

New or Rehab: Striking The Balance Under California's Affordable Housing Standards

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Overview

- Joint Work With David Listokin (Rutgers)
 - Assisted housing development in California: new construction vs. rehabilitation of existing buildings
 - Does Rehab Construction Get A Fair Shake?
 - Are There Regulatory Impediments Inhibiting Rehab Construction?
 - How Might California Boost Rehab Going Forward?
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Plan for Presentation

- Our Paper Is A Resource Document
 - Data, Economic Modeling, Policy Discussion, Case Studies, Analytic Frameworks
 - Summarize Key Context and Findings
 - Float Policy Concepts
 - Raise Discussion Topics Relating To Rehab Construction in California
 - Then → Listen and Learn
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Demand
(Vouchers)

Supply
(Buildings)

Construct New
Buildings

Rehab Existing
Buildings

I



burnt to ground; rebuilt
last year in identical style
(we expect 30 years of service
before the next major rehab)

II



condemned by the city;
gut-rehabbed last year
(we expect 30 years of service
before the next major rehab)



Key Arguments For Increasing Rehab

- Neighborhood Revitalization
 - Historic Values
 - Environment: Resource Reuse
 - Infill, Transit-Oriented Development
 - Reduce Entitlement Risk
 - Renew Affordability (“Preservation”)
 - Greater Regional Economic Impacts
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Fostering Firms Placing High Value On Rehab Opportunities

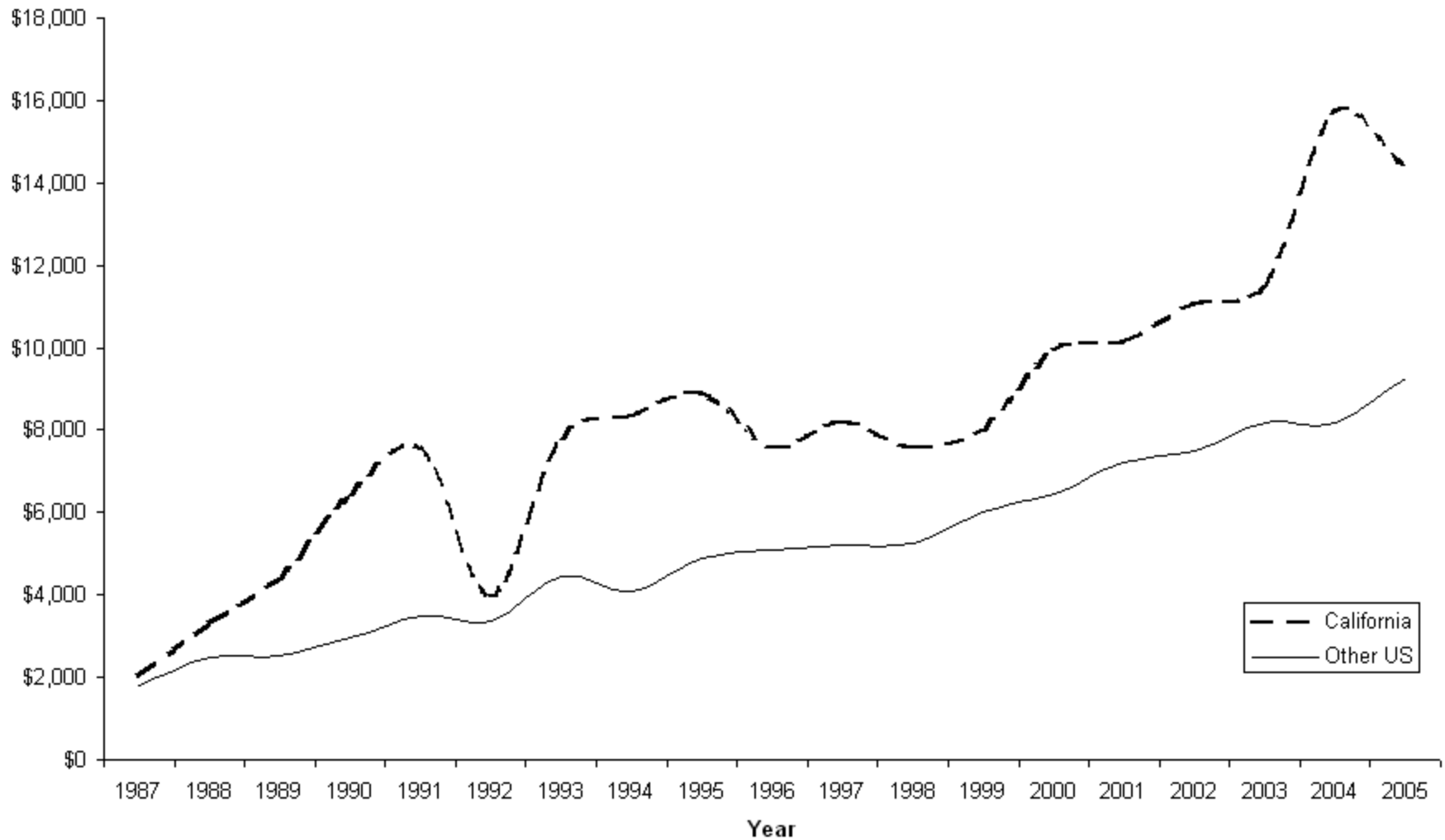
- Few Firms Identify As “Rehab Firms” Or Identify Systematic Impediments
 - “Once Burned, Twice Shy” Syndrome
 - Deals Are Idiosyncratic → “Rehab” Is Hardly Monolithic
 - Land, Neighborhood, Building Condition
 - Local Civic Promoters
 - Vacancy, Subsidy Circumstances
 - Hard To Fashion Uniform Policy For Widely Varying Conditions On The Ground
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Rehab Cost And Risk Features

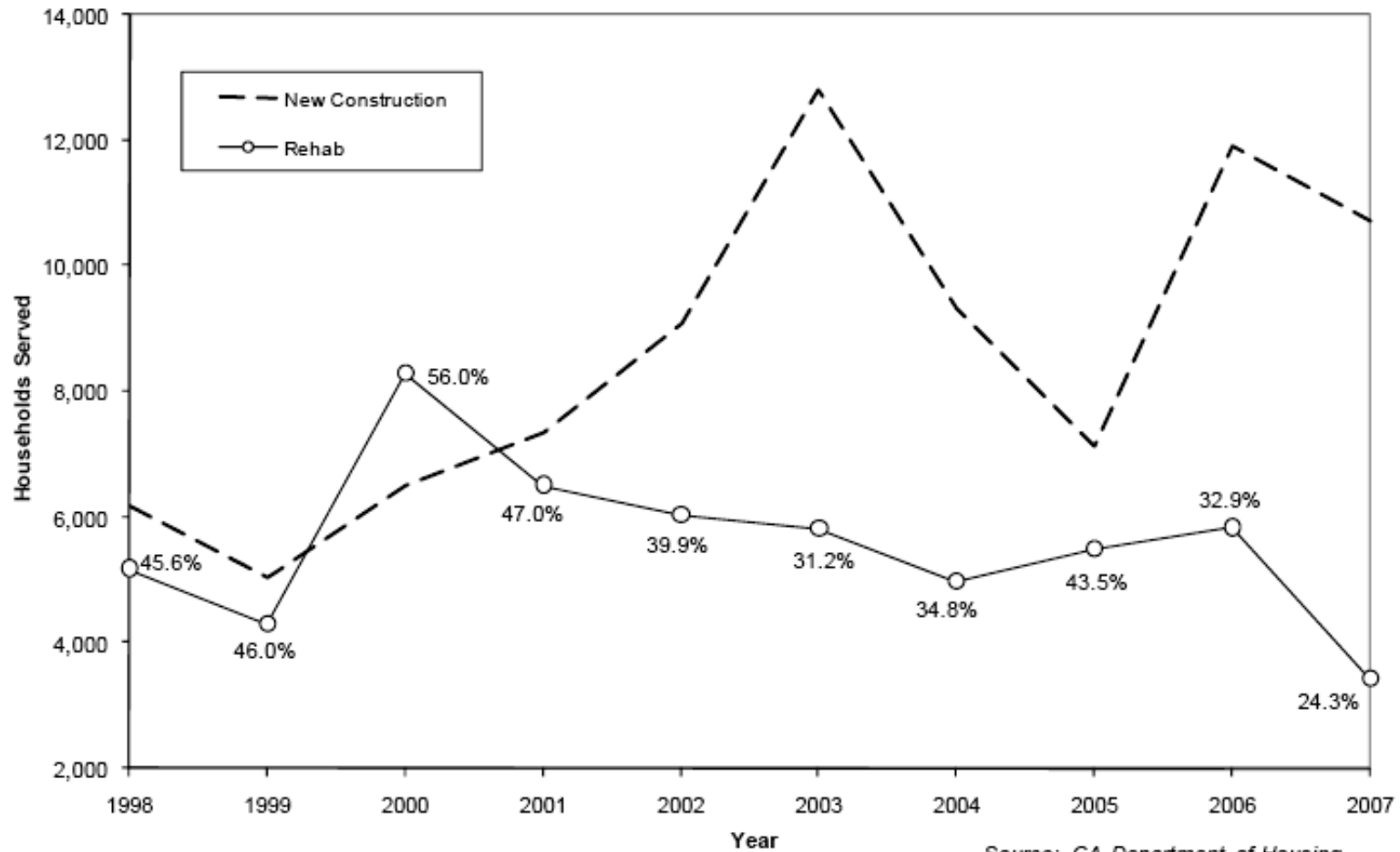
- Opportunity Cost In High-Price Markets
 - “Opaque Walls” and Unwanted Surprises
 - During Downturn → Scarce Capital Wants Known Commodity, Not Devt. Budget Overruns
 - But Multifamily Foreclosures Are Pending
 - Surprises Occur Later (Without Needed Budget)
 - Temptation To Balance Project Budget By Postponing Needed Renovation/Replacement
 - Displacement Of Current Residents
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Average Dollar Allocation Per Tax-Credit Unit,
California vs. Elsewhere in US (1987-2006)



Source: <http://www.danter.com>.

**California Redevelopment Agencies
New and Rehab Construction Finance Activity, 1997-2008
(Households Served and Rehab Share)**



Source: CA Department of Housing and Community Development.



Key Findings (I)

- Many Determinants Of New-Rehab Balance Are National, Not State-Level
 - California's Allocation Of Tax-Credits Between New and Rehab Is Hardly Exceptional (~42% of units): Middle Of US Rankings
 - Little Difference Seen Via Type of Credit, QCT/DDA, Unit Size, Firm Type
 - Many Rehab Promotion Programs Operating At State And Local Levels
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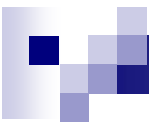
Key Findings (II)

- Rehab Appears To Cost Substantially Less (Avg. Per Unit), In CA and US (Enterprise Data)
 - In CA Alone, Operating Costs For Rehab Units Appear Slightly But Significantly Higher (LISC-NEF Data)
 - But Project-Based Quality Differences Unobserved In Either Dataset
 - Input-Output (I-O) Simulation: New And Rehab Construction Have Similar Impacts On Regional Economy
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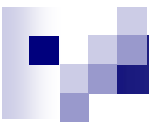
Some Areas For Policy Exploration

- Adopt Rehab-Specific Building Subcode
 - State Historic Tax Credit (30 States Have It)
 - Target Subsidy-Layering Inefficiencies
 - One Option → “California Gap Finance Bank”
Statewide Consolidation For Non LIHTC Sources
(Reducing “Grantsmanship” Burden Per Unit)
 - TCAC: Soften Large-Family Emphasis
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Discussion Topics (I): Does Rehab Have An Image Problem?

- New Projects May Appear More Substantial Among Firms' Accomplishments
 - Nonprofit Donors, Audiences, And Leadership May Demand Quality Improvements That Cost-Effective, Moderate Rehab Does Not Deliver
 - Perceptions: Does Rehab Itself Need A "Makeover"?
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Discussion Topics (II): Make Rehab Count More In Housing Element Process

- Currently Only 25% Of Fair-Share Obligation For “Site Identification” Can Be Rehab
 - Limited To “At-Risk” Projects
 - Goals Of Regional Responsibility And Integration Should Not Undermine Rehab Investment
 - If Housing Element Law Is Meant To Ease NIMBY Resistance, Why Not Concentrate More On Existing Land-Use?
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Thank You.
<http://urbanpolicy.berkeley.edu>

