

Distress in New York's Affordable Housing Stock

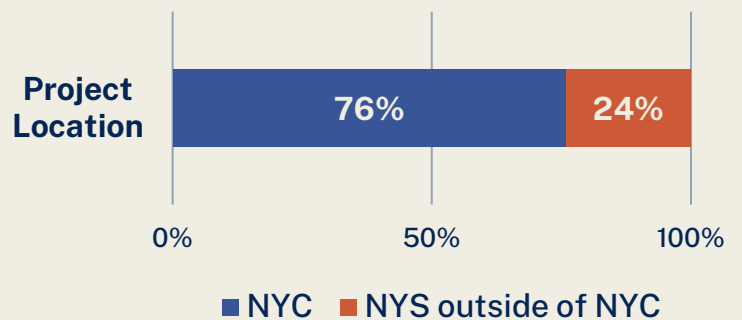
Data from Enterprise and National Equity Fund's Portfolio

Overview

As two major Low-Income Housing Tax Credit (LIHTC) syndicators in New York, Enterprise and National Equity Fund (NEF) maintain detailed financial information for affordable housing properties under our asset management. Since the onset of the Covid-19 pandemic, our organizations have been concerned with increasing indicators of distress in this housing. The trends described in this report are not unique to New York, but finding solutions is critical.

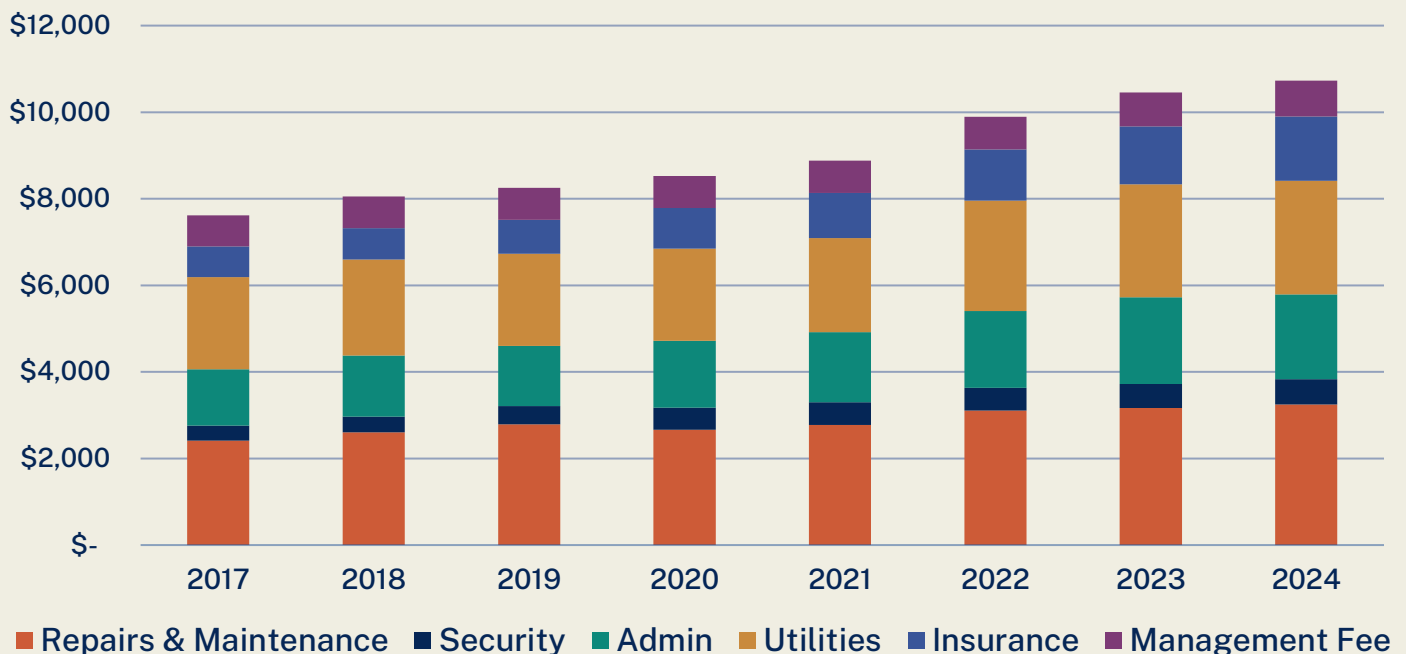
Affordable housing is an important resource which provides stability and opportunity to low- and moderate-income families across the State. Lawmakers, housing agencies and advocates must prioritize solutions to reverse the trends presented in this report.

Data in these Findings:
428 Projects in New York State
37,130 Affordable Homes



Operating Expenses Are Up Sharply for Affordable Housing

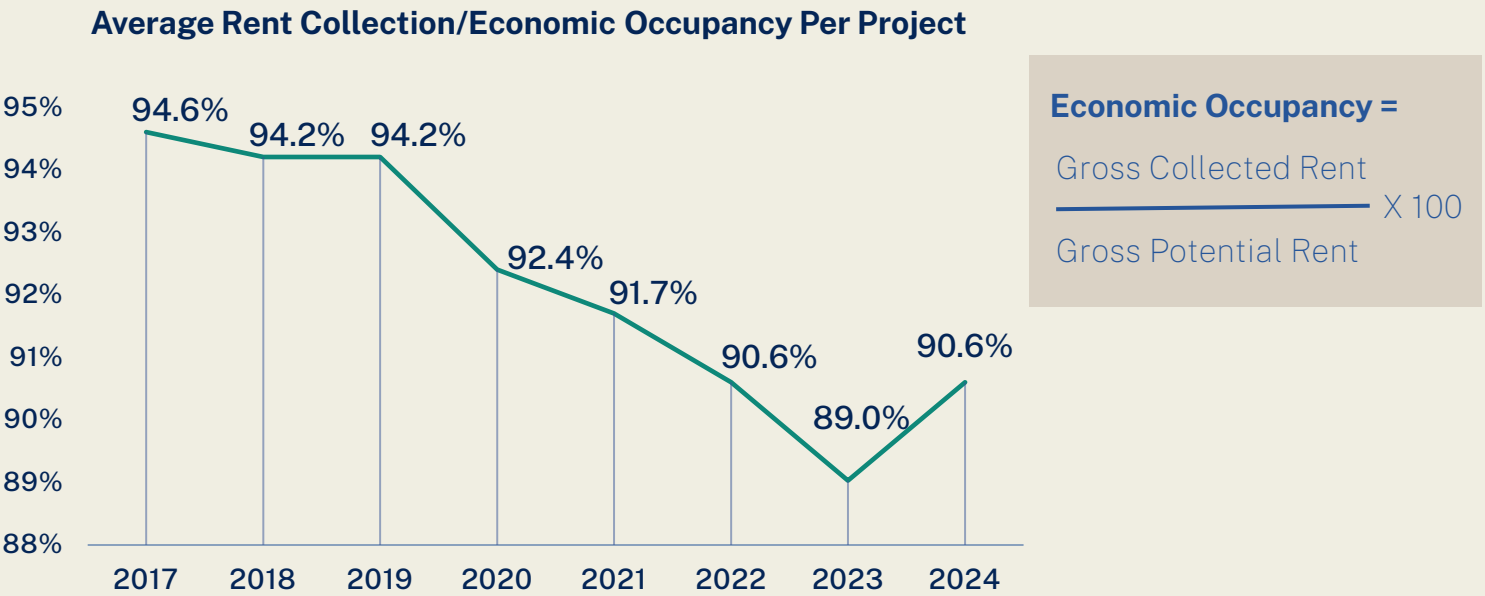
Since 2017, total operating expenses for affordable housing have increased by around **40%**. Driven most sharply by increases in **insurance (+110%)**, **administration costs like staffing, health insurance and payroll taxes (+51%)**, and **repairs & maintenance (+35%)**, these increased costs are felt acutely by affordable housing operators, who are obligated to keep rents affordable for residents. The below graphic shows total operating expenses on an annual per unit basis.



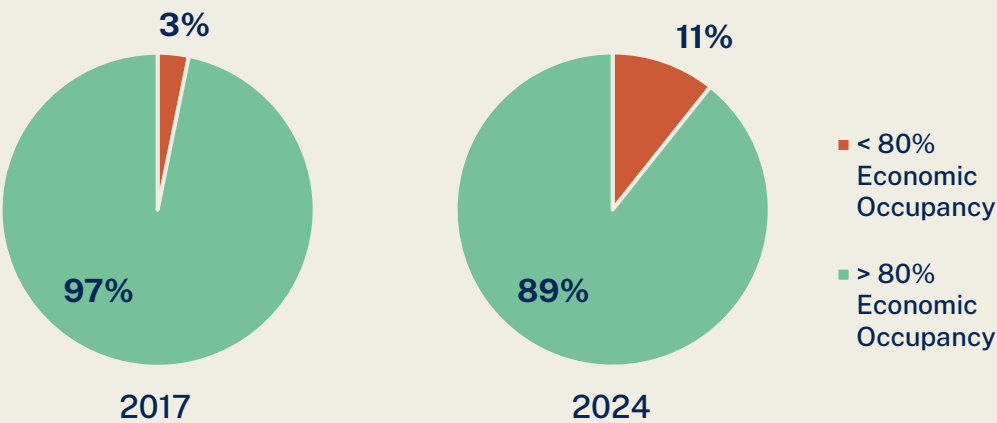
Cost Driver #1: Reduced Rent Collection, aka Economic Occupancy

Economic occupancy is a term that measures how much rental income a property is taking in versus the total potential rent. Historically, our organizations have underwritten to around **95% economic occupancy**, meaning that some degree of rental arrears and unit turnover causing projects to forgo roughly 5% of potential rental income is expected. This expected vacancy is built into the project underwriting, allowing a project’s debt to be sized appropriately so that it can sustain its costs.

However, starting in 2020, rent collection began to drop and has not recovered. While 90% collection instead of 95% does not seem drastic, with a larger share of buildings collecting far less and with rental arrears growing from month-to-month, the financial impact becomes more acute. This decline in rent collection coming alongside the other highlighted rising expenses creates a perfect storm.



Percent of Projects with Deeply Troubled Rent Collection Rates – Less than 80% of the Total



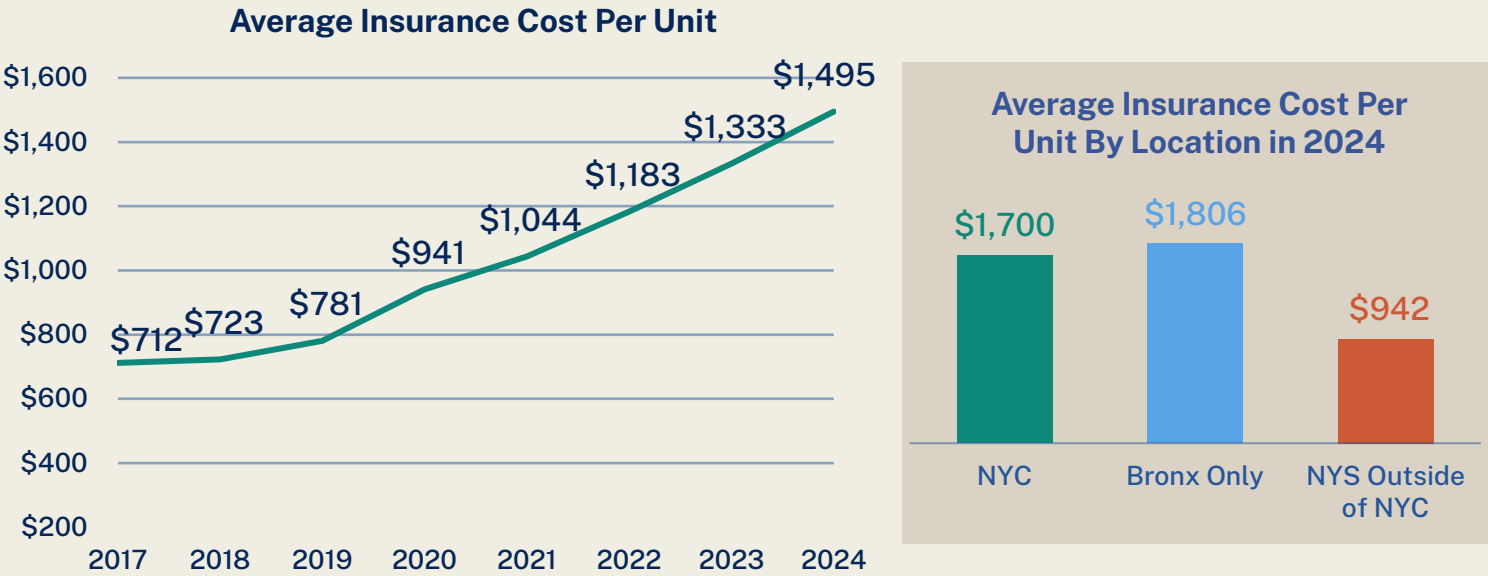
The Impact in Dollars and Cents

What does a 5% drop in economic occupancy really mean? For a representative affordable housing project in NYC at roughly average rent, a drop from 95% to 90% in rent collection would be about **\$75,000** in lost revenue for the year, or a monthly loss of over **\$6,000**.



Cost Driver #2: Insurance

Property and liability insurance rates have skyrocketed, more than doubling on average since 2017. This mirrors national trends and is due in part to rising property replacement costs and climate-related losses. In New York, affordable housing operators deal with a very shallow marketplace of insurance carriers and a reinsurance marketplace which is taking catastrophic losses elsewhere in the country. More insurance options are needed, leading some in the industry to explore insurance captives as one possible solution, but a broader set of reforms and supports must be considered.

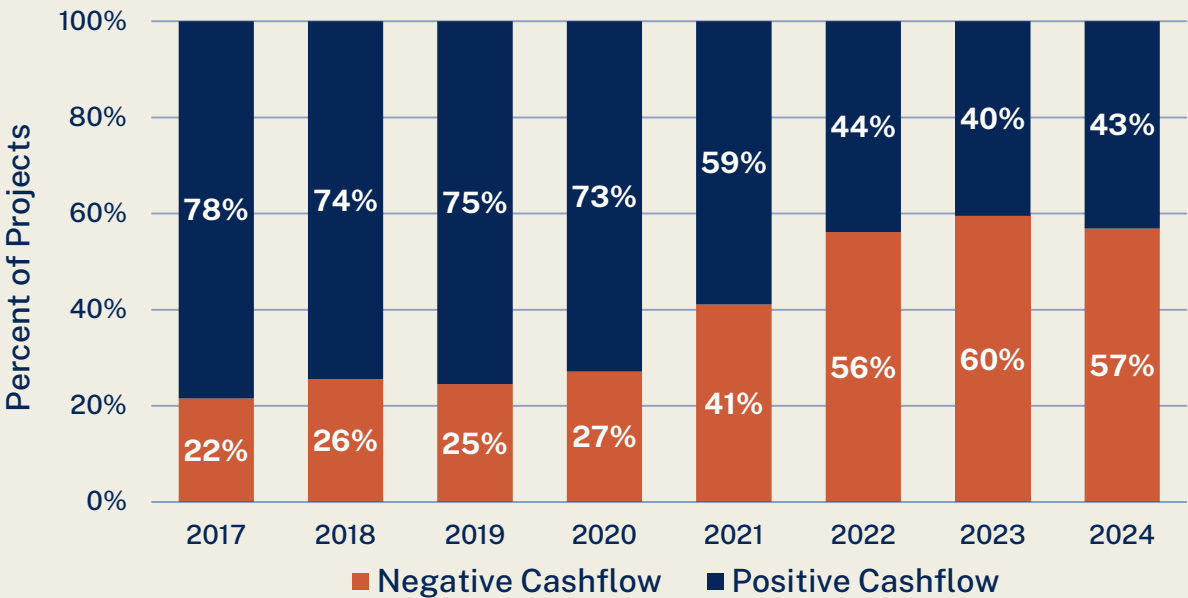


The Impact: More Projects in Financial Distress

As a result of rising expenses and reduced rent collection, the collective portfolio has seen a significant increase in projects experiencing negative cash flow. More projects taking in less revenue than they are paying out has negative implications for conditions at the properties, long-term affordability, and the sustainability of the owners, most of whom are nonprofits. Negative cash flow can lead to deferred maintenance and upgrades, depletion of reserves, and reduced tenant services.

The viability of the nonprofit sector is threatened.

64% of the owners of these properties are nonprofit organizations.



Cash Flow:
The income generated by a project after expenses and debt service are paid.

What This Means for Affordable Housing

The trends of increasing costs and reduced income are unsustainable for affordable housing. Projects are carefully underwritten to support certain costs, so when a project’s expenses or income is thrown out of whack, there are potential ramifications. These consequences will have ripple effects, as the nonprofit operators are often deeply embedded in our communities, providing services beyond housing and committing to long-term affordability.



Deferred
Maintenance or
Disrepair



Foreclosure, Force of
Sale and Potential
Loss of Affordability



Threats to Existence of
Nonprofit & Mission-
Driven Operators



Loss of Investor Confidence
in Historically Stable NY
Affordable Housing Market

Solutions Shouldn’t Harm Tenants

Solutions to preserve New York’s affordable housing must not come on the backs of renters. We need to maximize efficiencies to reduce costs, smartly examine our underwriting standards and make targeted investments to support our housing stock.

- 39% of renters are rent-burdened in New York State
- 1 in 5 are **severely** rent burdened (spending more than half their income on rent)

Solutions	
Emergency Funding to Stabilize Affordable Housing	Affordable housing needs more sources for emergency capital for projects that are struggling, with a priority for improvements that would reduce expenses.
State Action to Reduce Insurance Costs	Lawmakers must advance solutions which reduce insurance costs for affordable housing, such as funding risk mitigation upgrades which can be tied to premium relief or developing a reinsurance backstop.
Expedite Lease Up Process in New York City	Affordable units cannot be left vacant needlessly in a housing crisis, and delays in leasing up properties contribute to these challenges, as vacant units do not generate income.
Rental Assistance is the Key	Rental assistance vouchers such as Sec. 8, CityFHEPS and the Housing Access Voucher Program stabilize tenants and provide properties a much-needed operating subsidy. Current programs should be expanded and made administratively efficient.

About Enterprise Community Partners:

Enterprise is a national nonprofit that supports community development organizations on the ground, aggregates and invests capital for impact, advances housing policy at every level of government, and builds and manages communities.

About National Equity Fund (NEF):

NEF is a leading nonprofit, multi-family, affordable real estate investment manager with a mission to create and deliver innovative, collaborative financial solutions to expand the creation and preservation of affordable housing.

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