

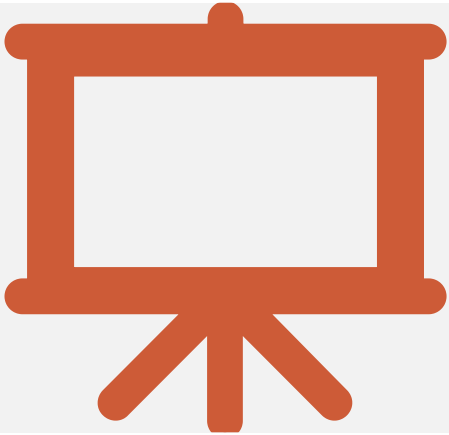


# Rural Rental Housing Preservation Academy

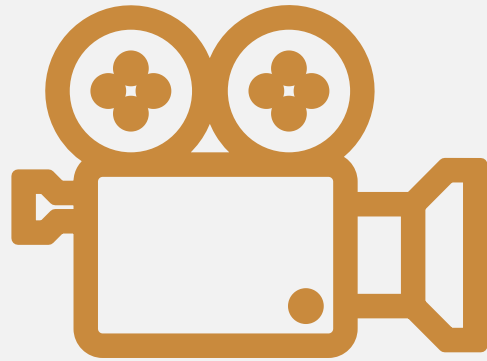
May 31, 2023



# Housekeeping



All registered attendees will receive the slides via email



This session is being recorded. You will receive a copy and it will be posted on the Enterprise website



We will answer questions throughout the presentation. Please submit them using the Q&A, chat or raise hand function



The link to register for upcoming sessions will be shared

# LAND ACKNOWLEDGMENT

## **OUR VISION**

A country where home and community are steppingstones to more.

## **OUR MISSION**

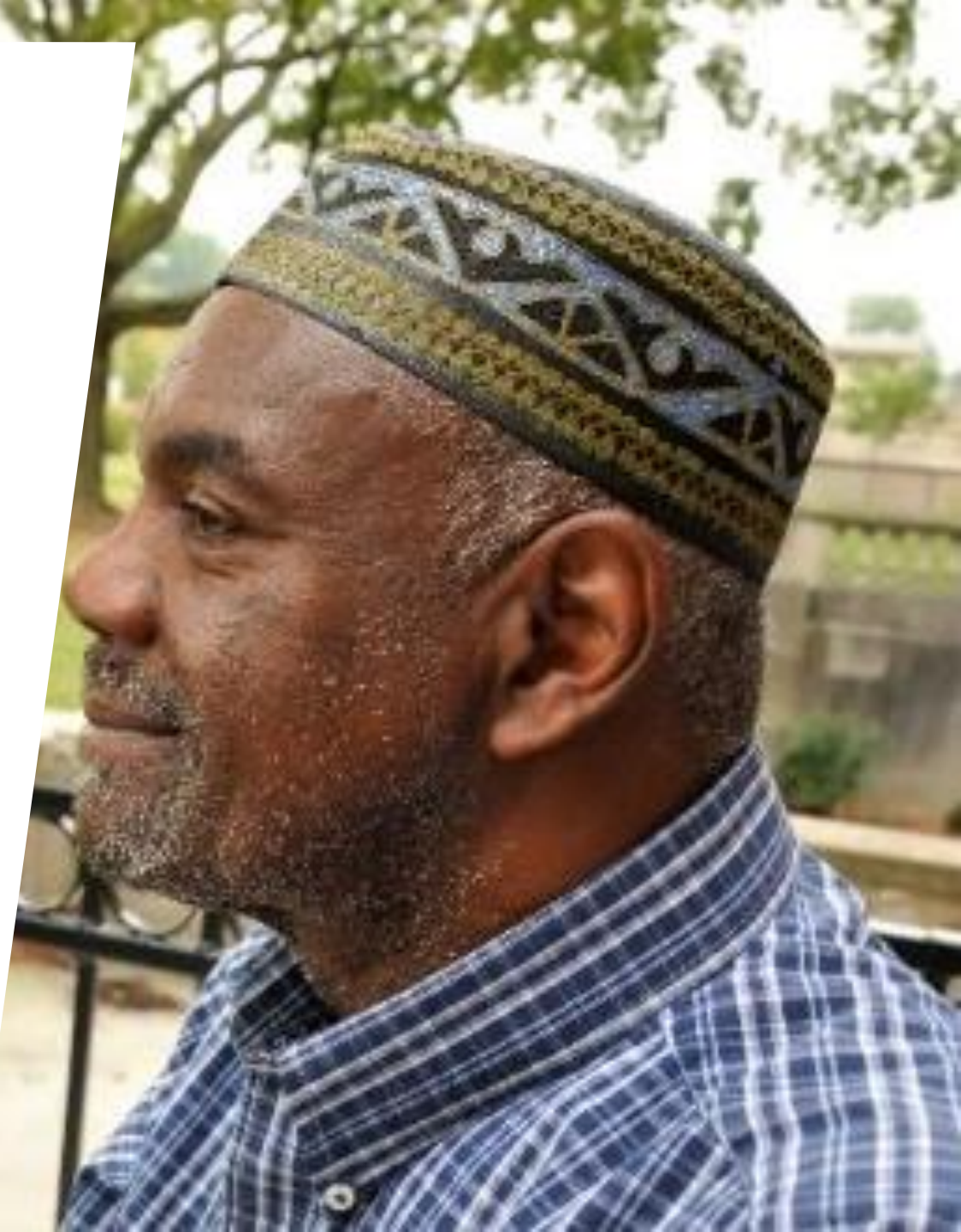
To make home and community places of pride, power and belonging, and platforms for resilience and upward mobility for all.





## WHO WE ARE AND WHAT WE DO

- **We develop and deploy** programs and support community organizations on the ground
- **We advocate** for policy on a nonpartisan basis at every level of government
- **We invest capital** to build and preserve rental homes people can afford
- **We own and operate** 13,000 affordable homes and provide resident services for 23,000 people



## Our Partner

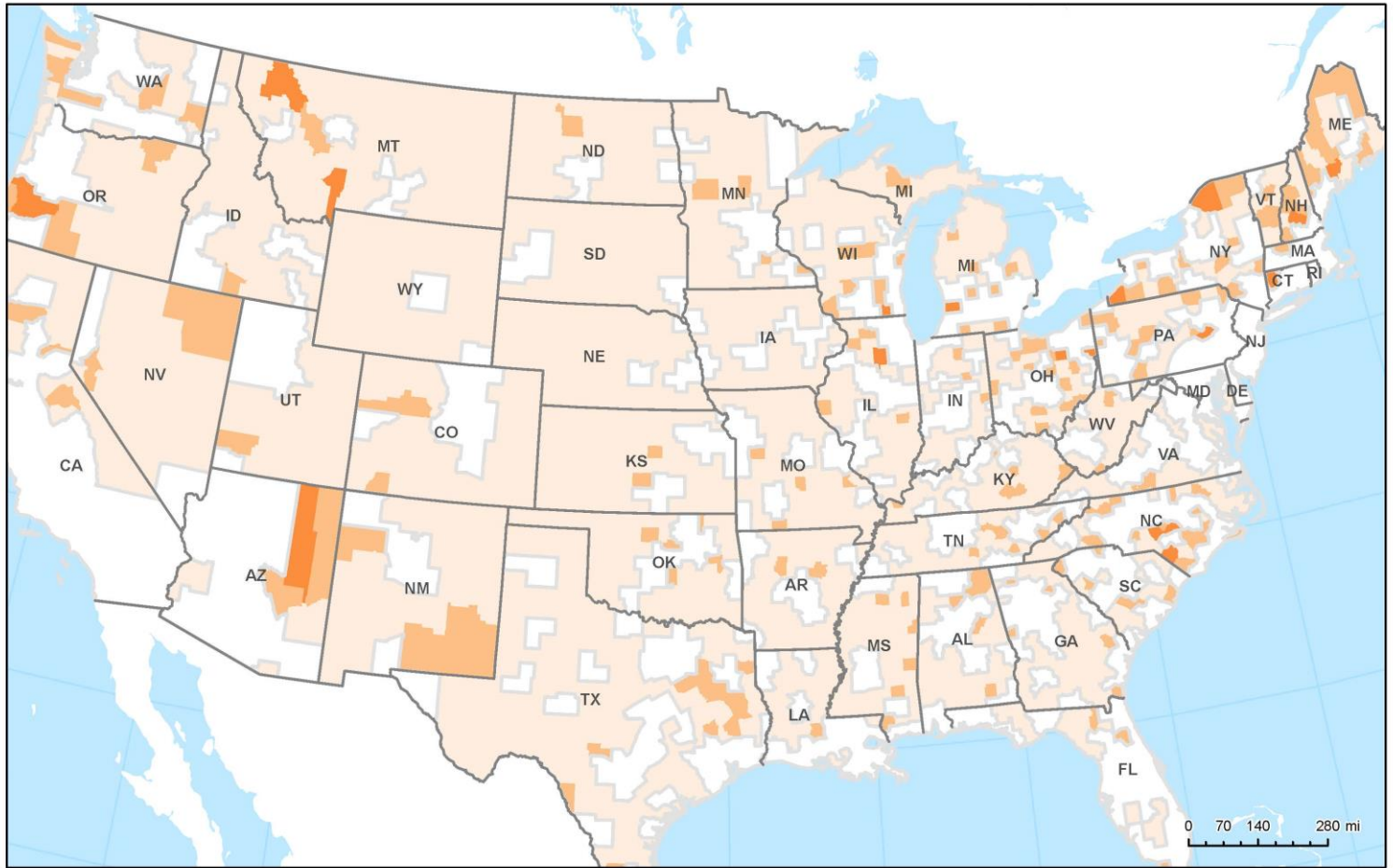


Fannie Mae®

## Why Rural?

- Poverty remains a challenge in many rural communities. 70 percent of the 473 "persistent poverty" counties in the United States are rural.<sup>2</sup>
- USDA Section 515, the largest federal affordable rental housing program for rural communities is largely at risk of losing restriction and rental assistance.
- LIHTC New Construction Not Reaching Many Rural Communities (size, scale, incentives)
  - Incomes
  - Cost of Construction
  - Market

# What/ Where is Rural?



Note: map shows nonmetro counties

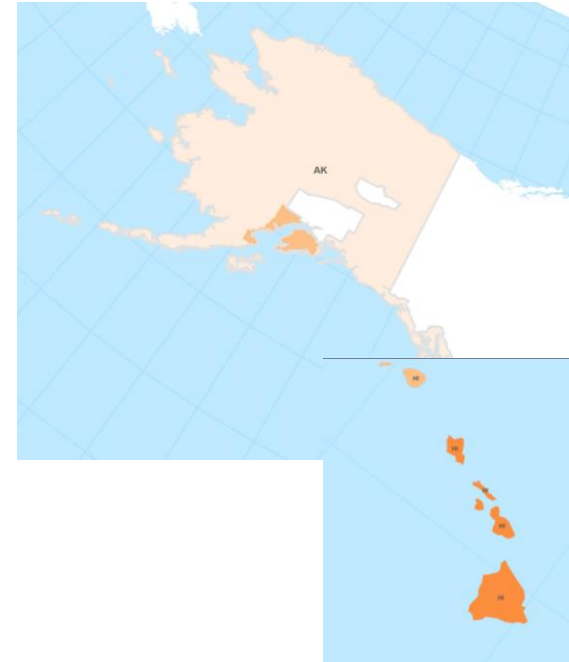
Population size 7/1/2019



Units: Number Date: 10/21/2020

Source: USDA Economic Research Service, ESRI.  
For more information:

<http://ers.usda.gov/data-products/atlas-of-rural-and-small-town-america.aspx>





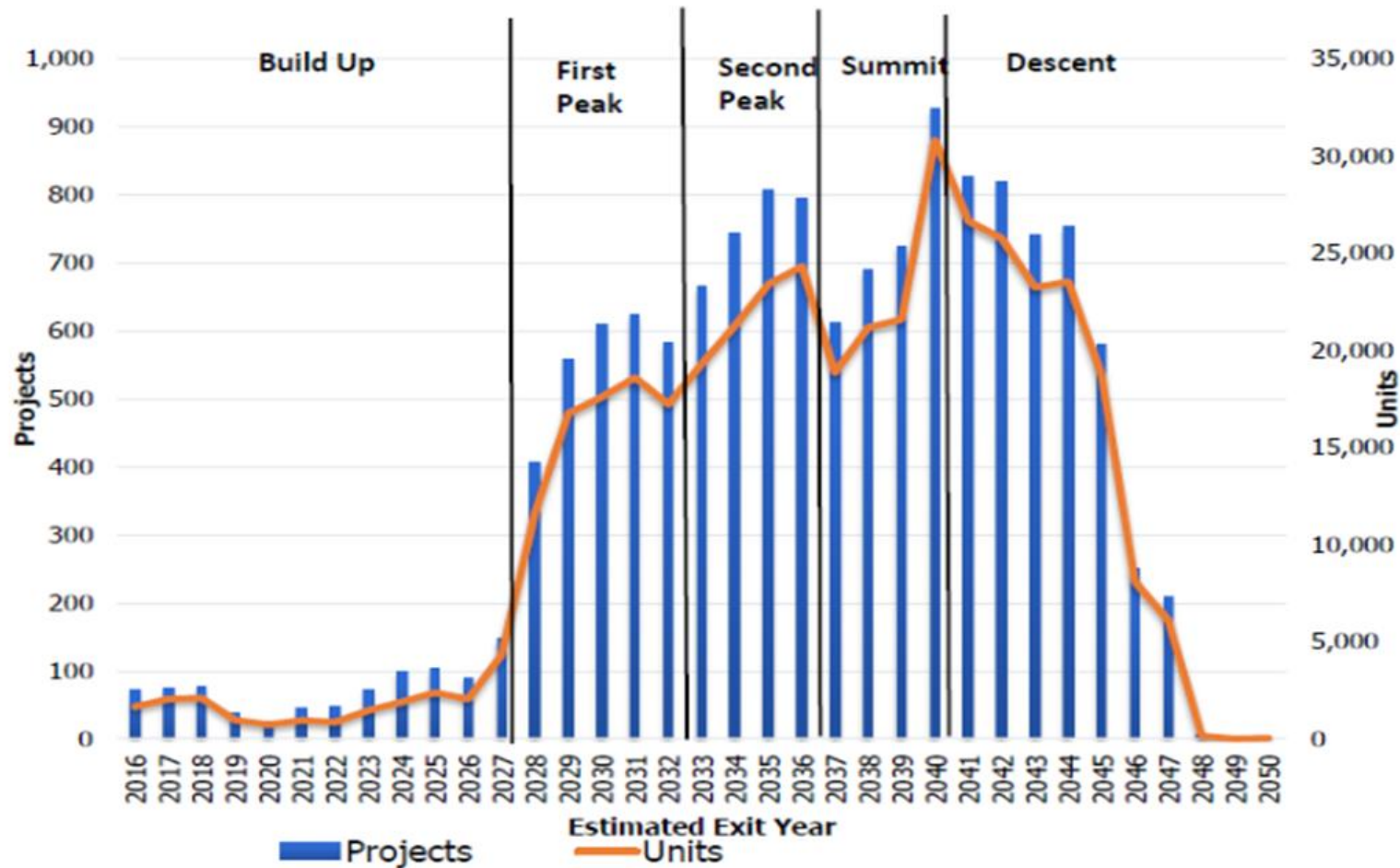
## Why Preservation?

- Costs less than new construction
- Prevents displacement
  - Keeps low -income individuals and vulnerable populations, such as Seniors & People With Disabilities Housed
- Keeps Valuable Subsidies in State
- Avoids NIMBYism
  - Already developed, sited



# Affordable Rural Stock Is At High Risk of Being Lost

**Maturing USDA Section 515 Rural Multifamily Loans  
Estimated Loss of Properties, 2016 - 2050**

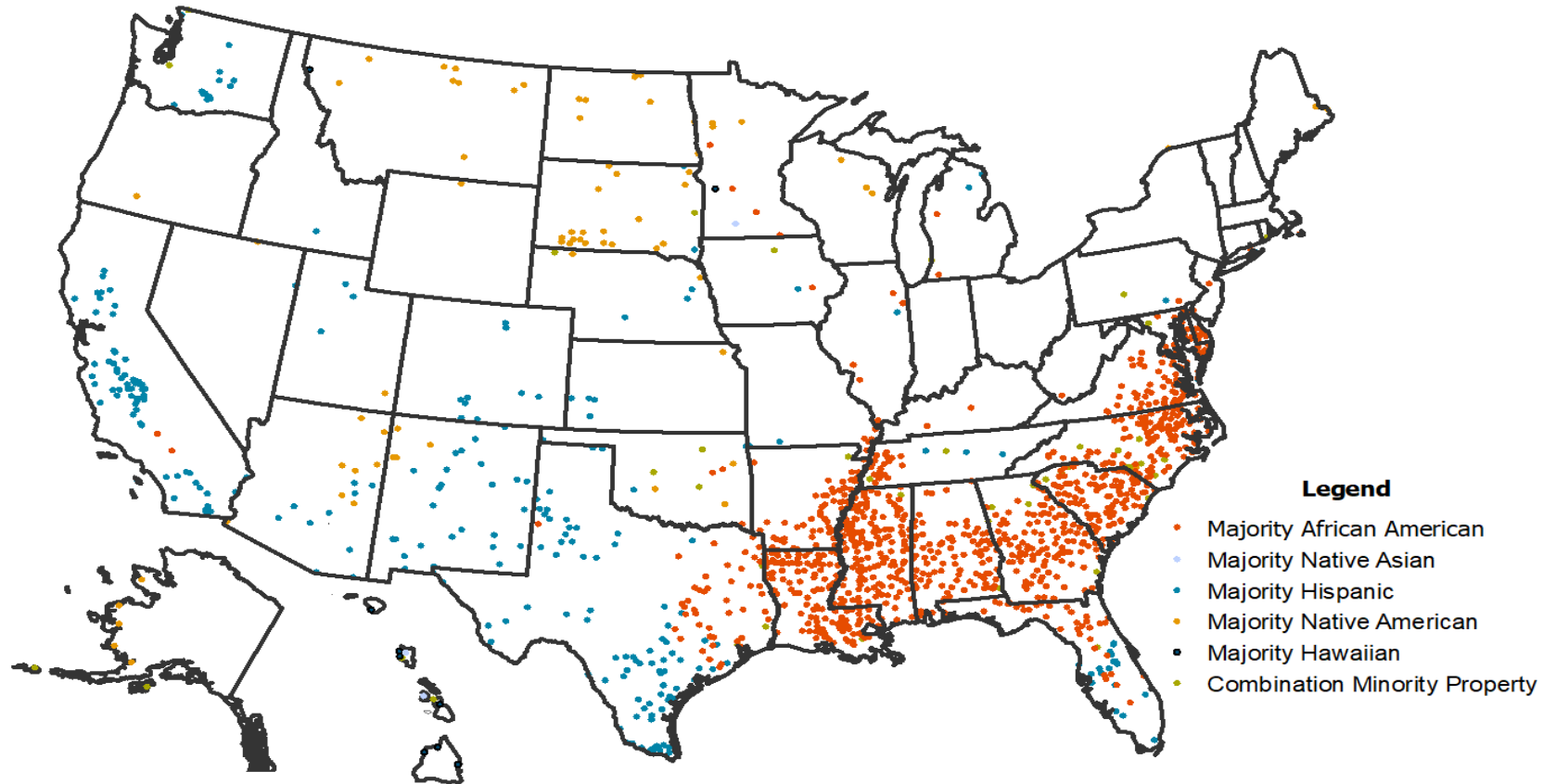


Source: Housing Assistance Council. (2018). *Rental Housing for a 21<sup>st</sup> Century Rural America: A Platform for Preservation*.

# USDA Rural Development 515 Portfolio

## USDA Section 515 Minority Majority Properties

Properties as of June 30, 2017



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

# Rural Rental Preservation Academy

## WHAT IS IT?

- A series of no-cost training and peer learning sessions designed to help rural housing providers and nonprofits acquire and/or preserve affordable housing in rural communities
- Serves to raise awareness about the acute and urging housing challenges facing rural communities
- Through focused training, we work to build the capacity of affordable developers to acquire, rehab and operate currently affordable properties at risk of being bought by predatory developers or private equity firms
- Supplemented by a Technical Assistance cohort, which provides peer learning/support networks for non-profit owner operators and public housing authorities



# Rural Housing Preservation Academy Framework

				
IDENTIFY HOMES	PREDEVELOPMENT	ACQUISITION	REHABILITATION	STEWARDSHIP
<ul style="list-style-type: none"><li>• Identify high-priority buildings</li><li>• Begin feasibility analysis</li></ul>	<ul style="list-style-type: none"><li>• Assess building conditions &amp; resident needs</li><li>• Identify funding sources</li><li>• Negotiate with owner</li></ul>	<ul style="list-style-type: none"><li>• Finalize purchase agreement</li><li>• Close acquisition financing</li><li>• Complete inspections &amp; construction plan</li></ul>	<ul style="list-style-type: none"><li>• Secure permits</li><li>• Manage construction in coordination with residents &amp; contractors</li></ul>	<ul style="list-style-type: none"><li>• Engage service providers</li><li>• Perform property &amp; asset management</li><li>• Sustain resident engagement</li></ul>

# 2023 Rural Rental Housing Preservation Academy

## What to expect

### Overview and Introduction to Rural Rental Housing Preservation

- Introduction to Rural Development 515 Transfer Process
- Strategies for 515 Preservation: Case Studies
- Capital Needs Assessment and Operating Budget

### Basic Deal Structuring

- Understanding Tax Implications of a Transfer
- Pro forma development
- National Policy Conversation-521 Rental Assistance and Decoupling
- Funding Beyond RD: LIHTC, Bonds and Third-Party Lenders/ Connecting Buyers and Sellers

### Property Management/Community Engagement–2 sessions, including

- Property Stewardship: Resident Services and Asset Management









# USDA Section 515 Portfolio and Multi-Family Housing Preservation

Enterprise Community Partners Preservation Academy

May 31, 2023



# USDA Rural Development Multi-Family Housing Programs

Over the past 40+ years USDA Rural Development through its direct funding program has financed thousands of affordable housing properties across Rural America.

## **Section 515 - Family and Elderly/Disabled Housing**

- Direct loans, with varying terms, from 30-50 years in length, properties have income restrictions. Additionally, the properties are eligible for interest credit subsidy which effectively reduces the interest rate to 1%.
- Elderly/Disabled properties are restricted to those households 62 and older or disabled.

## **Section 514/516 - Domestic Farm Labor Housing**

- Direct loans and grants, 33-year term with a 1% interest rate, properties have income restrictions, one household member must meet the Domestic Farm Labor definition as defined by the Agency.

# USDA Rural Development Multi-Family Housing Programs

## **Section 521 - Rental Assistance**

- In addition to funding the development of housing the Agency also provides Section 521 Rental Assistance. The Section 521 RA program is project based and ensures the tenant pays only 30% of their adjusted income. For a property to be eligible for the Section 521 program they must have an active Section 514 or 515 direct loan with the Agency. Many properties have partial RA (not all units are assisted).

## **Section 538 – Guaranteed Loans**

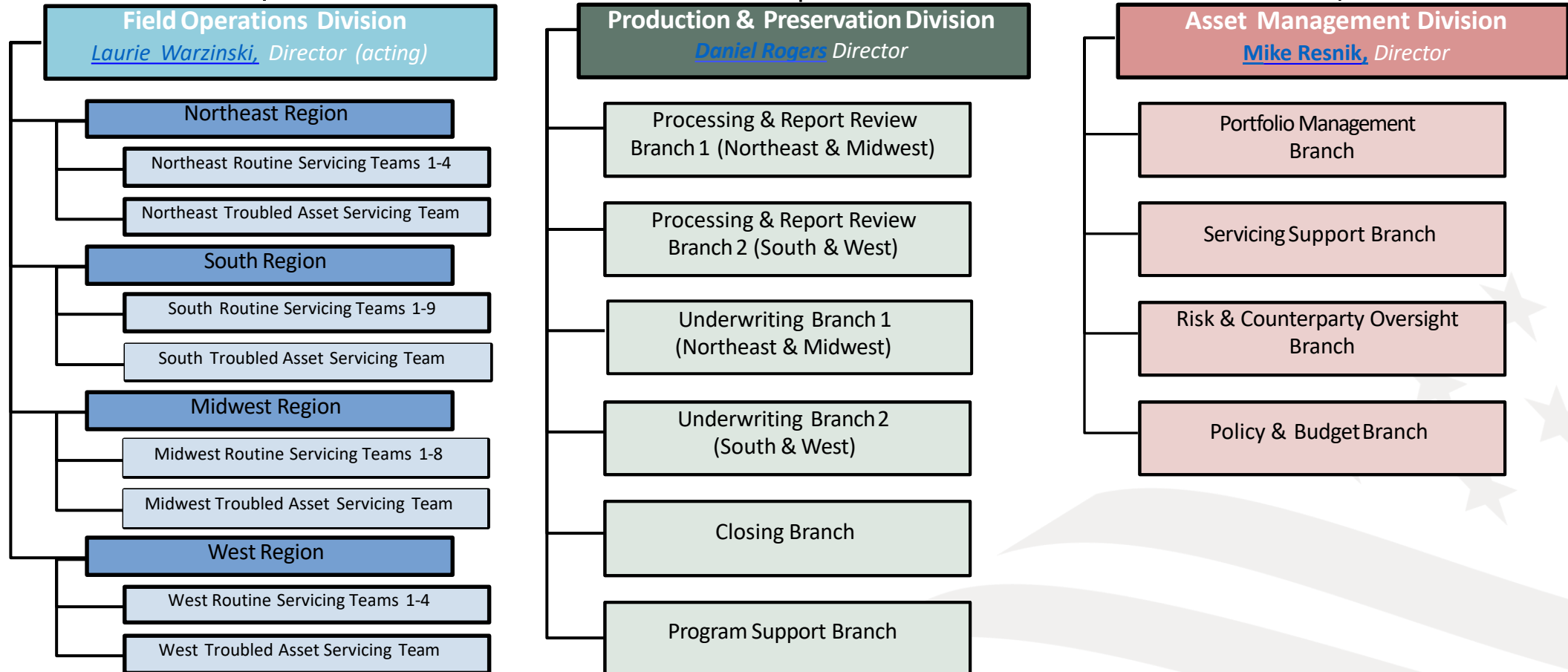
The Agency provides loan guarantees to approved private-sector lenders to provide financing to qualified borrowers to increase the supply of affordable rental housing in eligible rural areas. Tenant incomes cannot exceed 115% of AMI. Can be used for new construction or rehabilitation.

# Multifamily Housing

## Multifamily Housing Deputy Administrator's Office

- [Karissa Stiers](#), Deputy Administrator (acting)
- [Jason Church](#), Assistant Deputy Administrator (acting)
- [Laurie Warzinski](#), Senior Policy Advisor
- [Monika Kehoe](#), Management & Program Analyst
- [Amber Garcia](#), Administrative Specialist

**State Offices**  
Marketing & Outreach





# MFH Production & Preservation (P2) Leadership Team



# MFH Contacts—Field Operations Division

**Western Region: Becki Meyer, Regional Director, [MFHFODWest@usda.gov](mailto:MFHFODWest@usda.gov)**  
(AK, AZ, CA, CO, HI, ID, MT, NM, NV, OR, UT, WA, WY)

**Southern Region: Byron Waters, Regional Director, [MFHFODSouth@usda.gov](mailto:MFHFODSouth@usda.gov)**  
(AL, AR, FL, GA, KY, LA, MS, NC, OK, PR, SC, TN, TX, VI)

**Midwest Region: Eric Siebens, Regional Director, [MFHFODMidwest@usda.gov](mailto:MFHFODMidwest@usda.gov)**  
(IA, IL, IN, KS, MI, MN, MO, ND, NE, OH, SD, WI)

**Northeast Region: Donna O'Brien, Regional Director, [MFHFODNortheast@usda.gov](mailto:MFHFODNortheast@usda.gov)**  
(CT, DE, MA, MD, ME, NH, NJ, NY, PA, RI, VA, VT, WV)

**Multifamily Housing General Inquiries: 800-292-8293**

**Find the servicing specialist assigned to a project:**

<https://www.sc.egov.usda.gov/data/MFH.html>

# MFH Contacts—Production and Preservation Division

## **Processing and Report Review Branch 1 (Northeast and Midwest)**

[MFHprocessing1@usda.gov](mailto:MFHprocessing1@usda.gov)

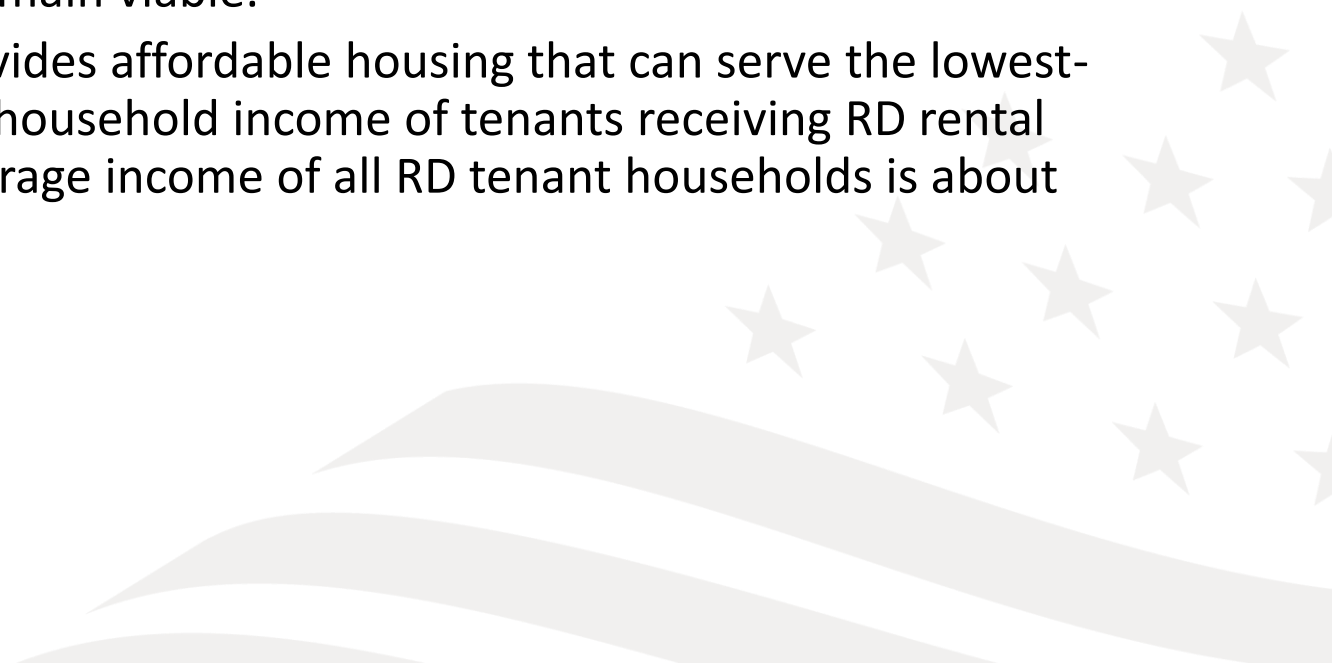
CT, DE, IA, IL, IN, KS, MA, MD, ME, MI, MN, MO, ND, NE, NH, NJ, NY, OH, PA, RI, SD, VA, VT, WI, WV

## **Processing and Report Review Branch 2 (South and West)**

[MFHprocessing2@usda.gov](mailto:MFHprocessing2@usda.gov)

AK, AL, AR, AZ, CA, CO, FL, GA, HI, ID, KY, LA, MS, MT, NC, NM, NV, OK, OR, PR, SC, TN, TX, UT, VI, WA, WY

# Importance of RD MFH Preservation

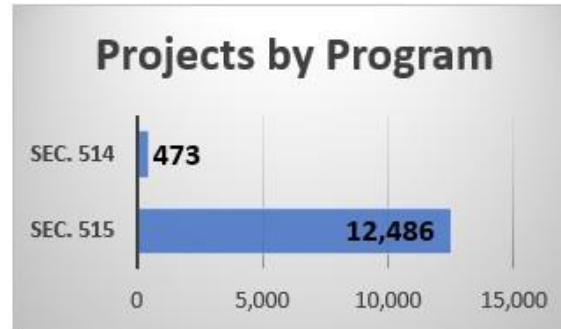
- RD properties are a significant source of affordable housing nationwide with nearly 13,000 properties and more than 400,000 units
  - Many RD properties are in communities where it is not feasible to build new affordable housing, making it even more important to preserve what we have.
  - Average age of properties in the RD portfolio nationwide is around 35 years old. Properties of this age often require rehabilitation to remain viable.
  - Preserving federally-subsidized units provides affordable housing that can serve the lowest-income households. The average annual household income of tenants receiving RD rental assistance is around \$13,000 and the average income of all RD tenant households is about \$15,500.
- 



# Portfolio Overview by Project

Data as of April 2023

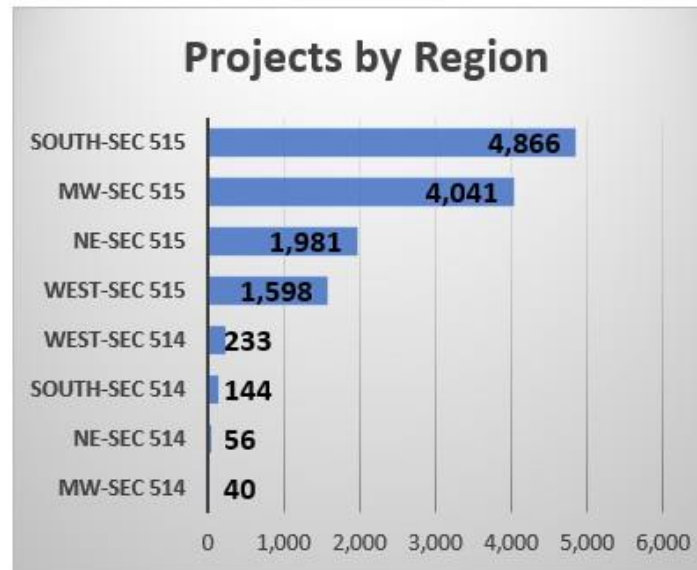
Program	Type	Projects	Average Age	Total Units	RA Units	HUD Sec 8 units
Sec. 515		12,486	35.1	390,225	295,826	21,258
Sec. 514	Off farm	323	22.0	16,494	12,300	0
Sec. 514	On farm	148	17.5	252	0	0
Sec. 514		2	35.0	125	86	0
<b>TOTAL</b>		<b>12,959</b>		<b>407,096</b>	<b>308,212</b>	<b>21,258</b>



## Sec. 515 Multi-Family Housing projects include:

- Family and Elderly housing
- Congregate housing
- Group homes
- Rural cooperative housing

Program	Rental Code	Projects	Average Age	Total Units	RA Units	HUD Sec 8 units
Sec. 515	Family	7,781	35.6	248,872	183,798	14,279
Sec. 515	Elderly	4,424	34.4	130,562	104,203	6,084
Sec. 515	Other	281	33.7	10,791	7,825	895
Sec. 514	Family	461	20.6	16,827	12,354	0
Sec. 514	Other	12	22.0	44	32	0
<b>TOTAL</b>		<b>12,959</b>	<b>29</b>	<b>407,096</b>	<b>308,212</b>	<b>21,258</b>



## Sec. 514/516 Farm Labor Housing projects include:

- Off-farm labor housing
- On-farm labor housing

# Preservation Challenges

- Mission risk/loss of properties due to program exit
  - Maturing mortgages
  - Prepayments
- Property and portfolio risks
  - Poor physical condition
  - Failing ownership and/or management
  - Financial weakness
  - Poor community/market viability
- Properties can be subject to multiple types of risks



# Mission Risk: Loss of Properties Due to Program Exit

- The mission of RD MFH is to provide quality affordable housing to low-income households in rural areas. Loss of viable properties caused by owners exiting RD MFH programs creates a mission risk. There are two primary ways that owners can voluntarily exit RD MFH programs:
  - Mortgage maturity: When the project loan reaches its natural maturity date, the owner makes a final payment and exits the MFH program. Tenants no longer receive rental assistance but are eligible for RD vouchers. RD offers owners the option to extend the loan term to remain in the program, but it is voluntary.
  - Prepayment: Certain properties are eligible for prepayment. RD assesses the potential impacts of a prepayment based on the need for the housing and civil rights analysis. Depending on the outcome of this analysis, the owner may be allowed to exit the program without restrictions, with restrictions, or may be required to offer the property for sale to a nonprofit. If the loan is prepaid, tenant protections are in place and tenants are eligible for vouchers.

# Mission Risk: Maturing Mortgages

## Preservation considerations:

- Owner motivation is a critical factor in willingness to preserve
  - Does the owner (either non-profit or for-profit) have a mission/community motivation to keep the property as affordable housing? If so, they are typically more willing to stay in the program or go through the effort to find a preservation buyer.
- Market conditions play an important role
  - Owners in strong markets may be more likely to exit the RD program in order to convert to market-rate housing and/or sell the property. However, these properties may also attract third-party funding and preservation buyers. Owners in weaker markets may seek to stay in the MFH program because they don't have better options in the market and/or they need RA to maintain occupancy.
- Not all properties can or should be preserved
  - In some cases, the combination of mission and project risk factors makes a property not feasible for preservation. In these cases, it's important to ensure that tenants understand their options, including taking their RA to another RD property, obtaining an RD voucher or applying for other types of housing assistance.



# Maturing Mortgages

Data as of December 31, 2022 (this dataset is updated quarterly)

## Section 514 and 515

Estimated Program Exit Year Range	Sec 514	Sec 515	TOTAL	Sec 514 %	Sec 515 %
Prior to 2024	23	164	187	4.9%	1.3%
2025-2029	54	1063	1,117	11.4%	8.5%
2030-2034	68	2672	2,740	14.4%	21.3%
2035-2039	120	3268	3,388	25.4%	26.1%
2040-2044	118	3370	3,488	25.0%	26.9%
2045-2049	64	1552	1,616	13.6%	12.4...
2050-2055	25	451	476	5.3%	3.6%
<b>TOTAL</b>	<b>472</b>	<b>12,540</b>	<b>13,012</b>		

- Many loans are coming to their natural maturity date in the next 10-20 years.
- Tracking Maturing Mortgages
  - 48 months prior Agency will contact Borrower and Management to start discussion
  - Options – Prepayment, Naturally Mature, Reamortize extending term

Program Exit by Year Range



# Mission Risk: Prepayment-Eligible Properties

## Overview:

- Projects built by December 15, 1989, may be eligible for loan prepayment. Certain properties that would be eligible for prepayment based on that financing date are ineligible to prepay because they participated in a settlement with the government that requires them to remain in the program until mortgage maturity.
- Properties built after December 15, 1989, have RD loans that cannot be prepaid.
- Restrictions placed on a property by third-party funders may limit the ability to prepay.
- Upon application by an owner to prepay, RD reviews eligibility for prepayment and impact on tenants and the community if the prepayment is approved. Depending on the outcome of this analysis, properties may be subject to certain restrictions or the owner may be required to offer the property for sale to a nonprofit for 180 days.
- Upon approval of prepayment the property exits the RD program. Tenants are eligible for RD vouchers.

# Mission Risk: Prepayment-Eligible Properties

## Preservation considerations:

- It is difficult to assess the amount of mission risk posed by prepayments. Owners decide if they want to apply for prepayment and the agency responds. The amount of prepayment activity varies widely from state to state. Preservation buyers need to be ready to respond.
- Prepayment risk will decrease over time as more pre-1990 properties exit the MFH program and the remaining properties are not prepayment eligible. In addition, properties that have been recapitalized and/or transferred are subject to new restrictive-use agreements that require them to stay in the program.
- Properties that are at risk of loss due to prepayment are often a high priority for third-party funders, especially HFAs, that are seeking to preserve federally-subsidized housing.
- If you are a potential preservation buyer, it's important to know if a property is eligible to prepay because it has a significant impact on valuation. Properties that are ineligible to prepay will be appraised subject to the existing restrictions. Properties that are eligible to prepay (meaning they don't have agency or other restrictions) are generally appraised at market unrestricted value.

# Project/Portfolio Risk: Poor Physical Condition

## Overview:

- Physical condition risk must be considered given the overall age of the portfolio.
- The condition of MFH properties varies widely. The Agency is using a risk assessment tool to develop a more standardized assessment of property condition.
- Many RD properties that are 30+ years old are well-maintained but haven't received any significant rehabilitation.
- Some properties have low reserve account balances that haven't kept pace with property needs.
- Due to limited RD funding, most MFH rehab has been funded by third parties, including through the low-income housing tax credit program.

## Preservation considerations:

- Determine if the physical condition is at a level where preservation makes sense. Is there functional obsolescence?
- Get a capital needs assessment (CNA) to determine the upfront and ongoing rehab and replacement needs. What is the financing/funding/operating strategy for addressing these needs?



# Project/Portfolio Risk: Failing Ownership and/or Management

## Overview:

- There are many different types of RD owners from sole proprietors to large companies. It is similar with management agents, varying from single-property owner/managers to large national management companies.
- Common issues and challenges:
  - Owner/manager non-compliance with Agency requirements
  - For-profit owners/partners seeking to retire and exit program
  - Non-profit boards with difficulty retaining members and lack of organizational capacity
  - Deceased borrower with heirs that are not interested in acquiring ownership

## Preservation considerations:

- This may be the easiest issue for a preservation buyer to address, since the failing owner and/or manager can be replaced at the time of transfer.
- Caution: Working with owners engaged in partner disputes (legal, etc) can be challenging for preservation buyers.

# Project/Portfolio Risk: Financial Weakness

## Overview:

- The owner and manager are responsible for the operations and financial health of the property. The Agency approves the proposed property budget and reviews the annual financial statements.
- Less than 2% of agency loans are currently delinquent.
- Common causes of financial weakness:
  - Ongoing high vacancy rates, often due to market weakness
  - Inadequate rents to cover operating costs and inability to raise rents due to market conditions (especially when the property does not have full RA)
  - Management problems that affect operations, occupancy, etc

## Preservation considerations:

- Be cautious: Assess what is causing the financial problems and if they can be fixed. If the problem is primarily caused by market conditions, it will be difficult to address.
- If rents need to be raised, can they be supported in the market?

# Project/Portfolio Risk: Poor Community/Market Viability

## Overview:

- Poor market conditions and lack of community viability create a big preservation challenge.
- Unused RA is a red flag: consider carefully why units are not rented despite being subsidized.
- Common problems:
  - Declining population and lack of employment opportunities
  - Overbuilt/oversupply of income-restricted housing
  - Community lacks amenities and is not desirable to tenants

## Preservation considerations:

- A common myth is that rehabbing a property in a weak market will improve occupancy. Although it might improve it marginally, it may not be enough to address the underlying market problems.
- Properties in weak markets often have financial weakness and physical condition issues. Some have been “limping along” for years.
- Many of the properties that are not considered “preservation-worthy” will be due to this issue.

# Strategies to Improve MFH Preservation Outcomes

- Decoupling Section 515 loans from Section 521 RA at mortgage maturity
  - Currently, owners must retain the 515 loan to continue receiving RA. The only option at loan maturity is to reamortize the small amount of remaining 515 debt for up to a new 20-year term.
  - Decoupling would allow the loan to be paid off at maturity and while retaining RA.
  - Decoupling was requested in the President's Fiscal Year 2023 budget. In response to the budget request, Congress has directed USDA to conduct stakeholder meetings and provide a report on how decoupling would be implemented.
  - Stakeholder listening sessions will be held at the NCSHA Housing Credit Connect conference (June 15) and CARH conference (June 27) and virtually on July 19 and July 25. Watch for the announcement on GovDelivery.
  - Sign up for GovDelivery: [MFH GovDelivery Subscription Link.pdf \(usda.gov\)](#)



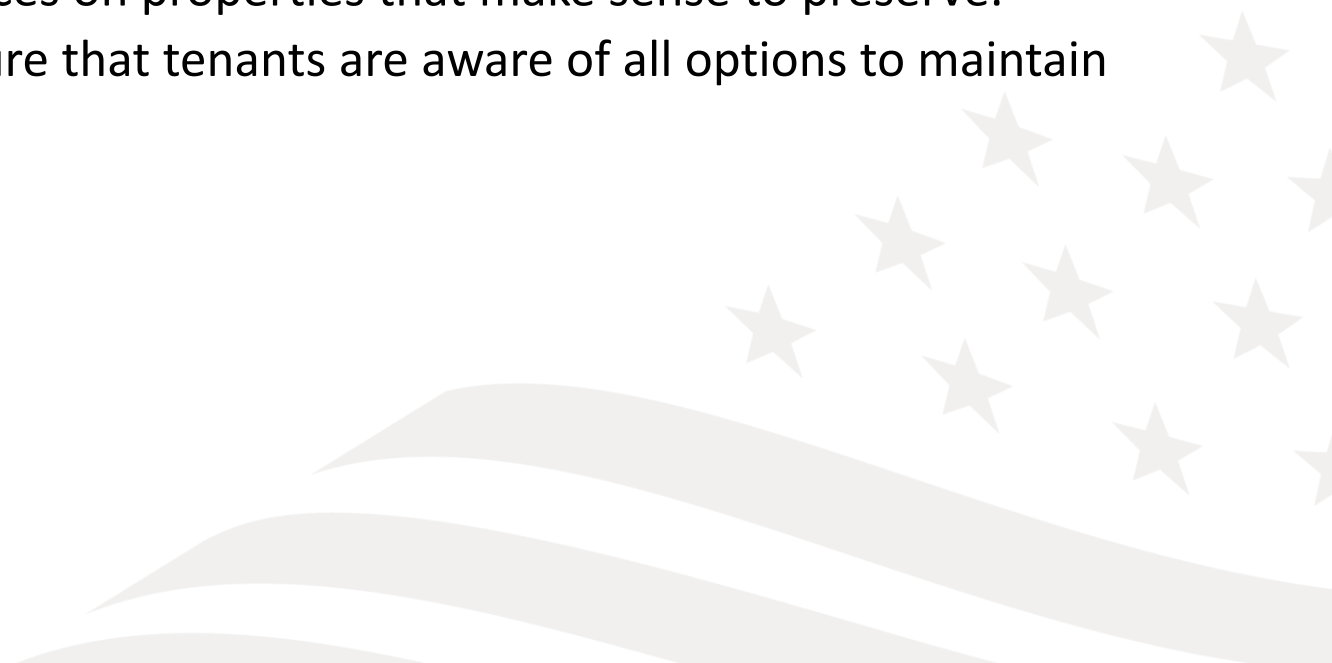
# Strategies to Improve Preservation Outcomes

- RD Funding for rehabilitation
  - Section 538 loan guarantees
  - Section 515 subsequent loans
  - Multifamily Preservation and Revitalization (MPR program)
  - SuperNOSA
- Nonprofit Transfer Technical Assistance
  - Available to assist NPs and gov agencies to acquire and preserve 515 properties.
  - Funding round is open now—TA provider apps due July 3. For more info on applying: [2023-09460.pdf \(govinfo.gov\)](#)
  - TA available is now nationwide. Contact info for TA providers is at [MultiFamily Housing Non-Profit Transfer Technical Assistance Grants | Rural Development \(usda.gov\)](#)
- Improvements/adjustments to the RD transfer process, including the Simple Transfer Pilot Program

# Simple Transfers

- The simple transfer pilot program was published in the Federal Register on 12/9/2022.
  - The pilot program offers 3 options. Option 1 with expedited ownership change required; Option 2 is a simple transfer with rehabilitation and Option 3 is a simple transfer with future rehabilitation/recapitalization plan for nonprofits.
  - Simple transfers include restrictions on new debt, equity payouts, and other limitations that are not included for standard transfers.
  - Owners should contact their assigned Field Operations Division Servicing Specialist if interested to discuss their goals and timelines.

# Strategies to Improve Preservation Outcomes

- More training and education for preservation buyers, including events like the Preservation Academy
  - Better and timely matching of potential buyers and sellers, especially for prepayment and maturing mortgage properties. Technical assistance can be very helpful.
  - Recognize that we can't preserve everything, especially if condition is very poor and/or market is weak. Focus time and resources on properties that make sense to preserve.
  - Where preservation isn't feasible, ensure that tenants are aware of all options to maintain access to affordable housing.
- 

# Questions?

**Contact:**

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Stephanie Vergin, Policy Advisor, MFH Production and Preservation Division

[Stephanie.Vergin@usda.gov](mailto:Stephanie.Vergin@usda.gov)







# **THE SECTION 515 PROGRAM AND THE CHALLENGE OF PRESERVING AFFORDABLE HOUSING IN RURAL MINNESOTA**

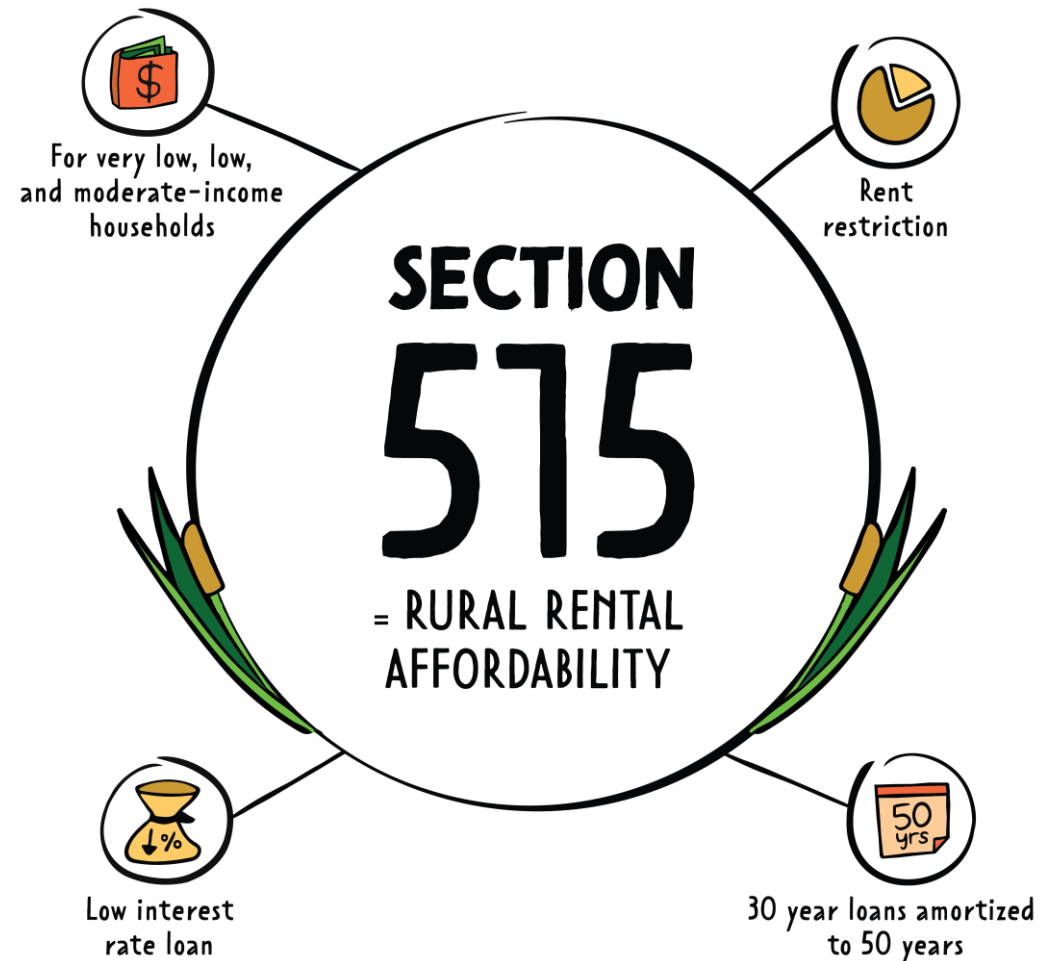
Based on research by Ryan Allen, Susan Bergmann and Max Geitz

January 2023



# What is the Section 515 program?

- **Senior Citizen Housing Act of 1962** authorizes USDA to make loans for rental housing in rural areas, amended in 1966 to expand program
- **550,000 units** of subsidized housing created since inception.



# Research approach ...

- Profile of 515 properties and residents
- Examine what works well and areas of improvement
- Examine motivations of owners
- Data from USDA RD and 30 interviews

## THE USDA SECTION 515 PROGRAM AND THE CHALLENGE OF PRESERVING AFFORDABLE HOUSING IN GREATER MINNESOTA

### EXECUTIVE SUMMARY

Authors

Ryan Allen, Susan Bergmann and Max Geitz



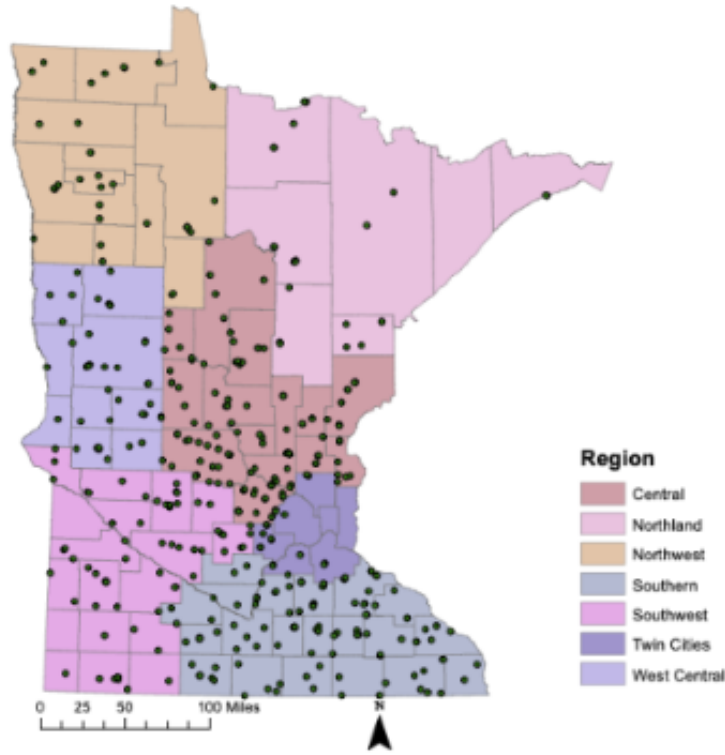
Center for Urban and  
Regional Affairs | **cura**  
UNIVERSITY OF MINNESOTA

in partnership with

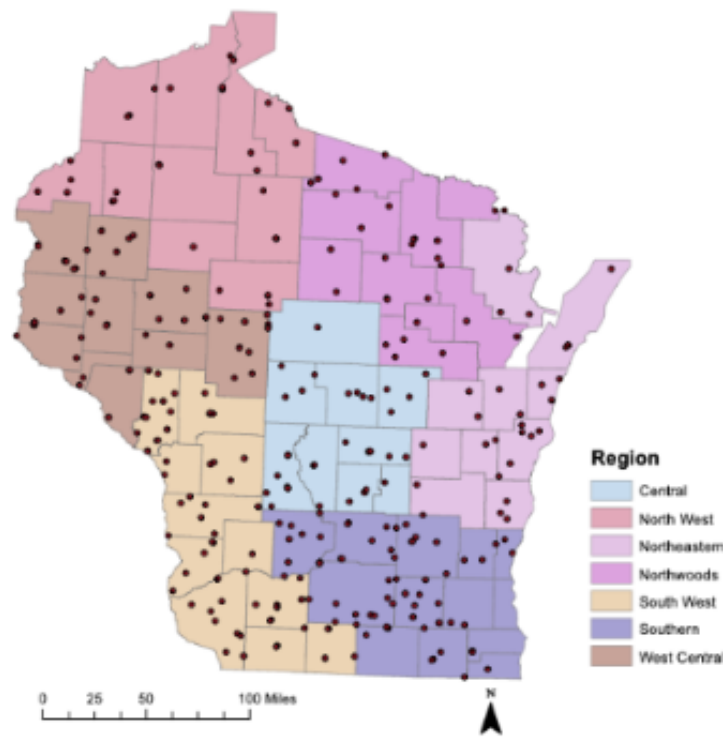
**mhp**  
improving home & community

**Housing  
Justice  
Center**

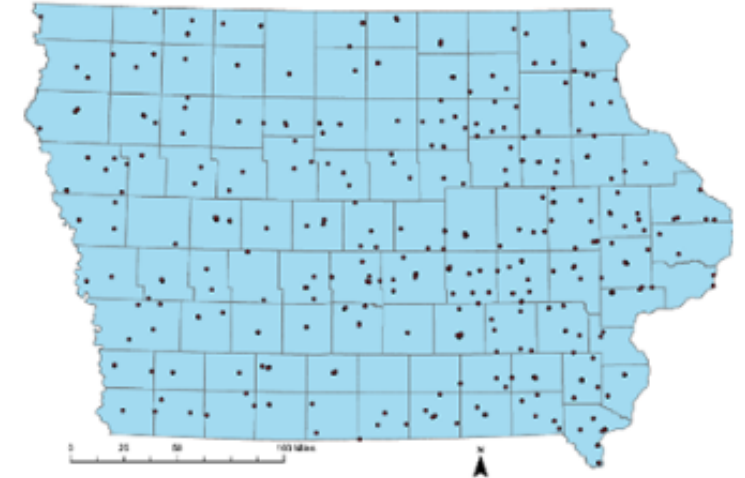
Map 1: Section 515 Properties - Minnesota



Map 2: Section 515 Properties - Wisconsin



Map 3: USDA Section 515 Properties - Iowa\*



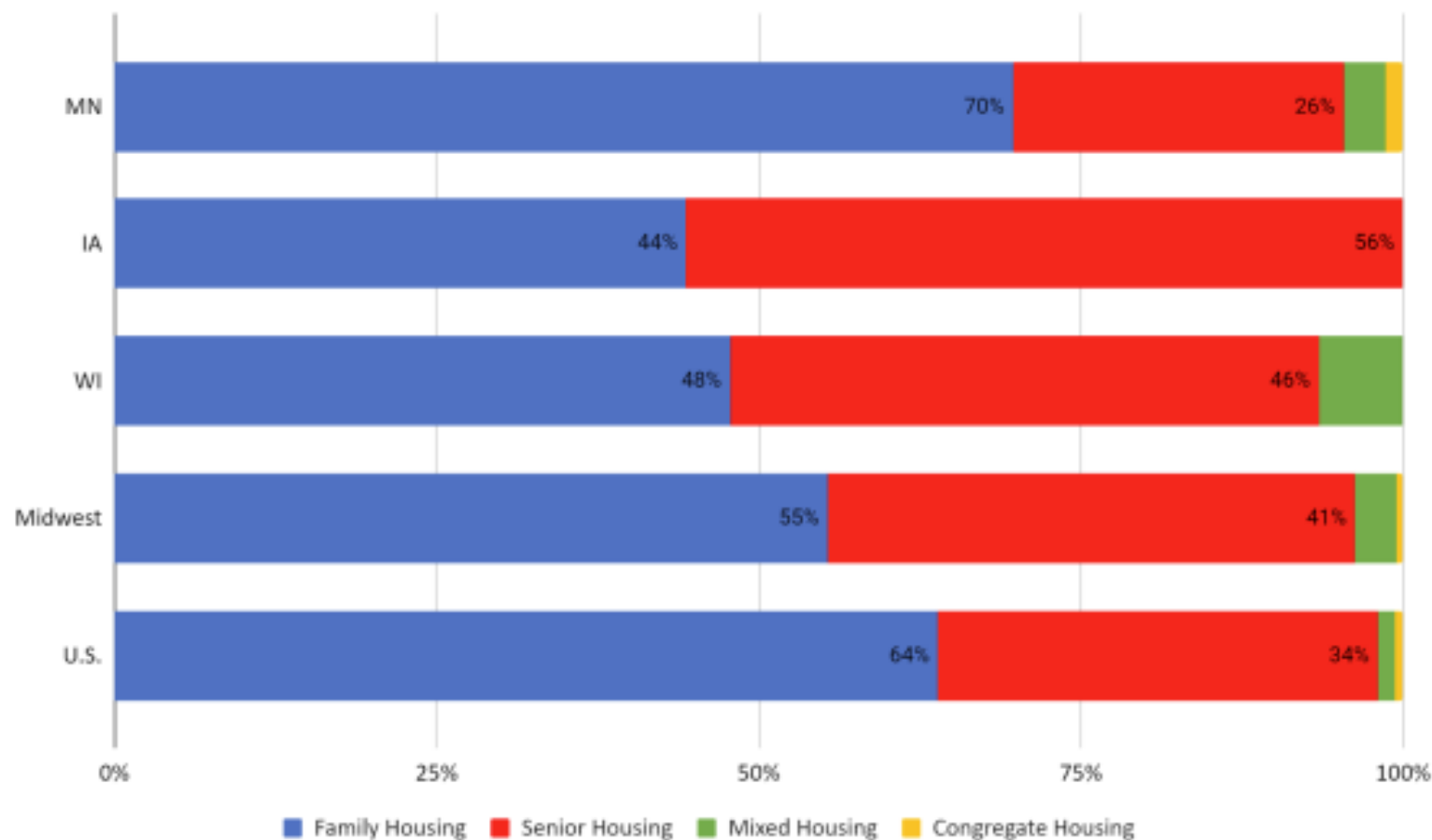
\*Iowa does not have regions designated by their state housing authority.

Sources: Section 515 Properties: USDA Rural Development Datasets; Active Projects, 2020-07-17, ([https://www.sc.egov.usda.gov/data/MFH\\_section\\_515.html](https://www.sc.egov.usda.gov/data/MFH_section_515.html))

MN, WI and IA Counties: US Census

MN Regions: Minnesota Housing Finance Authority, WI Regions: Wisconsin Department of Administration, Housing Regions

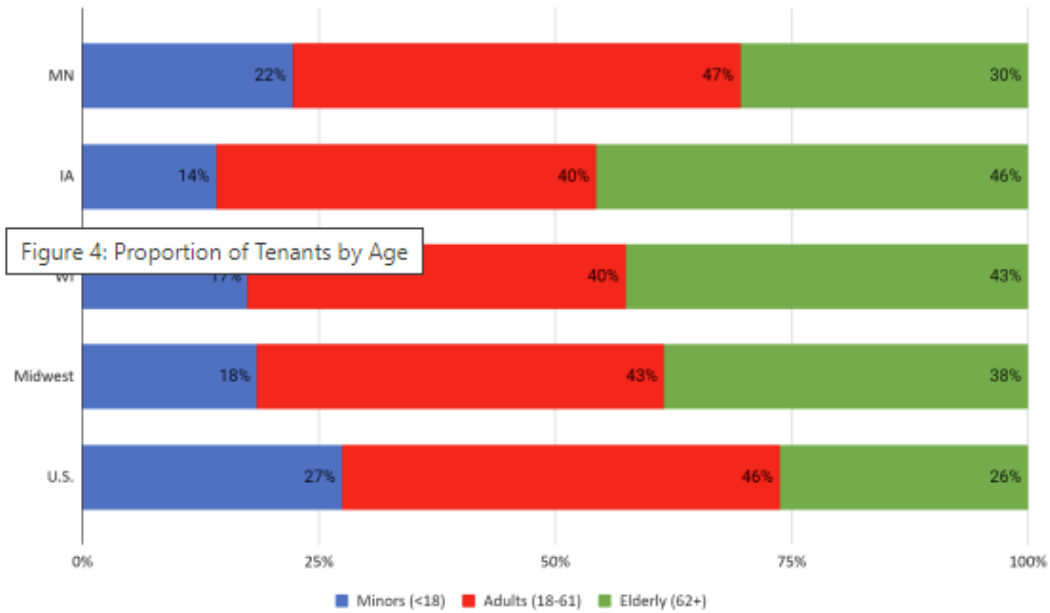
**Figure 1: Proportion of Buildings by Property Designation**



*Source: USDA Rural Development Dataset; Active Projects, 2020-07-17*  
*([https://www.sc.egov.usda.gov/data/MFH\\_section\\_515.html](https://www.sc.egov.usda.gov/data/MFH_section_515.html))*




Figure 4: Proportion of Tenants by Age

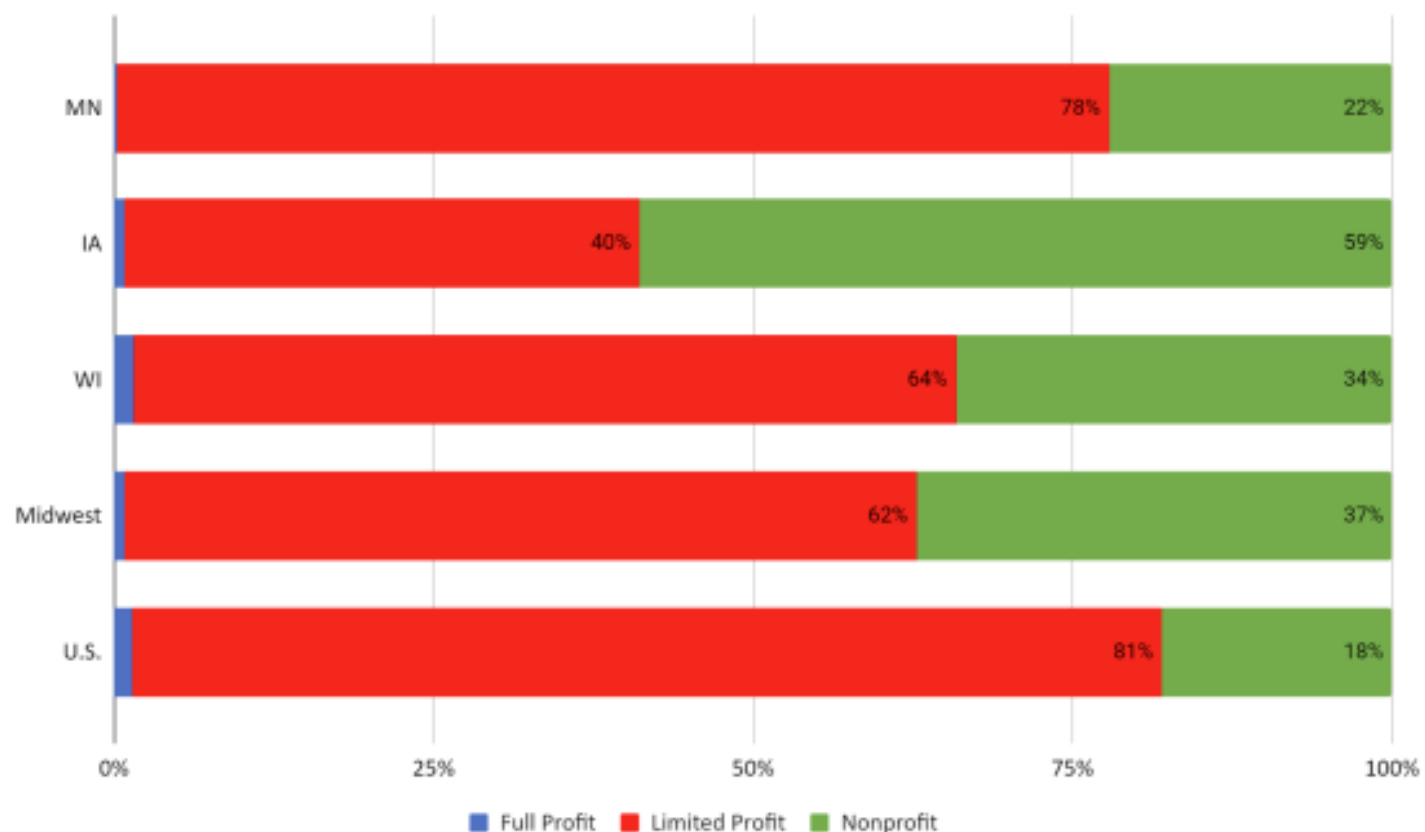


Source: USDA Rural Development Dataset; Tenant Info, 2020-07-17  
([https://www.sc.egov.usda.gov/data/MFH\\_section\\_515.html](https://www.sc.egov.usda.gov/data/MFH_section_515.html))


**MORE THAN 40%**  
**OF MIDWEST SECTION 515 PROJECTS ARE DESIGNATED FOR SENIORS**  
compared to 33% of Section 515 projects in the U.S.



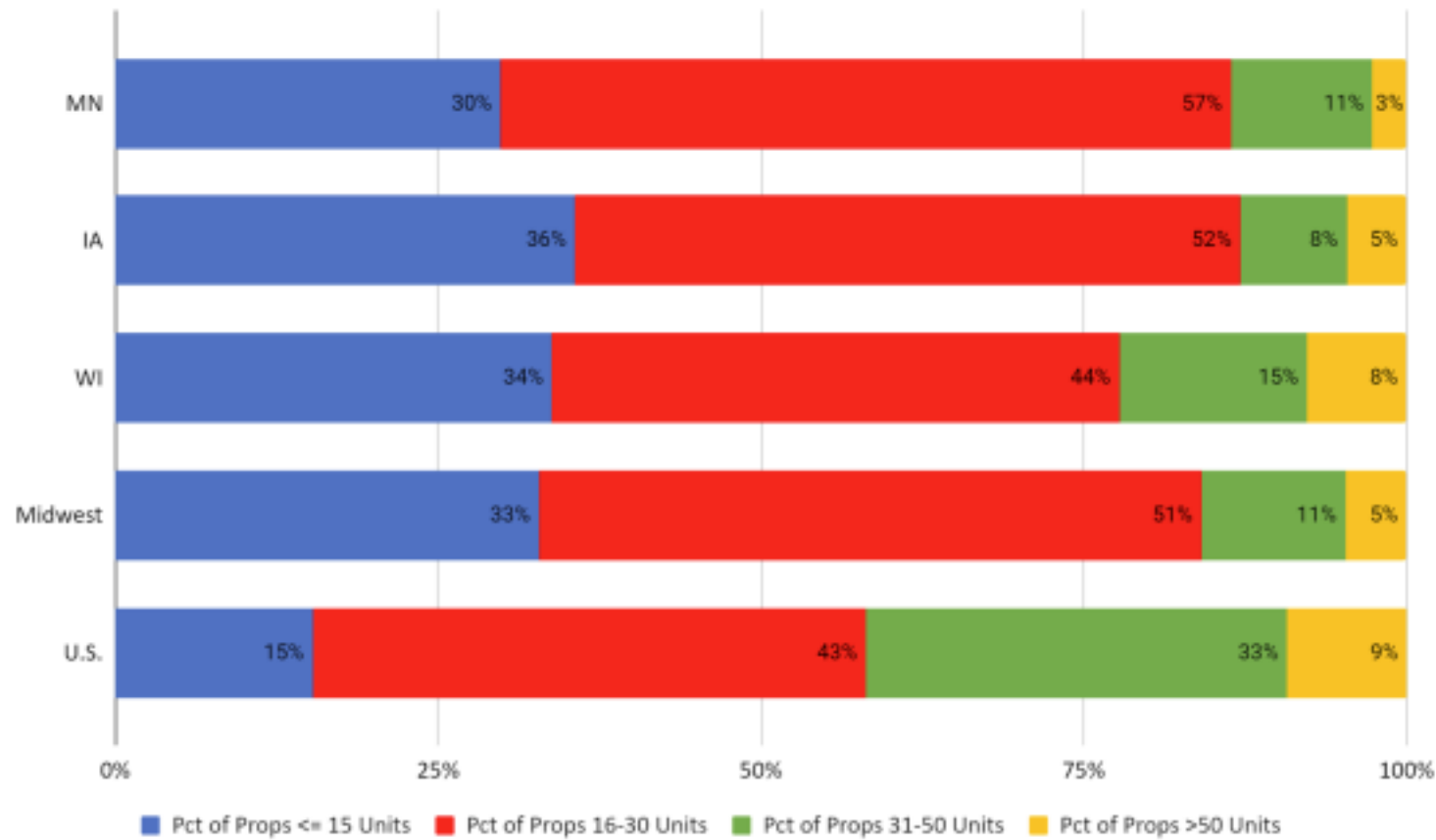
**Figure 2: Section 515 Properties by Ownership Type\***



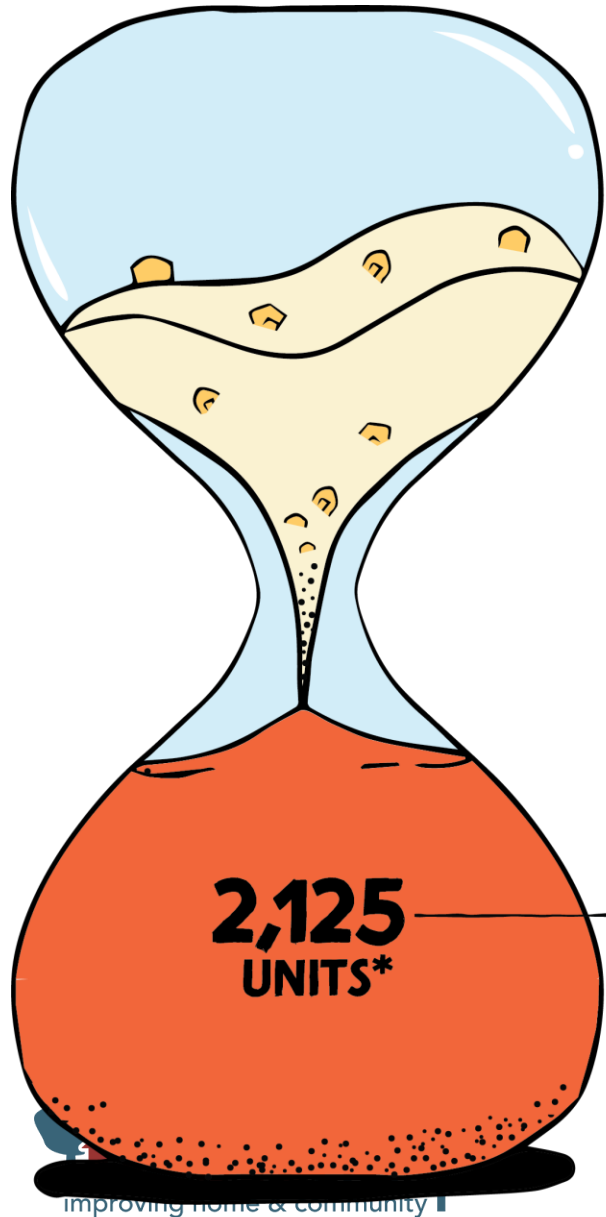
Note: \* Numbers may not aggregate to 100% due to rounding

 Source: USDA Rural Development Dataset; Active Projects, 2020-07-17  
([https://www.sc.egov.usda.gov/data/MFH\\_section\\_515.html](https://www.sc.egov.usda.gov/data/MFH_section_515.html))

**Figure 3: Section 515 Properties by Size**



*Source: USDA Rural Development Dataset; Active Projects, 2020-07-17*  
[https://www.sc.egov.usda.gov/data/MFH\\_section\\_515.html](https://www.sc.egov.usda.gov/data/MFH_section_515.html)



**IN MN  
2,125 UNITS  
MAY LEAVE THE  
SECTION 515  
PROGRAM BY 2030**

**MN SECTION 515 UNITS  
WITH MORTGAGES MATURING  
BETWEEN 2020 & 2030**

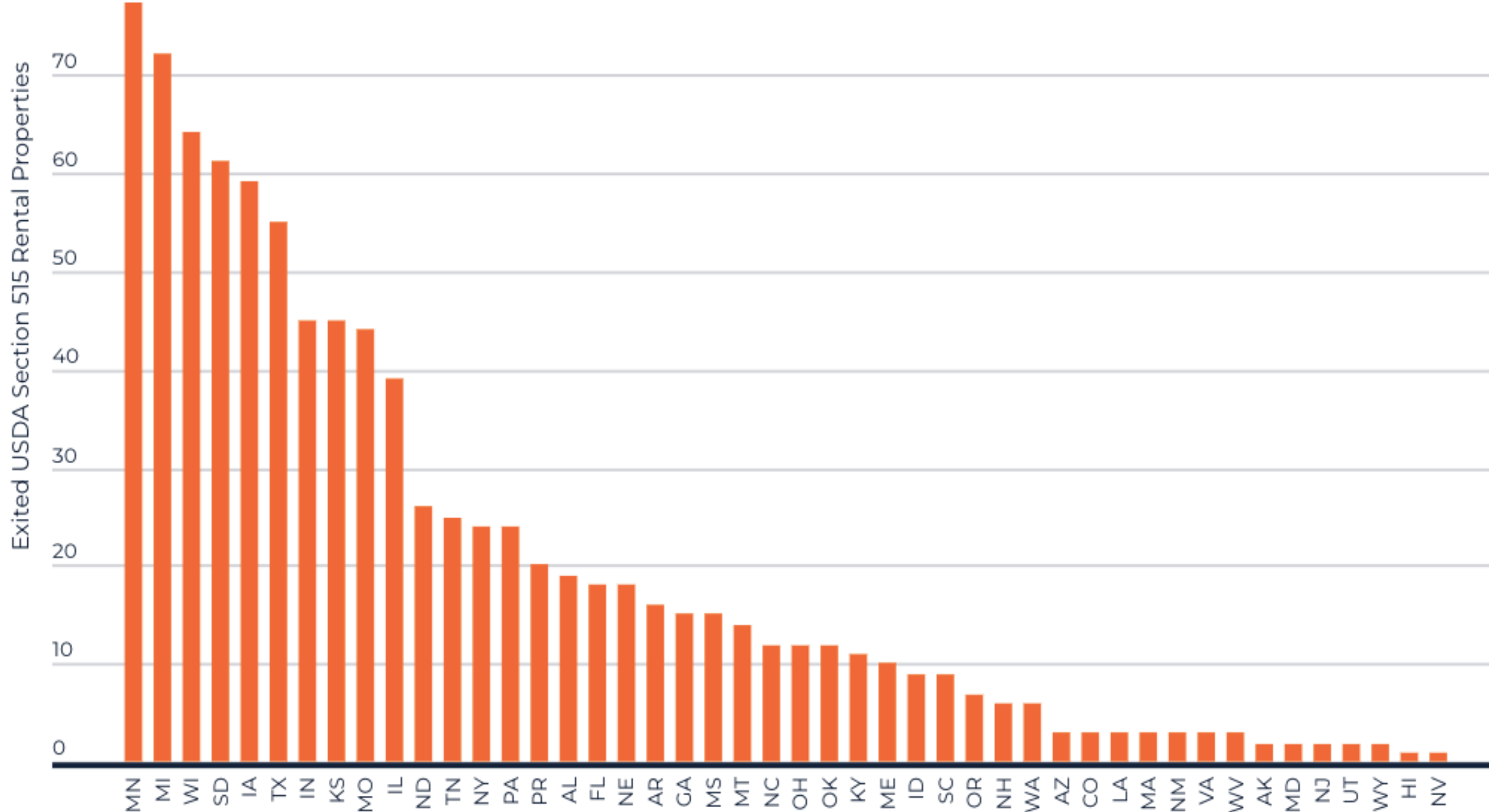
\*equivalent to **22%** of MN Section 515  
units in the program as of 2020

But section 515 doesn't  
create permanently  
affordable housing

**Timeline of Section 515 Mortgage  
Maturations in Minnesota**

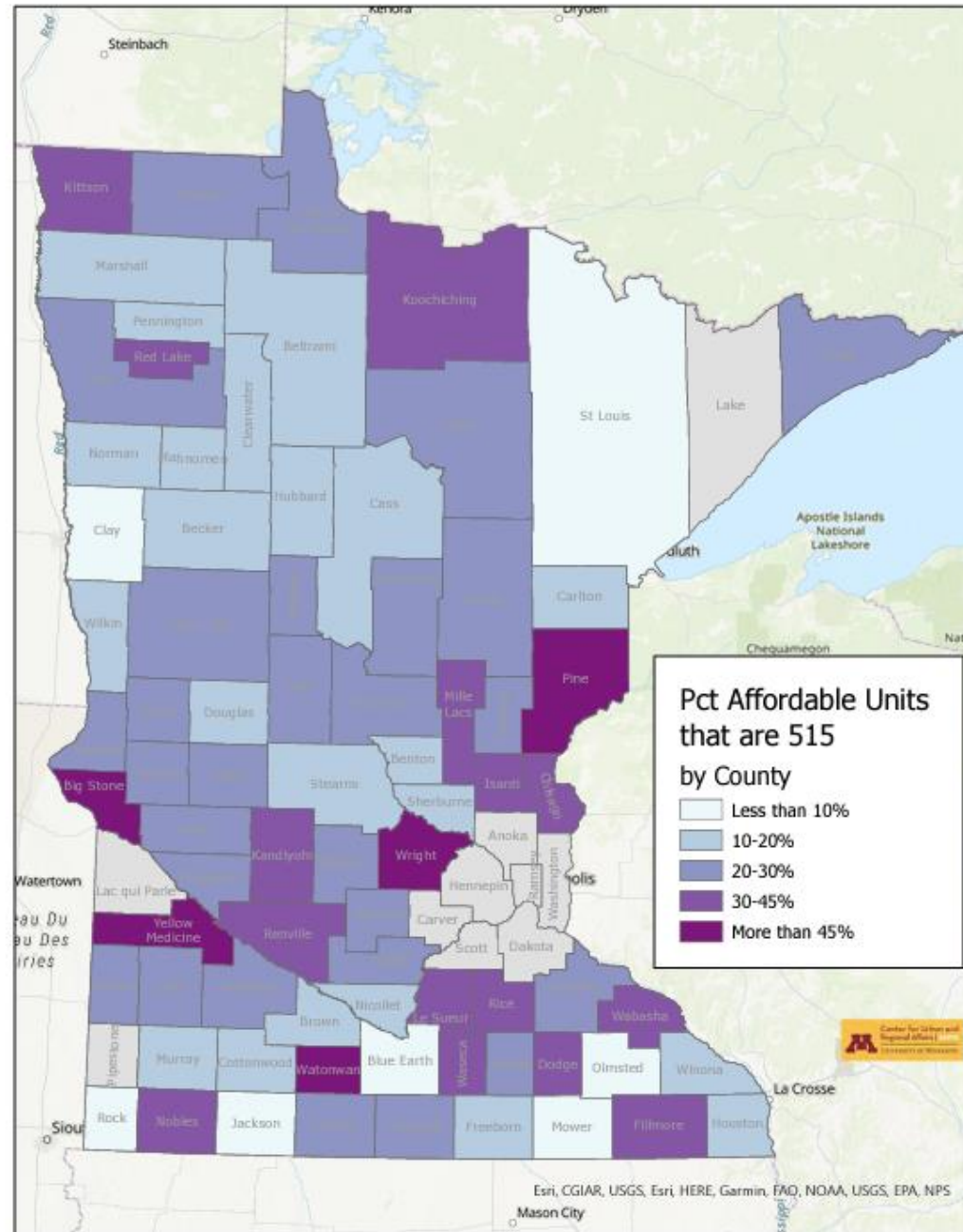
<https://umn.maps.arcgis.com/apps/webappviewer/index.html?id=70eb659e4e1b4dde8ab84a96f9f79f58>

# USDA Section 515 Property Exits by State 2016-21





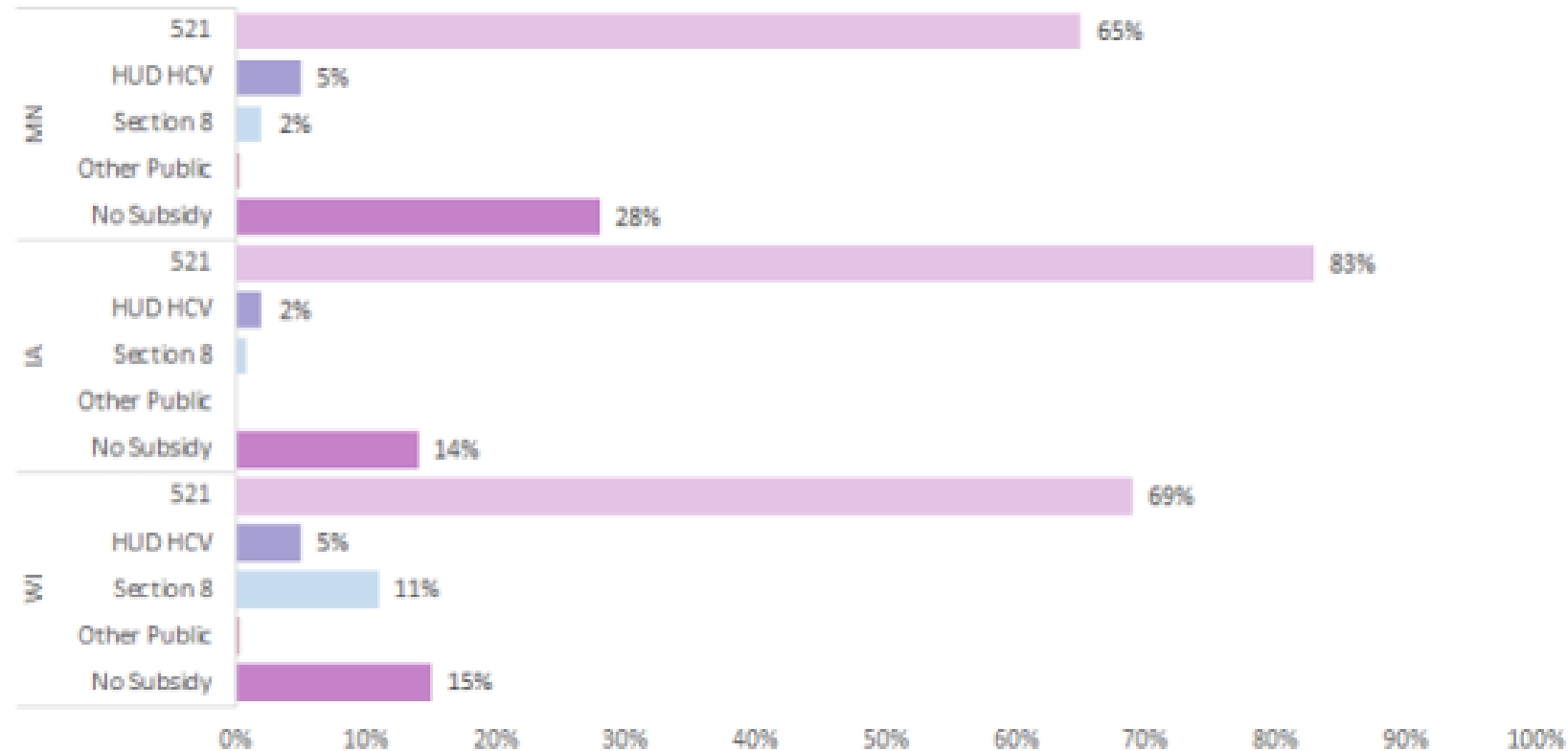
# Percentage of Affordable Units in 515 Program



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**Figure 6:** Additional Subsidies for Section 515 Housing Units, by State



*Source: USDA Rural Development Dataset; Tenant Info, 2020-07-17*

*([https://www.sc.egov.usda.gov/data/MFH\\_section\\_515.html](https://www.sc.egov.usda.gov/data/MFH_section_515.html))*

# Motivations for Investors

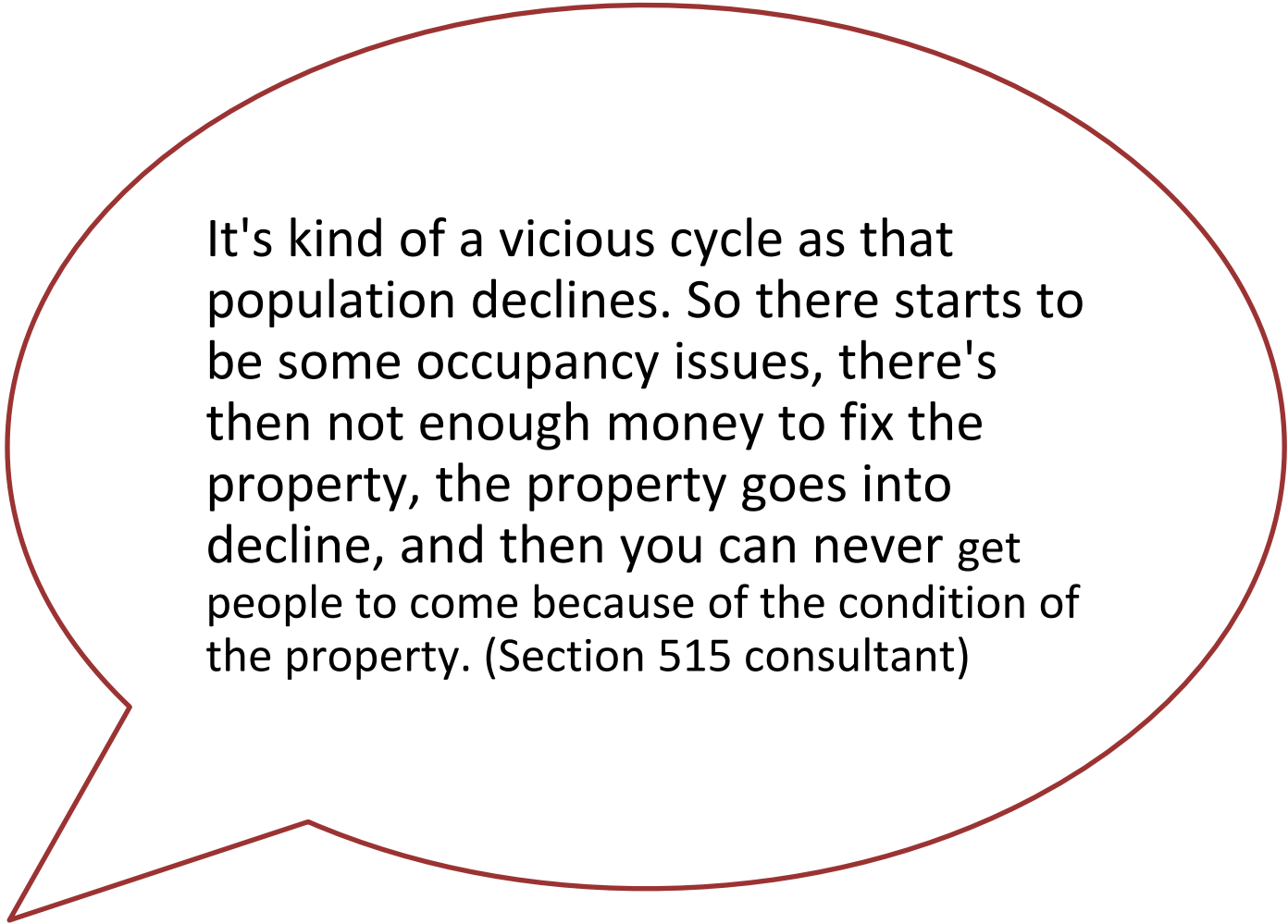


[You] need to do it [invest in the program] more as a mission than...[because] it's a great investment, because it's not a great investment. (Nonprofit stakeholder)

## Split perspective from for-profit and non-profit owners:

- Reasonable rate of return and building a retirement portfolio vs. preserving a critical need for affordable housing in the community
- All acknowledge the importance of affordable decent housing for residents underserved by the market

# Changes in the Economic Context



It's kind of a vicious cycle as that population declines. So there starts to be some occupancy issues, there's then not enough money to fix the property, the property goes into decline, and then you can never get people to come because of the condition of the property. (Section 515 consultant)

# Strategic Importance of 515 Housing

The rural development properties are very, very good at helping rural communities with very, very low-income people. It keeps people in the communities that they live in and gives them an option to live there at an affordable rate.  
(Mission-driven owner)

“If you have some of these small communities where there's only a couple multifamily properties and one [Section 515 property]... exits the program and converts to market rate, it's a concern.”

-Section 515 Housing Consultant



# Perceived Problems with 515 Stock

- Lack of maintenance related to insufficient capital reserves required in Section 515 program
- Concern that lack of maintenance combined with property age and poor building materials has resulted in obsolescence

[Obsolescence] is to a considerable extent a function of the age of the housing ... Minnesota was a leader in building the first 515 housing projects so it's got some of the oldest in the country. (Section 515 advocate)

"We're just going into this assuming that the properties are old and that they need... pretty significant repairs."

-Government Official





# USDA Bureaucracy

“[T]hey have these crazy rules...specifically around the transfer process...and people don't understand it until they are knee deep into it and realize... holy crap, this is two and a half years and we still haven't closed.”

—Section 515 Housing Consultant



- **Property transfers** perceived as complicated, cumbersome and time consuming
- Concern about **potential loss of RD rental assistance** after mortgage prepayment or mortgage maturation

# This is a solvable problem: NOW is the time to act

## Modify rules in which vouchers are provided

- Decouple rental assistance from RHS mortgages, with conditions
- Align USDA rental assistance with features of other project-based rental assistance; end practice of removing RA from units where temporarily unused



# This is a solvable problem: NOW is the time to act

**Table 1: MN Counties Potentially Losing Most 515 Units By 2030**

<b>RANK</b>	<b>COUNTY</b>	<b>TOTAL UNITS IN PROPERTIES WITH MORTGAGES MATURING BY 2030</b>
1	Wright	153
2	Stearns	130
3	Douglas	74
4	Renville	72
5	Isanti	70
6	Todd	68
7	Carver	61
8	Martin	60
9	Kandiyohi	56
10	Blue Earth	52

## Prioritize preservation based on location and timing of expiration considerations

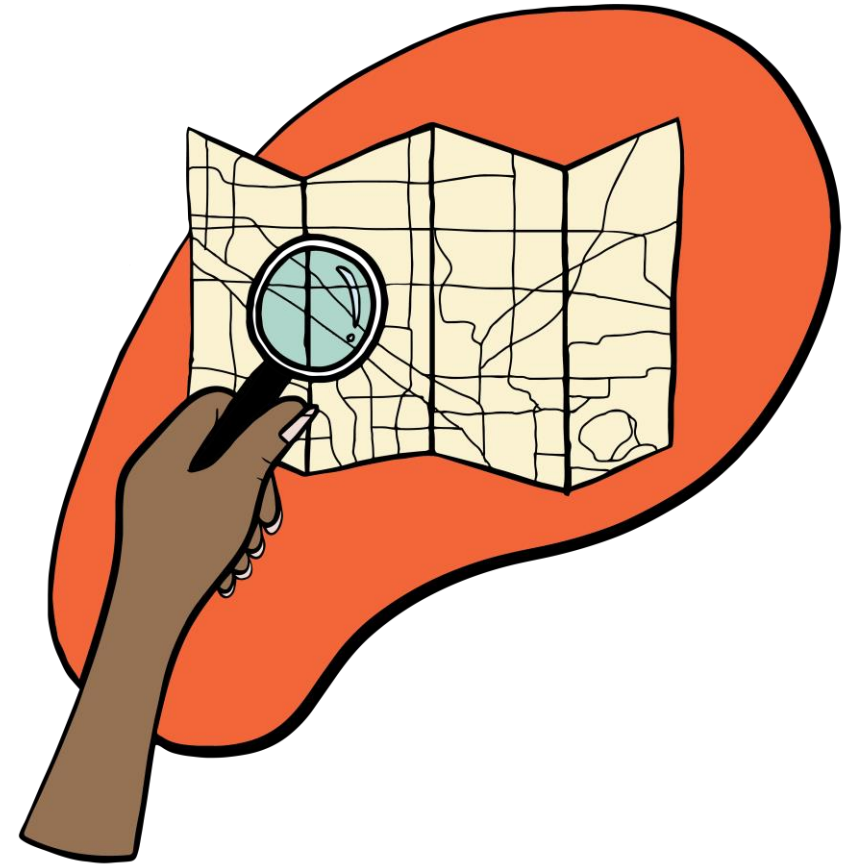
- Some counties with large numbers of 515 properties, on cusp of exit
- Counties with growing/declining economic conditions - hot and cold markets

# This is a solvable problem: NOW is the time to act

## Streamline the transfer process

Streamline the property transfer process by making it easier, faster and less risky for preservation buyers to acquire Section 515 properties, especially for small sized properties.

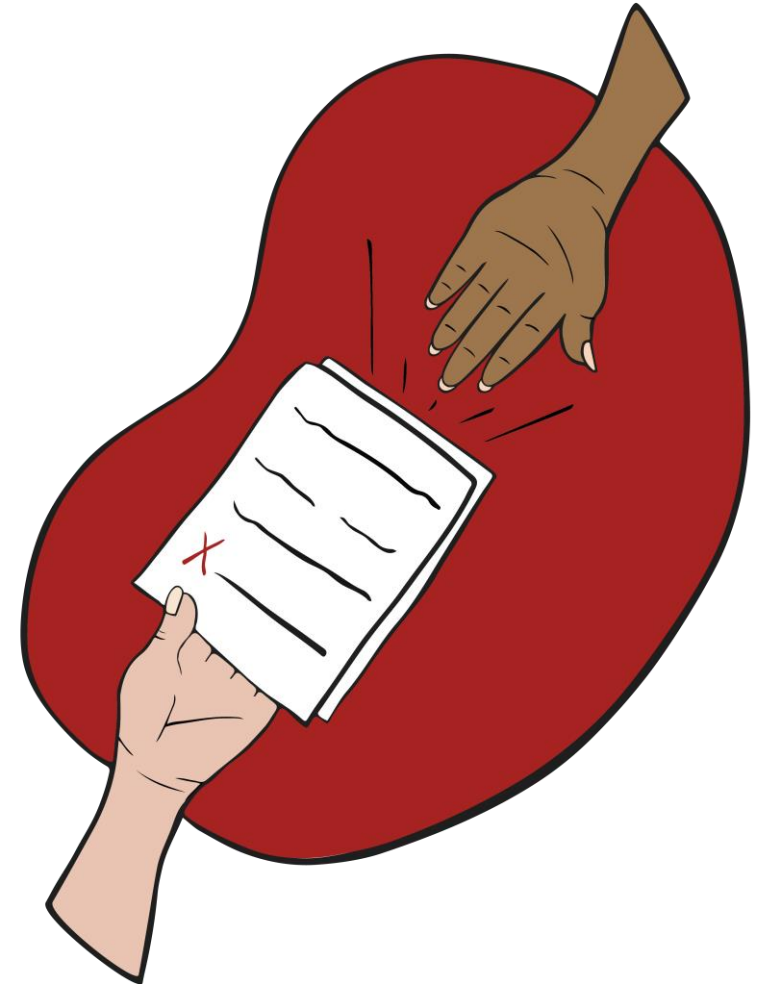
- Proactive communication with owners about maturation
- Fund TA to support preservation



# This is a solvable problem: NOW is the time to act

**Adjust capital reserve requirements and support needed maintenance**

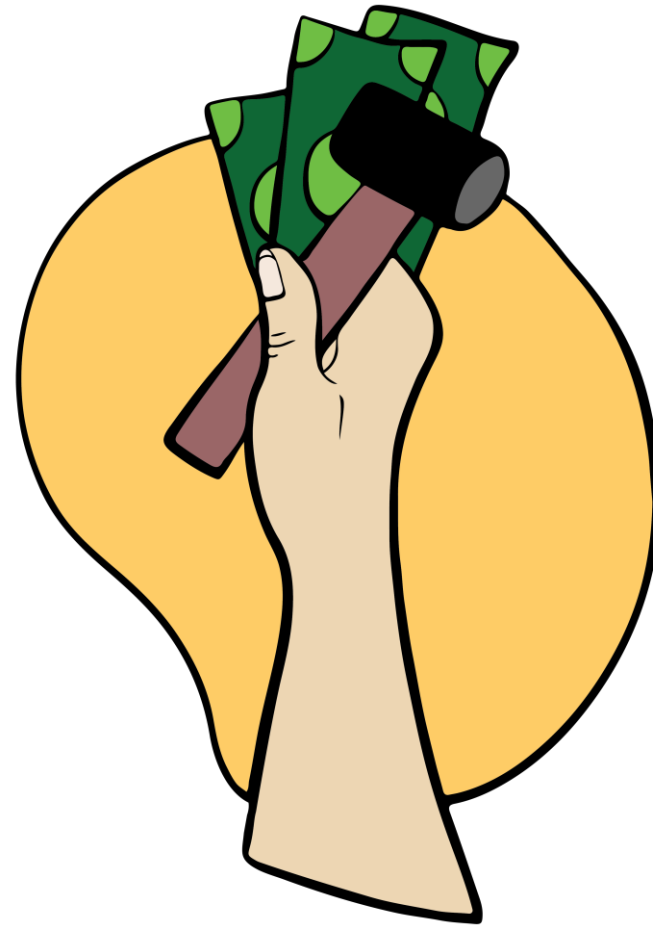
**USDA agents should meet directly with owners and visit properties**



# This is a solvable problem: NOW is the time to act

**Create unique funding support for small scale Section 515 properties**

**Support preservation of Section 515 properties with promising state programs**





# Questions?

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**THANK YOU!**