UNITS AT-RISK OF CONVERSION TO MARKET-RATE UNITS
SAMPLE ANALYSIS
SAMPLE 1

California housing element law requires all jurisdictions to include a study of all low-income housing units which may at some future time be lost to the affordable inventory by the expiration of some type of affordability restrictions. The law requires that the analysis and study cover a ten-year period, and be divided into two periods, coinciding with updates of the housing element. There are three general cases that can result in the conversion of public assisted units:

1) Prepayment of HUD Mortgages: Section 221(d'(3), Section 202 and Section 236 — Section 221 (d)(3) is a privately-owned project where the U.S. Department of Housing and Urban Development (HUD) provides either below market interest rate loans or market-rate loans with a subsidy to the tenants. With Section 236 assistance, HUD provides financing to the owner to reduce the costs for tenants by paying most of the interest on a market rate mortgage. Additional rental subsidy may be provided to the tenant. Section 202 assistance provides a direct loan to non-profit organizations for project development and rent subsidy for low-income elderly tenants. Section 202 provides assistance for the development of units for physically handicapped, developmentally disabled, and chronically mentally ill residents.
2) Opt-outs and Expirations of Project-Based Section 8 Contracts — Section 8 is a federally funded program that provides for subsidies to the owner of a pre-qualified project for the difference between the tenant's ability to pay and the contract rent. Opt-outs occur when the owner of the project decides to opt-out of the contract with HUD by pre-paying the remainder of the mortgage. Usually, the likelihood of opt-outs increase as the market rents exceed the contract rents.
3) Other — Expiration of the low-income use period of various financing sources, such as Low-income Housing Tax Credit (LIHTC), bond financing, density bonuses, California Housing Finance Agency (CALHFA), Community Development Block Grant (CDBG) HOME and redevelopment funds. Generally, bond financing properties expire according to a qualified project period or when the bonds mature. The qualified project period in the City's bond financed multifamily properties is 15 years. Density bonus units expire in either 10 or 30 years, depending on the level of incentives. Only one density bonus property was found with a 10-year affordability term. Also, properties funded through the Model City redevelopment agency generally require an affordability term of 20 years.

Inventory of Affordable Rental Housing Units

The following inventories include all government assisted rental properties in the City. Generally, the inventory consists of HUD, Model City redevelopment agency, model

County multifamily bonds and density bonus properties. Target levels include the very low-income group and the low-income group. A total of 1,538 assisted housing units were identified in Model City.

TABLE HOU-40
INVENTORY OF PUBLIC ASSISTED COMPLEXES (1999)

Name of Project	Address	Target Group	Target Level	Assisted Units
Harbor Village	2500 Merrimac Way	General*	low	546
Bethel Towers	666W. 19th St.	Senior	low	270
Casa Bella	1840 Park Ave.	Senior	low	75
St. John's Manor	2031 Orange Ave.	Senior	very-low	36
Oasis Martinique	2855 Pinecreek Dr.	General	low/very-low	143
The Lakes	3400 Ave. of the Arts	General	low/very-low	154
Park Center Apt.	575 W. 19th	General	low	40
Park Place Village	1662 Newport Blvd.	General	very-low	60
Periwinkle Village	1981 Wallace Ave.	General	very-low	96
Villa Nova	2043 Charles St.	General	very-low	2
Westbay Apartments	825 Center Street	General	low	17
Mesa Breeze Manor	867-877 W. 19th St.	General	low	15
Sea Palms Village	1850 Whittier Ave.	General	low/mod	28
Other Density Bonus Units	Scattered	General	very low/mod	56

Source: HUD/California Housing Partnership Corporation.
* * Harbor Village provides housing to Low-income households, Fairview employees/patients or workers in the City.

The most prevalent type of at-risk conversion in the City is a restriction expiration of the low-income use period through the various financing sources. For example, the Lakes were financed through multifamily bonds. The bonds expire according to a qualified project period or when the bonds mature. The qualified project period in the City's bond financed multifamily properties is 15 years, so the rent-restriction on the Lakes expire on January 1, 2006, fifteen years from the origination date. In addition, Casa Bella and St. John's Manor are subject to the termination of a Section 8 contract. The Section 8 contract provides rent subsidy to 111 units for the difference between the tenant's ability to pay and the HUD contract rent.

TABLE HOU-41
INVENTORY OF PUBLIC ASSISTED COMPLEXES (1999)

Name of Project	Type of Assistance	Expiration Date	Type of Conversion Risk
Harbor Village	State/City Lease Agreement	2039	Lease Expiration
Bethel Towers	HUD Section 202	1/9/2017	Mortgage Prepayment
Casa Bella	RDA/HUD 221(d)(4)/8	9/11/04	Section 8 Termination
St. John's Manor	HUD Section 202/8	12/02/2004	Section 8 Termination
Oasis Martinique	County Multifamily Bond	5/6/2013	Restriction Expiration
The Lakes	County Multifamily Bond	10/15/2006	Restriction Expiration
Park Center Apt.	RDA Housing Set-a-side	5/6/2013	Restriction Expiration
Park Place Village	RDA Housing Set-a-side	5/6/2013	Restriction Expiration
Periwinkle Village	RDA Housing Set-a-side	Perpetuity	Restriction Expiration
Villa Nova	City Density Bonus	8/3/2001	Restriction Expiration
Westbay Apartments	City Density Bonus	10/9/2014	Restriction Expiration
Mesa Breeze Manor	City Density Bonus	9/17/2014	Restriction Expiration
Sea Palms Village	City Density Bonus	5/9/2018	Restriction Expiration
Other Density Bonus Units	City Density Bonus	2017-2021	Restriction Expiration

Source: HUD/California Housing Partnership Corporation

Six properties were found that potentially expire within the next ten years and are thereby considered at-risk. Two of the projects are HUD senior properties funded through the Section 202 (St. John's Manor) and Section 221(d)(4) (Casa Bella) programs. Another project, the Lakes, is funded through the model County multifamily bond program. The Lakes were considered at-risk in the last housing element period, but the affordability terms were renewed in 1991. Park Center and Park Place are funded through the redevelopment agency and two affordable units at Villa Nova were built with a density bonus from the City.

A total of 367 units are at-risk in the Model City over the ten year period and 113 units are at-risk in the 7-year period that is the effective term of this housing element. The 113 at-risk units in Casa Bella, Villa Nova and St. John's V Manor are considered the higher priority of the 367 total at-risk units. More specifically, Casa Bella and the two units at Villa Nova are considered the highest priority, due to owner types. Casa Bella and Villa Nova are owned by profit motivated entities, while St. John's Manor is owned by a non-profit organization and will most likely seek to preserve affordability. However, the City imposed a land-use restriction on Casa Bella in exchange for the initial land write down, density increases, parking reductions and participation in HUD financing. The land use restrictions require Casa Bella to remain affordable for the length of the mortgage, 40 years. In other words, Casa Bella is not at-risk of converting to market-rate through a mortgage prepayment. The only risk with Casa Bella converting to market-rate is the termination of a tenant- based Section 8 contract.

TABLE HOU-42
INVENTORY OF "AT-RISK" UNITS IN THE TEN YEAR PERIOD

Year	Name of Project	Non-Elderly Units	Elderly Units	Total
1998	No Projects At-risk	0	0	0
1999	No Projects At-risk	0	0	0
2000	No Projects At-risk	0	0	0
2001	Villa Nova	2	0	2
2002	No Projects At-risk	0	0	0
2003	No Projects At-risk	0	0	0
2004	St. John's Manor and Casa Bella	0	111	111
2005	No Projects At-risk	0	0	0
2006	The Lakes, Park Place Village and Park Center Apt.	254	0	254
2007	No Projects At-risk	0	0	0
Total		256	111	367

Source: HUD/California Housing Partnership corporation. COST ANALYSIS

In order to provide a cost analysis of preserving at-risk units, costs must be determined for rehabilitation, new construction or tenant-based rental assistance.

1) Rehabilitation– The primary factors used to analyze the cost of preserving low-income housing include: acquisition, rehabilitation and financing. Actual acquisition costs depend on several variables such as condition, size, location, existing financing and availability of financing (governmental and market). The following are estimated per unit preservation costs for the City, according to COMPS InfoSystems (data provider) and private developers.

TABLE HOU-43
REHABILITATION COSTS

Fee/Cost Type	Cost per Unit
Acquisition	$78,179
Rehabilitation	$8,500
Financing/Other	$20,000
Total Cost per Unit	$101,679

2) New Construction/Replacement – New construction implies construction of a new property with the same number of units and similar amenities as the one removed from the affordable housing stock. Cost estimates were prepared by using local information and data. The construction of new housing can vary greatly depend on factors such as location, density, unit sizes, construction materials and on-site and off-site improvements. The following table describes new construction costs for a typical garden style apartment in the Model City.

TABLE HOU-44
NEW CONSTRUCTION/REPLACEMENT COSTS

Cost/Fee Type	Cost per Unit
Land Acquisition	$103,040
Construction	49,215
Financing/Other	65,252
Total Cost per Unit	$217,507

The rehabilitation of existing units instead of new construction is the most cost effective approach toward the preservation of at-risk units. It should be noted however, that at-risk units may also be preserved through tenant-based rental assistance.

3) Tenant-based Rental Assistance – This type of preservation largely depends on the income of the family, the shelter costs of the apartment and the number of years the

assistance is provided. If the typical family that requires rental assistance earns $18,450, then the family could afford approximately $461 per month for shelter costs. The difference between the $461 and the typical rent for a two bedroom apartment of $981 would in necessary monthly assistance of $520 a month or $6,240 per year. For comparison purposes, typical affordable housing developments carry an affordability term of at least 20 years, which would bring the total cost to $124,800 per family.

For the 7-year period of this housing element, a total of 77 units are considered high priority at-risk units in Casa Bella and Villa Nova. The total cost of producing new and comparable units is estimated at $16,748,039, while rehabilitation is estimated at $7,829,283. Providing tenant-based rental assistance is estimated at $9,609,600 for a 20-year period.

To address at-risk units, the City will add a program to monitor these units, ensure compliance with noticing requirements, establish partnerships with entities qualified to acquire and manage at-risk units (see Appendix B) to have a team and action plan ready to move forward upon notice of conversion, and provide assistance and education to tenants (see Program 7 for more details).

Further, Model City is strongly committed to the preservation of affordable housing units and therefore has identified the following resources in an effort to save such at-risk units.

Preservation Resources

Efforts by the City to retain low-income housing must be able to draw upon two basic types of preservation resources: organizational and financial. Qualified, non-profit entities need to be made aware of the future possibilities of units becoming at risk. Groups with whom the City has an ongoing association are the logical entities for future participation. A list of qualified entitles to acquire and manage at-risk units in Appendix B.

<u>Strategies to Retain Affordable Units</u>
The following is a list of potential financial resources considered a part of the City's overall financial plan to deal with retaining affordable units. The number and availability of programs to assist cities and counties in increasing and improving their affordable housing stock is limited and public funding for new projects is unpredictable. The following programs are local, State and federal programs. Some are managed locally by the City through funds accessed directly from HUD.

1) HOME Program: This Program was created under Title II of the Cranston-Gonzales National Affordable Housing Act enacted on November 28, 1990. For the City, HOME funds are made available on an annual competitive basis throughHCD small cities program. Approximately $500,000 is available to develop and support

affordable rental housing and home ownership affordability. Activities include acquisition, rehabilitation, construction, and rental assistance.

Model City uses HOME funds primarily for first-time homebuyers (downpayment assistance), owner-occupied rehabilitation and rental-rehabilitation. The City has also done some multifamily acquisition/rehabilitation.

2) Model County Housing Authority (MCHA) — The MCHA administers two programs: 1) Conventional Housing or Low Rent Public Housing and, 2) Section 8 Certificate and Voucher Program. The Conventional Housing Program includes housing developments that are managed and maintained by MCHA. The Section 8 Certificate Program is a tenant-based rental subsidy administered by MCHA. Qualified families are selected and certified from a waiting list. The qualified family can utilize the Certificate for any “decent, safe and sanitary housing.” The tenant’s portion of the rent is based on 30 percent of the adjusted family gross income. MCHA subsidizes the difference between the tenant’s portion and the rent. The actual rent is restricted by Fair Market Rents (FMR), as determined by HUD. The Section 8 Voucher Program is basically the same as the Certificate Program, except the tenant’s housing choice is not restricted by the Fair Market Rents.

   As of September 1999, MCHA serves 478 families through Section 8 certificates and vouchers and roughly 40 percent of those served are seniors in Model City. In addition, MCHA has approximately 7,500 families on the Section 8 waiting list for the MCHA jurisdiction.

3) Community Development Block Grant (CDBG) Funds - The City is an entitlement city. An entitlement city is a city with a population over 50,000 that receives funding directly from HUD. The City receives approximately 1.4 million from the federal government annually. Model City utilizes CDBG funds for rental and owner housing rehabilitation activities, infrastructure, public facilities and public services. Proceeds from those activities are deposited into a revolving loan fund established from low interest loans for rehabilitation and could be a resource for preservation activities.

4) Redevelopment Agency Tax Increment Funds — As required by State law, the Model City redevelopment agency (RDA) sets aside 20 percent of the gross tax increment revenues received from the STET into a low- to moderate- income housing fund for affordable housing activities.

   According to the 1999-2004 RDA Implementation Plan, $598,000 will be expended on housing programs in fiscal year 1999-2000. In subsequent years 2000-2001 through 2003-2004, $330,000 will be allocated to housing programs. Total expenditures for the five-year period are $1,921,000. The expenditures are on the following types of programs:

   - Rental Rehabilitation Programs
   - Acquisition/Rehabilitation Programs

- Tenant-based Assistance Programs
- Mortgage Certificates
- First-time Homebuyer
- Home Owner/New Construction

The RDA plans to utilize these funds to assist 56 existing and new affordable units in the City, including 16-very-low income units and 40-low-income units through the above housing programs.

5) Community Reinvestment Act (CRA) - Federal law requires that Banks, Savings and Loans, Thrifts, and their affiliated mortgaging subsidiaries, annually evaluate the credit needs for public projects in communities where they operate. Part of the City's efforts in developing preservation programs will be to meet with local lenders to discuss future housing needs and applicability of the CRA Act. Although an unpredictable resource, it is important to establish a working relationship for future problem solving.

6) Low-income Housing Tax Credit Program (LIHTC) - This program provides for federal and State tax credits for private developers and investors who agree to set aside all or an established percentage of their rental units for low-income households for no less than 30 years. Tax credits may also utilized on rehabilitation projects, contributing to the preservation program.

Note: Sample analysis includes minor modifications to the City of Costa Mesa 2000-2005 Housing Element