PRESERVING AFFORDABILITY, PREVENTING DISPLACEMENT

ACQUISITION-REHABILITATION OF UNSUBSIDIZED AFFORDABLE HOUSING IN THE BAY AREA

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About Enterprise Community Partners

Enterprise is a national nonprofit that develops programs, advocates for policies and delivers the capital to create and preserve afford able housing for low-income families. Over more than 35 years, Enterprise has created 585,000 homes, invested more than $43 billion and touched millions of lives. Based in San Francisco, our Northern California office seeks solutions to a range of the most relevant and pressing affordable housing issues facing California, especially the Bay Area. As an intermediary, Enterprise provides technical assistance, convenes practitioners and advocacy coalitions, and collaborates with cross-sector partners including but not limited to public agencies, community-based organizations, affordable housing developers, researchers and academics, and funders.

In California, Enterprise's policy and program priorities are to:

- Promote racial equity, economic opportunity and resident power for people historically excluded from shaping the decisions that affect their lives and those of their communities;
- Expand resources and eliminate barriers for the production and preservation of housing that low- and moderate-income Californians can afford;
- Prevent low-income Californians from experiencing homelessness, displacement, housing instability and poor-quality housing conditions, particularly renters; and
- Advance inclusive and equitable development that promotes housing affordability, environmental sustainability, climate and community resilience, economic opportunity and racial equity.

Enterprise's Northern California team has led efforts to address the region's housing affordability for more than a decade. By sharing expertise, bringing together stakeholders and cultivating capital resources, we've helped create or preserve homes for nearly 22,000

families and leveraged more than $1.3 billion in grants and investment toward strengthening the region and its diverse communities.

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EXECUTIVE SUMMARY

In cities across the country, residents face widespread housing insecurity and rising unaffordability. In the San Francisco Bay Area, both home sale prices and rents continue to outpace average wages, and families and individuals must grapple with deepen

ing economic precarity as they are forced to pay a growing share of their income on housing. As a result, our region has some of the highest – and fastest growing – rates of homelessness in the country,[1] compounded by a shortfall of over 235,000 affordable rental homes for very and extremely low-income households.[2] These challenges are not race-neutral; research has shown that communities of color are particularly vulnerable to displacement pressure and the impact of dramatic rent increases.[3]

Cities and counties throughout the region are exploring a variety of tools to curb displacement and safeguard affordability. Over 280,000 low-income households live in unsubsidized affordable housing – housing with rents at affordable rates without public subsidy – but market conditions have also contributed to a decline in this critical part of the housing stock, with an **average decrease of 32,000 such homes per year between 2012 and 2017**. Over the last decade, the preservation of unsubsidized affordable housing, also known as acquisition-rehab, has gained traction as a strategy to prevent the displacement of existing res idents and communities and quickly expand the stock of perma

nently affordable homes.

Acquisition-rehab offers several unique benefits and opportuni ties that may be of interest to a variety of stakeholders, includ ing philanthropy, policymakers, public sector agencies, nonprofit developers and community development corporations, commu nity land trusts, mission-driven financial institutions and residents themselves. Specifically, acquisition-rehab is a:

- **Direct anti-displacement strategy that advances racial and economic equity through a place-based approach;**
- **Fast and cost-effective strategy;**
- **Flexible strategy that expands housing choices;**

and • Long-term, environmentally sustainable

strategy.

Our analysis of 42 acquisition-rehab projects across San Francisco, San Mateo County and Oakland highlight the vary ing average per-unit costs: $483,376, $433,203 and $276,153, respectively. **These sampled properties reflect costs of about**

50-70 percent of new affordable housing production in the same jurisdictions over the same period.

Drawing on three in-depth case studies and interviews with res idents, practitioners and public sector staff, this paper outlines the regional preservation need and highlights the progress to expand and strengthen acquisition-rehab efforts throughout the Bay Area. While acquisition-rehab has demonstrated success and offers great opportunity, like any new strategy, there are also a variety of challenges. Several best practices (listed below) can support the design and implementation of local programs.

In addition to these best practices, there is a need to further develop the broader system that makes acquisition-rehab suc cessful and to help scale it in a meaningful way. Over the past few decades, the affordable housing industry has invested signifi cantly in the infrastructure for funding and financing, partnership building, organizational development, policy and research to build new affordable homes. Preservation, specifically acquisition-re hab of unsubsidized housing, has not yet received the attention and resources to develop a similarly comprehensive and support ive ecosystem. The following recommendations can help advance acquisition-rehab efforts at scale. These recommendations are based on our research, input from our community-based partners and Enterprise's own experience as a housing intermediary.

BEST PRACTICES FOR DESIGNING AND IMPLEMENTING AN ACQUISITION-REHAB PROGRAM

- Engage Local Stakeholders Early in the Program Design Process
- Conduct a Local Landscape Analysis
- Plan for Public Awareness and Education
- Earmark Sufficient Staffing and Funding to Jumpstart a Program, Including Capacity Building
- Coordinate with Other Public Agencies & Departments

1. SECURE FUNDING AND FINANCING BEYOND LOCAL PROGRAMS

This includes early stage financing, such as flexible acquisition capital, program related investment funding from philanthropic entities and a regional pool of "at risk" funding to support pre-de velopment work. It also includes new matching subsidy pro grams at the state and/or regional level specifically tailored for acquisition-rehab. The new Bay Area Housing Finance Authority (BAHFA) provides one promising opportunity for the region.

2. STRENGTHEN AND BUILD PARTNERSHIPS

Collaboration and coordination between residents, nonprofit stewards, tenant advocacy and community-based organizations, public agencies and community development financial institu tions (CDFIs) can help expand and improve outcomes for acquisi tion-rehab. There is also an opportunity to explore closer partner ships on policy and programs with organizations and agencies in related fields, like public health and climate change mitigation.

3. SUPPORT CAPACITY BUILDING FOR THE UNIQUE ASPECTS OF OCCUPIED ACQUISITION-REHAB

This includes resourcing the capacity of all stakeholders involved in acquisition-rehab, including residents, community-based orga nizations, public agencies and CDFIs. There is a particular need to invest in the infrastructure to work with residents in place and reach our region's housing stock of smaller buildings.

4. PASS COMPLEMENTARY POLICIES

Policy offers the opportunity to change the conditions within which acquisition-rehab operates, eliminating barriers, accel erating the work and deepening the impact. Examples include policies to facilitate easier property acquisitions, including a right of first offer and/or refusal and policies that link housing code compliance with acquisition-rehab. Other opportunities include tax treatment improvements and protecting the existing stock of unsubsidized affordable housing through regulatory measures.

5. IMPROVE AND DEVELOP NEW TOOLS FOR PRACTITIONERS AND RESIDENTS

As this work continue to grow, there is an increasing need for databases, toolkits and other resources to help identify at-risk properties and tenants, connect eligible residents with housing opportunities and share best practices on various aspects of the acquisition-rehab process.

“Having a place that you know will stay within your price range is a big relief. Who needs that anxiety? It’s comforting to know that I can stay near my family and friends in Oakland and have that peace of mind.”

Darrell Johns, resident at EBALDC’s Kensington Gardens Apartments

INTRODUCTION

We should all have access to a healthy, stable, affordable home in a neighborhood with the community and resources we need to live a full and dignified life. Despite California’s prosperity, this promise remains unfulfilled for far too many families and individuals. In the Bay Area, over 75 percent of the nearly 600,000 low-income households who rent are cost-burdened, paying at least 30 percent of their monthly income toward rent and often one paycheck away from losing their homes.[a] Among this group of renters are households who live in “unsubsidized affordable housing,” homes currently renting at rates that are affordable to lower-income households without public subsidy.

One of the core strategies that Enterprise’s Northern California office advances is the preservation of this unsubsidized affordable housing through acquisition-rehab. By removing this housing stock from the speculative market and bringing it into nonprofit or community stewardship, acquisition-rehab is a direct response to the diminishing supply of affordable housing, the persistence of eviction and displacement among renter households, and the rising cost and slower pace of new housing construction.

The rehabilitation and preservation of homes in poor and working-class neighborhoods was a critical component of community development work in the 1960s, often through housing rehabilitation loan and grant programs carried out by community development corporations (CDCs). In recent decades, most preservation efforts have focused on extending the affordability of subsidized or income-restricted affordable housing in need of capital improvements and/or nearing the expiration of affordability restrictions. This is primarily done through re-syndication of Low-Income Housing Tax Credits (LIHTC), refinancing with special-purpose loan funds and products, and renewing rental subsides such as Section 8 vouchers. More recently, both housing practitioners and residents have shown a growing interest in acquisition-rehab of unsubsidized affordable housing currently on the private market.[4 5 6] Cities like New York,[7] Washington, D.C.[8] and Minneapolis[9] have grown their acquisition-rehab efforts through a mix of funding, programming, and policy.

Local housing departments and community-based organizations in several cities and counties in the San Francisco Bay Area are part of this new wave of acquisition-rehab initiatives. This network of actors is pushing the boundaries of our affordable housing system, working at the intersection of tenant protections and development. Through our role as a convener, Enterprise supports the growth of these efforts by facilitating practitioner collaboratives, providing technical assistance, engaging public sector partners to create and improve funding programs and developing new financing tools.

Acquisition-rehab is a direct response to the diminishing supply of affordable housing, the persistence of eviction and displacement among renter households, and the rising cost and slower pace of new housing construction.

Drawing on original qualitative and quantitative analysis, this report highlights the various components and stakeholders involved in financing and executing occupied acquisition-rehab, exploring the outcomes and lessons learned from programs in San Francisco, Oakland and San Mateo County.

- **Section 1** explains the acquisition-rehab model – from identifying homes to long-term stewardship
- **Section 2** reviews current public programs to finance and support acquisition-rehab work
- **Section 3** examines financing initiatives developed by CDFIs to support acquisition-rehab

- **Section 4** presents a summary of quantitative data on a set of Bay Area homes preserved through acquisition-rehab

[a] Based on internal calculations using 2017 Census PUMS 1-year estimates, of the 583,000 low-income renter households in the Bay Area, roughly 455,000 are paying 30% or more of their income towards housing costs.

- **Section 5** summarizes challenges and best practices for local acquisition-rehab programs

- **Section 6** provides recommendations to the community development field for supporting the improvement and growth of acquisition-rehab

In addition, case studies featured throughout the report pro vide a closer look at how acquisition-rehab projects take shape from the perspective of both nonprofit organizations and resi dents, re-centering the conversation around the experience of residents and their neighborhoods. The case studies also illustrate how acquisition-rehab is fundamentally a place-based anti-displacement strategy – and one important way to help mit igate the threats to housing stability faced by low-income resi dents, communities of color and other groups that are not well served by the broader housing market.

KEY TERMS

Area median income

Area median income (AMI) is the income for the median – or middle – household in a specified geopgraphy, usually a region. Often housing programs for low-income households are avail able to those earning less than 80 percent of AMI.

Affordable housing

Affordable housing is restricted to households earning below a certain income level for a specified number of years and often receives public subsidy (e.g., Section 8). Rents are typically set at no more than 30 percent of a qualified household's income.

Unsubsidized affordable housing

Unsubsidized affordable housing lacks public subsidy or income restrictions but nevertheless has rents affordable to house holds earning 80 percent of AMI or below, due to the

proper ty's location, condition, age, design elements and a variety of other reasons. In other words, the homes are occupied by and affordable to low-income households without subsidy and deed restrictions, making this housing stock particularly vulnerable to the speculative market. People living in unsubsidized affordable housing face uncertainty since they are unprotected from large rent increases or eviction, unless there are tenant protections in place locally.

Displacement

Displacement is the process by which a household is forced to move from their home because of conditions beyond their con trol, such as market pressures, natural disasters or evictions.

AND NOT "NOAH"?

Unsubsidized affordable housing is sometimes referred to as "naturally occurring affordable housing" or "NOAH" in the affordable housing sector. However, in recognition of both the social and economic forces (e.g., disinvestment and redlining) that often contribute to the declining conditions of many of these properties, as well as other factors such as property age and outdated amenities that impact the affordability of rents in diverse real estate markets, we have chosen to use the term

WHY "UNSUBSIDIZED AFFORDABLE HOUSING"

East Bay Asian Local Development Corporation "unsubsidized affordable housing." (EBALDC) residents

an

Snapshot of the Bay Area's Housing Stock

Enterprise, using data on the subsidized housing stock provided by CHPC, estimates that as of 2017, there were roughly 282,000 unsubsidized affordable homes in the nine-county Bay Area.b As rents have skyrocketed and lower-income households have left the region, the number of these homes has declined, with

Exhibit 1.

average annual decrease of over 32,000 such homes between 2012 and 2017 (Exhibit 1).

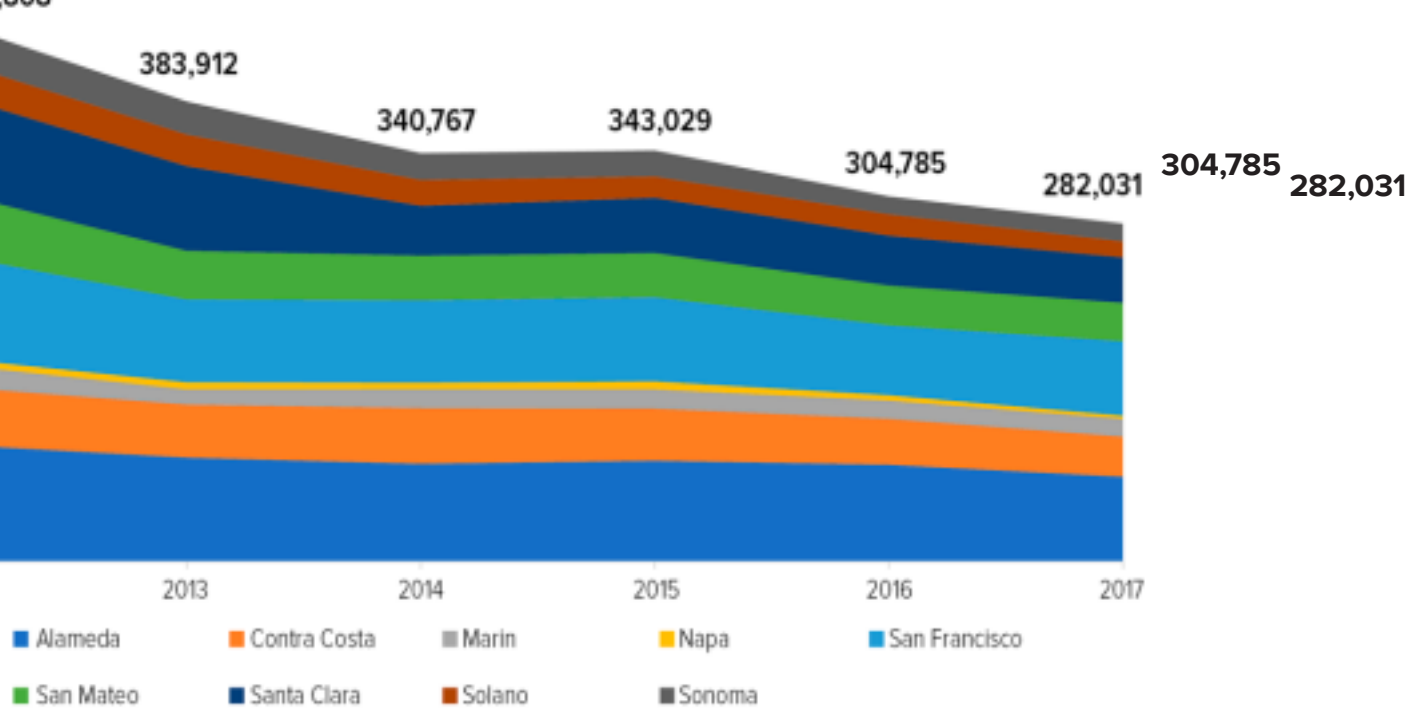
Low-income households live in many different rental housing types, ranging from single-family homes, to small multifamily buildings, to large buildings with over 50 apartments. Over half

Unsubsidized Affordable Homes Occupied by Low-Income Households in the Nine-County Bay Area, 2012 - 2017

500,000

449,808

400,000 300,000 200,000 100,000 0



383,912 **340,767** **343,029**

2012 2013 2014 2015 2016 2017

Alameda San Mateo Santa Clara Napa

Contra Costa Marin Solano Sonoma San Francisco

The number of unsubsidized, affordable homes occupied by low-income households has declined in recent years– averaging a decrease of 32,000 such homes per year between 2012 and 2017.

[b] While these units are technically affordable to a household earning 80 percent of the AMI, current occupants earning less than this threshold may be cost burdened. For example, a unit renting at a rate that's affordable to a 70 percent of AMI household that's currently occupied by a 30 percent AMI household is considered "unsubsidized affordable" by our definition even though the rent of this unit isn't affordable to the current household. It is also important to note that there are limitations in available data and record-keeping on subsidized and deed-restricted housing units, and that this estimate does not include public housing, units that are subsidized or income restricted through local programs, and units where residents hold Section 8 Housing Choice Vouchers. For more information on our methodology, see appendix.

of these homes, as well as the low-income households who live in them, are

of all affordable homes occupied by low-income households, including subsidized and public housing, are in buildings with nine or fewer units (Exhibit 2). In high-cost, high-demand markets like those found in Northern California, the affordability

Exhibit 2.

All Affordable Homes Occupied by Low-income Households by Building Size, 9-County Bay Area, 2017

Trailer/Mobile Home

2%

under constant threat as owners seek to "re-position" their prop erties for higher earners who can afford significantly higher rents.

It throws a lifeline to residents facing eviction or untenable rent increases, allowing them to live and age with an affordable cost

50+ Units
19%

Why Acquisition-Rehab?

Acquisition-rehab aims to preserve the shrinking supply of unsubsidized affordable housing. Among its distinct strengths, it is:

20-49 Units
11%

A direct anti-displacement strategy that advances racial and economic equity through a place-based approach.

10-19 Units

of living and dignity, in place. Displacement disproportionately harms communities of color and low-income people, compound ing historical inequities in housing and land use policies and practices, as well as undermining the racial and socioeconomic diversity of the region.[10] Acquisition-rehab offers the opportunity to target resources and invest in stability, community ownership and permanent affordability. It acknowledges the importance of place to residents and prioritizes residents' ability to remain in their neighborhood, connected to social networks, schools and jobs.

A fast and cost-effective strategy.

While new construction in the Bay Area often takes five or more years from predevelopment to occupancy,[11] acquisition-rehab can be completed in a matter of months and is less likely to face local opposition since residents and buildings are already part of the community. Cost effectiveness varies by market, but in gen eral acquisition-rehab has significantly lower per-unit costs than new construction when compared over a 50-year period.[12] Our analysis estimates per-unit development costs that are around 50 to 70 percent of new affordable housing production.

A flexible strategy that expands housing choices.

Acquisition-rehab can help preserve the full range of hous ing types – from single-family homes to large apartment build ings and mixed-use spaces – meeting residents where they are and giving future low-income households more options as they seek a home and neighborhood that suits their needs. It can also expand the spectrum of tenure and management approaches for affordable housing, including co-ops and other models that center on community ownership. Through this work, community-based stewards have a new opportunity to build relationships with neighborhood partners, including com munity organizers, faith-based institutions and tenant associ ations. Strengthening these bonds can help advance broader efforts to improve local conditions and work in partnership with low-income residents.

A long-term, environmentally sustainable strategy. When acquisition-rehab efforts target substandard properties, renovation and structural improvements can add years to the building's lifespan, stemming the cycle of decline and prevent ing scarce homes from falling out of the housing stock. A study by the National Trust for Historic Preservation found that the reuse of buildings resulted in lower impacts to the environment and public health compared to replacing comparable buildings from the ground up, especially when paired with energy and resource-efficient retrofits.[13] As national preservation expert and architect Carl Elefante has said, "The greenest building is one that's already built."

Why Isn't Acquisition-Rehab More Commonplace?

Despite its promising potential, the strategy of acquisition-rehab faces certain challenges and has yet to become common prac tice in the Bay Area's housing and community development field. As our case studies and interviews indicate, acquisition-rehab

able housing system. This report discusses these challenges at the local and regional level and makes recommendations to address them toward bringing acquisition-rehab to greater scale.

THE ACQUISITION-REHAB PROCESS

A wide variety of organizations carry out acquisition-rehab of unsubsidized affordable housing, including traditional nonprofit affordable housing developers, community land trusts, other community-based organizations and tenant associations – all referred to as "stewards" in this section. Because of this diversity, acquisition-rehab may look different across programs and proj

ects. With this variation in mind, the process typically involves five steps (Exhibit 3).

1. Identify Homes

Potential homes come to the attention of stewards in many ways, ranging from real estate listings and brokers, to more communi ty-based sources like resident organizers and sympathetic land lords. Outreach efforts and partnerships with community-based organizations can help identify properties where residents are at a high risk of displacement. Residents may also pursue acqui sition-rehab of their own home through collective ownership models. Stewards prioritize homes based on a range of social and economic factors. Social factors include the willingness of the residents to engage in the process, the presence of spe cific groups (e.g., seniors, people with disabilities and extremely low-income households), threats of displacement and the cultural significance of the building. Economic factors include market conditions and the per-unit costs of developing the building as affordable housing. Stewards may also be interested in buildings of a certain size, location or resident profile (e.g., residents with special service needs).

2. Predevelopment

Once a building has been identified, the steward must conduct further analysis to determine if they should move forward with an offer. They will typically perform basic due diligence to assess the

demands a distinct set of skills and capacities as well as institu tional support that generally does not yet exist in today's afford

condition of the building, create an operating plan and, if possi ble, work with residents to identify rehabilitation needs. An initial financial feasibility analysis will be conducted to determine if the development budget, existing rent roll and available financing sources would permit the sustainable operation of the building as permanently affordable. Some stewards work closely with res idents and/or other community partners to determine how well their model fits with resident needs and desires as well as the broader neighborhood community development strategy.

Liberated 23rd Ave, a mixed-use property stewarded by the Oakland Community Land Trust, includes eight affordable homes and four neighborhood-oriented commercial tenants.

Exhibit 3.
Overview of the Acquisition-Rehab Process

- Identify high-priority buildings
- Begin feasibility analysis
- Asses building conditions & resident needs
- Identify funding sources
- Negotiate with owner
- Finalize purchase agreement
- Close acquisition financing
- Complete inspections & construction plan
- Secure permits
- Manage construction in coordination with residents & contractors
- Engage service providers
- Perform property & asset management
- Sustain resident engagement

3. Acquisition

The steward will often work through a broker to negotiate a purchase agreement. Once a deal is in place, this process will entail many of the typical aspects of a real estate transaction, including a more thorough inspection of the property; a capital needs assessment to determine the rehabilitation scope and budget; investigation of zoning, permitting and other relevant records; and an in-depth financial feasibility analysis. To keep rents affordable despite a market-rate acquisition price, stewards typically rely on a variety of flexible, low-cost financing tools, such as CDFI bridge loans as well as local public subsidy programs to sustain long-term operations.

To keep rents affordable despite a market-rate acquisition price, stewards typically rely on a variety of flexible, low cost financing tools.

In some cases, stewards work closely with local housing departments to get an early public financial commitment, which often enables them to secure other financing sources. To serve very and extremely low-income residents, stewards may also apply for Project-Based Vouchers through the local housing authority. Additionally, the acquisition phase may involve educating residents about the transition to nonprofit ownership and management, which includes the sensitive task of obtaining certifications of their income (typically a requirement to receive public financing, subsidies and favorable tax treatment).

4. Rehabilitation

As the acquisition process is wrapping up, the steward will assemble a team to manage the project, including working with residents and overseeing construction during rehabilitation. The capital needs assessment and other inspections provide the outline for the work that needs to be completed, informing the construction timeline and a more detailed budget. The most urgent and immediate health and safety repairs are addressed first and may be financed through an initial acquisition loan, while longer-term, more intensive improvements, such as energy efficiency upgrades and seismic retrofits, are typically financed through construction loans and other sources. Managing the rehabilitation phase requires the steward to balance the needs of contractors and residents. When intensive rehab renders units uninhabitable, the steward must work with residents to come up with a temporary relocation plan, which can be very costly and disruptive. In some cases, stewards might keep some units

vacant so that residents can be relocated on site while the rehab is completed. Keeping the project within the timeline and budget requires close oversight and open channels of communication. Identifying resident leaders early in the process can help ensure this phase moves smoothly while respecting existing residents.

Exhibit 4

Common Models of Affordable Stewardship for Occupied Acquisition-Rehab

Ownership	Nonprofit steward acquires and retains ownership of land and property. Property is maintained as a rental, and rents are held at an affordable level for income-qualified households.	Residents form an entity (LEHC) that acquires the property. Residents purchase and own shares in LEHC at an affordable price, entitling them to reside in their unit and build some equity.	Community land trust (CLT) acquires land and property. Property may be sold to residents at an affordable price, or retained and operated as a rental, but CLT will always own land and steward permanent affordability.
Management and Decision-making	Professional property management contracted by or provided directly by nonprofit steward. Possibility of resident council or other channel for residents to provide input.	Resident shareholders elect and participate on their own board, which makes decisions on property man agement, community rules, etc. Varies by property type (rental, co-op, single family homeowner ship, etc.), but	CLT board (including residents & community members) provides support and sets certain rules through ground lease.

5. Stewardship

Once the rehab is complete, attention shifts to the task of operating the building and the goal of ensuring permanent affordability. From a financing perspective, any short-term construction and bridge loans are taken out by permanent sources, which will depend on the type of project but may consist of a combination of "soft debt" (which is effectively subsidy) from local public sources as well as, in some cases, equity. Performing ongoing asset and property management in compliance with any public funding source requirements is critical to a building's financial sustainability.

This phase also includes determining a long-term stewardship plan, which may involve the steward performing its own property management, contracting out to a third party or transitioning this responsibility to well-organized residents. The size of the building plays a large role in determining the best option, which may be influenced by state and local regulations. For example, California requires apartment owners to include an on-site manager for properties with 16 or more units.[14] Stewards may work with a resident services coordinator to provide community-oriented programming and connect residents to external support such as health care professionals and social workers. Additional resident capacity building through workshops and volunteer programs might also be part of the long-term stewardship plan.

Staff from the Mission Economic Development Agency (MEDA) outside of one of the several properties they own and manage throughout the Mission neighborhood of San Francisco.

Over the past 10 years, public agencies in the Bay Area have developed new funding programs to support occupied acqui sition-rehab strategies tailored to local context, each follow ing a distinct path to implementation. We have profiled three established programs in the region, though it should be noted that cities such as Berkeley have recently piloted similar pro grams and other jurisdictions are in early stages of development.

SAN FRANCISCO – SMALL SITES PROGRAM

While the region has contended with soaring housing costs, San Francisco has borne the brunt of the eviction epidemic, with over 41,000 notices issued since 1997.[15] Ellis Act evictions, named for a state law that allows landlords to "go out of business" and evict all current tenants, are more common in San Francisco than other Bay Area cities, with over 5,000 Ellis Act filings since 1994.[16]

In response to these trends, the Small Sites Program (SSP) was introduced in 2014,[17] with origins that go as far back as 2004. Organizations including the Council of Community Housing Organizations (CCHO), the San Francisco Community Land Trust (SFCLT) and other advocates saw acquisition-rehab as a strat egy to prevent instances of displacement that fell through the cracks of local rent stabilization and just-cause eviction protec tions. Through continued tenant outreach and public awareness campaigns, it became clear that the city needed new tools, especially for protecting households in smaller rental properties where Ellis Act evictions were most common. While the city's housing department had developed robust resources and staff ing for new affordable housing construction, the preservation of occupied, unsubsidized homes was a new challenge. This type of work was also outside the existing scope of most affordable housing developers and CDCs.

When the first SSP Notice of Funding Availability (NOFA) was released in 2014, it was the culmination of five years of exten sive engagement by housing activists, tenant counselors and community-based developers who, in partnership with the San Francisco Mayor's Office of Housing and Community Development (MOHCD), were critical to developing appropri ate guidelines and practices for the program. Compared to new construction, this program posed distinct challenges for asset and property management, loan agreements, income targeting

and resident engagement. Ongoing collaboration among the growing cohort of SSP stewards and lessons learned along the way have led to several program revisions in subsequent years. The program was originally funded as a $3 million pilot but has grown to over $100 million in cumulative funding from a variety of sources, including neighborhood-specific programs, inclusionary and condo conversion fees, set-asides from the city's housing trust fund and, most recently, a share of "windfall" funds.[18]

a pilot anti-displacement tool championed by grassroots organizations to a key part of the city's preservation ecosystem.

Over a 10-year span, SSP evolved from

In addition, in 2017 the San Francisco Housing Accelerator Fund (SFHAF), an independent CDFI, launched with $10 million of MOHCD seed funding to provide a flexible source of acquisition capital to pair with SSP soft debt.[19] In 2019, MOHCD introduced its Preservation and Seismic Safety Program (PASS), a program capitalized by bond revenue and related proceeds to provide low-cost, permanent financing for the preservation of affordable housing.[20] Also in 2019, the San Francisco Board of Supervisors unanimously passed the Community Opportunity to Purchase Act (COPA), giving nonprofit stewards a greater chance to compete on the private market for multifamily properties. Over a 10-year span, SSP evolved from a pilot anti-displacement tool champi

oned by grassroots organizations to a key part of the city's pres ervation ecosystem, bolstered by complementary public financ ing, policies and CDFI tools.

SAN MATEO COUNTY – AFFORDABLE RENTAL ACQUISITION AND PRESERVATION PROGRAM

Because of San Mateo County's lower-density development patterns and comparatively fewer neighborhood-based housing organizations, occupied acquisition-rehab has less of a grassroots foundation compared to San Francisco. The program emerged as a response to several separate requests to the County Board of Supervisors to help purchase and preserve smaller buildings, some of which were brought to the board by sellers themselves. As more for-sale properties with low-income tenants came to the county's attention, it became clear that speculatively high prices and minimal tenant protections put residents at risk of displace ment. Absent dedicated funds and program guidelines, the pro cess for addressing this challenge fell to a patchwork of super visors, budget office staff and the county's housing department on a case-by-case basis. As local nonprofits like HIP Housing

and MidPen Housing demonstrated the viability of acquisition-rehab using a variety of local sources to finance their developments, county officials sought to fund a more systematic approach.

Drawing primarily on funds from the county's Measure K sales tax revenue, the Affordable Rental Acquisition and Preservation Program (ARAPP) was officially established through a Board of Supervisors resolution in June 2016. The program was aimed at preventing displacement and mitigating the possibility of homelessness. Staff and program participants saw ARAPP as an important addition to the toolbox for supporting low-income renters in San Mateo County, especially because fewer tenant protections exist at the city or county level compared to other parts of the Bay Area.

Absent dedicated funds and program guidelines, the process for addressing this challenge fell to a patchwork of supervisors, budget office staff and the county's housing department on a case by-case basis.

ARAPP was set up with a rolling NOFA, rather than a competitive process, to accelerate the distribution of funds. Because the program was a pilot, the county left the guidelines relatively flexible (e.g., no building size limits) and carried over several requirements from its new construction NOFA. While the original intention was to provide short-term financing to take properties off the market while a long-term LIHTC strategy could be assembled, the program quickly evolved into a source of permanent soft debt. This was largely due to the types of properties coming forward – mostly properties under 20 units with characteristics that made them more difficult to finance with other public funding sources. To date, the program has distributed just over $17 million for preservation work.

OAKLAND – MEASURE KK ACQUISITION AND PRESERVATION PROGRAMS

Since the Great Recession of 2007-2009 and the resulting wave of foreclosures, Oakland has been an epicenter of rising unaffordability and residential displacement in the Bay Area. Against a backdrop of historical disinvestment, racist land use policies, and a more recent influx of affluent households and private investment, the city's Black population has notably declined[21] while homelessness has sharply increased.[22] The residents, advocates, community organizers and nonprofit developers working to reverse these urgent trends reflect Oakland's long history of progressive community activism and resourcefulness.

In 2016, Oakland Mayor Libby Schaaf began convening a Housing Implementation Cabinet to explore a broad suite of housing initiatives.[23] Local nonprofit developers such as the East Bay Asian Local Development Corporation (EBALDC) and the Oakland Community Land Trust (OakCLT) had already pursued acquisition-rehab in recent years and made the case for expanding this strategy. Building on the momentum of the Housing Cabinet, a broad coalition of community-based organizations advocated for Measure KK, an infrastructure bond measure that included a $100 million set-aside for affordable housing and anti-displacement programs. When the measure passed in late 2016, Oakland city staff continued to work with many of these organizations in an ongoing process of developing programs, distributing funds and supporting acquisition-rehab.

A broad coalition of community-based organizations advocated for Measure KK, an infrastructure bond measure that included a $100 million set-aside for affordable housing and anti-displacement programs.

Through regular meetings and stakeholder convenings facilitated by Enterprise and supported by partner organizations, funding allocations and guidelines were determined for the first $55 million of Measure KK funds, which included close to $19 million for an acquisition program for properties with five units or more, $3 million for properties with one to four units, and a separate $10 million program for the rehabilitation of existing deed-restricted housing. Between 2018 and 2019, guidelines

and funding allocations for the second round of KK-funded acquisition-rehab programs were developed in collaboration with a broader set of organizations and stakeholders. These include a stronger focus on occupied properties where residents are at risk of displacement and explicit support for shared ownership models such as community land trusts and housing cooperatives through a separate $12 million program.[24]

This 7-unit live-work property was acquired by the Oakland Community Land Trust in 2018, providing affordable and flexible space in a rapidly gentrifying Oakland neighborhood.

Exhibit 5
Public Program Design Summary

Program Name Small Sites Program (2017 NOFA) Affordable Rental Acquisition and Preservation Program (ARAPP)	Measure KK Site Acquisition Programs (1-4 Unit & 5+ Unit, 2017)	
Funding $100 million+ cumulatively	~$17 million	~$22 million
Impact 35+ properties, 275+ residential units, 15+ commercial spaces (ongoing)	buildings prioritized, smaller buildings considered on case-by-case basis. Mixed-use and Single Room Occupancy eligible	depending on building size and type. Up to $400,000/unit in extreme cases
Eligible Project Type 5 to 25-unit	**Max Loan** $175,000 - $375,000/unit	**Loan Terms** Loan term of 30 years 3% simple interest

	Up to 40-year loan if leveraging PASS; restrictions run for life of project	acquisition under special circumstances	program for 5+ unit buildings and 1 to 4-unit buildings
	Repayment through residual receipts 6 properties totaling 141 residen tial units, 1 commercial space	Loan term of 2 years at acqui sition, with possibility for three 1-year extensions Can be converted into a 30- or 55-year loan at re-finance 3% simple interest; 1% loan fee	$150,000/unit; $5 million per project
	Affordable apartment buildings renting at or below 100% of median Tax Credit Allocation Committee rents	Repayment through residual receipts 7 properties totaling 75 units for acquisi tion-rehab; 2 sites totaling 145 units of new construction	Original loan term of 3 years, extended to 55 years 3% simple interest (0% for 1-4 unit) 3% loan fee (1% for 1-4 unit)
	$150,000/unit target, up to $250,000/unit for short-term	Vacant or occupied affordable properties; vacant land. Separate	Repayment may be deferred
Target population and priorities	located in neighborhoods with high rates of Ellis Act evictions, vulnerable populations (seniors, families with children, people with disabilities and people with catastrophic illness)	increases • clients of county services, • particularly vulnerable popula tions (children, seniors, people with disabilities, extremely low-income households). • Other scoring criteria based on project characteristics	• tenants are at a high risk of displacement • poor conditions are present • owner is in violation of rental housing laws • tenants include vulnerable populations • homeless or extremely low-income (ELI) households are prioritized for vacancies
AMIs served (target and average over time)	Average household income of at least 66% of households must not exceed 80% of AMI at time of SSP loan closing Average of 80% AMI rents over time.	All re-rentals of vacant units must be to households earning up to 80% AMI. 5% homeless require ment (referred by the County CES) and 10% ELI requirement 5+ unit - No targeting	For vacant land or properties with existing restrictions: restricted to households at or below 60% For properties with no restriction at acquisi tion: up to 60% AMI until 80% AMI average in building reached
	Homes where tenants are: at risk of Ellis Act eviction, Homes where tenants are: • at risk of eviction or rent	1 to 4-unit Program; properties where:	
Other	75% of tenants must acknowl edge purchase agreement; 66% of tenants must income-certify for building to be eligible Requires minimum of $500/unit	budgeted for support services Wide range of eligible uses and project types	

CASE STUDY | SAN FRANCISCO

Between 2012 and 2015, community organizers, legal aid attorneys and local nonprofit developers in San Francisco noticed a pattern: Many of the tenants with whom they were working shared the same landlords. Each of the tenants faced the prospect of displacement from their home due to a large rent increase or an eviction notice. In an early success for the Small Sites Program, MEDA and the SFCLT came together to purchase a portfolio of five properties where tenants were at risk of losing their homes – all owned by the same local real estate investor.

For MEDA, acquisition-rehab has become a central strategy in their ongoing efforts to preserve the cultural diversity and vibrancy of the historically Latinx Mission District. Their housing work com plements other programs and services aimed at advancing economic opportunity. SFCLT focuses squarely on preventing displacement

through the acquisition and stewardship of properties occu pied by low- and moderate-income residents throughout the city. With a model that centers broad resident participation, their portfolio includes a resident-owned limited-equity cooperative, group housing co-ops and traditional rentals.

Cultural Preservation at 380 San Jose Avenue

TWO OF FIVE BUILDINGS PURCHASED IN A PORTFOLIO

380 San Jose:
Project steward: MEDA Built in 1900
4 units

70-72 Belcher:
Project steward: SFCLT Built in 1906
5 units

Sources:
First Mortgage
SSP soft debt

Located in the heart of the Mission, the four-unit building at 380 San Jose Avenue has been home to several sig nificant cultural figures in the Latinx community, including current resident and celebrated artist Yolanda. San Francisco's rent regula tions kept the apartments relatively affordable over the years. However, under the ownership of an absentee investor, long term residents like Yolanda had little interaction with their land lord and learned to cope with the aging building's quirks and hazards. "We found it was easier for us to take care of things ourselves," said Yolanda. The situation took a toll on residents, who lived in a constant fear of fire and other safety issues.

The first eviction notice arrived just before Christmas. In her 70s and struggling with health issues, Yolanda couldn't imagine an alternative to her current home. She was devasted. "My first thought was 'Where am I going to live? Should I start packing up right now?'" The eviction notice set off a period of anxiety, legal disputes, community activism, and hypervigilance as Yolanda, her son and three other seniors in the building did all they could to delay the inevitable.

Neighbors and activists were galvanized by the eviction attempt, launching a series of public demonstrations that brought increased attention to the issue and public scrutiny over the landlord's actions. Working alongside the timeline of the eviction proceeding, MEDA eventually acquired 380 San Jose Avenue as part of the portfolio, putting their mission of place-based cultural preservation and community development into action. Tragically, this inspiring win was marred by the passing of one of the res idents, who was battling cancer in her last days in the building.

MEDA staff stand outside of 380 San Jose Avenue

Overcoming Uncertainty at 70-72 Belcher Street

Less than two miles away in the Castro District, residents of 70-72 Belcher Street had a parallel experience. In the 1970s, Mark, then a 22-year-old from Idaho, moved to his current home on Belcher Street. His early roommates and neighbors included a rota tion of artists, musicians and eccentrics that together made up the unique social and cultural fabric San Francisco was known for. When an investor bought the building in the late 2000s, main tenance and upgrades became less frequent and dependable. When improvements were made, they were mostly cosmetic and done with little tenant input. Residents felt these changes were intended to help market the building to new, higher-income households.

Eventually the landlord began to offer Mark and his neighbors lump sums of money to move out, but they all agreed to refuse cash payments in exchange for their homes. Soon after, the resi dents received Ellis Act eviction notices. Three eviction attempts were made in a short amount of time, but Mark and his neigh bors were able to fight them with legal representation from the Tenderloin Housing Clinic. In the meantime, Mark was in a con stant state of uncertainty and anxiety. When faced with the pros pect of moving, he too couldn't imagine an alternative. "I felt like if I have to move, there's nowhere in San Francisco that I can afford."

When SFCLT got involved, things took a more hopeful turn. While coordinating with legal advocates to delay the eviction proceed ings as well as the MOHCD to secure funding, SFCLT staff began

CASE STUDY | SAN FRANCISCO

meeting with the residents of 70-72 Belcher Street to understand their needs, collect information on the building, and share infor mation about the development process.

"I really felt like this apartment changed into my home when the land trust bought it."

Mark, resident of 72 Belcher Street

Turning a House into a Home: Lessons Learned

The purchase of the five buildings in early 2016 was a major victory for SSP, the organizations involved and ongoing anti-dis placement efforts across the city.[25] But the process of preserv ing these buildings was not without complications. Old buildings like these often have limited space for the relocation of residents and personal items during the construction process, which can be especially disruptive and unsettling for older residents and people with disabilities. Even with thoughtful planning on the part of the steward, these disruptions can compound the trauma of the prior eviction process and other life challenges.

Transitioning to nonprofit stewardship also means transitioning to a new management structure with new rules. Previously, ten ants had years, if not decades, of experience with a conventional landlord relationship and local rent control. Nonprofit acquisition meant exiting that system and entering into an arrangement with the nonprofit, introducing programmatic rules enforced by the city, lengthy and complex lease agreements, and annual income certifications.

But with these tradeoffs come a variety of benefits. Despite the challenges brought on by the transition, Yolanda appreciates not only her building's newfound stability, but also the ability to access MEDA's financial empowerment services, including tax preparation and computer literacy classes. Mark has found him self more capable of dealing with daily stressors and imagining his future, including the possibility of retirement.

Keith Cooley, SFCLT Asset Manager, outside of 70-72 Belcher Street

In addition to public funding, there have been several efforts by local CDFIs and other investment intermediaries to lend to and invest in acquisition-rehab projects that traditional financial institutions might not consider. As mission-driven organizations, CDFIs often provide flexible, early stage financing (such as for predevelopment and acquisition) to bridge future sources and allow a project to advance to the next phase of development. One way CDFIs do this is by creating "structured funds" that combine capital from a range of sources, including banks, philanthropy, public entities and, occasionally, anchor institutions like health care providers to provide financing tailored for community-based development.[26]

Below is a brief overview of current Bay Area funds and financing tools that are focused specifically on addressing gaps in the capital needs of mission-driven organizations pursuing acquisition-rehab.

Bay Area Preservation Pilot

Developed through a partnership between the Metropolitan Transportation Commission (MTC), Enterprise, the Low Income Investment Fund (LIIF) and a range of local stakeholders, the Bay Area Preservation Pilot (BAPP) is the region's first housing preservation financing tool supported and seeded by a transportation agency. Launched in early 2019, the $49 million pilot provides flexible, relatively low-cost loans for up to 10 years to nonprofit organizations seeking to acquire and preserve existing, unsubsidized affordable multifamily properties located in areas with high-frequency transit service. The goal of the pilot is to provide fast-acting loans that can cover acquisition and early rehabilitation costs with loan terms that allow mission-oriented organizations to stabilize a property and secure long-term financing. An advisory committee consisting of staff from MTC, local public sector agencies, philanthropy, CDFIs and nonprofits with preservation expertise helps shape and guide the pilot on an ongoing basis.

San Francisco Housing Accelerator Fund's Preservation Loan Product

Since its initial launch in 2017, SFHAF has developed into a 501c3 nonprofit CDFI that offers a range of financial products geared toward affordable housing preservation and production. In addition, SFHAF serves as a liaison that can facilitate a flow of small site acquisitions with tailor-made bridge financing and capacity building through a collaborative network it co-convenes with the Council of Community Housing Organizations in San Francisco. Beyond its initial investment, MOHCD works closely with SFHAF staff during the early underwriting and due diligence phase to help vet projects and line up permanent financing through a soft commitment of take-out funding from SSP, the PASS program and other sources as necessary. Combined with a model that relies more heavily on secured lines of credit to bring private financing directly into projects, SFHAF can offer loans that cover the entire cost of acquisition and early-phase rehab work within a timeframe that allows nonprofit stewards to compete in the market. As of 2019, SFHAF has provided over $90 million in financing for affordable housing development, preserving more than 230 units through acquisition-rehab.

The Bay Area Preservation Pilot (BAPP) is the region's first housing preservation financing tool supported and seeded by a transportation agency.

Partnership for the Bay's Future Fund: Affordability Stabilization Loan

Catalyzed by a commitment of flexible, low-cost capital from the Chan Zuckerberg Initiative (CZI), in 2019 a consortium of CDFIs and foundations debuted the Partnership for the Bay's Future Fund as part of the Partnership for the Bay's Future. By 2020,

the fund had raised $500 million in total. Among the fund's suite of financing tools is the Affordability Stabilization Loan, specifi cally for the acquisition and rehabilitation of existing rental prop erties, both vacant and occupied. In contrast to another pres ervation-oriented loan product offered through the fund that is aimed at properties with expiring subsidies and use restrictions, Affordability and Stabilization loans accommodate a wider range of income levels (up to 120% AMI), can extend up to 10 years, and are able to provide more flexible terms (e.g., interest-only periods). The product is also geared towards smaller properties and smaller neighborhood-oriented nonprofit stewards. Similar to BAPP, the Bay's Future Fund is guided by an advisory commit tee that includes community leaders, philanthropic and corpo rate investors, public sector staff and policy experts.

properties that a traditional lender might not be willing to look at, looking beyond a project's income-generating potential and towards anti-displacement goals."

Justin Chen, San Francisco Housing Accelerator Fund

Housing for Health Fund

In addition to the loan programs CDFIs offer, mission-driven capital may also take the form of equity. Enterprise Community Investment currently manages the new Housing for Health Fund, launched in 2019 with a $50 million investment commitment from Kaiser Permanente. Combined with capital raised from additional public and private sources, the fund has the potential to grow to as much as $100 million. The Housing for Health Fund is a real estate private equity fund offering patient investment capital at below-market returns that can complement debt. The fund was created to help mission-driven stewards purchase, stabilize and preserve an estimated 1,000 occupied affordable rental units in the greater Bay Area and Sacramento regions over the next three to five years. Half of the capital raised through the fund must be deployed within Oakland, where Kaiser Permanente is headquartered. The fund was developed in close partnership with EBALDC, whose Kensington Gardens Apartments is the first project to utilize equity from the fund.

Residents of Pigeon Palace, a housing cooperative stewarded by the SFCLT

"CDFIs are able to focus on

While these financing tools signal the progress made by CDFIs to expand their traditional lending practices and provide accessible financing for acquisition-rehab, several factors continue to limit the reach and impact of these capital sources:

Need for public subsidy in high-cost housing markets. In much of the Bay Area, acquisition-rehab is rarely financially feasible without subsidy. This subsidy is not always available in the quantity or timeframe necessary to effectively leverage CDFI funds, a hurdle exacerbated when the funding streams and loans provided by CDFIs and public entities are not coordinated. While there are cases where debt and below-market equity, combined with the **Property Tax Welfare Exemption**, are sufficient without additional public subsidy, this is less common in high-cost areas, especially for buildings with serious capital investment needs.

Sponsor equity requirements.

Funders generally want to see some sponsor equity invested in deals they finance, and this equity may be required to remain in the project for an extended period of time. This can be challeng ing for smaller mission-driven stewards who have limited cash to invest in longer-term projects.

CALIFORNIA'S PROPERTY TAX WELFARE EXEMPTION

In California, residential properties owned by eligible community-serving entities can qualify for an exemp tion from property taxes for units that are legally restricted for low-income housing and occupied by income-eligible households. Property owners submit their organizational eligibility documents to the State Board of Equalizations, in addition to filing a claim with their county assessor that demonstrates a qualifying use and certifies each unit where occupant incomes are below 80 percent of the Area Median Income. This law, known as the Welfare Exemption, is critical to the financial feasibility of affordable housing preservation, as it reduces or eliminates a significant operating cost. For more information, see: http://www.boe.ca.gov/proptaxes/pdf/pub149.pdf

High cost of capital.

CDFIs play an important role by making the kinds of loans that traditional banks likely would not. However, because CDFIs serve as an intermediary between capital providers and stewards, the funds may carry higher costs for borrowers. This varies depend

ing on the mix of funding sources.

Limitations on flexible terms.

While CDFIs aim to provide greater flexibility than banks, the requirements and restrictions that come with the capital flowing through them may create limits on loan and investment terms that are still too rigid for occupied acquisition-rehab deals in competitive housing markets. Due diligence requirements, high debt-service coverage ratios and borrower capacity standards can be prohibitive to mission-based stewards facing uncertainty and greater risk due to poor property conditions, the possibility of unforeseen rehab needs and the complexity of working with tenants in place. CDFIs also face difficulties in accessing long term capital at favorable rates and terms.

Need for speed.

Rental properties in the Bay Area typically do not stay on the market for long, and there is a need for nonprofit stewards to move quickly if they want to compete with investors. This is espe cially the case for single-family homes and smaller multifamily properties that move on a shorter timeline. Under these condi tions, CDFIs are not always able to underwrite and close loans fast enough, especially in more elaborately structured funds that require multiple stages of review before a loan can be made.

Skew toward larger properties.

Most lenders, including CDFIs, must consider the size of the loans they make because smaller loans have less of a margin for covering their costs. Loans of all sizes share many of the same fixed costs in the underwriting and closing process (e.g., legal and appraisal fees, document review, lender's staff costs, payments to parent entity). Loan closings often take the same amount of time no matter the size of the loan – even though smaller loans yield lower earnings for lenders. The situation can pose a challenge in areas where much of the housing stock is comprised of small buildings.

EXISTING FINANCING INITIATIVES TO SUPPORT ACQUISITION-REHAB

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After getting its start as a social services organization in 1972, HIP Housing now has a broad portfolio of programs that includes affordable housing development and property management across San Mateo County. Helping stabilize tenants through acquisition-rehab blends the people-centered skills HIP Housing has honed as a service provider with a new real estate approach, which relies heavily on developing relationships with willing sellers. Executive Director Kate Comfort Harr says HIP's "sweet spot" is handling properties between 12 to 16 units and working with "sellers whose hearts are in the right place." This approach helps the organization negotiate more flexible closing terms and, in some cases, below market sales prices.

2016 is among HIP Housing's successful partnerships with a willing seller. Located in Redwood City, the property includes seven residential units and a ground floor commercial tenant, Mo Music, a music education business that is an important cultural fixture for local families. The previous owner, a mom-and-pop landlord whose family had owned the building for years, was looking for a way to sell the property at market price without putting the tenancy of the current residents at risk. After listing the property multiple times, the owner turned to the city of Redwood City to see if they would purchase it. With the city lacking capacity to own and manage the property, local housing staff turned to HIP Housing, knowing they were one of the only nonprofit organizations in the area that might be interested in purchasing a property of that size. The seller liked HIP Housing's mission and tenant-centered approach, and the organization was able to arrange a longer-than-average escrow period to make the project feasible.

With more time in hand to secure financing from city, county and private sources, the negotiated purchase agreement also allowed HIP staff to begin tenant engagement within the contingency period. Building this initial trust by meeting residents on site – working with Mo Music owner Mona Dena to use her business as a meeting space – was critical for getting an understanding of resident needs as well as assessing income levels for tax exemption eligibility (a necessary step in making a project like this financially feasible). Current tenants' incomes ranged from 50 to 120 percent of AMI. In addition to protecting

1514 STAFFORD STREET **Built in 1950**

7 residential units and 1 commercial space.

Commercial tenant a community asset

Sources:

- First Mortgage
- Redwood City
- ARAPP soft debt
- Sponsor Equity

At 1514 Stafford Street in Redwood City, HIP Housing provides stewardship for Mo Music! and seven affordable homes.

The acquisition of 1514 Stafford Street in

“I’ve had some students that I’ve literally been teaching for 15 years or more. It’s a special relationship in a city that is going through so much transformation. All the rents are being raised, all my favorite restaurants that were family owned are being pushed out. [This acquisition] allows me to stay where I am and keep my program affordable to my families.”

Mona Dena, founder of Mo Music

Mona Dena, founder of Mo Music, with some of her students

the residential tenants, including a family who had lived in their unit for over 30 years, maintaining the stability of Mo Music was a priority. Founded in 2003 and occupying their current Stafford Street location for over 11 years, Mo Music’s primary focus is providing music education to children of all ages. Their approach emphasizes family participation and developing long-term relationships. Dena noted how rising rents and demographic shifts have pushed both low-income households and locally owned businesses out of the neighborhood in recent years. As the property went on and off the market over a two-year period Dena became increasingly on edge. She knew she likely would have to relocate her business or return to renting community spaces if a for-profit investor bought the building.

Part of HIP Housing’s acquisition plan included signing Mo Music to a five-year lease at a price point that allowed the business to maintain its staffing and programming without having to pass significant costs down to their customers. The building improvements, streamlined communication and increased flexibility are important aspects of the new arrangement. But it’s the long-term lease at an affordable rent that has made the biggest difference – and given Dena the confidence to plan ahead and make critical hiring and programming decisions with greater certainty. It also means Mo Music can remain a fixture for Redwood City families for years to come. “Knowing that I’m staying put for five years, with the option to renew, has enabled me to plan for the future. It makes me feel even more permanent, and the families sense that too.”

ENTERPRISE COMMUNITY PARTNERS,

Average Per-Unit Costs by Locality, 2015 – 2019

$483,376

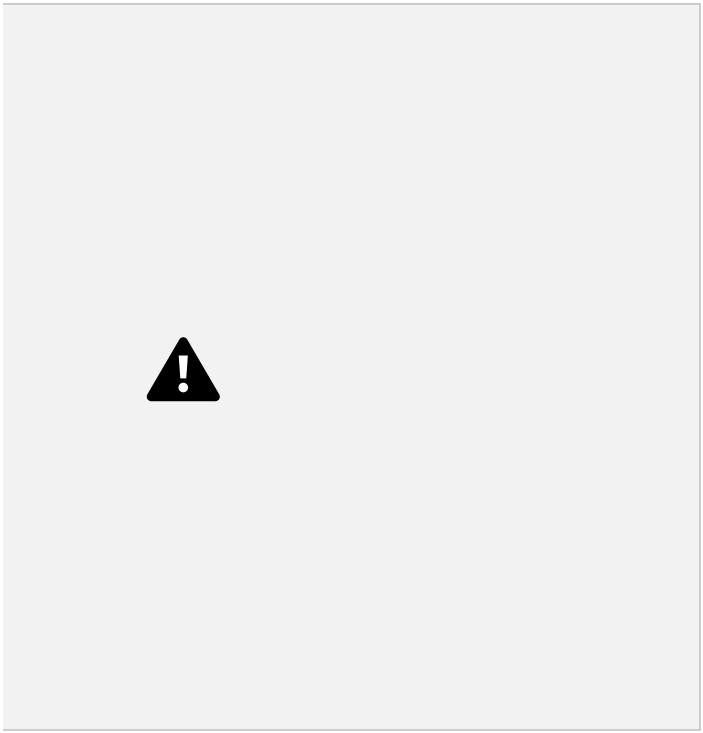
Acquisition-rehab, like all affordable housing, typically requires capital from multiple sources. While previous studies have looked at the average costs associated with acquisition-rehab, there has been no in-depth analysis of the costs and funding sources for occupied acquisition-rehab projects in the Bay Area. The public programs discussed in this report provide a sample of recently completed occupied acquisition-rehab developments in three parts of the Bay Area, although with notable limitations.[c]

This collection of 42 properties, ranging from 3 units to 55 units (469 units in total), were acquired by nonprofit stewards between late 2015 and August 2019. This sample provides a snapshot of acquisition-rehab completed during a period of historically high housing costs and market competition.

As Exhibit 7 illustrates, the total development cost of recently completed occupied acquisition-rehab varies substantially by locality, with significantly lower average costs for the six Oakland properties in the sample. Looking beyond averages reveals even greater variation, from $175,000/unit in a mixed-use Oakland property to $690,000/unit in one of the larger San Mateo County developments. These variations can be partially explained by differences in building condition, location and unit sizes, and whether the seller was willing to sell the property below market rate. Some of the project budgets still have not factored in a

Exhibit 7

per unit



$433, 203
per unit

$276,153
per unit

Developer Fee Soft Costs Financing Costs

Reserves

Other

Rehab Costs Purchase Price

properties) **Oakland**
San Mateo (6 properties)
County (5
properties)
San Francisco (31

[c] Limitations of the sample include bias toward San Francisco, where most of the projects are located; limitations to three jurisdictions that may not be representative of the broader Bay Area real estate market; and wide variation in project type in terms of building size, condition and circumstances surrounding the purchase, producing a very wide spectrum of costs. In addition, some project proformas lack detail on certain cost factors and may be too early in their development timeline to provide an accurate final budget.

long-term rehab scope, which may increase their final costs. These caveats aside, it's clear that development costs for this sample of projects are lower on a per-unit basis than the aver age ground-up affordable housing development. Compared to LIHTC-funded affordable housing over the same time period,[27] average per-unit costs of the sampled acquisition-rehab projects are about 50-70 percent of new affordable construction devel opments in these three respective jurisdictions (for more infor mation see Appendix).

The bulk of development costs come from the building purchase itself, indicating just how much land values impact acquisition-re hab costs. In a down market, there might be an even greater gap between the cost of new construction and acquisition-rehab projects, since land values represent a smaller share of new con struction costs – usually 11 to 15 percent.[28]

Acquisition-rehab in San Francisco, where development costs are highest, required the greatest amount of per-unit local sub sidy. At close to $332,000 per unit, soft debt from the city's SSP accounted for roughly 69 percent of the average total devel opment cost for these projects. In San Mateo County, some developers were able to pool together funding commitments from both the county (largely through the ARAPP program) and various local sources, resulting in an average total per-unit sub sidy of nearly $224,000. Finally, Oakland projects required an average of roughly $117,500 per unit in subsidy, representing the lowest share of the total per-unit development cost at around 43 percent. Beyond local subsidy, these projects leveraged a patch work of sources that vary dramatically by project. These include:

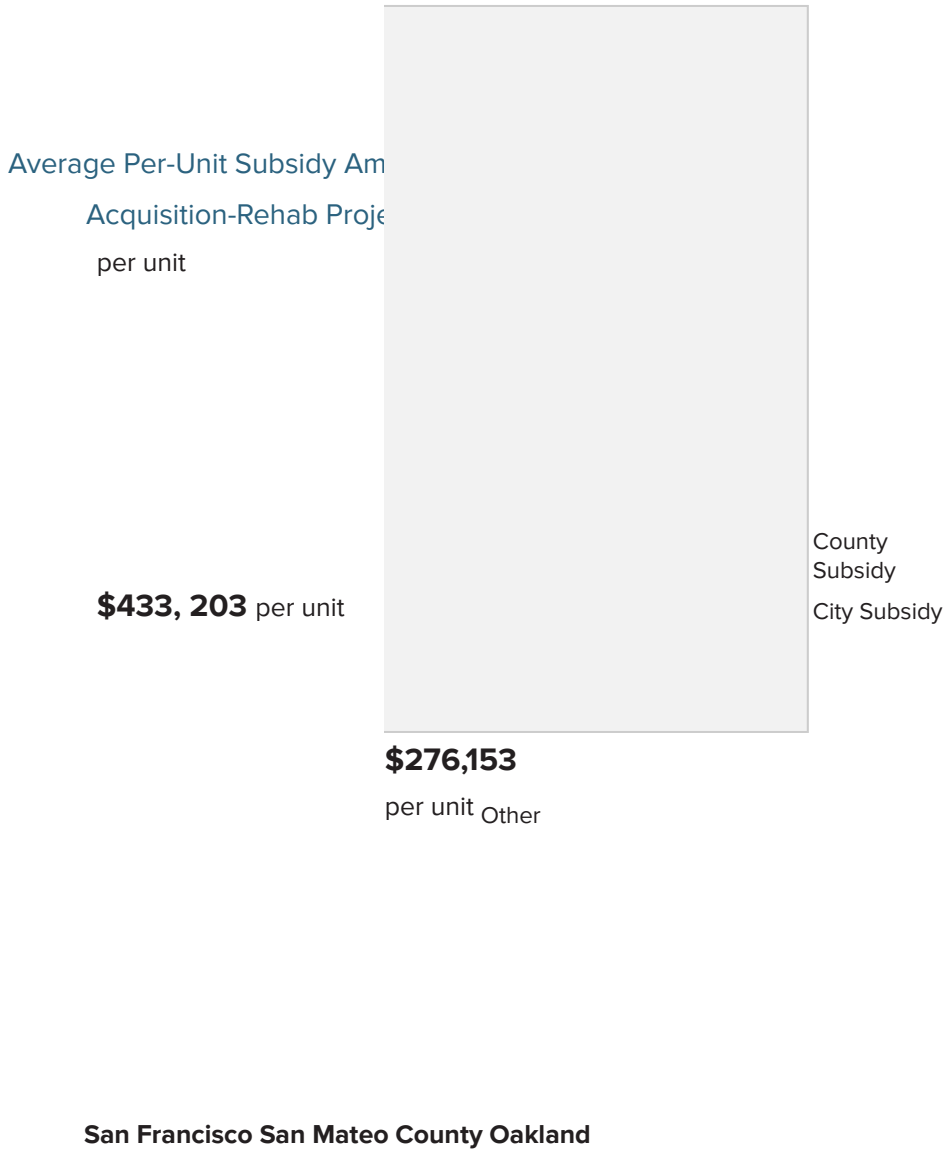
- Senior debt from local banks and CDFIs
- Private donations from large individual donors or crowd sourced from several smaller donors
- FEMA grants for specific rehabilitation work
- Steward equity contributions
- Equity contributions from residents themselves •

LIHTC equity (for one project in San Mateo County) •

Non-LIHTC private equity

- Special-purpose below-market loans and grant programs from local CDFIs

Exhibit 8



CASE STUDY | OAKLAND

The East Bay Asian Local Development Corporation (EBALDC) has engaged in community development and affordable housing efforts in Oakland for over 45 years, advancing a placed-based strategy focused on building healthy neighborhoods. This includes provid ing affordable rental housing options through new construction and acquisition-rehab, offering resident and youth services, and building collaborations that bring together com munity members and the organizations that serve them. In response to the rise in dis placement and homelessness in Oakland, over the last six years EBALDC has expanded its acquisition-rehab work by purchasing occupied multifamily buildings with minimal ren ovation needs and existing residents paying relatively affordable rents.

KENSINGTON GARDENS **Built in 1928**

41 units, with a mix ranging from efficiency studios to two-bedroom units

Sources:

- First Mortgage
- Housing for Health Fund Equity
- Sponsor Equity

To grow this work, EBALDC has developed a model that lever ages strong relationships with local brokers to identify acquisition opportunities and creative financing strategies, such as develop ing an internal Housing Acquisition Fund to respond more rapidly in the market. EBALDC's approach also relies on using location, rent rolls, marketing and building characteristics to infer occu pant demographics and incomes, which helps ensure their real estate strategy aligns with their mission of serving low-income households. After completing several acquisition-rehab projects, including two that used Measure KK funds, Kensington Gardens apartments emerged as an opportunity to try a new financing strategy on a high-impact project.

Kensington Gardens is a 41-unit building located in the Low Antonio/Fruitvale neighborhood, on the edge of some East Oakland's most rapidly gentrifying neighborhoods. Its proximity to BART and the 580 freeway, as well as its historic architectural features, make Kensington Gardens a highly desirable property for speculation or, if EBALDC was able to intervene, for preserva tion. Combined, the rents residents were paying and the neigh borhood demographics indicated a high rate of lower-income households that would be vulnerable to displacement in the event of significant rent increases. The building had already been sold once within the previous five years, and while the most recent landlord represented an improvement in property management, there were still issues with deferred maintenance and inaccessible on-site assistance. With EBALDC's established track record as a local developer, they were in a strong position to compete when the property came up for sale in 2018. In the absence of available Measure KK funds, financing the acquisi tion and initial rehab work was made possible by a below-market equity investment through Enterprise's Housing for Health Fund.

Kensington Gardens in Oakland

"Anytime a building is being sold, you always have a sense of insecurity. I

always worry about having to move out of the area. And I'd really like to stick close to my kids."

Darrell Johns, resident of Kensington Gardens

Darell Johns relaxes in his apartment in Kensington Gardens.

This investment, combined with a senior mortgage, will allow EBALDC to do a first round of health and safety improvements and maintain affordable rents through the 10-year period prior to recapitalizing with LIHTC equity. EBALDC will also execute a Health Action Plan to identify and track resident health indicators over the next several years, helping ensure that housing stabilization efforts lead to positive health outcomes.

EBALDC completed purchasing the building in early 2019 and almost immediately began renovation work, including seismic retrofits and in-unit upgrades. According to resident Darrell Johns, many in the building didn't even know it was for sale until EBALDC began their outreach efforts to inform residents of their purchase, introduce the organization and explain their process and intentions. Johns, a 76-year-old California native with health conditions that impact his mobility, was initially wary. "Anytime a building is being sold, you always have a sense of insecurity. I always worry about having to move out of the area. And I'd really like to stick close to my kids." To cover his bases, Darrell researched available nearby rentals only to find they were far beyond his price range. "I found places out in Antioch and Vacaville that were more or less affordable. I figured if this priced me out, I would probably have to move quite a ways away from my kids," said Johns. His two adult children live in Oakland and Piedmont with their respective families.

His fears were alleviated once the EBALDC transition ramped up and he saw his rents remain at their current level. EBALDC has learned from previous acquisitions that early tenant engagement and using their own property management and resident services staff are key to building trust with residents, especially as disruptive construction work begins. Johns was pleasantly surprised by the transparency and abundance of shared information compared to the previous building sale. The initial interviews and income certifications were a bit of a hassle, Johns said, though he considers it a worthwhile trade-off as issues like faulty electrical systems and broken locks have been repaired quickly. An anthropologist in his earlier years, Johns reflected on the value of this work in the face of the "urbanization and gentrification that's driving families out of the area." Now that he feels stable in his well-maintained home, he is able to go back to focusing on things he cares about most: his family, advocating for low-income households through volunteer work, and seeing live music. "I think this is a great program," Johns says, "and I hope it expands."

There is growing political support and public interest for acquisition-rehab in the Bay Area; however, there are also a variety of challenges to executing this strategy. Some of these challenges are simply the growing pains that come with implementing any new program or organizational practice. Additionally, acquisition-rehab demands a distinct set of skills, approaches and

RAMP-UP CHALLENGES TO IMPLEMENTING A LOCAL PROGRAM

Unpredictable public funding

Each of the three profiled programs began with an initial one time funding commitment. Only San Francisco's SSP received ongoing funding over several years, in varying amounts and from multiple sources. This pilot approach allows flexibility and open ness to new kinds of program design, evidenced by evolving guidelines, project types and policy priorities. However, the lack of dedicated, predictable funding creates uncertainty, which pre vents local housing departments, nonprofit stewards and other community-based organizations from dedicating resources and staffing toward developing their acquisition-rehab capacity. This limits their ability to act quickly when funding becomes available.

Capacity constraints in launching a new program Launching a new program requires significant start-up work for local housing departments, including designing guidelines and loan documents, developing systems for monitoring and com pliance and allocating funding in a way that balances policy priorities. These hurdles are compounded by additional factors unique to acquisition-rehab. Programs must balance the need to respond rapidly to potential sales while also ensuring adequate due diligence. Staff and stakeholders must also create guide lines and loan terms that work for a wide range of building types, housing models and project stewards. Since most jurisdictions do not have dedicated preservation programs, these responsi bilities may fall to staff who lack the necessary support and are already stretched across several competing priorities.

> "In reality, we're not going to have this pot of money waiting around for folks to come access it. I think there's such pent up demand that our allocation is going to be gone as soon as we release it. So, the ongoing funds are a really big challenge."
>
> Meg Horl, Oakland Department of Housing and Community Development

Steep learning curve for community-based organizations

Occupied acquisition-rehab presents a variety of new capacity challenges for even experienced stewards. From the outset, stewards need to compete on the private market against inves tors that often have more streamlined access to capital. Balancing the simultaneous tasks of negotiating a sale, beginning due dili gence, working with residents and securing funding from diverse sources is challenging, especially for smaller nonprofits with limited staffing. Performing rehab with tenants in place requires calling on technical expertise to identify and address structural needs, in addition to the people skills needed to ensure consis tent, ongoing communication with residents. Long-term steward ship hinges on sound property and asset management practices that take time to fine-tune, especially for buildings that range widely in size, condition and age.

Lack of coordination across public agencies

Inadequate coordination and communication between agencies and departments can add delays and costs to projects, especially

if standards and timelines do not align. For example, obtaining proper inspections and approvals from the respective departments for housing, building inspections and disability – all essential steps toward developing a property that is financially sustainable, safe and accessible – can add several months of waiting time. Extended timelines impact project budgets as construction costs increase, properties remain vacant and more resources are spent on administration. This forces stewards to make difficult tradeoffs, such as reducing the scope of rehabilitation. In addition, because applications for the Welfare Exemption are processed by an entirely different entity – the tax assessor for each respective county – there's an additional layer of uncertainty as administrative delays can force stewards to wait upwards of two years for approval to secure critical tax relief.

IMPLEMENTING AN ACQUISITION-REHAB PROGRAM

As cities and counties in California explore the possibility of launching new subsidy programs and policies to support occupied acquisition-rehab, lessons learned from San Francisco, Oakland and San Mateo County highlight some of the approaches to program design that support successful implementation and outcomes:

1. Engage local stakeholders early in the program design process

A willingness to think creatively and harness input from multiple viewpoints has been key to the early success of local acquisition-rehab programs. Affordable housing developers, advocacy organizations, community organizers and residents have unique experiences and perspectives that can inform program design and policy priorities. Convening stakeholders can help assess local need, existing capacity and the geographic coverage of nonprofit stewards. This engagement can also help staff weigh trade-offs, such as the need to balance timely application review with a desire to incorporate scoring criteria and policy priorities into decision-making. In the long run, working with stakeholders helps sustain participation, inform program improvements, ensure guidelines adapt to local conditions and maintain support for acquisition-rehab resources.

> "[SSP] has always had a lot of engagement from community-based organizations. It can be really helpful for making sure our program is responsive to market conditions and what resident needs are...and keeping the program relevant for what's happening on the ground."
>
> Caroline McCormack, San Francisco Mayor's Office of Housing and Community Development

2. Conduct a local landscape analysis

A landscape analysis can help shape a nascent program. Factors to consider include: the existing housing stock, market conditions, relevant policies in place (e.g. condo conversion restrictions, rent control, etc.) and complementary funding. Reviewing data from the county assessor's office on the overall housing stock (e.g., size, age, occupancy type), as well as data on existing subsidized housing,[d] can help determine funding set-asides and policy goals. A deeper understanding of existing tenant protections and building code requirements can help ensure that new programs are not in conflict with current practices and policy – and prevent any unintended consequences. Other programs, such as low-cost loans for owner-occupied rehab, down payment assistance and grants for remediating code violations may also align well with new subsidy for acquisition-rehab. Identifying an ongoing capital source (e.g., general budget

allocation, housing trust fund, etc.) will help sustain a program.

3. Earmark sufficient staffing and funding to jumpstart a program, including capacity building

Programs are more successful with adequate staff time and capacity to meet the needs of acquisition-rehab throughout the process – from initial purchase, to ongoing coordination with stewards during the rehab process, to long-term stewardship. Some cities and counties, such as San Francisco and San Diego, have dedicated staffing specifically for preservation, which has been critical for supporting a growing portfolio of projects and community of stewards.

Given the current lack of other public subsidy sources to leverage, local jurisdictions may consider increasing project subsidy maximums beyond what is typical for new construction. Guidelines for capital dollars should reflect local market conditions and be flexible enough to accommodate the range of stewardship and property management models, including community land trusts and limited-equity housing cooperatives. To ensure the participation and ongoing capacity building of community-based organizations, additional funding to cover operating expenses can also be incorporated into program design. This can be achieved through a dedicated capacity grant program, as San Francisco has done, or through the inclusion of developer fees as an eligible use of subsidy funds. Funding partner organizations such as tenant counselors and organizers should be considered as another avenue for improving program outcomes, facilitating collaboration and resourcing resident and community engagement that will support long-term success.

4. Plan for public awareness and education

A plan for public outreach and education can support successful implementation. Online resources for residents can be created to summarize program basics, explain changes in rights and responsibilities that accompany the transition to affordable housing and provide contact information for participating stewards and partner organizations. Similar information can be made available for private property owners, highlighting the opportunity to sell to community-based stewards. Coupled with public forums and workshops, potentially in partnership with local stakeholders, these efforts can increase program participation and ensure a smoother process.

> "[Mosaic Gardens] was housing so many clients [who] were receiving services from the county for a variety of reasons who otherwise, most likely, would have ended up homeless had the building sold."
>
> Rose Cade, San Mateo County Department of Housing

5. Coordinate with other public agencies and departments

Coordination with other relevant public agencies can help avoid some of the frictions common to the early stages of program implementation. Ideally, the departments of planning and building, code enforcement and other entities involved in permitting and building standards should be made aware of program intentions early on. This will create opportunities for streamlining, exemptions and staffing to ensure that acquisition-rehab projects move smoothly and efficiently through the relevant local pipelines. There is also value in doing outreach to departments that might align with the goals of an acquisition-rehab program, such as public health departments with data on habitability issues or agencies that provide services for residents. Alignment with the county tax assessor, coupled with internal protocols for getting a regulatory agreement in place at acquisition, can also help ensure that applications for the state's Welfare Exemption are approved as quickly as possible.

[d] In addition to the records local governments keep on their subsidized housing stock, resources from CHPC and the National Housing Preservation Database are also available and maintain accurate and relatively up-to-date information.

Over the past several decades, the affordable housing industry has seen significant investment in the infrastructure for funding and financing, partnership building, organizational development, complementary policy and research to build new affordable homes. Preservation, specifically acquisition-rehab of unsubsidized affordable housing, has yet to receive the level of attention and resources necessary to develop a similarly comprehensive and supportive ecosystem. The following recommendations can help advance and scale acquisition-rehab efforts regionally and statewide:

1. SECURE FUNDING AND FINANCING BEYOND LOCAL PROGRAMS

Local funding programs have been critical to the success of recent occupied acquisition-rehab efforts throughout the Bay Area. Their significance is made even clearer when looking at the broader affordable housing financing system, which offers limited support for this work, especially for properties that fall outside of the typical LIHTC parameters.[e] These local funds alone, however, are not enough to grow and scale this work to meet the need.

Flexible and nimble acquisition capital: There is a need for financing that works across the stages of development. Initiatives like the SFHAF's preservation loan product are demonstrating the role that CDFIs can play at acquisition, leveraging public seed funding to provide flexible capital at a speed that allows nonprofit stewards to compete in the market. A similar approach can be seen with Washington, D.C.'s Housing Preservation Fund, which blends a $10 million contribution from the District with philanthropic investments and CDFI capital to provide bridge loans of up to three years to qualifying borrowers.[29] These funds allow borrowers to use a single source to perform pre-development work, purchase a building and even cover emergency repairs while bridging to permanent financing. Initiatives like BAPP are a promising start to bringing this approach to a regional level. Local and regional public agencies, CDFIs and nonprofit stewards must continue to think creatively about how to ensure such tools are flexible enough to work for different market conditions and housing models.

> "We expected to see more of the 40, 50, 60-unit projects, but what we got was more in the 10 - 20 range, which don't translate well to tax credits."
>
> Raymond Hodges, San Mateo County Department of Housing

Philanthropic and at-risk funding: Incorporating low-cost Program Related Investment (PRI) dollars from philanthropic entities could make acquisition-rehab funds even more affordable and risk tolerant. In Oakland, the Strong, Prosperous, and Resilient Communities Challenge (SPARCC) provides a recent example of the impact this kind of philanthropic investment can have on acquisition-rehab.[30] Similar efforts could be explored to create a regional pool of "at risk" funding to support the kind of front-end work that typically requires cash on hand, such as resident outreach, due diligence and paying deposits.

New long-term funding: To ensure permanent affordability and ease some of the burden on local government subsidy commitments, now is the time to explore new matching subsidy programs at the state and/or regional level that are tailored specifically for occupied acquisition-rehab. In the same way that successful programs like the Affordable Housing and Sustainable Communities Program (AHSC) complement LIHTC and other sources to fill the funding gap for affordable housing

[e] For a variety of reasons, the Low-Income Housing Tax Credit tends to favor larger projects and is generally more workable for new construction or substantial rehabilitations of existing subsidized properties. Scoring criteria for the competitive 9 percent credit reward proposals with a higher number of units and deeper affordability levels, which puts many acquisition-rehab opportunities at a disadvantage due to their typically smaller building size and the possibility of ineligible units because of higher tenant incomes. In addition, the costs of securing LIHTC equity – from the time-intensive application process to the costs of syndication – are a deterrent for smaller projects with narrower margins. Finally, the "ten year rule," which requires a ten-year period between the acquisition date and "placed in service date" for the cost of acquisition to be eligible for tax credits, means that sponsor entities are unable to secure LIHTC equity for a significant share of their development cost for at least 10 years after purchasing a building if the building was sold within the previous 10 years.

developments geared toward greenhouse gas reduction, a regional or state-level occupied acquisition-rehab program could combine with local subsidy to dramatically expand the scale of this anti-displacement strategy. Regionally, the newly created Bay Area Housing Finance Authority (BAHFA) offers an opportunity for new funding and technical assis tance targeted to these kinds of preservation efforts.

LOCAL COLLABORATION IN ACTION Oakland's Preservation Collaborative, supported by Enterprise and Urban Habitat, brings together com munity organizers, advocates, nonprofit stewards and intermediaries to develop a tenant-centered approach that serves a wide range of housing models. Regular meetings and convenings have been used to shape programs and policies, support peer learning and inform practice. This includes a recent acquisition made possible by a partnership between EBALDC, OakCLT and the Alliance of Californians for Community Empowerment (ACCE). Similar collaboratives are grow ing in other parts of the region, including the Peninsula South Bay and San Francisco.

Complementary public funding: More efforts should be made to connect investments in health, hazard mitigation and climate resiliency with anti-displacement and housing preservation work. For example, state level initiatives such as the Low-Income Weatherization Program (LIWP)[31] and the Solar on Multifamily Affordable Housing (SOMAH)[32] program provide financial incen tives for upgrading the existing housing stock through energy efficiency retrofits. These and other programs would benefit from closer coordination with policymakers and practitioners working on acquisition-rehab.

2. STRENGTHEN AND BUILD PARTNERSHIPS

Collaboration and partnership building should extend beyond program design. Many different stakeholders are critical to build ing an effective acquisition-rehab ecosystem:

- **Tenant advocacy organizations** have unique insights into renters' housing challenges and can help build res ident capacity for the transition to nonprofit or resident stewardship.
- **Nonprofit stewards** are knowledgeable about project development and can help address the affordability concerns and rehab decisions that interest residents and advocates; they may also provide resident services.
- **Housing department staff** have experience with policy and program implementation that can both inform and be shaped by work on the ground.
- **CDFIs** can support creative approaches to financing devel opment and incorporate feedback from practitioners.
- **Current residents** have the most day-to-day experi ences with building habitability issues and neighborhood dynamics and can share that knowledge with nonprofit organizations.

Sharing expertise and coordinating across these stakeholders can help grow the work and improve outcomes. This can include development partnerships between more experienced stew ards and organizations that are just starting out. Intermediaries can support this work by hosting convenings and serving as the backbone to collaborative efforts, which can also create a plat form for ongoing community outreach and education.

3. SUPPORT CAPACITY BUILDING FOR THE UNIQUE ASPECTS OF OCCUPIED ACQUISITION-REHAB

Bringing acquisition-rehab to a greater scale will require public, philanthropic and other investment in building the capacity of nonprofit stewards, community-based organizations, public agencies and residents. Recent efforts like the Partnership for the Bay's Future "Challenge Grant" program, which provides sup port to a cohort of local jurisdictions to accelerate policy imple mentation for protections and preservation, represent a hopeful start. For acquisition-rehab, there's a particular need to invest in the infrastructure to work with residents in place and reach our

region's smaller housing stock.

While the Bay Area is home to a robust community of afford able housing developers and CDCs, acquisition-rehab is a new practice for many of these organizations. In the case of tradi tional developers, acquisition-rehab may require new skills and resources to support tenant engagement, as well as property management and stewardship within a scattered site model of small-to-medium buildings. Other community-based organi zations have existing expertise with resident engagement and advocacy but may be new to housing finance, real estate devel opment and compliance with public funding programs.

In an environment where many renters are on edge about their housing situation, engaging residents about their rent, income and community conditions requires thoughtful process and care. This includes an understanding of the ways that race, class, immi gration status, gender and ability impact residents' experiences and the power dynamics that exist when interacting with property managers, contractors or other actors. Adjusting rents to comply with program regulations, performing ongoing income certifica

tions and coordinating rehab work all requires building rapport and trust with residents. It is also an opportunity to strengthen the existing social fabric of communities and create new models of stewardship that center residents.

"[The tenants] were really scared. They didn't have any idea what [income qualification] was going to mean...that's a lot of private information, and these folks have never been part of the system before...We explained the benefits to them, that their rents would be affordable and that no one would be displaced."

Kate Comfort Harr, HIP Housing

In addition, most of our region's existing housing stock is in small to-medium sized buildings, which are typically more difficult to manage and sustain financially. Even in San Francisco, with some of the densest neighborhoods in the region, a significant share of housing is in buildings with less than 20 units.[33] In lower density parts of the region, a large share of the rental stock is in sin gle-family homes that may be exempt from state and local tenant protection laws. Preserving these smaller properties, especially older structures with significant rehab needs, can require a com parable investment of time and effort as larger buildings, and in the long run they can be more financially sensitive to turnover and vacancies. And yet, this is where many long-time and low er-income residents currently live. To reach the full range of com munity needs, we'll need to build organizational and resident capacity to acquire and steward buildings of all sizes.

4. ENSURE COMPLEMENTARY POLICIES ARE IN PLACE

Policy interventions offer the opportunity to change the con ditions within which nonprofit developers, community-based organizations and tenants operate, unlocking a greater poten tial to stabilize communities and transfer more properties from the speculative market to permanent affordability. It is critical for policies to reflect the needs on the ground and the promising practices demonstrated through local programs, including cen tering racial equity and the opportunity for a range of housing ownership and management models.

Right of first offer and/or refusal: Several local jurisdictions have passed ordinances that provide residents and qualified third par ties with the right of first offer and or/refusal when a property covered under the policy is sold, such as the Tenant Opportunity to Purchase Act in Washington, D.C. and the Community Opportunity to Purchase Act in San Francisco. While property owners are under no obligation to accept a below-market price for their property, beneficiaries are given a first opportunity to make an offer when a building is placed on the market and a right to match third party offers, helping level the playing field. This type of policy could be developed at the local, regional or state level, although the capacity building and staffing to support implementation would likely require local involvement.

Compliance and habitability: Policies that link housing hab itability and code compliance with acquisition-rehab can facili tate property acquisition. This includes policies that provide an opportunity to bring properties with serial code enforcement

violations or tax-delinquent properties under public or nonprofit stewardship through incentives or fee waivers.

Tax treatment: There are several ways to make acquisition-rehab more financially viable through the tax system. First, at the state level, there is an opportunity to expand and streamline existing affordable housing tax exemptions or forgiveness to make them more accessible to acquisition-rehab, including the Welfare Exemption. Second, at the local level, jurisdictions can create real estate transfer tax waivers, or, at the state level, a tax credit for property owners when they sell a residential property to a nonprofit affordable housing organization or current residents to be stewarded for permanent affordability. Additionally, different kinds of taxes could be used to both curb speculation and raise funds for efforts like acquisition-rehab, including taxes on vacant properties or short-term "flipping."

Protecting the existing stock: In addition to proactively facilitating acquisition-rehab, there are several policies that can safeguard against the further loss of unsubsidized affordable housing, including condo conversion regulations, restrictions on short-term rentals, "no net loss" requirements for new infrastructure investments and a rental or universal housing inventory.

5. IMPROVE AND DEVELOP NEW TOOLS FOR PRACTITIONERS AND RESIDENTS

As policies, funding and partnerships emerge to support occupied acquisition-rehab, there will be a greater need for new databases, toolkits and other complementary resources. Web-based platforms such as the Displacement Alert Project[34] in New York City and the Organizers Warning Notification and Information for Tenants (OWN IT!)[35] project in Los Angeles are examples of tools that consolidate relevant administrative and tenant-sourced data to help identify properties where tenants are at greatest risk of losing their homes. These platforms are helpful for community-based organizations trying to prioritize properties for acquisition, as well as for tenants trying to better understand their own housing circumstances, which can bolster organizing efforts. Moreover, systems that are designed to help income-qualified residents find affordable housing opportunities, such as San Francisco's DAHLIA portal,[36] should consider the unique aspects of acquisition-rehab properties in their protocols and marketing.

Systems that are designed to help income-qualified residents find affordable housing opportunities should consider the unique aspects of acquisition-rehab properties.

Closer to the ground, nonprofit organizations that are unfamiliar or newer to this kind of work could benefit from toolkits that walk through the different aspects of occupied acquisition-rehab, such as developing and executing a rehabilitation plan with residents in place. Similarly, Bay Area-specific "how-to" guides aimed at residents that are interested in collectively acquiring their building would fill another emerging gap as more communities look to models like limited equity housing cooperatives as a preservation strategy. Whatever the approach may be, consolidating best practices and lessons learned is a helpful step toward expanding awareness and growing capacity to execute acquisition-rehab.

OWN IT! is a web-based tool that provides key insights into local property conditions for tenants and community-based organizations.

LOOKING AHEAD

Marquise, a San Francisco Community Land Trust resident

As these local examples illustrate, the Bay Area has shown a remarkable proof of concept for this important strategy. Numerous community-based organizations – more than can be named in this paper – have put in tremendous work to shape the prac tice, policy and programs supporting occupied acquisition-rehab and grounding it in anti-displacement and racial equity principles. With an unprecedented amount of attention being paid to the challenges of affordable housing and homelessness, it's notable that acquisition-rehab advances many of the top priorities high lighted by state lawmakers and the Governor's office, including stabilizing tenants, expanding affordable housing opportunities and promoting climate resilience. Now is the time to secure the participation, resources and public support necessary to take acquisition-rehab to a scale that matches the need and urgency felt by residents across the state.

Interview Summary

This report is based on a series of 16 semi-structured interviews with staff from nonprofit affordable housing organizations and devel opers, local public agencies and CDFIs, as well as residents of homes brought into nonprofit stewardship for permanent affordability. Interviews were conducted over the phone and in person where possible and ranged from 30 minutes to two hours in length. One interview was conducted through e-mail questionnaire and follow-up phone call. Findings from these interviews were reviewed for cross-cutting themes as well as differences across sector, geography and housing model. Interviewees included:

- Emily Busch and Jason Vargas, East Bay Asian Local Development Corporation
- Keith Cooley, San Francisco Community Land Trust •

Karoleen Feng, Mission Economic Development Agency •

Kate Comfort Harr and Veronica Satizabal, HIP Housing

- Jenny Wyant, City of Berkeley Housing and Community Services Department
- Jonah Lee and Caroline McCormack, San Francisco Mayor's Office of Housing and Community Development
- Jennifer Liu, MidPen Housing
- Meg Horl, Oakland Department of Housing and Community Development
- Raymond Hodges and Rose Cade, San Mateo County Department of Housing
- Nina Marinkovich, Low Initiative Support Corporation
- Justin Chen, San Francisco Housing Accelerator

Fund • Jon Clarke, Enterprise Community Loan Fund •

Darrell Johns, EBALDC resident

- Yolanda, MEDA resident
- Mark, SFCLT resident
- Mona Dena, Mo Music

Residents of Marty's Place, a group-housing co-op for low-income people living with HIV/AIDS and stewarded by SFCLT, enjoy their front stoop.

DATA METHODOLOGY FOR THE UNSUBSIDIZED AFFORDABLE HOUSING STOCK

To estimate the number of unsubsidized affordable hous ing units in the nine-county Bay Area, we used Census Public Use Microdata Sample (PUMS) data, as well as data on subsi dized housing generously collected and provided by CHPC. Computations were done using Python. We began by using the ACS 1-Year PUMS household-level dataset to identify all rental households in the sample where housing costs are affordable to low-income households at 80 percent of Area Median Income (AMI) and occupied by a household earning no more than 80 per cent of AMI. This required us to 1) test each observation against a defined income threshold, adjusted for household size and 2) test each observation against a defined affordability threshold, adjusted for the number of bedrooms. These threshold tests were created using HUD Section 8 Income Limit data and run on the subset of PUMS records with rental tenure.

Low-income test:

For each PUMS record, the reported inflation-adjusted income was compared against the appropriate Section 8 income thresh old for low-income households, adjusted for household size and county. For example, a PUMS record for a 3-person Oakland household would be flagged as "low-income" if their reported inflation-adjusted income was below the Section 8 income threshold for a three-person household in the Oakland-Fremont HUD Metro Fair Market Rent Area.

Affordability test:

The affordability threshold follows the industry standard defi nition of affordability, meaning a PUMS record was flagged as "affordable" if total housing costs accounted for less than 30 percent of a household's income. This required us to first create a "total housing cost" variable that sums reported rents and utili ties costs (electricity, gas, water and fuel) for each observation in the dataset. Then, following HUD's methodology for setting rent limits for HOME and other housing programs, we started with the figure for a low-income (80 percent of AMI) four-person house hold as the baseline. Using this baseline, we constructed cost thresholds that adjusts for unit size and HUD Metro Fair Market Rent Area. For example, the affordability threshold for a two-bed room unit in Oakland would be calculated as:

((Annual income for a four-person 80 percent AMI household in the Oakland-Fremont HUD Metro FMR Area)/12 * .3) * .9 (adjust ment for two-bedroom unit)

Following this analysis, each record in the PUMS sample is weighted to represent the number of comparable households in the broader population to produce an estimate of the absolute number of affordable units occupied by low-income households. This process was done for each year between 2012 and 2017 using the appropriate 1-Year PUMS data and Section 8 Income Limits data from HUD.

Subtracting subsidized units

CHPC maintains a comprehensive database of California's sub sidized, affordable housing. This database, however, does not include: public housing units (unless they have been converted to private/nonprofit ownership) or units that are restricted or sub sidized through local policies and funding alone (such as inclu sionary housing units, density bonus units and any subsidized development that lacks LIHTC, HUD, USDA or state funding). That being said, CHPC's dataset represents the vast majority of subsidized, restricted affordable housing in California.

Once the number of affordable units occupied by low-income households was estimated for each county using PUMS data, we then subtracted out the number of affordable units in CHPC's subsidized housing database that were placed in service by the given year. The resulting number is what is provided in this report.

Note that this estimate does not include housing occupied by tenants using a Housing Choice Voucher, since the units them selves are technically still subject to changes in the market and landlord participation is voluntary.

WHAT DO WE MEAN BY “AFFORDABLE” AND “LOW-INCOME”?

Our analysis, as well as the programs profiled in this report, follow the industry standard thresholds for low-income households and housing affordability as described in the data methodology above. The following tables illustrate what this looks like in practice, using the City of Oakland (Alameda County) as an example:

1-Bedroom Rent 2-Person Median Household Income

$2,432 $77,900

1-Bedroom Rent 2-Person Household Income at 80% AMI

$1,508 $64,350

*Source: Zillow Rent Index

**Source: http://www2.oaklandnet.com/oakca1/groups/ceda/documents/report/oak065448.pdf

ACQUISITION-REHAB AND NEW CONSTRUCTION PER-UNIT COST COMPARISON

To calculate comparative costs of new affordable housing construction, we analyzed data from the California Tax Credit Allocation Committee. Our analysis included all new construction developments awarded 4 or 9 percent tax credits between 2016-2018 in each of the three jurisdictions of interest. Average (mean) per-unit costs were calculated based on total costs and the total number of units.

San Francisco $ 776,285 $ 695,385 $ 726,515 $ 720,781 $ 483,376 67% **San Mateo County** $ 479,262 $

665,831 $ 729,458 $ 627,681 $ 433,203 69% **Oakland** $ 705,899 $ 593,815 $ 561,433 $ 589,010 $ 276,153

47%

SUMMARY OF SAMPLED ACQUISITION-REHAB PROJECTS

In addition to qualitative research, the findings of this report draw on a quantitative analysis of 42 proformas for properties acquired through acquisition-rehab between late 2015-2019 in the Bay Area. The original sample represents all of the projects (46 in total) that received funding from the three public programs profiled in this report as of mid-2019, with the addition of a handful of comparable developments that were either funded through related programs or, in the case of Kensington Gardens, a combination of private sources. Four outliers were removed because their project types differed substantially from the rest – two group housing develop ments with shared facilities, one single room occupancy conversion, and one project that was vacant at acquisition. Information on average sources and uses for these developments is provided in the form of means, rather than medians. The final 42 properties are summarized below:

Chinatown Community Development Center 3 45 Community Development Corporation
3 99 Community Development Corporation

East Bay Asian Local Development Corporation

HIP Housing 3 34 Community Development Corporation MidPen Housing 2 64 Regional Nonprofit

Developer Mission Economic Development Agency 18 125 Community Development Corporation

Mission Housing Development Corporation 1 24 Community Development Corporation Oakland

Community Land Trust 3 22 Community Land Trust

San Francisco Community Land Trust 9 56 Community Land Trust

Total 42 469

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