AAGLA

"Great Apartments Start Here!"

Janet M. Gagnon
Senior Vice President, Government Affairs & External Relations
janet@aagla.org
213.384.4131; Ext. 309

December 20, 2024
Via Electronic Mail

Hon. Mayor Nikki Perez, and the
Members of the Burbank City Council
City Hall
275 E. Olive Avenue
Burbank, California 91502

Re: Seismic Retrofit Ordinance

Dear Mayor Perez and Members of the Burbank City Council:

The seismic retrofit ordinance as currently drafted will harm long-term, low-income renters and mom-and-pop rental housing providers who typically own older, soft-story properties. This ordinance will impose severe financial burdens on owners of the 640 current, naturally occurring affordable rental properties that will be impacted and will likely lead to their removal from the rental market and their low-income renters to be relocated. Is this what you are attempting to accomplish in the middle of an affordable housing shortage? Does this help Burbank meet its state regional housing needs allocation (RHNA) requirements?

Soft-story buildings were built in the 1970s, which makes these existing properties around 50 years old. These properties were never considered "high end" rentals. As time has gone by, the impacted buildings are now predominately, if not exclusively, naturally occurring affordable housing that is available for low-income renter households. To impose such a significant financial burden on owners and force these older properties off the rental market by this hugely expensive mandate will harm existing renters who have very few alternative housing options.

In addition, this mandate will destroy an asset that many mom-and-pop owners rely on to supplement limited fixed incomes during their retirement years, and especially harm the majority of retirees that had worked non-government jobs without pensions or 401(k) plans. This will come at a time in their lives when they are no longer physically able to work much less successfully compete in an ageist employment climate.

The staff report is very clear that there are no government funds available to cover these huge costs which involve structural engineers, architects, rough carpenters at prevailing wages as well as steel, concrete and drywall that have all recently experienced spikes in prices. According to an article in the Los Angeles Daily News entitled "California Home-Repair Costs Jump 40% in 5 years" dated December 11, 2024, the price for regular household repairs has gone up by 40% over the last five years with an additional 16% over the prior five years for a total of **a whopping 65% increase over the past 10 years**. The cost amounts that the City Council is relying upon from L.A. City to set maximum pass-through amounts are at least 10 years old. Increasing the dollar maximum based solely on inflation rates does not come anywhere close to the true costs to complete such seismic retrofits today.

Further, every other city that has created a similar seismic requirement has first conducted an in-depth cost study. In contrast, Burbank staff has not even obtained three estimates from seismic retrofit companies to determine the actual costs that owners are being expected to magically finance for themselves.

This mandate comes at a horrible time for small owners who are still struggling to financially recover from years of unpaid rent due to countywide and statewide mandates from COVID-19. On top of it, the cost of borrowing funds from financial institutions has doubled in recent years, and many of these financial institutions are unwilling to loan money to these owners because their properties are worth less than existing mortgages or due to earning insufficient income as many of these mom and pop owners are retirees.

An article by research firm CoStar dated December 12, 2024, states "According to private equity firm KKR, more than $250 billion in multifamily loan debt is expected to mature in 2024. Some owners who purchased properties in 2021 and 2022 are facing a deadline to refinance those properties that are now worth less than their purchase price and at significantly higher interest rates. At the same time, a number of traditional banks find themselves overexposed to real estate lending and are subject to new capital requirements, making them unlikely to extend new loans." Multifamily owners with properties that have 5 or more units must obtain commercial loans that typically have a term of only 5 or 10 years. It will be impossible for many of these owners to qualify for another loan to do the seismic retrofit on top of their existing mortgage.

For those few owners who can obtain financing, the proposed pass-through amount will not provide enough income to make the monthly payments under a new loan. While the ordinance claims to provide a 50% pass-through, the cap of $38 per month per unit for a maximum of 120 months equates to only $4,560 on a project that will cost tens of thousands of dollars (if not hundreds of thousands) in up-front dollars. **If one assumes an average cost of a seismic retrofit of $50,000 for a small building, the currently proposed monthly cap would yield a *real* pass-through of less than 10%.** This math simply will not work for most existing owners to be able to fund and complete the required work, and as a result, this new mandate forces them to sell the building for re-development as the only available alternative.

The PACE program is not a viable alternative. The PACE program is unaffordable as its interest rates are even higher than rates offered by conventional lenders because of its structure. Also, it requires that it be named as first in line as a creditor for the property despite only providing funding for the retrofit. This is unworkable as the lender for a property's first mortgage that covers the entire property requires that it be first in line as a creditor. These are the substantial flaws that keep this program from being embraced on a widespread basis.

We urge the City Council to obtain cost estimates from seismic retrofit companies before taking a second vote on this ordinance to realize the severe financial impact it will have on owners of these older buildings. Alternatively, we ask that the monthly dollar cap be removed entirely and allow owners to show the actual costs of the retrofit to collect the full 50% of costs over 120 months.

We realize safety is important, but it is not free or cheap. Passing this mandate that will drive affordable housing owners out of business and their properties into demolition is not the right approach during an affordable housing shortage. We are asking you to put real people first that are trying to stay in affordable rentals today over fears about future, unpredictable, remote potential threats that may never happen in our lifetimes, have never happened in Burbank to date, and occurred once in a non-adjoining city 30 years.

Thank you for your consideration. Please feel free to reach out to me directly by telephone at (213) 384-4131; Ext. 309 or via electronic mail at janet@aagla.org.

Sincerely,

Janet M. Gagnon

Janet M. Gagnon, Esq.

CC: Daniel Yukelson, Executive Director, Apartment Association of Greater Los Angeles