

THE SECTION 515 PROGRAM AND THE CHALLENGE OF PRESERVING AFFORDABLE HOUSING IN THE UPPER MIDWEST

Based on research by Ryan Allen, Susan Bergmann and Max Geitz

January 2023

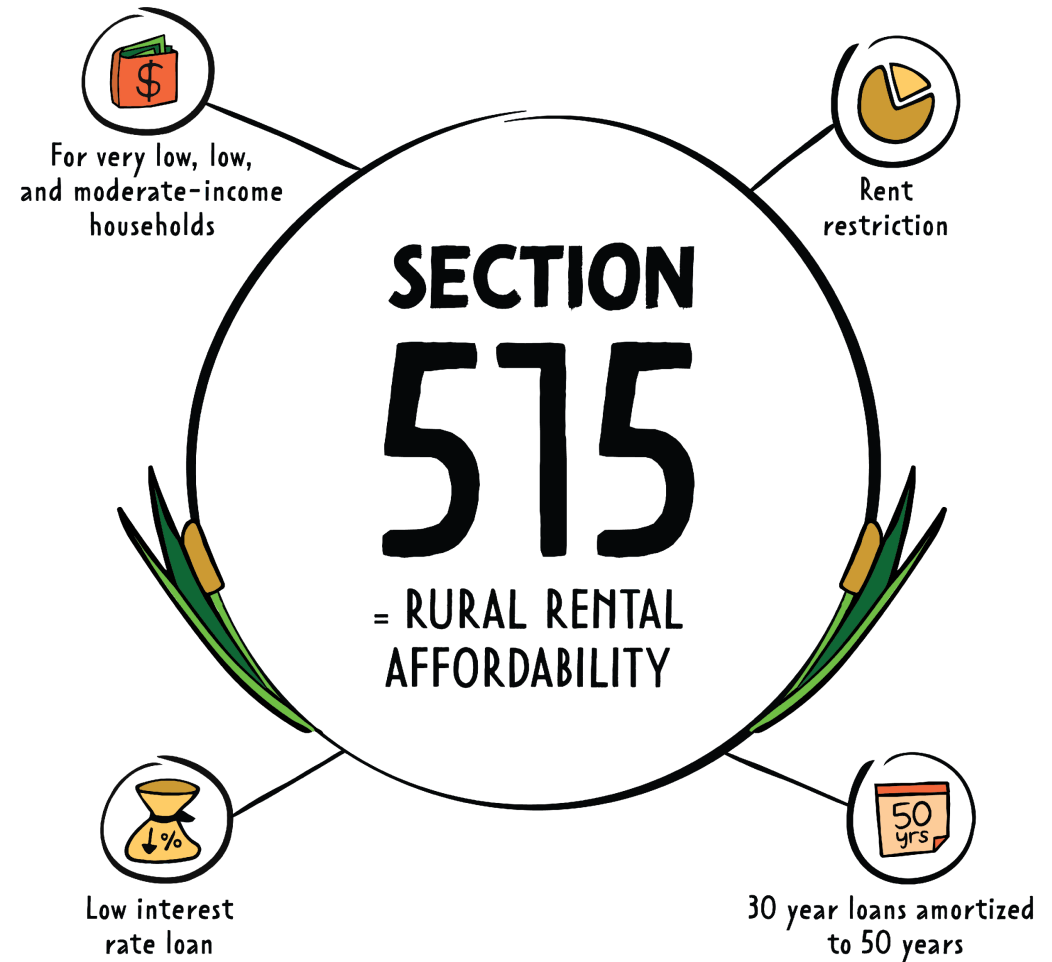


Agenda

- Overview of USDA Section 515 program
- Practical Tips for Community-Based Organizations
 - Technical Assistance Resources
 - Tips from the field: Three Rivers CAP
- Federal Solutions
 - Adam Schiff, Office of Senator Tina Smith (MN)
 - Lorraine Polak, Office of Senator Mike Rounds (SD)

What is the Section 515 program?

- **Senior Citizen Housing Act of 1962** authorizes **USDA** to make loans for rental housing in rural areas, amended in 1966 to expand program
- **550,000 units** of subsidized housing created since inception.



Research approach ...

- Profile of 515 properties and residents
- Examine what works well and areas of improvement
- Examine motivations of owners
- Data from USDA RD and 30 interviews

THE USDA SECTION 515 PROGRAM AND THE CHALLENGE OF PRESERVING AFFORDABLE HOUSING IN GREATER MINNESOTA

EXECUTIVE SUMMARY

Authors

Ryan Allen, Susan Bergmann and Max Geitz



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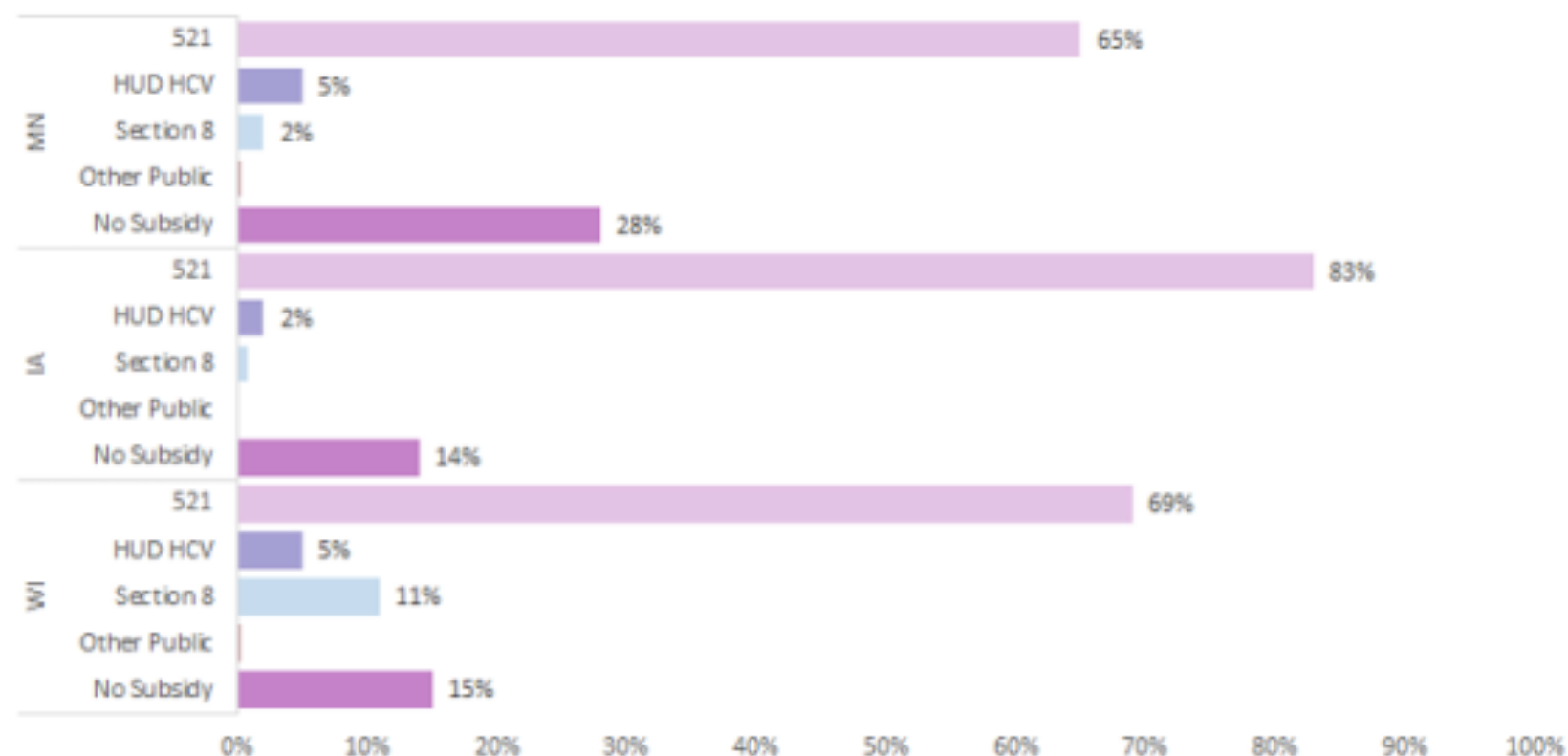
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Housing
Justice
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Section 521 Rental Assistance

- Section 521: Provides rental assistance (RA) to properties receiving Section 515 financing
- Most, but not all properties have rental assistance
- Most properties have a partial RA contract
- Tenants with RA pay 30% of income. RA stays with the property.

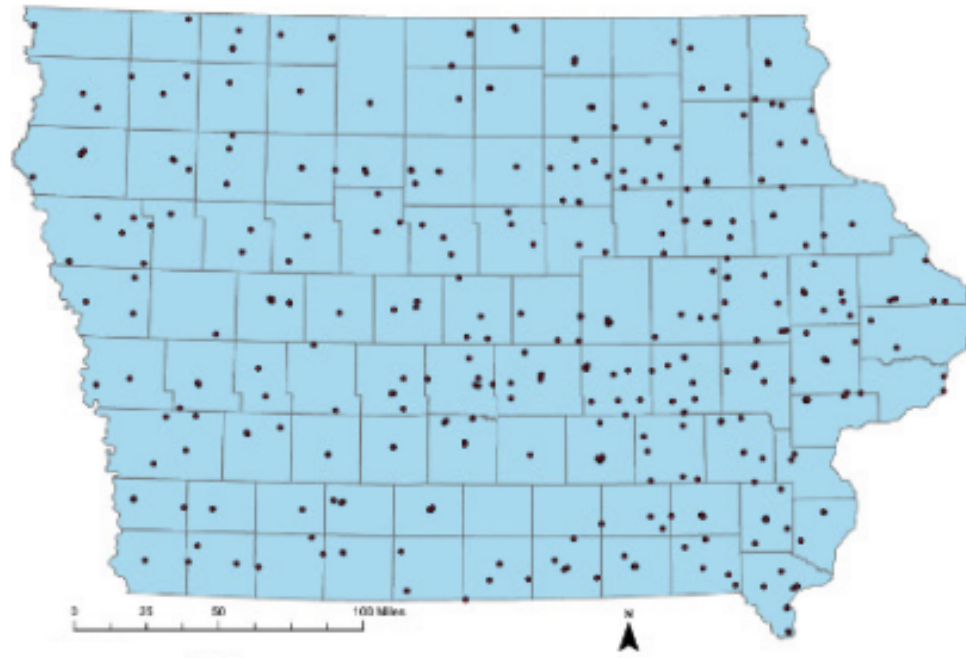
Figure 6: Additional Subsidies for Section 515 Housing Units, by State



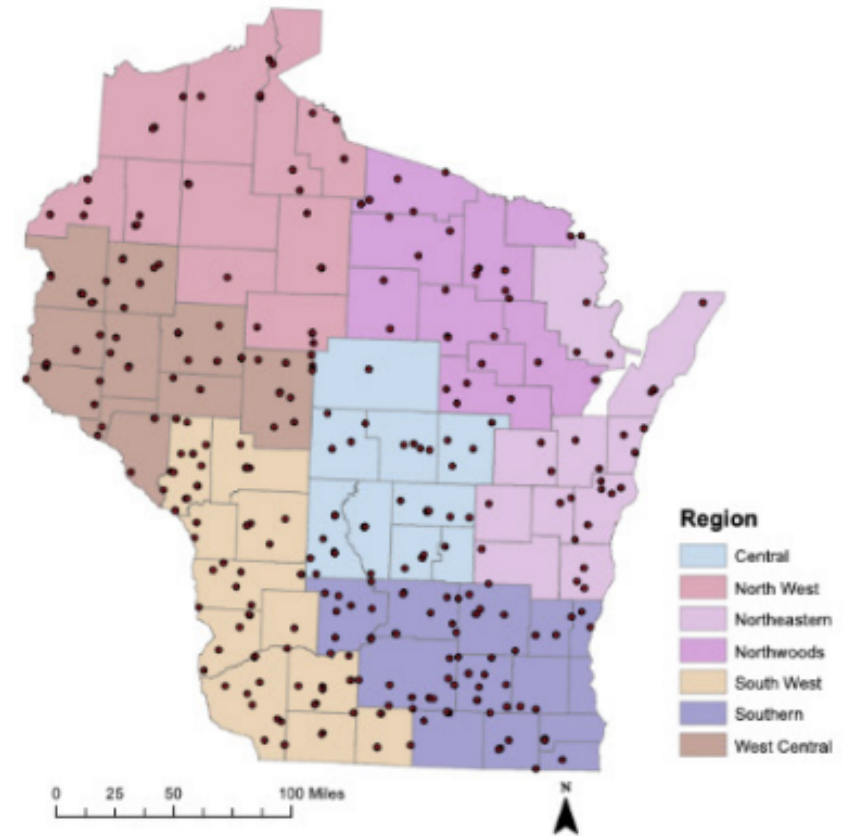
Source: USDA Rural Development Dataset; Tenant Info, 2020-07-17

(https://www.sc.egov.usda.gov/data/MFH_section_515.html)

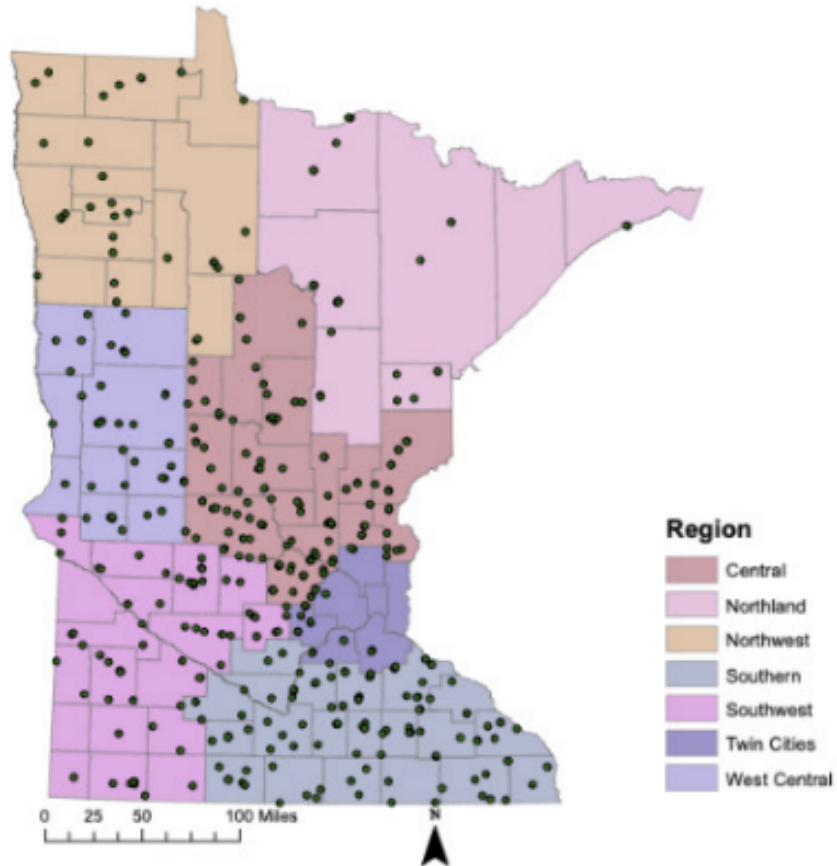
Map 3: 515 Properties - IA



Map 2: 515 Properties - WI



Map 1: 515 Properties - MN



Map 4. USDA Section 515 Properties - South Dakota

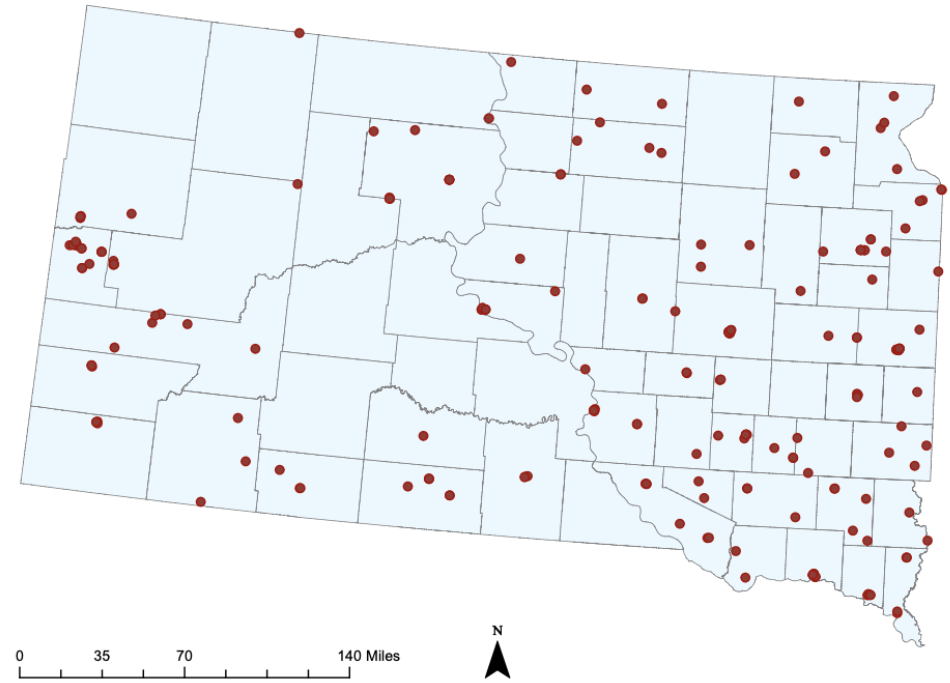
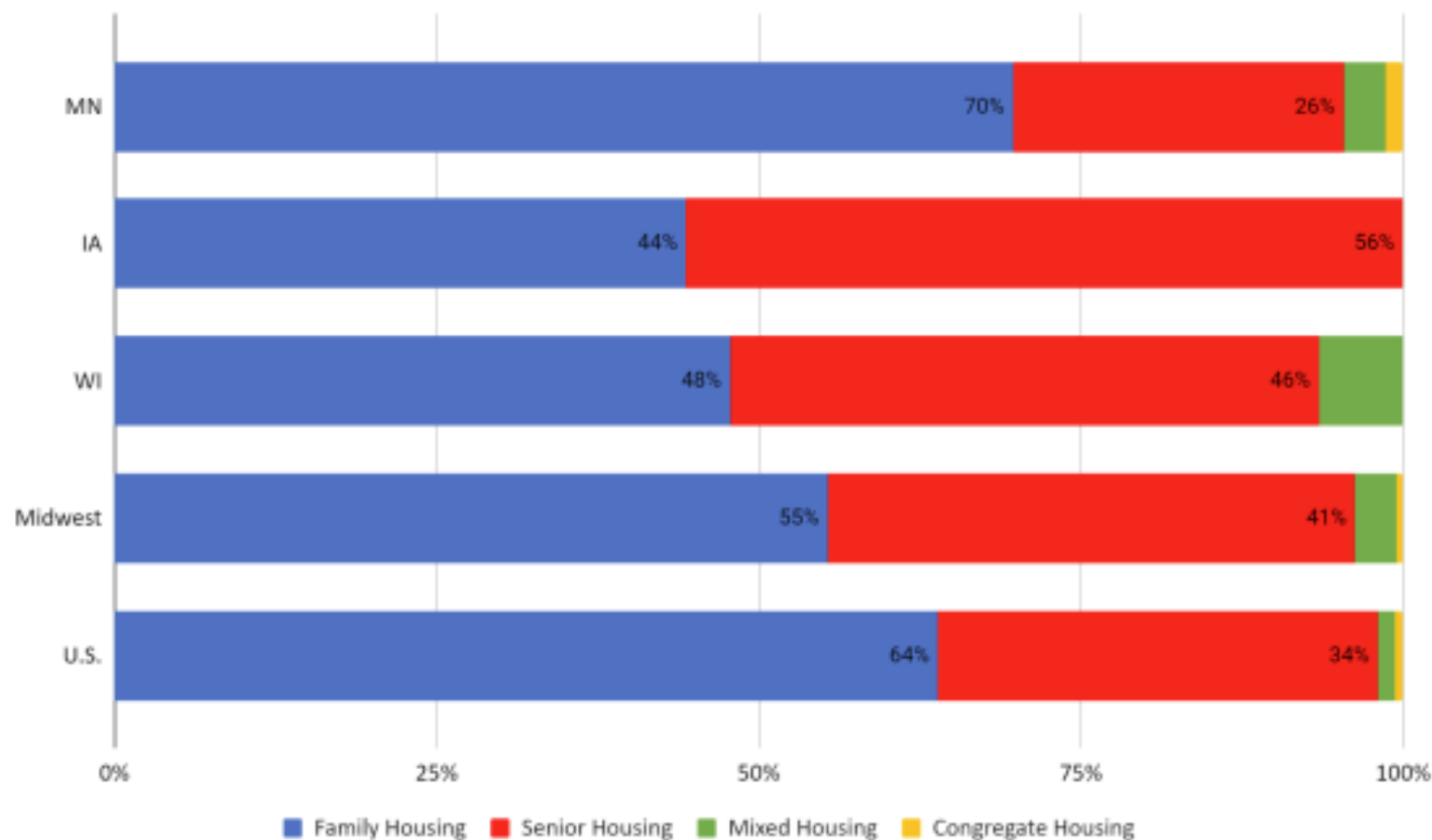
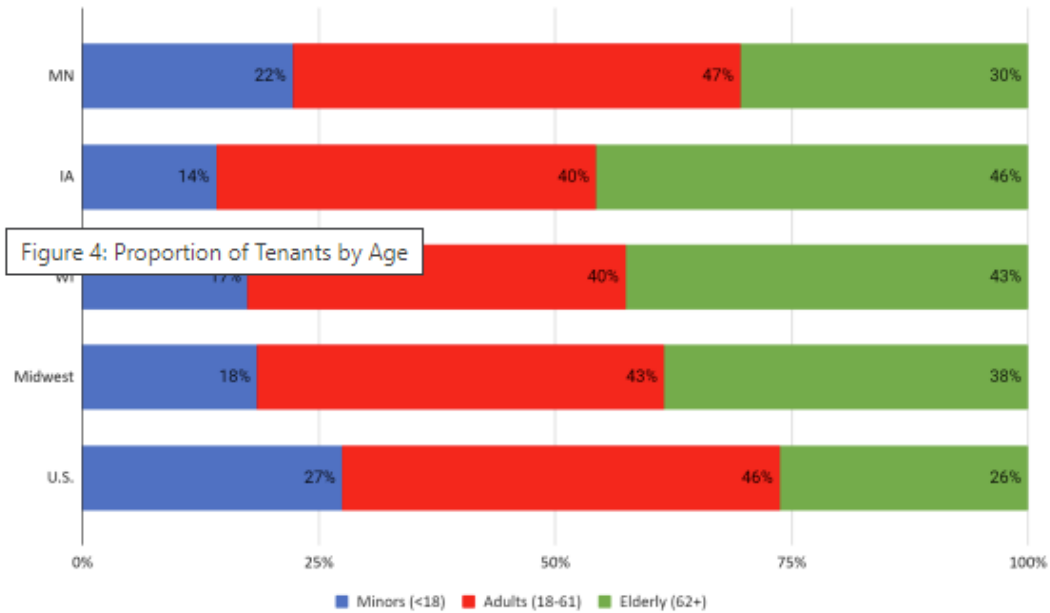


Figure 1: Proportion of Buildings by Property Designation



Source: USDA Rural Development Dataset; Active Projects, 2020-07-17
https://www.sc.egov.usda.gov/data/MFH_section_515.html

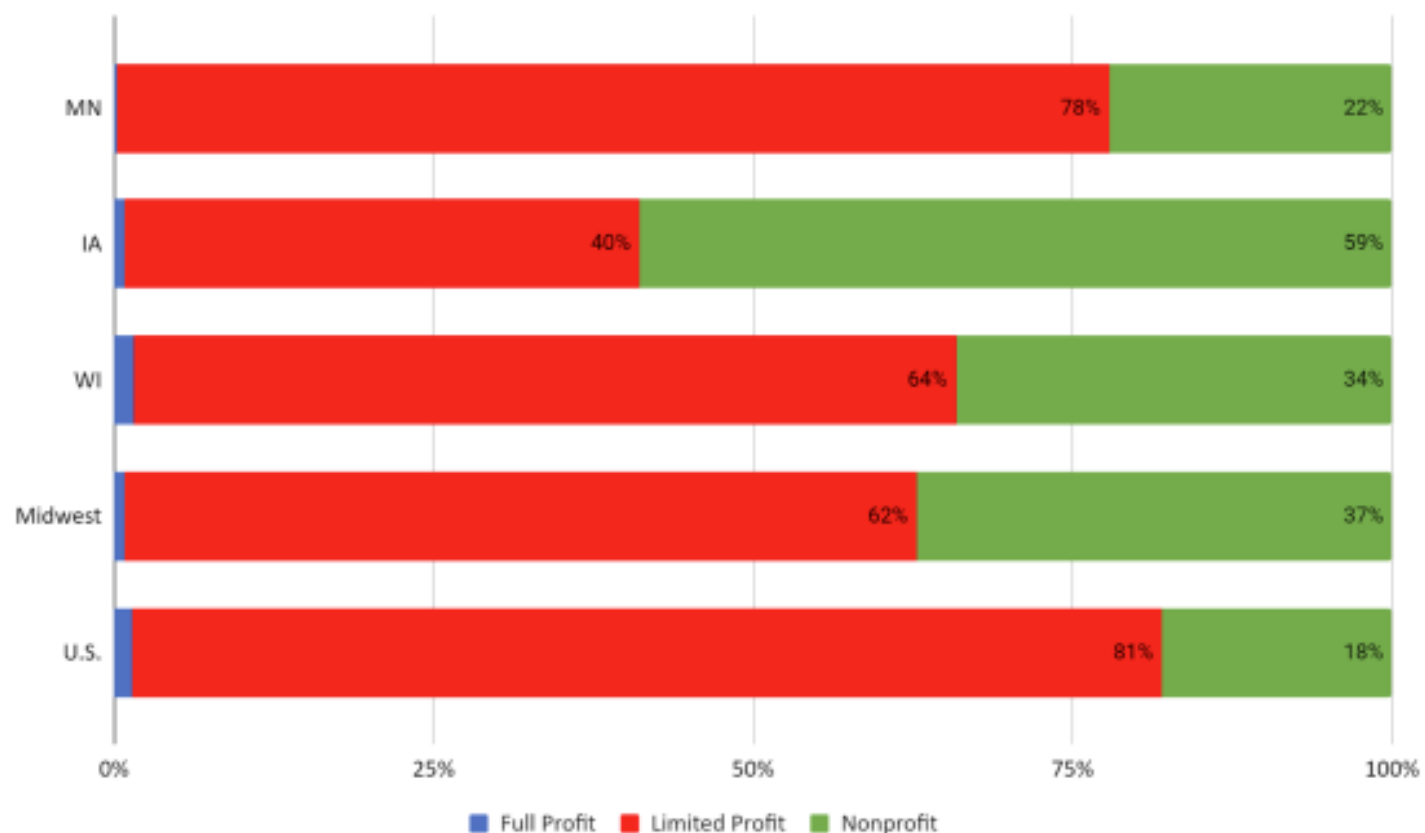
Figure 4: Proportion of Tenants by Age



Source: USDA Rural Development Dataset; Tenant Info, 2020-07-17
(https://www.sc.egov.usda.gov/data/MFH_section_515.html)

MORE THAN 40%
OF MIDWEST SECTION 515 PROJECTS ARE DESIGNATED FOR SENIORS
compared to 33% of Section 515 projects in the U.S.

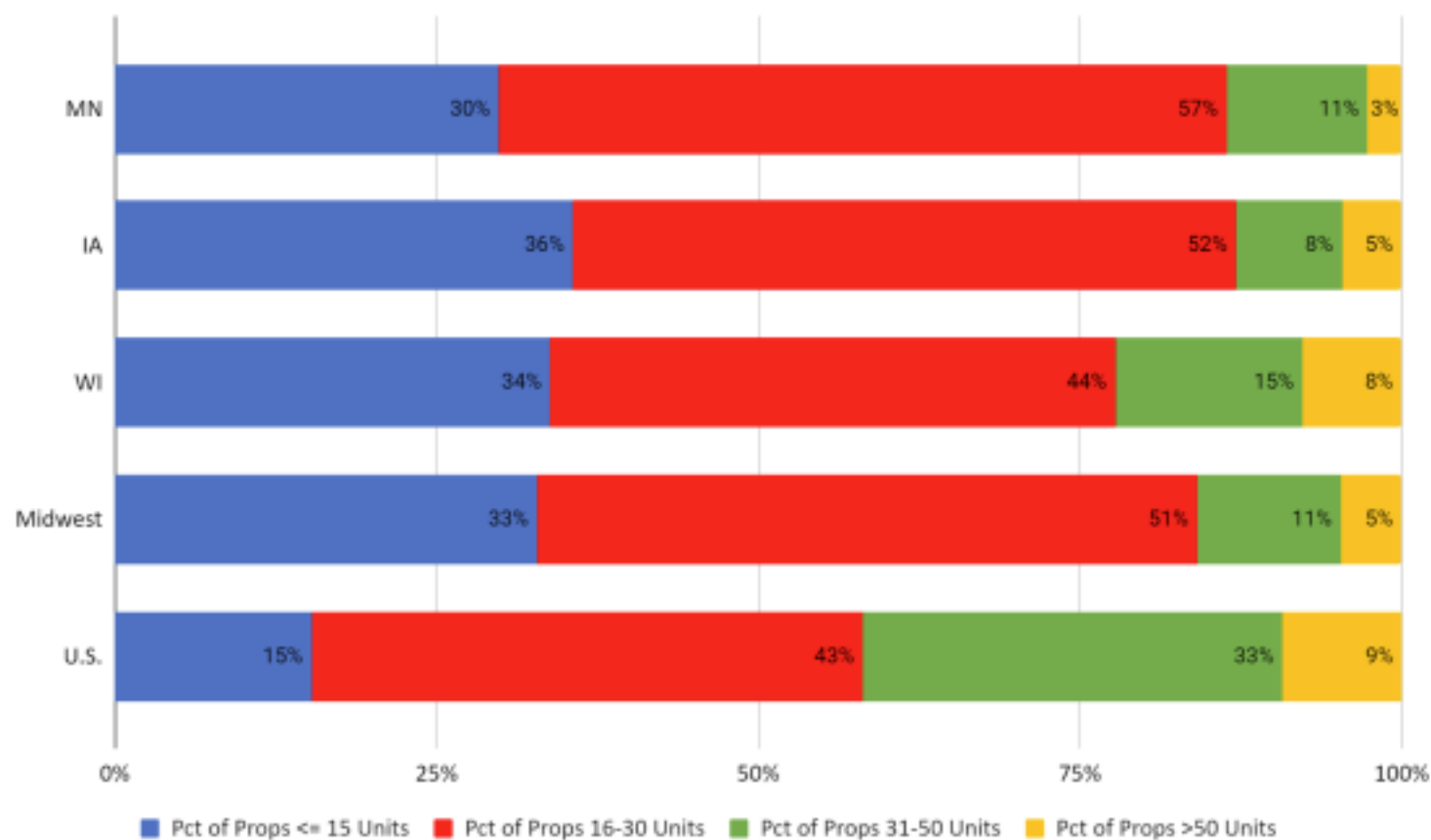
Figure 2: Section 515 Properties by Ownership Type*



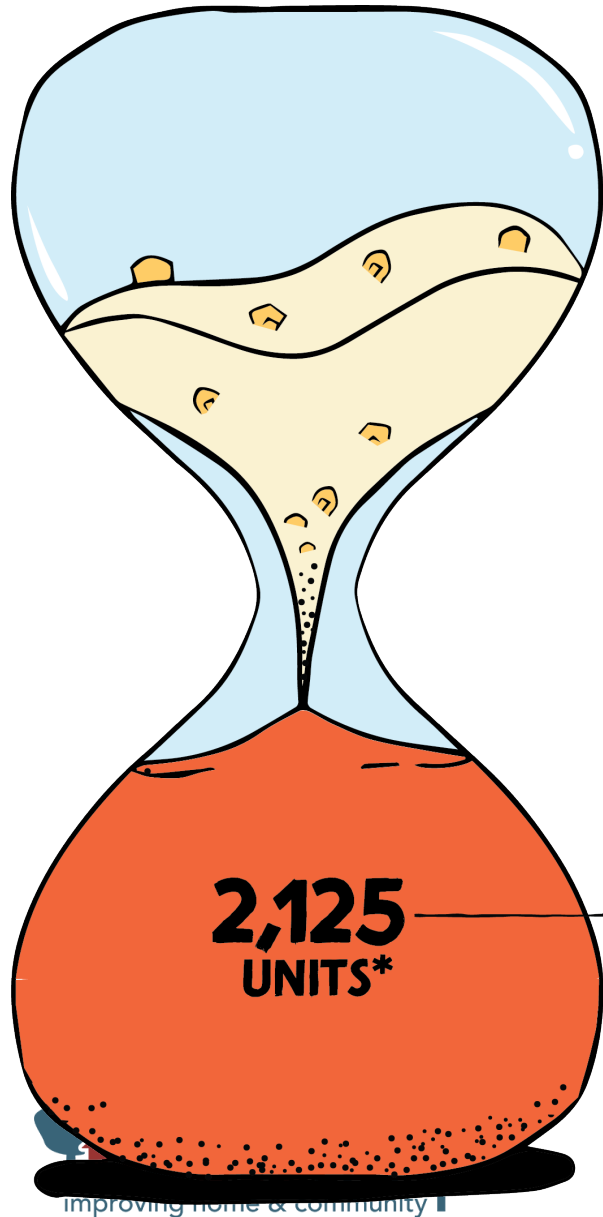
Note: * Numbers may not aggregate to 100% due to rounding

Source: USDA Rural Development Dataset; Active Projects, 2020-07-17
(https://www.sc.egov.usda.gov/data/MFH_section_515.html)

Figure 3: Section 515 Properties by Size



Source: USDA Rural Development Dataset; Active Projects, 2020-07-17
https://www.sc.egov.usda.gov/data/MFH_section_515.html



**IN MN
2,125 UNITS
MAY LEAVE THE
SECTION 515
PROGRAM BY 2030**

**MN SECTION 515 UNITS
WITH MORTGAGES MATURING
BETWEEN 2020 & 2030**

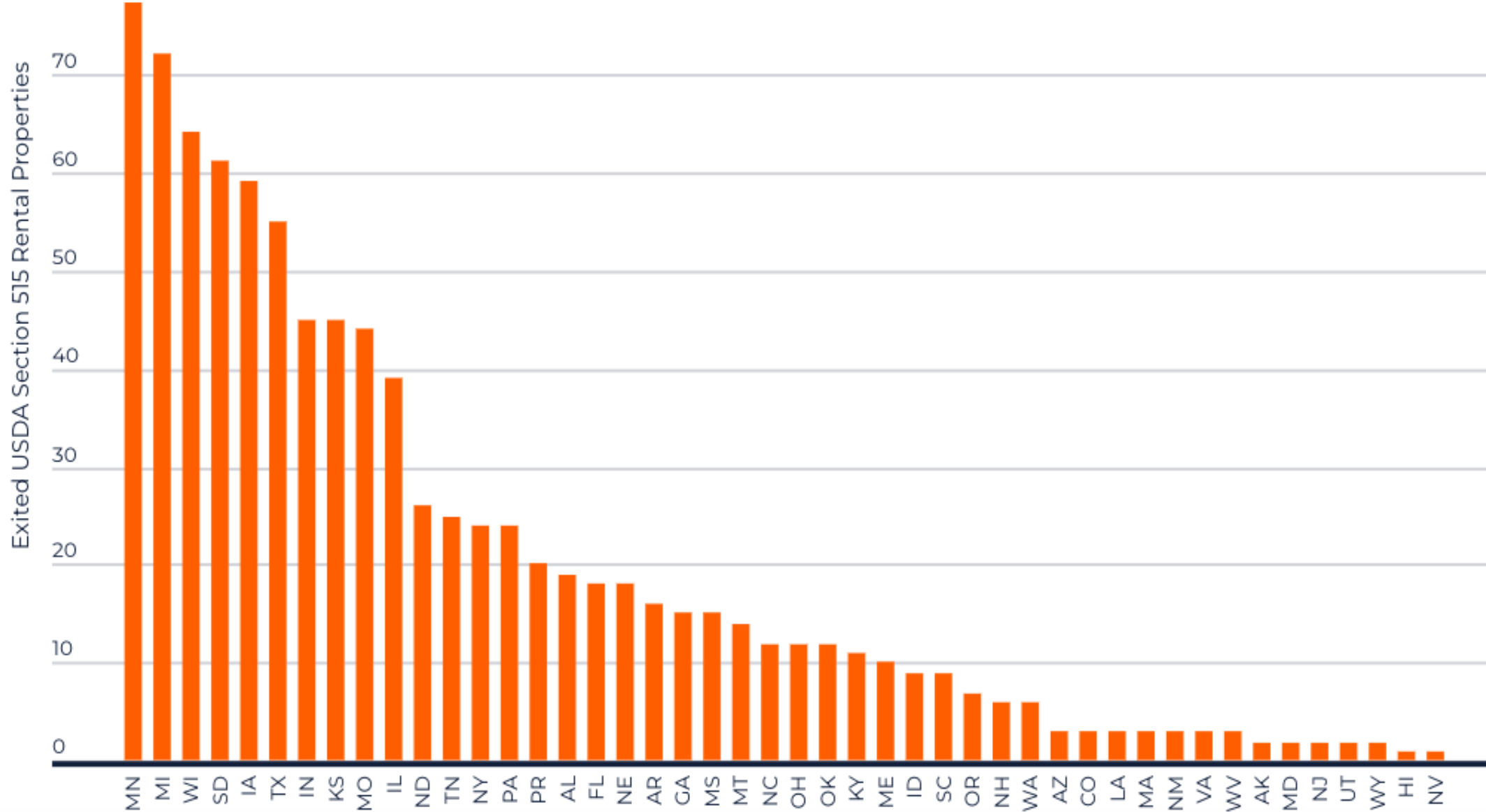
*equivalent to **22%** of MN Section 515
units in the program as of 2020

But section 515 doesn't
create permanently
affordable housing

**Timeline of Section 515 Mortgage
Maturations in Minnesota**

[https://umn.maps.arcgis.com/apps/
webappviewer/index.html?
id=70eb659e4e1b4dde8ab84a96f9f79f58](https://umn.maps.arcgis.com/apps/webappviewer/index.html?id=70eb659e4e1b4dde8ab84a96f9f79f58)

USDA Section 515 Property Exits by State 2016-21



Top Counties Losing Most 515 Units by 2030

Table 3: IA Counties Potentially Losing Most 515 Units By 2030

RANK	COUNTY	TOTAL UNITS IN PROPERTIES WITH MORTGAGES MATURING BY 2030
1	Mahaska	211
2	Buchanan	151
3	Butler	122
4	Humboldt	115
5	Poweshiek	107
6	Union	100
7	Lee	88
8	Hardin	75
9	Iowa	75
10	Clayton	72

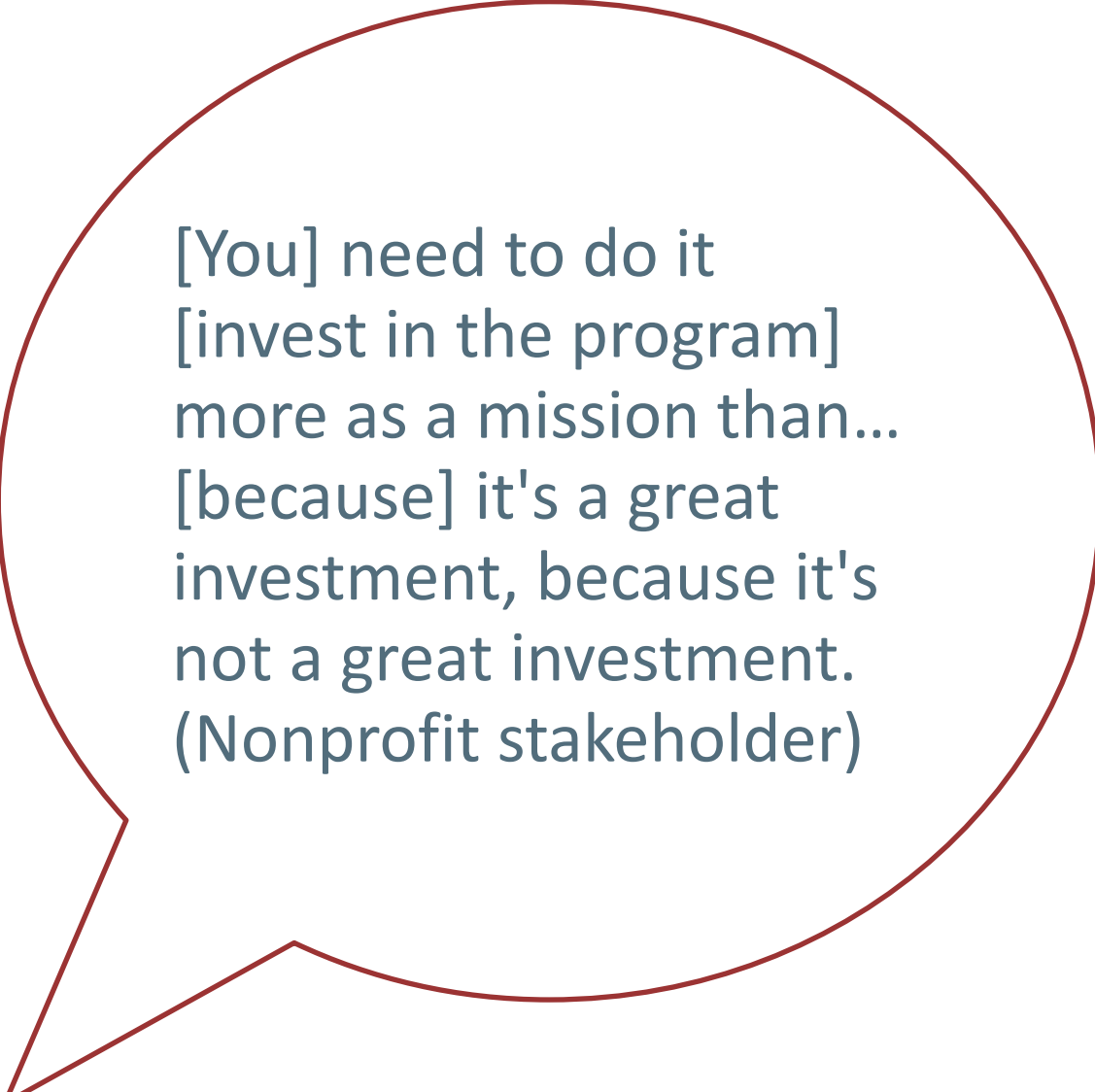
Table 2: WI Counties Potentially Losing Most 515 Units By 2030

RANK	COUNTY	TOTAL UNITS IN PROPERTIES WITH MORTGAGES MATURING BY 2030
1	Barron	108
2	Vernon	97
3	La Crosse	82
4	Jefferson	80
5	Trempealeau	80
6	Grant	70
7	Polk	64
8	Salk	62
9	Bayfield	48
10	Shawano	48

Table 1: MN Counties Potentially Losing Most 515 Units By 2030

RANK	COUNTY	TOTAL UNITS IN PROPERTIES WITH MORTGAGES MATURING BY 2030
1	Wright	153
2	Stearns	130
3	Douglas	74
4	Renville	72
5	Isanti	70
6	Todd	68
7	Carver	61
8	Martin	60
9	Kandiyohi	56
10	Blue Earth	52

Motivations for Investors

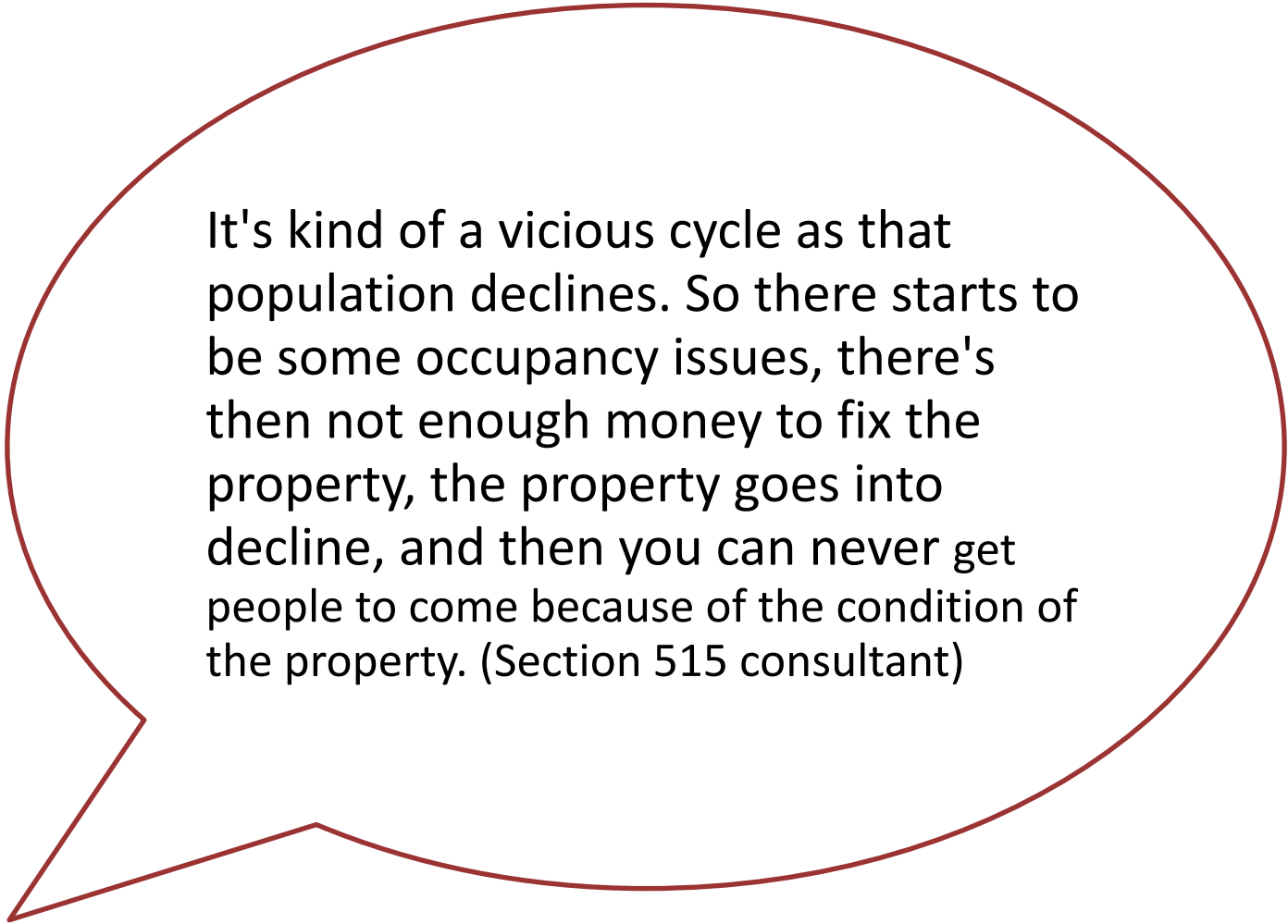


[You] need to do it
[invest in the program]
more as a mission than...
[because] it's a great
investment, because it's
not a great investment.
(Nonprofit stakeholder)

Split perspective from for-profit and non-profit owners:

- Reasonable rate of return and building a retirement portfolio vs. preserving a critical need for affordable housing in the community
- All acknowledge the importance of affordable decent housing for residents underserved by the market

Changes in the Economic Context



It's kind of a vicious cycle as that population declines. So there starts to be some occupancy issues, there's then not enough money to fix the property, the property goes into decline, and then you can never get people to come because of the condition of the property. (Section 515 consultant)

Strategic Importance of 515 Housing

The rural development properties are very, very good at helping rural communities with very, very low-income people. It keeps people in the communities that they live in and gives them an option to live there at an affordable rate. (Mission-driven owner)

“If you have some of these small communities where there's only a couple multifamily properties and one [Section 515 property]... exits the program and converts to market rate, it's a concern.”

-Section 515 Housing Consultant



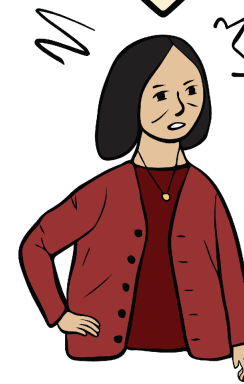
Perceived Problems with 515 Stock

- Lack of maintenance related to insufficient capital reserves required in Section 515 program
- Concern that lack of maintenance combined with property age and poor building materials has resulted in obsolescence

[Obsolescence] is to a considerable extent a function of the age of the housing ... Minnesota was a leader in building the first 515 housing projects so it's got some of the oldest in the country. (Section 515 advocate)

“We're just going into this assuming that the properties are old and that they need... pretty significant repairs.”

-Government Official



USDA Bureaucracy

“[T]hey have these crazy rules...specifically around the transfer process...and people don't understand it until they are knee deep into it and realize... holy crap, this is two and a half years and we still haven't closed.”

—Section 515 Housing Consultant



- **Property transfers** perceived as complicated, cumbersome and time consuming
- Concern about **potential loss of RD rental assistance** after mortgage prepayment or mortgage maturation

Technical Assistance Supports Preservation of 515's

Through a USDA grant, MHP provides technical assistance to assist with the transfer process of a Section 515 property from current owner to a nonprofit or public housing authority

Property: GraMar Courts, Kerkhoven, MN, population 772

16 Units: 4 1-Bedroom units and 12 2-Bedroom Units

Built in 1978, 50% (8) of units have RA, but we have approval for 100% RA upon the closing

Owners were eligible for Prepayment, allowing them



Case Study: Cook County HRA & Birchwood Aptmts

- Cook County HRA became aware of the serious problems at Birchwood when the local newspaper ran a story about the property in January 2023
- The ED reached out to the owner, the local RD office, and the City Administrator
- After realizing the severity of the issues at the property, he called a nonprofit developer 110 miles away to inquire about their interest in acquiring and fully renovating the property.

You are here: [Home](#) / [Select State](#) / [Select County](#) / [List of Properties](#) / [Property Detail](#)

Multi-Family Housing Rentals

Rental Property Information



Apartment Information
Birchwood Apts
801 West 5th Street
Grand Marais, MN 55604

Total Units:	24
Units with Subsidy:	23
Complex Type:	Family
Labor Housing Type:	NA
Bedrooms:	Studio: 0
	2 Bdr. 16
	3 Bdr. 8

Contact Information

van binsbergen & assoc
Phone: (320) 269-6640
Email: OFFICE@VANBLLC.COM
Website: WWW.VANBLLC.COM

[View Map](#)

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Finding 515 properties in your communities



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Multi-Family Housing Rentals

Rental Property Information



Apartment Information
School Square Apts
521 9th St
Albany, MN 56307

Total Units:	17
Units with Subsidy:	17
Complex Type:	Family
Labor Housing Type:	NA
Bedrooms:	Studio: 0
	2 Bdr. 12
	3 Bdr. 5

Contact Information

sand companies, inc
Phone: (320) 202-3100
Email: rjretterath@sandcompanies.com
Website: Unavailable

[View Map](#)

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https://rdmfhrentals.sc.egov.usda.gov/RDMFHRentals/select_county.jsp?st=MN&state_name=Minnesota&st_cd=27

Search by

- ▶ Town
- ▶ Zip Code
- ▶ Property Name
- ▶ Management Agency Name

HRA's & 515's: Options for Action

- **Buy an existing RD 515 property**
 - Preserve very affordable homes in your community
 - Preserve a complimentary source of rental subsidy
- **Manage an RD 515 property for another owner**
 - Management fees are capped by RD
- **Provide Project Based Vouchers to an RD 515 property**
 - Augment RD's Rental Assistance units
 - Replace RD's Rental Assistance (advantageous in some cases)

HRA's & 515's: Options for Action

- **Fund an RD 515 owner/developer**
 - Preserve very affordable units to your community
 - Predevelopment costs/risks can be higher than other rehab projects
- **Assist tenant relocation**
 - Re-financing can require relocation of some moderate-income tenants
- **Match up buyers and sellers**
 - Some owners struggle to find buyers
 - Portfolios can achieve more appealing scale for buyers

Federal Response: Preserving 515 Homes



**Lorraine Polak, Housing Policy Specialist,
Office of Senator Mike Rounds (SD)**



**Adam Schiff, Agriculture Legislative Assistant
Office of Senator Tina Smith (MN)**

Questions?



Resources

- Apply for FREE technical assistance. Contact jill.Henricksen@mhponline.org for more information.
- Ask your member of Congress to support decoupling and the Rural Housing Service Reform Act of 2023. Contact elizabeth.Glidden@mhponline.org for more information.
- Contact us for more conversation about Section 515 solutions!
 - Margaret Kaplan, Housing Justice Center, mkaplan@hjcmn.org
 - Elizabeth Glidden, MHP, elizabeth.glidden@mhponline.org
 - Jill Henricksen, MHP, jill.henricksen@mhponline.org