Minutes
COMMITTEE ON FACULTY WELFARE
Meeting of February 20, 2020

Present: Yihsu Chen, Gabriel Elkaim, Tesla Jeltema, Thorne Lay, Grant McGuire (Chair), Nico Orlandi, Su-hua Wang, Judith Aissen (ex officio), Jaden Silva-Espinoza (ASO)

Consultation – Employee Housing

CFW consulted with Director of Capital Planning and Employee Housing Steve Houser and Faculty and Staff Housing Manager Jennifer Talusan on campus employee housing.

After introductions, Director Houser notes that the employee housing needs survey is currently happening. Although members noted that the survey will not capture the needs of those who are not on campus yet, Director Houser estimated that the responses from current employees would say that respondents cannot afford the market and want something large and cheap, adding that on of the hardest things to deal with in regards to employee housing, is desire among potential buyers vs their economic and financial realities. He added that there is usually a large chasm between what potential buyers want to buy and what they can buy, and questioned whether this would come up in the survey results. Chair McGuire noted that there may also be a difference between what people want and what they would be willing to take. In moving forward with building Ranch View Terrace Phase II (RVT2), Chair McGuire suggested that due to the serious housing shortage, it is a good idea to rethink the original plans, and emphasized that the real question is "What are people willing to take".

Chair McGuire inquired as to whether employees at the top of the housing wait list end up taking whatever they can afford. Director Houser noted that in terms of Senate faculty, most Assistant Professors are willing to take any unit, even smaller ones. Six to seven years later, they have kids, etc. are looking for something bigger. He added that the goal of the employee housing program, which began in 1986 was to provide for sale housing, which would allow owners to earn equity and then transition to the local market. However, the market started going up, preventing this transition, and turnover is slow.

When asked how turnover could be increased, Director Houser reported that the campus has explored ways to increase turnover. The creation of Ranch View Terrace homes was the first committee intended to be long term and the design was created for people in the existing inventory to move up from smaller units to bigger homes in 2007, and open up the smaller units for new purchasers. Noting that there was a lot of strategy involved in planning such a transition with a moving target of construction, time for sale of existing units, potential escrow issues, etc., the Housing Office designed a program where the campus would buy units to expedite the sale and the purchase of a new unit. The program, dubbed the Employee Housing Re-Pricing Program, was aimed to assist the sellers transition and eliminate a resale contingency. Director Houser noted that the program works well for those who want to sell, but did not solve the problem of encouraging people to sell.

Director Houser shared that in the past (07-09), there has been financing loans and supplemental home loans up to $75k offered to encourage people to leave existing inventory and use the money towards a second loan on a purchase after a Mortgage Origination Program (MOP) loan. The second loan terms at the time were favorable with a low interest rate, and the purchaser could choose an interest only loan. Today, with regulations on mortgages, this financing vehicle is very restricted, even though the interest rate is good, and the amortization period is much more limited, which is not helpful for those needing to stretch their income to cover the loans. Director Houser shared that the Office of the President (OP) has offered four new loan programs for second loans, but they all require capital at the campus to fund them. Housing Manager Talusan added that these options put the onus on the campus. If someone defaults on the loan, the campus has to flip the bill.

CFW members again emphasized the dire need to increase turnover and encourage current campus residents to move off campus, and questioned how to motivate people to do so. Suggests were made to partner with the community, create a website for faculty and staff who are interested in the outside market to make it easier and reduce the amount of work and research that they would have to do so, provide a concierge, or perhaps subsidize a program for access to a real estate agent. Manger Talusan agreed that having something like a program with a real estate agent may make things easier, but suggested that it is unknown how it would be created and run. Director Houser suggested that the Housing Office could do an informational session, but suggested that the reason that there is a joke that campus housing will become a retirement community one day is because people are comfortable and don't want to leave a quality of life that may be defined by this community. He also suggested that the campus would not want to steer interested parties to a particular real estate agent, but could provide resources to let people know when there is a good time to move in the market, which may motivate those who are considering leaving.

When asked if the Housing Office tracks the ages of owners and/or the percentage of those who are retired or within 5-10 years of retirement, Director Houser suggested that it was hard to predict when people will retire. However, when people are employed, their ground rent and fees are on auto pay. If they are not on auto pay, they are usually retired. He noted that he could run the numbers, however Manager Talusan suggested that the number of retirees is roughly 15-10 of 177 units. Director Houser noted that Cardiff and Hagar are the oldest communities with an average age of 57-60 years of age.

A CFW member suggested that creating Ranch View Terrace was a misstep and removed the incentive for those whose salary had gone up and wanted bigger units to purchase off campus. The member noted that if the plans for RVT2 are not changed, it will create more of the same, and instead recommended that the new development address the economic pressure that many junior faculty are facing and perhaps include 5 year termed rentals. Director Houser stated that this was not the first time that he has heard of the suggestion to include rentals, and shared that other campuses no longer offer for sale units, citing that UCLA is all rental units. However, Director Houser noted that it is a challenge to produce housing that assumes to solve all issues, and re-emphasized that a big barrier is the financing loan program.

In terms of rentals, members noted that it might be difficult for junior faculty to find housing in the market after renting on campus for several years. Members noted that such rentals would have to be cheap enough so that faculty could save to purchase a home. Manager Talusan suggested that the campus rentals that exist at Laureate Court with a 3 year rental limit are affordable, but suggested that tenants acclimate. Perhaps a partner stops working, and/or money that could be saved is used for other expenses, and ultimately, after a few years, they don't have enough money to go into the open market. A suggestion was made that the campus could charge tenants market level rent and rebate the difference between market and subsidized rent when they leave so that they have money saved. Chair McGuire noted that although campus rentals are below market, the monthly cost is still high.

Director Houser pointed out that rents go up equally with salary, but if faculty bought housing with an MOP and a fixed loan, payments are fixed while salary goes up, and if the purchase is off campus, the home value is increasing with the market. He added that a significant change is that in the past, purchasers could buy a smaller unit and write off interest with homeowner deductions, so the monthly cost of owning a home was less than the cost of campus rentals. This was a benefit of buying at entry level that is no longer there now that you are not writing off mortgage interest, but doing standard deductions.

Director Houser suggested that it is hard to sell all units when building in mass. He shared that with RVT Phase I (RVT1), 45 units were built and only 29 were sold when the market turned soft. He added that for this reason, renting campus housing would be more cost effective for the overall program with no appraisals, loan docs, etc., and could generate more money. However, Director Houser noted that it would be hard to administer rental end dates. However, Chair McGuire suggested that for sale units that are not selling could be temporarily rented out knowing that they will eventually sell. Members added that a new housing development could possibly have half of the units for sale and half with 5 year rentals, which could then be reassessed and converted as needed. Director Houser liked this idea, but noted that such a configuration may only work for staff. He shared that there were issues with Laureate Court, which has 64 units and 13 were originally sold to buy down the debt so that the rental program could stay afloat. Shortly after, Fannie Mae loan regulator decided that it didn't want loans being sold on units in primary rental areas. Director Houser shared that the rule of thumb is that there must be 80% owner occupancy in order to get a good loan. The MOP loan doesn't have a preference, but is only available to faculty. So if faculty want to buy, that will work but if the goal is to build for staff as well, staff won't be able to get loans. When asked whether the campus could potentially buy back the sold units at Laureate Court and turn them back into rentals, Director Houser noted that the campus could buy them, as there is more demand for rentals, but would need to do so at the right time in the market.

Chair McGuire noted that the market will continue to ebb and flow, but suggested that the campus should not panic and know that it will pass. Director Houser shared that it takes roughly 10 years to decide if a housing decision was a good one.

Director Houser reported that there is no seed capital to help cover costs of the next housing development. He noted that the Re-Pricing Program was supposed to generate this capital by raising the price when units sold and the “profit” would be used for seed capital. However, Director Houser reported that in 12 years, there has been resistance to this notion as no one wants to pay more to subsidize the program, so the attempt to build seed capital was not optimal and has not generated enough to have an impact. Further, Director Houser noted that the RVT1 development had a $30 million budget with $26 coming from sales, and $4 to be paid off with Phase II. Houser added that many things happened and the $4 million in Phase II grew to $10 million including interest, and there is no mechanism to pay down the deficit. If the number of units built at RVT2 were increased, it would help to pay off the deficit, but the land is limited to a set number of units, and further environmental studies may raise more issues.

Chair McGuire shared that CFW had been informed that the administration would cover this deficit and that there should not be an issue with moving forward on RVT2. Director Houser noted that this would definitely make building Phase II easier as the costs would just be infrastructure and construction. Chair McGuire shared that during a campus Employee Housing Committee last April, his impression from VCBAS Latham was that the current infrastructure could support more units if density on the site was increased. The main concern was water run off as regulations have changed since the original plans were created.

Director Houser brought the conversation back to rentals, stating an interest in creating more rentals in the housing program. Manager Talusan reported challenges with the current rental wait list on which faculty have priority over staff, and reported that this summer, there are 12 faculty looking for housing, and there are not that many rentals available. Although they have a good track record of getting faculty in, Manager Talusan noted that it is difficult to assist those who need housing right away. She added that there is a three-year rental limit at Laureate Court, and all recent move outs have been at the 3 year maximum. Director Houser added that tenants staying until the 3 year limit is a change. There are 13 units that are income restricted and faculty don’t qualify, so they are rented to staff only, which leaves 38 units available for faculty to rent. These units cannot be assigned to new tenants until after the three year end date or when a tenant leaves, and tenants are not giving notice until the end of the term limit.

Members noted that for campus housing, accessibility and availability are important, but any kind of assistance would be helpful. When asked if the Housing Office could provide assistance in finding housing, Manager Talusan noted that the Housing Office is focused on on-campus employee housing, but the Community Rentals unit will work with off-campus listings.

Director Houser suggested that the biggest barrier for Assistant Professors in purchasing a home is the down payment. For two income households, most can afford the mortgage, but the cash down payment is a problem. He added that the campus is putting considerable resources into recruitment allowances. Apparently deans like the ability to offer recruitment allowances as this works better than telling recruits about financing options, however, Houser stated that it is problematic in that sometimes the cash isn't used for housing and there is no control over how it is spent. Manager Talusan noted that to her knowledge, no one is tracking the use of recruitment allowances. Chair McGuire suggested that another problem with recruitment allowances is that not all faculty get them, and members argued that new applicants may not know about it. Chair McGuire noted that this trend might be changing as CFW recently raised concerns with the administration.

Members recognized that the MOP loan is no longer restricted to the 1st year of employment. Director Houser shared that some other ideas have been floated to assist faculty in purchasing a home, such as sharing appreciations in mortgages with private equity. In these cases, a partner comes in to invest with a purchaser. When the home is sold, the equity partner gets 50% appreciation. However, Houser noted that if owners want to remodel, there is no way to account for the effect on the appreciation and the faculty member has to pay for the renovations. Director Houser notes that although such partnerships have been tried at other campuses, and firms that are serving teachers and firefighters, there are legitimate problems and challenges that may arise that should be addressed, such as creating a process to pay off the equity partner.

In closing, members shared appreciation for Director Houser and Manager Talusan's work on housing. Chair McGuire noted that the campus may not know if there will be future market downturns or no full inventory occupancy, but shared that CFW is willing to assist in any way that the committee can to ensure that pressure is not placed on the Housing Office to make the books balance with regards to the deficit and the building of RVT2 and future housing developments.

Consultation Debrief

Members debriefed from the consultation. Chair McGuire noted that every housing option has problems, but since new faculty cannot afford to live here, the primary goals and foci of future campus housing should be affordable housing (rental or purchase), more density, and the ability to increase turnover. Chair McGuire suggested that smaller units could encourage turnover and allow faculty to save for a down payment only if they are affordable.

Members noted that the current 3 year rental limit doesn't work for new Assistant faculty as they will not reach tenure by that time and have a significant increase in salary. A suggestion was made that a 5 year rental limit might be more sensibly linked to academic career projection. Members additionally noted that rentals in Laureate Court are only available to employees who have been on campus less than 2 years, and questioned whether this should continue. Some members suggested that if there were more rentals, this limit could be lifted, but perhaps priority could be given to new hires.

Members noted that the housing crisis is also affecting staff and noted that faculty are losing staff support due to the high cost of living in the area, which is a faculty welfare issue. Members noted that staff continuity is critical and a suggestion was made for CFW to keep an eye on staff housing issues as well as faculty issues. Chair McGuire shared that the Senate Executive Committee (SEC) is aware of the staff component and has noted that the Campus Welfare group with strong staff representation should reconvene, and aims to address how hard it is to get staff members more pay. CFW would also like to know how many faculty and how many staff are on the housing wait lists.

In terms of a post consultation memo, CFW would like to emphasize the need for increasing turnover and incentives to encourage turnover. CFW would also like to encourage the campus to build more employee housing, make RVT2 more dense and possibly all rental units, buy back Laureate Court owned units to increase rental stock, and encourage the Housing Office to look into offering informational sessions on loan options.

The committee would also like to follow up with the $10mil deficit from RVT1 and the administrations promise to cover or partially cover it so as not to burden the building of RVT2 and/or future employee housing projects.