2009 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 or will be located and the effect each proposed development would have on existing affordable units in Florida Housing's portfolio. Through the ongoing monitoring process, Guarantee Program 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 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, low interest rates for homeownership, labor market softness 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.

In an effort to ensure that the state is not funding new rental developments near possibly vulnerable, existing, affordable developments, Florida Housing developed a method in 2003 to discourage applications in the Universal Cycle for units serving households at 60 percent of area median income (AMI) in areas that appear to be adequately supplied with rental housing already serving this income level. For these areas, known as Set-Aside Location A areas, Florida Housing promotes the development of rental housing serving households at or below 50 percent of AMI in order to minimize competition between the new developments and existing properties that are typically serving families with incomes at 60 percent AMI. Ideally, competition between properties will decrease as a different income stratum (i.e., one that excludes households earning above 50 percent of AMI) would be attracted to this newer housing.[1] For the 2009 cycle, Florida Housing will also require a portion of units awarded funding in Location A areas to be set aside for extremely low income households. Location A areas include specific parts of certain counties delineated by geographic areas such as roads, governmental borders and waterways.

The main benefit to the Guarantee Program and Florida Housing of delineating Location A areas is that it minimizes the construction of new, affordable housing units in areas where rental units are still in the process of being absorbed by the market. This procedure attempts to ensure that funding is targeted towards markets having an unmet demand for affordable units and that occupancy rates remain high, making operating incomes more stable, and ultimately ensuring 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

[1] In addition to protecting Florida Housing's portfolio, retargeting developments to serve households at lower incomes provides an important indirect benefit of assisting in meeting the housing need for these households.

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. The 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 carried out the following process. We solicit market information from local governments, local housing finance authorities, developers, tax credit syndicators, bankers, investors and other stakeholders. Comments from the public concerning proposed Location A areas are solicited as part of the Universal Cycle Rule Development process. Florida Housing reviews physical occupancy data for properties in its portfolio throughout the state as well as the additional number of units that have been awarded financing but are not yet built or fully leased.[2] The demographic targeting of each development has been incorporated into the analysis, allowing the Location A restrictions to be delineated not only by geography, but by demographic target as well. The final list of Location A areas is adopted as part of the Universal Application by Rule 67-48, F.A.C., and Rule 67-21, F.A.C.[3]

As Florida Housing evaluates occupancy data in this process, we use the following physical occupancy rate divisions to assist us in focusing 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 2007 through May 2008, and all averages for areas including multiple developments are based on the number of units, not the average occupancy rate for each specific development.

[2] 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).

[3] Florida Housing also carried out a similar analysis for the Rental Recovery Loan Program in 2005, limiting the analysis to only those counties that were priorities for long term recovery housing as identified by the Hurricane Housing Work Group.