

THE VALUATION REPORT

A MONTHLY PUBLICATION ON THE LOW-INCOME HOUSING TAX CREDIT INDUSTRY

November 2004, Volume III, Issue XI, Published By Novogradac & Company LLP

Section 8 Program Issues and Their Impact on the LIHTC Market

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New cuts to the federal government's largest rental subsidy are leaving many tenants and local housing authorities struggling to find and provide housing for Section 8 voucher recipients. In addition, changes to this program could also have effects on other housing programs, including the low-income housing tax credit (LIHTC) program. Specifically, while the cuts in Section 8 vouchers could result in more tenant demand for LIHTC housing, it may diminish investor demand if the current, highly publicized problems with Section 8 cast doubt in investors' minds over the stability and soundness of federal housing programs in general.

The Section 8 program utilizes fair market rents (FMRs). The Department of Housing and Urban Development (HUD) defines FMRs as the amount of money that would cover an apartment's rent, including certain utilities, on 40 percent of the housing units in an area. Rents are determined for different bedroom sizes, and are adjusted each year to reflect the increase in rental costs. Section 8 voucher holders pay 30 percent of their income toward the FMR, and the voucher covers the rest.

However, earlier this year, the Bush administration attempted to convert the voucher program to a block grant. The block grant would have been re-named the "Flexible Voucher Program," in which housing authorities would be given regional block grants instead of their current allocation of a set number of vouchers. By reducing the number of voucher holders, the administration said its goal was to promote increased self-sufficiency and home ownership. In the end, despite failing to convert the Section 8 voucher program to a block-grant program, the administration chose to cap contributions to the program to match voucher costs in effect August 2003, adjusted for regional inflation.

HUD Notice 2004-7

In April, HUD released a notice saying that it would no

longer reimburse local housing authorities for Section 8 voucher funds based on current voucher costs. For example, a local housing authority provided a voucher for an apartment that rented for \$475 per month in August 2003, then in August 2004 after adjustments for 2004 utilities, inflation, and other rental increases, the apartment's new rent is \$500 per month. Under HUD Notice 2004-7, federal funding will be allocated only to subsidize the rent at \$475, not the actual \$500. The \$25 must be paid by the housing authority or tenant. Gaps between the 2004 rent and the 2003 subsidy are causing a shortfall in funding for housing agencies. Some estimates suggest these cuts will eliminate \$1 billion from the \$18 billion used to fund the Section 8 voucher program.

The shortfall from the readjustment to 2003 dollars has left many housing authorities without the means it had in previous years to provide the same level of support to voucher holders. To document the impact of this policy, The Center on Budget and Policy Priorities (CBPP), the National Low-Income Housing Coalition and the Council of Large Public Housing Authorities released information gathered from 190 state and local housing authorities in 35 states which summarizes the measures they are taking as a result of the shortfall.

Many agencies say they are reducing the amount of rent that a voucher will cover. As a result, the rent burden is transferred to the eligible families, which must supply the wherewithal to cover these rents by diverting money from other available funds. The elderly and disabled and others on a fixed income may be placed in an even more burdensome position — they may have to relocate, or face homelessness. (For more information on the CBPP report about the effects of HUD Notice 2004-7, please refer to the August 2004 *Property Compliance Report*.)

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2005 FMRs

Even though some monies were eventually allocated to assist with the cost of vouchers, a new concern has developed regarding HUD's annual readjustment formula for FMRs and how it may further damage the voucher program. The change in FMRs is the latest of several proposed cuts that will have a disproportionate effect on different regions in the United State. The new formula averages in higher rents in larger cities with those of suburban areas, which are usually lower in cost. FMRs are based on different bedroom types and are readjusted every year based on rental increases.

However, the 2005 FMR proposal concludes that fair market rents in certain regions like Las Vegas and Houston should increase 11 percent to 17 percent, rents in New England cities and New York City should drop by 21 percent to 27 percent. Some housing groups, such as National Low Income Housing Coalition, Center on Budget and Policy Priorities, and ACORN, argue that the cuts are going to Democratic states. Meanwhile, Republican states (e.g. Texas and Georgia) are gaining from the new formula. HUD denies that the new formula is based on political motives. (For more information on the 2005 FMRs, please see the November 2004 *Property Compliance Report*.)

Effect on LIHTC

These cuts will have a significant effect on the demand for low-income housing tax credit (LIHTC) properties. As fewer vouchers are circulated, demand for other forms of low-cost rental housing will increase. LIHTC properties that offer affordable options for households with low to moderate incomes will have an increased advantage as rental units in the private market become too expensive for tenants without rental subsidies.

Because voucher holders are highly rent burdened, LIHTC properties, especially those offering units at 30 percent of the area median income, will become extremely attractive to low-income households. LIHTC units in large urban areas that have received a decrease in FMRs based on the new formula may feel an increased demand for their lower rent units. Nonetheless, the rents at LIHTC properties will still leave many households rent overburdened.

Sen. Pat Murray, D-Wash., who sits on the Appropriations Committee charged with drafting the new budget has been outspoken about maintaining full Section 8 funding despite proposed cuts. Murray warned that the cuts to Section 8 are having a negative effect on the relationship between Section 8 landlords and public housing authorities. She further noted how "investors in the LIHTC program may view the current instability of federal policies as a red flag. This type of negative feedback cycle could have deep funding implications for housing poor and vulnerable populations around the state if investors start pulling out their contributions."

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ISSN 1541-2474

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Diminishing interest from investors, coupled with increased demand for low-income housing could mean a major push for existing LIHTC properties in many regions. The struggle to afford housing is not limited to an urban core of individuals. Across the nation, nearly 40 percent of individuals pay more than 30 percent of income toward rent. According to Kim Schaffer, of the National Low-Income Housing Coalition (NLIHC), the “housing wage” – defined by NLIHC as the hourly pay needed to afford the average cost of housing – has increased by 37 percent in the past five years. To afford an average two-bedroom apartment in Baltimore, Md., one would have to earn \$17.08 per hour. Wages have not increased at the same level as housing costs. In 2003, 25 percent of Baltimore households paid more than 50 percent of income toward rent, according to U.S. Census estimates.

The rise in housing costs coupled with reduced rent aid may make it difficult for existing tax credit properties. As LIHTC rents are lower than most market rents, many LIHTC properties in certain regions maintain a high proportion of voucher holders. Often, many of these LIHTC properties can have nearly 80 percent of their tenancy dependent on Section 8 vouchers. If fewer vouchers are available, LIHTC properties with a high percentage of voucher holders may face an increase in evictions and higher vacancies.

The ability of local housing authorities to provide assistance to the low- and moderate-income households is expected to remain strained as voucher funding for 2005 is expected to decrease even further from the large 2004 cuts. According to CBPP, next year’s funding will be \$1.6 billion dollars below what is needed to provide the same level of assistance as today’s services. By 2009, the shortfall could be \$4.6 billion annually. The ongoing deep cuts to Section 8 voucher program severely limit housing affordability for low- and moderate-income households, as well as the ability of local authorities to provide assistance to its rent overburdened community members. ❖

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