

Policy Analysis



Assessing the Competitive Landscape

Project-Based Section 8: A Risk Assessment

SUMMARY

OBJECTIVE

The purpose of this report is to determine the market factors that can cause opt-out risk to Section 8 properties, and discover policy-level solutions to the problem of opt-outs.

RECOMMENDATIONS

Technical assistance to property owners should be pursued in the short term. In the long term, advocates can consider asking the state to fill the short-funding gap.

METHODOLOGY

The Alliance analyzed market factors in 9 Washington regions, reviewed literature on the subject, and consulted with experts in the field.

KEY FINDINGS

While those interviewed do not predict a pending crisis, factors in the market suggest that risk is present in many Washington regions. A continuation and bolstering of Washington State's consolidated preservation effort is necessary to retain the affordability of Project-Based Section 8 units.

Program Background

The Project-Based Section 8 Program is a partnership between private owners and the federal government. An annual contract provides monthly housing assistance payments to the owners and in turn the owners make the subsidized apartments available to low-income families at rents that do not exceed 30% of the renter's income. The majority of all contracts last one to five years. Funding for the program is renewed annually through appropriations.¹

Project-Based Section 8 is targeted at low to extremely low income clients. Washington State currently has 16,490 units. The 2007 Washington State appropriation was \$90,043,992. The average amount spent per unit is \$5,460.² If amounts spent per unit do not keep pace with actual costs, owners with better options won't participate in the program.

Mounting Obstacles

The shortfall in funding levels appropriated in the President's 2008 budget has left the Project-Based Section 8 Program very vulnerable. According to the Center on Budget and Policy Priorities (2007), without an additional

\$2.4 billion in the President's 2009 budget the Project-Based Section 8 Program will not be able to sustain the number of properties receiving such assistance. This may shake the confidence of private owners and further increase the vulnerability of the program. Owners are being asked to commit to annual contracts with only partial funding. In testimony to the Subcommittee on Transportation, Michael Bodaken of the National Housing Trust (2008) noted there is little incentive for owners to remain in the program without more stability.

Multifamily properties are also no longer immune to the foreclosure crisis. The Pew Charitable Trusts (2008) predicts that one in 33 homeowners will be in foreclosure over the next two years. If HUD defaults on payments this could lead to the inability of owners to pay both operating expenses and mortgages, further burdening Section 8 properties.

If HUD payments again prove to be late or unpredictable, the credit crunch could spill over into the multifamily market. This could lead to insolvency to the multifamily market and claims against the FHA Insurance fund (Bodaken, 2008).

¹ There are some contracts fully funded for 20-40 years. The majority of these contracts will expire in the next 10-20 years.

² This calculation is an average and does not take into account the specific variables that determine the amount of rent subsidy for each unit. This also includes Rent Supplement. These numbers were taken from HUD Washington.

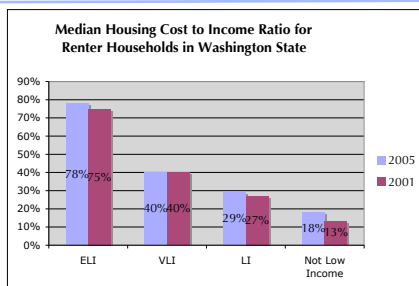
In the past the Project-Based Section 8 Program has been able to leverage considerable resources through private investors and lenders. Investors are now being asked to invest in projects with short term funding and no assurance of continued funding. This could dramatically reduce private investment into the rehabilitation of Project-Based Section 8 properties (Bodaken, 2008). These issues combined with increasing market pressure could lead to an opt out crisis.

Washington State Landscape

In Washington State there continues to be a shortage of affordable apartments. Renters at all income levels continue to struggle to pay rent in the current marketplace. Renters defined as cost burdened pay over 30% of income to rent. Renters at extremely low income levels (50% of AMI) pay over three fourths of income to rent.

Between 2001 and 2005 the amount of income paid towards rent increased for all income levels (Figure 1). Even before locality and housing quality are taken into consideration, low income residents are heavily cost burdened in Washington State. According to the NLIHC (2008), Washington State, on average, fell 22.5 to 35 units short for every 100 extremely low income residents.

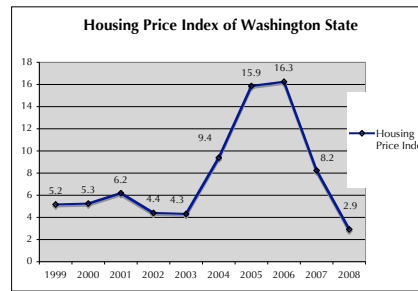
Figure 1: Renters Struggle to Afford Housing



Source: NLIHC

The Housing Price Index, which measures the broad movement of single family home prices, after spiking in 2006 has dramatically dropped off and in the first quarter of 2008 has hit an all time low (Figure 2).

Figure 2: HPI hits record lows



Source: Federal Housing Enterprise Oversight

Washington’s housing market has begun to slow, while Washington’s vacancy rate is at an all time low. At 4%, the vacancy rate makes the market difficult for renters. This, coupled with the lack of affordable units, highlights the importance of Section 8 properties in maintaining a diverse and affordable housing stock.

Problem Statement

Project Based Section 8 rental units are an important component of Washington State’s strategy to ensure the availability of affordable housing to residents in need. **Despite its importance, because of structural factors inherent to the program, the affordability of Project Based Section 8 units is not guaranteed in perpetuity.**

Methodology

This report combines a regionally-focused risk assessment with a traditional policy analysis methodology in order to create policy-level recommendations. Three experts in the Project-Based Section 8 field were interviewed and a literature review was completed in order to gain outside perspective on the opt-out problem, gain expertise in creating technical risk assessments, and learn new ideas for policy solutions. Washington State is divided into regions based on those used in the Washington State Population Survey, and each region is analyzed based on risk criteria. All of the above information is synthesized into a set of potential policy interventions, and these options are analyzed based on standardized evaluation criteria.

Sources

The main source of data for the risk assessment portion of this report is the HUD Multifamily Property Database. This database contains 466 properties, with over 18,000 subsidized units. The database includes:

- Section 8 expiration date
- Program type
- FHA insurance
- Ownership status
- Fair Market Rent (FMR) to Rent ratios
- Owner contact information

Additional information comes from HUD Physical Inspection REAC Scores and the HUD Section 8 Subsidized Apartment Search, which gives data on type and number of units. Additional market data was compiled from the Washington Center for Real Estate Research, the National Low Income Housing Coalition, and the Office of Federal Housing Enterprise Oversight. Mark to Market programs, Rent Supplement, and HUD mortgages are not included in the analysis.

Interviews

In order to gain a better understanding of the current Section 8 preservation context, the Alliance conducted interviews with a number of experts from different backgrounds. These subjects were chosen because of their ground-level experience with the Project Based Section 8 program either through research or policy and implementation.

Interview Subjects

The Alliance interviewed three subjects:

- Keith Wardrip, Research Analyst at the National Low Income Housing Coalition
- Becky Sands, HUD Washington
- Megan Hyla, Policy Director, King County Housing Authority

Interview Questions

Interview subjects were asked the following questions:

1. Will the foreclosure crisis influence Project Based Section 8 by, for example, exposing the FHA mortgage fund to more risk?
2. What is the main reason owners of subsidized units opt out of the program?
3. Do you predict an opt-out crisis in the near future?
4. What would drive an opt-out crisis in the future? Will it be internal issues, or external?

5. In your opinion, what possible improvements could be made at the state or federal level to prevent or mitigate the impact of Section 8 opt-outs?
6. Does the relative availability of capital dollars, combined with the constant shortage of operating dollars, play a role now or will it play a role in the future in the Project Based Section 8 program?

Findings

Over all, interview subjects did not see another opt-out crisis looming on the horizon. Generally speaking, subjects said, “program fatigue” may drive some owners to consider leaving the program, but ultimately the market is the driving factor: if owners can profit more by operating in the private market or by converting to condos, they will. Interview subjects also do not predict a wave of opt-outs like the one experienced in the 1990s, because the new contracts are shorter-term and staggered, and because many buildings have already been preserved.

Short-funding of the program was cited as an aggravating factor, which combined with favorable rental market factors could drive owners out of the program. Megan Hyla noted that there are some private owners who despite being profit motivated have a personal commitment to their tenants and have no interest in leaving the program. Hyla suggested that these owners could be the focus of a state-level effort to maintain subsidy.

Becky Sands noted that while some private owners can find themselves overly burdened by HUD requirements, not all nonprofit owners of Project Based Section 8 buildings have the resources to make the program work to their benefit. Sands recommended the Alliance or another organization spearhead an effort to offer capacity-building opportunities for nonprofits in the Section 8 program.

Finally, none of the interview subjects felt that the foreclosure crisis would incite a wave of opt-outs. Subjects generally felt that the Project Based Section 8 stock was old enough that in most cases, the newer, riskier mortgages were not an issue. Becky Sands noted that FHA loans have the protection of debt restructuring, so even in the rare case of a Section 8 owner having taken out a risky mortgage, protections exist for the owner.

Regional Risk Assessments

Risk Variables

The risk variables were developed based on existing research. The main study used was an in-depth quantitative analysis by HUD (2006) comparing several different property characteristics of properties--such as age, location, and occupancy type--between properties that have left the market with those that have remained. The risk variables and the expected impacts were obtained from the HUD report.

The following variables are evaluated based on the regions developed by the Washington Population Survey (note the table below to for a quick reference guide).

Unit Composition

Contract Expiration Date

The fiscal expiration date shows when an owner can opt out of his or her contract. The sooner the opt out date, the higher the opt out risk.

Target FMR Levels

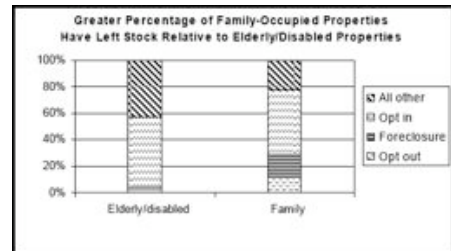
Properties with rents less than HUD FMR are more likely to opt out. A property's pre-opt-out rent level relative to the local FMR is the most important determinant when controlling for all other influences in a owners decision to opt out of the program. As the rent-to-FMR ratio increases the likelihood of owners opting out decreases.

Properties with rents below FMR are 2.9 to 12 times more likely to opt out. Ratios at or below 80% of FMR all have an extremely high likelihood of opting out. Additionally, the Washington Low Income Housing Network (2002) determined that FMR ratios at 80% and 90% are critical values in assessing risk of opt out. Owners will opt out if there is a \$50 dollar profit loss per unit for non- subsidized properties and \$100 dollar loss for owners with a subsidized property.³ Additionally properties receiving above 100% of FMR are at risk because of the potential profit loss by reducing the rents to HUD defined market rates.

Unit Size and Target Client

If the number of rental subsidies is close to the number of elderly and disabled households these properties are better protected if there are significant rent increases. Conversely family occupancy rentals tend to be more at risk. Nearly 30 percent of all family-occupied properties have left the stock

Family-Occupied Units opt out at a higher rate



Source: HUD

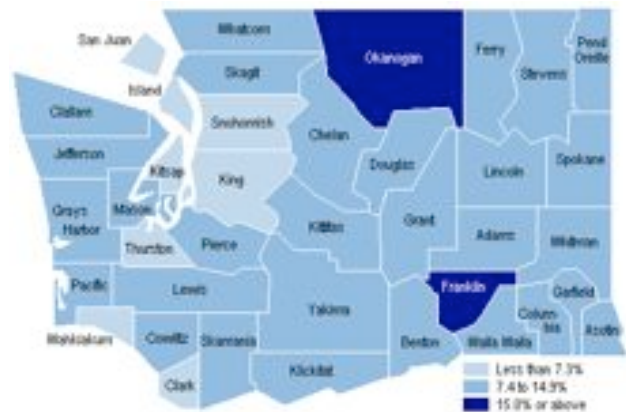
because of opt-out, prepayment, foreclosure or enforcement, whereas less than 4 percent of elderly and disabled properties have left the assisted stock.

Market Characteristics

Regional Poverty Rate

The higher the poverty rate in a neighborhood or region the less likely the property will choose to opt out. Neighborhoods with higher poverty rates are often unable to command high rents. Therefore, there is less likelihood of properties opting out in higher poverty areas because of the lack of opportunity to receive higher rents. This report will focus on the regional level poverty rate to get a general sense of the poverty rate of the area.

Family Poverty Rates are higher in rural counties



Source: OFM Census 2000. Poverty Rate of Families

Regional Vacancy Rate

Vacancy rates determine the risk of conversion to market rent apartments. If the region has a high vacancy rate it is less likely the building will opt out. Vacancy rates at or below 6% indicate a higher demand and greater likelihood that Section

³ Washington Low Income Housing Network. *Taking Stock Washington State Project-Based Section 8 Housing: A Risk Assessment*. 2002. This assumes an average rent of \$500 and

ALMOST HALF OF ALL WASHINGTON STATE RENTERS ARE COST BURDENED (NLIHC 2008)

8 properties will convert to market rate apartments, but with little affect on property vacancy rates.

Regional Home Price Trends

Median home price changes reflect the market for single family homes, rather than multifamily rentals, but it is a statistic that offers the best snapshot of overall market conditions. An increase of over 10% in the median home price is taken to indicate increasing demand, thus increasing opt-out risk.⁴

Fair Market Rent vs. Median Renter Income

If Fair Market Rents are well below the affordable rent at 30% of the region's median rental income owners may opt out to collect higher rents.

Physical Condition of Property

Properties that left the assisted stock tend to be in metropolitan central city locations and, on average, have a lower physical inspection rating score than those that stayed in the stock. Properties with a score below 60 tend to opt out of the program.

Ownership Status

Non-profits, being mission driven, may be more motivated to retain affordability regardless of the expiration date restrictions. For-profit owners in general may be more likely to raise rents. Nonprofit owners are considerably less likely to

opt out. Therefore ownership status may increase the risk of opt outs.

Other Affordability Restrictions

Properties with multiple funding restrictions are less likely to sell properties or raise rents. These properties can be locked into another affordability period because of the additional funding restrictions forcing them to remain affordable. The following additional funding restrictions will be analyzed:

- HUD Insured
- 202/811
- No HUD financing, previously insured
- RHS 515

If an owner chooses to pre-pay his or her mortgage this reduces rent restrictions and may be an overall indicator that the owner wants less involvement with HUD. 202/811 and RHS 515 assistance locks properties into additional rent restrictions making it harder for the owner to choose to opt out.

The table on the next page summarizes the basic risk criteria and expected impacts.

⁴ Washington Low Income Housing Network. *Taking Stock Washington State Project-Based Section 8 Housing: A Risk Assessment*. 2002.

Risk Criteria	Variable	Expected Impacts
Unit Composition	<ul style="list-style-type: none"> • Property Expiration Date • Target FMR Levels • Unit Size and Target Client 	<p>Properties with a high number of units for elderly or disabled residents tend to have a lower likelihood of opting out because they typically receive additional assistance.</p> <p>Expiration date indicates when the owner can legally opt out of the contract.</p> <p>The lower the ratio the more likely an owner will choose to opt out. As properties with rents that are low relative to the FMR may be able to raise rents without effecting vacancy levels.</p>
Market Characteristics	<ul style="list-style-type: none"> • Region Poverty Rate • Region Vacancy Rate • Trends in Home Prices in the Region 	<p>The higher the median income and median rent and the lower the vacancy rate and poverty rate the more likely the owner will choose to opt out.</p> <p>A change in home price is a useful snapshot of the demand in a regions housing market.</p>
FMR vs. Median Rental Income	FMR vs. Median Rental Income	The larger the gap between affordable rent of the region and the FMR, the more likely it is the owner will opt out.
Ownership Status	Nonprofit vs. For-profit status	Nonprofit ownership decreases the likelihood of opting out because of the mission driven nature of a nonprofit. For-profits are more likely to prioritize market factors.
Physical Condition	REAC Physical Scores	The lower the score the more likely the owner will choose to opt out.
Other Affordability Restrictions	<ul style="list-style-type: none"> • No HUD Financing • Insured • 202/811 • RHS 515 	Additional program support to the property may influence the ability of the owner to opt out, as it locks the property into additional years of affordability.

RISK ASSESSMENT:

BY THE REGIONS

The following pages contain regional risk assessments that focus on the ten risk variables discussed above: property expiration date, target FMR levels, unit size and target client, poverty rate, vacancy rate, home price trends, FMR compared to median rental income, nonprofit or for-profit status, REAC physical scores, and the presence of other affordability restrictions. The analysis details the current condition of each variable, and includes a summary that indicates how many of the ten opt-out risk factors are present in each region. The regions detailed in this analysis are based on the regions used in the Washington State Population Survey.



Photo courtesy Seattle Housing Authority

Other Puget Sound Metro (Kitsap and Thurston Counties)

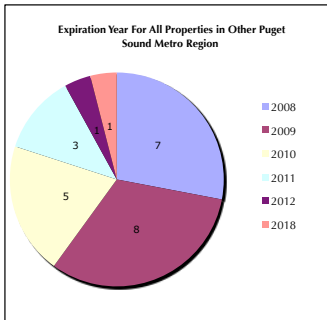
Section 8 Profile

- Total Properties: 25
- Total Units: 1,314
- 6 of 10 Risk Factors Present

Unit Composition

Expiration Date

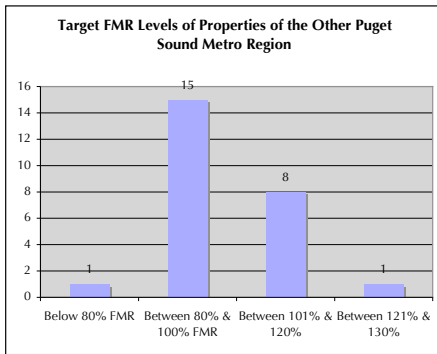
The majority of properties expire before 2011.



Source: HUD Multifamily Database

Target FMR Levels

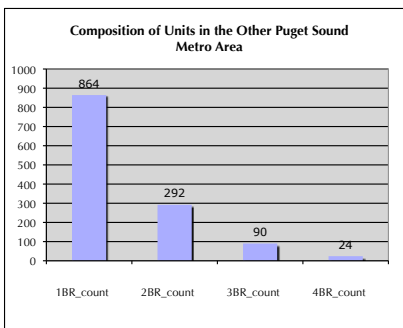
There is increased risk, as most properties are below 100% of FMR.



Source: HUD Multifamily Database

Unit Size and Target Client

The majority of properties are targeted at elderly and disabled, decreasing the risk of opting out.



Source: HUD Section 8 Subsidized Apartment Search

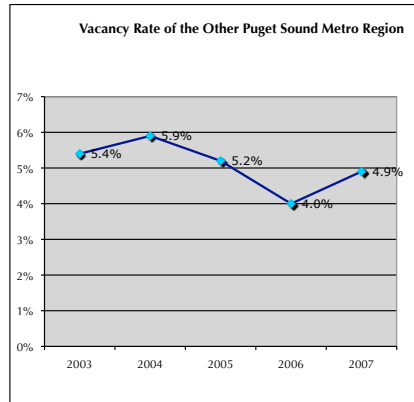
Market Characteristics

Poverty Rate

The poverty rate of the region is 8.8%. This is relatively low in comparison to other regions.

Vacancy Rate

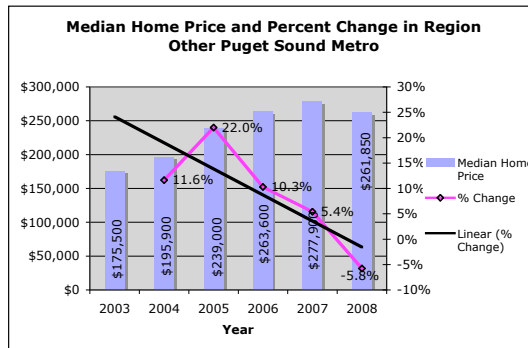
The vacancy rate continues to hover around 5%. This indicates a tight market and an increased opt out risk.



Source: Washington Center for Real Estate Research

Trends in Home Prices

The housing market has begun to slow. There was negative growth in the first quarter of 2008.



Source: Washington Center for Real Estate Research

FMR vs. Median Rental Income

The FMR is significantly lower than affordable rent at 30% of the median rental income. This increases the risk that owners will opt out to receive higher rents in the private market.

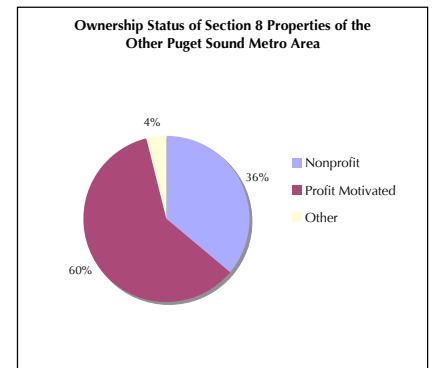
FMR 2 Bedroom	Median Rental Income	Rent Affordable at 30% of Rental Income
\$661	\$37,790	\$945

Physical Condition

The average REAC score is 93. This is considerably high, therefore decreasing the risk of opting out.

Ownership Status

The majority are for-profits increasing the risk of opt outs.



Source: HUD Multifamily Database

Other Affordability Restrictions

The majority of properties have no HUD financing, increasing the risk of opting out.

Primary Financing	Number of Properties
Insured	4
202/811	4
No HUD financing, previously insured	17
RHS 515	4

King County

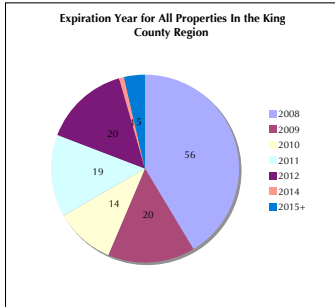
Section 8 Profile

- Total Properties: 137
- Total Units: 7,706
- 5 of 10 Risk Factors Present

Unit Composition

Expiration Date

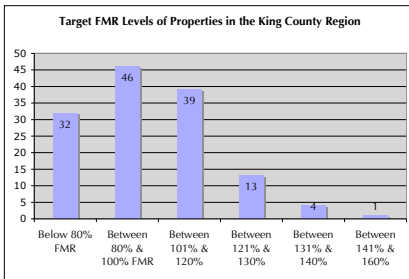
The majority of properties have an expiration date before 2009.



Source: HUD Multifamily Database

Target FMR Levels

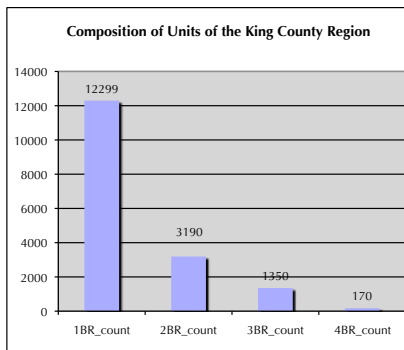
There is increased risk because the majority of properties are below 100% of FMR.



Source: HUD Multifamily Database

Unit Size and Target Client

The majority of properties are targeted at elderly clients, decreasing the risk of opt outs.



Source: HUD Section 8 Apartment Search

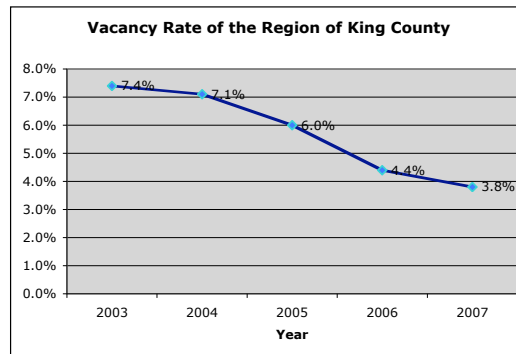
Market Characteristics

Poverty Rate

The poverty rate of King County is 9.5%. This is average among the regions.

Vacancy Rate

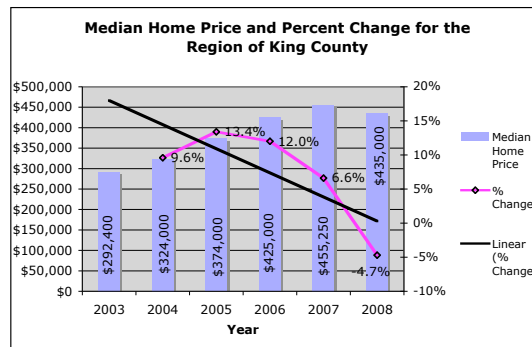
The vacancy rate has dramatically dropped over the last couple of years making the market very competitive and increasing the risk of opt outs.



Source: Washington Center for Real Estate Research

Trends in Home Prices

After climbing over the last several years, home prices have begun to stagnate. The first quarter of 2008 showed negative growth.



Source: Washington Center for Real Estate Research

FMR vs. Median Rental Income

The FMR is lower than the Median Rental Income, increasing the risk of opting out.

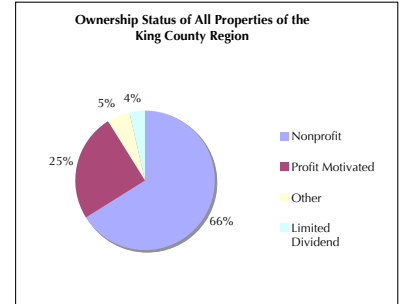
FMR 2 Bedroom	Median Rental Income	Rent Affordable at 30% of Rental Income
\$942	\$43,892	\$1,097

Physical Condition

The average REAC score is 86. This does not indicate increased risk.

Ownership Status

The majority of properties have nonprofit ownership, decreasing risk of opting out.



Source: HUD Multifamily Database

Other Affordability Restrictions

The properties are equally split between Insured, 202/811 and no HUD financing. Those with no HUD financing have a higher risk.

Primary Financing	Number of Properties
Insured	40
202/811	41
No HUD financing, previously insured	49
RHS 515	0

Spokane County

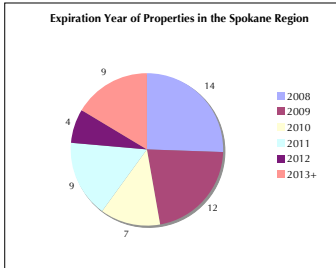
Section 8 Profile

- Total Properties: 137
- Total Units: 7,706
- 2 of 10 Risk Factors Present

Unit Composition

Expiration Date

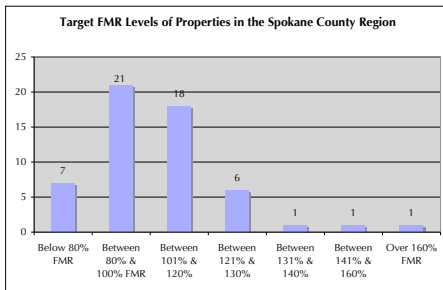
Half of all the properties have an expiration date before 2009.



Source: HUD Multifamily Database

Target FMR Levels

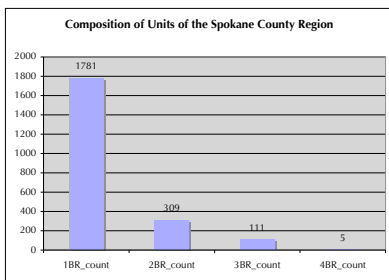
Almost half of all the properties have a ratio of close to 100% of FMR, reducing the risk of opting out. Those below 100% have a higher risk



Source: HUD Multifamily Database

Unit Size and Target Client

Over half of all properties are targeted at elderly/disabled households and are one-bedroom, reducing the risk of opt outs.



Source: HUD Section 8 Apartment Search

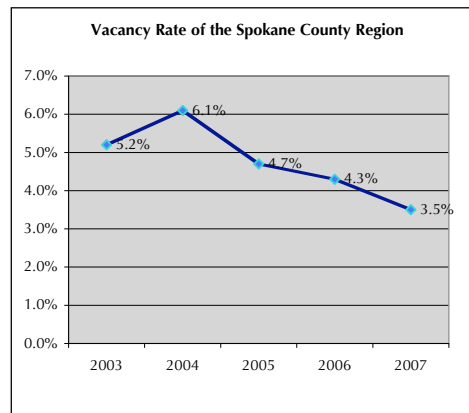
Market Characteristics

Poverty Rate

The poverty rate is 13.3%. This is slightly higher than the other regions.

Vacancy Rate

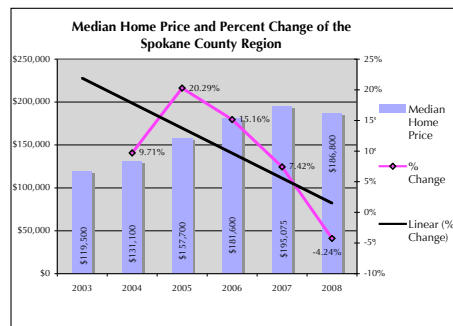
The vacancy is at all time low of 3.5%. This is a very tight market increasing the risk of opt outs.



Source: Washington Center for Real Estate Research

Trends in Home Prices

After steadily climbing over the last five years, the first quarter of 2008 shows negative growth.



Source: Washington Center for Real Estate Research

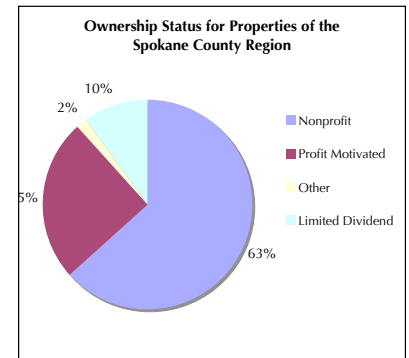
FMR vs. Median Rental Income

The FMR is very close to the rent affordable at 30% of Median Rental Income, decreasing the risk of opt outs.

FMR 2 Bedroom	Median Rental Household Income	Affordable Rent at 30% of Rental income
\$674	\$27,697	\$692

Ownership Status

The majority of properties have nonprofit ownership, reducing the risk of opt outs.



Source: HUD Multifamily Database

Other Affordability Restrictions

The majority are insured by HUD making it more difficult to opt out, therefore decreasing the risk.

Primary Financing	Number of Properties
Insured	29
202/811	13
No HUD financing, previously insured	12
RHS 515	2

North Sound (Island, San Juan, Skagit and Whatcom Counties)

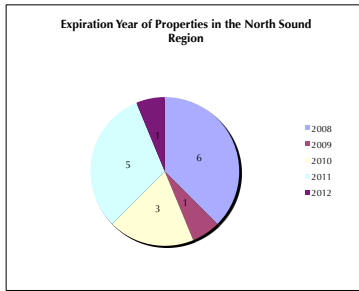
Section 8 Profile

- Total Properties: 17
- Total Units: 619
- 4 of 10 Risk Factors Present

Unit Composition

Expiration Date

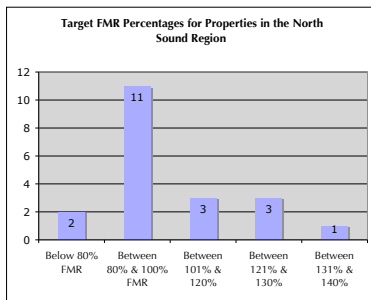
The majority of properties have an expiration date before 2011.



Source: HUD Multifamily Database

Target FMR Levels

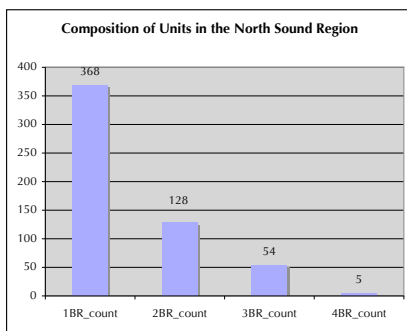
The majority of properties are below 100% FMR, increasing the risk of opt outs.



Source: HUD Multifamily Database

Unit Size and Target Client

The majority of properties are targeted at elderly clients, decreasing the risk of opting out.



Source: HUD Section 8 Apartment Search

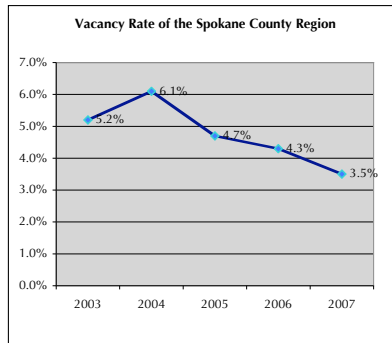
Market Characteristics

Poverty Rate

The poverty rate of the region is comparable to the other regions of 10.5%.

Vacancy Rate

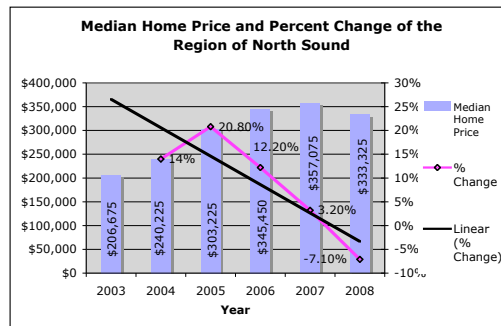
The vacancy rate is 3.5%. This is an extremely tight market increasing the risk of opting out.



Source: Washington Center for Real Estate Research

Trends in Home Prices

After climbing over the last five years, the first quarter of 2008 has showed negative growth.



Source: Washington Center for Real Estate Research

FMR vs. Median Rental Income

The FMR is very close to the rent affordable at 30% of Median Rental Income, decreasing the risk of opting out.

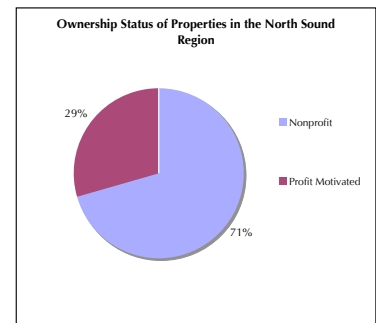
FMR 2 Bedroom	Median Rental Household Income	Affordable Rent at 30% of Rental income
\$760	\$31,722	\$793

Physical Condition

The average REAC score is 87, comparable to other regions.

Ownership Status

The majority of properties have nonprofit ownership decreasing the risk of opting out



Source: HUD Multifamily Database

Other Affordability Restrictions

The majority of properties have no HUD financing increasing the risk.

Primary Financing	Number of Properties
Insured	1
202/811	4
No HUD financing, previously insured	10
RHS 515	2

East Balance (Adams, Asotin, Chelan, Columbia, Douglas, Garfield, Grant, Kittitas, Lincoln, Pend Oreille, Stevens, Walla Walla and Whitman Counties)

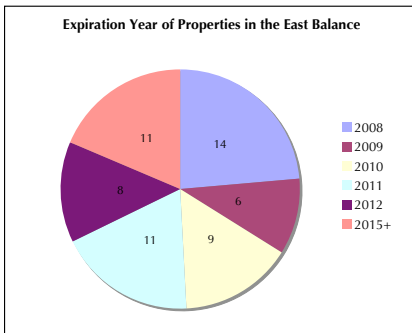
Section 8 Profile

- Total Properties: 61
- Total Units: 1,582
- 2 of 10 Risk Factors Present

Unit Composition

Expiration Date

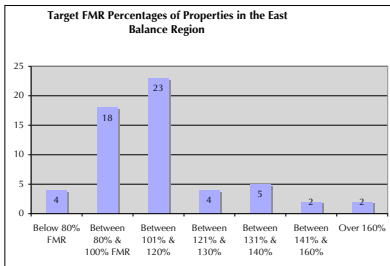
14 properties have an expiration date in 2008.



Source: HUD Multifamily Database

Target FMR Level

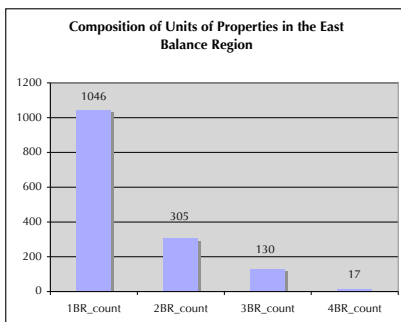
The majority of the properties are at the 100% FMR level, decreasing the risk of opt outs.



Source: HUD Multifamily Database

Unit Composition and Target Client

Approximately half of all properties are targeted at elderly and disabled populations with the majority being one-bedroom units. This decreases the risk of opting out.



Source: HUD Section 8 Apartment Search

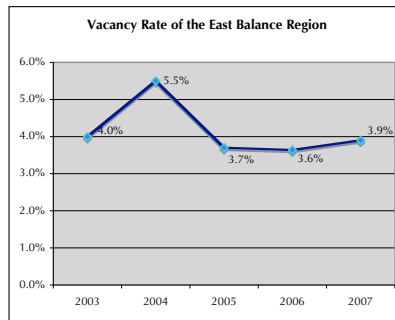
Market Characteristics

Poverty Rate

The poverty rate of the region is relatively high at 15.6%.

Vacancy Rate

The vacancy rate of the region is very low, making the rental market competitive.

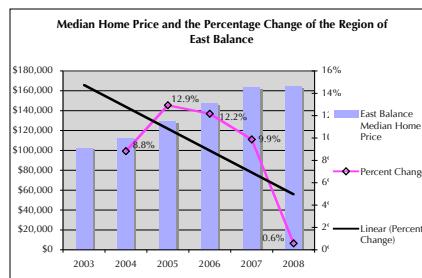


Source: Washington Real Estate Research Center

Note: Due to low response rate and lack of participation in survey the vacancy rate is missing several counties.

Trends in Home Prices

After steadily climbing, the first quarter of 2008 shows negative growth.



Source: Washington Center for Real Estate Research

FMR Vs. Median Rental Income

The FMR is comparable to affordable rent at 30% of Median Rental Income, decreasing the risk of opting out

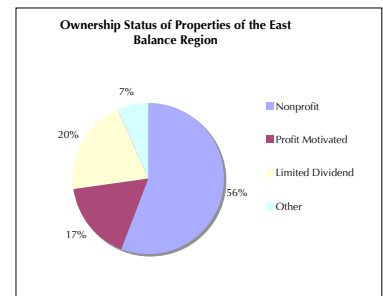
FMR 2 Bedroom	Median Rental Household Income	Affordable Rent at 30% of Rental income
\$704	\$25,077	\$619

Physical Condition

The average REAC score is 89. This does not increase the risk of opt outs.

Ownership Status

The majority have nonprofit ownership, decreasing the risk.



Source: HUD Multifamily Database

Other Affordability Restrictions

The majority of properties have no HUD financing increasing the risk.

Primary Financing	Number of Properties
Insured	8
202/811	19
No HUD financing, previously insured	27
RHS 515	10

Yakima Tri-Cities (Benton, Franklin, Yakima)

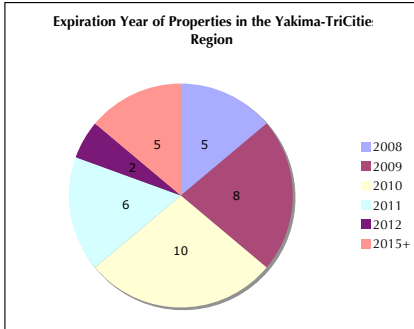
Section 8 Profile

- Total Properties: 61
- Total Units: 1,582
- 3 of 10 Risk Factors Present

Unit Composition

Expiration Date

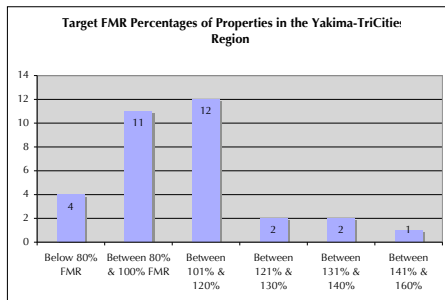
13 properties have an expiration date before 2009.



Source: HUD Multifamily Database

Target FMR Levels

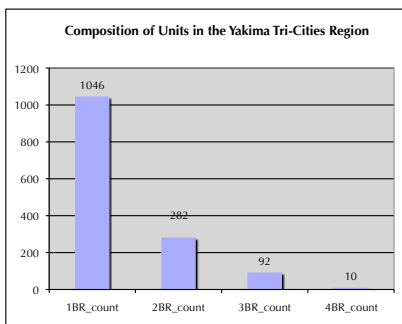
The majority of properties are at the 100% level of FMR, lowering the risk.



Source: HUD Multifamily Database

Unit Size and Target Client

The majority of properties are targeted at elderly, decreasing the likelihood of opting out.



Source: HUD Multifamily Database

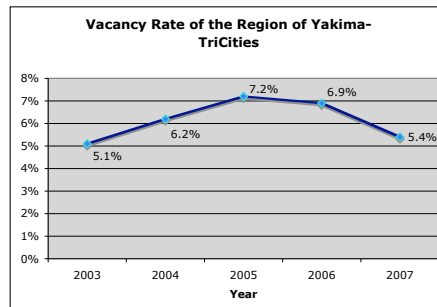
Market Characteristics

Poverty Rate of the Region

The poverty rate of the region is 18.8%. This is the highest of any region.

Vacancy Rate of the Region

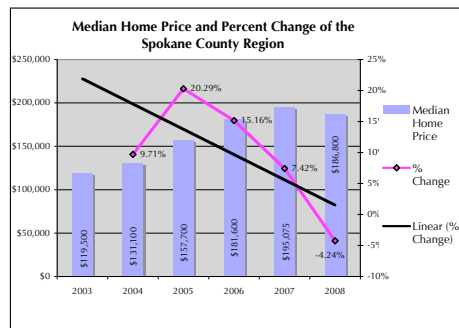
The vacancy rate is 5.4%. The highest of any region but is still a tight market, increasing the risk of opting out.



Source: Washington Center for Real Estate Research

Trends in Home Prices of the Region

After steadily climbing, the first quarter of 2008 showed negative growth.



Source: Washington Center for Real Estate Research

FMR vs. Median Rental Income

The FMR is comparable to rent affordable at 30% of Median Rental Income, decreasing the risk of opting out.

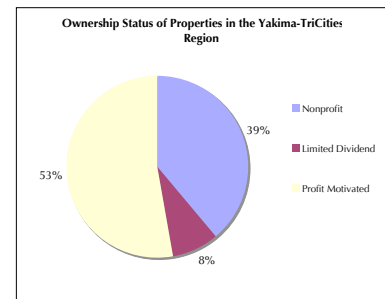
FMR 2 Bedroom	Median Rental Household Income	Affordable Rent at 30% of Rental income
\$700	\$ 27,487	\$687

Physical Condition

The average REAC score for the region is 86. Slightly lower than other regions but above the average opt out score.

Ownership Status

Over half of all the properties are owned by for-profit entities, increasing the risk of opt out.



Source: HUD Multifamily Database

Other Affordability Restrictions

The majority of properties have no HUD financing increasing the risk of opting out.

Primary Financing	Number of Properties
Insured	3
202/811	8
No HUD financing, previously insured	24
RHS 515	5

West Balance(Clallam, Cowlitz, Grays Harbor, Jefferson, Klickitat, Lewis, Mason, Pacific, Skamania and Wahkiakum Counties)

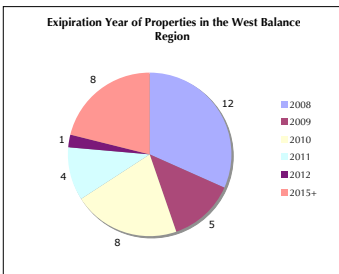
Section 8 Profile

- Total Properties: 38
- Total Units: 1,382
- 5 of 10 Risk Factors Present

Unit Composition

Expiration Date

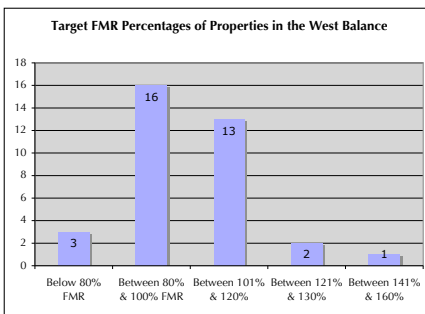
The majority of properties have an expiration date of 2008.



Source: HUD Multifamily Database

Target FMR Levels

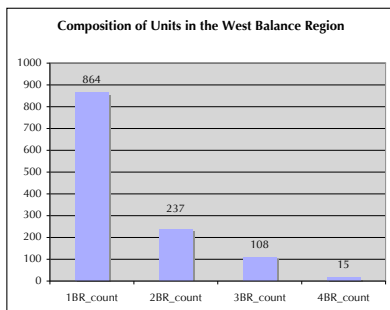
Half of all the properties are targeted at FMR levels below 100%. These properties are at a greater risk of opting out



Source: HUD Multifamily Database

Unit Size and Target Client

The majority of properties are targeted at elderly populations, decreasing the risk of opting out.



Source: HUD Section 8 Apartment Search

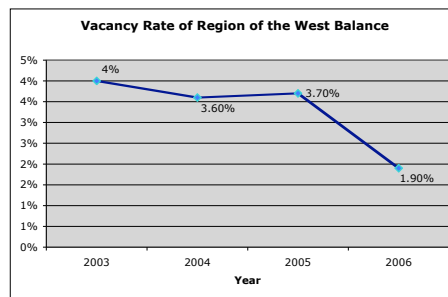
Market Characteristics

Poverty Rate

The poverty rate of the region is 13%, comparable to other regions.

Vacancy Rate

This rate is extremely low increasing the risk of opting out.

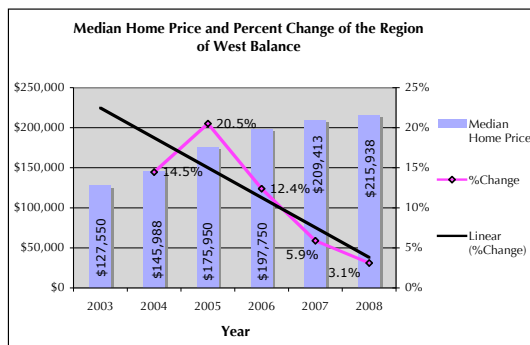


Source: Washington Center for Real Estate Research.

Note: Due to low response rate and lack of participation in survey the vacancy rate is missing several counties.

Trends in Home Prices

After steadily growing the first quarter of 2008 showed negative growth.



Source: Washington Center for Real Estate Research

FMR vs. Median Rental Income

The FMR is comparable to 30% of the Median Rental Income, decreasing the risk of opting out

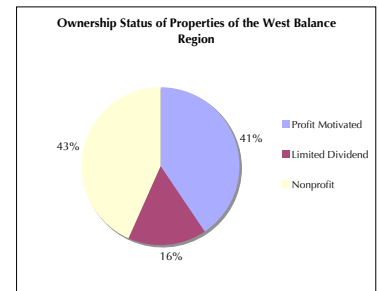
FMR 2 Bed-room	Median Rental Household Income	Affordable Rent at 30% of Rental income
\$707	\$ 27,620	\$ 690

Physical Condition

The average REAC score is 86. This above the critical score for opting out and is comparable to other regions

Ownership Status

Ownership is equally split between for-profit and nonprofit. Those owned by for-profit are at greater risk.



Source: HUD Multifamily Database

Other Affordability Restrictions

The majority of properties have no HUD financing, increasing the risk of opt outs.

Primary Financing	Number of Properties
Insured	6
202/811	7
No HUD financing, previously insured	22
RHS	5
Previously 202/811	3

Snohomish County

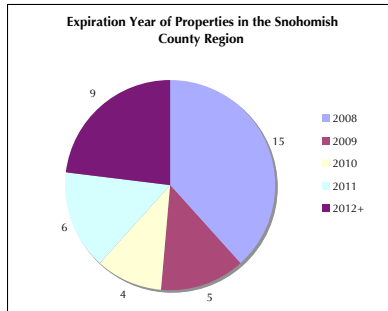
Section 8 Profile

- Total Properties: 40
- Total Units: 1,845
- 3 of 10 Risk Factors Present

Unit Composition

Expiration Date

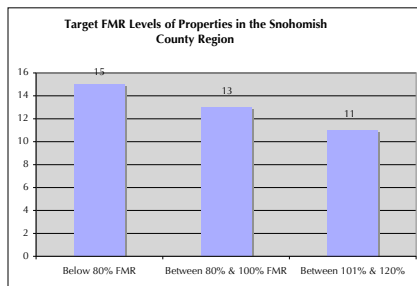
The majority of properties expire in 2008



Source: HUD Multifamily Database

Target FMR Level

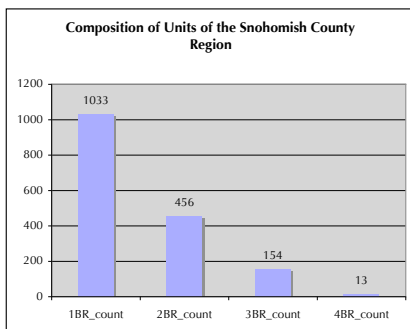
The properties below 100% of FMR are at higher risk of opting out.



Source: HUD Multifamily Database

Unit Size and Target Client

The majority of properties are targeted at elderly clients, lowering the risk of opt outs.



Source: HUD Section 8 Apartment Search

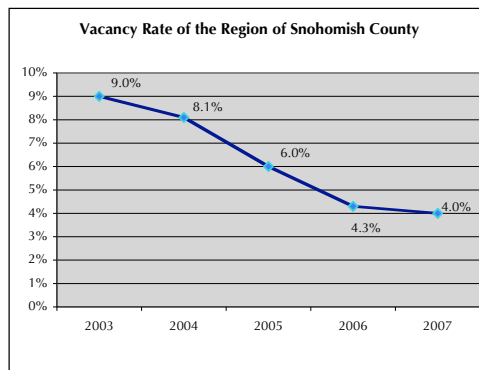
Market Characteristics

Poverty Rate

The poverty rate is 7.6%. This is the lowest out of the all the regions.

Vacancy Rate

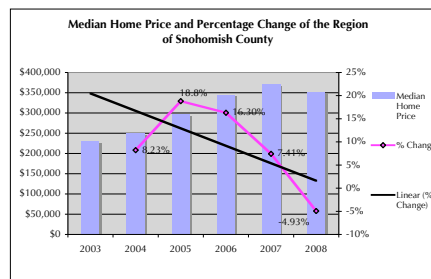
The vacancy rate is 4%. This is a very tight market, increasing the risk of opting out.



Source: Washington Center for Real Estate Research

Trend in Home Prices

After steadily growing, the first quarter of 2008 shows negative growth.



Source: Washington Center for Real Estate Research

FMR vs. Median Rental Income

The affordable rent is considerable higher than than the FMR. This increases the risk of opting out

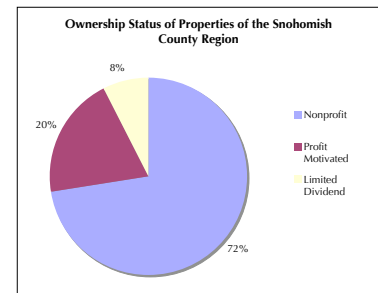
FMR 2 Bedroom	Median Rental Household Income	Affordable Rent at 30% of Rental income
\$942	\$ 44,363	\$942

Physical Condition

The average REAC score of the region is 86. This does not increase the risk of opting out.

Ownership Status

The majority of properties have nonprofit ownership reducing the risk of opting out.



Source: HUD Multifamily Database

Other Affordability Restrictions

The majority have 202/811 decreasing the risk of opting out.

Primary Financing	Number of Properties
Insured	6
202/811	19
No HUD financing, previously insured	15
RHS 515	5

Pierce County

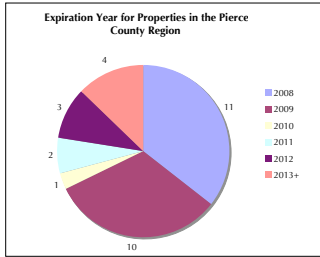
Section 8 Profile

- Total Properties: 35
- Total Units: 2,092
- 3 of 10 Risk Factors Present

Unit Composition

Expiration Date

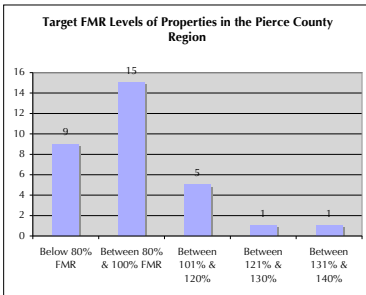
The majority of properties expire in 2008.



Source: HUD Multifamily Database

Target FMR Level

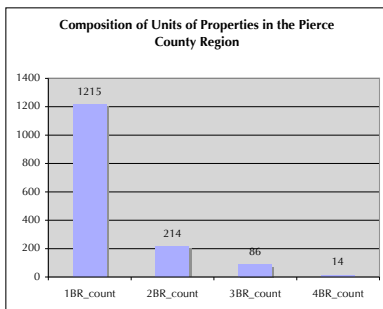
The majority are targeted at the 100% FMR level, reducing the risk of opting out.



Source: HUD Multifamily Database

Unit Size and Target Client

The majority of properties are targeted at elderly clients, reducing the risk of opting out.



Source: HUD Section 8 Apartment Search

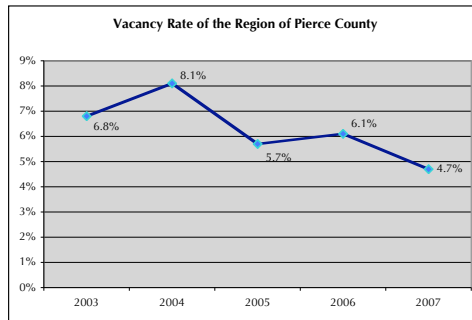
Market Characteristics

Poverty Rate

The poverty rate is 11.5%. This is comparable to other regions.

Vacancy Rate

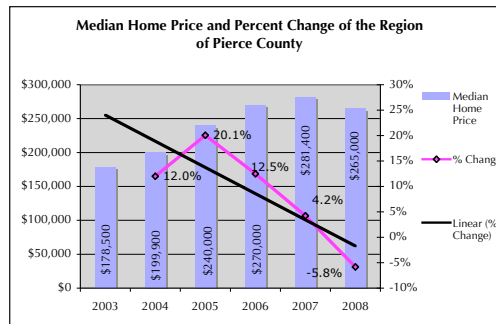
The vacancy rate has continued to hover around 5%, showing a tight market and increasing the risk of opting out.



Source: Washington Center for Real Estate Research

Trends in Home Prices

After steadily climbing the first quarter of 2008 showed a negative growth.



Source: Washington Center For Real Estate Research

FMR vs. Median Renters Income

The affordable rent is considerably higher than the FMR. This increases the risk of opting out.

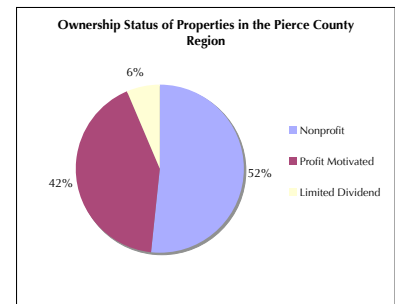
FMR 2 Bed-room	Median Rental Household Income	Affordable Rent at 30% of Rental income
\$845	\$36,620	\$915

Physical Condition

The average REAC score is 92. This is relatively high, decreasing the risk of opt outs.

Ownership Status

The majority of properties have nonprofit, decreasing the risk of opt outs.



Source: HUD Multifamily Database

Other Affordability Restrictions

The majority of properties have 202/811 and are insured decreasing the risk.

Primary Financing	Number of Properties
Insured	10
202/811	12
No HUD financing, previously insured	9
RHS 515	0

Policy Analysis

The preceding risk assessment shows that a significant number of opt-out risk factors exist in many regions in Washington State. Opt-out risk puts the security of many Washington families at risk. This section seeks to discover possible ways of mitigating or removing that opt-out risk. Potential policy interventions will be described, evaluative criteria will be presented, and recommendations will be made based on an analysis of the options.

Policy Options

As the research suggests, a variety of policy interventions could be employed to eliminate or mitigate the risk factors associated with Section 8 opt-outs. Each option will be explored in turn.

Technical Assistance to Nonprofit Section 8 Project Owners

This option, suggested by an interview subject, would provide Section 8 project owners-- primarily those from the nonprofit community-- with assistance in creating project budgets, managing new Project-Based Section 8 assets, and maintaining and reporting data required by HUD. This option would address the preservation question by making sure that nonprofits and other Section 8 project owners could retain the affordability of their buildings in what is a sometimes complex and uncertain system.

State Fills the Shortfall Gap

An innovative policy option suggested by an interview subject is for Washington State, through the Housing Division at CTED, to pay Section 8 project owners what HUD owes them when Congressional or Executive action forces a budget shortfall. The Housing Division would then look to HUD for reimbursement once funding is again available.

Improved Experience for Section 8 Project Owners

Currently, owners must submit paperwork on a monthly basis in order to receive funding every four months. For some owners, this is perceived as a burden and lessens interest in Section 8 program participation. HUD could partner with owners and policy makers to redesign the administrative aspects of the program in a way that would lower barriers to participation for owners, but still fulfill the requirements held by HUD and Congress.

Full Funding of Section 8

Funding shortfalls are a major reason for anxiety among owners, and arguably for some of the owner dissatisfaction with HUD. Congress and the Executive could work together

to fully fund the Project-Based Section 8 program, eliminating much of the uncertainty for owners.

No Action Option

Currently, Washington State has a strong law that requires Project-Based Section 8 building owners to give notice at least one year before opting out of the Section 8 contract. This notice law has allowed nonprofits, housing authorities, and others to organize-- initially under the leadership of the Washington Low Income Housing Alliance-- and purchase at-risk buildings in time to maintain the affordability for low income residents. Maintaining the status quo would mean maintaining this provision of state law.

Criteria for Analysis of Policy Options

The following criteria will be used to analyze the feasibility of the proposed policy options.

Equity

Equity deals with concepts of fairness and impartiality. In this case, interventions should not favor one group or party over another-- eg., should not be favorable to landlords but not favorable to HUD.

Freedom of Choice

This criterion reflects the underlying philosophy of the Project-Based Section 8 program: choice. The program allows owners to decide whether or not to provide housing to low income people, and it also allows low income people relative choice in where they live, based on their own criteria. This analysis assumes that the "choice" aspect is fundamental to the intent of the program and should thus be preserved.

Political Acceptability

For a policy intervention to be successful it must enjoy the support of key stakeholders. Certain constraints present in the systems, agencies or organizations involved in a particular intervention could influence the feasibility of that intervention.

Robust & Improvable

The outcome of any intervention is unknown until that intervention is undertaken. In the case that a policy intervention does not go as planned or have as much of a positive outcome as expected, it is important that at the least, there is some amount of positive impact and that the intervention holds up to modification in the future.

Analysis of Options

Using the evaluation criteria outlined above, this section analyzes the overall feasibility of each option.

Technical Assistance to Nonprofit Section 8 Project Owners

Equity

This policy intervention as stated presents an equity challenge in that it focuses on nonprofit owners to the near exclusion of for-profit owners. If the choice is made to exclude private owners based on lack of mission-driven reason to own Section 8 properties, for-profit owners do not receive fair treatment. Those owners who would receive assistance must be chosen based on a strict set of criteria.

Freedom of Choice

If managed in an equitable way as suggested above, this intervention could create true freedom of choice. Any property owner interested in staying in the Section 8 program, or in preserving buildings on the verge of opting out, would have the necessary skills to maintain the property, thus if the owner opted out it would be a true choice, not one forced by lack of proper education in handling the necessary burdens of Section 8.

Political Acceptability

The major stakeholders in this policy option are HUD, property owners, contract technical assistance (TA) providers, and residents of Section 8 properties. All parties are likely to have interest in, and to benefit from, this option. The unknown factor at this point is how a new TA program would fit into the universe of existing technical assistance opportunities, and if any of those providers would object to a new program.

Robust & Improvable

Technical assistance fares well under this criterion. If the performance of an initial technical assistance program is not up to expectations, TA providers can use evaluative tools to determine what changes could be made to the program. Even in the case of successful TA, the TA providers could add new aspects to a TA curriculum in response to demand in the community.

Conclusion

Technical assistance could be an intervention worth trying, as it is improvable and relatively politically acceptable. Care must be taken to design the program in such a way as to preserve equity.

State Fills the Shortfall Gap

Equity

This option addresses the central injustice of Project Based Section 8 as it currently stands: it is unfair to property owners who have entered into a binding agreement that their payments are withheld due to budgetary action. At the same time, this solution would not be equitable if the funds used by the State of Washington to fill the shortfall gap were taken away from another needy population.

Freedom of Choice

As in the case of the Technical Assistance option, this intervention could create true freedom of choice. Any property owner interested in staying in the Section 8 program, or in preserving buildings on the verge of opting out, would have the necessary funding to maintain the property, thus if the owner opted out it would be a true choice, not one forced by lack of funding to subsidize rents.

Political Acceptability

This intervention is likely to be faced with many enemies. Any new or increased expenditure of state money-- especially during an economic downturn-- is faced with significant scrutiny and opposition. It is arguable that, whatever the benefit to the Section 8 program or to low-income people in general, it is not the business of the state to fix errors at the federal level. However, such a program could be structured so that money could be set aside for repayment during surplus years.

Robust & Improvable

If implemented, this policy could be improved by changing certain aspects of it, like the source of funding. However, it is not a very robust policy as it stands, in that there are no available mechanisms to prevent the federal government from continuing to shortfund Section 8 properties, and no clear mechanism exists to ensure the federal government will repay the state.

Conclusion

This option addresses the symptoms of the Project-Based Section 8 problem, and if implemented would likely help to keep many reluctant owners in the program. But because of the political and budgetary implications, it is not a sustainable policy on its own. State funding of Section 8 would have to be a temporary measure paired with longer-term solutions if it were to become a stable solution.

Improved Experience for Section 8 Project Owners

Equity

Improving the ownership experience for Section 8 project owners could add equity to the program by taking away undue burden, if it exists. Care would have to be taken to ensure that in limiting the reporting requirements, paperwork, etc. for owners, that HUD did not inadvertently create new regulations that would impose difficulty on Section 8 residents, while making things easier for owners.

Freedom of Choice

A redesign of administrative aspects of the Section 8 program could create true free choice for Section 8 owners; that is, if it is not significantly more difficult to own and manage a Project-Based Section 8 building than it is to own a building privately, then owners may feel more free to choose program participation.

Political Acceptability

Implementation of this option would require HUD to agree to modifications in administrative procedure. The procedures exist as they do for many reasons, and each of those reasons-- from organizational culture to legislative mandate-- must be addressed in turn.

Robust & Improvable

In the case that an initial modification in administrative procedures does not accomplish the intended goals, further modifications can be made by HUD in partnership with property owners and other stakeholders as long as relations continue to be positive between all parties.

Conclusion

An improved administrative system for Section 8 has the potential to make the program easier for owners to participate in, but even with cooperation and adequate political will to make such changes, this intervention only addresses part of the issue. Even with a low administrative burden, project owners are likely to consider opting out as long as rents offered on the private market are higher than within the Section 8 program.

Full Funding of Section 8

Equity

Full funding of the Project-Based Section 8 program would be a highly equitable solution, providing benefit to owners by allowing them to be paid on time; to renters by stabilizing the Section 8 program; and to HUD by giving those who administer the program the necessary resources to manage it properly.

Freedom of Choice

Full funding of the Project-Based Section 8 program makes participation in the program a choice that is truly equal to the choice landlords have to operate without subsidy, as the promised benefits would be available.

Political Acceptability

While advocacy can take place during the budgeting and appropriations processes that determine funding levels for Project-Based Section 8, in the end gaining full funding for housing programs-- especially during difficult economic times-- is subject to many forces outside the control of advocates.

Robust & Improvable

While full funding of the program is desirable, it will likely not be considered an end point by advocates. The next step would be to advocate for an increase in funding above current levels, which promises a political fight even more difficult than the fight for full funding.

Conclusion

While full funding of the program is optimal, it is both fraught with political feasibility issues and inadequate to completely address existing opt-out and preservation issues. Even with full funding, if the market offers landlords better rents, many will be encouraged to leave the program.

No Action Option

Equity

Currently, the one-year notice law requires some foresight on the part of the property owners in terms of their plans to opt-out of the Section 8 program, while giving nonprofits or others some opportunity to work to preserve the building.

Freedom of Choice

The one-year notice law gives Section 8 project owners the opportunity to leave the program in a way that is less damaging to the ability of low income families and individuals to secure sustainable affordable housing.

Political Acceptability

While in some quarters there may be discontent with the current situation, there is no visible, active movement to remove or alter the notice law.

Robust & Improvable

Improvements to the notice law are possible, such as lengthening or shortening the notice period, altering the recipients of the notice, etc.

Conclusion

Washington State is a leader in the preservation of Project-Based Section 8 affordable housing units thanks to this notice

law. Because of the law, many properties were able to be preserved during the opt-out crisis of the 1990s. While more can be done, the status quo represents an excellent policy baseline.

Recommendations

While the status quo represents a fairly positive scenario, and full funding of Section 8 or shortfall funding from the State of Washington are both appealing options, technical assistance to Section 8 project owners seems the most feasible route for preserving affordability through the Project-Based Section 8 program.

Technical assistance could be provided in cooperation with HUD with little political resistance, and would in fact likely help HUD improve and maintain positive relationships with property owners. While the issue of owners opting out to enjoy higher rents on the private market would still persist in this scenario, owners still willing to stay in the program, and new, mission-driven owners, would be able to increase their capacity as owners and managers of Project-Based Section 8 properties, protecting low income residents of these properties from many of the external effects influencing Section 8 ownership, such as the current mortgage and financial crises.

In spite of its political difficulties, state funding of the shortfall gap is one way for Washington State to take control of issues that complicate the Project-Based Section 8 program from the federal level. Long-term advocacy, significant buy-in from a coalition of advocates, and an improved budget climate would be essential to the success of this option. Depending on the level of political acceptability and the interest of advocates in investing political capital in this option, it may be an intervention to consider in the long-term.

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