



Testimony Of
Casimir Kolaski
President
Kolaski Housing Advisors, Inc.
On behalf of the
National Association of Home Builders
Before the
United States House of Representatives
Housing and Community Opportunity
Subcommittee of the
Financial Services Committee

July 22, 2003

I would like to thank the Subcommittee for inviting me to speak about the Federal Housing Administration's (FHA) multifamily insurance programs. My name is Casimir Kolaski, and I am from Providence, Rhode Island. I am the President of Kolaski Housing Advisors, Inc. My company provides consulting services on the acquisition, development, financing and management of affordable rental housing, assisted living and health care facilities. From 1971 to 1997, I worked for the U.S. Department of Housing and Urban Development (HUD) and served as the Director of Housing in HUD's Boston office, as Special Assistant to the Assistant Secretary for Housing/FHA Commissioner and as Manager of HUD's Rhode Island office. Currently, I sit on the board of two Rhode Island nonprofit housing corporations.

Introduction

In my capacity as Director of Housing in HUD's Boston office, I directed the FHA single-family and multifamily insurance programs, project-based Section 8 subsidy program, and the Sections 202 and 211 elderly and disabled programs. The Boston office's multifamily portfolio consisted of over 85,000 units, valued at \$2.2 billion in insured loans. I worked with the Massachusetts Housing Finance Agency (now MassHousing) to design and implement the Multifamily Property Disposition Demonstration, an ambitious effort to revitalize and restore over 2,000 units of HUD-foreclosed rental housing in the city of Boston. From 1979 to 1993, I was Manager of HUD's Rhode Island office. I worked closely with the Rhode Island Housing and Mortgage Finance Corporation on a number of successful joint affordable housing initiatives.

Currently, I work with clients who are developers of affordable rental housing for families and seniors, as well as for clients developing nursing care and assisted living facilities. We make every effort to use HUD's programs, although, frequently, we must tap additional sources of financing, such as the low-income housing tax credit, state and city housing trust funds, and the Federal Home Loan Bank's Affordable Housing Program. Complicating our efforts are the extraordinarily high land and labor costs found on cities such as Providence and Boston, which make use of some programs, such as FHA insurance, difficult or impossible to use.

The Need to Increase the High-Cost Limits

The FHA Section 221(d)(4) mortgage insurance program is intended to provide financing for market-rate housing that is affordable to moderate and middle income households. The program is unique in that it offers a variety of terms to developers that are not available through conventional financing and are critical to the feasibility of many affordable housing projects. HUD has taken steps in recent years to improve the FHA multifamily loan programs, notably instituting the Multifamily Accelerated Processing (MAP). MAP was intended to streamline the application process and make it easier for both lenders and builders to use the program.

In recent years, Congress has made two important improvements to the FHA multifamily mortgage insurance programs. It raised the maximum base mortgage limits by 25 percent and will index those limits to inflation beginning in 2004. These steps will certainly improve the ability of builders to use the program in more areas of the country. However, the 25 percent increase alone is not sufficient to meet the needs in high-cost urban markets, such as Providence and Boston.

High land and labor costs are typical problems in large cities and in metropolitan areas experiencing growth. Other costs, such as impact fees, permitting fees and real estate taxes, also tend to be significantly higher. The zoning process is complex and time-consuming, and the Not-In-My-Back-Yard (NIMBY) attitude continues to impact the ability of developers to build rental housing.

Providence is a high-cost area, and its high cost percentage is at the maximum of 210 percent. On a project-by-project basis, HUD may approve an increase up to 240 percent. I am working with a client who is building a new addition to an existing Section 202 Elderly housing apartment. There are no land costs and no construction costs for community space or other amenities because they are already provided in the existing building. The construction costs for this addition are \$133,000 per unit. As a result, this project could not be financed with an FHA-insured loan. The financing for this project will come from a capital grant through the Section 202 program, as well money from the Affordable Housing Trust and the city of Providence's housing trust funds, which are substantial subsidies not available to projects financed with FHA-insured loans.

Boston is also a high-cost area. I mentioned earlier that I worked with the MassHousing on the disposition of 2,000 HUD-foreclosed units in the Multifamily Disposition Program. Of the 11 projects in the program, three involved the total demolition and new construction of the projects. The per unit total development cost of Academy Homes II, the last of the three new construction projects (which is currently nearing completion), is \$233,000 per unit. Of that amount, about \$21,000 is attributed to demolition, asbestos removal and other environment issues, leaving a construction cost of \$212,000 per unit. That figure does not include land costs, and there were no impact fees to pay. All of the projects were competitively bid. Clearly, these projects could not be financed with a Section 221(d)(4) insured loan.

Support for H.R. 1985

In summary, I strongly urge the Housing Subcommittee to support H.R. 1985, introduced by Representatives Miller (R-CA) and Frank (D-MA). Although the 25 percent increase in the base loan limits was an important step towards making the FHA multifamily insurance programs work more effectively, the high-cost areas continue to suffer from the lack of access to the program. With unemployment rising and wages not keeping pace with rising rents, it's especially important that the program be available to provide much-needed affordable housing to our cities' working families and individuals. There are few, and often no, alternatives in the market available to them. These are the people who teach our children, protect the citizens, serve you in restaurants and retail

establishments, take care of our office buildings, provide public transportation to residents and visitors and keep our streets and parks clean. We must find a way to provide them with decent quality affordable housing.

Thank you for the opportunity to speak to you today.