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SAN DIEGO HOUSING COMMISSION UNVEILS FINANCE PLAN TO INCREASE SAN DIEGO'S AFFORDABLE HOUSING

Multi-family rental units would increase by about 75 percent over 3-5 years

San Diego, CA— The San Diego Housing Commission Board approved today an innovative plan to parlay the equity of its existing properties into additional affordable multi-family housing units for low- and moderate-income families, including seniors, within the city boundaries of San Diego.

“We are entering a new era in the way affordable housing is generated by San Diego’s 30-year-old Housing Commission,” said Richard C. Gentry, the agency’s president and CEO. “We’re using entrepreneurial real estate methods and taking advantage of depressed property values to substantially increase our city’s supply of affordable housing.”

The Housing Commission plans to acquire an array of properties – some distressed but others that are not– suitable to be converted to affordable housing. They include existing rentals, partially finished multi-family developments or other real estate with funding needs. The more than 40 properties being identified for acquisition are scattered throughout the city of San Diego, including several in suburban neighborhoods north of Interstate 8.

“We are taking advantage of this unique window of opportunity during a down economy to acquire properties in areas that were previously out of our agency’s economic reach,” Gentry said.

Converting these properties to affordable housing will be accomplished by forging partnerships with profit and nonprofit developers as well as the city of San Diego’s redevelopment agencies. The plan envisions boosting the Housing Commission’s portfolio of multi-family rental housing by more than 1,000 units over the next three-five years. When completed, the number of affordable housing units owned by the agency will increase from 1,371 to approximately 2,400.

“When this effort began two years ago, no one would have expected the real estate market to provide us with an opportunity to create more affordable housing for our citizens, and with this plan, I believe it will,” said Sal Salas, the chairman of the San Diego Housing Commission.

The Finance Plan

- The Commission initially will leverage the equity from 1,254 units of its multi-family properties (91.5 percent of its entire portfolio) to raise \$102 million. The equity from the remaining 117 housing units owned by the Commission will be held in reserve and remain debt free.

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- Approximately 60 percent of the capital funds will be raised via 30- to 35-year mortgages from the Federal Housing Administration (FHA). The remaining 40 percent will be raised via 30-year mortgages from Fannie Mae. This first phase of borrowing will generate sufficient capital to produce an estimated 915 affordable housing units.
- The mortgages obtained from the FHA are eligible for a special 35 percent interest-rebate bonus program offered under the American Recovery and Reinvestment Act. The Commission estimates it will receive \$1.2 million annually in interest rebates from the Build America Bonds Program. Properties acquired with the rebate funds will be leveraged to purchase an additional 120 affordable housing units.

“Participation in the Build America Bonds Program will substantially lower the cost of our loans and provide the Commission with a legacy cash flow for decades to come,” Gentry said.

To take advantage of this rebate program, the Commission must acquire rental units before the BABs program expires on December 31, 2010.

Because of federal restrictions, the new housing purchased under the Building America Bond program, must be owned by government bodies. However, the Commission anticipates it will be able to partner with nonprofits for development, management and rehabilitation services. New affordable housing financed without the use of Build America Bonds has no such restrictions, leaving the door open to front-end partnerships with profit and nonprofit developers.

“This innovative plan will leverage their existing assets and allow for the acquisition and development of hundreds of additional affordable housing units here in San Diego, housing that despite the recent downturn in values is still sorely needed,” said James Silverwood, president and CEO of the Affirmed Housing Group.

The new affordable units may be rented to those earning no greater than 80 percent of the San Diego Area Median Income. A senior can qualify with an income up to \$28,900 annually; a family of four may qualify if household earnings are less than \$66,100 annually.

The plan is scheduled to be reviewed by the City Council’s Land Use and Housing Committee on Sept. 23 and by the San Diego Housing Authority on Oct. 6.

Background:

The Housing Commission’s ability to borrow against the equity of its public housing inventory is the result of a September 2007 agreement with the U.S. Department of Housing and Urban Development (HUD). The agreement allowed San Diego to end its participation in the federal Public Housing Program and granted the Commission sole ownership and operating authority over its then-1,366 multi-family housing units. Residents of these former public housing projects were offered rental protection in the form of “Housing Choice” vouchers, which allowed them to stay in rentals owned by the Commission or move to private rentals participating in the agency’s Rental Assistance Program. To date, about 10 percent have moved to privately owned properties.

The 2007 agreement further required the Commission to leverage the equity of its properties to create a minimum of 350 additional affordable housing units.