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Rural New Yorkers At Risk

Saving Affordable Rental Housing Created Through USDA's Section 515 Program

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The Housing Act of 1949 also establishes as a national objective the achievement as soon as feasible of a decent home and a suitable living environment for every American family... - President Harry Truman, upon signing the Housing Act of 1949 on July 15, 1949.

The Housing Act of 1949 – which largely expanded the role of the federal government in issuing mortgages and producing public and subsidized housing – established the U.S. Department of Agriculture (USDA) 515 program to fund affordable, multifamily rental housing throughout the country. The mortgage lending program offers low-interest loans – originally with a 50-year term, but now with a 30-year term due to budget cuts – to build or rehabilitate multifamily rental properties. The property owners must then keep rents affordable for the duration of the loan, with additional rental subsidies available.

Most of this housing has historically been produced by for-profit developers who combine the subsidized 515 loans with rental assistance and other tax subsidies to finance it. To qualify, the tenants must be very low, low, or moderate-income households, with some properties specifically built for elderly individuals or people with disabilities. These Section 515 loans – the first of which were issued in 1963 – are now the primary funding source for rental housing in rural communities throughout the country. Over 27,000 loans have helped to invest over $15 billion to produce 550,000 units. In many cases, this program provides the only quality rental housing in rural communities that people can afford.

Tenants pay basic rent or 30% of their annual income, depending on regulations in place. The Rural Housing Service (RHS) can also provide rental assistance to limit tenants' payments to 30% of their income, and tenants can also apply other rental subsidies or vouchers to make rent. Most tenants use some form of rental assistance.

During the program's peak funding between 1975 and 1985, over 1,000 loans were made each year. In 1979, the program constructed 38,650 units – more than the number of units constructed between 1994 and 2009 combined. Unfortunately, funding for this program has consistently been slashed over the past 20 years. As a result, far fewer of these homes have been built, and the USDA has not been able to afford to rehabilitate existing properties - which have an estimated $5.6 billion capital need over the next 15-20 years. In fact, loans have not been issued to develop new Section 515 properties since FY2011. Instead, loan authority has been explicitly used to help preserve existing units.

What’s more, many of these mortgages and loans issued 30 to 50 years ago are now expiring or being paid off – as a result, the property owners no longer have to comply with affordability requirements. Tens of thousands of affordable units that many rural communities rely on are at risk or already leaving the USDA Section 515 portfolio. The Housing Assistance Council (HAC) looked at the Section 515 portfolio changes between 2016 and 2021 and found that 21,693 affordable apartments left the portfolio in that 5-year period alone. **Estimates show that over 90% of multifamily units assisted through USDA programs could exit over the next 30 years.**

In Partnership With

Rural Housing Coalition
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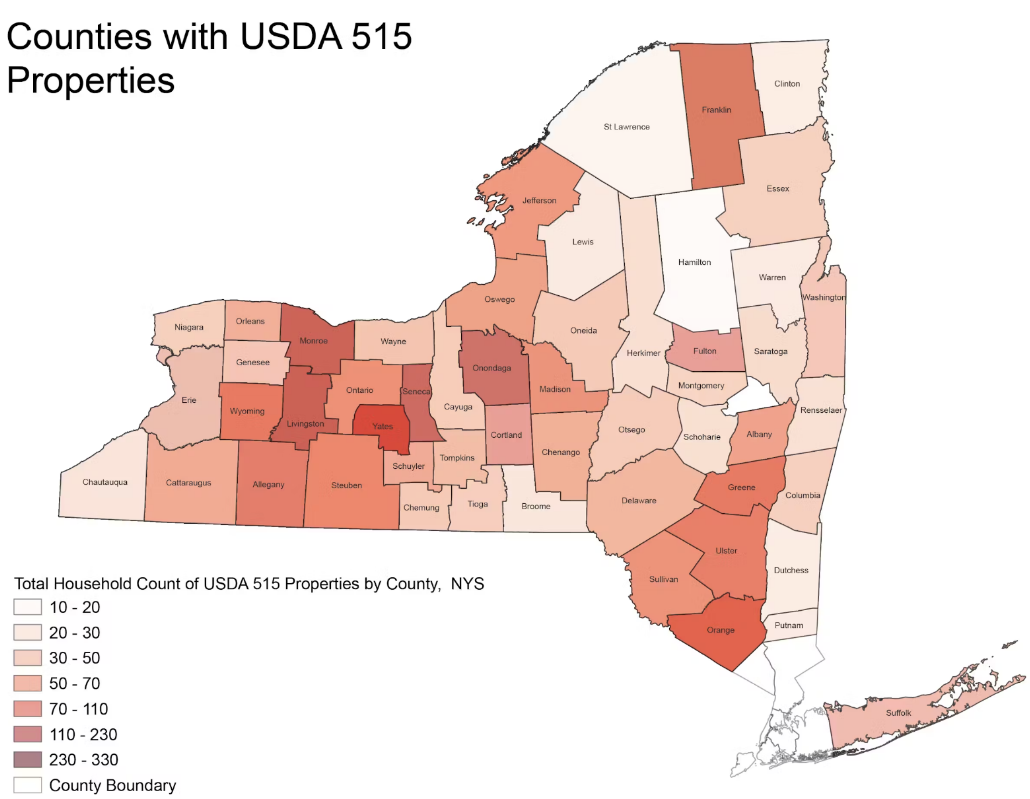
RPA Campaign

Building an Affordable Region



Vulnerable rural rental households face a precarious future if this source of affordable housing is lost. There are limited alternatives, as only 4% of new rural multifamily permits in 2020 were rental projects. And homes are even further out of reach, with the National Home Price Index increasing by almost 35% from November 2020 to November 2023. The rise of remote workers and those seeking seasonal secondary homes also continues to drive up housing costs and incentivize more market-rate housing and luxury housing.

USDA Section 515 tenants are facing a potentially devastating housing and financial situation. Estimates suggest that without action at the federal level, rural communities could lose 100,000 of these affordable homes in the next decade as the loans are paid off. This loss has national implications, as 87% of counties in the United States have at least one Section 515-subsidized rental property. Rural communities also face significant challenges with social determinants of health. In 2019, rural households had a 20% higher death rate than their urban counterparts. Socioeconomic factors account for 80% of a community's health, and housing is among the most critical.

Nearly two decades ago, the USDA reported that no Section 515 properties had enough financial resources to address necessary maintenance or repairs. This feeds three overarching challenges rural renters face: substandard housing options, lack of affordable housing supply, and barriers to other types of housing. Across the country, the rural renter population is estimated to increase from 5.1 million in 2010 to 6.2 million by 2040, with a 20% increase in low-moderate income senior rural renters. This will only further stress the rental supply in these communities unless we do more to address these needs.

Too many people are impacted by housing supply shortages and increasing housing cost burdens. However, rural communities face unique challenges that highlight the importance of the USDA Section 515 program. Homeownership rates tend to be higher, with a large share of units as single-family homes. Manufactured housing is also more common, and households face limited options for multi-family rentals. Remote geography and less economic opportunity means that even with typically lower housing costs, incomes are lower, and households face higher poverty rates.

Much like other parts of the country, the housing crisis across New York continues to worsen after several failed attempts at major statewide land-use changes to facilitate an expansion in housing supply at scale. Vulnerable rural New Yorkers are faced with declining numbers of housing units, higher vacancy rates, and a loss of critical affordable housing as mortgages on thousands of USDA Section 515 units mature. This report focuses on who lives in these properties, where they are, and what the State can do to help protect tenants and preserve this critical source of affordable housing.

Key Findings

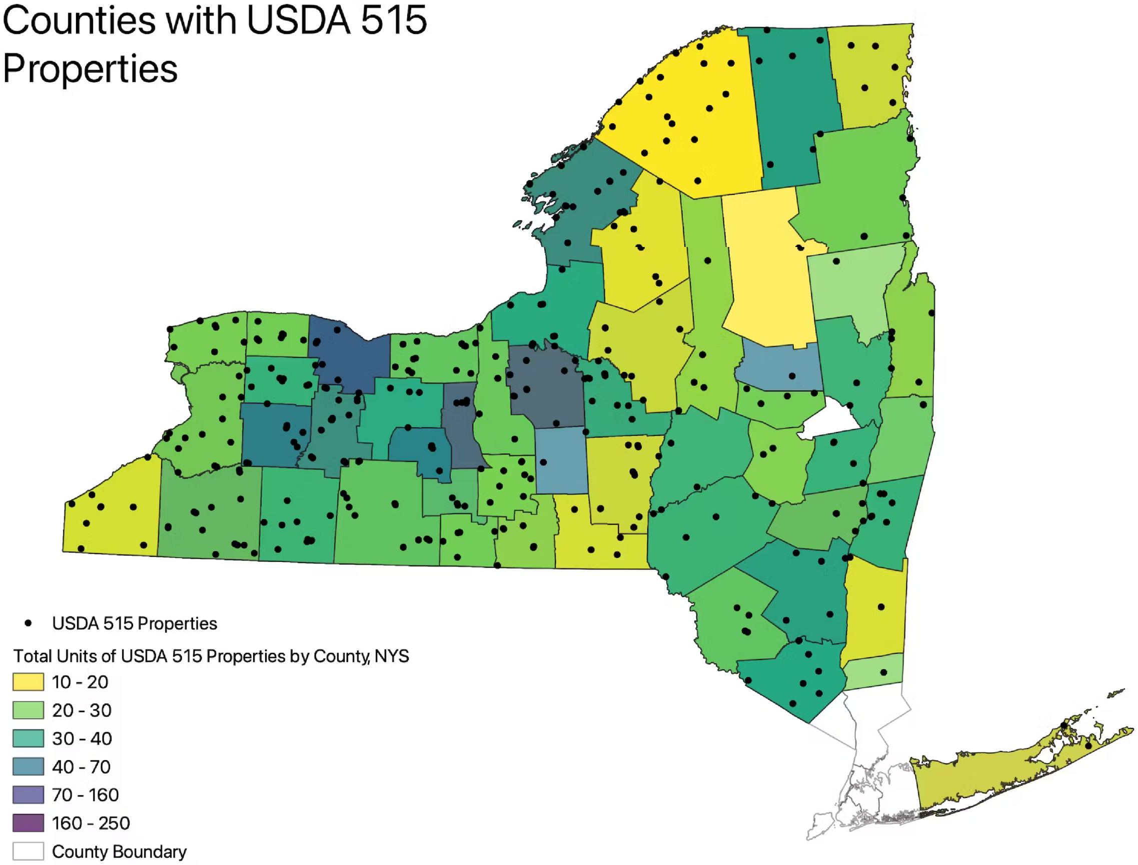
- Over 15,000 rural New Yorkers depend on USDA Section 515 properties for affordable housing
- 85% of all counties across New York State house tenants benefiting from USDA Section 515 properties
- Nearly half of all tenants are elderly, and over one in four have disabilities
- The average income for tenants is $18,000, which is less than half the state average
- With maturing mortgages already taking place, most properties will lose their affordability requirements in the coming years
- We can save thousands of affordable rental homes for rural New Yorkers by creating and funding a new state program

1 USDA Section 515 in New York

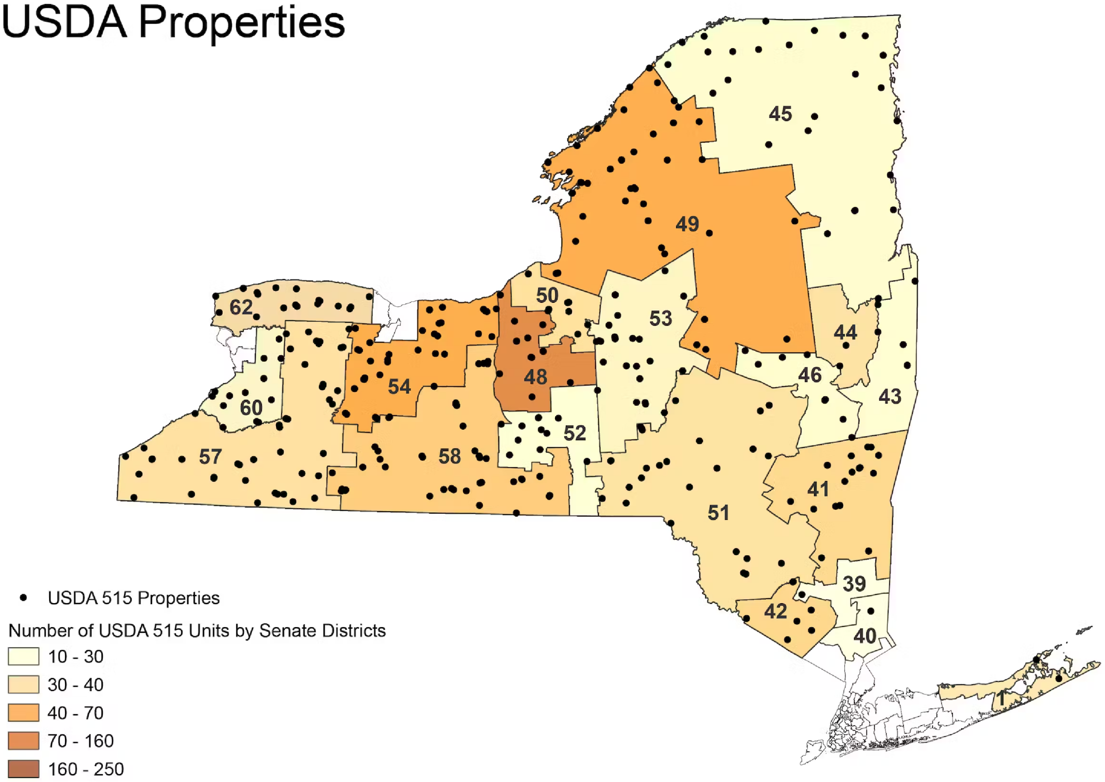
Most of the state relies on units developed through the USDA Section 515 program to provide affordable rental housing for low income rural New Yorkers. The following maps and charts provide a statewide overview of where these properties are located. In the appendix, you can find district profiles broken down by Senate, Assembly, and Economic Development Regions.

Mirroring national trends, 85% of all counties across New York State house tenants benefiting from USDA Section 515 properties. In total, there are close to 400 properties supporting over 15,000 households.

Counties with USDA 515 Properties

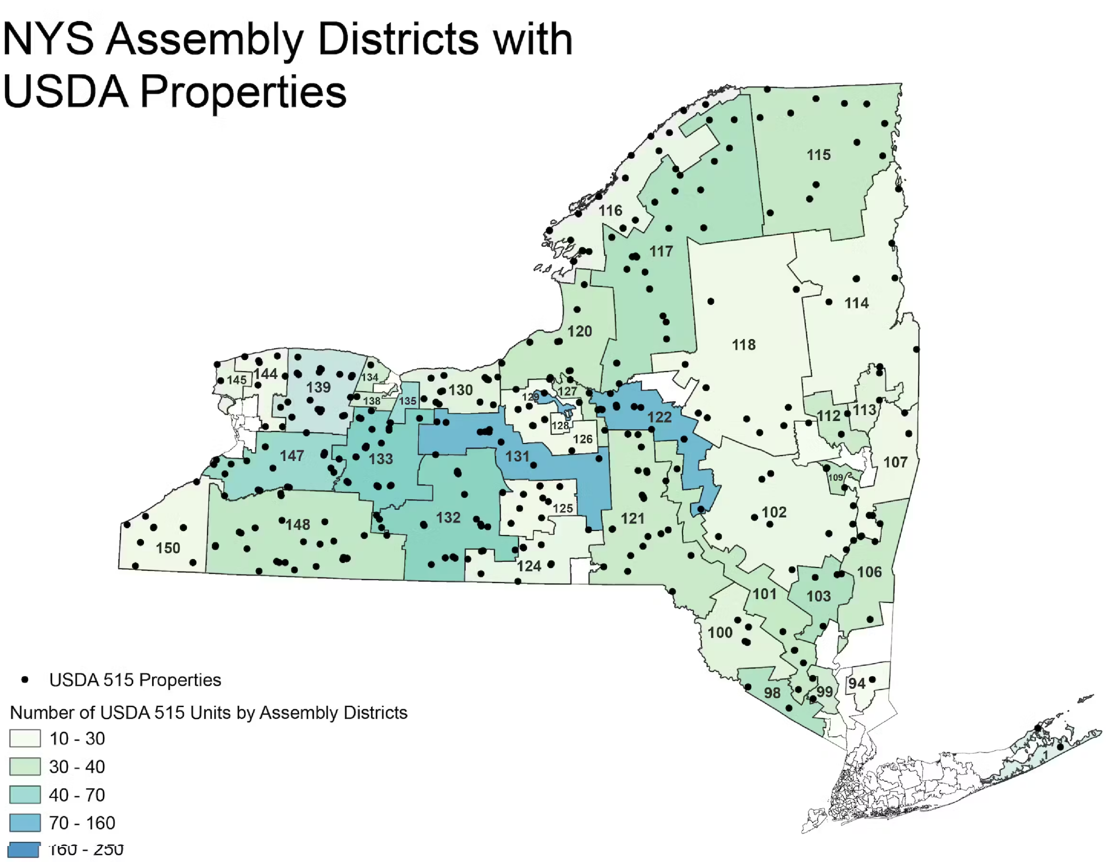


NYS Senate Districts with USDA Properties



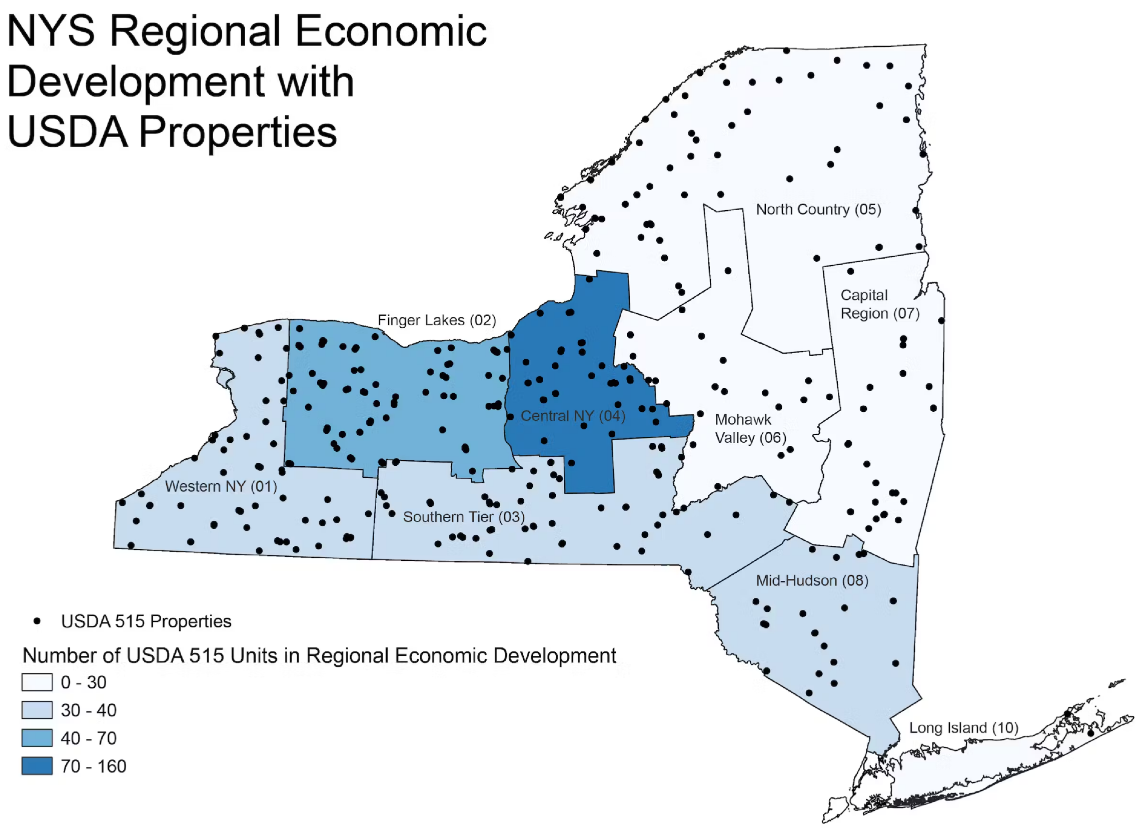
Number of USDA 515 Properties by NY State Senate District

Senate District	Number of Properties	Number of Units	Household Count
1	2	62	120
39	1	24	27
40	1	24	23
41	18	573	672
42	7	322	439
43	5	130	166
44	3	81	73
45	27	928	1,154
46	8	226	269
48	17	500	610
49	52	1,253	1,572
50	13	680	677
51	27	739	934
52	11	390	446
53	28	877	1,015
54	39	1,274	1,767



Number of USDA 515 Properties by NY State Assembly District

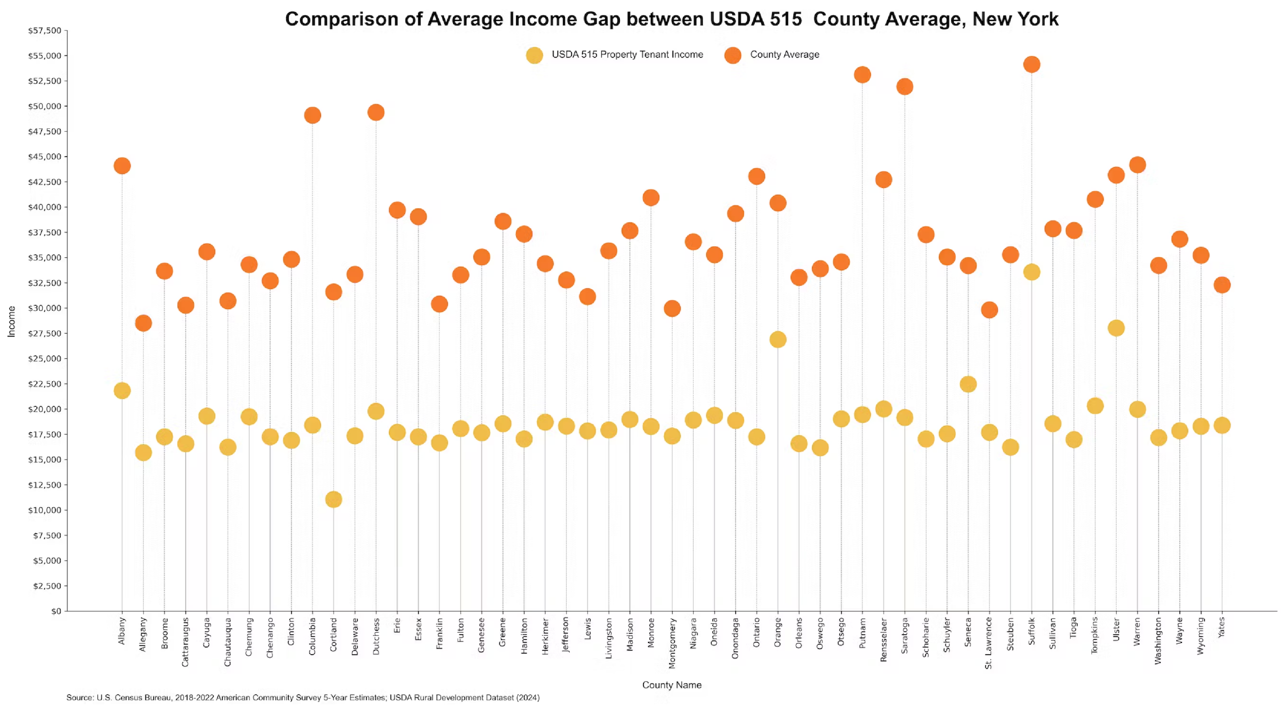
Assembly District	Number of Properties	Number of Units	Household Count
1	2	62	120
94	1	24	23
98	2	104	155
99	1	40	59
100	4	132	196
101	7	254	306
102	13	380	467
103	4	149	195
106	4	92	94
107	7	202	211
109	3	96	129
111	1	24	27
112	2	57	52
113	4	145	241
114	7	157	190
115	12	524	650
116	23	573	730
117	27	689	767
118	13	295	371
120	14	578	740
121	22	643	782
122	14	423	490
124	12	347	430
125	10	366	422
126	13	324	369
127	4	252	121
128	1	24	25
129	1	80	140
130	15	526	743
131	11	402	609
132	20	819	1,051
133	23	703	1,002
134	1	40	33



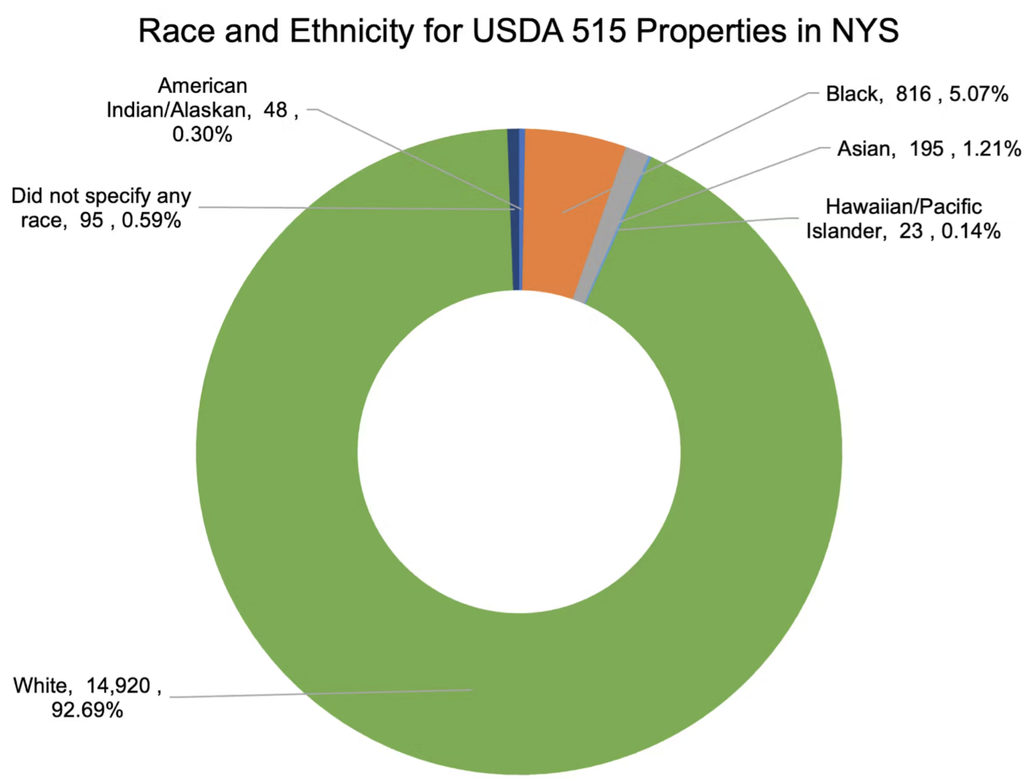
USDA Section 515 Properties by Economic Development Region

Regional Economic Development	Region Number	Number of Properties	Number of Units	Household Count
Western NY	1	60	1,829	2,132
Finger Lakes	2	82	2,860	3,836
Southern Tier	3	60	1,863	2,245
Central NY	4	47	1,727	1,996
North Country	5	65	1,819	2,211
Mohawk Valley	6	29	769	856
Capital Region	7	26	800	985
Mid-Hudson	8	21	743	977

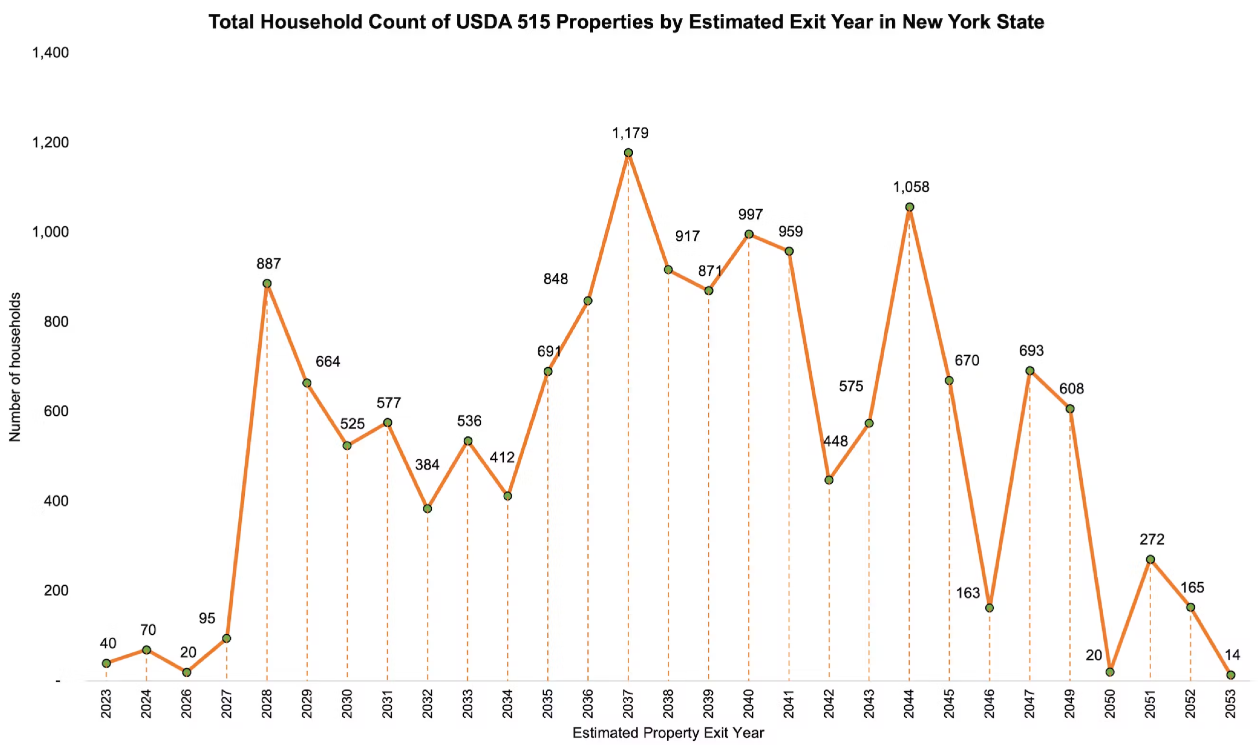
Nearly 49% of New York's USDA 515 tenants are elderly, more than half of the heads of households are women, and more than one in four tenants have disabilities (26%). Additionally, nearly 2,000 minors rely on these properties for stable housing. Tenants tend to be lower-income compared to other households, with an average income of $18,061 compared to the state average of $47,173. Across all counties, Section 515 tenants have substantially lower incomes when compared to their respective counties.



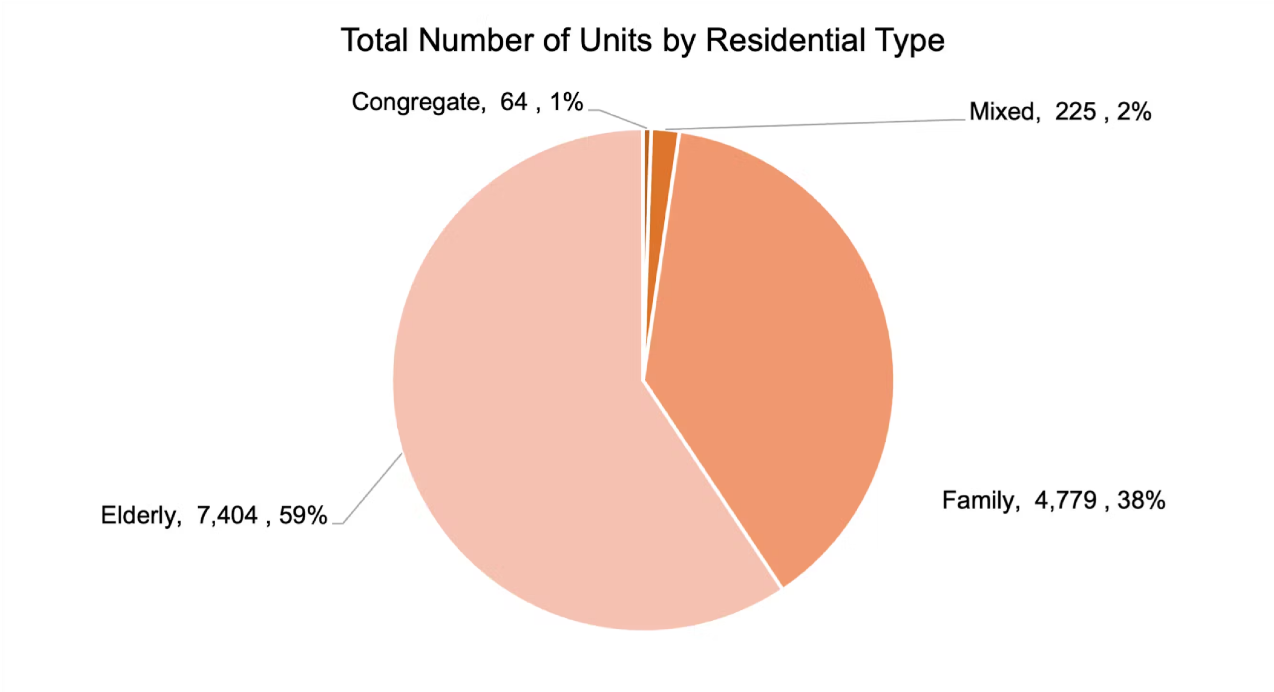
Most rural tenants identify as white, but trends across the country indicate that lower-income non-white households are increasingly moving to rural areas. These households are more likely to live in substandard housing, which includes homes without adequate infrastructure, overcrowding, and other quality and affordability challenges.

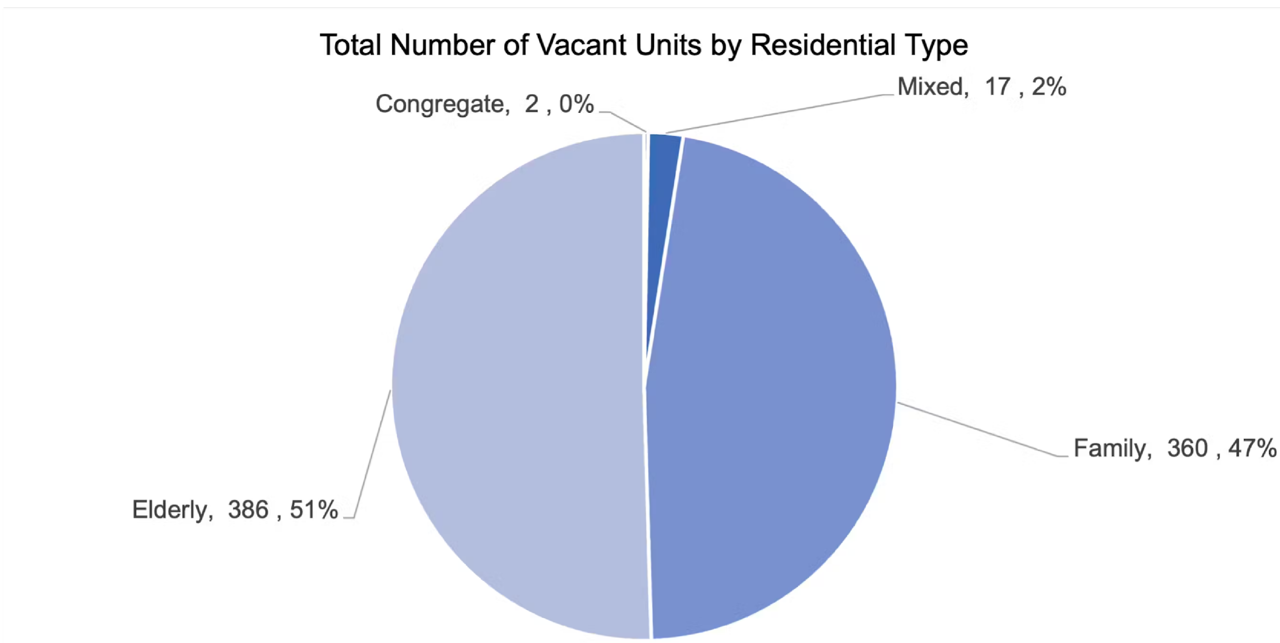


In the coming years, we will start to see an even greater increase in the number of households losing affordability and protections granted under the USDA Section 515 and related rental assistance programs. As shown in the chart below, while only a few dozen households are at risk of losing their affordability protections over the next 2-3 years, the number of households impacted increases substantially beginning in 2027 - after which we will start to see hundreds of tenants each year subject to potential displacement with limited access to housing and support if these programs are allowed to lapse.

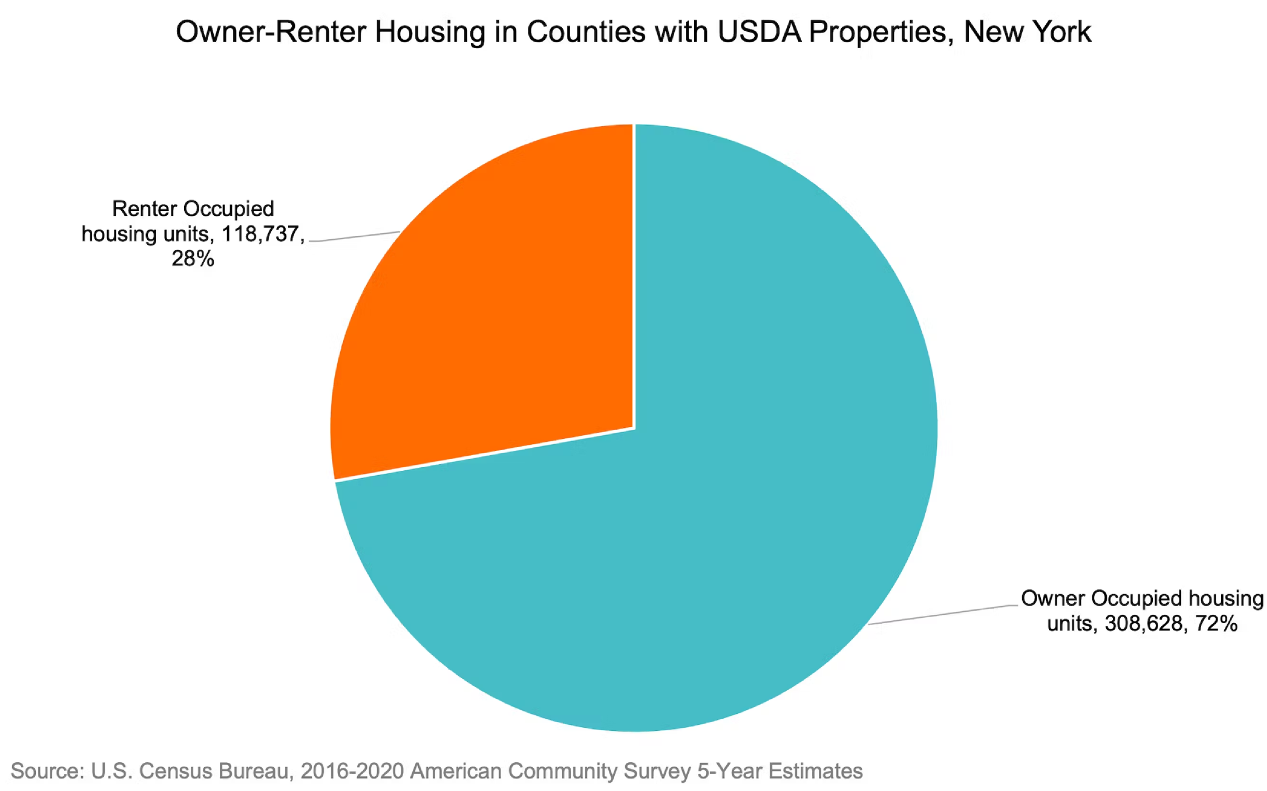


The tenants occupying these homes rely largely on fixed incomes and will not have many options should their properties exit the requirements established through the Section 515 program. Nearly 60% of units are for elderly New Yorkers, and hundreds are vacant. With the right program and funding, these vacant units could be renovated and added back into the program to benefit these vulnerable groups.





Within the counties that include USDA Section 515 properties, it is crucial to note that most of the housing stock - almost three out of every four units - is owner-occupied. We need to enact policies to make it easier to build more affordable housing, especially rental housing, in many of these communities. Until we do, this reality means a loss of USDA Section 515 rental units adds even more urgency to an already precarious situation, which could lead to negative outcomes such as overcrowding, use of low-quality dilapidated housing, or homelessness.



2 Challenges and Recommendations

USDA 515 properties can continue to provide quality affordable housing to some of the most vulnerable rural New Yorkers if we act quickly to help rehabilitate, preserve and create permanent affordability. Existing programs already being implemented by the state can be adapted to address the challenges with Section 515 properties to prevent displacement of vulnerable tenants.

In New York, the **Mitchell-Lama Housing Program** is a state-sponsored initiative to provide affordable housing to middle-income residents. It was established in 1955 to encourage the development and management of affordable rental and cooperative housing. Participants are able to take advantage of financial incentives and regulatory benefits to reduce costs. The essential functions of the program are:

- Provide developers financial incentives to build affordable housing in return for keeping rents and prices below market rate for a period of time (usually 20-40 years).
- Ensure tenants are meeting qualifying income restrictions to ensure housing is going to individuals and families in need.
- Protect tenants from excessive rent increases and arbitrary evictions.

- Ensure the state provides oversight - New York State Homes and Community Renewal (HCR) helps to regulate the program.

The program is not just meant to incentivize for-profit developers. There is a strong history of nonprofits sponsoring projects, helping with rehabilitation and managing properties.

Over 100,000 units of affordable middle-income housing have been developed through the program. However, these units face similar challenges to USDA Section 515 properties, namely:

- When the affordability period ends after 20-40 years, units not covered by the Rent Stabilization Law or Emergency Tenant Protection Act are deregulated and may see increases in rents.
- Limited supply means long waiting lists for existing units.
- An aging housing stock and expensive upkeep mean units may end up in disrepair, leading to unsafe living conditions for tenants.
- Participation due to its 35-year affordability restrictions was limited, resulting in reduced affordability timelines to increase participation.
- Markets that are appreciating make it difficult to incentivize greater affordability without requisite deeper subsidies to make it worthwhile to owners.

The state has been implementing the Mitchell-Lama Rehabilitation and Preservation (RAP) program to address cases where existing properties are in need of serious investment and capital repairs. Through RAP, property owners are incentivized to make necessary repairs in exchange for extending the period of affordability and tenant protections (up to 40 years) $50 million was appropriated to support such programs to help preserve Mitchell-Lama units in the state's FY2023 budget. There is an opportunity to create a program that mirrors this focused on the USDA Section 515 properties. The program would need to similarly offer terms that give property owners an incentive to stay in the program and continue affordability regulations.

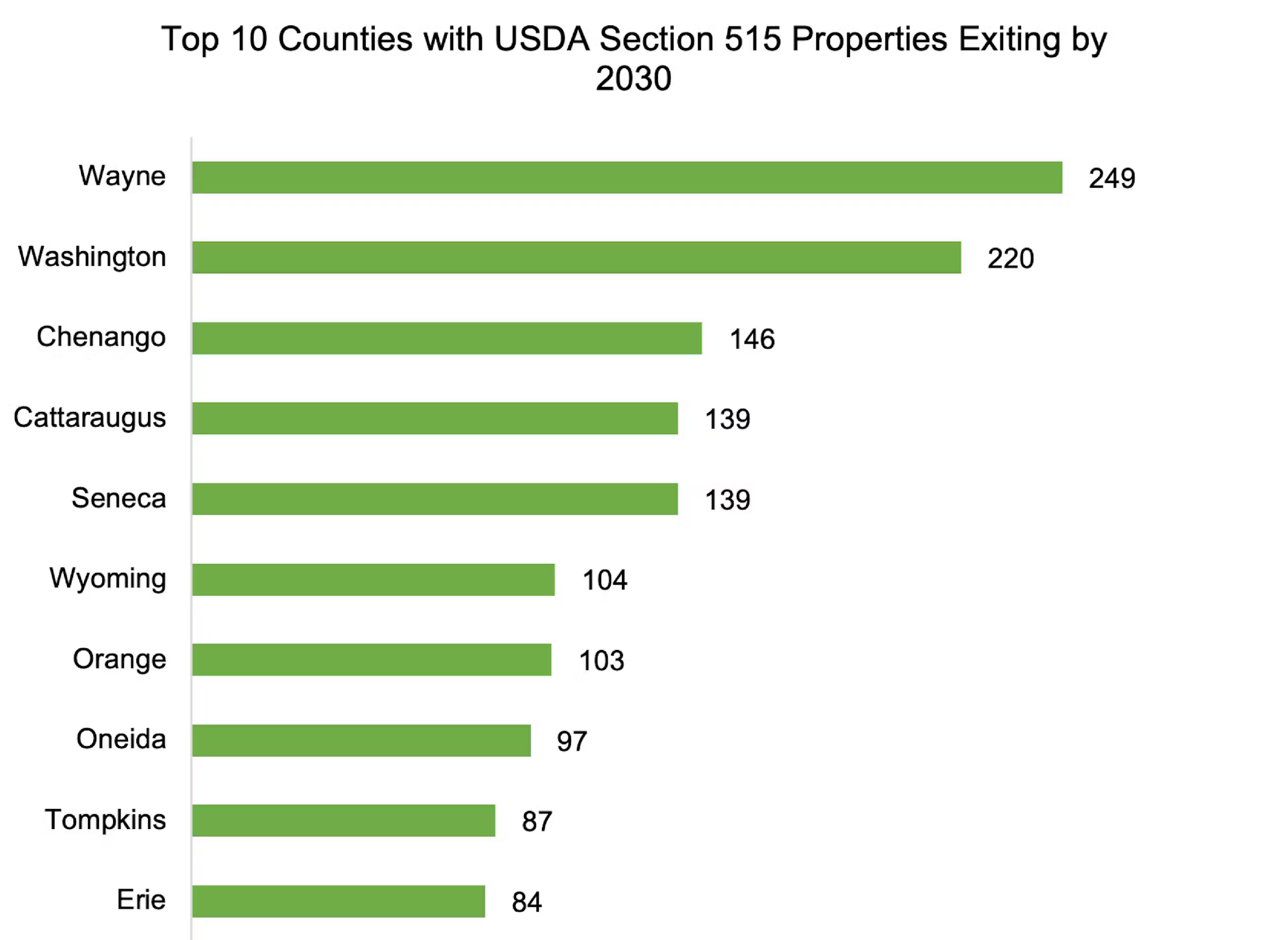
French Bay Family Apartments, Clayton, NY; Beechwood Apartments, Albion, NY; West Broadway Villas, Monticello, NY; Washington Park Apartments, Castile, NY

The State can also work to set aside additional Low-Income Housing Tax Credits (LIHTC) for the exclusive use of supporting USDA Section 515 properties. Small-scale developments often have to compete with larger ones, making it difficult to use credits in rural communities. But at their own discretion, the State can set aside funding in order to preserve these rental properties.

In the aftermath of the foreclosure crisis, the State of New York Mortgage Agency Community Restoration Fund was established to help homeowners have a fresh start. As part of that initiative, a loan fund was established to support **community land trusts** (CLT). This option could be expanded to support USDA Section 515 properties, especially as CLT models have grown beyond homeownership and increasingly support the preservation of affordable rental housing.

The **Restore New York Communities Initiative**, implemented by Empire State Development, is another program that, among other goals, is intended to help revitalize rural areas. The program can be used to fund the rehabilitation of properties and could be another State tool for preserving USDA Section 515 properties. Governor Hochul has proposed another $50 million in the budget to continue the program. One challenge is it requires municipalities to initiate an application. Given experiences from other parts of the country, it is clear that pooled-transactions that cut across counties are critical to achieving success at scale.

There are a variety of reasons why a property owner may choose to leave Section 515, but one of the requirements is to ensure non-profits are given an opportunity to learn about the opportunity to buy and operate a project. The State could do more to ensure that non-profit, mission-driven organizations that are qualified to develop and/or manage properties are able to better engage with USDA 515 properties in the event an existing property owner wants to prepay their loan or is otherwise seeking to sell a given property.



Whatever options we can implement to fund the rehabilitation and preservation of USDA Section 515 properties across the state, there is a framework for implementation that should be adhered to:

1. Adequate funding is critical. There must be an Initial investment by the state to prioritize units exiting the program by 2030 upfront. This should be followed by more significant investment as the number of units impacted continues to increase in the coming years." The capital needs and risk for expiring mortgages is too real to start with a low amount of funding that serves only a handful of properties.
2. Coordinate with the USDA, property owners, tenants, and trusted non-profit organizations to streamline the transfer process, reduce costs, and incentivize engagement in the program.
3. Ensure quality oversight and continue and expand upon technical assistance and capacity-building support to inform tenants, property owners, and interested nonprofits on program guidelines.
4. Ensure adequate financing incentives and stable and predictable revenue for developers and property managers to address market and tenant volatility concerns.
5. Work to extend affordability periods as long as possible and identify strategies that could support the case for permanent affordability.
6. Pool properties into a larger portfolio to help address financing challenges that small properties inherently face.

A combination of financial incentives, regulatory streamlining, and an opportunity to contribute to community development can provide an attractive option for developers interested in creating affordable housing.

3 Case Studies

Around the country, State agencies, the USDA, private sector developers, localities and others have been able to come together and collaborate on deals to help rehabilitate and preserve USDA 515 properties while extending affordability. By pooling transactions, they have found success in preserving units at-scale:

New York

In 2023, the rehabilitation of a 52-unit affordable housing development in the Village of Perry in Wyoming County was completed. The property - Silver Lake Meadows - was created through the USDA Section 515 program in the late 1970s. The rehabilitation of the property included energy efficiency improvements to reduce utility use by over 20%. The property is affordable to households earning 60% AMI or less. Financing for the project included LIHTCs, HCR subsidy, and NYSERDA funding, among others. The rehabilitation helped to preserve the affordability requirements for these households.

Mark Gutman/Daily News

Georgia

In 2018, through a statewide-pooled transaction, Greystone Affordable Development collaborated with Hallmark Companies, Inc., the United States Department of Agriculture and the Georgia Department of Community Affairs to close on a $168.6 million multi-family housing transaction. This effort helped preserve 26 USDA Section 515 properties for 1,310 rental units across 17 counties. The financing plan required a combination of public and private funding, including tax-exempt bonds, LIHTCs, and USDA Rural Housing Service 515 debt, among others.

Tennessee

In 2015, Hallmark Companies, Inc. collaborated with the USDA national and state offices, Tennessee Housing Development Agency, to preserve 793 units across 20 properties. The $88.6 million pooled-transaction helped low-income households across 16 counties in the state. A mix of public and private financing, including tax-exempt bonds, LIHTCs, and USDA Rural Housing Service 515 debt, among others, was combined into a package to help achieve this success

Iowa

The Iowa Finance Authority coordinated with USDA to “create a noncompetitive tax credit demonstration set-aside, HOME program funds and revolving loan funds specifically to preserve Section 515 affordable housing.” The collaboration, which also included Community Housing Initiatives, Inc., a community housing development organization, helped preserve 72 rental units.

4

Conclusion

Advocates for increasing and preserving quality affordable housing in rural communities continue to call for the federal government to do more to preserve and expand affordable rural housing. There is a need for significant expansion of Section 515 funding as well as an expansion of the National Housing Trust Fund. Further, The Strategy and Investment in Rural Housing Preservation Act – a bill re-introduced by Senators Tina Smith (D-MN) and Jeanne Shaheen (D-NH) in May 2023 – would ensure that low-income tenants can still receive rental assistance to afford their rental home even after the mortgage expires. It would also allocate increased congressional spending to preserve affordable homes in rural parts of the country.

However, relying solely on the Federal government to address the issue will not be enough, and the consequences would be too great. Our federal government is divided and national solutions are not guaranteed. Meanwhile, thousands of residents across New York are at risk of losing a critical supply of affordable housing at a time when we are not meeting our housing needs, especially for our most vulnerable neighbors. Governor Hochul has an ambitious goal of creating 100,000 affordable homes over the next decade. But we cannot allow existing affordable housing to be lost. State leadership must act now to implement practical solutions to preserve the USDA Section 515 rental homes and ensure continued affordability for the thousands of New Yorkers who rely on these units for stable housing.

Appendix

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Notes

- There are 392 USDA 515 properties with 12,472 units.
    - 15,358 households rely on the USDA 515 program.
    - Of 62 counties in New York, 53 include USDA 515 properties, which is 85% of all counties in NYS.
- Demographics:
    - Elderly: USDA 515 properties house 7,465 older New Yorkers.
    - Disabled or Handicapped: USDA 515 properties house 4,026 older New Yorkers.
    - Minors: USDA 515 properties house 1,962 minors
    - Head of Household Female Count: 7,772
- Average income: The average income of USDA 515 households in NYS is $18,061 compared to the statewide average of $47,173.
- Average income calculated by USDA Section 515 tenant data provided per property

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