

REPORT

DATE ISSUED: March 16, 2007 REPORT NO: HCR 07-28

ATTENTION: Chair and Members of the Housing Commission
For the Agenda of March 23, 2007

SUBJECT: Amendment of Affordability Restrictions for Very Low Income Non-Special
Purpose Housing Projects

REQUESTED ACTION:

Allow amendments to affordability restrictions on properties with very low Area Median Income (AMI) affordability restrictions to support ongoing viability of the projects.

STAFF RECOMMENDATION:

Raise affordability levels to a maximum of 50% AMI on the rental housing properties listed in the Attachment 1 to this report if the change is deemed to be in the best interest of the Housing Commission.

BACKGROUND:

The Housing Commission loan portfolio includes several small properties that were underwritten with very low rents, some substantially below 50% AMI (\$24,150 for a household of one). The small projects discussed in this report are all owned by nonprofits whose mission is to keep the rents as low as possible to serve their clientele, while having large enough operating budgets for effective property management.

Because smaller properties often cannot take advantage of economies of scale in property management, these very low income rent restrictions have proven to be problematic for property owners who want to operate and maintain their properties in good order but cannot do so with the constrained income provided by the rents. In addition, nonprofit owners often have limited other resources to cross subsidize the management of the projects. A number of these properties are currently showing evidence of deferred maintenance and could use increased cash flow to make capital improvements.

The loans in this segment of the Housing Commission's portfolio were initiated in the mid 1990's and represented the opportunity to invest in nascent, community-based housing development corporations. Smaller properties were seen as a good match with the organizations' desire to develop and operate affordable housing, while taking into consideration their often limited organizational resources. Typically, these loans were for acquisition and rehabilitation of modestly-priced, older properties and the financing sources included conventional bank loans combined with subordinate Housing Commission loans.

If the recommendation is approved, staff will work with each owner/operator to ensure the long-term viability of these properties. Each property will be analyzed to determine the appropriate affordability restrictions and capital needs. In exchange for adjustments to rent restrictions, the term of affordability will be extended for at least five years. Staff will work with each owner/operator to ensure that existing tenants are not displaced due to the new income restrictions. For instance, rent increases could be phased in over time.

This issue of the effect of extremely low income rents on operating budgets was brought to the Housing Commission's attention by Urban housing Corp (UHC), a subsidiary nonprofit of the San Diego Urban League. A restructuring of the financing of UHC's Fairmount Avenue project is being developed for future consideration by the Board. Adjusting the rent restrictions is part of that restructuring.

FISCAL CONSIDERATIONS:

Approval of this recommendation would not result in further expenditure of Housing Commission funds. Increased affordability levels would also increase funds available for property management and the value of each property, providing additional security for Housing Commission loans. Over time, increased rent collections would also lead to larger residual receipts payments to the Housing Commission.

ENVIRONMENTAL REVIEW:

The proposed activity is not a "project" within the meaning of California Environmental Quality Act and no environmental review is required. This activity is exempt from National Environmental Policy Act processing since no additional federal funding would result from this action.

KEY STAKEHOLDERS & PROJECTED IMPACTS:

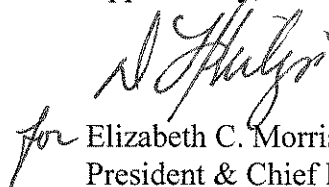
The owner/operators of the properties are listed in Attachment 1. The existing residents of the affected properties as well as adjacent property owners and residents are also stakeholders. While rent restrictions would increase on up to 70 units, increasing the rent limits to a maximum of 50% AMI would help to ensure the continued success and financial viability of these projects for occupancy by very low income tenants into the future.

Respectfully submitted,



Cissy Fisher
Director of Housing Finance and Development

Approved by,



for Elizabeth C. Morris
President & Chief Executive Officer

Attachment: List of Affected Properties

List of Affected Properties

Name	Number of Units	Address	Owner/Operator
Euclid Court	11	4217 Euclid Ave	City Heights CDC
Van Dyke Apartments*	11	3565 Van Dyke Ave	Community HousingWorks
Mountain View Estates	4	3992 Ocean View Blvd	Hope CDC
San Diego Apartments	16	4085 44 th St	City Heights CDC
Fairmount Avenue Apts	15	3526 Fairmount Ave	Urban Housing Corp.
Teralta Court	13	4165-4175 Highland Ave	City Heights CDC
Total	70		

* Current loan restrictions allow for increase to 50% AMI in 2008.