2011 Universal Application Location A Methodology

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

Occupancy rates at affordable housing developments may be impacted by a number of factors, including economic downturns; labor market softness; favorable conditions for renters to move into single family homes, either through homeownership with low mortgage interest rates or in the so-called shadow market of unsold condos and homes competing for renters; and over-supply of rental housing in a specific area. As conditions change, rental developments in an area may suffer lower occupancy rates and, therefore, lower operating incomes, possibly exposing the developments, as well as the Guarantee Program, to greater financial risk than originally projected. Florida has seen many of these factors negatively affect the physical occupancy of its rental developments, leaving many developments with occupancy rates of 80% or less and causing an unprecedented level of foreclosures of affordable multifamily developments.

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

Process for Developing Location A Areas

In 2003, Florida Housing worked with the Guarantee Program's financial advisor, credit underwriters, a market analyst familiar with affordable housing markets throughout the state, and local housing finance authorities to prepare an initial list of areas believed to be saturated with or nearing saturation of units targeted to 60 percent AMI households. We then invited comments from the public, including local governments, local housing finance authorities, developers, tax credit syndicators, bankers, investors and other stakeholders throughout the rule making process.

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

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

Occupancy rates for the most recent analysis are based on an average from December 2009 through May 2010, and all averages for areas including multiple developments are based on the number of units, not the average occupancy rate for each specific development.

The first final list was adopted as part of the 2003 Universal Application by Rule 67-48, Florida Administrative Code (F.A.C.), governing the SAIL, HOME Rental and Housing Credit programs, and Rule 67-21, F.A.C., governing the multifamily bond program.

In each annual cycle since then, Florida Housing has followed the same process which now includes physical occupancy data for properties in its portfolio, the additional number of units that have been awarded financing but are not yet built or fully leased,[1] and the demographic targeting of each development. This allows the Location A restrictions to be delineated not only by geography, but by demographic target as well. The final list of 2011 Set-Aside Location A areas will be adopted as part of the Universal Application by Rule 67-48, F.A.C., and Rule 67-21, F.A.C.

[1] Rents provide the bulk of operating income for affordable housing developments, and high occupancy rates provide more income than low rates (assuming rents are not lowered in order to persuade people to rent an apartment). Therefore, occupancy rates provide one measure of the financial health of a development or developments in a market. If most developments in a market have lower rates than other areas in the state, this suggests that there might be too many units available for the demand in that area (but other reasons, such as local industry loss, may also be a factor).