



# HOUSING PRESERVATION NEWS

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## Los Angeles Summit Presents New Tools for Affordable Housing Preservation



On May 10<sup>th</sup>, CHPC staff helped to lead an invitation-only Affordable Housing Preservation Summit in Los Angeles for more than 130 owners of affordable rental properties, policy makers and housing advocates. The Los Angeles Housing Department, the Community Reinvestment Agency of the City of Los Angeles, and the Los Angeles Multifamily Hub for the U.S. Department of Housing and Urban Development (HUD) co-hosted the daylong forum. The event was part of a larger citywide affordable housing preservation initiative funded by the [MacArthur Foundation](#), one of a handful they have invested in nationally.

The in-depth presentations highlighted the more than 25,000 affordable rental homes that CHPC has identified are at risk of conversion in Los Angeles over the next five years and briefed participants on preservation tools for nonprofit purchasers, incentives for owners of HUD-assisted properties, and case studies on the successful preservation of HUD-assisted properties.

Among the 18 speakers in attendance was Margaret Salazar, Senior Housing Program Specialist from the Office of Multifamily Housing Programs at HUD and a former member of CHPC's Housing Preservation team when she was a Presidential Management Intern based at the HUD San Francisco Regional Office. Ms. Salazar is currently assisting Deputy Assistant Secretary Carol Galante with developing a number of new initiatives related to preserving HUD's older assisted housing stock. [See the end of this article for an in-depth interview with Ms. Salazar.]

During a panel titled “New HUD Resources” moderated by CHPC President & CEO Matt Schwartz, Ms. Salazar gave an overview of HUD’s agenda to address preservation-related issues, such as opt-outs, maturing mortgages, physical deterioration and financial trouble/default. We’ve summarized some of these key changes from her presentation below:

- ***Distributions to Nonprofit Owners Now Allowed with Waiver***  
HUD is planning to release an interim rule later this year allowing the waiver of the clause that has effectively prevented nonprofit owners of HUD-assisted properties from receiving even modest distributions. Owners may receive the waiver to receive distributions as part of a mark-up-to-budget request under the Section 8 Renewal Guide. A related change also modifies the procedure to re-calculate “initial equity” to make it more workable for nonprofit owners.
  - ***Cash Out at Prepayment now allowed for NP Preservation Transfers***  
This notice, to be published by September, will authorize Nonprofit Owners to receive modest proceeds from the sale of a property to a qualified preservation purchaser. The sale must involve the execution of 20-year Use Agreement and HAP Contracts, with rents capped at market. Applies to Section 221(d)(3), Section 236 and Section 231 properties.
  - ***Residual Receipts Available to Use when Affordability is Extended***  
This forthcoming change to Chapter 25 of HUD Handbook 4350.1 this fall will allow “new reg” owners (post-1979) to access Residual Receipts with Hub approval for project improvements including energy efficiency, provided the owner/purchaser signs a 20 year HAP Contract renewal. Residual Receipts may also pay the transaction costs on a preservation acquisition.
  - ***New Expedited FHA Processing for Low Income Housing Tax Credit Projects***  
This Tax Credit pilot should be available by early 2012 and will streamline processing of FHA mortgage insurance applications with LIHTCs, including properties with Section 8 rental assistance.
  - ***New Flexibility for Preserving HUD Properties with LIHTC Financing***  
The publication of an update to the Section 8 Renewal Guide this fall will make it easier for owners to use Section 8 with LIHTC by allowing Tax Credit expenses to be included in project budgets, and allowing projects to be underwritten using Section 8 market rents rather than restricted LIHTC rents. HUD may also approve “post-rehab” rents for rehab transactions.
  - ***Deferral of Flexible Subsidy Debt***  
Notice 11-05 allows owners to defer Flexible Subsidy Debt as part of a preservation transaction, and applies to operating loans which, unlike capital loans, may be deferred to the term of the new financing.
  - ***New Refinancing and Preservation Tools for Section 202 Elderly Properties***
    1. Notice 11-03 allows the conversion of efficiency units to one-bedrooms to address obsolete housing and reduce vacancies
    2. Notice 10-14 allows for the refinance of pre-1975 properties with interest rates of 6% or less to complete needed repairs. Enhanced vouchers may be provided to unassisted residents. This notice is in effect until the notice implementing 118 is issued.
    3. Notice 10-26 allows for the subordination of Section 202 loans when required for a preservation transaction.
    4. Under the Supportive Housing for the Elderly Act of 2010 (S. 118), rental assistance contracts are authorized, though appropriations are pending. Also under S. 118, owners may use proceeds from refinancing towards other HUD-assisted senior projects.
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- ***New Tenant Organization grant for advocacy organizations***

This NOFA, which is scheduled to roll out on June 20<sup>th</sup>, will provide \$10 million in grants to nonprofits to outreach, engage and educate tenants on their rights in the event of an opt-out, prepayment or mortgage maturity.

- ***Launching Multifamily Preservation Training***

A comprehensive 3-day training launching Fall 2011 in 8 cities nationwide will provide tools for owners on preservation options including 20 year contracts, refinance and repairs, IRP decoupling, HAP Contract renewals and selling property to preservation purchasers.

## **Up Close and Personal with Margaret Salazar of HUD**

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*In conjunction with her presentation at the Los Angeles Affordable Housing Preservation Summit, CHPC Housing Preservation Specialist Nadia Shihab interviewed Margaret Salazar, Senior Housing Program Specialist at the US Department of Housing and Urban Development (HUD) and primary advisor to Deputy Assistant Secretary Galante on preservation policy development. A committed preservation advocate, Margaret spoke with us about her early advocacy work with CHPC, national preservation trends to track in the coming year, and the specific challenges that California's preservation advocates face in relation to maturing mortgages.*

### **CHPC: How did you first get involved in affordable housing?**

MS: I moved to the Bay Area in 1998, which was when the area was grappling with the Dot Com boom, which seems like ancient history now. There was a severe crisis in affordable housing and rental housing overall, and as so many people moved to the Bay Area, we saw tremendous displacement of tenants in Oakland. Oakland was really severely hit because there were no eviction protections so we saw entire buildings being evicted and a 300% spike in evictions and it was really hitting communities of color in particular. So I got involved in that issue and it stoked the fire in my belly. I ended up serving on the Steering Committee of the Measure EE campaign in Oakland which was a ballot measure that barely passed in 2002 that provided "just cause" eviction protections for tenants. And I've never looked back from housing since.



**CHPC: You spent some time at CHPC early on in your career. What were you working on and what was most valuable about that experience?**

MS: We were doing a regional campaign to target the Central Valley and Sacramento Valley to try and understand what was going on with properties that were at-risk in those communities. So I called and interviewed a large number of HUD owners in those regions and interviewed them on what their plans were for their Section 8 properties. It was an extremely valuable experience because I got to hear first-hand about their “HUD fatigue” which I know is widespread among owners and developers of HUD housing. And contacting them from CHPC, their responses were very unfiltered because I wasn’t calling them as a HUD official, so that was really useful. We found out that in many smaller communities outside of major cities, a lot of the owners just did not know some of the options they had for preservation, such as Mark-up-to-Market rent increases, Section 8 renewal, or selling at fair market value to a nonprofit. So, for me, what was really valuable about that experience was just learning how important it is for us to reach out and engage with our owners and the housing industry, so our community knows what tools they have and how our programs can work for them. I also learned from CHPC the importance of partnering with local governments and all the great work that CHPC has done to engage with local government officials around preserving properties within their jurisdictions.

**CHPC: You recently moved to the HUD Headquarters office in DC from the San Francisco Hub HUD office. What has that transition been like, and how has your experience working at the SF office prepared you for working at HUD Headquarters?**

MS: It’s been an extremely positive experience. It’s been a very exciting time to be here at HUD. The leadership is absolutely engaged in doing innovative things to preserve our housing stock and also to develop new housing. My background is in housing policy, but having worked in the San Francisco office, I really look at things from the perspective of implementation. I know how hard our regional staff is working to try to make our programs as effective as they can be, which is not always easy. And I understand what we need to do to make our programs work better on the ground. So now that I’m here in Washington in policy discussions, I really bring that perspective to the table about how this is actually going to work. So if a policy being discussed is not actually going to make our programs work better, I’m the first one to raise my hand and bring up that issue.

**CHPC: What kind of national preservation trends do you see occurring in the next few years?**

MS: One of the big trends coming out of HUD is the commitment to preserve public housing and to try and draw more resources into public housing so we can recapitalize and improve public housing across the country. It’s an important conversation folks should be aware of.

And the other thing that we’re seeing more and more of is this real commitment to looking at energy efficiency in multifamily properties. From my perspective, I feel that the next wave will go beyond some of the initial excitement about “green” and will look more at documenting and tracking data around the real energy cost savings that housing can realize if they take steps toward energy efficiency. I feel like the next wave is really going to be working carefully to incorporate the most cost-effective energy efficient components into multifamily properties.

**CHPC: What do you see as some of the biggest challenges for housing advocates here in California?**

MS: California has the largest number of maturing mortgage HUD properties in the country. Los Angeles is particularly impacted. Los Angeles County has the largest number of maturing mortgages, and it dwarfs any other city. That’s not to say that all maturing mortgage properties will be lost, because there are certain opportunities for these. But I think it’s going to be very important for folks to pay attention to maturing mortgages and not just look at the expiring Section 8 contracts, because we really do have an opportunity to try and refinance these older properties and possibly transfer them to new ownership. So I think that’s one of the big challenges for



California. Obviously, even from 3,000 miles away, I'm very much aware of what's going on in terms of the scarcity of financial resources for housing in California. Having a resource for not only new construction, but also preservation is going to be critical.

**CHPC: How is the current economic climate affecting your work at HUD?**

MS: HUD is absolutely critical to the economic recovery. We've been administering a great deal of the ARRA funds and, of course, our FHA mortgage insurance programs are absolutely critical to the multifamily industry. We have a skyrocketing workload with folks using our refinance and rehab loan programs, which means we're really serving a critical purpose right now because a lot of other multifamily developers and owners can't find other housing resources. So California field offices are absolutely swamped with work, but they're doing an outstanding job of navigating that.

I also think the other thing affected by the economic situation is that tenant assistance is key right now. Obviously, the tenants are being impacted, and if tenants are displaced because of mortgage maturities or things like that, they are who we're really concerned about. Also, Section 8 is costlier because tenants are paying 30% of their income and if their income has taken a hit in this economy, it's stretching our project-based resources. So folks should be aware of the real need for our project-based resources to continue.

The one positive thing about the climate that we have right now is that it really is causing the federal government to be innovative because we can't rely on new funding or legislation. We are trying to be as innovative as possible, and we are moving forward on a comprehensive preservation strategy that involves administrative and regulatory changes that do not require new spending or legislation. We are taking a number of steps to make it easier for owners to refinance their HUD properties, use Low Income Housing Tax Credits, and secure long-term project based rental assistance. We are also stoking up our outreach efforts to inform tenants and owners of HUD properties on their options to preserve multifamily properties.

**CHPC: What is most rewarding about the work you do?**

MS: Despite the larger budget climate and the political climate, this is still a very active and engaged administration, and it's very rewarding to be part of this larger vision and team. What's most rewarding about working for HUD is that, at our best, we're problem-solvers. In this kind of role, you can find ways to help the industry make really good choices to preserve their properties, working within the confines of existing laws and our scarce resources. And it's really rewarding to help somebody solve that kind of problem, and be able to do the right thing. I also find it personally rewarding to focus on preservation because of my background and my dedication to the issue of preventing tenant displacement and advocating for community self-determination, which is how I got my start in Oakland.

**CHPC: What are you doing when you're not working?**

MS: I love hiking with my husband, Alex, and our chocolate lab, Riley. Since I got here, it's been really fun to explore Washington neighborhoods. I'm also learning to flamenco dance. My other guilty pleasure is watching bad romantic comedies on airplanes because I spend so much time on airplanes flying back and forth to San Francisco.

**CHPC: What might someone be surprised to know about you?**

MS: I grew up on a farm managing my family's cherry orchard in Oregon.



## PRESERVATION SERVICES FOR NONPROFIT AND LOCAL GOVERNMENT STAFF

CHPC provides technical assistance, and training to help nonprofit and government agencies build and preserve affordable homes for California families and seniors. For more information, please contact our Housing Preservation Specialist, Nadia Shihab at [nshihab@chpc.net](mailto:nshihab@chpc.net) or 415-433-6804 x 316, or our Housing Policy Manager, Marilyn Wacks at [mwacks@chpc.net](mailto:mwacks@chpc.net) or 415-433-6804 x 313.

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## THIS NEWSLETTER IS MADE POSSIBLE WITH SUPPORT FROM:

### THE SAN FRANCISCO FOUNDATION

*The Community Foundation of the Bay Area*

