

Section 8 Information

Key Information

- What is Section 8/How it works**
- Tenant Profile**
- Available vouchers**
- Voucher holders searching for properties**
- Current available housing**
- Current available rental market**
- Market acceptance of rent at rental rates**
- CDC interaction for renting/selling**
- Rental universe for our product**

Section 8 – What/How

What - Section 8 is a rental assistance program funded by the U.S. Department of Housing and Urban Development (HUD). It is designed to assist low-income families rent apartments, condominiums or homes in the private market.

The Housing Authority of Kansas City, Missouri (HAKC) issues a Housing Choice Voucher (HCV) to families that meet income guidelines established by HUD. Utilizing their HCV, the family pays approximately 30% to 40% of their income toward rent and utilities and HAKC pays the difference.

Rent is established based on rents paid for comparable unassisted units in the private market in the neighborhood where the unit is located. Rents may not exceed the Fair Market Rent (FMR) established by HUD.

Tenant screening and selection are up to the landlord. Landlords may use the same selection criteria they use to select market rate tenants.

Section 8 participants must comply with the terms of the lease, including prompt payment of rent and proper care of the unit.

Lease Terms: the landlord may choose not to renew the lease at the end of the initial one-year term or any term thereafter.

Section 8 Program Benefits to Landlords:

- Guaranteed monthly rent payments.
- Direct Deposit.
- Low vacancy rates.
- Good residents - it's your choice.
- Annual inspections by HAKC at no cost to you to ensure maximum property upkeep.
- Charge a security deposit. (State allowed amount)
- Use of your own rental lease.
- Free weekly unit listings.
- Pre-criminal background checks on tenant referrals.
- Monthly "Owner News" newsletter.
- Access to a Landlord Advisory Council.
- Quarterly Landlord Meetings.

How - The HAKC accepts applications for Section 8 voucher assistance every Thursday between the hours of 8:30 a.m. and 11:30 a.m. at the Clymer Community Center, 1301 Vine, in Kansas City, Missouri. Family eligibility is based on income and family composition. Many times families look for a place to live before they have been approved by Section 8. If a landlord is approached by an applicant who has not yet applied for assistance through Section 8, please refer them to the Housing Authority, (816) 968-4100.

After application, families are placed on the Section 8 waiting list by the date and time of their application. As voucher assistance becomes available, families are selected in chronological order.

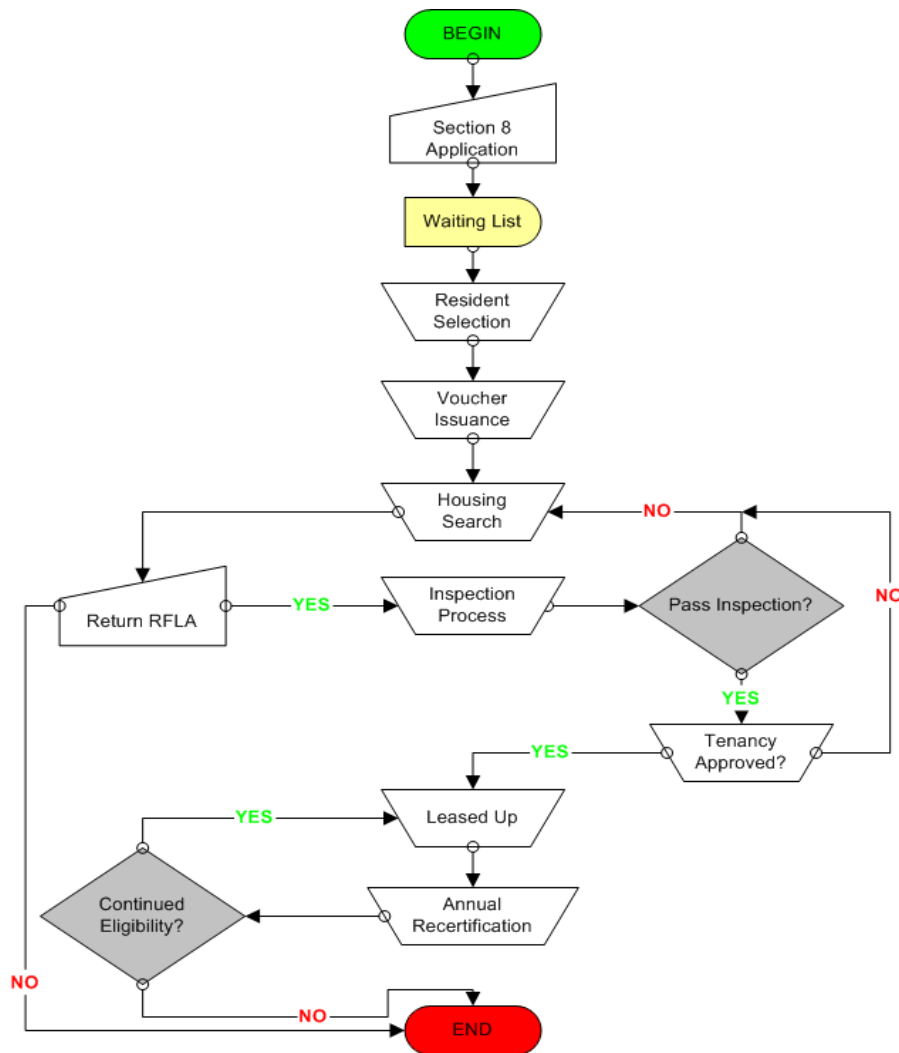
HAKC staff completes a thorough review of the applicant's original application and:

- Obtains a criminal background check for all members of the household eighteen (18) years and older
- Obtains current income information for all members of the household eighteen (18) years and older
- Determines family composition
- Reviews the HAKC 'Do Not Admit,' 'Trespassing' and 'Debt Lists.'

If the family is determined income- and family composition-eligible and passes the criminal background check, they are invited to participate in a two (2) hour Section 8 Program Briefing Session to receive their voucher. A family will not receive voucher assistance until they have participated in the Briefing Session.

Referenced: HAKC Section 8, Program Overview, N/A, 4/5/09, <http://www.hakc.org/section8.html>

Section 8 Workflow



Tenant Profile

The need for housing assistance is very great. HUD's most recent analysis of Census data indicates that in 2005, 6.5 million low-income renter households that did not receive housing assistance had "severe housing problems," which means they either paid more than half of their income for rent and utilities or lived in severely substandard rental housing. This number increased by 20 percent between 2001 and 2005. High housing-cost burdens contribute to housing instability and homelessness, which in turn have cascading effects on the well-being of children and other family members. Working families are among those who struggle the most to afford housing. A majority of the low-income families without housing assistance who face severe housing problems (excluding those who get Social Security) are working families.

National Demographic Profile -

Elderly

- About 303,499 seniors rely on Housing Choice Vouchers for affordable housing, representing 16% of all Section 8 households.
- 16% of Section 8's seniors are 83 years of age or older.
- The median annual income for an elderly household in Section 8 is \$9,594.*
- 91% of elderly households rely on Social Security or Supplemental Security payments as their primary source of income.*

People with Disabilities

- Section 8 is home to 458,124 households in which one or more members are living with a disability, representing 25% of all voucher households.
- 38,503 Section 8 households have a child with a disability.*

Families with Children

- 59% of all Section 8 households are families with children.
- More than 2,357,977 children live in Section 8, representing 50% of all Section 8 residents.
- 48% of households with children obtain their primary income from wages.*
- The average income for a Section 8 family is \$11,049.*

Referenced: CLPHA, A Portrait of Section 8 Housing Choice Voucher Program Residents, 2/05, 4/5/09, <http://www.clpha.org/page.cfm?pageID=125>

- Each housing agency must set the overall income cap for families admitted to its voucher program between 50 percent and 80 percent of the local area median income. (Nationally for a family of three, 50 percent of median income is \$26,600 and 80 percent of median income is \$42,500.) The amount of a voucher subsidy falls as a family's income rises, however, and in practice a family's subsidy generally fades to zero before (or soon after) its income reaches 80 percent of area median income.

- Housing agencies are required to ensure that 75 percent of households newly admitted to the voucher program each year have incomes at or below 30 percent of the area median. (Nationally, 30 percent of median income is \$15,900 for a family of 4 three, close to the poverty line.)

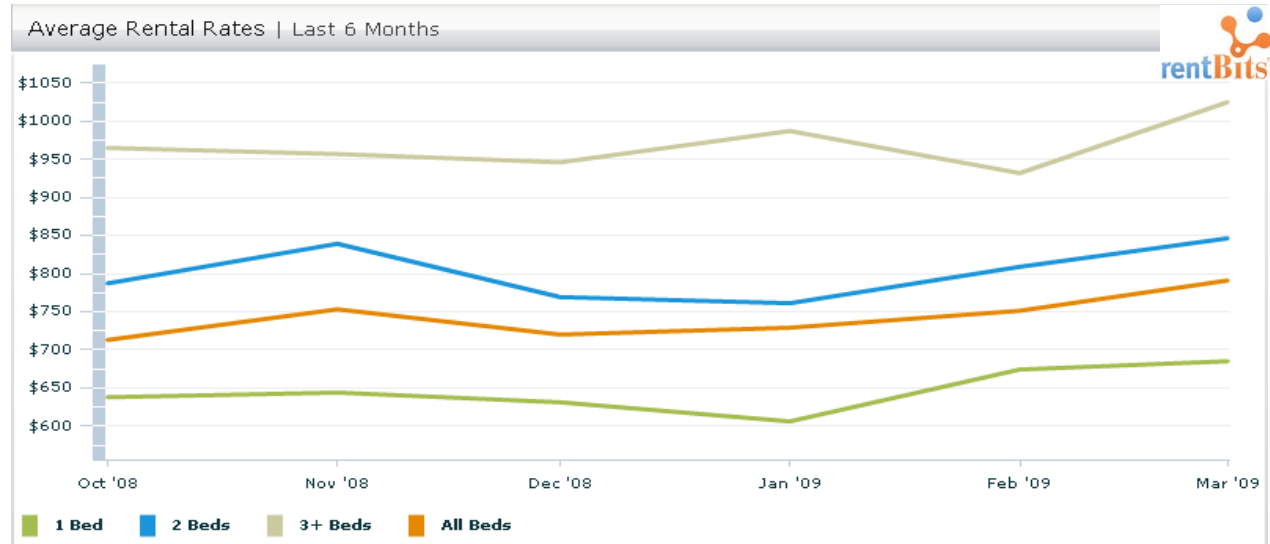
- Despite the various efforts to encourage HCV participants to look for housing in neighborhoods that are not poverty concentrated, there is anecdotal, as well as site-specific, evidence that voucher households do not always move to such neighborhoods.²⁰

Referenced: Stephen D. Kennedy and Meryl Finkel, Section 8 Rental Vouchers and Rental Certificate Utilization Study: Final Report. U.S. Department of Housing and Urban Development, 1994.

- In the Dallas, Fort Worth, **Kansas City**, and New Orleans MSAs, at least 80 percent of public housing units are found in high-poverty neighborhoods. Given the density of public housing compared to the other housing types, it is not surprising that there would be MSAs where the great majority of public housing units would be found in neighborhoods with high-poverty levels.

Referenced: HUD, Housing Choice Voucher Location Patterns, 1/03, 4/5/09, http://www.huduser.org/Publications/pdf/Location_Paper.pdf

Rent Profile



Current Rental Rates | available listings

	All Beds	1 Bed	2 Beds	3+ Beds
Median:	\$615	\$539	\$650	\$799
Average:	\$695	\$601	\$745	\$885
# of Listings:	1297	456	569	180

Section 8 has provided FMR caps for particular markets. In addition they have structured rental data structures to create comps on properties being evaluated during the Section 8 voucher process. HAKC indicates FMR caps as indicated below for 2009:

1 Bedroom	2 Bedrooms	3 Bedrooms	4 Bedrooms
\$689	\$791	\$1070	\$1126

Referenced: HUD User, Final FY 2009 Fair Market Rent Documentation System, 2009, 4/5/09, www.huduser.org/datasets/fmr/fmrs/fy2009_code/2009summary.pdf

In Kansas City, according to government data, the recession is having an effect on low-income families. Currently the wait to get housing assistance funded by HUD can be three years or more. More than 5,000 people are on waiting lists in Kansas City, and about 800 families and individuals have qualified for a Section 8 voucher but are unable to find a place to live because of a shortage in housing.

Referenced: Kansas City Start, Earmark for pig project creates stink, 3/23/09, 4/5/09, <http://www.kansascity.com/105/story/1102795.html>

Key Kansas City Section 8 Information (*Amy Anderson, KC Director of Housing Choice Voucher Program*)

- Kansas City HA has a current participant volume of 7,510
- Average Housing Assistance Payment Portion for 1 bedroom \$372 2 bedroom \$457 3 bedroom \$615*
- Average tenants monthly searching for rental property is 300 current participants & 400 new participants
- Waiting list averages 4000 individuals waiting to be approved

*Portion paid by Section 8 is traditionally around 70% of total rent rate.

Total Housing Units	61,447
Owner Occupied	34,422
Rental Occupied	21,078
Rental Vacancy Rate	8.4%
Vacant Housing Units	5,946

Kansas City Rent Trends (Multifamily)

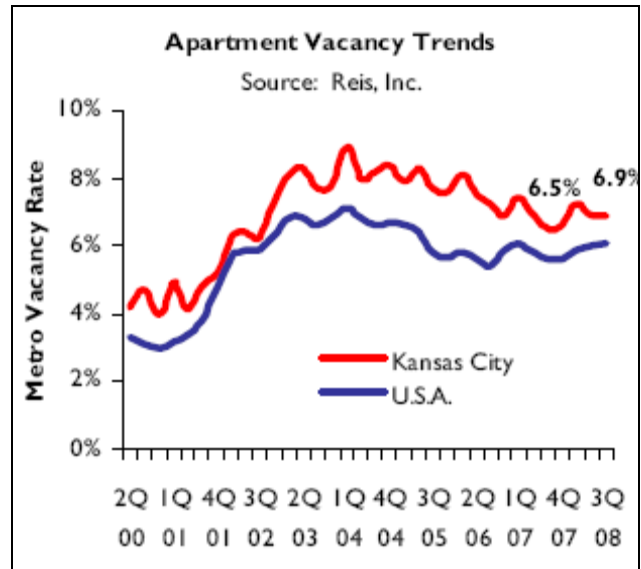
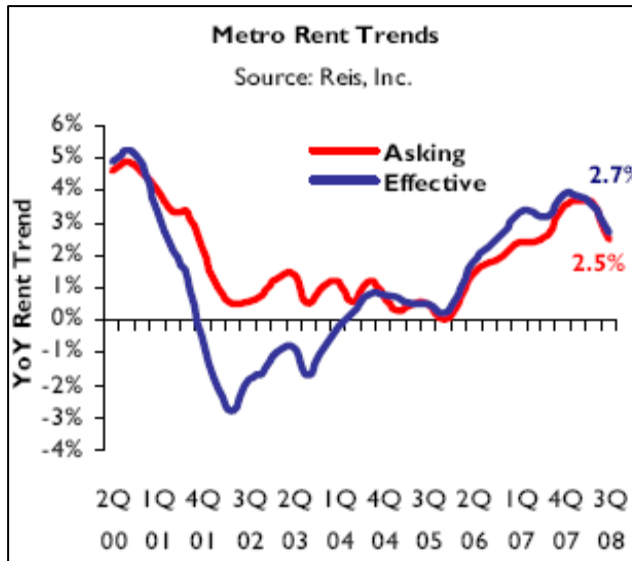
- Asking and effective rent trends were moderately weaker in 3Q08. On a sequential basis, the average asking rent was unchanged and the average effective rent rose only 0.3%. The metrics were up 2.5% and 2.7% year-over-year, respectively. By comparison, asking rents advanced at a 3.6% annual pace in 2Q08 and effective rents jumped 3.5% year-over-year last quarter.
- The average asking rent among Class A rentals fell -0.1% sequentially to \$816 in 3Q08. By comparison, Class B/C asking rents advanced at a modest 0.3% pace to \$623.
- The average asking rent increased 2.5% year-over-year to \$699 but was unchanged sequentially. Owners managed to squeeze out a 0.3% quarter-over-quarter effective rent increase, sending the average effective rent up 2.7% on a year-over-year basis.
- Reis expect year-over-year effective rent growth to decelerate to 2.0% in 4Q08 and 1.5% in 2009.

Kansas City Vacancy Trends (Multifamily)

- A sluggish leasing period resulted in no change in the metro vacancy rate in 3Q08, despite no supply. A net of 73 units were vacated during the quarter and the vacancy rate remained stable at 6.9%.
- Negative net absorption of 248 units gave rise to a 40 basis point increase in the vacancy rate in the twelve-month period ended in September. Supply was limited as developers completed only 240 units during the period.
- Reis expect a modest rise of construction activity over the next several quarters. The service forecasts 257 unit completions in 4Q08 and 649 units in calendar 2009. Combined with a relatively tame outlook for apartment

SUBMARKET TRENDS

Submarket	Effective Rent			Physical Vacancy		
	3Q07	3Q08	Change	3Q07	3Q08	Change
Downtown / East Kansas City	\$639	\$662	3.6%	9.6%	6.8%	-280 bps
Midtown	\$482	\$487	1.0%	7.0%	8.6%	160 bps
Gladstone / Liberty	\$571	\$583	2.1%	6.8%	6.5%	-30 bps
North Kansas City	\$590	\$597	1.2%	5.2%	6.1%	90 bps
University / Plaza	\$721	\$742	2.9%	8.3%	8.2%	-10 bps
Raytown	\$568	\$580	2.1%	9.6%	12.5%	290 bps
Southwest Kansas City	\$487	\$510	4.7%	8.5%	16.0%	750 bps
Grandview / Far South	\$587	\$615	4.8%	5.3%	5.7%	40 bps
Merriam / Mission	\$646	\$654	1.2%	5.6%	6.1%	50 bps
Overland Park North	\$716	\$726	1.4%	5.2%	5.6%	40 bps
Overland Park South	\$833	\$852	2.3%	6.0%	6.0%	0 bps
Olathe	\$596	\$624	4.7%	4.3%	4.5%	20 bps
Independence	\$573	\$607	5.9%	7.3%	6.3%	-100 bps
Lee's Summit / Prairie	\$603	\$616	2.2%	8.1%	7.4%	-70 bps
Wyandotte	\$532	\$555	4.3%	5.0%	7.2%	220 bps
Platte	\$638	\$632	-0.9%	8.0%	6.7%	-130 bps
Shawnee / Lenaxa	\$680	\$701	3.1%	5.9%	5.4%	-50 bps
Metro	\$638	\$655	2.7%	6.5%	6.9%	40 bps



Summary of Finding

Sources from a highly diverse group clearly indicated that the market is primed for single family residential rental. All market indicators are showing a sluggish trend in new construction and residential sales while at the same time minor increases in the multi-family sector. Experience indicates that in this type market, this is usually indicative of a movement in the cycle towards SFR renting amongst those in a this type market. This can be correlated from the fact that there is no indication of mass homelessness or a movement towards multi-generational family habitation. Therefore, with strong anecdotal evidence from local property managers of an almost record breaking last quarter for new SFR tenants, it can be seen that the market is prepared to received a large number of rental properties.

Statistical and analytical evidence based on studies by the government though HUD indicate that in particular, the Section 8 tenant will remain in the urban core communities that they are accustomed to. This failure on the part off the Section 8 program is unfortunate but advantageous to our current model. It shows that with a lack of current qualified housing in the urban core, we have the opportunity to capitalize and provide the source of such properties. Additional benefits to Section 8 tenants relates to the accountability in place through the program. With waiting lists of years, tenants are very cautious in preserving their voucher. With a personal counselor for each tenant, any issues can immediately be communicated and evictions are an option for even minor damage to a property. Current investigation into turnover of Section 8 participants vs. private pay is being researched but the fact that accountability is in place creates a definite atmosphere of respect for the property. With the addition of 45 day inspection of the premises, one can easily create an environment where the participant feels as if someone is truly concerned with their issues and at the same time provide us an inside view of the property. Across the country, Section 8 tenants are considered highly sought after and preferred due to the higher rent rates available and guaranteed payment even in the event of unemployment. Proof of this can be seen with non-competitors out of state that are willing to provide rent roll data. *Any request will be approved, please indicate your need for such.

In addition, this positioning will allow us to maintain a stable position for the anticipated return of retail market in the next 12 to 24 months. Market indicators are starting to show a resurgence of owner occupant purchasing with the major restriction being on getting individuals approved for the loan. This can be mitigated through Lease to Purchase programs that provide options that a tenant can execute at 12 and 24 month periods. During this period certain programs will be required that involve credit building and budgeting to provide the individual the tools they need to be successful.

This integration of programs will be assisted by the multiple groups in the community that currently have successful programs in place. This is the stage that provides us with a solid connection with the public sector. Our unique ability to create a private/public partnership will allow us to utilize pre-existing programs and funds to make sure that each tenant placed in a property will have the opportunity to execute on the lease purchase option. In fitting with the Buy & Hold model currently being suggested, this provides an incredible exit strategy at 12 and 24 months. By delaying the purchase of the property by the owner occupant, we are leveraging current consensus that the market will rebound somewhat in that period. In doing so, the execution point will be extended outward from the current point and possibly allow for an increase in market value that we can base LTV's on.

Technical/Marketing Advantage Perspective

Flatirons Financial is uniquely positioned to capitalize on marketing and technology throughout the organization. The team in place has in-depth experience in all aspects of sophisticated information systems that competitors simply can't harness. Individuals within the team have years of experience in business process management, electronic content management as well as cutting edge technologies that provide strategic advantages to our ability to manage and market our services.

With our newest flagship system, Propertyware, we are able to provide unprecedented access for owners/tenants/staff. This unique ability is rare in the property management sector and comes with incredible add value that investors will instantly acknowledge and want to participate in. The system provides a plethora of integration points that provide streamlined efficiencies in the most tedious of tasks. With document management and accounting, this application will be shown to lower overhead and provide a solid ROI. A few key features in relation to integration points are:

- The ability to autonomously disseminate a property vacancy to 100+ realty websites with back links providing online applications for properties.
- Provide instant access to reports and historical data through owner portals to investors thereby eliminating the need for investors to constantly request data via e-mail or phone.
- Instant access by tenants to service request submission forms thus eliminating a percentage of phone calls that can create a bottleneck. Also provides tenants the ability to pay online, significantly lowering late rents and providing ease of use for the tenant.

Although these benefits may be trivial, testimonials can easily be provided that indicate the number one issue amongst owners is the inability to maintain a sense of control on their portfolio. In this technical age, phone calls and e-mail simply do not provide the amount interaction that owners demand. On the tenants side, any opportunity to streamline repair request and payment will significantly increase timely payment and a somewhat higher level of respect for the property they live in.