

COUNTY OF SANTA CRUZ

Planning Department

MEMORANDUM

Date: February 24, 2016
To: Housing Advisory Commission
From: Julie Conway, Housing Manager
Re: Measure J Investor-Owner units

The County's Affordable Housing Ordinance (County Code Section 17.10), known as the Measure J Program, has, for 35 years, required market rate developers of five or more units to provide 15% affordable housing as part of their development projects. As a result of this Program approximately 500 affordable housing units have been created throughout the unincorporated County. By and large Measure J units are owner occupied single-family homes, condominiums or town homes scattered throughout subdivisions, although there are several multi-family projects that are entirely restricted as Measure J homes. Two of these projects have become problematic as a substantial number of the homes have converted to rental units.

Measure J was developed as an affordable homeownership program that included a provision that allows owners to convert to "Investor-Owner Status" and then rent out their Measure J units provided they are rented to eligible low income households at an affordable rent as defined by the Affordable Housing Guidelines and overseen by the Administering Agency. The ability to rent has been used to allow MJ owners to rent when life circumstances changed. In order to build flexibility into the Program, investors have also been allowed to purchase Measure J units. Investor-Owner buyers are not required to meet income limits in order to purchase units and during periods of a down market this has resulted in investors purchasing units, sometimes at very low prices, and using them as rental investments. As mentioned above, at two Measure J senior complexes this has resulted in a disproportionate number of rental units, causing problems with lending in the projects, with HOA management and with inadequate service provision for some rental households.

The Planning Department, as the Administering Agency, has the ability to review properties for owner/rental balance and can deny requests to convert units to investor owner status if units rented in the project exceed 25% (§17.10.070). Because of issues at the two senior properties the Housing Division has been exercising its ability of deny conversion to I-O status and proposes to amend the Affordable Housing Guidelines to clarify this intent.

Staff believes that over time the projects will stabilize as predominantly owner occupied properties as units change hands and return to owner occupancy. The compelling need to provide flexibility for homeowners facing changing life circumstances continues, however. In order to address both the need for flexibility and the need to strengthen the owner occupancy priority your Commission convened an ad-hoc committee to devise a strategy to balance these competing needs.

To this end, the following recommendations are proposed.

- 1) A new policy addressing temporary rental. The following is adapted from County homeownership programs and SCCC §13.34 Temporary Rental of Mobile Homes

Temporary Rental of Measure J Units.

- a) Owner's Principal Residence: Owner shall occupy the Home as Owner's principal place of residence. Owner shall be considered as occupying the Home if Owner is living in the unit for at least ten (10) months out of each calendar year.
 - b) To account for unexpected changes in life circumstances that may justify the temporary rental of a Measure J home. Measure J owners may rent their home for up to one year under the following circumstances as determined by the Planning Director in his/her sole discretion:
 - i) An owner of a Measure J home who has resided therein for at least one year is unable to continue to occupy the home either temporarily or permanently by reason of illness or absence from the area for other than vacation purposes; or
 - ii) An owner or person in a fiduciary capacity who has received title to a Measure J home as a result of the death of the previous owner, or due to bankruptcy or foreclosure procedures and requires time to arrange for the sale of the Measure J home to an eligible purchaser or to arrange for occupancy of the Measure J home by the owner.
 - c) Short term rental of measure J units, defined as any rental of less than 30 days in duration, whether owner occupied or investor owned, is expressly forbidden,
 - d) The penalty for violation of any of the rental provisions shall be requirement to sell unit and penalty payment of 1.5 the value of the invalid rents.
- 2) Add sentence to opening paragraph of the AHG "the intent of the program is to further affordable ownership housing",
 - 3) To the extent the AHG have not addressed every situation it is the intent of the Board of Supervisors for staff to further interpret I way that furthers affordable housing.
 - 4) Current market practices include limitations on lending when a single individual or common entity owns more than 10% of any development. Because of this restriction, the County will deny conversion of Measure J units to Investor Owner status in properties where

It is recommended that your commission discuss the proposed program changes from the Ad-Hoc Committee, approve in concept the proposed changes to the Affordable Housing Guidelines and direct staff to work with County Counsel to develop language on the conceptual changes and forward the revised Affordable Housing Guidelines to the Board of Supervisors for review and approval.