



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*

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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.

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EXECUTIVE SUMMARY

The U.S. Department of Agriculture's Section 515 program provides more than 400,000 decent, affordable rental homes for rural Americans with low incomes, but many of these rentals are now at risk. Seeking to inform the debate on preservation of these units, this Housing Assistance Council report examines where Section 515 developments are located with respect to other federally subsidized rentals and reviews their role in their rural communities' rental housing networks. It discusses the policy implications of HAC's research findings and makes recommendations.

Rural renters experience some of the most significant housing problems in the United States, and USDA's Section 515 Rural Rental Housing program has been a critical tool in the effort to meet the housing needs of the poorest of the rural poor. Since 1963, Section 515 has funded the production of more than half a million affordable rental homes for low-income rural residents. Section 515 tenants' annual income averaged \$9,785 in January 2006, the most recent data available.

Today, however, a significant portion of the properties in the Section 515 rental housing portfolio are at risk. Physical deterioration, or owners' desires to remove the restrictions imposed by their Section 515 mortgages, threaten the continued availability of these apartments as decent, affordable homes for low-income people. At the same time, more than half of all rural renters live in poor quality housing or spend more than the standard 30 percent of income on rent.

Some federal policy responses to current rural housing preservation concerns rely at least in part on the availability of other decent, affordable rental housing nearby. HAC undertook a geospatial analysis of federally subsidized housing properties to determine the extent to which USDA's Section 515 rural rental housing units co-exist with other federally subsidized units, as well as to understand their role in their rural communities.

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.* In areas outside metropolitan counties, Section 515 properties comprise approximately one-half of subsidized rental properties and over 36 percent of subsidized rental units. The 5,878 Section 515 properties in the more remote Outside Core Based Statistical Areas (OCSBA) counties account for 46 percent of the subsidized rental units there.
- *Urbanizing counties.* The 40,000 Section 515 units in urbanizing counties make up 34 percent of the subsidized housing stock there, far higher than the 9 percent proportion in metropolitan counties overall. Because these counties' populations are growing and their economies are developing, demand for housing there is increasing. 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.

- *Nonmetropolitan 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. Almost half (49 percent) of the 46,137 Section 515 units in these places are eligible for prepayment. 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.
- *Counties with proportionately high minority populations.* 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. Given these high proportions, particularly in Native American counties, these places deserve special attention. Prepayment and preservation of Section 515 rental housing are critical issues for minority households and in rural minority communities. In the prepayment process, current RD regulations mandate an assessment of the potential impact of prepayment on housing opportunities for minorities.

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.

Fewer than half of all Section 515 properties are very close to other federally subsidized rental properties (within one mile). More than one-fifth are relatively far from other subsidized properties (more than 10 miles). Nearly half (45 percent) of these more isolated developments are located in the Midwest, and nearly the same proportion are located in OCBSA counties, the places farthest from metropolitan centers.

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 project-based Section 8 or public housing properties.
- △ Similarly, over 44 percent of Section 515 properties are within 10 miles of Low Income Housing Tax Credit properties.
- △ Only 30 percent of Section 515 properties are within 10 miles of U.S. Department of Housing and Urban Development (HUD) 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 point to a need for reconsidering some assumptions made about prepayment and preservation to date.

A 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.

Policy must also take into account the significant and growing rental housing needs in rural America. There are still millions of rural renters with housing problems related to cost, quality, and crowding. Section 515 rental housing is an important resource to help address these needs.

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 repaying Section 515 properties should have the same protections as Section 8 voucher tenants in repaying 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.***