SAN DIEGO HOUSING COMMISSION

SDHC

HOUSING AUTHORITY INFORMATIONAL REPORT

DATE ISSUED: November 1, 2011 **REPORT NO:** HAR 11-042

ATTENTION: Members of the San Diego Housing Authority
For the Agenda of November 15, 2011

SUBJECT: Real Estate Finance Plan Update as of September, 2011

NO ACTION IS REQUIRED ON THE PART OF THE SAN DIEGO HOUSING AUTHORITY

SUMMARY:

This report of the San Diego Housing Commission's Real Estate Acquisition Finance Plan ("Finance Plan") is presented to the San Diego Housing Authority as a semi-annual 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") or at no more than 80 percent of AMI, depending on site location.

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 of the City of San Diego ("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 of such Housing Commission action. 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 closed in December

2009, and FHA funding 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 September 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 decided that the smaller properties (those with 4 or fewer units) should not be leveraged 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 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 – September 2011			
	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 more conservative underwriting 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 September 2011, Fannie Mae properties had a vacancy rate of 3.53 percent and FHA properties had a vacancy rate of 3.05 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 is no longer offered, 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.

NET BALANCE:

The table below reflects the actual Net Operating Income ("NOI") from the former Public Housing units minus the total debt service from the debt placed on the portfolio for a total Net Balance. A comparison is made between the approved figures in the Finance Plan for the Acquisition of New Affordable Housing and actual performance for the fourth quarter, fiscal year 2011 and first quarter, fiscal year 2012.

Results for the fourth quarter fiscal year 2011 and first quarter fiscal year 2012 were better than originally anticipated. This is primarily attributed to a higher NOI because of lower vacancy rates and a lower debt service amount than originally anticipated. The debt service amount decreased in the first quarter of fiscal year 2012. This decrease was due to a readjustment and reduced charge for the mortgage private insurance on the three FHA loans.

Debt Service - Approved vs. Actual		
	FY 2011 Q4 (April 2011 – June2011)	FY 2012 Q1 (July 2011 – September 2011)
Original Finance Plan (September 2009)		
NOI from former Public Housing units	$2,877,882	$2,983,944
Total Debt Service (estimated)	(1,911,708)	(2,011,884)
Net Balance (Approved Plan)	**$966,174**	**$972,060**
Actual		
NOI from former Public Housing units	$2,799,178	$3,498,217
Total Debt Service	(1,656,646)	(1,634,411)
Net Balance (Actual)	**$1,142,532**	**$1,863,806**

ACQUISITIONS:

With the equity leveraged from the former public housing, the Housing Commission has surpassed HUD's 350 unit requirement, acquiring (or committing) approximately 832 new units of affordable housing for a total of $79,590,500. These acquisitions include to-be-constructed properties as well as the acquisition and rehabilitation of existing properties.

Acquisitions			
Partnerships	**# 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 del 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
Mariners Village Apartments	171	34,331,000	200,766
Courtyard Apartments	37	7,686,000	207,730
Hotel Churchill	91	203,500	2,236
Sub-total	**428**	**$48,315,500**	**$ 112,887**
Total	**832**	**$79,590,500**	**$95,662**

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 for the Housing Commission 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 and Hotel Churchill are exceptions to this category since the rents are affordable to extremely low-income tenants.]

Remaining Funds:

Approximately $8,100,000 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	(79,590,500)
Asset/Development Fee	(2,033,140)
Amount Available for Investment as of May 1, 2011	**$8,132,817**

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 (Courtyard Apartments and Mariners Village) 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.

Publicly Owned Investment Performance:

Publicly Owned properties have performed above the anticipated performance per the approved Finance Plan for the Acquisition of New Affordable Housing Units. The financial performance of the Wholly Owned assets is shown in the table below. During the fourth quarter, fiscal year 2011, the NOI from the newly acquired units was considerably above the anticipated amounts. This was due to the fact that the Wholly Owned acquisitions (Courtyard Apartments and Mariners Village) produced a larger number of units being brought on line sooner than originally assumed. The total NOI experienced a decreasing trend during the first quarter of Fiscal Year 2012. This primarily is due to the current ongoing relocation of over income tenants at Mariners Village as required by Relocation Law. Due to the new affordability restrictions on the property, tenants with an income above 80 percent of the Area Median Income ("AMI") must be relocated; such tenants are receiving relocation benefits. The number of over income tenants is higher than originally anticipated; therefore the vacancy losses are greater than originally forecasted. The property management company (Hyder & Co.) is actively addressing the increase in vacant units by using multiple marketing methods. Hyder & Co. is confident units will lease in the near future.

Net Operating Income ("NOI") From New Units						
	FY 2011 - Fourth Quarter (April 2011 – June2011)			FY 2012 - First Quarter (July 2011 – September 2011)		
	Apr-11	**May-11**	**Jun-11**	**Jul-11**	**Aug-11**	**Sep-11**
Original Finance Plan Approved (September 2009)	$84,050	$84,050	$84,050	$129,227	$129,227	$142,202
Actual	$196,339	$171,488	$110,103	$168,679	$144,542	$131,224

PROJECT SUMMARY:

Each of the ten projects that are part of the Finance Plan for the Acquisition of New Affordable Housing Units to date are described below. The summary for each project includes partnership information, affordability details, key dates and other major highlights of the project.

Riverwalk Apartments

The Housing Commission partnered with Affirmed Housing Group to build Riverwalk, a 50-unit energy efficient affordable apartment complex in the Otay Mesa/Nestor community. Construction was completed in July 2011, grand opening was held July 28th, 2011. The Housing Commission acquired the land and provided a ground lease and a loan to the developer; the Housing Commission will have the option to purchase the improvements after the 15 year tax credit compliance period. These units will remain affordable for 55 years.

Arbor Village Apartments

The Housing Commission partnered with nonprofit LINC Housing Corporation to acquire and renovate Arbor Village. Renovations include a new community building with a computer lab, laundry facilities and children's play area. Renovations were completed in January 2011. The Housing Commission acquired the land and provided a ground lease and a loan to the developer; the Housing Commission will have the option to purchase the improvements after the 15 year tax credit compliance period. These units will remain affordable for 55 years.

Vista Grande Apartments

The Housing Commission partnered with Wakeland Housing & Development Corporation and the Southeastern Economic Development Corporation ("SEDC") to acquire and rehabilitate Vista Grande, a 49-unit apartment complex in Encanto. The renovations include the addition of a 1,740-square-foot community center that is the centerpiece of the affordable housing site. The renovation was completed on August 2011. The Housing Commission acquired the land and provided a ground lease and a loan to the developer; the Housing Commission will have the option to purchase the improvements after the 15 year tax credit compliance period. These units will remain affordable for 55 years.

Estrella del Mercado

The Housing Commission partnered with Chelsea Investment Corporation and the City of San Diego Redevelopment Agency to build the 92-unit Estrella del Mercado in Barrio Logan. The apartments are part of a 6.8 acre, 311,000 square foot transit-oriented, mixed-use development that will include the community's first major grocery store. Construction began in Spring 2011, soil remediation has been completed, site work and parking structure construction underway. Estimated construction completion date is December 2012. The apartments will be affordable to extremely low and very low income households. The Housing Commission acquired the land and provided a ground lease and a loan to the developer; the Housing Commission will have the option to purchase the improvements after the 15 year tax credit compliance period. The units will remain affordable for 55 years.

Mission Apartments

The Housing Commission partnered with AMCAL Multi-Housing, Inc., and the City of San Diego Redevelopment Agency to build the 85-unit energy-efficient affordable complex. The property is located in the North Bay Redevelopment Area just north of the Mission Brewery at Washington adjacent to the trolley corridor. The apartments will be affordable to extremely low and very low income households. Site work is underway; construction is estimated to be completed in June 2012. The Housing Commission acquired the land and provided a ground lease and a loan to the developer; the Housing Commission will have the option to purchase the improvements after the 15 year tax credit compliance period. The units will remain affordable for 55 years.

Terramar

The Housing Commission partnered with Chelsea Investment Corporation to build a 21-unit energy-efficient affordable complex located in the Torrey Highlands neighborhood of northern San Diego. Located adjacent to Westview High School, the development will include a tot lot and a recreation area with barbeques and shaded picnic tables. Construction began in July 2011 and site work is underway. Estimated completion date is Spring 2012. The Housing Commission acquired the land and provided a ground lease and a loan to the developer; the Housing Commission will have the option to purchase the improvements after the 15 year tax credit compliance period. The units will remain affordable for 55 years.

Hotel Sandford

The Housing Commission acquired the 130 Single Room Occupancy ("SRO") Hotel Sanford in March 2010. The Hotel Sanford will undergo $3 million in rehabilitation. Rehabilitation work is currently underway; phase one (total of seven phases) has been completed. The first 21 units were rehabbed, new bathroom cabinets, showers, new carpet and paint were part of the work done to all of the units. Common area hallways were also renovated with new paint, light fixtures and carpet. Rehabilitation work is estimated to be completed by Spring 2012. The Hotel Sanford offers rooms to very low and low income seniors at 45 percent and 55 percent AMI. Affordability restrictions are in place for the next 55 years.

Mariners Village

The Housing Commission acquired the 172 unit Mariner's Village Apartments in October 2010. Permanent relocation of over income tenants started on June 2011 and is anticipated to end in December 2011. Approximately 59 families will be relocated. The property is undergoing American with Disabilities Act ("ADA") renovations. The Housing Commission will convert nine (9) out of the 178 existing dwelling units, modify all of the common area facilities and complete site improvements in order to make them accessible. The management company (Hyder & Co.) continues to actively market units in an effort to decrease the vacancy rate at Mariners Village and is optimistic that vacancy levels will decrease in the near future. Rents at the Mariner's Village are set at 80 percent AMI and would remain affordable for the next 55 years.

Courtyard Apartments

The Housing Commission acquired the Courtyard Apartments in September 2010. The 37-unit apartment complex was in foreclosure status before the Housing Commission acquired it. The complex was fully constructed when acquired. The project is 100% occupied and had no major challenges fully leasing the residential units to families earning no more than 80% AMI. The Housing Commission intends to lease approximately 4,500 s.f. of vacant commercial space on the ground floor by third quarter fiscal year 2012.

Hotel Churchill

On August 2011, the Housing Commission became the owner of the Hotel Churchill, located at 827 C Street, San Diego 92101. The Hotel Churchill was acquired via Single Room Occupancy ("SRO") litigation. Former public housing refinance dollars were used to pay for the $203,500 of settlement costs. The Hotel Churchill is a 91-SRO unit building built in 1915. The building is currently empty and will require major rehabilitation, the components and total cost of which needs to be determined. The 91 units will count towards the HUD mandate of 350 additional affordable housing units per the public housing unit disposition requirement. The Housing Commission is in the process of analyzing various housing uses for this most recent acquisition.

CONCLUSION:

The Finance Plan for the Acquisition of New Affordable Housing Units has now been in place for approximately two years. To date, the Housing Commission has either acquired or provided a loan to ten different projects, totaling 832 affordable housing units. With approximately $8,100,000 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.

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,

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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.