NMHC National Multi Housing Council

National Apartment Association

TESTIMONY OF ANDREW SHOWE

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ON BEHALF OF THE

NATIONAL MULTI HOUSING COUNCIL/

NATIONAL APARTMENT ASSOCIATION

JOINT LEGISLATIVE PROGRAM

BEFORE THE

HOUSE COMMITTEE ON FINANCIAL SERVICES

SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

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Chairman Ney, Ranking Member Waters, and distinguished members of this Subcommittee, my name is Andrew Showe. I am Vice President of Showe Management Corporation, past president of the Columbus Apartment Association, and current member of the Board of the Ohio Apartment Association. I am a member of the National Multi Housing Council (NMHC), a national association representing the nation's larger and most prominent apartment firms. NMHC operates a joint legislative program with the National Apartment Association (NAA), an industry group representing over 30,000 apartment executives and professionals. It is my pleasure to testify on behalf of both organizations. Our combined memberships are engaged in all aspects of the apartment industry, including ownership, development, professional management, and finance. Together, NMHC/NAA members own and manage over five million apartment homes nationwide.

NMHC and NAA commend you, Chairman Ney, for your leadership, and we thank the Members of the Subcommittee for your valuable work addressing the important issue of affordable rental housing in America. We also commend U.S. Department of Housing and Urban Development (HUD) Secretary Mel Martinez and the Administration for their interest in improving the Section 8 Housing Choice Voucher Program.

We, too, believe it is critical to meet the housing needs of low- and moderate-income families and believe that improving the Section 8 program is a central part of meeting those needs. However, NMHC/NAA urge Congress, and HUD, to enact reforms to the existing Section 8 program that will encourage apartment owner participation and, in turn, increase housing available to voucher holders. Although it is well intentioned, we think the Housing Assistance for Needy Families Act of 2003 (H.R. 1841) will not reduce the administrative costs to participating property owners and will not maximize program benefits for residents by conforming the program to conventional market practices. Instead, the proposed legislation could create new obstacles to apartment owner participation without alleviating existing burdens. The net result could be fewer available apartments for voucher residents.

Professional apartment owners, in partnership with the current voucher administrators, have made great strides in helping low-income families find quality affordable rental housing through the Section 8 program – a partnership that helps the community as a whole. NMHC/NAA wholeheartedly support the Section 8 program as a means to engage private housing providers in providing affordable rental housing to families who need it. We believe more apartment owners would participate in the program if the costs of renting to voucher residents were more comparable to the costs of serving unsubsidized residents. In other words, the program must be more "transparent" to the market. NMHC/NAA propose the following recommendations to achieve that goal:

1. Funding

Some assert that the Section 8 appropriations structure should be reworked and reduced. Historically, many criticized the Section 8 appropriations structure because too much funding remained unused each year. To be sure, appropriations were once based upon the erroneous assumption that every authorized voucher would be utilized for an entire fiscal year and funds were routinely recaptured and rescinded. Those returned funds reduced annual appropriations to the amounts actually used. Effective this year, Congress enacted changes to minimize recaptures and, moreover, national utilization rates have risen to nearly 96 percent. That success should be recognized and the process supported. NMHC/NAA support increased utilization rates, and we believe that the existing successful appropriations structure is working. We have considerable concerns about the complexity of the proposed state-level funding structure contained in H.R. 1841. We urge continued funding for the existing program structure administered by HUD.

2. Inspections

Under current law, before an apartment is eligible for lease to a Section 8 voucher holder, the administering Public Housing Authority (PHA) must inspect that unit for compliance with HUD-prescribed Housing Quality Standards (HQS). Unit-by-unit inspections cause intolerable leasing delays and do not necessarily satisfy HUD's objective of protecting residents and assuring owner compliance with the Department's health and safety criteria. Unit-by-unit inspections delay resident occupancy even if the PHA conducts its inspection within the required time frame, and some apartment owners report delays of 30 days or longer. The apartment industry relies on seamless turnover to meet its overhead costs, and the financial implications of such delays are sufficient to deter them from participating in the program.

As proposed, Section 11 of the proposed legislation would extend the existing inspection requirement to HANF. PHAs would conduct individual unit inspections rather than property-wide inspections or relying upon recent past inspections. Importantly, the bill specifically states that owners would not receive any subsidy revenue until an inspection is completed, and the bill is silent on whether residents could move in prior to an inspection. In short, the proposed inspection provision would do nothing to fix the lost revenue problem.

NMHC/NAA propose speeding up the move-in process by allowing PHAs to conduct individual unit inspections within 60 days after the resident moves in and payment commences. PHAs could also conduct building-wide, rather than unit-by-unit, inspections in certain cases and rely upon recent past individual inspections. Alternatively, PHAs could initially inspect a representative sample of units in order to "certify" that the building is eligible. Thereafter, periodic inspections would assure that the property remains compliant with program rules. This approach would reward wellmanaged properties, allow PHAs to focus their scarce resources elsewhere, and maintain resident safety.

3. Payment System

PHAs are required to make prompt subsidy payments to apartment owners. However, subsidy payments are sometimes untimely either because of antiquated systems or HUD processing delays. Just as owners would not regularly accept late rental payments from conventional residents, they should not be asked to accept late subsidy payments. We commend HUD for authorizing a $75 late fee charged to PHAs that do not make timely payments due to accounting inefficiencies. We urge Congress and HUD to continue their efforts to provide timely payments to owners by ensuring that PHAs have the ability to make automated electronic fund transfers to owners. Some PHAs already use automated funds transfer systems but it would be helpful if HUD would provide technical assistance, funding, and other support to ensure that all PHAs have the capacity to utilize automated payment systems. HUD also should establish incentives to facilitate timely payments to owners.

4. Fair Market Rents and Payment Standard

Fair Market Rents (FMRs), set annually by HUD for each metropolitan area, must be set high enough to encourage owner participation and, in turn, create a sufficient supply of apartments and choice for voucher holders. We thank HUD for raising the current FMR level to the 50th percentile in 39 high-cost areas, but that level is insufficient in certain areas with extremely high-cost sub-markets. We urge HUD to enact a more efficient, streamlined process for PHAs to apply for higher FMRs that are more reflective of sub-market rents.

The current payment standard, the maximum amount that the housing agency will pay toward a family's rent minus thirty percent of the tenant's adjusted income, is generally capped at 110 percent of an area's FMR. If the area's FMR does not accurately reflect local market conditions, and the payment standard is not sufficiently high to allow owners to earn sufficient income to meet costs, owners will not participate in the program. Low FMRs are a primary reason many apartment owners do not participate in the voucher program. NMHC/NAA urge program changes that will allow PHAs to raise the payment standard to 120 percent of FMR without HUD approval, and afford PHAs increased flexibility to request higher payment standards when necessary to reflect actual market conditions in a particular location.

Conclusion:

In summary, NMHC/NAA believe that the existing Section 8 program, with improvements I have just noted, will make affordable housing available to more Americans. Widespread participation is not always economically feasible in the absence of the aforementioned program reforms that will reduce the sometimes-significant costs and burdens imposed on implementation of the program. I thank you for the opportunity to testify on behalf of the National Multi Housing Council and the National Apartment Association, and wish to offer our assistance to the Subcommittee as you continue your important work to improve affordable housing opportunities for low and moderate income families.