



Office of the City Manager

INFORMATION CALENDAR

June 30, 2026

To: Honorable Mayor and Members of the City Council

From: Paul Buddenhagen, City Manager

Submitted by: Scott Gilman, Director, Health, Housing, & Community Services

Subject: Referral Response: Open Doors Initiative: City Worker and First Time Affordable Homebuyer Program

SUMMARY

This information item responds to a Council referral to prepare a report detailing available first-time homeownership and low-income homeowner programs that might be available for implementation in the City of Berkeley. Staff researched first-time and low-income homebuyer programs to gather information on their scope and inform potential program designs for Berkeley. This report examines several mechanisms to advance home ownership in Berkeley, including:

- Existing programs, including Alameda County's down payment assistance (DPA) program and CalHOME state funding for construction and acquisition-rehabilitation;
- Relevant City initiatives in zoning and regulation changes to create more mid-sized infill units designed for ownership; and
- Options for future action, such as initiating a City program to complement existing DPA programs and modifying the City's Small Sites Program to target ownership opportunities.

Council may consider identifying funds to initiate a pilot for one or more of the potential programs.

CURRENT SITUATION AND ITS EFFECTS

This report responds to the referral entitled "Open Doors Initiative: City Worker and First Time Affordable Homebuyer Program" that originally appeared on the agenda of the September 10th, 2019, Council meeting, and was sponsored by Councilmembers Ben Bartlett and Rigel Robinson, and Mayor Jesse Arreguín. This referred to the City Manager and Housing Advisory Commission to explore mechanisms to support homeownership by City of Berkeley First-Responders and other critical safety staff. It further referred to the City Manager to prepare a report detailing relevant, available first-time homeownership and low-income homeowner programs. The referral frames goals

of a first-time homebuyer program as reducing the racial wealth gap, increasing diversity of Berkeley neighborhoods, reducing commute times for first responders and City employees, and providing financial benefits to senior homeowners.

Staff planned to combine this referral with a separate November 3, 2022, budget referral for a “Down Payment Assistance (DPA) and Closing Cost Assistance Revolving Loan Fund Pilot.” However, this referral did not receive funding. Staff are now advancing this information report as a reference tool for future ownership initiatives.

Homeownership in Berkeley

The high cost of homeownership was cited as the second most important housing issue facing Berkeley in a survey conducted for Berkeley’s 2023-2031 Housing Element. The median home price in Berkeley is \$1.3 million (Redfin, 2026). Between 2000 and 2020, adjusting for inflation, single-family home values in Berkeley increased nearly 225%, compared to a 200% increase in Alameda County overall.

Further, homeownership data has demonstrated stark disparities in homeownership opportunities by race. Berkeley’s residents of color are disproportionately renters. The homeownership rate for white households in Berkeley is 55%, while the rate is 34% for Black households, 32% for Asian households, and 24% for Latino households. This disparity has been consistent for several decades. The City of Berkeley is in need of affordable homeownership policies and programs in order to further address housing inequities.

Current Initiatives

The Berkeley City Council adopted recent policy initiatives to facilitate development of new homeownership opportunities, including:

- Establishing the same Inclusionary Housing in-lieu fee for rental and ownership projects;
- Adopting “Middle Housing” rules to encourage small-scale multifamily infill development of different sizes in predominantly single-family home neighborhoods;
- Amending the zoning code to allow for streamlining provisions for Middle Housing Infill Projects (MHIPs), compliant with SB 684, which mandates ministerial approval for small-lot subdivision projects up to 10 units; and
- Amending zoning rules to permit the sale of accessory dwelling units (ADUs) separately from the main property.

In September 2025, City Council held a work session on social housing, where staff presented a study on social housing opportunities in Berkeley (“Berkeley Social Housing Study”). Social Housing is defined in the study as housing that is publicly or mission-driven organization owned; permanently affordable; inclusive of a broad range of incomes; and centered on resident stability and self-governance.

The study included financial modeling of potential Berkeley projects, with different income mixes, in both rental and ownership scenarios. A key finding is that affordable homeownership is most viable through acquisition-rehabilitation.

The City’s existing Small Sites Program (SSP) supports the acquisition and rehabilitation of small, multifamily rental properties with up to 25 units. This program typically partners with Community Land Trusts (CLTs) on projects. Thus far, the program has supported two rental properties with households at risk of displacement on immediate stabilization, and one vacant property.

CLTs often have a goal of future conversion of rental projects to limited equity housing cooperatives (LEHCs). SSP Program Guidelines include language on LEHC conversion, prioritizing applications that plan to convert to cooperative ownership. Acquiring a vacant property is another potential alternative to establish an affordable ownership project.

Potential Program Design

There are two approaches to affordable homeownership program design:

- Supply-side: Create more units dedicated to ownership through new construction and/or acquisition; and
- Demand-side: Facilitate households’ access to homeownership on the private market.

New Construction

Supply-side program design options include supporting CLTs and other nonprofits in acquisition-rehabilitation and/or new construction of affordable homeownership options. The Berkeley Social Housing Study finds that although affordable homeownership through new construction lowers necessary subsidy through equity contributions from buyers, it is roughly three times more expensive than achieving affordable ownership through acquisition-rehabilitation.

This study modeled a new construction scenario that serves half affordable units (80% AMI) and half market-rate units. In that scenario, the required public subsidy is \$445,000 per unit, significantly higher than the \$150,000 per unit needed for an

acquisition-rehab ownership model serving a similar income level. The study concludes that affordable homeownership is most viable through acquisition-rehabilitation.

Acquisition-rehabilitation

The Berkeley Social Housing Study includes a recommendation to pilot a social housing acquisition-rehabilitation ownership conversion project. Acquisition-rehab is a lower-cost alternative to new construction and presents a more cost-effective path to expanding affordable homeownership. Preservation can help keep communities intact and create opportunities for households that may not be able to access homeownership.

The existing Small Sites Program includes guidelines for LEHCs, and CLTs have mission-driven goals of LEHC conversion. However, SSP projects are often first focused on the immediate stabilization of households at risk of displacement. Most SSP projects start as rental properties because it is easier to transition and finance.

Access to permanent financing may be a barrier to LEHC conversion for many deed-restricted affordable rental projects. There are limited financial institutions that lend to cooperatives, and it can be even more difficult to access capital for a CLT to create a cooperative. Additionally, the welfare tax exemption is beneficial to financing affordable rental housing, but current state tax law creates complexities for LEHCs regarding this exemption, making it difficult to finance.

Oakland's Acquisition & Conversion to Affordable Housing (ACAH) program released a Notice of Funding Availability (NOFA) in 2023 with funding for rehabilitation costs for existing ACAH projects. These projects can convert to LEHCs; at this time, none of the ACAH rental projects have converted to cooperative ownership. The City could also consider allocating funds for existing SSP projects to convert to a LEHC.

Cooperative conversion also requires substantial supporting labor from an organization like a CLT, and that work does not currently have a reliable funding source. It can be a multi-year project to do community-building and education necessary for cooperative conversion at acquired properties with existing residents. SSP could be broadened to offer additional supports to facilitate conversion to LEHCs, such as sustained training and education funding.

There are also deferred maintenance needs for several of Berkeley's existing cooperatives. SSP could also target preserving these existing cooperatives, which represent legacy housing stock that is difficult to replace.

The City could pilot a project converting a small, vacant multifamily property into an LEHC, helping to build the capacity of local CLTs or affordable housing developers to implement similar models. Such a pilot could consider integrating other City initiatives, such as housing preferences for vacant units. LEHCs incorporate social housing principles, such as democratic governance of cooperatives and permanent affordability.

There are challenges, however, related to cooperative lease-up, especially when CLTs need to run a lottery for vacancies. Group cohesion for collective governance is challenging, and interviews that are necessary for assessing fit and readiness for democratic governance present fair housing considerations.

Down Payment Assistance (DPA)

The City is not currently engaged in demand-side supports for those seeking to become homeowners. Assisting buyers in the private market is a means of expanding housing choice, and could be a fit for larger families, given that many new construction and acquisition-rehabilitation affordable ownership opportunities consist of smaller unit sizes.

The City could consider its own DPA program, incorporating lessons learned from the program the City administered in the 1990s. The program was discontinued due to rising housing costs and the fact that it does not lead to permanent affordability. DPA programs typically provide a 20% down payment loan. Due to current median home prices, the income required to carry the primary loan could support moderate income households. It would likely exclude lower-income households from eligibility.

The City could also consider a potentially more cost-effective strategy by making funding available to supplement existing funding programs like AC Boost, California Dream for All, and CalHome-funded local DPA programs, which currently may not be sufficient to purchase a home in Berkeley. Program design would need to establish either a simple interest or shared appreciation model and consider how layered loan terms present tradeoffs for homeowners building wealth.

Program design could consider opportunities to address historical racial injustice in homeownership access, for example, by implementing preferences like the City's affordable housing preferences for households with ties to redlined neighborhoods. A DPA initiative could consider utilizing Special Purpose Credit Programs (SPCPs), which allow banks to offer credit on favorable terms to borrowers who have suffered economic disadvantage and share common characteristics. A DPA program can also use eligibility criteria to target inequities, such as CalHFA Dream for All's first-generation homebuyer requirement. A complementary funding program could be designed to coordinate with programs targeted at reducing the racial wealth gap, such as the Black Wealth Builders Fund described below.

Existing First-Time Homebuyer Assistance Available to Berkeley Residents

AC Boost

Alameda County offers a DPA loan program, AC Boost, with shared appreciation loans of up to \$210,000 to buy a home in Alameda County. Eligibility requirements include Alameda County residence or displaced from Alameda County within the past ten years,

first-time homebuyer, a \$300,000 asset limit, and a household income at or below 120% Area Median Income (AMI). There are preferences for first responders and educators, and incentives for buyers to buy near their work or transit. The homebuyer does not make monthly payments, and repays the loan plus a share of the home's appreciation after thirty years, upon refinancing with cash-out, or when the home is sold or transferred. The percentage of appreciation due upon repayment is calculated based on the ratio of the loan to the original purchase price.

The program is funded by Measure A1, administered by Alameda County Housing and Community Development Department, and managed by the nonprofit Hello Housing. The third and final funding cycle conducted its lottery in June 2024. AC Boost does not have funding for future rounds. The County may consider funding DPA as part of future bonds, but that is not known at this time.

The high cost of housing in Berkeley limits the program's local effectiveness: fewer homes available on the market will qualify an applicant for AC Boost's maximum loan amount, and additional closing costs may price out marginal applicants. Over three funding cycles, two households have purchased homes in Berkeley with AC Boost loans to date. Forty-four Berkeley residents applied for loans across these funding cycles, and 14 successfully purchased homes, mostly in Oakland and other parts of Alameda County. The program has served 270 households across the County, with an average loan of \$173,414 per household. Measure A1 dedicated \$61 million in funds for the program, including administration.

CalHFA California Dream for All

The California Housing Finance Agency's (CalHFA) California Dream for All Shared Appreciation Loan is a down payment assistance program for first-time homebuyers, with loans of up to 20% of the mortgage value, not to exceed \$150,000. Eligible borrowers must be first-time homebuyers, with at least one borrower being a first-generation homebuyer. This means that the borrower has not owned a home in the last seven years, and their parents do not own a home in the US. In 2025, the eligible combined household income limit for Alameda County was \$253,000.

The program is designed to be used with the CalHFA Dream For All Conventional first mortgage. This is a Fannie Mae "HFA Preferred" standard 30-year fixed-rate mortgage, which ensures that the entire loan package meets state requirements for the program. The homebuyer does not make monthly payments and repays the loan plus a share of the home's appreciation when the home is sold, transferred, or the first mortgage is paid. Like AC Boost, the ratio of appreciation in home value is based on the ratio of the loan to the original purchase price. For lower-income borrowers (up to 80% AMI), they repay 75% of this appreciation share. The most recent lottery for CA Dream for All took place in February and March 2026. CalHFA also has a Building Black Wealth campaign, with educational materials, and connections to resources such as free housing counseling and down payment and closing cost assistance loans.

Black Wealth Builders Fund

The Black Wealth Builders (BWB) Fund is a reparations project launched by Arlington Community Church in 2021. The loans available through this fund are zero percent interest and are to be repaid when the home is refinanced or sold. The loans through this fund are not shared appreciation loans. Loan amounts are smaller than traditional shared appreciation programs, ranging from \$7,500 to \$20,000. The loan is intended to help make the 3% minimum down payment mortgage option accessible to low and moderate-income Black homebuyers.

The BWB Fund is a reparations project designed to help repair a small portion of the financial damage of racism and white supremacist policies. It is available to Black households that lack the funds for a down payment. The fund is administered by the Richmond Community Foundation, and by Richmond Neighborhood Housing Services, which identifies qualified candidates through their homebuyer education programs. The program has made 57 loans for a total of \$998,500 since its launch in 2021, with no loans in Berkeley to date.

CalHOME

CalHOME offers state funding for first-time homebuyer mortgage assistance, as well as for homeownership development project loans; owner-occupied rehabilitation assistance; technical assistance for self-help housing projects and shared housing programs; accessory dwelling unit programs; and the acquisition of manufactured housing. CalHOME development funding is designed to create permanently affordable homes sold at below market interest rates (sometimes zero percent) to lower-income buyers earning up to 80% of the AMI. CalHOME partners with organizations like Habitat for Humanity to build new affordable ownership projects.

The 2025-2026 state budget eliminated funding for CalHOME, but this funding could be reinstated in the 2026-2027 budget. AB 736 and SB 417 aim to put a \$10 billion bond on the ballot in November 2026. Current drafts of these bills identify approximately \$1 billion for homeownership assistance, including through CalHOME.

The California Department of Housing and Community Development (HCD) issued awards in December 2025 to partner organizations to create 74 CalHOME projects in 22 California counties and benefit 1,172 households. The City of Berkeley has previously received CalHOME funding for owner-occupied rehabilitation through the City's Senior and Disabled Home Rehab Loan (SDRLP) program, most recently in 2011. That funding continues to be reused for new loans upon repayment. Berkeley-based organization, Northern California Land Trust (NCLT), has received CalHOME awards for local DPA and ADU/JADU funding, most recently in 2020. Berkeley's 2024 Prohousing Designation from HCD gives the City and organizations based in Berkeley additional points in CalHOME funding applications.

Northern California Land Trust (NCLT), Artist Space Trust in partnership with NCLT, and Housing Trust Silicon Valley's Home Access Program all offer CalHOME down payment assistance to help lower-income, first-time homebuyers purchase homes in Alameda County, with low-interest second mortgages that require no monthly payments. These loans cover up to 40% of the purchase price, capped at \$200,000, and are to be repaid at the end of the 30-year term or when the home is sold, transferred, or refinanced. CalHOME down payment loans are typically not administered as shared appreciation loans and carry a fixed annual interest rate of 3%.

BACKGROUND

The City's current efforts to support increased ownership opportunities for community members are identified above.

The City offered a first-time homebuyers program from 1996 to 2000. The program served 29 low-income homebuyers, of whom 25 purchased market-rate houses, three purchased BMR condominiums, and one purchased a limited-equity condominium from Northern California Land Trust. The home purchase prices ranged from \$75,000 to \$225,000; the average purchase price was \$148,847.

The \$20,000 loans were able to be used towards down payment, closing costs, and/or reduction of the first mortgage. Loan repayment was deferred until the property was sold, transferred, or refinanced. The loans were shared appreciation loans, like AC Boost and California Dream for All, based on the relationship between the City's loan and the original purchase price of the home.

Different from these programs, the City deducted capital improvements from the appreciation, so owners did not pay an equity share on improvements they made in the property. The average equity share was 13%. In the four cases where homebuyers used the program to purchase below-market-rate homes with deed restrictions that limit the resale price to the increase in the consumer price index (CPI), the equity share also matched the increase in CPI.

The program was discontinued because it was considered no longer viable in Berkeley's high-cost market, it benefited only a small number of buyers and did not create permanent affordability. Repayment with shared appreciation was insufficient to maintain equivalent affordability for future buyers, supporting a diminishing number of homebuyers over time.

ENVIRONMENTAL SUSTAINABILITY AND CLIMATE IMPACTS

Homeownership programs may help reduce greenhouse gas (GHG) emissions associated with longer commutes by enabling Berkeley-based employees to live where they work, and to keep Berkeley residents close to transit.

POSSIBLE FUTURE ACTION

Council can consider supporting first-time homebuyers through supply-side and/or demand-side programs. Supply-side solutions include acquisition-rehabilitation and conversion to affordable ownership, or new construction of ownership-oriented homes. Down payment assistance programs can help homebuyers access existing homes in the private market. More information about these approaches, relevant local context, and additional considerations are listed below:

Acquisition-rehabilitation

- The City could modify the existing SSP guidelines to specifically focus on homeownership. The City may consider the following strategies to increase LEHC conversion:
 - Targeting funding for SSP projects ready to convert to an LEHC;
 - Funding ongoing education for potential future conversion of SSP projects;
 - Targeting funding for existing LEHCs in Berkeley with deferred maintenance needs;
 - Acquiring a vacant property and supporting conversion to an LEHC, though it would be necessary to address fair housing considerations around resident selection;
 - Initiating a public-private partnership, such as San Francisco and Oakland have with the Housing Accelerator Fund, in order to leverage private capital and support CLTs and community-based developers. This model provides rapid acquisition capital but would not address access to permanent financing to convert.
- *Berkeley context:* Even with DPA, many Berkeley homes would be out of reach of lower-income households, who would be unable to afford the monthly mortgage costs. Conversion of existing housing stock to limited equity housing cooperatives could expand homeownership to lower-income households and create permanently affordable housing stock.
- *Considerations/limitations:*
 - The SSP guidelines already allow for conversion to LEHCs. At this time, no SSP projects have been converted. Access to permanent financing is a barrier for LEHCs. While upfront capital needed for an LEHC share is more accessible than traditional homeownership, resident savings and access to capital to pay upfront shares are still a barrier.

- There is a need for both technical and financial support to residents in order to convert. SSP guidelines include requirements for technical assistance and resident training in the lead-up to conversion. CLTs are poised to play this role, but may need further capacity-building support.

New Construction

- The City could provide dedicated Housing Trust Fund (HTF) funding for new construction of affordable condominiums. CalHOME funding may be a complementary funding source for such efforts.
- *Berkeley context:* There are limited recent local examples of affordable ownership in new construction. Berkeley has several new zoning and regulatory initiatives to facilitate private development of Middle Housing ownership opportunities that could be more accessible than traditional single-family homes for moderate-income families. In 2023, the City established the same Inclusionary Housing in-lieu fee for rental and ownership projects, which could lead to below market-rate condo construction depending on market conditions.
- *Considerations/limitations:*
 - Construction costs are a barrier to increasing ownership supply. While equity contributions from buyers offset costs, new construction is roughly three times more expensive than achieving affordable ownership through acquisition-rehabilitation.
 - There are other external barriers to new ownership construction outside of the City's control, such as higher insurance requirements. A 2026 Turner Center report on condominium development found that developers pay three to four times as much for insurance on for-sale condominiums compared to rental apartments. This is due to "construction defect liability," where insurers assume future lawsuits from homeowner associations (HOAs). The report's analysis reveals a 90 percent drop in condominium construction in California's major population centers over the last twenty years, driven primarily by the state's construction defect liability laws.

Down Payment Assistance

- The City could establish a DPA program, possibly one designed to complement other available DPA programs, such as CA Dream for All. HHCS could administer a competitive Request for Proposals to fund an existing DPA program administrator or could consider administering a program internally.

- *Berkeley context:* Given Berkeley's high home values, a DPA program likely only makes sense as a complement to other available DPA programs. Such an approach is dependent on the availability of other programs. Down payment assistance with income eligibility requirements may make some new Middle Housing supply more accessible to low-income households.
- *Considerations/limitations:*
 - DPA loans support individual buyers and do not contribute to the affordable housing stock.
 - While DPA loans could serve as revolving loans when repaid, repayment would likely be too inconsistent to support a regular program, especially in the case of a complementary DPA program.
 - Given that a DPA program would likely serve a limited number of beneficiaries, it may make sense to narrowly target limited loans with a reparative justice framework. For example, DPA could target descendants of those displaced due to BART construction or impacted by other harms.
 - Homebuyer education is a critical component of DPA programs, especially those with shared appreciation frameworks. This education should help buyers understand costs they may not anticipate, such as homeowner association fee increases and capital improvements.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

Staff time would need to be allocated to any new homeownership programs. Ten to 15% percent of program costs are dedicated to administration.

The Berkeley Social Housing Study modeled acquisition-rehabilitation of a 21-unit building in Central Berkeley. Ownership conversions projected a local subsidy of \$150,000 to \$250,000 per unit.

Down payment funding amounts depend on program design. DPA loans would need to be \$260,000 to support homebuyers with 20% down payments for median value homes in Berkeley (\$1.3M). If Council chooses to fund a complementary DPA program, loans could be smaller, for example, \$50,000 each to complement a program like AC Boost, which offered loans up to \$210,000.

Based on the Berkeley Social Housing Study figures above, the projected acquisition-rehabilitation local subsidy cost for a 20-unit property is \$3M to \$5M million. Comparatively, in order to support 20 households with 20% down payment loans on \$1.3 million homes, the City's own DPA program would require \$5.2 million. A complementary DPA program could require \$1 million. Such a program relies on the availability of other DPA programs locally.

Projected Local Costs to Support 20 Households

| Acquisition-Rehabilitation (20 units) | Down Payment Assistance (DPA) | Complementing other DPA programs |
|----------------------------------------------|--------------------------------------|-----------------------------------------|
| \$3M - \$5M | \$5.2M | \$1M |

This table does not capture long-term financial sustainability. Of these models, only acquisition-rehabilitation would contribute to Berkeley’s permanently affordable housing stock. A narrowly focused local reparative justice DPA program, and/or a targeted DPA program designed to align with other available DPA, could complement a broader programmatic investment in acquisition-rehabilitation.

CONTACT PERSON

Anna Cash, Community Development Project Coordinator, HHCS, (510) 981-5403

Attachments:

1. Original Referral Report: “Open Doors Initiative: City Worker and First Time Affordable Homebuyer Program” (Council meeting of September 10, 2019)
2. Referral Report: “Down Payment Assistance (DPA) and Closing Cost Assistance Revolving Loan Fund Pilot” (Council meeting of November 3, 2022)
3. Worksession Report: “Social Housing Study and Recommendations” (Council worksession of September 30, 2025)



Councilmember Ben Bartlett

City of Berkeley, District 3
 2180 Milvia Street, 5th Floor
 Berkeley, CA 94704
 PHONE 510-981-7130
 EMAIL: bbartlett@cityofberkeley.info

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ACTION CALENDAR
 September 10th, 2019

To: Honorable Mayor and Members of the City Council
 From: Councilmembers Ben Bartlett and Rigel Robinson, and Mayor Jesse Arreguin
 Subject: Open Doors Initiative: City Worker and First Time Affordable Homebuyer Program

RECOMMENDATION

That the City Council refer the City Manager and Housing Advisory Committee to explore mechanisms to support homeownership by City of Berkeley First-Responders and other critical safety staff and further refer to City Manager to prepare a report detailing available first-time homeownership and low-income homeowner programs that might be available for implementation in the City of Berkeley (Qualified Positive Recommendation from the Land Use, Housing & Economic Development Committee).

POLICY COMMITTEE RECOMMENDATION

On June 13, 2019, the Land Use, Housing, & Economic Development Committee adopted the following action: M/S/C (Hahn/Droste) to recommend that the report submitted be referred to the City Council with a Qualified Positive Recommendation such that the Recommendation section be revised as follows: That the City Council refer the City Manager and Housing Advisory Committee to explore mechanisms to support homeownership by City of Berkeley First-Responders and other critical safety staff and further refer to City Manager to prepare a report detailing available first-time homeownership and low-income homeowner programs that might be available for implementation in the City of Berkeley. Vote: All Ayes.

CURRENT SITUATION

Many City Staffers Cannot Afford to Live In Berkeley, But Must Be Available During Times of Emergency
 City regulations require city staff to respond in an emergency, even if off-duty. Regulations state that in the event of a disaster, Berkeley workers secure their home first, then carry out pre-determined department emergency procedures. In the event that an employee is unable to follow department reporting instructions, the employee should monitor sources of information from the city and attempt to contact their supervisor. If the employee cannot reach their supervisor, they are required to report to the City of Berkeley and act as a disaster service worker¹. Because critical infrastructure may be damaged or destroyed in a disaster, city employees must be able to live in Berkeley to fulfill this obligation, as they may need to travel to city infrastructure via foot. The average Berkeley home is currently valued at over \$1.2 million². LendingTree suggests a 20% down payment when buying a home³. That leaves a 20% down payment at \$240,000. A city worker would have to save \$24,000 a year for 10 years just to make a down payment on an average home in Berkeley. Berkeley city workers are unable to live in the city they serve. The Open Doors Initiative will allow Berkeley staff to live in the city they serve as well as carry out department instructions or serve as disaster service workers in an emergency.

¹ <http://webserver4/AR/PDF/2016/Administrative%20Regulation%209.2.pdf>

² <https://www.zillow.com/berkeley-ca/home-values/>

³ <https://www.lendingtree.com/home/mortgage/down-payment/how-much-is-a-down-payment-on-a-house/>

Ever-Increasing Housing Costs Have Drastically Reduced First-Time Home Buyers

In addition to allowing city staff to respond to an emergency, the Open Doors Initiative's deed restrictions will help first-time homebuyers create wealth. Homeownership is a human right, yet purchasing a home is prohibitively expensive in Berkeley. As previously mentioned, the average price for a home in Berkeley is more than \$1.2 million. In comparison, the median home value in the United States is \$222,800⁴ - just 18% of the median home value in Berkeley. Overall, California ranks 49th in both homes per capita and homeownership rates. The United States as a whole has seen a steep decline of first-time home buyers. In 2010, first-time buyers purchased roughly half of the homes sold nationally; in 2016, only 35% went to first-time buyers⁵. Many would-be home buyers are finding that they cannot afford to do so. In fact, a recent Credit Sesame survey of more than 1,000 renters found that roughly half of renters only rent a home because they can't afford to own⁶. Home ownership is a human right. The Open Doors Initiative is meant to increase home ownership opportunities for first-time home buyers (earning 120% AMI and below) who are increasingly shut out of the market.

BACKGROUND

The Need for Starter Homes

The Open Doors Initiative proposes to increase the number of starter homes, such as condominiums. It envisions residential homeowners dividing their properties into condominiums in Berkeley. Homeowners are granted increased density, with administrative approval, and other fiscal incentives -- provided the homeowner meets certain affordability restrictions and sells to city employees, and first-time homebuyers of moderate income.

Previous generations leveraged the rising housing market to utilize the equity of "starter" homes to allow them to purchase larger homes. This process also gave young families experience of maintaining homes and building community. Today this fundamental act has become more difficult, as the supply of starter homes have drastically dwindled⁷.

Bloomberg reports that starter home inventory has hit its lowest level since Trulia began keeping track in 2012⁸. The supply of starter homes is declining at 17% year-over-year, nearly twice as fast as all homes, and over 3 times faster than larger homes⁹. In July 2017, only 450,000 homes listed below \$200,000 remained in the market, which was about 120,000 fewer than in July 2015 (See id.)

Berkeley is now presented with an historic opportunity to impact the housing crisis by increasing its availability of starter homes. Currently, "[o]ver a third, or 35 percent, of millennials say 'the down payment' is their biggest obstacle to buying a home."¹⁰

With the Open Doors Initiative, houses that once cost upwards of \$1,000,000 and require a 20% down payment of \$200,000 (and often being sold for cash outright) will now be incentivized to become individual starter homes with drastically reduced costs – four condominiums created from the above converted home would ideally each cost approximately \$250,000 with a 20% down payment of only \$50,000. Such a change would turn homeownership into an achievable goal for many people, including young families.

⁴ <https://www.zillow.com/home-values/>

⁵ <https://www.nytimes.com/2017/04/21/realestate/first-time-home-buyers-statistics.html>

⁶ <https://www.gobankingrates.com/investing/real-estate/reasons-women-struggling-buy-home/>

⁷ <https://optimise-design.com/bring-back-starter-home/>

⁸ <https://www.bloomberg.com/news/articles/2018-03-21/u-s-starter-homes-are-pricier-smaller-older-and-scarcer>

⁹ https://www.realtor.com/research/housingshortage_starterhomes/

¹⁰ <https://www.cnbc.com/2018/09/14/the-2-main-reasons-young-people-cant-buy-homes.html>

“Americans 65 to 74 are now the country’s fastest-growing age group. According to a 2014 AARP survey, 88 percent of older Americans want to remain in place as they age.”¹¹ Open Doors Initiative encourages seniors in Berkeley who own large homes to downsize, earn money and while saving their assets.

In summary, we believe that increasing starter homes, will increase accessibility to homeownership for under-represented communities, artists, younger people, first responders, and teachers. This will, in turn:

- a. Reduce the wealth gap between older, predominately white homeowners and underrepresented communities;
- b. Increase diversity of Berkeley neighborhoods;
- c. Support Resiliency and Sustainability by reducing commute times for First Responders and City Employees;
- d. Provide financial benefit to senior homeowners

High Home Prices Place Homeownership Out of Reach for a Majority of City Workers and Berkeley Residence Berkeley salaries¹² are competitive in the region, but still fall below the threshold required to compete in the current housing market.

Disaster Worker Policy

The City of Berkeley requires that in the event of an emergency, every City worker is a disaster worker that prioritizes the safety and well-being of their family first and of Berkeley second. However, the ability for City employees to efficiently and effectively serve in this role is maximized if the employee lives in the city itself.

Missing Middle Housing

Open Doors Initiative will also create affordable housing in Berkeley. Homes created through the ODI will help address the Missing Middle, a type of housing including duplexes and other “starter home” units to which Berkeley residents desperately need access. Creating these units will give city workers, would-be first time homebuyers, disproportionately historically-marginalized communities, a path to home ownership and wealth creation through increased housing equity.

Increasing the supply of one bedroom and studio condominiums also allow community members, previously shut out of the middle class, the opportunity to own a home while simultaneously enabling older homeowners to downsize and efficiently utilize their equity. The deed restrictions provide a path to homeownership for moderate income persons; first responders to be on hand in the event of a crisis; and for workers to avoid long commutes by owning homes in the city they serve.

The Open Doors Initiative serves the policy goals of economic inclusion, community resilience, and environmental sustainability

¹¹ https://www.huffingtonpost.com/entry/housing-crisis-inequality-harvard-report_us_5b27c1f1e4b056b2263c621e

¹² https://www.cityofberkeley.info/uploadedFiles/Human_Resources/Level_3_-_General/SalaryListNONBENEFITED.pdf

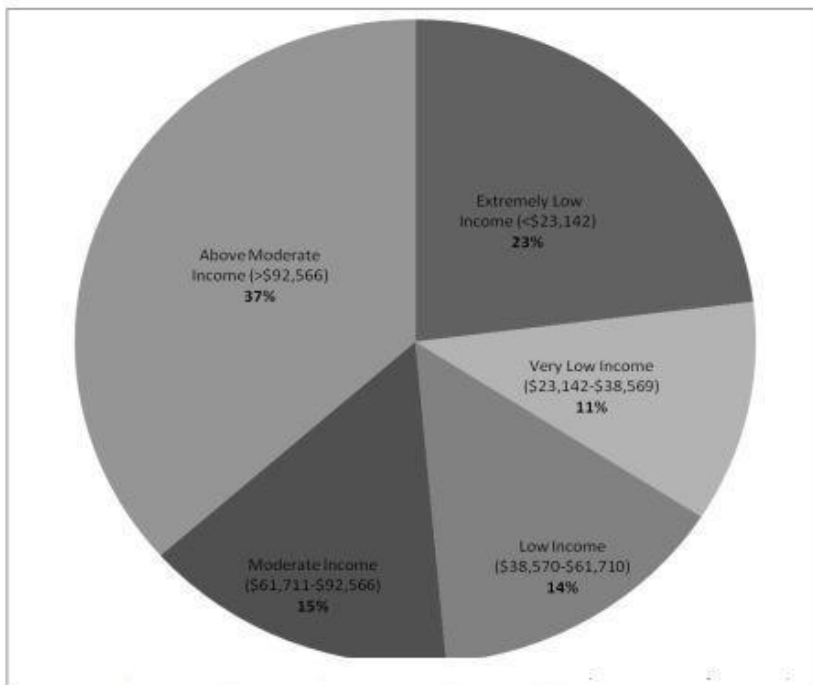
Table 2-20: Average Annual Salary by Job Type, Oakland, Fremont, Hayward Metro Area, 1st Quarter 2013

| Job Title | Avg. Annual Salary |
|------------------------------------------------------|--------------------|
| Health Care | |
| Physicians and Surgeons, All Other | > \$203,051 |
| Registered Nurses | \$122,458 |
| Physician Assistants | \$107,636 |
| Pharmacy Technicians | \$50,535 |
| Healthcare Support Workers, All Other | \$49,022 |
| Home Health Aides | \$31,802 |
| Higher Education | |
| Engineering Teachers, Postsecondary | \$111,076 |
| History Teachers, Postsecondary | \$98,592 |
| Social Science Research Assistants | \$54,683 |
| Graduate Teaching Assistants | \$30,028 |
| Local Government | |
| Urban and Regional Planners | \$85,419 |
| Fire Fighters | \$88,704 |
| Parking Enforcement Workers | \$50,796 |
| Other Office | |
| Receptionists and Information Clerks | \$35,734 |
| Office and Administrative Support Workers, All Other | \$36,696 |
| Retail and Service | |
| Waiters and Waitresses | \$22,723 |
| Dishwashers | \$21,372 |
| Retail Salespersons | \$28,825 |

Source: CA Employment Development Department, Occupational Employment Statistics (OES) Survey Results

13

Figure 2-7: Household Income Distribution in Berkeley, ACS 2008-2012 Estimates



Source: ACS 2008-2012 5-year estimates, Table S1901

14

¹³ https://www.cityofberkeley.info/uploadedFiles/Planning_and_Development/Level_3_-_Commissions/Commission_for_Planning/2015-2023%20Berkeley%20Housing%20Element_FINAL.pdf

¹⁴ https://www.cityofberkeley.info/uploadedFiles/Planning_and_Development/Level_3_-_Commissions/Commission_for_Planning/2015-2023%20Berkeley%20Housing%20Element_FINAL.pdf

Accommodating City Workers Will Benefit Minority Groups, Who Are Disproportionately Unable to Purchase Homes

To accommodate workers like teachers and first responders in Berkeley, federal housing rules allow us to set aside workforce housing through a deed restriction. For example, in Colorado, the Peak One Neighborhood, Frisco Town Council, and Summit County Combined Housing Authority has adopted a deed restriction¹⁵ limited sales to municipal workers¹⁶ or work in the County¹⁷. A workforce deed restriction, accompanied by a change in zoning, can ensure that new homes with deed restricted units are only made available to people who have a history of employment in Berkeley/Alameda County and/or meet certain income requirements. Not only would this deed restriction ensure that units are never sold or rented to anyone who earns income outside of the Berkeley/Alameda County, but also it would protect Berkeley's long-term local workers by stabilizing the housing supply for residents. Because Berkeley city workers are disproportionately minorities, accommodating city workers with deed restrictions will benefit Berkeley minorities.

To successfully increase accessibility for these different communities, we have to change the underlying zoning in order to allow developers to convert single-family homes into duplexes, fourplexes, and other forms of housing that could house multiple groups of people. Currently, these types of housing are not allowed to be built in the R1 and in a few R2 districts as a result of zoning issues. Thus, we need to address zoning conditions in order to increase accessibility to homeownership for our constituents.

Wealth Gaps Have Resulted from Homeownership Inequalities

The impact of rising housing costs has manifested itself in glaring wealth disparities between homeowners and renters. Roughly half (51.2%) of the total wealth accumulated by the typical American homeowner is derived from the value of their primary residence¹⁸. Owning a home can drastically improve one's net worth. "Since 2013, the average homeowner has seen their net worth rise from \$201,600 to \$231,400. Renters have watched theirs fall from \$5,600 to \$5,000."¹⁹

Due to the increase in housing costs and the resulting inaccessibility to homeownership for many people, fewer people are able to accrue wealth by purchasing a home. These wealth disparities are most prevalent in underrepresented communities. For instance, a significant wealth gap has appeared between white and non-white households. "Recent data from the Survey of Income and Program Participation (2014) shows that black households hold less than seven cents on the dollar compared to white households."²⁰

"The Institute for Policy Studies recent report *The Road to Zero Wealth: How the Racial Divide is Hollowing Out the America's Middle Class (RZW)* showed that between 1983 and 2013, the wealth of the median black household declined 75 percent (from \$6,800 to \$1,700), and the median Latino household declined 50 percent (from \$4,000 to \$2,000). At the same time, wealth for the median white household increased 14 percent from \$102,000 to \$116,800."²¹

This gap shows no sign of slowing, but rather is projected to increase in the coming years. "In fact, by 2020 [...] black and Latino households are projected to lose even more wealth: 18 percent for the former, 12 percent for

¹⁵ https://peakoneneighborhood.com/pdf/Peak_One_Income_Deed_Restriction.pdf

¹⁶ https://peakoneneighborhood.com/pdf/Peak_One_Non-Income_Deed_Restriction.pdf

¹⁷ <https://peakoneneighborhood.com/community/locals-price-deed-restriction/>

¹⁸ <https://www.zillow.com/research/black-hispanic-home-wealth-16753/>

¹⁹ https://www.huffingtonpost.com/entry/housing-crisis-inequality-harvard-report_us_5b27c1f1e4b056b2263c621e

²⁰ <https://insightcced.org/what-we-get-wrong-about-closing-the-racial-wealth-gap/>

²¹ <https://www.forbes.com/sites/brianthompson1/2018/02/18/the-racial-wealth-gap-addressing-americas-most-pressing-epidemic/#25b6eb127a48>

the latter. After those declines, the median white household will own 86 times more wealth than its black counterpart, and 68 times more wealth than its Latino one.” (See id.)

Another wealth disparity that has grown more extreme is between the younger and older generation. “Older people have always had more net worth than younger people, of course, but never like this. Thirty years ago, families headed by someone over 62 had eight times the median wealth of families headed by someone under 40. By 2013, older families had 15 times the wealth of younger families.”²²

Because homeownership increases one’s ability to expand one’s net worth, it is the surest on-ramp to addressing these grotesque wealth disparities.

Displacement as a Result of High Home Costs

Historically, Berkeley’s redlining policies denied people of color access to its best neighborhoods. Today, though these policies have long been gone, the residual effect of those policies combined with the housing crisis has had the effect of reinforcing similar divides. “The difference between the large homes and winding roads of the predominantly white neighborhoods of the Hills and the Claremont neighborhood, and the modest, mixed-use character of racially diverse South and West Berkeley is indicative of the city’s racial and class-based divisions.”²³

Housing costs in the United States have condemned many to a life of poverty, especially African Americans and Hispanics. “Though the number of Americans living in poverty has increased by 41 percent since 2000, the number of “high-poverty census tracts” has increased even faster. By now, 51 percent of blacks and 44 percent of Hispanics live in these areas of concentrated poverty, compared to just 17 percent of whites. According to numerous studies, children who grow up in areas of concentrated poverty are disadvantaged on nearly every measure, from school quality to violence to social mobility.”²⁴

The ever-increasing cost of housing has also forced teachers and first responders to live long distances from their workplaces. For example, San Francisco has seen a teacher shortage, because housing is so costly that the average teacher can only afford .7% of the homes on the market.²⁵ In addition, despite earning more than \$100,000 in San Francisco and San Jose, first responders can afford just 2.4% and 6.6% of currently listed homes, respectively.²⁶ In the event of a fire or massive tragedy, we need first responders to be able to live in Berkeley.

A closer look at the makeup of first-time buyers reveals a disturbingly large gap between white and non-white purchasers. The breakdown is as follows: 79% were white, 9% Hispanic, 8% Asian Pacific Islander, 7% African American, and 3% other²⁷.

This racial divide is not just present in first-time buyers. Zillow reports that “[i]n 1900, the gap in the homeownership rate between black and white households was 27.6 percentage points. It’s now 30.3 percentage points.”²⁸ Additionally, according to the same report, “the difference between white and Hispanic

²² https://www.huffingtonpost.com/entry/housing-crisis-inequality-harvard-report_us_5b27c1f1e4b056b2263c621e

²³ <https://www.berkeleyside.com/2018/09/20/redlining-the-history-of-berkeleys-segregated-neighborhoods>

²⁴ https://www.huffingtonpost.com/entry/housing-crisis-inequality-harvard-report_us_5b27c1f1e4b056b2263c621e

²⁵ <https://www.sfgate.com/technology/businessinsider/article/SF-teachers-cant-afford-housing-in-SF-12797504.php>

²⁶ <https://www.trulia.com/research/affordable-housing-occupation-2018/>

²⁷ The percentage exceeds 100% because participants could choose more than one ethnicity.

<https://www.nytimes.com/2017/04/21/realestate/first-time-home-buyers-statistics.html>

²⁸ <https://www.zillow.com/research/homeownership-gap-widens-19384/>

homeownership rates has more than tripled”, from 7.9 percentage points in 1900 to 25.7 percentage points in 2016. (See id.) “It’s the widest gap among whites, blacks, Hispanics and Asians.” (See id.)

It is likely that the racial and gender wage gaps present in the United States have directly affected homeownership rates. When getting approved for a mortgage, a borrower’s income is an important factor when lenders assess his or her reliability, which puts borrowers with less income at a severe disadvantage.

In 2016, Pew Research found that African American men earned 73% of what white men earned, and Hispanic men earned approximately 69%²⁹. White women earn approximately 82% of white men, Asian women earn 87%, African American women earn 65%, and Hispanic women earned only 58%. (See id.)

The New York Times’s study of first-time buyers reflects the effect of the gender wage gap; while the median home price for a single male was \$157,000, the median price for a single female was \$146,300³⁰.

Another group adversely affected by the rising housing costs is young people, who are increasingly unable to afford homes. “Though every age bracket contains significant inequalities, Americans over 65 are the only cohort with higher homeownership rates now than in 1987. Homeownership for every other age group has fallen significantly”³¹

Many young people continue to be hindered by their student loans, preventing them from purchasing a home. “Paying college loans is a big burden for homebuyers. It’s harder to save for a down payment and can make qualifying for a mortgage more difficult. It can also delay a purchase as people pay down their debt.”³²

A recent study has also revealed that people in the LGBTQ+ community face unique challenges when buying a home. In April 2018, a survey by Freddie Mac among 2,313 LGBT community members (aged 22 to 72) living in the United States found that “49 percent of LGBT households are likely to own a home - considerably lower than the current national rate (64.3 percent).”³³ The study showed that when deciding where to live, LGBT renters cited price, safety and a LGBT-friendly location as the most important factors. (See id.)

Berkeley prides itself on accepting people from all walks of life. However, unless a conscious effort is made to increase accessibility of homeownership, underrepresented communities will continue to be denied access to the same benefits enjoyed by current, often very wealthy, homeowners. "Homeownership has become an indispensable part of being a full participant in American society," National Urban League President and CEO Marc H. Morial said. “An erosion of homeownership rates among African Americans represents not only a devastating financial loss but a barrier to full participation in the American dream.”³⁴

Funding

Potential funding sources include: private lenders; affordable housing financial technology platforms; federal and state homeownership programs; Measure A1 Homeowner Development Funds; and Qualified Opportunity Zones.

²⁹ <http://www.pewresearch.org/fact-tank/2016/07/01/racial-gender-wage-gaps-persist-in-u-s-despite-some-progress/>

³⁰ <https://www.nytimes.com/2017/04/21/realestate/first-time-home-buyers-statistics.html>

³¹ https://www.huffingtonpost.com/entry/housing-crisis-inequality-harvard-report_us_5b27c1f1e4b056b2263c621e

³² <http://www.nareb.com/black-hispanic-homeownership-rates-remain-stuck-below-whites/>

³³ <https://freddiemac.gcs-web.com/news-releases/news-release-details/new-research-finds-lgbt-homeownership-rates-lag-behind-general>

³⁴ <https://newsroom.wf.com/press-release/consumer-lending/wells-fargo-commits-increase-african-american-homeownership>

In 2016, Alameda County passed Measure A1, which issued \$580 million in bonds to acquire and improve real property to help poor and middle-class people buy homes.³⁵ The Open Doors Initiative proposes to use these A1 Homeowner Development Funds for low income first-time home buyers.

Additionally, the Initiative proposes to explore the use of Qualified Opportunity Zone funds to aid in financing³⁶ construction costs³⁷. Qualified Opportunity Zone funds were established in the Tax Cuts and Jobs Act of 2017 with the purpose of improving Qualified Opportunity Zones.³⁸ Investors with capital gains can defer taxes on those gains if they invest within Qualified Opportunity Zones.³⁹

These Qualified Opportunity Zone funds should be used towards the construction costs related to the creation of starter homes. This will ease the financial burden of seniors seeking to downsize their homes and promote the construction of new starter homes in Berkeley.

REVIEW OF EXISTING PLANS, PROGRAMS, POLICIES, LAWS

Currently Berkeley has a number of units zoned as R1, Single Family Residential. The Open Doors Initiative will allow homeowners in an R1 zone to apply for administrative approval to convert their single family home into a multi-family unit, provided they meet affordability restrictions and agree to sell to moderate income persons and/or city workers including, first responders, firefighters, and other public employees.

The Open Doors Initiative will also require deed restrictions in units that are converted from R1 to multi-family condos to sell to city workers that meet income requirements, ensuring that the “Missing Middle” of income earners with the city of Berkeley have access to home ownership.

Low-Income Homeowners Face Challenges Affording and Maintaining Their Homes

In Berkeley, many long-time homeowners were able to purchase their homes when values were much lower. Even though redlining and discrimination by financial institutions greatly limited access to capital for African Americans in particular, many were still able to become homeowners in South and West Berkeley.

The Open Doors Initiative would benefit these homeowners by providing a means financial stability. However, in order to realize these benefits, homeowners would be required to make substantial home improvements. The current cost in Berkeley for home improvements is \$400-500 per square foot.

Such prices will likely require the homeowner to receive commercial home improvement loans. This is problematic because, many homeowners of color still face barriers and discrimination in accessing commercial home improvement loans.

This practice of discrimination by lenders can result in homes falling into disrepair. Coupled with aggressive code enforcement has led to some community members losing their homes to receivership and the courts.

For these reasons, the Open Doors Initiative will include not only regulatory changes, but financial and informational programs to ensure low-income homeowners are able to participate and benefit from this program. The Open Doors Initiative helps low-income homeowners realize some of the equity locked up in their home, invest in maintenance and improvements, and provide affordable homeownership opportunities for

³⁵[https://ballotpedia.org/Alameda_County,_California,_Affordable_Housing_Bond_Issue,_Measure_A1_\(November_2016\)](https://ballotpedia.org/Alameda_County,_California,_Affordable_Housing_Bond_Issue,_Measure_A1_(November_2016))

³⁶ www.verbhouse.com

³⁷ www.divvyhomes.com

³⁸ <https://www.wellsfargo.com/the-private-bank/insights/planning/wpu-qualified-opportunity-zones/>

³⁹ <https://www.wealthmanagement.com/high-net-worth/what-are-qualified-opportunity-zones>

others in the community. Thus, the program meets the city's goals of stabilizing communities that are facing displacement while adding to the affordable homeownership stock.

ACTIONS/ALTERNATIVES CONSIDERED

That the City Council adopt The Open Doors Initiative to assist the creation of affordable starter homes and empower city employees and first-time home buyers. The Open Doors Initiative will allow homeowners in R1 and R1A zones to apply to renovate their properties to become multi-family condominiums, while providing incentives for doing so. To qualify for zoning approval, families must agree to deed restrictions which prohibit them from selling the newly-created condominiums to anyone who is not an employee with the city of Berkeley or does not meet income requirements. These deed restrictions are meant to provide a path to home ownership for persons within the missing middle and workers with the city of Berkeley who could otherwise not afford to own a home in the city they serve.

RATIONALE FOR RECOMMENDATION

As noted above, the homeownership has become increasingly more difficult. By financially incentivizing R1 homeowners to convert to multi-family condominiums, the city of Berkeley will offer a path to older homeowners seeking to downsize to leverage their equity while providing Berkeley city workers with a supply of affordable condominiums. Over time, as the housing market rises, Berkeley city workers and moderate income persons who own these condominiums will be able to leverage the equity themselves when taking out loans, or sell the condominiums to other Berkeley city workers and moderate income persons.

IMPLEMENTATION, ADMINISTRATION AND ENFORCEMENT

To be determined.

FISCAL IMPACTS OF RECOMMENDATION

To be determined by an impact study.

ENVIRONMENTAL SUSTAINABILITY

Duplexing single family homes promotes environmentally sounded infill housing development. In addition, the Open Doors Initiative does not require the creation of additional parking spaces.

OUTCOMES AND EVALUATION

To be determined.

CONTACT PERSON

Councilmember Ben Bartlett:
James Chang
Katie Ly
Matthew Napoli

510-981-7130
jchang@cityofberkeley.info
katiely22@berkeley.edu
napoli.matthew@gmail.com

Attachment:

- 1) **City of Berkeley Employee Salaries:**
https://www.cityofberkeley.info/uploadedFiles/Human_Resources/Level_3_-_General/SalaryListNONBENEFITED.pdf



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CONSENT CALENDAR
November 3, 2022

To: Honorable Mayor and Members of the City Council

From: Councilmember Taplin, Vice Mayor Harrison (co-sponsor),
Councilmember Hahn (co-sponsor)

Subject: Budget Referral: Down Payment Assistance (DPA) and Closing Cost Assistance
Revolving Loan Fund Pilot

RECOMMENDATION

Refer to the budget process \$500,000 for a local Down Payment Assistance (DPA) and Closing Cost Assistance Revolving Loan Fund Pilot Program, providing third-lien shared appreciation loans (SALs) to cover down payments and closing costs for qualifying applicants in a racial equity and reparative justice framework consistent with regulations for local, state, federal, and nonprofit DPA programs including, but not limited to: California Dream For All (CalHFA), AC Boost (Alameda County), Community Seconds (Fannie Mae), and Black Wealth Builders Fund. The City should aim spend no more than 10-20% on administrative costs if existing resources are insufficient.

FINANCIAL IMPLICATIONS

\$500,000 in general fund impact. Shared appreciation loans are repaid only upon transfer, refinancing, or sale of qualifying properties; the effective interest rate would be the property's net appreciation. All funds not allocated to program staffing would thus eventually be repaid with interest. To the extent feasible, administrative costs should be leveraged with state and regional resources, and other approved policy initiatives focused on reparative justice, including the Office of Racial Equity and consulting/community outreach for reparations.

The maximum loan amount for AC Boost applicants earning up to 100% of Area Median Income is \$210,000 and \$160,000 for households earning less than 120% AMI for a 97%-100 Combined Loan-to-Value (CLTV). Therefore, at a maximum, if \$210,000 only covered a 17% down payment, a household could cover the remaining 3% with roughly \$37,000. Since not all applicants qualify for the maximum amount or will require a full 3%, and layering with other assistance programs is strongly encouraged, smaller loan amounts per applicant can be anticipated.

CURRENT SITUATION AND ITS EFFECTS

Down Payment Assistance and Closing Cost Assistance is a Strategic Plan Priority Project, advancing our goal to champion and demonstrate social and racial equity.

Rising housing costs have widened the racial wealth gap, exacerbated gentrification and accelerated displacement in historically red-lined Black and brown communities across the Bay Area. Patterns of historical discrimination against people of color in

DPA

CONSENT CALENDAR

mortgage lending, insurance, and consumer credit enforced by government policy and private sector practices¹ have compounded with discrimination in appraisals, infrastructure, employment and education such that homeownership increasingly drives the racial wealth gap.² The disproportionate declines in homeownership rates for Black and Latino households following the Great Recession and COVID-19 Recession have widened this gap further.³

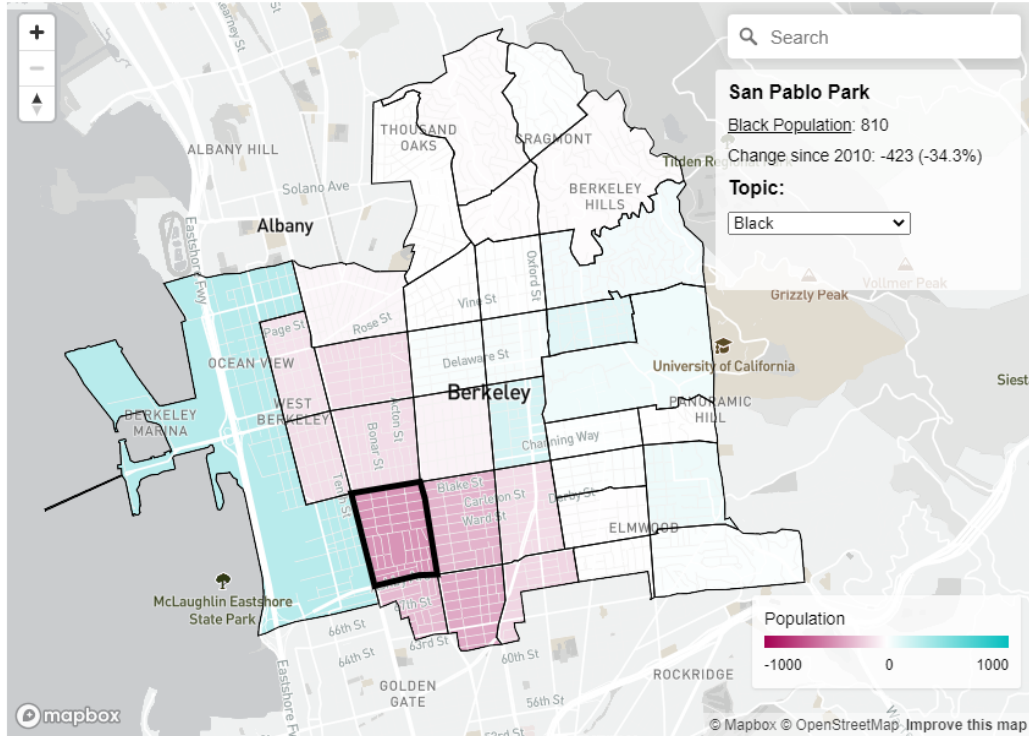
High costs in Berkeley are driven in part by the lack of available housing for a growing population of middle-income households (80-120% of Area Median Income) who are increasingly priced out of first-time homeownership opportunities. As recent Census maps published in *Berkeleyside* have shown, South Berkeley saw a dramatic decline in the share of its Black population from 2010 to 2020 (34/3% decline in the San Pablo Park tract), while the share of Black populations increased in census tract with increased multifamily housing in the same period of time (e.g. Downtown Berkeley tract, 44.1% increase).⁴

¹ Baradaran, M. (2017). *The color of money: Black banks and the racial wealth gap*. Harvard University Press.

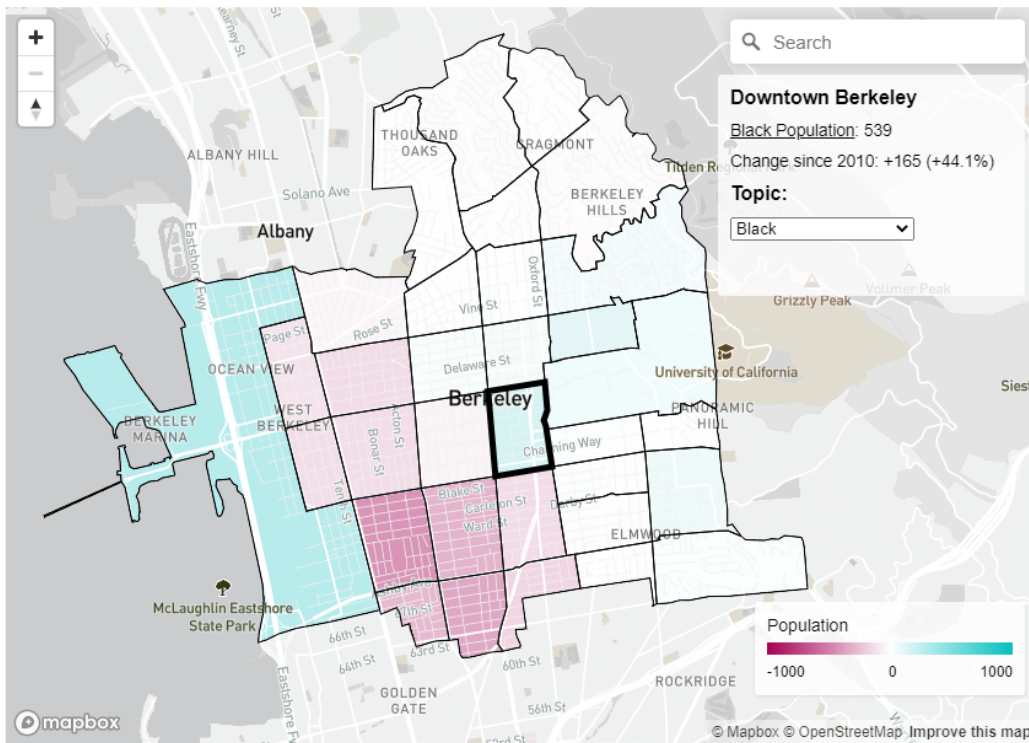
² Ray, R. et al. (2021). Homeownership, racial segregation, and policy solutions to racial wealth equity. *Brookings Institution*. Retrieved from <https://www.brookings.edu/essay/homeownership-racial-segregation-and-policies-for-racial-wealth-equity/>

³ Choi, J.H. (2022). Disparate impacts of the COVID-19 Pandemic Across Race and Ethnicity in the Housing Market: Statement before the Committee on Financial Services, U.S. House of Representatives. *Urban Institute*. Retrieved from <https://www.urban.org/sites/default/files/2022-08/Disparate%20Impacts%20of%20the%20COVID-19%20Pandemic%20Across%20Race%20and%20Ethnicity%20in%20the%20Housing%20Market%20with%20QFRs.pdf>

⁴ Markovich, A. (2022). A changing Berkeley: 6 maps show how the past decade has reshaped the city. *Berkeleyside*. Retrieved from <https://www.berkeleyside.org/2022/07/17/berkeley-population-demographics-housing-census-2020-maps>



Demographic change in race/ethnicity by census tract, 2010 to 2020. Select a racial/ethnic group from the drop down menu to see the group's change in population from 2010 to 2020. Data: U.S. Census. Visualization: Darrell Owens and Doug Ng



DPA

CONSENT CALENDAR

The Berkeley City Council has committed to equitably increasing housing supply in its Sixth Cycle Housing Element Update in a 2021 Resolution to End Exclusionary Zoning in Berkeley and pursuant to Affirmatively Furthering Fair Housing standards in Assembly Bill 686 (2019). Additionally, Berkeley's Neighborhood Preference Program aims to affirmatively redress displacement in lower-income communities of color by providing preference to former Berkeley residents in our affordable housing lottery. Due to the persistent high cost of housing in Berkeley, further efforts to level the homeownership playing field offer an important tool for redressing the racial wealth gap.

Recent efforts in the state of California and Alameda County have focused on maximizing racial justice outcomes in homeownership through Down Payment Assistance (DPA). The California Dream For All program, established by Senate Bill 197 (2021), established a revolving fund for shared appreciation loans (SALs) providing down payment assistance to low- and moderate-income homebuyers in the purchase of owner-occupied homes. The California Housing Finance Authority (CalHFA), which administers the program, is currently developing draft program terms.

In Alameda County, voters approved \$580 million in General Obligation bonds for affordable housing as Measure A1 in June 2016, which included funds for down payment assistance. The AC Boost program was established by the Board of Supervisors to provide second-lien shared appreciation loans capitalized by \$50 million in Measure A1 funds. As of March 2022, the program had reserved \$7.43 million in funds for 38 applicants. The program design includes provisions to encourage applicants to purchase homes near work or public transit, benefit former residents who have been displaced from the County, and benefit educators and first responders. The program provides multilingual outreach and marketing, and tracks racial equity outcomes (see Attachment).

The high cost of housing in Berkeley means fewer homes available on the market will qualify an applicant for the maximum loan amount (\$160k-\$210k for a 0-3% down payment), and that additional closing costs will price out marginal applicants.

Hello Housing, the nonprofit program manager for AC Boost, reported to the District 2 Council Office that 22% of survey respondents said they could cover the 3% down payment but not closing costs.

In AC Boost's first and second funding cycles, out of 17 Berkeley residents who submitted complete applications:

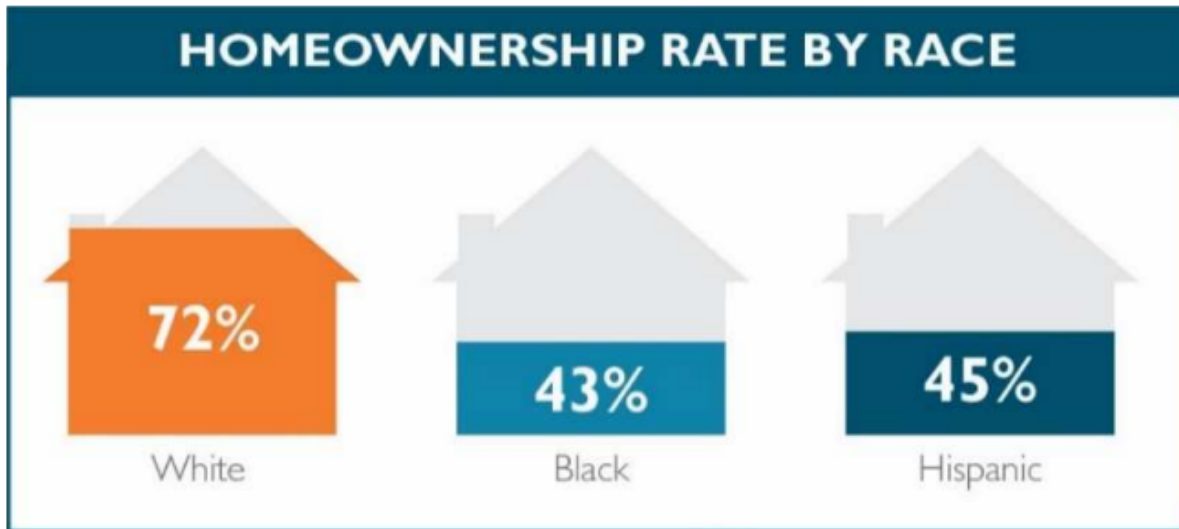
- 9 applicants were approved for a reservation of funds
 - 3 had their reservation of funds expire
 - 3 are currently shopping for homes
 - 3 purchased a home in:
 - Emeryville (2)
 - Oakland (1)

BACKGROUND

Between 1934 and 1968, 98% of mortgages that received government backing were extended exclusively to White households. Evidence indicates that a first-time Black homebuyer is less likely to be able to afford a 20% down payment, but no more likely to default on payments than a white homebuyer who can—rather, the disparity in mortgage defaults has been attributed to higher and variable interest rates in predatory lending practices that target communities of color.⁵

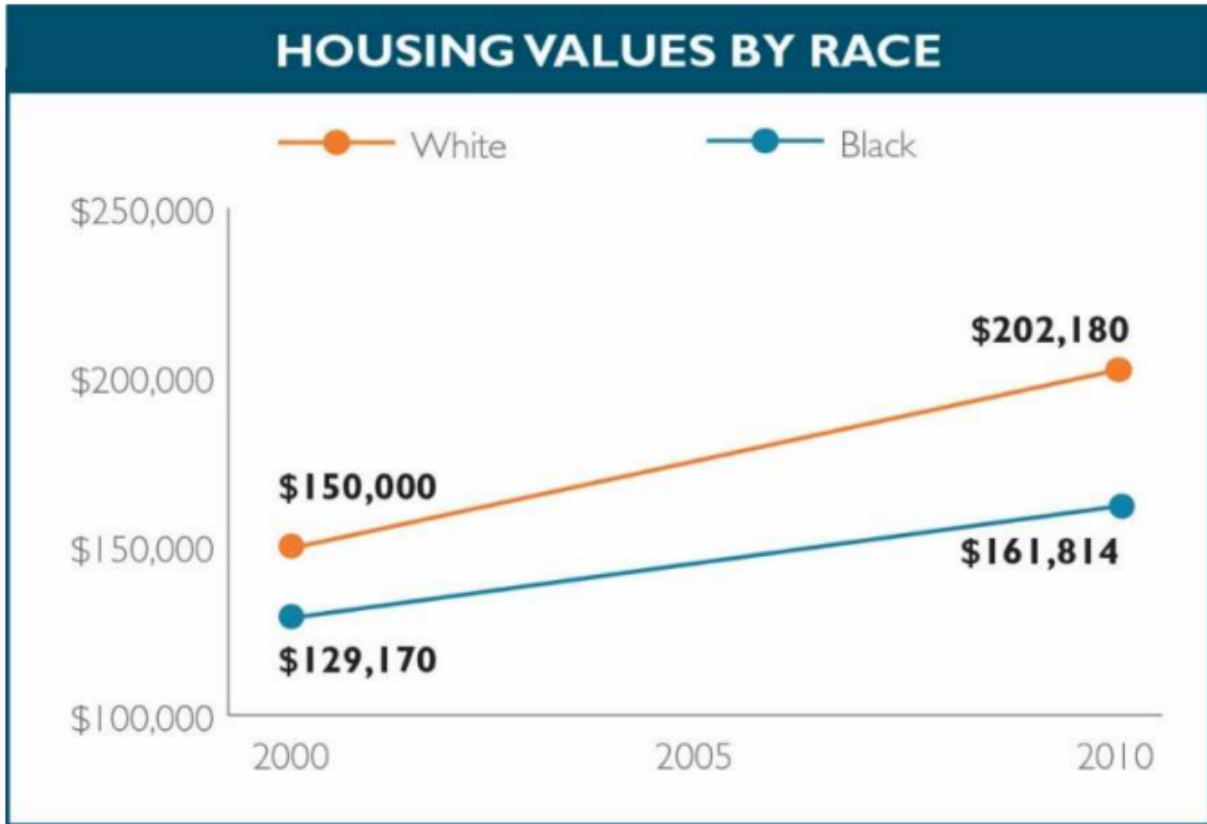
Because Black households have historically been excluded from wealth-building opportunities even after centuries of zero compensation for forced labor, the asset wealth and liquid savings of white households are more easily transferred and sustained across generations, while Black wealth has remained tenuous over repeated cycles of theft and destruction through redlining, Urban Renewal, and predatory lending.

Disparities in property appraisal and lending discrimination have exacerbated the institutionally-enforced racial wealth gap. Inequities in access to credit effectively make the homeownership gap a self-fulfilling prophecy of poverty and lending discrimination. This is the result of public policy choices intended to reinforce racial inequality; affirmative and targeted public investment must now reverse it.

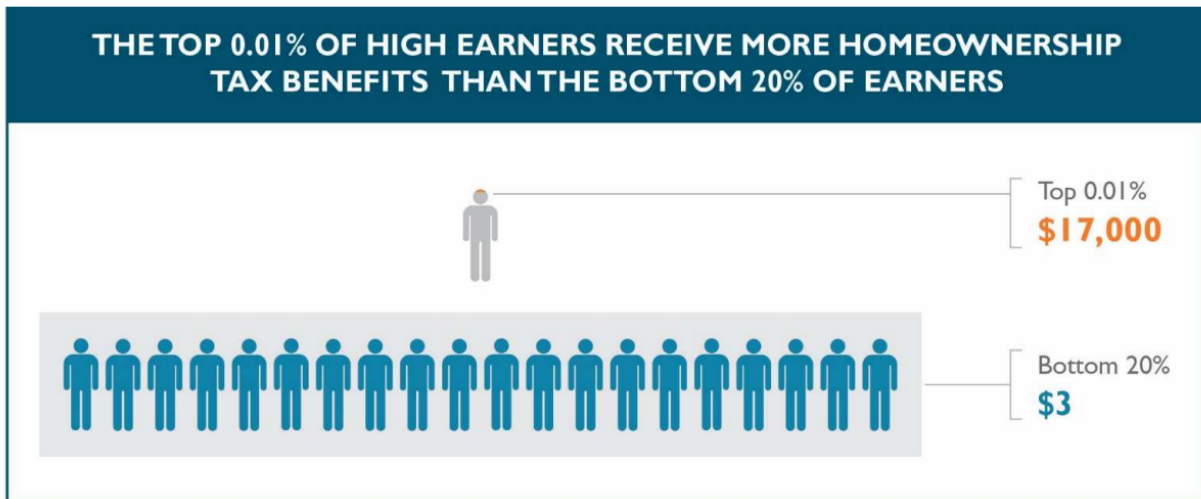


Source: Pew Research Center, 2017

⁵ Chopra, A. et al. (2017). A Downpayment on the Divide: Steps to Ease Racial Inequality in Homeownership. *Prosperity Now*. Retrieved from <https://prosperitynow.org/resources/downpayment-divide-steps-ease-racial-inequality-homeownership>



Source: Institute on Assets and Social Policy, 2014



Source: From Upside Down to Right-Side Up, 2014

CA Dream For All and other DPA programs are financially sustainable policy interventions to close the racial wealth gap primarily because sufficient cash savings to

afford 20% combined loan-to-value (CLTV) down payments for a first home demonstrably do not correlate with future debt servicing capacity. However, Black households disproportionately lack access to high quality mortgages. Nationally, Black households nationally had a median debt-to-income ratio of 41% in 2020, compared to 37% for white households; in October 2020, 45% of Black consumers had subprime credit scores, compared to 18% of White consumers. Black and Latino homebuyers disproportionately rely on federal assistance through FHA loans, which private lenders perceive as riskier and thus have larger mortgage payments to account for lower down payments. However, the California Treasurer’s Office reports that sellers are indifferent to the use of shared appreciation loans (SALs) covering down payments, which makes them a potentially effective and scalable tool for reducing racial disparities in homeownership.⁶

Figure 12: Loan Application Denial Rates for All Applicants and Applicants Over 120 AMFI, by Race

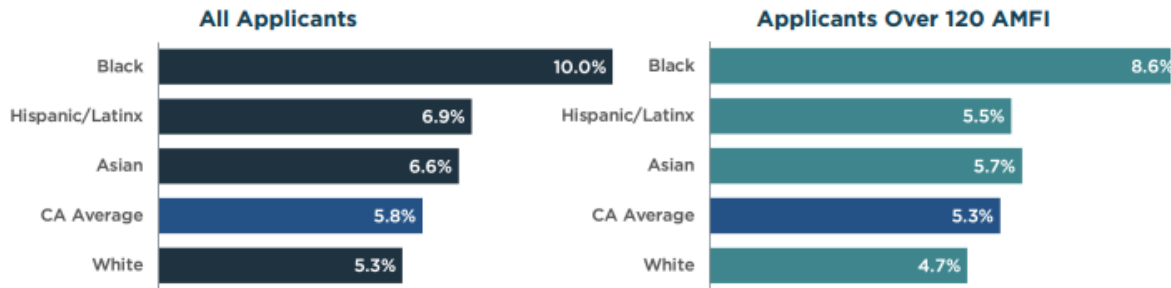
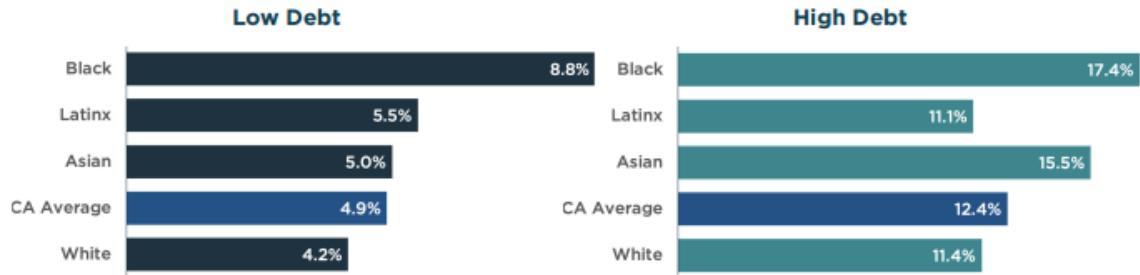


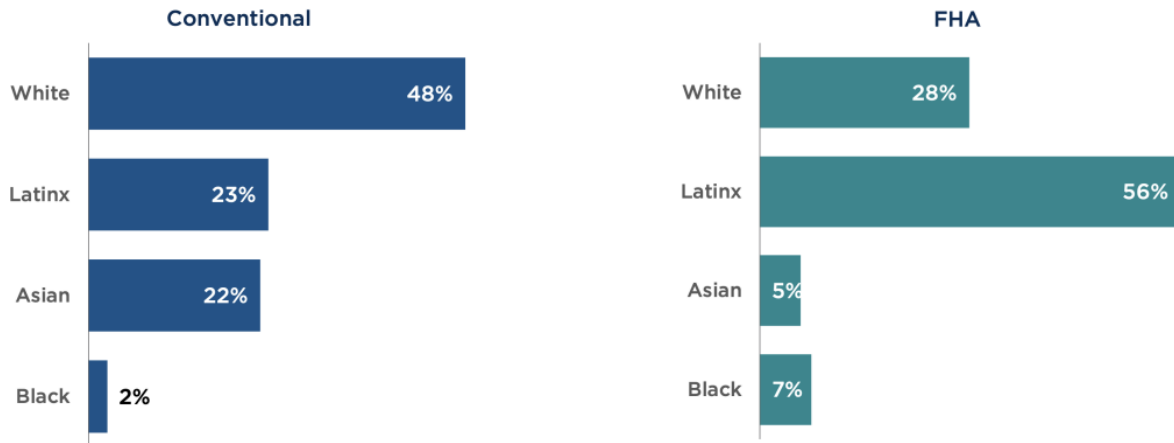
Figure 13: Loan Application Denial Rates for Low-Debt and High-Debt Applicants, by Race



Source: HMDA 2020

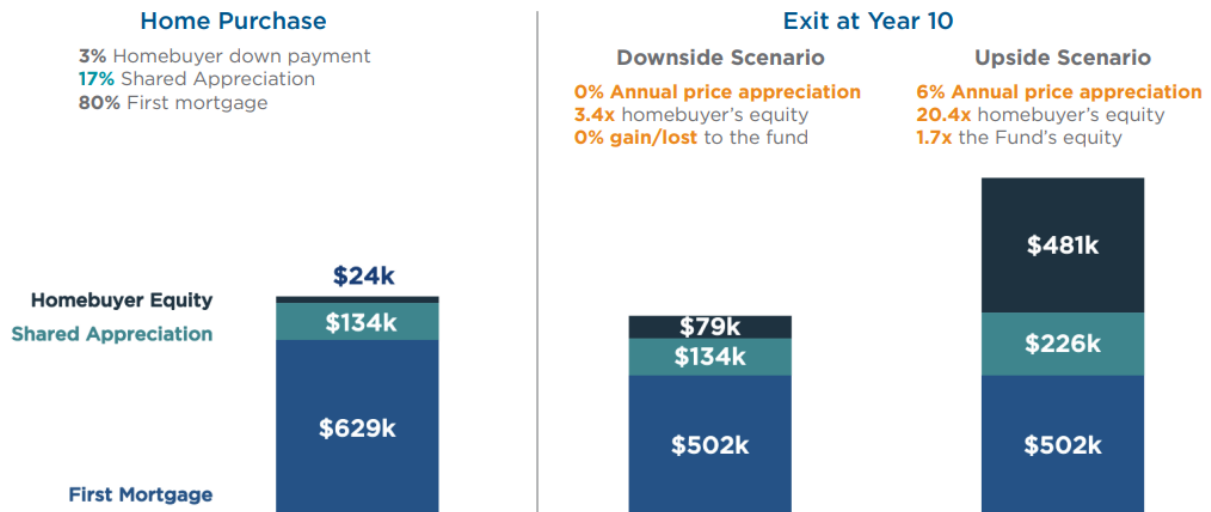
⁶ CA Fwd. et al. (2022). California Dream For All: A Proposed Shared Appreciation Loan Investment Fund for the State of California. *California Treasurer’s Office*. Retrieved from <https://www.treasurer.ca.gov/publications/ca-dream-for-all-report.pdf>

Figure 14: Share of Conventional and FHA Loans Issued to Borrowers, by Race



The Treasurer’s report further states: “SAL’s most compelling advantage is the combination of reducing the monthly payment to a household, while generating revenue to serve future households and providing protection to the homebuyer in the event of depreciation. The biggest drawback is the financial complexity of the terms for a SAL... A well-designed SAL can provide borrowers the opportunity to build wealth in upside scenarios and share losses in downside scenarios.”

Figure 22: Illustrative Example of Shared Appreciation Loan in Downside and Upside Scenarios



Sources: HR&A Advisors

DPA

CONSENT CALENDAR

In order to maximize reparative racial justice outcomes and maintain fiscal sustainability for future generations, a municipal DPA initiative should include the following program considerations:

1. **Ensure that applicant eligibility is compatible with existing DPA programs so that applicants can “layer” multiple loans to cover 100% combined loan-to-value (CLTV).** As a second lien program, Alameda County has approved layering AC Boost loans with subordinate loan programs such as WISH Funds, NeighborhoodLIFT Funds, the Black Wealth Builders Fund, and several closing cost assistance programs. However, the lotteries of AC Boost applicants and their corresponding applications for subordinate loans may not necessarily overlap, making layering more difficult.
2. **As much as feasible, integrate administrative processes so that applicants in high-cost cities can seamlessly layer state and regional assistance programs, including CA Dream For All loans and future programs planned for the Bay Area Housing Finance Authority (BAHFA).**
3. **Enable SALs to cover closing costs in addition to down payments.** Consider cost-benefit tradeoffs for limiting closing cost assistance to escrow fees (e.g. escrow services, title insurance, document preparation, recording fees, etc.) rather than lender fees (e.g. mortgage origination).

ENVIRONMENTAL SUSTAINABILITY AND CLIMATE IMPACTS

AC Boost’s down payment assistance fund includes incentives to reduce Vehicle Miles Traveled (VMT) while mitigating displacement by encouraging home purchases close to jobs and public transit. According to Wheeler et al (2018), the urban core of the San Francisco Bay Area (including Berkeley) contains some of the lowest carbon emissions per capita in California, making urban infill housing a key policy lever for cities to reduce carbon footprints by reducing VMT per capita.⁷ Preventing displacement from Berkeley also prevents increased emissions from households who would otherwise be priced out to areas with higher per capita emissions.

CONTACT PERSON

Councilmember Taplin Council District 2 510-981-7120

ATTACHMENTS

1. CA Dream For All - Treasurer’s Office Report
2. AC Boost: Measure A1 Oversight Committee Presentation
3. Black Wealth Builders Fund - Frequently Asked Questions

⁷ Wheeler, S. M., Jones, C. M., & Kammen, D. M. (2018). Carbon footprint planning: quantifying local and state mitigation opportunities for 700 California cities. *Urban Planning*, 3(2), 35-51.

CALIFORNIA DREAM FOR ALL: A PROPOSED SHARED APPRECIATION LOAN INVESTMENT FUND FOR THE STATE OF CALIFORNIA



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JUNE 2022

FIONA MA, CPA
CALIFORNIA STATE TREASURER

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For more information, please contact araceli@cafwd.org.



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I. EXECUTIVE SUMMARY

This report provides a design framework for the California Dream for All, a proposed shared appreciation loan investment fund for the state of California. In July 2021, the California legislature enacted Assembly Bill 140 (AB 140), which empowered the California State Treasurer's Office to develop a design framework for the California Dream for All program that makes homeownership more affordable to low- and moderate-income Californians.

California faces an unprecedented gap in access to housing that is affordable, particularly for ownership. Home prices across the state have spiraled upwards for years. According to the California Association of Realtors, the median sales price for a single-family home was \$786,000 in 2021—a 38% increase since 2018, before the onset of the COVID-19 pandemic. Meanwhile, incomes have failed to keep pace with increasing prices. In 2020, the median home price was 8.5 times median yearly income—a level that is nearly four times the ratio in 1969. Lack of affordability is a challenge in every community across the state, but is more acute in some regions than others. For example, the median house price in the Bay Area is nearly double the median house price in the Inland Empire. Aspiring homeowners in the Inland Empire still struggle to find the resources to afford a home, but in the Bay Area, the challenge is even more acute. These types of regional variations abound across the state.

The high price of homeownership has disproportionately impacted first-time homebuyers. As house prices grew, so did the amount of wealth necessary to make a down payment on a house. In 2021, a 20% down payment on a median price home would total \$119,000; this represents one and half times the amount that the average household in California makes in a year. Very few first-time homebuyers have access to this level of savings, and as a result, most choose to make much smaller down payments, which in turn increases their monthly mortgage costs. According to a survey by the California Association of Realtors, first-time homebuyers put down 6% compared to repeat buyers who put down 12%. Homebuyers who make smaller down payments must often take on supplementary costs like mortgage insurance, and frequently face additional fees or higher interest

rates. These costs make it difficult for first-time homebuyers to maintain homeownership, or to access the wealth benefits that homeownership may offer.

Accessing homeownership and making a large down payment is often even more difficult for low-income communities and communities of color. This program is designed to provide assistance to homeowners from all disadvantaged groups, especially those that have been the targets of both legal and social discrimination. Black and Latino households, for example, are far less likely to receive down payment assistance than are White households, and the percentage of home loans going to Black and Latino families are both approximately 20% lower than their shares of the population. As a result, statistics on racial disparities will often be used to highlight the gap between communities of economic and social privilege and those that need this program to access the California dream of homeownership. Yet it's also clear that challenges extend far beyond racial discrepancies—between 2010 and 2019, for example, the homeownership rate decreased from 48% to 44% for all households with incomes of less than \$100,000. This program is designed to benefit disadvantaged communities of all demographics, and racial disparities are far from the only driver of action.

California has a wide range of homebuyer assistance programs that help households access ownership, but their impact is limited. The majority of homebuyer assistance programs administered statewide offer between 3% and 5% down payment support, which is not enough to eliminate the need for mortgage insurance in most cases. And many of these programs at the local and state level are constrained by uneven funding allocations that make it difficult to serve even a fraction of the need across the state. Nevertheless, these programs have benefitted many homeowners and will often work in concert with the program outlined in this report in some cases eliminating the need for a down payment entirely. And the existing ecosystem of service providers, mortgage underwriters and community financial counselors that support potential homebuyers through these programs can be leveraged to serve a far larger number of households.

One option to expand access to homeownership in California is through a “shared appreciation” loan (SAL) supported by the State.

SALs are repaid through a portion of the amount that the home price appreciates in value over time. Homebuyers do not make a payment on the loan until they sell the property. A SAL as designed below even splits the risk of home price depreciation with homebuyers. The result of this financing structure is both dependable and lower monthly housing costs than other financing options available to homebuyers with limited savings. While a SAL cannot by itself solve the supply-side issues that dramatically impacted housing affordability in California, there may be future opportunities to link shared appreciation to other reforms in order to increase housing supply.

With a few key design decisions, a SAL supported by the State could significantly expand access to homeownership by making homeownership more affordable and by reducing the amount of wealth required to purchase a home.

Several privately-funded SAL programs exist, but they generally have program features that are less favorable to homebuyers due to the rate of return required by the private capital. In order to maximize public benefit and support first-time homebuyers, a sustainable and

prudent long-term product should include the following design features:

- A loan amount that ensures a 20% down payment, but no more than 30%;
- Income targeting between 100% and 150% of area median income to allow for regional variation in home pricing;
- A 1 to 1 (or “pro rata”) split between the homebuyer and the program in the appreciated value of the home;
- Flexibility to target originations and design terms to support disadvantaged communities

Helping households reach a 20% down payment significantly reduces the cost of homeownership and increases affordability. The size of the first mortgage is reduced, and mortgage insurance is eliminated, which substantially cuts monthly payments. For example, if a household used a SAL to achieve a 20% down payment instead of relying on a Federal Housing Administration (FHA) loan to purchase a median-priced home, their monthly payment would fall by almost \$1,200. Shared appreciation offers a lower cost of homeownership that makes it more sustainable for homebuyers who would otherwise be unlikely to own a home.

WHAT IS A SHARED APPRECIATION LOAN?

SALs offer an alternative to either public subsidy or conventional mortgage financing. That is, a SAL is repaid through a predetermined percentage of the appreciation, or depreciation, in the home’s value. This contrasts with conventional mortgages that have a fixed or variable interest payment on the outstanding loan amount. It also is different from a subsidy program where the assistance is not repaid.

At the time of the home purchase, SALs reduce the amount of down payment borrowers need to pay into the transaction. A SAL replaces some or all of the down payment a household would provide for a conventional loan.

SALs are commonly structured as second mortgages. Second mortgage lenders can have specific credit, equity and income requirements that borrowers must meet. The primary difference between a second mortgage and a first mortgage is how repayment is prioritized. If the borrower cannot repay the debt in full, both loans are secured with the same asset, but the first mortgage receives priority if the home is foreclosed or sold to repay the debt. The second

mortgage lender therefore assumes more risk. A SAL does not have monthly payments, and is therefore often called a “silent second” mortgage. The financial arrangement more closely resembles an equity investment in the property than a loan against the property. The basic terms of the second mortgage, such as interest rate and amortization schedule, are also set independently of the first mortgage. A SAL can align with the underwriting requirements of first mortgage lenders and the requirements of the secondary mortgage market because it becomes “junior” to the first mortgage. In other words, the first mortgage will be paid first in the event of a borrower default resulting in a foreclosure sale.

Sellers or developers are indifferent to whether a homebuyer uses a SAL. SALs do not directly impact the buyer or seller; homes are sold at a market rate through conventional market transaction processes. The seller, whether an investor, developer, or homeowner, lists the property and can receive offers from potential buyers with and without shared appreciation financing.

The State can support SALs through a statewide revolving fund: the CA Dream for All Fund.

The goal of the Fund would be to increase access to homeownership for first-time homebuyers and disadvantaged communities, including previously redlined neighborhoods and historically marginalized groups like communities of color. The value created through appreciation will allow the initial public funding to help new homeowners in California for decades to come; for example, **with a present value investment of \$10.8 billion, the State would help generate about six times that amount in household wealth for low- and moderate-income homebuyers, while still continuing to receive future repayments to assist later borrowers.** If capitalized with \$1 billion annually for 10 years, the CA Dream for All Fund is projected to be able to make approximately \$48 billion in loan originations over 40 years, benefitting 157,000 homebuyers in the process. Assuming a rate of price appreciation that matches the last 40 years in California, assisted homebuyers would gain \$134 billion in wealth—a return that represents nearly six times the taxpayer cost of capitalizing the Fund. With this structure, the State faces very limited financial risk because the allocations are expected to revolve without exposure to additional financing needs. The CA Dream for All Fund could be financed through a combination of annual budget allocations, general obligation bond funds and revenue bonds.

Clear requirements should govern the program's financing options in order to optimize its impact.

To determine and assess program financing options, several minimum thresholds were set:

- **The funding approach should not limit who the program can help**, such as excluding areas of the state or preventing the program from assisting lower-income borrowers or those who need larger amounts of assistance.
- **The funding approach must be compatible with Fannie Mae and Freddie Mac underwriting requirements** and not prevent borrowers from using government-sponsored enterprise (GSE) first mortgages.
- **The funding approach should provide an ongoing way to help first-time buyers over many years to come**, rather than only helping buyers in the next few years, given future affordability pressures anticipated in California.
- **Investments of taxpayer funds need to be sustainable**, without significantly impacting the State's borrowing capacity, ability to promote housing that is affordable or ability to meet other critical needs.
- **The funding approach should not expose the State to any meaningful future financial risk**—for example, by requiring the State to cover shortfalls because of the CA Dream for All portfolio's performance.
- **The State should leverage taxpayer monies with non-taxpayer monies so as to expand the number of borrowers who are ultimately served—consistent with the purposes of the program**, without narrowing who can be helped, violating other minimum thresholds or reducing borrower equity.

These basic minimum thresholds operate as extremely important guardrails when considering different financial approaches and structures.

Governance of the CA Dream for All Fund will require collaboration between a variety of stakeholders.

The CA Dream for All Fund should have a board as well as an administrator. In order for the fund to meet its goals of supporting first-time homebuyers and disadvantaged communities, a community advisory board will also be critical. The community advisory board will help to ensure that specific groups or areas of the state remain represented in the CA Dream for All Fund's borrowers.

The success of the CA Dream Fund for All will depend on how well it connects to existing systems and supports homebuyers who have traditionally been left out and left behind.

In order to ensure that homebuyers both benefit from and comprehend the terms of a SAL, the CA Dream for All Fund will need to incorporate housing counseling into every step of the loan origination and servicing process. Borrower outreach will also be critical to ensure that mortgage lenders, counselors and target homebuyers fully understand the loan repayment mechanisms. Effective outreach will require making clear and easy-to-understand materials available in many languages. This is especially important since the wealth building benefits of the CA Dream Program accrue slightly more slowly than standard fixed interest rate down payment programs, and it is vital that homeowners understand the benefits and drawbacks of paying off their CA Dream for All loan. Furthermore, it will be important that the benefits of the program are clear to the real

estate industry—a group that includes not only real estate brokers, but also developers who may be able to structure new housing projects for CA Dream for All Fund borrowers over time.

The following report offers a blueprint for progress. First, it lays out the barriers to affordable homeownership facing Californians today, and the necessity for decisive action. Second, it explains the mechanics, uses and value of tools like shared appreciation loans to tackle the problem. Third, it proposes a comprehensive program designed to address our challenges and accomplish our objectives. Fourth, it lays out methods and structures for funding and financing this program in order to safeguard the State's resources and

promote positive results. Fifth, it recommends strategies for outreach, equity and implementation to achieve the most effective impact. The report is accompanied by an appendix of supplemental materials including a glossary of terms, case studies, preliminary program guidelines, and additional supporting analyses.

Through deep research and analysis, this report presents a clear view of a complex issue. It demonstrates the stakes of our task and the scope of our solutions. Ultimately, it serves as a guide—describing where we have been, detailing where we are, and illuminating a sustainable and affordable pathway for homeownership.



II. INTRODUCTION & BACKGROUND

In July 2021, the California Legislature enacted Assembly Bill 140 (Chapter 111, Statutes of 2021), which provided for a study to be undertaken by the California State Treasurer, in collaboration with the California Housing Finance Agency and the California Department of Housing and Community Development and other relevant parties, to develop a framework for a project called the “California Dream for All” program.

Following the 2007-2009 financial crisis and the ensuing Great Recession, capital requirements for banks originating and holding mortgage loans were altered in significant ways. The resulting tightening of lending standards has presented challenges to would-be first-time homebuyers everywhere—but in California, where median home prices in urban areas nearest to employment opportunities have risen to all-time highs, the problem is particularly acute.

The enabling legislation is aimed at reducing the cost of home ownership for lower- and middle-income Californians. The conceptual plan is also intended to enable and encourage homebuilders to sell homes at prices that are more attainable by purchasers in these demographics.

Introduction

This report provides a design framework for the California Dream for All, a proposed shared appreciation loan investment fund for the state of California. In July 2021, the California legislature enacted Assembly Bill 140 (AB 140), which empowers the California State Treasurer’s Office to develop a design framework for the California Dream for All program that makes homeownership more affordable to low- and moderate-income Californians.

This report by California Forward (CA FWD) provides a summary of the challenges to affordable homeownership facing Californians today, the mechanisms by which a *shared appreciation loan (SAL)* investment fund could increase access to homeownership, the required fund design to meet policy priorities, an approach to financing and the implementation and governance needs of the proposed design.

What the RFP required

The State Treasurer’s Office RFP said that a core goal of the CA Dream for All project would be “making home ownership more affordable by reducing the cost of such ownership for lower- and middle-income Californians.” The project team has committed to designing a program that effectively broadens choices for disadvantaged and vulnerable communities of all demographics—especially those that have been victims of historic and ongoing inequity in access to mortgage financing and homeownership, including communities of color.

A key component of fulfilling this commitment is ensuring that, as the program is implemented, it creates direct benefits for families and individuals whose ability to participate in the mortgage market has been impeded by current and historic policy decisions.

Why this is important¹

Homeownership provides people with the opportunity to build generational wealth, and can often be a tool for long-term economic prosperity and success. Homeowners can take advantage of economic opportunities like tax subsidies, and can increase wealth by gaining value in assets that will appreciate over time.

The ability to withstand a temporary loss of income or significant unexpected expense depends largely on having a reserve of wealth. In this regard, homeowners have a huge advantage over renters; in 2019, the median wealth of homeowners was \$254,900—more than 40 times the \$6,270 median for renters. Even when we don’t account for home equity, the median wealth of owners is \$98,500—more than 15 times that of renters.² Data from a long-term study that followed about 1,700 households from 1984 through 2009 revealed that a difference in years of homeownership was the largest driver of the wealth gap between White and Black families, accounting for 27% of the total gap—a greater influence than household income, differences in unemployment, college education, inheritance and pre-existing family wealth.³

1 “Housing, Homeownership, and the Racial Wealth Gap.” California Community Builders, March 2022. Retrieved from: <https://www.ccbuilders.org/housing-homeownership-and-the-racial-wealth-gap/>

2 “The State of the nation’s housing.” Cambridge, Mass.: Joint Center for Housing Studies of Harvard University, 2021. Retrieved from: www.jchs.harvard.edu/state-nations-housing-2021

3 Shapiro, Thomas, Tatjana Meschede and Sam Osoro. “The Roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide.” Institute on Assets and Social Policy, 2013. Retrieved from: drum.lib.umd.edu/bitstream/handle/1903/24590/racialwealthgapbrief.pdf

Wealth changes our conception of social inequality, its magnitude and its origins. We know that wealth does not only rely on hard work or discipline; it depends greatly on systemic factors like access to capital, homeownership and other wealth building tools. In many cases, these are tools that the United States government made accessible for some families while intentionally leaving others behind—especially families of color and immigrants.⁴ The intergenerational nature of wealth means that, without public interventions, it will be impossible for families that have historically been excluded from homeownership to catch up.⁵ Access to homeownership should not be viewed as a housing or shelter issue, but instead as one concerning economic and social justice.

Homeownership is an important part of the American Dream. More than 80% of renters in America hope to own a home someday.⁶ Homeownership helps families build wealth, and when lending is done responsibly, it creates a foundation for economic stability in the form of fixed housing costs. Yet there is persistent and well-documented inequality across racial lines in the ability to access and maintain homeownership.⁷ White households are more likely to own their homes than any other racial group. For those non-White households lucky enough to be homeowners, most are more recent homeowners who are more likely to have high-risk mortgages and are most vulnerable to foreclosure and volatile housing prices.⁸

The value of homeownership includes control over one's own space, stable monthly payments, tax incentives and improved credit scores.⁹ Home equity accounts for 60% of the total wealth among America's middle class.¹⁰ Eliminating racial disparities in homeownership rates and home equity gains would shrink the racial wealth gap by 31% and 16%, respectively, according to a recent analysis by Demos.¹¹

In sum:

- **Wealth grants families and individuals many benefits that impact their quality of life.** Of two families with the same income, but different levels of wealth, the family with more wealth has greater access to higher-quality education, more funds for retirement, better health, an improved ability to wait for the right job, a greater possibility of passing on wealth and better overall financial stability.
- **The ability to accumulate wealth does not rely on factors like hard work or persistence.** Rather, it relies on access to resources and capital that help individuals build wealth. Today, for example, communities of color who have not historically had access to wealth-building tools face a racial wealth gap that impedes their ability to reach economic prosperity and stability.
- **Access to capital has been and remains a major barrier to homeownership for low- and moderate income families, people of color and other disadvantaged communities.** Discrimination in lending practices and policies, as well as other barriers, have impacted disadvantaged communities for centuries—and the results here still being felt today.

Why a focus on communities of color?

The California Legislature has for the past five years shown a significant and consistent commitment to addressing systemic inequality and the needs of disadvantaged communities, including communities of color, with a particular focus on creating equitable outcomes for all. Since 2018, examples of this commitment include the creation of the Collaborative on Race and Equity; passage of Assembly Constitutional Amendment 5 of the 2019–20 Regular Session,

4 Shapiro, Thomas M. "Race, homeownership and wealth." *Wash. UJL & Policy* 20, 2006. Retrieved from: openscholarship.wustl.edu/cgi/viewcontent.cgi?article=1242&context=law_journal_law_policy

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11 Sullivan, Laura, Tatjana Meschede, Lars Dietrich, Thomas Shapiro, Amy Traub, Catherine Ruetschlin, and Tamara Draut, "The Racial Wealth Gap: Why Policy Matters," *Demos* (2016). Retrieved from: www.demos.org/research/racial-wealth-gap-why-policy-matters

affirming the State's commitment to race and equity; creation of the Task Force to Study the Impact of Reparations for the Black Community; introduction of Senate Concurrent Resolution 92 of the 2019–20 Regular Session, which declared racism a public health crisis; and the passage of HR 39, which resolved that the Assembly will explore methods to integrate equity more formally into its daily activities, including the potential adoption of equity impact analysis into the existing committee and floor bill analysis process.¹²

An approach focused on equity and equitable outcomes is especially important in efforts related to homeownership. As the long-term financial impact of the COVID-19 pandemic continues to take shape, policy makers should learn from the aftermath of the Great Recession and the generational economic setbacks it caused for communities of color. While the foreclosure crisis caused the average family to lose 29% of their wealth, Black Americans lost 48% due to the dominant role of home equity in their wealth portfolios and the prevalence of predatory high-risk loans in communities of color.¹³ At the same time, the Latino community lost a devastating 67% of total wealth.¹⁴ Communities of color shouldered the burden of the crisis and were forced to either burn through their hard-earned savings or go into debt. For example, Black families' holdings of stock and mutual funds plummeted by two thirds—and given the long-term impacts of compounding interest, it will be very difficult to make up for this loss.¹⁵ Discriminatory practices like redlining, mortgage steering and racially restrictive covenants—in addition to even wider structural problems like a lack of access to credit and lower incomes—have blocked the path to homeownership for

households among communities of color, while reinforcing racial neighborhood segregation.

Federal policies created in the 1930s during the Great Depression made widespread homeownership and middle-class wealth accumulation possible by subsidizing and insuring long-term, low-interest mortgages with a much smaller down payment than was ever previously possible. This action put homeownership within reach for millions of people for the first time. Future policies sustained this effort, including by creating additional tax incentives and by subsidizing highways to allow suburban development. These efforts have contributed to America's 69% homeownership rate, which is higher than in many other countries. However, most of these subsidies only helped White households—and at a time when homeownership was becoming the primary vehicle for wealth-building for the White middle-class, non-White communities were intentionally excluded from the homeownership market for decades.¹⁶

Today, the racial homeownership gap is widest for those between 25 and 29 years old and closes incrementally with age. The earlier in life a person buys a home, the more wealth they can accumulate as the home appreciates and the mortgage loan gets paid down.¹⁷ As a result, home purchasing worsens wealth inequality for future generations.¹⁸

Neighborhoods that were previously redlined still have higher poverty rates and less economic mobility for children.¹⁹ They still experience a reduced housing supply, offering fewer opportunities to buy.²⁰ Communities in these neighborhoods tend to have a lower life

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- 12 Adapted from March 26, 2022 "Equity Impact Assessment of Bills" briefing held by PolicyLink/Greenlining/EdTrust West.
- 13 Asante-Muhammad, Detric, Jamie Buell and Joshua Devine. "60% Black Homeownership: A Radical Goal for Black Wealth Development." National Community Reinvestment Coalition, 2021. Retrieved from: <https://ncrc.org/60-black-homeownership-a-radical-goal-for-black-wealth-development/>
- 14 Shapiro, Thomas, Tatjana Meschede and Sam Osoro. "The Roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide." Institute on Assets and Social Policy, 2013. Retrieved from: drum.lib.umd.edu/bitstream/handle/1903/24590/racialwealthgapbrief.pdf
- 15 Weller, Christian, and Richard Figueroa. "Wealth Matters: The Black-White Wealth Gap Before and During the Pandemic." Center for American Progress, 2021. Retrieved from: www.americanprogress.org/issues/race/reports/2021/07/28/501552/wealth-matters-black-white-wealth-gap-pandemic/
- 16 Shapiro, Thomas M. "Race, homeownership and wealth." Wash. UJL & Policy 20, 2006. Retrieved from: openscholarship.wustl.edu/cgi/viewcontent.cgi?article=1242&context=law_journal_law_policy
- 17 Shapiro, Thomas M. "Race, homeownership and wealth." Wash. UJL & Policy 20, 2006.: 53. Retrieved from: openscholarship.wustl.edu/cgi/viewcontent.cgi?article=1242&context=law_journal_law_policy
- 18 McCargo, Alanna, Jung Hyun Choi and Edward Golding. "Building Black Homeownership Bridges: A Five-Point Framework for Reducing the Racial Homeownership Gap." Urban Institute, 2019. Retrieved from: https://www.urban.org/sites/default/files/publication/100204/building_black_ownership_bridges_1.pdf
- 19 Park, K. A., & Quercia, R. G. "Who Lends Beyond the Red Line? The Community Reinvestment Act and the Legacy of Redlining." *Housing Policy Debate* 30, no. 1: 4–26, 2020. <https://doi.org/10.1080/10511482.2019.1665839>. As cited in Reid, Carolina. "Crisis, Response, and Recovery: The Federal Government and the Black/White Homeownership." The Turner Center for Housing Innovation, UC Berkeley, 2021. Retrieved from: <https://turnercenter.berkeley.edu/research-and-policy/crisis-response-and-recovery-the-federal-government-and-the-black-white-homeownership-gap/>
- 20 Krimmel, J. "Persistence of Prejudice: Estimating the Long Term Effects of Redlining." Working Paper, Philadelphia, PA: University of Pennsylvania, 2018. Retrieved from: <https://osf.io/uxeez/>. As cited in Reid, Carolina. "Crisis, Response, and Recovery: The Federal Government and the Black/White Homeownership." The Turner Center for Housing Innovation, UC Berkeley, 2021. Retrieved from: <https://turnercenter.berkeley.edu/research-and-policy/crisis-response-and-recovery-the-federal-government-and-the-black-white-homeownership-gap/>

expectancy, and a higher incidence of chronic diseases.²¹ At the same time, they also experience lower quality broadband access as well as lower house values and homeownership rates.²²

These disparities are clear—yet simply increasing homeownership rates for households of color is not enough. Under current conditions, homeowners of color go into greater debt for less valuable homes. The average first home of a Black purchaser is valued at \$127,000 and has \$90,000 in mortgage debt, while White first-time homebuyers have an average home value of \$139,000 with \$75,000 in mortgage debt.²³ Reasons for the homeownership gap and home equity rising so much more for White homeowners include:

- The home-appraisal process has contributed significantly to the racial wealth gap. The history of redlining has led to homes in predominantly White neighborhoods appraising at nearly three times the value of a comparable home in a neighborhood with more communities of color.²⁴
- Financial institutions reject households of color for home mortgages 60% more often than White families, even with comparable credit scores.²⁵
- White families have more wealth to give as inheritances or to help with down payments, allowing their children to buy homes and start acquiring equity an average eight years earlier than Black families.²⁶
- Due to having less money for down payments, families of color face higher interest rates. As a result, they tend to pay off their mortgages more slowly while paying much more in interest over the length of the loan.

- Households of color typically have higher student debt.

All these factors contribute to White families having a homeownership rate that is 23 percentage points higher than the average for non-White families throughout the country.²⁷ So, while homeownership has the potential to create wealth for anyone, unfair and unequal circumstances around homeownership widen the racial wealth gap. Of all the assets that lead to wealth, homeownership is often the first step and acts as a launching pad to asset diversity.²⁸ To ensure a future of wealth and racial equity, we must develop new ideas on how to increase homeownership opportunities and build wealth more equitably.²⁹

Low-wealth homebuyers have needs that mainstream mortgage and homebuying programs often fail to address. For example, 33% of Black households have thin credit files, or credit-use levels that are insufficient for generating a credit score, compared to only 18% of White households.³⁰ Structural racism and other systemic factors that contribute to unemployment, income and student loan debt all affect credit history, which is a crucial factor in the mortgage loan approval process. Black borrowers fall 135 points below the overall average credit score for conventional loans, and Latino borrowers are 85 points lower.³¹ Evidence suggests that this difference has little or nothing to do with individual borrower responsibility, and a lot to do with the fact that the credit scoring system is the product of a financial services industry that has structurally disadvantaged communities of color. Credit scoring systems are well-known for disadvantaging households of color. Including rent, cell phone and utility

21 "Redlining and Neighborhood Health." National Community Reinvestment Coalition, 2010. Retrieved from: <https://ncrc.org/holc-health/>. As cited in Reid, Carolina. "Crisis, Response, and Recovery: The Federal Government and the Black/White Homeownership." The Turner Center for Housing Innovation, UC Berkeley, 2021. Retrieved from: <https://turnercenter.berkeley.edu/research-and-policy/crisis-response-and-recovery-the-federal-government-and-the-black-white-homeownership-gap/>

22 Aaronson, D., Hartley, D., & Mazumder, B. "The Effects of the 1930s HOLC 'Redlining' Maps." Chicago, IL: Federal Reserve Bank of Chicago, 2020. Retrieved from: <https://www.chicagofed.org/publications/working-papers/2017/wp2017-12>. As cited in Reid, Carolina. "Crisis, Response, and Recovery: The Federal Government and the Black/White Homeownership." The Turner Center for Housing Innovation, UC Berkeley, 2021. Retrieved from: <https://turnercenter.berkeley.edu/research-and-policy/crisis-response-and-recovery-the-federal-government-and-the-black-white-homeownership-gap/>

23 Asante-Muhammad, Dedrick, Jamie Buell and Joshua Devine. "60% Black Homeownership: A Radical Goal for Black Wealth Development." National Community Reinvestment Coalition, 2021. Retrieved from: <https://ncrc.org/60-black-homeownership-a-radical-goal-for-black-wealth-development/>

24 Howell, Junia, and Elizabeth Korver-Glenn. "Reassessing Value: Towards A Racially Equitable Appraisal Industry." University of Pittsburgh, 2021. Retrieved from: <https://www.minneapolisfed.org/-/media/assets/events/2021/racism-and-the-economy-focus-on-housing/howell-housing-proposal.pdf?la=en>

25 Shapiro, Thomas M. "Race, homeownership and wealth." Wash. UJL & Policy 20, 53, 2006. Retrieved from: openscholarship.wustl.edu/cgi/viewcontent.cgi?article=1242&context=law_journal_law_policy

26 Shapiro, Thomas, Tatjana Meschede and Sam Osoro. "The roots of the widening racial wealth gap: Explaining the black-white economic divide." Institute on Assets and Social Policy, 2013. Retrieved from: drum.lib.umd.edu/bitstream/handle/1903/24590/racialwealthgapbrief.pdf

27 "Housing and Homeownership: Homeownership Rate." FRED Economic Data. Retrieved from: <https://fred.stlouisfed.org/release/tables?rid=296&eid=784188>

28 Asante-Muhammad, Dedrick, Jamie Buell and Joshua Devine. "60% Black Homeownership: A Radical Goal for Black Wealth Development." National Community Reinvestment Coalition, 2021. Retrieved from: <https://ncrc.org/60-black-homeownership-a-radical-goal-for-black-wealth-development/>

29 De La Cruz-Viesca, Melany et al. "Fifty Years After the Kerner Commission Report: Place, Housing, and Racial Wealth Inequality in Los Angeles." Russell Sage Foundation, 2018. Retrieved from: <https://www.rsfjournal.org/content/rsfjss/4/6/160.full.pdf>

30 Asante-Muhammad, Dedrick, Jamie Buell and Joshua Devine. "60% Black Homeownership: A Radical Goal for Black Wealth Development." National Community Reinvestment Coalition, 2021. Retrieved from: <https://ncrc.org/60-black-homeownership-a-radical-goal-for-black-wealth-development/>

31 "The State of the Nation's Housing." Cambridge, Mass.: Joint Center for Housing Studies of Harvard University, 2021. Periodical. Retrieved from: www.jchs.harvard.edu/state-nations-housing-2021

payments in credit scoring could help households of color demonstrate their creditworthiness.

While many of these issues have affected individuals who have lived in America for generations, more recent immigrants face unique challenges. Although Asian and Pacific Islander (API) households have a relatively high homeownership rate of around 60% as a whole, less than half of Pakistani (43%), Laotian (45%), Thai (46%), Korean (46%), Pacific Islander (41%) and Cambodian (39%) households own their homes.³² This disparity shows the importance of disaggregated data when analyzing racial equity indicators. Data broken down by ethnicity, micro-geography and many other factors gives us information that a broad category like “Asian American” or “API” tends to obscure.

The Home Mortgage Disclosure Act (HMDA) requires financial institutions to provide mortgage data to the public. The first HMDA data disaggregated by race collected in 1991 revealed a striking racial disparity in loan denial rates for different groups: Black households were denied almost 250% more than White households, and the Latino denial rate was 50% higher than the White denial rate.³³ A study published in the *American Economic Review* concluded that “even after controlling for financial, employment, and neighborhood characteristics, Black and Latino mortgage applicants in the Boston metropolitan area are roughly 80% more likely to be turned

down than whites.”³⁴ Since the Great Recession, it has become even more difficult for lower-income families to access mortgage credit as lenders tightened their lending rules.³⁵ If racial and ethnic disparities in homeownership rates caused largely by disparities in access to credit were eliminated, the Black-White wealth gap would shrink by 31%.³⁶ Limiting access to homeownership only serves to weaken the U.S. economy and widen the wealth gap.³⁷

Securing enough cash for closing and a down payment creates another huge barrier to homeownership for many families. More than half of renters see the down payment as the major obstacle to buying a home. Increasing the visibility of and access to down payment assistance will especially benefit young homebuyers of disadvantaged groups like communities of color, who are less likely to receive parental support when purchasing a home than their White counterparts.³⁸

Access to Affordable Homeownership in California

Californians have limited access to affordable homeownership due to a series of barriers that are detailed in the following section. The first set of barriers is at the market level, where the gap between housing demand and supply continues to increase and home prices are growing faster than household income. The result is that homeownership is becoming increasingly inaccessible to moderate-income renters, who are remaining in rental units or moving out of the state. The second set of financial barriers involves more limited and expensive mortgage options for first-time homebuyers than conventional mortgage financing. There are also barriers at the household level where homebuyers, particularly from lower-income households, face difficulty saving for closing costs and down payments, often as a result of long-term racial inequality. Finally, COVID-19 created market shocks throughout the state that have further reduced access to homeownership.

According to the most recent data from the **California Dream Index**, the homeownership rate is 35% for Black families and 44% for Latino families. White families have a 59% homeownership rate.



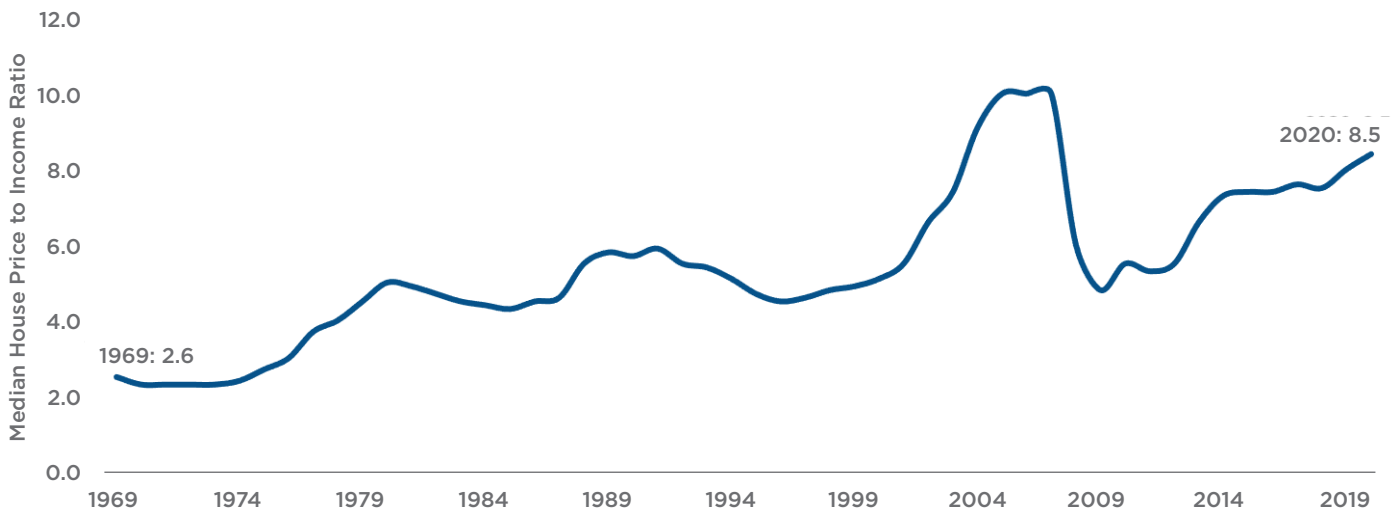
- 32 Henderson, Jamila. “Homeownership is Unattainable for Most Bay Area Black, Latinx, Cambodian, and Pacific Islander Households.” Bay Area Equity Atlas, 2021. Retrieved from: <https://bayareaequityatlas.org/node/65531>
- 33 Appel, Ian. “Pockets of Poverty: The Long-Term Effects of Redlining.” Boston College, Carroll School of Management, 2016. Retrieved from: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2852856
- 34 Appel, Ian. “Pockets of Poverty: The Long-Term Effects of Redlining.” Boston College, Carroll School of Management, 2016. Retrieved from: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2852856
- 35 Galante, Carol, Carolina Reid and Rocio Sanchez-Moyana. “Expanding Access to Homeownership through Lease-Purchase.” The Terner Center for Housing Innovation, UC Berkeley, 2017. Retrieved from: <https://ternercenter.berkeley.edu/research-and-policy/lease-purchase/>
- 36 Traub, Amy, et al. “The Racial Wealth Gap: Why Policy Matters.” Demos, 2016. Retrieved from: <https://www.demos.org/research/racial-wealth-gap-why-policy-matters>
- 37 Galante, Carol, Carolina Reid and Rocio Sanchez-Moyana. “Expanding Access to Homeownership through Lease-Purchase.” The Terner Center for Housing Innovation, UC Berkeley, 2017. Retrieved from: <https://ternercenter.berkeley.edu/research-and-policy/lease-purchase/>
- 38 McCargo, Alanna, Jung Hyun Choi and Edward Golding. “Building Black Homeownership Bridges: A Five-Point Framework for Reducing the Racial Homeownership Gap.” Urban Institute, 2019. Retrieved from: https://www.urban.org/sites/default/files/publication/100204/building_black_ownership_bridges_1.pdf

Market Barriers: Supply Gap and Price Growth

Despite strong income growth in the past decade, housing prices have far outpaced income growth, leading to larger affordability gaps. Figure 1 shows that growing disparity: in 1960, the median house price was 2.6 times the median income, but in 2020, the median house price had expanded to 8.5 times the median income. That increase has been particularly steep over the last decade. As a result, higher-income households have

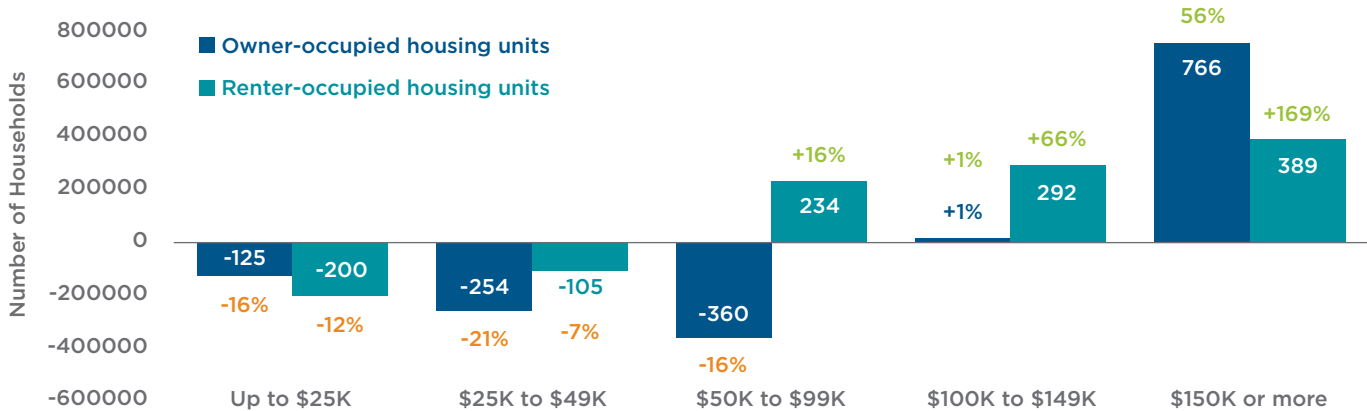
remained in apartments, which has crowded out lower-income households. For instance, Figure 2 shows that, since 2010, the number of owner-occupied housing units have only increased for households earning more than \$150,000, which implies that homeownership has only been rising for those households. A clear outcome of this dynamic is people moving both within California and out of state.³⁹ The growth in higher-income renters is also an indication of the barriers to homeownership in California.

Figure 1: Rising Home Price to Income Ratio in California



Source: California Association of Realtors 2021; California Department of Housing and Community Development 2021; HR&A Advisors

Figure 2: Change in Housing Tenure by Income in California (2010-2019)



Source: American Community Survey 2010 and 2019; HR&A Advisors

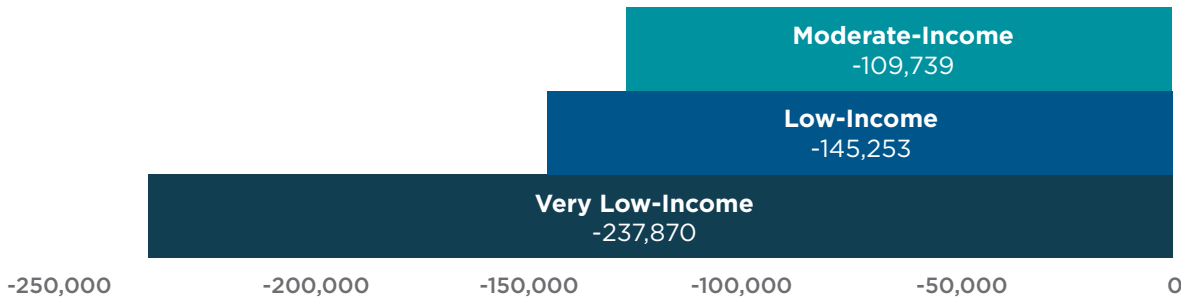
39 Johnson, Hans. "Who's Leaving California-and Who's Moving In?" Public Policy Institute of California, 2022. Retrieved from: <https://www.ppic.org/blog/whos-leaving-california-and-whos-moving-in/>

Housing Demand and Supply Imbalance

Declining homeownership can be linked in part to the state’s housing shortage. In recent years, statewide housing construction has lagged relative to demand. Based on the Regional Housing Needs Allocation (RHNA) projections set by the California Department of Housing and Community Development (HCD), the California Housing Partnership estimates that the state must develop at least an additional 490,000 housing units (both rental and for-sale) by the end of the Fifth Housing Element Cycle (approximately

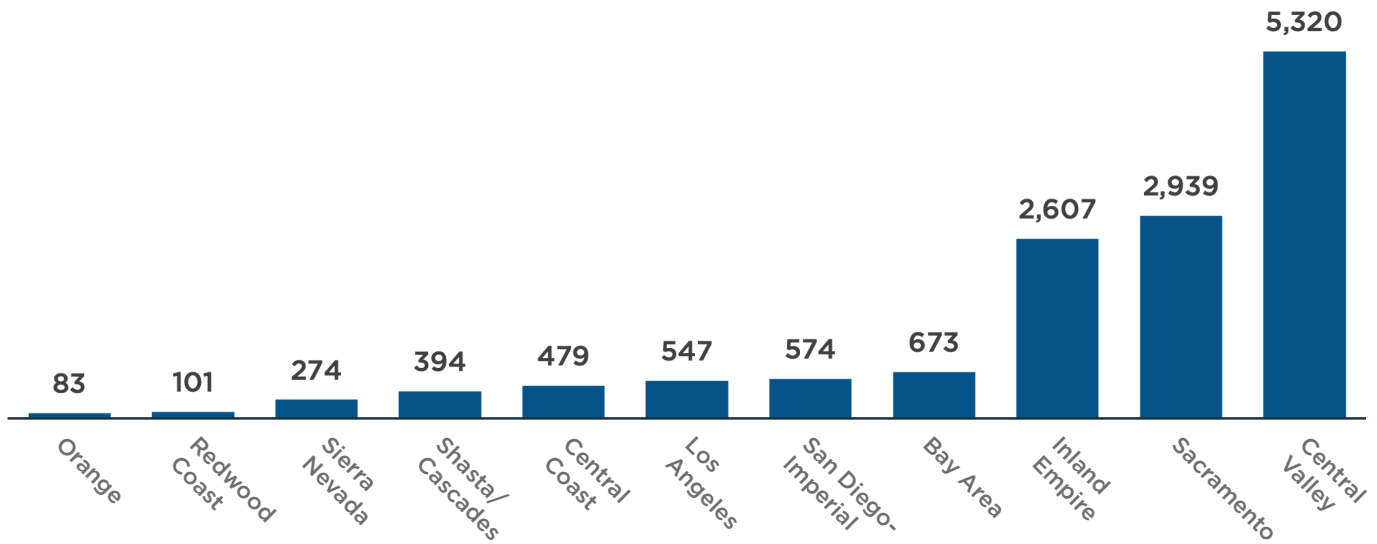
early 2024) in order to meet demand for very low-, low- and moderate-income households.⁴⁰ For example, California is short nearly 110,000 units that are affordable to moderate-income households (both deed- and non-deed-restricted) and 238,000 units that are affordable to very low-income households. The state appears unlikely to meet these targets based on recent development activity, as it only built 37,000 affordable units between 2018 and 2020. In this same timeframe, the median sales price of single-family homes grew by at least 8% in every regional market.

Figure 3: Statewide Progress Toward RHNA Target (Unit Deficit/Surplus; 2015-2023)



Source: California Housing Partnership 2021

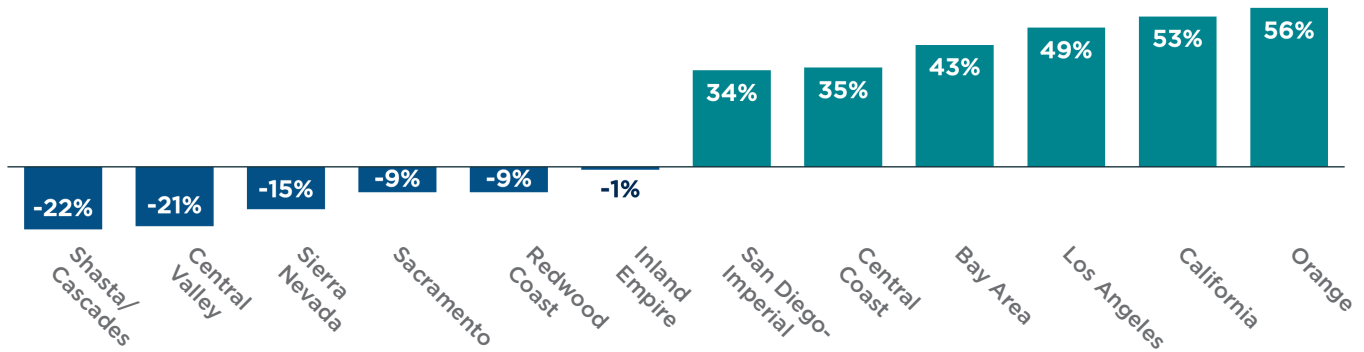
Figure 4: Units Built Affordable to Moderate-, Low-, or Very Low-Income Households (2018-2020)



Source: California Department of Housing and Community Development

40 California’s 1969 Housing Element Law requires all cities and counties to engage in detailed residential planning as part of comprehensive plan updates every five to eight years.

Figure 5: Percentage Above or Below AMI Required to Purchase Median-Value Home



Source: California Association of Realtors 2021; California Department of Housing and Community Development 2021; HR&A Advisors

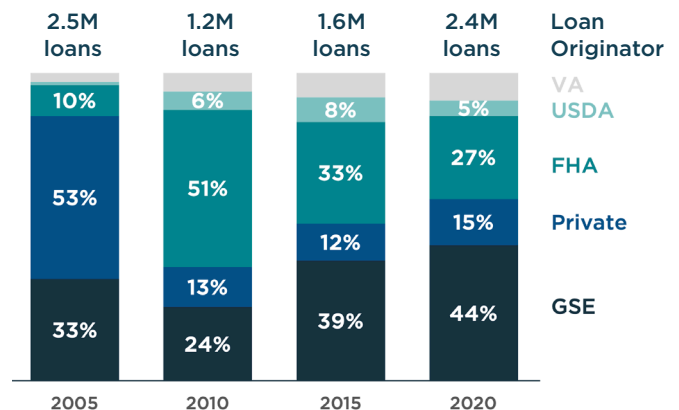
Affordability and market conditions also vary by region. Figure 7 shows the required percentage of Area Median Income (AMI) needed to afford a median-priced home across subregions in California with a 20% down payment. In the Los Angeles region, where the median home value is over \$788,000, a household requires an income of at least \$111,900, or 140% of the AMI, to purchase a home affordably at that price. Other high-cost markets face similar challenges, including Orange County, the Bay Area, the Central Coast and San Diego-Imperial. This affordability gap may be attributed to the slow rate of for-sale housing production in these areas. Despite accounting for more than two-thirds of the state's population, these five submarkets accounted for just 12% of affordable for-sale housing construction between 2018 and 2020. Figure 6 shows the regional breakdown of for-sale units built between 2018 and 2020 that are affordable to moderate-, low- or very low-income households.

- Federal Housing Administration (FHA):** FHA is an agency within the Department of Housing and Urban Development (HUD) and is the largest provider of government mortgage insurance. Because FHA requires a minimum of only 3.5% down payment from borrowers, FHA loans are popular among first-time buyers who have little savings or have credit challenges.
- Department of Veterans Affairs (VA):** The VA provides a guarantee on certain mortgages made to veterans.
- U.S. Department of Agriculture (USDA):** The USDA administers a direct loan program for low-income borrowers in rural areas and a loan guarantee program for low- and moderate-income borrowers in rural areas.

Financing Barriers: Expensive Loan Products

For many homebuyers, the viability of homeownership also depends on the types of mortgage finance to which they have access. Though there are many types of mortgages, most can be classified as either government-insured mortgages or conventional mortgages. These mortgages offer significantly different terms and service different homebuyers. Conventional mortgages are offered by a range of private financial institutions and generally require higher down payment amounts than the government-insured mortgages. Government mortgage insurance, meanwhile, is primarily provided by the three main agencies:

Figure 6: Loans Originated for First-Time Buyers in the US (2005-2020)



Source: National Mortgage Database 2022

Figure 7: Mortgage Insurance Requirement by Types of Mortgage Products

| Loan Product | Minimum Down Payment | Insurance Type | Upfront Premium | Annual Payment* |
|--------------|----------------------|----------------------------------|----------------------|----------------------------|
| FHA | 3.50% | Mortgage Insurance Premium (MIP) | 1.75% of loan amount | -0.85-1.05% of loan amount |
| Conventional | 3.00% | Private Mortgage Insurance (PMI) | None | -0.58-1.86% of loan amount |
| Conventional | 20.00% | - | None | None |

*Depends on the borrower's down payment, first mortgage size, loan term, and credit score.

FHA-insured mortgages play a particularly large role for first-time homebuyers, low- and moderate-income households and minorities both because of its smaller down payment requirement and because of its less stringent requirements related to credit history compared to conventional loans.⁴¹ For example, since 2000, approximately 80% of FHA mortgages were made to first-time homebuyers and one-third of FHA loans were made to borrowers in communities of color.⁴² In fact, twice as many FHA mortgages are made to Black and Latino borrowers as the rest of the market.⁴³ Notably, FHA loans represent about 24% of all loans made to all households making less than 100% AMI. This share is even higher for Black and Latino households, where the share of FHA loans is 36% and 39% respectively. The FHA clearly plays a central role in providing credit to borrowers not adequately served by the conventional market. This role has increased since the Great Recession, with both FHA loans and other government-insured loans accounting for a larger share of first-time homebuyer's mortgages in 2020 than in 2005.

Although FHA-insured loans expand access to homeownership, the mortgages can be more expensive than conventional loans. Figure 11 details the mortgage insurance requirements for FHA and conventional loans.⁴⁴ Mortgage insurance protects lenders from the risk of higher leverage loans by limiting losses if the borrower defaults. Borrowers with FHA-insured mortgages pay Mortgage Insurance Premiums (MIPs), which

carry an upfront cost (UPMIP) equal to 1.75% of the loan amount and an annual premium ranging from 0.85% to 1.05% of the original loan amount for the life of the loan, mostly depending on loan size. Borrowers with conventional mortgages who have down payments less than 20% are required to pay Private Mortgage Insurance (PMI), which is structured as a monthly payment ranging from 0.58% to 1.86% of the original loan amount per year mostly depending on the borrower's credit score until the homeowner reaches 78% loan-to-value or the borrower has 22% equity in their home.

With insufficient income or savings to afford a 20% down payment, asset-poor households have to take out a higher mortgage amount and incur higher monthly payments due to mortgage insurance premiums, which further contributes to the housing burden and deteriorates their financial condition. As illustrated in Figure 10, if a household is able to afford a 20% down payment on a median-priced home in California (\$786,000), or \$157,000, their monthly mortgage payment is at \$3,157 with conforming loan at rates prevailing at the time this report was prepared. If the household is only able to afford a 3% down payment, the monthly mortgage payment will have to increase by \$1,018 due to the larger mortgage amount and the lender's requirement for private mortgage insurance.⁴⁵ If the household opts for a FHA loan with a 3.5% down payment, the monthly payment is even higher at \$1,180 as a result of the FHA mortgage insurance premium.

41 "FHA-Insured Home Loans: An Overview." Congressional Research Service, January 21, 2022. Retrieved from <https://crsreports.congress.gov/product/pdf/RS/RS20530/3>

42 FHA Annual Management Report Fiscal Year 2021, p. 15. U.S. Department of Housing and Urban Development. <https://www.hud.gov/sites/dfiles/Housing/documents/FHAFY2021ANNUALMGMNTRPT.pdf>. These figures are for FHA-insured forward mortgages and do not include FHA-insured reverse mortgages, known as Home Equity Conversion Mortgages (HECMs).

43 Ibid.

44 Genworth Mortgage Insurance, Ginnie Mae, and Urban Institute. FHA rate from MBA Weekly Applications Survey. Conforming rate from Freddie Mac Primary Mortgage Market Survey. Note: Rates as of March 24, 2022.

45 Ibid; assuming rates for borrowers with FCIO 760 and higher

Figure 8: Mortgage Payment Comparison - FHA vs. Conventional Loan

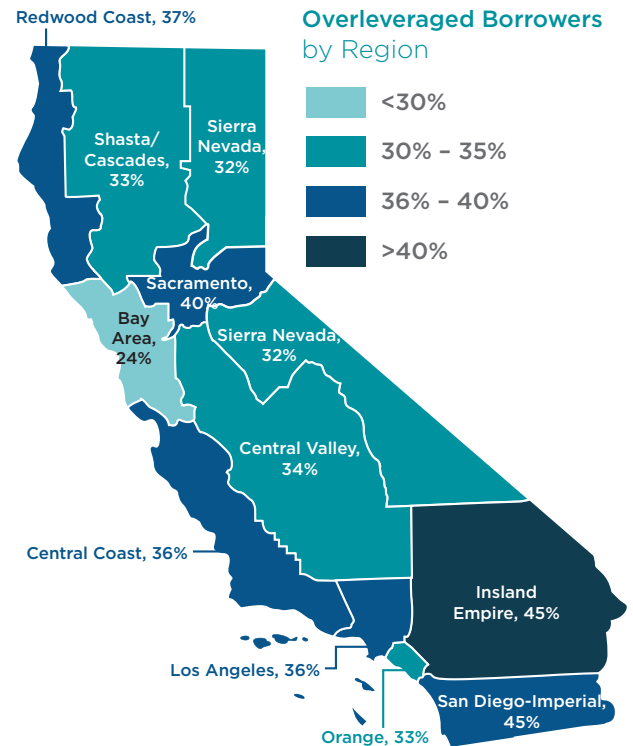
| | Conventional Loan | | FHA |
|--------------------------------|-------------------|----------------|----------------|
| Down Payment | 20.00% | 3.50% | 3.50% |
| 1st Mortgage Payment | \$3,160 | \$3,810 | \$3,800 |
| PMI / FHA MIP | \$0 | \$370 | \$540 |
| Total Monthly Mortgage Payment | \$3,160 | \$4,180 | \$4,340 |
| Monthly Savings | | \$1,020 | \$1,180 |

Despite the differences in monthly mortgage payments, asset-poor households can also struggle to secure a competitive mortgage. In 2020, mortgage applicants with debt-to-income (DTI) ratios above 42% were nearly 2.5 times as likely to be denied loans as those with ratios at or below 35%.⁴⁶ This reflects the “ability to pay rules” that set the highest DTI a borrower can have at 43% DTI for qualified mortgages.⁴⁷ Regulation Z sets the requirements for qualified mortgages, which demonstrate to the secondary market that the creditors have made a “reasonable, good faith determination of a consumer’s ability to repay any residential mortgage loan.” The maximum DTI to receive Qualified Mortgage status is 43%. Homebuyers with higher DTI loans must take out non-qualifying mortgages that have additional fees and higher interest rates than qualifying loans. In California, more than a third of homebuyers had a DTI over 42%, which implies many Californians have non-conforming mortgages.⁴⁸ Furthermore, it reveals that many households access homeownership by putting themselves in precarious financial situations.

The combination of a small down payment and a less competitive mortgage further constrains how much a household can offer for a home. This puts many buyers at a significant disadvantage, especially in market environments where home costs are accelerating faster than wages and income. Small down payment mortgages are also less attractive to sellers, putting borrowers at a further disadvantage—especially in highly competitive markets. A recent survey found that 89% of home sellers would be “likely” to accept an applicant with a conventional loan, but only 30% would be likely to accept an applicant with a loan backed by either the FHA or the Department of Veterans Affairs (VA).⁴⁹ This discrepancy may

be attributed to the additional terms that come with government-issued mortgages as well as a perception of elevated risk associated with the buyer’s ability to secure financing. All-cash offers, by contrast, offer more guarantees that the sales transaction will close.

Figure 9. Share of Total Borrowers with High Debt (>42% DTI) by Region (2020)



Source: HMDA 2020

46 HMDA 2020.

47 “What is a Qualified Mortgage?” Consumer Financial Protection Bureau, 2019. <https://www.consumerfinance.gov/ask-cfpb/what-is-a-qualified-mortgage-en-1789/>

48 Ibid.

49 Goodman, Laurie, and Ratcliffe, Janneke. “The Tight Housing Market Boxes Out Government-Insured Borrowers, Widening Homeownership Gaps.” Urban Institute, 2021. <https://www.urban.org/urban-wire/tight-housing-market-boxes-out-government-insured-borrowers-widening-homeownership-gaps>



Household Barriers: Savings, Wealth and Racial Inequality

Limited assets pose a major barrier to accessing homeownership. Surveys at the national level indicate that a lack of assets for a down payment may be the most significant barrier for prospective homebuyers. A 2021 survey of 2,500 non-homeowners found that 54% could not afford a down payment.⁵⁰ This result is consistent with a separate 2017 survey, in which 68% of all respondents cited down payment as a barrier.⁵¹ While many low- and middle-income households struggle to save, asset-building is even more difficult for households of color. For instance, the median-income White household typically requires nine years of savings to afford a 5% down payment compared to 14 years for Black households and 11 years for Latino households.⁵² This disparity reflects mortgage lending practices that deny households of color access to homeownership and economic mobility, perpetuating an intergenerational racial wealth gap.

High student debt further constrains homebuyers' ability to save for a down payment. In 2019, the median net worth of young renter households with a bachelor's degree was \$62,000 if they were debt free—more than twelve times the net worth of a similar household with debt (-\$4,860).⁵³ The difference between these two situations shows how student debt impacts wealth accumulation. Although a bachelor's degree may lead to higher earning potential over an individual career, the additional income often goes to pay off student debt in the early years. This added debt burden

makes it more difficult for potential homebuyers to save the necessary down payment.

Furthermore, first generation homebuyers are also constrained by a lack of intergenerational wealth transfers that help them save for a down payment. One survey found that only 37% of first-generation homebuyers received help from their parents, compared to 51% of all first-time homebuyers.⁵⁴ This difference begins to reveal how beneficial homeownership is for multi-generational wealth building. Homeownership offers an opportunity to pass wealth between generations that puts first-generation homebuyers at a disadvantage when trying to save for a down payment.

As a result of these constraints, many homebuyers are priced out of the market. A smaller down payment correlates to higher mortgage payments, which many low- and moderate-income homebuyers cannot afford. Figure 10 shows how much more savings a homebuyer needs to accumulate to make a 20% down payment on a median price compared to a 10% down payment in different regions across the state. The difference ranges from approximately \$5,200 to \$18,000. The implication is that first-time homebuyers may need to save for many more years, and may never have enough savings to make a 20% down payment. These conditions create a competitive market that strongly disadvantages low- and moderate-income households.

50 McNair, Kameron. "48% of Renters Worry They'll Never Be Able to Buy; Down Payments Biggest Barrier." LendingTree, 2021. <https://www.lendingtree.com/home/mortgage/homeownership-renting-survey/>

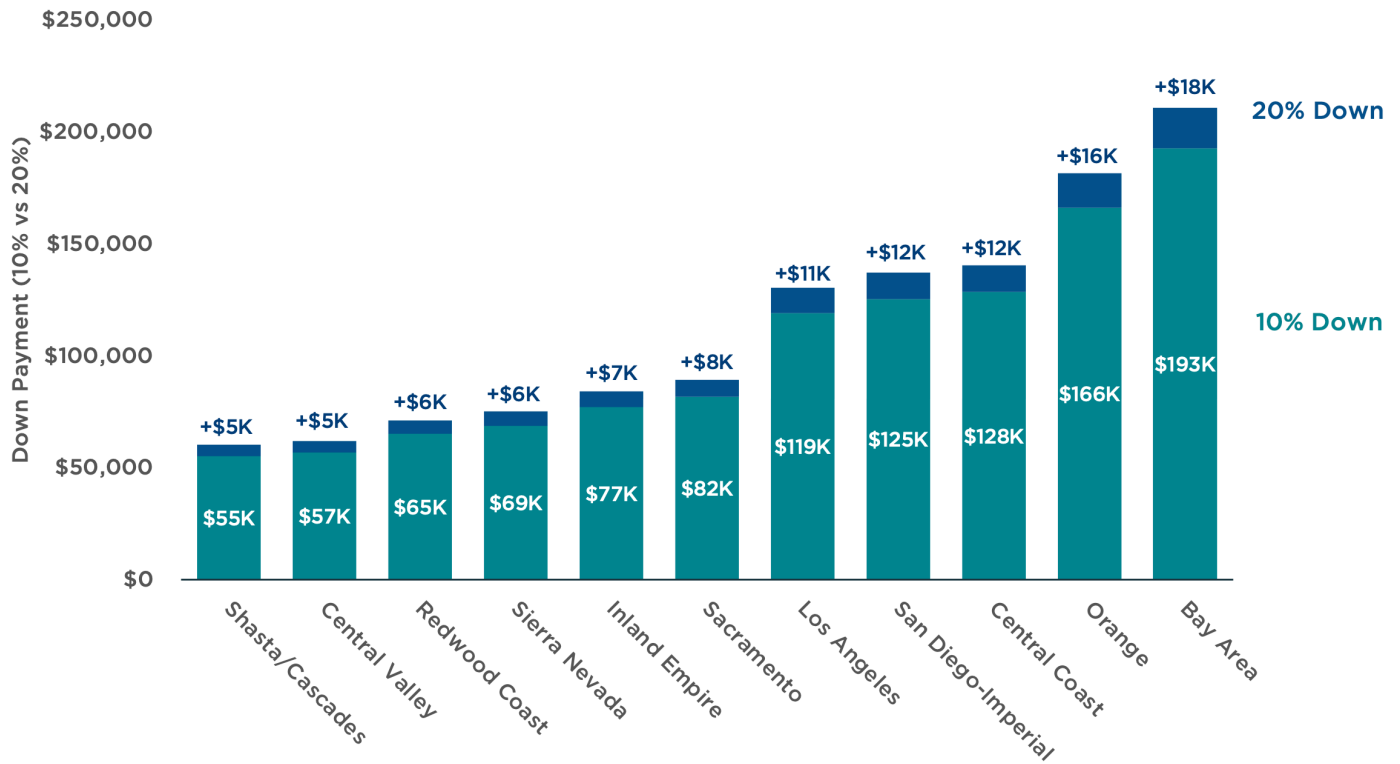
51 Gudell, Svenja. "Down Payment the Top Hurdle Holding Back Would-Be Home Buyers." Zillow, 2017. <https://www.zillow.com/research/down-payment-hurdle-zhar-14790/>

52 "Hardship for Renters: Too Many Years to Save for Mortgage Down Payment and Closing Costs." Center for Responsible Lending, April 2021. <https://www.responsiblelending.org/research-publication/hardship-renters-too-many-years-save-mortgage-down-payment-and-closing-costs>

53 "Hardship for Renters: Too Many Years to Save for Mortgage Down Payment and Closing Costs." Center for Responsible Lending, April 2021. <https://www.responsiblelending.org/research-publication/hardship-renters-too-many-years-save-mortgage-down-payment-and-closing-costs>

54 "2021 Homebuyer Insights Report. First-Generation Homeowner Spotlight." Bank of America, 2021.

Figure 10: Income Required to Make a 10% and 20% Down Payment



Source: HR&A Advisors

Racial Disparity in Access to Homeownership

Despite federal legislation prohibiting discrimination in the homebuying process, people of color continue to have more limited access to mortgage finance. While Latino and Black households account for 39% and 5% of all California households, respectively, they accessed just 31% and 4% of all home purchase loans in 2020.⁵⁵ Many households of color who do access loans may still be at a competitive disadvantage. Figure 11 shows that Latino households accounted for 56% of all government-issued mortgages, but just 23% of conventional mortgages. Mortgage underwriting criteria are partially responsible for these disparities; Black households nationally had a median DTI ratio of 41% in 2020, compared to 37% for White households, and as of October

2020, 45% of Black consumers nationally had subprime credit scores, compared to 18% of White consumers.⁵⁶

However, economic characteristics do not fully explain racial disparities in mortgage access. In 2020, California lenders made fewer loans to Black applicants than White applicants, even when their incomes were high, \$100,000 a year or more, and even when accounting for household debt.⁵⁷ In fact, high-earning Black applicants with low debt were rejected more often than White applicants in the same category and nearly as often as high-earning White applicants with high debt. Black applicants are also nearly twice as likely to be denied conventional mortgages as White applicants, even when controlling for income.

55 "HMDA Data Reveals Refi Boom During Pandemic, But Not For Black and Hispanic Homeowners." National Community Reinvestment Coalition, 2021. <https://www.ncrc.org/hmda-data-reveals-refi-boom-during-pandemic-but-not-for-black-and-hispanic-homeowners/>

56 HMDA, 2020.

57 HMDA, 2020.

Figure 11: Racial Disparities in Home Purchase Loan Access in California (2020)

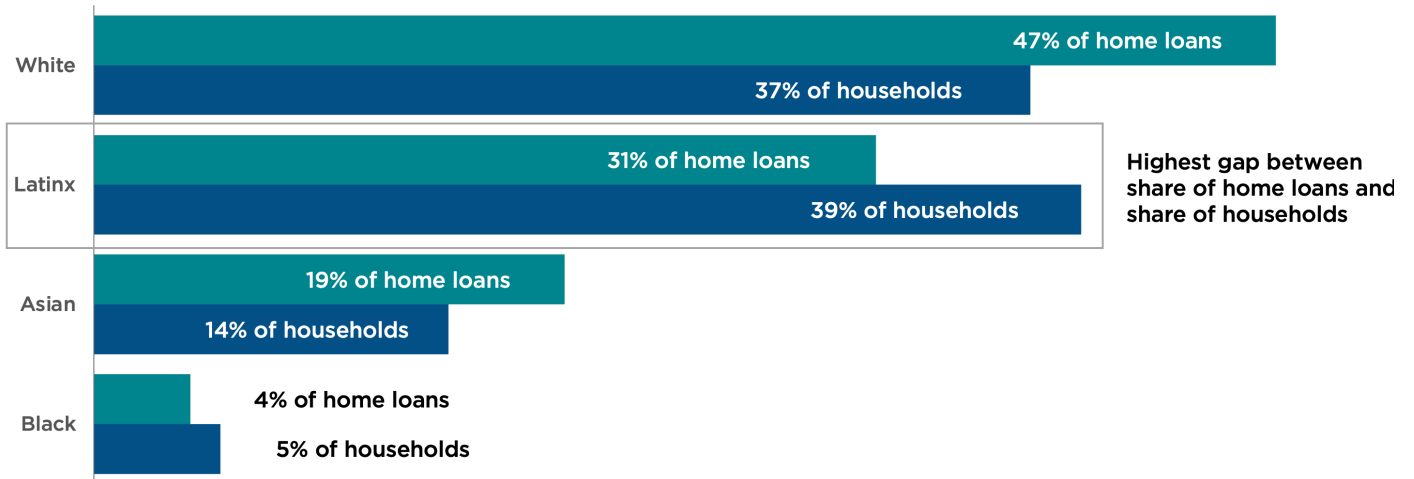


Figure 12: Loan Application Denial Rates for All Applicants and Applicants Over 120 AMFI, by Race

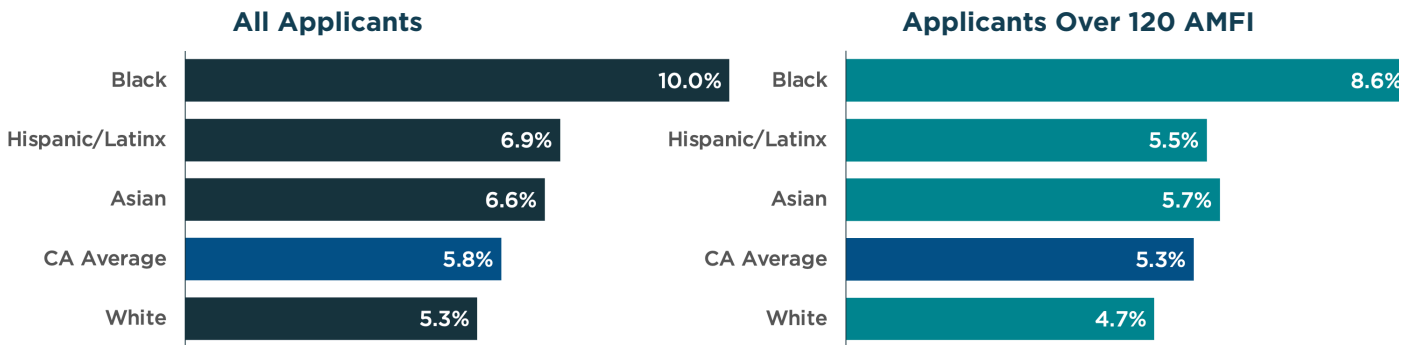
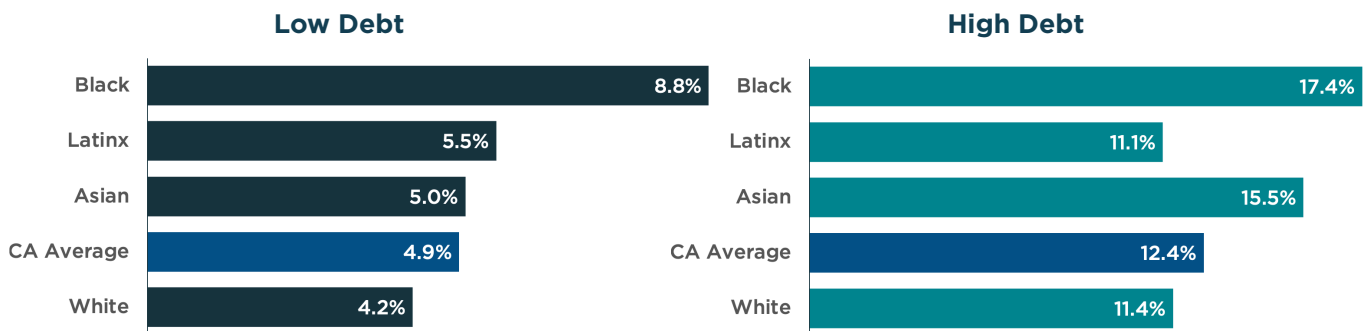
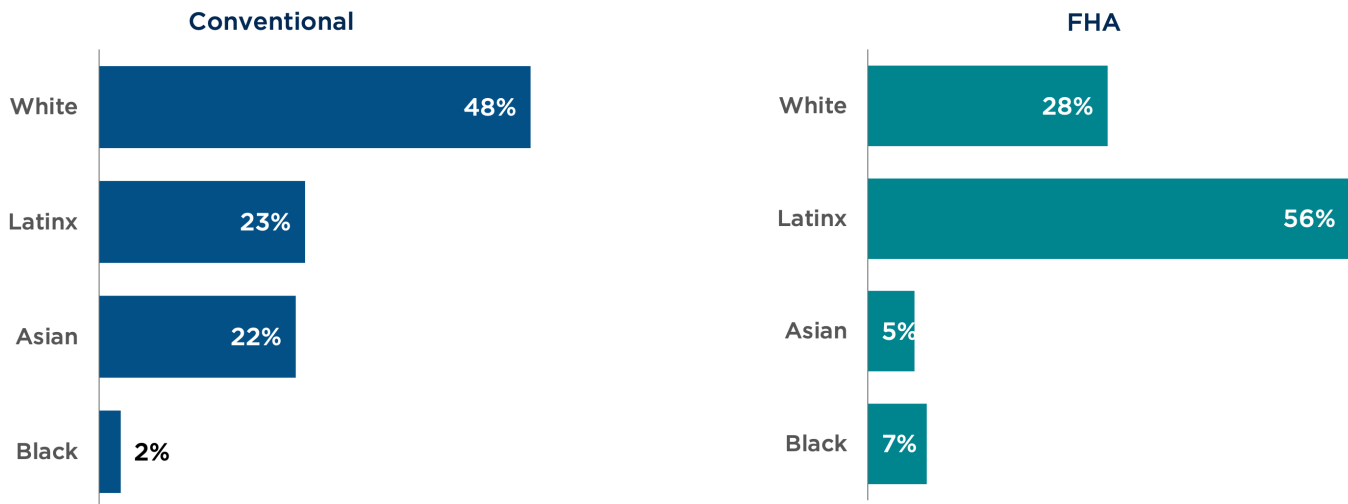


Figure 13: Loan Application Denial Rates for Low-Debt and High-Debt Applicants, by Race



Source: HMDA 2020

Figure 14: Share of Conventional and FHA Loans Issued to Borrowers, by Race



COVID-19 Impacts

The COVID-19 pandemic has negatively impacted existing and prospective homeowners. Through the first several months of the pandemic, an estimated 9.8% of American homeowners could not pay their mortgage on time.⁵⁸ These hardships have coincided with a reduction in home loans issued by banks and other mortgage lenders—also known as “credit tightening.” Credit tightening can result from lenders requiring more stringent terms or the application of more restrictive regulation of the credit underwriting process, as was the case following the Great Recession. According to the Mortgage Credit Availability Index (MCAI), the availability of home loans nationwide dropped nearly 35% between February and September

2020. Credit availability has slightly rebounded since then, with a 5% increase between September 2020 and January 2022,⁵⁹ but it remains far below pre-pandemic levels. These constraints persist amid a continued escalation of home prices. Between 2020 and 2022, the median home price in California rose more than 26%.⁵⁹

In response to this crisis, the State has dedicated funding to address housing affordability as part of its recovery effort. Through the California Comeback Plan, the State will dedicate over \$3 billion to increase the supply of housing that is affordable to low-income families and increase access to homeownership. The CA Dream for All program is an important component of this allocation.

58 “Measuring the Crisis: Housing Data during the COVID-19 Pandemic.” Urban Institute, 2020.

59 Mortgage Credit Availability Index. Mortgage Bankers Association. Retrieved from: <https://www.mba.org/news-and-research/research-and-economics/single-family-research/mortgage-credit-availability-index-x241340>

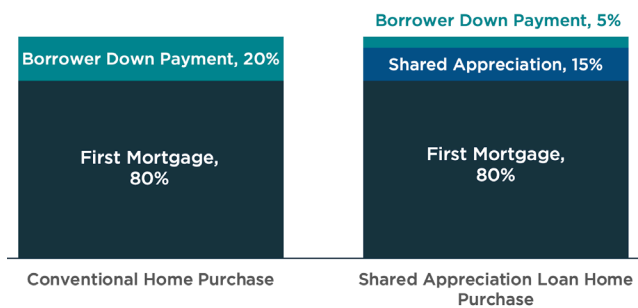
III. SHARED APPRECIATION LOAN

The following will lay out the basics of a shared appreciation loan, or SAL; how it benefits households compared to other home financing options; and the limitations of a SAL, particularly in a supply-constrained market like California.

SALs offer an alternative to either public subsidy or conventional mortgage financing. That is, a SAL is repaid through a predetermined percentage of the appreciation, or depreciation, in the home's value. This contrasts with conventional mortgages that have a fixed or variable interest payment on the outstanding loan amount. It also is different from a subsidy program where the assistance is not repaid.

At the time of the home purchase, SALs reduce the amount of down payment borrowers need to pay into the transaction. A SAL replaces some or all of the down payment a household would provide for a conventional loan. For example, Figure 15 shows a conventional loan with a 20% down payment and first mortgage. The SAL example reduces the down payment to 5% and replaces the balance with the SAL by providing down payment funds from a third party source.

Figure 15: Conventional Home Purchase vs. Shared Appreciation Home Purchase



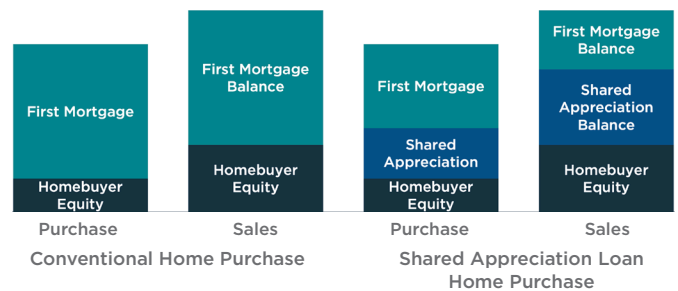
Source: HR&A Advisors

SALs are commonly structured as second mortgages. Second mortgage lenders can have specific credit, equity and income requirements that borrowers must meet. The primary difference between a second mortgage and a first mortgage is how repayment is prioritized. If the borrower cannot repay the debt in full, both loans are secured with the same asset, but the first mortgage receives priority if the home is foreclosed or sold to repay the debt. The second

mortgage lender therefore assumes more risk. A SAL does not have monthly payments, and is therefore often called a “silent second” mortgage. The financial arrangement more closely resembles an equity investment in the property than a loan against the property. The basic terms of the second mortgage, such as interest rate and amortization schedule, are also set independently of the first mortgage. A SAL can align with the underwriting requirements of first mortgage lenders and the requirements of the secondary mortgage market because it becomes “junior” to the first mortgage. In other words, the first mortgage will be paid first in the event of a borrower default resulting in a foreclosure sale.

Sellers or developers are indifferent to whether a homebuyer uses a SAL. SALs do not directly impact the buyer or seller; homes are sold at a market rate through conventional market transaction processes. The seller, whether an investor, developer, or homeowner, lists the property and can receive offers from potential buyers with and without shared appreciation financing.

Figure 16: Shared Appreciation Loan at Purchase and Sale



Source: HR&A Advisors

The cost of a SAL to a borrower depends mainly on the level of home price appreciation and is aligned with market condition and household repayment capacity. One way to understand the cost of the loan is to evaluate the true annual cost as measured by the effective annual interest rate (EAR). With a pro rata SAL, the EAR is the annual rate of home price appreciation of the property, despite the size of the SAL. The EAR takes into consideration regional variances and differences in home conditions and valuation.

Existing Shared Appreciation Loan Programs

Among existing SAL programs, privately and publicly funded programs focus on different homebuyers. The privately funded SAL programs tend to bear higher cost of capital and therefore restrict eligible markets, property types and borrowers to increase the program's expected return to the entity providing the capital. This is a result of private sector investors' demand for higher returns on investment to meet their cost of capital. Such returns are anything but arbitrary; they are driven by market forces in an investment world that balances risks with rewards. The result is that private programs cannot provide sufficient subsidy or long-term investment to meet many low-and-moderate income households' needs, largely because of uncertainty around the timing of repayments of the initial capital investment.

Private and public SAL programs target different homebuyers. That is, private programs offer both lines of credit for existing homeowners and upfront financing for first-time homebuyers. Private programs typically provide loans to high-income or moderate-income households

in housing markets with strong appreciation. Finally, private program terms are weighted to provide a greater share of appreciation to the SAL loan repayment than the typical public program that is often pro rata sharing or forgivable (See Appendix B for more detailed information on existing shared appreciation programs). Public SAL programs, on the other hand, tend to focus on first-time homebuyers and target low- to moderate-income homebuyers.

Comparison with Other Shared Equity Models

It should be noted that a SAL is fundamentally different from other shared equity models like limited equity cooperatives (LECs) and community land trusts (CLTs). Most other shared equity homeownership models aim to preserve affordability by adding a long-term restriction on the sales prices rather than allowing households to reap the full benefits of home appreciation at sale. Meanwhile, a SAL program typically does not have an affordability component, and is focused on building assets for borrowers and sharing market risks.

Figure 17: Key Features of Private Shared Appreciation Programs

| Program Feature | General Definition |
|--------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| Program Serves | Existing homeowners and first-time homebuyers |
| Funding Sources | Private investors incl. institutional investors, venture capital, REITs |
| Loan Amount | 5%-30% of beginning property value Maximum loan amounts in the range of \$120,000 - \$600,000 |
| Borrower Eligibility | 500+ credit score, 75%-95% LTV, some down payment contribution |
| Appreciation Share Split | Programs receive appreciation split of 2.5:1 or higher. |
| Downside Protections | Most programs share downside risk but may apply an upfront risk adjustment |
| Repayment Events | Repayment typically occurs at borrower buy-out of the loan, home sale, or refinance. In some cases, borrower can refinance without repaying the SAL. |
| Examples | Landed, Unison, Hometap, Noah, The Point |

Shared Appreciation Loan and Traditional First-Time Homebuyer Assistance

There are a number of existing types of public support that a first-time homebuyer can access, as described in Figure 19. Though the exact terms vary, the common limitation is the amount of assistance, which is typically below 5% of purchase price. In addition, most programs operate at a small scale with a long waiting list. A well-designed statewide SAL program could complement the existing financing options to overcome limitations of the existing programs.

Figure 18: Comparison with Shared Equity Homeownership Models

| Model | Type | Primary Goal | Description |
|----------------------------------|---------------------|------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Limited Equity Cooperative (LEC) | Shared Equity | Long-term affordable housing stock | Residents jointly own shares in a cooperative which in turn owns housing units. Co-op members pay a monthly fee to cover shared expenses. Ownership shares can be sold based on a formula which typically maintain affordability. |
| Community Land Trust (CLT) | Shared Equity | Long-term affordable housing stock | A nonprofit entity (the CLT) purchases and holds a portion of the property (typically, the land value) and an income-qualified homebuyer owns the remaining portion (typically, the house). The CLT retains ownership of its portion at sale, which much be made to another income-qualified homebuyer, thus preserving the home for affordable homeownership. |
| Shared Appreciation Loan (SAL) | Shared Appreciation | Wealth-building for homebuyers | A lender provides a “silent second” mortgage to a homebuyer or existing homeowner in exchange for a share of the appreciated value on the home over the term of the loan. |

Figure 19: Common Homeownership Financing Options for First-Time Homebuyers

| Public Finance Instrument | General Definition |
|------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Forgivable Down Payment Assistance | Public subsidy with no repayment and interests, typically within a range of 3-5% of purchase price with the rare exception up to 10%, such as the CalHFA Forgivable Equity Builder Loan |
| Fixed Rate Down Payment Assistance | Silent second mortgage with fixed simple interest rate that accrues and is due at exit, typically up to 3-4% of purchase price, such as the CalHFA MyHome Program |
| Closing Cost Assistance Program | Silent second mortgage with zero interest, typically up to 3-4% of purchase price with zero interest, such as the CalHFA ZIP Program |
| Shared Appreciation | Silent second mortgage with no monthly payment and is due at exit based on a percentage share of home price appreciation or depreciation |

CalHFA MyHome Program

The MyHome program is second, silent mortgage that covers the lesser of 3% of the loan amount and \$15,000 (up to 3.5% for FHA), sits in the second lien position, and can be layered with any CalHFA first mortgage. To qualify for the MyHome program, the borrower must be first-time homebuyer, complete homebuyer education, and meet the **CalHFA income limits of 150% of county AMI** by household size. Public school and Fire Department employees, new construction properties, manufactured housing properties, and single-family homes with ADUs are exempt from the loan amount limit.

Loan Amount: 3% (3.5% for FHA) of the first mortgage up to \$15,000

Eligible Use(s): Down Payment and Closing Coast Assistance

60

CalHFA Forgivable Equity Builder Loan

The Forgivable Equity Builder Loan (FEB Loan) is an forgivable, zero percent interest second lien for first-time homebuyers that covers the loan amount up to 10% of the sales price of appraised value. To qualify for the FEB Loan, the borrower must receive approval for any CalHFA first mortgage that does not utilize the ZIP program, **earn income at or below 80% AMI**, be a first-time homebuyer, and take education. The Loan is forgiven if the borrower stays in the residence for five years; or, if paid off or sold before the first five years of the term, is forgiven on an annual pro-rated basis. The program is funded by federal proceeds from the Build Back Better bill.

Loan Amount: 10% of the sales price or appraised value

Eligible Use(s): Down Payment Assistance

61

CalHFA ZIP Program

The ZIP is used to cover closing costs, it will not reduce the first mortgage amount and thus cannot reduce the LTV on a first mortgage. To qualify for the ZIP program, the first mortgage must be CalPLUS Conventional or CalPLUS FHA, limiting eligibility to borrowers with **income at or below 80% of county AMI**, set by Fannie Mae, and those who have completed homebuying counseling. The ZIP program provides closing cost assistance equal to 2 or 3% of the loan amount and sits in the third lien position.

Loan Amount: 2-3% of the first mortgage

Eligible Use(s): Closing Cost Assistance

62

Advantages of Shared Appreciation

As illustrated in Figure 20, each of these home purchase financing options has its unique benefits and drawbacks in terms of its ability to balance public and homebuyer priorities. With limited public funding resources, there is a direct tradeoff between the need to maximize the number of households assisted and the level of support provided to each individual homebuyer. **SAL's most compelling advantage is the combination of reducing the monthly payment to a household, while generating revenue to serve future households and providing protection to the homebuyer in the event of depreciation. The biggest drawback is the financial complexity of the terms for a SAL.**

Figure 20: Public and Homebuyer Priorities by Various Financing Options

| Financing Instruments | Public Priorities | | Homebuyer Priorities | | |
|-----------------------|---------------------------|-------------------------------|----------------------|--------------------------|----------------------|
| | Recycle to new home buyer | Targeting specific population | Downside protection | Reduced monthly mortgage | Financial simplicity |
| Forgivable DPA | | | | | |
| Fixed Rate DPA | | | | | |
| Shared Appreciation | | | | | |
| FHA Loan w/o DPA | | | | | |

Source: HR&A Advisors

61 CalHFA Conventional Loan Program Handbook. CalHFA, 2022. <https://www.calhfa.ca.gov/homeownership/programs/archive/2022/20220510/loans-conventional-05-10.pdf>
 62 Forgivable Equity Builder Loan. CalHFA, 2022. <https://www.calhfa.ca.gov/homeownership/programs/ForgivableLoan.pdf>

Reduced Monthly Mortgage Payment

A SAL structure can provide deeper down payment assistance than most existing public down payment assistance (DPA) programs. That is, most existing forgivable and fixed rate DPA programs offer assistance equal to 3-5% of the purchase price. A few programs offer up to 10% assistance. The size of existing subsidies reflects that large forgivable down payment assistance to individual homebuyers is financially unsustainable, since the funds do not replenish. In contrast, a much larger average loan size, close to 20% of the purchase price, is financially sustainable with a SAL because the loan repayments replenish the initial investment.

For a SAL to significantly impact wealth accumulation and bestow the benefits of homeownership, a 20% down payment is necessary to eliminate high mortgage insurance premiums and significantly reduce monthly housing costs. As mentioned earlier, households must contribute a minimum 20% down payment in order to access conventional loans without private mortgage insurance. For example, to purchase a median-priced home in California (\$786,000 in 2021) with a conventional loan, a homebuyer would need to make a \$157,000 down payment. With a 17% SAL, a homebuyer can save \$133,000 and only need to put 3% down. The homebuyer would also reduce their monthly mortgage payments by 27%, or \$1,180, by avoiding mortgage insurance premiums and taking a lower leverage first mortgage, as illustrated in Figure 23.

SALs allow homebuyers to access homeownership with lower incomes than either conventional or FHA loans. A large SAL lowers monthly payments, reducing the financial burden and lowering the income required to qualify for the first mortgage. As shown in Figure 21, to purchase the median price house with a SAL, homebuyers would need an income of \$88,000, or 114% of median income. Without the SAL, homebuyers would need an income of \$121,000, or 156% of California's median income. Although the FHA loan supports increased access to mortgage financing, the current structure puts homeownership out of reach for a large share of Californians.

Support Wealth Accumulation

A well-designed SAL can provide borrowers the opportunity to build wealth in upside scenarios and share losses in downside scenarios. Figure 22 illustrates the impact to homebuyer equity with a pro rata SAL that provides 17% of the purchase price under both an upside scenario assuming 6% annual home price appreciation and a downside scenario where property value stays flat.

When the borrower sells the property at Year 10 in the upside scenario, the effective interest rate for SAL is 6%, and households are able to earn 22.9 times their initial down payment equity due to first mortgage amortization and shared appreciation sharing the upside. In the downside scenario, the effective interest rate for a SAL would be 0%. Households are still able to gain 2.3 times for their equity due to a first mortgage amortization and shared appreciation not charging any effective interests. This scenario shields the borrower from an economic downturn and adjusts the second mortgage repayment amount in alignment with market conditions.

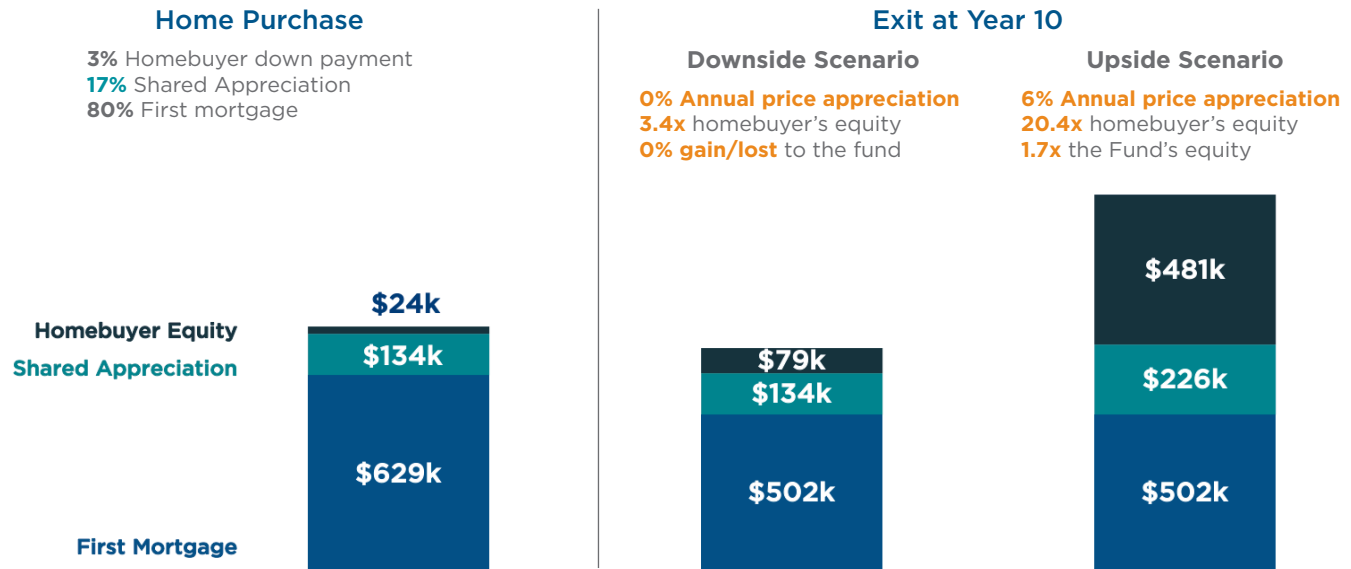
When compared to a fixed rate silent second mortgage of the same loan amount that charges a 3% annual simple-interest over 10 years, a pro rata SAL enables the borrower to accumulate more equity in a downside scenario at \$55,000 compared to \$15,000, since the effective interest rate for a SAL would be 0%, which is significantly lower than the fixed rate. For the fixed rate program, even if property value growth does not keep up with the interest rate, the same amount of repayment is due and leaves the borrower in a worse financial condition before homeownership.

In an upside scenario with 6% annual home price appreciation, the effective interest rate for a SAL would be 6%, and higher than the fixed rate loan. The SAL charges a higher repayment amount, but is within the borrower's ability to repay, thanks to the significant appreciation in property value. Households are still able to gain a 22.9 times multiple of their initial down payment with the SAL.

Figure 21: Shared Appreciation Benefits Compared to FHA Loan

| | Shared Appreciation | FHA Loan |
|-----------------------------------------|---------------------|----------------|
| 1st Mortgage Payment | \$3,160 | \$3,800 |
| FHA MIP | \$0 | \$540 |
| Total Monthly Mortgage Payment | \$3,160 | \$4,340 |
| Savings from Shared Appreciation | | \$1,180 |
| Required Household Income | \$88,110 | \$121,030 |
| % California Median Income | 114% | 156% |

Figure 22: Illustrative Example of Shared Appreciation Loan in Downside and Upside Scenarios



Sources: HR&A Advisors

Figure 23: Impacts on Borrower Equity - Shared Appreciation vs. Fixed Rate

| | Shared Appreciation (17%) | | Fixed-Rate (17%) | |
|-------------------|---------------------------|-----------------|------------------|-----------------|
| | Homebuyer Equity | Equity Multiple | Homebuyer Equity | Equity Multiple |
| Downside Scenario | \$79,357 | 3.4 x | \$39,257 | 1.7 x |
| Upside Scenario | \$480,525 | 20.4 x | \$532,586 | 22.6 x |

Sources: HR&A Advisors

Downside Risk Sharing

A well-designed SAL product provides both a wealth building opportunity and downside protection when home values drop. That is, if the value of a home is less than the purchase price then there is no appreciation to share with the SAL; the SAL principal is repaid, but the effective interest rate is zero. This allows the SAL principal to be recycled to a new borrower. At the same time, the borrower is protected from additional debt burdens that a more conventional interest rate structure creates. As a result, with a SAL and decreasing property values a borrower can still build wealth due to an amortizing first mortgage that reduces the loan amount over time.

In contrast, a fixed rate mortgage does not offer downside risk sharing. Even if home price appreciation is lower than the interest rate on the fixed interest rate, the full payment is due. The value of the fixed interest rate is the same regardless of market fluctuations, leading to worse financial outcomes for a borrower when appreciation rates are lower or more negative than a SAL.

Recycling Public Funding

An initial public investment in a SAL will generate revenue that can be recycled to fund loans for multiple rounds of homebuyers over time. The public sector does not have to write off the value of the SAL to make the home affordable, as they do with forgivable down payment assistance, which increases the number of homebuyers who can be supported. Because the payment on a SAL is not due until sale or a repayment event (cash-out refinancing, etc.), the reduction in the cost of homeownership for the homebuyer is like a grant. A SAL combines the benefit of improved affordability with recycling public funding by tying payment to appreciation.

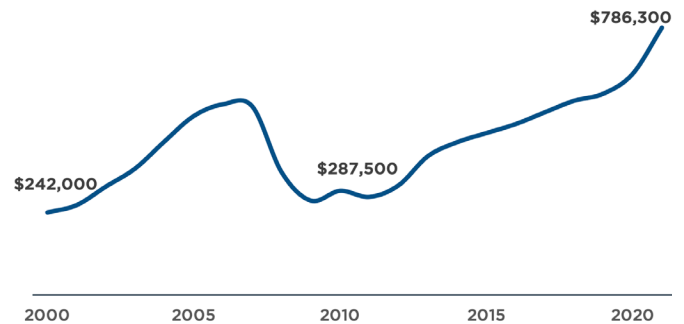
Because a SAL payment is tied to the appreciation of home prices, it will remain equally effective as it recycles, even in a rapidly appreciating housing market. During the height of COVID-19, and from 2010-2015 (see Figure 25), property values grew dramatically. The high rates of appreciation mean that when it comes time for a SAL to recycle, more funding is needed to provide the same level of support and to get a homebuyer to 20% down. While a second mortgage with a fixed rate might fail to keep up with market growth in a rapidly appreciating market, leaving insufficient funding to recycle in

order to provide equal support to later rounds of homebuyers, a SAL is tied to the market and will remain equally effective after multiple rounds or recycling. See Figure 24 for how a pro-rata SAL recycles funds over five years compared to a fixed rate, 3%, simple-interest. silent second program, assuming the purchase of a median-priced home at \$786,000 with a 6% annual price appreciation.

Figure 24: Impacts of Recycling Funds - Shared Appreciation vs. Fixed Rate

| | Shared Appreciation | Fixed-Rate |
|---------------------------------------------------|---------------------|------------|
| Initial Second Mortgage Amount | \$134,000 | \$134,000 |
| Repayment Amount Due at Year 10 (Upside Scenario) | \$226,000 | \$174,000 |
| Down Payment Required for Next Borrower | \$226,000 | \$226,000 |
| Surplus/Shortfall | \$0 | (\$52,000) |

Figure 25: California Median Prices of Existing Single-Family Homes



Sources: California Association of Realtors

Drawbacks of SAL Include Financial Complexity

A SAL is more complicated and less familiar than a conventional fixed rate mortgage. The amount that a homebuyer will have to pay is the biggest increase in complexity versus other types of public homeownership assistance products. There is neither a fixed interest rate nor a payment schedule that a homebuyer can refer to in order to understand what they will owe in the future. This uncertainty, along with other features of a SAL (setting the value for a home in a cash-out refinance, making partial payments, etc.), can be confusing and off-putting to potential homebuyers.

IV. FUND DESIGN



California Dream for All: Fund Goals

As outlined in AB 140, the CA Dream for All Fund (“the Fund”) should be designed to:

1. **Provide significant down payment assistance** to meaningfully expand access to homeownership through a shared appreciation loan, particularly to first-time and first-generation homebuyers;
2. **Support wealth accumulation** for homebuyers who purchase a home, particularly in communities that historically face more systemic barriers to homeownership;
3. **Maximize the number of households assisted** over time with the public funding available; and
4. **Complement existing down payment assistance and first mortgage programs at the federal, state and local levels.**

A well-designed SAL product can not only provide the initial homebuyers with sufficient upfront down payment assistance and access to competitive first mortgage options, as well as enable wealth accumulation through homeownership; it can also revolve the funds to serve new homebuyers at exit. By offering SALs, the CA Dream for All Fund could increase access to homeownership by providing homebuyers a second source of financing, which would reduce the homebuyer’s upfront down payment, the first mortgage amount and monthly debt payments.^{63 64} The result

would be greater access to homeownership. As elaborated in the Introduction and Background section, apart from wealth accumulation, homeownership brings additional benefits to households, including increased financial health and improved educational outcomes for children.⁶⁵ A SAL product with loan terms that do not benefit first-time homebuyers and primarily focus on Fund returns would defeat the purpose of the program.

Key Program Terms and Design Considerations

To ensure that the CA Dream for All Fund can meet its goals and priorities, it is critical to contemplate the following set of design considerations that will determine the type of loans made by the Fund. The following section lays out the range of options and considerations for designing the Fund and highlights some of the challenges and opportunities involved.

As the Fund moves through the State’s legislative and regulatory processes, *it should balance the mandate to meet a large range of policy objectives without creating disruptive, unintended consequences in an already tight housing market, particularly as a statewide program. Once the Fund is set up, it should have its own governance model to be responsive to a wide range of internal and external stakeholders. This will give the program administrator the ability to adjust key terms and the operational plan based on the Fund’s performance and market conditions.*

63 “Homeownership is Affordable Housing.” Urban Institute, 2021. Retrieved from: https://www.urban.org/sites/default/files/publication/104214/homeownership-is-affordable-housing_0_0.pdf

64 “How does homeownership contribute to wealth building?” Habitat for Humanity, 2021. Retrieved from https://www.habitat.org/sites/default/files/Evidence-Brief_Wealth-building-for-homeowners.pdf

65 “Evaluating Homeownership as the Solution to Wealth Inequality.” Federal Reserve Bank of Cleveland, 2021. Retrieved from: <https://www.clevelandfed.org/newsroom-and-events/publications/economic-commentary/2021-economic-commentaries/ec-202122-evaluating-homeownership-as-the-solution-to-wealth-inequality.aspx>

Shared Appreciation Loan Terms

The degree to which the CA Dream for All Fund can build wealth and protect homebuyers from future price fluctuations in home prices is largely dependent on the following key design decisions.

Loan Amount



RECOMMENDATIONS:

The Fund should enable households to make *at least a 20% down payment* with the opportunity to go up to a 30% down payment for high-cost markets or priority target homebuyer groups.



RANGE OF OPTIONS:

The amount of the SAL available to each individual borrower would determine *who can access* the CA Dream for All Fund, the *location of homes* that can be purchased, and the *level of income* required to support mortgage payments. There are multiple parameters that can be set to limit a homebuyer's loan amount, including the *maximum loan amount*, *maximum purchase price* and *debt-to-income ratio*.

Figure 26: Mechanisms to Limit the Loan Amount

| Mechanism | Description |
|---------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Absolute Maximum Loan Amount | An absolute maximum loan limit constrains the Fund's contribution to a single borrower to a fixed amount. Assuming the loan amount represents a fixed percentage of the property value, the higher the absolute maximum, the greater the home value affordable to the borrower. This method lacks flexibility to market conditions and geographic differences in home value. |
| Purchase Price Cap | A purchase price maximum sets a cap on the home value a borrower may purchase. Limiting the purchase price ensures borrowers are not "over-housed" and select a specific set of homes in the market. While a purchase price limit, places a ceiling on the home value, it does not offer flexibility to market volatility. |
| Minimum and Maximum Housing DTI | A maximum DTI limits the percentage of monthly income dedicated to making mortgage and other monthly housing payments to ensure a responsible portion of a borrower's income is dedicated to housing payments. The monthly mortgage expense is a function of the property purchase price, first mortgage leverage, and interest rate. |
| Percentage of Property Value | A cap on the percentage of the property value that can be funded by a SAL limits the Fund's equity stake in a borrower's property. The CA Dream Fund illustrative design restricts the loan amount to 17% of the property value. |

Most existing public SAL programs are local, as opposed to statewide, which makes it feasible to set an *absolute maximum loan amount*. Some provide variation based on income level or other borrower characteristics (e.g., occupation). For instance, Alameda County's DPA program has two maximum loan limits based on a homebuyer's income. That is, the loan limit is \$210,000 for households earning less than 100% AMI and \$160,000 for households earning between 100% and 120% AMI. Similarly, San Francisco's DPA programs offer higher loan limits but also provide additional support for the Dream Keeper Initiative with a loan limit of \$500,000 compared

to \$375,000 for the general DPA program. Another privately funded program sets a loan limit of \$300,000 specifically for physicians relocating to Santa Barbara County.⁶⁶ An absolute maximum loan amount allows homebuyers to easily determine the potential support from the Fund but does not respond to changing market conditions or regional variation that is necessary at the state level.

The loan amount can also be determined through a *maximum purchase price cap* or a *maximum percentage of purchase price*. For instance, in a Santa Clara County program, SALs are limited by

66 "Resident Salaries and Benefits."Cottage Health, 2022. <https://www.cottagehealth.org/medical-professionals/residency-programs/resident-salaries-and-benefits/>

both a maximum purchase price of \$1,100,000 and a maximum percentage of 17%.⁶⁷ Setting both a price and percentage limit offers tighter targeting to specific homebuyers but reduces adaptability to market conditions. This is easier to manage when the program is spread across a single local jurisdiction, rather than at the state level where there are a multitude of variables influencing local markets. If the loan size is too small, a significant segment of Californians, neighborhoods or types of home can be effectively excluded from the CA Dream for All Fund.

Another option is to set a limit on the back-end *debt-to-income ratio (DTI)*, which indirectly limits the loan amount by restricting the purchase price a household can finance given their income. The back-end DTI is the share of monthly income that goes to paying all debt, including mortgage payments. For instance, Alameda County's DPA program has a back-end DTI limit of 43% as well as a minimum expenditure of 25% of income on housing costs. In this case, the DTI limit provides that homebuyers have sufficient resources for other expenses but also requires that homebuyers' housing costs are not fully subsidized by the Fund. DTI limits can help reduce the risk that borrowers are over-leveraged. DTI limits put a cap on homebuyers' leverage compared to monthly income. The first mortgage lender will have strict underwriting guidelines that cap DTI. For instance, Fannie Mae restricts DTI to 36% of monthly income with an exception of up to 45% if the homebuyer has additional reserves or a high credit score.⁶⁸ In other words, regardless of the Fund's cap, the first mortgage will set a DTI limit.

Key Considerations for Loan Amount:

1. **A statewide fund will face wide regional variation in home prices, making it impossible to set an effective singular absolute maximum loan amount.** To be useful to potential homebuyers throughout the state the CA Dream for All Fund must accommodate regional variation. For instance, in 2021 the median house price in the San Francisco Bay Area was nearly double those in the Inland Empire.⁶⁹ A statewide maximum loan amount or maximum purchase price does not allow for this variation. It would establish a loan amount that was either too low to benefit potential homebuyers in the San Francisco Bay Area or disproportionately high in the Inland Empire.
2. **Establishing a maximum debt-to-income ratio will put borrowers using the CA Dream for All Fund at a disadvantage when they attempt to purchase a home.** First mortgage lenders, in coordination with the secondary mortgage market, establish maximum debt-to-income ratios. If the CA Dream for All Fund established a DTI ratio lower than what first mortgage lenders have set, it would reduce the amount of the first mortgage a household could access. This would undermine the primary benefit of the CA Dream for All Fund: providing financial support to help households purchase homes that could not otherwise afford. As the Fund begins operations and an administrator is selected, they will determine the list of qualified first mortgage lenders who will have their own DTI limits. This process should prevent CA Dream for All borrowers from selecting a high-risk, non-GSE conforming product. By placing the responsibility for setting the DTI limit with the first mortgage lender, the CA Dream for All Fund will increase access to sustainable homeownership and ensure that homebuyers are not entering into overly-risky mortgage products.
3. **Ensuring households reach a 20% down payment provides the greatest financial benefit to households.** A SAL larger than 20% might hinder the borrower's capacity to build wealth through homeownership. As illustrated in the Introduction and Background sections, when the loan-to-value (LTV) on the first mortgage is greater than 80%, the typical homebuyer is required to pay mortgage insurance—a burden that adds to the borrower's monthly housing payment. Therefore, it is critical that the Fund provides sufficient proceeds to enable the borrowers to reach a 20% down payment and eliminate the

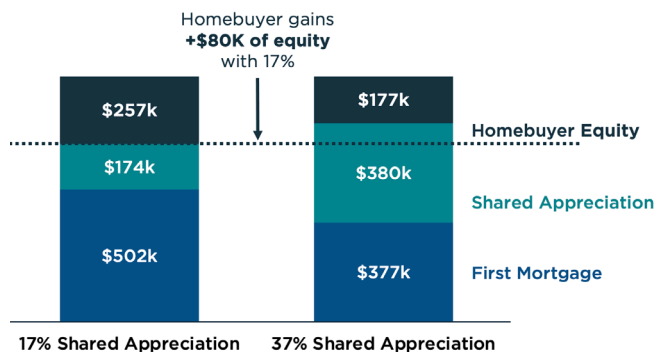
In contrast, loan limits based on a percentage of appraised property value at loan origination allows for regional price variation. House prices are growing at different rates across the state, which requires flexibility to accommodate. A universal limit, or other specific regional caps, would not allow the Fund to respond to changing market dynamics. Setting loan value as a percentage of property value will alleviate the administrative burden of adjusting limits and reduce the need to revisit Fund guidelines as economic conditions change.

67 "Empower Homebuyers SCC." Housing Trust Silicon Valley, 2022. <https://housingtrustsv.org/programs/homebuyer-assistance/empower-homebuyers-scc/>
 68 "Selling Guide," Chapter B3-6: Liability Assessment. Fannie Mae. <https://selling-guide.fanniemae.com>
 69 HR&A analysis of 2021 California Association of Realtors Median House Price data.

need for any mortgage insurance. It is also in the borrower's interest to maximize their first mortgage closer to 80% LTV, since it offers the fastest route to wealth accumulation through a combination of house price appreciation and loan amortization.

To illustrate, Figure 27 shows that homebuyer wealth accumulation is more than 40% higher with a 17% SAL versus a 37% SAL.⁷⁰ In both scenarios, the homebuyer makes a 3% down payment, or \$24,000. With an additional SAL of 17%, after 10 years the homebuyer's equity grows to \$279,000, or 11.8 times their initial investment. If the SAL increases to 37% of the home price, the homebuyer's equity only grows up to \$194,000, or 8.2 times the original amount. As the amount of the SAL increases, the homebuyers might be able to afford higher priced homes, but they also accumulate wealth at a slower pace than they would if they maximized their first mortgage.

Figure 27: Impacts on Homebuyer Equity, Shared Appreciation Loan at 17% vs. 37% of Home Price



Source: HR&A Advisors

- A second mortgage that is more than 20% LTV results in support for fewer households through the CA Dream for All Fund.** A 25% increase in the average size of the second mortgage translates directly to a 25% decrease in the number of households assisted. Keeping the target level of assistance at 20% will benefit the greatest number of homebuyers.
- For households in high-cost areas or for populations of homebuyers that face bigger barriers to accessing homeownership, larger loans may be required.** In some circumstances, house prices are so out of reach that even with a 20% CA Dream for

All Fund loan, homeownership will still be unattainable for either first-time homebuyers in general or for specific target groups. The disadvantage of larger loans, as discussed earlier, is that it takes longer for homebuyers to accumulate wealth and to be able to pay off the SAL. Therefore, loan amounts above 20% should be exceptions that can be granted by the program administrator. The key design insight is that it will be critical that the Fund has the flexibility to review and refine the key terms as implementation experience is gained.

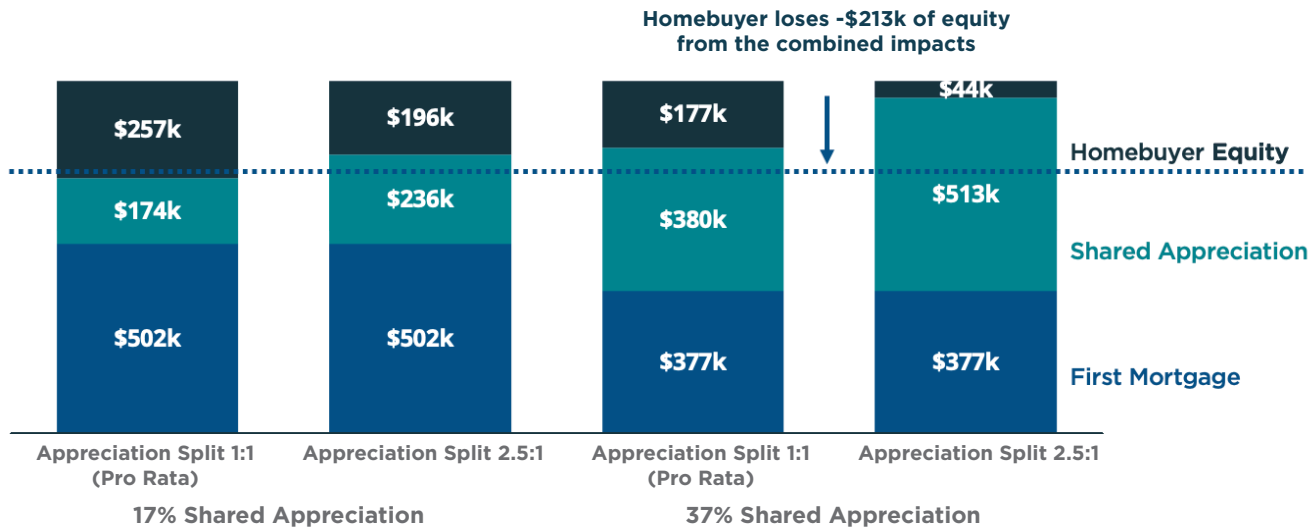
- Together, the CA Dream for All Fund loan amount and how appreciated value is distributed determine the degree to which a household can build wealth.** Figure 28 provides examples of the interaction between loan size and the distribution of appreciated value, or appreciation split.⁷¹ A 17% SAL enables the borrowers to realize \$279,000 in net equity with a pro rata, or 1:1, appreciation split. With the same loan amount and a 2.5:1 appreciation split, the borrower's net equity reduces to \$211,000. Meanwhile, with a 37% SAL, the borrower's net equity is further reduced with an appreciation split of 2.5:1. That is, 92.5% of the appreciated value—or 37% times 2.5—goes to repay the Fund, and the homebuyer's net equity is just \$44,000. The effect of this interaction suggests that lower loan amounts coupled with an equal appreciation split are most advantageous to building homebuyer wealth. The mechanics of the appreciation split will be further explored below.
- A final consideration is the Fund's compatibility with other down payment assistance programs.** The Fund should not preclude homebuyers from taking advantage of existing programs where possible. For instance, the CalHFA MyHome program could be layered to reduce the CA Dream loan by \$15,000.⁷² Allowing additional programs to layer into financing could make the Fund more efficient by lowering loan amounts and helping homebuyers cover the full cost of buying a home. Homebuyers should have access to housing counselors to help them navigate compliance between various programs.

70 Assuming the purchase of a median-priced home at \$786,275 in California with 3.0% annual appreciation over 10 years and a pro-rata SAL program

71 Assuming the purchase of a median-priced home at \$786,275 in California with 3.0% annual appreciation over 10 years and a pro rata SAL program

72 "CalHFA Conventional Loan Programs Matrix." CalHFA. Retrieved from <https://www.calhfa.ca.gov/homeownership/programs/archive/2022/20220228/tool-matrix-conventional-02-28.pdf>

Figure 28: Combined Impacts on Household Equity from Shared Appreciation Loan Size and Appreciation Split



Source: HR&A Advisors

Borrower Down Payment



RECOMMENDATION:

The CA Dream for All Fund *should not impose additional parameters regarding the amount and sources of down payment* beyond guidelines from the first mortgage lenders. The borrowers will have to follow all closing requirements as dictated by the first mortgage lender. The Fund is intended to remove barriers to homeownership, not create additional ones.



RANGE OF OPTIONS:

Most mortgage loan programs require a cash contribution from borrowers to ensure that homebuyers have “skin in the game” and share the lender’s risk. The minimum down payment requirement for first mortgage programs could go *as low as 3.5% for FHA loans*, which are backed by the FHA for borrowers with at least a 580 credit score, and *as low as 3.0% for conventional mortgages* backed by GSEs such as HomeReady and HomePossible or HomeOne programs.^{73 74} There are also special loan programs—such as VA loans that are guaranteed by the VA and USDA loans that are backed by the USDA’s Rural Development program—that have *no down payment* requirement. Another common benchmark adopted by conventional loan lenders is a *20% down payment* that does not require borrowers to pay private mortgage insurance.⁷⁵

Figure 29: Minimum Down Payment Requirements for Various Programs

| Loan Type | Min. Down Payment | Conditions |
|------------------|-------------------|---------------------------------------------------------------------------------------------------------------------|
| USDA / VA | 0.00% | Backed by U.S. Department of Veteran Affairs or U.S. Department of Agriculture |
| PMI Insured GSE | 3.00% | Backed by government-sponsored enterprises (GSEs) – Fannie Mae and Freddie Mac; HomeReady and HomePossible programs |
| FHA | 3.50% | Backed by Federal Housing Administration Minimum 580 credit score |
| Conventional GSE | 20.00% | Conventional borrowers are not required to pay PMI if their down payment is above or equal to 20% |

73 “97% Loan to Value Options.” Fannie Mae, 2022. <https://singlefamily.fanniemae.com/originating-underwriting/mortgage-products/97-loan-value-options>

74 “HomeOne.” Freddie Mac, 2022. <https://sf.freddie.com/working-with-us/origination-underwriting/mortgage-products/home-one>

75 Lam, Ken, Robert Dunsky and Austin Kelly. “Impacts of Down Payment Underwriting Standards on Loan Performance – Evidence from GSE and FHA portfolios.” Federal Housing Finance Agency, 2013. https://www.fhfa.gov/policyprogramsresearch/research/paperdocuments/2013-12_workingpaper_13-3-508.pdf

Key Considerations of Borrower Down Payment Requirement:

1. Setting down payment requirements will create a major obstacle to homeownership for homebuyers with savings and wealth barriers, particularly in high-cost areas of California.⁷⁶ The National Association of Realtors found that first-time homebuyers put down 6% and repeat buyers put down 16% for an average 12% down payment across the country.⁷⁷ This implies that a homebuyer would need to put \$94,000 down to buy a California median-priced single-family home of \$786,000, which is approximately equal to the state's median income at \$81,000 as of 2021—and likely much greater than the average savings of a homebuyer. The reality of high prices, particularly in coastal cities, means that adding down payment requirements through the CA Dream for All Fund would heighten existing barriers to homeownership for first-time buyers.
2. Households of color are often disadvantaged by requirements due to pre-existing wealth disparity. Household savings are unequally distributed in the United States and in California. For instance, 60.7% of Latino households and 56.7% of Black households are

considered “liquid asset poor,” meaning that they have virtually no savings, while the term applies to just 28.2% of White households.⁷⁸ As a result of this inequality, Black and Latino homebuyers tend to be less able to make sizable down payments.

Figure 30 shows that Black and Latino households in general purchase lower value homes with smaller down payments. The median down payment from a Black or Latino homebuyer was more than half of that of the median White and Asian homebuyer. Without the wealth for a large down payment, homebuyer's offers are less attractive, which puts them at a disadvantage when attempting to purchase homes. This inequality persists in the distribution of borrowers with FHA loans, where Black and Latino borrowers account for 33% of all borrowers but make up 63% of all FHA loan originations.⁷⁹

Households of color are also less likely to receive financial assistance from family members to help them afford a down payment.⁸⁰

Figure 30: Implied Down Payment by Race

| Race | Median Property Value | Median Loan Amount | Property-Loan Difference (Median) | Implied Down Payment |
|--------------|-----------------------|--------------------|-----------------------------------|----------------------|
| White | \$585,000 | \$475,000 | \$110,000 | 19% |
| Black | \$445,000 | \$415,000 | \$30,000 | 7% |
| Asian | \$745,000 | \$575,000 | \$170,000 | 23% |
| Latino | \$425,000 | \$385,000 | \$40,000 | 9% |
| Total | \$555,000 | \$465,000 | \$90,000 | 16% |

Source: HMDA 2020

76 “An Essential Role for Down Payment Assistance in Closing America’s Racial Homeownership and Wealth Gaps.” Urban Institute, 2021. https://www.urban.org/sites/default/files/publication/104134/an-essential-role-for-down-payment-assistance-in-closing-americas-racial-homeownership-and-wealth-gaps_0.pdf

77 “2020 Downpayment Expectations and Hurdles to Homeownership Report.” National Association of Realtors Research Group, 2020. <https://cdn.nar.realtor/sites/default/files/documents/2020-downpayment-expectations-and-hurdles-to-homeownership-report-04-16-2020.pdf>

78 “Report: More than a third of California households have virtually no savings, are at risk of financial ruin.” The Mercury News, 2017. <https://www.mercurynews.com/2017/07/26/more-than-a-third-of-california-households-have-virtually-no-savings-are-at-risk-of-financial-ruin-report-says-3/>

79 HMDA, 2020.

80 Stegman, Michael “How the presence and type of down payment assistance affects the performance of affordable mortgage loans.” Joint Center for Housing Studies of Harvard University, 2019. <https://www.jchs.harvard.edu/blog/how-the-presence-and-type-of-down-payment-assistance-affects-the-performance-of-affordable-mortgage-loans>

3. Because down payment requirements do not reduce risk, the program should instead encourage homebuyers to focus on building cash reserves. As an alternative to additional down payment requirements, the CA Dream for All program should explore how reserve saving accounts could be established to increase access to liquid savings. Small but successful programs like Blue Hub Capital's SUN Capital Reserve Accounts could be adapted and scaled.⁸¹ Homeowners should be required to hold liquid savings not only at origination but also over the life of the loan. Instances of default were found to follow losses of liquidity "regardless of the homeowner's equity, income level, or payment burden."⁸² To ensure borrowers retain savings specifically for home payments and improvements, some lenders require borrowers to set aside funds in emergency mortgage or home repair reserve accounts. Further, lender restrictions on reserve accounts that ensure borrowers only use funds during periods of personal financial stress or economic downturns can help reduce default rates. Borrowers can also tap into their home equity with mortgage modifications. Modifications that increased liquidity were found to reduce the rate of default while modifications that increased home equity did not have an impact on the default rate.⁸³

Appreciation Share



RECOMMENDATIONS:

The Fund should offer a pro rata or 1:1 appreciation split, where the Fund is repaid the same share of the appreciated value as the initial investment, with the ability to increase the split up to 1.5. This maximum appreciation split, 1.5, combined with the maximum loan amount of 30%, ensures that the homebuyer will always have a larger share of the appreciated value than the Fund.



RANGE OF OPTIONS:

There is a wide range of potential appreciation splits between the CA Dream for All Fund and the homebuyer, reflected in the range of terms between existing public and private programs. Most public programs offer a *pro rata* or 1:1 appreciation split. A SAL of 17% of the purchase price would result in a repayment of the original loan amount plus 17% of any increase or decrease in the property value from the date of purchase. Meanwhile, private programs tend to take a larger share of the split than their original investment to account for the returns demanded by private investors. For instance, Landed, a shared appreciation program serving mostly "essential professionals," applies an *appreciation split of 2.5:1*, while Unison, a shared appreciation program with more generous eligibility criteria, applies a *4:1 appreciation split*.⁸⁴

Key Considerations of Appreciation Share Split:

1. The appreciation split should balance individual borrower wealth accumulation and the overall impact of the Fund in terms of the number of households served over time. Having a low appreciation split, such as 1:1 or pro rata, allows borrowers to benefit from a greater share of the appreciated value of their home and maximizes borrower wealth accumulation. On the other hand, a relatively high appreciation split will increase the Fund's financial performance and potentially expand the impact of the Fund by recycling more funds per borrower.

For example, when a borrower makes a 3% down payment with a 17% loan from the CA Dream for All Fund to buy a \$786,000 home, after 10 years of 3.0% price appreciation the home would be worth \$1,056,000. With a pro rata or 1:1 appreciation split, the household needs to repay the program the original loan amount plus 17% of any increase or decrease in the property value. In this case, the Fund would get \$46,000 on top of the original loan amount of \$133,000, and the household would receive a net equity of \$279,000. If the appreciation split increases to 4:1, the Fund receives 68% of the appreciated value. The Fund would get \$184,000 on top of the original loan amount compared to a net equity of \$142,000 for the homebuyer. With the higher appreciation split, the Fund can recycle an additional \$138,000 and serve more households, but the initial homebuyer would accumulate less wealth.

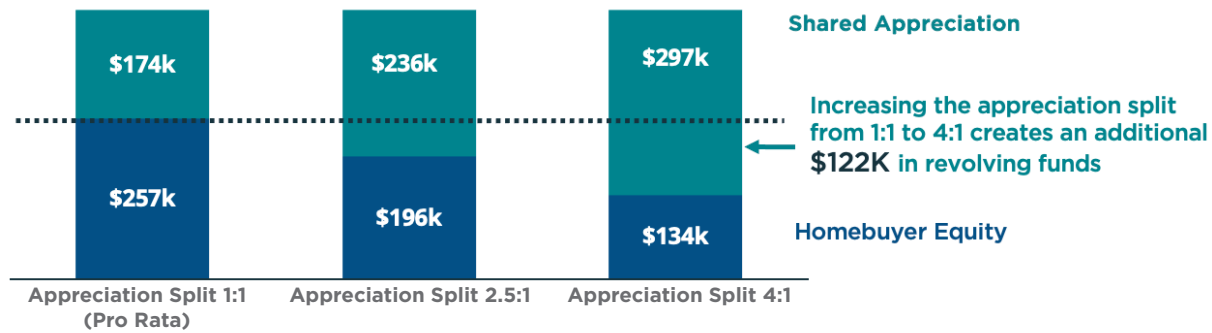
81 "Foreclosure Relief." Blue Hub Capital, 2022. <https://bluehubcapital.org/foreclosure-relief>

82 "Trading Equity for Liquidity." JP Morgan Chase. 2019. <https://www.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/institute/pdf/institute-trading-equity-for-liquidity.pdf>

83 "Market Snapshot: First Time Homebuyers." Consumer Financial Protection Bureau, 2020. https://files.consumerfinance.gov/f/documents/cfpb_market-snapshot-first-time-homebuyers_report.pdf

84 Based on information retrieved Landed and Unison website as of May 24, 2022; More detailed terms of public and private shared appreciation loan program are summarized in Appendix E.

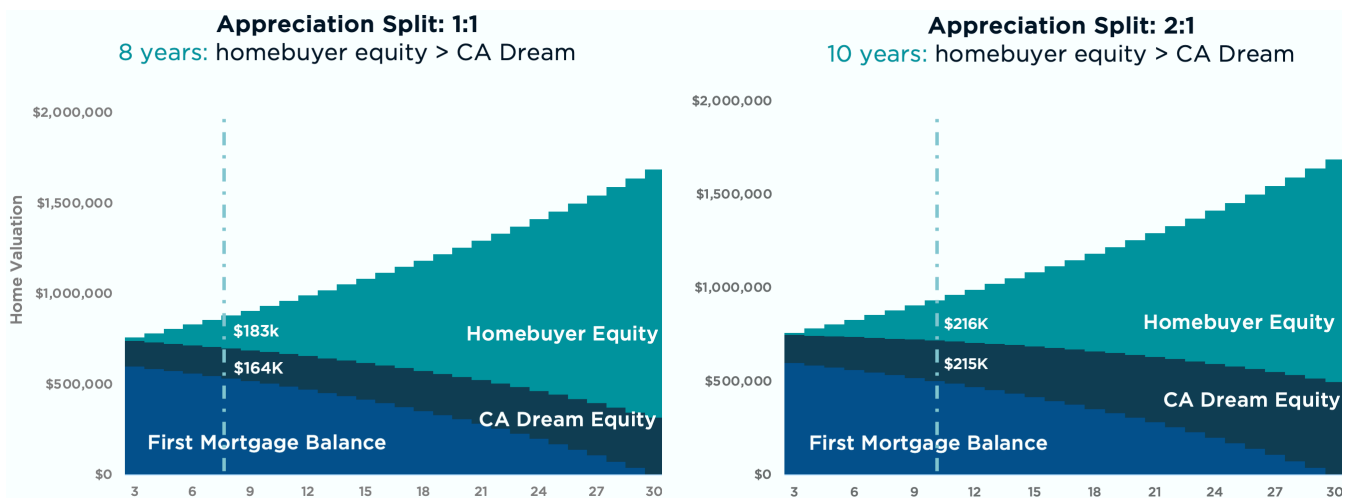
Figure 31: Impacts on Fund Recycling from Appreciation Split



Source: HR&A Advisors

- The appreciation split directly affects when the initial borrowers have sufficient equity to repay the Fund, which has an indirect impact on their repayment incentives and the amount of recycled funding available for future borrowers. For instance, Figure 32 below shows the expected equity value of the homebuyer versus CA Dream for All equity over 30 years, assuming a purchase of a median-priced home in California with a 3.0% annual price appreciation. Over time, the value of the homebuyer’s equity continues to increase compared to the CA Dream for All Fund’s equity. When the appreciation split is 1:1, the homebuyer’s equity is equal to the value of the shared appreciation loan in seven years. In contrast, when the appreciation split is 2:1, it takes ten years for the homebuyer’s equity to exceed that of the Fund. The borrower should have more incentive to repay early if the Fund takes a larger share of the appreciated value. As the Fund is implemented, it will be important to monitor borrower repayment speed to ensure that the loans are revolving at a reasonable rate.

Figure 32: The Impact of Appreciation Split on Homebuyer Equity, CA Dream for All Equity, First Mortgage Balance



Source: HR&A Advisors

- Appreciation split is a key factor in determining a borrower’s effective annual interest. As described in the Introduction and Background section, a relatively low appreciation split, such as 1:1 or pro rata, implies a low effective annual interest rate that is on par with the annual home price growth rate. In this case, homebuyers take a relatively larger share of home price appreciation in a booming real estate market, while also sharing a relatively larger risk in a market downturn. On the other hand, with a high appreciation split, the Fund will be able to relend to more households. A major advantage of a SAL is that the effective annual interest rate moves along with property valuation in different real estate market conditions and provides borrowers with more downside protection in an economic downturn compared with a fixed rate mortgage that has no downside risk sharing at all.

Repayment Events



RECOMMENDATIONS:

Repayment should be due upon sale, transfer, and cash-out refinancing, and there should be no penalties for prepayment. The CA Dream for All program should rely on an informational approach to encourage prepayment, and the program administrator should reserve the authority to establish penalties if SALs are not being repaid on time to serve future Californians.



RANGE OF OPTIONS:

Repayment events are partial or full payments towards the borrower's mortgage principal and interest. Mortgage repayments are typically required when the borrower 1) reaches the end of loan term, 2) transfers the title of the property, typically through a sale, and 3) defaults on any outstanding mortgages. For public second mortgage programs there are often additional requirements, including refinancing the first mortgage and having the loss of primary residence status.

The term of a SAL varies based on the goals of the loan program. Most local shared appreciation programs focus on serving low-income first-time homebuyers, so the loan term is set to maximize wealth accumulation and to comply with GSE loans. As a result, they often have 30-year terms that are subordinated to first mortgages. A few public programs have even removed the loan term entirely to avoid forcing a major repayment event for homeowners who may be on a fixed income or who may have accumulated few other assets to repay the loan (the San Francisco DALP program, for example, recently removed their loan term).⁸⁵ In contrast, private shared appreciation programs have a wider range in loan terms depending on their investment goals—from as short as 10 years to as long as 30 years.

Some shared appreciation programs stipulate that repayment is also triggered in a cash-out refinancing event, where a borrower refinances for a new loan amount that is greater than the balance of the existing loan and receives the difference in a cash payment.⁸⁶ This is different from a rate refinancing event, during which a borrower refinances the first mortgage only to take advantage of a lower rate and reduce monthly mortgage payment but does not take out cash from the refinancing events.

Key Considerations of Repayment Events:

1. How the Fund approaches first mortgage refinancing has direct implications on a borrowers' ability to build wealth through homeownership and to access that wealth.

The Fund assumes a 30-year loan term to match conventional loan terms, and yet the typical homeowner refinances much earlier—between years 6 and 12.⁸⁷ If CA Dream for All Fund borrowers behave similarly to typical homeowners, most will pay back their loan well before the end of the term. However, since there will be no monthly payments on the CA Dream for All Fund loan, some homeowners may choose to repay more slowly and will seek to resubordinate their loan.

2. A refinance to obtain a lower interest rate is inherently different from a cash-out refinance in terms of risk and public policy benefit. When a homeowner refinances to

obtain a lower interest rate, they are increasing their ability to afford their home and reducing their risk of default. This advances the mission of the CA Dream for All program and reduces the Fund's risk. When homeowners refinance to take equity out of the property, it changes the loan to value and increases the risk to the CA Dream for All Fund. It also indicates that the homeowner can afford to pay for a larger mortgage and pay off some or all of the CA Dream for All Fund second mortgage, which then could be recycled to another household.

3. There will be hardship cases where households need to be able to access equity without fully repaying the CA Dream for All Fund second mortgage. One of the advantages of homeownership is building asset value that can be accessed to pay for other needs. In these instances, a borrower may need a cash-out refinance of their first mortgage. Still, a cash-out refinance might

85 Based on interview with city staff administering the San Francisco DALP program

86 "Recent Trends in Enterprise Cash-Out Refinances." Federal Housing Finance Agency, 2021. <https://www.fhfaog.gov/sites/default/files/WPR-2021-008.pdf>

87 "Staff Reports: Understanding Mortgage Spreads." Federal Reserve of New York, 2018. https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr674.pdf



not generate sufficient capital to repay the full outstanding SAL amount. Forcing the homebuyer to fully repay in these scenarios could add to a household's financial hardship and eventually result in a default. The program will need a process to evaluate requests under these scenarios, and ongoing financial counseling may help to identify these cases and enable alternative solutions.

- 4. Prepayment incentives are critical in order to increase the pace of recycling and the overall impact of the Fund.** Encouraging homebuyers to prepay before the 30-year term will enable the Fund to reinvest in new borrowers. Yet given the loan amount under consideration, it is expected that borrower's prepayment speed will be slower than existing DPA programs.⁸⁸ Furthermore, first-time homebuyers also have lower prepayment rates than repeat homebuyers.⁸⁹

As discussed previously, a higher appreciation share split is one option to provide a stronger incentive for borrowers to repay the Fund earlier. A higher split might be viable as long as it ensures that borrowers still maintain a fair share of the home price appreciation and complies with Fannie Mae guidelines. However, a higher appreciation split also increases the amount a household must repay, which will limit the ability of some households to repay faster. Any use of a higher split would need to be carefully evaluated.

There are international precedents to charge an annual fee or interest rate after a prescribed period to encourage fund recycling. By increasing the minimum required

payment over time, borrowers are incentivized to purchase back their equity early and retain more ability to build wealth.⁹⁰ A program in the United Kingdom, for example, charges interest after five years in addition to shared appreciation—but because this approach would pose compliance concerns with existing Fannie Mae underwriting guidelines, it has not been recommended.

We can also encourage prepayment through informational outreach and homebuyer education, although this approach comes with additional administrative costs. Quarterly or annual statements could show the estimated property value compared to outstanding debt to remind homebuyers when there is likely sufficient accumulated equity to repay the loan. These informational incentives will not penalize households, and if used correctly, could help increase prepayment.

- 5. Penalty clauses should be a last resort in the event of late payment. The Fund should have a governance model in place to monitor performance and make necessary adjustments.** A clearly-defined penalty clause for late payment might be effective in incentivizing repayment, but it should only be considered after exhausting other repayment incentive options. Any penalty clause consideration should balance the need to enforce repayment, recycle funds and maximize the number of households assisted over time with the Fund's goal to support wealth accumulation through homeownership.

88 Mayer, Chris, Tomasz Piskorski and Alexei Tchisty. "The inefficiency of refinancing: Why prepayment penalties are good for risky borrowers." *Journal of Financial Economics*, 2013. <https://www0.gsb.columbia.edu/faculty/cmayer/papers/JFE-Mayer-Piskorski-Tchisty-2013.pdf>

89 Stacy, Christina, Brett Theodos and Bing Bai. "How to prevent mortgage default without skin in the game: Evidence from an integrated homeownership support nonprofit." *Journal of Housing Economics*, 2018. <https://homewise.org/wp-content/uploads/page/How-to-prevent-mortgage-default-without-skin-in-the-game-Stacy-Theodos-and-Bai-2018.pdf>

90 "Ability-to-Repay and Qualified Mortgage Standards Under the Truth in Lending Act (Regulation Z)." *Federal Register*, 2013. Retrieved from <https://www.federalregister.gov/documents/2013/01/30/2013-00736/ability-to-repay-and-qualified-mortgage-standards-under-the-truth-in-lending-act-regulation-z>

INTERNATIONAL CASE STUDY

United Kingdom Shared Ownership Model - Prepayment Incentives

In 2016, the United Kingdom initiated “Shared Ownership,” a national down payment assistance program with a shared equity model in England. The program offers interest-bearing equity on new construction home purchases for up to 20% of the purchase price, with up to 40% in London, and requires the borrower to make a minimum 5% down payment. The program charges interest on the loan to encourage an earlier property sale and permits partial loan repayments. The interest charged on the loan increases throughout the loan term. There is no interest charged in the first five years, after which the interest rate is 1.75% in year 6, and 1.75% plus inflation tied to the CPI thereafter.⁹¹

Partial repayments are permitted using the staircasing method. The minimum voluntary repayment is 10% of the market value at repayment and carries an administrative cost.⁹² The decision to place a floor on the partial repayment value, a minimum voluntary repayment, is due to the high cost of property appraisal and mortgage restructuring. The borrower is also required to pay outstanding loan fees at prepayment. The borrowers’ repayment speed has been faster than expected, with almost 50% of borrowers repaying in the first five years of the mortgage term.⁹³ Faster repayments reduce the expected return to the program since less interest is charged to homebuyers and appreciation over the longer term is not captured.

91 “Help to Buy scheme - everything you need to know.” Moneyhelper.org, 2022. <https://www.moneyhelper.org.uk/en/homes/buying-a-home/help-to-buy-scheme-everything-you-need-to-know>

92 “Homebuyers’ guide to the Help to Buy: Equity Loan.” Gov.uk, 2022. <https://www.gov.uk/government/publications/help-to-buy-equity-loan-buyers-guide/homebuyers-guide-to-the-help-to-buy-equity-loan-2013-to-2021-accessible-version#:~:text=The%20Help%20to%20Buy%20scheme,less%20than%20when%20originally%20purchased>

93 Ward, Benjamin. “Designing a Nationwide Downpayment Assistance Program.” Harvard Joint Center for Housing Studies, 2020. https://www.jchs.harvard.edu/sites/default/files/research/files/harvard_jchs_downpayment_assistance_ward_2021.pdf



Borrower Eligibility

Eligibility requirements will shape who the Fund serves and the degree to which it meets its goal of expanding access to homeownership among traditionally disadvantaged Californians. In determining these requirements, the program must balance serving those with the greatest needs and serving those with the ability to secure the first mortgage necessary to take advantage of the second mortgage from the Fund.

Eligibility requirements that are too restrictive will leave the Fund with unused resources and fail to serve the most Californians possible. Overly broad eligibility will result in most support going to households who could have accessed homeownership even without the Fund's loan. In order to provide appropriate support to the right populations, level of targeting will have to be actively managed over the life of the Fund.

Income Limits



RECOMMENDATION:

The Fund should target an income level **up to 100% of Area Median Income (AMI), with the option to go up to 150% of AMI, without any asset tests**. The program administrator should have the authority to adjust the target income up to 150% of AMI and to vary the eligible income level by county in order to reflect diversity across the state.



RANGE OF OPTIONS:

Existing homeownership assistance programs target a range of income levels, with public programs targeting lower-income homebuyers than private programs. Publicly funded homeownership programs often set specific target ranges with additional conditions for income qualification. Several programs target homebuyers with a maximum income of 80% AMI, such as the CalHFA Forgivable Equity Builder Loan program, while others allow up to 150% AMI, such as the CalHFA MyHome program. In general, the more proceeds or subsidies that are offered, the lower the AMI target.

In contrast, many private shared appreciation programs focus on occupation groups, or those that are highly educated but not rich yet ("HENRY") rather than a specific income band. Examples of HENRY borrowers include doctors completing their training, recently-graduated lawyers and other highly-educated job categories. HENRY households typically pose a lower risk of default, and are likely to repay in a relatively short timeframe and buy homes in up-and-coming neighborhoods where appreciation is greater.

Key Considerations of Income Limits:

1. **Targeting homebuyers that are on the cusp of being able to access homeownership will result in the greatest increase in homeownership.** If the income target is set too low, then even with a CA Dream for All Fund loan a homebuyer will not be able to qualify for a first mortgage large enough to make a competitive offer. If the income band is set too high, then much of the CA Dream for All Fund will be used by households that would have been able to purchase a home regardless. Targeting homebuyers with an income up to 150% AMI will create a pool of eligible borrowers who have enough income to qualify for first mortgages but would struggle with down payment, closing costs and high monthly payments involved in current financing options.
2. **The edge of the homeownership market varies greatly across California, and the CA Dream for All program will need to be flexible enough to align with the market.**

In 2020, the lowest income range to be able to access homeownership varied across the state from around 80% of AMI to nearly 150% of AMI, as shown in Figure 33. Regions with high home costs are also those with the most acute affordability challenges. For example, in the Los Angeles region, the median home value is over \$788,000; a household would require an income of at least \$111,900, or 140% of the AMI, to affordably purchase a home at that price. This suggests that the price of housing in high-cost markets is particularly inflated, even relative to their higher-earning populations. While homeownership is affordable to the median-income household in six regional markets, low-income households still face challenges; except in Sierra Nevada, the income required to purchase a home in these markets exceeds 80% AMI.

A close examination of the mortgage market in California helps to identify who is and is not getting access to mortgage financing, and

who is relying on FHA loans. Figure 33 shows that the majority of loans across California are made to borrowers with 100% AMI and above, and that, although lower-income households account for a much larger share of FHA loans than all loans, Californians across the income spectrum rely on FHA loans.

Figure 33: Statewide Mortgage Origination by Area Median Income and Type of Loan (2020)

| AMI Level | Conventional | FHA | RHS or FSA | VA | Total |
|---------------|----------------|---------------|--------------|---------------|----------------|
| <80% AMFI | 30,514 | 9,906 | 430 | 3,913 | 44,763 |
| 80-100% AMFI | 26,792 | 11,034 | 581 | 4,529 | 42,936 |
| 100-120% AMFI | 29,468 | 10,678 | 524 | 4,449 | 45,119 |
| 120-150% AMFI | 39,884 | 11,355 | 300 | 5,511 | 57,050 |
| >150% AMFI | 113,865 | 11,362 | 121 | 9,370 | 134,718 |
| Total | 240,523 | 54,335 | 1,956 | 27,772 | 324,586 |

Source: HMDA 2020

First-Time Homebuyers



RECOMMENDATION:

The program should require that borrowers are first-time homebuyers—but it should adopt a broad definition of “first-time.” The program administrator should have the ability to add a preference for first-generation homebuyers in order to further target the CA Dream for All Fund to potential homebuyers who require additional assistance to access homeownership.



RANGE OF OPTIONS:

First-time homebuyers are a natural target population of the program—but although “first-time homeowner” sounds like a straightforward concept, housing programs define the term in a wide range of ways. On the most conservative end, it is defined as having never owned a home. Yet very few housing programs apply this strict definition, because it excludes a large number of households that do not currently own homes and are in need of assistance to access homeownership. The more common definition, set by the Department of Housing and Urban Development (HUD) and used by most programs is, “An individual who has had no ownership in a principal residence during the 3-year period ending on the date of purchase of the property.”⁹⁴ Accordingly, we recommend that the program consider adopting this definition as a starting point.

Creating a first-generation requirement is a newer concept that has only been attempted in a limited number of homeownership assistance programs. The intent is to target households that have never benefited from homeownership and cannot draw on the intergenerational wealth homeownership often creates. The exact definition for first-generation homeowner varies across programs; in some cases, it might mean that none of the homebuyers’ parents have previously owned homes, and in others, it might simply mean that one of the parents of the homebuyers is not currently a homeowner. In Massachusetts, the Saving Toward Affordable Homeownership (STASH) program matches borrower savings for homebuyers below the area median income who are “first-time homebuyers whose parents or guardians have never owned a home or owned a home that was foreclosed on.”^{95 96} STASH is a “race-conscious” pilot program intending to help those without intergenerational assets to close Massachusetts’ acute homeownership and wealth gaps. In the City of Boston, the First-Gen Partnership matches up to \$5,000 for savings up to \$2,500.

Just as important as the definition of “first generation” is the documentation required to prove it. A variety of documentation requirements are being applied by different programs, and it will be incumbent upon the administrator of the CA Dream for All program to establish a standard that is credible for discouraging false claims but also feasible for those who are not in contact with their parents.

94 “First-Time Homebuyers.” HUD HOC Reference Guide, U.S. Department of Housing and Urban Development. Retrieved from <https://archives.hud.gov/offices/hsg/sfh/ref/sfhp3-02.cfm>

95 Harrington, Elizabeth et al. “Enabling First-Generation Homeownership in Massachusetts.” Northeastern University, 2020. https://cssh.northeastern.edu/policyschool/wp-content/uploads/sites/2/2020/07/First-Gen-Presentation_NEU-1.pdf

96 “Saving Toward Affordable Sustainable Homeownership.” Massachusetts Affordable Housing Alliance, 2022. <https://mahahome.org/STASH>

Key Considerations of First-time Homebuyers Requirement:

1. **Serving existing homeowners does not advance the CA Dream for All program's mission to expand access to homeownership to homebuyers who have been marginalized historically.**
2. **HUD's definition of first-time homebuyers is appropriate for homeownership programs,** as it allows for households who went through foreclosure to access the fund and begin building wealth again. The program administrator should also adapt and apply existing carve-outs for individuals who were separated from their spouse and are purchasing a home for the first time as an individual.
3. **Intergenerational wealth has a meaningful impact on homeownership access, but a first-generation only requirement would exclude too many potential homebuyers and limit the impact of the Fund.** In a Bank of America survey, only 37% of first-generation homebuyers received help from their parents (compared to 51% of all first-time homebuyers surveyed in a separate study).^{97 98}With down payments forming one of the greatest barriers to homeownership access, children of non-homeowners may be at a significant disadvantage when searching for one of their own. Still, a focus on only first-generation homebuyers necessarily leads to a significantly smaller pool of eligible households and blunt the program's mission. To remedy this issue, the administrator should be able to create a preference for first-generation homebuyers if given guidance by policy makers to do so.
4. **Restricting borrower eligibility to first-generation homebuyers presents documentation issues.** Not all homebuyers are in touch with their parents, and many cannot offer documentation on their family's ownership history. Furthermore, the documentation process presents additional administrative burdens and can slow down the underwriting process and increase costs. These documentation and administration issues may end up excluding the homebuyers the Fund is intended to target.

PROPERTY TYPE RESTRICTIONS

Given the supply constraints in the California housing market, the Fund should allow for a board range of property types including the following:

Primary Residence: The property should not be an investment property or a second home for the duration of the CA Dream Fund loan. This may imply additional oversight and monitoring costs, but it will ensure that the program serves those with the most need.

New and Existing Properties: Restricting to new properties would create an additional incentive for reducing the supply gap. However, there are a multitude of other issues facing new construction projects that it is not with the scope of the CA Dream for All Program to address. The program would be available to both new and existing properties.

Up to 4 Units: While the vast majority of the housing stock in California is single family homes, recent legislation aims to encourage accessory dwelling unit production. The CA Dream Fund should encourage this type of division and purchasing, even for first time homebuyers. Therefore, the housing types should include detached single family, townhomes and condominiums.

97 "2021 Homebuyer Insights Report. First-Generation Homeowner Spotlight." Bank of America, 2021.

98 "Affordability Surprises First-Time Homebuyers While Parental Assistance, Savings and Wishlist Compromises Prove Common, Survey Finds." Realtor.com, 2021. <https://news.move.com/2021-02-03-Affordability-Surprises-First-Time-Homebuyers-While-Parental-Assistance-Savings-and-Wishlist-Compromises-Prove-Common-Survey-Finds>

Priority Communities



RECOMMENDATION:

The CA Dream for All program should have the ability to adjust the terms and requirements of the second mortgage and prioritize specific communities of Californians. The barriers to homeownership vary for different groups of Californians, and to be effective at overcoming those barriers, the CA Dream for All program will need to adjust terms and requirements. To serve those with the greatest need, as determined by policy makers, the program will need to prioritize the allocation of mortgages to them.

Key Considerations to Approach Priority Communities:

Some groups have for decades been unable to meaningfully build wealth because of who they are, where they live or what they can afford. Homeownership can be a powerful means by which to support these households, but policymakers must determine which communities should be prioritized. For the purposes of this report, **low-income households, people of color, environmental justice communities** and **student debt holders** are described as potential priority communities.

Communities of Color

Many of the income-based barriers described above disproportionately impact communities of color. Since the onset of urbanization in the early 20th century, nonwhite households have been repeatedly denied the ability to build wealth. Racial and exclusionary zoning first emerged as legal mechanisms by which to preserve racial segregation, prohibiting landowners from selling, leasing or renting properties to Black and minority households. As this practice peripheralized Black communities to live in disinvested neighborhoods, redlining subsequently denied these households the chance to purchase a home and build intergenerational wealth. Between 1934 and 1968, White households received 98% of all home loans.⁹⁹

Today, communities of color are still underrepresented in mortgage lending. Despite forming 39% and 5% of California's population, respectively, Latino and Black households access just 22% and 3% of all home purchase loans.¹⁰⁰ This may be partly attributed to income disparities rooted in the racial wealth gap; a 2021 report from the Center for Responsible Lending

(CRL) found that while median-income White households typically require nine years of savings to afford a 5% down payment, median-income Black and Latino households require 14 and 11 years, respectively.¹⁰¹

As a result of these systemic issues, racial disparities in homeownership access persist in California. Across the state, White households are more likely to be able to afford a home than Black households. In the Bay Area, only 5% of Black renters earn sufficient income to afford a median-price home, compared to 21% of White renter households.¹⁰² These disparities persist even after controlling for income; in most regions, the White homeownership rate exceeds the Black homeownership rate even within the same income band. Such disparities signal systemic barriers to homeownership, which limit opportunities for households of color and perpetuate the racial wealth gap.

Environmental Justice Communities

Environmental justice issues pose another major challenge. Many low-income households live in areas that expose them to high levels of pollution and other environmental hazards, including poor air quality, water contamination, lead and chemical waste. Individuals in these areas are also more likely to be characterized by vulnerabilities like pre-existing health conditions, poverty and poor health care access that put them at even higher risk of experiencing health complications arising from pollution exposure. As of 2013, the community of West Oakland suffered from diesel pollution at an average rate 90 times that of the rest of California per square mile; as a result, residents were found to suffer at disproportionately high rates from asthma, stroke and congestive heart failure.^{103 104}

99 Kahlenberg, R.D and K. Quick, K. "Attacking the Black-White Opportunity Gap That Comes from Residential Segregation." The Century Foundation, 2019.

100 "Home Lending to Communities of Color in California." Greening Institute, February 2022.

101 "Hardship for Renters: Too Many Years to Save for Mortgage Down Payment and Closing Costs." Center for Responsible Lending, April 2021.

102 HR&A Advisors

103 Palaniappan, M., Wu, D., Kohlreiter, J. "Clearing the Air: Reducing Diesel Pollution in West Oakland." Pacific Institute, 2003.

104 "How pollution impacts health in West Oakland." Environmental Defense Fund. <https://www.edf.org/airqualitymaps/oakland/pollution-and-health-concerns-west-oakland>

The “environmental justice” movement has emerged in an effort to address precisely these harms. As part of this effort, the State has established the CalEnviroScreen tool that scores each California census tract based on environmental hazards and exposures, public health factors and socioeconomic issues. Local governments have followed suit by advancing several strategies to address land use issues in highly-burdened areas, such as by establishing “buffer zones” that distance polluting industries from sensitive land uses like schools and residential neighborhoods.

Homeownership programs can play an important role in this movement, too. By targeting homebuyers living in tracts scoring highly on the CalEnviroScreen index, the State can provide households a chance to move to safer, healthier neighborhoods.

Student Loan Debtors as Homeowners

After mortgages, student loans form the greatest household debt category in the nation, affecting more than 43 million borrowers who owe a collective \$1.7 trillion in loan debt.¹⁰⁵ California is no stranger to this issue, as nearly four million borrowers owe a collective debt of \$147 billion.¹⁰⁶ Among debtholders, this amounts to an average loan payment of \$221.17 per month—the fifth highest of any state in the nation.¹⁰⁷

As is the case with low-income households, student debt holders may struggle to access mortgage financing and may have difficulty saving for a down payment. Student debt naturally contributes to a household’s overall debt portfolio, and missing a monthly loan payment can negatively impact a household’s credit score. Given high debt-to-income (DTI) ratios, limited savings and potentially lower credit scores, mortgage underwriters may be less likely to preapprove households with high outstanding debt obligations.

These factors likely underpin the negative impact of student debt on homeownership. A 2020 study from the Federal Reserve found that a \$1,000 increase in student loan debt among recent public college graduates was associated with a 1.8% reduction in the rate of homeownership within the same group.¹⁰⁸ In a separate survey conducted by

the National Association of Realtors, 60% of non-homeowning millennials claimed that student debt has delayed their ability to purchase a home.¹⁰⁹ While a shared appreciation program may not be able to impact a household’s DTI or credit score, it can increase the size of its down payment to increase the odds of mortgage preapproval.

Other Priorities

The terms of the CA Dream for All program can be flexibly designed to accommodate changing needs and priorities. As requirements and preferences change, the State can periodically reassess the terms of the program to ensure that it targets the households in greatest need.

Approach to Prioritization

The program administrator will need to evaluate how best to provide additional support to a specific community, as the barriers they face and thus the support the Fund can offer will vary. Any term in the CA Dream for All program might be adjusted—from eligible income levels, to maximum loan sizes, to appreciation splits. If households with high student debt were selected as a priority, then allowing for a larger loan size—for example, up to 30% of purchase price—might be appropriate. A larger loan amount from the Fund would help offset the smaller first mortgage a household could qualify for as a result of outstanding student debt payments. If the typical appreciation split was set to 1.5:1, the program administrator might allow for a lower split of 1:1 for first-generation homebuyers to help them build wealth faster and offset the lack of intergenerational wealth available.

Besides adjusting the terms of the loan, the Fund could support specific communities by setting aside a portion of total funding for them. For example, of a \$1 billion allocation, \$100 million might be reserved for households currently living in neighborhoods with environmental contamination. This type of support will be most important if the CA Dream for All Fund receives more demand than it can satisfy with the resources it has available.

105 “Student Loan Debt Statistics.” Education Data Initiative, 2020. <https://educationdata.org/student-loan-debt-statistics>

106 “California DFPI Hosts Webinar to Help Student Loan Borrowers.” California Department of Financial Protection and Innovation, 2022. <https://dfpi.ca.gov/2022/03/28/california-dfpi-hosts-webinar-to-help-student-loan-borrowers/>

107 Brown, Mike. “How Big is the Average Monthly Student Loan Payment in Your State?” LendEDU, 2021. <https://lendedu.com/blog/average-student-loan-payment/>

108 Mezza, A., Ringo, D., Sherlund, S., Sommer K. “Student Loans and Homeownership.” Journal of Labor Economics, 2019.

109 “Student Loan Debt Holding Back Majority of Millennials from Homeownership.” National Association of Realtors, 2021. <https://www.nar.realtor/newsroom/student-loan-debt-holding-back-majority-of-millennials-from-homeownership>

V. FUNDING AND FINANCING

How can the program design outlined in Chapter III be most effectively funded and financed? In particular, how can the State use the key programmatic benefit of shared appreciation mortgages—that loan repayments help keep pace with the cost of assisting subsequent homebuyers—to create an ongoing program for future generations even if prices keep rising dramatically? How can non-taxpayer funds be most effectively leveraged to create a self-sustaining model?

To answer these questions, we:

1. **Defined what any funding approach for such a program would need to do to be successful**, including key requirements and the scale and timing of funding involved;
2. **Evaluated a wide range of funding options** from both taxpayer and non-taxpayer sources to understand their implications for the program, the State, and borrowers;
3. **Outlined a financing approach**, based on this evaluation, that is likely to be practical and efficient both in the short- and long-run, identified potential risks and how they can be mitigated and created and tested a financial model under a range of future economic environments; and
4. **Compared shared appreciation to a fixed interest rate approach** to see the impact on borrowers, the total appreciation they are projected to earn and the efficiency of the State's investment.

Parameters for Funding and Financing to Be Successful

Minimum Requirements for How the Program is Funded

The many possible ways of trying to use taxpayer and non-taxpayer monies for shared appreciation lending make it especially important to **first define the key requirements** for any funding approach. This helps assure that the program drives financing choices, not the other way around.

From AB 140, discussions with the State Treasurer's Office and legislative staff, secondary market sources and experience of first-time homebuyer programs both in California and other states, we identified several **minimum thresholds** for any type of CA Dream for All financing.

- **The funding approach should not limit who the program can help**, such as excluding areas of the state or preventing the program from assisting lower-income borrowers or those who need larger amounts of assistance.

- **The funding approach must be compatible with Fannie Mae and Freddie Mac underwriting requirements** and not prevent borrowers from using GSE first mortgages.
- **The funding approach should provide an ongoing way to help first-time buyers over many years to come**, rather than only helping buyers in the next few years, given future affordability pressures anticipated in California.
- **Investments of taxpayer funds need to be sustainable**, without significantly impacting the State's borrowing capacity, ability to promote housing that is affordable or ability to meet other critical needs.
- **The funding approach should not expose the State to any meaningful future financial risk**—for example, by requiring the State to cover shortfalls because of the CA Dream for All portfolio's performance.
- **The State should leverage taxpayer monies with non-taxpayer monies so as to expand the number of borrowers who are ultimately served—consistent with the purposes of the program**, without narrowing who can be helped, violating other minimum thresholds or reducing borrower equity.

These basic minimum thresholds may seem simple, but they operate as extremely important guardrails when evaluating different financial approaches and structures.

Annual Scale

At the heart of determining potential funding needs for the program is estimating a practical and appropriate annual scale for the CA Dream for All program. With limits on taxpayer resources and a risk of inflaming California's housing markets, how many borrowers should the program be designed to help each year? How much annual shared appreciation lending would that involve?

In considering a reasonable potential scale for designing funding and financing options, we took several factors into consideration:

- The importance of CA Dream for All not itself further inflating real estate prices;
- An annual number of loans that would be both meaningful and administratively feasible; and
- The sustainability of State resources for an ongoing multi-year program.

Sizing to Not Inflate Home Prices

Potential demand. There is little limit to the potential demand for a program providing significant SALs. After all, the number of eligible California renter households who could potentially buy homes with a SAL for approximately 20% of the purchase price is vast. The Harvard Joint Center for Housing Studies has estimated that about 12% of all households nationally could purchase a home with significant down payment assistance.¹¹⁰ Landed has indicated that, in offering shared equity programs through school districts and other essential employers in California, almost 14% of employees showed interest in such down payment assistance.

Limiting impact on prices. The very magnitude of this potential demand shows how important it is to set a reasonable limit on the number of buyers that the CA Dream for All program might serve in a year. The CA Dream for All program is essentially designed to help many potential buyers who are now largely excluded from the market. If it dramatically increases the number of buyers competing for homes in a given region, the CA Dream for All program—like any new product that significantly increases homebuyer purchasing power—could itself affect the affordability it is designed to address.

Number of borrowers. To take this market impact concern into account, we looked at what the program volume might be if the CA Dream for All program was limited to assisting 2% of the home purchase mortgage transactions in a region.

- While 2% might translate into about 5% to 6% of entry-level home purchases in a region, the impact on increasing competition for any given home is likely to be quite modest. For example, in the entire Bay Area, 2% would be about 1,300 home purchases, or about 300 in a given quarter, in a region where more than 60,000 homes were sold in 2020.
- Another way to consider this 2% potential increase in the number of buyers is that much of what has driven the recent escalation of home prices in California and nationally has

been a more than 20% reduction in inventory from 2020 to 2021. This extraordinary drop in supply has created a widely-publicized level of buyer competition that has further driven demand and offers, fueling additional price increases.

- The CA Dream for All program, by contrast, would simply make a limited number of additional buyers able to shop for particular homes they look at as part of the general market. Rather than having a highly visible impact on buyer and seller behavior in a concentrated time frame, such CA Dream for All assistance would slightly and gradually expand the number of potential buyers each year.

From a statewide perspective, 2% would mean assisting about 7,700 home purchases per year. We then looked at how this approximate level of sizing might compare with other ways of evaluating program scale.

Sizing to be Meaningful and Administratively Feasible

Relative program scale. A key standard of comparison for a program to help homebuyers in California is CalHFA's existing single-family program. CalHFA's program, which provides first mortgage financing and down payment assistance loans, has served approximately 8,000 homebuyers a year in the last two years (6,557 in 2021 versus 9,372 in 2020).

Thus, a CA Dream for All program designed to help some 7,700 first-time buyers annually would be about the same size as CalHFA's current lending program, and would roughly double the number of buyers that the State is currently helping each year.

CA Dream for All program impact. More important than simply doubling the total number of borrowers is the different impact that the CA Dream for All program would have. CalHFA's current program links first mortgages with down payment assistance loans of 3% to 3.5% of the purchase price (3% on Fannie and Freddie loans, and 3.5% on FHA-insured loans). This limited amount of down payment assistance per borrower makes it difficult to serve borrowers in higher-cost areas of the state. As a result, although CalHFA's program has higher income limits than the proposed CA Dream for All program, it serves relatively few borrowers in coastal California, and is more successful in lending in less expensive parts of the state.

¹¹⁰ Kristin Perkins, et al. "The Potential for Shared Equity and Other Forms of Down Payment Assistance to Expand Access to Homeownership." Joint Center for Housing Studies of Harvard University, October 21, 2019.

Figure 34: Geography of CalHFA lending and of home sales in California

| Area | CalHFA lending in 2021 | % of CalHFA total 2021 lending | % of homes being sold statewide ¹¹¹ | Difference in number of homes |
|-----------------------------------------------------|------------------------|--------------------------------|------------------------------------------------|-------------------------------|
| Bay Area | 234 | 4% | 13% | - 526 |
| Los Angeles County | 359 | 5% | 17% | - 862 |
| Orange County | 60 | 1% | 7% | - 360 |
| San Diego County | 169 | 3% | 9% | - 338 |
| Subtotal | 822 | 13% | 47% | - 2,086 |
| Kern County | 758 | 12% | 3% | +2,274 |
| Fresno, Merced, San Joaquin and Stanislaus Counties | 1,455 | 22% | 8% | +2,546 |
| Inland Empire | 1,504 | 23% | 18% | +418 |
| Subtotal | 3,717 | 57% | 29% | +5,238 |

The difficulty of helping low- and moderate-income buyers in higher-cost parts of the state reflects the unaffordability of homes in these parts of the state without substantially greater assistance than current programs.

Ultimately, the CA Dream for All program's SALs could not only help approximately double the number of buyers assisted by the State; they could also complement the existing program by enabling the State to help buyers in precisely those areas where it has become extremely difficult.

This comparison suggests that a CA Dream for All program helping roughly as many borrowers as CalHFA's existing program—while relatively modest given the overall homeownership problem in California—would be significant in terms of the impact of State efforts.

Administratively feasible scale. That a new program would be similar in number of borrowers to CalHFA's existing program also makes it easier to gauge the administrative feasibility of operating at this scale. The CA Dream for All program would follow the same basic model as CalHFA's existing program in purchasing first mortgages in the form of AAA-rated mortgage-backed securities together with deferred payment second mortgages.

Sizing to be Financially Sustainable

An important consideration for this program is the level of total funding that would be needed for a SAL program to help this many borrowers, given increases in home prices throughout California.

Annual shared appreciation lending amount.

Assuming that SALs average about 20% of the purchase price (with some being smaller and some as much as 30% depending on program targeting), a program assisting in about 2% of home purchases in each region could require about **\$1 billion** of SALs a year.

Translated into individual SALs, \$1 billion would be able to fund 7,700 loans at an average of 20% of a \$650,000 purchase price (this purchase price level, which we have used in our financial modeling for the CA Dream For All program, is slightly above 90% of the statewide median purchase price of \$700,000). In terms of total home purchases, such shared appreciation loans and linked Fannie Mae/Freddie Mac first mortgages would help homebuyers purchase about \$5 billion of homes a year, or about \$25 billion in homes over five years.

Over time, if house prices increase, the average dollar amount of a CA Dream for All loan would need to be higher (and the program would receive appreciation when loans are repaid). Thus, if possible, the program should be designed so that through repayments, the program can keep assisting roughly the same number of borrowers each year.

Geographic allocation. This funding level and number of borrowers assisted assumes the program is designed to assist homebuyers proportionately throughout the state, both in high-cost and lower-cost areas—that is, assisting approximately the same percentage of home sales in each of the regions of the state.

¹¹¹ "California Home Sale Activity by City." CoreLogic, February 2022 https://www.corelogic.com/wp-content/uploads/sites/4/2022/03/CA-Home-Sale-Activity-by-City-February-2022_.pdf

The program could instead be designed to provide more of its lending in lower-cost areas at a lower average dollar amount per borrower, thereby helping more borrowers with the same \$1 billion. However, this allocation would assist borrowers in those regions where there is less of an affordability gap for first-time buyers. Such a program would replicate the same difficulties faced by CalHFA's existing program by working disproportionately in less expensive parts of California.

To meet the unique needs that a California SAL program can serve—providing significant assistance that is repaid in a way that allows the State to help future borrowers regardless of rising prices—we have conservatively assumed a program sizing to help 7,700 borrowers would require about \$1 billion of SALs.

Sustainable level of public resources. Along with identifying ways to leverage taxpayer funds with non-taxpayer monies, we wanted to be certain that **even if the program had to rely solely on taxpayer funds** it would involve a level of State funding that could be sustained over many years. To achieve this program sizing, the maximum amount of taxpayer funds invested each year would be \$1 billion for SALs, plus 10%, or \$100 million, for administrative and servicing costs.

The program is intended to be a multi-year program, with at least the same amount of shared appreciation lending for many years, given the nature of the housing affordability crisis in California. To ensure the program is financially sustainable for the State, program sizing should be evaluated on the assumption that in the most conservative case—without any non-taxpayer funds—the investment of taxpayer funds would total **\$1 billion for SALs each year for 10 years, plus an ongoing \$100 million per year for administrative and servicing costs.**

This long-term funding cost estimate is not intended to limit future State decisions. The State may, of course, decide to continue funding loans beyond 10 years, or reduce or terminate funding for new loans at any time based on program experience and results. Rather, this level and period is designed to enable legislators, the State Treasurer's Office and the Administration **to determine whether the State can invest in a program of this scale without significantly affecting the State's borrowing capacity, ability to promote housing that is affordable or ability to meet other critical needs.**

Sustainability and future price appreciation.

The very purpose of creating a SAL program is to be able to continue assisting first-time buyers each year even though home prices may continue to rise. Over the long run, repayments of SALs (both the original loan principal amount and the program's share of appreciation) are intended to keep pace with home price appreciation. This can only happen, of course, as homes are resold and initial SALs are repaid many years later. In the interim, the number of buyers assisted each year (with ever-larger SALs as prices rise) is likely to drop gradually unless new funding increases.

Rather than try to create a funding plan where new funding increases each year based on unknown rates of future home appreciation, we have conservatively assumed the same \$1 billion per year of shared appreciation lending, supplemented by revolving payments as they are received.

Conclusion: Using These Parameters

Given these minimum requirements for what funding needs to achieve and an estimated annual scale of \$1 billion a year of funding needed for the CA Dream for All program, we evaluated a range of funding options to see how they might operate in practice.

Funding Options

In order to consider the variety of ways the CA Dream for All program could be funded, we looked at a wide range of approaches in three broad categories:

- Options that are 100% taxpayer funded;
- Options that are funded from a combination of taxpayer and non-taxpayer moneys; and
- Options that use almost entirely non-taxpayer funding of the SALs, together with taxpayer dollars for administrative and other costs.

Our aim was to understand how each of these options might work, their ability to fund the annual scale of SALs, the expected cost of funds, and, most importantly, the extent to which each option would meet key threshold requirements. The aim was to narrow down the options to those that seem most feasible for carrying out the purposes of the program. Figure 40 summarizes the options across these categories.

Figure 35: Funding Options for the CA Dream for All Program

| | 100% Taxpayer Funded | | Hybrid Funding | | | Limited State Investment |
|-----------------------------|--------------------------------------------|--------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| Method | Revolving Fund | Repay Taxpayer Monies | Taxpayer Funds with Revenue Bonds | Blended Taxpayer Funds and Private Capital | Private Fund with Significant State Investment | Private Funds with Limited, Indirect State Assistance |
| Reason to consider | Endowment for future buyers | Ultimately repay taxpayers, with limited cost to State | Leverage taxpayer monies | Leverage taxpayer monies | Leverage taxpayer monies | Minimize cost to taxpayers |
| Program | State-run | State-run | State-run | State-run | Privately run | Privately run |
| Financing | State-run | State-run | State-run with revenue bonds | State-run with blended capital | Private, with significant taxpayer monies | Private with State administrative cost support, tax benefits or risk mitigation |
| How Funding Works Over Time | Loan repayments are used to make new loans | Loan repayments pay back State General Fund | Loan principal pays down revenue bonds first. Appreciation and subsequent revenue bonds fund new loans. State pays annual interest on revenue bonds | Loan repayments pay back private capital first. Any return to State helps make new loans | Loan repayments pay back private capital first. Any return to State helps make new loans | Loan repayments back private capital. No financial repayment to State |

100% Taxpayer-Funded Approaches

By **taxpayer funding**, we mean any source—whether budget appropriations or General Obligation (GO) bonds—that is paid for by, or imposes an obligation on, the State’s General Fund. **Non-taxpayer funding** includes all other sources not derived from or backed by the General Fund, from revenue bonds to private debt or private equity.

There are two distinct ways that the State can utilize 100% taxpayer funding.

- The State uses repayments of loans to make future loans. This enables the State, after an initial period of funding loans with State appropriations, to no longer do so. Instead, the program would become self-sustaining up to the level of loan repayments.
- Alternatively, the State would use loan repayments to reimburse the General Fund for monies spent to make those loans (through

the debt service on GO bonds or annual appropriations that funded loans directly). This reimbursement would occur many years in the future, as loans are repaid. Once the initially funded loans had been made, the program would no longer make future loans.

In both cases, as outlined in AB 140, long-term “ongoing State support [would be] limited to nominal administrative costs.”

These two approaches serve very different purposes and accomplish very different objectives. The revolving fund approach is designed to enable the State to help subsequent borrowers, and to do so in a way that keeps pace with the rate of home appreciation. The reimbursement approach is designed to help the first borrowers, and then to recover the State’s investment.

Option 1. Revolving Investment Fund

Purpose of approach. The purpose of this option is to create an ongoing endowment for future first-time homebuyers, with repayments of CA Dream for All loans re-lent to subsequent borrowers. It reflects the way that public shared appreciation programs such as San Francisco's, and down payment assistance programs of CalHFA and many other state housing finance agencies, use repayments to continue making loans to future buyers.

How it would work. The State would create a separate, independent governing body to oversee the Fund and engage a program administrator to implement the Fund's objectives. Examples of such an approach include the various committees established under GO bond acts, which typically include the State's three primary financial and fiscal officers—the Director of Finance, the State Controller and the State Treasurer. These ex officio roles are sometimes supplemented by appointees with specialized subject matter experience, such as the case for bonds sold for the Department of Veterans' Affairs, the High-Speed Rail Authority and the like.

The Fund would receive annual budget appropriations and/or proceeds of State GO bonds authorized by the voters. These monies would be deposited as received in (a) a loan account to purchase SALs, and (b) an administrative/servicing reserve fund to pay all administrative, origination, marketing and outreach, counseling, and servicing costs, with the Program Administrator contracting with outside firms to carry out such tasks. The program administrator would thus be responsible to the board or committee for the efficient use of the funds.

Repayments of principal and of appreciation on all SALs would be redeposited in the Fund, and amounts not needed to replenish the administrative/servicing reserve fund would be dedicated to making new SALs each year.

Precedent. This approach is generally similar to that used by San Francisco for funding its Downpayment Assistance Loan Program (DALP) over the last 40 years, but it would operate on a much larger scale.

Taxpayer investment. An annual scale of \$1 billion in SALs would require that amount of funding plus 10%, or \$100 million, for origination, administrative and servicing costs.

The program can be envisioned to provide such funding on an annual basis for 10 years, and thereafter rely on loan repayments to provide loans to future buyers. The State could also choose at

any time not to continue providing new loan funds, so long as it continues providing funds for ongoing administrative costs for loans already made and those recycled from such loan repayments.

The taxpayer funds can be provided either through the annual budget or through issuance of GO bonds to be repaid by the State, or through a combination of the two options.

Ability to meet programmatic needs. The funding approach would not limit who can be helped, in terms of areas of the state, lower-income borrowers or those needing larger amounts of assistance. The program would receive pro rata appreciation or could set a higher share of appreciation to provide more funds to help future borrowers, but there is no requirement or pressure from any investor to do so. This financing method is thus highly compatible with enhancing borrower household wealth.

Compatibility with Fannie Mae and Freddie Mac first mortgages. Both Fannie Mae and Freddie Mac require that shared appreciation seconds linked with their first mortgages must be publicly funded, so this approach would fully meet their rules.

Ongoing way to help future first-time buyers. This funding approach is designed precisely to help first-time buyers over many years to come.

Sustainable investment for the State. The intent is to set an annual projected scale of State investment that the State expects would not significantly adversely affect its ability to meet other needs or obligations. The State, however, is not obligated to make any new budget appropriation for funding loans or to issue additional GO bonds (but would still need to provide administrative costs).

No future financial risk to the State. There is no financial impact on the State from any defaults or losses on any SALs. If there are any losses, they reduce the total amount of repayments that can be used to make loans to future buyers. The State is never out of pocket beyond the investment it originally made. This approach, if funded from proceeds of GO bonds, would require repayment of such bonds without regard to the success (or lack thereof) of the Program

Leverage taxpayer monies with non-taxpayer monies to expand the number of borrowers ultimately served. This financing approach expands the number of borrowers ultimately served by relending the repayments received from borrowers over many years, rather than utilizing non-taxpayer monies that need to be repaid with a rate of return to investors.

Option 2. Repayment of State Capital

Purpose of approach. This financing method is intended to repay taxpayer money and thus be relatively costless to the State.

How it would work. The State would typically issue GO bonds, providing proceeds to purchase SALs. Origination, servicing and administrative costs would either be paid from bond proceeds or by an annual budget appropriation. The State would pay principal and interest on the GO bonds each year (together with any appropriation for ongoing administrative costs).

Repayments of principal and of appreciation on all SALs would be deposited in the State's General Fund, thus helping reimburse the State for its GO bond payments. (Such amounts could also be used to redeem the GO bonds directly).

Because the timing of loan repayments is uncertain, as is the amount of appreciation, there is no necessary relationship between when funds are received or the amount of funds received each year and the regularly-required payments on the GO bonds. The State will typically be out of pocket for many years since loan repayments are likely to be very slow, depending largely on when borrowers with these large SALs sell their homes.

The long-run objective of this approach is that loan repayments ultimately enable the State to recoup its funds spent on loans and administrative costs. Whether this will happen depends on the rate of home appreciation compared to the interest rate on the bonds, plus what is needed for origination, servicing and administrative costs and any loan losses. In an ideal case, the State might ultimately recover its costs for the program. If the appreciation is less or there are significant loan losses, the State will be unlikely to recover its costs fully.

Precedent. This financing method is similar conceptually to the way State GO bonds have long been used to fund certain CalVets farm and home loans to veterans. However, the Cal Vets loans are regular interest-bearing, fully amortizing loans, so the State is never expected to be out of pocket on its bond payments. A portfolio of SALs is very different, and the State, at best, would be out of pocket for many years.

Taxpayer investment. The State would issue GO bonds, up to a maximum amount authorized by the voters, to fund an annual scale of \$1 billion of SALs. The origination, administrative and servicing costs would be funded either by bond proceeds or by the State providing annual budget appropriations.

Ability to meet programmatic needs. As with a revolving fund, this approach would not limit in any way who can be helped, in terms of areas of the state, lower-income borrowers, or those needing larger amounts of assistance. The program could be designed to receive pro rata appreciation, but the intent of this method—to fully recover the cost of the GO bonds—could lead the State to seek a higher share of appreciation.

Compatibility with Fannie Mae and Freddie Mac first mortgages. This funding method would be compatible with Fannie Mae and Freddie Mac requirements.

Ongoing way to help future first-time buyers. This funding approach would **not** recycle any loan repayments into new loans. It would thus only help initial buyers. It does not provide an endowment for future homebuyers.

Sustainable investment for the State. The total authorized amount of the bonds would impact the State's borrowing capacity (even if they are not fully issued for many years). Neither investors nor rating agencies would count on the State receiving loan repayments at the times or amounts needed to repay the bonds, and so would view the bonds as a net cost to the State. Thus, the full amount of the authorization would significantly affect the State's ability to borrow for other purposes.

No future financial risk to the State. The purpose of this funding method is to avoid any long-term cost to the State, and any loan losses will impede the ability to accomplish that goal. In effect, the State will have borrowed funds that may not be fully repaid.

Leverage taxpayer monies with non-taxpayer monies to expand the number of borrowers ultimately served. This financing approach does not leverage taxpayer funds nor recycle them to help subsequent generations of borrowers.

Methods Combining Taxpayer and Non-Taxpayer Funds

These methods are intended to leverage taxpayer monies together with non-taxpayer monies to reduce at least the initial burden on taxpayer funds and/or ultimately help more borrowers with the same amount of taxpayer monies, with the aim, as set forth in AB 140, of “evolving the program over time to be self-sustaining utilizing private investments to create a self-sustaining model.”

The most important, and perhaps most surprising finding, however, is that although there is widespread investor interest in participating in the rising prices of housing in California, there are **crucial challenges** to relying on many types of private capital to:

- Consistently help fund the scale of the CA Dream for All Program; and
- Help fund CA Dream for All loans while meeting the program’s key requirements.

Understanding the nature of these challenges is important in considering financing options with non-taxpayer monies.

Scale of funding. For more than five years, highly-sophisticated financial technology companies have been working with a wide range of private investors to fund home purchase SALs in California and nationally. They have worked extensively with hedge funds, pension funds, real estate investment trusts, foundations and major banks. These companies have received venture capital for their internal costs, structured offering documents, worked through legal issues, designed securitizations and established a lending track record.

Yet raising significant large-scale amounts of capital to invest in home purchase SALs has been difficult. Landed provides one example. Despite its focus on essential professionals buying homes in high-cost areas, seed capital from the Chan Zuckerberg Initiative, a special waiver from Fannie Mae, partnerships with 143 school districts and other employers and indications of interest from 23,000 potential borrowers, Landed was able to raise a total of \$53 million in seven rounds of funding through last September.¹¹²

As we sought lessons from Landed and other fintech companies, what became clear is that there is a divergence in the market.

- There is extensive investor interest in home price appreciation in many areas of California

and elsewhere, as witnessed by the billions of dollars that hedge funds and others have raised to buy and rent out single-family homes.

- But shared appreciation lending, in addition to being relatively new, creates unique challenges for investors. The loans are in second mortgage position and thus are inherently riskier than first mortgages, of course, but it is not the risk of principal loss that makes it difficult to attract investors. Rather, it is the deferred repayment of such loans. The investor does not know, and has no control over, when SALs will be repaid, nor what their return will be. Nor do they receive any ongoing interest or other interim income. These fundamental uncertainties make it very difficult for most investors to value such investments or consider committing large amounts of capital to them.

Even with fintech companies setting their share of appreciation at 2.5 times their percentage of the original purchase price and projecting investor rates of return between 9% and 15%, this basic uncertainty makes it hard to reliably raise the kind of large-scale amounts of capital that the CA Dream for All program would need.

As part of our outreach efforts, we also examined government-sponsored enterprises (GSEs). GSEs are vast participants in the mortgage markets, have enormous amounts of capital, face significant duty-to-serve requirements that the CA Dream for All program can help meet, and could potentially see a CA Dream for All program as a national model for increasing affordability. Federal Home Loan Banks, however, have generally been unwilling to accept even amortizing second mortgages simply as collateral for advances to their member institutions. Discussions with Fannie Mae, Freddie Mac and their regulator, the Federal Housing Finance Agency, indicated that the CA Dream for All program could be highly compatible with their missions. But their interest was limited to GSE first mortgage products that would be used in conjunction with such a program—not in their own investing in a shared appreciation product.

Discussions with major CRA banks also did not indicate any interest in directly investing in a State SAL program. These banks did, however, see a large ongoing market for revenue bonds they could underwrite for such a program at relatively low interest rates—if such bonds were effectively overcollateralized and had a way of assuring interest payments.

¹¹² “Landed.” Crunchbase. https://www.crunchbase.com/organization/landed/company_financials

As a result, we believe that at least for the foreseeable future, the most realistic and low-cost way to raise significant amounts of non-taxpayer money for the CA Dream for All program would be through revenue bonds. These investments would be debt rather than equity, offer a fixed interest rate to the investor (rather than a share of home appreciation) and make payment of such interim interest highly predictable. Option 3 shows one way this could be accomplished.

Integrating private capital in the CA Dream for All program. The second challenge in using funds other than revenue bonds is the difficulty in meeting key CA Dream for All objectives. This challenge turned out to be more fundamental and structural than expected.

We started, for example, with the assumption that while different types of private capital might require high rates of return, such monies could be blended with taxpayer monies that would receive a much lower return. For example, if private capital by itself requires receiving a share of appreciation that is 2.5 times its percentage of the purchase price (e.g., for putting up 10% of the home price, the investor receives 25% of the appreciation), we thought such private capital could be used with enough taxpayer monies to charge the borrower pro rata appreciation. The taxpayer monies could in theory take the first risk position, or fund a loan loss reserve, that would lower risks for the private investor.

During discussions with several fintech companies, however, we encountered significant challenges in trying to use monies they might raise together with taxpayer money to meet CA Dream for All objectives. One concern is structural. It would be difficult to structure two tiers of funding for a common pool of loans. More importantly, there are parts of the state—particularly areas with lower population density—where a dearth of home sale data makes it difficult to raise and use any private investor capital at all.

Even more significantly, the private equity model is based on relatively quick repayments of borrower loans, with an expected average life of five years. This may be possible where the amount of the SAL is a relatively small percentage of the purchase price (e.g., 10%) and can potentially be refinanced with the first mortgage. When the SAL is much larger, however—as in the CA Dream for All program—quick repayment is extremely unlikely. Thus, it would be very difficult to use any

private equity capital to fund the larger loans that the CA Dream for All program would be designed to make. The problem is not merely that private investors in SALs are seeking a high rate of return; they are making investments that they expect to be repaid quickly. In short, these sources of capital can be thought of as “less patient” and more demanding of certainty of both return and timing.

Implications. For reasons of scale and challenges in integrating taxpayer and non-taxpayer monies to fund a common pool of CA Dream for All loans, we believe that if the State wants to leverage taxpayer monies with non-taxpayer monies, it is most practical to do so with revenue bonds.

A program using revenue bonds can meet some of the objectives of AB 140, “evolving over time to be self-sustaining utilizing private investments” to fund future loans. But ongoing State financial support would not be “limited to nominal administrative costs.” To make such revenue bonds marketable, the State would need to provide ongoing State appropriations to assure interest payments on revenue bonds.

From a broader perspective, we recognize that one of the implicit reasons for seeking to use non-taxpayer monies is not only to reduce the taxpayer investment per borrower but to validate the State’s efforts—that is, to show that parties other than the State itself are willing to invest in these loans.

Sales of revenue bonds can help do this. But when it comes to private equity capital, the validation may work the other way. Those raising capital for private shared appreciation lending hope that a large-scale CA Dream for All program will help validate and promote the idea of shared appreciation lending in general, including with capital markets, GSEs, lenders and the real estate industry. This seems more likely than the State validating its own program by integrating significant amounts of private equity.

Conclusions

The first of these methods, Option 3, a revolving investment fund with revenue bonds can potentially meet the CA Dream for All program’s overall purposes in the way it assists borrowers, and is detailed below. The specifics of the other methods, Options 4 and 5, that have fundamental problems in meeting the needs of the program, are included in Appendix D.

Option 3. Revolving Investment Fund with Revenue Bonds

Purpose of approach. The purpose of this option is to supplement taxpayer funds with revenue bonds to finance SALs.

How it would work. The state agency that would oversee and administer the CA Dream for All Fund would issue revenue bonds backed by the entire pool of SALs made by the CA Dream for All program. In the first several years, all loans would be funded by taxpayer monies; as a portfolio and track record is established, revenue bonds would be issued annually. The net proceeds of the revenue bonds, together with a reduced amount of new taxpayer monies would help fund new loans.

Security for revenue bonds. The total amount of revenue bonds would be limited to a maximum percentage of all CA Dream for All loans. Based on initial discussions with investment bankers, we expect this could be 60% of all CA Dream for All loans. This provides significant overcollateralization for the revenue bonds. All principal recoveries on loans would be used to pay down revenue bonds, enabling further revenue bonds to be issued up to the same percentage limit. The appreciation received would provide revolving taxpayer monies to help fund a portion of the cost of new loans together with new revenue bond proceeds.

Monies for new loans. Under this leveraged approach:

In years 1 through 3, new taxpayer monies would be provided for \$1 billion of SALs each year.

In years 4 through 12, the amount needed from new taxpayer monies would drop to \$400 million per year. This would be used together with new proceeds from revenue bonds to make loans.

After year 12, no more new taxpayer monies would be appropriated for loans. All future loans would be based on repayments of outstanding loans. Loan principal would pay down revenue bonds, allowing a similar amount of ‘replacement’ revenue bonds. Such proceeds together with appreciation received on past loans would fund new CA Dream for All loans.

As a result, instead of \$10 billion in taxpayer monies for the revolving fund without revenue bonds, the amount of taxpayer monies for SALs would be approximately \$6.6 billion (\$1 billion per year for three years plus \$400 million per year for nine years).

Interest payments on revenue bonds. CA Dream for All loans do not make regular interest

payments, but rather are paid off together with appreciation. But since the timing of loan payoffs is many years in the future and uncertain, there must be a mechanism to pay interest on the revenue bonds.

To make the revenue bonds marketable, it is important that the bonds pay regular interest each year (the alternative of using capital appreciation bonds where the interest accretes over the years is unattractive to investors in taxable revenue bonds and rarely used for such bonds. Such bondholders would owe income tax each year on the accreting interest without receiving cash to pay such tax).

In order to pay this interest on an assured and regular basis—without waiting for appreciation to be received on CA Dream for All loans—the legislation for the program would include a pledge to include in each year’s state budget proposal the amount needed to pay interest due on such bonds up to a maximum annual limit. While the Legislature cannot bind future state legislatures, this appropriation pledge is commonly used by California and many other states for lease payments and other purposes; such pledge is rated one notch below the State’s GO bond rating (which is presently listed as AA- by S&P, Aa2 by Moody’s and AA by Fitch).

The total amount of revenue bonds outstanding is thus limited both to 60% of outstanding loans and by the maximum annual interest pledge by the State. We have assumed this pledge would not exceed \$380 million per year (which should allow somewhat over \$6 billion of revenue bonds to be outstanding at any one time). Interest would be paid up to this limit on all revenue bonds as long as they are outstanding.

Origination, servicing and administrative costs. As with the revolving fund approach in Option 1, the State would appropriate \$100 million.

Precedent. Revenue bonds backed by pools of mortgages, including in some cases second mortgages, have long been sold by state housing finance agencies. Deferred payment second mortgages have been collateral for some of these bonds, but we are not aware of revenue bonds where the only collateral is such mortgages. The revenue bonds are intended to have a low investment grade rating. Even if the bonds are unrated, this was true of over \$5 billion of housing revenue bonds issued by California joint powers authorities over the last two years for workforce rental housing, whose repayment depended on future rent growth.

Option 3 continued from page 56

The annual appropriation pledge, in this case only for interest payments, has been utilized on many types of state and local financings in California and nationally. One example of its use for housing is Minnesota's State Appropriation Bonds for Housing Infrastructure, which has included 26 series of bonds over the last nine years. New York City recently used such a pledge for infrastructure bonds for its Hudson Yards project.

Taxpayer investment. The total taxpayer investment would be similar to that for Option 1—a revolving fund without revenue bonds—but the timing and types of payment would be different. Although much less taxpayer money would be needed for funding SALs, the State would be appropriating funds each year to pay interest on the revenue bonds as long as they were outstanding.

Ability to meet programmatic needs. The funding approach would not limit in any way who can be helped, in terms of areas of the state, lower-income borrowers or those needing larger amounts of assistance.

The program would receive pro rata appreciation or could set a higher share of appreciation to provide more funds to help future borrowers, but there is no requirement or pressure to do so to make payments on the revenue bonds, since appreciation payments are not used to pay down the revenue bonds. This financing method is thus highly compatible with enhancing borrower household wealth.

Including revenue bonds would, however, limit program flexibility in at least one key way. If the State did not want to set a fixed 30-year maturity on SALs (but instead, like San Francisco, wanted to simply define the “maturity date” as the date of sale, transfer or non-compliance) it could easily do so if all the loan funds are provided by taxpayers. Long-time owners who had not sold their home in 30 years could simply wait to pay off the CA Dream for All loan instead of refinancing it with a new first mortgage. But any use of revenue bonds would require a clear, stated 30-year maturity on CA Dream for All loans.

Compatibility with Fannie Mae and Freddie Mac first mortgages. Since both revenue bonds and direct taxpayer monies are publicly funded, this financing method should meet Fannie Mae and Freddie Mac requirements.

Ongoing way to help future first-time buyers.

This funding approach, like the revolving fund itself, is designed to help first-time buyers over many years to come.

Sustainable investment for the State. This option would set an annual projected scale of State investment that the State expects would not significantly adversely affect its ability to meet other needs or obligations. The amount needed for new loans would be significantly below that in Option 1, without revenue bonds. However, the State would be committed to making annual interest payments for many decades to come on all revenue bonds, up to the maximum annual amount of the pledge, as well as providing annual funds for administrative costs.

No future financial risk to the State. There would be no financial impact on the State from any defaults or losses on any SALs. If there are any losses, they reduce the total amount of repayments that can be used to make loans to future buyers. The State is never out of pocket beyond the budgeted appropriations. The State would have no liability to make principal payments on the revenue bonds, which are backed solely by the principal on the CA Dream for All loans themselves. We note that this approach creates the potential for a “moral hazard” to the State. In this circumstance, even in the absence of a legal requirement to apply other State resources to the repayment of the bonds, the political pressure on State leaders to take remedial action could force them into unwelcome choices.

Leverage taxpayer monies with non-taxpayer monies to expand the number of borrowers ultimately served. The total number of borrowers ultimately served is likely to be similar to the number served by Option 1, the revolving fund itself. Including revenue bonds is unlikely to increase the number of borrowers served, so long as the State makes a similar overall investment (in both loans and annual interest payments) as in Option 1.

Methods With Limited State Investment

Finally, we looked at ways that the State could encourage, incentivize and promote the use of private capital to fund SALs that meet CA Dream for All program objectives—without the State itself needing to invest taxpayer monies in funding such loans.

Our analysis suggests this is extremely unlikely. The difficulty is not simply one of the State spending less and getting less in return. Rather, the two challenges of using private capital—of scale and especially of using private capital to meet CA Dream for All program objectives—are even more fundamental when such capital fully funds the SALs.

The State can provide all manner of indirect support to encourage certain types of shared appreciation lending—paying origination, servicing and administration costs, providing relief from state capital gains tax and creating a reserve fund against loan losses. But this will not change the fundamental problem that, given the uncertain timing of loan repayment, investors are looking for early repayments that make it hard to serve those needing larger SALs. In other words, it is impossible to gauge how “patient” the capital must be when it is contributed by private investors.

The benefits that the State would provide may not significantly increase the number of eligible borrowers who actually receive SALs. Indeed, since a significant portion of current borrowers under private SAL programs would meet CA Dream for All program income and first-time buyer requirements, the State would be providing benefits for some borrowers who would have received the same SAL anyway.

While State support may help validate and promote the concept of shared appreciation lending in general, it is unlikely to make much difference in the ability of first-time buyers to purchase homes in California.

Option 6 with limited State investment is detailed in Appendix D.

Funding Options To Consider

Based on this analysis of a wide range of potential funding options for the CA Dream for All program, the two that are most likely to be practical—to raise the annual scale of funds, meet the borrowing and household wealth needs of first-time buyers and provide ongoing lending for subsequent generations of such buyers even as prices continue to rise—are:

- A revolving investment fund (Option 1), and
- A revolving investment fund combined with revenue bonds (Option 3).

Feasible Financial Approach

Comparing Selected Funding Options

How do these two options—a revolving investment fund or a revolving investment fund combined with revenue bonds—compare? Does leveraging revenue bonds enable the State to serve more borrowers?

Projections. In order to determine answers to these questions, we created a long-term financial model to show how these options would perform under a variety of scenarios. These projections include both a conservative “expected” case and a “more conservative” case. They are designed to indicate the projected amount of CA Dream for All loans each year, how many borrowers might be served, the amount of taxpayer monies needed and its timing and the sustainability of the program. The aim is not to predict the future, but to indicate a reasonable range of impacts these funding options may have in order to inform legislation.

Comparison of options. In order to make these options comparable, we modeled each using approximately the same aggregate total present value of taxpayer investment. This approach makes it easier to see the different impacts of these options themselves.

To preview the results, we found that while revenue bonds change the timing of when taxpayer monies are needed and how such monies may be budgeted, there is little difference in the number of borrowers assisted over a 30-year period.

While the successful sale of such revenue bonds would help indicate that investors are willing to join with the State in funding the CA Dream for All program, they bring several disadvantages. They add significant complexity, require marketing a new financing structure at a very large scale and are subject to the interest rates at the time of each bond sale, which rates may turn out to be higher or lower than the ultimate appreciation on the loans they help finance.

Share of appreciation. As part of these projections, we also tested the impact of requiring that borrowers pay 1.5 times the program’s percentage of the home purchase price versus pro rata appreciation. This helped show how a higher required repayment would affect the number of future homebuyers the State can assist with the same original amount of taxpayer monies.

Assumptions

Figure 36 shows key assumptions. Differences between the expected and conservative cases are bolded, as are differences introduced by revenue bonds. Some important assumptions are discussed below.

CA Dream for All lending. The analysis is based on the approach to annual scale of CA Dream in the first section of this chapter, including that CA Dream for All loans fund on average 20% of the purchase price. The program lending volume is limited to \$1 billion per year plus the increase in the home appreciation rate and is assumed to initially serve approximately 7,700 borrowers per year.

In later years, after the State is no longer providing new taxpayer monies for loans, the dollar amount and number of loans will depend on repayments of outstanding loans.

Figure 36: Key Assumptions under Financial Approaches

| | Expected | More Conservative |
|---------------------------------------------------------------------------------|--------------------------------------------------------------------------------|---------------------------------------------|
| Average home purchase price in first year of program | 650,000 | same |
| Portion financed by CA Dream for All loan | 20% | same |
| Average CA Dream for All loan in first year of program | 130,000 | same |
| Borrowers assisted by \$1billion of program loans in first full year of program | 7,692 | same |
| Max. amount of CA Dream for All loans per year | \$1 billion increasing at appreciation rate | \$1 billion increasing at appreciation rate |
| Home price appreciation (annual rate) | 4.5% | 3.0% |
| Weighted average life of CA Dream for All loans | 15.8 years | 17.3 years |
| Losses on CA Dream for All loans | | |
| Annual % | 0.20% | 3.2% |
| Cumulative | 0.35% | 6.3% |
| Administrative/origination/servicing costs | | |
| Administration | 10 million increasing at 3% per year | same |
| Loan servicing (as % of loan balance) | 1.0% annual | same |
| Loan origination | 5% of loan amount | same |
| Pre-purchase counseling | \$1,125 per new loan | same |
| Post-purchase counseling | 250 per outstanding loan per year, counseling increases 3% per year | same |
| Taxpayer Funding: No revenue bonds | | |
| For new loans | \$1 billion per year for 10 years | same |
| For administrative costs | \$50 million start-up, \$100 million per year, Increasing at 3% per year | same |
| Taxpayer Funding: With Revenue bonds | | |
| For new loans | \$1 billion per year for 3 years \$400 mill. for years 4 - 12 | same |
| For administrative costs | \$50 million start-up, \$100 million per year | same |
| For interest on revenue bonds | \$380 million max. per year | same |
| Revenue bond assumptions | | |
| Years issued for new loans (plus issued for new loans | years 4 - 12 | same |
| Interest rate | 5% | 6% |
| Maximum par outstanding as % of loan balance | 60% | same |
| Maximum annual interest cost | \$380 million | same |

Home price appreciation. We have assumed two different long-term compounding rates of price appreciation on a geographically diversified portfolio of loans throughout the state. The expected case uses 4.5%, slightly below the 4.7% average rate for the last 40 years for homes in California. The conservative case is set about 36% lower, at a 3% annual rate.

The actual rate will, of course, fluctuate from year to year, with price declines as in the Great Recession and periods of very high appreciation as in the last several years. The natural incentives to maximize their own gains on their homes encourages borrowers to wait out periods when prices have fallen, rather than sell into a downmarket, and to sell their homes (and repay SALs) when prices have recovered.

Average life of CA Dream for All loans. We have assumed that CA Dream for All second loans pay off on average in 15.8 years in the expected case and 17.3 years in the conservative case. An analysis of San Francisco's shared appreciation portfolio from 1998 through 2015 showed an average life of slightly over 16 years. These assumptions reflect the fact that borrowers with large SALs are unlikely to be able to refinance them (especially before they have significantly paid down their first mortgage amount) and are generally expected to repay CA Dream for All loans only when they sell or transfer their home.

These average lives on deferred payment loans can generally be compared to 23% PSA prepayment speed* on borrowers' first mortgages (at an assumed loan rate of 5%) in the expected case and 0% PSA prepayment speed* in the conservative case.¹¹³

Losses on CA Dream for All loans. Loan losses can arise—that is, the program can fail to recover the original principal amount of a CA Dream for All loan—if two things happen together:

- The borrower defaults on the payments due on the first mortgage, leading to foreclosure or forced sale, and
- The proceeds at foreclosure or forced sale are insufficient to pay off the first mortgage, the borrower's original cash down payment and the full original principal amount of the CA Dream for All loan.

In such an event, the program would not fully recover its original investment.

Loss levels. We have estimated the magnitude of this risk under a range of scenarios, by first looking back at public agency deferred payment loan portfolios that went through the Great Recession. In the case of San Francisco's shared appreciation portfolio, the cumulative losses on its 440 SALs made from 1998 through 2015 were 0.3% of the original principal amount (this 0.3% figure assumes conservatively that as with the CA Dream for All program, the loans had been subordinate to the borrower's original cash down payment. San Francisco, in fact, had zero actual losses).

We then looked at the losses on Colorado's deferred payment loan portfolio for loans made from 2003 to 2010, which had among the highest loss experiences on public down payment assistance loans linked to 30-year first mortgages that were conservatively underwritten. The cumulative losses on Colorado's portfolio was 14%. Looked at more closely, we found two key factors that distinguish its portfolio from the kinds of loans that the CA Dream for All program would make:

- The vast majority of the Colorado deferred loans were made in conjunction with FHA first mortgages, on which default rates have generally been two to three times higher than on Fannie Mae or Freddie Mac first mortgages that CA Dream for All program borrowers would be required to use. Fannie Mae and Freddie Mac first mortgages require significantly higher credit scores and much lower front-end and back-end ratios than FHA first mortgages. Indeed, of the deferred loans made in conjunction with Fannie Mae loans in that period (some 52 loans), far from a 14% cumulative loss, there were zero losses.
- Equally important, the Colorado deferred loans (like those of most down payment assistance programs nationally) were quite small, at approximately \$5,000. Thus, there was little reason for the agency to bid at foreclosure or forced sale to protect its position; the cost and effort would not have been worthwhile. On very large second mortgages, like those the CA Dream for All program would provide, it would be worthwhile for a program with a 20% second mortgage to seek to recover half of its principal balance even if there had been a 10% decline in property value.

Taken together, the estimated equivalent cumulative loss for a CA Dream for All portfolio that goes through the same depth of recession as Colorado's program is likely to be about one

¹¹³ The standard method of referring to and calculating prepayment speeds of mortgages is the model established by the Public Securities Association, currently the Bond Market Association, or "PSA" model based on an assumed rate of prepayment each month of the then unpaid principal balance of a pool of mortgages.

quarter as severe, or about 3.5%. The conservative case assumption of 6.3% is much higher than this figure.

Borrower incentives. Another feature of CA Dream for All is likely to further reduce borrower defaults that can lead to loan losses. Repayment of the principal amount of the CA Dream for All loan would be subordinate to the borrower recovering his or her original cash down payment. This can make a significant difference in how borrowers deal with their first mortgage debt.

- In a normal high-to-loan first mortgage (for example, 97% of the purchase price), if home prices go down by 5% or more, a borrower who is financially stretched to make the mortgage payment and all other expenses may have little incentive to keep making first mortgage payments. Since the value of home is less than has to be repaid, the borrower may see little point in essentially throwing good money after bad, since there may seem to be little prospect of recovering the borrower's down payment.
- The same logic applies if the borrower has an 80% first mortgage and a deferred payment second mortgage that is not subordinate to the borrower's down payment.
- Under the CA Dream for All approach, however, even if the value of the home is reduced by 20%, the borrower has every incentive to keep making first mortgage payments, since the down payment will not be at risk.
- Thus, the value of the home could drop by **five times as much** as with a typical down payment assistance loan (20% vs. 4%), and the borrower would still have a full incentive to keep making first mortgage payments.

This incentive makes little difference, of course, to a borrower that has no other choice but to default on their first mortgage. But as mortgage lenders found during the Great Recession, loans being underwater had a very strong impact on loan defaults occurring in the first place.

Administrative, origination and servicing costs.

Recognizing that the details of how a CA Dream for All program would operate have not been pre-decided, we have made assumptions about what may be adequate amounts to carry out all the functions required.

Administration and setup. We have assumed that administration of the program itself, including setting up the program and annual oversight of third parties carrying out specific functions, would not exceed \$50 million in start-up costs, plus \$10 million a year, increasing at 3% annually.

Loan origination. For costs of loan origination, we have assumed 5% of the original principal amount of the CA Dream for All loans (e.g., \$50 million on \$1 billion of lending in the first full program year). Third-party functions include tracking loan reservations, marketing and outreach, communications and explanations with borrowers and homebuyer counseling (it should be noted that lenders originating first mortgages and associated seconds, like CA Dream for All loans, cannot receive additional compensation for such seconds under Federal rules).

Homebuyer and homeowner counseling.

Counseling is a key component of the CA Dream for All program. We have assumed homebuyer counseling for all borrowers, with a per loan cost of \$1,125. Ongoing counseling for borrowers with outstanding loans is assumed to cost \$250 per outstanding loan per year. Both of these costs are assumed to increase at 3% per year.

Loan servicing. For loan servicing, we have assumed 1% of the original principal amount of the CA Dream for All loans (since the loan does not amortize, the dollar amount for servicing a loan typically remains the same). The servicing function on these loans can include:

- Quarterly updates to the program and borrowers on not only the principal balance of the loan (so the borrower is fully aware that there is a debt to be repaid) but also of the estimated amount that would be due for appreciation if the home was re-sold (based on automated home value estimates for that geographic area);
- Working with borrowers who may be delinquent on their first mortgage, including making referrals for loan counseling, in order to reduce the chances of default; and
- Dealing with loan repayments.

The 1% figure is similar to what state housing finance agencies have paid for servicing modest-sized amortizing second loan portfolios, where the servicer has to collect monthly payments. It has also been proposed by a fintech experienced in SALs.

Revenue bonds. The revenue bond approach, timing, security and other limits reflect Option 3. Based on input from investment bankers and increasing rates in the current bond market, we have assumed that these taxable revenue bonds could be sold at an average of 5% in the expected case and 6% in the more conservative case. Costs of issuance, including underwriter discount and agency issuance fees, are assumed at 0.75%.

Results and Implications

We have compared Option 1, a revolving investment fund with all taxpayer money that invests \$1 billion a year for 10 years, and Option 3, a revolving investment fund that starting in year 3 uses revenue bonds to reduce the amount of taxpayer money needed for new loans in each year. The present value cost of taxpayer monies for these two options is approximately the same, so it is easier to see how this choice affects the program's ability to assist borrowers.

In addition, to see what happens to the long-term sustainability and endowment created by a revolving fund, we also showed the impact of a revolving fund where taxpayer money is invested for an extra five years—15 years in total.

Figure 37 shows high-level results under the expected case. The revolving fund for 10 years is bolded because it provides a baseline against which other financing options can be measured.

Note: This analysis does not include a terminal value of residual assets and liabilities after the 40-year projection period. The borrower share of home appreciation is (a) for loans paid off, the total appreciation on homes at time of payoff minus the appreciation owed to the program, and (b) for loans outstanding at end of 40 years, the total appreciation on homes with loans at that

time minus the amount that would be owed to the program if the loan was paid off at that time.

Overall impact. The most important finding from this analysis is that a significant investment in CA Dream for All lending over the first 10 years of the program creates a powerful endowment to help future borrowers.

- By investing \$1 billion a year in new loans for 10 years and helping approximately 77,000 first-time homebuyers directly over that period, the State creates a revolving fund that would assist **80,000 additional** first-time buyers over the following 30 years.
- Because these are SALs, the appreciation paid back to the program lets the CA Dream for All Fund provide buyers each year the larger amounts they need to keep pace with rising home prices. The greater the rate of home price appreciation, the more important this is.
- Beyond this initial funding period, the total cost to the State is limited to \$100 million per year for administrative, origination and servicing costs.
- The State can, of course, choose to continue funding such a program. By doing so for 15 years, it will increase the number of first-time buyers it supports **from 157,000 to 200,000**.

Figure 37: Expected Case Over 40 Years

| | Funding Approach | | |
|---------------------------------------------|--------------------------------------------|--------------------------------------------------|------------------------------------|
| | Taxpayer Funding of New Loans for 10 years | Taxpayer Funding with Revenue Bonds for 12 years | Taxpayer Funding Only for 15 years |
| | Option 1 | Option 3 | Option 1 plus 5 years |
| Taxpayer Funding | | | |
| For loans | \$10.0 billion | \$ 6.6 billion | \$15.0 billion |
| For revenue bond interest | 0 | 5.3 billion | 0 |
| For admin, origination and servicing costs | 4.1 billion | 4.1billion | 4.1 billion |
| Total over 40 years | 14.1 billion | 16.0 billion | 19.1 billion |
| <i>Present value at 3.0%</i> | 10.8 billion | 11.4 billion | 14.3 billion |
| CA Dream for All loan originations | | | |
| Total over 40 years | 47.6 billion | 46.5 billion | 62.5 billion |
| <i>Present value at 3.0%</i> | 25.3 billion | 25.4 billion | 32.6 billion |
| Borrowers Assisted | | | |
| Total over 40 years | 157,200 | 159,800 | 199,700 |
| Average annual | 3,930 | 4,000 | 4,990 |
| Total over 40 years | | | |
| <i>Present value at 3.0%</i> | 64.2 billion | 65.6 billion | 81.6 billion |
| PV of borrower appreciation / taxpayer cost | 5.9x | 5.8x | 5.7x |

- After the 40-year period shown in these projections, repayments of CA Dream for All loans would continue to revolve to help future borrowers as well.

Key differences among financing options. A few insights stand out from this comparison of various options:

- A revolving fund program and a revenue bond program with approximately the same present value of taxpayer investment would make about the same dollar amount of CA Dream for All loans and assist a similar number of borrowers over the course of 40 years.
- Including revenue bonds starting in the fourth year changes the timing of taxpayer investment. Instead of \$1 billion in taxpayer monies annually from years four through 10 for new loans, this amount drops to about \$400 million a year. However, taxpayer monies are needed to pay interest on revenue bonds. The net result is that the total cost to taxpayers is about the same in present value terms.
- The form in which taxpayer money is budgeted is different among these options. To support the interest payments on revenue bonds, State legislation establishes an annual appropriation pledge, building ongoing support for the program into future budgeting. This is separate from the amounts being spent in early years to fund new CA Dream for All loans.
- Revenue bonds introduce an added element of interest rate sensitivity. The more expensive the actual interest rate on a series of revenue bonds, the less the total amount of revenue bonds that can be outstanding at any one time with the same maximum annual appropriation pledge. If revenue bond interest rates are higher, as assumed in the more conservative case, it will reduce the number of borrowers that the CA Dream for All program will ultimately help.
- **If the State wants to expand the number of first-time homebuyers who are ultimately assisted, it can do so not by including revenue bonds in the program but simply by continuing to fund new loans for additional years.**

More conservative assumptions. An important part of this analysis is understanding the sensitivities of these results to different economic environments and prepayment speeds.

- These financing structures have been designed so that there is no unexpected or additional cost to the State depending on the economic environments or prepayment speeds.
- Rather, the result of larger loan losses, slower prepayment speeds, less home price appreciation or higher interest rates is on the number of subsequent buyers the CA Dream for All program can assist.
- The total dollar amount of CA Dream for All loans that would be funded over 40 years in this more conservative case is significantly less—\$31 billion compared to \$48 billion—but still more than double the amount of taxpayer monies spent on new loans (and interest payments in the case of revenue bonds).
- The number of borrowers in the more conservative case is only slightly smaller (144,000 compared to 157,000). While the lower assumed home appreciation rate means less total appreciation payments to be recycled into new loans, it also means that the amount needed to help new homebuyers is smaller as well. If prices rise much more slowly than they have historically, less money is needed to help the same number of buyers purchase the same homes.
- This analysis shows how a shared appreciation program responds over many years to a variety of future trends, ultimately providing more money to assist new buyers when home prices increase quickly and less money when prices rise more slowly.
- One factor that could significantly reduce the number of future buyers assisted would be a severe reduction in California home values, resulting in larger-than-projected loan losses. In this case, there may be less of a need for CA Dream for All loans to fund as much of the purchase price of homes that first-time buyers are seeking to buy.

Figure 38: More Conservative Case Over 40 Years

| | Taxpayer Funding of New Loans for 10 years | Taxpayer Funding with Revenue Bonds for 12 years | Taxpayer Funding Only for 15 years |
|-----------------------------------------------------|--------------------------------------------------|--------------------------------------------------------|------------------------------------------|
| | Option 1 | Option 3 | Option 1 plus 5 years |
| Taxpayer Funding | | | |
| For loans | \$10.0 billion | \$6.6 billion | \$15.0 billion |
| For revenue bond interest | 0 | 6.8 billion | 0 |
| For administration, origination and servicing costs | 4.1 billion | 4.1 billion | 4.1 billion |
| Total over 40 years | 14.1 billion | 17.4 billion | 19.1 billion |
| <i>Present value at 3.0%</i> | <i>10.8 billion</i> | <i>12.2 billion</i> | <i>14.3 billion</i> |
| CA Dream for All loan originations | | | |
| Total over 40 years | \$31.4 billion | \$30.0 billion | \$42.0 billion |
| <i>Present value at 3.0%</i> | <i>18.1 billion</i> | <i>18.1 billion</i> | <i>23.6 billion</i> |
| Borrowers Assisted | | | |
| Total over 40 years | 144,000 | 144,000 | 188,000 |
| Average annual | 3,600 | 3,600 | 4,700 |
| Borrower Share of Home Appreciation | | | |
| Total over 40 years | 61.8 billion | 61.3 billion | 81.4 billion |
| <i>Present value at 3.0%</i> | <i>31.2 billion</i> | <i>32.1 billion</i> | <i>40.2 billion</i> |
| PV of borrower appreciation / taxpayer cost | 2.9x | 2.6x | 2.8x |

Note: This analysis does not include a terminal value of residual assets and liabilities after the 40-year projection period. The borrower share of home appreciation is (a) for loans paid off, the total appreciation on homes at time of payoff minus the appreciation owed to the program, and (b) for loans outstanding at end of 40 years, the total appreciation on homes with loans at that time minus the amount that would be owed to the program if the loan was paid off at that time.

Impact on borrower household wealth. In addition to comparing the impact of the program in helping buyers purchase homes, the model provided a way to project the impact on the household wealth generated for such households over a 40-year period.

In the expected case, the net appreciation received or accrued by borrowers over the 40-year period (after subtracting the portion of appreciation due back to the program) is about \$133 billion for both the 10-year taxpayer funding and the revenue bond approach. On a present value basis, this is about \$65 billion.

This means that for a present value investment of \$10.8 billion, the State helps generate about six times that amount in household wealth for low- and moderate-income homebuyers, while still continuing to receive future repayments to assist later borrowers.

In the more conservative case, the net appreciation received or accrued by borrowers over a 40-year period is about \$61 billion in the 10-year taxpayer funding and revenue bond approaches. The present value is about half that. Even if appreciation over this period is two thirds what it has historically averaged over the last 40 years, the \$10.8 billion present value taxpayer investment in the CA Dream for All Fund will help generate about three times that amount in household wealth.

Figure 39: Projected Borrowers Served Under the Expected Case

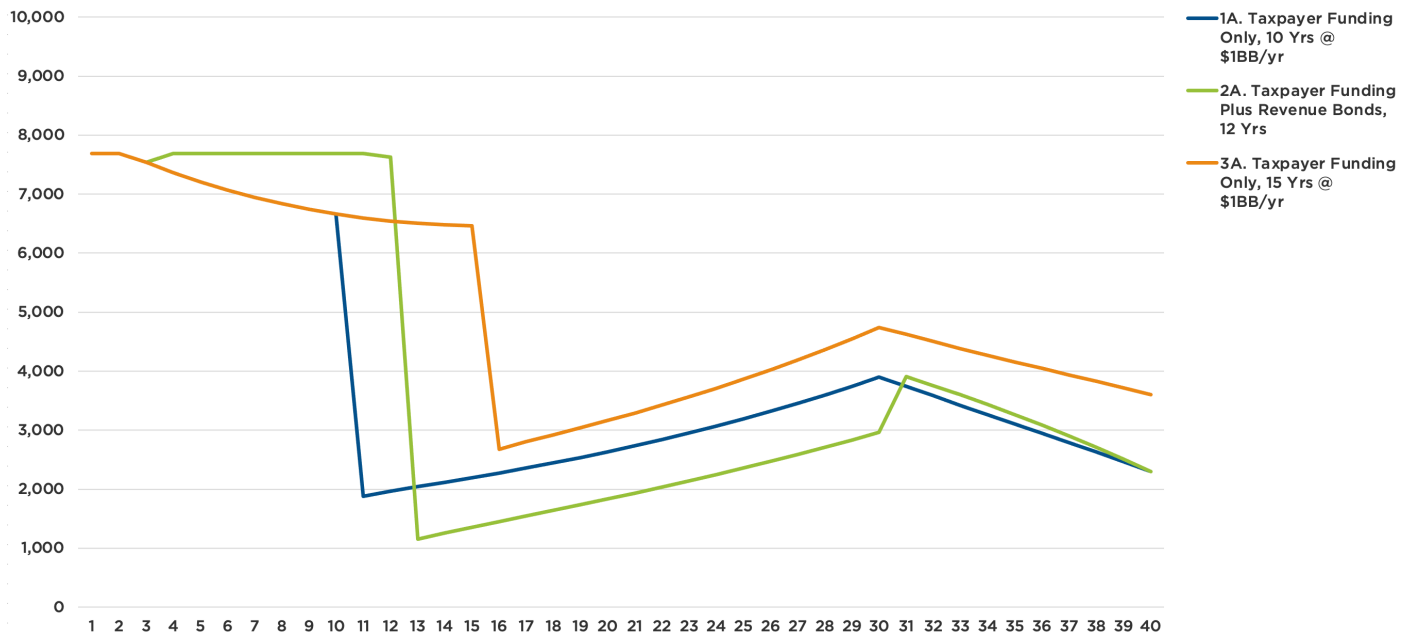


Figure 40: Projected Borrowers Served More Conservative Case

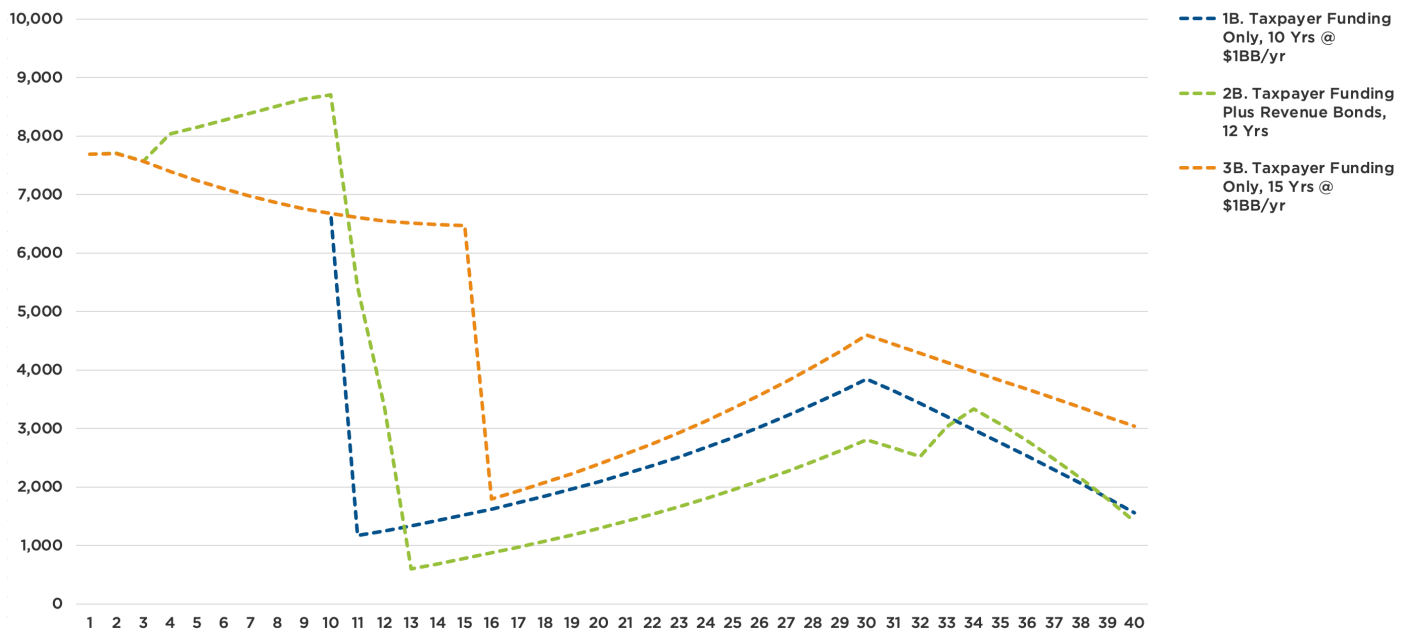


Figure 41: Dollar Amount of Projected CA Dream for All Originations Expected Case (# Billions) Annual

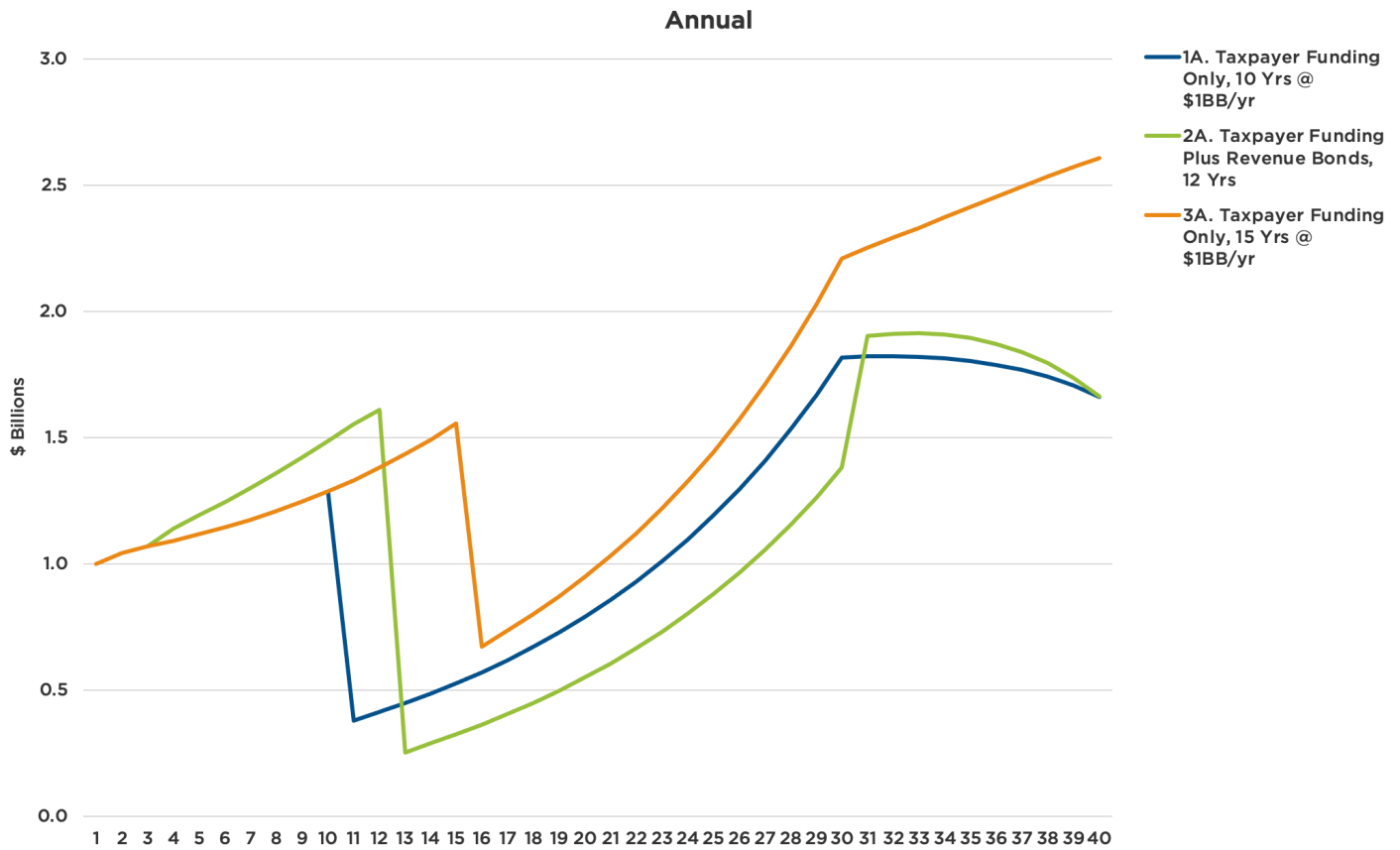


Figure 42: Dollar Amount of Projected CA Dream for All Originations Expected Case (\$ Billions) Cumulative

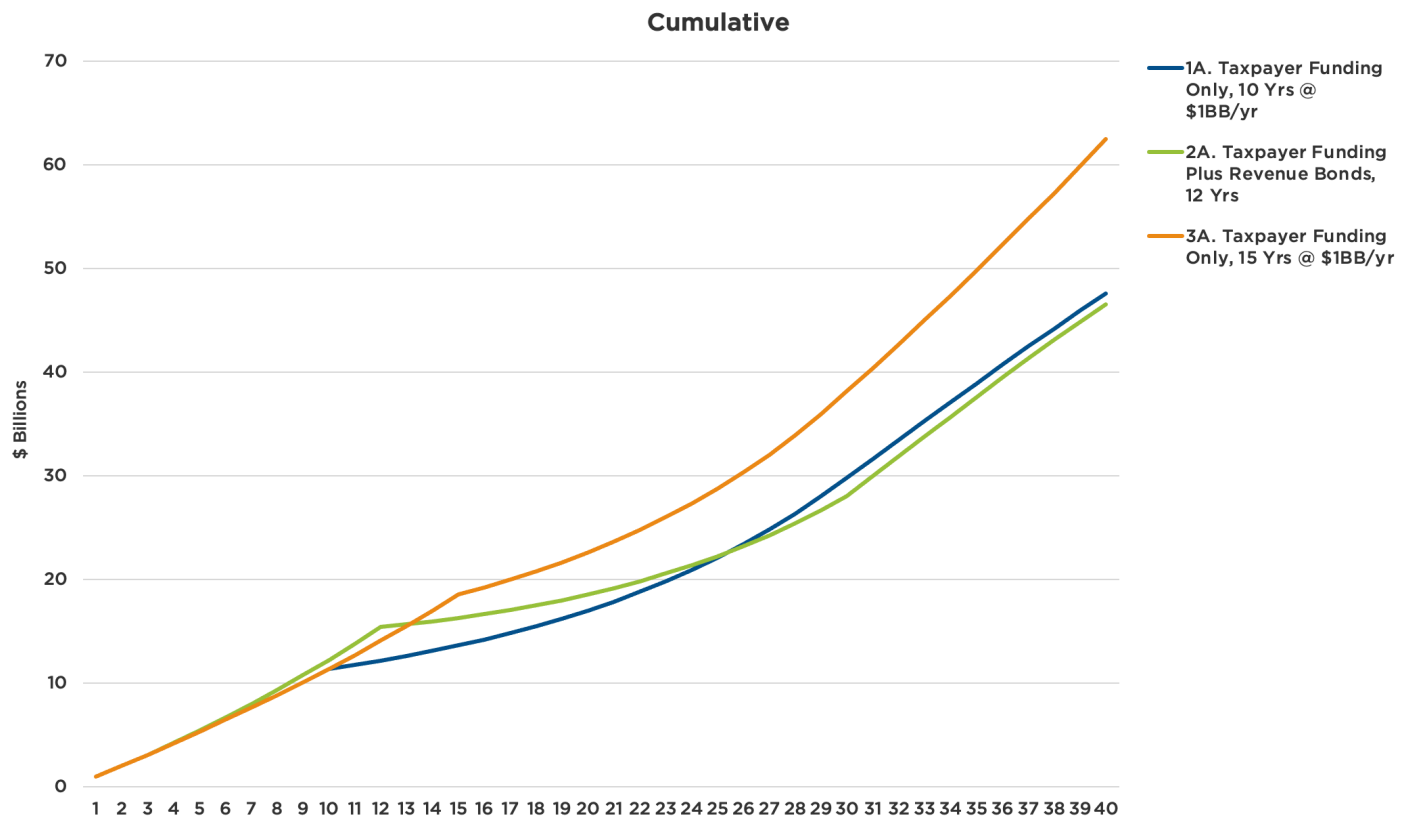


Figure 43: Dollar Amount of Projected CA Dream for All Loan Originations More Conservative Case (\$ Billion) Annual

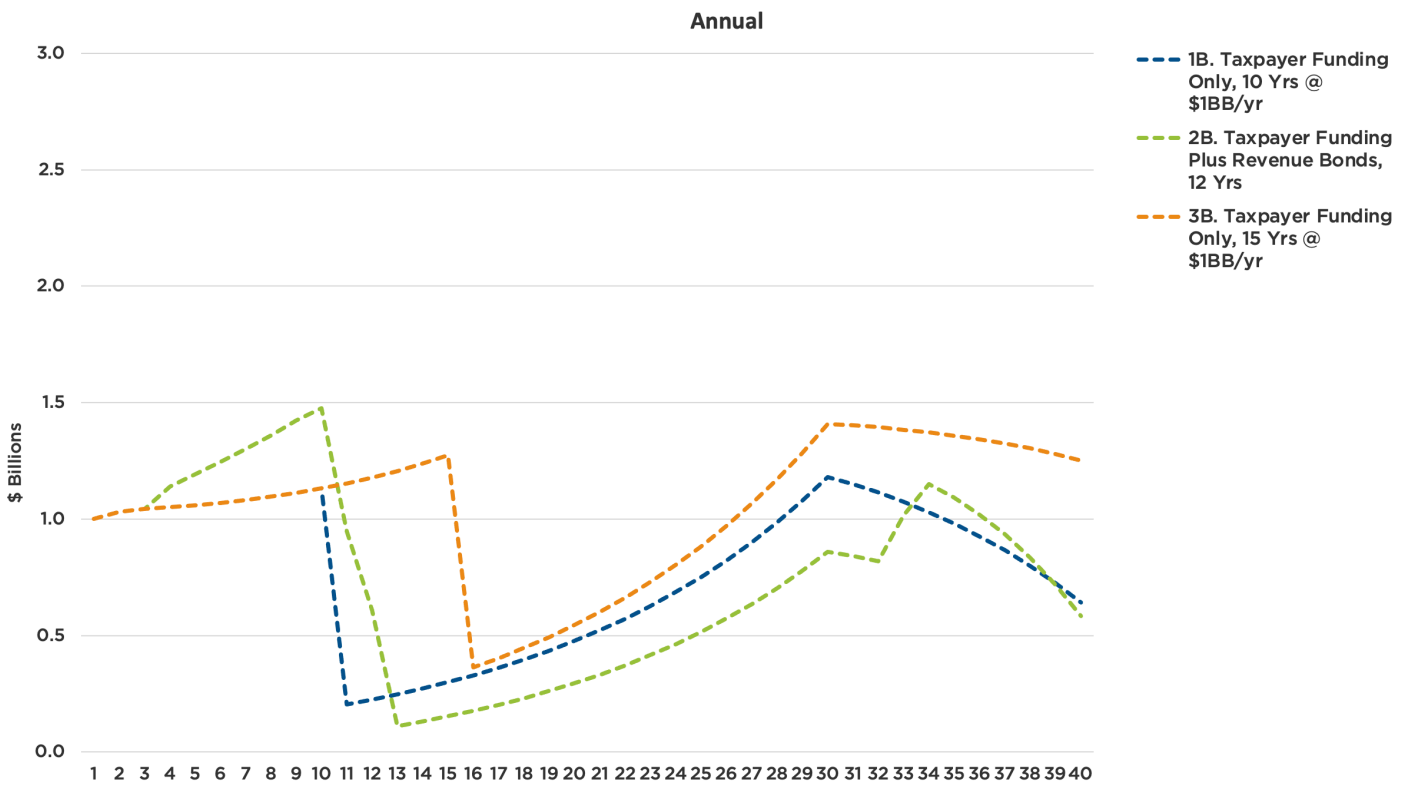


Figure 44: Dollar Amount of Projected CA Dream for All Loan Originations More Conservative Case (\$ Billion) Cumulative

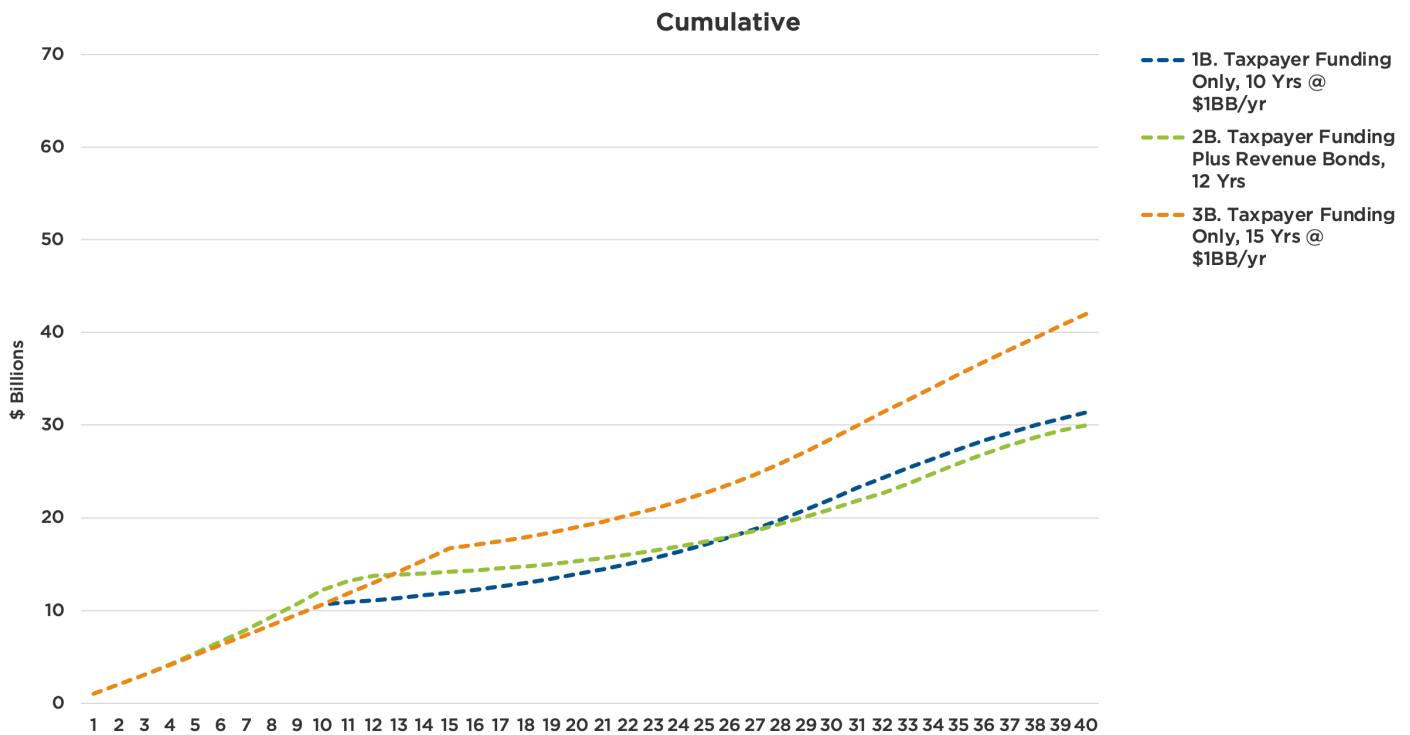


Figure 45: Borrower Share of Home Price Appreciation Expected Case (\$ Billions) Annual

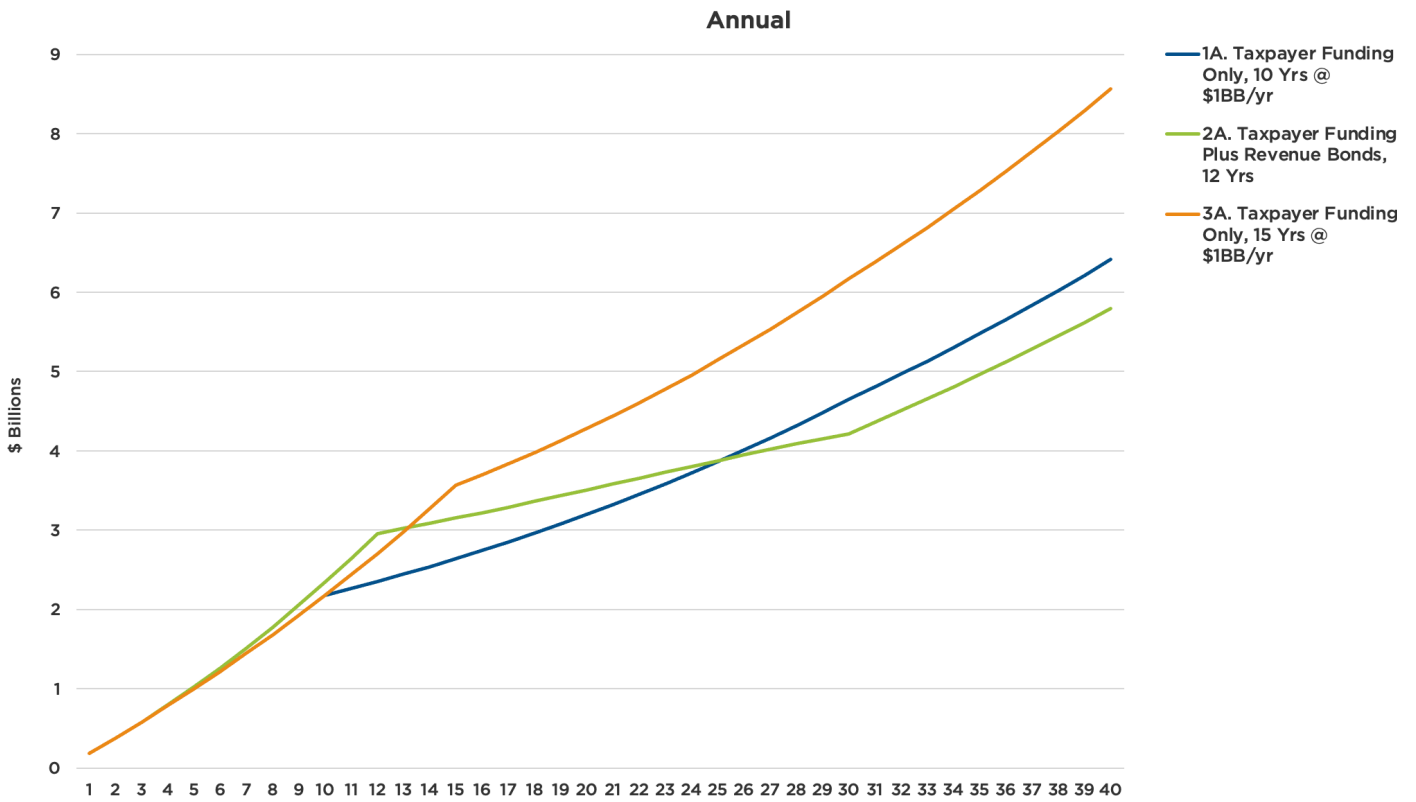


Figure 46: Borrower Share of Home Price Appreciation Expected Case (\$ Billions) Cumulative

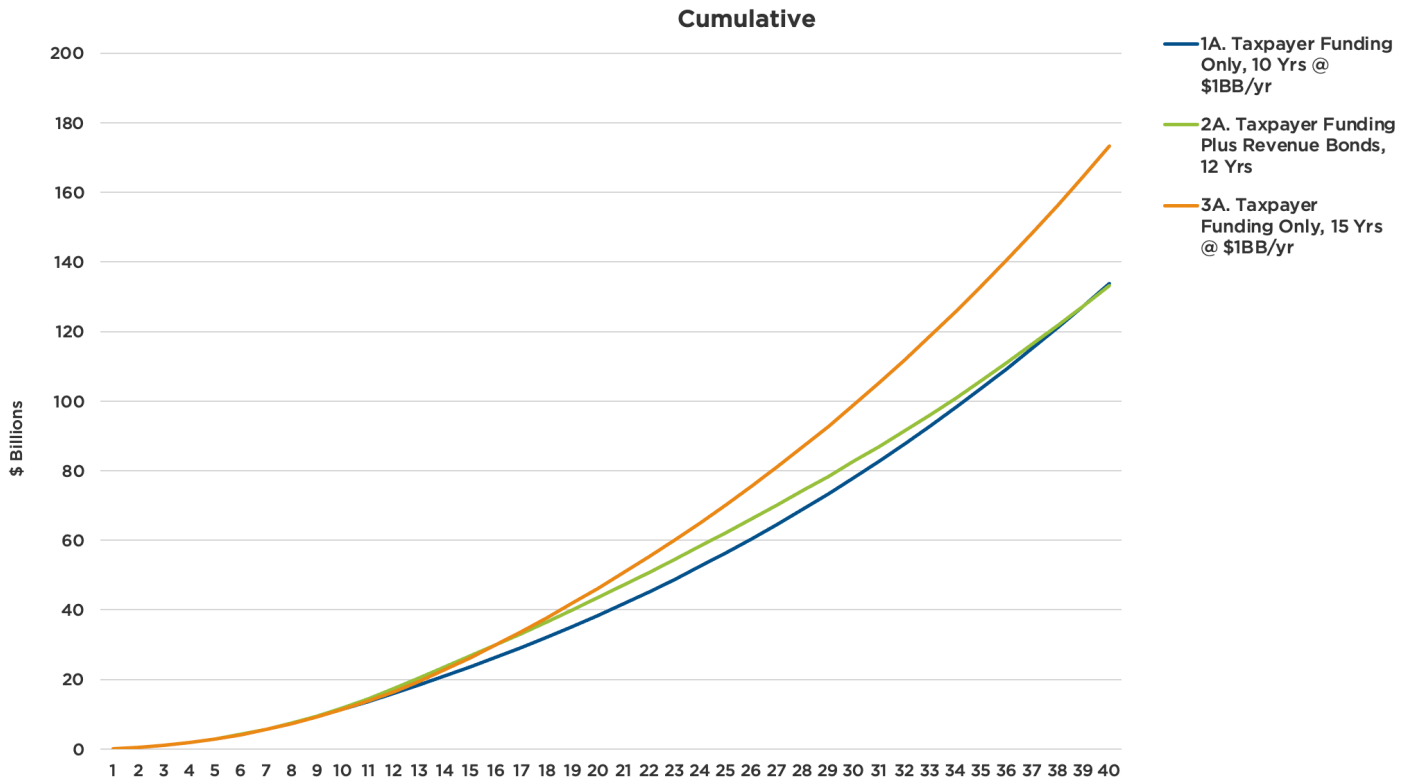


Figure 47: Borrower Share of Home Price Appreciation: More Conservative Case (\$ Billions) Annual

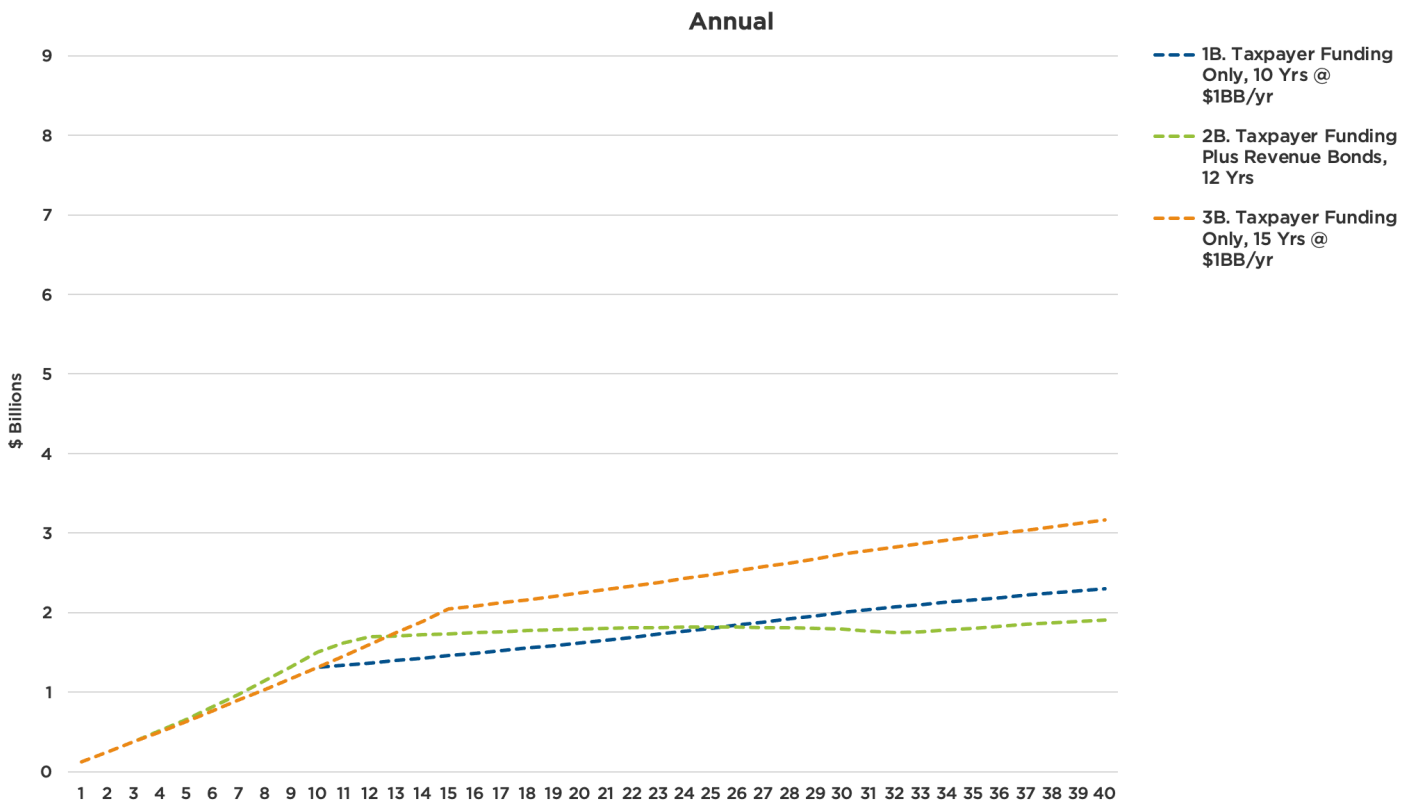
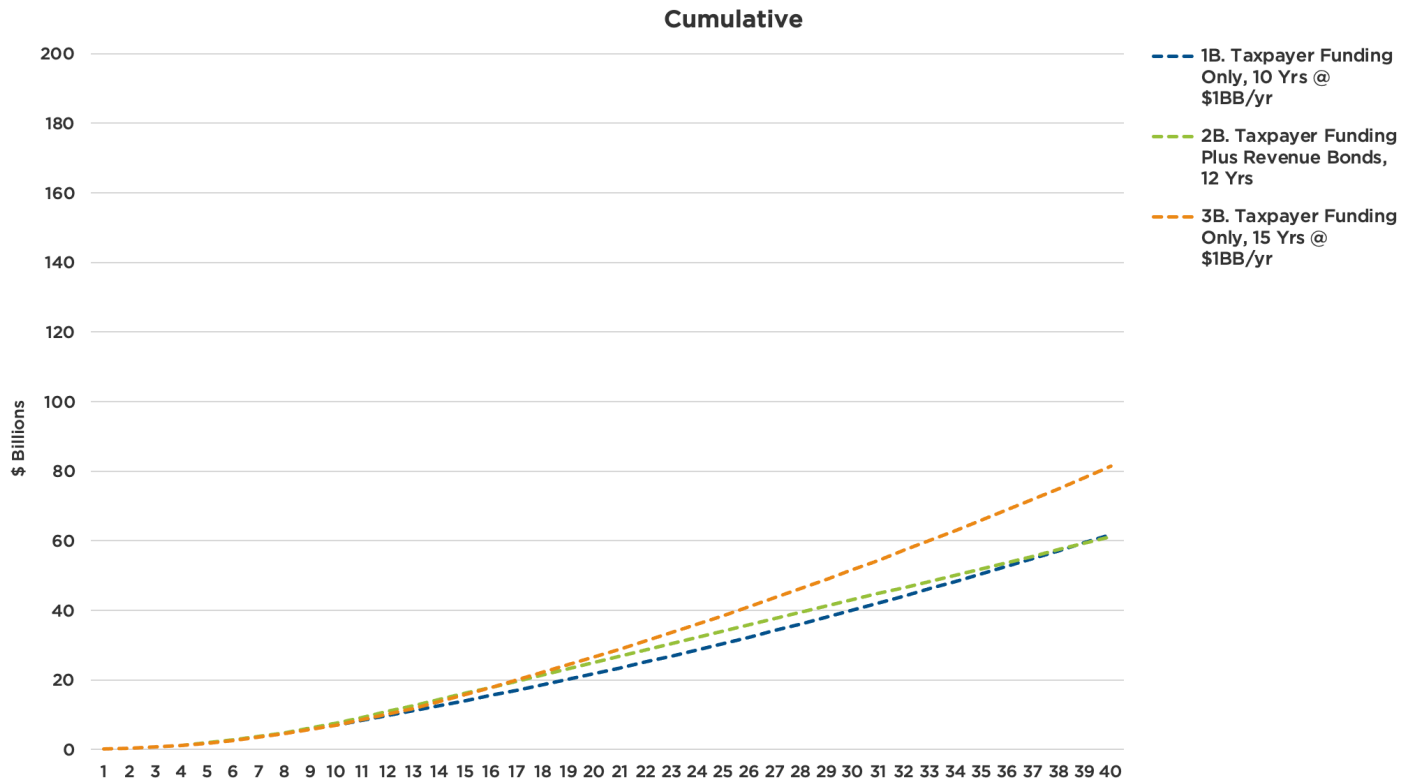


Figure 48: Borrower Share of Home Price Appreciation: More Conservative Case (\$ Billions) Cumulative



Impact of requiring higher share of home appreciation. All these analyses have assumed the simplest version of SALs, in which CA Dream for All receives a pro rata share of appreciation. We also looked at what the impact would be if CA Dream for All received 1.5 times pro rata appreciation.

Using the expected case for a basic revolving fund (Option 1), the total number of borrowers helped would likely increase. Instead of 131,000 first-time buyers, CA Dream for All might be able to assist 14% more buyers and increase the dollar amount of loans by about 20%.

Given the relatively modest additional amount of CA Dream for All lending that would result from a higher share of appreciation and the impact on borrower household wealth, we do not think the decision on the share of appreciation should be based on trying to help more borrowers in the future, but rather on policy grounds.¹¹⁴

Limiting Financial Risks

A final key dimension for how the program is designed and funded is to limit risks to the State. Since the possibility of any such risks ever arising is ultimately based on what happens on the underlying SALs, it is instructive to consider risks at the individual borrower level.

Borrower risks. The program is designed to avoid creating any risks for buyers beyond those in conventional mortgage lending and homeownership. The most important feature of the program in this regard is that it requires Fannie Mae or Freddie Mac first mortgages. Such mortgages involve a significantly higher standard of loan underwriting, credit scores and front-end and back-end ratios than FHA, VA and Rural Development loans used by the vast majority of first-time homebuyers. This underwriting protects the borrower as well as the mortgage lender (and because a default on the first mortgage is what would trigger a default on the SAL, it protects the program as well).

Because the SAL is deferred and only due upon sale or cash-out refinancing, it does not involve any monthly payments or create any ongoing financial costs or burdens on the homebuyer.

As with any mortgage lending, there is naturally a risk that if the borrower defaults on the first mortgage, the home value may not be sufficient to repay the first mortgage and the

second mortgage. To limit such exposure to the homeowner, the CA Dream for All SAL would be designed to provide three protections:

- There is no possible deficiency judgment against any borrower;
- There is no appreciation payment unless the property has increased in value; and
- Even if the property has dropped in value, the CA Dream for All loan is subordinated to the borrower recovering the full amount of their original cash down payment.

The homeowner has every incentive to continue making first mortgage payments and maintenance on the home, since the borrower receives the vast majority of the gain on the property.

One natural question is what happens if the borrower does not sell the home, pays off the first mortgage at the end of 30 years and still owes the SAL. At that point, since the borrower has no monthly payments on the original first mortgage, they can take out a new first mortgage that pays off the SAL. Alternatively, the borrower can always sell the home, pay off the shared appreciation loan and receive the remaining gain on the property.

A further, more basic question is whether the program is putting the borrower at risk by making it possible to buy a larger or more expensive home than would otherwise be possible. Helping overcome the financial barriers to homeownership is, of course, the very purpose of any down payment assistance program, from CalHFA's MyHome assistance to larger SALs. The question is whether being able to access a larger amount of assistance may create a greater risk for the potential buyer, in a way that is not reflected in the loan underwriting. Since the major possible risk is that of unanticipated repairs, one benefit of the CA Dream for All Program is that it enables buyers to have a wider range of choice and thus be able to buy homes with less deferred maintenance or current repair needs.

Risks to the State of California. The program itself and the funding options we have modeled are designed to avoid creating future or unanticipated financial risks to the State. If loan losses are greater than projected, there is no additional financial cost to the State's General Fund. Rather, the amount of future CA Dream for All lending from loan repayments will be reduced.

¹¹⁴ Adding to the uncertainty is that a higher share of appreciation may affect the average life of CA Dream for All loans in ways that are hard to project. Some borrowers may be incentivized to pay off their loans earlier as they see the amount potentially due increase more rapidly. Others, looking at these larger amounts, may decide to live in their house longer.

We recognize that including revenue bonds in the program may raise additional questions about risk. If revenue bonds are included, the principal on them will be payable solely from a senior security interest in a highly overcollateralized level of SALs (and the interest by a state appropriation pledge). As a result, there is no financial or legal risk to the General Fund. Nevertheless, having such a large outstanding amount of such revenue bonds issued by a state agency, ultimately over \$6 billion, secured by second mortgage loans brings reputational concerns. Very large loan losses, even if far below the 40% loss level that could affect ultimate repayment of principal, would make it more difficult to sell additional series of revenue bonds and continue funding CA Dream for All loans in this way. For these reasons, and because inclusion of revenue bonds does not increase the number of borrowers who can be assisted with the same amount of taxpayer monies, we advise using taxpayer money to fund the program.

There is a final reputational concern about whether borrowers will clearly understand the nature of the loan obligations they are assuming. The program would need to make an exceptional effort to educate potential buyers about the loan obligation and what is due upon payment, and to inform borrowers regularly about the estimated amount that would be due under their loan if paid off in the current market. The websites and educational efforts of several fintech companies offer models for how this can be done.

Perhaps most important to note in thinking about perceptions by borrowers is to compare SALs with other ways of assisting the same potential buyers. SALs subordinate to the borrower's original down payment pose far less risk to the borrower than a deferred second mortgage with an accruing interest rate, since no appreciation is due if the house does not increase in value, unlike accrued interest at a fixed interest rate.

Finally, SALs provide a way for the State to reduce the risk to itself (and future homebuyers) of being unable to provide resources that keep up with the rate of home appreciation, and to reduce cost of making homes affordable in the future. The funding options described here are based on the State providing the same fixed amount of taxpayer funds each year (\$1 billion for new loans during the initial phase of the program and \$100 million for ongoing administrative costs), without any increases, while also being in a position to provide larger and larger CA Dream for All loans to buyers as California house prices increase. The program can therefore provide the same level of affordability without requiring more and more taxpayer dollars each year.

Recommended Funding Option

Based on this extensive analysis, the recommended approach for funding the CA Dream for All Program is also the simplest: investing state taxpayer monies in a revolving investment fund, without requiring revenue bonds secured by CA Dream for All loans. This approach would involve the State investing \$1 billion per year for new loans for 10 years, together with an ongoing contribution of \$100 million per year for administrative costs.

Methods of Funding Taxpayer Investment

There are three funding methods by which the State can provide these taxpayer monies: budget funds for new loans each year, issue GO bonds or issue bonds backed by a state annual appropriation pledge.

State annual budget fund. The Legislature can directly appropriate the monies to fund CA Dream for All loans in each year's budget (for example, by including \$1 billion in each year's budget for the first 10 years). This method has the highest annual cost during those years, but avoids requiring the State to pay interest on any bonds.

General Obligation Bonds. The State can request voter authorization of GO bonds to fund CA Dream for All loans. Such bonds could then be issued in the amount needed each year, up to the maximum total amount approved by the voters. Interest on the bonds would be federally taxable. Each series of bonds would typically be issued with annual maturities through a final 20-year maturity. The State would be obligated to fund the annual debt service on these bonds as a GO of the State. This approach spreads out the cost to the State of its investment in each year's CA Dream for All lending over many years.

State appropriation pledge bonds. This method is frequently used to fund state investments by spreading out the cost over many years without requiring voter authorization. California and other states have often issued bonds backed by a state appropriation pledge for capital facilities.

Under this approach, the Legislature authorizes the issuance of state appropriation pledge bonds for the CA Dream for All program and establishes a maximum annual limitation on the debt service that the State will pay on such bonds. The State is committed to making such debt service payments, but only to the extent that they are budgeted and appropriated each year by the Legislature. These bonds are effectively viewed as 'moral obligations' of the State, and are typically rated by rating agencies one notch below the rating on the State's GO bonds.

This type of State pledge is the same as that described earlier for revenue bonds for the CA Dream for All program, but would cover both principal and interest on the bonds. As a result, bondholders would receive scheduled principal payments funded by the State’s budget—not from principal repayments of CA Dream for All loans. This is an important distinction in several ways.

This appropriation pledge approach is commonly used for certificates of participation and lease revenue bonds for major projects, and it has been used successfully over the last 10 years by the State of Minnesota for housing infrastructure bonds. The principal and interest on the bonds are paid by the State, and the proceeds are used to make soft second loans for permanent supportive housing and other types of housing projects.

Under the appropriation pledge approach, the Legislature would decide on a maximum annual debt service. For example, if the maximum annual amount was initially set at \$480 million, this would enable the State to issue bonds for \$1 billion per year of CA Dream for All lending over the course of approximately seven years. In the future, the Legislature could decide to increase the cap amount in order to continue investing in the CA Dream for All program.

Like GO bonds or revenue bonds for the CA Dream for All Program, appropriation pledge bonds would be federally taxable.

Choice of funding method. Any of these methods for investing taxpayer monies could be used for the CA Dream for All Fund. Ultimately, they simply reflect different ways of authorizing and spreading out the cost of the same investment.

Figure 49: Comparison of State Appropriation Pledge Bonds and Revenue Bonds Overcollateralized by CA Dream for All Fund

| | State Appropriation Pledge Bonds | Revenue Bonds Overcollateralized by CA Dream for All Fund |
|---------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Purpose | Fund the full amount of CA Dream for All loans made in a year | Fund a portion of the cost of CA Dream for All loans (together with direct taxpayer monies) |
| Security for the Bonds | State annual appropriation pledge for both principal and interest | Principal is secured by and depends on borrower repayments of CA Dream for All loans. Bonds must be overcollateralized (e.g., can only be issued for up to approx. 60% of the amount of CA Dream for All loans). Interest is paid by a state annual appropriation pledge |
| Are Bondholders Affected by: | | |
| Timing of Repayment of CA Dream for All loans? | No | Yes |
| Losses on CA Dream for All loans? | No | Yes |
| Would there need to be a fixed 30-year maturity on CA Dream for All loans? | No | Yes |
| Do bondholders have a lien on repayments of CA Dream for All loans? | No | Yes |
| Maturity on Bonds | Serial bonds through a final maturity (such as 30 years) | Single term bond in 30 years that would be redeemed earlier from CA Dream for All loan repayments |
| Rating on Bonds | One notch below California’s general obligation rating | Significantly lower, investment grade rating |
| Is this a type of credit and security that bond investors and rating agencies are highly familiar with? | Yes | No. Deferred payment second mortgage loans have rarely been security for large-scale bond issues |

Comparing Shared Appreciation to Fixed Interest

Beyond the funding option itself, we compared the process and impact of using those same taxpayer monies for two different types of second loans to homebuyers:

- a) Deferred payment second mortgages with a fixed simple interest rate, such as 3%, and
- b) SALs, where there is no interest and the borrower repays a pro rata portion of the appreciation on the home.

In exploring these options, we considered a range of questions, including the differences in risks involved, the total number of households who could buy homes with CA Dream for All loans, the total amount of these loans and the net appreciation received by borrowers.

Risk

Loans that accrue interest at a fixed rate are fundamentally different from SALs. With a fixed interest rate loan, the borrower has to pay *the same amount* of accrued interest at the loan rate regardless of what happens to the value of the home. The interest that accrues each year is “hard,” meaning that it is due regardless of what happens to the value of the home.

Accruing fixed rate loans creates two significant risks compared to a shared appreciation loan. One is a risk to the individual borrower; the other is a risk to the ability of the CA Dream for All program to help future borrowers.

Risk to the Borrower. A fixed interest rate on a CA Dream for All loan creates considerably more risk to individual homeowners if prices don’t increase significantly.

Consider a scenario in which a home purchased for \$650,000 doesn’t increase in value when re-sold 10 years later—for example, during a recession. With shared appreciation, the borrower owes nothing beyond paying back the original CA Dream for All loan principal amount. With a 3% simple fixed interest rate, however, the borrower owes \$39,000 in accrued interest, even though there is no gain on the house. This amount is about twice the value of a typical borrower’s original down payment.

Risk to CA Dream for All being able to help future borrowers. On the other hand, consider a scenario in which home prices increase dramatically—for example, by 6% a year over the course of 10 years. With shared appreciation, the

CA Dream for All Fund would receive enough to help a similar buyer purchase an equivalent home. With a 3% simple fixed interest rate, however, the Fund would be \$64,000 short in trying to help a new buyer.

The bottom line is that if home prices increase at a faster rate than that on a fixed rate loan, repayments will not be enough to help subsequent buyers buy equivalent homes.

The last few years have underscored this risk. Between 2018 and 2021, home prices in California increased by 38%. A SAL program would have allowed the CA Dream for All program to keep pace during this time in order to help future first-time homebuyers. Under a 3% fixed interest rate loan program, however, the amount that the CA Dream for All program would ultimately be able to help future buyers would have gone up by only 9% at a time when prices increased by more than four times that amount.

Nature of the risk. Setting a different rate on a fixed interest rate loan does not eliminate these risks. An interest rate of 5% instead of 3%, for example, would increase borrower risk. If a borrower purchases a home for \$650,000 and the value has not increased when reselling the home 10 years later, a buyer with a 5% simple interest loan would lose \$65,000, reducing their household wealth by \$65,000. The same buyer with a shared appreciation loan would not have lost anything, and would recover their initial down payment. Meanwhile, if home prices were to rise faster than the fixed interest rate, the Fund would not be able to help a new buyer afford an equivalent home.

The higher one sets the fixed interest rate in order to assist future buyers, the greater the risk to any individual borrower. The risks created by an accruing fixed interest rate on large deferred payment second mortgage loans are thus fundamental. If appreciation turns out to be less than the fixed rate, the low/moderate-income borrower loses money, compared to shared appreciation. On the other hand, if appreciation turns out to be more than the fixed rate, the CA Dream for All Fund will not have enough to help the next buyer purchase a similar home.

In essence, an accruing fixed rate second loan creates a greater upside and a greater downside for the borrower, while also making it much more difficult for the State’s investment in the CA Dream for All program to keep pace with inflation. Shared appreciation creates fewer risks to individual homebuyers and to the CA Dream for All program’s ability to help families overall, because it is linked to what actually happens to the price of each borrower’s home.

Overall Impact of Fixed Interest vs. Shared Appreciation

Expected case. Figure 50 shows key overall impacts of these two different types of lending, with the same amount of State investment in the CA Dream for All Fund in the expected case.

If homes appreciate at 4.5% per year—slightly less than the statewide average for the last 40 years—a shared appreciation CA Dream for All program will assist approximately 32,000 more borrowers than a 3% fixed interest rate loan program. That number represents 26% more first-time buyers who could purchase homes.

More striking still, a shared appreciation program would provide \$15 billion more in CA Dream for All loans—46% more than the fixed rate program. This program would help future borrowers keep up with the increasing price of homes in California, allowing buyers to purchase homes costing a total of \$238 billion compared to \$163 billion.

Perhaps the most important part of this comparison is the impact on borrower household wealth; that is, how much borrowers receive from the total appreciation of their homes after subtracting what would be owed to the program, either as a share of appreciation or as accrued interest. The aggregate appreciation that borrowers would be able to realize under a shared appreciation program would be \$133.8 billion—about 10% more than with a fixed rate loan program.

Why does a shared appreciation program help borrowers realize more total appreciation? After all, any individual borrower in an escalating housing market would be better off owing a low interest rate rather than a pro rata share of appreciation. But because a shared appreciation program helps so many more borrowers, the total borrower share of appreciation the CA Dream for All program can generate over 40 years is significantly greater.

Figure 50: Shared Appreciation and 3% Fixed Interest Loans Over 40 Years: Expected Case

| | Shared Appreciation | Fixed Simple Interest 3% | Difference |
|------------------------------------------------------------|---------------------|--------------------------|--------------|
| CA Dream Loan Originations | | | |
| Borrowers assisted over 40 years | 157,200 | 124,800 | 32,400 |
| \$ of homes purchased | \$238 bill. | \$163 bill. | \$75 bill. |
| CA Dream loans | 47.6 bill. | 32.6 bill. | 15.0 bill. |
| <i>Present value at 3.0%</i> | 25.3 | 19.2 | 6.1 |
| Borrower Share of Home Appreciation Through Year 40 | | | |
| Borrower share | \$133.8 bill. | \$120.6 bill. | \$13.2 bill. |
| <i>Present value at 3.0%</i> | 64.2 | 60.8 | 3.4 |



Figure 51: Shared Appreciation v. 3% Fixed Interest Loans Over 40 Years: More Conservative Case

| | Shared Appreciation | Fixed Simple Interest 3% | Difference |
|------------------------------------------------------------|---------------------|--------------------------|-------------|
| CA Dream Loan Originations | | | |
| Borrowers assisted over 40 years | 144,000 | 133,900 | 10,100 |
| \$ of homes purchased | \$157 bill. | \$141 bill. | \$16 bill. |
| CA Dream loans | \$31.4 bill. | \$28.2 bill. | \$3.2 bill. |
| <i>Present value at 3.0%</i> | <i>18.1</i> | <i>16.9</i> | <i>6.1</i> |
| Borrower Share of Home Appreciation Through Year 40 | | | |
| Borrower share | \$ 61.8 bill. | \$ 61.8 bill. | \$0 bill. |
| <i>Present value at 3.0%</i> | <i>31.1</i> | <i>31.6</i> | <i>-0.4</i> |

More conservative case. Figure 51 shows the results in the more conservative case, where home prices rise at 3%—the same rate as that on an assumed fixed rate loan program.

If home prices rise slowly—at about the same rate as that on accruing fixed rate loans—there is much less of a difference between shared appreciation and fixed rate programs. In this case, shared appreciation helps about 10,000 more first-time buyers, or about 8% more. There is virtually no difference in the total borrower share of home appreciation over this 40-year period.

This point underscores the very purpose of a shared appreciation program: to be able to keep pace with the changing price of homes and thus reduce the risk that loan repayments will not be enough to help a similar buyer purchase a home.

In the same way that the fundamental purpose of the CA Dream for All program is to help insulate families from rising housing costs, the shared appreciation feature helps insulate the CA Dream for All program from being unable to help future buyers in the kind of escalating market California has experienced for decades.

Residual long-term benefits. The analysis up to this point has only considered the impact on appreciation by borrowers through 40 years.

Perhaps the most significant difference between shared appreciation and fixed interest is in *the residual amount* accrued by the CA Dream for All Fund at the end of 40 years. These are the repayments the CA Dream for All Fund would ultimately receive from loans outstanding at that date.

In the expected case, a shared appreciation program would generate five times more resources from repayments after year 40 than a fixed rate program: \$35.8 billion versus \$7.6 billion. This difference is the extra amount that a shared appreciation program would have to help subsequent buyers.

In the conservative case, the difference is less but still substantial. A shared appreciation program in this case would generate about 75% more residual resources than a fixed rate program, or about \$13.0 billion versus \$7.5 billion.

Efficiency of State Investment in Generating Household Wealth

Figure 52 takes into account these various impacts. It envisions the program making loans through year 40, but with any repayments received after that date acting as repayments to the State for its investment.

Figure 52: Present Value Comparison of State Investment in Generating Household Wealth

| | State Investment | Residual to State After Year 40 | Net State Investment | Borrower Appreciation Through Year 40 | Borrower Appreciation Divided by Net State investment |
|-------------------------------|------------------|---------------------------------|----------------------|---------------------------------------|-------------------------------------------------------|
| Expected Case | | | | | |
| Shared appreciation | \$10.8 billion | \$7.5 billion | \$3.3 billion | \$64.2 billion | 19.4x |
| Fixed interest | \$10.8 billion | \$1.7 billion | \$9.1 billion | \$60.8 billion | 6.7x |
| More Conservative Case | | | | | |
| Shared appreciation | \$10.8 billion | \$2.7 billion | \$8.1 billion | \$31.2 billion | 3.9x |
| Fixed interest | \$10.8 billion | \$ 1.6 billion | \$9.2 billion | \$31.6 billion | 3.4x |

What this shows is that in the expected case, in present value terms, the State’s net investment in a *shared appreciation* CA Dream for All Fund would have been \$3.3 billion, and would have generated *more than 19 times that amount in borrower household wealth*. The State’s net investment in a *fixed rate* CA Dream for All Fund, on the other hand, would have been \$9.1 billion, and would have generated *6.7 times that investment*.

In the more conservative case, the State would generate 3.9 times its investment using a shared appreciation approach versus 3.4 times its investment under a fixed rate approach.

Conclusions: Appreciation vs. Fixed Interest Loans

In all these analyses, a few insights into fixed rate programs stand out.

- If the fixed interest rate turns out to be **lower than the average rate of appreciation** (such as in the expected case, with 3% simple interest vs. 4.5% compounded appreciation), a fixed rate program will help significantly fewer buyers and generate much less household wealth.

- If the fixed interest rate turns out to be **close to the average rate of appreciation**, such as in the more conservative case (e.g., 3% simple interest vs. 3% compounded home appreciation), the differences from shared appreciation are more modest. In the more conservative case, shared appreciation helps about 8% more borrowers over 40 years than a fixed rate program and accrues significantly more resources for helping subsequent borrowers or for repaying the State. It is also somewhat more efficient in generating household wealth.
- If the fixed interest rate turns out to be **higher than the actual appreciation on an individual borrower’s home**, there is a significant adverse impact on that borrower’s household wealth. Shared appreciation does not pose this risk.

By being linked to what actually happens to borrower homes, shared appreciation can be seen as creating fewer risks both to individual borrowers and to the program’s ability to generate household wealth overall.

VI. OUTREACH, EQUITY AND IMPLEMENTATION

Community and Stakeholder Feedback

Summary of Community Comments and Themes

California Community Builders staff spoke to stakeholders throughout the state from January through March of 2022. These stakeholders included housing counseling agencies, community development corporations, mortgage originators, Community Development Financial Institutions (CDFI), real estate brokers and representatives of community land trusts.¹¹⁵

Interviewees almost universally supported the program at a high level. In fact, even those who did not think the program would be directly applicable to their organizations and/or target communities were supportive.

Two organizations brought up notable structural questions. One organization asked whether the proposed CA Dream for All program would do enough to prioritize wealth building overall and in all cases—and specifically, whether the CA Dream for All program should ensure that in all cases, including early home sales and cases of hardship, the borrower's financial equity is maximized. On the other end of the spectrum, a separate organization asked whether the program's intended flexibility would protect against highly-educated-but-not-rich-yet borrowers (HENRYs) over-subscribing to the program, and specifically whether the CA Dream for All program would inadvertently over-subsidize borrowers from higher wealth communities that have already historically been able to access homeownership.

These critiques were in the minority, and the program team is confident that an equitable approach informed by community input—as described below—will address these more systemic concerns. The remainder of the feedback primarily addressed smaller-scale program details, and even those interviewees with the strongest concerns did not disagree with the overall concept or argue that a shared appreciation mortgage program should not exist.

Primary Interview Themes

California needs more tools to meet our homeownership crisis. Stakeholders all voiced the need and support for a new tool to address the homeownership crisis.

Equity for disadvantaged communities needs to be prioritized. Stakeholders agreed that historically redlined and other marginalized communities have specific needs and are not well served by the existing mortgage market, while existing down payment assistance programs leave significant room for improvement. It's clear that any new mortgage product must ensure outcomes that maximize accessibility, protection and wealth building for these populations.

Housing practitioners need flexibility and support. Stakeholders agreed that housing professionals need diverse options to serve diverse communities, and that programs with built-in flexibility allow them to serve a variety of unique borrower needs. Housing counselors, who are on the front lines of supporting low- and moderate-income families, need increased resources to ensure maximal help to communities that are often hard to reach, experience language access issues or have little experience successfully attaining homeownership. Stakeholders often remarked during interviews that housing counselors do two to three times more work than they are compensated to perform.

The CA Dream for All program must work within the context of the market as it exists today. Stakeholders continually acknowledged the extreme disadvantage facing low- and moderate-income borrowers in every region of the state, including those considered “low-cost.” A successful program will need to ensure that borrowers can compete in the private market efficiently and effectively. Considerations like the timing of funds, ease of execution and competition from borrowers using only private-sector mortgages (as well as all-cash buyers) must be taken into account.

¹¹⁵ A special thanks goes to those experts that agreed to be interviewed for the purpose of this report. These individuals include Blanca Arellano, Hope Through Housing Foundation; Carolyn Patton, West Angeles CDC; Al Abdullah at the San Diego Urban League; Sergio Szyrko at Fairway Independent Mortgage Corporation; Anne Vilagut, Montebello Housing Development Corporation; Maureen Sedonaen, Habitat for Humanity San Francisco; Dennis Santiago, National Asian American Coalition; Hye-pin Im, Faith and Community Empowerment; Kaith Berghold, Fresno Metro Ministries; Clemente Mojica, Neighborhood Partnership Housing Services; Leah Miller, Habitat for Humanity Sacramento; Nikki Beasley, Richmond Neighborhood Housing Services; Bertha Garcia, Ventura County Community Development Corporation; Esther Carver, Lowell CDC; Leo Goldberg, California Community Land Trust Network; Farrah Wilder, California Association of Realtors.

Areas of Significant Support

Income flexibility. In general, interviewees were most pleased with the flexibility the program would provide around eligible borrower incomes, since existing programs are very restrictive and often targeted at families at or below 80% AMI. Interviewees felt that this flexibility would either be a tool to serve existing clients or an alternative for those clients that would otherwise have been turned away for having an income that is too high. Further, several interviewees brought up the lack of existing programs to serve 80-120% AMI families.

Student debt relief. Interviewees generally supported a potential set-aside to help borrowers convert expensive student loan debt into low-cost, non-interest-bearing CA Dream for All debt, although the issue was less pertinent for some populations. Several interviewees suggested that student debt could be a constraining factor for their clients. Feedback from down payment assistance administrators in Illinois indicated that adding direct student debt support lowered the average age of their borrowers and brought in more diverse populations.

Average size of a CA Dream for All loan. Most interviewees noted that one of the biggest, most straightforward benefits of the program is that it would remove the need for Private Mortgage Insurance (PMI), which would result in significant cost savings for borrowers and a larger overall loan. The size of the CA Dream for All's average loan, approximately 17%, is big enough to ensure that the majority of borrowers avoid an often large and unnecessary cost.

CBO and nonprofit participation. Interviewees thought a program that provided the above benefits and included a significant role for nonprofit community organizations could serve populations and potential homeowners that are not currently well served. Interviewees generally spoke very highly of CalHFA's community collaboration structure and thought a continuation of that approach would be beneficial and necessary for this type of program.

Areas of Concern and Potential Approaches to Address Those Concerns

Complexity. Interviewees flagged the complexity of the program as a potential obstacle to maximizing positive benefits for targeted families. While shared appreciation is relatively simple in some ways (e.g., no interest paid, loan amount is directly tied to purchase price, not payable until sale, etc.), target borrowers will likely come from families where homeownership may not be

common. Several interviewees suggested that most borrowers will forget about the second mortgage if they are not paying it, especially after more than 10 years. Perhaps even more importantly, SALs are not widely available, and so borrowers, real estate professionals, housing counselors and administrators will generally be unfamiliar with the structure and concept at the outset of the program.

To address the complexity of this program, the CA FWD team recommends that a CA Dream for All program maximize pre-and post-purchase counseling. During the homebuying process, the program should prioritize clear, simple marketing materials, loan descriptions and documents, and should resource home counseling organizations to provide enhanced support to borrowers. Post-purchase outreach and counseling will be especially critical for inexperienced buyers if problems arise. This should include regular written communications to borrowers indicating that they have a shared appreciation obligation, as well as annual check-ins with housing counselors. It will be useful to contact borrowers periodically (ideally through post-purchase counseling) to ensure this detail is not lost.

First-generation set-aside. The CA FWD team was asked to evaluate a potential set-aside for first-generation homebuyers, or buyers who had not owned a home in the past three years and whose parents had not owned a home in three years. Interviewees were generally neutral or opposed to the first-generation component. Feedback indicated that a first-generation component would be impractical to verify, would further complicate an already complicated program and would not add much value since the majority of first-time homebuyers are already likely to be first-generation.

To address what could be a significant administrative burden for small overall equity impacts, the CA FWD team recommends the CA Dream for All program focus primarily on first-time homebuyers to avoid a logistical quagmire. If a first-generation set-aside is included, it should be structured as a self-certification to reduce the administrative burden.

Down payment and closing costs. Most interviewees mentioned the overall cost of a down payment and closing costs being an impediment, especially in high-cost markets. While a CA Dream for All loan would only leave 3% for a borrower to contribute as a down payment, even this amount could be prohibitive for low-wealth borrowers and communities, considering the average home cost in the Bay Area, Los Angeles and most areas of the state.

To address the remaining down payment cost, the CA Dream for All program should maximize flexibility so that it can be paired with other programs providing down payment assistance and financial support. This could mean educating housing counselors so that they can help potential buyers with all existing subsidy programs for which they are eligible, increasing the size of the CA Dream for All loan up to 30% for lower-income borrowers, or some combination of the two

Marketing and Outreach

The RFP stated that “Outreach efforts to target beneficiaries of the Program will be made to: (1) underrepresented homeownership communities, (2) those who have not returned to homeownership after losing homes in the Great Recession and (3) those with high student debts.”

Issues and Needs in Targeting Disadvantaged Communities

Keep in mind lack of experience. Stakeholders, especially housing counselors, emphasized the importance of understanding that first-time homebuyer programs target individuals who have no personal experience in the homebuying process and who likely come from communities that have been formally and informally shut out of homeownership. In addition, many potential borrowers may come from families negatively impacted by the Great Recession, and so their only personal connection to homeownership may be through the lens of foreclosure and its aftermath.

Simplicity will be key. A shared appreciation mortgage is a new concept for most housing professionals, so outreach and marketing to first-time homebuyers (who have almost certainly never heard the term) must use plain language, simple visuals and a clear articulation of the process (including benefits and drawbacks of the program). Resources should be set aside for the design of clear, explanatory visual materials.

Leverage existing networks and nonprofit organizations. A critical component to success will be the program’s ability to work with existing organizations and networks that are based in and trusted by disadvantaged populations. To do so, it will be important that these organizations and networks, especially housing counselors, be educated on the program and understand how to relay and guide potential borrowers. Resources must be set aside to help these organizations and their staff learn about the programs.

Cultural competency. A new statewide program—especially one based on targeting disadvantaged communities, non-English speaking communities,

communities that have been historically targeted by predatory lenders and those from families that have never owned homes—will need to prioritize cultural competency in marketing and outreach, service delivery and administration of the program. Suggestions to promote this outcome include:

- **Translation services:** A successful CA Dream for All program needs to ensure adequate resources for translation services and prioritize culturally competent marketing and outreach. Language access was a common theme throughout our interviews, especially related to the Asian American and Pacific Islander community. There are numerous economically and culturally diverse communities within the Asian American and Pacific Islander community whose unique language needs often go overlooked.
- **Ethnic media:** Often, first-time borrowers come from communities that are not well served by the mainstream media. It is important that ethnic media—both English and non-English outlets—be incorporated into the outreach and marketing of the CA Dream for All program.
- **Big impact of digital divide:** Digital access and the impact of the digital divide vary greatly across communities. The CA Dream for All program should balance the need for efficiency through digital and online services with the understanding that, for many families, particularly those that come from disadvantaged and formerly redlined communities, these services are not always as readily accessible.

Educate the real estate community on the program. Several interviewees working in the for-profit real estate sector noted that the flexibility built into this program would likely be appealing to brokers and mortgage originators, but that there should still be a concerted effort to reach out to and educate real estate professionals, including real estate brokers. There was consensus that this program could be underutilized and less effective without buy-in from the realtor community.

Marketing and outreach need to be resourced to facilitate effective partnerships. Interviewees consistently noted that without resources dedicated to marketing and outreach, the onus will fall on nonprofit and community-based organizations that are often stretched thin. Interviewees pointed out that some local down payment assistance programs, such as San Francisco’s program, include marketing as a reimbursed cost, and recommended that the CA Dream for All program follow that model.

Housing Counseling

Primary Themes We Heard From Counselors

Complexity. All interviewees agreed this would be a very complex program to explain, with borrowers who know less than average compared to the typical buyer. The program needs to maximize outreach, education and support for these borrowers. Participants also emphasized making the program as simple as possible so that buyers who have never purchased a home, and potentially come from families that have never purchased homes, can easily understand and evaluate the program. That said, one interviewee noted that the proposed program is not especially more complicated than other public DPA programs that require repayment and that many of the fundamental issues were the same: lack of general borrower knowledge, excitement to purchase a home obscuring critical issues that need consideration and the likelihood that borrowers will forget the specifics of what they agreed to post-purchase.

Protection against predatory instruments.

A number of interviewees noted that, in their experience, families that have recently purchased a home often begin to receive offers for home renovation loans, reverse mortgages and other costly products that do not necessarily benefit the borrower. Interviewees reported that people who are unfamiliar with the process and excited to own a home can be very trusting and overwhelmed with information. Since most housing counselors do not see first-time homebuyer clients again unless they need foreclosure prevention help, new homebuyers are often left without support. Further, since everyone in the real estate industry aside from housing counselors works on commission, there is a real need to protect borrowers. The simplest, most effective way to protect against these predatory financial instruments is for the CA Dream for All program to invest in resource-enhanced, long-term access to housing counselors and homeowner education.

Resources for Housing Counselor Services and Capacity Building. Interviewees consistently noted that the lack of resources for housing counselors is a significant inhibiting factor in the number of families helped and support provided. Stakeholder feedback called for current homebuyer education funds to be significantly increased due to the high-touch nature of the work and inherently inefficient process of working with people who are both low/moderate income and have never purchased a home. Language barriers and the digital divide also require more time and energy to serve clients. Interviewees also called for additional funds for

capacity building. Lastly, numerous interviewees mentioned that there should be investment in capacity building for nonprofit organizations serving these populations since the current funding structure is not conducive to helping these organizations grow the infrastructure needed to serve clients in the long term.

Leverage housing counselors, CDFIs, and other community groups beyond just homebuyer education and outreach.

The most straightforward way to engage housing groups is through their role in marketing, outreach and homebuyer education, but numerous interviewees also requested that the broader housing community be engaged on issues around administration of the program and given the opportunity to provide feedback on operations through formal administrative channels.

Timing and ease of execution. Real estate is a field full of deadlines, and in almost all markets in California there is no room for error. For the program to work, it must be run by people who understand how these transactions operate and who recognize that delays hurt the people the program intends to help, in addition to harming the program's reputation among real estate professionals.

CA Dream for All must be accepted by the real estate industry to be successful. Several interviewees noted that if the CA Dream for All program does not successfully integrate the realtor community, mortgage originators and other real estate professionals then many families that could otherwise benefit may miss out. There were also examples given of how existing programs were not favored by realtors representing home sellers due to timing inefficiencies, and so families with down payment assistance loans were often left with few options. At least one interviewee stated there should be an incentive for realtors and sellers to work with this program. Interviewee sentiment was that the CA Dream for All program will only reach its maximum potential if it is seen as an effective and efficient program by the real estate community.

Additional Feedback We Received

Interviewees also shared additional observations that did not arise as consistent themes in every interview, but were still valuable and worthwhile to consider as the program is implemented.

- **“Low-cost areas”:** Even “low-cost” regions of the state have expensive markets where buyers at 120% AMI have a difficult time finding opportunities.

- **The reality of the market:** Buyers in Los Angeles and other high-cost markets are routinely asked to engage in a bidding war with other buyers. It is important that CA Dream for All borrowers are able to compete effectively in the market as it exists today.
- **Lender participation:** Large banks do participate widely in existing down payment assistance programs, and these programs often have high-cost fees.
- **Reporting:** Reporting can be burdensome on small nonprofits, and streamlining should be prioritized. CalHFA was highlighted as a reasonable reporting agency.
- **Implementation:** For some down payment assistance programs that were not structured well, money does not actually make it out to borrowers and allocated funds are not used.
- **Hardship and mortgage modification:** If a borrower is selling to pay for hardship such as medical debt, the CA Dream for All program could carve out an exception and lower the requirement on some or all of the shared appreciation paid back.
- **Community Land Trusts:** The CA Dream for All program should be structured to ensure that limited equity co-ops and Community Land Trusts can participate fully, including allowances for long term ground leases and other cooperative structures.
- **Prioritizing wealth building:** The CA Dream for All program should strike a balance between providing as much support to families as needed without over subsidizing and eliminating the wealth building potential of the program.
- **Bank participation:** Large bank participation would significantly improve the program's reach, effectiveness and uptake by borrowers. The administrator of the CA Dream for All program should explore ways to ensure large bank participation.
- **Synergy with existing programs:** There are numerous down payment assistance programs at the state and local levels, especially in large cities. The CA Dream for All program should consider how these programs can integrate into its statewide program and add value where possible to borrowers.
- **Multifamily homeownership:** The CA Dream for All program should be flexible in the type of home purchased and be useful for condo and co-op buyers, along with more traditional single-family homes.

- **Geographic awareness:** While a buyer may live in a high-cost market like Los Angeles, many low- and moderate-income borrowers are looking to purchase in lower-cost areas, such as the Inland Empire.

Monitoring and Evaluation

Post-Purchase Counseling

The project team has intentionally designed the CA Dream for All program to be as accessible, affordable and adopted as broadly as possible throughout the state's various regions and communities. Since examples of well-run pre-purchase and outreach counseling programs exist throughout the state, traditional housing counseling is not likely to be especially difficult for the program administrator to institute and run. What may require more time, effort and innovation will be a new post-purchase counseling program that can be a resource for buyers—ideally throughout the life of their CA Dream for All loan.

Housing counselors interviewed reported that most of the financial support for their work was limited to pre-purchase counseling. When available for post-purchase counseling, most resources were limited to pre-foreclosure support or restricted to the first few years after the home purchase. Housing counselors also reported that even for pre-purchase counseling, resources did not cover the full time and energy spent to qualify first-time buyers. One interviewee noted that, once a program ends, borrowers have old phone numbers and emails to reach out to, and often receive no response from the administering agency.

With additional resources, housing counselors can remain a touch point for homebuyers as they navigate the process, especially if there is no additional support from loan servicers.

Trade-Offs of Long-Term Housing Counseling and Support

While long-term, well-resourced housing counseling and borrower outreach can address issues around program unfamiliarity and complexity, they also involve significant financial costs. That said, the driving purpose of the CA Dream for All program is to create wealth through homeownership in a safe and sustainable manner. To truly achieve that primary objective, adequate resources—detailed in other sections of this report—must be set aside for the administration of this program, including all necessary funding for long-term, appropriate counseling and outreach for borrowers who have taken out a CA Dream for All loan.

Additional Efforts to Ensure Equity: HMDA Disclosure and Community Advisory Board

There are additional ways in which a program administrator can ensure equitable implementation of the CA Dream for All program during the monitoring and evaluation phase. First, the project team recommends that the program administrator release an annual report using Home Mortgage Disclosure Data to disclose, in the aggregate, the program's uptake among different geographies throughout the state by ethnicity, gender and income. This information is already collected by mortgage lenders and should not be particularly onerous to aggregate and publish annually, especially considering the overall size and cost of the program. If the annual HMDA data shows that the program is not reaching priority disadvantaged communities, then solutions can be proposed and implemented to address that misalignment.

Second, the CA FWD team strongly recommends the program administrator create a community advisory committee made up of housing professionals—including nonprofit housing counselors, realtors, CDFI professionals and mortgage originators—directly serving low- and moderate-income clients to ensure that the implementation of the program meets its strategic vision and goals. Consistent feedback provided during stakeholder interviews noted that programs are often well designed on paper but do not meet the realities of the housing market in different regions. By creating an advisory council of nonprofit and for-profit organizations, the CA Dream for All program administrator can ensure that feedback from stakeholders essential to the success of the program is given a formal channel to be evaluated and potentially implemented.

Equity Analysis

Building on 2021's successful [CA House Resolution 39 \(Gipson\)](#) – “Equity Impact Analysis of Legislation,” the CA Dream for All program can use an equity analysis framework to help ensure it is reducing or eliminating inequities experienced by historically marginalized communities. The equity analysis below, adapted from questions that could also be asked by a committee consultant reviewing potentially enabling legislation, is intended to: provide space to consider specific, structural questions concerning the program and the equity outcomes it could produce; summarize the feedback received

from stakeholder interviewees and proposals from the project team into recommendations that will provide a minimum baseline for the project to achieve equitable outcomes; and offer suggestions for the CA Dream for All program that will provide enhanced equity outcomes in excess of what would be accomplished by only adopting the baseline.¹¹⁶

TARGETED SUPPORT: Will the CA Dream for All program increase opportunities, services or support for low- or moderate-income communities?

Baseline: The underlying and structural goal of the CA Dream for All shared appreciation mortgage program is to directly target low- and moderate-income communities, including enhanced support for borrowers that struggle with student debt and other significant obstacles to achieving homeownership.

Enhancement: To maximize equity and benefits delivered to disadvantaged communities, the CA Dream for All program administrator should track borrower demographics through annual HMDA demographics information and make that data public. While the unequivocal goal of the program is to support low- and moderate-income communities, the implementation of public policy goals can often fall short. Annual HMDA data disclosures directly tied to the CA Dream for All program would allow for adjustments to be made to the program's targeting and improvements to its overall adoption by target communities.

WEALTH BUILDING: If implemented, will this program help close the wealth gap for communities historically impacted by redlining?

Baseline: The program framework has been structured to maximize wealth building opportunities for current disadvantaged borrowers while still protecting the ability of the program to generate enough returns to serve future borrowers. For instance, the project team has not imposed resale restrictions related to income on CA Dream for All borrowers, which would have limited the homeowner's ability to realize the equity they have built in their home.

Enhancement: To further enhance wealth building, housing counselors should be provided with long-term resources (direct and capacity building) to support buyers in making financial decisions that will most benefit them. Annual contact and long-term relationships between borrowers and housing counselors will mean that homebuyers

116 Questions adapted from March 26, 2022 “Equity Impact Assessment of Bills” briefing held by PolicyLink/Greenlining/EdTrust West.

will have at least one resource to call on that is not motivated by profit. This is especially important since the wealth building benefits of the CA Dream for All program accrue slightly more slowly than those of standard fixed interest rate down payment programs, and it is important that homeowners understand the benefits and drawbacks of paying off their CA Dream for All mortgage in the first ten years.

BORROWER PROTECTIONS: Are there protections embedded in the program to ensure that borrowers are educated and protected from predatory lending?

Baseline: Pre-purchase borrower education through accredited housing counselors will be required, and the program has been structured so that it will be limited to lenders approved by the public agency administering the program. As discussed earlier in this report, shared appreciation mortgages ensure that borrowers are also more protected in a market downturn compared to traditional fixed interest rate down payment assistance programs.

Enhancement: In the same way that long-term access to housing counseling can help to maximize wealth creation for CA Dream for All borrowers, long-term counseling can also help to protect borrowers from the type of predatory offers that interviewees indicated often start to appear after a borrower purchases a home. Investing the resources necessary to create a strong, long-term infrastructure of borrower resources and support—primarily through long-term access to housing counselors—will be vital.

LANGUAGE DIVERSITY: Will this program have any limitations or negative impacts for households that are predominantly non-English speaking?

Baseline: No, but there should be resources to ensure cultural competency, including translation services for outreach, counseling organizations and all program materials. Without specific targeted

resources for non-English speaking communities, the CA Dream for All program will not be able to reach all Californians, especially those that come from low- and moderate-income communities the program is directly charged with serving.

Enhancement: Maximize the use of ethnic media to advertise and outreach to non-English speaking communities and other communities not well served by mass media outreach strategies, especially those in languages other than English. This approach will not only expand outreach to eligible borrowers; it will also offer Californian communities that are often left out of housing conversations information about the benefits of a shared appreciation mortgage program.

HEALTH AND QUALITY OF LIFE: If implemented, will this program reduce health inequities and disparities in quality of life for communities that have been historically impacted by redlining and environmental injustice?

Baseline: As noted earlier in this chapter, neighborhoods that were previously redlined still have higher poverty rates, less economic mobility for children,¹¹⁷ reduced housing supply,¹¹⁸ lower life expectancy, higher incidence of chronic diseases¹¹⁹ and lower quality broadband access as well as lower house values and homeownership rates.¹²⁰ The CA Dream for All program intends to implement special targeting to areas identified by CalEnviroScreen as Disadvantaged Communities, which are defined as areas with higher rates of pollution and illness and lower socioeconomic assets.

Enhancement: Identify additional resources for Disadvantaged Communities that can be used to strengthen the CA Dream for All program, such as additional funds that can be used for environmental remediation or other issues directly related to past environmental injustice.

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- 117 Park, K. A., & Quercia, R. G. "Who Lends Beyond the Red Line? The Community Reinvestment Act and the Legacy of Redlining." *Housing Policy Debate* 30, no. 1: 4-26, 2020. <https://doi.org/10.1080/10511482.2019.1665839>. As cited in Reid, Carolina. "Crisis, Response, and Recovery: The Federal Government and the Black/White Homeownership." The Turner Center for Housing Innovation, UC Berkeley, 2021. Retrieved from: <https://turnercenter.berkeley.edu/research-and-policy/crisis-response-and-recovery-the-federal-government-and-the-black-white-homeownership-gap/>
- 118 Krimmel, J. "Persistence of Prejudice: Estimating the Long Term Effects of Redlining." Working Paper. Philadelphia, PA: University of Pennsylvania., 2018. Retrieved from: <https://osf.io/uxez/>. As cited in Reid, Carolina. "Crisis, Response, and Recovery: The Federal Government and the Black/White Homeownership." The Turner Center for Housing Innovation, UC Berkeley, 2021. Retrieved from: <https://turnercenter.berkeley.edu/research-and-policy/crisis-response-and-recovery-the-federal-government-and-the-black-white-homeownership-gap/>
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- 120 Aaronson, D., Hartley, D., & Mazumder, B. "The Effects of the 1930s HOLC 'Redlining' Maps." Chicago, IL: Federal Reserve Bank of Chicago, 2020. Retrieved from: <https://www.chicagofed.org/publications/working-papers/2017/wp2017-12>. As cited in Reid, Carolina. "Crisis, Response, and Recovery: The Federal Government and the Black/White Homeownership." The Turner Center for Housing Innovation, UC Berkeley, 2021. Retrieved from: <https://turnercenter.berkeley.edu/research-and-policy/crisis-response-and-recovery-the-federal-government-and-the-black-white-homeownership-gap/>

Conclusion & Final Recommendations

The stakeholders we interviewed broadly agreed that the CA Dream for All program could fill a critical need in California's difficult housing market, in which 20% down payments have become a nearly insurmountable obstacle for otherwise qualified buyers. Sustainable down payment assistance can make it possible for many who otherwise have no viable path to homeownership to make use of this critical avenue for building wealth and financial security. We discovered considerable consensus around elements the program will need in order to be truly successful and maximize benefits to disadvantaged communities. In brief, these crucial recommendations are:

- **Prioritize disadvantaged communities,** including previously redlined neighborhoods and historically marginalized groups.
- **Support and fund housing counseling and incorporate counseling into every stage of the program.** Because this program revolves around a concept that is unfamiliar to many, participants will need ongoing support and information, not just during the initial purchase but long after. The CA Dream for All program must ensure that counseling efforts are adequately resourced and should work closely with nonprofits and CDFIs.
- **Make marketing and other program materials clear and easy to understand.** Use plain language and clear, straightforward visuals. Ensure that the benefits and drawbacks of participation are explained in a way that is easy to grasp.
- **Emphasize cultural competency.** Use of translation services will be critical, as many in the target audience do not speak or read

English as their first language, but that is just a start. Cultural knowledge and awareness will also be crucial. Make use of ethnic media outlets, which may be the most trusted in certain communities and can reach those not well served by the mainstream media. To do all of this properly, marketing efforts must be adequately resourced.

- **Make sure the real estate industry understands and accepts the program.** This goal will require education and outreach. Real estate professionals need to be able to trust that the program will be run efficiently and not cause unnecessary delays in transactions—meaning that administration and operations must be well-planned and adequately resourced. If the program works well, they will use it; if it does not, they will not use it.
- **Build equity analysis into the program and its evaluation.** Following the lead of HR-39, passed in 2021, the program must systematically examine its impact in delivering benefits to disadvantaged communities. Existing data collection and analysis tools such as the Home Mortgage Disclosure Act and CalEnviroScreen can be used to help facilitate this process.

The CA Dream for All program can go a long way toward alleviating one major obstacle to homeownership that has disproportionately impacted marginalized communities, but getting the details right will make the difference between a program that creates a positive impact and a disappointing effort with only marginal benefits. The concerns and recommendations that emerged from these stakeholder interviews provide important guidance to help ensure maximum impact as the program is finalized.

APPENDIX A

Glossary

Acquisition Price: The purchase price of the real property, including closing costs, prepaid costs, and commissions, if paid by the purchaser, but not including the cost of any repairs that the purchaser makes to the property subsequent to acquisition.¹²¹

Administrative Cost: Costs incurred to support the functioning of a program or fund, but which are not directly related to the production or servicing of a mortgage.¹²²

Accessory Dwelling Units (ADUs): Housing options also known as granny flats, in-law units, backyard cottages, secondary units and more. ADUs are an innovative, affordable, effective option for adding much-needed housing in California.¹²³

Amortization: Paying off a loan with regular payments over time, so that the amount a borrower owes decreases with each payment. Most home loans amortize, but some mortgage loans do not fully amortize, meaning that a borrower would still owe money after making all of a borrower's payments. Some home loans allow payments that cover only the amount of interest due, or an amount less than the interest due. If payments are less than the amount of interest due each month, the mortgage balance will grow rather than decrease.¹²⁴

Amortizing Loan: An amortized loan is a type of loan with scheduled, periodic payments that are applied to both the loan's principal amount and the interest accrued. An amortized loan payment first pays off the relevant interest expense for the period, after which the remainder of the payment is put toward reducing the principal amount.¹²⁵

Annual Income: Annual income is a factor in a mortgage loan application and generally refers to a borrower's total earned, pre-tax income over a year. Annual income may include income from full-time or part-time work, self-employment, tips, commissions, overtime, bonuses or other sources. A lender will use information about a borrower's annual income and a borrower's existing monthly debts to determine if borrowers can repay the loan. Whether a lender will rely upon a specific income source or amount when considering a borrower for a loan will often depend upon whether a borrower can reasonably expect the income to continue.¹²⁶

Appraisal: An independent assessment of the value of a property. The appraisal gives a borrower useful information about the property, and describes what makes it valuable. It may also show how the property compares in value to other properties in the neighborhood.¹²⁷

Appraisal Fee: The cost of a home appraisal of a house a borrower plans to buy or already owns. In most cases, the selection of the appraiser and any associated costs is up to the lender.¹²⁸

Appreciation: The increased value of a property determined by subtracting the purchase price from the sales price at the time of resale or the fair market value upon other events triggering repayment.¹²⁹

Appreciation Share: The share of the appreciated home value split between a SAL originator and the homebuyer.¹³⁰

Area Median Income (AMI): The Area Median Income (AMI) describes the midpoint of an area's income distribution, where 50% of households earn above the median figure while 50% earn less than the median. The Department of Housing and Urban Development (HUD) defines "area" as a Metropolitan Statistical Area (MSA).¹³¹

Back-End Ratio: A ratio that indicates what portion of a person's monthly income goes toward paying debts. Total monthly debt includes expenses, such as mortgage payments (principal, interest, taxes, and insurance), credit card payments, child support, and other loan payments. Back-End Ratio = (Total monthly debt expense / Gross monthly income) x 100.¹³²

121 "FHA Single Family Housing Policy Handbook: Glossary." Federal Housing Administration, 2016. <https://www.hud.gov/sites/documents/40001GAHSGH.PDF>

122 Lush, Minnie. *California Real Estate Finance, 9th Edition*. 2016.

123 "Accessory Dwelling Units (ADUs) and Junior Accessory Dwelling Units (JADUs)." California Department of Housing and Community Development. 2021. <https://www.hcd.ca.gov/policy-research/accessorydwellingunits.shtml#adu>

124 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

125 Cornell Legal Information Institute. <https://www.law.cornell.edu/>

126 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

127 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

128 Ibid.

129 Ibid.

130 Lush, Minnie. *California Real Estate Finance, 9th Edition*. 2016.

131 "What is Area Median Income?" Planetizen, 2022. <https://www.planetizen.com/definition/area-median-income-ami>

132 Lush, Minnie. *California Real Estate Finance, 9th Edition*. 2016.

Balloon Payment: A balloon payment is a larger-than-usual one-time payment at the end of the loan term. A mortgage with a balloon payment may charge lower payments in the years before the balloon payment comes due, but a large amount at the end of the loan.¹³³

Borrower Share of Appreciation: (or Wealth Accumulation) The portion of the increase in the value of the home that would be retained by the borrower after repaying the Fund's share of appreciation at the particular date of calculation.

CalHFA: The California Housing Finance Agency is an independent state agency within the California Department of Housing and Community Development that provides low-rate housing financing.¹³⁴

California Comeback Plan: An outline of major strategic state investments, including \$3 billion towards affordable housing development.¹³⁵

Cash-Out Refinance: A mortgage refinance option that allows homeowners to convert their equity into cash, increasing borrower liquidity and taking out a new mortgage at a higher value than the previous balance.¹³⁶

Capitalization: A property appraisal method that determines property value by dividing annual net operating income by a capitalization rate.¹³⁷

Closing Costs: All of the costs paid at closing. This includes origination charges, appraisal fees, credit report costs, title insurance fees, and any other fees required by the lender or paid as part of a real estate mortgage transaction.¹³⁸

Combined Loan-to-Value (CLTV): The first mortgage principal at origination plus the outstanding principal balance of all subordinate mortgage(s) divided by the Adjusted Value.¹³⁹

Conforming Loan: A mortgage that is below the conforming loan limit established by the Federal Housing Finance Agency (FHFA) and abides by other restrictions of Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Corporation). These agencies reduce the risk to creditors, driving down interest rates for home loans.¹⁴⁰

Conventional Loan: Any mortgage loan that is not insured or guaranteed by the government (such as under Federal Housing Administration, Department of Veterans Affairs, or Department of Agriculture loan programs).¹⁴¹

Conventional Financing: In real estate, mortgage financing that is not insured or guaranteed by a government agency such as HUD, FHA, VA, or the Rural Housing Service.¹⁴²

Cost Approach: A real estate valuation method that estimates the price a buyer should pay for a piece of property is equal to the cost to build an equivalent building. In the cost approach, the property's value is equal to the cost of land, plus total costs of construction, less depreciation. It yields the most accurate market value for when a property is new than through alternative methods.¹⁴³

Credit Score (or FICO Score): A credit score predicts how likely a borrower is to pay back a loan on time. Companies use a mathematical formula—called a scoring model—to create a credit score from the information in a borrower's credit report. There are different scoring models, so a borrower does not have just one credit score. A score depends on a borrower's credit history, the type of loan product, and even the day when it was calculated.¹⁴⁴

Community Land Trust (CLT): A non-profit organization that holds land and acts as a long-term steward of retaining housing that is affordable in the communities they represent.¹⁴⁵

Debt-to-Income Ratio: All borrower monthly debt payments divided by their gross monthly income. This number is one way lenders measure a borrower's ability to manage the monthly payments to repay borrowed funds.¹⁴⁶

133 "Balloon Mortgage Loans." Fannie Mae, 2022. <https://mfguide.fanniemae.com/node/8406>

134 California Housing Finance Agency. <https://www.calhfa.ca.gov/>

135 "California Roars Back: Governor Newsom Presents \$100 Billion California Comeback Plan." Office of Governor Gavin Newsom, 2021. <https://www.gov.ca.gov/2021/05/14/california-roars-back-governor-newsom-presents-100-billion-california-comeback-plan/>

136 Lush, Minnie. *California Real Estate Finance, 9th Edition*. 2016.

137 Ibid.

138 Ibid.

139 "FHA Single Family Housing Policy Handbook: Glossary." Federal Housing Administration, 2016. <https://www.hud.gov/sites/documents/40001GAHSGH.PDF>

140 Cornell Legal Information Institute. <https://www.law.cornell.edu/>

141 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

142 "Mortgage Loans." Fannie Mae, 2022. <https://mfguide.fanniemae.com/node/10711>

143 Lush, Minnie. *California Real Estate Finance, 9th Edition*. 2016.

144 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

145 Lush, Minnie. *California Real Estate Finance, 9th Edition*. 2016.

146 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

Deed-Restricted: a provision in a real property conveyance that limits the grantee's use of the property. The beneficiaries of a restrictive covenant obtain rights from such covenants, and this may be the parties who agreed to the restrictive covenant or adjunct property owners who benefit from the restrictive covenant.¹⁴⁷

Default: The failure to make payments on a mortgage, triggering the remaining loan balance to be due in full.¹⁴⁸

Delinquent: Late on mortgage payments. A loan can become delinquent when a borrower misses a payment or does not make a full payment by the due date. After a loan becomes delinquent for a certain period of time, a lender or servicer may begin the foreclosure process. The amount of time can vary by state.¹⁴⁹

Denial Rate: The share of home mortgage applications denied a loan.¹⁵⁰

Depreciation: A sum representing presumed loss in the value of a building or other real estate improvement, resulting from physical wear and economic obsolescence.¹⁵¹

Down Payment: The difference between the sale price of a property and the sum of outstanding loan principal at property acquisition. A borrower puts a percentage of the home's value down and borrows the rest through a mortgage loan. Generally, the larger the down payment a borrower makes, the lower the interest rate received and the more likely a borrower is to be approved for a loan.¹⁵²

Down Payment Assistance: A down payment grant or program typically refers to assistance provided by an organization such as a government or non-profit agency, to a homebuyer to assist them with the down payment for a home purchase. The funds may be provided as an outright grant or may require repayment, such as when the home is sold.¹⁵³

Effective Interest Rate (EIR): An EIR reflects the real percentage rate owed in interest on a loan when the effects of compounding are taken into account. The more frequent the compounding periods, the higher the rate.¹⁵⁴

Eligible Borrower: A borrower meeting the financial requirements to qualify for a mortgage at the property of their choice.¹⁵⁵

Environmental Justice: The fair treatment and meaningful involvement of all people regardless of race, color, national origin, or income, with respect to the development, implementation, and enforcement of environmental laws, regulations, and policies.¹⁵⁶

Equity: Ownership interest in a property. This is the difference between the home's market value and the outstanding balance of the mortgage loan (as well as any other liens on the property).¹⁵⁷

Escrow: An escrow account is set up by a mortgage lender to pay certain property-related expenses, like property taxes and homeowner's insurance. A portion of a borrower's monthly payment goes into the account. If a mortgage doesn't have an escrow account, a borrower pays the property-related expenses directly.¹⁵⁸

Essential Professional: Essential professions in the report specifically referred to healthcare professions, municipal employees, education professions that are qualified for a private shared appreciation program, Landed.¹⁵⁹

Fair Market Value (FMV): The value of property as determined by the marketplace (or objective purchasers) rather than as determined by a subjective individual. This is what an informed and unpressured buyer would pay to an informed, unpressured seller.¹⁶⁰

Freddie Mac (FHLMC): Also known as the Federal Home Loan Mortgage Corporation, a Government-Sponsor Enterprise which provides a secondary market for savings banks and other institutions.¹⁶¹

Federal Housing Administration (FHA): A division of the U.S. Department of Housing and Urban Development (HUD) that insures residential mortgage loans issued by approved lenders against loss through foreclosure. FHA loans have lower down payment and financing requirements and are popular among first-time homebuyers.¹⁶²

147 Cornell Legal Information Institute. <https://www.law.cornell.edu/>

148 Lush, Minnie. *California Real Estate Finance, 9th Edition*. 2016.

149 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

150 "Mortgage Glossary." Mortgage Bankers Association, 2022. <http://mbabluegrass.org/mortgage-glossary/>

151 "Mortgage Loans." Fannie Mae, 2022. <https://mfguide.fanniemae.com/node/10711>

152 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

153 Ibid.

154 "Effective Annual Interest Rate." Investopedia. <https://www.investopedia.com/terms/e/effectiveinterest.asp#:~:text=What%20is%20an%20Effective%20Annual,card%2C%20or%20any%20other%20debt.>

155 Lush, Minnie. *California Real Estate Finance, 9th Edition*. 2016.

156 Cornell Legal Information Institute. <https://www.law.cornell.edu/>

157 "Mortgage Loans." Fannie Mae, 2022. <https://mfguide.fanniemae.com/node/10711>

158 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

159 Landed. <https://www.landed.com/>

160 Cornell Legal Information Institute. <https://www.law.cornell.edu/>

161 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

162 "Mortgage Loans." Fannie Mae, 2022. <https://mfguide.fanniemae.com/node/10711>

Fannie Mae (FNMA): The Federal National Mortgage Association (Fannie Mae) purchases and guarantees mortgages from lending institutions in an effort to increase affordable lending. Fannie Mae is not a federal agency. It is a government-sponsored enterprise under the conservatorship of the Federal Housing Finance Agency (FHFA).¹⁶³

Financial Counseling: A course to help households develop financial literacy skills and establish strong financial habits.¹⁶⁴

Finder's Fee: A fee paid by a lender or broker for referring a borrower to a certain lending institution or real estate office.¹⁶⁵

First Mortgage: Also known as the primary loan or senior loan; the first recorded loan. As the primary loan that pays for a property, it has priority over all other liens or claims on a property in the event of default.¹⁶⁶

Fixed Rate Loans: A type of home loan for which the interest rate is set when a borrower takes out the loan and will not change during the term of the loan.¹⁶⁷

Forbearance: A loss mitigation measure when the servicer allows a borrower temporarily to pay their mortgage at a lower rate or temporarily to stop paying their mortgage altogether. A servicer may grant a borrower forbearance if, for example, a borrower has suffered a recent job loss, disaster, illness or injury that increased health care costs.¹⁶⁸

Foreclosure: When the lender or servicer takes back property after the homeowner fails to make mortgage payments. In some states, the lender must go to court to foreclose on a borrower's property (judicial foreclosure), but other states do not require a court process (non-judicial foreclosure). Generally, borrowers must be notified if the lender or servicer begins foreclosure proceedings.¹⁶⁹

Forgivable Loan: A loan that allows borrowers to partially or completely forgive the balance upon meeting tenure or equity requirements.¹⁷⁰

Fund Sustainability: The ability of the Fund to continue making new loans without relying on increasing new contributions from the State.

Freddie Mac (FHLMC): The Federal Home Loan Mortgage Corporation (Freddie Mac) is a private corporation founded by Congress. Its mission is to promote stability and affordability in the housing market by purchasing mortgages from banks and other loan makers. The corporation is currently under conservatorship, under the direction of the Federal Housing Finance Agency (FHFA).¹⁷¹

Front-End Ratio: A ratio representing the borrower's mortgage payment divided by gross monthly income.¹⁷²

Government-Backed Loan: A government mortgage is a federal, state, or municipal governmental agency, a Federal Reserve Bank, a Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation (FHLMC, or Freddie Mac), or the Federal National Mortgage Association (FNMA, or Fannie Mae).¹⁷³

Government-Sponsored Enterprise (GSE): A corporate entity created by a law of the United States that— (i) has a federal charter authorized by law; (ii) is privately owned, as evidenced by capital stock owned by private entities or individuals; (iii) is under the direction of a board of directors, a majority of which is elected by private owners.¹⁷⁴

Gross Income: The broad total of all income sources for the taxable year which above-the-line deductions are subtracted from to get a person's adjusted gross income. Gross income includes essentially all income such as from wages, dividends, alimony, capital gains, and pensions. Many deductible items such as charitable giving must still be included in gross income. Deductions are applied after calculating gross income.¹⁷⁵

Homebuyer Education: A course to help prospective homebuyers or new homeowners understand the path to homeownership and responsibilities as a homeowner.¹⁷⁶

Housing Expense Ratio: A calculation of how much of a borrower's monthly gross income is going toward their monthly mortgage payment, including principal, interest, taxes and mortgage insurance. Ideally, a borrower's housing expense ratio should be less than 28%.

163 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

164 "Mortgage Glossary." Mortgage Bankers Association, 2022. <http://mbabluegrass.org/mortgage-glossary/>

165 "Mortgage Loans." Fannie Mae, 2022. <https://mfguide.fanniemae.com/node/10711>

166 Ibid.

167 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

168 Ibid.

169 Ibid.

170 "Mortgage Glossary." Mortgage Bankers Association, 2022. <http://mbabluegrass.org/mortgage-glossary/>

171 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

172 "Mortgage Glossary." Mortgage Bankers Association, 2022. <http://mbabluegrass.org/mortgage-glossary/>

173 "FHA Single Family Housing Policy Handbook: Glossary." Federal Housing Administration, 2016. <https://www.hud.gov/sites/documents/40001GAHSGH.PDF>

174 Cornell Legal Information Institute. <https://www.law.cornell.edu/>

175 Ibid.

176 U.S. Department of Housing and Urban Development. <https://www.hud.gov/>

HUD: The Department of Housing and Urban Development (HUD) is a federal agency that administers national programs aimed at reducing homelessness, providing housing that is safe and affordable to all persons, improving opportunities to access affordable homeownership, and granting subsidies to lower- and moderate-income families to give them equal opportunities in the rental and purchase housing markets.¹⁷⁷

HMDA: Abbreviated term for the Home Mortgage Disclosure Act, enacted in 1975 to provide home mortgage data to the public to help determine if financial institutions are serving the housing needs of their communities, to help public officials distribute public investments and to identify possible lending discrimination.¹⁷⁸

Income Approach: A type of real estate appraisal method that allows investors to estimate the value of a property based on the income the property generates. It's used by taking the net operating income (NOI) of the rent collected and dividing it by the capitalization rate. (Investopedia)

Inflation: The rate of change in the price of goods and services resulting from a change in the supply of money and/or cost of resources.¹⁷⁹

Interest Rate: An interest rate on a mortgage loan is the cost a borrower will pay each year to borrow the money, expressed as a percentage rate. It does not reflect fees or any other charges borrowers may have to pay for the loan. For example, if the mortgage loan is for \$100,000 at an interest rate of 4 percent, that consumer has agreed to pay \$4,000 each year he or she borrows or owes that full amount.¹⁸⁰

Junior Mortgage: A mortgage that is subordinate to a first or prior (senior) mortgage. A junior mortgage often refers to a second mortgage, but it could also be a third or fourth mortgage. In the case of a foreclosure, the senior (first) mortgage will be paid down first. (Investopedia)

Lender: An organization or person that lends money with the expectation that it will be repaid, generally with interest.¹⁸¹

Leverage: The use of borrowed money or debt to purchase assets or undertake an investment creating the relationship between an owner's equity and total debt on a property. The higher the leverage, the higher the debt in relation to the value of the property.¹⁸²

Lien: A legal hold or claim of a creditor on the property of another as security for a debt. Liens are always against property, usually real property.¹⁸³

Limited Equity Cooperative (LEC): A homeownership model in which a resident purchases a share in a collection of units opposed to an individual unit. LECs often restrict the future sale value of a property to maintain housing affordability.¹⁸⁴

Liquidity: The measure of readily available assets that can be converted into cash.¹⁸⁵

Loan Assumption: The lender's approval of a new borrower who takes over an existing loan.¹⁸⁶

Loan Closing: The time agreed upon by the borrower and lender when the execution of the loan documents by the borrower occurs.¹⁸⁷

Loan Commitment: An agreement by a commercial bank or other financial institution to lend a business or individual a specified sum of money.¹⁸⁸

Loan Exit: (or Exit) The termination of a loan agreement often through sale of the asset, refinance, transfer, or default.¹⁸⁹

Loan Origination: The multi-step process that every individual must go through to obtain a mortgage or home loan. The term also applies to other types of amortized personal loans. Origination is often a lengthy process and is overseen by the Federal Deposit Insurance Corporation (FDIC).¹⁹⁰

Loan Origination Fee: A charge, usually 1% of the loan, that is intended to compensate the lender for the work involved in the process.¹⁹¹

Loan Servicer: A loan servicer typically processes loan payments, responds to borrower inquiries, keeps track of principal and interest paid and manages escrow accounts. The loan servicer may initiate foreclosure under certain circumstances. A servicer may or may not be the same company that originated a loan.¹⁹²

177 "Mortgage Loans." Fannie Mae. 2022. <https://mfguide.fanniemae.com/node/10711>

178 "Download HMDA Data." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/data-research/hmda/historic-data/>

179 "Mortgage Glossary." Mortgage Bankers Association, 2022. <http://mbabluegrass.org/mortgage-glossary/>

180 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

181 "Mortgage Loans." Fannie Mae. 2022. <https://mfguide.fanniemae.com/node/10711>

182 Cornell Legal Information Institute. <https://www.law.cornell.edu/>

183 "Mortgage Loans." Fannie Mae. 2022. <https://mfguide.fanniemae.com/node/10711>

184 "Limited equity cooperatives." 2021. Local Housing Solutions. [https://localhousingsolutions.org/housing-policy-library/limited-equity-cooperatives/#:~:text=A%20limited%20equity%20cooperative%20\(LEC,and%20over%20the%20long%20term.](https://localhousingsolutions.org/housing-policy-library/limited-equity-cooperatives/#:~:text=A%20limited%20equity%20cooperative%20(LEC,and%20over%20the%20long%20term.)

185 "Mortgage Glossary." Mortgage Bankers Association, 2022. <http://mbabluegrass.org/mortgage-glossary/>

186 Cornell Legal Information Institute. <https://www.law.cornell.edu/>

187 Ibid.

188 Investopedia. <https://www.investopedia.com/>

189 Ibid.

190 Ibid.

191 Ibid.

192 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

Loan Servicing: Supervising and administering a loan after it has been made. This process involves collecting payments, conducting property inspections, foreclosing on defaulted loans, and all other processes after escrow.¹⁹³

Loan-to-Value Ratio: The loan-to-value (LTV) ratio is a measure comparing the outstanding mortgage amount with the appraised value of the property. The higher the down payment, the lower the LTV ratio. Mortgage lenders may use the LTV in deciding whether to lend to a borrower and to determine if they will require private mortgage insurance.¹⁹⁴

Loss Mitigation: The steps mortgage servicers take to work with a mortgage borrower in order to avoid foreclosure. Loss mitigation refers to a servicer's responsibility to reduce or "mitigate" the loss to the investor that can come from a foreclosure. Certain loss-mitigation options may help borrowers stay in their homes. Other options may help borrowers leave their homes without going through foreclosure. Loss mitigation options may include deed-in-lieu of foreclosure, forbearance, repayment plan, short sale or a loan modification.¹⁹⁵

Low-Income Household: Persons and families whose gross income is greater than 50% up to 80% of area median income, adjusted for household size appropriate for the unit.¹⁹⁶

Market Price: An estimate of what a property would sell for in a competitive market based on the features and benefits of that property (the value), the overall real estate market, supply and demand and what other similar properties have sold for in the same condition.¹⁹⁷

Maturity Date: The date that an investor's investment is to be paid back in full in accordance with its agreement.¹⁹⁸

Moderate Income Household: Persons and families whose gross income is greater than 80% and does not exceed 120% of area median income, adjusted for household size appropriate for the unit.¹⁹⁹

Monthly Mortgage Payments: Monthly mortgage obligations including principal and interest and possibly taxes and insurance.²⁰⁰

Mortgage: An agreement between a borrower and a lender that allows a homebuyer to borrow money to purchase or refinance a home and gives the lender the right to seize the property if the borrower fails to repay the money borrowed.²⁰¹

Mortgage Credit Availability Index (MCAI): A barometer on the availability or supply of mortgage credit at a point in time, using criteria from institutional investors who purchase loans through the broker and/or correspondent channels. The MCAI is calculated using several factors related to borrower eligibility (credit score, loan type, loan-to-value ratio, etc.) using data made available by ICE Mortgage Technology.²⁰²

Mortgage Insurance (MI): Protections for lenders in the event a borrower falls behind on their payments. Mortgage insurance is typically required if a borrower's down payment is less than 20 percent of the property value. Mortgage insurance is typically required on FHA and USDA loans. However, with a conventional loan and down payment less than 20 percent, a borrower will most likely have private mortgage insurance (PMI).²⁰³

Mortgage Insurance Premium (MIP): The annual premium on an FHA-required mortgage insurance policy required over the life of the loan and equal to -0.45-1.05% of the loan amount. MIPs protect FHA against higher-risk borrowers who are more likely to default on loans.²⁰⁴

Upfront Mortgage Insurance Premium (UPMIP): The upfront fee on an FHA-required mortgage insurance policy equal to 1.75% of the loan amount.²⁰⁵

Mortgage Modification: A change made to the terms of a loan because the borrower is unable to meet the payments under the original terms. The modification is a type of loss mitigation. A modification can reduce monthly payments to an amount affordable to the borrower. Modifications may involve extending the repayment term, reducing the interest rate, and/or forbearing or reducing the principal balance.

Mortgage-Backed Securities: Investment securities representing an interest in a pool of mortgages.²⁰⁶

193 Ibid.

194 Ibid.

195 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

196 "Income Limits." California Department of Housing and Community Development. <https://www.hcd.ca.gov/income-limits>

197 Cornell Legal Information Institute. <https://www.law.cornell.edu/>

198 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

199 "Income Limits." California Department of Housing and Community Development. <https://www.hcd.ca.gov/income-limits>

200 "Mortgage Loans." Fannie Mae. 2022. <https://mfguide.fanniemae.com/node/10711>

201 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

202 "Mortgage Glossary." Mortgage Bankers Association, 2022. <http://mbabluegrass.org/mortgage-glossary/>

203 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

204 "FHA Single Family Housing Policy Handbook: Glossary." Federal Housing Administration, 2016. <https://www.hud.gov/sites/documents/40001GAHSGH.PDF>

205 Ibid.

206 "Mortgage Loans." Fannie Mae. 2022. <https://mfguide.fanniemae.com/node/10711>

Mortgage Servicer: The company that sends borrowers their mortgage statements and handles the day-to-day tasks of managing mortgages.²⁰⁷

Nominal Interest Rate: Also known as the note rate. The interest rate before taking inflation into account that appears on the mortgage note.²⁰⁸

Non-recurring Closing Costs: Costs that are one-time charges paid at the close of escrow. One-time costs include the appraisal fee, title insurance, origination fees, underwriting fee, notary fee, recording fee, and transfer taxes, among other items.²⁰⁹

Operating Costs: The recurring owner's expenses to maintain a property in good condition, such as utilities, repairs and replacement of furnishings.²¹⁰

Origination Fee: What the lender charges the borrower for making the mortgage loan. The origination fee may include processing the application, underwriting and funding the loan, and other administrative services. Origination fees generally can only increase under certain circumstances.²¹¹

Outstanding Principal Amount: The amount of principal due under a loan after taking into account prior payments of principal.

PITI: An abbreviation for principal, interest, taxes and insurance, commonly used when referring to the monthly loan obligation.²¹²

Points: Amount paid by the borrower or the seller, with each point equal to one percent of the loan.²¹³

Pre-approval: Pre-approval is a bigger step than pre-qualification, but it is a better commitment from the lender. This involves borrowers completing a mortgage application and providing the lender with income documentation and personal records. If the borrower qualifies, the lender can provide the amount of financing, potential interest rate, estimated monthly payment (before taxes and insurance because the property is unspecified).²¹⁴

Pre-qualification: With pre-qualification the lender provides the borrower's qualifying mortgage amount (and the process is usually quick and free) but does not actually qualify a borrower for a mortgage until pre-approval.²¹⁵

Prepayment Penalty: A fee that lenders may charge if a borrower pays off all or part of their mortgage early. A prepayment penalty is agreed upon at closing and not all mortgages have a prepayment penalty.²¹⁶

Primary Mortgage Market: The market where borrowers can directly obtain a mortgage loan from a primary lender. Banks, mortgage brokers, mortgage bankers and credit unions are all primary lenders and are part of the primary mortgage market.²¹⁷

Principal Residence: A dwelling where the borrower maintains or will maintain their permanent place of abode, and which the borrower typically occupies or will occupy for the majority of the calendar year. A person may have only one principal residence at any one time.²¹⁸

Principal: The amount of a mortgage loan that a borrower has to pay back. When a payment is made towards a borrower's principal, the borrower owes less, and will pay less interest based upon a lower loan size.²¹⁹

Private Mortgage Insurance (PMI): A type of mortgage insurance that benefits the lender. Borrowers may be required to pay for PMI if their down payment is less than 20% of the property value on a conventional loan. Borrowers may be able to cancel PMI upon accumulating 22% equity in their home.²²⁰

Property Taxes: Taxes charged by local jurisdictions, typically at the county level, based upon the value of the property being taxed. Often, property taxes are collected within the homeowner's monthly mortgage payment, and then paid to the relevant jurisdiction one or more times each year. This is called an escrow account. If the loan does not have an escrow account, then the homeowner will pay the property taxes directly.²²¹

Purchase Price: A borrower's cost of purchasing the property excluding usual and reasonable settlement or financing costs.²²²

Rate Lock: A lender's written guarantee that allows the borrower to lock in the interest rate on a mortgage for a specified time period at the prevailing market interest rate.²²³

207 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

208 "Mortgage Glossary." Mortgage Bankers Association, 2022. <http://mbabluegrass.org/mortgage-glossary/>

209 "Mortgage Loans." Fannie Mae. 2022. <https://mfguide.fanniemae.com/node/10711>

210 Cornell Legal Information Institute. <https://www.law.cornell.edu/>

211 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

212 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

213 "Mortgage Loans." Fannie Mae. 2022. <https://mfguide.fanniemae.com/node/10711>

214 Ibid.

215 Ibid.

216 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

217 Investopedia. <https://www.investopedia.com/>

218 "FHA Single Family Housing Policy Handbook: Glossary." Federal Housing Administration, 2016. <https://www.hud.gov/sites/documents/40001GAHSGH.PDF>

219 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

220 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

221 Ibid.

222 Lush, Minnie. *California Real Estate Finance, 9th Edition*. 2016.

223 "Mortgage Glossary." Mortgage Bankers Association, 2022. <http://mbabluegrass.org/mortgage-glossary/>

Real Property: (or Property) A parcel of land and everything that is permanently attached to the land. The owner of real property has all of the rights of ownership, including the right to possess, sell, lease and enjoy the land.²²⁴

Recycling: Using the proceeds from sales of some properties in a portfolio to finance loans to new borrowers.²²⁵

Recurring Closing Costs: Repeating expenses paid by the borrower at close of escrow such as tax reserves, hazard insurance, and prepaid interest.²²⁶

Refinance: When a new loan is taken out to pay off and replace an old loan. Common reasons to refinance are to lower the monthly interest rate, lower the mortgage payment, or to borrow additional money. Upon refinance, borrowers typically pay closing costs and fees. If borrowers refinance and get a lower monthly payment there should be an understanding of what portion of the reduction is from a lower interest rate and because the loan term is longer.²²⁷

Regulation Z: Federal rule prohibiting compensation to a loan originator based on a mortgage transaction's terms or conditions (except the amount of credit extended) and prohibiting a mortgage originator steering a consumer to a loan that provides greater compensation.

Replacement Cost: Amount required to replace improvements of comparable quality at today's prices.²²⁸

Second Mortgage: A second mortgage or junior lien is a loan taken out using the house as collateral while another loan is secured by the house.²²⁹

Secondary Mortgage Market: The purchasing and selling of existing mortgages secured by deeds of trust promoting a constant flow of funds allowing lenders to continue to provide new loans to ready borrowers.²³⁰

Securitization: The procedure through which an issuer designs a marketable financial instrument by merging or pooling various financial assets into one group. The issuer then sells this group of repackaged assets to investors.²³¹

Shared Equity: An arrangement under which a borrower receives a portion but not all of the increased value of the home, whether through terms of the loan or other restriction on the property.

Shortage: The deficit compared to what would be required, such as in housing construction related to demand or to be able to provide an equivalent loan to a new borrower.

Significant Student Debt: Outstanding debt on a prospective homebuyer's student loans such that the aggregate monthly payments exceed an amount specified in the rules for the CA Dream for All Fund, such as \$100 per month.

Silent Second Mortgage: A second mortgage loan with no monthly payments that is due upon sale of the property or maturity together with accrued interest (if any) at a fixed interest rate. The second mortgage is called "silent" because the borrower does not disclose its existence to the original mortgage lender.

Single-Family Home: A property with one dwelling unit, whether detached or attached, including a condominium or townhome.

Surplus: The amount beyond what is required, such as to meet statewide requirements or to be able to provide an equivalent loan to a new borrower.

Term: The term of the mortgage loan is how long a borrower has to repay the loan. For most types of homes, mortgage terms are typically 15, 20 or 30 years.²³²

Title Insurance: Insurance written by a legal reserve title company and lenders against losses due to title defects.²³³

Truth in Lending Act (TILA): Title I of the Consumer Credit Protection Act protects borrowers against inaccurate and unfair credit billing and credit card practices. It requires lenders to provide loan cost information so that borrowers can comparison shop for certain types of loans.²³⁴

Underwriting: In mortgage banking, the analysis of the risk involved in making a mortgage loan to determine whether the risk is acceptable to the lender. Underwriting involves the evaluation of the property as outlined in the appraisal report and of the borrower's ability and willingness to repay the loan.²³⁵

Underwriting Requirement: Rules and requirements of a lender, secondary market institution (such as Fannie Mae and Freddie Mac) or mortgage insurer for determining if a loan is credit-worthy, such as maximum loan-to-value or loan-to-price ratio, debt to income ratio, etc.²³⁶

224 Cornell Legal Information Institute. <https://www.law.cornell.edu/>

225 Ibid.

226 "FHA Single Family Housing Policy Handbook: Glossary." Federal Housing Administration, 2016. <https://www.hud.gov/sites/documents/40001GAHSGH.PDF>

227 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

228 Lush, Minnie. *California Real Estate Finance, 9th Edition*. 2016.

229 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

230 "Secondary Mortgage Market." Investopedia. https://www.investopedia.com/terms/s/secondary_mortgage_market.asp

231 "Securitization." Investopedia. <https://www.investopedia.com/terms/s/securitization.asp>

232 "Mortgage Loans." Fannie Mae. 2022. <https://mfguide.fanniemae.com/node/10711>

233 Ibid.

234 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

235 "Mortgage Loans." Fannie Mae. 2022. <https://mfguide.fanniemae.com/node/10711>

236 "Underwriting Standards." Investopedia. <https://www.investopedia.com/terms/u/underwriting-standards.asp>

Upfront Cost: One-time expenses in connection with the purchase of or loan on a property. These out-of-pocket costs, which include a down payment and various closing costs, occur before a home buyer can take title on a piece of property.²³⁷

Upfront Mortgage Insurance

Premium (UPMIP): A one-time payment equal to 1.75% of the base loan amount due when closing on a home that is financed with an FHA home loan. Given the lower down-payment requirements for an FHA loan, UFMIP helps protect lenders if a borrower is unable to repay their mortgage.²³⁸

USDA Loan: The Rural Housing Service, part of the U.S. Department of Agriculture (USDA) offers mortgage programs with no down payment and generally favorable interest rates to rural homebuyers who meet the USDA's income eligibility requirements.²³⁹

VA Loan: A loan program offered by the Department of Veterans Affairs (VA) to help servicemembers, veterans, and eligible surviving spouses buy homes. The VA does not make the loans but sets the rules for who may qualify and the mortgage terms. The VA guarantees a portion of the loan to reduce the risk of loss to the lender. The loans generally are only available for a primary residence.²⁴⁰

237 "Upfront Cost." Investopedia. <https://www.investopedia.com/terms/u/upfront-pricing.asp#:~:text=What%20is%20Upfront%20Pricing%3F,the%20onset%20of%20the%20relationship>.

238 "FHA Single Family Housing Policy Handbook: Glossary." Federal Housing Administration, 2016. <https://www.hud.gov/sites/documents/40001GAHSGH.PDF>

239 "Mortgage Key Terms." Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/consumer-tools/mortgages/answers/key-terms/>

240 Ibid.

APPENDIX B

Case Studies

Case study research on public and private shared appreciation models operating both within the state and beyond provided invaluable context in the design of the fund. Research focused on identifying the general parameters of a shared appreciation program, including underwriting standards, terms of appreciation sharing, investment timeline, maximum investment amount, and property eligibility criteria. On top of desktop research, interviews with relevant public agencies, program administrators, and private firms further supplemented our research.

Private Programs

| | Hometap | Unison | Landed | The Point |
|----------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| | (Various locations, U.S.) | | | |
| Funding Type | Unknown | Institutional investors, including pension funds and university endowments | Chan Zuckerberg Initiative, others | Endowments, pension funds, insurers, REITs, and investment managers |
| Fees | 3% | 2.5% | 1.25% of home purchase price if not using a Landed partner agent | 3%-5% |
| Maximum Investment | Between 5% and 30% of home value (up to \$600k) | Up to 17.5% of home value (up to \$500k) | Up to 15% of home value (up to \$120k) | \$25k to \$500k |
| Underwriting Standards/ Borrower Eligibility Criteria | <ul style="list-style-type: none"> • 600+ credit score • Max. 75% LTV | <ul style="list-style-type: none"> • 620+ credit score • Max. 80% LTV | <ul style="list-style-type: none"> • 620+ credit score • Max. 95% LTV • “Essential Professionals” (educators, healthcare professionals, government employees) | <ul style="list-style-type: none"> • 500+ credit score • Max. 80% LTV |
| Property Eligibility Criteria | Single-family homes and condos. Must be primary residence. | Single-family homes, condos, and townhomes. Must be primary residence. | Single-family homes, condos, townhomes, and duplexes. Must be primary residence. | Single-family homes, condos, townhomes, missing middle (1-4 units) structures. Minimum \$155k home value. |
| Investment Term | 10 years | 30 years | 30 years | 30 years |
| Shared Appreciation Terms | Structured on a case-by-case basis depending on property value and initial investment amount but may range between 13.9 – 16.7% of home value at the time of repayment. | Appreciation split: 4:1 | Appreciation split: 2.5:1 | Principal investment + ~15% – 40% of appreciation |
| Program Webpage | https://www.hometap.com/ | https://www.unison.com/ | https://www.landed.com/ | https://point.com/ |

Public Programs

| | Homeownership Opportunities Program (Pasadena, CA) | Help to Buy: Equity Loan (England) | Down payment Loan Assistance Program (General) (San Francisco, CA) | AC Boost (Alameda County, CA) | Empower Homebuyers (Santa Clara County, CA) | Downpayment Assistance Program (Seattle, WA) |
|----------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Funding Type | Public: Local funds (redevelopment or inclusionary) | Public: Homes England | Public: local funds | Public: \$580 million general obligation bond | Public: Initially funded in 2016 through affordable housing bond | Public: initially funded from federal HOME \$, later by affordable housing tax levy, linked with funds from Washington State Housing Finance Commission Shared appreciation feature was used from 2004 - 2017 (funding 3 to 4 loans annually before terminated) |
| Maximum Investment | Unknown | Varies by region. program will fund up to 20% of the home value (increases to 40% in London) | \$375k-\$500k | \$210K for households <= 100%AMI \$160K for households >100% AMI | Up to 17% down payment; Home price up to \$1.1 million | Up to \$45,000 from Seattle, and \$60,000 total Maximum purchase price of 95% of area median (due to HOME requirements) |
| Underwriting Standards/ Borrower Eligibility Criteria | <ul style="list-style-type: none"> • First time homebuyer • Income eligible households (income ranges determined by household size) | <ul style="list-style-type: none"> • First time homebuyer • Min. 5% down payment contribution • 75% mortgage maximum LTV | <ul style="list-style-type: none"> • First-time homebuyer • Annual income up to 175% AMI • Min. 3% down payment contribution • Min. LTV 50% • 30%-40% front end debt ratio • Max. \$300k liquid assets before closing | <ul style="list-style-type: none"> • First-time homebuyer • Annual income up to 120% AMI • Min. 0-3% down payment contribution to a max. of 50% • Min. LTV 50% • Min. 25% front end debt ratio • Max. \$300k liquid assets before closing | <ul style="list-style-type: none"> • First-time homebuyer • Annual income up to 120% AMI • Min. 3% down payment contribution • 70%-87% LTV • 28%-38% front end debt ratio • >=620 credit score | <ul style="list-style-type: none"> • First-time homebuyer • Annual income up to 80% AMI • Minimum cash contribution of greater of 1% or \$2,500 |
| Property Eligibility Criteria | Unknown | New construction by approved homebuilders | <ul style="list-style-type: none"> • Single family homes • Condominiums • Townhomes | <ul style="list-style-type: none"> • Single family homes • Condominiums • Townhomes | <ul style="list-style-type: none"> • Single family homes • Condominiums • Townhomes | <ul style="list-style-type: none"> • Single family homes • Condominiums • Townhomes |
| Investment Term | 30-45 years | 15 years | Upon sale or transfer (had originally been limited to 30 years) | 30 years | 30 years | 30 years |

| | Homeownership Opportunities Program | Help to Buy: Equity Loan | Down payment Loan Assistance Program (General) | AC Boost | Empower Homebuyers | Downpayment Assistance Program |
|---------------------------------------|-----------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|-----------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Appreciation Sharing/ Repayment Terms | Appreciation split 1:1 (Pro-rata) | Interest free for the first 5 years; then 1.75% interest annually with an increase of CPI plus 2%; Pro-rata at time of sale plus interest on the balance of the equity state. | Appreciation split 1:1 (Pro-rata) | Unknown | Appreciation split 1:1 (Pro-rata) | Borrower owed both: <ul style="list-style-type: none"> • 3% simple interest, plus • pro rata appreciation (forgiven 1/9 per year over 9 years), With combination not to exceed equivalent of 6% simple interest |
| Program Webpage | https://www.pasahop.com/ | https://www.gov.uk/help-to-buy-equity-loan | https://sfmohcd.org/dalp | https://www.acboost.org/ | https://housingtrustsv.org/programs/homebuyer-assistance/empower-homebuyers-scc/ | https://www.wshfc.org/buyers/Seattle.htm |

STAKEHOLDERS INTERVIEWED

*A special thanks goes to the following individuals that agreed to be interviewed for the purpose of this report.

ORGANIZATION

Landed
Noah
City of San Francisco
The Point
Mortgage Bank Association
City of Pasadena
Heritage Housing Partners
Chan Zuckerberg Initiative
Silicon Valley Housing Trust
Help to Buy: Equity Program

INTERVIEWEES

Alex Lofton, Ian Magruder, Annee Kim and Jack Woodruff
Rahul Parulekar
Aneka Harrell, Cissy Yin, and Tammie Little
Eoin Matthews
Susan Milazzo and Pete Mills
Jim Wong and William Huang
Charles Loveman
Ruby Bolaria Shifrin
Noni Ramos, Julie Mahowald, and Fathia Macauley
Simon Walley

APPENDIX C

Program Guidelines

Below is a summary of how a CA Dream for All program can provide Shared Appreciation Second Loans. This overview is provided to suggest how detailed program features could be designed.

ILLUSTRATIVE PROGRAM GOALS & TERMS

Program Purpose

The purpose of the program is to make homeownership more accessible and affordable to income-qualified first-time homebuyers in California and promote diversity—and *to do so in such a way that the State can continue to sustainably assist future generations of first-time buyers despite rising home prices.*

Investment: Shared appreciation second mortgage loans are intended to enable the State to invest in affordable homeownership in a way that can help future eligible buyers.

Experience: The shared appreciation approach outlined here reflects and is meant to work with the long-standing requirements of both

Fannie Mae and Freddie Mac for publicly funded shared appreciation second mortgages. Shared appreciation second mortgages for first-time homebuyers have been used successfully by San Francisco for almost four decades, and more recently by both Alameda County and Santa Clara County.

How a State Shared Appreciation Program Can Work: These suggested terms are meant as a starting point for decisions on detailed program specifics. They indicate how a shared appreciation program can be used to address homeownership needs, meet secondary market requirements, and can be financially structured.

Shared Appreciation Second Loan Terms

Overview: The program would provide a shared appreciation second loan (SASL) with no monthly payments, paired with a Fannie Mae/Freddie Mac first mortgage.

The SASL would mature and be due when the property is sold or transferred, there is a cash out refinancing, or program requirements are violated.

Upon repayment, the program receives the original principal amount of the SASL plus a share of the property's price appreciation in order to be able to provide SASLs to subsequent first-time homebuyers.

Basic Terms

- **Appreciation Share:** The program's share of appreciation could initially be the program's percentage of the original purchase price (pro rata appreciation). This approach is the simplest to market, explain and administer.
 - After several years of experience with this basic model, the program could consider increasing the percentage on new SASLs,
- but not to exceed 1.5 times the program's percentage of the original purchase price. The purpose of considering such higher shares would be to enable the State to assist more buyers over time.
- A single multiple should be applicable to all SASLs being offered.
- In no case would the program's share of appreciation ever exceed 45% of the total appreciation.
- **Repayment Events:** Repayment will be due upon sale, transfer or cash-out refinancing, or upon violation of program requirements as determined by the program administrator.
- **Prepayment:** The homebuyer may prepay the loan at any time based on a fair market appraisal by the program without penalty.
- **Loan Amount:** The amount of the SASL would be subject to limits established by the administrator. The loan amount for a borrower would not exceed the lesser of:

- The program's maximum specified percentage of the purchase price. This maximum percentage would generally not exceed 17%, but could be increased up to [27%] for borrowers below 100% AMI. We would recommend that these percentages could be increased up to an additional [3%] for borrowers with significant student loan debt.
- The amount needed together with the borrower's minimum down payment and a Fannie/Freddie first mortgage based on a "front-end ratio" of [30%].
- The maximum specified percentage times the median purchase price of homes in the region.
- **Borrower Minimum Down Payment:** The homebuyer must meet Fannie Mae/Freddie Mac requirements for cash down payment and closing costs. The borrower can use local down payment assistance, gifts or other sources permitted by Fannie Mae/Freddie Mac (but not the SASL or other state funds) to meet Fannie Mae/Freddie Mac minimum requirements.
- **Borrower Protections:**
 - Repayment of the principal amount of the SASL is subordinate to the outstanding first mortgage and to the borrower's original cash down payment.
 - There is never any deficiency judgment against the borrower.
 - If the program's share of appreciation is set higher than pro rata, in order to meet Fannie Mae requirement the borrower would receive all of the following before the program receives any share in the appreciation: recovery of the borrower's original down payment, amortization of the first mortgage, and the appreciated value resulting from capital improvements that increased livable square footage by at least 10%.
 - There are no program restrictions on property resale.

Key Considerations

Purpose of SASL Amount: The SASL in combination with the borrower's minimum down payment is intended to allow households to utilize a conforming Fannie/Freddie first mortgage without private mortgage insurance.

Significant Student Loan Debt. Increasing the maximum SASL loan percentage for borrowers with significant student loan debt payments (e.g., more than \$100 per month) can help offset the negative impact of this debt on the borrower's maximum first mortgage amount.

Purchase Price Cap: The program does not include a purchase price cap on properties being acquired. However, the program's loan amount restrictions constrain the amount of the SASL.

Repayment: The financing for the program recognizes that many borrowers will only repay

the SASL when the home is sold. The program allows non-cash out refinancing to enable borrowers to take advantage of lower-rate first mortgages. The program administrator would also provide access to ongoing mortgage counseling and quarterly updates on estimated potential repayment to ensure that homebuyers are fully aware of the benefits of repaying their SAL.

Program Descriptions and Homebuyer

Counseling: Since many borrowers are unfamiliar with SALs, it is essential that all program materials and documents be extremely clear as to the nature of the borrower's repayment obligation. In addition, the program would provide and pay for both pre-purchase and post-purchase counseling for buyers.

ELIGIBLE BORROWERS & PURCHASES

Borrower Eligibility Requirements

To qualify for a shared appreciation loan, the prospective homebuyer would need to meet all of the following criteria:

- **Residency:** The homebuyer has been a resident of the State of California for at least one year.
- **First-Time Homebuyer:** No member of the homebuyer's household has had an ownership interest in a residential property for three prior years (the program will make exceptions for a legally separated head of household who was displaced from a jointly-owned property through the separation process).
- **Principal Residence:** The homebuyer is purchasing the property for use as their principal residence.
- **Income Limit:** The program administrator would set and update the maximum income limits for the program. This could initially be 150% of the median income for each high-cost Region of the state as determined by FHFA and 120% for other Regions. Income could be based on the first mortgage lender's underwriting income and in accordance with a standard existing methodology (such as CalHFA's income methodology for regions of the State).
- **Higher Loan Amounts for Lower-Income Borrowers.** As described under "Loan Amount," the program administrator may set a higher maximum specified percentage of the purchase price for borrowers in lower-income tiers such as those below 100% AMI in order to meet program objectives (target populations, regional/geographic considerations, etc).
- **Homebuyer Education Course:** All homebuyers must participate in and complete a certified homebuyer education program.

Key Considerations

Adjustable Income Limit: The program administrator would have the ability to adjust income limits to meet program targets.

Not Limiting Borrower Assets as Condition for Eligibility: The program would not require borrowers to meet asset limits. Household assets

are administratively difficult to assess, and an asset test would both narrow the range of potential homebuyers and serve as a disincentive to saving for low- and moderate-income households.

Priority Homebuyers

Prioritization: The program is designed to allow the program administrator to target support to priority households. These can include such categories as households that are first generation homebuyers, those who have been long-term tenants in historically low-income communities, and those who have high student debt. The program can prioritize households either through the reservation process (described in the reservation process below) and through product terms.

To illustrate how this can work:

- **Long-Term Residents of Low-Income Communities** who have resided for at least five of the last ten years in low-income census tracts could be eligible for a priority set-aside in reservations to help buy in their community or elsewhere as they wish. This provides a way for the program to increase opportunities for households who have lived in areas that have historically faced discrimination (such as red-lined areas).
- **First Generation Homebuyers,** whose parents have not owned a home, could be eligible for a priority set-aside in reservations.
- **Homebuyers with Significant Student Debt** that reduces the amount of the first mortgage for which the borrower can qualify for (e.g., with monthly student debt payments greater than \$100) could obtain a larger SASL.

Key Considerations

Future Priorities: While priorities could shift over time, administering and marketing the program benefits from program parameters that remain stable from one year to the next.

Property Eligibility Requirements

To qualify for the program, the property must be a pre-existing or newly constructed one- to four-unit residential property or condominium (under

Fannie/Freddie guidelines, borrower cash down payment requirements are higher for purchasing a two to four unit property).

Key Considerations

Housing Unit Limit: Allowing the purchase of buildings up to four units would accommodate AB1550 and incentivize the construction, financing and purchase of small infill homes that increase residential density.

First Mortgage Requirements

Homebuyers must obtain a first mortgage loan that meets the following criteria:

- **Loan Type:** The first mortgage must be a fixed rate, fully amortizing 30-year mortgage, that conforms with Government-Sponsored Enterprise (GSE) requirements and is includable in GSE mortgage-backed securities that can be sold TBA.

- **Loan to Value:** The first mortgage may not exceed 80% of property value.
- **Participating Lenders:** The first mortgage lender must be a qualified lender under CalHFA requirements.

The program can be designed so that both the first mortgage and the SASL are sold to the administering agency and are serviced jointly.

Key Considerations

Program Approval from GSEs: The program will need to be approved by GSEs based on precedents for similar approvals. This is a key step to navigate before finalizing detailed features.

STATEWIDE PROGRAM

Program

The program is designed to be operated across and assist first-time buyers in all regions of the state. The number of borrowers assisted would be approximately the same percentage of mortgage purchase transactions in each region of the state (such as 2%); this will help assure that program lending does not itself inflame housing prices.

To reflect and operate effectively in the wide range of housing markets in the state:

- Income limits would be set as a higher percentage of AMI in high-cost areas of the state.
- By limiting the loan amount to the maximum specified percentage of the median purchase price of homes in each region, the program would reflect the differences in housing prices in regions across the state.

Key Considerations

These features help assure that the program can be useful for borrowers in each region of the state while having a single standard operating system.

REVOLVING INVESTMENT FUND

Program Funding

Overall Design: The program has been structured to be an ongoing sustainable program that would make loans over many years, given the long-term housing affordability pressures in California. It is designed to make loans throughout economic cycles, rather than making all loans at the peak of the market.

Annual Scale: The scale of the program needs to be limited not only because of limitations on State resources but so that it does not itself drive up the prices of homes in California.

For purposes of estimating needed funding sources, it is assumed that the program could provide approximately \$1 billion of SASL's in the first full year after a ramp-up period. This amount could help approximately 7,500 households if the average SASL is \$130,000. This accounts for a small share of the state's 300,000 mortgage originations per year, but a larger share of the 100,000 mortgages currently originated for households that earn less than 120% of AMI. It is approximately the same number of buyers that CalHFA currently assists, but would provide significantly deeper assistance for borrowers who need it, including in the state's higher cost areas.

Over Ten Years: The program is designed so that the average loan amount can increase by about 4.5% per year, and the annual total amount of SASLs would grow accordingly. Over a 10 year period, this would provide over \$10 billion of SASL's, helping first-time buyers who need such assistance purchase approximately \$50 billion of homes.

Sources of Money: After extensive analysis, the simplest and effective way to fund a program

of this annual scale is from taxpayer funds.

These can come from annual state budget appropriations and/or from voter-authorized GO bond issues.

Investment Fund. The State would establish a separate, independent CA Dream for All Fund (such as that used for tobacco securitization). This investment fund would receive annual budget appropriations and/or proceeds of State GO bonds authorized by the voters.

These monies would be deposited as received into:

- A loan account to purchase SALs, and
- An administrative/servicing reserve account to pay all administrative, origination, marketing and outreach, counseling and servicing costs with respect to such SALs.

Repayments of principal and of appreciation on all SALs would be redeposited in the Fund, and amounts not needed to replenish the administrative/servicing reserve fund would be dedicated to making new SALs each year.

It may be up to ten or fifteen years before the program produces a significant reliable stream of repayments to make additional new loans. As a result, it is appropriate to plan for annual state appropriations for 10 years (that could be continued thereafter).

This revolving investment fund is thus a dedicated endowment for assisting future first-time homebuyers in California, and would be held in trust by the State for this purpose.

Key Considerations

Legislation now or in the future could also authorize the potential use of revenue bonds by the administering agency as a way to supplement taxpayer monies—if *this proves able to increase the total future number of borrowers served with no higher present value expenditure of taxpayer monies*. Discussions with a range of major investment banks and other sources suggest that the marketability of such revenue bonds would require over-collateralization (such as by funding SASLs 60% from revenue bonds and 40% from taxpayer monies), and an ongoing assured source of annual interest payments (through a state

appropriation pledge, the typical way the state finances lease appropriation bonds). Such revenue bonds—while reducing the taxpayer funds needed directly for making SASLs—would require taxpayer monies for annual interest payments. Detailed modeling does **not** indicate that inclusion of revenue bonds would significantly increase the number of borrowers assisted with the same present value of taxpayer monies. Given the complexity and scale of issuance involved, such an additional approach is not recommended at this time. Such revenue bonds, if any, would be secured by the CA Dream for All Fund.

Administrative Costs

Annual state appropriations would provide funds to be deposited in the administrative/servicing reserve account in order to pay for program administration, start-up, homeowner counseling

and servicing. An estimated \$100 million would need to be deposited annually on an ongoing basis.

ADMINISTRATIVE PROCESS

Program

Administering Agency: A statewide program administrator would be selected to develop a detailed operating plan for the program, including a detailed program manual and procedures guide for use of Fund resources, a start-up plan, and proposed system and parties for marketing/outreach, origination of SASLs, homeowner counseling, and servicing of SASLs.

The detailed operating plan would indicate how the overall program would establish priorities and a reservation system to help achieve program objectives; as well a quarterly reporting system on program demographics, operations, SASL performance and use of Fund resources.

Key Considerations

Ongoing Oversight: The program administrator will play a key role in day-to-day oversight of loan reservations to help assure statewide distribution of the program and meeting program targets, so

that the program does not end up concentrated in a few markets where it may be easiest to make such loans..

Marketing, Outreach and Homeowner Counseling

Central Importance: Marketing, outreach and clear explanation of shared appreciation mortgages to potential borrowers, lenders and real estate agents is crucial to the success of the program.

State taxpayer funds will provide important funding for such marketing and outreach efforts, including by non-profit groups and housing

counselors, who can help prepare potential homebuyers.

Homebuyer education, including a special section on how the shared appreciation mortgage works, will be mandatory for all borrowers. Monies are budgeted for pre-purchase counseling and post-purchase counseling.

Reservation System

Purpose: The reservation system would need to do three things:

- Enable eligible buyers to reserve SASLs in conjunction with related first mortgages so that buyers can move quickly in a highly competitive housing market to purchase a home.
- Make it easy and convenient for lenders to reserve and originate SASLs in conjunction with related first mortgages, with assurance that qualified loans are timely purchased by or on behalf of the program administrator.

- Assure that the Program meets overall priorities and targeting objectives.

One way to accomplish these goals is to have a reservation system that provides set-asides by region of the state, as well as by priority categories, such as first generation homebuyers and long-term residents of low-income areas.

Servicing

In addition to collecting loan repayments, the servicer engaged by the program administrator will provide ongoing information to borrowers about their shared equity mortgage, including estimated amount to be repaid, and how and when it may be in their interest to pay it off sooner if possible.

The program will be designed to work together with other programs for affordable homeownership, including:

- **Below Market Units:** The program can be, but is not required to be, used for the purchase of below-market units, such as those created through inclusionary zoning or Community Land Trusts.

- **Local Down Payment Assistance Programs:** The program can be used with local down payment assistance programs
- **Local Shared Appreciation Programs:** For counties with their own shared appreciation programs (such as Alameda, San Francisco and Santa Clara), the program would pay for up to half of the amount of any county shared appreciation loan that meets program requirements, subject to other loan amount requirements.



APPENDIX D

Regions of Analysis

Evaluating existing conditions at the regional level helps establish a baseline understanding of geographic variations in income, housing tenure, and housing market activity. Differing regional circumstances can inform how a shared appreciation program might be tailored to respond to unique regional circumstances. The analysis and program framework in this report divide the state into 11 regional markets which consist of aggregations of counties. These regions align with those in California Forward’s “California Dream Index”.

Figure 53: Regions Considered in Analysis



Source: HR&A Advisors

Financial Analysis

We conducted a comparative analysis of the household and fund level impacts from various financing options as well as home price appreciation rates. The median price of existing single-family homes in California has increased more than 225% over the last 20 years, from \$241,800 in 2000 to \$786,000 in 2021, which implies a historic compound annual growth rate (CAGR) at 5.8% over the course of the past two decades. Most of the growth occurred in the last 10 years, while the historic CAGR from 2000 to 2010 was only at 2.37%.²⁴¹ To be conservative, we utilize the following home price appreciation assumptions for three scenarios.

- Base Scenario: Annual home price appreciation at 3.0%
- Upside Scenario: Annual home price appreciation at 6.0%
- Downside Scenario: Annual home price appreciation at 0.0%

We also looked at the financial tradeoffs for a borrower and the program or fund as the financing structure changes. We analyzed the following structures:

1. **Shared Appreciation:** This structure represents the recommended terms for a CA Dream for All loan with a 17% down payment and a 1:1, or pro rata, appreciation split between the homebuyer and the fund.
2. **Fixed Rate:** The second mortgage with deferred payment carries an annual simple interest rate payment obligation of 3.00% and offers a 17% down payment.²⁴² There is currently no program with this level of down payment support.
3. **FHA:** This structure reflects the current costs to homebuyers with limited down payment savings, where they are required to make monthly insurance premium payments as well as an upfront mortgage insurance premium.
4. **Conventional:** This structure reflects what is currently available to homebuyers who can make a 20% down payment which eliminates the need for either a second mortgage or monthly mortgage insurance premium payments.

The analysis shows that a SAL has the following tradeoffs compared to other financing options:

- Fixed Rate: There is no difference in the level of income served by either a fixed interest or a SAL because both allow the borrower to avoid mortgage insurance premium and significantly lower monthly payments. Under our baseline growth assumption, homebuyers and the state would receive approximately the same returns, because the assumed interest rate on the loan is equal to our growth rate assumptions. In our upside scenario, homebuyers have a lower rate of return, but the fund would make a sufficient return to be able to support the next homebuyer at the higher prevailing median price. In our downside scenario, the homebuyer has a higher return because they have no interest payment liability while the fund would have sufficient funds to lend on to the next buyer because house prices would be similar.
- FHA: Without the support of any public down payment assistance programs, homebuyers who resort to FHA loans with a minimum down payment of 3.5% carry much higher monthly mortgage payments due to a larger first mortgage loan size and the required FHA mortgage insurance premium. This requires borrowers to have a higher level of income to get income qualified for the mortgage and sustain a healthy debt-to-income ratio. Due to its high leverage, the homebuyer's initial down payment realizes higher return in all scenarios, but at the expense of higher monthly payments. Shared appreciation allows borrowers to put down the same amount of down payment with a much lower monthly mortgage payment.
- Conventional: Homebuyers who put down a 20% down payment without any public down payment assistance program, incur the same monthly mortgage payment as those with shared appreciation since they are no longer required to pay any mortgage insurance premium. There is no difference in the level of income required but a significant difference in the required upfront down payment. Due to its low leverage, the homebuyer's initial down payment realizes the lowest return in all scenarios despite the benefits of lower monthly payments. Shared appreciation provides the down payment funding gap and enables borrowers with limited savings to access median priced homes and achieve a much higher return.

²⁴¹ California Association of Realtors

²⁴² CalHFA's MyHome Assistance Program is a silent second fixed rate program, currently charging 3% simple interest, while the loan size is much smaller, up to 3.5% of the purchase price or appraised value.

Figure 54: Household Level Loan Calculation Base Scenario

California Dream for All – Household Level Loan Calculation

BASE SCENARIO

| KEY ASSUMPTIONS | | MORTGAGE ASSUMPTIONS ³ | | | |
|-------------------------------------------------|-----------|--------------------------------------------|------------|-----------|--|
| Property Purchase Price ¹ | \$786,275 | Amortization | 360 months | | |
| Annual Price Appreciation | 3.00% | Conforming Loan Base Rate | 4.42% | | |
| Cost of Sales | 9.00% | Annual Private Mortgage Insurance (PMI) | 0.58% | FICO 760+ | |
| California Median Household Income ² | \$77,358 | FHA Loan Base Rate | 4.40% | | |
| Down Payment Required for Next Borrower | 17.00% | Upfront Mortgage Insurance Premium (UFMIP) | 1.75% | | |
| | | Annual Mortgage Insurance Premium (MIP) | 0.85% | | |

| HOUSEHOLD OPTIONS | 1 | | 2 | | 3 | | 4 | |
|-------------------------------------------------|---------------------|----------------|-------------------|----------------|------------------|----------------|------------------|----------------|
| | Shared Appreciation | 17% | Fixed-Rate Second | 17% | FHA | Conventional | | |
| | Multiple | 1 | Simple Interest | 3.00% | Down Payment | 3.50% | Down Payment | 20.00% |
| Homebuyer Down Payment | \$23,588 | 3.00% | \$23,588 | 3.00% | \$27,520 | 3.50% | \$157,255 | 20.00% |
| 1st Mortgage Amount | \$629,020 | 80.00% | \$629,020 | 80.00% | \$758,755 | 96.50% | \$629,020 | 80.00% |
| 2nd Mortgage Amount | \$133,667 | 17.00% | \$133,667 | 17.00% | \$0 | 0.00% | \$0 | 0.00% |
| Upfront Mortgage Insurance Premium | | | | | \$13,278 | | | |
| Total Purchase Price | \$786,275 | 100.00% | \$786,275 | 100.00% | \$799,553 | 100.00% | \$786,275 | 100.00% |
| 1st Mortgage Monthly Payment | \$3,157 | | \$3,157 | | \$3,800 | | \$3,157 | |
| Mortgage Insurance Premium | \$0 | | \$0 | | \$537 | | \$0 | |
| Total 1st Mortgage Monthly Payment | \$3,157 | | \$3,157 | | \$4,337 | | \$3,157 | |
| Debt-to-Income Ratio | 43% | | 43% | | 43% | | 43% | |
| Required Household Income | \$88,111 | | \$88,111 | | \$121,033 | | \$88,111 | |
| Percent of California Median Household Income % | 114% | | 114% | | 156% | | 114% | |

| EXIT (YEAR 10) – Homebuyer Impact | | | | | | | |
|--------------------------------------|--------------------|--|--------------------|--|------------------|--|------------------|
| Projected Property Sales Price | \$1,025,911 | | \$1,025,911 | | \$1,025,911 | | \$1,025,911 |
| Repayment to First Mortgage | (\$502,487) | | (\$502,487) | | (\$605,734) | | (\$502,487) |
| Repayment to Second Mortgage | | | | | | | |
| Principal | (\$133,667) | | (\$133,667) | | | | |
| Shared Appreciation / Fixed Interest | (\$40,738) | | (\$40,100) | | | | |
| Total Second Mortgage Due | (\$174,405) | | (\$173,767) | | | | |
| Cost of Sales | (\$92,332) | | (\$92,332) | | (\$92,332) | | (\$92,332) |
| Borrower Net Equity | \$256,687 | | \$257,325 | | \$327,845 | | \$431,092 |
| Borrower Equity Multiple | 10.9 x | | 10.9 x | | 11.9 x | | 2.7 x |
| Borrower Rate of Return (RoR) | 27.00% | | 27.00% | | 28.10% | | 10.60% |

| EXIT (YEAR 10) – Fund Impact (Second Mortgage) | | | | | | | |
|------------------------------------------------|-------------|--|--------------|--|------------|--|------------|
| Effective Annual Interest Rate | 2.70% | | 2.66% | | N/A | | N/A |
| Funds Recycled | \$174,405 | | \$173,767 | | N/A | | N/A |
| Down Payment Required for Next Borrower | (\$174,405) | | (\$174,405) | | N/A | | N/A |
| Surplus/Shortfall | \$0 | | \$638 | | N/A | | N/A |

Source

- Median priced existing single-family home in California in 2021 according to data available to the California Association of Realtors
- U.S. Census Bureau, Median Household Income in California for 2020, retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/MEHOINUSCAA646N>, June 6, 2022.
- Genworth Mortgage Insurance, Ginnie Mae, and Urban Institute. FHA rate from MBA Weekly Applications Survey. Conforming rate from Freddie Mac Primary Mortgage Market Survey. Note: Rates as of March 24, 2022.

Figure 55: Household Level Loan Calculation Upside Scenario

California Dream for All – Household Level Loan Calculation

UPSIDE SCENARIO

| KEY ASSUMPTIONS | | MORTGAGE ASSUMPTIONS ³ | | | |
|-------------------------------------------------|-----------|--------------------------------------------|------------|-----------|--|
| Property Purchase Price ¹ | \$786,275 | Amortization | 360 months | | |
| Annual Price Appreciation | 6.00% | Conforming Loan Base Rate | 4.42% | | |
| Cost of Sales | 9.00% | Annual Private Mortgage Insurance (PMI) | 0.58% | FICO 760+ | |
| California Median Household Income ² | \$77,358 | FHA Loan Base Rate | 4.40% | | |
| Down Payment Required for Next Borrower | 17.00% | Upfront Mortgage Insurance Premium (UFMIP) | 1.75% | | |
| | | Annual Mortgage Insurance Premium (MIP) | 0.85% | | |

| HOUSEHOLD OPTIONS | 1 | | 2 | | 3 | | 4 | |
|-------------------------------------------------|---------------------|----------------|-------------------|----------------|------------------|----------------|------------------|----------------|
| | Shared Appreciation | 17% | Fixed-Rate Second | 17% | FHA | Conventional | | |
| | Multiple | 1 | Simple Interest | 3.00% | Down Payment | 3.50% | Down Payment | 20.00% |
| Homebuyer Down Payment | \$23,588 | 3.00% | \$23,588 | 3.00% | \$27,520 | 3.50% | \$157,255 | 20.00% |
| 1st Mortgage Amount | \$629,020 | 80.00% | \$629,020 | 80.00% | \$758,755 | 96.50% | \$629,020 | 80.00% |
| 2nd Mortgage Amount | \$133,667 | 17.00% | \$133,667 | 17.00% | \$0 | 0.00% | \$0 | 0.00% |
| Upfront Mortgage Insurance Premium | | | | | \$13,278 | | | |
| Total Purchase Price | \$786,275 | 100.00% | \$786,275 | 100.00% | \$799,553 | 100.00% | \$786,275 | 100.00% |
| 1st Mortgage Monthly Payment | \$3,157 | | \$3,157 | | \$3,800 | | \$3,157 | |
| Mortgage Insurance Premium | \$0 | | \$0 | | \$537 | | \$0 | |
| Total 1st Mortgage Monthly Payment | \$3,157 | | \$3,157 | | \$4,337 | | \$3,157 | |
| Debt-to-Income Ratio | 43% | | 43% | | 43% | | 43% | |
| Required Household Income | \$88,111 | | \$88,111 | | \$121,033 | | \$88,111 | |
| Percent of California Median Household Income % | 114% | | 114% | | 156% | | 114% | |

| EXIT (YEAR 10) – Homebuyer Impact | | | | | | | |
|--------------------------------------|------------------|--|------------------|--|------------------|--|------------------|
| Projected Property Sales Price | \$1,328,395 | | \$1,328,395 | | \$1,328,395 | | \$1,328,395 |
| Repayment to First Mortgage | (\$502,487) | | (\$502,487) | | (\$605,734) | | (\$502,487) |
| Repayment to Second Mortgage | | | | | | | |
| Principal | (\$133,667) | | (\$133,667) | | | | |
| Shared Appreciation / Fixed Interest | (\$92,160) | | (\$40,100) | | | | |
| Total Second Mortgage Due | (\$225,827) | | (\$173,767) | | | | |
| Cost of Sales | (\$119,556) | | (\$119,556) | | (\$119,556) | | (\$119,556) |
| Borrower Net Equity | \$480,525 | | \$532,586 | | \$603,106 | | \$706,353 |
| Borrower Equity Multiple | 20.4 x | | 22.6 x | | 21.9 x | | 4.5 x |
| Borrower Rate of Return (RoR) | 35.20% | | 36.60% | | 36.20% | | 16.20% |

| EXIT (YEAR 10) – Fund Impact (Second Mortgage) | | | | | | | |
|------------------------------------------------|-------------|--|-----------------|--|------------|--|------------|
| Effective Annual Interest Rate | 5.38% | | 2.66% | | N/A | | N/A |
| Funds Recycled | \$225,827 | | \$173,767 | | N/A | | N/A |
| Down Payment Required for Next Borrower | (\$225,827) | | (\$225,827) | | N/A | | N/A |
| Surplus/Shortfall | \$0 | | \$52,060 | | N/A | | N/A |

Source

- Median priced existing single-family home in California in 2021 according to data available to the California Association of Realtors
- U.S. Census Bureau, Median Household Income in California for 2020, retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/MEHOINUSCAA646N>, June 6, 2022.
- Genworth Mortgage Insurance, Ginnie Mae, and Urban Institute. FHA rate from MBA Weekly Applications Survey. Conforming rate from Freddie Mac Primary Mortgage Market Survey. Note: Rates as of March 24, 2022.

Figure 56: Household Level Loan Calculation Downside Scenario

California Dream for All - Household Level Loan Calculation

DOWNSIDE SCENARIO

| KEY ASSUMPTIONS | | MORTGAGE ASSUMPTIONS ³ | | | |
|-------------------------------------------------|-----------|--------------------------------------------|------------|-----------|--|
| Property Purchase Price ¹ | \$786,275 | Amortization | 360 months | | |
| Annual Price Appreciation | 0.00% | Conforming Loan Base Rate | 4.42% | | |
| Cost of Sales | 9.00% | Annual Private Mortgage Insurance (PMI) | 0.58% | FICO 760+ | |
| California Median Household Income ² | \$77,358 | FHA Loan Base Rate | 4.40% | | |
| Down Payment Required for Next Borrower | 17.00% | Upfront Mortgage Insurance Premium (UFMIP) | 1.75% | | |
| | | Annual Mortgage Insurance Premium (MIP) | 0.85% | | |

| HOUSEHOLD OPTIONS | 1 | | 2 | | 3 | | 4 | |
|-------------------------------------------------|------------------------------|----------------|-----------------------------------|----------------|------------------|----------------|---------------------------|----------------|
| | Shared Appreciation Multiple | 17% | Fixed-Rate Second Simple Interest | 17% | FHA Down Payment | 3.50% | Conventional Down Payment | 20.00% |
| Homebuyer Down Payment | \$23,588 | 3.00% | \$23,588 | 3.00% | \$27,520 | 3.50% | \$157,255 | 20.00% |
| 1st Mortgage Amount | \$629,020 | 80.00% | \$629,020 | 80.00% | \$758,755 | 96.50% | \$629,020 | 80.00% |
| 2nd Mortgage Amount | \$133,667 | 17.00% | \$133,667 | 17.00% | \$0 | 0.00% | \$0 | 0.00% |
| Upfront Mortgage Insurance Premium | | | | | \$13,278 | | | |
| Total Purchase Price | \$786,275 | 100.00% | \$786,275 | 100.00% | \$799,553 | 100.00% | \$786,275 | 100.00% |
| 1st Mortgage Monthly Payment | \$3,157 | | \$3,157 | | \$3,800 | | \$3,157 | |
| Mortgage Insurance Premium | \$0 | | \$0 | | \$537 | | \$0 | |
| Total 1st Mortgage Monthly Payment | \$3,157 | | \$3,157 | | \$4,337 | | \$3,157 | |
| Debt-to-Income Ratio | 43% | | 43% | | 43% | | 43% | |
| Required Household Income | \$88,111 | | \$88,111 | | \$121,033 | | \$88,111 | |
| Percent of California Median Household Income % | 114% | | 114% | | 156% | | 114% | |

| EXIT (YEAR 10) - Homebuyer Impact | | | | | |
|--------------------------------------|-----------------|--|-----------------|------------------|------------------|
| Projected Property Sales Price | \$786,275 | | \$786,275 | \$786,275 | \$786,275 |
| Repayment to First Mortgage | (\$502,487) | | (\$502,487) | (\$605,734) | (\$502,487) |
| Repayment to Second Mortgage | | | | | |
| Principal | (\$133,667) | | (\$133,667) | | |
| Shared Appreciation / Fixed Interest | \$0 | | (\$40,100) | | |
| Total Second Mortgage Due | (\$133,667) | | (\$173,767) | \$0 | \$0 |
| Cost of Sales | (\$70,765) | | (\$70,765) | (\$70,765) | (\$70,765) |
| Borrower Net Equity | \$79,357 | | \$39,257 | \$109,777 | \$213,023 |
| Borrower Equity Multiple | 3.4 x | | 1.7 x | 4.0 x | 1.4 x |
| Borrower Rate of Return (RoR) | 12.90% | | 5.20% | 14.80% | 3.10% |

| EXIT (YEAR 10) - Fund Impact (Second Mortgage) | | | | | |
|------------------------------------------------|-------------|--|-------------------|------------|------------|
| Effective Annual Interest Rate | 0.00% | | 2.66% | N/A | N/A |
| Funds Recycled | \$133,667 | | \$173,767 | N/A | N/A |
| Down Payment Required for Next Borrower | (\$133,667) | | (\$133,667) | N/A | N/A |
| Surplus/Shortfall | \$0 | | (\$40,100) | N/A | N/A |

Source

- Median priced existing single-family home in California in 2021 according to data available to the California Association of Realtors
- U.S. Census Bureau, Median Household Income in California for 2020, retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/MEHOINUSCAA646N>, June 6, 2022.
- Genworth Mortgage Insurance, Ginnie Mae, and Urban Institute. FHA rate from MBA Weekly Applications Survey. Conforming rate from Freddie Mac Primary Mortgage Market Survey. Note: Rates as of March 24, 2022.

APPENDIX E

Analysis of Alternative Funding Options

Option 4. Blended Taxpayer Funds and Private Capital

Purpose of approach. The aim is to supplement taxpayer funds with private capital to finance SALs.

How it would work. The state agency that would oversee and administer the CA Dream for All Fund would seek to sell participation interests in the pools of SALs it is making. In the first several years, all loans would be funded by taxpayer monies. As a portfolio and track record is established, the state agency would structure and sell senior tranches to investors. The net proceeds received, together with a reduced amount of new taxpayer monies, would help fund new loans.

Security for private investors. Private investors would receive the first return from all loan repayments, including appreciation up to a specified minimum rate of return; additional repayments would be split between the CA Dream for All Fund and investors. If useful in attracting private investors, taxpayer monies could also fund a specific loss reserve fund to cover losses of principal on the loans.

Monies for new loans. Under this leveraged approach:

In years 1 through 3, new taxpayer monies would be provided for \$1 billion of SALs each year.

In years 4 through 12, the amount needed from new taxpayer monies would be reduced and used together with private capital to make loans.

After year 12, no more new taxpayer monies would be appropriated for loans. All future loans would be funded from a combination of residual repayments retained by the CA Dream for All Fund and new private equity capital.

Origination, servicing and administrative costs. As with the revolving fund approach in Option 1, the State would appropriate \$100 million per year.

Precedent. We are not aware of any precedent for this approach.

Taxpayer investment. The total taxpayer investment would be designed to be similar to that for Option 1.

Ability to raise adequate capital, feasibility and legal concerns. There are little grounds, today, to think that this option can reliably raise significant amounts of capital for the program. There also appear to be fundamental structural issues in seeking to use these two sources together in funding common pools of loans. Finally, there are significant potential risks to the State or state agency in soliciting private equity capital from multiple investors.

Ability to meet programmatic needs. Utilizing private equity capital would significantly limit who can be helped in terms of areas of the state, lower-income borrowers and those needing larger amounts of assistance. Such larger amounts of assistance run exactly counter to investors' need for early repayment of SALs.

The program would need to receive well more than pro rata appreciation in order to provide expected rates of return to the private investors, and it would thus significantly limit household wealth.

The program would have to set and enforce a fixed 30-year maturity on SALs.

The concern is therefore that a program designed to raise private investor funds would still rely heavily on taxpayer monies but would not meet key program needs.

Compatibility with Fannie Mae and Freddie Mac first mortgages. The Freddie Mac Affordable Seconds checklist attached to Section 4204 of the Freddie Mac guide specifically prohibits sharing of appreciation with for-profit entities, and discussion by CSG Advisors with Freddie Mac staff indicates they would not approve such a program. It is unclear if Fannie Mae would approve such a program.

Ongoing way to help future first-time borrowers. The high rate of return required by private investors, and their early time horizon, would significantly reduce the amount of loan repayments that can be used to make new loans. As a simple example, if the rate of home appreciation is 4.5% (similar to the statewide average for the last 40 years) and investors

require a 9% return on their investment, that would dramatically reduce the amount of appreciation available to help subsequent buyers.

Sustainable investment for the State. The amount of taxpayer funding would be designed to be sustainable, but the investors' expected rate of return would reduce the ability of the State to help future borrowers.

No future financial risk to the State. There would be no financial impact on the State from any defaults or losses on any SALs. If there are

any losses, they reduce the total amount of repayments that can be used to make loans to future buyers.

Leverage taxpayer monies with non-taxpayer monies to expand the number of borrowers ultimately served. The total number of borrowers ultimately served is likely to be less than that of Option 1, given the rate of return needed for private investors.



Option 5. Private Fund with Significant State Investment

Purpose of approach. Taxpayer monies would pay a portion of the purchase price of those loans originated by a private fund which meet CA Dream for All program requirements. The aim is to make it possible for the private fund to provide deeper assistance (e.g., a larger SAL) than it otherwise would if it were operating solely with private capital.

How it would work. The State would enter into a leveraging agreement with a private fund that originates SALs and is raising private capital. State would fund a portion of the loan amount for loans that meet CA Dream for All program requirements.

Consider a fintech company that has a program for California essential professionals, many of whom might meet CA Dream for All program's income limits, but need deeper assistance than the amount that private capital can profitably lend (say 10% of the home purchase price, in return for 25% of the appreciation). Such borrowers might receive additional resources (say another 7%) from taxpayer funds on which they only pay pro rata appreciation.

Security for private investors. Private investors would receive the first return from all loan repayments, including appreciation up to a specified minimum rate of return. Additional repayments would be allocated between the fund manager, the private investors and the State (which would reinvest monies it receives in a subsequent tranche of new loans).

Monies for new loans. Loans would be originated by the private fund. The State would provide funds for a specified portion of those loans that meet CA Dream for All program requirements, up to a maximum annual amount of taxpayer funding.

Origination, servicing and administrative costs. These are incurred by and paid by the sponsoring entity.

Precedent. We are not aware of any precedent for this approach.

Taxpayer investment. The total taxpayer investment is likely to be much smaller than in Option 1, simply because the number of loans would likely be quite small, given the difficulties in raising private capital.

Ability to raise adequate capital, feasibility and legal concerns. There are little grounds,

today, to think that this option can reliably raise significant amounts of private capital. There also appear to be fundamental structural issues in seeking to use these two sources together in funding common pools of loans. Finally, while the purpose of the State investment is to help lower-income and other borrowers who need a larger SAL than would be funded by private capital, the use of State funds to make a larger loan would significantly lengthen the expected prepayment. Therefore, it is unlikely that State and private funds could be used together.

Ability to meet programmatic needs. Private equity capital would significantly limit who can be helped, in terms of areas of the state and those needing deeper assistance. Borrowers would pay for more than pro rata appreciation given the private capital utilized. The program would have to set and enforce a fixed 30-year maturity on SALs.

Compatibility with Fannie Mae and Freddie Mac first mortgages. Freddie Mac would not approve such a program, as it specifically prohibits sharing of appreciation with for-profit entities. If the sponsoring entity has a waiver from Fannie Mae rules, it could use that for loans made with taxpayer monies as well as private capital.

Ongoing way to help future first-time buyers. Return on the State's investment would be highly limited and would unlikely be relied on for making new loans. Rather, the State would need to continue to use General Fund monies to purchase its participations in subsequent pools of loans.

Sustainable investment for the State. The amount of taxpayer funding would be designed to be sustainable, but there would be limited return on the State's investment or its ability to help subsequent borrowers.

No future financial risk to the State. There would be no financial impact on the State from any defaults or losses on any SALs. If there are any losses, they reduce the total amount of repayments that can be used to make loans to future buyers.

Leverage taxpayer monies with non-taxpayer monies to expand the number of borrowers ultimately served. Total number of borrowers ultimately served is likely to be less than that of Option 1, given the rate of return needed for private investors.

Option 6. Private Funds with Limited, Indirect State Investment

Purpose of approach. Taxpayer monies, without funding any SALs, would be used to support private shared appreciation lending, so that such lending could help the borrowers that the CA Dream for All program is intended to assist.

How it would work. The State would incentivize private SALs for those borrowers who meet CA Dream for All program income and first-time buyer requirements. It would enter into an agreement with the private shared appreciation entity (fintech, investment bank, hedge fund etc.) under which it provides specified benefits with respect to the amount of loans that meet CA Dream for All program requirements (“eligible loans”). In addition to borrower eligibility, the agreement would specify that the loan’s share of appreciation not exceed a certain ratio (such as 2.5 times its share of the purchase price).

These benefits could include:

- Payment/reimbursement of a portion of loan origination, administration or servicing costs (most easily paid as a single up-front payment with respect to the eligible loans made in a given month or quarter);
- A loan loss reserve fund that would cover the first (say 5%) loss on any eligible loan; or
- Tax benefits such as relief to investors from state capital gains tax on the percentage of its investment that was made for eligible loans.

Private shared appreciation entities would raise all monies for all SALs. They would make and service eligible loans in the same way and under the same standards by which it makes other SALs.

Precedent. We are not aware of any precedent for this overall approach. With respect to taxation, New York State provides a business income tax credit to servicers of first-time homebuyer mortgages made by the state housing finance agency.²⁴³ There are many examples of loan loss reserve funds established by local and state governments for second mortgage housing rehabilitation loans.

Taxpayer investment. The total taxpayer investment is limited to the benefits provided under such agreements.

Ability to raise adequate capital. The total amount of private capital raised for shared appreciation lending has been very limited. This ability is unlikely to be significantly affected by State incentives for a subset of such loans.

Ability to meet programmatic needs. Reliance on private equity capital significantly limits who can be helped, in terms of areas of the state, lower-income borrowers and those needing deeper assistance. Borrowers would pay 2.5 times pro rata appreciation, affecting their ability to build household wealth. There would be a fixed 30-year maturity on loans, and, as at present with private shared appreciation lending, concerted servicing efforts to encourage early repayment of loans.

Compatibility with Fannie Mae and Freddie Mac first mortgages. Private shared appreciation loans cannot be used with Freddie Mac first mortgages. If the sponsoring entity has a waiver from Fannie Mae rules, it could use that for eligible loans as well as its broader portfolio of SALs in general.

Ongoing way to help future first-time buyers. Under this approach, the State provides benefits for each year’s new eligible loans. The State does not receive any repayments for its benefits, and there is no need for revolving any funds. Loan repayments are used to pay private investors.

Sustainable investment for the State. The amount of taxpayer funding would be designed to be sustainable, taking into account both out-of-pocket costs and tax benefits.

No future financial risk to the State. There would be no financial impact on the General Fund from any defaults or losses on any SALs. If the State were to provide a first loss reserve on eligible loans, actual losses would diminish that reserve. They reduce the total amount of repayments that can be used to make loans to future buyers.

Leverage taxpayer monies with non-taxpayer monies to expand the number of borrowers ultimately served. The total number of eligible borrowers is likely to be modest compared to a State revolving fund (Option 1). Many of those might be ones who would have received the same SAL with or without the State incentives.

243 “Servicing Mortgages Credit.” New York State Department of Taxation and Finance. https://www.tax.ny.gov/bus/ct/service_mortgage_credit.htm

APPENDIX F

Detailed Financial Comparison of Shared Appreciation vs. Fixed Interest Second Loans

Borrower's Repayment Obligation.

Before modeling the cumulative effects on the CA Dream for All program as a whole based on these two different lending approaches, it is important to understand the key differences for the borrower between shared appreciation and a fixed interest rate.

With shared appreciation, the borrower repays the original principal amount of the CA Dream for All loan (say \$130,000 on a \$650,000 home purchase) plus a pro rata share of the gain. If the home is resold in 10 years with no increase in value after sales costs, then a shared appreciation borrower repays only the \$130,000 principal of the CA Dream for All loan, since there has been no gain.

With a fixed interest rate loan, the borrower has to pay *the same amount* of accrued interest at the loan rate regardless of what happens to the value of the home. The interest that accrues each year is “hard,” meaning that it is due regardless of what happens to the value of the home. If the home resells for \$650,000 with no increase in value, the borrower has to repay both the \$130,000 principal plus the \$39,000 of interest accrued over 10 years, and would thus owe a total of \$169,000. Since the home did not increase in value, the borrower’s household wealth would be reduced by \$39,000, which is double the amount of the typical 3% down payment for the purchase of the home.

If home prices rise dramatically, on the other hand, a borrower with a fixed interest loan still only pays back the same \$39,000 in interest while receiving all the appreciation on the home. A borrower with a SAL owes the same share of appreciation on the home, whether that appreciation was small or large.

Comparing Impacts at the Individual Loan Level.

Figure 57 shows how this works under various home price rise situations for borrowers who receive either shared appreciation or fixed interest rate loans and resell their home at the end of 10 years.

What stands out from this simple set of examples is that a fixed interest rate loan creates two types of risks not present with shared appreciation.

Risk to borrower. If a home does not increase in value, the borrower still owes the accrued interest on a fixed rate loan. As proposed for a CA Dream for All SAL, even the recovery of the principal of the loan (e.g., the \$130,000) would be subordinate to the borrower recovering their original down payment. This provides significantly more risk protection to the borrower than with a fixed rate loan.

Risk to helping future borrowers. With a SAL, whatever happens to the rate at which homes go up in value, the CA Dream for All Fund has sufficient monies to help a similar new buyer purchase an equivalent home. With a fixed rate loan, if home prices rise more than the fixed rate, the CA Dream for All Fund does not have enough monies to help the next borrower.

Nature of these risks. These two risks are inherent to CA Dream for All Fund investing in fixed rate loans. If appreciation turns out to be less than the fixed rate, the low- or moderate-income borrower loses money, compared to shared appreciation. If appreciation turns out to be more than the fixed rate, the CA Dream for All Fund does not have enough to help the next buyer purchase a similar home. As shown in figure 58, these potential problems cannot be solved by setting a high fixed interest rate.

Figure 57: Impact of Individual Average CA Dream for All Loan of \$130,000

| | 0% home price rise | | 3% home price rise | | 4.5% home price rise | | 6% home price rise | |
|------------------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|----------------------|--------------------|--------------------|--------------------|
| | Fixed interest | Shared Apprec'n | Fixed interest | Shared Apprec'n | Fixed interest | Shared Apprec'n | Fixed interest | Shared Apprec'n |
| Original price | 650,000 | 650,000 | 650,000 | 650,000 | 650,000 | 650,000 | 650,000 | 650,000 |
| Resale price | 650,000 | 650,000 | 874,000 | 874,000 | 1,009,000 | 1,009,000 | 1,164,000 | 1,164,000 |
| Total gain | 0 | 0 | 224,000 | 224,000 | 359,000 | 359,000 | 514,000 | 514,000 |
| Repay to CA Dream for All Principal | 130,000 | 130,000 | 130,000 | 130,000 | 130,000 | 130,000 | 130,000 | 130,000 |
| Int / Apprec'n | 39,000 | 0 | 39,000 | 44,800 | 39,000 | 71,800 | 39,000 | 102,800 |
| Total due | 169,000 | 130,000 | 169,000 | 174,800 | 169,000 | 201,800 | 169,000 | 232,800 |
| Impact on borrower's household wealth | -39,000 | 0 | 185,000 | 179,200 | 320,000 | 287,200 | 475,000 | 411,000 |
| Multiple of borrower's down payment | -2x | 0x | 9.5x | 9.2x | 16.4x | 14.7x | 24.3x | 21.1x |
| Amount needed for CA Dream for All to help next borrower buy equivalent home | 130,000 | 130,000 | 174,800 | 174,800 | 201,800 | 201,800 | 232,800 | 232,800 |
| Surplus or shortfall to fund next loan | 39,000 | All funds required | -5,800 | All funds required | -32,800 | All funds required | -63,800 | All funds required |

Figure 58: Impact of Individual Loan Fixed interest at 3% and at 5% vs. Shared Appreciation

| | 0% home price rise | | | 6.0% home price rise | | |
|------------------------------------------------------------------------------|----------------------|----------------------|--------------------|----------------------|----------------------|--------------------|
| | Fixed interest at 3% | Fixed interest at 5% | Shared Apprec'n | Fixed interest at 3% | Fixed interest at 5% | Shared Apprec'n |
| Original price | 650,000 | 650,000 | 650,000 | 650,000 | 650,000 | 650,000 |
| Resale price | 650,000 | 650,000 | 650,000 | 1,164,000 | 1,164,000 | 1,164,000 |
| Total gain | 0 | 0 | 0 | 514,000 | 514,000 | 514,000 |
| Repay to CA Dream for All Principal | 130,000 | 130,000 | 130,000 | 130,000 | 130,000 | 130,000 |
| Int / Apprec'n | 39,000 | 65,000 | 0 | 39,000 | 65,000 | 102,800 |
| Total due | 169,000 | 195,000 | 130,000 | 169,000 | 195,000 | 232,800 |
| Impact on borrower's household wealth | -39,000 | -65,000 | 0 | 475,000 | 449,000 | 411,000 |
| Multiple of borrower's downpayment of \$19,500 | -2.0x | -3.3x | 0x | 24.3x | 23.0x | 21.1x |
| Funds repaid to CA Dream for All | 169,000 | 195,000 | 130,000 | 169,000 | 195,000 | 195,000 |
| Amount needed for CA Dream for All to help next borrower buy equivalent home | 130,000 | 130,000 | 130,000 | 232,800 | 232,800 | 232,800 |
| Surplus or shortfall to fund next loan | + 39,000 | +65,000 | All funds required | -63,800 | -37,800 | All funds required |

If the rate is set at 5%, then:

- If home prices are flat, the borrower owes far more accrued interest and risks losing four times their original down payment.
- If home prices increase at 6% per year, the CA Dream for All Fund is still short in helping the next borrower.

In essence, an accruing fixed rate second loan creates a greater upside and a greater downside

for the borrower, and makes it much more difficult for the State's investment in the CA Dream for All program to keep pace with inflation. This is especially visible when home prices increase as they have by about 40% in the last two years. A shared appreciation investment would increase in value to help future buyers; a fixed rate investment—whether at 3% or 5%—would not, meaning the CA Dream for All program could help fewer and fewer buyers with each passing year.

Overall Impact of Fixed Interest vs. Shared Appreciation on CA Dream for All's Ability to Help Borrowers

Having seen how fixed interest compares with shared appreciation on the same initial \$130,000 investment by the CA Dream for All Fund, we can now look at the cumulative impact on the Fund itself and its ability to assist borrowers.

Time horizon. For helping borrowers overall, the differences between the fixed interest rate and shared appreciation approaches emerge over time.

The differences occur, not when loans are initially made, but as they are repaid with different

amounts due back to the CA Dream for All Fund, and the CA Dream for All Fund then uses those repayments to help subsequent buyers. In the first year, the two approaches by definition help an identical number of borrowers; it is the different payoff amounts over time that show what happens to the total number of borrowers helped and to their household wealth.

Figure 59 shows, in the expected case, the impacts of loans made through year 40 (30 years after the 10 years of state funding of initial loans) to see what happens to the CA Dream for All program's ability to help borrowers as loans are repaid.

Figure 59: Overall Impact of Shared Appreciation and Fixed Interest Over 40 Years: Expected Case

| | Shared Appreciation | Fixed Simple Interest at 3% |
|-------------------------------------------------------------------------------|----------------------------------|----------------------------------|
| Taxpayer Funding | | |
| For loans | \$10.0 billion | \$10.0 billion |
| For administration, origination, counseling and servicing costs for 40 years | 4.1 | 4.1 |
| Total taxpayer funding over 40 years | 14.1 | 14.1 |
| <i>Present value at 3.0%</i> | <i>10.8</i> | <i>10.8</i> |
| CA Dream for All Loan Originations | | |
| Borrowers assisted over 40 years | 157,200 | 124,800 |
| \$ price of homes purchased | \$238 billion | \$163 billion |
| Loans to borrowers | \$47.6 billion | \$32.6 billion |
| <i>Present value at 3.0%</i> | <i>25.3</i> | <i>19.2</i> |
| Borrower Share of Home Appreciation Through Year 40 | | |
| Borrower share of appreciation through year 40 | \$133.8 billion | \$120.6 billion |
| <i>Present value at 3.0%</i> | <i>64.2</i> | <i>60.8</i> |
| \$ price of homes purchased | \$238 billion | \$163 billion |
| Loans to borrowers | \$47.6 billion | \$32.6 billion |
| <i>Present value at 3.0%</i> | <i>25.3</i> | <i>19.2</i> |
| Borrower share of home appreciation thru year 40 | \$133.8 billion | \$120.6 billion |
| <i>Present value at 3.0%</i> | <i>64.2</i> | <i>60.8</i> |
| Overall Impact | | |
| Residual value of program receipts after year 40 to help subsequent borrowers | \$35.8 billion | \$7.6 billion |
| <i>Present value at 3.0%</i> | <i>\$7.5</i> | <i>\$1.7</i> |
| Net cost to State for 40 years of program | $10.8 - 7.5 =$ | $10.8 - 1.7 =$ |
| <i>Present value at 3.0%</i> | <i>\$3.3 bill.</i> | <i>\$9.1 bill.</i> |
| Net cost to State for investing with borrowers | | |
| Borrower share of appreciation / net cost to State | $\$64.2 / 3.3 \text{ billion} =$ | $\$60.8 / 9.1 \text{ billion} =$ |
| Each present value at 3.0% | 19.5 x | 6.7 x |

Borrowers assisted through year 40. In the expected case, shared appreciation helps considerably more borrowers and provides greater assistance than fixed rate seconds. SALs would help 157,200 borrowers compared to 124,800 with fixed interest loans, and would help them buy \$238 billion of homes compared to \$163 billion.

In the more conservative case (Figure 61 below), the shared appreciation approach helps more borrowers and provides greater assistance than fixed rate seconds, but the difference is less marked. SALs would help 144,000 borrowers compared to 134,000 with fixed interest loans and help them buy \$157 billion of homes compared to \$141 billion. These smaller differentials reflect the fact that, in the more conservative case, the fixed interest rate is much closer to the appreciation rate.

One perhaps surprising finding is that **the higher the appreciation, the fewer the borrowers a fixed interest program can help.** A fixed interest program would help 134,000 in the more conservative case and 125,000 in the expected case. This is because the fixed interest the Fund receives back is the same in the more conservative and expected cases, but the cost of buying a subsequent home in the expected case

is much greater. A shared appreciation program, by contrast, is able to help **more** borrowers in the expected case than in the more conservative case.

Borrower appreciation through year 40.

The direct impact on household wealth generated through a given time horizon, such as 40 years, consists of (a) the household wealth of borrowers who will have paid off their loans by that date (e.g., their gain after paying the program its fixed interest or share of appreciation) and (b) the accreted wealth of borrowers who have outstanding loans on that date (e.g., what their homes are projected to be worth on that date less the accrued fixed interest or what CA Dream for All Fund's share of appreciation would be as of that date).

In the expected case, shared appreciation generates significantly greater total household wealth during this time period than fixed interest—\$134 billion versus \$121 billion, or about 11% more. This reflects the much greater number of borrowers that a shared appreciation program helps.

In the more conservative case (where home appreciation is very similar to the fixed interest rate), there is no difference in total household wealth through the 40 year date.

Figure 60: Overall Impact of Shared Appreciation and Fixed Interest Over 40 Years: More Conservative Case

| | Shared Appreciation | Fixed Simple Interest at 3% |
|-------------------------------------------------------------------------------|--------------------------|-----------------------------|
| Taxpayer Funding | | |
| For loans | \$10.0 billion | \$10.0 billion |
| For administration, origination, counseling and servicing costs for 40 years | 4.1 | 4.1 |
| Total taxpayer funding over 40 years | 14.1 | 14.1 |
| Present value at 3.0% | 10.8 | 10.8 |
| CA Dream for All Loan Originations | | |
| Borrowers assisted over 40 years | 144,000 | 133,900 |
| \$ price of homes purchased | \$157 billion | \$141 billion |
| Loans to borrowers | \$31.4 billion | \$28.2 billion |
| Present value at 3.0% | 18.1 | 16.9 |
| Borrower Share of Home Appreciation Through Year 40 | | |
| Borrower share of appreciation thru year 40 | \$61.8 billion | \$61.8 billion |
| Present value at 3.0% | 31.2 | 31.6 |
| Overall Impact | | |
| Residual value of program receipts after year 40 to help subsequent borrowers | \$13.0 billion | \$7.5 billion |
| Present value at 3.0% | \$2.7 | \$1.6 |
| Net cost to State for 40 years of program | \$10.8 - \$2.7 billion = | \$10.8 - 1.6 billion = |
| Present value at 3.0% | \$8.1 billion | \$9.2 billion |
| Net cost to State for investing with borrowers | | |
| Borrower Share of Appreciation / Net cost to State | 31.2 / 81 billion = | 31.6 / 9.2 billion = |
| Each present value at 3.0% | 3.9 x | 3.4 x |

Beyond the borrower appreciation generated through this time horizon, there is a major difference in the ability of CA Dream for All Fund to continue helping borrowers

Resources to help additional borrowers. A shared appreciation program creates far more accrued public resources to help subsequent buyers generate household wealth. The amount of accrued interest or shared appreciation accrued by the Fund at the end of 40 years is a cost to current borrowers—but it is also a resource for helping future first-time buyers.

In the expected case, a shared appreciation program will generate five times more resources from repayments after year 40 to help future buyers than a fixed interest program (\$35.8 billion versus \$7.6 billion). In the more conservative case, shared appreciation will accrue two times more resources than a fixed interest program.

Why is this important? Whether the State charges fixed interest or shared appreciation, investing alongside borrowers generates a much larger amount of household wealth than the amount of state dollars invested. On a present value basis, the \$10 billion initially invested in program loans generates about six times that amount of borrower household wealth over 40 years in the expected case or about three times that amount of borrower household wealth in the more conservative case.

Therefore, the amount due back to the Fund from loans that are outstanding in year 40 is very significant: those monies helps the State assist many more subsequent borrowers generate household wealth **thereafter**.

In a shared appreciation approach, the amount of this residual is five times greater than in the fixed interest approach. In the conservative case, the shared appreciation residual is two times greater than with fixed interest.

This residual impact can be viewed in two different ways:

Efficiency of State investment in generating household wealth. One way is to picture the Fund not making new loans after year 40, but rather paying back to the State what the Fund receives from outstanding loans. The net effect can be considered on a present value basis, as shown in Figure 57 of the body of the report.

Fund continuing to make new loans.

Alternatively, one can picture the program continuing after 40 years and making new loans, and compare the household wealth generated under shared appreciation versus fixed interest.

The following charts show the effect on borrower appreciation of the Fund continuing to make loans through year 60. In the expected case, the cumulative impact on borrower appreciation is far greater with shared appreciation. In the more conservative case, there is little difference.



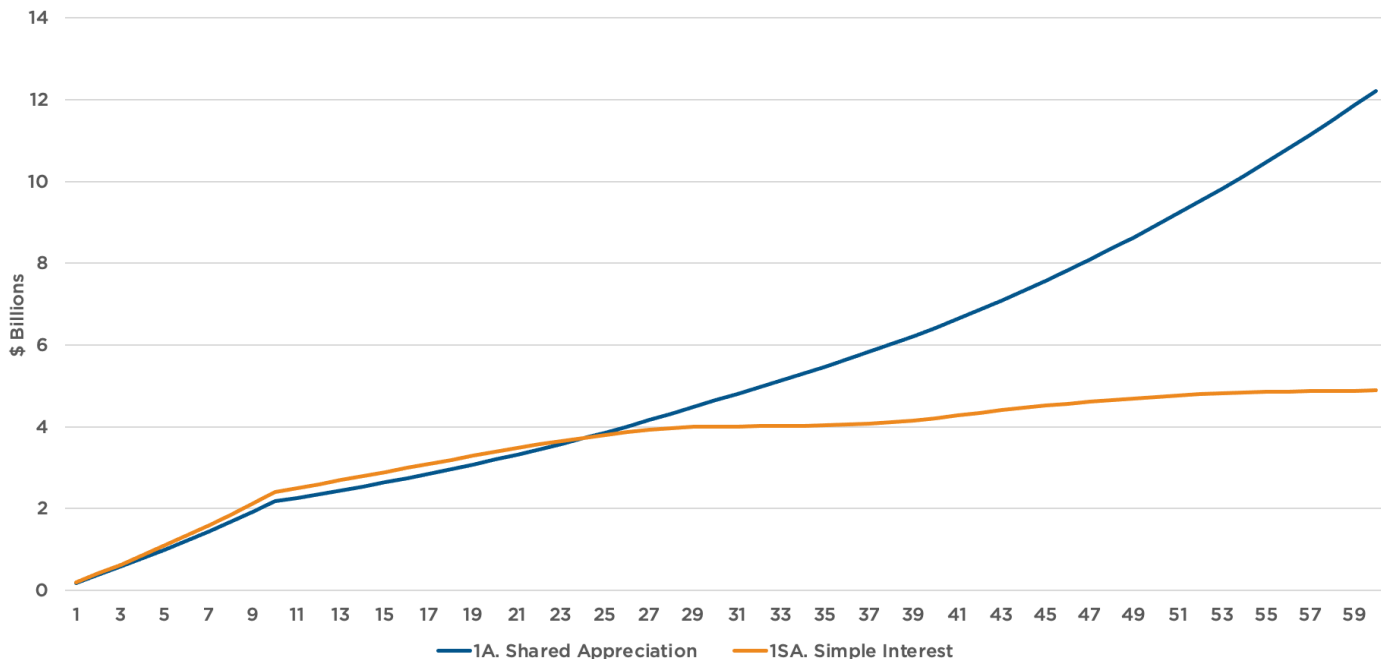
Figure 61: Borrower Share of Home Price Appreciation Expected Case

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Borrower Share of Home Price Appreciation (net of second mortgage shared appreciation or simple interest obligation)

EXPECTED CASE

Annual



Cumulative

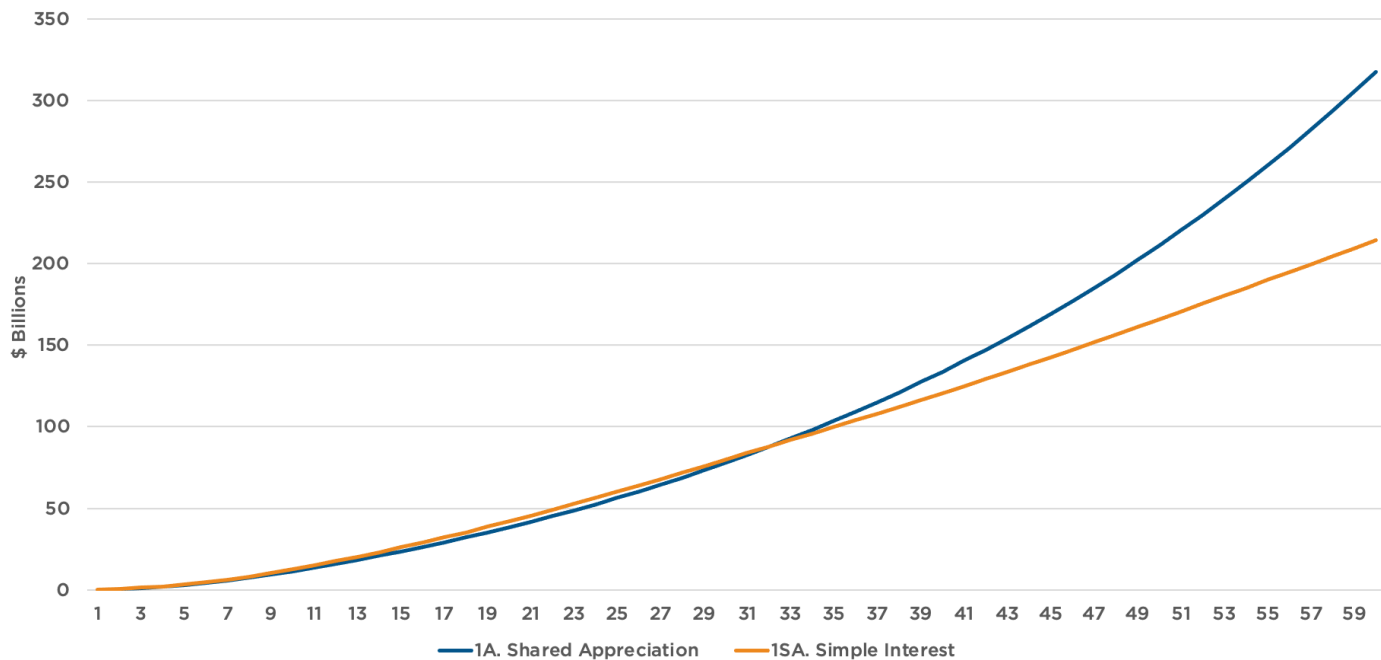


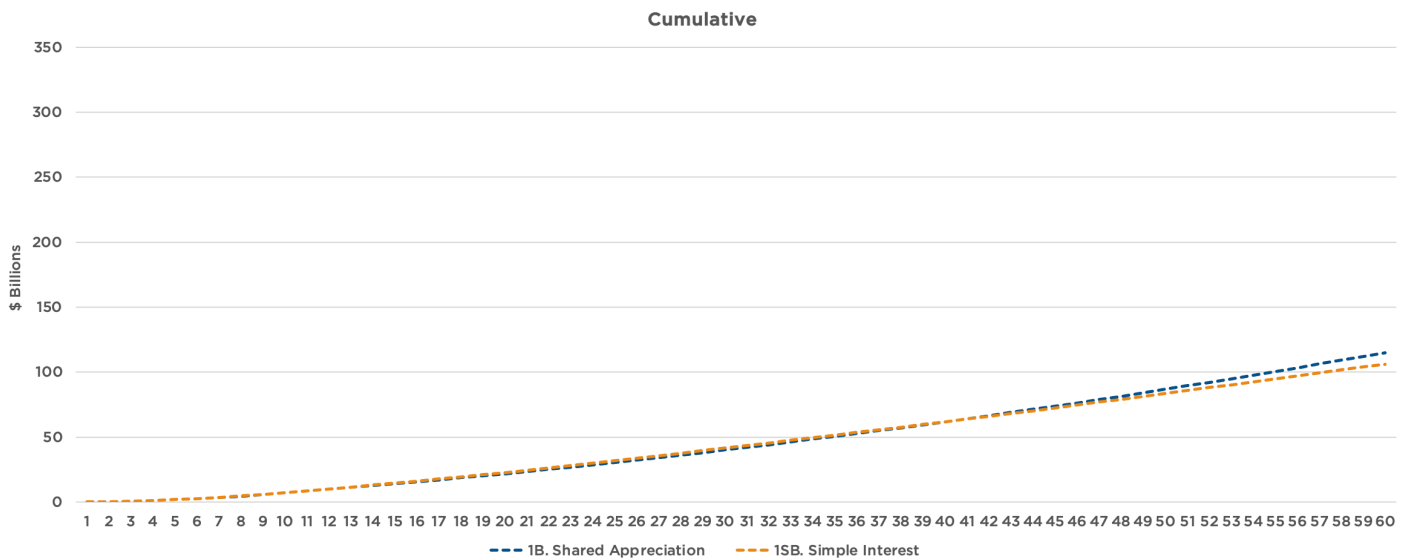
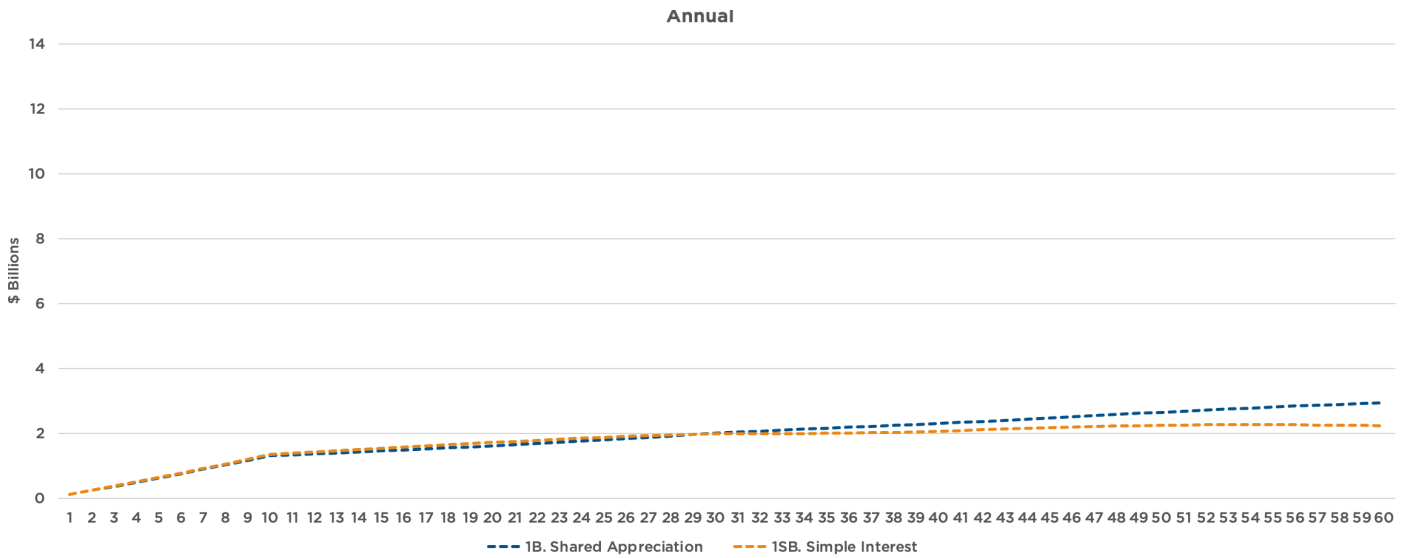
Figure 62: Borrower Share of Home Price Appreciation Conservative Case

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Borrower Share of Home Price Appreciation

(net of second mortgage shared appreciation or simple interest obligation)

MORE CONSERVATIVE CASE



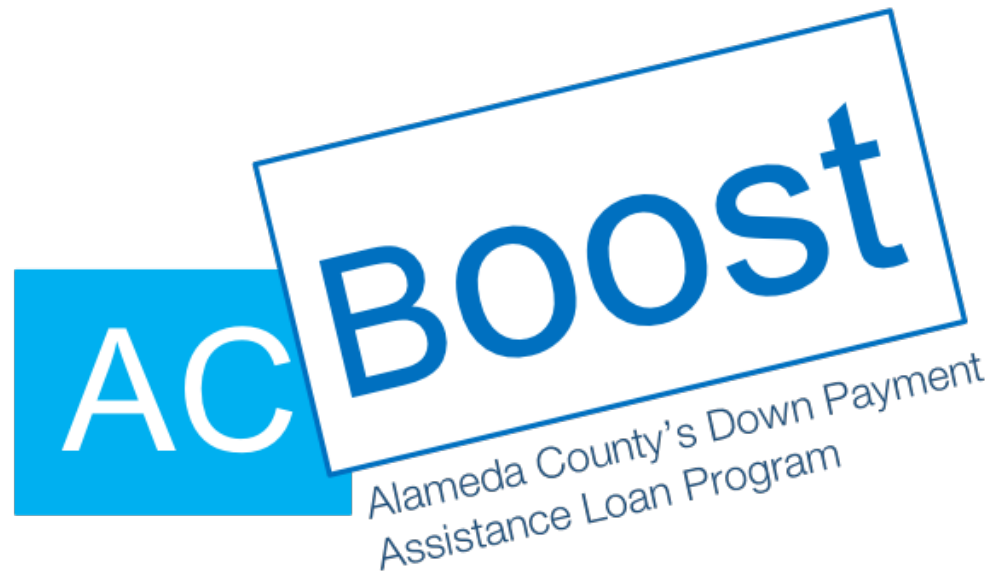


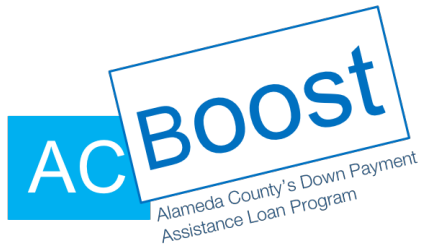


Measure A1 Oversight Committee Presentation

Measure A1 Down Payment Assistance Loan Program

March 24, 2022

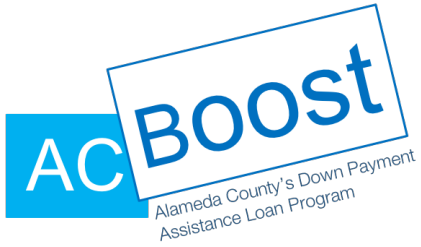




Original Program Framework

The Alameda County Board of Supervisors adopted a policy framework in 2018 which drove the Program Design. The program was designed to:

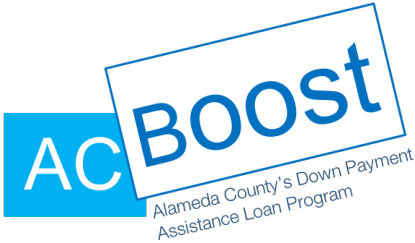
- Assist **First Time Home Buyers** to purchase homes in Alameda County
- Serve households earning **≤120% AMI** (with ability to go up to 150% AMI)
- Include design features that:
 - encourage Alameda County residents to **purchase homes near work or transit** that takes them to work.
 - benefit former Alameda County residents that have been **displaced**.
 - benefit **educators** and **first responders** so they may live in the communities in which they work.
- Loan to be structured as a **shared appreciation, silent second mortgage**.



Equity-Centered Policies

Included in the original program design:

- Tiered levels of assistance based on household income and market-based need
- Multilingual outreach and interpretation services
- Shared appreciation loan to balance wealth-building for individuals with long-term program sustainability
- Robust race data collection throughout the process.

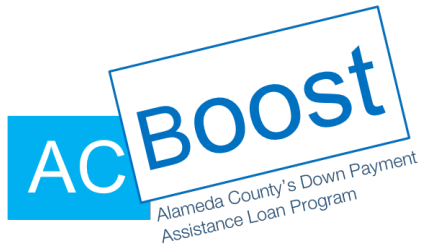


Measure A1 Funding at Work
 Program launched March 2019;
 Outcome Data as of March 2022

Measure A1 – Down Payment Assistance Loan Program
 AC Boost – \$50 million of the total \$580 million in Measure A1

| | | | |
|------------------|--------------------------|---|---------------------------------|
| Closed Loans: | 41.9% in 36 months | } | \$11.41 million (86 homebuyers) |
| Funds Reserved: | | | \$7.43 million (38 applicants) |
| Funds Remaining: | | | \$26.16 million* |

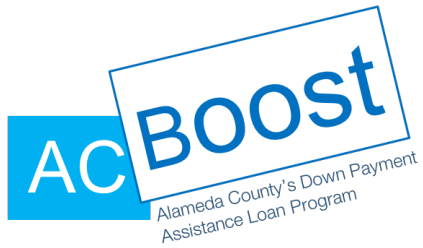
*Expect remaining funds to be spent within the next three to four years



Funding Cycle 2 Update

Significant policy changes were approved by the Board of Supervisors in April 2021

- Increased loan amounts – up to \$160k or \$210k
- Reduction in required cash to close
- 1.5% Seasoned Funds no longer required
- Layering with other subordinate loan programs allowed, if approved in advance by the County
- Front-end ratio minimum of 25% waived for Section 8 homeownership voucher recipients



Funding Cycle 2 Update

The 2nd Pre-Application Period opened from July 15th-August 30th, 2021.

6,081 Pre-applications received (*2,294 during funding cycle #1*)

1,000 attendees joined the virtual public lottery held on September 17th, 2021

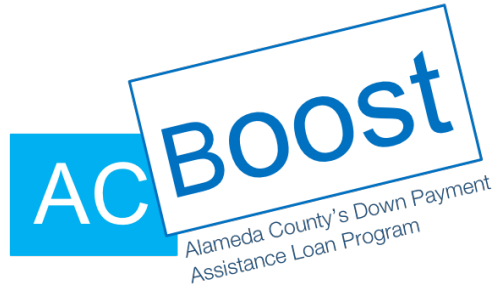
306 applicants have attended the 5 application workshops we have held to date.

86 full applications have been submitted for underwriting.

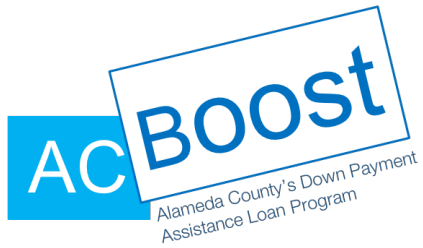
36 applicants have been approved for a Reservation of Funds to date

8 applicants are currently in contract to purchase a home.

2 Loans have closed



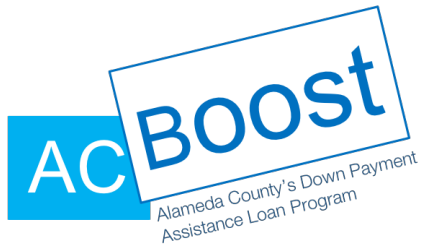
Policy Changes in Funding Cycle #2



Funding Cycle 1 Analysis

Analysis performed with a goal of increasing the success rates for BIPOC households in Funding Cycle 2.

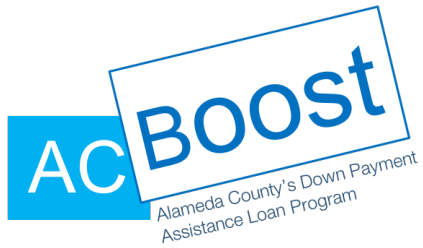
- Reviewed race data collected at key milestone of the initial Pre-Application.
 - The data suggested that marketing and outreach strategies were highly effective in reaching Black, Asian and Multi-Racial households, with room for improvement for reaching Latinx, American Indian and Pacific Islander households.
 - The data showed significant attrition for Black and Latinx households between attending a workshop and submitting a Full Application.
- Administered Survey to households who attended a workshop but did not submit a Full Application.
- Updated research into the racial wealth gap, disparities in homeownership rates by race, and potential policy solutions.
- Updated analysis of countywide home values, home supply, and necessary loan sizing to ensure AC Boost buyers have access to higher-opportunity neighborhoods.



Changes to Policy

1. Reduction in the amount of cash savings households need to contribute in order to participate in the program.

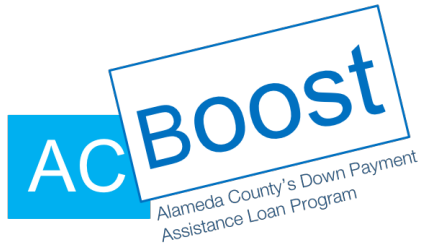
- *The maximum combined loan-to-value (“CLTV”) increased from 97% to 100% to reduce the Buyer’s cash-to-close requirements. The required down payment can now range from 0-3% based on need.*
- *Seasoned funds are no longer required.*
- *The Buyer’s contribution is required to cover closing costs which can come from gift funds, grants, lender credits and/or seller credits.*
- ✓ So far, 6 households have purchased homes with 0% down payment.



Changes to Policy

2. Increase in the total down payment assistance available to help low- and moderate-income buyers find success.

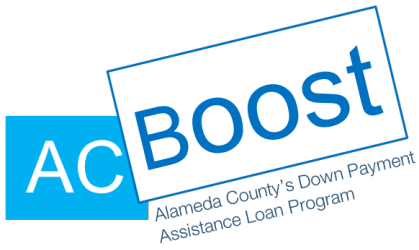
- *Maximum AC Boost loan amount increased from \$100K to \$160K for households earning less than 120%*
 - *Maximum AC Boost loan amount increased \$150K to \$210K for households earning less than 100%*
 - *AC Boost is now allowed to layer with other subordinate down payment assistance programs*
- ✓ So far, 9 households have purchased homes with the higher loan amounts.
 - ✓ The program can now be layered with the WISH and NeighborhoodLIFT down payment assistance loan programs and any grant programs.



Changes to Policy

3. Modification to income ratio requirements to ensure AC Boost can help Section 8 homeownership voucher holders find success in Alameda County.

- Waive AC Boost's 25% front-end ratio requirement for buyers who are Section 8 homeownership voucher recipients.
- ✓ In an effort to increase Section 8 voucher participation, Hello Housing has engaged with the Participating Lender List to identify lenders that are able to provide loans to Section 8 homeownership voucher
- ✓ Hello Housing is reaching out to Homebuying Counseling agencies to ensure any Section 8 Applicants can receive support with additional lender requirements.



Changes to Process in Funding Cycle 2

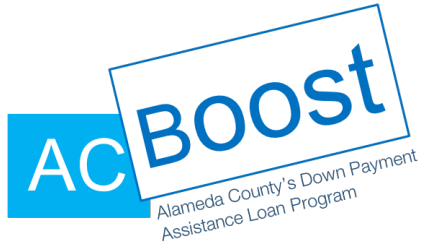
1. Increase marketing & outreach to Latinx, American Indian and Pacific Islander buyers.

Hello Housing engaged in targeted outreach to get the word out about the Pre-Application period for Funding Cycle #2 to more Latinx, American Indian and Pacific Islander households.

- ✓ Public health, community service, and faith-based organizations that primarily serve these communities
- ✓ Presented at an event hosted by the National Association of Hispanic Real Estate Professionals
- ✓ Program Interview with KSTS Telemundo 48 Bay Area and KDTV Univision 14 in Spanish for their viewers.

2. Provide applicants with more time and more support to complete their application.

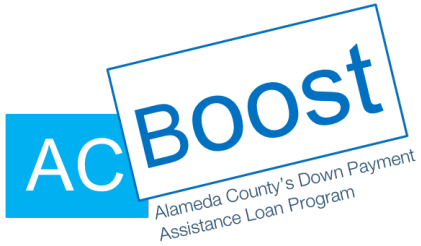
- ✓ Application period was increased from 3 weeks to 4 weeks.
- ✓ Applicants receive a link to set up one-on-one appointments to speak with program staff directly after the application workshops.



Changes to Process in Funding Cycle 2

3. Provide more support to applicants when choosing a Participating Lender.
 - ✓ Applicants now receive a Lender Outreach Guide and Checklist after the application workshop.
 - ✓ Hello Housing identified Participating Lenders who offer loans to ITIN holders and listed this information on the AC Boost website.
 - ✓ Are collecting information from lenders about their available grant programs
 - ✓ Identifying lenders with Section 8 homeowner voucher experience and loan underwriting ability. This information will be listed on the website once complete.

4. Update the marketing and outreach plan to reflect the impact of COVID on outreach practices.
 - ✓ Hello Housing engaged in a robust social media marketing strategy, which had a sizable impact on the number of pre-applications received (6,081 as compared to 2,294 in the first Funding Cycle).



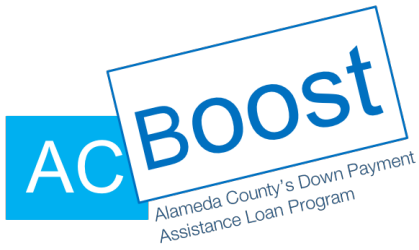
Changes to Process in Funding Cycle 2

5. Continue, post-pandemic, to offer workshops by Zoom to accommodate the schedules of a diverse applicant pool and to minimize childcare-related barriers.

- ✓ All application workshops are now held on Zoom. If applicants can't attend, they are allowed to reschedule to the following workshop date.

6. Provide approved buyers with additional time to get into a contract for a home.

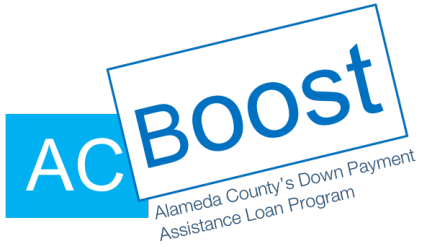
- ✓ Reservation of Funds period was increased from 90 days to 120 days.



Changes to Process in Funding Cycle 2

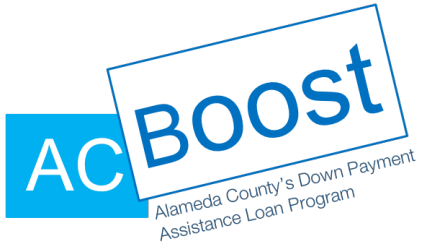
7. Increase awareness about program requirements such as potential buyer down payment, closing costs, debt-to-income ratio, lender pre-approval, supporting documents required, etc. sooner in the process.

- ✓ Hosted 2 Community Roundtable meetings via Zoom during the Pre-Application period, where any interested community members could join to learn about buying a home and how to apply.
- ✓ Links to informational resources were added to the Pre-Application submission auto-responses and the lottery position notification emails, including:
 - Consumer Financial Bureau's Home Loan Toolkit
 - 1-page infographic on the AC Boost application process (in 5 languages)
 - List of application required supporting documents
 - List of homebuyer counseling agencies
 - Participating Lender List



Changes to Process in Funding Cycle 2

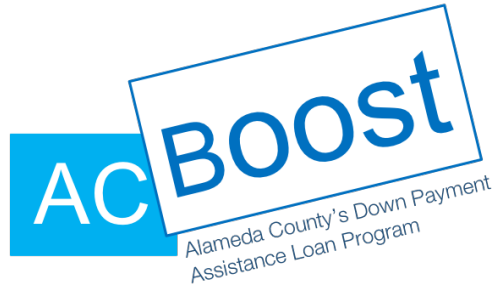
8. Increase transparency/accessibility of information about the program online.
 - ✓ Posted the current status of lottery positions that have been invited to apply to-date, which is available from the home page - www.acboost.org/lottery-position-status.
 - ✓ Recording of the lottery was posted to the home page of program website - www.acboost.org.



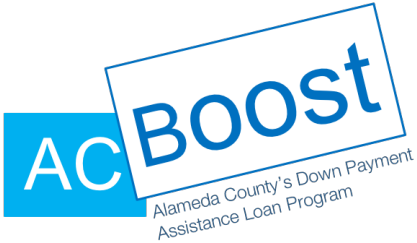
Affirmative Marketing Strategies

Key marketing strategies included:

- Outreach to organizations and public agencies with close ties to communities that include underrepresented homebuyers.
- Partnering with Alameda County to push information through their social media channels which included NextDoor, Twitter, and Facebook.
- Working with diverse realtors, lenders and housing counseling agencies that serve underrepresented homebuyers.
- Working with “connector” individuals and presenting at meetings to encourage meeting participants to become champions of the program.
- Media advertising based on audience demographics in multiple languages (English, Spanish, Chinese, Vietnamese and Tagalog).



AC Boost Outcomes to Date

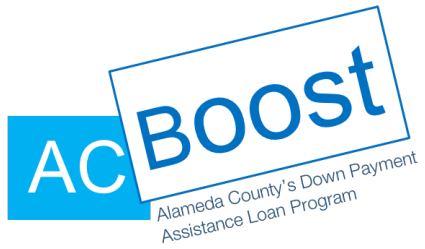


AC Boost by the Numbers

86 homes purchased as of March 2022

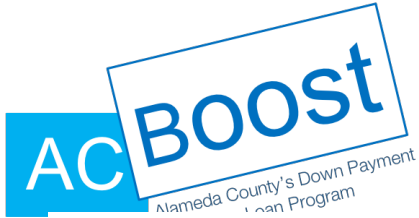
| Key Statistics | Average | Median |
|--------------------------------------------|-----------|-----------|
| AC Boost Loan Amounts | \$132,704 | \$150,000 |
| Household Size | 2.5 | 2 |
| Percent of Area Median Income | 98.12% | 97.14% |
| <i>Based on Median Household Size of 2</i> | | \$97,626 |

BOS-adopted program objective was to serve 120% AMI and below which is \$120,550 for household size of 2 in 2021.

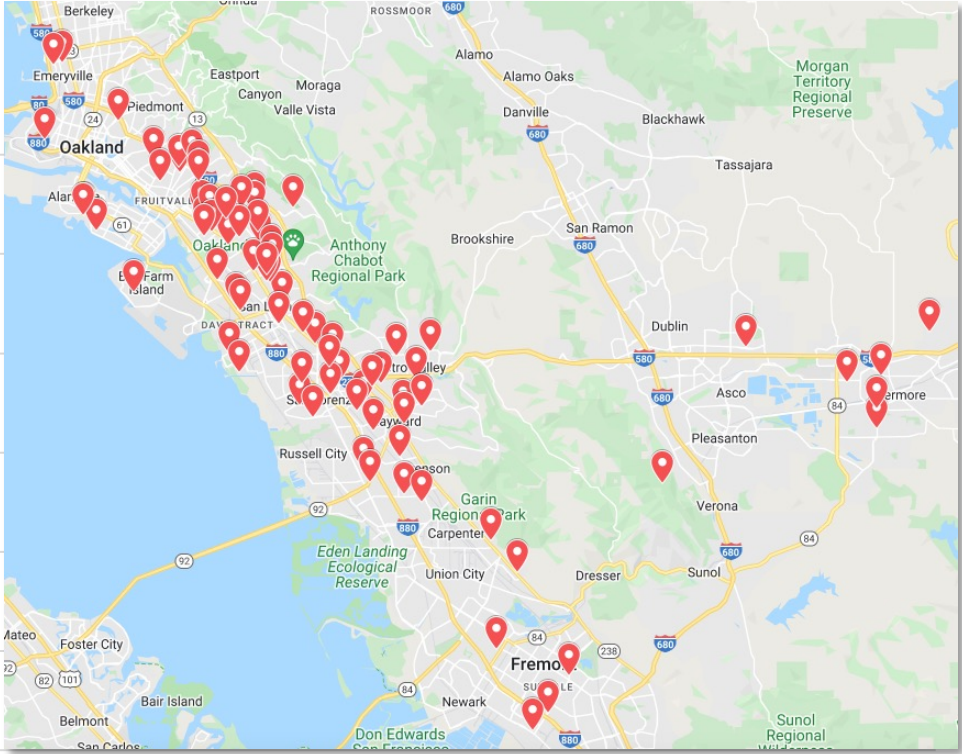
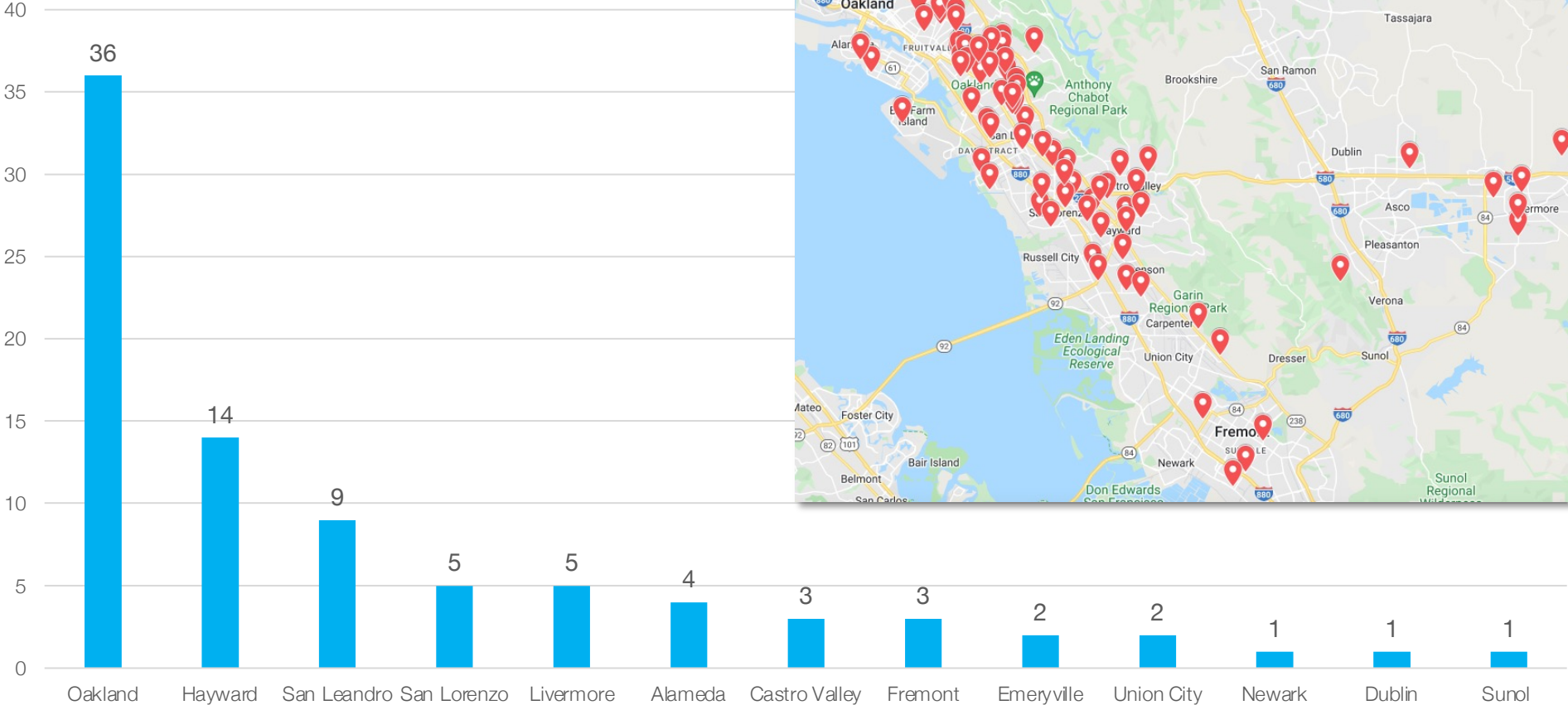


Home Purchase Prices to Date

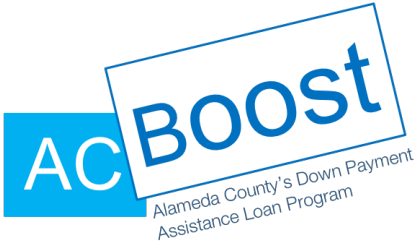
| Purchase Prices | Condo | Single-Family |
|----------------------|-----------|---------------|
| Lowest (BMR) | \$290,029 | \$475,000 |
| Lowest (Market Rate) | \$332,000 | \$410,500 |
| Median | \$457,500 | \$552,500 |
| Highest | \$750,000 | \$860,000 |



Locations of Purchased Homes*

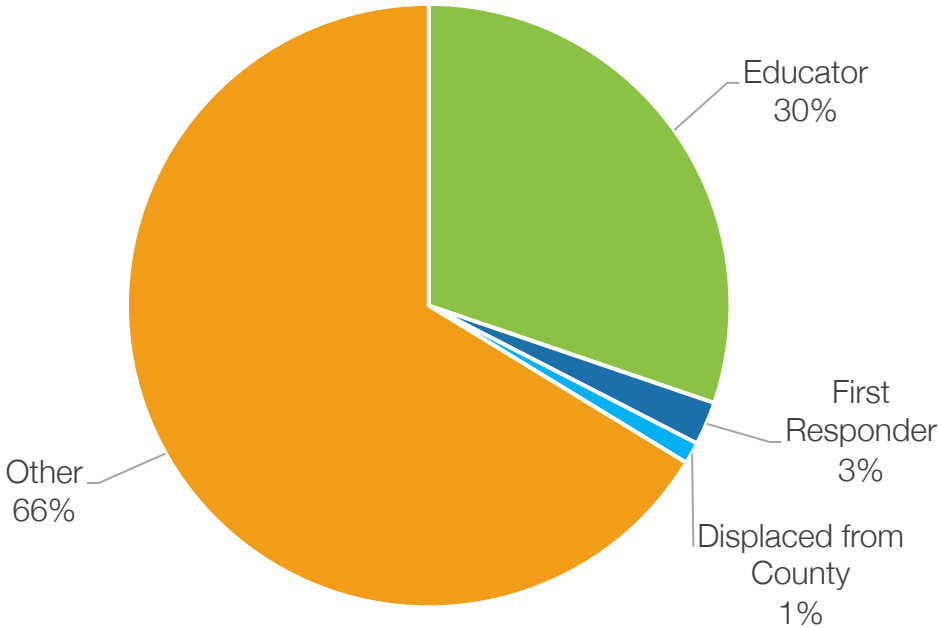


* No purchases yet in Albany, Berkeley, Piedmont, and Pleasanton.

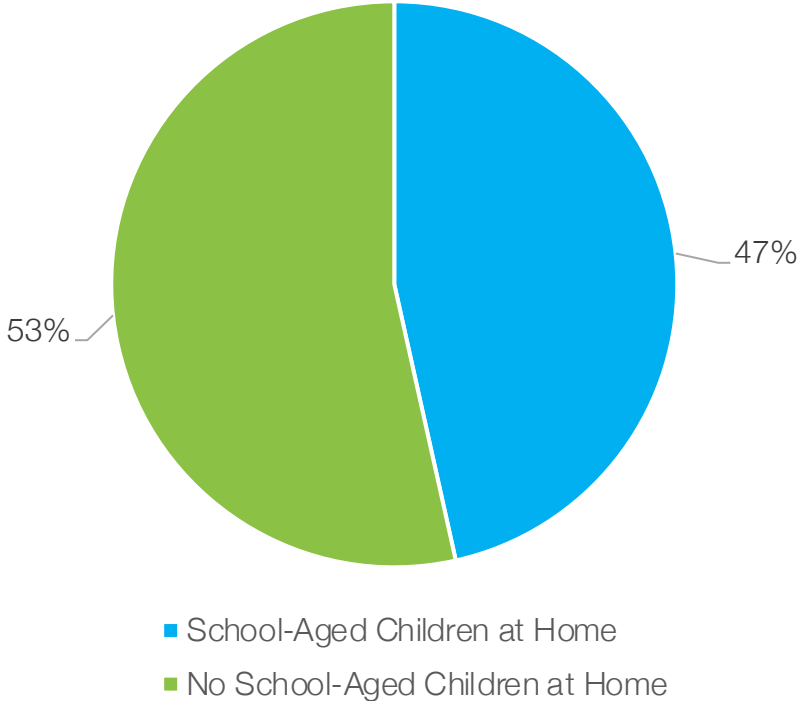


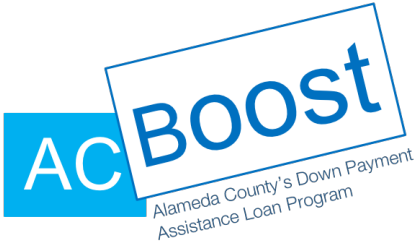
Household Composition of Successful Purchasers

86 Households



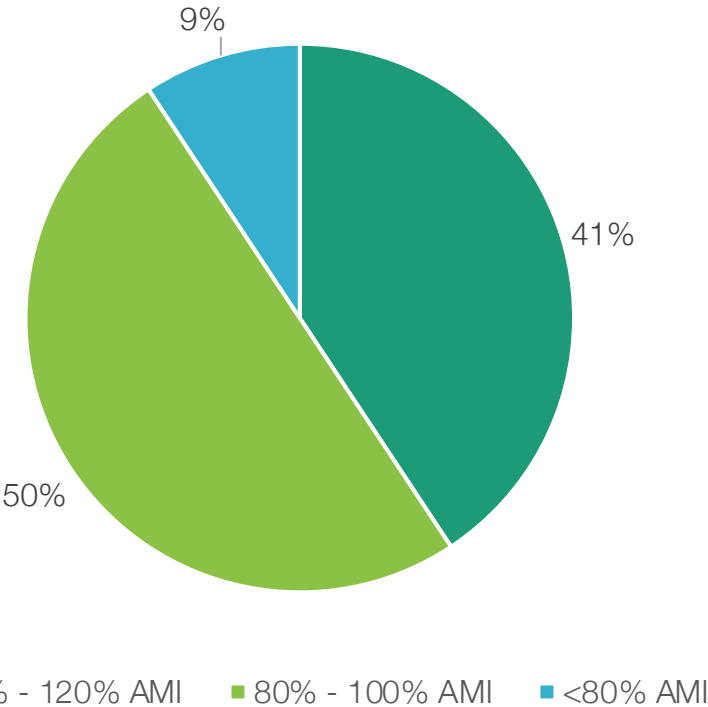
86 Households



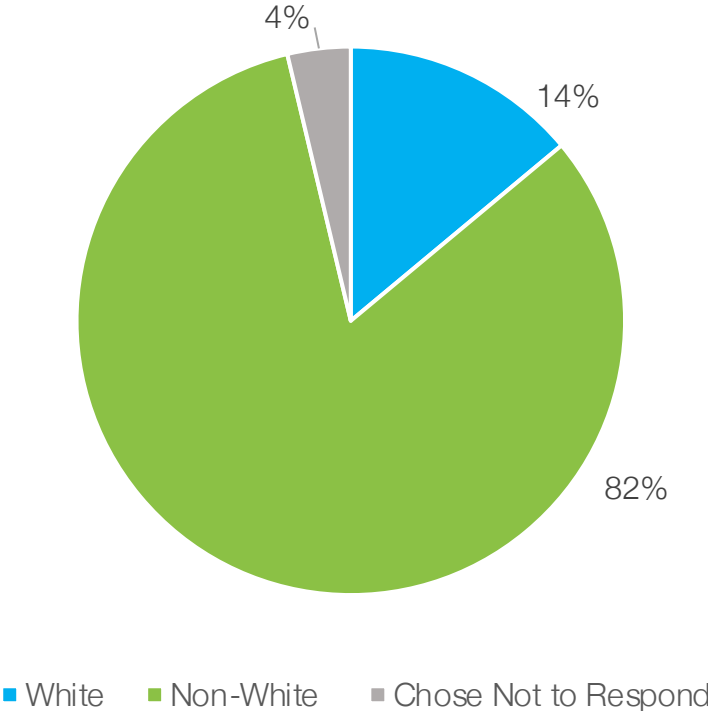


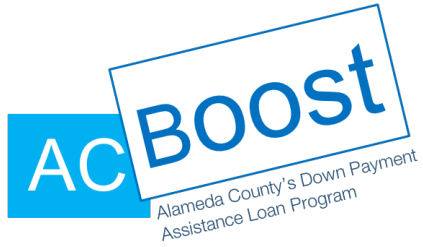
Household Composition of Successful Purchasers

86 Households



86 Households



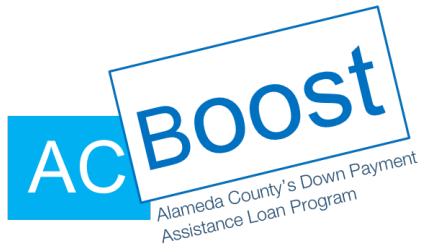


Race composition of Pre-Applicants

compared to Alameda County 2021 Data

| Race | Funding Cycle 1: Submitted Pre-Application* | Funding Cycle 2: Submitted Pre-Application* | Funding Cycle 1: Submitted Pre-Application* | Funding Cycle 2: Submitted Pre-Application* | Compared to Alameda County General Population |
|---------------------------------|------------------------------------------------|------------------------------------------------|------------------------------------------------|------------------------------------------------|-----------------------------------------------|
| | Raw Numbers | | By Total % | | |
| Total Households | 2294 | 6081 | | | |
| Asian | 1365 | 3483 | 22.13% | 23.54% | 32.3% |
| Black or African American | 1750 | 4302 | 28.38% | 29.08% | 11.0% |
| White | 643 | 1268 | 10.43% | 8.57% | 30.6% |
| Multi-Racial | 849 | 2172 | 13.77% | 14.68% | 5.4% |
| Latinx | 1064 | 2577 | 17.25% | 17.42% | 22.3% |
| American Indian | 29 | 66 | 0.47% | 0.45% | 1.1% |
| Pacific Islander | 69 | 176 | 1.12% | 1.19% | 0.9% |
| Middle Eastern or North African | 86 | 275 | 1.39% | 1.86% | N/A |
| Other Race | N/A | 7 | N/A | 0.05% | N/A |
| Chose Not to Respond | 312 | 469 | 5.06% | 3.17% | N/A |

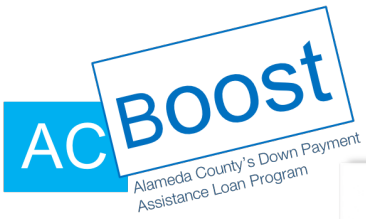
*Race data reported at the individual level. This includes 6,167 household members for Funding Cycle 1 and 14,795 household members for Funding Cycle 2.



Funding Cycle 2 Next Steps

- Application Workshop #6 to be held on 3/30
- Additional monthly application workshops
- Approximately \$12 million in loan funds anticipated to be disbursed
- Sign up for our Stay Connected newsletter to receive updates - www.hellohousing.org/stay_connected

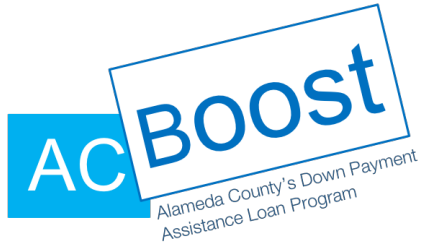
Buyer Testimonials



“Before AC Boost, **we could not imagine being able to afford a 3-bedroom home in the Bay Area.** Everything was just too expensive. **My wife and I considered moving out of the area** so we could afford to leave our cramped 1-bedroom apartment, but she’s a healthcare worker and there are more jobs here. **Thanks to AC Boost, our mortgage payment is less than many families pay to rent a 2-bedroom apartment.** We are so happy that this program is here to help first time homebuyers like us.”

“Before AC Boost, **I was renting** and unexpectedly the owner passed away. The new **property management out of the blue tripled my rent.** I had to move out and was couch surfing with my daughter for a while. We were uncomfortable. **A friend encouraged me to apply to AC Boost and so I did.** The process was scary, but in retrospect only because it was an unknown for me. I had to trust the process, and the victory was in the end when we got our keys. **I had reservations about purchasing a home as a single mother, but I am so happy that I did.** I am grateful for AC Boost, not only because of the funding but also because the program’s structure made homeownership less daunting and a possibility for my daughter and I”.

“I applied for the AC Boost Down Payment Assistance Loan Program to be both **competitive and a smart homebuyer.** I’m a first generation college graduate have dedicated himself to work that reflects my values. However, **becoming a homeowner in Alameda County in recent years felt like a distant dream.** Being able to set down roots has given me an incredible sense of stability – a stability that has allowed me to plan for my **family and career long term.** It feels incredible knowing the relationships and memories I have cultivated in Oakland will be a permanent part of my life. I love Oakland, and being able to set roots here kinda feels like Oakland loves me too”.



Hello Housing's AC Boost Team



Florence Szeto
Loan Closing
Specialist



Jennifer Duffy
President



Karen
Khomsonerasinh
Loan Underwriting and
Compliance Specialist



Paxcelli Flores
Special Projects
Manager



Sarah Shimmin
Senior Program
Manager

If you have any questions or suggestions, please email our team at ACBoost@hellohousing.org or call (510) 500-8840.





Frequently Asked Questions

Black Wealth Builders Fund

A component fund of the Richmond Community Foundation (RCF Connects), established by Arlington Community Church.

What is the Black Wealth Builders Fund?

The Black Wealth Builders Fund is a Donor Fund established at RCF Connects by Arlington Community Church (UCC), to support homeownership opportunities for Black/African American first-time home buyers.

How does the fund support homeownership?

Home ownership is one way to build wealth and preserve it for future generations. A major barrier to home ownership is the lack of funds required for a down payment or closing costs. The fund will provide a no-interest loan of up to \$15,000.00 for closing costs, down payment assistance, or other financial needs to ensure the close of escrow on a buyer's first home.

Where can I purchase my home?

The Black Wealth Builders Fund will provide funds for first time home buyers purchasing homes in Alameda and Contra Costa Counties

How can I apply for the funds?

The first step is to register for the first-time home buyer program with one of our partner agencies:

- Neighborhood Housing Services: (510) 237-6459 x 1601

Once you complete the program and have an accepted offer on your first home, our partner agency will submit an application to RCF Connects on your behalf to close any gaps you might have in your financing package.

Do I have to pay back the funds I receive?

Yes, you will have to repay the funds, but only when you sell or refinance your home in the future. At that time, the loan will be repaid in full (remember, no interest is charged) so that we can recycle the funds and provide this opportunity to the next group of first-time home buyers.

How can I get more information?

Contact one of our partner agencies or call **RCF Connects** at 510-234-1200.



Office of the City Manager

01

Special Meeting Item

WORKSESSION

September 30, 2025

To: Honorable Mayor and Members of the City Council
From: Paul Buddenhagen, City Manager
Submitted by: Scott Gilman, Director, Health, Housing, and Community Services
Subject: Social Housing Study and Recommendations

INTRODUCTION

The Berkeley City Council adopted a staff referral to conduct a study on social housing opportunities in Berkeley. City staff partnered with a consultant team to develop a needs assessment, comprehensive review of social housing models, feasibility models, and implementation strategies reflective of Berkeley's housing market. This report provides an overview of the study's findings and outlines strategies for advancing social housing in Berkeley.

SUMMARY

On November 9, 2021, the City Council adopted Resolution No. 70,101–N.S., recognizing housing as a human right and referring several items to the City Manager's Office related to the development of social housing. In response, staff issued a Request for Proposals and selected a consultant team consisting of The Housing Workshop, Urban Math, and PlaceWorks.

The resulting Social Housing Study includes a market analysis and summary of unmet housing needs; case studies from international and domestic social housing systems; financial modeling of potential Berkeley projects; and short and medium-term strategies for advancing social housing in the local context.

This report does not advance a specific policy for adoption at this time. It outlines different models, trade-offs, and potential strategies for the City to consider as part of future planning and program development.

Council may direct staff to explore specific recommendations in more detail or return with implementation proposals.

CURRENT SITUATION AND ITS EFFECTS

Social housing is a broad term encompassing a range of principles and models. Based on a review of social housing literature and programs, the report defines social housing as:

- Publicly or mission-driven owned housing that is protected from transfer to for-profit entities
- Permanently affordable housing that is protected from market speculation
- Housing that is inclusive of a broad range of incomes
- Housing that is centered on resident stability and self-governance

The study evaluates the feasibility of implementing social housing models in Berkeley and outlines a series of potential pathways.

Study Scope and Objectives

The study includes:

- A market analysis and summary of unmet housing needs in Berkeley;
- Case studies from Vienna, Denmark, Montgomery County (MD), and other U.S. examples;
- Financial modeling of two prototypical social housing projects in Berkeley; and
- Opportunities and strategies for near- and long-term implementation.

Opportunities for Social Housing in Berkeley

The study outlines implementation strategies over two timeframes:

Short-Term (1–3 Years)

- **Strategic Partnerships:**
 - Convene nonprofit housing providers and community land trusts to discuss social housing approaches.
 - Engage with larger nonprofit developers to support mixed-income acquisitions and conversions.
 - Continue to work with the Berkeley Housing Authority to align efforts and explore joint financing opportunities.
- **Pilot Projects:**
 - Pilot a Mixed-Income Project using CalHFA's Mixed-Income Program (MIP).
 - Partner with the Housing Accelerator Fund (HAF) to pilot a cost-efficient social housing project.
 - Pilot a social housing acquisition-rehab ownership conversion project.
 - Engage in statewide social housing initiatives like the State's Social Housing Study (SB 555) led by UC Berkeley's Turner Center to shape policy and funding opportunities.

- **Tenant Governance:**
 - Work with operating and pipeline housing projects to pilot strategies including participatory budgeting, rent transparency, annual financial transparency meetings, and/or tenant councils.
- **Financing Tools:**
 - Continue supporting Berkeley’s Small Sites Program (SSP) as a social housing model, review program guidelines, and identify a sustainable funding source.
 - Prioritize cost-containment in development through modular construction, smaller units, and design efficiencies.
 - Identify publicly owned and underutilized sites for pilot projects, especially those that can be offered at reduced or no cost. Work with other public agencies with land, such as the Berkeley Unified School District.

Medium-Term (4–10 Years)

These strategies are centered on formulating an Affordable Housing Strategic Plan, building on the short-term strategies. A plan is not required to advance these goals. It is recommended to organize a coordinated effort. However, forgoing a plan should not inhibit Council from advancing any of these strategies. This includes:

- **Define Policy Goals:**
 - Funding and program development will reflect policy goals. Establishing clear objectives for income mix, tenure types, and tenant governance will determine funding strategies and prioritize projects (especially given limited funding).
 - Set a long-term target for social housing as a percentage of the City’s total rental stock, including goals for specific subpopulations.
 - Coordinate with UC Berkeley’s research institute’s to conduct a Student Housing Needs Survey to identify more accurate data related to Berkeley’s student population.
- **Decommodification Tools:**
 - Strengthen strategies to decommodify housing by preserving affordability in expiring properties, embedding long-term protection in new developments, and using tools like acquisition loans and community/tenant housing acquisition ordinances (known as Community/Tenant Opportunity to Purchase or COPA or TOPA).
- **Establish the City’s Role:**
 - Clarify whether the City should facilitate social housing through partners or expand into direct ownership/development.

- **Expanded Site Inventory:**
 - Identify non-City publicly owned, nonprofit, religious, and underutilized sites beyond City-owned sites and Housing Element Opportunity sites.
- **Innovative Financing:**
 - Encourage innovative public financing tools to support social housing, such as Enhanced Infrastructure Financing Districts (EIFDs) or low-cost debt (e.g., Community Development Financial Institution (CDFI) partnership) to lower predevelopment and infrastructure costs.
 - Advocate for dedicated, flexible State acquisition/rehab funding.
- **Local Funding Strategy:**
 - Develop a dedicated fund to support social housing (e.g., parcel tax, bond measure).
- **Strengthen Cost Controls:**
 - Refine and strengthen funding guidelines to reduce costs, including unit size limits, per-unit cost ceilings, developer fee caps, and guidance on materials and design.
- **System Design:**
 - Establish a human-centered housing system responsive across life stages.
- **Tenant Governance:**
 - Codify participatory governance and support tenant leadership.
 - Build on pilot efforts by establishing a clear framework in City policy and funding agreements that includes participatory budgeting, cost-based rent transparency, and support for tenant councils.

Site Analysis and Financial Modeling

Many social housing models leverage access to reduced or no cost publicly-owned land. Consultants and staff conducted an extensive review of City-owned land to model for social housing.

The referral directed staff to model 1011 University Avenue. HHCS was informed other departments were pursuing uses for that site at the time of the study. HHCS met with the Public Works Department to review several other potential City properties that did not move forward due to competing uses.

None of the sites identified in previous staff studies were suitable for development or redevelopment for this analysis. Most were either too small (yielding less than 10 units total) or contained City facilities with existing departmental renovation plans (e.g., South Berkeley Senior Center).

Staff shifted the focus to two privately-owned prototype sites:

- *Acquisition/Rehabilitation Model*: Modeled on the 2023 sale of adjacent apartment buildings at 1626 and 1654 Dwight Way.
- *New Construction Model*: Modeled on an entitled project at 2655 Shattuck Avenue, in the Adeline Corridor Specific Plan Area.

These prototypes allow for insight into how social housing principles could be adapted to projects in the local market. Each model was evaluated in both rental and ownership formats.

Key Findings of Financial Modeling

- Acquisition-rehab is a cost-effective social housing strategy, offering lower total per-unit costs compared to new construction. However, the current funding ecosystem does not allow the City to leverage funds on par with new construction.
 - Trade-offs for costs include displacement prevention and reduced timeline compared to new construction
- Homeownership is most viable through acquisition-rehab. This provides equity-building opportunities for households priced out of the market.
- Cost containment and access to low-cost debt are necessary for scalability.
- Berkeley needs support from outside funding sources to deliver social housing at scale, particularly for:
 - Serving extremely low- and very low-income households, which require greater subsidy.
 - Funding acquisition-rehab. Funding ecosystems are not as developed as new construction, and the City currently faces higher local costs.
- There are two different strategies for new construction:
 - Leveraging the market by including more market-rate units to cross-subsidize lower-income units, with public funds filling the equity gap; or
 - Relying on larger public investment to serve a higher portion of low-income households.

Case Studies

The study reviewed models from Vienna, Denmark, and Montgomery County (Maryland) as well as other burgeoning US efforts. Recurring principles and findings include:

- Government and nonprofit ownership can both sustain effective social housing.
- Long-term, sustained public investment is essential to scale development.
- Meaningful tenant governance requires formal structures, education, and a balance between resident power and professional management.
- While modeling and policy are focused on supply, demand-side supports like rental vouchers and rent subsidies still play a critical role in sustaining social housing.
- Cost containment is a central strategy in affordable housing production.
- Vienna and Denmark examples offer human-centered approaches to design and eligibility for housing at all stages of life.
- Vienna and Denmark structure social housing waitlists to support residential mobility within the system.
- Denmark's National Building Fund and Montgomery County's Housing Production Fund operate revolving loan funds that reinvest in housing through different mechanisms.
- Montgomery County's Housing Production Fund demonstrates a viable model for a locally controlled social housing fund operating in the US, leveraging the current financial ecosystem (e.g., equity, bank loans).

Housing Needs Assessment

The study reaffirmed persistent housing challenges in Berkeley, including:

- High rates of rent burden, particularly among seniors;
- Homelessness and housing insecurity among various populations, including students;
- Ongoing displacement, especially of long-standing Black communities;
- Insufficient affordable housing supply;
- Market-driven erosion of affordable rent-controlled stock (due to vacancy decontrol); and
- Barriers to homeownership for all but high-income households.

Housing Advisory Commission Recommendations

Staff presented the study and findings to the Housing Advisory Commission on June 5, 2025. The commission elected to form a subcommittee to review the study and endorse or add to the recommendations. These recommendations are included as Attachment 1.

BACKGROUND

On November 9, 2021, the City Council adopted Resolution No. 70,101–N.S. recognizing housing as a human right and directing the City Manager to study the feasibility of social housing models in Berkeley. This included analysis of publicly owned land and cross-subsidized housing models.

On April 4, 2023, HHCS released a Request for Proposals (RFP) for Social Housing Models and Market Analysis. The City received four responses to the RFP. The selection panel, comprised of staff from HHCS, Planning, and Berkeley Housing Authority, selected a joint proposal from The Housing Workshop, Urban Math, and PlaceWorks.

ENVIRONMENTAL SUSTAINABILITY AND CLIMATE IMPACTS

Advancing social housing in Berkeley through infill development supports the City’s environmental and climate goals. Infill housing reduces greenhouse gas emissions by promoting compact, walkable, and transit-accessible neighborhoods. Rehabilitating existing buildings or constructing new housing on underutilized sites can reduce vehicle miles traveled (VMT), support public transit usage, and limit sprawl-related environmental impacts.

POSSIBLE FUTURE ACTION

The study presents a range of strategies that Council may consider in future policy development, funding allocations, or strategic planning efforts. Council may also direct staff to explore specific recommendations in more detail or return with implementation proposals.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

The costs associated with social housing vary depending on the model, financing structure, and policy goals (e.g., income-mix). Potential future actions may include establishing or expanding local funding programs, leveraging state and federal sources, and/or deploying innovative financing tools such as revolving loan funds or Enhanced Infrastructure Financing Districts.

The Council may consider long-term fiscal implications and funding strategies as part of a broader Affordable Housing Strategic Plan or future budget cycles.

CONTACT PERSON

Mike Uberti, Senior Community Development Project Coordinator, HHCS,
(510) 981-5114

Attachments:

- 1: Housing Advisory Commission Social Housing Recommendations
- 2: Draft Social Housing Study
- 3: Resolution 70,101–N.S. Recognizing Housing as a Human Right (adopted November 9, 2021)

Housing Advisory Commission
MEMORANDUM

To: Honorable Mayor and Members of the City Council

From: The Housing Advisory Commission

Date: September 4, 2025

Subject: HAC Input and Recommendations on Berkeley Social Housing Study

BACKGROUND

Berkeley's social housing initiative began with Councilmember Terry Taplin's November 2021 resolution recognizing housing as a human right. The city issued an RFP in April 2023 for a consultant to study and analyze social housing models and conduct market feasibility analysis.

On June 5, 2025, the consultants presented their draft findings to the Housing Advisory Commission. The Commission subsequently developed this brief memorandum as a companion to the study, to inform the Council's review of the study and consideration of next steps.

KEY OBSERVATIONS

Strategic State Alignment: Berkeley's social housing exploration strategically aligns with unprecedented state momentum. Recent initiatives include AB 11, establishing a California Housing Authority framework (passed Assembly June 2025), AB 590 proposing a \$950M bond for November 2026, and 2023's SB 555, which required HCD to study social housing. With Berkeley taking its own initiative, the city can position itself as an early adopter, accessing dedicated state financing and technical resources. The HCD/Terner study is expected to be available in 2026.

Montgomery County Focus: The Housing Opportunities Commission in Montgomery County, Maryland (described in the consultant's report) provides the most relevant model for Berkeley, operating under similar financial and legal frameworks. The Berkeley Housing Authority has already taken steps down this path, with its 2020 creation of Affordable Housing Berkeley, Inc.¹, "a non-profit entity which will have a goal of increasing development of low-income housing in Berkeley."

Berkeley's Proven Track Record: The study shows Berkeley has significantly outperformed regional averages in affordable housing production. While cost-burdened renters increased 34% regionwide between 2000 and 2020, Berkeley saw only 5% growth. Berkeley also achieved 59% of its Very Low-Income housing targets over three RHNA cycles, compared to 33% county-wide. The city also enjoys a Rent Board and a long-standing collection of policies that promote safe, stable, and affordable tenancies. The city should celebrate these successes.

¹ <https://bha.berkeleyca.gov/bhaahb-boards/affordable-housing-berkeley-inc>

Social Housing as Framework: Berkeley should consider adopting social housing principles as the overarching framework for all affordable housing strategies, positioning social housing *not as one program among many, but as the philosophical foundation underlying the city's entire affordable housing ecosystem.*

RECOMMENDED NEXT STEPS

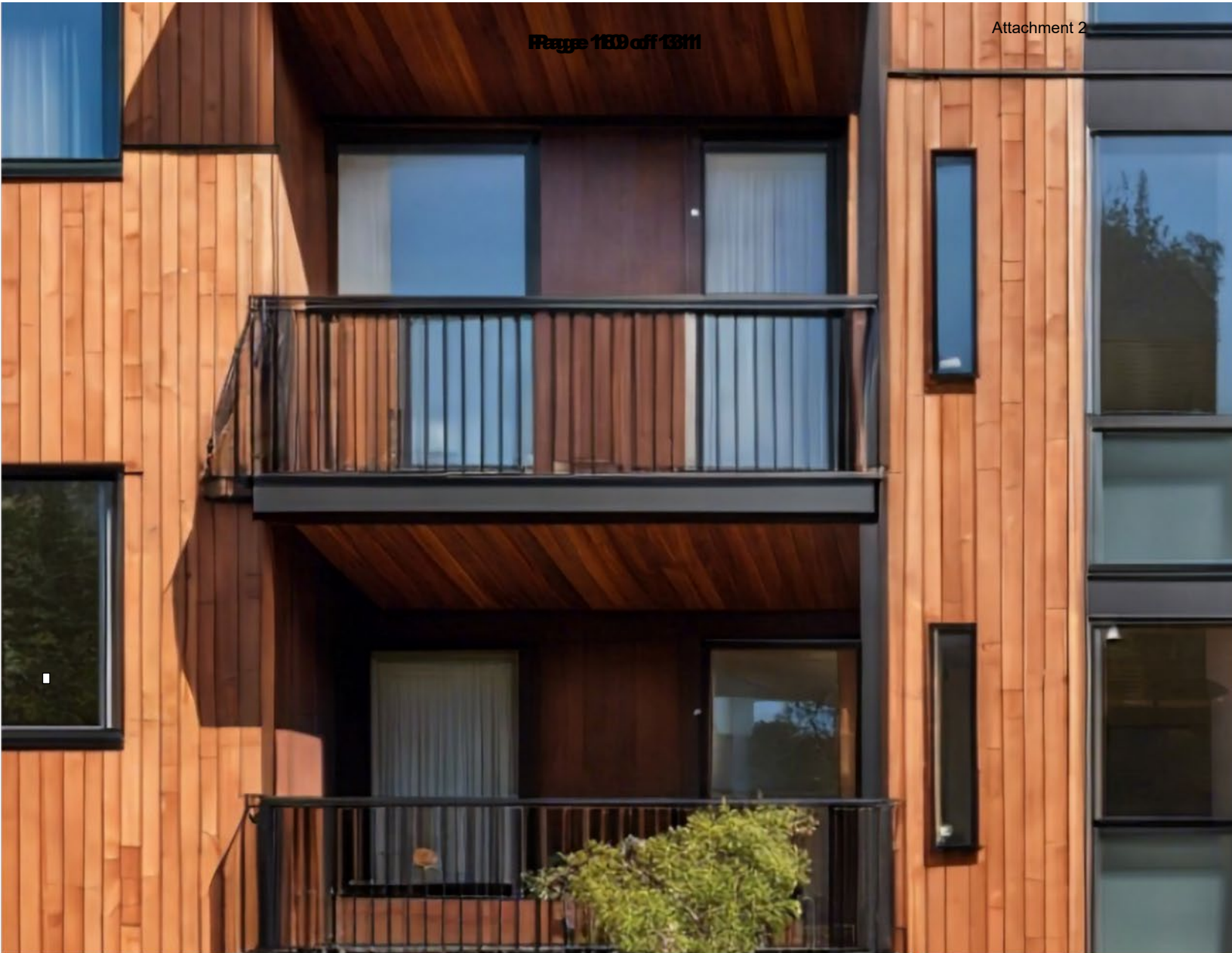
1. **Reframe Existing Programs:** Find ways to apply social housing principles—permanent affordability, community control, mixed-income integration, and public/nonprofit ownership—to existing and future programs including inclusionary housing, Housing Trust Fund investments, and BMR units.
2. **Develop Tenant Governance Framework:** Pursue meaningful tenant representation in governance structures and transparent management practices across Berkeley's affordable housing portfolio. This approach could help address ongoing issues with property management at nonprofit buildings while aligning with social housing principles.
3. **Funding Strategy:** Lay groundwork for a 2028 bond measure to succeed Measure O while maximizing state and regional funding sources, including CalHFA MIP and SF HAF BAHIF programs. Explore other potential sources of financing.
4. **Cost Containment Focus:** Implement systematic approaches to control development and operational costs. Consider how to clear regulatory and financial hurdles to streamline timelines for mixed-income social housing projects and conduct an expansive site inventory.
5. **Set Realistic Targets:** Focus on practical, achievable steps that build program credibility over time. Successful demonstration projects will generate community support more effectively than overly ambitious plans. Council should establish thoughtful, achievable targets that allow the program to build momentum and community confidence.

Additional:

The City of Berkeley should consider developing an affordable homeownership pilot under an acquisition/rehab model, and consider how applying a preference policy can advance our equity goals. With a public subsidy of \$150,000 to \$250,000 per unit, an ownership model through acquisition/rehab can create long-term affordable housing for less than the average local subsidy for traditional affordable housing.

The report describes Berkeley’s generational loss of Black households, and says that “for Black owner households, the loss was greatest in the 30-50% income band.”

There is a potential for synergy between an ownership/acquisition/rehab model and Berkeley’s Preference Policy, which includes an affordable housing preference for individuals displaced from Berkeley due to foreclosure since 2005. Under an aligned program structure, this policy could redress some of that displacement.



Berkeley Social Housing Study

Draft - May 2025



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Executive Summary

The *Berkeley Social Housing Study* explores how the City of Berkeley can begin to integrate social housing principles into its broader housing framework, advancing a vision of housing as a universal right. As the housing crisis deepens, Berkeley faces challenges, and there is growing recognition that existing programs are not sufficient to meet the scale of the housing need.

Interest in social housing is growing, drawing inspiration from international models like Vienna. From Seattle to Rhode Island, governments are exploring public ownership, cross-subsidization strategies, and tenant governance. Yet key questions remain: how social housing differs from traditional affordable housing, what income levels it should serve, and how to pursue these goals in the context of limited funding and an underdeveloped social safety net.

This report explores the principles of social housing and how it can be implemented in Berkeley to improve the delivery of affordable housing to meet local needs. It begins by defining key principles, using case studies to illustrate how these are put into practice. A financial analysis explores trade-offs between new construction and acquisition-rehab, rental and ownership, and balancing market-rate cross-subsidies with deeper affordability. The report concludes with recommendations outlining how the City can initiate near-term actions and long-term strategies to advance social housing.

This moment offers an opportunity for reflection and strategic direction. Berkeley has long been a leader in progressive housing policy, with tools that already advance social housing principles. This report offers a framework for the City to evaluate its current programs while charting a forward-looking agenda to deepen its commitment to housing as a public good.

What is Social Housing?

A literature review identifies several core principles that collectively define social housing as:

- Publicly or mission-driven owned and protected from transfer to for-profit entities
- Permanently affordable and protected from market speculation
- Inclusive of a broad range of incomes
- Centered on resident stability and self-governance

Berkeley Housing Needs

The analysis highlights several key housing needs in Berkeley:

- **Cost-Burdened Households:** As of 2020, more than 10,000 renter households earning less than 50% AMI were cost-burdened. Seniors comprised about 20% of this group, a share that is expected to grow as the baby boomer generation continues to age in place.
- **Unhoused People.** The 2024 Point-in-Time count identified 844 unhoused individuals in Berkeley. Housing insecurity also affects the student population: in 2021, 8% of UC Berkeley's roughly 38,000 students reported spending at least one night in a temporary shelter or a place not intended for habitation due to lacking a permanent home.
- **Loss of Black/African American Households.** Berkeley's Black population declined by 39% from 2000 to 2023 from 13,700 to 8,415 residents. In this same period, Black homeownership also fell from 40% to 32%, with Black homeowners leaving the city at a faster rate than renters.
- **Outstanding Affordable Housing Needs.** While Berkeley continues to make progress in affordable housing production, it has not historically fully met its Regional Housing Needs Allocation (RHNA) goals. The City experienced slow permitting in the first two years of the current 2023–2031 RHNA cycle. However, upcoming projects, such as the affordable housing planned at the North Berkeley and Ashby BART stations, offer potential to help the city reach its RHNA goals by the end of the cycle.
- **Long-Term Status of Rent-Controlled Inventory.** Although approximately 21,500 rental units in Berkeley are subject to limits on rent increases during a tenant's occupancy, over time, many of these units turn over and reset to market rents, reducing the long-term affordability of the rent-controlled stock.
- **Limited Access to Equity Building through Homeownership.** In 2000, the median-income household in Berkeley could afford the median-priced home, but that is no longer the case. Today, homeownership is increasingly out of reach for all but higher income households, limiting opportunities for equity building and long-term stability.

Case Study Findings

This report presents case studies showcasing both European models and U.S. examples of how cities are moving towards social housing. Vienna and Denmark are featured as long-standing examples, demonstrating the impact of sustained public investment in affordable housing. The report also features U.S.-based case studies, primarily Montgomery County, Maryland, along with brief overviews of efforts in California, Seattle, and San Francisco, to illustrate how American cities are adapting social housing.

Findings include:

- **Social housing can be effectively owned and managed by government entities AND nonprofit organizations.** Both European examples started with municipal-built housing after World War II but have since evolved. Denmark's system is decentralized, built, and managed by a network of over 500 nonprofit housing associations. Vienna has shifted from direct public production to a model led by limited-profit housing associations (LPHAs).
- **Social housing plays a transformative role when it represents a substantial share of the overall housing stock.** In Denmark, it accounts for approximately 21% of all homes. In Vienna, the impact is even more pronounced, with 43% of housing owned by the City or limited-profit associations, keeping it outside the speculative market. Unlike the U.S. approach, where affordable housing relies on limited public subsidies and market-rate filtering, these models show that expanding social housing directly is an effective strategy for achieving more immediate and long-term affordability.
- **A long-term commitment to sustained funding is essential to scaling production.** In Vienna and Denmark, a commitment to social housing is supported by dedicated public funding streams that enable local governments and nonprofits to pursue social housing. These countries do not rely solely on private market incentives; instead, they actively shape production through coordinated policy, public investment, and strategic partnerships.
- **Cost containment as a central strategy for production.** The European case studies use tools such as land banking, coordinated infrastructure planning, and innovative housing typologies to keep production expenses low. At the same time, they maintain a strong emphasis on design quality and sustainability, recognizing that subsidized housing must be functional, visually appealing, and well-integrated into the broader urban environment.
- **Vienna and Denmark offer human-centered approaches to eligibility for housing at all stages of life.** In Denmark, income is not a factor defining eligibility; instead, the various housing associations operate within a flexible system, seeking to provide housing to all that request it. In Vienna, income limits exist, but are defined more broadly than in the US, with eligibility up to 180% AMI, ensuring widespread access to affordable housing.
- **Denmark and Vienna offer important lessons on how to structure waitlists to support residential mobility within the system.** Their systems prioritize resident needs, allowing individuals to move within the housing system as their circumstances evolve, whether due to employment changes, family growth, or aging. In the U.S., there is often no clear path for a resident in LIHTC housing to transition to affordable ownership, for example. By contrast, Denmark and Vienna have built flexible waitlist structures and transfer mechanisms that make such transitions feasible and intentional.

- **An often overlooked but critical aspect of social housing systems is the role of demand-side support, particularly the broader social safety net.** In housing, this means providing rental assistance or tenant vouchers to help low-income households afford their homes. For example, in Vienna, 19% of social housing funding is allocated to direct assistance to individuals or households, rather than to the housing itself. This underscores the need to address both the affordable housing shortage and the income that limits access.
- **Establishing meaningful tenant governance requires formal structures, education, and a balance between resident power and professional management.** Tenant governance is fundamentally different from tenant input. In Denmark, governance is formalized; tenants vote on their building's annual budget at a mandated annual meeting. In contrast, the U.S. largely lacks formal governance structures in housing; most tenant participation is voluntary and advisory. Moving toward true governance in the U.S. would require piloting new structures and investments in tenant education.
- **Montgomery County's Housing Opportunity Commission (HOC) provides a U.S.-based example of how elements of a social housing model can be adapted within a conventional affordable housing finance system.** Evolving from its origins as a public housing authority, HOC develops both mixed-income and 100% affordable projects. In mixed-income developments funded by the Housing Production Fund, it retains an equity stake, preserving elements of public ownership and long-term control.
- **Both Denmark's National Building Fund and HOC's Housing Production Fund operate revolving funds that reinvest in social housing, but through different models.** Denmark's fund is sustained by surplus rent from paid-off social housing loans, creating a self-financing system rooted in tenant contributions. HOC's Housing Production Fund uses public bond financing repaid through project-level permanent financing to recycle capital into future developments. Both approaches reduce dependence on private capital and ensure ongoing reinvestment in permanently affordable housing.

Financial Analysis of Social Housing Examples in Berkeley

The financial analysis examines two scenarios: one involving the acquisition and rehabilitation of a recently sold 21-unit building on Dwight Way, and another focused on a new construction project entitled on Shattuck Avenue within the Adeline Corridor Specific Plan Area. These scenarios were designed to test two different social housing models.

- **Option A: Cross Subsidization / Half and Half.** Inspired by Montgomery County's HOC, this scenario uses a cross-subsidy, where revenue from market-rate units helps cover the cost of providing more affordable housing.
- **Option B: Predominantly Affordable.** The second scenario mirrors a Vienna-style approach by providing units affordable to households at 30%, 50%, 80% of AMI,

alongside market-rate units, to foster income diversity within the building.

Each set of options was analyzed for both rental and ownership configurations, with the following findings.

- **Acquisition-rehab is a cost-effective social housing strategy, offering lower per-unit costs compared to new construction.** The total development cost (TDC) for acquisition-rehab is estimated at approximately \$460,000 per unit, compared to \$725,000 per unit for new construction. Recent market shifts have also expanded opportunities to acquire market-rate buildings, such as Bridge Housing's acquisition of a market-rate building in Berkeley.

While acquisition-rehab has a lower all-in cost, it lacks ample dedicated state funding sources, which makes the local subsidy higher. Still, this approach offers key advantages: it enables faster delivery of permanently affordable units, mitigates displacement, and supports smaller-scale nonprofits, such as community land trusts (CLTs). Given Berkeley's history of investing in the Small Sites Program, continuing and expanding this can advance social housing goals and support cost-effective, community-based preservation efforts.

- **Homeownership through acquisition-rehab provides equity-building for households priced out of the market.** The public subsidy is relatively low, ranging from approximately \$150,000 to \$250,000 per unit. Creating a pipeline of subsidized ownership units through acquisition-rehabilitation could be a transformative step, offering residents access to a housing stock that allows them to convert their monthly rent into equity through a modest buy-in. This approach serves as a steppingstone to traditional homeownership, allowing households to build savings, while offering long-term stability for those who wish to remain.
- **For social housing to be truly scalable, cost containment must be a central focus of new production.** Reducing development costs improves project feasibility by lowering the required public subsidy, allowing more projects to move forward. In the proforma scenarios, three cost-saving adjustments were tested: (a) eliminating land costs, (b) reducing the permanent loan interest rate from 6% to 3%, and (c) lowering construction costs by 8% to \$475 per square foot. With these adjustments, a 50/50 (market-rate/affordable) project with approximately 100 units requires about \$17 million in public subsidy, compared to \$40 million in public subsidy needed without these cost-saving measures.
- **Providing low-cost debt for social housing is a strategy for closing financing gaps and increasing project feasibility.** Currently, high interest rates have sidelined many market-rate developers, as the cost of debt significantly reduces cash flow available to equity investors, making new housing development financially infeasible. In the social housing sector, reducing long-term financing costs through lower-interest loans would allow projects to support more debt, thereby lowering public subsidies.

- **There are two different strategies for delivering social housing through new construction.** Option A involves leveraging the market by including more market-rate units to cross-subsidize lower-income units, with public funds filling the equity gap, like the model used by HOC. Option B relies on greater public investment to serve lower-income households more deeply. While Option A reduces the overall public subsidy needed, Option B delivers a lower subsidy per affordable unit and produces more deeply affordable units to address existing gaps. These approaches are not mutually exclusive. Both can be pursued by aligning roles and directing appropriate resources to the right agencies.
- **To deliver social housing at scale, especially for Extremely Low- and Very Low-Income households, Berkeley needs support from outside funding sources.** New construction is expensive, and the City cannot realistically cover the full cost without help as these projects usually rely on LIHTC and other public funding. To make a real impact, Berkeley should partner with state and regional agencies and community banks/lenders to help shape programs that support social housing.

Focus Group Feedback on Social Housing Examples

As part of the research for this report, a focus group of Berkeley residents from diverse income levels were convened to explore perceptions of social housing. Overall, the focus group affirmed broad support. Participants liked the idea of mixed-income housing and supported both new construction and acquisition-rehab approaches. They emphasized the need for housing that can adjust to changing life stages and household needs. There were questions about how tenant governance would work, and many emphasized the importance of professional property management and maintenance. Lower-income participants were open to ownership with limited or shared appreciation, while moderate- and higher-income participants were interested but wanted to see proven results first. Additional details on governance, community dynamics, and long-term stewardship are discussed in the full report.

RECOMMENDATIONS

Short-Term Recommendations

These recommendations will support the City of Berkeley advancing towards a social housing approach in the next 1-3 years:

A. Strengthen Existing Partnerships

- **Convene nonprofit housing providers** and community land trusts to discuss social housing and explore flexible, human-centered approaches. One action is to encourage collaboration among nonprofits to support transitions across their housing portfolios.

- **Strengthen partnerships with larger nonprofit developers** to support mixed-income conversions, such as BRIDGE Housing's acquisition of the Avalon property, which will transform a market-rate project into a 50/50 mix of affordable and market-rate units.
- **Continue supporting Berkeley's two active CLTs** (NCLT and BACLT) by providing funding for operations and projects through the Small Sites Program, and by piloting encouraging affordable homeownership projects. Assess how CLTs can expand their role advancing social housing goals and encourage them to share best practices in tenant governance to inform City policy and program design.
- **Continue to work with the Berkeley Housing Authority** to align efforts and explore joint financing opportunities.

B. Pilot Closer Alignment with Social Housing Principles

- **Promote tenant leadership:** Partner with affordable housing providers to support tenant councils and leadership opportunities, including best practices guides, training sessions, and an annual Tenants' Governance Summit to strengthen tenant capacity and knowledge-sharing.
- **Pilot annual financial transparency meetings** on a voluntary basis in select City-funded projects, where residents receive a clear breakdown of the building's finances, including rent collected, operating costs, reserves, and planned improvements. Modeled after Vienna's approach to rent transparency, this promotes trust and accountability and lays the groundwork for greater tenant engagement.
- **Pilot participatory budgeting:** Test a participatory budgeting model where residents vote on their building's operating budget, with accessible presentations, multilingual materials, and facilitated collaboration with property management to ensure informed participation.
- **Integrate into City standards:** Use findings from these pilots to inform future policy, potentially incorporating tenant governance, rent transparency, and participatory budgeting requirements into City funding agreements for affordable housing.

C. Improve Delivery and Financing

- **Continue supporting the Small Sites Program as a social housing model:** The Small Sites Program serves as a form of social housing by removing buildings from the speculative market and preserving them as permanently affordable. The City should continue funding this program, review and refine its guidelines, and identify a sustainable long-term funding source to expand its impact.

- **Encourage cost containment:** to address rising development costs, the City should promote strategies such as modular construction, smaller units, and design efficiency. The San Francisco Housing Accelerator Fund (HAF) is testing approaches to reduce per-unit costs and encourage industry innovation. The City could partner with HAF on a pilot project to demonstrate scalable, lower-cost affordable housing (see Recommendation D).
- **Identify publicly owned and underutilized sites for pilot projects,** especially those that can be offered at no or low cost.

D. Launch Pilot Projects

- **Pilot a Mixed-Income Project using CalHFA's Mixed-Income Program (MIP).** This program is already structured to support a balanced income mix and could serve as a foundation for testing social housing in Berkeley. With a dedicated 4% LIHTC set-aside, MIP reduces reliance on local subsidies and provides long-term subordinate loans for projects serving households from 30% to 120% AMI. Berkeley should issue a Notice of Funding Availability (NOFA) to encourage the use of MIP in a new construction project.
- **Partner with the Housing Accelerator Fund (HAF) to pilot a cost-efficient social housing project** by issuing an RFP for a specific site; qualifying projects may access innovative HAF financing, enabling faster delivery without relying on competitive tax credits, especially suited for smaller unit projects serving youth or seniors.
- **Pilot a social housing acquisition-rehab ownership conversion project** by transforming a small multifamily property into a Limited-Equity Housing Cooperative (LEHC), providing a lower-cost path to affordable homeownership, building CLT and nonprofit capacity, and testing key social housing principles like tenant governance, participatory budgeting, and long-term affordability.
- **Engage actively in statewide initiatives like the SB 555 Social Housing Study** to shape policy and funding opportunities.

Mid-Term Recommendations

This set of recommendations centers on formulating an **Affordable Housing Strategic Plan**, building on the short-term strategies. The Strategic Plan should include the following components:

- **Define social housing policy goals:** Establish clear objectives for income mix, tenure types, and tenant governance; set a long-term target for social housing as a percentage of the city's total rental stock, including goals for specific subpopulations. As part of this process, identify housing needs across life stages and conduct a University Student

Housing Needs Survey.

- **Determine the City's future role:** Social Housing models vary in terms of government capacity and role. The City should consider how to approach social housing in the future - via a continued role as a funder/facilitator or a transition towards direct public ownership and development (e.g., Montgomery County, Seattle). This evaluation should consider governance structure, staffing capacity, legal authority, and access to financing tools.
- **Conduct a sites inventory** to identify no- or low-cost land suitable for social housing development, including underutilized City-owned properties, other public agency-owned sites, religious institution land eligible under SB 4, and functionally obsolete commercial properties which may require rezoning. This inventory would differ from the recent 2023-2031 Housing Element Opportunity Sites inventory, which focused on residentially-zone land in private ownership.
- **Develop a local funding strategy to support social housing**, including options such as voter-approved bonds, parcel taxes, a high-earner employer or employee tax; also evaluate creating a revolving loan fund, similar to Montgomery County HOC's Housing Production Fund to provide flexible, public-backed financing.
- **Formalize cost controls:** Establish formal cost containment standards for social housing projects to improve efficiency and scalability, including unit size limits, per-unit cost ceilings, developer fee caps, and guidance on materials and design, building on innovations tested through partnerships with the HAF and other pilot programs.
- **Encourage innovative public financing tools to support social housing:** The City should pursue financing mechanisms like Enhanced Infrastructure Financing Districts (EIFDs) to lower predevelopment and infrastructure costs. This approach can be replicated in Specific Plan Areas to fund utilities, streets, and public amenities. By capturing future property tax growth, EIFDs can remove costs from individual projects.
- **Strengthen strategies to decommodify housing** by preserving affordability in expiring properties, embedding long-term protection in new developments, and use tools like acquisition loans and COPA or TOPA to convert market-rate units into permanently affordable, community-owned housing.
- **Formalize tenant governance** to ensure meaningful participation in decision-making. Build on pilot efforts by establishing a clear framework that includes participatory budgeting, cost-based rent transparency, and support for tenant councils. Invest in tenant education, union organizing support, and technical assistance to empower residents across all City-supported housing.

- **Design a human-centered, life-stage responsive social housing system** that supports residents from youth to old age, framing housing as a universal public good. This includes developing housing tailored to students, families, and seniors; improving flexibility in unit transitions; enhancing waitlist systems; and using branding and communications to shift public perception toward inclusive, dignified housing.

1. Introduction

The City of Berkeley has a long history of policies and programs aimed at providing affordable housing to its residents. Embodying the view that housing is a human right, the City adopted one of the first rent stabilization programs in California to offset market rent rises. However, this policy only affects the portion of the existing multifamily housing stock built before June 1980, and vacancy controls were also prohibited by a change to state law in 1995, allowing units to be re-rented at market-rates upon vacancy for subject units (with subsequent regulated rent increases for that tenant). This means that even for this portion of Berkeley's housing stock, as rental units changed occupancy over time, rents have risen dramatically, including among the portion of housing stock subject to rent stabilization.

The City has worked to facilitate construction of new market-rate and affordable units, leveraging its Housing Trust Fund program and inclusionary ordinance to support the creation of affordable housing. Specifically, the City of Berkeley provides development loans for the new construction, acquisition, and rehabilitation of affordable housing developments via its Housing Trust Fund (HTF) program. Since 1990, Berkeley's Housing Trust Fund program has facilitated the creation of over 1,600 affordable units and has a pipeline of over 1,400 units in development. The City's Small Sites program, established in 2018, has supported the acquisition and rehabilitation of three rental properties, transitioning the units from the market to permanent deed-restriction units.



At the same time, over the past two decades, homeownership opportunities have slipped further from reach for many Berkeley households as sale prices have risen dramatically faster than household incomes, and Berkeley renters have become increasingly rent-burdened. These housing affordability challenges are experienced across the region, state, and country, as well as globally in regions with high housing demand. Clearly more needs to be done to address these housing crises. A new concept called social Housing has been advanced as a way to rethink affordable housing delivery. This report explores social housing and its potential implementation in Berkeley.

What is Social Housing?

Globally and in the US, as housing affordability has continued to decline, interest has grown in the concept of social housing. A review of social housing literature indicates several common principles that together define social housing as:

- **Owned by public agencies or other mission-driven organizations and permanently protected from transfer to for-profit entities.** This principle means that social housing is owned and operated by public agencies or public authorities, or by community land trusts, limited-equity cooperatives, or other mission-driven nonprofit organizations. This principle anchors social housing as a public good, aligning it with broader societal goals such as climate resilience, racial equity, universal accessibility, and long-term affordability.
- **Permanently affordable and protected from market speculation.** Access to housing must be a social good provided to all members of society, regardless of income. Permanent is defined as the entire life of the housing unit (and some definitions also include land). Affordable is defined as costing occupants, whether renters or owners (or hybrid arrangements), not more than 30% of household income to live in the unit, including utilities. Permanent decommodification goes beyond affordability by removing housing from the speculative market entirely, treating it as a public good rather than a financial asset.
- **Serves a range of incomes, reflecting the right to housing for all.** The range of incomes of eligible households to be served by social housing varies by advocacy group; while almost all advocates aim to serve households at the lowest end of the household income range, some seek limits at 80% or 100% of Area Median Income (roughly \$97,000 to \$125,000 for a two-person household), while others want to include the upper end of traditional affordable housing (up to 120% of Area Median Income), while still others advocate for a mix that incorporates higher levels of income in social housing projects (e.g., “market-rate” housing) to offset the costs of constructing and operating a building.
- **Protects tenants’ rights, offers tenant governance, and supports long-term resident stability.** Tenants should have security to remain in safe, dignified housing over time. This principle includes full protection against termination without just cause, limits on rent increases, and collaborative governance structures with meaningful tenant agency. Additional safeguards such as the right to legal counsel in eviction proceedings, inheritance rights, and building code enforcement further strengthen tenant stability.

Two additional themes are also present in some social housing literature: building sustainable housing projects (e.g., energy efficient, carbon-neutral projects), and providing housing that fully integrates social services, which can span a range of medical, mental health, job training, affordable childcare, and life skills services.

While most of these characteristics are not new concepts, together they form a vision that can guide public investment and shape partnerships with mission-driven organizations. Social housing is distinct from current housing policy approaches because it emphasizes the direct public goal of providing a necessary social good. To amplify this idea, some advocates situate social housing within a broader housing policy framework as a “public option” similar to publicly provided health insurance, meaning that social housing projects would provide a public option to select from among several options available to meet individual housing needs.

Integrating Social Housing into Berkeley’s Existing Housing Framework

As Berkeley considers social housing principles, it is important to recognize that the City already operates within a long-established housing policy framework shaped by decades of programs and funding strategies, which in turn are partially impacted by federal and state housing programs. While some of these existing policies and programs align closely with social housing ideals, others may only partially reflect those values.

This report does not assess existing programs. Instead, it takes a forward-looking approach, examining how new construction and acquisition-rehabilitation projects funded by the City could be structured to better align with social housing goals. In addition to examining social housing principles, the report includes a financial analysis of housing models that serve a range of incomes. The proforma analysis explores the trade-offs between two strategies: one that emphasizes mixed-income models to reduce reliance on public subsidies, and another that prioritizes deeper affordability to reach a broader income spectrum. Policy trade-offs are presented to help inform the City’s decisions on future housing investments.

For the other social housing principles, this report draws on case studies, particularly from European systems with more mature social housing traditions, as well as a description of the Montgomery County (Maryland) Housing Opportunities Commission, which provides a domestic example of a public agency moving in this direction.

This report is intended to support ongoing discussion about Berkeley's housing policies and how social housing principles could be integrated into future approaches. Simultaneously with this report, the State of California through the Turner Center for Housing Innovation (UC Berkeley) is studying social housing from a statewide perspective, amidst a backdrop of pending budget cuts to federal housing programs. Thus, this report can be considered as a head-start on preparing locally for potential changes to the statewide system of affordable housing unit delivery.

Report Organization

This report begins with a summary of recent Berkeley housing trends and current conditions, including an overview of Berkeley's current affordable housing delivery system. Next, the report profiles international and US examples of social housing programs, followed by a detailed analysis of two example sites in Berkeley that could be developed according to social housing themes in the near term. This on-the-ground analysis of two sites includes financial analysis of a range of income mixes, along with the results of a Berkeley residents' focus group with participants from across the income spectrum. The report concludes with a summary of potential strategies that the City can take to implement social housing policies.

A detailed description of the research methodology used to prepare this report can be found in Appendix A.

2. Berkeley's Current Housing Conditions

This chapter summarizes Berkeley's demographic and household trends, along with current housing supply patterns that have resulted in high housing cost burdens, underscoring the need for more affordable units in Berkeley. Detailed data is provided in Appendix B.

Demographic and Household Trends

Population and Households

Berkeley's population and household growth trends are complicated by the presence of numerous on- and off-campus student housing facilities.

- Berkeley's total population grew substantially between 2000 and 2023 (adding 16,219 people, a 16% increase). This growth included more than 7,500 new residents living in on- and off-campus housing classified as "group quarters."
- When just examining the growth of people living in households (not in group quarters), Berkeley grew by 3% for the 23-year period, which was similar to Alameda County's growth (4%).
- Between 2000 and 2023, Berkeley saw notable population shifts by age group. The number of young adults (aged 18-24) expanded by 11,285 people (a 51% increase) while the senior population (aged 65+) grew by 9,601 people, a 92% increase, as boomers aged in place. Currently, almost one-fifth of Berkeley's residents (20,000 people) are seniors aged 65+.
- Berkeley's current average household size (2.15 persons in 2023) is markedly smaller than for Alameda County (2.78) and the Bay Area region (2.59).
- In 2023, approximately 24% of Berkeley's households earned \$35,000 or less, compared to just 16% of the County's and 14% of the region's households.¹
- In Berkeley, like for most California communities, there is a distinct difference between household incomes for renters and owners. In 2023, the median renter household income was \$62,000, compared to the median owner household income of \$170,000.
- Berkeley's homeownership rate (41% in 2023) is significantly lower than Alameda County (54%) or the region (56%). Also, even though Berkeley added homeowners since 2000, most of its growth was in renter households, causing a slight decline in overall ownership rates from 2000 to 2023.

¹ Data describing household incomes in Berkeley can be difficult to fully evaluate due to the presence of university students, who are included in Berkeley Census data, but may have limited reportable income during their temporary university attendance.

Housing Affordability

There are many ways to describe the affordability challenges in Berkeley. The table below provides a general indicator of housing affordability by tenure. In 2000, the median sale price of a single-family house was \$437,00, requiring a household income of \$105,000 to purchase. At that time, the actual median income of homeowners in Berkeley was \$158,000, meaning that many owners could afford to buy the median priced house. In contrast, by 2023, the household income needed to buy the median single-family home was \$314,000, well out of reach of the 2023 median homeowner income of \$170,000. This reflects a broader trend: household incomes have not kept pace with the rapid appreciation of home prices.

The situation is different for renter households. In 2000, the income needed to afford the median rent was about \$65,000, somewhat above the actual renter household median income at that time (\$54,000). By 2023, this gap had widened further for renters: an income of \$106,000 was needed to afford the median rent, while actual renter household median income was just \$62,000, indicating that many renter households were likely severely cost-burdened.

Table 1: Comparison of Median Berkeley Median Household Incomes & Prices, 2000 – 2023

(Not inflation-adjusted)

| Owners | 2000 | 2023 |
|-----------------------------------------------------------------|-------------|--------------|
| Single Family Median Home Price (a) | \$ 437,156 | \$ 1,452,854 |
| Household Income Needed to Afford Median Single Family Home (b) | \$ 104,667 | \$ 313,932 |
| <i>Actual Median Income - Owners</i> | \$ 157,877 | \$ 169,878 |
| | | |
| Renters | | |
| Median Effective Market Rate Rent (c) | \$ 1,616 | \$ 2,663 |
| Household Income Needed to Afford Median Effective Rent (b) | \$ 64,640 | \$ 106,520 |
| <i>Actual Median Income - Renters</i> | \$ 53,739 | \$ 61,525 |

a) Price from Zillow Home Value Index, which tracks a typical home value in the 35th to 65th percentile range.

b) Ownership calculation assumes spending 35% of income on housing costs and interest rate at the time, per Federal Reserve data. Rent calculation assumes spending 30% of income on housing costs. mortgage interest rate for the relevant year, using data from the Federal Reserve.

c) CoStar's effective market rent represents the average rent tenants paid, adjusted for rent concessions. Data is for rental properties tracked by CoStar in Berkeley.

Sources: Zillow, 2025; Costar, 2025; Federal Reserve Bank of St. Louis, 2025; The Housing Workshop, 2025.

Affordable Housing Income Limits

A key metric used to plan affordable supply is the distribution of household income by “income limits,” which are categories of household income defined by the Area Median Income (AMI) and the relationship above or below this number. Area Median Income is defined annually by the US

Department of Housing and Urban Development (HUD) as the median household income for each county in the US for a family of four and then adjusted up or down for larger or smaller household sizes.

Alameda County’s 2024-25 Income Limits are shown below.² California’s Department of Housing and Community Development publishes these income limits by household size, which are then used to determine maximum affordable housing costs (rent plus utilities) based on a household spending 30% of its income on housing.

Table 2: Alameda County AMI Income Limits & Maximum Housing Costs, 2024-25

| Alameda County Household Income Limits 2024-25 | | | | |
|-------------------------------------------------------|------------------------------------------|-------------------------------------|--------------------------------|--------------------------------------|
| Household Size | Extremely Low Income (15-30% AMI) | Very Low Income (30-50% AMI) | Low Income (50-80% AMI) | Moderate Income (80-120% AMI) |
| 1 | \$ 32,700 | \$ 54,500 | \$ 84,600 | \$ 130,800 |
| 2 | \$ 37,400 | \$ 62,300 | \$ 96,650 | \$ 149,500 |
| 3 | \$ 42,050 | \$ 70,100 | \$ 108,750 | \$ 168,150 |
| 4 | \$ 46,700 | \$ 77,850 | \$ 120,800 | \$ 186,850 |

| Alameda County Max Monthly Housing Cost (Rent + Utilities) 2024-25 | | | | |
|---------------------------------------------------------------------------|------------------------------------------|-------------------------------------|--------------------------------|--------------------------------------|
| Unit Size | Extremely Low Income (15-30% AMI) | Very Low Income (30-50% AMI) | Low Income (50-80% AMI) | Moderate Income (80-120% AMI) |
| Studio | \$ 818 | \$ 1,363 | \$ 2,115 | \$ 3,270 |
| 1 Bedroom | \$ 935 | \$ 1,558 | \$ 2,416 | \$ 3,738 |
| 2 Bedroom | \$ 1,051 | \$ 1,753 | \$ 2,719 | \$ 4,204 |
| 3 Bedroom | \$ 1,168 | \$ 1,946 | \$ 3,020 | \$ 4,671 |

Unit size based on 1 person household in studio, 2 person household in 1 bedroom, etc.
 Housing cost based on 30% of income for housing (rent and utilities)
 Max housing cost can vary slightly, depending on each funding program's regulations.

Source: CA Department of Housing & Community Development, 2025.
<https://www.hcd.ca.gov/sites/default/files/docs/grants-and-funding/income-limits-2025.pdf>

² The 2025-26 Income Limits were published by CA HCD in early May 2025, after most of this draft was completed. The financial analysis in this report is based on the 2024-25 limits and are thus shown here.

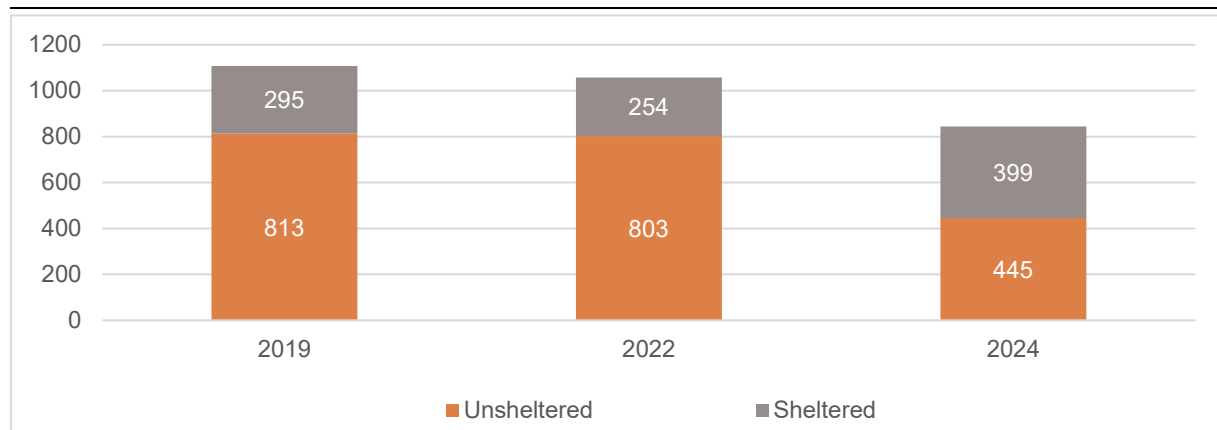
Critical Housing Needs

Berkeley’s widening gap between incomes and the high cost of rent and homeownership has created urgent housing challenges for the unhoused, extremely low-income households, low-income seniors, and Black households. The following section describes these critical needs. Detailed data for Berkeley, Alameda County, and the region can be found in Appendix B.

Critical Unmet Housing Need: Unhoused Residents

As a result of the high cost burdens relative to household income, many people experience being unhoused in Berkeley. The graph below shows the Point-in-Time (PIT) count, conducted every two years. Unhoused people are counted on a specific day by trained volunteers. The counting methodology includes identifying people both in sheltered situations (e.g., emergency shelters or similar), and unsheltered (e.g., sleeping in cars/RVs, on the street, etc.).

Figure 1: Point-in-Time Unhoused Census, City of Berkeley 2019-2024



Note: Every 2 years, communities conduct counts of people experiencing both sheltered and unsheltered homelessness. The 2024 Alameda County Point-in-Time (PIT) Count was a community-wide effort conducted on January 25, 2024. Source: Alameda County Homeless Count & Survey, 2024; THW, 2025.

The most recent PIT indicates an improvement in the number of unhoused people, declining from 1,108 people in 2019 to 844 in 2024 (a decrease of 24% for the 5-year period). The data also shows improvement in the sheltered subset, increasing from 295 people in 2019 to 399 people in 2024 (an increase of 35% provided with sheltered accommodation) and a 45% decline in unsheltered persons over the same period. Nevertheless, more work needs to be done.

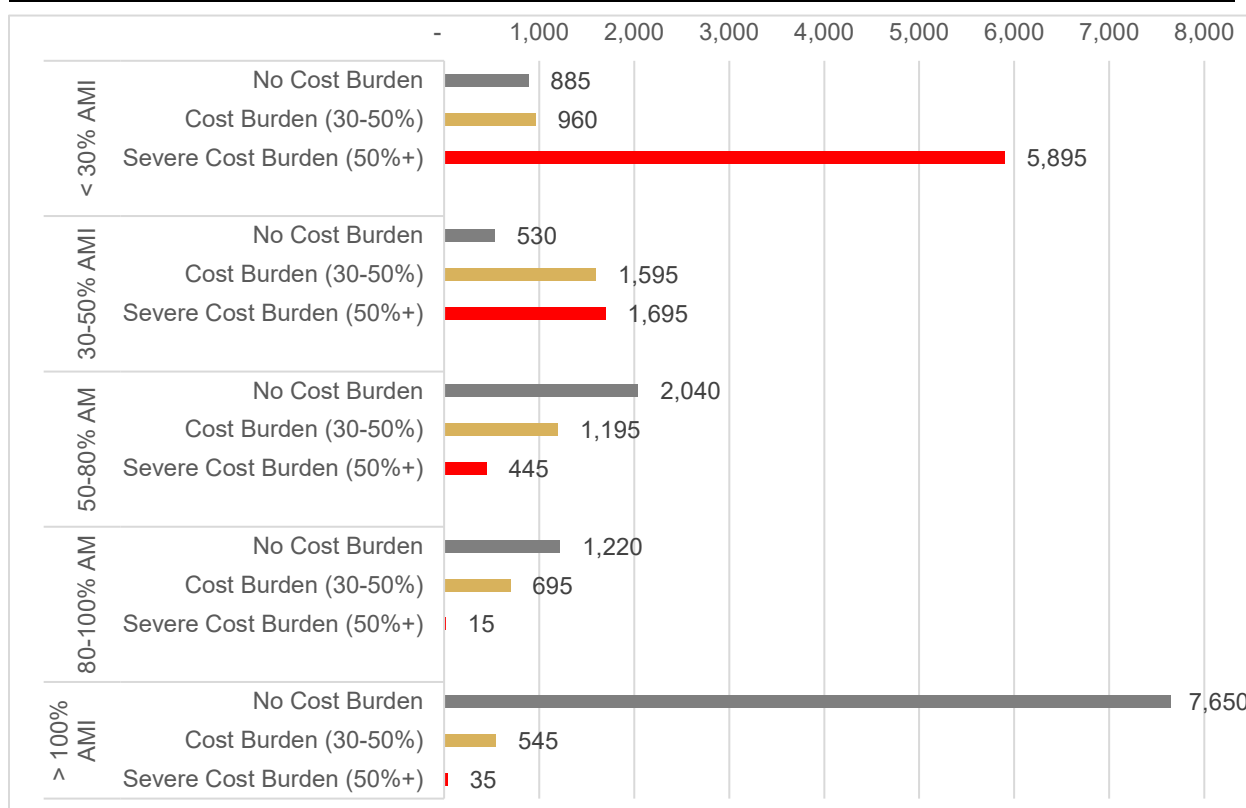
Two additional findings from the Alameda County Homeless Count & Survey, 2024 for Berkeley included that 12% of people counted were aged 65 or over, which aligns with the high cost burden among seniors with low incomes outlined later in this report. In addition, almost 43% of the people counted in Berkeley identified as Black, a disproportionate share compared to the Black/African American population in Berkeley and Alameda County.

Critical Need: Extremely Low-Income Households with Severe Cost Burdens

A key metric to identify unmet affordable housing need is housing cost burden, which means the percentage of household income paid towards rent (or mortgage) plus utilities. Housing policy analysts consider paying more than 30% of household income for housing as a cost burden, indicating lack of affordability. When a household pays more than 50% of household income for housing, analysts consider this a severe cost burden, placing the household at risk of eviction and/or homelessness, particularly in the lowest levels of income.

The graph below combines 2020 renter household incomes compiled by AMI segments with reported housing costs in 2020, to derive an estimate of renter households that were cost-burdened or severely cost-burdened.³

Figure 2: Cost-Burdened Renter Households in Berkeley, 2020



In 2020, of the 7,740 Extremely Low-Income (ELI) renter households in Berkeley, nearly 5,900 were severely cost-burdened, and another roughly 1,000 households were cost burdened

³ CHAS (Comprehensive Housing Affordability Strategy) data lags because it is based on the U.S. Census Bureau's 5-year American Community Survey (ACS) estimates, which aggregate responses over multiple years to ensure statistical reliability. While this metric is somewhat dated in 2025, it is likely that the picture it provides is still valid or even more critical, given continued trends in wealth concentration, rent and sale price increases, and inflation.

(paying 30-50% of income to rent). Altogether, about 89% of ELI households, or nearly 7,000, face a substantial risk of homelessness and are in critical need of housing assistance.

Similarly, among the 3,800 households earning between 30-50% AMI (Very Low Income), almost 1,700 households were severely cost-burdened, and another almost 1,600 households were in the less severe cost-burdened category. In total, about 86% of VLI households, or nearly 3,300 households faced critical housing needs.

In total, among the 0-50% AMI renter households, over 10,000 households were facing particularly challenging rental housing financial burdens, resulting in critical housing insecurity. It should be noted that although this data is 5 years old now, it is likely this picture has not changed substantially because rent and utility costs (along with the overall cost of living) have risen since 2020, while income increases among lower income households have stagnated for many, resulting in a likely larger critical housing need for assistance in Berkeley.

Spotlight on Seniors' Housing Cost Burden

An important subset of Berkeley's cost-burdened households are residents aged 65 and over. Many senior households are on fixed incomes in retirement (e.g., Social Security) and cannot respond easily to rising housing costs. As the population continues to age, this challenge is likely to intensify.

Berkeley saw significant growth in its senior population between 2000 and 2023, with residents aged 65 and older increasing from 10,484 to 20,085, a 92% rise. Similar trends occurred in Alameda County and the broader region, reflecting national patterns as the large "boomer" generation ages into senior cohorts.

In 2020, over 1,045 senior ELI renter households in Berkeley were severely cost-burdened, and another 535 ELI households were classified as cost-burdened. Senior households represented a disproportionate 23% of all cost-burdened renter households in this income group. Many senior renters in Berkeley need additional housing assistance to reduce their cost burdens and risk of homelessness. A social housing delivery system should account for the needs of this age group, including specialized unit designs that support aging in place and a range of supportive services for older adults.

Critical Unmet Housing Need: Black/African American Population and Household Loss

Another important aspect of unmet housing needs is tied to the marked decline of Berkeley's Black/African American population. Between 2000 and 2023, the number of Black/African American residents fell from 13,700 to 8,415, a 39% decrease. In contrast, the Hispanic/Latino population grew by 30%, adding over 13,000 residents. The White population remained relatively stable, while the Asian population increased by more than 12,600, a 75% rise.

Berkeley's racial/ethnic population changes were echoed in Alameda County and the region. For Black/African American residents, Alameda County also saw an absolute decline from 2000-2023 (dropping by 31%). The Bay Area region also experienced a similar decline, although to a lesser extent, dropping almost 20% in the same period.

The decreases in Berkeley's Black population translated into shifts in housing patterns for households with a Black head of household. Although the overall loss of households totaled 40%, the patterns varied by tenure. For Black renter households, the greatest rate of decline was in the 80%+ AMI income level. For Black owner households, the loss was greatest in the 30-50% income band, but also substantial across all income segments. In summary, Berkeley lost Black homeowners at a faster rate than Black renters between 2020 and 2023, resulting in a decrease in Black homeownership rates from 40% to 32% (see Appendix B for detail).

These shifting housing patterns and impacts on the Black/African American community in Berkeley are important because they relate directly to a history of displacement and discrimination in mortgage lending dating back decades. One step toward reparations has been to adjust the City's affordable housing preference system, to prioritize households affected by displacement. If Berkeley shifted to a social housing framework, and enhanced its affordable homeownership offerings, this could expand approaches to reparations.

Berkeley's Current Affordable Housing Delivery System

The City of Berkeley operates a number of affordable housing programs devoted to the preservation of existing housing stock, the production of new affordable housing stock, and the protection of tenants. The following summarizes key existing programs.

Rent Stabilization

Berkeley voters passed the Rent Stabilization and Good Cause for Eviction Ordinance in 1980, and voters passed a Charter Amendment to establish the Rent Stabilization Board in 1982. From 1980 to 1998, rents in units built prior to 1980 were permanently controlled so that the

rents did not change when new tenants moved in. Since the Costa-Hawkins Rental Housing Act went into full effect in California in 1999, landlords have been able to establish initial rents for new tenancies at market-rates (called “vacancy decontrol”).

Until 2024 when Measure BB was passed by the voters, the Rent Stabilization Ordinance (RSO) applied to approximately 21,500 units in multi-family properties built before 1980, and another 6,000 units not subject to rent stabilization were still covered by the just cause eviction regulations in the Ordinance. About 19,000 of these units were required to register at any given time and the other 2,000 units were temporarily exempt. According to analysis conducted during the drafting of the City’s most recent Housing Element (2023), approximately 90 percent of registered rental units in Berkeley had changed occupancy since 1999, while 10 percent have retained long-term tenants.⁴

Measure BB (2024) changed some of these rules, creating a “fully covered” category of units built before 1980 that are covered by all aspects of the Ordinance including rent control. Measure BB now requires single family homes and condominiums that are rented to also register, along with newer rental units built since 1980 are now considered “partially covered” because the eviction and tenant protection regulations in the Ordinance apply. In addition, some of the formerly exempt federally funded or state-funded rental units (typically serving lower income households) in Berkeley may now be partially or fully covered, depending on the federal or state rules applicable to the unit.

Housing Trust Fund

The City of Berkeley’s Housing Trust Fund (HTF) program supports the creation and preservation of affordable housing in Berkeley. Federal funds from the HOME Investment Partnerships Program (HOME) and the Community Development Block Grant (CDBG) are combined in the HTF with local sources such as commercial linkage fees, new market-rate housing fees paid in lieu of providing inclusionary units, and condominium conversions. Funds for HTF can also be expanded at any time, such as the 2018 Measure O voter-approved bond measure (\$135M) or state and federal grants. The City Council can also allocate General Fund revenues to HTF, such as those generated through Measure U1.

Small Sites Program

In 2018, the City of Berkeley adopted guidelines for a Small Sites Program and allocated funding to it from the City’s Housing Trust Fund. The program was established to fund the acquisition and renovation of small (i.e., 2 to 25 unit) existing multifamily projects not utilizing

⁴ City of Berkeley. *2023–2031 Housing Element*. Amended February 17, 2023. Page 114. Adopted by City Council Resolution No. 70,669-N.S.

Low Income Housing Tax Credits. The program functions as an over-the-counter funding source, with expedited review and award to facilitate purchase of existing properties on the open market. A secondary purpose is to support the conversion of properties subject to rent stabilization, to ensure these units are rent-restricted (e.g., affordable) for 55 years, compared to California law allowing vacant units to be re-rented at market-rates, which usually occurs for most rent-stabilized units in a shorter time frame. The program can also be used to convert rental housing to a limited-equity co-operative, which provides low-cost ownership to its occupants. The amount of city subsidy available per unit from this program is \$375,000 for buildings with 2-9 units, and \$300,000 for buildings with 10-25 units. Funds are structured as a loan to be repaid from residual receipts, meaning remaining net income after debt service, which may occur in stable properties in future years.

This program aligns well with the goals of social housing, especially in the realm of preservation, because the existing Small Sites Program requires buildings to have an average affordability of 80% AMI, although the City can approve limiting all incomes to 80% AMI. To date, this program has funded the acquisition and rehabilitation of four rental properties, transitioning the units subject to market forces to permanently deed-restricted affordable housing.

In 2024, Berkeley's City Council allocated \$10M over the next two years to expand the Small Sites Program. Due to its focus and benefits of renovating housing stock and creating permanently affordable units, the Small Sites program offers one pathway via additional funding expansion to promote mixed-income (e.g., social housing) conversions of existing smaller properties, and could be structured so that the City retains ownership or provides the funding to eligible nonprofit housing organizations as the current program guidelines facilitate.

Berkeley Housing Authority / Affordable Housing Berkeley, Inc.

The Berkeley Housing Authority (BHA) manages federal housing programs within the City. Unlike larger Public Housing Authorities (PHAs), the BHA currently does not own any housing units; its portfolio of 75 scattered-site units was sold to a private developer in 2014. Its primary function at present is to administer two types of vouchers, including project-based (dedicated to a unit) and tenant-based (assigned to a renter to use in the market). Recent data reported by BHA shows that it administers 1,600 vouchers (combined total) providing \$400M per year to local landlords on behalf of tenants.

In 2021, the BHA Board established a nonprofit entity, Affordable Housing Berkeley, Inc. (AHB), to serve as a nonprofit development subsidiary of BHA. Prior proceeds from the sale of BHA's properties as well as other financing mechanisms such as BHA's bonding authority could be used to develop new affordable housing in Berkeley, as discussed further in Chapter 7.

Additional Berkeley Housing Programs

The City of Berkeley has adopted numerous additional programs related to the preservation of existing housing stock and tenant assistance including rehabilitation loans for senior and disabled homeowners, a housing retention program to help tenants stay in units, a rental housing safety program, and initiatives to support rehabilitation of existing affordable housing projects. More information can be found on these programs on the City's website at: <https://berkeleyca.gov/community-recreation/affordable-housing-berkeley>.

Major City Initiatives for New Affordable Housing Production

In addition to ongoing financial and program support for the preservation of existing units (via the Small Sites Program), the financial support for new affordable production across numerous 100% affordable projects (via the Housing Trust Fund program), the production of affordable units in market-rate projects through the City's Inclusionary Ordinance, and the Rent Stabilization Ordinance, the City has been working on two large sites with special planning processes: North Berkeley BART and the Adeline Corridor Specific Plan/Ashby BART.

North Berkeley BART

The City of Berkeley has worked collaboratively with the Bay Area Rapid Transit District (BART) and local community members to plan for development of the eight-acre North Berkeley BART surface parking lot into 739 units of transit-oriented housing. A consortium of developers including Avalon Bay (market-rate) and several nonprofit housing developers (BRIDGE Housing Corporation, East Bay Asian Local Development Corporation, and Insight Housing) have received plan approvals to build 381 subsidized affordable rental units and 358 market-rate units in phases in 13 buildings ranging from three to eight stories. In 2021, the City reserved \$53M of its Housing Trust Fund to subsidize the North Berkeley BART and the Ashby BART affordable housing.



Adeline Corridor Specific Plan and Ashby BART

In December 2020, the City of Berkeley adopted the Adeline Corridor Specific Plan, which defines the Adeline Corridor plan area as all frontage properties and in some cases one block deep along Adeline Street in South Berkeley. The northern boundary is Dwight Way, and the southern boundary is just south of 62nd Street where the Oakland city boundary meets Berkeley.

This Specific Plan, which was developed over many years with extensive community outreach, seeks to revitalize the corridor and address many years of policy that impacted the Black community centered in South Berkeley. The Specific Plan involves incentivizing development through a local density bonus program along the corridor, while at the same time committing to a Plan wide goal that at least 50% of all new housing in the corridor will offer rental and ownership housing at affordable levels across all income segments including those with the lowest income and the greatest need. While the Specific Plan provides extensive density bonuses by subarea intended to incentivize inclusion of affordable housing in mixed-income projects (aimed at the VLI and LI segments), it does not detail implementation strategies to achieve the overall corridor affordable housing goal.⁵

This Adeline Corridor Specific Plan represents a significant step towards social housing because it expressly increases the current Inclusionary Ordinance goal (with a 20% affordable housing requirement for all new construction) to an incentivized “half and half” mixed-income vision for a delineated area with substantial redevelopment potential. While it does not require this half and half income mix for specific parcels, it nevertheless underscores Berkeley’s policy direction toward revitalization, anti-displacement, reparations, and transit-oriented development.

A key developable subarea within the Adeline Corridor Specific Plan is the Ashby BART station’s surface parking lots. The City of Berkeley and BART have been engaged in a multi-year process to plan for the redevelopment of surface parking lots at the Ashby BART station into a mix of affordable and market-rate units. In late 2024, after extensive planning and agreements between the City and BART to simplify ownership of two parcels and an older air rights agreement, both agencies jointly issued an RFP (due March 3, 2025) to solicit developers to build at least 600 units on the larger west parking lot, with a commitment that least half of the first 600 units will be affordable (supported by the prior City funding commitments). The City negotiated an exchange agreement with BART that will facilitate the City’s control of the site’s east lot. The agreement established that a future project will provide at least 35% affordable units on site, with a goal of 50%. A set-aside of at least 20% of the 35% affordable minimum will be reserved for Extremely Low-Income households (30% AMI). Priority for the remaining units is intended for Very Low Income (50% AMI) and Low Income (80% AMI) households.

⁵ See: <https://berkeleyca.gov/sites/default/files/2022-03/Adeline-Corridor-Specific-Plan.pdf>

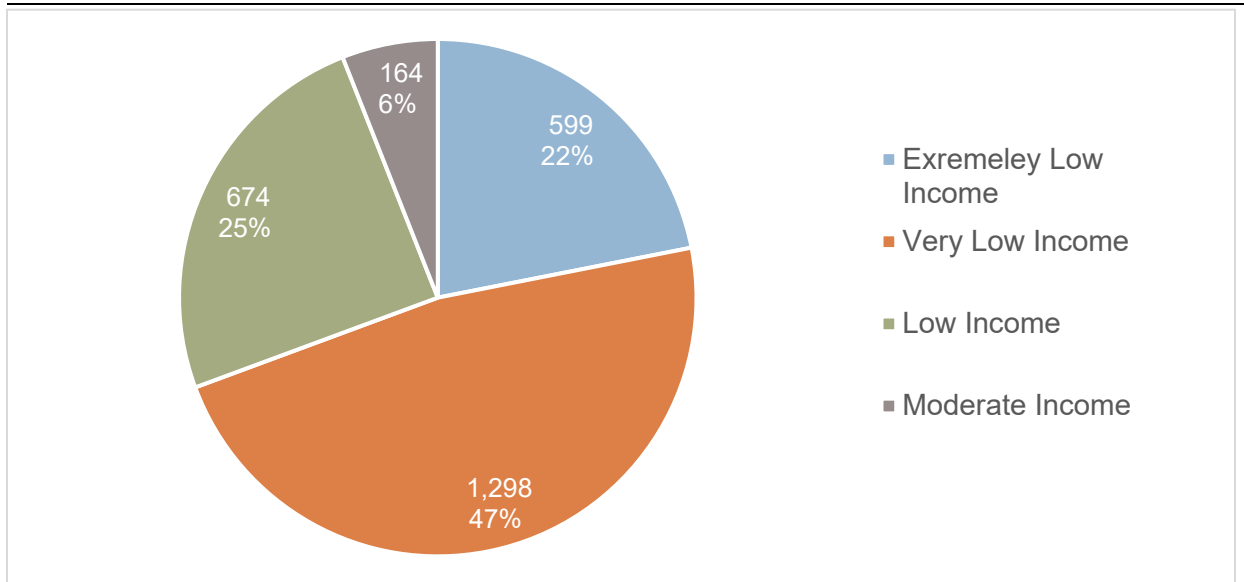
Affordable Housing Supply

This section profiles the current Berkeley affordable housing inventory, along with a summary of Berkeley’s historic and current progress meeting its Regional Housing Need Allocation (RHNA).

Affordable Housing Inventory in Berkeley

Through Berkeley’s current affordable housing delivery system, the inventory of rent and sale price-restricted units has grown substantially over the past decades, resulting in a total inventory of 2,736 units through Spring 2025.⁶ This inventory represents approximately 9% of the 2023 occupied rental units in Berkeley, which is an extraordinary achievement in the face of our national and state-level fragmented affordable housing system. Almost half of these units serve Very Low-Income households, largely because of the availability of Low-Income Housing Tax Credits (LIHTC) and Berkeley’s inclusionary income targets, which align with this AMI category.

Figure 3: Berkeley's 2025 Affordable Housing Inventory (Restricted Rents/Sale Prices)



Data based on Berkeley's 2023-2031 Housing Element, updated by City of Berkeley for this report. Source: City of Berkeley, 2025.

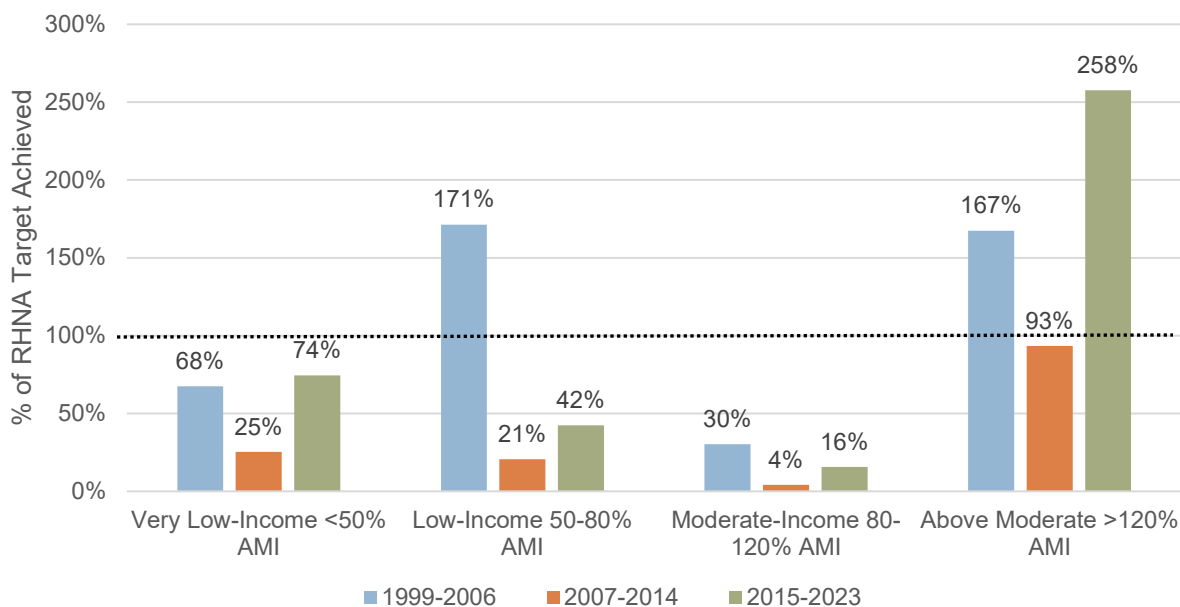
Additions to this inventory, currently under construction, or committed to through Measure O fund reservations, will add additional units to the inventory in the next several years. However, this inventory will not meet the housing needs as outlined in this report without increased funding, streamlined delivery systems, and/or major paradigm shifts.

⁶ All but 14 of these units are rentals, with 14 affordable ownership units created through Berkeley's Inclusionary Ordinance.

Progress Meeting Regional Housing Needs Allocation (RHNA) for Affordable Units

The State of California, in collaboration with each regional council of governments, allocates housing production goals by income band to every local jurisdiction on an eight-year cycle. These goals are intended to remedy past shortfalls in housing production and to plan for future population growth across income bands. Numerous state laws and eligibility for state funding are tied to reaching RHNA production goals.

Figure 4: Berkeley's Housing Production Compared to RHNA Goals by Cycle, 1999-2023



Berkeley’s long-term commitment to affordable housing, including the \$135 million Measure O bond and over \$50 million in local funds, has enabled the City to make significant progress toward its VLI targets in past RHNA cycles. These investments, along with rent stabilization, seem to be having a measurable impact. Between 2000 and 2020, the number of cost-burdened VLI renter households rose by 34% in the Bay Area and 22% in Alameda County, but only by 5% in Berkeley, suggesting the city’s policies are helping to mitigate affordability pressures.

In the current 2023–2031 RHNA cycle, Berkeley has seen slower permitting in its first two years. However, upcoming projects, such as new affordable housing at the North Berkeley and Ashby BART stations, could help the city meet or even surpass its RHNA targets. Still, new production relies heavily on the nonprofit sector’s ability to secure land and financing, often through Low-Income Housing Tax Credits (LIHTC), a funding source that faces ongoing constraints and competition.

Challenges with Low Income Housing Tax Credits

One of the main sources of financing for new affordable rental housing (as well as the acquisition-rehabilitation of larger apartment complexes) is the Low-Income Housing Tax Credit (LIHTC). While this program, initially authorized by the US Treasury in 1986, has spurred a robust nonprofit professional housing development industry in California, advocates of social housing often criticize its shortcomings.⁷ Many critiques of LIHTC projects and developers can be found in US social housing literature, some of which do not directly apply to developers or projects resulting from California's allocation system or requirements.

The following is an adapted summary of critiques that may apply to the LIHTC system as experienced in Berkeley:

- **LIHTC Projects Focus on a Narrow Part of All Housing Need.** LIHTC involves applying for either 9% or 4% credits, which in turn must meet certain eligibility rules, and then because there is extremely high demand for available LIHTC credits in any given year, projects must score very high on numerous criteria in order to be competitive. The effect of the LIHTC allocation system is that receiving an allocation is time consuming, risky, and very prescriptive in terms of serving just rental units within a band of roughly 30-80% AMI (mostly averaging below 60% AMI in California).
- **LIHTC Projects Require Complex, Costly Financial Arrangements.** The cost in terms of both professional fees and time to obtain multiple layers of additional subsidy to fill financing gaps for LIHTC-funded housing makes this method expensive. Additional subsidies with many layers (often including 5-8 other subsidy sources) are challenging to obtain, package, and time efficiently.
- **Lack of Permanent Affordability.** In California, LIHTC projects are required to maintain affordability for 55 years under regulatory agreements that set income and rent limits based on AMI. In many other states, these affordability periods are even shorter).
- **Developer Fees.** Due to several rule changes over time, LIHTC developer fees today are rising to levels approaching profit margins for for-profit developers building market-rate projects. While there are many good reasons for these fees to support developer overhead, and other arrangements frequently defer much of the developer fee until later in the project (providing a form of gap financing), some critics fear that this trend is opposite the goal of decommodification.

⁷ It should be noted that the Bay Area's high-cost cities, including Berkeley, have benefited from implementation of LIHTC in a thoughtful, sophisticated way, by the region's many active, professionalized nonprofit developers.

Many dedicated practitioners in the LIHTC sector have also sought reform of this system over the years. Advocates have debated proposals to lengthen the deed restriction period towards permanence, streamline the application and receipt of the credits in a coordinated system with other state subsidy programs, and raise the US Treasury limit on total tax credits allowed to be used annually in each state. Some policy analysts have also proposed a similar tax credit for middle income ownership housing, which would be less substantial per unit, but may stimulate production of small single-family homes, ownership ADUs, and small multifamily condominium projects in single family infill areas.

While federal and state housing policies may soon undergo reform, this mechanism is nevertheless likely to remain in place, playing a key role in providing external funding to Berkeley's affordable rental programs. Shifting to a social housing paradigm, encompassing, and building upon LIHTC while realizing its shortfalls in Berkeley, is a short-term practical approach,

Challenges with Inclusionary Housing Units

A portion of Berkeley's affordable housing inventory is produced through its Inclusionary Housing ordinance, which requires that 20% of units in a market-rate housing project be set aside at affordable rents or sale prices. Developers may satisfy this requirement by paying an equivalent in-lieu fee or using a combination of both approaches to comply with the ordinance.

Inclusionary housing programs, by design, rely on the pace and scale of market-rate housing production since the market-rate developer must satisfy the inclusionary ordinance to obtain entitlements. However, market-rate housing development is cyclical and depends heavily on economic conditions such as interest rates for debt financing, land and construction costs, market-rate rents/sale prices that create profit for the developer, and a host of other factors. When these factors shift unfavorably, market-rate projects may be delayed or canceled, leading to slowdowns in the production of inclusionary affordable units.

A social housing approach, in general, would not rely on the inclusionary housing tool, and in fact, can function in a counter-cyclical way; when market-rate production is down, or other economic conditions are contributing to a less favorable private investment climate, these moments offer opportunities for a publicly-owned or mission-driven housing entity to acquire built units inexpensively, and/or acquire entitled proposed projects, or other strategies that counterbalance market forces.

Social Housing: A Paradigm Shift

The City of Berkeley has a long track record of adopting progressive policies aimed at expanding affordable housing and protecting tenants, yet critical housing needs remain. Social housing represents a paradigm shift, prioritizing mixed-income communities, providing permanent affordability, community stability, and equitable access. It challenges the prevailing investment-driven paradigm and seeks to realign housing policy with broader social and economic equity goals. Several elements will require shifts in policy approaches, including:

- **Transitioning to a social housing paradigm will require substantial public investment and a fundamental shift in how housing is produced and financed.** Redirecting new housing construction toward social housing means reorienting a larger share of production to serve a broader mix of incomes, particularly prioritizing lower-income households who are underserved by the current market-driven system, which primarily targets those who can pay the most. Achieving this requires a range of strategies led by the public sector, including reducing land costs, lowering construction expenses, and securing a stable, long-term source of public subsidy to close financing gaps. Two core principles of social housing emphasize serving a range of incomes and ownership by public agencies or mission-driven nonprofits: because public and community ownership enables housing to be developed and managed in the public interest rather than a private profit-driven model.
- **In addition to new construction, advancing a social housing framework also requires strategies to establish permanent affordability and reduce the profit-driven dynamics within the existing housing stock.** Decommodifying housing involves implementing policies that promote permanent affordability, community control, and tenant stability. The other social housing pillars focus on permanent decommodification, tenant protections, ownership by public or mission-driven organizations, and resident governance.
- **Determining the appropriate scale for implementing social housing, whether at the city, regional, or state level, remains an open question and depends on a range of interrelated factors.** While local jurisdictions like Berkeley can play a critical role, the effectiveness and scalability of social housing initiatives are closely tied to funding and the alignment of policy authority across levels of government. A more robust and coordinated approach would require state and federal leadership to establish consistent funding streams and supportive regulatory frameworks. Regardless of the level at which implementation occurs, successful social housing efforts will require agencies with the financial capacity to support new construction, the authority to acquire and manage land for public or community ownership, and the institutional scale to align public investment, planning, and policy tools in support of long-term affordability and decommodification.

4. Social Housing Case Studies

European countries have established long-standing social housing models that offer useful lessons on ensuring affordability and housing stability. As U.S. housing programs face increasing challenges, interest in adapting these approaches has grown. This chapter presents examples from Vienna and Denmark, as well as Montgomery County (MD) and other emerging US initiatives, highlighting key features that may inform Berkeley's housing strategies.

Vienna, Austria

Vienna is consistently ranked among the world's most livable cities, due partly to its commitment to housing as a fundamental human right. Vienna's globally recognized model for high-quality, affordable housing began as a grassroots response to post-WWI shortages. Today, the city maintains this tradition through an integrated housing system that combines municipal ownership, nonprofit housing associations, affordability regulations, and support for tenants.



Vienna's Housing Finance Model

Vienna's unique status as both a city and a state gives it strong control over housing finance, supported by Austria's progressive tax system, which includes a 1% housing tax on salaries split paid by employers and employees. In 2020, Vienna allocated \$440 million to social housing initiatives. About 81% supported construction and rehabilitation, while 19% went to tenant-based subsidies, reflecting a strategy that tackles both shortage of affordable supply and the income gap that prevents households from affording housing.

The Role of Limited Profit Housing Associations (LPHAs)

Vienna's social housing model has evolved from direct municipal construction to a partnership approach. The city once built and managed all public housing, known as *Gemeindebau*, and today still owns about 220,000 units, 23% of the housing stock. Since the 1980s, Limited-Profit Housing Associations (LPHAs) have become the main developers of affordable housing. Regulated under national law, LPHAs are nonprofit, reinvest surplus revenue, and now manage around 180,000 units. Combined with municipal housing, social housing makes up 43% of Vienna's housing and serves over 60% of residents. Strict oversight ensures LPHAs maintain

affordability and financial stability.

Keeping Costs Low: Land Banking and Public Infrastructure

Vienna reduces affordable housing costs through public investment in land and infrastructure. *Wohnfonds Wien*, a quasi-government nonprofit, strategically plans ahead for growth, acquires and banks land, leasing or selling it to LPHAs at below-market rates. Vienna also covers most infrastructure costs, such as transit, schools, and parks, reducing the burden on developers. In contrast, California relies on developer fees, making projects more costly and less integrated.

In addition, Vienna's SMART Housing Construction Program reflects a creative approach to cost containment, delivering affordable, high-quality homes through efficient design with broad appeal. Introduced in 2012, this program provides compact and adaptable housing for young families, couples, single parents, and individuals. This strategy supports residents through various life stages, making it politically viable by framing housing as a universal need rather than a targeted subsidy. Between 2012 and 2017, SMART flats comprised one-third of all new subsidized housing.⁸ Together, these strategies help lower the cost of individual projects. In 2022, the average cost to build a social housing unit in Vienna was about \$245,000.⁹

Vienna's focus on cost containment also goes hand in hand with a strong commitment to livability, sustainability, and community well-being. The housing system is centrally planned to support livability, sustainability, and community. Social housing is well-designed and located near transit, schools, healthcare, and green space. The city emphasizes mixed-use, walkable neighborhoods with energy-efficient buildings closely tied to public infrastructure.

Reducing Speculation through Systematic Decommodification

Approximately 43% of Vienna's housing is protected from market pressures through a mix of nonprofit and municipally owned homes. The large share of below-market, price-controlled housing eases pressure on the private rental market by reducing demand, which in turn helps keep market-rate rents stable and limits rent escalation. Unlike the prevailing approach in the U.S. that relies on market-rate housing to eventually become affordable through filtering, these models demonstrate that directly increasing the supply of affordable housing is a more effective strategy for achieving long-term affordability. Private landlords must price competitively, knowing that many renters have access to high-quality, affordable alternatives.

⁸ Wohnfonds Wien. (2018). *Developers' competition: A model for quality assurance in subsidized housing construction*. Retrieved from https://www.wohnfonds.wien.at/media/Website%20PDF-INFO%20Downloads/English%20Information/developers_competition_web_2018.pdf

⁹ Southern California Association of Governments (SCAG). (2022). *Vienna social housing field study: Lessons for Southern California* [Presentation]. Retrieved from <https://scag.ca.gov/sites/main/files/file-attachments/cehd110322agn06-presentation.pdf?1667520495>

LPHAs in Vienna operate under Austria's cost-rent principle, which ties rents to actual documented expenses rather than market rates. This includes operating costs like maintenance, administration, and ground leases, as well as financing and certain capital costs, such as for new or recently modernized buildings. Rents are designed to cover these actual costs without generating profit. Unlike private landlords, LPHAs are prohibited from charging excessive rents, and any rent increases are strictly regulated to preserve long-term affordability.

Austria's Tenancy Act regulates rent increases even when tenants move out, preventing landlords from raising rents to market rates. Instead, rents follow set formulas based on factors like location, condition, and amenities, ensuring affordability across tenancies. About 77% of Vienna's private rental housing is rent-controlled, with only 7% of the total housing stock exempt. Through nonprofit ownership, cost-based rents, and broad rent controls, Vienna's housing system prioritizes stability and affordability over profit.

Income Limits and Waiting Lists

Vienna's social housing system is designed for broad access, with income limits set high enough to include about 80% of the population, up to roughly 180% of AMI. New buildings are intentionally mixed-income: 30–40% of units go to low-income households (below 60% AMI), 40–50% to moderate-income tenants (60–100% AMI), and 10–20% to higher earners, all benefiting from Vienna's cost-based rents.

However, there are long waiting lists due to high demand that exceeds available supply, despite the city's continued public investment¹⁰. As of recent reports, approximately 21,000 households were on the waiting list for subsidized housing in Vienna¹¹. To manage this, the city prioritizes applicants with greater need or stronger local ties. Those who have lived in Vienna for more than five years receive a time credit that moves them up the list. Applicants facing serious housing challenges, such as homelessness risk, overcrowding, disability, or being a single parent, also receive priority and faster placement. Wait times vary widely by need, housing type, and location, ranging from a few months to several years.

Building Tenant Trust Through Transparency: Vienna's Annual Cost Statement

Vienna's rental system ensures transparency by requiring landlords to provide tenants with an annual cost breakdown. Each year, landlords must issue a reconciliation statement comparing

¹⁰ Andersson, J. (2023, September 6). *Vienna's social housing model: Celebrated but misused*. Social Europe. Retrieved from <https://www.socialeurope.eu/vienna-social-housing-model-celebrated-but-misused>

¹¹ Burgis, B. (2023, September 21). *The hidden failures of social housing in Red Vienna*. Reason. Retrieved from <https://reason.com/2023/09/21/the-hidden-failures-of-social-housing-in-red-vienna/>

tenants' rent payments to the actual expenses incurred. This system gives tenants a clear view of what their rent covers and allows them to inspect receipts to verify accuracy. Beyond its practical benefits, this transparency builds public trust by showing that rents are tied to actual costs, not profit, reinforcing confidence in both the system and its nonprofit housing providers.

Other Notable Features

Vienna's social housing system is notable for its comprehensive tenant services. The system includes strong eviction protections to prevent displacement. It also offers a range of tenant services, such as rent vouchers for low-income households, housing placement help, support in forming cooperatives, and programs to build community. Many developments provide on-site services like childcare, youth programs, and support for seniors or people with disabilities.

Unlike in the U.S., tenants in Vienna can increase their income without losing housing, avoiding disincentives to upward mobility. While some argue this limits access for lower-income households, it also promotes cohesion by allowing residents to remain in their communities.

Vienna also offers a sustainable alternative to homeownership. With affordable lifelong rentals, transferable leases, and strong public benefits like pensions and education, families can achieve housing security without owning property, supporting intergenerational stability without private wealth accumulation.

Denmark

In Denmark, social housing is provided by nonprofit associations and operates on the principle of universal access, meaning housing is open everyone, not limited by income. In 2024, one in six Danes - or 960,000 people - lived in social housing.¹² Social housing is one pillar of Denmark's broader welfare system, which guarantees universal healthcare, free education through university, affordable childcare and eldercare, and strong social supports, all funded by high taxes.

While Danish social housing shares features with Vienna, including rent control, cost-based rents, quality design, and public subsidies, this analysis highlights the distinctive elements of the Danish model that may offer useful insights for Berkeley. These include how universal access works in practice, Denmark's unique tenant-led governance structure, and the role of its national revolving loan fund.

¹² BL Danmarks Almene Boliger. *Beboere i Almene Boliger* [Residents in Social Housing]. Available at: <https://bl.dk/viden-kartotek/beboere/> [Accessed February 25, 2025].

Social Housing Associations

While Vienna's social housing model consists of a mix of public and nonprofit housing, Denmark's system is decentralized, with a network of over 500 nonprofit housing associations managing the sector. Regulated by the government, these associations collectively manage about 560,000 units, or 21% of the country's housing.¹³ Some operate nationally, others focus locally or on specific groups like students. This system is akin to the Bay Area's network of nonprofit developers and community land trusts.

How Universal Access Works in Practice

Denmark's social housing system is universally accessible; anyone can apply, regardless of income. However, with only 21% of housing designated as social housing, demand often exceeds supply.

There are three main ways to access social housing:

1. **Municipal Allocation** – Up to 25% of vacant units are reserved for people with urgent needs, such as low-income households, people with disabilities, the homeless, refugees, or the unemployed. This system allows municipalities to address local housing challenges by ensuring that a portion of social housing is reserved for vulnerable populations in need of immediate assistance. Local governments manage these placements in partnership with housing associations.
2. **Flexible Allocation** – Designed to promote social and economic diversity and prevent the overconcentration of vulnerable populations, this system provides flexibility to advance certain priorities. This includes employed individuals (to encourage economic diversity), students (for housing near universities), seniors (for age-friendly housing), families with children (to promote stability) or people relocating due to life changes. Criteria vary by municipality.
3. **General Waitlist** – Open to all, with no income or residency requirements. It works on a first-come, first-served basis. Applicants register with a housing association, and in major cities, centralized lists allow applications to multiple associations. Wait times vary; over 10 years in cities like Copenhagen, but much shorter in smaller towns.

In Aarhus, flexible allocation boosted the share of employed tenants in certain neighborhoods. Copenhagen used it to prioritize students and recent graduates, helping support education and workforce entry through affordable, shared housing. These three waitlists run in parallel to balance equal access, urgent needs, and community diversity in Denmark's social housing.

¹³ OECD (2022), *Affordable Housing Database* - OECD, <http://www.oecd.org/social/affordable-housing-database.htm>.

Social Housing Resident Composition

Denmark's social housing is high-quality and affordable, but not everyone chooses it due to limited availability, location, and preference for private housing.

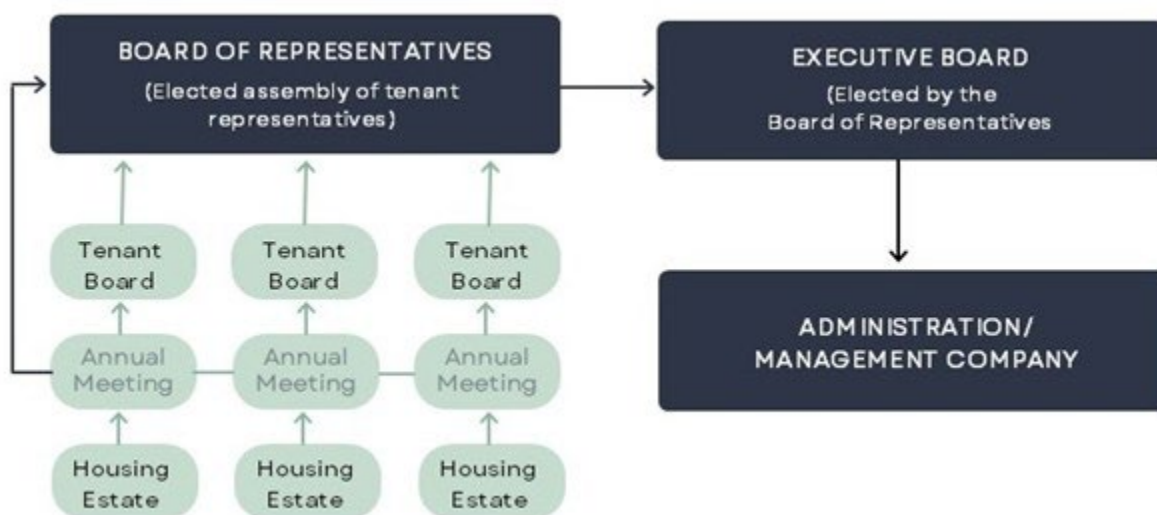
Social housing in Denmark mainly serves low-income individuals, young adults, seniors, non-Western immigrants, single-person households, and those receiving public assistance. A 2017 study by BL Danmarks Almene Boliger,¹⁴ found that 67% of social housing tenants lived alone (compared to 38% in the private sector), including concentrations of younger adults (25% were aged 18-34) and elderly adults (7% were over 80). Additionally, 83% of social housing households earned below the median income, with a higher reliance on public benefits than private renters.

Though access is not income-based, wealthier households tend to choose private housing, while lower-income groups are more likely to live in social housing, reflecting a natural sorting based on income, needs, and lifestyle.

Organizational Structure and Operations

Denmark's social housing is known for strong tenant involvement, but it is also supported by a structured governance system with three main parts: tenant boards, an executive board, and professional property management.

Figure 5: Governance Structure of Danish Housing Associations



¹⁴ BL Danmarks Almene Boliger. *Beboersammensætning – Resident Composition*. August 7, 2017. Available at: [BL Danmarks Almene Boliger](#) [Accessed February 25, 2025].

Tenant Boards

Each housing estate elects a tenant board to represent residents. These boards do not handle daily operations but play a key role in gathering feedback, setting community priorities, and shaping the annual operating budget with management. They can propose changes like added services or renovations, though certain costs (like taxes and capital expenses) are fixed. All residents vote on the building's budget at an annual meeting, and tenant boards can raise concerns about management to the Board of Representatives if needed.

Board of Representatives

At the annual meeting, residents also elect members to a larger Board of Representatives. This board approves budgets, oversees major policies, and makes decisions on large projects like renovations or property sales.

Executive Board and Management

The Executive Board provides professional oversight and includes tenant representatives, experts in finance or real estate, and sometimes local officials. This board hires a professional administrator to handle day-to-day operations like maintenance, tenant services, and rent collection, while also ensuring financial sustainability and compliance with regulations. Some organizations serve as administrators for multiple nonprofit housing associations. In 2022, KAB managed 64,000 dwelling units across more than 500 estates for 60 nonprofit housing associations and municipalities in Denmark. This system balances resident governance with expert oversight to manage Denmark's social housing effectively.

National Building Fund

The National Building Fund (*Landsbyggefonden*) is a cornerstone of Denmark's social housing system. Established in 1967, its primary role is to support and strengthen the nonprofit housing sector. Rather than depending on ongoing government subsidies, the fund is sustained through tenant rent contributions. When a housing association finishes repaying its construction loans, the portion of rent that was used for debt service is not reduced. Instead, that same amount is redirected to the National Building Fund, which reinvests it back into the housing system. This creates a self-sustaining, revolving funding model.

New social housing developments are typically financed through a mix of long-term mortgage loans (covering about 88% of costs), interest-free municipal loans (around 10%), and small tenant deposits. Housing associations repay these loans over time using rental income from tenants, with rents set on a cost-recovery basis.

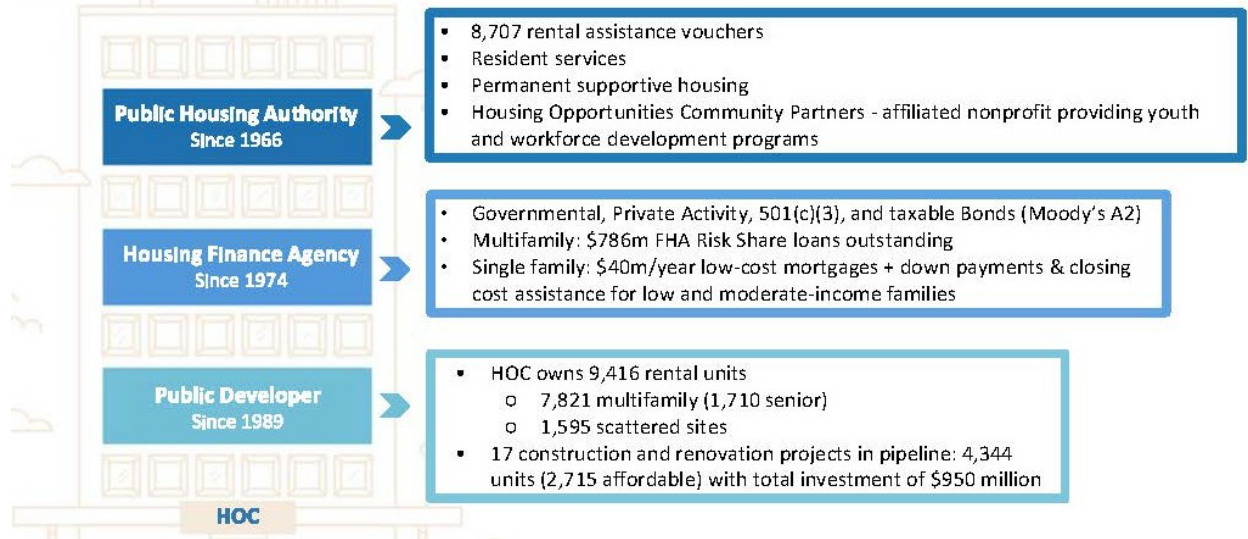
A key feature of the Danish model is what happens after the loans are repaid. Tenants continue to pay the same rent, but the funds that previously covered mortgage payments become surplus contributions to the National Building Fund. These pooled contributions are then used to: (1) renovate and modernize aging housing, (2) build new social housing, (3) support financially vulnerable housing associations, and (4) fund social and community programs.

By recycling surpluses from paid-off estates, it ensures continuous investment in the housing stock and the well-being of residents. This self-financing loop keeps the sector robust through economic cycles and reduces pressure on government budgets.

Housing Opportunities Commission (Montgomery County, MD)

The Housing Opportunities Commission (HOC) of Montgomery County, MD was founded in 1974 as a public agency that works to provide stable and affordable housing for county residents. What makes HOC unique is that it combines the roles of a public housing authority, a housing finance agency, and a public developer, all in one organization. This allows HOC to take a more comprehensive approach to solving housing challenges.

Figure 6: HOC - Public Housing Authority, Housing Finance Agency, and Developer



Source: HOC, 2024.

As a public developer and housing lender, HOC has long used its ability to issue bonds to finance affordable housing. In the 2010s, it used the federal Rental Assistance Demonstration (RAD) program to convert its public housing into long-term, voucher-supported units. It financed these renovations using tax-exempt bonds from its own Multifamily Program. As an FHA risk-

share lender, HOC can also offer fixed-rate, low-cost loans with long repayment periods, which helps keep project costs down.

More recently, HOC has shifted toward developing larger, mixed-income projects that include both affordable and market-rate units. This approach avoids delays tied to limited tax credits and allows for faster development. While typical affordable housing projects in the county have about 130 units, HOC's mixed-income projects range from 250 to 450 units. With a 30% affordable set-aside, these larger projects still deliver between 75 and 135 affordable units, similar to traditional projects, but at a greater scale and with fewer financing delays.

Housing Production Fund and Public Ownership

The Housing Production Fund (HPF) is a financing tool that helps HOC build mixed-income housing with deeper affordability than most inclusionary housing policies. While many local laws require just 10–20% affordable units, HOC projects funded through the HPF must include at least 30% affordable housing, 20% for households earning 50% of the area median income (AMI) or less, and 10% for those earning around 65–70% of AMI.

The HPF is a revolving loan fund created in 2021 with an initial \$50 million in bond financing, backed by annual county contributions for debt service. Another \$50 million was added in 2022, bringing the fund to \$100 million. It provides short-term construction loans, typically repaid within five years through long-term financing like tax-exempt bonds. This repayment replenishes the fund for future use. By using public financing instead of private equity, HOC keeps ownership and control of its projects, allowing it to prioritize long-term affordability and tenant protections. The model works because about 70% of units in these developments rent at market rates. This higher-income portion of the project helps cover operating costs and subsidizes the affordable units. HOC also often builds on publicly owned land, like former public housing sites, which helps keep development costs down. For example, The Laureate, the first HPF-backed project, was built on the site of a former 95-unit public housing development next to a Metro station. HOC also purchases land at market value, but public land helps stretch dollars further.

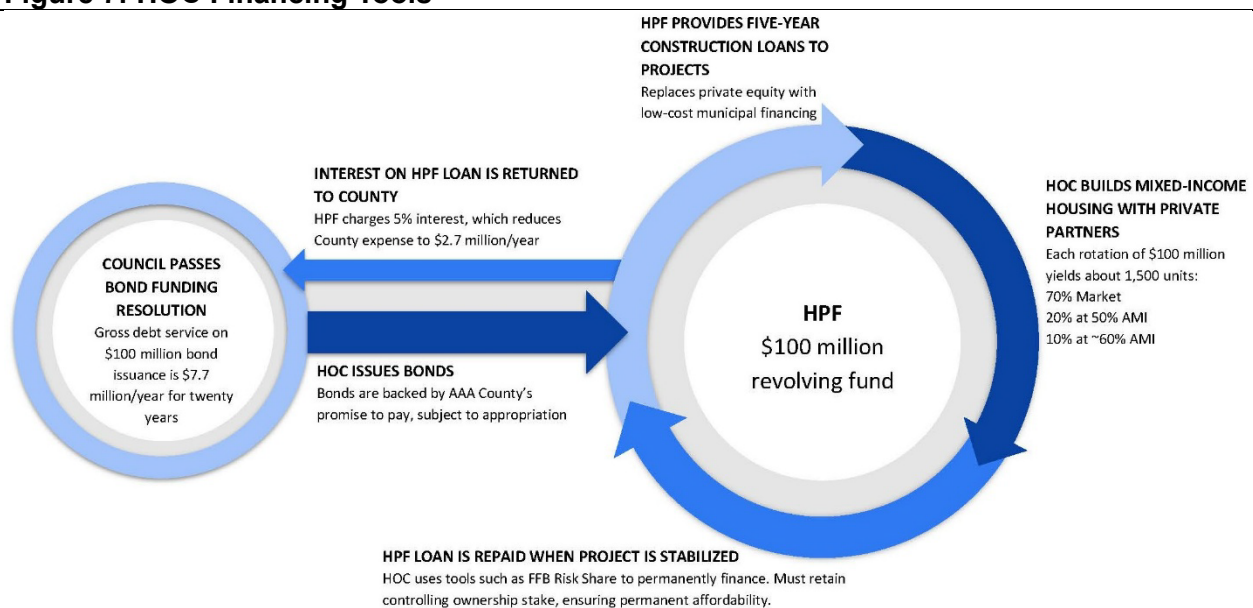
Other tools improve the financial viability of HPF projects. These include property tax abatements for publicly owned developments and access to low-interest, long-term loans through the FHA risk-share program. Together, these advantages boost cash flow and make mixed-income projects financially sustainable while meeting public goals.

HOC takes a different approach from most affordable housing developers by keeping majority public ownership of its projects. It acts as both the developer and long-term owner, unlike the common model where nonprofits or private companies build and manage affordable housing

using tax credits. This strategy is a modern version of traditional public housing—except HOC focuses on mixed-income developments.

By holding onto its properties, HOC can ensure permanent affordability, since income restrictions do not expire. However, this also means HOC is responsible for long-term management and maintenance. It handles this through its own Property Management Division, which oversees building operations and resident services. While this model gives HOC greater control, it also comes with risks, especially since most of its units are rented at market rates, making the agency more vulnerable if demand drops or the market becomes oversupplied.

Figure 7: HOC Financing Tools



Source: Montgomery County HOC, 2024

Project Example: The Sage

The Sage at Westside Shady Grove is a planned mixed-use, mixed-income community located one block from the Shady Grove Metro station. It will include 413 apartments, with 30% (123 units) set aside as affordable housing. Of those, 83 units will be for households earning 30–50% of the area median income (AMI), and 40 units for households earning up to 65% of AMI. The project will also include 7,000 square feet of retail space, planned as a public library, along with amenities like a pool, fitness center, e-lounge, pet spa, and an entertainment kitchen. A five-story parking garage with 545 spaces will serve residents. The building is being designed to meet LEED certification, with solar panels and accessible design features. Construction is expected to begin in summer 2025.

Originally, the project was a joint venture between HOC and private developer EYA, who had rights to purchase the site from Montgomery County. However, EYA transferred its rights to HOC, making it a fully publicly owned project. This allowed HOC to use tax-exempt bonds without hitting state-imposed limits on private activity bonds. HOC bought the site from the county for \$3.6 million, about \$12,400 per market-rate unit.

To manage the project, HOC created a special-purpose entity to own the site and oversee development. EYA will stay involved as the development and construction manager, receiving a development fee and fixed monthly payments.

Because the project is 100% government-owned, HOC can use lower-cost tax-exempt financing. The total development cost is \$178 million, or about \$431,000 per unit. Most of the funding will come from HOC-issued tax-exempt bonds through an FHA Risk Share mortgage. This loan will convert to long-term financing once the building is complete. Additional funding includes \$10 million in equity from HOC's Opportunity Housing Reserve Fund, a \$29 million loan from the Housing Production Fund (HPF), and \$5 million from the Montgomery County Green Bank to support energy-efficient design.

Emerging Social Housing Initiatives in the US

There is growing momentum for social housing across the United States, with several public sector initiatives already underway or currently being explored, including:

- **California Stable Affordable Housing Act of 2023 (SB 555).** Signed into law in late 2023, this bill directs the State to complete a study on social housing for low- and moderate-income households by the end of 2026. The study will explore how social housing can be developed, owned, and managed by public agencies, local authorities, limited-equity cooperatives, or mission-driven nonprofits for the benefit of residents who cannot afford market rents. The law defines social housing as housing that includes a mix of income levels, from extremely low to moderate income. The California Department of Housing and Community Development (HCD) has contracted the Turner Center at UC Berkeley to lead the study.
- **Public Development and Ownership of Housing: A Feasibility Study for Rhode Island.** This NYU Furman Center study looks at U.S. social housing models based on public ownership. It groups them into three types:
 - **Mixed-Income Models** (e.g., Montgomery County, MD; Atlanta, GA; Chicago, IL), which use low-cost revolving loan funds to help finance mixed-income

projects, sometimes resulting in public equity ownership.

- **Public Housing Conversions** (e.g., Boston, MA; Cambridge, MA; Hawaii), where existing public housing is redeveloped and expanded while maintaining public ownership.
- **100% Affordable Models** (e.g., Dakota County CDA in Minnesota), where public or quasi-public agencies own and operate entirely affordable housing.

The study includes financial analyses and practical tools for implementing each model.

- **Seattle Social Housing.** This voter-approved public development authority, established in 2023, is focused on publicly owning permanently affordable housing in Seattle. Inspired by models like HOC, the authority aims to serve households earning up to 120% AMI. It has formed a governing board and appointed a CEO. In February 2025, voters approved a second ballot measure, Proposition 1A, which will fund the initiative by taxing employers 5% on employee compensation exceeding \$1 million annually.
- **City of San Francisco Social Housing Feasibility Study.** In 2020, San Francisco passed Proposition I, increasing the transfer tax on property sales over \$10 million. Although the funds are not officially earmarked, the measure was promoted as a way to fund social housing and is expected to generate \$103 million over two years. That same year, the City established the Housing Stability Fund to support permanently affordable housing with public, nonprofit, or resident ownership. These projects must serve income-qualified households, with average incomes across all units kept below 80% of the zip code's median income.

In 2024, the City's Budget and Legislative Analyst released a report on the financial feasibility of mixed-income social housing. Unlike traditional affordable housing, which targets only low-income households, the models studied included a mix of incomes, about half the units for households earning below 80% of AMI and half for those earning up to 110%. Because these models include higher-income tenants, they are not eligible for most federal and state affordable housing programs and would need to rely on local funding.

Four of the six models studied required upfront subsidies of \$29–\$62 million (or about \$430,000–\$490,000 per unit) and assumed access to low-interest loans. With these assumptions, five models were financially viable; the one that was not assumed an 8% interest rate. The report recommended starting with households near 100% of AMI and phasing in deeper affordability over time. It also called for exploring governance models and new local funding strategies to support social housing in the long term.

Figure 8: Summary of Case Studies

| | Vienna | Denmark | Montgomery County Housing Opportunities Commission | Berkeley |
|--------------------------------------------------------------|----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|
| Publicly or mission-driven owned | Mix of municipal government and non-profit owned (LPHAs) | Mostly non-profit owned | Mix of HOC / non-profit owned | Mostly non-profit owned |
| Protected from transfer to for-profit entities | Cannot be sold at market prices or used to generate profits for shareholders. | Cannot be sold to for-profit entities, except in rare cases | No prohibition against transfers to for-profits, though HOC prioritizes long-term affordability | LIHTC lacks permanent protections; some deals include a non-profit/tenant right-of-first-refusal. CLTs offer long-term protections. |
| Permanently affordable and protected from market speculation | Permanently affordable; cost-rent principle with no profit allowed. | Permanently affordable; cost-rent principle with no profit allowed. | Affordability term limited based on regulatory agreements | Affordability term limited, based on regulatory agreements; inclusionary units are affordable in perpetuity |
| Inclusive of a broad income range | 0-180% | No income limits | Varies based on the funding source | Varies based on the funding source |
| Tenant governance | Tenant input available | Tenant governance and participatory budgeting | Tenant input available | Tenant input available |
| Resident stability | Rent transparency, security of tenure, transfer rights, protections against unjust evictions | Rent transparency, right to form unions, security of tenure, protections against unjust evictions | Rent stabilization, right of first refusal to purchase, rights to form tenant unions | Rent stabilization, just cause protections, right to form unions (Measure BB), notification rights |

Summary of Case Studies and Application to Berkeley

Below are key takeaways from the case studies and how they can be applied to Berkeley:

- **Social housing can be effectively owned and managed by government entities AND nonprofit organizations.** Both Denmark and Vienna started with government-led housing after World War II but have since evolved. Denmark's system is decentralized, built, and managed by a network of over 500 nonprofit housing associations. Vienna shifted from direct public production to a model led by LPHAs.

Berkeley has a well-established network of nonprofit developers and community land trusts, supported by the city's track record of capacity-building investments that have helped sustain this ecosystem over time. Berkeley's affordable housing delivery system mirrors the approach taken in these European social housing models, where nonprofit entities, rather than public agencies, play a central role in delivering affordable housing. Even HOC, a public housing authority, often partners with private entities through public-private partnerships to carry out its projects.

Berkeley should continue investing in the capacity of its nonprofit partners and convene the groups to strengthen coordination and identify opportunities for deeper collaboration. Additionally, BHA is expanding its role in acquisition-rehabilitation through its nonprofit arm. In partnership with BHA, the City could explore the feasibility of a municipal public development entity to further support social housing production.

- **Social housing plays a transformative role when it represents a substantial share of the overall housing stock.** In Denmark, social housing comprises 21% of all homes. In Vienna, the impact is even more pronounced: the city directly owns 23% of the housing stock, while LPHAs own an additional 20%. Unlike the prevailing approach in the U.S. that relies on a piecemeal approach, the scale of public / nonprofit inventory in these European examples demonstrate that directly increasing the supply of affordable housing is a clear and effective strategy to stabilize prices and support an inclusive urban environment.

As of 2025, Berkeley had 2,736 deed-restricted affordable housing units, comprising 9% of the occupied rental units in the city. Looking forward, the city could consider setting a long-term social housing target to help guide policy and investment, such as defining the share of the overall housing inventory that should be permanently affordable.

Rent stabilization with vacancy control is another key policy that complements social housing by helping to decommodify the rental market. Prior to the passage of Measure BB in 2024, Berkeley's Rent Stabilization Ordinance covered about 21,500 units built before 1980, with an additional 6,000 units protected under just cause eviction rules. While previous efforts to reform the Costa-Hawkins Rental Housing Act have not succeeded,

regaining the ability to implement vacancy control would provide Berkeley with a powerful tool to preserve affordability and reduce speculative pressures in the housing market.

- **A long-term commitment to sustained funding is essential to scaling production.** Vienna uses a 1% housing tax on wages, split between employers and employees, which raised \$440 million in 2020 for construction, rehabilitation, and tenant subsidies. In the U.S., cities like Seattle and San Francisco have taken similar steps by taxing high earners and luxury property sales to support social housing. HOC also shows how a public agency can use tools including tax-exempt bonds, project-based vouchers, and revolving loan funds to fund new housing.

Berkeley should develop a long-term funding strategy to support social housing. In the near term, the City can leverage existing tools like CalHFA's Mixed-Income Program and partner with emerging funds such as the Bay Area Housing Innovation Fund (BAHIF). Over time, Berkeley should explore dedicated revenue sources, such as a local tax, while continuing to use strategies like cross-subsidies and tax exemptions. Sustained, reliable public funding is essential to ensuring the long-term success of social housing efforts.

- **Cost containment as a central strategy for production.** Vienna and Denmark employ tools such as land banking, coordinated infrastructure planning to reduce individual project costs, and innovative housing typologies to keep production expenses low. At the same time, they maintain a strong emphasis on design quality and sustainability, recognizing that subsidized housing must remain visually appealing and well-integrated into the broader urban environment.

In Berkeley, there is a more limited supply of developable City-owned land, as discussed in Appendix A. Nevertheless, there are some City-owned facilities that could be redeveloped, and other public agencies that may hold underutilized land such as UC Berkeley, the Berkeley Unified School District, BART, and other state and regional agencies. In addition, the City, especially in the current high development cost environment, could purchase properties for redevelopment (much as California local governments did under California Redevelopment Law). As discussed in the next chapter, the city could also acquire smaller apartment complexes subject to rent stabilization and implement social housing as an expanded housing preservation and decarbonization strategy.

- **Vienna and Denmark offer human-centered approaches to eligibility for housing at all stages of life.** In Denmark, income is not a factor defining eligibility; instead, the various housing associations operate within a flexible system, seeking to provide housing to all that request it. In Vienna, income limits exist, but are defined more broadly than in the US, with eligibility up to 180% AMI, ensuring widespread access to affordable housing.

The next chapter presents financial proformas modeling various income mixes, enabling Berkeley to assess trade-offs and use the findings to inform its social housing targets. Another way to approach this is through a life-cycle lens. Rather than viewing affordable housing as something only for low-income households, it can be framed as a resource that supports people through different stages of life: young adults, families, and seniors. This universal framing helps build broader political support by positioning housing as a shared, long-term need rather than a narrowly targeted subsidy.

- **Denmark and Vienna offer important lessons on how to structure waitlists to support residential mobility within the system.** Their models take a human-centered approach, allowing residents to move within the system as their needs change, whether due to job relocation, family growth, or aging.

While Berkeley already has its own preference system to prioritize certain populations, such as those displaced by redevelopment or people experiencing homelessness, the overall lack of affordable housing limits the ability to stabilize or adapt to life transitions. For example, there is no clear pathway for someone in LIHTC housing to “graduate” to a limited-equity cooperative. In contrast, Denmark and Vienna design their systems to accommodate such shifts, with flexible waitlists and transfer mechanisms. Berkeley could build on its existing framework by introducing streamlined transfer processes, mutual exchange programs, and better coordination across providers, creating a more adaptive, life-cycle-oriented housing system.

- **An often overlooked but critical aspect of social housing systems is the role of demand-side support, particularly the broader social safety net.** For example, in Vienna, 19% of social housing funding is allocated as direct assistance to households. In Berkeley, this may mean providing rental assistance or tenant vouchers to help low-income households afford their homes, especially since the income distribution in Alameda County means that the AMI limits translated to “affordable” rents often are still unattainable for many households. While Berkeley may not currently have the resources to fund a local voucher program, BHA does administer a limited number of vouchers.
- **Establishing meaningful tenant governance requires formal structures, education, and a balance between resident power and professional management.** Tenant governance is fundamentally different from tenant input. In Denmark, governance is formalized; for example, tenants are required to vote on their building’s annual budget at a mandated annual meeting. This goes beyond consultation and gives residents real decision-making power. In contrast, the U.S. largely lacks formal governance structures in housing; most tenant participation is voluntary and advisory, with limited influence on actual decisions.

Moving toward true governance in the U.S. would require piloting new structures and investing in tenant education. One potential step could be implementing cost transparency practices similar to Vienna's annual rent reconciliation statements in publicly funded housing. These tools could help tenants better understand housing finances and prepare them for governance roles. Measure BB creates a potential entry point in Berkeley by allowing tenants to form unions within rental properties, an early step toward collective power. However, Denmark's experience also shows that tenant governance must be balanced with financial oversight and professional property management to ensure long-term housing stability and performance.

- **HOC provides a U.S.-based example of how elements of a social housing model can be adapted within a conventional affordable housing finance system.** Evolving from its origins as a public housing authority, HOC now develops both mixed-income and fully affordable projects, often through public-private partnerships. In its mixed-income developments, particularly those funded through the Housing Production Fund, HOC retains an equity stake, maintaining public ownership and long-term control. HOC brings a full set of tools to the table: low-cost construction financing, property tax exemptions, and the use of market-rate units to cross-subsidize up to 30% affordable housing. It also uses its public status to issue tax-exempt bonds outside the federal volume cap, allowing it to finance affordable projects without competing for scarce state bond allocations.

This model is especially relevant in places like Berkeley, where many entitled projects remain unbuilt and could benefit from a public-led delivery strategy.

- **Both Denmark's National Building Fund and HOC's Housing Production Fund operate revolving funds that reinvest in social housing, but through different models.** Denmark's fund is sustained by surplus rent from paid-off social housing loans, redirected to support renovations and new construction, creating a long-term, self-financing system rooted in tenant contributions. HOC's Housing Production Fund, by contrast, uses public bond financing repaid through project-level permanent financing to recycle capital into future developments. Both approaches reduce dependence on private capital and ensure ongoing reinvestment in permanently affordable, publicly guided housing.

5. Financial Modeling for Social Housing in Berkeley

As noted in the case studies, a comprehensive social housing program includes several key elements: access to public land at no or low cost, effective cost containment to maximize public subsidies, sufficient funding for development or acquisition/rehab as well as operating deficits in certain models, the stabilizing role of vouchers in supporting tenants, and a reconsideration of occupancy eligibility criteria to promote income diversity and long-term stability.

To test the feasibility of creating a pilot social housing program in Berkeley, this report incorporates analysis of available City-owned land, interviews with stakeholders such as nonprofit housing organizations, community land trusts, and advocacy groups (see Appendix A for a full list), financial modeling of mixed-income approaches through a series of pro formas on both new construction and acquisition models, and discussions with potential occupants regarding socialization and governance within mixed-income projects.

The financial analysis examines two scenarios: one involving the acquisition and rehabilitation of a recently sold 21-unit building on Dwight Way, and a new construction project proposed on Shattuck Avenue within the Adeline Corridor Specific Plan Area. These scenarios were designed to test rental and homeownership models. While the income targets vary based on tenure and product type, the intent was to examine two distinct alternatives to help orient a social housing policy in Berkeley.

- **Cross Subsidization.** Inspired by Montgomery County's HOC, this scenario uses a cross-subsidy, where revenue from market-rate units helps cover the cost of providing more affordable housing.
- **Predominantly Affordable.** The second scenario mirrors a Vienna-style approach by providing units affordable to households at 30%, 50%, 80% of AMI, alongside market-rate units, to foster income diversity within the building.

The analysis estimates the total public subsidy required and evaluates cost-effectiveness using measures such as the subsidy per affordable unit. It also examines how each model addresses Berkeley's unmet housing needs.

City-Owned Land

This study began with an extensive review of City-owned land to formulate project designs that would physically illustrate tangible social housing projects; however, none of the sites identified in previous staff studies were suitable for the purposes of this analysis.¹⁵ Most were either too

¹⁵ See: <https://berkeleyca.gov/sites/default/files/documents/2019-10-29%20Item%2037%20Referral%20Response%20City%20Property%20for%20Affordable.pdf>

small (yielding less than 10 units total) or contained City facilities with existing departmental renovation plans. Redeveloping these properties would require additional input from City agencies, direction from City Council, or potential legal changes. One potential opportunity was a 0.5-acre, vacant lot at the North Bowling Green property, but community discussions have focused on converting it into parkland. Developing the site for housing would require a ballot measure in keeping with Measure L (see Appendix A for description of methodology and review of available City-owned land).

Given the limitations, this study shifted focus to identifying an acquisition/rehabilitation opportunity, and a new construction site in the Adeline Corridor Specific Plan area. The Specific Plan's commitment to ensuring 50% of all new housing built in the Adeline Corridor will be affordable aligns closely with the outcomes observed in European social housing case studies, making it a fitting context for analysis. Moreover, a separate set of new construction models was developed to test how key social housing tools, such as no-cost land, low-cost financing, and cost reductions impact overall project feasibility.

Concept 1: Acquisition/Rehabilitation of Existing Housing

Acquiring and rehabilitating existing buildings is a cost-effective social housing strategy that preserves affordability, prevents displacement, and strengthens neighborhood stability. While rent stabilization keeps rents affordable for current tenants, unsubsidized affordable housing can reset to market rates when they become vacant. Before the Costa-Hawkins Act, cities used vacancy control to maintain affordability between tenants, an approach similar to European examples.

Since state law now prohibits vacancy control, one alternative is to transition unsubsidized rental properties into nonprofit or public ownership. This allows for rents to be regulated based on long-term affordability goals rather than market returns, preserving access for lower-income households. Rehabilitating existing buildings also supports climate goals by improving energy efficiency and reducing construction-related waste.

1626 & 1654 Dwight Way

This two-building complex, located at 1626 & 1654 Dwight Way between California Street and McGee Avenue in central Berkeley, contains 21 one-bedroom units, each measuring 600 square feet each. Despite the separate addresses, the buildings are adjacent to each other and form a single property on the south side of Dwight Way near Jefferson Street. After undergoing modest rehabilitation, the complex was sold in 2023 for \$250,000 per unit. Designed in a motor hotel style, the two buildings face each other across a small central courtyard, which features a swimming pool. On-site surface parking is limited, with two spaces in front of one building and another seven spaces behind the complex. The surrounding neighborhood contains a mix of well-maintained, historic single-family homes, including Victorian and 1920's Mediterranean style residences.

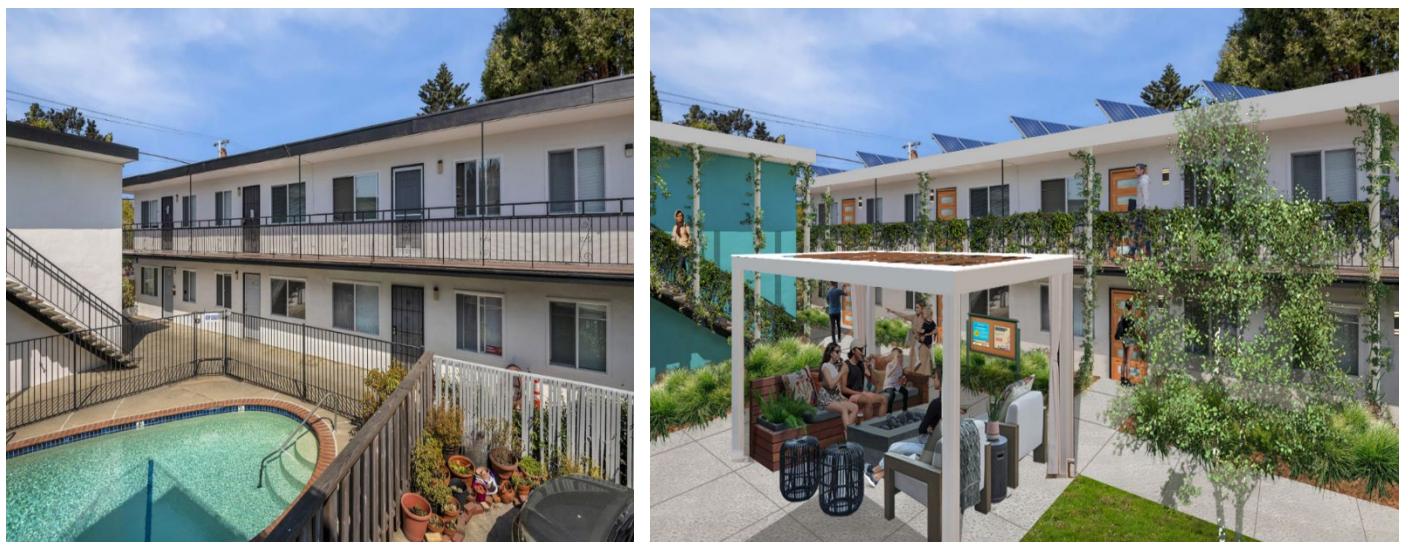
To illustrate how the exterior of this complex could be modernized aesthetically, the subconsultant to this study, PlaceWorks, created the following renderings of the exterior, with new façade treatments, landscaping, and removal of poorly designed curb-cut parking as the front lawn of one of the buildings.

Figure 8: Existing Conditions and Proposed Rendering of Front Exterior, Dwight Way



The additional visuals below show the current courtyard with the small swimming pool, and a renovation scheme with solar, landscaping, modernized doors, and replacement of the swimming pool with common community space.

Figure 9: Existing Conditions and Proposed Rendering of Internal Courtyard, Dwight Way



Rental Income Mix Options for Dwight Way

This section presents the assumptions for three scenarios analyzing the acquisition and rehabilitation of 1626 and 1654 Dwight Way for rental housing,

- **Baseline:** This represents a typical investor purchasing an existing, rent-stabilized property. Since the building is subject to rent stabilization, the current maximum rents are publicly available and used in the analysis (see Appendix C). Assuming tenants are not cost-burdened and rents remain the same, the units are affordable to households earning between 26% and 92% of AMI, with an average affordability of 61% AMI.
- **Rental Option A - 80% AMI Income Average:** This option reflects the income averaging approach described in Berkeley's Small Sites Program NOFA, which aims for an overall affordability average of 80% AMI.¹⁶ No tenants are displaced upon acquisition, but as units turnover, some may be leased to households earning up to 120% AMI to offset the cost of lower-income units. This cross-subsidization uses higher-income tenants to support deeper affordability for other tenants.¹⁷
- **Rental Option B - 100% Affordable:** This option removes market-rate cross-subsidization entirely, focusing exclusively on serving the lowest-income households. It proposes a 100% affordable housing project with units evenly distributed at 30%, 40%, 50%, and 60% AMI, resulting in an average affordability level of 45% AMI.

Ownership Income Mix Options for Dwight Way

This analysis also considers a scenario where the building is converted to homeownership, giving existing tenants the opportunity to become owners. This aligns with models like Community Land Trusts and Limited-Equity Housing Cooperatives (LEHCs), which offer affordable homeownership by maintaining collective or nonprofit ownership of the land (in the case of CLTs) or the building (in the case of LEHCs), while allowing residents to purchase homes or shares with restricted equity to ensure long-term affordability. Resale values are capped using a fixed formula. These models create a stable stock affordable ownership by balancing wealth-building for residents with sustained affordability for subsequent buyers.

Both ownership scenarios assume residents will secure a mortgage to contribute an equity stake, similar to a condominium model. Residents are expected to pay 35% of their income towards housing, though specific structures may vary. The ownership scenarios are based on

¹⁶ Alternatively, the City can choose to cap all incomes at 80% AMI for Small Sites projects.

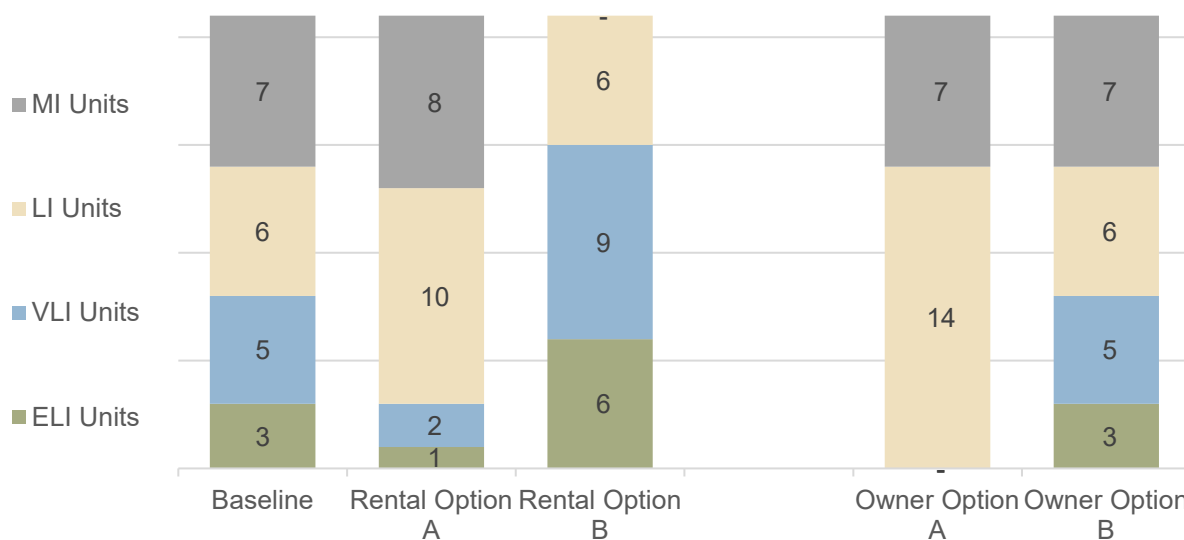
¹⁷ In practice, Berkeley's regulatory agreements typically cap units 80% AMI, rather than allowing some units to be set at market rates. This approach is driven by the wish to qualify for the full welfare property tax exemption, which requires all units to remain affordable. However, for the purposes of modeling cross-subsidization, the pro forma assumes income averaging up to 80% AMI by including higher-income units in order to assess the impact on public subsidy requirements when some units are able to be set at market rents.

the following assumptions:

- **Ownership Option A: 80% AMI Average:** This mirrors the Small Sites program with an 80% AMI average. Without a market study assessing demand at higher AMI levels, particularly for older housing stock, this analysis takes a conservative approach, assuming the upper limit of sales prices are capped at 100% AMI.
- **Ownership Option B: 61% AMI Average:** this scenario assumes existing residents are offered the opportunity to purchase their units, with the building maintaining an average affordability of 61% AMI.

Except for the baseline, all rental and ownership scenarios assume \$125,000 per unit in moderate rehab costs, although actual costs can vary depending on building conditions. The graph below summarizes the AMI mix for the options described above.

Figure 10: AMI Distribution for Dwight Way Rental and Ownership Options



The summary table on the next page shows the income mix and bottom-line project costs for each option, along with total public subsidy and per affordable unit subsidy need. For all options, it is assumed as a practical matter that this project is too small to effectively utilize Low Income Housing Tax Credits; instead, it is assumed that the City of Berkeley’s typical Small Sites Program subsidy contribution of \$300,000 per unit is utilized as the primary subsidy source. If no additional funding sources are available, such as from a future Bay Area Housing Finance Authority (BAHFA) bond or state funding, the City would need to cover the entire funding gap.

Table 4: Summary of Acquisition/Rehab Rental and Ownership Options for Dwight Way

| | Baseline (Rental) | | Rental Option A | | Rental Option B | | Owner Option A | | Owner Option B | |
|------------------------------------|------------------------------------|----------------|---------------------------------|----------------|------------------------|----------------|---------------------------------|----------------|---------------------------------|----------------|
| | As-Is Acquisition, No Rehab | | Income Average @ 80% AMI | | 100% Affordable | | Income Average @ 80% AMI | | Income Average @ 60% AMI | |
| % Affordable | N/A | | 60% | | 100% | | 100% | | 100% | |
| % Market | N/A | | 40% | | 0% | | 0% | | 0% | |
| Unit Mix | <u>Units</u> | <u>%</u> | <u>Units</u> | <u>%</u> | <u>Units</u> | <u>%</u> | <u>Units</u> | <u>%</u> | <u>Units</u> | <u>%</u> |
| Extremely Low Income Units | 3 | 14% | 1 | 5% | 6 | 29% | - | 0% | 3 | 14% |
| Very Low Income Units | 5 | 24% | 2 | 10% | 9 | 43% | - | 0% | 5 | 24% |
| Low Income Units | 5 | 29% | 10 | 48% | 6 | 29% | 14 | 67% | 6 | 29% |
| Moderate-Income Units (a) | 8 | 33% | 8 | 38% | - | 0% | 7 | 33% | 7 | 33% |
| Market-Rate Units | - | 0% | - | 0% | - | 0% | - | 0% | - | 0% |
| Total Units | 21 | | 21 | | 21 | | 21 | | 21 | |
| Total Affordable Units (b) | 13 | 67% | 13 | 62% | 21 | 100% | 21 | 100% | 21 | 100% |
| Average AMI for Project | 61% | | 80% | | 45% | | 80% | | 61% | |
| Development Cost | | | | | | | | | | |
| Total Development Cost | \$ | 5,250,000 | \$ | 9,734,542 | \$ | 9,724,921 | \$ | 9,932,958 | \$ | 9,932,958 |
| Development Cost/Unit | \$ | 250,000 | \$ | 463,550 | \$ | 463,091 | \$ | 472,998 | \$ | 472,998 |
| Subsidy Needed | | | | | | | | | | |
| Total Public Subsidy Needed | | N/A | \$ | 4,936,837 | \$ | 7,412,560 | \$ | 3,136,646 | \$ | 5,328,643 |
| Subsidy/Affordable Unit (c) | | N/A | \$ | 379,757 | \$ | 352,979 | \$ | 149,364 | \$ | 253,745 |
| Funding Sources | | | | | | | | | | |
| City HTF (d) | | N/A | \$ | 4,936,837 | \$ | 6,300,000 | \$ | 3,136,646 | \$ | 5,328,643 |
| Other Sources | | N/A | \$ | - | \$ | 1,112,560 | \$ | - | \$ | - |

a) In Berkeley, market rents in older existing buildings are generally affordable to households earning around 85% to 95% of the Area Median Income (AMI). In this acquisition-rehab analysis, when scenarios include market rents, they are treated as Moderate-Income units because they fall within that income range.

b) Affordable units are defined as ≤ 80% AMI for rentals and ≤ 120% AMI for ownership units.

c) The Subsidy per Affordable Unit measures the amount of public funding required per affordable unit. It is calculated by dividing the total public subsidy by the number of affordable units serving households at or below 80% AMI for rentals and below 120% AMI for ownership.

d) The City of Berkeley does not impose a strict cap on the per-unit subsidy under the Small Sites Program. The proformas assume the city will contribute \$300,000 per unit based on the current Small Sites guidelines. If no additional funding sources are available, the city would need to cover the entire funding gap.

Sources: The Housing Workshop; Urban Math, 2025.

Summary of Acquisition Rehab Findings

- **Acquisition-rehab is a cost-effective social housing strategy, with lower per-unit costs compared to new construction.** Based on the pro forma analysis, the total development cost (TDC) for acquisition-rehab is estimated at approximately \$470,000 per unit, compared to \$725,000 per unit for new construction (described in the next section). In addition, this approach offers key advantages: it allows faster delivery of permanently affordable units and broadens the pool of groups active in social housing production, including smaller nonprofit developers such as community land trusts.
- **While acquisition-rehab has a lower all-in cost, it lacks ample, dedicated sources of federal or state funding, which makes the local subsidy higher.** This is why the city's per-unit subsidy for LIHTC projects often seems lower than for Small Sites projects. It is not that acquisition-rehab projects are more expensive, but rather that the city bears most of the cost alone, without support from tax-credits or other external sources.

There are several ways to leverage additional subsidy sources to reduce the City's contribution. For example, if BAHFA or Alameda County voters approve a new affordable housing bond, or if the state establishes a dedicated source for preservation, these could complement the City's funding, similar to how new construction LIHTC projects layer multiple subsidy sources. This underscores the importance of advocating for complementary regional, state, and federal preservation funding to maximize the impact of the City's investment. Additionally, scaling social housing could allow for the acquisition of several buildings and packaging into a single LIHTC application for rental subsidy (commonly called "scattered site" approach).

- **To scale this strategy, the acquisition model can be adapted to include larger, more recently built properties, including those that are financially distressed or have investors choosing to sell.** For example, Bridge Housing recently acquired a 94-unit property built in 2014 from AvalonBay Communities, with plans to convert 50% of the units into affordable apartments while retaining the other half at market-rate. The deal, completed without public subsidies, involved Morgan Stanley, the National Equity Fund, and the California Municipal Finance Authority. A property tax exemption applies to the affordable units. A favorable acquisition price and Bridge Housing's large credit line made it possible to achieve a 50/50 affordability split without public funding. Supporting larger nonprofits in pursuing similar mixed-income acquisition strategies could help scale and expand the impact of this model.

- **The acquisition and rehabilitation of existing properties, particularly when led by nonprofit organizations or public agencies, provides a practical pathway to decommodification.** Absent vacancy control, by removing properties from the speculative market and placing them under public or nonprofit ownership, these homes can be preserved as permanently affordable. When paired with strong regulatory safeguards, this approach ensures long-term affordability, housing stability, and community stewardship.
- **Converting existing, unsubsidized rental housing into affordable homeownership can lower the need for public subsidies by leveraging residents' equity contributions.** Homeownership conversions benefit from direct equity contributions of residents, which help reduce the overall public funding required. For example, in the rental model, a project targeting an average 80% AMI has a \$4.9 million public subsidy gap, whereas the homeownership scenario serving the same average AMI reduces the public subsidy to \$3.1 million. This is due to net sales revenue, which accounted for about 50% to 70% of the total sources, depending on the income targets.
- **Homeownership through acquisition-rehab provides equity-building for households priced out of the market.** The public subsidy is relatively low, ranging from approximately \$150,000 to \$250,000 per unit. Creating a pipeline of limited-equity housing cooperatives or similar models could be a transformative step, offering residents the chance to convert their monthly rent into equity through a modest buy-in. This approach serves as a steppingstone to traditional homeownership, allowing households to build savings over time, while also offering long-term stability for those who wish to remain.
- **Converting existing rental housing to ownership requires strong guidance to navigate the complex processes involved.** Financing and affordability remain key concerns, as many low- and moderate-income tenants may struggle to secure mortgages without additional assistance, such as down payment support or low-interest financing programs. AC Boost, California's Dream for All, and Housing Trust Silicon Valley's Home Access Program are sources of down payment assistance.

Additionally, property rehabilitation costs can be significant, especially if existing tenants need to relocate, requiring careful assessment of the building's condition and rehabilitation needs. Legal and administrative considerations also play a role, particularly in structuring ownership models, such as cooperatives or community land trusts. Paying for ongoing collective maintenance and homeowner association fees can also be a challenge, especially for the lowest income households. Some affordable ownership models include a subsidy for an emergency homeowners' association (HOA) fund to resolve this challenge. As a result, nonprofit organizations require sufficient funding, whether through ongoing capacity funding and/or developer fees, to scale their efforts and sustain an affordable ownership model.

- **Because some of Berkeley’s Small Sites projects are fully City-funded, the City has flexibility to embed social housing principles into regulatory agreements.** This can include terms such as permanent affordability, tenant governance standards, and limiting income certification to initial move-in to strengthen long-term affordability and community stability.

Concept 2: New Construction

2655 Shattuck Avenue

During research for this study, after evaluating several City-owned properties in the Adeline Corridor Specific Plan, this proposed project at 2655 Shattuck at Derby was identified as a potential example of new construction that could be adapted to a social housing format. The project has received approvals for a mix of a 5-story and an 8-story project, including a State Density Bonus. The 95-unit project will contain 46 studios, 4 one-bedrooms, 35 two bedrooms, and 10 three-bedroom townhouse-style units located on upper floors, which can be marketed at premium prices. The unit mix makes the project well-suited for modeling a social housing approach using these premium units to cross-subsidize affordability. The project will also feature 1,870 square feet of retail and parking for 54 bicycles and 40 cars.



After obtaining approvals in the summer of 2024, the developer listed the site and its approved plans for sale (asking price unknown). This project provides an example of how the City of Berkeley, either as a part-equity owner or full owner, could get involved in social housing projects. The concept of a partial equity stake is often used by Montgomery County, MD's Housing Opportunity Commission (see case study in Chapter 5), whereby public construction funds are contributed to the project, and then converted to a long-term equity ownership stake,

enabling permanently decommodified social housing units that can also generate cash flow over the long term (depending on the income mix of the units).

Rental Income Mix Options for 2655 Shattuck Avenue

- **Baseline Market-Rate with 20% Inclusionary:** This represents the project as currently entitled, with 80% of the units set at market rents and 20% of the units at 50% and 80% AMI, satisfying the city's inclusionary housing ordinance.¹⁸ This includes a state density bonus, which is already factored into the development program.
- **Rental Option A - Half and Half:** Inspired by Montgomery County's HOC, this scenario uses a cross-subsidy, where revenue from market-rate units supports affordable units. While HOC requires a 30% affordable set-aside, this option increases the share to 50% to align with SB 423/SB35 requirements¹⁹ and the goals of the Adeline Corridor Specific Plan. At least 10% serve 50% AMI while the remaining 40% are set at 80% AMI.
- **Rental Option B - Predominantly Affordable:** Rental Option B aligns with Vienna's social housing model by providing affordable units across the income spectrum, with units evenly distributed at 30% AMI, 50% AMI, 80% AMI, and market-rate. Rental Option B achieves deeper affordability than Option A, as it extends support to households at 30% AMI.
- **Rental Option C - 100% Affordable:** This scenario represents a traditional 100% affordable housing project, serving households between 30-60% AMI. The purpose of this analysis is to compare the impact of directing public subsidies toward existing 100% affordable developments versus investing in new mixed-income social housing models.

Financial Challenges Under Current Economic Conditions

It should be noted that for new construction, the baseline scenarios are not financially feasible under current conditions. High interest rates, costly Type 3 construction, and high land costs limit adequate returns.²⁰ Cross-subsidization is also less effective due to the gap between market rents and rising construction costs, a problem likely to worsen with new tariffs on materials. With the current market rents, the project would require adjustments, such as

¹⁸ Berkeley's inclusionary ordinance allows developers to meet the 20% requirement through a combination of on-site affordable units and a prorated in-lieu fee. Because the current proposed plans assume a density bonus, the baseline scenario assumes the full inclusionary obligation is satisfied through on-site affordable units.

¹⁹ California Senate Bill 423, which extends and expands the provisions of SB 35, creates a streamlined and ministerial review process for multi-unit housing projects in jurisdictions. For cities that have met state housing RHNA goals for construction of above-moderate income and/or lower income housing, eligible projects must set-aside 50% of units affordable to lower income households (<80% AMI) to qualify for streamlined approval. Ministerial projects do not require the approval through a public hearing or review under the California Environmental Quality Act (CEQA).

²⁰ Equity investors require projects to demonstrate strong cash flow, risk-adjusted returns, and long-term appreciation potential. When construction costs and interest rates are high, meeting financial feasibility benchmarks becomes more difficult. Investors are more likely to commit when a project demonstrates sufficient cash flow to meet return thresholds and includes a clear, well-aligned exit strategy to realize those returns.

lowering the permanent loan rate or reducing land and construction costs.

A variation of the pro formas was conducted to assess the impact of key cost-reduction strategies observed in social housing models from the case studies. This analysis examines how free land, coordinated efforts to lower construction costs, and access to below-market permanent debt influence project feasibility. To model these effects, three variables were adjusted: (a) land costs were eliminated, (b) the permanent loan interest rate was reduced from 6% to 3%, and (c) construction costs were lowered by 8% to \$475 per square foot.

The net impact of these adjustments is significant. In the Predominantly Affordable scenario, the total project cost decreased from \$725,000 per unit in the original model to \$618,000 per unit under this cost-reduction scenario, resulting in savings of about 15%. An important cost reduction comes from reducing the interest rate from 6% to 3%, which increases the supportable debt, thereby narrowing the subsidy gap and reducing the amount of public funding needed.

Despite feasibility challenges, the cross-subsidization analysis remains relevant because it explores options that rely on public subsidies. HOC's model already assumes public investment to reach 30% affordability, so it is reasonable to test what level of subsidy would be required to achieve 50% affordability in the context of social housing. This helps the City evaluate trade-offs and prioritize how to allocate its limited resources across various housing programs.

Finally, because these projects are not feasible as traditional market-rate projects, developers, whether nonprofit or for-profit, charge fees to cover the work of securing financing, managing entitlements, overseeing construction, and ensuring project completion. This is especially important when developers do not expect to earn a profit at the end of the project, as they would in a typical market-rate deal. This models a \$2.5 million developer fee, consistent with the non-deferred fee that nonprofit developers typically receive upon project completion. Many of the other assumptions align with those used in the Strategic Economics study *Berkeley In-Lieu Fee and Housing Policies Economic Feasibility Analysis*, dated April 12, 2024.

Ownership Income Mix Options for 2655 Shattuck

This model evaluates mixed-income ownership, exploring options at varying income levels. Market research shows that comparable new condominium units are usually priced for households earning between 115% to 145% AMI, with some three-bedroom townhomes reaching up to 190% AMI.

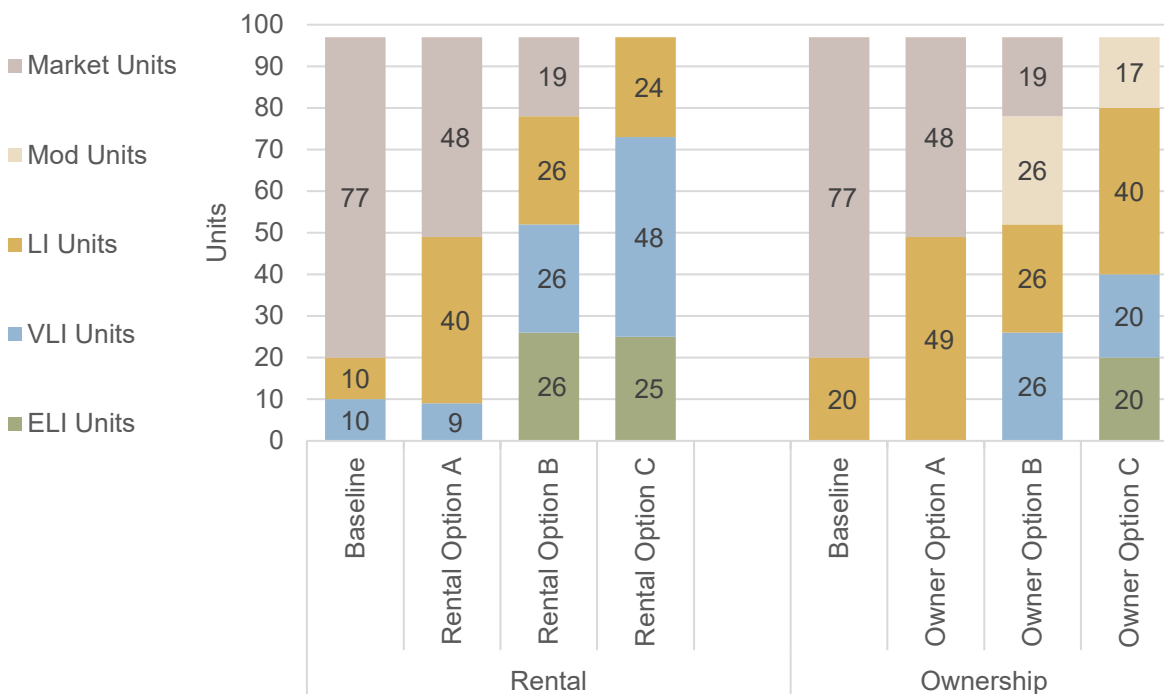
- **Baseline - Current Inclusionary:** This evaluates a project complying with the city's existing

inclusionary housing ordinance for homeownership, with 20% of the units at 80% AMI.

- **Option A – Half & Half:** This scenario assumes market-rate units cross subsidize affordable units in a 50/50 split, with all affordable units targeting households at 80% AMI. This approach aligns with a similar acquisition rehab scenario targeting 80% AMI, facilitating a direct comparison between new construction and rehabilitation approaches.
- **Option B – Defined Affordability Targets:** This scenario proposes an equal distribution of units at 50%, 80%, 100% AMI, and market-rate. This option achieves deeper affordability than Option A, with an average project AMI of 92%, compared to 100% in Option C.
- **Option C - 100% Affordable Housing:** This scenario explores the feasibility of providing homeownership exclusively for households earning between 30% and 120% AMI. By eliminating market-rate units, this model aims to assess the financial implications of delivering deep affordability in homeownership.

The graph below illustrates the income mix for each new construction rental and ownership scenario, along with the resulting average AMI for each option in the 97-unit 2655 Shattuck example project.

Figure 9: AMI Distribution for New Construction Rental and Ownership Scenarios



The summary table on the following page shows the income mix and bottom-line project costs for each option, along with total public subsidies required and the subsidy per affordable unit. Detailed pro formas for each scenario are provided in Appendix C.

Table 3: Summary of New Construction Rental and Ownership Options

| | Rental Project | | | | | | | | Owner Project | | | | | | | |
|----------------------------------------|--------------------------------|-------------------|--------------------------------|-------------------|-----------------------------------|-------------------|----------------------------------------|-------------------|----------------------------|-------------------|----------------------------|-------------------|-------------------------------------|-------------------|--------------------------------------------------|-------------------|
| | Baseline | | Option A | | Option B | | Option C | | Baseline | | Option A | | Option B | | Option C | |
| | Current Inclusionary | | Half & Half | | Predominantly Affordable | | 100% Affordable | | Current Inclusionary | | Half and Half | | Predominantly Affordable | | 100% Affordable | |
| % Affordable / % Market | 20% / 80% | | 50% / 50% | | 80% / 20% | | 100% | | 20% / 80% | | 50% / 50% | | 80% / 20% | | 100% | |
| AMI Targets for Affordable Units | 10% at 50% AMI, 10% at 80% AMI | | 10% at 50% AMI, 40% at 80% AMI | | Split evenly at 30%, 50%, 80% AMI | | Split evenly at 30%, 40%, 50%, 60% AMI | | 20% Affordable, at 80% AMI | | 50% Affordable, at 80% AMI | | Split Equally at 50%, 80%, 100% AMI | | 100% Affordable, at 30%, 50% 80%, 100%, 120% AMI | |
| Unit Mix | <u>Units</u> | <u>%</u> | <u>Units</u> | <u>%</u> | <u>Units</u> | <u>%</u> | <u>Units</u> | <u>%</u> | <u>Units</u> | <u>%</u> | <u>Units</u> | <u>%</u> | <u>Units</u> | <u>%</u> | <u>#</u> | <u>%</u> |
| Extremely Low Income Units | - | 0% | - | 0% | 26 | 27% | 25 | 26% | - | 0% | - | 0% | - | 0% | 20 | 21% |
| Very Low Income Units | 10 | 10% | 9 | 9% | 26 | 27% | 48 | 49% | - | 0% | - | 0% | 26 | 27% | 20 | 21% |
| Low Income Units | 10 | 10% | 40 | 41% | 26 | 27% | 24 | 25% | 20 | 21% | 49 | 51% | 26 | 27% | 40 | 21% |
| Moderate-Income Units (a) | - | 0% | - | 0% | - | 0% | - | 0% | - | 0% | - | 0% | 26 | 27% | 17 | 38% |
| Market-Rate Units | 77 | 79% | 48 | 49% | 19 | 20% | - | 0% | 77 | 79% | 48 | 49% | 19 | 20% | - | 0% |
| Total Units | 97 | | 97 | | 97 | | 97 | | 97 | | 97 | | 97 | | 97 | |
| Total Affordable Units (b) | 20 | 21% | 49 | 51% | 78 | 80% | 97 | 100% | 20 | 21% | 49 | 51% | 78 | 80% | 97 | 100% |
| Average AMI for Project | 108% | | 99% | | 71% | | 45% | | 120% | | 108% | | 92% | | 75% | |
| Standard Financial Approach | | | | | | | | | | | | | | | | |
| Development Cost | | | | | | | | | | | | | | | | |
| Total Development Cost | \$ 59,460,958 | \$ 70,741,869 | \$ 70,331,707 | \$ 69,899,505 | \$ 63,162,286 | \$ 74,985,162 | \$ 74,985,162 | \$ 74,985,162 | \$ 63,162,286 | \$ 74,985,162 | \$ 74,985,162 | \$ 74,985,162 | \$ 63,162,286 | \$ 74,985,162 | \$ 74,985,162 | \$ 74,985,162 |
| Development Cost/Unit | \$ 613,000 | \$ 729,298 | \$ 725,069 | \$ 720,613 | \$ 651,158 | \$ 773,043 | \$ 773,043 | \$ 773,043 | \$ 651,158 | \$ 773,043 | \$ 773,043 | \$ 773,043 | \$ 651,158 | \$ 773,043 | \$ 773,043 | \$ 773,043 |
| Subsidy Needed | | | | | | | | | | | | | | | | |
| Total Public Subsidy Needed | \$ - | \$ 40,542,335 | \$ 49,835,793 | \$ 59,863,851 | N/A | \$ 27,300,791 | \$ 34,660,705 | \$ 46,080,003 | N/A | \$ 27,300,791 | \$ 34,660,705 | \$ 46,080,003 | N/A | \$ 27,300,791 | \$ 34,660,705 | \$ 46,080,003 |
| Subsidy/Affordable Unit (b) | N/A | \$ 827,395 | \$ 638,920 | \$ 617,153 | N/A | \$ 557,159 | \$ 444,368 | \$ 475,052 | N/A | \$ 557,159 | \$ 444,368 | \$ 475,052 | N/A | \$ 557,159 | \$ 444,368 | \$ 475,052 |
| Funding Sources | | | | | | | | | | | | | | | | |
| LIHTC/Bond (c) | N/A | \$ 12,984,374 | \$ 20,643,746 | \$ 25,631,802 | N/A | \$ - | \$ - | \$ - | N/A | \$ - | \$ - | \$ - | N/A | \$ - | \$ - | \$ - |
| City HTF (d) | N/A | \$ 9,800,000 | \$ 15,600,000 | \$ 19,400,000 | N/A | \$ 9,800,000 | \$ 15,600,000 | \$ 19,400,000 | N/A | \$ 9,800,000 | \$ 15,600,000 | \$ 19,400,000 | N/A | \$ 9,800,000 | \$ 15,600,000 | \$ 19,400,000 |
| Other Sources | N/A | \$ 17,757,962 | \$ 13,592,047 | \$ 14,832,049 | N/A | \$ 17,500,791 | \$ 19,060,705 | \$ 26,680,003 | N/A | \$ 17,500,791 | \$ 19,060,705 | \$ 26,680,003 | N/A | \$ 17,500,791 | \$ 19,060,705 | \$ 26,680,003 |
| Enhanced Financial Approach (e) | | | | | | | | | | | | | | | | |
| Development Cost | | | | | | | | | | | | | | | | |
| Total Development Cost | N/A | \$ 60,363,755 | \$ 59,953,593 | \$ 59,521,391 | N/A | \$ 60,363,755 | \$ 59,953,593 | \$ 59,521,391 | N/A | \$ 60,363,755 | \$ 59,953,593 | \$ 59,521,391 | N/A | \$ 60,363,755 | \$ 59,953,593 | \$ 59,521,391 |
| Development Cost/Unit | N/A | \$ 622,307 | \$ 618,078 | \$ 613,623 | N/A | \$ 622,307 | \$ 618,078 | \$ 613,623 | N/A | \$ 622,307 | \$ 618,078 | \$ 613,623 | N/A | \$ 622,307 | \$ 618,078 | \$ 613,623 |
| Subsidy Needed | | | | | | | | | | | | | | | | |
| Total Public Subsidy Needed | N/A | \$ 17,361,108 | \$ 30,768,422 | \$ 45,231,115 | N/A | \$ 17,361,108 | \$ 30,768,422 | \$ 45,231,115 | N/A | \$ 17,361,108 | \$ 30,768,422 | \$ 45,231,115 | N/A | \$ 17,361,108 | \$ 30,768,422 | \$ 45,231,115 |
| Subsidy/Affordable Unit (b) | N/A | \$ 354,308 | \$ 394,467 | \$ 466,300 | N/A | \$ 354,308 | \$ 394,467 | \$ 466,300 | N/A | \$ 354,308 | \$ 394,467 | \$ 466,300 | N/A | \$ 354,308 | \$ 394,467 | \$ 466,300 |
| Funding Sources | | | | | | | | | | | | | | | | |
| LIHTC/Bond (c) | N/A | \$ 12,072,751 | \$ 19,185,150 | \$ 23,808,556 | N/A | \$ 12,072,751 | \$ 19,185,150 | \$ 23,808,556 | N/A | \$ 12,072,751 | \$ 19,185,150 | \$ 23,808,556 | N/A | \$ 12,072,751 | \$ 19,185,150 | \$ 23,808,556 |
| City HTF (d) | N/A | \$ 5,288,357 | \$ 11,583,272 | \$ 19,400,000 | N/A | \$ 5,288,357 | \$ 11,583,272 | \$ 19,400,000 | N/A | \$ 5,288,357 | \$ 11,583,272 | \$ 19,400,000 | N/A | \$ 5,288,357 | \$ 11,583,272 | \$ 19,400,000 |
| Other Sources | N/A | \$ - | \$ - | \$ 2,022,559 | N/A | \$ - | \$ - | \$ 2,022,559 | N/A | \$ - | \$ - | \$ 2,022,559 | N/A | \$ - | \$ - | \$ 2,022,559 |

a) Affordable units are defined as ≤ 80% AMI for rentals and ≤120% AMI for ownership units.
 b) The Subsidy per Affordable Unit = total subsidy needed divided by the number of affordable units.
 c) To qualify for tax credits, mixed-income projects must legally separate the affordable and market-rate components, typically through a condominium structure.
 d) While this model assumes a City Housing Trust Fund (HTF) contribution of \$200,000 per unit, recent projects have received subsidies ranging from \$200,000 to \$300,000 per unit.
 e) The enhanced scenario tests the impact of cost reductions, reflecting strategies commonly used in social housing models abroad. In this version: (a) land costs are eliminated through the use of publicly-owned land, (b) permanent loan interest rate is reduced from 6% to 3%, and (c) construction costs are lowered by 8%.
 Sources: The Housing Workshop; Urban Math, 2025.

Summary of New Construction Findings

- **For rentals, the public subsidy is lowest for Rental Option A, which includes the highest share of market-rate units (50%) to maximize cross-subsidization.** Rental Option A requires \$40 million in public subsidy, compared to \$50 million for Rental Option B and \$60 million for Rental Option C. This highlights a central trade-off in social housing policy: while cross-subsidization can enhance financial feasibility, it results in fewer affordable units.
- **The Predominantly Affordable (Rental Option B) and the 100% Affordable (Rental Option C) scenarios produce more affordable units, allowing public subsidies to be spread across a larger number of affordable units.** Rental Option B, for example, provides 80% affordable units and requires \$50 million in public subsidies, resulting in a subsidy of approximately \$640,000 per affordable unit. In contrast, Rental Option A is less efficient, with a higher subsidy cost of \$827,000 per affordable unit. This gap is exaggerated by the current high-interest-rate environment, which reduces the permanent debt a project can carry. When interest rates are lower, around 3%, the subsidy per unit becomes more comparable across scenarios.
- **Although affordable homeownership through new construction requires less public subsidy than rental projects due to equity contributions from buyers, it is roughly three times more expensive than achieving affordable ownership through acquisition rehab.** In the 50/50 new construction scenario, with all affordable units priced at 80% AMI, the required public subsidy is \$445K per unit, lower than the rental project, but significantly higher than the \$150K per unit needed for the acquisition-rehab ownership model serving a similar income level.
- **Cost containment should be a central focus of new production.** Lowering development costs improves project feasibility by reducing total public subsidy required. Examples from Vienna and Denmark illustrate effective strategies, such as utilizing public land, modular construction, and where appropriate, designing smaller units to reduce costs. However, cost-containment should not come at the expense of habitability or sustainability. Vienna's model, for example, still maintains high aesthetic and architectural standards.
- **Low-cost capital is an effective strategy to address financing gaps.** Currently, high interest rates have sidelined many market-rate projects, as the cost of debt significantly reduces cash flow to equity investors, making new rental projects financially infeasible. Finding a way to access low-cost capital, both debt and equity, can unlock projects.

Across the country, jurisdictions are exploring innovative strategies to offer lower-cost capital for affordable and mixed-income housing.

- Montgomery County HOC issued bonds to create a revolving loan fund (Housing Production Fund) that acts as an equity investment, taking the place of traditional private equity in the capital stack.
- In Massachusetts, the state's housing finance agency known as MassHousing offers a one-stop financing platform for mixed-income developments, combining competitive senior debt through a partnership with Freddie Mac and low-cost equity by blending government capital with private equity and other sources.
- CalHFA's Mixed-Income Program aligns well with social housing goals, combining subordinate financing with CDLAC-issued tax-exempt bonds to support projects serving households earning 30–120% of AMI, which goes beyond the tax-credit income limits. Berkeley should actively promote and leverage this program as part of its housing strategy.
- In Seattle, voters recently approved a 2025 ballot measure that creates a new revenue stream for social housing through a 5% payroll tax on the portion of employee compensation exceeding \$1 million annually.
- Locally, the San Francisco Housing Accelerator Fund launched BAHIF, which blends philanthropic and other capital to offer favorable loans for cost-saving projects, potentially reducing or eliminating the need for LIHTC.
- Finally, BAHFA is planning an Innovation Funding Program to provide flexible revolving loan capital.

Berkeley has several strategic opportunities to access lower-cost capital and should evaluate options to inform a long-term funding plan. It could partner with the Berkeley Public Housing Authority to explore bond issuance, prepare for BAHFA's anticipated Innovation Funding Program, or seek voter approval for its own bond measure. Given the range of viable options, the City should assess potential funding strategies as part of a strategic plan to guide next steps.

- **With cost-reduction strategies such as no cost land, low-interest financing, and design efficiencies, Rental Option A becomes feasible with just \$17M in public subsidy.** In the enhanced versions of this scenario, even with a 50/50 market-rate and affordable mix, the combination of no-cost public land, favorable financing terms, and cost containment significantly lowers the public subsidy required. This mirrors the approach used by Montgomery County's HOC through its Housing Production Fund. Berkeley could adopt a similar negotiated strategy, offering incentives like free land or low-cost financing in

exchange for higher-than-required inclusionary percentages. To close remaining funding gaps, the City could allocate local funds, establish its own Housing Production Fund, or seek support from sources such as the Housing Accelerator Fund (HAF) or the Bay Area Housing Finance Authority (BAHFA).

- **Although delivering affordable homeownership through new construction is generally more costly than through acquisition-rehabilitation, it remains a strategy for equity building.** By incorporating ownership models such as limited-equity cooperatives or community land trusts, new construction can provide permanently affordable, non-speculative homeownership opportunities that promote long-term housing stability and support modest wealth-building for lower- and moderate-income households.
- **It is challenging for Berkeley to independently generate the level of funding needed to deliver social housing at scale, particularly if the focus is on housing for extremely low- and very low-income households who face the greatest housing cost burdens.** New construction is expensive, and the City cannot realistically cover the full cost without other assistance as these projects usually rely on LIHTC and other public funding. To make a real impact, Berkeley should partner with state and regional agencies and help shape programs that support social housing. While the City's HTF may be sufficient to support acquisition-rehab projects, delivering new construction at scale will require deeper collaboration and co-investment with external partners. The City should lead advocacy efforts to expand State and regional funding to align with its social housing goals.

Focus Group Feedback on Social Housing Examples

As described in Appendix A, research for this report included convening a focus group of current tenants in Berkeley across all income levels to discuss housing issues and the social housing framework. From among over 20 applicants, 12 participants were invited, and 8 attended. The invitees were selected to provide a balance of ELI, VLI, LI, MI, and market-rate household incomes. All participants were renters.

The following provides a thumbnail of each of the 8 focus group participants.²¹

1. A (ELI) – approximately late 30s female person of color (POC) living with three children in a one-bedroom unit in Oakland. Participant A sleeps in the living room and would love a larger affordable unit in Berkeley.
2. B (MI) – approximately early 30s White male living with his partner in market-rate housing in Berkeley.
3. D (> 120%) – approximately early 30s White male living in market-rate 4-plex in Berkeley.
4. K (VLI) – approximately late 30s female POC living in one-bedroom at a Northern California Land Trust property in Berkeley.
5. KA (VLI) – approximately early 50s female POC living with extended family members in “too small” of a unit in Berkeley, hoping some of her adult children could find other housing so she would have less crowding.
6. L (VLI) – approximately mid-40s female POC living with her son in a “good situation” in Berkeley.
7. N (MI) – approximately early 30s White female who had recently moved from East Coast city to Berkeley for a new job, living in a studio in market-rate building in Berkeley.
8. P (ELI) – approximately late 20s female POC with a special needs child, with a Section 8 voucher and other social services (she referred to her excellent social worker “team” several times), living in a one-bedroom rental in Berkeley, but had recently been approved for a two-bedroom unit.

²¹ Racial and ethnic descriptors used in the participant thumbnails are based on a combination of self-identification and perceived characteristics during the focus group. In some cases, participants explicitly described their racial or ethnic identity; in others, descriptors were inferred based on commonly understood visual or contextual cues. These identifiers are included to help highlight the range of lived experiences represented in the group and are not intended as formal demographic classifications.

Satisfaction with Current Housing and Challenges in Most Recent Housing Search

The focus group facilitator started out by requesting a brief description from each participant of their current living situation and how they felt about it. Most were relatively satisfied to pleased with their current living situation other than the high cost, with several also expressing feelings about Berkeley as their strong community of choice. Participants mentioned concerns with their current living situation in overcrowded conditions and/or their current unit size not aligning with their changing life stage (as children aged or as the person was planning to have children).

Next, they were asked about their most recent housing search, yielding stories about both the search itself with varying degrees of challenge and negative stories about prior living situations. The theme that emerged from this discussion, especially among the female participants with lower incomes, was about their lack of personal safety, especially from prior landlords or their management designees (mentions of cameras everywhere controlled by prurient interest, or a “known pedophile” in charge of a building, etc.).

Rental Housing in a Social Housing Configuration

Next, the facilitator outlined the five principles of social housing, including emphasizing mixed-income, permanent affordability at 30% of income for those who could not afford market-rate housing, public or nonprofit ownership, and tenant governance. Two examples of potential social housing buildings were presented (as described in this chapter) – the acquisition/rehab on Dwight Way, and the newly approved project on Shattuck Avenue. Although the facilitator presented these as examples, some of the participants offered opinions about which example was more appealing.

The facilitated discussion then explored social housing in a rental situation, using both example projects. Many themes emerged from this discussion including:

- General agreement that mixed-income housing was an appealing concept to all participants, with some caveats (see below). It was notable that among the participants, a good rapport was present as the discussion unfolded, representing how this mix of incomes among participants could start to form a community when imagining living together.
- K (living in a form of social housing in a Northern California Land Trust building) mentioned that one of the strengths is the formation of a community among her neighbors. However, she also discussed the challenge of mixed life stages, with seniors potentially needing more care than the community could provide.
- Almost all participants, when discussing a rental social housing concept, selected the smaller Dwight Way building as more desirable than the large Shattuck Avenue building, mostly because it was immediately recognized that a more stable, congenial community

could be formed in the small project with a more “homey” feel. The one exception to this was KA, in her mid-50s, who loved the idea of the Shattuck project, describing the appeal of having her own space and the convenience of a café on the ground floor.

- Another interesting theme was the need across income levels to provide units meeting housing needs at different life stages, so that a single person or a young couple today wanting to have children could move to a larger unit, or if income rose, the person’s household could obtain a larger unit. One participant connected this idea to their interest in the Shattuck Avenue project, which offers a broader mix of unit sizes compared to the Dwight Way project.
- The discussion shifted to more complexity when the group was asked about tenant governance and property management of a rental project. Possibly because each participant had already described that their current landlord was not an issue, none of the participants had a strong interest in tenant governance. Discussions centered on how implementation of this social housing principle would require rules and a governing board to expedite consensus and the need for professional property management and maintenance. Several participants then mentioned concerns about class and cultural diversity, and how those could clash in a mixed building with strong tenant governance (e.g., some wanted evening “quiet hours” and limited parties, others said they wanted the freedom to play loud music at all times).

Ownership Housing in a Social Housing Configuration

The facilitated discussion then shifted to ownership housing, which engendered many questions from the lower income participants in terms of how ownership would work relative to long-term appreciation, and questions from the moderate income/higher income participants about how this type of housing would be subsidized and how appreciation would work for the market-rate owners. Once these concepts were clarified, the following themes emerged:

- The lower income participants were universally eager to learn more about the opportunity offered by ownership housing in a social housing configuration. None of these participants seemed concerned about a limited or shared appreciation model, once the concept was explained fully. Some of the moderate to higher income participants were also interested in this configuration, but with some hesitancy.
- One participant preferred that the developer be a nonprofit rather than direct public sector ownership due to concerns about fluctuating public sector funding affecting property maintenance over the long term. Another participant in this income band expressed concern about how a mixed-income model might affect the appreciation of their own unit, and felt they would need more information to gauge interest.

6. Opportunities for Social Housing in Berkeley

Berkeley’s housing needs across income levels, along with its near-term production goals, pose numerous challenges; many residents consider housing in Berkeley, the broader region, and the nation as at “crisis” levels. With housing costs reaching crisis levels, this is a unique moment to rethink how the City and public institutions deliver housing and set a bold example for the country on what is possible at the local level. Moments of crisis can produce new opportunities, an approach that the burgeoning social housing movement seeks to capture.



Achieving the goals and principles of social housing in an American context will require a reframing of affordable housing strategies at the state, regional, and local levels. As noted previously in this report, the State of California is currently studying this concept and how it could be implemented statewide. This effort will undoubtedly involve collaboration between state, regional, and local jurisdictions including the City of Berkeley.

The recommendations in this chapter can be considered as a head-start on preparing locally for potential changes to the statewide system of new unit delivery, particularly in the short term as the federal government withdraws further from a subsidized affordable housing approach. To provide a roadmap, the recommendations are organized into short-term strategies the City can implement now, and long-term approaches focused on developing a housing system that more closely aligns with the principles of social housing.

Recommendation 1: Short-Term Actions

The recommendations in this section outline near-term steps the City of Berkeley can take to advance social housing in the next 1 to 3 years. They are grouped into four categories: building partnerships, aligning with social housing principles, improving delivery methods, and exploring potential pilot projects.

A. Strengthen Strategic Partnerships with Local Affordable Housing Providers

A1. Convene Nonprofit Housing Providers to Discuss Social Housing

The City of Berkeley can take an early step toward social housing by bringing together local affordable housing providers and community land trusts to explore more flexible, human-centered approaches. The aim is to begin shifting from an income-targeted system to one that feels more universally accessible, where people at different life stages can find stable, affordable housing that meets their evolving needs.

One action is to encourage collaboration among nonprofits to support transitions across their housing portfolios. For example, a household that begins in a LIHTC unit and later earns more income could be supported in moving toward affordable homeownership through another nonprofit partner. By fostering these types of transitions and branding social housing as adaptable and inclusive, Berkeley can begin laying the groundwork for a more universal, dignified housing system. Convening these groups also creates an opportunity to collaborate and innovate around what social housing could look like in Berkeley.

A2. Create Closer Partnerships with At-Scale Nonprofit Housing Developers

The Turner Center's statewide social housing study will explore how larger, established nonprofit housing developers could help implement social housing concepts. Berkeley has a strong network of experienced nonprofit developers already working at-scale. Interviews for this report showed that some of these groups are interested in doing more mixed-income housing, especially if state funding becomes available.

Larger nonprofits, like BRIDGE Housing, have also shown that it is possible to acquire sizable market-rate properties without public subsidies using a mixed-income model. BRIDGE's acquisition of the Avalon property created a 50/50 mix of affordable and market-rate units, with a 55-year regulatory agreement that qualified the project for a partial property tax exemption. The City can build on this approach by partnering with Berkeley's larger nonprofits to identify more opportunities to convert existing units in larger buildings into long-term affordable housing.

A3. Continue Supporting Local Community Land Trusts

There are two CLTs based in Berkeley: the Northern California Land Trust (NCLT) and the Bay Area Community Land Trust (BACLt). NCLT stewards 118 permanent affordable rental and ownership units across 22 properties in Berkeley and Oakland and is working on a new construction 65-unit ownership project. BACLt focuses on the cooperative ownership model, stewarding almost 100 units across 10 properties in Berkeley and Oakland.²² While the City provides capacity-building funding and project loans to its two active CLTs, it has been challenging to bring CLT's throughout the Bay Area to scale to address the housing crisis.

A key advantage of using a CLT model for social housing centered on resident ownership stems from SB 196 (2019), which allows CLTs to secure property tax exemptions in for-sale projects, significantly lowering the cost of homeownership. Since CLTs typically rely on the city's Small Sites Program for funding, there is flexibility to innovate in ways that reflect social housing principles. The City can pilot aspects by supporting efforts like shared waitlists across CLTs and simplifying income certification and leasing to improve the tenant experience. With continued City investment, this approach could be used to acquire and rehabilitate older rental properties, like the Dwight Way example.

Achieving housing for all in Berkeley will require acquiring and building thousands of permanently affordable units, an effort on the scale of major infrastructure projects that cannot be met by small community-based models alone. An analysis is needed to identify how CLTs can scale their stewardship to support a broader range of local housing delivery reforms.²³ This highlights the need for sustained investment in organizational capacity, including ongoing funding for staffing and operations, to ensure these groups have the resources needed to grow and manage a larger portfolio.

A4. Continue to Work with the Berkeley Housing Authority to Align Efforts

Continue collaboration between the City of Berkeley and the Berkeley Housing Authority to clarify each entity's roles and powers, explore areas of alignment, and identify opportunities for collaboration in advancing social housing goals. The City and BHA can explore a mid-term partnership focused on coordinated efforts in land acquisition, project financing, and long-term stewardship. This can also include exploring joint financing opportunities, such as Public Housing Authority bond issuance, to support access to lower-cost financing.

²² See: <https://www.nclt.org/> and <https://www.bayareactl.org/>

²³ An example of this type of analysis, which helps bring smaller CLTs to scale by quickly studying past lessons learned and framing future public sector support can be found at: <https://www.taxcreditadvisor.com/articles/considering-a-scattered-site-tax-credit-project-be-aware-of-the-special-issues-and-necessary-skills/>

B. Pilot Closer Alignment with Social Housing Principles

One of the core principles of social housing focuses on tenant governance, which seeks to give residents in a social housing project agency over their housing, as well as build community in a way that is vital to successful mixed-income projects.

Through the City of Berkeley's active participation in funding many affordable projects, this set of strategies could be integrated into City best practices though coordinating closely with affordable housing providers to enhance tenant governance and rent transparency in City-supported projects. Lessons from these short-term efforts could help inform more robust mid-term strategies around tenant governance in the Strategic Plan. Short-term strategies include:

B1. Promote Tenant Leadership

Most nonprofit housing providers already engage tenants through tenant councils and/or annual meetings, and interviews with active housing providers indicated openness to deepening this work. Interviews also indicated that some providers have experimented with tenant input and leadership on community-building activities, such as social programming and artwork selection. Also, in the focus group of Berkeley residents discussing mixed-income housing, several spoke about challenges that can arise when mixing cultures and socio-economic backgrounds; a more active tenant-led governance model in social housing projects may help to meet these challenges.

The City could support tenant leadership by providing a brief Best Practices guide for housing providers, sponsoring training sessions for tenant representatives from City-supported projects, offering workshops on forming tenant unions, and convening an annual Tenants' Governance Summit to foster knowledge-sharing, build capacity, and strengthen tenant leadership across the housing system.

B2. Pilot Annual Financial Transparency Meetings

To promote transparency and build trust in affordable housing operations, Berkeley could adopt a transparency model, similar to the approach used in Vienna. Under this practice, at an annual meeting, residents would receive a clear breakdown of their building's finances, including total annual rent collected, operating expenses (e.g. maintenance, utilities, management fees), capital reserves, planned improvements, debt payments, and other key components. The City could test this approach as a voluntary pilot with two to three properties that have City funding. If it demonstrates improved tenant understanding and engagement, this practice could be expanded and made a requirement for all housing developments receiving City funding.

B3. Pilot Participatory Budgeting

To strengthen resident engagement and increase transparency, Berkeley could pilot a participatory budgeting model, inspired by practices in Denmark, where residents of nonprofit housing estates vote annually on their building's operating budget. In the U.S., participatory budgeting is already used in some cities at the municipal level (for capital expenditures); extending this practice to publicly owned or nonprofit-managed housing would formalize resident input into decisions around operating costs, maintenance priorities, and capital improvements.

This model could begin with an annual resident meeting at each property, coordinated in collaboration with professional property managers. Property managers would play a central role by preparing and presenting clear, accessible budget summaries outlining past expenditures, current financial conditions, and projected costs. These presentations would be accompanied by translated materials and facilitation to ensure inclusive participation. Residents would have an opportunity to provide input, raise questions, and vote on budget priorities, such as how much to allocate to landscaping or social programming.

B4. Integrate Enhanced Tenant Governance into City Funding Agreements

To scale the approach, Berkeley could integrate enhanced tenant governance, rent transparency, and participatory budgeting requirements into local funding agreements or offer incentives to housing providers who adopt the model. Over time, this structure could be institutionalized through resident councils and supported by digital tools to ensure accessibility and accountability across the City's affordable housing portfolio.

C. Improve Delivery Methods and Funding**C1. Continue Supporting Berkeley's Small Sites Program as a Social Housing Model**

Berkeley's Small Sites program reflects key principles of social housing by combining public investment with long-term community stewardship, particularly because the Small Sites projects to date have been completed by local CLTs. The program is designed to achieve deeper affordability by cross-subsidizing with market-rate units. The current NOFA measures affordability at the building level, with a goal of achieving an average of 80% AMI. This structure allows for cross-subsidization while maintaining a focus on long-term affordability and community ownership. To strengthen support for the Small Sites program, it is recommended that the City:

- **Review Program Guidelines and Strengthen Social Housing Components.** A key advantage of local funding is the flexibility it offers. Without the constraints of larger state or

federal funding programs, the City has greater discretion to tailor policies that align with broader social housing goals. As the City defines these goals, it should review the Small Sites Program guidelines to ensure optimal integration of social housing principles. This could include introducing requirements such as tenant governance for projects receiving City Housing Trust Fund support or limiting income verification to the time of initial occupancy to promote long-term housing stability.

- **Identify Sustainable Funding Source for Small Sites Program.** To strengthen the Small Sites Program, it will be necessary to identify stable and expanded funding. Historically, Council has earmarked portions of the City's Housing Trust Fund to Small Sites. A reliable and ongoing funding source would be key to scale the model.

C2. Encourage Cost Containment

To effectively scale social housing, the City should encourage cost containment as a central consideration in both policy and project development. Case studies and financial analyses show that accelerating approvals processes and lowering development costs reduces the required public subsidy, allowing more projects to move forward within existing funding constraints.²⁴

For example, the Housing Accelerator Fund is offering flexible financing to encourage developers to innovate and lower costs. It is pioneering two loan products: the Industrialized Construction Catalyst Fund²⁵ to focus on modular construction as a cost-containment strategy, and the Bay Area Housing Innovation Fund²⁶ to focus on cost-containment for projects trying new, cost-saving approaches. In the short-term, Berkeley could partner with HAF on a pilot project that prioritizes cost efficiency as a core expectation in a social housing pilot (see Recommendation D1 below). Projects can test strategies like smaller unit sizes, modular construction, or simplified design.

C3. Creatively Leverage City-Owned Properties to Incorporate Social Housing

On an ongoing basis, the City invests in capital improvements to its facilities, renews long-term leases, and oversees inter-agency public agreements. In the short-term, the City could creatively seek opportunities to leverage some of these activities during the planning phase, to capture additional mixed-income housing development opportunities on City-owned or other publicly-owned land, reducing downstream subsidy needs.

²⁴ The City of Berkeley has implemented numerous streamlined residential permitting processes to reduce the housing project approvals process. For reference, see Strategy H-34 and also Programs 31, 32, 33, and 39 in the Berkeley Housing Element at: https://berkeleyca.gov/sites/default/files/documents/Berkeley_2023-2031%20Housing%20Element_02-17-2023v2_0.pdf

²⁵ See: <https://www.sfhaf.org/2025/02/28/housing-accelerator-fund-launches-industrialized-construction-catalyst-fund-to-deliver-affordable-homes-faster-through-construction-innovation/>

²⁶ See: <https://www.sfhaf.org/bay-area-housing-innovation-fund/>

D. Pilot Programs and Projects

D1. Pilot a Mixed-Income Project using Existing Funding Sources

The California Housing Finance Agency's (CalHFA) Mixed-Income Program (MIP) is already structured around a mixed-income model and could serve as a strong foundation for piloting a new construction project that demonstrates how social housing can work in Berkeley. MIP includes a CDLAC bond allocation set-aside, providing a dedicated state funding source that reduces reliance on limited local subsidies. The program offers long-term subordinate loans for multifamily developments serving households between 30% and 120% of AMI, with requirements that ensure a balanced and inclusive income mix, at least 30% of units below 50% AMI (including 10% below 30% AMI), 10% between 60–80% AMI, and the remainder below 120% AMI, as long as the overall average is no more than 60% AMI. MIP loans are paired with 4% tax credits and tax-exempt bonds. Given its alignment with social housing income targets, Berkeley should consider issuing a Notice of Funding Availability (NOFA) to promote the use of MIP in an upcoming project and evaluate its potential as a scalable social housing model. This would offer an opportunity to pilot a project that serves a broad range of incomes and test how well it aligns with social housing goals.

In addition to MIP, Berkeley can explore partnerships to prioritize cost efficiency as a core expectation in a social housing pilot. The City of Berkeley could explore working with HAF by issuing an RFP for a specific site. If the project can meet cost and time efficiency goals, it may qualify for funding from the Industrialized Construction Catalyst Fund or BAHIF, which can eliminate the need for competitive LIHTC. This kind of financing can expedite affordable housing development by avoiding the delays often associated with tax credit funding. This model could be especially well-suited for projects with smaller unit sizes, such as those serving young adults or seniors.

D2. Pilot a Social Housing Acquisition-Rehab Ownership Conversion Project

Acquisition-rehab is a lower-cost alternative to new construction and presents a more cost-effective path to expanding homeownership opportunities, especially through models that build resident equity. While Berkeley's Small Sites Program focuses on rental housing, the city's shortage of affordable homeownership options suggests the need to broaden this approach. With limited funding, acquisition-rehab stands out as a practical strategy. Berkeley could pilot a project converting a small multifamily property into a Limited-Equity Housing Cooperative (LEHC), helping to build the capacity of local community land trusts or affordable housing developers to implement similar models. This would also serve as a test case for integrating social housing principles, such as tenant governance, participatory budgeting, limiting income

verification to initial occupancy, and other components to align with social housing principles.

D3. Actively Engage in State Social Housing Funding Initiatives

Berkeley city staff should engage with the Turner Center and UC Berkeley's Othering and Belonging Institute. Both of these research centers are currently advising State housing agencies as the SB 555 California Social Housing Study progresses. Active engagement will ensure Berkeley's perspectives and priorities are reflected in the statewide conversation.

Recommendation 2: Affordable Housing Strategic Plan

To reframe and integrate social housing across Berkeley's affordable housing delivery system, the City should undertake a process to develop an Affordable Housing Strategic Plan. This would serve as a mid-term strategy, guiding efforts over the next 10 or more years. The process to formulate the Plan may require a year of data collection, public engagement, and policy discussions. Key components of the Plan should include:

A. Define Policy Goals

An important step in developing a strategic plan is to clearly define the city's policy goals, such as desired ownership structures, income mix, tenure, and levels of tenant engagement. These goals may vary and evolve based on available funding and resources. This process should align with the RHNA cycle but also look more broadly at changes underway in federal, state, and regional affordable housing delivery systems. One way is to begin by establishing a long-term target for the share of income-restricted housing in Berkeley's overall rental stock. Currently, about 9% of the city's rental units are income-restricted; the City can use this planning effort to set a vision for the next 10 or more years.

A key aspect of social housing that surfaced during research for this report is which household income levels social housing should serve. Some advocates view social housing as a tool to address the needs of those at the lowest end of the income spectrum, filling gaps left by the market. Others see it as a way to serve moderate-income households, those who may not qualify for subsidies but still struggle to access homeownership in today's market. In between these points of view, a third perspective envisions social housing as intentionally serving a mix of income levels, from the most vulnerable to moderate income and even market-rate households, using cross-subsidization to reliance on public subsidies and enhance financial sustainability.

These variations of how social housing can be implemented in Berkeley can be accommodated in individual projects, or across a portfolio with projects targeting different parts of the income spectrum. Defining policy goals will guide future investments and clarify expectations for developers and the community.

In addition to defining income targets, the City's housing policy should also identify key subpopulations that represent different life stages present in Berkeley, such as seniors aging in place, young adults entering the workforce, families with children, and university students facing housing insecurity. These groups have distinct housing needs that should inform goal-setting and resource allocation.

To better understand the housing needs of a significant segment of the population, conduct a University Student Housing Needs Survey. Berkeley's large student population represents a unique influencing factor in the local housing market. This effort is needed to refine available data regarding the impact and needs of students across the income spectrum as well as their relationship to more long-term residents with overlapping housing needs. Data collection should include a statistical sampling to develop estimates of students by undergraduate (year), and graduate/PhD analyzed by household size, household income, rent paid currently, rent burden, patterns of housing search, and future housing needs. UC Berkeley has several data, housing, and public policy institutes that could serve as leaders in this initiative.

To ensure the City's Strategic Plan reflects community needs, values, and priorities, the City should conduct a robust stakeholder engagement process as part of the study. This process should include outreach to affordable housing providers, community land trusts, tenant organizations, housing advocates, equity-focused groups, market-rate developers, and residents with lived experience in Berkeley's housing system.

B. Determine the City's Role in Housing Development and Ownership

Social Housing models vary in terms of government capacity and role. As part of the Strategic Plan, the City should define its intended role in the development, ownership, and long-term stewardship of affordable and social housing. The City should consider a continued role as a funder/facilitator or a transition towards direct public ownership and development (e.g., Montgomery County, Seattle).

The Strategic Plan should outline how the City will collaborate with the Housing Authority and nonprofit partners to leverage their respective strengths, avoid duplication, and pursue shared goals. This evaluation should consider governance structure, staffing capacity, legal authority, and access to financing tools such as tax-exempt bonds or project-based vouchers. This evaluation will provide the foundation for building a coordinated delivery system.

The Berkeley Housing Authority has established Affordable Housing Berkeley, Inc. (AHB), a new subsidiary with the goal of developing new residential projects. These projects would be funded through proceeds from the sale of its property inventory and other potential tools available to Public Housing Authorities (PHAs). The new development subsidiary has not yet built up staffing or expertise to oversee at-scale project development, but a partnership between the City and the BHA could lay a foundation for an at-scale development authority in the future. This could combine bonding authority with a coordinated approach to social housing production and preservation. Initially, this arrangement could also be implemented by engaging an experienced developer on a fee basis, while the public authority retains ownership.

C. Conduct Social Housing Sites Inventory

Identifying no- or low-cost land for new construction housing projects will be essential to social housing initiatives. As noted in Appendix A (Report Methodology), Berkeley has limited City-owned land that is both readily developable and zoned for multifamily housing. In addition, during the formulation of the 2023-2031 Housing Element Update, the City conducted a detailed assessment of developable Opportunity sites; however, this process used criteria to eliminate identification of sites not already zoned for residential use, and also did not focus on publicly-owned land (particularly by other public agencies).

This recommendation takes an inverse approach to identify additional no- or low-cost sites, including underutilized or surplus public land or sites that may be available for affordable housing by mission-driven owners open to low-cost transactions. Land acquisition is one of the most significant drivers of total development cost; every dollar saved on land reduces the subsidy needed to serve lower income households. The following list provides a starting point for a broader search, which can be conducted by reviewing the Alameda County Assessor's property database with follow-up on selected properties.

- **Sites/Underutilized Buildings Owned by City.** There may be sites owned by the City not currently zoned for residential use, and other sites currently occupied by underutilized buildings or City-owned buildings slated for renovations such as the South Berkeley Senior Center. In addition, the City Auditor recently released a memorandum describing City properties currently under leases or licenses to other users along with recommendations for improved property oversight; these may offer potential for redevelopment in future years.²⁷
- **Sites/Buildings Owned by Other Public Agencies.** A thorough review of the Alameda County Assessor's database could identify these additional sites owned by other public agencies such as EBMUD, PG&E, USPS, Caltrans, BART, UC Berkeley, and the Berkeley Unified School District.
- **Sites/Underutilized Buildings Owned by Religious Organizations.** Another category of potential social housing sites that could be obtained through low-cost ground leases or purchase by the City is property owned by churches or other religious institutions. These properties have the benefit of new state laws to streamline entitlements, such as SB4 (adopted in 2023). This law enables the eligible institutions to utilize their property to develop 100% affordable housing projects "by right," avoiding rezoning and other

²⁷ See:

https://berkeleyca.gov/sites/default/files/documents/2009_Leases_Audit_Follow_Up_Berkeley_Faces_the_Same_Risks_16_Years_Later.pdf

sometimes lengthy approval processes.

- ***Privately-Owned Sites with Functionally Obsolete Uses.*** At the private property level, there are many functionally obsolete low density commercial properties throughout Berkeley's commercial corridors, such as older auto mechanics shops, office buildings, closed former retail bank buildings, and many types of retail with shrinking footprints due to increased e-commerce and other shifts in the local economy.

D. Formulate a Funding Strategy

There are several potential options for creating a local funding strategy, which should be shaped by the goals of the Strategic Plan as well as the availability of new regional and state resources. As programs such as the statewide social housing initiative and BAHFA's regional funding efforts continue to develop, the Strategic Plan should clearly outline how Berkeley's social housing program could take advantage of these funding sources. In the mid-term, local funding tools that could be considered include:

- Voter-approved bonds similar to Measure O
- Parcel tax
- Local high earner employer tax such as the initiative recently approved by voters in Seattle to fund its Social Housing Seattle²⁸
- Creation of a Berkeley Fund modeled on the Housing Accelerator Fund²⁹ combining contributions from large organizations active in social impact funding.

The City should also evaluate whether to pursue the creation of a local financing tool modeled after Montgomery County's Housing Production Fund (HPF). This revolving loan fund, backed by public capital and administered by a public entity, has allowed HOC to accelerate the production of mixed-income housing without relying solely on traditional, competitive funding sources. A similar tool in Berkeley could provide financing for social housing projects, especially those led by the City, the Housing Authority, or nonprofit partners. The City should assess the legal, financial, and administrative structures needed to establish such a fund, including whether it would be housed within an existing agency like the Berkeley Housing Authority or managed through a new public development entity.

²⁸ See: <https://www.socialhousingseattle.org/>

²⁹ See: <https://www.sfhaf.org/>

E. Establish Formal Cost Containment Standards

The City can formalize cost containment standards for social housing projects, based on innovations tested in partnership with the HAF and other pilots. Potential standards could include unit size limits to control construction and operating costs, legally defined per-unit cost ceilings to discipline in design and development, caps on developer fees, and guidance on material selection and design efficiencies. Establishing these standards can lower production costs and support the scalability of social housing.

F. Encourage Innovative Public Financing Tools to Reduce Infrastructure Costs

The City can actively pursue innovative public financing mechanisms, such as Enhanced Infrastructure Financing Districts (EIFDs) to reduce predevelopment and infrastructure-related costs. EIFDs can play a crucial role in unlocking sites for social housing by funding critical upfront investments like utility upgrades, environmental remediation, and public amenities without increasing the financial burden on individual projects.

A comparable example is the proposed EIFD for Ashby BART, where tax increment financing would fund public amenities and infrastructure. The City can replicate this model in other areas, such as Specific Plan areas, to help reduce development costs for social housing. By capturing future property tax growth, EIFDs can cover expenses like streets, utilities, and public improvements, removing these expenses from individual projects. This approach also supports long-term planning by channeling growth and investment into priority areas.

G. Strengthen Strategies to Decommodify Housing

The City should explore strengthening strategies to decommodify housing, shifting it from a profit-driven asset to a community-centered public good. This includes continuing strategies to decommodify housing by preserving affordability in expiring properties and embedding long-term protection in new developments. The City typically preserves and extends affordable housing deed restrictions on LIHTC projects via rehabilitation loans. The City should identify dedicated rehabilitation funds to support project longevity and secure long-term affordability. For new affordable housing developments, the City should explore additional mechanisms that ensure long-term decommodification from the outset, such as incorporating a right of first refusal or public ownership options into funding agreements.

Additionally, the City should consider additional strategies to gradually decommodify segments of the unsubsidized housing stock. While State law limits rent control, policies like COPA (Community Opportunity to Purchase Act) or TOPA (Tenant Opportunity to Purchase Act), paired with dedicated acquisition funding, could assist the City or nonprofit partners to convert existing market-rate units into permanently affordable housing over time. The Strategic Plan should

assess the full range of policy tools, funding mechanisms, and regulatory frameworks needed to support this transition toward a more stable, community-controlled housing system.

H. Formalize Tenant Governance Structures

The City should formalize tenant governance practices to ensure meaningful, ongoing resident participation in decision-making. Building on pilot efforts, the City can establish a clear framework for tenant engagement that includes participatory budgeting, where residents have a formal role in reviewing and approving building budgets. This process should be structured to work collaboratively with professional property management, ensuring that residents are supported by transparent information and capacity-building tools while allowing management to meet regulatory and operational responsibilities. To support this, the City should also institutionalize cost transparency practices, such as providing tenants with clear, cost-based rent statements that break down how their monthly payments support building operations, maintenance, and financing.

To make tenant governance meaningful and equitable, the City must also invest in tenant education and support services. Tenants need to understand their rights, including the right to form unions, and have access to resources when issues arise. Affirming the right to tenant governance means ensuring the infrastructure exists to support it, including funding for education, facilitation, translation, and technical assistance.

I. Design a Human-Centered, Life-Stage Responsive Social Housing System

As part of its Affordable Housing Strategic Plan, the City should aim to develop a human-centered housing system that supports people across different life stages, reflecting the values of universal access seen in many European models. In these systems, social housing is viewed not as a last resort, but as a public good, similar to health care, that people can rely on at key moments in their lives: when starting out after school, raising a family, or aging on a fixed income. For example, in Denmark, purpose-built housing exists for young people, small, affordable units designed to support individuals as they begin their careers after graduation. Similarly, seniors often have unique needs as they transition into retirement or live on fixed incomes. In Berkeley, the large student population is a major influence on the local housing market. As part of a mid-term strategy, the City could conduct targeted surveys of both students and seniors to better understand their housing needs and guide the development of appropriately scaled, affordable housing options.

This approach recognizes that housing needs change throughout a person's life. By intentionally creating and branding housing for different life stages, whether for students, working adults, families, or seniors, the City can help shift perceptions of affordable housing from being need-

based or stigmatized to being a universal, inclusive public good.

This strategy should also focus on reframing affordable housing in Berkeley to emphasize dignity, flexibility, and responsiveness. That means designing policies and programs that allow households to adjust their housing as their needs change, such as moving into larger units when their families grow or downsizing as they age. It also includes improving how waitlists are managed and prioritizing access for those facing urgent or transitional needs. Ultimately, the goal is to build a housing system that is centered on people, not just units, and coordinated with supportive services where needed. As part of this shift, the City should also consider how branding and communications can help reshape public perception of social housing as a universal, community-oriented option.

Appendix A: Methodology for Report

Social housing has been rising as a strong theme in affordable housing policy discourse throughout the United States for the past several years. While this report presents a summary of recent literature and common principles of social housing advanced by various advocacy groups, the implementation of the concept at the local level is still evolving. Aspects of the concept can vary based on the advocacy focus. For example, some tenant unions and organizers connect social housing with tenant governance and ownership models, such as Tenant Opportunity to Purchase Act (TOPA), which provides tenants a legal pathway, and in some cases, funding, to purchase their buildings from the private owner upon sale. Other advocates draw inspiration from European models that evolved after World War II when publicly owned housing was needed to rebuild and accommodate population growth. This study focuses primarily on social housing's applicability to the City of Berkeley, with European models providing background in how large-scale social housing systems have evolved.

The findings of this report are based on research and analysis per the following steps:

1. **Literature Review.** Background research for this study involved extensive literature review which is compiled in Appendix D: Additional Resources.
2. **Local Stakeholder Interviews.** Feedback from local stakeholder interviews is incorporated throughout this report. The consultants interviewed local stakeholders in Berkeley and the broader East Bay region who have functioned as advocates of social housing or could potentially be implementation organizations for a new local social housing program. Advocacy group interviewees included East Bay for Everyone, Healthy Black Families, and the Othering & Belonging Institute (at UC Berkeley). Additional potential social housing implementation partners interviewed include the Berkeley Housing Authority, Northern California Land Trust, Bay Area Community Land Trust, BRIDGE Housing, Insight Housing, RCD, SAHA, EBALDC.
3. **Case Studies.** European models of social housing are frequently highlighted in literature and conferences discussions. For this study, two international examples were selected: Vienna, a city often cited in media profiles for its extensive municipal housing system, and Denmark, which operates a nationwide system of affordable social housing. Additionally, Maryland's Montgomery County Housing Opportunities Commission, which has been developing mixed-income projects as a public agency in innovative ways, is considered a model of adaptation of some social housing principles within the American context.
4. **Review of Available City-Owned Properties.** The initial premise of the study was to demonstrate the feasibility of a social housing program on City-owned land that could be

made available at no cost to contain newly constructed affordable social housing units. Land costs typically constitute 20-40% of total new development costs, so the elimination of the cost of land from a project immediately enables it to achieve more affordability.

City staff had been in the process of identifying potential City-owned housing sites when the study team commenced its work in spring 2024. First, in 2016, the City Council directed the City Manager to explore city-owned sites for possible affordable housing development. On February 14, 2017, staff provided a report to the City Council with extensive detail on city-owned properties (many of which contained buildings then in use for city functions). That memo concluded that there were 6 potential sites, each with some drawbacks, which were at least 15,000 square feet, had multifamily zoning or a pathway to achieve it, and could be further considered. In 2019, City staff provided a follow-up memo to City Council, reporting on the North Berkeley BART station and Ashby BART station (both of which had not been included in the prior reporting).³⁰

After reviewing staff memos and the status of City efforts underway on some of the previously-identified sites, The Housing Workshop initially planned to focus this study on the North Bowling Green site, the West Berkeley Senior Center, and potential city-owned sites within the Adeline Corridor Specific Plan, which included a goal of achieving 50% affordable housing production in new construction planned for the corridor. However, further discussions with City staff concluded that none of these 3 sites would be developable in the near term. The North Bowling Green is subject to voter approval if changed to housing; the West Berkeley Service Center was planned for rehabilitation, and none of the City-owned sites within the Adeline Corridor Specific Plan that were currently not in use were large enough to provide more than 10 units of new housing. Given these constraints, the study team shifted its focus to exploring opportunities on privately-owned properties.³¹

5. **Identification of Available Privately-Owned Property Examples.** This report profiles two examples of privately-owned property that could work well for reconfiguration as a mixed-income social housing project, and both illustrate the kinds of opportunities to acquire property to implement this concept through transacting with the private sector. These examples were identified in spring/summer 2024 as follows.

The Dwight Way property was selected through the study team's review of older multifamily rental properties that had sold on the open market in the prior twelve months. The Dwight Way property was well suited for further analysis in several ways – it had sold for a relatively

³⁰ For the 2019 staff memo packet containing the earlier 2016 and 2017 memos as well, see:

(<https://berkeleyca.gov/sites/default/files/documents/2019-10-29%20Item%2037%20Referral%20Response%20City%20Property%20for%20Affordable.pdf>)

³¹ The study team did not have the resources to identify other City-owned properties not currently zoned for housing (the first criteria used in the earlier staff memos), or to identify sites owned by other public agencies (as outlined in Recommendation 2 for a needed site inventory).

low per-door value, was located in typical central Berkeley neighborhood, represented a common multifamily preservation opportunity, and with 21 units, was a manageable size for smaller nonprofit housing providers to potentially acquire and manage.

The Shattuck Avenue entitled project was identified while researching the status of properties in the Adeline Corridor Specific Plan. It was entitled in summer 2024 and advertised for sale as an entitled development opportunity shortly thereafter.

6. **Focus Group with Mixed-Income Berkeley Tenants.** Research for this report included convening a focus group of eight local residents. For market-rate renters, recruitment efforts began with outreach to several new market-rate rental management companies to request permission to distribute flyers in their buildings, but they declined. The team then engaged several real estate brokers working with existing market-rate Berkeley tenants seeking to buy their first home if they could recommend clients. This yielded three participants. The study team also reached out to Healthy Black Families, Inc. (HBF), South Berkeley-based nonprofit organization working on social equity and justice, and HBF provided recruitment support. All prospective participants completed a short online screening survey to collect basic information on age, household size, current tenure, and estimated household income to ensure a broad mix of extremely-low to moderate- and above-moderate incomes represented. In total, there were over 20 applicants, and 12 were selected to participate. All 12 RSVP'd, and 8 attended the event held in a conference room at the South Berkeley Senior Center in August 2024. With participants' consent, the session was recorded, and the footage was provided to City staff for review.
7. **Pro Forma Financial Analysis.** The financial pro formas provided in this report were developed by The Housing Workshop and Urban Math. They are structured to reflect several possible mixed-income scenarios for the two example projects, encompassing both rental and ownership options. Assumptions for the pro formas were developed by the consultants, in collaboration with City staff and compared to other recent consultant reports for the City of Berkeley on related affordable housing policies. Descriptions of each key variable are included in the body of this report, with documentation for market rate rent and sale price assumptions provided in Appendix C.

Appendix B: Detailed Housing Data

Appendix B1: Population and Household Trends, 2000-2023

| <u>Population in Households</u> | <u>2000</u> | <u>2010</u> | <u>2020</u> | <u>2023</u> | <u>% Change 2000-2010</u> | <u>% Change 2010-2020</u> | <u>% Change 2020-2023</u> |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------------------------|-------------------------------|-------------------------------|
| City of Berkeley | 96,921 | 99,731 | 106,604 | 105,578 | 2.9% | 6.9% | -1.0% |
| Alameda County | 1,416,006 | 1,472,829 | 1,628,520 | 1,582,968 | 4.0% | 10.6% | -2.8% |
| Bay Area (a) | 6,640,972 | 7,003,059 | 7,590,783 | 7,339,611 | 5.5% | 8.4% | -3.3% |
| Population in Group Quarters | | | | | | | |
| City of Berkeley | 5,822 | 12,849 | 17,717 | N/A | 120.7% | 37.9% | N/A |
| Alameda County | 27,735 | 37,442 | 53,833 | N/A | 35.0% | 43.8% | N/A |
| Bay Area (a) | 142,788 | 147,680 | 174,857 | N/A | 3.4% | 18.4% | N/A |
| Total Population | | | | | | | |
| City of Berkeley | 102,743 | 112,580 | 124,321 | 118,962 | 9.6% | 10.4% | -4.3% |
| Alameda County | 1,443,741 | 1,510,271 | 1,682,353 | 1,622,188 | 4.6% | 11.4% | -3.6% |
| Bay Area (a) | 6,783,760 | 7,150,739 | 7,765,640 | 7,508,799 | 5.4% | 8.6% | -3.3% |
| Households | | | | | | | |
| City of Berkeley | 44,955 | 46,029 | 47,606 | 49,088 | 2.4% | 3.4% | 3.1% |
| Alameda County | 523,366 | 545,138 | 591,636 | 608,534 | 4.2% | 8.5% | 2.9% |
| Bay Area (a) | 2,466,019 | 2,608,023 | 2,793,526 | 2,830,712 | 5.8% | 7.1% | 1.3% |
| Average Household Size | | | | | | | |
| City of Berkeley | 2.16 | 2.17 | 2.24 | 2.15 | 0.5% | 3.2% | -4.0% |
| Alameda County | 2.71 | 2.70 | 2.75 | 2.78 | -0.4% | 1.9% | 1.0% |
| Bay Area (a) | 2.69 | 2.69 | 2.72 | 2.59 | -0.1% | 1.0% | -4.6% |

Notes:

(a) The Bay Area includes Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Sonoma, and Solano counties.

Sources: US Census, 2000; ACS 1-Year Estimates, 2023; THW, 2024.

Appendix B2: Berkeley Age Distribution, 2000 – 2023

| Age | City of Berkeley | | | Alameda County | | | Bay Area (a) | | |
|-------------------|------------------|----------------|------------|------------------|------------------|------------|------------------|------------------|------------|
| | 2000 | 2023 | % Change | 2000 | 2023 | % Change | 2000 | 2023 | Change |
| Under 18 | 14,513 | 12,642 | -13% | 354,572 | 315,933 | -11% | 1,601,858 | 1,449,589 | -10% |
| 18-24 | 22,159 | 33,444 | 51% | 138,416 | 128,131 | -7% | 595,173 | 599,560 | 1% |
| 25-34 | 18,360 | 16,652 | -9% | 241,073 | 244,512 | 1% | 1,120,919 | 1,099,924 | -2% |
| 35-44 | 14,310 | 14,218 | -1% | 248,706 | 258,895 | 4% | 1,172,570 | 1,106,183 | -6% |
| 45-54 | 14,325 | 11,992 | -16% | 200,518 | 217,551 | 8% | 964,638 | 989,988 | 3% |
| 55-64 | 8,592 | 9,929 | 16% | 112,865 | 196,139 | 74% | 571,095 | 944,325 | 65% |
| 65-74 | 4,993 | 10,933 | 119% | 75,699 | 151,102 | 100% | 389,437 | 748,212 | 92% |
| 75-84 | 3,969 | 7,046 | 78% | 53,069 | 81,729 | 54% | 272,643 | 417,811 | 53% |
| 85+ | 1,522 | 2,106 | 38% | 18,823 | 28,196 | 50% | 95,427 | 153,207 | 61% |
| Total | 102,743 | 118,962 | 16% | 1,443,741 | 1,622,188 | 12% | 6,783,760 | 7,508,799 | 11% |
| Median Age | 32.5 | 32.9 | | 34.5 | 39.5 | | 35.6 | 40.3 | |

Notes:

(a) The Bay Area includes Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Sonoma, and Solano counties.

Sources: US Census, 2000, 2020; ACS 1-Year Estimates, 2023; THW, 2024.

Appendix B3: Household Income Distribution, 2023

| Household Income | Alameda | | |
|---------------------|---------------|---------------|---------------|
| | Berkeley | County | Bay Area |
| Less than \$15,000 | 13.2% | 7.3% | 6.4% |
| \$15,000-\$24,999 | 7.6% | 4.2% | 3.8% |
| \$25,000-\$34,999 | 3.4% | 4.0% | 3.8% |
| \$35,000-\$49,999 | 6.8% | 6.4% | 6.0% |
| \$50,000-\$74,999 | 11.5% | 10.7% | 10.3% |
| \$75,000-\$99,999 | 8.3% | 9.6% | 9.6% |
| \$100,000-\$149,999 | 15.0% | 16.9% | 16.4% |
| \$150,000-\$199,999 | 8.4% | 11.7% | 12.0% |
| \$200,000 or more | 26.1% | 29.1% | 31.6% |
| Total | 100.0% | 100.0% | 100.0% |

Notes:

(a) The Bay Area includes Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Sonoma, and Solano counties.

Sources: ACS 1-Year Estimates, 2023; THW, 2024.

Appendix B4: Median Household Income by Tenure, 2000-2023

| | Median Household Income | | % Change |
|-----------------------|-------------------------|-------------------|--------------|
| | 2000 (a) | 2023 | |
| Berkeley | | | |
| Owners | \$ 157,877 | \$ 169,878 | 7.6% |
| Renters | \$ 53,739 | \$ 61,525 | 14.5% |
| All Households | \$ 86,958 | \$ 98,086 | 12.8% |
| Alameda County | | | |
| Owners | \$ 148,058 | \$ 162,956 | 10.1% |
| Renters | \$ 73,571 | \$ 82,021 | 11.5% |
| All Households | \$ 109,282 | \$ 119,931 | 9.7% |

Notes:

(a) All incomes adjusted to 2023 dollars.

Sources: US Census, 2000; ACS 1-Year Estimates, 2023; THW, 2024.

Appendix B5: Households by Tenure, 2000-2023

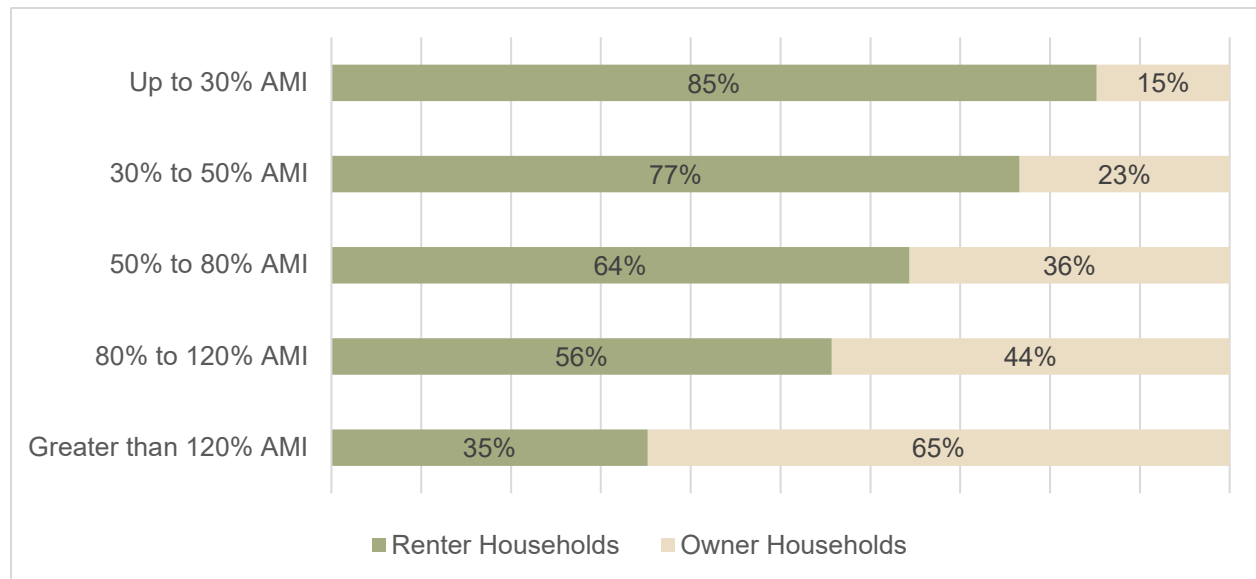
| Tenure (#) | City of Berkeley | | Alameda County | | Bay Area (a) | |
|----------------------------|------------------|---------------|----------------|----------------|------------------|------------------|
| | 2000 | 2023 | 2000 | 2023 | 2000 | 2023 |
| Owner Households | 19,214 | 20,063 | 286,277 | 328,166 | 1,423,958 | 1,593,329 |
| Renter Households | 25,741 | 29,025 | 237,089 | 280,368 | 1,042,061 | 1,237,383 |
| Total | 44,955 | 49,088 | 523,366 | 608,534 | 2,466,019 | 2,830,712 |
| Tenure (%) | | | | | | |
| Owner Households | 42.7% | 40.9% | 54.7% | 53.9% | 57.7% | 56.3% |
| Renter Households | 57.3% | 59.1% | 45.3% | 46.1% | 42.3% | 43.7% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| % Change, 2000-2023 | | | | | | |
| Owner Households | | 4.4% | | 14.6% | | 11.9% |
| Renter Households | | 12.8% | | 18.3% | | 18.7% |

Notes:

(a) The Bay Area includes Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Sonoma, and Solano counties.

Sources: US Census, 2000; ACS 1-Year Estimates, 2023; THW, 2024.

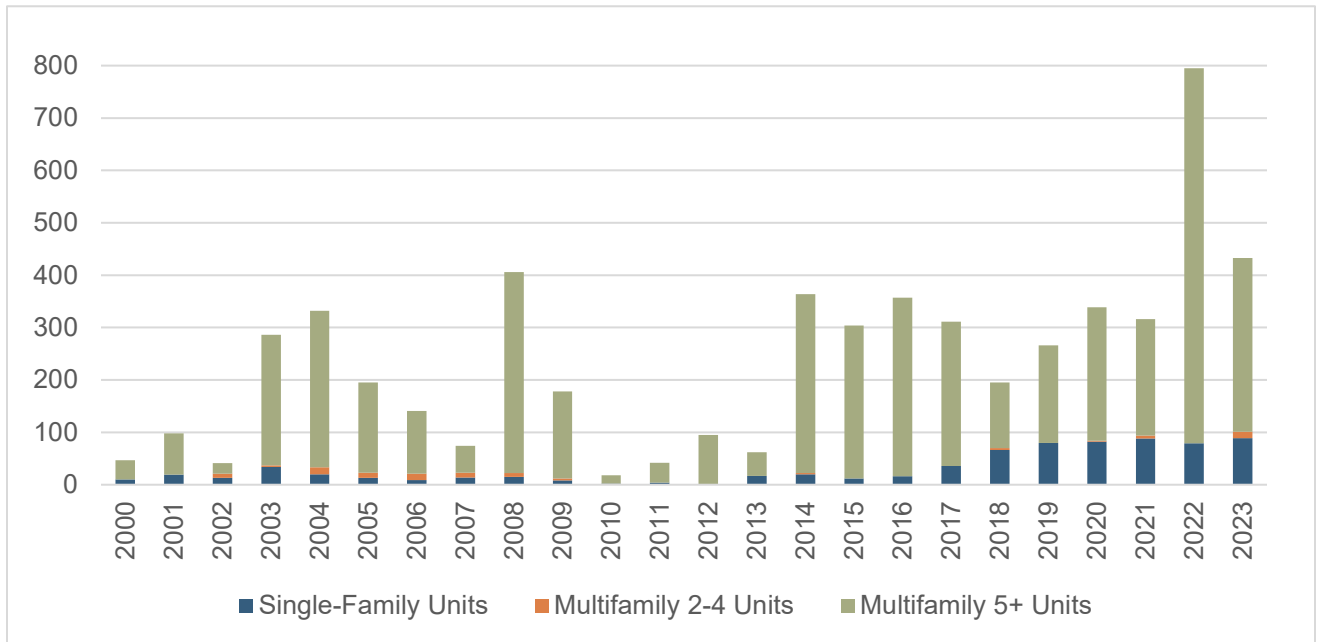
Appendix B6: Berkeley Distribution of Area Median Income by Tenure, 2000



Note: 2000 was last year this data is available.

Sources: HUD Comprehensive Housing Affordability Strategy (CHAS) Database, 2016-2020; The Housing Workshop, 2025.

Appendix B7: Building Permits, City of Berkeley, 2000-2023



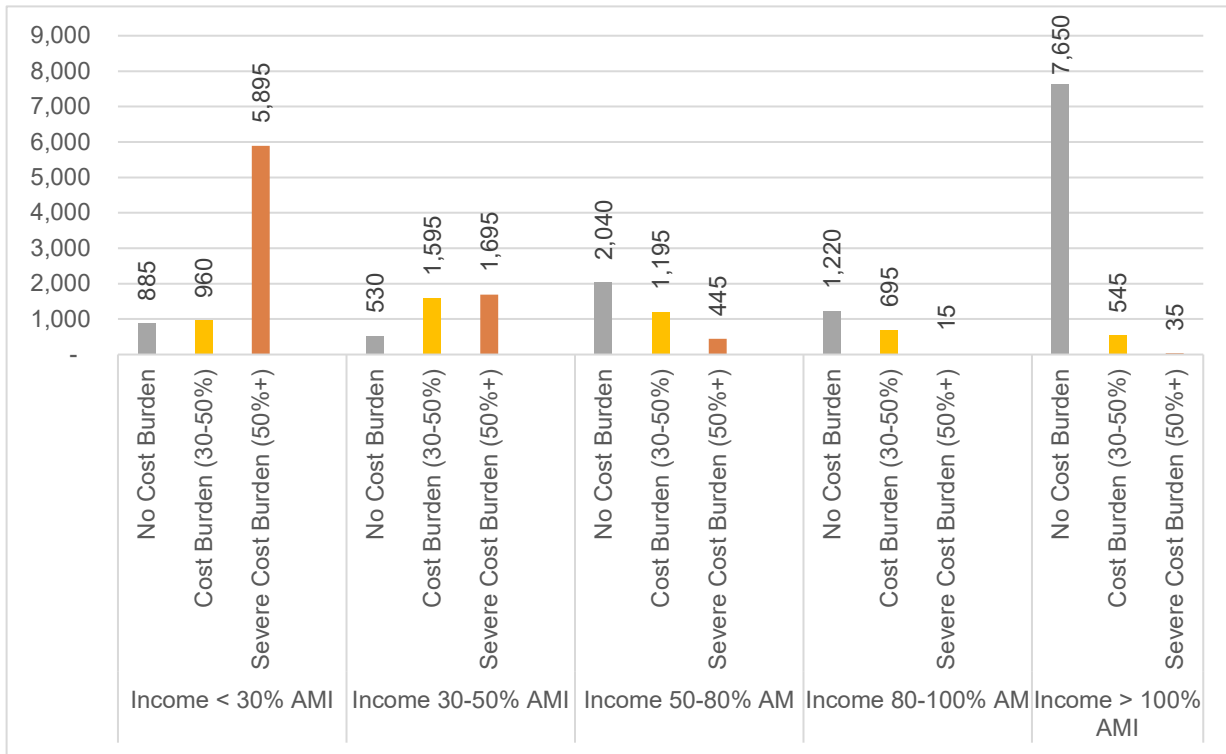
Appendix B8: Berkeley Housing Production in Current RHNA Cycle

| | Very Low- Income (<50% AMI) | Low Income (50-80% AMI) | Mod Income (80-120% AMI) | Above Mod (>120% AMI) | Total |
|------------------------------------------------------|---------------------------------------------------|--------------------------------------------|---------------------------------------------|---------------------------------------------|--------------|
| Berkeley RHNA, 2023-2031 | 2,446 | 1,408 | 1,416 | 3,664 | 8,934 |
| Permitted Units 2021-2023 (a) | 64 | 52 | 29 | 286 | 431 |
| Balance to Permit 2024 - 2031 | 2,382 | 1,356 | 1,387 | 3,378 | 8,503 |
| Permitted Units, as % of RHNA | 2.6% | 3.7% | 2.0% | 7.8% | 4.8% |
| <i>Goal for 2021-2023 Period in HE 6th Cycle</i> | <i>25.0%</i> | <i>25.0%</i> | <i>25.0%</i> | <i>25.0%</i> | <i>25.0%</i> |

Notes:

(a) The California Department of Housing and Community Development (HCD) evaluates progress meeting RHNA goals based on the number of building permits issued, not per entitled units. Sources: CA HCD Housing Element Implementation and APR Dashboard, 2025.

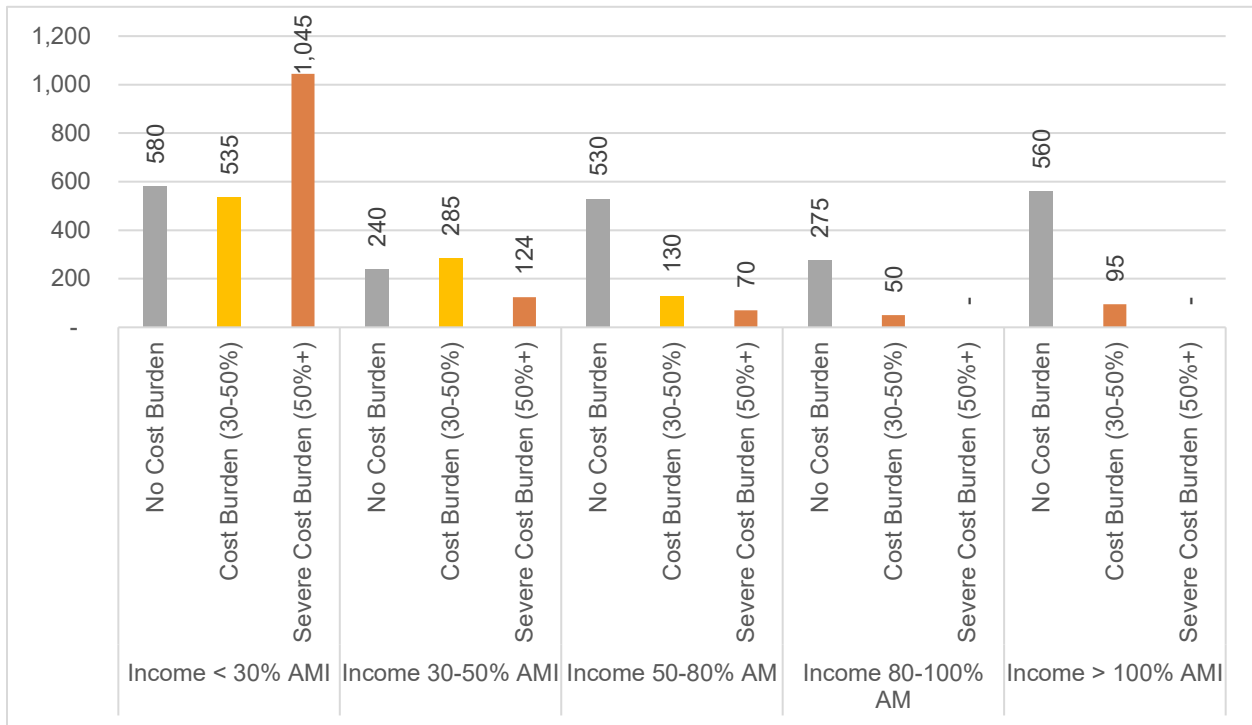
Appendix B9: Berkeley Housing Cost Burden for Renter Households by AMI, 2020



Appendix B10: Berkeley Housing Cost Burden for Owner Households, 2020



Appendix B11: Berkeley Housing Cost Burden by AMI, Senior Renter Households, 2020



Appendix B12: Berkeley's Population Change by Race & Ethnicity, 2000 - 2023

| | 2000 | | 2023 | | % Change 2000-2023 |
|-----------------------------------|------------------|---------------|------------------|---------------|-----------------------|
| | Population | % Share | Population | % Share | |
| City of Berkeley | | | | | |
| Hispanic/ Latino (b) | 10,001 | 9.7% | 13,055 | 11.0% | 30.5% |
| Not Hispanic/Latino | 92,742 | 90.3% | 105,907 | 89.0% | 14.2% |
| White | 56,691 | 55.2% | 56,727 | 47.7% | 0.1% |
| Black/ African American | 13,707 | 13.3% | 8,415 | 7.1% | -38.6% |
| Native American | 293 | 0.3% | 101 | 0.1% | -65.5% |
| Asian | 16,740 | 16.3% | 29,340 | 24.7% | 75.3% |
| Native Hawaiian/ Pacific Islander | 121 | 0.1% | 34 | 0.0% | -71.9% |
| Other Race Alone | 598 | 0.6% | 992 | 0.8% | 65.9% |
| Two or More Races | 4,592 | 4.5% | 10,298 | 8.7% | 124.3% |
| Total | 102,743 | 100.0% | 118,962 | 100.0% | 15.8% |
| Alameda County | | | | | |
| Hispanic/ Latino (b) | 273,910 | 19.0% | 378,596 | 23.3% | 38.2% |
| Not Hispanic/Latino | 1,169,831 | 81.0% | 1,243,592 | 76.7% | 6.3% |
| White | 591,095 | 40.9% | 440,498 | 27.2% | -25.5% |
| Black/ African American | 211,124 | 14.6% | 146,345 | 9.0% | -30.7% |
| Native American | 5,306 | 0.4% | 2,630 | 0.2% | -50.4% |
| Asian | 292,673 | 20.3% | 540,143 | 33.3% | 84.6% |
| Native Hawaiian/ Pacific Islander | 8,458 | 0.6% | 11,050 | 0.7% | 30.6% |
| Other Race Alone | 4,676 | 0.3% | 9,602 | 0.6% | 105.3% |
| Two or More Races | 56,499 | 3.9% | 93,324 | 5.8% | 65.2% |
| Total | 1,443,741 | 100.0% | 1,622,188 | 100.0% | 12.4% |
| Bay Area (a) | | | | | |
| Hispanic/ Latino (b) | 1,315,175 | 19.4% | 1,861,753 | 24.8% | 41.6% |
| Not Hispanic/Latino | 5,468,585 | 80.6% | 5,647,046 | 75.2% | 3.3% |
| White | 3,392,204 | 50.0% | 2,568,718 | 34.2% | -24.3% |
| Black/ African American | 497,205 | 7.3% | 398,854 | 5.3% | -19.8% |
| Native American | 24,733 | 0.4% | 12,473 | 0.2% | -49.6% |
| Asian | 1,278,515 | 18.8% | 2,173,467 | 28.9% | 70.0% |
| Native Hawaiian/ Pacific Islander | 33,640 | 0.5% | 39,416 | 0.5% | 17.2% |
| Other Race Alone | 18,451 | 0.3% | 48,682 | 0.6% | 163.8% |
| Two or More Races | 223,837 | 3.3% | 405,436 | 5.4% | 81.1% |
| Total | 6,783,760 | 100.0% | 7,508,799 | 100.0% | 10.7% |

Notes:

(a) The Bay Area includes Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Sonoma, and Solano counties.

(b) Includes all races for those of Hispanic/Latino background.

Sources: US Census, 2000; ACS 1-Year Estimates, 2023; THW, 2025.

Appendix B13: Current Rents for Recently Built Berkeley Rental Projects

| Name/Location (a) | Year Built | Floorplan | Asking Rent (b) | Unit Size | Rent/Sq.Ft. |
|----------------------------------|------------|-----------|-----------------|-----------|-------------|
| B28 (2028 Bancroft) | 2023 | Studio | \$ 2,695 | 338 | \$ 7.97 |
| | | 1-Bdrm | \$ 2,995 | 576 | \$ 5.20 |
| | | 2-Bdrm | \$ 4,195 | 621 | \$ 6.76 |
| The Artisan (2072 Addison) | 2023 | 2-Bdrm | \$ 4,295 | 779 | \$ 5.51 |
| The Shattuck (2701 Shattuck) | 2024 | Studio | \$ 2,195 | 311 | \$ 7.06 |
| | | 1-Bdrm | \$ 3,595 | 634 | \$ 5.67 |
| | | 2-Bdrm | \$ 4,595 | 642 | \$ 7.16 |
| Berkeley Place (2067 University) | 2023 | 1-Bdrm | \$ 2,750 | 400 | \$ 6.88 |
| | | 2-Bdrm | \$ 3,650 | 594 | \$ 6.14 |

a) Does not profile The Hub, The RISE, The Aquatic @U, Helios, The Lair, or Ace Berkeley because those are targeted at students with furnished units and rents based on a per-person occupancy.

This is a product type designed to serve as a private dorm, located near campus.

b) For this table, the smallest unit with the lowest rent for each floorplan is shown, Asking rents on same floorplan with more sq. ft. or views, are higher.

Sources: apartments.com; THW, 2025.

Appendix B14: Berkeley Newer Construction, Recently Sold Condominiums

| Address | Sale Date | Unit Type | Year Built | Sale Price | Beds | Baths | Sq.Ft. | \$/Sq.Ft. | HOA (a) |
|-----------------------------|-----------|-----------|------------|---------------------|------|-------|--------------|---------------|---------------|
| 1-Bedroom Units | | | | | | | | | |
| 2747 San Pablo Ave #212 | 5/31/2023 | Condo | 2020 | \$ 583,000 | 1 | 1.5 | 773 | \$ 754 | \$ 461 |
| 2747 San Pablo Ave #408 | 8/18/2023 | Condo | 2020 | \$ 620,000 | 1 | 1 | 771 | \$ 804 | \$ 461 |
| 2747 San Pablo Ave #215 | 4/15/2024 | Condo | 2020 | \$ 678,000 | 1 | 1.5 | 1,006 | \$ 674 | \$ 562 |
| 2747 San Pablo Ave Unit LW1 | 6/25/2024 | Condo | 2020 | \$ 525,000 | 1 | 1 | 1,130 | \$ 465 | \$ 514 |
| 2747 San Pablo Ave #206 | 11/8/2024 | Condo | 2020 | \$ 475,000 | 1 | 1.5 | 910 | \$ 522 | \$ 554 |
| Average | | | | \$ 576,200 | | | 918 | \$ 644 | \$ 510 |
| 2-Bedroom Units | | | | | | | | | |
| 1171 Hearst Unit A | 3/10/2023 | Condo | 2022 | \$ 975,000 | 2 | 1.5 | 875 | \$ 1,114 | \$ 337 |
| 1169 Hearst Unit B | 3/20/2023 | Condo | 2022 | \$ 950,000 | 2 | 1.5 | 846 | \$ 1,123 | \$ 335 |
| 1171 Hearst Unit B | 3/24/2023 | Condo | 2022 | \$ 950,000 | 2 | 1.5 | 846 | \$ 1,123 | \$ 335 |
| 2747 San Pablo Ave #208 | 6/21/2023 | Condo | 2020 | \$ 968,000 | 2 | 2.5 | 1,372 | \$ 706 | \$ 504 |
| 2747 San Pablo Ave #504 | 10/2/2023 | Condo | 2020 | \$ 748,000 | 2 | 1 | 896 | \$ 835 | \$ 470 |
| Average | | | | \$ 918,200 | | | 967 | \$ 980 | \$ 396 |
| 3-Bedroom Units | | | | | | | | | |
| 1811 63rd St Unit B | 2/7/2025 | Twnhse | 2021 | \$ 1,350,000 | 3 | 2.5 | 1,552 | \$ 870 | \$ 133 |
| Average | | | | \$ 1,350,000 | | | 1,552 | \$ 870 | \$ 133 |

a) HOA is per month.

Based on sales shown in Redfin, filtered by built 2020 or later, sale date 2023 or later.

Only sales in Berkeley are shown (several units just over the Oakland border are not shown).

Sources: Redfin, 2025; THW, 2025.

Appendix C: Detailed Pro Forma Financial Analysis

The table below provides information on the current rental rates per unit in the Dwight acquisition/rehab pro forma example (e.g., used for baseline scenario).

Table 4: Maximum RSO Rents in 2023 (Sale Year)

| <u>Unit # (a)</u> | <u>Unit Type</u> | <u>Rent</u> | | <u>Year Tenant</u> |
|----------------------------|------------------|--------------------|---------------------------|--------------------|
| | | <u>Ceiling (b)</u> | <u>AMI Equivalent (c)</u> | <u>Moved In</u> |
| A1 | 2-Bedroom | \$1,030 | 29% | 1980 |
| A2 | 2-Bedroom | \$1,044 | 30% | 1992 |
| A3 | 1-Bedroom | \$748 | 26% | 2005 |
| A4 | 2-Bedroom | \$1,775 | 51% | 2005 |
| A5 | 1-Bedroom | \$1,283 | 44% | 2006 |
| A6 | Studio | \$1,068 | 39% | 2008 |
| A7 | Studio | \$1,149 | 42% | 2010 |
| A8 | 1-Bedroom | \$1,229 | 42% | 2012 |
| A9 | 2-Bedroom | \$1,944 | 55% | 2013 |
| A10 | 2-Bedroom | \$2,185 | 62% | 2020 |
| A11 | Studio | \$2,245 | 82% | 2021 |
| A12 | 1-Bedroom | \$2,349 | 80% | 2021 |
| A13 | 1-Bedroom | \$2,349 | 80% | 2021 |
| A14 | 1-Bedroom | \$2,453 | 84% | 2021 |
| A15 | Studio | \$2,500 | 92% | 2022 |
| A16 | 1-Bedroom | \$2,095 | 72% | 2022 |
| A17 | 1-Bedroom | \$2,125 | 73% | 2022 |
| A18 | 1-Bedroom | \$2,500 | 86% | 2022 |
| A19 | 2-Bedroom | \$3,000 | 86% | 2022 |
| Average Project AMI | | | 61% | |

Notes:

(a) To maintain tenant anonymity, the unit numbers in this table are not the actual unit identifiers.

(b) The rent ceiling represents the maximum allowable rent the landlord could charge, determined by applying the annual rent escalator permitted by the City of Berkeley to the initial rent. The City of Berkeley does not disclose the actual rents charged for each unit.

(c) The AMI equivalent estimates the income level served based on the rent ceiling, assuming an average household size of 1 person for studios, 1.5 persons for one-bedroom units, and 3 persons for two-bedroom units. This is an approximation, as actual household sizes may vary by unit.

Sources: City of Berkeley, 2024; THW, 2025.

Appendix C1: Acquisition Rehab Rental - Baseline

This building sold for \$5.25 million in 2023. The scenario assumes a standard real estate investor purchases the property with existing tenants remaining in place. It is intended to illustrate the acquisition of an existing, unsubsidized building in Berkeley.

| Development Program and Assumptions | | Baseline: As-Is, No Rehab |
|-------------------------------------------|------|------------------------------|
| Site Size (sf) | | 15,240 |
| Total Number of Units | | 21 |
| Affordable Units Required (a) | 0% | - |
| Number of Market Rate Units | 100% | 21 |
| Dwelling Units/Acre | | 60 |
| Units (b) | | |
| Studios | | 5 |
| 1-Bedroom | | 10 |
| 2-Bedroom | | 6 |
| 3-Bedroom | | - |
| Average Unit Size | | 611 |
| Total Residential Space (sf) | | 12,832 |
| Total Open Space (sf) | | 5,000 |
| Number of Parking Spaces | | 9 |
| Parking spaces per unit | | 0.43 |
| Development Costs | | |
| Acquisition Cost per Residential Unit (b) | \$ | 250,000 |
| Hard Costs - Avg. Rehab Cost/Unit (c) | \$ | - |
| Hard Costs - Open Space | | |
| Soft Costs exc Fees (as % of hard) | | 20.0% |
| Financing Costs (Construction) | | |
| Loan to Cost Ratio | | 60.0% |
| Interest Rate | | 7.0% |
| Loan Fees | | 1.5% |
| Construction Period (months) | | 12 |
| Avg. Outstanding Bal During Construction | | 60.0% |
| Financing Costs (Permanent) | | |
| Loan to Cost Ratio | | 70.0% |
| Interest Rate | | 6.0% |
| Debt Coverage Ratio | | 1.20 |
| Capitalized Reserve (d) | | |
| Non-Profit Developer Fee | | |
| Market Rents | | |
| Studios | | N/A |
| 1-Bedroom | | N/A |
| 2-Bedroom | | N/A |
| Operations | | |
| Vacancy | | 5.0% |
| OpEx per unit (exc. prop taxes) (b) | \$ | 5,300 |
| Property Tax Rate | | 1.20% |
| Cap Rate (e) | | 4.5% |

| Development Costs | | Baseline: As-Is, No Rehab |
|----------------------------------------|----|------------------------------|
| Acquisition | \$ | 5,250,000 |
| Rehab Costs | \$ | - |
| Soft Costs | \$ | - |
| Financing Costs | \$ | - |
| Capitalized Reserves | \$ | - |
| Total Development Costs | \$ | 5,250,000 |
| <i>Total Development Cost per Unit</i> | \$ | <i>250,000</i> |

| Development Feasibility and Financing | |
|----------------------------------------------|----------------|
| Net Operating Income (NOI) | \$ 260,941 |
| Capitalized Value | \$ 5,798,680 |
| Less Total Development Cost | \$ (5,250,000) |
| Profit / (Loss) | \$ 548,680 |
| Return on Cost | 10.5% |
| Sources of Financing | |
| Supportable Loan | \$ 2,993,169 |
| Private Equity (f) | \$ 2,256,831 |
| Traditional Capital Stack to Fill Gap | |
| City HTF | N/A |
| Other | N/A |

| Operations | |
|--------------------------------------------|--------------|
| Gross Income (b) | \$ 458,148 |
| Less: Vacancy | \$ (22,907) |
| Less: Op Expenses excluding Property Taxes | \$ (111,300) |
| Less: Property Taxes | \$ (63,000) |
| Less: Reserves | \$ - |
| Net Operating Income (NOI) | \$ 260,941 |

| Affordability Metrics | |
|------------------------------------------------|------------|
| Average Project AMI | 61% |
| % of Units Serving ELI Households | 14% |
| % of Units Serving VLI Households | 24% |
| % of Units Serving Low Households | 29% |
| % of Units Serving Moderate Households | 33% |
| % of Units Serving Above Mod Households | 0% |
| % Units Serving <=80% AMI Households | 67% |

Notes:

- a) Real estate investors who purchase existing buildings are not required to set-aside any units for affordable housing. For buildings built before 1995, Berkeley's rent stabilization ordinance applies. Rent increases are capped at the annual allowable rate set by the Rent Board. However, when a tenant vacates, landlords are permitted to reset to market rents under the Costa-Hawkins Rental Housing Act.
- b) The unit mix, rents, operating costs, and acquisition price are based on a 21-unit apartment building in Berkeley that sold in October 2023.
- c) This baseline scenario assumes no rehabilitation. In rent-stabilized buildings, owners typically wait for tenants to vacate before upgrading units to achieve higher rents from new tenants. This scenario establishes a baseline to assess a landlord's return based on current rents.
- d) Market-rate projects of this scale typically do not capitalize operating reserves and instead rely on accumulated reserves and cash flow to cover unexpected costs.
- e) The cap rate is based on the actual rate at the time of sale, calculated by comparing the building's net operating income (NOI) to its sales price. In contrast, the other proformas use current market cap rates, which are now higher than when this property was sold.
- f) This represents the funding needed to cover the gap between project costs and supportable debt. Market-rate projects close this gap using private equity, including developer contributions, preferred equity, and other private sources seeking competitive returns.

Sources: The Housing Workshop; Urban Math, 2025.

Appendix C2: Acquisition Rehab Rental - Income Average @ 80% AMI (Berkeley Small Sites)

This scenario models the income averaging allowed in Berkeley's Small Sites Program, as it allows for cross-subsidization. In this scenario, existing tenants remain in place, and upon turnover, units can be rented to households earning up to 120% AMI, providing the opportunity to cross-subsidize lower-income units while maintaining an 80% AMI average.

| Development Program and Assumptions | | Option A: Income Average @ 80% AMI |
|-------------------------------------------|-----|------------------------------------------|
| Site Size (sf) | | 15,240 |
| Total Number of Units | | 21 |
| Affordable Units Required (a) | 60% | 13 |
| Number of Market Rate Units (b) | 40% | 8 |
| Dwelling Units/Acre | | 60 |
| Units (c) | | |
| Studios | | 5 |
| 1-Bedroom | | 10 |
| 2-Bedroom | | 6 |
| 3-Bedroom | | - |
| Average Unit Size | | 611 |
| Total Residential Space (sf) | | 12,832 |
| Total Open Space (sf) | | 5,000 |
| Number of Parking Spaces | | 9 |
| Parking spaces per unit | | 0.43 |
| Development Costs | | |
| Acquisition Cost per Residential Unit (c) | \$ | 250,000 |
| Hard Costs - Avg. Rehab Cost/Unit (d) | \$ | 125,000 |
| Hard Costs - Open Space (e) | \$ | 30 |
| Rehab Cost Contingency | | 15.0% |
| Soft Costs exc Fees (as % of hard) | | 20.0% |
| Financing Costs (Construction) | | |
| Loan to Cost Ratio | | 60.0% |
| Interest Rate | | 7.0% |
| Loan Fees | | 1.5% |
| Construction Period (months) | | 12 |
| Avg. Outstanding Bal During Construction | | 60.0% |
| Financing Costs (Permanent) (f) | | |
| Loan to Cost Ratio | | 80.0% |
| Interest Rate | | 6.0% |
| Debt Coverage Ratio | | 1.20 |
| Capitalized Reserve (g) | | See note |
| Non-Profit Developer Fee (h) | \$ | 290,000 |
| Market Rents (i) | | |
| Studios | \$ | 2,300 |
| 1-Bedroom | \$ | 2,800 |
| 2-Bedroom | \$ | 3,300 |
| Operations | | |
| Vacancy | | 5.0% |
| OpEx per unit (exc. prop taxes) (c) | \$ | 5,300 |
| Property Tax Rate (i) (j) | | 1.20% |
| Cap Rate | | 6.00% |
| Reserves (per unit per year) | \$ | 500 |
| Annual compliance monitoring (per year) | \$ | 1,500 |

| Development Costs | | Option A: Income Average @ 80% AMI |
|----------------------------------------------|----|------------------------------------------|
| Acquisition | \$ | 5,250,000 |
| Rehab Hard Costs with Contingency | \$ | 3,018,750 |
| Landscaping | \$ | 150,000 |
| Soft Costs | \$ | 633,750 |
| <i>Subtotal Const Costs Before Financing</i> | \$ | 3,802,500 |
| Financing Costs | | |
| Points | \$ | 81,473 |
| Construction Period Interest | \$ | 228,123 |
| <i>Subtotal Financing Costs</i> | \$ | 309,596 |
| Capitalized Reserves | \$ | 82,446 |
| Developer Fee | \$ | 290,000 |
| Total Development Costs | \$ | 9,734,542 |
| <i>Total Development Cost per Unit</i> | \$ | 463,550 |

| Development Feasibility and Financing | |
|----------------------------------------------|----------------|
| Net Operating Income (NOI) | #N/A |
| Capitalized Value | #N/A |
| Less Total Development Cost | \$ (9,734,542) |
| Profit / (Loss) | #N/A |
| Return on Cost | #N/A |
| Sources of Financing | |
| Supportable Loan | #N/A |
| Gap Financing (k) | #N/A |
| <i>Subsidy per Affordable Unit</i> | #N/A |
| Traditional Capital Stack to Fill Gap | |
| City HTF (l) | #N/A |
| Other (l) | #N/A |

| Operations | |
|--------------------------------------------|--------------|
| Gross Income | #N/A |
| Less: Vacancy | #N/A |
| Less: Op Expenses excluding Property Taxes | \$ (111,300) |
| Less: Property Taxes (j) | \$ (38,486) |
| Less: Reserves | \$ (10,500) |
| Less: Annual Compliance Monitoring | \$ (1,500) |
| Net Operating Income (NOI) | #N/A |

| Affordability Metrics | |
|------------------------------------------------|------------|
| Average Project AMI | 80% |
| % of Units Serving ELI Households | 5% |
| % of Units Serving VLI Households | 10% |
| % of Units Serving Low Households | 48% |
| % of Units Serving Moderate Households | 38% |
| % of Units Serving Above Mod Households | 0% |
| % Units Serving <=80% AMI Households | 62% |

Notes:

a) Real estate investors who purchase existing buildings are not required to set-aside any units for affordable housing. For buildings built before 1995, Berkeley's rent stabilization ordinance applies. Rent increases are capped at the annual allowable rate set by the Rent Board. However, when a tenant vacates, landlords are permitted to reset to market rents under the Costa-Hawkins Rental Housing Act.

b) The distribution of affordable and market-rate units by bedroom size is as follows:

| | <u>Affordable</u> | <u>Market</u> | <u>Market Rate AMIs</u> |
|-----------|-------------------|---------------|-------------------------|
| Studios | 3 | 2 | 84% |
| 1-Bedroom | 6 | 4 | 96% |
| 2-Bedroom | 4 | 2 | 94% |
| Total | 13 | 8 | |

c) The unit mix, rents, operating costs, and acquisition price are based on a 21-unit apartment building in Berkeley that sold in October 2023.

d) Rehabilitation costs can vary depending on the building's condition, the scope of the work, required code compliance upgrades, and the presence of any hazards. Since the level of rehabilitation can range from minimal to extensive, this proforma assumes a building in relatively good condition requiring a moderate level of improvement. The goal of the rehabilitation is to ensure the building remains in good condition over time, preserving its long-term value and functionality.

e) This includes funds for exterior upgrades, such as enhancing community gathering spaces and other outdoor improvements.

f) The permanent financing terms assume more favorable conditions from a CDFI or another lender experienced in acquisition-rehab projects. These lenders can offer better terms than commercial lenders if they have partnered with public agencies providing take-out financing.

g) Berkeley's Small Sites Program mandates a capitalized operating reserve equal to 25% of annual operating expenses and a capitalized replacement reserve set at the greater of \$2,000 per unit or the amount required to cover replacement costs for the next 10 years. Also, the replacement reserve requires an annual deposit of \$500 per unit.

h) The developer's fee is modeled after Berkeley's Small Sites Program, which is \$80,000 + \$10,000 per unit, capped at 5% of project costs excluding the developer fee.

i) Market rents are calculated using the average of the upper quartile of rents upon vacancy reset, based on data from Berkeley Rent Board for properties with new tenant move-ins from January to May of 2024. Market rents for NOAH currently range from 85-95% AMI.

j) Mixed income projects may qualify for a partial property tax exemption under California's Revenue and Taxation Code Section 214(g). The exemption is prorated based on the percentage of units restricted to low-income households. A community land that owns the land can also qualify for a property tax exemption with higher income limits.

k) This represents the funding needed to bridge the gap between the acquisition-rehab cost and the supportable debt.

l) The City of Berkeley does not impose a strict cap on the per-unit subsidy under the Small Sites Program. However, the \$300,000 per unit figure serves as an estimate to evaluate how far local funds can stretch when leveraged with other funding sources. If no additional funding sources are available, the city would need to cover the entire funding gap.

Sources: The Housing Workshop; Urban Math, 2025.

Appendix C3: Acquisition Rehab Rental - 100% Affordable

In this model, 100% of the units are designated as affordable, without cross-subsidization, serving households at 30% AMI, 40% AMI, 50% AMI, and 60% AMI.

| Development Program and Assumptions | | Option C: 100% Affordable |
|-------------------------------------------|------|------------------------------|
| Site Size (sf) | | 15,240 |
| Total Number of Units | | 21 |
| Affordable Units Required (a) | 100% | 21 |
| Number of Market Rate Units (b) | 40% | - |
| Dwelling Units/Acre | | 60 |
| Units (c) | | |
| Studios | | 5 |
| 1-Bedroom | | 10 |
| 2-Bedroom | | 6 |
| 3-Bedroom | | - |
| Average Unit Size | | 611 |
| Total Residential Space (sf) | | 12,832 |
| Total Open Space (sf) | | 5,000 |
| Number of Parking Spaces | | 9 |
| Parking spaces per unit | | 0.43 |
| Development Costs | | |
| Acquisition Cost per Residential Unit (c) | | \$ 250,000 |
| Hard Costs - Avg. Rehab Cost/Unit (d) | | \$ 125,000 |
| Hard Costs - Open Space (e) | | \$ 30 |
| Rehab Cost Contingency | | 15.0% |
| Soft Costs exc Fees (as % of hard) | | 20.0% |
| Financing Costs (Construction) | | |
| Loan to Cost Ratio | | 60.0% |
| Interest Rate | | 7.0% |
| Loan Fees | | 1.5% |
| Construction Period (months) | | 12 |
| Avg. Outstanding Bal During Construction | | 60.0% |
| Financing Costs (Permanent) (f) | | |
| Loan to Cost Ratio | | 80.0% |
| Interest Rate | | 6.0% |
| Debt Coverage Ratio | | 1.20 |
| Capitalized Reserve (g) | | See note |
| Non-Profit Developer Fee (h) | | \$ 290,000 |
| Market Rents (i) | | |
| Studios | | \$ 2,300 |
| 1-Bedroom | | \$ 2,800 |
| 2-Bedroom | | \$ 3,300 |
| Operations | | |
| Vacancy | | 5.0% |
| OpEx per unit (exc. prop taxes) (c) | | \$ 5,300 |
| Property Tax Rate (i)(j) | | 1.20% |
| Cap Rate | | 6.00% |
| Reserves (per unit per year) | | \$ 500 |
| Annual compliance monitoring (per year) | | \$ 1,500 |

| Development Costs | | Option C: 100% Affordable |
|----------------------------------------------|--|------------------------------|
| Acquisition | | |
| Rehab Hard Costs with Contingency | | \$ 5,250,000 |
| Landscaping | | \$ 3,018,750 |
| Soft Costs | | \$ 150,000 |
| <i>Subtotal Const Costs Before Financing</i> | | \$ 633,750 |
| Financing Costs | | |
| Points | | \$ 3,802,500 |
| Construction Period Interest | | \$ 81,473 |
| <i>Subtotal Financing Costs</i> | | \$ 228,123 |
| Capitalized Reserves | | \$ 309,596 |
| Developer Fee | | \$ 72,825 |
| Total Development Costs | | \$ 290,000 |
| <i>Total Development Cost per Unit</i> | | \$ 9,724,921 |
| | | \$ 463,091 |

| Development Feasibility and Financing | |
|----------------------------------------------|----------------|
| Net Operating Income (NOI) | \$ 201,589 |
| Capitalized Value | \$ 3,359,810 |
| Less Total Development Cost | \$ (9,724,921) |
| Profit / (Loss) | \$ (6,365,111) |
| Return on Cost | -65.5% |
| Sources of Financing | |
| Supportable Loan | \$ 2,312,361 |
| Gap Financing (k) | \$ 7,412,560 |
| <i>Subsidy per Affordable Unit</i> | \$ 352,979 |
| Traditional Capital Stack to Fill Gap | |
| City HTF (l) | \$ 6,300,000 |
| Other | \$ 1,112,560 |

| Operations | |
|--------------------------------------------|--------------|
| Gross Income | \$ 341,988 |
| Less: Vacancy | \$ (17,099) |
| Less: Op Expenses excluding Property Taxes | \$ (111,300) |
| Less: Property Taxes (j) | \$ - |
| Less: Reserves | \$ (10,500) |
| Less: Annual Compliance Monitoring | \$ (1,500) |
| Net Operating Income (NOI) | \$ 201,589 |

| Affordability Metrics | |
|------------------------------------------------|-------------|
| Average Project AMI | 45% |
| % of Units Serving ELI Households | 29% |
| % of Units Serving VLI Households | 43% |
| % of Units Serving Low Households | 29% |
| % of Units Serving Moderate Households | 0% |
| % of Units Serving Above Mod Households | 0% |
| % Units Serving <=80% AMI Households | 100% |

Notes:

a) Real estate investors who purchase existing buildings are not required to set-aside any units for affordable housing. For buildings built before 1995, Berkeley's rent stabilization ordinance applies. Rent increases are capped at the annual allowable rate set by the Rent Board. However, when a tenant vacates, landlords are permitted to reset to market rents under the Costa-Hawkins Rental Housing Act.

b) The distribution of affordable and market-rate units by bedroom size is as follows:

| | <u>Affordable</u> |
|-----------|-------------------|
| Studios | 5 |
| 1-Bedroom | 10 |
| 2-Bedroom | <u>6</u> |
| Total | 21 |

c) The unit mix, rents, operating costs, and acquisition price are based on a 21-unit apartment building in Berkeley that sold in October 2023.

d) Rehabilitation costs can vary depending on the building's condition, the scope of the work, required code compliance upgrades, and the presence of any hazards. Since the level of rehabilitation can range from minimal to extensive, this proforma assumes a building in relatively good condition requiring a moderate level of improvement. The goal of the rehabilitation is to ensure the building remains in good condition over time, preserving its long-term value and functionality.

e) This includes funds for exterior upgrades, such as enhancing community gathering spaces and other outdoor improvements.

f) The permanent financing terms assume more favorable conditions from a CDFI or another lender experienced in acquisition-rehab projects. These lenders can offer better terms than commercial lenders if they have partnered with public agencies providing take-out financing.

g) Berkeley's Small Sites Program mandates a capitalized operating reserve equal to 25% of annual operating expenses and a capitalized replacement reserve set at the greater of \$2,000 per unit or the amount required to cover replacement costs for the next 10 years. Also, the replacement reserve requires an annual deposit of \$500 per unit.

h) The City's NOFA allows developer fees of up to the lesser of 10% of total development costs or \$2 million for non-tax credit projects. To keep this scenario comparable to others, the developer fee was capped at \$500,000.

i) Market rents are calculated using the average of the upper quartile of rents upon vacancy reset, based on data from Berkeley Rent Board for properties with new tenant move-ins from January to May of 2024. Market rents for NOAH currently range from 85-95% AMI.

j) Mixed income projects may qualify for a partial property tax exemption under California's Revenue and Taxation Code Section 214(g). The exemption is prorated based on the percentage of units restricted to low-income households. A community land that owns the land can also qualify for a property tax exemption with higher income limits.

k) This represents the funding needed to bridge the gap between the acquisition-rehab cost and the supportable debt.

l) The City of Berkeley does not impose a strict cap on the per-unit subsidy under the Small Sites Program. However, the \$300,000 per unit figure serves as an estimate to evaluate how far local funds can stretch when leveraged with other funding sources. If no additional funding sources are available, the city would need to cover the entire funding gap.

Sources: The Housing Workshop; Urban Math, 2025.

Appendix C4: Acquisition Rehab Ownership -Targeted 80% AMI Average

This scenario illustrates the acquisition of an existing rental property, allowing current tenants the option to purchase. It accounts for the possibility that some tenants may choose to vacate, and aims to achieve an average affordability level of 80% AMI across the building.

| Development Program and Assumptions | | Option A: 80% AMI Average |
|-------------------------------------------|------|------------------------------|
| Site Size (sf) | | 15,240 |
| Total Number of Units | | 21 |
| Affordable Units Required (a) | 100% | 21 |
| Number of Market Rate Units (b) | 0% | - |
| Dwelling Units/Acre | | 60 |
| Units (c) | | |
| Studios | | 5 |
| 1-Bedroom | | 10 |
| 2-Bedroom | | 6 |
| 3-Bedroom | | - |
| Average Unit Size | | 611 |
| Total Residential Space (sf) | | 12,832 |
| Total Open Space (sf) | | 5,000 |
| Number of Parking Spaces | | 9 |
| Parking spaces per unit | | 0.43 |
| Development Costs | | |
| Acquisition Cost per Residential Unit (c) | | \$ 250,000 |
| Hard Costs - Avg. Rehab Cost/Unit (d) | | #REF! |
| Hard Costs - Open Space (e) | | 30 |
| Rehab Cost Contingency | | 15.0% |
| Soft Costs exc. Fees (as % of hard) | | 20.0% |
| Financing Costs (Construction) | | |
| Loan to Cost Ratio | | 60.0% |
| Interest Rate | | 7.0% |
| Loan Fees | | 1.5% |
| Construction Period (months) | | 12 |
| Avg. Outstanding Bal During Construction | | 60.0% |
| Capitalized Reserves (f) | | 3.0% |
| Nonprofit Developer Fee (g) | | \$ 290,000 |
| 80% AMI Sales Prices | | |
| Studios | | \$ 286,333 |
| 1-Bedroom | | \$ 338,139 |
| 2-Bedroom | | \$ 390,160 |
| Sales Assumptions | | |
| Marketing Costs | | 5.0% |

| Development Costs | | Option A: 80% AMI Average |
|----------------------------------------------|--|------------------------------|
| Acquisition | | \$ 5,250,000 |
| Rehab Hard Costs with Contingency | | #REF! |
| Landscaping | | \$ 150,000 |
| Soft Costs | | #REF! |
| <i>Subtotal Const Costs Before Financing</i> | | #REF! |
| Financing Costs | | |
| Points | | #REF! |
| Construction Period Interest | | #REF! |
| <i>Subtotal Financing Costs</i> | | #REF! |
| Capitalized Reserves | | |
| Developer Fee | | \$ 290,000 |
| Total Development Costs | | #REF! |
| <i>Total Development Cost per Unit</i> | | #REF! |

| Development Feasibility and Financing | |
|----------------------------------------------|--------------|
| Sales Revenue | \$ 7,154,013 |
| Less Marketing Costs | \$ (357,701) |
| Net Sales Revenue | \$ 6,796,313 |
| Less Total Development Cost | #REF! |
| Profit / (Loss) | #REF! |
| Return on Cost | #REF! |
| Sources of Financing | |
| Net Sales Revenue | \$ 6,796,313 |
| Gap Financing (h) | #REF! |
| <i>Subsidy per Affordable Unit</i> | #REF! |
| Traditional Capital Stack to Fill Gap | |
| City HTF | #REF! |
| Other | #REF! |

| Public Benefit Metrics | |
|------------------------------------------------|------------|
| Average Project AMI | 80% |
| % of Units Serving ELI Households | 0% |
| % of Units Serving VLI Households | 0% |
| % of Units Serving Low Households | 67% |
| % of Units Serving Moderate Households | 33% |
| % of Units Serving Above Mod Households | 0% |
| % Units Serving <=80% AMI Households | 67% |

Notes:

a) Real estate investors who purchase existing buildings are not required to set-aside any units for affordable housing. For buildings built before 1995, Berkeley's rent stabilization ordinance applies. Rent increases are capped at the annual allowable rate set by the Rent Board. However, when a tenant vacates, landlords are permitted to reset to market rents under the Costa-Hawkins Rental Housing Act.

b) The distribution of affordable and market-rate units by bedroom size is as follows:

| | <u>Affordable</u> | <u>Market</u> |
|-----------|-------------------|---------------|
| Studios | 5 | - |
| 1-Bedroom | 10 | - |
| 2-Bedroom | 6 | - |
| 3-Bedroom | - | - |
| Total | 21 | - |

c) The unit mix, rents, operating costs, and acquisition price are based on a 21-unit apartment building in Berkeley that sold in October 2023.

d) Rehabilitation costs can vary depending on the building's condition, the scope of the work, required code compliance upgrades, and the presence of any hazards. Since the level of rehabilitation can range from minimal to extensive, this proforma assumes a building in relatively good condition requiring a moderate level of improvement. The goal of the rehabilitation is to ensure the building remains in good condition

e) This includes funds for exterior upgrades, such as enhancing community gathering spaces and other outdoor improvements.

f) Capitalized reserves are set aside to cover unforeseen costs during sales and operations of the condominium or cooperative. They may be used for startup costs, warranty obligations, or carrying costs for unsold units. Typical reserves range from 2% to 5% of total project costs.

h) The developer's fee is modeled after Berkeley's Small Sites Program, which is \$80,000 + \$10,000 per unit, capped at 5% of project costs excluding the developer fee.

h) The City of Berkeley does not impose a strict cap on the per-unit subsidy under the Small Sites Program. However, the \$250,000 per unit figure serves as an estimate to evaluate how far local funds can stretch when leveraged with other funding sources. If no additional funding sources are available, the city would need to cover the entire funding gap.

Appendix C5: Acquisition Rehab, Conversion to Ownership for Existing Residents (Average 61% AMI)

This scenario models the acquisition of an existing rental building, with all tenants remaining in place and opting into a homeownership structure designed to ensure long-term affordability.

| Development Program and Assumptions | | Baseline: Current Tenant Mix |
|-------------------------------------------|------|------------------------------------|
| Site Size (sf) | | 15,240 |
| Total Number of Units | | 21 |
| Affordable Units Required (a) | 100% | 21 |
| Number of Market Rate Units (b) | 0% | - |
| Dwelling Units/Acre | | 60 |
| Units (c) | | |
| Studios | | 5 |
| 1-Bedroom | | 10 |
| 2-Bedroom | | 6 |
| 3-Bedroom | | - |
| Average Unit Size | | 611 |
| Total Residential Space (sf) | | 12,832 |
| Total Open Space (sf) | | 5,000 |
| Number of Parking Spaces | | 9 |
| Parking spaces per unit | | 0.43 |
| Development Costs | | |
| Acquisition Cost per Residential Unit (c) | | \$ 250,000 |
| Hard Costs - Avg. Rehab Cost/Unit (d) | | #REF! |
| Hard Costs - Open Space (e) | | 30 |
| Rehab Cost Contingency | | 15.0% |
| Soft Costs exc. Fees (as % of hard) | | 20.0% |
| Financing Costs (Construction) | | |
| Loan to Cost Ratio | | 60.0% |
| Interest Rate | | 7.0% |
| Loan Fees | | 1.5% |
| Construction Period (months) | | 12 |
| Avg. Outstanding Bal During Construction | | 60.0% |
| Capitalized Reserves (f) | | 3.0% |
| Nonprofit Developer Fee (g) | | \$ 290,000 |
| Sales Assumptions | | |
| Marketing Costs | | 5.0% |

| Development Costs | | Baseline: Current Tenant Mix |
|----------------------------------------------|--|---------------------------------|
| Acquisition | | \$ 5,250,000 |
| Rehab Hard Costs with Contingency | | #REF! |
| Landscaping | | \$ 150,000 |
| Soft Costs | | #REF! |
| <i>Subtotal Const Costs Before Financing</i> | | #REF! |
| Financing Costs | | |
| Points | | #REF! |
| Construction Period Interest | | #REF! |
| <i>Subtotal Financing Costs</i> | | #REF! |
| Capitalized Reserves | | |
| Developer Fee | | \$ 290,000 |
| Total Development Costs | | #REF! |
| <i>Total Development Cost per Unit</i> | | #REF! |

| Development Feasibility and Financing | |
|----------------------------------------------|--------------|
| Sales Revenue | \$ 4,846,647 |
| Less Marketing Costs | \$ (242,332) |
| Net Sales Revenue | \$ 4,604,315 |
| Less Total Development Cost | #REF! |
| Profit / (Loss) | #REF! |
| Return on Cost | #REF! |
| Sources of Financing | |
| Net Sales Revenue | \$ 4,604,315 |
| Gap Financing (h) | #REF! |
| <i>Subsidy per Affordable Unit</i> | #REF! |
| Traditional Capital Stack to Fill Gap | |
| City HTF | #REF! |
| Other | #REF! |

| Public Benefit Metrics | |
|------------------------------------------------|------------|
| Average Project AMI | 61% |
| % of Units Serving ELI Households | 14% |
| % of Units Serving VLI Households | 24% |
| % of Units Serving Low Households | 29% |
| % of Units Serving Moderate Households | 33% |
| % of Units Serving Above Mod Households | 0% |
| % Units Serving <=80% AMI Households | 67% |

Notes:

a) Real estate investors who purchase existing buildings are not required to set-aside any units for affordable housing. For buildings built before 1995, Berkeley's rent stabilization ordinance applies. Rent increases are capped at the annual allowable rate set by the Rent Board. However, when a tenant vacates, landlords are permitted to reset to market rents under the Costa-Hawkins Rental Housing Act.

b) The distribution of affordable and market-rate units by bedroom size is as follows:

| | Affordable | Market |
|-----------|------------|--------|
| Studios | 5 | - |
| 1-Bedroom | 10 | - |
| 2-Bedroom | 6 | - |
| 3-Bedroom | - | - |
| Total | 21 | - |

c) The unit mix, rents, operating costs, and acquisition price are based on a 21-unit apartment building in Berkeley that sold in October 2023.

d) Rehabilitation costs can vary depending on the building's condition, the scope of the work, required code compliance upgrades, and the presence of any hazards. Since the level of rehabilitation can range from minimal to extensive, this proforma assumes a building in relatively good condition requiring a moderate level of improvement. The goal of the rehabilitation is to ensure the building remains in good condition.

e) This includes funds for exterior upgrades, such as enhancing community gathering spaces and other outdoor improvements.

f) Capitalized reserves are set aside to cover unforeseen costs during sales and operations of the condominium or cooperative. They may be used for startup costs, warranty obligations, or carrying costs for unsold units. Typical reserves range from 2% to 5% of total project costs.

h) The developer's fee is modeled after Berkeley's Small Sites Program, which is \$80,000 + \$10,000 per unit, capped at 5% of project costs excluding the developer fee.

h) The City of Berkeley does not impose a strict cap on the per-unit subsidy under the Small Sites Program. However, the \$250,000 per unit figure serves as an estimate to evaluate how far local funds can stretch when leveraged with other funding sources. If no additional funding sources are available, the city would need to cover the entire funding gap.

Appendix C6: New Construction Rental - Baseline

This represents a typical market-rate project with an inclusionary set-aside, where 20% of the units are affordable and 80% of units are market-rate. Of the affordable units, half are at 50% AMI and, half are at 80% AMI. All townhomes will be rented at market rate.

| Development Program and Assumptions | | Baseline: Current Inclusionary |
|----------------------------------------------|-----|-----------------------------------|
| Site Size (sf) | | 23,527 |
| Total Number of Units | | 97 |
| Affordable Units Required (a) | 20% | 20 |
| Number of Market Rate Units | 80% | 77 |
| Dwelling Units/Acre | | 180 |
| Units (c) | | |
| Studios | | 49 |
| 1-Bedroom | | 20 |
| 2-Bedroom | | 18 |
| 3-Bedroom (Townhouses) | | 10 |
| Average Unit Size | | 615 |
| Net Residential Space (sf) | | 59,655 |
| Common Area | | 21,816 |
| Total Residential Space (sf) | | 81,471 |
| Total Open Space (sf) | | 4,292 |
| Number of Parking Spaces | | 49 |
| Parking spaces per unit | | 0.51 |
| Development Costs | | |
| Land per Residential Unit (d) | \$ | 60,000 |
| Land per Site sf | \$ | 247 |
| Construction Type | | Type 3 |
| Site Work (per sq.ft. of site) | \$ | 25 |
| Hard Costs - Res (e) | \$ | 450 |
| Hard Costs - Open Space | \$ | 50 |
| Parking Costs (per podium space) | \$ | 60,000 |
| Soft Costs exc. Fees (as % of hard) (f) | | 22.0% |
| Impact Fees (g) | | |
| BUSD School Fee | \$ | 5.17 |
| 1% Arts Fee | | 0.8% |
| Financing Costs (Construction) | | |
| Loan to Cost Ratio | | 60.0% |
| Interest Rate | | 7.0% |
| Loan Fees | | 1.5% |
| Construction Period (months) | | 30 |
| Avg. Outstanding Bal During Construction | | 60.0% |
| Financing Costs (Permanent) | | |
| Interest Rate | | 6.0% |
| Debt Coverage Ratio (Perm) | | 1.15 |
| Capitalized Reserve (# of months) (h) | | - |
| Nonprofit Developer Fee (i) | \$ | 2,500,000 |
| Market Rents | | |
| Studios | \$ | 2,850 |
| 1-Bedroom | \$ | 3,500 |
| 2-Bedroom | \$ | 4,400 |
| 3-Bedroom (Townhouses) | \$ | 6,800 |
| Operations | | |
| Vacancy | | 5.0% |
| OpEx per unit (exc. prop taxes) | \$ | 6,000 |
| Property Tax Rate (j) | | 1.20% |
| Cap Rate | | 4.50% |

| Development Costs | | Baseline: Current Inclusionary |
|---------------------------------------------|----|-----------------------------------|
| Land | \$ | 5,820,000 |
| Construction and Soft Costs | | |
| Site Work | \$ | 588,175 |
| Hard Costs - Residential | \$ | 36,876,550 |
| Hard Costs - Parking | \$ | 2,940,000 |
| Soft Costs | \$ | 8,889,040 |
| School Fee | \$ | 421,205 |
| Art Fee | \$ | 323,238 |
| Subtotal Const Costs Before Financing | \$ | 50,038,207 |
| Financing Costs | | |
| Points | \$ | 450,344 |
| Construction Period Interest | \$ | 3,152,407 |
| Subtotal Financing Costs | \$ | 3,602,751 |
| Capitalized Reserves | \$ | - |
| Developer Fee (h) | \$ | - |
| Total Development Costs | \$ | 59,460,958 |
| Total Development Cost per Unit (inc. land) | \$ | 613,000 |
| Total Development Cost per Unit (exc. land) | \$ | 553,000 |

| Development Feasibility and Financing | | |
|----------------------------------------------|----|--------------|
| Net Operating Income (NOI) | \$ | 2,597,123 |
| Capitalized Value | \$ | 57,713,833 |
| Less Total Development Cost | \$ | (59,460,958) |
| Profit / (Loss) | \$ | (1,747,125) |
| Return on Cost | | -2.9% |
| Sources of Financing | | |
| Supportable Loan | \$ | 31,086,046 |
| Private Equity (k) | \$ | 28,374,912 |
| Traditional Capital Stack to Fill Gap | | |
| LIHTC | | N/A |
| City HTF | | N/A |
| Other | | N/A |

| Operations | | |
|--------------------------------------------|----|-----------|
| Stabilized Gross Income | \$ | 3,930,336 |
| Less: Vacancy | \$ | (196,517) |
| Less: Op Expenses excluding Property Taxes | \$ | (582,000) |
| Less: Property Taxes (j) | \$ | (554,697) |
| Net Operating Income (NOI) | \$ | 2,597,123 |

| Affordability Metrics | | |
|------------------------------------------------|--|-------------|
| Average Project AMI | | 108% |
| % of Units Serving ELI Households | | 0% |
| % of Units Serving VLI Households | | 10% |
| % of Units Serving Low Households | | 10% |
| % of Units Serving Moderate Households | | 0% |
| % of Units Serving Above Mod Households | | 79% |
| % Units Serving <=80% AMI Households | | 21% |

Notes:

- a) The inclusionary requirement applies to new residential developments above 5,000 square feet and can be met through a combination of providing units and paying a prorated fee. This proforma assumes developers will meet the full affordable housing requirement on-site.
- b) The distribution of affordable and market-rate units by bedroom size is as follows:

| | <u>Affordable</u> | <u>Market</u> | <u>Market Rate AMIs</u> |
|-----------|-------------------|---------------|-------------------------|
| Studios | 10 | 39 | 105% |
| 1-Bedroom | 5 | 15 | 120% |
| 2-Bedroom | 5 | 13 | 125% |
| 3-Bedroom | | 10 | 170% |
| Total | 20 | 77 | |

- c) The development program is based on plans submitted in 2024 and includes stacked flats with an at-grade podium garage. The project received a 50% density bonus and includes a mix of stacked flats on floors 2 through 6, and two-story townhouses on floors 7 and 8.
- d) The land cost per unit was based on entitled projects located on sites larger than 1/3 acre that were sold along major commercial corridors, including San Pablo Avenue, University Avenue, and Shattuck Avenue.
- e) Hard costs include all direct expenses associated with construction, including materials, labor, and equipment, required to construct the structure, excluding site work and parking, which are calculated separately. This figure captures the costs associated with Berkeley's Hard Hat and Bird Safe Building policies.
- f) Soft costs include indirect expenses like design, insurance, and city fees, based on the City of Berkeley's fee calculator. The soft-to-hard cost ratio generally aligns with the assumptions in Strategic Economics' April 2024 report, *Berkeley In-Lieu Fee and Housing Policies Economic Feasibility Analysis*.
- g) The current impact fees that apply to residential projects are:
 Berkeley Unified School District fee
 1% Arts Fee
 The Affordable Housing In-Lieu Fee is available if a developer chooses to partially satisfy the inclusionary requirement by paying a fee.
- h) Market-rate projects typically do not capitalize operating reserves, instead relying on lease-up reserves or projected cash flow to cover operating costs. Reserves are more common in affordable housing or when required by lenders.
- i) The developer fee was calculated using the CTCAC Developer Fee Calculator provided by the State Treasurer's Office, based on an eligible basis that includes hard and soft costs, and assuming financing through 4% tax credits. For projects deemed infeasible by the market, this reflects the fee that affordable housing developers would expect to undertake this type of project. Because the baseline presents a market-rate, inclusionary development, no non-profit developer fee was included in the development costs.
- j) Mixed income projects may qualify for a partial property tax exemption under California's Revenue and Taxation Code Section 214(g). The exemption is prorated based on the percentage of units restricted to low-income households. Additional requirements include a regulatory agreement, an appropriate ownership structure, and compliance with other eligibility criteria. A community land that owns the land can also qualify for a property tax exemption with higher income limits. This proforma assumes the property tax exemption applies only to the units designated for low-income households or below.
- k) This represents the funding needed to cover the gap between project costs and supportable debt. Market-rate projects close this gap using private equity, including developer contributions, preferred equity, and other private sources seeking competitive returns.

Sources: The Housing Workshop; Urban Math, 2024.

Appendix C7: New Construction Rental - Half & Half

This assumes 50% of units will be affordable, with 10% serving 50% AMI and 40% serving 80% AMI households. The remaining will be market-rate. All townhomes will be rented at market rents to cross-subsidize. This project could qualify for SB 35/SB 423 streamlining.

| Development Program and Assumptions | | Option A: Half & Half |
|----------------------------------------------|-----|--------------------------|
| Site Size (sf) | | 23,527 |
| Total Number of Units | | 97 |
| Affordable Units Required (a) | 50% | 49 |
| Number of Market Rate Units (b) | 50% | 48 |
| Dwelling Units/Acre | | 180 |
| Units (c) | | |
| Studios | | 49 |
| 1-Bedroom | | 20 |
| 2-Bedroom | | 18 |
| 3-Bedroom (Townhouses) | | 10 |
| Average Unit Size | | 615 |
| Net Residential Space (sf) | | 59,655 |
| Common Area | | 21,816 |
| Total Residential Space (sf) | | 81,471 |
| Total Open Space (sf) | | 4,292 |
| Number of Parking Spaces | | 49 |
| Parking spaces per unit | | 0.51 |
| Development Costs | | |
| Land per Residential Unit (d) | \$ | 60,000 |
| Land per Site sf | \$ | 247 |
| Construction Type | | Type 3 |
| Site Work (per sq.ft. of site) | \$ | 25 |
| Hard Costs - Res (e) | \$ | 518 |
| Hard Costs - Open Space | \$ | 50 |
| Parking Costs (per podium space) | \$ | 60,000 |
| Soft Costs exc. Fees (as % of hard) (f) | | 22.0% |
| Impact Fees (g) | | |
| BUSD School Fee | \$ | 5.17 |
| 1% Arts Fee | | 0.8% |
| Financing Costs (Construction) | | |
| Loan to Cost Ratio | | 60.0% |
| Interest Rate | | 7.0% |
| Loan Fees | | 1.5% |
| Construction Period (months) | | 30 |
| Avg. Outstanding Bal During Construction | | 60.0% |
| Financing Costs (Permanent) | | |
| Interest Rate | | 6.0% |
| Debt Coverage Ratio (Perm) | | 1.15 |
| Capitalized Reserve (# of months) (h) | | 6 |
| Nonprofit Developer Fee (i) | \$ | 2,500,000 |
| Market Rents | | |
| Studios | \$ | 2,850 |
| 1-Bedroom | \$ | 3,500 |
| 2-Bedroom | \$ | 4,400 |
| 3-Bedroom (Townhouses) | \$ | 6,800 |
| Operations | | |
| Vacancy | | 5.0% |
| OpEx per market unit (exc. prop taxes) | \$ | 6,000 |
| OpEx Adjustment for Affordable Units (j) | | 15.0% |
| Property Tax Rate (k) | | 1.20% |
| Cap Rate | | 4.50% |

| Development Costs | Option A: Half & Half |
|----------------------------------------------------|--------------------------|
| Land | \$ 5,820,000 |
| Construction and Soft Costs | |
| Site Work | \$ 588,175 |
| Hard Costs - Residential | \$ 42,375,843 |
| Hard Costs - Parking | \$ 2,940,000 |
| Soft Costs | \$ 10,098,884 |
| School Fee | \$ 421,205 |
| Art Fee | \$ 367,232 |
| <i>Subtotal Const Costs Before Financing</i> | \$ 56,791,339 |
| Financing Costs | |
| Points | \$ 511,122 |
| Construction Period Interest | \$ 3,577,854 |
| <i>Subtotal Financing Costs</i> | \$ 4,088,976 |
| Capitalized Reserves | \$ 1,541,554 |
| Developer Fee | \$ 2,500,000 |
| Total Development Costs | \$ 70,741,869 |
| <i>Total Development Cost per Unit (inc. land)</i> | \$ 729,298 |
| <i>Total Development Cost per Unit (exc. land)</i> | \$ 669,298 |

| Development Feasibility and Financing | |
|----------------------------------------------|-----------------|
| Net Operating Income (NOI) | \$ 2,523,058 |
| Capitalized Value | \$ 56,067,949 |
| Less Total Development Cost | \$ (70,741,869) |
| Profit / (Loss) | \$ (14,673,920) |
| Return on Cost | -20.7% |
| Sources of Financing | |
| Supportable Loan | \$ 30,199,533 |
| Gap Financing (l) | \$ 40,542,335 |
| <i>Subsidy per Affordable Unit</i> | \$ 827,395 |
| Traditional Capital Stack to Fill Gap | |
| Tax Credit Equity | \$ 12,984,374 |
| City HTF | \$ 9,800,000 |
| Other | \$ 17,757,962 |

| Operations | |
|--------------------------------------------|--------------|
| Stabilized Gross Income | \$ 3,591,792 |
| Less: Vacancy | \$ (179,590) |
| Less: Op Expenses excluding Property Taxes | \$ (582,000) |
| Less: Property Taxes (k) | \$ (307,145) |
| Net Operating Income (NOI) | \$ 2,523,058 |

| Affordability Metrics | |
|------------------------------------------------|------------|
| Average Project AMI | 99% |
| % of Units Serving ELI Households | 0% |
| % of Units Serving VLI Households | 9% |
| % of Units Serving Low Households | 41% |
| % of Units Serving Moderate Households | 0% |
| % of Units Serving Above Mod Households | 49% |
| % Units Serving <=80% AMI Households | 51% |

Notes:

- a) The inclusionary requirement applies to new residential developments above 5,000 square feet and can be met through a combination of providing units and paying a prorated fee. This proforma assumes developers will meet the full affordable housing requirement on-site.
- b) The distribution of affordable and market-rate units by bedroom size is as follows:

| | <u>Affordable</u> | <u>Market</u> | <u>Market Rate AMIs</u> |
|-----------|-------------------|---------------|-------------------------|
| Studios | 26 | 23 | 105% |
| 1-Bedroom | 12 | 8 | 120% |
| 2-Bedroom | 11 | 7 | 125% |
| 3-Bedroom | | 10 | 170% |
| Total | 49 | 48 | |

c) The development program is based on plans submitted in 2024 and includes stacked flats with an at-grade podium garage. The project received a 50% density bonus and includes a mix of stacked flats on floors 2 through 6, and two-story townhouses on floors 7 and 8.

d) The land cost per unit was based on entitled projects located on sites larger than 1/3 acre that were sold along major commercial corridors, including San Pablo Avenue, University Avenue, and Shattuck Avenue.

e) Hard costs include all direct expenses associated with construction, including materials, labor, and equipment, required to construct the structure, excluding site work and parking, which are calculated separately. This figure captures the costs associated with Berkeley's Hard Hat and Bird Safe Building policies. This also incorporates an adjustment from the baseline market-rate project to reflect added costs associated with affordable projects, including prevailing wages.

f) Soft costs include indirect expenses like design, insurance, and city fees, based on the City of Berkeley's fee calculator. The soft-to-hard cost ratio generally aligns with the assumptions in Strategic Economics' April 2024 report, *Berkeley In-Lieu Fee and Housing Policies Economic Feasibility Analysis*.

g) The current impact fees that apply to residential projects are:

- Berkeley Unified School District fee
- 1% Arts Fee

The Affordable Housing In-Lieu Fee is available if a developer chooses to partially satisfy the inclusionary requirement by paying a fee.

h) Capitalized reserves for a rental project are funds set aside to cover unforeseen costs during lease-up and operations. A standard reserve amount is equivalent to 3 to 6 months of operating expenses, including debt service.

i) The developer fee was calculated using the CTCAC Developer Fee Calculator provided by the State Treasurer's Office, based on an eligible basis that includes hard and soft costs, and assuming financing through 4% tax credits. For projects deemed infeasible by the market, this reflects the fee that affordable housing developers would expect to undertake this type of project.

j) An adjustment is made to reflect the higher operating costs in affordable projects, such as expenses related to regulatory compliance and reserves. This adjustment is applied when affordable units comprise more than 50% of the units or when the average AMI is below 70% AMI.

k) Mixed income projects may qualify for a partial property tax exemption under California's Revenue and Taxation Code Section 214(g). The exemption is prorated based on the percentage of units restricted to low-income households. A community land trust that owns the land can also qualify for a property tax exemption with higher income limits.

l) This represents the funding needed to bridge the gap between the development cost and the supportable debt. Traditional market-rate projects rely on equity to close this gap, while affordable projects depend on tax-credit equity and other soft funding sources.

Sources: The Housing Workshop; Urban Math, 2025.

Appendix C8: New Construction Rental - Predominantly Affordable

This assumes an even distribution of units at 30% AMI, 50% AMI, 80% AMI, and market-rate rents. All townhomes will be rented at market rates to cross-subsidize the affordable units.

| Development Program and Assumptions | | Option B: Predominantly Affordable |
|----------------------------------------------|-----|------------------------------------------|
| Site Size (sf) | | 23,527 |
| Total Number of Units | | 97 |
| Affordable Units Required (a) | 80% | 78 |
| Number of Market Rate Units (b) | 20% | 19 |
| Dwelling Units/Acre | | 180 |
| Units (c) | | |
| Studios | | 49 |
| 1-Bedroom | | 20 |
| 2-Bedroom | | 18 |
| 3-Bedroom (Townhouses) | | 10 |
| Average Unit Size | | 615 |
| Net Residential Space (sf) | | 59,655 |
| Common Area | | 21,816 |
| Total Residential Space (sf) | | 81,471 |
| Total Open Space (sf) | | 4,292 |
| Number of Parking Spaces | | 49 |
| Parking spaces per unit | | 0.51 |
| Development Costs | | |
| Land per Residential Unit (d) | \$ | 60,000 |
| Land per Site sf | \$ | 247 |
| Construction Type | | Type 3 |
| Site Work (per sq.ft. of site) | \$ | 25 |
| Hard Costs - Res (e) | \$ | 518 |
| Hard Costs - Open Space | \$ | 50 |
| Parking Costs (per podium space) | \$ | 60,000 |
| Soft Costs exc. Fees (as % of hard) (f) | | 22.0% |
| Impact Fees (g) | | |
| BUSD School Fee | \$ | 5.17 |
| 1% Arts Fee | | 0.8% |
| Financing Costs (Construction) | | |
| Loan to Cost Ratio | | 60.0% |
| Interest Rate | | 7.0% |
| Loan Fees | | 1.5% |
| Construction Period (months) | | 30 |
| Avg. Outstanding Bal During Construction | | 60.0% |
| Financing Costs (Permanent) | | |
| Interest Rate | | 6.0% |
| Debt Coverage Ratio (Perm) | | 1.15 |
| Capitalized Reserve (# of months) (h) | | 6 |
| Nonprofit Developer Fee (i) | \$ | 2,500,000 |
| Market Rents | | |
| Studios | \$ | 2,850 |
| 1-Bedroom | \$ | 3,500 |
| 2-Bedroom | \$ | 4,400 |
| 3-Bedroom (Townhouses) | \$ | 6,800 |
| Operations | | |
| Vacancy | | 5.0% |
| OpEx per unit (exc. prop taxes) | \$ | 6,000 |
| OpEx Adjustment for Affordable Units (j) | | 15.0% |
| Property Tax Rate (k) | | 1.20% |
| Cap Rate | | 4.50% |

| Development Costs | Option B: Predominantly Affordable |
|----------------------------------------------------|------------------------------------------|
| Land | \$ 5,820,000 |
| Construction and Soft Costs | |
| Site Work | \$ 588,175 |
| Hard Costs - Residential | \$ 42,375,843 |
| Hard Costs - Parking | \$ 2,940,000 |
| Soft Costs | \$ 10,098,884 |
| School Fee | \$ 421,205 |
| Art Fee | \$ 367,232 |
| <i>Subtotal Const Costs Before Financing</i> | \$ 56,791,339 |
| Financing Costs | |
| Points | \$ 511,122 |
| Construction Period Interest | \$ 3,577,854 |
| <i>Subtotal Financing Costs</i> | \$ 4,088,976 |
| Capitalized Reserves | \$ 1,131,392 |
| Developer Fee | \$ 2,500,000 |
| Total Development Costs | \$ 70,331,707 |
| <i>Total Development Cost per Unit (inc. land)</i> | \$ 725,069 |
| <i>Total Development Cost per Unit (exc. land)</i> | \$ 665,069 |

| Development Feasibility and Financing | |
|----------------------------------------------|-----------------|
| Net Operating Income (NOI) | \$ 1,712,357 |
| Capitalized Value | \$ 38,052,371 |
| Less Total Development Cost | \$ (70,331,707) |
| Profit / (Loss) | \$ (32,279,336) |
| Return on Cost | -45.9% |
| Sources of Financing | |
| Supportable Loan | \$ 20,495,914 |
| Gap Financing (l) | \$ 49,835,793 |
| <i>Subsidy per Affordable Unit</i> | \$ 638,920 |
| Traditional Capital Stack to Fill Gap | |
| Tax Credit Equity | \$ 20,643,746 |
| City HTF | \$ 15,600,000 |
| Other | \$ 13,592,047 |

| Operations | |
|--------------------------------------------|--------------|
| Stabilized Gross Income | \$ 2,616,984 |
| Less: Vacancy | \$ (130,849) |
| Less: Op Expenses excluding Property Taxes | \$ (652,200) |
| Less: Property Taxes (k) | \$ (121,578) |
| Net Operating Income (NOI) | \$ 1,712,357 |

| Affordability Metrics | |
|------------------------------------------------|------------|
| Average Project AMI | 71% |
| % of Units Serving ELI Households | 27% |
| % of Units Serving VLI Households | 27% |
| % of Units Serving Low Households | 27% |
| % of Units Serving Moderate Households | 0% |
| % of Units Serving Above Mod Households | 20% |
| % Units Serving <=80% AMI Households | 80% |

Notes:

- a) The inclusionary requirement applies to new residential developments above 5,000 square feet and can be met through a combination of providing units and paying a prorated fee. This proforma assumes developers will meet the full affordable housing requirement on-site.
- b) The distribution of affordable and market-rate units by bedroom size is as follows:

| | <u>Affordable</u> | <u>Market</u> | <u>Market Rate AMIs</u> |
|-----------|-------------------|---------------|-------------------------|
| Studios | 42 | 7 | 105% |
| 1-Bedroom | 19 | 1 | 120% |
| 2-Bedroom | 17 | 1 | 125% |
| 3-Bedroom | | 10 | 170% |
| Total | <u>78</u> | <u>19</u> | |

c) The development program is based on plans submitted in 2024 and includes stacked flats with an at-grade podium garage. The project received a 50% density bonus and includes a mix of stacked flats on floors 2 through 6, and two-story townhouses on floors 7 and 8.

d) The land cost per unit was based on entitled projects located on sites larger than 1/3 acre that were sold along major commercial corridors, including San Pablo Avenue, University Avenue, and Shattuck Avenue.

e) Hard costs include all direct expenses associated with construction, including materials, labor, and equipment, required to construct the structure, excluding site work and parking, which are calculated separately. This figure captures the costs associated with Berkeley's Hard Hat and Bird Safe Building policies. This also incorporates an adjustment from the baseline market-rate project to reflect added costs associated with affordable projects, including prevailing wages.

f) Soft costs include indirect expenses like design, insurance, and city fees, based on the City of Berkeley's fee calculator. The soft-to-hard cost ratio generally aligns with the assumptions in Strategic Economics' April 2024 report, *Berkeley In-Lieu Fee and Housing Policies* Economic Feasibility Analysis.

g) The current impact fees that apply to residential projects are:

- Berkeley Unified School District fee
- 1% Arts Fee

The Affordable Housing In-Lieu Fee is available if a developer chooses to partially satisfy the inclusionary requirement by paying a fee.

h) Capitalized reserves for a rental project are funds set aside to cover unforeseen costs during lease-up and operations. A standard reserve amount is equivalent to 3 to 6 months of operating expenses, including debt service.

i) The developer fee was calculated using the CTCAC Developer Fee Calculator provided by the State Treasurer's Office, based on an eligible basis that includes hard and soft costs, and assuming financing through 4% tax credits. For projects deemed infeasible by the market, this reflects the fee that affordable housing developers would expect to undertake this type of project.

j) An adjustment is made to reflect the higher operating costs in affordable projects, such as expenses related to regulatory compliance and reserves. This adjustment is applied when affordable units comprise more than 50% of the units or when the average AMI is below 70% AMI.

k) Mixed income projects may qualify for a partial property tax exemption under California's Revenue and Taxation Code Section 214(g).

The exemption is prorated based on the percentage of units restricted to low-income households. A community land trust that owns the land can also qualify for a property tax exemption with higher income limits.

l) This represents the funding needed to bridge the gap between the development cost and the supportable debt. Traditional market-rate projects rely on equity to close this gap, while affordable projects depend on tax-credit equity and other soft funding sources.

Sources: The Housing Workshop; Urban Math, 2025.

Appendix C9: New Construction Rental - 100% Affordable

This proforma models a 100% affordable housing project with an equal distribution of units at 30% AMI, 40% AMI, 50% AMI, and 60% AMI.

There are no market-rate units in this scenario.

| Development Program and Assumptions | | Option C: 100% Affordable |
|----------------------------------------------|------|------------------------------|
| Site Size (sf) | | 23,527 |
| Total Number of Units | | 97 |
| Affordable Units Required (a) (b) | 100% | 97 |
| Number of Market Rate Units | 0% | - |
| Dwelling Units/Acre | | 180 |
| Units (c) | | |
| Studios | | 49 |
| 1-Bedroom | | 20 |
| 2-Bedroom | | 18 |
| 3-Bedroom (Townhouses) | | 10 |
| Average Unit Size | | 615 |
| Net Residential Space (sf) | | 59,655 |
| Common Area | | 21,816 |
| Total Residential Space (sf) | | 81,471 |
| Total Open Space (sf) | | 4,292 |
| Number of Parking Spaces | | 49 |
| Parking spaces per unit | | 0.51 |
| Development Costs | | |
| Land per Residential Unit (d) | \$ | 60,000 |
| Land per Site sf | \$ | 247 |
| Construction Type | | Type 3 |
| Site Work (per sq.ft. of site) | \$ | 25 |
| Hard Costs - Res (e) | \$ | 518 |
| Hard Costs - Open Space | \$ | 50 |
| Parking Costs (per podium space) | \$ | 60,000 |
| Soft Costs exc. Fees (as % of hard) (f) | | 22.0% |
| Impact Fees (g) | | |
| BUSD School Fee | \$ | 5.17 |
| 1% Arts Fee | | 0.8% |
| Financing Costs (Construction) | | |
| Loan to Cost Ratio | | 60.0% |
| Interest Rate | | 7.0% |
| Loan Fees | | 1.5% |
| Construction Period (months) | | 30 |
| Avg. Outstanding Bal During Construction | | 60.0% |
| Financing Costs (Permanent) | | |
| Interest Rate | | 6.0% |
| Debt Coverage Ratio (Perm) | | 1.15 |
| Capitalized Reserve (# of months) (h) | | |
| | | 6 |
| Nonprofit Developer Fee (i) | | |
| | \$ | 2,500,000 |
| Market Rents | | |
| Studios | \$ | 2,850 |
| 1-Bedroom | \$ | 3,500 |
| 2-Bedroom | \$ | 4,400 |
| 3-Bedroom (Townhouses) | \$ | 6,800 |
| Operations | | |
| Vacancy | | 5.0% |
| OpEx per unit (exc. prop taxes) | \$ | 6,000 |
| OpEx Adjustment for Affordable Units (j) | | 15.0% |
| Property Tax Rate (k) | | 1.20% |
| Cap Rate | | 4.50% |

| Development Costs | | Option C: 100% Affordable |
|----------------------------------------------------|----|------------------------------|
| Land | \$ | 5,820,000 |
| Construction and Soft Costs | | |
| Site Work | \$ | 588,175 |
| Hard Costs - Residential | \$ | 42,375,843 |
| Hard Costs - Parking | \$ | 2,940,000 |
| Soft Costs | \$ | 10,098,884 |
| School Fee | \$ | 421,205 |
| Art Fee | \$ | 367,232 |
| <i>Subtotal Const Costs Before Financing</i> | \$ | 56,791,339 |
| Financing Costs | | |
| Points | \$ | 511,122 |
| Construction Period Interest | \$ | 3,577,854 |
| <i>Subtotal Financing Costs</i> | \$ | 4,088,976 |
| Capitalized Reserves | \$ | 699,190 |
| Developer Fee | \$ | 2,500,000 |
| Total Development Costs | \$ | 69,899,505 |
| <i>Total Development Cost per Unit (inc. land)</i> | \$ | 720,613 |
| <i>Total Development Cost per Unit (exc. land)</i> | \$ | 660,613 |

| Development Feasibility and Financing | |
|----------------------------------------------|-----------------|
| Net Operating Income (NOI) | \$ 838,441 |
| Capitalized Value | \$ 18,632,027 |
| Less Total Development Cost | \$ (69,899,505) |
| Profit / (Loss) | \$ (51,267,478) |
| Return on Cost | -73.3% |
| Sources of Financing | |
| Supportable Loan | \$ 10,035,654 |
| Gap Financing (l) | \$ 59,863,851 |
| <i>Subsidy per Affordable Unit</i> | \$ 617,153 |
| Traditional Capital Stack to Fill Gap | |
| Tax Credit Equity | \$ 25,631,802 |
| City HTF | \$ 19,400,000 |
| Other | \$ 14,832,049 |

| Operations | |
|----------------------------|--------------|
| Stabilized Gross Income | \$ 1,587,096 |
| Less: Vacancy | \$ (79,355) |
| Less: Op Expenses | \$ (669,300) |
| Less: Property Taxes (k) | \$ - |
| Net Operating Income (NOI) | \$ 838,441 |

| Affordability Metrics | |
|------------------------------------------------|-------------|
| Average Project AMI | 45% |
| % of Units Serving ELI Households | 26% |
| % of Units Serving VLI Households | 49% |
| % of Units Serving Low Households | 25% |
| % of Units Serving Moderate Households | 0% |
| % of Units Serving Above Mod Households | 0% |
| % Units Serving <=80% AMI Households | 100% |

Notes:

a) This proforma models a 100% affordable housing project, with all units available to households earning 60% of AMI or less.

b) The distribution of affordable units by bedroom size is as follows:

| | <u>Affordable</u> | <u>Market</u> |
|-----------|-------------------|---------------|
| Studios | 49 | |
| 1-Bedroom | 20 | |
| 2-Bedroom | 18 | |
| 3-Bedroom | 10 | - |
| Total | <u>97</u> | - |

c) The development program is based on plans submitted in 2024 and includes stacked flats with an at-grade podium garage. The project received a 50% density bonus and includes a mix of stacked flats on floors 2 through 6, and two-story townhouses on floors 7 and 8.

d) The land cost per unit was based on entitled projects located on sites larger than 1/3 acre that were sold along major commercial corridors, including San Pablo Avenue, University Avenue, and Shattuck Avenue.

e) Hard costs includes all direct expenses associated with construction, including materials, labor, and equipment, required to construct the structure, excluding site work and parking, which are calculated separately. This figure captures the costs associated with Berkeley's Hard Hat and Bird Safe Building policies. This also incorporates an adjustment from the baseline market-rate project to reflect added costs associated with affordable projects, including prevailing wages.

f) Soft costs include indirect expenses like design, insurance, and city fees, based on the City of Berkeley's fee calculator. The soft-to-hard cost ratio generally aligns with the assumptions in Strategic Economics' April 2024 report, *Berkeley In-Lieu Fee and Housing Policies Economic Feasibility Analysis*.

g) The current impact fees that apply to residential projects are:

- Berkeley Unified School District fee
- 1% Arts Fee

The Affordable Housing In-Lieu Fee is available if a developer chooses to partially satisfy the inclusionary requirement by paying a fee.

h) Capitalized reserves for a rental project are funds set aside to cover unforeseen costs during lease-up and operations. A standard reserve amount is equivalent to 3 to 6 months of operating expenses, including debt service.

i) The developer fee was calculated using the CTCAC Developer Fee Calculator provided by the State Treasurer's Office, based on an eligible basis that includes hard and soft costs, and assuming financing through 4% tax credits. For projects deemed infeasible by the market, this reflects the fee that affordable housing developers would expect to undertake this type of project.

j) An adjustment is made to reflect the higher operating costs in affordable projects, such as expenses related to regulatory compliance and reserves. This adjustment is applied when affordable units comprise more than 50% of the units or when the average AMI is below 70% AMI.

k) This project qualifies for a 100% property tax exemption.

l) This represents the funding needed to bridge the gap between the development cost and the supportable debt. Traditional market-rate projects rely on equity to close this gap, while affordable projects depend on tax-credit equity and other soft funding sources.

Sources: The Housing Workshop; Urban Math, 2025.

Appendix C10: New Construction Rental - Half & Half (Enhanced)

This assumes 50% of units will be affordable, with 10% serving 50% AMI and 40% serving 80% AMI households. The remaining will be market-rate. All townhomes will be rented at market rents to cross-subsidize. This project could qualify for SB 35/SB 423 streamlining.

This version assumes no land cost, lower construction costs, and a lower permanent financing rate compared to the original scenario.

| Development Program and Assumptions | | Option A: Half & Half with Lower Costs |
|----------------------------------------------|-----|----------------------------------------------|
| Site Size (sf) | | 23,527 |
| Total Number of Units | | 97 |
| Affordable Units Required (a) | 50% | 49 |
| Number of Market Rate Units (b) | 50% | 48 |
| Dwelling Units/Acre | | 180 |
| Units (c) | | |
| Studios | | 49 |
| 1-Bedroom | | 20 |
| 2-Bedroom | | 18 |
| 3-Bedroom (Townhouses) | | 10 |
| Average Unit Size | | 615 |
| Net Residential Space (sf) | | 59,655 |
| Common Area | | 21,816 |
| Total Residential Space (sf) | | 81,471 |
| Total Open Space (sf) | | 4,292 |
| Number of Parking Spaces | | 49 |
| Parking spaces per unit | | 0.51 |
| Development Costs | | |
| Land per Residential Unit (d) | | |
| Land per Site sf | \$ | - |
| Construction Type | | Type 3 |
| Site Work (per sq.ft. of site) | \$ | 25 |
| Hard Costs - Res (e) | \$ | 475 |
| Hard Costs - Open Space | \$ | 50 |
| Parking Costs (per podium space) | \$ | 60,000 |
| Soft Costs exc. Fees (as % of hard) (f) | | 22.0% |
| Impact Fees (g) | | |
| BUSD School Fee | \$ | 5.17 |
| 1% Arts Fee | | 0.8% |
| Financing Costs (Construction) | | |
| Loan to Cost Ratio | | 60.0% |
| Interest Rate | | 7.0% |
| Loan Fees | | 1.5% |
| Construction Period (months) | | 30 |
| Avg. Outstanding Bal During Construction | | 60.0% |
| Financing Costs (Permanent) | | |
| Interest Rate | | 3.0% |
| Debt Coverage Ratio (Perm) | | 1.15 |
| Capitalized Reserve (# of months) (h) | | 6 |
| Nonprofit Developer Fee (i) | \$ | 2,500,000 |
| Market Rents | | |
| Studios | \$ | 2,850 |
| 1-Bedroom | \$ | 3,500 |
| 2-Bedroom | \$ | 4,400 |
| 3-Bedroom (Townhouses) | \$ | 6,800 |
| Operations | | |
| Vacancy | | 5.0% |
| OpEx per market unit (exc. prop taxes) | \$ | 6,000 |
| OpEx Adjustment for Affordable Units (j) | | 15.0% |
| Property Tax Rate (k) | | 1.20% |
| Cap Rate | | 4.50% |

| Development Costs | | Option A: Half & Half with Lower Costs |
|---------------------------------------------|----|----------------------------------------------|
| Land | | |
| Construction and Soft Costs | | |
| Site Work | \$ | 588,175 |
| Hard Costs - Residential | \$ | 38,913,325 |
| Hard Costs - Parking | \$ | 2,940,000 |
| Soft Costs | \$ | 9,337,130 |
| School Fee | \$ | 421,205 |
| Art Fee | \$ | 339,532 |
| Subtotal Const Costs Before Financing | \$ | 52,539,367 |
| Financing Costs | | |
| Points | \$ | 472,854 |
| Construction Period Interest | \$ | 3,309,980 |
| Subtotal Financing Costs | \$ | 3,782,834 |
| Capitalized Reserves | \$ | 1,541,554 |
| Developer Fee | \$ | 2,500,000 |
| Total Development Costs | \$ | 60,363,755 |
| Total Development Cost per Unit (inc. land) | \$ | 622,307 |
| Total Development Cost per Unit (exc. land) | \$ | 622,307 |

| Development Feasibility and Financing | |
|----------------------------------------------|-----------------|
| Net Operating Income (NOI) | \$ 2,523,058 |
| Capitalized Value | \$ 56,067,949 |
| Less Total Development Cost | \$ (60,363,755) |
| Profit / (Loss) | \$ (4,295,806) |
| Return on Cost | -7.1% |
| Sources of Financing | |
| Supportable Loan | \$ 43,002,648 |
| Gap Financing (l) | \$ 17,361,108 |
| Traditional Capital Stack to Fill Gap | |
| Tax Credit Equity | \$ 12,072,751 |
| City HTF | \$ 5,288,357 |
| Other | \$ - |

| Operations | |
|--------------------------------------------|--------------|
| Stabilized Gross Income | \$ 3,591,792 |
| Less: Vacancy | \$ (179,590) |
| Less: Op Expenses excluding Property Taxes | \$ (582,000) |
| Less: Property Taxes (k) | \$ (307,145) |
| Net Operating Income (NOI) | \$ 2,523,058 |

| Affordability Metrics | |
|------------------------------------------------|------------|
| Average Project AMI | 99% |
| % of Units Serving ELI Households | 0% |
| % of Units Serving VLI Households | 9% |
| % of Units Serving Low Households | 41% |
| % of Units Serving Moderate Households | 0% |
| % of Units Serving Above Mod Households | 49% |
| % Units Serving <=80% AMI Households | 51% |

Notes:

- a) The inclusionary requirement applies to new residential developments above 5,000 square feet and can be met through a combination of providing units and paying a prorated fee. This proforma assumes developers will meet the full affordable housing requirement on-site.
- b) The distribution of affordable and market-rate units by bedroom size is as follows:

| | <u>Affordable</u> | <u>Market</u> | <u>Market Rate AMIs</u> |
|-----------|-------------------|---------------|-------------------------|
| Studios | 26 | 23 | 105% |
| 1-Bedroom | 12 | 8 | 120% |
| 2-Bedroom | 11 | 7 | 125% |
| 3-Bedroom | | 10 | 170% |
| Total | 49 | 48 | |

c) The development program is based on plans submitted in 2024 and includes stacked flats with an at-grade podium garage. The project received a 50% density bonus and includes a mix of stacked flats on floors 2 through 6, and two-story townhouses on floors 7 and 8.

d) The land cost per unit was based on entitled projects located on sites larger than 1/3 acre that were sold along major commercial corridors, including San Pablo Avenue, University Avenue, and Shattuck Avenue.

e) Hard costs include all direct expenses associated with construction, including materials, labor, and equipment, required to construct the structure, excluding site work and parking, which are calculated separately. This figure captures the costs associated with Berkeley's Hard Hat and Bird Safe Building policies. This version includes a downward adjustment to account for cost-saving strategies such as smaller unit sizes, reduced parking, modular construction, and similar approaches.

f) Soft costs include indirect expenses like design, insurance, and city fees, based on the City of Berkeley's fee calculator. The soft-to-hard cost ratio generally aligns with the assumptions in Strategic Economics' April 2024 report, *Berkeley In-Lieu Fee and Housing Policies Economic Feasibility Analysis*.

g) The current fees that apply to residential projects are:

- Berkeley Unified School District fee
- 1% Arts Fee

The Affordable Housing In-Lieu Fee is available if a developer chooses to partially satisfy the inclusionary requirement by paying a fee.

h) Capitalized reserves for a rental project are funds set aside to cover unforeseen costs during lease-up and operations. A standard reserve amount is equivalent to 3 to 6 months of operating expenses, including debt service.

i) The developer fee was calculated using the CTCAC Developer Fee Calculator provided by the State Treasurer's Office, based on an eligible basis that includes hard and soft costs, and assuming financing through 4% tax credits. For projects deemed infeasible by the market, this reflects the fee that affordable housing developers would expect to undertake this type of project.

j) An adjustment is made to reflect the higher operating costs in affordable projects, such as expenses related to regulatory compliance and reserves. This adjustment is applied when affordable units comprise more than 50% of the units or when the average AMI is below 70% AMI.

k) Mixed income projects may qualify for a partial property tax exemption under California's Revenue and Taxation Code Section 214(g). The exemption is prorated based on the percentage of units restricted to low-income households. A community land trust that owns the land can also qualify for a property tax exemption with higher income limits. The property taxes in this enhanced version are held constant and match the original scenario. This approach ensures that differences in outcomes reflect the impact of the other factors.

l) This represents the funding needed to bridge the gap between the development cost and the supportable debt. Traditional market-rate projects rely on equity to close this gap, while affordable projects depend on tax-credit equity and other soft funding sources.

Sources: The Housing Workshop; Urban Math, 2025.

Appendix C11: New Construction Rental - Predominantly Affordable (Enhanced)

This assumes an even distribution of units at 30% AMI, 50% AMI, 80% AMI, and market-rate rents. All townhomes will be rented at market rates to cross-subsidize the affordable units. This enhanced version assumes no land cost, lower construction costs, and a lower permanent financing rate compared to the original scenario.

| Development Program and Assumptions | | Option B: Predominantly Affordable with Lower Costs |
|----------------------------------------------|-----|--------------------------------------------------------------|
| Site Size (sf) | | 23,527 |
| Total Number of Units | | 97 |
| Affordable Units Required (a) | 80% | 78 |
| Number of Market Rate Units (b) | 20% | 19 |
| Dwelling Units/Acre | | 180 |
| Units (c) | | |
| Studios | | 49 |
| 1-Bedroom | | 20 |
| 2-Bedroom | | 18 |
| 3-Bedroom (Townhouses) | | 10 |
| Average Unit Size | | 615 |
| Net Residential Space (sf) | | 59,655 |
| Common Area | | 21,816 |
| Total Residential Space (sf) | | 81,471 |
| Total Open Space (sf) | | 4,292 |
| Number of Parking Spaces | | 49 |
| Parking spaces per unit | | 0.51 |
| Development Costs | | |
| Land per Residential Unit (d) | | |
| Land per Site sf | \$ | - |
| Construction Type | | Type 3 |
| Site Work (per sq.ft. of site) | \$ | 25 |
| Hard Costs - Res (e) | \$ | 475 |
| Hard Costs - Open Space | \$ | 50 |
| Parking Costs (per podium space) | \$ | 60,000 |
| Soft Costs exc. Fees (as % of hard) (f) | | 22.0% |
| Impact Fees (g) | | |
| BUSD School Fee | \$ | 5.17 |
| 1% Arts Fee | | 0.8% |
| Financing Costs (Construction) | | |
| Loan to Cost Ratio | | 60.0% |
| Interest Rate | | 7.0% |
| Loan Fees | | 1.5% |
| Construction Period (months) | | 30 |
| Avg. Outstanding Bal During Construction | | 60.0% |
| Financing Costs (Permanent) | | |
| Interest Rate | | 3.0% |
| Debt Coverage Ratio (Perm) | | 1.15 |
| Capitalized Reserve (# of months) (h) | | 6 |
| Nonprofit Developer Fee (i) | \$ | 2,500,000 |
| Market Rents | | |
| Studios | \$ | 2,850 |
| 1-Bedroom | \$ | 3,500 |
| 2-Bedroom | \$ | 4,400 |
| 3-Bedroom (Townhouses) | \$ | 6,800 |
| Operations | | |
| Vacancy | | 5.0% |
| OpEx per unit (exc. prop taxes) | \$ | 6,000 |
| OpEx Adjustment for Affordable Units (j) | | 15.0% |
| Property Tax Rate (k) | | 1.20% |
| Cap Rate | | 4.50% |

| Development Costs | | Option B: Predominantly Affordable with Lower Costs |
|----------------------------------------------------|----|--------------------------------------------------------------|
| Land | \$ | - |
| Construction and Soft Costs | | |
| Site Work | \$ | 588,175 |
| Hard Costs - Residential | \$ | 38,913,325 |
| Hard Costs - Parking | \$ | 2,940,000 |
| Soft Costs | \$ | 9,337,130 |
| School Fee | \$ | 421,205 |
| Art Fee | \$ | 339,532 |
| <i>Subtotal Const Costs Before Financing</i> | \$ | 52,539,367 |
| Financing Costs | | |
| Points | \$ | 472,854 |
| Construction Period Interest | \$ | 3,309,980 |
| <i>Subtotal Financing Costs</i> | \$ | 3,782,834 |
| Capitalized Reserves | \$ | 1,131,392 |
| Developer Fee | \$ | 2,500,000 |
| Total Development Costs | \$ | 59,953,593 |
| <i>Total Development Cost per Unit (inc. land)</i> | \$ | 618,078 |
| <i>Total Development Cost per Unit (exc. land)</i> | \$ | 618,078 |

| Development Feasibility and Financing | |
|----------------------------------------------|-----------------|
| Net Operating Income (NOI) | \$ 1,712,357 |
| Capitalized Value | \$ 38,052,371 |
| Less Total Development Cost | \$ (59,953,593) |
| Profit / (Loss) | \$ (21,901,222) |
| Return on Cost | -36.5% |
| Sources of Financing | |
| Supportable Loan | \$ 29,185,171 |
| Gap Financing (l) | \$ 30,768,422 |
| <i>Subsidy per Affordable Unit</i> | \$ 394,467 |
| Traditional Capital Stack to Fill Gap | |
| Tax Credit Equity | \$ 19,185,150 |
| City HTF | \$ 11,583,272 |
| Other | \$ - |

| Operations | |
|--------------------------------------------|--------------|
| Stabilized Gross Income | \$ 2,616,984 |
| Less: Vacancy | \$ (130,849) |
| Less: Op Expenses excluding Property Taxes | \$ (652,200) |
| Less: Property Taxes (k) | \$ (121,578) |
| Net Operating Income (NOI) | \$ 1,712,357 |

| Affordability Metrics | |
|------------------------------------------------|------------|
| Average Project AMI | 71% |
| % of Units Serving ELI Households | 27% |
| % of Units Serving VLI Households | 27% |
| % of Units Serving Low Households | 27% |
| % of Units Serving Moderate Households | 0% |
| % of Units Serving Above Mod Households | 20% |
| % Units Serving <=80% AMI Households | 80% |

Notes:

- a) The inclusionary requirement applies to new residential developments above 5,000 square feet and can be met through a combination of providing units and paying a prorated fee. This proforma assumes developers will meet the full affordable housing requirement on-site.
- b) The distribution of affordable and market-rate units by bedroom size is as follows:

| | <u>Affordable</u> | <u>Market</u> | <u>Market Rate AMIs</u> |
|-----------|-------------------|---------------|-------------------------|
| Studios | 42 | 7 | 105% |
| 1-Bedroom | 19 | 1 | 120% |
| 2-Bedroom | 17 | 1 | 125% |
| 3-Bedroom | | 10 | 170% |
| Total | <u>78</u> | <u>19</u> | |

c) The development program is based on plans submitted in 2024 and includes stacked flats with an at-grade podium garage. The project received a 50% density bonus and includes a mix of stacked flats on floors 2 through 6, and two-story townhouses on floors 7 and 8.

d) The land cost per unit was based on entitled projects located on sites larger than 1/3 acre that were sold along major commercial corridors, including San Pablo Avenue, University Avenue, and Shattuck Avenue.

e) Hard costs include all direct expenses associated with construction, including materials, labor, and equipment, required to construct the structure, excluding site work and parking, which are calculated separately. This figure captures the costs associated with Berkeley's Hard Hat and Bird Safe Building policies. This version includes a downward adjustment to account for cost-saving strategies such as smaller unit sizes, reduced parking, modular construction, and similar approaches.

f) Soft costs include indirect expenses like design, insurance, and city fees, based on the City of Berkeley's fee calculator. The soft-to-hard cost ratio generally aligns with the assumptions in Strategic Economics' April 2024 report, *Berkeley In-Lieu Fee and Housing Policies Economic Feasibility Analysis*.

g) The current fees that apply to residential projects are:

- Berkeley Unified School District fee
- 1% Arts Fee

The Affordable Housing In-Lieu Fee is available if a developer chooses to partially satisfy the inclusionary requirement by paying a fee.

h) Capitalized reserves for a rental project are funds set aside to cover unforeseen costs during lease-up and operations. A standard reserve amount is equivalent to 3 to 6 months of operating expenses, including debt service.

i) The developer fee was calculated using the CTCAC Developer Fee Calculator provided by the State Treasurer's Office, based on an eligible basis that includes hard and soft costs, and assuming financing through 4% tax credits. For projects deemed infeasible by the market, this reflects the fee that affordable housing developers would expect to undertake this type of project.

j) An adjustment is made to reflect the higher operating costs in affordable projects, such as expenses related to regulatory compliance and reserves. This adjustment is applied when affordable units comprise more than 50% of the units or when the average AMI is below 70% AMI.

k) Mixed income projects may qualify for a partial property tax exemption under California's Revenue and Taxation Code Section 214(g).

The exemption is prorated based on the percentage of units restricted to low-income households. A community land trust that owns the land can also qualify for a property tax exemption with higher income limits. The property taxes in this enhanced version are held constant and match the original scenario. This approach ensures that differences in outcomes reflect the impact of the other factors.

l) This represents the funding needed to bridge the gap between the development cost and the supportable debt. Traditional market-rate projects rely on equity to close this gap, while affordable projects depend on tax-credit equity and other soft funding sources.

Sources: The Housing Workshop; Urban Math, 2025.

Appendix C12: New Construction Rental - 100% Affordable (Enhanced)

This proforma models a 100% affordable housing project with an equal distribution of units at 30% AMI, 40% AMI, 50% AMI, and 60% AMI.

There are no market-rate units in this scenario. This enhanced version assumes no land cost, lower construction costs, and a lower permanent financing rate compared to the original scenario.

| Development Program and Assumptions | Option C: 100% Affordable with Lower Costs |
|----------------------------------------------|--------------------------------------------------|
| Site Size (sf) | 23,527 |
| Total Number of Units | 97 |
| Affordable Units Required (a) (b) | 100% 97 |
| Number of Market Rate Units | 0% - |
| Dwelling Units/Acre | 180 |
| Units (c) | |
| Studios | 49 |
| 1-Bedroom | 20 |
| 2-Bedroom | 18 |
| 3-Bedroom (Townhouses) | 10 |
| Average Unit Size | 615 |
| Net Residential Space (sf) | 59,655 |
| Common Area | 21,816 |
| Total Residential Space (sf) | 81,471 |
| Total Open Space (sf) | 4,292 |
| Number of Parking Spaces | 49 |
| Parking spaces per unit | 0.51 |
| Development Costs | |
| Land per Residential Unit (d) | |
| Land per Site sf | \$ - |
| Construction Type | Type 3 |
| Site Work (per sq.ft. of site) | \$ 25 |
| Hard Costs - Res (e) | \$ 475 |
| Hard Costs - Open Space | \$ 50 |
| Parking Costs (per podium space) | \$ 60,000 |
| Soft Costs exc. Fees (as % of hard) (f) | 22.0% |
| Impact Fees (g) | |
| BUSD School Fee | \$ 5.17 |
| 1% Arts Fee | 0.8% |
| Financing Costs (Construction) | |
| Loan to Cost Ratio | 60.0% |
| Interest Rate | 7.0% |
| Loan Fees | 1.5% |
| Construction Period (months) | 30 |
| Avg. Outstanding Bal During Construction | 60.0% |
| Financing Costs (Permanent) | |
| Interest Rate | 3.0% |
| Debt Coverage Ratio (Perm) | 1.15 |
| Capitalized Reserve (# of months) (h) | 6 |
| Nonprofit Developer Fee (i) | \$ 2,500,000 |
| Market Rents | |
| Studios | \$ 2,850 |
| 1-Bedroom | \$ 3,500 |
| 2-Bedroom | \$ 4,400 |
| 3-Bedroom (Townhouses) | \$ 6,800 |
| Operations | |
| Vacancy | 5.0% |
| OpEx per unit (exc. prop taxes) | \$ 6,000 |
| OpEx Adjustment for Affordable Units (j) | 15.0% |
| Property Tax Rate (k) | 1.20% |
| Cap Rate | 4.50% |

| Development Costs | Option C: 100% Affordable with Lower Costs |
|----------------------------------------------------|--------------------------------------------------|
| Land | \$ - |
| Construction and Soft Costs | |
| Site Work | \$ 588,175 |
| Hard Costs - Residential | \$ 38,913,325 |
| Hard Costs - Parking | \$ 2,940,000 |
| Soft Costs | \$ 9,337,130 |
| School Fee | \$ 421,205 |
| Art Fee | \$ 339,532 |
| <i>Subtotal Const Costs Before Financing</i> | \$ 52,539,367 |
| Financing Costs | |
| Points | \$ 472,854 |
| Construction Period Interest | \$ 3,309,980 |
| <i>Subtotal Financing Costs</i> | \$ 3,782,834 |
| Capitalized Reserves | \$ 699,190 |
| Developer Fee | \$ 2,500,000 |
| Total Development Costs | \$ 59,521,391 |
| <i>Total Development Cost per Unit (inc. land)</i> | \$ 613,623 |
| <i>Total Development Cost per Unit (exc. land)</i> | \$ 613,623 |

| Development Feasibility and Financing | |
|----------------------------------------------|-----------------|
| Net Operating Income (NOI) | \$ 838,441 |
| Capitalized Value | \$ 18,632,027 |
| Less Total Development Cost | \$ (59,521,391) |
| Profit / (Loss) | \$ (40,889,364) |
| Return on Cost | -68.7% |
| Sources of Financing | |
| Supportable Loan | \$ 14,290,276 |
| Gap Financing (l) | \$ 45,231,115 |
| <i>Subsidy per Affordable Unit</i> | \$ 466,300 |
| Traditional Capital Stack to Fill Gap | \$ - |
| Tax Credit Equity | \$ 23,808,556 |
| City HTF | \$ 19,400,000 |
| Other | \$ 2,022,559 |

| Operations | |
|----------------------------|--------------|
| Stabilized Gross Income | \$ 1,587,096 |
| Less: Vacancy | \$ (79,355) |
| Less: Op Expenses | \$ (669,300) |
| Less: Property Taxes (k) | \$ - |
| Net Operating Income (NOI) | \$ 838,441 |

| Affordability Metrics | |
|------------------------------------------------|-------------|
| Average Project AMI | 45% |
| % of Units Serving ELI Households | 26% |
| % of Units Serving VLI Households | 49% |
| % of Units Serving Low Households | 25% |
| % of Units Serving Moderate Households | 0% |
| % of Units Serving Above Mod Households | 0% |
| % Units Serving <=80% AMI Households | 100% |

Notes:

- a) This proforma models a 100% affordable housing project, with all units available to households earning 60% of AMI or less.
 b) The distribution of affordable units by bedroom size is as follows:

| | <u>Affordable</u> | <u>Market</u> |
|-----------|-------------------|---------------|
| Studios | 49 | |
| 1-Bedroom | 20 | |
| 2-Bedroom | 18 | |
| 3-Bedroom | <u>10</u> | <u>-</u> |
| Total | 97 | - |

- c) The development program is based on plans submitted in 2024 and includes stacked flats with an at-grade podium garage. The project received a 50% density bonus and includes a mix of stacked flats on floors 2 through 6, and two-story townhouses on floors 7 and 8.
 d) The land cost per unit was based on entitled projects located on sites larger than 1/3 acre that were sold along major commercial corridors, including San Pablo Avenue, University Avenue, and Shattuck Avenue.
 e) Hard costs includes all direct expenses associated with construction, including materials, labor, and equipment, required to construct the structure, excluding site work and parking, which are calculated separately. This figure captures the costs associated with Berkeley's Hard Hat and Bird Safe Building policies. This version includes a downward adjustment to account for cost-saving strategies such as smaller unit sizes, reduced parking, modular construction, and similar approaches.
 f) Soft costs include indirect expenses like design, insurance, and city fees, based on the City of Berkeley's fee calculator. The soft-to-hard cost ratio generally aligns with the assumptions in Strategic Economics' April 2024 report, *Berkeley In-Lieu Fee and Housing Policies Economic Feasibility Analysis*.
 g) The current fees that apply to residential projects are:
 Berkeley Unified School District fee
 1% Arts Fee
 The Affordable Housing In-Lieu Fee is available if a developer chooses to partially satisfy the inclusionary requirement by paying a fee.
 h) Capitalized reserves for a rental project are funds set aside to cover unforeseen costs during lease-up and operations. A standard reserve amount is equivalent to 3 to 6 months of operating expenses, including debt service.
 i) The developer fee was calculated using the CTCAC Developer Fee Calculator provided by the State Treasurer's Office, based on an eligible basis that includes hard and soft costs, and assuming financing through 4% tax credits. For projects deemed infeasible by the market, this reflects the fee that affordable housing developers would expect to undertake this type of project.
 j) An adjustment is made to reflect the higher operating costs in affordable projects, such as expenses related to regulatory compliance and reserves. This adjustment is applied when affordable units comprise more than 50% of the units or when the average AMI is below 70% AMI.
 k) This project qualifies for a 100% property tax exemption.
 l) This represents the funding needed to bridge the gap between the development cost and the supportable debt. Traditional market-rate projects rely on equity to close this gap, while affordable projects depend on tax-credit equity and other soft funding sources.

Sources: The Housing Workshop; Urban Math, 2025.

Appendix D: Additional Resources

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RESOLUTION NO. 70,101-N.S.

RECOGNIZING HOUSING AS HUMAN RIGHT

WHEREAS, the United Nations has recognized housing as a human right in the 1948 Universal Declaration of Human Rights and the 1966 International Covenant on Economic, Social and Cultural Rights; and,

WHEREAS, the right to adequate housing includes freedoms such as protection against forced evictions and arbitrary destruction of housing; right to privacy; non-discriminatory choice of residence, and freedom of movement; and,

WHEREAS, the right to adequate housing includes entitlements such as security of tenure, restitution, equal and non-discriminatory access, and civic participation; and,

WHEREAS, the City of Berkeley is working to affirm these freedoms and entitlements for its homeless residents, including 813 unsheltered identified in the 2019 Alameda County point-in-time count; and,

WHEREAS, the state of California and its local and regional governments should have failed to affirm these freedoms and entitlements for the at least 53% of renters who endure excessive cost-burdens, defined as paying over 30% of income for housing, according to the 2017 American Community Survey; and,

WHEREAS, cities around the world including Vienna and Singapore deliver better housing security and quality of life outcomes for their citizens with robust public housing development programs that reinvest revenues from mixed-income housing and real assets to fund operational costs and capital projects; and,

WHEREAS, histories of Jim Crow segregation endure in racial discrimination in the mortgage credit industry and exclusionary land-use policies maintain disproportionate cost burdens and housing insecurity on Black people and low-income communities of color in the United States; and,

WHEREAS, the Berkeley City Council authorized a Missing Middle Report in 2019 on unanimous consent to study reforms to its land-use policies to enable more affordable types times of housing construction, transit-oriented development, and racial and economic inclusion; and,

WHEREAS, the Berkeley City Council authorized a Local Preference policy for affordable housing when it passed the Adeline Corridor Specific Plan in 2020 to enable reparative housing security for low-income communities of color bearing the brunt of displacement and gentrification in Berkeley; and,

WHEREAS, the voters of the City of Berkeley authorized large increases in local funding for affordable housing in 2018 with the overwhelming passage of Measures O and P; and,

WHEREAS, a 2017 Analysis of City-Owned Property for Potential for Housing Development by Berkeley’s Health, Housing and Community Services Department identified several publicly owned parcels that would require zoning changes and further study for affordable housing production.


NOW THEREFORE, BE IT RESOLVED, that the City of Berkeley recognizes adequate housing as a human right, with recognition of attendant freedoms and entitlements as enumerated by the United Nations.

The foregoing Resolution was adopted by the Berkeley City Council on November 9, 2021 by the following vote:

Ayes: Bartlett, Droste, Hahn, Harrison, Kesarwani, Robinson, Taplin, Wengraf, and Arreguin.

Noes: None.

Absent: None.



Jesse Arreguin, Mayor

Attest: 

Mark Numainville, City Clerk

