



HOUSING PRESERVATION NEWS

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Preserving Section 8 Housing in the Sacramento Valley: A Report from the Regional Preservation Initiative

Editor's Note: CHPC works statewide to preserve affordable apartments in California, including those with Section 8 rental subsidies, at risk of converting to market rate. In 2007 CHPC launched a Regional Preservation Initiative to identify at-risk properties in targeted communities, particularly in areas where preservation has received less attention from government agencies and nonprofits. We work to uncover regional trends, and to engage local governments, nonprofit developers, and other partners to develop regional preservation strategies. Our last issue of Housing Preservation News reported on preservation efforts in the San Joaquin Valley. This month, we turn our attention north, to report on our efforts in the Sacramento Valley. These areas stand to lose hundreds of affordable homes, most of them through sales to market-rate buyers. On February 11th, CHPC, together with HUD and the California Coalition for Rural Housing (CCRH), will hold a preservation workshop in Sacramento to help equip local governments and to protect these critical housing resources. Please contact us if you are interested in attending the workshop, or if you are interested in preserving properties in the Sacramento Valley.

Preserving Housing in the Sacramento Valley: Mapping the Terrain

The Sacramento Valley is an area of tremendous growth, diversity, and changing housing markets. This diverse terrain covers Sacramento, Sutter, Yolo, Yuba, Butte, Placer, Amador and Shasta Counties, and includes city centers, aging suburbs, small towns and new subdivisions. Sacramento is no stranger to preservation issues, having addressed a spate of Section 8 opt-outs. Rural communities are less experienced with preservation. Small firms own many rural properties; others are managed at a distance by entities in Sacramento or the Bay Area.

The Sacramento Valley is marked by rapid growth, much of it driven by in-migration from coastal California. Nearly 120,000 households left coastal areas for Sacramento during 2003-2006. The Sacramento Area Council of Governments is planning for continued growth through 2025, with 43% growth forecast for Sacramento and 69-79% growth for Yolo, Yuba and Sutter counties. Placer County will nearly double in population. Population growth has helped improve the region's economy: the California Department of Labor reports that from 2001 to 2005, the Valley experienced net job growth of 3.8%. However, employment and wages in the region still lag; unemployment has exceeded 7%.

Taken together, these factors place hardships on renters, who face a scarcity of both apartments and living wage jobs. We find many owners of subsidized housing are electing to sell their properties to capitalize on new growth and to limit their long-term financial risk. Preservation work is therefore critical. CHPC plans to continue working with HUD-San Francisco, HUD-Sacramento, local governments and nonprofit organizations to create preservation plans for this region.

CHPC Preservation Research

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 Sacramento Valley are at-risk of converting to market rate. We uncovered 50 At-Risk properties, and interviewed managers and owners of 30 properties to determine their long-term plans for the buildings, and gauge their interest in preserving their properties through such means as a long-term Section 8 contract or sale to a nonprofit organization. We found 11 properties at immediate risk of converting to market rate. Our full findings, and our recommendations for actions, are presented below.

Findings

A total of 50 Section 8 properties in the Sacramento Valley are at risk of converting to market rate housing in the next five years, putting nearly 2,800 affordable homes at risk. In the next year, more than 300 very low-income households in the city of Sacramento are at risk. Through our interviews, CHPC uncovered a series of important trends in the region:

- **Sacramento is heavily impacted:** Seven of the 11 High Risk properties are in Sacramento. The fast-growing southern edge of Sacramento, where pressures on rents are increasing, has a large share of At-Risk properties. We found pockets in Sacramento with several Section 8 buildings for sale in the same neighborhoods. The City and the County of Sacramento could play a key role in addressing these challenges.
- **Properties are at risk due to sales, rather than opt-outs:** We uncovered three properties considering opt-outs, and 15 properties planning to sell within 5 years. Most owners were open to selling to a nonprofit buyer. We were encouraged to hear that a number of owners had already been in discussions with potential tax credit purchasers, but we found very little knowledge of the state Notice Law. CHPC will make a concerted effort to track these potential sales and to seek eligible nonprofit purchasers.
- **Many properties have recently been sold or have prepaid their mortgages,** and we found that the new owners are less committed to Section 8. We spoke with one owner who felt in over his head with HUD processing and requirements. Another management agent in a rural area was grossly dissatisfied with Section 8 rents. We heard a number of times from new owners who said they would have never become involved with Section 8 had they been aware of the regulatory burden. Education of new owners should be a priority for HUD and local governments, as should efforts to ensure the right buyers become involved with Section 8 properties.
- **Owners and managers need education:** Small owners and management companies often exhibit less understanding of the program and their options for preserving the properties. We spoke with management agents who were unfamiliar with Mark-up-to-Market, and with requirements such as the State Notice Law. One owner said he preferred to “take his chances” with annual Section 8 contract renewals rather than benefit from the streamlined processing and higher rent potential of Mark-up-to-Market processing. HUD should work to ensure owners in the Sacramento Valley are aware of their opportunities and responsibilities.
- **Nonprofit-owned properties face management challenges:** Many nonprofit-owned properties have recently switched management companies and are contending with management difficulties, deferred maintenance and financial issues. Some of these properties may be eligible to prepay their mortgages, and such problems may make properties more vulnerable to quick fixes such as selling to a market rate buyer. Local governments, HUD and we in the housing industry should keep watch on these properties to protect their capacity and longevity.
- **Many owners committed to Section 8 despite HUD headaches:** We spoke with many owners who voiced their intentions to stay in the Section 8 program, especially with an uncertain housing market. Many have recently taken advantage of owner incentives, including refinancing with FHA, signing long-term contracts, or in one case, participating in the Assisted Living Conversion Program to help residents to age in place.

Recommendations

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

1. **Staff preservation efforts:** Successful jurisdictions have hired staff, or created staffing structures, to work with CHPC, analyze inventory, communicate with HUD, and identify potential nonprofit buyers.
2. **Adopt regulatory strategies:** Cities and counties should ensure that property owners comply with state notice law requirements; hold public hearings to address such properties; require Right of Purchase at Fair Market Value; 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.

CHPC recommends two key activities in the Sacramento Valley. CHPC and local partners will work to preserve the many properties currently for sale. We hope to facilitate the sales of these properties to nonprofit developers who will extend the Section 8 contracts for long-term affordability. HUD should meanwhile work to address the lack of owner education on contract options, and actively promote multi-year contracts when appropriate.

If your organization is interested in acquiring and preserving properties in the Sacramento Valley, CHPC can provide you with more information on specific properties. Please contact Elyse Perry, Preservation Program Coordinator at eperry@chpc.net or (415) 433-6804 ext. 13.