Competitive Requests for Applications Process
Limited Development Areas Methodology

Florida Housing Finance Corporation (Florida Housing) manages its affordable housing rental portfolio through an asset management strategy that considers, among other factors, the viability of each proposed development, the condition of the market in which each property is located, the demographic targeting of each development and the effect each proposed development would have on existing affordable units in Florida Housing's entire portfolio, with special emphasis on Affordable Housing Guarantee Program developments. Through an ongoing monitoring process, Florida Housing staff identifies areas of the state where physical occupancy rates for rental developments funded through Florida Housing have declined or such developments have been unable to stabilize over time.

Occupancy rates at affordable housing developments may be impacted by a number of market fundamentals, including business closures or relocations, interest rates, the single-family housing sector, the multifamily market supply and shifting demographics. While the unemployment rate gauges the general health of the economy, employment growth also drives growth in demand for multifamily apartments. The recovery of the single-family housing sector benefits the overall economy, which in turn is likely to have a positive effect on the multifamily sector as increasing mortgage rates and home prices lessen homeownership affordability, making renting more favorable, in comparison. Multifamily supply and demand typically has a one to two year lag between starts and completions. Markets where starts outpace increases in demand are at risk of downward pressure on rents because of over-supply. Similarly, shifting demographics can create an over-supply of rental housing in a specific area. As market and conditions and demographics change, rental developments in an area may suffer lower occupancy rates and, therefore, lower operating incomes, possibly exposing the developments, as well as the Guarantee Program, to greater financial risk than originally projected.

At the end of 2011, the statewide occupancy rate for Florida Housing's portfolio was 91.9 percent; by the end of 2013, the rate had risen to 94.5 percent. This does not measure the "economic" occupancy rate, which may include rent specials to encourage people to rent units at a property in exchange for lower rent payments, a move-in special or another perk. Typically economic occupancy is at least somewhat lower than physical occupancy. Some counties have overall lower occupancy rates than the state, and other counties make up for that with higher rates. Similarly, occupancy rates may be different for certain demographic categories over time.

In an effort to ensure that the state is not funding new rental developments near vulnerable, existing, affordable developments, Florida Housing developed a process for identifying these areas, minimizing the construction of new, affordable housing units in these areas, and ensuring that funding is targeted towards markets having an unmet demand for affordable units. Ideally, this helps developments with low physical occupancy achieve higher occupancy rates, stable operating incomes, higher Low Income Housing Tax Credit investor interest and ultimately ensure that affordable housing program loans are repaid in a timely manner and can be used to finance more units.

Process for Developing Limited Development Areas[1]

As Florida Housing evaluated occupancy data in this process, the following physical occupancy rate divisions were used to focus on properties and areas of concern:

- Less than 90 percent occupancy, indicating a development whose financial operations are typically not self-sustaining, and is thus reliant on sources other than project revenues;
- Between 90 and 93 percent occupancy, typically indicating financial operations approaching break-even; and
- 93 percent and above, typically indicating healthy occupancy and financial operations.

Occupancy rates for the most recent analysis are based on an average from November 2013 through April 2014; and, all averages for areas including multiple developments are based on the number of units, not the average occupancy rate for each specific development. The data includes physical occupancy rates for properties in Florida Housing's portfolio, the additional number of units that have been awarded financing but are not yet built or fully leased (referred to as pipeline properties), and the demographic targeting of each development.

[1] Florida Housing does not designate certain areas as being acceptable or unacceptable for underwriting determinations. Locational factors are fundamental to property appraising, market analysis and prudent underwriting. By publishing Limited Development Areas, Florida Housing is providing applicants a realistic perception of market risk in a given location. In other words, Florida Housing does not "redline." Redlining can occur when perceived property risks are based on improper locational factors (such as the arbitrary imposition of unfavorable loan terms on the basis of geographic area) or when the perceptions of risk are derived from factors that do not predict risk, either reliably or not at all. An example of a factor that is not predictive of risk is race, and racial redlining is illegal under federal law. Other factors that serve as a proxy for race are equally impermissible. None of Florida Housing's Limited Development Areas are intended to foster redlining. If any provision is interpreted to do so, it has been misunderstood.