THE SECTION 515 PROGRAM AND THE CHALLENGE OF PRESERVING AFFORDABLE HOUSING IN RURAL MINNESOTA

Based on research by Ryan Allen, Susan Bergmann and Max Geitz

January 2023

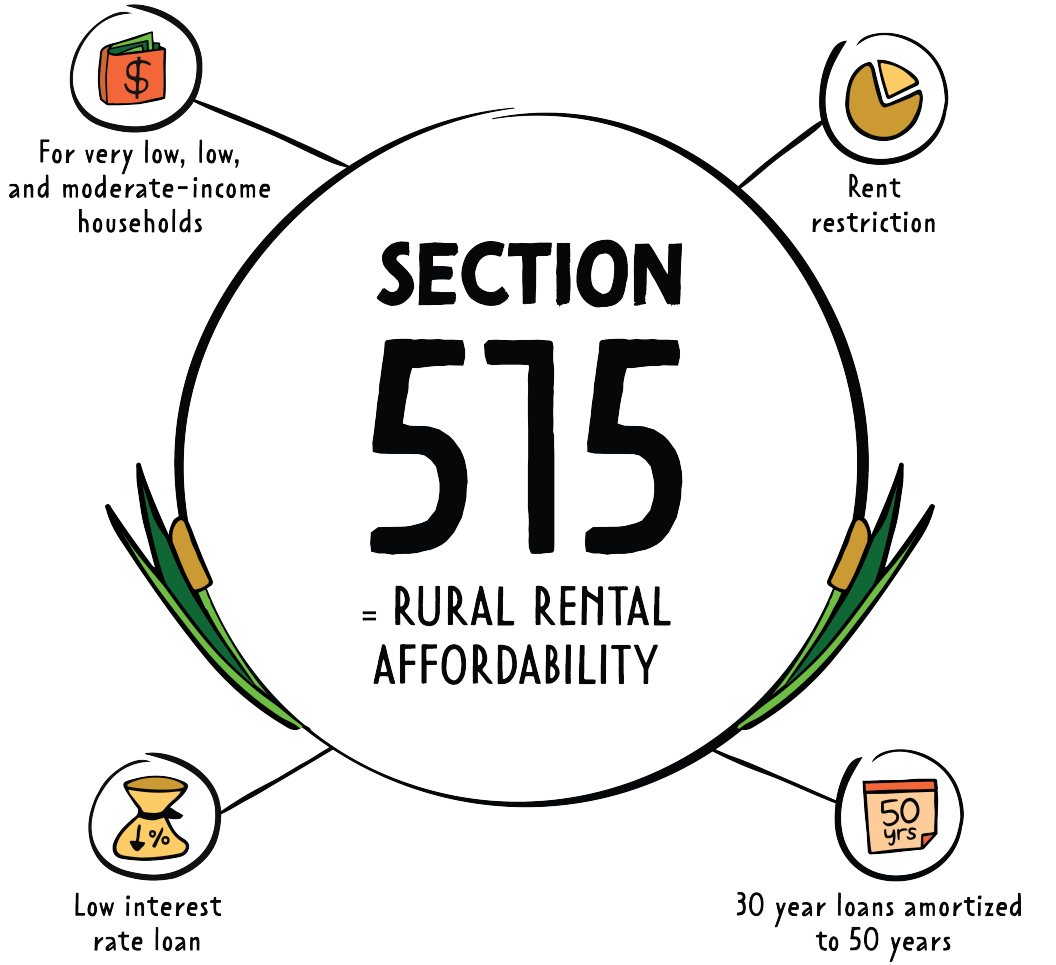
cura Center for Urban & Regional Affairs

mhp improving home & community

Housing Justice Center

What is the Section 515 program?

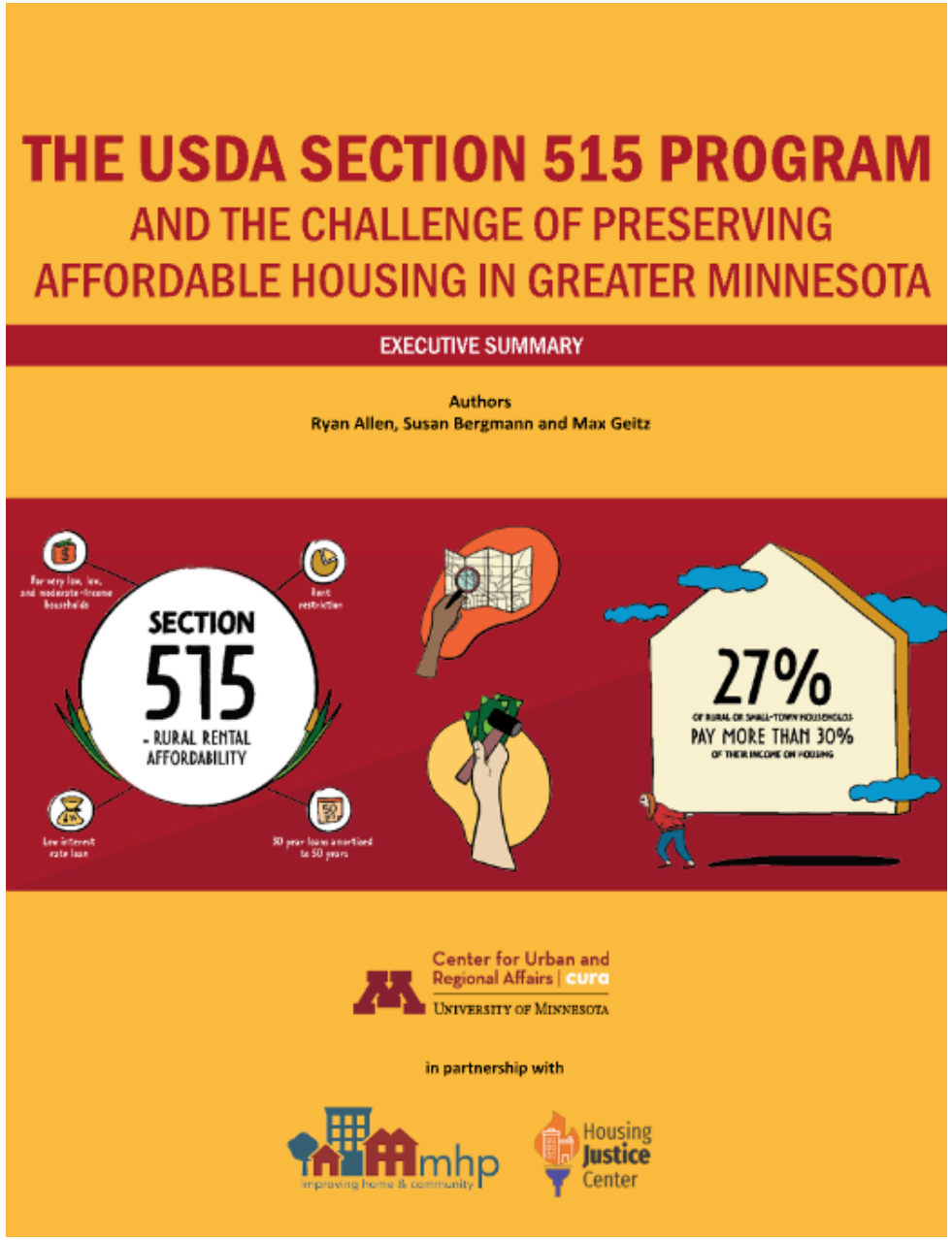
- **Senior Citizen Housing Act of 1962** authorizes USDA to make loans for rental housing in rural areas, amended in 1966 to expand program
- **550,000 units** of subsidized housing created since inception.



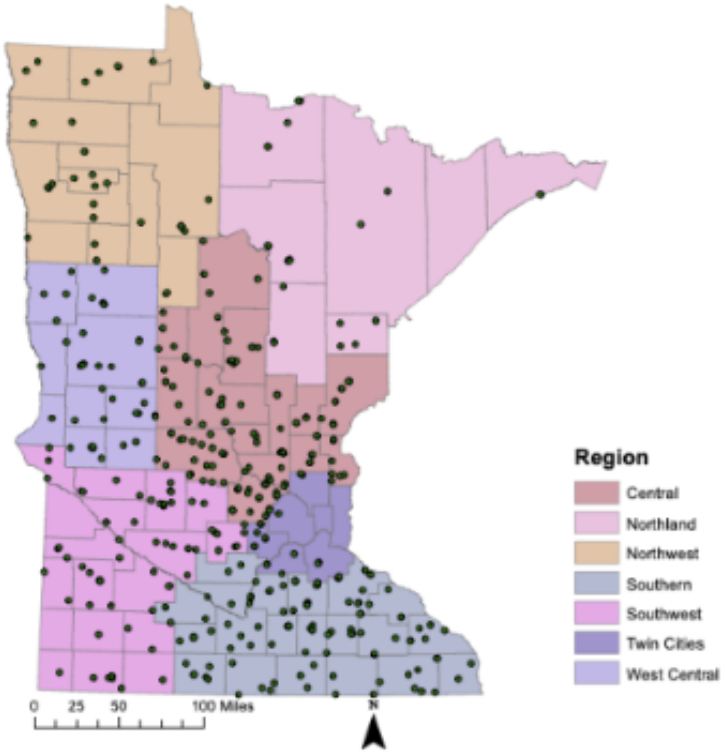
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Research approach …

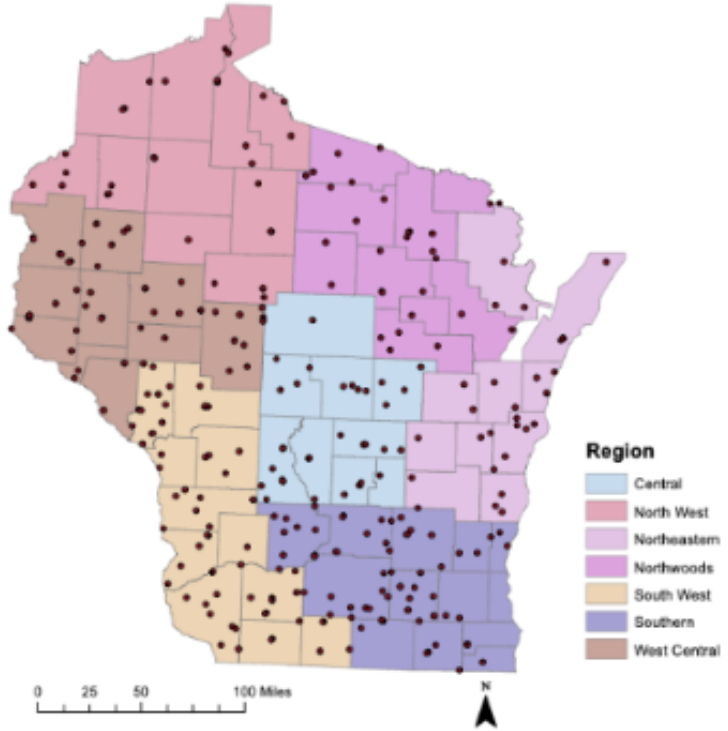
- Profile of 515 properties and residents
- Examine what works well and areas of improvement
- Examine motivations of owners
- Data from USDA RD and 30 interviews



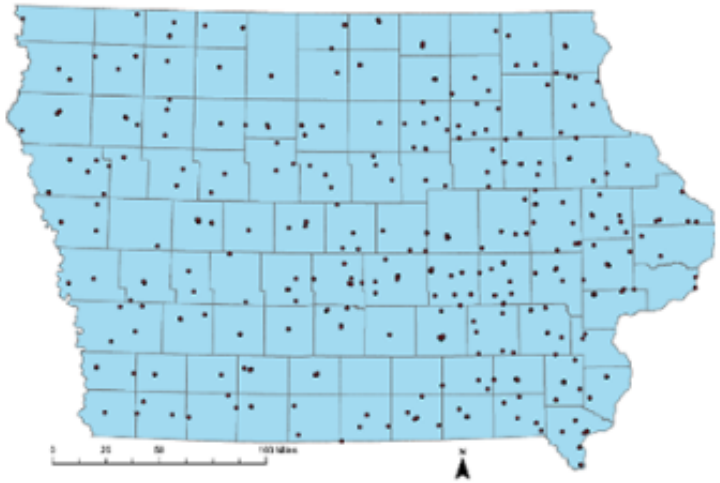
Map 1: Section 515 Properties - Minnesota



Map 2: Section 515 Properties - Wisconsin



Map 3: USDA Section 515 Properties - Iowa*



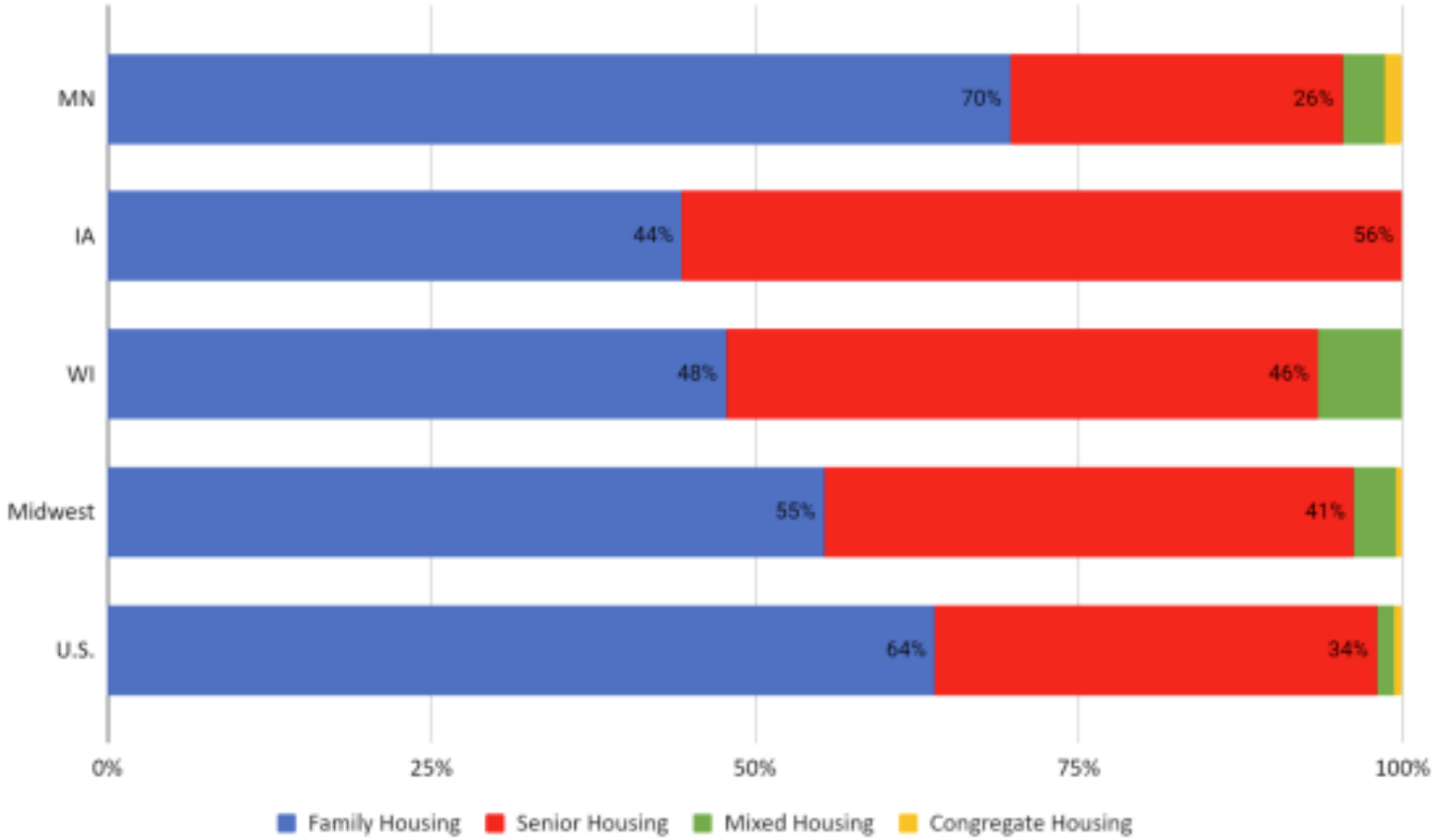
*Iowa does not have regions designated by their state housing authority.

Sources: Section 515 Properties: USDA Rural Development Datasets; Active Projects, 2020-07-17, (https://www.sc.egov.usda.gov/data/MFH_section_515.html)

MN, WI and IA Counties: US Census

MN Regions: Minnesota Housing Finance Authority, WI Regions: Wisconsin Department of Administration, Housing Regions

Figure 1: Proportion of Buildings by Property Designation



Source: USDA Rural Development Dataset; Active Projects, 2020-07-17 (https://www.sc.egov.usda.gov/data/MFH_section_515.html)

Figure 4: Proportion of Tenants by Age

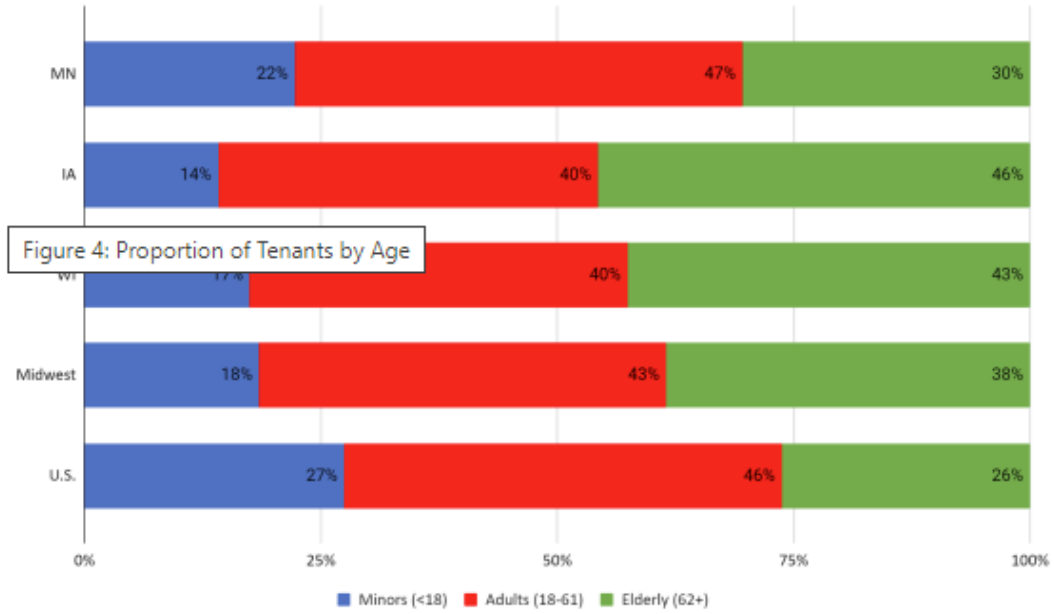


Figure 4: Proportion of Tenants by Age

Source: USDA Rural Development Dataset; Tenant Info, 2020-07-17 (https://www.sc.egov.usda.gov/data/MFH_section_515.html)

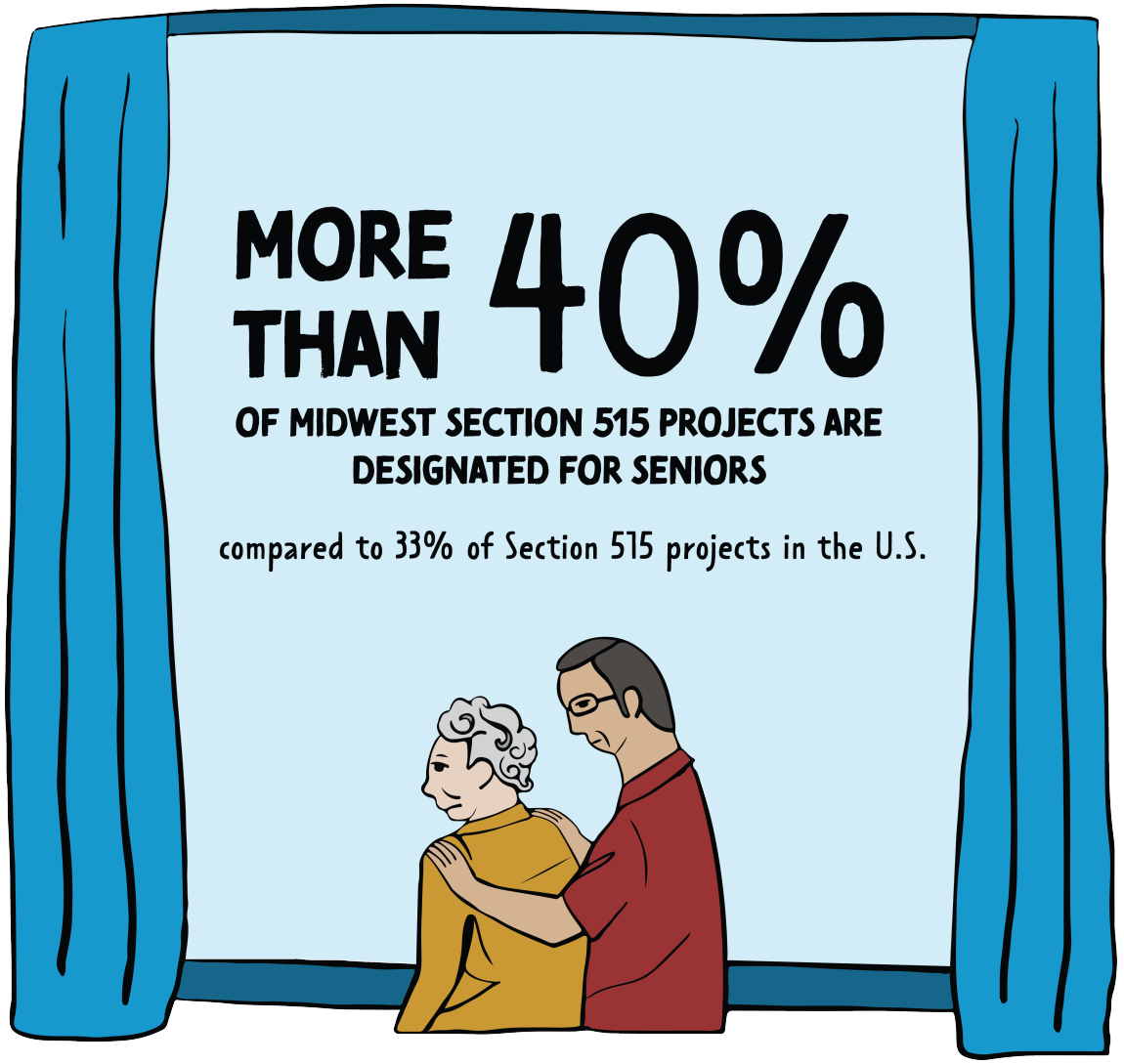
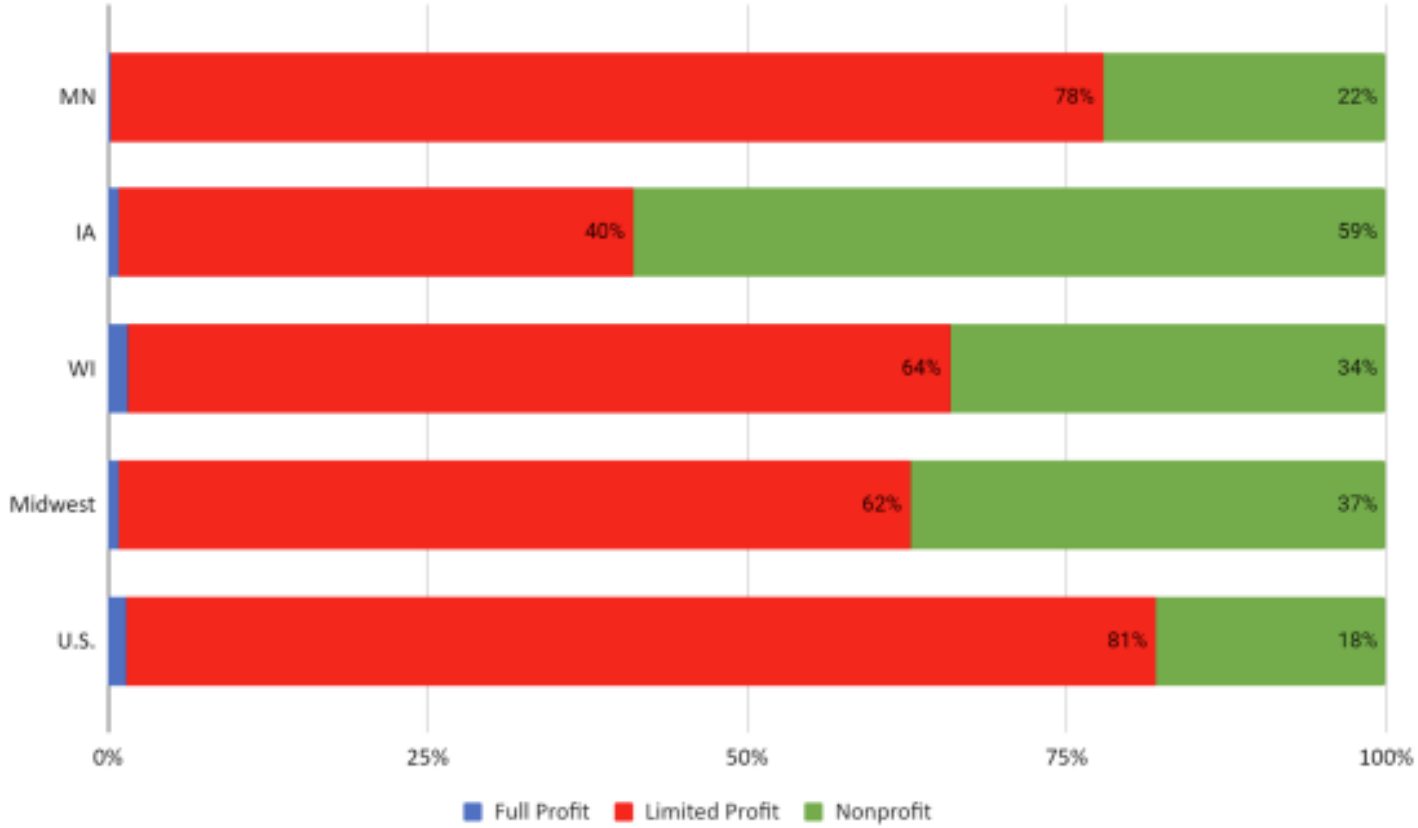


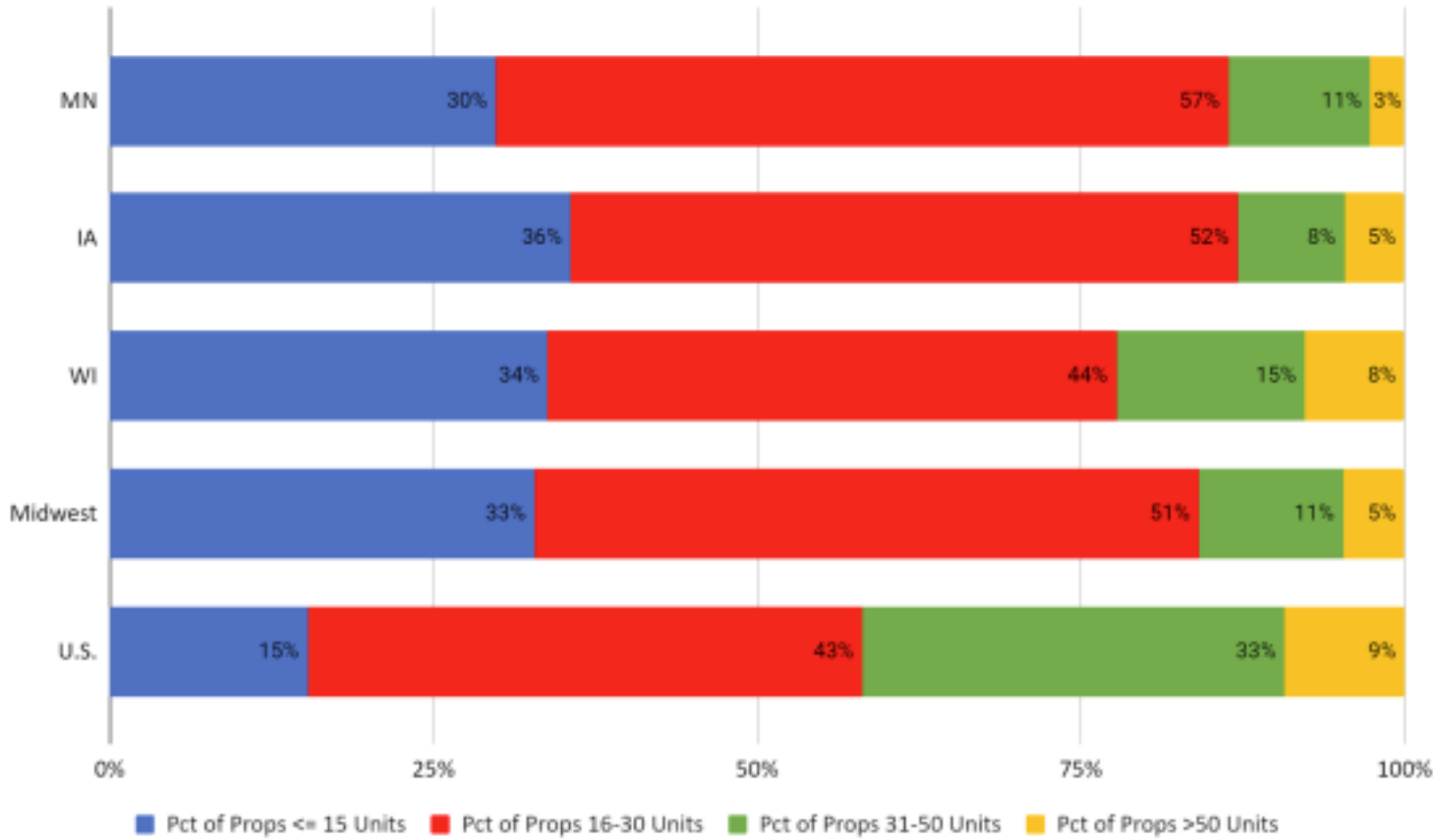
Figure 2: Section 515 Properties by Ownership Type*



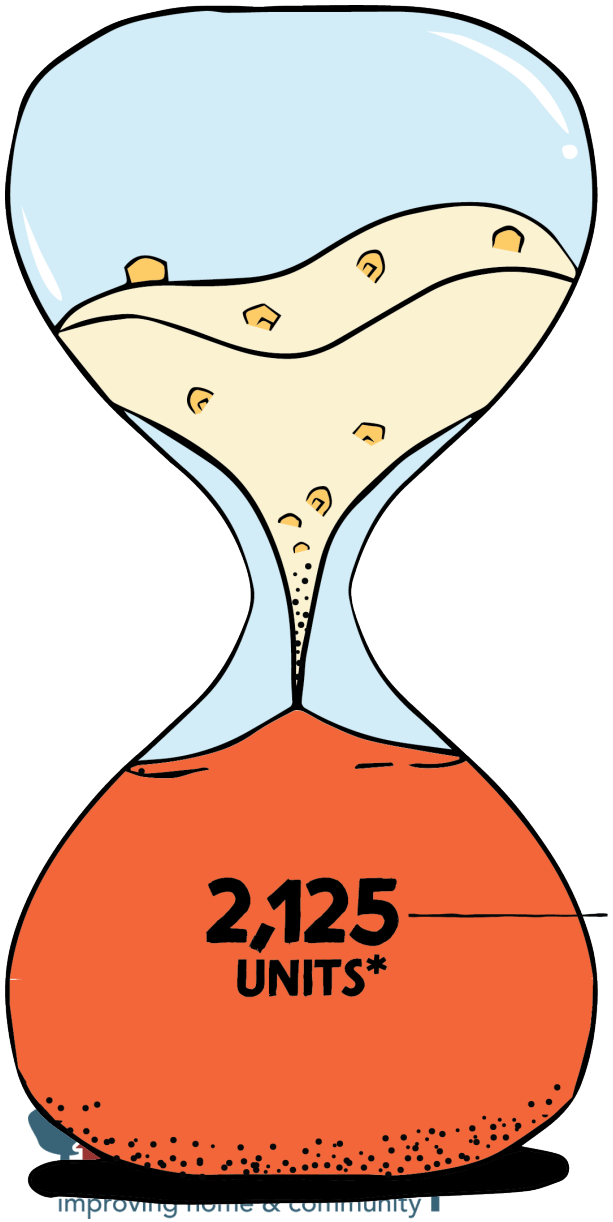
Note: * Numbers may not aggregate to 100% due to rounding

Source: USDA Rural Development Dataset; Active Projects, 2020-07-17 (https://www.sc.egov.usda.gov/data/MFH_section_515.html)

Figure 3: Section 515 Properties by Size



Source: USDA Rural Development Dataset; Active Projects, 2020-07-17 (https://www.sc.egov.usda.gov/data/MFH_section_515.html)



IN MN
2,125 UNITS
MAY LEAVE THE SECTION 515 PROGRAM BY 2030

MN SECTION 515 UNITS WITH MORTGAGES MATURING BETWEEN 2020 & 2030

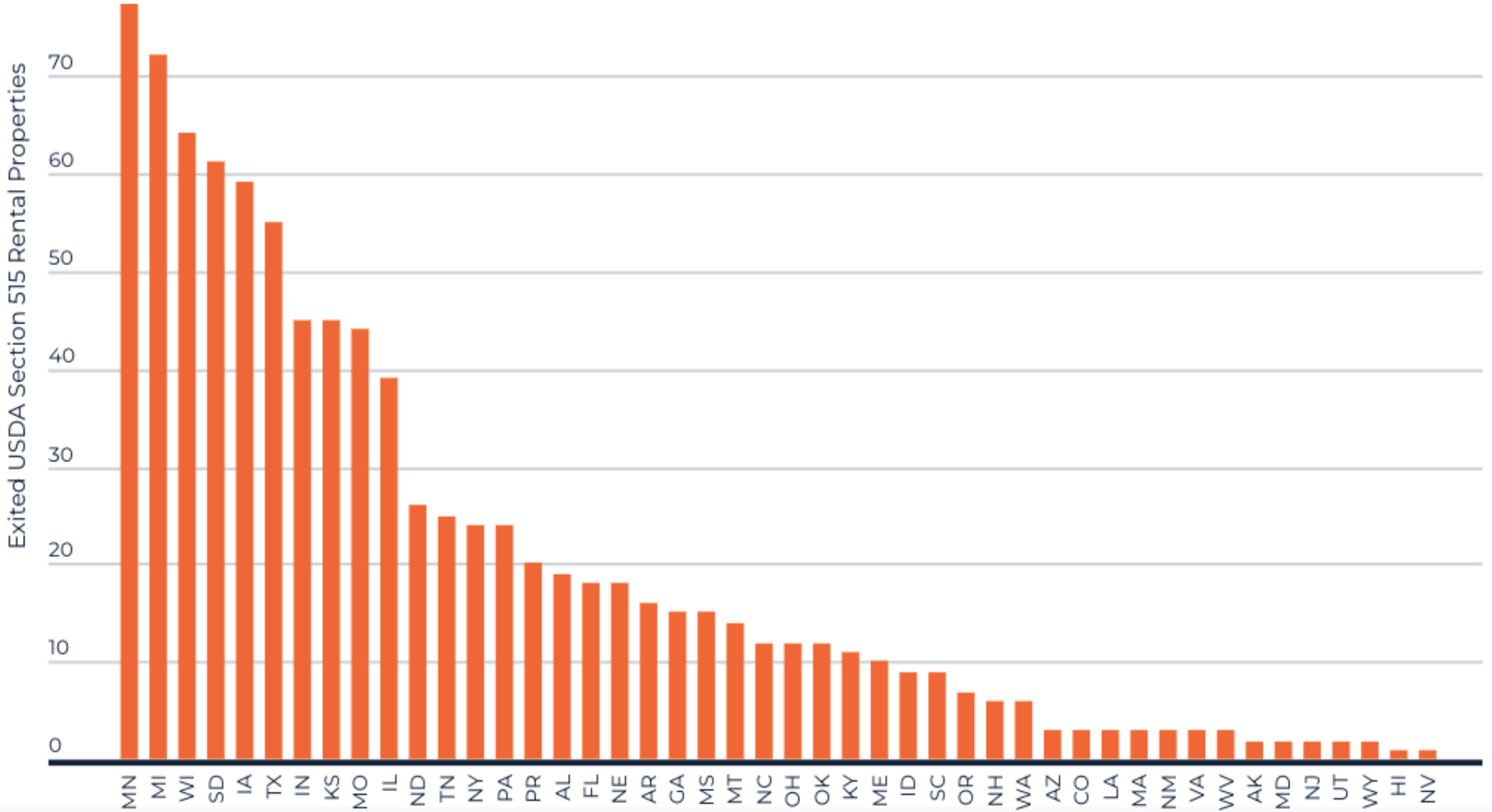
*equivalent to **22%** of MN Section 515 units in the program as of 2020

But section 515 doesn't create permanently affordable housing

Timeline of Section 515 Mortgage Maturations in Minnesota

https://umn.maps.arcgis.com/apps/webappviewer/index.html?id=70eb659e4e1b4dde8ab84a96f9f79f58

USDA Section 515 Property Exits by State 2016-21



HAC
Housing Assistance Council

Percentage of Affordable Units in 515 Program

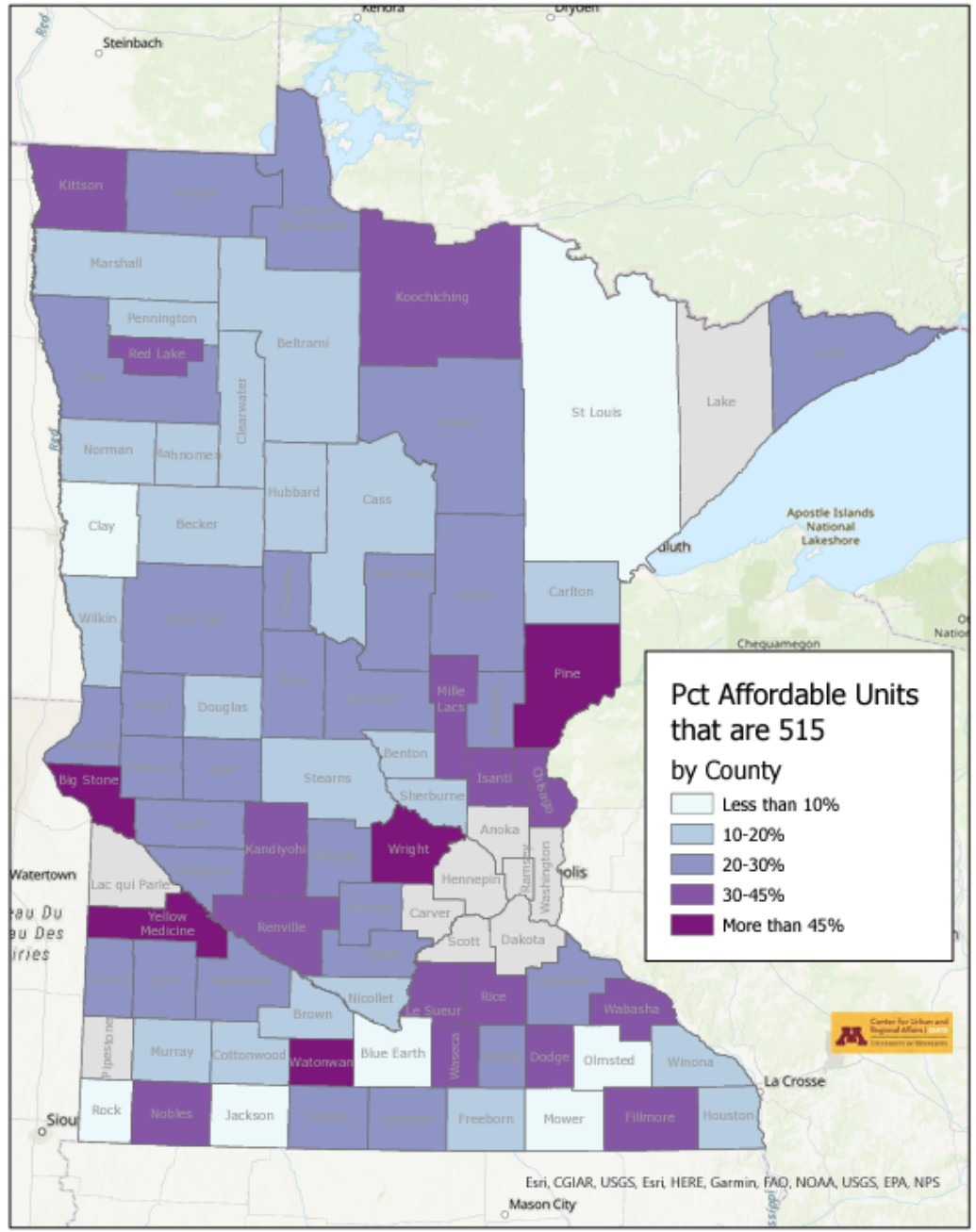
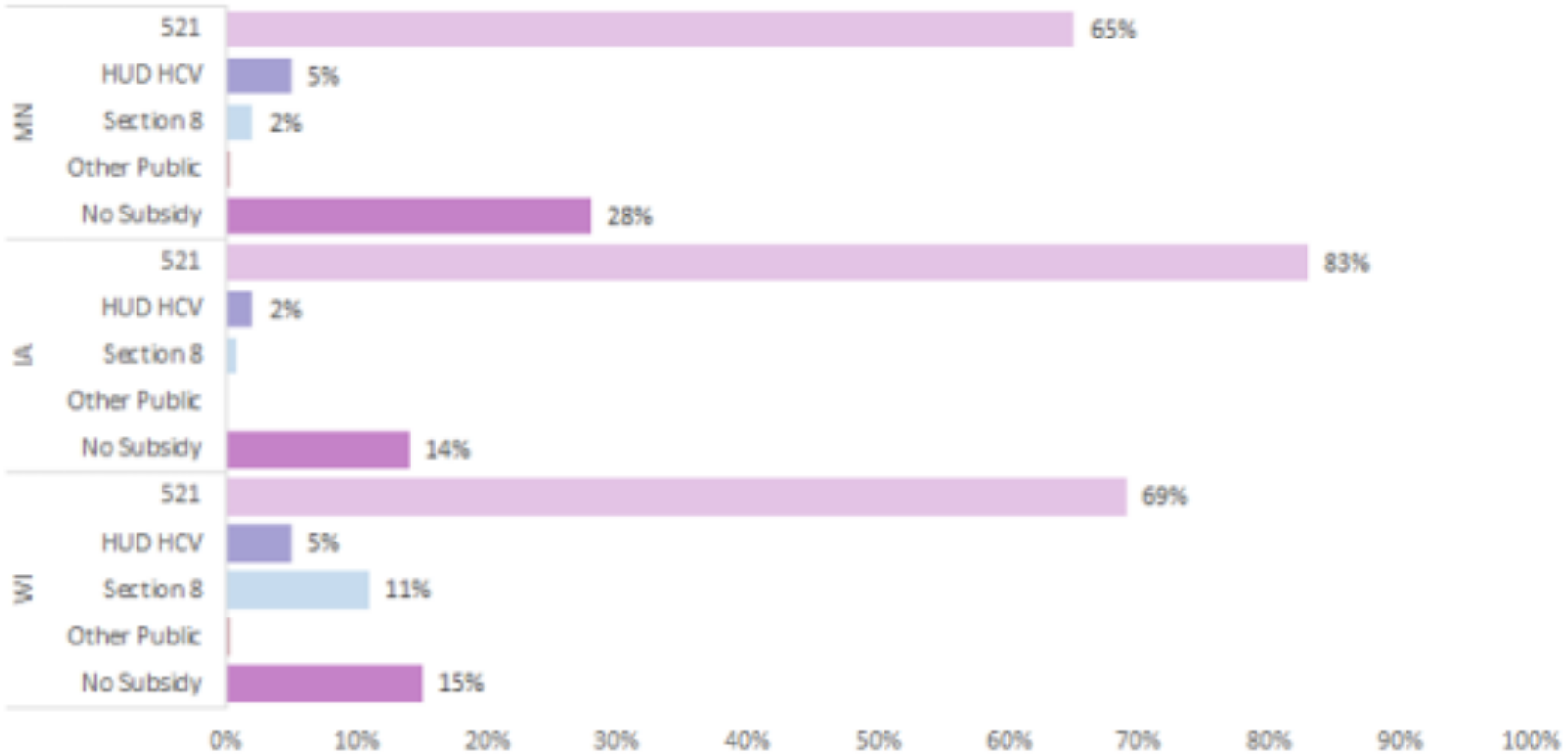


Figure 6: Additional Subsidies for Section 515 Housing Units, by State



Source: USDA Rural Development Dataset; Tenant Info, 2020-07-17 (https://www.sc.egov.usda.gov/data/MFH_section_515.html)

Motivations for Investors

[You] need to do it [invest in the program] more as a mission than… [because] it's a great investment, because it's not a great investment. (Nonprofit stakeholder)

Split perspective from for-profit and non-profit owners:

- Reasonable rate of return and building a retirement portfolio vs. preserving a critical need for affordable housing in the community
- All acknowledge the importance of affordable decent housing for residents underserved by the market

Changes in the Economic Context

It's kind of a vicious cycle as that population declines. So there starts to be some occupancy issues, there's then not enough money to fix the property, the property goes into decline, and then you can never get people to come because of the condition of the property. (Section 515 consultant)

Strategic Importance of 515 Housing

The rural development properties are very, very good at helping rural communities with very, very low-income people. It keeps people in the communities that they live in and gives them an option to live there at an affordable rate. (Mission-driven owner)

"If you have some of these small communities where there's only a couple multifamily properties and one [Section 515 property]... exits the program and converts to market rate, it's a concern."

–Section 515 Housing Consultant



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Perceived Problems with 515 Stock

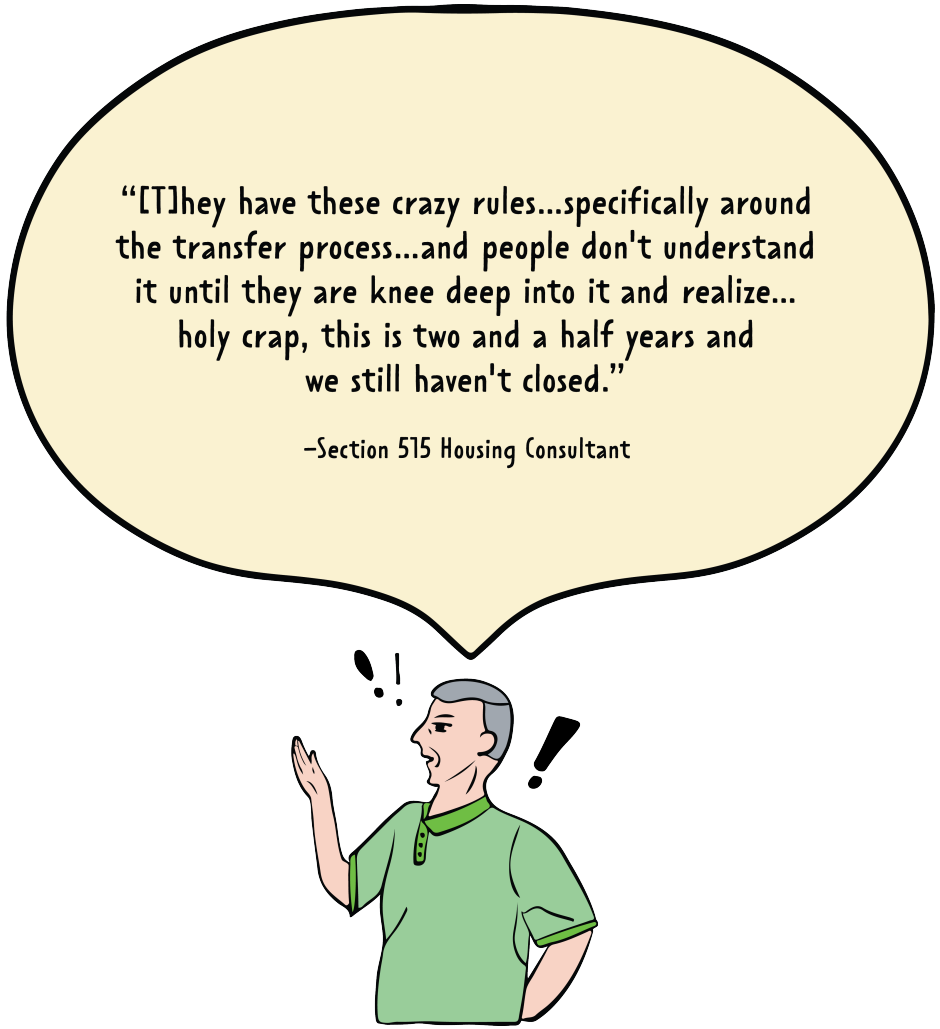
- Lack of maintenance related to insufficient capital reserves required in Section 515 program
- Concern that lack of maintenance combined with property age and poor building materials has resulted in obsolescence

[Obsolescense] is to a considerable extent a function of the age of the housing … Minnesota was a leader in building the first 515 housing projects so it's got some of the oldest in the country. (Section 515 advocate)



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USDA Bureaucracy



- **Property transfers** perceived as complicated, cumbersome and time consuming
- Concern about **potential loss of RD rental assistance** after mortgage prepayment or mortgage maturation

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This is a solvable problem: NOW is the time to act

Modify rules in which vouchers are provided

- Decouple rental assistance from RHS mortgages, with conditions
- Align USDA rental assistance with features of other project-based rental assistance; end practice of removing RA from units where temporarily unused



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This is a solvable problem: NOW is the time to act

Table 1: MN Counties Potentially Losing Most 515 Units By 2030

RANK	COUNTY	TOTAL UNITS IN PROPERTIES WITH MORTGAGES MATURING BY 2030
1	Wright	153
2	Stearns	130
3	Douglas	74
4	Renville	72
5	Isanti	70
6	Todd	68
7	Carver	61
8	Martin	60
9	Kandiyohi	56
10	Blue Earth	52

Prioritize preservation based on location and timing of expiration considerations

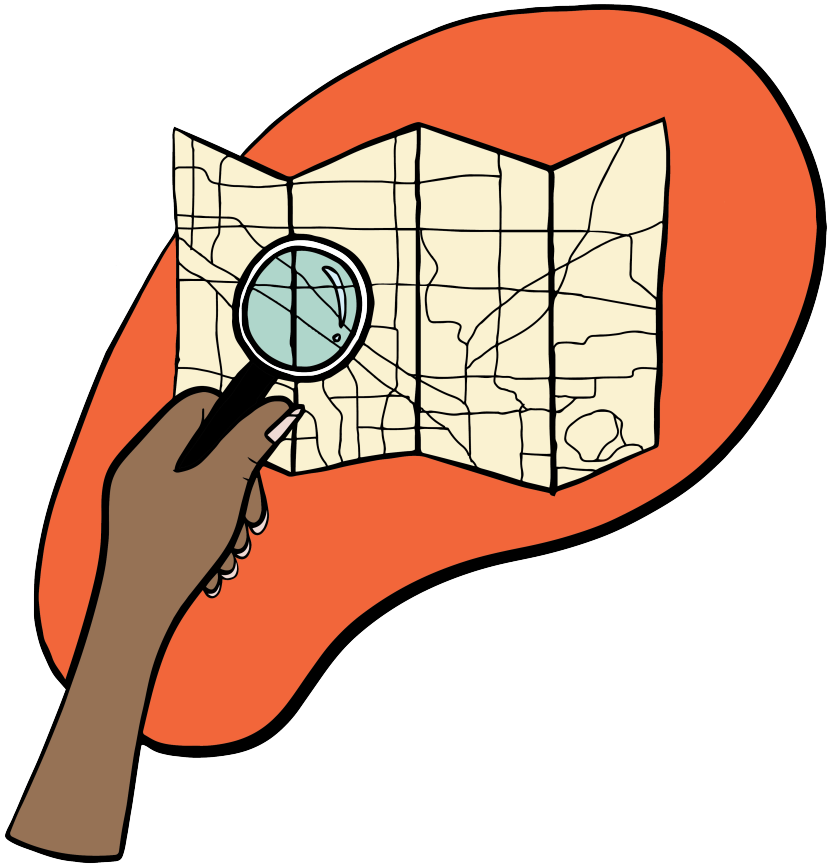
- Some counties with large numbers of 515 properties, on cusp of exit
- Counties with growing/declining economic conditions - hot and cold markets

This is a solvable problem: NOW is the time to act

Streamline the transfer process

Streamline the property transfer process by making it easier, faster and less risky for preservation buyers to acquire Section 515 properties, especially for small sized properties.

- Proactive communication with owners about maturation
- Fund TA to support preservation

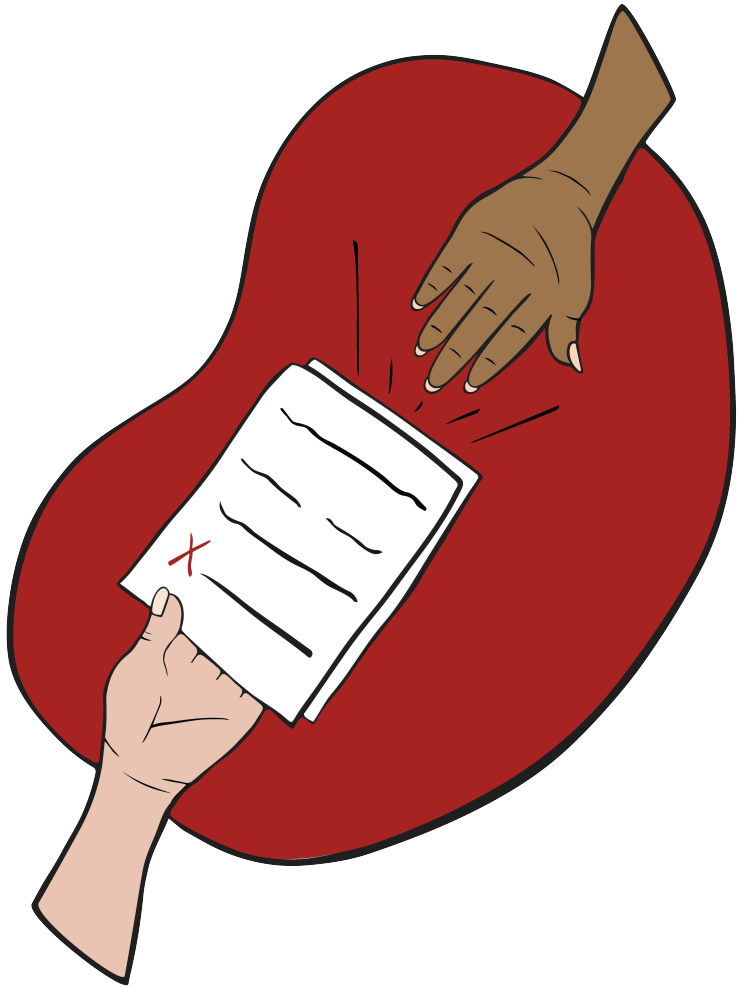


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This is a solvable problem: NOW is the time to act

Adjust capital reserve requirements and support needed maintenance

USDA agents should meet directly with owners and visit properties

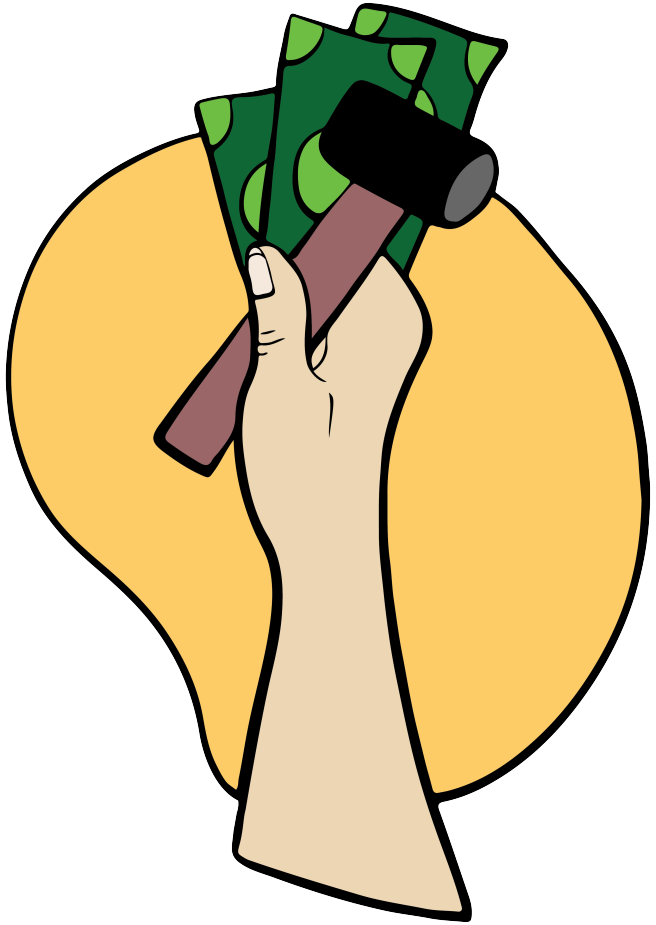


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This is a solvable problem: NOW is the time to act

Create unique funding support for small scale Section 515 properties

Support preservation of Section 515 properties with promising state programs



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Technical Assistance Supports Preservation of 515's

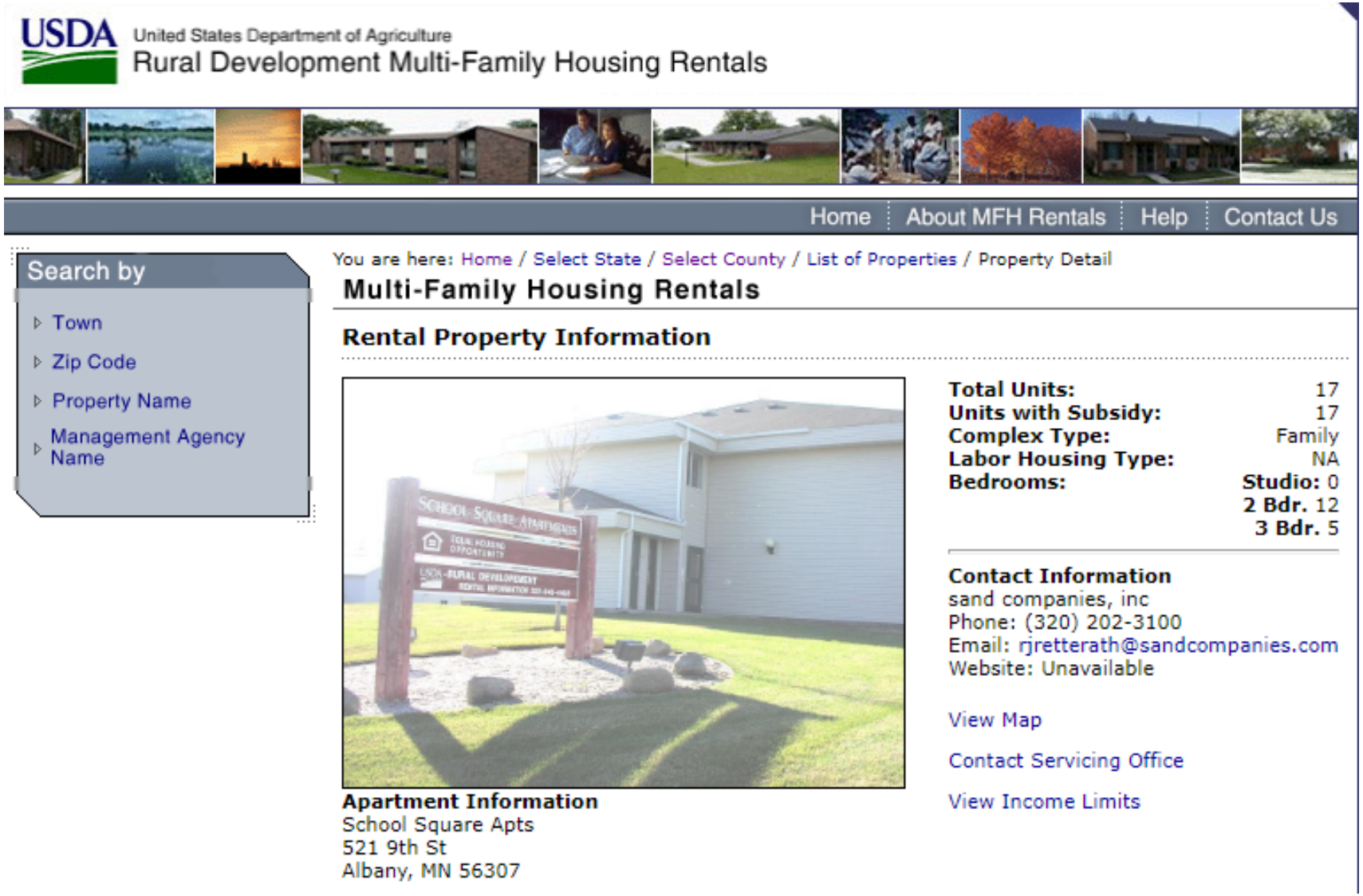
Through a USDA grant, MHP provides technical assistance to assist with the transfer process of a Section 515 property from current owner to a nonprofit or public housing authority



Property: GraMar Courts, Kerkhoven, MN, population 772
16 Units: 4 1-Bedroom units and 12 2-Bedroom Units
Built in 1978, **50% (8) of units have RA**

Owners were eligible for Prepayment, allowing them to sell at the full appraised value

Finding 515 properties in your communities



https://rdmfhrentals.sc.egov.usda.gov/RDMFHRentals/select_county.jsp?st=MN&state_name=Minnesota&st_cd=27

State and Federal Response: Preserving 515 Homes



Dani Salus, Preservation Supervisor
Minnesota Housing



Adam Schiff, Agriculture Legislative Assistant
Office of Senator Tina Smith

Questions?


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