THE UPSIDE OF AFFORDABLE HOUSING

Affordable senior housing offers new opportunities in a stagnant market.

By Annie Gerard, CRE, CAASH

With so much talk about the downturn in the housing market, profitable areas that are still flourishing can often be overlooked. One of these areas, "Affordable seniors housing" has recently been attracting a lot of buzz. Those already involved in this segment of the senior building community are going full tilt to take advantage of the unusual set of circumstances brought about by current market conditions.

"Seniors housing" in general has hooked the interest of developers, cities, and equity investors; the potential posed by the demographics of our aging population is unmistakable. Throw in affordability, and housing for low-income seniors seems like a can't-lose proposition.

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There's no single definition of affordable housing. It's actually a relative term, not a description of a particular product type or market segment. The catch-all phrase "affordable senior housing" covers a lot of territory. It's loosely used to describe everything from deeply-subsidized HUD projects to age-restricted, for-sale housing that is less expensive than other housing options.

Senior apartments with below-market rents made possible by some form of financial subsidy clearly fall in the affordable category. Housing in a geographic area that is less expensive to build in or has lower land costs (at least in comparison to higher-priced housing elsewhere) also falls into the category of affordable housing.

For example, compared to the housing prices in California, homes in Arizona – or just about anywhere else in the country – represent "affordable housing" for seniors looking to relocate. This relative affordability is a big factor behind the exodus of West Coast and East Coast retirees to states with better purchasing power, notably Nevada, Arizona, and Florida. John Burns, of John Burns Real Estate Consulting, points to Texas and the Carolinas as the next areas likely to attract significant numbers of these out-migrating retirees.

Affordable rental housing for those aged 55 and older or 62 and older takes several different forms. Each has its own definition of affordability, residency requirements, financing sources, even product standards. Most affordable senior apartments built today in the United States are financed with Low Income Housing Tax Credits [LIHTC] as the main source of funding. To meet the LIHTC definition of affordability, units must be restricted to residents with

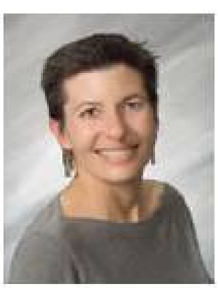
incomes below 60-percent of the Area Median Income [AMI] of the county in which they're located, and developers must prove that rents are below market. In the world of tax credit housing, "affordable" is narrowly defined as at or below 60-percent AMI and that is documented to be at least 10-percent below market.

On the other hand, the definition of affordability used by cities in setting their inclusionary housing requirements or establishing housing goals is much looser. Some cities treat units at 80-percent or 120-percent AMI as affordable. Whether or not rents for those units are in fact below market depends on the local rent structure; in many geographic areas, rents at 80-percent or 120-percent AMI are higher than market, not qualifying as affordable by anyone's definition.

It's likely that there will be a surge of activity related to senior tax credit apartments in 2008, particularly in "down" residential markets, and especially areas where condo activity was prevalent.

The misfortunes of for-sale, multi-family builders will be a boon for developers of senior rental tax credit projects. First and foremost, multi-family builders in many parts of the country have been taken out of the competitive equation. They are no longer around to pay much higher prices for land than affordable developers can pay.

With the widespread collapse of the condo market, affordable developers can acquire really good sites—for 10-percent, 20-percent, even 50-percent less than sellers were asking 12 to 18 months ago. As an added bonus, many of these sites already have development approvals. 50



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FAST FACTS

Several other factors also contribute to the healthy prospects for senior tax credit housing development in 2008:

Affordable senior projects don't have to rely on the troubled capital market to nearly the same extent as market rate senior developments. Although the tax credit financing market is undergoing some of its own challenges, most industry observers believe the kinks will be sorted out relatively soon.

Unlike market rate senior housing, affordable senior projects are not hurt by seniors' difficulties selling their current homes (or unwillingness to even try). Since demand for senior tax credit apartments relates primarily to seniors who already rent rather than own, the "stay put" mentality that's slowing activity in market rate senior housing is not a big factor.

Senior housing appeals to cities that want to increase stock of affordable housing, but with less impact on traffic, schools, etc., (and less political opposition than "family" affordable housing). It is also a way for city officials to score points with constituents who are themselves seniors, or who have aging parents.

Look for developers who already specialize in tax credit projects, including such major national players as NRP Group, Michaels Development Company, Volunteers of America, Mercy Housing, McCormack Baron Salazar, Simpson Housing Solutions, and Related – to step up their efforts this year. In many ways, 2008 may be a "perfect storm" of positive circumstances for affordable senior housing.