



HOUSING PRESERVATION NEWS

CHPC Preservation Clearinghouse

Elyse Perry,
Program Coordinator
Ph:(415) 433-6804 x13
Email:
eperry@chpc.net

Matt Schwartz
Executive Director
Ph:(415) 433-6804 x11
Email:
mschwartz@chpc.net

How to contact us:

MAIN OFFICE

369 Pine Street Suite 300
San Francisco, CA 94104
Ph: (415) 433-6804
Fax: (415) 433-6805

INLAND EMPIRE

28545 Old Town
Front Street, Suite 205
Temecula, CA 92590
Ph: (951) 506-3377
Fax: (951) 506-3997

LOS ANGELES

800 South Figueroa
Street, Suite 760
Los Angeles, CA 90017
Ph: (213) 892-8775
Fax: (213) 892-8776

SACRAMENTO

PO Box 8132
5325 Elkhorn Blvd.
Sacramento, CA 95842
Ph: (916) 683-1180
Fax: (916) 683-1194

SAN DIEGO

PO Box 319
113 West G Street
San Diego, CA 92101
Ph: (858) 693-1572
Fax: (951) 506-3997

Regional Preservation Strategies: A Report from the San Joaquin Valley

Editor's Note: California has more than 138,000 apartments that are made affordable through HUD subsidized mortgages and project-based Section 8 rental assistance. CHPC works to preserve these properties at-risk of converting to market rate when owners decide to prepay their mortgages, to opt-out of their Section 8 contracts, or sell their buildings. CHPC recently embarked on a Regional Preservation Initiative to identify at-risk properties in targeted communities, both large and small, to uncover regional trends, and to engage local partners to develop regional preservation strategies. CHPC began this effort by focusing on areas where preservation has received less attention from government agencies and nonprofits. In this issue of Housing Preservation News, we report on the Regional Initiative's first focus area: the San Joaquin Valley. Margaret Salazar, a HUD Presidential Management Fellow on loan to CHPC from HUD's San Francisco office, headed up this research effort. We focused on properties with HUD Section 8 contracts, since these subsidies have the most public benefit and many properties with HUD subsidized mortgages also have Section 8 contracts. The next phase of our research will focus on properties with HUD subsidized mortgages and USDA Section 515 rural properties. Our work will then expand to Sacramento, Los Angeles and other parts of the state in 2008 and 2009. Please contact us if you have properties or are interested in preserving properties in these areas.

The San Joaquin Valley: Preservation Challenges

Preservation work in the San Joaquin Valley requires new partnerships, as well as an understanding of regional trends. In August 2007, CHPC provided preservation training for local government housing agencies and nonprofits from the San Joaquin Valley at the HUD Field Office in Fresno, and together with HUD-Fresno leadership, met with representatives from the City of Bakersfield and from Kern County. We provided these partners with information on properties that are at-risk and the tools and techniques available to preserve these properties.

The San Joaquin Valley includes Fresno, Tulare, Kern, Kings, Merced, Madera and Stanislaus counties, and stretches from Modesto south to Bakersfield. The region is home to 87 Section 8 properties, one-third of which are at-risk in the next five years. Preservation work in this region presents unique challenges. Many properties are owned by small, local entities with limited capacity and principals reaching retirement age. In contrast to California's coastal areas, relatively few nonprofit developers or local governments in the Valley are currently involved in preservation activities. Meanwhile, the area is experiencing a tremendous population boom; the San Joaquin Valley added one million new residents over the last ten years, and it is projected to grow an additional 39% by 2020. The affordability status of Section 8 properties may be in danger as owners weigh new options for their properties in a rental housing market that is anticipated to become significantly tighter in coming years.

CHPC's Preservation Database

CHPC maintains a database of all HUD subsidized properties, USDA Section 515 rural properties, and properties financed with Low Income Housing Tax Credits in California. CHPC worked with this database to assess which properties in the San Joaquin Valley are at-risk of converting to market rate. We also interviewed 28 property owners and managers in this region to determine their long-term plans for the buildings, and their interest in preserving their properties through such means as a long-term Section 8 contract or sale to a nonprofit organization. We found 30 properties, and 1,347 apartments, currently "At-Risk" in the region, with affordability endangered within five years. Nearly half of these are "High Risk," with contracts expiring in 2008.

Research Findings for At-Risk Properties in the San Joaquin Valley

Twelve (12) Section 8 properties, including nearly 650 affordable apartments, are at immediate risk of converting to market-rate housing in the San Joaquin Valley in the next year. Within five years, 30 properties and 1,347 apartments are At-Risk. Based on interviews with owners and managers, CHPC has identified several important trends in the San Joaquin Valley:

- **At-Risk properties are being converted through sale, not opt-outs:** CHPC identified eight properties for sale. Six of these are planning to sell to a non-preservation purchaser. Most of these for-sale properties have small owners frustrated by HUD regulations and rents; a small minority is owned by large entities selling for market-driven reasons. We also spoke with a number of owners who plan to hold on to their properties until they are ready to retire – and who appreciate the long-term stability of Section 8 rents.
- **Bakersfield is at disproportionate risk:** Bakersfield is home to one-third of the High-Risk properties in the region, and most of these properties already have sales in the works. These properties represent a large portion of Bakersfield's affordable housing stock. Many owners are based Los Angeles, with little connection to the area.
- **Small owners lack awareness of Mark-Up-To-Market options:** Many owners and management companies are not savvy about Mark-Up-To-Market or the streamlined processing available through multi-year Section 8 contracts. We heard exasperation from owners that their only contact with HUD comes when something goes wrong, rather than to learn about HUD programs that might be useful for their properties.
- **Most high-risk properties are 100% Section 8:** Three quarters of today's High-Risk properties have Section 8 contracts covering all of the apartments. We were surprised at this finding, since we know that recent opt-outs have involved properties with less than 50% of the units covered by Section 8. This trend may be good news for potential preservation purchasers seeking to maximize leveraging of private debt using the Section 8 subsidy.
- **Recent HUD transactions are facilitating preservation:** HUD has issued numerous multi-year contract renewals and completed a wave of FHA mortgage refinances that include long-term Section 8 renewals in key areas, including Fresno and Bakersfield. In Bakersfield, for example, HUD has recently refinanced and preserved approximately one quarter of Section 8 housing stock for an additional 30 years of affordability.
- **Most nonprofit owned properties are not At-Risk:** Nonprofit-owned properties have traditionally been considered "low risk," although nonprofit status does not guarantee that owners will stay in the project-based Section 8 program over the long term, especially as mortgages reach maturity. CHPC included nonprofit owners in our study, and found that overall, these non-profit entities do not plan to sell or opt-out of Section 8 contracts.

Recommendations/Strategies for Preserving At-Risk Properties in San Joaquin Valley

CHPC has identified three major strategies that local governments can employ to preserve Section 8 housing. We recommend that local agencies in the San Joaquin Valley – and beyond – undertake these actions:

1. **Dedicate staff time to preservation:** Jurisdictions successful in preserving at-risk properties have hired staff, or dedicated staff time to analyze their inventory, communicate with CHPC and HUD, and find preservation buyers.
2. **Monitor compliance with the State Preservation Notice Law:** Cities and counties should ensure that property owners are providing registered preservation purchasers with the required six month period to make a purchase offer at Fair Market Value. Cities and counties could also hold public hearings to address such properties and provide assistance and protections for relocated tenants and voucher holders.
3. **Provide financial assistance:** Local agencies can make an impact on preservation by funding preservation purchases, creating public land trusts, and requiring affordability restrictions in return for financial assistance.

Next Steps for Preservation Activities in the San Joaquin Valley

As the population of this area continues to boom, the need for stable and long-term affordable housing will only grow greater. CHPC plans to continue working with local and regional partners, including HUD-San Francisco, HUD-Fresno, Kern County, the City of Bakersfield and nonprofit organizations, to move forward with preservation efforts in the San Joaquin Valley. Specifically, we will work with local partners to: (1) identify properties where sales to market-rate purchasers are imminent and facilitate the sales of these properties to buyers who will extend the Section 8 contracts long-term; and (2) develop a plan to address the lack of owner knowledge regarding contract renewal incentives and options, and promote multi-year contracts whenever possible.

If your organization is interested in participating in these activities, please contact Elyse Perry, Preservation Program Coordinator at eperry@chpc.net or (415) 433-6804 ext. 13.