Strategies to Retain Naturally Occurring Affordable Housing in Redwood City

Prepared for: Redwood City's Housing and Human Concerns Committee

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II. Executive Summary

Recent estimates from UC Berkeley researchers find that between 2000 and 2015, San Mateo County lost 44% of its non-subsidized (or "naturally occurring") affordable housing.[i] Following the Great Recession, the economic recovery in the San Francisco Bay Area has been particularly strong as sustained job growth fueled intense demand for housing. Communities across the region are attempting to construct new housing to increase the overall supply, but more immediate strategies are needed to address the pressing issue of displacement of vulnerable residents who cannot keep pace with rising rents. This challenge is particularly acute in Redwood City (RWC), where housing affordability has been a strategic initiative of the City Council since 2016.

The following memorandum details the work that the Stanford Public Policy Practicum team -- in conjunction with Stanford Sustainable Urban Systems (SUS) -- has completed for the Redwood City Housing and Human Concerns Committee (HHCC or Committee). At the Committee's request, our team has spent 10 weeks researching and analyzing policy options to answer the following question:

> *What policies (incentives and regulations) can Redwood City implement to maximize the retention of affordable housing to shelter low- and moderate-income earners in the city?*

Using publicly-available data, the policy team has performed both quantitative and qualitative analyses to better understand Redwood City's housing stock and anti-displacement strategies employed by the city to date. This analysis has been informed by stakeholder interviews and external research of other U.S. jurisdictions confronting a housing shortage.

Our analysis makes recommendations in three areas with the goals of assisting the Committee to:

- Develop a more robust data profile of Redwood City's housing stock, especially data on the city's naturally occurring affordable housing (NOAH) units[1]
- Create stopgap strategies that could be implemented by Redwood City to slow the pace of displacement
- Generate future revenue to fund affordable housing preservation and construction.

As of January 2019, the Committee lacked comprehensive information on rent distribution and cost distribution throughout the city. Our recommendations are based on a working profile of the city's housing stock, which was created by Stanford SUS using publicly available sources including data from the San Mateo County Assessor and the American Community Survey. Our analysis of this data was used to develop recommendations to retain NOAH units that the city

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[1] Naturally occurring affordable housing -- also known as NOAH-- is defined as housing that charges below market rate rents without the help of government subsidies. (noahimpactfund.com)

itself could implement without seeking approval from other levels of government (the county, state, etc.). With an exclusive focus on strategies that preserve existing NOAH units, our work is limited in scope to identify stopgap measures that slow the rate of displacement, not to increase the total housing supply. Our research finds that strategies to preserve these existing naturally occurring affordable housing units is less costly than constructing new affordable housing units, and also has a more immediate impact on slowing the rate of displacement. According to Redwood City staff, it takes approximately 7-10 years to bring a new affordable unit online at a cost of approximately $700,000 per unit.[ii] In contrast, the acquisition of existing units costs approximately $300,000-400,000 per unit and can be exercised as soon as a property goes on sale, assuming sufficient funds and partnerships are in place to act quickly.[iii]

With an aim of retaining NOAH multifamily units within Redwood City, our team recommends HHCC prioritize action in the following three areas:

- **Revising the Business License Form and Fee Structure**: The license is mandatory for all entities conducting business in Redwood City, including property managers in the city. Updating the license form to ask about gross receipts which presents an opportunity for more robust data collection on rents charged within the city by property owners. The form currently asks residential property managers only for the number of units. However, several neighboring cities have modified their business license fee structure to require property managers to pay a percent of their gross rent receipts. If pursued by Redwood City, the business license fee could potentially generate additional new revenue, which could be directed to NOAH preservation strategies.
- **Implementing a citywide Notification of Intent to Sell Requirement and Right of First Refusal Program for multi-family units constructed before 1983:** These two policies are intended to allow nonprofit and public agencies a window of opportunity to potentially prepare a financing offer for privately-held commercial multi-family housing units. By requiring property owners to register their intent to sell, a “freeze period” would postpone immediate sale and displacement of renters, granting the city and its nonprofit partners a fixed period of time to assemble a purchase offer to permanently retain their affordability.
- **Facilitating and streamlining processes that support commercial multi-family property owners who are interested in selling their structures to nonprofits** for conversion into deed-restricted properties that retain their affordability into the long term. Support from the City and HHCC for streamlined property transfers from private to nonprofit or public operators could encourage greater property preservation of NOAH units and mitigate displacement in Redwood City.

Our team has also generated a survey for multifamily property owners in Redwood City to systematically collect data about the behavioral motivations of existing landlords. With this information, the City will be better able to target policies, incentive programs, and regulations to retain affordable housing within the city. Our memo asserts that if the Committee were to pursue the above recommendations, the City could decrease the rate of displacement as well as have a more informed outlook on its rental housing stock.

Our methodology began with an extensive literature review of both academic sources and Redwood City's current housing policies to understand the supply and demand for affordable housing in Redwood City and other cities nationwide. Our team conducted eight interviews with stakeholders in the affordable housing arena, including landlords, elected officials, and city staff from other jurisdictions. Using the Redwood City rental housing stock dataset provided by the SUS team, our team was able to:

- Identify the average value of multi-family properties built since 1870
- Create a list of potential NOAH landlords and map the location of these properties
- Estimate potential revenue gains and losses from:
    - A modified business license fee based on gross rent amount as opposed to a fee based on number of units
    - The transfer of potential NOAH properties to nonprofit housing providers that are exempt from property taxes
- Identify potential NOAH properties that could be at future risk for conversion
- Target potential NOAH properties for acquisition by nonprofits
- Predict the mean sale price of potential NOAH properties for the City to potentially acquire

III. Introduction and Project Scope

In California -- and particularly in the San Francisco Bay Area -- the housing market has become especially constrained over the course of the past few decades. From 2012 to 2017, the population of the Bay Area increased by nearly 373,000.[iv] In contrast, only 58,000 new units have been built over this same period. The disparity between the supply of and ever-increasing demand for housing within the Bay Area has contributed to skyrocketing housing costs. In Redwood City specifically, the median single family home value has more than doubled between 2002 and 2016, increasing from $570,000 to $1,300,000[v] and the average rent for a one-bedroom unit costs approximately $2,939 as of February 2019.[vi] With home values such as these, low- and moderate-income workers are gradually being priced out of the housing market. Several efforts are underway to tackle the region's housing crisis, but for the purpose of this project, our team's scope looked exclusively at efforts that the Committee (and in turn, the City) could pursue independently.[2] At the direction of the Committee, the strategies evaluated in this memorandum do not consider the possibility of adopting citywide rent-control.

Redwood City's roughly 84,368 residents are almost evenly split between homeowners and renters with approximately 50.9% ownership and 49.1% renting.[vii] For this project, our team sought to identify and target multifamily rental units where rents are below market-rate. Approximately 60% of the City's housing stock is comprised of single-family homes, mobile homes, RVs, etc. The City's multifamily housing stock is comprised of ~12,398 units with multifamily property owners controlling approximately 40% of the city's total housing stock.[viii] While there are over 700 deed-restricted affordable housing units in Redwood City, our team sought to focus on units that could be classified as "naturally occurring affordable housing."[ix] Defined as housing that maintains below-market rents without federal or other government subsidies, NOAH units can be more difficult to identify and track given they do not receive government funding.[x]

According to its 2017 Annual Housing Report, Redwood City has exceeded its target allocation for producing new market-rate housing between 2014-2022, issuing 1,645 permits, surpassing its

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[2] Spurred to action by the severity of this issue, several public and private sector stakeholders from across the Bay Area have organized into the Committee to House the Bay Area, also known as CASA. Since 2017, CASA has worked to preserve and produce affordable housing in the Bay Area region as a whole while also advocating for protection for renters. (https://mtc.ca.gov/sites/default/files/CASA_Compact.pdf). At the end of 2018, CASA released a compact with concrete recommendations to mitigate the region's housing crisis such as easing zoning requirements, securing additional funding sources, and implementing policies that deter the displacement of existing renters. (https://siliconvalleyathome.org/the-committee-to-house-the-bay-area-approves-casa-compact/) The work of CASA and its Compact shows that regional collaborations are necessary to most effectively address the Bay Area's housing crisis. In addition to supporting these broader collaborations, Redwood City must also take independent steps to preserve and produce affordable housing within its city limits.

state assigned goal of 1,152 new market rate units.[3] However, significantly fewer permits have been issued to meet the City's goals of 429 new units for low-income earners and 502 units for moderate-income earners.[xi] Demand for housing from these two income groups is particularly acute as it is believed that most NOAH units currently in RWC houses these two segments of the population. With few new units planned for these segments, there is a heightened urgency to protect existing NOAH units and slow the rate of displacement.

Table 1: Redwood City's Regional Housing Needs Allocation (RHNA) Progress as of 2017

Income Level	RHNA Target	Permits Issued	Pending or Approved Units	Remaining Need (if approved units are constructed)
Very Low	706	7	159	540
Low	429	57	191	181
Moderate	502	0	3	499
Market rate	1,152	1,645	N/A	0
Total	2,789	1,709	353	1,573

Source: *1/11/19 meeting with HHCC; Annual Housing Progress Report 2017*

The U.S. Department of Housing and Urban Development (HUD) considers housing to be affordable when housing costs do not exceed 30% of a resident's annual gross income.[xii] When households pay more than 30% of their income for housing, they are considered cost-burdened.[xiii] Though people at all income levels can be cost-burdened, our research and analysis focuses exclusively on affordable, multifamily rental housing for low-to-moderate income earners, defined as those with incomes between 80% and 120% of area median income (AMI)[xiv]. The decision to target interventions to support the low- and moderate-income population was made for several reasons. The Committee specified its interest in housing for these two income groups in particular because few, if any, public subsidies are available to finance new housing for these two income groups.[xv]

Using HUD's definition of cost burden, our team calculated the maximum amount each income category should spend on housing per month in order to avoid being cost burdened; as Table 2

[3] California State law assigns each region a target number for how many units a jurisdiction should produce over a given timeframe. Known as the Regional Housing Needs Allocation (RHNA), cities are required to adopt a Housing Element as part of their General Plans that demonstrates how their jurisdiction plans to accommodate current and future housing demand in the face of population growth by various income levels. Redwood City's allocation and progress toward the current RHNA cycle target can be seen in Table 1.

shows, a low-income individual earner could support a maximum rent of $2,055/month while a moderate-income individual earner could support a maximum rent of $2,486/month. Both of these rent thresholds are well below the average rents charged in Redwood City. Table 2 also highlights the income limits for an individual and family of four based on San Mateo County's 2018 AMI. Lastly, average rent estimates are included to highlight disparity between maximum affordable rent and actual average rent costs:

Table 2: Income Categories and Average Rent in Redwood City

<table>
<tr><th>Income Group</th><th>2018 Maximum Income Limits for a Single Individual</th><th>An Affordable Rent Cost for a Single Individual</th><th>Average rent for a one-bedroom apartment</th><th>2018 Maximum Income Limits for a Household Size of 4</th><th>An Affordable Rent Cost for a Household Size of 4</th><th>Average rent for a two-bedroom apartment</th></tr>
<tr><td>Very Low (50% AMI)</td><td>$51,350</td><td>$1,284</td><td rowspan="4">$2,939</td><td>$73,300</td><td>$1,832</td><td rowspan="4">$3,687</td></tr>
<tr><td>Low (80% AMI)</td><td>$82,200</td><td>$2,055</td><td>$117,400</td><td>$2,935</td></tr>
<tr><td>Median (100% AMI)</td><td>$82,900</td><td>$2,072</td><td>$118,400</td><td>$2,960</td></tr>
<tr><td>Moderate (120% AMI)</td><td>$99,450</td><td>$2,486</td><td>$142,100</td><td>$3,553</td></tr>
</table>

Source: *Department of Housing & Urban Development (HUD) & State of California Department of Housing and Community Development (HCD)*[xvi]*, Rent Jungle, February 2019*[xvii]

Table 3: Number of Cost-Burdened Renters in Redwood City as of 2015

Housing Cost Burden Overview	Owner	Renter	Total
Cost Burden <=30%	9,680	6,805	16,485
Cost Burden >30% to <=50%	3,040	3,840	6,880
Cost Burden >50%	2,210	3,330	5,540
Cost Burden not available	60	95	155
Total	14,980	14,070	29,050

Source: *Department of Housing & Urban Development (HUD) Comprehensive Housing Affordability Strategy (CHAS) American Community Survey (ACS) 2011-2015 Database*[xviii]

Table 3 outlines the number of Redwood City tenants that were cost burdened in 2015, which is the most recent data available from the HUD CHAS data.[xix] Construction costs and the demand for housing in Redwood City have only increased since 2015, so our team assumes that the number of cost burdened individuals has increased as well.

Given the constrained housing market, producing new housing in Redwood City has proven to be incredibly expensive. The primary barrier is the high cost of land acquisition; in 2014, the average price of a square foot of vacant land in Redwood City was $101.64 which makes the price of an average acre of vacant land approximately $4.4 million.[xx] Based on interviews with Redwood City Housing staff, affordable units are especially costly to build, with the average cost of construction per unit (including land acquisition) being approximately $700,000 per unit.[xxi] The average cost to construct a market-rate unit is ~$500,000. Preserving existing affordable units, given the absence of land acquisition and other costs, is significantly more cost-effective. This hypothesis is further confirmed by the U.S. Department of Housing and Urban Development; in a recent report titled *Preserving Affordable Rental Housing*, HUD estimates that the cost to preserve a unit is about a half to two-thirds of the cost to construct a new unit.[xxii] The effect of preserving affordable units is also realized sooner as fewer tenants are displaced through conversion.

It is our understanding that HHCC is in the preliminary stages of planning a landlord forum for spring 2019, where the Committee will be able to directly engage with Redwood City landlords to inform their knowledge of landlord perspectives and motivations. The following memorandum aims to provide HHCC with some critical information in advance of this forum.

IV. Methodology

Affordable housing is a complex and nuanced policy topic. Before embarking on our analysis of policy strategies for the Committee's consideration, our team needed to first conduct research on the City's current policies and funding sources in the City that support a diverse housing stock. With a foundational understanding of the City's recent efforts to promote housing affordability through adopting inclusionary zoning requirements and impact fees on new development to finance new affordable units, reducing restrictions on the construction of accessory dwelling units, and strengthening tenant' rights, the team proceeded to conduct an extensive literature review of practices implemented by other jurisdictions across the nation to track, preserve, and increase the location's affordable housing stock.[xxiii] Our team explored policies pursued by Minneapolis, Portland, Washington, D.C and other San Mateo County cities such as Menlo Park and San Mateo. This external research of other jurisdictions allowed the team to utilize other jurisdictions as models for potential solutions for Redwood City. This research has been enhanced by information collected during key stakeholder interviews with individuals both within Redwood City and from the jurisdictions from which we identified relevant models. These interviews allowed us to fill in the gaps of the desktop research initially conducted and to better understand the barriers in retention affordable housing from different perspectives.

From the literature review, stakeholder interviews and initial client direction we were able to identify six preliminary strategies to address the preservation of affordable housing stock crisis in Redwood City:

1. **Redesigning Business License Fee Form and Potential Redistributive tax**, including information about gross receipts on the form that could be used to model a redistributive tax in the future to assist rent-burdened households in Redwood City.
2. **Citywide Right of First Refusal** to require notification of when properties are at risk of losing affordability and to allow the city or nonprofit to have a window of opportunity to purchase these properties and maintain the affordability commitment.
3. **Reducing Administrative burden** by consolidating paperwork needed to comply with local and state requirements for private property owners interested in transferring their property to nonprofit ownership.
4. **Subsidy retention** by creating a one-time subsidy to prospective homeowners to reduce the price of market-rate units.
5. **Cost sharing for Housing Upgrades** through an expansion of city funding for rehabilitation programs and utility upgrades.
6. **Reinterpretation of property tax for new owners** to modify stipulations so that taxes do not increase if private owners agree to an affordability commitment.

These strategies were identified, narrowed and refined based on the following evaluation criteria based on the research from Redwood City, content taught in the Public Policy program as well as the Human and Housing Concerns Committee's direction. The criteria were as follows:

- Effectiveness: *How much affordable housing will be retained by each policy? How many people will be helped?*
- Efficiency: *Will the policies optimize housing allocation while minimizing foregone revenue/economic loss within the city?*
- Feasibility
  - Political: *Will the proposed policies be enacted by the city council and sustain support from Redwood City residents?*
  - Legal: *What are the legal constraints when proposing policies?*
  - Economic: *Do the relevant stakeholders view their benefits as outweighing their costs for each proposed policy?*
  - Financial: *What will this policy cost? What is the source of funding for implementation?*

More detailed explanations of these evaluation criteria is available in the final recommendation section of this memo where we specify how each policy recommendation is weighted and why.

In consultation with the HHCC, our team narrowed our analysis to focus on these three strategies:

- Redesigning the business license application
- Adopting a citywide notification of intent to sell and right of first refusal policy
- Opportunities to streamline the process for transferring commercial rental property to nonprofit ownership

The Public Policy team's analysis was conducted using data from a team of Stanford graduate students in the Sustainable Urban Systems (SUS) program, a Stanford Engineering initiative, who worked to create a robust inventory of housing within Redwood City. This inventory contained Census block-level estimates of the number of properties, the property values and the property tax contributions throughout the city. This dataset was the basis of the Public Policy team's modeling and analysis of potential policy impacts as a result of the implementation of our recommendations. It also served as a more accurate baseline of the existing housing stock and allowed us to make some assumptions on potential properties that are naturally affordable.

The team ran regressions using recent sale prices of properties that fit the profile of our targeted notification policy and used this to run predictions on the average sale price for properties built before 1983 with five or more units. The team set these parameters based on external jurisdictions. The team also utilized pivot tables to identify landlords of interest based on proposed characteristics, model business license tax revenues, and ensure the proposed recommendations were properly tailored to Redwood City. In conjunction with the SUS data, the team used the evaluation criteria to determine smart practices for Redwood City to address the retention of naturally occurring affordable housing. We recognize that one policy option will not unambiguously be the best, thus the criteria were weighted based on feedback from the Committee and its preferences.

The preliminary data findings -- however -- are not without limitation. Much of the background research on the housing context in Redwood City was based on the 2013-2023 Housing Element. As the document was last updated in 2014 and uses data from the 2000 census, specific figures such as median income and home price, cost burdens for tenants, and an assessment of the housing stock are relatively outdated and do not reflect the significant economic recovery that has occurred following the Great Recession.[xxiv] We have supplemented our data with sources with more updated data wherever possible.

The SUS dataset used to model our evaluations is a dynamic dataset with various data gaps. Due to some constraints in the external databases that were used to compile the version of the dataset presented to the Public Policy team, key information on rents and incomes were missing. To work around this limitation, we made some assumptions from the data that was available in order to identify NOAH properties. This was achieved by using metrics like tax amount per unit, the year the property was built, and date of last sale to make reasonable assumptions of the affordability of the units. Furthermore, with some of our policy recommendations, we needed further legal counsel on specific implementation processes, but due to time constraints were not able to reach out to the City Attorney. To address this, in the following section, we outline implementation guidelines that are flexible to modification.

V. <u>Evaluation Summary, Criteria, and Analysis of Recommendations</u>

Summary of Evaluation findings

The following section describes our team's efforts to synthesize and translate our research into actionable recommendations that can be pursued by HHCC. Using our three main criteria of effectiveness, efficiency and feasibility, this section presents three major areas where the Committee can pursue modification of existing policy and the adoption of new policies that promote the retention of NOAH units in the city. These options are presented in the rank order of our team's recommendations. In short, our team finds that:

1) Modifying the City's business license fee from a number of employees, number of units and flat fee schedule to a gross receipts schedule would have a twofold impact. By adding questions about annual gross receipts and number of units similar to neighboring cities of San Mateo and Menlo Park, the HHCC could generate more complete and robust data about the housing inventory in Redwood City, including the number of cost-burdened households. Furthermore, future data collection on gross rents would generate a potential revenue estimate should the City consider revising its fee structure to link the fee amount to gross receipts.

2) Implementing a notification of proposed sale and, possibly, a right of first refusal requirement for multi-family residential property sales could potentially slow the rate of displacement in Redwood City by allowing and inviting nonprofits and public actors the option to assemble a bid. These policies, as implemented in Portland, San Francisco, and Washington, D.C. have been shown to serve as potential frameworks for Redwood City to adopt the right of first refusal requirement and the right of notification requirement.

3) There is opportunity to streamline the transfer and sale process for current commercially-operated multi-family residences to nonprofit ownership. According to one landlord, this process took approximately 6 months, requiring 5 inspections. Given that the number of property owners who would be willing to embark on this process is relatively small, every effort to facilitate a smooth and efficient process would incent other property owners to follow suit.

During this project, our research and analysis was stymied by scant data on the City's landlords and distribution of rents throughout the City. With this information, our team would have been able to deliver the Committee a definitive list of the NOAH properties and property owners in Redwood City. In conjunction with the HHCC, our team has designed a survey targeted at multifamily rental landlords to inform how the HHCC approaches future policies targeted at housing affordability. Because this information is critical to future work by the Committee, we describe the type of information that could be gathered from this survey prior to delving into our analysis, evaluation, and recommendations. In particular, this survey would provide data on landlord characteristics, their motivations for the amounts they charge in rent, and what incentives might entice current NOAH landlords to maintain affordability into the future.

Survey of Redwood City Landlords to Inform Rental Cost Burden and Understand Behavioral Motivations

As of March 2019, city officials (including HHCC and city staff) lack a formal communication channel with Redwood City rental property owners. From our research, the annual business license fee form is the only existing mechanism to collect data about property management practices, which asks property managers to report the number of rental units they own at a given property. As a result, the City lacks critical data on RWC residents' rent burden and characteristics of property owners to inform its housing policy decisions. Prior to detailing our team's recommendations for policies HHCC consider, our team recognizes an urgent need for more complete data on the residential properties -- especially NOAH units -- within the City.

To address this significant data gap, our team drafted a survey aimed at multifamily rental property landlords to better understand the differing motivations of market-rate and NOAH property owners within Redwood City, as well as what future City policies and programs could incentivize the provision of units rented at sub-market rates. The survey targets all multifamily landlords within Redwood City for multiple reasons. Firstly, it would be beneficial for the City to better understand the experiences and practices of all multifamily landlords under its jurisdiction in order to have these perspectives in mind when crafting future policies and/or regulations. Secondly, the lack of City data available on rent collected by individual properties makes it difficult to accurately identify naturally occurring affordable units and thus target a survey specifically to this subset of property owners. Through the administration of a standardized survey instrument, our team believes HHCC would be able to further the understanding of the landlord demographic and their needs by 1) establishing a communication channel with multifamily rental property owners; and 2) improving data collection around the motivations of multifamily rental property owners. This information is critical in order to craft future incentives that would be attractive to property owners and thus help preserve NOAH housing within the City.

Survey Design and Administration

The beginning of the survey prefaces the survey's intent, data collection and storage practices, as well as who this information will be shared with and what it will be used to inform. It is then followed by a series of questions that offer both multiple choice and open-ended, short answer responses; the purpose of short answers is to allow greater flexibility and detail in responses if a landlord believes it necessary. All questions are optional in order to encourage high survey return rates and thus gather as much data from landlords as possible. To encourage a high response rate, our research from other cities such as Seattle suggest that HHCC might consider offering financial incentives for complete surveys (e.g. entering respondents into a raffle for gift cards and/or other relatively small cash prizes or gift cards); the Seattle survey offered $100 prizes to 25 random survey entrants.

Given that landlords may be reluctant to disclose the details of their business operations, it is important for the survey administrators to thoroughly explain the survey's intent and how the data collected through it will be shared. The survey should clearly state that the data is being collected by the Housing and Humans Concerns Committee, a committee of Redwood City residents appointed by the Redwood City City Council. As such, insights from the survey may be used to inform policies that the HHCC recommends to the City Council to meet the City's growing housing need. Data privacy is also an important consideration-- the Committee should first consult with the city attorney to determine any data sharing requirements given that the survey data is being collected by a public entity. There may be the potential to partner with an outside entity such as Stanford to administer the survey and analyze its results, however the Committee should still consult with the City Attorney in order to review any legal stipulations as a result of such a partnership.

In an attempt to develop a preliminary list of likely NOAH landlords, our team has identified three factors, which we assert serve as likely proxies to identify NOAH units, including the age of property, property value, and property tax amount. Based on these factors, our team identified a preliminary list of 20 potential NOAH property owners who control 136 units in total-- a list of these properties, including their address, is included in Appendix A: Landlord Survey to Inform Rental Cost Burden and Behavioral Motivations. The list in the appendix is filtered to exclude LLC-operated properties, as well as properties owned by a trust. Our team made the decision to exclude these property types based on the assumption that these property owners may have an increased obligation to their shareholders and other owners to have larger financial returns, and as a result, may be less likely to charge below-market rents. The list also excludes all properties that are already recognized by Redwood City as deed-restricted affordable housing, meaning its construction was funded by public monies or tax credits.[xxv]

In addition to the list in Appendix A, our team has mapped these 20 potential NOAH properties in addition to Redwood City's 681 deed-restricted affordable multifamily rental units in Map 1 below:

Map 1a: Redwood City Affordable Units -- Deed Restricted and 20 Potential NOAH Multi-family Rental Properties

Source: SUS dataset and City-provided list of deed restricted units. Deed restricted property at 950 Redwood Shores Parkway not pictured. Generated using ArcGIS.

Map 1b: Zoomed into Downtown Area Redwood City Affordable Units -- Deed Restricted and 20 Potential NOAH Multi-family Rental Properties

In both images, the 20 red dots represent potential NOAH properties identified by our analysis. The 9 green dots represent city-recognized deed-restricted affordable units that are open to special populations (persons with disabilities, the elderly, etc.). The 14 blue dots represent deed-restricted affordable units that are open to all populations. The larger the size of a dot on the map, the higher the number of units that property contains.

Our analysis revealed a total of approximately 450 potential NOAH properties (based on the property's net value per unit). However, for the sake of this analysis, we mapped only the top 20. A separate list of our identified potential NOAH property owners with business contact information will be provided to HHCC separately.

Learnings from other municipalities

Other cities have implemented similar landlord surveys to understand the barriers in the retention of affordable housing. For example, the City of Seattle partnered with the University of

Washington to administer a landlord survey via Qualtrics (an online survey instrument) that was voluntary and anonymous. Conducted as part of a comprehensive study to assess the impact of new citywide laws aimed at protecting tenants, the survey was sent to over 18,477 individuals derived from the City's Rental Registry and Inspection Ordinance program.[xxvi] Approximately 4,236 respondents participated as of April 2018 for a 23% response rate.[xxvii] The survey also serves as a method to gather not just reactions on affordability, but also other reactions to ordinances related to areas such as criminal background checks and move in fees. An important takeaway from the Seattle survey is that landlords were skeptical about new affordable housing policies because there was a belief that owners and managers would work around these ordinances. The partnership with an apolitical academic institution like the University of Washington might also be a model for Redwood City to consider, allowing the research collection to be conducted by an independent body without policymaking authority.

A printed copy of our team's proposed survey is found in Appendix A of this report. The survey questions and response options may be easily uploaded to an online surveying platform such as Qualtrics in order to increase its dissemination and more quickly analyze its findings. Our team estimates three months would be required to design, disseminate, and analyze responses. The main costs to the survey administrators would be ~$1000 for survey respondent incentives and approximately 40 hours of staff time to disseminate the survey and analyze its findings.

Policy Proposal: Business License Redesign

Overview of existing policy and fee schedule

HHCC directed our team to explore how modifications to the business license fee application to gather more information on gross rental revenues and translating that information into a progressive fee schedule that serves as a redistributive strategy. All businesses operating within Redwood City are required to register with the City's Administrative Services Department. This registration applies to businesses located within the City, or external businesses wishing to do business within the city limits.[xxviii] This licensing process presents a rare opportunity for the City to collect standardized data across all entities doing business within Redwood City, and was identified as a key priority by HHCC for possible revision.

Under the City's current business license fee, residential landlords are assessed a base fee of $66 and an incremental fee of $24 for each residential unit in excess of three units. Based on our analysis of Redwood City's multi-family housing stock, the existing method generates approximately $140k[xxix] of revenue for the City's General Fund, which can be used for any number of purposes.

Several other taxation methodologies exist to assess this fee, including an estimated gross receipts model, which is an apportionment strategy where the fee is calculated as a percentage or a flat fee with a sliding incremental scale on gross receipts. This is a common business taxation method in California and does not have to be pursued exclusively. Many jurisdictions use a hybrid approach to the business license fee, using gross receipts in conjunction with the number of employees, square footage and the number of units as a basis for taxation.

Policy Proposal based on External Research

Based on our research of neighboring San Mateo and Santa Clara County jurisdictions, our team proposes Redwood City employ a two-prong approach. Firstly, to achieve HHCC's primary goal of getting standardized and consistent information on rental revenues to help identify NOAH property owners, our team recommends that the HHCC advocate for the modification of the Redwood City Code Ordinances Chapter. 32, Article V to require the disclosure of estimated annual gross receipts[4] on the business license application in addition to the information already provided like the number of units. This is a practice that can be adopted without exclusively basing the business license fee on gross receipts. This is seen in neighboring San Mateo County cities like Belmont[xxx] and Millbrae[xxxi], which base the fee on the number of employees, the

[4] Gross receipts as defined by the cities of Belmont and San Mateo is the total amount charged or received from the sale of goods or services performed. Gross receipts should include all receipts, cash, credits, and property of any kind or nature without any deduction on account of the cost of property sold cost of materials, labor or service costs, interest paid or payable, or losses or other expenses whatsoever. Excludable items and exemptions vary by city.
https://library.municode.com/ca/belmont/codes/code_of_ordinances?nodeId=CICO_CH12LI
https://www.cityofsanmateo.org/DocumentCenter/View/232/Gross-Receipts-Form?bidId=

number of units and a flat fee like Redwood City, but also ask for businesses to disclose their estimated gross receipts.

In contrast, the neighboring cities of San Mateo, Menlo Park and East Palo Alto located in San Mateo County have implemented a progressive model, which ties the amount of the business license fee to estimated annual gross receipts. Rather than Redwood City's "flat" model, this progressive approach offers the potential to include information that would allow the city to differentiate NOAH from market-rate units. With this information, the City could then adjust its assessment model to make the fee burden proportionate to the amount of revenue generated from rental units by property owner. If HHCC were to recommend the City modify its license fee approach, this would provide a robust data source and potential future taxable revenue that our team estimates as approximately $160.7 million annually. To model this impact, our team used data on the registered multifamily residential business licenses in the City provided by City staff, census data, and information from the San Mateo County Assessor and the American Community Survey provided by the SUS team.

SUS Partnership Analysis
To model the potential revenue and tax fee according to a gross receipts model, we used Census tract information of rental income as a proportion of identified business taxed entities. This gave an estimate of approximately $160.7 million in rental gross receipts. In order to generate at least the same revenue as the current fee structure, a percentage rate of 0.1% on estimated gross receipts would attain the same revenue of $140k. This number is similar to proposed rates in cities like San Mateo and Menlo Park and lower than East Palo Alto (1.5% on rental properties with 5 or more units).[xxxii] A more complete breakdown of our analysis is included in Appendix B.

Limitations and Business License Modifications for Further Consideration
The first limitation is that estimates generated are a good indication of rental revenues but are based on a set of assumptions. Our team recommends HHCC begin by advocating for the inclusion of rent revenues as part of the business license form in order to generate a more accurate understanding of rent distribution and revenues across the City. Furthermore, given the short timeframe for our project, we were unable to reach out to the City Attorney to figure out the legal proceeding for the changes in the tax fee schedule. However, we are aware that modifications to the tax fee schedule would need to be put on the ballot to be voted on in the next election cycle and as such relies on the will of the people to be enacted.[xxxiii]

Another consideration is that although the cities profiled are within reasonable proximity to Redwood City, they have very different city profiles. In particular, East Palo Alto has chosen to implement rent control, a measure that is not in the pipeline for Redwood City in the near future according to stakeholder interviews conducted with City Council and HHCC members. Table 4 below highlights some of the similarities and differences to better contextualize the different policies.

As highlighted earlier, revenues from the business license are currently directed to the City's General Fund. A further resolution to the business license that can be proposed by HHCC to the City and voted on by the public, is to divert the business license revenues from rental properties to the Affordable Housing Fund. This is a policy that is currently being pursued in East Palo Alto as part of Measure O, which was passed in 2016.[5] Diverting the revenues to the affordable housing fund would more directly link business license fees on property owners to programs that finance the preservation of NOAH units and preventing displacement.

[5] Voters in East Palo Alto voted in favor of Measure O in November 2016. Measure O required that landlords with five or more residential rental units are subject to a 1.5% tax on gross rental receipts. Revenues generated from Measure O go towards the affordable housing fund to help alleviate displacement and homelessness. http://www.ci.east-palo-alto.ca.us/index.aspx?NID=221

TABLE 4: City Comparison of Business License Application Fees and Revenues as of March 2019

City	Tax Fee Model	Current Tax on Rental Properties	Reports Gross Estimated Revenue	Business License Tax Revenue 2017-18 (Includes revenue from all businesses, not just rental properties)
Redwood City	No. of Employees, No. of Units, Flat Fee	Base tax $66 plus $24 per unit	No	$2,611,196
Belmont	No. of Employees, Square footage, Flat Fee	Base tax per bldg. $113.00 plus $0.57 per 100 sq ft.	Yes	$1,049,639
Millbrae	Gross Receipts, No. of Employees, No. of Units, Flat Fee	Base tax $64 plus $5.3 per unit	Yes	$325,480
Menlo Park	Gross Receipts, No. of Employees, No. of Units, Flat Fee	Base of $50-max $8000	Yes	$6,820,000*[6]
San Mateo	Gross Receipts, No. of Employees, No. of Units, Flat Fee	Base $31-$143.50 plus $3.60 for each $5,000 gross inc. thereafter	Yes	$5,765,263
East Palo Alto	Gross Receipts, No. of Employees, No. of Units, Flat Fee	Base $50-$500, $1 for each $1000 in gross receipts between $500k-$10m, $0.5 for each $1000 above $10m	Yes	$3,233,800*[7]

Sources:Redwood City Website, City of Menlo Park Website, City of Belmont Website, City of Millbrae Website, City of San Mateo Website, San Mateo Proposed Budget 2017-2018 pg. 42 & 48, RWC Budget pg. 122, Menlo Park Proposed Budget 2018-2019 pg. 20, East Palo Alto Proposed Diannual Budget 2016-2018 pg. mIsc 5, City of Belmont Proposed Budget 2017, Millbrae 2018 Proposed Budget pg. 10

[6] Menlo Park groups business license revenues with revenues from licenses, fees, and permits
[7] East Palo Alto groups business license revenues with revenues from licenses, fees, and permits
The specific amount from the business license fees in the year 2017-18 is $575,000. East Palo Alto also has an additional rent stabilization fees ($1,555,000 in revenue in the year 2017-18)

Policy Proposal: Establishing Requirements for Notification of Intent to Sell Multi-family Units and Creating a Right of First Refusal for Government or Nonprofit Agencies

Overview

Given the tight housing market in the Bay Area, properties are often selling within a matter of days. Such quick transactions favor private buyers and disadvantage other buyers like nonprofits or public agencies who require longer time horizons to assemble a financing package, coordinate partners, etc. To address this issue, our recommendation entails a two-pronged approach, which borrows from two strategies that have been previously used successfully in Washington, D.C., Portland, and San Francisco to protect multi-family housing units that had been originally financed and constructed using public dollars. By extending these policies to NOAH units, our team believes we would create an opportunity for nonprofit and public agency buyers to "compete" with private sector buyers by allowing them more time to engage in the deal flow. Based on research of other jurisdictions experiencing housing shortages, our team identified two policies, which decelerate the purchase process by requiring sellers to first file a notification of intent to sell multi-family commercial properties, allowing the City or other non-profit buyers the first opportunity to purchase the property to preserve the property's long-term affordability.

A notification policy refers to a requirement established by a city that requires multi-family property owners receiving any public subsidy to file paperwork with the city, indicating the owners' intent to sell their multifamily property at least 90 days prior before formally listing the property for sale. In this 90-day period, the owner may not sell or engage in any stage of the formal process related to sale the except for informal discussions with interested parties.[xxxiv]

Such a notification requirement is often seen as a prerequisite for a right of first refusal policy. With a notification requirement in place, cities may opt to enact a right of first refusal policy, which gives public and designated nonprofit organizations the opportunity to make the owner an offer at market-rate to buy the property to retain affordability community prior to other interested private buyers.

Policy Recommendations Based on External Jurisdictions that have implemented Notification Requirements and a Right of First Refusal Policy

The team's external jurisdiction research revealed San Francisco, Washington D.C., and Portland that have implemented either a right-of-first notification and/or refusal policy. These policies apply to a very specific subset of housing stock, mainly properties that were built/financed with public subsidies, including properties that tenants with Section 8 Vouchers and with other federal rent assistance. A summary of these external policies is presented in Table 5, which compares the different implementation frameworks for the Notification Requirement and Right of First Refusal policy. Each external jurisdiction is categorized in a table below by city, type of housing covered, trigger event for exercising right, nature of rights, and whose right.

Table 5: Comparison Table of Other Cities With Notification and/or Right of First Refusal Policies[xxxv]

City and Year of Policy Adoption	Trigger event for exercising right	Nature of rights	Whose right
San Francisco (1990)	intended sale or disposition of property	right of first refusal	city, tenants association, nonprofit
Washington, D.C. (1998)	intended sale of assisted property if conversion threatened, but not just conversion threat	city right to purchase, assignable	city, through the mayor but tenants have right of first refusal upon sale or discontinued rental use under DC
Portland (1980)	opt-out or sale	time for city to negotiate purchase	city

Source: National Housing Project, A Brief Review of State and Local Preservation Purchase Laws, Page 225

This research allowed us to provide several potential frameworks for Redwood City to implement the Right of Notification and First Refusal. More information regarding specific characteristics of the policies from the different cities are found in the Appendix D: External Jurisdictions' Frameworks of the Rights of Notification and First Refusal.

Both of these policies are predicated on the availability of funds and nonprofit actors who are able to act quickly (or at least within a given timeframe) once a notification of sale is posted. In Redwood City, our team envisions that the City's Affordable Housing Fund could be one source of financing available to nonprofit housing developers interested in preserving NOAH units. It may be difficult for the City alone to compete with external offers due to financial constraints and finance any repairs/home improvements needed for the unit. Conversations with HHCC and elected officials suggest that while the City might be the right actor to manage the notification process, these policies would require strong nonprofit partners to be effective in purchasing and preserving multi-family NOAH units at risk of conversion to market-rate housing in perpetuity.[xxxvi]

SUS Partnership Analysis

To gauge how these policies might unfold in Redwood City, we wanted to understand the expected financial contribution that would require the City to theoretically purchase all potential multi-family NOAH units within Redwood City. To do so, our team assumed that the City's interest would be only multi-family units built in the 1980s. We selected this decade based on our research of other jurisdictions with similar policies, and by reviewing the SUS dataset, which identified the assessed value and year of construction for Redwood City's multifamily housing units. In addition, we also analyzed only multi-family properties that had five or more units because these older, smaller properties are ideal candidates for conversion and our analysis suggests these properties are more likely to be owned by smaller property managers or individual families rather than LLC or large property management firms. These key characteristics were modified and derived from Maryland[8] (a similar jurisdiction to D.C.) and Washington D.C, respectively. By examining this, the team can simultaneously determine the financial feasibility in implementing this policy and how sustainable it can be in the long run.

If the City were interested in acquiring all NOAH units within Redwood City, the City would need to understand the estimated sale price for potential NOAH units. In partnership with the SUS team, we ran a regression[9] on the last sale amount using the following independent variables: Year the Property was Built, Number of Building Stories, Number of Units, Number of Bedrooms, Net Value, Land Value, Improvement Value, and Tax Amount to better increase the accuracy of the predicted sale prices of the respective properties.

To predict the sale prices for the potential NOAH units given Redwood City's skyrocketing housing demand, this regression was constrained by data from the last sale years that occurred between 2013 and 2017. Our analysis resulted in an estimated sale price mean of $18.4M for multi-family properties built before 1983 and with an excess of five or more units**.** Our findings are found below in Table 6, Because of the range of unit numbers (spanning from 5 units to 293 units) represented in the data, the high mean value seems consistent with the City's real estate market. We'd note that in order for this regression to run, we had to remove all of the missing observations, which totaled 2,041 missing observations. This limited our sample size, which in turn may have biased our results leading to a higher estimated sale price.

Table 6: Descriptive Statistics of Predicted Sale Prices for Potential NOAH Units

Number of Observations	Mean Predicted Sales Price	Max Predicted Sales Price
2,740	$18,400,000	$21,400,000

Source: Regression performed on March 4th, 2019 date using SUS compiled data

[8] "Montgomery County, MD requires that tenant associations, the County, and the Housing Opportunities Commission (the County's public housing agency) be given the right of first refusal to match a bona fide offer to purchase rental housing built before 1981." (Local Housing Solutions)
[9] Supporting analysis for Right of First Refusal regression is found in the Appendix C.

The mean predicted sales price serves as a proxy for the City to calculate the expected financial contribution needed to sustain a right of first refusal policy. Hypothetically, if the City purchased all of the 2,740 potential NOAH properties identified by our team, it would cost the City over $5.4B. This figure is particularly illuminating because it highlights the amount of funding necessary for nonprofits and other qualified entities to respond in a timely manner when NOAH properties are listed for sale. We do acknowledge that funding is not the only limitation in implementing this policy. Factors such as the appropriate type of landlord, property, and the City or designee must all align in order for this policy to be successful and attain its goal of preserving affordable housing. Other local city policies that support and facilitate the acquisition of private properties by qualified entities (nonprofits, tenant associations, etc.), when given enough advance notice to act would need to be drafted as well.

Limitations/Closing Remarks

To estimate the mean sale price of a NOAH unit, our analysis was constrained by a significant data limitation. The SUS data had approximately 2,041 missing observations. In order to run the regressions, we had to remove the missing observations which could have skewed our results to underestimate the predicted sale price, which means HHCC should repeat this analysis following the landlord survey, when more data can be collected for a more robust analysis.

The implementation of these recommendations has both advantages and disadvantages. Because both of these policies were originally designed to protect multi-family housing that had originally received public subsidy, neither is a perfect fit (when being applied to preserving NOAH units). However, a right of first notification policy would help HHCC address an important lack of real-time housing market data. Enacting a notification policy would enable HHCC to document and map NOAH units converted to affordable housing and could enable HHCC to forecast units that would go for sale before private buyers make an offer. A notification policy would require additional administrative supervision to respond in the allotted time, whether it is 90 or 180 days. There also may be resistance from private owners because the specified time may not be sufficient for the owners to know whether they are interested in selling. Thus, the Committee should consult with key interest groups, real estate agents, and owners to understand the most optimal time period if it pursues such a notification requirement policy.

A notification policy could increase the supply of affordable housing to match the increasing demand by giving the City the opportunity to acquire the property to maintain permanent affordability and decrease the rate of displacement. However, pursuing an aggressive strategy by requiring a Right of First Refusal could discourage future development because developers might simply rely on the preservation of existing affordable housing units to meet all demand for affordable housing, rather than pursuing a strategy of both preserving existing affordable housing stock and constructing new affordable housing stock. This discouragement could lead to new market-rate only neighborhoods, which would lack the mixed-income diversity that is important to HHCC. Borrowing from Portland's Notification policy, Redwood City might consider similar language that restricts the owner from selling his/her property but can enter in discussions with other interested parties in the 90-day period.[xxxvii] This could allow for the City to make a bona fide offer to the property owner. But, given the estimated acquisition sale price of $18.4M for each building, it may not be feasible for the City to independently fund this policy. Major costs include the administrative costs for a new office to manage these policies, improvement costs to rehabilitate NOAH properties to meet minimum sellable requirements, and the very high acquisition costs of the property itself. Thus, if HHCC is interested in pursuing a right of first refusal policy, it would be imperative for HHCC to form strong relationships with promising non-profits and community land trusts, such as Habitat for Humanity and MidPen, who might have the funds available to acquire NOAH properties when they come up for sale during a Right of First Refusal window.

Policy Proposal: Streamlining the Process to Transfer Commercial Multi-family Property to Nonprofit Ownership

Overview

As our team learned, housing policy in California cannot be understood without examining how Proposition 13, passed in 1978, impacts property ownership. Proposition 13 limits the rate of ad valorem property tax rates at 1% of the full cash value at the time of a property acquisition and prevents property values from rising by more than 2% per year until next sale.[xxxviii] Before Proposition 13 was enacted, some properties reassessments increased by 50% to 100% in one year, and the property tax bills increased accordingly.[xxxix] With the passage of this ballot initiative, property tax rate increases stabilized, but also created a disincentive for long-term owners to sell their properties because of their advantageous low tax rates and the opportunity to the transfer property (with the same assessed value property tax rates) from parent to child (Proposition 58) and from grandparent to grandchild (Proposition 193)[xl] at the time of death.

Throughout the state of California, Proposition 13 has been at the center of controversy, but benefits of the legislation revolve around making property taxes predictable and stable so homeowners are able to budget for taxes and remain in their homes. Other benefits of the legislation extend to renters as they benefit from owners of residential rental property being able to predict and budget for property taxes, because it should reduce upward pressures on rent, especially in areas plagued by housing shortages such as the Bay Area.

Given our project scope, our team recognized that the success of retaining NOAH units in Redwood City would depend on our ability to understand the type of property owner who currently possess NOAH units. Based on interviews with the Committee and City staff, we learned that long-term property owners, and particularly "mom-and-pop" owners would be the most likely candidates to consider converting their property from commercial ownership to a nonprofit to own and operate. In large part, this is due to the consequences of Proposition 13, because any new owner of a NOAH property would be liable for property taxes based on the assessed value at the time of the most recent sale. As a result, the new owner would likely need to increase rents, passing on the burden of the increased property tax to the tenants.

Policy Recommendation Based on Property Tax Sphere

Our team assumed that statewide amendments to Proposition 13 would be unlikely, and as a result, we developed an approach that puts nonprofit organizations at the forefront of acquisition deals for multi-family NOAH units. We started crafting our policy recommendation for this approach by first understanding the law around property tax transfers from private owners to non-profit organizations. Currently, California provides both full and partial property tax exemptions for non-profit providers of low-income housing. Non-profit housing that is non-publicly financed is exempted from property taxes for up to $20,000,000 of its assessed value.

Non-profit housing development, which is financed through public funds, is fully exempt from property taxes.[xli]

The following flowchart outlines the process that one Redwood City property owner -- Christina Umhofer -- went through to sell her below-market rate units to HIP Housing, a nonprofit housing provider. Ms. Umhofer was able to transfer her one-time investment property to HIP housing and still realize the full market-rate value of her property at the time of sale.[xlii]

Administrative Process for Transferring Property to Nonprofit Housing Provider

In Ms. Umhofer's experience, the entire process detailed above lasted six months. Multiple property inspections (e.g. roof inspection, one-cone penetration test, etc.) were completed in a three-month period towards the end of the 6-month process with the property owner usually receiving a 2-days' notice before each separate inspection. According to Ms. Umhofer, she was motivated to engage in this process because of her long-standing ties to the community, her tenants, and her own personal experience facing eviction. Her commitment to ensuring her tenants would not be displaced is likely exceptional, and her reflections on the process offer valuable insight for HHCC as it explores ways to retain NOAH units. Given that the graphic above is based on one property owner's experience, the timeline for the complete process may vary in a larger sample. Our team recommends HHCC continue this initial work by using the SUS database to find other landlords who have already completed this process or might be open to considering property transfer in order to make this process as turnkey as possible for interested landlords.

In addition to detailing the process a property owner might expect when selling their property, our team has included a list of nonprofits that have experience acquiring units in order to retain affordability; the nonprofits listed below already have a presence of deed-restricted affordable housing either in Redwood City or in other jurisdictions in the Bay Area.[xliii]

- MidPen Housing
- HIP Housing
- KDF Communities
- CASA de Redwood Foundation
- Service League of San Mateo County
- Palo Alto Housing

SUS Partnership Analysis

Our analysis of the SUS database revealed that 74.12% or approximately 8,395 units of the City's total 11,325 multifamily units are owned by non-LLC owners. With this information, we wanted to calculate the foregone property tax revenue to both Redwood City and the County of San Mateo associated with transferring property from commercial ownership to nonprofit housing. Before we could calculate this figure, we needed to define our characteristics of NOAH property for the analysis. In consultation with HHCC and informed by interviews with Redwood City elected officials, our team decided to focus our efforts on smaller, "mom and pop" property owners who have been property owners of units initially built before 1983, suggesting they might have greater community ties to the city and may have benefitted from the purchase of multifamily units prior to the housing boom. In particular, we assumed that NOAH property in the SUS database had the following characteristics: built before 1983 and owned by non-LLC owners. We also made a few key assumptions to calculate potential foregone revenue. We assumed that all homes built before 1983 and owned by non-LLC owners that were last sold between 2013 and 2017 served as NOAH properties that could potentially be transferred to a nonprofit housing operator.

Given our defined criteria, we observed 290 properties encompassing a total of 4,528 units. Using a property's net assessed value in the SUS database as a proxy for market value, it would cost approximately $346,000,000 to acquire all of the NOAH properties that we identified. The calculated forgone property tax revenue to the City as a result of our analysis would have been $3,461,371 between 2013-2017, or a loss of $692,274.20 per year for 5 years. The City's fiscal year 2017-2018 adopted budget was $47.7 million meaning that $692,274.20 symbolizes 1.45% loss annually in property tax revenue if this proposal were to be implemented.

The SUS database allowed our team to identify landlords that HHCC might target as likely candidates for transferring NOAH property to non-profits. These landlords were identified on the basis of possessing specific characteristics: being a non-LLC and owning property built before 1983. As a result of a conversation with Christina Umhofer, one such property owner, our analysis allowed us to provide the deliverable above (flow chart) on documenting the process for an interested landlord who would be open to transferring property ownership to a nonprofit and deed-restrict their property for affordable housing. We also identified that the flow chart phase of inspections presents an opportunity for streamlining. More specifically, the City could stack dates to consolidate inspection scheduling. For example, the City could decide to have multiple inspections in one day for efficiency and less burdening on the landlord. Lastly, this analysis resulted in a list of the top 20 landlords (See Appendix A) that HHCC might consider outreach to inform them of the process for transferring their property to non-profit organizations instead of selling to a private buyer.

VI. Evaluation Criteria and Final Recommendations

Summary Evaluation of Policy Proposals

The following section outlines three proposals for consideration by HHCC, presented in rank order using the evaluative criteria to assess their efficiency, effectiveness and feasibility as defined by:

- Efficiency: *Will the policies optimize housing allocation while minimizing foregone revenue/economic loss within the city?*
- Effectiveness: *How much affordable housing will be retained by each policy? How many people will be helped?*
- Feasibility
  - Political: *Will the proposed policies be enacted by the City Council and sustain support from Redwood City residents?*
  - Legal: *What are the legal constraints when proposing policies?*
  - Economic: *Do the relevant stakeholders view their benefits as outweighing their costs for each proposed policy?*
  - Financial: *What will this policy cost? What is the source of funding for implementation?*

A more detailed analysis on how the criteria was applied to the policy proposals is featured in the final recommendations section.

TABLE 7: Rating of Policy Recommendations Against Evaluation Criteria

	Business License Redesign	**Notification**	**Notification + Right of First Refusal**	**Property Reclassification + transfer**	**Landlord Survey**
Efficiency	High	High	High	High	High
Effectiveness	High	High	High	Medium	Medium
Political Feasibility	Medium	High	Low	High	Medium
Legal Feasibility	High	High	Medium	Medium	Medium
Economic Feasibility	Medium	Medium	Low	High	High
Financial Feasibility	High	High	Low	Low	High

Final Recommendations to HHCC

Business License Form Redesign:

Summary of recommendation

Our first recommendation is to redesign the business license form to include information about estimated gross receipts in addition to the information already required such as the number of units in a residential rental property. All businesses operating within the City already have to fill out this form thus it would be a great tool to get information on rent revenues within the City; information vital to be able to firstly identify NOAH properties. Under the current fee schedule based on the number of units and a flat fee, we estimated that rental properties generate $140k in revenue for the City.

A further modification to the business license is to change the taxation methodology to a gross receipts fee schedule. This is a fee schedule pursued in neighboring San Mateo County cities like Menlo Park and San Mateo. This method would allow Redwood City to tap into an estimated $160.7 million in rental property revenues that are subject to the business license fee, as well as revenues from all other entities subject to the business license in Redwood City. In order to generate at least as much as the current $140k, a fee of 0.1% of gross receipts would need to be applied. A further policy consideration is working with the City Council to propose that revenues from the rental properties' business license tax be directed to the Affordable Housing Fund instead of the General Fund.

Application of Evaluative Criteria on this Policy Proposal

With the proposed redistributive business license fee under the gross receipts model, we measured effectiveness by how much revenue would be generated and how much more valuable information the City would have for the purposes of NOAH housing. It is effective in aiding in the preservation of NOAH units by helping policymakers first and foremost identify the population, making it easier to make directed policies. The first part of this proposal-- asking for estimated gross receipts-- should be very feasible as it just requires disclosure without any change to the existing fee schedule. The political and legal feasibility of transforming the tax fee schedule to a gross receipts model depends on the political will of the City Council and the voters of Redwood City. Even though the gross receipts fee schedule is practiced in different jurisdictions within the county and California at large, the city profiles are different, and more work would need to done in assessing opinions. This proposed recommendation would also be equitable because it is redistributive in nature although this is not a criterion that was used to weigh the policy option.

Adoption of Policies Requiring Sale Notification and Right of First Refusal:

Summary of recommendation

Our team recommends a two-pronged approach, which would first establish a mandatory notification of intent to sell by multifamily property owners that could eventually be paired with a right of first refusal requirement, which would serve as a mechanism to increase the supply of NOAH units. The notification system would grant the City a freeze period to decide and make an offer to acquire the unit and could range from anywhere between three to 18 months depending on the Committee's judgment. Enacting a Right of First Refusal policy would grant the City the opportunity to offer the property owner a competitive rate to acquire the unit and deed-restrict the unit to ensure permanent affordability. Cities such as San Francisco, Washington D.C. and Portland served frameworks to tailor these policies to Redwood City. With this policy implementation, Redwood City could address the lack of data collection in the housing market. The City could easily be able to map units converted to permanently affordable units and forecast potential units that will go for sale before the private market is notified. This two-pronged approach can aid in preserving NOAH properties in Redwood City, and thus slow the rate of displacement.

Application of Evaluative Criteria on this Policy Proposal

Our team assessed these two proposed policies to be highly effective and efficient because they increase the retention of NOAH units. If adopted, these policies would be more effective than the status quo because the costs of preserving NOAH units range from $300-400K per unit versus the approximately $700k per unit required to construct new affordable housing. The uncertainty of political will to pursue these policies is the major drawback of these policies which is why our team assesses these policies to have low feasibility. Given our team's estimated $18.4m average cost per NOAH property, we conclude that the Committee and City are unlikely to be able to sustainably fund the ongoing costs of implementing these policies. With uncertainty about these policies' financial and political feasibility, it may be more palatable to decision makers to begin by proposing a 90-day freeze period, which would allow the City time to review the notification and alert nonprofit partners. The notification-only policy could promote innovations in terms of addressing affordable housing in Redwood City, but due to the current climate, it may be in the best interest of the Committee and the City to take incremental steps forward.

Streamlining the Process to Transfer Commercial Multi-Family Units to Nonprofit Ownership and Operation:

Summary of recommendation

This policy recommendation provides both the Committee and NOAH landlords with a framework for transferring commercial property to nonprofit housing and identifies opportunities to streamline this process to facilitate future property transfers. This policy recommendation also capitalizes off the tax exemptions granted to nonprofits, meaning that nonprofit organizations have an incentive to be at the forefront of NOAH property acquisitions. By providing nonprofit organizations with data on NOAH units or property that could potentially be acquired, HHCC now has a pool of property owners to help prioritize its outreach and estimates of the potential foregone property tax revenue to the City if hypothetically all 20 NOAH properties identified were converted to nonprofit ownership. The forgone tax revenue if the policy is implemented suggests a relatively small dollar amount considering the average median home in Redwood City. This proposal also helps us prevent displacement as more NOAH units can be retained via this process.

Application of Evaluative Criteria on this Policy Proposal

This proposed policy recommendation could be highly effective but not as feasible due to the uncertainty in predicting when a home will be on the market or finding NOAH landlords who are committed to preserving existing NOAH units. Our team also anticipates potential challenges to secure enough funding to make these acquisitions happen in a timely manner. If nonprofits lack adequate funding to acquire homes, then it does not matter if they qualify for property tax exemptions or not. This policy does not rely on political will as much, because we are not suggesting any changes to Proposition 13. Rather, our proposal revolves around using the effects of existing laws to encourage the retention of NOAH units. The dynamic in this proposal is mainly between NOAH landlords and nonprofit organizations, so this approach may be one of the effective approaches utilizing key community stakeholders to lead the initiative of NOAH retention.

<u>Distribution of Multi-family Landlord Survey:</u>

Summary of recommendation

Administering the landlord survey will improve the amount of data Redwood City has on its multifamily rental property owners and their business intentions. The survey will help paint a picture of rent distributions across Redwood City, future plans for property use, and also common experiences landlords have faced while owning their units. The Committee can use these insights to advocate for specific policies to support the development and preservation of housing within the City, especially the preservation of properties that are NOAH.

Application of Evaluative Criteria on this Policy Proposal

Designing the survey should be highly feasible and require few city resources-- given that the survey is drafted, it should not take much time and effort to craft the survey into its final form. The administrators of the survey, however, will have to spend time distributing it and analyzing its responses. An online survey will perhaps reach more property owners and provide quicker data insights. However, if the survey is online, the Committee would have to find a way disburse it electronically to the City’s landlords and email addresses of property owners are not as readily available as mailing addresses, so this is a consideration the Committee must tackle. Because of these potential challenges with distribution (and thus response), the survey is ranked as medium effectiveness and feasibility.

Client Next Steps

Table 8 outlines the steps HHCC needs to take in order to move forward with our policy recommendations:

Table 8: Procedural Next Steps

Recommendation	**Next Steps for HHCC**
Business License	- Consult with the City Attorney about the legal steps needed to pursue changes to the business license ordinance and tax fee schedule - HHCC should work in conjunction with Redwood City's City Council in order to move forward with the data collection piece of the business license redesign: adding a line on the form requiring the disclosure of gross receipts - Monitor, with the help of the City's budgetary office, the data collected from this initial modification on rent revenues and use this to model a gross receipts fee schedule that fits the landscape of the City
Notification + Right of First Refusal	- Consult with the City Attorney about the legal feasibility to implement such policies. Understand how much the City can potentially contribute to this policy - Contact the non-profits listed in the document and pitch this idea to them to understand their financial feasibility - Create a more robust framework for Redwood City given the other jurisdictions listed in this memorandum
Transferring Properties to Nonprofits	- Give list of targeted NOAH landlords to reputable nonprofit organizations - Contact more NOAH landlords to gauge where other difficulties exist in the property transferal process - Conduct a cost-benefit analysis of property transferal for both NOAH

	landlords and nonprofit organizations
Landlord Survey	- Modify survey as needed to gather additional information the Committee views as valuable - Disseminate survey, especially targeting potential NOAH property owners that have been identified in Appendix A

Further Considerations

A variety of ideas have been presented to help mitigate conversion and displacement, but it is ultimately up to the City's staff and elected officials to take the next steps following HHCC's recommendations. From the key stakeholder interviews conducted as part of our analysis, it is clear that retaining affordable housing is a top priority of the Committee and of the City Council. Capitalizing on this existing political will to address the affordable housing crisis will be instrumental in furthering policies to preserve NOAH properties.

Although the scope of our recommendations was limited to what could be enacted at the city level, it is also important to seek out and support outside efforts underway to address affordable housing, especially those related to funding. Key ongoing collaborative initiatives include the Metropolitan Transportation Commission's Committee to House the Bay Area, also known as CASA. This regional collaboration--made up of leaders from diverse sectors--has drafted a list of policy recommendations to help address the region's housing crisis. Additionally, the Local Initiatives Support Corporation (LISC) is operating a fund for affordable housing; the LISC has pledges to raise a $540M funding source to support affordable housing in the Bay Area, $260M of which has been raised as of January 2019.[xliv] The fund will be used to preserve and produce more than 8,000 Bay Area housing units over the next five to 10 years. We advise that the Committee monitors the development of this fund and find ways for Redwood City to tap into this funding stream to support the City's affordable housing initiatives.

Endnotes

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[v] 1/11/19 Meeting with Housing and Human Concerns Committee
[vi] https://www.rentjungle.com/average-rent-in-redwood-city-rent-trends/
[vii] American Community Survey 2013-2017 5-Year Estimates
[viii] Ibid
[ix] Internal document received from Rhonda Coffman (Former Housing and Grants Manager) on deed-restricted units; https://www.redwoodcity.org/home/showdocument?id=14574
[x] Noahimpactfund.com
[xi] 1/11/19 Meeting with Housing and Human Concerns Committee; Internal memo from Diana O'Dell (Principal Planner) to HHCC regarding Redwood City's Regional House Needs Allocation
[xii] https://www.huduser.gov/portal/pdredge/pdr_edge_featd_article_092214.html
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[xxiii] 1/28/19 Meeting with Redwood City staff Rhonda Coffman and Diana O'Dell
[xxiv] http://www.redwoodcity.org/home/showdocument?id=4070
[xxv] Internal document received from Rhonda Coffman (Former Housing and Grants Manager) on deed-restricted units; https://www.redwoodcity.org/home/showdocument?id=14574
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[xxviii]https://www.redwoodcity.org/departments/administrative-services/finance/taxes-assessments/business-licensing
[xxix] Public Policy team analysis of business license revenues 2017-2018.
(https://docs.google.com/spreadsheets/d/1mPWUqhJyPy3HkVh_3WgUMi_ivJfOXsLI8N7lRYhShXc/edit#gid=103547479)
[xxx] Belmont City business license: https://belmont.hdlgov.com/docs/Business_License_Application.pdf
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[xxxiii] Redwood City Changes to taxes voter requirements:
https://new.thecity.redwoodcity.org/pub/onbase/siredl.ashx?cabinet=published_meetings&fileid=251357
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