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To: Ezra Rapport, Executive Director

From: Brad Paul, Deputy Executive Director

Subject: **Acquisition/Rehab as a Plan Bay Area Implementation Strategy**

Plan Bay Area, the region's first Sustainable Communities Strategy, was adopted by the ABAG Executive Board and Metropolitan Transportation Commission (MTC) in July 2013. Its purpose is to help manage the Bay Area's long-term growth to reduce greenhouse gas emissions (GHGs), promote economic development, incorporate community equity, protect natural resources, and enhance resiliency to natural disasters.

ABAG is now facilitating the combined efforts of the Bay Area's 109 cities and counties as they implement the pattern of focused growth envisioned in Plan Bay Area. Much of the region's future growth is expected to occur in locally-nominated Priority Development Areas (PDAs). ABAG will continue working with local jurisdictions and other key agencies to help PDAs become "complete communities" that provide existing and future residents with easy access to employment, shopping, and services such as schools, parks, and health care in appealing walkable neighborhoods.

One of the most essential characteristics of a complete community is access to a range of housing choices that can serve people at all income levels. Addressing the need for affordable housing is one of the most significant challenges to implementing the vision articulated in Plan Bay Area. The degree of difficulty of this challenge has increased dramatically in recent years with the steady reduction of federal and state subsidies for affordable housing development and the elimination of redevelopment agencies and their requirements for dedicated local housing trust funds and for construction of new and replacement housing.

ABAG is working with housing advocacy organizations, regional and state agencies, legislators, and others to identify and promote policy changes and new funding sources dedicated to providing local jurisdictions with the flexibility and resources needed to meet local needs in each community. ABAG is also researching and promoting best-practices local jurisdictions may employ to mitigate displacement of businesses and residents by targeted growth in PDAs.

Acquisition and Rehabilitation of Existing Homes

ABAG is pursuing increased funding and policy changes to promote one of the most promising tools to address these challenges: the acquisition and rehabilitation of existing older apartment buildings to create long-term affordable housing by non-profit housing organizations. This "acq/rehab" strategy increases the supply of

permanently affordable housing, mitigates displacement, and helps revitalize neighborhoods with concentrations of aging rental housing. These outcomes further the goals of Plan Bay Area. Importantly, it is also a flexible tool that can be adapted to meet the housing needs in jurisdictions of all sizes.

Preventing Displacement

Providing affordable housing near transit is critical if the Bay Area is going to meet the GHG reduction target identified for the region in Plan Bay Area. Fourteen percent of workers with income below 200 percent of poverty commuted by public transit compared to nine percent of workers with income above 200 percent of poverty.

According to the Plan's forecast, the number of people in very low- and low-income households is projected to increase from 40 percent to 43 percent of all households by 2040. At the same time, market demand for housing near transit is expected to increase based on forecasted demographic changes in the region. There is the potential that the increased investments in PDAs envisioned in Plan Bay Area will spur additional demand for housing in these areas. Amplifying these pressures, 56 percent of new jobs will be at relatively low wage rates. To respond to these trends, local and regional agencies need additional tools and resources to prevent the displacement of existing very low- and low-income households from areas near transit.

As the economy has improved, some Bay Area jurisdictions have experienced rapid increases in residential rents, which have made it even more difficult for low- and moderate-income households to afford housing. The acquisition and rehabilitation of existing rental homes is a strategy that can help prevent displacement in these areas with overheated real estate markets.

Any money government agencies, foundations or others currently contribute to a city's affordable housing program help that city add to its permanent affordable housing inventory. Typically, each source imposes requirements. Historically, there was a regulatory tension and balance between local sources, especially redevelopment agency funds, that required or encouraged preference for local residents and federal sources that discouraged or disallowed local preference policies as discriminatory. With the elimination of redevelopment agencies, and the near impossibility of building new affordable housing without federal subsidies, federal fair housing policy prevails and any newly constructed housing must hold a lottery to determine who moves in. This approach does little or nothing to help nearby low-income and working poor families avoid displacement as rents escalate beyond their reach. They get no preference in these oversubscribed lotteries.

For example, in San Francisco's South of Market (SOMA) neighborhood, escalating rents are driving out hundreds of working and immigrant families that have lived there for generations. While several new affordable housing developments of 50-80 units have opened recently, SOMA residents have not fared well in those lotteries.

Last year, given the unmet citywide need for affordable housing, almost 2,500 families entered a lottery for 50 very affordable apartments. The odds were 50:1. After intense door-to-door outreach, 150 SOMA families submitted valid applications. This was more than five times the normal volume of applicants from SOMA due to this extraordinary outreach. Statistically, only 3 apartments would be expected to go to SOMA families, and as luck would have it, desperate SOMA families won only 2 of the 50 units. By contrast, in a 50-unit non-profit acquisition/rehabilitation project, also financed using federal funds, federal fair housing laws would **require** that current residents of the building be given first preference for retaining their home after renovation. In those cases where major renovation is not necessary, families would remain in place.

In response to this problem, policy advocates recently convinced the San Francisco Mayor's Office of Housing to use a portion of San Francisco's affordable housing resources to support a new *Small Sites Acquisition/Rehab* program. It will use some of the city's housing funds to purchase existing 4-40 unit buildings that, because they need only minor renovation, prevent displacing low-income tenants. With this approach, **100 percent** of those city housing dollars will benefit existing at-risk SOMA residents compared to 4 percent in the prior new construction example.

Addressing Concerns About Impacts on Neighborhood Quality of Life and Schools

An acquisition and rehabilitation strategy also addresses two major concerns that often drive local opposition to affordable housing in older suburbs and small towns: a fear of outsiders moving into small, tight knit neighborhoods and the impact the newcomers' children might have on struggling local school districts. Acquiring existing buildings that already house low- and moderate-income households is a strategy aimed at preventing the displacement of existing residents who are potential opponents' current neighbors and their children's current friends and classmates. The children living in the houses and apartment buildings that would be acquired through this strategy are already in the local school system and have probably been so for many years. In general, an acquisition/rehab strategy's impact on local school enrollment should be negligible.

A Special Opportunity to Meet the Needs of Bay Area Seniors

Many of the current residents in older rental properties are seniors. Based on the growth forecast in Plan Bay Area, the region's population aged 65 and over will increase from 12 percent of the total population to 22 percent by 2040. Economic displacement due to rent pressure can be particularly problematic for seniors, who often face the loss of the support networks and access to services upon which they rely when forced to relocate. While creating affordable housing through the acquisition/rehab strategy alone cannot stabilize housing for more than a fraction of the number of Bay Area seniors who will face displacement pressures, it will make a transformational difference for the initial occupants and will subsequently provide housing security for several generations over many decades to come.