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A bridge linking housing research and practice

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What's Happening to Assisted Multifamily Housing Properties?



A recent HUD report finds that removing properties from assisted programs does not automatically lead to a loss of affordable housing.

In the 1960s, HUD began to stimulate the nation's affordable housing supply by offering incentives and financial assistance to multifamily housing developers who agreed to rent their properties to low- and moderate-income households. Today, there are more than 22,000 such properties, comprising more than 1.5 million units. Many property owners, however, are choosing either to opt out of assistance programs early by prepaying their subsidized mortgages or by not renewing their expiring Section 8 contracts with HUD. Concerned about this drain on the affordable housing supply, HUD commissioned a study to learn why owners remove their properties from the assisted housing stock and what happens to the properties once they are no longer earmarked for low- and moderate-income families. The report, *Multifamily Properties: Opting In, Opting Out and Remaining Affordable*,

summarizes the study, which examines these questions from three perspectives: a quantitative analysis of properties no longer receiving assistance; an affordability analysis of properties that have opted out of HUD's affordability programs; and interviews with owners faced with these decisions in three Metropolitan Statistical Areas (MSAs): Sacramento, Dallas, and Cincinnati.

Properties that Leave Assisted Stock

The quantitative analysis identified characteristics of assisted multifamily properties that were statistically related to decisions to remove properties from assisted programs. The properties with a higher probability of removal from assisted programs include those which:

- Rented below the local Fair Market Rent (FMR);
- Received 100 percent assistance (possibly because they had the most to gain in a conversion to market rental rates);
- Were located in a metropolitan or central city location;
- Were often located in neighborhoods with higher median rents, higher median incomes, lower poverty, and fewer housing vacancies;

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- Held the longest tenure in assisted programs;
- Were occupied by families, rather than by the elderly or disabled;
- Were more often owned by for-profit companies (rather than nonprofits, which often have funding restrictions);
- Were larger in size; and/or
- Were in poor physical condition.

Affordability After Opt-Out

HUD's affordability analysis suggests that what happens to properties after opting out often varies, and that the removal of properties from assisted programs does not automatically lead to a loss of affordable housing. Housing vouchers made it possible for 59 percent of a sample of opted-out properties to rent for less than the local FMR. The remainder of the units in the sample had rents that fell between 100 and 125 percent of FMR, potentially causing households with vouchers to spend more than 40 percent of income for rent. Without rental assistance or vouchers, however, the number of units affordable to very low-income households dropped. Only 6 percent of the units were affordable to unassisted households with incomes at 30 percent of the local area median income (if they spent at least 30 percent of their income on rent).

Talking to Owners

HUD also conducted site visits to several locations with high opt-out rates to discover owners' reasons for opting out of, or remaining in, the Section 8 program. The largest motivator for leaving Section 8 was economic, especially in areas where opportunities for obtaining market-rate rentals were growing. This appeared to be the case in Sacramento's tight rental market. Owners in Dallas opted out of the program in areas where the market would bear it. Opt-out rates in Cincinnati also depended on how robust the rental market was in a given area and the location of the property. Owners in all three MSAs also said that the requirements and restrictions of the Section 8 program seemed overly burdensome, especially when an owner held both market rate and Section 8 properties.

The report concludes with recommendations that would increase incentives for owners to stay with HUD-assisted programs, especially in areas where rents are less affordable after owners opt out. Suggestions include reducing administrative burdens on owners and evaluating rent-setting policies.

Order a printed copy of *Multifamily Properties: Opting In, Opting Out and Remaining Affordable* for a nominal fee by calling HUD USER at 800.245.2691 and selecting option 1, or download it at no cost from www.huduser.org/publications/affhsg/opting_in.html. 

House Price Trends and Homeownership Affordability

Recent House Price Trends and Homeownership Affordability, a report from HUD USER, reviews factors that influence housing prices, provides new evidence on recent trends in cost and ownership affordability, and offers suggestions for the next steps in pricing research.

The report also examines different types of house price indices, reviews how affordability indices are calculated and applied, outlines the basic theory behind house-pricing models, and details how regulatory constraints influence demand and supply factors. The report includes chapters on market value dynamics and the financial accelerator, housing price bubbles and fluctuations, and how people form their expectations of housing worth.

Recent House Price Trends identifies the need for additional research on:

- How consumers gather and process information about market conditions;
- How consumers decide when it is the "right" time to buy or sell a house;
- Supply conditions, including land cost and its impact on supply;
- How land use regulations affect the supply and cost of housing;
- The decisionmaking of developers, renovators, and financiers; and
- The interaction of supply and demand as it affects the cost of housing.

The document can be downloaded at no cost at www.huduser.org/publications/affhsg/RecentHousePrice.html. 

Of the homes destroyed by Hurricane Andrew in 1992, 36 percent were manufactured housing, which accounts for just 5 percent of the total housing stock in the affected counties. In the aftermath of the storm, an astounding \$278 million in disaster relief was attributable to manufactured housing.

These losses prompted HUD to revise regulations that set wind standards for manufactured housing. The agency's goal was to respect the integrity of manufactured housing as a low-cost housing option while improving its wind resistance. The new standards would reduce injury and death, property damage to (and caused by) manufactured homes, and insurance costs. All manufacturers would be required to design and assemble according to the more stringent wind standards, and certify to consumers that their housing meets these standards.

The proposed revisions required the use of structures and fasteners similar to those which were effective in site-built construction, including better shutters for doors and windows, stronger foundations, and heavier materials for fastening roofs to walls and walls to floors. The overall objective was to raise wind standards just enough to reduce costs associated with storm damage, without decreasing purchases or making manufactured homes less affordable.

This effort is just one example of a new analytic procedure, the Housing Impact Analysis (HIA), that studies the effects that a proposed regulation might have on housing costs, supply, and affordability. Currently, federal rules of major economic importance undergo a Regulatory Impact Analysis (RIA), which calculates the costs, benefits, and other effects of new



National Oceanic and Atmospheric Administration/Department of Commerce

HUD's *Housing Impact Analysis* determined that the benefits outweighed the costs of revising wind regulations for manufactured housing.



National Oceanic and Atmospheric Administration/Department of Commerce

The destruction caused by Hurricane Andrew prompted HUD to revise wind standards for manufactured housing.

federal regulations. A standard RIA, however, may not provide policy-relevant measures of the effects of a regulation on participants in the housing market. To remedy this, HUD developed the HIA to supplement the RIA. A recent report, *Housing Impact Analysis*, provides guidance on when and how to perform an HIA.

HUD applied the HIA to the new regulations developed to improve the safety of manufactured houses in the two wind zones that sustained the greatest damage from Hurricane Andrew. The report explains how researchers estimated the total costs of more stringent wind standards for consumers and producers, as well as the cost to the economy if the new standards caused the market for manufactured homes to decrease. The desired benefit was a 75 percent reduction in wind damage suffered in one wind zone and an 83 percent reduction in another. The total costs, \$51.7 million, were weighed against a total of \$83.8 million in private and public savings, as well as reduced death and injury costs. The benefits outweighed the costs by \$32.1 million, an amount that seemed to justify the regulatory revisions.

Housing Impact Analysis includes guidelines and step-by-step instructions for using the HIA. Its appendix provides information on where to locate useful data and which regulations might affect new or existing homes, multifamily units, particular home designs, and particular locations. It also refers the reader to data on housing supply, housing demand, house prices, interest rates, housing finance, regulation measures, and general surveys and data sets.

Housing Impact Analysis is available free at www.huduser.org/publications/affhsg/hsgimpanal.html. Print copies are available for a nominal fee from HUD USER by calling 800.245.2691 and selecting option 1. **HUI**

The premise that innovation is critical to increasing America's supply of affordable housing drives HUD's efforts to encourage the creative use of advanced technologies in residential construction. Significant benchmarks in this program began with a 1998 effort to identify innovative methods and materials used in affordable housing at the time. A number of investigations have been conducted since then, the latest being a 2006 exploration of differences in how large and small homebuilders embrace new technologies.

The primary agent for this type of work at HUD is the Partnership for Advancing Technology in Housing (PATH), a public/private effort that is managed and supported by the Department. PATH's mission is to improve the safety, durability, affordability, and energy performance of housing by developing, demonstrating, and gaining acceptance for new and innovative technologies. PATH leads research efforts to learn what factors encourage or inhibit the use of new technologies in new home construction. Some of these useful and informative projects are highlighted below to demonstrate the depth of HUD's commitment to innovation that increases the supply of affordable housing by reducing both construction costs and energy usage over time.

A Baseline of Innovations Used to Build Affordable Housing

In 1998, HUD instituted the Building Innovation for Homeownership awards program to recognize new ideas in housing that lead to greater affordability. Eligible entrants used generally available, nonexperimental technologies and methods that were significantly different from the usual approaches to housing construction. The entries had to cost less than the median price of new single-family housing in their area. Manufactured, modular, industrializing, and site-built housing all qualified. Nonprofit developers and those who serve special and very-low-income needs were encouraged to apply.

The award winners were innovators in modular construction; energy-efficient design and construction; structural insulated panels; site design or development; steel framing; resource sharing through cohousing, panelized construction, masonry or concrete construction; sustainable or "green" design

and construction; and HUD-Code manufactured housing. The published report, *Building Innovation for Homeownership*, features the winning projects in photographs and details the respective projects' costs and financing.

Innovations in Manufactured Housing

In 1999, an illustrated PATH document, *Innovations at the Cutting Edge—New Ideas in Manufactured Housing*, focused on creativity in the design and assembly of manufactured homes. This report introduced subdivision, infill, and design plans that used new urbanist ideals to incorporate manufactured housing into the surrounding neighborhoods. No longer did manufactured homes uniformly resemble rectangular boxes; they now had second-story additions, pitched roofs, and cathedral ceilings. Screened porches, decks, and garages are now typical options.

New Technologies Reflected in Home Appraisals

On discovering that valuations were inhibiting the residential construction business from adopting new technologies, HUD sponsored a building industry roundtable, *Housing Innovation and the Appraisal Process*, in 2001. New technologies increased the cost of a home, and builders were reluctant to increase the cost of their products. Homebuyers were often unwilling to pay for technologies not adequately reflected in the home's appraised value. At the same time, appraisers were inconsistent in their valuations of innovation, and lenders were unwilling to finance properties of unknown value. The roundtable clarified everyone's perspective and identified ways to resolve stakeholder concerns and move forward.

Identifying and Surmounting Industry Barriers to Innovation

In 2005, a PATH report, *Overcoming Barriers to Innovations in the Home Building Industry*, described the findings and recommendations reached by three investigative panels composed of housing industry leaders and stakeholders. Three expert panels—on risk, industry participant preferences, and education and communication barriers—sought practical insights into how each factor affected the adoption of new technologies. A review of the relevant literature yielded models of construction industry relationships and

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processes, models of innovation diffusion, and empirical information about the adoption of innovation.

International Exchange

Representatives of the housing industries of 12 nations met in April 2004 to share basic information about factory building practices, identify topics of mutual interest, and set an agenda for an international conference on innovation in manufactured housing. The PATH report, *International Conference on Factory Built Housing: Innovation in Home Manufacturing*, outlines the results of this meeting. The greatest interest expressed was in an exchange that involves looking at the business models used in other nations, exploring how different countries handle regulatory issues, examining case studies of housing technology transfer, and expanding the body of building science knowledge. Further plans are in the works for international exchanges to take place through conferences, field trips, and a website.

Adopting New Technologies

In 2003, PATH surveyed builders to learn more about their use of new building and construction products, materials, and practices. The results that appeared in *The Diffusion of Innovation in the Residential Building Industry* the following year found varying rates of

adoption of new products, materials, and practices – even among builders who were leaders in embracing such technologies. Early adopters were less likely to be single-family production builders; more often, they were regional and national firms, multifamily and modular builders, and custom builders. Early adopters were also more likely to have a technology advocate within their organization who emphasized creativity and the use of resources such as those offered by PATH, as well as universities that provide easy access to content on innovative design and construction strategies. These firms were especially concerned with the risk inherent in new technologies and stressed the importance of working with established manufacturers who stand behind their products. Early adopters were also sensitive to homebuyer demand for new products and materials, and took the time to educate their customers on the value of new technologies.

Most of the respondents to this initial survey, however, were small to midsize builders. To learn how large producers adopt innovative materials and methods, PATH commissioned a second national survey. Eighty-four local, regional, national, and international firms who built more than 200 single-family residences in 2005 participated. HUD released the results of this

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Report	Availability
<i>Building Innovation for Homeownership</i>	Download at www.huduser.org/publications/affhsg/bih.html or receive a hard copy for a nominal fee by calling 800.245.2691 and selecting option 1.
<i>Innovations at the Cutting Edge – New Ideas in Manufactured Housing</i>	Receive a hard copy for a nominal fee by calling 800.245.2691 and selecting option 1.
<i>Housing Innovation and the Appraisal Process</i>	Download at www.huduser.org/publications/destech/hsginnovation.html .
<i>Overcoming Barriers to Innovation in the Home Building Industry</i>	Download at www.huduser.org/publications/destech/OverBarriers.html .
<i>International Conference on Factory Built Housing: Innovation in Home Manufacturing</i>	Download at www.huduser.org/publications/manufhsg/InnvManf.html .
<i>The Diffusion of Innovation in the Residential Building Industry</i>	Download at www.huduser.org/publications/destech/Diffusion_report.html or receive a hard copy for a nominal fee by calling 800.245.2691 and selecting option 1.
<i>Characteristics of Innovative Production Home Builders</i>	Download at www.huduser.org/publications/destech/buildersurvey.html .

For more than 30 years, HUD's Community Development Block Grant (CDBG) program has channeled funds to municipal and county governments for affordable housing, economic development, social services, public works, and other programs. CDBG grantees often contract with subrecipients—local nonprofit groups that provide public services, such as day care and job training. Subrecipients account for the bulk of public service spending and about one-half of CDBG-based economic development activities.

Because subrecipients play such an important role in the CDBG program, HUD encourages grantees to adopt effective subrecipient-specific management strategies. In 2005, HUD released *Managing Subrecipients of CDBG Grantees*, a research report that showcases how some grantees effectively manage subrecipients. Based on HUD Field Office recommendations, a research team completed onsite visits with 11 entitlement grantees who have exhibited exemplary subrecipient management. The sample included cities, counties, and a range of CDBG award amounts.

Preadward Assessment

The selected grantees use various assessment strategies to evaluate a nonprofit's proposal and organizational capacity before awarding funds. In Westchester County, New York, the CDBG administrator and staff accompany the mayor or city representatives on a tour of potential projects. They offer feedback about a proposal's strengths and weaknesses before the subrecipients prepare an application. Other grantees limit funding to certain types of activities. For example, Gwinnet County, Georgia approves subrecipient proposals for capital projects, but not for operating support, in the belief that such targeting screens out less capable organizations.

Subrecipient Agreements

HUD requires signed contracts between the grantee and a subrecipient. All 11 grantees clearly state what the subrecipient must do in the statement of work section of the contract, spelling out the performance benchmarks the grantee will use to track progress. To clarify these contractual obligations, Asheville, North Carolina requires each subrecipient to submit a proposed statement of work that includes specific accomplishments. The city's CDBG staff then

negotiates particular details with each subrecipient before signing an agreement. (A sample contract negotiated in this way appears in the appendix of the report.)

Orientation, Training, and Technical Assistance

To strengthen the ability of nonprofits to carry out CDBG activities and comply with federal regulations, grantees provide orientation, training, and technical assistance to all subrecipients. The 11 grantees differ in their training and technical assistance approaches. Many hold preapplication workshops. Los Angeles County, California relies on a website to provide online financial training. Westchester County, New York has in-house landscape architects who provide design services and help subrecipients develop bid packages. Palm Beach County, Florida, helped an emerging nonprofit develop an adequate accounting system.

Tracking Subrecipient Progress

Effective managers track the progress of subrecipient activities. They pay attention to subrecipient performance reports and requests for financial draws. Some jurisdictions use automated financial and reporting systems that allow constant supervision of performance. Online tools such as accounting software ease the task of complying with federal financial requirements. Several grantees use pay-for-performance incentives that not only permit subrecipients to draw up to a certain portion of their award, but also give them access to additional amounts on a pro rata basis. Such incentives are not available to subrecipients with unmet performance goals.

Monitoring Strategies and Procedures

Onsite monitoring is an effective tool for identifying areas of weak performance and providing subrecipients with technical assistance. The 11 study sites use different monitoring strategies to meet their oversight responsibilities and satisfy federal regulations. CDBG staff in Fairfax County, Virginia conducts onsite monitoring of each subrecipient at least twice a year and visits new subrecipients in the first three months of the contract period to identify and address problems early on. Asheville, North Carolina begins with a risk assessment to determine whether a subrecipient is a high, moderate, or low risk and tailors its monitoring plans accordingly.

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second survey, *Characteristics of Innovative Production Home Builders*, in June 2006.

The survey results indicated that large production builders tend to be more innovative than smaller firms. Large producers have some advantages when it comes to implementing new building technologies: organizational depth, the ability to invest in research and development, a greater number and variety of technology champions in their ranks, and the capacity to form beneficial partnerships with manufacturers.

The larger builders also embrace more aggressive growth strategies that include incorporating innovative building technologies. Technology is considered part of a broader business plan that emphasizes enhanced quality, reduced callbacks, and higher performance as a means of increasing market share. Looking forward, the survey participants expect that energy costs, land costs and availability, and labor costs and availability will have the greatest influence on whether they choose to use new building and construction products, materials, and practices over the next 10 to 20 years.

The reports mentioned in this article are available from HUD USER as shown in the accompanying table. **HUD**



Steel framing is just one of many innovations currently being used in residential housing construction in the United States.

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Follow-up Procedures

Grantees skilled in managing subrecipient contracts provide continual feedback. They share the results of monitoring visits with subrecipients and offer suggestions for improving performance or resolving problems. For example, when the local CDBG staff in Gwinnett County, Georgia noticed that a subrecipient omitted the required labor standards language in advertising a construction procurement, the organization was instructed to rebid the project. Palm Beach County, Florida and Phoenix, Arizona give timely and regular feedback by promptly contacting the subrecipients with questions or concerns, especially those raised by monthly reports and payment vouchers.

Additional Practices

This research suggests that effective subrecipient management includes incorporating incentives and capacity building into management systems. The most

effective oversight combines positive incentives for excellence, such as public recognition or increased funding, with sanctions—the ultimate sanction being the withdrawal of funding. Building nonprofit organizational capacity is an aspect of successful management that creates strong nonprofits that are able to comply with CDBG regulations, provides more effective community services, and leverages additional resources.

In addition to identifying effective subrecipient management practices, *Managing Subrecipients of CDBG Grantees* provides examples and contact information for readers who wish to learn more about particular initiatives. The report can be downloaded free of charge at www.huduser.org/publications/commdev/CDBGgrantees.html, and printed copies can be ordered for a nominal fee by calling HUD USER at 800.245.2691 and selecting option 1. **HUD**

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In the Next Issue of... ^{research} **works**

- Rental assistance subsidies account for nearly all of HUD's housing assistance outlays. Errors in subsidy determinations can occur in program administration, tenant misreporting, or subsidy payment billings. We'll look at a new report that discusses significant advances in reducing errors through training, onsite monitoring, accessible information, and simplification of rules and requirements.
- The 2007 Difficult Development Areas (DDAs) and Qualified Census Tracts (QCTs) for the Low Income Housing Tax Credit (Section 42) of the Internal Revenue Service Code were published in September 2006. DDAs are metropolitan areas and nonmetropolitan counties with high land, construction, and utility costs relative to area median income (AMI). QCTs are census tracts in which 50 percent or more of the population have incomes below 60 percent of AMI, or the poverty rate is at least 25 percent. This brief article will examine changes in DDAs and QCTs from 2006 to 2007 and will direct people to the data sets available from HUD USER.
- HUD, with assistance from The National Trust for Historic Preservation, The Center for Urban Policy Research at Rutgers, The Enterprise Foundation, and The National Center for Healthy Housing, undertook an investigation into the status and potential of housing rehabilitation for increasing the nation's supply of affordable housing. We'll explore present uses of LIHTC (low-income housing tax credits), HTC (historic tax credits), and NMTC (new markets tax credits), and how these tools might be used for housing rehabilitation.
- America's housing stock is aging and in need of renewal, while the demand for affordable housing grows increasingly critical. We'll visit Seattle, Washington, a community recognized for its robust market in rehab and adaptive reuse. The Seattle area experiences significant economic constraints and obstacles to development and construction of rehabilitated housing. Our article identifies these issues and discusses how Seattle is meeting these challenges.

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