



INFORMATIONAL REPORT

DATE ISSUED: May 1, 2012

REPORT NO: HCR12-059

SUBJECT: Real Estate Finance Plan Update as of March 2012
Addendum # 6 to HCR11-121

COUNCIL DISTRICT: Citywide

This item will be discussed at the San Diego Housing Commission Board meeting on May 11, 2012.

NO ACTION IS REQUIRED ON THE PART OF THE SAN DIEGO HOUSING COMMISSION.

SUMMARY:

This is an addendum to the San Diego Housing Commission (“Housing Commission”) Informational Report “Real Estate Finance Plan Update as of September 2011” (HCR11-121). This report is presented to the Housing Commission as a quarterly update.

Below are the major highlights of the Real Estate Finance Plan (“Finance Plan”) pertaining to the recent acquisitions of publicly owned projects. In addition, debt service performance and vacancy information has been provided on the six Limited Liability Companies (“LLCs”) which were created as part of the Finance Plan.

VACANCY RATES: March 2012

	<u>FHA Pools</u> <u>(3 LLC's)</u>	<u>FANNIE MAE Pools</u> <u>(3 LLC's)</u>
Total Number of Units	688	566
Vacant Units	19	13
Vacancy Rate	2.76%	2.30%

Originally, vacancy rates for the FHA and Fannie Mae pools were forecasted to be at the industry average of 5 percent. Most recently, the San Diego County Apartment Association reported that the average vacancy rate for properties in the City of San Diego was 3.8 percent for the Fall 2011 period. During the month of March 2012, the FHA pools experienced a lower than anticipated and lower than market-average vacancy rate. A lower vacancy rate results in higher rental income and is usually accompanied by lower unit turnover and operating expenses. Net Operating Income (“NOI”) from Housing Commission-owned properties is used to support agency programs and activities.

DEBT SERVICE: March 2012

	<u>Approved</u> <u>Sep 2009</u>	<u>Actual</u> <u>March 2012</u>	<u>Variance</u>
NOI - former public housing units	\$959,293	\$1,116,147	\$156,854
Total Debt Service (estimated)	(578,021)	(527,624)	(50,397)
Net Balance	\$381,272	\$588,523	\$207,251

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The Housing Commission pays less in monthly debt service than the original assumptions in the Finance Plan due to a smaller amount of loan proceeds (\$95,000,000 instead of \$100,000,000) and an overall lower interest rate. The interest portion of the debt service amount is fixed for the term of the Fannie Mae and FHA loans (30 and 35 years, respectively).

PUBLICLY-OWNED ACQUISITIONS

Four properties were solely acquired by the Housing Commission and are identified as publically-owned (172 units at Mariner's Village, 37 units at Courtyard Apartments, 130 units at Hotel Sandford, and 94 units at Hotel Churchill). The information below highlights the operating performance of Mariner's Village and Courtyard Apartments.

OPERATING PERFORMANCE: March 2012

	Mariner's Village Apartments		
	<u>Approved Budget</u>	<u>Actual Budget</u> <u>March 2012</u>	<u>Variance</u>
Operating Income	\$212,882	\$180,871	(\$32,011)
Operating Expenses	(87,867)	(71,767)	16,100
NOI	\$125,015	\$109,104	(\$15,911)
Vacant Units (percentage vacant)	21 (12%)	29 (16.9%)	

Mariner's Village is generating less income than originally underwritten due to the fact that vacancies rose higher than expected during the rehabilitation and relocation phase of the project. During the due diligence period, sixty-six households were identified to be relocated due to over-income ineligibility. To date, sixty-three of those households have been relocated and relocation of the final three is expected to be completed by June 2012. The higher-than-underwritten vacancy is attributed to the property management company, Hyder & Company ("Hyder") having difficulty in achieving an acceptable occupancy rate. The Housing Commission's Portfolio Management Department is working with Hyder to generate stronger leasing results in spite of the ongoing rehab work and relocations. Since Hyder was provided written notification that they must achieve a 95 percent occupancy rate by February 1, 2012, or the Housing Commission may terminate the contract, the number of vacancies at Mariner's Village has continued to decrease month after month.

Hyder & Co. has added staff and increased their marketing efforts to meet the requirements stated on the notification. Although, as of the date of this report, Hyder & Co. has not reached a 95 percent occupancy level, Housing Commission staff recognizes their recent efforts and deems it advantageous to retain Hyder for the management of Mariner's Village. As of April 20, 2012, there were 24 vacant units, nine of which are kept vacant due to ongoing Americans with Disabilities Act ("ADA") rehabilitation. Housing Commission staff will continue to provide oversight of the performance of Hyder throughout the remainder of the contract extension to June 1, 2012. Housing Commission staff is currently evaluating whether to extend Hyder's contract for another year, solicit a new proposal via a Request for Proposal ("RFP") or perform the management in-house.

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	Courtyard Apartments		
	<u>Approved Budget</u>	<u>Actual March 2012</u>	<u>Variance</u>
Operating Income	\$48,722	\$47,261	(\$1,461)
Operating Expenses	(15,325)	(15,899)	(\$574)
NOI	\$33,397	\$31,362	(\$2,035)
Vacant units (percentage vacant)	2 (5%)	2 (5%)	

Courtyard had two move-outs during the month of March. As of April 30, 2012 only one unit remains vacant. When Courtyard was underwritten, it was anticipated that there would be a third-party tenant occupying the commercial ground floor space. Currently, there is no ground floor tenant. Housing Commission staff continues to explore opportunities for leasing the space to a non-profit organization that would be willing to provide its own tenant improvements.

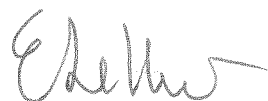
CONCLUSION:

Recent acquisitions are performing according to plan without significant deviations, with the exception of Mariner's Village Apartments, which has not leased up as fast as anticipated, but which is now increasing its occupancy month by month.

To date, the number of affordable housing units the Housing Commission has acquired or committed funds to (including those properties under construction or undergoing rehab) is 832 units in ten projects, with a total investment of approximately \$80,000,000 which exceeds HUD's 2007 mandate of 350 additional affordable housing units.

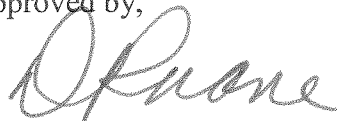
There is approximately \$9,300,000 remaining from the former public housing refinance loans. The Housing Commission is reviewing opportunities to acquire additional affordable housing utilizing the remaining funds. The next acquisition is expected to be presented to the Housing Commission Board for consideration as soon as the next appropriate asset is identified.

Respectfully submitted,



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Hard copies are available for review during business hours in the main lobby of the San Diego Housing Commission offices at 1122 Broadway, San Diego, CA 92101 and at the Office of the San Diego City Clerk, 202 C Street, San Diego, CA 92101. You may also review complete docket materials on the San Diego Housing Commission website at www.sdhc.org.