California Housing Partnership Corporation

November 24, 2015

San Francisco Begins First Phase of RAD Public Housing Initiative

Monday, November 23, 2015 marked the closing of financing for all 15 properties in the first phase of San Francisco's ambitious program to revitalize its public housing properties through the U.S. Department of Housing and Urban Development's Rental Assistance Demonstration (RAD) program. This was also the date on which ownership of the 15 properties (but not the land) officially transferred to eight owner/developer teams who are now charged with beginning rehabilitation of the 1,422 apartments by the end of 2015. A second phase of SF RAD consisting of 2,044 apartments in an additional 14 properties is scheduled to close and begin renovations in late 2016. Together the two phases of SF RAD will mean over $1 billion in net new funding resulting in approximately $750 million in improvements to outdated buildings that make up the bulk of San Francisco's public housing. [For more on the background of the SF RAD initiative, click here.]

The SF RAD effort has required intensive collaboration, ambitious funding commitments, and innovative financing approaches from the organizations involved including HUD, the San Francisco Mayor's Office of Housing and Community Development (SFMOH), the San Francisco Housing Authority (SFHA), the developer teams rehabilitating and managing the properties, the California Housing Partnership Corporation (CHPC) and the project's equity investor and lender, Bank of America Merrill Lynch (BAML).

City Stretches Resources Through Innovative Financing Plan

As the scope of the long-deferred rehabilitation needed on San Francisco's older public housing buildings emerged, it became clear that funding well beyond what RAD could provide was necessary to meet the properties' physical and operating needs. With input from CHPC and HUD and the support of the Housing Authority, SFMOH took a number of critical steps including:

1. Converting a number of the public housing buildings to voucher funding using the combined authorities of RAD and Section 18 of the United States Housing Act of 1937.
2. Project-basing 1,587 new vouchers created through the RAD and Section 18 conversions, enabling the portfolio to leverage an estimated $265 million in new private debt for both phases.
3. Capturing the tax credit value of the existing buildings combined with the value of the $756 million in estimated renovations, results in estimated net equity investments of approximately $750 million in federal 4% Low Income Housing Tax Credits for both phases.
4. Soliciting lender and investor bids for the entire Phase I portfolio, which has already resulted in BAML committing $285 million in equity for Phase I based on outstanding pricing of $1.23 for each $1.00 of tax credits.
5. Committing up to $90 million of City funds to fill the remaining gaps, with $39 million for Phase I as shown in the table below.

San Francisco is the first jurisdiction to use the portfolio approach allowed under RAD 2.0 in combination with project-based vouchers and RAD funding based on each property's financial needs. CHPC worked extensively with SFMOH, HUD, SFHA, and the eight development teams to align funding resources with rehabilitation scopes while assembling the financing. Dave Kiddoo, Senior Housing Finance Consultant at CHPC and primary advisor and day-to-day manager of the SF RAD financing plan, commented, "The process of using RAD in these new and untested ways required all parties to operate outside their comfort zones, with an immense amount of cooperation and good will needed to make the plan work. In the end, HUD demonstrated just enough flexibility to make RAD work for San Francisco while still staying within statutory and regulatory limits. SFMOH and the developer teams dealt remarkably well with the challenges of HUD regulations and processes they had never had to work with before, especially related to the financing and conversion of public housing. Tenants and advocates dealt with intense fear and anxiety about the changes but successfully negotiated workable protections with the City and the developers guaranteeing their right of return and retention of their rights more broadly. It was a great collaborative effort."

Portfolio Approach to Selecting Investor and Lender for SF RAD Phase I

Bank of America Merrill Lynch (BAML) emerged as the successful bidder out of SFMOH's innovative portfolio debt and equity bidding process. BAML's highly competitive proposal included a portfolio-wide price of $1.23 per dollar of 4% federal tax credits, $20 million in subordinate forgivable debt, and a huge volume of competitively priced construction and permanent tax-exempt bond debt, with the permanent bonds subsequently purchased by Freddie Mac. Ari Beliak, Vice President of Community Development Banking at BAML, explains that SF RAD was a uniquely appealing investment for a number of reasons: "First and foremost was the immense impact that SF RAD would have on San Francisco and its residents; second was the significance of San Francisco from a business and community investment standpoint; third was that the size made it a highly efficient way to achieve a large impact; and finally the complexity made it a challenge but also a historic opportunity."

SF RAD Portfolio Phase I Sources and Uses of Financing

Sources	Amount
Bank of America and Freddie Mac Permanent Tax-Exempt Debt	$83,038,000
SFMOH Pre-Development and Gap Loans	$39,002,591
Bank of America Tax Credit Equity Investment	$284,935,952
TOTAL	$406,976,543

Uses	Amount
Hard Costs and Contingency	$253,223,551
Closing Costs and Transfer Taxes	$20,457,824
Financing Costs	$21,699,690
Soft Costs and Developer Fee	$89,716,458
Reserves	$21,879,020
TOTAL	$406,976,543

Working with Tenants to Ensure Smooth Transition and Temporary Relocation

SFMOH and SFHA worked to address tenant concerns by organizing numerous tenant meetings and providing additional services. The development teams and service providers also conducted extensive on-site outreach. Each site had working groups made up of tenants, property managers, advocates, and the development team to familiarize tenants with new leases, create new house rules, share information on temporary relocation, and establish tenant governance. Ann Griffith, Senior Program Director at Enterprise Community Partners helped engage this diverse group of stakeholders in a successful process. Temporary relocation in San Francisco's extremely tight and expensive rental market relies in part on vacant units in SF RAD Phase II buildings. SFMOH provided funding to repair these vacant units so that they would be habitable interim housing during Phase I rehabilitation. SFHA and SFMOH also launched a vigorous campaign to encourage tenants to add all resident family members to their leases, ensuring that all residents would be able to remain when new management took over.

SF RAD Phase I Case Studies

Holly Courts

BRIDGE Housing will take on four SF RAD properties, but Holly Courts is certainly one of the most challenging. Built in 1940, making it arguably the oldest public housing property on the west coast, Holly Courts has 118 units spread among ten buildings of two stories each. At over 75 years of age, Holly Courts is in need of extensive rehabilitation, with the most pressing need being mold remediation.

New metal wall framing and metal studs will be installed along with new sheetrock to remove mold contamination. A new roof with direct ducting for in-unit drying machines along with improved ventilation will prevent moisture from being trapped within the concrete shell buildings. Additional improvements will be made to flooring and fixtures, and outdated electrical, plumbing, and sewage systems will be replaced. BRIDGE's partnership with Bernal Neighborhood Center, which has worked in Holly Courts for years, made establishing trust with residents much smoother. BRIDGE is working with a consultant to manage the challenge of temporary relocations while buildings are rehabilitated in phases of two buildings at a time.

Reflecting on the Phase I closing of SF RAD, BRIDGE President Cynthia Parker commented: "BRIDGE Housing is proud to have been a part of this first phase of one of the largest public housing revitalizations ever undertaken in this country. None of it would have been possible without the strong support and innovative thinking from our financing partners at the SF Mayor's Office, HUD, Bank of America and the California Housing Partnership. Thanks to everyone's hard work, we are now in a position to start the important work of renovating these former public housing units so that residents can be proud to call them 'home' once again."

990 Pacific

Chinatown Community Development Center (CCDC) was founded in 1977 in part to improve the conditions in San Francisco Chinatown's public housing developments through tenant organizing and public advocacy. As a key participant in SFRAD, CCDC has accepted the challenge of rehabilitating the neighborhood's largest public housing developments including 990 Pacific. Built in 1969, 990 Pacific is a seven-story, 92-unit concrete building serving primarily Chinese-speaking, senior residents (46% of residents are over 80 years old and 75% speak Chinese as a first language).

Rehabilitation of 990 Pacific will entail a seismic retrofit, replacement of electrical equipment, installation of a fire sprinkler system (the building currently has none), major elevator upgrades, plumbing improvements, new flooring, new hydronic heating system, new kitchen counters, cabinets, and appliances, improved ventilation, replacement of all windows and window coverings and all common area lighting and fixtures, and new bathroom sinks, shower heads, and shower surrounds. A currently unsecured, open area at the building's base will be converted to a new lobby area, offices for service providers and property management, and a senior exercise room.

Because of the depth of the improvements needed at 990 Pacific and the desire to minimize disruption to residents, CCDC is splitting the rehabilitation into two parts. For the first eight months of work, residents can stay on site. CCDC is using its bi-lingual resident services staff and decades of connections in the community to ensure that residents who do not wish to be on site while construction work is taking place have safe, comfortable and engaging places – such as adult day health programs and local community centers - to spend the day while construction work is being done. During the second portion of the seismic upgrade, however, residents will be relocated. CCDC is working to find temporary lodging for residents that will allow them to stay connected to services in their Chinatown Community. CCDC Executive Director Norman Fong comments, "So much work has gone into this. We appreciate the efforts of everyone in making this happen, including our staff, the contractors, the architects, and the consultants – and CHPC was crucial, as they have been for so many of our projects."

For more information about our Housing Finance Services, contact Director of Financial Consulting Richard Mandel at rmandel@chpc.net, (415) 433-6804 x314.

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