Appendix 2.2

Preservation of At Risk Units

Appendix 2.2. Analysis of Preservation of At-Risk Units

Assisted Housing At-Risk of Conversion to Market

State law requires local governments to include in their Housing Element an analysis of existing, multi-family affordable housing units at risk of conversion to market-rate housing within the next ten years due to termination of a public funding subsidy contract, mortgage prepayment, or expiring use restrictions. While the production of new, affordable housing is critical, so is the preservation of existing affordable units to maintain a stock of affordable housing.

Los Angeles has long been committed to monitoring, notification, funding, and outreach activities that support the preservation of affordable housing.

Inventory of Assisted Housing Developments

The City of Los Angeles currently has approximately 56,698 affordable housing units in more than 1,426 developments, serving very-low, low and moderate-income households (See Appendix 2.6). The majority of these affordable housing units are owned and operated by private entities, and were financed with local, State and Federal public subsidies, administered by State agencies or locally through the HCIDLA, the Community Redevelopment Agency of the City of Los Angeles (CRA/LA), the Housing Authority of the City of Los Angeles (HACLA), and the Los Angeles Homeless Services Authority (LAHSA). The requirements of the public funding include (but are not limited to) maintaining the affordability for a specific, extended number of years.

As affordability terms are fulfilled, the privately-owned affordable units will likely convert to market rate rents, making them out of reach for lower-income households. It is estimated that over the next ten years, as much as one-third of the City's current affordable housing stock could convert to market rate. Appendix 2.6 provides a summary of the total number of affordable housing projects and restricted affordable housing units within the City of Los Angeles.

Inventory of Expiring Units

The City currently has 9,412 housing units at risk of losing their affordability use restrictions between October 1, 2021 and September, 30 2031. These units were designated as at-risk based on the restrictions established by the primary government funding program used to build or rehabilitate the unit, use agreement, covenant and/or rental subsidy program. This primary funding source is interpreted as the most restrictive source of funding in the rental covenant, rental subsidy or funding; it is the source with the most years of affordability and set-aside units. Appendix 2.7 provides a summary of the at-risk/expiring properties. Appendix 2.8 provides a detailed inventory of the at-risk/expiring properties during this Housing Element Update period.

Units Expired in the Last 10 Years

Between October 1, 2011 and September 30, 2021, there were 4,406 housing units located in 225 projects whose affordability restrictions expired or were terminated. The majority of these, 1,903 units (43%), were in projects that had affordability restrictions tied to local agency financing and/or City land use entitlement concessions. Approximately 29% of the local agency properties were restricted by the Community Redevelopment Agency of the City of Los Angeles. Another 1,768 units (40%) were located in projects that received HUD assistance; There were 329 (7%) affordable units in HUD Section 202 or Section 811 projects serving elderly and/or disabled persons. Finally, 735 units (17%) were in State-financed restricted properties.

Units Expiring in One to Five Years

Between October 1, 2021 and September 30, 2026, 6,356 housing units (11% of the City's affordable housing stock) are at risk of losing their rental subsidies or affordability restrictions through the expiration of covenants and termination of subsidies. The majority of these, 4,130 units (65%), are located in buildings that received financing from HUD in the form of HUD Project-based Section 8 rental subsidies and HUD Section 202 and Section 811 serving elderly and/or disabled, as well as Section 221 (D)(3) loan programs. These programs offer reduced mortgage payments in exchange for long-term affordability. Most mortgages have a 40-year term and many owners are allowed to prepay after 20 years. Currently, most owners qualify to prepay their loans or are nearing maturity.

The HUD Project-Based Section 8 rental subsidy program provides deep rental subsidies to enable projects to serve very low income tenants. Of the federally assisted, at-risk inventory, 3,748units (59%) consist of Project-based Section 8 contracts. These rental subsidy contracts have an original term between five and 30 years, but most commonly 20 years. Most of these contracts have passed their initial terms, and owners may choose to terminate ("Opt-out") or renew them on a year-to-year basis, and are therefore at-risk of conversion to market every year. Renewal of longer-term contracts (i.e., 5-20 years) is also possible, though they are still subject to annual appropriations.

There are 1,466 affordable units (23%) created through City affordability restrictions that are at risk of expiration within the next five years. These restrictions resulted from City land use entitlement concessions and/or local funding awards such as HOME, Community Development Block Grant (CDBG), Bond financing, the now-defunct CRA/LA housing programs, and other local funding sources. State loan programs such as the

California Finance Agency (CalHFA) and State Housing and Community Development (HCD) loans funds as well as state tax credits subsidized 760 units (12%) expiring in the next five years.

There are 382 (6%) affordable units funded specifically for elderly and/or disabled persons at risk of losing their affordability terms within the next 5 years. These units developed with HUD Section 202 and Section 811 funds and receive rental subsidies under Project Rental Assistance Contracts (PRACs).

Units Expiring in Five to Ten Years

Between October 1, 2026 and September 30, 2031, fully 5% of the City's affordable housing stock (3,056 units) is at risk of losing rental subsidies or affordability restrictions. Of the 3,056 units at risk of expiration within the next 5 to 10 years, there are 1,642 units (54%) created through City affordability restrictions that are at risk of expiration. These restrictions resulted from City land use entitlement concessions and/or local funding awards such as HOME, Bond financing, and CRA/LA housing programs. State loan programs such as the California Low Income Housing Tax Credit (LIHTC), CalHFA and State HCD loan funds subsidized 327 units (11%) expiring in the next 5 to 10 years. An additional 1,087 units (36%) were financed through HUD/FHA mortgage insurance programs (including Section 20, Section 811 and Section 221 (D)(3) funds), and HUD Project-based Section 8 rental subsidies.

Assessment of the Conversion Risk

The affordability of the City's affordable housing units is not permanently assured. Based on the current expiring portfolio, the three major threats to preservation in the City are prepayment or maturity of federally-subsidized mortgages, expiration and termination of subsidy contracts (Project-Based Section 8 rental subsidy contracts), and the expiration of use restrictions of City-funded projects. As previously stated, most of the at-risk developments are owned by private entities and given the high demand for housing at all income levels within the City, expiring affordable units are at serious risk of converting to market rate units.

The reduction and uncertainty of government funds and rental subsidies make property owners wary of new long-term affordability commitments. Also, government subsidies that would extend affordability come with many requirements governing the operation of the property (such as, but not limited to: restrictions regarding tenant selection, tenant income, rent level, rent increases, regular monitoring), adding challenges to the operation of the building.

Local rental market conditions also contribute to this likely consequence: a vacancy rate of about 4% for both rental and for-sale units in the past decade; increasing demand for rental units due to increases in foreclosures; increase in lending regulations that may impede or slow bank (mortgage) lending; and the continual slow-down in construction of for-sale units due to the current financial crisis. This continuous demand for rental housing leads to higher rents and therefore a more compelling incentive for landlords who own buildings with at-risk affordable units to pursue opportunities for market-rate rents. All of these factors play a significant role in an owner's decision to extend affordability restrictions on income-restricted projects.

Costs of Preserving Affordability: Analysis of Preserving Existing Affordable Units versus Building New Affordable Units

With approximately 9,412 affordable housing units at risk of losing their affordability restrictions in the next ten years (October 1, 2021 to September 30, 2031), the cost to preserve or replace these units will be substantial. In 2020, the rehabilitation cost per unit to preserve an affordable multi-family building was approximately $108,000 and the construction cost per unit for a new affordable multi-family building in Los Angeles was $353,000 (See Table 2.2.1). These figures were based on data collected from the California Tax Credit Allocation Committee (TCAC) financed projects, and excludes costs associated with land acquisition, soft costs, permanent financing, and syndication.

The following presents the Total Development Costs (TDC) of preserving an expiring unit's affordability through:

- Acquisition and rehabilitation of an existing affordable housing unit, and extending its affordability through a new covenant;
- Building of a completely new unit and imposing affordability terms, thereby "replacing" the affordable unit.

Methodology

The costs associated with preserving the affordability of the units at risk of losing rent restrictions in the next 10 years were derived from the average TDC for 4 acquisition/rehabilitation projects and 6 new construction TCAC financed projects in

2020. Data from this subset of projects was used to calculate average, per-unit costs, and is considered to be a useful basis for aggregate costs to be discussed below.

Average figures were used for both the preservation and new construction costs analyses. The calculations consider the land cost, hard construction cost and other soft cost items.

Table 2.2.1 shows the per-unit, average TDC for preservation and replacement projects.

Based on HCIDLA's calculation, the average per-unit TDC to preserve a unit's affordability through acquisition and rehabilitation of an existing multi-family housing unit, and either placing affordability terms on the unit or extending its affordability through a new covenant/regulatory agreement is approximately $465,000.

A unit's affordability can be replaced by building a new unit with affordability terms imposed on the unit. Depending on land costs, site preparation costs, design and entitlement costs, and a wide range of other factors, newly restricted affordable housing units average approximately $571,000 per-unit TDC for the construction of a new affordable unit. Therefore, it is more cost-effective to preserve and rehabilitate a unit than to build new.

TABLE 2.2.1

Total Development Costs Per Unit for Preservation or Replacement Projects: 2020

Method of Preserving Existing Unit's Affordability	Acquisition (rounded)	Rehabilitation/ Construction (rounded)	Financing / Other (rounded)	Total
Acquisition and Rehabilitation of Existing Affordable Units	$232,000	$108,000	$125,000	$465,000
New Construction	$36,000	$353,000	$182,000	$571,000

Source: Housing and Community Investment Department of Los Angeles

Given the projected number of at-risk units in the periods between 2021 and 2026 and 2026 and 2031, Table 2.2.2 depicts an aggregate affordability preservation cost that would be required to preserve all at-risk units from expiration based on the 2020 average TDC for each method of preservation.

TABLE 2.2.2

Estimated Total Cost to Preserve At-Risk Units: 2021-2026 and 2026-2031		
Method of Preserving Existing Unit's Affordability	**Cost to Preserve/Replace 6,356 Units Expiring between 2021-2026**	**Cost to Preserve/Replace 3,056 Units Expiring between 2026-2031**
Acquisition and Rehabilitation of Existing Affordable Housing Units	\$3.0 Billion	\$1.4 Billion
New Construction	\$3.6 Billion	\$1.7 Billion
Source: Housing and Community Investment Department of Los Angeles		

Non-Financial Strategies for Preserving Expiring Affordable Housing

The City remains steadily committed in its efforts towards the preservation of assisted housing through its various housing programs and available resources. In December 2019, the City hired one full-time Preservation support staff person within HCIDLA's Development & Finance Division to implement and manage the unit. The division's work includes maintaining and monitoring HCIDLA's internal database of existing at-risk affordable housing units; education and outreach initiatives; working with community-based organizations to enforce State notice law at expiring and/or terminating properties; and analyzing legislative strategies that identify, prioritize and pursue preservation, while assessing opportunities to preserve individual affordable housing projects through the identification of costs and funding sources.

To further the goal of preservation, HCIDLA has funded tenant and landlord outreach for preservation purposes since early 2000. HCIDLA has contracted with an At-Risk Affordable Housing Tenant Outreach and Education (AAHTOES) contractor to provide outreach and education to residents that are at risk of displacement due to expiring covenants or terminating subsidies. The outreach to residents includes providing information on alternate housing opportunities, monitoring HCIDLA's expiring/terminating affordability restrictions, advising and assisting tenants with notice requirements and compliance, educating tenants on rights and responsibilities, analyzing proposed legislation and regulations, the interaction of the City's Rent Stabilization Ordinance (RSO), Systematic Code Enforcement Program (SCEP), and existing affordability restrictions, as needed.

Due to the COVID-19 pandemic, in-person tenant outreach has been suspended to prevent the spread of the virus, and to ensure the safety of tenants in at-risk buildings. The contractor has continued to contact tenants via telephone and email. In addition, staff has continued to provide education materials regarding subsidy expirations to the tenants.

HCIDLA Preservation staff assists property owners and managers of expiring or terminating properties with guidance on compliance with the State notification law, preservation/renewal support and technical assistance, rent increases following expiration under the RSO, HUD Section 8 Enhanced Voucher requirements and renewal options. Due to these efforts, owners are able to comply with State law notification requirements and RSO allowable rent increases, while other projects continue to be affordable and have renewed affordability beyond their annual contract or notice compliance period. HCIDLA will continue to ensure compliance with noticing requirements (when properties are set to expire), continue to conduct outreach and education of tenants and property owners of at-risk housing.

HCIDLA will continue to support non-financial preservation initiatives, including the maintenance of an early warning system to track at-risk housing, the enforcement of notification requirements to the City and affected tenants at the end of affordability restrictions (AB 1521), and property owner and tenant education efforts.

The City, through the HCIDLA, will continue to dedicate staff time to support the L.A. Preservation Working Group (LAPWG) and other related activities. The LAPWG's mission and goals are to protect and preserve the City's affordable housing stock by sharing information, tracking the expiring inventory, and developing creative preservation strategies and transactions. HCIDLA is a core member of the LAPWG and, since 2009 HCIDLA, has actively collaborated with the group's members by helping to develop the agenda topics and by meeting with member organizations of the LAPWG on an ongoing basis. The LAPWG is composed of the federal and local housing agencies in the City, affordable housing advocates, non-profit developers and legal services organizations. The HCIDLA will continue to dedicate staff time to support the LAPWG, and provide information and continue with efforts to establish partnerships with entities qualified to acquire and manage at-risk units (See Appendix 2.9).

The City strives to collaborate with local non-profit organizations to acquire and manage at-risk projects, and with financial institutions to preserve affordable units by exploring creative financing as well as debt refinancing.

Entities with the Capacity to Acquire and Manage Affordable Units

There are a number of experienced housing development agencies that are active in the City of Los Angeles. Many of these organizations focus their efforts within targeted neighborhoods while others work throughout the City and County of Los Angeles. Appendix 2.9 identifies a list of 117 Qualified Entities provided by the California Department of Housing and Community Development (HCD), which serve all counties and Los Angeles county specifically and was last updated October 15, 2020. These organizations and agencies have expressed an interest in acquiring and managing expiring and at-risk properties within the City of Los Angeles through the "Notice of Opportunity to Submit an Offer to Purchase" qualified entity criteria pursuant to California State Government Code Section 65863.11.

The City will continue to establish partnerships with these qualified entities to develop a preservation action plan upon notice of conversion, sale or other actions that threaten the affordability of these properties.

Financial Resources Available for Preservation of Affordable Units

Community Development Block Grant (CDBG)

This source of funding, allocated on an annual basis, is allocated to programs that fund the development of new affordable housing, single-family and multi-family rehabilitation, and minor home repairs. In the 2020/2021 Program Year, the HCIDLA received approximately $54.3 million of the entire City allocation of CDBG funds.

HOME Investment Partnerships Program (HOME)

In the 46th Program Year (2020-21), the City of Los Angeles was allocated approximately $28.2 million in annual HOME funds plus approximately $3.1 million in program income and used for housing development activities. The HCIDLA uses these funds for its housing production lending activities through the City's Affordable Housing Managed Pipeline, the Permanent Supportive Housing Programs and the Homeownership Assistance Program. HOME funds are available to any preservation project that meets program guidelines.

Proposition HHH Permanent Supportive Housing Funds (HHH)

In November 2016, Los Angeles voters approved Proposition HHH, which gives the City authority to issue up to $1.2 billion in General Obligation bonds over ten years to finance the development of permanent supportive housing (PSH) and other affordable housing units. PSH for chronically homeless and homeless households will combine with social services, which may include mental health and health services, drug and alcohol treatment, and job training. HHH funds will leverage HOME, LIHTC, and other sources.

Affordable Housing Linkage Fee (AHLF)

A development impact fee is being assessed on new construction of commercial and residential buildings to mitigate the impact of additional demand for affordable housing. The recently enacted local legislation also allows developers to identify a minimal number of units as affordable for families with low-income, so the result will be more affordable units or revenue to fund the development of affordable housing for persons experiencing homelessness and other families with low income. The priority use of revenues will be the construction of new units or the rehabilitation and preservation of existing affordable units. Since its inception, the total revenue collected by the Affordable Housing Linkage Fee as of December 31, 2020 is approximately $33.1 million.

New Generation Fund (NGF)

Since 2008, HCIDLA partnered with Enterprise Community Partners to develop the $200 million New Generation Fund, which provides loans for affordable rental and homeownership projects for low- to moderate-income households. The City offers a direct acquisition program through NGF, which can be utilized to target properties that are nearing the end of their affordability restriction period and/or Section 8 PBRA contract expiration. Per Enterprise’s website, as of October 2019, “…the fund has provided more than $155 million to create and to preserve about 2,600 homes in 27 affordable housing communities in the city of Los Angeles." Currently, HCIDLA aims to finance 20,000 affordable housing units with NGF including preservation projects.

SB 2 Permanent Local Housing Allocation (PLHA) Grant

This program, created through SB 2 (Building Homes and Jobs Act) which was signed into law in 2017, imposed a $75 recording fee on real estate transactions. Revenue generated from the recording fee is distributed to local jurisdictions by the state Housing and Community Investment Department (HCD) through the Permanent Local Housing Allocation (PLHA) program. PLHA funds, which are allocated to cities with over 200,000 residents such as Los Angeles, can be used for a variety of affordable housing production, preservation, expanding first-time moderate-income homeownership opportunities, and homelessness prevention efforts. It also includes rental assistance to stabilize the neediest families during the COVID-19 pandemic. Through a non-competitive application process based solely on eligibility using the formula prescribed under federal law for the Community Development Block Grant, the allocation to the City of Los Angeles for Fiscal Year (FY) 2019-20 is $26,219,573. Of this amount, approximately $5,709,300 in grant funding is allocated towards rental housing preservation for its first-year allocation

Low Income Housing Tax Credits (LIHTC)

Low Income Housing Tax Credits are an important source of funding for affordable housing in Los Angeles, but the system presents a unique challenge in that program guidelines and priorities are set by the State of California's Tax Credit Allocation Committee (TCAC) rather than the City of Los Angeles. The City works with developers of affordable rental housing projects (both preservation and new construction) to ensure that they meet LIHTC thresholds and awarding criteria. While the City of Los Angeles continuously provides commitments to projects that ultimately secure their array of leveraged funding, including the lion's share of funding from state resources, there is no systematic method to ensure that projects in Los Angeles will receive LIHTCs based on TCAC's point system. Additionally, TCAC sets aside a dedicated pool of tax credit funds for self-designated "at-risk" projects.

LIHTC has been the primary funding source for affordable housing and comes in two forms: competitive 9% credits, and non-competitive 4% credits. Currently, there is a set-aside of $25 million for at-risk properties. The at-risk set aside is used for the rehabilitation or reconstruction of aging housing developments that could soon lose rental subsidies provided to their low-income residents.

Allocation and Streamlining of Financial Resources

The Los Angeles Housing and Community Investment Department (HCIDLA) will streamline its efforts into three primary programs, 1) Preservation, 2) New Production, and, 3) Pre-development and Acquisition Financing.

Preservation Program

Under the Preservation program, the HCIDLA will focus on preserving 300 units annually. Preservation will happen through various efforts including (a) facilitating the renewals of Project-based Section 8 (or similar) contracts, (b) facilitating the re-structure and/or purchase of properties with Project-based Section 8 (or similar) contracts, and (c) re-capitalizing existing affordable housing projects in exchange for lengthening their current affordability restrictions. Preservation projects will target all populations, including, homeless, large families, and seniors. Preservation projects will also have varying levels of affordability citywide or within designated transit-oriented districts (TOD).