



Affordable Rental Housing At-Risk in Los Angeles County

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 Los Angeles County was made possible by the extraordinary efforts of CHPC intern Chris Maxwell and Preservation Outreach Coordinator Nadia Shihab with special financial support from Citi Foundation.

Introduction

Over the next decade, dozens of Los Angeles County project-based Section 8 contracts 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 Los Angeles County. In the next year alone, there are 1,668 apartments with expiring Section 8 contracts in Los Angeles County. Within five years, without any interventions this number will rise to 4,164 apartments with expiring contracts.

Purpose of Los Angeles County Report

The purpose of this study is to identify affordable subsidized housing in Los Angeles County 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

Properties located in the city of Los Angeles were excluded from this study because they are currently being analyzed for another project in which CHPC is working with the Los Angeles Housing Department. CHPC used data provided by HUD to identify project-based Section 8 properties in Los Angeles County. We 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 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.

What is "risk"?

- "Risk" refers to a property's risk of conversion to market rate housing, or the likelihood that a property owner will end their subsidy.
- **HIGH RISK**
expires in less than one year
- **AT RISK**
expires in two to five years
- **LOW RISK**
expires in more than five years

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Finally, properties were categorized based on their Section 8 contract expiration date, with “High Risk” properties expiring within one year (between 8/31/3009 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 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.

Summary of Findings

After filtering the initial output data as described above, we found that 65 project-based Section 8 properties with Section 8 contracts expiring in the next five (5) years are “at-risk” of conversion. The following results describe Los Angeles County’s at-risk Section 8 housing 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 in the County. The table to the right illustrates the breakdown by owner type of the at-risk properties in Los Angeles County.

Table 1: Section 8 Owner Types in Los Angeles County

Owner Type	Properties	Assisted Apartments	Percent of Total Assisted Units
For Profit	54	3333	80%
Non Profit	7	507	12.2%
Limited Dividend	4	324	7.8%
TOTAL	65	4164	100%

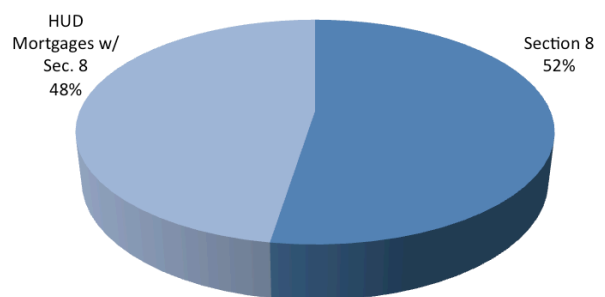
Profit motivated organizations own 3,333 assisted units or 80% of all at-risk units in Los Angeles County, while non-profit organizations own 507 assisted units representing 12.2%. Less common are owners designated as “limited-dividend” by HUD, which own 324 assisted units, accounting for 4% of the total 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 owner’s to convert properties, thus increasing the risk of conversion.

While mission-driven non-profit 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 project-based Section 8 inventory in Los Angeles County is financed through Section 8 contracts and HUD-insured mortgages. Properties financed through Section 8 alone account for 52% of the at-risk inventory, or 2,186 apartments (See Figure 1). An additional 1,978 apartments, or 48% of Los Angeles county’s at-risk inventory, are Section 8 properties which also have HUD-insured mortgages.

Figure 1: Financing Programs

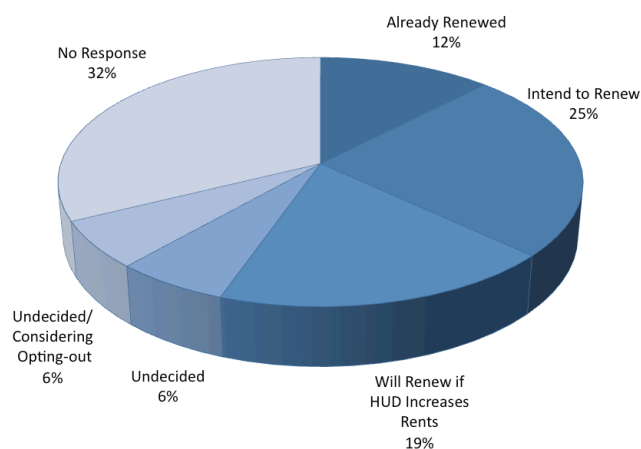


It is important to note that the federal government is no longer providing any new Section 8 contracts. Thus, while tenants of converted properties should receive tenant protection vouchers to subsidize their next housing choice, each time an owner opts out of a Section 8 contract, the actual amount of affordable Section 8 rental housing stock in Los Angeles 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 the County and local 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 44 owners or owners’ representatives, or 68% of the 65 properties determined to be at-risk. As displayed in Figure 2, 12% of the respondents or eight (8) owners’ representatives, stated that they had already renewed their contracts. Out of these owners, one (1) had renewed for five years, four (4) had renewed for just one year, and three (3) did not say how long they had renewed for. Since none of these properties were renewed for more than five years, all of these properties are still at-risk of conversion legally.

Figure 2: Owner Responses



Of the 16 properties (25%) that intend to renew their contracts, none stated that they would renew for more than one year. In addition, a significant proportion of owners (19%) stated that the decision to renew their contract depended on whether or not HUD would increase the Section 8 rents for their property. Both findings indicate that many owners, including those 12% still “undecided”, are likely to base their decisions on market-related factors that change from year to year.

CHPC was unable to speak with 21 owners, or 32% 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

Out of the 4,164 at-risk project-based Section 8 apartments in Los Angeles County, 1,668 apartments in 26 properties, or 40% of the total number of at-risk apartments, will reach the end of their contracts within the next 12 months. 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, we recommend focusing resources on the 26 high-risk properties as they would require the most immediate attention should a preservation opportunity present itself. 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 for more information about CHPC's work in this area.