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To: Honorable Mayor and Members of the City Council

From: Councilmember Sophie Hahn (Author) and Councilmembers Taplin and Bartlett (Co-Sponsors)

Subject: Budget Referral to Fund Small Sites Program to Acquire, Rehabilitate, and Protect Existing Small Scale Housing

RECOMMENDATION

Refer to the FY 2025-26 Budget Process:

- An allocation of \$8 Million per year (for a two-year total of \$16 Million) from existing affordable housing funds to the City of Berkeley Small Sites Program to support the acquisition and rehabilitation of small-scale residential buildings and their conversion to deed-restricted permanently affordable housing.
- \$200,000 in FY25 and \$150,000 in FY26 (total of \$350,000 over two years) “Capacity Building” grants to the Bay Area Community Land Trust to support expanded participation in the City’s Small Sites Program.

SUMMARY STATEMENT

Berkeley, like much of California, is in the midst of a housing affordability crisis. In response, the State of California passed a package of 56 housing bills to mitigate the crisis, requiring cities and counties to streamline the housing approval process and build and preserve affordable units. To meet the City’s affordability goals under the Housing Element and alleviate the burden of high housing costs on low- and middle-income families, Berkeley must continue to build, acquire, and protect affordable units.

One program Berkeley has developed to support the acquisition, rehabilitation, and deed restriction of existing housing is the Small Sites Program, which prevents the displacement of tenants and increases housing stability. The Bay Area Community Land Trust (BACLТ) is one of Berkeley’s key partners in carrying out this program, using existing City affordable housing funds – up to a maximum subsidy of \$300,000 per unit for buildings of 10-25 units or \$375,000 per unit for buildings of 2-9 units – combined with loans and funding from other government and not-for-profit sources, to purchase smaller multi-unit properties and convert them into permanently affordable housing.

This item requests the allocation of existing affordable housing dollars to cover the City's portion of funds to acquire one or several small sites per year. BACLT has already identified a list of ten properties it could acquire and convert into permanent affordable housing if the City's allocation to the Small Sites Program were increased. With a total allocation of \$16 million over two years, BACLT can acquire 3-4 smaller properties per year, resulting in a cumulative total of about 48 to 64 affordable housing units made permanently affordable to low- and middle-income families.

In addition, Berkeley has previously granted BACLT capacity-building funds of \$200,000 per year to strengthen the organization's ability to acquire properties, manage their rehabilitation, and identify and fill units as quickly as possible. BACLT operates on a shoestring budget and has been working to add staff with appropriate expertise in a competitive labor market. This item requests a continuation of the City's current \$200,000 capacity building support for FY 25 and a reduced capacity-building grant of \$150,000 for FY 26, for a two-year total of \$350,000. BACLT has appreciated and relies on these grants while the organization continues to build capacity, and is committed to reducing and eventually ending dependence on grants from the City as the Developer Fees are increased and a larger number of annual projects can be undertaken.

BACKGROUND

Through cycles of boom and bust, the San Francisco Bay Area has grown into one of the largest metropolitan regions in the United States. A convergence of factors including strong economic growth and population booms paired with a lack of housing and strict zoning have led to significant housing, transportation, and environmental challenges. Key among them is the Bay Area Housing Crisis, with about one third of all households considered "rent burdened" – spending more than 30% of their income on rent.¹

In Berkeley, some 58% of residents are renters. The average monthly rent for a unit in Berkeley is \$2,700 or about 32% higher than the national median.² Amid soaring costs, many long-term residents have been pushed out. In the last half century, Berkeley has lost close to two thirds of its African American community – many displaced by the rising cost of housing. In Alameda County, where the Median Family Income is \$147,000, a 1-bedroom apartment would be considered affordable to a "very low income" two-person household, earning 30% of the Area Median Income (AMI) – \$35,500, at no more than \$887 a month - one third of the average rent in Berkeley. For a household of two earning 80% of AMI, or approximately \$120,000, affordable rent for a 1-bedroom apartment would be no more than \$2,366 - still lower than the average monthly rent in Berkeley.³

In the wake of mass displacement and increasing pressures on housing, the Berkeley City Council approved Mayor Arreguín's Small Sites Program (SSP) in 2018 to prevent the

¹ [Leonard, Christian, and Sriharsha Devulapalli. "Where Is the Bay Area's Housing Crisis Impacting People the Most? Here's One Key Stat." San Francisco Chronicle, 8 Dec. 2023.](#)

² ["Berkeley, CA Rental Market." Zillow Rental Manager, 9 Apr. 2024.](#)

³ ["Alameda County Housing & Community Development Income and Rent Limits." Alameda County Housing and Community Development Department, 2023.](#)

displacement of Berkeley residents and preserve permanent affordability in small to mid-sized buildings with 2-25 units. To make the program effective, Council partnered with local community land trusts which specialize in the preservation of units in smaller multi-unit buildings. One of the City's partners in this effort, the Bay Area Community Land Trust, is a non-profit organization dedicated to developing affordable, sustainable, resident-controlled cooperative housing.

The first project funded by the SSP was the Stuart Street Co-Op Apartments in District 3. A joint venture between the Historic McGee Avenue Baptist Church and BACLT, the building had been vacant and deteriorating for 20 years before undergoing a full rehabilitation and becoming home to eight local families. With a per unit cost of \$415,000, or a total cost of \$3.3 million, the project cost about 40% less than the construction of new affordable housing in Alameda County, at an average cost of \$726,469 per unit.⁴

In 2023, the Bay Area Community Land Trust renovated and rehabilitated 1685 Solano Avenue, where tenants were facing an illegal Ellis Act eviction, ensuring that the 13-unit building was preserved as permanent affordable housing. The cost to preserve and renovate these 13 units – most of which are spacious units with bay views, high ceilings, full kitchens and two- three-bedrooms, was \$7.1 million or \$546,154 per unit – about 30% lower than the cost to build new affordable units, often smaller and with fewer amenities, in Berkeley.

Despite numerous challenges during the pandemic years, BACLT completed these 2 highly complex acquisition/rehabilitation projects, bringing 21 high-quality, renovated housing units into the City's permanent affordable housing portfolio at a total cost of \$10.4 million. The success of these projects has been noted by Berkeley renters who frequently contact BACLT asking the Trust to acquire the residential properties they live in.

With these two highly successful projects completed, BACLT has identified 10 properties it could seek to purchase and preserve as soon as Small Sites Program funding becomes available.

Identified properties for potential purchase, rehabilitation and conversion to permanently affordable housing include:

- 2717 Derby Street
- 2627 California Street
- 1902 Virginia Street
- 1809 Tenth Street
- 2035 Ninth Street
- 2032 Parker Street
- 2416 Roosevelt Avenue

⁴ [Bay Area Council Economic Institute. "How Much Does It Cost to Construct One Unit of Below Market Housing in the Bay Area?", Bay Area Council Economic Institute, Accessed 10 Apr. 2024.](#)

- 1915 Delaware Street
- 2479 Virginia Street
- 2431 Oregon Street

Over the next two years, with a total of \$16M in affordable housing funds, the Bay Area Community Land Trust estimates it can acquire and preserve around 48 to 64 units of permanent affordable housing.

REVIEW OF EXISTING PLANS, PROGRAMS, POLICIES, AND LAWS

The City of Berkeley's Housing Trust Fund (HTF) was established in 1990. The purpose of the HTF is to support the creation and preservation of affordable housing in Berkeley.

On February 14, 2017, Council referred to the City Manager Mayor Arreguín's item requesting establishment of a Small Sites Program with a streamlined approval process. The program is intended to support the acquisition and renovation of small, multifamily rental properties of up to 25 units, especially those at risk of Ellis Act evictions, and add long-term affordability restrictions. The City's Small Sites Program guidelines, approved on October 2, 2018, are based on the requirements for San Francisco's Small Sites Program, which has been funding similar projects since 2014.

The explicit purpose of the City's Small Sites Program is to support:

1. Acquisition and renovation of occupied, multifamily rental properties;
2. Conversion of rent controlled properties to restricted affordability; and
3. Potential conversion to limited- or non-equity housing cooperatives (LEHC).

The City's expedited, over-the-counter Small Sites Program requires the City Council to formally designate Affordable Housing Trust funds into the Small Sites Program *before* projects can be proposed. City Staff then issues a "NOFA," informing affordable housing providers of the availability of funds for projects qualifying for the Small Sites Program. Any not-for-profit housing developer can apply for Small Sites Program funds; in practice, only Land Trusts such as BACLT currently have a business model appropriate for the purchase and conversion of existing smaller buildings to permanently affordable housing.

Between 2015 and 2018, the Housing Trust Fund led to the construction of a total of 194 affordable units, including 86 very low income and 17 low income units. In 2018, voters passed Measure O to provide \$135 million in bond funds for affordable housing. In 2019, the City awarded \$950k in Small Sites Program funds from Measure U1 to the Bay Area Community Land Trust for the renovation and preservation of the 8-unit Stuart Street Apartments, targeted for Berkeley residents making up to 80 percent of Area Median Income. The City also awarded \$37 million in local Measure O bond funds to support 6 new-build projects including 430 units. In

2020, the City executed contracts for \$21.5 million in development funds for four additional new-construction affordable housing developments.⁵

CONSULTATION/OUTREACH OVERVIEW AND RESULTS

Councilmember Hahn has consulted with the Bay Area Community Land Trust and the organization has expressed interest and capacity to acquire and rehabilitate additional properties in the coming years, at an accelerated pace. The Trust has outlined a list of ten properties it is ready to approach for purchase as soon as funding is made available.

RATIONALE FOR RECOMMENDATION

The Small Sites Program has proven itself to be a valuable solution to help boost the City's supply of affordable housing. The program has been successful in saving long-term tenants from displacement and preserving permanent affordable housing. When compared to new affordable housing development, acquisition and rehabilitation of existing small scale residential properties results in less expensive per-unit costs and more environmentally friendly outcomes.

IMPLEMENTATION, ADMINISTRATION, AND ENFORCEMENT

Having successfully completed two projects, the Bay Area Community Land Trust has the capacity and expertise to continue administering the Small Sites program and expanding the City's affordable housing portfolio. Other Land Trusts may also reach out to apply for Small Sites funds when made available. The City has established processes for administering the Small Sites program and monitors compliance with affordable housing, habitability, and other requirements. While the first two projects were time-consuming for City housing staff, lessons learned from the initial two projects and capacity building at BA CLT should result in lower per-project/unit investments on the part of City staff going forward.

ENVIRONMENTAL SUSTAINABILITY

Rehabilitating existing structures is generally more environmentally friendly than building new from the ground up.⁶ New construction is material-intensive, creates more waste, requires the transportation of extracted materials, and often demolition, resulting in significantly more greenhouse gas emissions than acquisition and rehabilitation of existing housing. Rehabilitation of existing units brings them to high energy efficiency code standards, reducing ongoing emissions - and costs - from building operations.

FISCAL IMPACTS

\$8 million per year for a total of \$16 million over 2 years from the General Fund, Housing Trust Fund, or other existing Affordable Housing funds for the Small Sites Program, plus an additional \$350,000 in capacity building grant funds. Funding for the Small Sites program already exists in

⁵ [Housing Element Update 2023-2031.](#) *City of Berkeley*, 17 Feb. 2023

⁶ [Hanscom, Greg. "This Old House: Why Fixing Up Old Homes Is Greener than Building New Ones."](#) *Grist*, 5 Jan. 2012.

the Affordable Housing Trust Fund or in Measure O Bond funds, Measure P and/or U1 funds, and anticipated Measure M funds.

Measure U1 was a 2016 affordable housing measure that raised the business license tax on landlords in Berkeley and passed with almost 75% of the vote. Generating \$4.9 million a year, the measure has since provided funding for projects like the [Berkeley Way Apartments and Hope Center](#) and the [Maudelle Miller Shirek Community](#).⁷

Measure M, the Empty Homes tax, applies to residential properties that are vacant for at least 182 days a year and passed in 2022 with almost 65% of the vote. As a general tax, revenue from Measure M is deposited directly into the General Fund for any municipal services. However, the Council can also deposit any portion of proceeds generated by Measure M into the Housing Trust Fund. Measure M is expected to bring in between \$3.9 and \$5.9 million annually, beginning in FY 2025.⁸

OUTCOMES AND EVALUATION

With \$8 million per year, the Bay Area Community Land Trust expects to rehabilitate between 3 and 4 buildings. Once BACLТ acquires a property, it will report back to the City Council the cost of acquisition and rehabilitation, as well as the total number of units that will be brought into the City's affordable housing portfolio.

CONTACT

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⁷ ["Measure U1 Budget Forecast." City of Berkeley.](#)

⁸ ["Measure M Vacancy Tax." City of Berkeley.](#)