

Acquisition and Preservation Program Reform



Mayor's Office of Housing and Community Development
City and County of San Francisco

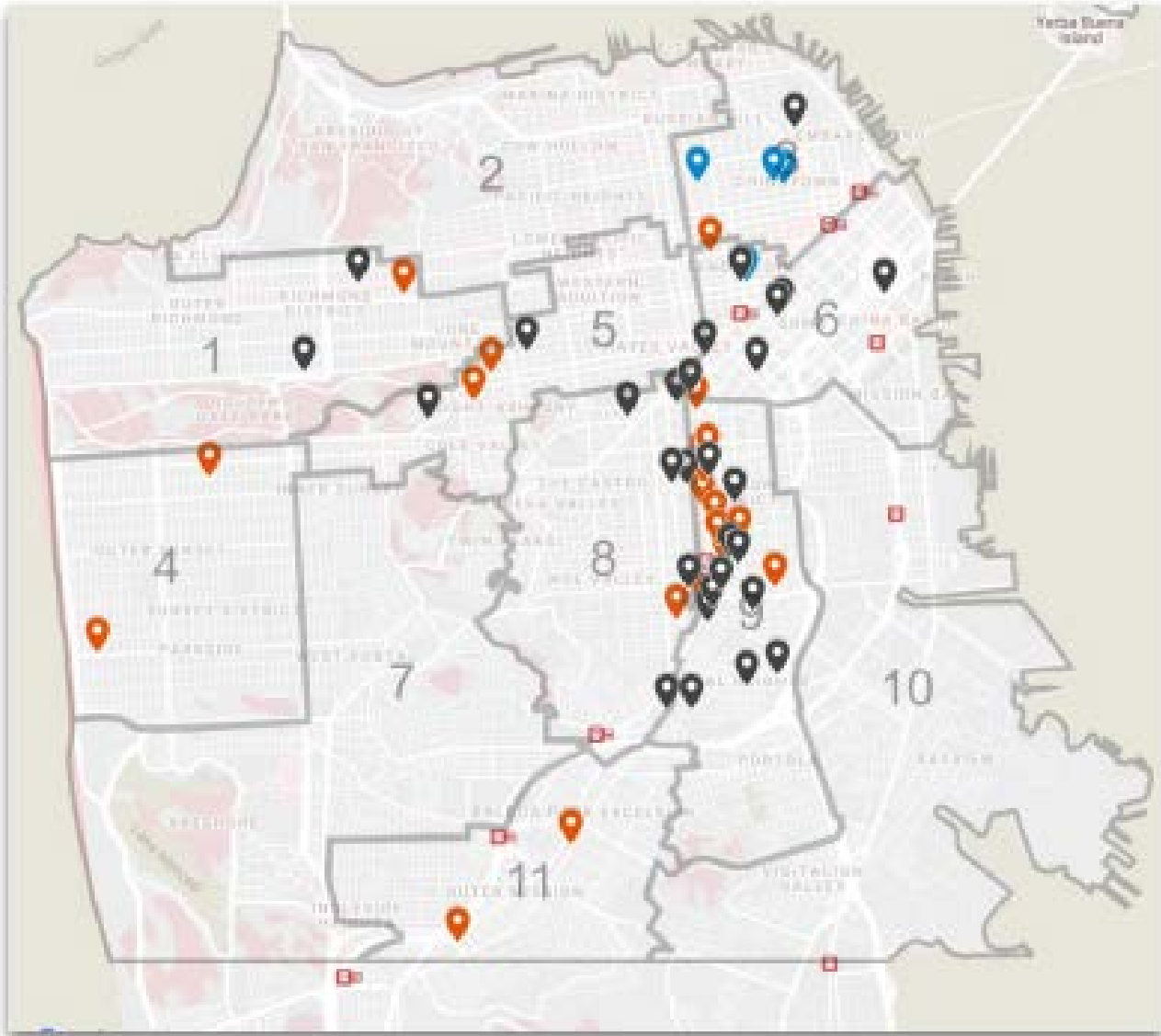
May 10, 2022

Program Overview

The Small Sites Program (SSP) was launched in 2013 to prevent the displacement of vulnerable San Franciscans and create permanently affordable housing, by financing the acquisition and preservation of buildings targeted by the speculative market.

Program Goals:

- Improve the safety and quality of 5-25 unit buildings;
- Stabilize communities by preventing displacement and provide permanently affordable housing for all San Franciscans;
- Ensure acquired properties are self-sustaining and leverage MOHCD's partnership with the ecosystem of Community Based Organizations;



655

Units (All SSP)

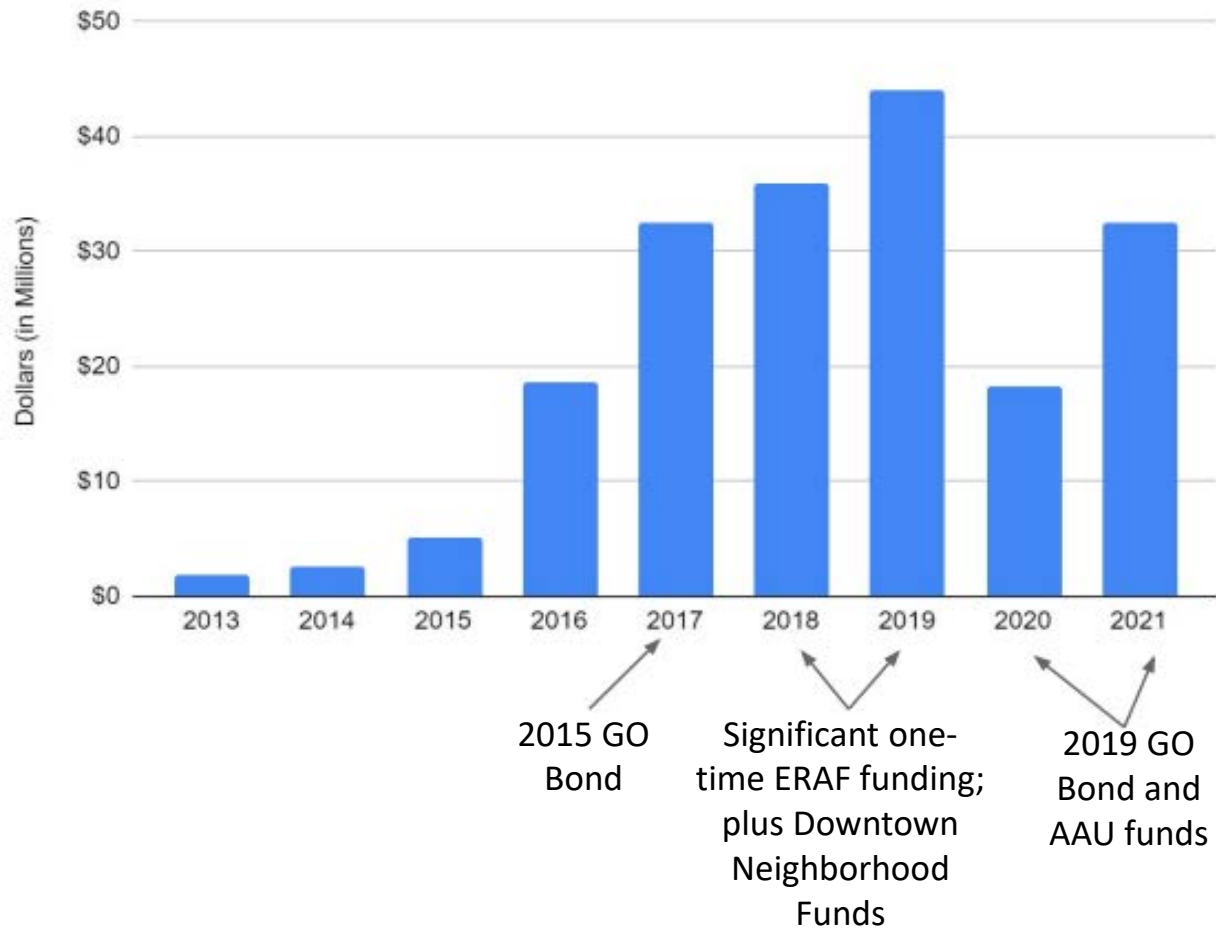


53

Projects (All SSP)

Year	# of Projects	# of Units	Avg Subsidy / Unit	# of Active CBOs
2013	1	5	\$375,000	1
2014	2	18	\$148,009	1
2015	2	26	\$194,850	1
2016	11	51	\$367,172	3
2017	13	90	\$360,433	2
2018	7	157	\$229,287	3
2019	7	157	\$279,975	4
2020	7	44	\$413,682	1
2021	3	107	\$304,449	3
TOTAL	53	655	\$292,369	

MOHCD Preservation Subsidy Commitments



Funding Sources:

- Limited ongoing capital funding sources
 - Inclusionary Fees: 0-2M/yr
 - Housing Trust Fund: 3M/yr
- One-time and other restricted sources include:
 - 2015 GO Bond: 25.9M
 - 2019 GO Bond: 29.4M
 - AAU: 45.8M
 - Downtown Neighborhood Funds: 33M
 - ERAF: 34.5M
- 219M in funding committed to date

D11 Outer Mission 168 Sickles Avenue (between Alemany and Mission)



- 12-unit multifamily building acquired March 2021, consisting of six 1BD units and six 2BD units
- Avg rents equivalent to 60% of AMI (approximately \$1674/month)
- Avg income is 63% AMI or (approximately \$76,000/year for family of 4)
- Three low-income senior households have lived in their units an average of 25 years.

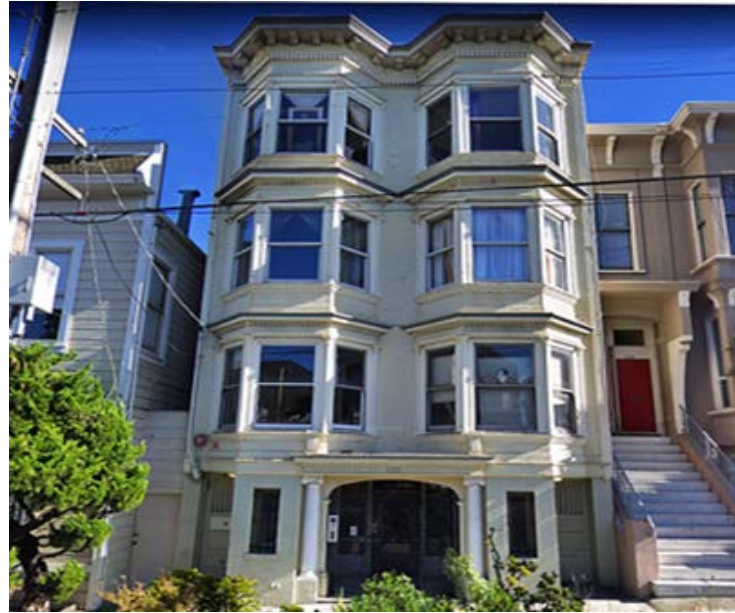
Estimated Cost

Currently MOHCD estimates it will cost \$6.4 million to acquire and preserve this building. MOHCD to finance the project as follow

- \$2.5 million from the Preservation and Seismic Safety Program (PASS).
- \$3.9 million from the City's Small Sites Program.
- Estimated subsidy cost of \$326,000 per unit.

D5 Upper Haight 520 Shrader Street (between Oak and Haight)

“Protecting tenants, preventing displacement, and preserving affordable housing is crucial to stabilizing communities across San Francisco. Our Small Sites Program allows us to purchase and preserve properties like this one so the seniors who have lived here for decades can remain in their homes and the units can remain permanently affordable for generations to come.”



- 7-unit multifamily building acquired May 2019, consisting of seven 2BD units
- Avg rents equivalent to 78% of AMI (approximately \$2066/month)
- Avg income is 67% AMI or (approximately \$88,000/year for family of 4)
- Three low-income senior households who had lived in their units an average of 30+ years were at risk of Ellis Act eviction by former owner who looked to develop the site into 7 TIC condo units.

Total Development Cost

MOHCD has funded \$4.7 million towards the acquisition and preservation of this building. Project financing as follows:

- \$1.9 million from the Preservation and Seismic Safety Program (PASS).
- \$2.7 million from the City's Small Sites Program.
- Total subsidy cost of \$386,000 per unit.

D5 Panhandle

239 Clayton Street (between Fell and Hayes)



- 6-unit multifamily building acquired December 2019, consisting of six 2BD units, one 1BD ADU, and one Studio ADU
- Avg rents equivalent to 67% of AMI (approximately \$1628/month)
- Avg income is 45% AMI or (approximately \$59,000/year for family of 4)
- Six senior households living in their units an average of 30+ years faced an Ellis Act eviction by former owner looking to develop the site into 8 TIC condo units.

Estimated Cost

Currently MOHCD estimates it will cost \$5.5 million to acquire and preserve this building. MOHCD to finance the project as follows:

- \$1.9 million from the Preservation and Seismic Safety Program (PASS).
- \$3.6 million from the City's Small Sites Program.
- Estimated subsidy cost of \$453,000 per unit.

Other Cost Drivers

- Delays in ADU permit approval have extended construction timeline increasing total development costs by approximately \$800k resulting in an estimated subsidy of \$500,000 per unit.

D1 Inner Richmond 369 3rd Avenue (between Clement and Geary)



- 13-unit mixed-use building acquired November 2019, consists of six 2BD units, six 1BD units, and one commercial unit
- Avg rents equivalent to 96% of AMI (approximately \$1952/month)
- Avg income is 58% AMI or (approximately \$74,000/year for family of 4)
- High risk of displacement and unregulated rent hikes due to the building's original Certificate of Occupancy dated after June 13, 1979, making the building ineligible for rent control

Total Development Cost

MOHCD has funded \$8.9 million towards the acquisition and preservation of this building. Project financing as follows:

- \$3.9 million from the Preservation and Seismic Safety Program (PASS).
- \$5 million from the City's Small Sites Program.
- Total subsidy cost of \$390,000 per unit.

D11 Excelsior

4830 Mission Street

(between Russia and France Ave)

"To be able to keep six small businesses in business with affordable rent and 21 families in their homes with permanent affordable protection is absolutely amazing and is what we do best as a city."



- 27-unit mixed-use building acquired July 2018, consisting of six 1BD units, fifteen 2BD units, and six commercial units
- Avg rents equivalent to 87% of AMI (approximately \$2262/month)
- Avg income is 60% AMI or (approximately \$79,000/year for family of 4)
- 4830 Mission was the 1st non-rent-controlled building acquired under the SSP, [protecting 21 BIPOC households from eviction and or significant rent increases.]

Total Development Cost

MOHCD has funded approximately \$15 million towards the acquisition and preservation of this building. Project financing as follows:

- \$6.4 million from the Preservation and Seismic Safety Program (PASS).
- \$8.7 million from the City's Small Sites Program.
- Results in a total subsidy cost of \$323,000 per unit.

Other Cost Drivers

- COVID Impacts – Vacant commercial office space along with households experiencing job loss and/or reduced wages affected the project's overall revenue. A reduction of PASS funding to approximately \$6.4M and an increase of SSP loan funding to \$8.7M was required to help stabilize the project's operating budget increasing the per unit subsidy from \$236k to approximately \$323k.

D6 SOMA

566 Natoma Street
(between 6th and 7th)



- 5-unit multifamily building acquired June 2020, consisting of five 1BD units and the potential for two additional ADUs
- Avg rents equivalent to 64% of AMI (approximately \$1674/month)
- Avg income is 53% AMI or (approximately \$72,000/year for family of 4)
- Three low-income senior households have lived in their units an average of 30 years.

Estimated Cost

Currently MOHCD estimates it will cost \$3.8 million to acquire and preserve this building. MOHCD to finance this building as follows:

- Approximately \$800k from the Preservation and Seismic Safety Program (PASS).
- \$3 million from the City's Small Sites Program.
- Results in an estimated subsidy cost of \$600,000 per unit.

Other Cost Drivers

The following project conditions have increased the subsidy request to approximately \$600k per unit:

- Delays in soft-story permit approval have extended construction timeline, increasing construction loan holding costs.
- Unit expansion has triggered first floor sprinkler installation requirements which will allow for ADU conversion of garage spaces in the future.

D4 Sunset

354 Taraval Street 14 (between 14th and Funston)

“As retired seniors with limited income here for 28 years, we couldn’t sleep since this building went up for sale, worried a developer would evict us older tenants,” said Ming Yong Lee 李民勇. “It is very important San Francisco supports the elderly and people on fixed incomes. We are thankful for Supervisor Mar and Mayor Breed for choosing our building so we can continue living in the Sunset, where it is safe, where we can shop at Chinese businesses, and where there are places to walk and senior services nearby.”

Property Description



- 6-unit multifamily building acquired September 2019, consisting of six 2BD units
- Avg rents equivalent to 45% of AMI (approximately \$1349/month)
- Avg income is 59% AMI or (approximately \$79,000/year for family of 4)
- 100% low-income senior households have lived in their units an average of 20+ years.

Total Development Cost

MOHCD has funded approximately \$2.6 million towards the acquisition and preservation of this building. Project financing as follows:

- \$600,000 from the Preservation and Seismic Safety Program (PASS).
- \$2 million from the City’s Small Sites Program.
- Results in a total subsidy cost of \$334,000 per unit.

COPA

Notice to QNPs
of intent to sell

Acquisition

Typically, with
a CDFI lender

Perm Conversion

to MOHCD
financing

4 months

12-24 months

Perpetuity

Pre-Acquisition, Contract, Diligence

Rehabilitation

Long-Term Asset/Property Management

Tenant
Relations



Tenant Coordination



Tenant Relocation



Property Management

City
Relations



Alignment with City Housing Goals



City Permitting + Approvals



MOH Asset Management (Compliance)

Developer
Role



Site ID + Broker Relations



Construction Management



Market Vacant Units on DAHLIA (Insure Affordability)

Financing



Sponsor Financial Capacity



Underwriting



Refinancing plan

Compliance with regulatory and financing requirements

Summary:

- Stabilized housing and communities for nearly 1,000 San Franciscans
 - Average 1 BR rent < \$1,600/month
 - Average household income < \$64,000/year
- Sites are geographically concentrated around the Mission, Tenderloin, and Chinatown neighborhoods.
- Average TDC is approximately \$500k/unit compared to over \$750k/unit for other MOHCD housing programs
- Reforms are necessary to sustainably scale the program to meet the needs of the San Franciscans at-risk of displacement.

Program Reform

Program Reform Overview



The Acquisition & Preservation Program stabilizes at-risk communities, by preventing displacement and increasing housing stability for all San Franciscans.

- Protects households across the widest range of incomes.
Keeps residents in their homes regardless of income.
- Stabilizes neighborhoods and communities.
Adds permanently affordable housing where it is at the highest risk of conversion to market rates.
- Funds critical repairs.
Improves the safety and quality of San Francisco's existing housing stock.
- Invests in a sustainable CBO ecosystem.
Leverages partnerships with specialized CBOs to achieve City's acquisition and preservation goals.

Approach to Program & Process Reforms

- Respond to stakeholder input on operational sustainability
- Center around documented needs, data analysis and learnings from *Scaling Acquisition and Preservation Programs Report*
- Recognize agency, partner and market constraints affecting capacity and development completion cycles
- Create opportunities for innovative and inclusive partnership
- Leverage existing MOHCD anti-displacement programs
- Align with broader Citywide housing goals
- Reform and position the program for funding in the FY22-23 budget cycle



Key Findings from HAF Report and MOHCD Analysis

- SF's Housing Balance reports that over the last 10 years 400 protected units were lost every year through owner move-ins, Ellis Act evictions, demolitions, etc.
- 300 existing households are currently receiving tenant-based Local Subsidies
- Expansion of Local Subsidy Programs in FY21-22 will add 240 at-risk households each year.
- 655 units (residential and commercial) acquired and preserved to date
- Uncertain year-over-year program funding and limited CBO participation has constrained program implementation

Advancing Equity



Reforms to the Acquisition and Preservation Program balance four key priorities:

Racial Equity

Prioritize BIPOC populations by broadening resources to BIPOC serving CBOs.

Geographic Equity

Serve all San Francisco markets including a broad range of household incomes and building typologies.

Maximum Impact

Targeted acquisitions that maximize the acquisition and preservation of at-risk units.

Support a Sustainable CBO Ecosystem

Invest in CBOs strengths and core capacities to achieve the City's preservation goals.

Program Reforms

Eligible Building Typologies

- Expand building eligibility to include both small and large sites
 - Diversify sponsor participation. Serve a broader range of households.
 - Advance the City's geographic equity and housing preservation goals.

Subsidy Limits

- Increase average per unit subsidy
- Additional premium based on achievement of policy goals above minimum threshold
 - Transparent policy goals will streamline site identification and execution, while advancing the City's equity goals.

Underwriting

- DSCR increased to 1.15:1
 - Improve financial sustainability. Increase Sponsor cashflow.
- Increase commercial (20%) and residential (10%) vacancy allowances
 - Improve financial sustainability. Increase Sponsor cashflow.
- Increase in Developer Fees, AM Fees, PM Fees, CM Fees
 - Incentivize and support a specialized and sustainable CBO ecosystem that can scale to meet the City's housing needs.

Process Reforms

Marketing and Leasing

- CBOs now fill future vacancies from a waiting list.
 - Streamlines marketing process by at least 2 weeks per unit
- CBOs are now independently qualifying and approving incoming households
 - Streamlines approval process by at least 1 week per unit
- Rents lowered 20% below market
 - Reduces pricing approval and leasing time by at least 2 weeks
- Marketing Plan review and approval within 10 days of pricing submission
 - Reduces the time between lottery and lease up by 1 week
- Target marketing to OEWD workforce trainees
 - Increase applicant pool for higher AMI units
- Increased MOHCD capacity through the hiring of new staff
 - Hiring additional staff will add capacity reviewing marketing plans, lease-up monitoring, and providing technical assistance

Project Intake

- Revise Intake Form
 - Streamline decision making process and project financial feasibility at site identification and application
- Revise MOHCD proforma
 - Standardize application with other funders and streamline underwriting process

Summary

MOHCD led a data driven and inclusive program evaluation process to determine the reforms required to scale and meet the City's housing needs.

Program and Process reforms:

- Streamline the underwriting process with transparent decision-making criteria
- Reduce the marketing and leasing timeline by 50%
- Increase Developer and Asset Management Fees, supporting a more sustainable CBO ecosystem
- Update underwriting loan terms insuring long-term financial project stability
- Incorporate a Scoring Rubric, which will ensure projects are aligned with the City's Preservation Priorities, while adding to the City's housing goals