



## Multifamily Affordable Housing Market Commentary

### Duty to Serve Attempts to Tackle Public Housing

The Federal Housing Finance Agency (FHFA) recently proposed a rule that would govern how Fannie Mae and Freddie Mac would fulfill their obligation to facilitate the financing of affordable housing in underserved market segments. Two programs under the proposed rule for [Duty to Serve](#) in the “Other Preservation Program” category are Rental Assistance Demonstration (RAD) and Choice Neighborhoods Initiative (CNI). These two programs are geared toward public housing and attempt to leverage private capital to preserve and expand the supply of affordable housing.

#### Public Housing is Losing Units at an Alarming Pace

The U.S. Department of Housing and Urban Development (HUD) estimates that public housing is losing over 10,000 units annually due to disrepair. In fact, from the start of 2000 to July 2016, public housing supply fell by over 12 percent to an estimated 1.1 million units. However, the Great Recession coupled with sequestration, has made it difficult for the Federal Government to fund necessary improvements for public housing on its own. As a result, leveraging private capital to help fund a portion of capital improvements is critical.

#### RAD Program Has a Cap

The component of the RAD program which addresses public housing is capped at converting 185,000 units. The cap is due to the fact that public housing authorities (PHAs) are awarded long-term Section 8 contracts in lieu of annual funding from HUD. The duration of the contracts is from 15 to 20 years, resulting in a more stable source of income. For transactions closed by the end of the year in 2015, 35 percent involved substantial rehab – defined as an infusion of more than \$25,000 per unit – and 17 percent were in such poor condition that demolition of units was required followed by replacement with new construction.

#### Top 15 Housing Authorities by Units Needing Financing

Public Housing Authority	Number of Units to be Renovated Under RAD
Chicago Housing Authority	5,418
Housing Authority of Philadelphia	3,557
Housing Authority of the City of Charlotte	3,171
Metropolitan Development & Housing Agency (Tennessee)	2,806
Housing Authority of Baltimore City	2,630
Mobile Housing Board	1,850
The Municipal Housing Authority City Yonkers	1,773
Housing Authority of the Birmingham District	1,738
Indianapolis Housing Agency	1,618
Housing Authority of the City & County of San Francisco	1,549
Housing Authority of the City of El Paso TX	1,540
Cuyahoga Metropolitan Housing Authority	1,520
Tampa Housing Authority	1,469
Housing Authority of the City of Milwaukee	1,465
New York City Housing Authority	1,359

Source: U.S. Department of Housing and Urban Development (HUD)  
[http://portal.hud.gov/hudportal/documents/huddoc?id=radreservations\\_052016.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=radreservations_052016.pdf)

#### Size Doesn't Matter: Not All Awards go the Largest Public Housing Authorities

Through May 2016, an estimated 33,000 units had converted, leaving an estimated 152,000 units likely in the process of finding financing. As shown in the table above, while some of the units requiring financing are in large metros such as Chicago and Philadelphia, many of the units needing financing are located in smaller metros such as Mobile, Alabama; Cuyahoga, Ohio; and El Paso, Texas. Indeed, size didn't matter in this case: HUD considered a number of factors in awarding the RAD conversions rather than the sheer number of units in need of renovation.





### Five Additional Implementation Grants

In September 2015, HUD awarded five additional implementation grants. As shown in the table below, these grants target the City Center neighborhood in Atlanta; the Paseo Gateway in Kansas City, Mo.; South City in Memphis; Westlawn in Milwaukee; and the River District Railyards in Sacramento. Federal funding of \$150 million will produce an estimated \$399 million in private funds to help complete these projects. As a result, 1,394 public housing units will be converted to 2,701 units of public housing, affordable housing, and mixed-income housing.

### Fiscal Year 2014-2015 CNI Awards

Project Location	Area of Town	Existing Public and/or Assisted Housing Site	Amount Funded	Housing Leverage
<b>Atlanta, Georgia</b>	City Center/Ashview Heights/Vine City	University Homes - (226 PH Units converted to 446 mixed-income) Lead Applicant: Atlanta Housing Authority/City of Atlanta	\$30,000,000	<b>\$55,100,000</b>
<b>Kansas City, Missouri</b>	Paseo Gateway	Chouteau Courts - (136 PH units converted to 360 mixed-income units) Lead Applicant: Housing Authority of the City of Kansas City	\$30,000,000	<b>\$86,500,000</b>
<b>Memphis, Tennessee</b>	South City	Foote Homes - (420 PH units converted to 700 market-rate and affordable units) Lead Applicant: Memphis Housing Authority/City of Memphis	\$29,750,000	<b>\$53,700,000</b>
<b>Milwaukee, Wisconsin</b>	Westlawn	Westlawn - (394 PH converted to 708 mixed-income units) Lead Applicants: City of Milwaukee/Housing Authority	\$30,000,000	<b>\$184,000,000</b>
<b>Sacramento, California</b>	River District - Railyards	Twin Rivers - (218 PH units converted to 487 units mixed income) City of Sacramento/Housing Authority	\$30,000,000	<b>\$19,800,000</b>
Total			<b>\$149,750,000</b>	<b>\$399,100,000</b>

Source: <http://portal.hud.gov/hudportal/documents/huddoc?id=ProjectSummFinalFY1415.pdf>



### Public Housing Serves the Most Vulnerable Americans

HUD reports that an estimated 2 million Americans live in public housing with an average of 2.1 residents per household. Public housing residents earn an average of \$14,500 per year and spend an average of only \$350 per month on rent. As shown in the chart below, nearly 86 percent of all public housing residents earn less than half of the area median income (AMI) for their location. In fact, 65 percent – the vast majority of public housing residents served – are extremely low income, defined as earning 30 percent or less of the AMI for their location.

### The Elderly and Disabled are a Significant Percentage of Residents

As shown in the bottom right chart, over half of public housing residents are disabled and/or elderly with a total of 37 percent of residents reporting being disabled and 33 percent identifying as seniors. In addition, 35 percent of residents report being female head of households with children. For these residents, affordable housing is especially important since less money spent on housing is more money spent on their children.

### Public Housing Resident Characteristics



Source: HUD Public Housing Resident Characteristics Report based on data as of July 31, 2016

### Public Housing Presents New Opportunities for Private Capital

With an estimated 1.1 million units, public housing is the third largest subsidy program, after LIHTC and project-based Section 8. Public housing is rental housing that has traditionally been both publicly-funded and publicly-owned, leaving no role for private financing firms. However, with the advent of the RAD and CNI programs, the market potential for affordable housing is slowly growing with an estimated 17 percent of public housing units now eligible for private sector financing. In fact, the vast majority of these units will likely serve those earning less than 30 percent of AMI – a segment of multifamily which has been difficult for the debt market to serve.

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