Rental Housing Affordability Periods: The Housing Credit and SAIL Inventory
Shimberg Center for Housing Studies, University of Florida

This data brief explores the impact of expiring income and rent restrictions on affordable housing funded through Florida Housing Finance Corporation's Low Income Housing Tax Credit (LIHTC, or Housing Credit) and State Apartment Incentive Loan (SAIL) programs. The analysis is intended to provide background information for the current debate over the impacts of 30- and 50-year affordability periods on the subsidized housing inventory.

The analysis explores two questions: 1) how would a change in affordability periods affect the supply of housing with affordability restrictions over time, and 2) to what extent do the restrictions imposed by the Housing Credit and SAIL programs result in units that are more affordable and available to low-income households than if no restrictions were in place? The results show that extending affordability restrictions to the full 50-year period has a substantial impact on the availability of affordable multifamily housing in the state.

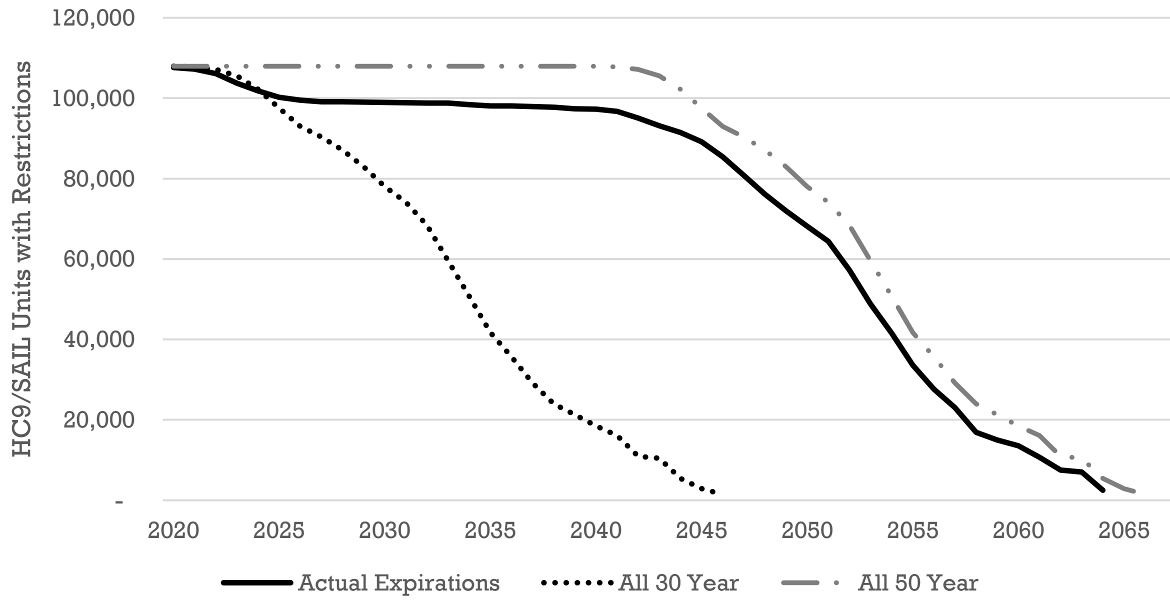
Part I: 30- and 50-Year Affordability Scenarios for the 9% Housing Credit/SAIL Inventory

To answer the first question, the Center analyzed data from the Assisted Housing Inventory (AHI; http://flhousingdata.shimberg.ufl.edu/AHI_introduction.html), a property-level database of subsidized rental housing in the state. There are 830 developments in the current inventory that were funded by 9% Housing Credits, SAIL, or both (referred to as the "HC9/SAIL" supply below). These developments contain 107,972 affordable units with income and rent restrictions subject to expire between 2020 and 2065. Most HC9/SAIL units (83 percent) are restricted to serving tenants at 60 percent of Area Median Income (AMI). The remaining units are under stricter limits: 10 percent have restrictions ranging from 40 to 50 percent of AMI, and seven percent are restricted to 35 percent of AMI or below.

Since 1989, federal law has required affordability periods of at least 30 years for LIHTC developments. A number of early 1990s-era LIHTC developments carry 30-year affordability restrictions. Beginning in the mid-1990s, however, Florida Housing began to incentivize, and then require, 50-year affordability periods for most developments funded by 9% Housing Credits. Similarly, most developments funded by SAIL operate under 50-year set-aside periods.

The inventory of existing HC9/SAIL developments provides an illustration of the impacts of 30- versus 50-year affordability periods on the long-term availability of rent-restricted housing. Figure 1 below shows how the total number of restricted units from the *existing stock only* will change over time as developments reach their expiration dates. It does not show additions to the supply from future development. Figure 1 shows three scenarios for the changing inventory: 1) the number of HC9/SAIL units under income and rent restrictions each year, given properties' actual expiration dates ("Actual Expirations"); 2) the hypothetical change in the inventory if all HC9/SAIL developments had been funded with 30-year expiration periods ("All 30 Year"); and 3) the hypothetical change if all HC9/SAIL developments had been under 50-year affordability periods ("All 50 Year").

Figure 1. Expiration Scenarios for Existing HC9/SAIL Inventory, 2020-2065



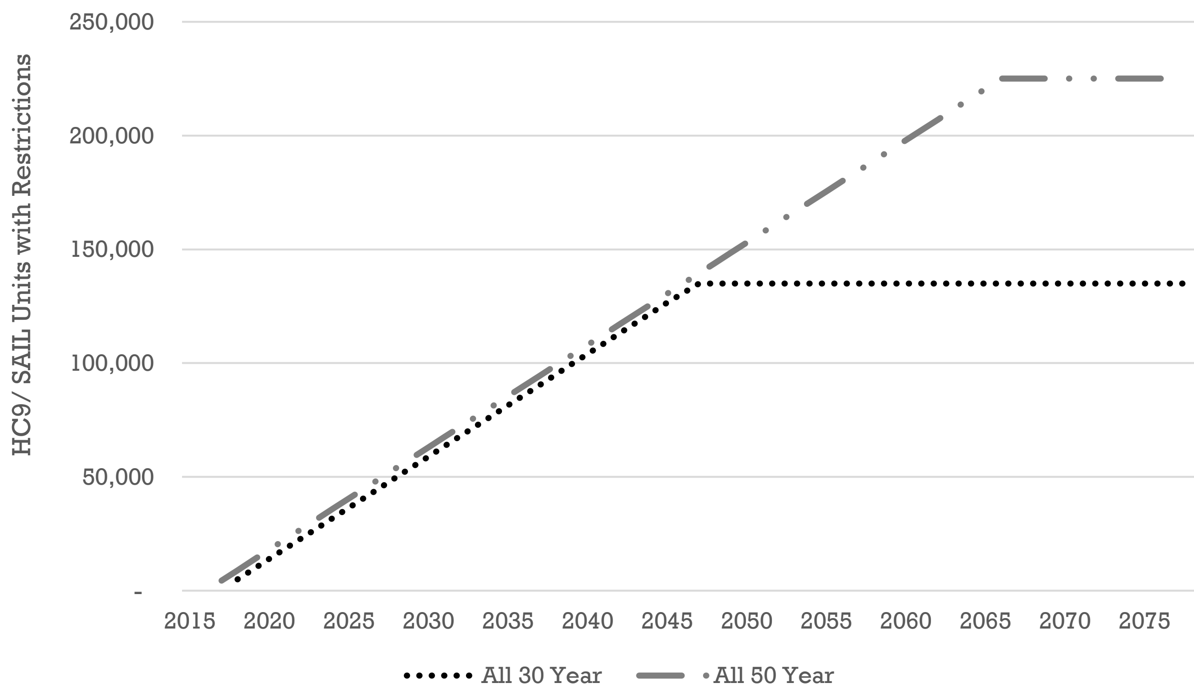
Source: Shimberg Center for Housing Studies, Assisted Housing Inventory

Under actual affordability periods, represented by the bold line in Figure 1, approximately 8,500 HC9/SAIL units from the early 1990s will exit Florida Housing's affordability restrictions in the first half of the 2020s decade.[1] Because of the introduction of 50-year affordability periods, expirations will level off after the mid-2020s. At that point, the current inventory will remain largely stable until a wave of expirations of 50-year affordability restrictions in the 2040s and, in particular, 2050s.[2]

As Figure 1 shows, because Florida Housing imposed 50-year affordability restrictions early in the life of the subsidy programs, the pattern of actual expirations after the initial early losses will closely mirror the hypothetical "All 50 Year" scenario through 2065, the last expiration year for developments funded through 2015. The hypothetical "All 30 Year" scenario, which shifts most expiration dates back 20 years, looks quite different. Instead of a plateau, the expirations would have accelerated throughout the 2030s, and the entire current inventory would have exited affordability restrictions by the end of 2045.

However, the inventory is not static. Between 2000 and 2015, Florida Housing funded an average of 4,500 affordable units per year under the HC9 and SAIL programs. The simplified example in Figure 2 shows how the size of inventory developed *in future years* would change over the long term given 30-year versus 50-year affordability periods. In this scenario, we assume that Florida Housing adds 4,500 units each year to the HC9/SAIL inventory, starting in 2016 and continuing annually over 60 years. In this way, the inventory continues to build until restrictions on the first units start to expire. At that point, new units are replacing expiring units, and the supply remains constant.

Figure 2. Expiration Scenarios for Future Additions to HC9/SAIL Inventory, 2015-2075



As the "All 50 Year" line shows, if new additions to the HC9/SAIL inventory are placed under 50-year restrictions, the stock has time to grow to 225,000 units in 2065 before the first units begin to expire and growth levels off. Under the 30-year scenario, at 4,500 units per year, the stock hits a plateau at 135,000 restricted units in 2045 and continues at that level.

Figures 1 and 2 both show simplified versions of change in the assisted housing inventory. In practice, both processes happen simultaneously, with units entering and exiting the restricted stock; the number of units added to the inventory each year varies based on funding and market conditions; and some units exit the restricted stock for other reasons, such as deterioration and default. Nevertheless, both figures show the approximate scale of the added unit-years in the affordable inventory given the longer 50-year period, and in particular how patterns of affordability would change during the gap between 30 years from now (2045) and 50 years from now (2065) under the two scenarios.

Part II: Impact of Restrictions on Affordable/Available Units

The second question for analysis is whether long-term income and rent restrictions imposed by the HC9/SAIL programs are meaningful. After 30 years of operation, will market rents for these units tend to fall below the 60 percent of AMI limit even if formal restrictions have expired? If so, will the units be available to tenants with incomes below 60 percent of AMI, or will low-income tenants' access to affordable, but now unrestricted units be limited by competition from higher income renters?

To explore this future possibility with a current-time example, we used 2014 Census data to examine rents and incomes in Florida's stock of older multifamily units. Specifically, we analyzed affordability and tenant incomes in 350,569 rental units located statewide in 10+ unit buildings that were at least 35 years old.[3] Units were classified by gross rents as affordable or unaffordable to tenants with incomes at

60 percent of AMI, adjusted by unit size and county location. Similarly, tenants occupying the units were classified as above or below 60 percent of AMI based on income, household size and county location.

The larger, older multifamily developments were chosen as the best approximation of what the HC9/SAIL inventory might look like if it entered the market-rate stock after 30 years of operation. Note, however, that the Census data does not allow separation of market-rate and subsidized units. Therefore, the results below underestimate the potential lack of affordability in the market-rate stock alone.

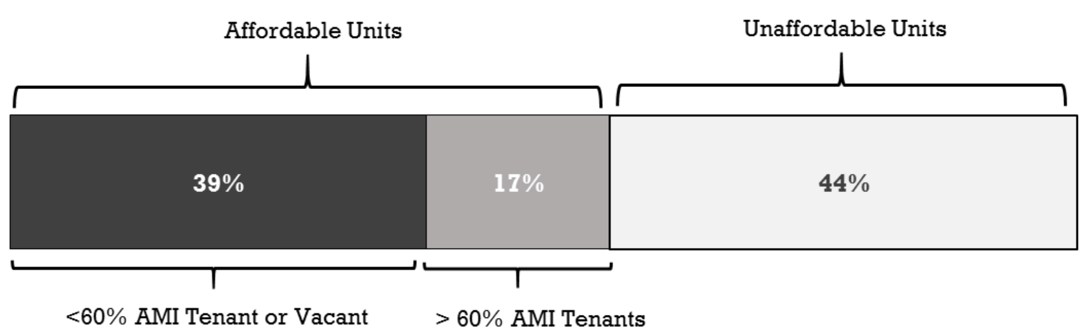
In the first version of the analysis, units are considered "affordable" if gross rent does not exceed 40 percent of income for a 60 percent of AMI household, adjusted for unit size and location. The 40 percent threshold is the same as that used in the 2016 Rental Market Study. Table 1 and Figure 3 summarize the results.

Table 1. Multifamily Units Built 1979 and Earlier by Tenant Income and Affordability (40%), Florida, 2014

		Rent Level (60% AMI, 40% Affordability Threshold)		
		Affordable	**Unaffordable**	**Total**
Tenant Occupancy	**<=60%AMI or Vacant Unit**	137,252	69,362	206,614
	>60%AMI	60,667	83,288	143,955
Total		197,919	152,650	350,569

Source: U.S. Census Bureau, 2014 1-Year American Community Survey, Public Use Microdata Sample (PUMS).

Figure 3. Multifamily Unit Affordability/Availability Summary, 40% Affordability Threshold



Source: U.S. Census Bureau, 2014 1-Year American Community Survey, Public Use Microdata Sample (PUMS).

As Figure 3 shows, just 39 percent of older multifamily units are both affordable and available to households at 60 percent of AMI (either occupied by an income-qualified tenant or vacant). Another 17 percent of units are affordable, but they are occupied by tenants above the 60 percent of AMI income ceiling. The other 44 percent of the units have gross rents above the 60 percent AMI rent ceiling.

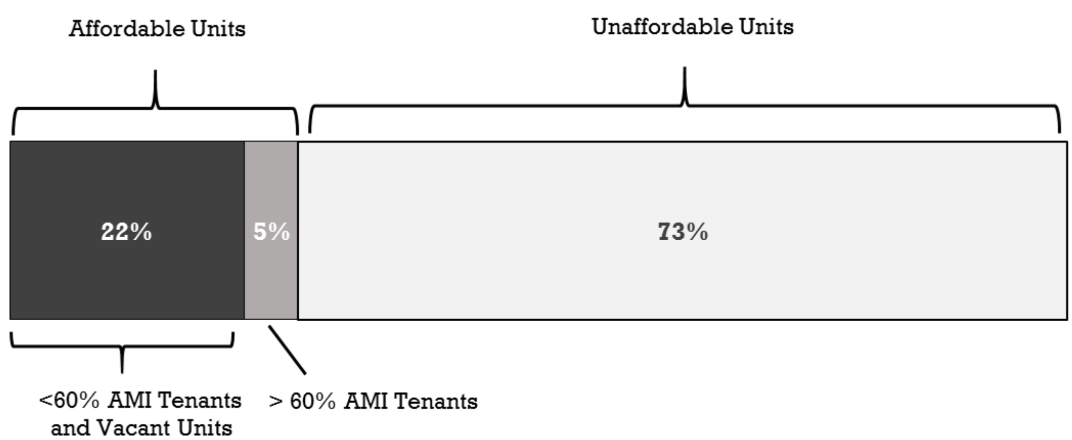
In a second version of the analysis, we assumed that an affordable unit would cost no more than *30 percent* of income for a household at 60 percent of AMI, mirroring the basic method by which LIHTC and SAIL rent limits for most regions are set.[4] Using the 30 percent of income threshold greatly reduces the number of units that are considered affordable, as Table 2 and Figure 4 show.

Table 2. Multifamily Units Built 1979 and Earlier by Tenant Income and Affordability (30%), Florida, 2014

		Rent Level (60% AMI, 30% Affordability Threshold)		
		Affordable	Unaffordable	Total
Tenant Occupancy	<=60%AMI or Vacant Unit	77,829	128,785	206,614
	>60%AMI	17,930	126,025	143,955
Total		95,759	254,810	350,569

Source: U.S. Census Bureau, 2014 1-Year American Community Survey, Public Use Microdata Sample (PUMS).

Figure 3. Multifamily Unit Affordability/Availability Summary, 30% Affordability Threshold



Source: U.S. Census Bureau, 2014 1-Year American Community Survey, Public Use Microdata Sample (PUMS).

With the 30 percent of income threshold, only 22 percent of units are both affordable to 60 percent of AMI tenants and available to them. Twenty-seven percent of units are affordable; of these, a small portion (5 percent of total units) are occupied by households with incomes above 60 percent of AMI and thus are unavailable to low-income renters. The remaining 73 percent of units would not be affordable at the 60 percent of AMI level.[5]

To summarize, under either version of the analysis, most units in the older multifamily developments are not affordable and available to tenants with incomes below 60 percent of AMI. If a 40 percent affordability threshold is used, then almost half of units are unaffordable, and nearly of third of the units that are affordable are occupied by higher income households. If the traditional 30 percent measure is used, then nearly three-quarters of the older multifamily units are unaffordable. This implies that under current market conditions, the 60 percent of AMI income and rent restrictions imposed by the Housing Credit and SAIL programs do provide a level of affordability and access for low-income tenants that would otherwise be unavailable in much of the inventory.

Moreover, this analysis was performed using the highest possible AMI percentage under HC9/SAIL rules. To the extent that developments include set-asides for extremely low-income households or those at

40-50 percent of AMI, even fewer units would be affordable and available to income-qualified households in the absence of rent and income restrictions.

Conclusion

This analysis shows that extended income and rent restrictions can have a substantial effect on future affordability of housing developed under the Housing Credit and SAIL programs. Part I shows the scale of added affordability-years when restrictions are extended from 30 to 50 years. For the current inventory, extended restrictions prevent an escalating loss of affordability during the late 2020s through the early 2040s. For the future inventory, the extensions allow the assisted stock to grow for 20 additional years before leveling off, resulting in a substantially larger baseline affordable inventory over the long term. Part II shows that when rental markets are tight, as under current conditions, even 30 year old multifamily units frequently surpass 60 percent of AMI rent levels. Extended restrictions ensure that units remain affordable and available to their target populations over the long term.

Endnotes

[1] Some of the expiring HC9 developments will continue to offer affordable units due to restrictions from other funders, particularly USDA Rural Development. For a full discussion of expiring affordability in LIHTC developments, see the 2016 Rental Market Study.

[2] Many developments financed with 4% Housing Credits and Multifamily Mortgage Revenue Bonds but without SAIL in the 1990s and 2000s do operate under 30-year affordability restrictions. Restrictions for these developments will continue to expire throughout the late 2020s and 2030s. These developments are not included in this analysis. A small number of public housing developments receiving 9% Housing Credits for preservation are also excluded, as they are not subject to expiring restrictions.

[3] Source: U.S. Census Bureau, 2014 1-Year American Community Survey (ACS). The ACS tracks year built for housing units by decade. To approximate the 30-year-old assisted housing inventory, we chose the closest decade: properties built in 1979 or earlier.

[4] Because calculations were made directly from the Census data, the values for 60 percent of AMI rent and income limits do not equal the 2014 FHFC program income and rent limits exactly. In most cases, the Census values are close approximations. In Miami-Dade County, where program income and rent limits are adjusted upward to account for low area incomes and high housing costs, Census values using the 40 percent threshold more closely approximate program rents.

[5] Until recently, the 60 percent of AMI limit represented a more typical rent level for the older multifamily stock. In 2000, for example, nearly half (45 percent) of older multifamily units had rents affordable at 60 percent of AMI or below (30 percent of income affordability threshold). As the state's rental markets tightened and rents escalated over the past decade and a half, the share of 60 percent AMI-affordable units steadily declined to 34 percent of older units in 2005 and to 30 percent in 2010 before falling to 27 percent in 2014. (Sources: U.S. Census Bureau, 2000 Decennial Census and 2005/2010/2014 1-Year American Community Survey)

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