




Office of the City Manager

ACTION CALENDAR

February 14, 2017

(Continued from January 24, 2017)

To: Honorable Mayor and Members of the City Council

From:  Dee Williams-Ridley, City Manager

Submitted by: Paul Buddenhagen, Director, Health, Housing & Community Services

Subject: Referral Response: Establishment of Affordable Housing Small Sites Program

INTRODUCTION

This report responds to a referral that originally appeared on the agenda of the December 15, 2015 City Council meeting, sponsored by Councilmember Arreguin to identify the feasibility of establishing an affordable housing small sites program. To establish such a program, the City would need:

1. Sufficient budget to fund units at a substantially higher level than the City has in the past through the Housing Trust Fund or staff anticipate doing in the future for larger developments (\$300,000 to \$350,000 per unit);
2. A condensed and streamlined contract approval process to allow developers to compete against investors and other buyers;
3. An increase in staffing capacity to administer the loans and monitor the units for their affordability period, possibly up to a new 1.0 FTE Community Development Project Coordinator position at a cost of \$173,726; and
4. Nonprofit housing development and management organizations with the interest and capacity to participate.

CURRENT SITUATION AND ITS EFFECTS

This report responds to a referral that originally appeared on the agenda of the December 15, 2015 Council meeting and was sponsored by Councilmember Arreguin. The referral asked staff to look into the feasibility of creating a Small Sites Program to allow non-profits to purchase small multi-family buildings (5-25 units) to create and preserve affordable housing, with an emphasis on properties with a high potential for conversion to cooperative homeownership. The second point of the referral, an inventory of City-owned land and other land owned by public agencies in the City of Berkeley which could potentially be used to create below-market rate housing, is being handled separately.

The referral referenced a Small Sites Program administered by the City of San Francisco, so staff reviewed that program's guidelines and spoke with the staff responsible for it. The program is intended to help stabilize 5 to 25 unit buildings that are occupied by low- to moderate-income tenants that are particularly susceptible to market pressure resulting in property sales, increased evictions and rising tenant rents. It funds rental housing, not mixed use projects or cooperative ownership. The income and rent calculations are complex; they keep existing tenants' rents low, allow new tenants with incomes up to 120% of area median income (AMI), and require the average income in each project to be at or below 80% of AMI.

The items San Francisco staff identified as essential to that program, which would be required to duplicate the program in Berkeley, follow and are discussed in more detail below:

1. Sufficient budget to fund units at a substantially higher level than the City has in the past through the Housing Trust Fund or staff anticipate for the immediate future (\$300,000 to \$350,000 per unit);
2. A condensed and streamlined contract approval process to allow developers to compete against investors and other buyers;
3. Sufficient staffing capacity to administer the loans and monitor the units for their affordability period, which would require an increase in HHCS staffing of up to an additional 1.0 FTE Community Development Project Coordinator; and
4. Nonprofit organizations with the interest and capacity to participate.

First, San Francisco reports these projects require higher levels of funding per unit because they are funded only by a first mortgage with favorable rates from a bank or Community Development Financial Institution (CDFI) and the City loan. Since these projects are not candidates for other subsidy programs including low income housing tax credits, they are more dependent on local funds—in San Francisco, \$300,000 to \$350,000 per unit

By comparison, in the past ten years, the City of Berkeley has funded Housing Trust Fund rehabilitation projects at an average of \$18,500 per unit and new construction projects at \$61,400 per unit. While this level of funding is lower than other cities' and has contributed to project delays, going forward larger multifamily projects in Berkeley may need 35 to 70 percent as much funding as the Small Sites Program on a per unit basis (\$125,000 to \$250,000) to serve lower income populations due to leveraging. For example, BRIDGE is estimating a gap for local funding of \$126,000 per affordable unit and \$69,000 per supportive housing unit, in addition to the value of the ground lease, to house households earning below 60 percent of median at its Berkeley Way project.

Berkeley may receive higher levels of revenue in the future, depending on whether and when the Harold Way project moves forward and the outcome for business license tax increases on the ballot in November (unknown at this writing in late October). In the highest-revenue scenario, assuming the Harold Way project moves forward in the near term and the adoption of Measures A1 in Alameda County and U1 in Berkeley, it could still take three or more years to accumulate the \$22 million in local funding that the Berkeley Way project would need to move forward. Initiating a new program before then would compete with Berkeley Way.

Second, San Francisco allows these loans to be approved at the staff level, without commission or Board of Supervisors review, so that projects can go from application to underwriting to closing within 90 days. With a cap of \$350,000 per unit up to 25 units, this means loans of up to \$8.75 million, larger than any Berkeley Housing Trust Fund loan ever made, are approved without any public meetings to review funding. San Francisco staff highlighted this as essential for allowing the nonprofits to be competitive for rental buildings on the market. Although staff did not identify a precedent for the City Manager approving loans on this scale without commission or Council participation, Council could authorize it by resolution.

Third, Berkeley would need additional staffing to be able to administer a new program. San Francisco has 1.6 FTE working on this program who have made 10 loans in two years (not including monitoring staff) and are seeking to add staff due to the intensive staffing needs of their small sites program. Although Berkeley would have a smaller volume of loans, program development and outreach tasks take the same amount of time regardless of loan volume. San Francisco staff are very involved in reviewing physical needs inspections and approving each rehabilitation scope of work to ensure that funded projects will not immediately need more City funds. In addition, San Francisco's required income limits are based on each individual's initial rent, not area median income, which requires intensive monitoring. Monitoring staff is not included in the 1.6 FTE.

Finally, San Francisco staff stressed the nonprofit partner organizations with expertise in rehabilitation at a comparable scale and the ability to work with individual tenants, who are losing their rent control protections but gaining City rent regulations in the process. Nonprofits are assigning two project managers to each project due to the intensive staffing needs; these positions are not funded through the program.

BACKGROUND

San Francisco's priority for this program is buildings undergoing or at-risk for Ellis Act evictions, and buildings with extremely low income tenants. Typically the developments have long-term rent controlled tenants paying very low rents. Although San Francisco originally intended not to raise tenant rents, they found that rents were commonly too low to sustain operations. The program set initial rents at up to 20% of tenant income, with a 2 to 3.5% increase annually thereafter, to a maximum of 30% of tenant income.

Tenant incomes are capped at 120% of Area Median Income, with a requirement to keep the average income in the building at 80% of Area Median Income. This assists existing tenants and requires intensive management and close monitoring to maintain.

The Housing Advisory Commission was briefed on the content of this report at its November 3, 2016 meeting.

ENVIRONMENTAL SUSTAINABILITY

There are no direct environmental sustainability effects associated with the subject of this report.

POSSIBLE FUTURE ACTION

Council can refer any desired follow up to staff. In the past, the City has funded projects with 5 to 25 units through the Housing Trust Fund program, including projects that were intended to convert to cooperative ownership. A possible alternative to developing a dedicated program would be to refer to the Housing Advisory Commission to consider revisions to the Housing Trust Fund to encourage small scale and/or cooperative ownership projects.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

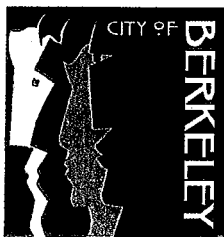
More analysis would be required once future actions were determined.

CONTACT PERSON

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Attachments:

1: Original Referral Report from December 15, 2015



Jesse Arreguin
City Councilmember, District 4

RECEIVED AT
COUNCIL MEETING OF:

DEC 15 2015

OFFICE OF THE CITY CLERK
CITY OF BERKELEY

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REVISED
ACTION CALENDAR
December 15, 2015

To: Honorable Mayor and Members of the City Council
From: Councilmember Jesse Arreguin
Subject: Referral to City Manager: Establishment of Affordable Housing Small Sites Program Fund

RECOMMENDATION

Refer to the City Manager to:

- 1) Look into the feasibility of establishing a specific RFP process for the allocation of Housing Trust Fund dollars for the acquisition and rehabilitation of smaller multi-family buildings (properties from 1 unit to 35 units). Funding should be prioritized for properties with the high potential for conversion to cooperative homeownership. ~~creating a Small Sites Program to allow non-profits to purchase multi-family buildings (5-25 units) to create and preserve affordable housing.~~
- 2) Develop an inventory of City-owned land and other land owned by public agencies in the City of Berkeley which could potentially be used to create below-market rate housing.

FINANCIAL IMPLICATIONS

Staff time to develop a Small Sites Program Fund and an inventory of City-owned land which could be used for low-income housing. Establishing a Small Sites Program Fund would require the expenditure of Housing Trust Fund or ~~General Fund~~ dollars to support land/building acquisition.

BACKGROUND

Speculation of the real estate market has led to record breaking and skyrocketing rents. Since Costa-Hawkins created vacancy decontrol in 1995, rents have risen from around \$525 a month to roughly \$1,400 in 2014. If rents rose only at the rate of inflation, today the average rent would be closer to \$800 a month. Many units in Berkeley have a high turnarround, leading to many rent controlled units having rents close to or at market rate.

During this unprecedented housing crisis, it is critical that the City support the preservation and expansion of affordable housing. Berkeley has a limited number of opportunity sites, thereby increasing land costs and making it unaffordable for non-profit affordable housing developers to acquire sites to build low-income housing. Non-profit developers have stated that land costs are one of the biggest obstacles to creating new

affordable housing. The City has funded the construction of hundreds of new affordable units. However given that land is limited it is also important that we invest in the acquisition of existing multi-unit buildings to preserve affordability.

In August 2014, San Francisco Mayor Ed Lee introduced the Small Sites Program (SSP). This program creates permanently affordable rental units by acquiring and rehabilitating of existing properties that are most vulnerable to real estate speculation and tenant evictions. The goals of this program are to:

- 1) Protect and stabilize housing for current tenants in buildings where at least 75% of tenants have an average AMI of 80% or less.
- 2) Remove SSP properties from the speculative market while increasing the supply of permanently affordable housing by restricting SSP properties to serve households with average incomes of 80% AMI.
- 3) Create financially stable housing that serves multiple generations by ensuring SSP properties operate with sufficient cash flow to adequately care for the property and repay debt obligations.

SSP properties would serve tenants or mixed-income, ranging from 50% AMI to no higher than 120% AMI, with an average of 80% AMI. Priorities would be given to properties that are in immediate risk of Ellis Act evictions, located in areas with high Ellis Act eviction rates, where tenants are a part of a vulnerable population (families with children, the elderly, disabled, etc), and buildings housing tenants with the lowest incomes.

Berkeley should explore creating a similar Small Sites Program Fund, which would earmark Housing Trust Fund dollars to assist non-profit developers in acquiring small multi-unit properties which ~~that~~ are vulnerable to real estate speculation and tenant evictions. This fund would provide specific pre-development dollars for building acquisition. This will expand the affordable housing portfolio and keep people in their homes. A Small Sites Fund could also help expand limited equity cooperative ownership.

ENVIRONMENTAL SUSTAINABILITY

No adverse effects to the environment.

CONTACT PERSON

Jesse Arreguin, Councilmember, District 4 510-981-7140

Attachments:

1: San Francisco Small Sites Program