

CITY OF OAKLAND
AGENDA REPORT

TO: Office of the City Manager
ATTN: Robert C. Bobb
FROM: Community and Economic Development Agency
DATE: May 13, 2003

RE: **INFORMATIONAL REPORT ON PRESERVATION OF SINGLE ROOM
OCCUPANCY HOTELS**

SUMMARY

This report responds to a request from the City Council for information regarding single-room occupancy (SRO) residential hotels and existing and potential City policies to preserve and improve the existing supply of such housing for extremely low income households. Preservation of SRO housing was recommended by both the Housing Development Task Force in 2000 and the Homeless Task Force in 2001. Three major issues are discussed – financing issues that arise in connection with acquisition, rehabilitation and operation of SRO housing; current regulations that apply to conversion of SRO housing to other uses; and, management problems in existing hotels.

FISCAL IMPACT

This is an informational report. There are no fiscal impacts.

BACKGROUND

Residential hotels have been a focus of City policy for nearly 20 years. In 1985, the City Council appointed a Residential Hotel Task Force to study issues regarding displacement of residents and conversions of SRO housing to other uses. As a result of that work, the City adopted regulatory controls on conversions, provided for a minimal level of relocation assistance when units are demolished or converted, and appropriated funds for the rehabilitation of existing SRO housing.

During the mid-1980s, the City and the Redevelopment Agency provided local funds and leveraged Federal funds to assist nonprofit organizations to acquire and rehabilitate three residential hotels – the Oaks Hotel, the Madrone Hotel and the California Hotel. Work on all three hotels was completed by the end of 1990 and the hotels have been operated as housing for very low income persons, with supportive services, since that time.

The 1989 Loma Prieta Earthquake damaged a number of SRO buildings in the downtown area. Using a combination of funds from the Federal Emergency Management Agency (FEMA), the Redevelopment Agency, and other Federal, State and private programs, nonprofit developers successfully acquired and rehabilitated a number of downtown hotels, including the Hotel Woodrow (now the C.L. Dellums Apartments), the San Pablo Hotel, the Hamilton Hotel and the

Aztec Hotel. The Hotel Harrison, which was damaged by fire in the early 1990s, was also rehabilitated using similar financing tools.

Increased private development activity in the downtown area in recent years has given rise to new concerns about the potential for privately-owned residential hotels to be removed from the supply and replaced with other uses. In July 2000, the Housing Development Task Force recommended that the City take steps to prevent the loss of SRO housing units and to improve the existing stock. Similar recommendations were made by the Homeless Task Force in February 2002.

KEY ISSUES AND IMPACTS

SRO Housing and the Downtown Area

Like most cities in the region, Oakland continues to have a substantial unmet need for affordable housing units, particularly for very low income households (those making less than \$30,000 to \$40,000 per year). According to the 2000 Census, between 20,000 and 30,000 renters with incomes less than \$35,000 are paying more than 30 percent of their income for housing. More than 20 percent of all renters are living in overcrowded conditions.

Historically, single room occupancy hotels have provided an important source of housing for low wage workers (and sometimes middle class workers as well) in the downtown areas of major cities. For single persons without children, residential hotels provided inexpensive housing conveniently located to downtown employment and to central nodes for public transportation.

In Oakland, residential hotels were found throughout the downtown, and were of particular importance for merchant seamen and railroad workers, as well as more permanent downtown workers. Prior to the development of the City Center redevelopment project, there was a large concentration of such housing in the core of the downtown. An estimated 300 units were demolished as a result of that redevelopment project.

Today, residential hotels provide "housing of last resort" for many extremely low income households, particularly minimum wage workers and those living on fixed incomes from Disability, Social Security and other forms of public assistance. These facilities are more accessible to low income households partly because of their relatively lower rents, but also because they usually do not require large deposits in order to move in, as is the case with conventional rental apartments. They are also attractive because of their central location, which puts them close to social services, and public transportation.

In recent years, while there have been no large scale removals of SRO housing, there has been a gradual loss of units. A few hotels have been closed due to extensive code problems or fire damage, or are contemplating conversion to a commercial full-service hotel. At least one hotel

would be closed as part of the proposed Uptown Housing Project (the “Forest City Development”).

The concentration of SROs (and other low income housing) in the downtown has given rise to concerns about a possible overconcentration of low income people in the area and the extent to which this serves as a disincentive for new investment in housing and retail activities. Data from the 2000 Census shows that median household income ranges between \$10,000 and \$20,000 in the four core downtown tracts, and between \$20,000 and \$30,000 in the entire downtown area. The median household income for the City as a whole is \$40,000.

The high proportion of low income people in the downtown is not due solely to SROs, which contain less than 20 percent of the total downtown population. There are also a number of public and assisted housing developments in the area, consisting mainly of housing for seniors and the disabled, with a few projects serving low income families. Location of such housing in the downtown is not unusual, as it provides ready access to transportation and services needed by these populations.

Characteristics of Hotels

Most SROs are located in the downtown area (between 7th Street and 27th Street, from Highway 980 to Lake Merritt) and along the San Pablo Avenue corridor as far as the Emeryville border. At present, there are approximately 2,000 units in two dozen hotels in and near the downtown area.

As a result of the efforts of the City and the Redevelopment Agency, working in concert with nonprofit housing providers, over 600 units of SRO housing in the downtown area have been acquired and rehabilitated since 1985 and are currently provided at low rents for extremely low income households, often with supportive services on site.

The remaining hotels are operated by for-profit owners. Many of these facilities are in need of substantial improvements, and have suffered from deferred maintenance because of an inability to finance necessary upgrades and rehabilitation. In some cases, housing conditions are substandard and property management is less than optimal. Other for-profit hotels are in much better condition, and some command substantial rents comparable to those for conventional apartments.

The Code Compliance Unit in CEDA reports that while it continues to find code violations in a number of hotels, as a result of new laws adopted in 1998 and increased inspections, including annual comprehensive inspections, conditions in many of the hotels have improved in recent years.

While many hotels offer rooms by the day, the week or the month, it appears that monthly rentals account for most of their business. As noted below, most hotel residents have rented their rooms

for more than 30 days, with a substantial number (possible a majority) occupying their units for over a year.

According to the Police Department, a number of SROs have been plagued with problems such as drug use and sale, drug-related crimes such as theft and assault, and prostitution. These problems have occurred at both nonprofit and for-profit hotels. Typically, the problems are due to only a small number of tenants, rather than being widespread among the entire tenant population. Since a number of residents of SROs are themselves recovering from alcohol and chemical dependency, the presence of these activities in the hotels threatens their own recovery. These issues therefore pose problems not only for the surrounding area, but for the residents of the hotels themselves. The police are attempting to enlist the cooperation of hotel managers, with mixed success. In some hotels, management staff may have concerns about possible retaliation if they are identified as cooperating with police.

The problems associated with some of the hotels appear to be related both to the population that is served and to specific management practices. Hotel managers may need assistance and training in tenant screening and management, including specific training on how to deal early and effectively with drug activity and prostitution. Many owners have also indicated that they would benefit from listings of available social services to which they could refer residents or call upon for emergency assistance.

Characteristics of Residents

Contrary to popular perception, most residential hotel residents are not transients. A recent survey of downtown hotels found that, among those hotels that responded, 35 to 75 percent of the tenants had lived in the hotel for more than one year and many had lived there for more than five years.

The SRO population is quite diverse in age, race/ethnicity, and economic situation. While many residents have some kind of physical or mental disability and some have substance abuse problems, a substantial number do not. More than one-third of the hotels surveyed reported that over half their residents are employed rather than living on public assistance.

This gives rise to a range of service needs. Low wage workers may need little or no supportive services, while people with mental disabilities and substance abuse issues often require extensive services. Seniors may require assistance with daily activities and transportation to shopping and medical appointments. A high concentration of people with a need for supportive services adds to the difficulty of managing an SRO. In addition, the cost of providing such services poses particular problems. Recently-enacted State programs for supportive housing may provide additional funding to assist in this area. Staff will continue to work with service providers to expand the level and range of services available in SROs.

Acquisition and Rehabilitation of SROs

For many years, the City has focused on efforts to assist nonprofit housing organizations to acquire, rehabilitate and operate SRO housing. Over 600 units have been assisted in this manner, using a combination of funds from the City and the Redevelopment Agency to leverage funding from Federal, State and private sources. Section 8 rental assistance subsidies have been particularly important.

In order to be affordable to extremely low income households, SRO housing must rent at very low levels. At the same time, operating costs can be quite high because of the need to provide desk clerks, housekeeping and other services not typically found in conventional rental apartments. A household earning \$12,000 per year can afford to pay no more than \$300 per month for rent, and many SRO residents earn far less than this. As a result, even when it is possible to fully subsidize the capital costs (purchase price and rehabilitation work), rents are often insufficient to cover operating costs.

City staff have consulted with nonprofit housing organizations to enlist their support in acquiring and rehabilitating additional hotels. To date, however, the nonprofit community has been reluctant to acquire these properties without a guaranteed stream of rental subsidies to ensure that operating costs are fully covered. Following the Loma Prieta Earthquake, HUD made available project-based rental subsidies that were committed to specific buildings, as opposed to tenant-based vouchers that move with the tenants. However, these subsidies are no longer offered directly by HUD for new projects. Recent changes in regulations have expanded the ability of local public housing authorities to commit some of their vouchers to specific projects, but current regulations allow for only 25 percent of the units in a building to be subsidized, and only in census tracts where the poverty rate is less than 20 percent. These restrictions severely limit the ability of the Oakland Housing Authority (OHA) to use project-based assistance for downtown SROs, although City staff and OHA staff are continuing to explore and pursue this possibility.

Until Section 8 subsidies are guaranteed, nonprofit developers are not likely to agree to take on any additional SRO properties. As a result, efforts to preserve and improve the existing supply are hampered by these financing difficulties. Even in existing assisted hotels, lack of adequate income to fully fund reserves may result in deferred maintenance or a delay in needed replacement of carpets, furnishings, etc.

Private owners of existing hotels are generally unwilling to participate in publicly-assisted housing rehabilitation programs because there are statutory requirements that such assistance include conditions that restrict rents and tenant incomes, in some instances for as long as 55 years. Most private owners are unwilling to accept these restrictions. Even if private financing was available for this purpose, without some kind of project-based rental subsidies, the cost of servicing that debt would make the rents too high for the SRO population.

Regulatory Restrictions on Conversion or Demolition of SROs and Other Housing

In the early 1980s, in response to concerns that apartments in mixed-use buildings were being converted to office space (and reducing the City's housing supply), the City amended the Planning Code to require a conditional use permit in order to convert a housing unit to non-residential use.

In 1985, in response to the recommendations of the Residential Hotel Task Force (which included both affordable housing advocates and residential hotel owners), these provisions were amended to include the conversion or demolition of single-room occupancy units.

As a result, in order to permit the demolition or conversion of residential units, Section 17.102.230 of the City's Planning Code now requires a conditional use permit for "the demolition of a facility containing, or intended to contain, rooming units or the conversion of a living unit" to non-residential uses. The City Planning Commission must make a finding that at least one of the following four conditions has been met:

1. That the facility proposed for demolition or the living unit proposed for conversion is unoccupied and is, or is situated in, a residential building that has been found, determined, and declared to be substandard or unsafe pursuant to Section 15.08.350B of the Oakland Housing Code;
2. That a replacement rental unit, comparable in affordability and type to each unit proposed for demolition or conversion, will be added to the city's housing supply prior to the proposed demolition or conversion taking place;
3. That the benefits to the city resulting from the proposed demolition or conversion will outweigh the loss of a unit from the city's housing supply;
4. That the conversion will be an integral part of a rehabilitation project involving both residential and nonresidential activities, and that the rehabilitation project would not be economically feasible unless some nonresidential activity were permitted within it.

The ordinance also requires the City Planning Commission to make a finding that owners have provided displaced tenants with advance notice and modest relocation allowances before demolition or conversion takes place:

1. If a dwelling unit is to be converted, the tenant has been given a one hundred twenty (120) day written notice of the conversion. If a rooming unit is to be demolished or converted, the tenant, if a permanent tenant, has been given a seventy-five (75) day written notice of the demolition or conversion. All such written notices shall comply with the legal requirements for service by mail.
2. If a dwelling unit is to be converted, the tenant has been provided with a relocation allowance equal to one month's rent or five hundred dollars (\$500.00), whichever is greater. If a rooming unit is to be demolished or converted, the owner of the building containing the unit to be demolished or converted has referred the tenant (if a permanent

Item: _____

tenant) to a comparable, available unit; if a comparable unit is not available, the permanent tenant has been provided with a relocation allowance equal to one month's rent or five hundred dollars (\$500.00), whichever is greater.

("Dwelling units" are units that include private kitchens – generally this refers to conventional rental units. "Rooming units" are units that do not include individual kitchens, as is typical for most SRO units. "Living units" refers to both dwelling units and rooming units.)

The current ordinance does not apply to conversion of SROs to commercial (tourist and business) hotels. Its demolition provisions apply only to SRO housing. In addition, the City's ordinance does not prohibit hotels from going out of business. A bill currently pending in the State Legislature would declare that SRO housing may not rely on the protections of the Ellis Act to go out of business. It is not clear whether this bill has sufficient support to be enacted into law.

State Law Requirements for Replacement Housing in Redevelopment Areas

California's Health and Safety Code requires that any units in a redevelopment area that are occupied by very-low, low or moderate income households, and that are demolished or otherwise removed from the housing supply, be replaced on a one-for-one basis with units comparable in size (number of bedrooms) and at rents affordable to the same general income level. However, State law contains only three income categories: Moderate income (between 80 and 120 percent of area median income), low income (between 50 and 80 percent of median income), and very low income (less than 50 percent of median income). Units that are affordable to very low income households (1 person household with income less than \$26,100) must be replaced by units affordable to very low income households.

Many SROs are affordable at levels as low as 20 to 25 percent of median income. Units that rent for twice this amount would still be considered affordable to very low income households, and therefore might qualify as comparable even though the people displaced from an SRO could not afford to live in the replacement units. In addition, SRO units could be replaced with studio apartments because both SRO units and studios could be considered 0-bedroom units. In the absence of a clear local policy, demolition or conversion of SROs inside redevelopment areas could result in the loss of scarce housing resources affordable to homeless and near-homeless persons even though replacement units are ostensibly being provided. This is true even though the residents of the building being demolished or converted would be provided with relocation assistance. This issue is particularly relevant to the proposed Forest City development, which would result in the demolition of the 34-unit Westerner Hotel and the displacement of 20 tenants.

Item: _____

POLICY DISCUSSION

SRO Rehabilitation

Acquisition and rehabilitation of existing hotels is generally not economically feasible without ongoing rental subsidies. Until project-based Section 8 assistance can be assured, it is unlikely that developers will want to take on these kinds of projects.

Staff proposes to continue working closely with the Oakland Housing Authority to seek the necessary waivers to make it easier to provide project-based Section 8 assistance to residential hotels. Acquisition and rehabilitation of SRO housing continues to be an eligible activity for funding through the City's annual housing development funding process.

Staff will also continue to work to secure other sources of financing for supportive services and for operating subsidies for those projects that provide housing and services for persons with special needs.

Replacement Units in Redevelopment Areas

The requirements of State law may not be sufficient to ensure that replacement units are actually affordable to people displaced from SROs that are demolished or converted in redevelopment areas. The adoption of a local policy that clarifies the meaning of "comparable" to ensure that replacement units are in fact affordable to the displaced residents would rectify this situation. Such an effort would require increased subsidies for replacement units unless staff is successful in securing significant outside resources. It should be noted that SRO housing may not be as competitive as larger family units when seeking State financing, unless the project is specifically structured as supportive housing.

Management and Maintenance of Existing SROs

There are a number of management and maintenance issues associated with many of the existing hotels. Staff proposes to bring together code enforcement staff, police, hotel managers and property owners to develop more effective management in order to reduce the level of criminal activity and improve housing conditions in these buildings. Staff in CEDA's Housing and Community Development Division will also work with providers of supportive services to ensure that owners and managers are better informed about existing resources and opportunities to secure funding for higher levels of service where needed.

Preservation of SRO Housing

The discussion above raises serious policy questions about preservation of SRO housing. Among proponents of market rate development in the downtown area, there is some concern that

too high a concentration of SRO housing could serve to discourage private investment. It has been suggested that SRO housing might better be located outside the downtown where it could be dispersed more widely.

There is little direct evidence that SRO housing is an impediment to downtown development. Several market rate projects have been developed in close proximity to existing SRO housing, and the pace of development appears to be more dependent on general market conditions than on the specific presence or absence of residential hotels in the neighborhood. Concerns about SRO housing are often based on the idea that the hotels are the cause of a severe concentration of very low income people in the downtown, yet the hotels account for less than 20 percent of the total downtown population, a figure that is continuing to fall as new market rate projects are developed.

It is unlikely that removal of the SRO housing stock would result in a significant reduction in the number of extremely low income people in the area, nor would it necessarily result in fewer people with mental disabilities or with characteristics and behaviors that are seen by some as a barrier to attracting more affluent residents to the downtown. Loss of these units could in fact result in a greater number of homeless people on the street in the downtown area and make it more difficult to provide those people with appropriate social services.

Given the financing constraints noted above, development of new SRO housing in other areas of the City is not financially feasible. Because new residential development also requires off street parking, new SRO housing would require more land resources than existing SROs, despite the fact that most SRO residents do not own cars. Locating such housing far from the downtown could also make it more difficult for the residents to obtain needed social services and would put them further away from access to central public transportation .

At the same time, few mechanisms are in place to make preservation of the existing stock feasible for either private owners or nonprofit developers. Private owners are unable to secure conventional financing for repairs and upgrades, and are unlikely to want to participate in publicly financed programs that require long term restrictions on rents and occupancy. Nonprofit developers are unwilling to acquire and rehabilitate existing hotels until a stable source of operating subsidies (such as project-based Section 8) can be secured.

The City's regulatory restrictions on conversion and demolition provide some protection, although the requirements are such that it is still possible to secure a Conditional Use Permit without the need to provide replacement units. Regulatory restrictions alone are not sufficient, though, without a way to ensure that there are improvements to both the physical condition and management of the hotels.

SUSTAINABLE OPPORTUNITIES

Economic:

Preservation of affordable housing is more cost effective than replacing existing resources with new projects. Improvement of the condition of these properties may make it easier to attract new investment to the downtown.

Environmental:

To the extent that it eliminates barriers to investment in the downtown, preservation and improvement of residential hotels would help to concentrate development in the urban core in close proximity to services and public transit, promoting a more sustainable pattern of development.

Equity:

Preservation of residential hotels and upgrading of management and maintenance preserves and improves housing opportunities for some of Oakland's most disadvantaged residents.

DISABILITY AND SENIOR CITIZEN ACCESS

Given that many of the residents of SRO housing are seniors and/or persons with disabilities, protection and improvement of the SRO housing stock would have particular benefits for these groups.

RECOMMENDATION(S) AND RATIONALE

As a follow-up to this report, staff will

1. Continue to seek mechanisms for financing the acquisition and rehabilitation of existing SRO housing, including but not limited to seeking expansion of the use of project-based Section 8 assistance.
2. Bring together code enforcement staff, police, hotel managers and property owners to develop more effective management and maintenance of the existing hotels.

ACTION REQUESTED OF THE CITY COUNCIL

It is requested that the City Council approve these recommendations as general policy.

Respectfully submitted,

Robert C. Bobb
City Manager for the
Community and Economic Development
Agency

**APPROVED AND FORWARDED TO
THE COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE**

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