

# Affordable Rental Housing At-Risk in Alameda, Contra Costa and San Mateo Counties

*Editor's Note: As part of our mission to assess the level of risk of conversion to California's stock of existing affordable rental homes, we periodically publish reports on different regions in the state. The following report on Alameda, Contra Costa and San Mateo County was made possible with special financial support from Citi Foundation.*

## Introduction

Over the next decade, dozens of project-based Section 8 contracts in Alameda, Contra Costa and San Mateo Counties will expire without any assurance of renewal by the private landlords who control them, potentially ending the subsidies that ensure affordable housing for thousands of low-income families in the region. In the next year alone, there are 995 apartments with expiring Section 8 contracts in the three counties. Within five years, without any interventions this number will rise to 1,233 apartments with expiring contracts.

## Objective of the Report

The purpose of this report is to identify affordable subsidized housing in Alameda, Contra Costa and San Mateo Counties at-risk of converting to market rate within the next five years and to determine the intentions of the owner regarding the affordability of the property in the future. Our goal is to work collaboratively to preserve this housing with local government and advocacy organizations.

## Risk Assessment Methodology

Risk refers to a property's risk of conversion to market rate housing, or the likelihood that a property owner will end their subsidy. CHPC used data provided by HUD to identify project-based Section 8 properties in Alameda, Contra Costa and San Mateo Counties. We then excluded properties funded through the HUD Section 202, 811, Title VI Preservation (LIHPRHA) and recently funded Low Income Housing Tax-Credit programs because each of these programs has restrictions that generally make it difficult if not impossible for owners to terminate affordability protections in the near future. We also excluded properties owned or managed by mission-driven nonprofit organizations with which CHPC has an established relationship on the assumption that it is highly unlikely these organizations would do anything to decrease affordability given their stated missions.

**"High Risk"**  
• Sec. 8 contract expires in less than one year

**"At Risk"**  
• Sec. 8 contract expires in two to five years

**"Low Risk"**  
• Sec. 8 contract expires in more than five years

Finally, properties were categorized based on their Section 8 contract expiration date, with "High Risk" properties expiring within one year (between 8/31/2009 and 8/31/2010) and "At-Risk" properties expiring in 2-5 years (between 8/31/2010 and 8/31/2014). Once properties were identified, CHPC

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attempted to establish contact with either the owners, asset managers or property managers in order to learn what the owner’s intentions were for the property.

**Results**

After filtering the initial data as described above, we found that 28 project-based Section 8 properties with Section 8 contracts expiring in the next five (5) years are “at-risk” of conversion, with 13 of these properties expiring in the next year alone. The following results describe at-risk Section 8 housing in the counties of Alameda, Contra Costa and San Mateo in terms of ownership, financing, and owner intentions.

Owner Type

Tracking ownership is the first step in understanding the varying levels of risk of loss of the existing Section 8 housing stock. Table 1 illustrates the breakdown by owner type of the at-risk properties in Alameda, Contra Costa and San Mateo Counties.

Table 1: Owner Types

Profit motivated organizations own 1,564 assisted units or 70.2% of all at-risk units in the three counties, while non-profit organizations own 450 assisted units representing 20.2%. Less common are owners designated as “limited-dividend” by HUD, which own 214 assisted units, accounting for 9.6% of the total assisted units that are at-risk. HUD uses “limited dividend” as a term of art specific to the Section 8 program, meaning that with these contracts HUD limits the maximum amount of annual cash flow an owner may receive as a return on its original investment. Since a limited dividend Section 8 contract restricts an owner’s cash flow distribution, it also could be seen as providing a greater incentive for owners to convert properties, thus increasing the risk of conversion.

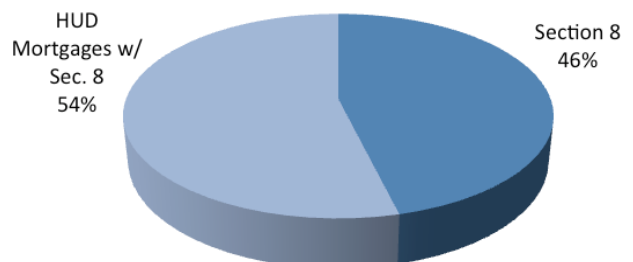
Owner Type	Properties	Assisted Apartments	Percent of Total Assisted Units
For Profit	19	1,564	70.2%
Nonprofit	7	450	20.2%
Limited Dividend	2	214	9.6%
TOTAL	28	2,228	100%

While mission-driven nonprofit owners are often less likely to convert their housing from affordable to market-rate, other factors may be better indicators of an owner’s likelihood to opt-out, such as surrounding market rents, or the owner’s administrative capacity. Though not explored in the current study, CHPC is currently researching ways to track these two factors in future studies.

Financing Programs

The at-risk inventory consists of properties with Section 8 contracts and HUD-insured mortgages. As shown in Figure 1, assisted apartments financed through Section 8 alone account for 46% of the at-risk inventory, or 1,028 apartments. An additional 1,200 apartments, or 54% of the three counties’ at-risk inventory, are Section 8 properties which also have HUD-insured mortgages.

Figure 1: Financing Programs

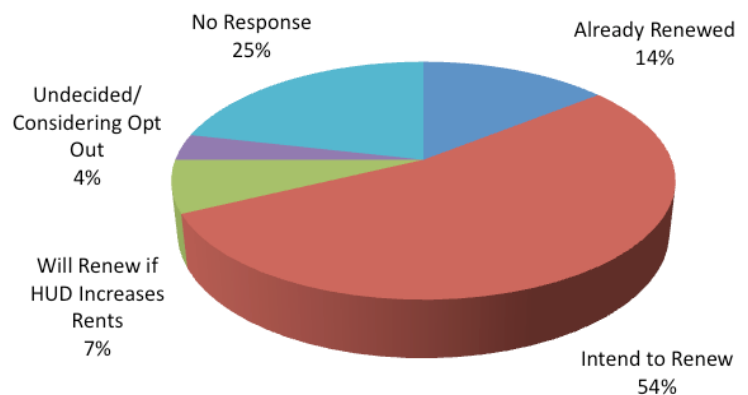


It is important to note that the federal government is no longer providing any new Section 8 contracts. Thus, while tenants of converted properties should receive tenant protection vouchers to subsidize their next housing choice, each time an owner opts out of a Section 8 contract, the actual amount of affordable Section 8 rental housing stock in the Bay Area counties decreases, enlarging the existing gap between the housing needs of low-income renters and the declining supply of centrally located, affordable apartments. This trend will accelerate unless local governments and advocates take aggressive steps to work with HUD and other partners to stem the loss of these properties in the near future.

### Owner Responses

Between July 15 and August 26, 2009, CHPC made contact with 21 owners or owners' representatives, or 75% of the 28 properties initially determined to be at-risk. As displayed in Figure 2, 14% of owners, or four (4) owners, stated that they had already renewed their Section 8 contracts. Out of these owners, one (1) had renewed for one year, one (1) had renewed for five years, and two (2) stated that they had renewed their contracts for 20 years.

Figure 2: Owner Responses



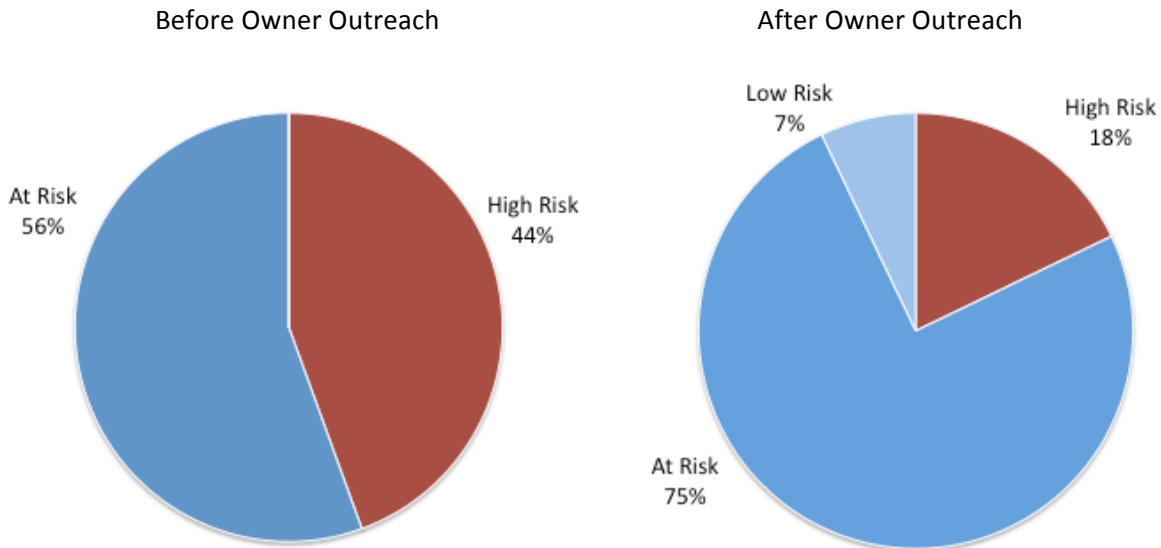
Of the 15 properties (54%) that intend to renew their contracts, only one (1) stated that they would renew for more than one year. In addition, two (2) owners (7%) stated that the decision to renew their contract depended on whether or not HUD would increase the Section 8 rents for their property, which market data suggests is unlikely to occur in the short term. In other words, many owners, including the 4% still "undecided", are likely to base their decisions on market-related factors that change from year to year.

CHPC was unable to speak with 6 owners, or 21% of all properties, either because they were unavailable, or because they declined to speak about their intentions for their property. Multiple contact attempts were made for each of these properties before listing the status as "No Response."

### **Conclusion**

At the start of this study, CHPC determined that out of the 28 at-risk project-based Section 8 apartments in Alameda, Contra Costa and San Mateo Counties, 995 apartments in 13 properties, or 44% of the total number of at-risk apartments, would reach the end of their contracts within the next 12 months. Based on owner responses, CHPC has determined that 5 properties, or 18% of the original number of at-risk apartments, still remain at a high risk of conversion before 8/31/10 (See Figure 3 below).

Figure 3: Comparison of Risk Assessment Before and After Outreach



While none of the owners or property managers contacted in this study specifically stated an intention to opt out of their existing Section 8 contract, the properties designated as “High Risk” after owner outreach includes properties whose owners failed to provide a response, or properties whose owners stated that the renewal of their Section 8 contract was dependent upon a HUD increase in rent. Owners who simply stated an intention to renew, or who stated that they had already renewed for a period of less than five years were categorized as “At Risk”, while the two (2) properties that had already been renewed for twenty (20) years were categorized as “Low Risk”. CHPC recommend focusing resources on the five (5) high-risk properties as they would require the most immediate attention. The remaining at-risk properties should also be tracked as a number of these properties will likely enter the high-risk category within the next year. CHPC will work with local governments, tenant advocates, and nonprofit affordable housing developers in strategizing how best to preserve these Section 8 properties.

#### About CHPC

The California Housing Partnership Corporation is a private nonprofit organization dedicated to helping government and nonprofit housing agencies preserve and expand the supply of affordable housing for lower income households throughout California. CHPC’s Preservation Clearinghouse is the state’s most comprehensive source of information on subsidized affordable housing at risk of losing its affordable status and converting to market rate housing. CHPC uses the database to identify affordable properties that are at-risk and should be targeted for preservation and to work with local governments and nonprofit housing advocates to preserve these properties. Since its inception in 1988, CHPC has helped to preserve more than 6,000 affordable homes at-risk of conversion and to create an additional 7,000 affordable rental homes. Please contact CHPC Housing Preservation Coordinator Randy Quezada at [rquezada@chpc.net](mailto:rquezada@chpc.net) for more information about CHPC’s work in this area.