CONGRESSIONAL TESTIMONY
House Committee on Financial Services
Subcommittee on Housing and Community Opportunity
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I am Roy Lowenstein, Vice-President for Development with Ohio Capital Corporation for Housing. Ohio Capital assists developers around the state to secure low-income housing tax credits and operates an equity fund which purchases the credits. We have, since 1989, raised about half a billion dollars in equity and invested it in about 200 affordable housing developments with 10,000 units. Recently, we acquired a portfolio of more than 1,300 section 8 units in Columbus, as well as a management company, renamed Community Properties of Ohio. Along with local partners, we will be rehabilitating and preserving the great majority of these units over the next few years. These various roles as consultant, developer, investor, asset manager, and property manager provide us with many insights into rental housing finance and operation.

I would like to comment on questions posed by the subcommittee related to the relationship between the economy and affordable housing production. Basically, whether the economy goes up or down, there is hardship for working class and low-income households in terms of finding decent affordable rental housing. If the economy is good, owners will raise rents. Between 1997 and 2002, the median income for a family of four in Columbus increased from $47,400 to $63,400, a 33% increase. Although rents did not climb as fast as that, the income of the poorest segment of workers rose even more slowly and they found themselves increasingly closed out of the mainstream market. The wage required to afford a 2-bedroom apartment averages about $12 in Ohio. The crisis is therefore less than on the east or west coasts, with their much higher housing wages, but we have such a high number of wage earners at $6-$10 per hour employed in the food service, retail, and warehousing sectors that it is easy to see why an affordability crisis exists.

As the economy has turned down, low-paid workers are vulnerable to losing their jobs or seeing incomes stagnate. It is an uneven rental market around the state, reflecting widely varying economic and market conditions. In the Columbus area, among others, higher rental vacancy rates have emerged due to significant construction in the 1990s and other causes. This has kept rent increases down, but many of those at the bottom of the wage scale are not able to afford those new units or other good quality housing stock—they just don't catch up economically.

Fair market rents are so low in some rural counties that new construction without subsidies is discouraged. Some cities in Ohio have been losing population for 20 and 30 years but need more affordable housing. Why? Because developers have built so little in these market areas for so long, the housing stock has declined to such an extent that people will leave due to lack of decent housing choices. Many neighborhoods in decline provide little economic incentive for reinvestment without public dollars leading the way. The message here is that great flexibility is needed to craft solutions to these distortions in the housing markets. Sometimes the biggest problem is housing supply, other times it is the gap between incomes and market rent, other times it is appraised value.

What programmatic tools do we need? Poor families need both rental subsidies and production subsidies targeted to extremely low-income households. However, rental subsidies are in very short supply, as we hear from various housing authorities that vouchers are oversubscribed. In a market with high vacancy rates, the lack of vouchers is really a shame and we hope Congress will respond to this opportunity to house more low-income families by expanding the pool of vouchers. This is a particular concern here in Columbus, which has launched an exemplary program known as Rebuilding Lives to house long-term homeless individuals, using a range of section 8 and McKinney funds as operating subsidies. Halfway to the goal of 800 homeless units, we have to hope that the section 8 subsidies will again materialize.

Second, we also need a larger federal source of gap financing. With Ohio's relatively low rent structure, the combination of tax credit equity and a supportable amount of debt financing is often insufficient to deliver new and rehabilitated housing to those who need it most. Typical tax credit projects need $10,000 to $25,000 per unit in gap funding just to balance the development budget which includes $15,000 to $30,000 per unit of bank debt. But a tenant with a minimum wage income and no rental assistance can only afford enough in rent to cover the owner's cost of operating the apartment—little or no debt capacity. Unable to afford even most tax credit rents, this household has few viable options. Unless Congress substantially increases section 8, the other alternative is a major increase in gap subsidies, either through the HOME program or a new grant source targeted at the lowest income households. The concept of a national housing trust fund with significant resources targeted at households below 30% deserves serious consideration. The concept of subidizing rents for these units to cover operating expenses only also makes sense.

Third, we need greater flexibility with the project based section 8 program. Specifically, when the best use of a building is no longer low-income rental housing, why is it not possible to transfer the subsidy to another building at a more advantageous location? For example, in inner city Cincinnati, the City government wants to deconcentrate poverty. But every section 8 building that is abandoned or converted to another use means the low-income housing stock has been reduced because the subsidy is not portable. We have a similar problem with our Community Properties of Ohio portfolio. We want to reduce concentrations of units in certain neighborhoods and demolish a few worn out buildings, but HUD lacks routine ability to approve moving the subsidy to a better location or even utilizing the subsidy at the same site after rebuilding.

Fourth, we need to strengthen the rental tax credit program to work out some of the technical flaws that make the program more complicated than it needs to be and less efficient than it can be. Legislation is needed to remove the prohibition on grant-funded expenditures being counted in eligible basis from which the credits are computed. HR 284 would facilitate development in low-income rural areas by permitting statewide median income data to be utilized. The same bill greatly strengthens the Mortgage

Revenue Bond program by repealing the so-called Ten-Year Rule and raising the maximum purchase price on homeownership units up to current levels.

Fifth, we should enact a homeownership tax credit. This is something the President and many Members support, yet passage still seems far away. The Midwest and South are regions of the country that would benefit greatly from this program because appraised values of homes and land in our distressed neighborhoods are so low that redevelopment is hindered. A production subsidy is needed to cover the gap between the cost of producing houses and the size of a mortgage loan supportable by appraisal. Everyone wins: the homeownership rate increases, neighborhoods are improved, and the builders, bankers, investors, and even the politicians can smile.

With these tools in the housing toolbox, selected to meet state and local priorities, we can make real headway in addressing the critical housing needs of low- and moderate-income families and seniors, while simultaneously assisting community redevelopment objectives. Thank you.