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Hearing:
"On the brink of homelessness: How the affordable housing crisis leaves families vulnerable"

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Good morning, Chairwoman Waters, Ranking Member McHenry, and distinguished members of the Committee. Thank you for the opportunity to testify regarding how preservation may address the affordable housing crisis.

I am Priya Jayachandran, President and CEO of the National Housing Trust (NHT). NHT is a national nonprofit organization dedicated to preserving, producing and protecting affordable housing. Our mission broadly is to ensure that all US residents have access to safe and secure homes by preserving and expanding our nation's affordable housing stock. Using the tools of policy advocacy and innovation, real estate development, lending, and energy solutions, NHT has helped preserve and create more than 36,000 affordable homes in 50 states, leveraging more than $1.2 billion in financing.

Before I dive into the facts and figures of my testimony, I would like to share a story. Meridian Manor is an historic building in the increasingly gentrified Columbia Heights neighborhood of Washington, DC. In 1991, the residents sued and won a judgement against their negligent property owner for housing code violations and illegal rent increases. Meridian Manor benefits from 100 percent project-based vouchers, which enables its low-income residents to pay only 30 percent of their income for rent.

We partnered with the Meridian Manor resident association in 2002 to acquire and renovate their building using Low-Income Housing Tax Credits (Housing Credits). The residents retained a right of first refusal to purchase the property from the Housing Credit limited partnership after the initial 15-year compliance which ended last year. The residents exercised that right in late 2019. We at NHT Communities will continue to work with the residents as a development consultant and asset manager.

While many neighboring apartments are rapidly converting to high-cost condominiums, federal subsidies, notably project-based vouchers and Housing Credits, have enabled the residents of Meridian Manor to remain in their home and in their neighborhood of Columbia Heights by maintaining affordable rent. We are very proud of our role in preserving the affordability of this historic building for the families who will now be able to continue living there.

Growing Rental Housing Needs and Limitations of Current Federal Assistance

As rent levels climb and incomes stagnate, the nation continues to face a rental housing affordability crisis. According to the Joint Center for Housing Studies at Harvard University, nearly one-third of all United States households are cost-burdened, defined as paying more than 30 percent of incomes for housing in 2017. For renters, however, the cost-burdened share is 47 percent. Of these 20.5 million renter households with burdens, 10.7 million, or nearly half, pay more than 50 percent of their incomes for housing and are considered severely burdened.

Affordable Housing Supply is At Risk, Especially in High Cost Area

Despite the enormous need, available federal housing assistance serves just one out of every four very low-income renter households. According to the National Low-Income Housing Coalition, the gap between supply and demand for rental units affordable and available to very low-income households is 7.2 million. This shortfall could become much worse given the threats to the affordable supply. Subsidized units with expiring housing assistance are constantly at risk of shifting to market rate. Affordability restrictions on 611,000 Housing Credit units, 352,000 project-based Section 8 units, and 221,000 other subsidized units are set to expire within the next 10 years, subjecting over one million families to a risk of losing their homes. Most at risk are apartments in desirable neighborhoods where rents are increasing, concluded a recent study by the National Low-Income Housing Coalition.

According to the Urban Land Institute, current levels of new affordable multifamily development—roughly 100,000 annually—will replace only about half of what is at risk of loss in the coming years and will fall far short of meeting rising demand.[1] The affordable housing crisis demands that we build new affordable housing while simultaneously preserve existing assets.

Why is Preservation Important?

Preservation refers to a set of actions that ensure that an affordable property's rents remain affordable by extending and potentially expanding its housing subsidies and rent restrictions. Often accomplished by mission-driven developers committed to long-term affordability like NHT, preservation usually involves financial recapitalization and physical renovation of a property.

In recent years, rising rents in hot markets have created increased incentives for owners to opt out of participating in federal housing assistance. When properties become unaffordable just as neighborhoods improve, residents are often displaced, losing the opportunity to benefit from decreased crimes rates, and enhanced access to jobs, quality schools, and reliable transit that often accompany economic growth. Preserving affordable housing enables residents to benefit from these opportunities. It also allows employers to fill critical jobs across the spectrum of wages without forcing the poorest workers to shoulder the burden of long and expensive commutes.

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[1] Urban Land Institute, *Preserving Multifamily Workforce and Affordable Housing: New Approaches for Investing in a Vital National Asset*, 2015, page 12.

In distressed neighborhoods, preserving affordable housing can catalyze the revitalization of an entire community. Saving decent, affordable housing means protecting a critical community asset. It also signals the reversal of what may have been years of neglect and disinvestments and can spark the public-private investment that is essential for community revitalization. In all communities, preservation protects the billions of taxpayer dollars already invested in affordable rental housing and results in a more environmentally sustainable and efficient use of resources.

Preservation must be coupled with increasing supply of affordable housing by building new apartments. Housing construction, particularly at affordable levels, has not kept pace with population growth and widening income inequality. However, focusing exclusively on new construction without simultaneously promoting preservation risks worsens the problems. Without preservation new construction is at risk of only replacing units we lose and squandering scare resources: preservation costs 30-50 percent less than developing new units."[2]. Preservation also frequently can be accomplished more quickly, without the burdens of lengthy regulatory processes and potential NIMBY backlash. We must preserve existing affordable homes and focus our new construction efforts on expanding supply versus backfilling.

Project-Based Rental Assistance: The Foundation of Preservation

Preserving or creating affordable housing requires multiple layers of funding. Often, HUD's project-based rental assistance (PBRA) provides the foundation which leverages additional resources to recapitalize rental properties and keep them affordable. One might think of PBRA as the base of a layer cake.

Housing with project-based assistance is a category of federally assisted housing produced through a public-private partnership. From 1965 to the mid-1980s, HUD provided financial incentives such as below-market interest rate loans, interest rate subsidies, or project-based rental assistance contracts to build and maintain affordable rental housing for low-income households. No new units have been produced through those programs for many years, but Congress provides funding annually to renew existing PBRA contracts with private rental housing owners.

It's important to understand the basic facts about PBRA:

- PBRA provides affordable housing for over 1.2 million low- and very low-income households across the country. Sixty-four percent of these households include a resident with a disability or who is elderly. The average household income is less than $13,000 per year.
- Preserving properties with PBRA assures that affordable rental homes will continue to be available in a wide range of housing markets throughout the nation, including urban, rural, and suburban locations. According to Urban Institute, about 43 percent of all PBRA units are located in low-poverty neighborhoods nationally. These are communities where low-income families might otherwise be unable to find affordable housing.
- Properties with PBRA generate $460 million in property taxes for local municipalities annually and directly support 55,000 jobs.

[2] Urban Land Institute, page 12.

- Nearly 10,000 of the 17,723 PBRA properties are insured by the Federal Housing Administration (FHA). The estimated unpaid balance of the FHA insured debt underlying properties assisted by PBRA contracts is over $13.5 billion. Without sufficient rental assistance, properties would be at risk of failure because they could not cover their debt. In this situation, FHA would be left paying the tab. In HUD's own words, "If funding for the PBRA program is not provided, the value of this underlying debt to FHA and private lenders as well as existing equity in the physical structures could be severely eroded, contributing to significant loss of privately held wealth and community investment."

As rental markets heat up, PBRA properties are at greater risk of being lost as affordable housing and converted to market rate housing. When PBRA contracts expire, owners may choose to opt out of their contracts, enabling them to increase rents to market levels or convert units to market-rate condominiums. Owners must give residents one-year advance notice of intent to opt out. Most residents will receive enhanced vouchers to enable them to remain in their homes, but future residents must pay market rents. According to Urban Institute, of the approximately 1.34 million active PBRA units, more than 446,000 units (33 percent of the total PBRA stock) are at risk of losing their affordability status, according to calculations from the National Housing Preservation Database.[3]

As HUD has noted, "Multifamily housing assisted by PBRA stabilizes neighborhoods and contributes to local economic bases. PBRA contracts act as a critical credit enhancement for project financing, allowing owners to leverage private debt and equity to permit project refinancing and recapitalization. The periodic refinancing of the debt underlying projects assisted by PBRA generates significant capital available for investment in construction repairs and improvements."

Conclusion

The preservation of existing affordable housing is critical to solving our nation's rental housing affordability crisis. As many neighborhoods gentrify, preservation of federally-assisted housing is essential to ensuring that long-time residents can remain and benefit from the changes in their communities, including access to jobs, good schools, transit, and health care.

[3] Urban Wire, *How to keep affordable housing in high-opportunity neighborhoods, 2015*