California Housing Partnership

Affordable Homes at Risk

How Many of California's Affordable Rental Homes Have Converted to Market Rate? How Many are Still at Risk?

February 2020

KEY FINDINGS

- ***31,821 affordable rental homes are at risk*** *of converting to market rate in the next ten years.*
- *Of these,* ***9,064 homes (28 percent) are at risk*** *of converting to market rate* ***in the next year.***

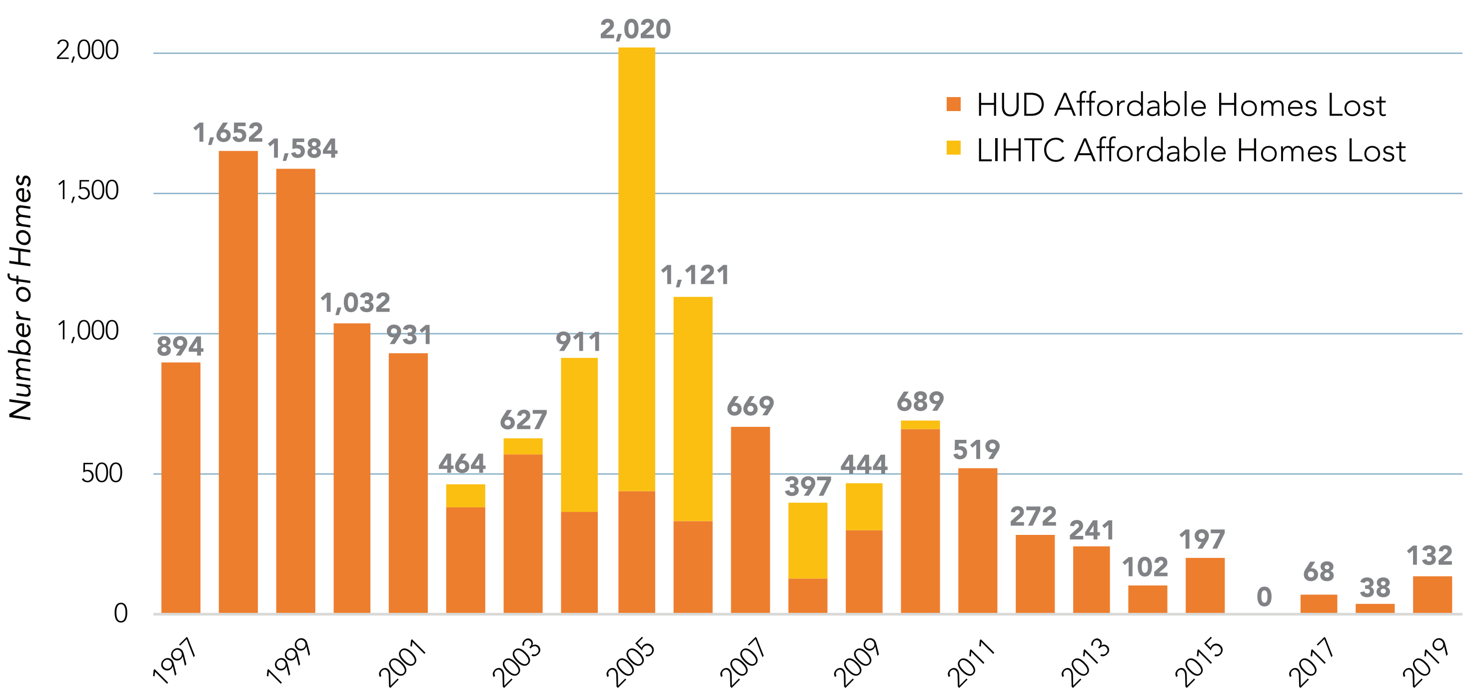
ABOUT THIS REPORT

To inform affordable housing preservation efforts across California, the **California Housing Partnership** ("the Partnership") annually assesses the historical loss and conversion risk of federally- and state-subsidized affordable rental developments.[1] These include multifamily properties financed or assisted by the U.S. Department of Housing and Urban Development (HUD), the U.S. Departments of Agriculture (USDA), the California Housing Finance Agency (CalHFA), and the Low-Income Housing Tax Credit (LIHTC) program administered by the **California Tax Credit Allocation Committee** (TCAC).[2]

This analysis demonstrates that the risk of affordable homes converting to market rate is very real in the state's tight housing markets. **Fifteen of the twenty most expensive rental housing markets in the United States are in California.**[3]

Figure 1

Loss of Affordable Rental Homes in California, 1997-2019



Source: California Housing Partnership Preservation Database, January 2020.

WHAT HAS BEEN LOST?

Between 1997 and 2019, California lost 15,004 affordable rental homes with HUD project-based rental assistance contracts and/or loans or low-income housing tax credits due to owner decisions to opt out, sell, or allow their developments to convert to market rate (see Figure 1). The majority of lost affordable homes converted to market rate in the first decade of this 22-year period: 11,236 homes (75 percent) converted to market rate between 1997 and 2006; only 435 (3 percent) of lost affordable homes converted between 2015 and 2019.

The concentration of LIHTC affordable homes lost in the 2002-2008 period were part of the first generation of developments in California that received tax credit allocations, between 1987 and 1989. During the first three years that LIHTCs were available, they were allocated by the State of California Treasurer's Office on a non-competitive basis to applicants who were required only to meet the basic threshold criteria specified in Internal Revenue Code (IRC) Section 42 and regulations established by TCAC, which administers the program for the Treasurer's Office. TCAC did not impose affordability terms longer than the federally required minimum of 15 years until 1990, so many first-generation developments without other federal, state, or local financing mandating longer rent restriction terms converted to market rate just 15 years after they began serving residents—beginning in 2002.[4] For more information and lessons learned from the first 30 years of the LIHTC program, see the Partnership's publication, ***The Tax Credit Turns 30***.

The Partnership's analysis of ownership structure for affordable developments that converted to market rate housing between 1997 and 2019 reveals that properties developed by for-profit entities converted to market rate far more often than properties developed by non-profit organizations. Rather than maximizing profits for principals/partners or shareholders, non-profit owners are typically motivated by their mission to provide affordable homes to low-income residents in perpetuity. As shown in Figure 2 below, 10,970 affordable homes (75 percent) that converted to market rate housing between 1997 and 2019 were owned by for-profit entities. This trend is further substantiated by the Partnership's 2017 comprehensive analysis of conversion rates for first-generation LIHTC developments, which found that 30 percent of affordable homes in developments created by for-profits converted, compared to a 4 percent conversion rate for those built and owned by non-profits.[5]

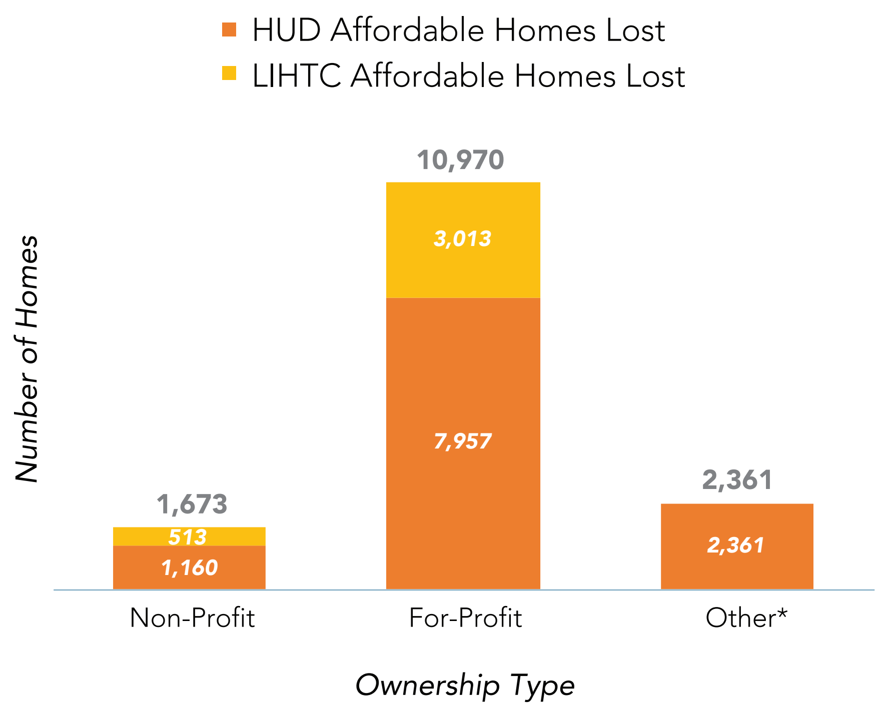
While this analysis demonstrates that nonprofit-controlled affordable housing is far less likely to convert to market rate than those created by for-profit organizations, non-profit status alone does not guarantee that an affordable housing development will be preserved. Maintaining affordability also depends on longer rent restriction terms, adequate resources to maintain the development, and strong monitoring and enforcement by government agencies.[6] See Appendix A and B for more findings on lost affordable homes.

WHAT IS AT RISK OF CONVERSION TODAY?

The California Housing Partnership has analyzed conversion patterns among the State's stock of subsidized affordable housing to identify the homes most at risk of converting to market rate, and categorized each affordable development into one of the following groups:

Figure 2

Loss of Affordable Rental Homes by Ownership Type, 1997-2019



Source: California Housing Partnership Preservation Database, January 2020.
**"Other" includes homes owned by limited dividend organizations, other ownership structures, or ownership is unknown.*

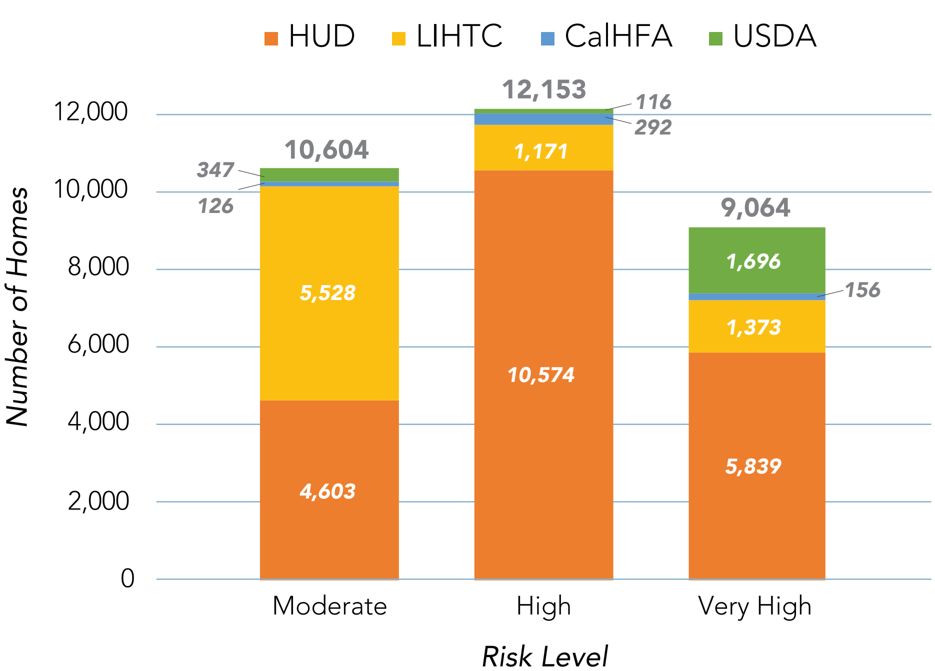
- Very High Risk of Conversion: Affordability restrictions end in less than one year, there are no known overlapping subsidies that extend affordability, and the development is not owned by a large/stable non-profit, mission-driven developer.
- High Risk of Conversion: Affordability restrictions end in one to five years, there are no known overlapping subsidies that extend affordability, and the development is not owned by a large/stable non-profit, mission-driven developer.
- Moderate Risk of Conversion: Affordability restrictions end in five to ten years, there are no known overlapping subsidies that extend affordability, and the development is not owned by a large/stable non-profit, mission-driven developer.
- Low Risk of Conversion: Affordability restrictions extend beyond ten years, or the development is owned by a large/stable non-profit, mission-driven developer.

The heartening news is that when using the above criteria, the vast majority of affordable homes in California are not at serious risk of conversion to market rate housing in the next decade. Of the approximately 436,949 affordable rental homes in California's HUD, USDA, CalHFA, and LIHTC portfolios, only 31,821 (7 percent) are currently at very high, high, or moderate risk of conversion.

As Figure 3 below shows, the majority of these at-risk homes have expiring HUD project-based rental assistance contracts and maturing mortgages (66 percent), while only 25 percent are governed by expiring LIHTC regulatory agreements, seven percent are financed by maturing USDA mortgages, and two percent are financed by maturing CalHFA loans. When looking at the proportion of each program's total portfolio that is at risk, the strength of California's tax credit program is made all the more clear: only two percent of affordable homes receiving LIHTCs are at risk, compared to one-third of affordable homes with expiring HUD, CalHFA, or USDA subsidies.

Figure 3

Affordable Rental Homes at Risk in California



Source: California Housing Partnership Preservation Database, January 2020.

Homes at moderate, high, and very high risk of losing affordability have the following characteristics:

- These affordable homes primarily serve **seniors** (13,807 homes, 43 percent of total at-risk homes) and **families** (13,760 homes, 43 percent of total at-risk homes).[7]
- At-risk homes are concentrated in Los Angeles County (11,241 homes, 35 percent of total at-risk homes), Orange County (3,557 homes, 11 percent of total at-risk homes), Santa Clara County (2,173 homes, seven percent of total at-risk homes), San Diego County (1,794 homes, six percent of total at-risk homes), and San Francisco County (1,583 homes, five percent of total at-risk homes) (see Figure 4).
- When considering the number of at-risk homes relative to each county's total stock of affordable homes, Trinity County has the largest proportion of affordable homes at risk of conversion—68 percent of the county's total affordable homes. When looking exclusively at the fifteen largest counties, Orange County has the highest proportion of at-risk homes compared to total affordable housing stock (15 percent), followed by Los Angeles County (11 percent), and Tulare County (11 percent).

See Appendix A and B for more data on at-risk affordable homes by county.

Economic and Social Benefits also at Risk

While these 31,821 at-risk homes represent a small share of California's affordable housing, the conversion of even one affordable home to market rate means the loss of housing and economic stability for the low-income resident(s) occupying the home. The benefits of living in affordable rental housing for low-income households lucky enough to access them range from relief from housing instability to improvements in health, childhood cognitive development, and increased local economic activity.[8]

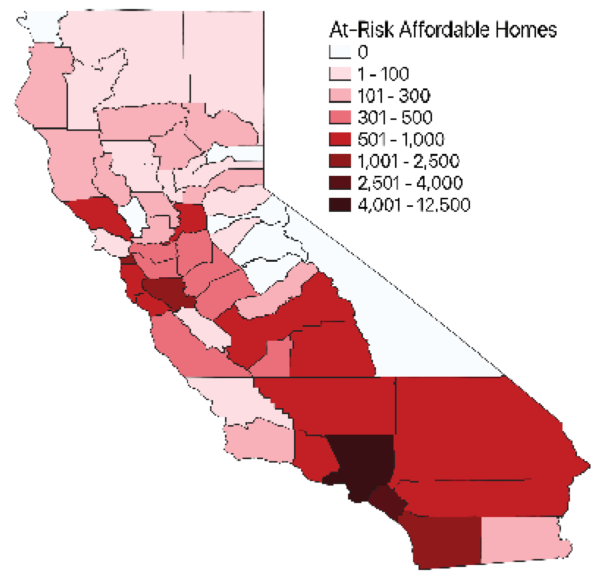
Low-income residents living in affordable housing in California on average save $320 per month—or $3,840 per year—when compared to paying local market rents.[9] For residents in high cost coastal communities, rent savings are often much higher—in the Bay Area, for example, residents in 125 affordable developments are savings more than $1,000 per month in rent.[9] These savings help put food on the table, pay for transportation and healthcare costs, and enable families to take advantage of educational and workforce development opportunities.[10]

Affordable housing also generates substantial economic activity that extends beyond its residents and into surrounding communities and regions. The creation and operation of today's affordable homes in California supports 293,000 jobs annually, creates more than $12.9 billion in wages and business income annually, and generates more than $3.7 billion in tax revenue annually.[11]

Losing affordable homes identified as at risk of conversion would represent a significant loss to residents and the surrounding communities. Given California's existing shortage of 1.4 million homes for extremely low-income and very low-income renters, it is clear that failing to preserve California's affordable homes should not be an acceptable public policy option and that state and local action is needed.[12]

Figure 4

Geography of Affordable Rental Homes at Risk of Conversion



Source: California Housing Partnership Preservation Database, January 2020.

WHAT SHOULD BE DONE?

The following are ways that State leaders can provide local governments and non-profit, mission-driven housing organizations with the tools necessary to effectively preserve existing affordable housing:

1. Pass legislation to authorize the creation of a new Affordable Housing Preservation Tax Credit—**AB 2058** (Gabriel and Friedman)—to incentivize the preservation of existing affordable homes by experienced affordable housing entities.
2. Make permanent the $500 million annual increase to the California Low-Income Housing Tax Credit Program authorized by AB 101 in 2019 (so that affordable housing developers can plan to consistently ramp up their capacity) and allocate an additional $100 million specifically for affordable housing preservation as intended by the underlying legislation (AB 10, Chiu).
3. Aggressively enforce the **State Preservation Notice Law** as expanded by AB 1521 (2017).

To learn more about the data contained in this report, please contact Danielle M. Mazzella (dmazzella@chpc.net), Preservation and Data Manager at the California Housing Partnership.

To learn more about the policy recommendations contained in this report, contact Mark Stivers (mstivers@chpc.net), Director of Legislative and Regulatory Advocacy at the California Housing Partnership.

DATA NOTES & SOURCES

1 *This assessment includes developments financed or assisted by HUD, USDA, CalHFA. and LIHTC programs. The California Housing Partnership is in the process of incorporating data on additional State–including affordable housing financed by the California Department of Housing and Community Development (HCD)–and local programs into its loss and risk analysis, but this data was not fully available at the time of this Report's preparation.*

2 *The California Housing Partnership's Preservation Database includes HUD subsidized developments, USDA Section 514 and 515 rural developments, developments receiving loans from CalHFA, and developments financed with Low Income Housing Tax Credits in California. The Preservation Database is updated quarterly with the most complete and available data provided by each agency. The data is then cleaned and duplicate information is removed using both automated processes and manual checks. Every effort is made to ensure the information presented is as precise as possible; however, there may be unanticipated inaccuracies in our analysis and in the data we receive from federal and state agencies.*

3 *Steinbarth, Sarnen. "Breaking Down the Highest and Lowest Rent Costs in the US." 4 February 2019. Website: https://www.forbes.com/sites/forbesrealestatecouncil/2019/02/04/breaking-down-the-highest-and-lowest-rent-costs-in-the-u-s/#7ad1d93b6d2b.*

4 *California Housing Partnership. "The Tax Credit Turns 30." December 2017. Website: https://chpc.net/resources/tax-credit-turns-30/.*

5 *Ibid.*

6 *Ibid.*

7 *The population served is determined by the housing type reported for each development. For the purposes of this analysis, we assume that all units correspond with the development's housing type.*

8 *See, for example: How Housing Matters, a clearinghouse of research on housing's benefits supported by the MacArthur Foundation and the Urban Institute: https:// howhousingmatters.org; a 2017 report on the connection of housing and health from the Bipartisan Policy Center called Building the Case: Low-Income Housing Tax Credits and Health, available at https://bipartisanpolicy.org.*

9 *California Housing Partnership. Affordable Rental Housing Benefits Map. May 2019. Website: https://chpc.net/affordable-housing-benefits-map/.*

10 *See, for example: Jacob, Brian, Max Kapustin, and Jens Ludwig. 2015. "The Impact of Housing Assistance on Child Outcomes: Evidence from a Randomized Housing Lottery." The Quarterly Journal of Economics; and Aizer, et al. 2014. "The Long Term Impact of Cash Transfers to Poor Families." NBER Working Paper Number 20103.*

11 *California Housing Partnership. Affordable Rental Housing Benefits Map. May 2019. Website: https://chpc.net/affordable-housing-benefits-map/.*

12 *California Housing Partnership. "California's Housing Emergency Update." March 2019. Website: https://chpc.net/resources/2019-statewide-housing-need-report/.*

ACKNOWLEDGEMENTS

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APPENDIX A

Table 1: Affordable Housing Risk Assessment by Program

	HUD*	LIHTC**	USDA***	CalHFA****	TOTAL
Very High Risk	5,839	1,373	1,696	156	**9,064**
High Risk	10,574	1,171	116	292	**12,153**
Moderate Risk	4,603	5,528	347	126	**10,604**
Low Risk	43,052	353,884	6,725	1,467	**405,128**
Total	**64,068**	**361,956**	**8,884**	**2,041**	**436,949**

Source: California Housing Partnership Preservation Database, January 2020.

**The homes captured under the HUD column reflect developments with HUD financing and no tax credit funding.*
***The homes captured under the LIHTC column include developments that have Tax Credits only, as well as Tax Credit developments that also have HUD, CalHFA, and/or USDA financing.*
****The homes captured under the USDA column include those with USDA funding exclusively.*
*****The home captured under the CalHFA column include those with CalHFA funding exclusively.*

APPENDIX B

Table 2: Lost Affordable Homes & Risk Assessment by County

County	Lost Affordable Homes	% of Lost Affordable Homes	Homes at Moderate Risk	Homes at High Risk	Homes at Very High Risk	Total Homes at Risk of Conversion	% of Affordable Homes at Risk
Alameda	683	5%	167	154	141	462	1%
Alpine	0	0%	0	0	0	0	0%
Amador	0	0%	0	0	0	0	0%
Butte	129	1%	0	0	244	244	0.8%
Calaveras	0	0%	0	8	35	43	0.1%
Colusa	0	0%	50	0	0	50	0.2%
Contra Costa	410	3%	191	270	0	461	1%
Del Norte	0	0%	0	0	0	0	0%
El Dorado	0	0%	0	12	36	48	0.2%
Fresno	961	6%	194	241	295	730	2%
Glenn	0	0%	54	0	0	54	0.2%
Humboldt	0	0%	0	0	227	227	0.7%
Imperial	29	0%	82	74	72	228	0.7%
Inyo	0	0%	0	0	0	0	0%
Kern	397	3%	171	272	142	585	2%
Kings	108	1%	137	28	271	436	1%
Lake	0	0%	30	0	121	151	0.5%
Lassen	0	0%	0	0	34	34	0.1%
Los Angeles	5,057	34%	2,368	5,613	3,260	11,241	35%
Madera	10	0%	80	0	37	117	0.4%
Marin	0	0%	0	56	17	73	0.2%
Mariposa	16	0%	0	0	0	0	0%
Mendocino	0	0%	48	0	79	127	0.4%
Merced	252	2%	99	112	44	255	0.8%
Modoc	0	0%	12	0	0	12	0%
Mono	0	0%	0	0	0	0	0%
Monterey	80	1%	182	75	40	297	0.9%
Napa	24	0%	0	0	0	0	0%
Nevada	0	0%	0	0	34	34	0.1%
Orange	475	3%	1,787	1,156	614	3,557	11%
Placer	72	0%	0	25	170	195	0.6%

APPENDIX B (continued)

Table 2: Lost Affordable Homes & Risk Assessment by County

County	Lost Affordable Homes	% of Lost Affordable Homes	Homes at Moderate Risk	Homes at High Risk	Homes at Very High Risk	Total Homes at Risk of Conversion	% of Affordable Homes at Risk
Plumas	0	0%	0	47	59	106	0.3%
Riverside	452	3%	263	35	283	581	2%
Sacramento	967	6%	245	300	227	772	2%
San Benito	0	0%	0	0	20	20	0.1%
San Bernardino	267	2%	191	203	115	509	2%
San Diego	1,641	11%	268	1,144	382	1,794	6%
San Francisco	115	1%	899	178	506	1,583	5%
San Joaquin	84	1%	0	176	170	346	1%
San Luis Obispo	22	0%	0	0	26	26	0.1%
San Mateo	201	1%	258	244	153	655	2%
Santa Barbara	0	0%	0	31	125	156	0.5%
Santa Clara	719	5%	1,471	702	0	2,173	7%
Santa Cruz	313	2%	184	321	0	505	2%
Shasta	88	1%	0	0	98	98	0.3%
Sierra	0	0%	0	0	0	0	0%
Siskiyou	100	1%	6	35	28	69	0.2%
Solano	233	2%	185	27	0	212	1%
Sonoma	213	1%	72	303	149	524	2%
Stanislaus	44	0%	256	80	60	396	1%
Sutter	95	1%	0	0	51	51	0.2%
Tehama	0	0%	0	91	10	101	0.3%
Trinity	0	0%	0	0	64	64	0.2%
Tulare	143	1%	151	113	358	622	2%
Tuolumne	0	0%	0	0	0	0	0%
Ventura	329	2%	433	0	180	613	2%
Yolo	275	2%	14	27	87	128	0.4%
Yuba	0	0%	56	0	0	56	0.2%
TOTALS	**15,004**	**100%**	**10,604**	**12,153**	**9,064**	**31,821**	**100%**

Source: California Housing Partnership Preservation Database, January 2020.