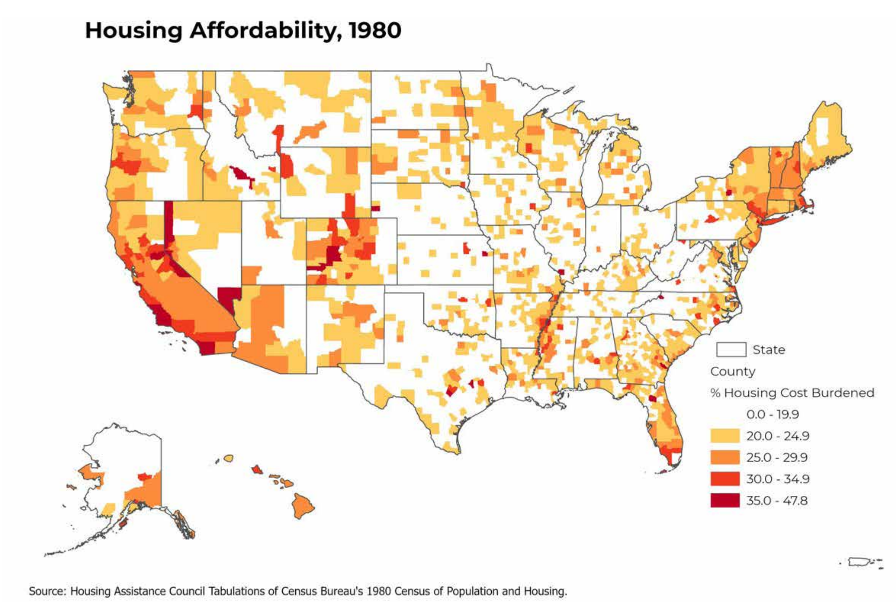
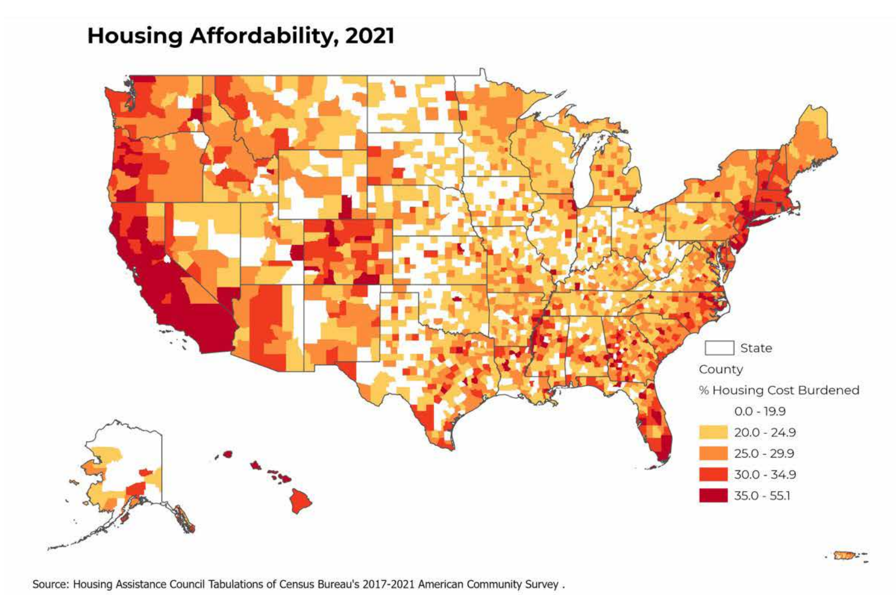
Rural Housing Supply: The Role of USDA Multifamily Preservation

by Jonathan Harwitz
DIRECTOR OF PUBLIC POLICY, HOUSING ASSISTANCE COUNCIL

by Samantha Booth
GOVERNMENT RELATIONS MANAGER, HOUSING ASSISTANCE COUNCIL



Source: Housing Assistance Council Tabulations of Census Bureau's 1980 Census of Population and Housing.



Source: Housing Assistance Council Tabulations of Census Bureau's 2017-2021 American Community Survey .

The people of rural America reside in approximately one-quarter of the United States' homes and occupy 97% of our nation's landmass. There is immense diversity among our small towns and rural places. Yet, a set of community and market conditions and federal policy challenges also tie this vast landscape together.

With the continuing outmigration of working-age residents, rural communities contain larger shares of older residents. Racial and ethnic diversity is also increasing in rural America, as it is throughout the country. A more senior, less mobile, yet more diverse rural population will require housing options and solutions currently unavailable in many rural communities nationwide. Indeed, as the maps to the left dramatically illustrate, over the past four decades, housing affordability has long since ceased to be a predominantly urban and suburban problem.

Rental Housing Is Essential to Healthy Communities, but Options Are Often Limited and Expensive for Rural Renters

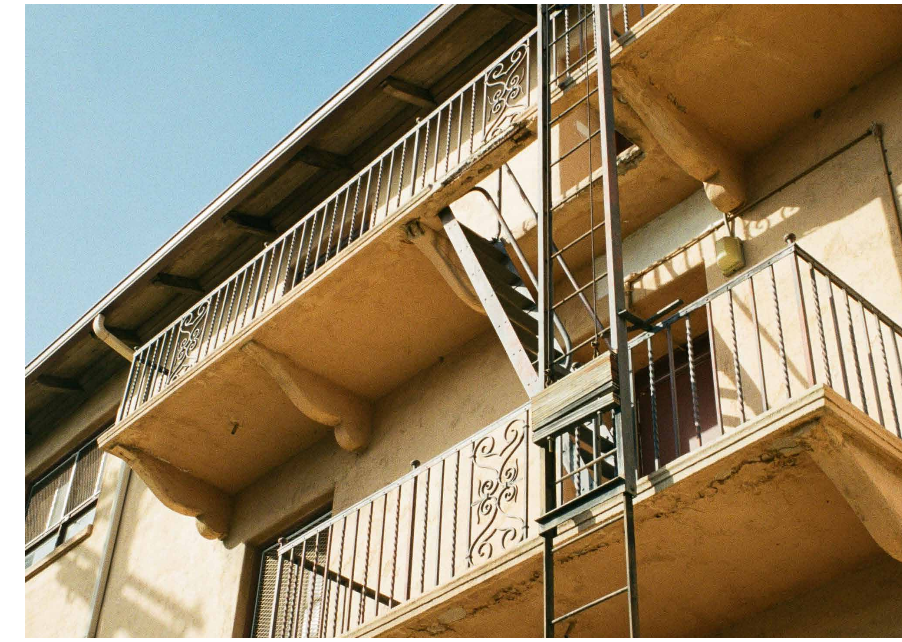
While homeownership is often seen as synonymous with the American Dream, rental housing is also essential because many households cannot or choose not to own a home. Some of the most economically vulnerable rural residents rent their homes. Yet far too many live with rental costs they cannot afford, physically inadequate homes, or overcrowding. At the same time, the supply of affordable rural rentals is shrinking.

About 28% of rural households (and the same proportion of suburban residents) rent their homes, compared to just over half (52%) in urban places. In keeping with the less dense nature of rural areas, rural renters are likely to live in much smaller buildings or manufactured homes than their urban and suburban counterparts.

Housing costs are a significant problem for rural renters, as they are for urban and suburban residents. More than 45% of renters in rural America (over 2.5 million households) pay more than 30% of their income for rent and utilities, and nearly half of those (1.2 million) pay more than 50% of their income for shelter. Cost-burden rates are even higher in rural census tracts where the majority of the population is Black or Hispanic. In Black-majority rural census tracts, 55% of renters pay more than 30% of income for housing, as do 47% of renters in Hispanic-majority tracts.

Rental options are essential for housing local workforces and priming local community economies. If employees can't find affordable housing, employers can't hire them. The Housing Assistance Council (HAC) has seen this dynamic in countless rural places nationwide. Both big corporate employers and small local businesses face this mounting challenge, and more urgently, so do the people who work for them.

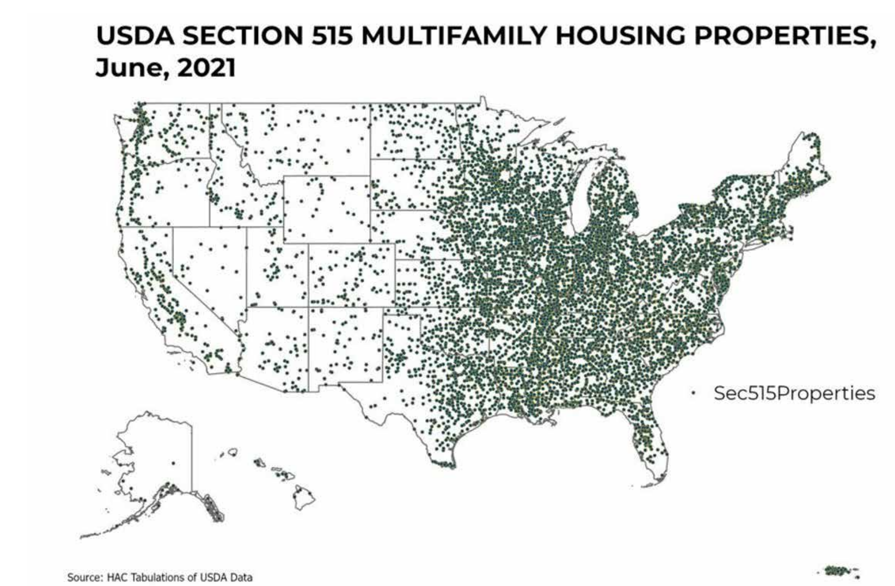
Unfortunately, just as in America's cities and suburbs, the scope and severity of housing cost burdens across rural America are associated with increased homelessness. The 2022 annual point-in-time count funded by the Department of Housing and Urban Development and conducted by local Continuums of Care (CoC) (comprised of housing and service providers to people experiencing homelessness) showed a 1% increase in homelessness nationwide between 2020 and 2022, with predominately rural CoCs experiencing a rise of 6% (de Sousa et al., 2022).



The USDA Section 515 Preservation Crisis and its Impact on Rural Rental Stock

The USDA's Rural Housing Service (RHS), authorized under Title V of the Housing Act of 1949, administers a suite of housing programs explicitly targeted to residents of rural communities. These programs span the spectrum from multifamily rental to single-detached homeownership to capacity building and community facilities. While all the RHS programs are critically important, the preservation crisis in the USDA multifamily portfolio is our focus for this piece.

Rental properties financed by USDA Section 515 loans are an essential source of rental housing in many rural communities. Since the program's inception in 1963, Section 515 Rural Rental Housing (RRH) loans have



Source: HAC Tabulations of USDA Data

financed nearly 28,000 rental properties containing over 533,000 affordable apartment homes across rural America. Of these, just under 400,000 affordable apartments remain in USDA's current Section 515 RRH Housing portfolio, with at least one USDA Section 515 property in 87% of all U.S. counties. The map on the previous page shows the distribution of these properties throughout the country.

Section 515 rental units house an economically vulnerable population. Two-thirds are occupied by seniors, people with disabilities, and tenants with average annual incomes of only $13,600. No new construction of Section 515 properties has been financed since 2012, and because most of these properties are several decades old, their original mortgages are reaching the end of their terms. The graph below shows HAC's projected loss of Section 515 properties over time, with the first peak in property exits expected in 2027.

The Housing Assistance Council recently determined that from 2016 through mid-2021, maturing mortgages removed these properties from USDA's Section 515 portfolio slightly more slowly than previously predicted (Feinberg, 2022). However, more properties than expected left the program for reasons unrelated to mortgage maturity. HAC identified 921 Section 515 properties that left the portfolio between 2016 and July 2021, nearly three times more than the USDA had projected for maturing mortgages alone during the five-year period. The properties lost during this period are shown in the map on page 57.

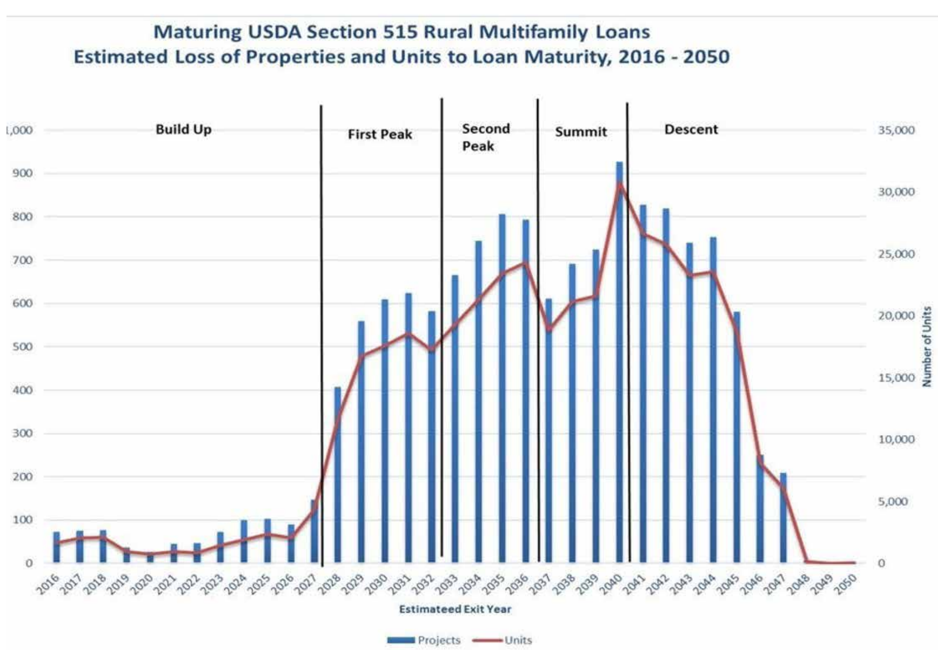
The residual impacts of this trend are exponential. Once the USDA mortgage has ended, the property owner is generally no longer subject to government oversight or regulations on the use of their property (unless the project has other subsidies still in place), the federal government is no longer paying to support that housing, any remaining or replacement financing has a higher interest rate than the USDA loan, the tenants are no longer eligible for USDA Rental Assistance, and in some instances, the homes may no longer be affordable for their tenants.

Preservation and Production Solutions

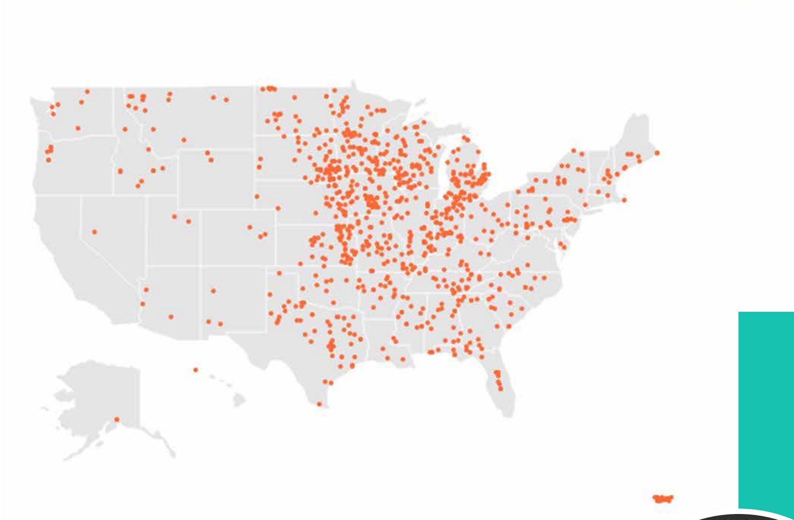
Effectively preserving the Section 515 portfolio will take significant public and private commitment, particularly federal investment. The USDA predicts that the cost to preserve 80% of the current portfolio over the next 30 years will be more than $30 billion. Members of Congress are beginning to take real, bipartisan action to provide the USDA with the tools needed to preserve this critical stock of rental housing, most significantly with the Rural Housing Service Reform Act (S. 1389) and the Strategy and Investment in Rural Housing Preservation Act (S. 1490).

More generally, some baseline parameters should be taken into account when considering how to increase the supply of affordable rural rental housing effectively. In partnership with the Urban Institute, HAC's research suggests core strategies for improving affordable rental housing production across rural communities (Scally et al., 2018).

- Increase public-sector resources for producing new affordable rental housing in rural America.
- Set priorities and preferences and incentivize development projects in rural communities with the most severe needs.
- Minimize risk and attract private-sector investment by using innovative strategies.
- Improve the capacity of federal agencies to mobilize and coordinate funding to rural communities.
- Improve developer capacity in underserved rural places and provide incentives.
- Promote more flexible building types for rental housing in rural communities.
- Establish, maintain, and provide access to national and statewide databases of existing market analyses in diverse types of rural markets.
- Encourage proactive local planning for rental housing development, prioritizing areas where local infrastructure and services already exist.



USDA Section 515 Property Exits, 2016-2021



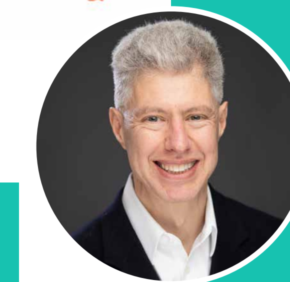
Source: Housing Assistance Council Tabulations of USDA Data

> **"If employees can't find affordable housing, employers can't hire them."**

Conclusion

Both the preservation of existing housing and the production of new homes are needed for a healthy rural rental ecosystem. Rural America faces the loss of almost 400,000 affordable rental homes in the next several decades, compounding the already dire lack of affordable rental supply in these communities. These properties are largely worthy of preservation and are important resources for the communities in which they are located.

AUTHOR BIOS



Jonathan Harwitz

Jonathan Harwitz is the Director of Public Policy at the Housing Assistance Council (HAC). Prior to joining HAC, he was the Director of Housing Community Development and Insurance Policy for the House Financial Services Committee. He also served as Managing Director of Federal Policy and Government Affairs at the Low-Income Investment Fund, a large national Community Development Financial Institution. Earlier in his career, Harwitz served as Deputy Chief of Staff for the U.S. Department of Housing and Urban Development; Counsel to the Housing and Community Opportunity Subcommittee of the House Financial Services Committee; Professional Staff to the Housing and Transportation Subcommittee of the Senate Appropriations Committee; and in various policy-related positions at the Corporation for Supportive Housing. Prior to entering the field of federal policy, he clerked for two federal District Court judges and was a lawyer in private practice.

Samantha Booth

Samatha Booth is the Government Relations Manager at the Housing Assistance Council (HAC). Prior to joining HAC, she was the Policy Director at the Community Development Bankers Association. She also spent five years working as a legislative staffer for Members from Montana and North Dakota in the U.S. Senate. Prior to her time in federal policy, she worked in journalism.