



In order for a property owner to successfully opt-out of a project based Section 8 contract, certain procedural requirements must be satisfied. A Notice of Intent (NOI) must be filed with HUD one year before the termination date that indicates the owner's intent to convert the units to market rate. As well, they have to notify tenants of their intentions one year in advance of termination of the contracts. In the event the owner opts out and has met all noticing requirements, HUD is committed to protecting the tenant. To protect families living in assisted units, HUD will make vouchers available in the event project based assistance ends as a result of a Housing Conversion Action (i.e opt-out). In order to limit displacement as a result of an opt-out, HUD makes "enhanced" vouchers available to residents. Residents may elect to remain in their unit when issued an enhanced voucher, or if they choose to relocate, a standard housing voucher is issued. The owners of Tamarisk Villas would have to file notice in 2004 to terminate their Section 8 rental subsidy contract in 2005.

Upon filing of a NOI, HUD may offer several incentives to property owners to remain in their contracts, including re-financing the property mortgage, and establishing higher rents charged for the project. Pursuant to Section 65863.10 of the Government Code, the property owners must also provide one year advanced notification to each tenant household if the property owner intends to terminate the Section 8 contract. The notice must indicate the anticipated date of conversion and anticipated rent increase. The property owner is also required to serve notice to the County of Riverside.

The owners of Tamarisk Villas have indicated that they do not intend to convert the units to market rent. In the future, they intend to continue to renew their contract with HUD for as many years as possible, until HUD funding resources are depleted. It is unknown, however, whether HUD will be able to continue to offer extensions and other incentives indefinitely to owners with expiring Section 8 contracts. At that point, the owners intend to seek other financial resources in order to continue to offer the units at a rent affordable to Very Low income families. If HUD does not continue to offer contract extensions, or if the owner files a notice to opt-out, the County will need to pursue other options to preserve the affordability of the units. The County should confirm in 2004 whether the owners have filed for an extension with HUD for the 2005 to 2006, or 2005-2010 period depending on terms negotiated with HUD.

Replacement Cost

Maintenance of the at-risk housing units as affordable will depend largely on market conditions and the attractiveness of financial incentives that the County can provide to investors. Theoretically, replacement of units as an option is limited only to those at-risk projects owned by "for profit" investors with no long term use restriction by a public entity (such as HUD or County as expiration of the current use restriction on these projects would actually physically reduce the County's affordable housing inventory. Should affordability controls on this project be lost in the County, the County has the option to construct new units to replenish its housing stock. The cost to replace the 50 units at-risk of converting to market rate during the 2000 - 2005 housing element planning period will vary based on the timing of replacement and the economic conditions in the region. Recent construction cost information of an average of \$125 to \$130 per square foot for multi-family units (source: Building Industry Association [BIA]) was used to gauge the cost of replacing the at-risk units. Using average square footages of 750 square feet for two bedroom units, 850 square feet for three



bedroom units and 1,000 for four bedroom units, Table H-52 shows the cost of replacing the at-risk units through new construction is approximately \$5,187,500. The \$125 per square foot estimate is used for this analysis as land in this area of the County is still rather affordable in comparison to other portions of the County.

Again, it should be noted that HUD funding will likely be available to preserve the units. This fact coupled with the high cost for replacement, makes this an unviable option.

**Table H-52
Replacement Cost by Type of Unit**

Unit Size	Square Feet	Cost Per S.F.	Cost Per Unit	Number of Units ¹	Total Cost ²
Efficiency	N/A	N/A	N/A	N/A	N/A
1 Bedroom	N/A	N/A	N/A	N/A	N/A
2 Bedroom	750	\$125	93750	22	\$2,062,500
3 Bedroom	850	\$125	106250	20	\$2,125,000
4 Bedroom	1000	\$125	125000	8	\$1,000,000
				TOTAL COST	\$5,187,500

Note: Cost estimates do include costs of land

Other Replacement Units

The Riverside County Economic Development Agency currently has a number of projects underway which will add affordable housing units to Riverside County's housing stock. These projects will be added during the 2000-2005 housing element planning period and may be considered to offset the number of units which convert to market rate, although the intent is that they augment the existing affordable resources. The pending project(s) is/are expected to add over 500 affordable units to the County's housing stock.

If the County is unable to preserve the at-risk units, these units may be considered to replace the units losing their affordability restrictions. Otherwise, if no units convert to market rate, the County can expect a larger inventory of affordable units.