

SUBJECT: UPDATE ON EXPLORATION OF PILOT PROGRAMS FOR INCREASING AFFORDABILITY IN THE WEST HOLLYWOOD HOUSING MARKET

INITIATED BY: COMMUNITY SERVICES
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STATEMENT ON THE SUBJECT:

The Homelessness Subcommittee will receive an update on the housing pilot programs that were studied to potentially increase affordability in the West Hollywood housing market, provide feedback, and confirm which pilots will proceed forward and be launched as a local pilot.

RECOMMENDATIONS:

- 1) Receive the pilot programs update presentation and provide feedback on programs proposed.

BACKGROUND / ANALYSIS:

This report is an update on the development of potential pilot programs for increasing affordability in the local housing market. Following City Council direction on March 5, 2018, several options were explored to further expand West Hollywood's affordable housing programs. A Request for Proposals was released May 18, 2018, Urban Math (U/M) was the winning respondent and retained by the City to conduct the research for the pilots. City Council requested a study of potential pilot projects, for which Phase I was completed in Spring 2019. That phase analyzed a list of eight possible programs including models implemented elsewhere, and the potential cost and unit yields if West Hollywood were to invest in a similar set of programs. The approaches studied included the following:

- Community Land Trust (CLT)
- Modular Construction
- Micro-units

- Limited Equity Cooperative
- Energy Savers
- Senior Housing (Scattered Site and Services)
- Co-Housing (Intergenerational)
- Affordable Artist Housing
- Acquisition Fund for At-Risk Buildings
- First Opportunity to Purchase Requirement for Rental Buildings
- Affordable Accessory Dwelling Units (added after the 2018 report)

City Council narrowed the list of potential programs to four that were most applicable and feasible for the City, including (see Attachment B for more details on the programs):

1. An Affordable Backyard Cottage (ADU) program providing financial and/or design/permitting support to the homeowner in exchange for an agreement to rent to a very low income household for a certain number of years
2. A Small Building Acquisition/Rehab program to support non-profit purchase of existing multifamily rental buildings
3. A first-time buyer assistance program for moderate income households (along with a possible smaller assistance program for inclusionary unit buyers)
4. A micro-unit incentive program to encourage development of small market-rate units

In 2020, the City commissioned a Phase 2 report on these four options. The draft report was prepared, but before bringing the report to Council for consideration, a Councilmember requested supplemental research be conducted to gauge implementation interest in Options 1 and 2. Options 3 and 4 have been dropped from consideration; Option 3 was folded into another initiative to increase affordable homeownership options in West Hollywood by securing funding through the State's CalHome grant. The City applied for grant funding in November 2020 and is still awaiting award notification. Finally, Option 4 was transferred to the Planning and Development Services Department for further consideration as part of the "Various Housing Directive" report that was presented to Council on August 17, 2020 and will be coming back to Council this summer as part of the Housing Element update.

This report and the attached memo (Attachment A) present the supplemental research conducted for the Affordable ADU pilot program and the Small Buildings Acquisition/Rehab pilot program. A summary description of each pilot program is provided below. Each potential program discussion concludes with a set of recommendations for City Council consideration.

Affordable Backyard Cottages (ADU) Program

This program would target new affordable units in backyards or as an in-law configuration within existing homes in West Hollywood. The program would be

structured in exchange for financial and/or other City support to the homeowner, the homeowner would be required to rent the unit for the first five to ten years to a qualified low-income tenant. To make the program work more seamlessly, this tenant would also be provided with a Section 8 voucher, resulting in a rental income stream to the owner that would approximate near-market rate rents (A more detailed description including example economic analysis is included in Attachment A).

It should be noted that this kind of program would augment ongoing City efforts to promote new ADU development in West Hollywood. Market-generated ADUs generally serve market-rate tenants, and therefore do not directly help to create more affordable units for low-income households. This more targeted program, in contrast, would seek to create new units set aside for very low-income households, increasing the supply of affordable housing in the West Hollywood at a relatively low subsidy cost to the City.

To incentivize homeowners to join the Affordable ADU program, the City could provide two types of assistance: design/permitting “concierge” services with a dedicated person helping the homeowner through the development and construction/lease-up process, and/or financial incentives such as a low-cost mortgage loan or small pre-development grants. To test homeowner interest in this pilot program, the consultant conducted two types of research: a homeowner survey and a subsequent homeowner focus group.

Supplemental Research: Survey

An online survey was conducted with West Hollywood homeowners to gauge their interest in an Affordable ADU program. The survey’s aim was to understand the types of ADUs homeowners were interested in building, and the types of incentives they might be willing to consider in exchange for agreeing to lease the unit to a low-income household for a set number of years. This two-part approach was taken because it was necessary to first understand all ADU-interested homeowners, and then approach them about the specific affordability component. A copy of the survey instrument is included in Attachment A.

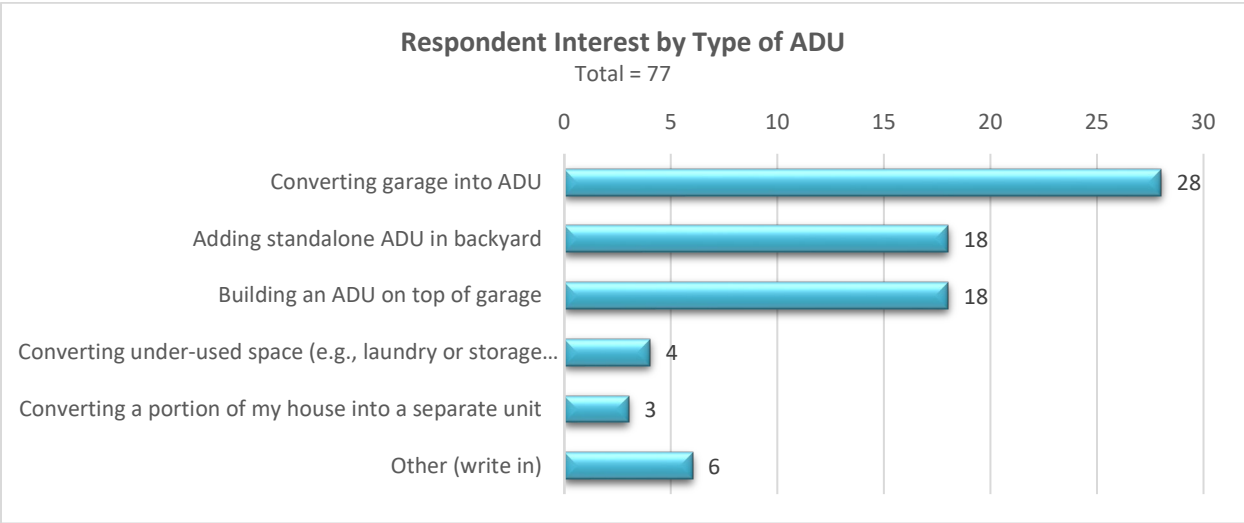
Methodology

Postcards were mailed to 2,114 homeowners and multifamily building owners in three districts of West Hollywood that have a concentration of single-family residences: Norma Triangle, West Hollywood West, and Tri-West. The postcard included a link to an online survey that was available for three weeks between January 2 and January 23, 2021. In total, 92 participants completed the survey, which is equivalent to a 4% response rate. While this may seem low, it should be noted that the postcard eliciting responses was designed to specifically seek out homeowners interested in ADUs, which is likely a small subset of all recipients.

Survey Findings

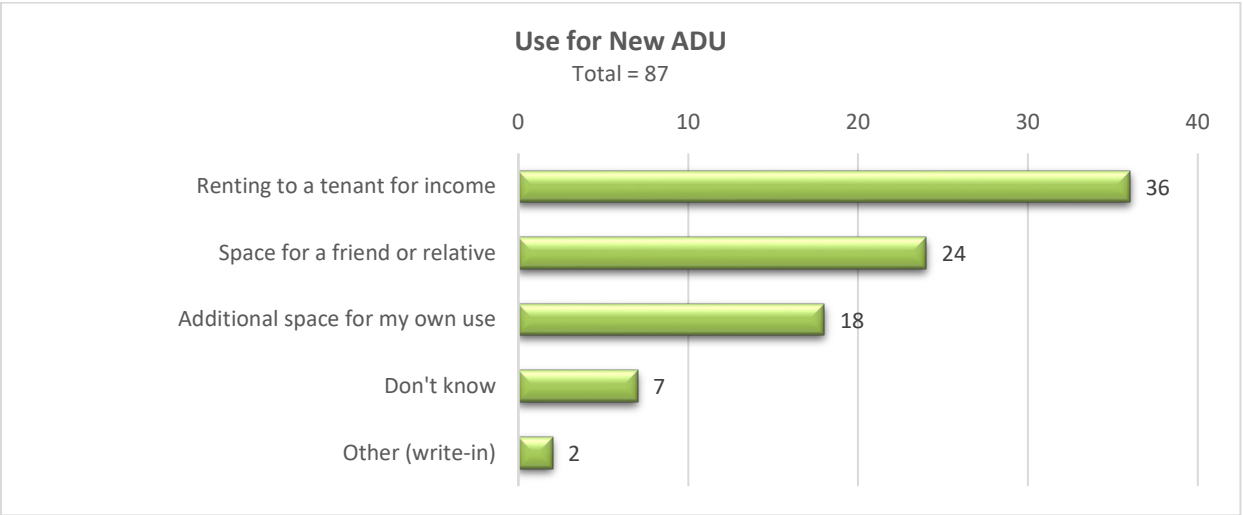
Type of ADU Under Consideration

The type of ADU which respondents have considered constructing varies widely, with the most popular type being garage conversion. Another popular type is building an ADU on top of the respondent’s garage (an option not currently available in all zoning districts in West Hollywood).



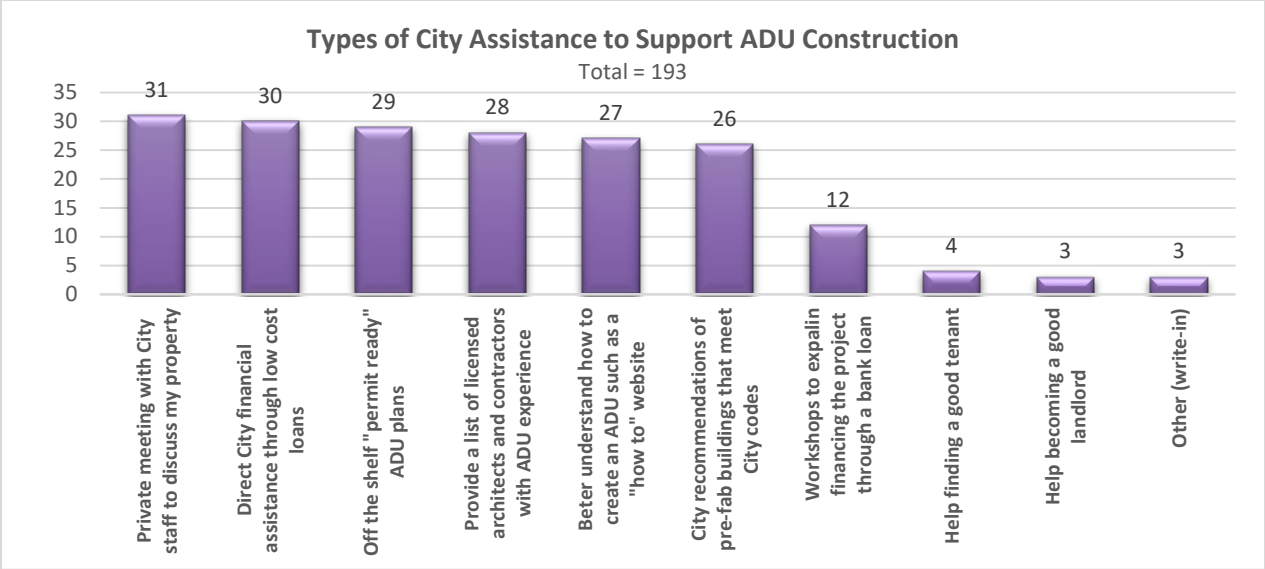
Use for New ADU

The most frequent use for the respondent’s new ADU is to rent to a tenant for income. However, as the city plans to promote ADU promotion, it should be aware that not all ADUs add to the rentable housing stock; some respondents plan to use new ADUs for friends or relatives or for their own use.



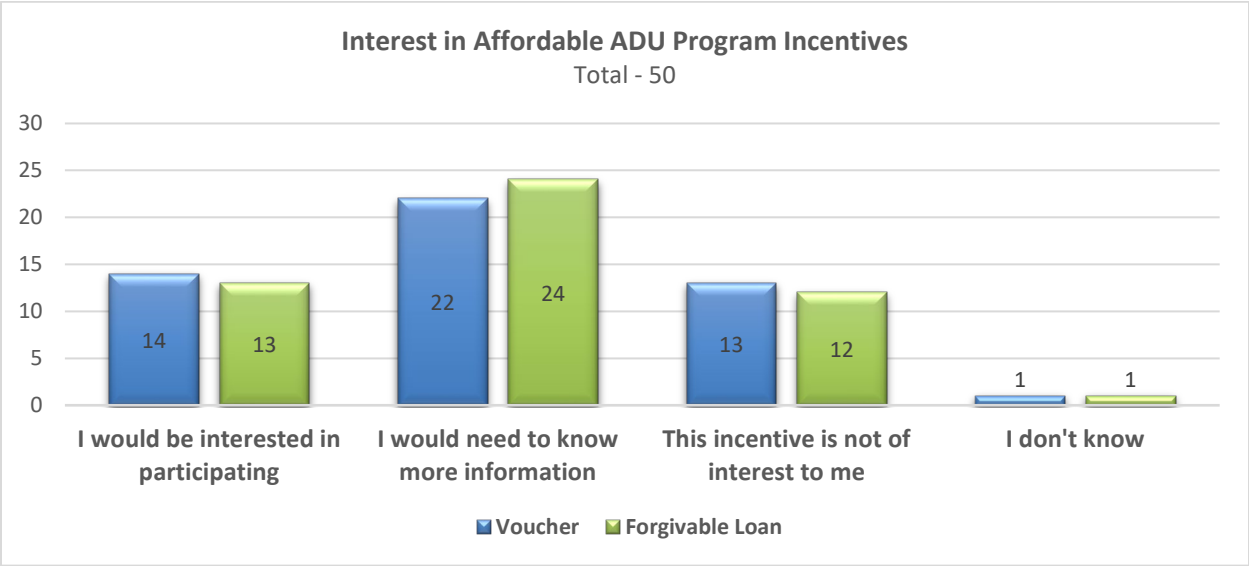
Types of City Assistance to Support ADU Construction

A wide range of types of City assistance to support ADUs was tested in the survey, and respondents could select multiple answers. As shown below, private meetings with City staff to discuss a project was the most frequently-selected type of assistance, followed by low cost loans, pre-approved plans, and lists of architects/contractors with ADU experience. Least popular types of assistance included workshops, help becoming a landlord, and help finding a tenant.



Interest in Affordable ADU Pilot Program

As shown in the chart below, interest among the 50 respondents who answered these questions was relatively strong. For both the incentive of a Section 8 voucher, framed as providing near-market rate rent revenues to low income tenants, 14 respondents were interested, and another 22 were interested enough to say they would need to know more information. Just 13 of the 50 respondents rejected the affordable ADU with a voucher incentive. Similar patterns were shown when asked about the forgivable loan incentive (framed as half of the cost to build a unit, forgivable after 10 years). A follow up question asked if interest would change if the required period of leasing to a low income tenant to achieve loan forgiveness was shortened to 5 years; results indicated no change from the counts shown below.



Supplemental Research: Focus Group

A follow-up online (Zoom) focus group was convened with eight survey respondents

who volunteered in the survey to attend a follow-up meeting. A copy of the Power Point slides used to orient attendees is included as Attachment A. All attendees had considered building an ADU, including several who would be interested in building stand-alone cottages, and several who had considered converting a garage or creating an in-law unit within their primary residence (a detailed summary of the discussion is outlined in Attachment A)

ADU Conclusions/Recommendations

Based on the findings from both the survey and the focus group, the following conclusions and recommendations are made:

- For general (e.g., market-rate) ADU production, the City may want to consider enhancing its ADU services, including assistance such as a specialized brochure and a detailed web page or guide to homeowners seeking permit approval for general (e.g., market-rate) ADU production.
- Other zoning constraints, the City may want to consider eliminating or modifying height, setback, and floor area restrictions to facilitate ADU production.
- A pilot program to encourage affordable ADU production appears to be worthwhile. The program should be incentivized by a \$150,000 forgivable loan structured to be forgiven in stages corresponding to successful program completion. The following is recommended:
 - Assume staff or consultant time equivalent to ¼ time FTE for a 2-year period to organize the program, identify up to 3 participants, help homeowners to obtain permitting, guide through design/build process, obtain vouchers, and oversee tenant screening process.
 - This program will also require legal review to ensure that tenants and owners have fair and balanced eviction rules.
 - For financial support, provide homeowner with a \$150,000 10-year forgivable loan, structured so that a portion is forgiven for every 24 months of successful tenancy of an eligible tenant earning no more than 50% AMI. This could be structured so that the first few years are a lower forgivable amount, with latter years increasing in annual forgivable amount, to incentivize long-term homeowner commitment.

Small Buildings Acquisition/Rehab Program

West Hollywood has a high concentration of rent-stabilized rental housing. Approximately 80% of the City's housing units are renter-occupied, and almost 90% of those units are subject to the City's Rent Stabilization Ordinance (RSO). Many of the City's multifamily housing units are in small buildings of less than 20 units. Much of West Hollywood's multifamily housing stock subject to rent-stabilization is also aging (91 percent is at least 30 years old) and experiencing deferred maintenance and/or needs seismic retrofitting, leading to a general need to rehab a building after acquisition.

Because Costa Hawkins allows landlords to charge market-rate rents when units turnover, many residents face severe challenges being able to afford housing. At the same time, the desirability and high-quality of life in West Hollywood means that

multifamily buildings trade frequently on the open market, attracting investors. These conditions combine to create situations where smaller rental buildings, even if subject to the RSO, have high rents and/or sell to new investors without providing long-term protection for low-income tenants.

Given these circumstances, some cities have begun to develop programs where small rental buildings are purchased and converted into income-restricted affordable housing with rents set at levels below market to enable long-term affordability for tenants. Sometimes, these buildings may even offer opportunities for existing tenants to come together and purchase their housing directly, stabilizing them through an ownership vehicle.

Conversion of rent-stabilized buildings to permanent, income-restricted affordable housing can also meet other City housing goals including mitigating displacement and providing a form of land-banking because these small building sites can be redeveloped into more dense affordable housing.

The initial Pilot Program considered by the City in 2019 involved the concept of a City-funded tenant-purchase program, coupled with a right of first refusal ordinance (giving tenants time to organize, obtain funding, and purchase smaller buildings containing their dwelling units when about to be offered for-sale). Several model programs throughout the US were researched, indicating limited success. Tenants organizing themselves to become a collective owner of their multifamily building faced many obstacles, leading to few success stories.

Another form of small building acquisition and rehab, targeting tenants needing permanent affordable housing, relies on utilizing existing non-profit housing organizations to purchase, rehab, and manage the rental property through and after conversion to permanent income-restricted affordable housing. This approach is already funded periodically by the City of West Hollywood's Housing Trust Fund, in partnership with local non-profit housing organizations. Thus, an expansion and formalization of this type of program became the focus of the Pilot Program research.

The best model of a small building acquisition/rehab program, called Small Sites, has been implemented by the City of San Francisco. This program has been working successfully for many years without a legal requirement for right of first purchase/right of first refusal, but in 2018, these legal requirements were added to the approach. In addition, a private, philanthropy-based financing mechanisms, the San Francisco Housing Accelerator Fund, was initiated to provide rapid up-front acquisition and rehab funding, in tandem with eventual permanent financing from the City. More detailed information on the San Francisco Small Sites program is provided in Attachment A (the Power Point presentation given to a focus group of non-profit housing organizations for this research).

There are several challenges faced by programs of this type:

- Many of the more experienced affordable housing developers seek to develop new construction affordable housing because it achieves more unit production and provides a substantial development fee compensating the non-profit for its time spent, without an expensive unknown rehab cost risk.

- For the San Francisco Small Sites program, most tenants must rent-certify prior to building acquisition (the program seeks a mix averaging 80% AMI), and most tenants must agree to participate in the program. To complicate matters, in some cases, higher income tenants with low existing rent levels may be asked to bear rent increases as well. These transitional elements, from a rent-increase controlled environment to an income and rent-restricted, targeted AMI environment, can lead to complicated outcomes for individual tenants.
- Finally, competing with a robust private sector investor market for small buildings offered for-sale can be very challenging for non-profit organizations without rapid, easy access to capital.

Supplemental Research: Focus Group

Despite these potential program complexities, City staff and U/M designed parameters for an initial pilot Small Buildings program for West Hollywood in Fall 2020. These parameters and other issues were then tested through a Zoom focus group with six non-profit housing organizations and experts. The research and outcomes are detailed below.

The Zoom focus group was held on December 17, 2020 and was attended by six organizations representing major non-profit affordable housing developers in the Los Angeles region, including West Hollywood Community Housing Corp, EAH Housing, Abode Communities, Menorah Housing Foundation, and Innovative Housing Opportunities. A consultant advising Los Angeles community land trusts was also in attendance. Please refer to Attachment A for a full list of participants.

The meeting was conducted to ask the following (see Attachment A for more information):

- Would a pilot program that could finance 2 to 3 small buildings in next year fit with your organization's needs? What are the opportunities and challenges?
- How can we best configure this program to achieve the goal of affordable unit preservation?
- Do you need a ready source of first mortgage financing to compete on the open market?
- Is a San Francisco small sites-like legal mandate to notice and offer buildings first to non-profits needed to achieve our goal?

The meeting discussed and concluded the following items presented challenges and risks to implement a successful Small Building Acquisitions/Rehab Program (more detailed information can be reviewed in Attachment A):

- Unexpected Rehab Costs
- Challenge of Small Scale
- Financing
- Other Substantial Risks
- No Need for Right of Refusal/Right of First Purchase Ordinance

- Formation of a Local Community Land Trust
- City Acquisition of Several Small Buildings/Bundling

Small Buildings Rehab Program Conclusions/Recommendations

Based on the research including the focus group issues summarized above, Urban Math has concluded and recommends the City consider the following two programs:

- Creating a Small Buildings Acquisition / Rehab Pilot Program similar to San Francisco, which provides funding and legal mechanisms to assist small non-profits acquire buildings, may not have enough interested participation from existing non-profit housing organizations to make the program feasible.
- The City should explore creating a local Community Land Trust, which could both acquire and rehab existing buildings on behalf of existing low income tenants (converting RSO buildings to permanent rental housing), convert other buildings to ownership through limited equity co-operatives and other similar mechanisms, and also benefit from the land banking opportunities. The same local community land trust could develop vacant land for new housing production. Many community land trusts specialize in affordable ownership housing at a small project scale, which fits well into the landscape of West Hollywood housing needs and community interest. The City should consider this, and the funding needed for formation and staffing costs, as its contribution to a new pilot program aimed at preserving the existing housing stock for long-term affordability.
- According to the consultant participating in the focus group, who is working with a consortium of community land trusts in Los Angeles, West Hollywood is not the focus of active trusts at this time. Because the concept of a community land trust is linked to a local community, in West Hollywood, the City could jump-start capacity building by creating a competitive grant for start-up, organization, and business planning of a CLT, along with funding for due diligence related to small building acquisition. The start-up grant would likely require City investment of approximately \$250,000 - \$350,000 (including legal and the cost of hiring and funding staff for one year). Most CLT's with strong business plans have the ability to fund-raise from non-city sources after initial start-up.

ATTACHMENT:

Attachment A – Supplemental Memo on Affordable Housing Pilot Programs

Attachment B—Final Report on Affordable Housing Pilot Programs



MEMORANDUM

To: Alicen Bartle, City of West Hollywood
From: Jessica Hitchcock, Principal, Urban Math & Janet Smith-Heimer, Principal, The Housing Workshop
Re: Supplemental Research for West Hollywood Pilot Affordable Housing Programs
Date: April 16, 2021

Introduction

The City of West Hollywood Rent Stabilization and Housing Division has been exploring potential pilot programs to expand the City's affordable housing initiatives.

The City currently operates the following programs:

- An inclusionary ordinance/in-lieu fee program, which creates new affordable rental and ownership units as part of new market-rate housing projects
- A comprehensive Rent Stabilization program which stabilizes rent increases for tenants occupying units built prior to July 1, 1979
- An Affordable Housing Trust Fund, which invests in 100% affordable housing rehabilitation and/or new construction projects throughout the city

Although West Hollywood's existing affordable housing programs make it a leader among California cities, the City continues to experience unmet housing need, both in terms of inventory and price, impacting its residents. Many residents are cost-burdened (e.g., paying more than 30% of their income to rent), and many others cannot afford to achieve homeownership.

To further expand West Hollywood's programs, City Council requested a study of potential pilot projects, for which Phase I was completed in Spring 2019. That phase analyzed a list of eight possible programs including models implemented elsewhere, and the potential cost and unit yields if West Hollywood were to invest in a similar set of programs. City Council narrowed the list of potential programs to four that were most applicable and feasible for the City, including:

1. An Affordable Backyard Cottage (ADU) program providing financial and/or design/permitting support to the homeowner in exchange for an agreement to rent to a very low income household for a certain number of years
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In 2019, the City commissioned a Phase 2 report on these four options. The draft report was prepared, but before bringing the report to Council for consideration, a Councilmember requested supplemental research be conducted to gauge implementation interest in Options 1 and 2. Options 3 and 4 have been dropped from consideration; Option 3 was folded into another initiative to improve affordable homeownership options in West Hollywood, and Option 4 was transferred to the Planning department for further regulatory consideration.

This memo presents the supplemental research conducted for the Affordable ADU pilot program and the Small Sites Acquisition/Rehab pilot program. A summary description of each pilot program is provided below, with a more detailed background discussion in Appendix A and Appendix B. Next, the supplemental research methodology is outlined, and the results of the research are provided. Each potential program discussion concludes with a set of recommendations for City Council consideration.

Affordable Backyard Cottages (ADU) Program

Summary of Program

This program would target new affordable units in backyards or as an in-law configuration within existing homes in West Hollywood. The program would be structured so that in exchange for financial and/or other City support to the homeowner, the homeowner would be required to rent the unit for the first five to ten years to a low-income tenant. To make the program work more seamlessly, this tenant would also be provided with a Section 8 voucher, resulting in a rental income stream to the owner that would approximate near-market rate rents. A more detailed description including example economic analysis is included in Appendix A to this memorandum.

It should be noted that this kind of program would augment ongoing City efforts to promote new ADU development in West Hollywood. Market-generated ADUs generally serve market-rate tenants, and therefore do not directly help to create more affordable units for low-income households. This more targeted program, in contrast, would seek to create new units set aside for very low-income households, increasing the supply of affordable housing in the West Hollywood at relatively low subsidy cost to the City.

In order to incentivize homeowners to join the Affordable ADU program, the City could provide two types of assistance: design/permitting “concierge” services with a dedicated person helping the homeowner through the development and construction/lease-up process, and/or financial incentives such as a low-cost mortgage loan or small pre-development grants. To test homeowner interest in this pilot program, Urban Math (U/M) conducted two types of research: a homeowner survey and a subsequent homeowner focus group.



Supplemental Research: Survey

An online survey was conducted with West Hollywood homeowners to gauge their interest in an Affordable ADU program. The survey’s aim was to understand the types of ADUs homeowners were interested in building, and the types of incentives they might be willing to consider in exchange for agreeing to lease the unit to a low-income household for a set number of years. This two-part approach was taken because it was necessary to first understand all ADU-interested homeowners, and then approach them about the specific affordability component. A copy of the survey instrument is included as Appendix C to this memorandum.

Methodology

Postcards were mailed to 2,114 homeowners and multifamily building owners in three districts of West Hollywood that have a concentration of single-family residences: Norma Triangle, West Hollywood West, and Tri-West. The postcard included a link to an online survey that was available for three weeks between January 2 and January 23, 2021. In total, 92 participants completed the survey, which is equivalent to a 4% response rate. While this may seem low, it should be noted that the postcard eliciting responses was designed to specifically seek out homeowners interested in ADUs, which is likely a small subset of all recipients.

Survey Findings

Survey Respondents and Consideration of Building an ADU

The table below shows the number of respondents by single family owners and multifamily owners/managers and their interest in ADUs. Most (41 of 69 answers) were single family owners who had either considered or heard about ADUs and wanted more information. This relatively strong interest by single family owners is encouraging both for future overall ADU production, and for participation in a well-structured affordable ADU program. Similarly, ten multifamily owners/managers had considered or wanted to know more, suggesting another strong pool of potential participants.

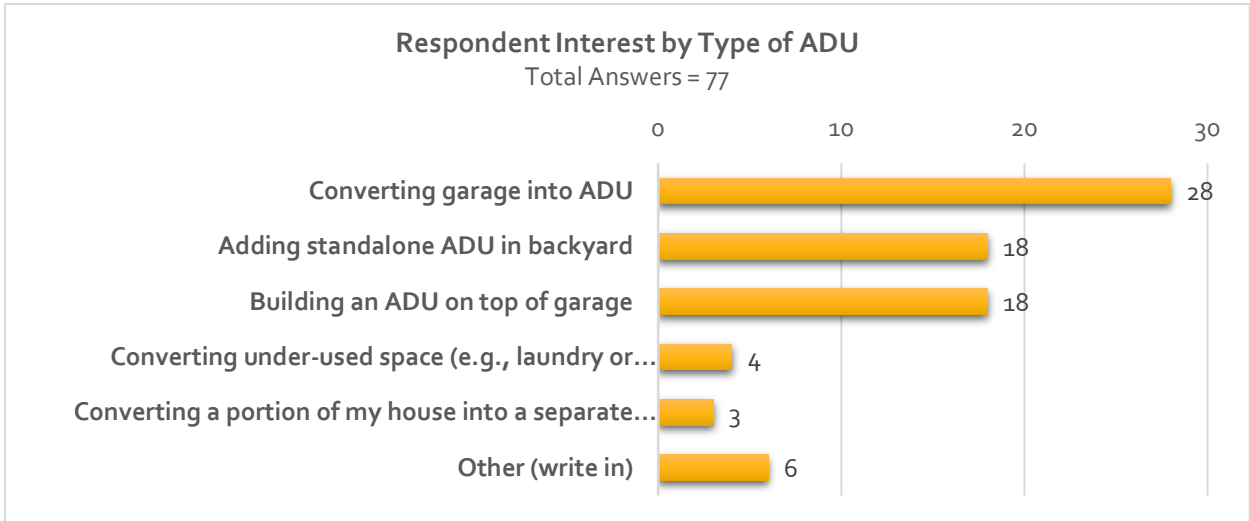
Table 1: Profile of ADU Survey Respondents

	Single Family Homeowners		Multifamily Owners/Managers		Total Respondents	
	Number	Percent	Number	Percent	Number	Percent
I have created an ADU on my property	5	7%	1	6%	6	7%
I am in the midst of creating an ADU on my property	3	4%	0	0%	3	3%
I have considered it but have not yet added an ADU to my home	27	39%	6	35%	33	38%
I have heard about ADUs but need to know more	11	16%	4	24%	15	17%
No, I have never considered creating an ADU on my property	23	33%	6	35%	29	34%
	69	100%	17	100%	86	100%



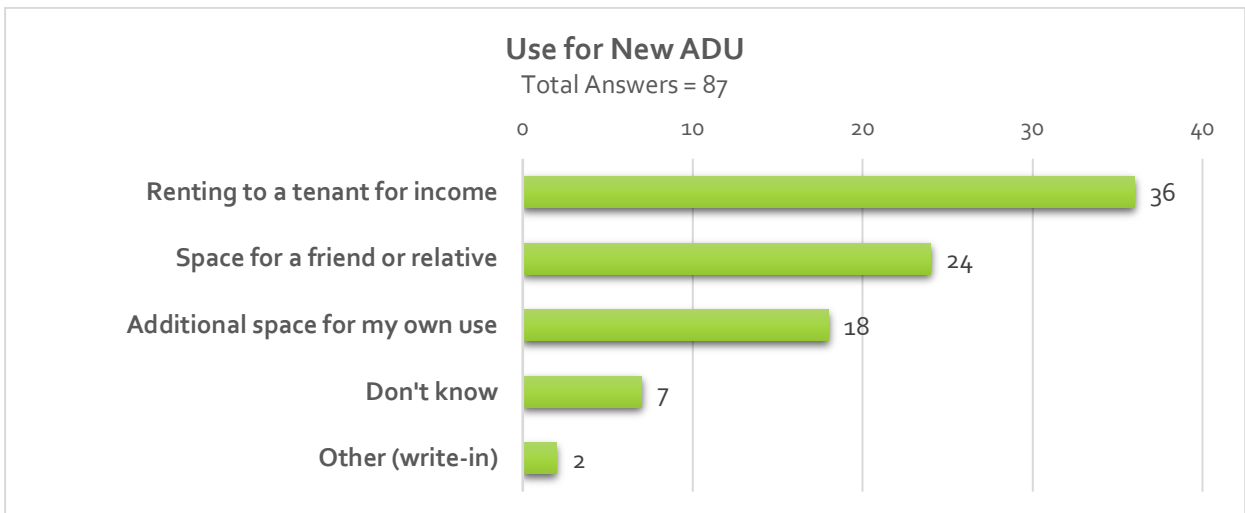
Type of ADU Under Consideration

The type of ADU which respondents have considered constructing varies widely, with the most popular type being garage conversion. Another popular type is building an ADU on top of the respondent's garage (an option not currently available in all zoning districts in West Hollywood).¹



Use for New ADU

The most frequent use for the respondent's new ADU is to rent to a tenant for income. However, as the city plans to promote ADU promotion, it should be aware that not all ADUs add to the rentable housing stock; some respondents plan to use new ADUs for friends or relatives or for their own use.

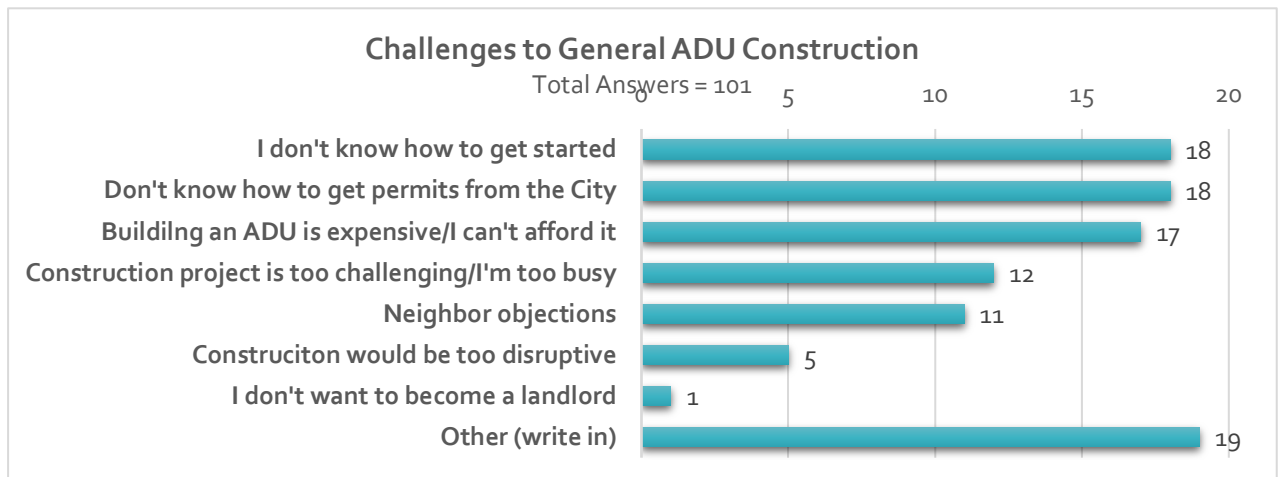


¹ West Hollywood's zoning code currently prohibits ADU construction over garages in R1 through R4 zones due to a 15' height limit on accessory structures.



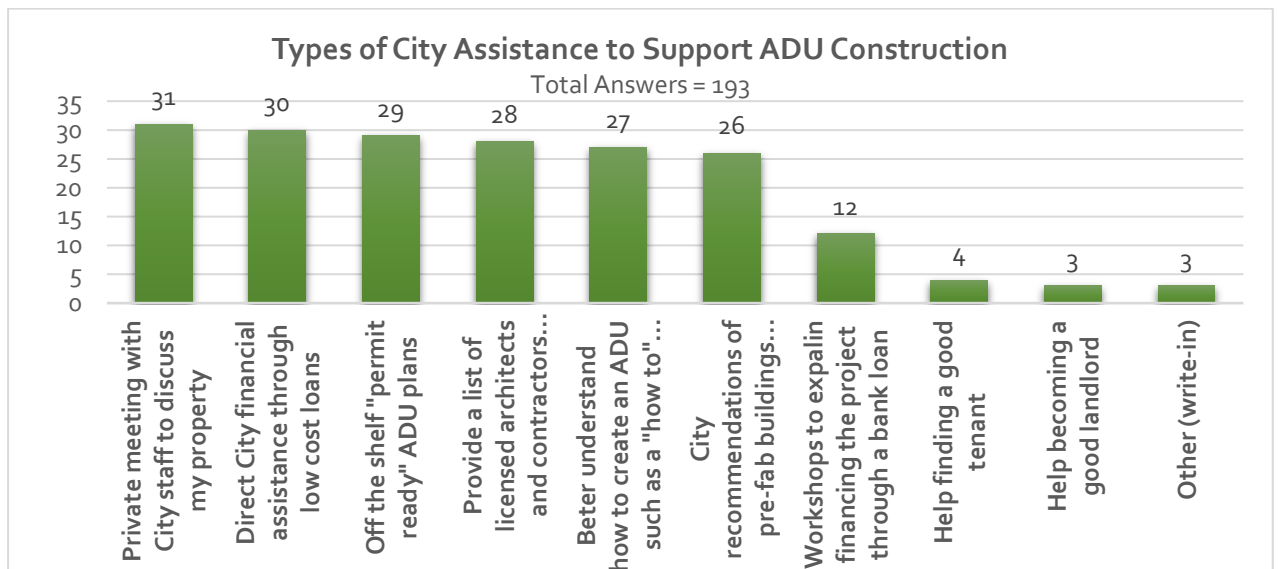
Challenges to General ADU Construction

Respondents were able to select multiple answers to this question. The most frequent answers were “I don’t know how to get started” or “I don’t know how to get permits,”, which are related thoughts. Most of the write-in answers also related to concerns over obtaining permits and/or facing challenging regulations. Financing the construction of ADU was another frequently cited obstacle. Interestingly, concern over neighbor objections was also frequently mentioned. In contrast, “not wanting to be a landlord” appears to not be a challenge.



Types of City Assistance to Support ADU Construction

A wide range of types of City assistance to support ADUs was tested in the survey, and respondents could select multiple answers. As shown below, private meetings with City staff to discuss a project was the most frequently-selected type of assistance, followed by low cost loans, pre-approved plans, and lists of architects/contractors with ADU experience. Least popular types of assistance included workshops, help becoming a landlord, and help finding a tenant.

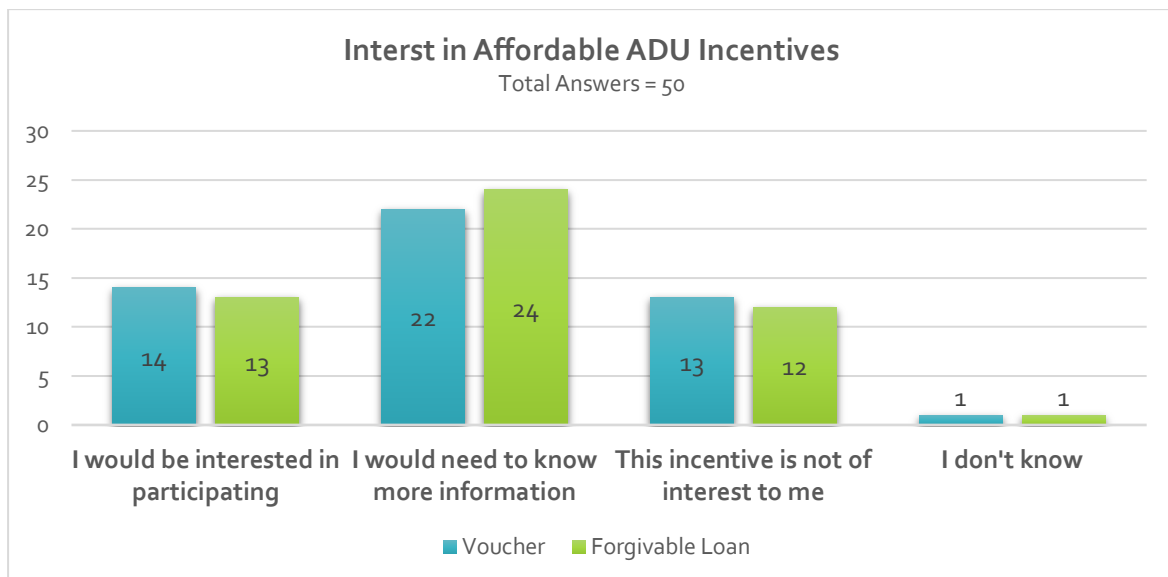




Interest in Affordable ADU Pilot Program

Interest in the Affordable ADU Pilot Program was tested in the survey by describing two different incentives, and independently testing interest in each one. This approach was taken to assess overall interest in affordable ADUs, as well as to test each incentive on an independent basis.

As shown below, interest among the 50 respondents who answered these questions was relatively strong. For both the incentive of a Section 8 voucher, framed as providing near-market rate rent revenues to low income tenants, 14 respondents were interested, and another 22 were interested enough to say they would need to know more information. Just 13 of the 50 respondents rejected the affordable ADU with a voucher incentive. Similar patterns were shown when asked about the forgivable loan incentive (framed as half of the cost to build a unit, forgivable after 10 years). A follow up question asked if interest would change if the required period of leasing to a low income tenant to achieve loan forgiveness was shortened to 5 years; results indicated no change from the counts shown below.



Supplemental Research: Focus Group

A follow-up online (Zoom) focus group was convened with eight survey respondents who volunteered in the survey to attend a follow-up meeting. A copy of the Power Point slides used to orient attendees is included as Appendix A. All attendees had considered building an ADU, including several who would were interested in building stand-alone cottages, and several who had considered converting a garage or creating an in-law unit within their primary residence.

The meeting was a lively discussion of several topics, including concerns regarding obtaining permits to build, experiences with City staff that were considered not helpful, a short discussion about finding contractors, discussion about the importance of gaining neighbors' input, and finally a discussion about the incentives to attract interest in the pilot Affordable ADU program.



The following summarizes focus group comments.

General ADU Issues

- Focus group participants pointed to the need for the City to clarify, streamline, and promote information regarding market rate ADU production. Preparation of a brochure, designation of a single point person for permitting (emphasized in focus group), and a list of contractors/architects etc. would all be strong initiatives to increase ADU production.
- Participants were aware of (or made aware of through the presentation) that state law has been requiring cities to streamline ADU regulations. However, participants felt that so far, West Hollywood has not approached these projects openly enough, and several participants questioned the City's commitment to permitting ADUs. A focus group participant asked, "What is the City Council's philosophy about ADUs?" They wanted to know if Council wants to strongly encourage these, or just comply on a minimal level with state provisions.

Summary of Pilot Affordable ADU Program Discussion

- Two incentive packages for affordable ADU program were tested: (1) a design/permitting "concierge" service with a dedicated person helping the homeowner through development and construction and (2) a forgivable silent 2nd loan for \$150,000 that could be forgiven if the unit remained affordable for between five to ten years. Both options would come with Section 8 vouchers, so landlords would be guaranteed a steady income stream. This is a shift in incentive structure from the items tested in the survey, which occurred because additional analysis indicated that both a voucher and additional incentives would be needed to maximize participation.
- The focus group indicated that the forgivable loan and voucher was the more powerful incentive. Generally, a "concierge" feature was not attractive to focus group participants, who said that a brochure or simple clear guidance from City staff on permitting was sufficient, and the design and selection of a contractor was not daunting enough to incentivize them to engage with an affordable (restricted) unit requirement.
- The forgivable loan incentive was strongly desired by almost all focus group participants. Suggestions/considerations for the preferred incentive package (forgivable loan and voucher) included:
 - Some said there is a need to allow for changing life circumstances, so several people asked if there could be a phasing of loan forgiveness in shorter increments than five years (suggested in one or two-year increments, with a six-month notice of opting out by owner to tenant and city, so tenant has sufficient time to secure other housing).
 - Participants asked how the sale of the primary house with this agreement in place would work.



- Several participants, upon learning that some ADU units may be subject to the RSO, encouraged the City to exempt these types of restricted income units if possible. There was also concern expressed regarding RSO eviction regulations potentially not aligning with the program.
- Some indicated that a senior affordable program may be the best target for placing low-income households in backyards.
- Several participants were discouraged by the low rental amounts that vouchers would pay (e.g., called Fair Market Rents, which would be approximately \$1,369 a month for a studio, and \$1,605 for a 1-bedroom unit in 2021). Participants felt these rents may be too far below market-rate rents for new units in West Hollywood to accept, even with the forgivable financial support.

Conclusions/Recommendations

Based on the findings from both the survey and the focus group, the following conclusions and recommendations are made:

- For general (e.g., market-rate) ADU production, the City may want to consider enhancing its services, including assistance such as a specialized brochure, a detailed web page, and potentially a “help desk” or other one-on-one support to homeowners seeking permit approval. To further promote market-rate ADU production, the City may also wish to explore a series of pre-approved plans or designs that fit West Hollywood regulations (similar to recent City of Los Angeles announcements).
- Participants noted, and staff acknowledged that West Hollywood has not yet maximized its regulations to permit ADUs in all residentially-zoned districts. For example, some residential zoning districts constrain ADU construction on top of an existing garage (due to height limits). A thorough planning / zoning review of current regulations to maximize ADU opportunities throughout West Hollywood’s residential areas is recommended.
- A pilot program to encourage affordable ADU production appears to be worthwhile. The program should be incentivized by a \$150,000 forgivable loan structured to be forgiven in stages corresponding to successful program completion. The following is recommended:
 - Assume staff or consultant time equivalent to ¼ time FTE for a 2-year period to organize the program, identify up to 3 participants, help homeowners to obtain permitting, guide through design/build process, obtain vouchers, and oversee tenant screening process.
 - This program will also require legal review to ensure that tenants and owners have fair and balanced eviction rules.
 - For financial support, provide homeowner with a \$150,000 10-year forgivable loan, structured so that a portion is forgiven for every 24 months of successful tenancy of an eligible tenant earning no more than 50% AMI. This could be



structured so that the first few years are a lower forgivable amount, with latter years increasing in annual forgivable amount, to incentivize long-term homeowner commitment.

- Develop a strategy to deal with house sale situation aligned with other West Hollywood regulations regarding tenants in in-law units.

Small Buildings Acquisition/Rehab Program

Summary of Program

West Hollywood has a high concentration of rent-stabilized rental housing. Approximately 80% of the City's housing units are renter-occupied, and almost 90% of those units are subject to the City's Rent Stabilization Ordinance (RSO). Many of the city's multifamily housing units are in small buildings of less than 20 units. Much of West Hollywood's multifamily housing stock subject to rent-stabilization is also aging (91 percent is at least 30 years old) and experiencing deferred maintenance and/or needs seismic retrofitting, leading to a general need to rehab a building after acquisition.

Because Costa Hawkins allows landlords to charge market-rate rents when units turnover, many residents face severe challenges being able to afford housing. At the same time, the desirability and high-quality of life in West Hollywood means that multifamily buildings trade frequently on the open market, attracting investors. These conditions combine to create situations where smaller rental buildings, even if subject to the RSO, have high rents and/or sell to new investors without providing long-term protection for low-income tenants.

Given these circumstances, some cities have begun to develop programs where small rental buildings are purchased and converted into income-restricted affordable housing with rents set at levels below market to enable long-term affordability for tenants. Sometimes, these buildings may even offer opportunities for existing tenants to come together and purchase their housing directly, stabilizing them through an ownership vehicle.

Conversion of rent-stabilized buildings to permanent, income-restricted affordable housing can also meet other City housing goals including mitigating displacement and providing a form of land-banking because these small building sites often can eventually be redeveloped into more dense affordable housing.

The initial Pilot Program considered by the City in 2019 involved the concept of a City-funded tenant-purchase program, coupled with a right of first refusal ordinance (giving tenants time to organize, obtain funding, and purchase smaller buildings containing their dwelling units when about to be offered for-sale). Several model programs throughout the US were researched, indicating limited success. Tenants organizing themselves to become a collective owner of their multifamily building faced many obstacles, leading to few success stories.

Another form of small building acquisition and rehab, targeting tenants needing permanent affordable housing, relies on utilizing existing non-profit housing organizations to purchase,



rehab, and manage the rental property through and after conversion to permanent income-restricted affordable housing. This approach is already funded periodically by the City of West Hollywood’s Housing Trust Fund, in partnership with local non-profit housing organizations. Thus, an expansion and formalization of this type of program became the focus of the Pilot Program research.

The best model of a small building acquisition/rehab program, called Small Sites, has been implemented by the City of San Francisco. This program has been working successfully for many years without a legal requirement for right of first purchase/right of first refusal, but in 2018, these legal requirements were added to the approach. In addition, a private, philanthropy-based financing mechanisms, the San Francisco Housing Accelerator Fund, was initiated to provide rapid up-front acquisition and rehab funding, in tandem with eventual permanent financing from the City. An simplified example of the way the financing works in this type of program is shown below in Table 2, for an 11-unit building representing an actual sale price in West Hollywood in 2020.

Table 2: Example Financing Strategy

<u>Acquisition/Rehab Costs</u>	<u>Total</u>	<u>Per Unit (11 Units)</u>
Acquisition	\$ 3,610,000	\$ 328,182
Rehab Costs	\$ 750,000	\$ 68,182
Developer Fee	\$ 75,000	\$ 6,818
Total Costs	\$ 4,435,000	\$ 403,182

<u>Financing Sources</u>	<u>Acquisition</u>	<u>Rehab</u>	<u>Permanent Financing</u>
CDFI Bridge Capital	\$ 3,610,000	\$ 750,000	
Permanent Loan based on NOI*			\$ 1,860,966 *
City Subsidy for Developer Fee			\$ 75,000
City Subsidy - Balance			\$ 2,424,034
Total Sources	\$ 3,610,000	\$ 750,000	\$ 4,360,000

<u>Per Unit Metrics</u>	
City Subsidy/Unit	\$ 227,185
First Mortgage/Unit	\$ 169,179
Total/Unit	\$ 396,364

* Assumes 30-year fixed, 5% interest, 1.20 DCR

More detailed information on the San Francisco Small Sites program is provided in Appendix B (the Power Point presentation given to a focus group of non-profit housing organizations for this research).



There are several challenges faced by programs of this type:

- Many of the more experienced affordable housing developers seek to develop new construction affordable housing because it achieves more unit production and provides a substantial development fee compensating the non-profit for its time spent, without an expensive unknown rehab cost risk.
- For the San Francisco Small Sites program, most tenants must rent-certify prior to building acquisition (the program seeks a mix averaging 80% AMI), and most tenants must agree to participate in the program. To complicate matters, in some cases, higher income tenants with low existing rent levels may be asked to bear rent increases as well. These transitional elements, from a rent-increase controlled environment to an income and rent-restricted, targeted AMI environment, can lead to complicated outcomes for individual tenants.
- Finally, competing with a robust private sector investor market for small buildings offered for-sale can be very challenging for non-profit organizations without rapid, easy access to capital.

Supplemental Research: Focus Group

Despite these potential program complexities, City staff and U/M designed parameters for an initial pilot Small Sites program for West Hollywood in Fall 2020. These parameters and other issues were then tested through a Zoom focus group with six non-profit housing organizations and experts. The research and outcomes are detailed below.

The Zoom focus group was held on December 17, 2020 and was attended by six organizations representing major non-profit affordable housing developers in the Los Angeles region, including West Hollywood Community Housing Corp, EAH Housing, Abode Communities, Menorah Housing Foundation, and Innovative Housing Opportunities. A consultant advising Los Angeles community land trusts was also in attendance. Please refer to Appendix D for a full list of participants.

The meeting was conducted to ask the following (see Appendix B for more information):

- Would a pilot program that could finance 2 to 3 small buildings in next year fit with your organization's needs? What are the opportunities and challenges?
- How can we best configure this program to achieve the goal of affordable unit preservation?
- Do you need a ready source of 1st mortgage financing to compete on the open market?
- Is a San Francisco COPA-like² legal mandate to notice and offer buildings first to non-profits needed to achieve our goal?

² The San Francisco Community Opportunity to Purchase Act (COPA) requires multifamily building sellers to first notice pre-qualified non-profit housing organizations, offering right of first purchase. COPA also provides a right of first refusal to non-profits later in the sale process; if a seller has received an acceptable private offer, non-profits have a right to meet the price/terms and purchase.



The meeting discussed and concluded the following:

Pilot Program Opportunities and Challenges:

- **Unexpected Rehab Costs.** Many participants cited their reluctance to acquire and rehab small buildings due to the risks of unknown rehab costs. Several participants told stories of very high costs on other rehab projects, especially to achieve Americans with Disability Act (ADA) compliance. Some also cited hidden costs for relocation of existing tenants during the rehab period. Participants stressed the high time and dollar cost of small building rehab compared to the “bigger bang for the buck” new construction project with typically more units and better cost control (and no existing occupants).
- **Challenge of Small Scale.** Many cited challenges with small-scaled projects and discussed their preference for City acquisition of several buildings that could then be bundled and offered to non-profits at scale.
- **Financing.** There were mixed viewpoints on the need for financing assistance for the initial acquisition, seemingly associated with whether the non-profit had an existing relationship with a Community Development Financial Institution (CDFI) or not. Developers agreed it was important to have assurance from the City that take-out financing would be available if bridge financing was used for acquisition, with City funds structured either as grants or loans paid from residual receipts.
- **Other Substantial Risks.** Some participants cited the risk of unreliable rental income (when tenants’ incomes fluctuate), although this risk is also present in other types of new construction affordable housing. Suggestions to mitigate this risk included obtaining project-based vouchers to ensure reliable cash flow. Others cited mixed views on relying on multiple financing sources, and/or having to compete with other non-profits for City funding if that were offered in the Pilot Program. It should be noted that these issues seemed to be related to the specific experience (both breadth and depth) of the range of attendees.
- **No Need for Right of Refusal/Right of First Purchase Ordinance.** The group generally felt that due to the small size of West Hollywood, COPA-type ordinances are probably not advantageous and bring too much disruption to the investor marketplace. Several participants said that a regional initiative, affecting the broader marketplace, could be more effective.
- **Opportunity for Upside.** Many participants liked that this pilot could provide a form of land banking with eventual redevelopment and densification opportunities. Many could see the wisdom of West Hollywood considering this type of program, given the abundance of small RSO buildings and unmet housing needs.
- **Potential Alternative: Formation of a Local Community Land Trust.** One participant, a consultant in community land trust models, proposed the formation of a local CLT instead, which could acquire and rehab buildings held by the Trust or sold to tenants using a limited equity co-op model for household ownership. As noted by the consultant (participant in the focus group), Los Angeles County recently launched a pilot program with \$14 million in public funding to support the acquisition and rehabilitation of properties by community land trusts. Program goals include building



capacity for multiple CLTs. Ownership of the land will be held by the CLT under a 99-year ground lease to ensure long-term affordability, and there may be opportunities to convert buildings into cooperative homeownership.

- **Potential Alternative: City Acquisition of Several Small Buildings/Bundling.** Several participants eventually said if the City wants to effectuate conversion of small RSO buildings to permanent affordable housing, the City should consider buying buildings outright. These participants thought this process could then lead to bundling of several buildings, which could then be sold together as a portfolio to a non-profit organization. The disadvantage of this approach would be a City-owned and operated housing portfolio for some period of time, although participants felt that a third-party management organization could likely be engaged to manage the buildings until resale.

Conclusions/Recommendations

Based on the research including the focus group summarized above, Urban Math has concluded and recommends the following:

- Creating a Small Sites Acquisition / Rehab Pilot Program similar to San Francisco, which provides funding and legal mechanisms to assist small non-profits acquire buildings, may not have enough interested participation from existing non-profit housing organizations to make the program feasible.
- The City should explore creating a local community land trust, which could both acquire and rehab existing buildings on behalf of existing low income tenants (converting RSO buildings to permanent rental housing), convert other buildings to ownership through limited equity co-operatives and other similar mechanisms, and also benefit from the land banking opportunities. The same local community land trust could develop vacant land for new housing production. Many community land trusts specialize in affordable ownership housing at a small project scale, which fits well into the landscape of West Hollywood housing needs and community interest. The City should consider this approach, funding needed for formation and staffing costs, as its contribution to a new pilot program aimed at preserving the existing housing stock for long-term affordability.
 - According to the consultant participating in the focus group, who is working with a consortium of community land trusts in Los Angeles, West Hollywood is not the focus of active trusts at this time. Because the concept of a community land trust is linked to a local community, in West Hollywood, the City could jump-start capacity building by creating a competitive grant for start-up, organization, and business planning of a CLT, along with funding for due diligence related to small building acquisition. The start-up grant would likely require City investment of approximately \$250,000 - \$350,000 (including legal and the cost of hiring and funding staff for one year). Most CLT's with strong business plans have the ability to fund-raise from non-city sources after initial start-up.

Appendix A: Presentation for Affordable ADU Focus Group

ADU Pilot Program

City Assistance to Design, Permit, and Potentially Fund
Accessory Dwelling Units (ADUs)

1

Introduction

- Speakers
 - Jessica Hitchcock, Consultant
 - Janet Smith-Heimer, Consultant
 - Alicen Bartle, City of West Hollywood
- Agenda
 - Attendee Introductions
 - What is an ADU?
 - Brief survey results
 - Discussion of ways City can assist with market-rate ADUs
 - Discussion of potential Affordable ADU program



2

Ground Rules

Hold questions until break in slides

Respect everyone

Limit comments to 2-3 minutes

3

What is an ADU?

- An Accessory Dwelling Unit is a second unit, sometimes called an in-law or granny unit. It is usually rented to a tenant.
- ADUs can be stand alone (in the backyard), or created in converted garages/laundry rooms, other “bonus” spaces, etc.
- ADUs are typically part of a single-family home’s property, but in West Hollywood, these can also be created on multi-family parcels.
- Housing policies in CA promote creation of ADUs to help solve the housing crisis by adding rental supply in single family areas.



4

Status of ADUs in West Hollywood

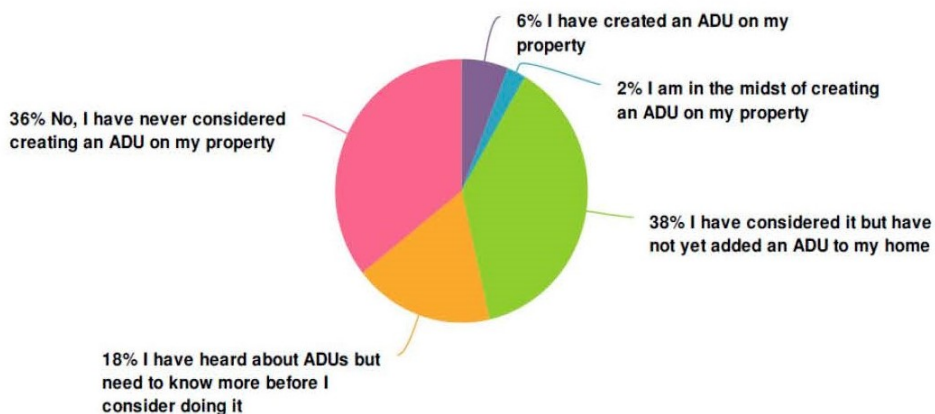


- WeHo has permitted 18 ADUs in past 2 years (2019 & 2020), with more applications in the pipeline.
- More robust support to homeowners to produce ADUs would help increase much-needed housing in WeHo.
- In addition, to create affordable ADUs, the City has been considering a Pilot program which would provide specialized services and potentially also funding, in exchange for the property owner agreeing to rent to an eligible low-income household for 5 to 10 years. We will discuss this set of incentives more during this meeting.

5

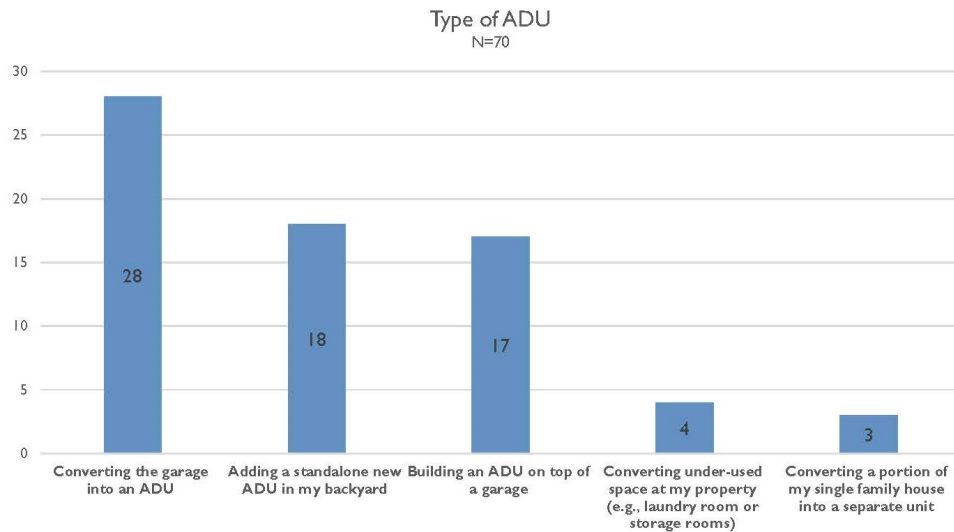
Survey Overview

- 84 total responses (66 single family owners, 18 multifamily building owners)
- Most have considered creating an ADU or need to know more about it



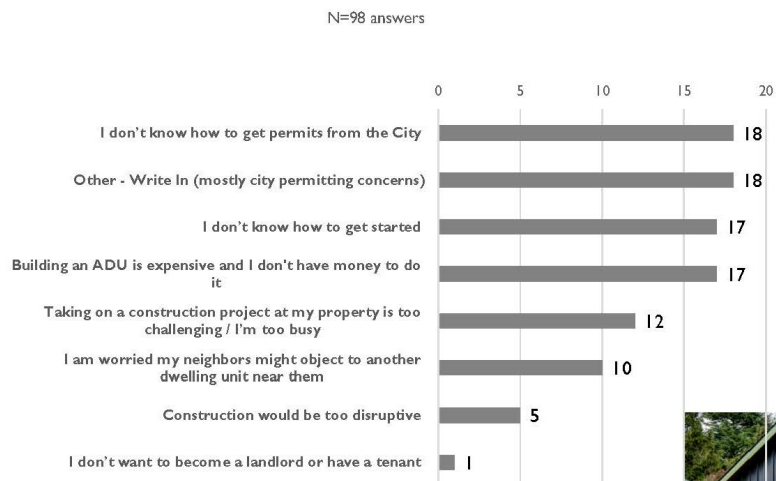
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Respondent Interest by Type of ADU



7

Challenges to Creating an ADU

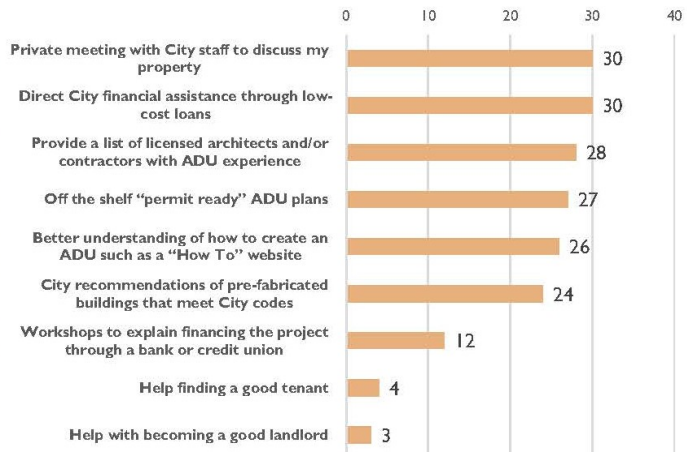


8

Types of City Assistance

(for Market-Rate ADUs)

N=186 answers



9

Discussion Questions

(for Market-Rate ADUs)

1. For those of you in this meeting who have considered creating an ADU, what opportunities and challenges do you see for your project?
2. What is the top reason you have hesitated or stopped pursuing an ADU?
3. What assistance could the City provide that would help you the most?
 - a. Information, seminars, design help, permitting help, referrals to contractors, other?

Affordable ADU Program

What is an Affordable ADU?

- For Pilot program, eligible tenants would be 1-person households earning less than \$23,700 for a studio, or 2-person households earning less than \$27,050 for a one bedroom.
- Rent voucher would allow landlord to charge up to \$1,369 for a studio, or \$1,605 for a 1-bedroom. (2021 FMRs for LA County).
 - These households are expected to pay \$593 or \$676 on rent & utilities, respectively (30% of income).
 - Difference between what household can afford to pay, and amount charged for rent, is paid by Housing Authority (federal \$s).
- So for a studio, if homeowner can build 500 sf @ \$300 psf, for a total of \$150,000, this would be about \$1,050 a month (mortgage, prop taxes, insurance, utilities). Homeowner would pocket \$320 a month,

11

City Financial Assistance to Create Affordable ADUs

The City has considered 2 different kinds of incentive programs to create affordable ADUs:

1. One Stop Shop + Voucher:

- “Concierge” services for design, permitting, and construction supervision. City would engage a project manager to work with owner, do all the work, and provide dedicated direct assistance to get the unit built. These services (design, permitting, construction oversight) would be paid for by the City, lowering the owner’s cost to build the unit. This would save time, money, and be convenient for the owner.
- Also, dedicated rental vouchers given to eligible tenants. This would secure a steady revenue stream at near market-rate rents to the owner. Owner could still choose which tenant to accept from among eligible pool.
- Owner would agree up front to rent to an eligible low-income household for 5 to 10 years in exchange for this package.

12

City Financial Assistance to Create Affordable ADUs

2. Forgivable Loan + Voucher

- Instead of “concierge” help with design and permitting, the City would help fund the unit by providing a forgivable loan for part of total cost. If unit cost \$150,000 to build, forgivable portion might be \$50,000.
- Loan would be forgiven (balance due would go to \$0 on this funding), if owner completes program agreement (e.g., renting to eligible low-income household for 5 to 10 years). This would also mean that owner would pocket more money during the period, because forgivable part would be “silent” (e.g., no payments made during the period).
- Owner would need to rent to eligible tenants with vouchers. For the program period, but after period ends, owner could rent to anyone at then market-rates (still subject to rent control thereafter).
- Owner would do their own typical design, permitting, construction oversight (no concierge services).

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Discussion Questions

(for Affordable ADUs)

1. For Affordable ADU program, what do you see as challenges?
2. For Affordable ADU program, which type of financial assistance is more attractive: “concierge” services + voucher, or partially-forgivable construction loan + voucher?
3. Do you have any other suggestions as to how to incentivize creation of affordable ADUs to eligible low-income tenants?

Appendix B: Presentation for Small Site Acquisition

Strategic Acquisitions Pilot

City Assistance to Purchase, Rehab and
Convert Naturally-Occurring Affordable Units
(NOAH) to Permanent Affordable Housing

1

Introduction

- **Introductions**
 - Pete Noonan (Rent Stabilization and Housing Manager)
 - Alicen Bartle (Project Development Administrator)
 - Janet Smith-Heimer (The Housing Workshop)
- **Group introductions**
- **Opening Remarks from Pete Noonan**

2

Ground Rules

- Be respectful and listen to each other
- Mute when you're not speaking
- Encourage participation and elicit your feedback
- Raise your hand and we'll call on you
- During the presentation, please enter questions in the chat
- Recording

3

Purpose and Background

West Hollywood housing has a high concentration of rent-stabilized housing

- 80% of housing units are renter-occupied
- 75% of renters are covered by the City's rent stabilization program
- Due to vacancy de-control, tenants who started renting in 2018 paid 50% more than tenants who moved in 10 years ago.
- 91% of the housing stock is at least 30 years old. Many buildings require seismic retrofit and/or moderate rehab.

Challenge: to mitigate vacancy de-control by supporting acquisition/rehab and conversion of units to permanent income-targeted affordable inventory



4

Program Parameters

(modeled on San Francisco's Small Sites Program)

City subsidy to eligible non-profit organizations via a readily available 2nd mortgage to support acquisition/rehab

Buildings are eligible if:

- **Size:** 10-25 units
- **Tenant household incomes** average 80% or less AMI
- **Participation:** requires 2/3rds of existing tenants to income certify; 75% agree to program
- Buildings must average 80% AMI rents over time as units turnover
 - Program may be structured to adjust rents up or down based on household income. Rent increases can be phased in over several years. Households that are rent burdened could also see rents lowered.
 - San Francisco also has a mandate to offer all small buildings placed for-sale to short list of non-profits (COPA), and provides acquisition loans for full cost + rehab via Seismic Bond Fund and/or Housing Accelerator Fund. Most of the building sales utilizing COPA have been located in one neighborhood experiencing substantial displacement (the Mission)

5

West Hollywood Small Rental Building Marketplace

West Hollywood has an active market in small rental building sales

- 13 building sales during most recent 12-month period (overlapping with pandemic)
- Recent years before pandemic were even more active (e.g., 2017 was peak year for sales of rental buildings according to CoStar)
- Average unit sale price (\$516K) is less than new unit construction cost

Property Name/Address	Yr Built	Units	Vacancy	Sale Date	Price	Price/Unit
1308 Havenhurst Dr	1953	30	3.3%	10/30/2019	\$10,465,000	\$348,833
Element WeHo 1425 N Crescent Heights	1959	24	4.2%	11/4/2019	\$20,550,000	\$856,250
Sunset Patios Apartments 1127-1137 N Horn Ave	1949	11	9.1%	11/6/2019	\$4,200,000	\$381,818
1233 N Orange Grove Ave	1955	10	0%	12/9/2019	\$4,300,000	\$430,000
929 N Curson Ave	1959	18	5.6%	1/8/2020	\$6,500,000	\$361,111
8903-8913 Harratt St	1955	10	10.0%	2/13/2020	\$4,000,000	\$400,000
9022 Harratt St	1958	10	0%	2/14/2020	\$3,680,000	\$368,000
The Sherwood Apartments 8440 De Longpre Ave	1960	24	4.2%	3/27/2020	\$12,600,000	\$525,000
1240 N Ogden Dr	1961	12	0%	5/14/2020	\$3,335,000	\$277,916
7654 Fountain Ave	1962	11	9.1%	6/30/2020	\$3,610,000	\$328,181
1346 N Laurel Ave	1961	16	0%	7/16/2020	\$10,100,000	\$631,250
Chateau Park Homes 8491 Fountain Ave	1931	18	5.6%	8/14/2020	\$15,750,000	\$875,000
Harratt Street Apartments 8819 Harratt St	1989	21	0%	10/1/2020	\$11,975,000	\$570,238
Total - 13 Properties		215			\$ 110,965,000	\$516,116
Note: Excludes 7 sales with < 10 units in same period				Copyrighted report licensed to City of West Hollywood 10/5/2020		
Source: CoStar						

6

Discussion Questions

1. **Capacity:** Would a pilot program that could finance 2 to 3 small buildings in next year fit with your organization's needs?
 - Opportunities and challenges?
2. **Program Design:** how can we best configure this program to achieve the goal of preserving NOAH?
3. **Financing:** do you need a ready source of 1st mortgage financing to compete on the open market?
4. **Policy:** Is a COPA-like legal mandate to notice and offer these buildings first to non-profits needed to achieve our goal?

Appendix C: ADU Survey

ADU Homeowner/Landlord Survey

Introduction

Hello and welcome to the City of West Hollywood Property Owners ADU Survey!

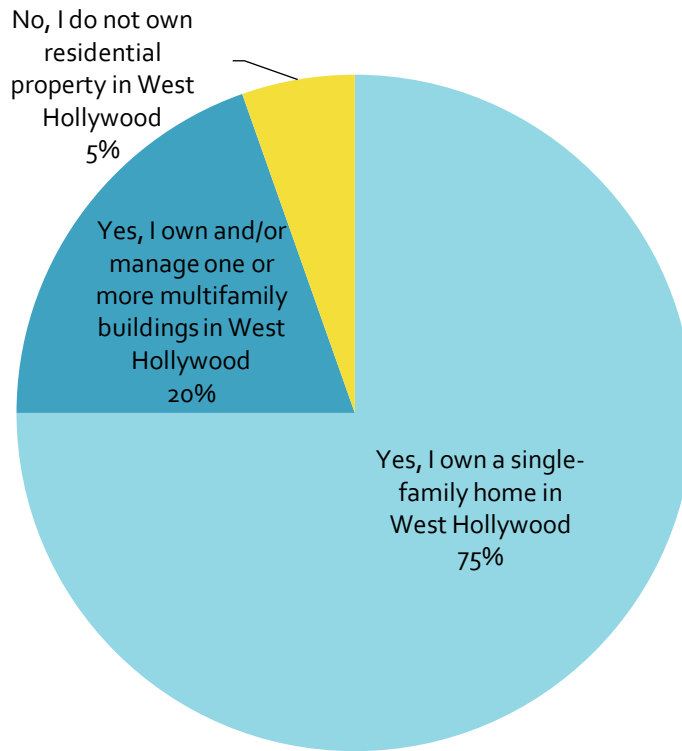
We are reaching out to property owners in West Hollywood to learn more about how you think about the topic of Accessory Dwelling Units (ADUs). An ADU is a secondary unit, sometimes called a granny flat or in-law unit, with a separate entrance from the main house. The unit is often rented to a tenant or occupied by a relative.

West Hollywood is seeking ways to encourage homeowners and landlords to consider creating a small second unit on their property, earn extra rental income, and help expand the supply of lower cost housing.

The following survey takes less than 10 minutes to complete and your input is very important to us. The survey has two parts: first you will be asked about your thoughts and interest in creating an ADU on your property. The 2nd part will ask you about several incentives the City of West Hollywood could offer to property owners interested in participating in a program geared to housing eligible lower-income tenants.

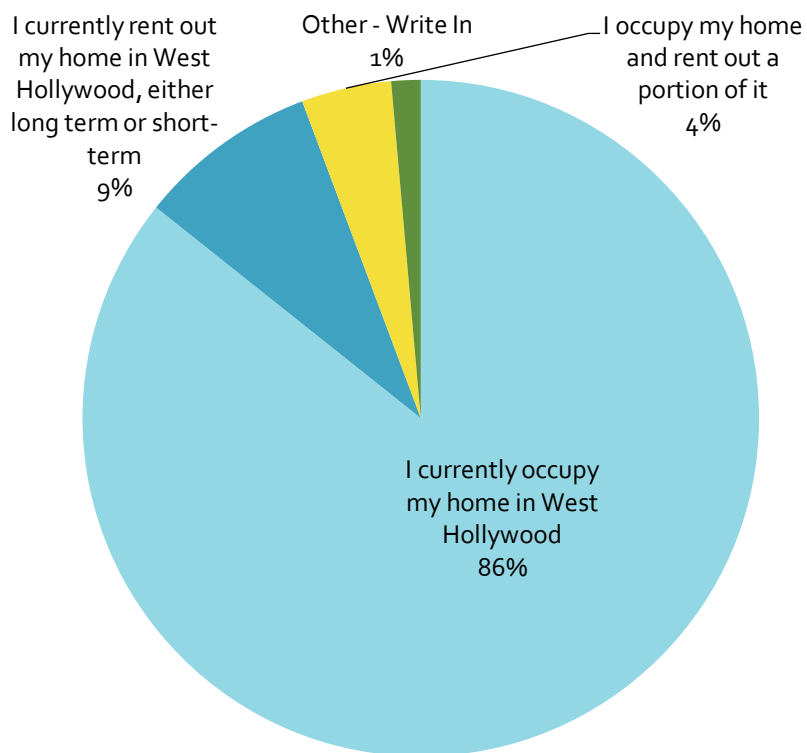
All answers will be anonymous and will help the city develop a new program to help owners create ADUs by providing low-cost financing and professional assistance from permitting through construction to leasing up.

1.Are you currently the owner of a home or the landlord of a rental building in West Hollywood? (select 1 answer)



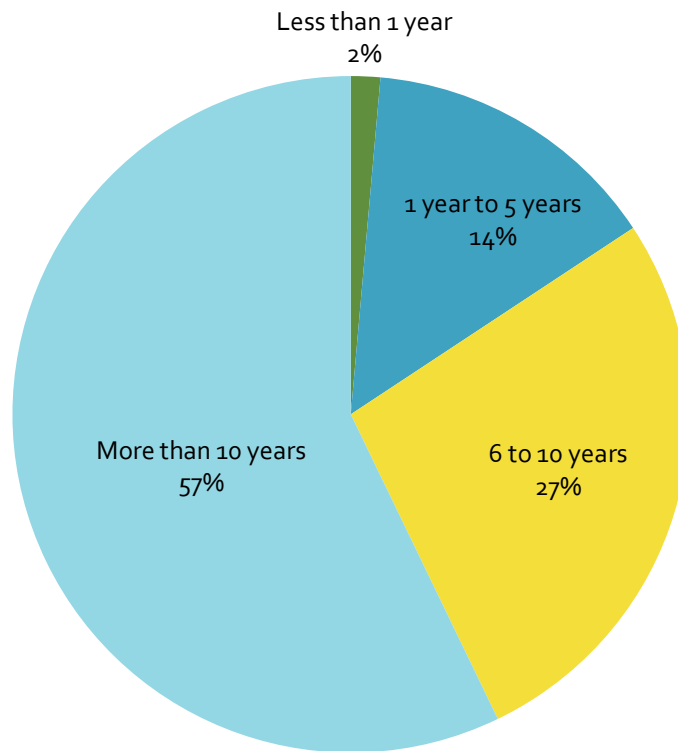
Value	Percent	Count
Yes, I own a single- family home in West Hollywood	75.0%	69
Yes, I own and/or manage one or more multifamily buildings in West Hollywood	19.6%	18
No, I do not own residential property in West Hollywood	5.4%	5
	Totals	92

2.What would you say best describes the current status of the home that you own? (select 1 answer)



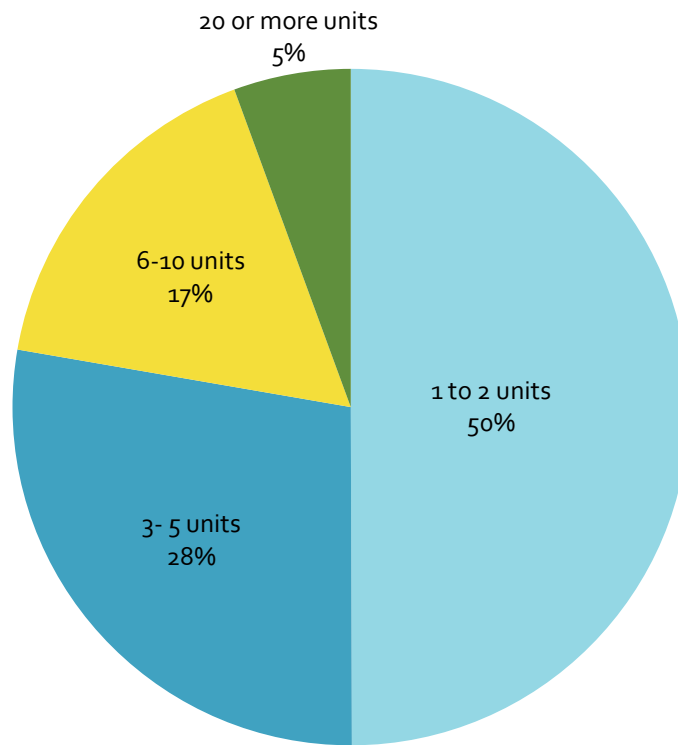
Value	Percent	Count
I currently occupy my home in West Hollywood	85.7%	60
I currently rent out my home in West Hollywood, either long term or short-term	8.6%	6
I occupy my home and rent out a portion of it	4.3%	3
Other - Write In	1.4%	1
	Totals	70

3.How long have you owned this home? (select 1 answer)



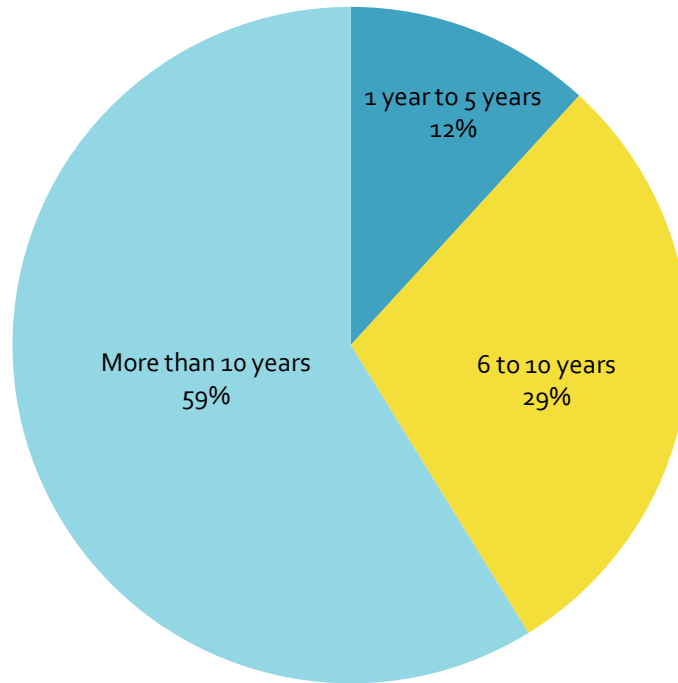
Value	Percent	Count
Less than 1 year	1.4%	1
1 year to 5 years	14.3%	10
6 to 10 years	27.1%	19
More than 10 years	57.1%	40
	Totals	70

4.How many rental housing units do you own or manage in West Hollywood? (select 1 answer)



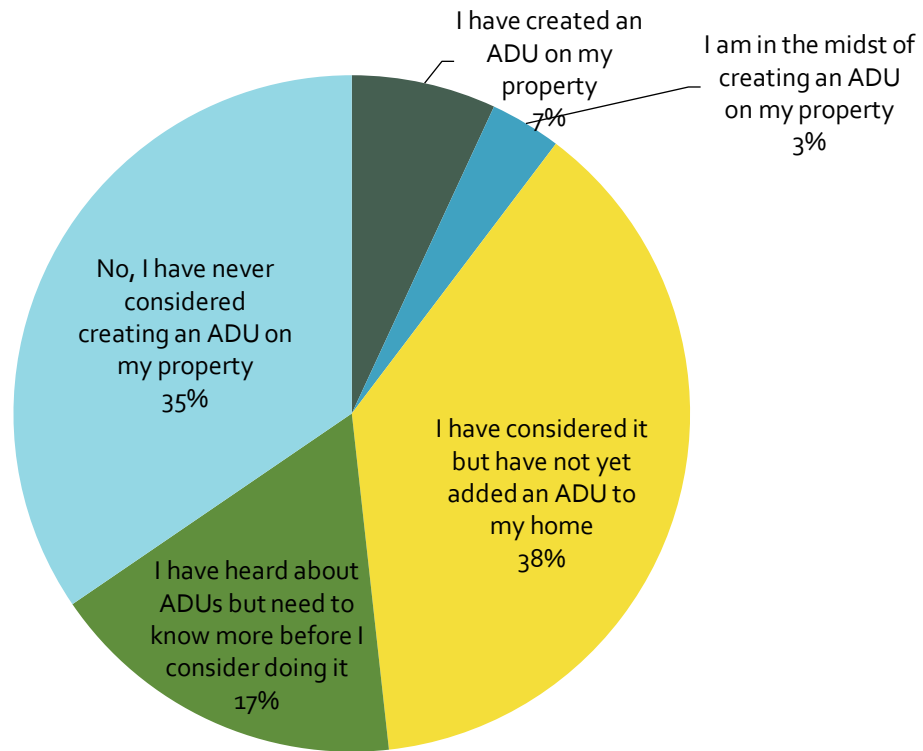
Value	Percent	Count
1 to 2 units	50.0%	9
3- 5 units	27.8%	5
6-10 units	16.7%	3
20 or more units	5.6%	1
	Totals	18

5.How long have you been active as a landlord for rental housing units in West Hollywood? (select 1 answer)



Value	Percent	Count
1 year to 5 years	11.8%	2
6 to 10 years	29.4%	5
More than 10 years	58.8%	10
	Totals	17

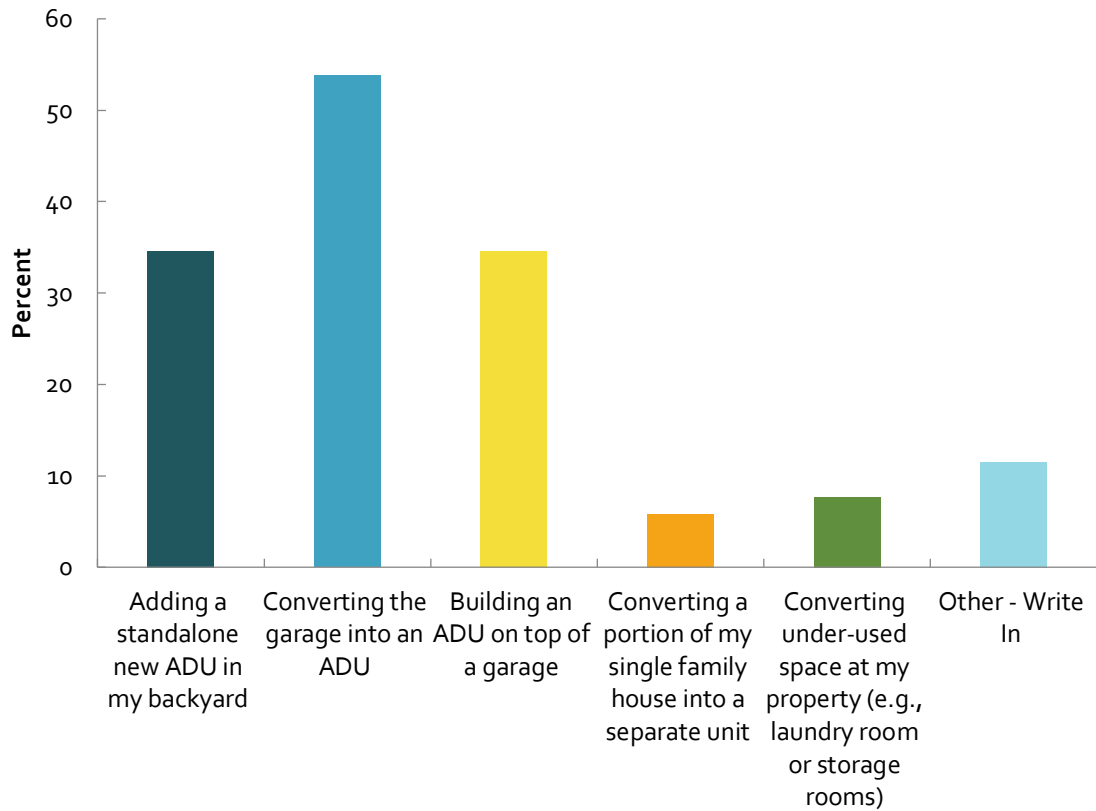
6. Have you ever considered creating an Accessory Dwelling Unit (ADU) on your West Hollywood property? (Select 1 answer that best matches your thoughts). An ADU is a secondary unit, sometimes called a granny flat or in-law unit, with a separate entrance from the main house. The unit is often rented to a tenant or occupied by a relative. Example of an ADU



Value	Percent	Count
I have created an ADU on my property	6.9%	6
I am in the midst of creating an ADU on my property	3.4%	3
I have considered it but have not yet added an ADU to my home	37.9%	33
I have heard about ADUs but need to know more before I consider doing it	17.2%	15
No, I have never considered	34.5%	30

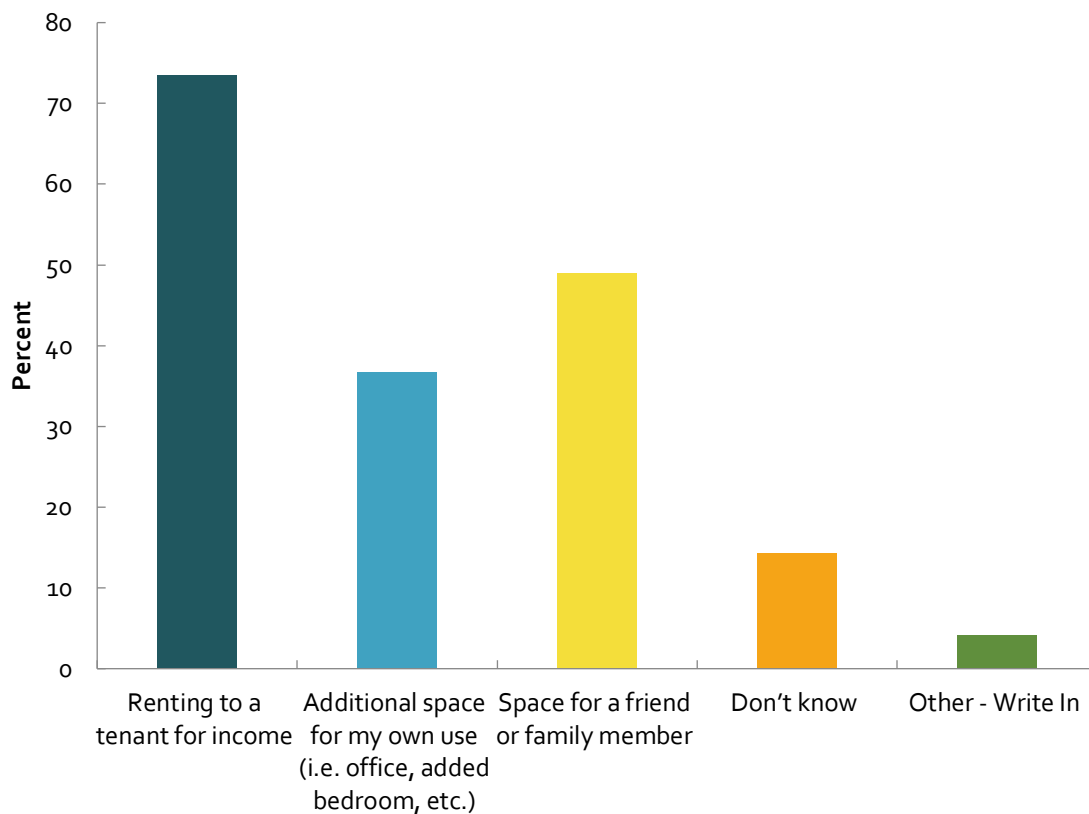
creating an ADU on my property		
	Totals	87

7.What type of ADU are you interested in? (select all that apply)



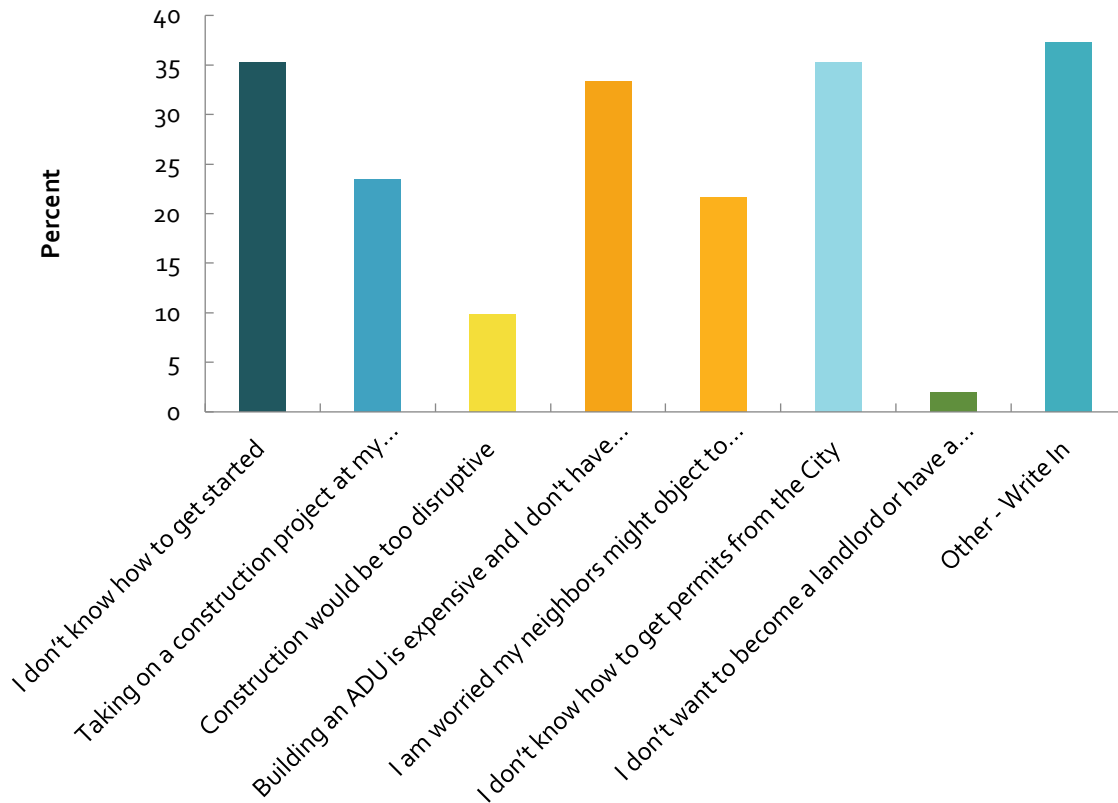
Value	Percent	Count
Adding a standalone new ADU in my backyard	23.4%	18
Converting the garage into an ADU	36.4%	28
Building an ADU on top of a garage	23.4%	18
Converting a portion of my single family house into a separate unit	3.9%	3
Converting under-used space at my property (e.g., laundry room or storage rooms)	5.2%	4
Other - Write In	7.8%	6

8.If you did create an ADU, how would you plan to use it? (select all that apply)



Value	Percent	Count
Renting to a tenant for income	41.4%	36
Additional space for my own use (i.e. office, added bedroom, etc.)	20.7%	18
Space for a friend or family member	27.6%	24
Don't know	8.0%	7
Other - Write In	2.3%	2

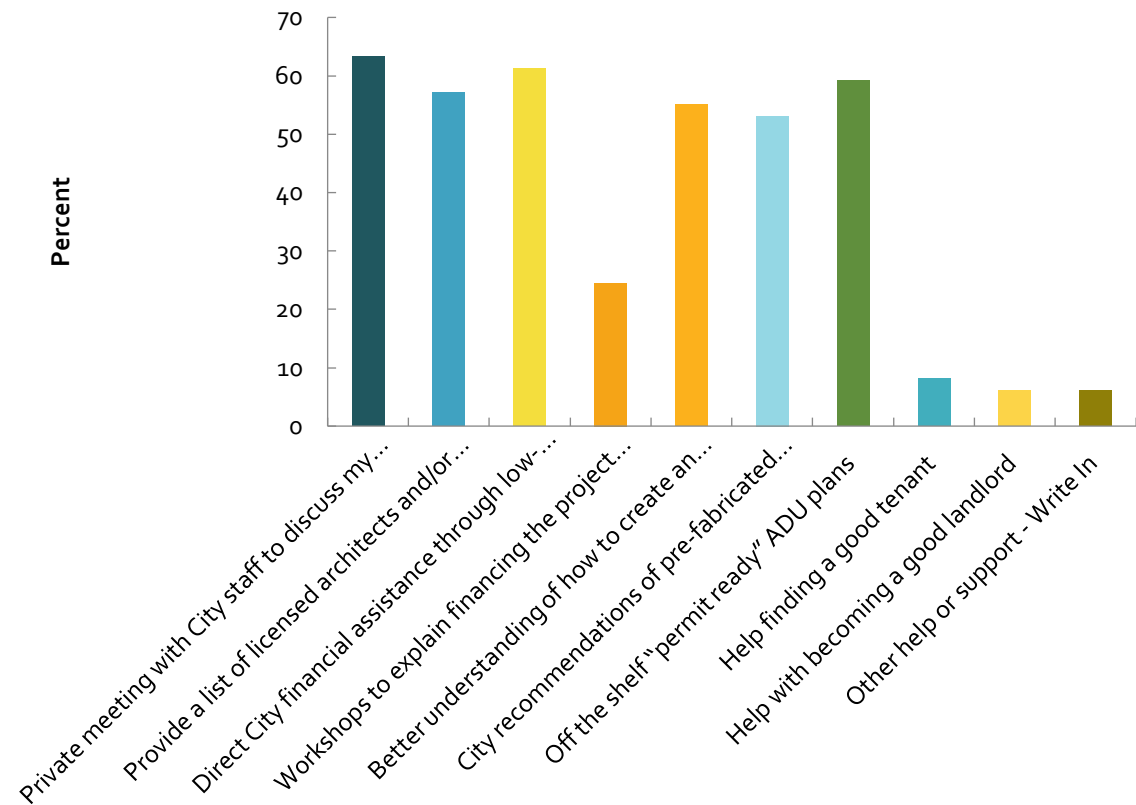
9.What challenges or obstacles to creating an ADU on your property are of concern to you? Please tell us which reasons may have prevented moving forward so far (select all that apply to your situation).



Value	Percent	Count
I don't know how to get started	17.8%	18
Taking on a construction project at my property is too challenging / I'm too busy	11.9%	12
Construction would be too disruptive	5.0%	5
Building an ADU is expensive and I don't have money to do it	16.8%	17
I am worried my neighbors might object to another dwelling unit near them	10.9%	11

I don't know how to get permits from the City	17.8%	18
I don't want to become a landlord or have a tenant	1.0%	1
Other - Write In	18.8%	19

10. Here are some kinds of support the City could provide you to help with an ADU project. Please tell us which items would help you the most in creating an ADU (select all that apply).



Value	Percent	Count
Private meeting with City staff to discuss my property	16.2%	31
Provide a list of licensed architects and/or contractors with ADU experience	14.7%	28
Direct City financial assistance through low-cost loans	15.7%	30
Workshops to explain financing the project through a bank or credit union	6.3%	12
Better understanding of how to create an ADU such as a "How To" website	14.1%	27

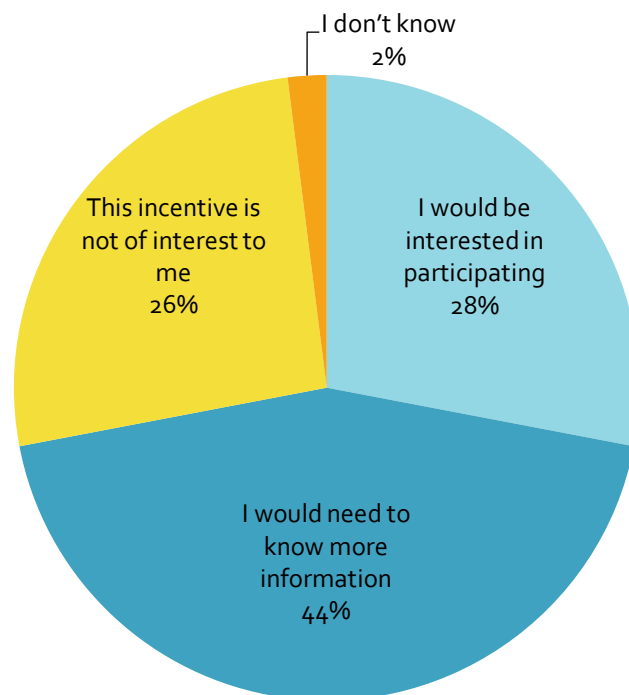
City recommendations of pre-fabricated buildings that meet City codes	13.6%	26
Off the shelf "permit ready" ADU plans	15.2%	29
Help finding a good tenant	2.1%	4
Help with becoming a good landlord	1.6%	3
Other help or support - Write In	0.5%	3

11. Do you have any other comments about Accessory Dwelling Units (ADUs) or about your own property as a possible ADU location? (write in)

- What about parking?
- Considered it for a long time; need a little push.
- The problem with ADUs in small Weho lots is parking. The few SFH neighborhoods could become filled with cars on the street as have R2 and R3 zones. Look at buildings built without adequate parking 50 years ago. Do we want to go back to that kind of planning. Shouldn't we know better by now?
- Please provide a one stop website that contains all steps to more info, permits, financing, approved pre financing/architects/pre-built homes, etc
- West Hollywood has the reputation that it is impossible to get anything built and permits are difficult to obtain. I hesitate to spend money on plans only to be rejected by the City. My previous experience with permit costs and inspections just to add a charger for my electric car supports this. Inhibiting construction appears to be the City's goal and I am shocked that this survey is even available.
- We don't have enough space. We would need a height variance.
- Will the city provide variance(s) for additional habitable square footage to allow for ADU?
- We wanted to convert our garage into an ADU back in 2017. Our garage is in the back and we have a driveway that fits our two cars. The city told us that we couldn't do it because we needed 2-3 more feet of driveway. We wanted to create the ADU to be rented out but the dismissal from the city discouraged us to do so.
- Too many rules and red tape to get this done. City is not making it easy on landlords to create these types of units.
- Why do you think that the City is going to be able to execute ADU help for homeowners, when all previous construction projects are slowed and hampered by Bldg dept? Weho is well known by homeowners and contractors to be the worst LA City for remodels or new construction. Fix that first.
- City of West Holly is known for highly restrictive zoning, iron fist code enforcement, permit heavy which all are the reasons for housing shortage in Weho. City only caters to large developers and small property owners are heavily regulated causing property owners not to touch or do any work on properties and let it age.
- Do ADUs need plumbing to qualify? Do they have mandatory easement space to qualify from neighbor's property? What if garage is already beyond those borders?
- ADUs are absolutely critical to ameliorate housing shortages in crowded high-rent areas such as West Hollywood. But keep permitting and licenses and fees and bureaucratic fussing to a minimum.
- I have a detached one car garage today that is right on the property line. When I renovated it the city gave me the hardest time just to rebuild what was there.

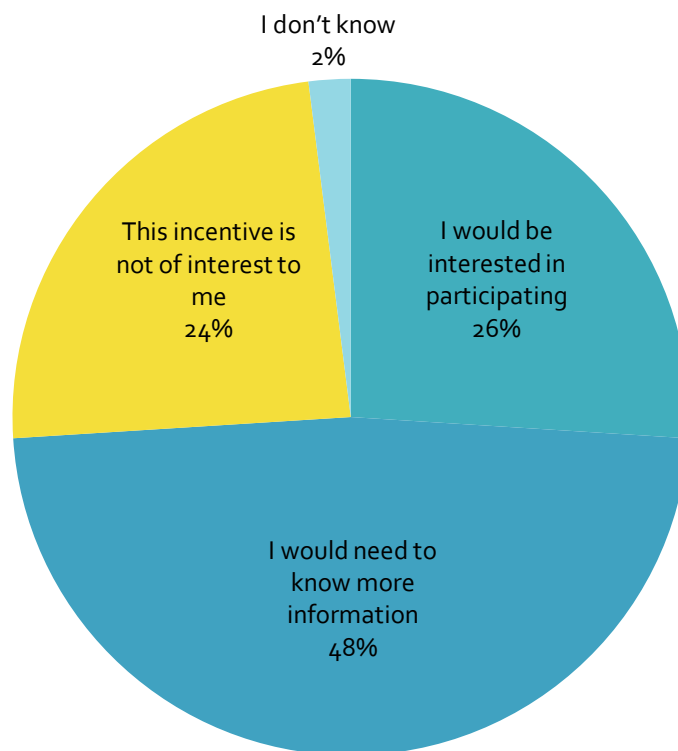
- The City of West Hollywood should create a very easy to navigate process for property owners interested in putting ADU's on their properties. If possible, the City should consider providing low cost, high-leverage loans to property owners interested in doing this and consider grants if property owners are willing to covenant the ADU as affordable.
- Consider: over building/density, water supply/ sewage strains, deforestation of a "Tree City", increased air pollution from construction and population density, noise pollution, loss of privacy, change of neighborhood character/scale/style, fire hazards with buildings be a few feet from each other, etc.
- The setback is a problem. The reason I haven't gone ahead is because I would have to move my garage in from my property line. As it stands now it is about 1' and they want it 5 ft from the apartment building next door. Also, my house backs up to commercial property. I wish there were allowances depending on location.
- I'm confused about what the FAR and code limitations are; they keep changing. also, many neighbors did conversions without approval, and now I feel penalized by going through the proper channels.

12. One incentive would provide a rent voucher so that the property owner would be guaranteed to receive rent each month at market rents (paid by the City or the County government). This eliminates much of the financial risk of renting to an eligible low-income tenant. Eligible low-income tenants would be screened for credit and references. The property owner would still be able to decide whether to accept each eligible tenant. Please select the response below that best describes your possible interest in this incentive (select 1 answer)



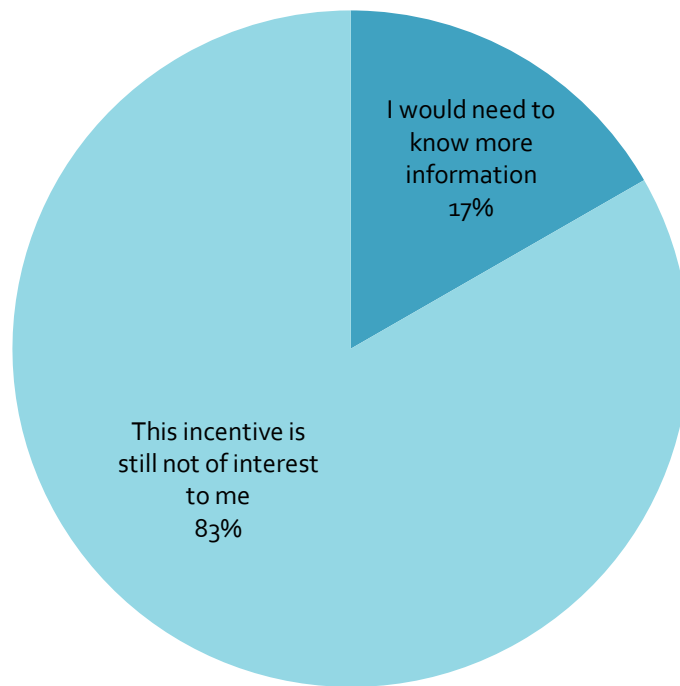
Value	Percent	Count
I would be interested in participating	28.0%	14
I would need to know more information	44.0%	22
This incentive is not of interest to me	26.0%	13
I don't know	2.0%	1
	Totals	50

13. Another incentive would be a City-sponsored forgivable loan made to homeowner to finance about half of the ADU costs, along with free services to design and help the property owner obtain permits, in exchange for agreeing to rent to a qualified low-income tenant. After 10 years, the loan would be dropped (forgiven) and the owner would continue to own the unit and could rent it at market rates or use it in other ways. Would you consider participating in a program with this incentive? (select 1 answer)



Value	Percent	Count
I would be interested in participating	26.0%	13
I would need to know more information	48.0%	24
This incentive is not of interest to me	24.0%	12
I don't know	2.0%	1
	Totals	50

14. You answered that you are not interested in the set of incentives that would pay for half the cost of an ADU unit in exchange for renting to an eligible low income tenant with a voucher for 10 years. Does your interest change if the required period were shortened to just 5 years?



Value	Percent	Count
I would need to know more information	16.7%	2
This incentive is still not of interest to me	83.3%	10
	Totals	12

15. Please tell us any other thoughts or comments you may have regarding an Affordable ADU program including incentives that may spur you to participate in it?

- Fully city funded ADU is of interest
- This approach will only drive the cost of housing UP as has rent control. The cities with the most expensive rents are the cities who try to control the rental market.
- Help with financing, contractors, permits, and project planning/management would be helpful
- I have a number of low income residents that have expressed interest in renting if I build the unit.
- These ideas sound interesting. I'm torn between creating another housing unit that will generate income and being "stuck" with a long-term tenant at below market rents due to the strict rent control laws of West Hollywood.
- We were EXTREMELY interested in the ADU as we also felt that this city needed more living spaces. The city discouraged us when we came with our proposal 3 years ago. It would be great if someone could reach us from the city and see if we could bring this project back to life.
- City to help softening some of their strict rules so garages can be transformed into ADU
- I would need alot more insurance from the city that the construction process would not be hampered by red tape. Ask yourself- how long does it take right now to get plans approved for a single family home in Weho? Not good.
- City should really self examine the root cause of housing shortage. Restrictive codes, excessive permits, mob like code enforcement, heavy handed rent control, will continue for moms and pops rental property owners not to deal with the city and invest in business friendly cities or states. Incentives should be substantial to be in line with heavy handed approach city takes
- I would be interested in an ADU but I am not sure about serving as a landlord on my own property
- It might spur me if I could move into the ADU and rent out my house but still utilize the program.
- I would not want WeHo Rent Control Ordinance to be applicable / in control of my property. An ADU should be free of Rent Control. If one were to accept free money to convert a unit for low income housing, the low income housing commitment term should be no longer than 2 years and the landlord would have great freedom in evicting an unacceptable tenant. Property value appraisal to remain at the property tax base rate BEFORE the improvement.
- I were able to evict an unruly tenant without penalty.
- None I prefer to handle the ADU process on my own

16. We are hosting a Zoom meeting in the early evening in January to hear your opinions. It will be fun, and we want to get your input and suggestions for the City's Affordable ADU program. If you are interested in participating, please provide your name and email address here:

17. If you would like to receive more information about the City's upcoming ADU assistance, please provide your name and email address here:

18. Do you have any comments about building Accessory Dwelling Units (ADUs) or about your own property as a possible ADU location? (write in)

- How much are they, what is the sq footage and floor plan? How much would they rent for?
- I would like more info regarding this project.
- I disapprove building new ADU's, as people will rent them out, which will worsen the parking problem, Traffic and pollution. Undoubtedly people will rent them out as Airbnb's which will bring in potential unlawful parties, noise pollution, and potential risks to the community and Neighborhood.
- Not a fan for my Norma Triangle neighborhood as it's already congested enough as-is.
- I am interested to build one but I do not have the room on my property to accommodate one
- Parking is such a problem in West Hollywood. If having more ADUs causes more on street parking, then I'm not for it. It's really bad in some neighborhoods that you can't park day or night, no matter the day of the week.
- I am against any ADU built in West Hollywood.
- Perhaps the City of West Hollywood should have used the land for City Hall's unnecessarily expensive and useless parking structure for housing instead of expecting home owners to solve its problems. Particularly, when we pay exorbitant property taxes.
- I oppose. It diminishes property values surrounding this type of rental property. There are too many of these now - many of them are significant eye sores.
- I do not think this is a responsibility of a private homeowner regardless of any income or tax deduction. I pay enough in state taxes (income, gas, school, etc.) to think I would ever have to be burdened by an ADU resident that cannot tend to themselves properly AND ESPECIALLY we in West Hollywood own a \$62MILLION dollar library. I would never have an ADU.
- We have more residents than we accommodate. I think working on ways to decrease homelessness by creating jobs and sustainability makes much more sense than this plan, all due respect.
- I think its a very good idea
- I am completely AGAINST it.
- You need to provide more details about ADU and not just a postcard with a nice looking modern building that does not match the architecture of the homes.
- Listen, I could use extra cash from rental but am not interested in dealing with renters and all the problem that come with them. NO, NO , NO. Keep our neighborhoods for those who either own or rent. Also no Vacation Rental's that cause all sort or problems in neighborhoods as I can attest to.

- I have nothing against ADUs but I worry about how it can impact street parking, particularly for neighborhoods where parking is already a challenge.
- I think that there are pockets of WEHO (like the Norma Triangle) that are VERY dense already, but I have no problem with them in more spread out parts of the city.
- ADU's create more congestion, parking problems, and usually the ADU's are rented to strangers that often do not fit into the neighborhood.
- I think it is a great idea, and might help reduce the number of SF home lots sold for demolition, only to build towering multi-family complexes on small lots. This practice is destroying the overall vibe and neighborhood "feel" in WeHo.
- The City of West Hollywood does NOT need more housing, it needs less. The current pandemic is fueled by too close together housing already, yet you want more. If you want to live in Panama City, move there. If you want to live in a well thought out and enjoyable place to live, work and play, leave West Hollywood alone. In the meantime, your energies would be better spent on improving the city by cleaning the sidewalks, helping get the mentally ill off the streets and making the developers finish the projects that are started but sit boarded up. This silliness about ADU's is what happens when employees are overpaid and trying to justify their jobs. I walk the city everyday for exercise and can't even imagine seeing anywhere that these tiny houses could feasibly be constructed. Ridiculous.
- The permitting process was difficult and expensive, but I'm glad we built it.
- My property is a condominium. There was no option to specify condo, as the first choice was simply "own property."
- I would consider it as an additional source of income. However, I am concerned that West Hollywood is already very congested, and parking is next to impossible.

Appendix D: Small Site Acquisition Focus Group Attendees

West Hollywood Community Housing Corp

Jesse Slansky, President and CEO

Matt Mason, Director of Real Estate Development

Walter Maynard, Director of Asset Management

EAH Housing

Marianne Lim, Director of Portfolio Finance & Policy

Abode Communities

Sara Tsay, Vice President of Business Development

Sandra McNeil Consulting

Sandra McNeil, Principal

Menorah Housing Foundation

Anne Friedrich, Executive Director

Dawn Beebe, Director of Property Management

Innovative Housing Opportunities

Rochelle Mills, President and CEO

Miguel Garcia, Director of Real Estate Development



Affordable Pilot Housing Programs

The City of West Hollywood

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December 16, 2019

Mr. Peter Noonan
Ms. Alicen Bartle
Rent Stabilization and Housing Division
City of West Hollywood
8300 Santa Monica Boulevard
West Hollywood, CA 90069

Dear Mr. Noonan and Ms. Bartle:

We are pleased to submit the enclosed Affordable Pilot Housing Programs.

We have enjoyed working with you and your stakeholders. Please call or email if you have any questions or comments.

Sincerely,

A handwritten signature in black ink that reads 'J Hitchcock'.

Jessica Hitchcock
Principal
Urban Math

A handwritten signature in black ink that reads 'J. Smith-Heimer'.

Janet Smith-Heimer
Principal
The Housing Workshop

Executive Summary

Introduction

The City of West Hollywood Rent Stabilization and Housing Division has been exploring potential pilot programs to expand the City's affordable housing initiatives. In 2017, the City commissioned a study to respond to the dramatic rise in housing prices affecting West Hollywood and the greater Los Angeles region. That study explored a range of innovative affordable strategies underway in other California and US cities.

The City's currently operating programs include an inclusionary ordinance/in-lieu fee program, which creates new affordable rental and ownership units as part of new market-rate housing projects, and its Rent Stabilization program, which stabilizes rent increases for tenants occupying units built before 1978. In addition, West Hollywood administers an Affordable Housing Trust Fund, which invests in 100% affordable housing projects throughout the city.

As the state continues to advance policies to promote affordable housing, this study positions the City to launch innovative housing initiatives. This study provides guidelines for four pilot programs the City can test to address the City's housing crisis. If the programs are successful, the City can decide to permanently fund some or all these programs.

Proposed Pilot Programs

For this study, City Council requested a cost-benefit assessment of potential pilot projects, for which Phase I was completed in Spring 2019. That phase analyzed a list of eight possible programs including models implemented elsewhere, and estimated cost and unit yields if West Hollywood invested in similar programs (see Appendix A). City Council narrowed the list of potential programs to four initiatives most applicable and feasible for the City, including:

- **Affordable Backyard Cottages (ABC)** is aimed at expanding the City's supply of accessory dwelling units (ADU) and targeting new cottages to households with the greatest affordable housing need. The City will provide packaged incentive "one-stop shop" program offering design guidance, construction assistance, and access to financing. In exchange, homeowners will agree to work with social service agencies to rent the units to extremely low-income households for at least ten years. Tenants will pay Fair Market Rent through pre-allocated Section 8 vouchers, which will fund the monthly difference between 30% of the tenant's household income and HUD fair market rents. This program could work in tandem with AB 68/AB 881/AB 671, state legislation passed in October 2019 that further incentivizes ADU production.

- **Strategic Acquisition and Financing of Existing Multifamily Housing (SAFE Housing):** this pilot program uses city funds to provide nimble financing for non-profits to acquire small existing multifamily rental buildings in the open market. Non-profits will use the building's rental income to leverage a conventional mortgage. City funds will bridge the gap to the acquisition price. Buildings purchased with City funds will be required to remain affordable in perpetuity, ensuring the City has a supply of permanently affordable housing for existing residents and future generations.
- **Dream Home** Is a first-time buyer assistance program for moderate income households (along with a smaller assistance program for inclusionary unit buyers) to enable them to purchase homes on the open market. The program is structured to provide assistance through a City-funded "silent second" mortgage with shared appreciation upon re-sale. Buyers make mortgage payments calibrated to just an affordable amount (e.g., typically approximately 35 to 40% of income for principal, interest, taxes, insurance, and HOA costs), with City funds paying the balance of the purchase price lent to the buyer as a zero-payment, zero-interest second mortgage, repayable on future re-sale. The City would receive the proportionate share of unit appreciation upon future market re-sale.
- **Inclusionary Policy for Co-living Projects:** this program was envisaged to encourage the market-rate development of small units. The City has received inquiries from micro-unit and co-living developers interested in developing shared living arrangements, which could benefit the City's residents, many of whom are single-person households. This policy proposes modifying the city's inclusionary ordinance to provide clarity to developers for how the City's inclusionary policy would apply to co-living projects to ensure units are affordable to the residents of West Hollywood.

Target Affordability Levels

The four pilot initiatives were designed to address housing needs at varying income levels. The housing needs are expansive, even within West Hollywood. These pilot programs are intended to be far-reaching, supporting a wide range of resident needs, by income and tenure.

Figure 1: Proposed Pilot Programs Targeted Affordability Levels

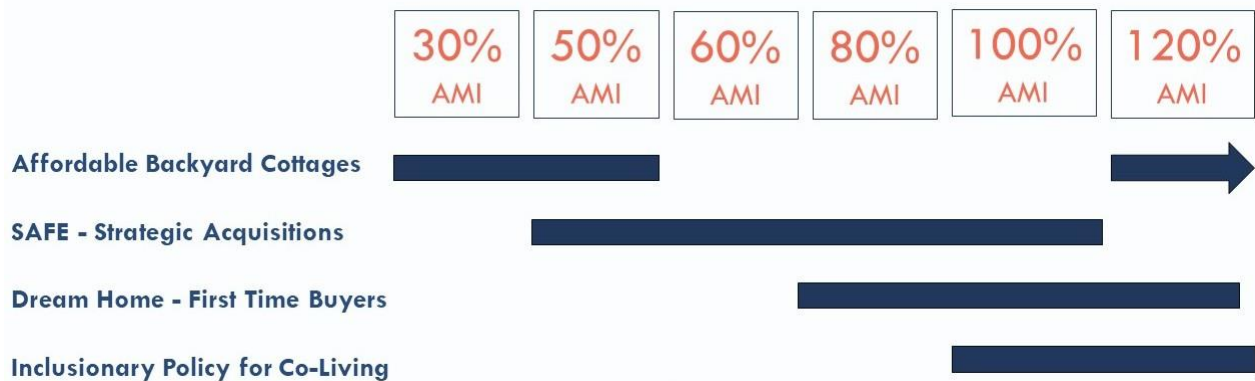
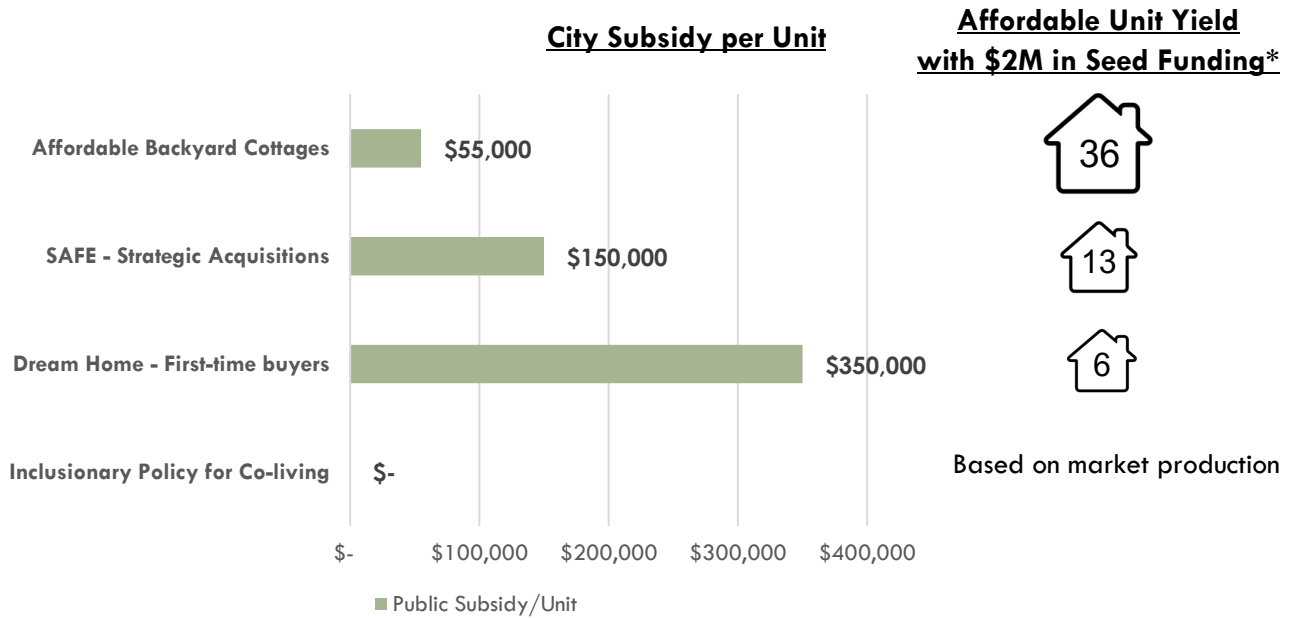


Figure 1 highlights the affordability targets for each initiative. The programs serve an array of incomes, from homeless individuals earning less than 30% of Area Median Income (\$21,950 for a single person), to moderate-income households who want to purchase a home (120% of Area Median Income or \$61,400 for a single-person). While some programs will be programmatically restricted to specific incomes (e.g. Affordable Backyard Cottages for 0-50% AMI and First-Time Homebuyer Loans for 80-120% AMI), others are intended to be more flexible and capture a wider swath of residents (e.g. Small Sites Strategic Acquisition). Other programs, like Affordable Backyard Cottages, will have ancillary benefits serving more than one population. While the program targets homeless and extremely-low income households, this program also allows modest income households build equity in their homes.

Public Investment and Expected Yield

The level of public investment varies for each program. Figure 2 shows the estimated subsidy needed to finance one affordable housing unit under each program. Dream Home and SAFE Housing require the largest subsidies because funding for the missing middle is extremely limited, and there is a substantial gap between the cost of acquiring a market-rate unit and what households can afford to pay. The other programs, Affordable Backyard Cottages and co-living projects, are designed to be financially feasible as standalone products, so very little to no subsidy is required, except for some public investment to launch these programs.

Figure 2: Public Investment Per Unit and Affordable Unit Yield by Program



* This estimates the number of affordable housing units produced assuming \$2 million in seed funding is made available for each pilot program.

The expected number of affordable units generated by each program is inversely related to the subsidy required. Assuming City Council sets aside \$6 million in funding to launch the pilot programs, with \$2 million distributed to each program requiring subsidies, the City can support the production and preservation of 53 affordable homes, excluding the co-living program. Updating the zoning code (e.g. parking and open space requirements) and clarifying the City’s inclusionary application to co-living projects will create more certainty for developers aiming to build units for moderate-income households.

Figure 3: Cost Benefit Analysis

	Avg. City Subsidy	Benefit (Yield per \$2M Program Funding)	Other Costs	Household Types Served	AMI Levels Served	Program Description, Goals, Market Potential
SELECTED PILOT PROGRAMS						
Affordable Backyard Cottages	\$55,000 per Unit	36 units	Cost for oversight, technical services and program administration (1-2 FTEs shared between programs)	Small or Senior Households	30-50% AMI	Encourage ADU production by providing "one-stop shop" for design, construction, and financing. Target new rental ADUs to Section 8 tenants.
Strategic Acquisition and Financing of Existing Multifamily (SAFE) Housing	\$175,000 per Unit	11 units		Tenants at Risk of Displacement/Ellis Act	80% AMI Average	Provide funding to non-profits to acquire existing rental properties to preserve for long-term affordability. The City has 9,900 housing units in buildings with 5-19 units (ACS, 2016).
Dream Home: First Time Homebuyer Program	\$300-400K per Unit	6 units		First-time homebuyers	80-120% AMI	moderate-income households using a shared appreciation model. 18% of WEHO households are between 80-120% AMI, equivalent to over 4,500 households.
Inclusionary Housing Policy for Co-living Projects	N/A	N/A		Zoning code review and training (one-time)	Small or Senior Households	80-120% AMI

Source: Urban Math, 2019.

Funding and Evaluation

Launching pilot programs provides an opportunity to test initiatives before fully committing funding to long-term programs. The City is evaluating ways to generate additional revenue for affordable housing and pursuing funding from the state through SB2 and other grants. These sources can be combined with money from the City’s Housing Trust Fund and the General Fund to seed the pilot programs.

An important consideration is some programs, like the Strategic Acquisition (SAFE) Housing, require flexible funding sources without strict income limits. SAFE Housing uses public funds to acquire existing rentals with tenants representing a range of incomes. While the program targets buildings where tenants average 80% of Area Median Income, the funding sources need to be flexible enough for non-profits to access funding on a per-unit basis, even if one tenant earns more than 120% AMI. This program will likely need to combine funding for multiple sources, some of which are flexible without strict income limits.

Finally, evaluating each pilot program and its successes will be critical to determining whether to expand initiatives and commit long-term funding. Evaluation criteria will include the following:

- Program demand and subscription, including number of leads, interest on waiting lists
- Program effectiveness in addressing the identified housing need or goal
 - Quantify the number of projects and units preserved or constructed in the pilot period and total funds expended
 - Number of households served by each program and their income levels

- Tangible benefits accruing to each household served by the program (e.g. amount of equity accrued by each Dream Home household or annual rent savings per household in the SAFE Housing program).
- Subsidy needed to preserve or construct each affordable unit
 - Compare the annual per unit subsidy to the length of affordability (for example, a \$55K investment in the Affordable Backyard Cottages will yield a 10-year affordability period, equivalent to a public cost of \$5,500 per year per affordable unit)
 - Evaluate potential for future funding, including ongoing sources for capital and operations
- City staffing and time required to manage each program
 - Compare staff hours expended to administer each affordable unit
- Additional “soft metrics” including expansion potential, challenges to program implementation, and alignment with City housing goals

Report Outline

This report provides a potential program outline for four pilot programs. The programs have been designed based on implemented models and lessons learned in other California cities, and have been adapted to West Hollywood’s conditions and policy objectives. For each program in this report, the program’s purpose, target households, eligibility, funding, and additional program considerations are outlined. All elements of each program are based on a synthesis of prior research adapted to West Hollywood. Each program was formulated based on discussions with Housing Division staff, as well as outside experts working on similar programs elsewhere.



Affordable Backyard Cottages

Program Description

The Affordable Backyard Cottage Pilot Program is aimed at building new affordable units in the backyards of existing homes in West Hollywood. This initiative targets civic-minded homeowners who want to make a difference in alleviating the City's affordable housing shortage while also improving their property and generating rental income.

The City will provide incentives through a "one-shop-stop" offering design guidance, financing options, and construction assistance to guide homeowners through the entire process of building an accessory dwelling unit (ADU). In exchange, once construction is complete, homeowners will agree to work with social service agencies to rent units to extremely low-income households for at least ten years. These tenants will pay Fair Market Rent through pre-allocated Section 8 vouchers. These vouchers will pay the monthly difference between 30% of the tenant's household income and Fair Market Rent based on federal guidelines.

In the first round of funding, the City will accept applications and select up to three homeowners to work with the City's sponsored team to build affordable backyard cottages. This will also provide an opportunity for the City to test the program and work out issues before dedicating funding for a larger initiative. West Hollywood has a long history of socially progressive activism, and this program harnesses that spirit to build affordable housing in the City's backyard.

Key Program Considerations

Here are some key considerations for this program to be successful:

- **Build a strong team:** Navigating ADU construction is challenging, especially for homeowners unfamiliar with real estate. This program facilitates production by providing technical assistance (architecture, construction, and financing) to guide homeowners through the development process. The City should select an expert team with strong technical and communication skills.
- **Developing a user-friendly experience** that is accessible to consumers is a key programmatic goal. Participating homeowners should feel supported through the entire process, from the initial start-up through design, construction, financing, and rent-up. This can be accomplished by assigning a project manager to each homeowner. For the pilot programs, the City can assist by providing a fee-for-service contract with the project manager.

- **Provide ongoing support services to renters:** The program is expected to serve households earning 30% AMI or less, some of whom may be formerly homeless or need ongoing support services. While the Section 8 vouchers will ensure rental support, providing access to other social services will be important to stabilizing tenants and ensuring long-term success.

Eligibility

1. Building type: funding will be made available for new detached construction or a garage conversion
2. Applicant eligibility: current West Hollywood homeowner. Applicant must live on the property as a primary residence.

Priorities

The primary goals of the Backyard Cottage Pilot Program are to:

- Complete demonstration projects that serve as models for efficient construction of accessory dwelling units (ADUs)
- Forge partnerships with existing organizations and develop a team of professionals who will assist homeowners through every step of the development, construction, and leasing process
- Enable households with Section 8 vouchers, including homeless and formerly homeless, to access safe and secure housing in West Hollywood and ensure tenants have access to ongoing supportive services
- Identify ways to improve the City's ADU review and approvals process
- Show that socially-conscious investments align with long-term financial benefits to homeowners

Partnerships

The process of building an ADU requires significant expertise, time, and money to navigate through design, permitting, and construction. Traditional financing to construct ADUs is often not accessible to homeowners. This program will test a new collaboration that will help homeowners navigate this process by combining all services needed to complete a Backyard Cottage under one roof. The City will collaborate with third-party organizations, similar to a recently implemented City of Los Angeles program, to provide the following services:

- Architecture and Design
- Construction

- Financial Loans
- Social Service Organizations for Tenant Referrals

This program is modeled on the City of Los Angeles' Backyard Homes program, and given the partnerships that already exist in that program, West Hollywood should outreach to organizations that already provide services to the City of Los Angeles to see if they would be willing to expand into West Hollywood. The following section offers suggested models and organizations for partnership opportunities.

Architecture and Design/Construction Assistance

The City will issue an RFP and solicit design and construction firms to launch the pilot program. The architecture and design team will be responsible for proposing a design that meets all city code requirements, including setbacks, lot coverage, building height, and applicable building codes.

In addition to providing the design services needed to get a project approved by the City's building department, another key role will be to serve as the program ambassador, guiding homeowners through the development process and cogently communicating how it works, including the financing and leasing process. Rather than asking the homeowner to contact disparate partners to discuss design, construction, and financing, the design consultant is expected to bring the "one" to the "one-shop-stop". This includes communicating a full narrative of how the program works to homeowners and acting as a liaison to other partners. The architecture/design consultant is expected to be the primary point of contact for the homeowner, providing excellent customer service through the duration of the project. The consultant will be responsible for working closely with the homeowner towards the full completion and leasing of an Affordable Backyard Cottage.

Similar to the SAFE program, which offers a small developer fee to encourage non-profit participation, the architecture and design consultant will be eligible to earn a developer fee of up to \$25,000 per Affordable Backyard Cottage in addition to the cost of its design fees. For the pilot program, the City will provide direct funding for each affordable ADU to enable the consultant to build capacity for this role. In the future program, this fee can be paid by the homeowner by rolling the cost into the refinancing of the property.

LA Más

LA Más is a non-profit urban design firm whose mission is working with underserved communities through policy and architecture. This group was instrumental to launching the City of Los Angeles' Backyard Homes program. LA Más has extensive experience developing ADUs and could be a good resource for West Hollywood as it develops its program.

Construction

The City can either issue an RFP and solicit contractors to be added to a pre-approved list or allow homeowners to directly bid the ADU to any contractor of their choice. For the pilot program, because this is a demonstration project, it may be worthwhile to work with a pre-selected contractor who has been pre-vetted by the City for capacity, cost, and construction experience. For Los Angeles' demonstration project, the City used Habitat for Humanity to construct the ADU. Ultimately, the contractor will enter into an agreement with the homeowner to ensure the project is constructed within a reasonable time period.

Financing

Obtaining financing is often the biggest challenge that homeowners face.¹ Some homeowners borrow against the existing equity in their property, while others draw from their own cash or personal resources. For homeowners with limited personal savings and not enough home equity to fund construction, the City of West Hollywood will partner with third-party lenders to offer predevelopment and construction financing.

Self-Help Federal Credit Union

Self-Help FCU is a credit union whose mission is to create and protect ownership and economic opportunity for all, with a focus on those who may be undeserved by conventional lenders, including people of color, women, and low-wealth families and communities. For the LA program, Self-Help FCU created a unique financial product specifically catered to the new construction of ADUs. It offers a permanent mortgage product that allows a qualified homeowner to fund the costs of ADU construction by refinancing their existing mortgage and taking out additional funds to pay for ADU construction costs.

The terms of Self-Help FCU's loan program include the following:

- a. Fully underwritten first mortgage used to repay any existing mortgage(s) and funds to pay for projects costs for ADU construction and soft costs
- b. Fixed rate, no PMI with terms up to 30 years
- c. Applicants seeking financing must intend to live on the property
- d. Applicants must qualify for the loans, open up a savings account with Self-Help FCU, and pay costs associated with taking on the mortgage, including closing costs equivalent to 4% of total project costs

Genesis LA Economic Growth Corporation

Genesis LA Economic Growth Corporation's mission is to deliver financials solutions that

¹ According to a 2017 study by Karen Chapple "Jumpstarting the Market for Accessory Dwelling Units," few homeowners can borrow against the future expected value of the unbuilt ADU to help finance its construction.

advance economic and social opportunities in underserved communities. Genesis LA can provide predevelopment funds to pay for permits, plans, and other predevelopment costs. Any predevelopment funding will be repaid by the homeowner once they close on their loan with Self-Help FCU. For the pilot program, in-lieu of partnering with Genesis LA, the City of West Hollywood can provide \$25,000 as a loan to pay for predevelopment costs, which could reduce the number of partners needed for coordination and advance the project more quickly. In the future program, Genesis LA, or another third-party lender offering predevelopment financing, can provide these funds directly to homeowners.

Leasing and Partnerships with Social Service Organizations

A key provision of the Affordable Backyard Cottages is to enable low-income residents to find stable housing in West Hollywood. In exchange for the city's assistance to creating a new legal dwelling unit, homeowners will be required to commit to renting their ADU to a Section 8 tenant for at least ten years.

Partnering with social service organizations to match landlords with a strong pool of prospective Section 8 tenants and connecting tenants with supportive services is vital to the program's success.

Brilliant Corners

Brilliant Corners is a nonprofit supportive housing provider that offers full-service person-centered housing planning and community placement. In addition to developing, owning, and managing supportive housing, the agency is a leader in providing scattered-site supportive housing, including to people with disabilities and other vulnerable individuals and families, with an emphasis on those transitioning from homelessness or institutional settings. Brilliant Corners currently has a partnership with the Los Angeles County Department of Health Services (DHS) to identify tenants, secure Section 8 vouchers, and coordinate the lease signing. Moreover, tenants receive case management services through Brilliant Corners, which provides them with ongoing support services.

Funding

City Funding

1. Maximum city subsidy: for the pilot program, the City will provide up to \$25,000 per unit for predevelopment services (includes architecture/design/construction management services) and another \$30,000 per unit for construction
2. Term: 10-year term
3. Interest rate: no interest, no monthly payment
4. Repayment: This is a deferred loan, forgivable at the end of the term assuming the borrower complies with all provisions of the agreement. If the property is sold or title

transferred prior to the end of the term, or if the borrower is deemed to be out of compliance, payoff will be due immediately, equivalent to the principal amount of the loan, which will include all funds advanced by the City for predevelopment services and construction.

5. Minimum Down Payment Requirements: The borrower must contribute a minimum of \$5,000 towards the Affordable Backyard Homes project.

First Loan – Sample Terms

The City will work with preferred lenders for the pilot program. Here are some sample terms for the first mortgage:

1. Maximum loan amount: first mortgage will be used to repay any existing mortgage(s) on the primary home and to fund project costs for ADU construction and closing costs
2. Term: 30-year term
3. Interest rate: fixed rate
4. Closing costs: lenders can charge customary and reasonable costs necessary to close the mortgage loan. Excessive origination points are not permitted. Closing costs (e.g. origination, title, escrow, and recording fees) shall not exceed 3% of the total mortgage.
5. Financial analysis: the lender will provide a basic financial analysis of project revenue and expenses to qualifying homeowner finalists to determine financial viability
6. Affordable housing term: the borrower will agree to rent their ADU to Section 8 tenants for at least ten years following construction completion

The table below highlights the monthly mortgage for a 600 square foot ADU with costs ranging from \$150,000 to \$200,000. A backyard one-bedroom that costs \$150,000 rented to a Section 8 tenant at \$1,158 per month can fully cover the ADU's mortgage payment. A one-bedroom ADU that costs \$200,000 to build can be rented to a Section 8 tenant at \$1,522 and fully cover the mortgage payment. Under the Section 8 program, tenants pay 30% of their gross income, and the voucher makes up the difference between what they can afford to pay and the fair market rent.

Table 1: Comparison of ADU Development and Operating Costs with Rental Income

Estimated Total Project Cost	\$ 150,000	\$ 200,000
Total SF	600	600
Cost/SF	\$ 250	\$ 333
Monthly Mortgage Payment (a)	\$ 716	\$ 955
	<u>Studio</u>	<u>1-BDRM</u>
Rent (b)	\$ 1,158	\$ 1,522
Less Monthly Property Tax (c)	\$ (144)	\$ (192)
Less Monthly Insurance (d)	\$ (38)	\$ (50)
Less Operating Expenses	\$ (125)	\$ (125)
Net Operating Income	\$ 852	\$ 1,155
Less Mortgage	\$ (716)	\$ (955)
Monthly Cash Flow	\$ 136	\$ 201

Notes:

(a) Monthly payment assumes 4% interest rate and a 30-year term.

(b) Based on the Housing Choice Voucher Payment Standards published by the Los Angeles County Development Authority as of 10/1/2018.

Sources: LA County Development Authority, 2019.

Administrative Elements

Homeowner Training

1. Homeowners will be required to participate in landlord training from a city-approved list. The program will provide an explanation of the program, landlord training and responsibilities, how Section 8 vouchers work, so homeowners will be comfortable with the tenant selection process and services available.

Tenant Selection, Income Thresholds, and Rent

1. Matching: Non-profit partner organizations will support landlords by matching them with a pool of prospective Section 8 tenants and connecting tenants with supportive services when needed.
2. Eligible tenants must either be a single-person or family whose income does not exceed the area limits set by HUD. Only households meeting extremely low-income (ELI) and Very Low Income (VLI) standards will be eligible for Section 8 assistance.
3. Rent: The rent the landlord will receive will be determined by the Section 8 voucher payment standard. According to the Los Angeles County Development Authority, the current the voucher payment standard is
 - a. \$1,158 for a studio
 - b. \$1,522 for a one-bedroom

The landlord will receive the full agreed-upon rent as determined by the agency issuing the voucher. The tenant is expected to pay 30% of its household income towards rent. The agency issuing the voucher will be expected to pay the difference between the voucher payment standard and the tenant's portion of rent.

Additional Program Considerations

- City Council can choose to target specific populations served by this program, including homeless individuals or seniors. These populations often require other services in addition to stable housing, and West Hollywood can work collaboratively with their partners to require a workplan that includes ongoing case management.
- The City should consider whether to target this program to households with modest means, including those between 120% to 195% of Area Median Income. This would provide an opportunity for the City to first offer assistance to households who would benefit the most from equity building.
- The City may need to provide small construction cost subsidies, if the cottage construction costs do not yield sufficient return to the homeowner per Section 8 voucher rent revenue.

- The City can also consider accepting applications from owners of multi-family unit dwellings who want to add an Affordable Backyard Cottage on their lot. Currently, this is not permitted under the City’s existing zoning code, but the pilot project may provide a test case for how the City’s zoning ordinance could be modified to allow ADUs to be built on multi-family properties.
- In October 2019, the State legislature passed AB 68/AB 881/AB 671 to further incentivize construction of ADUs. AB 881 requires local agencies to ministerially approve or deny an ADU project within 60 days of receiving a complete building permit application. The new law explicitly permits an ADU and a junior ADU (500 sf or less) on single-family lots where certain criteria are met, which has been referred to the “tripelex-ation of single-family zoning. Further, it identifies opportunities for new ADUs within multifamily buildings, including storage rooms, laundry rooms, etc. where building standards are met. This expands the universe of ADU projects that could qualify under this new program. For the pilot program, each Affordable Backyard Cottage will require a City subsidy of \$30,000 to pay the developer fee and another \$25,000 predevelopment loan that can be repaid upon refinancing. Financing up three homeowners for the demonstration projects will cost the City a total of an estimated \$150,000; the tenant’s income plus Section 8 Voucher should be sufficient to support a conventional income property loan. If West Hollywood decides to launch a full program, assuming both the developer fee and predevelopment costs can be rolled up in the refinancing, this program could require no ongoing subsidy, except for costs associated with a staff person to manage the program.

Evaluation Metrics

This section highlights metrics that can be used to evaluate the effectiveness of the Affordable Backyard Homes pilot program.

- Program demand
 - Number of inquiries about the program
 - Conversion rate: number of inquiries that result in program participation
 - Identify reasons why some households decide not to participate
 - Pipeline/waiting list when funding expires
- Program implementation
 - Average cost to construct an ADU, including hard and soft costs, by ADU type (detached, attached, garage conversion etc.)
 - Comparison between Section 8 rent and monthly carrying cost (operations + mortgage) for each ADU. Identify the number of units that generate positive

versus negative cash flow for property owners and calculate the average return on cost.

- Zoning/planning metrics: average number of parking spaces required per ADU, average unit size (sf) of permitted ADUs, incremental density added to neighborhood or block
- Tracking progress: length of time from initial interview to design approval, construction completion, and tenant move-in. Evaluate the average length of time for each step in the process.
- Feedback from partner organizations on program implementation and areas for improvement
- % of FTE (City staff) time spent managing each project
- Feedback from participants when projects are complete and suggestions for improvement
- Program effectiveness
 - Range of tenant AMIs and household types served
 - Average length of tenure for tenants
 - Average number of visits from supportive service agencies per month
 - Landlord satisfaction with program and issues with tenants
 - Relative increase in property value resulting from ADU
- Subsidy
 - Average city subsidy per unit
 - City subsidy, as a percentage of total development cost
 - Average city subsidy per year of affordability (assuming 10-year affordability period)

Estimated Cost and Unit Yield

The estimated average subsidy is \$55,000 per unit. Assuming the City seeds this program with funding between \$2 million to \$10 million, the SAFE program could support 36 to 180 units in the pilot phase.



Strategic Acquisition & Financing of Existing Multifamily Housing

Program Description

West Hollywood's Strategic Acquisition and Financing of Existing Multifamily (SAFE) Housing Program is designed to mitigate the forces of displacement and eviction. Some cities have turned to land-banking strategies, through the creation of community land trusts, to preserve the stock of naturally occurring affordable housing. Although West Hollywood has rent stabilization, landlords have been able to reset rents to market rates when tenants voluntarily move out, which has eroded housing affordability over time.

This pilot program imitates a land-banking strategy, providing non-profit housing organizations access to city funds to acquire existing buildings in the open market to convert for permanent affordability. Eligible apartment buildings include properties with five to ten units where existing tenants average 80% of Area Median Income (some can earn more and others less, as long as all households average 80% AMI).

Non-profits can finance a portion of the acquisition cost through a conventional loan, supported by the building's existing rents. City funds will be used to bridge the gap between the market-rate acquisition price and the supportable debt, and funds can be used for rehabilitation. Buildings purchased through this program will be required to remain affordable in perpetuity, ensuring the City has a supply of permanently affordable housing for existing residents and future generations.

Key Program Considerations

Here are some key considerations for this program to be successful:

- ***Nimble funds:*** for non-profits to compete with market-rate investors in the open market, city funds have readily accessible to non-profits. San Francisco, which developed a similar program, launched a spin-off Housing Accelerator Fund to facilitate the swift deployment of public funds, so non-profits would be competitive in offers for market-rate deals.
- ***Funds eligible for rehabilitation:*** ensuring city funds are available for capital improvements that extend the longevity of buildings is an important feature of this program. Non-profits will have an opportunity to update buildings that may be in need of capital repairs.

- **Partnerships with banks:** because a portion of the acquisition funding will come from conventional loans supported by the building's net operating income, building relationships with lending partners to get them comfortable with the program is important. The City may want to work with one or two lending partners for this pilot initiative.
- **AMI Flexibility:** while the program targets buildings with tenants' households averaging 80% of Area Median Income, the funding sources need to be flexible enough for non-profits to access funding on a per-unit basis, even if one tenant earns more than 120% AMI. This program will likely need to combine funding for multiple sources, some of which are flexible without strict income limits.

Eligibility

1. **Building type:** residential buildings with 5-10 units. All units must meet the City's definition of dwelling unit.
2. **Income:** The residents in the building must meet certain income targets for the building to qualify for funding under this program. Tenant households residing in the building must average 80% of Area Median Income (AMI) at the time of loan closing.
3. **Appraisal:** the acquisition price must be substantiated by an appraisal and may not exceed purchase prices for comparable buildings in the area. The City reserves the right to decline an application for funding due to an unreasonable acquisition price.

Priorities

Applications will be reviewed in the order received; however, if multiple projects have been submitted and there are insufficient funds available, applications will be prioritized based on the following criteria:

1. Building is at immediate risk for Ellis Act eviction or in the process of an Ellis Act eviction. At-risk buildings include those where tenants are facing threats of eviction, harassment, have received offers to buy-out their tenancies, and other similar indicators.
2. Existing residents include vulnerable populations, such as seniors, disabled, and families with minor children.
3. Residents with the lowest incomes
4. Buildings that require the lowest amount of subsidy per unit

Funding

1. Maximum city subsidy: the maximum subsidy for acquisition, rehab and permanent financing is \$250,000 per unit.²
2. Term: 30-year term
3. Interest rate: 2% annual interest. Loan repayments shall be applied first to interest and second to principal. However, if in any given year, the building generates insufficient cash flow to repay all interest due, unpaid interest due for that year shall be forgiven.³
4. Restriction term: a declaration of restriction will be recorded in first position on title, senior to all deeds of trust, that continue for the life of the project, surviving expiration of the Loan Term, default, foreclosure and/or loan repayment
5. Repayment: the loan will be repaid in full at the conclusion of the loan term or upon any transfer of title that results in a loss of affordability
6. Refinancing of senior debt: the City encourages non-profit sponsors to seek the longest term possible for the first mortgage. If the first mortgage includes a balloon payment, refinancing of senior debt is acceptable, subject to the City's review and approval. The City has the option to extend its loan term upon refinancing for the purpose of preserving affordability.
7. Cash-out refinances are only permitted for improving and rehabilitating the same building supporting the cash-out refinance. 100% of the cash-out refinance must be deposited into the building's replacement reserve and be utilized for an immediate capital project.
8. Subordinate financing to the City's loan and credit lines secured against the property are prohibited, except for acquiring the site when sufficient other financing sources are not available or when necessary to finance capital projects that benefit the health, safety, or efficiency of the building, such as seismic upgrades or major systems rehabilitation. All subordinate financing must be approved in writing by the City. The non-profit sponsor must demonstrate adequate cash flow for payment of subordinate debt without additional resources from the City.

² Currently, funds from the City's Housing Trust Fund cannot be used to acquire units occupied by households earning more than 100% AMI. However, for this program to be effective, non-profits need certainty about how much funding is available to purchase a building without having to income-qualify all tenants, which takes time. In order to make this program user-friendly to nonprofits, this program anticipates combining City HTF with other sources that don't restrict spending by AMI levels.

³ The City can also choose to match the terms of this loan with other City programs (e.g. term, rate, repayment, etc.)

Administrative Elements

Notification and Consent

1. 100% of households in occupied units must be notified of the intent to acquire and restrict the building under the SAFE Program.
2. As an indication that tenants support a non-profit sponsor's purchase of the building, a majority (50% +1) of existing households must acknowledge their agreement for the non-profit Sponsor to purchase the building.

Tenant Income Thresholds for Program Participation

1. Income: The current residents in the building must meet certain income targets for the building to qualify for funding under this program. The average tenant households may not exceed 80% of Area Median Income. Non-profit sponsors may include proposed rents for vacant units in this determination.
2. Participation: at least 60% of households must income certify for the building to be eligible for inclusion in the program. Up to 40% of households may be over income (above 100% AMI) or refuse to certify without rendering the property ineligible. All units will be restricted for the life of the project, regardless of whether the unit's occupants complete the income certification process.

Initial Rents

1. If an existing household's rent is equal to 30% of the household's gross monthly income, the household's lease will be upheld at the then-current monthly rent level.
2. If an existing tenant household is severely rent burdened, and the household's rent exceeds 50% of the household's gross monthly income, the household's rent will be lowered up to a maximum of 30% of the household's gross monthly income.
3. If an existing household's rent is less than 30% of the household's gross monthly income, the household's rent will be increased to a minimum of 20% of the household's gross monthly income and, if required for project financial feasibility, up to a maximum of 30% of the household's gross monthly income. Rent increases may be phased in over five years.
4. At the next anniversary of tenancy or SAFE loan closing, households residing in the building will be subject to rent increases according to the following section.
5. Nonprofit sponsors must execute new leases or provide written 30-day notice of change of terms in existing leases with tenants that clearly delineate the SAFE rent restrictions

and that the tenancy is not subject to West Hollywood's Rent Stabilization Ordinance.⁴ Tenant leases are subject to review and approval by the City of West Hollywood.

Rent Increases and Ongoing Affordability

1. Annual rent increases allowed as follows:
 - a. Nonprofit Sponsors must increase tenants' rent once per year by the amount of the General Adjustment set by the Rent Stabilization Commission. Nonprofit Sponsors reserve the right to increase rent by the General Adjustment if they do not charge it to the tenant within a two-year window after the Commission sets the amount.
 - b. Nonprofit Sponsors shall request and make best efforts on an annual basis to receive an increase in contract rent for households holding rent subsidy vouchers, such as Section 8 and VASH, equivalent to the percentage change in Fair Market Rent (FMR) or equivalent payment standard, whichever is greater.
 - c. Annual rent increases are permitted even if the average rents for the building increase above 80% AMI due to the annual rent increases and/or changes in the published AMI levels.
2. Annual certification: Nonprofit Sponsors are required to conduct income recertifications annually
 - a. Once a tenant household has qualified to rent a unit, changes in the household's income will not disqualify the household from continuing to reside in a SAFE-financed building.

Establishing Rents Upon Vacancy

1. At each vacancy, Nonprofit Sponsors are required to ensure that the building achieves 80% AMI average rents. For each unit that becomes vacant, prior to re-occupancy, the rent for such unit shall be set at the amount necessary to bring the building's combined average rents as close as possible to 80% AMI. Rent for any single unit may be set up to a maximum of 120% AMI.
 - a. New rents established after vacancy must be reported to the City.
2. Hardship: If the Nonprofit Sponsor requires a rent increase greater than the amount allowed by the Rent Stabilization Commission in order to maintain financial feasibility, the Nonprofit Sponsor may petition the City of West Hollywood for such an increase. Increases may be phased in over time, and low-income tenants and seniors may be

⁴ In San Francisco, where a similar program exists, buildings purchased through this program are removed from the City's rent stabilization ordinance. Annual rent increases can be governed by covenants in the declaration of restrictions recorded against the property and may be tied to increases established annually by the Rent Stabilization Commission (see below).

eligible for exemptions. Approval shall be subject to the City's sole discretion and in compliance the City's loan documents.

3. If a Nonprofit Sponsor increases rents or offers a vacant unit for rent at a rate that exceeds program rules, the resulting excess cash flow will be due to the tenants who were overcharged, and the Nonprofit Sponsor will be in default of the terms of its loan.

First Loan Terms

1. Preferred Lenders: All SAFE Nonprofit Sponsors are required to leverage City funds with a first mortgage. A list of preferred lenders who are familiar with the SAFE program will be available upon request; however, applicants are free to select a lender not on the preferred list of the lender can comply with program requirements and the applicant is able to secure better terms.
2. Suggested loan terms: City is providing the following suggested loan terms for first mortgages under the SAFE program. The City's loan approval is subject to its review of all underlying third-party financing terms and determination that they are not in conflict with the City's loan agreement and ancillary documents.
 - a. Acquisition loans that automatically convert to permanent with a 10-year minimum term
 - b. 30-year amortization schedule
 - c. 1.10 to 1.15 debt service coverage ratio (calculated after accounting for reserve deposits)
 - d. Nonrecourse to the borrower
 - e. Low interest rates
 - f. No more than 1.5% lender loan fees
 - g. No cross-collateralization

Required Reserves

1. Capitalized Operating Reserves: 25% of budgeted 1st full year operating expenses (including hard debt service) in an interest-bearing account⁵
2. Capitalized Replacement Reserves: \$2,000 per unit deposited in an interest-bearing account

⁵ The capitalized operating reserve requirement is modeled after San Francisco's program and is conservative, requiring a substantial upfront injection towards the operating reserve. The purpose of setting a high standard is to ensure the building can draw from established reserves for future upgrades, especially if the building does not undergo a rehabilitation upon purchase. West Hollywood may want to adjust this requirement to match other funding programs or align this requirement to other state or federal programs.

3. Capitalized Vacancy Reserve: the monthly rent for residential units that are vacant at acquisition multiplied by the number of months the unit will remain vacant during predevelopment, rehabilitation, marketing/lease-up.
4. Operating Reserve Deposits: none unless the balance drops below 25% of the prior year's operating expenses (including hard debt service). Any such payment would be made from available cash flow.
5. Replacement Reserve Deposits: \$400 per unit deposited in an interest-bearing account

Developer Fees

1. A flat developer fee will be available for \$80,000 per building, payable at the end of rehabilitation
2. The portion of developer fee that is payable at the end of rehabilitation will be at-risk for costs exceeding final approved budget at commitment of financing.
3. If the project is unable to support the level of developer fee indicated, the Nonprofit Sponsor may request that the remaining fee be deferred over a maximum 10-year period, payable after all other required expenses are paid but before the residual receipts split.

Exceptions

The City reserves the right to waive any portion of the SAFE program guidelines, or to make exceptions on a case-by-case basis, for the purpose of preserving at-risk buildings as permanently affordable housing. Such waivers and/or exceptions shall be grant through the City's written approval in consultation with the senior lender. Waivers and exceptions will not appl to the senior debt unless approved by the senior lender.

Other Program Considerations

Currently, the program is written so that the Nonprofit Sponsor has the option to decrease rents for existing tenants who are rent burdened AND increase rents for tenants who can afford to pay more. For example, after the initial screening to test if the project is eligible for city funding (at least 60% of tenants must be 80% AMI households or less), the Nonprofit Sponsor can adjust rents so that tenants who are extremely rent burdened (paying more than 50% of gross income to rent). These tenants will benefit from a rent decrease, so they will pay no more than 30% of gross income to rent. On the other hand, tenants who are paying a low proportion of their gross income may have their rents raised to at least 20% of gross income, or up to 30% of gross income, if needed for project feasibility.

The table below compares two policy alternatives: one in which there is no change to rent, and

another where the average monthly rents increase slightly because some renters can afford to pay more. As shown, a \$162 increase in average monthly rent results in a significant decrease in the average City subsidy needed to acquire the building, from \$165,000 per unit to \$140,000 per unit. Final program design should include consultation with City Council and will depend on whichever of these policy options best meets the City’s housing goals.

Table 2: Impact of Rent Adjustments on Public Subsidy Needed for SAFE Housing Program

	No Change in Rents	Option to Adjust Rents
924 North Stanley (a)		
Average Monthly Rent/Unit	\$ 1,588	\$ 1,750
Annual Effective Rent	\$ 190,592	\$ 210,000
Annual Operating Expenses	\$ 76,535	\$ 76,535
NOI	\$ 114,057	\$ 133,465
Interest Rate	5.00%	5.00%
Sales Price	\$ 3,125,000	\$ 3,125,000
Debt Coverage Ratio	1.20	1.20
Monthly Debt Payment	\$ 7,921	\$ 9,268
Supportable Loan	\$ 1,475,467	\$ 1,726,533
City Subsidy to Bridge Acquisition	\$ 1,649,533	\$ 1,398,467
City Subsidy Per Unit Cost	\$ 164,953	\$ 139,847

Note:

(a) This is a 10-unit rental building constructed in 1959 that was sold in 2018.

Source: Urban Math, 2019

Evaluation Metrics

This section highlights metrics that can be used to evaluate the effectiveness of the SAFE pilot program.

- Program demand
 - Number of non-profits seeking funding from the program
 - Number of properties and units requesting funding
 - Conversion rate: number of eligible properties and units from total pool. Distinguish between properties that are deemed ineligible because households don’t meet the AMI average from properties that sell to other market-rate buyers
 - Pipeline/waiting list when funding expires
- Program implementation
 - For projects receiving SAFE funding, identify the following:

- Total number of buildings and units preserved under the program
 - Average building size (units)
 - Average acquisition cost per unit
 - Average rehabilitation cost per unit, if applicable, and type of improvements made (e.g. seismic, major systems retrofit, etc.)
- Time to close on property acquisition once applicant identifies properties and requests SAFE funding
- Feedback from partner organizations on program implementation and areas for improvement
- % of FTE (City staff) time spent managing each project
- Program effectiveness
 - Tenants living in buildings acquired using SAFE funding
 - Demographics, range of tenant AMIs, and household types served including any vulnerable populations (e.g. seniors, disabled, families with children, etc.)
 - Average length of residency in unit
 - Range of rents by unit size
- Subsidy
 - Average city subsidy per unit
 - City subsidy, as a percentage of total purchase price
 - Average city subsidy per year of affordability (assuming long term affordability period)

Estimated Cost and Unit Yield

The estimated average subsidy is \$175,000 per unit. Assuming the City seeds this program with funding between \$2 million to \$10 million, the SAFE program could support 11 to 57 units in one to six buildings, in the pilot phase.



Dream Home: Buyer Assistance and Shared Appreciation

Program Description

This program is intended to assist moderate income households with reaching the goal of homeownership in West Hollywood. Moderate-income households (e.g. two workers earning \$70,000 per year) cannot afford to purchase a home in the city, given the high cost of housing. This program would enable households to bridge the difference a mortgage they could afford with the market-rate price of a home. Due to the high cost of market rate housing, it is assumed that the units being assisted would be primarily condominiums or townhouses. The program is structured to provide purchase assistance through a City-funded “silent second” mortgage with shared appreciation upon re-sale of the purchased unit in later years.

Buyers will make mortgage payments calibrated to just an affordable amount (e.g., typically approximately 30 to 35% of income for principal, interest, taxes, insurance, and HOA costs), with City funding filling the balance of the purchase price lent to the buyer as a zero-payment, zero-interest second mortgage, re-payable on future re-sale. In addition, the City would receive the proportionate share of unit appreciation on the future market-rate re-sale.

Key Program Considerations

Here are some key considerations for this program to be successful:

- **Prioritize homeownership education and support:** transitioning households from renters to first-time homeowners is a key pillar of this program. Integrate a “hands-on” approach that emphasizes homeowner education and budgeting to support successful outcomes.
- **Develop working partnerships with lenders** familiar with the City’s program, guidelines, and underwriting criteria
- **Dedicate staff** to work on this program to coordinate City’s processes with homebuyers and lenders

Eligibility

Applicant Eligibility Requirements

The applicant to this program must:

- Be a first-time homebuyer who will reside at the property as a principal residence. No member of the applicant household may have owned any interest (sole or joint) in a residential unit in the past⁶
- Meet household income eligibility (between 80% and 175% AMI based on figures published by HCD pursuant to CA Health and Safety Code HS&C Section 50093)⁷
- Have liquid assets less than \$300,000
- Complete a mandatory Homebuyer Education Course and one Homeowner Counseling Session⁸⁹
- Have been pre-approved by a City of West-Hollywood approved mortgage lender¹⁰
- Demonstrate savings and/or source of gift funds for at least 5% down payment¹¹
- Complete an application (and can show eligibility) for annual lottery for program

Property Eligibility Requirements

All properties purchased with Dream Home funds must be within the City of West Hollywood. Eligible properties include single-family homes, condominiums, townhouses, lofts, or live/work units, as long as the property will be used as the owner's principal residence.

Housing types excluded from the program are:

⁶ The following interests shall not disqualify an applicant from being considered a first-time homebuyer: (a) appearing on title solely in the capacity as a trustee for a trust or being named as a beneficiary of a trust that includes a housing unit as a trust asset, when the trustor is living at the time and in the residence, (b) participating as a loan co-signor without interest on title, (c) ownership of timeshares.

⁷ Other cities with similar programs allow up to 175% AMI and 200% AMI for First Responders, but this would further limit the number of households that could be assisted by the same funding allocation. The AMI limit will be a City policy decision.

⁸ HCIDLA has approved several providers for this requirement in a similar first time buyer assistance program. West Hollywood may be able to select and contract with one of the providers located nearby. See list in Appendix B.

⁹ This matches HCIDLA programs, but the City of San Francisco requires six-hour group class and then at least two hours of 1-on-1 counseling with review of financial records and qualifying/loan application support.

¹⁰ HCIDLA has a pre-approved list of lenders to process first and 2nd loan applications. See Appendix B.

¹¹ The City of San Francisco requires a 5% down payment from buyer, but half of this can be obtained from a gift. The other half must be demonstrated by bank balance in savings account or other liquid assets. Similar programs with HCIDLA and LACDA require only 1% down payment, which is not recommended here.

- Manufactured homes
- Cooperatives
- Investment homes
- Rental homes or any home a portion of which is to be rented
- Properties purchased through a non-arm's length transaction

Process

Once a potential buyer meets the eligibility requirements listed above (a process that can take 4 or 5 months to complete), and applies to the lottery, the City will hold a lottery for all eligible applicants. The City will select and rank order at least 50% more households than available funds for that year, because the next steps in the process limit the time period for the buyer to seek and enter into a sales contract. The assistance is offered on a revolving basis; if the first lottery ranked applicant cannot secure a unit within the allotted time period, the offer for assistance is withdrawn and the next-ranked household is offered assistance. This process continues until all funds allocated for that annual cycle have been committed.

In summary, the process is as follows:

1. City organizes program
2. City announces program
3. Potential applicants meet eligibility requirements
4. City determines initial eligibility of potential lottery applicants
5. Lottery application period is announced
6. Lottery is held on specified date (the City will send an email with rankings within 48 hours and mail letters within a week)
7. First-ranked household is notified of open period. This household must enter into a purchase contract within a specified time period (recommended at 60 days from date of notification of ranking)
8. Lender completes full loan approval process. Closing date is scheduled per minimum needed by City to complete process.
9. City commits funds. Next ranked household is notified of open period.
10. Process repeats until all funds allocated to the annual cycle have been expended.

Priorities

The City can decide to target specific populations for this program, including current West Hollywood residents, teachers, first-responders, City employees, or other priority groups. The

set-aside can either established as a target percentage (e.g. 5% of total funds dedicated to a certain population) or a distinct fund accessible to specific groups (e.g. \$700,000 only for teachers).

Funding

1. First Loan/Mortgage: Borrowers applying for City funds must be able to qualify for a first mortgage from a participating lender before submitting a pre-approval application for a Dream Home loan. Borrowers must have sufficient funds to meet the required down payment and necessary reserves to close the purchase transaction. The Dream Home loan must be in second position behind the first mortgage, unless expressly permitted in writing by the City of West Hollywood.
2. Maximum city subsidy: The City's silent second loan will match the supportable 1st mortgage up to \$375,000¹²

For example, if buyer can only support a \$300,000 first mortgage, the City's silent second mortgage is limited to \$300,000, and total purchase price is limited to approximately \$631,500, which includes the minimum required 5% down payment. However, if buyer can support a \$400,000 first mortgage, the City's second mortgage is capped at \$375,000, meaning total sale price is limited to approximately \$815,800.

3. Term: 30-year term. If requested by the borrower, the City may approve, at its sole discretion, a maximum of two five-year extensions at the year of the 30-year loan period.
4. Interest rate: no interest, no monthly payment
5. Repayment: This deferred loan is due upon the sale, rent, or title transfer of the property. The payoff due is the principal amount of the loan plus a proportionate share of the appreciation of the property. The proportional share is based on the ratio of the City's original loan assistance amount to the fair market value of the property at the time of purchase, which is set by the appraisal. At the time the property is sold, the City will determine the fair market value (resale price). The fair market value shall be the greater of the resale price or the appraised value at the time of repayment. If the property has not increased in fair market value, the borrower will be obligated to repay only the principal amount of the loan. See Administrative Elements for further clarification.

¹² HCIDLA and LACDA limit public assistance by limiting eligible purchase price of the unit, which needs to be updated every year to account for fluctuating mortgage interest rates and closing costs, and also may not match market conditions effectively. It is recommended to instead follow City of San Francisco method, which matches supportable first mortgage with same in City silent second up to a cap (CCSF currently caps at \$375,000 maximum second mortgage).

6. Prepayment Penalty: none. Prepayment must be completed in full. If there is a prepayment, the amount due will be determined by an appraisal at the borrower's cost upon the approval of the City to determine the amount of the appreciation
7. LTV and CLTV: The minimum first loan mortgage Loan to Value (LTV) cannot be less than 50% of the purchase price or appraised value, whichever is less. The maximum Combined Loan to Value (CLTV) cannot exceed 97%, which includes the first mortgage, Dream Home, and any other borrowed subordinate financing.
8. Minimum Down Payment Requirements: The borrower must contribute a minimum of five percent (5%) down payment. Of the 5% down payment, 50% must come from the Borrower's own funds from a verifiable source (held in a financial institution), and the remaining can come from gifts or grants. Borrower must have sufficient funds to meet the required down payment and necessary reserve funds prior to submitting a pre-approval application to the City for a Dream Home loan.
9. Closing Costs: Dream Home funds may be used to pay for non-recurring loan closing costs up to 2% of the purchase price or appraised value, whichever is less.
10. Refinancing of Senior Debt is permitted for a lower interest rate and/or better loan term. Borrowers can take up to 3% of the new first mortgage amount as cash out to cover customary closing costs. However, the refinance cannot be greater than the original loan amount.
11. Home Equity Lines of Credit and Home Equity Loans: Borrowers are not permitted to open HELOCs and HELs. Using such programs will be in violation of this program. The Dream Home loan will be immediately due and payable together with the City's share of appreciation if a borrower is deemed to be out of compliance.

Administrative Elements

Reports Required for Closing

1. Home Inspection Reports
 - a. A general home inspection performed by a state-licensed and independent third-party home inspector, is required for all properties purchased with program funds. The inspection shall include electrical, plumbing, roofing, and structural features. A pest control inspection report for wood destroying pests is also required. The inspections reports should be no more than 90 days old at the time of submission, acceptable to the borrower and submitted to the City with the loan application. All reported deficiencies that pose immediate health and safety hazards and code violations must be corrected as a condition prior to funding of the City loan. The City of West Hollywood will not be held liable for any

misrepresentation, false claims, or information contained in the inspection reports.

- b. For newly constructed projects, an inspection report is recommended by not required.
- c. The City of West Hollywood maintains the right to deny the loan, due to the condition of the property.

2. Appraisal

- a. The City requires a fair market appraisal to be completed to the Uniform Standards of Professional Appraisal Practice standards established by qualified appraisers holding a California Certified Appraisal License with experience valuing properties in the Los Angeles region. The appraisal should be no more than 90 days old at the time of submission to the City and be attached to the loan application.

Calculating Income Eligibility: Front-End and Back-End Ratios

- 1. A borrower's monthly housing debt, including mortgage principal, interest, property taxes, property insurance, and applicable mortgage insurance and homeowner association dues cannot be less than 30% (Front-End Ratio) of the gross household income. The front-end ratio cannot exceed 40% of the gross household income.
 - a. Front-End Ratio Assumptions: when determining the monthly amount of property taxes, hazard insurance, and mortgage insurance premiums, the following standard factors will be used, unless documentation is provided to justify actual figures:
 - i. Property taxes: 1.15% of the purchase price, adjusted monthly
 - ii. Hazard insurance: 0.3% of the loan amount, adjusted monthly
- 2. In addition to meeting the front-end ratio criterion, the ratio of monthly housing costs, plus all other household monthly recurring debts (including credit cards, car payments, etc.) cannot exceed 43% (Back-End Ratio) of the gross household income.
 - a. Debts Included in the Ratios: Generally, all recurring debt payments, such as installment payments, revolving account payments, lease payments (e.g. car leases), child support, and other loan payments shall be included in the back-end ratio.
 - i. Installment payments include debts with remaining term of 10 months or more
 - ii. Revolving accounts: assume 5% of the balance if no payment amount is listed on the credit report

- iii. Child support includes alimony or separation maintenance obligations with a remaining term of 10 months or more
 - iv. Student loans must be included in the Borrower's liabilities regardless of the payment type or status of payments. The City shall use either (a) the greater of 1% of the outstanding balance on the loan, or the monthly payment reported on the Borrower's credit report; or (b) the actual documented payment, provided the payment will fully amortize the loan over its term
 - v. Loans Secured by Financial Assets: when a borrower uses his or her financial assets (e.g. 401(K) accounts, life insurance policies, individual retirement accounts, etc.) as security for a loan, the Borrower has a contingent liability. The City will include this contingent liability as part of the borrower's recurring monthly debt obligations when determining the borrower's back-end ratio. A copy of applicable loan instruments showing the debt payment shall be included when submitting a Dream Home loan application.
3. Some borrowers may qualify for first-mortgage financing at higher front-end ratios 33%. Borrowers seeking approval of higher front-end ratios should submit a written request and letter of explanation to the City as part of the loan application. The decision to approve or deny higher front-end ratios will be at the sole discretion of the City. However, the maximum back-end ratio may not exceed 43%.

Given that financial circumstances for each borrower are unique, the City may consider higher front-end ratios if two or more conditions are present:

- a. At least twelve (12) months of housing expenses in reserves through non-liquid assets and retirement accounts;
- b. FICO credit score greater than 700;
- c. Proven ability to devote a larger amount of income to housing expenses. The borrower needs to demonstrate rental payments for twelve consecutive months have been made that are equal to or greater than the proposed monthly payments for the housing being purchased;
- d. Housing expense will not increase more than five percent over previous housing payments

Reserves

- 2. Borrower must have at least three (3) months of housing payments (principal, interest, property taxes, hazard insurance, and homeowner association dues) in reserves after purchasing the home.
- 3. Acceptable sources of reserves include liquid assets (e.g. checking and savings accounts, certificates of deposit, money market or mutual fund accounts, stocks or

bonds, gifts, cash on hand, and investments held by any occupant of the Borrower's household). When vested funds from individual retirement accounts (IRA/SEP/Keogh accounts) and tax-favored retirement savings accounts are used, the City will only count 60% of retirement account funds towards reserves to account for income taxes and early withdrawal penalties. When funds from retirement accounts are used for reserves, liquidation of funds is not required.

Insurance Requirements

1. Hazard Insurance
 - a. For the life of the loan, the borrower will be required to maintain hazard insurance, which includes fire and extended coverage with a loss payable endorsement to the City of West Hollywood.

Calculating Shared Appreciation Upon Resale

Table 2 recaps the flow of funds and shared appreciation from the City of West Hollywood position. The buyer, on re-sale, will receive his/her share of appreciation, along with the difference between net proceeds and any outstanding 1st mortgage principal balance (so the buyer gets equity and the original down payment, assuming house appreciates by re-sale). In addition, most buyers will receive the income tax deduction benefits of homeownership such as mortgage interest and property tax deductions subject to prevailing federal and state tax regulations.

Table 3: Silent Second with Shared Appreciation Example

Position of City of West Hollywood

Original Purchase Price	\$650,000
Weho Slient Second Shared Appreciation Loan	\$300,000
WEHO Share of Appreciation (WEHO Loan ÷ Purchase Price)	46.15%
Future Sales Price	\$850,000
Less: Original Purchase Price	\$650,000
Appreciation	\$200,000
Less: Transaction Costs to Sell Property (6% of Re-Sale)	\$51,000
Less: Eligible Capital Improvements	\$0
Net Appreciation on Re-Sale	\$149,000
WEHO Share of Appreciation	46.15%
Amount of Appreciation to WEHO on Re-Sale	\$68,769
<i>Amount of Appreciation to Buyer on Re-Sale</i>	<i>\$80,231</i>
Total Due to WEHO on Re-Sale	
WEHO Original Silent Second Loan Aount	\$300,000
WEHO Share of Appreciation	\$68,769
Total Due to WEHO on Re-Sale (and available to re-lend)	\$368,769

Additional Program Considerations

- The City of West Hollywood can also choose to refine this program to set aside funding for specific categories of applicants such as First Responders and/or Educators. These applicants would be selected through a separate but similar lottery process.¹³
- The administrative cost for this program may be relatively high given the limited number of households that can be assisted per year. To lower administrative costs, it is recommended that West Hollywood utilize existing approved HCIDLA course providers (for homebuyer education and counseling) and approved lenders, but with the specific program parameters approved by City of West Hollywood.
- It should be noted that one benefit of this program approach is that the City funds lent to each successful applicant household will eventually be repaid in full (on re-sale of purchased unit), along with the proportionate share of City shared appreciation. These funds can then be recycled to lend to the next eligible buyer.

¹³ It should also be noted that in the City of San Francisco, this similar program (known as Downpayment Assistance Loan Program, or DALP), is also paired with a Mortgage Credit Certificate program enabling a tax credit for a portion of mortgage interest paid. However, this layer of additional assistance has not been outlined here (requires identification of certain eligible Census Tracts). The City of San Francisco, in partnership with the San Francisco Unified School District, has also added a grant program with modest funds for educators called Teacher Next Door, which can boost the entire package to a slightly higher purchase price for educators.

Potential Add-On Program: Buyer Assistance for Inclusionary Units

This is an additional program that can be made available to low-income household buyers of inclusionary units in mixed-income new projects. The City of West Hollywood requires all market-rate projects over 10 units to provide 20% affordable units, alternating affordability levels to meet low- and moderate-income households. The City’s ordinance also adjusts affordable sale prices by a bedroom factor, resulting in the following current maximum sale prices:

Table 4: Maximum Sale Prices for Inclusionary Units

Number of Bedrooms	LOW (2.5 x 65% of Median)	MODERATE (2.5 x Median)
0	\$73,015	\$112,331
1	\$83,446	\$128,378
2	\$99,092	\$152,449
3	\$113,173	\$174,113
4	\$127,776	\$196,579

* Income limits are adjusted by household size using the one-person income limit as the base.

** Sales price is adjusted by a bedroom factor.

From City of West Hollywood Inclusionary Housing Maximum Rent/Sale Prices for Leases signed after 2002: See: <https://www.weho.org/home/showdocument?id=27131>.

In addition, developers of projects with 10 units or less may pay an in-lieu fee, which was recently updated to reflect the cost of unit construction.

Although these maximum sale prices are relatively inexpensive, some potential buyers of inclusionary units may still struggle with meeting underwriting standards if their incomes fall just below the top level of each income category. For this reason, the City may pilot a small homebuyer assistance project, similar to the moderate-income program described in the previous chapter, but designed to bridge a smaller gap, since the inclusionary regulations already limit the sale price to make the units affordable.

Eligibility

Eligibility for this program will follow the same rules as eligibility for the inclusionary program.

Funding

This program will be limited to a maximum of \$25,000 a unit and will be used to underwrite those households who have challenges meeting the supportable mortgage amount per their household income. It will be provided in the form of a zero payment, zero interest loan similar to the previously described program, but will be forgivable after 5 years of residency (and not involve shared back-end appreciation).

Additional Program Considerations

This support for inclusionary unit purchasers could be modified to target specific eligible households such as low-income school district employees, city employees, and/or first responders.

Evaluation Metrics

This section highlights metrics that can be used to evaluate the effectiveness of the Dream Home pilot program.

- Program demand
 - Number of applicants in the lottery
 - Conversion rate: the number of lottery applicants who find a unit to purchase. Document reasons applicants do not use the program (e.g. ineligible for program funding, cannot find a unit within the permitted time frame, ineligible for loan, etc.)
- Program implementation
 - For lottery applicants who purchase a unit:
 - Identify the price range of homes within reach and the number of homes on the market within the range
 - Unit type (condo/townhouse/single-family home), unit size (bedrooms and square footage), and sale price
 - Time to close on property acquisition once applicant identifies property
 - Feedback from participating lenders and homebuyers on program implementation and areas for improvement
 - % of FTE (City staff) time spent managing each project

- Program effectiveness
 - For applicants who purchase a unit, identify household AMI, household types served, average length of residency in West Hollywood before purchasing unit
 - Identify average length of tenure for applicants using program funding
 - Upon resale, calculate equity appreciation for homebuyer as a percentage of downpayment and average annual rate of return. Compare the homes the homebuyer was initially eligible for compared to new homes within reach.
 - Track front- and back-end ratios, delinquencies
- Subsidy
 - Average city subsidy per unit
 - City subsidy, as a percentage of total purchase price
 - Average city subsidy per average length of tenure
 - Upon resale, calculate annual average rate of return on City's equity position

Estimated Cost and Unit Yield

This type of buyer assistance can be relatively expensive to subsidize because it funds the gap between ownership costs supportable by moderate income households and high market-rate sale prices. Assuming this program is capped at \$375,000 per unit in City funding, the City could facilitate homeownership for 5 to 27 units in its initial period.¹⁴

¹⁵ Because micro-units are still typically arranged in a traditional manner (e.g., private units leased for defined periods of time at market rates), West Hollywood's existing inclusionary program could be applied to these projects. It should be noted, however, that it is likely numerous land use regulations will need to be reviewed and refined to enable development of micro-unit projects in West Hollywood. Those land use regulations need to be reviewed and proposed revisions put forward in conjunction with the Planning Department and are not the focus of this Pilot Program for Affordable Housing report.



Micro-Units and Co-Living Projects

Overview of Micro-Unit and Co-Living Projects

Across California's urban areas, much current policy discussion has focused on the challenge of providing housing to middle income households. One concept gaining attention is the idea of developing small rental units with well-designed smaller floorplans.

One variant of this concept is found in "micro-units," which are small studios with less than 400 square feet of space, paired with larger-than-typical common areas. Micro-unit projects combine thoughtful interior design in small spaces with large common areas such as gyms, lounges, and sky decks, providing spaces for one-person households who mingle with other residents. An example of this concept is Eleve in Glendale (pictured below), where a 375 square foot studio unit current leases for just under \$2,000 a month. The unit contains a small kitchen, laundry machine (combined washer and dryer), bathroom, sofa area, and very small bedroom, as shown below. The project also has several large common areas, including a 25,000 square foot Skydeck.

Figure 4: Floorplan for Micro-Unit in Eleve, Glendale (375 Sq. Ft.)



Another variant of this concept is co-living, which clusters small bedrooms in a suite arrangement, with shared bathrooms and kitchens. Some co-living units are designed for 2 to 4 occupants, with each resident in a small bedroom, along with shared kitchen and bathroom, while others have many more small bedrooms with larger communal kitchen and lounge spaces. The co-living arrangement provides a furnished living space packaged with all utilities / telecom and cleaning services, and allows residents to lease short-term (e.g., as short as 3-months). Many of these projects seek to foster a community, with programmed events and property managers geared towards welcoming recently relocated residents. Some co-living buildings also offer one-night stays, combining hotel services with short- or longer-term stays. Companies such as WeWork (under the brand WeLive), Starcity, Open Door, the Collective, and Common, are renovating underutilized houses and commercial buildings or building new projects throughout greater Los Angeles.

The picture below shows the living/kitchen area for a 3-bed unit at Common Belmont in Echo Park. Rents per bed start at \$1,575 per month for a 6-month lease.

Figure 5: Common Belmont (Echo Park)



Analysis of Adapting Affordable Housing Programs to Micro-Units and Co-Living Projects

Micro-units and co-living units are typically developed without subsidies and are intended to provide middle income housing for one-person households. Some housing analysts consider these types of units as a form of “naturally occurring affordable housing” (NOAH), because the rent charged is 15 to 20% lower than a fully sized studio in the marketplace.

Developers of these types of projects have approached the City of West Hollywood, but have highlighted two key challenges to providing these units:

- The need to review land use regulations to refine parking ratios, open space requirements, and density/height limits (e.g., as new construction of these prototypes often requires lower parking ratios and higher density allowances when based on units per acre).
- The need to potentially refine current inclusionary requirements, particularly for application to co-living projects which rent on a per-bed basis rather than per unit.¹⁵

West Hollywood’s inclusionary ordinance allows projects with 2 to 10 units to pay an in-lieu fee but requires affordable unit construction in for all projects with 11 market-rate units or more. Basically, the ordinance requires 20% of units in a project be affordable to low- and moderate-income households, with application of the income threshold alternating until the requirement is met, starting with a low-income unit. This approach means that for projects with even numbers of units, half of the inclusionary units will serve low-income households, and half will serve moderate-income households; in odd-numbered projects, there will be one more unit for low-income households. Tabulating and monitoring the household incomes of the occupants and the rents charged for inclusionary units is relatively easy in this percent “set aside” framework.

For co-living prototypes, however, with shorter-term leases (e.g., 3 and 6 month “memberships”), the temporary nature and fluidity of people becoming roommates in the same unit, or even the blurring of the notion of units in some cases (multiple small bedrooms sharing common spaces), can create the need for a re-formulation of inclusionary ordinances that did not envision this form of housing.

Some developers in other locations in California have argued that because these co-living projects are providing naturally occurring affordable housing for middle incomes, the projects should be treated as if they are all “affordable.” However, as the chart below indicates, the economics of this argument do not hold for West Hollywood’s inclusionary program. When

¹⁵ Because micro-units are still typically arranged in a traditional manner (e.g., private units leased for defined periods of time at market rates), West Hollywood’s existing inclusionary program could be applied to these projects. It should be noted, however, that it is likely numerous land use regulations will need to be reviewed and refined to enable development of micro-unit projects in West Hollywood. Those land use regulations need to be reviewed and proposed revisions put forward in conjunction with the Planning Department and are not the focus of this Pilot Program for Affordable Housing report.

considered on a one-person household basis, West Hollywood’s inclusionary program caps rents at either \$660 or \$911 per month including utilities, depending on the income category. Clearly, typical per-bed co-living charges far exceed these maximum affordable rents.

Table 5: Comparison of Maximum Inclusionary Rent vs. Per-Bed Co-Living Charge

	Low HH Income (80% of AMI)	Moderate HH Income (100% of AMI)
Maximum Income (a)	\$51,351	\$64,189
Maximum Rent + Utilities Per Month- Studio (1 person)	\$660	\$911
Typical Co-Living per Bed in LA (inc common area cleaning, furniture, utilities, telecom, and services)	\$1,575 - \$1,800	\$1,575 - \$1,800

a) Max income is for period prior to moving into inclusionary unit.

These incomes are published by City of West Hollywood, and apply to 2018-2019.

It should be noted, however, that most co-living beds are provided with features and services that exceed a more traditional studio rental, including cleaning in common areas, furniture, utensils, utilities, telecom, and concierge/social programming services. For marketing purposes, many co-living websites show charts comparing these all-in-one packages to equivalent costs for a studio, resulting in estimates of value for these features upwards of an additional \$200 to \$300 or more per month. This issue is addressed below on Program Recommendations.

Feasibility of Applying Inclusionary Program to Co-Living Projects

In general, micro-units and co-living projects are feasible and profitable for developers because total development costs are lower for smaller-sized units and/or shared bathrooms and kitchens (the most expensive parts of a traditional rental unit). Most micro-unit and co-living developers, however, have also encountered the need to waive or modify land use regulations, particularly those related to parking requirements. As a result, most micro-unit and co-living developers seek sites that have strong transit services, so that residents do not need to individually house their automobiles. In fact, some architecture and design leaders in the industry have emphasized that these units devote sometimes fewer square feet per person in the project than to the car (e.g., typical parking space and circulation requires at least 350 square feet).

To further illustrate the economics of co-living, a pro forma analysis was conducted to test the feasibility of a co-living project on a ½-acre site both without and with the application of West Hollywood’s 20% inclusionary ordinance and changes to zoning regulations (specifically lowering parking ratios to 0.25 spaces per unit).

Table 6: Coliving Rental Proformas

R3A / R3B Rental Project - Stacked Flats w underground tandem parking garage (35' Height Limit)

Key Development Assumptions	Co-Living: No Inclusionary No Parking Reduction	Co-Living: No Inclusionary With Parking Reduction	Co-Living: With Inclusionary With Parking Reduction
Site Size - 1/2 acre (shown in sf)	21,780	21,780	21,780
Number of Units	35	35	35
Average Unit Size (4 beds/ba + kitchen)	1,250	1,250	1,250
Net Residential Space (sf)	43,750	43,750	43,750
Common Area	20.0% 8,750	8,750	8,750
Total Residential Space (sf)	52,500	52,500	52,500
Total Beds	140	140	140
Market Rate Beds	140	140	112
Inclusionary Low Inc Beds	10% -	-	14
Inclusionary Mod Inc Beds	10% -	-	14
Number of Residential Floors	3	3	3
Parking spaces per unit (a)	3	1	1
Guest Parking (no. of spaces)	9	-	-
Total Number of Parking Spaces	114	35	35
Total Parking Garage (sf)	350 39,813	12,250	12,250
Rents			
Rent per Bed - Market	\$ 1,850	\$ 1,850	\$ 1,850
Rent Per Bed - Inclusionary Low Inc. HH	\$ 620	\$ 620	\$ 620
Rent per Bed - Inclusionary Mod Inc. HH	\$ 911	\$ 911	\$ 911
Development Costs			
Site Work	\$ 5.00	\$ 5.00	\$ 5.00
Hard Costs - Res (wood frame)	\$ 300	\$ 300	\$ 300
Parking Costs (per space)(a)	\$ 20,000	\$ 20,000	\$ 20,000
Soft Costs exc Fees (as % of hard)	20.0%	20.0%	20.0%
Impact Fees (b)			
Quimby/Park Fee per Unit	\$ -	\$ -	\$ -
Public Beautification Fee (% bldg cost)	1.0%	1.0%	1.0%
School Fee per sq. ft.	\$ 3.83	\$ 3.83	\$ 3.83
Transportation Fee per unit	\$ 448	\$ 448	\$ 448
Financing Costs			
Loan to Cost Ratio	85.0%	85.0%	85.0%
Interest Rate	6.0%	6.0%	6.0%
Loan Fees	1.5%	1.5%	1.5%
Construction Period (months)	18	18	18
Avg. Outstanding Bal During Construction	60.0%	60.0%	60.0%
Operations			
Vacancy	10.0%	10.0%	10.0%
OpEx per Bed (d)	\$ 4,300	\$ 4,300	\$ 4,300
Cap Rate	5.0%	5.0%	5.0%

Notes:

- a) Parking requires 3 spaces for 4 bedroom units (assumed for this pro forma) + 1 guest space per every 4 units in 5+ unit projects. Prototype assumes underground tandem parking garage.
 - b) The current fees that apply to residential projects are:
 - Quimby (Does not apply to rentals)
 - Public beautification and art fee 1.0%
 - School fee \$ 3.83 psf
 - Transportation facilities fee \$ 448 per unit
 - c) Current fee based on psf fee schedule X gross res sf divided by # of units. Underestimates slightly by amount of balconies/patios if present.
 - d) Assumes high OpEx per unit due to cleaning, utilities, telecom, and services.
- Sources: Urban Math; The Housing Workshop, 2019.

Total Project Development Costs	Co-Living: No Inclusionary No Parking Reduction	Co-Living: No Inclusionary with Parking Reduction	Co-Living: With Inclusionary With Parking Reduction
Land	\$ 8,750,000	\$ 8,750,000	\$ 8,750,000
Land per Residential Unit	\$ 250,000	\$ 250,000	\$ 250,000
Land per Site sf	\$ 401.74	\$ 401.74	\$ 401.74
Construction Costs			
Site Work	\$ 108,900	\$ 108,900	\$ 108,900
Hard Costs - Residential	\$ 15,750,000	\$ 15,750,000	\$ 15,750,000
Hard Costs - Parking	\$ 2,275,000	\$ 700,000	\$ 700,000
Soft Costs	\$ 3,626,780	\$ 3,311,780	\$ 3,311,780
Quimby/Park Fee	\$ -	\$ -	\$ -
Public Beautification Fee	\$ 181,339	\$ 165,589	\$ 165,589
School Fee	\$ 201,075	\$ 201,075	\$ 201,075
Transportation Fee	\$ 15,677	\$ 15,677	\$ 15,677
Subtotal Const Costs Before Financing	\$ 22,158,771	\$ 20,253,021	\$ 20,253,021
Financing Costs			
Points	\$ 282,524	\$ 258,226	\$ 258,226
Construction Period Interest	\$ 2,364,521	\$ 2,218,731	\$ 2,218,731
Subtotal Financing Costs	\$ 2,647,045	\$ 2,476,957	\$ 2,476,957
Total Development Costs	\$ 33,555,817	\$ 31,479,978	\$ 31,479,978
Total Development Cost per Unit exc. land	\$ 708,738	\$ 649,428	\$ 649,428
Total Development Cost per Unit with land	\$ 958,738	\$ 899,428	\$ 899,428
Valuation			
Operations			
Gross Income - Market Rate Beds	\$ 3,108,000	\$ 3,108,000	\$ 2,486,400
Gross Income - Low Income Beds	\$ -	\$ -	\$ 104,160
Gross Income - Mod Inc Beds	\$ -	\$ -	\$ 153,048
Subtotal Gross Annual Income	\$ 3,108,000	\$ 3,108,000	\$ 2,743,608
Less: Vacancy	\$ (310,800)	\$ (310,800)	\$ (248,640)
Less: Op Expenses	\$ (602,000)	\$ (602,000)	\$ (602,000)
Net Operating Income (NOI)	\$ 2,195,200	\$ 2,195,200	\$ 1,892,968
Value at Stabilization	\$ 43,904,000	\$ 43,904,000	\$ 37,859,360
Return on Cost			
Value at Stabilization	\$ 43,904,000	\$ 43,904,000	\$ 37,859,360
Less: Total Development Costs	\$ 33,555,817	\$ 31,479,978	\$ 31,479,978
Profit	\$ 10,348,183	\$ 12,424,022	\$ 6,379,382
% Return on Cost	30.8%	39.5%	20.3%

The proformas illustrates the following:

- **Co-living projects are lucrative because charging by bedrooms results in significant income per net rentable square foot.** In this proforma, rents were set at \$1,800 per bedroom, equivalent to a 15 to 20 percent discount below comparable new studios in West Hollywood. Assuming a 1,200 square foot, four-bedroom suite, this translates into \$5.76 per net rentable square foot. Even accounting for a higher common areas and greater operating expenses for programmatic activities, a co-living project with no inclusionary yielded a 30.8 percent return on cost, substantially more than the 20 percent typically needed for project feasibility.
- **Reducing parking ratios augments project feasibility by substantially reducing development costs.** For projects located in amenity-rich areas with access to transit, co-living operators have encouraged cities to significantly lower parking ratios. The City of San Jose, which recently adopted a zoning designation specifically for co-living, implemented a new parking ratio of 0.25 parking spaces per bed. Applying this standard to the proforma lowers development costs by \$1.575M, raising the return on cost to 39.5%.
- **Co-living projects can accommodate the City's current inclusionary housing policy that requires alternating between low and moderate-income rents if adjustments are made to the zoning code, such as reducing parking ratios.** The third column of the proforma shows the impact of applying a 20% inclusionary policy with rents at \$620 and \$911 for the affordable beds. Assuming the City lowers its parking ratios to 0.25 spaces per unit, the development results in a financially feasible project with a 20.3 percent return on cost.

Program Considerations

Some cities are acknowledging co-living as a distinct prototype in their zoning codes and clarifying how existing policies apply, including inclusionary housing. In 2019, San Jose updated its zoning code with a new section defining co-living projects, specifying minimum square footage for living and storage areas, ratio of shared kitchen and laundry facilities, and parking (see Appendix C for details). Cities that have seen an influx of co-living applications, including San Francisco and San Jose, emphasize the importance of acknowledging in the zoning code the distinct nature of co-living, where each bedroom functions as a unit. Specifically, San Jose updated its zoning code with the following definition:

Bedrooms within a Co-Living Community are considered sleeping units as defined in Chapter 2 of the California Building Code as adopted in Chapter 24.03 of the San Jose Municipal Code. Each bedroom within a Co-Living Community is considered a separate living quarter to be occupied by

permanent residents.¹⁶

Explicitly acknowledging each bedroom as a unit in a co-living project is important when applying the city’s inclusionary housing policy. For example, a developer proposes a 32-bed co-living project that consists of eight units, with each unit containing 4 bedrooms. Under West Hollywood’s current inclusionary housing policy, the developer could pay an in-lieu fee (applicable to projects with 10 or fewer units) if the City does not explicitly acknowledge bedrooms represent units. Clarifying this in the zoning code would allow the City to apply its 20 percent on-site inclusionary requirement to bedrooms for co-living projects.

The City may also want to consider crafting a distinct inclusionary housing policy for co-living. Currently, the City’s inclusionary housing policy requires projects to alternate between low and moderate-income units. A 100-unit project consisting solely of studios would dedicate 20 affordable apartments, with 10 studios charging \$660 and 10 studios at \$911 per month. At the same time, a 100-bed co-living project would dedicate 20 bedrooms at the same rents, \$660 and \$911 per month, but with significantly fewer amenities than typical studio apartments. Unlike studios, co-living bedrooms don’t have in-unit kitchens and are smaller in size. Because the proformas show a robust return on cost, even after accounting for the current inclusionary requirement, the City may want to consider a new provision to its inclusionary ordinance that co-living bedrooms be affordable to low-income renters (60% AMI) or a combination of very-low and low-income (50% and 60% AMI).

Table 7: Maximum Affordable Rents for Fiscal Year 2018-2019 for Inclusionary Housing Units:

MAXIMUM RENT			
Income Category	Single	One Bedroom	Two Bedroom
Very Low-Income	\$456	\$520	\$688
Low-Income	\$660	\$753	\$1,101
Moderate-Income	\$911	\$1,042	\$1,376

Program Recommendations

In contrast to the other pilot programs outlined in this report, modifying the City of West Hollywood’s current inclusionary ordinance (and relevant land use regulations) to adapt to micro-units and co-living projects would not be a test; it is instead a suite of recommended policy changes.

Specifically, it is recommended that the City modify its inclusionary ordinance to recognize the existence of both micro-units and co-living project concepts. The application of the City’s

¹⁶ San Jose Code of Ordinances, Title 20, Part 3.75 – 20.80.290 – Co-Living Community Criteria

current inclusionary program to micro-units should not require any other modification of the ordinance; however, the application of the ordinance and program to co-living projects will require the following:

- Modify the ordinance to incorporate a clear definition of co-living (and other related group accommodations), noting that a hybrid version of overnight stays combined with 3, 6, 12, and longer occupancy periods is being developed in other cities and may also be proposed for West Hollywood.
 - Clarify language based on this new definition so that the inclusionary ordinance clearly applies. For projects with 2 to 10 units, it is recommended to not modify the in-lieu fee (this will have the effect of creating one below-market bed in a small infill co-living project). For all other project sizes (e.g., above 10), state that the ordinance will apply as adopted, but the application will be based on per-bed rather than per unit. Eliminate language as applicable so that “alternative” unit sizes as an option do not apply in these group project types. Consider adopting a new provision to the inclusionary ordinance that targets deeper affordability in co-living projects. Require quarterly reporting to ensure that the mix of tenants maintains the household income threshold for the correct percentage of beds to overall bed count.
 - As a practical matter, the City of West Hollywood could consider creating a small fund to subsidize these monthly charges for those residents qualifying for the inclusionary beds in a co-living project. This action would be similar to the situation in some California cities, where the homeowner association (HOA) dues in a condominium project are subsidized for low- and moderate-income buyers under inclusionary programs.

In addition, in order to review project applications, a modification of all applicable land use regulations will need to be prepared by other City departments.

Evaluation Metrics

Unlike the other pilot programs that enable specific households to build, purchase, or maintain existing homes, updating the inclusionary program for co-living is a policy decision that clarifies how a current program applies to new housing product type. The evaluation metrics for this differ slightly from the other pilot programs and should align with metrics used for the City’s inclusionary housing program.

- Program demand
 - Number of co-living project applicants and total number of proposed units, by year
- Program implementation

- Number and percentage of affordable units in each co-living project
- Affordable rents and AMIs served
 - Compare rents and amenities in co-living inclusionary projects to the same in other residential projects
- % of FTE (City staff) time spent managing each project
- Program effectiveness
 - For applicants who rent a co-living inclusionary unit, identify demographics, household AMI, household types served
 - Identify average length of tenure. Compare this to average length of tenure for other inclusionary rentals
- Subsidy
 - Average city subsidy per unit

Conclusion

The pilot programs described in this report provide options that would allow the City of West Hollywood to expand its affordable housing inventory and target different categories of housing need. The cost benefit analysis below highlights the public subsidy needed per each affordable unit, the anticipated yield assuming a \$2 million set-aside for each program, the AMI levels served, and a demand assessment based on local factors in West Hollywood.

Table 8: Cost Benefit Analysis

	Avg. City Subsidy	Benefit (Yield per \$2M Program Funding)	Other Costs	Household Types Served	AMI Levels Served	Program Description, Goals, Market Potential
SELECTED PILOT PROGRAMS						
Affordable Backyard Cottages	\$55,000 per Unit	36 units	Cost for oversight, technical services and program administration (1-2 FTEs shared between programs)	Small or Senior Households	30-50% AMI	Encourage ADU production by providing "one-stop shop" for design, construction, and financing. Target new rental ADUs to Section 8 tenants.
Strategic Acquisition and Financing of Existing Multifamily (SAFE) Housing	\$175,000 per Unit	11 units		Tenants at Risk of Displacement/Ellis Act	80% AMI Average	Provide funding to non-profits to acquire existing rental properties to preserve for long-term affordability. The City has 9,900 housing units in buildings with 5-19 units (ACS, 2016).
Dream Home: First Time Homebuyer Program	\$300-400K per Unit	6 units		First-time homebuyers	80-120% AMI	moderate-income households using a shared appreciation model. 18% of WEHO households are between 80-120% AMI, equivalent to over 4,500 households.
Inclusionary Housing Policy for Co-living Projects	N/A	N/A	Zoning code review and training (one-time)	Small or Senior Households	80-120% AMI	Develop an inclusionary policy for co-living projects. There are 13,500 single-person households living in West Hollywood (ACS, 2016).

Source: Urban Math, 2019.

Many of these programs may be eligible for SB2 funding, with HCD providing funding and technical assistance to local governments to help prepare and implement plans and processes to accelerate housing production.

Moreover, evaluating each pilot program and its successes will be critical to determining whether to expand initiatives and commit long-term funding. Evaluation criteria will include the following:

- Program demand and subscription, including number of leads, interest on waiting lists
- Program effectiveness in addressing the identified housing need or goal
 - Quantify the number of projects and units preserved or constructed in the pilot period and total funds expended
 - Number of households served by each program and their income levels

- Tangible benefits accruing to each household served by the program (e.g. amount of equity accrued by each Dream Home household or annual rent savings per household in the SAFE Housing program).
- Subsidy needed to preserve or construct each affordable unit
 - In addition, compare the annual per unit subsidy to the length of affordability (for example, a \$55K investment in the Affordable Backyard Cottages will yield a 10-year affordability period, equivalent to a public cost of \$5,500 per year per affordable unit)
 - Evaluate potential for future funding, including ongoing sources for capital and operations
- City staffing and time required to manage each program
 - Compare staff hours expended to administer each affordable unit
- Additional “soft metrics” including expansion potential, challenges to program implementation, and alignment with City housing goals

Appendix A: Pilot Program Evaluation

West Hollywood Affordable Housing Pilot Programs

Mid-Point Check-In



Study Purpose

Explore potential programs to expand affordable housing in West Hollywood.

In March 2018, model programs were presented to City Council, and funds were allocated to assess benefits and drawbacks of these programs, if locally implemented.

After further evaluation, staff and consultants recommend continuing to explore 5 programs.

Staff Recommends: develop identified programs and return for direction to initiate as pilots.

Study Process



Initial Evaluation

Evaluate costs and benefits of programs and estimate impact and cost to city



City Council Review & Program Selection

Present analysis and confirm pilot programs



Pilot Program Implementation

Design programs for implementation

Housing Element Goals and Policies

Goal
H-1

Provide Affordable Rental Housing

Goal
H-2

Maintain and Enhance the Quality of the
Housing Stock and Residential Neighborhoods

Goal
H-3

Encourage a diverse housing stock to address
all socioeconomic segments of the community

Goal
H-4

Provide adequate opportunities for new
housing construction

Goal
H-5

Provide a government environment that
facilitates housing development & preservation

Goal
H-6

Promote equal access to housing for all

Potential Programs

Preservation

Recommended
Pilot Programs

- Small Sites Acquisition
- First-Time Buyer Program
- Tenant Right to Purchase
- Apartment Rehab Assistance



New Construction



Recommended
Pilot Programs

- Affordable Accessory Dwelling Units
- Affordable Housing Overlay Zone
- Micro-Units/Co-living
- Workforce Housing Inclusionary Requirement
- Modular Housing
- Co-Housing
- Affordable Artist Housing

Relationship of Potential Pilot Programs to Housing Element Policy Goals

	H-1 Provide Affordable Rentals	H-2 Enhance Housing Stock	H-3 Diversify Housing Stock	H-4 Support New Construction	H-5 Ease restrictions to development	H-6 Promote equal access to housing
Small Sites Acquisition	■	■				■
First Time Buyer Program						■
Tenant Right to Purchase						■
Apartment Rehabilitation Fund		■				■
<hr/>						
Affordable ADUs	■	■	■	■	■	■
Affordable Housing Overlay Zone	■		■	■	■	■
Micro-units / Co-Living	■		■	■	■	
Workforce Housing Incl' Req'	■	■	■	■		
Modular Housing	■		■			
Co-Housing	■		■			■
Affordable Artist Housing	■		■			■

Small Sites Acquisition Program

Objective: Option to convert existing rental stock to permanent affordable housing

Pairs with:

Tenant Right to Purchase

Land Banking Strategy

Potential Homeownership Option

Program Overview

- City loan program. Non-profits buy existing rental buildings (5-20 units). Buildings converted to permanent affordable housing over time.
- Creates permanently affordable housing in existing urban environment.
- Potential “land bank” for future affordable housing
- Potential, over time, to transition to tenant homeownership, co-op

How It Works

- Tenants petition non-profit to purchase building.
- Tenants must average 80% AMI or less to qualify.
- Non-profit purchases building at market value with first mortgage financing supported by rents equal to 30% of income.
- City funding closes gap between price and supportable debt from rents (deferred interest second mortgage).
- Permanent affordability secured by covenant, achieved over time.
- City funds used for acquisition, improvements, capitalized reserves.

Small Sites Acquisition Case Study

Address 924 North Stanley Avenue
 Units 10 units
 Unit Mix 6 1BD | 2 2BD | 2 3BD
 Year Built 1959
 Sold \$3,125,000 in October 2018



	924 N. Stanley	
	Example	
Average Monthly Rent/Unit	\$	1,588
Annual Effective Rent	\$	190,592
Annual Operating Expenses	\$	76,535
NOI	\$	114,057
Interest Rate		5.50%
Sales Price	\$	3,125,000
Debt Coverage Ratio		1.20
Monthly Debt Payment	\$	7,921
Supportable Loan	\$	1,394,994
City Subsidy to Bridge Acquisition	\$	1,730,006
City Subsidy Per Unit Cost	\$	173,001

Small Sites Acquisition Program

Cost* \$150K/unit average subsidy + oversight and program administration

Benefit** 33 units preserved for tenants @ < 80% AMI

* Based on San Francisco's Small Site average subsidy, adjusted downward by 10%

** Based on City investment of \$5M

Pros

- Cost of acquiring existing units less than cost of building new units
- Creates permanent affordability
- Land banking potential

Households Served

- Average household incomes not to exceed 80 percent AMI.

Adaptability to WEHO

- West Hollywood has 9,900 housing units in buildings with 5-19 units (ACS, 2012-2016).

Cons

- Tax credits or other public funds only allowed for acquisition/ rehab
- Example program sets rents so tenants pay 30% of income. Allows the building revenue to support first mortgage, however some tenants may pay more rent (San Francisco).

Program Features

- Target average 80% AMI
- Option to phase rent increase/ decrease to 30% income over time
- Covenant recorded against property ensuring affordability



1st Time Homebuyer Program with Shared Appreciation

**Objective: Expand ownership
options for 80-120% AMI
(Moderate -Income households)**

Program Overview

- This program would use city funds to help first-time homeowners purchase market rate homes using a silent 2nd mortgage provided by the City. The City reclaims funds through “shared appreciation.”

How It Works

- A buyer qualifies for a first mortgage based on his/her income
- The gap between the market price and the first mortgage is filled by the City with a silent second mortgage (no payments required).
- Profits on future sale are shared proportionately between the household and City (shared appreciation).
- Required down payments typically low (5% down), uses pre-approved conventional lenders.
- City loan is repaid on sale; appreciation portion received in lieu of interest on 2nd mortgage. Funds from city recycle to the next buyer (not attached to a unit).

1st Time Homebuyer Program with Shared Appreciation

Address 970 Palm Avenue #214

Unit 1 BD/1 BA

Unit Size 547 sf

List Price \$529,000



	<u>Current</u>	<u>Future Sale</u>
Sales Price for 1-BD Condominium	\$ 529,000	\$ 650,000
100% AMI - 2 Person Household		
Annual Income	\$ 72,000	
Max Affordable Home Price	\$275,000	
Buyer Down Payment	5% \$ 26,450	
Gap to be Provided by City	\$227,550	
City % Stake	43%	43%
Buyer % Stake	57%	57%
City Proceeds from Sale		\$ 279,598
Buyer Proceeds, Less Mortgage		\$ 95,402
City % Return		23%
Buyer's Return on Equity		261%



1st Time Homebuyer Program with Shared Appreciation

Cost* \$300K-\$400K/unit average subsidy + cost for oversight and program administration

Benefit* 13 BMR ownership units

* Based on City investment of \$5M

Pros

- Provides affordable ownership opportunities for moderate-income households in market-rate resale units
- Opportunity to recycle funds for future purchasers

Households Served

- This program serves 80-120% AMI households with good credit but insufficient income for market-rate units. Some cities combine this with teacher and/or 1st responder buyer assistance.

Adaptability to WEHO

- Can be important but expensive companion to inclusionary housing program (developer-generated affordable ownership units).
- City could earmark funding collected from commercial impact fees

Cons

- Relatively expensive program per household served

Program Features

- Are there any priority populations the City would like to target for this program? Existing WEHO residents or workers, teachers, emergency responders, City employees?

Affordable ADUs

Objective: New affordable rental production at relatively low cost to City

Program Overview

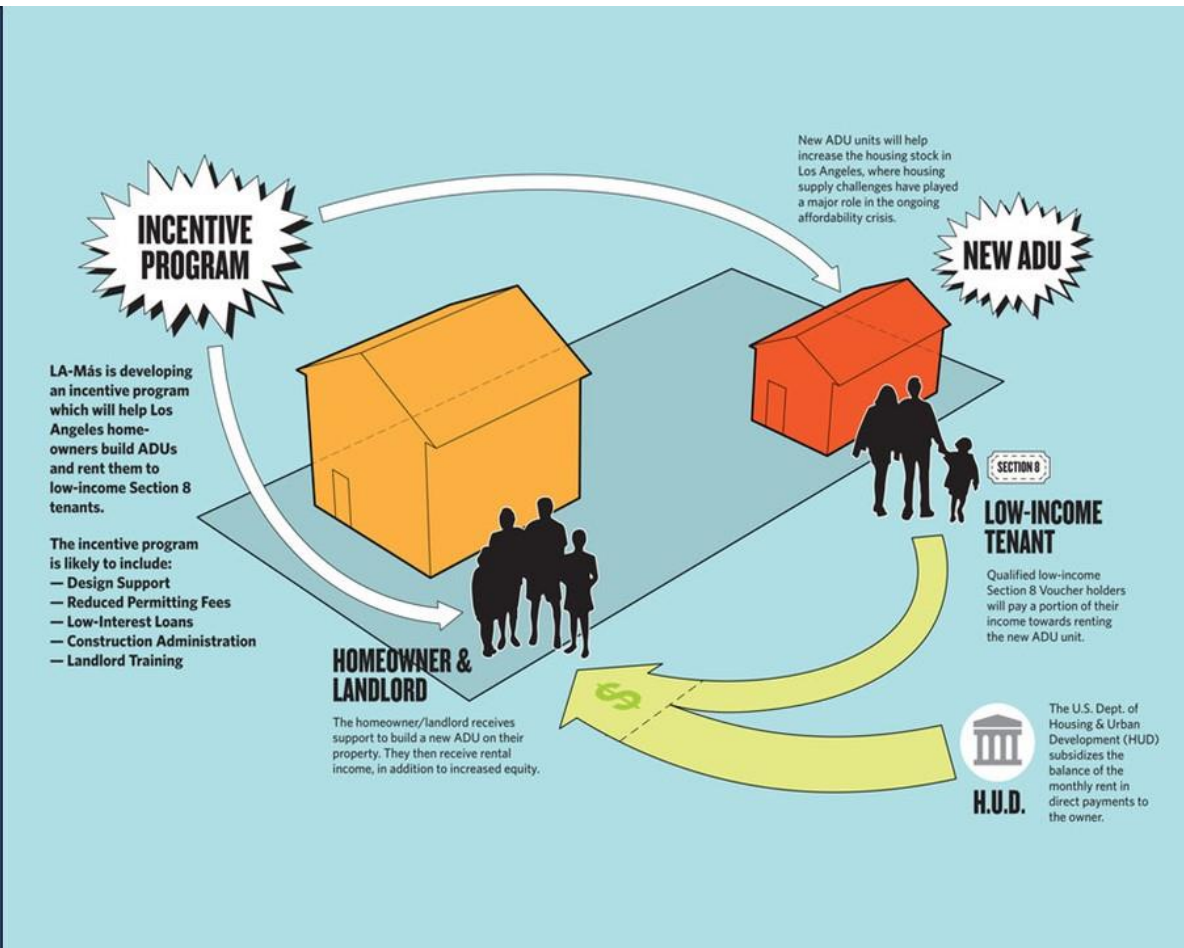
- Provide a one-stop shop to assist owners in design, construction, and financing, in exchange for restricted rents to meet tenant incomes.
- WeHo could develop a program similar to City of LA's Backyard Homes pilot, which is currently ramping up. LA program provides project management in exchange for property owner commitment to restrict rents to income-eligible tenants for a fixed period of time.

How It Works

- Each participating homeowner works with pre-approved architect and contractor to design and secure necessary permits.
- A portion of property owner financing could be provided through pre-approved lenders and/or City forgivable grants.
- Homeowners would be required to rent ADU to a Section 8 tenant for a 5-10 years. Social service organizations will pair landlords with prospective Section 8 tenants and connect them to social services when needed. LA County is developing a similar program for homeless housing.

Affordable ADUs

Objective: New affordable rental production at relatively low cost to City





Pros

- Promotes infill housing production and expands affordable housing supply
- Serves < 50% AMI
- Relatively limited public subsidy required (primarily to fill gap between rent revenue and cost to build)

Households Served

- Less than 50% AMI

Adaptability to WEHO

- Fits with WEHO housing stock and housing needs

Cons

- Potential zoning issues in permitting ADUs
- Potential social service challenges

Program Features

- Target Section 8 tenants, including homeless or formerly homeless
- Affordability agreement with property owner in effect for 10 years
- Invest in education and pairing tenants with landlords

Micro-Units/ Co-living

- **Objective:** Incentivize “affordability by design” serving small households

Program Overview

- Micro-units are small, well-designed studios (<350 sf) or shared suites built in dense urban areas targeted to people willing to trade space for proximity to urban amenities.
- Considered a market-based solution to the affordability crisis, developers charge less rent per unit due to lower construction cost from smaller size and greater density. No public subsidy.
- The City could encourage micro-units by reviewing/updating its zoning code to remove barriers constraining development.

How It Works

- Current City development standards limit FAR and height, and require extensive open space, etc, for most residential projects. Given strong market conditions, these standards have encouraged larger-unit development.
- In collaboration with the planning department, this program would commence with a zoning and development standards review, focusing on commercial corridors to create a small unit overlay zone allowing relaxation of requirements to incentivize small unit construction.



Pros

- Market-based, new housing opportunities starting at 80% AMI
- No subsidy needed

Households Served

- Typically 1-person households starting at 80%-100% AMI

Adaptability to WEHO

- WEHO has a high proportion of single-person households. This strategy aims to produce new housing for this target group, which includes younger households and seniors.
- In 2016, there were 13,500 single-person households living in WEHO.

Cons

- Market-based solution does not guarantee affordability for lowest income tiers

Program Features

- Review zoning code, including parking ratios and density requirements that may limit the production of microunits in WEHO
- Sponsor a ULI panel for a demonstration on a selected site to show how changes to the zoning code could support the production of microunits. Collaborate with micro-unit developers in the Los Angeles region.



Affordable Housing Overlay Zone

- **Objective:** Increase capacity for 100% affordable housing projects.

Program Overview

- Requires zone text amendment

How It Works

- 100% affordable housing projects designed within building setbacks, & height
- Unit count based on building volume, not units per acre

Case Study Examples

- Six projects currently under construction in Los Angeles area
- Number of units greatly impacts cost

Number of Units Impacts Costs per Unit

Units	Target Population	Total Costs	Per Unit
22	Special Needs, TAY	\$16,940,000	\$770,000
23	Special Needs	\$14,950,000	\$650,000
42	Special Needs	\$24,900,000	\$600,000
41	Special Needs	\$25,200,000	\$600,000
93	Family	\$45,380,000	\$488,000
93	Senior	\$33,000,000	\$355,000

TCAC per unit cost estimate \$440,000

Affordable Housing Overlay Zone

100% affordable housing projects based on buildable area of the site.

Right-sizes affordable housing

Ensures long-term operation of affordable buildings



Case Study: Number of units possible depends on the size of units

Development Type	Market-Rate Multi-Family	Affordable Housing Bonus	Total Units Possible
Allowable Units (Density)	11	22	45
Height/Stories	45' / 4	45' / 4	55' / 4.5
Residential Floor Area	32,491	24,368	40,613
Circulation	(6,498)	(4,874)	(8,123)
Resident Floor Area	25,992	19,494	32,491
Private Open Space (60sqft/U)	(660)	(1,320)	(2,700)
Common Floor Area	(2,533)	(1817)	(2,979)
Unit Floor Area	25,332	18,174	29,791
Average Unit Size	2,073	743	596
Parking	1 level	1 level	2 levels
Parking Location	Subterranean	Ground floor	Subterranean

Workforce Inclusionary Housing

Southern California Association of Governments



Westside Cities Workforce Housing Study

Objective: Address unmet need for “Attainable” housing

Program Overview

- Requires zone text amendment
- Addresses housing need for unserved segment of community

How It Works

- Additional to current inclusionary requirement
- Applied to certain market-rate projects using state density bonus
- Income restricted at move in, not after

2018 Average Rents in West Hollywood

	Rent Stabilized	Non-Rent Stabilized
Studio	\$1,695	\$2,898
1-Bedroom	\$2,071	\$3,237
2-Bedroom	\$2,814	\$4,736

Workforce Housing (AMI to AMI +50%)

2018 Income and Rent Limits

	% Area Median Income	Rent Considered Affordable
\$64,189	100%	\$1,604
\$80,236	125%	\$2,005
\$96,284	150%	\$2,407

Workforce Inclusionary Housing

Market-based approach addressing unmet need
Increases ability for workers to live near jobs
Compliments existing housing strategies

Cost **No subsidy required**

Benefit **Workers able to live near employment**

Pros

- Addresses unmet housing need
- Allows households to amount wealth & transition into ownership

Households Served

- Lower-end of above-moderate income

Adaptability to WEHO

- West Hollywood studied capacity for Workforce housing in mid-2000's
- Proposal aligns with analysis and outcomes of the study

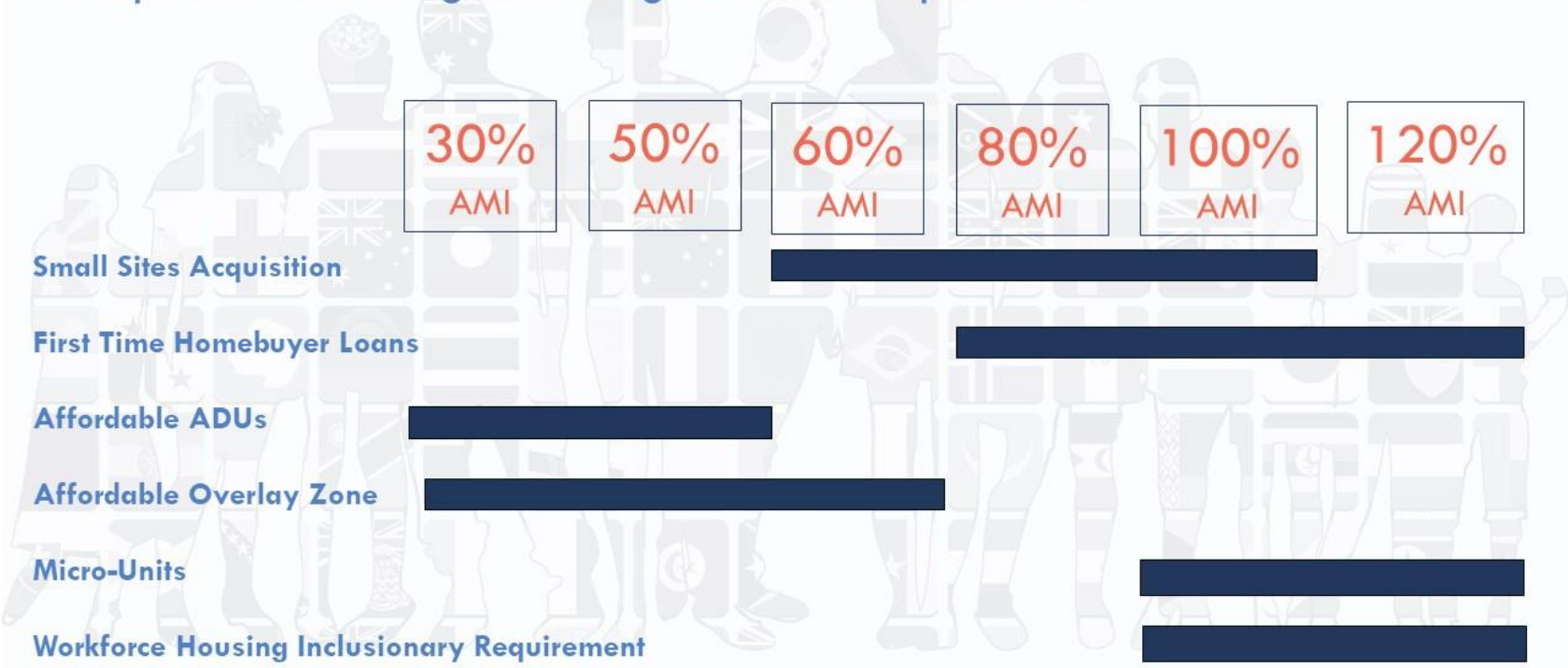
Cons

- Capacity to provide this housing form most likely limited and may not meet community need.

Program Features

- Must income qualify at move-in, no limit on income after
- Rent set at workforce housing limit, subsequent rent increases limited

Proposed Pilot Programs Targeted AMI Populations



Cost / Benefit Summary

	Avg. City Subsidy	Benefit (Yield per \$5M of HTF)	Other Costs	Household Types Served	AMI Levels Served	Adaptability for WEHO
SELECTED PILOT PROGRAMS						
Small Sites Acquisition	\$150,000 per Unit	33 units	Cost for oversight, technical services and program administration	Tenants at Risk of Displacement/Ellis Act	80% AMI Average	The City has 9,900 housing units in buildings with 5-19 units (ACS, 2012-2016).
First Time Homebuyer Program	\$300-400K per Unit	13 units		First-time homebuyers	80-120% AMI	18% of WEHO households are between 80-120% AMI, equivalent to over 4,500 households.
Affordable ADUs	\$55,000 per Unit	91 units		Small or Senior Households	30-50% AMI	This will adapt ADU policy to WEHO's housing stock, adding new rental housing units for Section 8 tenants
Affordable Housing Overlay Zone	N/A	N/A		Low-Income or Small Households	30-60% AMI	This will expand opportunities for non-profits to intensify density of affordable projects by permitting smaller units within specific zones.
Micro Units	N/A	N/A		Small or Senior Households	100-120% AMI	There were 13,500 single-person households living in WEHO in 2016 (ACS, 2012-2016).
Workforce Housing Inclusionary Requirement	N/A	N/A		Above Moderate - Workforce	100-150% AMI	Individuals and households earning between \$64,189 and \$96,284, or between Area Median Income and 60% above Area Median Income, can struggle to find housing options even in the rent stabilized stock.

Other Programs Studied

Tenant Right to Purchase Requirement

Cost	\$150K/unit average subsidy + \$120K for technical assistance annually Mortgage subsidies available for 80 to 120% AMI households.
Benefit *	2-4 buildings converted to ownership per year
Pros	Provides homeownership opportunities to tenants at all AMI levels
Cons	Difficult to organize tenants as a group of buyers and then as individual homeowners in a multifamily building. Option to start with the Small Sites Program and identify conversion opportunities after acquisition.

* Based on City investment of \$5M. Conversion rate is based on District of Columbia's TOPA experience

Objective

- Expand homeownership opportunities for tenants

Program Overview

- Requires owners of rental buildings to offer tenants the first right to purchase (at market price) when building is for sale.
- Owner would notify tenants of intent to sell, and provide price and terms. Tenants notify owner of purchase intent, and reach an agreement within specified time periods. Tenants can not assign right to purchase to other parties.
- Tenants often form cooperative associations to purchase. Navigating this process requires technical assistance. Experience in other cities indicates this program is more effective when combined with technical assistance & funding.

Households Served

- All WEHO tenant households

Adaptability to WEHO

- In WEHO, an average of 44 multifamily buildings were sold annually between 2013-2016. The sale price averaged \$312,000 per unit in 2016 (BAE, 2017).

Apartment Rehabilitation Fund

Cost	\$3M one-time contribution to loan loss reserve
Benefit*	430 units
Pros	Improve RSO units needing rehab and/or accessibility upgrades Affects all AMI Levels Structure leverages funds to maximize impact
Cons	Does not address affordability for tenants City may have trouble attracting CDFI funds because incomes are too high to qualify for CRA credits

*Assumes city funds will leverage up to \$12M loan fund. Per unit improvement costs estimated at \$25K/unit with 10% markup for technical assistance

Objective

- Improve the quality of WEHO's rental housing stock

Program Overview

- This program would provide access to financing and construction assistance to RSO building owners to make major capital improvements, including ADA access improvements.
- The City would engage a design consultant and Community Development Finance Institution (CDFI) to partner on this program. The City will fund a loan loss reserve to attract contributions from foundations. The CDFI would set up a revolving loan fund and lend directly to owners.
- A consultant would work with owners, providing guidance from design through construction bid solicitation.

Households Served

- Tenants at all income levels living in rental units needing improvement.

Adaptability to WEHO

- Over 90% of WEHO's housing is > 30 years old. The City's "Aging in Place Report" also identifies a need to ensure disability access for seniors. WEHO has 7,850 residents over 65. In 2017, there were 2,640 senior renter households living in the City (ACS, 2017).

Modular Housing

Cost* \$175K/unit average
subsidy for affordable units only
+\$60K for zoning code review
and training (one-time cost)

Benefit** 30 units

Pros New housing opportunities
serving all AMI levels and
investment in new construction
typology

Cons Limited opportunities to develop
new projects due to built-out
WEHO

*Based on average City subsidy for affordable housing
projects

**Based on City investment of \$5M

Objective

- Reduce construction costs to make housing less expensive

Program Overview

- Modular housing can reduce construction timing and cost by prefabricating housing units in factories and assembling on-site.
- The City could encourage modular construction for multifamily projects by reviewing its zoning code and training building staff to review/inspect these projects.
- Incentive for Affordable Developers: Set-aside HTF funds for affordable projects using this construction type
- Incentive for Market-Rate Developer: TBD (streamline permitting, other fee waivers)

Households Served

- All household income levels

Adaptability to WEHO

- Between 2014-2017, building permits were issued for 36 new projects with 5+ units. If a fraction utilized modular construction, the City could become a regional leader for this prototype.

Affordable Co-Housing

Cost* \$175K/unit average
subsidy

Benefit** 30 units

Pros New affordable housing
opportunities for those
interested in communal living

Serves 80 -120% AMI

Cons Difficult to create affordable
co-housing projects using tax-
credits, Fair Housing laws

* Based on average City subsidy for affordable housing
projects

** Based on City investment of \$5M

Objective

- Diversify affordable housing stock

Program Overview

- Co-housing is an intentional clustering of homes with shared facilities such as kitchens, child care, and/or recreational space. Most co-housing communities are initiated by residents who pool resources to acquire an existing building or build new units. Co-housing assumes a commitment to shared responsibilities and communal decision-making.
- Most co-housing projects are owner-occupied.
- The City could encourage affordable co-housing projects by setting aside HTF funds to subsidize land acquisition and unit purchase.

Households Served

- Can be structured to serve moderate-income households

Adaptability to WEHO

- WEHO's "Aging in Place Strategic Plan" identifies this as a potential "lifestyle housing" that could suit older adults' evolving needs. This prototype also benefits families. WEHO had 917 households with children and 2,645 seniors living alone in 2016.

Affordable Artist Housing

Cost*	\$175K/unit average subsidy
Benefit**	30 units
Pros	New housing and workspace opportunities for low-income residents working in creative industries Serves segment of 30 - 60% AMI households
Cons	None identified

*Based on average City subsidy for affordable housing projects

**Based on City investment of \$5M

Objective

- Diversify affordable housing stock and support creatives in WEHO

Program Overview

- Artist housing typically provides live/work facilities and communal gallery spaces.
- The City could encourage affordable artist housing development by setting aside HTF funds to augment other funding sources (e.g., LIHTCs)

Households Served

- Likely those below 60% AMI working in the creative/arts industries

Adaptability for WEHO

- Over 11,000 residents of WEHO and surrounding areas are classified as working in the arts or related sectors (ACS). This program would retain and attract creatives to WEHO, benefitting retail businesses, enhancing local cultural activities, and serving a substantial segment of those with affordable housing needs.

	Avg. City Subsidy	Benefit (Yield per \$5M of HTF)	Other Costs	Household Types Served	AMI Levels Served	Adaptability for WEHO
OTHER PROGRAMS CONSIDERED						
Tenant Right To Purchase	\$150,000 per Unit	33 units	Cost for oversight, technical services and program administration	Tenants Who Want to be Homeowners	All Levels; Subsidy for 80-120% AMI	An average of 44 multi-family buildings (620 units) were sold annually between 2013-2016. The sale price averaged \$310,000 per unit in 2016.
Apartment Rehab Loan Loss Fund	\$27,500 per Unit	436 units		Tenants in Structures Needing Rehabilitation or Disability Access	All Levels	Over 90% of the City's housing is over 30 years old, and about half is at least 50 years old (WEHO Housing Element). The City's Aging in Place Report also identifies a need to ensure disability access for seniors. WEHO has 7,850 residents over 65 (ACS, 2012-2016).
Modular Housing	\$175,000 per Unit	29 units	\$30K for zoning code review and training (one-time)	New Households	All Levels	Modular housing is possible for any new housing development. Between 2014-2017, building permits were issued for 36 new projects with 5+ units (US Census Building Permits, 2018). If a fraction utilized modular construction, the City could become a testing ground for modular, which has the potential to lower costs
Affordable Co-Housing	\$175,000 per Unit	29 units	NA	Residents Interested in Communal Living	80-120% AMI	Anecdotal data from the Aging in Place Strategic Plan identifies this as a potential "lifestyle housing" that could suit older adults' evolving needs. WEHO had 917 households with children and 2,645 seniors living alone in 2016.
Affordable Artist Housing	\$175,000 per Unit	29 units	NA	Artists	30-60% AMI	An estimated 11,500 full-time artists reside in and around West Hollywood, of which 1/4 are low, very low, or extremely low-income (ACS PUMS, 2011-2015)

Source: Urban Math, 2019.

Appendix B-1: Example Homebuyer Education Providers

HCIDLA APPROVED HOMEBUYER EDUCATION PROVIDERS

All Borrowers applying for HCIDLA Homebuyer Purchase Assistance Loan Programs are required to attend an **in-person**, eight (8) hour homebuyer education course given by an HCIDLA - Approved Homebuyer Education Provider listed below:

Affordable Housing Clearinghouse
23861 El Toro Road, Suite 401
Lake Forest, CA 92630
(949) 859-9255
Website: www.affordable-housing.org

ClearPoint Credit Counseling Solutions
6055 E. Washington Blvd., # 390
Commerce, CA 90040
1-877-877-1995
Website: www.clearpointccs.org

Credit.org
4351 Latham Street
Riverside, CA 92501
(800) 431-8157
Website: www.credit.org

East LA Community Corporation (ELACC)
2917 E. 1st Street, Suite 101
Los Angeles, CA 90033
(323) 269-4214 ext. 228
Website: www.elacc.org

**Faith and Community Empowerment (FACE)
Formerly Korean Churches for Community Development (KCCD)**
3550 Wilshire Blvd., Suite 736
Los Angeles, Ca 90010
Website: www.kccd.org

HPP CARES
3939 Long Beach Blvd.
Long Beach, CA 90807
(714) 587-0320
Website: <http://hppcares.org/index.php>

Neighborhood Housing Services of LA County (NHS)
3926 Wilshire Blvd., Suite 200
Los Angeles, CA 90010
888-895-2NHS
Website: <http://www.nhslacounty.org>

New Economics for Women (NEW)
303 Loma Drive
Los Angeles, CA 90017
(213) 483-2060
Website: www.neweconomicsforwomen.org

Operation HOPE
8710 Garfield Avenue
South Gate, CA 90280
(562) 927-1693
Website: www.operationhope.org/southgate

Shalom Center
2975 Wilshire Blvd. Suite 415
Los Angeles, CA 90010
(323) 380-3700
Website: <http://www.shalomcenter.net>

West Angeles Community Development Corp.
6028 Crenshaw Blvd.
Los Angeles, CA 90043
(323) 751-3440 ext. 29
Website: <http://www.westangelescdc.org>

Appendix B-2: Example List of Participating Lenders



HCIDLA Participating Lenders

MOST ACTIVE LENDERS

Lending Institution	First Name	Last Name	NMLS Number	Telephone Number
Best Capital Funding	Matt	Callahan	233558	(562) 391-6453
Blue Vista Mortgage	Michelle	Ota	209630	(310) 818-0270
Boston Private Bank and Trust	Jeannette	Ruiz-Mayes	727255	(818) 687-9935
Boston Private Bank and Trust	Rosa	Amaya	1159904	(818) 501-1720
First Republic Bank	Michelle	Scott	244821	(310) 704-6596
Home Center L.A.	Lynn	Richard	1642699	(818) 219-3583
New American Funding	Fernando	Arboleda	449752	(818)203-1882
New American Funding	Carmen	Meraz	320196	(562) 453-7652
New American Funding	Shalimar	Guillen	488388	(562) 896-5915
New American Funding	Melinda	Harleaux	481273	(310) 880-6651
New American Funding	Tressa	Pope	1085598	(818) 422-6083
New American Funding	Brenda	Robinson	954742	(213) 309-5698

PARTICIPATING LENDERS

Lending Institution	First Name	Last Name	NMLS Number	Telephone Number
Ameritrust Home Loans	Mercedes	Maldonado	450465	(818) 335-2926
First Nation Financial Corp.	Kam	Zarnegar	235611	(818) 822-2492
Guild Mortgage	Cynthia	Leal	290679	(424) 292-3939
HomeBridge Financial Services	Marie	Richarz	247125	(818) 359-4779
New American Funding	T. Dywon	Glenn	232066	(323) 590-6990

To find out how you can become an HCIDLA Participating Lender, please call (213) 922-9672.

As a covered entity under Title II of the Americans with Disabilities Act, the City of Los Angeles does not discriminate on the basis of disability and, upon request, will provide reasonable accommodation to ensure equal access to its programs, services and activities.



Appendix C: San Jose Zoning Code: Coliving