

CITY OF DETROIT

SENIOR HOUSING PRESERVATION STRATEGY

RECOMMENDATIONS

PREPARED BY REPRESENTATIVES FROM THE MAYOR'S OFFICE, CITY PLANNING COMMISSION, SENIOR CITIZENS DEPARTMENT, DETROIT HOUSING COMMISSION, PLANNING AND DEVELOPMENT DEPARTMENT, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY, AND CENTRAL CITY AGING SERVICES CONSORTIUM.

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INTRODUCTION AND BACKGROUND

Between 1997 and 1999, the United States experienced a net loss of more than 300,000 housing units affordable to those with low incomes. Although not all of these units served the senior citizen population, senior citizens represent an important segment of the population affected by these losses of affordable housing units. The senior housing stock has become increasingly vulnerable, threatened by Section 8 contract expirations and the growing market opportunity in some areas to convert subsidized affordable properties to non-subsidized uses.

The City of Detroit has not been an exception to this national trend. Several senior housing properties within the City of Detroit have converted to other uses in the last two years. Local government, enforcing agencies, and non-profit organizations have grown increasingly concerned as owners of senior buildings have announced that they would no longer be renewing their Section 8 contracts or have lost their senior-only use through other means. The Central City Aging Services Consortium (CCASC), an association of Detroit-based organizations providing services to local senior citizens, began raising these concerns as early as 1997, actively beginning to discuss the need for a senior housing preservation strategy.

As this discussion progressed and made its way to several public forums, it became increasingly clear that a preservation strategy was necessary. To be successful, it would require the participation of local housing agencies, such as the U.S Department of Housing and Urban Development (HUD) and the Michigan State Housing Development Authority (MSHDA). In March 2001, representatives from CCASC's Housing Committee met with representatives of HUD and MSHDA to talk about the recent losses in senior housing units and ways to prevent further losses. The meeting emphasized the community's concerns and initiated the beginning of a working dialogue between all stakeholders.

The City of Detroit saw a need for leadership in coordinating efforts surrounding this issue. In April 2001, the City, under the auspices of the Mayor's Office, convened a work group encompassing concerned stakeholders, including non-profits, local government, and state and federal enforcement agencies. The mission of the work group has been to create a preservation strategy to sustain the existing senior housing stock within the city as a viable housing option for area senior citizens. The work group has accomplished this by analyzing the threats to the existing senior housing stock, recommending specific strategies to counter these threats, and identifying the means to implement these strategies.

Since April 2001, this work group has met regularly to work through the complex issues surrounding senior housing preservation. During the problem identification phase of its work, two subgroups were formed: one to address early identification and intervention strategies for troubled senior housing properties, and the other to address the resources needed to preserve these troubled properties as affordable senior housing. The work

group has used the information and ideas generated to create the strategy presented in this document. This document will describe the forces that impact senior housing in the City of Detroit, the work group's findings and strategy recommendations, and its suggestions for implementation of this strategy.

MAKING A CASE FOR SENIOR HOUSING PRESERVATION

The preservation of existing subsidized senior housing units is critically important to maintaining a supply of affordable housing to senior citizens. As housing costs become an increasing financial burden for senior citizens and the net losses in affordable housing grow, the unmet gap between the supply and demand for affordable senior housing will increase. There are several forces that work together to create a crisis in the area of affordable housing for senior citizens:

- a growing senior population;
- the increasing cost of housing for this low-income population;
- the lack of incentives to develop new affordable housing units;
- the increasing market incentives to convert to other uses through prepayments of subsidized mortgages or the failure to renew Section 8 contracts; and
- foreclosure actions that take housing units out of this supply.

A. GROWING DEMAND FOR AFFORDABLE SENIOR HOUSING

In the City of Detroit, senior citizens have access to roughly 8,500 units of affordable senior housing located in 63 properties subsidized by HUD and MSHDA as senior housing and roughly another 1300 units operated by the Detroit Housing Commission (DHC) as elderly public housing. In addition, senior citizens have the ability to access approximately 4,000 units in other subsidized low-income buildings that are not exclusive to seniors.

There has been strong demand for senior housing units over recent years, and vacancies at high-quality senior developments have remained low. Of the roughly 60 Detroit subsidized buildings regularly surveyed by the City of Detroit's Senior Citizens Department, no more than 10 reported immediate openings for new tenants during 2001. However, more than half of the buildings surveyed reported significant waits, as long as two-years, for vacancies. Although the DHC reports a 6% vacancy rate for elderly public housing, this vacancy rate does not reflect a weak affordable housing market. As planned renovations begin at DHC elderly properties, current elderly public housing residents will be shifted to other buildings, decreasing the number of units available to new elderly tenants in the near future.

In addition, the demand for affordable senior housing is projected to increase as the senior citizen population grows. Michigan has seen a 10% increase in its senior citizen population since the 1990 census, with 2000 census data showing that people over the age of 65 years number 1.2 million, or 12.3% of the state population. Of this population, 8.4% lives below the poverty line according to the 2000 Current Population Survey, equaling roughly 100,000 people.

While many senior citizens live in poverty or near poverty, the cost of housing has increased for them as a percentage of their income. According to the American Housing Survey for the Detroit Metropolitan area, median annual income for renters over the age of 65 decreased by 5% to \$11,382 from 1995 to 1999. However, as a percentage of senior income, median monthly housing costs for senior citizens increased from 34% to 42% during the same period. This represents an increasing financial burden on the local senior population, leaving them less money for other necessities like medical care and food, particularly since a large number of senior citizens live on fixed incomes. As of 1998, fixed payments like Social Security and pensions made up about three-fifths of the average senior income according to figures from the U.S. Administration of Aging.

B. THE SHRINKING SUPPLY OF AFFORDABLE SENIOR HOUSING

The number of affordable housing units available to senior citizens has decreased over the last few years, while at the same time, it has become more challenging to finance new affordable construction or rehabilitation projects. In Detroit, over 560 units of senior housing have been lost since 1999, while an estimated additional 600 units were lost prior to 1999. Factoring in new units added to the senior housing stock, there has been a net loss of almost 1000 units in recent years. These units were lost due to expiring Section 8 contracts, subsidized mortgage prepayments, or foreclosures:

- **Section 8 contract expirations:** A considerable number of senior housing units are affected by Section 8 contracts that expire in the next ten years. Between now and 2004, 15 senior housing contracts are set to expire, threatening over 2200 units. Although the vast number of the properties with expiring contracts choose to renew their contracts, some choose to convert to unsubsidized uses in order to take advantage of potential market opportunities. Properties that choose to renew their Section 8 contracts will receive contracts with much shorter terms, generally one-year, giving them more frequent opportunities to reconsider whether to renew their subsidy contracts.
- **Prepayments of subsidized mortgages:** As the real estate market has become stronger in the City of Detroit, for-profit entities have considered the possible financial benefits of converting their senior housing properties to non-subsidized uses. Some of these properties have chosen to prepay their subsidized mortgages in order to have the flexibility to increase rental rates or convert to market-rate owner occupied uses.
- **Foreclosures of failing subsidized properties:** Several senior housing properties in Detroit have been foreclosed upon in recent years, losing their subsidy, because owners did not comply with maintenance requirements or buildings were poorly managed. A problem with deferred maintenance is a key indicator that a building may be in trouble, particularly since many of these buildings were built in the 1970s and 1980s. The City of Detroit's Senior Citizens Department reports that approximately 11% of the almost 11,000 calls placed to their Information and Service hotline

concerned housing, with a majority of the calls, questions or complaints dealing with subsidized private rental housing. In addition, the 2001 Hannan Study of Older Adults in Detroit's Central City found that 75% of the senior citizens surveyed had at least one complaint about the quality of their housing, raising concerns about such issues as insects/rodents, inadequate heating/cooling, and inadequate kitchen and toilet facilities. These complaints may serve as an indicator of the numbers of senior housing properties subsidized through the federal Section 202 program that may be troubled and need intervention to prevent foreclosure.

While several affordable housing properties lost their federal Section 8 and Section 202 subsidies, only 2 new affordable Section 202 senior housing projects were built in the City of Detroit in 2000 and 2001, yielding 177 new units. Recently, one additional Section 202 project has been approved, with 44 units to begin construction in 2002. Historically, affordable senior housing properties have been financed through more extensive federal subsidy programs like Section 8, Section 236 or Section 202. However, Section 8 and Section 236 programs are no longer available for any new construction or rehabilitation project. In addition, the number of units produced through the Section 202 program has decreased by more than 50% of its level in 1981. In fact, only 5,200 units of senior housing were funded nationally by the Section 202 program in 2000, a 35% decrease since 1995.

Developers have had to turn to more creative financing packages to make affordable senior housing deals work. Even the new Section 202 housing properties that have been built in the last two years utilized additional sources of funding, including HOME dollars. Financing packages for affordable senior housing now have to utilize a wide variety of tax credits, loans, grants and other financing tools. Because these financing packages do not originate from a single funding source like they have in the past, they require much more effort on the part of the developer to put together.

C. IMPLICATIONS

Without intervention, the supply of affordable senior housing in Detroit will steadily decrease over the next several years, dealing a severe blow to a population that generally subsists on a fixed income and is vulnerable in many other ways. Population forecasts show that the demand for affordable senior housing is anticipated to grow, but there are few incentives available to for-profit developers to develop new senior housing properties. In fact, with a limited supply of local, state, and federal monies available for subsidized properties, even non-profit developers have limited mechanisms to produce additional new units. In addition, HUD and MSHDA's resources to address these issues have also been impacted by changes in federal programs.

There are several implications for the affordable senior citizen housing stock if a comprehensive and coordinated housing preservation strategy is not implemented.

- **Senior citizens will have fewer affordable housing choices.** As senior housing buildings convert to other uses, senior citizens will be faced with longer waits at the

remaining senior housing properties. Some seniors may have to live in affordable low-income housing that does not offer the amenities or security that seniors require.

- **Senior citizens will increasingly rely on portable tenant-based Section 8 vouchers.** Some senior housing properties have project-based subsidies that are tied to units at the property. As these properties lose their project-based subsidies, senior citizen tenants at those properties receive portable tenant-based Section 8 vouchers that can be used for rental assistance at any building that will accept them. Senior citizens with these kinds of vouchers sometimes have difficulty in finding apartments to rent that meet voucher requirements or that provide the amenities or accommodations that the senior population requires for its health and safety, like handrails and ramps. HUD has tried to alleviate this problem by recently releasing more vouchers and increasing payment levels tied to these vouchers, but senior citizens still lose the security of senior-only affordable housing.
- **The construction of new senior housing units is more costly than the preservation of existing senior housing units.** New construction of an affordable housing unit costs more than rehabilitation of an existing unit, because of the additional costs incurred for land, architectural building design, and other development-related costs. Although new construction costs and rehabilitation costs vary widely, some local nonprofit organizations estimate that a substantial rehabilitation of a building can cost about \$20,000 to \$35,000 per unit, while the development of a new building, from property acquisition to final build out, can cost as much as \$80,000 to \$110,000 per unit.
- **Property values in the surrounding area and the City's tax base can be negatively impacted by conversions of affordable housing properties.** When Section 202 buildings are sold at foreclosure auctions, they are often sold for much less than the assessed value. Section 202 properties have a State Real Estate Tax Exemption, which means that, although they do not pay any properties taxes, the State reimburses the City the amount of taxes that would have otherwise been paid. When the property is sold for a lower value to new owners, the City loses the difference in taxes between the old value and the new value. This loss can be substantial, as illustrated by the Cathedral Towers foreclosure sale, which reduced the value of the building by more than two thirds. Rehabilitation of these buildings to maintain their value helps to enhance the City's tax position and adjacent property values.

CREATING AN APPROACH FOR THE CITY OF DETROIT

Through the work of the subgroups, a framework has been formed to address the complex issue of senior housing preservation. This framework has been developed based upon answers to a few key questions:

- How can we identify and assist troubled properties before they become so financially and physically deteriorated that they can no longer be preserved?

- How can we improve communication between the community, the City of Detroit, MSHDA, and HUD?
- How can we increase resources that can be directed towards senior housing preservation including actual rehabilitation of existing buildings?
- How can we focus on enforcement alternatives to foreclosure that will preserve the project-based subsidies of these properties?

The work group has spent a considerable amount of time answering these key questions and developing a strategy based on this work. This strategy encompasses the following components:

- **Implementation of an “early warning” system:** The community learns of many of the properties that will lose their senior-only status only at the time that the formal notice is given of an expiring contract, prepayment, or foreclosure action, leaving little time for intervention. HUD, MSHDA, and the City of Detroit sometimes have information that might be helpful to each other in terms of enforcement and intervention. A partnership between these agencies and the community is critical to effectively share information that might suggest a property is in trouble. An early warning system should be created based on a checklist of indicators that can show early signs of trouble. These indicators include the following:
 - Physical deterioration or damage
 - Financial problems
 - Low occupancy rates or non-seniors becoming tenants of the building
 - Excessively high or low fair market rents
 - Changes in the neighborhood (new development or creeping decline)
 - Age of a building
 - Contract expiration date
 - Tenant dissatisfaction
 - Incidence of crime
 - City of Detroit code violations

This information can be obtained from inspection reports, tenant complaints, surveys of senior housing property management entities, and regular communication between HUD, MSHDA, and the City regarding inspection-related information.

- **Early intervention strategies for troubled properties:** By the time the formal notice is given of foreclosure, contract expiration, or prepayment, it is very difficult to quickly design an intervention strategy to preserve the affected housing units. Infusions of technical and financial resources into troubled properties as soon as problems are identified could potentially solve the problems that lead a building to foreclosure, mortgage prepayment, or failure to renew its Section 8 contract. Based on an analysis of the physical, financial, legal and market condition of the troubled property, one or more of the following intervention actions could be taken:

- Early discussions with the current owners, facilitated by regulatory agencies, on how to preserve the housing
- Working with regulatory agencies and the owner to replace the Board with new board members that will work towards a preservation solution
- Working with regulatory agencies and the owner to replace the managing agent with a more effective one
- Facilitating a workout between the appropriate regulatory agencies and the troubled property
- Provision of financial resources to the troubled property to assist with repairs
- Advocating receivership of a troubled Section 202 property initiated by the regulatory agency if the owner refuses to uphold its fiduciary responsibility to the tenants and the funder
- Facilitating the transfer of the troubled Section 202 property to the City by HUD in order to be transferred to a non-profit for senior housing redevelopment in order to preserve the project's subsidy
- Working with HUD to ask the owner to start marketing the property if the owner cannot make the necessary repairs

Some properties may be too troubled to be saved, even after identification by enforcing agencies like HUD or MSHDA. For these properties, strategies will need to be created in conjunction with the City and other interested parties to transition the remaining residents to better accommodations and to help determine the best reuse of the site.

- **Creative use of resources:** With limited resources available to save subsidized properties, engineering unconventional financing packages becomes extremely important to saving properties from foreclosure and to providing owners the incentives to do repairs or maintain the building as senior-only. To this end, the work group has created a list of potential resources and financing mechanisms that could be used to inject maintenance money into declining properties or to negotiate deals with HUD to save properties that are on the verge of foreclosure. These resources and financing mechanisms include the following, some of which involve negotiation with various regulatory agencies, like HUD or the State Treasury:
 - grants (i.e. HOME, CDBG, foundations, etc.), possibly through the creation of a senior housing redevelopment fund to help provide financial incentives to owners of senior housing properties;
 - additional financing by MSHDA through programs like MSHDA's Preservation Pilot program
 - credit enhancement for additional financing (i.e. FHA 241 program).
 - the ability to retain the underlying Section 202 mortgage if it is in the 1-3% range or a capital advance;
 - the provision of project-based Section 8 for all of its units at maximum fair market rents;
 - the ability to cover budgetary needs by increases in rents (where supported by rent comp studies) to higher than fair market rents;

- the ability to retain the Real Estate State tax exemption.
- **Creation of new pools of resources:** Existing pools of resources may not be enough to adequately cope with this issue, particularly if the problems are management-related or outside the scope of the financing mechanisms. The work group has discussed the potential for creating several additional resources, such as the following:
 - a pool of nonprofit organizations and private developers who can be contacted to serve as receiver if such action deemed necessary (i.e. through a competitive process);
 - a pool of individuals that can serve as new board members for troubled boards;
 - technical assistance and education on management techniques, i.e. seminars, workshops, informational literature, etc.
 - a new fund of money earmarked for senior housing preservation in Detroit to be used to create incentives to urge for-profit entities to continue investments in affordable senior housing
- **Improved communication with enforcing agencies:** Improving communication between the community and HUD, MSHDA, and the City of Detroit will help bring problems to the attention of enforcing agencies and alert non-profit organizations to the status of troubled properties. It is important that an on-going working relationship is created between the community and the enforcing agencies to preserve senior housing in Detroit. Through this working relationship, efforts can be focused on finding workable alternatives to foreclosure, improving communication regarding troubled properties, and finding financial and technical resources to meet the maintenance and management needs of troubled properties.
- **Designation of a non-profit entity to coordinate senior housing preservation efforts:** A central entity with dedicated staff and the ability to attract resources is necessary to coordinate the implementation of these strategy components. Each member of the work group has expressed that this coordinating role is beyond its own organization's mission and current capacity. To fill this void, the work group has decided to work together to create a new non-profit coordinating entity that can focus on implementing the senior housing preservation strategy that has been designed.

THE ROLE OF A NON-PROFIT COORDINATING ENTITY

A non-profit coordinating entity focused on senior housing preservation will fill a unique niche among the organizations that are currently interested in maintaining the supply of affordable senior housing in the City of Detroit. Other agencies are focused on developing new units of affordable senior housing, providing senior housing services, or enforcing contractual agreements with affordable senior housing providers. A non-profit entity will serve to coordinate the efforts of other organizations that have an interest in

preserving affordable senior housing units, so that a cohesive preservation strategy can be implemented.

This non-profit coordinating entity is expected to provide technical assistance to senior housing properties and to marshal resources that can be used to assist troubled properties. It will serve as a liaison between enforcing agencies and senior housing properties, as well as an advocate for senior housing preservation. Based on the strategy components, the non-profit agency will have the following roles and responsibilities:

- Identify troubled properties while opportunities exist to successfully intervene
- Conduct feasibility analyses of struggling properties as required
- Create a coordinated pool of technical and financial resources for use by properties that are in need of assistance
- Provide technical assistance and helpful information to senior housing projects in all stages of development
- Assist troubled properties in putting together a complete financial package to address their problems, including assisting them in obtaining necessary regulatory and financing approvals and engaging in active negotiation with the owners and financing/regulatory agencies
- Recruit qualified developers to either take over projects to implement a preservation strategy or to partner with the existing owner to do so (provided the existing owner is acceptable and commits resources to the effort).
- Evaluate results of preservation efforts in order to act as an ongoing resource to other senior housing projects
- Work with City, State, and Federal governments to identify legislative solutions to senior housing preservation

By providing a menu of resources, the non-profit coordinating entity will distinguish itself as the premier source of assistance for any troubled senior housing property at any point in time. It will be able to act as a consultant to the property, providing assistance on how to put together a package of resources to address its particular concerns.

Members of the work group will establish the non-profit coordinating entity by incorporating it as a directorship organization and then by developing its board, by-laws and budget. A preliminary budget has been estimated based on projections made by several members of the work group (Appendix A). This initial board will then focus on raising the operating funds that are necessary to start-up the organization and hire an executive director.

CONCLUSION

The senior housing preservation strategy presented in this paper has been created through the input and cooperation of many different stakeholders interested in preserving affordable senior housing in the City of Detroit. The creation of this strategy has been a unique effort aimed at building consensus about an approach and engaging a wide variety

of partners in its implementation. The result has been a comprehensive strategy built on a thorough framework.

This strategy addresses the lack of resources for preservation, difficulties with the identification of troubled properties, and the need for advocacy in a coordinated fashion. The recommended new non-profit coordinating entity will serve as a focal point for senior housing preservation. As it developed over time, it could possibly expand its scope from subsidized rental housing to encompass the full spectrum of senior housing, such as nursing homes, assisted living, and seniors who still live in their own homes.

There are several steps that the work group anticipates taking next. First, it will disseminate the senior housing preservation strategy to other interested parties across the city to obtain concurrence on the approach from other community stakeholders. Second, it will begin the process of attracting funding for the non-profit's start-up. Third, some of the work group members will incorporate the non-profit and set up the preliminary board and by-laws. After this is completed and some initial funding has been secured, the work of starting up the non-profit will begin, including the search for an executive director and the establishment of an office.

A sincere hope has been expressed by work group members that the senior housing preservation strategy discussed here is implemented. They have felt confidence in the comprehensiveness of the approach used to develop the strategy. They have also been concerned about the possibility of further losses of affordable senior housing. It is the work group's belief that, through the implementation of this strategy, more senior citizens will have improved housing choices from a viable pool of affordable senior housing properties.

APPENDIX A: PROPOSED BUDGET

A preliminary budget has been proposed for the non-profit coordinating entity. Estimates have been based on previous start-up costs experienced by local non-profit organizations. Some of these budgeted items (i.e. shared rental space and equipment) may be funded on an in-kind basis as the non-profit coordinating entity is developed.

Projected First Year Operating Budget	
Budgeted Item	Amount
Staff salaries/wages*	\$ 168,000
Staff benefits*	\$ 42,000
Office rental**	\$ 26,400
Utilities	\$ 5,200
Telephone/Data line	\$ 2,400
Office supplies	\$ 7,500
Leased Office equipment/Furnishings***	\$ 9,000
Consultant fees	\$ 10,000
Legal fees	\$ 6,000
Audit fees	\$ 4,500
Travel	\$ 4,500
Professional Memberships/Dues	\$ 1,250
Publications/Subscriptions	\$ 750
Miscellaneous	\$ 2,500
Total Expenses	\$ 290,000

* Staffing costs calculated as follows:

- President and Chief Executive Officer (full time): \$80,000
- Planner (full time): \$45,000
- Financial analyst (part time): \$18,000
- Administrative assistant (full time) \$25,000

Staff benefits calculated at 25% of total annual compensation.

** Office space calculated at 1,200 square feet at \$22.00/sqaure foot (in Central Business District).

***Leasehold equipment/furnishings include three personal computers, printer, copier, fax, phones, furniture, etc.

APPENDIX B: SENIOR HOUSING PRESERVATION WORK GROUP PARTICIPANTS

The following people and organizations have directly participated in the development of this strategy through the work group's meetings. Additional stakeholder organizations have been kept aware of the work group's efforts during this period.

Heidi Alcock	City of Detroit, City Planning Commission
Deborah Ferris	City of Detroit, City Planning Commission
John Hurt	City of Detroit, Housing Commission
John Nelson	City of Detroit, Housing Commission
Gloria W. Robinson	City of Detroit, Mayor's Office
Olga Savic	City of Detroit, Mayor's Office
Leah Vest	City of Detroit, Planning and Development
David Miller	City of Detroit, Senior Citizens
Fred Wood	Cooperative Services
Kim Yamasaki	Cooperative Services
Kate Beebe	Greater Downtown Partnership
Pat Goodwin	Greater Downtown Partnership
Tim Wintermute	Hannan Foundation
Bob Brown	U.S. Department of Housing and Urban Development
Patricia Russie	U.S. Department of Housing and Urban Development
Susie Sapilewski	U.S. Department of Housing and Urban Development
William F. Lutz, Jr.	Lutheran Social Services
David Kimball	Michigan Association of Homes and Services for the Aging
Matt Edwards	Michigan Housing Council
Ben Fedewa	Michigan State Housing Development Authority
Michele Whitmore	Michigan State Housing Development Authority
Roger Myers	Presbyterian Villages of Michigan