California Housing Partnership

Affordable Homes At Risk

How Many of California's Affordable Rental Homes Have Converted to Market Rate? How Many are Still at Risk?

FEBRUARY 2021

18,043

*affordable rental homes California has **already lost**; almost one-third were LIHTC-financed*

30,102

*affordable homes **at risk** of losing affordability in the next ten years*

6,785 (23 percent)

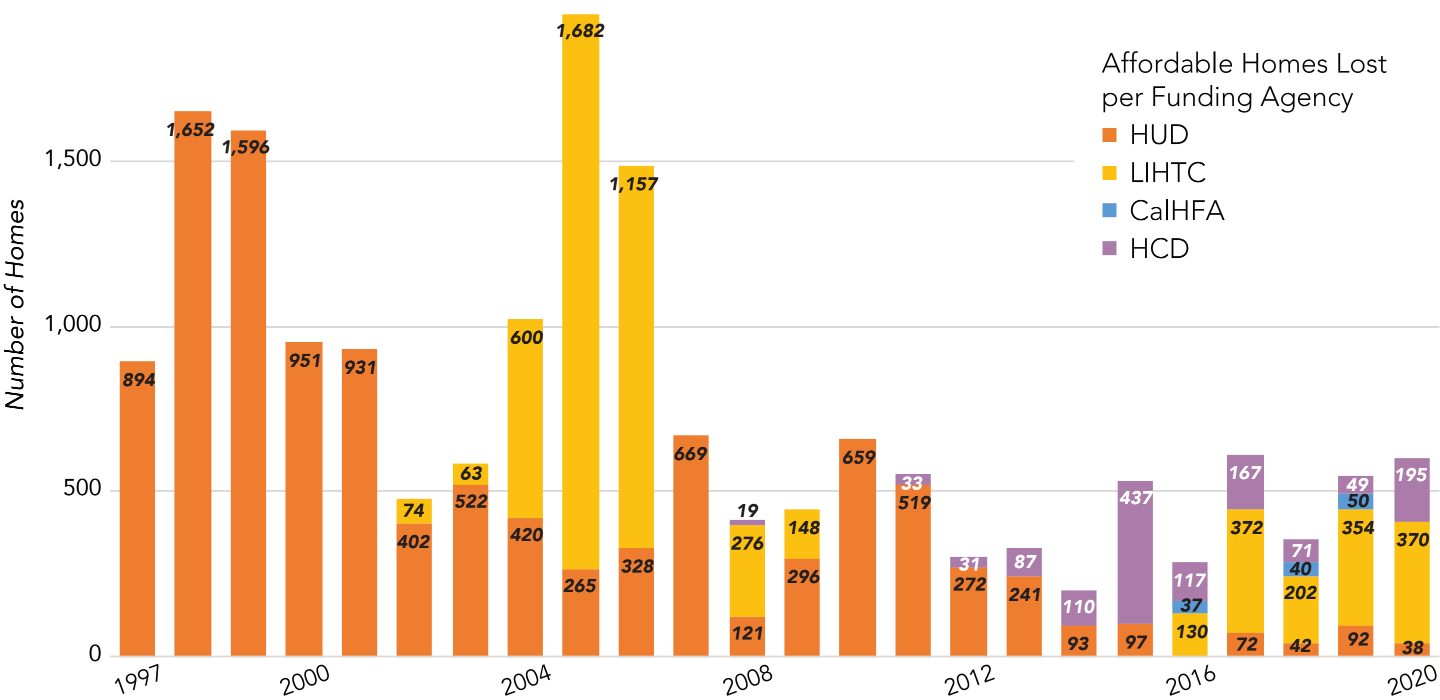
*homes that may no longer be affordable **as soon as next year***

ABOUT THIS REPORT

To inform affordable housing preservation efforts across California, the **California Housing Partnership** (the Partnership) annually assesses the historical loss and conversion risk of federally- and state-subsidized affordable rental developments.[1] This includes multifamily properties financed or assisted by the U.S. Department of Housing and Urban Development (HUD), the U.S. Department of Agriculture (USDA), the California Housing Finance Agency (CalHFA), the California Department of Housing and Community Development (HCD), and the Low-Income Housing Tax Credit (LIHTC/"housing credits") program administered by the **California Tax Credit Allocation Committee** (TCAC).[2]

These findings show that the risk of subsidized affordable rental homes ("affordable homes") converting to market rate is very real in the state's tight housing markets. **Six of the ten most expensive cities in the United States for a two-bedroom are in California.**[3] Paying rent has also become increasingly challenging as the **COVID-19 pandemic continues to hurt households' incomes**, especially for the lowest income members of our communities.

Figure 1. Loss of Affordable Rental Homes in California, 1997-2020



Source: Preservation Database, California Housing Partnership, January 2021.

WHAT HAS BEEN LOST?

Between 1997 and 2020, California has lost 18,043 affordable homes with project-based rental assistance contracts and/or loans from HUD, CalHFA, and HCD, or Low-Income Housing Tax Credits (LIHTC) due to owner decisions to opt out, sell, or allow their developments to convert to market rate (see Figure 1). Almost two-thirds of lost affordable homes converted to market rate in the decade between 1997 and 2006.

The large number of LIHTC affordable homes lost in the 2004-2006 period were part of the first generation of developments in California financed with housing credits between 1987 and 1989. Applicants were required only to meet the basic threshold criteria specified in Internal Revenue Code (IRC) Section 42, so these developments had covenants that expired after only 15 years. California's Tax Credit Allocation Committee, which administers the program for the Treasurer's Office, did not impose longer affordability terms until 1990. Many first-generation developments without other federal, state, or local financing mandating longer rent restriction terms converted to market rate beginning in 2002.[4] Another 2,398 (13 percent) first generation LIHTC-financed homes with 30-year affordability covenants converted to market in the past five years, between 2016 and 2020. For more information and lessons learned from the first 30 years of the LIHTC program, see the Partnership's publication, ***The Tax Credit Turns 30***.

The Partnership analyzed the ownership structure of previously subsidized developments that lost their deed-restricted affordability between 1997 and 2020 and found that 61% (10,979 affordable homes) that lost affordability were owned by for-profit entities (See Figure 2). This trend is further substantiated by the Partnership's 2017 comprehensive analysis of conversion rates for first generation LIHTC properties, which found that 30 percent of affordable homes in developments created by for-profits were converted, compared to 4 percent among those built and owned by nonprofits.[5] This difference exists because mission-driven nonprofit owners typically provide affordable homes to low-income residents in perpetuity, beyond the terms of affordability covenants, whereas for-profit owners more often look to make money through conversion sales.

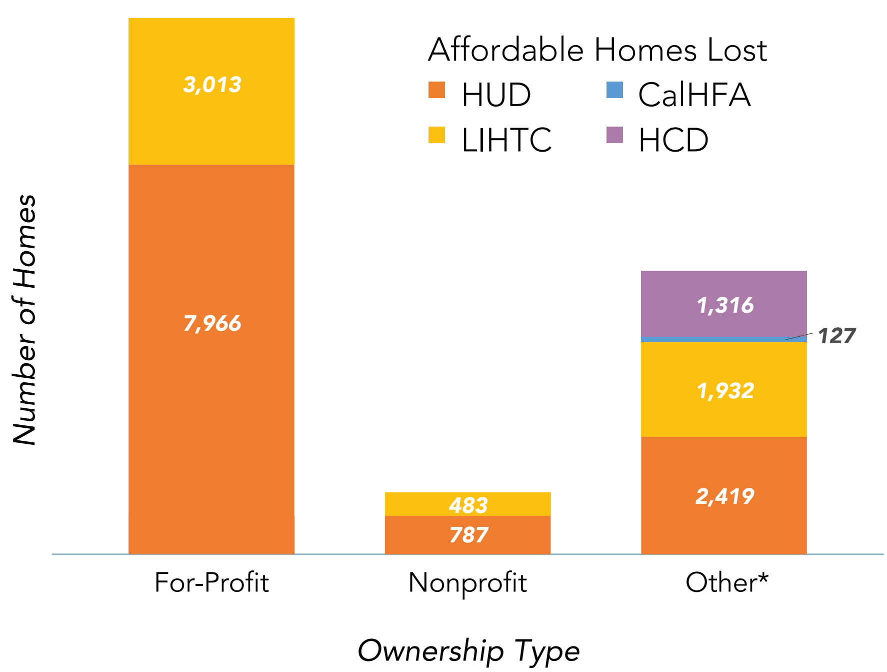
While this analysis demonstrates that nonprofit-owned affordable housing is far less likely to convert to market rate than those created by for-profit organizations, nonprofit status alone does not guarantee that an affordable housing development will be preserved. Maintaining affordability also depends on longer rent restriction terms, adequate resources to maintain the development, and strong monitoring and enforcement by government agencies and legal advocates.[6] See Table 2 for more findings on the loss of affordable homes.

WHAT IS AT RISK OF CONVERSION TODAY?

The California Housing Partnership analyzes conversion patterns among the state's stock of subsidized affordable rental housing to identify which homes are most at risk of converting to market rate, and categorizes each affordable development into one of the following groups:

- **Very High Risk of Conversion**: Affordability restrictions end in less than one year, there are no known overlapping subsidies that extend affordability, and the development is not owned by a stable mission-driven nonprofit developer.

Figure 2. Loss of Affordable Rental Homes by Ownership Type, 1997-2020



Source: California Housing Partnership Preservation Database, January 2021.
**"Other" includes homes owned by limited dividend organizations, other ownership structures, or ownership is unknown.*

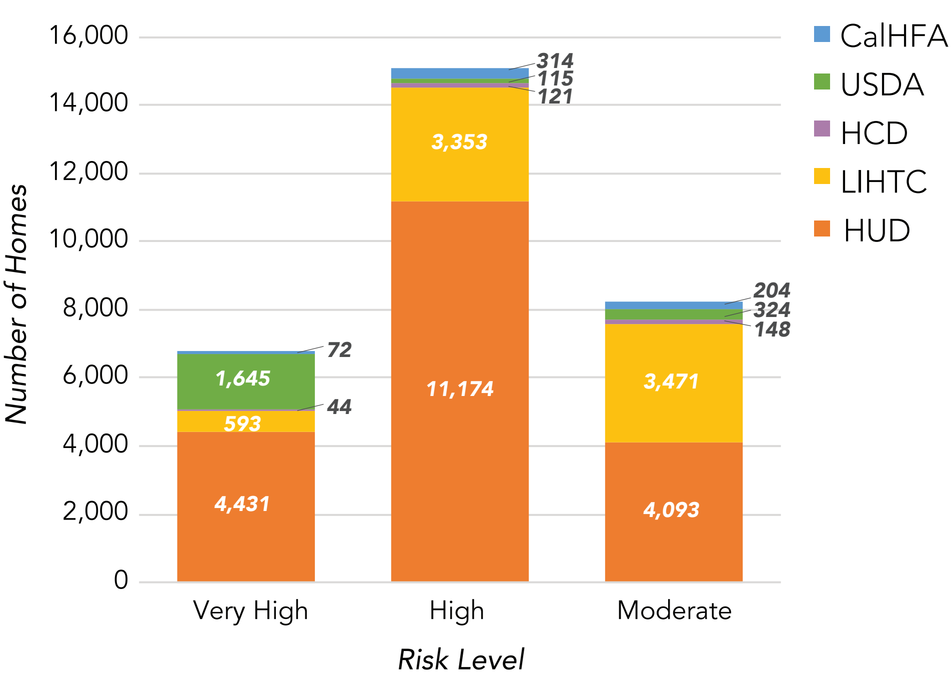
Table 1: Affordable Housing Risk Assessment by Program[7]						
	HUD	**LIHTC**	**HCD**	**USDA**	**CalHFA**	**TOTAL**
Very High Risk	4,431	593	44	1,645	72	**6,785**
High Risk	11,174	3,353	121	115	314	**15,077**
Moderate Risk	4,093	3,471	148	324	204	**8,240**
Low Risk	42,352	370,874	3,456	7,609	1,466	**425,757**
Total	**62,050**	**378,291**	**3,769**	**9,693**	**2,056**	**455,859**

Source: California Housing Partnership Preservation Database, January 2021.

- **High Risk of Conversion**: Affordability restrictions end in one to five years, there are no known overlapping subsidies that extend affordability, and the development is not owned by a stable mission-driven nonprofit developer.
- **Moderate Risk of Conversion**: Affordability restrictions end in five to ten years, there are no known overlapping subsidies that extend affordability, and the development is not owned by a stable mission-driven nonprofit developer.
- **Low Risk of Conversion**: Affordability restrictions extend beyond ten years, or the development is owned by a stable mission-driven nonprofit developer.

While the vast majority of affordable homes in California (455,859) are not likely to convert to market rate housing in the next decade, the unfortunate news is that 30,102 affordable rental homes in California – seven percent of the current supply – are currently at very high, high, or moderate risk of conversion. As Figure 3 and Table 1 show, the majority of these at-risk homes have expiring HUD project-based rental assistance contracts and/or maturing mortgages (65 percent), while 25 percent are governed by expiring LIHTC regulatory agreements, seven percent are financed by maturing USDA mortgages, two percent are financed by maturing CalHFA loans, and one percent are financed by expiring HCD loans and grants.

Figure 3. Affordable Rental Homes at Risk in California



Source: California Housing Partnership Preservation Database, January 2021.

Homes at very high, high, and moderate risk of losing affordability have the following characteristics:

- 43 percent of the total at-risk apartments serve seniors (13,080 homes).
- Another 43 percent of the at-risk apartments serve families (12,909 homes).[8]
- At-risk homes are concentrated in Los Angeles County (10,171 homes, 34 percent of total), Orange County (3,293 homes, eleven percent of total), Santa Clara County (1,854 homes, six percent of total), San Francisco County (1,502 homes, five percent of total), and San Diego County (1,599 homes, five percent of total) (see Figure 4).
- When considering the number of at-risk homes relative to each county's total stock of affordable homes, Trinity County has the largest proportion of affordable homes at risk of conversion—68 percent of the county's subsidized affordable rental homes are at risk. When looking exclusively at the fifteen most populous counties, Orange County has the highest proportion of at-risk homes compared to its total affordable housing stock (13 percent). In Los Angeles, San Mateo, and Tulare Counties, one in ten affordable homes may lose affordability within this decade.

See Table 2 for more data on at-risk affordable homes by county.

Economic and Social Benefits also at Risk

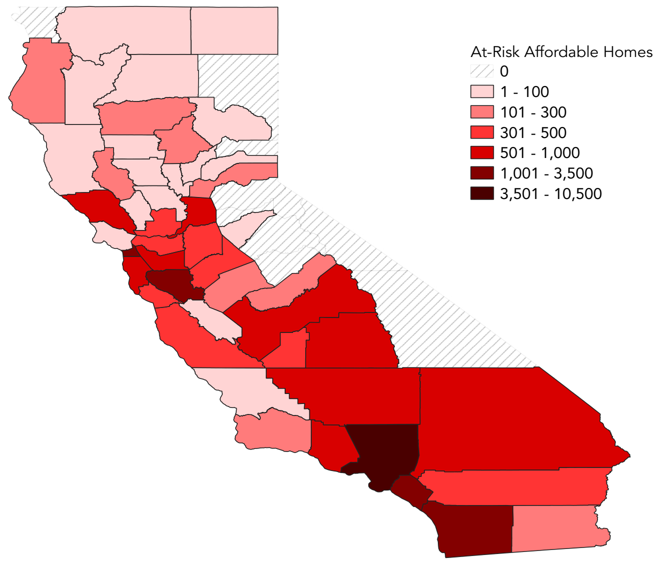
While these 30,102 at-risk homes represent a small segment of California's affordable housing supply, the conversion of even one affordable home to market-rate means the loss of housing and economic stability for the low-income resident(s) living in the home. The benefits of living in affordable rental housing for the low-income households able to access our state's limited supply of these apartments range from relief from housing instability to improvements in health, childhood cognitive development, lifetime earnings and increased local economic activity.[9] Low-income residents living in affordable housing in California on average save $550 per month—or $6,600 per year—when compared to paying local market rents.[10] For residents in high cost coastal communities, rent savings can be much higher – for example, upwards of $1,000 per month for residents within the San Francisco Bay Area. These savings help put food on the table, pay for transportation and healthcare costs, and enable families to take advantage of more educational and workforce development opportunities.[11]

Affordable housing also generates substantial economic activity that extends beyond its residents and into surrounding communities and regions. The creation and operation of today's affordable homes in California supports 299,000 jobs annually, creates more than $11.9 billion in wages and business income annually, and generates more than $3.4 billion in annual tax revenue.[12]

Losing the affordable homes identified as being at risk of conversion would represent a significant loss to residents and the surrounding communities. Given California's **need to produce 1.2 million homes** for extremely low-income and very low-income renters over the next decade, it is clear that failing to preserve California's affordable homes is not an acceptable public policy option and that state and local action is needed.[13]

Figure 4.

Geography of Affordable Rental Homes at Risk of Conversion



Source: California Housing Partnership Preservation Database, January 2021.

WHAT SHOULD BE DONE?

The following are ways that state leaders can provide local governments and nonprofit, mission-driven housing organizations with the tools necessary to effectively preserve existing affordable housing:

1. Pass legislation to authorize the creation of a new Affordable Housing Preservation Tax Credit— AB 1516 (Gabriel)—to incentivize the owners of at-risk properties to sell to affordable housing entities.
2. Appropriate $500 million from the state budget for the acquisition of at-risk and naturally occurring affordable housing by affordable housing entities.
3. Make permanent the $500 million annual increase to the California Low-Income Housing Tax Credit Program and allocate an additional $100 million specifically for affordable housing rehabilitation so that buyers of at-risk properties have long term certainty that resources will be available for upkeep.
4. Aggressively enforce the **State Preservation Notice Law** as expanded by AB 1521 in 2017.

To learn more about the data contained in this report, please contact Preservation and Data Manager Danielle M. Mazzella (dmazzella@chpc.net), who manages the California Housing Partnership's Preservation Database.

To learn more about the policy recommendations contained in this report, contact Mark Stivers (mstivers@chpc.net), Director of Legislative and Regulatory Advocacy at the California Housing Partnership.

Table 2: Lost Affordable Homes & Risk Assessment by County

County	Lost Affordable Homes	% of Lost Affordable Homes	Homes at Moderate Risk	Homes at High Risk	Homes at Very High Risk	Total Homes at Risk of Conversion	% of Affordable Homes at Risk
Alameda	632	4%	528	282	83	893	3%
Alpine	0	0%	0	0	0	0	0%
Amador	0	0%	0	0	0	0	0%
Butte	129	1%	80	48	116	244	0.8%
Calaveras	0	0%	0	8	35	43	0.1%
Colusa	0	0%	50	0	0	50	0.2%
Contra Costa	416	2%	162	141	189	492	2%
Del Norte	0	0%	0	0	0	0	0%
El Dorado	0	0%	0	0	0	0	0%
Fresno	1,073	6%	194	230	226	650	2%
Glenn	0	0%	54	0	0	54	0.2%
Humboldt	0	0%	0	135	92	227	0.8%
Imperial	29	0.2%	40	116	72	228	0.8%
Inyo	19	0.1%	0	0	0	0	0%
Kern	397	2%	210	232	182	624	2%
Kings	178	1%	181	0	248	429	1%
Lake	0	0%	0	30	121	151	0.5%
Lassen	7	0.04%	0	0	0	0	0%
Los Angeles	6,156	34%	1,651	6,283	2,237	10,171	34%
Madera	10	0.1%	0	80	37	117	0.4%
Marin	35	0.2%	0	56	0	56	0.2%
Mariposa	16	0.1%	0	0	0	0	0%
Mendocino	38	0.2%	48	0	0	48	0.2%
Merced	222	1%	149	70	75	294	1%
Modoc	0	0%	12	0	0	12	0.04%
Mono	0	0%	0	0	0	0	0%
Monterey	62	0.3%	58	322	50	430	1%
Napa	14	0.1%	84	0	0	84	0.3%
Nevada	0	0%	0	0	34	34	0.1%
Orange	521	3%	683	2,011	599	3,293	11%
Placer	72	0.4%	0	25	130	155	0.5%
Plumas	0	0%	41	0	0	41	0.1%
Riverside	585	3%	263	35	17	315	1%

Table 2: Lost Affordable Homes & Risk Assessment by County

County	Lost Affordable Homes	% of Lost Affordable Homes	Homes at Moderate Risk	Homes at High Risk	Homes at Very High Risk	Total Homes at Risk of Conversion	% of Affordable Homes at Risk
Sacramento	1,200	7%	485	370	0	855	3%
San Benito	0	0%	0	0	20	20	0.1%
San Bernardino	345	2%	158	236	115	509	2%
San Diego	1,982	11%	214	972	413	1,599	5%
San Francisco	309	2%	688	498	316	1,502	5%
San Joaquin	209	1%	113	278	42	433	1%
San Luis Obispo	22	0.1%	0	0	94	94	0.3%
San Mateo	214	1%	190	359	58	607	2%
Santa Barbara	21	0.1%	0	31	141	172	0.6%
Santa Clara	771	4%	1,016	634	204	1,854	6%
Santa Cruz	326	2%	84	251	9	344	1%
Shasta	144	1%	0	0	42	42	0.1%
Sierra	0	0%	0	0	0	0	0%
Siskiyou	106	1%	14	63	0	77	0.3%
Solano	309	2%	257	60	0	317	1%
Sonoma	250	1%	8	378	149	535	2%
Stanislaus	169	1%	186	60	80	326	1%
Sutter	95	1%	0	0	51	51	0.2%
Tehama	0	0%	0	45	56	101	0.3%
Trinity	0	0%	0	0	64	64	0.2%
Tulare	196	1%	154	65	388	607	2%
Tuolumne	5	0.03%	0	0	0	0	0%
Ventura	340	2%	115	588	0	703	2%
Yolo	359	2%	14	85	0	99	0.3%
Yuba	60	0.3%	56	0	0	56	0.2%
TOTALS	**18,043**	**100%**	**8,240**	**15,077**	**6,785**	**30,102**	**100%**

Source: California Housing Partnership Preservation Database, January 2021.

DATA NOTES & SOURCES

1 *This assessment includes developments financed or assisted by HUD, USDA, CalHFA, HCD and LIHTC programs. The California Housing Partnership has included a portion of affordable housing financed by the California Department of Housing and Community Development (HCD)–and local programs into its loss and risk analysis, but the data was not comprehensive at the time of this Report's preparation.*

2 *The California Housing Partnership's Preservation Database includes HUD subsidized developments, USDA Section 514 and 515 rural developments, developments receiving loans from CalHFA, developments financed with Low-Income Housing Tax Credits, and a portion of developments subsidized by HCD in California. The Preservation Database is updated quarterly with the most complete and available data provided by each agency. The data is then cleaned and duplicate information is removed using both automated processes and manual checks. Every effort is made to ensure the information presented is as precise as possible; however, there may be unanticipated inaccuracies in our analysis and in the data we receive from federal and state agencies.*

3 *Nelson, Alicia Underlee. "The Most Expensive Cities for Renters in America." 30 September 2020. Website: https://www.apartmentguide.com/blog/most-expensive-cities-for-renters/.*

4 *California Housing Partnership. "The Tax Credit Turns 30." December 2017. Website: https://chpc.net/resources/tax-credit-turns-30/.*

5 *Ibid.*

6 *Ibid.*

7 *The homes captured under the HUD column reflect developments with HUD financing, as well as developments with HUD financing that also have CalHFA, and/or USDA financing. The homes captured under the LIHTC column include developments that have Tax Credits only, as well as Tax Credit developments that also have HUD, HCD, CalHFA, and/or USDA financing. The homes captured under the HCD column reflect developments with HCD financing, as well as developments with HCD financing that also have CalHFA, and/or HUD financing; and there are two reasons that the number of HCD-financed homes is not greater: (1) homes also assisted with LIHTC are shown solely in the LIHTC column, and (2) we do not yet have complete data on all existing HCD-financed homes. The homes captured under the USDA column include those with USDA funding exclusively. The homes captured under the CalHFA column include those with CalHFA funding exclusively.*

8 *The population served is determined by the housing type reported for each development. For the purposes of this analysis, we assume that all units correspond with the development's housing type.*

9 *See, for example: How Housing Matters, a clearinghouse of research on housing's benefits supported by the MacArthur Foundation and the Urban Institute: https:// howhousingmatters.org; a 2017 report on the connection of housing and health from the Bipartisan Policy Center called Building the Case: Low-Income Housing Tax Credits and Health, available at https://bipartisanpolicy.org.*

10 *California Housing Partnership. Affordable Rental Housing Benefits Map. September 2020. Website: https://chpc.net/affordable-housing-benefits-map/.*

11 *See, for example: Jacob, Brian, Max Kapustin, and Jens Ludwig. 2015. "The Impact of Housing Assistance on Child Outcomes: Evidence from a Randomized Housing Lottery." The Quarterly Journal of Economics; and Aizer, et al. 2014. "The Long Term Impact of Cash Transfers to Poor Families." NBER Working Paper Number 20103.*

12 *California Housing Partnership. Affordable Rental Housing Benefits Map. September 2020. Website: https://chpc.net/affordable-housing-benefits-map/.*

13 *"California's Roadmap HOME 2030." January 2021. Website: https://roadmaphomeca.org.*

ACKNOWLEDGEMENTS

Preservation & Data Manager, Danielle M. Mazzella (Lead Author)
President & CEO, Matt Schwartz
Director of Legislative and Regulatory Advocacy, Mark Stivers
Director of Communications, Christina Gotuaco (Graphic Design)

Special thanks to the California Tax Credit Allocation Committee, U.S. Department of Housing and Urban Development, the U.S. Departments of Agriculture, the California Housing Finance Agency, the California Department of Housing and Community Development, and other local agencies for their data contributions to this report.