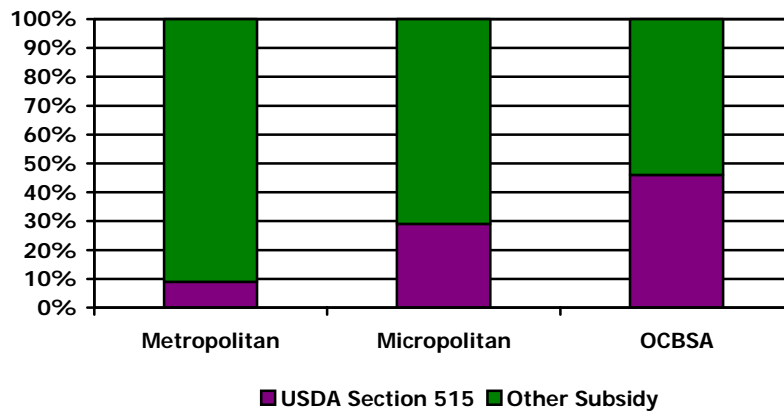
In counties with at least one Section 515 project, Section 515 properties make up over one-third of all subsidized properties and about 17 percent of all subsidized rental units. The proportions are much higher in rural places than in metro areas.

- △ *Metropolitan counties.* Approximately one-third of all Section 515 properties are located in metropolitan areas where many other forms of subsidized housing are also concentrated. There are over 5,600 Section 515 properties in metropolitan counties but they account for only 9 percent of all subsidized units in those metropolitan areas. In areas outside

metropolitan counties, Section 515 projects comprise approximately one-half of subsidized properties and over 36 percent of subsidized rental units.

- △ *Metropolitan counties.* Section 515 developments comprise 29 percent of subsidized units in small towns and rural communities (i.e., metropolitan counties).
- △ *Micropolitan counties.* Section 515 developments comprise 29 percent of subsidized units in small towns and rural communities (i.e., micropolitan counties).
- △ *Outside Core Based Statistical Areas Counties.* The 5,878 Section 515 properties in more remote counties Outside Core Based Statistical Areas (OCBSA) comprise a much greater proportion of subsidized housing than in metropolitan or micropolitan counties. Section 515 properties account for 46 percent of the subsidized rental units in these OCBSA counties.

**Figure 9. Section 515 Units as a Percent of All Subsidized Units by Metropolitan Status**



In over 900 counties, Section 515 properties comprise more than half of all subsidized units. These counties with high proportions of Section 515 units tend to be remote from metro areas: close to two-thirds of them are OCBSA counties and nearly 40 percent are in the Midwest.

Figure 10.

### Section 515 Units as a Percent of All Subsidized Rental Units

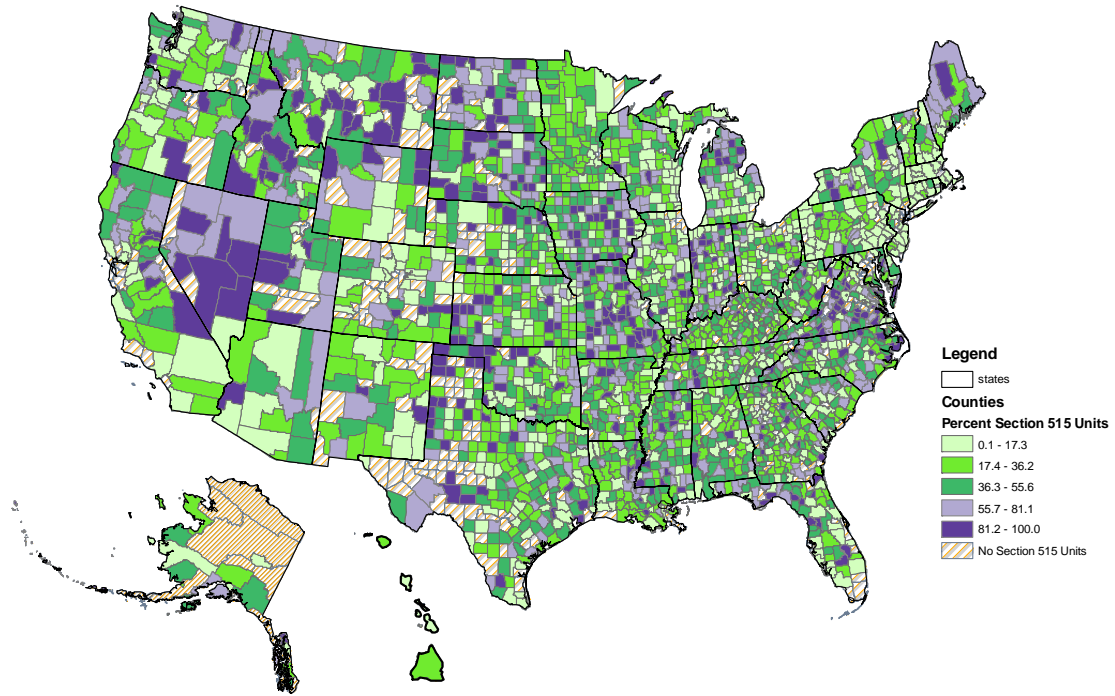
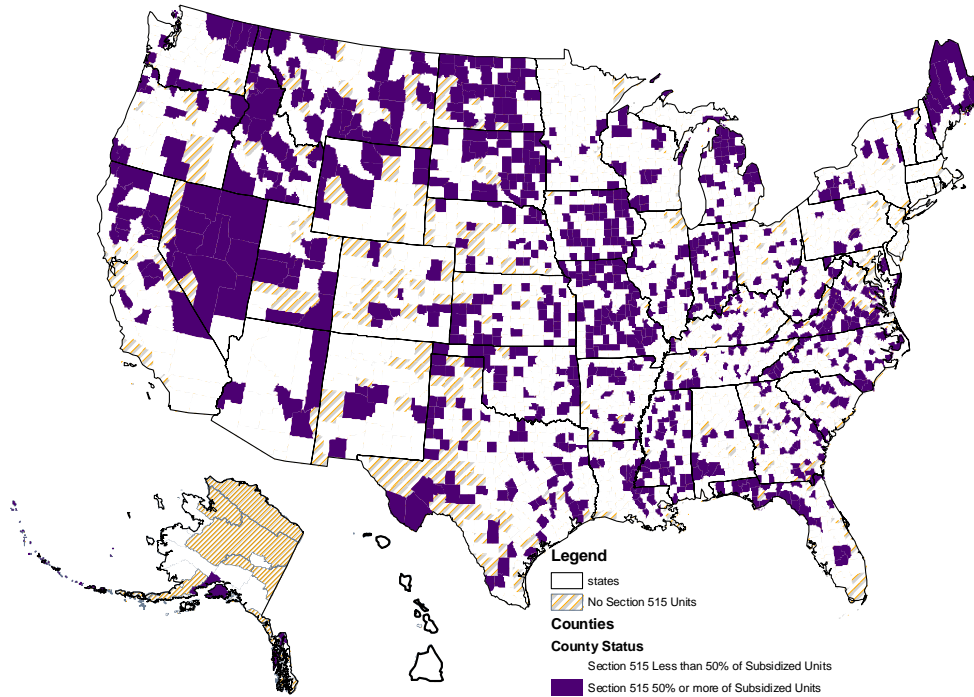


Figure 11.

### Counties Where Section 515 Units Make up More than Half of All Subsidized Rental Units



### Population Decline

While the United States as a whole has been gaining population, some areas have experienced population stagnation and even decline. Rural areas with the greatest concentrated population loss are largely located in the Great Plains portion of the Midwest. The Great Plains is loosely defined as the vast grassland east of the Rocky Mountains that stretches from northern Texas to Montana and North Dakota. Approximately half of all population loss counties identified by the USDA Economic Research Service are in the Great Plains. Rural population loss is also occurring in other economically distressed areas such as Central Appalachia, the Northwestern industrial rust belt, and the southern “Black Belt.”<sup>17</sup>

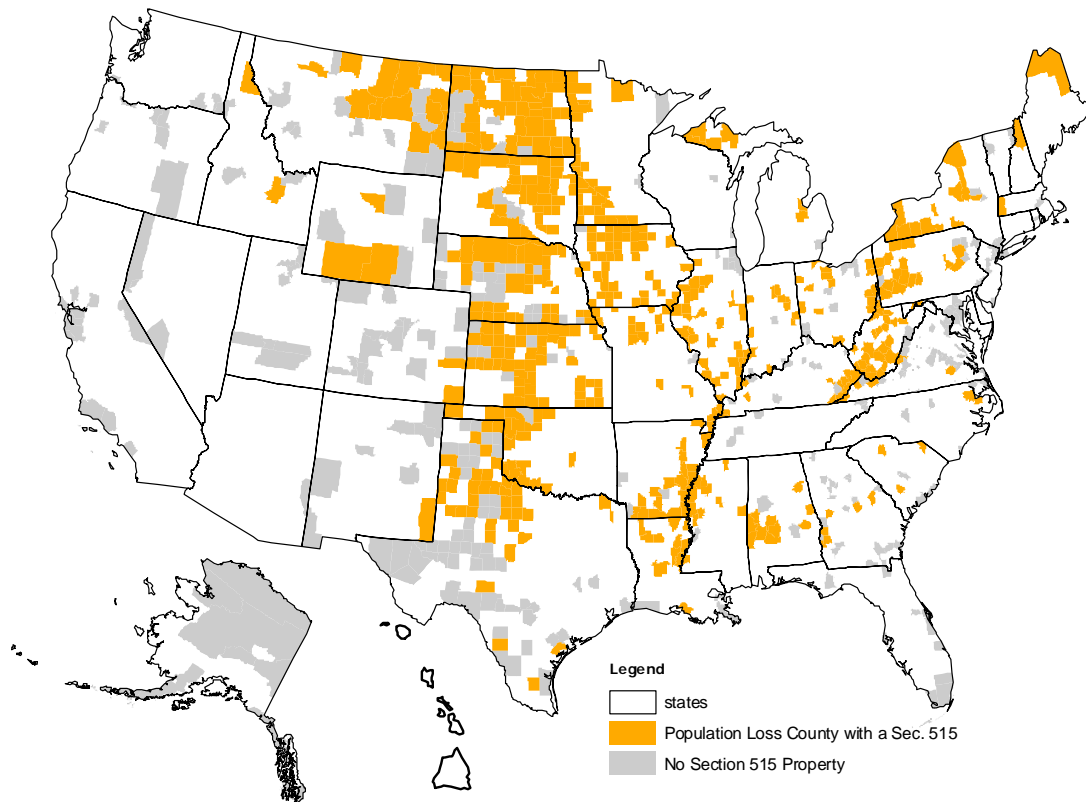
Population loss areas commonly lack economic diversity, particularly in the Plains states where there is a heavy reliance on transforming agriculture industry. As a result, much of the population decline is precipitated by outmigration of young working age adults in search of more viable employment options. This often leaves an older population and a mismatch between the current residents’ housing needs and the available housing stock. Older residents will often remain in units that may not meet their immediate needs because of a lack of other options such as rental housing or assisted living. In addition, homes in this region are older than the national average and, consequently, may require more rehabilitation.<sup>18</sup>

The issue of Section 515 prepayment and preservation looms large in communities with declining populations. The *Comprehensive Property Assessment and Portfolio Analysis* asserted that approximately 10 percent of potential prepayment properties in the Section 515 stock are in declining markets where population outmigration combined with stagnant economies have resulted in high vacancy rates and depressed housing markets.<sup>19</sup>

HAC's analysis used as a population loss indicator the U.S. Department of Agriculture's Economic Research Service (ERS) definition of population loss counties: counties where the number of residents declined both between the 1980 and 1990 censuses and between the 1990 and 2000 censuses.<sup>20</sup> There are a total of 601 population loss counties in the United States. Nearly 90 percent of them are nonmetropolitan, illustrating the disproportionate impact depopulation has on rural America.

**Figure 12.**

## Population Loss Counties



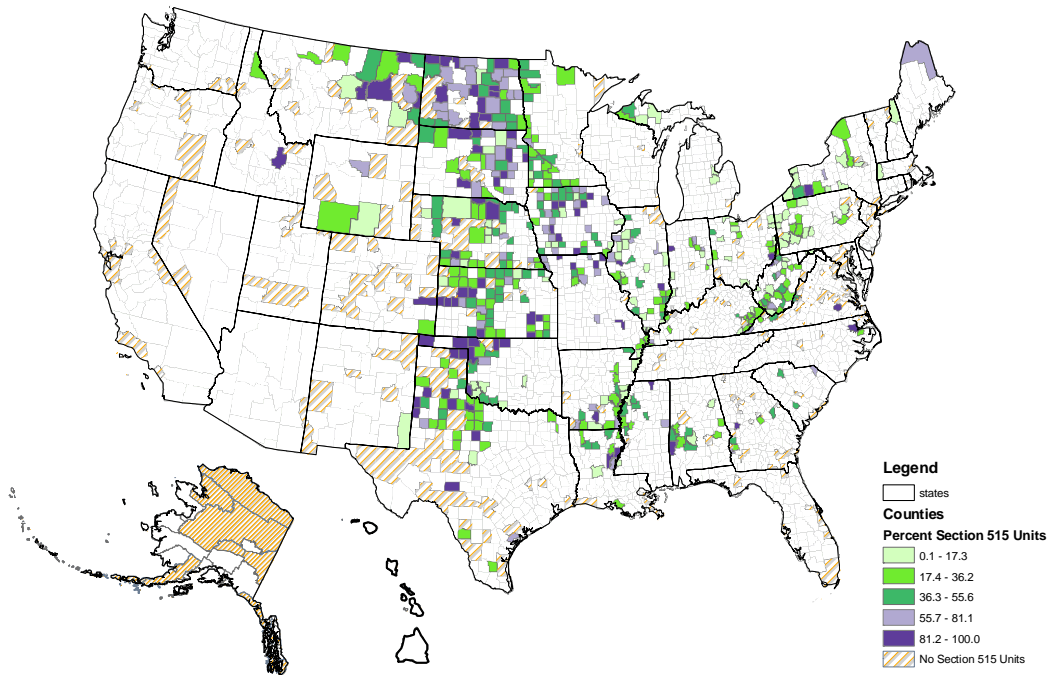
## Findings

There are over 2,400 Section 515 properties in population loss counties, comprising slightly more than 50,000 units of rental housing.

- △ On average, Section 515 units make up approximately 17 percent of subsidized rental units in these declining population counties.
- △ In the population loss counties in the Midwest, the proportion of Section 515 units increases to 22 percent.
- △ Prepayment is potentially a significant issue in this region, as nearly 70 percent of the Section 515 properties in these counties are eligible for prepayment.

**Figure 13.**

### **Population Loss Counties Section 515 Units as a Percent of All Subsidized Rental Units**



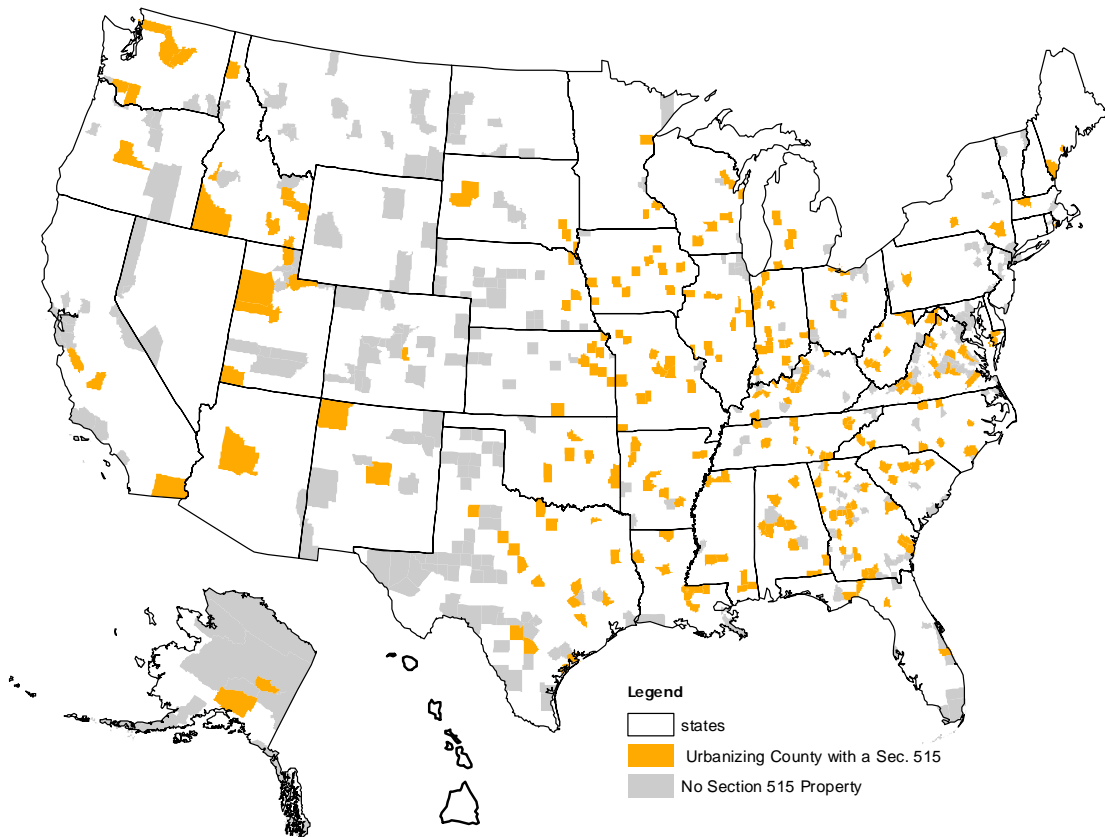
## Urbanization

For most of its history the United States has been a predominately rural place. The first census in 1790 revealed that 9 out of 10 Americans resided in rural areas. In the early 20<sup>th</sup> century industrialization shifted the balance toward cities and urban centers. From this point until today, the urbanization/suburbanization trend in the U.S. has been unabated.<sup>21</sup>

As is the case in population decline regions, prepayment of Section 515 mortgages is a potentially significant issue in urbanizing and population growth communities. The CPA reported that roughly 10 percent of properties located in “hot” markets could command rent increases of 60 percent or more after prepayment, and it seems likely that many such markets are located in urbanizing counties, defined as those that were classified as nonmetropolitan in 1993 (based on 1990 census data), but were reclassified as metropolitan after the 2000 census. There are 289 counties, with a population of 9.5 million persons, in this category.<sup>22</sup>

Figure 14.

### Urbanizing Counties





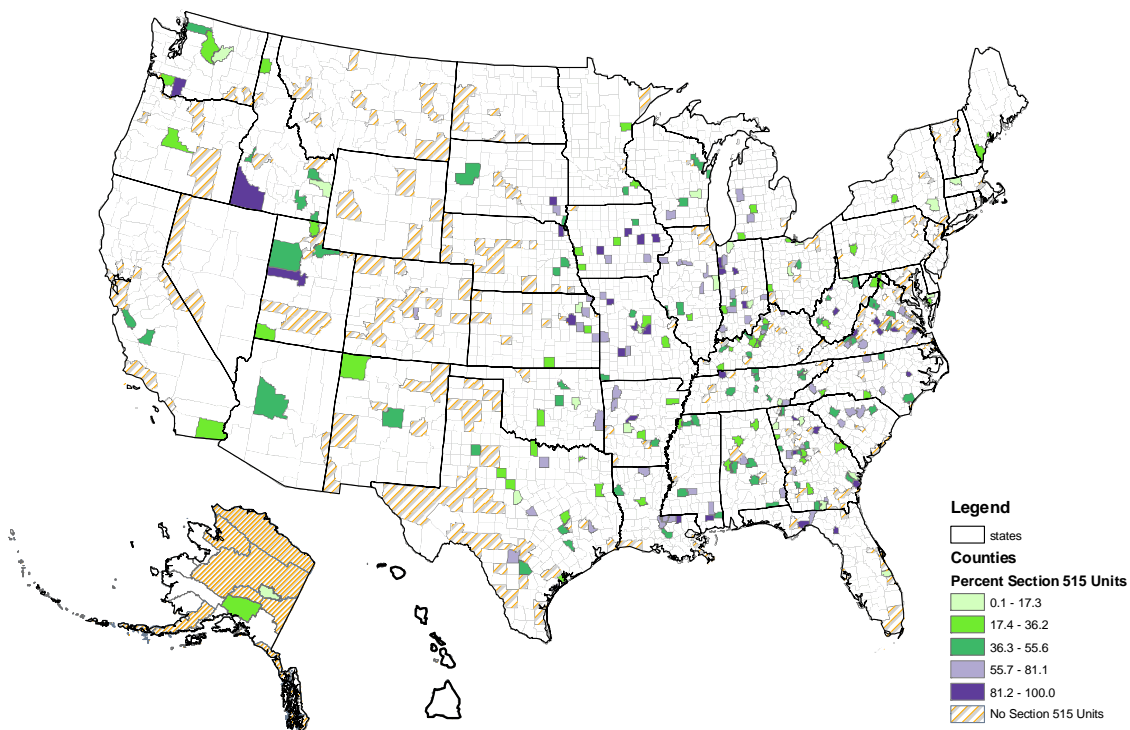
## Findings

The nearly 1,500 Section 515 properties in urbanizing counties contain approximately 40,000 units of subsidized rental housing. They comprise a substantial proportion of the overall subsidized market in these counties.

- △ Section 515 properties make up 34 percent of these counties' subsidized units.
- △ Approximately 60 percent of Section 515 units in these urbanizing counties – about 24,000 homes – are eligible for prepayment. These units may account for just over half the CPA's estimate of 46,000 units likely to prepay by 2009.

**Figure 15.**

### **Urbanizing Counties Section 515 Units as a Percent of All Subsidized Rental Units**



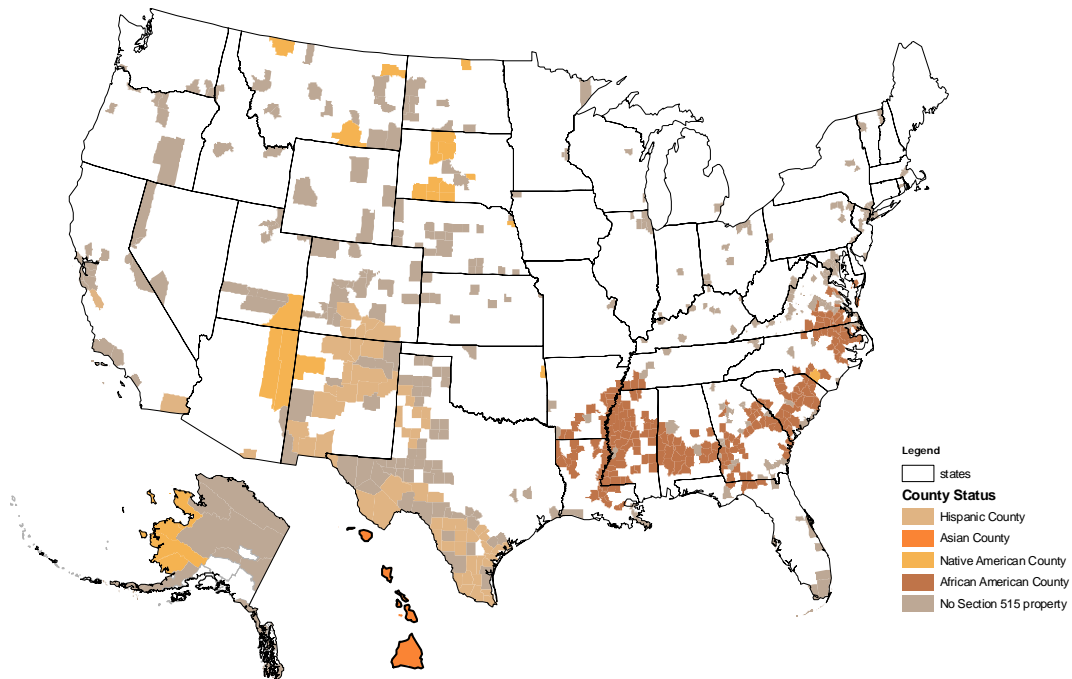
## Minority Populations<sup>23</sup>

In the past few decades dramatic progress has been made in improving the quality of housing in rural America. Despite this progress, however, housing problems persist, particularly among racial and ethnic minorities. Minorities in rural areas are among the poorest and worst housed groups in the entire nation, experiencing disproportionately high levels of inadequate housing conditions. Minority and Hispanic rural households are three times more likely to live in

substandard housing than non-Hispanic white rural residents. These housing problems are more pronounced in rural areas with large concentrations of minorities. While much of the discussion about housing problems has moved on to other issues, quality of housing is still very much a key issue for minorities in these areas. Rural minority counties are the last bastion of poor quality housing conditions in this nation.

**Figure 16.**

### Rural Minority Counties



For this analysis, rural minority counties are defined as those rural counties with a specific racial or ethnic minority population of one-third or more in 1980, 1990, and 2000. Under this definition, there are 301 rural minority counties with at least one Section 515 property in their borders, including:

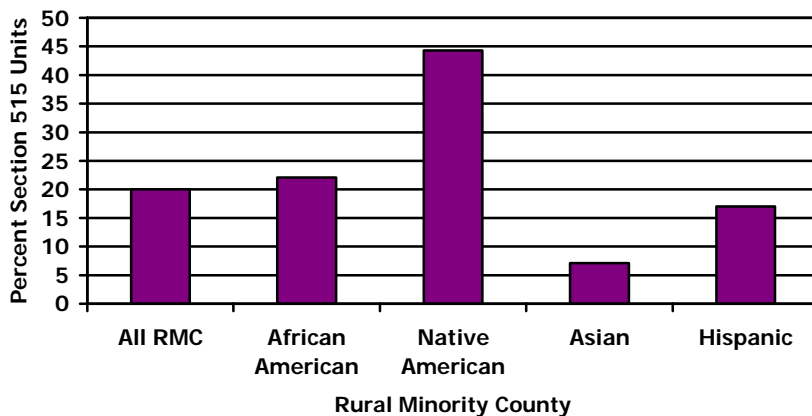
- △ 211 African-American counties,
- △ 4 Asian counties,
- △ 62 Hispanic counties, and
- △ 24 Native American counties.

These communities are concentrated in regions that are historically connected to specific racial and ethnic groups. Hispanic rural minority counties can be found predominantly along the U.S.-Mexico border. Rural African Americans tend to be clustered in the South in what is known as the Black Belt, and Native American counties tend to be found in regions where Native American reservations are located.

### Findings

- △ In the 301 rural minority communities with Section 515 properties, approximately one-fifth of all subsidized units are in Section 515 properties.
- △ Section 515 properties are particularly noticeable in counties with substantial and long-term Native American populations. In Native American rural minority counties, Section 515 units comprise 44 percent of all subsidized rental units.
- △ In African-American rural minority counties Section 515 units make up 22 percent of subsidized units.
- △ Nearly half the Section 515 properties in rural minority counties are eligible for prepayment.

**Figure 17. Section 515 Rental Units in Rural Minority Counties**



■ Percent of Subsidized Units that are Section 515 Units

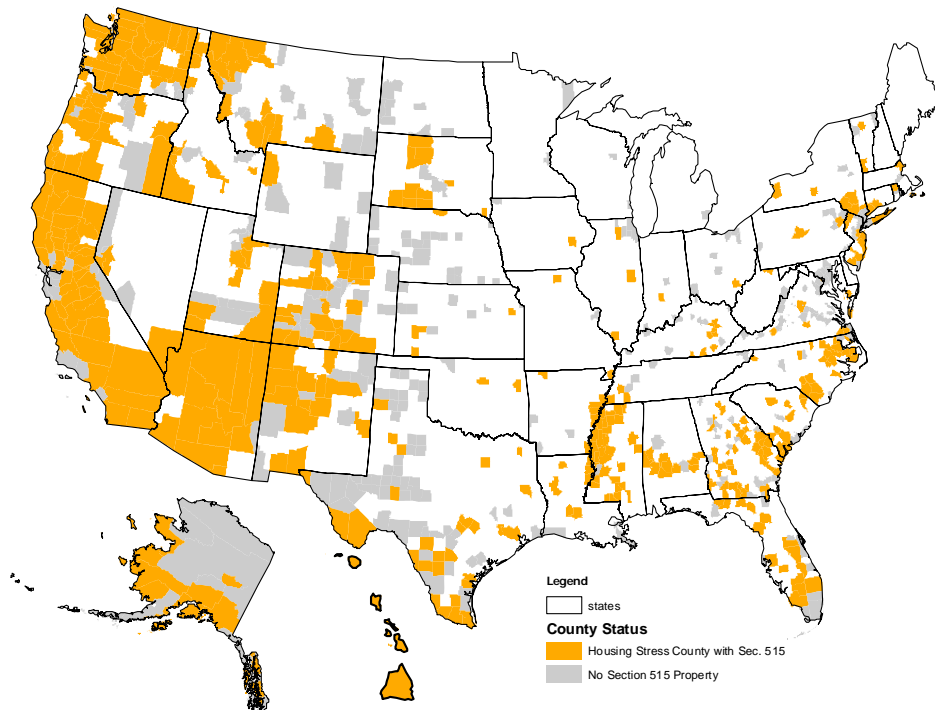
### Housing Stress

For much of the 20th century, the poor quality and condition of homes was the primary housing concern facing rural America.<sup>24</sup> Affordability has replaced poor housing conditions as the greatest problem for low-income rural households. Housing costs have increased drastically and incomes have not kept pace. Approximately one-third of rural households (6 million) have at

least one major problem of quality, cost, or crowding, and many of those with problems have more than one problem. Fully 3 million rural renter households (51 percent) have housing problems.<sup>25</sup>

**Figure 18.**

### Housing Stress Counties



To help examine housing quality in relation to the spatial analysis of subsidized housing, the research incorporates an indicator of “housing stress” formulated by the USDA Economic Research Service.<sup>1</sup> Housing stress counties are those where 30 percent or more of all households had a housing problem in 2000, experiencing one or more of the following: lacked complete plumbing, lacked complete kitchen, paid 30 percent or more of income for owner costs or rent, or were overcrowded (had more than one person per room).<sup>26</sup> There are 432 housing stress counties averaging about 73,000 housing units per county. Housing stress counties are heavily concentrated in the South and West.

<sup>1</sup> ERS uses data from the 2000 Census to identify housing stress counties. The decennial census does not collect data on housing quality measurements such as dilapidation or lack of electricity. Such factors are measured in the American Housing Survey, but AHS data are not available at the county or state level.

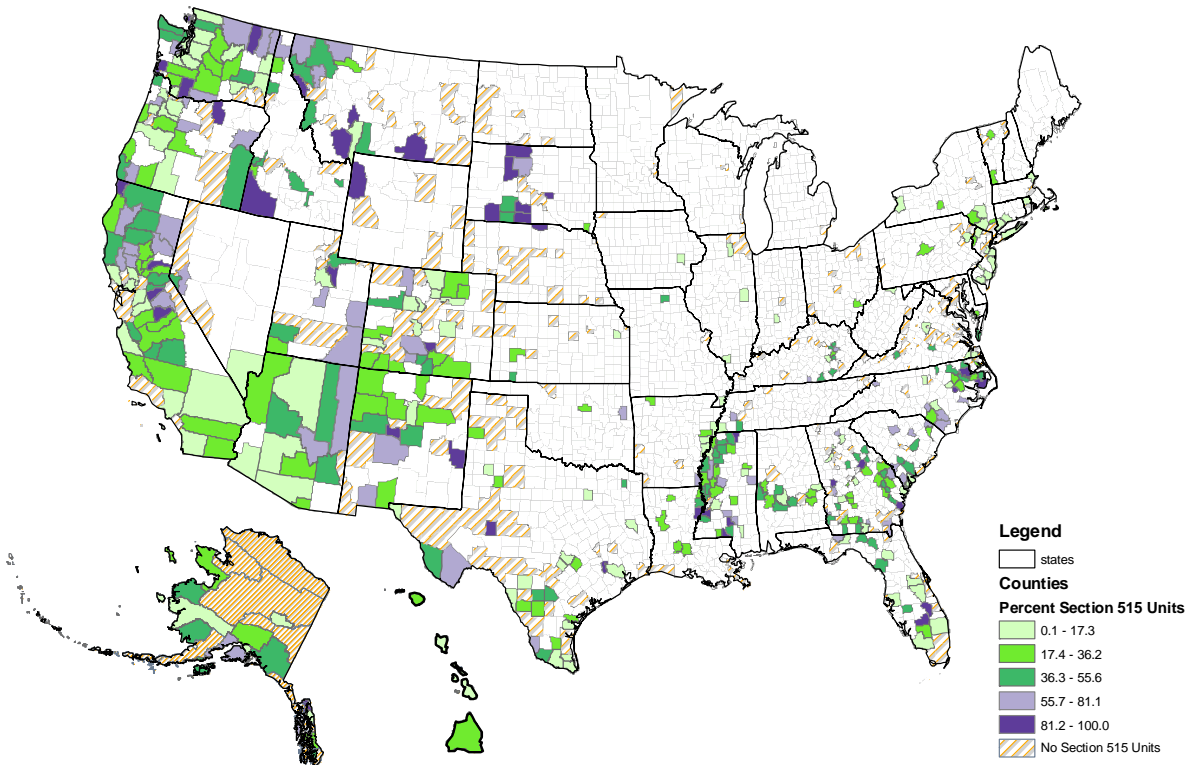
## Findings

There are nearly 90,000 Section 515 units in housing stress counties, located in approximately 2,700 Section 515 projects.

- △ Overall, 11 percent of subsidized units in these housing counties are located in Section 515 properties.
- △ Approximately one-third of housing stress counties are in metropolitan areas. In nonmetropolitan housing stress counties, Section 515 units make up 38 percent of subsidized units.

Figure 19.

### **Housing Stress Counties Section 515 Units as a Percent of All Subsidized Rental Units**



### ***Distance Analysis<sup>1</sup>***

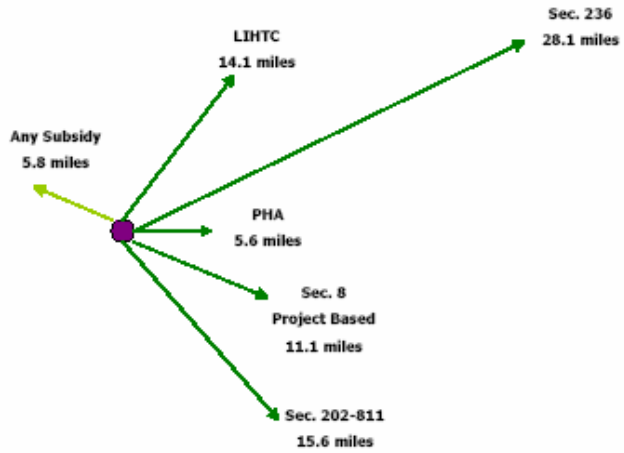
To augment the county level analysis and provide greater geographic specificity, a “distance-specific” location analysis of all USDA Section 515 properties in proximity to other federally

<sup>1</sup> RD Section 538 guaranteed rental properties are not included in the distance-specific analysis due to a lack of specific location information that precluded quality geocoding.

subsidized rental housing properties was conducted. The distance analysis calculates approximate distance between Section 515 projects and other federally subsidized properties using an array of geographic and mapping techniques. USDA Section 515 properties falling within a range or distance radius of another federally subsidized property are identified and analyzed based on their proximity.

**Figure 20.**

### Average Distance to Nearest Subsidized Property

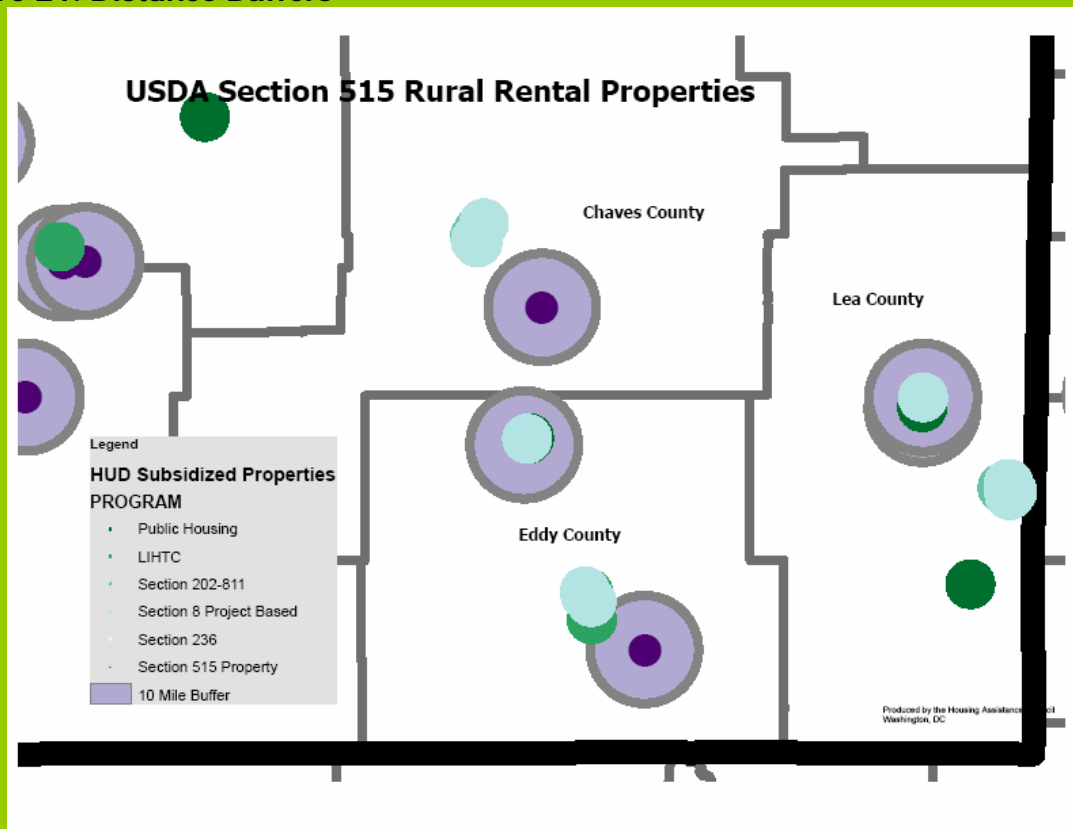


## How It Works

To illustrate the concept of “distance buffers,” two counties in New Mexico are presented as an example. As indicated in Figure 21, there are two USDA Section 515 properties in Eddy County and one in Chaves County. There are also several HUD Section 8 properties and one LIHTC property in Chaves County. Yet these HUD properties are located outside the 10-mile radius (buffer) of the county’s lone Section 515 property and would not be considered to be in close proximity under the distance analysis. In Eddy County there are two Section 515 properties. A public housing property and project-based Section 8 projects are well within 10 miles of one of the Section 515 properties and thus would be considered in close proximity. Several tax credit and PHA properties are just outside the 10-mile buffer around Eddy County’s other Section 515 and therefore would not be considered in close proximity.

While the county names are used to identify property locations in this example, county lines are irrelevant to the distance analysis. In other words, the ten-mile distance buffers may cross county lines, as illustrated at the far left of Figure 21.

**Figure 21. Distance Buffers**



On average, the nearest subsidized housing property is located approximately 5.6 miles away from a Section 515 property.<sup>1</sup> These distances vary by type of subsidized property, however. For example, the nearest Section 202-811 property is on average 15.6 miles away from a Section 515 and the nearest project-based Section 8 property is on average 11.1 miles from a Section 515 project.

Among Section 515 properties that are eligible for prepayment, the average distance to the nearest subsidized property increases slightly to 6.0 miles.

To classify properties based on proximity, a 10-mile distance buffer was selected. Any USDA Section 515 properties within 10 miles of another federally subsidized property were identified as “in close proximity” to the other property. Conversely, Section 515 properties more than 10 miles from other subsidized properties were considered “not in close proximity.” In some respects, this 10-mile buffer is an arbitrary designation. Given the spatial dynamics of rural communities, however, combined with the structure of subsidized housing programs in general, a 10-mile designation to indicate proximity is justifiable.<sup>11</sup>

### Findings

- △ *Properties within 10-mile radius.* Approximately 79 percent of all USDA Section 515 properties are located within 10 miles of another federally subsidized rental property. They include about 331,000, or 85 percent, of the total Section 515 units.
- △ *Properties outside 10-mile radius.* Over one-fifth of Section 515 properties are located more than 10 miles from another subsidized property. There are just over 3,000 of these more isolated Section 515 properties, accounting for over 60,000 units of rental housing. These more isolated Section 515 properties tend to be smaller than the average Section 515 property, consisting of 20 units compared to 27 units for all properties. Nearly half (45 percent) of these properties are located in the Midwest and nearly the same proportion are located in OCBSA counties.

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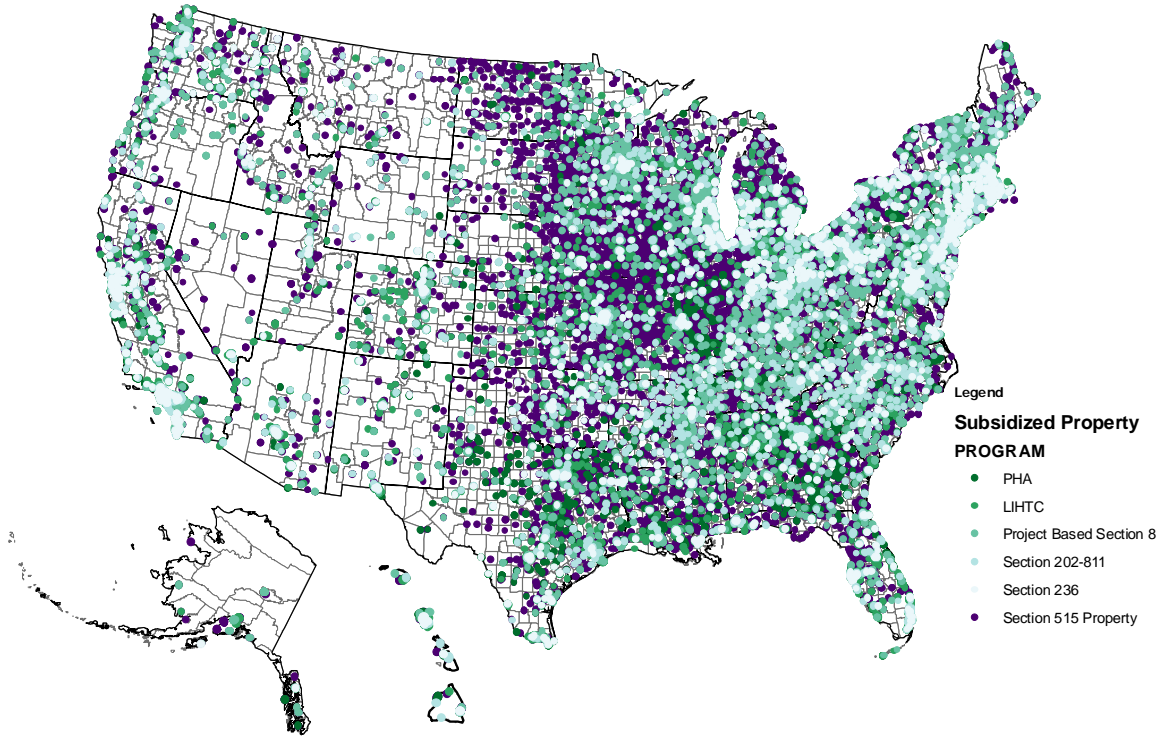
<sup>1</sup> Average nearest distance was calculated using Hawth’s distance tests. Nearest subsidized property does not include other Section 515 properties. Average nearest distance was calculated for the continental United States only. Alaska, Hawaii, Puerto Rico, and Guam are not included.

<sup>11</sup> As an example, over 90 percent of the non-USDA subsidized properties utilized in this analysis (public housing, LIHTC, project based Section 8, Section 202-811, etc.) are within one mile of another subsidized property. Therefore, even factoring in the low density of rural areas, a 10-mile buffer in any direction appears to be a good threshold for proximity to other properties. Additionally, other social and economic factors such as commuting patterns and population density characteristics were consulted in the establishment of this indicator.



Figure 22.

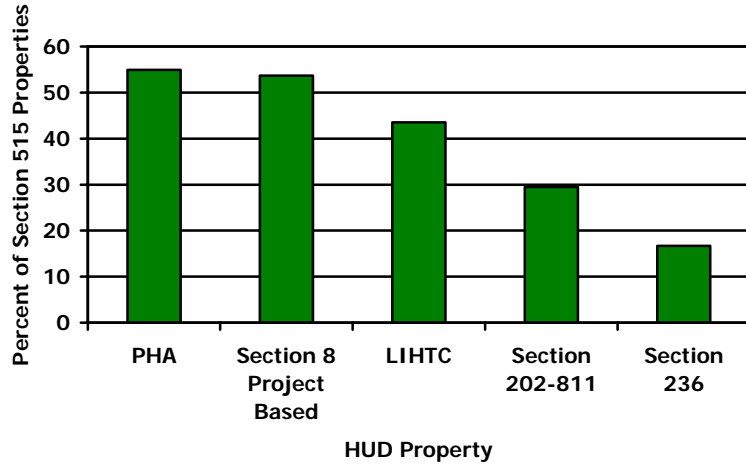
## USDA Section 515 Rental Properties in proximity to other Subsidized Housing Properties



While more than three-quarters of all Section 515 properties are within 10 miles of another subsidized property, the findings vary somewhat by specific subsidy program.

- △ Over half of all Section 515 properties are within 10 miles of a project-based Section 8 or public housing property.
- △ Similarly, over 44 percent of Section 515 properties are within 10 miles of a LIHTC property.
- △ HUD Section 202-811 and Section 236 properties are less prevalent nationwide, including in Section 515 communities. Only 30 percent of Section 515 properties are within 10 miles of Section 202-811 properties and just 17 percent are that close to HUD Section 236 properties.

**Figure 23. Percent of Section 515 Properties within 10 Miles of Another Subsidized Property**



Section 515 properties eligible to prepay are no more or less likely than other Section 515 developments to be close to other subsidized rentals. Approximately 5,791, or nearly 79 percent of Section 515 properties that are eligible to prepay, are within 10 miles of another subsidized rental property.

## **DISCUSSION**

The U.S. subsidized rental housing network is a patchwork of differing types and forms of housing. The Housing Assistance Council's investigation of the geographic relationship between the Section 515 housing stock and other forms of subsidized housing shows that Section 515 housing is a significant component of this subsidized network, especially in the small towns and more remote areas of rural America. A steady trickle of Section 515 property owners seek to prepay their mortgages and leave the program's affordability requirements. USDA will, and should, continue to make prepayment decisions about individual Section 515 properties on an individual basis. Overarching policy decisions, however, benefit from access to a larger picture.

Like the data analysis, the discussion below focuses on existing housing. It does not address the need for additional decent, affordable rental homes or rent subsidies for the 3 million rural renter households with housing problems. Nor does it take into account the existence of units subsidized solely by state or local sources, or units that are unsubsidized but decent and affordable.

### ***Findings: Counties with High Proportions of Section 515 Properties***

HAC's analysis demonstrates that Section 515 units comprise particularly high proportions of the subsidized housing stock in four specific types of counties:

- nonmetropolitan counties, particularly the more remote counties that are Outside Core Based Statistical Areas;
- urbanizing counties;
- nonmetro housing stress counties; and
- counties with predominantly Native American populations as well as, to a lesser extent, those with significant concentrations of other minorities.

A closer examination of these counties' characteristics and the demographics of Section 515 tenants reveals important considerations for discussions of prepayment and preservation policy.

#### *Nonmetro Counties, Particularly OCBSA Counties*

In areas outside metropolitan counties, Section 515 properties comprise approximately one-half of subsidized properties and over 36 percent of subsidized rental units. The 5,878 Section 515 properties in the more remote Outside Core Based Statistical Areas counties account for 46 percent of the subsidized rental units there.

It is not surprising that Section 515 developments comprise a large portion of the subsidized housing stock in nonmetro counties: while nonmetropolitan status does not determine whether a place is considered "rural" and therefore eligible for USDA's Section 515 and other housing programs, there is a considerable overlap between nonmetro areas and USDA-defined rural areas.

More interesting, perhaps, is the importance of Section 515 properties in the places farthest away from cities of 50,000 or more. Section 515 rentals that are located more than 10 miles from other federally subsidized rental properties (totaling just over 3,000, or about one-fifth of all

Section 515 properties and more than 60,000 units) are disproportionately located in the Midwest and in counties that are Outside Core Based Statistical Areas. Likewise, the more than 900 counties in which Section 515 units make up over half of all subsidized rental units are disproportionately likely to be in the Midwest and to be OCBSA counties.

Many of these places are losing population, and also have relatively large and growing elderly populations.<sup>27</sup> While Section 515 properties in such areas may be less than fully occupied and may struggle to cover operating expenses, prepayment decisions must consider the availability – or unavailability – of alternative housing for their tenants.

The Section 515 developments that are more than 10 miles from other subsidized properties also tend to be smaller than other Section 515 properties, averaging 20 units compared to an overall average of 27. Their size does not indicate that they are unimportant: 20 apartments may be essential in a small rental market, and 20 potentially displaced tenant families may have no readily available alternatives.

### Urbanizing Counties

Urbanizing counties became parts of metropolitan areas between 1990 and 2000 because of increasing social and economic ties to sizeable cities. Such growing areas on the metropolitan edges, often called exurbs, are characterized by “fast-paced, low density growth and development.”<sup>28</sup>

The 40,000 Section 515 units in these counties make up 34 percent of the subsidized housing stock here, far higher than the 9 percent proportion in metropolitan counties overall. This location pattern probably developed for two reasons. First, the developers who chose the locations and applied for Section 515 financing would have tended to select markets with steady or growing demand for housing. Second, USDA regulations require that Section 515 properties be located near community and commercial facilities. Because these counties’ populations are growing and their economies are developing, demand for housing there is increasing.

In fact, the search for affordable homes may be precisely what draws some urbanites to these places.<sup>29</sup> Many are looking for homes they can afford to purchase and others seek affordable rentals, increasing the pressure on rental housing here. Thus rents are rising, giving owners of Section 515 developments a strong economic incentive to prepay their restricted-use mortgages in order to charge market-rate rents, while a significant loss of Section 515 units in these urbanizing areas could leave a substantial void in the subsidized and affordable rental markets.

### Housing Stress Counties

In nonmetropolitan housing stress counties, where at least one-third of all households experience housing problems, Section 515 accounts for 38 percent of federally subsidized units. 49 percent of the 46,137 Section 515 units in these places are eligible for prepayment.

Housing stress counties include a number of urbanizing counties (44, or 10 percent of all urbanizing counties) as well as a third of all persistent poverty counties (153, or 35 percent). Unlike urbanizing counties (discussed above), persistent poverty counties – where the decennial Censuses found poverty rates of 20 percent or more in 1970, 1980, 1990, and 2000 – provide little positive economic incentive for Section 515 owners to prepay their mortgages in order to obtain higher rents. They are subject, of course, to all the non-economic reasons owners may have for prepayment; these could not be quantified and were not included in the CPA’s analysis.

Housing stress counties’ economies may be either booming or stagnant but all of these counties, by definition, suffer a shortage of decent, affordable housing. Therefore tenants from a Section 515 property in a housing stress county are very unlikely to be able to find alternative rentals nearby.

### Native American and Other Minority Counties

Rural communities with significant populations of racial and ethnic minorities also often rely on the Section 515 program as a source of quality and affordable housing. Section 515 accounts for about one in every five subsidized rentals in counties that had a specific racial or ethnic minority population of one-third or more in 1980, 1990, and 2000. In Native American counties, Section 515 units comprise fully 44 percent of subsidized rentals.

Over two-thirds (69 percent) of rural minority counties are also persistent poverty counties.<sup>30</sup> As noted above, the likelihood of prepayment in these places has not been estimated.

Given the high proportion of Section 515 properties among subsidized rentals in minority counties, particularly Native American counties, these places deserve special attention.

### **Findings: Proximity to Other Subsidized Properties**

The Section 515 program has an extremely large reach across a vast and varied land mass. Section 515 projects are geographically dispersed and can be found in nearly 90 percent of U.S. counties.

Less than half of Section 515 properties are within one mile of other federally subsidized rental properties. In contrast, over 90 percent of all non-USDA subsidized rental properties are within one mile of another subsidized property. The majority of Section 515 properties are farther from, but still not remote from, other properties: about 79 percent of all Section 515 properties – containing 85 percent (about 331,000) of total Section 515 units – are located within 10 miles of other federally subsidized rentals.

Section 515 properties are more likely to be close to some types of other subsidized properties than to others:

- △ Over half of all Section 515 properties are within 10 miles of a project-based Section 8 or public housing property.

- △ Similarly, over 44 percent of Section 515 properties are within 10 miles of a Low Income Housing Tax Credit property.
- △ Only 30 percent of Section 515 properties are within 10 miles of Section 202-811 properties, which provide rentals specifically for elderly and disabled people, and just 17 percent are that close to HUD Section 236 properties. Only half of counties with a Section 515 property also have a Section 202 or 811 development.

These findings are particularly relevant for the approximately 60 percent of Section 515 residents who are elderly or disabled. Federally subsidized alternative housing is scarce in many of their communities, so a loss of Section 515 properties could have profound impacts on their housing choices.

### ***Recommendations: Connecting the Dots***

HAC's analysis demonstrates that geographic proximity and distance are important factors relating to the supply of subsidized housing in rural areas, and identifies certain types of places in which, and certain populations for whom, there may be few choices besides Section 515 properties in a search for decent, affordable housing. The analysis cannot support broad prescriptions for prepayment and preservation policy: one cannot say, for example, that prepayment should be prohibited for Section 515 properties in remote counties, or that prepayment should be permitted for Section 515 properties that are close to other federally subsidized properties. Instead, the need for the units in any given location must be determined individually.

This analysis does, nevertheless, point to a need for reconsidering some assumptions made about prepayment and preservation to date.

The Comprehensive Property Assessment conducted for USDA recommended that properties for which prepayment is economically viable, such as many of those in urbanizing areas, be allowed to prepay and that their current tenants be protected. Tenant protection provided by Congress and USDA has been in the form of vouchers through which USDA makes rent payments to landlords to supplement the amounts paid by tenants. The effectiveness of vouchers for individual households is not yet known; USDA's voucher program is relatively new, having begun operation in fiscal year 2006, and USDA has not released data on the vouchers it has provided or the characteristics of the tenants affected.

The long-term impact of providing vouchers to specific tenant households is also unknown. Under USDA's current voucher program, if a family leaves its community, so does its voucher. Over time, therefore, if nothing else changes, switching from Section 515 apartments to tenant vouchers means that the number of assisted households in many communities will decrease, without regard to changes in the number of remaining households who need subsidies in order to find decent, affordable places to live.

Too many unknowns remain, and the lives of too many vulnerable rural Americans are affected, for federal policy to adopt the CPA's prepayment recommendation as is. HAC's analysis demonstrates the importance of USDA's current determinations regarding alternative housing

availability and impact on minorities, and raise a number of questions on the advisability of relying on vouchers. The looming question of meeting all housing needs and fulfilling the nation's commitment to decent, affordable housing for all Americans<sup>31</sup> is also unaddressed.

HAC recommends:

- ***USDA should continue to take into account the availability of alternate affordable housing in a community, and the impact of prepayment on minorities, when deciding whether to accept a requested prepayment.*** Information about the analyses conducted for each property should be available to tenants, their representatives, and the public. Tenants should have a right to appeal prepayment approvals based on these analyses.
- ***Analyses of the availability of alternative housing should consider tenant demographics.*** For example, when prepayment of a Section 515 loan will affect elderly tenants with very low incomes, a nearby tax credit project for families with low incomes probably does not provide suitable alternative housing.
- ***Research should be conducted to identify and study the actual properties that would be affected by the Comprehensive Property Assessment's recommendation to allow prepayment*** for certain properties, estimated to comprise 10 percent of the Section 515 portfolio. HAC's analysis indicates that at least half of these properties may be in urbanizing counties with "hot" rental markets and few alternative housing choices for their tenants, and thus points to a need to preserve or replace these units for future low-income renters, rather than allowing their owners to prepay and protecting only the current tenants.
- ***Data should be collected regarding the use of USDA vouchers and the locations and housing conditions of former voucher holders.*** Because USDA's voucher program is new, too little is known about the long-term efficacy of these vouchers to be sure that they are a good solution for protecting current tenants. The existence of other people who need help now or in the future to obtain decent, affordable housing must be taken into account as well.
- ***Research should be conducted to determine how prepaid properties and their tenants fare after prepayment.***
- ***Vouchers should remain available in the communities where they were first issued if they are needed there,*** even after the specific tenants to whom they were first issued no longer need them.
- ***Tenants in prepaying Section 515 properties should have the same protections as Section 8 voucher tenants in prepaying HUD-financed properties.***
- ***Data collected by USDA should be readily available to the public.***

- ***Research should be conducted on the extent and characteristics of unsubsidized affordable rental properties.***



## ENDNOTES TO TEXT

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<sup>1</sup> U.S. Department of Agriculture (USDA) Rural Development (RD), *Multi-Family Housing Occupancy: Statistics Report as of January 2006* (unnumbered letter dated March 22, 2006), 2.

<sup>2</sup> Housing Assistance Council tabulations of 2000 Census of Population and Housing.

<sup>3</sup> Housing Assistance Council tabulations of 2003 American Housing Survey.

<sup>4</sup> Housing Assistance Council (HAC), *Since Inception Reports: Section 515 Rural Rental Housing Program Totals, FY 1963 – 2006* (Washington, D.C.: Housing Assistance Council, 2006), [http://www.ruralhome.org/rhs/06inception/515TOT\\_06b.pdf](http://www.ruralhome.org/rhs/06inception/515TOT_06b.pdf).

<sup>5</sup> USDA RD, *Multi-Family Housing Occupancy*.

<sup>6</sup> HAC, *Since Inception Reports: Section 515*.

<sup>7</sup> USDA Rural Development, *Direct Multi-Family Loans and Grants Regulations*, 7 CFR 3560.

<sup>8</sup> Russell T. Davis, Administrator, USDA Rural Development Housing and Community Facilities Programs, Letter to USDA Rural Development State Directors (April 27, 2007), 3, <http://www.rurdev.usda.gov/regs/ul/ulapril07.pdf>.

<sup>9</sup> USDA RD, *Multi-Family Housing Occupancy*, 2006.

<sup>10</sup> National Low Income Housing Coalition (NLIHC), *2007 Advocates Guide to Housing and Community Development* (Washington, D.C.: National Low Income Housing Coalition, 2007).

<sup>11</sup> U.S. Department of Housing and Urban Development (HUD), *A Picture of Subsidized Households – 2000*, <http://www.huduser.org/picture2000/index.html>.

<sup>12</sup> NLIHC, *2007 Advocates Guide*.

<sup>13</sup> NLIHC, *2007 Advocates Guide*. (The date for which this income level applies is not stated.)

<sup>14</sup> HUD, *A Picture of Subsidized Households – 2000*.

<sup>15</sup> Charles Tolbert and Molly Sizer, *U.S. Commuting Zones and Labor Market Areas: A 1990 Update* (Washington, D.C.: U.S. Department of Agriculture, Economic Research Service, September 1996).

<sup>16</sup> ICF Consulting, *Rural Rental Housing – Comprehensive Property Assessment and Portfolio Analysis* (Fairfax, Virginia: ICF Consulting, November 2004); Laurence Anderson, *USDA Section 515 Revitalization: A New Commitment to Preserve the Section 515 Portfolio*, presentation at Housing Assistance Council training conference in 2007 (available from HAC upon request).

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<sup>17</sup> Housing Assistance Council, *Turning Challenges into Opportunities: Housing and Community Development Strategies in Rural Population Loss Counties* (Washington, D.C.: Housing Assistance Council, 2007).

<sup>18</sup> Ibid.

<sup>19</sup> ICF Consulting, *Comprehensive Property Assessment*.

<sup>20</sup> U.S. Department of Agriculture Economic Research Service, *Population Loss Counties*, <http://www.ers.usda.gov/Briefing/Rurality/Typology/maps/Population.htm>.

<sup>21</sup> Frank Hobbs and Nicole Stoops, *Demographic Trends in the 20<sup>th</sup> Century* (Washington, DC: U.S. Government Printing Office, 2002), 7.

<sup>22</sup> Housing Assistance Council, *What is Rural?: Working Towards a Better Programmatic Definition* (Washington, D.C.: Housing Assistance Council, forthcoming).

<sup>23</sup> Much of the information in this subsection was drawn from Housing Assistance Council, *Race, Place, and Housing: Housing Conditions in Rural Minority Counties* (Washington, D.C.: Housing Assistance Council, 2004).

<sup>24</sup> Housing Assistance Council, *Taking Stock: Rural People, Poverty and Housing at the Turn of the 21<sup>st</sup> Century* (Washington, D.C.: Housing Assistance Council, 2002).

<sup>25</sup> HAC tabulations of 2005 American Housing Survey.

<sup>26</sup> U.S. Department of Agriculture Economic Research Service, *Housing Stress Counties*, <http://www.ers.usda.gov/Briefing/Rurality/Typology/maps/Housing.htm>.

<sup>27</sup> HAC, *Turning Challenges into Opportunities*.

<sup>28</sup> Alan Berube, Audrey Singer, Jill H. Wilson, and William H. Frey, *Finding Exurbia: America's Fast-Growing Communities at the Metropolitan Fringe* (Washington, D.C.: Brookings Institution, 2006), 2. [http://www.brookings.edu/~media/Files/rc/reports/2006/10metropolitanpolicy\\_berube/20061017\\_exurbia.pdf](http://www.brookings.edu/~media/Files/rc/reports/2006/10metropolitanpolicy_berube/20061017_exurbia.pdf). It should be noted that Berube et al. develop a definition of “exurbs” that is not the same as, though it overlaps with, the definition of “urbanizing counties” used here by HAC.

<sup>29</sup> Berube et al., 28.

<sup>30</sup> HAC, *Race, Place, and Housing*. The *Race, Place, and Housing* study analyzed the 304 total rural minority counties in the United States; 301 of these counties contain at least one Section 515 property and are included in the current report.

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<sup>31</sup> 42 U.S. Code 1441 (Housing Act of 1949, Section 2); 42 U.S. Code 1441a (Housing and Urban Development Act of 1968, Section 2); 42 U.S. Code 5301 note (Housing and Community Development Act of 1987, Section 2(b)).