

City of Pasadena:

Implementing an Affordable/Workforce Housing Program



Pasadena, California

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City of Pasadena

Implementing a Housing Program

Recommendations for City of Pasadena Pasadena, California

December 12, 2007

January 16, 2008

February 6, 2008

A ULI Advisory Services

Technical Assistance Panel Report



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Acknowledgements



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and the Technical Assistance Panel Program



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A key strength of the program is ULI's unique ability to draw upon the knowledge and expertise of its members, including land developers and owners, public officials, academics, representatives of financial institutions, and others. In fulfillment of the Urban Land Institute's mission, this TAP report is intended to provide objective advice that will provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide.

For more information about how a ULI Los Angeles Technical Assistance Panel could benefit your city, nonprofit organization, or university, contact Jan Bryant, ULI LA Manager, at bryant@uli-la.org.

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Introduction



The recent economic recession and mortgage crisis has led to housing price declines in many neighborhoods across the United States. This has caused some policy makers to believe that affordable or workforce housing is no longer a priority. If prices have come down, then it follows, they believe, that more Americans can afford homes. However, this is not the case. Housing price declines have not been uniform—some areas, such as California’s Inland Empire, have been hit hard by foreclosures and devaluation, while other area markets, such as coastal areas and some second tiers cities, have remained relatively strong. Therefore, affordable housing continues to be a necessity in the communities that have held strong. Moreover, affordable housing best serves its purpose when it is close to employment centers; however, there is no guarantee that housing is affordable in those areas. Along with tighter mortgage markets, increases in the cost of living and rising unemployment

figures, workforce and affordable housing policies are just as important as they were during the housing boom of the late 1990s and early 2000s.

The City of Pasadena, an area that has seen only slight declines in its housing prices during the recession, has been working on a new strategy to provide housing across a spectrum of needs: from the homeless to the workforce. To this end, the city held a series of community workshops and met with a variety of stakeholders. As a result, the city passed an inclusionary housing ordinance and then adopted a ten-year plan to end homelessness. This series of events led to the first Pasadena Housing Summit in March 2006.

The city then joined with ULI Los Angeles and The Planning Center to devise what would become a new *Housing Agenda for Action*, a plan that would facilitate the allocation of resources for the preservation and provision of affordable housing opportunities. In January 2007, ULI Los Angeles and the City of Pasadena formed the initial technical assistance panel (TAP) to review The Planning Center’s draft of *Housing Agenda for Action* in order to provide preliminary recommendations to local stakeholders at a public presentation. The work of ULI LA and The Planning Center would then provide the foundation for the staff report to the Pasadena City Council in April 2007 as to the next steps in the city’s adoption and implementation of the *Housing Agenda for Action*.

The January 2007 TAP, which took place over two days and involved stakeholder input, concurred with all the

Planning Center's proposed initiatives and recommended that the city articulate a vision for Pasadena 2025, which would include population projections as well as how many and what types of homes the city will need. Moreover, the panel made the following specific recommendations in conjunction with the *Housing Agenda for Action* plan:

- Focus on housing preservation
- Define acquisition/rehabilitation strategies
- Create a regional (San Gabriel Valley) housing trust fund
- Streamline affordable housing regulations
- Create a land bank program
- Form a nonprofit housing development corporation
- Promote limited equity cooperatives
- Implement a workforce housing program

In addition, the panelists urged the city to coordinate a strategy to accommodate density, engage the community in the process in order to reduce opposition to affordable housing, and to make use of transit oriented design opportunities. Please see the ULI Los Angeles TAP report, *City of Pasadena: Housing Agenda for Action* (January 2007)¹ and *Housing Agenda for Action: City of Pasadena* by The Planning Center and Karen Warner Associates (March 2007)² for more information.

In April 2007, the Pasadena City Council unanimously adopted the January 2007 TAP recommendations and requested that the city continue to pursue issues related to workforce housing. As a next step, the City of Pasadena decided to convene two more technical assistance panels. The follow-up sessions would focus on: (1) leveraging housing funds; (2) forming a non-profit housing development corporation; (3) furthering the workforce housing program and (4) exploring the option of limited equity cooperatives. A panel met in December of 2007 and another panel met in January of 2008. The panelists from these two panels then made a combined presentation of their recommendations to the Pasadena City Council and City Housing Department staff in February 2008. Finally, consistent with the City Council's approval of the Affordable Housing Plan (*Housing Agenda for Action*) on April 9, 2007 and the subsequent approval of a \$36 million housing operating budget for Fiscal Year 2008-2009, the City Council on July 21, 2008 approved the creation of the Housing Department. This report is a summary of those recommendations from the ULI LA panel that can then become a foundation for the newly constituted Housing Department's work program.



Ehud Mouchly



Renata Simril and Phil Hart



Anya Davis

¹ www.uli-la.org/involved/tap/index.html

² www.ci.pasadena.ca.us/housing/

The Panel's Assignment



Phil Hart

As a follow-up to the January 2007 Housing Agenda for Action TAP, the City of Pasadena and ULI Los Angeles organized two technical assistance panels in December 2007 and January 2008. Both panels combined their findings and made a presentation to the Pasadena City Council Economic Development and Technology Committee in February 2008. Each panel addressed a set of questions posed by the city and made specific recommendations. The panelists were provided with background materials and had an opportunity to talk with local stakeholders, directors of non-profit organizations, federal program managers and private-sector developers who could comment on the issues pertinent to the production of workforce and mixed income housing in the City of Pasadena.

Workforce Housing

The City continues to consider workforce and mixed income housing as a critical concern due to Pasadena's high housing costs. Middle-class workers, much like lower-income residents, are being priced out or displaced. Although Pasadena has several regulatory tools to facilitate and encourage the production of workforce housing (e.g., fee waivers, development standards waivers, density bonuses), they have not achieved an adequate number of workforce units. In order to increase the production of workforce units, the city envisions creating a mixed-income model, wherein all City-sponsored projects would contain a range of incomes (low, moderate and workforce units³). This would be accomplished by working with local lenders, for-profit and non-profit housing developers and other methods suggested by the ULI LA panelists.



Bob Buente and Don Scott

Limited Equity Co-Operatives

The City is evaluating establishing a "limited equity co-operative" program as a way of maintaining its affordable multifamily stock. As a pilot program, the city would like to purchase an apartment complex within the next year and use it as part of a limited-equity co-operative program. The city sought suggestions from the ULI LA panelists on how to accomplish this or other similar solutions that may be employed.



The City Housing Opportunity Fund and a Pasadena Nonprofit Development Corporation

Due to the amount of residential development in Pasadena and the recent increases to the city's inclusionary housing in lieu fee, the city estimates that its housing opportunity fund could grow to \$15 million during the 2007–2008 fiscal year. The city was interested in approaches to continue to leverage the housing opportunity fund, and how to form a non-profit housing development

³ Pasadena's income requirements are based on the effective median income of Los Angeles County. As of April 2008, the median income for a family of four is \$59,800. Low, moderate and workforce housing are 80 percent, 120 percent and 180 percent of AMI, respectively.

corporation. Such a nonprofit corporation could potentially play a major role in the distribution and allocation of the housing opportunity fund, manage the city's residential properties and allow the city to gain access to additional sources of private, state and federal funds. The ULI LA technical assistance panel advised the city on the corporation's possible mission, objectives, board composition and organizational structure.

The first of the follow-up technical assistance panels met on December 12, 2007 and, to assist in framing the discussion, the panelists were asked the following questions which were proposed by the City of Pasadena:

1. What can the city do to facilitate the leveraging of funding for both the preservation and production of affordable housing and workforce housing opportunities?
2. Is a non-profit development corporation a viable structure to assist in leveraging funds and implementing housing opportunities?
3. How should the non-profit development corporation be constituted?
4. How should the city allocate its existing and leveraged funds?
5. What should be the basis for selecting the appropriate housing development to finance?

The second technical assistance panel met on January 16, 2008 and was asked the following questions posed by the City of Pasadena:

1. What can the city do to facilitate the preservation and production of workforce housing opportunities?
2. Is the mixed-income housing development model (affordable/workforce) the best method to ensure funding for workforce housing that does not eliminate the provision of affordable housing opportunities?
3. Is a city sponsored non-profit development corporation a viable structure to assist in the production of workforce housing opportunities via the leveraging of private investment capital?
4. Are limited equity cooperatives a viable option for affordable homeownership in Pasadena?
5. What are the practicality, financial feasibility and requirements for limited equity cooperatives?
6. Should the city initiate a limited equity cooperative program in conjunction with its purchase of a rental apartment complex during the 2007-2008 fiscal year?



Ehud Mouchly



Renata Simril, Thomas Nagel, and Ehud Mouchly



Richard Haughey and Con Howe

Summary of Recommendations



Mixed-Use Development, Office and Residential, Pasadena Place



Apartment Buildings

1. Leverage the Pasadena housing opportunity fund to offer:

- Gap financing for developers
- Tax increment financing
- A City housing bond
- Mortgage certificates
- Soft second loans
- An employer assisted housing matching program.

2. Think of land as a resource for creating affordable housing

- Make use of city-owned land and long term ground leases
- Find air rights opportunities
- Form public-private partnerships to acquire land.

3. Change some of the current land uses and regulatory conditions

- Look for re-zoning opportunities in order to create additional residential development opportunities
- Offer public education on affordable housing as well as workforce and mixed-income housing, including best practices examples
- Consider using master Environmental Impact Reports (EIR)
- Provide clarity on rules and guidelines; offer a menu of options
- Implement density bonuses for workforce housing projects
- Give incentives such as a rebate on fees

- Streamline the permitting process
- Change parking regulations.

4. Create a Nonprofit Housing Development Corporation

The non-profit would have multiple functions:

- Policy advocacy/public education
- Entitlement approval
- Project financing
- Receive HUD grants
- Leverage funds
- Recipient of public land resources.

5. The structure of the non-profit

- Board appointed by mayor and city council
- Board hires executive director
- Shared powers with other entities.

6. Limited Equity Co-Operatives are a possible solution among many

- Limited Equity Housing Cooperatives (LEHC)
- Limited Equity Condominiums (LEC)
- Hybrid LEC
- Community Land Trusts.

Recommendations

Leverage the Housing Opportunity Fund

In 2000, Pasadena adopted its Inclusionary Housing Ordinance and its in-lieu fees have served as one of the primary financing sources for affordable housing. The ordinance requires that a percentage of all new housing units be sold at prices or rented at rates affordable to low- (up to 80 percent of the AMI) and moderate-income households (up to 120 percent of the AMI). Fifteen percent of a project's for sale units are required to be affordable to low and moderate income households for 45 years, subject to a renewable covenant if the unit is sold. For rental projects, at least 10 percent of the units should be affordable to low income households and 5 percent to moderate-income households and the affordability covenant is in perpetuity.

As an alternative to the on-site production of affordable housing units, the developer may pay in-lieu fees, dedicate land or provide the housing units off-site. The payment of in-lieu fees to the city housing trust fund has been the most popular option and ranges from \$10 to \$30 per square foot for rental units and \$14 to \$53 per square foot for ownership units. The ordinance offers additional regulatory incentives that provide cost savings to the developer or increase potential rental/sales income. These include fee reductions or waivers, density bonuses, the modification of development standards, and expedited processing.

The city expects to have over \$8 million unobligated in its housing opportunity fund by the end of the 2007-2008 fiscal year based on available funds from inclusionary housing in-lieu fees, low and moderate income housing trust funds, federal HOME Investment Partnership funds, the State of California loans and grants, and other funding sources. However, due to the immediate funding needs of existing and pending projects, the likelihood of monies being readily available for leveraging or new affordable housing activities is limited. Consequently, the City will need to devise alternate methods to leverage funds and assets for affordable and workforce and mixed income housing production. As stated in the *Housing Agenda for Action*, the growth of the housing opportunity fund is sensitive to market dynamics and the funds could be more creatively maximized. Although the city has discretion in the use of the housing opportunity fund, an emphasis has been placed on using the funds for very-low, low- and moderate-income housing. The ULI Los Angeles TAP panelists stated that the city should continue to offer a continuum of housing choices for city residents, but, through leveraging the housing opportunity fund money, offer increased options for workforce housing (defined as those households earning 120 percent to 180 percent of AMI).

In order to help the city address its workforce housing needs and to maximize the potential of the housing opportunity fund, the panel suggested that the city continue offering gap financing to affordable housing developers where possible. Rather than the city directly spending a large amount of the housing opportunity



Multifamily Residential Building, 141 Chestnut St.



Mayor Bill Bogaard



Con Howe, Renata Simril, Thomas Nagel, and Ehud Mouchly



Mayor Bill Bogaard, Councilmember Victor Gordo, and Con Howe



Luxury Townhomes, Delacey Place ▲

Holly Street Village Apartments and Metro Gold Line Station ▼



Councilmember
Jacque Robinson ▼ Councilmembers
Victor Gordo and
Steve Madison ▼



Ehud Mouchly and Eric Natwig ▼



fund money to build affordable units, the city would offer low interest or forgivable loans to affordable housing developers to help offset costs. Developers would submit a financial proforma, identifying all costs anticipated for their respective projects and demonstrating the developer’s ability to achieve conventional financing prior to the commencement of discussions regarding the need for city assistance to close any existing

or potential financial gap. The loans would offer lower interest rates and more flexible terms than those of conventional banks, debt could be subordinated and repayment may be deferred.⁴ The city may want to consider implementation of this housing production program through a non-profit development corporation.

Either with or without the establishment of a non-profit development corporation, the panelists suggested that the city reexamine the use of its tax increment financing revenues (TIF). Tight budgets and a slumping economy have forced the use of TIF dollars towards balancing the budgets of other programs. The city should consider using more of its TIF revenues towards affordable housing (perhaps up to 25 percent) and contributing to the housing trust fund. TIF revenue is typically used for gap financing and infrastructure improvements; however the city may want to investigate whether or not it could create a revolving foreclosure preemption fund using tax increment revenue.

Although general obligation bonds referendums can be difficult to pass, the panelists recommended that the city seek voter approval for the passage of an affordable housing bond. As an example, the citizens of Los Angeles recently voted against an affordable housing referendum known as Proposition H. Critics charged that the proposition was yet another social welfare program and that city residents were already paying too much for taxes, utilities and surcharges. A majority of voters (63 percent) voted for the referendum, but a two-thirds majority was required for passage. On the other hand, over the past five years, voters have approved two state housing bonds: Proposition 46 and Proposition 1C. If passing a city bond does not seem feasible, the city could use proceeds from real estate transfer taxes to contribute to the housing opportunity fund.

The city should also continue its efforts on the demand side of the workforce housing equation. The Homeownership Opportunities Program (HOP) is helpful

⁴ Currently, there is not a standard policy for commercial banks receiving Community Reinvestment Act credits for workforce housing investment. Many projects are considered on a case-by-case basis.

to low and moderate-income families, but funds are not readily available to those earning 121 to 180 percent of AMI. The Mortgage Credit Certificate Program was determined to be infeasible in Pasadena due to the high housing costs (home purchase prices are limited to a set amount or below) and the program is also restricted to those earning less than 80 percent of AMI. The city could use unrestricted moneys in its HOP and housing opportunities fund to offer workforce homeownership assistance, such as down payment assistance, soft second loans and a type of mortgage credit certificate, but with higher income limits. As with the existing HOP, the city could offer the same terms to the workforce population and upon resale or refinancing of the home, the borrower would repay the outstanding amount owned on the loan, plus a share of the property's appreciation (and extend the recapture period to 10 years, as suggested in the *Housing Agenda for Action*).

Another way in which the city could expand leveraging its housing opportunities fund is through an employer-assisted housing (EAH) matching program. Employer-assisted housing programs serve a variety of populations—nurses, teachers, police, firemen, university staff and faculty. Major private-sector employers in Pasadena such as Huntington Hospital, California Institute of Technology, Jacobs Engineering and Parsons may be interested in joining with the city to offer a housing benefit to their employees. The city could develop a pilot program with an employer to offer a 1-to-1 match with employer contributions towards rental or down payment assistance. The State of Illinois' Regional Employer-Assisted Collaboration for Housing (REACH) program offers this type of matching program along with a 50 percent state income tax credit for every dollar that an employer invests in the EAH program.

Land Is a Resource for Creating Affordable Housing

In addition for preserving and rehabilitating existing affordable housing and requiring inclusionary units, it is advisable that the city make use of its own land to build housing either through conveyance of fee title or on ground leases. As suggested in *Housing Agenda for Action*, the city should refer to its inventory of sites, as land is often the most expensive factor in building affordable housing. Surplus school sites can be used to develop housing for teachers and city employees. The city of Santa Clara, CA successfully built award-winning affordable rental housing (Casa del Maestro) for its teachers on school district property and several similar projects are now underway in Florida through the state's Community Workforce Housing Innovation Pilot (CWHIP) Program. Additionally, although this may not be a common occurrence in Pasadena, the city should acquire or work with developers to rehabilitate vacant, abandoned and tax-delinquent properties. The establishment of a non-profit housing development



Greg Robinson





Apartment Buildings



Anya Davis



Don Scott

corporation would enable the city to gather a comprehensive list of all available properties and develop a land bank program.

The use of city or school district-owned properties and the transfer of air rights can also be an affordable housing tool in cities that are at or near build-out. Depending on Pasadena’s height restrictions, areas above parking structures, transit stations and municipal buildings may be used to construct affordable housing. This strategy provides land at essentially no cost, thereby reducing total development costs and in some instances, can result in shared parking arrangements among daytime municipal and commercial uses and residential uses.



Joel Bryant

The panelists encouraged the city to continue forming partnerships with non-profit housing developers as this provides increased access to land held by churches, foundations and other organizations. The city has convened numerous workshops and roundtable discussions with affordable housing developers and non-profits to discover opportunities for partnerships. Very often, organizations such as churches have money and land to put towards an affordable housing project, but not the development expertise. Through forming public-private partnerships with these entities (ideally through a non-profit development corporation), the city could advance its affordable housing objectives.



Alex Saunder

Change Some of the Current Land Uses and Regulatory Conditions

Some of the affordable housing developers who spoke to the panelists described the difficulty of building affordable housing in Pasadena due to the stringent regulatory conditions. This issue was raised as well in the January 2007 Housing Agenda for Action TAP, as well as in interviews with The Planning Center. The

panelists recommended several ways in which the city could change the current regulatory barriers, such as seeking out rezoning opportunities, offering public education to voters on affordable housing and streamlining the approval process. Similarly, the city could offer incentives to developers such as providing density bonuses for workforce housing projects and offering rebates on fees. These actions would help expedite the construction and delivery of affordable housing within the city.

Pasadena’s permitting and entitlement process has facilitated high-quality residential development, but as stated in *Housing Agenda for Action* and reiterated at the panel meetings by developers, the length of the entitlement process is an impediment to developing affordable housing. A key factor affecting the feasibility of affordable housing is time. Reducing unnecessary delay in the entitlement process while providing greater predictability and certainty to developers would assist in the delivery of affordable housing. The panelists reinforced the affordable housing expediting recommendations made in *Housing Agenda for Action*. These steps included finding ways to cut processing times by 25 to 50 percent for affordable and workforce housing projects and to consider master environmental impact reports.

In addition to fast tracking the affordable housing approval process, the city needs to provide clearer rules and guidelines for affordable housing developers. Developers desire certainty and the current process is lengthy and confusing. As a first step towards this goal, the panel suggested that the city organize all of the affordable housing tools into a matrix along with what organizations and income ranges could make use of those tools.

Pasadena has some regulatory and financial incentives in place for workforce housing. For example, if a developer designates 15 percent of the project as on-site workforce housing, the developer can receive a 35 to 50 percent rebate on the residential impact fee. The city is looking at establishing a Workforce Housing Overlay District along a portion of North Robles Avenue. The underlying zoning for this corridor is RM-16. Under the Workforce Housing Overlay designation if enacted, the minimum lot size would be reduced, thereby allowing an increased density of up to 24 units per acre. The panelists encourage the city to continue this type of planning and to consider additional fee waivers, beyond the residential impact fee, for projects containing 30 percent or higher workforce housing. Although funding workforce housing units has been controversial, the panelists



Con Howe and Richard Howe



Bob Buente





believe that offering a range of housing options is essential and city-sponsored residential projects should implement a mixed income model. The panelists urge such density bonuses for workforce housing projects, even though this has met with some resistance from low-income housing advocates and the courts who believe density bonuses should be reserved for either low and moderate-income units and/or significantly limited for workforce units. Recent programs allowed by Senate Bill 1818 increase the allowable density bonus from 25 percent to 35 percent and introduce a sliding scale where density bonuses are increased relative to the percentage of a development that is affordable and the level of that affordability. Similarly, a local workforce housing density bonus program could, within certain legally accepted parameters, have enough flexibility to encourage the provision of workforce housing units.



The affordable housing developers that spoke to the panelists mentioned the problems caused by the current parking regulations. If current parking regulations are “decoupled” from residential units, especially in denser neighborhoods near transit, it could save on development costs, reduce the required occupant household incomes and encourage public transportation use. This policy would offer households a monthly savings, in effect increasing the affordability of housing. For example, if two parking spaces are currently included with a unit, decoupling parking (renting or selling parking spaces



separately) provides monthly savings for an urban household that only owns one vehicle, and an even greater monthly savings if it owns no vehicles.

The panelists identified several areas within the city of Pasadena that could be rezoned for more intensive residential uses. Rezoning could create more development opportunities, and this is especially important considering that the city’s Central District has reached its maximum residential unit cap under the General Plan. One area that could be rezoned is the eastern portion of Colorado Avenue, starting from Pasadena City College (PCC) and continuing towards Sierra Madre Boulevard. Motels, vacant storefronts and a scattering of small-

scale retailers now occupy most of the blocks. This corridor would be an ideal place for a range of affordable housing units due to easy access to transit, retail and proximity to PCC. The panelists recommended that, if possible, the city encourage higher building heights in this area.

The controversy over public funding of workforce housing is often born out of misconceptions by homeowners and low-income housing advocates. Homeowners fear that their tax dollars will be spent on social engineering programs and building inferior housing that will drag down property values, while some housing advocates believe that funds should be directed towards low- and moderate-income families. The panelists recommended that the city embark on a public education program for voters to promote not only the necessity of workforce housing in Pasadena, but that it can be successfully accomplished. A sensitive public education campaign can help allay “Not in My Backyard” (NIMBY) fears, provide a forum for all levels of affordable housing advocates and lessen development costs. ULI has several useful publications available on this topic (the Myth and Fact series) and the Campaign for Affordable Housing offers public education resources through their website (www.tcah.org).



Create a Non-Profit Housing Development Corporation

As stated in the *Housing Agenda for Action*, a nonprofit housing development corporation (NHDC) could effectively implement many of the panelists’ recommendations and aid in increasing the production of affordable housing in Pasadena. The level of residential development in Pasadena, combined with recent increases to the inclusionary housing in-lieu fee, has resulted in an unprecedented level of funding available for affordable housing production and preservation activities. A NHDC will provide the city with access to additional sources of private, state, and federal funds, and would allow Pasadena to take a greater leadership role in creating the type of housing best suited to meeting the community’s needs. The NHDC could also provide benefits to several previously recommended program initiatives, including a land bank, multi-family acquisition/rehabilitation, and preservation of at-risk housing programs.

The panelists recommended that the city create their own specific mission for the NHDC focusing on issues such as stewardship, healthy communities,





financial stability, diversity, and partnerships. The NHDC would have multiple functions and take over some of the activities that now burden certain city departments, improving administrative capacity. It would also allow the city to have an “arms length” relationship with affordable housing development, yet it would share responsibilities with other city departments. The NHDC would require seed money from the city and would have a qualified and experienced executive director. The executive director would report to a board appointed by the mayor and council.



The NHDC would serve as a champion of all ranges of affordable housing in Pasadena. It would fund affordable housing in the city and act as partner in approved projects. It could effectively leverage the current housing opportunity fund, receive grants, issue bonds, acquire and assemble land, partner with local Community Development Financial Institutions (CDFIs), offer homebuyer assistance and participate in TIF districts. It could also serve as a public policy advocate and create a public education campaign on affordable housing. Organizations such as the Orange County Community Housing Corporation, the Centre City Housing Corporation in San Diego, and the New York City Housing Development Corporation are excellent examples. Finally, with the constitution of a new Pasadena Housing Department, this proposed nonprofit housing corporation can provide another effective model to enhance the city’s administrative capacity and supplemental funding.



Limited Equity Co-Operatives are a Possible Solution Among Many

The possibility of city-created limited equity housing cooperatives (LEHC) was a recommendation in *Housing Agenda for Action*. However these types of ownership strategies may not be feasible in Pasadena and the panel was not in favor of this solution for the city. While the principles of “limited equity housing” are very relevant to the discussion, the panel had concerns about certain features specific to LEHCs. LEHCs are essentially nonprofit business corporations in which residents share ownership of a building or group of buildings. LEHCs offer ownership opportunities to low- and moderate-income households while limiting the seller’s return from the resale. This is in contrast to market rate housing cooperatives, where memberships can be transferred to others at market value.

One of the most common methods of developing new cooperatives today is converting an existing rental building or buildings into cooperative housing owned by the tenants. This often requires extensive renovations and temporary displacement of current residents.

Residents must also have the financial means to qualify for membership in the co-op and some may not be interested in participating, but do not want to vacate. Cooperatives can also be built from the ground up as new housing. A great deal of affordable cooperative housing was developed this way during the 1960s and 70s using federal government subsidy programs. However, most of these programs are no longer available and new construction co-ops are less common today. Cooperatives for low and moderate-income families today are being financed by local government or using a federal property disposition program. A number of senior housing cooperatives have been built in the last decade and a few new cohousing communities have been developed using cooperative ownership. In a leasing





co-op, the cooperative does not own the housing, but rather leases it from a landlord. Though obviously this model lacks the benefits of full ownership, it does have some advantages over rental housing. The cooperative may be able to secure a long-term lease at more affordable rates than if each tenant was renting separately, giving cooperative members more security and control over their living environment.⁵

Housing cooperatives exist mainly on the east coast (New York, Boston, Miami), but have not proved as popular in the west (although San Francisco has developed a pilot to address condominium conversions). The panelists believed that LEHCs could be a possible solution, but that their marketability is unproven in this geographic area. If the city leadership believes that a LEHC is a desired solution, a pilot program would be advisable, as LEHC formation can be extremely complex, politicized and costly. ULI LA has compiled a menu with relevant LEHC elements, features, advantages, and caveats that that city should consider before embarking on a pilot program. *This appendix of information is available at www.uli-la.org as a component of the electronic version of this TAP report.*

The Panel believes that other limited equity solutions are more appropriate in the context of Pasadena, such as:

- **Limited equity condominiums (LEC)** (“affordable” or mixed-income)
 - **Individual homeowners own their units and an undivided ownership interest in the land.** Homeowners finance their respective units with conventional mortgages placing a lien on their units plus the undivided ownership interest in the land. Resale price formulas are governed by deed restrictions that may be changed by a majority of the homeowners.
 - **Limited equity condominiums on employer’s or municipal ground leases.** Homeowners own their units without fee title to the land. They are ground-lessees with the lessors being employers or other public entities. Individual homeowners finance their respective units with conventional mortgages on their units. Ground lease provisions govern resale price formulas and the price is typically capped at original price plus indexation. This assures permanent affordability.
- **Hybrid Limited Equity Condominiums / Community Land Trusts.** A non-profit corporation owns the land and homeowners are ground-lessees. Homeowners and non-resident members of the community typically control the nonprofit corporation. Non-resident members help eliminate the risk that members of a resident association (in either a co-op or condominium) would vote to eliminate re-sale restrictions on their own homes.

⁵ National Association of Housing Cooperatives (www.coophousing.org)

Conclusion

The panelists were impressed with the City of Pasadena's efforts and accomplishments. The panel wholeheartedly recommended that the city take immediate steps to form a non-profit housing development corporation. The panelists encourage the city staff to continue its current dialogues with lenders, developers, government agencies and non-profits in order to reach consensus on implementable development ideas. Despite the slowing economy and problems in the residential sector, Pasadena remains a desirable place to live for all income ranges. The City of Pasadena is ahead of the curve in its consideration of how to produce workforce and mixed income housing for its citizens and this resolve on the part of the city should be saluted and encouraged. In sum, the ULI LA Technical Assistance Panel concludes that based upon the City's statutory commitments the following areas should be addressed:

- **Asset Management.** Improve the asset management of the City's receivables for housing through reconciliation and enhanced monitoring of the project/homebuyers database along with a performance review of outstanding agreements and the establishment of a financial reinvestments strategy.
- **Homeownership Opportunities Program (HOP).** Amend the HOP to be more readily accessible to prospective low, moderate and workforce income homebuyers, more applicable to available conventional market rate financing and compatible with limited equity condominiums.
- **Homebuyer Rehabilitation Program.** Initiate an interest subsidy program with local lenders or a consortium of lenders to provide conventional rehabilitation loans to low, moderate, and workforce-income households for repair and improvement of owner-occupied units.
- **Housing Production.** Alleviate existing programmatic limitations and establish a uniform process and procedure for future project selection, funding allocation, loan underwriting escrow closing and project funding.
- **Workforce Housing.** Devise and implement a comprehensive Pasadena Workforce Housing Program that will facilitate mixed-income housing developments. As to workforce housing, it is important that the City accomplish the following objectives: (1) amend the inclusionary housing regulations to allow for the use of Inclusionary Housing Trust Funds for workforce housing units; (2) utilize a mixed income housing model in all City sponsored affordable housing projects to include workforce housing units; (3) work with local lending institutions to develop a mechanism for flexible and/or below market rate financing for developers who provide workforce housing units; (4) amend the Workforce Housing Guidelines to incorporate the bedroom unit-mix requirement utilized by the inclusionary housing program; and (5) pursue for-sale housing opportunities through ground leases with local institutions, such as the Pasadena Unified School District.



Appendix

Table 1. LEHC Elements, Features, Advantages and Caveats⁶



Element	Feature	Advantage	Caveat
LEC formation & Set Up	No single replicable structure. Each is unique.		Complex, costly process Requires a developer
LEC Structure	Eligibility for stock ownership determined by income levels; resale (stock) prices is by formula (e.g., Consumer Price Index linkage; increased permitted return depending on tenure)	Reduced occupancy costs Perpetual affordability	Formula for capped appreciation can be change by LEHC Board, defeating perpetual affordability principle
Project Financing	Capital from equity and/or construction/development debt Permanent debt/blanket mortgage		Need to finance land and structure If limited to low and moderate income subsidies will be required Difficult to obtain interim/permanent debt in California—requires education of lenders
Homeowner Financing	Homeowners own stock in the corporation and hold a proprietary lease on their units Homeowners can borrow separately to finance their share	Homeowners can deduct prorated share of blanket mortgage interest and property taxes (IRS Code 216)	Borrowing to finance shares is unsecured at owners interest cost (if available) Relatively high price of shares if LTV on blanket mortgage is relatively low (e.g. 80% LTV) Minimum number of units > 50 for FNMA acquisition of share loans
Property Management	Community governance by homeowners	Self-help and sweat equity by homeowners can reduce property management and maintenance costs	Contentious governance Inexperienced property management Requires much training

⁶ For more information see “Permanently Affordable Homeownership: Does the Community Land Trust Deliver on It’s Promise?” by Burlington Community Land Trust, 2003. www.community-wealth.org/_pdfs/articles-publications/clts/report-davis.pdf

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The Urban Land Institute

ULI – the Urban Land Institute is a nonprofit research and education organization that provides leadership in the responsible use of land and in creating and sustaining thriving communities worldwide.

The Institute maintains a membership representing a broad spectrum of interests and sponsors a wide variety of educational programs and forums to encourage an open exchange of ideas and sharing of experiences. ULI initiates research and anticipates emerging land use trends and issues and proposes creative solutions based on that research; provides advisory services; and publishes a wide variety of materials to disseminate information on land use and development.

Established in 1936, the Institute today has more than 40,000 members from 92 countries representing the entire spectrum of land use and development disciplines. Professionals represented include developers, builders, property owners, investors, architects, public officials, planners, real estate brokers, appraisers, attorneys, engineers, financiers, academics, students, and librarians. ULI relies heavily on the experience of its members. It is through member involvement and information resources that ULI has been able to set standards of excellence in development practice. The Institute has long been recognized as one of America's most respected and widely quoted sources of objective information on urban planning, growth, and development.

This Advisory Services program report is intended to further the objectives of the Institute and to make authoritative information generally available to those seeking knowledge in the field of urban land use.

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