

## CHAPTER 10

**PRESERVATION OF ASSISTED HOUSING UNITS****ASSISTED HOUSING PROJECTS**

In 1989, the California Government Code was amended to include a requirement that local municipalities identify and develop a program in their housing elements for the preservation of assisted, affordable multifamily units. Subsequent amendments have clarified the scope of the analysis to also include units developed pursuant to inclusionary housing and density bonus programs. In the preservation analysis, local municipalities are required to provide an inventory of assisted, affordable units that are eligible to convert within ten years. As part of the analysis, an estimation of the cost of preserving versus replacing the units is to be included, as well as programs designed to preserve the affordable units.

Over the past several decades, thousands of privately owned affordable rental housing units have been constructed in California with the assistance of federal, state, and local funding (loans or grants) that restricted rents and/or occupancy of units to lower income households for specified periods. The County of Sacramento unincorporated area has approximately 112 such assisted rental housing developments, which provide over 8,300 affordable units. In general, once the period of restricted rent/occupancy expires, a property owner may charge market rents for the previously restricted units. There is a threat that low income occupants may have to find alternative housing if rents rise to market levels, although in properties with Housing Assistance Payments (HAP) vouchers, those residents are provided “enhanced” vouchers to subsidize their rent in market rate projects.

Although these projects are required by law to be listed as projects at risk of converting to market rate housing, it is not a very good indicator of whether these units will actually convert. The majority of units included in this list are projects built under Federal Housing Administrator (FHA) mortgage insurance programs in the late 1960s and early 1970s. In addition to the FHA mortgage insurance, most of these projects also included Housing Assistance Payment (HAP) vouchers, which function similarly to locally controlled Housing Choice Vouchers, formerly Section 8. These vouchers allow the owner to collect fair market rent, but restrict occupancy to lower income residents and assure that the resident will only be responsible for that portion of the rent equal to 30 percent of their income. Because these vouchers are contingent on annual appropriations from the federal government, HAP vouchers must be annually renewed. Much of the affordability of these older FHA properties is linked directly to the voucher subsidy, and so technically, the units are constantly “at risk”. Over time, data and experience has shown that many owners have continued to renew their contracts beyond the expiration date, providing further evidence that the link between affordability expiration date and conversion is not inevitable.

The inventory of assisted units required to be reported on in the housing element includes all multifamily rental units regulated by federal, state, and/or local programs. Such units include those developed under the US Department of Housing and Urban Development (HUD) programs, tax exempt mortgage revenue bond programs, low income housing tax credits, redevelopment programs, inclusionary housing programs, and density bonus programs that are eligible for conversion to market rate within the next 10 years (2008 to 2018). There are 581 units at-risk for this period in unincorporated Sacramento County.

Table 10-1 (below) presents a list of housing units which have income restrictions that expire during the planning period for this housing update. The 289 units within the projects considered low risk are those owned by a non-profit housing organization. Many of the 292 units in the “higher risk” category are only in this category because of annual renewal requirements associated with the HAP vouchers described above.

### **PRESERVATION OPTIONS**

In addition to identifying units at risk of converting to market rate housing, Government Code Section 85583(a)(8)(B) requires a comparison of costs to replace lost units through construction or rehabilitation to the cost of preserving the existing units. Preservation of the at risk units can be achieved in several ways, including 1) facilitating a transfer of ownership of these projects to by affordable housing organizations; 2) purchasing of affordability covenants; and 3) providing rental assistance to tenants.

### **PURCHASE OF AFFORDABILITY COVENANT**

The first option to preserve the affordability of at-risk projects is to provide an incentive package to owners to maintain the projects as low income housing. Incentives could include restructuring the existing loan, and/or supplementing the HAP fair market rent to market levels, if market rents are substantially more than the HUD allowed fair market rent, and/ or providing a low interest loan or grant to finance project rehabilitation. It is difficult to estimate the cost of purchasing affordability covenants due to the number of variables in such a purchase.

### **TRANSFER OF OWNERSHIP**

Long-term affordability of low income units can be secured by transferring ownership of these projects to non-profit or for-profit affordable housing organizations. By doing so, these units would be eligible for refinancing using a range of affordable housing financing programs, including low income housing tax credits and tax-exempt mortgage revenue bonds that ensure affordability for at least 55 years from the time of funding. Most of these transactions also include rehabilitation of the project to modernize the property and to extend the useful life of the major systems. Upon review of recently financed preservation projects that have been acquired and refinanced as shown in Table 10-2, the average cost of acquiring and rehabilitating these affordable housing units is \$116,300 per unit.

### **RENT SUBSIDY**

Tenant-based subsidies could be used to preserve the affordability of housing. Similar to Housing Choice vouchers (formerly Section 8), the County, through a variety of potential funding sources, could provide a voucher to lower-income households. The level of subsidy required to preserve at-risk affordable housing through rent subsidies is estimated to equal the Fair Market Rent for a unit minus the housing cost affordable by a lower-income household. Table 10-3 estimates the rent subsidies required to preserve the housing affordability for a theoretical project with equal numbers of three different prototypical units. Based on the estimates and assumptions shown in the table, approximately \$1.2 million annually would be required to preserve the current at-risk inventory of 581 units.

TABLE 10-1 AT-RISK HOUSING UNITS, 2008-2018

PROJECT NAME	STREET ADDRESS	CITY	ZIP	JURIS-DICTION	AT-RISK YEAR (LAST YEAR W/RESTRICTED UNITS)	SUBSIDY/INSURANCE PROGRAM	TOTAL UNITS	ASSISTED UNITS
<b>Higher Risk Projects</b>								
Marconi Woodside	4514 Marconi Ave.	Sacramento	95821	County	2009	CDLAC	45	9
Plumwood Apts.	2020 Wright St.	Arden Arcade	95825	County	2009	CDLAC	52	11
Summit at Fair Oaks	4440 San Juan Ave.	Fair Oaks	95628	County	2011	HUD	70	70
Antelope Ranch Apts.	7400 Watt Ave.	North Highlands	95660	County	2013	CDLAC, TCAC, HOME	115	115
Summerwood Apts.	7415 Larchmont Dr.	North Highlands	95660	County	2013	HUD, CDLAC, TCAC	62	62
Magnolia Suites	4743 Marconi Ave.	Carmichael	95608	County	2016	HOME	39	24
7610 La Mancha Way	7610 La Mancha Way	Sacramento	95823	County	2016	CDLAC, HOME	1	1
Total Higher Risk Units								292
<b>Lower Risk Projects</b>								
Diakonia Housing	5581 Mendocino Blvd., #25	Sacramento	95820	County	2008	HUD	48	48
Eastern Gardens Co-op	3045 Eastern Ave.	Sacramento	95821	County	2008	HUD	112	40
Eskaton Jefferson Manor	5959 66th Ave.	Sacramento	95823	County	2010	HUD	104	104
Foothill Plaza Apts. I	5324 Hemlock St.	Sacramento	95841	County	2010	HUD	100	97
Total Lower Risk Units								289

Source: Sacramento Housing and Redevelopment Agency, 2008.

Notes:

Local Funding Definitions:

CDLAC = Tax exempt bond financing (California Debit Limit Allocation Committee)

HOME = HOME Investment Partnership Program (Federal Funding)

HUD/HAP = Housing and Urban Development/ Housing Assistance Payments Contract

TCAC = Tax Credit financing (Tax Credit Allocation Committee)

TI = Tax Increment

CDBG = Community Development Block Grant funding (Federal funding)

RRP = Rental Rehabilitation Program

Downtown = Downtown redevelopment project area Low-Income Housing Fund

<b>TABLE 10-2 ESTIMATED ACQUISITION/REHABILITATION COST</b>			
<i>Preservation Project</i> <sup>1</sup>	<i>Number of Units</i>	<i>Total Cost</i>	<i>Cost/Unit</i>
Casa De Angelo	100	\$11,165,000	\$111,650
Broadway Seniors Apartments	120	\$12,010,00	\$100,083
Southcrest Apartments	30	\$4,115,000	\$137,167
<b>Average</b>	<b>83</b>	<b>\$9,096,667</b>	<b>\$116,300</b>
<b>Total for all 581 "At Risk" units</b>			<b>\$67,570,300</b>

<sup>1</sup> Projects listed are the three most recent preservation projects funded by SHRA. While they are all located in the City of Sacramento, costs are comparable to those in the unincorporated County of Sacramento. Source: Sacramento Housing and Redevelopment Agency, 2008

<b>TABLE 10-3 POTENTIAL RENT SUBSIDIES</b>					
		<b>1 Bedroom</b>	<b>2 Bedroom</b>	<b>3 Bedroom</b>	<b>TOTAL</b>
<b>Per Unit Affordable Rent</b> <sup>1</sup>					
A	Low Income (60% AMI)	\$798	\$958	\$1,107	
B	Very Low Income (50%)	\$665	\$798	\$923	
C	Average (A & B)	\$732	\$878	\$1,015	
D	Per Unit Fair Market Rent	\$805	\$982	\$1,417	
E	Monthly Per Unit Subsidy (D-C)	\$74	\$104	\$402	
F	Annual Subsidy/Unit (E * 12)	\$882	\$1,248	\$4,824	
<b>Total "At Risk" Units</b> <sup>2</sup>		<b>193</b>	<b>194</b>	<b>194</b>	<b>581</b>
<b>Total Annual Subsidy</b> <sup>3</sup>		<b>\$162,228</b>	<b>\$229,632</b>	<b>\$887,616</b>	<b>\$1,279,476</b>

<sup>1</sup> Gross rents as allowed under the HOME and low income housing tax credit programs.

<sup>2</sup> Assumes 1/3 of total "At Risk" units within each bedroom size.

<sup>3</sup> Assumes a 5% vacancy rate.

Source: Sacramento Housing and Redevelopment Agency, 2008

### REPLACEMENT COSTS/ COST COMPARISONS

To estimate replacement housing costs for units potentially lost in the affordable housing market, per unit construction costs of recently approved or constructed projects are used. The land for the projects listed was donated, so the estimated cost does not include the land cost, which would add substantially to the overall project cost (estimated land costs are discussed in Chapter 7, Constraints). Based on costs for recently funded new construction multifamily projects, it is estimated that the average per unit cost is \$172,827 as shown in Table 10-4. 2007 SACOG data and other general market data estimates new construction costs between \$151,000 and \$235,000, within the range of recently approved projects in Table 10-4.

**TABLE 10-4 ESTIMATED REPLACEMENT COST**

<i>New Const. Project</i> <sup>1</sup>	<i>Number of Units</i>	<i>Total Cost</i> <sup>2</sup>	<i>Cost/Unit</i>
Vintage at Natomas Field	200	\$25,721,800	\$128,609
Copperstone Village	103	\$20,268,000	\$196,776
Willow Glen	135	\$29,101,647	\$215,567
Norden Terrace	204	\$30,672,306	\$150,354
<b>Average</b>	<b>161</b>	<b>\$26,440,938</b>	<b>\$172,827</b>
<b>Total for all 581 “At Risk” units</b>			<b>\$100,412,487</b>

<sup>1</sup> Projects listed are the four most recent preservation projects funded by SHRA. While three of the four are located in the City of Sacramento, costs are comparable to those in the unincorporated County of Sacramento.

<sup>2</sup> Costs reflect total project cost less land costs. Land costs would add substantially to the cost and are further discussed in Chapter 7.

Source: Sacramento Housing and Redevelopment Agency, 2008

In summary, the three cost estimating scenarios find the relative preservation costs to be:

- Acquisition and rehabilitation - \$67,570,300.
- Rent subsidy- \$1,279,476 annually or \$12,794,760 over ten years.
- Replacement through new construction - \$100,412,487.

Replacement and preservation of these 581 at-risk units is costly, regardless of the preservation method. Providing a rent subsidy program may appear to be the least costly option. However, because of the many federal and state funding programs available for acquisition, rehabilitation and new construction of affordable housing, the cost to the County would be substantially less under either of these options.

## RESOURCES FOR PRESERVATION OF ASSISTED HOUSING

There are a number of resources available to finance the acquisition and preservation of existing affordable housing. The most important is HUD's willingness to renew and extend Housing Assistance Payment (HAP) contracts. The State of California's Department of Housing and Community Development has programs available to finance the acquisition of at-risk projects, and the Sacramento Housing and Redevelopment Agency as well as the California Housing Finance Agency underwrite tax exempt bond issuances which developers can then couple with low income housing tax credits. Local funding resources including HOME Investment Partnership Program funding and tax increment funds are available as “gap” funding for developers seeking state and federal funding for preservation activities.

There are several organizations active in the region that have the managerial capacity to own, manage, and have expressed an interest in being notified of the availability of assisted rental housing. These organizations listed in Table 10-5 have expressed interest in participating in the acquisition and preservation of at-risk properties.

<b>TABLE 10-5 AFFORDABLE HOUSING ORGANIZATIONS INTERESTED IN ACQUIRING AT-RISK RENTAL HOUSING IN SACRAMENTO COUNTY</b>		
<b>COMPANY</b>	<b>ADDRESS</b>	<b>CITY</b>
Mercy Housing California	3120 Freeboard Drive, Suite 200	West Sacramento
Ezralow/Gala Construction Companies	269 Technology Way, suite B-1	Rocklin
John Stewart Company	1388 Sutter Street	San Francisco
Community Housing Opportunities Corporation	1490 Drew Avenue, Suite 160	Davis
The Related Companies	18201 Von Karman, Suite 900	Irvine
A.F. Evans Company, Inc.	1000 Broadway, Suite 300	Oakland
Sacramento Mutual Housing Association	3451 Fifth Avenue	Sacramento
Rural CA Housing Corp.	2125 19th Street, Suite 101	Sacramento
Eskaton Properties, Inc.	5105 Manzanita Ave.	Carmichael

Source: Halcon, E. pers comm. 2008.

### CONCLUSION

The following conclusions can be made regarding the preservation of assisted housing units in the unincorporated County:

- A total of 581 units are listed as being at risk of converting to market rate housing due to expiration dates falling within the 2008-2018 time period. As discussed, the expiration date does not directly correlate to actual conversion.
- The 581 at-risk units are categorized by higher and lower risk based on type of ownership. Higher risk projects are those units within projects owned by profit motivated organizations while lower risk projects are those owned by SHRA or affordable housing organizations.
- Many projects are annually at risk due to annual renewal requirements associated with the HAP vouchers. But owners have typically extended their contracts. The County and SHRA do not anticipate the conversion of any of these units in the near future.
- Viable preservation options include providing rent subsidies, acquisition and rehabilitation and new construction of affordable housing units due to federal, state, and local funding sources that are available for these activities. Furthermore, several local affordable housing organizations are available to assist the County in preserving affordable units.