multifamily

Preserving Multifamily Rental Housing:

Noteworthy Multifamily-Assistance Programs

December 2001

Research Report for the Multifamily Housing Preservation Committee from the Federal Reserve Banks of New York and Philadelphia

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Introduction

Background

In 1998, a group of multifamily-property owners, government representatives, and lenders in New Jersey began meeting because they shared a common concern about the precarious financial situation of many smaller multifamily properties, typically those with five to 20 units, in the Garden State. Many of these properties are located in low- and moderate-income (LMI) census tracts. The 1990 census reported some 212,441 units in buildings of five or more units in LMI tracts in New Jersey. The multi-sector group felt strongly that it was possible to preserve units that, without intervention, would deteriorate and become vacant within a few years.

The group, the Multifamily Housing Preservation Committee, has a two-part purpose: to explore obstacles to financing multifamily properties and to focus attention on the potential impact of a preservation program for these properties in New Jersey.

The committee includes community affairs representatives from the Federal Reserve Banks of New York and Philadelphia. The Federal Reserve System has a broad interest in the efficient functioning of markets. As part of their community-reinvestment activities, Federal Reserve community affairs staff members often facilitate multi-sector discussions in order to analyze obstacles to providing credit and to explore public-private partnerships that make credit more widely available.

Three focus groups held in June and July 1999 analyzed the characteristics of financing available to small multifamily-property owners. The groups studied the impact of proposed debt and/or equity remedies on the owners and corresponding public costs.

In February 2000, the Federal Reserve Banks of New York and Philadelphia released a report, *Preserving Multifamily Rental Housing: Improving Financing Options in New Jersey*. Highlights from the report are presented later in this section.

In June 2000, the Multifamily Housing Preservation Committee was reconvened at Fannie Mae's partnership office in Newark, NJ. About 30 attendees heard a presentation by James P. Angley, senior vice president of the State of New York Mortgage Agency (SONYMA), on the criteria and performance of loans made by SONYMA's Mortgage Insurance Fund. In addition, Tim Touhey, director of Fannie Mae's New Jersey partnership office, discussed Fannie Mae's 5-50 Streamlined Mortgage product, while a representative of the Local Initiatives Support Corporation's New Jersey Multi-City Program discussed proposed New Jersey tax-credit legislation. Justin Peyser, vice president of the New Jersey office of the Community Preservation Corporation (CPC), also shared CPC's experience in financing multifamily properties in New Jersey and New York.

This research report has been prepared to inform the Multifamily Housing Preservation Committee about some successful multifamily-assistance programs in different parts of the country and to stimulate the committee's thinking about possible solutions to the financing and other needs identified in the February 2000 report.

Obstacles to Multifamily Financing

A range of obstacles related to cash flow as well as lending and government policies impede the upgrading or refinancing of properties of five to 20 units in New Jersey, as explained in the February 2000 report.

Factors that have an important impact on the cash flow of these properties include:

- **Deferred maintenance —** maintenance has often been deferred in older multifamily properties, resulting in major rehabilitation costs that often exceed the properties' post-rehabilitation value;

- **Thin operating margins** — rental income barely covers operating expenses and may not be sufficient to cover additional debt needed for rehabilitation;

- **Rent controls** — rent-control ordinances restrict owners' ability to raise rents to a level that covers operating expenses and rehabilitation costs; and

- **High real estate taxes** — the tax burden makes it difficult for property owners to pay debt service and other operating expenses.

The report highlighted a series of government policies that have a negative effect on the financial viability of multifamily properties and that contribute to the difficulty of obtaining financing. These include:

- No significant, dedicated source of subsidy funds was available at the time of the report to offset rehabilitation costs or provide an incentive to undertake rehabilitation.

- Property owners need relief from high real estate taxes.

- Municipal rent controls constrict the ability of owners to raise rents to a level that covers operating expenses and rehabilitation costs. As a result, owners do not have an incentive to make significant capital improvements.

The report also outlined a number of lending policies that have a significant adverse impact on the ability of property owners to obtain loans. These policies include:

- The difficulty of delivering smaller amounts of credit to inexperienced borrowers — In multifamily as well as in many other types of loans, lenders often concentrate their efforts on larger loans to experienced borrowers. Owners of five- to 20-unit properties typically are nonprofessional real estate borrowers who are inexperienced with the financing process. When credit has been made available, it is on terms that are difficult for the properties to sustain. For example, loans typically have 20-year amortization periods and five-year terms requiring an expensive refinance every fifth year. Closing costs also have been prohibitive.

- Lack of a secondary market for multifamily properties of five to 20 units — A secondary market for these properties is virtually nonexistent.

Recommendations From the February 2000 Report

The report concluded with recommendations for needed changes in lending and government policies.

Lending policy recommendations included:

- Standardized fixed-rate financing — Owners need dependable market-rate financing that includes 30-year self-amortizing loans, loan-to-value ratios of 80 percent or higher, and reduced loan-documentation costs.

- Mortgage insurance — The availability of this credit enhancement for properties of five to 20 units would be attractive to lenders.

- A more accessible secondary market — This would provide lenders with liquidity and lead to a larger volume of lending for this segment of the market.

- Technical assistance — This is a major need for owners of five- to 20-unit properties. Owners need education on best practices in property management and the process of obtaining financing.

Government policy recommendations included:

- A new dedicated equity or subsidy source targeted to properties of five to 20 units in low- and moderate-income neighborhoods without income restrictions on individual units. The new equity or subsidy source could consist of low-interest government loans combined with market-rate financing, or it could consist of an equity pool that would make equity in-

vestments in properties of five to 20 units. These proposals would greatly increase owners' ability to rehabilitate and modernize a property and carry an affordable debt service — and would fulfill a critical gap-financing role, closing the gap between a property's cash flow and debt service and other expenses.

- Real-estate tax policies should be changed to provide owners with incentives to make capital improvements.

- Revisions to rent-control requirements — Changes are needed to promote routine, expeditious processing of rent increases to pay for capital improvements. A government program that provides a subsidized rehabilitation loan in combination with a bank loan should allow rent restructuring immediately upon completion of construction so that debt, taxes, and operating expenses can be paid.

Noteworthy Programs

The February 2000 report included recommendations for lending and government initiatives to improve the ability of owners of five- to 20-unit properties in New Jersey to obtain financing for moderate rehabilitation. Fifteen noteworthy multifamily-assistance programs that correspond to the recommended initiatives are listed below.

In response to lending policy recommendations for providing mortgage insurance, two such programs, operated by SONYMA and the New York City Residential Mortgage Insurance Corporation (REMIC), are highlighted. SONYMA's total multifamily insurance in force as of March 2001 consisted of 549 loans involving 33,948 units. SONYMA's mortgage-insurance program is funded largely by a mortgage recording-tax surcharge. REMIC has insured or has committed to insure 150 multifamily loans on a total of 5,268 units. The success of these programs is attributable to the use of underwriters and lenders who are experienced in multifamily lending in low- and moderate-income communities.

Another lending policy recommendation was for a more accessible secondary market. Fannie Mae launched a 5-50 Streamlined Mortgage product last year to respond to financing needs of properties with five to 50 units. Twenty-one delegated underwriting and servicing lenders are approved to originate the product. Meanwhile, the FHA has introduced "multifamily accelerated processing" (MAP) of applications for federal multifamily mortgage insurance. MAP is being used for large-scale developments, not smaller properties, although the FHA is re-evaluating its Small Projects Program for possible inclusion in MAP.

In another secondary-market initiative, the Community Development Trust (CDT) has begun a secondary-market program and has purchased 12 loans involving 3,063 units in six states. CDT has also started an equity-investment program and has invested in two multifamily developments totaling 730 units.

Regarding a recommendation on needed relief from high real estate taxes, a description of New York City's J-51 tax abatement and exemption program is included in this report. From 1996 to 2000, J-51 abatements were awarded for improvements to 424,409 units. Also included is a description of California's property-tax exemption for low-income housing properties owned by nonprofit organizations and for limited partnerships in which the managing general partners are qualified nonprofit organizations.

Information provided on each program includes how and why the program was created, how it is funded, its track record, and comments from each program's contact person on possible replication.

The community affairs representatives of the Federal Reserve Banks of New York and Philadelphia trust that this information will be useful to policy-makers, multifamily-property owners, and lenders throughout New Jersey. For additional information, please contact Elizabeth Rodriguez Jackson, assistant vice president and community affairs officer of the Federal Reserve Bank of New York, at (212) 720-5921; or Dede Myers, vice president and community affairs

officer of the Federal Reserve Bank of Philadelphia, at (215) 574-6482.

Regarding the recommendation for increased technical assistance to property owners, four programs that provide such assistance for project management are included: the Community Investment Corporation (CIC) Property Management Training Program, the Consortium for Housing and Asset Management, the Housing and Community Development Network of New Jersey's asset-management workshops, and the Neighborhood Reinvestment Corporation's NeighborWorks® Multifamily Initiative. CIC has provided property-management workshops for more than 1,000 multifamily-property owners and managers in the Chicago area.

The Housing and Community Development Network of New Jersey is organizing two-day multifamily asset-management workshops for its nonprofit members. The network's membership includes nearly 130 nonprofit organizations that own about 19,000 units; most of the units are in properties of five to 20 units. The NeighborWorks® Multifamily Initiative is providing five-day asset-management clinics to staff and board members of 43 participating nonprofit organizations around the U.S.

Concerning a recommended government equity or subsidy initiative, five such programs are included in this report: the New Jersey Neighborhood Preservation Balanced Housing Program, the New York City Participation Loan Program (PLP) and 8-A Loan Program, the Tax-Increment Financing Neighborhood Improvement Program (NIP), and the U.S. Department of Housing and Urban Development's now-defunct Section 312 Program.

In February 2001, the New Jersey Department of Community Affairs (DCA) increased the amount of zero-interest forgivable loans — from $7,500 per unit to $25,000 per unit — that could be awarded for rental-rehabilitation projects under the state's balanced housing program. DCA, which approved this increase in February, has begun an internal process to officially adopt the increase.

New York City's PLP, which provides 1 percent 30-year loans in conjunction with private market-rate financing, has been used for the rehabilitation of 44,000 units. It has been funded by city general-obligation bonds, Community Development Block Grant and HOME funds, and a New York State program. The 8-A Loan Program, which provides loans of up to $25,000 per apartment at 3 percent interest for up to 30 years, has been used for the rehabilitation of 103,000 units. The NIP provides grants to multifamily owners in two tax-increment financing districts for exterior and other improvements.

New York City Residential Mortgage Insurance Corporation (REMIC) Housing Insurance Fund (HIF)

ORGANIZATION – New York City Residential Mortgage Insurance Corporation

PROGRAM TYPE – Mortgage Insurance

Program Description

REMIC was created in 1973 to encourage the investment of residential-mortgage capital for the preservation, rehabilitation, and new construction of affordable housing and to help revitalize neighborhoods. It insures permanent, first-position mortgage loans made by financial institutions on multifamily and single-family properties in New York City.

REMIC was launched with capitalization of $7.5 million from the city of New York. In 1993, REMIC became a subsidiary of the New York City Housing Development Corporation (HDC), which assumed all of REMIC's obligations. REMIC's Mortgage Insurance Fund (MIF) insured loans from inception to 1993, while its HIF has insured loans from 1993 to the present.

REMIC's mortgage-insurance programs are designed to work closely with programs of New York City's Department of Housing Preservation and Development and other affordable-housing initiatives of city, state, and federal agencies and financial institutions.

REMIC insures up to 50 percent of the principal amount of mortgage loans made for acquisition or refinancing and up to 75 percent of the principal amount of mortgage loans made for rehabilitated or newly constructed housing. Both fixed-rate and adjustable-rate loans of up to 40 years are eligible for REMIC insurance.

REMIC provides 100 percent coverage for any loans made by authorized public-employee pension funds and public-benefit corporations. REMIC's underwriting guidelines require 115 percent of debt service and have an 80 percent maximum LTV. Also, a rental property's gross effective income must equal at least 105 percent of total expenses, including all debt-service obligations. As part of its underwriting, REMIC examines applications for public purpose, financial viability, management experience, and the borrower's track record.

Eligible properties are multifamily buildings, owner-occupied one- to four-unit houses, condominium and cooperative units, and mixed-use buildings in which the commercial space is less than 25 percent of the total square footage. REMIC will not insure properties that have substantial violations of the New York City Housing Maintenance Code unless there is a plan to correct such violations.

A financial institution applies for REMIC mortgage insurance by completing an application form along with required documents and certifications, such as appraisals and project pro formas. An application fee of $100 or 0.1 of 1 percent of the mortgage-loan amount, whichever is greater, is required. Annual premiums typically range from 0.25 percent to 0.5 percent of 1 percent of the outstanding principal balance of the mortgage loan.

HIF's reserve requirement is 20 percent of all insured and committed amounts and 100 percent of outstanding claims. It earns fees and premiums on its policies and earns income from investments in the HIF and the MIF.

REMIC has a full-time staff of four employees, including two mortgage-insurance specialists. REMIC uses HDC engineers, inspectors, and legal staff in its review of applications. In 2000, the annual cost of operating the REMIC program was about $623,000 (excluding claims).

REMIC's insurance on a property becomes effective after rehabilitation has

been finished and after a certain level of rental income has been achieved.

Track Record

From inception to year-end 2000, REMIC had insured or had committed to insure 192 mortgage loans totaling $150.2 million. The 192 loans consisted of 150 loans on multifamily properties totaling 5,268 units and 42 single-family loans totaling 64 units.

Of the 192 loans, 60 percent were originated by the Community Preservation Corporation, and 19 percent were originated by the Chase Community Development Corporation.

REMIC has paid out very little in claims. REMIC's HIF and MIF have paid claims of $580,951, or 0.3 of 1 percent of the total risk-in-force, which totaled $186,284,886 as of March 30, 2001. Of the amount paid, 80 percent of the $580,951 pertained to multifamily loans.

REMIC received a rating of AA from Standard & Poor's in January 1999.

Recommendations For Replication

In designing a mortgage-insurance program, provision should be made for a continuing source of funds, other than earnings, that will increase revenues. Lack of funds has limited REMIC's ability to expand its insurance products and the size of loans that it insures. Legislation creating a new mortgage-insurance entity should be flexible enough to allow for an expansion of activities.

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State of New York Mortgage Agency (SONYMA) Mortgage Insurance Fund (MIF)

ORGANIZATION – State of New York Mortgage Agency

PROGRAM TYPE – Mortgage Insurance

Program Description

New York State established its own MIF in 1978 to encourage reinvestment and the rehabilitation of deteriorating neighborhoods throughout the state. The MIF's powers were broadened in 1989 to include projects that create affordable housing, are located in an economic-development zone, have a public-agency mortgagee, or provide a retail business or community-service facility.

The MIF insures first-lien mortgages on multifamily and single-family loans. Loans for multifamily projects must be new construction or rehabilitation and must constitute at least 25 percent of total projec costs. Most of the MIF-insured multifamily projects are for low- and moderate-income families.

The MIF provides insurance through two separate accounts: the project account and the single-family account. The project account holds insurance policies and commitments for mortgages on multifamily housing, skilled-nursing facilities, housing for older people, cooperative housing, and retail and community-service projects.

Retail and community-service facility loans have a $5 million maximum.

The MIF provides up to 75 percent insurance on loans with commercial lenders and up to 100 percent insurance on loans with state and local housing agencies, industrial-development authorities, and public-pension funds and public-benefit corporations.

The MIF is funded by:

- A mortgage recording-tax surcharge of 0.25 of 1 percent, or $0.25 per $100, of a mortgage on real property;
- Interest earnings on reserves; and
- A premium equal to 50 basis points, or 0.5 of 1 percent, for each outstanding mortgage loan per year, and an application fee equal to 10 basis points.

In the year ended March 31, 2001, the surcharge amounted to $65.2 million, interest earnings on reserves generated $44.6 million, and premiums and fees totaled $11.5 million for both accounts.

MIF's underwriting criteria consists of:

- Up to 80 percent LTV on acquisition and rehabilitation loans;
- Up to 90 percent loan-to-cost on new construction loans;
- A minimum income-to-expense ratio of 1.05 to 1.00, equal to approximately 1.10 NOI coverage;
- A minimum cash equity of 10 percent; and
- A loan term of up to 33 years.

In addition, an operating-deficit reserve may be required subject to terms and conditions as determined by the MIF. Lenders must also provide independent third-party reports concerning property appraisals, environmental studies, and construction-engineering reviews of the plans, specifications, and adequacy of construction budgets.

The MIF is a separate division of SONYMA and has a professional staff of 15 employees. Some other SONYMA employees provide support services to the MIF.

Track Record

The MIF's total multifamily insurance in force as of March 2001 consisted of 544 loans totaling $799 million and involving 34,045 units.

The MIF's largest lender by far was the Community Preservation Corporation (CPC) and the Community Lending Corporation (CLC), which merged with CPC in 1995. CPC/CLC accounted for 431 loans totaling $362 million. The New York State Housing Finance Agency was the second largest lender, with 35 loans totaling $223 million. Chase Manhattan Bank, N.A., was the next largest lender, with 51 loans totaling $78 million. About 85 percent of MIF's multifamily liability is concentrated with these three mortgagees.

The multifamily portfolio represents about 61 percent of the total policies-in-force (PIFs) risk amount. Of 544 outstanding multifamily PIFs as of March 31, 2001, six multifamily loans (1 percent) were listed as potential claims. To date, 24 multifamily claims worth about $23 million have been paid and closed since the MIF's inception; of this amount, about 20 percent has been recovered.

There were 3,222 outstanding single-family PIFs as of March 31, 2001. To date, 113 single-family claims worth about $2.6 million have been paid and closed since the MIF's inception.

Most multifamily loans in the project account are insured for 100 percent of outstanding principal and have been sold to the New York City Employees Retirement System (NYCERS) and the New York State Common Retirement Fund (NYSCRS).

In June 1998, Moody's Investors Service gave the MIF project account an Aa1 rating. In February 2000, Fitch IBCA, Inc., gave the MIF project account an A+ rating.

Recommendations For Replication

SONYMA officials point out that:

- A dedicated source of revenue, such as a recording tax, is needed to support a large volume of insurance activity on multifamily loans. Investment income alone would be insufficient in a new fund to support a large volume of activity.
- Underwriters and lenders who are experienced in multifamily lending in low- and moderate-income communities are critical to the success of a multifamily mortgage insurance fund. The Community Preservation Corporation has provided excellent underwriting and lending on loans insured by SONYMA.
- To maintain the lending cycle, it is important to have an investment source that will purchase insured multifamily loans. This role has been filled by NYCERS and NYSCRS.

The three critical elements in the SONYMA program have been the MIF, experienced multifamily lenders, and NYCERS/NYSCRS. Once a process exists for insuring, rating, and selling the loans, loans can be originated and sold repeatedly.

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Fannie Mae 5-50 Streamlined Mortgage

ORGANIZATION – Fannie Mae

PROGRAM TYPE – Conventional Financing; Secondary Market

Program Description

The Fannie Mae 5-50 Streamlined Mortgage was introduced in 2000 to respond to financing needs of properties with five to 50 units nationwide in both urban and rural markets. Fannie Mae data indicate that such properties constitute almost a third of all multifamily units and over $100 billion in multifamily housing stock. New York City and Philadelphia are among the nation's 10 largest markets for such properties.

The product features reduced documentation and data from both the borrower and the lender. Title-insurance, legal, and processing costs are also reduced. The product uses streamlined underwriting that includes a pre-screening process.

The product is geared to experienced owners/operators who have at least three years' management experience and who live in proximity to the property being financed. The product is oriented to well-maintained properties that have financial stability and that have at least two years of operating history. These properties typically do not have any deferred maintenance. The product cannot be used for rehabilitation.

There is a rental-unit affordability requirement — at least 50 percent of the units must be rented to individuals or families at or below 100 percent of area median income.

The product has no maximum or minimum loan amount. Terms range from five to 30 years. The interest rate can be fixed or adjustable. The 5-50 Streamlined Mortgage does not incorporate forward commitments.

Underwriting requirements are minimum debt-service coverage of 1.25 and maximum loan-to-value of 80 percent for fixed-rate mortgages and LTV of 77.5 percent for adjustable-rate mortgages.

The 21 lenders approved to originate the 5-50 Streamlined Mortgage are all Fannie Mae-delegated underwriting and servicing lenders.

Lenders or third parties inspect the property and complete a property questionnaire. At closing, 125 percent of all necessary repairs over the next two years are escrowed.

Track Record

Not Available

Recommendations For Replication

When Fannie Mae's American Dream commitment was announced in March 2000, it included a stated goal for its multifamily division to invest $18 billion in small multifamily loans (loans of $3 million or less, with an emphasis on five- to 50-unit properties) from 2000 to 2009. Fannie Mae expects to meet this goal.

In the course of developing the 5-50 Streamlined Mortgage product, Fannie Mae has learned that the key providers of financing for small multifamily properties tend to be local banks and thrifts that are experts in their markets and have strong relationships with their borrowers.

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The Community Development Trust (CDT)

ORGANIZATION – The Community Development Trust

PROGRAM TYPE – Equity Investment; Secondary Market

Program Description

CDT, a private real estate investment trust (REIT), seeks to preserve and increase the supply of affordable housing by making long-term equity investments in multifamily properties and by providing a secondary market for permanent fixed-rate mortgages.

The Local Initiatives Support Corporation (LISC) provided initial seed capital of $1,500,000 in 1998. A LISC affiliate, the Local Initiatives Managed Assets Corporation (LIMAC), had purchased housing and other community-development loans around the country since 1988. CDT was established to continue LIMAC's secondary-market function, as well as to create a new mechanism to provide equity for affordable multifamily projects.

In 1999, CDT raised an additional $30,250,000 in equity capital through a private placement with 18 banks, insurance companies, and other institutional investors.

Equity Investment — Equity is provided through CDT's Multifamily Acquisition Program. In this program, CDT invests "tax-advantaged" equity in low-, moderate-, and mixed-income multifamily properties to help preserve long-term affordability. CDT works with local sponsors to restructure properties to ensure affordability and project stabilization. CDT equity can be combined with tax-exempt financing and tax credits to provide capital for rehabilitation and increase the financial viability of projects.

CDT works with experienced local nonprofit and for-profit developers, owners, and managers on properties located around the country. The minimum project size is generally 100 units, although smaller projects may be considered. Eligible properties can be subsidized or nonsubsidized. Properties must have sufficient cash flow to support CDT's targeted rate of return, which is established on a risk-adjusted basis for each individual equity investment.

CDT invests in properties for cash or through a tax-free exchange. CDT is structured as an umbrella partnership real estate investment trust (UPREIT), which can provide certain tax deferrals to owners who exchange ownership interests in their properties for an interest in CDT. This exchange provides an attractive tax-deferred exit strategy to sellers of real estate who would incur significant tax liabilities in a cash sale. The owners receive units in an operating partnership, known as OP units, that are convertible into CDT common stock.

Secondary Market Program — In this program, CDT purchases new or existing permanent fixed-rate multifamily mortgage loans from banks, loan consortia, housing-finance agencies, and community development financial institutions. It focuses on debt products that are nonconforming to other secondary markets and bond markets because of the amount (less than $5 million), location (inner-city or rural), configuration (scattered-site units or urban-rehabilitation projects), type (assisted living), or lack of rated credit enhancement. CDT provides forward commitments for individual loans originated for sale and purchases existing loans on an individual or portfolio basis.

Loans of $250,000 to $5 million are purchased in the program, although larger loans are considered. The term and amortization may be up to 30 years. LTV may be up to 95 percent. The minimum debt-coverage ratio is 1.10:1.00 for low-income housing tax credit (LIHTC) projects, 1.15:1.00 for non-LIHTC projects, and a higher ratio for assisted-living projects. For loans of under $1 million, CDT requires that underwriting be delegated to the lender and that the lender assume partial risk-sharing (recourse).

The interest rate for a loan or portfolio is based on a spread over the rate for the 10-year U.S. Treasury note. CDT uses a risk-based pricing model to determine the spread.

Lenders may apply to CDT to become approved seller-servicers. The 11 seller-servicers that were approved as of August 2001 include one based in the Third Federal Reserve District — The Reinvestment Fund (TRF). They also include such banks as First Union National Bank, Fleet Bank, N.A., JPMorgan Chase Community Development Group, and the Mellon Bank Community Development Corporation.

CDT purchased loans totaling $24.1 million for properties totaling 3,063 units as of June 30, 2001. This amount included four loans purchased from TRF. The four totaled $7.8 million on properties totaling 234 units in West Philadelphia.

CDT has a professional staff of seven. Its president and chief executive officer is Judd S. Levy.

Track Record

In its Secondary Market Program, as of June 30, 2001, CDT purchased 12 loans totaling $24,084,825 and involving 3,063 units in multifamily properties located in six states. CDT also made commitments as of June 30, 2001, on an additional nine loans totaling $23,227,295 and involving 1,565 units. In addition, during the second quarter of 2001 CDT issued a commitment to purchase a portfolio of eight loans totaling about $8 million from the Wisconsin Housing and Economic Development Authority.

In its Equity Investment Program, CDT invested $2.1 million in an affordable 396-unit multifamily garden apartment project in East Hartford, CT, in September 2000. CDT acquired an 80 percent limited-partner interest in the project through its investment. In addition, during the first quarter of 2001 CDT executed a purchase-and-sale agreement on a 334-unit property in Lynn, MA. All of the units have Section 8 subsidies, and CDT has applied to HUD for an increase in rents under its mark-up-to-market program.

Recommendations For Replication

Not Available

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New Jersey Neighborhood Preservation Balanced Housing Program

ORGANIZATION — New Jersey Department of Community Affairs (DCA)

PROGRAM TYPE — Subsidized No-Interest Loans

Program Description

The New Jersey Neighborhood Preservation Balanced Housing Program was established by the Fair Housing Act of 1985. It is intended to assist municipalities in New Jersey to increase the supply of affordable housing for low- and moderate-income households. The program is funded by a portion of the state's real estate transfer tax.

In February 2001, DCA approved a significant increase — from $7,500 to $25,000 — in the per unit amount that it could award for rental-rehabilitation projects. DCA has begun an internal process to officially adopt the increase, which was noted in the *New Jersey Register* on September 17. As of November 7, 2001, no funds had yet been awarded for rental-rehabilitation projects under the higher limit.

Decisions on balanced-housing applications are made each quarter; disbursements are made about six to eight weeks after the quarterly deadline. The next deadline for balanced-housing applications is March 15, 2002.

DCA makes available zero-interest loans in 29 distressed urban municipalities for the moderate rehabilitation of existing affordable rental units. The loans are forgiven after 10 years.

Eligible buildings have health- and safety-code violations. Eligible costs are those related to the replacement or extensive repair of one or more major systems (such as roofing, electrical, plumbing, and heating systems) and expenses related to systems work (such as painting). Developer fees may not be included. Eligible units may be either vacant or occupied.

All units funded must be affordable to low- or moderate-income households, and at least half of the units normally must be for low-income households. Rehabilitated units subsidized with balanced-housing funds must remain affordable and occupied by eligible households for 10 years. DCA considers a rental unit affordable if the monthly rent, including utilities, does not exceed 30 percent of an eligible household's income.

The maximum assistance to an eligible building is $25,000. This amount is reduced by $50 for each dollar differential between the actual rent charged and an affordable low-income rent as determined by DCA. Low- and moderate-income multifamily-building owners can obtain up to $20,000 per occupied unit.

Owners must match balanced-housing funds on a one-to-four basis. In other words, an owner must raise $6,250 as part of qualifying for a $25,000 balanced-housing award. The match may come from a financial institution or any other source. Owners must also agree to maintain rehabilitated units in good condition for the 10-year term of the loan and to keep sufficient reserves for systems maintenance and replacement.

Multifamily-property owners who receive balanced-housing funds must make a one-time certification of tenants' income eligibility. Owners obtain an affidavit in which existing tenants state their income. They obtain income certification for new tenants from DCA or its designee.

Municipalities may undertake projects themselves or apply on behalf of a local housing authority, nonprofit organization, or a private developer. Municipalities may apply to administer a rental-rehabilitation program within a targeted neighborhood. At least 70 percent of targeted neighborhoods must consist of

low- or moderate-income residents. Neighborhood-based programs are eligible for a maximum of $750,000 in annual assistance.

Eligible municipalities are Asbury Park, Bayonne, Bridgeton, Camden, East Orange, Elizabeth, Gloucester, Hoboken, Irvington, Jersey City, Long Branch, Millville, Mount Holly, New Brunswick, Newark, North Bergen, Orange, Passaic, Paterson, Penns Grove, Perth Amboy, Phillipsburg, Plainfield, Pleasantville, Salem, Trenton, Union, Vineland, and West New York, NJ.

Track Record

Since 1986, the program has provided $292 million to 443 projects totaling nearly 17,000 units. The projects include both rental and for-sale housing and new construction as well as rehabilitation.

Recommendations For Replication

Not Available

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New York City Participation Loan Program (PLP)

ORGANIZATION – New York City Department of Housing Preservation and Development (HPD)

PROGRAM TYPE – Subsidized Low-Interest Loans

Program Description

The PLP provides loans for the rehabilitation of multifamily properties occupied by low- to moderate-income tenants. The city offers 1 percent mortgage loans for up to 30 years in combination with loans from banks, insurance companies, and other lenders at market interest. All privately owned multifamily buildings in New York City with at least 20 residential units are eligible. PLP loans are intended for the replacement or repair of building systems and the modernization of apartment interiors.

While the PLP has been used primarily to rehabilitate occupied multifamily buildings, vacant buildings may be eligible for PLP funding. Once rehabilitated, vacant buildings are rented to households that have incomes not exceeding five times the rent charged.

The program was established in 1978 to reverse the process of disinvestment in residential properties in New York City. Its goal has been to encourage owners to invest in their properties.

Borrowers must provide a minimum of 10 percent of the project's total cost as equity. Acquisition or refinancing costs can be included in the loan up to the amount of an independent as-is appraisal of the property or $10,000 per unit, whichever is less. However, the majority of the funds must be used for rehabilitation.

The city normally provides J-51 tax abatements and exemptions in conjunction with PLP loans.

Upon completion of rehabilitation, all apartments become part of the city's rent-stabilization system, which limits the amount of rent increases. Under the present city administration, rents of vacant apartments are set according to prevailing market levels in different neighborhoods.

Borrowers obtain a commitment for construction and permanent financing from HPD and a participating lender. The scope of work and construction costs must meet guidelines agreed to by HPD and the lender. When renovation is completed, the construction loan is converted to permanent financing. The loans are then serviced on behalf of both lenders by the participating bank.

HPD has developed a joint application process with several lenders, including the Community Preservation Corporation, Chase Community Development Corporation, and Dime Savings Bank.

The program was originally funded with about $3.5 million in Community Development Block Grant funds. The PLP's budget rose incrementally and reached about $17 million by 1980. In the mid-1980s, city general-obligation bonds began to be used as a funding source for PLP after the federal government placed some restrictions on the use of CDBG funds. Since that time, different federal and state programs, including a state weatherization program, have been used to help fund PLP loans. Currently, about two-thirds of the budget is funded by city general-obligation bonds, while one-third is funded with HOME funds.

Track Record

From PLP's inception to April 2001, 674 PLP loans were made for the rehabilitation of 44,000 units. The 44,000 include about 10,000 units in previously vacant properties.

The cumulative default rate is 1.25 percent. HPD officials believe that the default and delinquency experience has been better than satisfactory in light of the fact that PLP loans are riskier than typical private mortgage financing. The city's flexibility and willingness to restructure PLP loans when necessary account in large part for the better-than-satisfactory performance.

Construction costs have averaged about $20,000 per unit for moderate rehabilitation and have ranged from $50,000 to $80,000 per unit for extensive rehabilitation. PLP will fund up to 65 percent of project costs incurred by for-profit owners and 75 percent of those incurred by nonprofit owners.

HPD's budget includes a PLP set-aside that averages $25 million a year. This amount includes some federal HOME funds. Annual costs to operate the PLP average about $375,000. Six full-time and three part-time employees work on the PLP.

When the program started in 1978, lenders were reluctant to make rehabilitation loans in many neighborhoods of the city. Some 34,000 occupied units have been rehabilitated in such neighborhoods as Washington Heights, Harlem, and Crown Heights, converting marginal neighborhoods to prosperous, desirable ones. The PLP has played an important role in revitalizing thousands of units in the city. At the same time, a strong real-estate market has helped the financial viability of many PLP-financed buildings. Also, lenders have become more comfortable with multifamily-rehabilitation lending in the course of working with HPD and CPC.

Recommendations For Replication

An essential element in a PLP-like program is a group of lenders who are willing to work with the program and the public agencies involved. The Community Preservation Corporation has complemented PLP goals and policies very well.

It is important to be aware of the need for real estate tax abatements and exemptions in trying to make the bank portion of a rehabilitation loan feasible. A program such as PLP would be more expensive to HPD if tax abatements and exemptions were unavailable.

A mechanism to keep rents affordable may be needed in conjunction with a program such as PLP. This is especially true in moderate- and middle-income communities in which the market will not necessarily keep rents low.

A program similar to PLP could be funded by state sources such as a housing trust fund or federal programs such as the HOME program.

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New York City 8-A Loan Program

ORGANIZATION – New York City Department of Housing Preservation and Development (HPD)

PROGRAM TYPE – Subsidy Program

Program Description

The 8-A program provides loans to upgrade deteriorated building systems and to improve and prolong the useful life of multifamily properties. The program was authorized in 1974 under Article 8-A of the Private Housing Finance Law of the State of New York.

The program, which is funded by city of New York taxes, provides loans up to $25,000 per apartment at 3 percent interest for up to 30 years. Loans may not be used to finance acquisitions, taxes, liens, or refinancings.

Applicants must own, or must have a purchase contract for, the buildings for which they are seeking financing. Applicants must also demonstrate an inability to obtain private financing because of the buildings' age, income, location, or other factors.

Eligible buildings must have a certificate of occupancy and at least three units and must be occupied and rent-stabilized or -controlled or receive assistance through a government-housing program. Loans are available only for buildings occupied by low-income tenants — an eligibility standard that is met by determining buildings' average rent.

Projects financed by 8-A loans qualify for real estate tax abatements and exemptions through New York City's J-51 Tax Abatement/Exemption Program. The tax relief, in conjunction with post-rehabilitation rent increases, helps owners to improve cash flow and debt-service coverage on the building. Tenants, in turn, may apply to the Section 8 Rent Subsidy Program to obtain assistance to pay post-rehabilitation rents.

The required debt-service coverage ratio generally is 1.25 for most projects and 1.05 for government-assisted buildings. Loans may fund some soft costs, such as architects' fees, related to the rehabilitation.

Banks occasionally provide financing jointly with the 8-A program on projects that exceed the program's maximum loan amount. HPD may take a second position behind banks and other institutional lenders; otherwise, it is in first position.

Track Record

HPD has made over $300 million in 8-A loans since the program's inception. The loans have been used for the rehabilitation of some 103,000 units in over 3,000 buildings. The default rate has been less than 0.5 of 1 percent.

The program has enabled owners to replace obsolete building systems and has helped preserve an extensive number of housing units occupied by low-income tenants.

Recommendations For Replication

The 8-A loan program's mission is to preserve and extend the useful life of affordable-housing units. A strong commitment by the owner to manage properties well and a cooperative owner-tenant relationship are necessary to achieve this goal.

Owners are required to notify their tenants about plans to rehabilitate major building systems before receiving an 8-A loan commitment. This requirement contributes to responsible management and solicits meaningful and constructive comments from the tenants. In addition, 8-A loan project managers must perform field inspections, which include random on-premise surveys of tenants. These requirements have helped make the program successful.

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Tax-Increment Financing Neighborhood Improvement Program, Chicago

ORGANIZATION – Community Investment Corporation (CIC)

PROGRAM TYPE – Subsidy; Tax-Increment Financing (TIF)

Program Description

TIF allows local governmental authorities to borrow against expected increases in tax revenues. TIF enables these authorities to tap future revenue streams for 20 years or more without raising local property taxes in the interim. The revenues are available in the short term, rather than gradually year-by-year, and therefore can spur significant development in a short time.

TIF bonds fund public improvements or development subsidies, which result in increased property values and tax revenues. TIF has typically been used to stimulate private investment in large commercial- and industrial-development projects located in distressed geographic areas.

A baseline assessment of properties' value is set in TIF districts, and the annual tax revenues of taxing authorities (including school and park districts) are frozen at that base assessment level during the life of the districts while increases in tax revenues are used for designated TIF projects. For example, in 2000 a local governmental authority participating in a TIF might have taxing authority on properties that have assessed valuations of $100 million with tax revenues of $15 million. In 2001, as a result of public improvements made possible by the TIF, assessed valuations may have increased to $110 million, generating taxes of $16.5 million. The local governmental authority would continue to receive tax revenues of $15 million in 2001 while the $1.5 million increase would go to TIF projects. The authority would continue to receive annual tax revenues of $15 million for the duration of the TIF.

Since 1977, Illinois law has authorized cities and towns in that state to create TIFs for 23-year periods in areas that are blighted or in danger of becoming blighted. Typically, interested municipalities have hired a consultant to conduct an eligibility study and develop a redevelopment plan and project budget. The municipalities often have held community meetings and, sometimes, public hearings about proposed TIFs.

More than 400 TIF districts have been established in Illinois, including 69 in Chicago. Chicago's TIFs and the resulting public improvements have been catalysts in redeveloping the city's distressed areas and have contributed to the city's strong economic growth. They have also been somewhat controversial, with concerns about the long-term impact on taxing agencies in the TIF districts and potential displacement of low-income residents.

Chicago's TIFs have generated thousands of units of affordable rental housing. The city's initial residential TIF district was designated in 1994 and helped develop 96 units of affordable housing in the South Side neighborhood. Soon after, the city created the Bryn Mawr-Broadway and Edgewater TIF districts, which included a residential TIF to spur development of two hotels that were abandoned and scheduled for demolition.

In a creative offshoot of the TIFs, the city of Chicago's Department of Housing established a Neighborhood Improvement Program (NIP) in 1999 when the city's Department of Planning created the Woodlawn and Bronzeville TIFs. The NIP provides grants to owners of single-family and multifamily properties for exterior and other improvements.

The grants were funded through a partnership involving the Chicago office of the Local Initiatives Support Corporation (LISC), financial institutions, and the city of Chicago. Seven financial institutions and an insurance company provided loans

totaling $2 million to the Chicago office of LISC, which in turn provided the city with a $2 million loan. The city used the loan to make NIP grants available to multifamily owners through the CIC and to single-family owners through Neighborhood Housing Services of Chicago (NHSC).

The NIP is unique in that it uses TIF future revenues to assist present single-family and multifamily owners to make improvements by using some of the revenues from future tax payments they will make. This group of property owners often pays the cost of increased property taxes without any direct benefit.

Eligible for NIP grants are:

- Owners of multifamily properties of five or more units serving individuals and families who earn no more than 80 percent of the Chicago metropolitan area median income. Rents must not exceed 30 percent of residents' incomes for five years after grants are received. Applicants must have no unpaid water bills, parking tickets, or other debts to the city of Chicago.

- Owners of owner-occupied single-family and one- to four-unit buildings who earn 120 percent or less of the Chicago metropolitan area median income. Applicants must own their properties for at least three years and have no unpaid parking tickets or fines owed to the city.

Multifamily owners are eligible for NIP grants of up to $5,000 per unit with a maximum of $50,000. The grants must fund exterior improvements, including roofs, windows, entryways, porches, siding, and masonry. The multifamily owners must match the city grant from their own resources or a bank loan. Matching funds can be used for a wide range of rehabilitation-related activities.

Track Record

The city of Chicago awarded CIC $400,000 for multifamily-property owners in the Woodlawn TIF and $100,000 for multifamily-property owners in the Bronzeville TIF for the period 1999 to 2002. In Woodlawn, CIC has made nine grants totaling $339,098 – $2,779 per unit – for improvements to 122 units. The units were in multifamily properties ranging in size from six to 24 units. In Bronzeville, CIC has made one grant totaling $13,056 – $1,632 per unit – for improvements to an eight-unit building. Of CIC's nine grants, six were accompanied by CIC loans.

During the same three-year period, NHSC provided single-family-property owners in the two neighborhoods with grants totaling about $1.5 million.

The NIP has enabled small-property owners to make significant exterior improvements, which have increased the value of their properties. The NIP grants counterbalance tax increases that have resulted from TIF-funded public improvements.

Recommendations For Replication

The NIP is flexible and easily accessible. Owners can certify unit eligibility simply by providing a list of the rents paid by tenants in their buildings, instead of having to verify tenant incomes as commonly required by federally funded programs. It motivates owners to improve their properties by sharing the costs with them. Those seeking to replicate the NIP will want to retain its features of flexibility and accessibility.

CIC has found that the NIP is a very good program through which municipalities can use small, rather than deep, subsidies to promote rehabilitation and help keep rents affordable.

TIFs can be an effective tool to fund near-term major public-infrastructure improvements by tapping future increases in tax revenues. However, participating governmental authorities will have static tax revenues for 20 years or more and could encounter financial difficulties, for example, in paying for public employees' salary increases. Municipalities establishing TIF districts for housing purposes will want to carefully assess housing needs before determining program guidelines.

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U.S. Department of Housing and Urban Development (HUD) Section 312 Rehabilitation Loan Program

ORGANIZATION – U.S. Department of Housing and Urban Development

PROGRAM TYPE – Subsidy Program

Program Description

Note: *The HUD Section 312 Rehabilitation Loan Program was an important subsidy tool in rental-housing rehabilitation for more than 25 years. Although this program ended in the early 1990s, some elements of the program could be adapted for a state or city rehabilitation program. For this reason, a fact sheet on the Section 312 program is included in this report.*

Section 312(b) of the Housing Act of 1964 authorized HUD to make loans to investor-owners for rehabilitation of single-family, multifamily, mixed-use, congregate housing, and single-room occupancy properties in federally aided Community Development Block Grant and urban homesteading areas identified by local governments. Owner-occupants of one- to four-family properties also were eligible. The program was designed to eliminate and prevent the development of slums and blight and to encourage localities and property owners to upgrade and preserve private properties.

The program was carried out largely as a cooperative venture between the federal government, which provided the loan funds, and local processing agencies (LPAs), which were designated by local governments to operate the program. LPAs assisted borrowers to prepare applications, screened applications, performed underwriting and creditworthiness analysis, reviewed cost estimates and conducted inspections, coordinated the loan settlement and disbursement process, and generally supervised the program at the local level. Local governments that chose not to manage the program locally submitted Section 312 applications to the regional HUD office.

Repayments of Section 312 loans, along with appropriations and other income, formed a revolving fund from which new Section 312 loans were made. The program was used for moderate as well as extensive rehabilitation.

The interest rate was based on the yield of U.S. Treasury securities, except for nonprofit corporations, which qualified for a 3.25 percent rate. Nonprofit corporations were required to work with experienced general contractors to complete rehabilitation projects.

The maximum loan amount for a Section 312 loan on a single-family or multifamily building was $33,500 per unit. The maximum LTV was 90 percent. In multifamily properties, net operating income had to be at least 110 percent of total debt service. The term of a Section 312 rehabilitation loan could not exceed 20 years or 75 percent of the remaining useful life of the property, whichever was less.

Track Record

Not Available

Recommendations For Replication

A former official of the city of Reading, PA who packaged three Section 312 multifamily loans observed that the program was useful for rehabilitating properties occupied by tenants who had incomes between 80 percent and 95 percent of area median income. It provided valuable gap financing for older housing stock in relatively stable neighborhoods, he added. He noted that Section 312's revolving loan feature limited the amount of federal expenditures that were required. He commented that state bonds could fund rehabilitation loans that would be packaged for sale on the secondary market. A lesson learned, he said, is that paperwork should be minimized so that such a program may be used easily by the borrower.

Community Investment Corporation (CIC) Property Management Training Program (PMTP), Chicago

ORGANIZATION – Community Investment Corporation

PROGRAM TYPE – Technical Assistance (Property Management)

Program Description

CIC provides financing and technical assistance to owners of multifamily buildings in Chicago and the surrounding area. It has provided financing totaling $522 million since 1984 for the rehabilitation of 27,000 units that are primarily located in low- and moderate-income census tracts in Chicago and the surrounding suburbs. Most of the buildings financed are 70 to 80 years old. Its investors primarily consist of about 40 Chicago-area banks.

The PMTP is designed to inform owners about how they can better market, manage, and maintain their rental properties. The program, which seeks to build owners' capacity in property-management and business practices, features a 12-hour course taken during four evenings. The course covers such topics as marketing, tenant selection, leasing, rent collection, nuisance abatement, evictions, accounting and budgeting, maintenance, utilities, insurance, fair housing, taxes, the Section 8 Rental-Assistance Program, and landlord-tenant ordinances.

The PMTP was established in 1998 for part-time property owners who lacked the knowledge and experience to undertake needed rehabilitation. Prior to 1998, assistance was provided by the Property Management Resource Center, a nonprofit that no longer exists.

Because of the PMTP's popularity, CIC expanded the number of times that the PMTP will be offered from 15 in 2000 to 24 in 2001. The subsidized cost of the workshops is $85, but those referred by CIC, its investors, or community organizations may register for $35.

Individuals who have recently bought properties for the first time or are thinking of doing so have been a prime market for the PMTP. CIC requires that inexperienced owners who are seeking CIC financing for properties of six or more units must take the PMTP. Many owners who take the PMTP develop a long-term relationship with CIC and obtain CIC financing for their properties. Owners often learn about the PMTP by word-of-mouth. The city of Chicago also informs owners about the course.

CIC is also offering 14 one-evening programs in 2001 on topics such as energy conservation, landscape design, acquisition and rehabilitation, exterior-façade inspections and maintenance, insurance, and property-management accounting. It began offering single-evening programs in 1999.

The PMTP has annual operating expenses of about $185,000. The program is currently funded by grants from eight banks and other institutions as well as $60,000 in Community Development Block Grant funds allocated by the city of Chicago. PMTP's staff consists of one full-time person (Larry McCarthy) and two part-time assistants.

The main workbook used in the PMTP is the *Residential Property Management Procedures Manual.* The manual can be downloaded from CIC's web site: www.cicchicago.com. It was written by Larry McCarthy, PMTP director, who prior to joining CIC was president of RESCORP Realty and managed more than 4,000 rental units in the Chicago area.

CIC has also produced *The Rehab Checklist*, which helps an owner evaluate a building's condition, determine the scope of work needed, and estimate the cost of rehabilitation. This publication, which is available in English and Spanish, is included in loan-application packages sent to prospective borrowers.

CIC provides some technical assistance

separate from the PMTP and workshops. CIC's two construction specialists review plans and visit building sites before and during the release of CIC funds.

CIC also has a range of loan products and subsidies that it can offer to owners who may return to CIC for project financing after taking the PMTP. It provides flexible adjustable-rate and fixed-rate financing at about 0.125 to 0.25 of 1 percent below area banks' prevailing rates for 10- to 20-year terms. It also provides subsidies of up to $5,000 per unit and up to $50,000 per building (and up to $100,000 per single-room-occupancy building).

CIC's flex fund makes loans in excess of 80 percent of value in low-appraisal situations in which there is reasonable debt coverage, while its initiatives fund provides working-capital loans to contractors and loans to owners for emergency needs. CIC is a community development financial institution.

Track Record

The property-management workshops have provided training to more than 1,000 owners and managers of more than 6,000 apartments in the Chicago area. Many of the PMTP attendees purchased their first building after taking the workshop series. There has been strong interest in both the PMTP and the single-evening seminars. The 14 seminars held in 2000 were sold out.

About 250 individuals participated in the PTMP from October 2000 to March 2001.

Recommendations For Replication

In conducting the PMTP, CIC has learned: keep the information simple and brief! CIC identifies educational needs from the owners it serves and develops sessions on those themes.

Larry McCarthy, CIC vice president who oversees the PMTP, makes available educational materials and PowerPoint presentations to multifamily-industry leaders in other states who want to start programs similar to the PMTP. CIC makes copies of the Residential Property Management Procedures Manual available for its production cost of $7 per manual. CIC allows interested organizations to remove all references to CIC and insert their own material. CIC also provides copies upon request of The Rehab Checklist and is in the process of developing a publication on standard specifications typically required by contractors.

CIC believes that in many areas of the country there are viable opportunities for financial institutions to lend on multifamily properties, either individually or in a pooled-risk arrangement.

CIC's experience has been that owners need easily accessible, flexible funding to respond to emergency needs for their buildings. A fund providing small grants can be very cost-effective, on its own or in combination with loans, in meeting those needs. CIC provides $5,000 grants in combination with about one-quarter of its loans. CIC grants are not funded by government agencies and thus avoid the complex regulations and reporting requirements that accompany such funding.

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Consortium for Housing and Asset Management (CHAM)

ORGANIZATION – Consortium for Housing and Asset Management

PROGRAM TYPE – Technical Assistance (Property Management)

Program Description

CHAM, a nonprofit organization formed in 1997, is a collaborative effort of the Enterprise Foundation, the Local Initiatives Support Corporation, and the Neighborhood Reinvestment Corporation. CHAM has a mission of expanding the capacity of nonprofit community-based organizations to own and manage affordable housing.

CHAM has developed an asset-management course for property managers leading to certification as a nonprofit housing-management specialist. Although the course is oriented to nonprofit organizations, property managers from for-profit organizations have attended some past events and are welcome to attend future events.

Subjects covered in the CHAM course include development of policies, procedures, systems, a management plan, and financial aspects of property management. The course is offered two or three times a year at locations around the country. CHAM also has a national conference.

CHAM has produced the following publications: *Should We Accept That Property?; Making A Match; The Options of Property Management; and A Guide For The Management of Low-Income Housing Tax Credits.*

Track Record

About 300 individuals have attended the dozen CHAM courses that have been conducted.

Recommendations For Replication

Not Available

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Housing and Community Development Network of New Jersey Asset-Management Workshops

ORGANIZATION — Housing and Community Development Network of New Jersey

PROGRAM TYPE — Technical Assistance (Property Management)

Program Description

The Housing and Community Development Network of New Jersey is a statewide association of more than 250 nonprofit housing and community development corporations, individuals, and other organizations involved in creating affordable housing and economic-development opportunities for low- and moderate-income residents of the state.

The network's membership includes nearly 130 nonprofit organizations that own about 19,000 units — mostly in properties of five to 20 units. The staff and board members of these organizations need extensive training and technical assistance in multifamily-property management.

The network, in conjunction with the Local Initiatives Support Corporation's program in New Jersey, is organizing two-day asset-management workshops targeted to nonprofit organizations that own or that are considering ownership of multifamily properties.

The workshops are intended to provide an understanding of key asset-management principles and an introduction to best practices in multifamily-housing asset management. They cover such subjects as asset-management performance standards and reporting and monitoring, contracting for services rather than providing them internally, and maintenance planning and managing. The workshops are attended by board members, executive directors, and staff members of nonprofit members of the network.

In addition to organizing the workshops, the network has arranged for a consultant to meet with senior officials and board members of five nonprofit organizations to help them assess their multifamily operations and portfolios before they attend the workshops. The consultant, Enis Hartz, a certified property manager with Hartz and Associates of Exton, PA, plans to work with another five nonprofit organizations before the end of 2001. The network is seeking funding to expand this service.

The network is also involved in multifamily-housing issues through its public-policy and technical-assistance work. In addition, each year the network conducts a Housing Development Training Program, which provides training throughout the year on multifamily and single-family development.

The network plans to expand its provision of training and technical assistance. Early in 2002, it will begin to assess the status of a representative sample of multifamily units (about 30 percent to 50 percent of the 19,000 units) and their nonprofit owners. The assessment will include site visits, market analysis, and reviews of financial-performance data.

Track Record

The network held two asset-management workshops in September 2000 and January 2001 that were attended by about 50 individuals from 30 nonprofit members of the network. It held a third workshop in May 2001.

Recommendations For Replication

Training and technical assistance are needed on:

- Responsibilities of multifamily-asset managers;
- Strategies for management of scattered-site projects; and
- Best practices for tenant involvement in multifamily management.

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Neighborhood Reinvestment Corporation NeighborWorks® Multifamily Initiative

ORGANIZATION – Neighborhood Reinvestment Corporation (NRC) and the NeighborWorks® Network

PROGRAM TYPE – Technical Assistance (Property Management)

Program Description

NRC launched the NeighborWorks® Multifamily Initiative in 1999 with 18 multifamily providers in the NeighborWorks® Network of nonprofit community-based organizations around the country.

The initiative seeks to:

- Promote solid asset-management strategies to ensure long-term affordability and profitability of multifamily units, physical-plant excellence, and neighborhood renewal;
- Develop resident leadership and improve services to reduce the turnover of tenants, increase occupancy and collections, and enhance security; and
- Raise capital for real estate development and preservation, including predevelopment capital, equity, and mortgages.

The initiative is intended to help participating NeighborWorks® organizations to better analyze the strengths and weaknesses of their multifamily-property management and development.

Participating organizations generally begin their involvement in the initiative by focusing on asset-management strategies and work in later stages on resident-leadership services and real estate development. Participants sign a participation agreement with NRC, receive a site visit from an NRC Multifamily Practice Group staff member, and assign certain staff and board members to attend a five-day asset-management clinic. Participants then develop a plan of action to improve asset-management systems within 12 months after they attend the clinic. Participants work with consultants in a process designed to improve their asset-management practices.

NRC provides initiative-related training and services. An NRC consultant is assigned to each participant and the initiative's full-time asset-management specialist assists in identifying property-performance needs. NRC also provides $15,000 grants for asset-management improvements, such as hardware or software purchases.

Track Record

As of March 31, 2001, 43 nonprofit organizations were participating in the initial phase of the NeighborWorks® Multifamily Initiative. Six of the 43 are located in the Federal Reserve Bank of New York's District. They are Ithaca Neighborhood Housing Service, Ithaca, NY; Hudson River Housing, Inc., Poughkeepsie, NY; Mutual Housing Association of Greater Hartford; CT; Rural Opportunities, Inc., Rochester, NY; Steuben Churchpeople Against Poverty, Inc., Bath, NY; and Troy Rehabilitation Improvement Program, Troy, NY. None of the 43 are in the Federal Reserve Bank of Philadelphia's District.

The participants own or manage a wide range of multifamily properties totaling 20,000 units. The participants' portfolios range from 90 to 2,000 units and are located in urban and rural areas. Some are garden-apartment complexes while others are scattered-site developments. Most of the properties serve low- and moderate-income families, although some are targeted to older people and special-needs populations.

As of March 31, 2001, NRC had conducted three five-day asset-management clinics, and all participants are using as-

set-management software supplied by NRC. The system tracks seven important indicators of the health of multifamily properties: cash flow, operating expenses, debt-coverage ratio, collections loss, occupancy, turnover, and the average number of days that units are vacant.

NRC has also conducted two resident-leadership clinics, as well as classes that prepared multifamily residents for board of director involvement.

NRC has made grants totaling $4 million to 22 participating organizations to assist them in acquisition, rehabilitation, or new construction of over 2,600 units. Meanwhile, NRC provided initial capital of about $2 million and operating support for NeighborWorks® Capital Corporation, which is beginning to provide participants with pre-development and interim financing loans, typically at 7 percent to 8 percent, to speed their acquisition of properties for preservation. NeighborWorks® Capital Corporation, which became operational in the first quarter of 2001, is based in Cleveland.

Recommendations For Replication

The NeighborWorks® Multifamily Initiative requires a time-intensive commitment from the staff and boards of directors of participating NeighborWorks® organizations. Following 40 hours of training for a team of two staff and two board representatives, staff members commit an average of eight hours a month for initiative-related activities.

The initiative has resulted in valuable networking among participants, who have all gained sophistication on multifamily issues and learned from one another. Many participants have engaged in more detailed analysis of their properties after they began using asset-management software provided through the initiative. This has enabled them to reflect on the strengths and weaknesses of their multifamily programs.

An asset-management clinic would be a very useful service for any intermediary that wants to build capacity in property management among multifamily owners.

The initiative contains an incentive (grants) and a requirement (data submission). The data provide a benchmark for measuring performance and improvement in multifamily-portfolio management.

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California Property-Tax Exemption

NAME OF AGENCY – California State Board of Equalization (BOE)

PROGRAM TYPE – Property-Tax Exemption

Program Description

California provides an exemption from property taxes for low-income housing properties under Section 214, subdivisions (f) and (g), of the California Revenue and Taxation Code. Nonprofit organizations must qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code or under a section of the California Revenue and Taxation Code. The exemption for low-income housing is co-administered by the BOE and the county assessors in the 58 counties of California.

The property-tax exemption is available to low-income housing properties of nonprofit organizations and of limited partnerships in which the managing general partner is a qualified nonprofit organization. These properties are eligible for a 100 percent tax exemption if all the units are leased to qualified low-income tenants at the prescribed rents. Otherwise, a partial exemption is available for the portion of the property that serves low-income households.

Properties of nonprofit organizations and of limited partnerships may qualify for exemption under one of two criteria: the property acquired, rehabilitated, developed, or operated is financed with tax-exempt mortgage-revenue bonds, general-obligation bonds, or local, state or federal loans or grants; or the property owner receives federal low-income housing tax credits. In addition, the low-income housing properties of nonprofit organizations may also qualify for exemption if 90 percent or more of the occupants are low-income households with rents that do not exceed prescribed rent levels.

To obtain the exemption, the owner must provide documentation that the property is restricted to use for low-income housing and that the units designated for use as low-income housing are continuously occupied by low-income households at or below prescribed rent levels. Documentation for properties of limited partnerships can be provided in a recorded-deed restriction or, regulatory agreement with a public agency. Documentation for properties of nonprofit organizations can also be provided in another legal document specified by the BOE. The owner of a low-income housing property must certify that the funds that would have been necessary to pay property taxes are used to maintain the affordability of units occupied by low-income households.

Rent levels are prescribed by statute or by the terms of federal, state, or local financial assistance. Section 50053 of the California Health and Safety Code provides a formula for determining "affordable rent" for low-income households, which is based on area median income adjusted for family size appropriate for the unit. Section 50053 requires that rents not exceed 30 percent of the allowable maximum gross income of the household. (Allowable maximum gross income refers to income anticipated to be received by all adults in the household during a forthcoming 12-month period.)

Legislation effective January 1, 2000, deleted a provision that permitted low-income housing to qualify for a tax exemption when 20 percent or more of the occupants were low-income households. This provision, as set forth in Assembly Bill 1559 (Wiggins), was enacted after a nonprofit organization in Los Angeles learned that owners of substandard housing were receiving the tax exemption on the basis that the residents were low-income households.

The property-tax exemption does not include an exemption from special assessments for local improvements.

Track Record

Not Available

Recommendations For Replication

The BOE recommends using federal limits on the household income of low-income households and on the rents charged to such households. Annual filings for the property-tax exemption are also recommended for purposes of monitoring the property's use for rent to qualified low-income households at the prescribed rent levels.

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New York City J-51 Program

ORGANIZATION – New York City Department of Housing Preservation and Development (HPD)

PROGRAM TYPE – Property-Tax Abatement and/or Exemption

Program Description

The J-51 program provides abatements and/or exemptions from New York City property taxes to owners who perform rehabilitation work on multifamily buildings with three or more units. It provides real estate tax relief for a range of rehabilitative work, including major capital improvements (MCIs) and substantial and moderate rehabilitation of existing vacant or occupied multifamily buildings. Most projects are eligible to receive J-51 tax abatements as well as exemptions for the same work. A few one- and two-family buildings are eligible if they receive government assistance.

The program was originally enacted in 1955 to encourage landlords to upgrade cold-water flats by installing heat and hot-water systems and has since been expanded to provide benefits for most MCIs, certain repairs, and conversion of buildings to residential use. J-51 is the original name for what is now Section 11-243 of the Administrative Code of the City of New York. This section gives HPD the authority to promulgate program regulations and to administer the program.

A J-51 tax exemption temporarily exempts property from an increase in assessed value that would otherwise occur as a result of significant renovation work. (Projects involving the replacement of only one or two systems generally do not result in an increase in assessed value and therefore do not receive the tax-exemption benefit.) J-51 tax exemptions are usually provided for 14 years on the increase in assessed valuation resulting from improvements, alterations, or rehabilitation. The maximum exemption is 34 years in cases of government-assisted projects.

A J-51 tax abatement reduces existing taxes by a percentage of the cost of work performed. A property-tax abatement is based on the owner's claimed cost of improvements or the HPD-calculated certified reasonable cost, whichever is less. The abatement is generally used at 8 1/3 percent over 12 years. Abatements not used in the first 12 years can be carried forward for up to 20 years. The maximum abatement is 34 years for major conversion and extensive rehabilitation projects.

J-51 benefits are available for the following types of projects:

- MCIs to buildings containing three or more units, including rental properties, cooperatives, and condominiums (multiple dwellings), and buildings containing one or two units located above commercial storefronts;
- MCIs to buildings containing one or two units if the improvements are carried out with a government affordable-housing grant or loan program;
- MCIs for moderate rehabilitation of multiple dwellings provided that the work exceeds $2,500 per unit, the building is at least 60 percent occupied, the owner gives notice to tenants before the improvements begin, and the project includes at least one building-system replacement or improvement;
- Substantial rehabilitation to a building that previously was city-owned, provided that the project includes replacement of at least four building systems and is part of a government-housing program for low- and moderate-income households;
- Landmarks projects, with work performed within the specifications of a New York City Landmarks Preservation Commission permit;
- Conversion of nonresidential buildings to multiple dwellings;

- MCIs as part of the interim conversion of a building to a multiple dwelling that is registered with the Loft Board; and

- MCIs performed as part of the conversion of buildings used for transient or single-room occupancy to multiple dwellings used for permanent occupancy.

Track Record

From 1996 to 2000, J-51 abatements were awarded for improvements to 424,409 units. Data on J-51 exemptions during that period are not available.

Recommendations For Replication

Not Available

Contact Information

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