



INFORMATIONAL REPORT

DATE ISSUED: January 3, 2012

REPORT NO: HCR12-013

SUBJECT: Real Estate Finance Plan Update as of December 2011
Addendum # 2 to HCR11-121

COUNCIL DISTRICT: Citywide

This item will be discussed at the San Diego Housing Commission Board meeting on January 20, 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 monthly update.

Below are the major highlights of the Real Estate Finance Plan (“Finance Plan”) pertaining to the recent acquisitions of publicly owned and partnership 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.

PROJECT HIGHLIGHTS:

Exhibit 1 at the end of this report provides highlights and updates regarding the ten different projects (partnerships and publicly owned) that the Housing Commission has invested in through the Finance Plan for the acquisition of new affordable rental housing units, which was updated in 2009.

VACANCY RATES: November 2011

	<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	14	11
Vacancy Rate	2.03%	1.94%

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 4.1 percent for the Spring 2011 period. During the month of November 2011, 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.

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DEBT SERVICE: November 2011

	<u>Approved</u> <u>Sep 2009</u>	<u>Actual</u> <u>November 2011</u>	<u>Variance</u>
NOI - former public housing units	\$959,293	\$1,048,214	\$88,921
Total Debt Service (estimated)	(578,021)	(524,146)	53,875
Net Balance	\$381,272	\$524,068	\$142,796

The Housing Commission pays less in monthly debt service than the original assumptions in the Finance Plan due to 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

Two properties were solely acquired by the Housing Commission and are identified as Publicly Owned (172 units at Mariners Village and 37 units at Courtyard Apartments). The information below highlights the operating performance of these assets.

OPERATING PERFORMANCE: November 2011

	Mariner's Village Apartments		
	<u>Approved Budget</u>	<u>Actual Budget</u> <u>November 2011</u>	<u>Variance</u>
Operating Income	\$212,882	\$156,631	(\$56,251)
Operating Expenses	(87,867)	(54,647)	33,220
NOI	\$125,015	\$101,984	(\$23,031)
Vacant Units (percentage vacant)	21 (12%)	63 (36.6%)	

Courtyard Apartments required no significant rehabilitation when acquired and was 100 percent occupied as of this update. Mariners Village required significant ADA rehab work when acquired and also required relocation for 66 households due to over-income ineligibility. Relocation of the final 11 over-income households is expected to be completed by the end of January. Forty-six of the 172 units (26.7 percent) were vacant at the end of December 2011. The Housing Commission's Portfolio Management Department is working with Hyder & Co. to generate stronger leasing results in spite of the ongoing rehab work and relocations, but has also provided written notification to Hyder & Co. that they must achieve a 95 percent occupancy rate by February 1, 2012, or the Housing Commission may terminate the contract. Since Hyder & Co. received the notification, they have added staff and increased their marketing efforts to meet the requirements stated on the notification.

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	Courtyard Apartments		
	<u>Approved Budget</u>	<u>Actual November 2011</u>	<u>Variance</u>
Operating Income	\$48,722	\$50,410	\$1,688
Operating Expenses	(15,325)	(14,843)	(482)
NOI	\$33,397	\$35,567	\$2,170
Vacant units (percentage vacant)	2 (5%)	0 (0%)	

Courtyard's performance was better than expected, primarily because of the 100 percent occupancy. 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. It is anticipated that a recommendation will be presented to the Housing Commission Board in the Spring of 2012.

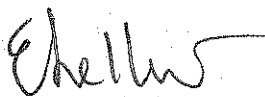
CONCLUSION

Recent acquisitions are performing according to plan without significant deviations with the exception of Mariners Village Apartments, which has not leased up as fast as anticipated, but did have an increase in occupancy of seventeen units from the previous month. The Housing Commission has motivated Hyder & Co. to achieve an 95 percent occupancy by February 1, 2012.

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 \$79,590,000, 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 will be 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 by the third quarter of fiscal year 2012.

Respectfully submitted,



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Real Estate Manager
Real Estate Department

Approved by,



Deborah N. Ruane
Senior Vice President
Real Estate Department

Attachment: Exhibit 1

January 12, 2012
 Real Estate Finance Plan Update as of September 2011
 Addendum # 2 (November 2011).
 Exhibit 1

Project Highlights

Project Name	Construction Start Date	Construction End Date	Partnerships Projects		Comments
			On Budget (Y/N)	On Target Schedule (Y/N)	
Riverwalk	September 2010	July 2011	Y	Y	No major update / Rehab work completed
Arbor Village	May 2010	January 2011	Y	Y	No major update / Rehab work completed
Vista Grande Apartments	December 2010	July 2011	Y	Y	No major update / Rehab work completed
Estrella del Mercado	November 2011	September 2012*	N/A	Y	Soil remediation completed. Site work and parking structure construction underway.
Mission Apartments	July 2011	August 2012*	N/A	Y	Site work underway.
Terramar Apartments	July 2011	March 2012*	N/A	Y	Site work underway.
Project Name	Construction Start Date	Construction End Date	Publicly Owned Projects		Comments
			On Budget (Y/N)	On Target Schedule (Y/N)	
Hotel Sandford	June 2011	February 2012*	Y	Y	Phase one of seven phases completed.
Mariner's Village	N/A	N/A	Y	Y	Permanent relocation started June 2011 and it's anticipated to end in December 2011. Approximately 59 families will be relocated. ADA renovations underway.
Courtyard Apartments	N/A	N/A	N/A	N/A	100% occupied. Housing Commission currently analyzing retail space lease options. Housing Commission is in the process of determining rehabilitation work necessary, cost and funding sources.
Hotel Churchill	N/A	N/A	N/A	N/A	

*Estimated