

AGENDA ITEM 7 - PowerPoint Presentation



Agenda

Project Overview	5-min
Market Context	5-min
Key Design Considerations and Opportunities for Preservation	10-min
Q&A	10-min

01

Project Overview

INTRODUCTION | Consulting Team

Our team members bring extensive experience analyzing and developing affordable housing programs across California and elsewhere in the U.S.



PAUL SILVERN
Partner-in-Charge



ADA PENG
Director



ANNA GALLICCHIO
Senior Analyst



Anthony Vega
Research Director



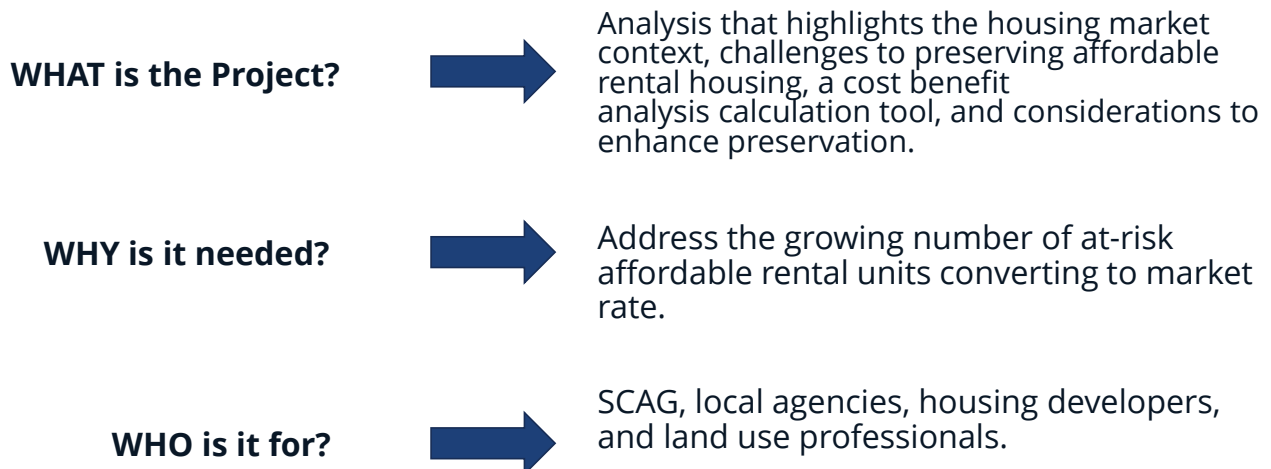
INTRODUCTION | HR&A Advisors

HR&A's national Housing Practice addresses housing market and housing affordability issues at three mutually reinforcing levels.



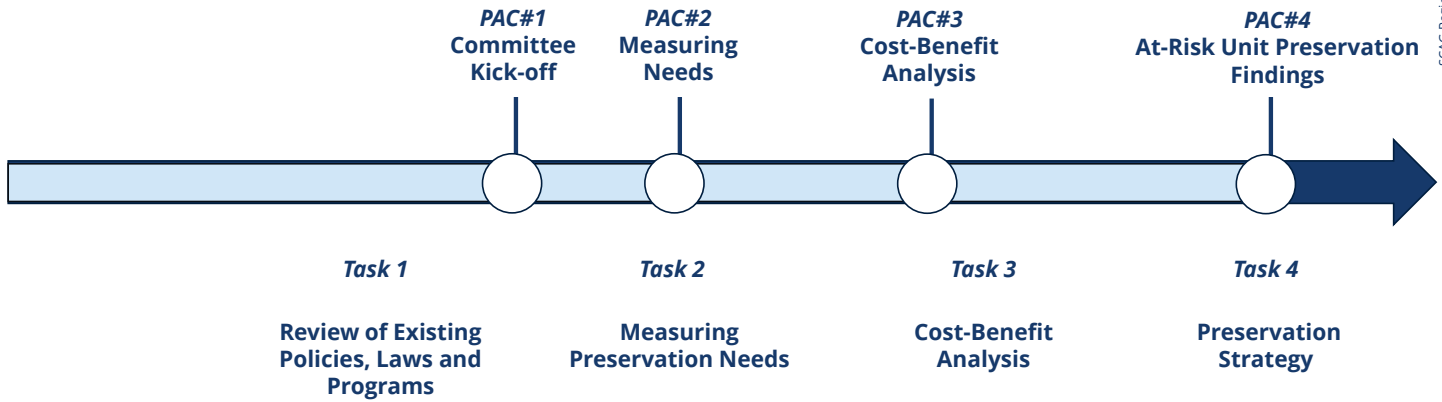
INTRODUCTION | Purpose of the Engagement

SCAG is interested in preservation of at-risk rental units as a key strategy to support local governments and stakeholders to produce and preserve affordable housing.



STUDY OVERVIEW | Scope of Work

The HR&A team was tasked to investigate the potential benefits and costs to preserve at-risk affordable rental housing across the SCAG region and develop a preservation strategy.



MARKET CONTEXT | Defining NOAH and Expiring Deed-Restricted Units

There are two types of at-risk affordable rental properties that can potentially be preserved, and different factors impact their affordability risk.

AFFORDABLE HOUSING

Naturally Occurring Affordable Housing (NOAH)

Properties with unsubsidized and unrestricted units affordable to renters earning less than or equal to 80% of Area Median Income

At-Risk NOAH

Located in submarkets with rapidly changing rents significantly higher than in-place rents

Expiring Deed Restricted Affordable Units

Properties with expiring regulatory restrictions on affordability
Includes restrictions through federal, state, and/or local subsidies or regulations

At-Risk Deed-Restricted

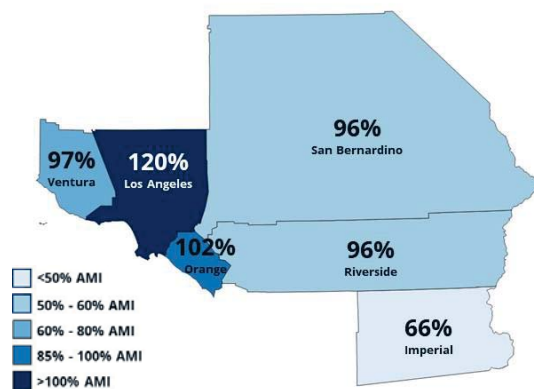
Expiring covenants within 10 years
Located in a high-cost submarket

MARKET CONTEXT | Regional Outlook

To afford housing in most counties in the SCAG region, households must earn incomes at or above each county's Area Median Income (AMI).

- 700K** Properties now "unaffordable" since 2016
- 29%** Renters extremely cost burdened
- 1961** Average year built

Percent of Area Median Income Needed to Afford Average Rent in the SCAG Region, 2022

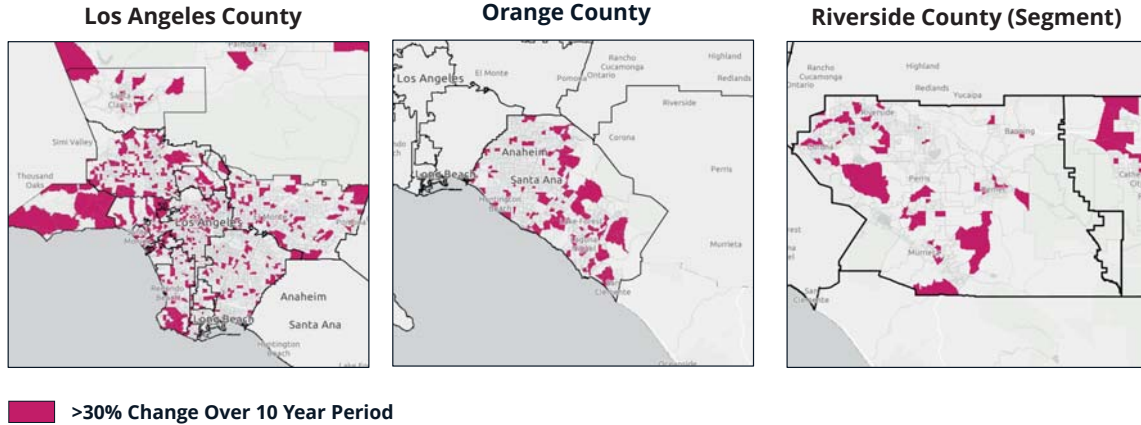


Source: Costar Housing Stock – 5+ Unit Properties. HR&A Advisors, Inc. Analysis of American Community Survey Data (2011-2021).

MARKET CONTEXT | Regional Variance

Rent growth across the SCAG region has been uneven, with many places experiencing rapid increases.

Monthly Rent Changes by County (2011 - 2021)

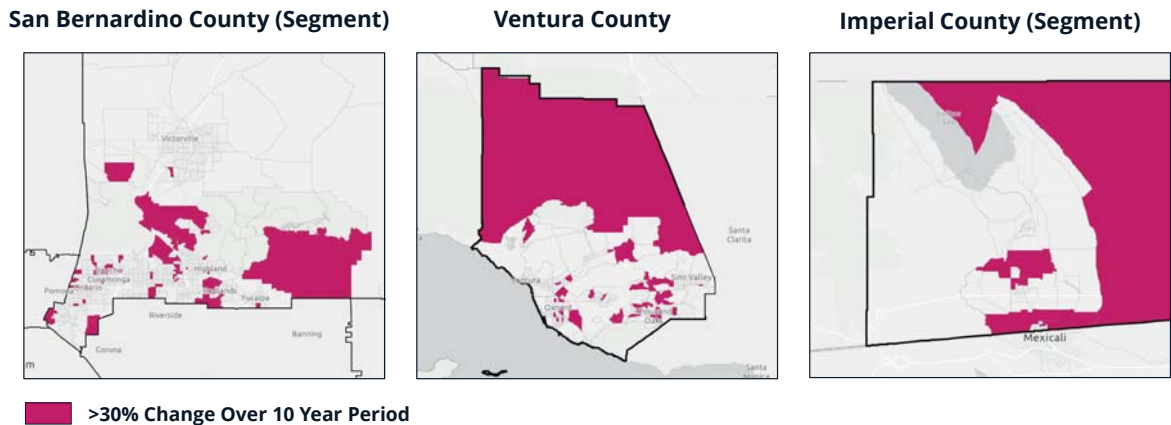


Source: Rent Growth for Los Angeles and Riverside Counties. For all counties, please see Appendix. Source: HR&A Advisors, Inc. Analysis of American Community Survey Data (2011- 2021).

MARKET CONTEXT | Regional Variance

Rent growth across the SCAG region has been uneven, with many places experiencing rapid increases.

Monthly Rent Changes by County (2011 - 2021)



Source: Rent Growth for Los Angeles and Riverside Counties. For all counties, please see Appendix. Source: HR&A Advisors, Inc. Analysis of American Community Survey Data (2011- 2021).

MARKET CONTEXT | PAC Experience

The project benefited from a PAC that represents a range of affordable housing stakeholders from the public, private, and non-profit sectors.

Avinoam Baral	Lincoln Avenue Capital
Leslye Corsiglia (TBD)	L Corsiglia Consultancy
Joe Donlin	SAJE
Josh Hamilton	Century Housing
Lynn Katano	Los Angeles County Development Authority
Jennifer McElyea	ETHOS
Michael Ruane	National Core
Sean Spear	Community Housing Works
Sara Tsay	Abode Communities
Michael Walsh	Riverside County Housing and Workforce Solutions

MARKET CONTEXT | PAC Experience

The Preservation Advisory Committee focus group meetings provided input and feedback from the members' experience with NOAH preservation in the SCAG region.

Takeaways:

- There are no established programs or funding sources for this type of at-risk rental housing.
- Variance in market conditions across the SCAG region with different housing typologies and scale of preservation opportunities will require a regional approach to address.
- The gap in financing is larger than what either local share or total property tax exemptions can cover. Local and regional jurisdictions should consider other incentives (e.g., gap financing or fee reductions).
- Special technical assistance is required for local governments and housing developers to implement programs for and manage NOAH projects.



PRESERVATION OPPORTUNITIES | Cost Benefit Analysis Tool Overview

HR&A developed a cost-benefit analysis tool to provide insights into whether property tax exemptions fully close financing gaps created with NOAH affordability restrictions.

- The goal of this tool was to provide insight on the feasibility and potential benefits of stabilizing rents within a specific building.
- The tool tests varying levels and length of property tax exemptions and displays quantitative and qualitative project benefits.
- **Findings:** Most property tax abatements of local or county contributions are not enough to close the financing gap for many NOAH preservation projects.

HR&A Advisors, Inc. on behalf of Southern California Association of Governments
 Cost Benefit Analysis of At-Risk NOAH Preservation Deals Template
 Inputs Sheet

Please follow Steps 1 - 5 and input requested information. This will be used to produce the financial and qualitative results in Tab B and C, Quantitative and Qualitative Metrics Outputs.

As a note, there is an optional Step 6, which allows the user to change model assumptions. We recommend most user not change these market assumptions.

STEP 1: Input Location and Project Summary Information	
	Inputs
Project Name	
Developer	
Acquisition Year	
Will the Development Qualify for the Welfare Tax Exemption?	Select from List
Is There an Existing Affordability Covenant on the Building?	Select from List
Address	
City	
County	Los Angeles County
Zip Code	
Census Tract	

PRESERVATION OPPORTUNITIES | NOAH Preservation Considerations

The following considerations will be critical to successful preservation of NOAH properties in the SCAG region.

1. Considering **community resources** (e.g., transit access, childcare facility) in addition to financial benefits and affordability levels.
2. Recognizing need for varied types and terms of **gap financing**.
3. Understanding limitations of **tax and fee exemptions**.
4. Matching length and structure of **affordability term** and public investment.
5. Balancing **property acquisition costs** with costs of renovation-.
6. Considering levels of housing production **ecosystem experience** with NOAH preservation.

PRESERVATION OPPORTUNITIES | State, Regional, and Local Initiatives

To enable NOAH preservation across the SCAG region there will need to be a combined effort at several governmental levels.

State

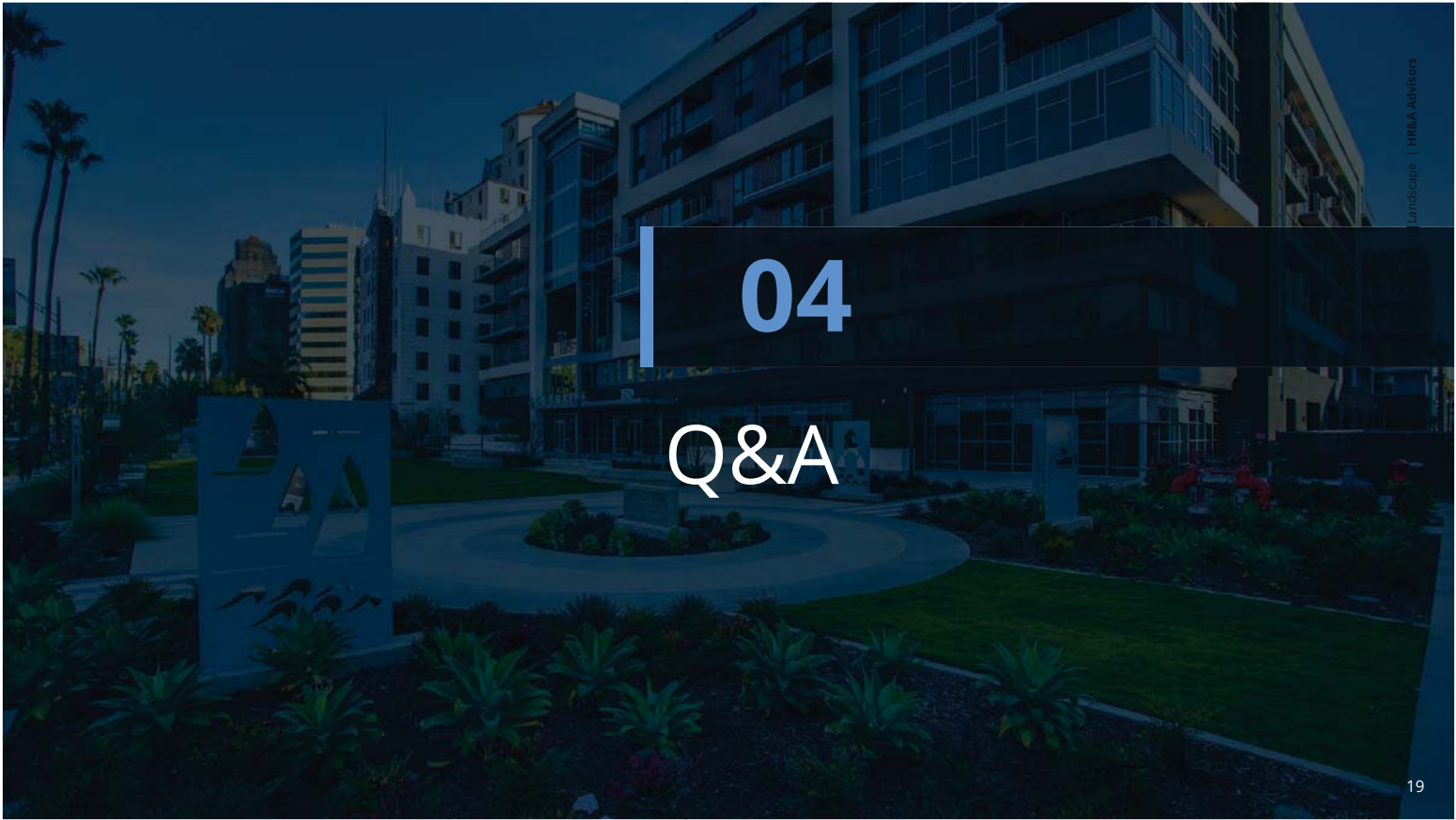
- Support for a larger share of RHNA allocations to be met through NOAH acquisition and renovation (with restricted rents).
- Expand the Property Tax Welfare Exemption to all NOAH units with appropriate and enforceable rent restrictions.
- Create new statewide funding and financing programs to support preservation.

Regional

- Support monitoring of NOAH units, such as tracking the quantity of NOAH units over time.
- Support capacity building for operators/owners to preserve NOAH units.
- Explore regulatory changes and flexibilities, beyond property tax exemptions (e.g., extended affordability term, reduced property valuation).

Local

- Add additional gap financing sources.
- Reduce or waive fees for NOAH transactions.
- Create programs for NOAH preservation based on local context and housing typologies.



04

Q&A



Preservation of At-Risk Rental Housing Units

CEHD Presentation

February 2024