



# RURAL AMERICA IS LOSING ITS AFFORDABLE RENTAL HOUSING

EXECUTIVE SUMMARY

## **RENTAL HOUSING FOR A 21ST CENTURY RURAL AMERICA**

A PLATFORM FOR PRESERVATION

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Housing Assistance Council  
[www.ruralhome.org](http://www.ruralhome.org)







# RENTAL HOUSING FOR A 21ST CENTURY RURAL AMERICA

## A PLATFORM FOR PRESERVATION

**A Crisis.** The increasing lack of affordable housing is not just an urban problem. Rental housing options in rural America are not only sparse, but also declining. An important source of housing in many rural communities are rental homes financed by the U.S. Department of Agriculture (USDA). Today there are over 13,000 USDA rental properties providing more than 415,000 affordable homes to families and individuals across rural America. No new USDA direct-financed rental housing has been developed in years, and the existing properties are increasingly losing their affordability provisions. The impacts of this trend are problematic for rural renters and communities alike.

**A Platform For Preservation.** The Housing Assistance Council (HAC) conducted a comprehensive assessment of USDA's multi-family housing investments. This multi-faceted review of USDA's multi-family housing portfolio considered not only the property characteristics, but also the tenant and market dynamics in which these properties exist. The report and its analyses recognize that USDA Section 515 rural rental housing is a public-private partnership, and that four key stakeholders and entities are extremely important within this partnership, including 1) the U.S. Department of Agriculture; 2) owners of Section 515 properties; 3) tenants residing in Section 515 properties; and 4) the public interest created by Section 515 investments and related outlays. The ultimate goal of this project is to inform strategies that help preserve this integral housing resource for rural communities and residents.





# THE PICTURE OF SECTION 515 HOUSING: PROPERTY, MARKET, AND TENANT DYNAMICS

**USDA's Section 515 Rural Rental Housing is among the few rental housing resources specific to rural communities.**

Since its inception in 1963, Section 515 has financed nearly 28,000 rental properties containing over 533,000 affordable apartment units.

**USDA's rental housing portfolio has a broad reach and impact across rural America.** There are approximately 13,829 Section 515 projects containing 416,396 rental units in the USDA portfolio. USDA's rental housing effort includes properties in every state and three territories, and there is at least one USDA rural rental property in 2,719, or 87 percent, of all U.S. counties.

**87%**

OF ALL US  
COUNTIES HAVE  
AT LEAST ONE  
USDA  
MULTIFAMILY  
PROPERTY



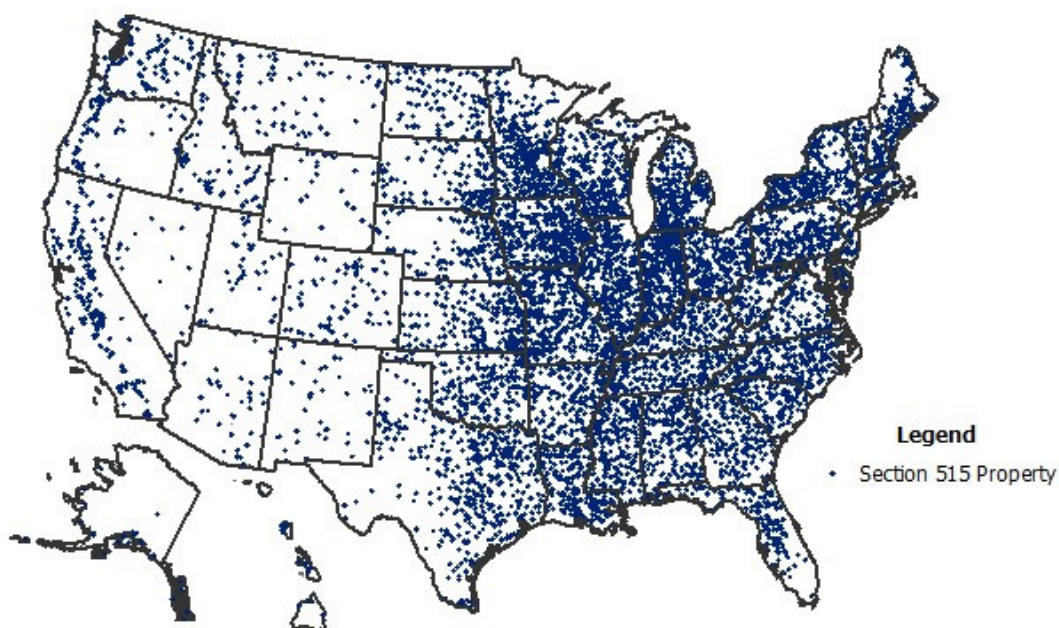
**The Midwest and South may be disproportionately affected.** While Section 515 properties are located across the nation's rural landscape, roughly two-thirds of all properties and units are located in the South and Midwest regions of the country. One-third of all Section 515 projects, and nearly 40 percent of all the units, are located in the Southeast region alone.

**Tenants in Section 515 properties are among the most vulnerable households in the nation.** The majority of Section 515 rentals are occupied by seniors and people with disabilities. Tenants' annual income averages only \$13,600.

**80 percent of tenants in USDA properties receive some type of rental assistance.** Approximately two-thirds of all Section 515 tenants live in units that are rent subsidized through USDA's Section 521 Rental Assistance program. Another 15 percent receive some other help with their rent, and the remaining 20 percent have no rental subsidy. More than one-third of those unassisted tenants are cost-burdened, paying more than 30 percent of their income for rent.

### USDA Section 515 Rural Rental Housing Properties

Properties as of June 30, 2017



Source: Housing Assistance Council (HAC) Tabulations of USDA Data





# PROJECTING LOSS OF USDA PROPERTIES AND ITS IMPACT

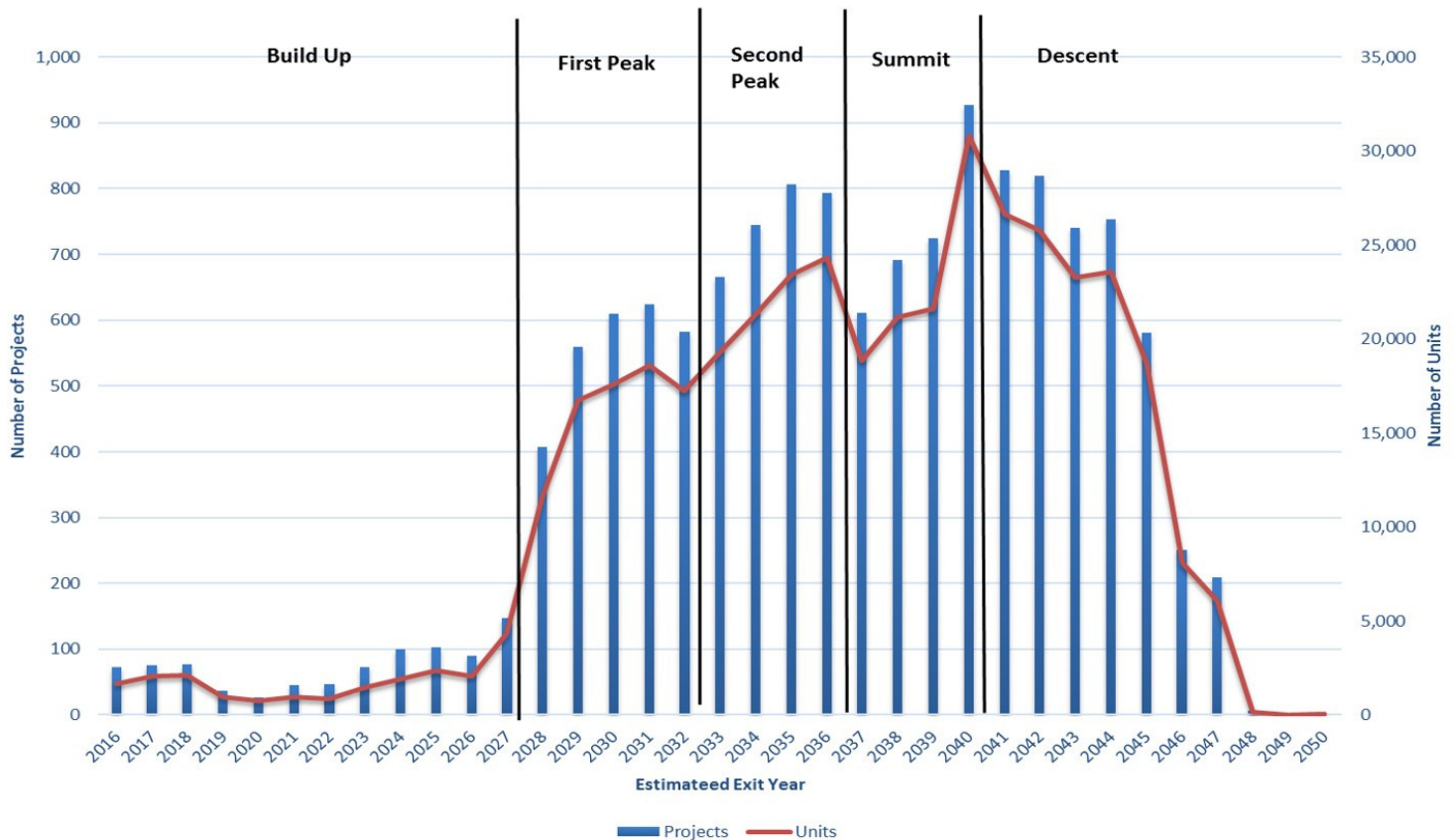
Significant numbers of Section 515 properties will be lost as affordable housing in the next few decades as their loans mature or leave the portfolio. Nearly 90 percent of USDA's portfolio is over 20 years old. More than half of those properties are over 30 years old.

**Owners of Section 515 properties play a key role in the equation.** An owner, after paying off a loan and barring the presence of restrictive use provisions, has the option of either continuing to use the property for affordable housing or choosing some alternative use. When a Section 515 loan nears maturity or is eligible to prepay, an owner can pursue one of five general options regarding the status of their property: 1) prepay the loan; 2) pay off the loan at maturity; 3) foreclosure; 4) recapitalize debt; or 5) transfer ownership.

**Maturing mortgages are now the most pressing preservation issue for Section 515 properties.** Assessed on a timeline "curve," mortgage maturity projections indicate that an average of 74 properties (1,788 units) per year will leave the program from 2016 to 2027. Maturities will then continue over three phases lasting four to five years each, with each involving about 2,800 to 3,000 properties containing about 82,000 to 92,500 units. Over 20 percent of the properties are expected to exit the program during each of these three phases.



### Maturing USDA Section 515 Rural Multifamily Loans Estimated Loss of Properties and Units to Loan Maturity, 2016 - 2050

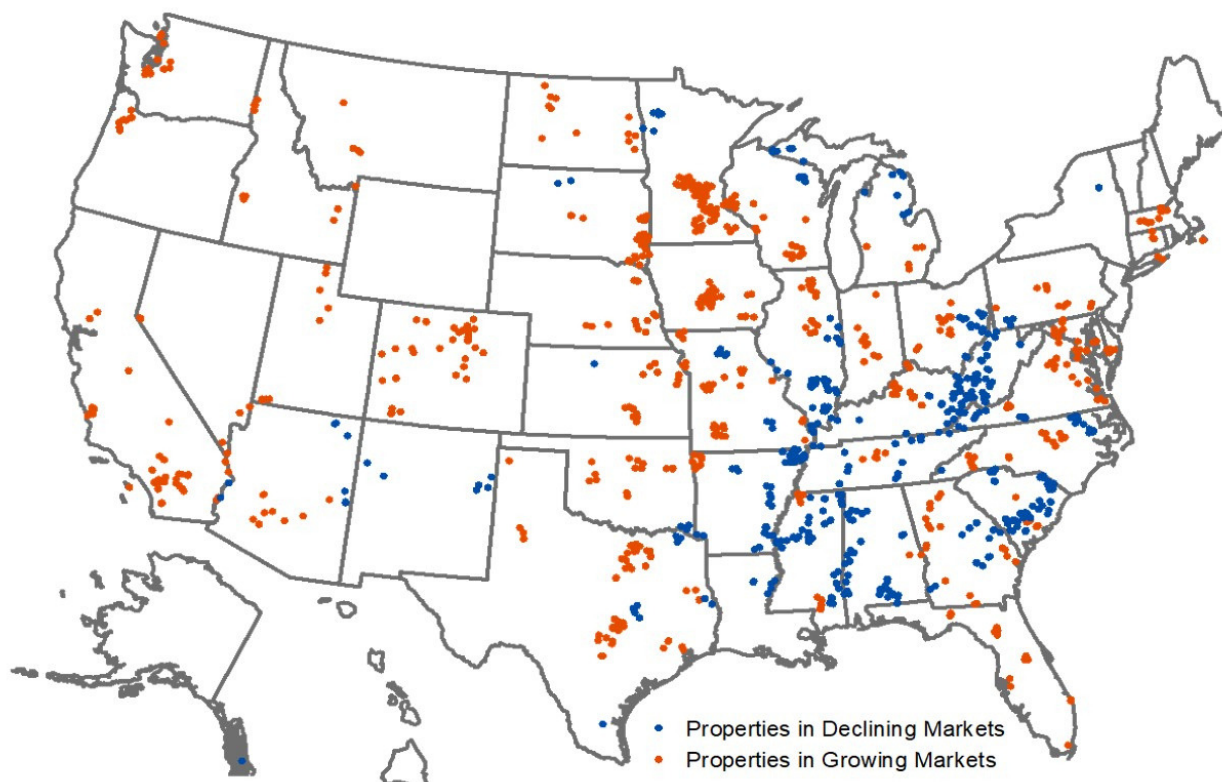


**Prepayment is still an important consideration in the viability of the Section 515 portfolio.** Between 2001 and 2016, loans were prepaid on 1,564 Section 515 properties resulting in 28,475 rental units leaving USDA's portfolio. Over the last five years an average of 86 properties and 1,643 units have prepaid annually. As of 2016, an estimated 5,300 Section 515 properties (38.2 percent of properties, encompassing over 150,000 units) are still eligible to prepay.

**When a USDA Section 515 loan ends for any reason, the property also loses its Section 521 Rental Assistance.** Some properties are restricted to low-income use for a period of time after they leave the program. In instances where there is no restrictive use provision, owners may increase rents to levels their low-income tenants may not be able to afford. Without restrictive use provisions in place, where there is a demand for higher-rent units, owners may convert their properties to market rents and displace current tenants.



## Section 515 Properties in Growing and Declining Markets



Source: Housing Assistance Council (HAC) Tabulations of USDA and American Community Survey Data

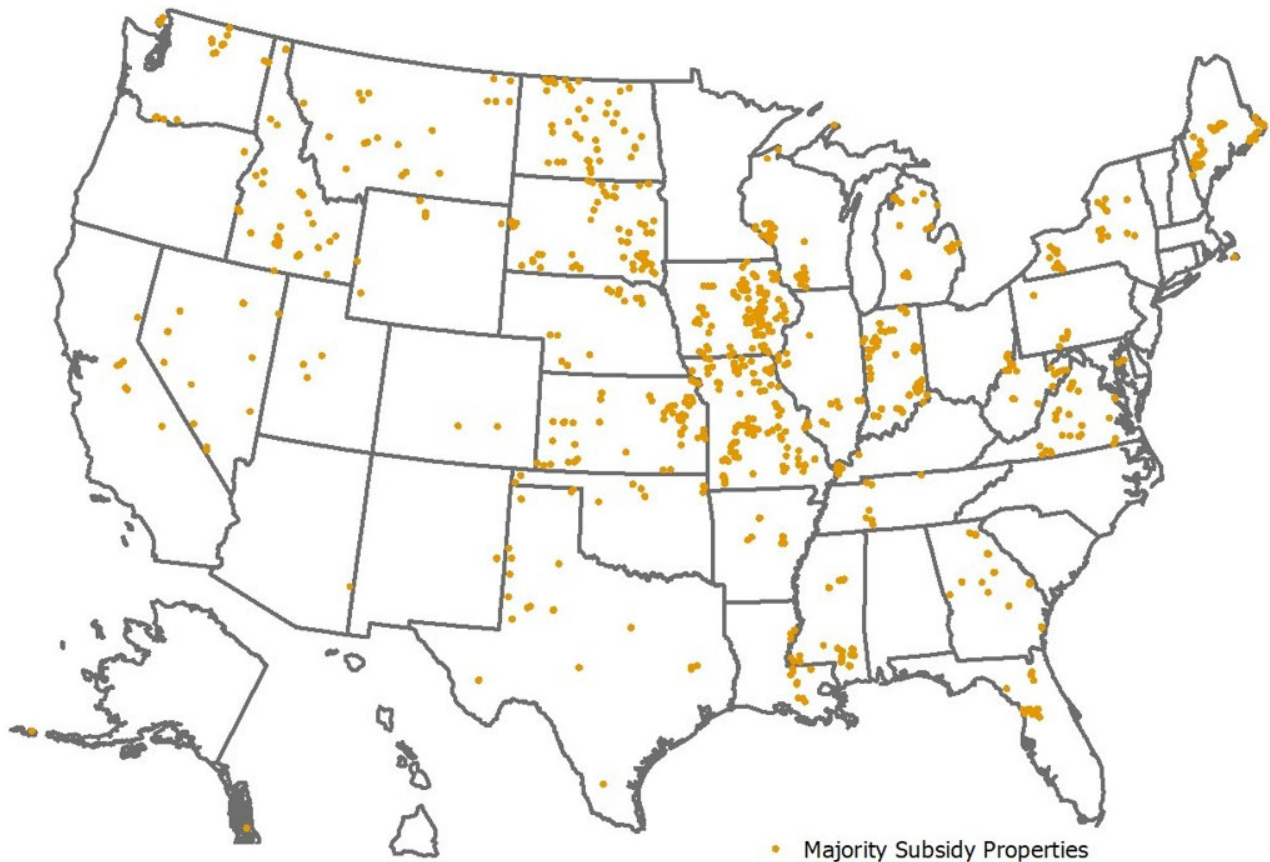
**Over 1,600 USDA properties (48,000 units) are located in counties classified as high risk because their economies and rental markets are either declining or growing rapidly.** Tenants in these at-risk properties are much more likely to be minorities than are Section 515 residents in general. They are also more likely to rely on USDA Rental Assistance.

**In over 300 counties Section 515 properties make up the majority of project-based federally subsidized units.** These counties are concentrated in the Plains states. In two-thirds of them, populations have declined since 2005 or 2010. Four out of five tenants in these properties are White. In 250 counties, focused in the Great Lakes, Plains, and Southeast, Section 515 accounts for 10 percent or more of all renter-occupied units. These counties' populations tend to be sparse, declining, and aging.



## Section 515 Properties Comprising a Majority of Subsidized Units

Properties in markets where Section 515 units comprise a majority of federally subsidized project-based rental homes



Source: Housing Assistance Council (HAC) Tabulations of USDA and National Preservation Database

**Section 515 properties are located in 90 percent of counties with persistent poverty.** In 77 of these counties, Section 515 represents more than 10 percent of the total rental stock. Persistent poverty counties with Section 515 units are clustered in the Southeast. The tenants in these properties are disproportionately likely to be minorities, and disproportionately likely to rely on Section 521 Rental Assistance.

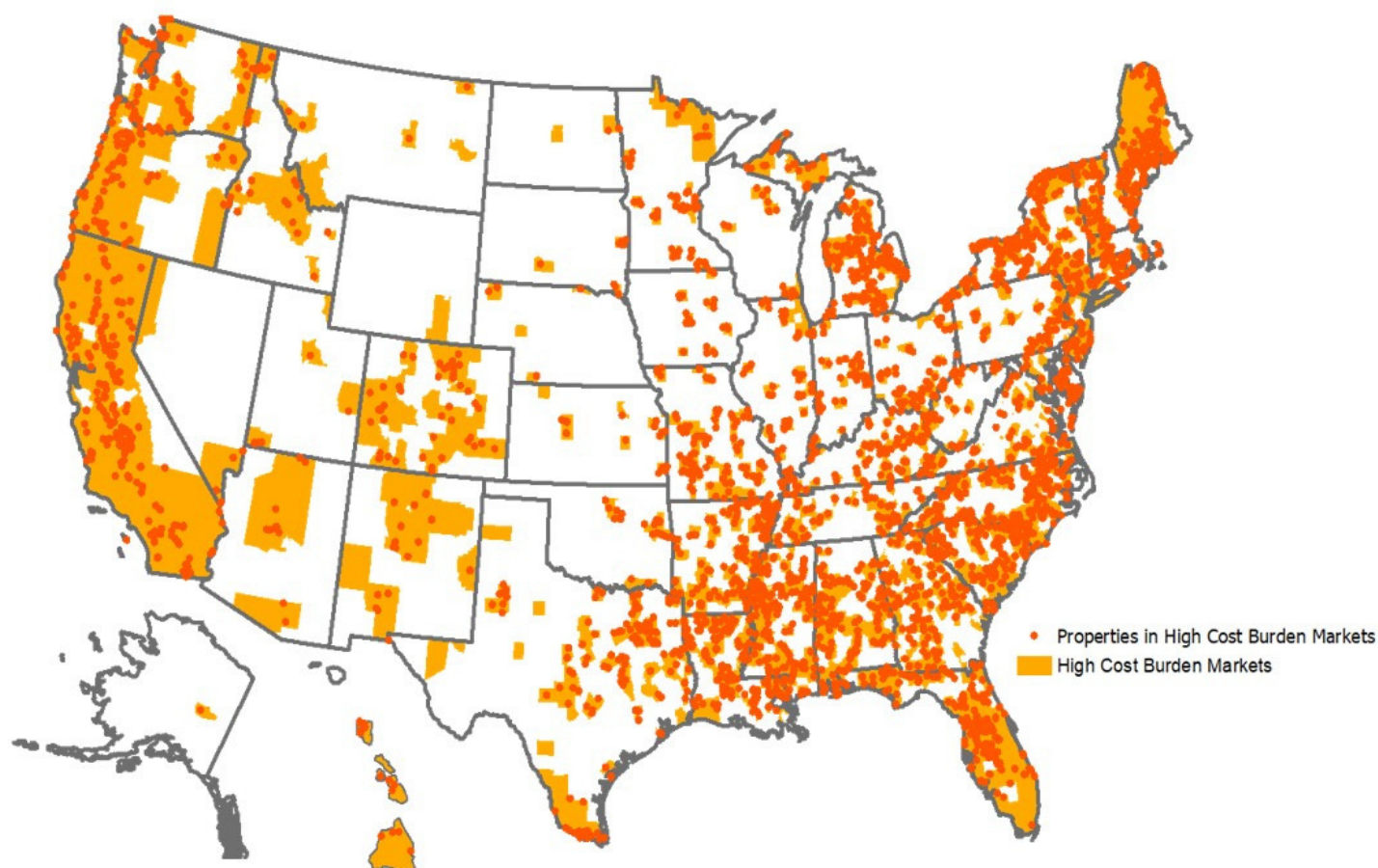
**Over 5,400 Section 515 properties are in counties where more than half of all rental households are cost-burdened.** The majority of these are located in the Southeast and Far West, with a relatively high percentage of African-American and Hispanic tenants.

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## Section 515 Properties in High Cost Burden Rental Markets

Properties in counties where more than 50% of all renters are cost burdened



Source: Housing Assistance Council (HAC) Tabulations of USDA and American Community Survey Data





# EXPERT AND STAKEHOLDER INPUT ON RURAL MULTI- FAMILY PRESERVATION

Nationally, there is a vibrant and robust community of practitioners, experts, and other stakeholders with unparalleled expertise on USDA's rental housing stock and broader issues related to rural rental housing. To provide context for the quantitative data analyses and additional information about the on-the-ground opportunities and challenges facing USDA's Section 515 portfolio, HAC convened or participated in discussions with stakeholders, and also reviewed comments and recommendations offered at a variety of forums over several years involving preservation efforts.

**The topic most often raised was the availability of cost-effective financing. Stakeholders named many federal, state, and private sources of debt and equity.** They described the Low-Income Housing Tax Credit program as essential for large-scale preservation because it has become the major source of financing for affordable rental housing. If another program gained the same level of importance, that program would become key as well.

**USDA Section 521 Rental Assistance was also identified as a critical preservation tool.** In addition, stakeholders supported use of USDA Section 542 vouchers. Stakeholders did note that, because these vouchers are tenant-based, they aid tenant households but do not help preserve affordable units in communities in the long term.





# PRESERVATION STRATEGIES AND POLICY RECOMMENDATIONS

Strategies to preserve rural rental properties balance on a fine line between aspirations, pragmatic realities, legal and contractual rights, and the possibility for meaningful action. The report and its analyses recognize that USDA Section 515 Multi-Family Housing is a public-private partnership, and that there are key stakeholders and entities around whom the strategies are developed:

1. The U.S. Department of Agriculture;
2. Owners of Section 515 properties;
3. Tenants residing in Section 515 properties; and
4. The public around Section 515 investments.

The following preservation strategies are presented with these stakeholders and the following principles in mind: the interests of several different parties must be protected; no one can have everything they want; some expense will be incurred; and resources are limited, so priorities must be established.



**1. USDA: USDA Rural Development and the Rural Housing Service are, of course, deeply involved in every aspect of rural rental housing preservation.** USDA is the lender and the regulator for its rural rental housing programs; the distributor of Rental Assistance and other financial assistance; and the approver of transferees, appraisals, foreclosures, and numerous other decisions involved in preservation. The research and the input of varied stakeholders surfaced several suggestions for USDA actions.

### **Strategies for USDA:**

Easy-to-use public data would increase transparency.  
Improved accuracy of the public data is critical to make informed decisions.

USDA could help stakeholders learn more about the possible preservation uses of USDA's Community Facilities programs and the Business and Industry guarantee program.

USDA could provide or support an exchange where stakeholders can share information with each other.

Additional information and data would be useful.

**2. Owners and Purchasers: Preservation is possible only with the participation of Section 515 property owners and/or entities that may wish to purchase these properties.** All owners and purchasers could benefit from process improvement strategies, while other strategies must take account of their differing circumstances. Some owners with loans made before late 1989 have successfully sued for damages caused by retroactive prepayment limitations, while others have worked within the constraints of the prepayment statute. For instance, this study found that nonprofit owners were less likely to prepay than others.

## Strategies for Owners and Purchasers:

Incentives help to keep owners in the Section 515 program.

The new preservation technical assistance program seems promising. Simpler processes would make preservation easier.

Reductions in operating costs would also help make preservation more feasible.

Revisions in state LIHTC programs could better assist rental preservation with 9 percent credits.

USDA helps borrowers by continuing to provide information ahead of mortgage maturity.

**3. Tenants: The analyses in this report make clear the significant need for decent, affordable rental housing in rural America.** Preservation of existing units is particularly important because production of new units is not keeping pace with the demand. The vast majority of tenants in the existing Section 515 units are highly vulnerable: seniors, persons with disabilities living on fixed incomes, and single-parent families with children. Furthermore, rural areas and small towns usually have few affordable rental units available, and there is no guarantee that the owners of the available units will accept vouchers.

## Strategies for Tenants:

USDA rural vouchers could help more tenants.

It should also be noted that voucher funding needs will continue to increase.

Improved communication could increase the voucher utilization rate. Voucher payment amounts may need adjustments.



A standardized methodology could align determinations of impact on minority housing opportunities.

Preserving small and remotely located properties may be difficult but desirable when those rental units are needed in their communities.

**4. The Public Interest: Beyond the parties involved in the Section 515 program, broader public interests are implicated in preservation decisions.** Rural residents benefit when their neighbors, relatives, and coworkers have decent, affordable homes. Taxpayers are best served when public funds are used in the most efficient way possible. Private lenders benefit when they can participate in housing efforts, and other parties are aided by their involvement.

### **Strategies for the Public Interest:**

Housing tax credits and USDA's Section 538 loan guarantee program are useful preservation tools.

Increased private lender involvement would help meet the great need for preservation resources, and the new Duty to Serve obligations may yield new avenues for private lenders.

USDA's subordination of Section 515 and 538 loans is a useful preservation tool.

Legislation authorizing the Multi-Family Preservation and Revitalization (MPR) program and the Preservation Revolving Loan Fund (PRLF) could add certainty to rural preservation efforts.

USDA's vouchers cannot replace other preservation efforts.

State and local governments can help by funding state and local housing resources, including state housing trust funds and multi-family bond programs.

**5. Cross Cutting Strategies. Perhaps every preservation strategy cuts across stakeholder groups, simply because preservation has many impacts.** Addressing Section 521 Rental Assistance is certainly cross-cutting, if only because Rental Assistance has proved integral to so many preservation deals.

Reamortizing aging Section 515 loans is a significant preservation strategy.

Adding new Rental Assistance units to a property can provide important aid to keep properties in the program.

The concept of “decoupling” (separating the Section 521 and 515 programs so that a property can receive Section 521 Rental Assistance after its Section 515 loan matures or is prepaid) has both proponents and detractors.

### **A Platform for Preservation**

With demographic transformations such as the burgeoning senior population and changes in the locations of attractive jobs, the need for adequate and affordable rental housing looms large for many rural communities. Affordable rental options are a necessary part of a spectrum of housing options in rural America, yet they are too often in short supply.

Preserving existing decent, affordable rural rentals can help to meet the needs of aging rural residents, young families, and others with low incomes, as well as to make use of past government investments. Given the current economic realities in the United States, such preservation requires planning ahead and setting clear priorities.





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