Balancing the preservation of existing affordable housing with new construction

Many subsidized housing developments are reaching the end of their required affordability periods, including HUD-assisted housing built between the 1960s and the 1980s and housing developed under the Low Income Housing Tax Credit (LIHTC) program 15 or more years ago. As affordability requirements expire, owners have the option to convert affordable units to market rate rentals, condominiums, or some other non-residential use.

The potential loss of these affordable rentals has prompted many localities and non-profit organizations to target their efforts (and resources) on preserving the long-term availability and affordability of these properties. Since housing development resources and capacity are largely finite, a greater focus on preservation may require a reduced focus on new construction. How should cities, towns, and counties approach this trade-off?

This question is more complex than it may appear, as circumstances often vary substantially from property to property and to community. This brief identifies a series of questions that cities, towns, and counties can use to determine whether to prioritize a particular property for preservation. Cities and counties should customize this approach based on local circumstances and experiences.

1. **Is the property in a location where affordable housing is needed and desirable?**

It is important to consider the location of an affordable property in determining whether it should be targeted for preservation. Affordable rentals in resource-rich neighborhoods will likely be high priorities for preservation—particularly those located in neighborhoods with good schools (for families with children) or in close proximity to services (for seniors and persons with disabilities). A compelling case for preservation can also be made when a development with affordability restrictions is in a gentrifying neighborhood with robust public transit connections and other amenities. If rents are becoming unaffordable in the neighborhood, it makes sense to preserve the opportunity for low-income households to live there. It may be difficult or impossible to replace lost affordable rentals in these areas, where land costs tend to be high due to high levels of demand.

In contrast, properties located in areas of concentrated poverty may be less of a
priority for preservation (unless the neighborhood has been targeted for substantial investment through a formal redevelopment plan). The same holds true for areas with an abundant supply of affordable housing units. In many cases, the subsidy associated with the affordable units can be transferred to another part of town (see question 2), and the subsidy can be used to create affordable housing opportunities in areas where there are few.

In applying this guidance it is important to consider the overall market context. In cases where there is a critical shortage of affordable housing throughout the market, private owners are interested in continuing to participate in subsidy programs, there are few alternative locations to which those subsidies can be transferred, and families with housing vouchers are having difficulty finding housing outside areas of concentrated poverty, the preservation of dedicated affordable housing in such areas may be worth considering.

2. **Is preservation required in order to retain deep housing subsidies?**

In high-cost areas, deep housing subsidies are often required to help extremely low-income renters afford their housing costs. However, the loss of an affordable rental property does not necessarily mean that the subsidy attached to that property will be lost as well. In most cases, cities have the option to move housing subsidies, including project-based Section 8, to another property and property owner. (It’s important to note that the transfer process can be cumbersome and is contingent on several factors, including the property owner’s consent [for privately-owned properties] and identification of a “receiving” property that meets applicable site and neighborhood standards.) Still, there may be situations where the rental assistance would be lost once the unit is no longer available. Where this is the case, cities, towns, and counties should carefully consider the value of retaining the existing subsidy in the context of the property’s other characteristics.

3. **Is it less expensive to preserve the property or to develop affordable housing in another location?**

All else being equal, redeveloping an existing property tends to be less expensive than developing a new property in the same location. This doesn’t necessarily mean that preserving an existing affordable property will always be less expensive. For example, there may be other properties nearby and in better condition than an existing building nearing the end of its affordability period. Acquisition and redevelopment of these properties as affordable rentals could be comparable or even lower in cost than preservation of the existing development. In some regions, new construction opportunities in greenfields locations may also be available. The cost of new
construction in these previously-undeveloped areas may be similar or even lower than the cost of rehabilitating an existing affordable housing development in a different location. In considering all available alternatives, and the relative costs, cities, towns, and counties should be mindful of the relative merits of the two locations in terms of public resources, amenities and other neighborhood characteristics. Wherever possible, cities should try to evaluate the cost tradeoffs of preservation and new construction on the basis of actual, ripe development opportunities, rather than hypothetical development costs that may not reflect current market conditions.

In weighing project costs, cities may also want to differentiate between the overall costs of a project, which are borne by multiple stakeholders, and the costs of the project to the city, town, or county. The type of subsidy used, and the overall effects on development in the city and the state, also factor into this decision. For example, rehab projects are often done with 4 percent LIHTC credits, which are essentially unlimited in availability, while new construction generally uses 9 percent credits. Choosing to preserve and rehab an existing property, rather than building new, may “free up” 9 percent credits to fund other projects, expanding the overall supply of dedicated affordable units. However, the cost to the municipality of a rehab deal funded with 4 percent credits could be higher than a new construction project because 9 percent credits provide twice as much subsidy as a share of total development costs.

4. How difficult would it be to develop housing in another location, and how does that compare with the level of difficulty of preserving the existing development?

Beyond cost, one of the primary reasons many cities, towns, and counties focus on rehabilitating existing properties is that it is often significantly easier and faster than gaining approval to develop a new property. Rehab activity does not require any use change and, therefore, avoids any potential delays or fees that may arise when new construction of affordable rental housing requires a zoning change or special permitting process. Because the original function of the property remains unchanged, preservation also generally can avoid problems associated with community opposition that may surface in response to new development. In addition, in high-cost cities, in particular, there may not be many other feasible options in equally desirable locations. However, preservation isn’t always straightforward and predictable. Developers may find structural problems and other issues inside a building once they begin construction. Addressing these unexpected complications can result in costly delays and require additional permits and work that drive up costs. Municipalities should make an effort to identify and compare all options to determine which will be best for
the community and the residents.

5. To what extent will one option or the other require residents to relocate?

The loss of affordable rental housing can mean displacement of families or elderly residents who have been in those homes for a long time. That scenario tends to dominate public discussions of preservation, particularly when properties are in locations that will support higher rents after affordability restrictions end. However, the relocation associated with substantial rehabilitation can also be a major disruption in families’ lives. The impact can be mitigated—for example, in some cases redevelopment takes place in stages so that existing residents only need to relocate once, to their newly-redeveloped unit. In other cases, all residents need to be relocated while the entire property is rehabilitated, sometimes for prolonged periods of time. To the extent these residents wish to return to their homes, they may need to be moved a second time back to the original development. While not the only factors to consider, the extent to which residents’ lives will be disrupted through multiple moves and the sometimes significant expense associated with acquisition, relocation, and demolition should be taken into consideration in evaluating the options. If the community places a priority on preserving the fabric of a neighborhood and ensuring that original households can remain and/or return, these costs may be worthwhile.

6. How well will the redeveloped property meet the needs of the intended residents?

New construction can be built to comply with current occupancy standards and meet modern design preferences without being constrained by an older building shell. While a gut rehab of an existing structure can similarly provide developers with substantial flexibility to design units to meet current standards, that extensive a rehab can eat into the cost advantage of a preservation or acquisition-rehab strategy. Since the goal is to provide safe, decent and affordable housing and not luxury housing, the need for aesthetic changes that don’t affect safety or habitability should not be exaggerated. On the other hand, updates that improve functionality merit greater consideration. For example, to make existing older units accessible to seniors and people with mobility impairments, it may be necessary to widen doorways and install a first-floor bathroom and master bedroom. These changes will increase the cost of preservation. Since the amount of rehab being done on a property at the time of rehabilitation can vary substantially, it is worth inquiring whether the preserved property will provide units that meet current and future residents’ needs to the same extent as other options.
7. What is likely to happen to the property in the event it is not preserved?

Many (but not all) subsidized units are in neighborhoods that have low rents compared to the overall rents in the locality. In these areas, owners may not opt out of affordability programs after the initial affordability period expires. Even if affordability restrictions are lifted and owners are allowed to charge competitive market rents, the rents may still be affordable relative to rents in more expensive parts of town. For example, LIHTC units may continue to rent at the old LIHTC rent even after the formal affordability restrictions end. Or, for project-based Section 8 projects, the units may be affordable for low-income renters using Housing Choice Vouchers, which are provided as a replacement for the original project-based subsidies. In such a case, preservation is less urgent, and may even be unnecessary to accomplish the city, town, or county’s goals, freeing up resources to be spent in other places. Another scenario, however, is that the property will be renovated and offered to rent or for purchase to residents with much higher incomes. The argument for preservation of these properties as affordable rentals is stronger, although it should be considered in the context of other factors outlined above, as the need for the affordable housing units could be met in a variety of ways.

As cities, towns, and counties gain experience considering how these factors apply in various scenarios, the process for making decisions about preservation and new construction will likely become more streamlined, and the results will be better aligned with local development priorities and housing goals.

Circumstances in which new construction may be the best option

Apart from the factors described in this brief, there are a number of circumstances in which cities, towns, and counties may wish to focus on new construction in particular as an approach for producing affordable housing. Examples include:

- The municipality wants to create low-cost housing in a particular neighborhood in which there are no existing buildings that are available and suitable for acquisition and rehabilitation.
- The city has identified a specific site that would be an advantageous place on which to build affordable housing—for example, because the land already has the appropriate zoning or is a publicly-owned land, or for some other reason.
- On a large parcel of land, redevelopment of existing lower-density buildings would not yield the economies of scale that could be achieved through new construction of a large mixed-income or mixed-use complex.
- Buildings available for acquisition-rehab do not have a suitable shell to attract
market-rate residents to a new mixed-income project.