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**Date:** February 14, 2014

**To:** Jeff Schwob and Dan Schoenholz, City of Fremont

**From:** Elizabeth Wampler, Reconnecting America; James Pappas, California Housing Partnership

**RE:** *Preserving Affordable Housing near Transit in Fremont – Summary and Recommendations*

Total of 18 pages

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## Introduction

This memo summarizes the policy, data, and spatial analysis that Reconnecting America (RA) and the California Housing Partnership Corporation (CHPC) completed for the City of Fremont with the goal of helping the City of Fremont identify highest-priority affordable housing preservation areas near transit stations as well as the most effective strategies to prevent the displacement of low-income households.

The Metropolitan Transportation Commission funded this report through the Housing the Workforce Initiative of the U.S. Department of Housing and Urban Development (HUD) Regional Prosperity Plan. The overall goal of this work is to identify a set of solutions to minimize the impact of increasing market pressures due to transit investments and related planning and transportation enhancements on low-income residents living and working in Fremont.

This memo has four sections:

- I. *Restricted Affordable Property Preservation Need and Spatial Analysis:* This section describes the location of deed-restricted properties in relation to new and existing transit hubs and the risk that these properties may lose affordability restrictions.
- II. *Spatial Analysis – Identifying Priority Preservation Areas:* This section explains the mapping analysis completed for this project, and how RA and CHPC used a combination of demographic and housing analysis and identification of key transit investments and planning efforts to identify the areas of high-priority preservation need in Fremont.
- III. *Existing Housing Supportive Policies and Programs:* This section explains the policy conditions in Fremont, including the tools that the Community Development Department currently has to support preservation of affordable housing near transit, as well as other policies that have the potential to impact the preservation need in the city in the future.
- IV. *Recommendations and Potential Tools:* This section outlines a series of both city-wide and place-based recommendations that would support preserving affordable housing near transit in Fremont.

## Key Findings

- There are 26 rent-restricted, affordable housing developments in Fremont with a total of 1,468 affordable homes. A majority of these developments were funded with Low Income Housing Tax Credits while the majority of at-risk developments are HUD-funded properties.
- Priority Preservation Areas have three primary characteristics: transit and planning investments, vulnerable neighborhoods, and existing concentrations of affordable housing. The downtown and central Fremont areas include all of these elements, and should be priority areas for preservation efforts. The majority of existing affordable properties with affordability contracts are in these areas, 16 properties in total. These areas also include all of the properties identified in the risk analysis in Section I, as well as the five properties where local affordability restrictions have expired but property owners have continued to renew HUD rental assistance contracts.
- Not all areas with major transit investments are places where affordable housing preservation efforts should be focused. Nor are all areas with concentrations of existing affordable housing or vulnerable households near transit. Areas excluded from the final preservation priority areas are:
  - The Warm Springs station area is a priority for planning and transportation infrastructure investments, but has no existing population in the immediate vicinity.
  - Neighborhoods to the east of Mission Blvd that have vulnerable populations, but because they are far from transit and associated housing pressures, they are not a priority for preservation work. (The map also over exaggerates the size of these areas since much of this part eastern Fremont is unpopulated.)
  - Areas to the northwest and south of Central Fremont that have both existing affordable housing and vulnerable households that are farther from transportation and planning priority areas.

## Summary of Recommendations

Fremont has already implemented a package of affordable housing preservation funding policies that are seen as best practices by affordable housing advocates throughout the region. Despite this, the amount of funding available for the preservation of affordable housing in the city has been reduced dramatically since the state's elimination of Redevelopment funding, costing the city approximately \$7 million per year. Fremont will need to build on its local funding sources to use these resources strategically and promote local, regional, and statewide solutions to the reductions in affordable housing funding resulting from the end of Redevelopment.

Focusing existing and new resources in the Priority Preservation Areas will support the City's goals to build a more sustainable city, with more walking, biking and transit use, while also ensuring that these areas do not become completely unaffordable for lower-income families. Some of the key recommendations to support this work from a preservation standpoint include:

- Prioritize affordable housing funds for preservation in priority preservation areas by purchasing new long-term affordability agreements with currently non-restricted developments that serve low-income tenants.
- Continue to track at-risk affordable housing and engage with ownership and management in order to extend current restrictions when expirations threaten affordability.
- Use current tools and implement new policies aimed at protection of affordability around existing and new transit stations.

## I. Restricted Affordable Property Preservation Need and Spatial Analysis

### Assessing Risk Status of Restricted Affordable Housing in Fremont

There are 26 rent-restricted, affordable housing developments in Fremont with a total of 1,468 currently affordable homes (See Table 1 below). These developments have been funded primarily with Low Income Housing Tax Credits (LIHTC), U.S. Department of Housing and Urban Development (HUD) subsidized mortgages and grants, and state and local funding and subsidized loans. The city has contributed funding and/or land to many of these developments resulting in local affordability use restrictions that exceed those of the state's LIHTC program or HUD's mortgage program.

**Table 1. Subsidized Affordable Housing Properties in Fremont**

Type of Assistance	Total Number of Properties	Total Low Income Units	HUD Rent Assisted Units	County Project-Based Voucher Units
HUD Mortgage	10	405	389	
LIHTC	14	1021		59
Other	2	42		1
<i>Total</i>	<i>26</i>	<i>1,468</i>	<i>389</i>	<i>60</i>

The LIHTC program has helped fund approximately 53 percent of Fremont's affordable housing stock. The program provides equity investors with ten years of tax credits in exchange for up-front capital and restricted rents affordable to low-income households for a minimum of 30 years. Nearly all LIHTC-funded properties have also received funding from the city and/or state. As a result of additional restrictions attached to these funding sources as well as the restrictions stemming from the tax credit programs itself, nearly all LIHTC-funded properties have many decades remaining of restricted affordability.

Many HUD-funded properties were built using subsidized loans that typically predate the LIHTC program. Though smaller in number, properties with expiring HUD mortgages are more likely to be at risk for conversion to market rate. There are 10 HUD-funded properties in Fremont with 405 units. In addition, HUD has provided rental assistance to many of these properties through separate market-based Section 8 rent subsidy contracts, enabling deeper affordability to tenants while offering higher returns to owners and supporting the financial and physical maintenance of the property.

HUD Project Based Rental Assistance contracts, typically in the form of Section 8, are the single most powerful tool for providing deep affordability to extremely low-income households. They are also a scarce and diminishing resource since HUD stopped issuing new PBRA Section 8 contracts in 1984. There are 389 units covered by existing HUD rental assistance contracts in Fremont. **These should be the highest priority for preservation given their economic value and scarcity.**

The type of owner of an affordable housing property is also an important factor in assessing risk of conversion. Large, mission-driven nonprofit affordable housing developers typically have the commitment, staff, and resources to maintain the affordability of their housing over the long term. City and county agencies also are committed to the long-term preservation of affordable properties that they own or have helped to develop. For-profit affordable housing developers, on the other hand, may be more tempted to

convert an affordable property to market rate in strong markets. Small nonprofit owners may also present risk of conversion as a changing mission or limited capacity can lead to the sale of an affordable property to the highest bidder. Just over 50 percent of affordable properties and total units belong to large nonprofit housing organizations while a little less than 30 percent of properties belong to for profits.

### **Affordable, Rent-Restricted Properties at Risk**

The majority of at-risk affordable properties were funded with HUD mortgages and/or with HUD rental assistance contracts. HUD mortgages carry affordability restrictions that may expire when the mortgages mature or are prepaid. Tracking the mortgage maturity date for HUD properties and determining if a property can prepay or has already prepaid its mortgage are helpful in determining risk of conversion for a HUD property. However, it is the time remaining on a property’s rental assistance contract with HUD that is the strongest indicator of a property’s risk of conversion to market rate.

Since HUD began offering the option, owners committed to long-term affordability often renew contracts for 20 years. Owners wanting to preserve more flexibility or those contemplating sale or conversion of a property may choose to renew rental assistance contracts for one to five years. Using the length of time remaining on rental assistance contracts between HUD and property owners as a guide, CHPC applies the following at-risk rankings to expiring HUD mortgage and Section 8 properties:

- **Moderate Risk** properties have 5-10 years remaining on rental assistance contracts
- **High Risk** properties have 1-5 years remaining on rental assistance contracts
- **Very High Risk** properties have less than 1 year remaining on rental assistance contracts

CHPC and RA used these criteria to rank the risk of conversion for rent-restricted affordable properties in Fremont. Four HUD-funded properties in Fremont have rental assistance contracts expiring in the next 10 years, potentially affecting 129 units. (See Table 2.) In addition, there is a city-funded affordable property, Amber Court, that will see its affordability restriction with the city expire in 2020 and is therefore considered at moderate risk for loss of affordability. The Rancho Luna and Rancho Sol developments, which had HUD rental assistance contracts expire in 2013, are considered at moderate risk because there are also city restrictions on the properties that last until 2020.

**Table 2. At-risk HUD Funded Affordable Properties in Fremont**

Risk Level	Property Name	Property Owner Type	Total Low Income Units	HUD Assisted Units	HUD Contract Expiration Year
High	Good Shepherd Residence	Small Nonprofit	32	32	2017
High	Pasatiempo Apartments	For Profit	59	59	2016
Mod	Rancho Luna	For Profit	26	26	2013
Mod	Rancho Sol	For Profit	12	12	2013

### Spatial Analysis of Restricted Affordable Housing Stock

Existing transit access in Fremont is concentrated along three major corridors or areas.

- Existing BART station in downtown Fremont
- ACE station in Centerville
- High-frequency bus corridor along Fremont Blvd

The most significant future transit investment to impact the City of Fremont is the BART extension to Berryessa, and eventually to San Jose. The City is likely to have two major new station areas – Warm Springs and Irvington if the next Alameda County transportation measure passes – and these areas as well as the existing BART station in downtown Fremont are likely to see increased interest from people working in San Jose and the South Bay.

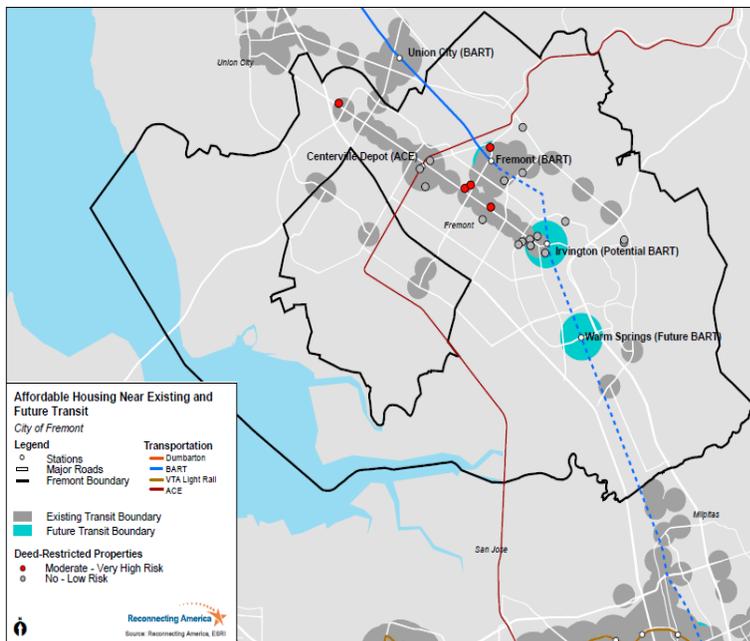
As Figure 1 below shows, all five of Fremont’s at-risk properties (shown as red dots) are near existing frequent transit (within a half mile of a rail station or a quarter mile of a bus stop with 15-minute frequencies or better), though none are near the future BART extension at Warm Springs or Irvington.

However, 11 properties with low risk status today are near those future stations, particularly the potential Irvington Station.

**Table 3. Restricted Affordable Housing near Transit in Fremont**

Program	Total Number of Properties	Properties Near Current Transit	Properties Near Future Transit
HUD	10	9	4
Tax Credit	14	6	7
Other	2	0	0
<i>Total</i>	<i>26</i>	<i>15</i>	<i>11</i>

**Figure 1. Subsidized Affordable Housing Near Existing and Future Transit in Fremont**



The next section discusses how RA and CHPC identified the areas of greatest concern for the preservation of restricted affordable properties due to increased real estate market pressures accompanying new transit investment and denser commercial and residential development.

## **II. Spatial Analysis – Identifying Priority Preservation Areas**

Existing market pressures in Fremont are strongly related to access to major job centers via transit and auto transportation. In particular, City of Fremont staff have observed that the following areas are warmer markets for housing because of their transit or car access to job centers.

- Locations near the downtown Fremont BART station provide access for workers commuting north, into East Bay communities or San Francisco.
- Locations near the Centerville ACE train station, in particular for workers commuting to the South. The ACE train connects to the San Jose Diridon station and is also a stop on the Amtrak Capitol Corridor.
- Neighborhoods around Irvington and to the south are within a comfortable car ride to Silicon Valley jobs.

Central Fremont is also a desirable place to live, independent of transit. It is close to a central park, hospitals, restaurants and shopping, and the high quality of Fremont schools add to the desirability of these neighborhoods.

The following section identifies the priority preservation areas in the City of Fremont, based on where market pressures are today, where transit is likely to increase pressures in the future, and where existing affordable housing is located.

However, it is important to note that Fremont's housing market is not as warm as others in the Bay Area (San Francisco, for example) particularly when it comes to the compact, multifamily housing often associated with transit-oriented development. Fremont's existing housing stock consists primarily of single family homes and townhomes, and these are models that developers can finance without public subsidy. However, 4-6 story multifamily buildings, both rental and ownership, are proving more difficult to develop in today's market. The City must balance dual priorities: jumpstarting a market for higher density, TOD-style development, while there are still land opportunities near transit, and investing in both preservation and new development of affordable housing.

The following factors identify priority preservation areas in Fremont:

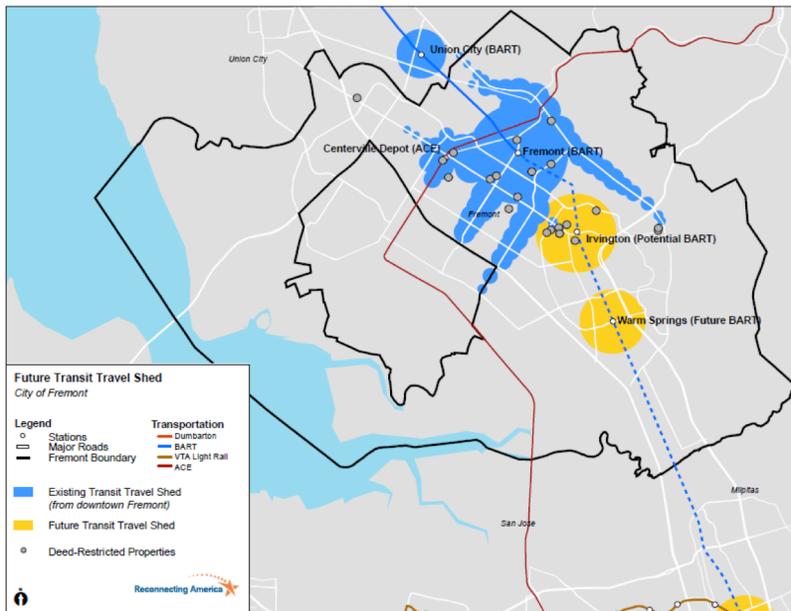
- Transit and Transportation Investments and Planning Efforts
- Demographics and Neighborhood Change
- Concentrations of Affordable Housing

Each of these factors involved mapping out several specific metrics or planned investments, and all maps can be found in the appendix attached to this memo.

### **Transportation Investments and Planning Efforts**

Public investments and planning efforts sometimes have the potential to create heightened market pressures for neighborhoods. Living in walkable neighborhoods near transit is increasingly desirable, especially as congestion increases and local and regional governments continue to make investments to make neighborhoods near transit stops and stations more attractive places to live. Ensuring that low-income residents can benefit from these investments in transit, place-making and planning is at the heart of the Regional Prosperity Strategy.

**Figure 2. Travel Shed to Downtown San Jose**



Understanding where land and the housing stock may become more desirable and more expensive, just as these places become even more important for lower-income residents to access, is at the heart of this project. Identifying *where* these investments are taking place will identify neighborhoods that may face market pressures on the existing housing stock.

**The BART extension to Berryessa, and eventually San Jose Diridon, may create new market pressures near existing and future BART stations.** Figure 2 shows in

blue the areas that transit riders can access within a 20-minute trip. Yellow indicates areas where new BART investment will extend that 20-minute travel shed in the future. These new transit connections to jobs in Silicon Valley are likely to increase housing pressure around the existing BART station in downtown Fremont as well as around the Irvington station, if it is eventually built. The Warm Springs station does not have existing housing that will be impacted, but ensuring that lower-income households have access to the jobs there, which are more likely to be accessible to low- and middle-skilled workers, will be a major priority for equity advocates.

**Funding for infrastructure and placemaking are also concentrated along these existing and future transit corridors and stations, and, in the near term, particularly around downtown Fremont.** The City of Fremont has focused planning and investments in and around the Central Fremont BART area, reflecting their desire to transition from auto-oriented suburbia to a more urban community. This includes a successful application for an OBAG grant to 1) extend Capitol Avenue from State Street to Fremont Boulevard, including bicycle and pedestrian-friendly infrastructure, and 2) improve and enhance bicycle and pedestrian connections between the Fremont BART station and nearby employment/retail centers, housing, and Downtown. Pedestrian and bicycle improvements will include new way-finding signs, replacement of damaged/lifting sidewalks, replacement of dead trees and planter areas, new tree grates, wider sidewalks, ADA-compliant curb ramps, pedestrian countdown signals, striping new crosswalks, new bicycle lanes, bike detection at Civic Center/BART Way intersection, and bicycle parking.

The City has also invested resources in new residential development in these neighborhoods. This includes both affordable housing developments and market-rate housing like the Paragon, a 301-unit mixed-use apartment community.

The Centerville and Irvington Priority Development Areas (PDAs) are also a focus of the City's investments in making more compact, walkable communities. Irvington in particular is likely to see more

investment if the BART station is funded. The Warm Springs PDA will be important from a job access perspective, but there is no existing housing in the vicinity to be affected by changes to the market.

**The City of Fremont's decision to focus transportation investments on existing infrastructure instead of widening roads and highways** is another example of a progressive approach to transportation policy that, because of its potential to increase market pressures on locations that are transit friendly, should be balanced with investments in affordable housing. Directing funds towards connecting and completing streets and enhancing the pedestrian and bicycle connections within the City is a fantastic gain for transit and smart growth advocates, and will have a long term impact on the

desirability of living near transit. But the negative impacts of those investments could be pressures on the existing affordable housing stock, so ensuring that preservation is part of the City's transportation strategy is crucial.

**Figure 3. Transportation Investments in Fremont**

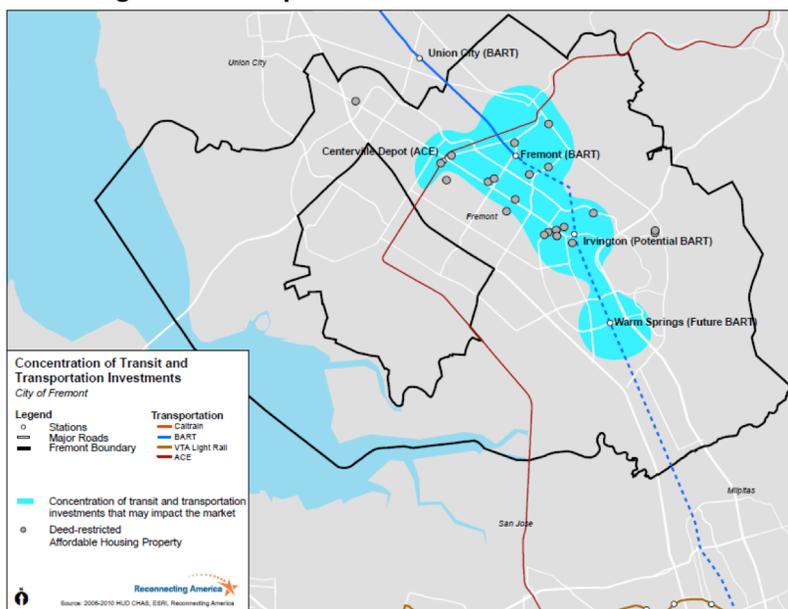


Figure 3 shows where the combination of regional investments in expanding transit infrastructure and local investments in pedestrian and bicycle improvements overlap. These areas show the major transit nodes and corridors in the City of

Fremont, and are where increased demand for living in walkable, transit-proximate locations may increase market demand over the long term.

### Demographics and Neighborhood Change

Demographic patterns can point to neighborhoods that may be vulnerable to housing market pressures. Neighborhoods with lower median incomes and a higher concentration of renters in particular can be more at risk of displacement as land is purchased for redevelopment or lower quality housing stock is rehabilitated for higher income renters or owners.

**Central Fremont has the highest risk of gentrification and displacement within the city.** This conclusion is based on analysis from UC Berkeley looking at demographic shifts in neighborhoods in the Bay Area.<sup>i</sup> That work defined a gentrified neighborhood as one that started the decade as a low-income neighborhood in a central location and experienced increases in household income and educational attainment greater than the Bay Area region as a whole. Neighborhoods classified as susceptible to gentrification included 13 or more of 19 factors that predicted gentrification from 1990 to 2000, including: parks, high share of multi-unit housing properties, high share of renters, and high share of non-family

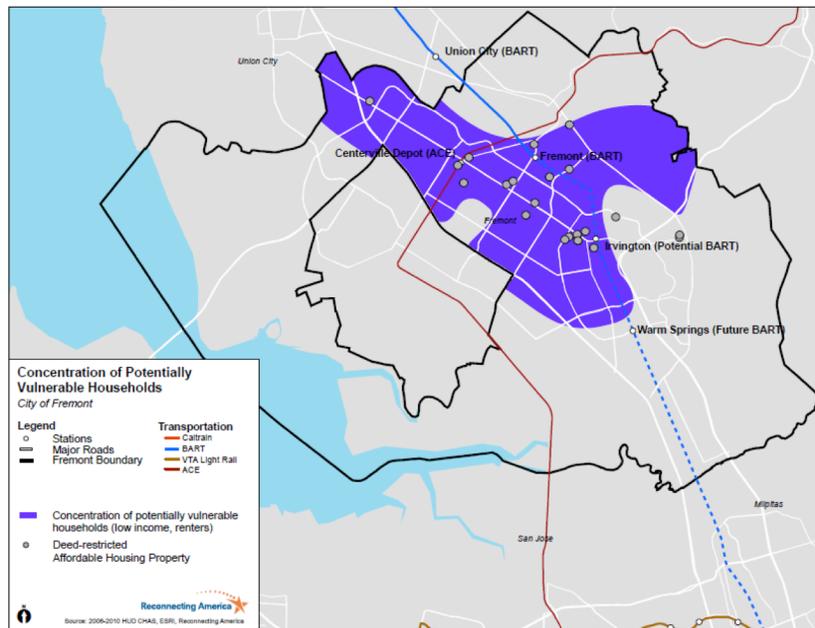
households. Based on the previous section, this is not a surprising finding, and is likely to be more true today, given the City's recent investments in this area.

**Renters are concentrated in Central Fremont.** Renters are more susceptible to gentrification pressures than homeowners. Fremont does have a rent control policy, but it applies only to mobile homes, and not to other rental properties in the city. Renters do not make up a majority of households in Fremont, which has historically housed more single-family homeowners. Only 36 percent of households in Fremont today are renters.

**Median incomes are lowest in Central Fremont.** Residents with lower median incomes are more vulnerable to rising housing prices, and the areas of the city with higher concentrations of lower-income residents face rising housing costs and displacement pressures. Because lower-income workers are more likely to take transit than higher-income workers, ensuring that lower-income households remain connected to transit has positive benefits for equity goals as well as transit ridership goals. Compared to other cities in the Bay Area, these areas with lower median incomes are more moderate, with families making between 50 and 80 percent AMI.

Figure 4 shows the locations of the more vulnerable neighborhoods and households in Fremont. These are places with more renters, more low-income households, and, according to the UC Berkeley analysis, more susceptibility to displacement and gentrification. Central Fremont, Centerville, and Irvington areas are all included in this vulnerability analysis.

**Figure 4. Vulnerable Households in Fremont**

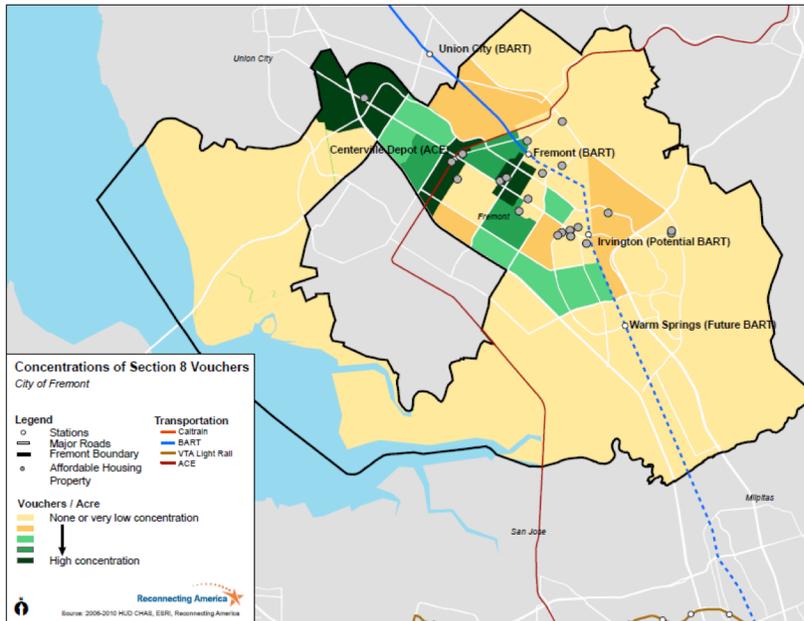


## Concentrations of Affordable Housing

To identify where existing households are paying affordable rates for their housing, this analysis looked at both the locations of subsidized rental properties (in Section I), the concentration of households using

Section 8 vouchers, and Consolidated Planning, or CHAS, data from HUD.

**Figure 5. Households with Section 8 Vouchers**

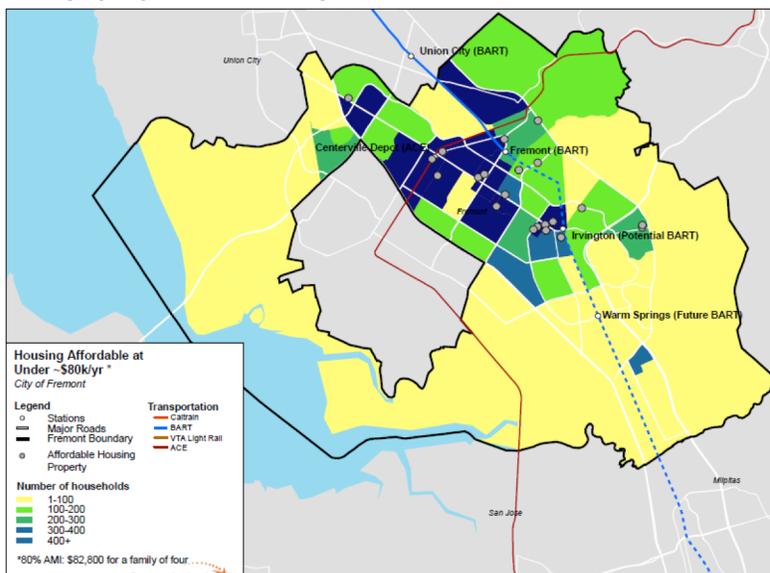


**Central Fremont, as well as neighborhoods near the Centerville ACE station and to the north have the highest concentrations of Section 8 vouchers.**

Figure 5 shows these neighborhoods in detail. Section 8 vouchers provide deep affordability to residents living in rental housing across the region. Identifying where these households currently live

could point to a potential strategy to work with landlords who accept vouchers to engage in longer-term preservation strategies. For example, the City could work with property owners to make physical upgrades to buildings in exchange for long-term affordability restrictions.

**Figure 6. Concentrations of moderate-income households paying less than 30 percent of their income on rent**



**Existing affordable housing properties are clustered in Central Fremont and around the proposed Irvington BART station.**

Figure 5 also shows the location of existing subsidized affordable housing developments. There are more details on the lifetime of the affordability restrictions on these properties in Section I, but the majority are located near the major transit hubs discussed earlier in this section.

**Lower-income households that spend less than 30 percent of their income on housing are concentrated in Central Fremont and to the southwest.** Figure 6 (using HUD’s CHAS data) shows that the majority of low-income households paying affordable rents for housing in Fremont make between 50 percent and 80 percent AMI. While there are some households renting single-family homes, the majority of these households are in buildings with 5 or more units, though there are a limited number of larger, multi-family rental properties in Fremont. Maps in the Appendix show the locations of households living in different building sizes.

The maps also overlay this Census data with the locations of deed-restricted housing in San Jose. Because the census is based on survey data, the affordable units include both naturally occurring affordable housing and subsidized housing. However, the presence of deed-restricted housing does not appear to be the factor driving the affordability of any particular neighborhood. <sup>ii</sup>

**Figure 7. Concentrations of Affordable Housing**

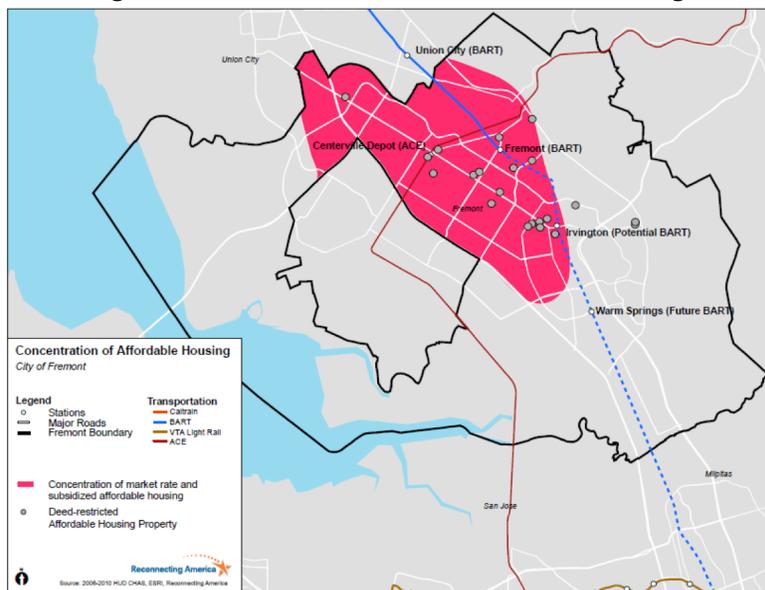


Figure 7 shows the areas with the largest concentrations of affordable housing – including market rate and subsidized affordable. This analysis shows where existing pockets of affordability exist in Fremont today. Where these areas overlap with existing or future transit access, they may become less affordable as they become more desirable places to live.

### Priority Preservation Areas

The previous sections identified neighborhoods with three different major characteristics:

- transit and planning investments,
- vulnerable neighborhoods, and
- existing concentrations of affordable housing.

**Figure 8. Three Areas of Interest Related to Affordable Housing Preservation**

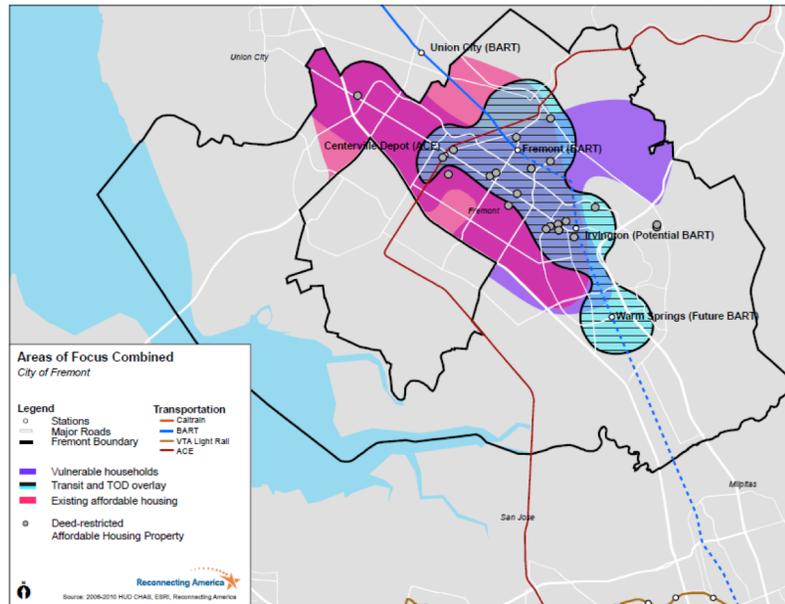


Figure 8 shows how these three layers overlap in Fremont. This map shows that not all areas with major transit investments are places where affordable housing preservation efforts should be focused. Nor are all areas with concentrations of existing affordable housing or vulnerable households near transit. Areas not included in the final preservation priority area include:

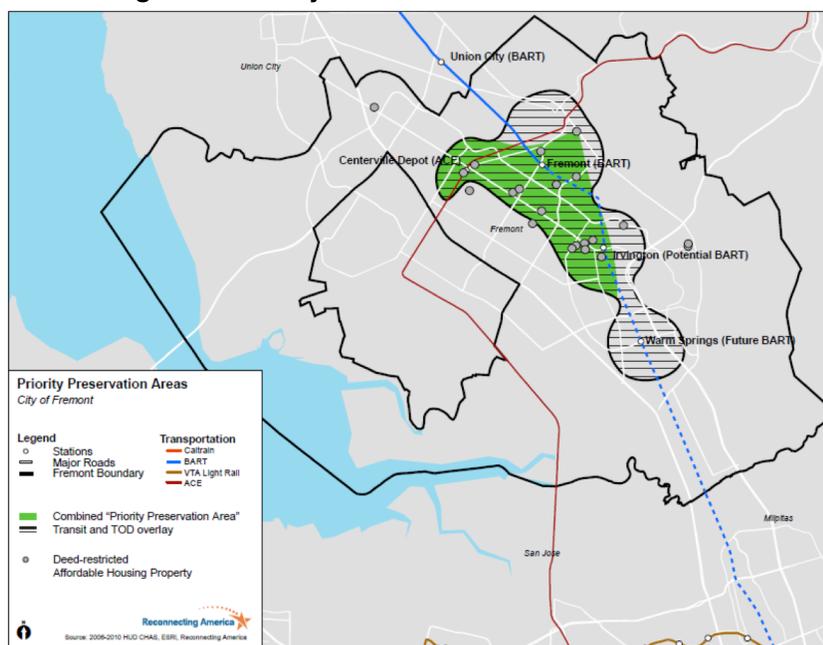
- The Warm Springs station area is a priority for planning and transportation infrastructure investments, but has no existing population in the immediate vicinity.
- Some neighborhoods to the east of Mission Blvd have vulnerable populations, but because these neighborhoods are far from transit and associated housing pressures, should not be a priority for preservation work. (The map also over exaggerates the size of those areas, given much of eastern Fremont are unpopulated hills.)
- Finally, there are areas to the northwest and south of Central Fremont that have both existing affordable housing and vulnerable households. However, these areas are farther from those marked as transportation and planning priorities.

While there may be other reasons to focus attention on those neighborhoods, they do not necessarily provide access to transit and the walkable, livable neighborhoods that Plan Bay Area seeks to build throughout the region, and thus should not be a priority for investments to keep lower-income families connected to these areas.

Figure 9 on the following page shows the neighborhoods where there is both the potential of market pressure from transit investments and planning efforts, as well as vulnerable populations and existing affordable housing stock. RA and CHPC recommend that the City and partners should focus place-based preservation efforts in these areas of Central Fremont. The majority of existing affordable properties with affordability contracts are in this area, 16 properties in total. This area also includes all of the properties that the risk analysis in Section I identified, as well as five of the properties where affordability contracts have expired, but property owners are continuing to renew annual Section 8 contracts.

Section IV will make recommendations about how this priority area may be used in policy and funding decisions.

**Figure 9. Priority Preservation Areas in San Jose**



### III. Existing Housing Supportive Policies and Programs

Fremont has many of the right tools in place to support affordable housing preservation and production, but without Redevelopment or the ability to obtain alternative funding, the city's resources are limited.

#### Funding and Housing Creation strategies:

- **Fremont's Affordable Housing Ordinance** requires that new market-rate ownership developments contain between 15 percent affordable units or pay an in lieu fee of \$19.50 per square foot or \$22.50 for homes on lots 6,000 square feet or larger. Some market-rate developers have partnered with nonprofit developers to build affordable buildings concurrent with market-rate developments to meet the requirements of this policy. Other developers have paid the in lieu fee, contributing funds to the city for affordable housing construction or preservation. The nexus study for the Affordable Housing Ordinance will be updated in 2014, possibly increasing both the percentage of units requiring affordability (up to 20 percent) and the lieu fee contributed by new market rate development.
- **A Housing Impact Fee** for new market-rate rental properties was imposed when inclusionary housing was challenged for rental properties due to the 2010 Palmer decision. All new market rate rental developments must pay an impact fee set at \$19.50 per square foot in 2013. These funds are used for new affordable housing development and preservation.
- The City has dedicated **20 percent of "Boomerang" Funds**, tax revenues that will return to the city due to the demise of Redevelopment, to affordable housing creation and preservation.

- **Community Development Block Grants & HOME:** Federal community development and housing programs remain important funding sources for affordable housing preservation and development in spite of recent federal budget cuts that have reduced the amount of funding Fremont receives.

With the creation of the above programs, Fremont has a strong package of affordable housing funding policies. However it is important to note that Fremont's former Redevelopment Agency generated approximately \$7 million per year for affordable housing (20 percent out of an estimated \$35 million per year in total Redevelopment revenue) and all of these policies were meant to complement rather than replace the former Redevelopment funding. To succeed in the post-Redevelopment world, Fremont will need to use these resources even more strategically and promote additional local, regional, and statewide solutions to the reductions in affordable housing funding resulting from the end of redevelopment.

#### **Additional Existing Housing Policies:**

- **Condo Conversion Limits** currently in place in Fremont allow no more than 100 rental units per year to be converted to condominiums. While there has been limited loss of rental units to condominiums recently, this may prove an important tool especially in rental housing near to Downtown Fremont Bart and a possible future Irvington station. This limit may even need to be tightened should an upsurge in condominium conversions begin.
- **Mobile Home Park Rent Stabilization** protects renters of mobile home park pads where they park their mobile homes from large rent increases. New state laws also limit mobile home park conversion. The mobile home parks in Fremont are not located near enough to transit to be impacted by market pressures due to the growing desirability of transit access. However, these mobile home parks may be subject to price pressures resulting from general increases in land value and the residential real estate market so these protections could prove important to protecting tenants in the future.
- **Density Bonus for Affordable Inclusionary:** Fremont has a density bonus for market-rate developers that include affordable units or make additional contributions to the city affordable housing fund. Developers have so far been reluctant to build higher density multifamily housing in Fremont, resulting in practically no use of the density bonus available when affordable housing is included in the development. However, as the market grows for denser multifamily housing around Fremont's existing and future transit stations, use of the density bonus may increase. See discussion of the potential for Land Value Recapture in Fremont below.

#### **Current Preservation Strategies:**

- **Monitoring** of existing restricted affordable properties has been a consistent part of Fremont's affordable housing preservation policy. By tracking the expiration of affordability restrictions as well as other factors such as ownership and physical condition of properties, Fremont can improve its ability to preserve existing affordable housing.
- **Targeted Outreach** and Preservation Funding for at-risk properties are tools that Fremont has used to maintain existing affordable housing. By establishing and maintaining contact with ownership and management of at-risk properties Fremont can increase the likelihood that an at-risk affordable property can be preserved.

## **IV. Recommendations and Potential Tools**

Given the analysis detailed in the above sections, RA and CHPC created the following recommendations that we believe will help advance housing preservation near transit in Fremont

### **City-wide**

**Consider a local Preservation Ordinance** such as those in place in San Francisco or Chicago. San Francisco's ordinance requires 12 months notice to the city, local nonprofits, and tenants' groups in the case of a triggering event such as opt out, expiration of affordability, or sale. The ordinance requires 18 months' notice for prepayments of mortgages or early termination of rental assistance contracts. In addition, the City mandates relocation assistance for residents displaced by the conversion of an affordable property to market rate. Local rent control laws apply if a property converts to market rate as long as the property was built during the time period covered by the city's rent control ordinance. Rents are set at the contract rent under the rental assistance contract on the property. Since adopting its ordinance in 1990, San Francisco has not lost any rent-restricted affordable housing to conversion. Chicago's ordinance includes a provision that any sale of an affordable property must be referred to the city housing department and gives qualified preservation purchasers 120 days to submit a purchase offer that matches the existing offer. If the qualified preservation purchaser agrees to close the sale with the 120 days, the seller must complete the sale with the preservation purchaser and enter into an affordability preservation agreement.

**Create a local or sub-regional preservation working group.** A preservation working group made up of City staff, affordable housing managers, developers, CDFIs, and funders can meet regularly to ensure that preservation opportunities are identified and can be acted on quickly. This group could go beyond the City of Fremont and engage with a subregional set of actors in southern Alameda County and northern Santa Clara County as well. Such a group could also work proactively to anticipate where investments or planning initiatives might change market pressures and could use this spatial analysis approach to dynamically move with those. The City of Los Angeles has a very effective local preservation working group that offers one potential model.

**Land Value Recapture** may be a future strategy in Fremont to build new affordable units or generate funds for affordable housing preservation. Land Value recapture depends on the opportunity to up-zone an area where high quality infrastructure (such as a transit station) and a central location create demand for higher density residential and commercial development than prior zoning had allowed. New zoning that permits greater density makes land more valuable and provides the opportunity to "capture" some of this value for public needs related to increased development such as new public spaces or new affordable housing. Despite Fremont's strong residential real estate market, there has been limited desire on the part of developers building around Fremont's existing BART station to use the maximum densities already in place because single family homes and townhouse developments have been the dominant form of residential development in the city. It may be a number of years until stronger interest to build denser multifamily housing emerges among market-rate developers. In the mean-time the city should continue to encourage denser, multifamily housing around major transit hubs while allowing for density increases for those developers willing to contribute affordable housing units or funds.

**Consider focusing resources on preservation, given status of emerging market.** Without Redevelopment as a reliable source of funding for affordable housing, City staff estimate that they will

have the resources to support the development of one new affordable project once every three to four years—compared to averaging one project a year with Redevelopment. Though this could change if new state resources become available, rethinking how available funding is prioritized may help provide more affordable housing over the long term to low income families in Fremont. Preserving existing housing to create or maintain affordability can be more cost-effective than new construction, but this does present a challenge, because State-mandated RHNA needs do not count preservation of existing restricted affordable units towards fulfillment of a jurisdiction's targets for development of affordable housing.

**Pursue additional funding strategies (including supporting new state and regional initiatives).**

- **Support state and regional funding initiatives** that may provide additional resources for affordable housing, including: a permanent state funding source for affordable housing, such as the document processing fee included in the Homes and Jobs Act introduced in 2013; new state legislation that would allow for the creation of Redevelopment districts specifically around new and existing transit infrastructure; investment of state Cap-and-Trade program funds in affordable transit-oriented development and energy efficiency investments in affordable housing; the proposed Bay Area Regional Quality of Life Measure that will include affordable housing funding.
- **Make greater use of preservation as method to fulfill the City's Affordable Housing Ordinance for new market rate development.** In addition to these state and regional initiatives, the City of Fremont will consider raising the Affordable Housing Ordinance requirement from 15 percent to 20 percent in 2014, if there is a clear nexus to raise the fee. Additional revenue could be directed towards preservation projects that target larger existing residential properties. The City has taken many creative approaches to financing new and preserving existing affordable housing, including helping a market rate developer work with Habitat for Humanity to provide affordable homeownership to fulfill their Affordable Housing Ordinance requirement. Working with developers to provide rehabilitation funds that would include long-term affordability restrictions could be one strategy to extend this funding source to supporting preservation. A challenge for the City is that the state does not count a preserved unit fully when assessing a jurisdiction's success in meeting its Regional Housing Need Allocation (RHNA) and so there may need to be changes at the state and regional level to offer greater recognition of preservation of existing affordable units that are at-risk.
- **Leverage resources for "green" or "sustainability" improvements** to existing properties to extend or add affordability contracts. The City would need to provide grants or help secure state funds because energy efficiency retrofits generally require taking out a loan if a retrofit is not part of the rehabilitation and recapitalization of a property. CHPC is developing an on-bill repayment program specifically for energy efficiency upgrades of older low-income affordable rental properties. In addition, Cap-and-Trade spending for weatherization and energy efficiency retrofits offers a new source of funding for green improvements.
- **Coordinate with the Housing Authority of the County of Alameda.** The Housing Authority of the County of Alameda could provide project-based vouchers as a strategic tool for preservation of existing restricted affordable developments where units are not already 100 percent rent-assisted, or for securing new long-term affordability restrictions in developments serving low-income tenants. Another strategy centered on housing choice vouchers could involve identifying properties with large concentrations of Section 8 Vouchers and offering to convert those vouchers into long-term project-based contracts in exchange for commitments to long term affordability.

## **Place-based – “Priority Preservation Areas”**

RA and CHPC recommend that Fremont focus on the priority preservation areas identified through the analysis in Section II. This memo outlines the areas within Fremont with strong transit connections and existing but vulnerable housing stock that could benefit from a stronger set of policy solutions to preserving affordability while also maintaining access to transit for low-income residents. The neighborhoods identified on Figure 9 provide a specific geography on which to focus these efforts.

### **Target monitoring and funding to Priority Preservation Areas.**

- The City is already doing many of the right things in terms of finding revenue sources for affordable housing and identifying key properties for preservation. Focusing these and future funding efforts to Priority Preservation areas will ensure that as the City makes more investments in becoming a sustainable, walkable place, that lower-income families can continue to live in and access these neighborhoods.
- Identify properties within priority preservation areas where some of the strategies outlined above (leverage resources for “green” or “sustainability” improvements; include preservation as method to fulfill the Affordable Housing Ordinance requirement, etc.) could be implemented. Larger, multi-family properties may be more cost effective for acquisition or rehabilitation projects.

### **Offer subsidy in exchange for new affordability restrictions on existing market rate properties.**

The Priority Preservation Areas should be a focus for any activity by the City or partners (including CDFIs, foundations, and local or regional equity organizations) to add long-term affordability contracts to existing market rate properties. Targeted preservation acquisition may be one strategy. In addition, the city may offer loans or other subsidy to properties in exchange for commitments from ownership to extend or create long-term affordability restrictions.

Implement a 1-for-1 replacement of restricted affordable units in the event of redevelopment. Require that any demolition of existing restricted affordable apartments result in the same number of restricted long-term affordable units in the new building and that prior tenants have right to return to the units at prior rents.

## **Strategies for Preserving HUD Subsidized Properties**

- **Continue to actively track restricted affordable properties** by periodically assessing factors such as time remaining on subsidies—rental assistance contracts, subsidized mortgages, and tax credits—and work with CHPC and other partners to assess risk of conversion to market rate.
- **Maintain regular contact with owners** of at-risk properties and communicate with HUD and the State’s Department of Housing and Community Development (HCD) on preservation plans.
- **Enforce State and Federal notice laws** by tracking planned opt-outs of rental assistance or subsidy programs, terminations of affordability restrictions, and planned sales and ensuring that notice law has been followed. Use notice law requirements to support preservation purchases or slow termination of affordability by ensuring that all provisions of notice laws are followed.
- **Use Code Enforcement** to maintain quality of affordable housing and identify aging properties that might be good candidates for acquisition and rehabilitation.

## Maps Appendix

**See attached.**

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<sup>i</sup> Mapping Susceptibility to Gentrification in the Bay Area

<sup>ii</sup> This analysis uses data that HUD customizes and shares as Consolidated Planning (CHAS) data. The CHAS data identifies neighborhoods where there are concentrations of families paying affordable rents for housing, less than 30 percent of their income. The data also shows the distribution of affordable units in single family homes, building with 2-4 units, or buildings with 5 or more units.