



HOUSING PRESERVATION NEWS

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Acquiring & Preserving At-Risk Properties

More than 70,000 federally subsidized apartments with rents affordable to lower income households are at-risk of converting to market rate over the next five years in California. In addition, nearly 5,000 apartments developed with the assistance of Low Income Housing Tax Credits (LIHTC) and thousands of other apartments developed with assistance from other state and local programs are at-risk of converting to market rate housing. This issue of Housing Preservation News is intended to provide guidance on how best to acquire and preserve these at-risk properties and was put together based on CHPC's experience in helping preserve more than 4,000 apartments to date.

A. Steps to Finding At-Risk Properties to Purchase and Preserve

1. **Register as a Qualified Preservation Entity with HCD.** By doing this you will receive notices from all owners intending to opt out of their Section 8 contracts and/or prepay their HUD insured mortgages as well as owners of properties with other types of subsidies including expiring Low Income Housing Tax Credits and tax-exempt bonds. Owners proposing to sell at any time during the five years prior to the expiration of restrictions must provide this notice at least 12 months in advance unless such sale would result in preserving the restrictions for at least 30 years at the same level of affordability or better. Qualified Entities are nonprofit or for-profits who agree to maintain the long-term affordability of projects if they purchase the property. [See HCD's current list of Qualified Entities and/or register as a Qualified Entity at http://www.hcd.ca.gov/hpd/hrc/tech/presrv/prsv_notice.pdf] Qualified Entities have six months from receipt of the notice to make an offer to purchase the property. Once made, such an offer triggers a right of first refusal and owners must provide an opportunity to match any purchase offers they intend to accept before they do so.
2. **Get on the USDA Prepayment Contact List.** If you are a nonprofit or government housing organization interested in Section 515 properties, email mike.kelley@ca.usda.gov to be added to USDA's prepayment contact list.
3. **Respond to all Notices of Opportunity to Submit Purchase Offers in the area you are interested in.** Request additional information from the owner immediately and ask CHPC for help in evaluating whether it makes sense to submit an offer. Before submitting the offer letter contact the owner or owner's agent to determine their intentions (i.e. are they really planning to sell, convert or refinance), if possible, and then send your offer letter.
4. **Use CHPC data and resources to identify at-risk properties in your area.**
 - **Review the at-risk Tax Credit project database at the back of CHPC's report "The Tax Credit Turns 15"** (<http://www.chpc.net/pages/taxcredit.html>). Focus on the high risk properties for the areas you are interested in and try getting in touch with the owner to talk about whether or not they are interested in selling.
 - **Email our Preservation Program Coordinator, Elyse Perry (eperry@chpc.net), with the list of cities/counties where you want to find federally subsidized at-risk properties (Section 8, 515, 221(d)(3), 236, 202, etc.).** We will email you project level data that you can use to narrow down your search. Focus on the properties with Section 8 or 521 Rental Assistance for all or most of the units and/or properties you think you can get local government funding to support. Send us a request for individual project data for these properties (preferably not more than a dozen or two at a time) and we will send you back detailed information for them.

CHPC Preservation Clearinghouse

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5. **Contact local government housing staff in cities/counties you think are likely to be tracking the at-risk properties in their jurisdictions.** Talk to them about properties they are particularly interested in or worried about. Check to see if the jurisdiction recently updated its housing element (or better yet, had a draft available for comment) and look for descriptions of at-risk properties they have identified as priorities for preservation.

6. **Check with CHPC to make sure that we are not aware of anyone else bidding on a property you are interested in.** Because we try to function as a clearinghouse for information on at-risk properties, we often get calls from owners and potential buyers and may be able to alert you if another nonprofit purchaser plans to make an offer or if someone just dropped out of contract.

B. Steps to Get an At-Risk Property in Contract

Stay in touch with CHPC so we can make sure that the acquisition terms you negotiate will work with acquisition and permanent financing that we can help you arrange.

1. **Talk to the HUD or USDA Asset Manager assigned to the property and confirm the facts about the use restrictions.** If it's a HUD property, email the Chief of Asset Management for the San Francisco hub (angela_m_corcoran@hud.gov) or the Chief for the Los Angeles hub (jerome_a_champion@hud.gov) and ask for the HUD Asset Manager's email and phone number and whatever other information you can get about the terms of the subsidy contract and the owners' intentions. If it's a 515 property, contact your local USDA field office <http://www.rurdev.usda.gov/ca/offices/index.htm>.

2. **Talk to the owner again to find out as much as possible to help craft your offer.** Many owners are suspicious of nonprofits therefore it's very important to highlight your organization's track record, the organization's access to financing and its ability to close. If you work with a broker and think the owner will be impressed by their presenting your qualifications and an offer (as opposed to turned off by having to pay a commission), consider doing this. Or think of anyone else who may be able to recommend you to the owner. CHPC can also contact the owner on your behalf.

3. **Make an offer to purchase the property no later than six months after the date of the owner's Notice of Opportunity to Submit a Purchase Offer.** It's worth it to make an offer that will meet the definition of a bona fide offer in the Notice Law so that you can trigger a right of first refusal in case the owner wants to hold it and sell to someone else. The offer must state a price to meet the bona fide standard but the price can be subject to appraisal as well as inspections. If you copy CHPC on the offer we can help track your right of first refusal.

4. **Follow up with the owner or their agent to make sure they have your offer and are not selling to anyone else without honoring your right of first refusal.** You may also have to do this periodically during the second six months since there is no monitoring by the state.

PRESERVATION TRAINING FOR NONPROFIT AND LOCAL GOVERNMENT STAFF

CHPC is in the process of scheduling regional trainings on strategies for financing the acquisition of at-risk housing for the staff of nonprofit and local government organizations around the state for 2006. If your nonprofit or local government organization is interested in taking part in one of these regional trainings, please contact our Preservation Program Coordinator, Elyse Perry, and let her know as soon as possible. Elyse can be reached at eperry@chpc.net or at 415-433-6804x13.

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