

[California Real Estate Journal](#) Newswire Articles  
www.carealestatejournal.com  
© 2009 The Daily Journal Corporation. All rights reserved.

• select Print from the File menu above

---

• Oct. 12, 2009

## **S.D. Affordable- Housing Plan Leverages Market Distress** **Innovative strategy targets surplus properties**

By MANDY JACKSON

CREJ Staff Writer

The city of San Diego has what many in commercial real estate lack - debt-free assets and the ability to leverage the equity out of those properties for new investments.

The San Diego Housing Commission is moving forward with the second phase of an innovative plan to use \$102.6 million in loans based on the equity in city-owned housing units to acquire existing or build new apartments for low- and moderate-income renters. The agency hopes to take advantage of distress in the multifamily investment and development market to increase San Diego's inventory of affordable housing.

"We see this as an opportunity for the Housing Commission to acquire - by ourselves or in partnership with another entity - housing that would remain affordable for another 55 years," said Rick Gentry, president and chief executive officer of the San Diego Housing Commission. "We can take properties that are surplus to the market right now and take them off the books."

The Housing Commission is finalizing the financing plan for a strategy initially developed two years ago. The U.S. Department of Housing and Urban Development approved a proposal in 2007 to leverage San Diego's 1,371 debt-free public housing units at more than 150 sites and pull out equity to invest in construction of affordable rentals or acquisition and rehabilitation of apartments for low- and moderate-income residents.

Occupants of the city's public housing assets received Section 8 rental assistance vouchers that they could use to pay rent for either their former public housing units or for privately owned apartments that accept Section 8 vouchers. If they moved out of the city-owned properties, their vacancy created an opening for another family or individual on the waiting list for affordable housing.

On Sept. 11, the Housing Commission's board of directors approved the financing phase of the agency's plan. The San Diego City Council's Land Use and Housing Committee approved a recommendation on Sept. 23 for the full City Council to approve the financing plan. The council, sitting as the San Diego Housing Authority, is scheduled to take up the matter on Oct. 13.

When HUD approved the Housing Commission's plan in 2007, the commission committed to providing at least 350 affordable-housing units. Now the plan is expected to fund the acquisition or development of more than 1,000 apartments.

The Housing Commission has identified 40 parcels of land, unfinished developments and apartment properties, some of which involve investors that have run into financial issues. The sites are scattered around the city, including assets in more affluent suburbs north of Interstate 8, where housing for low-income families is hard to find.

The 40 potential transactions that the Housing Commission is looking at right now would exceed the agency's 1,035-unit goal, but Gentry said it is not anticipated that all 40 of those deals will pan out.

"Those that drop out will be the ones that aren't appropriate for us or where the owner doesn't want to work with us," Gentry said. "We're keeping the door open for any other property owners that want to work with us."

### Two Pools of Loans

To finance outright acquisitions or participation in projects with for-profit and nonprofit developers, the Housing Commission plans to take out \$102.6 million in equity from properties with five units or more totaling 1,254 units or 91.5 percent of the \$141 million city-owned affordable-housing portfolio.

Sixty percent of the funds will take the form of 30- and 35-year mortgages from the Federal Housing Administration. The other 40 percent will come from 30-year mortgages from **Fannie Mae**. Together, those sources are expected to finance 915 housing units.

The FHA mortgages are eligible for a 35 percent interest rate rebate program offered under the \$787 billion American Recovery and Reinvestment Act. The economic stimulus legislation included Build America Bonds through which the Housing Commission expects to earn \$1.2 million per year in interest rate rebates. That money could fund an additional 120 housing units.

With approval from the City Council acting as the Housing Authority in hand, the Housing Commission has about three months of heavy due diligence to complete before funds from the FHA and Fannie Mae loans are available.

"If we get access to the money in early 2010, we have the rest of the year to acquire," Gentry said. "Given the conditions of the marketplace, we should be able to do that, but I don't think we have a lot of time to spare."

Until the FHA and Fannie Mae funds are available, the Housing Commission has a \$20 million short-term credit line with U.S. Bank to begin making deals. One or two more projects might be funded besides commitments the commission has already made to San Diego-based **Affirmed Housing Group** and Long Beach-based **LINC Housing Corp.**

The Housing Commission plans to provide nearly \$4.5 million for Affirmed Housing's \$14.2 million development of Riverwalk Apartments with 50 affordable units slated for a 2.6-acre site at 1194 Hollister St. in the Otay Mesa-Nestor area.

The for-profit developer has a contract to buy the land from the property's owner, which had planned to build 48 condominiums on the site. The Housing Commission would reimburse Affirmed Housing for its \$2.2 million purchase of the land, which would be leased back to the developer, and provide a \$2.3 million loan for development costs.

The nonprofit LINC Housing requested assistance with its \$22.4 million acquisition and rehabilitation of the 112-unit Arbor Village apartments at 4914-4998 Logan Ave. in Encanto. The Housing Commission has agreed to pay LINC \$2.4 million for the land under Arbor Village and provide a \$4 million loan.

### Investment Expertise

Jim Silverwood, president and chief executive officer of Affirmed Housing, said his company is pleased by the changes at the Housing Commission since Rick Gentry took the helm last year, including the hiring of new highly qualified employees and the agency's proposed changes to its housing portfolio.

Housing Commission Senior Vice President Larry Clemens, former head of Miami-based homebuilder **Lennar Corp.**'s urban division in San Diego, will oversee the commission's new housing acquisition and development strategy.

"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

downtown in values is still sorely needed," Silverwood said.

Gentry said the Housing Commission thinks its chances are excellent in terms of competing with private opportunistic investors to acquire enough apartments and development sites to meet the agency's goal.

Jim Taylor, senior vice president with **Sperry Van Ness** in San Diego, said banks continue to hold on to distressed assets so there has been little apartment investment activity this year, despite the high number of investors with capital who are waiting to invest in troubled apartment properties.

Once banks decide to sell properties they've foreclosed on, Taylor said the Housing Commission could lose out on transactions to market-rate apartment investors who can close deals more quickly, since they don't have to wait for agency and City Council approvals or confirmation from other public financing sources.

"When the banks do decide they want to sell, they want you to perform yesterday," Taylor said.

Robert Vallera, principal at San Diego-based **Commercial Realty Advisers**, said apartments in San Diego were selling on average for more than 14 times their gross annual income in 2005 and pricing has dropped in 2009 to 10 times gross annual income. The average price per unit has dropped from \$165,000 in 2004 to \$112,000 in 2009.

"Obviously, the Housing Commission would get more for their money today than they would've five years ago," Vallera said.

However, there are not many apartment properties on the market and those that are on the market and priced low enough to attract competitive bids involve sellers looking for buyers who have the ability to perform quickly and compete with the private investors, Vallera said.

The Housing Commission is streamlining some of its due diligence processes so that it can react quickly to opportunities. The commission also created internal committees that meet routinely to discuss deal structures prior to presenting opportunities to the commission's board.

Also, on March 24, the Housing Authority adopted an acquisitions policy that delegates authority to the Housing Commission to acquire housing units under the HUD-approved plan to leverage existing city-owned properties.

### **Financing Challenges**

JoAnne Dunec, shareholder in the Walnut Creek office of law firm **Miller Starr Regalia**, said there might be opportunities for housing agencies to buy apartments and land at prices that work for subsidized housing as real estate values fall.

Dunec represents the Alameda Housing Authority, which is looking at a property that it might buy and rehabilitate to preserve affordable housing.

Cities all over California are looking for new sources of funding, especially since the state, as it struggles with budget deficits, can't promise the delivery of bond financing pledged to projects.

"As a result, everyone is trying to be creative and make things work," Dunec said. "We're working on an affordable-housing project where construction is nearing completion and we're looking at permanent financing. All of the participating parties are looking at how to pitch in along with the [private] permanent financing that is available."

The Housing Commission has been contacted by other housing agencies about how the San Diego agency set up its plan to leverage city-owned housing to acquire or build more affordable units.

Gentry said the model works well for San Diego because the relatively young Housing Commission's public housing was acquired or built in the late 1980s and throughout the 1990s. So when the units were converted to rentals accepting Section 8 vouchers, the properties resembled a lot of the housing available in the private market.

Older housing agencies with institutional-looking public housing towers would have a harder time attracting tenants that have a choice where they live with their Section 8 vouchers as well as attracting private financing to leverage the assets.

"The market in San Diego will come back," Gentry said. "In the meantime, in a weak marketplace, developers see us as an opportunity to get projects working that weren't [working] otherwise."

- *E-mail MJackson@DailyJournal.com*

\*\*\*\*\*

© 2009 Daily Journal Corporation. All rights reserved.