HAC

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
May 2008

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ISBN 978-1-58064-158-6

This report was prepared by Lance George, Leslie R. Strauss, and Mark Kudlowitz of the Housing Assistance Council (HAC). The work that provided the basis for this publication was supported by funding from the John D. and Catherine T. MacArthur Foundation. HAC is solely responsible for the accuracy of the statements and interpretations contained in this publication and such interpretations do not necessarily reflect the views of the MacArthur Foundation.

HAC greatly appreciates the assistance of Keith Wardrip of the National Low Income Housing Coalition and Matt Foulkes of the University of Missouri for their valuable expertise and comments on preliminary drafts of this report.

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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INTRODUCTION

Since 1963, the Section 515 Rural Rental Housing program of the U.S. Department of Agriculture (USDA) has funded the production of more than half a million affordable rental homes for low-income rural Americans. Section 515 tenants include seniors and people with disabilities living on fixed incomes, as well as families struggling to make ends meet on minimum wages and others with scant resources. Their annual income averaged $9,785 in January 2006, the most recent data available.[1]

Today, 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.

Among the federal policy responses to these threats are two related to the availability of other decent, affordable rental housing nearby. First, when a property owner requests USDA permission to prepay a Section 515 mortgage and thus to remove USDA's affordability requirements, USDA considers (along with other factors) the availability of other affordable housing in the area and the impact prepayment would have on housing opportunities for minorities. Second, when USDA approves a prepayment it provides rental vouchers to the property's tenants, with the expectation that they will find landlords who will accept the vouchers – either the owners of the former Section 515 properties, or others.

No data are available, however, to evaluate these determinations and assumptions, and no such information is available about Section 515 properties in general. Are alternate decent, affordable apartments usually available for tenants displaced from Section 515 developments? The answer to this question would help determine whether current approaches to preservation and prepayment issues are appropriate, or whether changes should be made.

As a first step towards finding an answer, the Housing Assistance Council undertook a geospatial analysis to determine where Section 515 units are located with respect to other federally subsidized units, and to understand their role in their rural communities' rental housing networks. This study provides a comprehensive look at the location, composition, and proximity of federally subsidized rental housing properties and units in rural communities, with a special focus on Section 515. Contextual factors such as population decline, rurality and urbanization, minority populations, and local housing characteristics are also incorporated into the analysis.

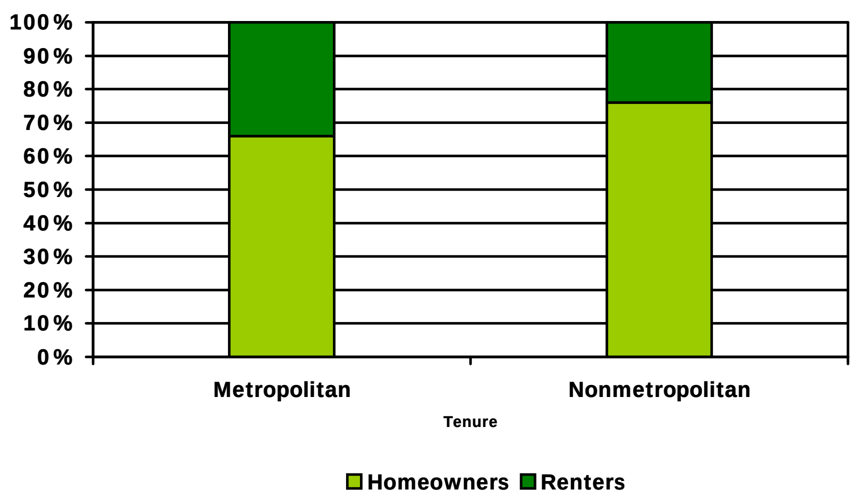
Ultimately, this research seeks to inform the larger debate on the role, availability, and preservation of affordable rental housing in rural America.

RENTAL HOUSING IN RURAL AMERICA: A BACKDROP

Rural Rental Housing Characteristics

In a nation that places a high value on homeownership and has committed substantial resources to increasing ownership opportunities, the needs of renters are often overlooked. While homeownership rates are higher in rural American than in cities, renting provides a housing alternative for the millions of rural families unable to purchase or uninterested in owning a home. More than 6.3 million housing units, or 24 percent of the total occupied rural housing stock, are renter-occupied. Geographically, rural rental housing rates are consistent across much of the United States, as only four states – Alaska, California, Hawaii, and Rhode Island – have rural rental rates above the national average.[2]

Figure 1. Housing Tenure by Residence



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.[3]

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. Nevertheless, rural minorities are much more likely to be homeowners than their urban minority counterparts.

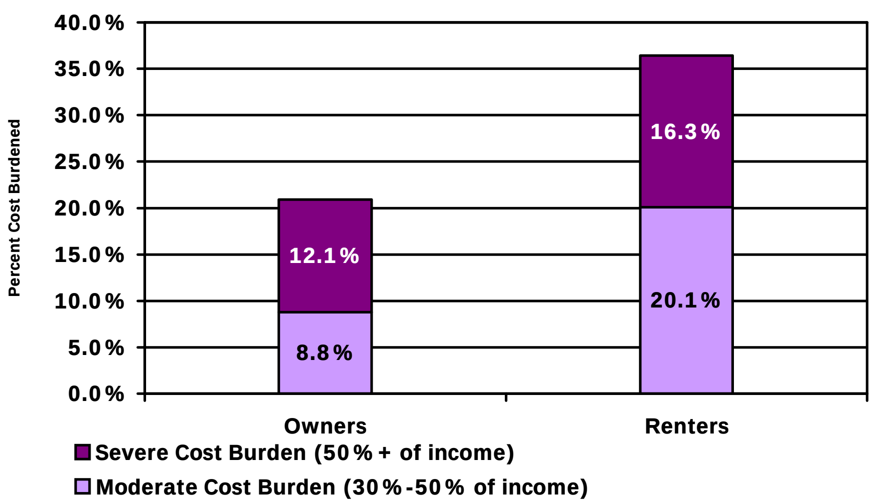
Rural renters are most likely to live in single-family homes or in small multifamily structures. Nearly 40 percent occupy single-family homes – twice the rate of metropolitan area renters. About the same proportion (42 percent) of rural renters live in multifamily structures of two or more apartments. Manufactured housing is much more prevalent in rural areas than urban locales and over 15 percent of rural renter-occupied units are manufactured homes. Rural renters also live in older housing than owners; 34 percent of rural renter-occupied units were built before 1960.

Housing Problems among Rural Renters

Rural rental households experience some of the most significant housing problems in the United States. Renter households in rural areas are twice as likely to live in substandard housing as their owner counterparts. Approximately 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.

Although housing costs are generally lower in rural areas than in cities, many rural households, particularly renters, find it difficult to meet these expenses. Approximately 36 percent of rural renter households pay more than 30 percent of their monthly income for housing costs and are considered cost-burdened, compared to 20 percent for owners. Most cost-burdened households have low incomes, and a disproportionate number are renters. Thirty-five percent of cost-burdened rural households are renters, while renters comprise only one-quarter of all rural households.

Figure 2. Housing Affordability by Tenure



Unfortunately, housing cost, quality, and crowding concerns are not mutually exclusive – many rural households experience multiple housing problems. Not surprisingly, rural renters are also more prevalent among households with multiple problems. Over half of the 662,000 rural households with multiple housing problems are renters.

Given the range of housing issues facing rural renters, federal programs have been a critical resource in providing needed support to develop affordable rental units and subsidize low-income renter households.

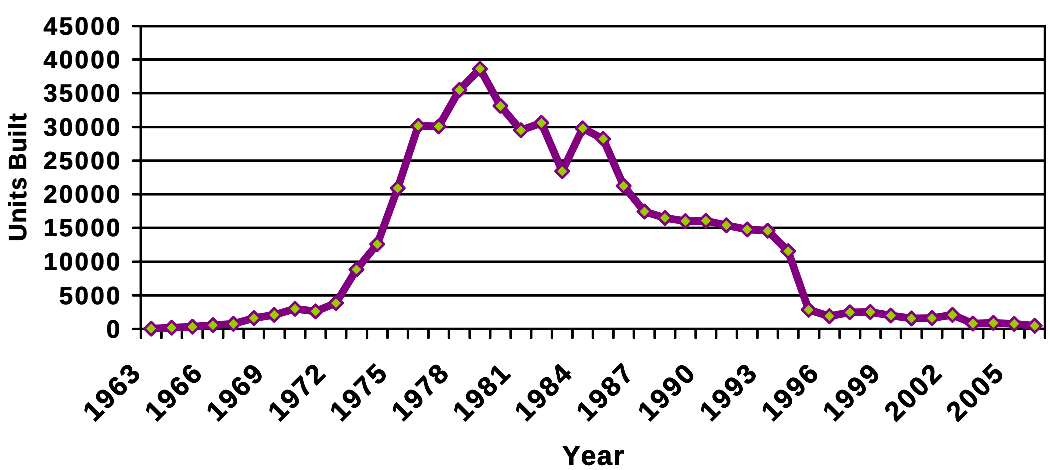
USDA's SECTION 515 RENTAL HOUSING PROGRAM

USDA's Section 515 Rural Rental Housing program has been the mainstay of the agency's efforts to serve the poorest of the rural poor for the past 45 years. The Section 515 program provides mortgage loans to develop rental housing for very low-, low- and moderate-income households. Section 515 is administered by USDA Rural Development (RD), successor to the former Farmers Home Administration.

Since the program's inception in 1963, Section 515 has produced thousands of housing developments containing more than half a million rental homes that are affordable for low-income rural residents.[4] The current Section 515 portfolio contains nearly 16,000 projects providing affordable homes for over 445,000 rural households. Most Section 515 residents have very low incomes; their average annual income is $9,785. Additionally, nearly 60 percent of Section 515 residents are elderly or have disabilities.[5]

Many federal rural housing programs have gone through dramatic transformations in recent years due to budget cuts and program alterations. A prime example has been the reductions in the Section 515 rural rental program. In Federal Fiscal Year (FY) 1994 the program funded the development of 11,542 units of affordable rental housing. In contrast, only 486 units were developed under the program in FY 2006, reflecting a reduction of more than 90 percent from mid-1990s production levels.[6]

Figure 3. Section 515 Rural Rental Housing Program, FY 1963 - FY 2006



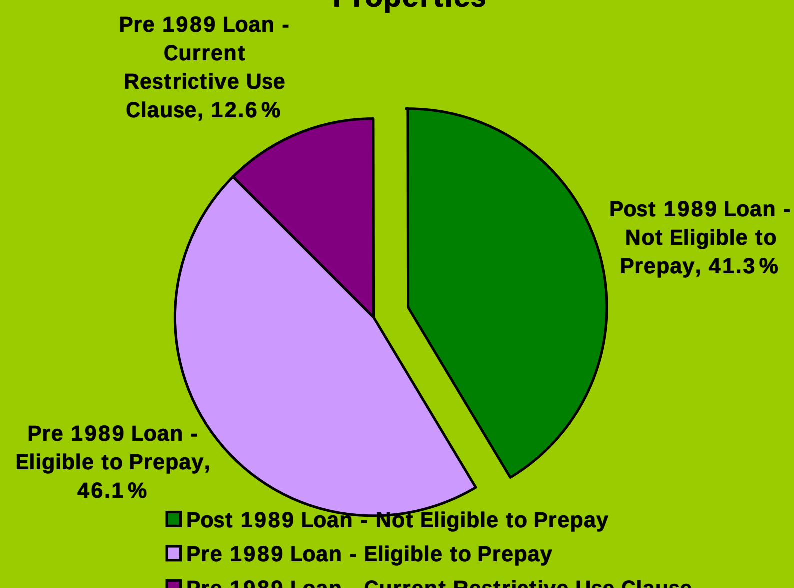
The Section 515 Prepayment Dilemma

A significant portion of the projects in the Section 515 Rural Rental Housing portfolio are at risk of being lost as low-income housing. Under current law, owners of projects that received loans prior to 1989 can request prepayment of the loan balances and convert the projects to market-rate housing, albeit with some restrictions designed to encourage affordable housing preservation. Owners of projects that received loans prior to 1979 can generally request prepayment of a Section 515 loan at any time. Section 515 mortgages made after December 15, 1989 cannot be prepaid.

By 2007, Section 515 owners have prepaid the loans on over 50,000 affordable homes, removing the mortgage provisions requiring them to house low-income residents. Many more loans are likely to be prepaid over the next several years. As of 2007, approximately 7,372 Section 515 projects (encompassing over 195,000 units) are eligible to prepay. Another 2,008 Section 515 properties built before 1989 will ultimately be eligible to prepay, but "restrictive use clauses" require them to remain affordable for low-income tenants for specified time periods. Overall, 46 percent of all properties with active Section 515 mortgages are eligible to prepay now and a total of 60 percent will be in the near future.

While some developments will remain affordable for low-income tenants after prepayment, others will not. Neither USDA nor any other entity collects data on properties that leave the Section 515 program or on their tenants.

Figure 4. USDA Section 515 Prepayment Status, Properties

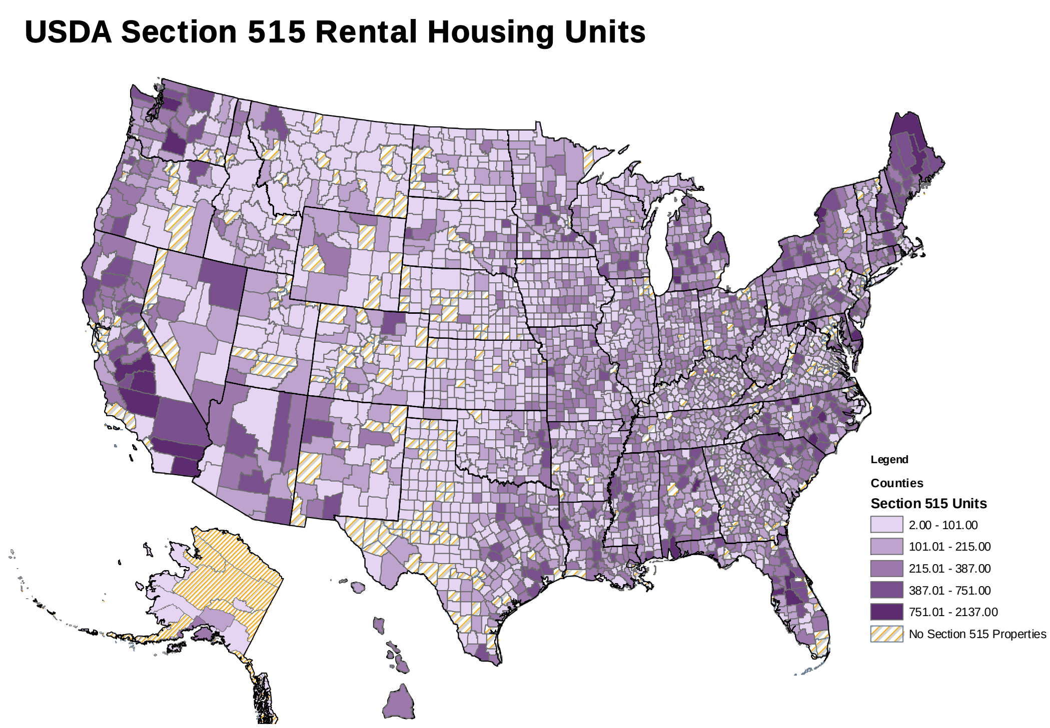


The Geography of Section 515 Rental Housing

USDA Section 515 properties have a broad reach across the United States. Every state, as well as Puerto Rico, the U.S. Virgin Islands, and the West Pacific territories, has at least one Section 515 property. Nearly 2,800 counties (89 percent) across the United States have Section 515 properties located within their boundaries.[I] Around 12 percent of counties have only one Section 515 project and approximately half the counties with a Section 515 property have four or fewer projects. Forty percent have between five and ten Section 515 projects. Approximately 11 percent have 10 or more Section 515 projects.

Regionally, Section 515 properties are most prevalent in the Southern and Midwestern United States, which are also among the most rural regions in the nation. Over 38 percent of Section 515 projects are located in the Southeast. Another 38 percent of properties are located in the Midwest. However, 46 percent of all *units* are in the South and just 30 percent of Section 515 units are in the Midwest, indicating that the Midwestern projects are generally smaller than those in the South. The Northeast and Western portions of the United States have substantially fewer Section 515 properties than the South and Midwest.

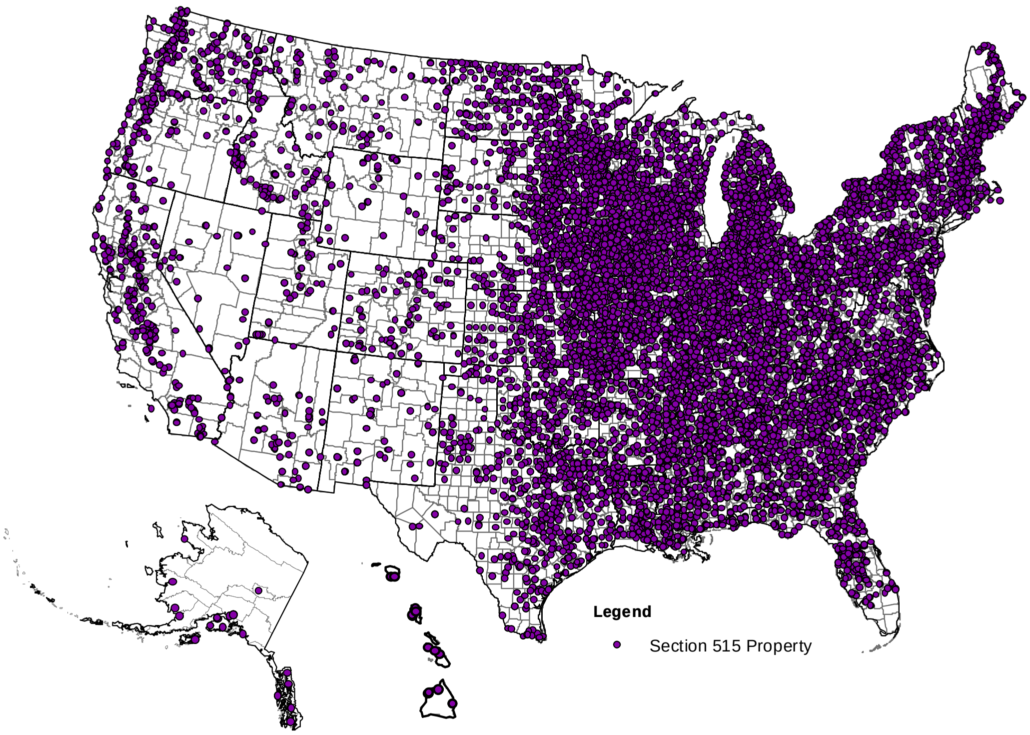
Figure 5.



[I] Approximately 126 Section 515 rental projects are located outside the United States in Puerto Rico, the U.S. Virgin Islands, and West Pacific Territories.

Figure 6.

USDA Section 515 Properties



Section 515 Prepayment and Minorities

Recognizing that prepayment and preservation of Section 515 rental housing are critical issues for minority households and in rural minority communities, the statutory restrictions on prepayment require USDA and property owners to take into account the impact on minorities.[7] If an owner applies for permission to prepay a Section 515 mortgage and rejects incentives offered by USDA to keep the property in the program, USDA must evaluate the impact of the prepayment on housing opportunities for minorities and the adequacy of the supply of other affordable housing in the community. If prepayment would adversely impact housing opportunities for minorities then, regardless of the existence of other affordable housing in the community, the owner must offer the property for sale to a nonprofit organization or public agency for 180 days. The mortgage can be prepaid only if no feasible offer is received within 180 days or if a potential purchaser cannot complete the purchase within 24 months.

It is possible, therefore, for a prepayment to occur despite a negative impact on minorities. In such a situation, tenants – like tenants of any prepaying property – are eligible for USDA vouchers (unless they already have HUD Housing Choice Vouchers), which can be used to rent at the prepaying property or another eligible development.[8]