



Entry Form 2018 Annual Awards for Program Excellence

Entry Deadline: Friday, June 15, 2018, Midnight ET

Each entry must include a completed entry form. Please complete a form for each entry your HFA is submitting. The completed entry form will become the first page of your entry.

This form is a fillable PDF. Type your information into the entry form and save it as a PDF. Please do not write on or scan the entry form. **Questions: Call 202-624-7710 or email awards@ncsha.org.**

Entry Title: Enter your entry's title exactly as you wish it to be published on the NCSHA website and in the awards program.

Category:

Subcategory:

Entry Summary: A 15-word (max) summary of the program, project, or practice you are entering.

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Are you mailing to NCSHA 10 copies of any visual aids that cannot be included in your entry PDF? Yes No

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MassHousing
Preserving the 13A Portfolio in Massachusetts
Rental Housing / Preservation & Rehabilitation

Background

In the 1970s, the Commonwealth created the 13A program, a state rental development program modeled after the federal 236 program. Funding for the 13A program originally came in the form of a line-item in the state budget which MassHousing was directed to administer on behalf of the Commonwealth.

Specifically, this program created an interest rate write-down to 1% for developers of affordable rental housing. The subsidy from the state then made up the difference between the 1% interest rate and the market interest rate at the time that the loan was originated. MassHousing administered this subsidy for the state and oversaw these properties which are privately owned and operated. In all, the 13A program financed 67 state-subsidized, mixed-income developments containing a total of 8,600 units.

From 1994 – 2003, the Commonwealth fully funded the 13A program at \$8 million/year through an annual state budget appropriation. Beginning in 2004, the Commonwealth began reducing its funding commitment and then completely stopped funding the program in 2009. At that time, MassHousing stepped in to make up this funding gap. (In all, MassHousing has provided close to \$80 million in funding – from Agency resources – to sustain the 13A program.)

Confronting the 13A Challenge

In the 1990s, many owners began to consider prepayment for their Section 13A mortgage obligations. Because of the advocacy of then-Congressman Barney Frank of Massachusetts, HUD agreed to extend Section 8 Enhanced Vouchers to low-income residents of Section 13A developments in the same way it did for federal 236 properties. This was very helpful in providing a safe landing for otherwise-vulnerable residents. Many properties also accessed low-income housing tax credits (LIHTC) which restricted the rents beyond the maturity of their Section 13A mortgages. This preservation strategy worked well until 2012.

Unfortunately, there was a significant change in HUD's policy in 2012 with regard to the treatment of these 13A properties. HUD abruptly decided at that time that it would no longer allow the use of enhanced vouchers (or tenant protection vouchers) for these state-financed properties. This came at a time when more than half of the 13A properties still had active mortgages that were within a decade of maturity. This action left not only the units, but also the low-income residents, critically exposed. The Section 13A portfolio now represents one of the most urgent housing preservation issues confronting the Commonwealth.

Presented with significant challenges to preserve units and protect tenants, MassHousing has swiftly and deftly responded to the challenge. Partnering with the Department of Housing and Community Development (DHCD), and working with other state and municipal stakeholders, MassHousing has actively confronted the displacement of vulnerable residents and the conversion of units to market with its Section 13A Preservation Initiative. In particular, this initiative has been successful in large part because of MassHousing's ability to develop property-specific, case-by-case approaches to addressing the preservation challenge for each of the developments remaining in the portfolio.

Section 13A Preservation Initiative Objectives

MassHousing has worked with other stakeholders to identify the range of options and tools which must be available to meet this preservation challenge. The goals of this effort were to: (1) protect the tenancies of all existing households; (2) preserve the level of affordability to the maximum extent possible; and (3) meet the

financial and capital needs of the properties. Recognizing that the existing preservation resources available would not be sufficient to achieve these goals, MassHousing made a key decision to commit a substantial amount of its own resources to addressing this problem. As such, in 2016, MassHousing set aside \$50 million from its newly created “Opportunity Fund,” which leverages the strength of the Agency’s balance sheet (rather than using state tax dollars or the proceeds of bond sales), to match the \$50 million commitment of the state’s Department of Housing and Community Development (DHCD) to be deployed in an effort to further the defined preservation goals for the 13A program.

To put this challenge into perspective, it is important to remember that families living in the 13A properties are comparable, in terms of incomes and lack of other housing options, with residents living in public housing. The average household income is \$25,000; the average rent is \$779, representing 42% of income. Given the vulnerability of these households, protecting the current residents has always been, and continues to be, the Agency’s first priority.

Individualized Approach to the Preservation Challenge

The strength of the Section 13A Preservation Initiative has come from the ability of staff to create individualized solutions for each property, with tenant protection being the top priority. Owners have fulfilled their original obligations under the mortgage, and may now have different goals and objectives for the property. For each development, staff consider the unique characteristics of the deal to determine how the owners’ goals can be aligned with the Commonwealth’s priority of tenant protection and unit preservation. MassHousing’s programmatic solution worked to address 36 properties totaling 3,300 units.

Approaches can be categorized broadly by the owner’s appetite for a preservation outcome. Specifically:

In some cases, the owner was not interested in preservation options and simply wished to convert the property to market. Even in these cases, MassHousing and DHCD worked to negotiate tenant protection. In cases where an owner wants to convert to market, staff have made sure to protect every tenant. **Paul Revere Court** is a 31-unit development with 22 13A units in the popular (and highly priced) North End neighborhood of Boston. The owner sought to exit the limited dividend policy embedded in MassHousing’s enabling legislation in order to realize cash flow from a restaurant on the ground floor. In exchange for early prepayment, MassHousing achieved an agreement by which the owner will allow all Section 13A residents to remain in place under what is effectively a rent-control structure until they choose to leave; on turnover, units can convert to market. Many similar properties are owned by smaller landlords who have no other affordable properties in their portfolios and may follow this same model.

Some owners sold the property to an entity committed to preservation. In some cases, the property was sold to a preservation-oriented owner to maintain or deepen affordability in the development. An example includes **Burbank Gardens** in the Fenway neighborhood of Boston, where market rent for a one-bedroom is approximately \$2,300 a month. The local CDC purchased the property to create a truly mixed-income development; rents for Section 13A residents will stay at similar levels, and upon turnover those units will be preserved as project-based Section 8 and MRVP, 60% AMI, and 80% AMI units. MassHousing and DHCD contributed \$6,700,000 in subordinated, deferred debt to the preservation transaction. Similarly, **Bedford Village** is a 96-unit 13A development in the suburb of Bedford that was sold to a preservation-oriented purchaser. In this case, the state contributed \$10,000,000 and the Section 13A tenants will be protected until they leave, at which time the units will be preserved as project-based MRVP, 60% AMI, and 80% AMI units.

Owner preserved the property. In approximately half of the cases MassHousing has worked on, the owner was looking to preserve the affordability. The owner of **Hamlet Street**, a 50-unit development in Newton, refinanced with taxable debt and agreed to maintain affordability with project-based MRVP, 60% AMI, and moderate-income rents. Similarly, the owner of **East Boston Rehab**, a 96-unit development in East Boston, always intended to preserve affordability as deeply and broadly as possible. The development team created a structure that combined the Section 13A with a matured Section 236 in one tax-exempt refinancing with project-based Section 8 and MRVP, 50% AMI, 60% AMI, and four unrestricted units to allow over-income formerly 13A residents to remain at the property.

One of the most important aspects of this effort is that it has required the commitment of all actors – MassHousing, DHCD, state entities, elected officials, and municipal leaders – to protect the tenants and preserve the units whenever possible using all available resources. These individualized responses to each Section 13A property have also required continuous negotiations with owners and a coordinated effort by all.

MassHousing has brought considerable resources to the table, and coupled with resources from DHCD, they allow the Agency to make credible preservation offers to owners of every 13A development. This was not something that Agency staff had thought would be possible when this challenge was first examined.

Accomplishments

Of the 36 properties remaining in the 13A portfolio, MassHousing and DHCD have been successful in bringing 24 to the negotiating table. This encompasses 2,033 total units, of which 1,681 are 13A units. Of the \$100 million fund dedicated to the preservation of Section 13A developments, \$23 million has been committed; additionally, MassHousing has committed \$115 million in tax-exempt volume cap for the preservation of Section 13A developments. Discussions are ongoing regarding the other properties, and tenant protection remains the top priority. In developments where preservation outcomes are uncertain, MassHousing and DHCD are estimating budgets to provide mobile vouchers.

As part of the Initiative, MassHousing has created a Section 13A preservation database that tracks all 36 properties and captures preservation offers and funds allocated for each deal, highlights opportunities and challenges of various approaches, and tracks results. Reports generated from this database have been useful for coordinating negotiating efforts and communicating progress with all stakeholders involved.

Offers of resources out of the preservation fund are based on a model developed at MassHousing that accounts for size, market, and operations at each property. This has provided a way for MassHousing and DHCD to use limited resources more effectively.

In addition to the tenants protected and the units preserved, the Initiative has also had financial benefits for the Commonwealth. The per-unit subsidy required for tenant protection and/or preservation has been substantial, but remains lower than the cost to create replacement units.

Conclusion

The need for affordable housing remains critical to the Commonwealth, especially units that are accessible to our most low-income residents. The Section 13A Program helped create a stock of housing that has served this population. Confronting the potential conversion of units to market and the displacement of residents has required staff be creative in considering how to deploy limited resources. The Section 13A Preservation Initiative is an innovative program that has met a significant preservation challenge in Massachusetts.