RESOLUTION APPROVING THE REVISED AND RESTATED ACQUISITION AND DISPOSITION OF REAL PROPERTY POLICY FOR THE HOUSING AUTHORITY OF THE CITY OF LOS ANGELES

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Purpose: Approval of the revised and restated Housing Authority of the City of Los Angeles ("HACLA") Acquisition and Disposition of Real Property Policy ("Policy") in order to implement the strategic directive of the HACLA Board of Commissioners (the "Board") in acquiring real property to diversify the housing portfolio, increase affordable housing options in the City of Los Angeles (the "City"), and provide a methodology for the disposition, transfer or sale of HACLA-owned real property, as necessary.

Regarding: Resolution No. 8582, adopted on February 20, 2008, and amended by Resolution No. 8628 on July 23, 2008, established HACLA’s Policy Guidelines for the Acquisition of Real Property ("Prior Policy"), providing guiding principles for an active acquisition program to provide more affordable housing in the City of Los Angeles. The policy has not been modified since and was never actively utilized.

Developed as a near-term priority in HACLA’s Build HOPE Vision Plan published in January 2019, the Development Services and Asset Management teams worked together to revise and reframe the Prior Policy and develop an internal program of implementation.

Both the revised Policy and program were presented to the Board of Commissioners at its meeting on December 19, 2019 and discussed in detail. The Board requested an informal ad hoc committee meet with staff to discuss in more detail some of the implementing strategies and acquisition priorities. This ad hoc committee convened in January 2020 with HACLA staff and legal counsel and discussed program options. HACLA staff and counsel agreed to review methods for improving their ability to make competitive bids on properties by reducing contingencies and timeframes through some level of potential delegated acquisition authority and the proposed property selection criteria which favors larger, newer buildings.

Issues: As an organization whose primary function since inception is the development and preservation of affordable housing in the City of Los Angeles, it is critical that the Authority have a functional and up-to-date Acquisition and Disposition of Real Property Policy. The Policy presented reflects revisions guided by the desire to separate internal procedural guidelines from policy directives, refresh standards and add valuable guidelines missing in the 2008 Prior Policy for real property acquisition and disposition practice.
Background

The Acquisition Program incorporates a four-pronged approach: (1) a revised and simplified Policy, (2) modified program design, (3) integrated program procedures, and (4) a funding strategy. The purview of the Board is wholly vested in the development and adoption of the first prong: the Policy.

The Program Design and Procedures are administrative tools that will remain in flux and responsive to integration of best practices, changes in law and success against metrics at the staff level. However, the Board will have the opportunity to reflect on the effectiveness of these internal programmatic approaches in future actions brought before the Board to purchase or dispose of real property; enter into third party contracts to support the Acquisition Program; adoption of budget priorities; and investment in financing tools. At the recommendation of the Board’s ad hoc committee in January, Asset Management and Development Services staff will utilize the next twelve to sixteen months to pilot the Policy and its related Acquisition Program and will provide the Board with a report evaluating the efficacy of the Policy and Acquisition Program. The report will share a summary of results and any key suggested revisions. Thereafter, the President and CEO or his/her designee shall report to the Board annually concerning all acquisitions, dispositions and sales of real property pursuant to this Policy in addition to seeking approval from the Board as required by law and the Policy.

Policy Overview

The Policy, as presented is not materially different than the draft provided to the Board in December 2019 in draft. The Policy promotes the acquisition of improved residential property in order to preserve expiring covenants or utilize market rate properties for the purposes of expanding affordability by renting vacant units to Section 8 voucher holders and ensuring rent reasonableness. Improved properties in most cases should not require significant repairs or improvements for habitability although the Policy contemplates the need to have funds available for rehabilitation and provides enough flexibility if there is a significant opportunity to increase density to purchase and densify a site through small scale construction projects. Generally, acquisitions of improved properties with low- to moderate- rehabilitation needs are expected to make up the majority of purchases, however, the Policy anticipates the need to acquire key residential or commercial sites to assist in public housing redevelopment and for operational purposes. HACLA does not intend to relocate existing tenants in occupied properties, unless necessary for public redevelopment purposes. Alternatively, HACLA will consider applying project-based vouchers to newly acquired properties and screen existing tenants for eligibility, providing them with the opportunity to reduce their rent burden. At times when relocation may be necessary, HACLA will follow all relocation rules and regulations and provide necessary noticing, services and compensation. Acquisition funding is anticipated to be reliant on debt financing and supplemented with available earmarked funds within HACLA or its instrumentalities to provide equity contributions for purchases and/or closing or capital costs.

The Policy also establishes a framework for disposition and identifies when HACLA should consider it in the best interest of the Authority to dispose of property. The Policy only applies to non-federal public housing sites and is primarily guided by the California Health and Safety Code. The primary reasons the Policy contemplates disposition are: improvement of operational efficiencies, improving portfolio performance, and creating opportunities for affordable ownership, where appropriate. The Board carries significant weight in setting the final terms of any sale or purchase under this Policy.
Finally, the Policy contemplates sub-leasing parameters and confirms that the majority of any sub-leasing of HACLA’s property should be aligned with its mission and goals. The Policy allows leases to be negotiated at below market rates if the organization meets a public benefit purpose as approved by the Board or is primarily utilizing the space to serve HACLA’s clients or tenants.

Although the ad hoc committee requested that HACLA consider delegating certain acquisition approval directly to the President and CEO under a set criteria, the Policy is not currently drafted to allow for such delegation. Staff and HACLA’s General Counsel felt it would be prudent for the Board to retain its full authority to approve all acquisitions and dispositions individually and only reconsider delegation if it is found to be in the best interest of the Authority after a more robust implementation of the Policy as currently contemplated.

**Portfolio Expansion**

Most of the property acquired under the Policy is expected to expand HACLA’s current Asset Management portfolio, which houses all properties that are not part of a traditional public housing AMP. There are 2,491 units in the current Asset Management portfolio and an ownership or ground lease interest in 1,422 Redevelopment portfolio units. The average building age is approximately 40 years and in generally well-maintained physical condition. Properties are distributed across thirteen of the City’s fifteen council districts. The Policy continues to seek to acquire properties across the City but prioritizes adding properties located in Areas of Opportunity, which represent neighborhoods of rising incomes, stabilized ownership, and good schools.

The current Asset Management portfolio mix is 68% studios and one-bedroom units, 14% two-bedroom units, 11% three-bedroom units and 7% four-bedroom units. The majority of the portfolio (1,874 units) is primarily designated for seniors and/or persons with disabilities and subsidized with project-based Section 8 vouchers or other affordable funding. There are a total of 423 Housing Choice Vouchers being used in the portfolio making up 18% of the units. It is the intent of the Acquisition Policy to increase this percentage, which requires acquisitions to strategically consider the needs of the households on HACLA’s Section 8 waitlist. Acquiring properties that add more studios, one-bedrooms, and two-bedrooms and meet current Title 24 ADA accessibility standards will be the focus of the first few years of acquisition to ensure the portfolio would effectively provide housing types that could serve 90% of the clients on the Section 8 waitlist. This is based on analysis of the existing waitlist, with approximately 50% of the households self-identified as disabled and smaller sized; with ¾ of the Wait List meeting occupancy standards for two-bedroom units and 61% for studios or one-bedrooms.

**Vision Plan:** **Place Strategy 2.3. Increase Functionality and effectiveness of Asset Management Portfolio.**

This strategy focusses on the strategic directive of the Housing Authority of the City of Los Angeles (HACLA) Board of Commissioners (the “Board”) in acquiring real property to (i) diversify the housing portfolio by acquiring properties on the open market or from other governmental entities, thereby increasing the supply of affordable housing within the City of Los Angeles, (ii) diversify funding/revenue sources for HACLA and (iii) provide a methodology for the disposition, transfer or sale of HACLA-owned real property.

**Vision Plan:** **Place Strategy 3. Improve and expand Section 8 program, policies, and efficiencies.**
This strategy involves the acquisition of property for the purpose of providing readily available housing units for Section 8 Housing Choice Voucher participants.

**Vision Plan:** Place Strategy 1. Stabilize the physical and financial viability of the conventional public housing portfolio.

This strategy focuses on expanding the footprint of a public housing redevelopment site in order to meet Build First goals or to increase the total number of affordable units at the site. Either action helps achieve HACLA’s strategy of stabilizing the physical and financial viability of the conventional public housing portfolio.

**Funding:** The Chief Administrative Officer confirms the following:

*Source of Funds:* No funding is required for this action

**Budget & Program Impact:** The Acquisition and Disposition Program will be housed in the Strategic Initiatives Bureau and is expected to be implemented by the existing staff within the Asset Management and Development Services departments. Additional assistance needed by third party consultants has been anticipated and funds are available within HACLA’s FY2020 Approved Budget to initiate this Policy if approved by resolution of the Board. If the program grows, future requests for additional resources or staffing will come back to the Board for contemplation through annual or mid-year budget processes or contract authorizations.

**Environmental Review:**

HACLA shall adhere to all required environmental reviews including but not limited to the National Environmental Protection Act (NEPA), the California Environmental Quality Act (CEQA) and a Phase 1 Environmental Site Assessment as appropriate.

**Section 3:** Any contracts entered into by HACLA to implement third party contractors in the service of acquisition, disposition or property management will be drafted to ask contractors to make best efforts to meet HACLA’s Section 3 Policy.

**Attachments:**

1. Resolution
2. Acquisition and Disposition of Real Property Policy
3. Adopted Acquisition Policy 2008
4. Proposed Policy Changes Comparison
ATTACHMENT 1

RESOLUTION
RESOLUTION NO. 

RESOLUTION APPROVING THE REVISED AND RESTATED ACQUISITION AND DISPOSITION OF REAL PROPERTY POLICY FOR THE HOUSING AUTHORITY OF THE CITY OF LOS ANGELES

WHEREAS, the Housing Authority is authorized to acquire and dispose of real property and enter into contracts and agreements related thereto pursuant to the California Health and Safety Code Section 34200 et seq. and particularly with respect to Section 34315; and

WHEREAS, the Housing Authority Board of Commissioners ("Board") adopted the Policy Guidelines for the Acquisition of Real Property by Resolution No. 8582 on February 20, 2008, as amended by Resolution No. 8628, on July 23, 2008, (the "Prior Policy") which set forth the policy and guidelines for the acquisition of real property for the Housing Authority; and

WHEREAS, the Housing Authority now wishes to institute a new real property acquisition program ("Acquisition Program") and revise its current Prior Policy to reflect the Housing Authority’s Vision Plan goals and to provide for the disposition of real property; and

WHEREAS, to effectuate the Acquisition Program and related goals, the Housing Authority wishes to obtain approval for a new Acquisition and Disposition of Real Property Policy (the "Policy") to (i) diversify the housing portfolio by acquiring properties on the open market or from other governmental entities, thereby increasing the supply of affordable housing within the City of Los Angeles, ("Acquisition Program") (ii) diversify funding/revenue sources for HACLA and (iii) provide a methodology for the disposition, transfer, lease or sale of HACLA-owned real property as necessary; and

WHEREAS, any revisions to the Policy or expenditures outside of the regulatory or Board-delegated authority of the President and CEO will be brought back to the Board for approval.

NOW, THEREFORE, BE IT RESOLVED that the Board of Commissioners hereby approves the new Acquisition and Disposition of Real Property Policy and authorizes the President and CEO, or his or her delegate, to take any actions and execute any documents, agreements or contracts as authorized by and consistent with the Policy and as approved by legal counsel.
BE IT FURTHER RESOLVED that this Resolution shall take effect immediately.

HOUSING AUTHORITY OF THE
CITY OF LOS ANGELES

By:

__________________________
Chairperson

APPROVED AS TO FORM:
JAMES JOHNSON

BY: _______________________
General Counsel

DATE ADOPTED: ______________
ATTACHMENT 2

ACQUISITION AND DISPOSITION OF REAL PROPERTY POLICY
Housing Authority of the City of Los Angeles
Acquisition and Disposition of Real Property Policy

I. GENERAL PURPOSE

The purpose of this Acquisition¹ and Disposition of Real Property Policy (Policy) is to implement the strategic directives of the Housing Authority of the City of Los Angeles (HACLA or Authority) to 1.) Diversify HACLA’s housing portfolio by acquiring properties on the open market or from other governmental entities, thereby increasing the supply of affordable housing within the City of Los Angeles, 2.) Diversify funding/revenue sources for HACLA, 3.) Ensure the Authority can satisfy its operational needs and serve residents and clients conveniently and efficiently throughout the jurisdiction of the City of Los Angeles, and 4.) Dispose of assets that no longer function to serve the Authority’s operational purpose in a meaningful way or whose value can be transferred into a higher value property or program need.

This Policy advances and effectuates HACLA’s Vision Plan principles, long term goals, and strategies with regard to Building Responsibly, Organizational Stability, Increasing the Number of Affordable Housing Units in the City of Los Angeles, and Encouraging Innovation that supports organizational flexibility and growth. The objectives of this Policy are summarized below and responsive to the following Build HOPE Vision Plan strategies:

1.) Vision Plan Place Strategy 1

The acquisition of property for the purpose of providing temporary or permanent replacement housing for public housing residents or to expand the footprint of a public housing redevelopment site in order to meet Build First goals helps achieve HACLA’s strategy to stabilize the physical and financial viability of the conventional public housing portfolio.

2.) Vision Plan Place Strategy 2

Increase functionality and effectiveness of Asset Management portfolio. Focusing on stabilizing HACLA’s existing property portfolio outside of public housing, utilizing acquisitions and infill strategies to increase the number of units HACLA offers for affordable housing and diversifying housing options in response to market demands.

¹ Acquisition is defined as the purchase of fee ownership of land and/or buildings in an arm’s length transaction or the long-term ground leasing of property. This policy addresses the voluntary acquisition of property and does not preclude HACLA from receiving real property through donation, land swap or exchange, quit claim, or by eminent domain.
3.) Vision Plan Pathways Strategy 3

Adapt, enhance, and expand HACLA's capacity to become a competitive asset
manager in the Los Angeles Housing market.

II. OBJECTIVES OF THE POLICY

1.) Attain greater fiscal sustainability; reduce reliance on federal and other
governmental funding;

2.) Preserve and/or increase the supply of affordable housing in the City of Los
Angeles;

3.) Acquire and preserve properties with expiring affordability contracts or
covenants;

4.) Increase opportunities for Section 8/Housing Choice Voucher Holders to
access affordable rental housing;

5.) Demonstrate environmental and resource stewardship through green design
and high-efficiency standards wherever possible;

6.) Improve HACLA's operational functions and facilities management.

7.) Achieve positive family & individual outcomes by ensuring low-income
households are living in clean and habitable units with on-site service-
enrichment or navigation and access to transit, childcare, and essential
amenities.

8.) Increase neighborhood stability by imposing high standards for property and
asset management including investing in building maintenance & regular
capital investments as well as active engagement in established condominium
or property-based associations and neighborhood groups.

9.) Increase economic diversity through the purchase of property in Areas of
Opportunity.

III. ACQUISITION OF PROPERTY

This Policy covers voluntary acquisition of property and allows the Authority to
respond to solicitations of sales whether publicly listed or not and to make
unsolicited Offers to Purchase properties HACLA has identified as meeting its
operational needs or the Objectives above. The Authority will not purchase
property on a speculative basis or for the sole purpose of income generation.
HACLA is required to pay the equivalent of Fair Market Value for a property unless
the property is sold at discount due to tax sale, auction or other publicly discounted
mechanism. HACLA will utilize proper due diligence and underwriting methods to ensure that properties are acquired at a reasonable price and with full disclosure of any liabilities or any reasonably known post-closing expenses. All individual or portfolio purchases shall be brought to the Board of Commissioners for approval in open session when all terms of sale have been set. The Brown Act authorizes the Board to hold closed sessions with its negotiator prior to the purchase, sale, exchange, or lease of real property by or for the Authority in order to grant authority to its negotiator on price and terms of payment.

A. PROPERTY SELECTION CRITERIA

Residential Property.
HACLA will work to diversify the geographic locations of its Residential Property², with an emphasis on serving the entire City of Los Angeles. Preference will be given to acquiring market-rate properties in higher opportunity areas, whenever financially feasible. Efforts to preserve existing affordable housing is also critical and HACLA will look for opportunities to purchase properties with expiring covenants or those that already house Section 8 tenants. The primary intent of Residential Property acquisition is to purchase existing units for immediate leasing with minor rehabilitation needs, not new construction. In order to effectuate redevelopment efforts of existing public housing sites, HACLA may consider purchasing Residential Property as "replacement housing" or for the expansion of the footprint of a redevelopment area. Although not the primary purpose of the Acquisition Program, if HACLA determines that increased density is allowed, HACLA may choose to purchase one or more adjacent properties improved with low-density housing in order to develop such properties by adding Accessory Dwelling Units or redeveloping the property consistent with underlying zoning. In cases where HACLA is purchasing occupied property for the purpose of demolition and new construction, all occupied units will receive required relocation assistance. If purchasing Residential Property for demolition, HACLA will prioritize Residential Properties in poor condition and with lower densities than the underlying zoning would allow.

Non-Residential Property.
In order to address HACLA’s diverse operational needs and mission, the Authority may acquire commercial or industrially-zoned properties as well as public land. The primary use of the property must be for HACLA operations or for the purpose of converting the property to residential use to fulfill one or more of the Objectives of the Policy found in Section II.

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² Residential Property is defined as rental property where the investment of the property derives more than eighty percent (80%) of its revenue from dwelling units.
B. OWNERSHIP

HACLA can purchase property in its own name or through any of its affiliates or instrumentalities. Determining the best legal ownership of any property should be based on an assessment of liability and best financial practice. HACLA’s Asset Management Department will oversee the day-to-day operations of all properties unless management is contracted to a third party or the property becomes part of Housing Services portfolio.

C. EXISTING TENANTS

Unless HACLA is purchasing the property for the purpose of demolition or its own occupation, tenants will be allowed to remain on site after execution of new leases, as needed. If available and appropriate, HACLA may layer project-based vouchers on some or all of units in a purchased Residential Property. Existing tenants, who are income-qualified, will be given the voluntary option to screen for placement of a voucher on their unit but will not be required to move if they do not qualify or desire to participate.

Any residential or commercial tenant required to move as a result of HACLA’s acquisition of a property, may be eligible for all rights afforded them under the Uniform Relocation Act and State Relocation Law, as amended from time to time. This includes complying with all applicable statutory requirements, including those pertaining to notice of acquisition for public use, relocation assistance, and payments due.

In certain situations, such as when HACLA’s ultimate use of an acquired site will not be immediately implemented, the Authority may enter into post-acquisition temporary leases.

D. FUNDING

HACLA may use a variety of internal or external funding sources to facilitate the acquisition, rehabilitation or improvement of multifamily rental properties. Funding needs and sources may differ during different phases, including pre-acquisition, acquisition, and post-acquisition and the use of funds for such remains subject to the Board’s policy on delegated authority and availability of funds in the Authority’s adopted Budget. Financing instruments may be utilized if determined to be in the best interest of the Authority and may include a revolving credit facility obtained from a bank, short-term and specific purpose funds established by HACLA, grants and donations received eligible for acquisition or capital investment, and debt proceeds generated through the sale of long-term bonds or notes and will comply with all applicable polices including:

- Debt Management Policy, Resolution No. 9404, Adopted December 19, 2017, as may be amended from time to time;
- Conduit Housing Bond Policy, Resolution No. 9455, Adopted September 27, 2018 as may be amended from time to time;

- Procurement Policy, Resolution No. 9514, Adopted June 27, 2019 as may be amended from time to time.

IV. PROPERTY DISPOSITION

Within the framework established herein, the disposition policy establishes a methodology for the disposition of real property owned by HACLA and its instrumentalities. As part of an overall portfolio management plan for real property, the Asset Management Department may review and recommend properties for disposition. Property proceeds will be used to pursue more advantageous opportunities in the interest of HACLA and its residents.

This Policy does not authorize the sale or other disposition of any multifamily federal public housing projects or individual units as defined in the Housing Act of 1937, as amended.

A. DETERMINING DISPOSITION FOR SALE

Dispositions of real property shall occur only after HACLA has determined that a given parcel of real property is not required for HACLA's foreseeable needs, and shall be made pursuant to one of the following reasons:

1.) Disposition of a non-residential operational or commercial property so as to improve the efficiency of operations;

2.) Disposition of an underperforming residential property so as to obtain a better performing property and/or other affordable housing opportunities that meet the Property Selection Criteria described above in Section III.A. Such dispositions shall consider inclusion of an affordability covenant on the land, a reversion clause or generate enough revenue from the sale so as to purchase replacement units in greater number than the disposed of units;

3.) Disposition so as to fund more significant budgetary priorities.

4.) Disposition of property for affordable ownership where long-term ground leases are the preferred disposition method in order to maintain affordability.

B. PRICE AND TERMS OF SALE

If the Board authorizes the disposition of a property, it shall authorize the President and CEO or his or her designee to enter into negotiations and dispose of the property for a price equal to, greater than, or less than the appraised value based on specific circumstances.
The Board will also authorize the means of disposition as HACLA may dispose by auction, direct sale, deed transfer, donation or other such method according to current or future regulations and law.

Finally, the Board must authorize specific terms of any sale in order to ensure they meet the organizational mission and day-to-day operations of HACLA. Such terms may or may not include an affordability covenant or reversionary clause to protect future affordability on the property.

C. DETERMINING DISPOSITION FOR LEASE

The Authority may sub-lease all or a portion of its non-federal property to an affiliate or instrumentality in order to effectuate HACLA’s objectives and operational needs. Additionally, HACLA may lease its property to partner organizations and other government agencies that are aligned with HACLA’s mission and serving HACLA’s residents, clients and goals. HACLA may lease no more than 49% of any one property to an interest that is not affiliated with the Authority or conducting business that directly benefits HACLA’s mission or organizational goals. All leases should be drafted as triple net market rate leases unless the organization is being provided the space to meet a public benefit purpose the Board of Commissioners has approved and/or is primarily intending to service HACLA residents or clients. Approval of discount rates are determined by the Board or their designee depending on the value of the net discount and contract authority.

ADOPTED:
ATTACHMENT 3

ADOPTED ACQUISITION POLICY 2008
Policy Guidelines for
The Acquisition of Real Property

Introduction

Preface:

Currently, the HACLA owns and manages approximately 9,000 housing units. Of these units, approximately 7,500 are public housing, which primarily house residents earning less than 30% of the Area Median Income (extremely low income). The remaining units are composed of a mix of market rate and income restricted units.

An explicit, strategic directive of the HACLA Board of Commissioners is to diversify the housing portfolio, increase the supply of affordable housing and diversify the revenue sources of the Authority. The goal of this strategy is to achieve better service for those who are unable to afford reasonable quality housing given their lower incomes but do it via an agency that is strong financially and sustainable. In addition, we must do this in a manner that is consistent with the agency’s core mission to assist those with extremely low income, the disabled and people with special needs. The HACLA Board of Commissioners has established several goals and objectives to ensure the Authority best serves the needs of the less affluent citizens of the City of Los Angeles while prudently investing the resources of the Authority. This policy is intended to affect the goals and objectives of the Board of Commissioners, as related to the Acquisition of Real Property, in an open and transparent manner.

The purpose of this acquisition policy is to implement existing adopted goals of the HACLA Board of Commissioners and to implement the Strategic Plan currently under discussion and development. This policy relates to the following:

1) HACLA Board Budget Goal: acquire up to 1,000 units per year.

2) Core Strategy 3: Leverage a complete tool kit for affordable housing supply expansion that includes acquisition, development, legislation, policy creation and work with the Mayor, CRA, LAHD, LAHSA, and other key public, private and non-profit agencies to rehabilitate/redevelop existing units and acquire and develop new units; and

3) Core Strategy 4: Increase HACLA’s revenue base, to increase its supply of affordable housing and diversity funding sources to mitigate risk of reduced funding from a single organization leading to reduced supply of affordable housing in the City of LA. In particular, explore funding opportunities through leveraging HACLA’s bonding authority and from the GSEs, employers and other key private entities including foundations and individuals to acquire and rehabilitate existing housing and acquire or develop new affordable housing.
Objectives of the Housing Acquisition Policy

1) Increase the overall supply of affordable housing in Los Angeles.

2) Attain greater fiscal sustainability; reduce reliance on federal funding.

3) Increase opportunities for Section 8/Housing Choice Voucher Holders to access housing in low poverty census tracts.

4) Maintain ethical, professional business practices and standards.

5) Cultivate a corporate culture of transparency and openness.

6) Achieve positive family & individual outcomes:
   a) Educational attainment and achievement
   b) Financial independence and economic mobility
   c) Access to transit, childcare, essential services and amenities

7) Attain positive community outcomes:
   a) Dispersal and deconcentration
   b) Increased neighborhood stability and economic diversity
   c) Reduction of student turnover within the classroom and enhance learning
   d) Create opportunities for homeownership for HACLA’s constituents

8) Demonstrate environmental and resource stewardship

9) Engender and maintain collaborative partnerships.

Project Selection Criteria

1) Location: Avoid purchasing additional properties in census tracts where HACLA is already providing assistance to a large portion of the available stock. Focus initial acquisition efforts outside of Council Districts 8, 9 & 10.

   a) Price: Initial offered prices are determined by analysis of market data on current capitalization rates, sales price per square foot and sales price per unit. These data are found in recent sales comparisons of properties that have changed hands during the 6-12 months prior to the offer date as well as real estate price trends in that community during that period. This is standard methodology used by appraisers and investors when estimating property values. The research materials used in this analysis become part
of the permanent transaction file assembled on each transaction and are available for review.

The CEO may exceed these guidelines provided that the Board of Commissioners approves any and all property purchases by resolution at a public meeting. No escrow will be closed nor will any non-refundable deposits be released by HACLA prior to Board approval. The CEO shall disclose in writing to the Board of Commissioners why it is in the best economic and strategic interest of HACLA to exceed these guidelines, e.g. to take advantage of opportunities to acquire properties in locations where HACLA currently has no housing stock, to acquire turnkey properties built to suit HACLA's needs or to achieve other public values articulated by the HACLA Board of Commissioners. In any event, a MAI (Member Appraisal Institute) or SRPA (Senior Real Property Appraiser) appraisal acceptable to HACLA shall be prepared prior to making any non-refundable deposits on any prospective purchases (MAI and SRPA are professional designations provided to appraisers who have passed rigorous professional education requirements of the American Appraisal Institute). The HACLA purchase price shall not exceed the appraised value unless there is a compelling documented financial or strategic reason, e.g. for preservation of existing low and moderate income housing.

2) **Project size:** Prioritize properties with 100 or more units as top tier acquisition targets, properties with 50-99 units as second tier acquisition targets and properties with fewer than 50 units as third tier acquisition targets due to asset management and financing economics of scale. Exceptions may be made for portfolios of single family or multi-family REO properties.

3) **Neighborhood condition, services & amenities:** The following factors are regarded as most desirable. Each individual property may not meet every factor. However, they should be regarded as guidelines not requirements:

a) Public transit service within 1/2 mile of the property
b) Child care available within 1 mile of the property or able to be provided on or near the property in cooperation with community partners
c) Grocery store within 1 mile of the property
d) FDIC-Insured Bank and/or ATM within 1 mile of the property
e) Public/charter school outcomes with acceptable Academic Performance Index Scores (API Scores) Prefer schools with API Scores above 600. Average API score of LAUSD schools is 649 for the last reported year of 2006. Sixteen (16%) of schools reach 800 API which is the highest goal set.
f) Stable or improving neighborhood conditions

5) **Property age, seismic design, quality and amenities:**
a) Prefer properties placed into service after 1978 unless hazardous material has been abated and/or encapsulated prior to HACLA purchase.

b) Properties held under the same ownership for ten or more years shall receive priority as they are probable candidates for tax credit syndication.

c) Prefer properties with units able to house families, especially a mix of 2, 3 and 4 bedroom units. Avoid studio and/or Single Room Occupancy (SRO) units in any great number i.e. not >20% of the stock.

d) Adequate parking should be available. Parking shortages may be mitigated by the use of non-profit and/or for profit auto subscriber services (Flex Car, which is a service that provides short time, short distance, largely urban, inner city rental car service) facilitated but not provided directly by HACLA.

**Project Underwriting Criteria**

The purpose of project underwriting criteria is to ensure that HACLA invests public funds in a prudent and fiscally responsible manner, while furthering its Mission and Strategic Plan Goals.

1) **Current MAI Appraisal** demonstrating value at or more than the stated purchase price.

2) **Current Level 1 Environmental Assessment**, Level 2 if recommended in due diligence by inspectors and/or stipulated by the lender.

3) **Debt service coverage (DSC)** not less than 1.15, prefer 1.25 or better. All properties acquired must provide positive cash flow after debt service in year 1 of operation. Debt Service Coverage means the ratio of estimated net operating income to debt service expense. This ratio is established by lenders and investors to provide a cushion between the amount remaining after payment of operating costs and the amount of the annual mortgage payment.

4) **Underwriting should assume financing with fully amortizing fixed rate loans only which do not expose the Authority to interest rate risk inherent in variable rate debt.**

5) Assume a range of initial operating expenses between $300-600/unit/month depending upon the age and condition of the property, less taxes.

6) **Assume full payment of property taxes factored in after debt service coverage is calculated** (although the payment of PILOT (Payment In Lieu of Taxes) in any amount shall remain at the discretion of HACLA).
7) HACLA equity contributions should be optimized to attain 1.15-1.25 Debt Service Coverage and to secure as many properties as possible that meet HACLA's goals.

8) Return on equity expectations: 2% year 1: Four percent year by end of year 5.

9) A physical needs assessment will be prepared for each prospective purchase forming the basis for the initial capital repair and replacement budget. All health and safety matters shall be addressed out of escrow or prior to closing.

**Property Acquisition Procedures**

1) Remain open to doing business with any licensed and reputable brokers responsive to HACLA's needs. Consider a buyer's broker for unlisted properties in high priority locations.

2) Advertise in publications of general distribution such as newspapers, professional and business related journals. (For example: the Daily Journal of Commerce, Los Angeles Business Journal, El Diario, Los Angeles Times) Publications would include community newspapers in high priority neighborhoods where HACLA is interested in acquiring property with or without the aid of a broker. Post the same message on HACLA's web page for full disclosure and public awareness.

3) HACLA's CEO is empowered and authorized, subject to final Board* approval, to enter into purchase and sales agreements for properties that best conform to the Project Selection Criteria. If the Board of Commissioners does not approve the acquisition, all monies spent in due diligence investigation and third party reports are forfeit. These costs typically will be in a range of $3,500-$5000 per report, depending on property size. Under ordinary circumstances, total outlay for the reports will not exceed $20,000 and funds for the reports are included in the annual departmental budget. Due diligence shall be conducted by HACLA staff and service providers (appraisers, environmental assessment firms, engineers, architects, etc) within 60-90 days of placing the property under contract.

4) The HACLA Board of Commissioners shall be briefed on prospective property as appropriate prior to the release of any non-refundable earnest monies or deposits. Due to the necessity of remaining competitive in the marketplace, these briefings will occur after the property is placed under contract but before the close of escrow.

5) Title insurance shall be American Land Title Association (ALTA) or extended ALTA coverage as appropriate. The ALTA policy is used rather than the
more commonly used California Land Title Association (CLTA) title insurance policy. The ALTA policy is more costly but represents a higher standard of investigation into such issues as lot lines, easements and matters of public record.

6) Closing and predevelopment costs shall be paid from HACLA line of credit facilities and/or the proceeds of revenue bond(s) issued by HACLA.

**Board Report Documentation Packages Shall Include**

- **Appendix 1:** Certificate of Compliance
- **Appendix 2:** Investment Summary (Strategic & Financial)
- **Appendix 3:** Community Summary
- **Appendix 4:** Due Diligence Checklist
- **Appendix 5:** Impact on HACLA Financial Statement

**Program Outcomes and Metrics for Evaluation Purposes**

1) Achieve or exceed the Board enacted goal of acquisition of 1,000 units per year and increasing in future years depending on market circumstances.

2) Net cash flow after debt service is the measure of fiscal sustainability and diversification efforts.

3) Return on equity to ascertain that HACLA equity is put to efficient use while meeting public policy goals of the Board of Commissioners.

4) Household served: Numbers of households under 80% of AMI as well as households between 80-100% of AMI served, including all Section 8/Housing Choice Voucher recipients benefited.

5) Positive family and individual outcomes (households with incomes <80% AMI):
   a) Educational attainment of the head of household as well as achievement levels of residents under the age of 18 as measured by graduation or receiving a High School Equivalency Certificate by passing the General Educational Development (GED) test
   b) Financial independence
   c) School quality as measured by API Scores
   d) Neighborhood quality

6) Positive community outcomes:
   a) Deconcentration of poverty
   b) Physical improvements/reinvestment to real property
   c) Reduced student turnover rates within the classroom
   d) Providing home ownership opportunities to HACLA constituents
7) Environmental sustainability and resource conservation measures:
   a) Alternative energy and conservation improvements
   b) Transit and flex car utilization
   c) Water resource conservation improvements
Appendix 1: Certificate of Compliance

CERTIFICATE OF COMPLIANCE
ASSET DEVELOPMENT DEPARTMENT

REQUEST FOR SIGNATURE

ACQUISITION OF REAL PROPERTY POLICY GUIDELINES
CERTIFICATION

I certify to the following: The property located at 14526 Roscoe Blvd, Panorama City addressed in the communication and any documents attached thereto are in good order, comply with applicable HUD regulations and guidelines; applicable federal, state and local statutes and regulations; HACLA policies and procedures; and with approved Policy Guidelines for the Acquisition of Real Property and are in the best interest of HACLA.

PREPARER: The Undersigned certifies that the documents have been prepared in accord with HACLA Policies and attests to their accuracy

Ken Simmons Chief Operating Officer _________________________ Date

Larry D. Goins, Director, Development _________________________ Date

Comments & Exceptions:
Appendix 2: Investment Summary

12100 Sheldon Avenue  
Sun Valley, CA 91340 Council Dist 2/Gruel

| List Price: | $23,500,000 |
| Offer Price: | $23,000,000 |
| Down Payment: | $6,253,608 | 27% |
| Loan Amount: | $17,096,392 |
| Interest Rate | 5.85% |
| Cap Rate | 6.02% |
| Price $/Unit | $234,694 |
| Price $/SF | $187 |
| Age | 2005 |
| Yr 1 ROE | 2.89% |
| Yr 4 ROE | 5.92% |
| 10 Yr IRR | 13.30% |

<table>
<thead>
<tr>
<th># Of Units</th>
<th>Unit Mix</th>
<th>Market Rent</th>
<th>Gross Scheduled Income</th>
<th>Laundry</th>
<th>Other</th>
<th>Potential Gross Income</th>
<th>Less Vacancy Reserve</th>
<th>Effective Gross Income</th>
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<td>85</td>
<td>4/2</td>
<td>1,250</td>
<td>$1,800</td>
<td>$2,108,064</td>
<td>$24,000</td>
<td>$38,868</td>
<td>$2,170,932</td>
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<td>11</td>
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<td>1,250</td>
<td>$1,921</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>4/2</td>
<td>1,650</td>
<td>$2,200</td>
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<table>
<thead>
<tr>
<th>2007 VPS</th>
<th>Payment Standard</th>
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<tbody>
<tr>
<td>Bedroom Size</td>
<td>Mobile H. Space</td>
</tr>
<tr>
<td>SRO</td>
<td>698</td>
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<tr>
<td>0</td>
<td>992</td>
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<td>1</td>
<td>1224</td>
</tr>
<tr>
<td>2</td>
<td>1404</td>
</tr>
<tr>
<td>3</td>
<td>1885</td>
</tr>
<tr>
<td>4</td>
<td>2369</td>
</tr>
<tr>
<td>5</td>
<td>2609</td>
</tr>
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<td>6</td>
<td>2949</td>
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</table>

Key Investment Indicators/Assumptions

- In close proximity to San Fernando Gardens Public Housing.
- Scheduled rent is from Current Rent Roll.
- Rents increased 4% Ann. per Los Angeles Rent Control.
- Operating Expenses increased 4% Ann.
- Other Income increased 3% Ann.
- Lowered operating and capital costs due to newer construction (2005 C of O).
- No environmental issues due to newer construction.
- All 4 bedroom, family sized units. Very rare in the marketplace.
- Generous common areas.
- Condominium tract map recorded. Option to sell units to low/mod buyers.
- Onsite Children’s play area, computer learning center and fitness facility.
- 9 professional day care facilities within three miles of the subject.
- 12 elementary and middle schools within three miles of the subject.
- 3 High schools in three miles of the subject.
Appendix 3: Community Summary

12100 Sheldon Avenue  
Sun Valley, CA 91040 Council Dist 2/Gruel

<table>
<thead>
<tr>
<th>High School</th>
<th>Comment</th>
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</thead>
<tbody>
<tr>
<td>School</td>
<td>John H. Francis Polytechnic</td>
</tr>
<tr>
<td>Name/Address</td>
<td>12431 Roscoe Blvd. Sun Valley</td>
</tr>
<tr>
<td>School Proximity</td>
<td>1-3 mile</td>
</tr>
<tr>
<td>API</td>
<td>2007</td>
</tr>
<tr>
<td>Graduation Rate</td>
<td>608</td>
</tr>
<tr>
<td>Graduation Rate</td>
<td>74.2</td>
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<table>
<thead>
<tr>
<th>Middle School</th>
<th>Comment</th>
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<tbody>
<tr>
<td>School</td>
<td>Byrd Middle &amp; Magnet</td>
</tr>
<tr>
<td>Name/Address</td>
<td>School</td>
</tr>
<tr>
<td></td>
<td>9171 Telfair Ave, Sun Valley</td>
</tr>
<tr>
<td>School Proximity</td>
<td>.5 mile</td>
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<tr>
<td>API</td>
<td>2007</td>
</tr>
<tr>
<td>Graduation Rate</td>
<td>651</td>
</tr>
<tr>
<td>Graduation Rate</td>
<td>N/A</td>
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</table>

<table>
<thead>
<tr>
<th>Elementary School</th>
<th>Comment</th>
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<tbody>
<tr>
<td>School</td>
<td>Fernangeles Elementary</td>
</tr>
<tr>
<td>Name/Address</td>
<td>School</td>
</tr>
<tr>
<td></td>
<td>12001 Art Street, Sun Valley</td>
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<tr>
<td>School Proximity</td>
<td>.44 mile</td>
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<tr>
<td>API</td>
<td>2007</td>
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<tr>
<td>Graduation Rate</td>
<td>690</td>
</tr>
<tr>
<td>Graduation Rate</td>
<td>N/A</td>
</tr>
</tbody>
</table>

| Grocery          | 1.3 mile |
| Banking          | .89 mile |
| Child Care       | 1.7 mile |
| Ralphs Grocery; 9635 Laurel Canyon Blvd. |
| Bank of America; 8409 Laurel Canyon Blvd. |
| Kids First Learning Center; 7817 Lankershim Blvd. |

<p>| Average Household Income | $54,928 |
| Owner Occupied Housing   | 63% |</p>
<table>
<thead>
<tr>
<th>Topic</th>
<th>2008 Policy</th>
<th>Proposed Policy Revision</th>
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<tbody>
<tr>
<td>Purpose</td>
<td>Utilizes &quot;Core Strategies&quot; from prior Agency Strategic Plan</td>
<td>Updates to utilize Strategies adopted in Build HOPE</td>
</tr>
<tr>
<td>Acquisition Goal</td>
<td>1,000 units per year</td>
<td><strong>Removed.</strong> (considered in Program Design Targets)</td>
</tr>
<tr>
<td>Objectives</td>
<td>Broad objectives including reducing classroom turnover and ones regarding corporate culture</td>
<td>Distilled objectives to those directly related to the program</td>
</tr>
<tr>
<td>Project Selection Criteria</td>
<td>Includes Location, Price, Project Size, Neighborhood Condition, Property qualities</td>
<td><strong>Removed.</strong> (Considered in Program Design).</td>
</tr>
<tr>
<td>Property Selection Criteria</td>
<td></td>
<td><strong>New</strong> Section. Provides direction on priorities for acquisition.</td>
</tr>
<tr>
<td>Project Underwriting Criteria</td>
<td>Includes a mix of requirements for underwriting property value with detailed DSCR and operating assumptions as well as dictates for due diligence.</td>
<td><strong>Removed.</strong> (consider in Acquisition Procedures)</td>
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<tr>
<td>Property Acquisition Procedures</td>
<td></td>
<td><strong>Removed.</strong> (considered in department's Acquisition Procedures)</td>
</tr>
<tr>
<td>Board Report Documentation Package</td>
<td>Includes specific “form of” documents that will be presented to the BOC as part of the presentation for any acquisition.</td>
<td><strong>Removed.</strong></td>
</tr>
<tr>
<td>Program Outcomes &amp; Metrics</td>
<td>Includes metrics on # of units, ROE, NOI, affordability levels served, and individual and community outcomes.</td>
<td><strong>Removed.</strong> (Considered in Program Design and will fluctuate depending on activation level of Acquisition Program &amp; tools to track metric.)</td>
</tr>
<tr>
<td>Ownership</td>
<td></td>
<td><strong>New.</strong> Addresses how HACLA will take possession and manage properties.</td>
</tr>
<tr>
<td>Existing Tenants</td>
<td></td>
<td><strong>New.</strong> Addresses rights of existing tenants and how their tenancy will be maintained or relocation provided.</td>
</tr>
<tr>
<td>Funding</td>
<td></td>
<td><strong>New.</strong> Addresses how funds will be used for acquisition and what sources might be considered.</td>
</tr>
<tr>
<td>Disposition</td>
<td></td>
<td><strong>New.</strong> Addresses how properties will be disposed of through sale or lease.</td>
</tr>
</tbody>
</table>