CITY OF OAKLAND

AGENDA REPORT

TO:	Edward D. Reiskin City Administrator	**FROM:**	Shola Olatoye Director, Housing & Community Development
SUBJECT:	Oak Grove Apts Preservation Loan	**DATE:**	December 8, 2020

City Administrator Approval [signature] Date: December 10, 2020

RECOMMENDATION

Staff Recommends That The City Council Adopt A Resolution Authorizing The City Administrator To Enter Into An Affordable Housing Preservation Loan With Watt Companies, Inc. Or Its Affiliate In An Amount Not To Exceed $5,000 From The Affordable Housing Trust Fund To Support The Preservation Of Affordability At Oak Grove Apartments, A Scattered-Site Project Consisting Of Eight Properties Located In Oakland, And Adopting Appropriate California Environmental Quality Act Findings.

EXECUTIVE SUMMARY

Staff recommends that City Council adopt a resolution authorizing a loan not to exceed $5,000 in order to preserve the existing housing affordability levels at the Oak Grove Apartments (the Project), which is comprised of 255 total units across eight sites in Oakland. If adopted, a minimum of fifty (50) units will be restricted for fifty-five (55) years as affordable to households earning at or below eighty percent (80%) of Area Median Income (AMI). Additional units in the Project may be restricted over time, depending on voluntary tenant participation and unit turnover. The Project currently has no affordability restrictions but is subject to the Rent Adjustment Program Ordinance (Oakland Municipal Code Chapter 8.22.010).

BACKGROUND / LEGISLATIVE HISTORY

On September 17, 2013, the City Council adopted Ordinance No. 13193 C.M.S. amending Municipal Code Section 15.68.100 to designate a portion of funds received into the City's General Purpose Fund under the Redevelopment Dissolution Laws (Boomerang funds) for the Affordable Housing Trust Fund, pursuant to Oakland Municipal Code (OMC) Section 15.62. The eligible uses of the Affordable Housing Trust Fund include increasing, improving, and *preserving* the supply of affordable housing in the City. The definition of preserving affordable housing expressly includes the financing of housing that is at imminent risk of loss to the affordable housing supply, including housing that is not deed restricted but currently provided at an affordable rent and at-risk of losing affordability due to rent increases. The Project meets these and other requirements and is thus eligible to receive a preservation loan through the Affordable Housing Trust Fund.

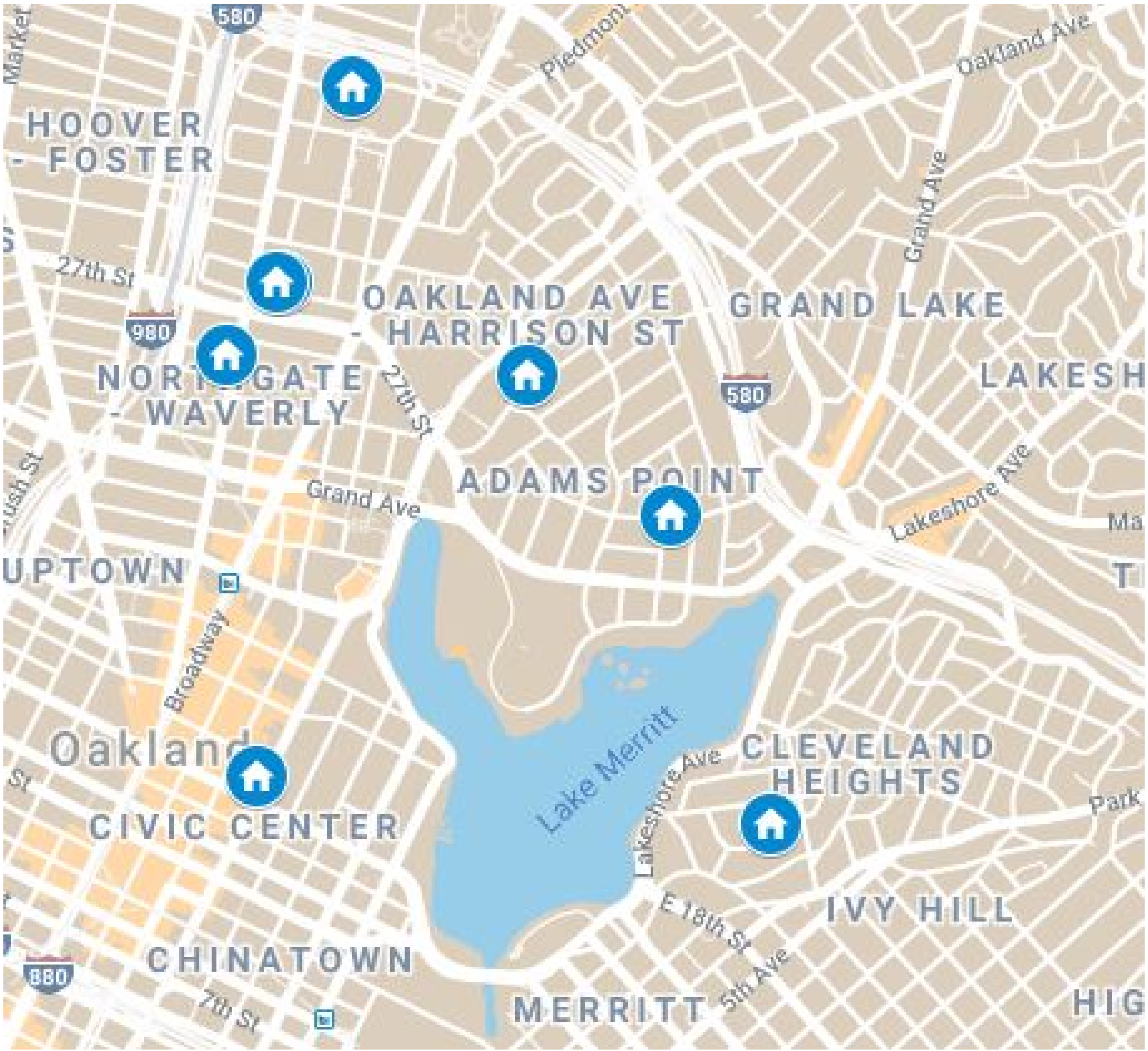
Watt Companies Inc. (the Developer) established Watt Investment Partners, a wholly-owned subsidiary, in 2010, in part to acquire and preserve affordable housing. Watt Investment Partners acquired Oak Grove Apartments through its Ethos Affordable Housing Preservation Program, in partnership with Pacific Housing, Inc., a nonprofit public benefit corporation. Prior to acquiring the properties that comprise the Oak Grove Apartments, the Developer entered into an agreement with the Southern California Association of Governments (SCAG) to acquire and preserve a 602-unit development in Los Angeles.

In March 2020, the Developer initiated conversations with the City about their proposal to acquire and preserve the Project as affordable. Current rent levels are an average of approximately forty-two percent (42%) below market rates for comparable units. Staff engaged in discussions with the Developer and explored appropriate funding sources for the proposal. On September 23, 2020, the Developer acquired the Project with its nonprofit partner to serve as Managing General Partner. The City and Developer now wish to enter into a Regulatory Agreement to formally restrict a portion of Project units to lower-income households. The Developer has indicated that it can currently commit to restricting at least fifty (50) project units initially; however, since tenant incomes are unknown and participation in the annual income verification process is voluntary for existing tenants, the precise maximum number of units that can be restricted at present is unknown. The number of restricted units will increase through natural unit turnover. The developer has forecasted that as many as two hundred fifteen (215) of the two hundred fifty-five (255) Project units could eventually become restricted through this Resolution. Additional information about the Project properties and rent levels is provided in **Table 1**, and a map of the Project properties is provided in **Figure 1**, below.

Table 1: Project Properties and Rent Levels

Address	Council District	Units	Year Built	Avg Rent	Avg Restricted Rent After Unit Turnover	Avg Comparable Market Rent
265 Vernon Street	3	44	1960	$1458	$2067	$2600
351 Lester Avenue	2	18	1963	$1511	$2107	$2698
406 Van Buren Avenue	3	30	1959	$1711	$2220	$2480
444 28th Street	3	34	1955	$1193	$2106	$2544
450 28th Street	3	31	1952	$1393	$2081	$2572
454 34th Street	3	24	1927	$1336	$1954	$2073
509 Sycamore Street	3	13	1920	$1560	$1959	$2328
1425 Harrison Street	2	61	1916	$1580	$2049	$2722
Total		255		$1471	$2066	$2548

Figure 1: Project Properties Map



ANALYSIS AND POLICY ALTERNATIVES

This project presents an opportunity to ensure long-term affordability at minimal cost to the City. Lower-income households, earning at or below eighty percent (80%) of AMI, are a market segment not commonly served by conventional affordable housing developments. Residents earning at or below eighty percent (80%) of AMI are often caught in the dilemma of being unable to afford the high rents commanded by new privately constructed apartments yet are also unable to qualify for the deep targeting to very low- and extremely low-income households prioritized by City funding commitments. While projects funded through the City's Notice of Funding Availability (NOFA) process typically reach deeper affordability levels and provide more robust services, they also require significant public investment. This proposed resolution lays out an option to create and preserve affordable units with minimal public investment.

This proposed resolution will preserve below market rents and upon turn-over would require rents in restricted units to be set no higher than thirty percent (30%) of eighty percent (80%) of AMI and would require income screening upon move-in to ensure that lower-income households are served by the Project. In addition, rent increases for existing tenants would continue to be subject to terms substantially similar to the Rent Adjustment Program requirements.

If the resolution is not passed, vacant units will be rented at market rates. When advertising the properties for sale, the previous owner emphasized their "significant upside potential"—i.e., their ability to raise the rents dramatically through turnover and minor cosmetic improvements. This is demonstrated in **Table 1** above and in Exhibit A to the resolution, which show the difference between the average existing rents at each property and the comparable market rents for the area. In the absence of City intervention, rents are likely to be increased by more than thirty percent (30%) upon vacancy. The proposed resolution would prevent the loss of this housing resource to the city's affordable housing supply.

FISCAL IMPACT

The amount of this loan will not exceed $5,000. The loan will be a residual receipts loan, earning three percent (3%) simple interest per year for its term of fifty-five (55) years.

The City would receive an Annual Monitoring Fee, as listed in the City's Master Fee Schedule. This fee is currently set at $140 per unit per year and is meant to defray the costs associated with regulatory oversight of the restricted units.

There is also an indirect fiscal impact to the City via a reduction in property taxes. By executing a regulatory agreement in connection with the loan, the restricted units will be eligible for the Welfare Exemption offered by the Alameda County Assessor's Office. The value of this property tax exemption would be determined on a pro rata basis for each restricted unit; staff estimates the proportion of foregone revenue to the City's General Fund to be approximately $616 per unit per year. However, all deed-restricted affordable housing qualifies for this exemption.

In comparison, the typical cost to the City of directly funding the construction or substantial rehabilitation of affordable housing is much greater. The cumulative average City commitment to affordable housing projects funded through the 2020 New Construction Pipeline Notice of Funding Availability (NOFA) is $63,462 per unit. While projects funded through the City's NOFA process typically reach deeper affordability levels and include a more robust service component, they also require much more significant investment.

PUBLIC OUTREACH / INTEREST

The Developer has met with City Council members Fortunato Bas and Gibson McElhaney, who represent the districts (Districts 2 and 3, respectively) in which the Project is located. The Developer has also initiated an outreach process to Project tenants to inform them of their mission and provide information about the program.

Oakland voters and elected officials have consistently expressed strong public support for displacement prevention and affordable housing preservation. This resolution is consistent with the Mayor's 17k/17k plan, which seeks to protect 17,000 households from displacement due to rent increases. In 2016, more than two-thirds of Oakland voters approved Measure KK, which authorized $100 million in general bond funds for the acquisition, preservation, and rehabilitation of affordable housing. While this resolution does not propose to use Measure KK funds, the bond measure's passage demonstrates broad public support for the preservation of naturally occurring affordable housing developments such as Oak Grove Apartments.

COORDINATION

This report was prepared by the Housing and Community Development Department and reviewed and approved by the Office of the City Attorney and the Budget Bureau.

SUSTAINABLE OPPORTUNITIES

Economic: By preserving these units as affordable, lower-income households will retain access to the major employment hubs of downtown Oakland and San Francisco.

Environmental*:* There are no significant environmental opportunities associated with this Resolution.

Race & Equity*:* By preserving the units as affordable to lower-income households, the proposed Resolution would help preserve the racial and economic diversity of Oakland, particularly in the centralized high-opportunity neighborhoods in which the Project is located.

CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA)

The action proposed by this Resolution qualifies for a CEQA exemption pursuant to CEQA guidelines Section 15061(b)(3). The preservation of the units as affordable will not have a significant impact on the environment and is therefore exempt from environmental review.

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends That The City Council Adopt A Resolution Authorizing The City Administrator Or Designee To Enter Into An Affordable Housing Preservation Loan With Watt Companies Inc. Or Its Affiliate In An Amount Not To Exceed $5,000 From The Affordable Housing Trust Fund To Support The Preservation Of Affordability At Oak Grove Apartments, A Scattered-Site Project Consisting Of Eight Properties Located In Oakland; And Adopting Appropriate California Environmental Quality Act Findings.

For questions regarding this report, please contact Brian Warwick, Housing Development Coordinator, at 510-238-6984.

Respectfully submitted,

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