2013

Renovating West Hollywood's Rental Housing Stock

Barriers and Options for Consideration

Clark Consulting Group

City of West Hollywood

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Table of Contents

Forward

The City of West Hollywood has long been committed to providing safe, affordable housing for its residents. A large majority, about 80%, of the City's residents are renters. Approximately 61% of its housing stock falls under the West Hollywood Rent Stabilization Ordinance and, with the surge of market rents, is significantly more affordable than the City's market rate housing though only a small fraction is regulated as affordable and subject to regulatory agreements. As has been noted in many other policy documents, renovating the housing stock is important to maintaining the quality of the assets. In some cases, deferred maintenance and deferred capital improvements are negatively impacting its quality. While not unlike the situation in other California cities and across the nation, this is cause for concern for three primary reasons:

Deteriorating and un-rehabilitated rental units may:

1) Contribute to the degradation of the quality of community and property valuations
2) Increase risks during an earthquake risk
3) Reduce the available affordable housing if affordability is lessened through Costa Hawkins vacancy decontrol or if units are removed from the rent rolls under the provisions of the Ellis Act.

Recently, two City Council actions and several new developments and development agreements have focused debate and discussion around the interrelated issues of housing affordability and aging rental housing stock in West Hollywood.

The April 2012 Council action, among other things, directed staff to:

1) Develop a program, or programs, to target the refurbishment and renovation of existing rent controlled housing stock, including how to ensure that renovated buildings remain permanently affordable, and to incorporate these programs into the Housing Element Update.
2) Hire a consultant to assess the best ways to market rehabilitation programs and find ways to ensure that renovated buildings remain permanently affordable.

At the August 6, 2012 meeting, Council re-affirmed its desire to identify and prioritize areas of concern and incentives to promote rehabilitation of existing rent stabilized units. In October 2012, City staff engaged Clark Consulting Group to do the following:

- Analyze the property characteristics of West Hollywood's existing rental housing stock
- Survey other rehabilitation programs and incentives for the improvement of housing
- Evaluate the impact of the Rent Stabilization Ordinance on the aging housing stock and further detail program incentive options
- Outline options for incentivizing capital improvements to rental properties
- Provide recommendations and evaluate the pros and cons of these recommendations

The project's consultant team reviewed relevant literature, conducted a survey of other rehabilitation programs and spoke with highly qualified professionals who also face or interface with similar issues. This report should be seen not as the end of the conversation, but the beginning. The need for continued capital improvements of the City's rental housing stock will be an ongoing discussion, particularly in light of the many obstacles to incentivizing these improvements.

Executive Summary

Residential rehabilitation (rehab) is essential for sustaining the useful life of America's housing stock—which, like its population, is always aging. In 2013, the median housing unit in the United States was "forty-something" (built 1969), and in central cities, it was "fifty-something" (built 1961). This is mirrored by the City of West Hollywood housing stock. This report asks the question of how to incentivize improvements in the City's privately owned rental housing stock in an era of reduced public resources and other barriers to renovation. Over the next decade, rehab will be critical to these aging housing units. While this issue is typical of many cities across the United States, there is a perception by some that it is potentially exacerbated because the West Hollywood's rental housing inventory is governed by the City's Rent Stabilization Ordinance.

This study focuses on the following four goals:

1) Document West Hollywood's housing characteristics
2) Examine the barriers to rehabilitation including regulatory, funding, construction, and other issues
3) Review past and current options for incentivizing rehabilitation of privately owned rental units
4) Outline recommendations and actionable next steps for the City

This report touches on many related areas: affordable housing; energy, seismic and historic improvements; and the West Hollywood Rent Stabilization Ordinance. While it was tempting to delve further into any of these and other issues, it was outside the scope of this report. The author utilized published resources to leverage those subjects.

Particular acknowledgement is given to two important publications:

1) David Listokin's Barriers to Affordable Housing (2006), sponsored by the U.S. Department of Housing and Urban Development (HUD).
2) The Economic Study of the Rent Stabilization Ordinance and the Los Angeles Housing Market (The Los Angeles RSO Study) which was prepared for the City of Los Angeles in 2009.

HUD is one of the few entities that has researched the array of issues facing rehabilitation in such a thorough manner and has sponsored the Listokin study and several other useful publications.

The comprehensive Los Angeles RSO Study published by the Economic Roundtable took over two years to complete, cost in excess of $900,000 and is 400+ pages. This reference document examines critical trends and reviews the issue of the Los Angeles Rent Control Ordinance from the perspective of renters, property owners, investment returns, and housing market dynamics. This study's research includes extensive stakeholder group interviews and detailed surveys and other formal analyses from which conclusions are drawn and policy recommendations made. It is referenced where appropriate in this West Hollywood report as it is sufficiently current and has relevant data applicable to this report. It gives West Hollywood access to a broad array of relevant information without the time and expense and provides an advanced starting point if further research into the West Hollywood Rent Stabilization Ordinance is desired.

There are currently 24,042 residential units in the City of West Hollywood, 15,049 of which are rent stabilized units. Close to 90% of the City's units are at least 30 years old and almost half are 50 years old (City of West Hollywood Rent Stabilization and Housing 2011 Annual Report). Accomplishing rehabilitation of aging housing stock faces many barriers. Typically, with aging and often occupied housing stock the rehab process can be less predictable and more difficult than that of new construction resulting in construction delays and cost overruns. Also, economic barriers include the gap between available resources and the costs of renovation, sometimes requiring owners to delay needed repairs.

The Listokin study states that nationwide about one-third of needed rehab is unaffordable without some measure of subsidy or other means of support. The issue is exacerbated in communities with rent stabilization where investors state that they would need to be able to raise rents in order to cover costs and receive a fair return on investment. Indeed, with market rate rent upon vacancy of a rent stabilized unit, and over 60% of the City's rent stabilized apartments having gone to market in the years since Costa-Hawkins, there may be some intrinsic resources available but not used because of the investors' purpose in owning multi-family rental property.

This is not a new issue. Not only has it recently been a focus of the City Council, it has been identified in the City's Strategic Plan 2020, its Housing Elements of 2000-2008 and 2008-2014, the Housing Summit of 2006, the University of Southern California's 1998 City of West Hollywood Housing Study and others. Moreover, the issue is further complicated in the current economic and regulatory climate. Many public sources of funding have been eliminated and both public and private sources of financing for rehabilitation each have drawbacks or impediments. Creating a policy and subsequent successful program to incentivize property owners is no simple task.

Findings

- No "one" solution: Given the confluence of aging housing stock, reduction in public funding, private lending constraints and local rent stabilization ordinances, there is no easy solution to comprehensive rehabilitation of the City's housing stock. The barriers are significant and it will take serious consideration and commitment to achieve the goals.

- Diminishing Resources and Funding Prospects: Traditional public financial resources are dwindling, however there are a few prospects that City officials could pursue or that may materialize over the next few years. In an era of diminishing resources funds tend to flow to targeted issues. Some possibilities include:
    - Energy Efficiency and other Grants
        - California and the Federal Government are quite focused on obtaining energy related improvements and while some TARP resources have expired, it is anticipated others will be forthcoming.
    - Former Redevelopment Agency (RDA) funds.
        - Some revenue will flow back to cities as General Fund revenue (the "Boomerang" funds) as their distribution percentage from the former redevelopment tax allocation.

- Additional revenue is expected to flow to the Housing Successor Agency from outstanding receivables and loans, and repayment of residual receipt loans..
- Permanent Source for Housing
    - The California Homes and Jobs Act Senate Bill (SB) 391 has been introduced into the California Legislature in 2013. This is the follow-up to last year's SB 1220 attempt at a new permanent source for affordable housing. This is a time to support this legislation and to provide input as to how will the housing funds would be spent.

Recommendations

These recommendations are discussed in more detail in the body of the report in the Section "Recommendations and Next Steps."

1) Evaluate the feasibility of a public-private partnership to fund leveraged rehab loans

Analyze the viability of a public/private partnership with local banks or Community Development Financial Institutions (CDFI's) to create a rental rehabilitation program.

2) Re-evaluate the City of West Hollywood Rent Stabilization Ordinance Capital Improvement policy

It is recommended that the City review and revise the capital improvement pass-through program which might encourage renovation. Certain policy goals could be promoted through the type of rehabilitation projects incentivized. The City of Los Angeles Capital Improvement Program is but one model to consider.

3) Review West Hollywood internal processes with the goal of incentivizing rehabilitation

4) Create non-economic forms of assistance and review internal processes

Evaluate and consider:

- The Nationally Applicable Recommended Rehabilitation Provisions (NARRP).
- Building and Safety expediting for certain categories of rehab that do not impact health and safety.
- Fee waivers or discount program.
- The provision of technical assistance by City Staff or a contracted service.

5) Pursue legislative efforts

West Hollywood is currently takes an active role in State policy discussions. There are several places where continued focus could have a positive impact for the City.

Previous Literature

A large amount of literature can be found on the interaction of rehabilitation, affordable housing, and rent stabilization. Organizations ranging from the national - U.S. Department of Housing and Urban Development, to the local - City of Los Angeles have published and contributed to research and development of the three topics. Reading and analysis of other studies, from policy statements to research publications, provided additional background for this report.

In particular, two very relevant studies contributed to the information in this report. First to be noted is the Economic Study of the Rent Stabilization Ordinance and the Los Angeles Housing Market (Los Angeles RSO Study or L.A. RSO) which was prepared for the City of Los Angeles in 2009 by the Economic Roundtable (Flaming).

Following the housing market upheaval in 2006, Los Angeles commissioned this large-scale review of their RSO to evaluate and identify any changes needed to improve the program. In 2007, the City contracted with the Economic Roundtable, a nonprofit public policy research organization, to conduct an economic study of the L.A. RSO. In 2009, following a two-year study period, the research organization submitted a detailed assessment of the program, along with policy recommendations. Given the large number of housing units covered by the program (638,051), the high percentage of rent-burdened city households, and the limited supply of rental housing, the research team viewed the L.A. RSO as an essential policy to keep rentals affordable for the city's low-income residents. In their study, the researchers also identified some of the limitations of the L.A, RSO and provided recommendations to strengthen the program.

While rent and income characteristics of the two cities are somewhat different, the study's comprehensive research on the Los Angeles RSO and its role in stimulating rehab (or not) allows it to be useful as a relevant source for recommendations. Further, The Economic Roundtable has released project data from this study which will be useful for any desired further study regarding program design or landlord-renter focus groups in West Hollywood.

Secondly, reports by U.S. Department of Housing and Urban Development regarding the barriers to rehabilitation provided additional useful information. The U.S. Department of Housing and Urban Development's sponsoring of the Nationally Applicable Recommended Rehabilitation Provisions and the joint commissioning of David Listokin's "Barriers to Affordable Housing" with the National Trust for Historic Preservation are strong indicators of the federal agency's interest in increasing the role that rehabilitation of existing residential housing could play in affordable housing development. This study examines best practices to effect the rehabilitation of affordable housing and provides the following macro-system perspective and the following key points:

- Rehab is essential for sustaining the useful life of America's housing stock—which, like its population, is aging. In 2003, the median housing unit in the United States was "thirty-something" (built 1969), and in central cities, it was "forty-something" (built 1961). In a decade or two, much of America's housing stock will be in advanced middle age, and central-city housing will be geriatric. Rehab is a matter of life or death to these aging housing units.
- While rehab takes place throughout metropolitan areas, it is an especially prevalent need in central cities. If these places and other older centers are to be invigorated—as is contemplated under smart growth—then a vital rehab industry is essential.

- The overwhelming share of rehab in the United States is done without government intervention or support. The public sector, however, does play a role through regulations, and in some cases, with subsidies.
- Several major programs of the U.S. Department of Housing and Urban Development (HUD) have a large rehab component. About one-quarter of HUD's Community Development Block Grant (CDBG) funds and nearly half of its HOME program monies are used for renovation.
- Given the above, it is important for the private and public sectors involved in housing to better understand rehab. Unfortunately, rehab—especially in comparison to new construction—has received relatively little attention in housing research and the housing literature.

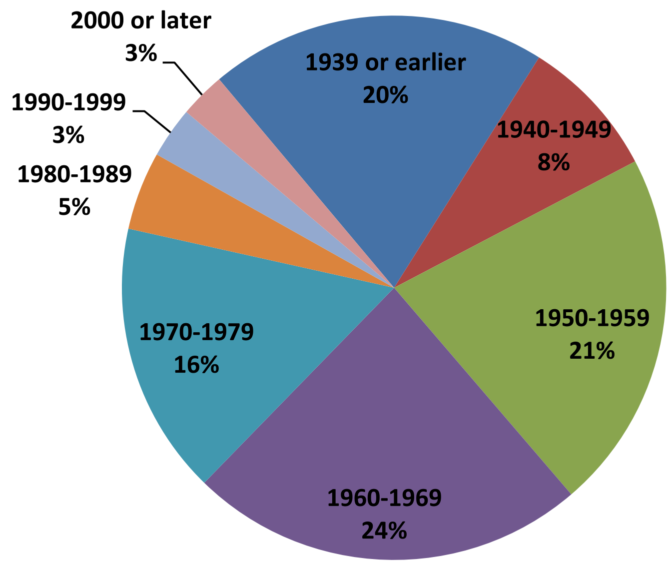
This final point in the reports discussion is worth repeating: *with little focus by policy makers and the financial industry on viable directions, few answers are readily available as to how to ensure systemic revitalization of aging housing stock.*

Housing Stock Characteristics

The City of West Hollywood has 24,042 residential units, 15,049 of which are under the City's Rent Stabilization Ordinance (City of West Hollywood Rent Stabilization and Housing 2011 Annual Report). The majority (80%) of residents of the City are renters.

According to the American Community Study (US Census Bureau ACS Survey 2007 - 2011) the median year built of the housing stock in the City is 1960. As shown in Figure 1, about 90% of the housing stock is more than 30 years old. These housing units older than 30 years may require significant rehabilitation and upgrades, such as electrical, plumbing, seismic retrofits and roof repairs.

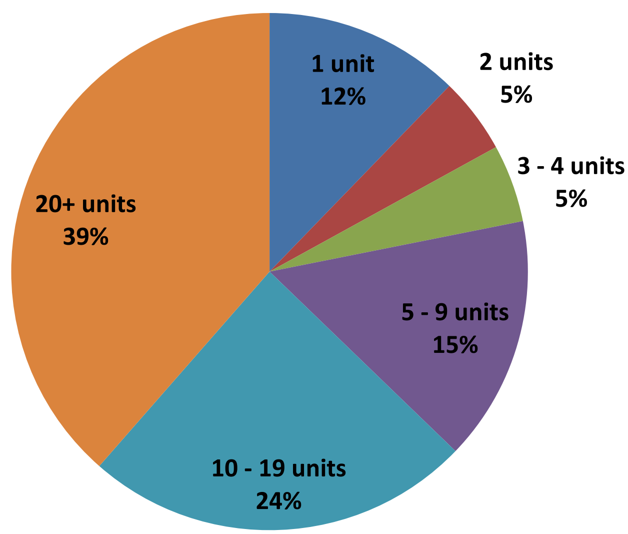
Figure 1: Year Built



Source: 2007-2011 American Community Study 5-year Estimates

The City's current housing stock consists of a variety of different building types. A majority of the units are multi-family structures. Figure 2 illustrates the breakdown of size of residential buildings in the City of West Hollywood.

Figure 2: Size of Residential Buildings



Source: 2007-2011 American Community Survey 5-Year Estimates

The City is primarily built-out; the housing stock grew by 521 units between 2000 and 2010, or 2.2%. This is in contrast to the previous decade when it grew by 1.4%. In both cases, the growth rate was less than the surrounding area. New housing, both market and affordable will be developed primarily through demolition of existing structures and rebuilding at higher densities. High demand will continue for older existing housing stock although substantial improvements may be limited due to a cap of economic up-side based on the maximum rents allowed. The current General Plan encourages new growth directed toward mixed-use and transit-oriented developments along existing commercial corridors.

Properties under the Rent Stabilization Ordinance with more than 16 units require on site management representation, while smaller properties are often managed by the owner or without professional capabilities for managing their properties. Sixty-one percent of rental properties in the City of West Hollywood have fewer than 20 units and thirty-seven percent of units have fewer than 10 units (US Census Bureau ACS Survey 2007 - 2011). Most rental property owners are small to medium-sized landlords. Specifically, about 97% of landlords own only one or two buildings in the City.

Code Inspection and Assessment of Need

The Code Compliance Division seeks to maintain the quality of the existing housing stock by implementing and enforcing residential property maintenance laws. This Division responds to constituents regarding habitability issues, lack of maintenance, participation in rent decrease hearings and other requests. During inspections, officers have observed that continued maintenance in units with long term tenancies is significantly less than the maintenance in tenancies that are paying market rent and in new construction (since 1979). In many cases, these units do not get benefit from any upgrades (new appliances, new counters, dishwasher, new paint, etc) until the tenant voluntarily vacates the unit or is evicted.

Tracking of Rental Units Eliminated under the Ellis Act[1]

Under the California Ellis Act, property owners have the right to remove apartment buildings from the rental market for development or repurposing. If a property is "Ellised" (removed), the State does not require the owner to report the purpose of its removal. As a result, West Hollywood does not always know the landlord's intentions when a property is removed from the rental market. From January 1, 2000 through December 31, 2012, 506 units in West Hollywood were Ellised. Of these, 107 apartments have been returned to the rental market, amounting to 399 net units withdrawn. This is less than three percent of the rent stabilized apartments in the City.

In 2009 the City began a monitoring and tracking program for Ellised properties. The City developed the program in order to address the concerns of community members who feared that the Ellis process was reducing the inventory of rent stabilized apartments. The intention of the program is to 1) identify the reasons the properties were taken off the rental market, 2) to ensure the buildings are in compliance with all codes and requirements, and 3) to track changes made on the properties.

The monitoring program has helped identify the reasons properties were Ellised. The most common reasons were to demolish for new development (121 units), rehab for low and moderate income housing (47 units), or for the owner to occupy the apartment (46 units).

The Rent Stabilization & Housing Division staff continues to monitor Ellised properties, working closely with other city hall divisions, such as Legal Services and Code Compliance. Every six months, staff visits the buildings and makes sure they are in compliance with all health and safety standards. Staff assists landlords in the Ellis process to make certain they understand the Ellis timelines and relocation requirements. Staff assists tenants while they are in place to help them through the process and, especially in the cases of disabled, low-income, or senior households, to ensure that they have up to a full year to find housing. Additionally, the City provides relocation counseling to tenants. As directed by City Council, Ellised tenants are given a high priority for the City's low and moderate income housing program.

Rental Housing Affordability

Rental Housing Development

Some of the most significant challenges to rental development in West Hollywood are the lack of available land, high property values, and high construction costs.

Most land in the City that is zoned for multi-family development is already developed with existing multi-family units. If the zoning allows for a larger building than is currently on the site, it may not allow a greater number of units because of parking requirements. Commercial land for mixed-use projects is

[1] The Ellis Act is a state law that allows property owners to remove a building(s) from the rental housing business. This means that jurisdictions cannot prohibit owners from removing rent stabilized units from the private market.

also difficult to acquire because the parcels are typically small. A development would need to combine several of these parcels in order to be economically viable. Often separate parcels are under separate ownership, further complicating the ability to acquire enough land for residential development.

Land costs are a significant cost component of residential development in general, and more so in West Hollywood. The City is a highly desirable community with high property values. The supply of vacant land is limited because most of the City is already built out. Development often requires demolition of existing, underutilized properties, adding to the overall project costs.

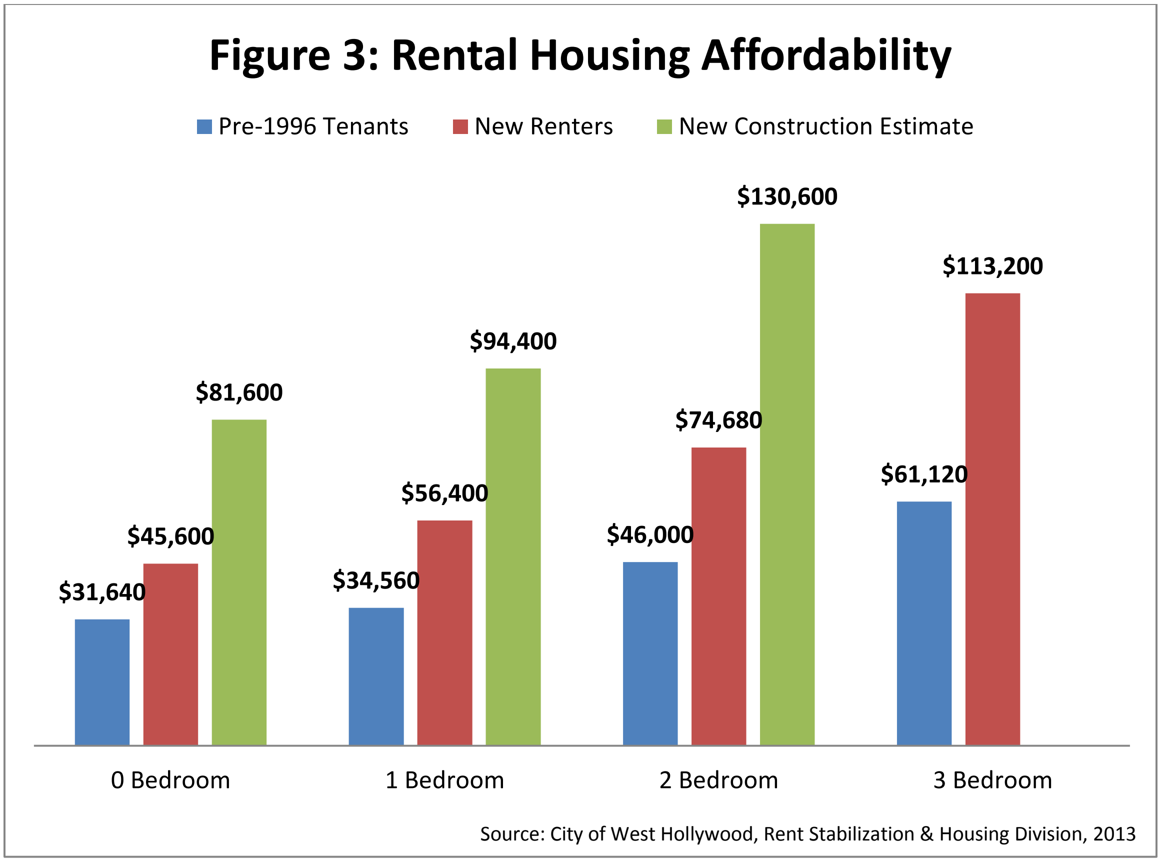
Construction costs are also a major factor in affordability. West Hollywood is a fully developed urban area; available sites must be developed using street use permits, cranes, and other expensive techniques to fit the building on the site and to accommodate for subterranean garages. Smaller infill projects are proportionally more expensive because there are fewer economies of scale. Fixed costs are spread over fewer units, which drives up the cost per unit.

These supply constraints along with low-vacancy and the desirability of West Hollywood (high demand) result in high rents that are unaffordable to much of the population. (Figure 3)

Rental Housing Affordability for Tenants

By 2001, after Costa-Hawkins[2] was in effect, 3,910 units in the City had received a market rate increase in rent based on vacancy. Through 2011, an additional 5,994 units have seen rents rise to a market rent, totaling 9,904 units. This equals approximately 60 percent of the rent stabilized housing stock through the end of 2011. Figure 3 illustrates the incomes necessary to afford the average rents of West Hollywood units. These incomes are based on the housing industry standard that defines affordability as 30 percent of gross household income.

[2] A state law known as the Costa-Hawkins Act allows a landlord, whose rental property would otherwise be subject to local rent control laws, to increase the rent to what the market will bear without legal limit if a tenant moves out and the unit becomes vacant.



The most common size of apartment is a one bedroom unit. As Figure 3 shows, a household would need an average income of $94,400 in order for a new construction unit in the City to be affordable. According to the 2011 American Community Survey, the median income for Los Angeles County is $56,266 and the median income for West Hollywood is $52,303. This data shows that the new construction is not affordable for the average household.

Rent Comparison of Historically Designated and Non-Historic Buildings

In preparation for another study that was requested by City Council (10/15/2012), City staff analyzed the rental rates of historic and non-historic properties in the City. The following Designated Historic Buildings and Non-Historic Buildings comparison was compiled by City staff (December 2012) for the City survey of Historic Rents. It is designed to provide an estimate of the average rents of "historic" designated properties and properties of the same age categories, but without the historic designation. The rents are estimates based on the Maximum Allowable Rents. For the study, it was assumed that the properties were in compliance with re-registering the units upon vacancy and the all Annual General Adjustments were implemented. The estimate does not include owner-occupied, Ellised or employee-occupied units.

Historic Designated Properties: There are a total of 41 designated historic building. The ages of the designated historic buildings are as follows: 1 building built before 1920; 25 buildings built between 1920 and 1929; 14 buildings built between 1930 and 1939; 1 building built between 1940 and 1949.

Table 1: Historic Designated Properties				
	0 Bedroom	1 Bedroom	2 Bedroom	3 Bedroom
Average Rent	$1,198	$1,746	$2,594	$3,700

Non-Historic Buildings: This sample of buildings is comparable to the designated historic buildings in terms of size of complex (number of units). Half (50%) of the buildings in the sample were built between 1920 and 1949, and half (%50) of the buildings were built between 1950 and 1979.

Table 2: Non-Historic Buildings				
	0 Bedroom	1 Bedroom	2 Bedroom	3 Bedroom
Average Rent	$957	$1,265	$1,668	$2,328

As evidenced in Table 1 and Table 2, the average rents for historic buildings are greater than the average rents for the non-historic units. More research is necessary to understand the full cause and effect of such rental rate differential. These tables show the average rental rate of these units without a discussion of costs of operation, types of financing, or relative appeal of buildings.

City of Los Angeles Characteristics and Findings of the Los Angeles RSO Study

This report includes selected statistics from the *Economic Study of the Rent Stabilization Ordinance and the Los Angeles Housing Market* (Flaming), pertaining to City of Los Angeles housing characteristics, property maintenance and affordable housing. This data are statistically likely to be similar to the City of West Hollywood's housing stock. The information is drawn from published sources as well as owner and resident surveys included in the Report. The data has been made available for use by the Economic Roundtable. For context, Los Angeles has 764,197 renter-occupied housing units. This is roughly 60 percent of the City's occupied housing. The Los Angeles Rent Stabilization Ordinance (RSO) covers 118,254 rental properties with 638,051 housing units, or two-thirds of L.A.'s rental inventory.

Here are some of the report's key findings:

Tenure

- The point-in-time vacancy rate is low despite the fact that roughly one-fifth of units turn over in the course of a year, indicating that owners have not had to wait long to find new renters for vacant RSO units.
- There are fewer turnovers in RSO units than in non-RSO units.

Property Maintenance

- Fifty-seven percent of owners say that all maintenance is handled immediately and preventive maintenance is practiced.

- Two-thirds of RSO units are reported by owners to be maintained at a level that is as good as, or better than, units that are not under rent control, and one-third are reported to have a lower level of maintenance.

Providing Affordable Housing

- Sixty-one percent of owners say that affordable rental housing is somewhat important or very important, demonstrating strong support among these equity holders for meeting housing needs.
- Only 17 percent of owners state that it is somewhat unimportant or not important at all to meet this need.
- Owners express support for a broad range of public sector actions to meet L.A.'s affordable housing needs. The reason for this activist posture, as expressed in a number of focus groups, is that many owners believe that a disproportionate share of the citywide responsibility for providing affordable housing is falling on the shoulders of RSO owners.

Rental Units under the Los Angeles RSO and the Operation of the Los Angeles Rental Housing Market

- The RSO inventory of units can be divided into thirds: one-third are on properties with four or fewer units, one-third are in properties with 5 to 19 units, and one-third are in properties with 20 or more units.
- Building size is largely a function of the period in which a building was constructed. In earlier eras, small buildings were the mainstay of rental housing.
- Fifty-one percent of RSO tenants moved into their current unit within the past five years, 21 percent five to nine years ago, and 23 percent 10 or more years ago.
- Turnover rates have declined since 2000.
- The rate of turnover in buildings with two to nine dwelling units was a little lower than the rate for buildings with ten or more units.
- Rates of turnover are a little higher in the newer portions of the Los Angeles stock that are not covered by the RSO than in RSO units. From 2000 to 2006, rents increased most in the areas that had the lowest rents in 2000.
- Increases in rents since 2000 are mainly attributable to the increases obtained upon vacancies.

Turnover data shows: 1) 44 percent of renters have been in their unit for more than five years compared to a median duration of one to two years in larger market area (Yongheng Deng). This could indicate satisfaction with the rental unit and it's pricing in the market. Lower turnover typically results in lower operational expenses due to limited improvements and lower tenure. 2) 51 percent of RSO tenants moved in within the last five years and, although conclusions can't be drawn without additional data, it is possible that these tenants are paying close to current market rents.

The data from the Los Angeles RSO study presents important findings about the impacts of the rent control program in Los Angeles. The data describes turnover patterns in rent stabilized units, but it does not include information regarding the landlords' capital reserves or financial capacity.

Barriers to Rehabilitation

Creating a successful program to counter aging property decline requires a review of the impediments. Most programs, however well-intentioned and well-planned, fail for a myriad of reasons. These pitfalls are outlined below and set the framework for the mitigating options presented later in the report.

Best Practice for Effecting the Rehabilitation of Affordable Housing (HUD Rehab Report), a report commissioned by HUD, (Listokin), states that the overall characteristics of rehabilitation projects frame the process and are at the root of many of the barriers. Compared with new construction, rehabilitation is nonstandard, less predictable, smaller scale and challenged in other ways. However, despite the barriers about $100 billion to $200 billion in housing rehabilitation or renovation is carried out each year in the United States. Thus, rehab activity approaches or sometimes exceeds investment in new housing construction and constitutes about two percent of the nation's economic activity (Listokin).

Some observations from the HUD Rehab Report are:

- The overwhelming share of rehab in the United States is done without government intervention or support. The public sector, however, does play a role through regulations, and in some cases, with subsidies.
- Several major programs of the U.S. Department of Housing and Urban Development (HUD) have a large rehab component. About one-quarter of HUD's Community Development Block Grant (CDBG) funds and nearly half of its HOME program monies are used for renovation.[3]
- Given the above, it is important for the private and public sectors involved in housing to better understand rehab. Unfortunately, rehab—especially in comparison to new construction—has received relatively little attention in housing research and the housing literature.
- The HUD study examines best practices to effect the rehabilitation of affordable housing.
- The barriers are interrelated and often reinforcing. For example, "excessive" building codes raise costs—and higher costs widen the economic gap. "Unclear" building codes make it harder to estimate costs, often limiting the contractor pool. Reduced market competition and a small contractor pool can lead to increased construction costs—again aggravating the economic gap. The economic gap, in turn, magnifies the impact of many of the barriers encountered in effecting affordable rehab. Delays, excessive codes, rising property taxes, and other issues would be less daunting if the margins in doing affordable-housing renovation were not as critical as they are.

Key issues: The report illustrates the barriers in Table 3.

[3] Unit subsidized with public funds typically require income covenants and restrictions.

Table 3

HUD Rehab Report

Analytic Framework

Barriers to the Rehabilitation of Affordable Housing

I. Overall Rehab Characteristics
Frame the Process and Underpin Many of the Barriers

↓

II. Economic Constraints
Are Key Barriers Affecting All Stages of the Rehab Process

↓

III. Specific Barriers along the Continuum of Rehab Implementation Stages

A. Development	B. Construction	C. Occupancy
1. Acquiring Properties— difficulty obtaining sufficient and appropriately located and priced properties	1. Codes/Regulations— building, housing, fire, lead, asbestos, energy, historic, and access regulation are sometimes problematic in retrofit situations	1. Rent Control— regulates income necessary to meet rehab outlays
2. Estimating Costs – difficulty estimating precise rehab expenses	2. Trades – difficulty obtaining qualifies tradespersons	2. Property Tax Increases – increase following rehab can discourage investment
3. Obtaining insurance – difficulty obtaining sufficiently leveraged, affordable financing	3. Added costs – many sources of funding add layers of complexity and additional costs such as federal or state labor laws (Davis Bacon/Prevailing Wage) and reporting (state and other agencies)	
4. Obtaining financing – difficulty obtaining sufficiently leveraged affordable financing	4. Other – e.g. technology, security issues	
5. Land-use restrictions – e.g., disallowing change or intensification of use		

This report (Renovating West Hollywood Rental Housing Stock) is not intended to fully investigate all of the barriers outlined in the HUD Rehab Report. Rather, this report focuses primarily on the areas of finance, legislative advocacy, review of internal processes and the impacts of being a rent stabilization jurisdiction as supported by the Los Angeles RSO Study and City of West Hollywood information.

Financing

The economic constraint to rehabilitation is return on investment: how much additional investment does the property support relative to net income? As a sub-component access to capital for rehabilitation is often expensive; interest rates are higher than on many other products and the associated fees are sometimes disproportionately higher. There is usually a direct relationship between the amount of rehabilitation and the return on investment to incentivize an owner or developer to undertake the process. Typically, the gap between the costs of rehab and the available financial resources of property owners/tenants impedes rehab investment and aggravates development, construction, and occupancy issues.

In West Hollywood, ninety percent of landlords for rent stabilized buildings are single parcel owners. For these owners, there is less economy of scale for rehab and different investment purposes in property ownership. Overall, gross rents in rent stabilized properties have increased by 60 percent since 1996, but the landlords' capital reserves or financial capacity to undertake rehabilitation are unknown. Any potential rehab program for West Hollywood will need to have a careful and long-term marketing design based on some survey of landlord need, interest in rehab and/or ability to afford.

David Listokin in Barriers to Affordable Housing Funding estimates the ability to afford housing and measure affordability by employing the "housing expense to income ratio" (HEIR). An HEIR of 40 percent or more is deemed unaffordable or excessively burdensome. Of the estimated $1.3 trillion in rehab needed nationwide, Listokin (Listokin) estimates that:

- $741 billion, or about 57 percent, is deemed affordable (i.e., with rehab, the HEIR is less than 40 percent); and
- $569 billion, or about 43 percent, in unaffordable (i.e., post-rehab, the HEIR is 40 percent or more). The greatest financial burden is faced by renters versus owners; central-city residents; the poor and minorities; and those living in the oldest housing units.
- The calculations on rehab affordability did not factor in subsidies, such as CDBG, HOME, low-income housing tax credits (LIHTC), and historic rehab tax credits (HTC), that can help bridge the affordability gap for those with qualifying incomes. Nationwide, these major subsidies for rehab amount to about $4 billion annually and stimulate about $12 billion in total rehab investment. Yet, subsidies are in short supply. Also, if more than one subsidy is utilized, additional challenges may be posed (e.g., subsidy requirements may contradict one another).

At the present time, detailed data is not available to estimate the actual value of rehabilitation needed in the City of West Hollywood's rental housing stock. However, if a conservative assumption is made that an average of $10,000 in capital improvements could be spent on every rental unit over 30 years of age, it would equal approximately $187 million in hard rehab costs, without prioritization or relocation costs for tenants-in-place. West Hollywood's Building & Safety Division has supplied data showing that the average permit pulled between 2004 and 2012 (with a stated value) had a valuation of just over

$20,000.[4] If that value was used, the estimated rehab "need" would stand at $375 million. Sources for rehabilitation are most often private (cash, financial institution debt, private equity investments), a fraction are public (typically CDBG, HOME, general fund, bond proceeds, grants, trust fund), and some combine both.

Public Funding

One important finding is that the vast majority of jurisdictions surveyed or researched have chosen to fund programs targeting home ownership and ownership occupied housing. This is most evident at the local level with over 75% of cities surveyed or researched focusing on this population. To an extent, these policies are based on the demographics of the community where the owner-occupied units are in the majority. West Hollywood has the reverse issue with 77% of units occupied as rental and 23% as owner-occupied (ACS 2006-2010 5 year estimates).

In the public funding for rehab, these jurisdictions' loans and grants were made to income qualified property owners or property owners renting to income qualified individuals pursuant to the funding source requirements. This ensures compliance with the California State Constitution which explains that the State Legislature cannot authorize any county, city, or other political subdivision to make any gift of public funds to an individual or corporation (Article 16, Section 6).

Additionally, public sources are declining (Figure 4 - CDBG) and jurisdictions must make hard choices about where to target public funding.

Surveys were sent to over 100 cities/counties and ultimately some form of contact was made with thirty-four jurisdictions regarding characteristics of current rental housing programs (Clark). Most cities focus the limited housing resources on homeownership programs, with fewer than 15% administering some type of rental rehabilitation loan. The few California jurisdictions with rental rehab programs funded them with housing set-aside funds generated from redevelopment project areas with the remainder from a mixture of redevelopment, CDBG, HOME or General Fund revenues. In 2012, this source of funding was eliminated with the elimination of Redevelopment Agencies in California.

For general rehabilitation, the few publicly funded programs currently operating at the local or county level are utilizing CDBG, HOME or General Fund revenues to make direct non-leveraged loans. CDBG and HOME have been reduced at the federal level and therefore these cuts have impacted local jurisdictions.

Offsetting Cost/Benefits:

Public funds also carry additional costs – many sources of funding add layers of complexity and costs such as federal or state labor laws (Davis Bacon/Prevailing Wage) and compliance reporting (state and other agencies). The federal Davis-Bacon Act (under which construction projects funded entirely or in part by the federal government must pay a government determined "prevailing wage" to the workers on the project) is typically triggered when utilizing these public sources. In California, State prevailing

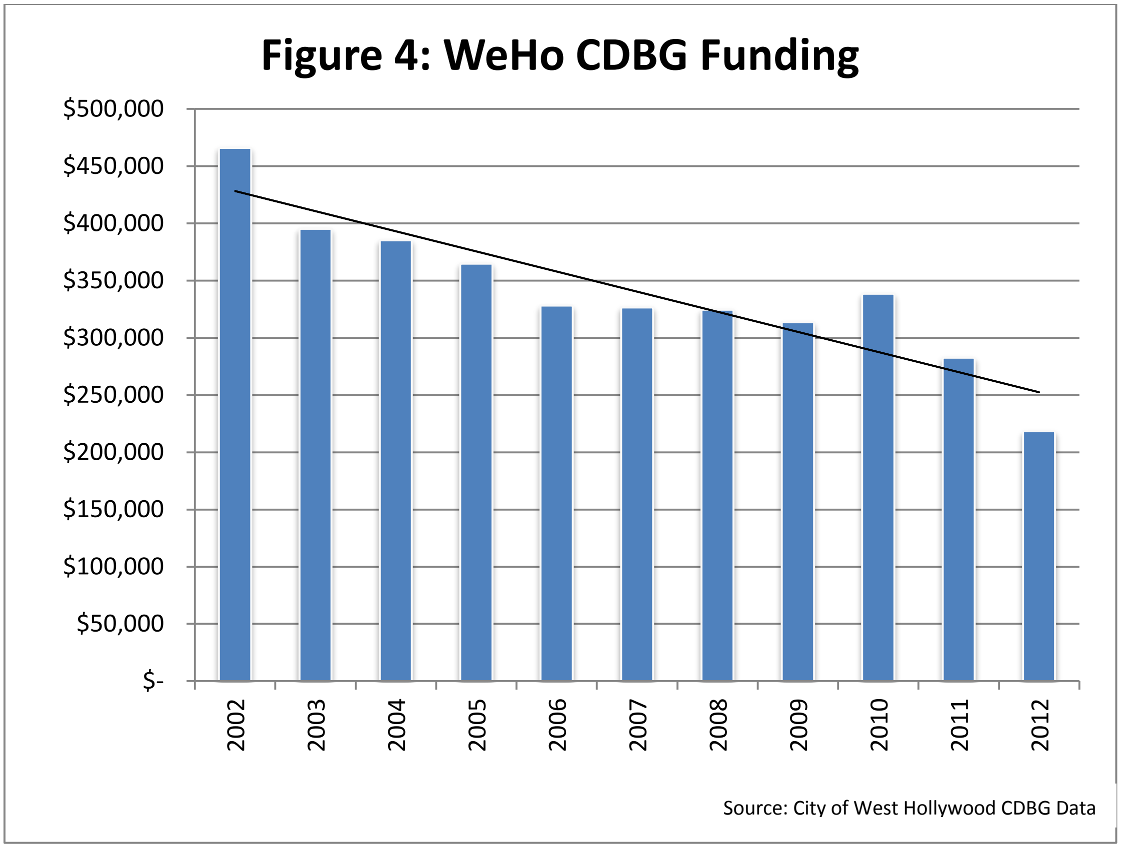
[4] City of West Hollywood permit database including multi-family rental units of 2 or more units, no condominiums included. The database was reviewed for the period 2002 through 2012 and included electrical, mechanical, plumbing, re-roof, alteration, remodel, sewer and miscellaneous building categories.

wage rates apply to all public works contracts as set forth in specific Labor Code Sections, including private construction projects utilizing some State funds. Because prevailing wage laws establish a wage floor, they raise construction costs. While it varies by jurisdiction, in California these labor laws typically add between 15% - 25% to the construction cost of the job. According to the authors of The Federal Davis-Bacon Act: the Prevailing Mismeasure of Wages (Glassman), in 2008 construction costs were 25.15% higher. The regulatory requirements, the increased costs and complex reporting requirements often negate the benefit of public financing programs (particularly for smaller owners and contractors). The unintended consequence is that well intentioned programs often are under-utilized or not used at all. Owners often express the desire for subsidized financing and when it is finally presented with the corresponding regulations, they find alternatives or modify their improvement plans.

CDBG, HOME and California Redevelopment funding

For this report, a search for innovative solutions to the aging housing stock rehabilitation problem began with outreach to cities and counties. Little response was received and follow up phone calls revealed that over 70% of those reached had eliminated their programs due to funding cutbacks, and those that had a currently operating program funded it with CDBG, HOME or General Funds. Very few leveraged it with private sector funds (other than developer matching funds).

Even with expressed interest in a public program in the current economic climate, public funds which can be used for rental rehabilitation are extremely limited. In 2002 West Hollywood received $466,110 in CDBG funding compared to the 2012 allocation of $218,250, a 47% decrease. Based on Federal spending trends, this amount is expected to continue falling as shown in Figure 4. Funding for fiscal year 2013-14 is anticipated to be 10-20% less than the current funding of $218,250.



West Hollywood does not receive a direct allocation of HOME funding. Therefore owners, developers and residents rely on the [County of Los Angeles Community Development Commission] for HOME funding as the means by which they are eligible recipients of these funds. The County program funding has suffered similar cuts. The County's current annual allocation is approximately $6.8 million in HOME funds. However for the purpose of this report's rehabilitation scope, this is moot. The rental rehabilitation program was eliminated in 2008. At this time, County HOME funds support only a Home Ownership Program (secondary mortgage financing for first-time home buyers), an owner-occupied rehabilitation program and funding for new developments. Further, even if West Hollywood were to opt out of the County consortium and apply directly to the State, California no longer supports rental rehabilitation as an eligible program.

California Redevelopment funds generated approximately $1 billion per year for housing and historically funded projects serving households with incomes up to 120% of area median income.[5] With the elimination of redevelopment agencies, this funding stream has disappeared. Most California rental rehabilitation programs utilized this funding source and most of these have now been eliminated as replacement funding is not readily available.

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[5] According to the American Community Survey 5-year Estimates, the West Hollywood median household income for 2012 was $52,303.

The Low Income Housing Tax Credit and the Historic Tax Credit

Since 1986 the Federal Low-Income Housing Tax Credit (LIHTC) program has been a great source for revitalizing affordable housing (acquisition/rehab projects). Through the program, both long term affordability and substantial revitalization are accomplished. In California, any project receiving tax credits will carry a regulatory restriction of 55 years of affordability to low and very-low income households. The barrier is that the 9% credit is extremely competitive[6], the 4% credit less so, but both require substantial additional funding from the local jurisdiction. The State received $1.75 per resident in 2002 and beginning in 2003 was adjusted for inflation. The California allocation was $80.9 million in 2011, an estimated $2.19 per resident.

State of California Funding

It is no secret that every industry in California has been hit hard by the recession beginning in 2008. As a result, the State budget has been in an extreme deficit position for the last five years. In those same five years, the State funding for the affordable housing industry has been equally devastated. The two primary sources of funding: the Multi-family Housing Program (MHP) and redevelopment agency tax increment funds for housing have disappeared; the former due to the exhaustion of program funds and the latter due to the elimination of redevelopment.

The California Debt Limit Allocation Committee (CDLAC): Federal law limits how much tax-exempt debt a state can issue in a calendar year, with the cap determined by a population-based formula. CDLAC was created to set and allocate California's annual debt ceiling, and administer the tax-exempt bond program to issue the debt.

Tax-exempt bonds: Cities and counties can issue these "Qualified Private Activity Bonds" for various purposes such as low income multi-family housing, industrial development, redevelopment projects, enterprise zones and certain other activities. The lower borrowing costs facilitate the development of projects that may not otherwise be feasible if financed at market rates. Unlike typical municipal bonds, the payment of principal and interest on private activity bonds is not the responsibility of the issuing government agency. Instead, it is the responsibility of the private business receiving the proceeds.

About 80 percent of the allocation usually goes to affordable housing. However, unprecedented low interest rates have lessened the benefit from these tax-exempt funds. They are most successfully paired with the 4% tax credit program.

The California Department of Housing and Community Development (HCD): is committed to providing leadership, policies and programs to preserve and expand safe and affordable housing opportunities and promote strong communities for all Californians. Their 2007 Strategic Plan outlines four goals; two of which address the issue of funding for affordable housing and maintaining the health and safety of existing housing stock. Unfortunately, California has few resources and no funding available at a

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[6] In 2011 applicants for 9% California Low income housing tax credits submitted a total of 175 applications for competitive 9% tax credits, (compared to 272 in 2010) 60%, receiving a tax credit allocation. The success rate in 2011 was notably higher than the historical average for applicants. Over the past five years application success rates have ranged from 28% (in 2010) to 48% (in 2006).

programmatic level for addressing the aging rental housing stock in West Hollywood or other municipal or county jurisdictions.

The California Housing Finance Agency (CalHFA): Current multi-family loan product is limited to existing projects in their own portfolio: CalHFA's Portfolio Preservation Loan Program, which provides acquisition, rehabilitation, and permanent loans for improvements to existing affordable multi-family housing with CalHFA loans, makes them more energy efficient.

Energy Incentives

While energy efficiency improvements reduce housing costs over time, retrofitting for energy efficiency can be an expensive capital cost with rebates and incentives covering only part of the cost. The 2009 American Recovery and Reinvestment Act provided tax incentives for individuals to invest in energy-efficient products. This was a significant source of funding for capital improvements, but expired in 2011. Utility company programs often target owner-occupied properties and commercial projects, not multi-family residential sites. The energy efficiency industry is extensive and complex and is not the focus of this report. However, West Hollywood's energy efficiency efforts and websites dedicated to the promotion and funding of energy improvements are addressed in the subsequent "Historic and New Options" section of this report.

Private Funding Sources

Commercial banks are typically unwilling to make second trust deed (subordinate) loans. Those that do so charge interest rates substantially higher than mortgage rates. Whereas first mortgages are typically bundled and sold as mortgage backed securities, small second trust deed loans are not often sold on the secondary market. In addition, higher-cost financing terms, loan to value ratio, income-expense ratio, fees, credit enhancement, and other provisions are more stringent for rehabilitation. Typically loans for substantial rehabilitation are made at the time of purchase or refinancing, and made with a higher interest, short-term construction loan, with conversion to a permanent loan at the time of certificate of occupancy or completion. Larger projects employ this strategy for rehabilitation as part of an overall asset management plan.

Strict underwriting

Tighter underwriting has reduced access to credit for many small property owners, meaning fewer will have sufficient debt service coverage to warrant the extension of a construction loan. Smaller property owners such as some in West Hollywood may not have the capital leverage needed (assets) or sufficient financial records beyond tax returns.

Debt on Rent Stabilized Ordinance Properties

Major factors that can explain how debt and cash flow impact an owner's decision to rehabilitate investment property are the amount of Net Operating Income (NOI) that a property generates, the amount of Debt Service, the Debt Service Coverage Ratio and the Return on Investment (ROI). Net Operating Income, or NOI, is the Gross Operating Income minus the Gross Operating Expenses. Gross Operating Income includes rental income and any other sources of income from the property (e.g. laundry). Gross Operating Expenses are all costs related to maintenance and operations, including maintenance, utilities, management fees, property taxes, and insurance. Gross Operating Expenses do not include financing (principal and interest) or other non-operating expenses (depreciation, etc.).

Because NOI does not include finance obligations (e.g. the principal and interest of a mortgage), the NOI shows the cash return for properties owned with no debt factored in. Further, for properties purchased with cash, the NOI is used to determine an owner's cash-on-cash return (before taxes or depreciation) by simply dividing the NOI by the purchase price.

Debt Service is the cost of the any debt and interest on the property. While a bank initially financing the property will typically require a debt service coverage ratio (DSCR) of 1.20 or greater (see below example), fluctuating interest rates, increased expenses, reduced revenues, etc. can impact the cash flow available for improvements. Many conditions impact whether annual rent increases based on a percentage of the Consumer Price Index (CPI) keep up with operating expenses. On smaller properties, reserves for capital improvements are often not factored into operating budgets and would need to be established initially or funded out of available cash flow after all debt and taxes are accounted for.

$$\text{Debt Coverage Ratio} = \frac{\text{Net Operating Income}}{\text{Debt Service}} = \frac{50{,}000}{40{,}000} = 1.25$$

For further understanding of these issues in a rent stabilized context, we turn again to the Los Angeles RSO Study and its findings:

- 65 percent of the rent-stabilized housing inventory is encumbered by debt.
- The rate of debt-burdened property increases as property size increases – from a low of 60 percent for properties with 1 to 4 units, to 80 percent for properties with 40 or more units.
- 85 percent of the units with a debt burden were financed between 2000 and early 2008.
- This is the interval (2000-2008) when financing has often created debt burdens that exceed rental income by substantial margins.
- 43 percent of units in the L.A. RSO inventory have been purchased since 2000, and 55 percent of units have debt incurred since 2000, suggesting that 12 percent of the RSO inventory is burdened by debt that is the result of refinancing rather than purchase.

Additionally, the L.A. RSO Study states that relative to profit and a reasonable return on investment:

- Almost two-thirds of RSO units produced a profit or broke even in 2009, and slightly over a third had a loss.
- The likelihood of reporting a profit increases along with ownership size. Owners of 1 to 4 units are more likely to report a loss than owners of 5 or more units.
- Less than a third of owners answered that their properties that are not under rent control are more profitable than their properties that are rent stabilized.
- Owners representing over 70 percent of the RSO inventory reported that they do not get a reasonable return on their investment from RSO properties.

- Owners representing over 75 percent of the RSO inventory say that rent increases do not keep up with operating costs.
- The owner at highest risk of having a loss will have 1 to 4 units, will have purchased the property in 2000 or later, will have acquired the property for a personal residence or to supply affordable housing, will postpone maintenance, and will have more than minimal numbers of tenants delinquent in their rent every month.
- Among all Los Angeles owners, a third (32 percent) say they would still acquire their rent stabilized property, a plurality (41 percent) say they would not acquire the property, and a quarter (27 percent) are unsure.

Other

Performance of Investments in Multi-family Housing

- If parallels can be drawn for the information derived from the Los Angeles RSO Survey, spiking apartment sales prices between 2000 and 2007 and the resulting higher debt burden is one possible reason why West Hollywood has not seen more direct investment in the City's housing stock. With West Hollywood being smaller, and having a stronger real estate market during the recession period, the slowdown may be due to lack of bank financing or a stable, non-speculative ownership profile.
- About a quarter of all units in buildings with five or more units have been purchased in 2005 or later. This is very significant because the recent purchasers operate under much larger debt service loads than longer-term owners.
- In the Los Angeles Metropolitan Statistical Area (MSA)[7], from 1999 through 2006, apartment sales prices tripled, from an average of $40,701 to $127,484.
    - With higher sales prices, debt burden increased, yielding lower cash flow and dis-incentivizing some owners from undertaking improvements without an expected return on that investment.
- From 2000 to 2005, even an apartment with a fixed net operating income stream increased substantially in value. This is because the market value of an income stream increased because of the decline in capitalization rates for apartment purchases.
- There are significant differences in apartment prices based on location, size and age, but the rate of appreciation from 1999 to 2006 has been similar for all apartments regardless of these distinctions.
- It does not appear that the L.A. RSO has had a significant impact on the average rate of appreciation of apartment buildings. The rates of appreciation and increases in values are similar among buildings that are covered by the L.A. RSO and buildings not covered by the L.A. RSO, and higher in the City than in other comparison communities.

[7] Metropolitan Statistical Area (MSA) is a geographical region with a relatively high population density at its core and close economic ties throughout the area. MSA's are defined by the US Office of Management and Budget and used by the US Census Bureau and other government agencies. Such regions are not legally incorporated as a city or town would be, nor are they legal administrative divisions like counties.

- Apartment values are highly dependent on capitalization rates. If capitalization rates increase by a few percent, a substantial portion of apartment owners could be left with sharply reduced or even negative equities in their buildings.
- The rate of return on apartment investments is linked to when the investment was made.
- Owners who purchased prior to about 2003, paid prices for their apartments that are low relative to the market value of their units in early 2008, when sales data was analyzed, and are likely to be low relative to current net operating income levels. These owners have substantial cash flows, unless they have obtained larger mortgages and, thereby, reduced their cash investment. On the other hand, recent purchasers are in a radically different position. A substantial portion of these owners have incurred mortgage obligations that leave little space for cash flow or increases in investments in maintaining and renewing their properties, making them vulnerability to minor fluctuations in expenses or rental income.

Capital Improvements in West Hollywood

West Hollywood's Rent Stabilization Ordinance provides a Net Operating Income (NOI) mechanism that allows owners to apply for a rental increase if they believe they are not receiving a just and reasonable return. Based on the L.A. RSO findings, another approach would be to increase rent based on capital improvement costs. This report did not include a survey of rental property owners or their tenants, and absent direct feedback, this report relies on the Los Angeles RSO Study to discuss the treatment of the financing of capital improvements. Los Angeles is faced with an aging RSO inventory similar to the City of West Hollywood. It requires continued investment in capital improvements, including periodic outlays for major rehabilitation that addresses primary structural, seismic, plumbing, electrical or mechanical needs.

Historic and New Options for Incentivizing Capital Improvements

Some of the funding sources listed below were also identified in the Barriers to Rehabilitation section. In spite of those drawbacks, those also listed here have some ability to be utilized as a funding source in a current or modified format.

Block Grant Programs

CDBG

While CDBG funding has been reduced, it is still the most typical funding utilized in public programs for home improvement. Its use is a choice of policy priorities. While the amount of funding currently received is de minimis, West Hollywood receives a small allocation of CDBG funding: $218,250 in 2012. It is possible that it could be leveraged into an amount greater than utilized as a direct loan, as will be discussed below.

Regulations require that:

- CDBG funds can be used for rehabilitation projects with at least 51% of the units occupied by tenants whose incomes do not exceed 80% of median income. This is accomplished by identifying multi-family buildings where 51% or more of the tenants are low- and moderate-income or the property is located in a designated area of blight.

California Funding

Permanent Source of funding for Housing in California

The California Homes and Jobs Act was introduced into the California Legislature in early 2013. This is the follow-up to last year's SB 1220 attempt at a new permanent source for affordable housing. This is a time to support this legislation and to provide input as to how will the housing funds would be spent. At the current time, it is conservatively estimated that $500 million annually will be generated through a fee of seventy-five dollars ($75) paid at the time of recording on every real estate instrument, paper, or notice required or permitted by law (excludes real estate sales).

California Housing and Community Development (HCD)

Infill Infrastructure Grant Program (IIG): Some Infill Infrastructure Grant Program (IIG) funds are still available[8] for projects between $500,000 and $20 million on a competitive basis to assist in the new construction and rehabilitation of infrastructure that supports higher-density affordable and mixed-income housing in locations designated as infill.

Local Housing Trust Fund Program: Matching grants (dollar-for-dollar) are made to local housing trust funds that are funded on an ongoing basis from private contributions or public sources that are not

[8] Current funds are limited to those that were originally allocated to projects but later returned due project infeasibility.

otherwise restricted in use for housing programs. While this program's funding is currently exhausted, it is a model for what could be established when new funding is available.

Multi-family Housing Program (MHP): Loans for multi-family rental new construction, rehabilitation and preservation of permanent and transitional rental housing for lower income households. Funding was last available for this program in mid-2011. It is anticipated that upon passage of the California Homes and Jobs Act, funds will be targeted to this program.

Revenue from former California Redevelopment funding:

The dissolution of redevelopment agencies fundamentally altered affordable housing financing in California. With the dissolution of redevelopment agencies, cities and counties may receive an increase in their property tax revenue. Housing advocates across the State are working with their local government partners to create a trust fund (see Affordable Housing Trust Fund below) and dedicate property tax residual distributions generated under the dissolution process ("boomerang funds") for affordable housing. In addition, funds may be available from revenue flowing to the Successor Housing Agency from outstanding receivables and loans, and repayment of residual receipts and Educational Revenue Augmentation Fund (ERAF) and California Redevelopment Association Foundation (CRAF) loans.

Affordable Housing Trust Funds

The West Hollywood Housing Trust Fund was created in 1986 to assist in the development of additional resources for affordable housing. Funds are generated when developers pay an in lieu fee to offset their development impacts. The funds are to be used exclusively for projects with at least twenty percent of the units affordable to low income households and a minimum of sixty percent of the units affordable to low and moderate income. These funds are currently not targeted towards the rehabilitation of existing housing.

Other Jurisdictions

Other major cities also have established Housing Trust Funds and a few California examples are outlined below. Funding for these Funds come from a variety of sources included inclusionary funding (as in West Hollywood) as well as dedicating residual distributions of property taxes from former redevelopment funding to affordable housing.

The County of Los Angeles dedicated $11 million to affordable housing and is exploring ways to invest $200 million of residual funds for economic development and affordable housing purposes (Goldfarb & Lipman - Rafael Yaquian).

The City of Los Angeles Affordable Housing Trust Fund (AHTF) creates affordable rental housing for low and very low income households by making long-term loans for new construction or for the rehabilitation of existing residential structures through a competitive Notice of Funding Availability (NOFA) process. While originally hoping to provide $100 million annually, this program has released a 2012 Round 3 Notice of Funding Availability for an estimated $14.5 million.

The San Francisco Housing Trust Fund was created pursuant to the November 2012 Proposition C ballot initiative which dedicates residual distributions to housing. It begins with a general fund revenue capture in year one of $20 million and increase to $50 million over time. It is estimated that $1.5 billion will be invested in affordable housing production and housing programs over the next 30 years (San Francisco Mayor's Office of Housing).

Community Development Financial Institution (CDFI)

A CDFI is a financial institution which provides credit and financial services to underserved markets and populations. The CDFI Fund was created for the purpose of promoting economic revitalization and community development through investment in and assistance to community development financial institutions (CDFIs). CDFIs are certified by the Community Development Financial Institutions Fund (CDFI Fund) at the U.S. Department of the Treasury, which provides funds to CDFIs through a variety of programs. It is a resource that could be evaluated for a public private partnership between the City of West Hollywood and the CDFI to provide programmatic resources for City priorities.

Federal and State Tax Credits

Low Income Housing Tax Credit (LIHTC)

The LIHTC is a dollar-for-dollar tax credit in the United States for affordable housing investments. It was created under the Tax Reform Act of 1986 (TRA86) that gives incentives for the utilization of private equity in the development of affordable housing aimed at low-income Americans. LIHTC accounts for the majority - approximately 90 percent - of all affordable rental housing created in the United States today.

The California Tax Credit Allocation Committee (CTCAC) administers the federal and state Low-Income Housing Tax Credit Programs. Both programs were created to encourage private investment in affordable rental housing for households meeting certain income requirements.

This is a significant source of equity for affordable housing projects and can be used in conjunction with major rehabilitation of rental housing. It comes with program requirements that might deter many apartment owners from utilizing it. These requirements include income restrictions, a change in ownership structure that gives 99.9 percent of ownership to investors and extended use requirements. These projects are usually undertaken by for profit and non-profits specializing in the production of affordable housing.

One possibility already encouraged by the City’s Rent Stabilization and Housing department is for apartment owners considering their options to meet with and possibly partner with experienced nonprofit affordable housing developers. Creative mutually beneficial solutions can often be found through this approach.

Historic Tax Credits

The Federal Historic Preservation Tax Incentives program encourages private sector investment in the rehabilitation and re-use of historic buildings. It creates jobs and is one of the Nation’s most successful and cost-effective community revitalization programs. It has leveraged over $62 billion in private investment to preserve 38,000 historic properties since 1976. The National Park Service and the Internal Revenue Service administer the program in partnership with State Historic Preservation Offices. It is often used in conjunction with the LIHTC.

The National Park Service website outlines the four approaches to the treatment of historic properties – preservation, rehabilitation, restoration and reconstruction. The choice of treatment depends on a variety of factors, including the property's historical significance, physical condition, proposed use, and intended interpretation. The Guidelines for the Treatment of Historic Properties illustrate the practical application of each treatment to historic properties.

Sen. Charles E. Schumer, (D-N.Y), Nov. 20, 2012, announced his support of the Creating American Prosperity through Preservation (CAPP) Act . The CAPP Act would, among other things, increase to 30 percent the amount of historic tax credits (HTCs) that renovation projects up to $7.5 million can claim, make more buildings eligible for the credits, and provide additional HTCs for energy efficiencies and exempt state HTC proceeds from federal taxes. Schumer sees the HTC program and New Markets Tax Credit program as a two-pronged approach to revitalizing historic buildings in downtowns and urban cores.

Energy Tax Credits

See Energy Funding below.

Energy Funding

Energy efficiency is a significant component of upgrading buildings for the future. West Hollywood has been quite proactive in this area, adopting one of the nation's first mandatory green building ordinances in 2007. California is also on the cutting edge and as stated in the December 19, 2012 report for the California Legislative Analyst's Office (LAO) (Taylor), currently maintains over a dozen major programs. The LAO report recommended that the legislature develop a comprehensive strategy for meeting the State's energy efficiency and alternative energy objectives. While this will take some time, it is likely that other programs and grants will be forthcoming to assist local governments meet their needs.

Energy Tax Credits

There are many types of Energy Tax Credits, some of which are for production, (alternative/renewable energy) and investments, but others for building improvements. These are typically easier to utilize than the LIHTC and Historic Tax Credits. Eligible improvements such as appliances, windows, heating and ventilation and air conditioning (HVAC), lighting, water, etc. be installed and then the credit is applied directly by the IRS.

On January 1, 2013, the U.S. Congress passed last minute legislation known as the American Taxpayer Relief Act of 2012 (the Act). Included in this legislative compromise were extensions of various tax credits related to renewable energy, energy efficiency and alternative fuel vehicles. The information herein is reproduced in part from the article by Peter J. Fontaine and Ira G. Megdal and the Mondaq website. More detail is provided in Appendix 4.

Residential Interest Rate Buy-down Programs

There are several models that can be used for buying down interest rates as follows:

- Local government buying down interest rate from local bank, credit union or CDFI
- Local government buying down interest rate from large national bank or energy finance provider
- Contractors buying down interest rate from banks

These models are currently utilized in areas around the Country. An analysis of energy oriented interest rate buy-down programs created by the Environmental Finance Center at University of North Carolina (UNC) are included Appendix 8 .

Resources

Several good resources exist for identifying California energy incentives. While this report does not intend for these to be comprehensive, several resources are included for reference.

DSIRE is a comprehensive source of information on state, federal, local, and utility incentives and policies that support renewable energy and energy efficiency. Established in 1995 and funded by the U.S. Department of Energy, DSIRE is an ongoing project of the North Carolina Solar Center and the Interstate Renewable Energy Council, Inc. A subset of California Incentives for Renewable Energy falls within this site.

The Federal Energy Management Program (FEMP) provides services, tools, and expertise to Federal agencies to help them achieve their legislated and executive-ordered energy, greenhouse gas, and water goals. These are delivered through project, technical, and program services. Within this context they host a website focused on energy programs in California, which includes links to the public utilities operating within West Hollywood and other incentives.

The California Department of Energy offers several programs which could potentially provide financial assistance to West Hollywood. Two programs stand out at this time: the Energy Efficiency Financing Program and the Energy Upgrades CA. Financing information for this California Department of Energy Programs will be found through the following link: http://www.energy.ca.gov/efficiency/financing.html.

The California Debt Limit Allocation Committee website lists utility energy efficiency & solar programs for multi-family and single family housing, including affordable housing.

Utility Energy Efficiency & Solar Program Summaries:
California's various Investor-Owned Utilities (IOUs) and Publicly-Owned Utilities (POUs) offer a variety of Energy-Efficiency and Solar programs designed to assist single-family and multi-family owners in covering or deferring the energy improvement costs. Participants (and end-users) in CDLAC's housing-related allocation programs are strongly urged to review the utilities' program information below to see if any of these programs can assist them in lowering their current or anticipated energy-related expenses.

West Hollywood Energy Efficiency

In 2009, the City applied for $3,000,000 under the California Comprehensive Residential Retrofit Program, and while it was not selected, it remains an important idea to pursue in the future. There was significant competition, with funding awarded to four applicants out of 18. The City of West Hollywood proposed to create and implement Green Toolkit, a comprehensive program to achieve best practices energy efficiencies in multi-family housing owned by non-profit affordable housing providers. The Green Toolkit was proposed to attain three objectives:

- Installation of energy efficient retrofits in multi-family affordable rental housing.
- Building the capacity of the workforce and the leadership of the non-profit housing sector to select, install, use, maintain, and evaluate energy efficiency retrofits.
- Evaluation of retrofit strategies, cost-benefit analysis, documentation, and dissemination of strategies to the non-profit sector and the larger multi-family housing sector through the publication of Green Toolkit.

While it was not successful, it is important to stay focused on other similar grant opportunities, whether for energy, historic, or seismic.

Climate Action Plan

The City of West Hollywood's Climate Action Plan, part of its General Plan, is a series of policies and actions by which residents, businesses and City government can continue to be leaders in environmental sustainability. These policies include improving pedestrian amenities along City streets, reducing water use, incentivizing renewable energy, reducing waste, expanding green space, and more aggressive measures such as implementing a point-of-sale retrofit program that would require energy and water efficiency upgrades to buildings prior to sale. The Climate Action Plan has many goals that when implemented can be quite useful in incenting property owners to rehab their property. Pertinent sections appear in Appendix 3.

City and State Incentives and Enforcement

This section outlines options offered by West Hollywood and other cities.

Density Bonus – West Hollywood Municipal Code Section 19.22

While direct financial subsidy is one way of incentivizing the creation of affordable housing and capital improvements, other more indirect methods can yield similar results. Density bonuses are one incentive that alone or in conjunction with other methods can make a project feasible. In a relatively dense city, an existing project would often have to be demolished to make way for a new, higher density project. While this could result in affordable units being removed from the market, units do at some point face functional obsolescence. The use of density bonus would then help create new, additional units and regulated affordability in the City.

A density increase over the otherwise maximum allowable residential density is provided for in Chapter 19.22 (Affordable Housing Requirements and Incentives). In order to encourage the construction of housing affordable to low and moderate income persons and the replacement of residential rental units lost through new construction, density bonuses shall be allowed in compliance with this section. In approving a density bonus, the Review Authority shall consider the underlying zoning district, the need for specialized types of housing, and the particular operating needs of non-profit housing providers.

A recent Keyser Marston Associates (KMA) Report commissioned by the City of West Hollywood states: "The City adopted density bonus standards in the City's Municipal Code in compliance with the State's SB 1818 density bonus statute. The City calculates the density bonus in the neighborhoods based on the number of units in the project, and the bonus in the commercial zones is based on the residential floor area ratio (FAR)." KMA outlines the key components of the SB 1818 density bonus as follows:

1. The amount of the density bonus increases as a function of the percentage of affordable units in the project. The maximum density bonus is equal to 35%.

2. When the SB 1818 density bonus is applied to a project in the residential zoning district, no other bonus for additional density provided for in the City's Municipal Code can be used. Comparatively, projects located in commercial zones can combine any applicable bonuses.

3. Developers are provided with up to three development standards concessions that can be picked from a menu of options provided by the City. The number of concessions to be provided is based on the percentage of affordable units provided in the project.

4. At the developer's request, the following parking standards will be applied:
   a. Zero to one-bedroom units at one space per unit;
   b. Two- to three-bedroom units at two spaces per unit;
   c. Four or more bedroom units at 2.5 spaces per unit; and
   d. No guest parking requirements will be applied to projects using the SB 1818 density bonus.

Los Angeles Department of Water and Power (DWP) FiT Program

Los Angeles Department of Water and Power customers for the first time will be able to sell back excess solar energy created on rooftops and parking lots under a new program approved in January 2013. Under the DWP's Feed-in Tariff (FiT) program, the utility would sign agreements with owners of moderate-sized solar panel arrays to buy photovoltaic power from them at a price of up to 17 cents per kilowatt-hour. Solar arrays would need to be at least 30 kilowatts or larger to qualify for the program, placing the feed-in tariff well out of reach of most Los Angeles property owners. It is hoped that this will be extended to include smaller property owners in the future.

The City of Los Angeles Capital Improvement Pass-through Program

The City of Los Angeles Capital Improvement Pass-through Program as of 2009 provided for additional revenue to owners for capital improvements by allowing temporary rent increases to pay for 60 percent of the cost of improvements. Widespread concern was expressed in the owner focus groups about the need to finance capital improvements. However, in the past 5 years, only 1.3 percent of RSO owners, representing 4 percent of units, have applied for this program. Based on the Los Angeles RSO owner surveys, the reason for this is that a larger share of the cost for maintaining the basic infrastructure of rent-stabilized housing needs to be shared by tenants.

Prior to 1989, when the pass-through amount was 100 percent, the amount of investment was 189 percent greater and the number of units upgraded was 218 percent greater than in the following 18 years when the pass-through amount was reduced to 50 percent. This statistic, as well as the feedback provided through the surveys and focus groups, illustrates a clear correlation between the incentive to make capital improvements and the return to the property owner.

Recommendation from the City of Los Angeles RSO Study regarding a capital improvement pass-through:

Since a majority of Los Angeles RSO units are older units in need of repair and owners would otherwise be unable to afford renovation costs due to lack of savings, the researchers recommend allowing owners to recapture 75 to 100 percent of rehabilitation costs to encourage investment in the rental properties.

Information from the landlord survey that is relevant to the design of this program includes findings that, when compared to owners of 5 or more units, owners of 1 to 4 units are:

- Less than a third as likely to have used the capital improvement pass-through program
- Less than half as likely to report making a profit on their RSO units
- Only half as likely to increase rents by the annual amount allowed under the RSO

The Los Angeles RSO Study recommends that the capital improvement pass-through amount to: 75 percent for work that meets current criteria for the pass-through program but does not meet the criteria for primary renovation; 100 percent for systemic structural, plumbing, electrical, or mechanical work that can be done while tenants occupy their units; and 100 percent for either capital improvements or primary improvements for owners whose total RSO ownership, including all properties, is 4 units or less. It is also recommended that the tenant habitability component of the Primary Renovation Program and the process for determining whether a habitability plan is required be simplified and streamlined. And it is recommended that the term of payment for the tenant's share of costs be extended for up to 10 years to keep rent increases below $25 per month for as many tenants as possible, that the $55 monthly rent-increase ceiling for the share of capital improvements that can be passed on to tenants be indexed to the Consumer Price Index, and that the cumulative amount of capital improvement pass-throughs approved for each property be tracked to ensure that tenants do not receive multiple rent increases that total more than the ceiling amount.

City of Los Angeles Renovation Program

The City of Los Angeles adopted the Primary Renovation and Tenant Habitability Program to encourage landlords to reinvest in the infrastructure of their properties through Primary Renovation Work. The Primary Renovation Program was established in 2005 and made substantial changes to the Los Angeles Rent Stabilization Ordinance. There are two major components to the Primary Renovation Program: 1) the Tenant Habitability Program; and 2) Primary Renovation Cost Recovery Program. The Tenant Habitability Program enacts safeguards to protect tenants both from unsafe living conditions while renovation work is undertaken, while the Primary Renovation Program protects tenants from extreme rent increases following the completion of such renovation work. Following completion of Primary Renovation Work in conformance with a Tenant Habitability Plan, a landlord may file a rent adjustment application under the Primary Renovation Program that in most circumstances provides a better return than would be allowed under the City's Capital Improvement Program.

Huntington Beach Multi-family Rental Housing Rehab Loans

The City offers a Rehabilitation Loan Program for up to $75,000 for repairs to duplex, triplex or four-plex units (Appendix 9). The loan provided will be a deferred payment loan with an annual interest rate of 3%. To qualify, an owner must, after combining all existing mortgages and the City's loan, have a minimum of 20% equity investment in the property. After repairs are completed, the City will require the following during the term of the loan:

- No more than one household may occupy a single apartment.
- The amount charged for rent must fall within certain affordability guidelines.
- The property must be well maintained.
- A portion of residents must be low income.
- Before the application is considered, a $500 processing fee is required.

Training programs

Many cities offer landlord training programs or technical assistance on issues such as best practices for property management techniques including cost effectiveness, responsiveness, and tenant satisfaction, crime prevention, and tenant screening. Other forms include notifications to property owners by city staff of available funding incentives (grants, etc.) via the city website.

- The City of Milwaukee offers a free training program to landlords that concentrate on how to be a "proactive property manager" including code compliance, applicant screening and how to recognize and deal with drug and other illegal activity. The program is five hours long, and at the end participants receive a free 100 page manual with useful information about the legal and business issues associated with managing rental property.
- The Cities of Montclair and Upland (CA) had programs to assist in marketing private rental properties that met a "Five Star" designation, based on a City inspection program. They have met with limited success and has since been discontinued.

Prioritization of Rehabilitation

Future-program design is outside the scope of this project; however in the research for this report, construction priorities of other publically funded programs were reviewed. There was no consistent response pertaining to the prioritization of work. Without articulating specific restrictions for each funding source, the advantage and disadvantage of targeting or prioritizing certain categories of rehabilitation are:

Advantage: The City can incent what it feels is the most important or in the best interest of the City. This could include remediation of health and safety issues, seismic upgrades, energy efficiency etc.

Disadvantage: If the goal is to encourage the largest number of property owners to participate in a program that may require some period of regulatory controlled affordability, then making the program as easy to use and flexible as possible would allow for a broad spectrum of activities.

Typical categories of rehab and prioritization collected from the City of Atlanta program utilizing federal HOME funds are identified in the Appendix.

Seismic Improvements

Community Facilities District Funding

In 1992, the West Hollywood Community Facilities District sold $835,000 of Special Tax Bonds. The purpose of the bonds was to finance the construction and installation of seismic resistance improvements to certain properties within the City of West Hollywood. The bonds were authorized pursuant to the Mello-Roos Community Facilities Act and funds for payment of bond principal and interest requirements, as they come due, were obtained from a special tax levied by the City on behalf of the District against lands within the District.

This financing tool is enormously flexible in order to help finance needed community facilities and services through the levy of voter approved special taxes. It requires a special tax election, with a two-thirds affirmative vote required for passage. The tax is then levied on parcels within the district and collected by the local property tax assessor.

It is difficult to predict the purposes that land owners would agree to tax themselves, but it is conceivable that an improvement exists for which they would do so.

Seismic Improvement Funding

The Earthquake Engineering Research Institute Northern California has compiled a description of incentives for retrofitting vulnerable privately-owned buildings from local governments in their geographic jurisdiction. Included are examples which include “waivers or reductions of building permit fees, waivers of zoning and parking requirements, loans with easier qualifying requirements or below-market interest rates, grants to cover part of the design or construction costs and special assessment districts that generate funding sources for participants.” Further information has been included in Appendix 7.

Recommendations and Next Steps

No grand idea stood out as the solution for the rehabilitation of aging housing stock. Rather, applying several varied approaches could lead to incremental progress towards the goal. In fact providing multiple approaches to incentivizing capital improvements of private rental stock, is in many ways a superior idea, as landlords will have different needs and likely prefer different incentives.

In 2012 and 2013, the West Hollywood Rent Stabilization and Housing Division began efforts to understand investment drivers and find ways to improve the outcomes of the Division. We recommend they continue with these efforts including:

- Tracking ownership changes,
- Determining construction practices which allow rehabilitation to take place with tenants in place, and
- Reviewing rehabilitation requests and building permits

Recommendations from this report for consideration include the following five ideas:

- Evaluate the feasibility of a public-private partnership to fund leveraged rehab loans
- Re-evaluate the City of West Hollywood Rent Stabilization Ordinance Capital Improvement policy
- Review West Hollywood internal processes with the goal of incentivizing rehabilitation
- Create forms of non-economic assistance
- Pursue legislative efforts

Evaluate the feasibility of a public-private partnership to fund leveraged rehab loans

Residential Interest Rate Buy-Down or First-Loss Guarantee Program

This is the same type of program outlined in Appendix 8, where its emphasis is energy improvements, but could easily be tailored to more general or other specific priorities.

A "residential interest rate buy-down" or "first-loss" is an old public-private partnership idea that could be resurrected for the creation of a fund for a wide range of rental rehabilitation activities. The actual form has many variations, but the basic idea is that West Hollywood would identify a source of funding to capitalize a rental rehab fund. This can be a private or public grant, money from a trust fund, general fund or other source designated for the purpose of the capitalizing the interest rate write-down or loss guarantee. Next the money is leveraged with a private source, typically a bank, CDFI or credit union. This leverage typically yields $1.00 - $3.00 of private funding for every public dollar spent and has the added benefit of creating jobs.

Loss-Guarantee Program: This form encourages banks to maintain safe lending practices and provides banks with limited protections from the first losses on a portfolio of loans, which allow them to provide loans with lower interest rates, longer terms and enhanced access to credit.

Interest Rate Write Down: A low-interest lending program is designed in conjunction with a financial institution. The City using its designated funds to write-down the interest rate from what the bank charges to program guideline rate. The depth of the write-down is created in the program design stage and varies based on the amount of the public fund, any regulations governing the source of the fund and the policy goals of the program.

Re-evaluate the City of West Hollywood Rent Stabilization Ordinance Capital Improvement policy

The Los Angeles RSO Study recommended increases to the amount able to be passed through in the form of a temporary rent increase to Los Angeles residents. A review of the statistics showed that when the pass-through amount was 100 percent, the amount of investment was 189 percent greater and the number of units upgraded was 218 percent greater than in the following 18 years when the pass-through amount was reduced to 50 percent. Since the goal of this West Hollywood report is to look for options which will lead to renovation of rental properties, it is important to note a clear correlation between capital improvements costs and return to the property owner. If considered for West Hollywood, the City will need to evaluate what is appropriate to meet its own goals and philosophy.

Review West Hollywood internal processes with the goal of incentivizing rehabilitation

Today's federal and state building codes present strict accessibility guidelines. It is possible that older buildings in need of rehab are not in compliance with today's building codes. In such instances, any type of renovation, structural repair, or alteration to an existing building will likely have certain minimum standards of improving accessibility, according to California State Building Codes. For example, if the costs of a rehab project are under a certain threshold (about $140,000 in January 2013), the code mandates that up to 20 percent of the total cost of the project be spent on improving the accessibility of the building. Examples of accessibility improvements include providing an accessible entrance, path of travel, sanitary facilities, etc. This increases the total cost of the project and may serve as a challenge for owners.

The intention of the building codes is to preserve the health and safety of the community. More data are needed to understand if there are possible internal incentives for rehabilitation available within the West Hollywood processes, including building and safety expediting and fee waivers or discount programs. There are potential problems with such incentives, including the possibility of undermining the fees that cover the hard costs for City services, of providing a gift of public funds, or of offering services to some and not to others. The City could look at ways to improve internal processing of permits and customer services. There are already steps being taken to evaluate the permit processing technology and upgrade the system.

Create forms of non-economic assistance

Provision of technical assistance: In West Hollywood, over 12,000 units are small properties between 2 and 19 units. About 90 percent of owners of rent stabilized buildings own only one rental property in the City. Given the numerous and variable barriers to rehabilitation and that they change from one situation to the next, a program to offer technical assistance to owners might be welcomed. Other cities have implemented an ombudsman type program to help property-owners work through the various vertical functions within government and the complexities of available public subsidy. This could be broad in scope including financing and development strategies or limited to the construction phase such as assisting small owners through the permitting and inspection process.

Pursue legislative efforts

West Hollywood is currently active in policy and legislative discussions regarding the future of the State of California. After deciding on the best approach to facilitate the improvement of the City's housing stock a legislative or policy agenda will emerge. Focus areas might include a discussion about:

- Seismic tax credit (California)
- Energy Block Grants to assist local governments in meeting their most pressing needs
- Modification of existing State programs to allow for their use for rental rehabilitation
- Support of the Homes and Jobs Act
    - Engage in early conversations as to how some of the funding could be targeted in a way that would be of benefit to West Hollywood's interests.

Program Design Steps

Designing successful incentive programs is a difficult job. Research showed that programs designed to incentivize rehabilitation and available to property owners were underutilized or not utilized at all.

The City of Upland, CA offered a rental rehabilitation program with 1% - 3% loans for properties with income qualified tenants. Interest accrued at simple interest for up to 30 years and payments were deferred. However, even with substantial marketing no one took advantage of it. Reasons included wanting to avoid another lien on the property, resistance to full underwriting and government restrictions. This was typical response of cities no longer offering this program.

The Los Angeles RSO Survey conducted extensive research on the use of the Pass-through Program for Capital Improvements which allowed owners to seek approval for 60 percent of the cost of capital improvements as a rent increase. Despite widespread concern expressed in owner focus groups about the need to finance capital improvements, 87 percent of owners reported in the survey that they had not applied for approval. An examination of administrative records (that took the total number of owners and buildings into account) showed that only 1.3 percent of L.A. RSO owners applied to pass through capital improvement costs to the tenants.

The Los Angeles RSO Survey is recommended for further review. While this State of West Hollywood's Housing Stock report touched on specific sections of the Los Angeles RSO Survey, but there is a wealth of information that can be utilized for future City of West Hollywood policy analysis. As mentioned earlier, this report surveyed property owners and tenants and provides a template for any subset of work that the City of West Hollywood wishes to pursue.

For any new program to have the best chance of success, we recommend that the City engage opinion leaders including property owners and other stakeholders through limited focus groups and/or a detailed survey. Questionnaires used in the Los Angeles RSO Survey are available through The Economic Roundtable as a starting point for the City of West Hollywood. The goal is to find out what effort would achieve the best result with the fewest resources.

Appendices

Appendix 1. New York City Revolving Loan Fund for Multi-family Repairs

The following is a summary of a New York City nonprofit organization's repair loan fund.

In the early 1990's, a study was completed of privately-owned, multi-family rental housing stock in a low-income neighborhood in New York City that was the organization's primary catchment area. The study's goals were twofold: 1) document and quantify the unsafe, crowded conditions in which thousands of low-income people were residing, and 2) use that data to leverage private funding to establish and operate a revolving loan fund to address these conditions. The process used in the study, outlined below, is transferable to another locality or community:

- Interviews with a defined number of tenants (approximately 180, in this case) using a survey to discern the needs and wants of actual residents.
- Physical inspection of a like number of apartments to assess general conditions, focusing on life and safety issues (electrical, plumbing, structure).
- Culling census data in the target neighborhood to extrapolate community-wide needs.
- Production of a report summarizing all of the above, with estimated costs of upgrade existing housing stock for a typical unit, a typical building and community-wide.

Armed with the above, the organization planned the following actions to accomplish its goals:

- Use the report to generate financial support for a revolving loan program to finance apartment building upgrades.
- Establish a revolving Community Development Fund or Affordable Housing Preservation Fund, utilizing a blend of public and private resources.
- Outreach to landlords interested in building repairs and renovations.
- Work with landlords to produce a scope of work for repairs/upgrades of their buildings.
- Lend funds to participating property owners at or below the market rate, while preserving affordability of the rental units and preventing displacement.

The resulting study proved useful in documenting the true needs of the community and likely played a major role in obtaining resources for a loan fund and/or other resources for the organization to use in support of its mission. While the ultimate goal of the study was to establish a loan fund to upgrade aging, privately-owned apartment buildings in an extremely dense neighborhood in New York City, the organization found that there was little interest on the part of the property owners to participate in such a program. One interviewee speculated that no incentive was big enough to entice property owners to participate in the proposed program, and that perhaps many of them would only undertake repairs upon government code enforcement and/or other legal action—if at all. Consequently, the organization turned its focus elsewhere and, in 1999, formed a Community Development Financial Institution, which has spawned several distinct loan programs for homebuyers and homeowners. One of these programs, known as the Rehabilitation Loan Fund, most closely resembles the organization's original intent, providing repair loans to property owners. This repair program, however, serves owners of 1- to 4- family homes in less densely populated areas of the city, rather than owners of large, multi-family properties in the dense neighborhood originally contemplated.

The Rehabilitation Loan Fund today provides modest home improvement loans to owners of 1- 4-family homes, averaging $25,000-30,000 per home, with a maximum loan amount of $50,000. The funds must be used to fix substandard conditions, and the borrower must:

- Own a 1-4 family home, condominium, or cooperative home in New York City.

- Meet income eligibility requirements.
- Receive individual counseling from the organization.

The loan funds are obtained through lines of credit from traditional financial institutions at a cost of 2-4%, with an average cost of approximately 3%. The funds are loaned to borrowers at rates ranging from 5-6%, earning the organization modest fees to help cover administrative costs.

The organization also launched and now administers an Emergency Repair Program to assist moderate-income homeowners with critical repairs to their property. As with the Rehabilitation Loan Fund, this program is available to those who own a 1- to 4-family home in New York City and who meet income eligibility guidelines. This program provides only up to $15,000 for urgent repairs, but offers funds at a lower interest rate—as low as 3%.

As seen with other programs with which the consultant is familiar, one of the greatest challenges that the subject organization faced in establishing a multi-family repair program in its target neighborhood was identifying willing participants/borrowers. Though not an easy task, the organization was ultimately able to form a CDFI and establish several smaller scale loan programs, all of which are active today. In addition to obtaining funds from local and federal government sources, the organization has often successfully relied on some political pressure and the Community Reinvestment Act (CRA) to solicit funds from financial institutions. The organization's failure to launch a true, multi-family repair program as originally conceived is seemingly attributed to a lack of interest from potential borrowers rather than a lack of willing investors. That said, it is possible that if the organization's cost of funds were lower (1% or lower), and those funds could be loaned at well below the market, a similar program would interest owners of larger properties.

Appendix 2. Survey Questions for the "Renovating West Hollywood's Housing Stock" report: Incentivizing Property Improvements for Owners of Rental Housing

Introduction

During this economic downturn cities are increasingly faced with aging rental housing stock but few methods to incentive owners to make needed property improvements. The purpose of this survey is to identify promising practices and innovative strategies that you are knowledgeable about or may have implemented. We will be happy to share the findings of this work with you at your request.

Background/Respondent Demographics

1. Name
2. Job Title
3. Years in current role
4. Total years of housing-related experience
5. Contact information: email & phone number; would you like to receive a copy of the findings?
6. Permission to contact for follow up: May we contact you for follow-up purposes? (For example, to learn more about an innovative approach clarify responses, etc.) yes/no

Rental Housing Stock Characteristics

7. Total number of units (approximate):
8. Unit types:

Type	% Jurisdiction's Total Rental Units	Average Age (in years)
Market Rate		
Affordable		
Rent Controlled/Stabilized		
Section 8		
Total (if unknown by category)		
Other:		

Property Owner Incentives

9. In the past 10 years, has this jurisdiction used any of the following methods to incentivize owners of rental housing to improve their properties?

(For each of the incentives identified, respondents will be asked to briefly describe and rate how effective they felt this incentive was on a 1 to 5 scale, one being not at all effective to 5 being highly effective). Effective will be defined as "motivated property owners to improve their rental stock".

- Fee waivers
- Rebates
- Grants
- Low interest loans
- Guaranteed loans
- One-time increases to rent limits
- Capital improvement pass-throughs
- Other (please describe)

10. If you answered yes to any of the above, please provide sources of funding that were utilized.

11. Has there been one or more formal Improvement Program(s) in effect in this jurisdiction in the past 10 years? If so, please briefly describe it/them. Is it targeted to specific neighborhoods? Is it targeted to specific housing types? Is it only for owners who agree to restrict it as affordable housing? If it is easier for you, you could send copies of materials in either soft or hard form.

12. Are there other incentives not listed here that you believe could effectively motivate property owners to improve rental/investment properties? Please list any thoughts you have regardless of whether your jurisdiction has implemented the approach or not.

Challenges and Barriers to Improvement

13. In your experience, what are the major challenges or barriers to property improvement faced by owners of rent controlled/stabilized properties and/or aging rental stock in a community? What can housing jurisdictions do to help eliminate these barriers to property improvement?

Other

14. If you know of other examples of good rental rehabilitation programs or programs to incentivize rental housing improvements, please list them here:

15. If you know of other people we might contact, please list them here:

Thank you for your time and participation. If you have questions or comments about the survey, please contact Rebecca Clark (rclark@clarkconsultinggroup.org) or (909) 747-2355

Appendix 3. Climate Action Plan Excerpts

The City of West Hollywood's Climate Action Plan, part of its General Plan, is a series of policies and actions by which residents, businesses and City government can continue to be leaders in environmental sustainability. These policies include improving pedestrian amenities along City streets, reducing water use, incentivizing renewable energy, reducing waste, expanding green space, and more aggressive measures such as implementing a point-of-sale retrofit program that would require energy and water efficiency upgrades to buildings prior to sale. The Climate Action Plan has many goals that when implemented can be quite useful in incenting property owners to rehab their property.

The following sections of the Climate Action Plan are directly applicable to property owners planning rehabilitation of their residential units.

REUSE OF BUILDINGS

LU-1.2: Encourage the preservation and reuse of existing buildings.

Measure Description:

Preserving historic buildings can be an important climate protection strategy that does not conflict with the goal of building new transit-oriented housing. Preserving and reusing existing buildings preserves embodied energy in buildings, and reduces the GHG emissions associated with demolishing buildings, transporting demolition debris, and building new structures. Existing buildings can be intensified to create additional housing or commercial space to help meet future demand. The City will review and amend the Historic Preservation Ordinance and Zoning Ordinance to strengthen provisions to promote adaptive reuse of structures within West Hollywood.

REDUCED ENERGY USE

E-1.1: Develop a comprehensive outreach program to facilitate voluntary residential and commercial building energy efficiency improvements.

Measure Description:

Energy efficiency improvements to residential and commercial structures can reduce energy bills and GHG emissions. Rental properties represent over 75% of the housing stock in West Hollywood. The City will partner with Southern California Edison (SCE) and community organizations to conduct public education and outreach campaigns that encourage residents and businesses to voluntarily complete energy efficiency improvements within their homes and businesses and to take advantage of the low- cost energy efficiency financing program described in Measure E-1.2.

As part of the outreach program, the City will enhance its website by linking to information on existing energy efficiency rebates and other financial incentives. SCE provides numerous incentives to residents and businesses for energy efficiency improvements. The website could also contain local case studies of homes and businesses that have completed cost effective energy efficiency improvements.

Additionally, the City will partner with community non-profits to provide residents and businesses with free home energy audits and free installation of basic energy and water efficiency improvements. The City will provide these organizations with technical assistance to ensure that the programs effectively reach a large number of households and businesses in the City.

3-26 CHAPTER 3 – CLIMATE ACTION AREAS

REDUCE ENERGY USE

E-1.2: Develop a comprehensive residential renewable energy program that provides incentives, outreach, financing, and other forms of assistance.

Measure Description:

The up-front costs of energy efficiency improvements, such as solar hot water and solar photovoltaic systems, can be a considerable barrier for many homeowners. West Hollywood, in partnership with other entities, will provide a series of cost-effective financing options to reduce this burden. Financing options could include, but are not limited to, on-bill financing, energy efficient mortgages (cost of energy efficiency improvements are added to a mortgage loan), or revolving loans from bond sales. The City will evaluate various financing products that would encourage property owners to invest in energy efficiency upgrades in existing homes. The structure of the potential programs and products varies greatly. On-bill financing, low interest loans, and energy-efficient mortgages establish a lender/borrower relationship in which the City, utility, or private lender loans the building owner money to pay for upgrades, which is paid back over time. The cost (or payback) to the City depends on how much it subsidizes interest rates. In the case of the bond, the City would administer a revolving loan fund with the bond proceeds, pursuant to provisions of Assembly Bill (AB) 811.

The City could also participate in the California FIRST property assessed clean energy (PACE) program, as a means to help facilitate program initiation and administration.

The City will develop a comprehensive outreach program to maximize community participation in renewable energy generation. The City has already streamlined the permitting process and eliminated permit fees for solar system installation.

E-1.4: Develop and implement a point-of-sale residential energy conservation ordinance (RECO) and commercial energy conservation ordinance (CECO).

Measure Description:

The City will develop and implement a RECO and CECO requiring energy and water efficiency upgrades in existing housing and commercial buildings prior to the transfer of ownership to reduce the community's GHG emissions and utility bills. Exemptions will be provided for newer construction or upgraded buildings, as these buildings likely already have higher energy efficiency than older buildings, as well as for properties that have already been upgraded and are resold within 5 years.

The RECO and CECO will require specific energy and water efficiency measures to achieve a 25% efficiency improvement upon sale of the property. The ordinance will also require a 30% improvement in the water efficiency of plumbing fixtures and fixture-fittings.

Based on average residential property turnover in similar cities, as many as 55% of the City's residential units may be sold to new owners between 2010 and 2035. RECO- required improvement costs would be approximately $7,500 to $10,000 for the average single family home (as of 2009 incorporating a cost ceiling of 2% of the sales price, not to exceed $25,000). For commercial buildings, efficiency upgrades are estimated to cost between $1.00 and $3.00 per square foot, with a cost ceiling of 2% of the sales price, not to exceed $75,000. It is estimated that approximately 40% of commercial buildings would turnover by 2035. The expense of required improvements is expected to be absorbed into the building's purchase price and the mortgage, and is usually an acceptable expense for the purchaser considering the long-term savings. Financing options described in measure E-1.2 would reduce this up-front cost to homeowners.

This would be a self-enforcing program. Minimal City resources would be dedicated to inspection or verification. The City would implement the RECO and CECO in phases.

Phase 1 would consist of a mandatory audit (carried out by private-sector auditors) and voluntary improvements, extending for a period of five years. The City will develop incentives to encourage improvements identified in audits during Phase 1. Improvements identified in audits would become mandatory in Phase 2

E-1.5: Develop an energy efficient appliance upgrade program for residents and business owners to promote upgrades from inefficient appliances to new Energy Star appliances.

Measure Description: This is one of the most critical measures recommended in the CAP. It is based on voluntary community participation to gradually upgrade home and business appliances to Energy Star models. Successful implementation of this measure relies on a robust public outreach program to increase community awareness regarding building appliance choices. Modern technology has contributed to the development of high-quality energy efficient appliances. The Energy Star rating is an internationally recognized standard for energy efficient consumer products. By promoting Energy Star-rated home and business appliances, the City can reduce GHG emissions from lighting, refrigerators, dishwashers, clothes washers, wall air conditioning units, computers and monitors, copy machines, and exit signs.

The City will also partner with SCE, the Gas Company, and other organizations to identify funding strategies and financial incentives to support appliance replacements.

RENEWABLE ENERGY

E-3.3: Facilitate installation of solar hot water heating systems on commercial and multi-family buildings.

Measure Description: Commercial-scale solar water heating (SWH) systems are designed to provide large quantities of hot water to commercial and multi-family buildings using solar energy. A typical system includes roof- or wall-mounted solar collectors that work along with a pump, heat exchanger, and one or more large storage tanks. SWH systems can reduce the amount of natural gas or electricity used to heat water in conventional systems and thereby reduces GHG emissions. In January 2010, the California Public Utility Commission approved a decision that creates a new statewide program providing $358.3 million in financial incentives and market development funding for SWH and other solar thermal technologies. The California Solar Initiative's new Thermal Program sets aside $305.8 million for direct financial incentives for consumers of SWH systems and another $31.25 million for market facilitation, with the balance going to program administration, inspections, measurement, and evaluation. Commercial and multi-family customers who install certified SWH systems will qualify for incentives of up to $500,000 to offset capital costs, beginning on June 1, 2010. Incentive levels will decline in four stages as the solar thermal market grows. Actual incentive payments will be determined by the thermal output of the system. The City, in partnership with utilities and other organizations, will take an active role in promoting and facilitating the installation of SWH systems on commercial and multi- family buildings in the community. The City will create an outreach program aimed at maximizing the number of businesses that invest in SWH systems. The City will also streamline building permit processes for SWH system installation and provide permit fee waivers.

Appendix 4. Energy Tax Credits

The “2013 Fiscal Cliff” Bill (The Act) extended two business and personal tax credits applicable to energy efficient residences and appliances through December 31, 2013. The Act also made them retroactive to their prior expiration date of December 31, 2011, meaning **the credits are now available for both 2012 and 2013**.

26 U.S.C. § 45L Business Tax Credit for New and Renovated Energy Efficient Residences

The Act renewed (actually, revived) the 26 U.S.C. § 45L business tax credit of up to $2,000 for contractors or developers that construct or significantly renovate "dwelling units" (apartments, condos or single-family homes) that meet certain energy efficiency standards.

The credit had previously applied only to homes acquired before December 31, 2011. The Act extended this deadline to homes acquired before December 31, 2013, meaning homes built and acquired **in both 2012 and 2013** will be eligible.

In addition to extending the credit, the Act changed the baseline of energy efficiency required to qualify. Previously, § 45L required a 50 percent reduction in energy usage as compared to the 2003 version of the International Energy Conservation Code (IECC). The Act amended the baseline energy standard to the 2006 IECC.

26 U.S.C. § 25C Individual Tax Credit for Energy Efficient Residential Improvements and Appliances

The Act also revived the 26 U.S.C. § 25C individual tax credit of 10 percent (up to $500) of the cost of certain energy efficient property improvements, like insulation, windows and doors, and energy efficient heating, cooling and water heating appliances.

The credit had previously applied only property placed in service prior to December 31, 2011. The Act extended this deadline to property placed in service before December 31, 2013, meaning property placed in service in **both 2012 and 2013** will now be eligible.

Appendix 5. Other Programs and Noteworthy Information

MacArthur Foundation Grant Helps Preserve Aging Housing Stock in Florida

Florida Housing Finance Corporation (Florida Housing), Florida Housing Coalition (FHC), and the Shimberg Center for Housing Studies at the University of Florida (Shimberg Center) are the recipients of a $1 million grant from the MacArthur Foundation to help improve and preserve affordable rental housing stock across the State. More than 250,000-plus affordable rental units in the State are aging. During the next few years, affordability periods will expire on many of these units that have federal subsidies; these subsidies help to keep rents low for these properties.

The MacArthur Foundation investment—$9.5 million in grants and an additional $23 million in low-interest loans—is part of its “Window of Opportunity” initiative, which is a 10-year, $150 million effort to: (1) coordinate preservation efforts and target places most in need of intervention, (2) track the state of rental housing, (3) preserve homes before buildings become run-down, and (4) leverage more than $147 million in other funding.

Appendix 6. The City of Atlanta HOME funded Home Ownership Rehabilitation Priorities

1. Priority I- Housing Systems • Electrical wiring, fixtures or systems • Heating, venting and air-conditioning • Roofs, porches, walls and structural load bearing walls • Foundations • Plumbing • Health and safety items • Removal or Replacement of attached building components (deck, porch) that were specifically cited as a code violation) • Miscellaneous code violations	**2. Priority II- Architectural Barrier Removal** • Widening of doors • Installation of ramps • Roll-in showers (as space permits), grab bars and permanently attached physical-assist apparatus • Air-conditioning (if medically necessary) • Hearing-impaired smoke detection equipment • Specialty plumbing fixtures • Lowering of light switches • Other permanently attached fixtures determined to be of assistance in removing architectural barriers
3. Priority III- Incipient Code Violations (Deficiencies or conditions of deterioration, if left unattended, would continue to deteriorate into or contribute to a code violation.) • Replacement of building components (roofs, water heaters, HVAC systems) that have exceeded their life expectancy or, due to condition, is expected to fail within a two-year period from the date of inspection. • The current edition of the United States Department of Housing and Urban Development (HUD) Residential Rehabilitation Inspection Guide, Appendix C entitled "Life Expectancy of Housing Components" shall be used as the standard to determine the life expectancy of building components for the purpose of eligibility for replacement. • Unsafe & unused fireplaces with a deteriorated or unsafe chimney should be disassembled to below the roof line and sealed (roof will be patched over area that chimney penetrated the roof). Unsafe & used fireplaces will be repaired or an alternate exhaust system will be installed.	**4. Priority IV- Energy Efficiency Upgrades** (referral to nonprofit agencies for assistance) • Weather stripping/caulking • Insulation • Storm doors • Windows and doors • Heating, venting and air-conditioning • Energy Efficient Water Heater
5. Priority V- Allowable, Additional Improvements In no instance will an allowable, additional improvement take priority over a Priority I, II, III or IV required repair. Allowable, additional improvements will be eliminated by a change order to remedy unforeseen code violations, emergency, mechanical, foundation, or weatherization repairs found after the initial inspection or ongoing inspections. Allowable additional improvements include the following: • Interior and Exterior paint • Refinishing or replacement of kitchen or bathroom cabinets • Countertop replacement	**6. Luxury Items** The following are considered luxury items and are NOT allowed: • Flooring such as tile, hard wood floors, etc. that exceeds the comparable cost of vinyl or carpet • Hot tubs, whirlpool baths, steam showers • Patios or decks • Room additions • Installation of fireplaces • Window treatments other than standard grade mini-blinds

• Tile Flooring (will be used in high-traffic areas if cost-effective) • Wood flooring – if comparable in cost to vinyl or carpet • Disposal, refrigerator, stove and dishwasher • Door replacement and trim improvements • Small storage sheds (10 foot x 12 foot or smaller) • Wallpaper- if used to address wall imperfections	• Carports or garages • Items above standard grade or in excess of approved specifications • Room additions may be approved if they are necessary to install a bathroom facility in a dwelling that otherwise lacks a bathroom or necessary to provide accessibility to the house.

Appendix 7. Incentives for Seismic Retrofit of Vulnerable Privately-Owned Buildings

The information below is included in its entirety from the the Northern California Chapter of the Earthquake Engineering Research Institute website

Description

Local governments throughout Northern California have created financial incentives and removed disincentives to encourage owners to retrofit their vulnerable buildings. These incentives include: waivers or reductions of building permit fees, waivers of zoning and parking requirements, loans with easier qualifying requirements or below-market interest rates, grants to cover part of the design or construction costs using redevelopment or housing funds, and special assessment districts that generate funding sources for participants.

Problem

Owners have many reasons for not addressing the risks of collapse, life loss and property damage in their buildings. Since earthquakes are rare events, retrofitting is typically not the highest priority for the expenditure of limited funds. Governments convey mixed messages about earthquake risk; don't usually require retrofits except for unreinforced masonry buildings; and leave such decisions up to owners. Yet governments have a stake in the future of their community's buildings, in protecting both human life and economic continuity. The percentage of retrofitted buildings in Northern California is low –for example, less than 10% for residential dwellings, and less than 50% for highly vulnerable unreinforced masonry buildings.

Solution

Various local governments have evaluated their community's vulnerability to earthquake losses, identified priority issues and alternatives, and selected from a variety of incentive options using the resources below. Governments have estimated the potential levels of participation and estimated offsets in revenue. Governments have held focus group meetings and public forums to gain feedback from potential beneficiaries of incentives, and to present draft incentives before their adoption.

Even small incentives appear to send a clear message to building owners that governments value efforts to reduce earthquake risk. Even nominal incentives convey a small recognition to owners of the government's interest and appreciation. The positive public relations generated by offers of incentives have offset opposition to retrofitting proposals.

Larger incentives clearly produce more meaningful retrofit results and have changed market conditions and increased numbers of buildings being retrofitted. Based on recent ABAG surveys, communities with large, effective retrofit incentives have a substantially higher quantity of retrofitted buildings.

Examples of Retrofit Incentive Programs

Berkeley's Transfer Tax is an example of a large, effective incentive that has enabled Berkeley to achieve more than three times the number of retrofitted buildings of adjacent cities. Following is a list of earthquake risk reduction incentives and the cities that have adopted them. Each city should be contacted for more information:

- Waiver of Permit Fee for Seismic Retrofit: Albany, Berkeley, Fremont, Livermore, Los Gatos, Morgan Hill, Oakley, San Rafael, Sonoma, St. Helena.
- Permit Fee Reductions: Pittsburg, San Leandro, St. Helena
- Local Tax Breaks: Berkeley Transfer Tax Rebate and proposed tax/rebate increase, St. Helena Mills Act, Redwood City Mills Act

- State Tax Breaks: Taxes reduced for earthquake strengthening when applicable forms are submitted prior to retrofitting. Contact your County Assessor's Office.
- Federal Tax Breaks: 20% federal tax credit for work certified by the National Park Service on National Register buildings.
- Federal Mitigation Incentives: The Disaster Mitigation Act of 2000 (DMA2000) allows for enhanced eligibility for post-disaster mitigation funds for those jurisdictions that have effective mitigation programs established prior to disasters. The Governor's Office of Emergency Services is laying out rules for these new mitigation programs with a November 2003 deadline.
- Grants: Brentwood, Colma, Emeryville, Morgan Hill, Napa, Pinole, St. Helena, Windsor, San Francisco's general obligation bonds
- Other Incentives:
  - Dixon – $3/SF for URM retrofits
  - Fremont – low interest loans for redevelopment area Napa's redevelopment funds for retrofit designs
  - Palo Alto – allowances for additions waivers
  - Los Gatos – parking waivers
  - San Leandro – special assessment district loan program
  - San Mateo – storefront improvement loads and grants
  - Santa Clara – 3% interest, 5 year loans for engineering analysis
  - Sonoma – grants for retrofit designs
  - Vacaville – 3% interest, 25 year redevelopment loans
  - Vallejo – $40,000 per building (max) Community Development Block Grants

Resources

- Seismic Retrofit Incentive Programs – A Handbook for Local Governments, ABAG, 1992. (Some case studies no longer applicable to current adaptations.)
- Status of City and County Mitigation of Earthquake Hazards and Risks, ABAG, 2002.
- Preventing the Nightmare, Designing a Model Program to Encourage Owners of Homes and Apartments to Do Earthquake Retrofits, ABAG, 1999. Based on a survey of residential retrofitting progress and recommendations from ABAG's Housing Mitigation and Recovery Review Committee.

Adaptability/Sustainability

The adaptability of incentives used elsewhere depends greatly upon the similarly of economic conditions, the owner's willingness to pay versus the size and effectiveness of the incentive, and current lending rates.

Tax laws have changed dramatically over the years, rendering many earlier attempts at incentives, such as the Marks Historical Bond Act and some types of special assessment districts such as Mello-Roos, either infeasible or less feasible.

Some incentives are not adaptable to other jurisdictions unless tax laws are similar, which is the case for Berkeley's Transfer Tax. Most jurisdictions don't have a transfer tax and creating new taxes coupled with offsetting incentives would require a two-thirds vote of the electorate.

Many incentives have a limited life or effectiveness. For example, special assessment districts may be created once and not allow for additional participants at later dates. Some below market-rate loans may become unattractive with changes in the market or for owners unable to take on additional loans.

As a result, governments should periodically review existing incentives and options for new or revised incentives since conditions change with time and the economy as well as changes in local, state, and federal laws.

Appendix 8. Analysis of Residential Interest Rate Buy-down Programs (Energy)

Analysis of Residential Interest Rate Buy-down Programs

Provided by DOE Financial Mechanism Technical Assistance Team

This brief provides an overview of residential interest rate buy-down programs. There are several models that can be used for buying down interest rates, and in this analysis we focus on the following:

- Local government buying down interest rate from local bank or credit union (NYSERDA & Bellingham, WA)
- Local government buying down interest rate from large national bank or energy finance provider (Allentown, PA)
- Contractors buying down interest rate from banks (Green Horizon w/Wells Fargo)

	Overview	Size and Structure of Interest-Rate Buy-down	Mechanism for Paying Buy-down	Other Details	Useful Links
New York State Energy Research and Development Authority (NYSERDA) Residential Loan Fund Program	NYSERDA runs a statewide home energy program, which includes a residential loan fund. The program started in 2001, and 33,000 homes have been upgraded.	• NYSERDA offers 4% interest rate buy-downs for eligible borrowers, although interest rate will be not be bought down below 3% • Loan sizes can be up to $20,000 and a 10-year term	NYSERDA pays a lump sum interest rate reduction to the participating lender within 30 days of the loan being made. NYSERDA is not liable for any client non-repayment.	• Average direct upgrade costs are $7,700 per home • Participants can choose between rebates or subsidized financing	• Overview of Loan Program • NYSERDA Lender Participation Agreement

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	Overview	Size and Structure of Interest-Rate Buy-down	Mechanism for Paying Buy-down	Other Details	Useful Links
City of Allentown Buy-down of Pennsylvania Keystone HELP	Pennsylvania has a state-wide residential energy efficiency loan program, called Keystone HELP, which is administered by AFC First. The City of Allentown decided to buy-down the interest from this state-wide program, using $100K of EECBG funds. This program started in January 2010.	• Allentown buy-down is 3%, bringing the typical interest rate down from 6.99% to 3.99%	• City of Allentown receives a detailed spreadsheet each month detailing loans made under the program • The City pays a lump sum to AFC First each month after receiving the detailed spreadsheet/bill mentioned above	• Keystone HELP started in 2006, and state-wide the program has made 6,000+ loans, totaling almost $40 million in funding • Most of City leads have derived from Keystone HELP advertising • Allentown has done 5-10 interest rate buy-downs so far, with residential homeowner interest picking up past couple months	• Keystone HELP Program • Allentown Energy Conservation Program

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	Overview	Size and Structure of Interest-Rate Buy-down	Mechanism for Paying Buy-down	Other Details	Useful Links
Bellingham and Whatcom County	Bellingham and several other local governments within county are pooling their combined ARRA funds of $10 million. The loan program serves both residential and business, and is being run by Banner Bank, a Northwest bank with branches in Washington, Oregon and Idaho.	Size of interest rate buy-down depends on the following: • Size of monthly repayment depends on 1) interest rate and 2) loan term. • 3% rate buy-down on 60 month loans and 2% rate buy-down on 120 and 180 month loans.	N/A	• New program, first loan made August 4th, 2010 • Holistic program, which involves certification of contractors and small business loans	• Program Website • Local newspaper article
Green Horizon and Wells Fargo	Struggling to identify financing options for potential clients, Green Horizon began working with Wells Fargo, who offers a 26% interest rate for unsecured loans in North Carolina.	• Green Horizon pays the first two months of loan installments, and pays first six months of principal for its client • Client is responsible for paying interest and principal after the first six months	N/A	• Contractors, including Green Horizon, generally very interested in having good financing options available to clients	• Green Horizon Financing

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Appendix 9. City of Huntington Beach Rehabilitation

(From their website)

Need some work done around the house?

GIVE YOUR HOME OR RENTAL UNIT A NEW LOOK WITH A CITY OF HUNTINGTON BEACH HOME IMPROVEMENT LOAN

THE CITY OF HUNTINGTON BEACH OFFERS LOANS WITH LOW INTEREST RATES AND DEFERRED REPAYMENTS

Fix up your home or rental unit with a little help from the City of Huntington Beach.

Sometimes what would be a nice home or rental unit can fall into disrepair. This may be due to age, weather, or other causes. Now, thanks to the City of Huntington Beach, homeowners and landlords can get affordable home improvement financing.

Make needed repairs and spruce things up a bit around your home with a City of Huntington Beach low interest loan. Funds can be used to correct code problems and for general property improvements.

The City offers two loan programs:

- Single Family Home Improvement Loans
- Multi-family Rental Housing Rehab Loans (duplex, triplex and four-plex only)

Single Family Home Improvement Loans

If you own your home in the City of Huntington Beach, and you meet the City's designated income and rent limits for the Housing Rehabilitation Loan Program, you may be eligible for a low-interest home improvement loan.

The City will lend up to $75,000 to pay for rehabilitation costs for a single family home, townhouse, or condominium. Grants are also available to low income households whose estimated repair costs do not exceed $10,000. Grants and loans cannot be combined.

All loans are deferred payment loans with no monthly payments; all loan principal and interest will be due when the title to your home is sold, assigned or transferred. The annual interest rate for all loans is 3%. All borrowers have to pay a $500 processing fee for title search, recording, and other costs; this fee may be included in your loan.

Multi-family Rental Housing Rehab Loans

If you own rental units, you may qualify for a Multi-family Rental Housing Rehab Loan. The City provides up to $75,000 for repairs to duplex, triplex or four-plex units. The loan provided will be a deferred payment loan with an annual interest rate of 3%.

To qualify, you must, after combining all existing mortgages and the City's loan, have a minimum of 20% equity investment in the property. After repairs are completed, the City will require the following during the term of the loan:

- No more than one household may occupy a single apartment.
- The amount charged for rent must fall within certain affordability guidelines.
- The property must be well maintained.
- A portion of residents must be low income.

Before your application will be considered, you will have to pay a $500 processing fee. Please click on the following link to review other important requirements pertaining to Multi-family Rental Housing Rehabilitation Loans:

Appendix A: Additional Loan Requirements for Duplexes, Triplexes and Four-plexes

Application Process

1. Contact the City of Huntington Beach for an application.
2. If you are determined to be eligible, an inspector will schedule a visit to your home or rental unit to check for code problems and other home improvement needs.
3. Contractors will be invited to bid on the work for your home — the lowest priced, qualified contractor(s) will be selected.
4. Loan documents will be prepared for an amount to cover the approved work.
5. Contractors will be given approval to begin construction after loan documents are signed. Invoices will be sent to the City for payment.

Homeowner and Tenant Income Limits (2012)

Household Size	Low Income	Moderate Income
1	$33,750	$53,950
2	$38,550	$61,650
3	$43,350	$69,350
4	$48,150	$77,050
5	$52,050	$83,250

Income levels are based on the median household income for Orange County and are subject to change.

Eligibility Factors

- Your income must meet the above eligibility guidelines.
- You must own your home, and it must be in Huntington Beach.
- Your property must be in need of repair to meet City Codes.
- You must have acceptable credit worthiness.

Maximum Loan Amounts

- Single Family Home /Condominium / Duplex / Triplex / Four-plex $75,000
- Mobile Home $15,000

For more information, contact our rehabilitation loan consultants:

GRC Associates, Inc.
858 S. Oak Park Rd.
Covina, CA
714/536-5585 or 626/331-6373

2000 Main Street, Huntington Beach, California 92648

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Other Resources:
Jobs, Wages and Housing: Affordable Housing Benefit Fee Study
Underwritten by the City of Los Angeles
By: Daniel Flaming, Patrick Burns, Michael Matsunaga, Yasmin Tong, and Ken Baar
November 2012, 186 pages available in PDF
Economic Roundtable