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Sent: Wednesday, June 11, 2014 11:40 AM
To: Steve Auger
Cc: Sara Myerson; Charlie Adams
Subject: FHFC Preservation Deal Characteristics

Steve

I wanted to follow-up on our last conversation at the Florida Housing Finance Corporation (FHFC) Board Meeting regarding how to prioritize the housing preservation needs of the State of Florida to ensure that those properties most at risk and most in need of preserving, have access to the necessary resources to do so. I apologize for the delay in getting these to you but I think the timing is actually fortuitous as you may be exploring these issues at the Rule Development Workshop this week.

I had planned on joining you for this event and the subsequent board meeting but unfortunately I cannot make it. Instead, my colleague will be joining the workshop via teleconference – Sara Myerson, who has now assumed the Manager of Strategic Policy and Planning role for POAH. She is looking forward to participating in this critically important discussion.

In advance of that we wanted to share these thoughts with you. First, I want to note that POAH very much appreciates FHFC's commitment to preservation and willingness to continue to collaborate with us to address preservation challenges. Second, after additional consideration spurred by our last conversation, we feel that FHFC is in fact essentially focused on the appropriate deal characteristics to best ensure that resources are being targeted to the most critical preservation projects. Below we have outlined those deal characteristics and why they are important, following that are some statistics in support of preservation, and the reasons why preservation makes sense for FHFC to fully support.

With respect to prioritizing which developments are best suited for preservation, we think the following should be emphasized:

- **Rental Assistance:** We very much appreciate the use of the Rental Assistance (RA) Level Classification to prioritize the importance of preserving projects with rental assistance. We encourage you to continue to maintain a dual qualification for Levels 1-3, which prioritizes both large projects (75-100+ units) with a % of RA as well as projects where a majority of units have RA. As many at-risk RA units are located in properties that are not a majority RA, this will help to maximize both the number of absolute units that are preserved as well as the number of RA units.

Preservation is especially important where operating subsidies, primarily Section 8 Project Based subsidy contracts are involved. Losing these properties means losing these critical needed operating resources – which can never be regained.

With operating subsidies a dual additional benefit is achieved. The primary benefit is to the tenant, who gets deeper affordability -- but the second key benefit is that the amount of mortgage debt that can be leveraged in connection with an affordable property is also greater - which in turn decreases the amount of precious state resources that are needed to renovate a given project.

- **Concrete Construction:** We support the prioritization of concrete construction, which we believe to be essential to long-term physical viability. Wood frame construction, as compared to concrete, is much more likely to have needs over time particularly in Florida given hurricane and other climate

issues. One of the true benefits of preservation is that in most cases a reduced amount of resources are needed to maintain the asset as compared to full new construction.

- Elderly vs. Family: We believe it is important to maintain a balance between preserving elderly and family properties. Given the vulnerability of elderly populations, we support a prioritization of preservation of elderly properties. However, as preservation sites are often well-located in areas of opportunity for working adults and children (with access to jobs, good schools and transit), we encourage FHFC to continue supporting the preservation of some family developments as well as elderly developments.

These are the main deal characteristics that POAH has felt, and continues to feel, are most important to prioritize. We are extremely pleased that FHFC has chosen to highlight these. If FHFC has others they think are important and would like our thoughts on, we would be happy to provide them.

As you know, POAH has long promoted increased public investment in the preservation of at-risk affordable housing on the premise that such spending is an extremely efficient use of resources. I wanted to share those with you again in support of the allocation of resources for this segment of the housing stock.

- Efficient Use of Subsidy: Preservation generally costs less than new construction both in terms of development costs as well as subsidy dollars per affordable unit. A 2013 study by the Center for Housing Policy found that renovation of an existing property saves, on average, between \$40,000 and \$71,000 per unit (or between 25% and 45%) relative to new construction over a 50-year life-cycle, all else equal. (http://www.nhc.org/media/files/CostComparison_NC_AR.pdf).
- Support of More Units: Because preservation is less expensive than new construction, following up on the point above, FHFC can support more total units by allocating some resources to preservation. If preservation provides savings of between 25% and 45% - then FHFC can support 2 to 4 units for every 1 unit of new construction it supports.
- Net Gain: If the overall goal is to increase the number of affordable housing units then it does not make sense to add new units at the same time old units are lost forever from the affordable housing inventory. By allocating some resources to preservation, we can ensure that existing units are not lost while adding new units to the affordable housing portfolio.
- Job Creation: Because labor makes up a higher proportion of construction costs on preservation deals, which use less new materials, preservation creates more construction jobs per subsidy dollar than new construction.
- Protection of Residents: Preservation protects seniors and families who already live in and depend on, at-risk affordable properties.
- Sustainable Development Practice: The renovation of existing structures is inherently resource-efficient, reduces construction waste, and uses less energy than new construction. At the community and regional level, preservation uses existing sites – often in dense, transit-connected locations – and avoids the need to develop green space and extend new infrastructure.

In terms of the overall case for the need for preservation in Florida, we would remind you of the following data. According to the Shimberg Center's Florida Housing Data Clearinghouse (<http://flhousingdata.shimberg.ufl.edu>), there are approximately 385 affordable properties with HUD rental assistance in the state which have subsidy use restrictions expiring before the end of 2020 – including a total of more than 26,000 assisted units potentially at-risk. Saving these units is critical to the needs of the seniors and families in Florida who depend on this affordable housing to live.

Towards that end, we very much appreciate FHFA continuing to include a preservation set-aside in the QAP. We strongly encourage you to consider increasing the set-aside to meet or exceed previous levels which have been in excess of 35%. By way of comparison, according to the National Housing Trust (NHT), in 2013 10 states published QAPs with preservation set asides of 20% or higher, including a 35% set-aside in Ohio, and 30% set-aside in Massachusetts.

Thank you once again for the opportunity to share our thoughts on the importance of preservation efforts. Please do not hesitate to contact me or Sara Myerson at (617) 449-0864 with any questions or comments you may have.

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