SAN DIEGO HOUSING COMMISSION

SDHC

INFORMATIONAL REPORT

DATE ISSUED: June 6, 2011 **REPORT NO:** HAR11-009

ATTENTION: Chair and Members of the Housing Authority of the City of San Diego For the Agenda of June 28, 2011

SUBJECT: Real Estate Finance Plan Update as of March 2011

COUNCIL DISTRICT: Citywide

NO ACTION IS REQUIRED ON THE PART OF THE HOUSING AUTHORITY

SUMMARY:

This report of the San Diego Housing Commission's Real Estate Acquisition Finance Plan ("Finance Plan") is presented to the Housing Authority of the City of San Diego ("Housing Authority") as a quarterly update.

BACKGROUND:

In September 2007, the San Diego Housing Commission ("Housing Commission") received HUD approval to transition out of the Public Housing Program and to own and operate those same 1,366 units of rental housing. The approval included the allocation of Housing Choice Vouchers to each residence. The 1,366 units located on 150 sites were transferred to Housing Commission ownership on November 19, 2007. The units now owned by the Housing Commission must continue to be rented to low income households at rent levels affordable at no more than 50 percent of Area Median Income ("AMI") for seniors or 80 percent AMI for families.

The Housing Commission was also obligated to leverage the equity in the 1,366 housing units to create a minimum of 350 additional affordable units to be rented at or below 80 percent AMI for a minimum of 55 years. On October 17, 2008, HUD further defined requirements for the production of additional affordable housing to identify acceptable scenarios under which equity proceeds may be utilized.

On March 24, 2009, the Housing Authority adopted the Real Estate Acquisitions Policy 300.103 which delegated authority to the Housing Commission to acquire units to achieve the goal of producing a minimum of 350 units as required by HUD. Under the new policy, the Housing Authority may ask to review any action of the Housing Commission within seven days. This

Policy also authorized the Housing Commission to obtain the financing necessary to carry out the acquisition and production of the new units.

In September 2009, the Housing Commission's Board of Commissioners approved the Finance Plan for the Acquisition of New Affordable Housing Units (HCR 09-085) and it was thereafter approved in October 2009 by the Housing Authority (HAR 09-030). The Housing Commission leveraged the equity in the 1,366 housing units through two financing sources: Fannie Mae financing, which closed in December 2009, and FHA funding, which closed in August 2010. The first real estate acquisition by the Housing Commission using these proceeds occurred in March 2010.

In September 2010, the Finance Plan update was presented to the Housing Authority (HAR10-032) with results from the first few months of activity. Information contained in this report is as of March 2011 and is an update of affordable housing acquisition activity to the Board.

DEBT LEVERAGING:

The Finance Plan was created to structure and monitor the usage of equity from a portion of the Housing Commission's real estate portfolio for the purpose of acquiring more affordable housing. Of the 150 properties in the existing portfolio, the Housing Commission opted not to leverage the smaller properties (those with 4 or fewer units) due to the costs associated with financing smaller properties when compared to the proceeds generated. There are 75 properties totaling 117 units in this pool and these properties were not leveraged and therefore remain debt-free.

A portion of the Housing Commission's larger properties (33 properties) were leveraged with three loans from Fannie Mae under the conventional multifamily loan program and generated $37,140,000 in loan proceeds. These three loans closed in December 2009. Another portion of the Housing Commission's portfolio (42 properties) was leveraged under FHA's 223(f) program and these three loans closed in August 2010. FHA proceeds totaled $58,243,400.

The chart below summarizes the debt leveraging and the net proceeds available for acquisitions after loan fees, reserves and repairs:

Sources of Funds			
	FHA	**Fannie Mae**	**Total**
Loan Amount	$58,243,400	$37,140,000	**$95,383,400**
Loan Fees	(2,206,883)	(510,487)	**(2,717,370)**
Repair/Replacement Reserves	(2,284,060)	(625,557)	**(2,909,617)**
Net Loan Proceeds	**$53,752,457**	**$36,003,956**	**$89,756,457**

It was originally estimated that the portfolio would yield approximately $100,000,000 between the FHA and Fannie Mae refinancing. The final amount raised was $95,383,400 due primarily to the following two factors which ultimately resulted in a more conservative position for the Housing Commission:

1) Interest Rates:

Instead of using a ten-year loan term (which is possible under the Fannie Mae program and which would have resulted in an interest rate closer to six percent), the Housing Commission elected to go with a more conservative 30-year term which carried a 7.32 percent interest rate. With the fixed 30 year interest rate, although the interest rate is higher, the risk associated with having to refinance in ten years is eliminated.

2) Vacancy Rates:

Due to higher vacancy rates on the leveraged properties at the time, the lenders used 8.5 percent vacancy rate on the Fannie Mae loans and a 10.9 percent on the FHA loans. While this generated less loan proceeds, it also produced less debt for the Housing Commission to service. [Note: Since loan origination, vacancy rates have decreased and as of April 2011, Fannie Mae properties had a vacancy rate of 3.00 percent and FHA properties had a vacancy rate of 1.45 percent.]

Debt Service:

The former public housing units that support the debt from the Finance Plan have performed above expectations compared to the approved September 2009 Finance Plan. The difference is primarily attributed to a lower vacancy rates versus projected. The monthly debt service amount is below the projected amount due to the lower amount borrowed.

BUILD AMERICA BONDS:

Some proceeds from each of the Fannie Mae and FHA loan pools were structured so that they were eligible for the Build American Bonds ("BABs") program which provided a taxable financing structure to benefit municipalities under the American Recovery and Reinvestment Act of 2009. The BABs interest rebate program, offered by the Federal government and which ended December 31, 2010, provided for a 35 percent interest rebate of the interest paid on debt used by a municipality to acquire affordable housing projects. Acquisitions with BABs-eligible funds could not contain a private entity in the ownership structure; therefore the Housing Commission could partner with another public agency only or acquire properties on its own. Proceeds from non-BABs qualified financing were used to acquire affordable housing properties in partnership with other developers.

Debt Service - Approved vs. Actual	
	FY 2011 Q3
Original Finance Plan (September 2009)	
NOI from former Public Housing units	$2,877,882
Total Debt Service (estimated)	(1,852,494)
Net Balance (Approved Plan)	**$1,025,388**
Actual FY 2011 – 3rd Q - March 2011	
NOI from former Public Housing units (Jan 2011 – March 2011)	$3,301,461
Total Debt Service	(1,587,482)
Net Balance (Actual)	**$1,713,979**

ACQUISITIONS:

With the equity leveraged from the former public housing, the Housing Commission has acquired (or committed) approximately 741 new units of affordable housing for a total of $79,387,000. These acquisitions include to-be-constructed properties as well as the acquisition and rehabilitation of existing properties.

Partnerships	Acquisitions # of Units	Investment	Per Unit
Riverwalk Apartments	49	$4,475,000	$91,327
Arbor Village Apartments	111	7,900,000	71,171
Vista Grande Apartments	48	3,800,000	79,167
Estrella de Mercado	91	7,000,000	76,923
Mission Apartments	84	6,000,000	71,429
Terramar Apartments	21	2,100,000	100,000
Sub-total	**404**	**$31,275,000**	**$77,413**
Publicly Owned			
Hotel Sandford	129	$6,095,000	$47,248
Mariner's Village Apartments	171	34,331,000	200,766
Courtyard Apartments	37	7,686,000	207,730
Sub-total	**337**	**$48,112,000**	**$142,766**
Total	**741**	**$79,387,000**	**$107,135**

The public/private partnership transactions all provide housing to extremely low, very low and low-income families and seniors. For these transactions, proceeds from the former-public housing portfolio were used to purchase the land at the close of escrow and included an option in year 15 to purchase the improvements at the greater of (i) the fair market value of the project or (ii) the sum of the limited partner project related tax liability, plus the principal and accrued interest on the Housing Commission loan, plus principal and accrued interest of the permanent loan (at the end of the tax credit compliance period). This option to purchase allowed for the units to count towards the Housing Commission's commitment to HUD of 350 units.

The publicly owned transactions are part of the Housing Commission's portfolio where no interest is shared with other private developers and the assets (land and structures) are completely owned by the Housing Commission. These properties are considered to be income-generating properties for the Housing Commission since the properties are rented to families earning no more than 80 percent of the AMI in accordance with the Finance Plan. [Note: Hotel Sandford is an exception to this category since the rents are affordable to extremely low-income seniors.]

Remaining Funds:

Approximately $8,300,000 of uncommitted funds remain for a future acquisition:

Cash Totals	
	Dollar Amount
Total Loan Proceeds	$95,383,400
Less: Fees and Set Aside	(5,626,943)
Proceeds Available for Investment	**$89,756,457**
Proceeds Used and/or Committed	(79,387,000)
Asset / Development Fee	(2,033,140)
Amount Available for Investment as of May 1, 2011	**$8,336,317**

With a projected cost of $200,000 per unit for a publicly owned asset, the Housing Commission anticipates adding an additional 40 units of affordable housing with the remaining proceeds.

The Housing Commission is also analyzing the option to further leverage the recently acquired publicly owned assets in accordance with the Finance Plan. If the decision is made to draw equity from the recently acquired assets, the Housing Commission will seek Housing Commission and Housing Authority approval.

INVESTMENT SUMMARY:

The original Finance Plan identified the following goals regarding the expenditure of the public housing refinance funding:

Goal 1. Satisfy HUD's mandate of adding 350 affordable housing units

The first condition of opting out of public housing included HUD's mandate to acquire at least 350 new units of affordable housing. As of March of 2011, the Housing Commission has closed on or committed to 741 units of affordable housing and has far exceeded the original goal.

Goal 2. Allocate proceeds to both partnership and publicly owned acquisitions

The original Finance Plan anticipated that proceeds would be used for future acquisitions per the following splits:

1. 45 percent would go toward properties acquired in partnership with the local affordable housing development community (public/private partnerships) and would serve seniors and families earning less than 50 and 60 percent AMI, respectively.

2. 55 percent would go toward the acquisition of properties the Housing Commission would own on its own or in partnership with other governmental entities (e.g., Centre City Development Corporation, the Redevelopment Agency of the City of San Diego, or Southeastern Economic Development Corporation) and would serve families earning less than 80 percent AMI

The chart below compares the percentage split of units that have been acquired to date vs. originally projected:

Capital Uses of Funds: Unit Count				
	(Projected) September 2009	**%**	**(Actual) March 2011**	**%**
Public Private Partnerships	455	45%	404	55%
Publicly Owned Assets	550	55%	337	45%
Total Number of Units	**1,005**	**100%**	**741**	**100%**

This 45/55 spilt of the loan proceeds is a key factor of the Finance Plan. While committed to partner with other developers to leverage public funds and provide very low income housing opportunities to San Diegans (proceeds from 45 percent of the funds), the Housing Commission must also create cash flow to provide funding opportunities for future developments and for the sustainability of the Housing Commission (proceeds from 55 percent of the funds). The Finance Plan was created to manage that balance and ensure that a variety of housing opportunities were provided but also to protect the Housing Commission's long-term well-being and fiscal strength.

Goal 3. Achieve target cost per unit

The following chart shows a comparison of total investment per unit from the original plan as compared to actual:

INVESTMENT PER UNIT			
	Total Units	**Total Investment**	**Total Investment (Per Unit)**
September (2009)	1005	$123,415,896	$122,802
Current Investment (Actual)	741	79,387,000	107,135
Future Investment (With Remaining Equity)	781	87,387,000	111,891

The first line of this chart shows the original plan's proposed total investment of $123 million, at an average acquisition cost of $122,802 per door, for a total of 1005 units. [Note: These figures include $31 million in additional funds acquired through refinancing recently acquired publicly owned assets. At this time, the Housing Commission has not refinanced any of the current assets]

The second line of the chart shows that the Housing Commission has spent approximately $79 million to date on 741 units with an average acquisition cost of $107,135.

The third line of the chart shows the total per unit investment assuming the future acquisition of an approximate 40 unit, $8 million dollars publically-owned asset. With this final acquisition, all of the funds generated from the public housing refinance would be exhausted for a total of 781 units with an average per unit cost of $111,891.

Goal 4. Acquire publicly owned assets that will produce net operating income for the Housing Commission

The original Finance Plan anticipated that net operating income ("NOI") would be generated from the publicly owned assets. The chart below compares the NOI projections from the original plan to actual:

Operating Performance - NOI Approved vs. Current Assumptions				
	FY 2011	FY 2012	FY 2013	FY 2014
Original Assumptions - NOI from New Units	**$462,275**	**$1,732,374**	**$2,060,652**	**$2,579,479**
Actual Closing Projections				
Hotel Sanford	$0	$0	$0	$0
Courtyard Apartments	250,064	405,768	415,908	426,306
Mariner's Village Apartments	1,062,326	1,700,226	1,811,628	1,856,922
New Project # 1			432,000	442,800
Total Publicly Owned	**$1,312,390**	**$2,105,994**	**$2,659,536**	**$2,726,08**

Publicly owned acquisitions occurred sooner than anticipated in the original Finance Plan. Therefore, for fiscal year 2011, NOI was larger than anticipated. Given the current acquisitions, actual NOI projection for FY 2012 is anticipated to exceed plan expectations. With the remaining $8.3 million from the Finance Plan, it is anticipated that a 40-unit publicly owned project will be acquired during FY 2012. With the acquisition of the publicly owned project, the NOI expectations for FY 2013 and FY 2014 are expected to exceed those in the Finance Plan.

CONCLUSION:

During the initial implementation of the Real Estate Finance Plan, an additional 741 affordable housing units have been provided within the City of San Diego. With approximately $8,300,000 of funds remaining, the Housing Commission will continue creating affordable housing units in the City, with the possibility of additional equity from the refinance of newly acquired assets (subject to Housing Commission and Housing Authority approval) for further creation of affordable housing within the next few years.

While some changes have occurred from the original Finance Plan approval, these changes have not significantly impacted the overall Finance Plan in a negative manner. Upon continued performance of the real estate operations of the public/private acquisitions, as well as the publicly owned assets, the Housing Commission will continue bringing forth acquisition opportunities for approval that further enhance the goals of the Housing Commission and provide housing opportunities to the residents of San Diego.

Respectfully submitted,

Emmanuel Arellano
Sr. Program Analyst
Real Estate Department

Deborah N. Ruane
Vice President
Real Estate Department

Approved by,

Carrol M. Vaughan
Executive Vice President &
Chief Operating Office