



Good Neighbors

San Diego
Housing Commission

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REPORT

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ITEM 102

REPORT NO.: HCR04-40
For the Agenda of May 14, 2004

SUBJECT: Homeownership Assistance for Renters Affected by Condominium Conversion (Citywide)

SUMMARY

Issue No. 1: Should the Housing Commission approve a plan to assist low- and moderate-income (up to 100 percent of Area Median Income) tenants affected by condominium conversion?

Recommendation No. 1: Approve a plan to provide financial assistance and homebuying education to low- and moderate-income tenants affected by condominium conversion. Approximately \$1.89 million in funding (\$1 million in HOME funds and \$890,000 in inclusionary housing revenues) is proposed for the financial assistance component of this program, and \$20,000 is allocated for homeownership education.

Issue No. 2: Should the Housing Commission authorize a fiscal year 2005 budget revision transferring \$890,000 in inclusionary housing funds from Rental Housing Production to Homeownership to provide a funding source for renters whose units are being converted to condominiums?

Recommendation No. 2: Revise the FY 2005 Housing Commission budget transferring \$890,000 in inclusionary housing funds from Rental Housing Production to Homeownership to provide loans to tenants of condominium converted projects.

Affordable Housing Impact: One million dollars funds approximately 15 shared equity loans for low-income families. If approved, the transfer of \$890,000 from rental housing production to homeownership activities will provide assistance for 60 renters who would be potentially displaced by condominium conversion. However, this would produce 20 fewer units of affordable rental housing.



Previous Related Action: In March 2004 the City Council approved condominium conversion regulations providing certain protections for tenants whose incomes are at or below 100 percent of area median income. At that time, the City Council requested the Housing Commission develop a program specifically targeting the needs of tenants affected by condominium conversion.

Future Related Actions: This item will be presented to the Planning Commission on May 13, the Committee on Land Use and Housing on May 19, and to the City Council on June 15, 2004. The Housing Authority will convene also on June 15, 2004 to consider the proposed budget revision.

BACKGROUND

Since 2000 there has been a dramatic increase in the number of rental units converted to condominiums. The main factor fueling condominium conversions is the severe shortage of for-sale housing that is within the economic reach of the average resident. Only 16 percent of San Diegans can afford a median-priced home in the area, which is now more than \$450,000, according to the California Association of Realtors.

To provide for the conversion of apartments to condominiums while, at the same time, protecting the interest of tenants, regulations were approved by the City Council in March 2004 providing renters certain benefits and rights. The ordinance provides three months of rental relocation assistance and requires applicants for condominium conversion to apply inclusionary housing requirements to their project. In addition, existing state law requires units being converted be offered for sale first to the renters occupying the units. However, with the average price of a converted condominium in San Diego approaching \$245,000, many tenants, especially families earning less than 100 percent of the area median income, simply cannot afford to purchase their unit.

DISCUSSION

Financial Assistance for Renters

The first component of the proposed plan to assist tenants residing in rental units being converted to condominiums is to establish a funding source for those wishing to purchase their units. The Housing Commission's proposed FY05 Budget allocates approximately \$3.9 million for all homeowner assistance activities. An overview of homebuyer programs is included as the Attachment.

First time homebuyers who earn up to 80 percent of the area median income (currently \$54,800 for a family of four) can access shared equity loans, including renters residing in converted units who want to buy their converted apartment. This report suggests reserving \$1 million of HOME funds from the FY05 budget specifically for tenants affected by condominium conversions that would like to purchase their units.

In addition, it is proposed that \$890,000 in FY 2005 Inclusionary Housing Fund revenues be transferred from Rental Housing Production, where they are currently budgeted, to Homeownership to be used for shared equity loans. A new shared equity program would be created to assist approximately 60 purchasers of converted units. This new program would provide loans not to exceed \$15,000 for households earning at or below 100 percent of area median income (currently \$63,400 for a family of four). This income level is consistent with the income targeting provisions of the Inclusionary Housing Ordinance, as well as the financial relocation assistance provided for under the Condominium Conversion Ordinance.

The Inclusionary Housing Fund is a permanent, annually renewable source of funds derived from in-lieu fees and shared-equity from for-sale inclusionary housing units. The Fund is implemented by an Annual Plan, as adopted by the City Council. Currently, priority for expenditure of revenues is for construction of new affordable housing within the Community Planning Area in which the funds were collected.

To accomplish the goal of providing timely assistance for families affected by condominium conversion, Housing Commission staff is proposing to 1) allocate the budgeted FY2005 Inclusionary Housing Fund balance to the condominium conversion purchase program, and 2) remove the provision to use Inclusionary Housing Funds in the Community Planning Areas of origin and allow use wherever condominium conversions occur. These modifications would help satisfy community needs that are not being met by other programs and allow for expeditious distribution of the funds. The change in use of revenues is reflected in the Affordable Housing Fund Annual Plan (which is also on today's agenda) and would require City Council approval.

Together, the reserved HOME funds and Inclusionary Housing Funds would support \$1.89 million for shared equity loans specifically targeted for tenants affected by condominium conversions. In addition to other shared equity loan programs, down payment assistance and income tax credits (Mortgage Credit Certificates) would be available for these tenants. These programs are described in the Attachment. Finally, it is important to note that tenants who elect to buy their units will be required to apply their relocation assistance to the purchase of their unit.

The following table shows the existing and proposed programs that would be available for tenants at various income levels wishing to purchase their converted unit:

HOUSEHOLDS EARNING	80 percent or less of AMI (\$54,800)	80 to 100 percent of AMI (\$54,800 - \$63,400)	100 to 140 percent of AMI (\$63,400 - \$95,900)
Shared Equity Loans			
HOME	●		
Inclusionary Housing Fund	●	●	
Mortgage Credit Certificates	●	●	●
Down Payment/Closing Cost Assistance	●	●	
Use of Relocation Assistance Benefits	●	●	

Home Buying Education and Counseling

The second component of the Housing Commission’s plan to provide assistance for tenants affected by condominium conversion is to provide basic education and counseling to potential homeowners. Homebuyer counseling and education provides a critical link between first-time homebuyers and an increasingly complex housing industry. It helps families overcome avoidable barriers to home ownership by facilitating access to mortgage financing and providing them with skills to maintain ownership of their homes over the long run. The education would be open to all potentially displaced renters regardless of income.

On May 5, 2004, the Housing Commission issued a Request for Proposals for qualified agencies interested in implementing an Education and Counseling program. Topics of instruction and assistance for potential homeowners will include an overview of the home buying process and how to prepare for home ownership, and issues of credit worthiness, financing and home ownership responsibilities.

The proposed contract amount of \$20,000 will enable a HUD-approved housing counseling agency to develop a homebuyer education plan and hold workshops on site at the larger projects (50 or more units) and monthly meetings in areas most affected by the condominium conversions. It is the goal of the Housing Commission to have this plan in place by the summer of 2004.

ALTERNATIVE

1. Change the amount of HOME funds (\$1 million) or inclusionary housing funds (\$890,000) targeted for the condominium homeownership program.

Respectfully submitted,

Approved by,

**Signature on File
With Original Document**

Susan Riggs Tinsky
Chief Policy Adviser

Elizabeth C. Morris
Chief Executive Officer

Attachment: Overview of First-Time Homebuyer Assistance Program

OVERVIEW OF FIRST-TIME HOMEBUYER PROGRAM

Second Trust Deed Loans (3 programs)

- Shared Equity Loan Program – First-time homebuyers earning 80 percent or less of AMI can purchase a home in the City of San Diego with the help of a second trust deed loan for 25 percent of the purchase price or \$72,580 whichever is less. If the buyer sells within 15 years, the equity in the property is shared with the Housing Commission. This program primarily uses HOME Investment Partnership funds and, as of April 2004, \$1.13 million remains available for funding.
- CalHome Mortgage Assistance Program – This is a state-funded program administered by the Housing Commission. Qualified first-time homebuyers earning 80 percent or less of AMI can purchase a home in the City with the help of a second trust deed loan of up to \$72,580. Loans have a term of 30 years at zero percent interest and have no monthly payments. The equity amount owed is based on the loan amount and never changes. A new allocation of \$1 million in CalHOME funds was awarded by the State earlier this year.
- Centre City Development Corporation's (CCDC) Downtown First-Time Homebuyer Program – This program assists first-time homebuyers earning 120 percent (currently \$76,100 for a family of four) or less of AMI to purchase a home in downtown San Diego. This program provides financing, in the form of a second trust deed loan, not to exceed \$75,000. The loan is for 30 years at zero percent interest and has no monthly payments for the first five years. This is a CCDC funded program that is administered by the Housing Commission. As of April 2004, approximately \$770,000 is available for eligible downtown first-time homebuyers.

Mortgage Credit Certificates

The Mortgage Credit Certificate Program operates as an IRS tax credit. With a MCC, the qualified homebuyer becomes eligible to take a federal income tax credit of either 15 or 20 percent of the annual interest paid on the mortgage each year for as long as the buyer lives in the home. This credit reduces the federal income taxes of the buyer thereby increasing the buyer's capacity to qualify for a mortgage loans. MCCs are approved on a first-come, first-served basis, and applications are processed through participating MCC lenders. MCCs can assist buyers earning up to 140 percent of AMI. The Housing Commission was awarded a new allotment of MCCs in April resulting in approximately 120 certificates.

Down Payment/Closing Cost Grants

The Housing Commission uses Housing Trust Fund monies to provide cash grants for partial down payment and closing cost assistance to eligible applicants who are in the process of purchasing new or resale homes within the city limits of San Diego. Qualified first-time homebuyers earning 100 percent or less of AMI (currently \$63,400 for a family of four) can receive up to four percent of the purchase price of the home, not to exceed \$7,500, for down payment and closing costs. The grant must be paid back if the home is sold, leased or refinanced within the first six years. There is less than \$81,000 remaining in available fiscal year 2004 funds.