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Reprint of "Will They Stay or Will They Go: Predicting Subsidized Housing Opt-Outs" ☆

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ABSTRACT

Over the past 30 years, the share of renters in the United States spending over 30% of their income on rent, and thereby qualifying as rent burdened, has increased. This trend has particularly affected low-income families. At the same time, owners of thousands of privately owned, publicly subsidized rental housing units have left, or "opted out," of subsidy programs across the country. The efforts of local governments to preserve these properties as affordable housing are handicapped by a lack of understanding of the underlying factors that drive owners' decisions to opt out. This paper employs a unique dataset on subsidized properties in New York City and uses hazard models to explore why property owners in the Mitchell-Lama program, a New York State affordable housing program, choose to opt out. Our results suggest that properties located in neighborhoods with high property value growth, those with for-profit owners, and those past the affordability restrictions on all subsidies, are more likely to opt out. While our study focuses on Mitchell-Lama properties, the findings have broader implications for properties around the country that receive supply-side rental subsidies.

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1. Introduction

Over the past 30 years, the share of renters in the United States spending over 30% of their income on rent, and thereby qualifying as rent burdened by the U.S. Department of Housing and Urban Development (HUD), has increased. This trend has particularly affected the lowest-income families. At the same time, many of the privately-owned, publicly-subsidized rental properties across the country have reached the end of subsidy

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restriction periods and therefore are no longer required to be maintained as "affordable." [1] Owners of subsidized rental properties have chosen not to renew their affordability commitments ("opt out") and to convert thousands of units to market rate, further reducing the affordable rental stock. Furthermore, fiscal pressures have reduced capital funding for new affordable housing at all levels of government, which has limited the resources available to "preserve" the affordability of these rental units. Preservation efforts have also been compromised by a lack of data on these properties, and a lack of empirical evidence as to why owners choose to leave subsidy programs. This paper contributes to understanding the decisions of subsidized multifamily owners by testing six hypotheses about why owners leave subsidized housing programs. We find that ownership structure, local price appreciation, and the expiration of all affordability requirements are the three main determinants of property opt outs.

Housing affordability has been identified as a major issue for some time. Quigley and Raphael (2004) find the share of income spent on rent increased across all income groups between 1970 and 2000; this was particularly salient for the poorest renters, with the median renter household below the poverty line spending 64% of income on rent in the year 2000. They further estimate that as of 2000 there were 5.1 million renters who received a rental subsidy, yet there were 7.3 million renters below the poverty line. Macpherson and Sirmans (2003) go so far as to argue that housing affordability for the lowest-income renters in the United States was the number one housing problem at the time.

The number of low-income renters facing high rent burdens has only increased since the early 2000s. A report by the Joint Center for Housing Studies (2011) finds that there was an 11.2% increase in the number of severely rent burdened households between 2007 and 2009.[2] The report estimates that there were 16.3 million households with incomes between 30% and 50% of their local area median income (considered "very low-income"), but only 12 million subsidized and unsubsidized affordable units across the U.S. in 2003. By 2009, that number increased to 18 million very-low income renters but only 11.6 affordable rental units. There are several factors contributing to this increased gap, including the demolition and filtering of some units, reduced funding for the development of new affordable rental housing, and an increased number of properties exiting affordable housing programs.

Federal, state, and local governments financed the development of millions of units of affordable rental housing throughout the 1960s and 1970s. Many of these units were financed with multiple subsidies, each with its own oversight, financing terms and affordability restrictions. The complex layering of subsidy programs makes it difficult to fully quantify how many subsidized rental units exist across the country. More importantly, it makes it extremely difficult to understand when a property is eligible to convert to market rate, or why an owner would choose to leave, or "opt out," of a subsidy program. In the mid-1980s, the affordability restrictions on these properties began to expire. Since then, thousands of subsidized rental units converted to market rate. Achtenberg (2002) estimated that nationwide, 40,000 subsidized rental units converted to market rate between October 1996 and April 1999. The Furman Center for Real Estate and Urban Policy (2011) found that between 1986 and 2011 there were 62,334 rental units located in properties where the owner decided not to renew their subsidy in New York City alone. In addition, they find that there were 38,790 additional units in properties where the owner is currently eligible, or will be eligible, to convert their property to market rate in the next five years.

Governments have been consistently thwarted by limited knowledge about the financing on these properties and the economic incentives of owners. Owner reservation prices are unknown and governments overpay to keep them in these programs, which has resulted in preservation programs that are unnecessarily costly (Khadduri, 2007). There is also a long-standing debate about whether the government should even focus its resources on supply-side housing programs. Olsen (2003) argues that demand-side responses are a better approach from a cost/benefit standpoint. Schwartz et al. (2006), however, find that investments in place-based housing deliver a potential tax benefit to New York City that exceeds the costs of providing subsidies. Further research into the true costs and benefits of preserving supply-side housing is required. One thing is clear, however: thousands of subsidized units have filtered up in recent years, and governments are trying to preserve the remaining units as affordable housing with limited tools and data.

Currently, little is known about the factors that lead owners to leave an affordable housing program. While it might seem that this decision would be based on a private owner's desire to maximize the return on investment, there are examples of owners who have decided to opt out based on other grounds (Econometrica and Abt Associates, 2006). Existing studies analyze the decision to opt out of the major federal supply-side subsidy programs, most notably the project-based Section 8 program and the Low Income Housing Tax Credit (LIHTC) programs, but none have been able to include all of the layers of federal and local subsidies on each property in their analyses. We contribute to this literature by adding this key missing component to our analysis. It is important to include all subsidy layers in any analysis because these layers can affect whether and when an owner chooses to leave any, or all, of the subsidy programs (Reina and Williams, 2012) and omitting such information biases any results. This is particularly true because owners may have already made a decision about whether or not to opt out of a supply-side subsidy program by the time the next layer expires. In this paper we focus on one program, the Mitch-

[1] Throughout this paper we define "affordable" as a property with below market rents. These rents may be well below market; however the difference between the "affordable" rent and market rent varies by whether the property receives a government subsidy, the type of subsidy, and the rents in the market where the property is located.

[2] In this report, they define severely rent-burdened households as those spending more than half of their pre-tax household income on rent and utilities, between the age of 25 and 64 with two or more earners.

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