A First Look at Supportive Housing for the Elderly (Section 202) Housing in Massachusetts

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Introduction

Active for over half a century, HUD's Supportive Housing for the Elderly program created almost 400,000 affordable apartments for lower income seniors. Generally referred to as Section 202, it provided funding through nonprofit agencies to create elderly rental housing throughout the country. Appropriations for the program have been declining for over a decade, a victim of strict budget caps and rising costs in other HUD programs. The federal 2016 budget that was enacted in December 2015 once again did not include money for new Section 202 projects, representing the 4th consecutive year that no new units were funded by Congress with little hope that the program will be resuscitated any time soon. Consequently Section 202 can now be considered another defunct federal housing program, joining Section 236, Section 515, and Section 221(d)(3) BMIR, among others. But this not to say that Section 202 was a failure by any means, since in its 50 year history, nonprofit developers used this funding to create hundreds of thousands of affordable elderly rental apartments nationwide. In Massachusetts 12,000 Section 202 units were created in 218 separate developments, and these projects all continue to serve their mission.

The Massachusetts Section 202 portfolio represents a crucial resource for lower income elderly but is by no means the only elderly housing in the state. By far, the biggest stock of affordable senior units is a state public housing program called Chapter 667 that produced over 30,000 elder units statewide. The MassHousing Section 8 elderly program is slightly larger than Section 202 with almost 14,000 units, while federal elderly public housing is comparable in size to Section 202 with about 12,000 elderly units[i]. Finally, a number of other housing programs such as Section 515, Section 236, Chapter 13A, LIHTC, and SHARP have relatively small numbers of units restricted for elderly residents. In most but not all senior housing, residents pay 30% of their income for rent. Services and amenities vary greatly in the different programs, and while "Supportive Housing" is actually part of the name of the Section 202 program, services are a lower priority in some other types of elderly housing.

This paper will review the evolution of the Section 202 program, take a first look at the recapitalization and preservation needs of the projects, and point to areas for further research.

Key Attributes of Section 202 Housing

The Supportive Housing for the Elderly Program was created through Section 202 of the Housing Act of 1959. Over the decades the program evolved substantially but maintained several key components.

- *All of the Sec 202 properties have been sponsored by nonprofit organizations.* The vast majority of projects are owned outright by nonprofits, with a minority owned by limited partnerships and limited liability companies that are controlled by nonprofits.[ii]

- *Resident households must be headed by a person aged 62 or older.* In fact the median age at move-in is much higher at 70.[iii] [iv]
- *Residency is limited to lower income elderly.* Although maximum incomes have varied over the decades, all but the very first projects developed in the 1960's have income limits. The national median income for current residents nationally is extremely low at $10,000[v], and is only somewhat higher in Massachusetts.
- *Housing is good quality.* Sec 202 properties have consistently scored highly in HUD's Real Estate Assessment Center ("REAC") testing.[vi] REAC is not an ideal metric but does indicate that relative to other HUD housing, Sec 202 properties have fewer reportable issues. Another tool to look at housing quality is through resident surveys. Nationally, 91% of Sec 202 residents stated they were satisfied or very satisfied with their apartment and 89% were satisfied or very satisfied with their property/building.[vii]
- *Section 202 housing is service enriched.* The majority of residents nationally[viii] benefit from a service coordinator on staff at their property. Another significant group of projects benefits from a service coordinator in the community. The vast majority of 202 projects have some services available to residents.
- *No housing has been lost over time in Massachusetts.* Thanks to nonprofit ownership, the quality of construction, and consistent HUD funding, CEDAC has no record of any Bay State Section 202 housing being lost through foreclosure, obsolescence, or conversion to market rate housing.
- *Housing is located throughout Massachusetts.* Section 202 properties constitute one of four large portfolios of affordable elder housing in Massachusetts (along with state elderly public housing, federal elderly public housing and MassHousing Section 8 elderly housing) and are located in 85 municipalities throughout Massachusetts, in every county except Nantucket County. As the following map shows most projects are clustered in the urban areas around Boston, Springfield, Worcester, and Lawrence/Haverhill, and it is rare that an urban elder in Massachusetts lives more than 10 miles from a Section 202 property.[ix]

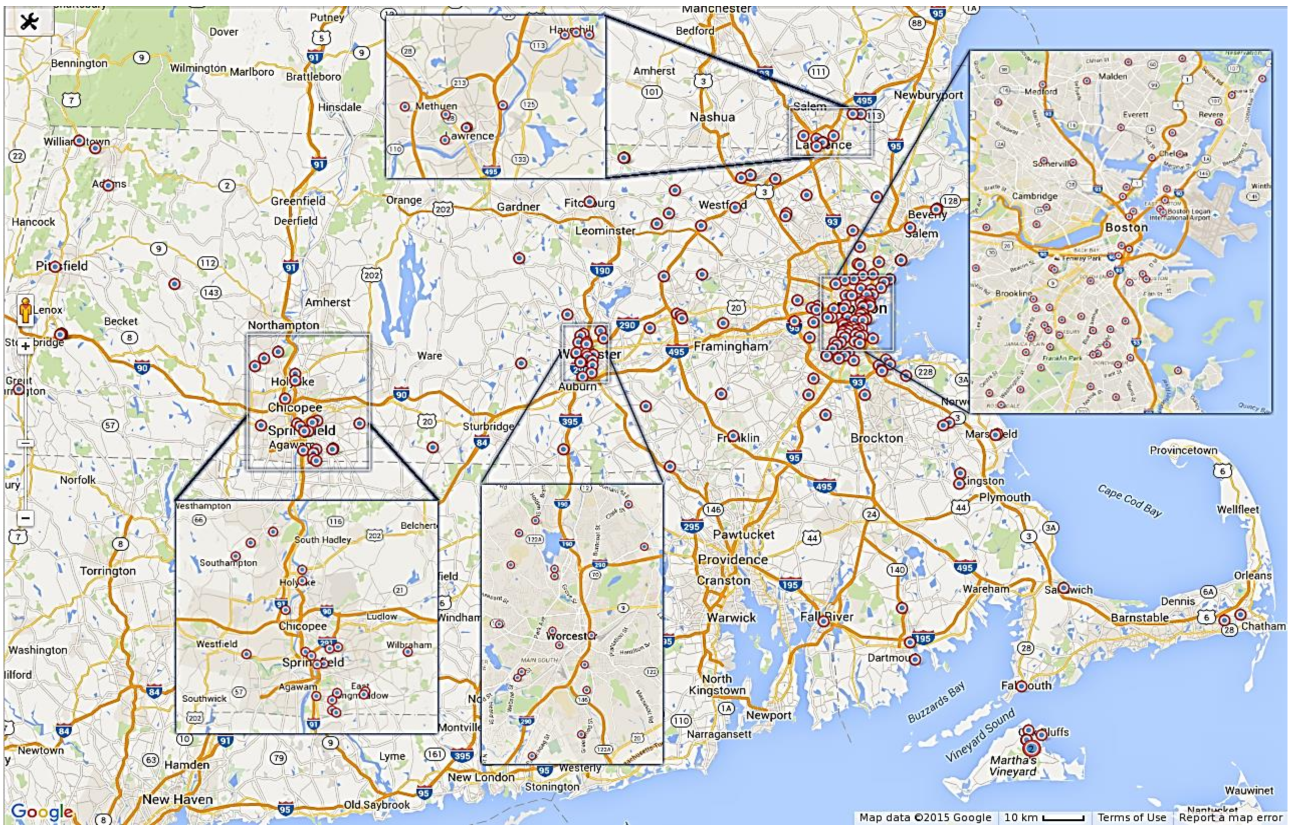
Phases of the Section 202 Program

In its more than 50 year history the Section 202 program evolved significantly. It was originally conceived as rental housing for low and moderate income seniors whose incomes were too low to afford market rate housing but too high to qualify for public housing.[x] Over time the program was modified to better accommodate the lowest income seniors. The evolution of the Section 202 program over 50 years has important outcomes on the financial health and preservation needs of these projects. Overall there were three main phases to the Section 202 program: the Moderate Income Phase, the Section 8 Phase and the PRAC Phase.

I. Moderate Income Phase (1959-1974)

The first phase of the Section 202 program began in 1959 with the passing of the statute and continued until roughly 1974. In Massachusetts ten Moderate Income 202 projects were financed beginning in 1965 creating almost 1,500 housing units.   During this first phase of the program the primary source of government financing was in the form of HUD held below-market rate mortgages with extremely long terms. The ten Massachusetts projects had mortgages with interest rates from 3.0% to 3.6% and mortgage terms of 45-50 years. This below-market financing was originally designed to allow rents, which would be affordable to moderate income seniors, to cover all operating costs without additional subsidies.

Location of Section 202 Properties in Massachusetts



This is the only phase of the Section 202 program that allows occupancy for residents with incomes over 80% of area median income (“AMI”), though in practice virtually all residents have much lower incomes. Later projects in this phase received varying amounts of project-based Section 8 operating assistance and on average the Massachusetts projects in the Moderate Income phase have operating assistance supporting 53% of their units.

The Moderate Income phase of the Section 202 program saw the construction of predominantly large multistory buildings in urban areas. Of the ten Moderate Income Massachusetts projects, nine are located in cities, with the remaining project in the town of Falmouth. The ten projects in Massachusetts have an average size of 150 units, more than twice as big as the projects developed in the next phase of the program, and three times the average size of the projects in the third phase.

These older projects have all been in service for at least 40 years. Of the ten Moderate Income 202's that were constructed in Massachusetts, four of the projects have now been refinanced and no longer have Section 202 mortgages. The oldest of these projects, Salem Towers, had an extremely novel preservation transaction in 2012. The creative financing structure included (a) an award from HUD of Section 8 tenant-based Enhanced Vouchers, and (b) an agreement by the local Housing Authority to replace the Enhanced Vouchers with project-based vouchers upon unit turnover to ensure that operating assistance would remain at the project. This is described more fully in the linked Tax Credit Advisor article in the notes below [xi].

The remaining six Moderate Income projects with 733 units have HUD mortgages at 3% interest that will mature in the next five years. When these projects seek refinancing, four projects will have the benefit of Section 8 operating assistance on 60% or more of the total units, though two projects have little or no operating assistance assistance.[xii] Other issues that may create complications for these projects going forward include the large number of studio units (which in one case represents ¾ of the units in the property), the age of the structures, and the relative lack of accessibility features for residents who are now aging in place.[xiii]

Three Phases of the Section 202 Program

Phase	Moderate Income	Section 8	PRAC	Total
MA Projects in Phase	*10*	*119*	*89*	*218*
MA Units in Phase	1,496	6,902	3,644	12,042
Average Project Size	150	58	41	55
Loan Term	45 to 50 years	40 years	N/A	
Loan interest rate	3.0 to 3.6%	6.9 to 9.3%	N/A	
Operating assistance type	Project-based Section 8	Project-based Section 8	Project rental assistance contract (PRAC)	
Units receiving operating assistance	Some Units - (averaging 53%)	All units *	All units *	
Units Already Refinanced	763	4,689	0	5,452
Units Still to Be Refinanced	733	2,213	3,644	6,590

* Some projects in both the Section 8 and PRAC phases have a single manager's unit that does not have operating assistance.

HUD guidance initially created difficulties for owners of these projects who wanted to prepay their HUD mortgages. However beginning in 2012[xiv] Moderate Income projects gained greater flexibility in prepayment and also received the ability to receive tenant protection vouchers upon prepayment. Owners of these projects will need to carefully review the benefits of prepayment of their HUD mortgages, as the options available to them will change significantly once the original HUD mortgage matures.

Of all the Section 202 projects in Massachusetts, the remaining Moderate Income projects represent the largest preservation concern in the near term due to their age, repair needs, lack of handicapped accessibility, and relative lower amount of operating assistance. For these reasons, some of the Moderate Income projects will almost certainly require allocations of highly competitive public capital resources at the time of refinance, in addition to 4% tax credits and tax exempt debt.

II. Section 8 Phase (1975 to 1992)

Beginning in 1975 HUD significantly changed the funding structure for Section 202 properties[xv]. Interest rates on Section 202 mortgages increased dramatically to 7%-9%, though at the same time HUD began providing 20 year Section 8 operating assistance contracts for virtually all the units in the properties. This funding change meant that beginning with the 1975 projects, all of the units produced were affordable to extremely low income seniors.

Although the Section 8 assistance allowed seniors with very minimal incomes to afford to live in the Section 202 properties, the maximum income limit was only reduced moderately to 80% of AMI. In 1985, the maximum income limit for subsequent projects was further reduced to 50% of AMI.

This second phase of the Section 202 program created the most Massachusetts projects (119) and the most units (6,902). The average project in the Section 8 Phase has 58 units but this statistic masks a fairly wide variation in size. A number of Massachusetts projects over 100 units were constructed in the 1970's, but due to reduced funding levels from HUD, average project size began to decline after 1980, with projects in this phase funded after 1986 having an average size of just 36 units.

The Section 8 phase has been responsible for the greatest number of refinancings to date. Of the original 119 projects developed in this second phase of the program, currently just 48 projects still have their original HUD mortgage. MassHousing has been the most common refinance lender, having refinanced 28 projects using the HUD "risk share" program. Several lenders using HUD FHA financing account for over a dozen additional projects, while other owners have refinanced their properties with various types of non-HUD loans.

Clearly the large amount of Section 8 operating assistance in these properties has been key to the ability of these projects to refinance, since the Section 8 contracts can be "marked up to budget" to meet the operating needs of the projects. The Section 8 rent level is set by HUD at an amount that can cover all of the expenses at the project including operations, debt service, and deposits to the replacement reserve that are needed to fund upcoming capital repairs. Section 202 projects are considered to be "exceptions" to HUD rules that cap Section 8 rents at prevailing market rents (at least for the first refinance) so a properly justified rent increase is permitted to increase rents to levels above market, and therefore can provide significant cash flow for needed capital repairs. With sufficient and stable operating funding, these projects are able to secure new long term debt that can pay for needed repairs.

The one concern relating to the capital needs of projects in the Section 8 phase of the program is for a group of projects built in the period of roughly 1981-1990 when HUD had fairly severe cost containment rules. These projects, in addition to smaller common areas, had restrictions on elevators in low-rise buildings and generally lower quality construction. On a national level, these 1980's era projects have been found to require more significant repairs and upgrades than projects funded in the 1970's and early 1990's, [xvi] but there is no clear evidence yet that Massachusetts projects developed during this period have higher capital needs.

III. PRAC Phase (1993-2012)

Beginning in 1993, the federal government again changed the funding process for Section 202 properties. In place of a loan, projects began receiving capital grants to finance construction. Similarly, Section 8 was no longer used for operating assistance and instead HUD created a new form of rental assistance called 'Project Rental Assistance Contract' or PRAC. From a tenant's perspective, PRAC functions the same way as Section 8, with tenants paying 30% of adjusted income for rent. From the owner's point of view, there are two important differences: (i) the PRAC explicitly allows for service coordination as a part of the operating budget, and (ii) the PRAC does not allow debt service as an operating expense, since the capital grants do not require repayment.

During the PRAC Phase, 89 Section 202 projects were developed in Massachusetts with 3,644 apartments. The average project size of 41 units continued to decline in the last several years of the program.

PRAC projects are the youngest cohort of Section 202 properties, with the first Massachusetts PRAC projects now just over 20 years old, and the final Section 202 project completed in 2015. At this point there is very little coordinated information on the capital needs of the PRAC projects.

PRAC owners have expressed concern that the PRAC program effectively prevents adding debt to the property. These projects received capital grants for the cost of developing the housing, including a statutory prohibition on the use of PRAC funds to pay debt service. If PRAC funds and related tenant paid rent cannot be used to pay debt service, it is unclear how properties could take on new debt for capital repairs. Responding to this concern, HUD has recently issued a new proposal as part of the FY 2017 budget to allow PRAC projects to convert the PRAC operating assistance to an equivalent dollar amount of Section 8 operating assistance[xvii]. This is by no means a complete solution since a conversion from PRAC to Section 8 would not create any new funding for the project. However, a conversion to Section 8 would at least allow the potential for financing the project with long term debt if operating expenses could be reduced through strategies such as energy efficiency savings resulting from an energy retrofit.

Meeting the Needs of Low Income Seniors

Although considered a program for independent elderly, the residents in Section 202 housing are quite vulnerable and becoming more so over time. Nationally, HUD has provided the following statistics for Section 202 properties around the country:[xviii]

- The median income of residents is $10,000
- The median age is 76, increasing from 72 in 1983, 74 in 1988 and 75 in 1999[xix]
- 38% of residents have 1 or more disabilities
- 2/3 of the residents are single women

The data for residents in Massachusetts Section 202 properties have a number of holes, but are broadly consistent with the national findings regarding tenant characteristics: extremely low incomes, high median age, significant presence of disabilities, and overwhelming residency by women. For the reader who enjoys data, Appendix A provides information on the Massachusetts data obtained by CEDAC.

Supportive Services for Elders

Partly in response to the age and frailty of residents, most nonprofit owners of Section 202 projects provide service coordination and a host of varied amenities such as 24 hour site staffing, meals, transportation, social activities, and other services. HUD has provided limited grant funds available for its Assisted Living Conversion Program (ALCP) that six projects in Massachusetts have used to reconfigure a portion or all of their facility to provide a more service rich setting. There is significant anecdotal information regarding the high level of services at the ALCP projects as well as other Section 202 properties in Massachusetts but to date no comprehensive assessment has been done.[xx]

A very important question is whether service enriched elderly housing can reduce hospital visits and delay a move to more expensive care such as nursing homes. To date there is little compelling data to answer this question, though a LeadingAge study found that the presence of service coordinators at elderly housing properties in 10 states equated with an 18% decrease in hospitalizations.[xxi] More research is needed to show demonstrate the cost savings that derive from supportive service models that benefit health and preserve independence for seniors.

Conclusion

Between 2010 and 2030, the population over 65 in Massachusetts is expected to increase by 60% to over half a million people.[xxii] To meet the needs of this 'silver tsunami' Massachusetts needs to ensure that all of the Section 202 properties as well as the other affordable elderly housing projects are preserved.

The Massachusetts stock of 218 Section 202 projects continue to provide quality affordable elderly housing to an extremely vulnerable population, but with the dearth of federal housing money, state and local funds will be needed to recapitalize a portion of this housing in the next few years. The remaining six Moderate Income projects that have their original HUD mortgages are all more than 45 years old and are the projects most likely to need additional public resources. Of particular concern are projects such as The Sundial in Fitchburg that has no operating assistance, and Colony Retirement Homes that is largely comprised of studio apartments. The Section 8 phase properties are in much better shape, with 60% having already refinanced, though there is a possibility that projects built during the cost containment period of the 1980's will have significant capital needs that will require additional public funding. The PRAC projects currently have no refinancing ability, though this may change if proposed federal legislation is enacted. The youngest PRAC projects should not yet have rehabilitation issues, but the older ones have now been in service for over 20 years and may have some repair concerns. Research should be conducted to gain a better understanding of the capital needs for all three phases of the program.

In addition to addressing the rehabilitation and refinancing issues of the Section 202 properties, we need to better understand how the various Section 202 owners are addressing the service needs of their residents. Assuming the preliminary data are correct that appropriate services can improve health (decreasing hospital visits) and extend independence (reducing nursing home stays), this could provide evidence that the cost of supportive elderly housing is partially or completely offset by savings from the health care system. If this cost reduction can be documented, the savings to Medicare and Medicaid will provide a powerful argument for increased federal funding for elderly housing. Section 202 may now be a 'dead' HUD program but the housing/health care connection could be the impetus for new federal funding for supportive elderly housing to rise phoenix-like from the ashes of the successful 50-year Section 202 program.

Appendix A:

Available data on Section 202 residents in Massachusetts is incomplete and not always directly comparable to HUD's national data. However, the information on Massachusetts elders in Section 202 housing broadly supports the national data on income, age, disability, and gender.

Median Income

HUD states in a 2014 Powerpoint that the median income of residents in Section 202 housing is $10,000,[xxiii] which is a suspiciously round number for a data lover.[xxiv] Looking at Massachusetts data, HUD released a data set of Public Use Microdata Sample (PUMS) in early 2016. This sample of 136 Massachusetts Section 202 households had a mean income of $16,012 and a median income in the band of $12,501-$15,000. It is not clear what margin of error applies for this relatively small sample of households across the state.

An unrelated dataset from the Picture of Subsidized Housing (POSH) covered just the PRAC 202 projects developed after 1993, so it excludes the Moderate Income and Section 8 phases of the 202 program. Residents in the POSH sample had a median income of 24% of the 2015 Area Median Income (AMI). AMI varies greatly in Massachusetts with median family income ranging from $61,900 to $114,800, depending on the region. Consequently, the median income for Massachusetts Section 202 PRAC residents would be somewhere between $10,400 and $17,712.

Looking at this data together, it is reasonable to say that the median income for residents in Massachusetts 202 projects is somewhat higher than the national average for the program, but far too low to rent a conventional market-rate apartment in any urban area of Massachusetts.

Age

The one data point on age of Massachusetts 202 residents is POSH data from the PRAC projects showing that 21% of residents were age 85 or more. According to similar national POSH data, however, only 16% of PRAC project residents are 85 years old or older. While this is very incomplete, this tends to indicate that Massachusetts Section 202 residents may be somewhat *older* than the national average age of 76.

Disability

HUD asserts that 38% of Sec 202 residents have 1 or more disabilities. This appears to be a very normal result of the average age of residents. According to a Cornell University study[xxv] in 2014, on average 22.6% of all Massachusetts residents age 65 to 74 have one or more disabilities. For those seniors 75 and older the prevalence of a disability rises to 48.5%. For a cohort whose median age was 75 (slightly less than the average age in 202 properties) we would expect to have 35.6% of people with at least one disability, which is very close to the HUD statistic.

Gender

Although the data are clear that the overwhelming majority of residents in Bay State Section 202 housing are women, the specifics are somewhat hard to compare to national HUD data. HUD states that nationally 2/3 of residents are ***single*** women [emphasis added].

The POSH data indicate that 69% of residents in Massachusetts PRAC projects were "female heads of household" which appears to be essentially the same count, with the potential exception of female same sex couples, since children and other dependents are rare in Section 202 housing. The POSH data also show that the average household size is just 1.1 people, so roughly 9 out of 10 households are single people. If all couples are considered male head of household, a representative 100 unit project would include 69 single women, 11 couples (assumed to be heterogeneous) totaling 22 individuals, and 9 single men. (69+22+9) Thus in this example the project would house a total of 80 women and 20 men, with just over 2/3 of the residents *single* females.

The PUMS sample of Section 202 residents from all phases of the program indicated that 82% of Massachusetts 202 residents were women, which seems to fit with the POSH data and the assumptions on what HUD means by 'female head of household.'

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[i] Some of these elderly housing programs allow occupancy by younger disabled residents as well as elderly so the number of elderly housed may be less than the total number of units in the program.

[ii] Most of the Section 202 projects that are not in 'pure' nonprofit ownership are older projects that have taken advantage of housing tax credits for rehabilitation. Only in the very last years of the 202 program did HUD allow new projects to be owned by limited partnerships or limited liability corporations.

[iii] Barbara A Haley and Robert W Gray, "Section 202 Supportive Housing for the Elderly: Program Status and Performance Measurement," *U.S. Department of Housing and Urban Development, Office of Policy Development and Research*, June 2008, p. 5, https://www.huduser.gov/portal/publications/sec_202_1.pdf .

[iv] Projects that were financed during certain periods also allow younger disabled households to live in Sec 202 housing.

[v] Unauthored PowerPoint "Section 202 Supportive Housing Program for the Elderly," *Office of Multifamily Housing Programs, HUD*, March 18, 2014, https://cedac.org/wp-content/uploads/2016/06/Section-202-Briefing_FY-2014.pdf

[vi] REAC testing is conducted by outside contractors that rank projects from 0 to 100, with a score of 30 being severely troubled, 60 representing a passing grade, and 100 being perfect. In Massachusetts, of the almost 200 Sec 202 projects for which there is data, only 3 had scores below 60 with non in the lowest category below 30, while 5 properties had perfect REAC scores.

[vii] Haley and Gray, p. 60

[viii] Haley and Gray, p. 55.

[ix] There are also other deeply affordable rental housing options for seniors such as state and federal elderly public housing, Rural Development Section 515, and elderly designated Section 8 properties. The map shows an interesting concentration of 8 projects on Martha's Vineyard. These are mostly 5-10 unit projects that were developed by Island Elderly Housing over a number of years on a single campus in Vineyard Haven.

[x] Haley and Gray, p. 17.

[xi] "Salem Towers: A Model Preservation Deal," *Tax Credit Advisor*, April 2011, https://cedac.org/wp-content/uploads/2016/06/Salem-Towers-TC-Advisor.pdf

[xii] The Sundial in Fitchburg has no rental assistance, while Cape Cod United Church Homes in Falmouth has just 15% of its units assisted with Section 8.

[xiii] Haley and Grey, p. 52

[xiv] HUD's initial notice on Section 202 prepayment was H 2012-3

[xv] Due to a funding issue in the early 1970's a number of nonprofit elderly projects were funded through the Section 236 program instead of the 202 program. In Massachusetts, 7 properties with over 900 units were built through this route. While the mission of these 'Section 236/202' projects is the same as Section 202, the financing and preservation issues are distinct, so these Section 236/202 projects will not be discussed further.

[xvi] See Haley and Grey pp. 52-55; Leonard F. Heumann, et. al., "The 1999 National Survey of Section 202 Elderly Housing" *AARP*, January 2001, p. 76-77, http://assets.aarp.org/rgcenter/il/2001_02_housing.pdf .

[xvii] This is the same concept as the public housing Rental Assistance Demonstration which allows housing authorities to convert public housing subsidies to the equivalent amount of Section 8.

[xviii] Data unless noted are from an unauthored PowerPoint "Section 202 Supportive Housing Program for the Elderly," *Office of Multifamily Housing Programs, HUD*, March 18, 2014, https://cedac.org/wp-content/uploads/2016/06/Section-202-Briefing_FY-2014.pdf

[xix] 1983, 1988 and 1999 data from Haley and Gray, p. 142.

[xx] See for example Atul Gawande, *Being Mortal*, Holt Henry and Company, 2014, Chapter 5, discussing Peter Sanborne Place. Also HUD's "Great Places to Call Home: A Representative Portfolio of HUD's Section 202 Program" includes summaries of Ulin House in Boston and VNA Somerville Senior Living. http://portal.hud.gov/hudportal/documents/huddoc?id=DOC_12821.pdf

[xxi] Alisha Sanders, et. al., "Affordable Senior Housing Plus Services: What's the Value?" *LeadingAge,* undated. http://www.leadingage.org/housingservices/ . See also Bill Wright, et. al., "Health In Housing," *Enterprise Community Partners*, 2016, http://www.enterprisecommunity.com/resources/ResourceDetails?ID=0100981#

[xxii] Henry Renski, et. al. "Long-term Population Projections for Massachusetts Regions and Municipalities" UMass Donahue Institute, November 2013, pp. 8-10. http://pep.donahue-institute.org/UMDI_LongTermPopulationProjectionsReport_2013.11.pdf

[xxiii] "Section 202 Supportive Housing Program for the Elderly" unauthored. Office of Multifamily Housing Programs, HUD March 18, 2014. http://web20.nixonpeabody.com/ahrc/Assets/Section%20202%20Briefing_FY%202014.pdf

[xxiv] It is worth noting that another HUD Powerpoint created by Ben Metcalf in 2012 cited a median income of $11,220. http://shnny.org/images/uploads/Benjamin-Metcalf-2012.pdf It is hard to imagine the median income decreasing significantly between 2012 and 2014 since most Sec 202 residents are on fixed incomes.

[xxv] "2013 Disability Status Report: Massachusetts," Employment and Disability Institute, Cornell University ILR School, 2015, pp. 19-21 http://www.disabilitystatistics.org/StatusReports/2013-PDF/2013-StatusReport_MA.pdf .