LOUISIANA
Housing Corporation

DRAFT

Historic Floods of 2016
Rental Programs
4263 and 4277

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Background: Rent Stress in Louisiana

The standard measurement of rental unaffordability considers any household that spends more than 30 percent of its pre-tax income on housing as having an affordability problem. Housing is considered "affordable" to a household if the rent (including utilities) is no more than 30% of its pre-tax income. Households spending more than 30 percent are labeled "cost burdened" or "rent-stressed," and those spending more than 50 percent are labeled "severely cost burdened" or "severely rent-stressed - incomes between $20,000 and $35,000. [1]

In June 2014, The Louisiana Housing Corporation received the results of a Housing Needs Assessment (HNA) performed by the Public Administration Institute at Louisiana State University (LSU). The HNA has shown us that although every region is impacted by a host of housing issues that are compounded in some census tracts, the singular issue that impacts nearly every corner of the state is rental affordability. More than half of all Louisiana renters (53.1%) are rent-stressed – meaning that around 270,000 households spend more than 30% of their income on housing.

In a recent report released by the National Low Income Housing Coalition (NLIHC), in no state can a minimum wage worker afford a two-bedroom rental unit at the average fair market rent, working a standard 40-hour work week, without paying more than 30% of their income for housing. The minimum wage in Louisiana is $7.25 per hour; however a household must earn $15.81 per hour to avoid paying more than 30% of income on housing (and utilities) to afford a 2-bedroom unit at the fair market rent of $822 per month.[2]

Overview

The State of Louisiana will provide rental programs to address the immediate and long-term housing needs in the flood impacted areas for low-to-moderate income families. Due to the shortage of affordable housing stock, it is imperative to provide solutions to address immediate housing needs and provide alternative housing solutions for rental properties that are in need of long-term recovery.

The ability to deliver a variety of rental housing solutions is important. Each program will address availability, affordability and quality standards. Our goal is to ultimately serve the state's rent burdened population that have stemmed from the lack of housing needs available to low to moderate income tenants. By crafting a variety rental programs available to landlords and owners, the LHC will be able to meet the needs of our most impacted population and to quickly address the obvious need.

[1] http://www.lhc.la.gov/assets/RentStressinLouisianaHNAOctober2014.pdf
[2] http://nlihc.org/sites/default/files/oor/files/reports/state/OOR_2016_LA.pdf

As stated in the 2014 Housing Needs Assessment conducted by LSU; Louisiana residents are rent burdened. The floods of 2016 made the situation for our residents much worse. The vacancy rates dropped to about 1 percent and rents increased. Currently, 720 low-income families are in TSA which is set to end in December.

Our approach is to address the affordable rental housing needs through 3 activities.

1. Expand Availability of Affordable Rental Units
2. Repairing Rental Units
3. Creating New Rental Units

Expanding the availability of affordable rental housing will be accomplished through a Disaster CDBG rental incentive program. This program will provide immediate relief for renters that are being negatively impacted due to lack of affordable housing. Priority will be for elderly/disabled households and families with children. Families displaced or on TSA will also be a priority.

Repairing rental housing damaged will not be an immediate solution; however, the state has created options within the repair program that will enable some to be restored within a few months. Property owners will be able to receive Disaster CDBG funds as a loan to repair units and in exchange the state will require affordable rents for qualified families.

Creating new rental units is another viable approach to provide needed relief for renters located in the damaged parishes. This program will utilize lots already owned and controlled by local nonprofits and units of local government. Partnering with banks, local housing agencies such as redevelopment authorities and community housing development organizations, the state can assist with developing rental units within 9 months to a year.

Approach #1: EXPAND

Rental Incentive Program

LHC will solicit vacant units and/or units occupied by low-to moderate income families that are rent burdened. This option will use the current HOME Program Rent Limits to determine the maximum amount of rent to be charged to the renter. Participating landlords will receive a yearly rental incentive award based on the difference between the HOME Rent Limits and the published Fair Market Rents adjusted each year using HUD's Operating Cost Adjustment Factor (OCAF) for each unit.

A key factor of the program design is to stabilize the state's rental economy as the program comes to a close in two years. As the landlords approach the end of the compliance period and they become accustomed to participating in programs that are assisting our most vulnerable population they will have the option of extending their participation an additional one year.

Our most vulnerable population that has been recognized by the floods are the elderly, families at AMI levels of 60% and below who have leased since the floods, as well as families that were rent burdened prior to the floods whose 50% of their incomes were being paid toward housing.

In previous hurricanes, such as Katrina/Rita and Gustav/Ike, rental units experienced an increase in rates at an alarming pace. Rental Incentive approach is subject to submission and approval from HUD for a waiver addressing the elgibile activity. This approach will ensure market rents will not be artificially inflated. This will also lessen the pressure on those noted households that were rent burdened prior to the storms. Landlords will receive a monthly rent from the tenant at the HOME Rents. This award would subsidize the difference between the FMR and the HOME Rents. The award would be issued on a yearly basis after an approved HQS inspection.

LHC will use the Louisiana Housing Authority (LHA) to administer the rental assistance programs. The LHA service area is statewide and can utilize existing infrastructure to deliver the programs.

National Objective: LMI **Budget: $3,750,000** **Estimated HH Served: 515**

The program will use Housing Choice Voucher criteria:

- Tenant income verifications
- Unit inspections
- Housing Assistance Payment Contract
- Lease addendum

Owner Eligibility:
- Vacant or occupied units
- Units not currently subsidized
- Each unit must meet Housing Quality Standards (HQS)
- Previous tenant not displaced

Assistance Provided:
- $3,750,000 million will assist about 530 households.
- Landlords will receive the difference between the FMR, published annually, minus the HOME Program Rent Limits, however, in no event shall the landlord receive greater than the HOME program rent limits, regardless of the source.
- Payments will be calculated on a yearly basis using HUD's Operating Cost Adjustment Factor (OCAF)
- Payments are issued at lease renewal and after the unit(s) pass HQS inspection
- Other subsidies (including Section 8 vouchers) currently received by the landlord will be considered Duplication of Benefits and will be deducted from the award.
- Maintain affordability for 2 after initial lease, with a one year extension option
- Example of yearly Rental Incentive Calculation based on a single unit:

$1,145 - 3 Bedroom Fair Market Rent
X 1.8% (OCAF 2017)
$1,166 Adjusted Rent
-$863 Low HOME Program Rent
$303 Rental Assistance Monthly Value
X12 Annualized
$3,636.00 – Issued to Landlord

Advantages:

- Will stabilize the rental markets
- Program is immediate with no construction time needed
- Utilizing the existing available vacant units
- The state's most vulnerable and underserved will be priority
- Tenant is no longer rent burdened

Budget breakdown and determination for HH served.

$5,000,000 – total budget
$ 250,000 – 5% for Admin
$1,000,000 – 20% for PD
$3,750,000 total for budget

Determination of HH served
$3,636 x 2 = $7,272.00
$3,750,000 / $7,272.00 = 515

Approach #2: CREATE

In-fill Rental Development

The program will seek to identify vacant lots or existing structures in impacted parishes for rental housing development. Community housing partners such as units of local governments, housing authorities and nonprofit organizations have ownership of the properties but have limited financial resources necessary to initiate housing development. Properties must be owned free and clear. This program seeks to leverage resources, build capacity and bridge the gap between the state and community partners in an effort to create affordable rental units quickly. The program could be run at the state-level through an open application process.

The participation of local banks plays an important role in the process after the approval of the applicant and the review of the properties feasibility and viability. Applicants would utilize their lending institutions to acquire a construction loan. The construction loan would be used to pay for eligible expenses as described below. Lenders would oversee the construction process, and once the property has completed construction, the State would then payoff the construction loan, securing a first mortgage lien.

National Objective: LMI **Budget: $3,750,000** **Estimated units: 28**

- Use available existing lots held by:
  - Development Authorities
  - Nonprofits
  - CHDO's
  - Housing Authorities

- Max Award: the lessor of costs of construction or:
  - SFR: $150,000
  - Duplex: $250,000
  - Triplex: $315,000
  - Four-plex: $375,000
  - 5 units up to 8 units max on one contiguous lot: max award would be $500,000 or cost of construction whichever is less
  - Costs it covers: hard costs, soft costs, 1st year insurance premium, ERR
  - If property is located in a flood zone, then the recipient covers that costs. The State will not reimburse the ERR costs. We are <u>not</u> excluding the flood areas.
- Program specifics
  - 50% of the loan amount at 0% amortized for 30 years
  - 50% forgiven after 10 years.
  - With the applicants being public entities whose clients are the most vulnerable the unit(s) would likely remain affordable for the entire time.

- Housing Choice Vouchers will in accepted
- 1st payment deferred for 90 days
- Developer fee is limited to 3% of the loan amount.
- We are first mortgage. No second positions.
- Rental Projects would have a debt coverage ratio of not less than 1.10 and no more than 1.40 for the amortized portion of the loan.

- Advantages:
  - Construction oversight is at the lending institution level and not at State level
  - Banks can meet their CRA (Community Reinvestment Act) requirements
  - The applicants have a built in client list for the tenants we are trying to assist.
  - The State will close on the award after the property is built and a COO is provided
- Financial advantages
  - Remains affordable for 10 years
  - The program would generate Program Income which would then be reinvested back into the communities for additional infill housing development.
  - The investment is reviewed by the portion of loan that is forgiven versus the portion that is not forgiven. Initial investment is $150,000 for a single family residence. However, with 50% of the loan forgiven after 10 years, the initial cost per year is $7,500.

Budget breakdown and determination for HH served.

Based on Terrebonne's estimate for budget:
22 units at $3,000,000 = average cost per unit $136,000
$3,750,000 / $136,000 could result in 28 units

$5,000,000	total budget
$250,000	5% for Admin
$1,000,000	20% for PD
$3,750,000	Program budget

Approach #3: REPAIR

Multifamily Rental Gap Program

The flood recovery process not only includes the cost of repair, but also the high costs associated with insurance deductibles on multi-unit developments. The prediction of payouts on multi-family developments could result in gaps in the costs to repair and insurance rate increases. As a result, owners of large developments would have a financial burden in operation and cash flow.

National Objective: LMI **Budget: $7,500,000** **Estimated units: 450**

The program will address multi-unit developments in two categories:

- Properties in a flood zone
  - Had the required flood insurance
  - Award is based on the difference between the estimated cost of repair and the portion not covered by insurance
  - State funds the gap up to a maximum of $500,000
  - Funding is in the form of recourse loan.
  - Award would be subject to DOB
  - All other funding sources (including SBA) would be used prior to CDBG assistance
  - Owners would be required to sign a guaranty

- Properties not in a flood zone
  - Did not require flood insurance
  - State to fund the gap of the cost of repair up to $1,000,000
  - Funding is in the form of recourse loan.
  - Award would be subject to DOB
  - All other funding sources (including SBA) would be used prior to CDBG assistance
  - Owners would be required to sign a guaranty

- Compliance/Affordable for 15 years
- Vacant properties would be first priority.
- Rehabilitation, Reconstruction
- Vouchers would be allowed

Estimating units served can be a bit more difficult for this program due to the 2 different property characteristics.
Using the G/I ARP program as a guide for projections, averaging units, and awards,
The average number of units per development was 45.6 (730 / 16).
Average award in ARP $3MM expending a total of $49.5M resulted in 16 projects
Assuming maximum awards for each category for this program, the maximum average award would be $750,000.
$7,500,000 / $750,000 = 10 properties x 45 units = 450 projected units

$10,000,000	total budget
$500,000	5% for Admin
$2,000,000	20% for PD
$7,500,000	Program budget