

Increasing FHA Loan Limits for Elevator Buildings Would Facilitate Construction of Affordable, High Rise Housing

MBA RECOMMENDS

MBA requests Congress to increase the FHA multifamily loan limits for elevator buildings by establishing a 50 percent differential between the non-elevator and elevator loan limits in each FHA insurance program and each unit size (with a slightly higher increase to serve redevelopment areas). MBA is also recommending that the Secretary of HUD be given authority to increase the high cost factor in extremely high cost areas (as determined by the Secretary) to the same high cost factor now allowed by statute for Special Limit Areas (i.e., Alaska, Hawaii, Guam and the U.S. Virgin Islands).

BACKGROUND

Decent, affordable rental housing allows individuals and working families to live in stable environments and within their means. Families that spend a reasonable amount on rent and utilities can reserve funds for weathering hardships like job losses, health problems or car repairs. Well-maintained and attractive rental housing in turn contributes to neighborhood stability. But the supply of decent, affordable rental housing is disappearing. In today's economic environment when other sources of financing for the new construction, or refinancing and repair, of rental housing are simply not available, and Fannie Mae and Freddie Mac are limited in their capacity, we believe that it is critical to provide FHA with the tools it needs to facilitate the construction and rehabilitation of apartments.

FHA MULTIFAMILY LOAN LIMITS

The current FHA multifamily loan limits are severely restricting the ability to use FHA insurance programs to finance rental housing in many urban areas. While the base loan limits and high cost factors have been raised over the past eight years to address issues in most parts of the country, the problems are now concentrated in major cities where high-rise construction is involved. HUD data shows that, over the past seven years, there have been 478 Section

221(d)(4) new construction projects (without federal assistance) finally endorsed for HUD insurance. Of those 478 projects, only 31 involved elevator structures. Most recently, in fiscal years 2007 and 2008, only three elevator projects nationwide have been endorsed for insurance with FHA.

We believe this is largely due to the maximum loan limits imposed by statute on the FHA insurance programs. A recent survey of major lenders shows that there are potentially 52 projects with more than 11,000 units in elevator structures with a mortgage amount of more than \$3 billion that are being held up because the loan limits are too low to allow the projects to be financed using the FHA programs. These properties are in many urban areas across the country, from Seattle and Los Angeles, to Houston, Columbus and Chicago, to Boston, New York, and Washington, D.C.

DIFFERENCES BETWEEN HIGH RISE STRUCTURES AND GARDEN APARTMENTS

In reviewing the current state, as well as the history, of establishing the loan limits, we have learned that little focus has been placed on elevator structures and the cost of construction/rehabilitation for high rise structures vs.

garden apartments. A quick review of the current limits shows a less than 10 percent difference between loan limits for elevator and non-elevator structures for the most popular FHA program. The current base loan limit for a 2-bedroom apartment in a high-rise building insured under Section 221(d)(4) is only \$68,070, while the garden apartment limit is \$62,026. In a high cost market the maximum elevator limit is \$214,421 while the non-elevator limit is \$195,382.

In order to estimate the difference in total cost between a garden style apartment and a high rise (and thus the difference there should be between elevator and non-elevator loan limits), we have used the RS Means construction estimation system to estimate and compare costs of similar, modestly constructed developments in several market areas. Analysis shows a 45 percent difference in per square foot construction cost between labor and materials for a non-elevator apartment and an apartment in an 8 to 24-story building. Add to that an additional 5 percent to provide for Davis-Bacon wage rate differentials. While the wage rates vary across the country, the difference can be substantial (e.g., in Washington, D.C., the difference between the residential and commercial wage rate for a carpenter is 183 percent). (Adding this 5 percent to the 45 percent difference in RS Means costs outlined above provides a total differential of 50 percent.)

MBA has also compared per square foot costs between actual, proposed projects in the same market area, where this data was available. In the D.C./Northern Virginia market area, the per square foot cost differential between a high rise apartment building in downtown Washington and a garden apartment in Fairfax County, Va. is 89 percent. In the Baltimore market area, the cost differential between a high rise project in downtown Baltimore and a garden apartment in Waldorf, Md. is 66 percent. As noted above, this substantial difference in cost is due largely to the combination of Davis-Bacon wage rates and the increased construction costs resulting from the use of steel, concrete and other costly construction materials.

NEW LIMITS/AUTHORITY

Based on this cost analysis and additional industry data, MBA is recommending a 50 percent differential between the non-elevator and elevator loan limits in each FHA insurance program and each unit size. For a two-bedroom unit in an elevator property financed under the Section 221(d)(4) program, this would increase the base limit from \$68,070 to \$93,039 (approximately a 37 percent increase). In high cost areas, this would allow HUD to approve loans in elevator structures of up to \$293,073 per unit. This compares to the single family loan limit of \$729,750 in high cost areas in 2009.

MBA is also recommending a higher differential (i.e., 60 percent) for the Section 220 program (which is used for preservation and neighborhood revitalization in urban renewal and redevelopment areas) where the loan limits are now approximately 10 percent higher for elevator structures, in order to maintain that differential.

To provide additional flexibility for HUD in extremely high cost areas, such as New York City, MBA is recommending that the Secretary of HUD be given authority to increase the high cost factor in extremely high cost areas (as determined by the Secretary) to the same high cost factor now allowed by statute for Special Limit Areas (i.e., Alaska, Hawaii, Guam and the U.S. Virgin Islands). Cost data from McGraw Hill show an average cost per unit in New York City of \$419,000 for 16+ story buildings, which is significantly higher than other large cities, demonstrating a need for special consideration for such an extremely high cost area.

