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San Diego Housing Commission (SDHC)

Affordable Housing Preservation and Financing Strategies

Presentation to the SDHC Board of Commissioners
February 9, 2023

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SDHC – Affordable Housing Preservation and Financing Strategies

Introduction

- **2018** Smart Growth & Land Use Committee (now Land Use & Housing) identified affordable housing preservation as a priority.
- **2019** SDHC hired a Housing Preservation Coordinator.
- **May 28, 2020:** SDHC completed a yearlong study and published a report, *Preserving Affordable Housing in the City of San Diego*, which included:
 - A detailed housing inventory
 - Historic analysis and future projections
 - Estimates of preservation costs
 - A Strategy Framework with 10 recommendations



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Introduction (Continued)

- **June 2, 2020:** City Council accepted the study and referred it to the Land Use and Housing Committee.
- **October 27, 2020:** City Council approved seven actions to implement a strategy for affordable housing preservation, including convening an Interagency Working Group and Preservation Collaborative.
- **April 8, 2021:** SDHC convened the first meeting of the Interagency Working Group.
 - Group met quarterly throughout calendar year 2021.
- **February 4, 2022:** SDHC Board of Commissioners approved the nomination categories and representative organizations to serve on the first Preservation Collaborative Stakeholder Group.
 - Group meets quarterly.



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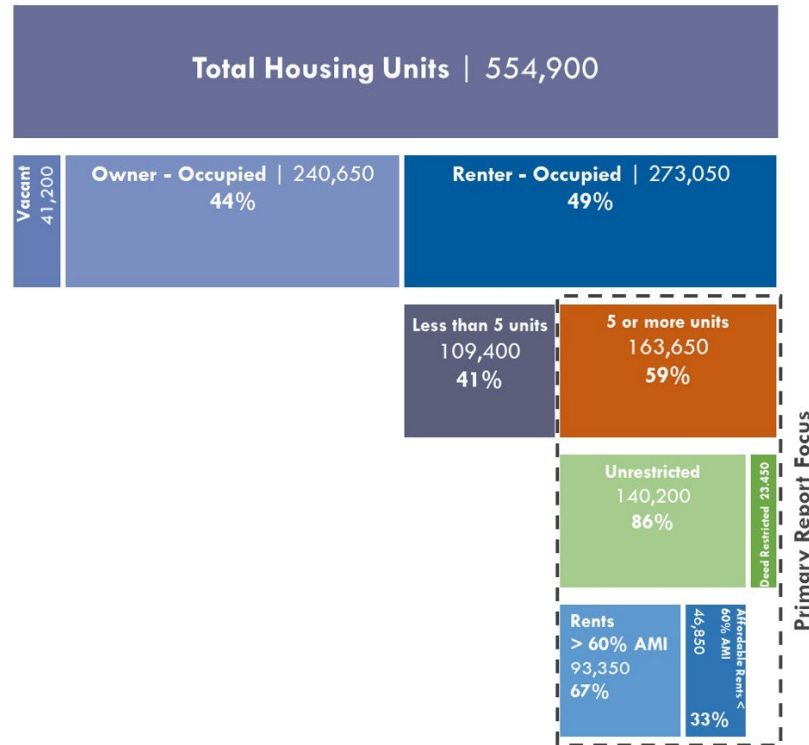
Definitions

- **Preservation** – Any action that extends the deed-restricted status of an affordable rental housing unit or converts an unrestricted naturally occurring affordable housing (NOAH) unit to deed-restricted to ensure affordability remains in place.
- **Deed-Restricted** – Properties upon which covenants, conditions and restrictions or other documents are recorded that require rents to be affordable to households at specified income levels.
 - **At Risk** – Deed-Restricted properties with covenants that are set to expire, allowing the units to convert to market rate *or* NOAH units at risk of converting to market rate.
 - SDHC has created a database of deed-restricted properties.
- **NOAH** – Properties without any restrictions that have rents that are affordable to households earning up to 60% of San Diego's Area Median Income (AMI).
 - SDHC's preservation study included data on and projections for NOAH properties, but there is no database available for NOAH properties.



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Multifamily Rental Housing Inventory

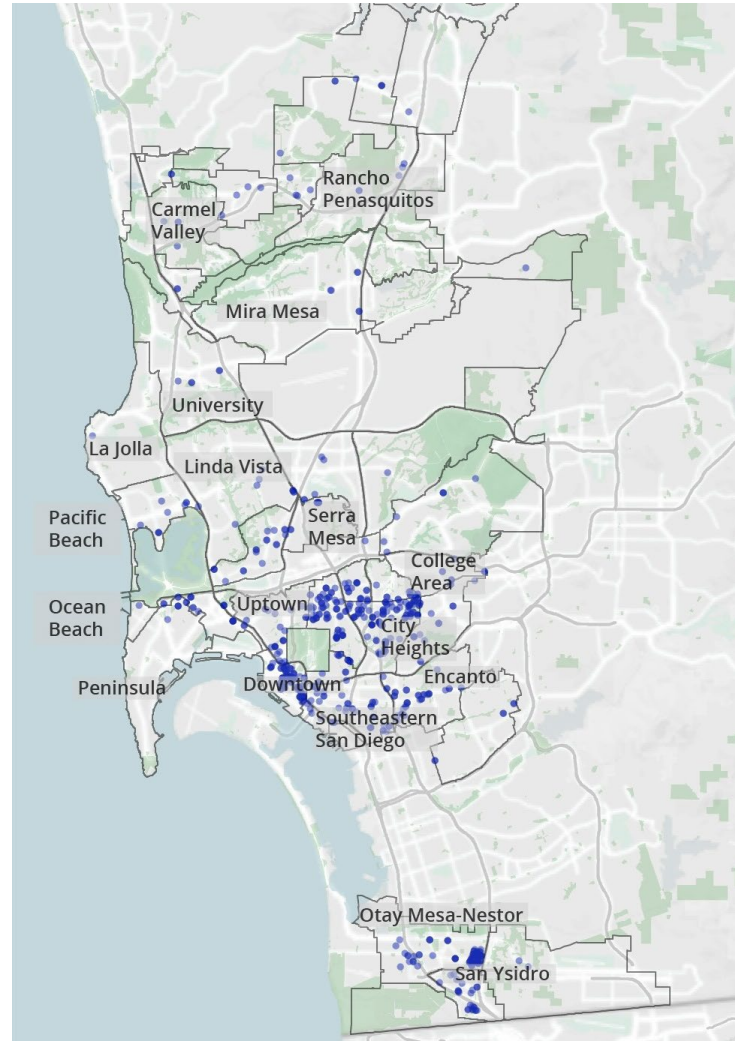


*Numbers are rounded to the nearest 50.



SDHC – Affordable Housing Preservation and Financing Strategies Deed-Restricted Properties

Parcels with Deed-Restricted Affordable Units



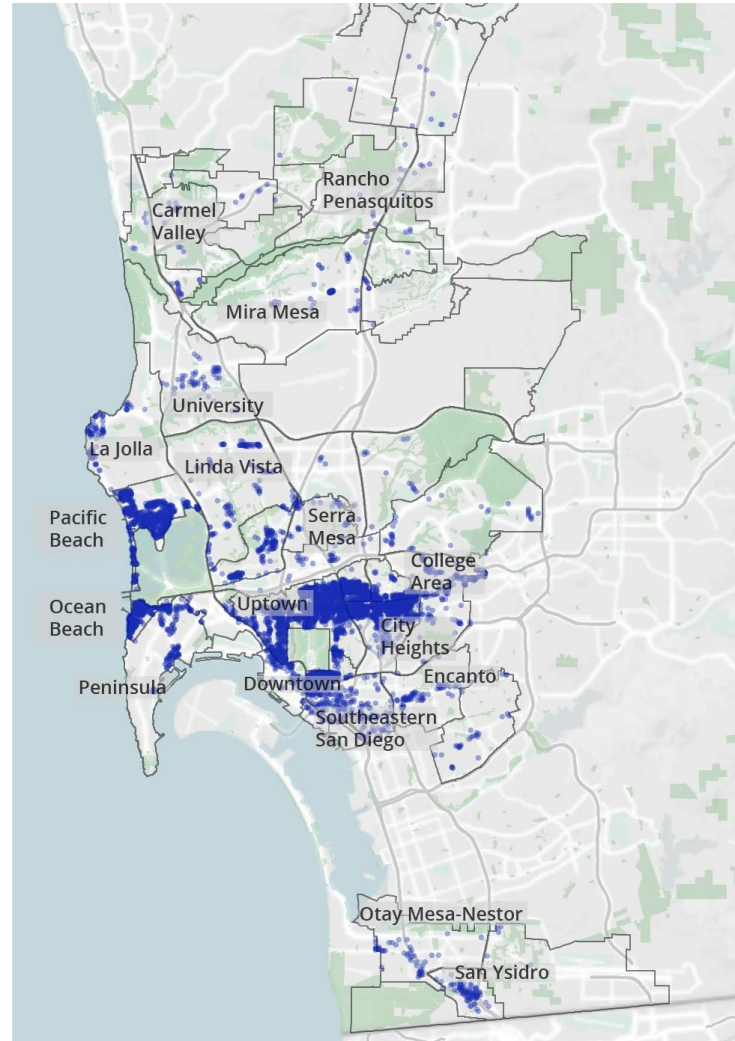


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Naturally Occurring Affordable Housing (NOAH)

Parcels with
Unrestricted NOAH Units



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City Council-Approved Actions

Action Item	Proposed Strategy	Current Status
1	Direct Residual Redevelopment Property Tax Trust Funds (RPTTF) to affordable housing preservation.	No budget action to date. However, a portion of the Neighborhood Enhancement Fund is dedicated to preservation.
2	Establish a strategic goal, with actual appropriations subject to the City's annual budget process, of using at least 20 percent of the Fiscal Year (FY) 2021 RPTTF as an annual base figure.	Interagency Working Group established a strategic goal methodology for number of units that could be preserved using the approved priority framework if initial funding could be identified.
3	Establish a Small Sites Rehabilitation Program funded with RPTTF to provide an incentive to owners of existing NOAH properties.	No budget action to date. Notice of Funding Availability (NOFA) issued with existing SDHC funding.



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City Council-Approved Actions (Continued)

Action Item	Proposed Strategy	Current Status
4	Provide initial seed funding using RPTTF to create a public-private Affordable Housing Preservation Fund, to be operated by a qualified Community Development Financial Institution	No budget action to date.
5	Develop an Affordable Housing Preservation Ordinance	Draft ordinance was requested as part of Councilmember LaCava's Land Use & Housing Committee's 2023 Priorities, pending inclusion as future item in 2023 work plan.



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City Council-Approved Actions (Continued)

Action Item	Proposed Strategy	Current Status
6	Authorize the establishment of an initial Interagency Preservation Working Group	<p>Interagency Working Group met quarterly in 2021:</p> <ul style="list-style-type: none"> Established Preservation Priority Matrix Provided parameters for creating Strategic Goals Established composition, term and membership categories for a Preservation Collaborative <p>Membership Included:</p> <ul style="list-style-type: none"> Mayor's Office City Planning, Urban Division, Development Services, Economic Development Division County Housing and Community Development (HCD) Department State HCD State Tax Credit Allocation Committee U.S. Department of Housing and Urban Development (HUD) Field Office
7	Authorize the establishment of a Preservation Collaborative	<p>February 4, 2022 – SDHC Board of Commissioners approved the nomination categories and representative organizations to serve on the first Preservation Collaborative Stakeholder Group. Meets quarterly.</p>



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Funding Limitations

- Currently **no local dedicated** sources of funds for preservation
- **State and Federal Sources are the most restrictive**, making the use of these funds for NOAH more difficult.
 - SDHC issued NOFA for NOAH developments but only had federal funding available for award.
- State and Federal preservation programs provide funding but **rely on local gap dollars**.





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Cost Estimates

Estimated Funding Needed as Identified in the Preservation Study 2020 – 2040

	Units At Risk (2020- 2040)	Units At Risk Per Year	Gap Financing Needed Per Year	Estimated Total Preservation Cost Per Year
Deed- Restricted Units	4,200	210	\$14 million	\$85 million
NOAH Units	9,250	462	\$72 million	\$315 million
TOTAL	13,450	672	\$86 million	\$400 million

- *Gap financing will require new State and Local funding.*
- *Dollar amounts have been adjusted to incorporate projected cost increases over the next 20 years.*
- *Dollar amounts reflect costs at time of study publication and do not reflect current market conditions.*



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Financing Limitations – Deed-Restricted Properties

- SDHC tracks projects with covenants set to expire in the next 10 years.
- 6,657 units with affordability restrictions expiring by 2033:
 - Council District 1: 143
 - Council District 2: 759
 - Council District 3: 2,132
 - Council District 4: 1,353
 - Council District 5: 0
 - Council District 6: 221
 - Council District 7: 124
 - Council District 8: 819
 - Council District 9: 1,106



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Financing Limitations – Deed-Restricted Properties (Continued)

- **Available Funding and Financing**

- Deed-restricted properties have been preserved using Federal, State, and Local sources to extend affordability.
 - Includes projects financed through SDHC's competitive NOFA process.
- Current funding prioritizes new production and new construction.
- Historically, 4% bonds and tax credits were used for preserving existing affordable projects.
- As of 2020, these bond allocations became competitive as demand for tax-exempt bonds exceeded supply, further limiting financing for preservation deals.
- In Fiscal Year (FY) 2021, SDHC issued a Preservation NOFA that included \$5 million in funding for expiring covenants.
 - SDHC has made preliminary award of funds through the NOFA, subject to approval by the SDHC Board of Commissioners at a future date.
 - SDHC is reviewing the program parameters to reset the program against market needs.



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Next Steps

Develop Local Resources

- Preservation study calls for local funding via set-aside of RPTTF funds as part of the annual City budget process, with a goal of 20% base figure, plus future growth of those funds (Action Items 1 and 2).

FY 2024 City Budget Request

- Seven City Councilmembers indicated support for preservation of affordable housing specifically and four, including Council President Elo-Rivera and Councilmembers Moreno, LaCava and Campillo, requested funding for this purpose.
- Preservation Collaborative Stakeholder Group sent a letter to Councilmembers supporting the preservation budget request and asking other Councilmembers to do the same.
- Preservation Collaborative met on January 26, 2023, to discuss budget advocacy moving forward.



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Next Steps (Continued)

Leverage State Resources

State Resources:

- \$325 million over two years toward Multifamily Housing Program
- \$150 million over two years for the Portfolio Reinvestment Program

Other State Preservation Activity:

- Enterprise Community Partners – Preservation Next
 - Public Education through a “Preservation Academy”
- Community Anti-Displacement & Preservation Program (CAPP)
 - Current effort to try to secure \$500 million from the state budget surplus.
- Foreclosure Intervention Housing Preservation Program (FIHPP)



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Next Steps (Continued)

Advocacy - State and Local Legislation:

- **Tenant protections** were strengthened throughout the pandemic.
- **Replacement housing requirements:** SB330 – no net loss of units, financial assistance for displaced tenants
- **Surplus Land for Affordable Housing:** AB 1486 – Requires notification to Housing Sponsors of availability of Surplus Land
- **State Preservation Noticing Law:** Gov. Code 675863.10 – amended State Noticing for rental restrictions about to expire adding a 3-year notice in addition to a 1-year and 6-month notice



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Next Steps (Continued)

Advocacy - State and Local Legislation: (Continued)

- **State Requirements Reflected in Local Affordable Housing Programs, Regulations:**
 - Density Bonus, Inclusionary, Complete Communities, SRO Ordinance – Require affordable housing replacement, tenant relocation financial assistance
 - AB 1482 Tenant Protection Act of 2019 requires “just cause” to terminate a tenancy, and limits annual rent increases to 5% plus local CPI, or 10%, whichever is greater
 - San Diego’s Tenants Right to Know Regulations mirrors the State’s “just cause” eviction regulations
- **Proposed Preservation Ordinance:**
 - Require that owners of deed-restricted affordable housing properties who wish to sell their property provide a notice of intent to sell to the City of San Diego, SDHC and qualified nonprofit affordable housing developers.
 - Further provide both a right of first offer and a right of first refusal to qualified nonprofit affordable housing developers.





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Questions & Comments

