



SAN DIEGO  
HOUSING  
COMMISSION

*We're About People*

# Preserving Affordable Housing in the City of San Diego

*May 2020*

Prepared for the San Diego Housing Commission  
by HR&A Advisors and National Housing Trust

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# MESSAGE FROM THE PRESIDENT & CEO

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May 2020

Preserving existing affordable rental housing units in the City of San Diego is an essential element of a balanced approach that combines preservation and new construction to address the affordable housing and homelessness challenges the City is experiencing.

I thank San Diego City Council President Georgette Gómez for championing the preservation of affordable housing throughout her service on the City Council.

Under her leadership as the Chair of the City Council's Smart Growth and Land Use Committee at the time, the Committee identified preservation of affordable housing as one of its priorities for its 2018 work plan.



In support of the action items identified in the Committee's work plan, the San Diego Housing Commission (SDHC) hired a new Housing Preservation Coordinator in 2019.

In addition, creating a strategy to enhance preservation requires a clear understanding of the existing housing inventory in the City of San Diego. So SDHC took the additional step of creating a new comprehensive database of deed-restricted affordable rental housing units citywide.

With this database established, SDHC commissioned a study to analyze the data, identify the City of San Diego's housing preservation needs, estimate costs for addressing the challenges, and recommend a framework with strategies for policymakers to consider to achieve the necessary affordable housing preservation objectives.

To complete this study, SDHC contracted with HR&A Advisors, a consulting firm with more than 40 years of experience in real estate and economic development, in partnership with The National Housing Trust, which has more than 30 years of experience in affordable housing preservation nationwide. SDHC staff also have been instrumental to the completion of these preservation activities.

This report is the result of these collaborative efforts.

With leadership from Mayor Kevin L. Faulconer, Council President Gómez, the entire City Council, and the SDHC Board of Commissioners, a variety of actions have occurred in recent years to support the creation and preservation of affordable housing, which have been priorities for SDHC throughout its 40-year history.

SDHC looks forward to continuing to work with these leaders, affordable housing developers and additional partners in the community to move San Diego forward to preserve additional affordable housing for families with low income in our community.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard C. Gentry". The signature is fluid and cursive, with a long horizontal stroke at the end.

Richard C. Gentry  
President & CEO  
San Diego Housing Commission

# EXECUTIVE SUMMARY

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The City of San Diego (City) is facing affordable housing and homelessness crises, with more than half of all renter households (54 percent) spending more than 30 percent of their income on housing (cost-burdened).<sup>1</sup> Addressing this crisis requires both the creation of new affordable housing and the **preservation of affordable rental housing** that currently exists in the City. The San Diego Housing Commission (SDHC) collaborates with the federal government, the State of California, the City, and the local housing community to address these housing challenges for households with low income throughout the City.

**Preserving the existing inventory of affordable rental housing wherever possible is essential as part of a comprehensive approach to address the housing affordability and homelessness crises and to retain affordable options for all residents.** As highlighted in the *City of San Diego Community Action Plan on Homelessness*—unanimously approved by the City Council on October 14, 2019—preservation can relieve some pressure on the homeless crisis response system by restricting rents at existing affordable properties, thereby preventing the displacement of some tenants from their apartments, and reducing additional inflow into the various homeless shelters and services programs in the City.

*Affordable housing* consists of properties upon which covenants, conditions, and restrictions (CC&Rs) or other documents are recorded that require rents to be affordable to households at specified income levels. These are referred to as **deed-restricted properties**. In addition, some market-rate properties without any restrictions have rents that are affordable to households earning up to 60 percent of the city’s Area Median Income (AMI). These unrestricted, affordable units are known as “naturally occurring affordable housing” (NOAH). Approximately 33 percent of the unrestricted rental housing units in the City are NOAH units.

**This report, *Preserving Affordable Housing in the City of San Diego*, provides a guiding framework for policy makers, community stakeholders and residents to understand the City’s housing preservation challenges and the potential strategies available to address them.** This report defines *preservation* as any action that extends the deed-restricted status of an affordable rental housing unit or converts an unrestricted NOAH unit to deed-restricted to ensure affordability remains in place.

This study is organized around five questions:

<b>Housing Landscape</b>	<ul style="list-style-type: none"><li>• What are the characteristics of the City’s deed-restricted and unrestricted housing stock?</li><li>• How has the City’s housing stock changed over time and how will it look in the future?</li></ul>
<b>Unrestricted Housing Financial Analysis</b>	<ul style="list-style-type: none"><li>• What are the characteristics of the City’s naturally occurring affordable housing (NOAH) unrestricted units?</li><li>• How much would it cost to preserve these housing units?</li></ul>
<b>Preservation Framework</b>	<ul style="list-style-type: none"><li>• Which existing and potential funding sources, policies, tools and programs can support a balanced approach to housing preservation?</li></ul>

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<sup>1</sup> American Communities Survey, 2018 1-year, prepared by Social Explorer.

## Housing Landscape

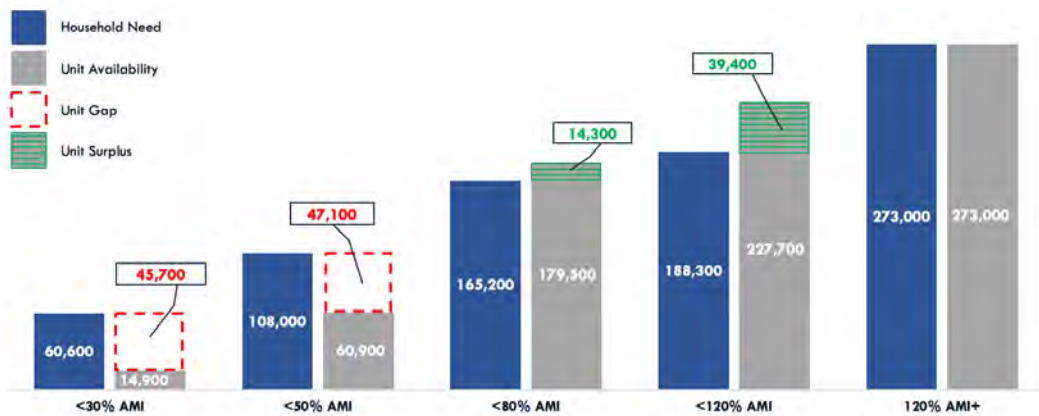
The City of San Diego’s population has grown significantly since 2010, from 1.3 million residents to 1.4 million in 2018 (an increase of 8 percent). As a result of rapid population growth, coupled with an increasingly constrained supply of housing and a level of new production unable to keep up with that of job creation, rents have risen rapidly.<sup>2</sup> This has created a rent affordability gap, and the current trend indicates that this gap will continue to grow.

**Amid this high-cost environment, affordability challenges most directly affect the lowest-income renters.** Housing cost burden is a significant issue for many of these households, especially for very low-income (VLI) renters earning 50 percent of AMI or less. Approximately 88 percent of these VLI households are housing cost-burdened.

**The mismatch between current rents and what households can afford results in the rental housing gap.** This is a measure of the difference between what people can afford to pay in rent (household need) and the housing options affordable to them at specific price points (availability), as shown in Figure 1. These gaps are summed cumulatively for each income level, as each household can afford any unit below their income threshold. As a result, many households earning 80 percent to 120 percent of AMI compete with households earning below 50 percent of AMI for unrestricted units. Without new production catering to households earning 80 percent to 120 percent of AMI, renters earning below 50 percent of AMI will continue to face displacement pressure as they compete for housing with higher-income households.

Preserving the deed-restricted affordable units available to the extremely low-income (30 percent of AMI) and very low-income (50 percent of AMI), and using all available tools to prevent the loss of unrestricted NOAH units at these rents, is imperative to prevent further displacement and to allow the households most at risk of displacement and cost burden to stay in their homes.

**Figure 1: Aggregate Affordable Rental Housing Need and Availability by Income Band<sup>3</sup>**



<sup>2</sup> Between 2010 and 2018, San Diego built approximately 40,500 units and added 125,700 jobs—a ratio of 3.1 jobs per unit built. Source: ACS 2018, 2010 1-year, EMSI Economic Modeling 2010, 2018

<sup>3</sup> Public Use Microdata Survey (PUMS) 2018 5-year estimates, HR&A Analysis

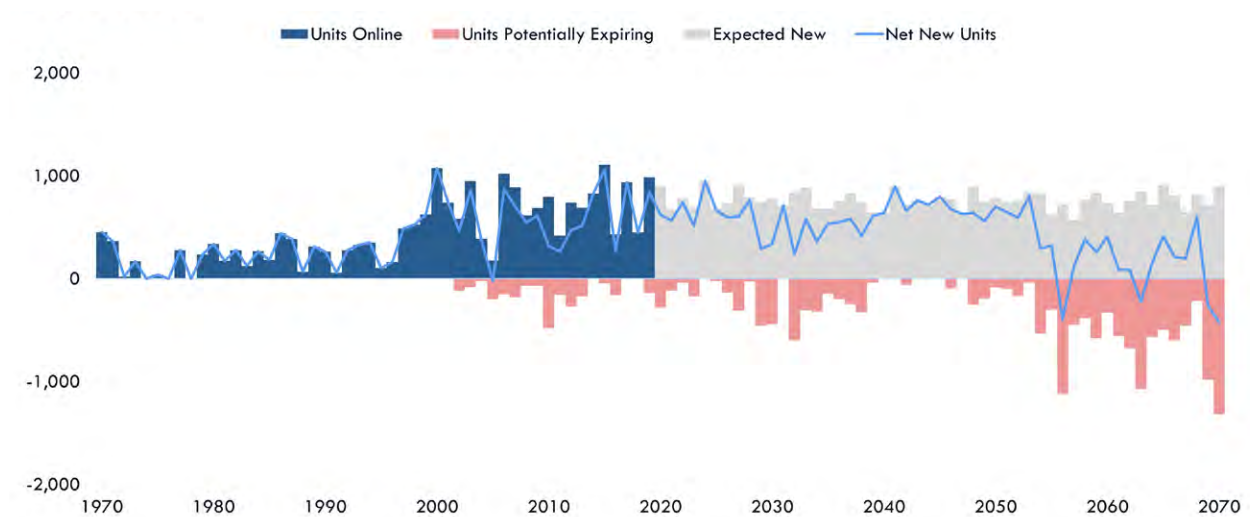
## Deed-Restricted Units

The City has 23,440 units of existing deed-restricted affordable housing, representing 14 percent of the City's total multifamily rental housing stock. Since 2000, SDHC has partnered with developers to build 14,500 deed-restricted units. Additionally, SDHC has preserved more than 4,200 units by helping extend their deed-restricted status.

The future deed-restricted housing inventory in the City will depend on new production and expiration of affordability. Between 2020 and 2040, an average of 750 new deed-restricted units can be expected to be built each year.<sup>4</sup> During the same period, the affordability status of approximately 4,200 units is set to expire<sup>5</sup>, a pace of 200 units a year. Preserving even a portion of those 4,200 existing units allows newly constructed units to have an even greater impact on housing affordability: The new units will add to the supply of existing deed-restricted housing, rather than covering the loss resulting from expiring units.

Based on recent SDHC projects, the total cost to preserve a deed-restricted unit is approximately \$301,500. Given existing acquisition and construction cost trends, it would cost an estimated \$1.7 billion between 2020 and 2040 to preserve every deed-restricted unit at risk. The source of this capital would likely be a combination of federal and state sources, along with significant gap financing from local sources.

Figure 2: 1970 – 2070 Deed-Restricted Units Potential Addition and Expiration



Source: SDHC, HR&A Analysis

<sup>4</sup> The projection of future production is based solely on historic production between 2000 and 2019. Given recent City and state ordinances designed to increase housing production, actual production may be higher.

<sup>5</sup> SDHC deed-restricted property data, revised February 5, 2020.



# EXECUTIVE SUMMARY

## Unrestricted Units

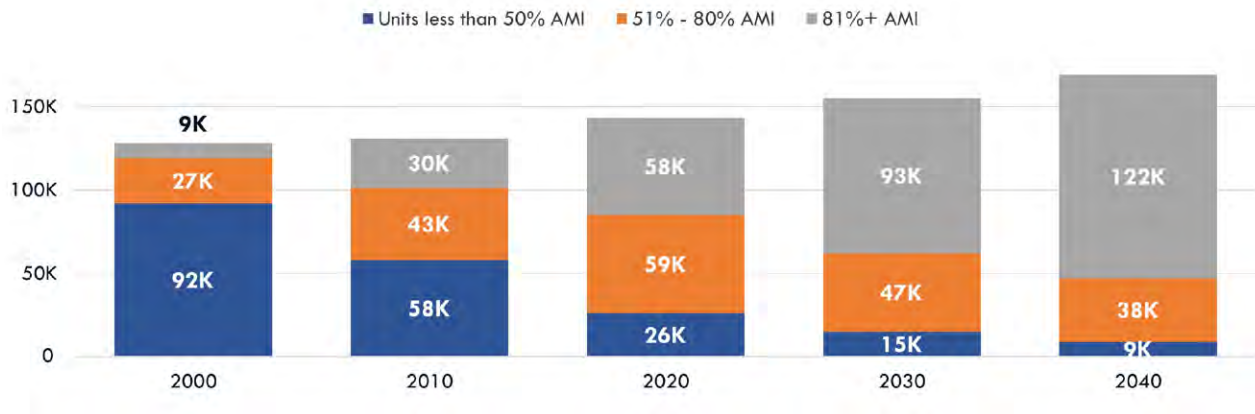
Approximately 86 percent of all multifamily rental housing units in the City of San Diego are unrestricted (140,200 units). Rents for unrestricted units are set by individual property owners based on housing market conditions, neighborhood demand, unit quality, and other differentiating characteristics.

**Of the unrestricted units, 21 percent (29,800 units) are rented at a level that is affordable to extremely low-income and very low-income households, while 43 percent (60,700 units) are affordable to low-income households.** The remaining 35 percent are affordable only to moderate and above-moderate income households. *Unrestricted NOAH units*<sup>6</sup> are a critical source of units for extremely low-income and very low-income households.

In 2000, approximately 91,900 units (72 percent of the City’s rental multifamily housing stock) were affordable to very low-income households earning less than 50 percent of AMI. In 2020, only 25,900 units are projected to be affordable to very low-income households—a 72 percent decrease (66,000 units) in the very low-income unrestricted housing inventory over 20 years.

**If units continue to be lost at this pace, very low-income households will need to increasingly rely on a limited supply of deed-restricted affordable units.** By 2040, only 9,000 units are projected to remain—a further decrease of 19 percent.

**Figure 3: Change in Unit Affordability 2000 – 2040 (projected, in 1,000s of units)<sup>7</sup>**



<sup>6</sup> For the purposes of this report, the term “unrestricted NOAH” is used to distinguish these units from those that are affordable due to deed-restrictions.

<sup>7</sup> Public Use Microdata (PUMS, 2000 – 2018), Accessed through IPUMS USA, University of Minnesota, [www.ipums.org](http://www.ipums.org)

## Financial Analyses of Unrestricted, Naturally Occurring Affordable Housing

Preservation of existing unrestricted, naturally occurring affordable housing (NOAH) can be more cost-effective on a per-unit basis than producing new units affordable at 60 percent of AMI because the private sector has already made major upfront expenditures to entitle and improve the property. Nevertheless, a financing gap (the difference between the development cost and the sources of funds) was found in each typology studied, both with and without Low-Income Housing Tax Credit (LIHTC) subsidies. As part of this report, three typologies were studied based on estimated loss of affordability and existing prevalence of unrestricted NOAH units. Based on this study, three trends emerged:

- Larger NOAH properties tend to have lower total development costs *per unit* and may deliver a better return to investment than smaller buildings.
- Even with tax-exempt bond financing, a persistent financing gap remains to preserve units at 60 percent of AMI.
- NOAH preservation projects have a large amount of inherent risk and variability from project to project.

**For the three modeled typologies, the total development cost of preserving every at-risk NOAH unit (9,250 units, 28 percent of total at-risk stock) was modeled to be approximately \$6.3 billion (in 2020\$).** This analysis is based on preserving an average of 460 units annually given existing acquisition and construction cost trends.<sup>8</sup> **With existing debt leverage and tax credit assumptions, the total gap in financing is estimated to be approximately \$1.45 billion (2020\$),** or approximately \$72.4 million annually between 2020 and 2040. This gap will need be met through a combination of new state and local funding<sup>9</sup> and a potential acquisition and preservation fund for unrestricted housing units.

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<sup>8</sup> Acquisition costs are escalated at 7.3 percent and construction costs at 4.8 percent, based on long-term average growth since 2000.

<sup>9</sup> These figures assume rents affordable at 60 percent of AMI. Rents affordable at lower median incomes will require increased funding.

## Preservation Framework

The continued shortage of affordable housing in the City threatens the quality of life for those who live here. Without intervention, at-risk affordable homes<sup>10</sup> will continue to be lost. San Diego cannot solely rely on new construction of housing units to mitigate the housing affordability crisis the City faces; this necessitates a robust preservation strategy. The recommendations in this report provide a framework for further study and are based on a review of best practices from other cities in California and around the nation. They are grouped into four categories:

- Capital Resources
- Preservation Policies
- Tenant Protections
- Capacity Building

## Recommendations

### Capital Resources

- 1. Provide seed funding to create a public-private Affordable Housing Preservation Fund that is a dedicated source of funding for preservation activities.**

The acquisition and rehabilitation of a property requires adequate funds to do so, whether the developer is a nonprofit, for-profit, or government entity. Adequate resources for the express purpose of preserving affordable housing are key to a preservation strategy. An Affordable Housing Preservation Revolving Loan Fund, in partnership with Community Development Financial Institutions (CDFIs) and philanthropic organizations, would provide short-term acquisition, pre-development, and gap financing to preserve existing affordable housing in San Diego. By providing two unique products to meet the needs of both the restricted and the unrestricted stock given their differing financial needs, the City can provide resources to preserve its varied housing types.

- 2. Redirect funds originally associated with the Redevelopment Agency of the City of San Diego and its dissolution to fund preservation.**

In San Diego, redevelopment funds originally collected by the Redevelopment Agency, which dissolved in 2012, are directed into the City's general fund without any predetermined, designated use. These funds are currently budgeted for City services other than affordable housing. However, other California jurisdictions allocate some or all of these redevelopment funds to help finance preservation. A similar approach in San Diego would provide needed preservation funding.

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<sup>10</sup> "At-risk" applies to both unrestricted and restricted housing and refers to when the rents are anticipated to rise to unaffordable levels.

### **3. Implement a Short-Term Rental Fee with revenue dedicated to preservation.**

The 2018 Short-Term Rental Occupancy Ordinance, adopted by the San Diego City Council on August 2, 2018, and later repealed by the City Council on November 13, 2018, included two separate fees for short-term rentals:

- The Short-Term Residential Occupancy License Fee, a \$949 annual fee paid by owners, estimated to generate \$3.5 million annually; and
- The Affordable Housing Impact Fee, a fee between \$2.73 and \$3.96 (depending on rental type) for each night that a property was rented, which was estimated to generate, on average, \$2.5 million annually.

Establishing a Short-Term Rental Occupancy Fee, like those included in the 2018 Short-Term Rental Occupancy Ordinance, would generate an estimated \$6 million in new revenue annually. Dedicating this to preservation would be an important step.

## **Preservation Policies**

### **4. Adopt a Preservation Ordinance to strengthen and expand the rights granted by the State Preservation Notice Law.**

California provides local jurisdictions with significant preservation tools through the State Preservation Notice Law. Strengthening and expanding this tool through a local Preservation Ordinance could create possible opportunities, including:

- Requiring deed-restricted properties to notify the City of an intended sale; and
- Creating a right of first refusal for appropriate nonprofit partners on restricted properties that are for sale.

### **5. Offer incentives to owners of unrestricted properties in exchange for recording affordability restrictions.**

Rents in unrestricted, naturally occurring affordable housing (NOAH) units are established by individual property owners based on the housing market conditions and, as a result, are at risk of exiting the affordable housing stock. As these units continue to age, substantial capital improvements are required to maintain building quality. The relatively low rents that characterize these units as affordable, however, also mean that property owners often lack the cash flow needed to invest in the long-term maintenance of the building. Providing resources to owners of unrestricted, NOAH units in exchange for a deed-restricted commitment of affordability creates the opportunity to preserve the units and encourage participating owners to invest in building improvements.

### **6. Strengthen San Diego's existing Single-Room Occupancy (SRO) Ordinance to maintain affordability.**

Single-Room Occupancy Hotels (SROs) are an important part of the unrestricted NOAH inventory in San Diego. Since the 1980s, market conditions in San Diego have led some owners of SRO properties to either demolish or convert the properties to more profitable uses. Updating the existing SRO Ordinance could provide an opportunity to preserve the property at the point of intended sale, which is often the first sign of conversion to a different use.

## Tenant Protections

### **7. Require relocation assistance for displaced residents.**

While the goal of the City and its partners is to preserve as many units of housing as possible, the reality is that affordable units will continue to be lost over time. The implementation of appropriate laws is imperative to protect tenants and mitigate the impacts of displacement. Renters at the lowest income levels are especially vulnerable to displacement and homelessness because finding another place to live at a rent that is affordable at their income level can be especially challenging. Requiring assistance for residents displaced by conversion to higher rents is important to helping them transition to a different home and maintain housing stability.

## Capacity Building

### **8. Develop and staff the administration of a preservation program.**

Implementing a preservation strategy requires commitment, coordination and a dedicated staff. Creating a specific position and/or program tasked with engaging with property owners regarding at-risk properties, maintaining the internal database that tracks the affordability of units across the City, and interpreting new or proposed federal and state legislation and policies related to affordable housing preservation will ensure that the City continues its priority and steadfast commitment to the preservation of affordable housing that will have meaningful long-term results.

### **9. Create an interagency preservation working group, to be convened by the San Diego Housing Commission.**

In San Diego, preservation is within the purview of multiple public agencies and departments. Creating an interagency preservation working group can increase communication and strengthen the City's commitment to preservation. By developing this framework, the organizational commitment to preservation will outlive any changes in departmental staffing or political leadership. The following specific, measurable tasks to advance preservation efforts could be completed by the interagency preservation working group:

- Task 1. Develop a preservation priority matrix.
- Task 2. Set strategic goals.
- Task 3. Engage owners and develop a scope of intervention.

### **10. Create a preservation collaborative composed of non-governmental preservation stakeholders**

While building public capacity and aligning governmental priorities is a critical initial step, preserving San Diego's housing stock requires partnering with private stakeholders. These include affordable housing owners, for-profit and nonprofit real estate developers, housing advocates and tenants' rights groups. The institutional commitment to preservation developed by the interagency preservation working group needs to be supplemented by an equal commitment to preservation outside of government.

# SAN DIEGO'S HOUSING LANDSCAPE

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The *Housing Landscape* section of this study provides summary data on the City of San Diego's (City) housing inventory, with a focus on multifamily rental housing units, and includes the following subsections:

- **Housing Snapshot:** A brief overview of the population, households, and housing units in San Diego.
- **Housing Affordability:** Discussion of recent affordability trends in San Diego and the household income groups used in this report.
- **Multifamily Rental Housing:** A detailed analysis of the rents and geographic distribution of multifamily units in San Diego, with historic and future trend analyses for **deed-restricted** and **unrestricted units**.

## Housing Snapshot

San Diego has a population of 1.4 million residents, and approximately 554,900 housing units.<sup>11</sup> Of these, 273,050 units (49 percent) are renter-occupied by 712,400 residents. An additional 240,650 units (44 percent) are owner-occupied by 675,600 residents.<sup>12</sup>

The share of households in San Diego who rent has remained relatively consistent since 2010, between 52 percent and 55 percent of all households, which is consistently 7 to 9 percentage points above the state's share of renters (44 to 46 percent), and 17 percentage points above the nationwide share of renters.

**Following recent development trends, most rental households in San Diego live in multifamily buildings and are increasingly living in larger multifamily buildings.** Approximately 163,650 units (56 percent) are in buildings with five or more units, while 32,700 (11 percent) are in smaller two-to-four-unit multifamily buildings. The remaining 75,300 renter households (32 percent) are in single-family homes. This report will primarily focus on multifamily properties with five or more units, as this is a threshold that has been identified in numerous preservation programs as the minimum number of units required to make a preservation investment economically feasible.

Since 2010, the number of renter households living in buildings with five or more units increased by 20 percent. In comparison, the number of households living in two-to-four-unit multifamily buildings decreased 2 percent, and the number of households living in single-family units increased 4 percent.

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<sup>11</sup> Based on the U.S. Census Bureau's 2018 American Community Survey (ACS) 1-year survey. Approximately 1,426,000 individuals reside in the City, with 1,388,000 living in housing units. The remaining 38,000 residents are in institutional or group quarters (including correctional facilities, nursing homes, student housing, or military quarters) or experiencing homelessness.

<sup>12</sup> The remaining 41,200 units (7 percent) are vacant. This is based on the ACS 2018 1-year point-in-time survey. Of these currently vacant units, 14,000 are actively for-rent without a current tenant; 2,000 are for actively for sale; and the remaining 25,100 are either second homes, used as storage, or vacant for other reasons.

# SAN DIEGO'S HOUSING LANDSCAPE

Figure 4: San Diego Housing Landscape Diagram

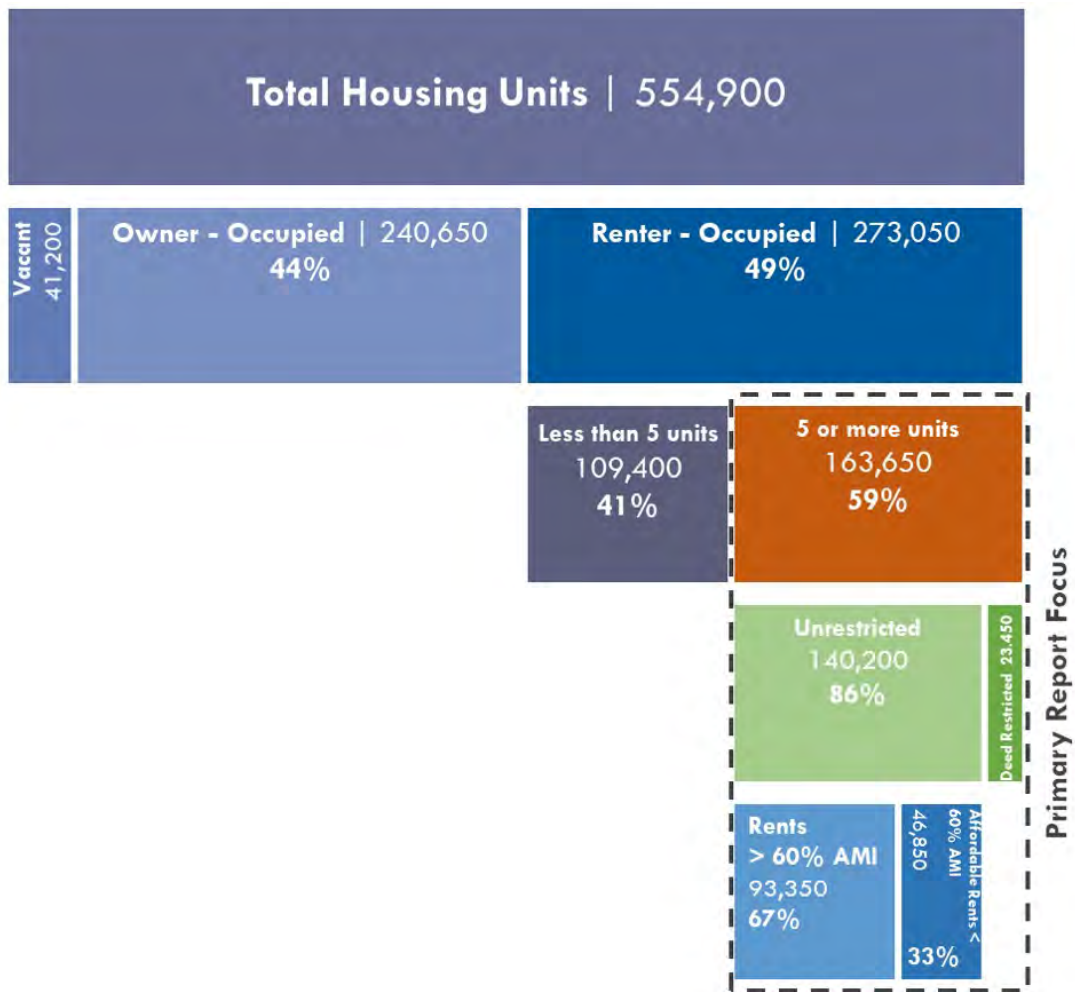


Figure 5: Multifamily (5+) Units by Deed Restriction Status and Affordability

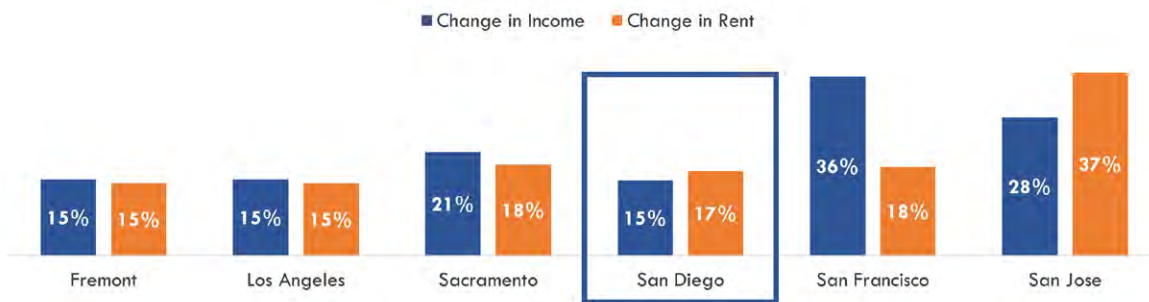
Unrestricted		Deed Restricted
Rents > 60% AMI 93,350 (57%)	Affordable Rents < 60% AMI 46,850 (29%)	23,450 (14%)

## Housing Affordability

Housing affordability<sup>13</sup> is the product of two factors—household incomes and housing costs. Housing is considered affordable if total housing costs are below 30 percent of total household pretax income. In most U.S. cities, housing costs have grown faster than household incomes over the last decade, leading to a growing affordability challenge for low- and middle-income households.<sup>14</sup> San Diego follows this trend, with the increase in median household income between 2010 and 2018 (15 percent inflation-adjusted; \$69,200 to \$79,700) lagging rent growth (17 percent inflation-adjusted; \$1,450 to \$1,700). In the same time period, median home values have increased by 31 percent (inflation-adjusted), from \$469,300 to \$614,000.<sup>15</sup> This caused many households with moderate income (81-120 percent of Area Median Income [AMI]) and above-moderate income (more than 120 percent of AMI) who may have previously purchased a home to remain in the rental market. As more of these households with moderate incomes and above continue to remain in the rental market, either due to a lack of homeownership options or changing preferences, households with low incomes and below compete for the same rental housing units. This further reduces rental vacancy rates, drives up rents and increases the housing cost burden on those at the lower end of the income spectrum.

The median rent in San Diego remains significantly higher than the rent affordable to the renter with the median income.<sup>16</sup> In 2018, the median rent was \$1,700, while the rent affordable to the median renter was \$1,430. In recent years, this gap has remained steady, as higher-income renters drove both median renter income and rents up by 9 percent since 2015. This trend represents an overall decrease in affordability in the rental market—as the rent affordable to the median renter increases, it becomes unaffordable to a larger portion of lower-income households.

**Figure 6: Change in Median Income versus Change in Median Rent, 2010 - 2018**



Source: ACS 2010 – 2018, 1-year

<sup>13</sup> Housing is considered affordable if housing-related expenses do not exceed 30% of a household's pre-tax income, based on the US Department of Housing and Urban Development (HUD) guideline.

<sup>14</sup> Based on the 2010-2018 ACS 1-year survey.

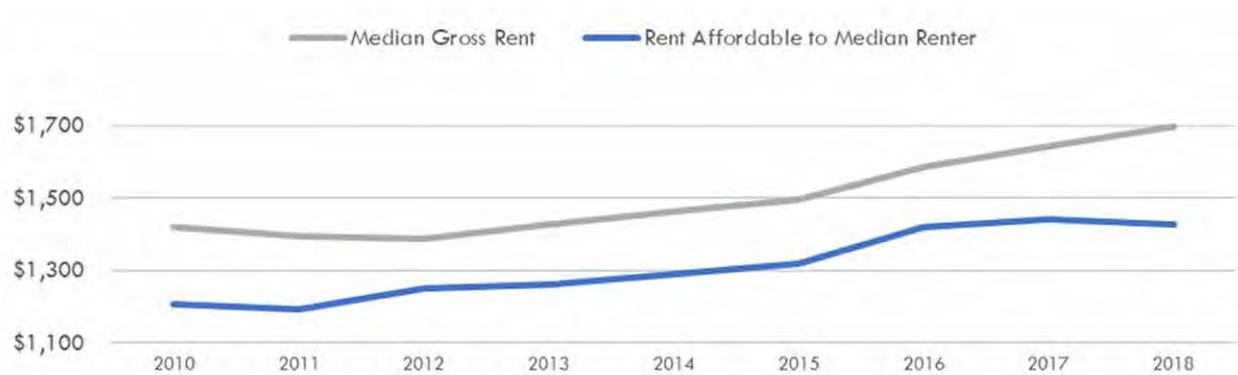
<sup>15</sup> Zillow Home Value Index, 2010 – 2018 (in \$2018).

<sup>16</sup> Based on HUD guideline of 30% pre-tax affordability. "Median renter" is a rental household whose income is the statistical median income for all rental households.



# SAN DIEGO'S HOUSING LANDSCAPE

Figure 7: Real Median Gross Rent versus Rent Affordable to the Median Renter, 2010 - 2018



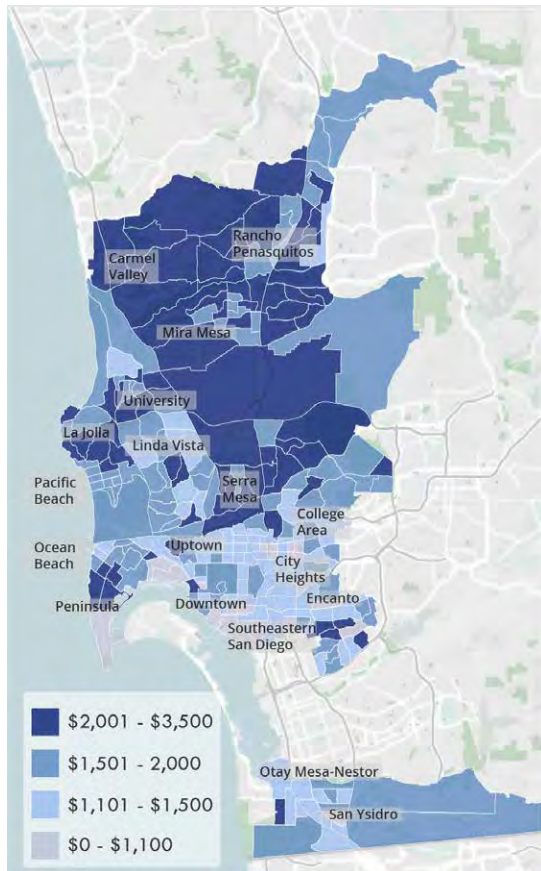
Source: ACS 2010 – 2018, 1-year

**Median rents vary drastically by neighborhood in San Diego, with a difference of \$2,700 per month between the highest median rents (\$3,500 in parts of La Jolla and Scripps Miramar Ranch) and the lowest (\$800 in San Ysidro-Verbena).** On average, the median rents in the northern half of the City (neighborhoods like Rancho Peñasquitos, North City and Mira Mesa) are about \$1,000 to \$1,500 higher than in the south (Lincoln Park, San Ysidro and Paradise Hills). In addition to the north-south dichotomy, coastal neighborhoods like Ocean Beach and Pacific Beach have higher median rents compared to neighborhoods inland, which range between \$2,000 and \$3,200.

**Between 2010 and 2018, inequality across the north-south divide has increased.** Parts of neighborhoods in the south like Paradise Hills have experienced inflation-adjusted rent declines of 30 percent or more, while median rents in parts of Rancho Peñasquitos and La Jolla increased by 25 to 40 percent. Additionally, neighborhoods adjacent to downtown that were previously affordable, like East Village, Logan Heights, and Stockton, have also seen large increases in rents, ranging from 10 percent to 20 percent.

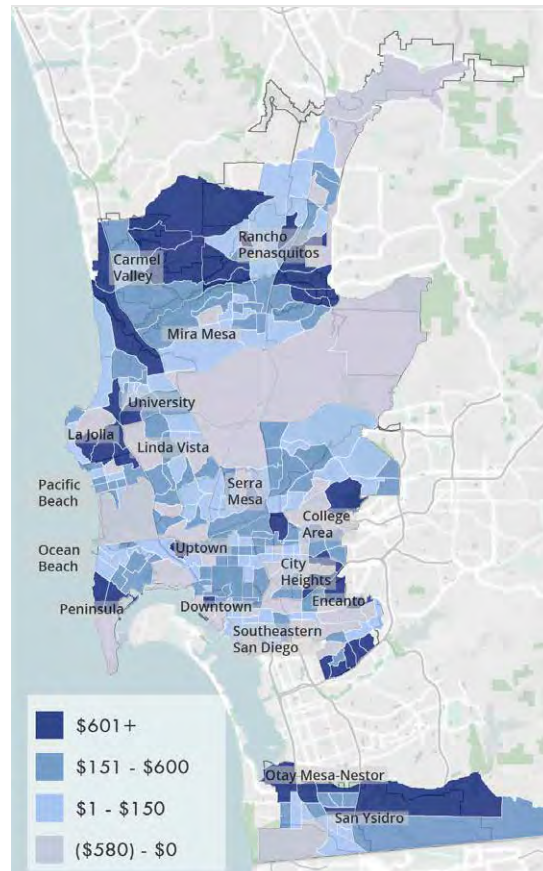
# SAN DIEGO'S HOUSING LANDSCAPE

**Figure 8: Geographic Distribution of Median Rent (2018)**



Source: ACS 2010 - 2018 1-year, SANDAG

**Figure 9: Geographic Distribution of Change in Median Rent (2018)**



# SAN DIEGO'S HOUSING LANDSCAPE

## Renter Income Groups

To understand the housing inventory in the context of affordability for households at different income levels, this report organizes renter households into five groups based on income and household size, utilizing U.S. Department of Housing and Urban Development (HUD) guidelines, as seen below. This also allows the use of Census Data to track trends over time for each income level.

Figure 10: Area Median Income (AMI) Group Definitions, 2019

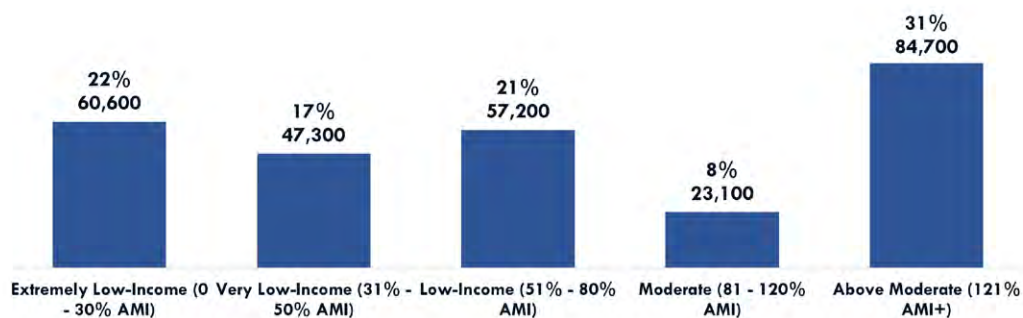
Income Groups:				
Extremely Low-Income (ELI)	Very Low-Income (VLI)	Low-Income (LI)	Moderate	Above Moderate
<b>Area Median Income (AMI):</b>				
0 – 30% AMI	31% - 50%	51% - 80%	81% - 120%	121%+
<b>Annual Income (for a 4-person household)</b>				
\$0 - \$32,100	\$32,101 - \$53,500	\$53,501 - \$85,600	\$85,601 - \$103,550	\$103,550+
<b>Affordable Rent (for a 2-bedroom unit)</b>				
\$723	\$1,204	\$1,926	\$2,330	\$2,330+
<b>Example Profiles:</b>				
Minimum Wage Worker: \$22,800	Dental Laboratory Technician: \$44,800	Elementary School Teacher: \$67,700	Mechanical Engineer: \$95,600	Software Developer: \$113,600

Source: EMSI San Diego-Chula Vista-Carlsbad 2019, SDHC

Almost two-thirds of renter households in San Diego are in the extremely low-income, very low-income, or low-income groups, a total of 61 percent. Approximately 60,600 households (22 percent) are in the extremely low-income group, and an additional 104,500 (38 percent) are in the very low-income and low-income groups. The remaining 107,800 renter households (39 percent) have incomes above 80 percent of AMI at the moderate- and above moderate-income levels.

The private market does not effectively provide rental housing options that are affordable to renters in the extremely low-income and very low-income groups, as 88 percent of these households are **housing cost-burdened**—paying more than 30 percent of their household income solely on housing costs. In addition, 85 percent of extremely low-income households and almost half (48 percent) of very low-income households are **severely housing cost-burdened**—paying more than 50 percent of their gross household income on housing costs. After paying for housing costs, many of these households do not have enough resources to adequately cover necessary expenses like transportation, food, and health care.

Figure 11: Renter Households by Area Median Income (AMI)



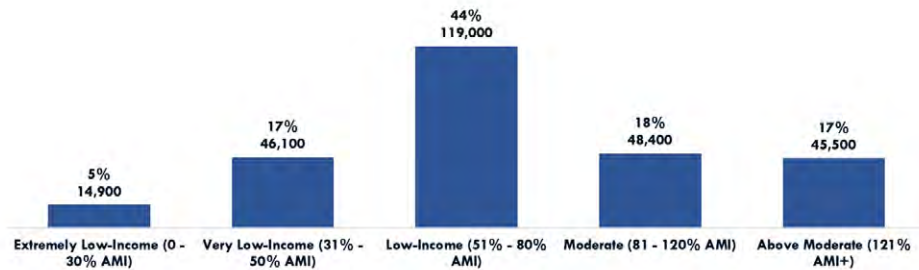
Source: PUMS 5-year estimates, SDHC AMI Guidelines

# SAN DIEGO'S HOUSING LANDSCAPE

## Rental Housing Supply

Of the 273,050 rental housing units in the City, approximately 61,000 units (22 percent) are renting at prices affordable to extremely low-income and very low-income households. The plurality of units (119,000 units, 44 percent) are affordable to low-income households, while the remaining 93,900 units (35 percent) are at rents affordable only to households with moderate incomes and above.

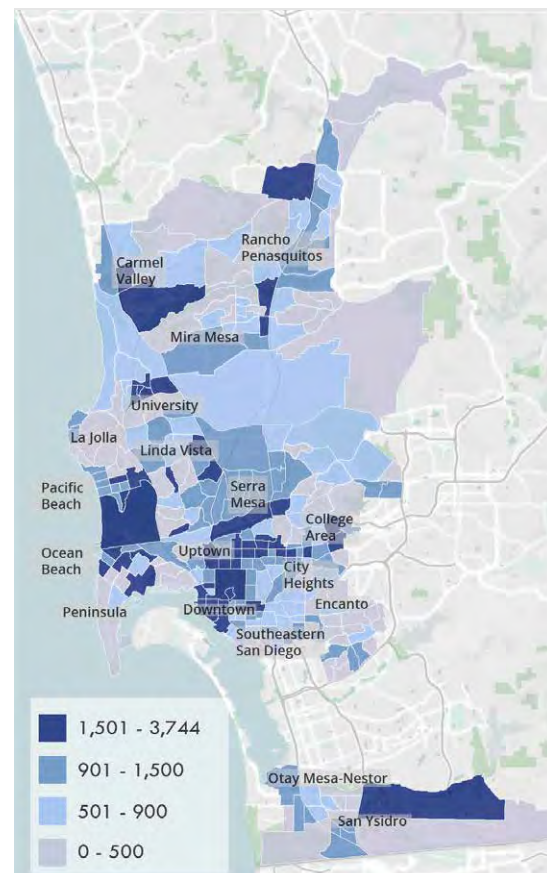
**Figure 12: Rental Housing Units by Income Group**



Source: 2018 PUMS 5-year estimates, SDHC AMI Guidelines

Rental housing units are distributed across the City, with concentrations in the most densely populated neighborhoods, including Mission Beach, Ocean Beach, Downtown, neighborhoods adjacent to University of California-San Diego in La Jolla, and central San Diego neighborhoods including Hillcrest, University Heights and City Heights.

**Figure 13: Rental Housing Units by Location**



Source: City of San Diego, ACS 2018, SANDAG

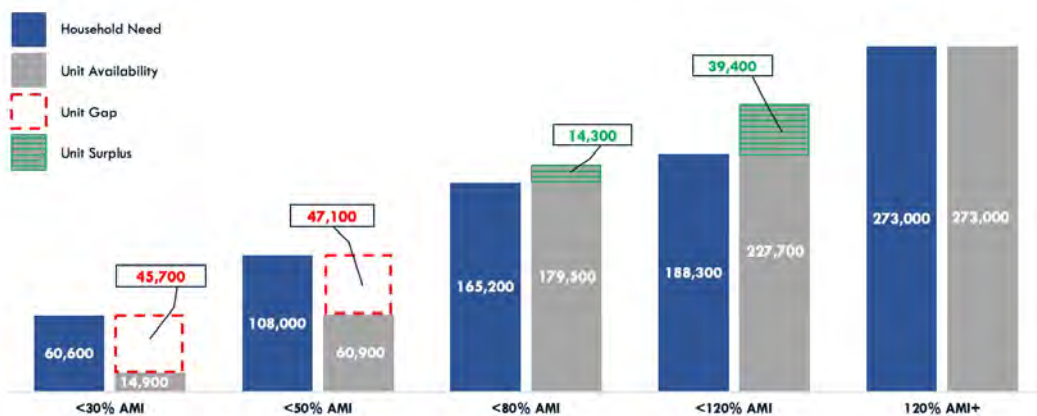
## The Rental Housing Gap

The current affordable housing availability gap measures the difference between what San Diego City residents can afford to pay in rent (need) and the housing options affordable<sup>17</sup> to them at that price point (availability). These gaps are summed cumulatively for each income threshold, as each household can afford any unit below their income threshold.

At incomes below 50 percent of AMI (very low income), a significant mismatch exists between the supply of affordable rental housing available and the number of households that need it. This gap has grown rapidly in recent years, as the supply of unrestricted, naturally affordable housing units in San Diego has declined. In San Diego, 108,000 households earn less than 50 percent of AMI, but only 60,900 units are affordable to these households, resulting in a rental housing affordability gap of 47,100 units. More acutely, renters earning less than 30 percent of AMI (extremely low-income) face a similarly sized affordability gap in rental housing. Only 14,900 units are affordable to extremely low-income renters, with a total demand of 60,600 units, leading to a gap of 45,700 units.

At higher incomes, the rental housing affordability gap shifts to a surplus. For low-income households, those earning less than 80 percent of AMI, a slight cumulative surplus of 14,300 units (8 percent) exists, and moderate-income (those earning less than 120 percent of AMI) households have a cumulative surplus of 39,400 units (17 percent).

**Figure 14: Aggregate Rental Housing Need and Availability by Income Band**



Source: PUMS 2018 5-year estimates, HR&A Analysis

<sup>17</sup> Affordable is defined using the HUD standard of less than 30 percent of pre-tax income.

# SAN DIEGO'S HOUSING LANDSCAPE

## Multifamily Rental Housing

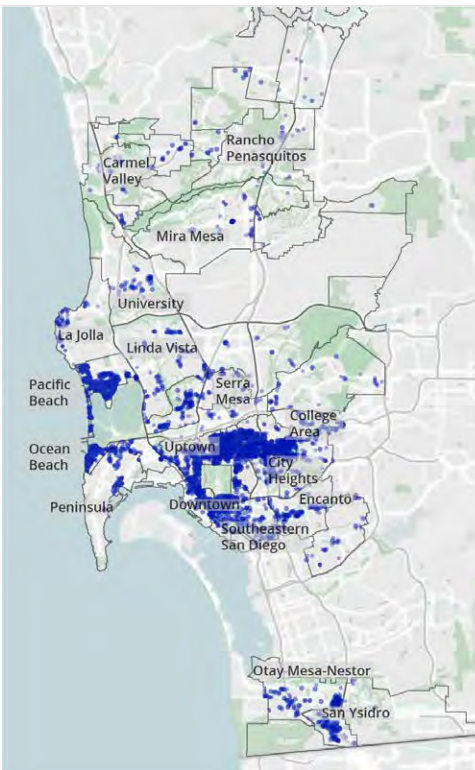
Multifamily rental housing with five or more units can be further subdivided into **deed-restricted units** and **unrestricted units**. **Deed-restricted units** are units with liens or covenants recorded on the property that set binding maximum rent restrictions, often based on federal, state, or city programs that subsidize the development or operation of the units. **Unrestricted rental housing units** do not have any specific rent restrictions recorded on the property.

In San Diego, 23,440 units (14 percent) of the multifamily housing stock are deed-restricted, while the remaining 140,210 (86 percent) are unrestricted.

Deed-restricted units are an important source of housing affordable to extremely low-income, very low-income and low-income households. **Almost 25 percent of units affordable to households earning up to 80 percent of AMI are deed-restricted units.** Approximately 75 percent of the housing stock available to these households is unrestricted, naturally occurring affordable housing—at risk of price increase or obsolescence without policy intervention.

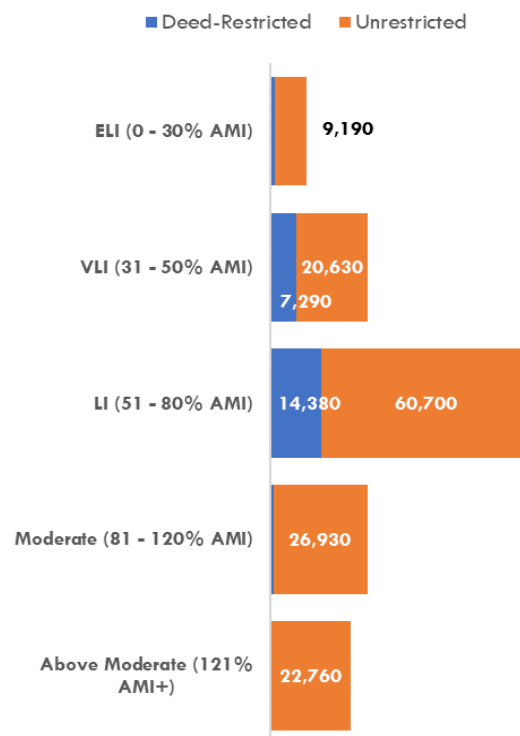
Multifamily housing with five or more units are most prominent in neighborhoods adjacent to downtown and northeast of downtown, including Logan Heights, Normal Heights and University Heights. Toward the north, additional pockets of multifamily properties with five or more units are in Sorrento Valley, Mira Mesa and University City, but most of the residential land is taken up by single-family housing, especially in neighborhoods like La Jolla and Clairemont.

**Figure 15: Parcels with 5+ Unit Multifamily Rental Buildings, 2019**



Source: PUMS 2018 5-year estimates, HR&A Analysis, City of San Diego, SANDAG

**Figure 16: Units in 5+ Unit Multifamily Rental Buildings by Income Level**



## Deed-Restricted Units

**Deed-restricted** units have documents recorded on the property that set binding maximum rent restrictions, often based on federal, state, or city programs that subsidize the development or operation of the units. Depending on the type of affordability program and subsidy, rental housing regulations on units often have a set time period for affordability—usually 55 years in the City.

### Key Takeaways

- The City has 23,440 units of deed-restricted affordable housing, representing 14 percent of the City's total multifamily rental housing stock.
- Since 2000, the San Diego Housing Commission (SDHC) has preserved<sup>18</sup> approximately 4,200 units by helping extend the deed-restricted status of units.
- Since 2000, the City and SDHC have partnered with developers to build or preserve 15,400 deed-restricted units.
- Given existing trends, approximately 750 new deed-restricted units are expected to be completed annually between 2020 and 2040, resulting in an additional 16,000 units. This includes units coming online through Inclusionary Housing and Density Bonus programs.
- Given current expiration dates, the affordability status of approximately 4,200 units is set to expire between 2020 and 2040, while a significantly more substantial number of units is set to lose their affordability status between 2050 and 2070 (approximately 11,000 units).
- Based on recent SDHC projects, the total cost to preserve a deed-restricted unit is approximately \$301,500.<sup>19</sup> **Given existing acquisition and construction cost trends, it would cost an estimated \$1.7 billion<sup>20</sup> between 2020 and 2040 to preserve every deed-restricted unit at risk.<sup>21</sup>**

### Current Conditions

Of the City's multifamily rental housing stock, approximately 23,440 units (14 percent) are deed-restricted affordable units.<sup>22</sup> Almost all of the deed-restricted stock (99 percent) is in multifamily buildings with five or more units, with approximately 180 units in smaller buildings. Most of the units (14,380 – 61 percent) are affordable to low-income (50 percent – 80 percent AMI) households, as many federal and state subsidy programs require affordability for households with income up to 60 percent of AMI. Only 4 percent (1,020 units) are affordable to extremely low-income households, most of which are financed through programs for homelessness prevention and specialized populations. Even fewer units (750, making up 3 percent) are affordable at moderate and above-moderate incomes, as a result of legacy restrictions by the City's former Redevelopment Agency, or newer state and local land use incentive programs.

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<sup>18</sup> "Preservation" refers to actions that extend the deed-restricted status of a unit.

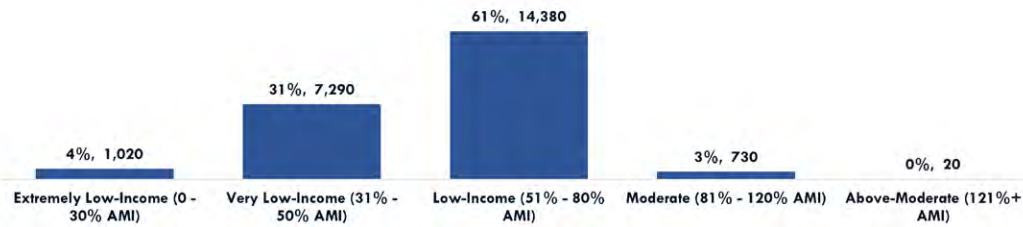
<sup>19</sup> SDHC Projects, as of January 2020

<sup>20</sup> Present value in 2020\$, discounted at 3%

<sup>21</sup> Acquisition costs are escalated at 7.3 percent and construction costs at 4.8 percent, based on long-term average growth since 2000.

<sup>22</sup> Additionally, approximately 1,400 transitional beds are in the City of San Diego, with 750 affordable to the extremely low-income group, 550 affordable to the very low-income group, and the remaining 100 affordable to the low-income group.

**Figure 17: Deed-Restricted Rental Housing Units by Income Group**

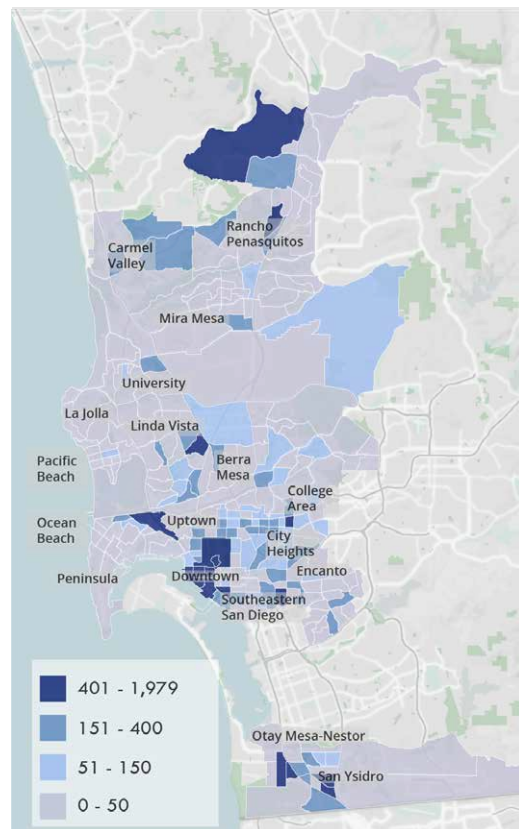


Deed-restricted affordable units are concentrated in a few key neighborhoods across the City, including downtown, San Ysidro, and the neighborhoods between Interstate 5 and Interstate 15. Almost 20 percent of all deed-restricted units in the City are within the Downtown community planning area, with most units within the City Heights, North Park, and Uptown planning areas.

Conversely, few deed-restricted affordable units are north of Mission Valley and Interstate 8, except for newer development in Rancho Peñasquitos and Carmel Valley.

To encourage additional affordable housing development in communities north of Interstate 8 in support of the City's Balanced Communities policy, SDHC prioritizes developing deed-restricted housing in these areas of high opportunity through SDHC's *Notice of Funding Availability (NOFA)*<sup>23</sup> for new developments. Additionally, the Inclusionary Affordable Housing requirement in the northern part of the City known as the *North City Future Urbanizing Area*<sup>24</sup> (which includes the neighborhoods of Black Mountain Ranch, Del Mar Mesa, Pacific Highlands, and Torrey Highlands) requires housing developers to dedicate 20 percent of their units (as opposed to the standard 10 percent citywide) to affordable buyers or renters with income at or below 65 percent of AMI, as specified by the San Diego Municipal Code. Currently, 1,821 affordable multifamily rental units have been developed in the North City Future Urbanizing Area.<sup>25</sup>

**Figure 18: Geographic Distribution of Deed-restricted Units**



Source: SDHC, HR&A Analysis, SANDAG

<sup>23</sup> An example NOFA from SDHC for affordable housing development, released in September 2019, can be found at this link: [https://www.sdhc.org/wp-content/uploads/2020/03/FY20-NOFA\\_Final.pdf](https://www.sdhc.org/wp-content/uploads/2020/03/FY20-NOFA_Final.pdf).

<sup>24</sup> San Diego Municipal Code, Chapter 14, Article 3, Division 4, link: <https://docs.sandiego.gov/municode/MuniCodeChapter14/Ch14Art03Division04.pdf>.

<sup>25</sup> Kaur, Jaspreet. "New Low-Income Rental Homes Break Ground", NBC San Diego, September 2017.



# SAN DIEGO'S HOUSING LANDSCAPE

## Funding Overview

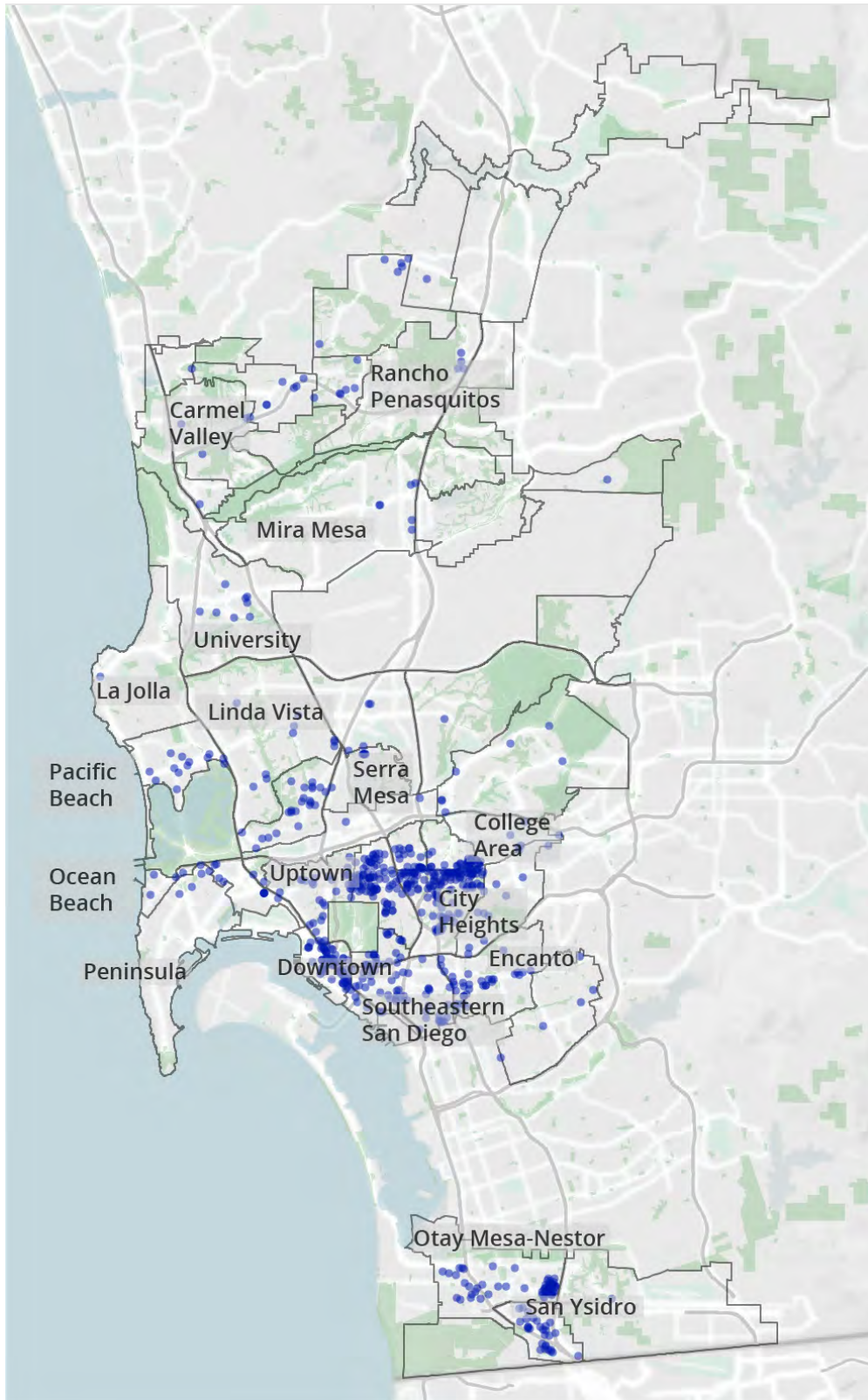
At a federal and state level, deed-restricted units are subsidized through a combination of tax credit programs and loans that decrease the amount of debt and therefore decrease the amount of rental income required for debt service. This allows rents at deed-restricted properties to be affordable to lower-income households. Locally, SDHC-administered funds, such as the City's Affordable Housing Fund (composed of the Inclusionary Housing Fund and the Housing Trust Fund), provide gap financing to fill the gap that remains after all other available sources of funds have been secured for affordable housing developments. Deed-restricted units in San Diego are also created through land-use regulation, such as density bonus and inclusionary housing programs, where developers directly build the affordable units to satisfy the local ordinance requirements. SDHC, including its nonprofit affiliate, Housing Development Partners (HDP), also directly owns and/or manages more than 3,700 affordable rental housing units.

**Figure 19: Sample Deed-Restricted Properties**

<p><b>Villa Nueva Apartments (1970)</b></p>	<p><b>Versa at Civita (2015)</b></p>
 <p>Built in 1970, the 398-unit affordable housing development located in San Ysidro would have likely converted to market rate without the involvement of SDHC and the Housing Authority. SDHC provided a \$9.2 million loan to support the acquisition and rehabilitation of the development, whose financing mix also included low-income housing tax credits.</p>	 <p>With financing supported by 4 percent low-income housing tax credit equity, the 1,500-unit apartment complex includes 150 units for low-income seniors, fulfilling the City's Inclusionary Housing Ordinance, administered by SDHC. The units are affordable for households with income between 30 percent and 60 percent of AMI and will remain affordable for 55 years.</p>
<p><b>San Diego Square (1980)</b></p>	<p><b>Torrey Del Mar Apartments (2001)</b></p>
 <p>SDHC's nonprofit affiliate, HDP, acquired San Diego Square in 2014 to preserve the 156-unit, downtown senior housing development as affordable housing for 55 years. SDHC authorized the issuance of a multifamily housing revenue note of up to \$17.8 million for the acquisition and rehabilitation of San Diego Square. The financing mix also included low-income housing tax credits and tax-exempt bonds.</p>	 <p>The private affordable housing developer Bridge Housing received a \$910,000 gap financing loan from SDHC for the 112-unit affordable rental housing development in Torrey Highlands. The development was financed primarily by a mix of the state's Multifamily Housing Program and Affordable Housing Program, low-income housing tax credits and tax-exempt bonds. The units are affordable for households with income between 30 and 60 percent of AMI and will remain affordable for 55 years.</p>

# SAN DIEGO'S HOUSING LANDSCAPE

Figure 20: Parcels with Deed-Restricted Units



Source: SDHC, HR&A Analysis, SANDAG

# SAN DIEGO'S HOUSING LANDSCAPE

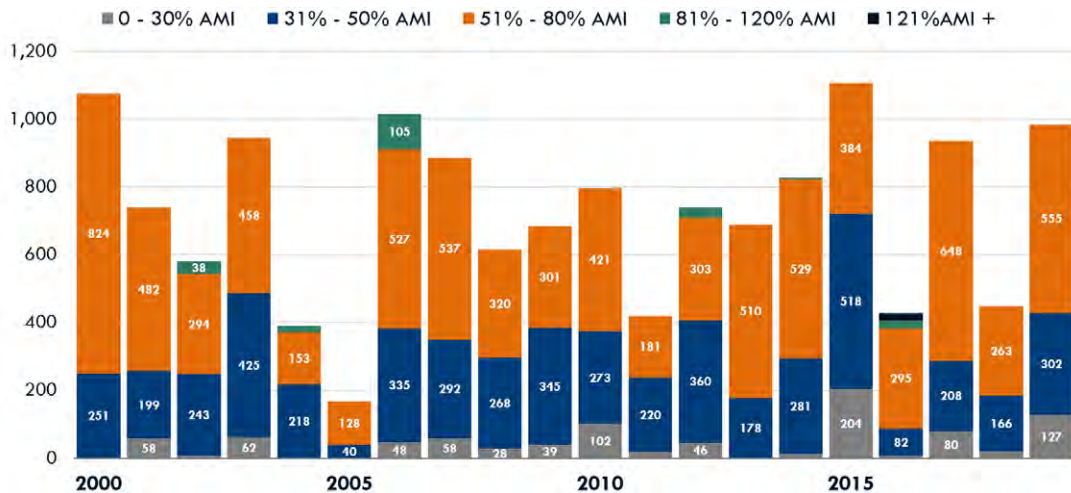
## Historic Trends

Between 2000 and 2019, approximately 14,500 deed-restricted units (69 percent of the in-service deed-restricted units that are not SDHC-owned<sup>26</sup>) were completed, through a mix of tax credit, land-use, discretionary SDHC programs, HUD Rental Assistance contracts, and other subsidies. Within the same timeframe, the affordability restrictions of 2,320 units expired, 260 units were lost due to demolitions, and 4,200 units were preserved.

The deed-restricted units completed since 2000 are more affordable for lower-income levels than the overall deed-restricted stock. Of the units built since 2000, 56 percent are affordable to low-income households, with an additional 46 percent affordable to very low-income and extremely low-income households. Between 2000 and 2019, San Diego added 8,110 low-income units, mostly at rents affordable to households earning up to 60 percent of AMI.

Approximately 13,300 units (92 percent), out of the 14,500 deed-restricted units built between 2000 and 2019, are in multifamily buildings with 50 or more units. Large deed-restricted developments are easier to finance and achieve economies of scale that are more competitive for limited subsidy programs.

**Figure 21: New Deed-Restricted Units by Income Group 2000 – 2019**



Source: SDHC, HR&A Analysis

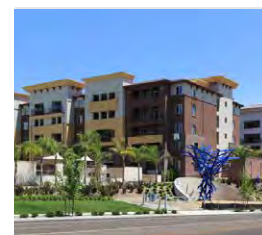
**Figure 22: Sample Deed-Restricted Buildings**



**Cathedral Arms (1971)**  
**Total Units: 206**  
**Affordable Units: 205**



**Island Inn (1990)**  
**Total Units: 201**  
**Affordable Units: 197**



**Casa Mira View (2013)**  
**Total Units: 810**  
**Affordable Units: 82**

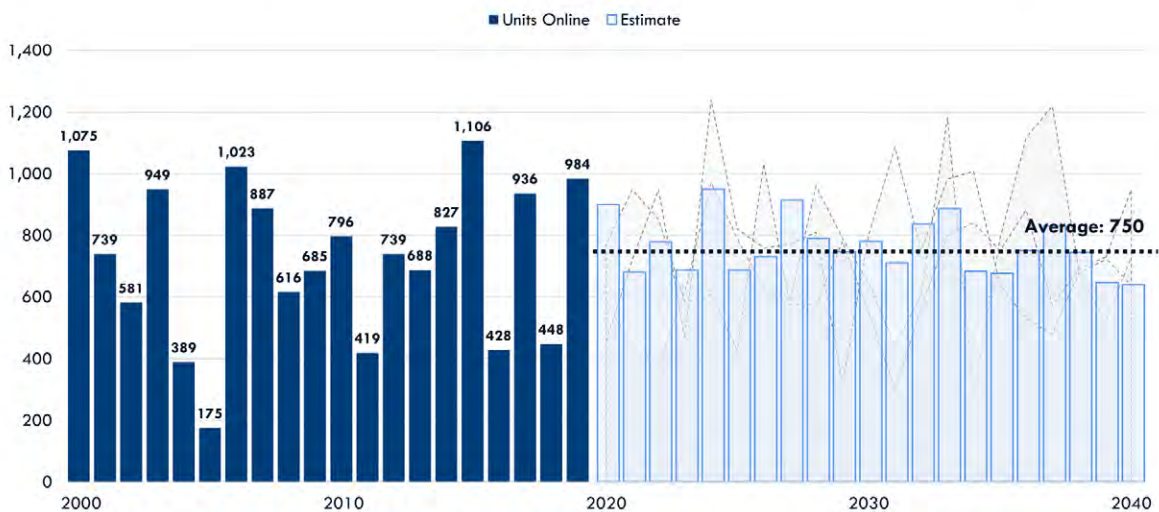
<sup>26</sup> The SDHC-owned properties are not included in the historic and future trends analyses because they are not at risk of expiration in the same way other deed-restricted properties are, due to the fact that they are publicly owned.

## Future Trends

The future growth of the deed-restricted housing stock in San Diego will depend on new production and the ability to preserve existing properties with expiring deed restrictions.

Between 2020 and 2040, an average of 750 new deed-restricted units can be expected to be completed each year, based on the historic data between 2000 and 2019.<sup>27</sup> This will result in the addition of approximately 16,000 new deed-restricted units by 2040, with approximately 60 percent available to low-income households, and 40 percent to very low-income and extremely low-income households - holding current subsidy program requirements constant.

**Figure 23: 2020 – 2040 Projection for New Deed-Restricted Units**



Source: SDHC, HR&A Analysis

During the same time period (2020 – 2040), the affordability status of approximately 4,200 units is set to expire. These units are currently supported by a variety of programs, including Low Income Housing Tax Credits, Tax-Exempt Multifamily Housing Revenue Bonds, City or SDHC Ground Leases, or Inclusionary Housing. If these units are not preserved, more than one-third (35 percent) of the approximately 11,900 net new units between 2020 and 2040 will be used to replace the units whose affordability status will have been lost.

Based on recent SDHC projects, the total cost to preserve a deed-restricted unit is approximately \$301,500.<sup>28</sup> **Given existing acquisition and construction cost trends, it would cost an estimated \$1.7 billion<sup>29</sup> between 2020 and 2040 to preserve every deed-restricted unit at risk.<sup>30</sup>** The source of this

<sup>27</sup> The projection of future production is based solely on historic production between 2000 and 2019. Given recent City and state ordinances designed to increase housing production, actual production may be higher. This is a conservative estimate to account for potential future recessions or other changes in the deed-restricted housing market.

<sup>28</sup> SDHC Projects, as of January 2020

<sup>29</sup> Present value in 2020\$, discounted at 3%

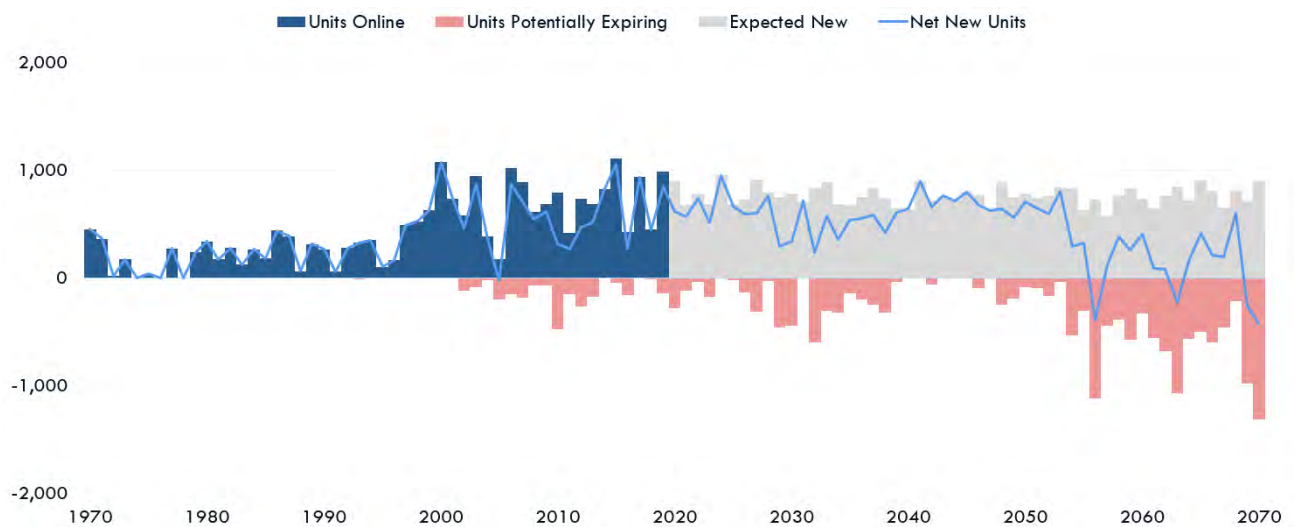
<sup>30</sup> Acquisition costs are escalated at 7.3 percent and construction costs at 4.8 percent, based on long-term average growth since 2000.

# SAN DIEGO'S HOUSING LANDSCAPE

capital would likely be a combination of federal and state sources, along with significant gap financing from local sources.

Given current expiration dates, a significantly higher loss of existing deed-restricted stock could occur from 2050 to 2070 (approximately 11,000 units). This is a direct relationship to the increased number of units that came online between 2000 and 2015 and have an affordability period of 55 years. As a result, beginning to refinance and extend affordability for these projects before 2050 is imperative to prevent an acute pressure to preserve all 11,000 units within a short amount of time. If the units with affordability scheduled to expire by 2070 could be made permanently deed-restricted or extended in affordability, the total deed-restricted housing stock would be more than **38,000 units** in 2040 and approximately **61,000 units** in 2070, compared to 31,500 units in 2040 and 42,800 units in 2070 in the case of no extension to the affordability status of the units set to expire within this period. Maintaining and extending affordability for these units is critical to ensure a healthy supply of deed-restricted units in San Diego in the coming decades.

**Figure 24: 1970 – 2070 Deed-Restricted Units Potential Addition and Expiration**



Source: SDHC, HR&A Analysis

## Unrestricted Units

**More than 80 percent of multifamily rental housing units in properties with five or more units in San Diego are unrestricted (140,200 units).** Rents are set by individual property owners based on housing market conditions, neighborhood demand, unit quality, and other differentiating characteristics.

**Unrestricted, naturally occurring affordable housing (NOAH) units are a critical source of units<sup>31</sup> for extremely low-income and very low-income households.** These unrestricted units make up 78 percent of the entire multifamily extremely low-income and very low-income stock and are crucial for these families to remain housed without an even greater cost burden than they are already experiencing. Indeed, many San Diegans experiencing homelessness lost their apartment once the cost burden of paying the rent exceeded their financial means.

### Key Takeaways

- San Diego has 140,200 units of unrestricted housing, representing 86 percent of the city's total multifamily rental housing with five or more units.
- These units represent a critical source of housing for households earning less than 50 percent of AMI—as they make up 78 percent of the affordable housing stock available to these households.
- Since 2000, 66,000 units have become unaffordable to extremely low-income and very low-income households, as the units have either been lost to redevelopment, obsolescence, or have increased in rent.
- Given existing trends, the number of units affordable to households earning less than 50 percent of AMI is projected to decrease by a further 68 percent between 2020 and 2040—from 29,200 units to 9,300 units.
- Units affordable only to households earning more than 80 percent of AMI are projected to continue increasing rapidly as the City continues to deliver units to these income groups. By 2040, these units are estimated to represent 72 percent of the total multifamily rental housing stock, up from 35 percent currently.
- Single-Room Occupancy (SRO) residential hotels are a critical source of flexible and low-barrier housing that may often be naturally affordable to extremely low-income households and those at risk of homelessness. There are currently 4,732 active SRO units in San Diego.<sup>32</sup>

### Current Conditions

Of San Diego's multifamily rental housing stock, approximately 140,200 units are unrestricted. Approximately 21 percent of these units (29,800 units) are naturally affordable to extremely low-income (ELI) and very low-income (VLI) households. The plurality of these units (43 percent, 60,700 units) are affordable to low-income households. The remaining 35 percent (49,700 units) are affordable only to moderate- and above moderate-income households.

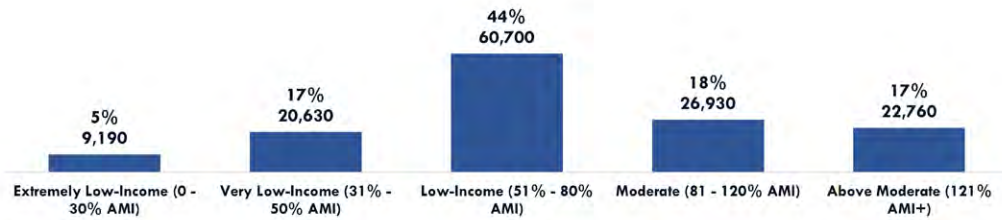
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<sup>31</sup> For the purposes of this report, the term “unrestricted, naturally occurring affordable housing” is used to distinguish these units from those that are affordable due to deed-restrictions.

<sup>32</sup> SDHC maintains a list of most, but not all, known active SRO buildings subject to the City's SRO Ordinance.

# SAN DIEGO'S HOUSING LANDSCAPE

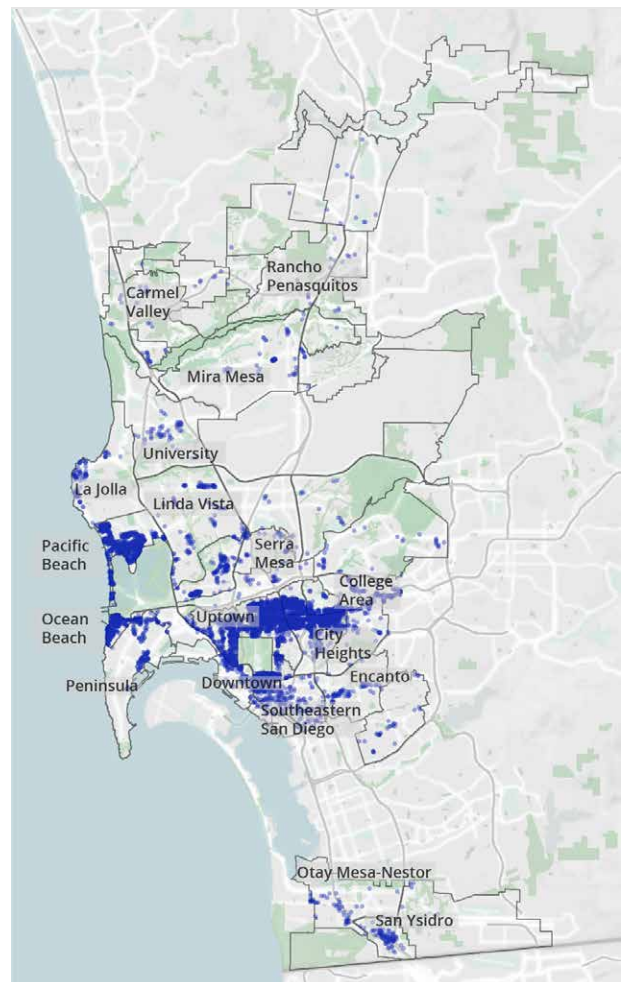
Figure 25: Unrestricted Units by Income Group



**Geographic distribution of unrestricted housing follows closely that of multifamily units across the city.**

Given that most of the multifamily housing stock is made up of unrestricted units, the geographic distribution of unrestricted units mirrors that of all multifamily units. Downtown San Diego, Normal Heights, Mission Valley, Grantville and Sorrento Valley are again the areas where unrestricted multifamily housing is concentrated, as well as Mira Mesa, University City and Logan Heights.

Figure 26: Parcels with Unrestricted Multifamily Buildings, 2019

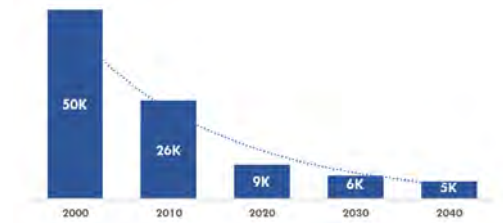


## Unrestricted Unit Trends

Since 2010, median rent in San Diego has grown by 15 percent, outpacing county and national growth. The largest contributor to the increase has been the loss of unrestricted units naturally affordable to households with income at or below 50 percent of AMI (extremely low-income and very low-income households) — due to redevelopment, obsolescence or increases in rent.

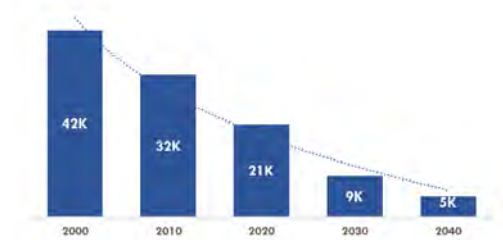
**The number of unrestricted units naturally affordable to extremely low-income households fell by 24,200 units between 2000 and 2010, and by 16,900 in the subsequent decade.** This trend suggests that a portion of units that remained affordable after 2010 to this income group are “sticky” — units are being lost to obsolescence and redevelopment, but not increasing as quickly in price. Most of these units were built in the 1960s to 1970s, in small multifamily “six-plexes” and other low-rise structures that are projected to decrease in affordability by about 2 to 3 percent annually between 2020 to 2040.

**Figure 27: Unrestricted Units for Extremely Low-Income Households (0 – 30% AMI) 2000 – 2040**



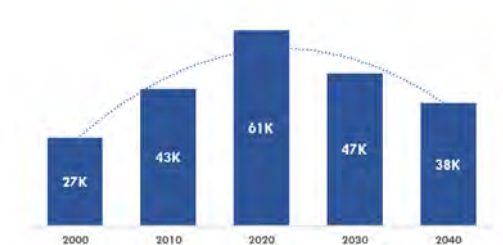
**Unrestricted units naturally affordable to very low-income households fell by 9,900 units between 2000 and 2010, and another 11,100 units between 2010 and 2020, shrinking from 32 percent of the City’s housing stock to less than 15 percent.** In 2000, these units were distributed evenly throughout the City’s multifamily housing stock, but in 2020, they are concentrated exclusively in older housing stock (built before 1990), as units built or renovated after 1990 rapidly increased in price. As a large portion of the very low-income stock from 2000 has already increased in price, the remaining stock is projected to decline at a slower rate, declining from 20,700 units in 2020 to fewer than 4,600 units by 2040, a decrease of 16,000 units, or about 80 units annually.

**Figure 28: Unrestricted Units for Very Low-Income Households (31 – 50% AMI) 2000 – 2040**



**As unrestricted units previously naturally affordable to extremely low-income and very low-income households increase in price, they move into the group of units naturally affordable to low-income households with income of 51-80 percent of AMI.** Between 2000 and 2019, the number of units affordable to low-income households increased by approximately 33,300 units, from 27,400 to 60,700, as they became unaffordable to extremely low-income and very low-income households. However, this trend is not projected to continue. Low-income units are projected to peak in 2020 and decline by 2.2 percent annually as units redevelop and increase in price, based on their age and location. Approximately 70 percent of unrestricted low-income units are in census tracts that have experienced rent growth within the last five years. By 2030, low-income units are projected to decrease by 13,300 units to 47,400 units, and to 38,200 units by 2040.

**Figure 29: Unrestricted Units for Low-Income Households (51% – 80% AMI) 2000 – 2040**





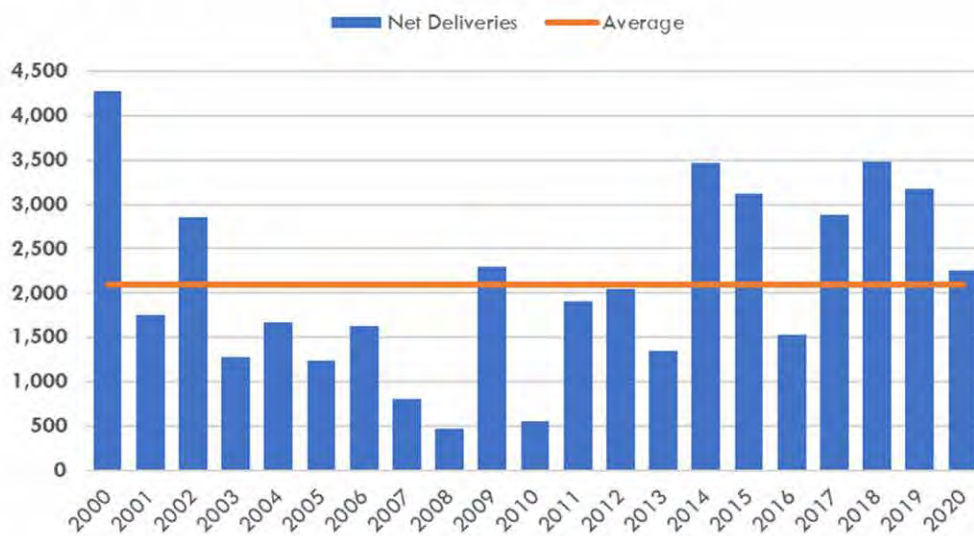
# SAN DIEGO'S HOUSING LANDSCAPE

As unrestricted units naturally affordable to households in the extremely low-income, very low-income, and low-income brackets are estimated to decline, units affordable to households earning higher than 80 percent of AMI are projected to increase drastically, based on two trends:

- Unrestricted units in the very low-income and low-income categories are increasing in price.
- New construction for unrestricted units has been concentrated in the moderate- and above moderate-income groups.

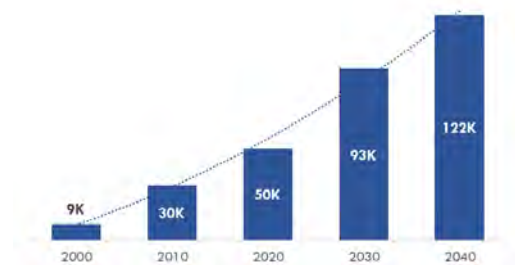
On average, San Diego has produced approximately 2,100 unrestricted units annually since 2000. At the time of delivery, almost all these units have been at the top of the market, at moderate and above moderate-income rents.

**Figure 30: San Diego Net Deliveries since 2000**



**As a result, the units at these higher income levels have grown rapidly — from 8,500 units in 2000 (7 percent of the total unrestricted multifamily stock), to 49,700 units in 2020 (35 percent of the total unrestricted multifamily stock). By 2040, 72 percent of all unrestricted multifamily units are projected to be affordable only to households earning more than 80 percent of AMI.**

**Figure 31: Unrestricted Units for Moderate and Above-Moderate Households (81%+ AMI) 2000 – 2040**

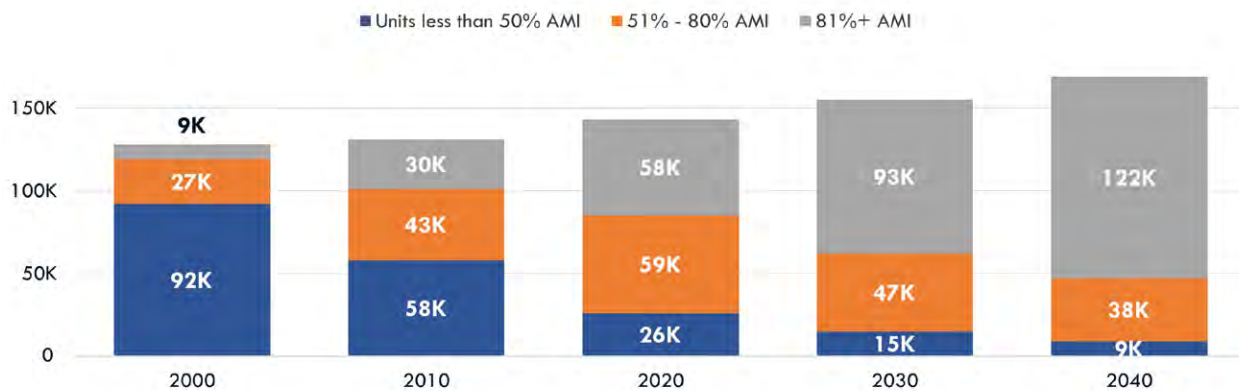


# SAN DIEGO'S HOUSING LANDSCAPE

In 2000, approximately 91,900 units (72 percent of the City's rental multifamily housing stock) were affordable to very low-income households earning less than 50 percent of AMI. In 2020, only 25,900 units are projected to be affordable to very low-income households—a 72 percent decrease (66,000 units) in the very low-income unrestricted housing inventory over 20 years.

**If unrestricted, naturally affordable units continue to be lost at this pace, very low-income households will need to increasingly rely on the limited supply of deed-restricted affordable units. By 2040, only 9,000 unrestricted units are projected to be affordable at this level — a decrease of 83,000 units and representing only 5 percent of the City's housing stock.** As units affordable to households in the extremely low-income, very low-income and low-income brackets are estimated to decline, units affordable to households earning higher than 80 percent of AMI are projected to increase dramatically, due to previously naturally affordable units at lower-income levels increasing in price and new construction continuing to be concentrated in the moderate- and above moderate-income groups.

**Figure 32: Change in Unit Affordability 2000 – 2040 (projected)<sup>33</sup>**



<sup>33</sup> PUMS 2000 – 2018 analysis

# SAN DIEGO'S HOUSING LANDSCAPE

## Single-Room Occupancy (SRO) Hotels

**SRO Hotels have historically been a critical source of flexible and low-barrier naturally occurring affordable housing for extremely low-income elderly, or disabled individuals who may have been or may be close to experiencing homelessness.** SRO units are composed of a single room, typically without a private bathroom or kitchen. They usually do not require security deposits or first and last month's rent.

The vast majority (87 percent) of SRO Hotels in the City are unrestricted, while 13 percent have public financing with deed restrictions. Unrestricted means that the owner does not have any limits on the amount of rent that can be charged to tenants. Historically however, many unrestricted SRO Hotels have been naturally occurring affordable housing (NOAH), with below-market rents at 60 percent of AMI (\$1,124 in 2019), and in some cases much lower rents due to the small size of the units, lack of amenities, shared facilities and physical condition of the property. Significant variance exists within the SRO Hotel inventory, both in terms of physical condition and rental price; in recent years, rents for SRO units at some SRO Hotel properties have exceeded the amount affordable to 100 percent of AMI (\$1,510 in 2019).

**Approximately 4,732 known active SRO Hotel rooms remain in the City.**<sup>34</sup> SRO Hotels are sometimes demolished or converted to replace them with more profitable uses, such as high-end hotels or apartments.<sup>35</sup> According to SDHC's records, 1,972 SRO units have been demolished<sup>36</sup>, and 1,124 units have been converted to other uses since record keeping began in 1985.

Geographically, SRO Hotels are heavily concentrated in Downtown—a total of 2,958 active SRO units (64 percent of the total) are in the Downtown community planning area. The rest are distributed across Uptown, North Park, La Jolla, Greater Golden Hill, Midway-Pacific Highway, Ocean Beach, and San Ysidro. No known SRO buildings are in the northern part of the City. In terms of demolished SRO units, the vast majority of them (1,410 – 71 percent) were in Downtown. Additionally, the Mid-City (Kensington-Talmage and Eastern Area), Navajo, Midway-Pacific Highway and Pacific Beach community planning areas have collectively lost more than 380 SRO units, accounting for 19 percent of all demolished units. As for conversions, they have occurred only in Downtown, specifically in large buildings (50 or more units); the 1,124 SRO units lost due to conversions were distributed across seven buildings.

**Figure 33: Geographic distribution of SROs**



<sup>34</sup> SDHC maintains a list of most, but not all, known active SRO buildings subject to the City's SRO Ordinance.

<sup>35</sup> Corporation for Supportive Housing (CSH). "The City of San Diego Community Action Plan on Homelessness," October 2019.

<sup>36</sup> Figure since 1985, the first year record keeping for SROs began.

# SAN DIEGO'S HOUSING LANDSCAPE

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San Diego is one of three large cities in California with an ability to regulate its SRO inventory, in the event of conversion to a different use or demolition.<sup>37</sup> San Diego's SRO Hotel Ordinance requires that owners of properties operating as SRO Hotels that had a certificate of occupancy issued prior to January 1, 1990, provide replacement units in the event of demolition or conversion. Some pre-1990 properties are exempt from this replacement requirement because they withdrew the property by sending a notice to the City prior to January 1, 2004, as permitted by state law. These replacement units must be deed-restricted at 50 percent of AMI for 30 years. Any properties issued a certificate of occupancy on January 1, 1990, or later, are not subject to the unit replacement requirement.

All SRO buildings, regardless of the year in which a certificate of occupancy was obtained, or whether they submitted a notice to the City of their intent to remove the property from the rental market, are subject to tenant relocation requirements. This means that, in the event of a demolition or conversion event, the owner must provide long-term tenants with monetary assistance in an amount specified by the Ordinance.

Of the 3,096 SRO Hotel units that have been either demolished or converted, 505 units have been replaced with affordable deed-restricted units at 50 percent of AMI or lower for 30 years or more, due to the protections provided by the City's SRO Hotel Ordinance. As for the currently active inventory, the Ordinance makes 3,417 SRO units (72 percent of the total) subject to unit replacement, and 1,315 SRO units (28 percent) exempt from unit replacement, while all of the 4,732 SRO units are subject to tenant relocation requirements.

Identification and preservation of SRO units is critical to providing affordable options and preventing a larger degree of homelessness in the City. As of January 2019, 5,082 persons were identified as experiencing homelessness on a given night in the City of San Diego.<sup>38</sup> The loss of the 4,732 SRO units in service could significantly increase the number of individuals experiencing homelessness in San Diego.

**Figure 34: Sample SRO Buildings**



**Peachtree Inn**  
**Community:** Downtown  
**SRO Units:** 300



**Spindrift Apartments**  
**Community:** La Jolla  
**SRO Units:** 95



**Hawthorne Inn**  
**Community:** Uptown  
**SRO Units:** 29

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<sup>37</sup> California Government Code 7060

<sup>38</sup> Ibid, 9.

# UNRESTRICTED, NATURALLY OCCURRING AFFORDABLE RENTAL HOUSING (NOAH) TYPOLOGIES

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San Diego's rental housing stock is made up of **deed-restricted** and **unrestricted** housing units. While all deed-restricted housing is affordable at or below the income levels required by the program, unrestricted housing rents are subject to market forces. Factors like citywide rent pressure, unit quality, age, and other unit-, building-, and neighborhood-level attributes influence how much a landlord can charge in rent.

A large portion of these unrestricted units (46,850 units, 33 percent) is currently affordable to households earning at or below 60 percent of AMI. The unrestricted units at these rent levels are considered to be *naturally occurring affordable housing (NOAH)*. Rents affordable at 60 percent of AMI in 2019 were \$1,124 for a studio; \$1,284 for a one-bedroom; \$1,444 for a two-bedroom; and \$1,605 for a three-bedroom unit.

This subset of the housing inventory is an important asset for the City as the public cost of building new deed-restricted units continues to increase across the region. However, the current availability of NOAH units is not projected to last. In the next 20 years, San Diego is projected to lose more than 25,450 unrestricted NOAH units as these units increase in price and are lost due to redevelopment pressure.

This section investigates the most common attributes of San Diego's unrestricted NOAH units—their age, building size, and location—to define common *typologies* for further analysis, with two guiding questions:

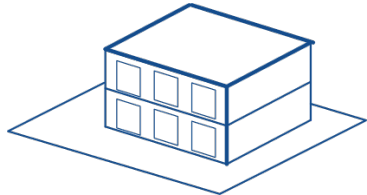
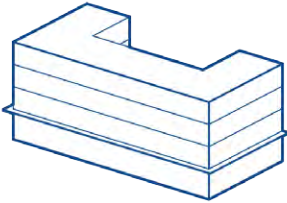
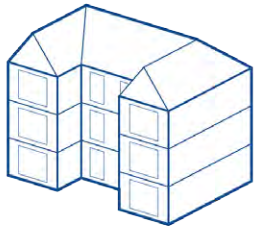
- What are the key characteristics of San Diego's existing unrestricted NOAH units?
- What is the potential cost of preserving the affordability of these units?

# UNRESTRICTED NOAH TYPOLOGIES

## Key Takeaways

- Unrestricted NOAH units (60 percent of AMI) tend to be in **older and smaller** buildings and in **low-income neighborhoods**.
  - 90 percent of all unrestricted NOAH units were built before 1990, while 72 percent were built from 1960 to 1989.
  - The largest portion of unrestricted NOAH units (64 percent) is in smaller buildings—with fewer than 20 units.
  - 78 percent of the City’s unrestricted NOAH stock is in census tracts with median incomes below the City average, compared to 62 percent of multifamily rental housing stock overall.

Figure 35: Summary of Selected Typologies

<b>Typology A:</b> Small developments (six units or smaller) residential-infill buildings built in the 1970s to 1980s (“Huffman Six-Packs”)		
Current Unit Estimate:	12,550 units	
Estimated Loss (2020 – 2040):	2,350 units	
Total Cost (Acquisition + Rehab)	\$486,000/ unit	
Total Preservation Cost (2020 – 2040) <sup>39</sup>	\$1.8 Billion	
<b>Total Potential State /Local Gap (2020 – 2040)<sup>40</sup></b>		\$358 Million
<b>Typology B:</b> Mid-size developments (10 – 50 units) built in the 1970s to 1980s		
Current Unit Estimate:	13,450 units	
Estimated Loss (2020 – 2040):	5,250 units	
Total Cost (Acquisition + Rehab)	\$471,100/ unit	
Total Preservation Cost (2020 – 2040)	\$3.5 Billion	
<b>Total Potential State /Local Gap (2020 – 2040)</b>		\$880 Million
<b>Typology C:</b> Large garden-style apartment communities built in the 1990s and 2000s		
Current Unit Estimate:	6,250 units	
Estimated Loss (2020 – 2040):	1,650 units	
Total Cost (Acquisition + Rehab)	\$426,100/ unit	
Total Preservation Cost (2020 – 2040)	\$1.0 Billion	
<b>Total Potential State /Local Gap (2020 – 2040)</b>		\$210 Million

<sup>39</sup> Total preservation costs are estimated based on 2020 San Diego rehab costs (SDHC, RS Means, Craftsman) and 2020 acquisition costs (CoStar). This analysis assumes an annual increase in acquisition costs and construction costs based on the long-term average increase since 2000. (7.3 percent and 4.8 percent, respectively). Figures are in 2020 dollars.

<sup>40</sup> Total state and local gap is based on the total preservation cost (above), less the estimates of supportable debt and low-income housing tax credit equity through a 4 percent tax credits structure. Specific assumptions can be found in Appendix B.

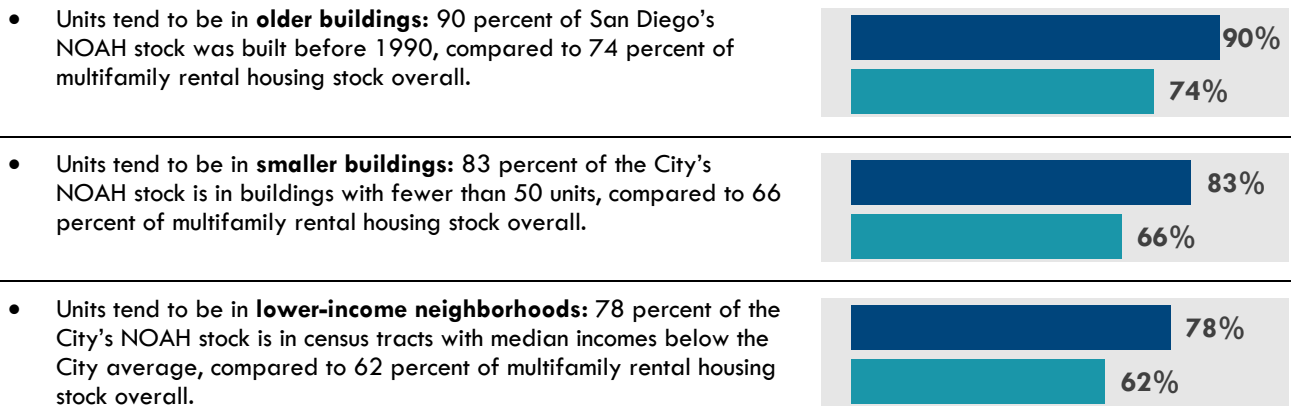
# UNRESTRICTED NOAH TYPOLOGIES


## What are unrestricted NOAH units in San Diego?


Between 1950 and 2000, developers built thousands of apartments throughout San Diego, across a wide range of typologies and neighborhoods. Some were residential-infill, in the form of “Huffman Six-packs<sup>41</sup>,” while others were in large garden apartment communities with hundreds of units and surface parking with shared community amenities. Due to their age and location, many of these apartments are affordable today—without deed restrictions or housing subsidies.

While there is some diversity within the City’s unrestricted NOAH stock (60 percent of AMI), they predominantly align with three general categories:

**Figure 36: Key Characteristics of Unrestricted, Naturally Occurring Affordable Units**



 **Share of unrestricted NOAH stock**

 **Share of all multifamily rental stock**

Sources: American Communities Survey, Public Use Microdata 2018 5-year, HR&A Analysis

### Building Age

Approximately, 90 percent of all unrestricted NOAH units were built before 1990, while 72 percent were built from 1960 to 1989. These units are between 30 and 60 years old today and often require significant maintenance to maintain safe and habitable conditions. As a result of competition with newer units, rents have remained low.

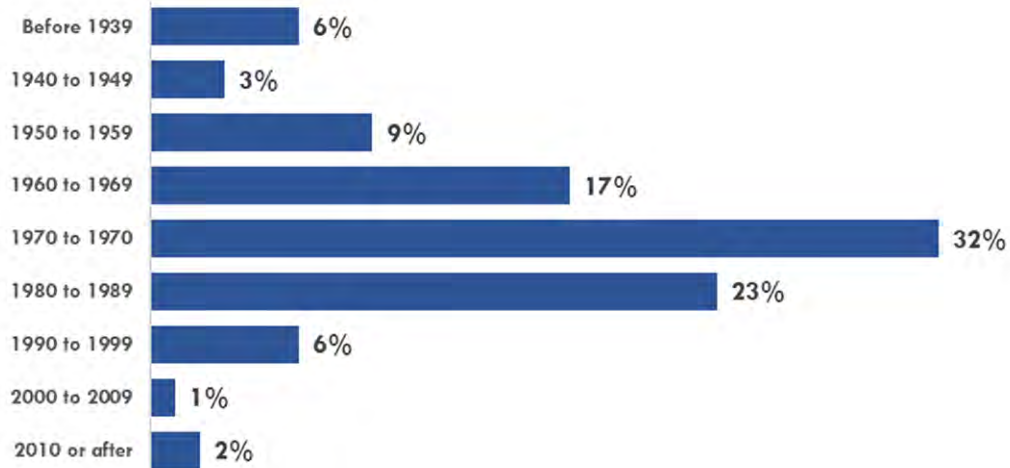
**Given increasing market pressure in San Diego’s rental housing market, rents are unlikely to remain naturally affordable at 60 percent of AMI.** Private investors are increasingly buying older building stock in the City to renovate or redevelop. Existing NOAH units are lost in the process. Since 2009, \$4.9 billion in sales has occurred for buildings constructed before 1990, compared to \$3.7 billion for those built after 1990. The average per-unit cost to investors for buildings built before 1990 has increased from \$120,000 in 2009 to more than \$290,000 in 2020—a 9 percent annual increase.

<sup>41</sup> Huffman Six-packs were named after developer Ray Huffman and refer to six- to 10-unit buildings built in the late 1970s and early 1980s to increase density in the urban core.

DeRubertis, Diana. “Residential Infill, 70’s-Style”, Planetizen, August 2009.

# UNRESTRICTED NOAH TYPOLOGIES

**Figure 37: Unrestricted, Naturally Occurring Affordable Housing Units (<60 percent of AMI) by Year Built**



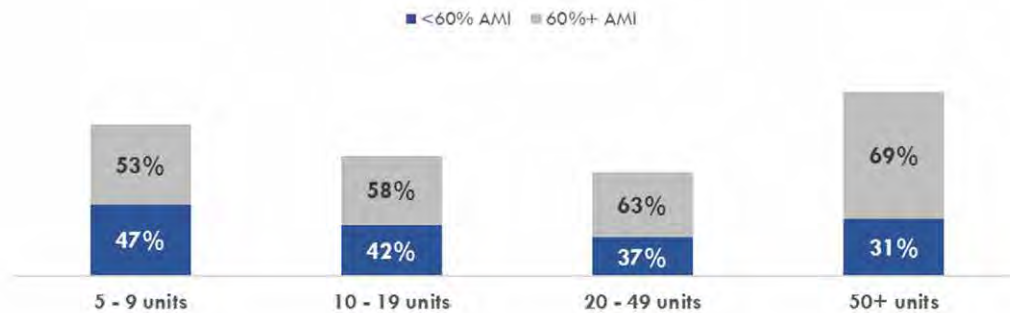
Sources: American Communities Survey, Public Use Microdata 2018 5-year, HR&A Analysis

## Building Size

The largest portion of unrestricted NOAH units (64 percent of the total) is in smaller buildings—with fewer than 20 units. This is consistent with anecdotes from various stakeholders interviewed, who said that small multifamily buildings—five to 12 units—especially east of Interstate 805, are often home to lower-income, vulnerable families. These buildings often require large amounts of rehabilitation to remain habitable in a safe and healthy manner.

As the number of units at a multifamily rental property increases, the likelihood that the property includes unsubsidized NOAH units at 60 percent of AMI decreases. Only 31 percent of all units in buildings with 50 or more units are naturally affordable, compared to almost 50 percent for smaller buildings. This is likely due to the presence of professional building management and ownership that expect a steady annual increase in the property’s income.

**Figure 38: Multifamily Units by Building Size and Rent Level**



Sources: American Communities Survey, Public Use Microdata 2017 5-year, HR&A Analysis



# UNRESTRICTED NOAH TYPOLOGIES

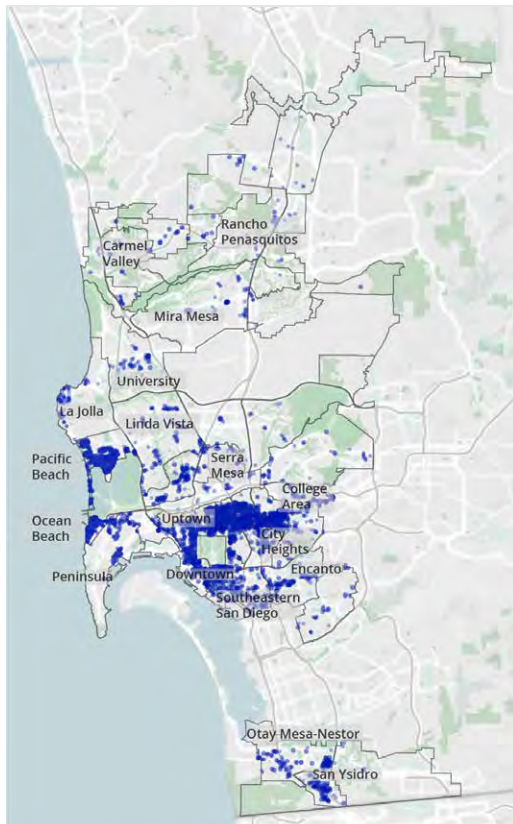
## Building Location

While unrestricted NOAH units exist throughout the City, units tend to be in lower-income communities or in neighborhoods transitioning from lower-income to higher-income households. Approximately 78 percent of the City’s NOAH units are in census tracts with median incomes below the City average, compared to 62 percent of multifamily rental housing stock overall.

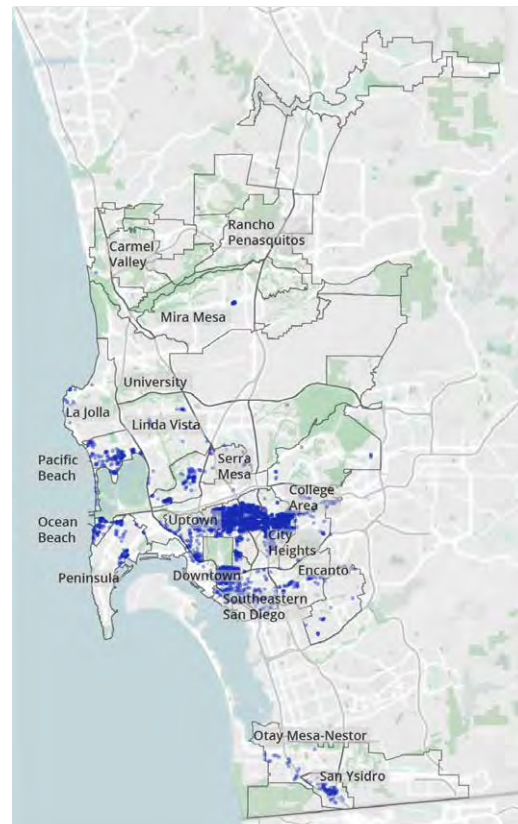
Specifically, three distinct clusters of census tracts exist with a high concentration of unrestricted NOAH units: City Heights/ University Heights, south of downtown (East Village / Stockton), and in San Ysidro. Each of these nodes represent distinct preservation challenges:

- **City Heights** and **University Heights** have the largest number of unrestricted NOAH units, most in the form of small multifamily buildings built in the 1970s and 1980s. Many of these are known as the “Huffman Six-packs”—small six-unit buildings named after the Ray Huffman Construction Company, which built more than 700 of these buildings, starting in the 1970s.
- As neighborhoods seeing increased redevelopment and transitioning from lower-income to higher-income households, **East Village** and **Stockton** present a variety of different typologies as a prime location for new development, with a few unrestricted NOAH buildings remaining. The remaining few buildings east of downtown in Golden Hill and Sherman Heights tend to be smaller (30 – 50 unit) buildings built before 2000.
- **San Ysidro** has many garden apartment communities—built in the 1970s and 1980s with multiple walk-up buildings and surface parking, with approximately 75 – 150 units per property. These properties are often owned by large corporations or real estate investment trusts (REITs).

**Figure 39: Parcels with Multifamily Buildings (both Deed-Restricted and Unrestricted)**



**Figure 40: Parcels with Naturally-Affordable Unrestricted Units**



# UNRESTRICTED NOAH TYPOLOGIES

## Selecting typologies for analysis

Based on the analysis of unrestricted NOAH units, the study focused on three key factors to select typologies:

- **Unit quantity:** The number of unrestricted NOAH units present in San Diego in 2020 in the specific typologies.
- **Loss rate:** The expected rate of loss of affordability within each typology—either through redevelopment or increasing rents.
- **Diversity:** A diversity of typologies in different geographies that best represents San Diego’s multifamily housing stock.

Based on these factors, the following specific typologies of unrestricted NOAH units were selected for financial analysis and further study:

- Small six-unit residential-infill buildings built in the 1970s to 1980s (Huffman Six-packs);
- Mid-size apartment buildings (10 – 50 units) built in the 1970s to 1980s; and
- Large garden apartment communities built in the 1990s to 2000s

Each apartment building was put into a distinct category based on two factors—the age of the building and the number of units the building contained. This resulted in 36 total typologies in San Diego, as shown below.

**Figure 41: Examples of Typology Categories**

<b>Time Period</b>		<b>Building Size</b>		<b>Total Typologies</b>
<b>9</b>	<b>X</b>	<b>4</b>	<b>=</b>	<b>36</b>
<b>categories</b>		<b>categories</b>		<b>distinct typologies</b>
<ul style="list-style-type: none"> <li>- Before 1939</li> <li>- 1940 to 1949</li> <li>- 1950 to 1959</li> <li>- 1960 to 1969</li> <li>- 1970 to 1979</li> <li>- 1980 to 1989</li> <li>- 1990 to 1999</li> <li>- 2000 to 2009</li> <li>- 2010 or after</li> </ul>		<ul style="list-style-type: none"> <li>- 5 – 9 units</li> <li>- 10 – 19 units</li> <li>- 20 – 49 units</li> <li>- 50+ units</li> </ul>		

Each typology was then categorized by the share of projected loss between 2020 and 2040. **Based on this analysis, the top three typologies that were selected account for 29 percent of the total projected loss over the next 20 years.**

# UNRESTRICTED NOAH TYPOLOGIES

**Figure 42: Chosen Typologies by Projected Loss and Share of Total Loss**

Typology	Projected loss	As share of total loss
Small developments (six units or smaller) residential-infill buildings built in the 1970s to 1980s (“Huffman Six-Packs”)	2,350	7%
Mid-size developments (10 – 50 units) built in the 1970s to 1980s	5,250	16%
Large garden-style apartment communities built in the 1990s and 2000s	1,650	5%
All other typologies combined	23,000	71%
<b>Total</b>	<b>32,250</b>	<b>100%</b>

## How much does it cost to preserve unrestricted NOAH units?

Preservation of existing unrestricted NOAH units can be more cost-effective on a per-unit basis than production because major upfront expenditures for entitlements, land improvement, and construction have already occurred. According to a 2015 study by the Urban Land Institute,<sup>42</sup> it costs 30 to 50 percent less to preserve a unit through acquisition and rehabilitation compared to developing a unit of new deed-restricted rental housing.

Nevertheless, a significant financing gap (the difference between the development cost and the sources of funds) was found in each typology studied, both with and without low-income tax credit subsidies.

In terms of gap financing, a local source of funding is critical to pair with state and federal funding sources to make preservation projects financially viable, especially in the case of buildings with fewer units (less than 20 units). In addition to subsidy tools, land-use tools such as density bonuses are critical to cross-subsidize the preservation of existing unrestricted NOAH units.

**Figure 43: Prototypical Capital Stack of Preservation Project**



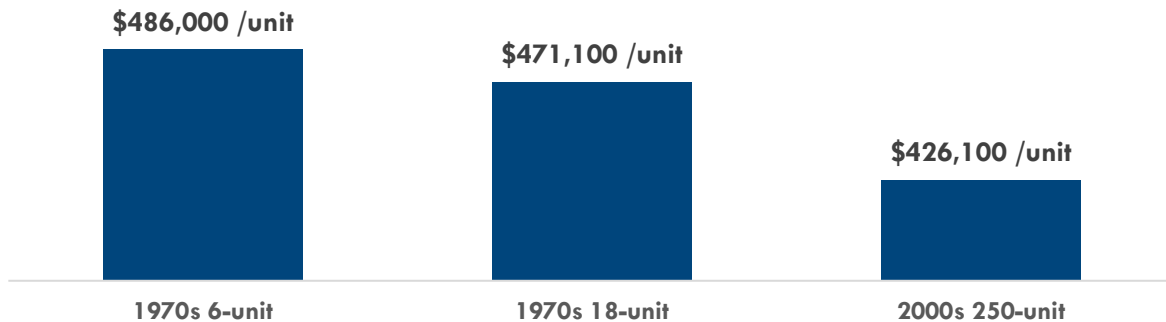
<sup>42</sup> Preserving Multifamily Workforce and Affordable Housing, Urban Land Institute and Neighborworks, 2015

# UNRESTRICTED NOAH TYPOLOGIES

Based on the three typologies studied, key trends emerged:

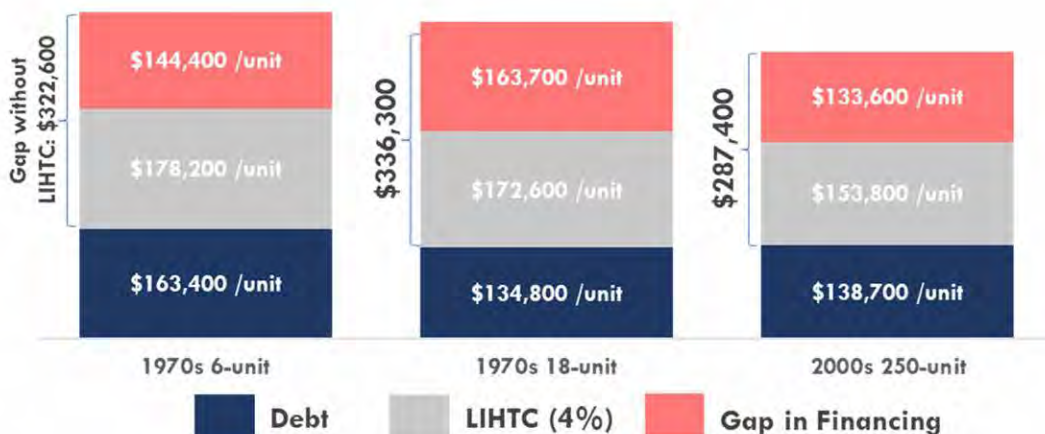
Properties with a larger number of units tend to have lower total development costs per unit and often prove to be a much better return on affordability to investment than properties with a smaller number of units. Older properties with fewer units, which comprise most of San Diego’s NOAH stock, have the highest costs of development, driven by high relative acquisition costs and large amounts of capital investment required.

Figure 44: Prototypical Capital Stack of Preservation Project



Even with tax-exempt bond financing and the 4 percent low-income housing tax credit (LIHTC) units, a persistent financing gap remains to preserve units at 60 percent of AMI. The 4 percent tax credit along with tax-exempt Multifamily Housing Revenue Bond financing is one of the most common tools used to preserve affordability across the country. In California, as of 2020, this source of funding is no longer “as-of-right” and now follows a competitive set of criteria.<sup>43</sup> In addition, a demonstrated need exists for gap financing beyond traditional low-income housing tax credit equity. In San Diego, SDHC has often contributed to filling this gap with a soft loan for previous deed-restricted projects.<sup>44</sup>

Figure 45: Estimated Finance Gap by Typology



<sup>43</sup> Novogradac, August 2019

<sup>44</sup> Of the properties that received SDHC loans, the average loan was approximately \$60,000 per unit.

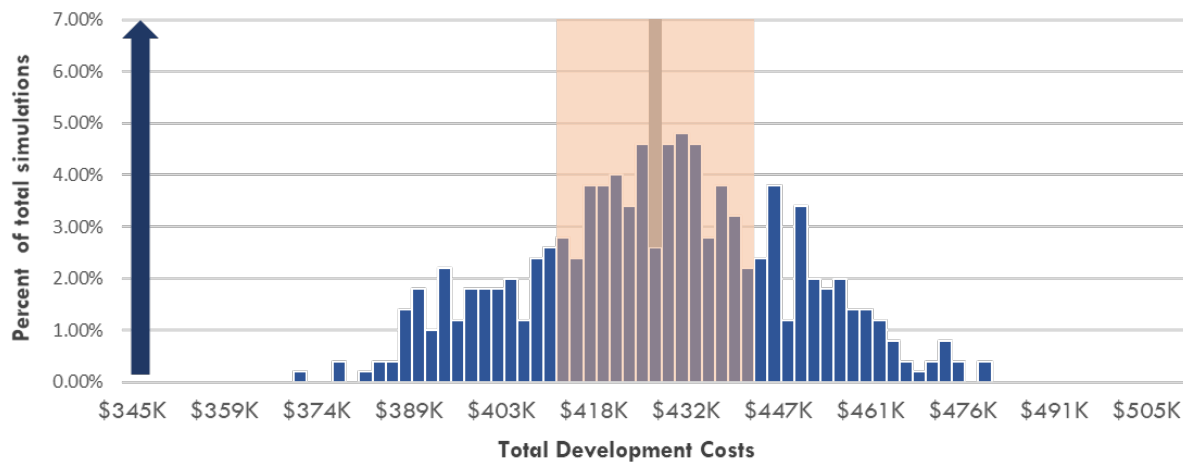
# UNRESTRICTED NOAH TYPOLOGIES

**Preservation projects have a large amount of inherent risk and variability from project to project.** To measure relative risk for projects, a Monte Carlo simulation<sup>45</sup> was used to run 1,000 simulations of each project, changing assumptions based on bounds developed on development assumption. For large garden-apartment-style projects, the average modeled total development cost was approximately \$426,100 per unit, with an interquartile range between \$413,000 - \$442,000 per unit, with a standard deviation<sup>46</sup> of approximately \$20,800. Due to project variability, development costs as low as \$380,000 per unit and as high as \$490,000 per unit were produced by the simulation.

For six-unit Huffman-style properties, parcels will need to be combined to scale and become viable for tax credits. Given the additional risk of multiparcel developments, the standard deviation was modeled to be approximately \$45,000—more than twice than that of garden apartments.

**Figure 46: 1990s – 2000s Garden Apartment Total Development Costs for all Simulations**

(higher is more likely)



**For the three modeled typologies, the total development cost of preserving every at-risk unit (9,250 units, 28 percent of total at-risk stock) was modeled to be approximately \$6.3 billion (in 2020\$).** This analysis is based on preserving an average of 460 units annually given existing acquisition and construction cost trends.<sup>47</sup> **With existing debt leverage and tax credit assumptions, the total gap in financing is estimated to be approximately \$1.45 billion (2020\$),** or approximately \$72.4 million annually between 2020 and 2040. This gap will need to be met through a combination of new state and local funding<sup>48</sup> and a potential acquisition and preservation fund for unrestricted, naturally occurring affordable housing.

<sup>45</sup> A Monte Carlo simulation is a technique used to understand the impact of risk and uncertainty in financial forecasting models. The simulation helps visualize all potential outcomes and the distribution between potential outcomes over a series of simulations. (Towards Data Science, 2017) For this project, a 1,000 simulation model was used to predict the average, standard deviation and interquartile range.

<sup>46</sup> The standard deviation is used in this model to provide a metric of variability. As the standard deviation increases, it represents higher variability and risk. In most markets, risk increases the cost of private capital, further increasing overall development costs.

<sup>47</sup> Acquisition costs are escalated at 7.3 percent and construction costs at 4.8 percent, based on long-term average growth since 2000. Acquisition cost trends from CoStar, construction costs from RS Means multifamily in San Diego.

<sup>48</sup> These figures assume rents affordable at 60 percent of AMI. Rents affordable at lower median incomes will require increased funding.

# PRESERVATION STRATEGY FRAMEWORK

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The continued erosion of San Diego's deed-restricted and naturally occurring affordable housing (NOAH) inventory threatens San Diegans' quality of life. Without intervention, at-risk affordable homes<sup>49</sup> will continue to be lost. San Diego cannot solely rely on new construction of housing units to mitigate the housing affordability crisis the City faces; this necessitates a robust preservation strategy.

To inform the development of a strategy to address the housing preservation challenges in the City, 30 local stakeholders, representing public servants, real estate developers, property owners, funders and advocates,<sup>50</sup> were interviewed to identify the existing impediments to preservation in San Diego. These interviews add to the data described in the previous section of this report to create a comprehensive picture of the housing landscape for low-income renters and highlight opportunities for increased preservation activity. SDHC has long emphasized both new construction and preservation of affordable housing. However, stakeholders overwhelmingly pointed to jurisdictions that, in response to California's Regional Housing Needs Assessment (RHNA) goals, have increased their investments into new construction. Understanding that both new construction and preservation are key to meeting the housing affordability challenges that the City faces, and that preservation of affordable housing requires specific tools and resources, a renewed emphasis on preservation strategies is key to long-term housing affordability.

Armed with the knowledge of the existing housing stock and the local challenges and opportunities, this study then set forth to understand how other communities, faced with similar needs, successfully addressed preservation. The following recommendations take into consideration the context of the City, and are based on best practices from California and communities around the country. They are divided into four sections:

1. **Capital Resources:** Communities that are proactively preserving properties have explicitly dedicated capital resources to preservation. In addition to recommending a dedicated source of funding for preservation, these recommendations identify potential immediate sources of capital.
2. **Preservation Policies:** Other communities, faced with preservation challenges similar to those of San Diego, have adopted proven policies to address their needs. Understanding that no two communities are the same and therefore necessitate unique approaches, these recommendations are meant only to guide San Diego in considering a preservation strategy of its own.
3. **Tenant Protections:** Preservation may not always be possible. In these cases, it is imperative that appropriate laws are implemented to protect tenants and mitigate the impacts of displacement and homelessness.
4. **Capacity Building:** Even the strongest legal language and funds of the greatest magnitude will fail to have a meaningful impact without an institutionalized commitment to preservation. Communities with successful preservation initiatives have made preservation an explicit priority, and these recommendations outline tangible steps the City can take to increase capacity and create an institutionalized commitment to preservation.

This strategic framework will provide a number of recommendations to address preservation but is not a roadmap for preservation in San Diego. The success of these recommendations rests in the ability to implement them over time, with support from state and local stakeholders to apply best practices to the unique San Diego context.

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<sup>49</sup> "At-risk" applies to both unrestricted and restricted housing and refers to when the rents are anticipated to rise to unaffordable levels.

<sup>50</sup> For a complete list of the individuals interviewed as part of this work, please see Appendix C.

## Recommendations

### Capital Resources

Dedicating sufficient resources to support the acquisition and rehabilitation of affordable housing<sup>51</sup> is essential to promote the preservation of deed-restricted and unrestricted housing in the City. Without adequate resources, neither nonprofit nor for-profit developers will be able to pursue preservation projects in San Diego. In fact, none of the policy levers recommended in the latter portion of this report will be meaningful without dedicated sources of funding for preservation. The following recommendations urge a dedicated source of funding for preservation, identify potential sources of immediate capital and, most importantly, will assist in the preservation of critical housing resources that serve San Diego's vulnerable populations.

#### **Recommendation 1. Provide seed funding to create a public-private Affordable Housing Preservation Fund that is a dedicated source of funding for preservation activities.**

By providing seed funding to create a new public-private Affordable Housing Preservation Fund, the City can provide short-term acquisition, pre-development and gap financing to preserve existing housing in San Diego. Such a fund can leverage private investment and act as a source of dedicated funding while an owner secures permanent financing for long-term preservation.

The City has an existing Affordable Housing Fund (AHF), administered by SDHC. The AHF is a permanent and annually renewable source of revenue to meet, in part, the housing needs of the City's very low-, low-, and moderate-income households.<sup>52</sup> In Fiscal Year 2019 (July 1, 2018 – June 30, 2019), more than \$10 million was committed<sup>53</sup> to real estate developers to support the production, acquisition, rehabilitation and preservation of affordable housing through the AHF, leveraging an additional \$50 million. Funded primarily by fees charged to both residential and commercial development, the AHF makes funds available through two distinct funds:

- the Inclusionary Housing Fund (IHF); and
- the Housing Trust Fund (HTF).

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<sup>51</sup> As defined on page 6 of the Executive Summary of this report, "affordable housing" consists of properties upon which covenants, conditions and restrictions (CC&R's) or other documents are recorded that require rents to be affordable to households at specified income levels. These are sometimes referred to as "deed-restricted" properties. In addition, some market-rate properties without any such restrictions have market rents that are affordable to households earning up to 60 percent of the San Diego Area Median Income (AMI). These unrestricted, affordable units are known as "naturally occurring affordable housing" (NOAH). Approximately 33 percent of the unrestricted rental housing units in the City are NOAH units.

<sup>52</sup> San Diego Municipal Code Section 98.0501.

<sup>53</sup> Exhibit 3 on page 24 of the City of San Diego Affordable Housing Fund Fiscal Year (FY) 2019 Annual Report shows that in FY2019, the Affordable Housing Fund committed \$10 million to rental production, rental preservation, homeownership, transitional housing and SDHC's citywide homelessness action plan, HOUSING FIRST – SAN DIEGO. Of the \$10 million, \$2.75 million was committed to "rental housing preservation," preserving a total of 201 units for very low- and low-income residents. (*City of San Diego Affordable Housing Fund Fiscal Year 2019 Annual Report*, (2019) San Diego: San Diego Housing Commission. <https://www.sdhc.org/wp-content/uploads/2020/01/FY2019-AHF-Annual-Report.pdf>)

# PRESERVATION STRATEGY FRAMEWORK

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Preservation is an eligible use of both the IHF and HTF. Prior years' allocations<sup>54</sup>, however, suggest a preference for new construction over preservation. By creating a new Affordable Housing Preservation Fund, the City can offer a product specifically designed to meet the needs of preservation projects and explicitly direct resources toward saving San Diego's existing housing stock.

As discussed previously in this report, San Diego's current stock of affordable housing includes both deed-restricted and unrestricted properties. Because these typologies of properties are often very different, preserving them necessitates different financial products. Creating an Affordable Housing Preservation Fund that includes various distinct products (at minimum, one to preserve deed-restricted housing properties and one to preserve unrestricted properties) will allow the City to meet the needs of its diverse housing stock.

Developing distinct products with separate metrics, incentives, and terms, as well as establishing minimum set-asides within the fund for preserving deed-restricted and unrestricted units, will provide essential resources to preserve the City's existing affordable rental housing.

The City will be able to get the greatest use out of such a fund by leveraging the new preservation database to identify properties at risk of becoming unaffordable and assist in proactively matching eligible at-risk deed-restricted and unrestricted properties to qualified and interested developers. (Establishing the framework for this is discussed in detail in the Capacity Building Recommendations portion of this report.)

While the best practices below do not showcase jurisdictions that currently operate a single fund that offers multiple products, each provides best practices for how to best target and deliver the funds to meet the needs of developers targeting a specific housing typology. Creating a single fund that incorporates multiple products will allow the City to meet the various needs of its housing stock without having to raise funds for them separately.

## **Several jurisdictions have created funds that meet the preservation needs of deed-restricted housing.**

These funds do not place affordability restrictions on a property, but they provide developers the means to acquire and hold a property until permanent financing, with affordability restrictions, is available. These funds are often created through a primary injection of public funds, with additional private investments. Many are also managed or administered by Community Development Finance Institutions (CDFIs)<sup>55</sup>, providing developers with a quick, reliable capital stream for the preservation of affordable housing. The role of CDFIs and private investment in the funds described below demonstrate that resources for a

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<sup>54</sup> As per the Fiscal Year 2016, 2017, and 2018 City of San Diego Affordable Housing Fund Annual Reports submitted to the Council President and Members of the City Council in San Diego, no funds have been clearly allocated toward preservation, acquisition or rehabilitation of existing affordable housing. For FY2016, see Exhibit 2 on page 12; for FY2017, see Exhibit 2 on page 20; for FY2018, see Exhibit 2 on page 20 (City of San Diego Affordable Housing Fund Fiscal Year 2016 Annual Report, (2019) San Diego: San Diego Housing Commission. <https://www.sdhc.org/wp-content/uploads/2019/04/AHF-FY16-Annual-Report.pdf>) (City of San Diego Affordable Housing Fund Fiscal Year 2017 Annual Report, (2017) San Diego: San Diego Housing Commission. <https://www.sdhc.org/wp-content/uploads/2018/04/FY-2017-AHF-Annual-Report.pdf>) (City of San Diego Affordable Housing Fund Fiscal Year 2019 Annual Report, (2018) San Diego: San Diego Housing Commission. <https://www.sdhc.org/wp-content/uploads/2019/04/AHF-FY18-Annual-Report.pdf>)

<sup>55</sup> CDFIs are "mission-driven financial institutions that create economic opportunity for individuals and small businesses, quality affordable housing, and essential community services throughout the United States." ('Community Development Financial Institution (CDFI) and Community Development (CD) Bank Resource Directory,' Office of the Comptroller of the Currency, accessed January 28, 2020, <https://www OCC.gov/topics/consumers-and-communities/community-affairs/resource-directories/cdfi-and-cd-bank/index-cdfi-and-cd-bank-resource-directory.html>.)



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preservation fund do not need to come exclusively from public funds. The private sector can play a significant supporting role.

In Washington, D.C., the **Affordable Housing Preservation Fund** (AHPF) is a public-private fund that provides acquisition and pre-development loans to developers looking to preserve affordable housing. The AHPF emerged from recommendations of the D.C. Housing Preservation Strike Force, an 18-member team created in 2015 to create an action plan to preserve affordable housing units in Washington, D.C. The AHPF is a \$40 million revolving loan fund; repaid loans are returned to the fund and reinvested into future projects. AHPF is privately managed by CDFIs Capital Impact Partners and Local Initiatives Support Corporation (LISC-DC), who were selected through a competitive process. Washington, D.C., chose to define fund eligibility by rent levels versus restrictions; therefore, the fund can be used to preserve both deed-restricted and unrestricted units. The fund targets multifamily rental properties of five units or more, where at least 50 percent of units are affordable to households earning at or below 80 percent of the Area Median Income (AMI).

Eligible activities include acquisition, pre-development costs, environmental remediation and critical repairs.<sup>56</sup> In addition to those already described, the AHPF makes loans with terms and conditions outlined below:

- Up to three-year terms, possible extensions (no longer than four years) for short-term bridge acquisition, pre-development and critical repair financing as borrowers apply for and secure long-term permanent financing from other private lenders and public agencies;
- Maximum amount available per project: \$10 million in total funds;
- Pricing: competitive with market, and accounting for lower cost of Washington, D.C., funds;
- 125 percent of the lesser of a property's as-is appraised value or purchase price;
- Collateral: first or second deed of trust;
- Nontrivial financial penalties such as higher repayment costs if a project does not meet the objectives of the AHPF.

Impressively, the AHPF leverages \$3 in private funds for every \$1 of public funds and has successfully preserved more than 1,000 units of housing since launching in the spring of 2018<sup>57</sup>. Washington, D.C.'s initial \$10 million in seed investment has been matched with philanthropic and other investments. As a permanent financing resource and revolving door loan fund, the AHPF allows for funds to be recycled and deliver long-term affordability in Washington, D.C.

The **New York City Acquisition Fund** (NYC Acquisition Fund) is a similar revolving-door loan fund that was established in New York City in 2006 through a partnership with the City of New York, major foundations and members of the banking industry. The \$150 million fund was created to assist in the acquisition of land or existing properties and acts as a bridge to long-term financing. To ensure the long-term affordability of

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<sup>56</sup> Critical repairs are described as immediate repairs needed to improve livability for residents. The AHPF fund is not designed to finance rehabilitation.

<sup>57</sup> 'Mayor Bowser Celebrates the Preservation of Over 1,000 Affordable Homes through the Housing Preservation Fund,' Department of Housing and Community Development, District of Columbia Government, last modified July 12, 2019, <https://dhcd.dc.gov/release/mayor-bowser-celebrates-preservation-over-1000-affordable-homes-through-housing-preservation>.

these properties, the fund requires a soft commitment letter for permanent takeout financing from New York City or state resources at the time of application.

Administered by four CDFIs, the single biggest advantage that the fund has over other sources of financing is that nonprofit borrowers have the ability to borrow at 130 percent loan-to-value (LTV). Notably, for-profit borrowers are only able to borrow up to 95 percent LTV, offering one example of how a single fund can offer multiple terms to meet various needs. To date, one-fifth of all loans have been used for preservation purposes, demonstrating strong demand for this capital, with 85 percent of the fund capital set aside for affordable housing. The fund is adaptable with the market, growing and shrinking as required and possible, with a fluid term sheet dependent on the borrower.

In the Bay Area of California, the **Bay Area Preservation Pilot (BAPP)**<sup>58</sup> was established in 2018 to address financing gaps in the affordable housing market by offering 10-year term loans and quick execution to mission-driven developers to compete for the acquisition of properties. The Metropolitan Transportation Commission, the regional governmental agency responsible for the planning, financing and coordination of transportation in the nine-county Bay Area, committed \$10 million to launch the 10-year pilot program and provides a local source of preservation capital to match state and federal resources. Like in Washington, D.C., BAPP is administered privately by CDFIs Enterprise Community Loan Fund and the Low Income Investment Fund. After acquiring a property through a BAPP loan, developers have up to 10 years to secure financing at the local, state or federal level to ensure long-term affordability. The program targets 100 percent occupied properties where a minimum of 75 percent of the units are deed-restricted to tenants earning 80 percent of the AMI or below.<sup>59</sup> The BAPP aims to play a critical role of providing the short-term financial needs required to quickly acquire a property, finance acquisition costs, and carry costs such as life and safety repairs and reserves. As a relatively new product, BAPP has yet to finance any projects.

Washington D.C.'s AHPF, the NYC Acquisition Fund and the BAPP demonstrate tailored local programs and the effectiveness of dedicating local resources toward preservation. **When designing a potential fund, eligibility and affordability requirements are important components to consider to target specific properties that the City wants to preserve.**

Also in California, the **Golden State Acquisition Fund (GSAF)**<sup>60</sup> has provided flexible capital for affordable housing projects throughout California since 2013. Like the D.C. AHPF and the NYC Acquisition Fund, the GSAF leverages public and private dollars. The GSAF was established through a \$23 million seed-funding investment from California Department of Housing and Community Development (HCD) and has grown to a total of \$93 million. Six CDFIs serve as originating lenders for the fund including: Century Housing Corporation, Corporation for Supportive Housing, Enterprise Community Loan Fund, Low Income

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<sup>58</sup> 'Metropolitan Transportation Commission Approves Creation of Bay Area Preservation Pilot,' Enterprise Community Partners, last modified March 19, 2018, <https://www.enterprisecommunity.org/blog/announcing-bay-area-preservation-pilot>. Metropolitan Transportation Commission, last modified June 29, 2018, [https://mtc.ca.gov/sites/default/files/TOAH%20%20BAPP\\_Brochure\\_062918%20%28004%29.pdf](https://mtc.ca.gov/sites/default/files/TOAH%20%20BAPP_Brochure_062918%20%28004%29.pdf).

<sup>59</sup> Miami-Dade County Affordable Housing Preservation Plan (Miami-Dade County: Enterprise Community Partners and Miami Homes For All, 2019), <https://www.enterprisecommunity.org/download?fid=11502&nid=8637>.

<sup>60</sup> 'Golden State Acquisition Fund,' Golden State Acquisition Fund, last modified 2020, <http://www.goldenstate-fund.com/>.

# PRESERVATION STRATEGY FRAMEWORK

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Investment Fund (Administrative Agent), Local Initiatives Support Corporation, Community Vision (formerly Northern California Community Loan Fund) and Rural Community Assistance Corporation.

The GSAF makes loans to a variety of borrowers, including nonprofit developers, for-profit developers, and cities, counties and other public agencies within California, according to the following terms and conditions:

- Maximum loan amount of \$13,950,000;
- Maximum loan term of five years;
- Eligible uses include acquisition of vacant land or existing properties for rental development;<sup>61</sup>
- 100 percent of rental units restricted to those earning at or below 60 percent of AMI or meet mixed-income rules, below;
- For mixed-income properties, a minimum of 75 percent of residential units must be developed as affordable housing to receive the full loan amount. If a property contains less than 75 percent affordable units, the project loan amount will be adjusted.

The fund acts as a top loss, committing 25 percent of financing to each deal, and has been very successful in California. Of the more than \$88 million in HCD funds, with an additional \$300 million leveraged, 38 percent of the total financing has been used for preservation projects across the state since 2013.

**Jurisdictions, through tailored eligibility criteria, are also targeting unrestricted small and mid-sized multifamily rental buildings for preservation.** As outlined earlier in this report, small and mid-sized rental buildings comprise a significant portion of affordable units in San Diego at-risk of converting to higher rents over the next 20 years. As unrestricted properties, these buildings are especially vulnerable to being purchased by investors and converted to more expensive housing. Often, preservation buyers are unable to compete with these investors, who offer a higher purchase price in anticipation of increasing rents. Unrestricted small and mid-sized rental buildings have specific needs that differ from deed-restricted properties in terms of preservation financing. By providing a product that specifically serves this need, the San Diego Affordable Housing Preservation Fund can best support the preservation of unrestricted properties.

One jurisdiction that is focused on the preservation of small and mid-sized rental buildings is San Francisco, which launched its **Small Sites Program (SSP)** in 2014 with a \$3 million seed investment to allow nonprofits to purchase unrestricted buildings before a private investor does. The nonprofit owner is required to convert acquired properties to permanent affordable housing, with a deed restriction. The program has committed \$102.5 million, with funding sourced from bonds, inclusionary housing fees, and the City's Housing Trust Fund.

To be eligible for this program, buildings must be between five and 25 units, require no major renovations, and two-thirds of existing tenants must earn at or below 80 percent of AMI. The program provides loans of \$275,000 per unit for standard residential/mixed-use buildings or \$100,000 per unit for group housing and SRO buildings. SSP awards funds on a first-come, first-served basis. In the instance where two applications are received within 30 days of each other, and funds are not available for both projects, applications will be prioritized when 1) properties are at immediate risk for Ellis Act Evictions or are located in an area with a high level of Ellis Act Evictions, 2) existing residents include vulnerable

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<sup>61</sup> Acquisition of land or properties for homeownership development is also an eligible use of the GSAF.

populations, 3) buildings house residents at the lowest incomes, or 4) the project requires the least amount of subsidy per unit.

Key to the SSP's success is targeting properties before they are available for purchase on the open market. By the time an unrestricted property is offered for sale, preservation-minded buyers often find themselves at a disadvantage. For a property to qualify for this program, developers must look for signs that a property will soon be put on the market, such as repairs or a new paint job, information from tenants that they have been asked to show their unit to inspectors or potential buyers, or an indication from an owner that he/she no longer wishes to keep the property. Residents can even nominate their building for the program. Another key to the success of SSP is a network of strong, community-based nonprofit developers with the capacity to do this type of work.

Despite the challenge of identifying properties, the program has provided more than \$95 million in loans to preserve 314 residential units and 27 commercial spaces, with another 138 residential units and 12 commercial units in the pipeline.

Modeled after San Francisco's SSP, Oakland's **Bond Measure KK**, a \$600 million dollar bond for infrastructure improvements and affordable housing, was approved by residents in 2016. Of the \$100 million dedicated to affordable housing preservation, \$16.9 million was given to the Acquisition 5+ unit program, and \$3 million was dedicated to the Acquisition and Rehabilitation Program for buildings with up to four units. The 1 – 4 unit Acquisition Program allows both nonprofit and for-profit developers to apply for loans of up to \$150,000 per unit for the rehabilitation or acquisition of small buildings, whether deed-restricted or unrestricted. If a property has an existing subsidy in place, the new property owners must ensure that all units are affordable to tenants earning at or below 60 percent of AMI. For unrestricted properties, units that become available after the date of the loan must be restricted to serve households or individuals earning at or below 60 percent of AMI until the point at which average rents in the property are affordable to those earning 80 percent or less of AMI.

Like the SSP in San Francisco, loans are provided on a first-come, first-served basis. If two eligible applications are received within the same two-week period, priority will be awarded to the property with certain characteristics, such as properties where tenants have a high risk of displacement, or where the property is currently in poor condition. The program requires a 55-year affordability term, regardless of whether the loan is repaid. The success of this program has yet to be determined, as the city only began accepting applications in January 2019.

**Figure 47: Best Practices Informing Recommendation 1**

Jurisdiction	Fund	Source	Housing Priority	Housing Type Supported
<b>Washington, D.C.</b>	Affordable Housing Preservation Fund (\$12M for FY20)	Annual City Budget, leveraged 3:1 with private investments and philanthropy	Preservation of multifamily housing; 80% AMI or below	Deed-restricted and unrestricted
<b>New York City</b>	New York City Acquisition Fund	Partnership with the City of New York, major foundations, and members of the banking industry and partner CDFIs	Acquisition of land or preservation of existing multifamily housing	Deed-restricted and unrestricted
<b>Bay Area – San Francisco</b>	Bay Area Preservation Pilot (\$10M)	Metropolitan Transportation Commission	Preservation of multifamily housing; 80% AMI or below	Deed-restricted and unrestricted
<b>California</b>	Golden State Acquisition Fund (\$93M)	California Department of Housing and Community Development and 7 partner CDFIs	Preservation and new construction	Deed-restricted
<b>San Francisco</b>	Small Sites Program (SSP) (\$102.5M allocated to date)	Multiple sources, including voter-approved bonds, inclusionary housing fees, and the City's Housing Trust Fund.	Preservation of multifamily with 5-25 units; 80% AMI or below	Unrestricted
<b>Oakland</b>	1-4 Unit Acquisition and Rehabilitation Program (\$3M)	Municipal Bond	Preservation of buildings with 1-4 units at 60% AMI for subsidized, 80% AMI for unsubsidized	Unrestricted

## **Recommendation 2. Redirect funds originally associated with the Redevelopment Agency of the City of San Diego and its dissolution to fund preservation.**

For decades, the redevelopment program authorized California’s local governments to declare specific neighborhoods as blighted and gave them the tools necessary to reinvest in them. Through tax increment financing, municipalities were able to divert future property tax revenue increases from the area declared blighted and use those funds to further invest in the neighborhood. This new revenue could be spent on road, park and transit upgrades among other efforts to spur growth, and at least 20 percent of the funds had to be set aside for affordable housing. In 2011, all of California’s Redevelopment Agencies – those collecting the tax increment funds – were dissolved. A portion of the tax increment funds, which continue to be collected, are now redirected to each jurisdiction’s general fund as “boomerang funds.”

Many California cities have since dedicated a portion of their boomerang funds specifically to fund affordable housing production and preservation, as is consistent with the original intent of the tax increment funds collected by the Redevelopment Agencies. Starting in 2015, **Oakland** sets aside 25 percent of all boomerang funds for affordable housing. The funds are directed to the Oakland Affordable Housing Trust Fund, which “increase[s], improve[s], and preserve[s] the supply of housing affordable to low

and very-low households.”<sup>62</sup> As early as 2012, **San Francisco** has dedicated 100 percent of its boomerang funds to its Affordable Housing Trust Fund. In addition to committing 20 percent of its boomerang funds for affordable housing initiatives annually, **Alameda County** also made a one-time investment of \$9.8 million into affordable housing initiatives using swept funding – money not yet committed in the low-/moderate-income housing accounts once the Redevelopment Agency was shut down. Other jurisdictions have also made one-time investments of funds remaining at the time that Redevelopment Agencies were dissolved into affordable housing: In 2012, **Fremont** devoted \$2.7 million, in addition to 20 percent of all ongoing annual boomerang funds, to affordable housing.

In San Diego, the boomerang funds are directed into the City’s general fund without any predetermined, designated use. The funds, however, are currently budgeted for city services other than affordable housing. **As San Diego commits to preservation, dedicating resources to preservation initiatives will be critical.** As discussed earlier in this report, setting up a separate fund committed exclusively to preservation is the most impactful way to direct resources toward existing properties. It follows, then, that dedicating boomerang funds to a new preservation fund as described in Recommendation 1 is the most meaningful way to ensure these dollars are used to preserve affordability.

**Figure 48: Best Practices Informing Recommendation 2**

Jurisdiction	One-time investment of swept funds into affordable housing	What portion of boomerang funds are devoted to affordable housing?
City of Oakland	n/a	25%
City and County of San Francisco	n/a	100%
Alameda County	\$9.8 million in 2014	20%
City of Fremont	\$2.7 million in 2012	20%
Los Angeles County	n/a	\$15 million per year for 2015 – 2020, for a total investment of \$89 million

In addition to the boomerang funds, other potential sources of funds related to Redevelopment Agencies can be used for preservation. As part of the dissolution of the state’s Redevelopment Agencies, Successor Agencies were established to complete the ongoing and unfinished business of the Redevelopment Agencies – managing redevelopment projects currently underway, making payments on enforceable obligations, and disposing of redevelopment assets and properties. In San Diego, these responsibilities were assigned to Civic San Diego. As part of their responsibility as a Successor Agency, Civic San Diego is currently in the process of repaying a loan made to the Redevelopment Agency by the City associated with a federal housing grant program known as the Community Development Block Grant (CDBG)<sup>63</sup>. While a portion of this loan has already been repaid, an additional \$108 million will be repaid as part of a long-term debt repayment over the next seven years. Like the boomerang funds, these resources are not currently earmarked for any specific use by the City (although unlike boomerang funds, some of the repayment funds are currently being used for affordable housing initiatives). However, all repayments from Civic San Diego to the City are

<sup>62</sup> Michael Anderson “Oakland, California Dedicates Funds to Affordable Housing Trust Fund”, Community Change, Fall 2013, <https://housingtrustfundproject.org/oakland-california-dedicates-funds-to-affordable-housing-trust-fund/>

<sup>63</sup> “The CDBG program works to ensure decent affordable housing, to provide services to the most vulnerable in our communities, and to create jobs through the expansion and retention of businesses. CDBG is an important tool for helping local governments tackle serious challenges facing their communities.” See the U.S Department of Housing and Urban Development website for more information on the CDBG program at [https://www.hud.gov/program\\_offices/comm\\_planning/communitydevelopment/programs](https://www.hud.gov/program_offices/comm_planning/communitydevelopment/programs)

associated with the CDBG federal grant program, and all repaid funds are classified as CDBG “Program Income,” thus the funds are treated by the City as program income to the San Diego CDBG program and are subject to certain federal restrictions.

**As San Diego prioritizes preservation, exploring creative sources of funds to finance the new initiative will be crucial.**

### **Recommendation 3. Implement a Short-Term Residential Occupancy (STRO) Fee with revenue dedicated to preservation.**

Since 2015, the City has discussed how best to manage the use of online short-term vacation rental platforms. Studies have shown that when there are negative impacts to neighborhoods, they arise more often from whole-home short-term rentals, compared to single rooms within a home being rented out, often with the host present in the home during this stay<sup>64</sup>.

In 2018, the San Diego City Council passed the Short-Term Rental Occupancy Ordinance<sup>65</sup>. Defining short-term occupancy as less than one month, the ordinance barred the short-term rental of second homes, but permitted the use of primary residences for short-term stays while the owner was absent for up to six months out of the year.<sup>66</sup> The intent was to curtail the use of investor-owned properties for short-term stays, most prevalent in popular coastal areas of the City, which critics say has severely limited the City’s supply of long-term rental housing. The ordinance also contained a short-term rental fee, to be paid by owners of short-term rentals, with some revenue being used to help finance enforcement of the regulation and some allocated toward the City Affordable Housing Trust Fund.

Following a campaign from online short-term rental platforms, who opposed the ordinance from the beginning, a referendum seeking to repeal the law received enough signatures to qualify for a ballot. Instead of allowing the question to go to public ballot, the City Council opted to repeal its Short-Term Rental Occupancy Ordinance. Opposition to the ordinance, however, focused on the property rights of private owners. Consensus for a short-term rental fee remains, both from City Councilmembers and the public.

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<sup>64</sup> Elyse Lowe (2018) The City of San Diego Staff Report: An Amendment to the City’s Municipal Code and Local Coastal Program to impose a license requirement and operating regulations for Short Term Residential Occupancy including hosting platforms and repeal regulations for Bed and Breakfast and Boarder Lodging, pp. 3

<sup>65</sup> San Diego City Ordinance O-20978 (2018)

<sup>66</sup> Lori Weisberg, “San Diego rescinds tough Airbnb regulations, reopening debate on how to rein in short-term rentals”, San Diego Union Tribune, 22 October 2018, <https://www.sandiegouniontribune.com/business/tourism/sd-fi-airbnb-regulations-council-20181022-story.html>

**By establishing a Short-Term Rental Fee, like that included in 2018's Short-Term Rental Occupancy Ordinance, the City can generate new resources to dedicate exclusively for preservation.**

The 2018 Ordinance included two separate fees for short-term rentals:

- The Short-Term Residential Occupancy License Fee, a \$949 annual fee paid by owners, estimated to generate \$3.5 million annually; and
- The Affordable Housing Impact Fee, a fee between \$2.73 and \$3.96 (depending on rental type) for each night that a property was rented, which was estimated to generate, on average, \$2.5 million annually.

**Together, the fees included in the 2018 Ordinance are estimated to generate \$6 million in new revenue each year.** By reintroducing and passing these fees as outlined above and in the ordinance, and dedicating the revenue exclusively for preservation, San Diego can take an important step in dedicating resources specifically toward preserving the affordability of existing rental housing.

Although the ordinance passed in 2018 directed a portion of this revenue to the San Diego Affordable Housing Trust Fund, dedicating the revenue to a separate preservation fund, like that described in Recommendation 1, ensures that the revenue generated goes toward preservation.

By reintroducing the Short-Term Rental Fee Ordinance, the City will not be the only jurisdiction working to manage the impact and widespread usage of online short-term rentals. Nor would it be the only jurisdiction to use revenue generated through these regulations specifically for affordable housing. In **Chicago**, short-term rentals are classified in the same category as hotels, and additional taxes are imposed upon them. In June 2016, the Chicago City Council passed an ordinance to impose a 4 percent surcharge on short-term rentals, with the revenue contributing to funding services for individuals experiencing homelessness. In July 2018, the Chicago City Council approved an additional 2 percent surcharge on shared housing and vacation rentals, bringing the total taxes specific to home sharing to 6 percent. The surcharge on short-term rentals is levied on top of Chicago's composite hotel tax of 17.4 percent that the City collects upon the rental or leasing of any hotel accommodations at any vacation rental or shared housing unit. This means that short-term rentals in Chicago are now charged a total tax rate of approximately 23.4 percent.<sup>67</sup> Up to 8 percent of the revenue from the surcharge is used for the City's administration and enforcement of this regulation, as needed, with the remaining revenue used to fund supportive services attached to permanent housing for families experiencing homelessness and supportive services and housing for those experiencing chronic homelessness. The 6 percent surcharge is expected to raise \$4.3 million in annual revenue.

While Massachusetts regulates short-term rentals statewide, including a mandate excise tax, many Massachusetts cities have decided to implement their own regulations. The Massachusetts state law allows communities that have adopted a local room occupancy excise tax to additionally adopt a community impact fee that does not exceed 6.5 percent of the total amount of rent for each transfer of occupancy of a professionally managed short-term rental unit that is located within the city. Examples include Boston, Dennis and Northampton. The **City of Northampton** adopted a local room occupancy excise tax in 1988. In 2019, on the advice of the Mayor, the City Council voted to adopt

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<sup>67</sup> The Civic Federation, "City of Chicago Passes Additional 2.0% Tax on Home Sharing", 27 July 2018, <https://www.civiced.org/civic-federation/blog/city-chicago-passes-additional-20-tax-home-sharing>



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the 3 percent community impact fee<sup>68</sup> and dedicated the revenue to affordable housing developments within the city. While the regulations in the Massachusetts state law mandate that at least 35 percent of a local jurisdiction’s community impact fee must be allocated toward supporting affordable housing or infrastructure. In Northampton, 100 percent of the 3 percent fee will support affordable housing projects in the city.

**Telluride, Colorado**, is another town that is choosing to supplement its local affordable housing fund by regulating short-term rentals. While a majority of the Telluride City Council voted to keep a short-term rental tax off the ballot in 2018, many residents believed that the prevalence of short-term rentals in the city was negatively impacting the housing market. This issue mobilized a number of local residents who started a citizen’s initiative and successfully collected the required number of signatures to place the initiative on the ballot for voters to decide in 2019. Inspired by a 5 percent local short-term rental tax in the neighboring town of Crested Butte, the Telluride initiative proposed a 2.5 percent excise tax on short-term rentals<sup>69</sup>, with proceeds going to the town’s affordable housing fund. As per local processes, the City Council decided to pass a resolution that placed the question of an excise tax on the ballot. Ballot Issue 300 was listed at the November 2019 elections and successfully passed, creating a new law applying the 2.5 percent additional tax for short-term rentals across the town.

**Figure 49: Best Practices Informing Recommendation 3**

Jurisdiction	Policy	Revenue Source	Use
<b>Chicago, IL</b>	Shared Housing Ordinance and Accommodations Licensing	6% surcharge tax additional to the 17.4% tax for hotel accommodations; \$10,000 license and \$60 per unit fee for an Intermediary, \$5,000-10,000 fee for a platform and \$250 for a Shared Housing Unit Operator	Funds services for the homeless
<b>Northampton, MA</b>	Room Occupancy Excise	3% community impact fee for STRs	100% of fees support affordable housing projects
<b>Telluride, CO</b>	Ballot Issue 300	2.5% excise tax for STRs	Local affordable housing fund

<sup>68</sup> City Council, 18.234 An Order to Accept M.G.L. 64G, 3D(a) to Impose Community Impact Fee on Short-Term Rentals, City of Northampton, 2019 <http://www.northamptonma.gov/AgendaCenter/ViewFile/Item/11985?fileID=120933>. Bera Denau, Northampton mayor proposes new fee for short-term housing rentals, Daily Hampshire Gazette, 12 March 2019, <https://www.gazettenet.com/City-Council-committee-to-hold-hearing-on-short-term-rental-fee-24081383>

<sup>69</sup> Suzanne Cheavans, “Voters to decide on short term rental tax” Telluride Daily Planet, August 15, 2019, [https://www.telluridenews.com/news/article\\_a2dacbea-bfb2-11e9-9826-f72d93174388.html](https://www.telluridenews.com/news/article_a2dacbea-bfb2-11e9-9826-f72d93174388.html)

## Preservation Policies

Adopting strategic and thoughtful policy solutions will help to create an environment in which a preservation program can be successful. Though preservation requires a local solution, it is a national problem. Across the country, state and local governments are developing innovative and thoughtful tools and strategies to address their own affordable housing challenges.

The following recommendations identify proven policies that have been adopted by other communities that face similar preservation challenges to those of San Diego. Each community identified presents unique challenges and opportunities, as does San Diego, and should be used as inspiration rather than considered a tool worth replicating in every detail.

### **Recommendation 4. Adopt a Preservation Ordinance to strengthen and expand the rights granted by the state Preservation Notice Law.**

California's Preservation Notice Law<sup>70</sup> is a powerful tool for preserving affordable housing throughout the state. In addition to providing the City and SDHC with advance notice of properties seeking to exit the affordable housing market, the law grants certain rights to local governments and specific potential buyers to purchase and preserve the property.<sup>71</sup> In many ways, the nuances of the California state law follow best practices from around the country, as communities have local preservation and anti-displacement laws with similar notification requirements and purchase rights. Many of these best practices, however, take slightly different approaches than the California state law to which San Diego is subject, highlighting opportunities for San Diego to strengthen and expand upon its own approach to preservation.

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<sup>70</sup> California Government Code Sections 65863.10, 65863.11, and 65863.13.

<sup>71</sup> State Notice requirements apply to any multifamily rental housing development that receives governmental assistance under any of the following programs:

- Section 8 New Construction, Substantial Rehabilitation, Moderate Rehabilitation, Property Disposition and Loan Management Set-aside programs, or any other program providing project-based assistance under Section 8 of the United States Housing Act of 1937, as amended;
- Section 221(d)(3) Below-Market-Interest-Rate Mortgage Insurance Program of the National Housing Act;
- Section 236 of the National Housing Act;
- Section 202/811 Direct Loans for Elderly and Handicapped Persons of the Housing Act of 1959;
- Section 101 Rent Supplement Programs of the Housing and Urban Development Act of 1965, as amended;
- Section 514, 515, 516, 533 and 538 of the Housing Act of 1949, as amended;
- Section 42 of the Internal Revenue Code;
- Section 142(d) of the Internal Revenue Code (tax-exempt private activity mortgage revenue bonds);
- Section 147 of the Internal Revenue Code (Section 501(c)(3) bonds);
- Title I of the Housing and Community Development Act of 1974, as amended (Community Development Block Grant program);
- Title II of the Cranston-Gonzales National Affordable Housing Act of 1990, as amended (HOME Investment Partnership Program);
- Titles IV and V of the McKinney-Vento Homeless Assistance Act of 1987, as amended, including HUD's Supportive Housing Program, Shelter Plus Care program, and surplus federal property disposition program;
- Grants and loans made by HCD, including the Rental Housing Construction Program (CHRP-R), and other rental housing finance programs;
- Chapter 1138 of the Statutes of 1987;
- Loans or grants provided using tax increment financing pursuant to the Community Redevelopment Law;
- Local housing trust funds, as referred to in paragraph (3) of subdivision (a) of Division 24 of the Health and Safety Code; and
- The granting of density bonuses, or concessions or incentives, including fee waivers, parking variances, or amendments to general plans, zoning, or redevelopment project area plans, pursuant to Chapter 4.3 9 (commencing with Section 65915).

# PRESERVATION STRATEGY FRAMEWORK

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In Massachusetts, **Chapter 40T**<sup>72</sup> (40T, An Act Preserving Publicly Assisted Affordable Housing) establishes a right of first refusal for the Commonwealth’s Department of Housing and Community Development (DHCD) or its designee to purchase publicly assisted housing<sup>73</sup> that is for sale. In the policy’s first five years, 40T preserved more than 11,000 units of affordable housing.<sup>74</sup> Massachusetts’ 40T functions similarly to California’s Preservation Notice Law by providing a right to submit an offer and if, after a certain period of time passes, the owner enters into a purchase agreement with a third-party buyer, DHCD (or its designated partner) is granted a right of first refusal and can purchase the property under the same terms and conditions as the agreement entered into between the owner and a third-party. There is one key difference, however, between 40T and California’s Preservation Notice Law: Under Chapter 40T, the intended sale of an existing affordable housing property is covered by the law. Conversely, in California, only properties with expiring restrictions or those that prepay a federally assisted mortgage, terminate mortgage insurance, or terminate rent subsidies or restrictions fall under the purview of the Preservation Notice Law. As a result, the owner of an affordable property in California who intends to sell their property is not required to give notice to the City (assuming the intended sale is not happening concurrent with any of the above triggering events). SDHC, then, is never granted the right to submit a purchase offer or a right of first refusal on deed-restricted properties in San Diego that are for sale. Similarly, because the owners affected by the state law may not intend to sell the property at all, the exercise of submitting a purchase offer on these properties, as granted by California law, may be null.

Washington, D.C. has also adopted preservation legislation that establishes a right of first refusal on for-sale multifamily rental properties. The **District Opportunity to Purchase Act** (DOPA) grants the District or its designated partner a right of first refusal<sup>75</sup> on affordable rental housing. Notably, DOPA defines affordability by rent levels and AMI, not public assistance<sup>76</sup>. This grants the District (or its designated partner) the right to purchase and preserve affordability on deed-restricted and unrestricted properties. California’s Preservation Notice Law applies only to specific deed-restricted affordable properties, meaning that neither the City nor SDHC are given any notification or rights related to the 127,600<sup>77</sup> unrestricted affordable units in the City of San Diego. Although DOPA was signed into law in 2008, enabling legislation wasn’t passed until 2018, so it is too early to show success.

Some California cities have taken the initiative to pass local preservation legislation that goes beyond the state law. In San Francisco, the **Community Opportunity to Purchase Act** (COPA) provides qualified

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<sup>72</sup> Massachusetts General Law Chapter 40T, An Act Preserving Publicly Assisted Affordable Housing.

<sup>73</sup> Chapter 40T applies to housing that is “publicly-assisted” under one or more federal or state programs covered by the statute, including project-based rental subsidies (Section 8, Rent Supplement/ RAP, and MRVP—the Massachusetts Rental Voucher Program), mortgage subsidies (Section 221(d)(3) BMR, Section 236 and the state’s Chapter 13A program), federal and state low income housing tax credits, rural development (Section 515/ 521), and Chapter 121A property tax incentives. Some examples of assistance that do not trigger 40T are tenant-based subsidies, tax-exempt bond financing, HOME, Chapter 40B zoning relief, and local affordable housing programs. (Chapter 40T at 5: A Retrospective Assessment of Massachusetts’ Expiring Use Preservation Law, CEDAC and MassHousing, <https://cedac.org/wp-content/uploads/2016/06/Chapter-40T-at-5-6.2.15-1.pdf>.)

<sup>74</sup> Chapter 40T at 5: A Retrospective Assessment of Massachusetts’ Expiring Use Preservation Law, CEDAC and MassHousing, <https://cedac.org/wp-content/uploads/2016/06/Chapter-40T-at-5-6.2.15-1.pdf>.

<sup>75</sup> The District’s right to purchase under DOPA is secondary to the tenant’s right to purchase under the Tenants Opportunity to Purchase Act (TOPA), which means that the District’s right is technically a second right of refusal.

<sup>76</sup> DOPA covers housing of more than 4 units where at least 25% of the units are affordable, including both restricted and unrestricted properties. DOPA defines an affordable unit as a rental unit for which the existing Monthly Rent and Utilities paid by the tenant is equal to or less than 30 percent of the monthly income of a household with an income of 50 percent of the Median Family Income (MFI) for the Washington Metropolitan Statistical Area (MSA), as set forth by the United States Department of Housing and Urban Development.

<sup>77</sup> The Housing Landscape identifies 140,200 San Diego properties as unrestricted.

nonprofit organizations with a right of first offer and a right of first refusal on multifamily residential buildings that are for sale. The universe of properties covered by COPA is even broader than those covered by DOPA: COPA covers all multifamily rental buildings of three or more units in the City of San Francisco, regardless of whether the property’s rents are considered affordable or not.<sup>78</sup> Passed in the summer of 2019, it is too early to tell if COPA will have meaningful and measurable impact on the affordability of housing in San Francisco.

**Strengthening and expanding the state Preservation Notice Law through a local Preservation Ordinance could create opportunities, including:**

- Requiring deed-restricted properties to notify the City of an intended sale; and
- Creating a right of first refusal for appropriate nonprofit partners on deed-restricted properties that are for sale.

Exercising the right of first refusal to preserve a property, whether it is the right already included in California’s Preservation Notice Law or one like those adopted in other jurisdictions, requires adequate resources. Without the resources available to complete the transaction, neither the City nor its designated partners will be able to purchase at-risk properties, regardless of their rights. For more on the need for preservation resources and recommendations on potential capital sources, please see the Capital Resources recommendations portion of this report.

**Figure 50: Best Practices Informing Recommendation 4**

Jurisdiction	Policy	Type of Housing Covered	Triggering Event for Exercising Right	Nature of Rights Triggered	Whose Right?
<b>California</b>	Preservation Notice Law	Deed-restricted housing	Prepaying a federally assisted mortgage, terminating mortgage insurance, and terminating rent subsidies or restrictions	Opportunity to submit a purchase offer; Right of first refusal	Qualified Entity
<b>Massachusetts (MA)</b>	Chapter 40T, An Act Preserving Publicly Assisted Affordable Housing	Deed-restricted housing	Intended sale	Right of first offer; Right of first refusal	MA DHCD or designated partner
<b>Washington, D.C. (DC)</b>	DOPA (District Opportunity to Purchase Act)	Deed-restricted and unrestricted properties	Intended sale	Right of first refusal <sup>79</sup>	DC DHCD or designated partner
<b>San Francisco</b>	COPA (Community Opportunity to Purchase Act)	Multifamily rental housing of more than 3 units	Intended sale	Right of first offer; Right of first refusal	Qualified Nonprofit

<sup>78</sup> COPA also covers vacant lots that are purchased for multifamily housing development.

<sup>79</sup> The District’s right to purchase under DOPA is secondary to the tenant’s right to purchase under the Tenants Opportunity to Purchase Act (TOPA), which means that the District’s right is technically a second right of refusal.

## **Recommendation 5. Offer incentives to owners of unrestricted properties in exchange for affordability restrictions.**

The Housing Landscape section of this report outlines the current housing stock and future trends of unsubsidized units in the City of San Diego. As of 2019, the City of San Diego has approximately 53,200 units of unrestricted housing affordable to households earning less than 50 percent of AMI. The future trend analysis projects that the number of units affordable to households earning at or below 50 percent of AMI will decrease between 2020 and 2040 by 25 percent, highlighting the need to preserve this vital type of housing.

As detailed in the Housing Landscape Analysis, average unrestricted units serving extremely and very low-income households in San Diego were built in 1965, compared those serving households earning 120 percent or more of AMI, which were built in 1995. Rents in these units are established by individual property owners based on the housing market conditions, neighborhood demand, unit quality, and other differentiating factors, and as a result, are at risk of exiting the affordable housing stock for three primary reasons:

- loss due to building obsolescence;
- loss due to market pressure; and
- adequate unit quality.

As these units continue to age, substantial capital improvements are required to maintain building quality. The relatively low rents that characterize these units as affordable, however, also mean that property owners often lack the cash-flow needed to invest in the long-term maintenance of the building. Even if an owner were to invest in building improvements, doing so would likely lead to increased rents, potentially placing the once affordable housing out of reach for renters of modest means.

### **Offering incentives to owners in exchange for affordability restrictions and building improvements can preserve affordability and increase the quality of the unrestricted stock.**

In Washington, D.C. (the District), the **Small Buildings Program** provides grants for limited systems replacement and other key repairs in exchange for a five-year affordability covenant that restricts the maximum allowable rent (varying by unit size and income level served) and establishes maximum income eligibility limits (varying by household size and income level served). To be eligible for participation in the program, owners must have an income that does not exceed 120 percent of Median Family Income<sup>80</sup> and may not own more than three rental housing properties. Properties meeting the following criteria are eligible:

- between five and 20 housing units;
- at least 75 percent occupied;
- at least 50 percent of housing units must be affordable to low- to moderate-income households who earn at or below 80 percent of the Median Family Income (MFI); and
- health hazards or unsafe living conditions that need to be addressed to improve the quality of life of residents cannot exceed \$25,000 per dwelling unit or \$200,000 per project.

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<sup>80</sup> Washington Metropolitan Statistical Area 2019 Median Family Income (MFI) was previously referred to as Area Median Income (AMI)

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Affordability restrictions remain in place even if the grant is repaid or the property is sold. To ensure compliance, building owners are required to submit tenant income certifications on an annual basis and are subject to property inspections during the five-year affordability period. If an owner does not comply with affordability restrictions or incurs additional health hazards during the affordability period, the funds must be repaid. As a local initiative run by the Preservation Unit of the District's Department of Housing and Community Development, the Small Buildings Program aims to assist owners to transition from owners of unsubsidized housing to longer-term affordable housing owners by offering a property management course that will be a requirement for future participation in the program. Importantly, the program also recognizes that some of the District's unrestricted housing stock needs repair and provides necessary financial resources to owners to ensure the property's livability.

Rather than providing new resources directly to owners, the City of Minneapolis provides owners of unrestricted housing with the financial resources needed to perform capital repairs in exchange for affordability through a tax abatement. The **4d Affordable Housing Incentive Program** allows owners of unrestricted housing to apply for a 10-year property tax discount of up to 40 percent. To be eligible, at least 20 percent of a property's rental units must be occupied by and affordable to households earning at or below 60 percent of AMI at the time of application. In exchange for the tax abatement, the owner must agree to keep a minimum of 20 percent of the units affordable to households earning at or below 60 percent of AMI for 10 years. Although 4d is an existing state property tax classification in Minnesota that has been primarily used for subsidized affordable housing built with Low Income Housing Tax Credits or similar programs, Minneapolis has extended it to owners of unrestricted housing as well, as they commit to keeping the units affordable for 10 years.

In addition to the 10-year reduction in property taxes, participants in Minneapolis' 4d Affordable Housing Incentive Program receive a grant of \$100 per affordable unit, capped at \$1,000 per property. While this funding is intended, in part, to help property owners pay for the administrative and reporting requirements of the 4d program, it also provides resources for owners to make health, safety and energy-efficiency improvements to properties. Recognizing that energy-efficiency improvements can decrease operating costs and reduce renter turnover, program participants are eligible for free or low-cost energy-efficiency and healthy-homes assessments. To cover the costs of qualified upgrades identified in the process, 4d participants are eligible to apply for a green cost share program that covers 90 percent of costs, up to \$50,000. Participating properties are also given priority when applying for the competitive solar project funding, which provides up to \$75,000 per project. Increases in property value resulting from these upgrades are excluded from property tax assessments from the remainder of the affordability period, further incentivizing owners to invest in the property as they won't incur increased taxes resulting from improvements.

By decreasing property taxes, Minneapolis is able to secure 10 years of affordability while also providing more capital to owners to invest in property upgrades. Launched in 2018 as a pilot program, the Minneapolis 4d Affordable Housing Incentive Program already has 129 properties participating, totaling 770 units of housing that, while previously unrestricted, are now committed to 10 years of affordability.<sup>81</sup>

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<sup>81</sup> William Morris, "Minneapolis reports success with 4d tax incentive", Finance & Commerce, June 13, 2019, <https://finance-commerce.com/2019/06/minneapolis-reports-success-with-4d-tax-incentive/>

**San Diego should consider providing resources to owners of unrestricted housing in exchange for a commitment of affordability. In doing so, the City could incentivize participating owners to invest in the building improvements.**

While in Washington, D.C., these resources are provided directly to owners in the form of a grant, Minneapolis increases an owner’s available capital by decreasing property taxes. As San Diego contemplates these options, it is worth noting that property owned and operated by nonprofits in California may be exempt from local property taxes through the California Welfare Exemption, as nonprofits that are qualified low-income housing providers are exempt from paying state property taxes. The exemption is a statewide law that is locally administered by the County Assessor and the State Board of Equalization (BOE). However, the California Welfare Exemption does not apply to owners of unrestricted housing, and therefore offers an opportunity for the City to provide an incentive to these owners by expanding the exemption to them. As property taxes in California are collected at the state level, any changes to property taxes will have to be formally legislated at the state level and will require a longer-term strategy for implementation.

**Figure 51: Best Practices Informing Recommendation 5**

Jurisdiction	Washington, D.C.	Minneapolis
<b>Program</b>	Small Buildings Program	4d Pilot Program
<b>Incentive</b>	Provides grants for limited systems replacement and other key repairs to eligible affordable housing owners	40 percent reduction in property taxes for owners of unsubsidized affordable properties
<b>Eligibility</b>	Eligible properties must be between five and 20 housing units, at least 75 percent occupied, at least 50 percent of housing units must be affordable to low- to moderate-income households who earn at or below 80 percent of the Median Family Income (MFI); and health hazards or unsafe living conditions that need to be addressed to improve the quality of life of residents cannot exceed \$25,000 per dwelling unit or \$200,000 per project.	At least 20 percent of a property’s rental units must be occupied by and affordable to households earning at or below 60 percent of AMI at the time of application
<b>Affordability Requirements</b>	Affordability restriction for minimum five years; minimum 50 percent of units must be affordable to households at 80 percent of AMI or below	Affordability restriction for 10 years, minimum 20 percent of units per building must be affordable to households at 60 percent of AMI or below
<b>Other</b>	Program provides the necessary financial resources to owners to ensure livable housing conditions	Participants also receive a grant of \$100 per affordable unit, capped at \$1,000 per property providing resources for owners to make health, safety and energy-efficiency improvements to properties. Increases in property value resulting from these upgrades are excluded from property tax assessments from the remainder of the affordability period, further incentivizing owners to invest in the property as they won’t incur increased taxes

## Recommendation 6. Strengthen San Diego's existing Single-Room Occupancy (SRO) Ordinance to maintain affordability.

As discussed in greater detail under the SRO Housing Inventory Study earlier in this report, SRO Hotels are an important part of the unrestricted housing inventory in San Diego. As the name implies, residents of SROs rent out a single room, often furnished with little more than a bed and a desk. The rooms typically do not include a private bathroom or kitchen. Constructed mostly during the late 19th and early 20th century to house transient workers across the country, today SROs provide one of the most flexible and low-cost forms of housing, as residents can choose to rent out a room for as little as a night or reside in an SRO long-term. Given this, SROs primarily serve extremely low-income individuals whose only other choice would be to live on the streets or in a shelter.

**Since the 1980s, market conditions in San Diego have led some owners of SRO properties to either demolish or convert the properties to more profitable uses.** Many owners have chosen to sell their properties to developers who, in turn, demolish the buildings or convert them to a different use, removing an important affordable housing resource from the market. There are limited circumstances recorded in San Diego where a long-term owner of an SRO property decides to demolish the building and/or convert it to another use themselves.<sup>82</sup> The sale of an SRO is a valuable moment during which mission-driven developers can step in to preserve and maintain affordability of this housing type.

Though San Diego does have an ordinance regulating SROs<sup>83</sup>, administered by SDHC, it does not give SDHC jurisdiction over SRO units unless an owner takes action requiring a City permit to convert the SRO units to a different use, rehabilitate the SRO, or eliminate the SRO units. This means that if an SRO property is being sold to a new owner, neither the City nor SDHC has jurisdiction to intervene to preserve the property. By strengthening the current SRO Ordinance, the City can provide an opportunity to preserve these properties at the point of sale, which is often the first sign of a future conversion.

The current SRO Ordinance requires that owners of SROs for which a certificate of occupancy was issued prior to January 1, 1990, provide a 1:1 replacement of units in the event of demolition or conversion of the property. These replacement units must be deed-restricted to serve residents earning 50 percent or below of AMI for 30 years as well as be located within the same community area plan, or at alternate sites along public transportation corridors. In lieu of providing the replacement units, owners are allowed to contribute to an SRO replacement fund. The contribution cost is equal to 50 percent of the replacement cost of the residential or transient hotel rooms that are to be converted or demolished. The funds are set aside to be used for rehabilitation or new construction of SRO rooms in

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<sup>82</sup> SROs are demolished most often when they are included as part of a larger land assemblage. For example, if a developer purchases a full city block and plans to build a high-rise building and a small percentage of this city block has an SRO hotel on it, then the incremental cost of dealing with the SRO ordinance, discussed further below, for that single parcel does not meaningfully deter the developer from demolishing the hotel and building a high-rise. SROs at the greatest risk for this type of demolition have the fewest units, are adjacent to developable land or could be vacant or condemned SROs. SROs are otherwise converted into higher-rate hotels or micro-apartments once sold to a new owner. This often happens when there are a larger number of rooms and a lack of adjacent developable land. For example, it is unlikely that a 12-story SRO will be demolished, as its improvement value is too high. Instead it will likely be repurposed as a hotel or apartments through renovation and rehabilitation, especially if located in a high-quality location.

<sup>83</sup> San Diego Single Room Occupancy Hotel Regulations: "Single Room Occupancy Units," San Diego Housing Commission, 2018, <https://www.sdhc.org/housing-opportunities/single-room-occupancy-units/>. San Diego Municipal Code O-18451. <https://docs.sandiego.gov/municode/MuniCodeChapter14/Ch14Art03Division05.pdf>



the City. Any properties that were issued a certificate of occupancy on January 1, 1990, or later, are not subject to the unit replacement requirement.<sup>84</sup>

The purpose of the SRO Ordinance is to ensure that the existing number of SRO hotel rooms are retained and that tenants of the SROs who are displaced by demolition, conversion or rehabilitation are assisted. These regulations are intended to benefit the general public by minimizing the adverse impact on the housing supply and on displaced persons, particularly those who are very low-income, elderly or disabled. However, this regulation does not give the City or SDHC any rights when a property is sold, which is frequently the first sign of a future conversion.

**By strengthening the existing SRO Ordinance, the City can provide an opportunity to preserve the property at the point of sale.**

In 2015, recognizing SROs as an essential component of the affordable housing stock and that often those who are displaced from SROs become homeless, the Chicago City Council passed the **SRO Preservation Ordinance**, providing preservation buyers priority when SROs go up for sale, mandating relocation assistance when SROs are converted, and establishing a preservation fund. Much like in San Diego, Chicago was experiencing a decline of SRO properties serving extremely low-income individuals as owners, attracted by high purchase prices, sold them to be converted to new uses or even demolished. The situation had become so severe that in 2014, the Chicago City Council passed a six-month moratorium on all SRO development until the more permanent solution was designed. Per Chicago's SRO Preservation Ordinance, owners of SRO properties are required to notify the Chicago Department of Planning and Development at least 180 days prior to the proposed sale of the property. After the formal notice, preservation buyers are given 180 days to make an offer to purchase the property and maintain it as affordable for at least 15 years. The owner is required to negotiate in good faith during this period and potential buyers who do not intend to maintain the property as affordable cannot submit an offer.

If a deal is not reached within that 180-day window, the owner has 120 days to sell to a non-preservation buyer with the requirements that the sale must close within one year. Residents displaced by a sale to an owner who is not preserving the building's affordability will receive the higher of three months' rent or \$2,000 in relocation assistance. As an alternative, building owners may opt out of the 180-day period entirely by paying a preservation fee of \$20,000 per unit along with \$10,600 in relocation assistance to each displaced renter who has lived in the building for 32 consecutive days or more.<sup>85</sup> Through the SRO Preservation Ordinance, Chicago committed to preserving at least 700 SRO units as an affordable housing resource for very low- and low-income residents between 2015 and 2018. Through a combination of both strong legal language and significant public resources, the City exceeded this goal.

**In passing the SRO Preservation Ordinance, Chicago recognized the sale of SROs as a valuable opportunity for preservation.** Given that SROs are being lost as affordable in San Diego as the result of sales to owners who in turn convert or demolish the property, passing legislation that provides preservation

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<sup>84</sup> Several SROs that were active pre-1990 have been exempt from unit replacement requirements as the owner provided the City of San Diego with a notice of intent to leave the residential rental business prior to January 1, 2004.

<sup>85</sup> Office of the Mayor City of Chicago. 2014. "City Council Approves Ordinance to Preserve Affordable Single-Room Occupancy (SRO) Housing". <https://www.chicago.gov/content/dam/city/depts/mayor/Press%20Room/Press%20Releases/2014/November/11.12.14APPSRO.pdf>

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buyers with a right of first offer would create an opportunity to purchase these vulnerable properties at the point of intended sale. To provide even stronger legal means for mission-driven developers to preserve SROs as a source of affordable housing for very low- and low-income residents in San Diego, the City may also consider granting a right of first refusal to appropriate nonprofit partners. Discussed at length in Recommendation 4, a right of first refusal would allow for preservation buyers to match the offer of a third-party buyer when an SRO property is for sale.

Chicago's success preserving SROs, however, would not have been possible without an impressive commitment of public funds. By dedicating resources, including 9 percent Low Income Housing Tax Credits, the Illinois Affordable Housing Tax Credit, federal HOME Investment Partnerships Program dollars, and more, the City of Chicago was able to provide the capital needed by preservation buyers to complete the transactions. Creating legislation without adequate funds to support the acquisition and rehabilitation of these properties will be ineffective. By requiring SRO owners to submit a notice of intended sale to the City, Chicago has created an early warning system for tracking SRO properties at risk of converting to more expensive uses.

While Chicago recognized that the point of sale of SROs is a valuable opportunity for preservation, other jurisdictions have focused on preserving the affordability of SROs for residents rather than the property. These jurisdictions, rather than targeting preservation of SROs only when an owner intends to dispose of the property through sale, conversion or demolition, instead provide rental assistance to SRO residents and work with owners to ensure that residents are not displaced. Chicago's SRO Preservation Ordinance includes an SRO Improvement and Stabilization Program that includes financial resources such as forgivable loans and rental subsidies for building owners who maintain units as affordable.

Like Chicago, San Francisco has long understood the important role that SROs play in the housing landscape of the City and to its transient working population roots. The first SRO regulations were adopted in 1981, when the City required SRO units to be rented for a minimum of seven days to keep them available for residents, rather than tourists. In 1998, the City began its **Master Lease Program**, funding nonprofit groups to master lease SRO buildings to house those who otherwise would be homeless. Owners of SRO properties rent the units to the City at market-rate prices; the City then contracts with local nonprofits to rent the units out to low-income residents at reduced rental prices. As SRO vacancy rates in San Francisco have risen to almost one in seven in 2017<sup>86</sup>, SRO owners benefit by participating in the Master Lease Program as it guarantees rental income. The San Francisco Department of Homeless and Supportive Housing oversees the program and participating nonprofits provide property management and supportive services to residents. Some buildings' Master Lease Program is partially funded through "Care Not Cash (CNC), an initiative passed by San Francisco voters in 2004 to transfer some of the City's cash assistance to persons experiencing homelessness to investments in supportive housing."<sup>87</sup> The program has served more than 4,000 individuals in more than 40 SRO hotels across the City since its inception. During

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<sup>86</sup> Joe Eskenazi, "No Vacancy for the Homeless", San Francisco Public Press, Oct 23, 2017, <https://sfpublicpress.org/news/homelessness/solutions/2017-10/no-vacancy-for-the-homeless>.  
Adam Brinklow, "SF artist slaps notices on vacant SROs to spotlight homeless", Curbed, Feb 21, 2018, <https://sf.curbed.com/2018/2/21/17036594/erik-schmitt-housing-displacement-sro>

<sup>87</sup> City and County of San Francisco, "Direct Homeless Exits Through City Programs" <https://sfgov.org/scorecards/safety-net/direct-homeless-exits-through-city-programs>

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that time, however, average rents of the SRO units has increased by 74.5 percent, with some SRO units renting for \$2,000 a month in 2019, compared to \$536 in 2013.<sup>88</sup>

Across the Bay, the City of Oakland has implemented regulations on the conversion and demolition of SROs and taken a new approach to combating resident displacement. In December 2018, the Oakland City Council adopted a new **Planning Code Chapter**, which regulates the conversion, demolition and rehabilitation of Residential Hotels – the three main causes of the reduction of the SRO hotel stock in the city. The updated Oakland Residential Hotel Moratorium essentially prohibits:

- Any action that reduces the size of an SRO unit, eliminates or reduces private or communal amenities;
- Any action that adds a kitchen to an SRO unit; and
- Conversion or demolition of an SRO unit if there is a verified case of tenant harassment or illegal eviction.<sup>89</sup>

Demolition or conversion may be allowed if equivalent replacement units are provided within two miles of the current SRO hotel, and tenants are offered enough notice and protections.

While this strict regulation has been recent, Oakland has been working to preserve its more than 2,200 SRO units<sup>90</sup> for more than a decade through its Building Bridges program.<sup>91</sup> By using the resources available to the Oakland Housing Authority (OHA), Oakland has also sought to provide rental assistance to households residing in SROs to ensure that residents are not displaced. In 2011, OHA began exploring the option of using the U.S. Department of Housing and Urban Development (HUD)'s Moving to Work (MTW) program. Specifically, OHA has experimented with a Project-Based Voucher sub-program that is “tailored to the needs of developments with SRO and studio units that serve individuals with special needs and where there is a need to preserve the housing resource.”<sup>92</sup> The Building Bridges program sets aside 150-200 Project-Based Vouchers with the intent that owners who apply for the program will be committed to providing supportive services for residents in SROs.

In 2017, OHA invited proposals from qualified owners interested in securing funding or assistance through this demonstration. Eligible housing types had to demonstrate the ability to provide service-enriched SRO units or shared or transitional housing set aside for veterans, emancipated youth or other special needs populations.<sup>93</sup> Ultimately, 289 SRO units across 15 properties secured vouchers, and through the Building Bridges program and the East Bay Asian Local Development Corporation, OHA was able to provide vouchers for residents at the Madrone Hotel and the San Pablo Hotel in 2018. The Madrone Hotel is a 32-unit SRO building that provides shelter for households earning at or below 60 percent of AMI. The San

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<sup>88</sup> Julian Mark, “Will these 25 newly renovated SRO rooms be low-income housing — or tech dorms?” Mission Local, August 14, 2019, <https://missionlocal.org/2019/08/will-these-25-newly-rennovated-sro-rooms-be-low-income-housing-or-tech-dorms/>

<sup>89</sup> Oakland City Planning Commission (2018) Staff Report <https://cao-94612.s3.amazonaws.com/documents/Item-8-for-Publication.pdf>

<sup>90</sup> Oakland Housing Authority (2019) *Making Transitions Work Annual Report* Oakland CA: Oakland Housing Authority <https://www.hud.gov/sites/dfiles/PIH/documents/OaklandFY20Plan.pdf>

<sup>91</sup> East Bay Asian Local Development Corporation (2017) “OHA Building Bridges Program: Creative Local Solutions for Oakland Communities” <https://ebalddc.org/oha-building-bridges-program-creative-local-solutions-oakland-communities/>

<sup>92</sup> Oakland Housing Authority (2010) *Making Transitions Work Annual Report* Oakland CA: Oakland Housing Authority [https://www.hud.gov/sites/documents/DOC\\_10370.PDF](https://www.hud.gov/sites/documents/DOC_10370.PDF)

<sup>93</sup> Oakland Housing Authority (2019) *Making Transitions Work Annual Report* Oakland CA: Oakland Housing Authority <https://www.hud.gov/sites/dfiles/PIH/documents/OaklandFY17Report.pdf>

# PRESERVATION STRATEGY FRAMEWORK

Pablo Hotel, with 112 SRO units, mostly serves senior residents who previously experienced homelessness, with physical disabilities, substance abuse issues or a mental health diagnosis.<sup>94</sup>

Both San Francisco and Oakland are thinking creatively about how to maintain SRO affordability by directly subsidizing residents. In addition to preserving SROs through the legal mechanisms of a right of first offer or a right of first refusal, San Diego can protect vulnerable displaced SRO residents through creative solutions to providing rental assistance.

**Figure 52: Best Practices Informing Recommendation 6**

Jurisdiction	Policy	Policy Features
<b>Chicago</b>	SRO Preservation Ordinance	<p>Provides preservation buyers priority when SROs go up for sale, mandating relocation assistance when SROs are converted, and establishing a preservation fund.</p> <ul style="list-style-type: none"> <li>• Owners are required to notify the Chicago Department of Planning and Development 180 days prior to proposed sale.</li> <li>• Preservation buyers have 180 days to make a purchase offer - keeping the property affordable for a minimum of 15 years - which must be negotiated in good faith.</li> <li>• If a deal is not reached, the owner has 120 days to sell to non-preservation buyers – the sale must close within one year.</li> <li>• Displaced residents will receive the higher of three months' rent or \$2,000 in relocation assistance.</li> <li>• Building owners may opt out of the 180-day period entirely by paying a preservation fee of \$20,000 per unit along with \$10,600 in relocation assistance to each displaced renter who has lived in the building for 32 consecutive days or more.</li> </ul>
<b>San Francisco</b>	Master Lease Program	<p>Funds nonprofit groups to master lease SRO buildings to house those who otherwise would be homeless. Owners of SRO properties rent the units to the City at market-rate prices, and the City then contracts with local nonprofits to rent the units out to low-income residents at reduced rental prices.</p>
<b>Oakland</b>	Planning Code Chapter	<p>Regulates the conversion, demolition and rehabilitation of Residential Hotels. The updated Oakland Residential Hotel Moratorium essentially prohibits:</p> <ul style="list-style-type: none"> <li>• Any action that reduces the size of an SRO unit, eliminates or reduces private or communal amenities;</li> <li>• Any action that adds that adds a kitchen to an SRO unit; and</li> <li>• Conversion or demolition of an SRO unit if there is a verified case of tenant harassment or illegal eviction.</li> </ul>

<sup>94</sup> Oakland Housing Authority (2018) *Making Transitions Work Annual Report* Oakland CA: Oakland Housing Authority <http://www.oakha.org/AboutUs/ReportsPolicies/Documents/FY%202018%20MTW%20Annual%20Report%20for%20website.pdf>

## Tenant Protections

The previous sections of this report speak to the need to preserve San Diego's existing stock of rental housing affordable to low- and moderate-income renters. While preservation can serve to stabilize historically divested neighborhoods and create opportunity and housing choice, it is also an anti-displacement tool, allowing residents to stay in their neighborhoods and communities. While the goal of the City and its partners is to preserve as many units of housing as possible, the reality is that affordable units will continue to be lost over time. In this case, it is imperative that appropriate laws are implemented to protect tenants and mitigate the impacts of displacement.

### Recommendation 7. Require relocation assistance for displaced residents.

When properties convert to higher rents, it is possible that tenants will be involuntarily displaced. Renters of lower incomes are especially vulnerable to displacement, as finding another place to live at a rent that is affordable to them can be challenging. In certain circumstances, residents of affordable units that receive federal assistance are covered by a federal law that provides them with Enhanced Vouchers, allowing residents to remain in the unit after a conversion to higher, market-rate rents. These protections, however, do not apply to all renters in all buildings. San Diego should consider requiring assistance for residents displaced by conversion to higher rents.

San Diego's SRO Ordinance, discussed in Recommendation 6 of this report, requires property owners who intend to convert or demolish an SRO Hotel to provide relocation assistance to long-term residents facing displacement. Providing this assistance is a small but critical step in providing stability to those who rely on stable housing. Providing similar relocation assistance to tenants displaced by conversion of non-SRO affordable rental housing would provide similar protections to residents of other affordable housing.

It is not uncommon for residents involuntarily displaced to receive financial assistance for relocation, though the source of and triggering events for those funds differs. In 2018, the Portland City Council adopted a **Permanent Mandatory Relocation Assistance policy** into City code, requiring landlords to pay relocation assistance to renters when certain events within the landlords' control, including rent increases, require a renter to move. The policy extends to both deed-restricted and unrestricted housing, creating protections for a wide array of renters in the City. In Seattle, a **Tenant Relocation Assistance Ordinance** provides relocation assistance to low-income renters who face displacement as a result of change of or removal of use restrictions, housing demolition, or substantial rehabilitation or alteration. In Seattle, the landlord is only responsible for 50 percent of the total assistance, while the City pays the remaining 50 percent. Applying to a more limited universe of properties, San Francisco's **Assisted Housing Preservation Ordinance**<sup>95</sup> mandates relocation assistance for residents of assisted properties who are displaced by the conversion of an affordable property to market-rate. Under this law, very low-, low- or moderate-income households who are displaced are eligible for up to \$5,250 based on a specific formula.

As these examples illustrate, jurisdictions have provided relocation assistance to various groups of tenants displaced by different events. Using the data presented in the first part of this report and on-the-ground expertise, San Diego can target the specific universe of renters to protect in the event of displacement and create a relocation assistance payment tailored to them.

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<sup>95</sup> Chapter 60 of the Administrative Code of the City and County of San Francisco. Section 60.7 establishes relocation benefits for displacement due to conversion.

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Figure 53: Best Practices Informing Recommendation 7

Jurisdiction	Policy	Eligibility	Financial Assistance	Assistance Source
<b>Portland</b>	Permanent Mandatory Relocation Assistance	The following triggering events require relocation assistance be paid: <ul style="list-style-type: none"> <li>No cause eviction; or</li> <li>A qualified landlord reason for termination; or</li> <li>A rent increase of 10 percent or more over a 12-month period; or</li> <li>A substantial change in lease terms; or</li> <li>The renter receives no option to renew their lease.</li> </ul>	<ul style="list-style-type: none"> <li>Studio or SRO: \$2,900</li> <li>1-BR: \$3,300</li> <li>2-BR: \$4,200</li> <li>3-BR or larger: \$4,500</li> </ul>	Property owner pays 100 percent of assistance directly to tenants.
<b>Seattle</b>	Tenant Relocation Assistance Ordinance	The ordinance affects owners of residential property occupied by a tenant if that tenant will have to move because of any of the following actions: demolition, substantial rehabilitation or alteration, change of use or removal of use restrictions. Only families with incomes of no more than 50 percent of the King County median income are eligible for relocation assistance.	\$3,998 per qualified renter	The property owner is responsible for paying half of the relocation assistance, \$1,999.00; the City pays the other half.
<b>San Francisco</b>	Assisted Housing Preservation Ordinance	Very low-, low- or moderate-income households displaced by the conversion of an assisted property, defined as multifamily rental housing building, or group of buildings under common ownership, composed of four or more rental units, which development has received or receives any public subsidy, including, but not limited to, a mortgage loan, a mortgage interest subsidy, mortgage insurance or a rent subsidy from a federal, state or local governmental body or agency, whose rent levels are deed-restricted so as to be affordable to very low-, low- and moderate-income households.	An amount equal to the difference between (i) the annual rent or cost of ownership required for such household to lease or rent a unit for four years, or to purchase a dwelling unit, either of which is equivalent to a replacement unit and (ii) 30 percent of the actual gross annual income of the tenant household on the prepayment date; not exceeding \$5,200.	Property owner pays 100 percent of assistance directly to tenants.

## Capacity Building

Best practices already identified in this report make clear that different cities have varied approaches to preservation. Given the varied landscapes, politics and resources of different cities, this is appropriate. However, what is also clear from examining the approaches of different cities across the country is that those cities with successful preservation results have made preservation a citywide priority. Implementing thoughtful preservation policies and tools, like those described in the preceding sections of this report, is a critical step in preserving existing housing in San Diego. **Even the strongest legal language and funds of the greatest magnitude, however, will fail to have a meaningful impact without an institutionalized commitment to preservation.**

The following recommendations will help establish an institutionalized commitment to preservation in the City by creating a dedicated role responsible for preservation activities and strengthening intra- and inter-agency collaboration. By plainly articulating the preservation goals and priorities of the City, and aligning citywide preservation priorities, the City will be able to determine how preservation fits into the City's other housing and non-housing goals. Increasing coordination and improving communication, however, requires a concerted effort and, to be successful, necessitates specific and achievable metrics. Critically, implementing a preservation successfully requires that a specific person or persons take ownership of and responsibility for these efforts. The following recommendations lay out clear tasks and actionable steps the City can take to build capacity citywide. Together, the City and its private sector and nonprofit partners can establish a framework for preservation that builds capacity and sets the stage for future preservation.

### Recommendation 8. Develop and staff the administration of a preservation program.

Implementing a preservation strategy requires commitment, coordination and a dedicated staff. Designating an individual or individuals to take responsibility for and ownership of the City's preservation engagement, coordinate preservation tactics across agencies and stakeholders, and engage in long-term strategic preservation is critical.

In Washington, D.C., the City's preservation efforts are coordinated by a **Housing Preservation Officer**, whose responsibilities include:

1. Reaching out to property owners, investors, housing advocates and others to establish relationships and gather intelligence;
2. Discussing concrete preservation options with property owners; and
3. Providing financing and technical assistance.

As the central resource for preservation in Washington, D.C., the Housing Preservation Officer is charged with both preserving existing deed-restricted housing and identifying opportunities to place unrestricted housing units under covenants or otherwise preserving their affordability.

Since the position was created in 2018, the Housing Preservation Officer has issued final regulations to implement the District Opportunity to Purchase Act (DOPA), launched the Small Buildings Program, and established the Housing Preservation Fund – all of which are profiled elsewhere in this report as preservation best practices.

In Los Angeles, responsibilities of preserving the City's affordable housing stock are under the purview of the **Affordable Housing Preservation Program (AHPP)**, which is part of the Policy and Planning Unit of the Los Angeles Housing Department (LAHD). Specifically, the AHPP was designed to preserve affordable housing in the City by enforcing notice requirements, facilitating preservation transactions, monitoring the City's affordable housing portfolio and conducting outreach to property owners, tenants and

# PRESERVATION STRATEGY FRAMEWORK

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stakeholders.<sup>96</sup> As part of these responsibilities, the AHPP is also tasked with monitoring preservation regulations and legislations to ensure that the City of Los Angeles is not only in compliance, but taking full advantage of the preservation tools already at its disposal.

In Colorado, the **Preservation Program Manager** is responsible for, among other things, coordinating the statewide Housing Preservation Network, discussed in detail in Recommendation 9. As the state's go-to resource for all preservation-related activities, the Preservation Program Manager works closely with internal staff at the Colorado Housing and Finance Authority (CHFA) to develop a long-term strategy and action plan for identifying, prioritizing, and preserving critical affordable housing units. Specific responsibilities of the Preservation Program Manager include:

1. Community Engagement and Outreach
  - a. Establish and foster relationships with key affordable housing stakeholders, including for-profit and nonprofit developers, public housing authorities, municipal housing agencies and funding providers.
  - b. Develop and maintain contacts in the affordable housing community by attending community events and other functions to increase CHFA's presence and visibility in the communities they serve.
  - c. Work in collaboration with the preservation working group to develop a statewide preservation strategy and action plan, including setting short-term and longer-term preservation goals.
  - d. Assess affordable housing needs in areas throughout the state and use the information as the basis for development of goals and priorities that support the preservation strategy.
  - e. Conduct regular outreach to owners of prioritized "at-risk" properties to ensure a strong working relationship that will allow for discussing of preservation opportunities with the appropriate partners.
  - f. In partnership with others, develop a regional stakeholder advisory committee and ensure consistent communication on preservation activities.
2. Program Management and Analysis
  - a. Work closely with CHFA staff and members of the Preservation Working Group to establish a comprehensive and updated inventory of affordable rental units, including unsubsidized market rate "affordable" units.
  - b. Routinely monitor, analyze and update the inventory of affordable multifamily rental units statewide and prioritize "at-risk" properties on an annual basis.
  - c. Develop a strategy for preserving individual at-risk properties, including identifying developer/owners for properties when sales or transfers take place.
  - d. Identify financing and subsidy sources for individual preservation transactions.
  - e. Develop program impact and outcomes strategy, including metrics.<sup>97</sup>

By creating a specific position and/or program to coordinate, strategize and implement a preservation strategy in San Diego, the City can ensure that preservation of affordable housing remains a priority and steadfast commitment that will have meaningful long-term results. Tasked with engaging with property owners regarding at-risk properties, maintaining the internal database that tracks the affordability of units across the

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<sup>96</sup> Los Angeles Housing and Community Investment Department, *Affordable Housing and Preservation Program Brochure*, last modified 2020. <https://hcidla.lacity.org/affordable-housing-and-preservation-program-brochure>.

<sup>97</sup> CHFA 'Preservation Program Manager' Colorado Housing Finance Agency, *DreamHire.io*, accessed February 1, 2020. <https://www.dreamhire.io/jobs/chfa/preservation-program-manager>



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City, and interpreting new or proposed federal and state legislation and policies related to affordable housing preservation, this individual or individuals will help the City achieve its preservation goals.

**Figure 54: Best Practices Informing Recommendation 8**

Jurisdiction	Who is responsible for preservation activities?	Where is this position/program housed?
Washington, D.C.	Housing Preservation Officer	D.C. Department of Housing and Community Development
Colorado	Preservation Program Manager	Colorado Housing and Finance Authority
Los Angeles, CA	Affordable Housing Preservation Program	Los Angeles Housing Department Policy and Planning Unit

## Recommendation 9: Create an interagency preservation working group.

The common thread among communities with successful preservation initiatives is a formalized convening of stakeholders with the express purpose of facilitating the preservation of existing rental housing. In San Diego, preservation is not the responsibility of a single agency, but instead is within the purview of multiple public agencies and departments. Creating an interagency preservation working group can increase communication and strengthen the City’s commitment to preservation. By developing this framework, the organizational commitment to preservation will outlive any changes in departmental staffing or political leadership.

An interagency preservation working group serves three main functions:

- First, the working group acts as a formalized communication tool to share information and build consensus among public agencies;
- Second, the working group allows agencies to align their respective preservation goals to create a preservation strategy that is easily communicated to stakeholders outside the public sector, including developers, advocates and the legal aid community; and
- Third, because of functions one and two, the working group increases the capacity of public actors to fund and monitor the existing stock of deed-restricted and unrestricted housing within the City of San Diego.

Inaugural members of the interagency preservation working group should consist of public entities in the City whose responsibilities include the production and preservation of affordable housing as well as those working to preserve housing affordability in San Diego through both state and federal initiatives. Senior staff and/or key decision makers from the following offices should form and serve as the inaugural members of the interagency preservation working group:

- City of San Diego Housing Liaison
- City of San Diego Planning Department
- City of San Diego Development Services Department
- City of San Diego Economic Development Department
- San Diego Housing Commission
- County of San Diego Housing and Community Development Services
- California Department of Housing and Community Development
- Local HUD field office

Consistent participation is critical. The same individuals should represent their respective agency/department at each convening. Along with consistent participation, other tasks will be required, including creating an agenda, providing updates to members, and taking responsibility for implementing the strategy informed by the working group. These roles are naturally under the purview of the position

discussed in Recommendation 8. It is critical that whoever assumes the responsibilities outlined in that recommendation also be responsible for convening and managing the working group.

The **Colorado Housing Preservation Network**, facilitated by the Colorado Housing and Finance Authority, convenes a special subcommittee of government agencies to align strategies for at-risk properties. Formed in 2016, the Colorado Housing Preservation Network combines the expertise and resources of local governments, state organizations, federal agencies and the nonprofit sector to preserve the state's affordable rental housing stock. In addition to elevating preservation as a priority throughout the state, the Colorado Housing Preservation Network is viewed as a first stop for preservation questions, projects and initiatives. In the network's first year, almost 5,000 affordable rental apartments in 65 properties were preserved by member organizations and government agencies through an unprecedented level of collaboration, engagement and cooperation.<sup>98</sup>

In Cook County, Illinois, the Preservation Compact convenes **the Interagency Council** composed of leaders from Cook County, the City of Chicago, the Chicago Housing Authority, the HUD regional office, and the Illinois Housing Development Authority to streamline and consolidate documents and processes for preserving deed-restricted affordable housing. Housed at the Community Investment Corporation (CIC), the Chicago area's leading lender for the acquisition, rehabilitation and preservation of affordable rental housing, the Preservation Compact uses data to identify at-risk properties, receives real-time information from tenant and community groups, brainstorms preservation strategies, and reaches out to owners about available resources and options to preserve properties. During the first 10 years of the Preservation Compact's existence, coordinating with the Interagency Council led to the preservation of 50 government-assisted properties with 5,000 affordable rental units.<sup>99</sup>

Chicago and Colorado are only two examples of how interagency collaboratives are successfully preserving affordable rental housing. The table below shows how communities across the country rely on the strength of an interagency convening to advance preservation.

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<sup>98</sup> Colorado Housing and Finance Authority's Entry Form for NCSHA's 2017 Annual Awards for Program Excellence.

<sup>99</sup> 2017 *Preservation Compact Biannual Report*. The Preservation Compact. Chicago, IL. 2017.

Figure 55: Best Practices Informing Recommendation 9

Jurisdiction	Colorado	Cook County, IL	Massachusetts	Portland, OR	Washington, D.C.
<b>Network</b>	Colorado Housing Preservation Network	Preservation Compact	Interagency Working Group (IWG)	Oregon Housing Preservation Project (OHPP)	D.C. Preservation Network (DCPN)
<b>Convener Type</b>	State HFA	CDFI	Nonprofit	Nonprofit/CDFI	Nonprofit
<b>Convener</b>	Colorado Housing and Finance Authority (CHFA)	Community Investment Corporation (CIC)	Community Economic Development Assistance Corporation (CEDAC)	Network for Oregon Affordable Housing	Coalition for Nonprofit Housing and Economic Development (CNHED) and Urban Institute's Greater DC initiative
<b>Public Partners</b>	CHFA, Colorado Department of Local Affairs – Division of Housing (DOLA-DOH), HUD, USDA, local governments such as City and County of Denver, Adams County, City of Colorado Springs, City of Golden, and local housing authorities	City of Chicago, the Chicago Housing Authority, the HUD regional office, and the Illinois Housing Development Authority	HUD, Massachusetts Department of Housing and Community Development, the City of Boston, and other public and quasi-public agencies involved in preservation	Oregon Housing and Community Services, Portland Housing Bureau, HUD's Portland Office	HUD, D.C. HFA, D.C. Department of Housing and Community Development, D.C. Housing Authority, D.C. Office of the Tenant Advocate

In an effort to provide structure to the working group and inform an initial agenda, the following section outlines the initial tasks for the interagency working group:

1. Develop a preservation priority matrix;
2. Set strategic goals; and
3. Engage owners and develop scope of intervention.

### Task 1: Develop a Preservation Priority Matrix.

The first step of any effective preservation strategy is an agreed upon definition of preservation and what properties are at risk. The first section of this report lays out in detail the existing stock of deed-restricted and unrestricted housing. The next step is articulating where, within the existing stock, public partners want to focus their efforts and resources. Given the rapid transformation of some San Diego neighborhoods, the working group may want to consider prioritizing housing affordability by geographic areas where low-income renters are most at risk of being displaced. Or recognizing the limited availability of resources, the working group may want to consider the cost of preservation per unit. It is likely that, in developing a preservation priority matrix, the interagency working group will have to weigh competing policy interests. Whatever the working group decides to prioritize, developing a preservation priority matrix serves two purposes:

1. It is a process through which the members of the interagency working group can define and align priorities; and
2. It is a tool that can be used to articulate funding priorities to outside partners.

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The members of the interagency preservation working group should jointly create a matrix that reflects the priorities of each agency while also aligning those priorities within the agencies. Information from the property database described in the first section of this report, as well as a variety of other data and San Diego-specific knowledge held by the working group’s members, is critical to developing these priorities.

In Massachusetts, a three-tier “**Prioritization Matrix for Preservation Projects**” considers the following factors<sup>100</sup>:

- *Risk of Loss to Market Conversion*, which includes an evaluation of regulatory issues, marketability of project, and conversion costs, among other data;
- *Risk of Loss due to Physical Condition*, which includes an analysis of the year in which the facility was built, the number of years since the last rehabilitation, annual replacement reserve contribution, and total reserves balance;
- *Risk of Loss due to Financial Viability*, which considers property factors such as vacancy, municipal liens, sponsor financial condition, and property management quality; and
- *Unique Acquisition Opportunity*, which considers the availability of non-state resources to take advantage of the opportunity.

**Figure 56: Massachusetts’ 2020 Prioritization Matrix for Preservation Projects**

		TIER 1	TIER 2	TIER 3
ELIGIBILITY CATEGORY	I. <b>Risk of Loss to Market Conversion<sup>1</sup></b> in Next 5 Years  Ability to Increase Rents Substantially Through Conversion to Market Housing.	Strong rental market with no legal impediments to conversion to market rate.	Market is strong enough for potential conversion to market. No legal impediments to conversion to market rate.	Weak market, legal restrictions or inability of project to compete for market rate tenants.
	II. <b>Risk of Loss Due to Physical Condition<sup>2</sup></b>	Probable loss of the property in the next 2-4 years due to condemnation or government action. Significant code and safety issues.	Significant code and safety issues that present a risk to tenants and/or threaten the long-term viability of the property.	Extensive capital needs
	III. <b>Risk of Loss Due to Financial Viability<sup>3</sup></b>  Analysis based on 3 years of financials.	Lender has declared or threatened to declare a default due to a payment default by the current owner.	Property income is insufficient to pay debt service and basic operating expenses plus required reserve deposits, requiring contributions from other sources.	Property is financially troubled, but able to maintain loan payments and basic operating expenses plus required reserve deposits.
	IV. <b>Unique Acquisition Opportunity<sup>4</sup></b>	Unique opportunity to purchase a project at a below-market price due to seller motivations, or opportunity as 40T designee.	Sale price based on present value of reduced income stream – value will increase as expiration date approaches.	Property for sale – no particular economic benefit to purchase at this moment.

**Source:** Massachusetts LIHTC 2020-2021 Qualified Allocation Plan. Page 28.

The Massachusetts model, importantly, is not a static document. Creating the matrix is an iterative process that accounts for changing priorities on an annual basis. The process of creating and updating the matrix annually encourages a continued commitment to cross-agency collaboration and establishes a formalized tool to clarify and disseminate evolving goals and priorities. The 2016 version of Massachusetts’ “Prioritization Matrix for Preservation Projects” included 12 factors (risk of loss to market conversion, risk of loss due to physical condition, risk of loss due to financial viability, market condition opportunity, timing of risk, whether or not the property contains family units, whether or not the property included Section 8 assistance, availability of units serving extremely low-income renters at the building, risk of tenant

<sup>100</sup> Massachusetts LIHTC 2020-2021 Qualified Allocation Plan. pp. 28.

displacement, the percentage of affordable housing in the municipality, the scale of the property [number of units], and the investment opportunity<sup>101</sup>) before being streamlined to the matrix shown above.

The Colorado Housing Preservation Network has since followed Massachusetts' lead by creating their own three-tiered preservation matrix that considers physical condition, financial viability, the history of public investment in the property, percent of high priority populations served (e.g., extremely low-income, family, senior, etc.), and size of the property. Additionally, the Colorado matrix considers the following "opportunity factors:" 1) access to opportunity, defined as being in an area with a relatively low concentration of poverty and with access to jobs, health care, high-performing schools, higher education, retail and commercial enterprise; 2) estimated cost per bedroom to acquire and rehabilitate the property; and 3) the sustainability of affordability, which considers whether the property will be owned by a mission-driven organization willing to commit to longer-term affordability.

While the models developed by both Massachusetts and Colorado consider only the preservation of deed-restricted affordable housing, the San Diego interagency preservation working group may want to focus on preserving both deed-restricted and unrestricted units. The process of creating the matrix will be just as valuable to the working group as the matrix itself, and it is imperative that working group members use the opportunity to discuss, define and weigh potentially competing factors to determine preservation priorities.

## **Task 2. Set Strategic Goals.**

Setting specific, tangible goals, however, will help focus the working group's efforts and strategically leverage finite resources. By using the data presented in the first section of this report and the preservation matrix that will have been created in Task 1, the working group will have a clear sense of its own priorities and the resources needed to preserve them. Using these tools together, the working group can identify the preservation projects most in need of scarce public funding to advance the City's goals. By setting realistic, tangible preservation goals, the working group can focus funding on the highest-need cases, making sure public dollars are used efficiently and appropriately.

Moreover, setting specific goals will help the working group communicate progress with both its partners and the public. The data analysis presented in the first section of this report identifies 4,200 units of deed-restricted affordable housing at risk of being lost between 2020 and 2040. It also identifies 25,450 units of unrestricted units at risk of converting to more expensive housing between 2020 and 2040. Together, these 29,650 units may seem daunting. San Diego's preservation activity would be enhanced by setting specific, realistic preservation goals.

In Portland, Oregon, the City spearheaded a campaign around preserving the City's affordable housing stock. Launched in 2008, Portland's 11x13 campaign identified 11 at-risk properties, consisting of 717 units, and established the goal of preserving them all by 2013. The City partnered with HUD, the State of Oregon, the Network for Oregon Affordable Housing, local nonprofits and private funders. In the spring of 2013, the City announced that it had successfully preserved each of the 11 buildings, securing 60 years of affordability for more than 700 homes located in Portland's vibrant and desirable neighborhoods.<sup>102</sup> The 11x13 initiative benefitted from setting clear, tangible goals. By targeting 11 individual properties, the City of Portland was able to focus resources on preserving them and strategically leverage their resources to do so. The 11x13 campaign was funded by local, private and federal sources. For every

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<sup>101</sup> Massachusetts LIHTC 2016 Qualified Allocation Plan. pp. 118 – 119.

<sup>102</sup> Portland Housing Bureau, 11x13 Housing Preservation Campaign.

dollar the City invested, \$4 in private funds and \$5 in federal funds were leveraged. The City invested \$22 million in Community Development Block Grant funds, Section 108 loans, and local urban renewal dollars. This leveraged \$110 million in private investments and more than \$120 million in federal assistance over the next 20 years.<sup>103</sup>

### **Task 3: Engage Owners and Develop a Scope of Intervention.**

In addition to the robust database described in the first section of this report, San Diego is fortunate to have much of this information available by virtue of the California state Preservation Notice Law<sup>104</sup>, which requires owners of specified federally assisted projects to provide notice when they intend to take action to terminate the property's affordability restrictions.<sup>105</sup> Preserving properties – both those providing notice according to the state Preservation Notice Law and those identified as at risk by the new database – is essential to the health of San Diego's affordable housing stock, and the interagency working group should prioritize engaging these owners so that as many units as possible can be saved.

SDHC is already in the process of developing a formalized response to receiving notices in accordance with the state Preservation Notice Law by engaging with owners and presenting them with preservation options. As affected public agencies recognized by the California Department of Housing & Community Development, the other members of the interagency preservation working group may have already developed internal processes for handling the receipt of these notices as well.

At a minimum, the members of the interagency working group should reach out to owners of at-risk housing to understand their intent and motivations, as well as the building's capital needs. Importantly, the City should also seek to understand whether the owner is potentially interested in selling the building, in which case the City should begin to identify an appropriate preservation buyer. Both the Preservation Compact in Cook County and the Colorado Housing Preservation Network, discussed earlier in this recommendation, have had great success preserving properties by communicating with owners, identifying available resources to preserve the property, or in the event that a sale is feasible, connecting properties and preservation buyers.

A thoughtful, strategic approach to this internal process and external engagement is a critical part of future preservation efforts. By working together to establish a process for engaging with owners of properties submitting notice and those identified as at risk by the property database, the interagency preservation working group can take a proactive approach to preservation.

### **Recommendation 10. Create a Preservation Collaborative Composed of Non-governmental Preservation Stakeholders.**

Preserving San Diego's housing stock requires partnering with private stakeholders, including affordable housing owners, for-profit and nonprofit real estate developers, housing advocates and tenants' rights groups. The institutional commitment to preservation developed by the interagency preservation working group needs to be supplemented by an equal commitment to preservation outside of the government. The nongovernmental

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<sup>103</sup> Portland Housing Bureau, 11x13 Housing Preservation Campaign.

<sup>104</sup> California Government Code Sections 65863.10, 65863.11, and 65863.13.

<sup>105</sup> This law, and the other aspects of it, are discussed in Recommendation 4.

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preservation collaborative recommended here will achieve many of the same functions as the interagency working group, including building capacity, aligning strategies and communicating effectively, but serves to translate these benefits into the private sector while also facilitating public-private partnerships.

All the preservation networks identified in Recommendation 9 collaborate with non-governmental preservation stakeholders, either as equal members of the preservation network itself or in the form of a companion network. In addition to the Interagency Council, the Preservation Compact in Cook County, Illinois, consists of owners, developers and housing advocates. The successes of the Interagency Council cited earlier in this report would not have been possible without collaborating with non-governmental players within the Preservation Compact. Likewise, the Colorado Housing Preservation Network, the Oregon Housing Preservation Project, and the D.C. Preservation Network include private and nonprofit sector stakeholders. The preservation network facilitated by CEDAC in Massachusetts convenes both an Interagency Working Group (IWG), which is made up exclusively of government partners, and the Preservation Advisory Committee (PAC), which includes both public, private, and nonprofit partners.

The most efficient and successful approach for San Diego is to first convene the interagency preservation working group, as described in Recommendation 8, and create the preservation priority matrix, outlined in Task 1 of that same recommendation. Once completed, the government partners will be well-positioned to communicate their priorities and goals to outside partners, making it the opportune time to invite non-governmental preservation stakeholders to join the conversation. The public-private preservation collaboratives in Recommendation 9 regularly connect at-risk properties with potential preservation buyers.

The table below describes the various nonprofit and private sector partners who the City may consider engaging in the collaborative. San Diego is fortunate to be served by the San Diego Housing Federation (SDHF), a nonprofit organization whose members represent a diverse community of organizations that build, finance and support the creation and preservation of affordable homes in the San Diego region. The City should consider working in partnership with SDHF as it implements this recommendation for insights into potential partners and to avoid duplicating existing efforts.

**Figure 57: Private and Nonprofit Stakeholders in Preservation**

Stakeholder Group	Role in Preservation
<b>Nonprofit and for-profit real estate developers</b>	<ul style="list-style-type: none"> <li>Acquire properties or obtain site control</li> <li>Assemble preservation financing</li> <li>Oversee rehab</li> <li>Own and manage property or turn property over to owner</li> </ul>
<b>Owners</b>	<ul style="list-style-type: none"> <li>Own and manage property</li> </ul>
<b>Funders</b>	<ul style="list-style-type: none"> <li>Finance acquisition, rehabilitation, recapitalization, and other capital needs for the property</li> </ul>
<b>Housing Advocates</b>	<ul style="list-style-type: none"> <li>Provide expertise on policy</li> <li>Engage with elected officials on housing issues</li> <li>Raise potential threats to affordable housing</li> </ul>
<b>Tenant Rights Organizations</b>	<ul style="list-style-type: none"> <li>Advocate for tenant protections</li> <li>Raise potential threats to affordable housing</li> <li>Inform policy around affordable housing</li> </ul>

# APPENDIX A: FINANCIAL ASSUMPTIONS

## Appendix - Financial Assumptions

Typology 1970s 6-unit

### Findings - Simulation

Uses (TDC)			Per Unit	Sources			Per Unit
Acquisition	57%		\$275,705	Senior Debt	34%		\$163,017
Hard Costs	26%		\$126,074	LIHTC Equity	37%		\$177,759
Soft Costs	8%		\$37,482	Gap / Other Sources	30%		\$143,962
Developer Fee	9%		\$45,476				
<b>Total</b>			<b>\$484,738</b>	<b>Total</b>			<b>\$484,738</b>

### Assumptions

Program		Minimum	Mode	Max	Distribution Type
Units			6		Value
Average size per unit		750 SF	850 SF	1,200 SF	Triangular
Net to gross		70%	80%	87%	Triangular
Maximum Rent		Minimum	Mode	Max	Distribution Type
Studio	0 units		\$1,123		Value
1-BR	1 units		\$1,203		Value
2-BR	3 units		\$1,444		Value
3-BR	2 units		\$1,669		Value
Stabilized Year NOI		Minimum	Mode	Max	Distribution Type
Vacancy		4%	5%	6%	Triangular
Operating Expenses		26%	30%	34%	Triangular
Uses		Minimum	Mode	Max	Distribution Type
Acquisition		\$233,410 /unit	\$284,151 /unit	\$310,455 /unit	Triangular
Hard Costs		\$80 /SF	\$100 /SF	\$110 /SF	Triangular
Soft Costs		\$20 /SF	\$25 /SF	\$39 /SF	Triangular
Developer Fee		9%	10%	12%	Triangular
Contingency		9%	10%	11%	Triangular
Debt Sizing		Minimum	Mode	Max	Distribution Type
Rate		4.10%	4.50%	4.70%	Triangular
Term			30 years		Value
Cap Rate			4.60%		Value
DSCF			1.20		Value
Max LTV			80%		Value
Max LTC			80%		Value
LIHTC Sizing (4%)		Minimum	Mode	Max	Distribution Type
4% Floating Rate			3.32%		Value
LIHTC pricing per credit			\$0.96		Value
Upfront pay			30%		Value
Basis Boost			130%		Value



# APPENDIX A: FINANCIAL ASSUMPTIONS

## Appendix - Financial Assumptions

Typology 1970s 18-unit

### Findings - Simulation

Uses (TDC)			Per Unit	Sources			Per Unit
Acquisition	57%		\$269,357	Senior Debt	29%		\$134,610
Hard Costs	26%		\$122,383	LIHTC Equity	37%		\$172,510
Soft Costs	7%		\$35,062	Gap / Other Sources	35%		\$163,638
Developer Fee	9%		\$43,956				
<b>Total</b>			<b>\$470,757</b>	<b>Total</b>			<b>\$470,757</b>

### Assumptions

Program		Minimum	Mode	Max	Distribution Type
Units			18		Value
Average size per unit		775 SF	850 SF	1,100 SF	Triangular
Net to gross		75%	82%	87%	Triangular
Maximum Rent		Minimum	Mode	Max	Distribution Type
Studio	0 units		\$1,123		Value
1-BR	1 units		\$1,203		Value
2-BR	3 units		\$1,444		Value
3-BR	2 units		\$1,669		Value
Stabilized Year NOI		Minimum	Mode	Max	Distribution Type
Vacancy		4%	5%	6%	Triangular
Operating Expenses		28%	32%	34%	Triangular
Uses		Minimum	Mode	Max	Distribution Type
Acquisition		\$210,771 /unit	\$288,053 /unit	\$310,480 /unit	Triangular
Hard Costs		\$85 /SF	\$95 /SF	\$115 /SF	Triangular
Soft Costs		\$20 /SF	\$25 /SF	\$39 /SF	Triangular
Developer Fee		9%	10%	12%	Triangular
Contingency		9%	10%	11%	Triangular
Debt Sizing		Minimum	Mode	Max	Distribution Type
Rate		4.10%	4.50%	4.70%	Triangular
Term			30 years		Value
Cap Rate			4.20%		Value
DSCF			1.40		Value
Max LTV			80%		Value
Max LTC			80%		Value
LIHTC Sizing (4%)		Minimum	Mode	Max	Distribution Type
4% Floating Rate			3.32%		Value
LIHTC pricing per credit			\$0.96		Value
Upfront pay			30%		Value
Basis Boost			130%		Value

# APPENDIX A: FINANCIAL ASSUMPTIONS

## Appendix - Financial Assumptions

Typology 2000s 250-unit

### Findings - Simulation

Uses (TDC)			Per Unit	Sources			Per Unit
Acquisition	78%		\$332,750	Senior Debt	33%		\$138,851
Hard Costs	11%		\$44,816	LIHTC Equity	36%		\$153,432
Soft Costs	2%		\$10,230	Gap / Other Sources	31%		\$132,943
Developer Fee	9%		\$37,431				
<b>Total</b>			<b>\$425,226</b>	<b>Total</b>			<b>\$425,226</b>

### Assumptions

Program		Minimum	Mode	Max	Distribution Type
Units			250		Value
Average size per unit		775 SF	850 SF	1,100 SF	Triangular
Net to gross		81%	82%	87%	Triangular
Maximum Rent		Minimum	Mode	Max	Distribution Type
Studio	0 units		\$1,123		Value
1-BR	1 units		\$1,203		Value
2-BR	3 units		\$1,444		Value
3-BR	2 units		\$1,669		Value
Stabilized Year NOI		Minimum	Mode	Max	Distribution Type
Vacancy		4%	5%	6%	Triangular
Operating Expenses		28%	31%	32%	Triangular
Uses		Minimum	Mode	Max	Distribution Type
Acquisition		\$290,664 /unit	\$338,382 /unit	\$374,115 /unit	Triangular
Hard Costs		\$28 /SF	\$40 /SF	\$50 /SF	Triangular
Soft Costs		\$0 /SF	\$18 /SF	\$0 /SF	Triangular
Developer Fee		7%	10%	12%	Triangular
Contingency		9%	10%	11%	Triangular
Debt Sizing		Minimum	Mode	Max	Distribution Type
Rate		4.10%	4.40%	4.60%	Triangular
Term			30 years		Value
Cap Rate			4.20%		Value
DSCF			1.40		Value
Max LTV			80%		Value
Max LTC			80%		Value
LIHTC Sizing (4%)		Minimum	Mode	Max	Distribution Type
4% Floating Rate			3.32%		Value
LIHTC pricing per credit			\$0.96		Value
Upfront pay			30%		Value
Basis Boost			130%		Value

# APPENDIX B: DETAILED TYPOLOGY ANALYSIS

## Typology 1: 1970s – 1980s 5 – 9-unit buildings / Huffman Six-Packs

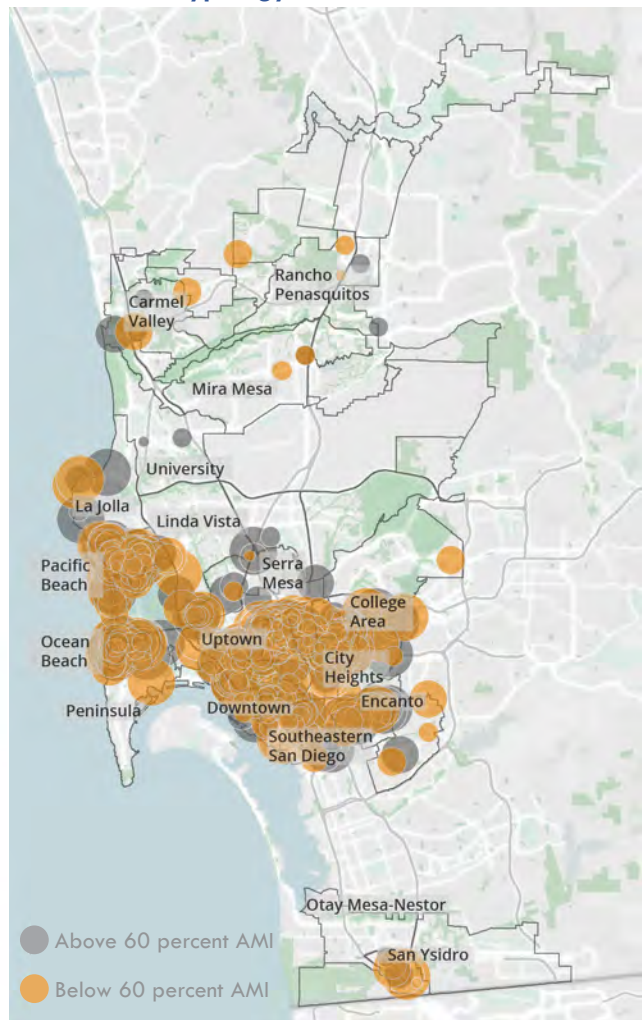
In the 1970s and 1980s many infill six-unit buildings were built across the City. Many of these are commonly referred to as “Huffman Six-Packs,” after original developer in the late 1970s. They were meant as a quick solution to densify single-family neighborhoods, by building multiunit dwelling on lots already zoned to accommodate higher densities. Ray L. Huffman Construction Company built over 700 such buildings, with other developers emulating their model to construct more. They were affordable to begin with, mostly due to their low-quality construction, and their affordability has been preserved over the years due to their deteriorating quality. Like their midsize peers, they are concentrated in North Park and City Heights, as well as concentrations in Pacific Beach and Ocean Beach.



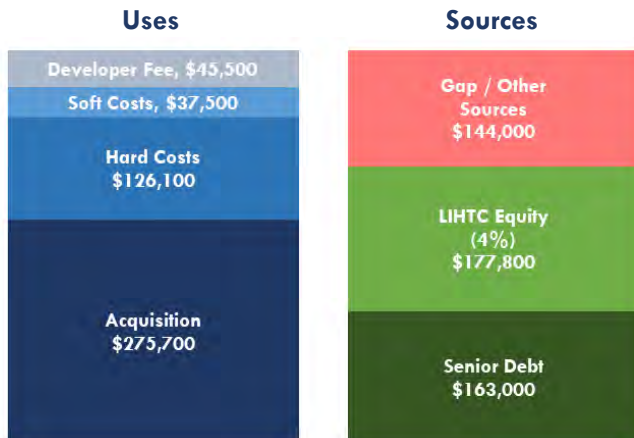
Source: Planetizen, 2009

In the coming decades, the affordability of over 2,350 units is expected to be lost, most likely as the result of a combination of obsolescence, efforts to increase density especially along transit corridors, and an already-existing practice of condominium conversions.

### Geographic Distribution of Affordable and Market-Rate Units for Typology 1



<b>Total Development Cost</b>	<b>\$484,700 /unit</b>
Acquisition Est.	\$275,700 /unit
Rehab Est.	\$207,000 /unit
Potential Financing Gap	<b>\$144,000 /unit</b>
<b>Current Unit Estimate (2020)</b>	<b>12,550 units</b>
<b>Projected Loss (2020 - 2040)</b>	<b>2,350 units</b>
	<b>(19% loss)</b>
<b>Total additional financing required to preserve all units</b>	<b>\$358 million</b>



# APPENDIX B: DETAILED TYPOLOGY ANALYSIS

## Typology 2: 1970s – 1980s Midsize Apartment Buildings

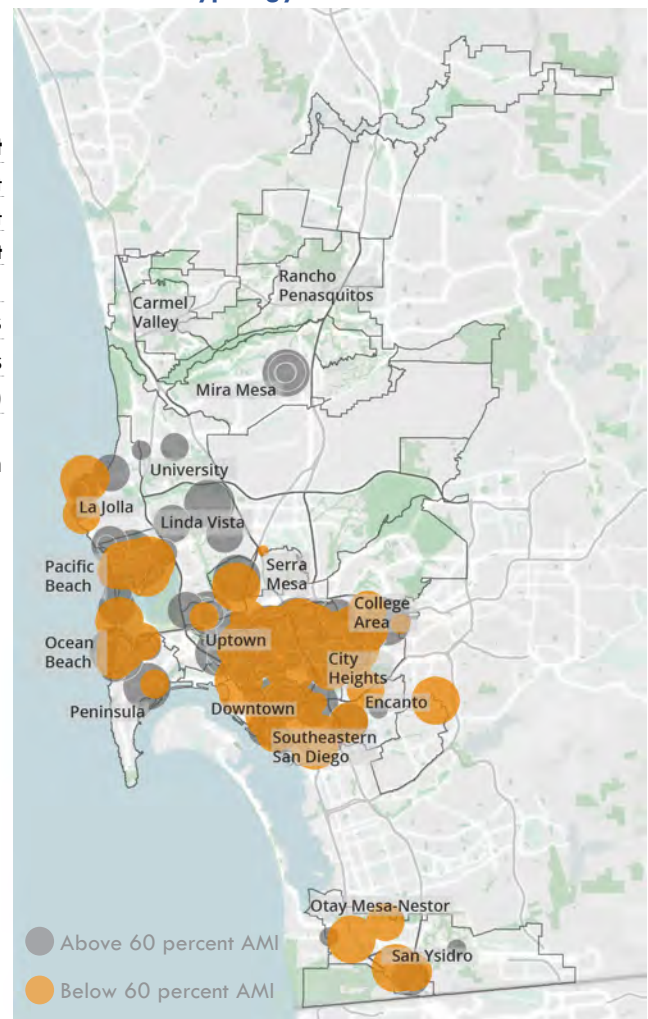
A large portion of this stock consists of 10-19-unit apartments. They were constructed to increase density in lower-income neighborhoods with single-family houses. Now, although they are a significant source of affordable units, their affordability is primarily driven by their low quality that has been steadily decreasing over the years. They are concentrated in Mid-City (Hillcrest, North Park, University Heights, City Heights, among others) and, to a lesser degree, in Pacific Beach and Ocean Beach.

The affordability of approximately 5,300 units in this typology is expected to be lost until 2040, the greatest loss across all typologies, due to reasons such as denser new development especially along transit corridors, and obsolescence.



Source: Multifamily Executive, 2019

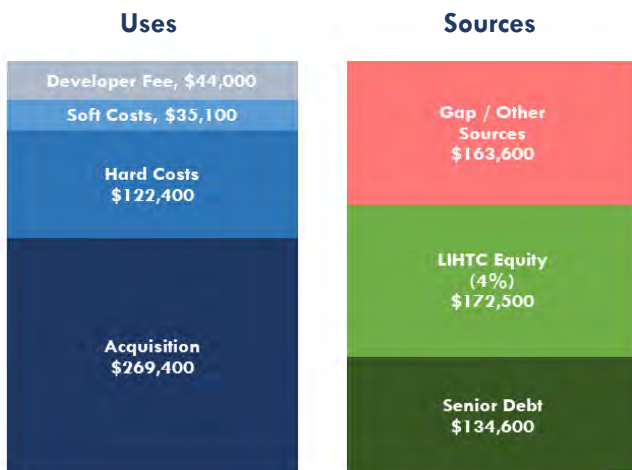
### Geographic Distribution of Affordable and Market-Rate Units for Typology 2



<b>Total Development Cost</b>	<b>\$471,100 /unit</b>
Acquisition Est.	\$269,400 /unit
Rehab Est.	\$201,500 /unit
Potential Financing Gap	<b>\$163,600 /unit</b>

Current Unit Estimate (2020)	<b>13,450 units</b>
Projected Loss (2020 - 2040)	5,250 units
	<b>(39% loss)</b>

Total additional financing required to preserve all units	<b>\$880 million</b>
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# APPENDIX B: DETAILED TYPOLOGY ANALYSIS

## Typology 3: 1990s – 2000s Large Garden Apartment Developments

Large garden apartment communities built in late-1990s and 2000s contain a significant number of affordable units. The affordability of these higher-quality units is driven most likely by either location or suppressing prices to fill up vacancies. Affordable units make up a much smaller portion (30 percent) of this typology, compared to constituting almost two-thirds of the previous two typologies. They are geographically distributed across the City, in neighborhoods such as University Heights, City Heights, Downtown, Torrey Hills and San Ysidro.

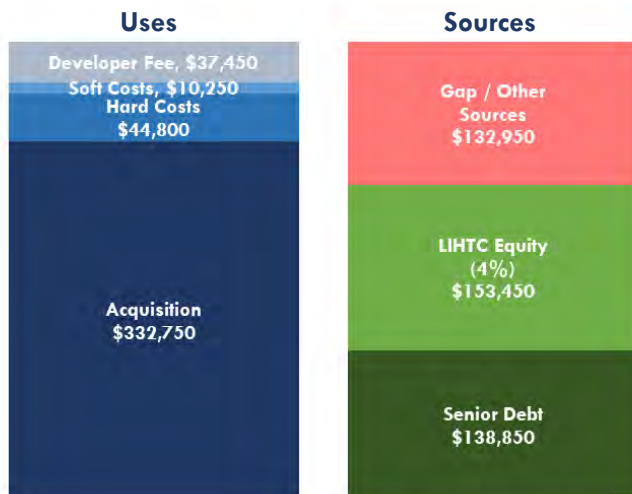
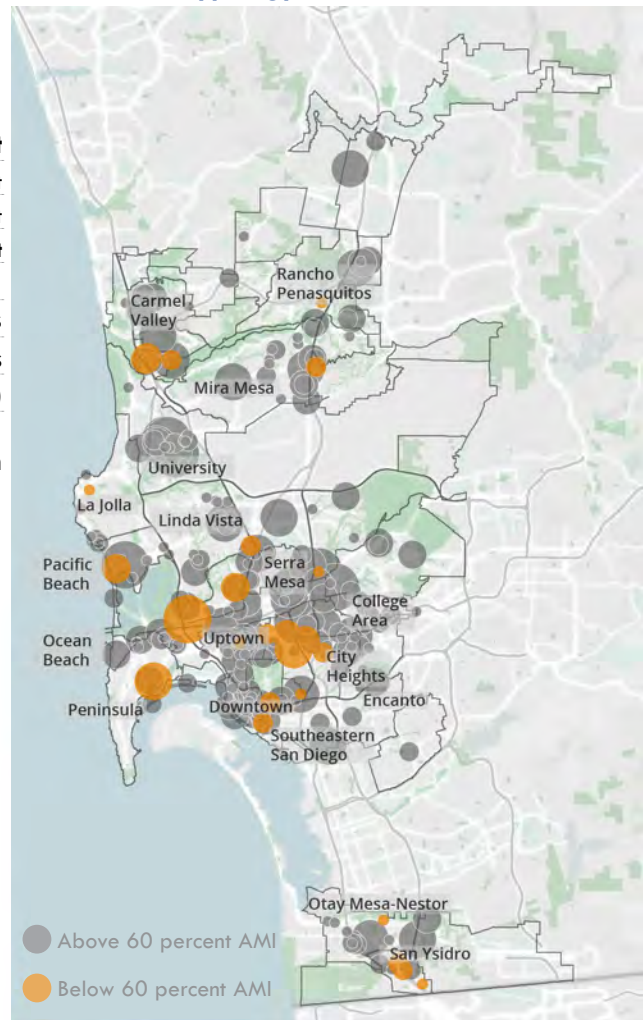
Approximately 6,300 units are projected to lose their affordability until 2040, most probably due to getting priced out of affordability, while keeping up with the increasing real estate values in the San Diego market.



Source: Philadelphia Apartment Rentals, 2018

<b>Total Development Cost</b>	<b>\$425,250 /unit</b>
Acquisition Est.	\$332,750 /unit
Rehab Est.	\$92,500 /unit
Potential Financing Gap	<b>\$132,950 /unit</b>
<b>Current Unit Estimate (2020)</b>	<b>6,250 units</b>
Projected Loss (2020 - 2040)	1,650 units
	<b>(27% loss)</b>
<b>Total additional financing required to preserve all units</b>	<b>\$210 million</b>

### Geographic Distribution of Affordable and Market-Rate Units for Typology 3



## APPENDIX C: LIST OF STAKEHOLDERS INTERVIEWED

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Aruna Doddapaneni, BRIDGE Housing

Brad Richter, Civic San Diego

Brian Schoenfisch, City of San Diego Planning Department

David Allen, Trestle Development

Divya Ram, California Department of Housing and Community Development

Eli Sanchez, Civic San Diego

Elyse Lowe, City of San Diego Office of Development Services

Gary Geiler, City of San Diego Office of Development Services

Hillary Prasad, California Department of Housing and Community Development

Jamillah Williams, California Department of Housing and Community Development

Jim Grow, National Housing Law Project

Jordan More, City of San Diego Office of the Independent Budget Analyst

Kathleen Ferrier, Office of Councilmember Chris Ward

Keely Halsey, Office the Mayor, City of San Diego

Krissy Maier, City of San Diego Economic Development Department

Lara Gates, Office of Council President Georgette Gomez

Laura Nunn, San Diego Housing Federation

Mike Hansen, City of San Diego Planning Department

Peter Armstrong, Wakeland Housing and Development Corporation

Rebecca Hersch, California Department of Housing and Community Development

San Diego Housing Commission – Colin Miller, Daisy Crompton, Jackie Harris, Jasmine Kotlarz, Jeff Davis, Jenny van der Heyde, Julia Sauer, Marcus Sproll, Mike Pavco, Suket Dayal

Sasha Wisotsky, California Department of Housing and Community Development

Shannon West, California Department of Housing and Community Development

Sherry Brooks, Civic San Diego

Sue Reynolds, Community Housing Works

Sylvia Martinez, Community Housing Works



## San Diego Preservation Study | Methodology Memo

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### Overview and Problem Statement

The San Diego Housing Commission (SDHC) was interested in developing a dataset of all unrestricted, naturally-occurring affordable housing units (NOAH) within the city<sup>1</sup>. There are no readily available data sources with this information, as there are no deed restrictions or policies keeping these units affordable. CoStar has the property level rent information in the City of San Diego for about 2,360 properties, with 4,200 properties remaining.<sup>2</sup>

HR&A estimated which of the remaining units are NOAH using a logistic regression<sup>3</sup> to estimate the total NOAH units remaining in the market.

### Steps Undertaken:

1. Collect and Process Raw Data
2. Exploratory Data Analysis
3. Data Model
4. Testing and Iteration

### Collect and Process Raw Data

HR&A began with the San Diego tax assessment parcel database, accessed through SANDAG's regional GIS data warehouse.<sup>4</sup> This dataset contains a host of key parcel level datapoints, including:

- Land and improvement value
- Year Built / Renovated
- Location (by zip code, block group, and tract)
- Zoning and Land Use
- Total acreage
- Parcel ID (APN)

To this dataset, HR&A added block-group, census tract, and PUMA level data that were hypothesized to be correlated to likelihood of affordability. These variables included:

- **ACS 2018 5-year block group**
  - o Educational attainment (perc. With Bachelors)
  - o Median Rent
  - o Median Home Value
  - o Race (perc. Non-Hispanic White)
- **ACS 2018 5-year census tract**
  - o Tenure by units in structure
  - o Rent by units in structure

---

<sup>1</sup> NOAH is defined as units affordable to 60 percent of AMI or below based on SDHC 2019 guidelines.

<sup>2</sup> In terms of units, CoStar rent data is available for 68% of all unrestricted units in San Diego, but other identifying information (year built, total units, etc.) for 80% of all unrestricted units.

<sup>3</sup> A statistical model that uses the logistic function to model a binary dependent variable (0 or 1). (sklearn, 2020). For this regression, a 0 signified not NOAH versus 1 signified NOAH.

<sup>4</sup> Accessed here: <https://www.sandag.org/index.asp?subclassid=100&fuseaction=home.subclasshome>

# APPENDIX D: METHODOLOGY MEMO

- **PUMA (Public Use Microdata Area) 2018 5-year<sup>5</sup>**
  - o Median rents by year built, bedroom, and units in structure
  - o Affordable or not (at 60% AMI) based on year built, bedroom, and units in structure

All of these variables were normalized<sup>6</sup> along each column and were arranged as the independent variables for the analysis, with *rent per SF* as the dependent variable.

## Exploratory Data Analysis

The dataset was then cut into three portions:

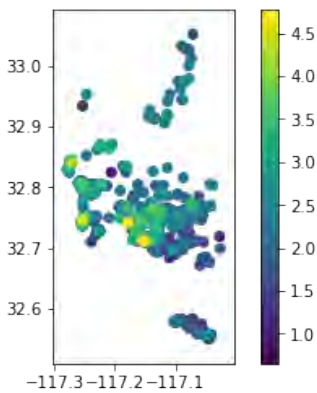
- **Training Dataset:** 80% of properties with CoStar data (picked at random)
- **Test Dataset:** 20% of properties with CoStar data (picked at random)
- **Main Dataset:** 100% of the properties **without** CoStar data

The training and test datasets were used to test various regression algorithms in this phase.

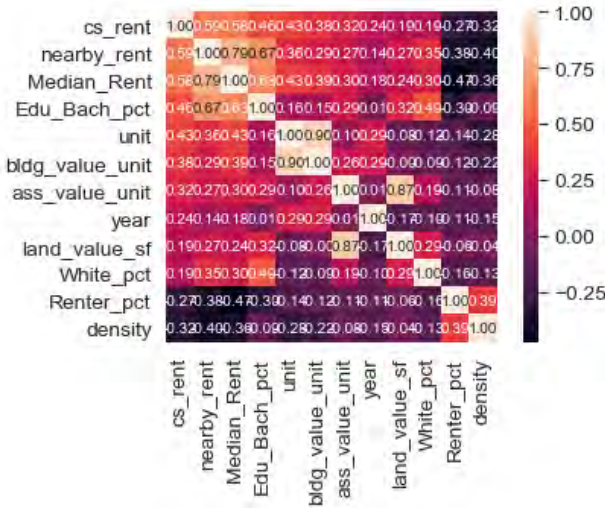
In initial tests, HR&A used variations of a linear regression model<sup>7</sup> (for a continuous dependent variable) to estimate specific rents for two-bedroom rents per SF for every parcel.

This model produced fair results but was ultimately unsatisfactory, given its low  $r^2$  value<sup>8</sup> and inability to produce geographic differentiation evidenced by ACS and PUMS data. Additionally, the average error of \$150 - \$200 (in rent per month) was too high to accurately discern between NOAH units and non-NOAH units.

**Geographic Distribution**  
(colored by rent per SF per month)



**Correlation Matrix**



<sup>5</sup> The PUMS Methodology is described in detail on page 6.

<sup>6</sup> Normalizing here indicates scaling variables to a relative scale between 0 and 1

<sup>7</sup> HR&A tested a gradient-boosted regression, a Bayesian regression, and a simple linear regression. More information is available here: [https://scikit-learn.org/stable/modules/classes.html#module-sklearn.linear\\_model](https://scikit-learn.org/stable/modules/classes.html#module-sklearn.linear_model)

<sup>8</sup> The highest  $r^2$  value produced was 0.76, with an average of 0.57



# APPENDIX D: METHODOLOGY MEMO

## Correlation Matrix Variable Definitions

Variable	Definition
<b>Cs_rent</b>	CoStar rent by SF per month (dependent variable)
<b>Nearby_rent</b>	Nearby_rent (Spatial regression variable based on weighted nearby multifamily buildings)
<b>Median_rent</b>	ACS Block Group-level Median Rent
<b>Edu_bach_pct</b>	ACS Block Group-level Share of Population with Bachelor's degree
<b>Unit</b>	Total Units
<b>Bldg_value_unit</b>	Building improvement value (normalized by unit)
<b>Ass_value_unit</b>	Land Assessment value (normalized by unit)
<b>White_pct</b>	ACS Block Group-level Share of non-hispanic White
<b>Renter_pct</b>	ACS Block Group-level Share of renters
<b>Year</b>	Year structure built
<b>Land_value_sf</b>	Land Assessment value per square foot
<b>Density</b>	Proximity to other multifamily buildings

In light of these limitations, HR&A explored using a **logistic regression** with two key outputs:

- Affordable or Not Affordable (1,0) for each property
- The confidence that a project is affordable (expressed as a percentage from 0 – 100%, where 100% is equivalent to 100% confident that a property is NOAH.

These two outputs were used to create a sum of total NOAH units citywide based on a cumulative Expected Value<sup>9</sup>:

Total Units	Confidence that project is NOAH	Total Expected NOAH Units
100	0.44	100 x .44 = 44 units
100	0.77	100 x .77 = 77 units
		Total Expected Units = <b>121</b>

## Final Data Model

The final logistic model was constructed in Python 3 with the following steps:

- 1. Preprocess data in Excel.** For the final regression, the following variables were used:

Variable	Definition
<b>Cs_rent</b>	CoStar rent by SF per month for a 2-BR (dependent variable)

<sup>9</sup> The expected value is calculated by multiplying each of the possible outcomes by the likelihood of each outcome and summing the values. (Corporate Finance Institute, 2019)

## APPENDIX D: METHODOLOGY MEMO

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<b>Year</b>	Year Built
<b>Unit</b>	Number of units
<b>Edu_bach_pct</b>	ACS Block Group-level Share of Population with Bachelor's degree
<b>Median_rent</b>	ACS Block Group Median rent
<b>Bldg_value_unit</b>	Building improvement value (normalized by unit)
<b>Ass_value_unit</b>	Land Assessment value (normalized by unit)
<b>White_pct</b>	ACS Block Group-level Share of non-hispanic White
<b>Renter_pct</b>	ACS Block Group-level Share of renters
<b>Year</b>	Year structure built
<b>Land_value_sf</b>	Land Assessment value per square foot
<b>Density</b>	Proximity to other multifamily buildings
<b>share_of_aff</b>	Share of NOAH for each given typology from PUMS Analysis <sup>10</sup>
<b>X_cord / y_cord</b>	Latitude and longitude (used for spatial regression variables)

2. Create a pandas<sup>11</sup> data frame for the training dataset and test dataset
3. **Develop spatial regression variables**
  - a. Spatial regressions were created based on CoStar median rents, based on an assumption of spatial correlation,<sup>12</sup> to answer the question—what is the CoStar rent for nearby properties with CoStar data?
  - b. The properties were assigned a spatially weighted rent based on the 500 closest properties (with closer properties weighted higher)
  - c. This process produced two new independent variables: **nearby\_rent** and **density**.
4. **Select a logistic regressor algorithm and run.** After arranging the data, HR&A used a gradient boosting classifier<sup>13</sup> to run the final logistic regression with accuracy scores.

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<sup>10</sup> PUMS Analysis is explained further on page 6.

<sup>11</sup> Pandas is a data analysis and processing library used extensively in Python 3.

<sup>12</sup> Tobler's first law of geography: Everything is related to everything else, but near things are more related than distant things.

<sup>13</sup> A "gradient-boosting classifier in an additive regression model that allows for the optimization of arbitrary differentiable loss function." This was applied to rent classification based on a May 2019 study. (Neloy, Haque, and Islam, "Ensemble Learning Based Rental Apartment Price Prediction Model by Categorical Features Factoring", North South University. 2019

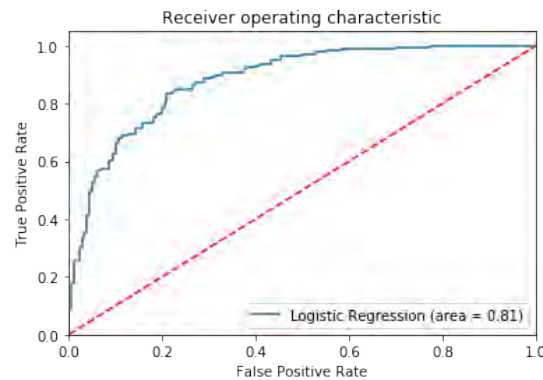
## APPENDIX D: METHODOLOGY MEMO

**5. Review Results.** The logistic regressor yielded the following results in the form of a classification report:

Value	Precision	Recall	F1-score <sup>14</sup>
0	.83	.78	.80
1	.79	.84	.82

Logistic Regression Score = 0.809659

The precision score is the following ratio: true positive / (true positives + false positives). These results may be interpreted as: the model guessed 83% of non-NOAH units correctly and 79% of NOAH units correctly in the test dataset. This results in an overall  $r^2$  of approximately 0.81. This can be modeled in the receiving operator curve (ROC) as seen below, where a random guess is modeled as the red dotted line. The further away from the red diagonal, the more precise a model.



**6. Use Model for Main Dataset.** Using this model with the existing parameters, HR&A ran the regressor for all of the properties without CoStar data to produce final estimates, with the **affordability guess** (0,1), confidence (that a property is NOAH), and final regression scores.

### Logistic Regressor Sources and Notes:

- For housing and PUMS analysis, HR&A uses SciKit Learn<sup>15</sup>, an open-source Machine Learning library for Python, with significant preprocessing using Pysal, Geopandas, and Seaborn (spatial regressions); Pandas and Numpy (for data management); and Matplotlib (charts).
- Documentation for the gradient boosting classifier is available [here](#)<sup>16</sup>
- HR&A used default settings for the regressor except for `n_estimators` (100 versus 10 at default) and `criterion` (`mean_square_error` versus `friedman_mean_square_error`) to allow for straightforward testing and benchmarking with other models tested.

<sup>14</sup> Recall and F-1 Scores are other widely used measures of determination. They were not used for this study.

<sup>15</sup> [Scikit-learn: Machine Learning in Python](#), Pedregosa *et al.*, JMLR 12, pp. 2825-2830, 2011.

<sup>16</sup> <https://scikit-learn.org/stable/modules/generated/sklearn.ensemble.GradientBoostingClassifier.html>

# APPENDIX D: METHODOLOGY MEMO

## Public Use Microdata Survey (PUMS) Methodology

To produce historic estimates, typology-specific affordability ratios, and income-cuts beyond available census bands, HR&A used PUMS data—a dataset of untabulated records about individual people and housing units that allow users to create custom cross-tabulations of data that is otherwise unavailable through traditional ACS tabulations.

**Method:** HR&A undertook the following steps to structure the PUMS data:

1. **Initial data pull.** Downloaded California Housing unit records from American Fact Finder.<sup>17</sup>
2. **Subset records by PUMAs.** Extracted the records that were within the PUMAs previously identified as within the City of San Diego boundaries. This consisted of 12 PUMAs (arbitrary geographies of approximately 100,000 people each): 7316, 7318, 7306, 7311, 7315, 7314, 7308, 7310, 7309, 7317, 7322, 7312.
3. **Identifying Required Variables.** After exporting the data subset, HR&A identified a list of 14 variables required for analysis:
  - a. **Serial Number:** Unique Identifier
  - b. **ADJHSG:** Inflation adjustment for housing costs
  - c. **ADJINC:** Inflation adjustment for incomes
  - d. **WGTP:** Relative weight of each response
  - e. **PUMA:** The PUMA they are in
  - f. **NP:** Number of people in a household
  - g. **TYPE:** Type of household (institutional or private)
  - h. **BDSP:** Number of bedrooms
  - i. **BLD:** Units in structure
  - j. **TEN:** Tenure
  - k. **VACS:** Vacancy
  - l. **YBL:** Year Built (by decade)
  - m. **GRNTP:** Gross Rent (inclusive of utilities)
  - n. **HINCP:** Household Income
4. **Develop user created variables.** HR&A created 5 variables to categorize individual responses:
  - a. **Adjusted Rent:** Inflation-adjusted rent
  - b. **AMI Band\_need:** AMI band based on income
  - c. **AMI Band\_unit:** AMI band based on unit rent
  - d. **Affordable\_need:** Flag for Affordable or Not Affordable using 60% AMI
  - e. **Affordable\_unit:** Flag for Affordable or Not Affordable using 60% AMI
5. **Develop bespoke typology-based tables.** This allowed the creation of create specific descriptions based on building characteristics. For example, the unit distribution by AMI based on decade built:

AMI Band	Before 1939	1940 to 1949	1950 to 1959	1960 to 1969	1970 to 1979	1980 to 1989	1990 to 1999	2000 to 2009	2010 or after
0 - 30%	12%	8%	6%	6%	7%	6%	6%	6%	2%
31 - 60%	55%	56%	59%	54%	47%	40%	25%	21%	21%
61 - 80% AMI	25%	21%	25%	30%	31%	35%	32%	20%	15%
81 - 100% AMI	0%	0%	0%	0%	1%	1%	2%	1%	1%
101 - 120% AMI	5%	12%	6%	6%	9%	14%	20%	25%	27%
121% AMI+	3%	2%	3%	3%	5%	5%	15%	27%	34%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Based on this analysis, HR&A created specific affordability ratios for each typology, based on year built and units in structure.

<sup>17</sup> <https://www2.census.gov/programs-surveys/acs/data/pums/2018/?#>



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